

## CHAPTER 5

### THE OPPORTUNITIES FOR AFTA

The challenges from both the political and economic perspectives are balanced by a whole range of opportunities, keeping in view the level of cooperation achieved by other regional organizations.

The member countries of AFTA possess resources, as well as expertise, which if properly harnessed can transform the quality of life of their people. However, the critical factor in exploiting the potential for intra-regional trade and integrated development is not so much the resources available but that of political will. As for now, the intra-regional trade among the members is a very small percentage of their total trade.

With the establishment of AFTA, the members predicted that their markets can be integrated which consequently help them to benefit from the economies of scale. With the realization of an effective system of complementation, ASEAN will emerge as an attractive region for foreign investment. In addition, the reduction of high tariffs will facilitate trade in intermediate products and encourage an international division of labor in industrial production within ASEAN.

Currently, ASEAN'S share of the net Foreign Direct Investment (FDI) flow to the developing world and in the Asian region has declined dramatically

since 1990. The formation of trade blocs such as EU, NAFTA and coupled with global trends of unilateral investment liberalization program from formidable FDI competitors, contribute to the weakening of ASEAN'S FDI position. The fear of Fortress Europe and Fortress NAFTA has led many investors to take advantage of investing in these regions before the doors are closed to them. Besides that, ASEAN is losing out their investment flows to countries like China, India and other developing economies. These countries are replacing ASEAN in offering lower cost for labor in industries where intensive labor are required. Table 4.8 below portrays the movement of FDI from 85-93 in developing countries.

**Table 4.8**  
**Distribution of Foreign Direct Investment**  
(in US \$ million and percentage)

	1985-89	90	91	92	93
FDI to the developing Countries	87,078	31,691	39,960	51,308	70,058
FDI to the developing Asian Region	45,824	18,380	20,938	29,395	44,935
FDI to the developing Countries (ASEAN share)	28%	37%	31%	27%	21%
FDI to the developing Asian region (ASEAN share)	53%	63%	60%	47%	32%

Source: ASEAN Secretariat

The table above shows that ASEAN's share of the total flows to

developing countries declined from 37% in 1990 to 21% in 1993. In addition, ASEAN experienced about 100 percent decline in the percentage share of FDI flows to the developing Asian region. Thus, to stop the deteriorating situation of the FDI flows, AFTA is formed. With the formation of AFTA, it is predicted that the FDI flow will shift back to the region. Since the role of FDI has helped in promoting and facilitating rapid growth and industrial development in promoting industrial development in ASEAN. The huge amount of FDI is needed to sustain the economic growth of each member country.

Another opportunity that will be created with the formation of a free trade area in the region is that the increased volume of intra-ASEAN trade. It is expected that AFTA will create a larger internal market which will allow specialization of production. With the formation of AFTA, ASEAN can move ahead with the existing schemes of cooperation and to explore new avenues of cooperative endeavors without having to face clear and present dangers from one another and from outside the region. Members of ASEAN can take the advantage of importing from another member countries instead of producing the product itself which is more expensive.

Even though the opportunities are tremendous, the future and viability of AFTA will depend on the political will of the regional leaders to make AFTA a successful free trade area. The members should pursue the region's economic interest rather than national economic interest. In other words, a

lot of sacrifices would be required if AFTA is to reap the opportunities available in the region.

### The Viability and Future of AFTA

When AFTA is established, it will be the largest economic alliance in the world comprising of seven countries with a population of 420 million. Despite its low technological and industrial development if the region were to be compared with NAFTA and EEC, it has abundant of natural resources. The region is located in a very strategic location. The straits of Malacca is the crossroad that link Europe, Africa and West Asia with the Asia Pacific region. Therefore, it is in everyone's interest to maintain peace and order within the region. Many of the western powers and Japan believe that to maintain peace and order, the neighbouring countries have to experience economic prosperity.

However, in its quest to become a viable and vibrant vehicle of regional economic development, AFTA has to resolve the dilemma of conflicting national and regional interest.

From the discussion above, it can be deduced that all the member states of ASEAN have several motives for establishing a free trade area. One particular motive that could be identified is to use AFTA as an instrument of foreign policy to achieve certain foreign policy goals and objectives that otherwise are very difficult to attain.

This obviously will not be forthcoming without a strong political commitment. In the absence of this collective will and commitment, AFTA might run the risk of becoming a hamstrung and full of empty promises and wasting hard earned national incomes of the member nations.

### Recommendations

In addition to the tariff barriers, ASEAN's member need to solve the problem of non tariff barriers in order to ensure the effectiveness of AFTA. Some of the recommendations for AFTA are as follows:

- \* Harmonization of physical and technical barriers - including custom nomenclature and procedures; technical norms; industrial standards; environmental and safety regulations; labor regulation; and transportation systems.
- \* Harmonization of fiscal and financial barriers- including taxes and subsidies; duty drawback systems; foreign exchange systems and exchange rate policies; credit and interest policies.
- \* Harmonization of the rules of competition, especially as they relate to the highly protected public sector in many ASEAN countries which were usually reserved for state-owned enterprises and well connected business groups.
- \* And finally, the establishment of a mechanism for dispute

settlement - in effect, an ASEAN court of justice since conflicting interpretation of AFTA rules and regulation is bound to rise with increasing intra-ASEAN trade.<sup>37</sup>

## **CONCLUSION**

This thesis has analyzed AFTA's problem, prospects and the regional issues of significant importance to further economic integration. The conclusion that can be drawn from the analysis is that without significant improvements of lessening the economic and political rivalries among the members, the realization of AFTA as an international economic bloc would not be possible. Economic history has shown that the general attempts of integration among developing countries have met with only mediocre success, and most such arrangements have collapsed within a decade of initiations.<sup>38</sup>

Therefore, in order to achieve the objectives of creating AFTA, all the member countries have to put aside their national interest. All of them are required to strive towards achieving the regional interest instead. A strong political will are needed from each of the member states in order to ensure that AFTA will become an effective economic regional integration. Without a strong

---

<sup>37</sup>Janadas Devan. *Southeast Asia: Challenges of the 21st Century.* (Singapore: Institute of Southeast Asian Studies, 1994) 33

<sup>38</sup>Beth V. Yarbrough and Robert M. Yarbrough. *The World Economy: Trade and Finance.* Third Edition (Chicago: The Dryden Press, 1991) 38.

**political will, AFTA will be just another futile trade area in the world.**

Abu Samah, Azhar. "Afta 2003 Sasaran Asean," *Berita Harian*, 15 September 1995.

*Annual Report of the ASEAN Steering Committee, 1986-88.*

Balassa, Bela. *The Theory of Economic Integration* (Boston: George Allen and Unwin, 1973), 70.

Bennett, A.LeRoy. *International Organization: Principles and Issues, Fifth Edition.* (Englewood Cliffs, New Jersey: Prentice Hall, 1991) 1.

Broinowski, Alison ed. *ASEAN into the 1990s.* (London: Macmillan Press Limited, 1994)

Chee, Peng Lim and Suh, Jang-Won. *ASEAN Industrial Co-operation: Future Perspectives and an Alternative Scheme.* (Kuala Lumpur: Asian and Pacific Development Center, 1988)

Chia Siew Yue and Cheng Bifan eds. *ASEAN-China Economic Relations: in the Context of Pacific Economic Development and Co-operation.* (Singapore: Institute of Southeast Asian Studies, 1992)

Chong, Li Choy. *Open Self-Regulation: Hopes for ASEAN's Development.* (Singapore: Institute of Southeast Asian Studies, 1991)

Crone, Donald K. *The Asean States: Coping With Dependence.* (New York: Praeger Publisher, 1983)

Crawford, Peter. *The Background of AFTA.* New Zealand Manufacturer, November 1994

Dalton, Michelle. *ASEAN Show Potential, But Beware of Pitfalls.* Global Trade and Transportation Vol 114, August 1994, p.15-18

"Declaration of ASEAN Concord," *10 Years ASEAN* (Jakarta: Indonesia Association of South East Asian Nations, 1978) 111

Devan, Joramitra. *An Inter-Country Analysis of the ASEAN PTA: Ex Post and Ex Ante.* (San Arbo: University Microfilms International, 1987)