

For more information on the CEPT Scheme for AFTA, contact the National AFTA Units in ASEAN Member Countries or the AFTA Unit at the ASEAN Secretariat:

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ASSOCIATION OF SOUTHEAST ASIAN NATIONS

ASEAN FREE TRADE AREA (AFTA)

Towards a Single ASEAN Market



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Q1. What is the ASEAN Free Trade Area? What does it hope to achieve?

The ASEAN Free Trade Area or the AFTA is considered to be the heart and soul of ASEAN economic integration. Agreed upon by the ASEAN Leaders in January 1992, the ultimate objective of AFTA is to increase ASEAN's competitive edge as a production base geared for the world market. The basic feature of the AFTA is the liberalization of trade in the region, done through the elimination of intra-regional tariffs and non-tariff barriers. By doing so, AFTA is expected to make manufacturing sectors in ASEAN more efficient and ready to compete in the global market for trade in goods and investment.

Q2. What is the CEPT Scheme?

The Common Effective Preferential Tariff (CEPT) Scheme is the main mechanism to move ASEAN towards the direction of the AFTA. It is a cooperative arrangement among the Member Countries whereby intra-regional tariffs will be brought down to within the 0-5% tariff band over a period of time, i.e. 2002 – ASEAN 6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand); 2006 – Viet Nam; 2008 – Lao PDR and Myanmar; 2010 – Cambodia. Non-tariff barriers will also have to be eliminated under the CEPT Scheme.

Q3. How are we supposed to benefit from the AFTA?

AFTA offers a variety of opportunities not only for industries located in the region but also for investors and consumers as well. Trade liberalization under an environment of free trade would drive the manufacturing sector in the region to be more cost competitive as AFTA eases the burden of material

procurement and with the larger market, economies of scale in production can be enjoyed. A competitive manufacturing sector attracts foreign direct investment which in turn could stimulate the growth of supporting industries in the region. As AFTA spurs economic growth, more jobs can be created and as trade increases, income would likewise increase.

Consumers also stand to gain in a free trade environment. They would be offered more choice as a broader range of better quality products are made available in the market. AFTA increases purchasing power and cuts the cost of living.

Q4. What other measures have been put in place in support of trade liberalization under the AFTA?

Trade liberalization will not work well if trade facilitation measures are not put in place. ASEAN Member Countries have taken several steps in this direction. One, an ASEAN Harmonized Tariff Nomenclature will be implemented starting January 2004. Two, work is also on-going on the harmonization of standards, conformity assessment, mutual recognition arrangements and simplification of customs procedures.

Q5. What has been achieved so far in implementing the AFTA and the CEPT Scheme?

More than ten years of implementing the CEPT Scheme has resulted in the virtual realization of AFTA as the ASEAN 6 have 98.92% of all the products they trade in the CEPT Inclusion List. Of these, 99.60% have tariffs within the 0-5% range. About 53.35% are levied zero tariffs.

The average CEPT rate for these countries has gone down from 12.76% in 1993 to 2.39% as it currently stands.

ASEAN's new entrants – Cambodia, Lao PDR, Myanmar and Viet Nam – have 72.22% of all their products in the CEPT Inclusion List and 60.64% of these have 0-5% tariffs.

AFTA has contributed a lot in the expansion of Member Countries' trade, ASEAN and non-ASEAN alike. Statistics available at the ASEAN Secretariat would show that from 1993, total ASEAN trade increased by 64.38% or from US\$ 429.9 billion to US\$ 706.7 billion. Intra-ASEAN trade grew even much faster, i.e. by 93.6% or from US\$ 82.4 billion to US\$ 159.5 billion.

Q6. How could we avail of the tariff concessions under the CEPT Scheme?

Certain conditions have to be met in order to enjoy the tariff preferences under the CEPT Scheme: (i) the product has to be in the CEPT Inclusion List of both the exporting and the importing countries and must have a CEPT tariffs of 20% and below; and (ii) the product has to be originating from an ASEAN Member Country. To be originating, at least 40% of a product's content should have come from any Member Country. The 40% local content requirement refers to both single country and cumulative ASEAN content.

The exporter should obtain a Certificate of Origin Form D from the government agency authorized to issue such document in their country. This Form D would certify that the product being exported complies with local content requirement.