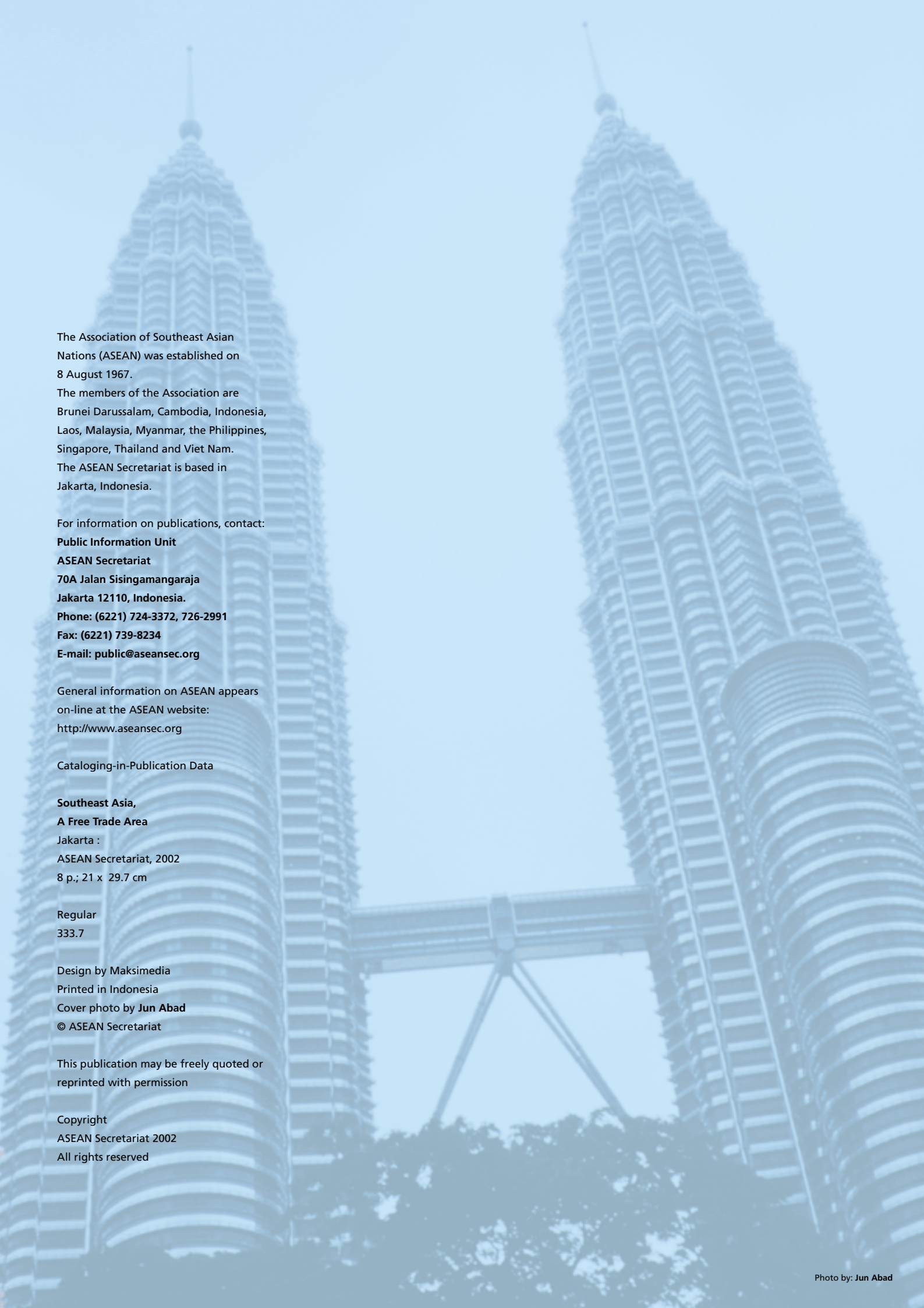




SOUTHEAST ASIA A FREE TRADE AREA





The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967.

The members of the Association are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

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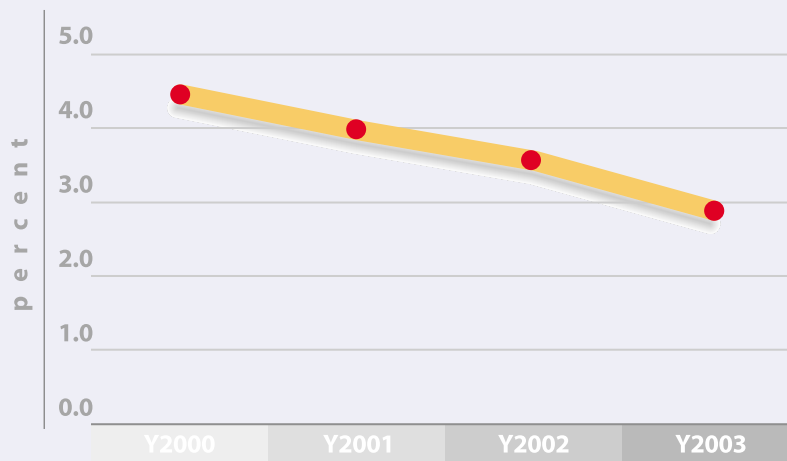
THE ASEAN FREE TRADE AREA

Most of the Southeast Asian region is now a free trade area. Accounting for over 96 percent of all ASEAN trade, the first six signatories of the Common Effective Preferential Tariff scheme for the ASEAN Free Trade Area have

reduced their tariffs on intra-regional trade to no more than five percent for almost all products in the Inclusion List or removed them altogether.

The ASEAN Free Trade Area was established in January 1992 to eliminate tariff barriers among the Southeast Asian countries with a view to integrating the ASEAN economies into a single production base and creating a regional market of 500 million people. The Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area requires that tariff rates levied on a wide range of products traded within the region be reduced to no more than five percent. Quantitative restrictions and other non-tariff barriers are to be eliminated. Although originally scheduled to be realized by 2008, the target of a free trade area in ASEAN was continuously moved forward.

Average CEPT Tariff Rates: 2000-2003

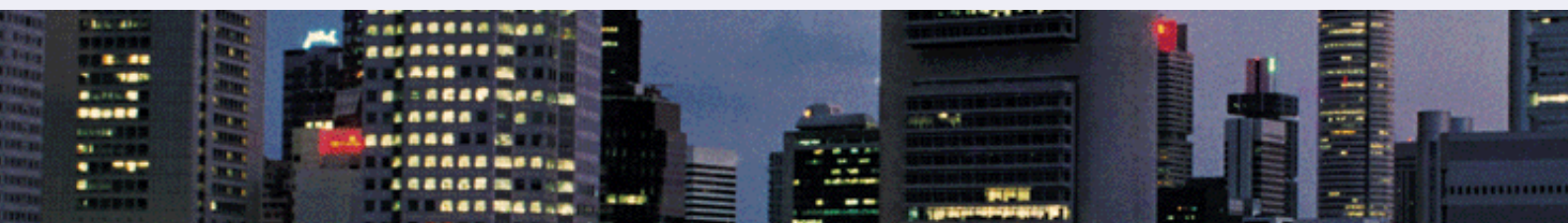


The elimination of tariffs and non-tariff barriers among the ASEAN members has served as a catalyst for greater efficiency in production and long-term competitiveness. Moreover, the reduction of barriers to intra-regional trade gives ASEAN consumers a wider choice of better quality consumer products.

By the beginning of 2002, only 3.8 percent of products in the CEPT Inclusion List of the first six signatories, or 1,683 items out of 44,060, would have tariffs above five percent. The current average tariff on goods traded under the AFTA scheme is about 3.8 percent.

In the light of their later accession to the CEPT Agreement, Vietnam is expected to realize AFTA in 2006, Laos and Myanmar in 2008, and Cambodia in 2010. The first signatories to the CEPT scheme are Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The free trade area covers all manufactured and agricultural products. However, 734 tariff lines in the General Exception List, representing about 1.09 percent of all tariff lines in ASEAN, are permanently excluded from the free trade area for reasons of national security, protection of human, animal or plant life and health, and of artistic, historic and archaeological value.





Through the swift realization of an ASEAN Free Trade Area and an ASEAN Investment Area, ASEAN should continue to be an attractive place of investment for Japanese companies.

*Prime Minister of Japan
Junichiro Koizumi,
"Japan and ASEAN in
East Asia: A Sincere and
Open Partnership,"
January 14, 2002*

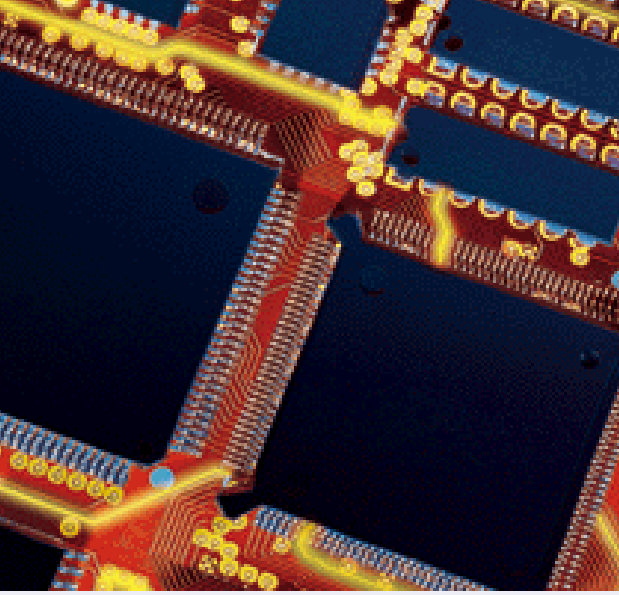


Trade Facilitation Initiatives

ASEAN has devoted attention to trade facilitation in the area of customs and through the elimination of technical barriers to trade with a view to lowering the cost of doing business in the region. ASEAN's efforts have been directed at the simplification and harmonization of customs procedures, specifically through such measures as the harmonization of tariff nomenclatures and the accelerated implementation of the WTO Valuation Agreement. ASEAN has now adopted an ASEAN Harmonized Tariff Nomenclature.

ASEAN is seeking to develop product-specific mutual recognition arrangements in conformity assessment so that product-related standards and regulations do not become technical barriers to trade. A Mutual Recognition Arrangement on telecommunication equipment has already been put in place. Negotiations are proceeding in the areas of cosmetics, pharmaceuticals, and electrical and electronic products.

ASEAN has also agreed to align national standards with international standards, such as those of the International Standards Organization (ISO), International Electrotechnical Commission (IEC) and International Telecommunications Union (ITU), for 20 priority product groups. These 20 product groups represent some of the most widely traded products in the region, including important consumer durables such as radios, television sets, refrigerators, air conditioners and telephones. In addition to the 20 product groups, ASEAN will embark on the harmonization of another 72 standards for safety and 10 standards for electromagnetic compatibility.



Rule-based Trade Arrangement

ASEAN has adopted a dispute settlement mechanism (largely patterned after the WTO dispute settlement understanding) covering all economic agreements. This establishes a mechanism for resolving any problem arising from the implementation of any economic agreement in ASEAN. The provision on emergency measures under the CEPT Agreement has been strengthened to make it consistent with the WTO Agreement on Safeguard Measures. A Protocol on Notification Procedures has been established which requires advance warning of actions or measures that can have an adverse effect on concessions granted under an existing ASEAN agreement. ASEAN has also agreed on a Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List, which is intended to provide some flexibility to countries facing real problems on their last tranche of manufactured products in their Temporary Exclusion Lists. The Protocol allows countries to temporarily delay the transfer of these TEL products or suspend concessions on those TEL products already transferred into the Inclusion List. The mechanism is based on Article XXVIII (Modification of Schedules) of the 1994 General Agreement on Tariffs and Trade.

Ultimate Target of AFTA: Elimination of All Import Duties

The ASEAN leaders have agreed to eliminate all import duties by 2010 for the six original members of ASEAN and by 2015 for the new members.

We strongly support the continued economic integration of Southeast Asia. A more integrated market will be simpler, more efficient, and a site for investment which remains attractive in comparison with its neighbors; it will also, of course, be a better market for American exports. We therefore applaud ASEAN's decision to accelerate the ASEAN Free Trade Area.

With an economy now nearly \$1 trillion, ASEAN is a market for American exports larger than all but three countries and nearly equal to China, Hong Kong, Taiwan and Macao together, with more than \$1 billion worth of semiconductor chips, 200,000 tons of wheat and 400,000 computers crossing the Pacific to Southeast Asia every single month. It is also the recipient of \$42 billion in American investment.

U.S. Trade Representative

Charlene Barshefsky,

"America and ASEAN: Shared Vision, Shared Destiny,"

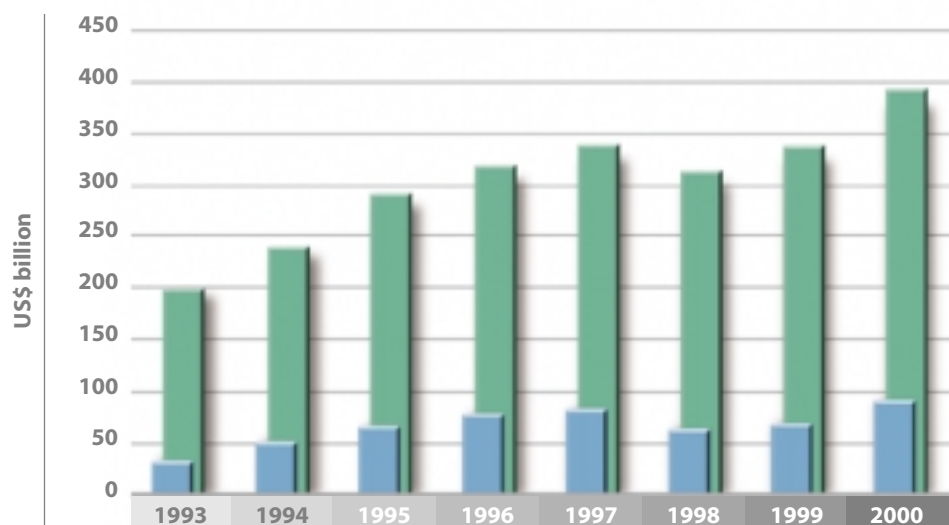
June 15, 2000

Currently, 20,701 tariff lines (representing 38 percent of the Inclusion List) already have zero duties. By 2003, the first six members will each have at least 60 percent of their Inclusion Lists with zero duties. Viet Nam will have 35.37 percent of its Inclusion List with no tariffs in 2006 while Laos and Myanmar will abolish import duties on 87.6 percent and 3.9 percent, respectively, of their IL by 2008. Cambodia will eliminate duties on 7.64 percent of its IL in 2010.

Direction of ASEAN Trade

As a result of the successful implementation of the CEPT scheme, trade among ASEAN countries has grown from US \$ 44.2 billion in 1993 to US \$ 95.2 billion in 2000, representing an average annual increase of 11.6 percent. As of the year 2000, intra-regional exports made up about 23.3 percent of total ASEAN exports. Before the financial and economic crisis struck in mid-1997, intra-ASEAN exports had been increasing by 29.6 percent. This is significantly higher than the rate of increase of total ASEAN exports, which grew at 18.8 percent during the same period.

**Intra-ASEAN and
Extra-ASEAN Exports:
1993-2000**





ASEAN is a cornerstone of EU's cooperation and dialogue with Asia. We remain committed to strengthening trade flows between our regions through multilateral and bilateral means, and we reiterate our commitment to further improvements in market access and to the pursuit of progressive liberalisation of our markets.

ASEAN-European Union Ministerial Meeting Declaration, Vientiane, 11 – 12 December 2000.

External Economic Linkages

The realization of the ASEAN Free Trade Area in no way lessens the importance of ASEAN's economic partners. The ASEAN leaders, at their summit in Bandar Seri Begawan from 5 to 6 November 2001, resolved to promote economic linkages among East Asian countries toward integrating the ASEAN region with China, Japan, and the Republic of Korea.

The leaders of ASEAN and China considered the report of the ASEAN-China Expert Group on Economic Cooperation, set up upon the suggestion by Chinese Premier Zhu Rongji at their meeting in Singapore last year. They endorsed the proposal for a Framework on Economic Cooperation and agreed to establish an ASEAN-China free trade area within ten years, with special and differential treatment and flexibility for the newer ASEAN members. The agreement would also provide for an "early harvest" of benefits. With a combined market of 1.7 billion people, a free trade area between ASEAN and China would have a gross domestic product of \$2 trillion and total trade of \$1.23 trillion. Discussions among officials on the scope and modality of the free trade area will commence this year.

The joint experts group estimates that the establishment of an ASEAN-China FTA could increase ASEAN's exports to China by 48 percent and China's exports to ASEAN by 55 percent. An FTA is also expected to boost ASEAN's GDP by 0.9 percent and China's GDP by 0.3 percent.

To promote the expansion of trade and investment between ASEAN and Japan, the leaders have endorsed the forging of a closer economic partnership. A group of experts from ASEAN and Japan has been established to recommend measures to further enhance economic cooperation between the two sides. The report of the experts group will be submitted to the next ASEAN-Japan summit in 2002. ASEAN-Japan trade reached US \$ 113.6 billion in the year 2000.

ASEAN Basic Data

Member Countries	Total Area	Population	GDP
Brunei Darussalam	5,770 sq.km	0.3 million	US\$ 7.07 billion
Cambodia	181,040 sq.km	11.5 million	US\$ 2.00 billion
Indonesia	1,919,440 sq.km	200 million	US\$ 232.00 billion
Laos	236,800 sq.km	4.9 million	US\$ 1.90 billion
Malaysia	329,750 sq.km	22.18 million	US\$ 95.50 billion
Myanmar	678,500 sq.km	46.4 million	US\$ 14.31 billion
Philippines	300,000 sq.km	68.6 million	US\$ 83.30 billion
Singapore	632.6 sq.km	3.87 million	US\$ 92.10 billion
Thailand	514,000 sq.km	61.81 million	US\$ 186.00 billion
Viet Nam	329,560 sq.km	78 million	US\$ 23.30 billion
Total	4,495,493 sq.km	497.56 million	US\$ 737.48 billion

Source: An Overview of ASEAN, 1999

The ASEAN leaders also proposed to explore with the Republic of Korea the possibility of establishing a free trade area between the two sides. The leaders agreed to set up an experts group to study this matter. ASEAN-ROK trade reached US\$ 28.9 billion in the year 2000.

In September 2001, the economic ministers of ASEAN and the Closer Economic Relations of Australia and New Zealand endorsed a framework to link the two groups economically through an AFTA-CER closer economic partnership. They have also approved a work program for the implementation of the framework. Two-way trade between AFTA and CER amounted to US\$ 18.43 billion in 2000.

The realization of AFTA is not only a major step towards regional economic integration in ASEAN; it is also an important building block for economic cohesion in the larger Asia-Pacific region, bringing together the economies of Northeast Asia and CER with those of Southeast Asia.



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