

ATINER CONFERENCE PRESENTATION SERIES No: CBC2017-0067

**ATINER's Conference Paper Proceedings Series**

CBC2017-0067

Athens, 20 July 2018

**FTA Mania in ASEAN**

Nucharee Nuchkoom Smith

Angayar Kanni Ramaiah

Athens Institute for Education and Research

8 Valaoritou Street, Kolonaki, 10683 Athens, Greece

ATINER's conference paper proceedings series are circulated to promote dialogue among academic scholars. All papers of this series have been blind reviewed and accepted for presentation at one of ATINER's annual conferences according to its acceptance policies (<http://www.atiner.gr/acceptance>).

© All rights reserved by authors.

**ATINER's Conference Paper Proceedings Series**

CBC2017-0067

Athens, 20 July 2018

ISSN: 2529-167X

**Nucharee Nuchkoom Smith**, PhD Student, School of Law, Western Sydney University, Australia

**Angayar Kanni Ramaiah**, Lecturer, Faculty of Law, University Technology Mara (UiTM), Malaysia

**FTA Mania in ASEAN**

**ABSTRACT**

The Association of Southeast Asian Nations (ASEAN) and its ten-member states are part of the world-wide trend to negotiate bi-lateral and plurilateral Free Trade Agreements (FTAs). This paper focuses on the reasons for such an approach and analyses the approaches of three of ASEAN's most developed economies, namely Thailand, Malaysia and Singapore as well as ASEAN itself. These three countries each have around 30 FTAs which are either in force or under negotiation. Singapore has implemented 20 with Thailand and Malaysia each having 14 agreements in force. All three countries are, of course, parties to the ASEAN Economic Community (AEC) and to the "bilateral" FTAs that ASEAN has negotiated with its dialog partners as well as the more comprehensive plurilateral Regional Comprehensive Economic Partnership that is under active negotiation. As all of the ASEAN partners are highly dependent on international trade one of the prime reasons for this FTA mania is clearly the delays in the Uruguay round of trade negotiations under the auspices of the World Trade Organization (WTO). The paper analyses the approach adopted by each of the ASEAN, Thailand, Malaysia and Singapore to analyze trends in each of their approaches, compare their approaches and attempt to ascertain reasons for their different approaches. At times it seems that a balanced, considered approach has been swept up in the mania, as appears to be the case in Thailand.

Keywords: Association of Southeast Asian Nations, Thailand, Malaysia, Singapore, Free Trade Agreement.

## Introduction

A Free Trade Agreement (FTA) is an international agreement between two or more countries to reduce or remove trade barriers and bring closer economic integration. Free Trade Agreements (FTAs) are being negotiated as a substitute for WTO agreements due to the very slow pace of trade negotiation under the Uruguay round. This impasse has clearly affected ASEAN and its members. Consequently, they are using the FTA route to seek opportunities for trade cooperation. Thailand, Singapore and Malaysia, founding members of ASEAN, are near neighbors and have chosen to have FTAs as a key part of their trade policy. This paper will study and analyze the strategies of ASEAN, Thailand, Singapore and Malaysia to develop FTAs as part of their global strategies. One of the key aims of an FTA is to offer tariff concessions on imports and export of goods assigned under the FTA making products more competitive, as compared to those from non-FTA members. An easing of, or removal of, quantitative import restrictions and streamlined customs procedures will also improve market access for various services and provide an easier entry for investors.

## Background

The Association of Southeast Asian Nations (ASEAN) is a grouping of the ten southeast Asian nations. As can be seen in Table 1 the membership includes developed and developing economies. This has provided challenges but at the same time it has provided the opportunity for the more prosperous nations to assist their less developed neighbors.

**Table 1.** *Gross National Income (GNI) of ASEAN Member States (2016)*

Country	GNI per capita (\$US)
Brunei Darussalam	38,520
Cambodia	1,140
Indonesia	3,400
Lao PDR	2,150
Malaysia	9,850
Myanmar	1,190
Philippines	3,580
Singapore	51,880
Thailand	5,640
Viet Nam	2,050

Source: World Bank

Regardless of their level of development all members are parties to FTAs either through ASEAN or independently (see Table 2). Cambodia is the only party that has not negotiated an FTA outside of the ASEAN framework.

**Table 2.** Status of all FTAs to which ASEAN or its Member States are a Party as at 20 January 2018

Country	Status		
	In effect	Signed not yet in effect	Negotiating
ASEAN <sup>1</sup>	6		2 <sup>2</sup>
Brunei Darussalam	2	1 <sup>3</sup>	
Cambodia	Party to ASEAN agreements and negotiations only		
Indonesia	2	1	5
Lao PDR	2		
Malaysia	8	3 <sup>4</sup>	3
Myanmar		1	1
Philippines	1	1	1
Singapore	14	2 <sup>5</sup>	7
Thailand	8 <sup>6</sup>	1	7
Viet Nam	4	1 <sup>7</sup>	3

Source: ADB Asia Regional Integration Center (ARIC)

This paper focusses on the most prolific negotiators, namely Malaysia, Singapore and Thailand; as well as ASEAN. Details of FTAs currently in force are provided in Table 3.

<sup>1</sup>All ASEAN members are party to these agreements.

<sup>2</sup>Includes Regional Comprehensive Economic Partnership.

<sup>3</sup>Includes Trans Pacific Partnership (TPP) which has been signed but is not in effect.

<sup>4</sup>Includes TPP.

<sup>5</sup>Includes TPP.

<sup>6</sup>Includes India-Thailand Free Trade Area.

<sup>7</sup>Includes TPP.

**Table 3. ASEAN Regional and National FTAs with Dates of Entry into Force**

<b>Bilateral FTAs</b>			<b>Regional FTAs</b>
<b>Thailand</b>	<b>Malaysia</b>	<b>Singapore</b>	<b>ASEAN</b>
Laos-Thailand Preferential Trading Arrangement, June 29, 1991.	Malaysia-Japan Economic Partnership Agreement (MJEPA), July 13 2006.	European Free Trade Association – Singapore Free Trade Agreement (ESFTA), January 1, 2003.	ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), January 1, 2010.
People's Republic of China-Thailand Free Trade Agreement (early harvest), October 1, 2003.	Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA), January 1, 2008.	Gulf Cooperation Council-Singapore Free Trade Agreement (GCC-Singapore FTA) September 1, 2013).	ASEAN-China Free Trade Agreement (ACFTA), July 1, 2003
India-Thailand Free Trade Area, September 2004.	Malaysia-New Zealand Free Trade Agreement (MNZFTA), August 1, 2010.	India-Singapore Comprehensive Economic Cooperation Agreement (India-Singapore CECA), August 1, 2005	ASEAN-India Free Trade Agreement (AIFTA), January 1, 2010.
Thailand-Australia Free Trade Agreement (TAFTA), January 1, 2005.	Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA), July 1, 2011.	Japan-Singapore Economic Agreement for a New-Age Partnership (JSEPA), November 30, 2002.	ASEAN-Japan Comprehensive Economic Partnership (AJCEP), February 1, 2009.
Thailand-New Zealand Closer Economic Partnership Agreement (TNZCEP), July 1, 2005.	Preferential Tariff Arrangement-Group of Eight Developing Countries, August 25, 2011.	New Zealand-Singapore Closer Economic Partnership (ANZSCEP), January 1, 2001	ASEAN-Korea Free Trade Agreement (AKFTA), July 1, 2006.
Japan-Thailand Economic Partnership Agreement (JTEPA)	Malaysia-Chile Free Trade Agreement (MCFTA), February 25, 2012.	People's Republic of China-Singapore Free Trade	ASEAN Trade In Goods Agreement (ATIGA), May 17, 2010.

<b>Bilateral FTAs</b>			<b>Regional FTAs</b>
<b>Thailand</b>	<b>Malaysia</b>	<b>Singapore</b>	<b>ASEAN</b>
November 1, 2007.		Agreement (PRC-Singapore FTA), January 1, 2009	
Thailand-Peru Free Trade Agreement (TPFTA), December 31, 2011.	Malaysia-Australia Free Trade Agreement (MAFTA), January 1, 2013.	Singapore-Australia Free Trade Agreement (SAFTA), July 28, 2003.	
Thailand-Chile Free Trade Agreement (TCFTA), November 5, 2015.	Malaysia-Turkey Free Trade Agreement (MTFTA), August 1, 2015.	Singapore-Costa Rica Free Trade Agreement (Singapore-Costa Rica FTA), July 1, 2013.	
		Singapore-Panama Free Trade Agreement (PSFTA) July 24, 2006	
		Singapore-Peru Free Trade Agreement (Singapore-Peru FTA) July 1, 2009	
		Singapore-Taipei, China FTA (Singapore-Taipei, China FTA), April 29, 2014.	
		Trans-Pacific Strategic Economic Partnership Agreement (Trans-Pacific SEP), May 28, 2006.	
		United States-Singapore Free Trade Agreement	

Bilateral FTAs			Regional FTAs
Thailand	Malaysia	Singapore	ASEAN
		(USSFTA), January 1, 2004.	
		[Republic of] Korea- Singapore Free Trade Agreement (KSFTA) March 2, 2006	

Source: ADB Asia Regional Integration Center (ARIC)

### Free Trade Agreements under ASEAN

ASEAN cooperation was founded on trade (ASEAN, 2017). Later ASEAN increased its collaboration through the *ASEAN Free Trade Area* (AFTA). It was proposed by Thailand at the Singapore meeting of ASEAN in 2002 to assist its members to better cope with a changing world.

AFTA contains a *Framework Agreement on Enhancing ASEAN Economic Cooperation* and an *Agreement on the Common Effective Preferential Tariff* (CEPT) Scheme for the ASEAN Free Trade Area. Initially, ASEAN did not achieve success because its members had different levels of both political and economic development. Beside this, the policy of ASEAN is not to involve itself in the internal policy of another member<sup>8</sup> therefore ASEAN had difficulty coordinating its membership. In the past, ASEAN members tended to be export competitors rather than collaborators where they could combine their resources together to promote their common products. This change was required as the global trading community was changing from competition to cooperation in trade. Thus, ASEAN members sought to improve their cooperation and expand its trade partners.

In 1977, the ASEAN Foreign Ministers signed the *Preferential Trading Arrangement* with some of its ASEAN members. Later, members signed another suite of agreements: *Basic Agreement on ASEAN Industrial Projects*; *Basic Agreement on ASEAN Industrial Complementation*; *ASEAN Industrial Complementation*; *Basic Agreement on ASEAN Industrial Joint Ventures*, and brand-to brand complementation in the automotive industry.<sup>9</sup>

AFTA thus became a significant ASEAN achievement. As a result, ASEAN established the ASEAN Economic Community (AEC) as a pathway to an ASEAN FTA integration and to provide for the free flow of goods and services by setting up an ASEAN single window. Initially members agreed to support

<sup>8</sup>Treaty of Amity, art 2(c).

<sup>9</sup>*Memorandum of Understanding Brand-to-Brand Complementation on the Automotive Industry under the Basic Agreement on ASEAN Industrial Complementation.*

the investment sector and to open up service sectors such as tourism, aviation, health, information technology and logistics (ASEAN, 2017).

## **FTAs Approach and Development**

### *Thailand*

The negotiation of free trade agreements is the key strategy of Thailand as it seeks to balance the safety of its own markets whilst negotiating access to new markets. If, during dialogues for an FTA, the negotiations are not perceived as providing benefit to Thailand, such as when it has to negotiate with a powerful country like the United States, the discussions put on hold and have been abeyance since (late 2017).<sup>10</sup> On the other hand inaction by Thailand on FTAs such as the Trans Pacific Partnership (TPP) could leave Thailand could be disadvantaged. The TPP (Trans Pacific Partnership) includes very stringent rules of origin<sup>11</sup> that could adversely affect to Thailand's international trade.

Thailand is implementing a dual track strategy as it continues to negotiate bilateral and regional agreements. At the same time the trade negotiations at the World Trade Organization (WTO) level will, it is hoped, continue to provide benefits of fair trade with clearly defined rules.

With respect of regional trade negotiations Thailand is also operating on two roads; both within ASEAN and bilaterally. It can provide more favorable outcomes output. It is for example, Thailand signed an FTA with China while ASEAN is immobilized in undertaking FTA negotiations with China. It would mean Thailand and China would be able to start to do the business under the new policy before other ASEAN members.

Thailand seeks to retain its main stream markets especially Japan, USA and the EU. At the same time, it is seeking new markets and a gateway to other regions.

Thailand has made a successful transition from a rural agrarian to an urban industrial economy in the last fifty years.<sup>12</sup> Although agriculture has declined in relative importance, Thailand remains a leading agricultural exporter with low production costs and is considered to have been successful in achieving agricultural development in an industrializing country.<sup>13</sup> By 2015 Thailand has begun a process of gradual transition from an industrialized economy into knowledge based industries, particularly in the services sector, as had Malaysia and Indonesia.<sup>14</sup>

Foreign Direct Investment (FDI) was a significant component of the Thai economy at around USD 12.7 billion in 2014. FDI is across all sectors of the Thai

---

<sup>10</sup>The United States continues to be concerned about Thailand's position on intellectual property rights (Executive Office of the President).

<sup>11</sup>Trans Pacific Partnership (TPP), Annex 3D- Product Specific Rules of Origin.

<sup>12</sup>Leturque and Wiggins (2011).3.

<sup>13</sup>Ibid.

<sup>14</sup>*Economic Insight South: South East Asia, Quarterly Briefing Q2 2015.*



economy but predominantly in metal products and machinery followed by electric and electronic products.<sup>15</sup>

In 2016 the approved foreign investment in Thailand was USD 10.1 billion. Japan accounted for 22% with China second on 15%. Funding from Australia, Cayman Islands, China and South Korea recorded substantial increases.<sup>16</sup>

Even though agriculture accounts for around 12% of the GDP the percentage of the working population engaged in agriculture is still around 40%. The highest levels of employment for both males and females are now in the services sector with the least in the industrial sector. The industrial sector no doubt benefits from the process of automation and hence the reduced need for a skilled workforce.

Social development has increased with economic development but there are still wide disparities between the rich and the poor. There has been a gradual improvement over time. The GINI Index<sup>17</sup> shows that there is still a large disparity between the rich and the poor with a GINI Index of 39.3 in 2012.<sup>18</sup> Although the Thai economy has significantly developed, statistics show that the benefits continue to overwhelmingly flow to the top strata of society with the richest 10% sharing around 30% of Thailand's income.

Overall Thailand is an unequal society. The more affluent are concentrated in Thailand's urban areas, especially Bangkok.<sup>19</sup> The provincial areas of the north and north-east are less well-off due to past neglect and a centralized state system.<sup>20</sup> This has given rise to a degree of social conflict as society seeks to resolve 'the increased social and political complexities that arise with prosperity and globalization'.<sup>21</sup> On the other hand, particularly in relation to health, Thailand has attained first world status.<sup>22</sup>

### *Malaysia*

Malaysia practices an open economic policy with an intense, small domestic market. Therefore, it is extremely important for Malaysian businesses to go beyond its borders to explore its trading opportunities and expand its consumer markets.<sup>23</sup> The government claims that "FTAs help to enhance [its] competitive advantage, strengthen investors' confidence and to a large extent, build Malaysia's economic sustainability".<sup>24</sup> It's trade policy is focused on market liberalization

---

<sup>15</sup>Board of Investment (2015).

<sup>16</sup>Anon (2017).

<sup>17</sup>Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. Thus, a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

<sup>18</sup>World Bank Indicators (2015).

<sup>19</sup>Phongpaichit & Baker (2008) 21.

<sup>20</sup>Ibid.

<sup>21</sup>Ibid.

<sup>22</sup>World Bank Indicators <<http://data.worldbank.org/indicator>>. Data available as at 31 December 2015.

<sup>23</sup>Malaysian External Trade Development Corporation (MATRADE), (2017).

<sup>24</sup>MATRADE (2017).

in a fair global trading environment.<sup>25</sup> Although Malaysia gives high priority to the rule-based multilateral trading system under the World Trade Organization (WTO), it also pursues regional and bilateral trading arrangements liberalization. Through this dual approach, Malaysia aims to enhance the competitiveness of its businesses thus providing opportunities for them to expand overseas. It will also benefit Malaysian consumers as products from trading partners enter the Malaysian market providing greater competition at competitive prices.<sup>26</sup> The Government also expects that it will create market access opportunities for Malaysian services and enhance Malaysia's attractiveness as an investment destination. It also hopes to develop the country as production hub to serve regional and global markets.

In terms of trade with its FTAs partners, Malaysia's total trade value stood at \$US228.1<sup>27</sup> billion in 2016, with exports valued at \$US119.3 billion while imports totaled \$US106.8 billion. FTA partners contributed 62.3% of Malaysia's total exports in 2016.<sup>28</sup> Exports increased to FTA partners such as Viet Nam, Singapore, Myanmar, the Philippines, Cambodia and Laos (ASEAN member states) as well as Turkey, Pakistan and India.<sup>29</sup> The main exports to the FTA partners in 2016 were electrical and electronic products, petroleum products, chemicals and chemical products, liquified natural gas (LNG) and manufactures of metal.<sup>30</sup>

In 2005 at Malaysia was increasing its FTA activity, Abidin considered that, to achieve sustained high growth, Malaysian had to move up the manufacturing value chain and further develop the agricultural and services sectors.<sup>31</sup> In addition, Malaysia's trade and investment policies should take into account the stage of development in each sector in accord with the WTO policy of progressive liberalization. There was also a need for capacity development and research and development capacity.

Domestic consensus was considered critical and the following stakeholders were identified:<sup>32</sup>

- Industry groups - to ensure that they are fully aware of the full implications of trade liberalization; and that their interests are considered in any negotiations;
- Worker's unions - as there will be potential job losses as well as new opportunities as the economy adjusts to the new trading environment;
- Legislators - who not only want positive outcomes for their constituencies but are also responsible for the enabling legislation and assessing the merits of the negotiated FTAs;

---

<sup>25</sup>Ministry of International Trade and Industry (MITI), (2017)

<sup>26</sup> Ibid.

<sup>27</sup>\$US=4.1 Malaysian Ringgit.

<sup>28</sup>MATRADE (2017).

<sup>29</sup>Ibid.

<sup>30</sup>Ibid.

<sup>31</sup>Abidin (2005) 6.

<sup>32</sup>Ibid 19-23.

- Environmental groups – to ensure that liberalization of the economy takes place in a sustainable way that also protects the environment; and
- Civil society groups - should be consulted to ascertain the likely reaction of the citizens to evaluate their interests, concerns and the likely impact of the negotiations as they will have a long term impact on society.

Malaysia had concerns associated with liberalization of the economy, especially the encroachment of FTA commitments on domestic policies.<sup>33</sup> Finally, “[T]he outcome of the agreement will depend, to a large extent, on the complementarity of partners’ economies, country specific assets and negotiating capacity. As such the attributes of the FTA partners are an important consideration.”<sup>34</sup>

The Malaysian economy was considered to be amenable to trade liberalization. The manufacturing sector already had a low tariff regime and was open to foreign investment whilst the agricultural sector had minimal protection except for the rice and poultry sectors.<sup>35</sup>

A 2015 study found that Malaysia had little comparative advantage in export of construction services in comparison to East Asian countries.<sup>36</sup>

### *Singapore*

Singapore is only one of the two developed country members of ASEAN; the other being the small sultanate of Brunei Darussalam. The Singaporean economic structure is quite different from other ASEAN members due to two main factors. One is Singapore lacks natural resource and has limited land therefore Singapore cannot be a major manufacturer and goods exporter like other ASEAN members. Singapore became a developed country and the key stream of Singapore trade is the services sector. Its manufacturing and industrial sector focuses on value adding. For instance, Singapore is a major oil processing center with imported crude oil.

In 2016 Singapore had a gross national income of \$US 51,880 making it a high-income economy<sup>37</sup> It provides one of the most business-friendly regulatory environments and is ranked amongst the most competitive economies in the world.<sup>38</sup> It quickly moved from a low-income country at Independence in 1965 to a high-income country with gross domestic product averaging 7.7% p.a. from 1965 to 2016.<sup>39</sup>

In the 1960s manufacturing was the main driver of the economy with Singapore achieving full employment in 1970s and newly industrialized status

---

<sup>33</sup>Ibid 16-17.

<sup>34</sup>Ibid 17.

<sup>35</sup>Ibid 17-18

<sup>36</sup>Hamid and Hung (2015) 15

<sup>37</sup>World Bank (2017)

<sup>38</sup>Ibid.

<sup>39</sup>Ibid

in the 1980s. Manufacturing and services drive Singapore's high value-added economy<sup>40</sup>

In 2016, Singapore's total merchandise trade was \$US<sup>41</sup> 644 billion; services exports were \$US 153 billion; and total goods exports were \$US 346 billion).<sup>42</sup> In 2015, Singapore's Direct Investment abroad was \$US 492. Singapore's main investment markets are China, Myanmar and Indonesia.

"Even though Singapore already has low tariffs across many goods, FTAs still help the Singapore economy by committing our FTA partners to reduce their tariff rates and other barriers to trade in their international transactions with Singapore."<sup>43</sup>

An analysis of the 13 FTAs<sup>44</sup> to which Singapore was a party and had entered into force by the end of 2008 found that there was a statistically significant increase in Singapore's domestic goods exports to that particular bilateral FTA partner.<sup>45</sup> After an initial surge in the first two years (18% on average) and the 3<sup>rd</sup> and 4<sup>th</sup> years (16% on average) they reverted to pre-FTA levels by the end of the 4<sup>th</sup> year. The cumulative growth effect in the 2<sup>nd</sup> and 3<sup>rd</sup> years ensured that the level of domestic goods exports by the 4<sup>th</sup> year ensures that they were significantly higher than if there were no FTA.<sup>46</sup> On average a growth rate 1% in the trade partner's gross domestic product led to a 1.7% increase in domestic goods exports to that trading partner.<sup>47</sup> The impact of plurilateral FTAs was more ambiguous.

## ASEAN

As noted above the creation of the ASEAN Free Trade Area (AFTA) was agreed at the 1992 ASEAN Summit in Singapore. Its objective are creation of a single market and international production base; attracting foreign direct investment; and expanding intra-ASEAN trade and investments.<sup>48</sup>

The creation of AFTA was a response to the creation of the North American Free Trade Area (NAFTA) by Canada, Mexico and the USA and the expanding EU.<sup>49</sup> The founders clearly recognized the potential and complementarities that existed in the region and sought to strengthen and deepen intra-ASEAN industrial linkages. This included developing strong and competitive small and medium enterprises.

The six founding members of AFTA<sup>50</sup> then agreed on a Common Effective Preferential Tariff (CEPT) Scheme to achieve that objective.<sup>51</sup> The scheme

---

<sup>40</sup>Ibid.

<sup>41</sup>\$SG 1 = \$US 0.75.

<sup>42</sup>(International Enterprises Singapore, 2017)

<sup>43</sup>Davin Chor quoted in Liang (2015)

<sup>44</sup>This covers both bilateral and plurilateral FTAs.

<sup>45</sup>Lee, Kong & Ruimin (2011) 21.

<sup>46</sup>Ibid.

<sup>47</sup>Ibid 22.

<sup>48</sup>MITI (2017).

<sup>49</sup>MITI (2017)

<sup>50</sup>Brunei Darussalam, Indonesia, Malaysia, Philippines, Malaysia and Thailand.

applied to all manufactured products including processed agricultural products but excluded unprocessed agricultural products as defined in the agreement.<sup>52</sup> Members were required to reduce their existing tariffs to a preferential rate of no more than 20% over a 5 to 8 year period at a rate to suit the sensitivities of their individual industries.<sup>53</sup> Subsequent tariff reductions to between 0 and 5% were to occur over a 7 year time-frame with a minimum 5% quantum per reduction.<sup>54</sup> Once concessional rates had been achieved member states were to remove quantitative restrictions and had a further 5 years to eliminate other non-tariff barriers.<sup>55</sup> A general exemption in relation to security, public morals, protecting human, animal & plant life and health as well as protection of items of artistic, historic and archaeological also applied.<sup>56</sup> Unlike the EU, AFTA is silent on the application of a common external tariff on imported goods from non-members. This allows each ASEAN member to impose tariffs on goods sourced outside of ASEAN in accordance with its national schedules. The more recent, and less developed, members of ASEAN<sup>57</sup> were given additional time to implement their tariff reductions.<sup>58</sup>

Rapid economic growth of the early 1990s led to an acceleration of the tariff reductions and a further acceleration occurred as a response to the Asian Financial Crisis.<sup>59</sup>

The outcome of the CEPT trade liberalization initiatives was ASEAN's manufacturing sectors becoming more efficient and competitive in the global marketplace and the development of robust intra-ASEAN trade.

The CEPT was superseded by the ASEAN Trade in Goods Agreement (ATIGA) in 2010.<sup>60</sup> The objective of the agreement was "to achieve free flow of goods in ASEAN as one of the principal means to establish a single market and production base for the deeper economic integration of the region towards the realization of the AEC by 2015."<sup>61</sup>

ATIGA also allowed for the further staged liberalization of tariffs with the original six members required to reduce tariffs more quickly than the CMLV members.<sup>62</sup> In addition ATIGA covered establishment of an ASEAN single window in each member state (art 49); elimination of non-tariff barriers (ch 4); trade facilitation (ch 5); sanitary and phytosanitary measures (ch 8); and trade remedy measures (ch 9).

---

<sup>51</sup> *Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (CEPT)*.

<sup>52</sup> CEPT art 3.

<sup>53</sup> CEPT art 4(1a).

<sup>54</sup> CEPT art 4(1b)

<sup>55</sup> CEPT art 5(A)

<sup>56</sup> CEPT art 9

<sup>57</sup> Cambodia, Laos, Myanmar and Viet Nam, also known as CMLV countries

<sup>58</sup> MITA (2017)

<sup>59</sup> *Ibid.*

<sup>60</sup> ASEAN Trade in Goods Agreement (ATIGA)

<sup>61</sup> ATIGA art 1

<sup>62</sup> ATIGA art 19.

Effective from 1 January 2010, six ASEAN members<sup>63</sup> were essentially operating in a free trade agreement.<sup>64</sup> They had eliminated import duties on 99 per cent of products on the inclusion list but excluding products on the sensitive and highly sensitive lists.<sup>65</sup> Only 0.35 per cent of the tariff lines in the inclusion list remained subject to tariffs.

ASEAN's average growth for 2007 to 2015 was 5.1 per cent and in 2015 its Gross Domestic Product (GDP) of USD 2.6 trillion made it the seventh largest global economy.<sup>66</sup> As can be seen in Table 4, from 2010 to 2015, intra-ASEAN trade generated around 25% of its total trade.

**Table 4. ASEAN Total Trade 2010 to 2015**

Unit	2010	2011	2012	2013	2014	2015
Total T-trade (USD trillion)	2.00	2.39	2.48	2.51	2.53	2.27
Intra-ASEAN Trade (%)	25.6	25.1	24.3	24.2	24.1	23.9
Ex-AEAN Trade (%)	74.4	74.9	75.7	75.8	75.9	76.1

Source: ASEAN Secretariat

## Discussion

Clearly, there has been an apparent manic drive within the ASEAN membership to enter into Free Trade Agreements. A question that needs to be asked is whether there is a pattern or whether the process has been opportunistic? As noted in Table 1 above there is quite a range in the Gross National Income per capita of the ASEAN member economies. This means that six ASEAN members have been classified by the World Bank as lower middle-income economies; Thailand and Malaysia as upper middle income economies; and Singapore and Brunei Darussalam are high income economies (Table 5).

**Table 5. World Bank Classification of ASEAN Economies (2017)**

Classification	Gross National Income per capita (USD)	Economies
Low Income	1,005 or less	-
Lower Middle Income	1,006 to 3,955	Cambodia, Indonesia, Myanmar, PDR Laos, Philippines, Vietnam
Upper Middle Income	3,956 to 12,235	Malaysia, Thailand
High Income	12,356 or more	Brunei Darussalam, Singapore

Source: World Bank Country and Lending Groups

<sup>63</sup>Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.

<sup>64</sup>MITI (2017).

<sup>65</sup>Ibid.

<sup>66</sup>Ibid.

From Table 2 it was clear that the most prolific negotiators of FTAs were either upper middle or high income economies. Brunei is the exception and this is no doubt related to its very small size, small population and plentiful oil and gas reserves.<sup>67</sup> Table 6 shows the distribution of the FTAs against the economic development of the trading partners.

**Table 6. ASEAN FTAs against Classification of Economies**

Classification	Thailand	Malaysia	Singapore	ASEAN <sup>68</sup>
Low Income	-	-	-	-
Lower Middle Income	2	2	1	1
Upper Middle Income	2	3	4	1
High Income	4	3	14	3 <sup>69</sup>

Source: ADB Asia Regional Integration Center (ARIC)

Of ASEAN's six major dialogue parties: Australia, Japan, Korea and New Zealand are high income, China is upper middle income and China lower middle income.<sup>70</sup> Singapore independently and ASEAN collectively have FTAs with all six dialogue partners, Thailand has five and Malaysia has four. Neither Thailand nor Malaysia have an individual FTA with Korea and Malaysia does not have an individual FTA with China. It should be noted that the ASEAN FTA with its dialogue partners does not supersede the bilateral FTAs already in place. ASEAN and its six dialogue partners are also negotiating the Regional Cooperative Economic Partnership.<sup>71</sup>

Singapore, on the other-hand, has individual FTAs with all six dialogue partners as well as mainly, but not exclusively, high income economies. This is no doubt due to its position as a high income economy and the need to develop markets for its value-added manufacturing and services sectors.

All members of ASEAN either directly, or through a plurilateral FTA with ASEAN have Australia and New Zealand as trading partners.<sup>72</sup> Australia became

<sup>67</sup>BBC News

<sup>68</sup>Excludes ATIGA which is a trade agreement exclusively between ASEAN members.

<sup>69</sup>Australia and New Zealand have a combined FTA with ASEAN hence they are only considered as one economy in the table.

<sup>70</sup>World Bank Country and Lending Groups

<sup>71</sup>Smith (2015)

<sup>72</sup>These are: *ASEAN-Australia-New Zealand Free Trade Agreement*, signed February 27, 2009 (entered into force January 1, 2010). *Thailand-Australia Free Trade Agreement*, signed May 5, 2004 (entered into force January 1, 2005). *Thailand-New Zealand Closer Economic Partnership Agreement*, signed April 19, 2005 entered into force July 1, 2005). *Malaysia-Australia Free Trade Agreement*, signed May 22, 2012 (entered into effect January 1, 2013). *Malaysia-New Zealand Free Trade Agreement*, signed October 26, 2009 (entered into force August 1, 2010). *Singapore-Australia Free Trade Agreement*, signed February 17, 2003 (entered in to force July 28, 2003). *New Zealand-Singapore Closer Economic Partnership*, signed November 14, 2000 (entered into force January 1, 2001).

ASEAN's first dialogue partner in 1974<sup>73</sup> and New Zealand became a dialogue partners since 1974.<sup>74</sup> As well as being trading partners with ASEAN they have also been development partners. It is not really surprising then that they were able to negotiate FTAs with the parties. These FTAs promote economic cooperation and, where necessary, gradual liberalization. In addition, the economic sectors of Australia and New Zealand are complementary rather than competitive with their ASEAN neighbors. Japan is a key driving force of the ASEAN economies as both an investor and a development partner. It has an annual development assistance budget of \$10 billion.<sup>75</sup> In addition it is the largest (non-borrowing) shareholder in the Asian Development Bank (ADB).<sup>76</sup>

Each member has its own specific requirements incorporated into the negotiated FTAs. The latter is particularly important bearing in mind the varying levels of development of the members of ASEAN. Clearly, ASEAN works for the benefit of all its members regardless of their economic development. This is of particular importance as the smaller economies such as Cambodia, Myanmar and PDR Laos have a lesser capacity for negotiating FTAs without significant support.

FTAs are not just about economic benefits. Politics can also play a part in the process. For instance, since the 2014 coup in Thailand, a number of countries have been highly critical resulting in more interaction concerning trade cooperation with China and Russia and less with its major critics the European Union and the United States.<sup>77</sup> This can lead to some apparently incongruous negotiations as parties seek to act in their own interests and buy influence.<sup>78</sup>

## Conclusion

There clearly has been an FTA mania amongst ASEAN and its members. By and large it appears to be fairly focused. Never-the-less politics has clearly paid a part. Overall trade within ASEAN and between ASEAN and its individual members with non-ASEAN FTA partners has increased significantly. There are also the intangible benefits such as cooperation and capacity building sponsored by the non-ASEAN partners. It is essential for export driven economies such as those of ASEAN to be part of the international trading community, ideally through the WTO but in the interim as through plurilateral and bilateral FTAs.

## References

Abidin, M. 2005. Malaysia: The Potential Effects of FTAs and the Role of Domestic Consensus. Paper presented at International Workshop on FTAs, (Economic and

---

<sup>73</sup>ASEAN (2017a).

<sup>74</sup>ASEAN (2017b).

<sup>75</sup>Jain (2016).

<sup>76</sup>ADB (2016).

<sup>77</sup>Smith and Smith (2015) 53.

<sup>78</sup>See for instance the discussion on the early TPP and Regional Comprehensive Economic negotiations in Smith (2015).



- Social Research Institute, Tokyo, March 16), 2005; <http://www.esri.go.jp/jp/workshop/050316/050316ISISR.pdf>.
- Agreement on ASEAN Preferential Trading Arrangements*, signed February 24, 1977.
- Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area*, signed January 28, 1992.
- Anon. 2017. ASEAN in Focus: Thailand as an Investment Destination. *HKDK Research*, March 3, 2017. <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/ASEAN-in-Focus-Thailand-as-an-Investment-Destination/rp/en/1/1X000000/1X0A99AZ.htm>.
- Asian Development Bank. 2016. *Shareholders*. <https://www.adb.org/site/investors/credit-fundamentals/shareholders>. (accessed January 22, 2018).
- Asian Development Bank. 2017. *Free Trade Agreements*. ADB Asia Regional Integration Center (ARIC). <https://aric.adb.org/fta-country>. (accessed January 20, 2018).
- ASEAN. 2017a. Overview ASEAN-Australia Dialogue Relations. *ASEAN Secretariat's Information Paper as of October 2017*. [http://asean.org/storage/2017/12/Overview-of-ASEAN-Australia-DR\\_as-of-October-2017.pdf](http://asean.org/storage/2017/12/Overview-of-ASEAN-Australia-DR_as-of-October-2017.pdf).
- ASEAN. 2017b. Overview ASEAN-New Zealand Dialogue Relations. *ASEAN Secretariat's Information Paper as of October 2017*. [http://asean.org/storage/2017/12/Overview-ASEAN-New-Zealand-DR\\_as-of-October-2017.pdf](http://asean.org/storage/2017/12/Overview-ASEAN-New-Zealand-DR_as-of-October-2017.pdf).
- ASEAN-Australia-New Zealand Free Trade Agreement*, signed February 27, 2009 (entered into force January 1, 2010).
- ASEAN Economic Community (AEC), <http://asean.org/asean-economic-community/> (accessed December 13, 2017).
- ASEAN Trade in Goods Agreement (ATIGA)*, signed February 26, 2009 (entered into force May 17, 2010).
- Basic Agreement on ASEAN Industrial Complementation*, signed June 18, 1981.
- Basic Agreement on ASEAN Industrial Joint Ventures*, Jakarta, signed November 7, 1983.
- BBC News. 2018. *Brunei Country Profile*. January 9, 2018. <http://www.bbc.com/news/world-asia-pacific-12990058>. (Accessed January 20, 2018).
- Board of Investment, Foreign Direct Investment (11 February 2015) (Doc T 20FDI14\_15388.pdf) [http://www.boi.go.th/upload/content/T%20FDI14\\_15388.pdf](http://www.boi.go.th/upload/content/T%20FDI14_15388.pdf) (accessed 28 February 2015).
- Economic Insight South: South East Asia, 2015. Quarterly Briefing Q2 2015 (Institute of Chartered Accountants in England and Wales (ICAEW), 2015).
- Executive Office of the President, 'United States and Thailand Reaffirm Commitment to Expand Trade and Investment Ties' (Press Release, 20 April 2016).
- Framework Agreements on Enhancing ASEAN Economic Cooperation*, Singapore, signed January 28, 1992.
- Hamid, Z. and Hung F-C. 2015. Trade Liberalization and Comparative Advantage Study on Malaysian Construction Industry. Paper presented at 2<sup>nd</sup> International Conference on ASEAN Community 2015. (International Islamic University Malaysia, March 2-3, 2015) <https://www.researchgate.net/publication/303680855>
- International Enterprise Singapore. 2017. *IE Singapore Annual Report 2016-2017: Year in Review*. [https://www.iesingapore.gov.sg/-/media/IE-Singapore/Files/Publications/Annual-Report/IE\\_AR2016\\_17.ashx](https://www.iesingapore.gov.sg/-/media/IE-Singapore/Files/Publications/Annual-Report/IE_AR2016_17.ashx).
- Jain, P. 2016. New Thinking Redefines Japan's Foreign Aid Policy (July 11, 2016). *Asian Currents* (Asian Studies Association of Australia). <http://asaa.asn.au/new-thinking-redefines-japans-foreign-aid-policy/>.

- Lee, T., Kong T. and Ruimin, H. (2011). Do Trade Agreements Matter: Evaluating the Impact of FTAs on Singapore's Domestic Export of Goods. In *Economic Survey of Singapore Second Quarter 2011*. (Ministry of Trade and Industry) 18-26.
- Leturque, H. and Wiggins, S. 2011. *ODI Development Progress: Thailand's progress in agriculture: Transition and sustained productivity growth* (Overseas Development Institute, London, 2011).
- Liang, C-Z. 2015. 'Why Sign Free Trade Pacts?' (Nov 15, 2015). *The Straits Times* (online). <http://www.straitstimes.com/politics/why-sign-free-trade-pacts>.
- Malaysia-Australia Free Trade Agreement*, signed May 22, 2012 (entered into effect January 1, 2013).
- Malaysia-New Zealand Free Trade Agreement*, signed October 26, 2009 (entered into force August 1, 2010).
- Memorandum of Understanding Brand-to-Brand Complementation on the Automotive Industry under the Basic Agreement on ASEAN Industrial Complementation*, Pattaya, Thailand, October 18, 1988.
- Ministry of International Trade and Industry (MITI), 2017. *Malaysia's Free Trade Agreements*. <http://fta.miti.gov.my/index.php/pages/view/4?mid=23>, (accessed September 20, 2017)
- New Zealand-Singapore Closer Economic Partnership*, signed November 14, 2000 (entered into force January 1, 2001).
- Phongpaichit P. and Baker C. 2008. Thailand: Fighting over Democracy (13 December 2008) *Economic & Political Weekly (Bombay)*, 18-21.
- Rahman, K., Molla, R. and Murad ,W. 2008. Japan-Malaysia Free Trade Agreement: Expectations and Achievements. *Journal of Comparative International Management* Volume 11(1) (2008) <https://journals.lib.unb.ca/index.php/jcim/article/view/11162/11896%3E>
- Singapore-Australia Free Trade Agreement*, signed February 17, 2003 (entered in to force July 28, 2003).
- Smith, N. 2015. 'New Regional Economic Partnerships under Negotiation' *Int. J. Public Law and Policy*, Vol. 5, No 1, pp.1-19.
- Smith, N., & Smith, R. 2015, 'Geopolitics, Free Trade Agreements and Thailand' *International Journal of Business, Economics and Law*, Vol. 8, Issue 4 (Dec.) 48-54. <http://ijbel.com/wp-content/uploads/2016/01/law-23.pdf>.
- Thailand-Australia Free Trade Agreement*, signed May 5, 2004 (entered into force January 1, 2005).
- Thailand-New Zealand Closer Economic Partnership Agreement*, signed April 19, 2005 entered into force July 1, 2005).
- Trans Pacific Partnership*, signed February 4, 2016 (not yet in force).
- Treaty of Amity and Cooperation in Southeast Asia*, Indonesia, signed February 24, 1976.
- World Bank. 2017. Gross national income per capita 2016, Atlas method and PPP. *World Development Indicators database*, World Bank, April 17, 2017. <http://data.worldbank.org/data/download/GNIPC.pdf>.
- World Bank. 2017. *The World Bank in Singapore*. World Bank Group (Sep 30, 2017) <http://www.worldbank.org/en/country/singapore/overview#1>.
- World Bank. 2017. *World Bank Country and Lending Groups*. <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>. (accessed January 20, 2018).
- World Bank Indicators (2015) <http://data.worldbank.org/indicator>. Data available as at 31 December 2015.