

Chapter II

The AFTA-CER Linkage Dialogue: An Endeavour for Closer Relations between SRTAs within APEC

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1. Introduction

At the Bogor Meeting in 1994, APEC Leaders called on the Eminent Persons Group (EPG) to review the relationships between APEC and subregional trading arrangements (SRTAs). As the Leaders declared that APEC would achieve free and open trade in the region by 2020, it was needed to identify how the ongoing SRTAs could affect the APEC-wide trade and investment liberalisation that included those SRTAs.

The EPG, in its third report to the Leaders in August 1995, presented its analysis and opinions on the issue, among others. The report stated that: “further liberalisation within the existing SRTAs, and any linkups between them, would be constructive and supportive of the overall APEC process *only* if they were pursued within the principles of open subregionalism” (EPG, 1995: iv). “Open subregionalism”, in this case, indicated that any outcomes achieved by acceleration of SRTAs or linkage between them must be WTO consistent. In the APEC context, the results must be applied to all member economies in the Most Favoured Nation (MFN) basis.

In this chapter, the ASEAN Free Trade Agreement (AFTA) and the Australia-New Zealand Closer Economic Relations Trade Agreement (CER) are discussed as SRTAs within APEC, and the linkage dialogue between them will be examined to analyse the cooperation process. The chapter will also examine the effects that this kind of SRTA linkup may have for wider regional liberalisation. Given that the AFTA-CER dialogue is attempting linkage without legally binding measures, such as a merger of two free trade agreements (FTAs)¹, if the dialogue can produce concrete and favourable results, it may be able to provide a model for how the APEC-wide process should be undertaken until 2020.

Firstly, this chapter will briefly review the evolution of AFTA and CER, and the development of trade relations within the regions and between them in the 1990s. Secondly, the development of the AFTA-CER dialogue will be explored. Focus will be put on two points: how the inter and intra regional

¹ The North American Free Trade Agreement and the Chile-Mexico Free Trade Agreement are planned to be merged to form the Free Trade Area of the Americas (FTAA) by 2005.

frameworks for the dialogue have been developed; and, a survey of the outcomes of the dialogue so far. The analysis here will be mainly based on interviews conducted by the author in November 1998 in Australia, New Zealand, Indonesia and Thailand. It will be shown that AFTA-CER dialogue has been slow in yielding concrete results, though cooperation areas have been widened each year. How the participating countries see the development of the dialogue will be presented, too. Thirdly, after summarising factors which are slowing the AFTA-CER process, it will be argued that the dialogue process must accelerate to be successful. Also, it will be argued that some drastic changes may be needed in the way the AFTA-CER dialogue is operating.

2. Reviewing AFTA, CER and Their Economic Relations

2.1. AFTA

The AFTA initiative was launched by ASEAN in January 1992 and introduced intra ASEAN tariff reduction from January 1993.² AFTA aims at becoming an FTA for the products that satisfy 40% ASEAN content requirement. As the APEC liberalisation framework began to emerge from the mid 1990s, the ASEAN Economic Ministers (AEM) Meeting in September 1994 decided to accelerate the pace of tariff reduction and to broaden the coverage of products in the Common Effective Preferential Tariff (CEPT) scheme. The aim was to gain full advantages of intra ASEAN liberalisation before the tariff margins between CEPT and APEC decreased. The AEM Meeting of 1994 set the new target year for AFTA as 2003, trimming 5 years from the original 15 year program.

Under the CEPT scheme, member countries set out timetables for the reduction of intra ASEAN tariffs. Fifteen product groups³ have been placed on the “fast track” timetable, and tariffs for these products must be reduced to 0-5% by January 2000 if the tariff rates as of 1 January 1993 exceeded 20%, and by January 1998 if they were 20% or below. For the “normal track” products, all tariffs above 20% as of 1 January 1993 must be brought down to at least 20% by January 1998 and to 0-5% by January 2003. Normal track tariffs of 20% or below are to be reduced to 0-5% by January 2000 (Ariff 1997: 68-71).

Member states were permitted to exclude certain products from the scheme by putting them into their individual Temporary Exclusion Lists (TEL)⁴ under the original scheme. The AEM Meeting of 1994 resolved to include all products in the TEL in the scheme by transferring 20% of them to the Inclusion Lists (IL) each year, starting in January 1996. Thus, by 2000, all products in the original TEL will be transferred to the IL.

² For more details of the original AFTA plan, see the Singapore Declaration and the Agreement on the Common Effective Preferential Tariff Scheme, signed at the Singapore summit in 1992.

³ These groups include cement, chemicals, fertiliser, plastics, rubber products, textile and electronics.

⁴ Apart from the temporary exclusion, members are allowed to exclude certain products permanently if they think that it is necessary for the protection of: national security; public morals; human, animal or plant life and health and; articles of artistic, historic and archaeological value (Article 9, the Agreement of the CEPT). These products are placed in the General Exceptions Lists.

The AEM Meeting of 1994 decided to include unprocessed agricultural products in the CEPT scheme. Unprocessed agricultural products have been categorised into four lists: Immediate Inclusion; Temporary Exclusion; Sensitive; and, Highly Sensitive. Tariff reduction for products in the Immediate Inclusion Lists have already started and, by 2003, those tariffs will be 0-5%. Products in the Temporary Exclusion Lists are also in the process of phasing into the CEPT scheme, and tariff rates on all products in the TEL will be under the scheme by 2003. Sensitive unprocessed agricultural products will be phased into the CEPT scheme by 2010. It is agreed by ASEAN members that the intra ASEAN tariff rates of unprocessed agricultural products have to be more preferential than the commitments made by individual members under the WTO Agreement on Agriculture (ASEAN Secretariat 1996: 27-8)

The new members who joined ASEAN after the Singapore summit have also committed to the CEPT scheme but with different timetables from original members. Vietnam, which joined ASEAN in 1995, started intra ASEAN tariff reduction in January 1996 to end at 0-5% tariff rates in 2006. Laos and Myanmar, who joined ASEAN in 1997, began implementation of their commitments in January 1998 to complete in 2008. Unprocessed agricultural products of these countries will also receive similar extension of tariff reduction deadlines.

Table 1 shows the CEPT package submission by each member for 1998. The number of tariff lines included in each category and their percentage ratio to each members total are indicated. Even at this stage, all original members of the CEPT scheme included more than 90% of their total tariff lines in the IL, except for the Philippines which recorded 88%. The ratio of tariff lines put into the TEL by original members varied from 0% by Singapore to 10% by the Philippines. As mentioned above, these tariff lines are in the process of phasing into the IL. The number of tariff lines in the General Exceptions Lists, which are not to be included in the CEPT scheme, are relatively small compared with those in the IL and the TEL. They accounted from 0.3% to 3.6% among the original members.

Table 1. 1998 CEPT Package

Country	Inclusion	Temporary Exclusion	Sensitive	General Exceptions	Total Tariff Lines
Brunei	6,060 (92.8)	220 (3.4)	14 (0.2)	236 (3.6)	6,530 (100.0)
Indonesia	6,597 (90.9)	593 (8.2)	23 (0.3)	45 (0.6)	7,258 (100.0)
Malaysia	8,690 (93.5)	406 (4.4)	137 (1.5)	60 (0.6)	9,293 (100.0)
Philippines	5,099 (88.3)	589 (10.2)	58 (1.0)	28 (0.5)	5,774 (100.0)
Singapore	5,738 (98.0)	0 (0.0)	0 (0.0)	120 (2.0)	5,858 (100.0)
Thailand	9,033 (98.8)	74 (0.8)	7 (0.1)	26 (0.3)	9,140 (100.0)
Vietnam	1,497 (53.2)	1,127 (40.0)	23 (0.8)	165 (5.9)	2,812 (100.0)
Laos	533 (15.0)	2,820 (79.4)	96 (2.7)	102 (2.9)	3,551 (100.0)
Myanmar	2,356 (43.1)	2,987 (55.0)	21 (0.4)	108 (2.0)	5,472 (100.0)
Total	45,603 (81.9)	8,816 (15.8)	379 (0.7)	890 (1.6)	55,688 (100.0)

*Numbers in bracket indicate percentage ratio of tariff lines in each category to individual members' total.
Source: ANNEX 4, *Joint Press Statement*, the 11th AFTA Council Meeting (October 15, 1997).

The fact that Vietnam, Laos and Myanmar put a relatively small number of their tariff lines into the IL and more to the TEL for the 1998 Package indicated they needed time to prepare for intra ASEAN tariff reduction. However, their Sensitive and General Exceptions Lists were comparable to those of original members, both in terms of numbers of tariff lines and percentage ratio to their total tariff lines.

Actual intra ASEAN reduction is likely to be implemented on schedule. The AFTA Council announced in 1997 that the average tariff rate of products in the IL had fallen from 12.8% in 1993 to 6.4% in 1997 (AFTA Council 1997). The Council also declared in 1998 that the average tariff rate for products under the whole CEPT scheme would be reduced from 5.4% in 1988 to 2.7% in 2003 (AFTA Council 1998). Moreover, the recent economic crisis in Asia has introduced a new incentive to accelerate the AFTA process. By doing so, ASEAN members seem to be trying to get foreign capital, especially foreign direct investment (FDI), back into the region.

At the AFTA Council Meeting in October 1998, all members committed to the acceleration of tariff reduction mainly by transferring products from their protective lists to inclusive ones.⁵ In December, leaders of ASEAN states confirmed the intention of faster liberalisation in the region when they met in Hanoi for the ASEAN Summit Meeting. They resolved to maximise the number of tariff lines whose CEPT rates shall fall to 0-5% by 2000⁶ (2003 for Vietnam, 2005 for Laos and Myanmar) and to maximise the number of tariff lines which shall be reduced to 0% by 2003 (2006 for Vietnam, 2008 for Laos and Myanmar) (ASEAN Summit 1998).

AFTA is not only about intra ASEAN tariff reduction. Trade facilitation within the region has also been intended. There have been several measures of NTB reduction and other trade facilitation already introduced, and other trade facilitation measures have been initiated or are in the process of implementation. In the customs harmonisation area, the Green Lane System for AFTA products has been introduced. Under the system, if goods are identified as AFTA products via certain application processes, harmonised and simple customs procedure will be provided in any ASEAN member countries. In the standards harmonisation area, 20 product groups, most of them electric appliances (such as televisions, air conditioners and refrigerators) and their parts, have been identified to be aligned with international standard by 2000. For agricultural products, 5 priority pesticides have been harmonised in ASEAN for the minimum residue limits, and the list of pesticides for harmonisation will be expanded.

To remove technical barriers to trade, the ASEAN Framework Agreement on Mutual Recognition Arrangements (MRAs) has been discussed for mutual recognition of cross border product test results. MRAs on telecommunication and cosmetics were realised at the end of 1998. By increasing the number

⁵ For details of each member's CEPT acceleration, see Annex I of AFTA Council (1998).

⁶ According to the author's interview with a staff member at the ASEAN Secretariat in November 1998 before the Hanoi Summit Meeting, it was already likely that more than 90% of the original AFTA members' (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) total tariff lines would achieve 0-5% CEPT rates by 2000.

of sectoral MRAs, ASEAN members are planning to achieve a general framework on MRAs. The MRAs are planned to be based on internationally accepted procedures to enhance technical infrastructure and competency in laboratory testing by 2005 (AFTA Council 1997, 1998; ASEAN Summit 1998).

2.2. CER

A series of preferential trade arrangements between Australia and New Zealand, including the New Zealand Australia Free Trade Agreement (NAFTA) in 1966, had already resulted in the removal of tariffs and quantitative restrictions (QRs) on 80% of the total trade between the two countries in the early 1980s (DFAT 1997a: 1). However, because NAFTA, as well as other agreements preceding it, applied to a limited range of goods specified in its Annex (positive list arrangement), the expansion NAFTA product coverage was rather difficult (BIE 1995: 16). Hoadley (1995: 27) pointed out other shortcomings of NAFTA such as: the products listed for tariff-free trade already had low tariff rates; many of the products listed were still subject to both countries' trade restriction via QRs or licensing and export subsidies; and, there was strong pressure to delay the tariff reduction for certain products from domestic industries of both countries.

By the end of the 1970s, it was recognised by the Australian and New Zealand governments that the NAFTA framework was not well equipped to adapt to the changing international economic environment, and it would not serve the maturing economic interests of the two countries.⁷ After negotiations between the two governments, the CER took effect in January 1983. The CER aimed at: establishing comprehensive free trade between the two countries in goods that satisfied the Arrangement's rules of origin⁸ by 1988, except for small number of goods specified in Annexes (negative list arrangement)⁹; progressively liberalising and eliminating QRs by 1995; and, reducing and eliminating all export subsidies and incentives, among others. From its inception, the CER was arranged to be reviewed and improved regularly (DFAT 1997a: 2-3).

Since the first general review of CER in 1988, many official documents, such as protocols, memorandum of understandings, agreed minutes and exchange of letters, have been produced to achieve further liberalisation and facilitation of economic activities between Australia and New Zealand.¹⁰ Formal reviews of CER were conducted in 1988, 1992 and 1995. In 1995, both governments agreed that subsequent reviews of CER would take place annually as part of the Australia New Zealand Trade Ministers' Meeting.

⁷ For details of the negotiations by Australia and New Zealand to achieve the CER agreement, see Hoadley (1995: 34-55).

⁸ Requirements for goods to be identified as CER origin are as follows: raw materials of member states; goods that are wholly manufactured in member states; or, goods that are partly manufactured in member states with the last process performed by member states *AND* 50% or more total costs are made up from expenditure on any of following: materials originating in member states; labour and factory overheads incurred in member states; and, inner containers originating in member states. For more details, see DFAT (1997b: 12-3, 163-77).

⁹ The CER allows protection for the aims of essential security, crime or disorder prevention and so on (DFAT 1997b: 28).

¹⁰ See DFAT (1997b).

First, in the area of trade in goods, the 1988 Protocol on the Acceleration of Free Trade in Goods stated that virtually all tariffs and QRs were set to be eliminated by 1 July 1990, 5 years earlier than the original schedule. Anti-dumping actions were confirmed to be inappropriate by the Protocol and it was declared that anti-dumping measures would be replaced with a competition law from July 1990. To minimise market distortions in trade in goods, the Agreed Minute on Industry Assistance in 1988 announced that Australia and New Zealand would try to avoid the adoption of industry specific measures (bounties, subsidies and other financial support) that had adverse effects on competition between industries in both countries from January 1989. Neither country would pay subsidies or like measures on goods which are exported to the other country from July 1990.

Second, the Protocol on Trade in Services in 1988 resolved to include trade in services in the CER. The Protocol provided for free trade in all services except for those listed in the Annex from January 1989. Since the introduction of the Protocol, the number of protected services has gradually been reduced by both countries. By 1997, New Zealand protected only airway, postal and coastal shipping services, while Australia had protection in air and airport services, coastal shipping, broadcasting, health and workers compensation insurance and postal services (DFAT 1997b: 263-5). By the Protocol, any person or corporate entity in Australia or New Zealand is assured of national treatment and most favoured nation treatment in the other country. The Protocol also included the right of firms to select the form of their commercial presence in the other country.

Third, arrangements have also been implemented in the area of trade facilitation. The Protocol on Harmonisation of Quarantine Administrative Procedures was signed in 1988 and declared, among other things, that the two countries would endeavour to achieve common administrative procedures in relation to quarantine by July 1990 by using relevant international codes and standards where appropriate. For standards harmonisation, the Memorandum of Understanding on Technical Barriers to Trade was exchanged in 1988 and reaffirmed both countries' commitment to work towards standard harmonisation. The Agreement on Standards, Accreditation and Quality, which was introduced in October 1990, reinforced the commitment of both countries to standard harmonisation and acceptance of certification and accreditation.

In recent years, the Trans-Tasman Mutual Recognition Arrangement (TTMRA), which was signed in 1996 and came into force in May 1998, has been significant as an example of the openness achieved by the two countries. Under the TTMRA, a good that may be sold legally in Australia may be sold in New Zealand and vice versa, and a person registered to practice an occupation in one country is entitled to practice an equivalent occupation in the other (Commonwealth of Australia 1998: 10). The TTMRA is intended to remove technical impediments to trade in the form of: different standards applied for goods between Australia and New Zealand; duplicative testing and certification requirements that must be followed in both countries; and different regulatory requirements between the two countries for persons wishing to practice in register occupations, to allow freer trade in goods and freer movements of skilled personnel.¹¹

¹¹ In relation to goods, the TTMRA overrides laws regulating the manufacture and sale of goods such as

There are more liberalisation and facilitation measures and arrangements between Australia and New Zealand under the CER framework. They cover areas such as foods standards harmonisation, customs harmonisation, government procurement, business law harmonisation and taxation. In sum, over the last decade, CER has evolved into a comprehensive FTA, including free trade in goods and services, removal of a wide range of NTBs and harmonisation of business environment. The CER is one of the world's most WTO rules consistent FTAs.

2.3. Impact of AFTA and CER on Intra Regional Trade

Intra regional trade is expected to rise in both AFTA and CER as a result of liberalisation in respective regions. Considering their traditional dependence on extra regional economic partners, however, it is obvious that none of the AFTA and CER countries can solely rely on regional trade and investment. It can be seen that the profound objective of both AFTA and CER is to promote international competitiveness of goods and services produced by members through fairer competition promoted by freer economic transactions within SRTAs.¹²

Notwithstanding, the increase (or decrease) in intra regional trade in a SRTA, especially at the early stage of liberalisation, is one of the indicators that shows the effectiveness of the SRTA in terms of promoting competition between domestic and other members' industries. In other words, if domestic production is inefficient, it is supposed to be replaced by low-cost partner products (Ariff 1997: 87). Thus, it is still useful to examine the trend of intra-regional trade in AFTA and CER to observe the impact of the SRTAs.

Table 2 is the export matrix for AFTA and CER members in the 1990s. Table 2a indicates the value of their exports to respective destinations and Table 2b shows

Table 2a. Export Matrix of AFTA and CER Countries (US\$ millions)

product standards, packaging and labeling, while not affecting laws regulating the manner of sale of goods like contractual arrangements and registration of sellers. For occupations, the TTMRA covers all occupations for which some form of legislation based registration, certification, licensing or any other authorisation is required to practice. For more details, see Commonwealth of Australia (1998).

¹² See, for instances, DFAT (1997b: 11) and ASEAN Summit (1998). Ariff (1997: 85-6) argued that the success of AFTA did not depend on the increase in the volume of intra-ASEAN trade. Instead, he added, it should be judged by the increase in the volume of total trade it would generate.

		Ind.	Mal.	Phils.	Sing.	Thai.	ASEAN*	Aust.	NZ	CER	Others	Total
Indonesia	1990		253	161	1,902	188	2,504	403	78	481	22,696	25,681
	1995		1,010	550	2,727	671	4,958	951	132	1,083	37,941	43,982
	1996		1,110	688	4,565	823	7,186	1,202	101	1,303	41,425	49,914
	1997		1,461	761	4,089	836	7,147	1,559	95	1,654	43,378	52,179
Malaysia	1990	342		394	6,753	1,033	8,522	494	67	561	20,337	29,420
	1995	970		651	14,960	2,868	19,449	1,122	182	1,304	52,969	73,722
	1996	1,218		938	16,014	3,207	21,377	1,216	240	1,456	55,413	78,246
	1997	1,231		1,174	15,767	2,819	20,991	1,350	201	1,551	56,208	78,750
Philippines	1990	61	127		240	156	584	96	9	105	7,505	8,194
	1995	126	314		994	799	2,233	142	22	164	15,105	17,502
	1996	...	687		1,224	780	2,691	161	20	181	17,545	20,417
	1997	113	862		1,802	499	3,276	277	36	313	21,499	25,088
Singapore	1990	n.a.	6,873	671		3,490	11,034	1,311	204	1,515	40,204	52,753
	1995	n.a.	22,665	1,928		6,824	31,417	2,592	384	2,976	83,875	118,268
	1996	n.a.	22,512	2,297		7,096	31,905	2,847	384	3,231	89,878	125,014
	1997	n.a.	21,871	2,947		5,784	30,602	2,960	377	3,337	91,047	124,986
Thailand	1990	154	575	167	1,696		2,592	373	40	413	20,067	23,072
	1995	811	1,554	414	7,917		10,696	777	93	870	45,634	57,200
	1996	846	2,014	631	6,749		10,240	840	99	939	44,564	55,743
	1997	1,377	2,483	698	6,406		10,964	931	96	1,027	45,527	57,518
ASEAN*	1990	557	7,828	1,393	10,591	4,867	25,236	2,677	398	3,075	110,809	139,120
	1995	1,907	25,543	3,543	26,598	11,162	68,753	5,584	813	6,397	235,524	310,674
	1996	2,064	26,323	4,554	28,552	11,906	73,399	6,266	844	7,110	248,825	329,334
	1997	2,721	26,677	5,580	28,064	9,938	72,980	7,077	805	7,882	257,659	338,521
Australia	1990	1,042	723	352	1,805	444	4,366		1,952		32,647	38,965
	1995	1,737	1,634	739	2,831	1,270	8,211		3,833		40,933	52,977
	1996	2,444	1,714	795	2,454	1,297	8,704		4,339		47,457	60,500
	1997	2,613	1,740	982	2,884	1,226	9,445		4,539		49,113	63,097
New Zealand	1990	94	165	84	120	82	545	1,727			7,158	9,430
	1995	199	287	137	192	184	999	2,785			9,954	13,738
	1996	233	329	171	207	186	1,126	2,908			10,388	14,422
	1997	226	336	221	235	180	1,198	2,779			10,094	14,071
CER	1990	1,136	888	436	1,925	526	4,911			3,679	39,805	48,395
	1995	1,936	1,921	876	3,023	1,454	9,210			6,618	50,887	66,715
	1996	2,677	2,043	966	2,661	1,483	9,830			7,247	57,845	74,922
	1997	2,839	2,076	1,203	3,119	1,406	10,643			7,318	59,207	77,168

Table 2b. Export Matrix of AFTA and CER Countries (as % of total)

		Ind.	Mal.	Phils.	Sing.	Thai.	ASEAN*	Aust.	NZ	CER	Others	Total
Indonesia	1990		1.0	0.6	7.4	0.7	9.8	1.6	0.3	1.9	88.4	100.0
	1995		2.3	1.3	6.2	1.5	11.3	2.2	0.3	2.5	86.3	100.0
	1996		2.2	1.4	9.1	1.6	14.4	2.4	0.2	2.6	83.0	100.0
	1997		2.8	1.5	7.8	1.6	13.7	3.0	0.2	3.2	83.1	100.0
Malaysia	1990	1.2		1.3	23.0	3.5	29.0	1.7	0.2	1.9	69.1	100.0
	1995	1.3		0.9	20.3	3.9	26.4	1.5	0.2	1.8	71.8	100.0
	1996	1.6		1.2	20.5	4.1	27.3	1.6	0.3	1.9	70.8	100.0
	1997	1.6		1.5	20.0	3.6	26.7	1.7	0.3	2.0	71.4	100.0
Philippines	1990	0.7	1.5		2.9	1.9	7.1	1.2	0.1	1.3	91.6	100.0
	1995	0.7	1.8		5.7	4.6	12.8	0.8	0.1	0.9	86.3	100.0
	1996	...	3.4		6.0	3.8	13.2	0.8	0.1	0.9	85.9	100.0
	1997	0.5	3.4		7.2	2.0	13.1	1.1	0.1	1.2	85.7	100.0
Singapore	1990	n.a.	13.0	1.3		6.6	20.9	2.5	0.4	2.9	76.2	100.0
	1995	n.a.	19.2	1.6		5.8	26.6	2.2	0.3	2.5	70.9	100.0
	1996	n.a.	18.0	1.8		5.7	25.5	2.3	0.3	2.6	71.9	100.0
	1997	n.a.	17.5	2.4		4.6	24.5	2.4	0.3	2.7	72.8	100.0
Thailand	1990	0.7	2.5	0.7	7.4		11.2	1.6	0.2	1.8	87.0	100.0
	1995	1.4	2.7	0.7	13.8		18.7	1.4	0.2	1.5	79.8	100.0
	1996	1.5	3.6	1.1	12.1		18.4	1.5	0.2	1.7	79.9	100.0
	1997	2.4	4.3	1.2	11.1		19.1	1.6	0.2	1.8	79.2	100.0
ASEAN*	1990	0.4	5.6	1.0	7.6	3.5	18.1	1.9	0.3	2.2	79.6	100.0
	1995	0.6	8.2	1.1	8.6	3.6	22.1	1.8	0.3	2.1	75.8	100.0
	1996	0.6	8.0	1.4	8.7	3.6	22.3	1.9	0.3	2.2	75.6	100.0
	1997	0.8	7.9	1.6	8.3	2.9	21.6	2.1	0.2	2.3	76.1	100.0
Australia	1990	2.7	1.9	0.9	4.6	1.1	11.2		5.0		83.8	100.0
	1995	3.3	3.1	1.4	5.3	2.4	15.5		7.2		77.3	100.0
	1996	4.0	2.8	1.3	4.1	2.1	14.4		7.2		78.4	100.0
	1997	4.1	2.8	1.6	4.6	1.9	15.0		7.2		77.8	100.0
New Zealand	1990	1.0	1.7	0.9	1.3	0.9	5.8	18.3			75.9	100.0
	1995	1.4	2.1	1.0	1.4	1.3	7.3	20.3			72.5	100.0
	1996	1.6	2.3	1.2	1.4	1.3	7.8	20.2			72.0	100.0
	1997	1.6	2.4	1.6	1.7	1.3	8.5	19.7			71.7	100.0
CER	1990	2.3	1.8	0.9	4.0	1.1	10.1			7.6	82.3	100.0
	1995	2.9	2.9	1.3	4.5	2.2	13.8			9.9	76.3	100.0
	1996	3.6	2.7	1.3	3.6	2.0	13.1			9.7	77.2	100.0
	1997	3.7	2.7	1.6	4.0	1.8	13.8			9.5	76.7	100.0

Notes: ... negligible. n.a. not available.

* Includes five ASEAN members listed in the Table.

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1997, 1998.

percent ratio to their total. The value of intra ASEAN exports grew from US\$ 26.2 billion in 1990 to

US\$ 68.8 billion in 1995. The intra ASEAN exports of individual ASEAN members listed in the Table increased greatly over the period from 1990 to 1995: Indonesia by 98%, Malaysia by 128%, the Philippines by 282%, Singapore by 185% and Thailand by 313%. The ratio of intra ASEAN exports to the total increased from 18.1% in 1990 to 22.1% in 1995 as all ASEAN members, except Malaysia, increased their intra ASEAN export ratio to their respective total (Table 2b). This indicates that, in this period, intra ASEAN exports expanded at a faster pace than that of total ASEAN exports. Although these figures do not describe exactly how much effect AFTA had in the growth of intra ASEAN exports, it seems that it is fair to say that AFTA had a positive influence. In 1996, the value of intra ASEAN exports increased by US\$ 4.6 billion, or 6.8%, over the previous year. The ratio of intra ASEAN trade to the total increased by 0.2%. In 1997, the total value of exports by ASEAN grew by US\$ 9.2 billion, or 2.8%, over 1996, but the value of the intra ASEAN exports decreased by US\$ 420 million, or 0.6%, over the previous year. The ratio of intra ASEAN exports to the total also decreased from 23.6% in 1996 to 22.7% in 1997. The decrease in intra ASEAN exports can be attributed to the “economic crisis” faced by most ASEAN members since July 1997. Examining bilateral trade relations within ASEAN in 1997, it is notable that Singapore’s intra ASEAN exports decreased by 4.2% over the previous year. Other ASEAN members’ exports to Singapore also decreased by 1.7%. Considering the magnitude of Singapore’s intra ASEAN trade compared with other members, and the traditional role of Singapore as a transit port, it can be pointed out that the decline in Singapore’s trade was one of the main factors for the decrease of overall intra ASEAN trade. In other words, as Okuda argues in Chapter I, ASEAN members tended to trade directly with each other after they were hit by the crisis. As a result, Singapore lost part of its function as a transit port for ASEAN products.¹³ However, intra ASEAN trade figures for 1997 were significantly influenced by the external shock. As there are prospects now for some ASEAN members to regain economic stability, and for the AFTA process to accelerate, figures for intra ASEAN exports should rise gradually in the near future.

Intra CER exports, the value of Australia’s exports to New Zealand and New Zealand’s exports to Australia, expanded over the period illustrated in Table 2. Bilateral trade between Australia and New Zealand grew from US\$ 3.7 billion in 1990 to US\$ 7.3 billion in 1997. On the other hand, the ratio of intra CER exports to the total increased from 7.6% in 1990 to 9.9% in 1995, but then declined to 9.7% in 1996 and 9.5% in 1997. For individual countries, the ratio of Australia’s exports to New Zealand to the total remained the same at 7.2% from 1995 to 1997, and the ratio of New Zealand’s exports to Australia declined from 20.3% in 1995 to 19.7% in 1997. Australia’s exports to New Zealand grew at the same pace as total export from 1995 to 1997, while the increase in New Zealand’s exports to Australia did not match the pace of its total exports increase in the same period. As a result, the relative weight of intra CER exports to the total gradually decreased.

The trend of intra CER exports may indicate that trade relations within CER, which had achieved

¹³ According to Table 2a, for example, the value of exports from Indonesia to Malaysia, the Philippines and Thailand in 1997 increased by 32%, 11% and 2% respectively from 1996, while exports to Singapore dropped by 10%. Similarly, the value of Thailand’s exports to Indonesia, Malaysia and the Philippines in 1997 grew 63%, 23% and 11% respectively over a year, while exports to Singapore decreased by 5%.

tariff and QR free trade by 1990, have matured in terms of replacing inefficient domestic production with low-cost partner products. At the same time, Table 2b shows that the relative importance of partner's market in CER is contrary. For New Zealand, Australia was the most important export market for its products, while for Australia, the New Zealand market was not as important as others.¹⁴

2.4. Development of Trade between ASEAN and CER in the 1990s

According to Table 2a, the value of ASEAN exports to CER expanded in the 1990s from US\$ 3.1 billion in 1990 to US\$ 7.9 billion in 1997, representing more than 150% growth. On the other hand, Table 2b shows that the ratio of ASEAN exports to CER to total exports remained just above 2%, though the ratio was gradually increasing from 1995. ASEAN exports to CER did not expand much faster than the growth rates for total trade, and CER was still a marginal market for ASEAN products. New Zealand, in particular, was a very small market for ASEAN products. It accounted for only 0.2% to 0.3% of total ASEAN exports over the period.

The value of CER exports to ASEAN more than doubled over the period, increasing from US\$ 4.9 billion in 1990 to US\$ 10.6 billion in 1997. The ratio of CER exports to ASEAN to total CER exports also increased from 10.1% in 1990 to 13.8% in 1997. This indicates that the ASEAN market was becoming increasingly important for CER products in the 1990s. In 1997, Australia relied on the ASEAN market for 15% of its total exports. Of this total, Singapore took 4.6% and Indonesia 4.1%.¹⁵ In comparison, ASEAN represented 8.5% of New Zealand's total exports in 1997, but the ratio was increasing.

In sum, the structure of trade relations between ASEAN and CER did not change much in the 1990s, though the value of intra regional trade was increasing. The ASEAN market was becoming a significant export destination for CER, especially for Australia. For ASEAN members, the CER market, especially the New Zealand market, remained peripheral. Taking the physical market size of each SRTA into account, this situation is unlikely to change in the future. Thus, when and if trade liberalisation or facilitation measures are introduced between AFTA and CER, it is assumed that the direct benefit, in terms of growth in exports, will be enjoyed more by the latter.

3. The AFTA-CER Linkage Dialogue: Progress and Obstacles

¹⁴ New Zealand's leading export destination in 1997 was Australia (19.7%), followed by the EU (15.1%), while Australia's leading export destination in the same year was Japan (19.7%), followed by ASEAN 5 (15.0%).

¹⁵ The ASEAN markets are important for Australia in terms of the composition of exports as well as the value and the ratio to the total, as the Australian government has been trying to promote diversification of its export products. In Australia's exports to ASEAN, more than 40% consisted of manufactured products in the mid 1990s, and the ratio was increasing. Among manufactured products exported to ASEAN, the share of elaborately transformed manufactures (ETMs) surpassed 70% for the same period (Okamoto 1998: 127-32).

3.1. The Origin, Objectives and Modality of the Dialogue

Dr Supachai, the then Deputy Prime Minister of Thailand, suggested to build closer economic linkages between AFTA and CER at the annual Trade Fair in Melbourne in December 1993. Prior to his initial proposal, it seems that Dr Supachai had virtually no consultation with his ASEAN counterparts, nor with any CER leaders, ministers or officials. It seems that he had not even had detailed talks on the issue with his colleagues in the Thai government. The AFTA-CER linkage proposal, it appears, was a child of Dr Supachai's strong belief in multilateral free trade and investment.¹⁶

Mr Keating, the then Prime Minister of Australia, responded very positively to the proposal. The Australian government had been seeking to secure closer economic relations with the East Asian economies, including ASEAN members, since the latter half of the 1980s as trade and investment with East Asia grew rapidly.¹⁷ At the same time, the emergence of the AFTA process in 1993 caused some concern in Australia. The Australian government published a report in 1994 that analysed potential effects of AFTA on Australian trade and investment (EAAU/DFAT 1994:101-13). The report concluded that the negative effects of AFTA on Australian industries via trade diversion effect would be minimal, but argued that the Australian government should encourage ASEAN to regard AFTA as a "building block" that should contribute to increased liberalisation of trade in the region.

Mr Keating saw Dr Supachai's proposal as an ideal opportunity to start building a formal linkage between AFTA and CER. Mr Keating made a visit Bangkok in April and Jakarta in June 1994 and talked further about the issue with his counterparts, the Thai Prime Minister Chuan and the Indonesian President Soeharto (Smith 1998: 242). By June, favourable responses from Indonesia, Singapore, the Philippines and New Zealand were received, along with Thailand and Australia. The latter worked as the driving force for the initiative. The AEM Meeting in September 1994 agreed to examine possible linkages between AFTA and CER. A working group of senior officials from AFTA and CER met in April 1995 to consider possible cooperation measures. Finally, in May 1995, ASEAN decided to invite Australian and New Zealand representatives to the annual AEM Meeting in September to have consultation focused on the AFTA-CER linkage issue (Chee and Teh 1996: 193).

During the process of preparation by senior officials for the inaugural meeting of AEM and CER Ministers, the objective for the AFTA-CER linkage was confirmed as finding practical ways of assisting businesses and expanding inter regional trade and investment, rather than seeking to merge the two SRTAs in any formal way (Lloyd 1995: 10). As explained earlier, AFTA was, and still is, in the process of becoming a genuine FTA while CER had already achieved free trade. It has not, therefore, been practical to consider merging AFTA with CER. Thus, any AFTA-CER linkages were set to start with trade *facilitation* measures.

It seems that inter regional trade *liberalisation*, such as the mutual reduction of inter regional tariff rates, will not be considered at least until 2003 when AFTA is scheduled to be established.¹⁸ In any case,

¹⁶ Interview with officials from DFAT (Australia), MFAT(New Zealand), the ASEAN Secretariat and the Ministry of Foreign Affairs (Thailand) in November 1998.

¹⁷ See Okamoto (1998: 133-6).

¹⁸ Technically, the merger of AFTA and CER will become easier in the future, if both SRTAs keep their

it was expected that if the AFTA-CER linkage dialogue worked smoothly, it could reduce the negotiation (or communication) costs as the number of participating parties would be reduced to just two. In addition, it was confirmed during the first Ministerial Consultations that the AFTA-CER linkage measures would be implemented by reflecting the “open regionalism” concept of AFTA and CER (AFTA-CER Ministerial Consultations 1995). In other words, it was agreed by the Ministers that any trade facilitation measures implemented for the AFTA-CER linkages would be applied to third countries on a MFN basis.

As ASEAN, as an entity, is one of the participants in the AFTA-CER dialogue, it is necessary that the dialogue moves at a pace with which the Association is comfortable (Smith 1998: 248). Cooperation schemes that ASEAN undertakes usually require consensus among members, often proceeding at a pace advocated by the most negative member. Australia and New Zealand are well aware of this through experiences in their relations with ASEAN, and they have agreed that the AFTA-CER dialogue should follow the “ASEAN way”.¹⁹

3.2. Building a Multi-layered Consultation Framework

A framework, or structure, is needed to make any continuous talks fruitful, even if these talks are meant to be a flexible and informal consultation, or dialogue. In the case of the AFTA-CER dialogue, the agenda for cooperation can be expected to be handled consistently if the consultation framework is solidly set. Thus, how the framework for the AFTA-CER dialogue is arranged is likely to affect its development and outcomes. Moreover, as examined later, the AFTA-CER dialogue is yet to produce effects on inter regional trade. The dialogue is often described as being in a “formative” or “exploratory” stage, and the building of a consultation framework has been one of the few visible outcomes.

The Informal Ministerial Consultations and the Business Leaders’ Dialogue

The Informal Ministerial Consultation group is the highest body of the AFTA-CER linkage dialogue process. The inaugural Consultation meeting was held in September 1995. It was arranged back to back with the AEM Meeting in Bandar Seri Begawan, Brunei. Subsequent Consultations were held in September 1996 in Jakarta, and in October 1997 in Subang Jaya, Malaysia, in the same manner. The Consultation in 1998 was scheduled for October, but the Australian government requested a postponement due to a general election.

The Consultations are organised in the same manner as ASEAN talks on economic cooperation with dialogue partners such as Japan, Korea, China, the United States and the EU. For ASEAN, it appears, the AFTA-CER linkage dialogue is one of its many ongoing consultations with extra regional partners.

Participation of the private business sector in the AFTA-CER dialogue has been encouraged. The inaugural Business Leaders’ Dialogue meeting among representatives from ASEAN and CER members

efforts to align regional tariff structures, product standards, customs procedures and others with global standards. However, the real feasibility will heavily rely on the international and regional environment including political aspects.

¹⁹ Okamoto (1997: 82-7) discussed the application of the “ASEAN way” within the wider regional cooperation, such as APEC.

was held in September 1996 in Jakarta. The Dialogue meeting is expected to input business perspectives to the Ministerial Consultations, just like ABAC (the APEC Business Advisory Council) does in the APEC process. The second and third Dialogue meetings were held in March and October 1997 in Jakarta and Singapore respectively. It is understood that the Business Leaders' Dialogue meetings are to take place just before the annual Ministerial Consultation meetings, making it possible for participants to present their views to the Ministerial Consultation meetings.

The Senior Officials Meetings

Meetings between senior officials have been held once or twice a year since April 1995. Participants are Director level officials from each participating government in the AFTA-CER dialogue. The lineup of participants vary according to topics discussed at the Meetings, but the coordinators for the AFTA-CER cooperation policy of each government are always present. The substance of the cooperation between AFTA and CER is discussed and the agenda for the Ministerial Consultations is set. With such an important role, the Senior Officials Meetings can be seen as the core mechanism of the AFTA-CER linkages process.

The Senior Officials Meetings are held back to back with the ASEAN Senior Economic Officials Meeting (SEOM), just as the Ministerial Consultations are held after the AEM Meetings. Agenda for the Meetings are presented by the AFTA Bureau in the ASEAN Secretariat but the Bureau has only limited time to prepare for the AFTA-CER dialogue because of the manner in which the AFTA-CER Senior Officials Meetings are held. Time allocated for the Meeting is normally 2 to 4 hours and can not be extended easily since ASEAN officials usually have similar meetings with their counterparts from other dialogue partners in the same day.²⁰ It seems that the congested situation of the ASEAN side will not be eased unless ASEAN restructures its inter regional talks framework. The most recent meeting was held in August 1998 in Hanoi to prepare for the Ministerial Consultations that was scheduled to be held in October, but canceled.

Domestic Frameworks in ASEAN and CER Members

Government Level

A liaison office for coordination of AFTA-CER policy has been formed in each government. In Australia, the AFTA-CER Unit in the Trade Negotiations and Organisation Division, Department of Foreign Affairs and Trade (DFAT) has been established and assigned the job.²¹ New Zealand has the South/South East Asian Division in the Ministry of Foreign Affairs and Trade (MFAT) as the liaison office. In ASEAN members, the offices that have close relations with AFTA and regional cooperation processes in trade

²⁰ One of the Australian participants in the Senior Officials Meeting in Hanoi stated that the time allocated for the Meeting was hardly enough to go through all agenda. By the time the meeting was scheduled to end, there were officials from Japan waiting at the door for their own meeting (Interview with an official from DFAT, Australia, November 1998).

²¹ It is interesting to note that only Australia has a liaison office with the words "AFTA-CER" in its title. This may represent the Australian government's enthusiasm on the issue.

related ministries are playing the role of AFTA-CER policy coordinators.²²

The capacity to form a national AFTA-CER policy is shared by many Divisions (or Departments) according to their jurisdictions, as the cooperation agenda between AFTA and CER include a wide range of issues. For example, employment and vocational training related Ministries in each government have basic responsibility in forming a national policy on human resource development cooperation. Similarly, finance related Ministries are assigned to form a basic policy for cooperation in customs procedures. In this area, the responsibility is also shared by an international trade related ministry and the ministry that oversees the good in question (for example, the Ministry of Industry or Agriculture).

No government in AFTA or CER has officials who work solely on the AFTA-CER linkage issue. The AFTA-CER dialogue is an additional task for them. According to interviews conducted by the author, about 10 to 20% of working time is allocated to AFTA-CER issues. No government has a specially allocated budget for the AFTA-CER dialogue. Officials have to apply for the Official Development Assistance or budget related to trade negotiation for costs such as business trips.²³

Private Business Level

To input suggestions and opinions, and to provide information and data required, for the Business Leaders' Dialogue, the private business sector of each ASEAN and CER member has formed a liaison office.

In Australia, the Metal Trades Industry Association (MTIA) worked as a liaison office for the Australian private sector during the initial stages of business involvement in the AFTA-CER dialogue. The MTIA had an affiliate office in Jakarta which had close communications with the ASEAN Secretariat and the ASEAN Chamber of Commerce and Industry (ASEAN-CCI). In August 1998, the MTIA merged with the Australian Chamber of Manufactures to form the Australian Industry Group (AIG). The role of MTIA as a liaison office has been inherited by AIG. The AIG membership now covers a broad range of domestic industries including automotive, chemicals, energy, food and beverages, textile/clothing/footwear, transport and distribution (AIG 1998).

Traditionally, relations between the New Zealand and ASEAN business sectors were organised on a bilateral basis. There have been bilateral business councils, such as Thai-NZ, Malaysia-NZ and Indonesia-NZ business councils, but there was not much communication between them. As the AFTA-CER linkage dialogue started and business involvement was encouraged, the New Zealand business sector identified a need to establish a new body to manage its relations with ASEAN as a whole. To fulfill this need, the ASEAN-New Zealand Combined Business Council (ANZCBC) was created in 1998. The ANZCBC has been appointed by the New Zealand government to coordinate New Zealand's business interaction with ASEAN, and acts as the liaison office for AFTA-CER business issues. Bilateral councils are still in operation as individual "chapters" of ANZCBC.

²² For instance, the office of Regional Cooperation in the Department of Trade and Industry in Indonesia and the Department of Business Economics in the Ministry of Commerce in Thailand are working as coordinators.

²³ Interview with the officials in charge of the AFTA-CER dialogue in DFAT (Australia), MFAT (New Zealand), the ASEAN Secretariat and the Ministry of Foreign Affairs (Thailand), November 1998.

In ASEAN, the domestic Chamber of Commerce in each member works as the liaison office for AFTA-CER dialogue. In both ASEAN and CER members, however, there seems to be an information gap between liaison offices and individual firms on how the AFTA-CER dialogue is developing.²⁴ This gap may be caused by the AFTA-CER dialogue process being slow to produce concrete results. There seems to be a lack to information that must be shared between domestic liaison offices and individual firms.

Policy Coordination within ASEAN and CER

As Chee and Teh (1996: 194) pointed out, one of the advantages of inter SRTA dialogue over bilateral ones in general is that the joint approach can economise on negotiation costs. At the same time, it also has an advantage in reducing negotiation costs over wider economic cooperation schemes such as APEC, which seems to be already crowded in terms of the number of participants. If the AFTA-CER linkage dialogue is to become successful in terms of utilising cost advantages, the establishment of collective stances by both SRTAs on the issue are much hoped for, before the representatives from AFTA and CER meet to consult.

The CER Side

In the private business sector, the national liaison offices in Australia and New Zealand, the AIG and the ANZCBC respectively, are supposed to coordinate their national stances on the AFTA-CER issue and establish the CER position. Instead of having regular face-to-face meetings, they seem to be communicate with each other on a day-to-day basis by phone, fax and e-mail. The AFTA-CER liaison offices in the Australian and New Zealand governments have adopted almost the same methods. Both the business sectors and governments of Australia and New Zealand feel that they have sufficient understandings of their counterparts' policies and preferences through the shared experience of the development of CER. However, the coordinated CER position has not always established in the AFTA-CER linkage dialogue.

As will be touched upon later, when the ASEAN and CER business sectors were invited by the Ministerial Consultations in 1996 to produce a list of counterpart ASEAN and CER NTBs, Australia and New Zealand business sectors prepared different reports in terms of length, format and coverage.²⁵ These reports were then combined, with no attempt at integration, and presented to the Ministerial Consultation in 1997 as the CER list of NTBs. Perhaps it was impossible to re-organise the lists in a short period of time, but this episode reflected a lack of coordination between the CER business sectors.

The ASEAN side

The AFTA Bureau of the ASEAN Secretariat and the ASEAN-CCI are the primal coordinators of each

²⁴ Interview with staff from AIG, ANZCBC and the Thai Chamber of Commerce (November 1998)

²⁵ The list prepared by Australia was a thick document (called a "phone book"), including parts of previously released reports. It also included tariff barriers. On the other hand, New Zealand's preparation was a 4 page document which briefly reviewed the areas of the AFTA-CER cooperation (customs procedures, import licensing and quotas, standards and services) with policy recommendations.

ASEAN government and business sector. Detailed examinations on individual cooperation areas and measures, such as customs and product standards, are to be done by related Working Groups of ASEAN. As is the case in each ASEAN and CER government, the AFTA Bureau, ASEAN Working Groups and the ASEAN-CCI do not have personnel solely for the AFTA-CER linkage issue. Those staff who are in charge of respective areas of the AFTA-CER cooperation are able to put only 10 to 15% of their working time into the issue.²⁶ The shortage in personnel is more serious at the ASEAN-CCI. The situation does not help the ASEAN-CCI to be a strong coordinator of the business sectors in ASEAN members on the AFTA-CER dialogue issue.

As AFTA consists of nine ASEAN members,²⁷ the coordination of each member's stance in establishing the ASEAN position on the AFTA-CER issue is sometimes difficult. For instance, materials presented by the ASEAN Secretariat, or the ASEAN-CCI, to the Senior Officials Meetings, the Ministerial Consultations and the Business Leaders' Dialogue, more often than not, have been compilations of each members stance on the issue. Lack of resources (time and personnel) at the AFTA Bureau and ASEAN-CCI is causing a lack of coordination on the ASEAN side to establish an ASEAN position on the AFTA-CER linkage issue.

3.3. Substance of the AFTA-CER Dialogue: What Has Been Achieved So Far?

Table 3 shows the areas for cooperation identified by the successive Ministerial Consultations, and the year that each cooperation measure was referred to in the "Joint Press Statement" of the Consultations. As Table 3 shows, cooperation areas have been widened and measures have been added every year. It should be remembered, however, that reaching agreements on cooperation areas and measures by ASEAN and CER Ministers does not necessarily guarantee fast progress in cooperation. The years cited for each measure indicates the initiation of consultations, not necessarily the actual implementation. As mentioned earlier, the implementation of concrete measures has to have unanimous support of participants, especially from the ASEAN side.

In the customs area of cooperation, a concrete, or visible, outcome of cooperation measures has been the publication of the "*Handbook on Customs Procedure*".²⁸ Other measures such as technical assistance on the GATT Valuation Agreement implementation have to be dealt with continuously, and producing quick results has proved difficult. Cooperation in quarantine messaging has been agreed, but this area remains problematic. The ASEAN side, especially Thailand, has a strong view on the Australian quarantine system for processed food, and insists that the Australian government should change the system to accommodate imports from ASEAN.²⁹

²⁶ Interview with a staff member from the AFTA Bureau, November 1998.

²⁷ Membership in ASEAN for Cambodia was approved at the Hanoi Summit Meeting in December 1998. Cambodia is scheduled to join ASEAN formally in May 1999 and participate in the AFTA process.

²⁸ Copies of the Handbook are supposed to be stocked at the ASEAN-CCI. It seemed, however, that the governments and private sectors of individual AFTA and CER members did not have them in a readily available manner. The author tried to obtain a copy, or even have a look at it, during the research trip to Australia, New Zealand, Indonesia and Thailand in November 1998, but failed.

²⁹ During a three week research trip in November 1998, the author was told the following story from

In the standards and conformance area, the most significant achievement so far has been the signing of the *Memorandum of Understanding* (MOU) which lays foundation for collaboration in ongoing programs, such as exchanging information on and promoting alignment to ISO and IEC, cooperation on the development of testing and accreditation systems and achieving mutual recognition of testing results and certification, and for future programs. While the signing of the MOU is an achievement, it remains as a legally non-binding document under international law or the domestic laws of participants (Article 1 of the MOU), reflecting the characteristics of the AFTA-CER dialogue.

Cooperation programs can only be decided and implemented at a pace which the most negative member (most probably an ASEAN member, as Australia and New Zealand have achieved comprehensive results in this area under the CER framework) will accept. The MOU is to be reviewed for further trade facilitation when necessary (Article 9), but the reviewing process had not yet taken place at the time of writing.³⁰

To pursue the objectives of AFTA-CER linkages, the Ministerial Consultation group has invited the private sectors in ASEAN and CER to involve themselves actively in the dialogue process. In 1996, to set a priority for cooperation, the Ministers asked the ASEAN and CER business sectors to produce NTB lists for their counterpart region. The compilation of lists prepared by each member (ASEAN members' lists were integrated as one by the ASEAN-CCI) were tabled at the Ministerial Consultations in 1997 (ASEAN-CCI *et al.* 1997). The NTBs listed in the compilation were to be reduced by *bilateral* consultations between members of ASEAN and CER (AFTA-CER Ministerial Consultations 1997), but the consultations were yet to start as of November 1998. The NTBs compilation is planned to be reviewed comprehensively by government officials and the business sectors of dialogue participants, but it has not been done so since 1997. As a result, some of the NTBs listed in the initial report have become out of date.³¹

Other business sector involvement in the AFTA-CER linkage process includes

Table 3. Areas for Cooperation in the AFTA-CER Linkages

1. Customs

- Creation of a Customs Compendium for ASEAN and CER (1995).
- Technical assistance on the Implementation of the GATT Valuation Agreement (1996-).
- Facilitation of cargo clearance (1996-)
- Electric Commerce (1996-).
- Quarantine Messaging (1996-).
- Publication of "Handbook on Customs Procedure" (1997).

various government officials and business persons from various countries, including Australia. "For ASEAN chicken meat products to clear Australian quarantine, they have to be boiled for several hours before being exported. However, if you boil chicken meat for several hours, it becomes chicken bone and soup. That means that it is virtually impossible to export chicken meat to Australia".

³⁰ Interview with government officials in Australia, New Zealand and Thailand (November 1998).

³¹ Interview with government officials and business persons in Australia, New Zealand and Thailand (November 1998).

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 *ASEAN Standards and Quality Bulletin* (1995-).

Ministers signed the “Memorandum of Understanding concerning Cooperation on Standards and Conformance” 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-).

3. Human Resource Development

Exchange program involving young entrepreneurs from small and medium enterprises (1997-)

4. Investment Promotion (1997-)

Private business sectors to establish an investment matching system via internet WWW (1998-).

5. Services

Cooperation on professional services, building/construction, transport and tourism (1997-)

6. Sanitary and Phytosanitary (1997-)**7. Others**

Linkage of trade and investment database between ASEAN and CER (1995-).

Business Leaders’ Dialogue produced the list of trade impediments in ASEAN and CER (1997)

Encouraging joint studies by researchers and think tanks on the future development of the AFTA-CER linkage (1997-).

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

human resource development and the exchange of information on investment opportunities between the regions. A program to exchange young entrepreneurs between small and medium enterprises in ASEAN and CER was agreed in 1997, but as of November 1998, this program was yet to be initiated. The establishment of an investment matching system via an Internet WWW homepage has been discussed, and plans are in place for its introduction.

The Ministerial Consultation group has encouraged study on the future of the AFTA-CER dialogue. Four research institutions in the region, namely the Asia 2000 Foundation (New Zealand), Melbourne Business School (Australia), Institute of Policy Studies (Singapore) and Institute of Southeast Asian Studies (Singapore), jointly organised a conference titled “The AFTA-CER Linkage: The Way Forward” in September 1997. The seminar brought together academics, business persons and government officials (in a private capacity) from ASEAN and CER member countries. The conference submitted a summery report and proposals to the Ministerial Consultation in 1997. The included some notable recommendations:

- the need for formalisation of the Ministerial Consultations;
- the need for separation of the AFTA-CER Ministerial Consultations from annual AEM Meetings; and,
- the inclusion of trade and investment *liberalisation* in the scope of the dialogue (Gibson, Robertson, Lee and Chia 1997).

The report indicated that conference participants were not satisfied with the mode and pace of the dialogue, and wanted to see the dialogue process bring concrete results in a fast and more formal way.

In sum, the AFTA-CER linkage process has been mainly focusing on customs and standards areas. A limited number of agreed cooperation measures have been added at each Ministerial Consultations, but it seems that the implementation of these measures has been slow to be realised. So far, the few visible results of cooperation have been the signing of the MOU, which is a declaration of the will for collaboration, and the publication of “*Handbook on Customs Procedure*”. Of course, these developments are important first steps for further cooperation between ASEAN and CER. Positive and concrete results have not yet, however, been felt by individual firms in either ASEAN or CER.³²

3.4. Members’ Attitude toward the Development of the Dialogue

The CER Side

As mentioned earlier, ASEAN as a whole has become the second largest export destination for Australia in the 1990s. It seems that, at least in the short term, Australia would gain most in terms of increase in exports (both in goods and services) to ASEAN members, if AFTA-CER linkages are realised. It is not surprising that Australia, at both the government and business level, has been enthusiastic in pursuing

³² Staff members from the AIG, ANZCBC and the Thai Chamber of Commerce agreed on this (interview, November 1998).

dialogue and wanting to see concrete results and effects on trade flows. On the other hand, the Australian government and business sector have pointed out that ASEAN members also stand to gain from AFTA-CER linkages by getting assistance in customs and standards areas to learn the CER experiences.³³ They argued that if ASEAN members can comply with CER customs procedures and standards harmonisation, they will be aligned to global standard.

It is important to note that both Australian government and business argued that the AFTA-CER linkage cooperation must be reciprocal. They do not believe that Australia should not implement trade and investment facilitation measures unilaterally, or set local standards which would be applied only to ASEAN members.³⁴

For New Zealand, Australia has been the major trade partner. ASEAN's status as its export destination has not been as high as it has been for Australia. Thus, the policy priority for the AFTA-CER dialogue has been lower than that for CER, APEC and WTO. It is possible that New Zealand would slow its commitment to the AFTA-CER dialogue process if the costs involved (such as providing more assistance to ASEAN members or adjusting its domestic institutions) were seen to outweigh the benefits.³⁵

Private business in New Zealand is interested in achieving closer economic relations with ASEAN members via AFTA-CER linkages. ANZCBC thinks that New Zealand business has been losing opportunities in ASEAN and the dialogue is a "chance to change the tide".³⁶ In the short term, ANZCBC believes that the dialogue priorities include the creation of a common business visa, avoidance of double taxation, and the unification of customs procedures between ASEAN and CER.

New Zealand government and business understand that the linkage arrangement must be beneficial for both regions. Like their Australian counterparts, they point out that ASEAN countries can gain from the CER experience through technology transfer and training, particularly in areas such as customs and quarantine.

The ASEAN side

The Indonesian and Thai business sectors do not seem to consider the CER market to be as important as larger trading partners such as Japan, the United States or the EU.³⁷ There has been a strong belief in

³³ This point was often referred to by earlier papers on the AFTA-CER linkage issue. For instance, see Smith (1998: 246).

³⁴ Interview with staff members at the AFTA-CER Bureau and AIG in November 1997 and November 1998. Unilateral concessions from Australia to accommodate ASEAN exports, such as amendment quarantine system for processed food from ASEAN, thus, are denied.

³⁵ Professor Steve Hoadley (Department of Political Studies, the University of Auckland) discussed this point (November 1998). As New Zealand had already liberalised its economy considerably over the last 15 years, it may be easier than Australia to cooperate with ASEAN demands in the dialogue.

³⁶ An ANZCBC staff member pointed out that the ASEAN economies had already started to recover from the economic crisis, and it was a good opportunity for New Zealand business to penetrate into the ASEAN market since many foreign firms in the region had pulled out or stopped operation (interview, November 1998).

³⁷ The discussion in this section is based on the author's interview with AFTA-CER dialogue related government officials and business person in Indonesia and Thailand (November 1998).

Thai government and business that benefits from AFTA-CER trade facilitation would favour the CER side, especially Australia. They argue that, to develop AFTA-CER linkages, the CER side should make concession first in areas such as quarantine systems.

Some segments of Thai government and business believe that it is meaningless to continue the AFTA-CER dialogue process, and that cooperation areas and measures agreed upon at the Ministerial Consultation meetings and through the Business Leaders' Dialogue could be achieved through bilateral talks. It is suggested that ASEAN does not need to have a united stance on the AFTA-CER linkage issue, as bilateral talks should be the primal procedure. The belief is that if cooperation (or concession) is not achievable through bilateral talks, as has been the case, the AFTA-CER dialogue will have even less change of success.

There appears to be a large gap between what the "*Joint Statements*" of the successive Ministerial Consultations say about the prospect for dialogue and the perception of the government and business sectors in some of the ASEAN members.

The economic crisis that ASEAN members have faced since July 1997 has not helped refrain negative notions toward the AFTA-CER linkage dialogue. The highest priority for ASEAN members is to stabilise their economies and find ways for growth. Thus, they tend to question how AFTA-CER dialogue can assist their ailing economies in a short period to time. The AFTA-CER linkage process is linked to trade facilitation, but immediate positive effects on ASEAN's economic situation can not to be expected.

It is not surprising that the priority of the AFTA-CER linkage issue has been lowered in the ASEAN regional cooperation agenda. If the economic recession is prolonged, some ASEAN members may lose even further interest in the AFTA-CER dialogue process.

4. Is the AFTA-CER Framework Still Relevant?

There are some important factors that may slow the AFTA-CER cooperation process. First, ASEAN can only move at a pace that the most negative members can accept. New members, which have just started the CEPT process and are not familiar with inter regional cooperation, might have the effect of slowing down the process further.

Second, the shortage in available resources (time and personnel), particularly in the ASEAN side, is causing the lack of close coordination for the issue in the domestic and intra regional dimensions. The situation will not improve unless ASEAN decides to treat the AFTA-CER linkage dialogue separately from other inter regional cooperation schemes and devote resources in it.

Third, though the AFTA-CER linkage issue is a positive sum game in which every participant should gain, the relative gains may not be equal. As Australia and New Zealand have already achieved bilateral free trade, and significantly liberalised their economies toward third countries, the cost of trade facilitation under the AFTA-CER process would be minimal. The adjustment costs for ASEAN members would be significantly higher. Moreover, the direct impact of trade facilitation (the increase in exports to

the counterpart region) would favour the CER side, especially Australia, at least in the short term. This ASEAN perception of an imbalance in relative gains has resulted in claims for concessions, for the payment of more costs by the CER side. The CER side, however, does not seem to accept preferential arrangements which do not align to international standards.

Finally, to counter the recent economic crisis, ASEAN has been accelerating the AFTA process for the purpose of promoting FDI inflows from outside of the region.³⁸ At the same time, however, some ASEAN members have introduced protective measures for their domestic industries against imports from outside of the region.³⁹ These protective measures may be temporary to shelter domestic industries from the negative effects of the crisis, but it is still unclear when ASEAN members will recover. At least, some ASEAN members will continue to liberalise intra ASEAN economic activities, whilst raising or maintaining trade barriers towards non-ASEAN countries.

In addition to the above challenges, to remain relevant, AFTA-CER linkage dialogue must move at a faster pace than the APEC process. If the dialogue can not yield results before the implementation of APEC trade facilitation measures, there will be no point in having an AFTA-CER trade cooperation framework. Given progress under APEC, it should be asked whether the current framework of the AFTA-CER dialogue still relevant.

It is still possible for the current framework to produce quick and concrete results, since many dialogue participants and the staff at the ASEAN Secretariat are dedicated to the process. It would be premature to label the AFTA-CER dialogue process a failure, however, to make sure that the dialogue succeeds, it may need some drastic changes in spirit and modality.

First, the dialogue could stop broadening the areas for cooperation and concentrate in one area each year.

Second, the “informal” character of the dialogue might be changed to an official one. In particular, the “official” meetings between ASEAN and CER (Ministerial Consultations, Senior Officials Meetings and others) might be separated from other meetings of the ASEAN side with other dialogue partners, just like “The AFTA-CER Linkage” conference proposed in 1997.

Third, the unilateral provision of trade facilitation measures may 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 second point will require ASEAN’s efforts and decision. The third procedure would minimise the perceived gap in relative gains between ASEAN and CER by letting the latter pay the initial cost of trade facilitation. It seems that this

³⁸ ASEAN has also agreed on a framework to form the ASEAN Investment Area (AIA) to stimulate intra regional FDI flows. For details of the agreed framework of AIA, see AIA Council (1998).

³⁹ The Thai government decided to freeze the plan to abolish the local content rule for passenger automobiles (51%) in July 1998. It also raised the tariff rates for steel sheets in July 1998. The Philippine government raised tariffs for products from 22 sectors in January 1998 and, again, raised tariff rates for

perceived gap has been one of the most significant factors in the antipathy of some ASEAN members towards the dialogue process. The CER governments and business sectors have been insisting on the reciprocity between ASEAN and CER. This measure does not satisfy the immediate reciprocity demand by CER, and by Australia in particular, but would achieve it in the medium term.

To see the AFTA-CER dialogue from aspects other than intra SRTA trade facilitation, the process has clearly been useful for both ASEAN and CER. It has become a forum for exchanging views on the international and regional economic environment, and has helped to build a common AFTA-CER stance on a number of international political economic issues.

The CER governments and private sectors are aware of the importance of their political and economic relations with ASEAN members. Though the CER governments already have multiple channels of dialogue with ASEAN and its members, such as the ASEAN Post Ministerial Conferences, the ASEAN Regional Forum and APEC, the AFTA-CER dialogue adds another dimension to relations. For instance, at the Ministerial Consultations in 1997, ASEAN and CER Ministers declared that they would cooperate in new negotiations in agriculture from 1999 (AFTA-CER Ministerial Consultations 1997: paragraph 19(e)). To build an international trade negotiation coalition with ASEAN on agriculture is very important for countries like Australia and New Zealand whose agricultural exports are substantial. Moreover, at the 1997 Ministerial Consultations, Ministers from ASEAN promised to brief CER on latest developments of ASEM (the Asia and Europe Meetings).

For ASEAN, the AFTA-CER dialogue has become a useful vehicle to promote its attitude toward international political economic issues. The *Joint Statement* of the Ministerial Consultation in 1996 stated the concern at extra territorial application of the US legislation which imposed sanctions on countries or enterprises doing business with Cuba and other countries (AFTA-CER Ministerial Consultations 1996: paragraph 11). There was little doubt that “other countries” in the document implied Myanmar, one of the new ASEAN members. In 1997, the Ministers noted the contribution of their joined effort to ensuring non-trade related issues were kept out of the WTO (AFTA-CER MC 1997: paragraph 19(a)). “Non-trade related issues” include issues such as human rights, democracy and environment, on which many developing economies, including ASEAN members, have different opinions from developed ones. While asserting these issues in the *Joint Statement* did not necessarily mean that ASEAN and CER members shared the same views on concepts such as human rights, it was agreed that non-trade related issues should be kept out of international trade negotiations. It was meaningful for ASEAN to have Australia and New Zealand, two developed economies, on its side.

5. Conclusion

ASEAN’s attempt to establish AFTA started in 1993. Since the mid 1990s, the intra regional tariff

textile, plastic and paper products (Nihon Keizai Shimbun, 23 July 1998 and 19 January 1999).

reduction process has been accelerated and the coverage of tariff lines widened. Reduction of NTBs has also been discussed. By the early 2000s, AFTA plans to be a genuine FTA but, at the moment, it is in the building phase.

Following the previous preferential trade arrangements between Australia and New Zealand, the two countries created CER in 1984. After continuous revision, CER has become one of the most WTO consistent FTAs that includes trade in services and reduction of most NTBs.

The development of AFTA and CER have yielded favourable results in terms of increases in intra regional trade. The recent downturn in intra ASEAN trade is due to the negative effects of the economic crisis. The trade relations between Australia and New Zealand have been steady in recent years. The CER provided tariff and QR free trade since 1990, and the process of replacing inefficient domestic production had matured by the mid 1990s. Inter regional trade between ASEAN and CER also expanded over the 1990s. However, the importance of each to the other as an export destination differs. ASEAN is an important and growing market for CER members, particularly for Australia, while CER is a marginal market for most ASEAN members. Thus, it is anticipated that CER would benefit more from market access cooperation.

The AFTA-CER linkage dialogue formally started in 1995 to expand the inter regional trade and investment by assisting businesses in ASEAN and CER that might have been missing opportunities. Frameworks for conducting the dialogue have been built gradually in ASEAN and CER, and between them, but there is still room for improvement. At the Ministerial Consultations level, cooperation areas have been widened and cooperation measures added each year, but concrete results are yet to be produced.

There are several factors which are slowing the cooperation process down. First, the dialogue has to proceed at a pace acceptable to the most negative members in ASEAN. The "ASEAN way" prevails. Second, shortages in resources which can be devoted to the dialogue are serious, especially in the ASEAN side. Third, there is a gap in perceived relative gains from the AFTA-CER cooperation between ASEAN and CER. The ASEAN side, both governments and businesses, tends to see that it is its counterpart that will enjoy direct benefits from the dialogue. Fourth, while ASEAN as a whole is accelerating intra regional liberalisation despite the economic crisis, some members have introduced protective measures toward countries from outside of the region to shelter domestic industries.

Though there are obstacles for the AFTA-CER dialogue, it must proceed and yield concrete results earlier than APEC to have any meaning for inter SRTA trade facilitation. To do that, the dialogue may need some drastic changes in both spirit and modality. First, to concentrate on the cooperation areas and measures already named, the areas for dialogue should be limited. Second, the informal character of the dialogue process needs to change to a formal one so that it can be separated from other ASEAN dialogue discussions. Third, unilateral trade facilitation initiatives should be undertaken. The CER side can make the first step by eliminating the NTBs identified by the ASEAN business sectors. After a year or two, the ASEAN side should start reducing the NTBs identified by CER. This procedure would minimise the perceived gap in relative gains which continues to be a perception of some ASEAN members.

It is important to remember that aspects of the dialogue other than trade facilitation have become

useful for both ASEAN and CER. The dialogue has been utilised as the place where ASEAN and CER exchange views on the international and regional economic environment and build common positions on international political economic issues.

Whether the AFTA-CER dialogue can be seen as a useful catalyst for inter SRTA economic linkup within APEC is still unclear. It has not yet generated significant outcomes, but there is still a chance for it to succeed. The APEC target years for regional trade and investment liberalisation and facilitation are 2010 for developed economies and 2020 for developing ones. For the AFTA-CER dialogue to succeed, the participants will need to accelerate the process of cooperation sooner rather than later.

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