

What is the Asean Free Trade Area (AFTA)?

Before AFTA, ASEAN economic cooperation was limited. The ASEAN preferential trading arrangement (ASEAN PTA) was first introduced at the 10th ASEAN Ministers' Meeting. It began with a margin of 10 percent and rose to 20-25 percent in 1981 and to 40 and more percent later. Agreements were voluntary and product-to-product basis. Later they adopted across-the-board tariff cuts but accompanied by the exclusion of sensitive products to protect certain industries. The impact of intra-ASEAN trade had been very limited by the mid-1980s. At the Third ASEAN Summit in 1987, they endeavored to make ASEAN PTA work more effectively. Again, the impact on intra-ASEAN trade was negligible.

The creation of the ASEAN Free Trade Area (AFTA) is contained in three agreements issued at the Fourth ASEAN Summit, namely the Singapore Declaration of 1992, Framework Agreement on Enhancing ASEAN Economic Cooperation and Agreement on the Common Effective Preferential Tariff (CEPT) Scheme. A free trade area - the removal of obstacles to freer trade among member countries by reducing tariffs to 0-5% on traded manufactured goods and processed agricultural products and the removal of non-tariff barriers and quantitative restrictions that limit the entry of imports - in Southeast Asia was to be achieved in fifteen years (1993-2008). The completion target was accelerated to 1 January 2003, then 1 January 2002.

The main objectives of AFTA are to increase ASEAN's competitiveness as a production base for both the regional and world markets by eliminating intra-ASEAN tariffs and non-tariff barriers (NTBs) and attract more foreign direct investments (FDIs) into the region.

The main mechanism is the CEPT. The original CEPT scheme covered all manufactured products (capital goods and processed agricultural products) and excluded unprocessed agricultural products (UAPs). In 1994, ASEAN decided to phase in UAPs into the CEPT scheme.

ASEAN6 CEPT Package and Commitments to AFTA

1. To extend, on a reciprocal basis, Most-Favored Nation (MFN) and National Treatment to ASEAN member countries;

2. To provide relevant information on her country's economic, profile, particularly trade statistics requirements when requested;
3. To prepare a list for tariff reduction and begin tariff reduction effective on 1 January 1993 and ending at 0-5% tariff rate on 1 January 2008;

<i>Number of Tariff Lines in CEPT (1993)</i>			
Country	Fast track	Normal	Temporary Exclusion
Brunei	2,377	3,618	236
Indonesia	2,819	4,539	1,648
Malaysia	2,985	5,710	621
Philippines	960	3,432	694
Singapore	2,183	3,473	1
Thailand	3,531	5,146	122
Sub-total	14,855	25,918	3,322
TOTAL	44,095		

Source: ASEAN Secretariat

Tariff cuts under the CEPT Scheme are done through the:

> *Fast Track Program*

1. Tariffs above 20% will be reduced to 0-5% within 10 years (1 January 2003).
2. Tariffs 20% and below – will be reduced to 0-5% in 7 years (1 January 2000).

Covered under the Fast Track Program were:

- | | | |
|--------------------------------|------------------------------|------------------------|
| 1. Vegetable oils | 7. Gems and jewelry products | 13. Ceramics and glass |
| 2. Chemicals | 8. Cement | 14. Copper cathodes |
| 3. Fertilizer | 9. Pharmaceuticals | 15. Electronics |
| 4. Rubber products | 10. Plastics | |
| 5. Pulp and paper | 11. Leather Products | |
| 6. Wooden and rattan furniture | 12. Textiles | |

> *Normal Track Program:*

1. Tariffs above 20%: to be reduced to 20% within 5-8 years by 1 January 2001; 0-5% in 7 years, ending on 1 January 2008.
2. Tariffs 20% and below to be reduced to 0-5% within 10 years (by 1 January 2003).

To promote commonality of tariff rates, reduction in tariff rates will be done in three tranches: 2003 – 15%; 2005 – 10% and 2007 – 0-5%.

The original signatories include Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand. The new ASEAN member-countries are Vietnam (joined in 1995), Laos and Myanmar (joined in 1997) and Cambodia (joined in 1999).

The new ASEAN members were given longer time to reduce their tariffs.

Four categories of products under AFTA:

Inclusion List (IL) – products for tariff reduction/elimination, and are essentially all manufactured and processed agricultural products and some unprocessed agricultural products.

Temporary Exclusion List (TEL) – list of products which member countries seek temporary exclusion.

Sensitive and Highly Sensitive List (SL/HSL) – list of products given a longer time frame for transfer into the IL and for tariff reduction/elimination and included unprocessed agricultural products.

General Exception List (GEL) – products that are permanently exempted from tariff reduction/elimination for reasons of national security, human, animal and plant life and health, artistic, historic and archeological value.

Current Status of AFTA

With about 92 percent of all products in the Inclusion List (IL) of ASEAN-10 whose tariffs have been removed or reduced to 0-5 percent in 2003 the ASEAN Free Trade Area has been nearly achieved.

In 2003, tariffs on 99.55 percent (44,160 tariff lines out of total 44,361 tariff lines) of products in the 2003 IL of the ASEAN-6 have been reduced to the 0-5 percent tariff range. Products in their IL, which still have tariffs of above 5 percent, are those that have been transferred from the Sensitive List (SL) and General Exception List (GEL) in 2003. There has been a significant reduction of tariff levels,

from an average tariff for ASEAN-6 under the CEPT Scheme of 12.76 percent in 1993 to 2.39 percent in 2003.

2003 CEPT Package by Status					
Country	Percentage				
	IL	TEL	GEL	SL/HSL	Total
Brunei D. (HS-96)	97.61	-	2.39	-	100
Indonesia (HS-02)	98.63	-	1.22	0.15	100
Malaysia (HS-96)	97.32	2.10	0.51	0.08	100
Philippines (HS-02)	99.47	-	0.34	0.19	100
Singapore (AHTN)	100.00	-	-	-	100
Thailand (HS-02)	100.00	-	-	-	100
ASEAN-6	98.87	0.43	0.64	0.06	100
Cambodia (HS-96)	45.66	51.64	1.96	0.73	100
Lao PDR (HS-96)	83.41	12.31	2.08	2.20	100
Myanmar (HS-96)	87.30	11.51	0.88	0.31	100
Vietnam (AHTN)	94.89	0.31	3.97	0.83	100
CLMV	79.13	17.42	2.56	0.88	100
ASEAN 10	92.04	6.31	1.30	0.34	100

Source: ASEAN Secretariat, as of June 2004

The combined average tariff rates for these countries are:

2000 – 3.52%	2002 – 2.90%
2001 – 3.18%	2003 – 2.40%

The new members of ASEAN were given longer time to reach the 0-5 percent tariff for intra-ASEAN trade (Viet Nam in 2006, Lao PDR and Myanmar in 2008, and Cambodia in 2010).

Sources of information: ASEAN Secretariat, AFTA Readers, Volumes I-V. For more information on AFTA, visit <http://www.aseansec.org>

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