**ASEAN INTEGRATION INTO GLOBAL ECONOMY**

**1. ASEAN-ChinaFreeTradeArea(ACFTA)**

In2002,ASEANMemberStatesandthePeople’sRepublicofChinasigned the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China. The agreement provides the legal basis for ASEAN and China to negotiate further agreements leading to the creation of the ASEAN-China Free Trade Area (ACFTA) in December2009.

China has since become ASEAN’s largest trading partner, with trade values reaching US$231.2 billion in 2010, about 11.3% of ASEAN’s total trade. In terms of consumer market size, the ACFTA is the world’s largest free trade zone, representing a market of 1.94 billion consumers with a combined gross domestic product (GDP) of about US$7.6 trillion (in 2010).

**Free Flow of Goods**

The Agreement on Trade in Goods signed in 2004 laid down the modality for tariff reduction and elimination for tariff lines categorised as either ‘Normal Track’ or ‘Sensitive Track.’

Normal Track: Tariffs on almost all tariff lines in this category have been eliminated by ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and China as of 1 January 2010. The remaining few products in this category (i.e. not exceeding 150 tariff lines) will have tariffs eliminated not later than 1 January 2012, as part of the flexibility provided in the modality. For Cambodia, Laos, Myanmar and Viet Nam, tariff elimination will have to be completed by 1 January 2015, with flexibility to eliminate tariffs on products not exceeding 250 tariff lines by 1 January 2018.

Sensitive Track: Products in this Track were further categorised as Sensitive (SL) or Highly Sensitive Lists (HSL) and will be subject to tariff reduction within the time frames specified in the Agreement. Tariffs of products in the

SL will be reduced first to 20%, followed by a subsequent reduction to the 0-5% tariff band. For those in the HSL, tariffs will be reduced to not more than 50%.

The ACFTA does not allow exclusion of products. The Rules of Origin for the ASEAN-China Free Trade Area follows a general rule of 40% regional value content, with a limited number of products subject to product specific rules.

**Free Flow of Services**

The Agreement on Trade in Services between ASEAN Member States and China, signed on 14 January 2007, is the second enabling Agreement under the 2002 Framework Agreement. It aims to liberalise and substantially eliminate discriminatory measures with respect to trade in services among the parties in various service sectors. By applying the GATS Plus principle, the level of liberalisation commitments under this Agreement would be considerably higher than the commitments made by participating countries under the General Agreement on Trade in Services (GATS) in the WTO. ASEAN and China embarked on a second round of negotiations in 2008 with the aim of substantially improving the first package of specific commitments. The Protocol to Implement the Second Package of Commitments under the Trade in Services Agreement is expected to be signed at the sidelines of the 14th ASEAN-China Summit in November 2011.

**Free Flow of Investment**

To promote and facilitate investment flows, ASEAN and China also signed an Investment Agreement in August 2009 in Bangkok, Thailand. The agreement, which went into effect in January 2010, aims to create a favourable environment for investors from ASEAN and China. The agreement stipulates key protection elements for ensuring fair and equitabletreatment for investors, non-discriminatory treatment on nationalisation or expropriation and compensation for losses. It also has provisions allowing for transfers and repatriation of profits in freely usable currency and provides investors recourse to arbitration to settle investor-state disputes.

**2. ASEAN-Japan Comprehensive Economic Partnership (AJCEP)**

The ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Agreement, which was signed in April 2008 and went into effect in December 2008, is comprehensive in scope and covers trade in goods, trade in services, investment and economic cooperation. As of 2010, ASEAN and Japan had a combined GDP of US$7.2 trillion, with total bilateral trade between ASEAN and Japan valued at US$203.9 billion, making Japan ASEAN’s third largest trading partner.

The AJCEP will help continue the momentum for further invigoration of trade and investment in the region by allowing more goods and services to reach ASEAN and Japanese consumers at lower prices through reduced or zero tariffs. Increasing the exchange of goods and services through a lowering of tariffs is expected to contribute to improved standards of living for both trading partners.

**Tariff Reduction and Elimination**

Under the terms of the AJCEP Agreement, Japan must eliminate 92% of its tariff rates based on tariff lines and trade value for goods in the Normal Track within 10 years of the Agreement’s entry into force (EIF). The ASEAN 6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and Viet Nam must eliminate 90% of its tariff rates based on the tariff lines and trade value for goods in the Normal Track within 10 years of EIF of the Agreement. For Cambodia, Laos and Myanmar, 90% of tariff rates based on either tariff line or trade value for goods in the Normal Track must be eliminated within 13 years of EIF.

For goods under the Highly Sensitive List, Sensitive List and Exclusion List, the modality varies and the tariff cuts were negotiated bilaterally between ASEAN Member States and Japan, taking into account the sensitivities of the parties.

**Rules of Origin**

Rules of origin (ROO) established under the AJCEP are aimed at encouraging regional cumulation of inputs that benefit both ASEAN industries and Japanese companies operating in ASEAN, including Mitsubishi, Toyota and other electronic companies with operations and huge investments in ASEAN countries.

The AJCEP’s ROO has a “general rule” of RVC (Regional Value Content) 40% or CTH (Change in Tariff Heading) that allows exporters and manufacturers to choose which rule to apply to make them eligible for the preferential tariff (lower or 0) tariff under the Agreement.

**Services and Investment**

The Trade in Services Agreement and the Investment Agreement are currently being negotiated and are targeted for completion in 2012.

**Dispute Settlement Mechanism**

A Dispute Settlement Chapter has been provided to address disputes that may arise from the TIG Agreement through consultations, good offices, conciliation and mediation, arbitral tribunal or any other relevant international agreement.

**Overall Benefits**

Japan’s total foreign direct investment (FDI) to ASEAN reached US$56 billion from 2002 to 2010. This is expected to grow as AJCEP continues to fuel investments, narrowing the economic divide between ASEAN and Japan.

**3. ASEAN-Korea Free Trade Area (AKFTA)**

In 2005, ASEAN and Korea signed the Framework Agreement on Comprehensive Economic Cooperation (Framework Agreement), leading the way to four more agreements that formed the legal instruments for establishing the ASEAN-Korea Free Trade Area (AKFTA).

Korea is now ASEAN’s fifth largest trading partner, with trade in 2010 valued at US$98.1 billion. Foreign direct investment flows from Korea into ASEAN in 2010 were valued at US$3.7 billion.

**Trade in Goods**

The ASEAN-Korea Trade in Goods (AK-TIG) Agreement signed in 2006, sets out the preferential trade arrangement in goods among the 10 ASEAN Member States and Korea, which principally involves tariff reduction and elimination for all tariff lines over a transition period. Since January 2010, Korea and ASEAN-5 (Brunei Darussalam, Indonesia, Malaysia, the Philippines and Singapore) have eliminated tariffs on almost 90% of Normal Track products.

The newer members of ASEAN — Viet Nam, Cambodia, Lao PDR and Myanmar — were granted a longer transition period for tariff reduction and elimination in recognition of their development status. For Viet Nam, at least 50% of tariff lines under the Normal Track will enjoy a 0-5% tariff rate by January 2013, and by January 2015 for Cambodia, Lao PDR and Myanmar (CLM).

Tariff lines enjoying the reduced tariffs rates of 0-5% will reach 90% coverage by 2016 for Viet Nam and 2018 for CLM. By 2017 and 2020 products under the Viet Nam and CLM’s Normal Track, respectively would have full market access, that is, at zero tariff. Thailand, which acceded to the AK-TIG in 2007, has a different schedule. Tariffs for products in the Normal Track would be reduced over a transition period and will be eliminated by either 2016 or 2017.

**Trade in Services**

The ASEAN-Korea Trade in Services (AK-TIS) Agreement, signed in 2007, provides the platform for further expanding market access for ASEAN and Korean service providers. Building on their existing commitments in the WTO under the General Agreement on Trade in Services (GATS), ASEAN and Korea both increased their commitments through the addition of new sectors and sub-sectors, easing restrictions on a wide range of service sectors including business, construction, education, communication services, the environment, tourism services and transport services.

**Investment**

The ASEAN-Korea Agreement on Investment (AK-AI) signed in 2009 aims to provide a transparent, facilitative and a more secure environment for ASEAN and Korean investors. The agreement includes provisions for: fair and equitable treatment and full protection and security of covered investments; transfers of funds relating to covered investments; and compensation in the event of nationalisation or expropriation of covered investments.

Since the agreement went into effect in 2009, ASEAN and Korea have continued to pursue the completion of built-in-agenda items, such as the development of market access commitments or schedules of reservations. ASEAN and Korea will hold discussions on these agenda items and plan to conclude discussions within five years from the agreement’s entry into force.

**Dispute Settlement Mechanism**

The ASEAN-Korea Agreement on Dispute Settlement Mechanism, signed in 2005, provides a mechanism for disputes that may arise from the free trade agreements through consultations, good offices, conciliation andmediation, arbitral tribunal or any other relevant international agreement. (The Dispute Mechanism Settlement Mechanism does not apply to specific Articles under Trade in Services, Investment, Economic Cooperation and Other Areas, as well as Annex on Economic Cooperation.)

**4. ASEAN-India Free Trade Area**

The ASEAN-India Trade in Goods (AITIG) Agreement was signed in 2009 and went into effect in January 2010, paving the way for the creation of one of the world’s largest free trade areas. The ASEAN-India market comprises1.8 billion people with a combined GDP of approximately US$3.28 trillion, as of 2010. ASEAN-India trade was valued at US$55.3 billion in 2010, making India ASEAN’s sixth largest trading partner.

**Free Trade in Goods**

The AITIG provides for a progressive tariff reduction and/or elimination of originating goods (subject to compliance with the rules of origin) traded for the 10 ASEAN Member States and India. Under the Normal Track, tariffs imposed by Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand and India will be eliminated by 2016. Tariffs imposed between the Philippines and India under the Normal Track will be eliminated by 2019. A longer time frame has been granted for Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) to eliminate tariffs of goods under the Normal Track.

Under the Sensitive Track, goods with applied most-favoured-nation (MFN) rates of above 5% will be reduced to 5% by 2016 for Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand and India; 2019 for the Philippines and India; and 2021 for Cambodia, Lao PDR, Myanmar and Viet Nam.

The AITIG also provides for different tariff rates for special products, such as crude and refined palm oil, coffee, black tea and pepper. There are also goods placed under the highly sensitive lists and exclusion lists, subject to an annual review in keeping with efforts to improve market access for these products.

A general rule of RVC (Regional Value Content) 35% + CTSH (Change in Tariff Sub-Heading) is applied as the criterion for goods to be considered as originating and eligible for preferential tariff treatment. Product specificrules are being negotiated to provide alternative rules for certain products and sectors.

**Services and Investment**

Negotiations on services and investment agreements are completed in 2012.

**5. ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)**

The Agreement establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) aims to integrate 12 markets into a single market of 625 million people with a combined GDP of US$2.61 trillion and a trade value of US$62.3 billion, as of 2010. The AANZTA was signed in 2009 and went into effect in January 2010.

Despite the global financial crisis and the decline of global foreign investment flows, total level (or stock) of foreign direct investment (FDI) from Australia-New Zealand in ASEAN has continued to grow.

The AANZFTA Agreement is the first plurilateral agreement for both ASEAN and Australia. (New Zealand has a plurilateral agreement with Brunei, Singapore and Chile). It is also the first region-to-region engagement for ASEAN and the first agreement that Australia and New Zealand have jointly negotiated. The agreement covers trade in goods and services, electronic commerce, investment, dispute settlement mechanism and specific provisions on customs procedures, sanitary and phytosanitary (SPS) measures, standards and technical regulations, intellectual property rights and competition.

**Obligations under the AANZFTA Agreement**

ASEAN Member States, Australia and New Zealand are bound by the AANZFTA Agreement to progressively liberalise tariffs since the Agreement went into effect in 2010 and to eliminate tariffs on at least 90% of all their tariff lines within specific timeframes. They have also agreed to liberalise barriers to trade in services and allow for greater market access for services suppliers. [The implementation of the AANZFTA by individual AMS is at different periods according to the time taken for the agreement to be converted to domestic regulation. The entry into force is counted when Australia, New Zealand and an AMS start to enforce. To-date, Indonesia has not enforced the Agreement.]

The AANZFTA Agreement provides for the free movement of people engaged in trade and investment activities in the region and provides protection for investments, including compensation for losses, transfers relating to profit and capital, and transfer of rights or claims to investments. Under the terms of the agreement, ASEAN, Australia and New Zealand have also agreed to facilitate the movement of goods by implementing specific provisions on rules of origin, customs procedures, sanitary and phytosanitary (SPS) measures and standards, technical regulations and conformity assessment procedures.

Schedules of specific commitments in relation to trade in goods (tariffs), trade in services (including financial services and telecommunication services) and movement of natural persons are annexed to the AANZFTA Agreement.

**Benefits of the AANZFTA Agreement**

The AANZFTA Agreement opens up business opportunities in ASEAN, Australia and New Zealand. It allows greater market access for exporters and manufacturers in the region, promotion of economies of scale in production, opportunities for networking and enhanced collaboration among economic operators in the region. AANZFTA aims to create a business environment that promotes certainty, predictability and transparency, so that economic operators are assured that commercial activities will not be unnecessarily interrupted or disrupted.