UTILIZATION OF PREFERENTIAL TARIFF UNDER ASEAN FREE TRADE AREA (AFTA): ANALYSIS ON MALAYSIA

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Abstract - It has been a common word of mouth that when referring to ASEAN Free Trade Area (AFTA), the reducing numbers of tariff lines liberalized to 0% is a measure of success and further associated to increased intra-regional trade. With more countries in ASEAN generally liberalizing their economies and actively reducing the Most Favoured Nation (MFN) rates, the preferential tariff under AFTA would have minimal impact on trade patterns unless the preferential tariff and its policy is effective. This paper aims to calculate and analyse the utilization of tariffs under AFTA by taking Malaysia as an example for the period 2007-2011 based on the value of Certificate of Origin (CO) and its export to ASEAN countries. Analysis is expanded with a “MFN proxy” by excluding Singapore and the results show that the utilization rates remain low and suggest that preferential tariffs are only used in the same products.

Keywords - Tariff Utilization, AFTA, AFTA Utilization, Malaysia Exports, Certificate of Origin, Rules of Origin, ASEAN, AFTA Malaysia.

INTRODUCTION

Since the inception of ASEAN Free Trade Area (AFTA) in 1992 and over 20 years of its implementation, intra ASEAN trade values have increased rapidly. Malaysia is one of the founding ASEAN members that have been playing a prominent role in implementing AFTA. Malaysia’s export to AFTA totals to around 25% of its total export for year 2007 to 2011 (ASEAN Secretariat, 2015). For the same period, Singapore is Malaysia’s main export destination accounting to around 54% of its export to ASEAN. Malaysia’s export to Singapore generally is not affected by the preferential tariff under AFTA as Singapore has liberalized its entire tariff under the Most Favoured Nation (MFN) scheme at 0%. Malaysia’s export to the remaining 8 countries in ASEAN is subject to different tariffs, although essentially under a Free Trade Agreement (FTA), a common tariff should exist. Each ASEAN country has their own tariff lines, rates and coverage and liberalize its tariffs according to their own pace. As of February 2015, average rate of tariff for Malaysia was recorded at 0.05 compared to ASEAN’s overall rate of 0.23 (ASEAN Secretariat, 2015).

During several high level ASEAN Meetings, Leaders of ASEAN have always stressed the notion that AFTA has contributed significantly in increasing the intra ASEAN trade values. The reflection of this contribution is blurred by the unavailability of actual data on trade transactions that have utilized AFTA, in other words, the use of the preferential tariffs under Common Effect Preferential Tariff (CEPT) or ASEAN Trade in Goods Agreement (ATIGA). CEPT originated since the introduction of AFTA in 1992. The ASEAN Economic Ministers signed the Agreement on CEPT and it set as a basis in implementing the tariff mechanism of AFTA (ASEAN Secretariat, 2015). It must be noted that from the very beginning, ASEAN members had their own virtue to set and impose tariff on goods although in principle the tariffs should be eliminated. The gradual reduction and elimination of tariffs has made AFTA quite complex in terms of implementation. Adding to this complexity is division of goods according to certain lists. The move to have this list can be regarded as a pushing factor to encourage tariff reduction and elimination. The list included under the CEPT for imported goods is called the Inclusion List (IL) that comes in two forms, namely the fast track and normal track. As for fast track, tariffs on imported products were lowered to 0-5% by 2002. These products among others were rubber products, textiles, gems and jewelry, and chemical products. Whereas for normal track, tariffs were reduced to 5% by 2007 (ASEAN, 2014).

During the 21st ASEAN Free Trade Area (AFTA) Council Meeting held in the Philippines in August 2007, there was consensus among ASEAN countries of adopting a comprehensive trade in goods agreement in ASEAN. At the meeting, ASEAN Economic Ministers expressed the need to further improve and expand the CEPT scheme and to transform it into a comprehensive trade in goods agreement. From that move onwards, CEPT was gradually replaced with ATIGA and entered into force on 17 May 2010 (ASEAN Secretariat, 2015). As of 1 January 2010, Malaysia with five other ASEAN countries (Brunei Darussalam, Indonesia, the Philippines, Singapore and Thailand), known as the ASEAN-6 is regarded as a complete free trade area with elimination of tariff for 99% of products in the Inclusion ASEAN-6 has 99.20% of tariff lines in the Inclusion List at 0%. Only 0.35% or less than 1% of the Tariff Lines in the Inclusion list has import duties. The remaining countries, Cambodia, Laos, Myanmar and Vietnam (referred as CLMV) has 90.85% of the tariff lines in the Inclusion List that are at 0%. On average, ASEAN has 95.99% Tariff Lines at 0% in
accordance to the ATIGA Tariff Schedule of 2015 (ASEAN Secretariat, 2015). Both the schemes of CEPT and ATIGA included the Rules of Origin (ROO) like any other preferential trade arrangements. ROO sets out the conditions under which goods traded under free trade or preferential trade arrangements are considered “originating”. This is to ensure that goods are manufactured or transformed in the exporting country through substantial value-added activities. Goods that are merely transhipped or underwent simple processes do not qualify under ROO (Krishna K., 2006). The preferential import tariff rates are then granted when compliance to the specific ROO is matched by the exporting party. To ascertain this, governments in the exporting country would need to certify the products and produce the Certificate of Origin (CO) also known as Form D. Under both CEPT and ATIGA, the issuance of Form D or CO is by a designated government authority. Only products with the COs would enjoy the preferential tariff.

At the same time, countries within ASEAN also operate under the Most Favoured Nation (MFN) tariff. According to WTO, MFN tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (such as a free trade area or customs union). This means that, in practice, MFN rates are the highest (most restrictive) that WTO members charge one another (World Bank, 2007). Under this circumstance, some of ASEAN countries such as Singapore has all its MFN tariff at 0%, thus creating a distortion on the use of CEPT or even going through the process of getting COs. This is also evident for countries that have increasingly liberalized their MFN Tariff rates to be at the same level as CEPT/ATIGA rates.

The decision by a country to set its tariff rate under CEPT or MFN tariff can be viewed from two angles. The first is that the trade-policy decisions of one government give rise to an externality that affects the welfare of another government. This is the possibility that is stressed in the traditional economic approach to trade agreements (Bagwell & Staiger, 2002). This approach is used by a government to set its import tariff in order to maximize national welfare and recognize that some of the cost of the tariff falls upon foreign exporters whose products sell at lower world price. This terms of externality as described by (Helpman, Elhanan, & Krugman, 1989) point out that unilateral tariff choices can be inefficient in the presence of monopolistic competition, even in the absence of terms of trade movements.

This would then naturally point out that governments would set unilateral tariffs that are higher than what would be efficient. Ultimately, the purpose of trade agreement is then to eliminate the terms of trade driven restrictions in trade volume that arise when policies are set unilaterally and thereby offer governments a means of escape from a Prisoner’s Dilemma (Bagwell & Staiger, 2002). The impression that is given by Bagwell and Staiger is focused at the elimination of tariffs that is related to the trade volume and it would not necessarily mean the total elimination of tariffs or terms of trade driven restrictions for the entire list of goods in an agreement. Purpose of trade agreements is merely to escape from the restrictions or policies that are set unilaterally by a government and it would only make sense if the volume of trade that is related to the so called escape is granted such escape route by an agreement. This is sometimes not the case in many trade agreements whereby the governments maximize national welfare by protecting certain industries and nevertheless the volume of trade that actually matters is not given the so-called escape route. It must be pointed out that this traditional approach seems unrealistic to substantiate the hypothesis that governments maximize national welfare.

The second angle is when government is unable to make credible commitments to its own private sector. As an example, a government may commit that in future it will not protect certain industry or it will undertake extensive regulatory reforms. Although such commitment is potentially valuable to the government, as it would allow investment in cost reduction or increase in exports, if the private sector does not respond to the government’s decision, then it might not be credible for the government to follow through on its proposed plan. A trade agreement can potentially help a government solve its time-consistency problem (Bagwell & Staiger, 2002) if the agreement enhances the credibility of the government’s plan.

Since most ASEAN countries are in developing stage, the decision to set its tariff under CEPT is rather complex and this pose a threat for full utilization of the tariff besides the stringent Rules of Origin.

II. LITERATURE REVIEW

Studies on utilization rate of AFTA are limited due to unavailability of actual transaction level data. However, there are some studies that have used the customs data (from import viewpoint) and certificate of origin data (from export viewpoint) in analyzing the utilization rates. At the same time, an expansion of studies on utilization has also used several assumptions to evaluate the costs related to ROO and measured utilization rate through proxy estimates. One of the papers that used the method from an export viewpoint by analyzing the CO data was on Thailand’s utilization of tariff preference under AFTA to other ASEAN members (Leelawath, 2012). This paper also investigated the potential reasons exporters opt not to utilize such benefits. Additionally, Leelawath also provides a number of policy recommendations to overcome these problems, to promote the further utilization of preferential tariffs, and boost the volume of trade between...
Thailand and ASEAN member countries. According to this paper, there were numerous ex-ante and ex-post studies that have analyzed the impacts of the establishment of AFTA on Thailand on various aspects of the economy. When combined, these studies “painted mixed pictures” and touched upon all of AFTA’s potential positive and negative impacts on different economic and social variables. Whatever their conclusions, however, the majority of these studies operated based on the assumption that tariff utilization was at 100% and they did not take into account the fact that not all exporters take advantage of preferential tariffs under AFTA (Leelawath, 2012). Essentially, this means that every unit of eligible exporting product is subject to the rates of preferential tariffs. Unfortunately, this is not always the case. These studies still do not answer the question on whether AFTA through its preferential tariffs has actually benefitted ASEAN or not.

Based on the requirements of the ROOs, the paper used the ratio of export volume certified with the CO against total export to measure the utilization rate of tariff preferential for each particular product. Using the analysis adopted from the approach used in Kohpaiboon and Jongwanich (2006) and study conducted by Wignaraja, et al. (2010), this paper operated with the assumption that every unit of products certified with CO is exported to an ASEAN member country. With complete regard to the statistical data, the study used the HS4 digit-level exports from Thailand to all other ASEAN countries in 2009. The overall results of this data display positive trends of the utilization rates of Thailand’s exports to other ASEAN countries. Interestingly, the utilization rates for Vietnam, Indonesia, and the Philippines increased significantly. Utilization rates for Vietnamese exports increased from 6% in 2000 to 46% in 2008. Meanwhile the rates for Indonesia increased between 20% and 60% in those same years and the rates for the Philippines increased from 14% to 46%. In spite of this, however, the utilization rates of Thai exports to Cambodia and Myanmar essentially remain stagnant. Though these rates began at close to zero, they grew slightly between 2005 and 2008. By 2008, Cambodia had a utilization rate of 0.49% and Myanmar had a utilization rate of 1.7% (Leelawath, 2012). Varying utilization rates for each country can be attributed to the different products each country heavily imports from Thailand.

As such, the study also focuses on the groups of products that make substantial contributions to the Thai economy. The study selected the top twenty of Thailand’s exported products to compute the preferential tariff utilization rates for each ASEAN member country. This likely relates to other results that show that, for the most part, the utilization rate of manufacturing exports were higher than the other exports sectors. For exports to the Philippines, Vietnam, Myanmar, Indonesia, Cambodia, and Malaysia the products with the highest utilization rate were from the manufacturing sector. Yet other smaller nations like Brunei and Laos, the utilization rate of agro-industry products led other sectors; while, in ASEAN’s most developed nation, Singapore, the utilization rate for exports was highest for minerals and fuels (Leelawath, 2012). However, even in many of the sectors with the highest utilization rates, however, many of the rates remained shockingly low. These low utilization rates indicate that many Thai exporters do not benefit from AFTA.

This paper then concluded that the overall utilization rates of Thai exports to Brunei was 5.76%, Indonesia’s was 51.67%, Malaysia’s was 20.79%, the Philippines’ was 58.57%, Singapore’s was 3.53%, Cambodia’s was 2.82%, Laos’ was 2.99%, Myanmar’s was 1.68%, and Vietnam’s was 54.65%. Interestingly, the utilization rates for Thai exports were highest in countries with a middle level of development: namely, Indonesia, the Philippines, and Vietnam (Leelawath, 2012). Numerous factors contribute to the low utilization rates of the CEPT scheme. Most notably, AFTA’s margins of preference on high trade volume goods probably remain too small to compensate for the administrative costs of qualifying for the preferences. In reality, though the MFN tariff rates and CEPT rates vary greatly among countries, the differences between the two rates is relatively small within AFTA. In their study, Pelkmans-Balaoing and Manchin (2007) noted that the “rates envisioned here [in AFTA are] certainly low relative to the known record of other discriminatory schemes”. In fact, average MFN rates for AFTA members tend to be less than 10%; while there usually is only a difference of about 5% or less between MFN rates and preferential rates. Though, newer ASEAN members such as Cambodia, Lao PDR, Myanmar and Vietnam usually find themselves excluded from these calculations. Small discrepancies between these two tariff rates can sometimes restrict the attractiveness of using the CEPT scheme under AFTA, especially when it can be expensive for exporters to request the preferential rates. The study further asserted that “even if preferences would have been fully utilized, no matter how marginal, the amount of trade affected would only be in the region of 35% -37% of total intra-ASEAN imports” (Pelkmans-Balaoing & Manchin, 2007). After all, the study also noted that the products where the difference between CEPT and MFN rates that is non-existent account for 62.78% and 65.34% of total value of intra-ASEAN imports in 2001 and 2003, respectively. Ultimately, even if increased participation in AFTA would benefit exporters in Thailand (Leelawath, 2012), it remains doubtful that the enhanced utilization of AFTA preferences would significantly further increase regional trade. Other studies at the industry and national levels, however, also suggest that utilization rates of all FTA preferences in East Asian nations, and not just those

under AFTA, are low. Overall, FTAs throughout the region remain underutilized. A study by Hayakama, et al. (2009) empirically examined the determinants on the utilization of the Korean-ASEAN Free Trade Agreement (KFTA). The study offered specific insight on the values of FTAs on extra-ASEAN trade and the effect they have on further regional economic integration. Using a specific database provided by the Korean Customs and Trade Development Institute; the study analyzed the effects of tariff margins, ROOs, and average export volume on the utilization rates of KFTA’s preferential tariffs.

The study agreed with Leelawath’s assertion that “the utilization of the FTA requires firms to incur considerable amounts of additional cost and, due to such, additional costs, not all exporters regularly utilize FTA procedures in FTAs relating to both intra-ASEAN trade and extra-ASEAN trade. Additionally, the study firmly maintained that the use of FTAs can generate benefits for firms in terms of saving on tariff payments as FTA preferential rates are usually lower than standard tariff rates. The greater the tariff margin (the gap between FTA rates and general rates), the more substantial the benefits for firms using utilizing FTA rates will be (Hayakawa, Laksanapanyakul, & Shiino, 2013). Thus, it was asserted that the greater the tariff margin and the less restrictive the ROOs, the more likely a firm will be to use the FTA scheme. It was summarized that “the amount of a specific export transaction is very important because a larger export volume leads to a larger saving on tariff payments, even if the tariff margin is insignificant” (Hayakawa, Laksanapanyakul, & Shiino, 2013). So, ultimately, the three factors of tariff margin (margin effects), rules of origin restrictiveness (ROO effect), and average export volume (scale effect) determine the utilization rate of all FTAs like AFTA and KFTA.

METHODS AND DATA

This study uses a similar concept employed by Pomfret, Kaufmann and Findlay (2010), where utilization rate is defined as ratio of value receiving preferential treatment against total value of imports. However, since the difference between this study and the study by Pomfret, Kaufmann and Findlay (2010) is the data, in which the latter has used customs data from the import viewpoint. This study, however, focuses on the preferential treatment of AFTA under CEPT/ATIGA through the issuance of the Certificate of Origin (CO). For this purpose, the concept adopted by Pomfret, Kaufmann and Findlay (2010) is adjusted as the ratio of value receiving preferential treatment against the total value of exports. The concept is also guided by the work of Hayakawa, Laksanapanyakul, & Shiino, (2013) where both methods of customs data from the importer’s end and COData from the exporter’s end is taken into consideration. The basic utilization concept is described as follows:

\[
\text{Utilization Rate (Expressed in %)} = \frac{\text{Value received preferential treatment under CEPT/ATIGA}}{\text{Value of Exports}}
\]

The formulation above works for the aggregate and disaggregated value. For the purpose of this study, the utilization rate concept above is divided into two parts. First the Generalized Utilization Rate (GUR) and second the Adjusted Utilization Rate (AUR). GUR is the ratio between the value of CO per tariff line for the corresponding year against the total exports to the countries available for export in AFTA. In this case, the numerator is the value of COs per tariff line at HS2 level for the years 2007 to 2011. The number of tariff lines involved are 99 tariff lines. The denominator is the value of Malaysia’s export to all ASEAN countries. Both the values are in USD. The mathematical illustration of GUR in percentage is as follows:

\[
\text{GUR} \left( \frac{ij}{ij} \right) = \frac{X \text{ Co} (tij)}{X \text{ AUR} (tij)}
\]

Where:

- \( \text{GUR} (tij) \) = General Utilization Rate of CEPT/ATIGA based on CO for country i exporting to ASEAN j for tariff line t;
- \( X \text{ Co} (tij) \) = Volume of export which acquires the CO, for country i to ASEAN j for tariff line t; and
- \( X \text{ AUR} (tij) \) = Total value of export of country i to ASEAN j for tariff line t.

AUR on the other hand is defined as the ratio between the values of CO per tariff line for the corresponding year against the total exports to the countries available for export in AFTA excluding values of MFN Proxy (here defined as values of Singapore). Singapore is chosen as a proxy to reflect the MFN tariff as all its tariff rates are at 0%. In this case, the numerator is the value of COs per tariff line at HS2 level for the years 2007 to 2011. The number of tariff lines involved are 99 tariff lines. The denominator is the value of Malaysia’s export to ASEAN minus the export values to Singapore. Both the values are in USD. The mathematical illustration of AUR is as follows:

\[
\text{AUR} \left( \frac{ij}{ij} \right) = \frac{X \text{ Co} (tij)}{X \text{ net} (tij)}
\]

Where:

- \( \text{AUR} (tij) \) = Adjusted Utilization Rate of CEPT/ATIGA based on CO for country i exporting to ASEAN j for tariff line t;
- \( X \text{ Co} (tij) \) = Volume of export which acquires the CO, for country i to ASEAN j for tariff line t; and
- \( X \text{ net} (tij) \) = Total value of export of country i to ASEAN country minus export value for MFN Proxy for tariff line t.

The data on the utilization rate is gathered at transaction level (values declared under Form D) for

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1 Form D or Certificate of Origin is a document that certifies a product with the requirements of Origin under AFTA.
Malaysia from year 2007 to 2011 at FOB rate. The data used is the compilation from the Ministry of International Trade and Industry, Malaysia. The available data also consist of HS2 level values for 99 tariff lines of goods. The data on Malaysia’s export to ASEAN countries at HS2 level from 2007 to 2011 is obtained from the ASEAN Secretariat Statistics Database (ASEAN Secretariat, 2015). For the purpose of both calculations of GUR and AUR, the value certified with CO in the obtained records is assumed as exported to ASEAN countries. Since the data provided by the Ministry of International Trade and Industry, Malaysia is in RM, the effective exchange rate for the corresponding years is calculated using the average rate based on daily 12.00pm count data of Bank Negara Malaysia.

III. RESULTS AND DISCUSSION

The results of GUR for all goods at aggregate level shows that there was a gradual increase in utilization from year 2007 to 2011 for Malaysia. In 2007, GUR recorded was at 8.7% and it increased to 9.7% and 12.8% in 2008 and 2009. The highest increase was from 2009 to 2010 where the rate for year 2010 was at 17.5% and in 2011, GUR recorded was at 20%. The increasing trend of GUR is not consistent with the export trend of Malaysia to ASEAN as the values under COs had increased despite some export trend fluctuation for the same period. The trend suggests that utilization of preferential tariff was increasing regardless of what the volume of export was. Even though the trend seem to be positive, GUR levels at an average of 13.7% for the 5 years seems to be low, considering that 25% of Malaysia’s export is to ASEAN for the same period of time. It also further comes into question that despite tariff liberalization efforts under AFTA, with the extended timeline for period of CEPT implementation, only 13.7% of the total exports that used the CEPT.

In terms of HS2 level products, GUR that recorded the highest rates for the same period of time are HS87 (Vehicles other than Railway or Tramway Rolling-Stock and parts thereof) at 83%, HS40 (Rubber and Articles thereof) at 70%, HS09 (Coffee, Tea and Spices) at 63%, HS57 (Carpets and Other Textile Floor Coverings) at 63% and HS62 (Articles of Apparel and Clothing Accessories) at 56%. In contrast, for the whole period of 2007 to 2011, 29 same tariff lines recorded 0% GUR that shows that there were no shift at all for exporters to use preferential tariff for the 29 tariff lines. It could also mean that either the ROO for these tariff lines were relatively too cost intensive or the MFN rates were liberalized for most ASEAN countries. This shows that despite having a preferential tariff for the 29 tariff lines, this did not benefit Malaysia at all.

When the rates above exclude the exports to Singapore as a proxy for MFN rates, the values of AUR also showed an increasing trend from 2007 to 2011. AUR for year 2007 for total products was at 20% and increased to 20.6%, 22.7%, 25.4% and 26.2% for the respective years in 2008, 2009, 2010 and 2011. At HS2 product level, there were 6 tariff lines that had above 90% rates. These were HS91 (Clock and Watches) at 100%, HS87 (Vehicles other than Railway parts etc) at 98.9%, HS57 (Carpets and Other Textile Floor Coverings) at 94.4%, HS09 (Coffee, Tea and Spices) at 94.1%, HS62 (Articles of Apparel and Clothing) at 93/7%, and HS81 (Other Base Metals, Cermet etc) at 93.1%. It was also observed that most tariff lines at 0% for AUR suggest that the export value of Malaysia for that particular tariff line was concentrated to Singapore. Table 1 below shows the top ten product lines for both Average GUR and AUR. It must be noted that out of the 11 HS Tariff Lines below, HS61 and HS91 were both not in the top ten list for GUR, however they emerged as top ten in AUR. Conversely, HS 18 and HS99 were not on the top ten list of AUR although they were in the list for GUR.

Table 1: Comparison of top ten products at HS2 level for GUR and AUR.

<table>
<thead>
<tr>
<th>HS2 Product Lines</th>
<th>Average GUR</th>
<th>Average AUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:Coffee, Tea, Mat+ and Spices</td>
<td>63%</td>
<td>94.1%</td>
</tr>
<tr>
<td>18:Cocoa and Cocoa Preparations</td>
<td>47%</td>
<td>78.8%</td>
</tr>
<tr>
<td>40:Rubber and Articles Thereof</td>
<td>70%</td>
<td>83.7%</td>
</tr>
<tr>
<td>37:Carpet and Other Textile Floor Coverings</td>
<td>63%</td>
<td>94.4%</td>
</tr>
<tr>
<td>61:Articles of Apparel and Clothing Accessories, Knitted or Crocheted</td>
<td>25%</td>
<td>80.3%</td>
</tr>
<tr>
<td>62:Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted</td>
<td>50%</td>
<td>93.7%</td>
</tr>
<tr>
<td>81:Other Base Metals, Cermet, Articles Thereof</td>
<td>31%</td>
<td>91.3%</td>
</tr>
<tr>
<td>87:Vehicles other than Railway or Tramway Rolling-Stock, and Parts and Accessories Thereof</td>
<td>83%</td>
<td>98.9%</td>
</tr>
<tr>
<td>91:Clocks and Watches and Parts Thereof</td>
<td>33%</td>
<td>100.0%</td>
</tr>
<tr>
<td>92:Musical Instruments, Parts and Accessories of Such Articles</td>
<td>47%</td>
<td>89.0%</td>
</tr>
<tr>
<td>99:Other Products</td>
<td>53%</td>
<td>67.3%</td>
</tr>
</tbody>
</table>

It is interesting to note that despite the increase in value as expected for the top ten products from GUR to AUR, the rank of the top ten products did not change significantly. Eight out of ten HS tariff line remained in the top ten for both GUR and AUR which signifies that the use of preferential tariff were only concentrated in similar products. HS61 registered among the highest increase from GUR to AUR, this indicating the highest level of preference utilization in reality.

Only products with this Form D issued by the authority of the exporting country would be able to enjoy tariffs under AFTA when the product is imported by another country under AFTA.
Theoretically, the AUR values should reflect and represent the actual utilization rate as the major exports under the MFN tariff to Singapore which would not require Malaysia to use preferential tariff as the tariffs are the same or lower. Despite the expected gradual increase in trend, AUR values indicate a small amount of utilization and it does not have a significant gap with the GUR values. By taking out Singapore as a proxy of whereby all the imports in Singapore is not significant for the use of CEPT as the MFN rates are already at 0%, the results of AUR did not move significantly as expected. Table 2 below illustrates this result.

Table 2 : Comparison of GUR and AUR for Malaysia’s export to ASEAN 2007-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Generalized Utilization Rate (GUR)</th>
<th>Adjusted Utilization Rate (AUR)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6.7%</td>
<td>20.6%</td>
<td>11.3%</td>
</tr>
<tr>
<td>2008</td>
<td>9.7%</td>
<td>20.6%</td>
<td>10.9%</td>
</tr>
<tr>
<td>2009</td>
<td>12.8%</td>
<td>22.7%</td>
<td>9.9%</td>
</tr>
<tr>
<td>2010</td>
<td>17.3%</td>
<td>25.4%</td>
<td>8.1%</td>
</tr>
<tr>
<td>2011</td>
<td>20.0%</td>
<td>26.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Average</td>
<td>13.7%</td>
<td>23.6%</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

By excluding Singapore in AUR, the values increased compared to GUR, however, taking into account that 54% of Malaysia’s export to ASEAN for the same period time was to Singapore, the results was expected to have significant difference. This generally shows that in terms of trend, MFN tariff that were liberalized do not have significant effect on utilization of preference tariffs for the average value. It must however be noted that the AUR values at product level increased significantly only for products that have high export volume to Singapore thus suggesting that the products that were concentrated to other export destinations besides Singapore were not much affected by the AUR values. This further suggests that the MFN rate against the CEPT rates creates a competition for exporters from Malaysia to choose its export destination. Second, the AUR values also suggest that products with concentration in markets other than Singapore (MFN Proxy) have a higher utilization levels although the volume of export can be considerably low.

Another interesting trend is the difference between AUR and GUR for the years 2007 to 2011. The trend of the difference shows a reducing gap between AUR and GUR. This could imply that MFN rates were less significant with the increase of preference tariff utilization and shows that there was an actual increase in the use of CEPT. This less significance may imply that with the liberalization of MFN rates, the use of preferential tariff may not be significant unless for the similar products in which the countries decide to protect their local economy. Therefore,

**CONCLUSIONS**

The question of whether preferential tariffs under AFTA benefitted Malaysia as an exporter can be answered in two angles. Preferential tariffs under AFTA in general benefitted Malaysia’s export only to a very low degree although the trend is gradually increasing. The second angle is, the preferential tariffs were only used for certain products suggesting that a wide-ranging tariff liberalization plan is less significant as the impact on utilization is not fruitful.

Making a comparison with the MFN tariffs further shows that the preferential tariff would only be significant for products with certain criteria and is concentrated only in certain specific product and market. This implies that although significant reforms are made to the restrictive rules of origin, it is expected that the degree of utilization will not move to a higher level.

Since the preferential tariff under AFTA is complex with different levels of tariff reductions, focus on increasing the level of utilization should be on existing products that actually use the preferential tariff. Unless there are new industries or an elevated demand for new products, the trend of preference utilization would remain in the similar products.

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Utilization of Preferential Tariff Under ASEAN Free Trade Area (AFTA): Analysis on Malaysia


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