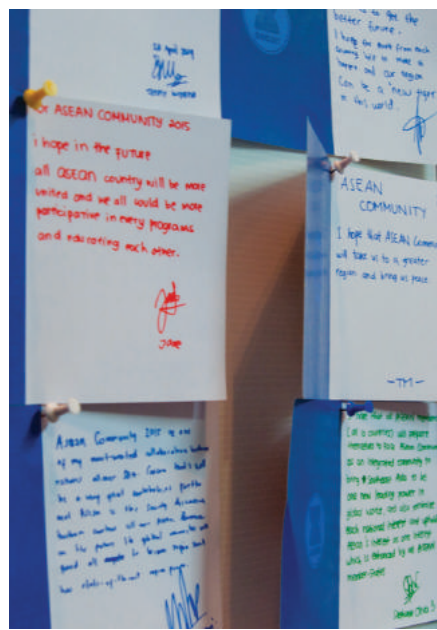




ESSAYS: MINISTERS AND SENIOR OFFICIALS







ASEAN Free Trade Agreement: A Major Milestone in the 50 Years of ASEAN



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In its 50 years of existence, ASEAN has had a number of milestones. Its decision to adopt the ASEAN Free Trade Agreement (AFTA) in January 1992 was a major milestone that ASEAN reached, after which the process of ASEAN's becoming a community was accelerated, and was reached in 2015.

How ASEAN got to the AFTA milestone is the subject of this essay.

ASEAN was set up in 1967 mainly for political reasons. It was meant to be an institution to prevent communism from spreading to Southeast Asia. Economic cooperation was minimal at first.

At the end of the Viet Nam War in April 1975, with the Socialist North Vietnam having won the war, the ASEAN-5 held a summit in Bali, Indonesia, in 1976, followed by another summit in 1977 in Kuala Lumpur, Malaysia. At these summits, economic cooperation schemes were highlighted, as ASEAN was expected to be more unified by stronger integrated economies. The Preferential Trading Arrangements and the ASEAN Industrial Projects were two of the schemes adopted. But not much came out of these schemes after 1977.

Then the oil crisis hit the world in 1979, with most economies adversely affected by the high oil prices, particularly the United States (US) as it was the world's biggest importer of oil at that time. Most countries, including in ASEAN, experienced slow growth in the early 1980s. Drastic changes happened in the world economy, culminating in the major realignment of exchange rates – particularly between the US dollar and the Japanese yen and German mark – in what is known as the Plaza Accord of September 1985.

During this period, the ASEAN governments decided to strengthen ASEAN by means of cooperation, so it could be more competitive in terms of trade and investment. The ASEAN Task Force was created in 1985, composed of three members from each ASEAN country. I was part of a three-member team from Thailand. Another member from Thailand was Khun Anand Panyarachun, who was invited to head the task force.

The task force spent about 6 months conducting the study, travelling, and consulting with all parties and stakeholders before it came up with a report in 1986 with a number of recommendations. One of these was the proposal for an ASEAN Free Trade Agreement. The report was to be discussed at the ASEAN Manila Summit in 1987. But the People Power Revolution in the Philippines in 1986 resulted in the summit being the shortest ever, leaving no time to discuss the report.

From 1988 to 1990, the recommendations included in the Task Force Report were discussed, but not much action was taken.

Then a historical accident occurred in February 1991 in Thailand: a coup d'état to take over the power from the elected government of Prime Minister Chatchai Choonhavan. The coup d'état might not be an accident, but what followed could be viewed as an accident as far as ASEAN was concerned.

The junta, having taken power but not wanting to run the country, invited Khun Anand Panyarachun, the head of the ASEAN Task Force, to be the next Prime Minister.

In July 1991, Prime Minister Anand and Singapore Prime Minister Goh Chok Tong in a meeting came up with the idea of AFTA. At that time, ASEAN was in the process of liberalising trade by using the concept of the Common Effective Preferential Tariff (CEPT) and avoiding the use of the words 'free trade'.

Thailand was to lead the move to set up AFTA and Prime Minister Anand appointed a team headed by Minister of Finance Suthee Singhasaneh to do the job. The reason for his selection was that if the ministry he was heading did not agree with the idea of reducing tariff rates, then there would be no free trade.

The team first developed the AFTA concept paper before spending the month of September in 1991 travelling through ASEAN capitals to seek support for the idea. We met Deputy Prime Minister Lee Hsien Loong of Singapore, Trade and Industry Minister Rafidah Aziz and Finance Minister Anwar Ibrahim, both of Malaysia; Finance Minister Jesus Estanislao of the Philippines; and Trade Minister Arifin Siregar and Minister Coordinator Hartarto, both of Indonesia. Everywhere, the meetings were easy and smooth, except in Indonesia where a little bit of persuasion was needed. Minister Hartarto did not like the concept of free trade at first, preferring instead the CEPT. I then presented AFTA with the CEPT, by defining the CEPT rates of 0%–5% to be free trade rates. Member countries were to reduce their tariff rates to 0%–5% in 15 years with the option of timing. The ones starting late would have fewer years to go down to 0%–5%. Still, no one agreed to the use of 'free trade'.

The ASEAN Economic Ministers Meeting in Kuala Lumpur on 7–8 October 1991 was to make the final decision whether to accept AFTA. I was to present the proposal, with emphasis on the words ‘free trade’. After my presentation, Minister Rafidah, who chaired the meeting, asked Minister Hartarto for his comment, particularly on calling the agreement AFTA. After a brief but suspenseful moment, he answered, ‘Indonesia agrees’. The rest is history.

AFTA was entered into officially at the Singapore ASEAN Summit in January 1992, only 7 months after the initial meeting between Prime Minister Anand and Prime Minister Goh. When its implementation was started in 1993, AFTA’s time frame was eventually shortened from 15 to 10 years. Now AFTA is in full operation, with flexibility allowed for ASEAN’s new members, which are Cambodia, Myanmar, Viet Nam, and the Lao People’s Democratic Republic. The agreement became a unifying factor for the ASEAN-10.

In retrospect, AFTA came into being not just because it was a historical accident. The global trade environment was moving towards multilateral trade liberalisation at that time. The General Agreement on Tariffs and Trade–Uruguay Round which began in 1986 was approaching conclusion by 1991. So, ASEAN, having to go along with the Uruguay agreements, had to be prepared. AFTA was a natural testing ground for multilateral trade liberalisation.

Another factor for AFTA’s success was the ASEAN leadership at the time. It was the era of strong leadership in Indonesia. As I often observe, ASEAN can go only as far as Indonesia allows it to go. So, when Minister Hartarto said ‘Indonesia agrees’, the rest became history. But what made him utter those words on 8 October 1991 in Kuala Lumpur remains a mystery.

ABOUT THE AUTHOR

Narongchai Akrasanee, a Thai economist and technocrat, is known for his continuous involvement in the economic development of Thailand in many capacities, and in the affairs of ASEAN and the Asia-Pacific Economic Cooperation (APEC) forum.

He held a number of positions in the Thai government, including as Advisor to several Thai Prime Ministers, Minister of Energy, Minister of Commerce, Senator, and Member of the National Legislative Assembly.

He has worked on ASEAN and APEC affairs all along, being an initiator of the ASEAN Free Trade Area and the APEC Leaders Meeting. He has also served as the Chairman of the Thailand Committee for the Pacific Economic Cooperation Council.

In the private sector, he is on the board of several publicly listed companies in Thailand, including MFC Asset Management Plc. and Ananda Property Development Plc., and he is an Independent Non-executive Director of AIA Group Limited, Hong Kong.

He served as a member of the board of many Thai public institutions including the National Economic and Social Development Board, Board of Investment, Bank of Thailand, Securities and Exchange Commission of Thailand, and the Insurance Commission. He was also Chair of the Export-Import Bank of Thailand.

Holder of a PhD in economics from Johns Hopkins University, he has a keen interest in education and research. He is the founding member of the Thailand Development Research Institute and is Chair of the Khon Kaen University Council.