

## Looking Beyond AFTA: Prospects and Challenges for Inter-Regional Trade

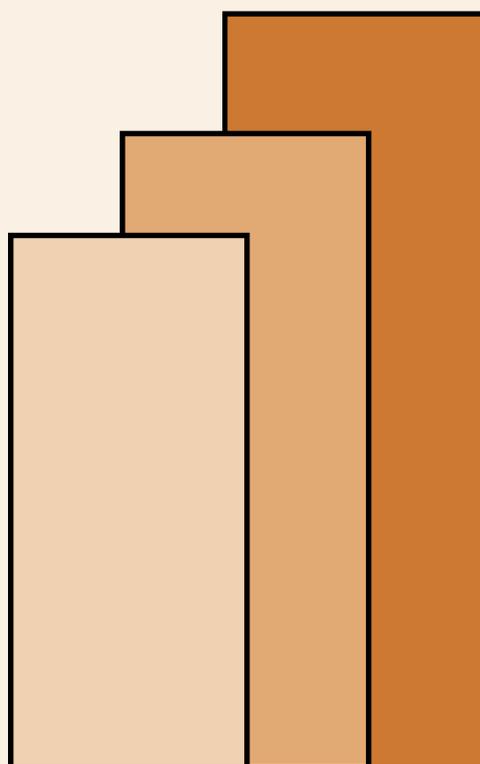
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**Looking Beyond AFTA:  
Prospects and Challenges for Inter-Regional Trade**

Abstract

The world trading environment has witnessed the proliferation of regional trading arrangements during the last decade. This development was accompanied by the perceived threat that this may bring to the rules-based multilateral trading system. The ASEAN for one have not only reaffirmed their commitment to move forward beyond the ASEAN Free Trade Area and towards higher level of economic integration but also are looking at enhanced interaction and closer linkages with other regional groupings. This paper examines the prospects and challenges for expanding AFTA for inter-regional trade by first identifying the elements and principles that should govern such expansion for it to contribute towards realizing global-scale liberalization. Areas for inter-regional linkage are also identified highlighting the possible issues and conflicts that might arise considering the differing objectives and scope that AFTA has with the other trade blocs which it might want to develop an inter-regional linkage. Some probable arrangements for linking/expanding AFTA with other groupings or non-ASEAN countries are then explored, particularly those involving CER, the East Asian countries and the Andean Community.

Keywords: economic integration, regional integration, regional trading arrangements, liberalization, inter-regional trade, open regionalism, transparency, modalities, sub-regional groupings, AFTA, CER, WTO, Andean Community, competitiveness, exports, imports

## Looking Beyond AFTA: Prospects and Challenges for Inter-Regional Trade\*

Myrna S. Austria and John Lawrence V. Avila\*\*

### 1. Introduction

At the 1999 informal summit meeting in Manila, ASEAN leaders reaffirmed their commitment to have ASEAN move forward beyond the ASEAN Free Trade Area (AFTA) and towards higher levels of economic integration as it enters the new millennium. They reiterated the goal of accelerating and deepening of their commitments in trade, investment and industrial cooperation. The meeting confirmed the Statement of Bold Measures and the Hanoi Plan of Action adopted at the 1998 Hanoi Summit. These included the acceleration of AFTA, the further liberalization of trade in services, improvement of the region's investment climate, and stronger financial and macroeconomic coordination.

At the same time, ASEAN took steps towards "enhanced interaction and closer linkages" with their Eastern Asian neighbors. Spurred by the Asian financial crisis and the institutional evolution of the Asia-Europe Meeting (ASEM) arrangement, consideration for "ASEAN plus Three" in trade, financial, investment and development cooperation began to take shape between the Association and China, Japan, and South Korea.

Members of the ASEAN have also taken steps the expansion of inter-regional trade cooperation. The prospect of closer economic linkages between ASEAN and Australia-New Zealand Closer Economic Relation (AFTA-CER) has been under discussion as early as 1993. Lately, there have been proposals to broaden economic exchange between ASEAN and the Andean Community. Individual members have also considered membership in extra-regional groupings as for instance Singapore's aspiration to join the North American Free Trade Area (NAFTA).

This paper briefly examines the motivations behind these various initiatives and assesses the prospects and challenges for inter-regional trade. Section 2 of the paper looks into the probable reasons behind inter-regional expansion initiatives. Section 3 proposes some principles that should govern such programs. The areas for inter-regional linkage are then identified in Section 4 highlighting the possible issues and conflicts that might arise considering the differing objectives and scope that AFTA has with the other trade blocs which it might want to develop an inter-regional linkage. Section 5 is a brief discussion of intra-ASEAN trade and AFTA's existing linkage with APEC. Some probable arrangements for linking/expanding AFTA with other groupings or non-ASEAN countries are then explored in Section 6, particularly those involving CER, the East Asian countries and the Andean Community. Section 7 provides the summary and conclusion.

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## 2. Motivations for Expansion

The ASEAN Free Trade Area (AFTA) was established in 1992 with the objective of increasing ASEAN's competitive edge as a production base for the world market (ASEAN Secretariat, 1993). The mechanism for achieving this is through the Common Effective Preferential Tariff (CEPT) Scheme where intra-regional tariffs will be reduced to 0-5 percent within a 15-year time period beginning in 1993.

Over the years, however, AFTA has taken significant leaps towards its goal. First, the deadline has been continuously accelerated from the original date of 2008 to 2003 and finally to 2002 (with later implementation dates for its newer members: Vietnam, Burma, Laos and Cambodia). Since the latest decision to accelerate was made in 1998 when the region underwent its worst ever financial and economic crisis, it showed the outside world that ASEAN was not slowing down on its intra-regional liberalization commitments but is even bent on maintaining its commitment to regional economic integration.

Second, the coverage of the CEPT has been widened by including into the scheme products that were originally excluded (e.g. unprocessed agricultural products). Third, AFTA has also widened its scope beyond the CEPT scheme by including other measures to complement and supplement the removal of tariffs and other border barriers. These initiatives include harmonization of standards, reciprocal recognition of tests and certification of products and removal of barriers to foreign investments, among others (ASEAN Secretariat, 1993). Finally and the most important, AFTA's original goal of 0-5 percent ending tariff rates was deepened by targeting a zero ending tariff rates on all products by 2010 for the original six members, ahead of the original schedule of 2015; and by 2015 for the four new members, ahead of the original date of 2018 (APEC Secretariat, 2000).

As AFTA is coming close to attaining its original objective, questions arose as to what is next for AFTA. The new wave of economic integration has moved beyond the regional level to become inter-regional and even hemispheric (e.g. EU-MERCOSUR, ANDEAN-MERCOSUR, EU-Chile, EU-Mexico) (Onguglo and Cernat, 2000). Furthermore, while regional trading arrangements are generally classified either as free trade areas, customs unions, common markets or economic unions, the new regional trading arrangements (RTAs) contain elements of more than one of these forms making integration deeper (Krueger, 1999). The increasing trend towards this type of regionalism creates pressures for inclusion for non-members and AFTA is not exempted.

The motivations for the rise of regionalism have been greatly discussed in Baldwin (1997) and Krueger (1999). Some of these include geopolitical considerations as in the case of EU's Single Market, the rise of US protectionism in the 1980s for the case of the US-Canada FTA, the possible trade diversionary effects of a US-Mexico FTA for the case of the NAFTA and the desire to achieve more bargaining power in dealing with North America for the case of MERCOSUR. Proximately, the experience of the Asian financial crisis, China's impending entry into the WTO, and discussions on setting up an FTA throughout the American continent and across the Atlantic has spurred similar discussions on inter-regional trade arrangements from within the Asian region.

Except possibly for trade diversionary effects, the same cannot be said of any possible inter-regional expansion of AFTA. In the first place, AFTA is not a regional trade bloc as the CEPT Scheme encourages not just intra-ASEAN trade liberalization but also liberalization on an MFN basis<sup>1</sup>. Given this external orientation of AFTA, any

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<sup>1</sup> The CEPT has a provision that allows the members to enjoy CEPT concession even if they reduce their tariffs to 0-5 percent on an MFN basis (ASEAN Secretariat, 1995).

expansion for integration, either with other RTAs or with another country or countries, should be driven by the ASEAN's common desire to push for further liberalization. The expansion for inter-regional arrangement is a further step of overcoming barriers to trade beyond what could be achieved within the multilateral framework of the WTO.

This is particularly true for specific sectors of particular export interest to the ASEAN like textiles and clothing, and in other areas like services. Likewise, trade facilitation, particularly in the areas of custom procedures and harmonization or mutual recognition of standards and other importing country regulations, has been increasingly taking center stage in recent years. The diverse standards and technical regulations among developed countries, along with the corresponding testing procedures for compliance, limits market access and raises production and testing costs for the ASEAN.

ASEAN also needs to continuously improve its competitive strength for its exports and its attractiveness to foreign direct investment. Compared with other RTAs, AFTA is small to carry any weight in influencing the flow of international trade and investment. Moreover, the proliferation of RTAs has brought forth many new competitors to the ASEAN, both for its export markets and for the increasingly scarce foreign investment that has been its engine of growth. The potential competitors include the Andean Community and MERCOSUR in Latin America, the emerging economies in Central and Eastern Europe which are being slowly integrated with the EU through bilateral free trade agreements, and China in Northeast Asia.

Likewise, the changing nature and dynamism of the RTAs by going beyond the traditional border barriers greatly affects non-members. For instance, rules of origin and standards (covering technical, sanitary and phytosanitary, and environmental) have become essential features of the new RTAs, both of which make it harder for non-members to trade with members of an RTA.

On the whole, the revolution in information and communication technology and transportation has been facilitating the rapid integration of the world. These developments have given birth to global problems that require deeper inter-regional cooperation. The growth of transnational crime and environmental concerns are some of issues that increasingly challenge national authorities. The Asian financial crisis has also made clear the need to strengthen institutions and improve governance, not only domestically, but across the region as well. All these require deeper inter-regional cooperation and strengthening of ties to undertake common efforts to address these emerging concerns.

### **3. Some Guiding Principles**

Since ASEAN is small, there are potential advantages to derive from scale and competition effects from inter-regional integration. By taking on new markets through inter-regional expansion, AFTA may even expand its range of exports and hence, enhances further its international competitiveness. Likewise, the ASEAN can increase its bargaining leverage and exert stronger influence globally, particularly in the open multilateral negotiations.

However, certain principles should guide such inter-regional trading arrangements. One argument is that an RTA must be "WTO-consistent" for it to be welfare-enhancing. What this means is that the formation of an RTA must be consistent with Article XXIV of GATT and Article V of GATS.<sup>2</sup> However, the ground rules under these

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<sup>2</sup>The conditions for the formation of RTA under Article XXIV includes: (i) the establishment of a free trade area among the members within a reasonable period of time; (ii) the reduction of tariffs to zero and the

two articles suffer from systemic issues rendering them less effective in imposing discipline in the RTAs (See Crawford and Laird (2000) for discussion of the systemic issues). Yet, ways on how to make RTAs more compatible with multilateral liberalization have yet to be defined (Krueger, 1999).

Likewise, since AFTA is a sub-regional RTA within APEC, any inter-regional expansion of AFTA should also be "APEC-consistent" for it not to undermine the credibility of the APEC commitments of AFTA members (Scollay, 2000). It is important therefore to define the principles under which AFTA's inter-regional expansion must be operationalized. For it to contribute towards multilateral liberalization, the inter-regional arrangement should be open to other country, or countries or groupings on conditions similar to those required of existing members.

For ASEAN's inter-regional expansion to make sense, there should also be a progression in the level of depth in the integration process, both in the level of tariff and time frame. Only then can the expansion contribute towards realizing global-scale liberalization. The coverage should be comprehensive and mutually beneficial to all parties.

This means that the integration should call for AFTA-plus measures. The depth of integration would in the end define the form of arrangement that AFTA's inter-regional expansion should take. Since AFTA is ultimately aiming for a free trade area (i.e. zero tariffs), its expansion to other inter-regional arrangements cannot be less than a free trade area, with a time frame no longer than what was set for AFTA, which is 2010 for its original members and 2015 for its new members.

In addition, the scope of AFTA's expansion should encompass an array of market integration measures, going beyond the traditional removal of tariffs and non-tariff barriers (NTBs) that still exist between AFTA and its prospective partner. Measures not currently covered by the prospective partner RTAs can also be included. As will be discussed in greater detail in Section 4, these areas could include, tariff and non-tariff barriers, investment, rules of origin, standards, services, institutions, custom procedures, capacity building and human resource development, e-commerce, among others.

Considering the different levels of development of the members of AFTA, flexibility in terms of timing and phasing in of the liberalization process should be built in into the scheme to account for the specific difficulties of member countries. This could be achieved by providing measures for temporary exclusion and differentiated timetable. And considering the differences in the institutional and legal framework even among AFTA members, transparency in the mechanism for realizing the goal of any inter-regional arrangement should be ensured.

#### **4. Areas for Inter-Regional Linkage**

Since regional trading arrangements operate under various forms, there will definitely arise issues concerning compatibility of systems in any inter-regional trading arrangements. This section of the paper discusses some of these concerns for AFTA.

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elimination of other restrictive regulations on substantially all trade between the participants; and (iii) duties and other regulations to third countries are not raised. On the other hand, the conditions under Article V of GATS include: (i) substantial sector coverage (in terms of number of sectors, volume of trade affected and modes of supply with no a priori exclusion of any modes); and (iii) absence or elimination of substantially all discrimination through elimination of existing discriminating measures and/or prohibition of new or more discriminatory measures (Onguglo, 2000).

### *Tariffs and Non-tariffs*

The full liberalization of products in an inter-regional arrangement presupposes that the participating RTAs have already attained a high level of competitiveness and maturity of their production structures to be able to face the inter-regional competition (Onguglo and Cernat 2000). For AFTA, negotiating for the full liberalization of some of its products could pose some difficulty if the members of its potential RTA partner have large production capacity, like agricultural products for NAFTA and CER. Currently, unprocessed agricultural products would only be phased-in into the CEPT by 2010 and it is unlikely that the ASEAN would attain full competitiveness in agriculture to the level of NAFTA and CER by 2010/2015 when the zero tariffs on all products will be enforced.

In the same manner, since ASEAN has a comparative advantage in textiles and clothing, it may face some constraints in bargaining for the sector's full liberalization with the developed countries.

Under the above circumstances, a balance should be struck with the other features of any inter-regional arrangement. Economic and technical cooperation should be given emphasis to raise the competitiveness of AFTA to comparable levels of competitiveness of its prospective RTA partner. This could include the development, strengthening and diversification of production and export bases; capacity-building, and compliance with international standards such as in sanitary and phytosanitary standards (SPS).

Cooperation in trade facilitation, particularly in addressing NTBs would also prove immensely beneficial. These may include anti-dumping, standards and conformance, import licensing, labeling, import quotas, SPS, etc. Moves can be taken to ensure that these various rules remain simple and transparent, and perhaps explore a standstill-no rollback agreement.

### *Services*

Unlike other RTAs, ASEAN has yet to move progressively on its own preferential liberalization scheme for services. NAFTA and CER have concluded GATS-plus agreements while ASEAN under its own Framework Agreement on Services (AFAS) has yet to appreciably impact on its members. Apparently, attempts to eliminate substantial restrictions to trade in services have been hampered by the time-consuming request-and-offer approach adopted by ASEAN negotiators. Moreover, the limitations of the GATS accord leave little incentive for countries to submit market access commitments in services.

This is likely to affect inter-regional cooperation in services trade. Fundamentally, the scope of such cooperation should be first established. Negotiators have to consider whether to seek to liberalize all services under all modes of supply or to adopt a sectoral approach to negotiations. It appears that exchanges are more feasible under cross-border trade and consumption abroad of services. Secondly, the partners would have to determine whether to adopt a positive or negative list approach to negotiations particularly over national treatment.

Nevertheless, inter-regional cooperation in services can proceed particularly in areas of trade facilitation and technical cooperation. Greater transparency of the rules and regulations affecting services trade will go a long way in furthering commercial exchanges. Moreover, ASEAN can benefit from the assistance of more developed regions in strengthening its own services sector. For instance, technical assistance can be provided to improve the data-gathering and statistical monitoring of services

trade to enable ASEAN governments formulate more effective strategies for this industry. Assistance towards strengthening IPR enforcement would also be helpful.

### *Investments*

In principle, if AFTA's objective were to increase its share of foreign investment (and accelerate technology transfer), inter-regional arrangement with RTAs involving developed countries would be the natural approach as this could open greater opportunities than those with RTAs of developing countries or economies in transition. However, AFTA's investment measures are not as far-reaching as those of the RTAs of developed countries, like NAFTA.

The ASEAN Investment Area (AIA), which is the framework of the ASEAN in promoting the inflow of foreign direct investment into the region, binds member countries to gradually eliminate investment barriers, liberalize investment rules and policies, grant national treatment and open industries to ASEAN investors by 2010 and to all investors by 2020. Nonetheless, the granting of national treatment and opening of industries has exemptions as embodied in the Temporary Exclusion List (TEL) and Sensitive List (SL). Likewise, the investment measures apply initially only to the manufacturing sector. The timetable for the other sectors (agriculture, fisheries, mining and forestry) has yet to be defined. Since there seems to be a shallow integration in investment within AFTA itself, it would be difficult for AFTA to move to deeper integration in this area with the more advanced RTAs.

### *Rules of Origin*

Rules of origin are a crucial component of free trade areas. It is a measure that sets the conditions under which a good is considered to have origin in a partner country. This is done to prevent non-members of an FTA from taking advantage of differential external tariff rates imposed by individual member countries. A product or a good is therefore eligible to enjoy the preferential tariff only if it satisfies the rules of origin.

Rules of origin differ across different RTAs. Under CEPT, a product is considered as originating from ASEAN member states if at least 40 percent of its contents originate from any member state. The 40 percent local content requirement refers to both single country and cumulative ASEAN content. (ASEAN Secretariat, 1996). NAFTA has a more restrictive rules of origin that varies by products, from a relatively simple rule for high-technology products like computers to more complicated transformation rules in textiles and clothing and automotives (UN-ESCAP, 1998). Under CER, rules of origin requires that the last transformation process occurs in the CER and that the cost of materials, labor and overhead is not less than 50 percent of the factory cost of the goods in their final stage (ESCAP, 1998).

Since rules of origin are set for different purposes, reconciling AFTA's rules of origin with that of its prospective inter-regional RTA partner can therefore prove difficult, if not impossible. Negotiations can lead to significant controversy as this can be used as an opportunity for producers to lobby for restrictive rules of origin for products of concern to them (Krueger, 1999).

### *Institutions and Modalities*

It is also important to construct the appropriate structures and processes that will govern such inter-regional schemes. In particular, there should be some agreement on notification procedures and the manner by which disputes are to be resolved.

AFTA has its own dispute settlement system and notification system. However, ASEAN members have yet to resort to such a system of legal settlement. On the other hand, NAFTA and CER have more developed systems. For the moment, members of such an inter-regional arrangement will likely nest themselves in the WTO relying on the trade organizations mechanisms and procedures in this regard. The WTO's dispute settlement mechanism provides for the adjudication of conflicts and enforcement of rules that is absent from many RTAs.

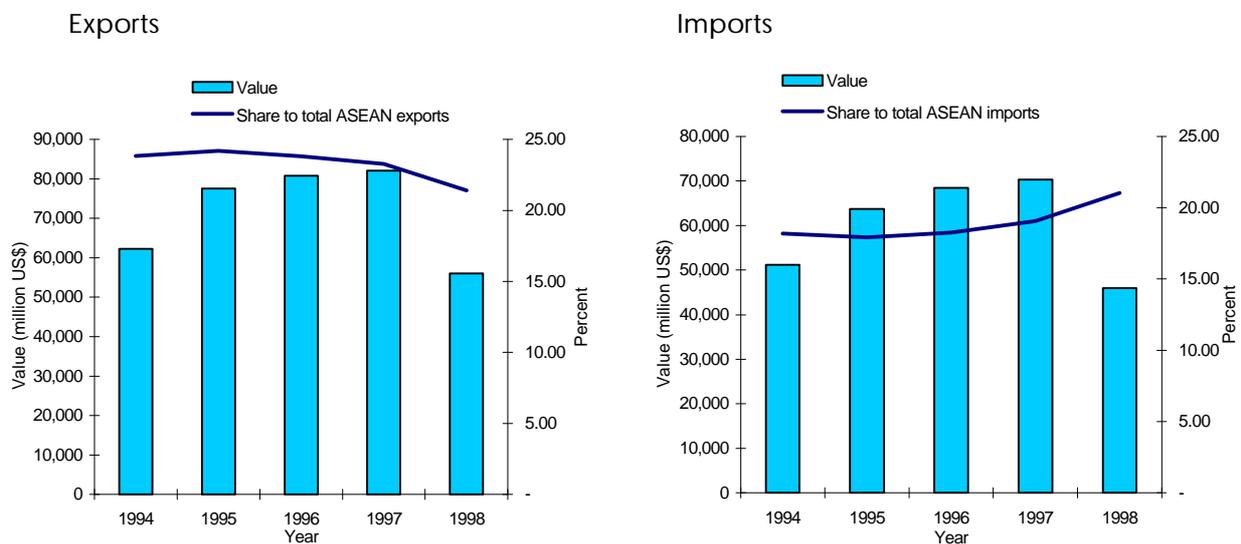
## 5. Existing Linkages and Arrangements

### *Intra-ASEAN trade*

For the period 1993-1998, intra-ASEAN exports represent about 23.3 percent of total ASEAN exports. This share has been going down since 1995 (Figure 1). Majority of the intra-ASEAN exports is accounted for by Singapore with an average share of 44.4 percent (Figure 2). The annual growth of intra-ASEAN exports has been lower than the growth of total ASEAN exports (Table 1). In particular, the financial crisis in 1998 has adversely affected intra-ASEAN exports (-32 percent) more than the region's exports to the world (-26 percent).

On the other hand, intra-ASEAN imports accounted for about 18.7 percent of the region's total imports (Figure 1), again, with Singapore accounting for the largest share at 44.3 percent (Figure 2). In contrast to exports, intra-regional imports as a percentage of the region's total imports has been continuously increasing since 1995 reaching 21 percent in 1998 (Figure 1).

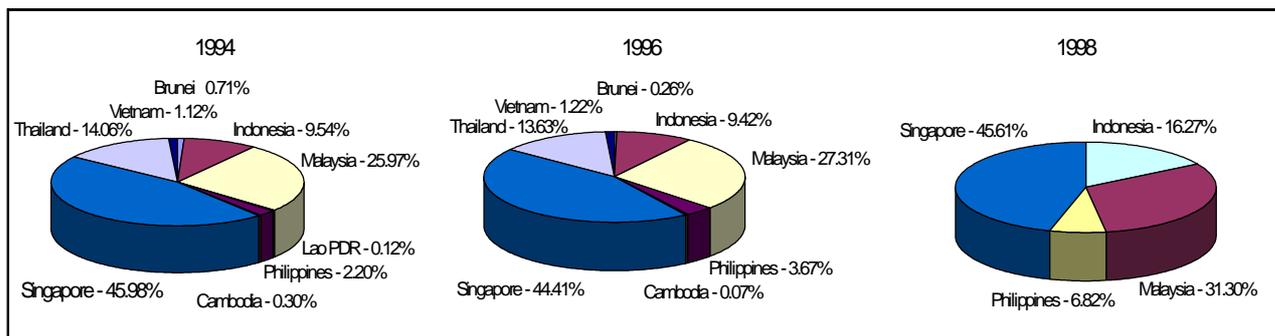
**Figure 1: Intra-ASEAN Trade, 1994-98**



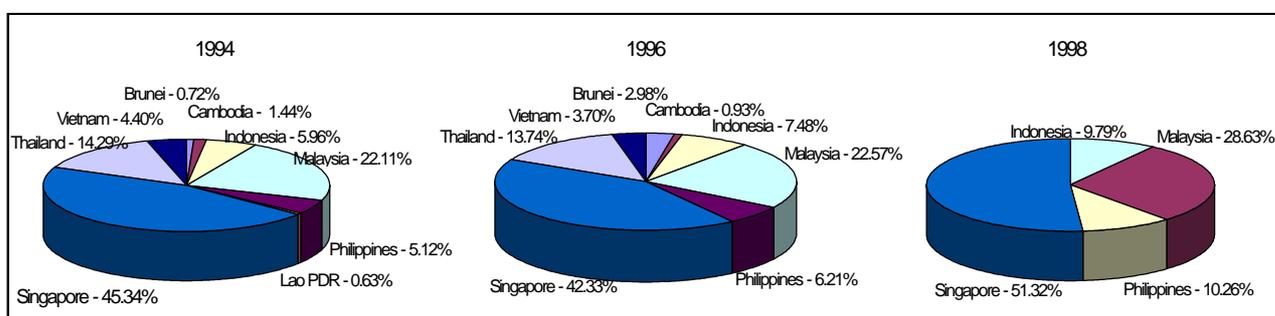
Source: PCTAS, NAPES

**Figure 2: Distribution of Intra-ASEAN Trade, 1994-98**

**Exports**



**Imports**



Note: Lao PDR share for exports and imports in 1996 are 0.12% and 0.63%, respectively.  
There are no reported data for Thailand in 1998; No available data for the other ASEAN.

Source: PCTAS, NAPES.

**Table 1. Growth rate of exports and imports, ASEAN, 1994-1998 (%)**

Period	Exports		Imports	
	Intra-ASEAN	Total	Intra-ASEAN	Total
1994-95	24.58	22.80	24.62	26.56
1995-96	4.11	5.79	7.40	5.43
1996-97	1.58	3.90	2.72	(1.60)
1997-98	(31.78)	(25.82)	(34.66)	(40.80)
1994-98	(2.63)	0.03	(2.64)	(6.10)

Source: PCTAS, NAPES

*Trade with APEC*

AFTA is a sub-regional grouping under APEC. The original member-signatories to CEPT are members of APEC and under APEC's classification of its members, all are classified as developing economies. APEC is aiming for a free and open trade and investment area by 2010 for its developed members and 2020 for its developing

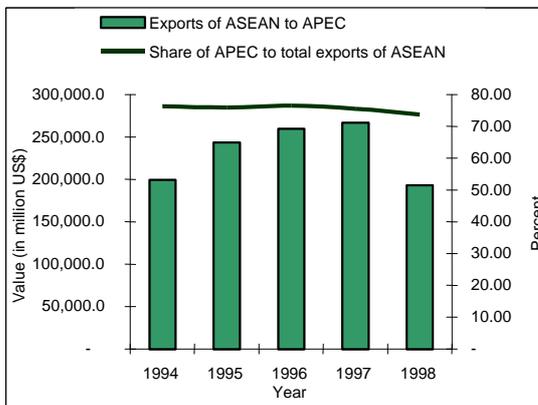
members. Considering that AFTA's timetable for a free trade area is 10 years earlier than its members' timetable in APEC, AFTA's liberalization process is definitely a great opportunity for its members to manage their trade reforms more effectively as they prepare for their eventual integration to a bigger liberalized economic space that is in APEC.

The primary export markets and sources of imports of the ASEAN are in APEC. It is therefore not surprising that about three-fourths of ASEAN exports and imports occur in APEC (Figure 3). The bulk of this trade is accounted for by Singapore (37.8 percent of exports and 37 percent of imports) and Malaysia (24.1 percent of exports and 23.4 percent of imports). In contrast, AFTA accounted for only 10.8 percent and 9.7 percent of APEC's total exports and imports, respectively (Figure 3).

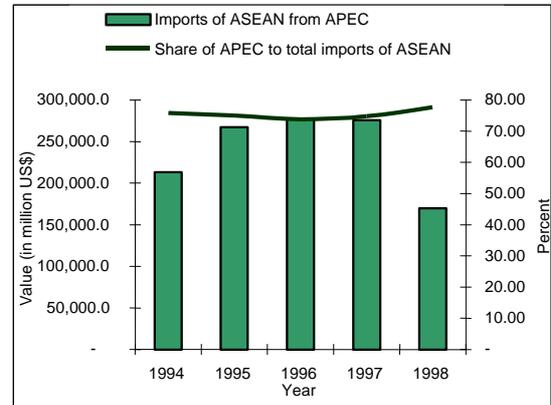
**Figure 3: Trade between ASEAN and APEC**

ASEAN to APEC

Exports

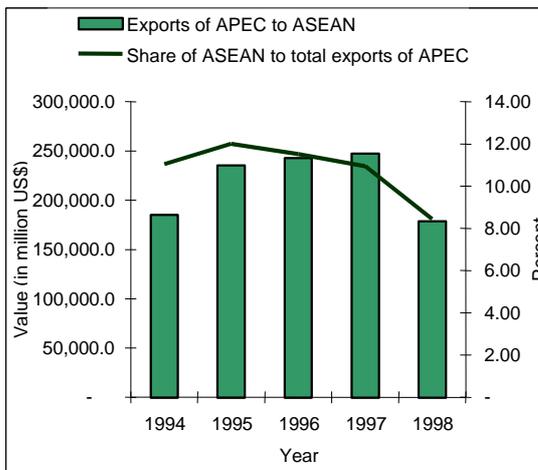


Imports

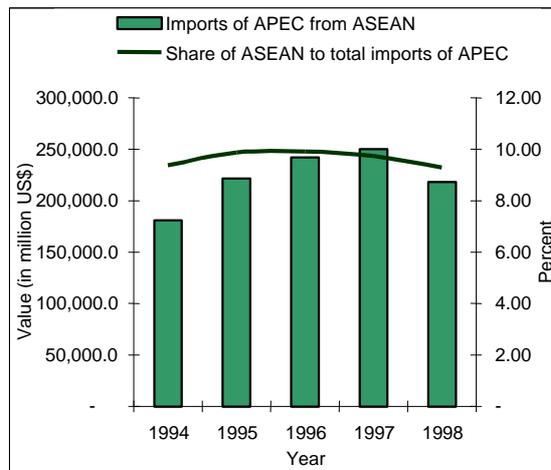


APEC to ASEAN

Exports



Imports



Note: No reported 1998 data for Thailand.  
Source: PCTAS, NAPES

## 6. Proposed Linkages and Arrangements: Prospects and Challenges

### *AFTA-CER*

The linkage between AFTA and the Australia- New Zealand Closer Economic Relation (AFTA-CER) was established in 1995 with the aim of facilitating trade and investment between the two regions by building upon their existing complementarities (APEC Secretariat, 1996). Considerable progress has already been made in various cooperation activities in the areas of human resource development, exchange of information, custom matters, standards and conformance, trade and investment facilitation and promotion, competition policy and industrial cooperation.

To date, an AFTA-CER Free Trade Area is the most advanced among the possibilities for an inter-regional arrangement with AFTA. In 1999, the two regions agreed to look into taking economic integration a step further through a regional trade agreement between the two regions. A Task Force was then established to explore its feasibility. The result of the recent CIE study (2000) shows that a free trade area between AFTA and CER, with zero tariffs on goods and services, will result to a gain of US\$48.1 billion of GDP (in net present value terms over the period 2000 to 2020). Out of this amount, AFTA will gain US\$25.6 billion and US\$22.5 billion for CER. In terms of welfare (measured in real consumption), AFTA and CER will gain 1 percent and 0.6 percent, respectively, above what it would otherwise be in 2005.

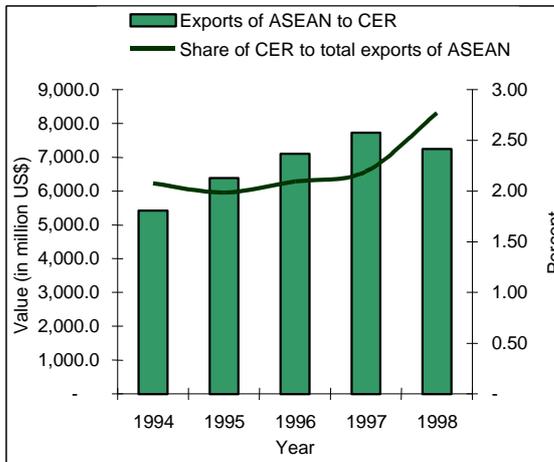
Apart from the economic benefits, the potential of an AFTA-CER free trade area is driven by the very forces that characterize AFTA and CER. That is, both share the same perspective on many other economic issues (APEC Secretariat, 1996). As sub-regions of APEC, both are committed to full liberalization and open regionalism. The inter-regional arrangement will therefore reinforce the process of liberalization within the WTO framework of which the two regions are heavily committed. Current trade between the two regions is still small, but nonetheless growing, except during the financial crisis in 1998 (Figure 4). CER accounted for an average of 2.3 percent and 2.7 percent of AFTA's total exports and imports, respectively, during the period 1994-1998. On the other hand, AFTA accounted for an average of 13.2 percent and 9.4 percent of CER's total exports and imports, respectively, during the same period. There are potentials for greater trade expansion between the two regions through a free trade area.

While AFTA is still on its way to attaining a free trade area, the CER agreement has been completed in 1990, five years ahead of its original schedule. Given this and since the CER agreement was one of the few regional trading arrangements characterized by deep integration schemes (Baldwin, 1997), AFTA can learn a lot from the integration process of CER. The enlarged free trade area will enable both regions to strengthen regional ties and build synergy to be able to integrate in the bigger RTAs (like NAFTA and EU) and ultimately, with the whole world.

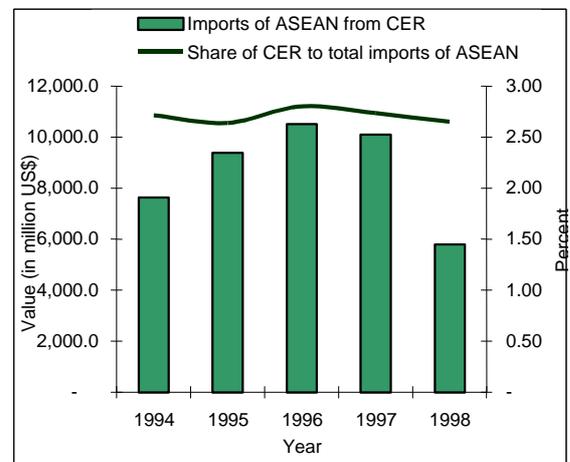
**Figure 4: Trade between ASEAN and CER**

ASEAN to CER

Exports

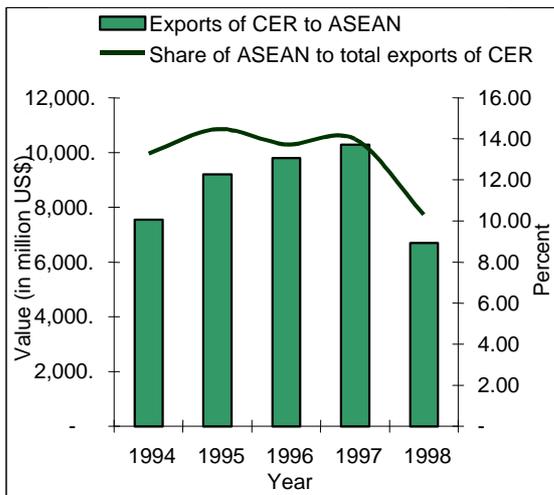


Imports

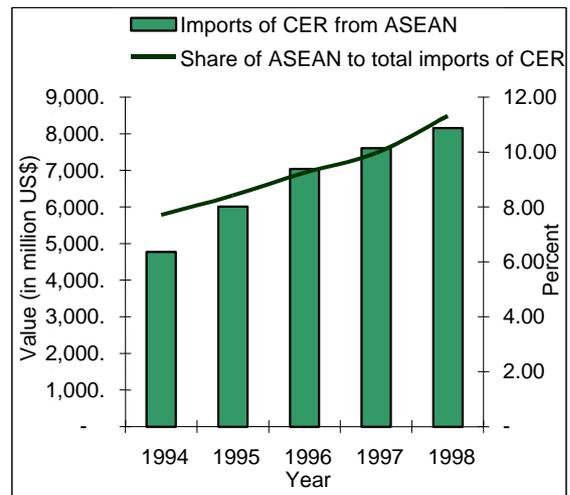


CER to ASEAN

Exports



Imports



Source: PCTAS, NAPES

*ASEAN Plus Three*

In 1990, Malaysian Prime Minister Mahathir proposed the formation of an Asian forum that could serve as an alternative to APEC. The proposed East Asian Economic Grouping (EAEG) was to consist only of the Asian members of APEC while excluding the United States, Canada, Australia and New Zealand. Strong American opposition, Japan's hesitation, and lukewarm support from most Asian states made Mahathir's vision unrealized.

However, the proposal came into form in subsequent years. Since 1994, ASEAN countries have met regularly with China, Korea, and Japan at the annual Post-Ministerial Conferences (PMC). In November 1995, the ASEAN Economic Ministers met

for the first time with their counterparts of the three Northeast Asian countries. Interestingly, the membership of ASEAN and the Northeast Asian countries in Asia-Europe Meeting (ASEM) has compelled them to act as a regional group vis-a-vis Europe. Asian ASEM participants have been holding regular meetings and coordinated themselves in preparation for the ASEM meetings. The Asia-Europe inter-regionalism in the framework of ASEM helped further shape an informal EAEC-like East Asian regional entity. Such an arrangement is especially significant as there is no formal economic cooperation arrangement between the Northeast Asian countries.

The Asian financial crisis helped pushed closer relations between ASEAN and the three East Asian countries. In December 1997, in the midst of the crisis, the leaders of ASEAN and those of China, Japan and South Korea met for the first time on their own. Surprisingly enough, they discussed the issues of a free trade area covering Southeast Asia and Northeast Asia. At that time, Japan and South Korea, expressed reservations about the idea.

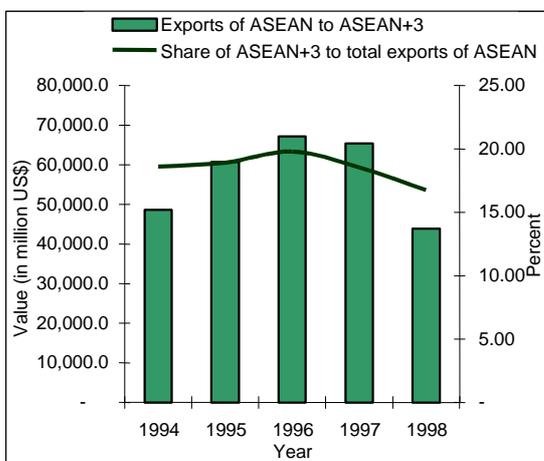
In November 1999, leaders of ASEAN, China, Japan and South Korea met in a summit meeting in Manila and promised to enhance cooperation between ASEAN and the three Northeast Asian countries. They issued a joint statement on East Asian Cooperation agreeing on a broad range of cooperation in the economic field. This was followed by a meeting of economic ministers from ASEAN, China, Japan and South Korea in Yangon in May 2000 where they formally agreed to pursue joint efforts in industrial, trade and investment cooperation. Both events recognized the growing interdependence of the two neighboring regions and promises to foster closer cooperation between them.

In terms of existing trade, during the period 1994-1998, the AFTA Plus Three accounted for an average 19.1 percent and 29.7 percent of AFTA's total exports and imports, respectively (Figure 5). On the other hand, AFTA accounted for 13.5 percent and 11.6 percent of the AFTA Plus Three exports and imports, respectively, during the same period.

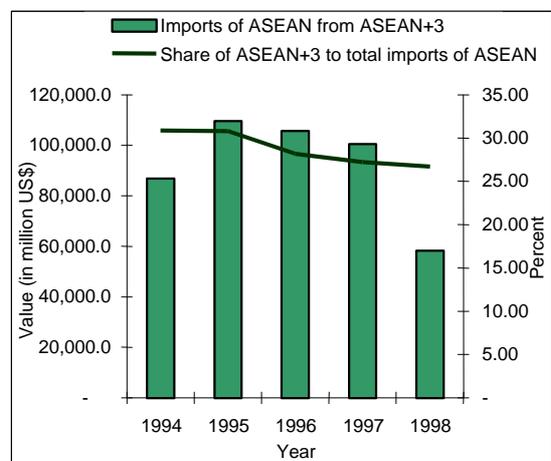
**Figure 5: Trade Between ASEAN and ASEAN Plus Three**

ASEAN to ASEAN+3

Exports

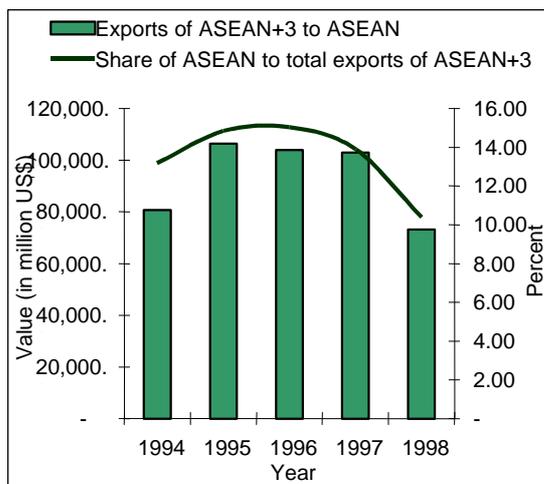


Imports

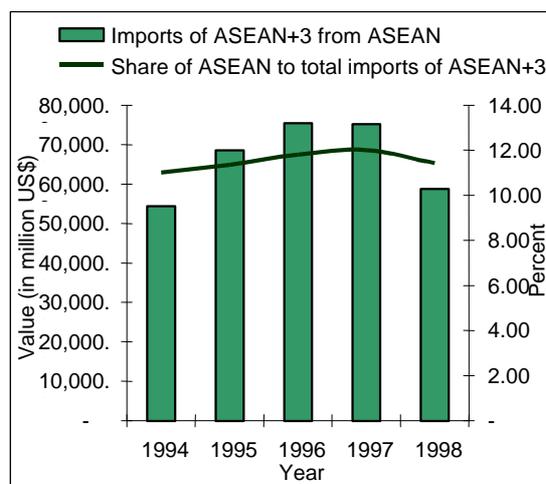


## ASEAN+3 to ASEAN

### Exports



### Imports



Source: PCTAS, NAPES.

Considering many in ASEAN view China as an economic threat, deeper integration of the region with China might not be politically feasible. Mainland China directly competes in the same export markets and products as most of ASEAN. Moreover, a larger share of foreign direct investment skips ASEAN in favor of China. Many fear the impending admission of China into the WTO. While some see the benefit of including China under the ambit of multilateral trade discipline, there are fears that WTO membership could worsen China-ASEAN terms of trade and increase competitive pressure on ASEAN exports. An ASEAN Plus 3 arrangement that includes China should be studied further to assess the balance of gains and losses to ASEAN.

### AFTA-Andean

The beginning of the ASEAN linkage with the Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) came during the 1<sup>st</sup> Symposium on ASEAN-Andean Cooperation in May 2000. Trade between the two regions is relatively small (Figure 6). Andean accounted for an 0.08 percent of total exports and 0.09 percent of total imports of the ASEAN during the period 1994-1998. On the other hand, the ASEAN accounted for 0.47 percent and 0.77 percent of total exports and imports, respectively, of the Andean Community during the same period. Nonetheless, trade between the two regions has been steadily growing, except during the crisis of 1998 when trade suffered a decline.

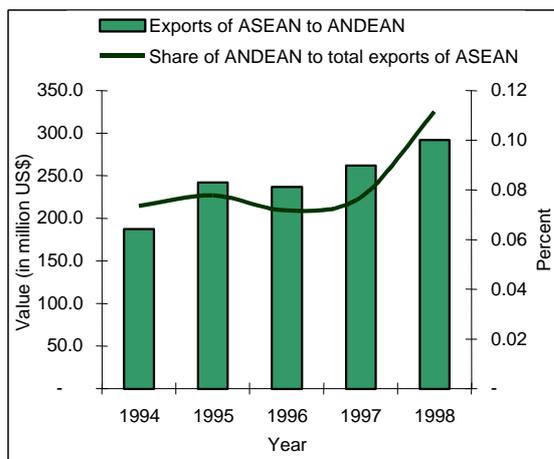
Compared to AFTA, the Andean Community is more advanced in terms of the integration process. The community is already a free trade area. Likewise, the Andean is now moving towards a common market where there will be a free movement of goods, services, capital and labor in the community. They are also implementing a common foreign policy and common transportation policies, like open skies agreement and liberalization of maritime shipping services (Alegrett, 2000). They are also seeking markets beyond the Andean Community as they have already completed preferential trading arrangements with Brazil and Argentina and are now negotiating for a free trade area with MERCUSOR and the Free Trade Areas of the Americas.

Given the more advanced integration process of the Andean, the ASEAN can learn from the achievements and experiences of the Andean. Since the relationship between the two regions is just in its infant stage, there are potentials for greater trade and investment and deeper relationship as information are shared. The potential for forging deeper integration between the two regions lies in their direct economic links with the larger APEC region, i.e. the Andean is link with the members of APEC (Canada, USA, Mexico, Chile and Peru) through the Free Trade of the Americas while AFTA is a sub-region of APEC.

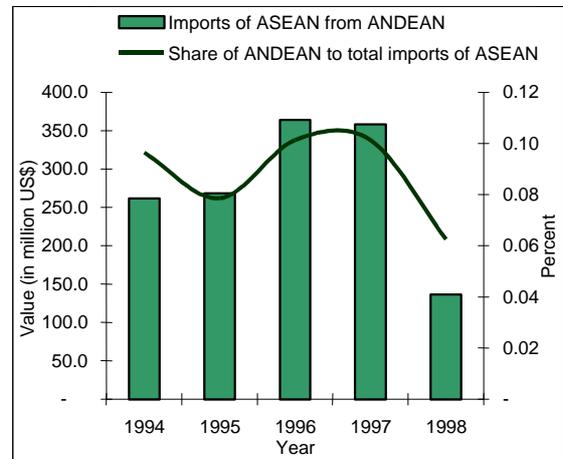
**Figure 6: Trade between ASEAN and Andean**

ASEAN to Andean

Exports

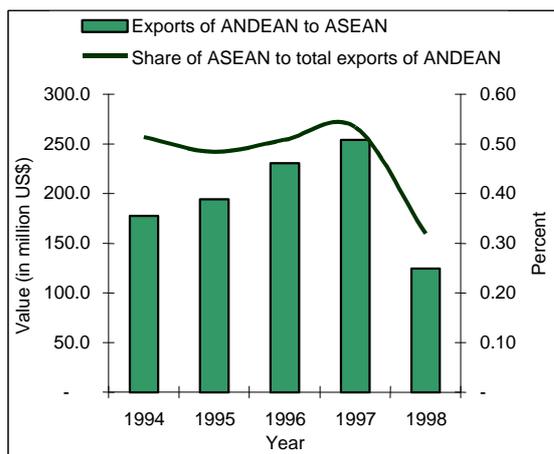


Imports

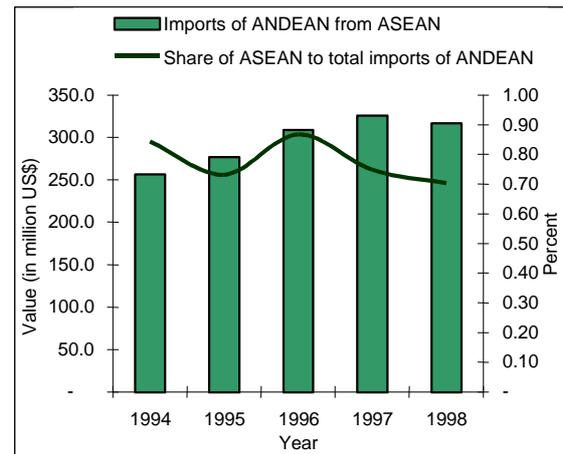


Andean to ASEAN

Exports



Imports



Source: PCTAS, NAPES.

## **6. Summary and Conclusion**

Appreciably, efforts at expanding AFTA by fostering greater ties with other regions are complex and difficult. This is due primarily to differences in economic situations, institutional and legal framework, and even political relationships between AFTA and its prospective partner region/s. This is further complicated by the initiatives of Singapore, which on its own contracted free trade arrangements with a number of countries outside the region. Malaysia has severely criticized Singapore and warned that such moves could weaken AFTA.

The challenge of setting up inter-regional trade arrangements can be overcome by building on the strengths of AFTA and its potential regional partners and focusing on their common interests. To be sure, market imperatives and pressures from international specialization will be the driving force behind inter-regional cooperation. But this will entail the development of common principles and norms as well as the creation of formal institutions or mechanisms. The expansion of trade and investment will only proceed if member-states are guided by a framework of rules and procedures. This will require for ASEAN and its partner region to agree on a common approach to trade negotiations.

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