How Tariffs Can Be Reduced by Utilizing ACFTA & AFTA

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The ASEAN Free Trade Area (AFTA) consists of the 10 members of the Association of Southeast Asian Nations. Add China and it becomes the ASEAN-China FTA (ACFTA). Of these 11 ACFTA countries, this paper will focus on China, Indonesia, Malaysia, Thailand, and Vietnam and analyze the impact of tariff reductions under both ACFTA and AFTA.

Tariff Reduction Value of AFTA Twice That of ACFTA

As an indicator for measuring the effects of FTA tariff reductions, I use, in this paper, a "tariff reduction value" calculated for China, Indonesia, Malaysia, Thailand, and Vietnam when ACFTA and AFTA are utilized *(Chart 1)*. This value is calculated by subtracting "tariff value (ACFTA or AFTA tariff)" when ACFTA or AFTA is utilized from "tariff value (MFN tariff rate)" which is paid on ordinary imports. (Tariff reduction value = MFN tariff value minus ACFTA/AFTA value.) In other words, it shows how much tariff value can be reduced (saved) on ordinary import tariffs by utilizing ACFTA or AFTA.

In this paper, tariff reduction values for both ACFTA and AFTA are calculated. The first section looks at tariff reduction values for China, Indonesia, Malaysia, Thailand, and Vietnam when ACFTA is utilized.

As *Chart 1* shows, when ACFTA was utilized tariff reductions for

CHART 1
Tariff reduction values utilizing ACFTA & AFTA

Notes: 1. For China, tariff reduction value was calculated for "imports from ASEAN10" and for Vietnam for "imports from China". For Indonesia, Malaysia, and Thailand, tariff reduction value was calculated for "imports from China" for ACFTA and "imports from the other ASEAN 9 countries" for AFTA. 2. Tariff reduction values were calculated using the 2012 ACFTA and AFTA tariff rate and applied to 2011 on the assumption they were utilized.

Sources: Respective official government data, and data from Global Trade Atlas (GTA) and Global Trade Information Services Inc. (GTI)

China on imports from ASEAN amounted to $4.5 billion. Tariff reductions on Chinese imports were roughly $1.1 billion for Indonesia, $0.9 billion for Malaysia, $1.5 billion for Thailand, and $0.3 billion for Vietnam. It is worth noting that the $4.5 billion tariff reduction value is calculated on the assumption that ACFTA was utilized for all imports from ASEAN to China. This assumption also applies to imports from China to Indonesia, Malaysia, Thailand, and Vietnam.
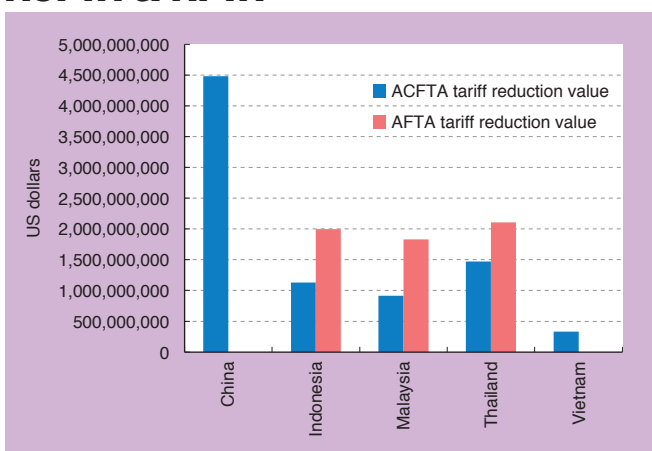
Thus the tariff reduction value ($4.5 billion) for China on imports from ASEAN utilizing ACFTA is not very different from the tariff reduction value ($3.9 billion) for Indonesia, Malaysia, Thailand, and Vietnam for their imports from China. In other words, the tariff reduction value for imports from China to these four ASEAN countries alone is not very different from China's tariff reduction value on imports from ASEAN in its entirety. This implies that in the ACFTA framework, the tariff reduction value for ASEAN is greater than that for China.

In addition, the tariff reduction for Vietnam is far less than that for Indonesia, Malaysia, and Thailand. This is because the tariff reduction schedule for Vietnam's ACFTA has been delayed in comparison to the six earlier ASEAN members (Brunei, Singapore, Indonesia, Malaysia, the Philippines, and Thailand). Tariffs on many of Vietnam's imports have not been eliminated and the next major tariff reductions are expected to take place in 2015 and 2018.

Next, we look at the tariff reduction values for Indonesia, Malaysia, and Thailand when utilizing AFTA. As *Chart 1* shows, the import reduction value for Indonesia on imports from the other nine ASEAN countries was $2 billion, while the values for Malaysia and Thailand from the other nine countries were $1.8 billion and $2.1 billion. This suggests that the tariff reduction value when AFTA is utilized for Indonesia, Malaysia, and Thailand on imports from the other nine ASEAN members is roughly $2 billion.

As *Chart 1* shows, when comparing the ACFTA and AFTA import reduction values for Indonesia, Malaysia, and Thailand, the value for AFTA is higher than that for ACFTA. For ACFTA, the total tariff reduction value for Indonesia ($1.1 billion), Malaysia ($0.9 billion), and Thailand ($1.5 billion) was roughly $3.5 billion ($1.17 billion on average). For AFTA, the value totals $5.9 billion ($1.97 billion on

average). Thus the import reduction value utilizing AFTA for Indonesia, Malaysia, and Thailand is roughly 1.7 times that of ACFTA.

This is also partly because although the ACFTA tariff reduction value of these three countries are for imports from China, AFTA tariff reductions apply to imports from the rest of the nine ASEAN countries, and the difference in the number of countries and the net import values are reflected. In other words, if the tariff effect for each country is not much different, then the tariff reduction value for AFTA can be assumed to be larger by the same proportion that the net ASEAN import value for Indonesia, Malaysia, and Thailand ($134.1 billion) is larger for imports from China ($81.9 billion).

The ratio for imports from ASEAN for the three countries against imports from China (1.6 times = $134.1 billion ÷ $81.5 billion) is roughly the same as the import reduction value ratio of AFTA and ACFTA (1.7 times). Therefore, the tariff reduction effect of ACFTA and AFTA for the three countries, derived by discounting the tariff reduction value for the number of countries, is not that different.

Tariff Reduction Rate Not So Different for ACFTA & AFTA

As an indicator of an FTA's tariff reduction effect, *Chart 2* gives the "tariff reduction rate" (tariff reduction value ÷ total import value). The aforementioned "tariff reduction value" is easier to understand as it is based on how much in tariffs was saved by utilizing an FTA. But the tariff reduction rate is calculated by dividing the tariff reduction value by total import value, and its economic implications are hard to visualize.

In order to make the picture more comprehensible, we must look at the actual numbers. As *Chart 2* shows, the tariff reduction rate for Indonesia's imports from China, utilizing ACFTA, was 4.3%. This means that if businesses are importing 100 million yen worth of imports from China, by utilizing ACFTA they are able to save, on average, 4.3 million yen (4.3% of 100 million yen) less on tariffs than the tariffs they would normally have to incur (MFN tariff).

The tariff reduction rate for China on imports from ASEAN when ACFTA was utilized was 2.3%. Similarly, the tariff reduction rate on Chinese imports was 4.3% for Indonesia, 3.7% for Malaysia, and 4.8% for Thailand. The tariff reduction rate utilizing ACFTA was higher for all three ASEAN countries than for China. But for Vietnam, where the tariff reduction schedule has been delayed compared to Indonesia, Malaysia, and Thailand, the tariff reduction rate remained low at 1.4%.

Therefore in ACFTA, the tariff reduction effect in the form of the tariff reduction rate was larger for Indonesia, Malaysia, and Thailand than for China.

As previously noted, the tariff reduction value for Indonesia, Malaysia, and Thailand is greater for AFTA than ACFTA. But looking at the tariff reduction rate as a percentage of the tariff reduction value against total import value, surprisingly in some cases there is not much difference in effect between AFTA and ACFTA.

As seen in *Chart 2*, the tariff reduction rate for Indonesia on

CHART 2
Tariff reduction rates for ACFTA & AFTA
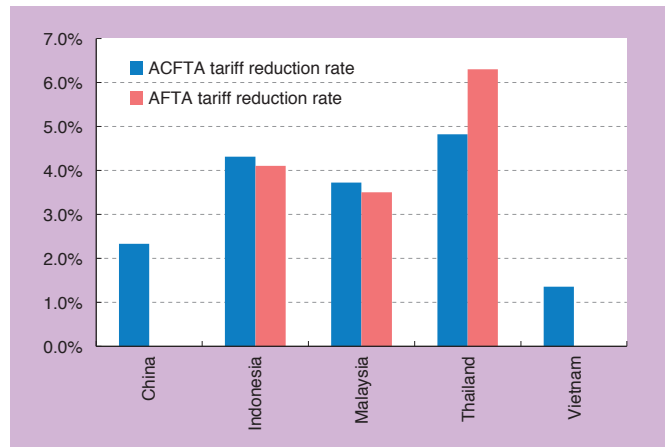
Sources: Respective official government data, and data from Global Trade Atlas (GTA) and Global Trade Information Services Inc. (GTI)

imports from the other nine ASEAN countries was 4.1%. For Malaysia, it was 3.5% and 6.3% for Thailand. In other words, comparing the ACFTA tariff reduction rate and AFTA tariff reduction rate for Indonesia and Malaysia, there is not much difference, with the ACFTA tariff reduction rate only slightly higher. But for Thailand the tariff reduction rate for AFTA is higher than ACFTA by 1.5%.

Generally, as tariffs on many items are eliminated under AFTA, it thus seems as though the tariff reduction rate for AFTA is higher than ACFTA, as the Thai example shows. To be more specific, when Thailand wants to import machinery worth 1 million yen, instead of importing such machinery from China under ACFTA, it can save on average 15,000 yen (1 million yen x 1.5%) more on imports by importing from the other ASEAN countries utilizing AFTA.

But the same result was not obtained for Indonesia or Malaysia. This is firstly the result of different weighting calculations on import values: where ACFTA looks at China in Indonesia and Malaysia, AFTA looks at the other nine ASEAN countries. Different weighting may cause the MFN tariff rate under AFTA to be lower than the MFN tariff rate under ACFTA. Therefore, even if the AFTA tariff rate is lower than the ACFTA tariff rate, if the difference between the MFN tariff rate under AFTA and the MFN tariff rate under ACFTA is equal to or more than the tariff rate difference, the tariff reduction rate under AFTA may be lower than that under ACFTA.

These are merely the results caused by the deviation between the MFN tax rate for ACFTA or AFTA and the ACFTA or AFTA tax rate. When utilizing AFTA for imports from other ASEAN countries in Indonesia, Malaysia, and Thailand, the real tariff levied on businesses at customs is 0% for many of the items. It is worth noting that in Malaysia, the average tariff rate (weighted average) against the nine other ASEAN countries was 0.2%.

On the other hand, if these three countries were to import from China utilizing ACFTA, the average tariff rate rises to around 1.2%. The ACFTA tariff rate (weighted average) for Indonesia is 1.2%, for

CHART 3
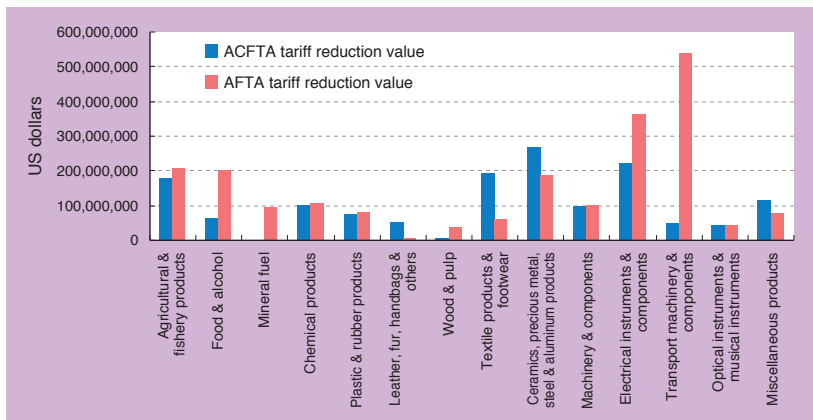## Tariff reduction values by industry for China under ACFTA
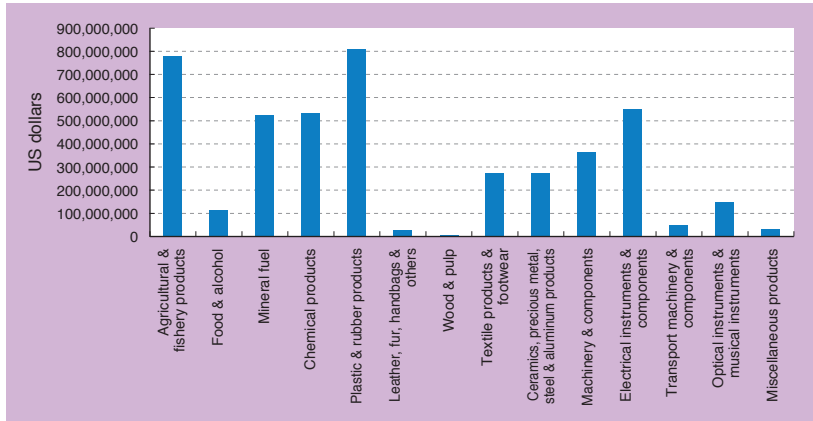
Sources: Respective official government data, and data from Global Trade Atlas (GTA) and Global Trade Information Services Inc. (GTI)

CHART 4
Tariff reduction rates by industry for China under ACFTA
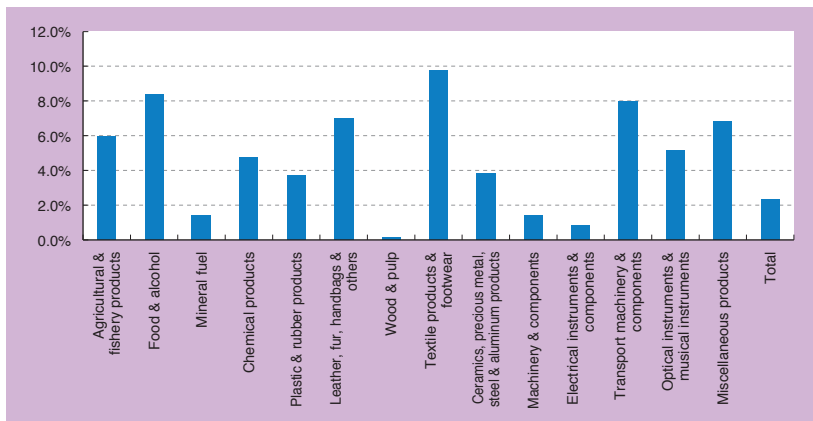
Sources: Respective official government data, and data from Global Trade Atlas (GTA) and Global Trade Information Services Inc. (GTI)

CHART 5
Tariff reduction values by industry for Thailand under ACFTA & AFTA

Sources: Respective official government data, and data from Global Trade Atlas (GTA) and Global Trade Information Services Inc. (GTI)

Malaysia 0.8%, and for Thailand 2.5%. Therefore, from the perspective of businesses where they must use the lowest tariff rate possible, the reduced average tariff rate under ACFTA is still not as low as AFTA.

Huge Benefits of Tariff Reduction

Chart 3 shows the import reduction value by industry for China when ACFTA is utilized, and *Chart 4* shows the tariff reduction rate by industry for China. As *Chart 3* shows, of the entire tariff reduction value ($4.5 billion), the industry with the largest reduction value was "plastic and rubber products" at $0.81 billion, with the second being "agricultural and fishery products" at $0.78 billion.

But as *Chart 4* shows, the tariff reduction rate for "textile products and footwear" was the highest at 9.8%, with "food and alcohol" following at 8.4% and "transport machinery and components" at 8.0%. In other words, for China's imports from ASEAN, "textile products and footwear" benefits most from tariff reduction, and every item in this industry saves, on average, roughly 10% in tariffs on their imports.

Tariff reduction value, or the absolute monetary value, and the tariff reduction rate, or the percentage rate, are different in nature but the difference is most striking in the case of China. In China, top items for tariff reduction value do not necessarily match the items on the top of the list for the tariff reduction rate. This implies that although the tariff reduction rate is high, the ACFTA tax rate is still set at an even higher level and therefore the tariff reduction value is not large.

Chart 5 shows the tariff reduction value by industry for Thailand under ACFTA and AFTA. The tariff reduction value for Thailand under ACFTA is large for "ceramics, precious metal, steel and aluminum products", "electrical instruments and components", "textile products and footwear", and "agricultural and fishery products", with the tariff reduction values each around $0.2 billion.

The tariff reduction value under AFTA for "transport machinery and components" was $540 million, for "electrical instruments and components" $360 million, and for "agricultural and fishery products" and "food and alcohol" $200 million. In other words, in 2011, in the Thai "transport machinery and components" sector, the tariff reduction value was by far the largest under AFTA, but under ACFTA it was merely a rough $50 million.
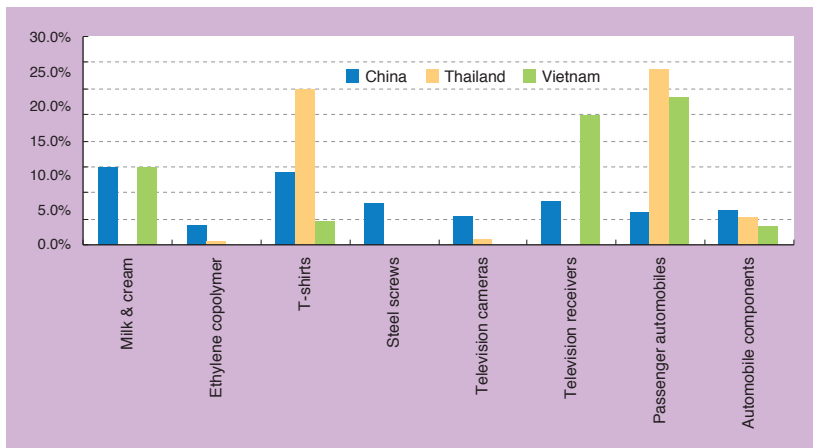
CHART 6
Tariff reduction rates by industry for Thailand under ACFTA & AFTA
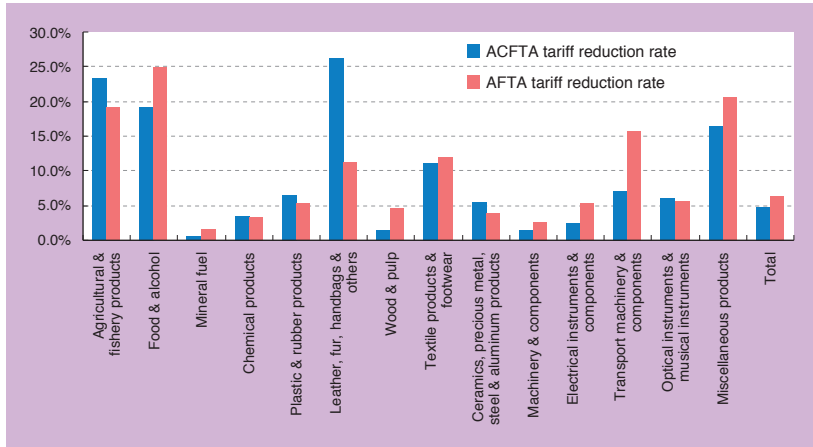
Sources: Respective official government data, and data from Global Trade Atlas (GTA) and Global Trade Information Services Inc. (GTI)

CHART 7
Tariff reduction rates on major items under ACFTA

Sources: Respective official government data, and data from Global Trade Atlas (GTA) and Global Trade Information Services Inc. (GTI)

The reason behind this is the difference in the tariff rate for Thailand where the AFTA tariff rate (0%) is far less than the ACFTA tariff rate (13%).

Chart 6 also shows that the tariff reduction rate was high in Thailand for "leather, fur, handbags and others", "food and alcohol", and "miscellaneous products". Each showed a tariff reduction rate of around 20%, which means that if Thailand imports items within these industries from China, it will be able to save a tariff value of 20% on average.

The tariff reduction rate is also high for similar industries under AFTA, and for the tariff reduction rate in Thailand the top industries and tariff rate were similar under both ACFTA and AFTA. Of these, the tariff reduction rate for "transport machinery and components" is roughly 15% under AFTA, and hence this sector can expect a considerable tariff reduction effect.

On the other hand, in addition to individual countries such as Thailand and China, the industries where both the tariff reduction value and the tariff reduction rate was high under ACFTA were "agriculture and fishery products" and "textile products and footwear" for all of Indonesia, Malaysia, Vietnam, Thailand, and Malaysia. For Thailand, as well as Indonesia and Malaysia, the tariff reduction value and the tariff reduction rate was high under ACFTA for "transport machinery and components".

Chart 7 compares the tariff reduction rate under ACFTA for China, Thailand, and Vietnam on eight typical items such as milk and automobile components. The tariff reduction rate was high for "milk and cream" in China and Vietnam at 15%, for "T-shirts" in China and Vietnam at 14% and 30%, for "television receivers" in Vietnam at 25%, and for "passenger automobiles" in Thailand and Vietnam at 33.7% and 28.7% respectively.

If China imports 10 million yen worth of T-shirts from a clothing manufacturer based in Thailand, the import reduction rate of 30% implies that while the normal MFN tariff is 3 million yen, the tariff utilizing ACFTA would be 0 yen, and therefore a saving of 3 million yen in tariffs can be made.

The tariff reduction rate on "passenger automobiles" for Thailand is especially high, but this is because the MFN rate of 50.2% has been reduced to 17.5% under the ACFTA tax rate. But a rate close to a high 20% tariff is still levied, and hence the tariff reduction value remains at $1.7 million. The tariff reduction rate on "passenger automobiles" for Vietnam is also high, but like Thailand, the ACFTA tax rate of 41.2% is still high and the tariff reduction value is a mere $0.7 million.

In contrast, while the MFN tax rate on "television cameras" for China is 5.5%, the ACFTA tax rate is 0% and with the tariff eliminated for ACFTA member countries this has achieved a tariff reduction value of $7.1 million. **JS**

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