

ASEAN Free-Trade Area Discussions on Including China, Japan, and South Korea

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Leaders from the 10 member countries of the Association of Southeast Asian Nations (ASEAN) met in November 2000, and agreed to initiatives aimed at promoting further economic integration in the region. Leaders from China, Japan, and South Korea also joined in these discussions, in what has become known as the "ASEAN-plus-three" meetings. Among the agreed proposals was one to study the impact of creating an ASEAN free-trade area that would include China, Japan, and South Korea.

Leaders from the 10 member countries of the Association of Southeast Asian Nations² (ASEAN) met in November 2000 in Singapore, concluding a number of initiatives aimed at promoting further cohesion and economic integration of the ASEAN area. In what has been dubbed "ASEAN-plus-three" meetings, leaders from China, Japan, and South Korea also attended, and reached agreement on a proposal to study the impact of including China, Japan, and South Korea within the ASEAN free-trade area. An overview of the agreements discussed at the ASEAN November meetings follows.³

Agreements reached among ASEAN members included an "e-ASEAN" agreement on electronic commerce, several cooperation initiatives on technical assistance and worker training programs, and a plan to relax selected tariff reduction deadlines set under the ASEAN Free-Trade Agreement (AFTA). Agreements reached within the ASEAN-plus-three framework included accelerating construction of the Trans-Asian

Railway between Singapore and the Chinese city of Kunming, a regional Currency Swap Crisis Pact, a proposal to formalize ASEAN-plus-three meetings into a more official "East Asian Summit," and finally a proposal to study the impact of creating an ASEAN free-trade area that would include China, Japan, and South Korea.

Asian Integration⁴

The ASEAN meetings and discussions of possible trade agreements with China, Japan, and South Korea are one of several recent moves toward regional integration in Asia. Singapore has reached a free-trade agreement with New Zealand, and is currently negotiating agreements or considering such with Australia, Canada, Japan, Mexico, and the United States. New Zealand has been negotiating with Chile and Hong Kong. Japan and South Korea have explored the idea of freer trade with each other as well as with other countries. Japan's international trade minister, Takeo Hiranuma, states that Japanese companies particularly want an agreement with Mexico, because their subsidiaries are facing the elimination of a tariff exemption on imported parts used in products they export to the United States. China is still completing negotiations for WTO accession, but has also suggested interest in regional trade agreements. Although the relationship between regional trade agreements and the process of multilateral trade liberalization remains a topic of discussion for economists and policymakers (see related article in this *IER*), leaders of Asian countries appear to

¹ The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

² Members of ASEAN include Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand, and Vietnam.

³ Sources consulted for this article include ASEAN Secretariat, "The Fourth ASEAN Informal Summit: Press Statement by the Chairman, Singapore, Nov. 25, 2000," found at internet address http://www.asean.or.id/summit/inf4_cps.htm, retrieved Dec. 20, 2000; U.S. Department of State telegram, message reference No. 03227, "Singapore - ASEAN and ASEAN Plus Three Meet to Discuss Regional Integration," Dec. 1, 2000; BNA, "International Agreements: ASEAN Leaders Pledge to Study Possibility of Northeast Asian Trade Zone," *International Trade Daily*, Nov. 28, 2000; and "China and ASEAN: The Best Things in Life," *The Economist*, Dec. 8, 2000.

⁴ Sources consulted for this section include: ASEAN Secretariat, "The ANGKOR Agenda: Report on the High-Level Task Force on the AFTA-CER Free Trade Area," Sept. 2000.

be using both routes to achieve freer trade in the region.

Agreement to Study an ASEAN-plus-three FTA

In this context, ASEAN members met during their November 2000 meetings with officials from China, Japan, and South Korea to discuss proposals to form a free-trade area (FTA) that would include all 10 ASEAN as well as these three additional East Asian countries. A working party headed by South Korea was formed to research the impact of forming an ASEAN-plus-three FTA, and leaders agreed to discuss the results of the report at the next ASEAN-plus-three meeting, scheduled for 2001 in Brunei. Singapore's Prime Minister Goh Chok Tong emphasized that the working group would only study the idea, and that if any type of FTA were to be implemented, it would be over the long term. An official from the Chinese Foreign Ministry stated before the meetings that "China stands ready to explore the possibility of setting up links with the ASEAN free-trade area or of creating a free-trade zone between China and ASEAN." For Japan, an important issue will be the impact any such agreement will have on its relatively high agricultural trade protection. For ASEAN members, the impact on both regional trade and investment flows will be a key point of interest. China has been attracting trade and investment away from ASEAN members in recent years. Before the 1997 Asian financial crisis, ASEAN's share of foreign direct investment attracted to Asia's developing economies was approximately 30 percent; last year, however, this share had fallen to 15 percent.⁵

Significant ASEAN exports to China, South Korea, and Japan include machinery and electrical appliances, mineral products, wood and wood articles, and prepared foodstuffs. The largest ASEAN imports from Japan include chemicals, plastics, machinery and electrical appliances, and motor vehicles. From China, ASEAN imports include machinery and electrical appliances, textiles and apparel, base metals, and metal articles. From South Korea, ASEAN imports include machinery and electrical appliances, mineral products, base metals, and metal articles. ASEAN's largest export partners are the United States, Japan, the European Union, and Hong Kong. Its largest import partners are Japan, the United States, the European Union, South Korea, and China.

⁵ "Taiwan Hopes to Strengthen Trade Ties with China, ASEAN Considers China Free Trade Zone," *World Trade*, Feb. 2001, p. 18.

Agreements within the ASEAN-plus-three Framework⁶

China, Japan, South Korea, and ASEAN members agreed to expand work on the \$2.5 billion Trans-Asian railway, which will stretch from Singapore in the south to Kunming, China in the north. The project is to be completed by 2006, and has been put under the authority of the Mekong Basin Development Program.⁷ The Mekong program is meant to boost economic development in Cambodia, Laos, Myanmar, Thailand, and Vietnam. Areas of particular focus include the development of infrastructure in transport, telecommunications, irrigation, and energy. The Mekong program also seeks to promote development of trade and investment, and development of the agricultural sector.

Another proposal raised at the Singapore meetings was to turn the informal ASEAN-plus-three meetings into a more formal "East Asian Summit." Singapore's Prime Minister Goh Chok Tong said that any such grouping in Asia would not be aimed against any particular country, such as the United States. He said ASEAN "needs the United States in East Asia. This is not an attempt to shut out Washington from East Asia."

The Currency Swap Crisis Pact announced at the ASEAN meetings in Singapore will create a mechanism to help avoid future currency crises within the region. The pact creates a network of bilateral currency swaps, giving participating ASEAN-plus-three countries experiencing short-term liquidity shortfalls an avenue to borrow funds without having to undertake IMF austerity measures.⁸ Central banks in the ASEAN-plus-three countries will provide funds to stabilize currencies, and will have the ability to borrow from each other under re-purchase agreements. Lenders will hold various securities from borrowers until the latter repays the swap loan. Swaps conducted outside of an IMF framework will be limited to a duration of 1 year.

⁶ Sources consulted for this section include: ASEAN Secretariat, "ASEAN Trade with Major Trading Partners," found at Internet address <http://www.aseansec.or.id/stat/ex-tra7.htm>, retrieved Jan. 15, 2001; *Financial Times*, "Beijing Signals Trade Pact Interest," Nov. 22, 2000; *Inside US Trade*, "China Premier Zhu Hints at FTA Negotiations with ASEAN," Nov. 27, 2000, found at internet address <http://www.insidetrade.com>, retrieved Dec. 14, 2000; and "Asian Ambition," *Financial Times*, Nov. 28, 2000.

⁷ The Mekong River in Southeast Asia flows approximately 2,600 miles from Southeast China to the South China Sea, creating a vast delta in southern Vietnam known as the Mekong Basin, which is a major rice-producing region.

⁸ The IMF has several programs that lend money to countries with liquidity problems. Some of the lending is subject to austerity measures, in which the borrowing country must, for example, improve its fiscal balance or tighten its monetary policy.

Agreements within ASEAN⁹

During the ASEAN meetings, an emphasis was put on bridging a perceived gap between the more developed ASEAN members (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and ASEAN's four newer members (Cambodia, Laos, Myanmar, and Vietnam). The e-ASEAN framework agreement on electronic commerce agreed at these meetings aims to narrow the divide between higher and lower tech ASEAN countries. Specific goals include increasing Internet connectivity, greater incorporation of local materials (so-called local content), further development of e-commerce, and the liberalization of trade in information and communications technology. In addition, the e-ASEAN framework calls for further development of human resources and worker training, and a proposal to expand "e-governance," which would put government information on-line for public access. Several measures discussed were aimed at increasing trust and confidence in the Internet, including the establishment of a system of mutual recognition of digital signatures, systems to guarantee secure electronic transactions, protection of intellectual property rights, protection of personal data and consumer privacy, and mechanisms to aid the settlement of disputes. Finally, under the e-ASEAN agreement, import duties and non-tariff barriers to intra-ASEAN trade in computer-related goods are to be phased out over time. The phase-outs will begin in January 2003 for the six original ASEAN members, and in 2008 for the four newer members.

A fourth proposal discussed at the meetings was the creation of an Asian information technology (IT) belt, which would electronically link the higher tech cities of the ASEAN-plus-three grouping, such as Bangkok, Kuala Lumpur, Seoul, Shanghai, Singapore, and Tokyo. To achieve this goal, Japan and China both

pledged significant funding, aimed at helping ASEAN-plus-three countries improve their IT infrastructure. Japan also announced that it will host a major IT conference for Asia in 2001.

In a separate agreement, ASEAN members announced the "Initiative for ASEAN Integration" (IAI) which includes several measures aimed at worker training, technical assistance, and increasing human capital in Asia. Under a 5-year technical assistance program, Singapore agreed to open special training institutes in Cambodia, Laos, Myanmar, and Vietnam. These institutes will provide vocational training to researchers in the fields of trade development, export promotion, human resource development, agriculture and food business, technical training, and tourism. Courses will include information technology "Train-the-Trainers" seminars to improve IT skills in the four countries. Singapore also agreed to increase its annual grant of scholarships from 30 to 60 per year. The full-time undergraduate scholarships are for citizens of ASEAN countries to study at either the National University of Singapore (NUS) or Nanyang Technical University of Singapore (NTS). Finally, the IAI included a program to sponsor youth exchange programs at primary ("youth") and secondary school levels, aimed as well at promoting regional integration.

Finally, ASEAN members agreed to relax tariff reduction deadlines that had been set under the ASEAN Free-Trade Agreement (AFTA). AFTA was launched at the Fourth ASEAN Summit in Singapore in January 1992, when member countries adopted the Common Effective Preferential Tariff (CEPT) to give ASEAN members uniform preferential tariff treatment in intra-ASEAN trade. The original time table had been to reduce tariff rates to a range of 0 to 5-percent duty on 85 percent of products traded within the ASEAN region by the year 2000, on 90 percent of products by 2001, and on all products by 2002. To be eligible, goods were subject to a 40-percent ASEAN local-content rule. The recent agreement to delay these tariff reductions was prompted by the Malaysian government, which sought to retain its existing tariffs on automobiles.

⁹ Sources consulted for this section include: Donghyun Park, "The Prospects for Further Economic Integration in ASEAN," *Journal of Economic Integration*, vol. 14, No. 3, Sept. 1999.