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**AGRICULTURAL TRADE IN THE ASEAN REGION: CHALLENGES FOR  
ENHANCING COOPERATION AND INTEGRATION**

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**ABSTRACT**

This paper examines the progress of agricultural trade liberalization in light of the ASEAN AFTA. The discussion focuses on the following aspects: the transition of ASEAN from a preferential trading agreement to economic integration through AFTA, its impact on agricultural trade flows and terms of trade, challenges for fostering regional agricultural economic cooperation and integration given economic disparities to be more competitive with other regional trading blocks.

**Key words:** *Regional trade agreement, agricultural terms of trade, advantage, resources, cooperation, integration*

## **AGRICULTURAL TRADE IN THE ASEAN REGION: CHALLENGES FOR ENHANCING COOPERATION AND INTEGRATION**

### **1. Introduction**

The cliché that, “no man is an island”, finds its parallel in the transition of trade from a closed economy to an open economy. On a wider scale, the concept of an open economy is strongly advocated and pursued by multilateral trading agreements such as the WTO. There has been, however, a growing concern of the effects of the global trade liberalization. Wary of these effects, countries within a region organize trading agreements or enter into bilateral agreements with other countries within or outside a region. Since the early 1990s, there has been a proliferation of bilateral and regional trading agreements in the world (see for example, Pangestu and Scollay, 2001; Adams, et al, 2003; Urata, 2005 in Yap, 2005 ). The creation of the European Union’s (EU) Single Market, the North American Free Trade Area (NAFTA), and the 1997 financial crisis, have made countries in Asia increasingly aware of the need to consolidate efforts to fend for themselves. Thus, the Asia Pacific Economic Cooperation (APEC) and the ASEAN Free Trade Area (AFTA) were formed. ASEAN was also extended to ASEAN + 3 (Japan, South Korea and China). For reasons of their own interests, individual countries also initiate negotiations within and outside their regions. Examples of these are the Thailand–Japan Free Trade Area (FTA), Korea-Chile FTA, and Singapore-India Comprehensive Economic Cooperation Agreement.

Agriculture receives lesser treatment in trade agreements compared with manufacturing and industry. This maybe attributed to the smaller share of the agriculture sector relative to the manufacturing and industry sectors to the national outputs of countries. Liberalization in the non-agriculture sector in developing countries is used as a negotiation concession to level the playing field in agriculture (Statement on the G20 Meeting, 2006). Agricultural trade liberalization has been a sensitive issue in trade negotiations due to the economic and political significance of agriculture. In order to protect their large agricultural employment and livelihood, developing countries seek more favorable concessions in agriculture market access to developed countries. Also, this allows minimum protection for developing countries’ agriculture through the Special Products (SP) and Special Safeguard Mechanism (SSM) based on the general criteria of food security, livelihood and rural development. Even in developed countries where agricultural share to employment is small, agricultural groups lobby for protection. Despite the smaller share to national output and lesser treatment in trading agreements, issues and concerns in agriculture can significantly affect trade agreements (Intal, 1997; and Pasadilla, 2006). This is shown in the debate in the Philippines on the ASEAN margin of preference for sugar amidst declining domestic sugar prices; the deadlock in the WTO Ministerial Conference in Hong Kong due to disagreements on how to tackle agricultural trade; Japanese farmers’ protests in the Japan-Singapore Agreement; and protests of Korean farmers in

APEC and the Korea-Chile agreement; and in the lobbying of farmers' group from the G33 in the resumption of the Doha Development Round of WTO.

This paper examines the development of agricultural trade liberalization in the ASEAN region through AFTA focusing on the tariff measures, how this affects the direction of ASEAN agricultural trade, and the challenges of economic cooperation and integration through AFTA. Given these objectives, this paper is organized into the following sections. The second section is an overview of the goals and strategies of ASEAN, and the macro agricultural economy of the member countries. The third section focuses on the preferential trading arrangements for agriculture under AFTA and its transition to a free trade system. This is followed by a section on the effects of AFTA on the direction of trade. The fifth section deals with the challenges of further economic cooperation and integration in ASEAN. The last section summarizes and concludes the paper.

## **2. Overview of ASEAN**

This section provides a general overview of the goals and strategies of ASEAN and the macro and agricultural economy of its member countries. It illustrates the general setting for the discussion of the rest of the sections of this paper.

Since its establishment in 1967, the Association of Southeast Asian Nations or ASEAN increased its membership from the five original countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand) to six in 1984 with the accession of Brunei Darussalam, known as ASEAN 6. ASEAN membership expanded further to 10 when Cambodia, Myanmar, Lao PDR and Vietnam, known as CMLV, joined the Association between the period 1995 and 1999. The expansion in membership indicates the increasing awareness of the importance of joint effort and cooperation as a potential force in accelerating economic growth, social progress and cultural development, and in promoting regional peace and stability amidst diversities in resource endowments, considering the disparities in macro and agricultural economic development and trade conditions (Tables 1 and 2).

**Table 1. Basic Macroeconomic Data on ASEAN Countries**

Country	Total Land Area, 2003	Population, 2004	Population in Poverty (National Poverty Line)*	GDP per Capita, 2004	Annual GDP Growth Rate, 2000-2004	Total Trade as Percent of GDP, 2004	Trade Balance as Percent of GDP, 2004
	(1'000km <sup>2</sup> )	(million)	(%)	(US\$)	%	%	%
Brunei Darussalam	5.3	0.33 **	-	14,454	2.6	118.1	66.3
Cambodia	176.5	13.50	34.7	316	5.7	116.0	-14.7
Indonesia	1,811.6	216.40	18.2	1,022	4.4	46.4	9.9
Lao PDR	230.8	5.84	33.5	419	5.7	42.8	-13.9
Malaysia	328.6	25.58	7.5	4,731	6.4	195.9	17.9
Myanmar	657.6	54.30	26.6	219	6.8	-	-
Philippines	298.2	83.50	30.0	1,059	5.3	99.6	-7.5
Singapore	0.7	4.24	-	25,002	5.6	346.1	23.3
Thailand	510.9	64.20	9.8	2,519	5.9	118.0	5.7
Vietnam	325.5	82.02	19.5	551	7.2	129.0	-3.8

(-) Data not available.

\* 1999 data for Malaysia; 2001 for Myanmar; 2002 for Indonesia, Lao PDR and Thailand; 2003 for Philippines and 2004 for Cambodia and Vietnam.

\*\* From the FAOSTAT Online. The rest of the data are sourced from the ADB Asian Key Indicator.

Sources: UNESCAP Online.

ADB: Asian Key Indicators, 2005: Key Indicators of Developing Asian and Pacific Countries Online; and Asian Development Outlook, 2006.

**Table 2. Shares of Agriculture in Total Land Area, Population, GDP, Employment, Export and Import in ASEAN**

Country	Total Land Area Share, 2003	Total Population Share, 2002	GDP Share, 2002	Employment Share, 2002	Export Share, 2002	Import Share, 2002
	%	%	%	%	%	%
Brunei Darussalam	3.2	0.6	1.9	-	0.1	13.4
Cambodia	21.6	69.3	35.6	70.2	0.8	9.1
Indonesia	19.0	42.8	16.1	43.8	11.5	11.2
Lao PDR	4.5	76.1	50.2	-	-	-
Malaysia	23.1	16.3	7.9	15.7	8.7	5.4
Myanmar	16.7	69.6	42.9	-	13.3	8.5
Philippines	35.9	38.1	19.7	37.4	6.2	6.9
Singapore	3.0	0.1	0.1	0.0	2.0	3.5
Thailand	34.7	47.4	10.2	46.6	14.6	5.1
Vietnam	27.6	66.5	21.8	68.2	-	-

(-) Data not available.

Sources: FAO-FAOSTAT Database Online; ASEAN Statistical Yearbook, 2004 and 2005.

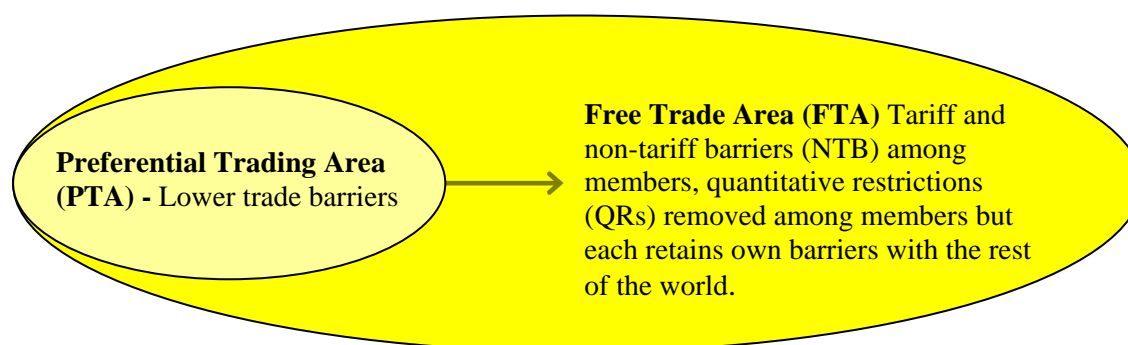
As outlined in the ASEAN Vision 2020 ([www.aseansec.org](http://www.aseansec.org)), the end goal of the ASEAN Economic Community (AEC) is economic integration. That is, to create a stable, prosperous and

highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities by the year 2020. Through the AEC, ASEAN will be transformed into a single market and will serve as a production base for the world market, turning the diversity that characterizes the region into opportunities for business complementation, making ASEAN a more dynamic and stronger segment of the global supply and value chain. The strategy for this is regional integration and enhancement of the region's economic competitiveness. In moving towards the AEC, ASEAN has agreed, among others, to institute new mechanisms and measures to strengthen the implementation of its existing economic initiatives including the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services (AFAS) and ASEAN Investment AREA (AIA).<sup>1</sup>

### 3. ASEAN FREE TRADE AREA (AFTA)

Caught in the web of regional economic integration, ASEAN 6 moved towards regionalism by agreeing in 1992 to form AFTA which became effective in 2002. Under the AFTA, the ASEAN region will be transformed into a free trade area, including agricultural trade, in the year 2003 but the formal onset was a year earlier in 2002. Except for sensitive products, mostly agricultural, a zero tariff protection will be imposed on intra-trade in ASEAN. However, each member country's tariff policies outside ASEAN will be maintained. The transformation of ASEAN from a preferential trading agreement into a free trade area is illustrated in Figure 1.

**Figure 1. Regional Economic Integration in ASEAN: From Preferential Trading Area to Free Trade Area**



Source: Austria (2003).

<sup>1</sup> The others are: a) the acceleration of regional integration in 2010 of the priority areas which include air travel; agro-, rubber- and wood- based products; automotives; e-commerce; fisheries; health care; textiles, apparels and tourism; b) facilitation of movement of business persons, skilled labour and talents; and c) strengthening the institutional mechanisms of ASEAN ([www.aseansec.org](http://www.aseansec.org)).

### **3.1 Common Effective Preferential Tariff (CEPT)**

The free trade mechanism of the AFTA is governed by the Common Effective Preferential Tariff or CEPT. Under the CEPT, each ASEAN country will set its preferential tariff on commodities coming from member countries at rates not higher than the Most Favored Nation (MFN) rates. These CEPT tariffs will be reduced by phases on an equal yearly rate up to the end of 2003, until the agreed rate of 5 percent or lower is reached. The elimination of tariff and non-tariff barriers among ASEAN member countries is expected to promote greater economic efficiency, productivity, and competitiveness.

In the AFTA-CEPT scheme, products are classified into four categories by AFTA covering all manufactured and agricultural products except those in the General Exception List.

1. **Inclusion List (IL).** Products on the IL enjoy tariff concessions from other countries. For each ASEAN country, different time frames were targeted for the reduction of tariff rates of products under the IL between 0 – 5 percent: countries comprising ASEAN 6 Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand by 2002; Vietnam, 2006; Laos and Myanmar, 2008; and Cambodia, 2010.
2. **Temporary Exclusion List (TEL).** There are two categories of TEL, the manufactured and processed products, and the unprocessed agricultural products (UAPs). Manufactured and processed products are to be included in five installments beginning January 1, 1996 until January 2000, while the UAPs will be phased-in in seven equal installments beginning from 1997 until January 2003. Products on the TEL are exempt from tariff reduction on a temporary period until these are gradually transferred to the IL and their duties eventually reduced the 0-5 percent range. ASEAN has a protocol on the implementation of the CEPT Scheme under TEL which allows a member country facing real difficulties in meeting its CEPT obligations to delay the transfer of products from the TEL to the IL or suspend concessions on those TEL products already transferred to the IL. The timeline to reach the 0-5 percent tariff also varies between ASEAN countries.

**Table 3. Number of Agricultural Tariff Lines Transferred from the TEL into the IL**

Country	Number of Tariff Lines					
	1997			1998		
	Mfd products (TEL-2)	Agri Products (UAP-1)	Total	Mfd products (TEL-3)	Agri Products (UAP-2)	Total
Brunei Darussalam	29	n.a	29	45	n.a	45
Indonesia	275	29	304	219	11	230
Malaysia	36	10	46	100	10	110
Philippines	150	91	241	150	-	150
Singapore	n.a	n.a	n.a	-	n.a	n.a
Thailand	37	n.a	37	n.a	n.a	37
Vietnam	n.a	n.a	n.a	n.a	n.a	n.a
Laos	n.a	n.a	n.a	n.a	n.a	n.a
Myanmar	n.a	n.a	n.a	n.a	n.a	n.a
<b>Total</b>	<b>527</b>	<b>130</b>	<b>657</b>	<b>551</b>	<b>21</b>	<b>572</b>

n.a. Not applicable

Source: 1998 CEPT Package, AFTA Reader, ASEAN Secretariat.

The status of the tariff lines transferred from the TEL into the IL in the 1998 CEPT Package for the 9 members of ASEAN is shown in Table 3. The Package includes the third installment for manufactured and processed products and the second installment for the UAPs. The data shows that the phasing of transfer from the TEL to the IL for both manufactured and unprocessed agricultural products have been faster for Indonesia relative to other member countries.

- Sensitive List (SL).** Includes unprocessed agricultural products (UAPs) which were not initially considered for inclusion, to be phased out between 2001-2003 with ending tariff rates from 0 to 5 percent by 2010. The timeframes are also different for ASEAN 6 and CMLV. A longer time period for compliance is given to the latter countries: 2013 for Vietnam, 2015 for Lao and Myanmar, and 2017 for Cambodia. In 1995, the 261 tariff lines on the SL comprise only about 13 percent of ASEAN total tariff lines.
- General Exemption List (GEL).** This consists of items that satisfy Article XX of GATT and may be permanently excluded from tariff reductions due to national security; and protection of public morals, human and animal plant life, health, and articles of artistic, historical or archaeological value.

As shown in the study of Pasadilla (2006), in 1995 more than half of the 2,025 tariff lines of UAPs were on the IL category, 377 were on the TEL, and 261 on the SL (Table 4). By 2003, it is estimated that the ASEAN 6 countries will each have at least 60 percent of their products under the IL with zero tariffs. Vietnam would have 35.37 percent of its IL with no tariffs in 2006; Lao and Myanmar would have abolished import duties on 8.7 percent and 3.9 percent, respectively, of their IL by 2008. Cambodia would have eliminated tariffs on 7.64 percent of its IL in 2010 (An Overview of ASEAN, 1999).

**Table 4. Product Categories Under the AFTA CEPT**

Coverage	No. of Tariff Lines	Percent Share to Total	No. of Tariff Lines - UAP 1995 <sup>1/</sup>	Timeline to Reach 0 to 5% Tariff (ASEAN 6)
<b>Inclusion list (IL)</b>	<b>40,773</b> <sup>1993</sup>	89.46 <sup>2/</sup>	<b>1,387</b>	Jan 1994 - Jan 2003
Fast track	14,855	32.59		2006 for Vietnam
Normal track	25,918	56.87		2008 for Laos PDR and Myanmar
<b>Temporary Exclusion List (TEL)</b>	<b>2,888</b> <sup>1995</sup>	6.11 <sup>3/</sup>	<b>377</b>	2010 for Cambodia
1 - Manufactured and Processed Agricultural Product	2,496	5.28		Jan 1996 - Jan 2000
2 - Unprocessed Agricultural Products	377	0.8		Jan 1997 - Jan 2003
3 - UAP-STEs <sup>4/</sup>	15	0.03		Jan 2010
<b>Sensitive List</b>	<b>261</b> <sup>1995</sup>	0.55	<b>261</b>	2013 for Vietnam
<b>General Exemption</b>	<b>467</b> <sup>1995</sup>	0.99		2015 for Laos PDR and Myanmar
<b>Total</b>			<b>2,025</b>	2017 for Cambodia

<sup>1/</sup> In 1993, there were 3,322 tariff lines under TEL.

<sup>2/</sup> Total tariff lines; 1993 = 45,575.

<sup>3/</sup> Total tariff lines; 1995 = 47,252.

<sup>4/</sup> UAP - Unprocessed Agricultural Products covered by State-Trading Enterprises (STEs); added in 1995.

Source: Pasadilla (2006)

### 3.2 MFN and CEPT Tariff

The MFN and CEPT duties were compared for the major agricultural products of each of the members of ASEAN.<sup>2</sup> A summary by country of the MFN and CEPT rates for 50 agricultural product lines under the HS is provided in the Appendices based on the US-ASEAN Business Council Database for Tariffs available online.

Brunei Darussalam. With an insignificant share of its agriculture sector, Brunei has zero tariffs in almost all of the product lines. Only two agricultural products are in the IL: coffee, not roasted, not decaffeinated, arabica, robusta and other varieties and extracts, essences and concentrates

<sup>2</sup> Starting with the list of major ASEAN exports by Pasadilla (2006), the top 10 agricultural exports of the other member countries were expanded to cover a total of 50 agricultural product lines.



of coffee. The rate of the first product line in 1994 is US\$110/t which is the same as the MFN rate. This duty will be zero from 2005.

Cambodia. Twenty of the 50 product lines have CEPT rates. The MFN rate and CEPT rates for oil products in the Fast Track such as palm oil, palm kernel oil, coconut oil and vegetable oil are the same at 7 percent, from 2003 to 2005. The CEPT is to be reduced to 6 percent in 2006 and to 5 percent from 2007. Under the CEPT, the tariff for coffee, not roasted is at 15 percent from 2003 to 2006, to be reduced gradually to 5 percent in 2010. Cigarettes and smoking tobacco have tariff rates of 35 percent until 2004 which is the same for MFN. Under the CEPT, from 2005 to 2007, the rate for each product line is reduced to 20 percent, and eventually, to 5 percent in 2010. Meat and edible offal follow similar tariff schedules to cigarettes and tobacco, as does pineapple juice. The product lines mentioned after tobacco are in the Normal Track category.

Indonesia. The database for Indonesia for CEPT rates indicate that, in 2004, the 50 product lines considered had tariffs at the 0-5 percent range. Semi milled rice, broken rice and sugar are in the SL and the duties are pegged at Rp430/kg for rice and Rp450/kg for sugar under MFN. Beer from malt, sparkling wine, and spirits are in the GEL with MFN rates of 40 percent, 170 percent and 170 percent, respectively. All of the other product lines have either zero or 5 percent tariff, mostly pegged at the MFN rate. Cigarettes and tobacco have higher MFN rates (15 percent) compared to the CEPT (5 percent). The MFN (10 percent) is also higher than the CEPT (5 percent) for vegetable fats and oils.

LAO PDR. 18 of the country's selected 50 product lines enrolled in CEPT. Most of these are scheduled to have zero tariffs in 2008 except for palm oils and malt extracts which will be slapped with a 1 percent duty. Most of the product lines already have lower rates than the MFN.

Malaysia. There are 37 product lines out of the 50 products considered that are enrolled in the CEPT. Most of these products have zero or 5 percent tariffs under the CEPT, a few have the same MFN and CEPT duties. Tobacco, not stemmed and smoking tobacco, have CEPT duties of 5 percent + PM30/kg and 2.5 percent + PM10/kg, respectively, but there are no MFN rates. Desiccated coconut has a lower CEPT of 5 percent in 2004 compared with its MFN rate of 20 percent. Palm oil, which is Malaysia's major export, has CEPT and MFN rates of 5 percent.

Myanmar. Twenty-eight product lines out of the 50 lines are enrolled in the CEPT. Meat, fowls, manioc, cocoa beans, beans, pineapples and its juice, beer from malt, sparkling wine and spirits have current CEPT tariffs lower than MFN.

The Philippines. Similar to Indonesia, semi-milled or wholly milled rice, and broken rice are enrolled in the Special Products until 2004. The MFN rate for rice is 50 percent. The CEPT rate for onion and garlic, which are special products (SP) under the WTO, have lower CEPT rates (5 percent) compared to their MFN rate of 40 percent. Other worked grains of maize also have a lower CEPT rate of 5 percent compared to the 50 percent MFN rate. Sugar has a higher tariff under the CEPT (48

percent) but lower than the MFN tariff of 50 and 50 percent depending upon the classification of sugar.

Thailand. Most of the 50 product lines considered have 5 percent tariff rates under the CEPT in 2004. Six product lines (fruits, mucilages and thickeners, natural rubber) have zero tariffs. Coffee has a high CEPT duty of 40 percent. Aside from the CEPT tariff, specific duties are slapped for maize seed, palm oils, coconut oils, palm kernel or babassu, all at B2.5/L. Poultry and raw sugar also have special duty of B3.5/kg.

Vietnam. At present, all of the 50 product lines considered have lower tariffs compared with the MFN rates. Only natural rubber has the same CEPT and MFN rates of 3 percent.

#### **4. AGRICULTURAL TRADE AND AFTA-CEPT**

Several studies have varied findings and perceptions on the effects of ASEAN AFTA-CEPT and other ASEAN economic cooperation agreements on trade. Drawn from the study of Pasadilla (2006) which summarized the studies using gravity models in determining the relationships of trade between countries with their size (positive correlation) and distance (negative correlation), results of recent studies show that AFTA is non-discriminatory to inter-ASEAN imports. Pasadilla (2006) attributes this to the unilateral nondiscriminatory trade liberalization that took place in ASEAN countries early on. On the contrary, based on the results of the study of Gilbert, Scollay and Bora (2001) the authors concluded that AFTA have promoted trade in manufacturing but not in agriculture. A more recent study by Adams, et al (2003), using gravity model, also show that trade diversion outweighs trade creation in most PTAs including AFTA. In earlier studies, Frankel and Wei (1996) in Intal (1997), dispelled the general perception that intra-ASEAN trade is relatively low if Singapore is excluded in the data. The two authors noted, however, that at least for the period up to the early 1990s, there was a relatively high intensity of trade among ASEAN countries due more to the rapid growth of the countries rather than the result of ASEAN economic cooperation agreements. This has been attributed to low utilization rates of the ASEAN preferential trading agreements (PTAs) due to difficulties in their implementation (Pangestu, et al, 1992).

The effects of AFTA on the direction and terms of agricultural trade in ASEAN is examined in this paper using data from 1993, 1995, 2000, and 2003.<sup>3</sup> The Extra-ASEAN trade discussion is focused on the + 3 countries of ASEAN, US and Canada representing NAFTA, and Australia and New Zealand of the Asia-Pacific region.

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<sup>3</sup> The choice of reference years depended upon readily available data for the whole of ASEAN and for individual member countries.

#### 4.1 Intra-ASEAN Agricultural Trade

Agricultural exports in Intra-ASEAN 6 increased continuously in the reference years while agricultural imports declined in 2000 but picked up in 2003 (Table 5). Exports moved faster than imports, the former increasing at an annual rate of about 6.8 percent, on average, and the latter by 5.4 percent. Exports increased by 1.4 percentage points compared with imports. By period, exports increased at a decreasing rate. Exports increased annually by 26.3 percent from 1993 to 1995 but slowed down by a meager 0.14 percent from 1995 to 2000, or a decrease by about -26.2 percentage points. This trend is influenced by fats and oils exports which is the largest export grouping in the ASEAN agricultural trade (Table 6). The surge in exports from 1993 to 1995 was due to the surge in fats and oils exports by 18.8 percent yearly from 1993 to 1995. It decreased from 1995 to 2000 by -7 percent or by 11.8 percentage points, and recovered from 2000 to 2005 at a yearly rate of 14.5 percent or by 7.5 percentage points. Cereals exports also influenced the trend of ASEAN agricultural exports.

Agricultural imports also increased continuously but at a decreasing rate. While the overall annual increase was 5.4 percent, from 1993 to 1995 the annual rate of increase was 16.5, down by -0.33 percent annually from 1995 to 2000, or by 16.2 percentage points, and recovered by about 8.1 percent annually from 2000 to 2003, or by 7.8 percentage points. The top three imports of fats and oils, fish, and cereals have influenced the trend in agricultural imports (Table 7). The accession of Myanmar to ASEAN in 1997 and Cambodia in 1999 further increased intra-ASEAN agricultural exports and imports from 2000 to 2003. In spite of their accession, the share of ASEAN agricultural exports to total exports still declined from 1993 to 2003, as was the case with imports. This corroborates the findings of earlier studies on the impact of AFTA on agricultural trade, that the trade creation is higher in manufacturing. The terms of agricultural trade (export vis-a-vis imports) have been positive throughout the reference period, it has been increasing for ASEAN 6 with the inclusion of Myanmar and Cambodia, although in absolute terms, trade surplus is higher without the two countries as these countries in 2000, and Cambodia in 2003, have been net importers.

Agricultural exports and imports followed an increasing trend at decreasing rates from 1993 to 2003 in Malaysia, Philippines and Thailand. It is interesting to note that relatively large increases in agricultural exports occurred from 1993 to 1995 with correspondingly large decreases in imports. In Indonesia, exports moved up continuously but imports fluctuated with an annual decrease of -4 percent in 2000 from its level in 1995. Continuous reductions in both agricultural exports and imports at decreasing rates can be observed for Singapore's agricultural trade. Thailand, Malaysia and Indonesia are net agricultural exporters with Thailand having the largest trade surplus. These countries have larger shares to ASEAN agricultural exports. Brunei, Singapore and the Philippines are net importers. This is not surprising for Brunei and Singapore, where the share of agriculture to total economy is small, unlike in the Philippines. In the Philippines, agricultural surplus declined

tremendously during the 1980s and early 1990s (Intal, 1997). This can be traced to the lowering of agricultural productivity and rising agricultural production costs.

**Table 5. Intra-ASEAN Trade, 1993, 1995, 2000, and 2003**

COUNTRY/ITEM	\$US 1,000							
	Export (to ASEAN)				Import (from ASEAN)			
	1993	1995	2000	2003	1993	1995	2000	2003
<b>INTRA-ASEAN 6</b>								
Intra-ASEAN agri. trade	3,275,479	5,227,583	5,265,568	6,343,028	2,980,499	4,045,575	3,980,001	5,026,143
Agri share to total trade <sup>1/</sup>	7.50	7.45	5.53	6.32	7.69	7.55	5.41	6.62
Intra-ASEAN net agricultural trade	1,471,789	1,725,912	1,919,562	2,235,168	1,176,809	543,903	633,994	918,284
Net agricultural export	294,981	1,182,009	1,285,568	1,316,884				
<b>INTRA-ASEAN <sup>2/</sup></b>								
Intra-ASEAN agri. trade	3,275,479	5,227,583	5,391,676	6,488,887	2,980,499	4,045,575	4,206,551	5,266,007
Agri share to ASEAN	7.50	7.45	5.66	6.47	7.69	7.55	5.71	6.94
Net agricultural trade	1,471,789	1,725,912	1,919,562	2,239,931	1,176,809	543,903	734,437	1,017,051
Intra-ASEAN net agri. trade	294,981	1,182,009	1,185,125	1,222,880				
<b>BRUNEI DARUSSALAM</b>								
Agriculture trade	15	2,685	778	1,312	144,670	183,020	125,679	168,685
Agri share to ASEAN	0.00	0.05	0.01	0.02	4.85	4.52	2.99	3.20
Net agricultural trade	-	-	-	-	144,655	180,336	124,901	167,373
<b>INDONESIA</b>								
Agriculture trade	739,253	859,624	946,897	1,372,416	249,772	800,434	653,365	814,443
Agri share to ASEAN	22.57	16.44	17.56	21.15	8.38	19.79	15.53	15.47
Net agricultural trade	489,481	59,190	293,532	557,973	-	-	-	-
<b>MALAYSIA</b>								
Agriculture trade	907,450	1,386,031	1,427,516	1,759,704	420,851	770,422	987,165	1,417,379
Agri share to ASEAN	27.70	26.51	26.48	27.12	14.12	19.04	23.47	26.92
Net agricultural trade	486,599	615,610	440,351	342,325	-	-	-	-
<b>PHILIPPINES</b>								
Agriculture trade	76,330	160,437	166,531	291,853	114,094	248,735	384,995	587,538
Agri share to ASEAN	2.33	3.07	3.09	4.50	3.83	6.15	9.15	11.16
Net agricultural trade	-	-	-	-	37,764	88,298	218,464	295,686
<b>SINGAPORE</b>								
Agriculture trade	929,547	1,546,625	1,182,059	1,017,699	1,923,936	1,821,894	1,472,688	1,472,924
Agri share to ASEAN	28.38	29.59	21.92	15.68	64.55	45.03	35.01	27.97
Net agricultural trade	-	-	-	-	994,389	275,269	290,629	455,225
<b>THAILAND</b>								
Agriculture trade	622,885	1,272,182	1,541,788	1,900,044	127,176	221,070	356,110	565,173
Agri share to ASEAN	19.02	24.34	28.60	29.28	4.27	5.46	8.47	10.73
Net agricultural trade	495,709	1,051,112	1,185,678	1,334,870	-	-	-	-
<b>CAMBODIA <sup>3/</sup></b>								
Agriculture trade	-	-	7,301	5,717	-	-	87,240	104,485
Agri share to ASEAN	-	-	0.14	0.09	-	-	2.07	1.98
Net agricultural trade	-	-	-	-	-	-	79,939	98,767
<b>MYANMAR <sup>4/</sup></b>								
Agriculture trade	-	-	118,806	140,142	-	-	139,310	135,379
Agri share to ASEAN	-	-	2.20	2.16	-	-	3.31	2.57
Net agricultural trade	-	-	-	4,763	-	-	20,504	-

<sup>1/</sup> Share to total agriculture plus non-agriculture trade.

<sup>2/</sup> With the inclusion of Cambodia and Myanmar.

<sup>3/</sup> Joined ASEAN in 1999.

<sup>4/</sup> Joined ASEAN in 1997.

Source: www.aseansec.org

**Table 6. Total Intra-ASEAN Export by Order of HS Chapter Product**

\$US 1,000					
HS Chapter	Sector	1993	1995	2000	2003
01	Live Animals	75,826.6	180,060.6	138,058.4	97,757.1
02	Meat & Edible Meat Offal	37,703.7	50,847.0	69,303.8	52,065.2
03	Fish	420,611.6	502,281.6	583,506.9	412,620.9
04	Dairy Produce	71,411.4	136,325.5	224,886.7	328,747.0
05	Other Animal Products	1,934.4	2,677.5	12,910.8	12,345.3
06	Live Trees	7,933.3	10,610.4	13,631.4	23,574.7
07	Edible Vegetables	128,875.8	178,728.0	162,390.8	170,588.3
08	Edible Fruit & Nuts	112,055.2	172,457.0	235,178.2	166,800.8
09	Coffee, Tea, Spices	102,617.6	182,571.8	194,130.8	159,752.4
10	Cereals	251,472.6	525,877.2	372,437.4	509,932.3
11	Malt & Wheat Gluten	66,297.0	145,367.3	111,123.6	129,294.3
12	Seeds	62,228.6	68,770.9	64,358.1	62,702.3
13	Lac, Gums & Resins	16,974.8	19,547.4	14,183.6	15,993.6
14	Other Vegetable Products	9,736.1	12,566.0	7,451.2	6,602.5
15	Fats & Oils	742,480.6	1,048,431.8	728,596.2	1,092,964.6
16	Preparations Meat/Fish	55,153.7	83,474.1	333,044.8	127,822.9
17	Sugars	150,628.5	331,547.9	153,656.9	516,732.0
18	Cocoa	102,586.8	192,863.3	194,440.9	405,086.3
19	Prep. Cereals/Flour/Milk	121,537.6	187,474.6	249,338.1	415,632.2
20	Prep. Vegetables/Fruit/Nuts	85,332.8	107,838.9	115,405.9	119,159.8
21	Misc. Edible Products	96,834.4	150,700.3	255,005.0	356,875.6
22	Beverages	151,988.6	220,954.8	288,598.0	439,948.5
23	Waste from Food Industry	68,472.3	74,029.3	120,736.9	208,949.2
24	Tobacco	334,785.3	641,580.2	749,301.6	656,939.2
<b>Total Export</b>		<b>43,681,091.9</b>	<b>70,178,879.9</b>	<b>95,267,541.1</b>	<b>100,318,802.9</b>
<b>TOTAL AGRICULTURAL EXPORT</b>		<b>3,275,479.3</b>	<b>5,227,583.4</b>	<b>5,391,675.9</b>	<b>6,488,887.2</b>
<b>Share of Agricultural Export</b>		<b>7.50</b>	<b>7.45</b>	<b>5.66</b>	<b>6.47</b>

Notes: Figures cover only Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (1993).

Figures cover only Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (2000, 2003).

Source: www.aseansec.org

**Table 7. Total Intra-ASEAN Import by Order of HS Chapter Product**

\$US 1,000					
HS Chapter	Sector	1993	1995	2000	2003
01	Live Animals	238,504.1	226,813.4	120,107.0	131,771.4
02	Meat & Edible Meat Offal	36,617.3	35,384.7	27,893.1	32,779.5
03	Fish	320,044.0	409,416.3	401,122.0	543,126.1
04	Dairy Produce	119,057.9	116,051.4	354,454.9	251,918.5
05	Other Animal Products	2,216.0	5,092.7	8,818.4	10,554.4
06	Live Trees	34,136.8	44,433.6	37,724.3	35,519.5
07	Edible Vegetables	108,214.4	128,960.5	148,733.9	150,073.5
08	Edible Fruit & Nuts	115,658.6	103,244.4	135,210.6	123,345.1
09	Coffee, Tea, Spices	100,595.4	173,969.3	197,541.0	106,727.2
10	Cereals	245,344.6	690,402.3	620,326.0	638,432.9
11	Malt & Wheat Gluten	60,263.9	152,896.7	107,633.4	119,933.6
12	Seeds	111,339.0	130,035.1	77,847.2	79,532.2
13	Lac, Gums & Resins	7,028.9	7,312.1	11,308.5	16,877.8
14	Other Vegetable Products	20,547.6	29,092.4	11,275.8	9,046.5
15	Fats & Oils	715,872.1	667,089.9	433,544.2	711,921.4
16	Preparations Meat/Fish	51,292.4	56,126.7	102,525.4	93,737.7
17	Sugars	155,162.2	336,871.2	313,269.7	418,695.7
18	Cocoa	85,872.4	135,072.6	133,749.8	382,977.9
19	Prep. Cereals/Flour/Milk	116,420.1	176,235.3	223,099.1	316,375.3
20	Prep. Vegetables/Fruit/Nuts	84,254.3	82,359.0	63,897.5	78,347.1
21	Misc. Edible Products	79,039.8	126,575.9	190,357.8	337,531.7
22	Beverages	67,104.6	86,547.7	136,904.4	187,583.4
23	Waste from Food Industry	68,319.2	77,729.6	99,561.8	128,214.0
24	Tobacco	37,593.0	47,861.9	249,645.0	360,984.8
<b>Total Import</b>		<b>38,763,293.3</b>	<b>53,602,062.7</b>	<b>73,635,462.8</b>	<b>75,878,749.9</b>
<b>TOTAL AGRICULTURAL IMPORT</b>		<b>2,980,498.6</b>	<b>4,045,574.7</b>	<b>4,206,550.9</b>	<b>5,266,007.1</b>
<b>Share of Agricultural Import</b>		<b>7.69</b>	<b>7.55</b>	<b>5.71</b>	<b>6.94</b>

Notes: Figures cover only Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (1993).

Figures cover only Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (2000, 2003).

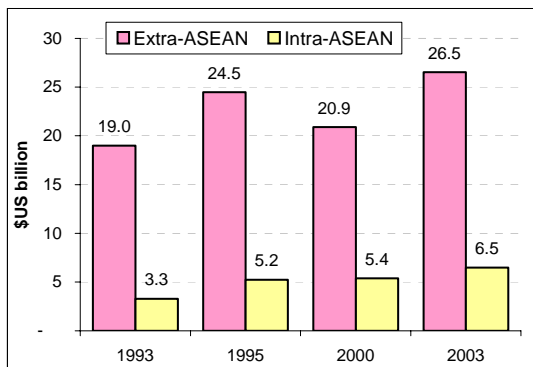
Source: www.aseansec.org

## 4.2 Extra-ASEAN Agricultural Trade

ASEAN agricultural trade to the rest of the world have been substantial compared with Intra-ASEAN (Figure 2). For exports, the disparity ranges from US \$ 15.5 million in 2000 to US \$20 million in 2003. The ratio of extra-and intra-ASEAN trade ranges from 3.79 in 2000 to 5.75 in 1993. For imports, the disparity is also large but relatively less than those of exports. The absolute difference ranges from US \$6.5 million to US \$9 million. The ratios of Extra- and Intra-ASEAN imports vary from 2.7 in 2003 to 3.2 in 1995. However, the share of extra-ASEAN agricultural exports to total ASEAN exports is relatively larger than the share of extra-ASEAN imports to total ASEAN imports. The above findings suggest several points. First, that ASEAN remains to be dependent on outside markets. This is expected because of the larger size of outside markets taken together and hence their absorptive capacity relative to the size and absorptive capacity of ASEAN. This reliance may also be the result of bilateral agreements entered into by individual member countries of ASEAN with countries outside the region. Second, there is a trade surplus for ASEAN agricultural products with the total outside market which means that ASEAN is a production base of these markets, partly in consonance with the concept of the “geese effect”. Third, the ratio of Extra- and Intra-ASEAN agricultural trade is decreasing while that of export fluctuates with an increasing trend. This may be partly attributed to the AFTA and if so, the impact is still marginal.

**Figure 2. Intra- and Extra-ASEAN Agricultural Trade  
1993, 1995, 2000 and 2003**

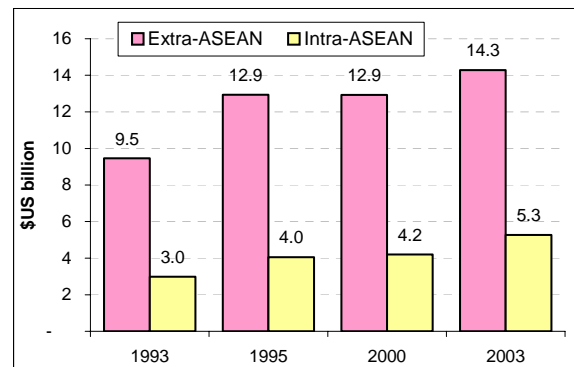
*Intra- and Extra-ASEAN Export*



Extra- and intra-ASEAN export ratio:

Year	1993	1995	2000	2003
Ratio	5.75	4.71	3.87	4.08

*Intra- and Extra-ASEAN Import*



Extra- and intra-ASEAN import ratio:

Year	1993	1995	2000	2003
Ratio	3.17	3.22	3.07	2.7

Source of basic data: [www.aseansec.org](http://www.aseansec.org)

The pattern of Extra-ASEAN exports at the product level is affected by the trend of major exports of the region such as fats & oils, fish, preparations of fish, cereals and preparation of vegetables/fruits/nuts (Table 8). On the other hand, the major Extra-ASEAN imports are cereals, fish, dairy, waste from food industry, and tobacco (Table 9).

**Table 8. Total Extra-ASEAN Export by Order of HS Chapter Product**

\$US 1,000					
HS Chapter	Sector	1993	1995	2000	2003
01	Live Animals	9,611.8	14,284.0	33,255.1	56,125.0
02	Meat & Edible Meat Offal	389,382.0	437,000.2	395,932.4	651,958.6
03	Fish	3,994,362.8	4,952,733.0	4,320,524.3	3,848,087.1
04	Dairy Produce	112,460.8	122,882.4	150,258.4	259,497.9
05	Other Animal Products	42,385.0	54,045.3	41,613.0	47,407.9
06	Live Trees	75,604.2	87,448.4	93,962.8	125,539.8
07	Edible Vegetables	928,435.3	643,168.5	507,567.8	680,376.2
08	Edible Fruit & Nuts	550,855.0	623,676.7	778,014.4	895,027.0
09	Coffee, Tea, Spices	846,510.8	1,421,276.0	1,059,672.9	628,886.7
10	Cereals	1,183,554.0	1,476,176.6	1,162,345.4	1,501,791.8
11	Malt & Wheat Gluten	176,285.0	215,615.9	173,104.2	181,673.8
12	Seeds	151,424.4	185,627.2	186,858.5	163,512.7
13	Lac, Gums & Resins	96,607.7	88,404.3	94,193.1	92,352.1
14	Other Vegetable Products	52,689.6	53,709.4	52,193.0	52,147.1
15	Fats & Oils	3,944,571.3	6,687,285.7	5,004,264.1	8,939,664.5
16	Preparations Meat/Fish	1,594,286.3	2,038,762.5	2,365,440.5	2,936,338.6
17	Sugars	672,622.0	1,226,961.7	836,689.9	863,406.5
18	Cocoa	606,678.8	582,783.6	514,589.6	850,059.4
19	Prep. Cereals/Flour/Milk	289,009.2	367,937.7	366,969.0	508,477.9
20	Prep. Vegetables/Fruit/Nuts	1,021,642.5	1,083,246.6	943,918.8	1,270,867.5
21	Misc. Edible Products	283,730.6	417,492.4	514,837.0	670,183.5
22	Beverages	484,374.2	536,944.3	389,117.7	429,970.9
23	Waste from Food Industry	494,580.9	576,630.0	434,111.3	533,822.5
24	Tobacco	1,003,667.3	585,837.5	461,736.3	360,705.3
<b>Total Export</b>		<b>162,956,060.3</b>	<b>226,517,802.7</b>	<b>315,426,236.1</b>	<b>331,153,755.9</b>
<b>TOTAL AGRICULTURAL EXPORT</b>		<b>19,005,331.5</b>	<b>24,479,929.9</b>	<b>20,881,169.3</b>	<b>26,547,880.3</b>
<b>Share of Agricultural Export</b>		<b>11.66</b>	<b>10.81</b>	<b>6.62</b>	<b>8.02</b>

Notes: Figures cover only Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (1993).

Figures cover only Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (2000, 2003).

Source: www.aseansec.org

**Table 9. Total Extra-ASEAN Import by Order of HS Chapter Product**

\$US 1,000					
HS Chapter	Sector	1993	1995	2000	2003
01	Live Animals	114,442.9	261,410.0	222,296.8	210,718.4
02	Meat & Edible Meat Offal	219,361.8	372,174.7	613,098.9	669,835.5
03	Fish	1,031,084.8	1,036,654.8	1,098,548.9	1,330,916.7
04	Dairy Produce	818,537.4	1,368,299.7	1,205,223.0	1,384,775.9
05	Other Animal Products	36,213.1	68,514.6	66,515.1	84,168.1
06	Live Trees	10,088.4	16,483.8	15,707.8	16,843.5
07	Edible Vegetables	278,687.4	481,147.2	425,581.7	510,151.1
08	Edible Fruit & Nuts	441,409.5	577,678.0	511,212.1	595,000.8
09	Coffee, Tea, Spices	126,857.3	136,989.8	240,799.1	193,503.7
10	Cereals	1,213,276.5	2,152,270.8	1,865,671.4	1,907,753.9
11	Malt & Wheat Gluten	216,750.7	348,104.1	367,032.0	392,279.2
12	Seeds	574,219.4	706,226.7	988,883.1	1,215,506.3
13	Lac, Gums & Resins	77,467.2	97,908.7	86,459.9	98,193.6
14	Other Vegetable Products	9,611.7	12,176.4	11,611.3	11,069.1
15	Fats & Oils	160,783.7	239,478.4	159,344.6	176,704.2
16	Preparations Meat/Fish	139,999.8	166,104.2	156,498.4	170,623.9
17	Sugars	258,554.9	534,518.9	532,561.4	496,733.9
18	Cocoa	96,920.5	137,574.6	168,598.4	306,665.2
19	Prep. Cereals/Flour/Milk	233,051.8	318,346.6	343,032.4	383,139.3
20	Prep. Vegetables/Fruit/Nuts	184,644.8	209,181.9	255,827.6	277,570.4
21	Misc. Edible Products	272,348.6	394,430.1	491,621.0	572,696.4
22	Beverages	633,782.3	795,481.4	622,612.0	760,096.8
23	Waste from Food Industry	1,099,394.3	1,337,229.1	1,430,505.0	1,779,293.8
24	Tobacco	1,208,424.7	1,160,602.0	1,040,547.5	742,804.8
<b>Total Import</b>		<b>184,547,508.7</b>	<b>264,952,737.2</b>	<b>272,191,705.2</b>	<b>284,928,123.7</b>
<b>TOTAL AGRICULTURAL IMPORT</b>		<b>9,455,913.5</b>	<b>12,928,986.5</b>	<b>12,919,789.1</b>	<b>14,287,044.3</b>
<b>Share of Agricultural Import</b>		<b>5.12</b>	<b>4.88</b>	<b>4.75</b>	<b>5.01</b>

Notes: Figures cover only Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (1993).

Figures cover only Brunei Darussalam, Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore and Thailand (2000, 2003).

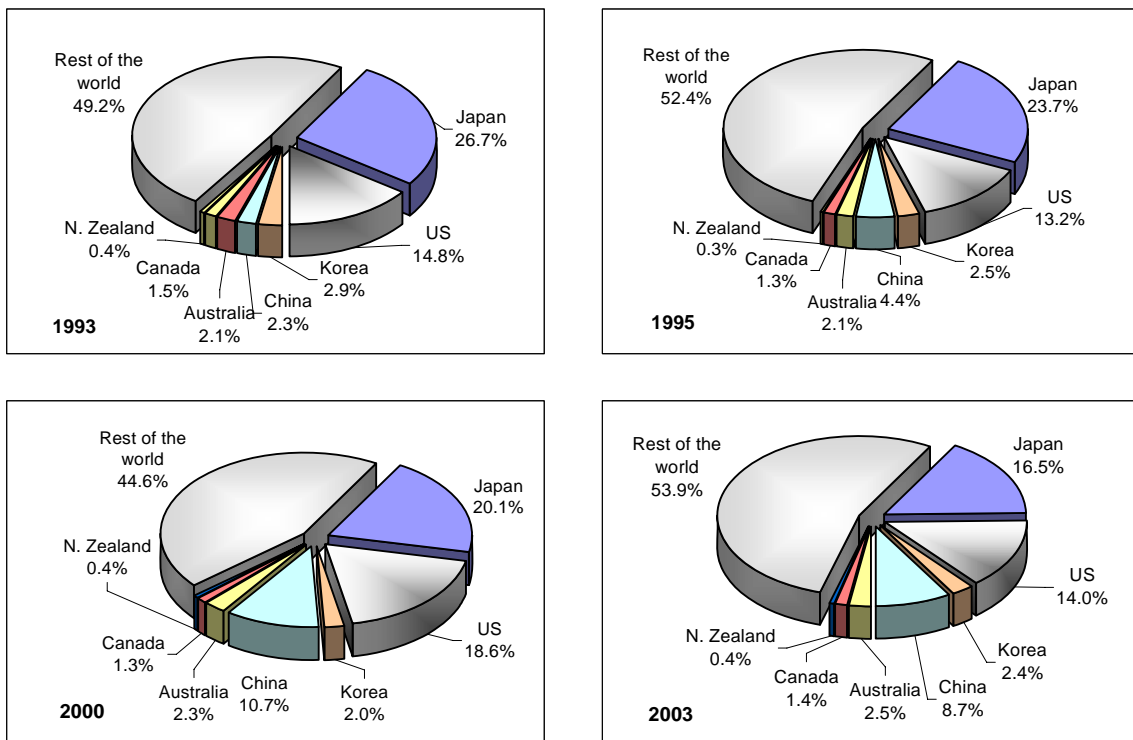
Source: www.aseansec.org

Considering the countries of + 3 ASEAN, NAFTA, and the Asia-Pacific, Japan has the largest share of Extra-ASEAN agricultural exports although it is on the downtrend. The US comes next with a fluctuating share. Agricultural shipments to China from ASEAN grew faster and more consistent in more recent periods. The value of exports more than doubled in 2000 and 2003 compared with the previous periods. The share of Korea hovered around 2 percent in recent years. The shares of Asia-Pacific countries such as Australia and New Zealand are stable around more than 2 percent and more than 1 percent, respectively (Figure 3). In terms of ASEAN agricultural imports outside the region, the US has the largest share, followed by Australia and then by China. Import from New Zealand is increasing but decreasing from Japan. The share of imports from South Korea has improved minimally, and it has been fluctuating from Canada. The major ASEAN exports to Japan are fish, preparations for fish and meat, fats and oils, and beverages. Fish imports are also the top import from Japan, which may be in higher value-added form, followed by miscellaneous edible products. Fats and oils dominate ASEAN exports to China; edible fruits and nuts and edible vegetable are the next largest. Edible vegetables are also major ASEAN imports from China trailed by tobacco and seeds. The major shipments to South Korea are fats and oils, and fish. Tobacco used to be the number one export to South Korea, but slowed down significantly from 2000. The major imports from this



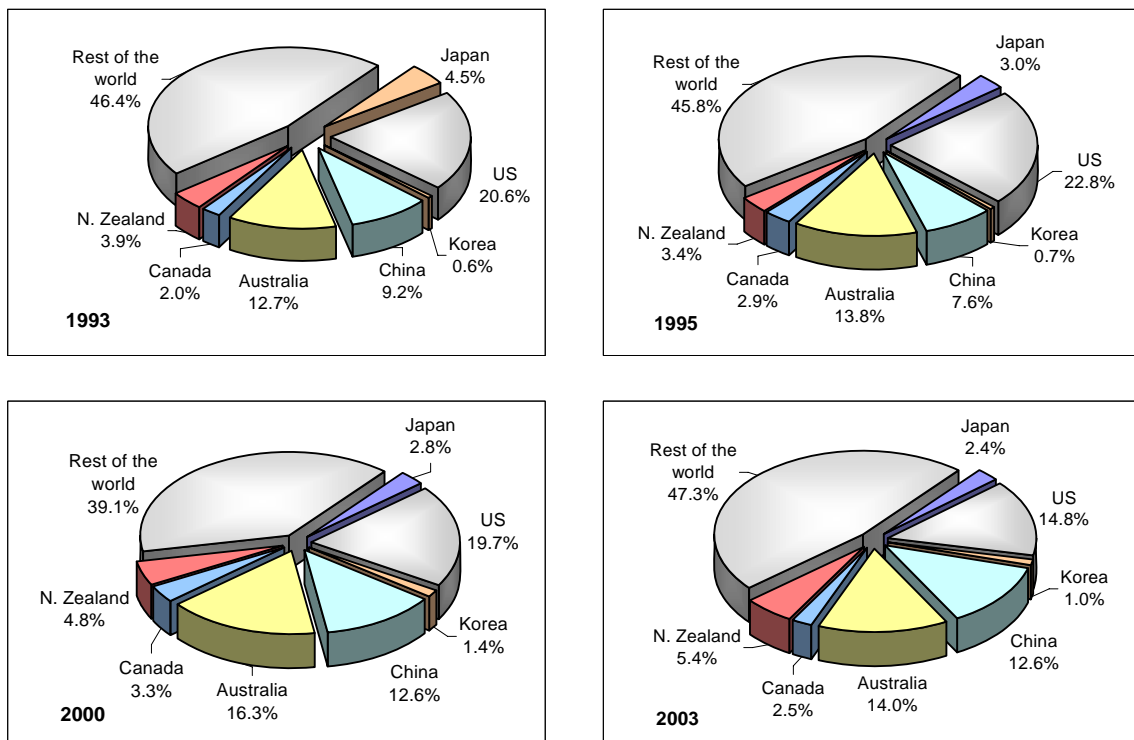
country are fish, preparation of meat and fish, and malt and wheat grain. Among the NAFTA countries (US and Canada), the leading ASEAN exports are fishery products such as fish, preparation of meat/fish, crustaceans, preparations of vegetables/fruit nuts, and cocoa. The leading imports from NAFTA Trade are cereals, seeds, wastes from wood industry, and tobacco. ASEAN trade with the Asia-Pacific region (Australia and New Zealand) is significant for fish, preparations of meat and fish, and fats and oils in terms of exports and dairy products, cereals, sugars for imports. The ASEAN enjoy large trade surpluses with Japan, US, positive surpluses with China, Korea, alternating trade deficit and surplus with Canada, and large deficit with Australia and New Zealand.

**Figure 3. Extra-ASEAN Agricultural Export by Major Region, 1993, 1995, 2000 and 2003**



Source of basic data: [www.aseansec.org](http://www.aseansec.org)

**Figure 4. Extra-ASEAN Agricultural Import by Major Region, 1993, 1995, 2000 and 2003**



Source of basic data: [www.aseansec.org](http://www.aseansec.org)

## 5. Challenges for the AFTA

ASEAN has gone a long way in its history, from an organization that fosters regional political stability and security, to the call of the times for economic cooperation and integration. This is in consonance with global trade liberalization and the proliferation of regional trading agreements. The preferential trading agreement (PTA) that aims to reduce trade barriers in the region, while modest, is one measure to jumpstart the creation of a free trade area in the region. The establishment of the AFTA-CEPT, whereby tariffs of eligible products will be reduced within a tariff range of zero to 5 percent, and the narrowing of products in the exclusion list under the CEPT Scheme from the approach under the PTA, has been a bold leap forward to the objectives of ASEAN.

The big challenge for the ASEAN Economic Community at present is the mechanism of attaining its stated goal of “. . . economic integration for a prosperous, more efficient and highly competitive economies comprising ASEAN, to make the region a single market that would serve as a production base of the world market with free flow of goods, services, investment and a freer flow of capital. . .” Intal (1997) cites several measures for ASEAN towards the attainment of its objectives: streamline member countries based on their competitive advantage; facilitate the adjustment period of the member countries as they face the pressures or increased demands of world competition in the new environment of global trade; increased economic and technical cooperation; capacity building in meeting the demands of world trading rules, such as keeping up with harmonization standards that are

consistent with global trading standards; and the strengthening of the voice of ASEAN countries in international economic and diplomatic negotiations by taking a common stand on international concerns and issues (Intal, 1997). At present, ASEAN is looking into some of these measures.

Another challenge for ASEAN is expanding its coverage of the regional trade agreement to include the + 3 countries for wider complementarity (Yap, 2006) and to make ASEAN a more potential force in global trading.

One big challenge for ASEAN is in the political economy of agricultural trade liberalization; trade diversion and creation in a free trade area, issues on government subsidies, assess the merits of special treatment of member countries with those of generalized liberalization;<sup>4</sup> the lowering of domestic transaction costs that hampers competitiveness of products and services; focus on non-tariff barriers to trade such as agricultural export incentives. How will agricultural trade be best handled amidst the proliferation of trading agreements and in ASEAN's move towards economic integration? There are a myriad of considerations and these have to be judiciously assessed one at a time.

## 6. Summary and Conclusions

This paper attempted to examine the progress of agricultural trade liberalization under the ASEAN AFTA. The paper looked into Common Preferential Effective tariff scheme in addressing the tariff barriers to agricultural trade in the region, and its impact on ASEAN trade. The CEPT schedule of ASEAN member countries show that the lowering of tariffs has progressed. The CEPT rates of most of the major agricultural exports of these countries have been reduced to levels within the zero to 5 percent range, in some instances lower than the MFN rates. Higher tariffs for both CEPT and MFN apply for coffee in Brunei, and raw sugar in the Philippines. High MFN rates are imposed on tea, cigarettes, beer, sparkling wine and spirits in Brunei and Indonesia under MFN; for rice and sugar in Indonesia. Tariff rates of a few product lines are the same for MFN and CEPT.

The effects of reduced tariffs under the CEPT scheme show that there has been an increase in the agricultural exports in Intra-ASEAN 6 and in imports. But exports moved faster than imports. Although the increases were not substantial, it suggests that the impact of AFTS-CEPT has only been modest, if not minimal. The agricultural terms of trade have been positive for ASEAN 6, and also with the inclusion of Myanmar and Cambodia. Thailand, Malaysia and Indonesia are net agricultural exporters, with Thailand having the largest trade surplus. Brunei, Singapore and the Philippines are net importers. The reason for the latter is the lowering of agricultural productivity and rising agricultural production costs. It was expected for Brunei and Singapore because of the insignificant share of agriculture in these countries.

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<sup>4</sup> In the case of AFTA-CEPT and MFN rates, their difference is small, which does not give much incentive to optimize the use of the CEPT scheme, resulting in a minimal impact on intra-ASEAN trade.

ASEAN agricultural trade outside the region has been substantial relative to Intra-ASEAN trade which shows the reliance of ASEAN economies to markets outside. External dependence may also be the outcome of bilateral agreements of individual ASEAN countries with outside regions. The ratio of Extra- and Intra-ASEAN trade is decreasing and increasing with exports. The pattern of ASEAN agricultural trade is influenced by trade of major exports of the region such as fats & oils and fish. ASEAN imports from outside the region are cereals, fish and dairy.

Japan has the largest share of the ASEAN agricultural exports, but the trend has been decreasing. This was followed by the US, but the trend has been fluctuating. Exports to China have grown faster and more consistent.

ASEAN's stated goal is economic integration, with more prosperous, more efficient and highly competitive economies, making ASEAN a single market and production base of the world market with free flow of goods, services, investment and freer flow of capital. This in itself is a big challenge for ASEAN that requires, for example, streamlining member countries based on their competitiveness and how to facilitate the adjustment period. Another challenge that faces ASEAN is the expansion of its realm by including Japan, South Korea, and China to increase complementarity and make the region a more potential and stronger force in international trade.

But the biggest challenge to ASEAN is the treatment of agricultural trade liberalization and how tariff and non-tariff barriers be addressed to enhance agricultural trade in the midst of the proliferation of trading agreements.

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