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Asean's Goal Faces Hurdles

Mistrust Threatens Common Market; Tokyo Offers Proposal

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KUALA LUMPUR, Malaysia -- Japan proposed creating a 16-nation free-trade area covering more than half the world's population, an idea that garnered cautious support among Southeast Asian trade ministers.

Meanwhile, analysts warned that years of distrust and decades-old protectionist policies still stand in the way of plans by the Association of Southeast Asian Nations to speed creation of a common market.

Tokyo wants experts to begin a study next year on a trade zone that would include itself, China, India, South Korea, New Zealand, Australia and Asean's 10 members, according to Toshihiro Nikai, Japan's economy, trade and industry minister. The zone would bypass the U.S., Japan's foremost trading partner. Southeast Asian ministers were supportive but urged Tokyo to focus first on completing its free-trade negotiations with Asean.

The 16-nation zone Japan proposed has a combined population of 3.1 billion people and gross domestic product of almost $10 trillion a year.

U.S. Trade Representative Susan Schwab urged caution. "The U.S. is very interested in the region commercially in terms of our trade agreements and if there are comprehensive regional agreements that are going to further open trade...I think its a good idea," she said. "But, if for example, you start excluding sensitive items like agriculture, exclude textiles or certain products and sectors, at that point you start institutionalizing barriers that are going to affect everybody multilaterally as well."

The agreement signed by Asean ministers envisions a seamless market of 550 million people where, within a decade, goods and services can move freely from Myanmar to Indonesia.

"We all agreed that we should move in that direction," Asean Secretary-General Ong Keng Yong told reporters.

Accelerating the deadline to 2015 from 2020 is the most serious attempt by Asean to counter the economic challenges posed by China and India and illustrates how regional pacts are gaining prominence as global trade talks stumble.

To create a common market, like the one in Europe, Asean will have to do a lot more than just remove tariff barriers.

"As things stand, you can't even move a lorry full of chicken from Singapore to Thailand without running into trouble," said a delegate at the two-day meeting of ministers. "In theory, a common market sounds like a good idea, but it won't be easy."

A wide economic gulf divides Asean's six more-developed nations -- Malaysia, Indonesia, Singapore, Brunei, Thailand and the Philippines -- and its four newer members Vietnam, Laos, Myanmar and Cambodia.

Malaysia requires companies in key industries to be at least 30% owned by the majority, ethnic Malay community. Indonesia, with the region's largest population, bans rice imports. Vietnam is communist-run and Myanmar is under a military dictatorship that accepts investments from Asean but opposes political reforms. There remain many cases where one member's laws and rules put up hurdles to business activity by companies based in other Asean states.

"I'm all for a single market and I think it can be done, but the devil's in the details," said Tim Condon, chief Asia economist for ING in Singapore.

Asean officials are confident differences can be ironed out. Malaysian Trade Minister Rafidah Aziz acknowledged that implementing the plan "is an ongoing issue. We now must work harder and smarter to resolve issues."

Mr. Ong, the Asean secretary-general, said "sensitive" issues such as protecting rice and other agriculture markets will periodically appear as an "irritant" but can be resolved.

Asean will begin talks to integrate the region's air-transportation, telecommunications and health-care sectors -- most of which are state-owned or controlled, said Ms. Rafidah. Over time, the 10 nations will need to liberalize as many as 70 industries for the plan to succeed.

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