

# GENERAL AGREEMENT ON

# TARIFFS AND TRADE

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## ASEAN PREFERENTIAL TRADING ARRANGEMENTS

### Report Submitted by the ASEAN Contracting Parties

The following communication, dated 21 October 1992, concerning a report on trade co-operation among ASEAN member countries, has been received from the Permanent Mission of the Philippines for the information of contracting parties.

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### Trade Co-operation Among the ASEAN Member States Report Submitted by the ASEAN Contracting Parties

On behalf of the ASEAN contracting parties, namely Indonesia, Malaysia, the Philippines, Singapore and Thailand, I wish to transmit herewith a report on trade co-operation among ASEAN member countries for the information of the contracting parties.

In pursuance of the Decision of the CONTRACTING PARTIES of 28 November 1979, the Report is brought to the attention of the Committee on Trade and Development, as it is entrusted with the responsibility of reviewing the implementation of the Enabling Clause.

REPORT ON THE TRADE CO-OPERATION AMONG  
ASEAN MEMBER STATES

1. Introduction

Since its inception more than twenty years ago, trade co-operation in ASEAN has led to trade liberalization among ASEAN Member States, as well as between ASEAN individual members and the rest of the world. Empirical evidence clearly indicates that programmes and measures adopted by ASEAN in its co-operative effort create and expand the trade of each ASEAN Member States with their trading partners world wide.

On 24 February 1977, the Governments of the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore, and the Kingdom of Thailand, signed the Agreement on ASEAN Preferential Trading Arrangements (PTA), with a view to promoting economic development through a continuous process of trade expansion among the Member States of ASEAN. Brunei Darussalam acceded to the PTA on 8 December 1987. At its session on 29 January 1979, the CONTRACTING PARTIES, bearing in mind the provisions of Part IV of the General Agreement, adopted the Report of the Working Party on the Agreement and decided that, notwithstanding the provisions of Article I of the General Agreement, the PTA may be implemented and any modifications pursuant to the PTA be notified.

On 28 November 1979, the CONTRACTING PARTIES adopted the Decision on Differential and More Favourable Treatment Reciprocity and Fuller Participation of Developing Countries or the Enabling Clause, which applies, *inter alia*, to regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs on products imported from one another. The CONTRACTING PARTIES have since then followed the development and the implementation of the Enabling Clause through the Committee on Trade and Development.

Subsequently and in pursuant to paragraph 4(a) of the Enabling Clause, the Member States of ASEAN, which were also the contracting parties to the General Agreement, had periodically submitted reports on the implementation of the PTA to the Committee on Trade and Development. Following such practice, this Report is intended to provide further information on trade under ASEAN trade arrangements and the changes thereof up to 30 June 1992.

2. International trade of ASEAN countries during 1987-89

Table 1 shows the value of imports under the PTA by ASEAN countries from other ASEAN Member States during the period of 1987-89. Table 2 shows, on the other hand, the value of imports by ASEAN countries from the rest of the world. Although there has been a consistent improvement of intra-ASEAN imports, the volume of these imports constituted a small proportion of ASEAN's imports from the rest of the world. These figures confirm the fact that trade co-operation among ASEAN countries has not resulted in common impediments to trade from countries outside ASEAN.

Table 1: Intra-ASEAN Imports Under the PTA

(unit: US\$'000)

Importing countries	Value		
	1987	1988	1989
Indonesia	15,258	27,138	27,840
Malaysia	28,868	78,786	280,207
Philippines	19,775	13,517	30,650
Singapore	35,970	51,180	69,887
Thailand	21,532	30,981	169,652
ASEAN total	121,403	201,602	578,236
% changes		66	186

Table 2: ASEAN Imports From the Rest of the World

(unit: US\$ million)

Importing countries	Value		
	1987	1988	1989
Indonesia	12,850	13,489	16,467
Malaysia	12,701	16,567	22,589
Philippines	6,937	8,659	11,171
Singapore	32,626	43,814	49,694
Thailand	12,998	19,903	25,373
ASEAN total	79,397	103,685	126,788
% changes	28	31	22

3. Agreement on the Common Effective Preferential Tariff Scheme (CEPT) for the ASEAN Free Trade Area (AFTA)

Recognizing the importance of trade liberalization efforts pursued in various trade negotiating fora, ASEAN Member States agreed on 28 January 1992 to put into effect the Agreement on the Common Effective Preferential Tariff Scheme (CEPT). The main objective of the Scheme is to effect improvements on the PTA with a view to achieving the ASEAN Free Trade Area in the future. Based upon the spirit and principles of trade liberalization inherent in the PTA, the Scheme is designed to deepen trade liberalization among ASEAN Member States at a faster pace and at the rate consistent with the general commitments of ASEAN in the Uruguay Round negotiations. A copy of the Agreement appears in Annex 1 of this report.

The basic thrust of the CEPT is to forge a reduction in tariffs collected by each ASEAN Member State from trade in products originating from other Member States. Built upon the PTA, ASEAN plans to reduce tariff rates on the importation of all manufactured products to about 0-5 per cent within fifteen years. The manufactured products covered by the Scheme include capital goods and processed agricultural products. ASEAN does not plan to include agricultural products in the Agreement.

According to the Agreement, each Member State will prepare a schedule of tariff reductions for implementation starting on 1 January 1993.

ANNEX 1

Agreement on the Common Effective Preferential Tariff (CEPT) Scheme  
for the ASEAN Free Trade Area (AFTA)

The Governments of Brunei Darussalam, the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore and the Kingdom of Thailand, Member States of the Association of South Asian Nations (ASEAN):

MINDFUL of the Declaration of ASEAN Concord signed in Bali, Indonesia on 24 February 1976 which provides that Member States shall co-operate in the field of trade in order to promote development and growth of new production and trade;

RECALLING that the ASEAN Heads of Government, at their Third Summit Meeting held in Manila on 13-15 December 1987, declared that Member States shall strengthen intra-ASEAN economic co-operation to maximize the realization of the region's potential in trade and development;

NOTING that the Agreement on ASEAN Preferential Trading Arrangements (PTA) signed in Manila on 24 February 1977 provides for the adoption of various instruments on trade liberalization on a preferential basis;

ADHERING to the principles, concepts and ideals of the Framework Agreement on Enhancing ASEAN Economic Co-operation signed in Singapore on 28 January 1992;

CONVINCED that preferential trading arrangements among ASEAN Member States will act as a stimulus to the strengthening of national and ASEAN economic resilience, and the development of the national economies of Member States by expanding investment and production opportunities, trade and foreign exchange earnings;

DETERMINED to further co-operate in the economic growth of the region by accelerating the liberalization of intra-ASEAN trade and investment with the objective of creating the ASEAN Free Trade Area using the Common Effective Preferential Tariff (CEPT) Scheme;

DESIRING to effect improvements on the ASEAN PTA in consonance with ASEAN's international commitments;

HAVE AGREED AS FOLLOWS:

Article 1

Definitions

For the purposes of this Agreement:

1. "CEPT" means the Common Effective Preferential Tariff, and it is an agreed effective tariff, preferential to ASEAN, to be applied to goods originating from ASEAN Member States, and which have been identified for inclusion in the CEPT Scheme in accordance with Articles 2(5) and 3.
2. "Non-tariff barriers" mean measures other than tariffs which effectively prohibit or restrict import or export of products within Member States.
3. "Quantitative restrictions" mean prohibitions or restrictions on trade with other Member States, whether made effective through quotas, licences or other measures with equivalent effect, including administrative measures and requirements which restrict trade.
4. "Foreign exchange restrictions" mean measures taken by Member States in the form of restrictions and other administrative procedures in foreign exchange which have the effect of restricting trade.
5. "PTA" means ASEAN Preferential Trading Arrangements stipulated in the Agreement on ASEAN Preferential Trading Arrangements, signed in Manila on 24 February 1977, and in the Protocol on Improvements on Extension of Tariff Preferences under the ASEAN Preferential Trading Arrangements (PTA), signed in Manila on 15 December 1987.
6. "Exclusion list" means a list containing products that are excluded from the extension of tariff preferences under the CEPT Scheme.
7. "Agricultural products" mean:
  - (a) agricultural raw materials/unprocessed products covered under Chapters 1-24 of the Harmonized System (HS), and similar agricultural raw materials/unprocessed products in other related HS headings; and
  - (b) products which have undergone simple processing with minimal change in form from the original products.

Article 2

General Provisions

1. All Member States shall participate in the CEPT Scheme.

2. Identification of products to be included in the CEPT Scheme shall be on a sectoral basis, i.e., at HS six-digit level.
3. Exclusions at the HS eight/nine digit level for specific products are permitted for those Member States, which are temporarily not ready to include such products in the CEPT Scheme. For specific products, which are sensitive to a Member State, pursuant to Article 1(3) of the Framework Agreement on Enhancing ASEAN Economic Co-operation, a Member State may exclude products from the CEPT Scheme, subject to a waiver of any concession herein provided for such products. A review of this Agreement shall be carried out in the eighth year to decide on the final Exclusion List or any amendment to this Agreement.
4. A product shall be deemed to be originating from ASEAN Member States, if at least 40 per cent of its content originates from any Member States.
5. All manufactured products, including capital goods, processed agricultural products and those products falling outside the definition of agricultural products, as set out in this Agreement, shall be in the CEPT Scheme. These products shall automatically be subject to the schedule of tariff reduction, as set out in Article 4 of this Agreement. In respect of PTA items, the schedule of tariff reduction provided for in Article 4 of this Agreement shall be applied, taking into account the tariff rate after the application of the existing margin of preferences (MOP) as at 31 December 1992.
6. All products under the PTA which are not transferred to the CEPT Scheme shall continue to enjoy the MOP existing as at 31 December 1992.
7. Member States, whose tariffs for the agreed products are reduced from 20 per cent and below to 0 per cent-5 per cent, even though granted on an m.f.n. basis, shall still enjoy concessions. Member States with tariff rates at m.f.n. rates of 0 per cent-5 per cent shall be deemed to have satisfied the obligations under this Agreement and shall also enjoy the concessions.

### Article 3

#### Product Coverage

This Agreement shall apply to all manufactured products, including capital goods, processed agricultural products, and those products falling outside the definition of agricultural products as set out in this Agreement. Agricultural products shall be excluded from the CEPT Scheme.

Article 4

Schedule of Tariff Reduction

1. Member States agree to the following schedule of effective preferential tariff reductions:
  - (a) The reduction from the existing tariff rates to 20 per cent shall be done within a time-frame of five years to eight years, from 1 January 1993, subject to a programme of reduction to be decided by each Member State, which shall be announced at the start of the programme. Member States are encouraged to adopt an annual rate of reduction, which shall be  $(X-20)Z/5$  or 8, where X equals the existing tariff rates of individual Member States.
  - (b) The subsequent reduction of tariff rates from 20 per cent or below shall be done within a time-frame of seven years. The rate of reduction shall be at a minimum of 5 per cent quantum per reduction. A programme of reduction to be decided by each Member State shall be announced at the start of the programme.
  - (c) For products with existing tariff rates of 20 per cent or below as at 1 January 1993, Member States shall decide upon a programme of tariff reductions, and announce at the start, the schedule of tariff reductions. Two or more Member States may enter into arrangements for tariff reductions to 0 per cent-5 per cent on specific products at an accelerated pace to be announced at the start of the programme.
2. Subject to Articles 4(1)(b) and 4(1)(c) of this Agreement, products which reach, or are at tariff rates of 20 per cent or below, shall automatically enjoy the concessions.
3. The above schedules of tariff reduction shall not prevent Member States from immediately reducing their tariffs to 0 per cent-5 per cent or following an accelerated schedule of tariff reduction.

Article 5

Other Provisions

- A. Quantitative restrictions and non-tariff barriers
  1. Member States shall eliminate all quantitative restrictions in respect of products under the CEPT Scheme upon enjoyment of the concessions applicable to those products.
  2. Member States shall eliminate other non-tariff barriers on a gradual basis within a period of five years after the enjoyment of concessions applicable to those products.



**B. Foreign exchange restrictions**

Member States shall make exceptions to their foreign exchange restrictions relating to payments for the products under the CEPT Scheme, as well as repatriation of such payments without prejudice to their rights under Article XVIII of the General Agreement on Tariffs and Trade (GATT) and relevant provisions of the Articles of Agreement of the International Monetary Fund (IMF).

**C. Other areas of co-operation**

Member States shall explore further measures on border and non-border areas of co-operation to supplement and complement the liberalization of trade. These may include, among others, the harmonization of standards, reciprocal recognition of tests and certification of products, removal of barriers to foreign investments, macroeconomic consultations, rules for fair competition, and promotion of venture capital.

**D. Maintenance of concessions**

Member States shall not nullify or impair any of the concessions as agreed upon through the application of methods of customs valuation, any new charges or measures restricting trade, except in cases provided for in this Agreement.

**Article 6**

**Emergency Measures**

1. If, as a result of the implementation of this Agreement, import of a particular product eligible under the CEPT Scheme is increasing in such a manner as to cause or threaten to cause serious injury to sectors producing like or directly competitive products in the importing Member States, the importing Member States may, to the extent and for such time as may be necessary to prevent or to remedy such injury, suspend preferences provisionally and without discriminating, subject to Article 6(3) of this Agreement. Such suspension of preferences shall be consistent with the GATT.
2. Without prejudice to existing international obligations, a Member State, which finds it necessary to create or intensify quantitative restrictions or other measures limiting imports with a view to forestalling the threat of or stopping a serious decline of its monetary reserves, shall endeavour to do so in a manner which safeguards the value of the concessions agreed upon.
3. Where emergency measures are taken pursuant to this Article, immediate notice of such action shall be given to the Council referred to in Article 7 of this Agreement, and such action may be the subject of consultations as provided for in Article 8 of this Agreement.

Article 7

Institutional Arrangements

1. The ASEAN Economic Ministers (AEM) shall, for the purposes of this Agreement, establish a ministerial-level Council comprising one nominee from each Member State and the Secretary General of the ASEAN Secretariat. The ASEAN Secretariat shall provide the support to the ministerial-level Council for supervising, co-ordinating and reviewing the implementation of this Agreement, and assisting the AEM in all matters relating thereto. In the performance of its functions, the ministerial-level Council shall also be supported by the Senior Economic Officials' Meeting (SEOM).
2. Member States which enter into bilateral arrangements on tariff reductions pursuant to Article 4 of this Agreement shall notify all other Member States and the ASEAN Secretariat of such arrangements.
3. The ASEAN Secretariat shall monitor and report to the SEOM on the implementation of the Agreement pursuant to the Article III(2)(8) of the Agreement on the Establishment of the ASEAN Secretariat. Member States shall co-operate with the ASEAN Secretariat in the performance of its duties.

Article 8

Consultations

1. Member States shall accord adequate opportunity for consultations regarding any representations made by other Member States with respect to any matter affecting the implementation of this Agreement. The Council referred to in Article 7 of this Agreement, may seek guidance from the AEM in respect of any matter for which it has not been possible to find a satisfactory solution during previous consultations.
2. Member States, which consider that any other Member State has not carried out its obligations under this Agreement, resulting in the nullification or impairment of any benefit accruing to them, may, with a view to achieving satisfactory adjustment of the matter, make representations or proposals to the other Member States concerned, which shall give due consideration to the representations or proposals made to it.
3. Any differences between the Member States concerning the interpretation or application of this Agreement shall, as far as possible, be settled amicably between the parties. If such differences cannot be settled amicably, it shall be submitted to the Council referred to in Article 7 of this Agreement, and, if necessary, to the AEM.

Article 9

General Exceptions

Nothing in this Agreement shall prevent any Member State from taking action and adopting measures, which it considers necessary for the protection of its national security, the protection of public morals, the protection of human, animal or plant life and health, and the protection of articles of artistic, historic and archaeological value.

Article 10

Final Provisions

1. The respective Governments of Member States shall undertake the appropriate measures to fulfil the agreed obligations arising from this Agreement.
2. Any amendment to this Agreement shall be made by consensus and shall become effective upon acceptance by all Member States.
3. This Agreement shall be effective upon signing.
4. This Agreement shall be deposited with the Secretary General of the ASEAN Secretariat, who shall likewise promptly furnish a certified copy thereof to each Member State.
5. No reservation shall be made with respect to any of the provisions of this Agreement.

In Witness Whereof, the undersigned, being duly authorized thereto by their respective Governments, have signed this Agreement on Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA).

Done at Singapore, this twenty-eighth day of January 1992 in a single copy in the English language.

For the Government of  
Brunei Darussalam

Abdul Rahman Taib  
Minister of Industry and  
Primary Resources

For the Government of the  
Republic of Indonesia

Dr. Arifin M. Siregar  
Minister of Trade

For the Government of Malaysia

Rafidah Aziz  
Minister of International Trade  
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For the Government of the  
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Peter D. Garrucho Jr.  
Secretary of Trade and Industry

For the Government of the  
Republic of Singapore

Lee Hsien Loong  
Deputy Prime Minister and  
Minister for Trade and Industry

For the Government of the  
Kingdom of Thailand

Amaret Sila-On  
Minister of Commerce