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**The AFTA-CER Linkage Dialogue Revisited:
Its Recent Development and Implications**

Jiro Okamoto

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CONTENTS

I. Introduction	1
II. Progress and Obstacles until 1999.....	2
III. Establishment of the Task Force and Results of the Feasibility Study.....	5
IV. Indecision at the Ministerial Consultation in 2000.....	8
V. Implications	10
VI. Concluding Remarks	12
References	13

I. Introduction

The AFTA-CER linkage dialogue, which was formally inaugurated in 1995, is an attempt to build closer economic relations between ASEAN (the Association of Southeast Asian Nations) countries, Australia and New Zealand. ASEAN countries are in the process of establishing the ASEAN Free Trade Area (AFTA) by 2002, while the Australia-New Zealand Closer Economic Relations Trade Agreement (CER), a bilateral free trade agreement (FTA), has been in place since 1983. The dialogue has drawn attention from other APEC members as an endeavour for linking Sub-Regional Trade Arrangements (SRTAs) within the Asia Pacific region. From the start of the dialogue, however, its objectives did not include the merger of these two FTAs. Rather, its focus was on Non-Tariff Measures (NTMs) and the facilitation of trade and investment between them.

At the annual Informal Ministerial Consultations in October 1999, the ASEAN side took a significant initiative. ASEAN proposed the establishment of a High Level Task Force to explore the feasibility of an AFTA-CER FTA by 2010, and the CER side agreed without hesitation. I wrote a paper in March 1999 on the progress and obstacles of the AFTA-CER dialogue from 1995 to 1998, and showed that the cooperation in trade facilitation between ASEAN and CER was extensive in terms of coverage, but short in the implementation of concrete measures (Okamoto [1999]).

However, the dialogue took another turnabout in 2000. Although the Task Force recommended strongly to move quickly towards the creation of the AFTA-CER FTA, the Ministerial Consultation was unable to make the decision because of the opposition from some ASEAN members.

This paper aims to follow up these recent developments of the AFTA-CER dialogue and point out some implications on regional trade liberalisation for further research. First, to understand where the dialogue stood before the establishment of the Task Force, the paper will review the outcomes and constraints of the dialogue during its first five years. Second, factors that brought about the decision to establish the Task Force will be examined. Third, the results of the feasibility study and the contents of the recommendations by the Task Force will be described. Fourth, the reason why the

Ministerial Consultation had to avoid making a decisive step towards the AFTA-CER FTA formation in 2000 will be explored. And lastly, some implications of the indecision by the Ministerial Consultation on the dialogue participants' liberalisation strategies will be examined.

II. Progress and Obstacles until 1999¹

Before specific outcomes and obstacles are examined, it is important to note that, as explained earlier, the AFTA-CER dialogue did not intend to seek to merge the two FTAs from the preparation stage. Rather, its confirmed objectives were to find practical ways of assisting businesses and to expand inter-regional trade and investment. Also, it should be noted that any inter-regional talks on the topic were supposed to be informal. These arrangements prior to the actual commencement of the dialogue reflected the differences in willingness ASEAN countries towards the linkage. Because ASEAN, as an entity, was one of the participants, it was necessary for the dialogue to move at a pace with which ASEAN was comfortable (Smith [1998: 248]). Cooperation schemes that ASEAN undertakes usually require consensus among members, and often proceed at a pace advocated by the most negative member.

What the dialogue had achieved by 1999 were basically two things. First, the frameworks for consultations at the government and private levels were established. The senior officials from ASEAN countries, Australia and New Zealand are set to meet once or twice a year, back to back with the ASEAN Senior Economic Officials Meetings, to discuss various topics of the AFTA-CER dialogue and prepare for the annual Ministerial Consultations, which is also set back to back with the annual ASEAN Economic Ministers Meeting. The Business Leaders' Dialogue for the AFTA-CER linkage was inaugurated in September 1996 to invite active participation from the business sector. The business sector of each participating country has formed a liaison office to input suggestions and opinions, and to provide information and data required by the governmental consultations.

Second, the ASEAN and CER side agreed on the areas for cooperation. Table 1

¹ Most description in this section is from Okamoto (1999), unless otherwise specified.

shows those areas identified by the successive Ministerial Consultations, and the year that each area and cooperation measure is referred to in the “*Joint Press Statement*” of the Consultations. It illustrates that the cooperation plan as a whole was extensive and the cooperation areas and/or measures had been expanded at every Ministerial Consultation.²

Table 1. Areas for Cooperation in the AFTA-CER linkage Dialogue

<p>1. Customs Creation of a Customs Compendium for ASEAN and CER (1995). Technical assistance plan on the Implementation of the GATT Valuation Agreement (1996-). Facilitation of cargo clearance (1996-). Electric Commerce (1996-). Quarantine Messaging (1996-). Publication of “<i>Handbook on Customs Procedure</i>” (1997). New Zealand provided training on the GATT Customs Valuation Agreement to the new members of ASEAN (1999).</p> <p>2. Standards and Conformance Exchanging of information and collaborative work on ISO 14000 environmental certification systems (1995-). Featuring developments in CER standards and conformance in the <i>ASEAN Standards and Quality Bulletin</i> (1995-). Ministers signed the “<i>Memorandum of Understanding concerning Cooperation on Standards and Conformance</i>” between ASEAN and CER countries” (1996). Promotion of alignment to international standards such as ISO and IEC (1996-). Cooperation on the development of testing and accreditation systems (1996-). Achieving mutual recognition of testing results and certification programs (1996-). Information promotion through mutual publications (1996-). Information exchange and human resource development in the area of the accreditation of quality system certification bodies (1996-).</p> <p>3. Human Resource Development Exchange program involving young entrepreneurs from small and medium enterprises (1997-).</p> <p>4. Investment Promotion (1997-) Private business sectors plan to establish an investment matching system via internet (1998-). The Australia Industry Group launched a website to promote investment opportunities in ASEAN and CER (1999).</p>

² The Ministerial Consultation did not take place in 1998 because of the request by the Australian government. A general election was held in Australia in the same month as the Consultation was scheduled.

5. Services

Cooperation on professional services, building/construction, transport and tourism (1997-)
Progress in the creation of a Transport Information Directory (AFTA-CER Transport Information Homepage (1999-).
Discussions to conduct a transport corridor study to examine freight movements in the Mekong region (1999-).

6. Sanitary and Phytosanitary (1997-)

CER proposal for a pilot program on electric quarantine certification, an ASEAN-CER Directory of Food Standards Authorities, assistance on SPS Risk Analysis (1999-).

7. Market Access

Business Leaders' Dialogue produced the list of trade impediments in ASEAN and CER (1997)
Ministers put priority on anti-dumping, standards and conformance and foreign direct investment (1999).

8. Competition Policy

Assistance from the CER to provide an educative process on competition policy and consumer protection (1999).

9. Others

Linkage of trade and investment database between ASEAN and CER (1995-).
Encouraging joint studies by researchers and think tanks on the future development of the AFTA-CER linkage (1997-).

Source: AFTA-CER Ministerial Consultations (1995, 1996, 1997 and 1999).

In general, however, it seemed that the implementation of the measures in Table 1 were slow. Many of the measures were still in the preparation stage. A few of the visible results included the Publication of "*Handbook on Customs Procedures*", training on customs procedures for the new ASEAN members by New Zealand, signing of the Memorandum of Understanding (MOU) for standards and conformance, seminars and information exchange under the MOU framework and the launch of a website to promote inter-regional investment opportunities. Though these developments should be seen as important steps for further cooperation, the problem was that individual firms involved in the inter-regional transactions in either ASEAN or CER did not feel positive influences of the cooperation. There were few concrete results in the areas where more direct impacts on private sectors were possible, such as non-tariff barrier (NTB) reductions.

Several factors slowed the cooperation process down. First, as mentioned

earlier, ASEAN could only move at a pace acceptable to the most negative members. Second, the shortage of available resources (time and personnel), particularly on the ASEAN side, was causing the lack of close coordination on the issue in the domestic and intra-regional dimensions. Third, the perception of differences in relative gains from cooperation held by ASEAN members was prompting to demand concessions from the CER side, or the payment of more of the costs by the CER side. Australia and New Zealand did not have to bear as much of the extra costs for trade facilitation in the AFTA-CER process as their ASEAN counterparts did, since they had already significantly liberalised their economies toward third countries. Moreover, the direct impact of trade facilitation (the increase in exports to the counterpart region) was considered to favour the CER side, especially Australia, at least in the short term.

To accelerate the process, I proposed three decisions that should be made in my paper in 1999 (Okamoto [1999: 49-50]). First, the dialogue could stop broadening the areas for cooperation and concentrate on a small number of them each year. Second, the “informal” character of the dialogue might be changed to official. Third, the unilateral provision of trade facilitation measures might improve the pace of the dialogue process. The CER side could move first by unilaterally providing market access opportunities for ASEAN, through lowering NTBs identified and listed by the ASEAN business sector. After a year or two, ASEAN could start reducing the NTBs identified by CER. If the first and second points were adopted, the officials of each government and the staff at the ASEAN Secretariat would be able to better utilise their scarce resources. The third point was an attempt to close the perceived gap in relative gains between ASEAN and CER, by having the latter pay the initial cost of trade facilitation. This measure did not satisfy the immediate reciprocity demand by CER, but would achieve it in the medium term.

III. Establishment of the Task Force and Results of the Feasibility Study

As the Ministerial Consultation in 1998 did not take place because the schedule overlapped with the general election in Australia, the Consultation in Singapore in October 1999 turned out to be the first meeting in two years. During those two years,

the economic environment in the region changed dramatically. This was the period during which the outbreak of the currency crisis in July 1997 led to more serious economic and political chaos in most of the ASEAN countries. At the Summit meeting held in Hanoi in December 1998, ASEAN countries decided to accelerate the CEPT (Common Effective Preferential Tariffs) reduction schedule to create AFTA by 2002. They also agreed on the promotion of the “ASEAN Investment Area” initiative (ASEAN Summit [1998]). The main objective of these arrangements was to bring back the foreign investment that was flowing out from the region. The trade policy direction of ASEAN and each member government was maintained in 1999 and the decision to establish a Task Force to study the feasibility of the AFTA-CER FTA at the 1999 Ministerial Consultation can be understood in this context.

The proposal for establishing the Task Force was made by the ASEAN side and the CER accepted it without hesitation. It could not have been the other way around. An Australian official involved in the dialogue explained that Singapore and Thailand first proposed the feasibility study within ASEAN and that all other members agreed. The official also said it seemed that there was a consensus among ASEAN members on the matter.³ However, the actual circumstances within ASEAN were not that simple. An Indonesian official confirmed that Singapore was very actively in favour of the Task Force and the feasibility study, but said that Indonesia’s stance was “not to oppose the *study* itself”, which implied that the Indonesian government did not necessarily favour the move. The Indonesian official added that because Singapore was the chair of the AEM, setting of the agenda for the AFTA-CER dialogue in 1999 was also conducted mainly by Singapore. Usually, other ASEAN members do not oppose or complain about matters on the consultation table after the chair sets them.⁴ It should be seen that the ASEAN “consensus” was fragile even when the proposal to set up the Task Force was made.

The work of the Task Force started when they met for the first time in Jakarta in February 2000. The second meeting was held in Queenstown in April, and the third and last meeting was held in Siem Reap in August. The Task Force and its work was

³ Interview with an official of the Department of Foreign Affairs and Trade (DFAT), Australia. November 2000.

⁴ Interview with an official of the Department of Industry and Trade (DIT), Indonesia. November 2000.

characterised as “informal”, just like the Eminent Persons Group (1993-95) in APEC, thus most of the Task Force Members were not the current politicians or bureaucratic officers. However, considering that the Task Force was chaired by a former Prime Minister of the Philippines and the members included former trade ministers and economists closed to the governments,⁵ the status of the Task Force could not be low. In addition, in Australia and Indonesia, a section in the DFAT and DIT played the role of domestic secretariats for the respective countries (it must have been similar in other countries). From this aspect, too, the Task Force was “informal” which was very close to a formal inter-governmental and inter-regional project. There was good reason to expect the results of its study and the recommendations based on them to have a strong influence on the decision by the Ministerial Consultations.

The report of the Task Force study named *the Angkor Agenda* started with an analysis of the global and regional economic environment. Then, it went on to describe the economic and political costs and benefits of the AFTA-CER FTA and the desirable framework and modality of the FTA in detail. It also included comprehensive product coverage and stated the necessity of flexibility in applying tariff reductions for the least developed members of ASEAN and the provision of economic and technical cooperation from CER to ASEAN. Ultimately, the report resolved, “establishing a free trade area between AFTA and CER is not only feasible but also advisable”. Thus, “[the Task Force members] strongly suggest ... [to] undertake the necessary steps toward the establishment of the proposed AFTA-CER FTA at the earliest possible time”, because “[i]n a world of constant flux, to stand still is to fall back. ASEAN and CER must take this decisive step. They must seize this unique opportunity to move forward” (High Level Task Force [2000]).

I was impressed with the report and recommendations of the Task Force not only because I was not expecting such a strong phrasing for the AFTA-CER FTA but also because they effectively satisfied all three proposals that I had made in my 1999 paper for carrying out the dialogue, though the methodology was not exactly the same.

⁵ For the full list of the Task Force members, see High Level Task Force (2000).

IV. Indecision at the Ministerial Consultation in 2000

To jump to the outcome, the Ministerial Consultation held in Chiang Mai in October 2000 was unable to decide to start concrete negotiations to form the AFTA-CER FTA. Instead, they agreed to continue analysis of the content of the Task Force study at the working-level and to submit the results to the next Ministerial Consultation in 2001. The working-level analysis was set to focus on the “Closer Economic Partnership” (CEP) between ASEAN and CER, instead of the AFTA-CER FTA. The concept of CEP was unclear at best, and the Joint Press Statement of the Consultations stated that the analysis would be on “*relevant recommendations* of the [Task Force] Report and *other issues relevant* to the closer economic integration of ASEAN-CER countries”, (AFTA-CER Ministerial Consultations [2000]), but failed to specify what were the relevant recommendations by the Task Force.

Naturally, the CER side, especially Australia, was “very disappointed” with the indecision.⁶ A DFAT official admitted that the *relevant recommendations* mentioned in the Joint Press Statement did not necessarily include the liberalisation aspect, thus there was no guarantee that the negotiation for the establishment of the AFTA-CER FTA would take place in 2001.⁷ While the CER side still hoped that the CEP process would include an FTA, the Minister for Trade and Industry of Malaysia explained at the press conference just after the Ministerial Consultation that the CEP would not include tariff reduction.⁸ An official from the DIT of Indonesia also said that CEP was a concept for conducting trade facilitation and economic and technical cooperation measures, not for liberalisation.⁹ On the other hand, however, the Indonesian official added, “as ASEAN does not see things as black or white, it is possible that the trade liberalisation aspect might be contained in the CEP under certain circumstances”.¹⁰

According to an Australian official, the only progress made at the Ministerial Consultation from the Australian perspective was that the senior officials and working-level consultations were finally recognised as a formal process between

⁶ Interview with an Official of the DFAT, Australia. 13 November 2000.

⁷ Interview with an Official of the DFAT. 13 November 2000.

⁸ *The Weekend Australian*, 7-8 October 2000.

⁹ Interview with a DIT official, Indonesia. 20 November 2000.

¹⁰ Inter view, 20 November 2000.

ASEAN and CER.¹¹ It seemed, however, that there was also a difference in understanding regarding this point between the two sides. The DIT official whom I interviewed denied the change in status of the working-level consultations, pointing out that the Joint Press Statement after the Ministerial Consultation did not mention anything about it.¹²

Why could the Ministerial Consultation not make the decision to start formal and tangible negotiations on the AFTA-CER FTA, which was clearly and strongly recommended by the Task Force? The opposition was raised mainly by Malaysia and Indonesia; thus, ASEAN could not build a consensus on the issue. But, why did these two countries have to oppose the idea? The factors behind the indecision of the Ministerial Consultation in 2000 were both political and economic.

Genuinely political factors underlie the recent relations of Australia with Malaysia and Indonesia. The Malaysian Prime Minister's assertion of "Asian values" and the "Asian way" of doing things is well known and, for more than ten years, Australia has been a target of his criticism. For instance, Australia was excluded (along with New Zealand) from the Malaysian proposal to form the East Asian Economic Caucus (EAEC) in the early 1990s, and there is little prospect that Australia (and New Zealand) will be invited to the ongoing "ASEAN plus three" (Japan, China and Korea) meetings, a virtual EAEC, in the near future. The degradation of Australia's relations with Indonesia in recent years is, in a sense, more serious. Australia's policy change toward East Timor's independence in 1999 and its active involvement and commanding role played in the peace-keeping operation in East Timor, appear to have caused an "anti-Australia" feeling within Indonesia. It seems that, currently (and in the medium term, absent drastic diplomatic developments), Malaysia and Indonesia are not prepared to take part in any FTA that includes Australia or that Australia strongly favours.

Due to political and economic factors, differences in the intra-regional trade liberalisation policies of ASEAN members have surfaced recently, especially in 2000. After the currency crisis in 1997, ASEAN members had been devoted to promoting AFTA. However, as the deadline for the intra-tariff reduction neared, some ASEAN members asked that the schedule be extended for certain products. Malaysia, for

¹¹ Interview with an Official of the DFAT. 13 November 2000.

¹² Interview, 20 November 2000.

instance, requested extension of the tariff reduction schedule for automotive and related products, and the AFTA Council accepted and the Summit meeting endorsed the request.¹³ Indonesia shared similar circumstances. Some important figures in the Board of Directors of the Indonesian Chamber of Commerce and Industry, a leading organisation in Indonesia's business sector, said that the government's policy priority should be on regaining political and economic order in the country, not on trade liberalisation. They also stated that Indonesia had no choice but to implement the intra-regional tariff reduction to which the government had already committed, but that it should not commit to any other liberalisation for some time.¹⁴

The domestic (non) preference of trade liberalisation of Malaysia and Indonesia showed a clear contrast with Singapore, which had the lowest expenses in forming any FTAs, and with Thailand and the Philippines, whose governments tended to assert liberalisation although their business sectors did not necessarily share the same enthusiasm as the government. Economic cooperation measures of ASEAN, including inter-regional ones such as the AFTA-CER FTA, cannot proceed without an ASEAN "consensus". It appears very difficult to build a consensus on the AFTA-CER FTA in the current situation and it is unlikely that the political and economic environment will change anytime soon.

V. Implications

First, for the CER side, what will be the implications of the results of the Ministerial Consultation? Typical of the views on this indecision the opinion that a DFAT official expressed: "The CER side responded actively to the opportunity, but ASEAN did not, or could not utilise it".¹⁵ It was natural for the Australian government and business sector, which were discouraged by the failure of AFTA-CER dialogue to yield concrete results, to conclude that the AFTA-CER framework would not work, at least for some time and to seek other ways for building closer economic relations with countries in Southeast Asia. It was symbolic that, during the interview at the Australian Industry Group (AIG)

¹³ The ASEAN Summit authorised the request by signing a protocol. See ASEAN Summit (2000)

¹⁴ Interview with members of the Indonesian Chamber of Commerce and Industry, 21 November 2000.

¹⁵ Interview with an Official of the DFAT. 13 November 2000.

that had a liaison office for the AFTA-CER dialogue at the private level, a staff member stated, “Australia should seriously consider bilateral FTAs with ASEAN countries to move with the times. The AIG will start lobbying the government for FTAs with specific ASEAN members”.¹⁶ In fact, in Brunei in November 2000, the Prime Ministers of Australia and Singapore announced that their countries would start negotiations to establish a bilateral FTA. Since then, the Australian government has shown interest in talking with Japan, Korea, the United States, Chile and others on bilateral FTAs. New Zealand and Singapore already signed the FTA in November 2000. New Zealand, too, has showed its interest in forming bilateral FTAs with countries not only in ASEAN but also in the APEC region.

Second, for ASEAN, the implication of no decision being reached on the AFTA-CER FTA could be more grave. The Singapore-New Zealand FTA, or the Singapore-Australia FTA, may not have drastic impacts on goods trade between the parties and among ASEAN regions, but they could be important for trade in services between them. However, their symbolic meaning cannot be downplayed. Though a DIT official said, “Every country has the right to decide what to do, so the Indonesian government does not care if any members of ASEAN discuss or sign FTAs with any other countries”,¹⁷ President Wahid expressed his displeasure on Singapore’s attitude to run faster than other ASEAN members.¹⁸ Malaysia was also discontent with the moves, urging the necessity to maintain ASEAN solidarity in difficult times.¹⁹ If other members of ASEAN, such as Thailand and the Philippines, begin to favour bilateral FTAs, as Singapore does, the meaning of AFTA would be significantly decreased. In sum, the indecision regarding the AFTA-CER FTA directly and indirectly revealed the differences in domestic political economic situations among ASEAN members and, subsequently, had the effect of broadening the gap between external economic policy preferences among them. Those differences will affect each member’s actual policy towards the broader regional and global fora such as the WTO and APEC.

¹⁶ Interview, 9 November 2000.

¹⁷ Interview, 20 November 2000.

¹⁸ See, for instance, *The Straits Times*, 23 November 2000 and *The Jakarta Post*, 23 November 2000.

¹⁹ For example, see Chong (2000). Malaysia’s assertion on the importance of ASEAN solidarity, however, contradicted with its request to postpone the intra-regional tariff reduction schedule for automobiles.

VI. Concluding Remarks

Though the AFTA-CER linkage dialogue was never intended for the formation of an FTA from its inception in 1995, the Ministerial Consultation in 1999 agreed to establish a High level Task Force for a feasibility study on the AFTA-CER FTA. The proposal, which was made from the ASEAN side, can be understood as one of the attempts to bring back foreign investment that was fast departing from its members following the breakout of the currency crisis. The feasibility study strongly favoured the creation of the AFTA-CER FTA and the Task Force made recommendations accordingly to the Ministerial Consultation in 2000, and the Ministers were unable to take a decisive step toward the FTA. This was primarily because some ASEAN members, mainly Malaysia and Indonesia, raised opposition so that no ASEAN consensus could be built on the issue.

Following the 2000 Consultation, Australia and New Zealand acted to pursue a different course for building closer economic relations with ASEAN members in the form of bilateral FTAs. The Singapore-New Zealand FTA is already signed and the Singapore-Australia one is in the negotiation phase. If other members of ASEAN such as Thailand and the Philippines realise the benefit of bilateral FTAs and create them, AFTA would be largely ruined. It should be seen as a challenge to ASEAN regional cooperation.

To add one final point in conclusion, it appears that the framework of the AFTA-CER linkage dialogue itself will be maintained no matter what. Even if there is currently little in it, or the prospects are not so bright in the near future, it is good to have as many policy options as possible to prepare for changes in the global and regional environment. On this point, at least, both the ASEAN and CER side seem to agree.

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