



**TDRI** Quarterly  
Review

Published in *TDRI Quarterly Review*  
Vol. 9 No. 2 June 1994, pp. 3-6  
Editor: Linda M. Pfothenhauer

## Deputy Prime Minister Supachai Panitchpakdi Opens TDRI Conference on AFTA

***H.E. Deputy Prime Minister Dr. Supachai Panitchpakdi delivered the inaugural address at a TDRI conference on "AFTA and Beyond. An ASEAN Perspective," held April 27 to 28, 1994 at the United Nations Conference Center in Bangkok. Nineteen speakers from Asia, North America, Australia and the Economic Union presented papers and held discussion sessions on the role of the ASEAN Free Trade Area (AFTA) in uniting ASEAN countries and helping them become more integrated into the world economy. Over 180 people attended the conference. It was organized by TDRI in collaboration with Queen's University, Kingston, Canada, with the assistance of the Economic and Social Commission for Asia and the Pacific (ESCAP). Primary funding sources were the Canadian International Development Agency (CIDA), the United Nations Development Program and General Finance and Securities Company, Ltd. (GF). Below we reprint Dr. Supachai's speech, entitled "AFTA and Beyond: Visions and Issues."***

**Canadian Ambassador to Thailand,  
Deputy Executive Secretary of ESCAP,  
President of TDRI,  
Distinguished Professors and Guests,  
Ladies and Gentlemen,**

It is an honor and a privilege for me to be invited to address this prestigious international conference before distinguished academics and an audience from many parts of the world. The topic of the conference is close to my home—"AFTA and Beyond: An ASEAN Perspective." As I read through the program, I was glad to learn that the progress and the future of AFTA have been pressing concerns of many leading professors from more than 10 countries who will be speakers or commentators during the next two days.

My assignment is to provide "visions" or future scenarios for AFTA and to spell out the issues that AFTA members should carefully consider to ensure that AFTA will be an effective forum in a rapidly changing world economic environment.

I should like to start my talk by first focusing on what I believe to be new developments in international trade, especially after the signing of the final draft of the Uruguay Round (UR) of Multilateral Trade Negotiations at Marrakesh, Morocco. The ASEAN country officials who formed AFTA strictly abide by the GATT principles of non-discrimination. Therefore the progress of GATT, the conclusion of UR and the formation of the World Trade Organization (WTO) will very much influence the current and future directions of AFTA. After laying out the general background and describing recent changes in the world trade system, I will discuss AFTA's current status and its future development.

**Distinguished Guests,**

The conclusion of the UR calls for a note of optimism. It represents a ray of hope that in the future the world trade system will be based on general rules and regulations that will be applied to and upheld by all member countries, big or small. In addition, the WTO will basically be the core institute where trade disputes can be resolved with fairness, based on the principles of GATT, to which most countries have long

adhered.

The content of the UR final draft is, however, far from perfect, even though its realization took seven years of arduous talks and negotiations. In general, the final draft shows a compromise solution where every party is bound to find advantages and disadvantages. But, to be more precise, more advanced countries are likely to gain more from the draft proposal than less developed countries. For example, the Intellectual Property Rights Protection Act will solely benefit the developed countries, especially in the short term, as the ownership of most pattern and property rights belongs to companies in developed countries. Similarly, the opening up of the service sectors also gives clear advantages to the developed countries, as they have more experience and scale advantages in providing such services. On the other hand, benefits to the less developed countries are unfortunately rather limited. The issue of agricultural market liberalization has been very much watered down. If there had been no pressure from the group of agro-based countries at the final stage, in particular the Cairns Group, the conclusion on liberalizing agricultural markets might have been much less meaningful.

The situation is the same in the case of textiles. Less developed countries will have to wait another 10 years before the sector can be fully liberalized. This "unbalanced gain," inherited from the UR, will undoubtedly influence the direction of the regional groupings of the less developed countries. On the one hand, they may have to assist each other more in future trade negotiations. On the other, regionalism might still remain popular in spite of the victory of multilateralism, purely because of the need to strengthen their negotiation position through the group's solidarity.

With regard to the WTO, which is expected to be ratified by all GATT members by the end of this year, the gesture shown by the super economic powers—the European Union and the United States—does not bode well for the future of the organization. France remains persistent in continuing to use non-tariff barriers, most recently in halting imports of fishery products from some ASEAN countries. The U.S. insists on keeping the set of section 301 laws of unilateral action and proposes to link the "labor and environmental clause" with the trade issue. In this case, Thailand, as well as ASEAN, believe that the workers' rights and labor standards are not issues in which GATT should be involved. The labor rights issue, for example, can be more properly addressed by other relevant organizations, such as the International Labor Organization (ILO). Indeed, more trade restrictions on those countries which have low labor standards could in effect end up harshly penalizing the workers themselves. In contrast, if the United States focuses on opening up more markets for agriculture and labor-intensive manufacturing products, this could directly benefit farm and factory workers, as their working conditions and income will surely be improved.

### **Ladies and Gentlemen,**

Besides the work that GATT and WTO must accomplish to help make the multilateral negotiations the core of the world trade system, they would at the same time have to make regional groupings more supportive of the non-discrimination principle, hoping that in the long term all markets would be combined into one. Regarding regional groupings, the minimal measures for GATT's new framework are as follows:

First, GATT should consistently require regional blocs to be more outward-looking—to really open itself up to new members, while membership requirements should be clearly spelt out. At least the rules and regulations for being an associate member must be publicly stated.

Second, GATT as well as members of the regional blocs should eliminate or minimize the "exceptions to rules." The AFTA exclusion list, for example, should be reconsidered from time to time and the normal tract and exclusion time frame should be shortened whenever possible.

Third, GATT should assist in the establishment of linkages between regional groups.

Fourth, GATT should provide some form of financial assistance to facilitate the transition process and to help increase production efficiency.

Finally, there should be a standard range of commodities in forming a regional grouping. GATT should urge every group to cover as wide a range of commodities as possible in forming the free trade area.

### **Distinguished Guests, Ladies and Gentlemen,**

The recent changes in the world economic environment indicate two important trends. First, multilateral trade negotiations are now regaining momentum. Some modifications are needed to make WTO more effective in carrying out the GATT principles of non-discrimination and reciprocity; however, we have hope that major trade disputes between countries and between blocs which might jeopardize the future trade system could be resolved within the framework of WTO with mutual understanding and under common rules and regulations.

Second, the WTO will gain full support from the less developed countries (LDCs) and small economies and countries outside NAFTA and EU. ASEAN has long preferred multilateral to bilateral negotiations and will do its best to enhance the role of WTO. By doing so, it is ASEAN's task to prepare AFTA for a new environment and to take this opportunity to adjust AFTA, in principle and in practice, in line with UR's framework. ASEAN should also be mindful to prod WTO to work in a way which benefits ASEAN the most.

Every ASEAN member agrees that AFTA must be modified to speed up its progress on trade liberalization; it should, for example, cover more commodities in the original inclusion list for tariff reduction. The following are the immediate tasks which I believe ASEAN should consider if member countries want to keep AFTA at the forefront with other regional cooperation schemes.

First, AFTA's time frame needs to be shortened. The 15-year trade liberalization period is already too long when compared to GATT and NAFTA, which have both set a maximum trade liberalization period of 10 years. Moreover, WTO will impose stricter discipline and require strong justification for regional groupings which require more than a 10-year time frame. If AFTA can agree on measures to facilitate the adjustment process, such as the "AFTA adjustment fund," the faster pace of liberalization would probably only give us more benefits in terms of enhancing ASEAN's economic competitiveness and accelerating local and foreign investment within the region. Regarding the time frame, the five year reduction for the normal tract (from 15 to 10 years) and the three year reduction in the exclusion period (from eight to five years) could be acceptable and considered to be appropriate.

Second, considering the comprehensive coverage of UR commodities, the list of AFTA commodities should be expanded. At present, non-processed agricultural products are excluded from the list. This may no longer be appropriate in view of their inclusion in GATT. Moreover, in NAFTA, most of the agricultural exports between the U.S. and Mexico will be subject to zero tariff within five years. If exclusion from the agricultural sector is maintained, it will not only render the AFTA initiative less liberalizing than those of GATT and NAFTA, but it may also jeopardize ASEAN attempts to become a leader in agricultural negotiations in the next round of multilateral negotiations under the WTO.

ASEAN should also continue to reduce products on the exclusion list, keeping the list minimized as much as possible. At present, there is a positive tendency by some countries to reduce the number of commodities on their exclusion list, while other members have 600 or more listed items. The industries in which ASEAN should be able to competently compete in the world market, for example, the petrochemical industry, should be reviewed and serious discussions should be held to remove them from the list.

Third, the tariff scheme and the local content requirement comprise other important considerations. When AFTA was launched in January 1992 at the ASEAN summit in Singapore, prospects were grim for the conclusion of the UR, and we had incomplete information about the future of other free trade areas. No doubt the tariff reduction and local contents requirement, which were ambitiously agreed upon at that time, would not have been well suited for the situation in 1994. The situation has evolved faster than we had anticipated and it is now time to reconsider and readjust such details. On the minimum tariff rate, the current 0 to 5 percent tariff reduction is high relative to the rate of other free trade areas. In this case, we

might aim for a zero tariff rate. On the local content rules, in order to be consistent with the text in the agreed Trade-Related Investment Measures (TRIMs), we may need to review the cumulative local content rules, as well as the substantial transformation principle in the textile and apparel sectors.

Finally, it has become increasingly evident that subregional cooperation is an effective instrument to strengthen economic cooperation within the context of free trade areas, and to help redistribute income to the regional areas. In the future AFTA should play a greater role in initiating and facilitating the formation of intraregional economic cooperation schemes, such as the Indonesia-Malaysia-Thailand Growth Triangle Project.

### **Ladies and Gentlemen,**

I have outlined what I believe to be AFTA's immediate task—to catch up with the new world economic environment. However, I believe that merely passively adjusting to a changing environment is not enough to bring AFTA to its maximum potential. After all, AFTA is one of the leading country groupings that will help shape the future of the new world economic order. It must be strong enough to bargain on an equal footing with other advanced countries. We must always form a "forward looking strategy" to increase AFTA's strength.

I always urge ASEAN members, as well as people with whom I come into contact, like the distinguished audience today, to think of AFTA in dynamic rather than static terms. International trade is by nature dynamic; this is the case for AFTA too. If we recall the prime objectives of AFTA—to expand our market size, to unleash our market forces, and to enhance our competitiveness in the world market—there is no reason why we cannot link AFTA with other free trade areas or regional economic groupings. Moreover, to expand AFTA is to confirm to the world that the ASEAN philosophy on international trade is truly based on an "open concept," and not disguised protectionism. We must also remember that the AFTA we helped create is consistent with the GATT principles of non-discrimination. This implies that we must do our best to link AFTA to the world market.

I would like to stress again that ASEAN members should not be afraid of competition. New participants can expand the market, help increase investment and raise our competitiveness. This in turn will create the conditions for AFTA to grow.

### **Distinguished Participants,**

I believe this a good time to consider the "open concept," to study the possibility of AFTA's future expansion and to discuss opportunities to establish links with other regional groupings. I would like to inform you that at the Marrakesh meeting, where the UR was concluded, ASEAN was approached by Sir Leon Brittan to discuss the possibility of a closer relationship between EU and AFTA. The United States, as a representative of NAFTA, followed suit. This is not to mention the Prime Minister of Australia's expressed interest in enhancing economic cooperation with ASEAN.

This "open concept" is one important step in helping prepare AFTA to become a strong supporter of the WTO. By expanding linkages, especially with countries in the same geographical area as AFTA members (for example, Australia and New Zealand), there will be a chance to shape the WTO agenda. In fact, we must not only appreciate countries which express an interest in moving closer to us, but we must also look for countries which share common principles with us. This can increase AFTA's negotiation strength and enable it to identify suitable alliances.

We should also bear in mind that without AFTA each country's individual economy is small, in fact too small to shape productive expertise, not to mention negotiation power, which is becoming increasingly important in today's global trade scenario. By combining our economies to create an organization such as AFTA we gain sizeable economic momentum in trade and investment relocation and in bargaining power. Therefore, there are no grounds to the argument that open regionalism could weaken AFTA's strength. On the contrary, I believe that if we are careful enough in expanding AFTA step-by-step, it could become in the

near future one of the most powerful and highly respected economic cooperation schemes in the world.

**Ladies and Gentlemen,**

In conclusion, may I take this opportunity to wish the organizers—TDRI, Queen's University and ESCAP—every success in this conference. Reviewing the list of speakers, I trust that all participants will gain enormously from the new ideas and valuable information to be passed on to them today. This will help all of us to determine future trends and directions for the continuing fruitful development of AFTA—and its realization of greater accomplishments in the years to come.

**Thank you.**

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