

INTRODUCTION

The ASEAN Free Trade Area (AFTA) is a collective effort by ASEAN member countries to reduce/eliminate tariffs on intra-ASEAN trade in the goods sector. The target is to achieve tariff between 0-5% in 2003 for the six original member countries, Vietnam by 2006, Lao PDR and Myanmar by 2008 and Cambodia by 2010, and eliminate quantitative restrictions and other non-tariff barriers. The reduction/elimination of tariff is undertaken through the Common Effective Preferential Tariff Scheme.

The primary objective of AFTA is to enhance ASEAN's position as a competitive production base producing for both the regional and global markets. This is to be achieved through:

- promotion of intra-ASEAN trade and industrial linkages, specialisation and economies of scale; and
- promoting the region as an efficient and competitive production base for investments.

Malaysian companies will be able to benefit from:

- preferential access into the larger market of ASEAN with a population of 530 million;
- a wider base for competitive sourcing of raw materials from countries in the region; and
- opportunity to cooperate and collaborate with ASEAN partners to tap both the regional and global markets.

Tariff reduction/elimination under AFTA is granted on a reciprocal basis. Member countries can enjoy the lower tariff under AFTA only if they also offer tariff reduction for the same product and comply with local content requirement.

A product would be eligible for tariff concession if at least 40% of its contents originate from any ASEAN member state. The 40% local content refers to both single and cumulative content.

TARIFF REDUCTION UNDER AFTA

There are four categories of products listed under AFTA:

a. Inclusion List

- covers products offered for tariff reduction/elimination, and are essentially all manufactured and processed agricultural products and some unprocessed agricultural products;
- Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand have completed the transfer of these products into the Inclusion List in 2000, whereby tariffs will be at maximum of 5% in 2003. Tariff on 60% of these products will be eliminated by end of 2003. Duties on the remaining item will be eliminated by 2010;
- The schedules to transfer products into the Inclusion List and to reduce/eliminate tariffs to 0-5% for the new ASEAN member countries:
 - Vietnam to complete the transfer of products in 2003 and reduce by 2006;
 - Lao PDR and Myanmar to complete the transfer of products by 2005 and reduce by 2008; and
 - Cambodia to complete the transfer of products by 2007 and reduce by 2010.

These countries to remove all tariffs by 2015 with flexibility of up to 2018 for sensitive products.

b. Temporary Exclusion List

- This is the list of products for which member countries seek temporary exclusion.
- Malaysia has only 218 tariff lines on automotive products in the Temporary Exclusion List, which will be transferred by 2005.
- The time frames for phasing in products from the Temporary Exclusion List into the Inclusion List:
 - Viet Nam in 2003;
 - Lao PDR and Myanmar by 2005; and
 - Cambodia by 2007.

c. Sensitive and Highly Sensitive List

- This list of products is given a longer time frame for transfer into the Inclusion List and for tariff reduction/elimination and includes Unprocessed Agricultural Products.
- Sensitive Unprocessed Agricultural Products are to be transferred not later than December 2003 at current applied rate. Tariffs are to be reduced to between 0-5% by 2010.
- Highly Sensitive Unprocessed Agricultural Products to be transferred not later than 2005 with the ending rate to be decided by individual member countries (not above 20%) by 2010.

d. General Exception List

- This list contains products that are permanently exempted from tariff reduction/elimination.

- Exemption is given for reasons of protecting national security, human, animal and plant life and health. It also includes articles of artistic, historic and archaeological value.

ELIMINATION OF NON-TARIFF BARRIERS

For all products in the Inclusion List, quantitative restrictions (quotas, licenses etc.) have to be eliminated immediately.

Other non-tariff barriers are required to be removed within 5 years after the products are phased into the Common Effective Preferential Tariff Scheme.

CURRENT STATUS OF ASEAN FREE TRADE AREA

In 2003, for ASEAN-6, a total of 44,361 or 98.80% of total tariff lines (products) are in the Inclusion List. Out of this, 99.55% have duties between 0-5%.

Country Breakdown – ASEAN-6

Brunei	-	99.18%	Indonesia	-	100%
Malaysia	-	99.26%	Philippines	-	98.81%
Singapore	-	100%	Thailand	-	99.92%

The combined average tariff rates for these countries are:

Year 2000	-	3.52 %	Year 2001	-	3.18%
Year 2002	-	2.90 %	Year 2003	-	2.40%

Cambodia, Lao PDR, Myanmar and Vietnam

Collectively, Cambodia, Lao PDR, Myanmar and Viet Nam offer 16,126 or 72.21% of their total tariff lines for tariff concessions.

Out of this, 8,977 or 55.67% will have duties between 0-5%. A total of 5,810 tariff lines are still in their Temporary Exclusion List and Sensitive/Highly Sensitive List which will be transferred into the Inclusion List according to their schedule of commitments.

MALAYSIA

a. Inclusion List

Malaysia has progressively transferred 10,116 products into the Inclusion List since 1993.

These products constitute 97.32% of Malaysia's total tariff lines of which:

- 99.26% have import duties of not more than 5%;
- 60.3% of these products attract no import duties; and
- 0.74% have specific duties and will be reduced to 0-5% in 2010. These include Unprocessed Agriculture Products in the Sensitive and Highly Sensitive List which will be transferred into the Inclusion List beginning 2003.

The average Malaysian AFTA rate was 2.7% in 2001, 2.6% in 2002, and 1.9% in 2003.

b. Temporary Exclusion List

There are 218 tariff lines related to Completely Knock Down and Completely Built Up passenger cars, commercial vehicles and motorcycles that will be included into the Inclusion List in 2005. The delay in inclusion was to allow domestic auto industry more time to recover from the impact of the 1997 regional financial crisis.

c. Sensitive and Highly Sensitive Lists

There are 75 tariff lines in the Sensitive List covering swine and poultry, tropical fruits, tobacco and tobacco products and sugar. These products are transferred into the Inclusion List in 2003.

Rice

The 8 tariff lines in the Highly Sensitive List for rice and rice products will be transferred into the Inclusion List in 2005. The current applied rate for rice is 0%. Malaysia reserves the right to impose 20% import duty on rice in 2010 to protect the local industry.

Sensitive List and Highly Sensitive List as in Annex 1.

d. General Exception List

There are 53 tariff lines in the General Exception List, out of which 32 tariff lines are related to alcoholic beverages and 21 tariff lines on arms and ammunition.

General Exception List as in Annex 2.

ELIMINATION OF NON-TARIFF BARRIERS

Quantitative Restrictions

Malaysia does not maintain Quantitative Restrictions on products in the Inclusion List.

APPLICATION FOR AFTA TARIFF CONCESSIONS

To enjoy AFTA lower tariff rates, all exports to ASEAN countries need to be accompanied by a Certificate of Origin - Form D. The Form D can be purchased from the Federation of Malaysian Manufacturers (FMM) or its branches:

Wisma FMM,
No. 3, Persiaran Dagang,
PJU9, Bandar Sri Damansara,
52200, Kuala Lumpur

The procedures for application of Certificate of Origin under AFTA are as in Annex 3.

TRADE FACILITATION MEASURES

To complement efforts in tariff reduction/elimination under AFTA, ASEAN has also undertaken various trade facilitation measures including elimination of unnecessary technical barriers to trade, harmonisation of standards and conformance measures, and simplification and harmonisation of customs procedures, to facilitate the flow of goods across borders.

These measures are necessary in order to ensure successful implementation of AFTA and promoting closer economic integration of the region.

CUSTOMS COOPERATION

Customs cooperation is aimed at facilitating the smooth flow of goods across the region and to reduce the time taken to process documents. The ASEAN Agreement on Customs was signed in

1997 to simplify and harmonise the customs aspect of trade in goods. Various measures being implemented:

a. ASEAN Harmonised Tariff Nomenclature

ASEAN Member countries have agreed to have a Harmonised Commodity Description and Coding System (HS) for customs classifications, which will be implemented in 2004. The purpose of the ASEAN Harmonised Tariff Nomenclature is to harmonise classification of products by individual customs authorities.

The harmonisation and refinement of the Harmonised Tariff Nomenclature at an 8-digit level would speed up imports and exports, by facilitating product comparability, as well as ease data collection.

b. Harmonised Valuation of Goods

To ensure uniformity and predictability in the implementation of custom valuation under World Trade Organisation and to avoid arbitrariness, Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand have implemented the World Trade Organisation Valuation Agreement. Viet Nam implemented the Agreement at the end of 2001 for Common Effective Preferential Tariff products and in 2003 for all products. For the other countries are:

- Myanmar 2002
- Cambodia 2004
- Laos 2005

c. Green Lane System

Under the Green Lane System, clearance of goods at customs points will be expedited. Goods from ASEAN countries are only subjected to random checking.

STANDARDS AND CONFORMANCE

Mutual Recognition Arrangements

The Framework Agreement on Mutual Recognition Arrangements signed in 1998, provides for the development of Mutual Recognition Arrangements on standards and conformity assessment among ASEAN members.

Mutual Recognition Arrangements will allow products tested in one ASEAN country to be sold in other ASEAN countries, without repeating the testing and certification processes. For those products subject to registration approval, Mutual Recognition Arrangements would allow them to be marketed in the other ASEAN countries, once the product have been registered in any of the ASEAN country. The implementation of the Mutual Recognition Arrangements will further facilitate intra-ASEAN trade in these goods through better market access.

The Sectoral Mutual Recognition Arrangements on Electrical and Electronic Equipment has already been signed. Work is ongoing in the other priority sectors identified for the establishing of Mutual Recognition Arrangements i.e. cosmetics, pharmaceuticals, telecommunication equipment and prepared foodstuff.

Standards Harmonisation

Standards harmonisation in ASEAN started with 20 priority product groups that are widely traded in ASEAN. Standards harmonisation will help to reduce the cost of production for the industries. The 20 product groups are:

1. Air-conditioners
2. Refrigerators
3. Radio
4. Telephone
5. Television

6. Video apparatus
7. Printed Circuits
8. Monitor and Generators
9. Monitor and Keyboard
10. Mounted piezo-electric crystal
11. Diodes (other than photosensitive)
12. Parts of TV and Radio
13. Loudspeakers and parts
14. Inductors
15. Capacitors
16. Resistors
17. Switches
18. Cathode-ray tube
19. Rubber gloves
20. Rubber condoms

The harmonisation of standards for these product groups will be carried out through the alignment of national standards with relevant international standards, such as International Organisation for Standardisation, International Electro-technical Commission and International Telecommunications Union standards.

OTHER AREAS OF ASEAN ECONOMIC COOPERATION

ASEAN INDUSTRIAL COOPERATION SCHEME

The ASEAN Industrial Cooperation scheme (AICO), introduced in 1996, is an industrial cooperation programme to promote the sharing of industrial activities amongst ASEAN-based companies. A minimum of two companies in two different ASEAN countries are required to form an ASEAN Industrial Cooperation Arrangement.

The ASEAN Industrial Cooperation Scheme enables participating companies to enjoy preferential tariff of between 0-5%, ahead of the Common Effective Preferential Tariff (AFTA) deadline. The Scheme had assisted in promoting

industrial linkages between ASEAN-based companies in the automotive, electric & electronics, food packaging, plastics products, rubber products and petrochemicals sectors.

The ASEAN Industrial Cooperation Scheme can benefit companies producing products where the Common Effective Preferential Tariff rates are above 5%. The Scheme offers Malaysian companies the opportunity to engage in industrial collaboration programmes or initiatives, which would further foster and enhance industrial linkages, and complementation, among firms in the region.

A total of 90 ASEAN Industrial Cooperation arrangements have been approved in ASEAN, out of which 56 arrangements are from Malaysia mainly manufacturers of:

- automotive parts and components;
- consumer electrical items; and
- food and related products

INVESTMENT

The ASEAN Investment Area Agreement aims to make the region a competitive base to attract foreign direct investment through the implementation of programmes and activities on investment liberalisation, facilitation and promotion.

The agreement covers direct investment related to manufacturing, agriculture, fisheries, forestry and mining, and services activities related to these sectors.

The Original Six member countries and Myanmar provides national treatment to ASEAN investors in the manufacturing sector in 2003. For other sectors, national treatment will be provided by the original ASEAN member countries by 2010, and Myanmar by 2015, to both ASEAN and non-ASEAN investors. However a number of sensitive industries could be excluded.

For Malaysia, examples of industries excluded are: pineapple canning, palm oil industry and refinery, sugar refinery, sawn timber, veneer and plywood, petroleum refinery, batik, extraction of timber, fisheries, cement and oleo-chemicals.

For Cambodia, Lao PDR and Vietnam, national treatment will be provided to ASEAN investors in the manufacturing sector by 2010, and by 2015 for other sectors to both ASEAN and non-ASEAN investors.

The investment liberalisation initiatives in ASEAN offer opportunities for Malaysian companies to relocate and rationalise their operation in an effort to compete globally. ASEAN Investment Area encourages Malaysian companies to explore and engage in joint venture arrangements with their counterparts in other ASEAN countries.

The sensitive sectors as in Annex 4.

LIBERALISATION OF SERVICES

The ASEAN Framework Agreement on Services signed in 1995 is aimed at guiding services liberalisation and promoting cooperation among services suppliers in ASEAN. ASEAN services liberalisation commitments are over and above their commitments in World Trade Organisation. To date, ASEAN had completed three packages of services liberalisation.

The sectors in the three packages of commitments for progressive liberalisation relate to construction, telecommunication, business services, finance, air and maritime transport, and tourism. This involves preferential market access into other ASEAN countries in the establishment of services entities and employment of professionals.

Services sectors of export interest to Malaysian services providers include construction and engineering services and information and communications technology services. Brunei offers up to 50% equity for construction companies, while Cambodia offers 100%, Indonesia 55%, Lao PDR 30%, Philippines 40% and Thailand 49%.

The offers in the services sectors for Malaysia and ASEAN as in Annex 5.

e-ASEAN

ASEAN cooperation in the information and communications technology sector is guided by the e-ASEAN Framework Agreement signed in November 2000. The Agreement provides for development and strengthening the information and communication technology sector in ASEAN, and addressing the digital divide.

Since the signing of the Agreement, ASEAN has begun developing 18 pilot projects, covering the development of portals related to tourism, trade, information exchange and schools network. Malaysian companies are currently involved in the development of five pilot projects viz:

- ASEAN Regional Internet Exchange
- ASEAN e-Tourism Portal
- Knowledge Workers Exchange
- ASEAN Incubator Network
- ASEAN Training Network

The implementation of projects under the e-ASEAN initiatives offers potential for Malaysian businessmen to share expertise on the development of the information and communication technology sector. These include:

- ASEAN Regional Internet Exchange, which will contribute towards the establishment of the ASEAN Information Infrastructure; and
- e-Tourism Portal which provides for a comprehensive information-hub where travel and tourism information from all ASEAN countries will be made available to the world via Worldwide Web. The portal will also support an integrated platform that offers various types of online transactions and payment methods.

In addition, ASEAN has established the ASEAN Internet Service Provider Association and e-ASEAN Certification Authority Forum.

ASEAN INTEGRATION SYSTEM OF PREFERENCES

The ASEAN Integration System of Preferences involves the ASEAN 6 granting tariff free imports for selected products from Cambodia, Lao PDR, Myanmar and Viet Nam. The list of products is subject to annual review.

Malaysia has taken the lead by offering a total of 553 products under the ASEAN Integration System of Preferences to new members:

- Cambodia : 89 products
- Laos PDR : 12 products
- Myanmar : 282 products
- Viet Nam : 170 products

The products offered involve agriculture, wood, plastics, ceramics, articles of iron and steel and electric and electrical products.

Other countries offering ASEAN Integration System of Preferences are Indonesia (297 products), Thailand (165 products), Brunei (102 products) and the Philippines (79 products).

MALAYSIA'S TRADE WITH ASEAN COUNTRIES

ASEAN as a group continues to be Malaysia's largest trading partner. In 2002, total trade with ASEAN was RM161.8 billion, accounting for 24.6 per cent of Malaysia's global trade.

Trade with ASEAN countries has grown at an average rate of 20.7 per cent per annum over the past five years.

Malaysia's trade with ASEAN from 1997 to 2002 are:

Year	Total Trade (RM million)	% Change
1997	107,218.4	6.2
1998	121,647.6	13.5
1999	134,853.1	10.9
2000	173,993.2	29.0
2001	147,553.7	15.2
2002	161,817.7	9.7

Source: Department of Statistics, Malaysia

Malaysia's trade with individual ASEAN countries (Values in RM million) as in the table:

Country	1998	1999	2000	2001	2002
Singapore	79,633	87,923	113,296	91,982	96,977
Thailand	17,895	19,876	25,472	23,888	27,113
Indonesia	9,710	11,355	15,107	14,456	16,534
Philippines	9,906	11,141	14,120	11,881	14,936
Viet Nam	2,008	2,405	3,537	3,009	3,769
Brunei	921.9	854.6	978	1,056	1,200
Myanmar	1,370	1,108	1,142	1,045	992
Cambodia	196.9	185.5	335	229	284
Lao PDR	6.8	5.0	6.2	7.7	12.7
Total	121,647.6	134,853.1	173,993.2	147,553.7	161,817.7

Source: Department of Statistics, Malaysia

Intra-ASEAN Trade

AFTA has led to the expansion of intra-ASEAN trade. Intra-ASEAN trade has been increasing over the years from US\$81.98 billion in 1993 to US\$179.2 billion in 2000. However, it decreased by 10.7 per cent to US\$147,554 billion in 2001. Singapore continues to be a major contributor in the intra-regional trade, accounting for 39.5 per cent of the total intra-ASEAN trade, followed by Malaysia (24.2 per cent), Thailand (15.6 per cent), Indonesia (9.5 per cent) and the Philippines (5.7 per cent). All countries, except Cambodia, experienced contraction in the intra-ASEAN trade with the highest contraction recorded by the Philippines (15.6 per cent) and Malaysia (15.3 per cent).

Country	2000 (US billion)	% share	2001 (US billion)	% share
Singapore	71.2	39.7	63.3	39.7
Malaysia	45.8	25.6	38.8	24.2
Thailand	25.6	14.3	25.0	15.6
Indonesia	17.7	9.9	15.2	9.5
Philippines¹	10.9	6.1	9.2	5.7
Viet Nam¹	7.2	4.0	7.0	4.4
Cambodia¹	0.6	0.3	1.2	0.7
Lao PDR¹	0.2	0.1	0.4	0.2
Total	179.2	100	160.1	100

Source: ASEAN Secretariat

Note : Data exclude Brunei and Myanmar

¹ estimates

CONCLUSION

The creation of the ASEAN market comprising 530 million people through AFTA, provides enormous potential for market expansion of Malaysian companies. Malaysia's industries and businesses must strategise to take advantage of this potential to tap the ASEAN market by establishing linkages and strategic alliances, not only in other ASEAN countries, but also globally, so as to derive maximum benefits from sharing of resources, technology and Research and Development activities.

With the larger market size and the elimination of intra-regional tariffs and non-tariff barriers through AFTA, local investors can enjoy economies of scale in production. In addition, AFTA can attract more foreign direct investments, which in turn can stimulate the growth of supporting industries.

Consumers in ASEAN are now offered a wider variety of quality goods produced regionally at lower prices. However, this also means that there is increasing competition for domestic industries for certain products, due to the liberalised Malaysian market.

Malaysians and Malaysian-based companies must enhance their resilience to remain competitive domestically and identify new potential for exploiting the ASEAN market, as well as the global market at large.