

## Impact of ASEAN Trade in Goods Agreement (ATIGA) on Intra-ASEAN Trade

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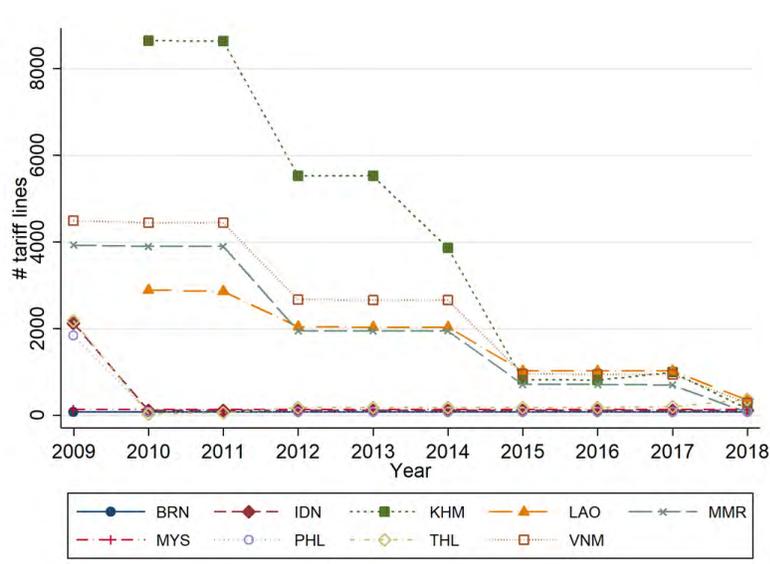
### Synopsis

- ASEAN Trade in Goods Agreement (ATIGA) has successfully liberalized intra-ASEAN trade, and 99% of its tariff lines have zero tariffs under ATIGA.
- ATIGA's trade creation is limited to fewer products or sectors due to several factors including the low Margin of Preference (MOP) in several highly traded products and the high cost of compliance due to trade-related procedures, especially in obtaining certificates of origin.
- ATIGA still provides a benefit in sectors where small and medium enterprises (SME) trade (e.g., processed agriculture). The ASEAN Member States (AMS) should focus on reducing the cost of compliance by modernizing ATIGA so that SMEs can benefit from ASEAN's liberalization.

A quantitative study of the impact of the ASEAN Trade in Goods Agreement (ATIGA) on intra-ASEAN trade was conducted by the Economic Research Institute for ASEAN and East Asia (ERIA) on the request of the Coordinating Committee on ATIGA (CCA). This study made up part of the General Review of ATIGA. The report was prepared by ERIA's research team and external experts in close cooperation with the CCA, the ASEAN Secretariat, and ASEAN Member States (AMS). A public version of the report is available as an ERIA book (ERIA 2021).

ATIGA has succeeded in liberalizing tariffs in ASEAN: 99% of tariff lines have zero ATIGA preferential tariffs. Figure 1 shows the evolution of ATIGA tariffs in individual AMS, excluding Singapore—where almost all most favored nation (MFN) and ATIGA tariffs are at zero. Cambodia, Lao PDR, Myanmar, and Viet Nam saw the most dramatic liberalization under ATIGA since 2010, while other AMS had already been liberalized by 2009.

**Figure 1: Number of tariff lines with non-zero ASEAN Trade in Goods Agreement (ATIGA) tariffs (in ASEAN Harmonized Tariff Nomenclature (AHTN) 2012 equivalent).**



Note: BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People’s Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, THL = Thailand, VNM = Viet Nam.

Source: ERIA (2021).

ATIGA’s trade creation effect is limited to a few sectors or products. In one analysis, we estimated the impact of ATIGA on intra-ASEAN trade using gravity estimation at the product level (defined as the 3-digit Harmonized System (HS) code). On average, the gravity model showed a negative average trade creation effect ( $-0.15$ ) with only a few products with positive coefficients. The reason for a small trade creation effect is the small Margin of Preference (MOP) offered by ATIGA. The MOP is computed as the difference between ATIGA tariff rates and the next best trade alternative (the preference in bilateral FTAs, the ASEAN Plus One FTAs, or MFN). Since we only had information on MFN tariffs, we considered the MOP to be the difference between MFN and ATIGA tariffs.

MFN tariffs are already low in ASEAN, which limits the amount of MOPs possible. In Singapore, there are only 22 tariff lines with MFNs above zero. However, certain products and sectors have higher MFN tariffs (e.g., agriculture, processed food, and automotive products). Electronics and health-related sectors have greater share of products with zero MFN or low MOPs. Processed food, textiles and apparel, and wood have large percentages of products with the highest MOPs. Conversely, a lot of MFN tariffs are zero or covered by liberalization agreements such as the Information Technology Agreement (e.g., electronics), which reduces ATIGA’s impact. However, MOP is just one part of the picture. The MOP must be compared to the cost of compliance—the financial cost and time required to qualify for ATIGA tariffs (e.g., obtaining the Certificate of Origin). Due to the high cost of compliance, many traders cannot benefit from the MOP offered by ATIGA.

This study also focused on the FTA utilization ratio as a direct way to understand ATIGA's influence. FTA utilization is the total trade utilizing ATIGA tariff preference (Form D trade) expressed as a percentage of total import of products with an MOP greater than zero. The utilization ratio was found to be above 50% in Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam. We also found large increases in utilization in Cambodia, Myanmar, Malaysia, the Philippines, and Viet Nam. At the 2-digit HS level, there are many products with utilization rates above 90%. This is related to a small but heavily traded group of products wherein the MOPs are quite significant.

Furthermore, our analysis of tariff reductions between 2014 and 2016 showed that FTA utilization increased in those products in which rapid liberalization was observed. When examining the relationship between FTA utilization and MOP, we found that a MOP of at least 3% points is necessary to induce FTA utilization. We also examined the relationship between a trade creation effect of ATIGA (from the gravity model) and FTA utilization. We found that the trade creation effect is larger in products with higher FTA utilization.

When viewed in the totality of ASEAN trade, the overall impact of ATIGA is low, but this is not the true picture of its effectiveness. To understand its impact, we need to focus on specific products and unique trade partners. In sectors where AMS have a comparative advantage (e.g., processed agriculture) and where MFN tariffs are high, ATIGA utilization rates have increased. There may be remaining issues in this sector, such as a high cost of compliance, that need to be addressed on a sectoral and bilateral basis. Therefore, the AMS need to lower the cost of compliance. Supply chains are more likely to be influenced by other liberalization policies such as low or zero MFN, free trade zones, and duty drawbacks. However, ATIGA is still important for sectors where small and medium enterprises (SMEs) operate, such as agriculture and processed agriculture. In light of new trade agreements such as Regional Comprehensive Economic Partnership, ATIGA's rules and procedures must be examined to reduce cost of compliance as much as possible.

## **References**

ERIA (2021). Impact of the ASEAN Trade in Goods Agreement (ATIGA) on Intra-ASEAN Trade. Jakarta: Economic Research Institute for ASEAN and East Asia.