

The Use of FTAs in ASEAN: Survey-based Analysis

The Use of FTAs in ASEAN: Survey-based Analysis

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Foreword

The study, entitled ‘The Use of FTAs in ASEAN: Survey-based Analysis’ is one of the flagship reports of the Economic Research Institute of ASEAN and East Asia. Based on a study of firms conducted between April and August 2013, this study provides insights on the use of free trade agreements (FTAs) across ASEAN countries, the constraints on the use of FTAs, and how to overcome these constraints to improve the use of FTAs in ASEAN.

By August 2015, the 16 countries of East Asia had 66 FTAs in effect out of 126 FTAs around the globe. While Asian countries have been very active in engaging FTAs, early studies largely conducted between 2008 and 2011 assert that the historic use of FTAs in this region was relatively low.

The main value added of this study is twofold. First, this study’s survey took place in 2013, three years after the ASEAN+1 FTA came into effect in January 2010; this allows this study to detail the use of the ASEAN Free Trade Area (AFTA) and the other five ASEAN+1 FTAs: ASEAN–China, ASEAN–India, ASEAN–Japan, ASEAN–Korea, and ASEAN–Australia and New Zealand FTAs. Second, this study covers the use of FTAs in the manufacturing and services sectors. It also explains how export and import intensity affects the use of FTAs differently.

This study would not have been possible without our strong collaboration with the ASEAN Business Advisory Council both in organising the surveys and focus group discussions and in disseminating the findings to ASEAN Leaders. Our appreciation likewise goes to all country team leaders of the study and their survey staff who put their best efforts to get detailed findings. The ASEAN and country reports were edited by leading trade economists, Lili Yan Ing and Shujiro Urata. The survey was prepared by a core team composed of Ikumo Isono and Yoshifumi Fukunaga, led by Lili Yan Ing.

For policymakers, business associations, labour unions, non-government organisations, and academia, this report will be an important resource complement on the use of FTAs, which is based on customs data.

We hope that the study can provide firm findings on the overall use of FTAs in ASEAN, not only AFTA but also ASEAN+1 FTAs, and insights on overcoming the constraints in using FTAs to improve overall trade in goods and services in ASEAN.

Jakarta, August 2015

A handwritten signature in black ink, appearing to read 'H. Nishimura'.

Professor Hidetoshi Nishimura

President

Economic Research Institute for ASEAN and East Asia

Acknowledgements

This report provides insights on the use of free trade agreements (FTAs) in ASEAN countries in 2013 based on the survey of 630 manufacturing firms and 182 services firms in ASEAN countries, excluding Brunei Darussalam. The survey was conducted by national think tanks between April and August 2013 across nine ASEAN countries. Considering the number of firms, we conducted a focus group discussion, instead of a survey, in Brunei Darussalam.

This study greatly benefited from the collaboration with the ASEAN Business Advisory Council (ABAC) both in the survey and focus group discussion as well as in dissemination. Parts of this study were presented to the ABAC annual report to the ASEAN Leaders as well as at the annual ASEAN Business and Investment Summit in August 2013 in Brunei. Special thanks to Fauziah Talib and Rubben Hattari.

The study was prepared by a core team composed of Ikumo Isono (IDE-JETRO) and Yoshifumi Fukunaga (ERIA), led by Lili Yan Ing. Shujiro Urata provided strategic guidance and key comments. The study consists of 12 chapters. The first chapter provides insights on the use of FTAs in the manufacturing sector and the second chapter explains the use of FTAs in the services sector. The next 10 chapters provide detailed analyses on the use of FTAs in each country. The contributors for country reports are Yoshifumi Fukunaga, Ikumo Isono, and Lili Yan Ing for Brunei Darussalam; Chap Sotharith for Cambodia; Cita Wigjoseptina, Lili Yunita, and Yusuf Sofiyandi for Indonesia; Leeber Leebuapao and Saykham Voladet for Lao PDR; Shankaran Nambiar for Malaysia; Rafaelita M. Aldaba, Erlinda M. Medalla, Josef T. Yap, Maureen Ane D. Rosellon, Fatima Lourdes E. del Prado, Melalyn C. Mantaring, and Veredigna M. Ledda for the Philippines; Hank Lim and Aaron Choo for Singapore; Piyawan Suksri, Sineenat Sermcheep, and Piti Srisangnam for Thailand; and Vo Tri Thanh and Nguyen Anh Duong for Viet Nam. The study also benefited from the valuable comments of Ganeshan Wignaraja and Hank Lim in the early stages of the study.

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List of Abbreviations

AANZFTA	ASEAN–Australia- New Zealand Free Trade Agreement
ACFTA	ASEAN–China Free Trade Agreement
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AFTA-CEPT	ASEAN Free Trade Area-Common Effective Preferential Tariff
AIFTA	ASEAN–India Free Trade Agreement
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
AJFTA	ASEAN–Japan Free Trade Agreement
AKFTA	ASEAN–Korea Free Trade Agreement
AMC	ASEAN member country
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASIP	ASEAN Integration System of Preferences
ATIGA	ASEAN Trade in Goods Agreement
B2B	back to back
BJEPA	Brunei–Japan Economic Partnership Agreement
BOC	Bureau of Customs
CECA	comprehensive economic cooperation agreement
CICP	Cambodia Institute for Cooperation and Peace
COO	Certificate of Origin
DBFTA	‘Doing Business in Free Trade Areas’
DFTP	Non-Duty Free Tariff Preference
DTI	Department of Trade and Industry

EPA	economic partnership agreement
EPZ	export processing zone
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FGD	focus group discussion
FOB	free on board
FTA	free trade agreement
GSP	Generalized System of Preferences
IE Singapore	International Enterprise Singapore
IJEPA	Indonesia–Japan Economic Partnership Agreement
JETRO	Japan External Trade Organization
JSEPA	Japan–Singapore Economic Partnership Agreement
JTEPA	Japan–Thailand Economic Partnership Agreement
Lao PDR	Lao People’s Democratic Republic
MAFTA	Malaysia-Australia Free Trade Agreement
MCFTA	Malaysia–Chile Free Trade Agreement
MFN	most-favoured nation
MICECA	Malaysia-India Comprehensive Economic Cooperation Agreement
MITI	Ministry of International Trade and Industry
MJEPA	Malaysia-Japan Economic Partnership Agreement
MNC	multinational corporation
MNZ	Malaysia–New Zealand Free Trade Agreement
MoC	Ministry of Commerce
MOFAT	Ministry of Foreign Affairs and Trade
MPCEPA	Malaysia–Pakistan Closer Economic Partnership Agreement

NTMs	non-tariff measures
PCO	preferential certificate of origin
PJEPA	Philippines–Japan Economic Partnership Agreement
RCEP	Regional Comprehensive Economic Partnership
RGC	Royal Government of Cambodia
ROO	rules of origin
SEZ	special economic zone
SIIA	Singapore Institute of International Affairs
SMEs	small and medium-sized enterprises
TAFTA	Thailand–Australia Free Trade Agreement
TIFTA	Thailand–India Free Trade Agreement
TIG	trade in goods
TIS	trade in services
TPCEP	Thailand–Peru Comprehensive Economic Partnership
TPP	Trans Pacific Partnership
TTP	Trans-Pacific Partnership
UK	United Kingdom
US	United States
WTO	World Trade Organization

CHAPTER 1

How Do Exports and Imports Affect the Use of Free Trade Agreements? Firm-level Survey Evidence from Southeast Asia

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Based on profit estimations, findings from a firm-level survey of 630 manufacturing firms across Association of Southeast Asian Nations (ASEAN) countries conducted in 2013 showed that a 1 percent increase in the share of exports in total sales will increase the probability of use of free trade agreements (FTAs) by 0.2 percent, whereas a 1 percent increase in the share of imports in total inputs will reduce the probability of use of FTAs by 0.4 percent. Results from locally weighted scatterplot smoothing (LOESS) estimations predict that the use of FTAs is tilde-shaped and negative-shaped as a function of exports and imports, respectively.

Keywords: Free Trade Agreement, ASEAN, Regional integration, FTA Utilisation

JEL: F14, F15, F16, F23, F6

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1. Introduction

The last two decades have witnessed a surge in free trade agreements (FTAs) in Southeast Asia – they have evolved and embraced the trading partners of the Association of Southeast Asian Nations (ASEAN), mainly in East Asia. The ASEAN Free Trade Area (AFTA) was launched in 1992 with six ASEAN member states and four other states joined in the second half of the 1990s. Currently, AFTA has ten member states. A more comprehensive trade agreement, the ASEAN Trade in Goods Agreement (ATIGA), was concluded in 2008.

ASEAN and its six trading partners (Australia, China, India, Japan, Korea, and New Zealand) have enacted no less than 156 FTAs with their trading partners around the world (ADB, Asia Regional Integration Center, 2013). ASEAN itself has engaged in AFTA and in five regional FTAs with its main trading partners, known as ASEAN+1 FTAs – the ASEAN–Australia–New Zealand FTA, the ASEAN–China FTA, the ASEAN–India FTA, the ASEAN–Japan Comprehensive Economic Partnership (AJCEP), and the ASEAN–Korea FTA. AFTA effectively started in 1992, and the other FTAs came into force in January 2010.

In November 2011, a Regional Comprehensive Economic Partnership (RCEP) was initiated. This is essentially aimed at levelling up the quality of ASEAN+1 FTAs. The members of RCEP are Australia, Brunei Darussalam, Cambodia, China, India, Indonesia, Japan, Korea, Lao PDR, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Viet Nam.

The growing number of FTAs and Economic Partnership Agreements in this region raises a key question: *how do export and import intensities affect the use of FTAs?* Learning about the use of the existing FTAs in the region will help us to design new FTAs and optimise their use.

Section 2 reviews existing studies. Section 3 explains the estimation strategy and data. Section 4 presents our findings, and section 5 draws conclusions and provides our policy recommendations.

2. Literature Review

Principally, there are two main approaches to analysing the use of FTAs – records of official FTA certificates of origin and firm-surveys. Each has positive and negative aspects.

The first approach is based on official FTA certificates of origin (COO). This approach has two positive aspects. First, it provides information on the detailed use of FTA by products. Second, there is no sample bias problem. The main challenge is data availability. In the area of Southeast Asia that we cover in our analysis, only Thailand and Malaysia can provide detailed data of the issuance of COO. In the other countries there are no detailed data on the use of FTAs by product and by trading partner. Moreover, customs data do not provide information on firm characteristics. The first approach is used in a selected number of studies conducted by Ratananarumitsorn and Laksanapanyakul (2008), Athukorala and Kohpaiboon (2011), and Kohpaiboon (2012) for Thailand.²

The second approach to the study of FTA usage is the firm survey. The two main positive aspects of this approach are, first, that it provides firm characteristics, which allows us to analyse how firm characteristics will affect decisions of firms to use FTAs. Second, it allows us to observe motivations for use of FTAs as well as constraints on their use. The main challenge of the survey approach, however, is that it can be both costly and time-consuming to conduct the required surveys. In addition, there is a sample bias issue, and thus the quality of research mainly relies on the survey strategy. There are three major groups of studies that analyse FTA utilisation in East Asia using the survey approach – Asian Development Bank (ADB) studies (Cheong and Cho, 2009; Wignaraja et al., 2009; Wignaraja, 2010; Zhang, 2010; Chia, 2011; Hiratsuka et al., 2011; Kawai and Wignaraja, 2011; Wignaraja et al., 2011; and Wignaraja, 2013), Japan External Trade Organization (JETRO) studies (Hiratsuka et al., 2009; Hayakawa, 2012; 2013; and Hayakawa et al., 2013), and Research Institute of Economy, Trade and Industry (RIETI) studies (Takahashi and Urata, 2008; 2010).

The existing literature on the use of FTAs mostly provides insights into the use of FTAs by products using the first approach, or how firm characteristics (size, ownership, location,

² The official COO approach is also used in a study by Pomfret et al. (2010) for Australia, where official FTA COO data are available.

exporting, importing, and others) affect their use using the second approach. But they do not explain the overall picture of how the levels of export and import activities – the share of exports in total sales and the share of imports in total inputs – actually affect firm behaviour in terms of their decisions to use FTAs.

The main value added of our paper is twofold. First, it provides a survey-based study on the use of FTAs in Southeast Asian countries. Second, it explains the use of FTAs in relation to export and import intensity. Moreover, considering the fact that all ASEAN+1 FTAs were in effect in January 2010, our survey conducted in 2013 will provide significant insights into the use of FTAs in this region, thereby complementing the latest existing studies conducted mostly using survey data gathered before 2010/2011.

3. Estimation Strategy and Data

3.1. Estimation Strategy

First, we aim to analyse how export and import activities will affect the use of FTAs, by controlling firm characteristics.

$$\hat{y}_k = \begin{cases} 1 & \text{if the firm uses at least one FTA} \\ 0 & \text{otherwise} \end{cases} \quad (1)$$

$$\hat{y}_k = \beta_1 X_k^{FTA_{ij}} + \beta_2 M_k^{FTA_{ij}} + \beta_3 GSP^{ij} + \gamma F_k + \varepsilon_k \quad (2)$$

where \hat{y} is the revealed use of an FTA. k indexes firms. In our empirical exercise, we limit the observation by defining firm as the firm that is located and operating in Southeast Asia. \hat{y}_k will be 1 if a firm uses at least one FTA for either exports or imports; 0 otherwise.

FTA_{ij} is an FTA of which countries i and j are members. In our empirical exercise, i stands for ASEAN countries and j stands for ASEAN's partners (here meaning ASEAN's six main trading partners).

To see how exports and imports affect the use of the FTA, let X and M be the share of the value of exports in total sales and the share of the value of imports in total inputs,

respectively. We also test it in dummy forms where *DX* and *DM* represent dummies for exporting firms and importing firms, respectively. We also include a dummy variable for the use of the Generalized System of Preferences (GSP) to see if experience of using GSP may affect the use of FTAs.

F stands for a number of firm characteristics which include size of firm, ownership, and location. The size of firm will be represented by the number of total workers. Ownership is represented by a dummy variable which is 1 for a firm that is wholly domestically owned; 0 otherwise. Location will be represented by a dummy variable which is 1 for a firm that is located in an industrial zone such as an export processing zone, a free trade zone, or a special economic zone; 0 otherwise. We also control for age and the initial capital of firms in standard log forms.

3.2. Data

The Economic Research Institute for ASEAN and East Asia (ERIA) in collaboration with the ASEAN Business Advisory Council (ASEAN BAC) and national think tanks in the Southeast Asian region conducted surveys on the usage of FTAs by the private sector. The surveys cover 630 exporting and/or importing manufacturing firms across nine ASEAN countries – Cambodia, Lao PDR, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. The surveys were complemented with interviews and focus group discussions with firms, business associations, chambers of commerce, and government officials. Considering the relatively small number of manufacturing and services firms in Brunei, focus group discussions were organised there instead of surveys. The surveys were carried out between April and August 2013. They were led by Cambodian Institute for Cooperation and Peace (CICP) in Cambodia, Lembaga Penyelidikan Ekonomi dan Masyarakat (LPEM–FEUI) in Indonesia, National Economic Research Institute (NERI) in Lao PDR, Yangon Institute of Economics in Myanmar, Malaysian Institute of Economic Research (MIER) in Malaysia, Philippine Institute for Development Studies (PIDS) in the Philippines, Singapore Institute of International Affairs (SIIA) in Singapore, Chulalongkorn University in Thailand, and Central Institute for Economic Management (CIEM) in Viet Nam.

The selection of the sample of exporting and/or importing manufacturing firms is based on a 2010 industry survey that covered all industries in the manufacturing sector, and excluded trading firms. To reduce sample bias, the samples were selected with the consideration of size, ownership, location, and the proportion of the use of FTAs (see Appendix A.1 and A.2 for detailed firm characteristics).³

4. Survey and Estimation Results

4.1. Survey Results on the Use of FTAs

Tables 1 and 2 show the survey findings on the use of FTAs by agreement. Generally, the pattern of FTA usage is determined by the intensity of exports and imports between countries. Table 1 shows that, without controlling for trading partners, the average use of AFTA and ASEAN+1 FTAs for exporting and importing firms were 15 percent and 12 percent, respectively. The usage of FTAs in ASEAN appeared to follow this pattern.

Table 1—column (a) shows that in exports, about 32.5 percent of the total exporting manufacturing firms claimed they used AFTA–ATIGA for their exports. The use of ACFTA and AKFTA for exports was also higher compared with the other FTAs, with a usage of 20.6 and 14.8 percent, respectively. Only about 5 percent of the total exporting manufacturing firms claimed that they used either AJCEP or the ASEAN–India Free Trade Area (AIFTA).

Table 1—column (b) illustrates that 32.7 percent of total importing manufacturing firms claimed they used ACFTA for their imports and that 19.1 percent of importing manufacturing firms claimed they used AFTA–ATIGA for their imports to ASEAN. The use of AKFTA for imports in ASEAN was about 7.8 percent, and that of the other FTAs was less than 5 percent.

³ To obtain representative respondents, the surveys were designed to have respondents who is only either exporting or importing, or both exporting and importing. The definition of the size of firms is based on the number of employees: Small (<50 employees), Medium (51–300 employees) and Large (>300 employees), as defined by the International Financial Corporation, 2012.

Table 1: The Survey Results of the Use of FTAs in Manufacturing

FTAs	Firms using FTAs for Exports (% of exporting manufacturing firms) (a)	Firms using FTAs for Imports (% of importing manufacturing firms) (b)
FORM D (AFTA–ATIGA)	32.5	19.1
FORM E (ACFTA)	20.6	32.7
FORM AK (AKFTA)	14.8	7.8
FORM AANZ (AANZFTA)	9.3	2.9
FORM AJ (AJCEP)	5.4	2.3
FORM AI (AIFTA)	5.1	4.0
FORM A (GSP)	43.7	18.5
FORM B (MFN)	21.5	6.6

Source: Authors' calculations based on ERIA's firm surveys.

Note:

1. The total number of observations is 630 firms. The number of exporting manufacturing firms is 514, and the number of importing manufacturing firms is 346 (firms located in export processing zones, free trade zones, and special economic zones are excluded from the total importing manufacturing firms as they are eligible for tariff-free imports, so that there is no necessity for them to obtain FTA COO).
2. The interpretation of percentage 32.5 in the table: on average, 32.5 percent of the total exporting manufacturing firms in ASEAN claimed they used AFTA–ATIGA.
3. The summation of the use of FTA COO does not necessarily equal to 100 percent as not all firms used FTAs and one firm may have had more than one FTA COO (e.g. most-favoured nation [MFN] and GSP).
 - a. GSP is a program designed to provide preferential duty-free entry
 - b. MFN is a program designed to apply the same tariff rates for all countries.
4. Please note that the magnitudes of the usage of FTAs could be higher if we control for the number of firms by export destinations and import origins (see Table 2).

When we control for preferred main trading partners, the use of FTAs shows higher results (Table 2). Since the use of FTAs largely concentrated on AFTA–ATIGA and ASEAN+1 FTAs, we controlled for respondents claiming that the main export destination of their products and/or the import origin of their inputs was at least one of the 16 countries that are members of at least one of the FTAs in the region. The denominator now is the firms that only exported to or imported from at least one of the 16 countries (i.e. Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Korea, Lao PDR, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Viet Nam). It shows that, on average, the use of AFTA or ASEAN+1 FTAs were 21 percent and 18 percent, respectively, with the following pattern.

Table 2–column (a) illustrates that 51.5 percent of exporting firms had export destinations of at least one of the 16 countries that claimed used AFTA–ATIGA in 2013. The relatively high usage of AFTA–ATIGA compared with the other FTAs was mainly driven by the fact that ASEAN is the main export destination for ASEAN countries. ASEAN contributed 26 percent to the total value of exports of ASEAN countries to the world in 2011. In addition, businesses were relatively more aware of and familiar with the procedure of AFTA COO, as AFTA started in 1992, whereas other FTAs came into effect only in 2010.

The table also shows that 25.6 and 20.0 percent of firms claimed they used ACFTA and AKFTA for their exports, whilst the use of the other FTAs was below 14 percent, which resulted in an average use of FTAs in ASEAN of 21.4 percent⁴. The low usage of AJCEP of only 6.6 percent is probably due to the fact that Japan has formed bilateral FTAs with most ASEAN countries, whereas the relatively low usage of AIFTA is probably due to the fact that the flow of exports of ASEAN countries to India was lower than that of exports of ASEAN to its other main trading partners – China, Korea, and Japan. The share of exports of ASEAN countries to India was only about 3 percent of total ASEAN exports to the world in 2011. In Cambodia, Lao PDR, and Myanmar (CLM), on average, the usage of FTAs for exports was about 60 percent of the average of that of other ASEAN countries in AFTA–ATIGA, ACFTA, and AKFTA. The usage of the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA) and AIFTA and AJCEP in CLM countries was only about 3 percent or less.

Table 2–column (b) shows AFTA–ATIGA had the highest usage in 2013 with 39.4 percent. Grouping all ASEAN countries together, ASEAN was the largest source of imports for ASEAN, accounting for 23 percent of the total value of ASEAN’s imports in 2011. ACFTA had the second highest usage for imports in ASEAN, with 38.7 percent. China was the second largest import origin, after ASEAN, contributing 13 percent of the total value of imports of ASEAN from the world in 2011. ASEAN countries are viewing the rise of trade with China as

⁴ The calculation of the use of FTAs is based on Ing and Urata’s method, which is largely influenced by Pomfret et al. (2010). They used tariff lines, here we use surveyed firms. Previous studies asserted that across six ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam), the total utilisation rates of FTA COO for exports and imports were about 20 percent between 2006 and 2008 (Hiratsuka et al., 2009) and increased to about 25 percent in 2011 (Hayakawa, 2013, based on the JETRO Survey on Japanese affiliated firms). A detailed discussion on the existing methods of measurement of the utilisation rates of FTAs can be found in Hamanaka (2013).

both a threat and a hope. The threat is that China may seize shares of the ASEAN domestic market with its relatively competitively priced products, and the hope is that ASEAN could benefit from cheaper materials. Thus, an increase in the use of ACFTA for imports may not necessarily be a negative sign for trade (See Ing, 2012, on the case of Indonesia using ACFTA). The use of AKFTA and AIFTA for imports in ASEAN was 12.3 and 9.6 percent, respectively, whereas that of the other FTAs was about 5 percent or less.

The use of FTAs was rather concentrated in certain products. For example, the use of FTAs was concentrated in apparel and electronics, which contributed about 18 and 10 percent, respectively, to the total use of FTA COO in Indonesia. It also revealed that the use of FTA COO was concentrated in machinery and pharmaceuticals, which contributed 13 and 12 percent, respectively, to the total use of FTA COO in Thailand.⁵

**Table 2: Survey Results of the Use of FTAs in Manufacturing,
Controlling for Preferred Main Trading Partners**

FTAs	Firms using FTAs for Exports (% of exporting manufacturing firms) (a)	Firms using FTAs for Imports (% of importing manufacturing firms) (b)
FORM D (AFTA–ATIGA)	51.5	39.4
FORM E (ACFTA)	25.6	38.7
FORM AK (AKFTA)	20.0	12.3
FORM AANZ (AANZFTA)	13.8	5.4
FORM AJ (AJCEP)	6.6	3.3
FORM AI (AIFTA)	10.8	9.6
FORM A (GSP)	42.0	16.5
FORM B (MFN)	21.4	6.4

⁵ The official data on the use of FTAs confirm the survey findings. However, the data on the use of FTAs by products are very limited. These data are only available for Indonesia and Brunei. The number of FTA COO in Indonesia's exports were concentrated in textiles, machinery and electronics, wood and wooden products, plastics and rubber, and chemicals, which constituted about 58 percent of the total number of COO for exports (Ministry of Trade of Indonesia, 2013). Likewise, exports using FTA COO in Brunei were largely concentrated in mineral fuels, and mineral oils and products of their distillations, which contributed about 98 percent to the total value of exports using COO, whereas manufactured goods only contributed about 2 percent to the total value of exports using COO (Ministry of Foreign Affairs and Trade of Brunei, 2013).

Source: Authors' calculations based on ERIA's firm surveys.

Note:

1. The total number of observations is 630 firms. By controlling the preferred trading partners of the 16 countries, the number of exporting manufacturing firms is 317, and the number of importing manufacturing firms is 252 (the firms which are located in export processing zones, free trade zones, and special economic zones are excluded in the total importing manufacturing firms as they are eligible for tariff-free imports, so that there is no necessity for them to obtain FTA COO).
2. The interpretation of the percentage 51.5 in the table: on average, 51.5 percent of the total exporting manufacturing firms in ASEAN claimed they used AFTA-ATIGA.
3. The summation of the use of FTA COO does not necessarily equal to 100 percent as not all firms used FTAs and one firm may have used more than one FTA and non-FTA COO (e.g. most-favoured nation [MFN] and Generalized System of Preferences [GSP]).
 - a. GSP is a program designed to provide preferential duty-free entry.
 - b. MFN is a program designed to provide tariff rates applied the same for all countries.

4.2. Estimation Results on the Use of FTAs

4.2.1. The Use of FTAs as a function of exports and imports

Table 3 shows the probit estimation results of the use of FTAs in ASEAN. Table 3—column (a) shows that export share affected the use of FTAs. An increase of 1 percent in export share increased the likelihood of FTA use by 0.1 percent. However, low chi-square and pseudo R-squared shows the estimation may have suffered from omitted variables.

Interestingly, exports and imports affected the use of FTAs in different ways. Table 3—column (b) shows that a 1 percent increase in the share of exports in total sales led to a 0.2 percent increase in the probability that firms would use FTAs, whilst a 1 percent increase in the share of imports in total inputs reduced by 0.4 percent the probability that firms would use FTAs.

Table 3-column (b) also shows that domestic firms were 15 percent more likely to use FTAs. This finding is consistent with a study by Khopaiboon (2012) on the use of FTAs in Thailand, employing data on official FTA COO. One of the explanations for this could be that domestic firms largely operate in relatively small profit margin businesses, which leads them to pursue even small gains driven by margins of preference, which may affect the prices of their final products in export markets. The experience of the use of GSP indicates it would increase the probability of using FTAs, but it is not statistically significant. The number of workers, which is widely used as a measure reflecting the size of firms, also showed a positive effect on the probability of using FTAs, whilst firm location did not affect the use of FTAs.

Level of development of a country also showed a positive effect on the use of FTAs. A firm that is located in a 10 percent higher income per capita country was 6.2 percent more likely to use FTAs. The reasons could be related to the fact that, firstly, a higher income per capita country may have a more efficient system for firms to obtain an FTA COO, and second, that country has more capacity to spread information on the use of FTAs and thus can provide more help to their firms in terms of using FTAs.

Table 3—column (c) shows that an exporting firm was 39 percent more likely to use FTAs than the average importing firm, whereas being an importing firm did not significantly affect the probability of using FTAs.

Table 3: Probit Estimation Results of the Use of FTAs in ASEAN

Estimator	Probit	Probit	Probit
Sample	All	All	All
Dependent variable:	(a)	(b)	(c)
The use of FTAs (1=use FTA; 0=otherwise)			
Export share	0.001*	0.002***	
	(1.74)	(2.33)	
DX=1 if export share>0			0.392***
			(7.81)
Import share		-0.004***	
		(-3.75)	
DM=1 if import share>0			0.047**
			(2.01)
DGSP=1 if has ever used GSP	0.236	0.256	0.256
	(1.17)	(1.22)	(1.15)
Worker (ln_number of worker)	0.024	0.032**	0.047***
	(1.58)	(2.03)	(2.86)
DDOM=1 if domestic share>0		0.150***	0.202***
		(3.20)	(4.13)
DLOC=1 if in industrial area	-0.049	-0.006	-0.064
	(-1.12)	(-0.13)	(-1.38)
Level of development (ln_gdpcap)	0.004	0.006**	0.011***
	(0.30)	(1.98)	2.32
Constant	-1.287***	-1.176***	-1.155***
	(-3.50)	(-3.07)	(-3.09)
Firm characteristics (note for me: age of firm, ln capital in 2012)	Yes	Yes	Yes
Observations	630	630	630
Chi-square test	24.17	50.26	94.99
Prob>Chi-square	0.001	0.000	0.000
Pseudo R2	0.312	0.686	0.633

t-test in parentheses.

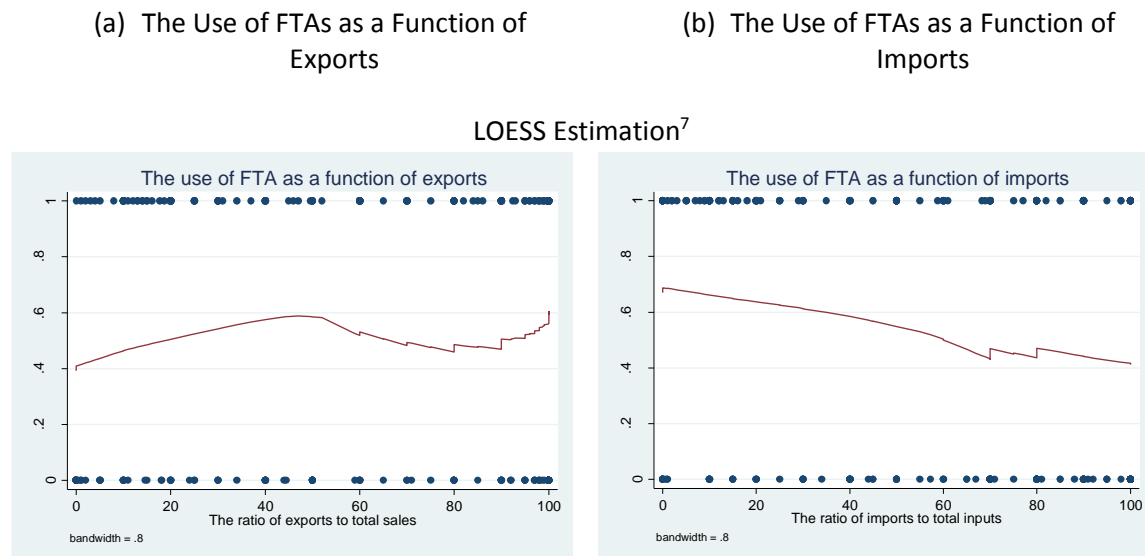
***significant at 1%, **significant at 5%, *significant at 10%

Figure 1 shows findings from locally weighted scatterplot smoothing (LOESS) estimations, predicting the use of FTAs as tilde-shaped and negative-shaped functions of intensity of exports and imports, respectively. A share of exports up to 50 percent will increase the use of FTAs, but then it starts to decrease until it reaches 80 to 90 percent. The reason

could be that imports are largely used for exports, and the higher the import content, the lower the likelihood that a firm would use FTAs due to certain domestic (and regional) value content requirements, which usually require them to at least use 35 to 40 percent regional value content to satisfy rules of origin (ROO).⁶

The use of FTAs as a function of intensity exports and imports will be further explored using LOESS estimations.

Figure 1: The Use of FTAs as a Function of Exports and Imports



Source: Authors' estimations

Note: We used locally weighted scatter plot smoothing estimation.

However, in drawing policy recommendations the findings should be interpreted with caution as the results are survey-based, even though sample-bias has been controlled for and a local polynomial has been introduced.

⁶ Imports affect the use of FTAs in two ways. First, the higher firms' need of import content, the higher the likelihood of them using FTAs. This will positively affect the use of FTAs. However, if firms use import content for their exports, then the higher the import content, the less likely those firms will use FTAs due to certain domestic (and regional) value content requirements. This will negatively affect the use of FTAs.

⁷ Local polynomial Gaussian and Epanechnikov estimations are also introduced (see Appendix).

4.3. Reasons for a Relatively Low Usage of FTAs

The main reasons for a relatively moderate use of FTAs in the manufacturing sector across ASEAN countries could be twofold. First, there was only a small ‘benefit margin’ (see below for the definition) arising from the use of an FTA. Second, it was claimed that the information about FTAs was limited.

The first reason for the relatively low uptake of FTAs was the small benefit margins arising from their use. The benefit margins of FTAs are defined as the difference between the benefits arising from, and costs of, using FTAs. The benefits can be obtained from tariff margins known as the ‘margin of preference’, which is the difference between most-favoured nation (MFN) applied tariff rates and FTA preferential rates; and the costs are costs of obtaining COO.

Margins of preference are relatively low already, largely because the MFN applied tariff rates are already low in comparison with FTA tariff reduction schedules. The average MFN rate of the original ASEAN members was relatively low, ranging from 7 percent in 2005 to 6 percent in 2010 as a result of unilateral tariff reductions driven by international commitments made in the mid-1990s⁸. On average, they offered preferential tariff rates of 2 percent for ASEAN members over the same period, so that the tariff margin was about 4–5 percent. The tariff margins are even lower for ASEAN trading partners. Tariff rates in Australia and Japan were already low, so the tariff margins resulting from a preferential treatment seem to be very limited. For example, the average applied tariff rate for Australia was 3 percent in 2006; the corresponding figure for Japan was also 3 percent. Hence, it is unlikely that the tariff margins will be more than 5 percent for ASEAN members (ERIA’s staff calculations, based on ASEAN Secretariat, 2013, and UNCTAD, 2013).⁹

Moreover, as tariffs become lower, the number of non-tariff measures is perceived to increase, as indicated in the interviews and focus group discussions. Also, it is often the case

⁸ However, for a number of products, particularly safety-use products, protected-sector products, or high-end products, applied tariffs are still in two digits. For example, Indonesia still applies tariff rates of 20 percent, 15 percent, and 12 percent on edible preparations, vehicles, and articles of apparel, respectively, in AANZFTA and AIFTA. And the Philippines also still have relatively high tariff rates of 22 and 12 percent on processed meat and vehicles, respectively, in AJCEP and ACFTA.

⁹ Empirical studies of preferential trade agreements (PTAs) generally claim that a threshold for margins of preference is about 4 percent (Francois et al., 2005) to 5 percent (Amiti and Romalis, 2006). If margins or preference are below the threshold it is not worth for firms to claim. This suggests that when MFN rates are below 5 percent, a preferential rate will be ineffective.

that shipments brought through customs under FTAs receive greater attention from customs officials, resulting in delays. To avoid administrative difficulties and delays, many firms opt to pay full duties when exporting. This indicates that the tariff margins under the existing FTAs are still perceived as not offering firms sufficient benefits compared with their costs.

Looking at the costs of COO, the ad-valorem equivalent of ASEAN's Rules of Origin is 3.40 percent across all instruments and sectors. It is 2.09 percent as a trade-weighted average (Cadot and Ing, 2014)¹⁰. The costs incurred and procedures that have to be complied with to obtain COO were perceived as being relatively high for small and medium enterprises. Whereas the official costs of obtaining COO were perceived to be reasonable across ASEAN countries (i.e. the survey shows the average official costs of obtaining preferential COO was only about USD 10–20 in Southeast Asia), concerns regarding the costs of applying for COO appeared to be prevalent amongst small and medium enterprises who would most likely not have the necessary in-house expertise. Thus, such small and medium enterprises have to engage a third party to assist them in obtaining preferential COO, which incurs third party fees.

Furthermore, many exporting firms in ASEAN countries are already in either free trade zones or operating under special arrangements with tax incentives. Most ASEAN countries had already been operating other schemes prior to the signing of FTAs, such as Information and Technology Agreement (ITA), Export Processing Zone (EPZ), and GSP, which allow firms to enjoy zero-tariffs (and tax incentives), and thus firms preferred to use those schemes rather than FTAs.

The second reason for the relatively low uptake of FTAs was that firms have limited information about FTAs. To date, ASEAN has engaged in at least six regional FTAs and a significant number of bilateral FTAs. However, on average, more than 60 percent of respondents across countries in the manufacturing sector claimed that the information about FTAs and how to use them was still limited or very limited. Government websites were cited as the top sources for obtaining information about FTAs, including their procedures and costs. Freight forwarding companies were the second source for information about FTAs. In certain

¹⁰ This is in line with those in Central Europe of 5 percent (Herin, 1986) and 4.5 percent for the North American Free Trade Agreement (NAFTA) (Portugal-Perez, 2009).

countries, such as Cambodia, 70 percent of firms using FTAs claimed they are urged to do so by their government, whilst the other 30 percent are asked to do so by their trading partners. In Myanmar, interviews indicated that FTAs are even still perceived as another manifestation of trade restrictions.

5. Conclusions and Policy Recommendations

In conclusion, the intensity of export activities relative to total sales and that of imported inputs relative to total inputs play significant roles in the use of FTAs. To further improve the use of FTAs in the region, we recommend:

First, to increase the benefit margins of FTAs, and thus provide additional gains from the existing ASEAN+1 FTAs, ASEAN should set a motivating yet feasible level of tariff elimination in their preferential agreements. Simultaneously, for ASEAN to address the issue of the number of non-tariff measures, which are perceived to be increasing as tariff rates decline, the governments should set up country-level regulatory-oversight agencies to carry out non-tariff measure reviews (Cadot, Munadi, and Ing, 2013).

Second, to increase the use of FTAs, ASEAN should improve efforts to simplify ROO. Prima facie, ASEAN's ROO have a relatively simple and transparent structure, with 28 percent of them subject to a 40 percent regional value content (RVC-40) or change of tariff classification (CTH). One way to further ease the complexity of ROO is by generalising the alternate rule of ROO (Medalla, 2011) and streamlining ROO in light industries such as apparel, footwear, and prepared foods, which currently make up a low share of Asia Pacific trade, but may provide good opportunities for export-led growth and thus poverty reduction in some of the region's poorest countries (Cadot and Ing, 2014).

Last, to improve the information on FTAs and how to use them, one priority should be to improve the service quality of government websites and the help desks of authorities issuing COO. The websites and help desks should act as a front line in dealing with FTA regulations and policies for traders. Improvements should cover both hard and soft infrastructures of the websites and help desks, including the skills and capacities of officials. The improvement process could start with providing detailed information on COO

requirements online, or on other publicly available media, along with the costs of obtaining COO and the departments that are responsible for issuing them, as well as the individuals in charge and their contact details. The information about FTAs could also be disseminated through other accessible means such as mobile phones or other communication devices. The help desks and/or other units related to issuing COO and/or providing information on COO should be adequately trained to respond to basic questions relating to FTAs, trade agreement policy and regulations, benefits, and how to obtain a COO, including FTA procedures and costs. National chambers of commerce and business associations also play important roles in disseminating information about FTAs and providing input for governments when they are designing trade agreements. The majority of firms surveyed asserted that they would like to see more seminars, briefings, and consultations conducted to promote the use of existing FTAs and any new FTAs. Governments should also consider adopting an evaluation mechanism to review the use of FTAs, which would allow the private sector to provide input that could be used as a basis when forming other FTAs, or any other type of cooperation or economic preferential agreement. In doing so, suitable methods to measure the effectiveness of FTAs or other preferential trade agreements should be implemented, and surveys or discussions with firms and business associations could complement the resulting findings on the effectiveness of the use of FTAs.

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Appendix

A.1. Firm Characteristics in the Manufacturing Sector

The surveys cover 630 exporting/importing manufacturing firms across ASEAN countries, excluding Brunei.

a. By Size

Country	Small	Medium	Large	Unknown	Total
Cambodia	5	8	36	11	60
Indonesia	4	41	55	4	104
Lao PDR	26	27	7	0	60
Malaysia	18	23	8	2	51
Myanmar	12	12	22	6	52
Philippines	20	45	39	4	108
Singapore	3	3	1	0	7
Thailand	16	37	24	8	85
Viet Nam	34	36	29	4	103
Total	138	232	221	39	630

Notes: Small (≤ 50 employees); Medium (51–300 employees); Large (> 300 employees) based on IFC (2012).

b. By Ownership

Country	Fully Domestic	Fully Foreign	Joint Venture	Unknown	Total
1- Cambodia	0	54	4	2	60
2 - Indonesia	27	41	18	18	104
3 - Lao PDR	19	25	16	0	60
4 - Malaysia	45	0	5	1	51
5 - Myanmar	51	0	1	0	52
6 - Philippines	26	40	35	7	108
7 - Singapore	6	0	1	0	7
8 - Thailand	56	2	18	9	85
9 - Viet Nam	78	19	5	1	103
Total	308	181	103	38	630

c. By Export and Import Activities

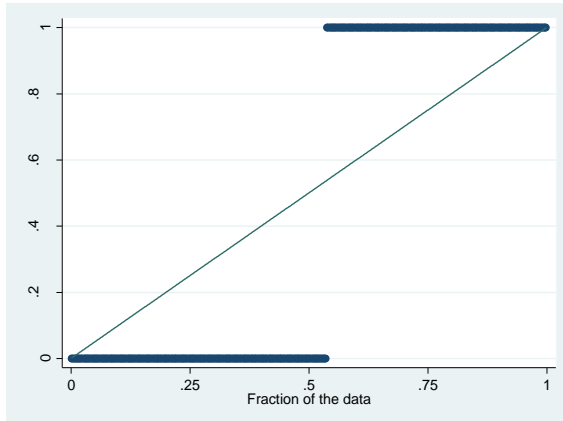
Country	Export Only	Import Only	Export & Import	Unknown	Total
1- Cambodia	2	4	49	5	60
2 - Indonesia	22	13	63	6	104
3 - Lao PDR	16	15	26	3	60
4 - Malaysia	17	2	29	3	51
5 - Myanmar	44	1	6	1	52
6 - Philippines	15	10	76	7	108
7 - Singapore	1	1	4	1	7
8 - Thailand	25	5	53	2	85
9 - Viet Nam	18	12	48	25	103
Total	160	63	354	53	630

Summary of variables

Variable	Obs	Mean	Std. Dev.	Min	Max
FTA	630	.4634921	.4990616	0	1
dx	630	.6244131	.4846534	0	1
exp_share	630	70.23235	29.7463	0	100
dm	630	.4913928	.5003175	0	1
imp_share	630	60.5813	25.46342	0	100
d_dom	630	.4888889	.5002737	0	1
Dom_share	630	41.72106	36.65538	0	100
Dummy_GSP	630	.970266	.1699855	0	1
ln_worker	630	5.170694	1.687104	1.098612	10.59663
ln_gdpcap	630	7.921816	.7412697	6.931019	10.87056

A.2. Data and Estimations

The Quantile Plot of the Use of FTAs
(1=the use of FTAs; 0=otherwise)

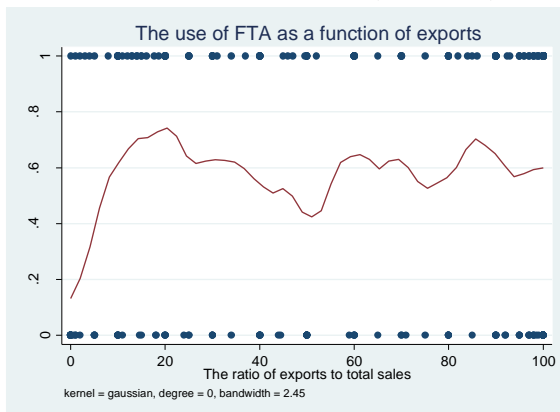


The Quantile-Quantile Plot of Exports and Imports

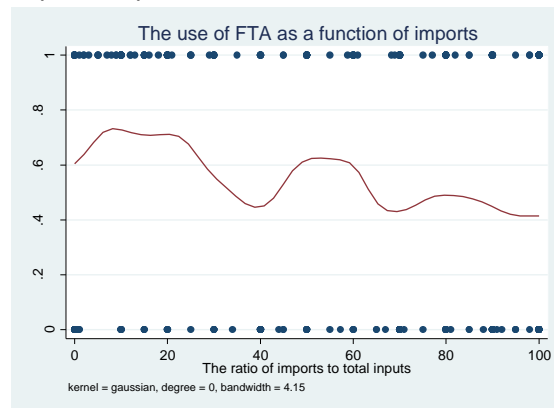


Source: Author's estimations.

The Use of FTAs as a Function of Exports

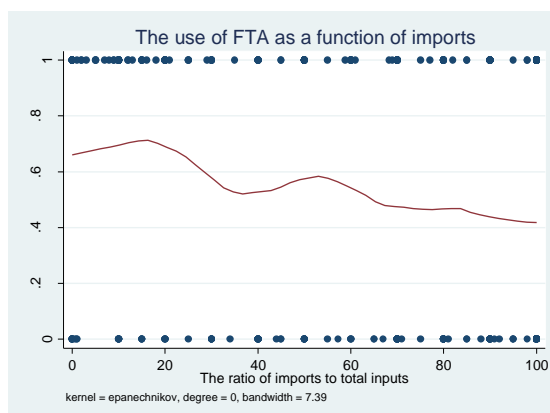
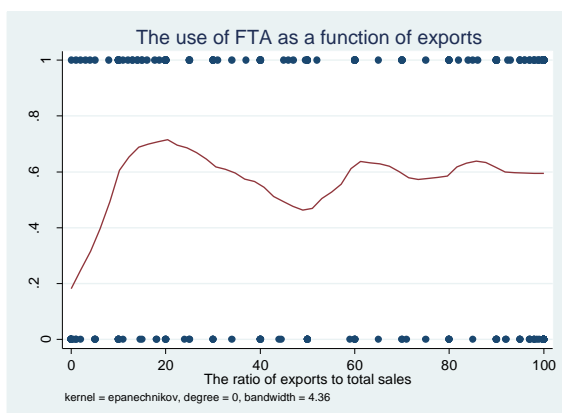


The Use of FTAs as a Function of Imports



Kernel (Gaussian) Probability Density Estimation

Kernel (Epanechnikov) Probability Density Estimation



Source: Authors' calculations.

CHAPTER 2

Utilisation of Free Trade Agreements by Services Industries in ASEAN

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In this paper, we investigate the utilisation of free trade agreements (FTAs) by services industries in eight member countries of the Association of Southeast Asian Nations (ASEAN). Using original survey data, we examine, in particular, the linkage between the trade in goods, rather than the trade in services, of services companies and their utilisation of FTAs. Our findings are as follows. First, a slight majority of services firms engaged in direct imports use FTA Certificates of Origin (COOs). Second, firms often use FTAs without recognising what these are due to lack of understanding of the legal meaning of COOs. Amongst services firms utilising FTAs, the ASEAN Trade in Goods Agreement and the ASEAN-China Free Trade Agreement are the most popular. Third, 'lack of information' and 'small trade volume' are the two main reasons cited by services firms for not using FTAs. Fourth, 70 percent of firms claim that information on FTAs is either poor or very poor. Last, only 10 percent of firms consider FTAs as a factor to be taken into account in making decisions on their investment locations.

Key Words: ASEAN, FTA utilisation, services industry

JEL Classification: F10, F13, F15

1. Introduction and Literature

While the multilateral trading system faces difficulties in delivering new trade agreements, free trade agreements (FTAs) are steadily increasing in importance in trade liberalisation and are becoming highly relevant in the context of the Association of Southeast Asian Nations (ASEAN). ASEAN signed its first regional trade agreement, the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area in 1992, and has since prompted the ASEAN member states to negotiate more FTAs. The ASEAN countries as a regional group have expanded their FTA networks by signing five ASEAN+1 FTAs.¹ Individual states have also signed bilateral FTAs with non-ASEAN trading partners (e.g. the Thailand-Japan FTA). There are further ongoing FTA negotiations, including the Regional Comprehensive Economic Partnership and the ASEAN-Hong Kong FTA.

Many ex-ante simulation studies have contributed to and argued for the formation of these FTAs. These studies assume that firms fully utilise FTAs. Most important, therefore, for an ex-post study of the economic impacts of FTAs is to determine whether and to what degree firms are using FTAs and what sort of challenges they face, if any.

There are two main methodologies used in the study of FTAs. The first uses official data on trade value using FTA preferences and the issuance of Certificates of Origin (COOs). Firm characteristics, unfortunately, are not covered in these official data and thus this approach does not match our research purpose. The second methodology is firm survey. A specifically designed survey allows us to analyse the key research questions. For example, under the initiative of the Asian Development Bank, Kawai and Wignaraja (2010) collected a large number of survey responses in the Philippines, Singapore, and Thailand and laid the foundations for FTA utilisation research in ASEAN. Their study, however, focused solely on manufacturing firms. On the other hand, studies using the survey responses from the Japan External Trade Organization cover a large number of services industries in Asia-Pacific (e.g. Hiratsuka et al., 2009). In *Survey of Japanese-Affiliated Firms in ASEAN, India, and Oceania* (2013), the Japan External Trade Organization asked whether respondent firms use FTAs in trade with Japanese affiliate companies in ASEAN. The utilisation rate for export was 42.8 percent for manufacturing firms. Interestingly, 37.1 percent of services firms also reported

¹ At the time of writing, the five ASEAN+1 FTAs are ASEAN-Australia and New Zealand FTA, ASEAN-China FTA, ASEAN-India FTA, ASEAN-Japan Economic Partnership Agreement, and ASEAN-Korea FTA.

FTA utilisation for export. Ninety-five percent of respondent services companies that reported FTA utilisation were classified as wholesale and retail, and logistics. The utilisation rate for import was 45.9 percent for manufacturers and 45.6 percent for non-manufacturers. In particular, 51.8 percent of wholesale and retail services utilised an FTA for importation. Again, wholesale and retail, and logistics account for 95.5 percent of respondent services companies who reported using an FTA. Unfortunately, the Japan External Trade Organization survey covered only Japanese affiliates and thus did not capture the state of FTA utilisation by indigenous services firms in ASEAN.

This study is intended to fill this gap by using original survey data collected from services industries in eight ASEAN countries. It looks at the utilisation of FTAs by services firms in trading goods.²

2. Data

The Economic Research Institute for ASEAN and East Asia (ERIA), in collaboration with the ASEAN Business Advisory Council and national think tanks, conducted surveys on the utilisation of FTAs by the private sector.³ The surveys gathered responses from 630 manufacturing firms and 182 services firms. This paper focuses its analysis on the responses from the services firms.⁴

Our sample includes 90 small firms (i.e. 50 or fewer employees), 44 medium-sized firms (50–300 employees), and 43 large firms (301 or more employees). In terms of ownership, 133 firms are domestically owned, 16 are owned by foreign entities, and 23 are joint ventures. As there exists a huge variety of services industries, we targeted industries likely to use imported products for their services provision. The overall sample is thus

² As most Asian FTAs include services liberalisation, a natural and important question is whether services firms are using the services components of FTAs. However, this aspect is difficult to assess academically for a couple of reasons. First, there are still large gaps between national commitments and actual regulations. Thus, in contrast to tariff reductions, services liberalisation does not necessarily involve changes in the actual regulations. Second, even if an FTA leads to changes in the actual regulations, governments often implement such reform in a non-discriminatory manner. There is no most-favored-nation vs. FTA rule in such a case. Finally, the statistics on trade in services have many limitations, not least of which is that they do not capture mode 3 and mode 4 trade in services.

³ The surveys were conducted by the following national study teams: Cambodia Institute for Cooperation and Peace, Cambodia; Institute for Economic and Social Research, Indonesia; National Economic Research Institute, Lao PDR; Yangon Institute of Economics, Myanmar; Malaysian Institute of Economic Research, Malaysia; Philippine Institute for Development Studies, Philippines; Chulalongkorn University, Thailand; and Central Institute for Economic Management, Viet Nam. Singapore's survey unfortunately did not collect data for service industries. Considering the relatively small number of firms in Brunei, focus group discussions were organised by the ASEAN Business Advisory Council in Brunei, instead of surveys. Thus, we do not have numerical data for Brunei.

⁴ Chapter 11 of this report analyzes the responses from manufacturing firms.

categorised into subsectors: hotel and restaurant (45 firms), telecommunications (36 firms), construction (25 firms), trading (25 firms), and others.

Table 1. Characteristics of Respondent Firms

Country	Small		Medium		Large		Missing		Total
	Obs	%	Obs	%	Obs	%	Obs.	%	Obs.
1- Cambodia	14	70.00%	5	25.00%	1	5.00%		0.00%	20
2 - Indonesia	17	39.53%	8	18.60%	15	34.88%	3	6.98%	43
3 - Lao PDR	17	85.00%	2	10.00%	1	5.00%		0.00%	20
4 - Malaysia	11	100.00%		0.00%		0.00%		0.00%	11
5 - Myanmar	3	20.00%	6	40.00%	6	40.00%		0.00%	15
6 - Philippines	20	58.82%	10	29.41%	4	11.76%		0.00%	34
7 - Thailand	3	15.79%	4	21.05%	10	52.63%	2	10.53%	19
8 – Viet Nam	5	25.00%	9	45.00%	6	30.00%		0.00%	20
Total	90	49.45%	44	24.18%	43	23.63%	5	2.74%	182

Lao PDR = Lao People's Democratic Republic. Obs. = Observation. Missing = Not stated in the survey.

Notes: Small (<=50 employees); medium-sized (51–300 employees); large (>300 employees) based on International Financial Corporation (2012).

Source: ERIA FTA Utilisation Survey.

Ownership

Country	Fully Domestic		Fully Foreign		Joint Venture				Total
	Obs	%	Obs	%	Obs	%	Obs.	%	Obs.
1- Cambodia	7	35.00%	7	35.00%	4	20.00%	2	10.00%	20
2 - Indonesia	28	65.12%	3	6.98%	6	13.95%	6	13.95%	43
3 – Lao PDR	14	70.00%	5	25.00%	1	5.00%		0.00%	20
4 - Malaysia	11	100.00%		0.00%		0.00%		0.00%	11
5 - Myanmar	15	100.00%		0.00%		0.00%		0.00%	15
6 - Philippines	30	88.24%	1	2.94%	3	8.82%		0.00%	34
7 - Thailand	12	63.16%		0.00%	5	26.32%	2	10.53%	19
8 – Viet Nam	16	80.00%		0.00%	4	20.00%		0.00%	20
Total	133	73.08%	16	8.79%	23	12.64%	10	5.49%	182

Lao PDR = Lao People's Democratic Republic.

Notes: Fully domestic (total share in paid-in capital = 100% local), fully foreign (total share in paid-in capital = 100% foreign), joint venture (share between foreign and local).

Source: ERIA FTA Utilisation Survey.

3. Key Findings

3.1. Discrepancy Between FTA Utilisation and COO Utilisation

Amongst the 90 small companies surveyed, one used an FTA but did not specify the COOs used; seven used an FTA and specified the names of the COOs; and 18 did not use an FTA but specified the COOs. In fact, 16 firms stated that they used preferential rate offered by the ASEAN Free Trade Area (Form D), but did not use an FTA. This means that 8.9 percent of the small companies used an FTA whilst the other 17.8 percent did not use an FTA but nonetheless utilised Form D.

Of the 87 medium-sized and large companies, four used an FTA but did not specify the COOs used, and nine used an FTA and specified COOs. Eight did not use an FTA but specified the names of COOs, and five out of the eight companies reported using Form D but did not use an FTA.

The survey indicates that some companies seem to be confusing FTA utilisation with COO utilisation, especially Form D. They seem to regard Form D as a prime export/import document that should be used for whatever trade, whether they use an FTA or not. This

aspect was omitted in most of the surveys, which only asked about the utilisation of FTAs. Otherwise, the small firms' utilisation rate could be much higher than those reported in existing studies. Some exporters, however, obtained COOs even if they had no FTA with their trade partners, or the import tariff was zero (e.g. in Cambodia). In this kind of case, utilisation of a COO does not represent utilisation of an FTA and care is therefore needed when asking companies about FTA utilisation.

3.2. Overall Utilisation Rate⁵

Of the 182 respondent firms, 62 companies directly import, and of these, 32 or 51.6 percent utilise COOs. Of the other 30 companies, 17 use distributors for indirect importation in addition to their own direct importation, and three reported they benefit from an FTA through indirect importation of their distributors. In terms of direct-import firms' sub-sectors, the hotel and restaurant group has the highest user rate (66.7%), followed by 'others' (65.4%), trading (54.5%), construction (42.9%), and telecommunications (33.3%).

Of the other 118 companies which do not import directly, 10 companies utilise COOs; 12 companies reported that they do not utilise COOs but that they benefit from indirect importation by distributors.

Of the 42 companies who utilise COOs, 30 use only one kind of COO, 11 use two kinds, and only one large company utilises five kinds.

⁵ Hamanaka (2013) comprehensively reviewed the literature on the use of FTAs in Asia and distinguished the 'rate' by giving different definitions for utilisation rate, usage rate, and utility rate. The three definitions assume the availability of trade data. As this paper uses survey data instead of trade data, however, we cannot follow Hamanaka's definition. Thus, we simply use 'utilisation rate' which is defined as the ratio of the number of firms that responded that they utilise COOs for FTAs, divided by the total number of respondent firms. It is important to mention, though, that Hamanaka points out several risks associated with such an approach. The first is a specification problem that occurs when surveys simply ask about FTA utilisation without distinguishing multiple FTAs signed by the country. The second problem is the trade-volume problem where a survey treats both small and large firms equally as '1', the trade volume is not reflected in the result of the survey. Another problem is the possibility of zero most-favored-nation imports and zero margin-of-preference imports, in which case firms have no incentives to use FTAs. Lastly, even if a firm reports its use of an FTA, this does not necessarily mean that the firm uses an FTA for all its trade. Most likely, they use an FTA only for a limited number of exported products. Unfortunately, this paper is not immune from these problems, except for the first (specification), which we addressed by asking for the specific COOs used by firms.

Table 2. COO Usage by ASEAN Services Firms

	Small	Medium	Large	NA	Total
Engaging in Direct Imports	34	16	12		62
<i>Utilising a COO</i>	18	8	6		32
<i>Not Utilising</i>					
Utilising distributors and benefiting from an FTA	3	0	0		3
Utilising distributors and not benefiting from an FTA	4	5	5		14
Not utilising distributors	9	3	1		13
Not Engaging in Direct Imports	55	27	31	5	118
<i>Utilising a COO</i>	7	2	1		10
<i>Not Utilising</i>					
Utilising distributors and benefiting from an FTA	6	1	4	1	12
Utilising distributors and not benefiting from an FTA	10	5	12		27
Not utilising distributors	32	19	14	4	69

COO = Certificate of Origin, FTA = free trade agreement.

Source: ERIA FTA Utilisation Survey.

Table 3. The Number of Different COOs Used by ASEAN Services Firms

	1	2	5	Total
Small	20	5		25
Medium-Sized	5	5		10
Large	5	1	1	7
Total	30	11	1	42

COO = Certificate of Origin.

Note: '1', '2', and '5' mean that firms are using only one type, and two and five types of COO(s), respectively.

Source: ERIA FTA Utilisation Survey.

4. Use of COOs Analysed by FTA

Of the different COOs, Form D (for the ASEAN Trade in Goods Agreement) is used the most, followed by Form E (for the ASEAN-China Free Trade Agreement). The other COOs, such as Form ASEAN-Japan (for the ASEAN-Japan Economic Partnership Agreement), Form ASEAN-Korea (for the ASEAN-Korea Free Trade Agreement), Form AI (for the ASEAN-India Free Trade Agreement), and Form ASEAN-Australia-New Zealand (for the ASEAN-Australia and New Zealand Free Trade Agreement) are less commonly used. Other non-FTA

forms , such as Form Generalised System of Preferences (for Generalised System of Preferences) and Form B (for most-favored nations) are less used than Form D and Form E.

Table 4. Use of Various COOs by ASEAN Services Firms (Multiple Answers, by Size of Firms)

	GSP	Form B	Form D	Form E	Form AJ	Form AK	Form AI	Form AANZ
Small	7	4	18	10	0	0	1	1
Medium-sized and Large	4	1	9	11	3	3	1	0
Total	11	5	27	21	3	3	2	1

AANZ = ASEAN-Australia and New Zealand , AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, COO = Certificate of Origin, GSP = Generalized System of Preference.

Note: The number of firms who use at least one COO is 42.

Source: ERIA FTA Utilisation Survey.

5. Reasons for Not Utilising COOs

Of the surveyed firms that do not use any kind of COO, many cited as a reason lack of information rather than specific COO issues such as fees for COOs or small tariff margins. Many replied that, given their small trade volume, it does not make sense to use COOs. Other reasons given (grouped as 'others') include a) no direct import, b) buying from local distributors, and c) the origin country for the imported goods is not covered by an FTA. Compared with the manufacturing firms, services firms complain much less about the following problems: 'cannot meet the rules of origin (ROO)', 'small tariff margins', and 'using other duty-free schemes available'. As importers of goods, they do not worry much about ROO or small tariff margins. On the other hand, they are unable to benefit from the duty-free schemes that are available for manufacturing firms (e.g. special economic zones, export processing zones).

Table 5. Reasons for Not Utilising COOs Given by ASEAN Services Firms (Multiple Answers, by Size of Firms)

	Small	Medium and Large	Missing	Total
Lack of information	45	36	3	84
Cannot meet ROO	2	3	0	5
Small trade volume	25	23	0	48
Small tariff margins	2	1	0	3
Other schemes available	0	1	0	1
Fee for COOs too costly	1	2	0	3
Complicated procedures	5	6	0	11
Others	7	22	1	30

COO = Certificate of Origin, ROO = rules of origin.

Source: ERIA FTA Utilisation Survey.

6. Perception of the Level of Available Information about FTAs

Regarding the availability of information about FTAs, 69.8 percent of respondents answered that it was poor or very poor. Only one company claimed that information availability was very good. More small firms reported that information availability was poor or very poor (78.9%) than the medium-sized and large firms (60.9%).

Table 6. Perception of the Available Information About FTAs by ASEAN Services Firms (by Size of Firms)

	Small	Medium and Large	Missing	Total	
Very Poor	28	18	1	47	25.8%
Poor	43	35	2	80	44.0%
Good	16	27	1	44	24.2%
Very good	0	1	0	1	0.5%
Missing	3	6	1	10	5.5%
Total	90	87	5	182	

FTA = free trade agreement.

Source: ERIA FTA Utilisation Survey.

7. Investment Decisions and FTAs

Only 16 out of 182 companies consider FTA availability as a factor in deciding investment locations. When allowed multiple answers, 10 of the 16 companies replied that they considered ASEAN Free Trade Area (ASEAN Trade in Goods Agreement); followed by ASEAN-China FTA, four companies; and ASEAN-Korea FTA, three companies. Ten companies pointed out that a lower preferential tariff is beneficial and five said that better investment protection is a factor they consider.

Twenty-two out of 182 companies consider expanding their existing business overseas or opening a new establishment. Of these, 18 said that a growing market is the reason for expansion; followed by investment incentives, six companies; and FTA availability, four companies.

8. Conclusion

The increasing number of FTAs in ASEAN benefits services firms by providing a better trading environment for their imported goods. It is important to disseminate accurate information about FTAs, utilisation of COOs, and other operational procedures to services as well as to manufacturing companies. In particular, providing updated information and instructions to small companies should be a priority to enable them to benefit from FTAs.

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CHAPTER 3

Enhancing the Utilisation of Free Trade Agreements in Brunei Darussalam

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This paper analyses the utilisation of free trade agreements (FTAs) in Brunei using trade statistics, official data of the issuance and receipt of preferential Certificates of Origin (COOs). This is supported by results driven from focus group discussion (FGD) with Bruneian business representatives. Brunei has seen steady growth in FTA utilisation, mainly focused on specific products (crude oil, liquefied natural gas, and methanol) exported by large firms. This paper proposes national and regional policy measures to further enhance the use of FTA in Brunei.

Keywords: ASEAN, FTA, RCEP, ASEAN Economic Community, Brunei Darussalam

JEL Classification: F13, F15, and F53

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1. Context

1.1. Background

Brunei Darussalam (Brunei) is a relatively open economy. Brunei joined the World Trade Organization (WTO) in 1995 and committed more than 93 percent of tariff lines on the most-favored-nation (MFN) basis. The applied MFN tariff was 4.8 percent in 2007 (zero for agriculture and 5.4 percent for non-agricultural products, ranging from zero to 30 percent). However, the bound MFN rates remain relatively high at 25.8 percent (WTO, 2008). This creates an opportunity for Brunei to make further concessions to particular countries of interest for Brunei by utilising free trade agreements (FTAs).

Brunei views FTAs as ‘a vital part of its foreign trade policy to maximize the potentials of free and open trade for its people in an ever-globalizing world’.² In other words, FTAs are perceived mainly from the exporters’ point of view for improving market access for products in which Brunei has comparative advantage. Brunei also posits its FTA policy in the context of diversifying its economy so as to develop new exporting industries: ‘[Brunei] strongly believes that active engagement in FTAs with a number of key strategic partners will open up markets for Brunei’s exports and services, and will help facilitate the flow of foreign direct investment into Brunei Darussalam.’³

Table 3.1 lists the FTAs signed by Brunei. As the sixth member of the Association of Southeast Asian Nations (ASEAN), Brunei is an initial member of the ASEAN Free Trade Area (AFTA). The AFTA, signed in 1992 and brought into force in 1993, covered trade in goods.⁴ It was transformed into the ASEAN Trade in Goods Agreement (ATIGA) in 2010, under which Brunei has eliminated tariffs in more than 99 percent of tariff lines. This means that Brunei has improved access to the other ASEAN markets, especially the ASEAN-6 countries, which have eliminated more than 99 percent of tariff lines. ASEAN initiated its regional efforts for services liberalisation in 1995, with the ASEAN Framework Agreement on Services. With this framework agreement, services liberalisation has made steady progress via ‘packages’: from time to time ASEAN countries renew and deepen their services

² Ministry of Foreign Affairs and Trade (MOFAT) website, ‘Brunei Darussalam’s FTA Policy’, at <http://www.mofat.gov.bn/index.php/free-trade-agreements-ftas/brunei-darussalam-s-fta-policy> (accessed on 23 October 2013).

³ Ibid.

⁴ The name of the legal document was Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. Thus, the AFTA was also referred to as CEPT or AFTA-CEPT.

commitments. Brunei made liberalisation commitments in 82 sectors in the 7th Package (ERIA, 2012). The most recent package was the ASEAN Framework Agreement on Services 8th Package, signed in 2012. Under this framework agreement, Bruneian services firms potentially enjoy improved market access to the other ASEAN countries, while ASEAN services firms are able to operate in the country.⁵ The second FTA that Brunei signed was the Trans-Pacific Strategic Economic Partnership (P4), in which Brunei, Chile, New Zealand, and Singapore participate. The P4 is known as a high-quality FTA, covering both goods and services, among others. It was conceived as a basis for the Free Trade Area of the Asia Pacific, which is the mid-term goal of the Asia-Pacific Economic Cooperation (APEC) 21 economies. Brunei has expanded its geographical scope of FTAs via ASEAN+1 FTAs. These are FTAs signed among the ASEAN-10 countries and ASEAN's FTA partners. As of 2013, the FTA partners were Australia, China, India, Japan, Republic of Korea, and New Zealand. Most of the ASEAN+1 FTAs include both goods and services, and sometimes even wider issues such as investment and economic cooperation. The ASEAN-India and ASEAN-Japan FTAs do not yet include services.⁶ Brunei's only bilateral FTA is with Japan, signed in 2008, which covers both trade in goods and services, among others.

On top of these existing FTAs, Brunei is negotiating two 'mega-FTAs': the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP). The RCEP covers the ASEAN+6 countries⁷ and aims to consolidate the existing ASEAN+1 FTAs with 'broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs'.⁸ The TPP has its basis in the P4, of which Brunei is an original member, but adds many new agendas, aiming to be a '21st century' FTA. But the core remains the same: trade in goods and services.

⁵ However, with weak services industries in the home market, the benefits for Brunei probably come more from the efficient services operations of foreign firms in the Bruneian market.

⁶ In December 2012, the ASEAN-India Commemorative Summit announced the successful conclusion of trade in services and investment agreements under the AIFTA. The agreement, however, had yet to be signed by the time of writing (May 2014). Similarly, while ASEAN and Japan have reached the substantial conclusion of the negotiations on the Services and Investment Chapters of the ASEAN-Japan Economic Partnership Agreement (AJCEP), such agreements have not been signed yet.

⁷ ASEAN-10, Australia, People's Republic of China, India, Japan, Republic of Korea, and New Zealand.

⁸ RCEP Guiding Principles and Objective, adopted by the RCEP Economic Ministers in August 2012.

1.2. Questions

Twenty years have passed since Brunei signed the AFTA in 1992. The AFTA became more substantive in 2002 when most tariff lines became five percent or lower. The year 2010 was a cornerstone: more than 99 percent of products became zero-tariff within ASEAN. Most of the 'normal track' products in the ASEAN-China FTA (ACFTA) and ASEAN-Korea FTA (AKFTA) also became zero-tariff in 2010. On top of the eight existing FTAs, Brunei is also negotiating the RCEP and the TPP.

The most important question is whether the existing FTAs are fully utilised by firms in Brunei. If not, what are the possible policy measures that the Government of Brunei (or ASEAN, the RCEP, or the TPP as a region) should pursue to enhance FTA utilisation? What can the ongoing negotiations of the RCEP and the TPP add to existing FTAs?

1.3. Objectives

This paper addresses these three questions as a contribution to the ERIA research project, 'The Use of FTAs in ASEAN.'⁹ As the number of firms in Brunei utilising FTAs is limited, ERIA hosted in September 2013 a focus group discussion (FGD) among 14 representatives of business associations and chambers of commerce,¹⁰ supplemented by two separate interviews with business executives. The summarised version of the survey questionnaire conducted in the other ASEAN countries was discussed [Appendix]. The Ministry of Foreign Affairs and Trade (MOFAT) of Brunei provides its official data of Certificates of Origin (COOs) for this study.¹¹

⁹ This ERIA research was conducted in collaboration with the ASEAN Business Advisory Council.

¹⁰ Participants from ERIA were Yoshifumi Fukunaga, Lili Yan Ing, and Ikumo Isono.

¹¹ In Brunei, COOs are issued by MOFAT's Department of Trade Development.

2. Key Findings

2.1. Use of FTAs

2.1.1. Use of FTAs by Firm Characteristics (Size, Ownership, Location, Exporting/Importing)

According to the official data of MOFAT, nine firms applied for preferential COOs in Brunei in 2012 (i.e. export from Brunei), including the joint ventures between the Government of Brunei and foreign firms such as Brunei Shell Petroleum, as well as local firms. Most firms are large or medium-sized (i.e. with 100 employees or more).

2.1.2. Official Data on the Use of FTAs by Agreements Over the Years

Tables 3.2 and 3.3 present the official data of COO provision by MOFAT, from 2008 to 2012. Table 3.2 shows the trade value of exports and imports using COOs. Table 3.3 shows the numbers of COOs issued (exports from Brunei) and received (imports to Brunei).

(1) Exports

The total number of COOs issued in Brunei in 2012 was 230. The number peaked in 2010 with 333. However, export value using preferential COOs has steadily increased since 2008. This means that Bruneian exporters have used FTAs' preferential market access with increasing efficiency, achieving a larger export value with fewer COOs. Another possibility could be that in 2010 many firms applied for COOs as an experiment but later learned that FTAs do not apply to their trade. Both scenarios suggest that firms have gone through a learning process in FTA utilisation at the initial stage of implementation.

Over time, the most frequently used FTA for exports (both in terms of number of COOs and value) was the AKFTA for HS27 products (mineral, oil, gas, etc.). In 2012, 120 Form AK COOs were issued in Brunei. In the same year, goods valued at more than US\$2 billion were exported from Brunei, enjoying preferential treatment under the AKFTA. We can assume that the exports went to the Republic of Korea, not to the other ASEAN countries,¹² because Brunei's exports can enjoy ATIGA preferences (which are more comprehensive than the AKFTA, and thus Bruneian exporters should be using the ATIGA) and Brunei is probably not able to enjoy the benefits of regional accumulation due to its

¹² The AKFTA provides preferential market access from Brunei to the Republic of Korea and the other nine ASEAN countries.

relatively weak manufacturing base. The Republic of Korea has maintained tariffs on many products on an MFN basis but eliminated them for Brunei under the AKFTA. These products include those in which Brunei is competitive: petroleum and natural gas (both listed on HS2709), and methanol (HS2905). For example, and most importantly, the Republic of Korea eliminated tariff under the AKFTA on crude oil and liquefied natural gas in 2008, for which the MFN applied tariff in 2006 was five percent.¹³

The AIFTA is the second most frequently used FTA for Brunei's exports, and is mainly used for HS2709 goods (mineral, oil, gas, etc.) with an export value of US\$1.1 billion and with 25 COOs issued in Brunei in 2012. Once again, we can reasonably assume that the AIFTA was used for exports to India rather than to the other ASEAN countries for the same reason as in the case of the AKFTA. Interestingly, India put HS2709 products on the sensitive track, for which it retains the five percent tariff for ASEAN countries. However, India made a special commitment on the same product solely for Brunei: its tariff was reduced to three percent in 2010, was further cut to two percent in 2011, and then to one percent in 2012, with the products becoming free of tariff in 2013, while its MFN tariff rate is five percent. India also reduced its tariff on methanol from 7.5 percent to six percent (in 2010) then to five percent (in 2014), which may give incentives for Bruneian producers to use the AIFTA, as well. However, India has retained its tariff for natural gas without giving special preference to Bruneian products.

The ATIGA (formerly AFTA-CEPT) is in the third place, with US\$445 million worth of exports and 41 COOs issued in Brunei in 2012. As COOs should be obtained by export destination countries, the ATIGA (potentially used for nine ASEAN countries) has a larger number of COOs relative to export values. More than 95 percent of ATIGA exports were crude oil for Viet Nam, for which Viet Nam has eliminated tariff, down from a 15 percent MFN tariff rate in 2007. The second-largest exported product was methanol to the Philippines, Indonesia, and Malaysia.

The ASEAN-China FTA, the ASEAN-Australia and New Zealand FTA, and the Brunei-Japan Economic Partnership Agreement (BJEPA) were also used by Brunei exporters, but to a much smaller degree. Interestingly, and probably more importantly, two FTAs were never used in the five years (2008–2012) for exports: the AJCEP and the P4. First, the BJEPA

¹³ In 2011, the MFN applied tariff for crude oil was three percent. In other words, the preferential tariff margin became smaller than expected in 2006.

was used but the AJCEP has never been used. There are several possible explanations for this. First, the BJEPA came into force in 2008 while the AJCEP came later in 2010. Once firms started using the BJEPA and became accustomed to it, there would be no reason for them to switch to the AJCEP unless the AJCEP provided deeper tariff reduction. Second, regional cumulation potentially gives incentives for firms to switch to the AJCEP, even if the preferential tariff rates are the same between the AJCEP and the BJEPA. However, regional cumulation does not mean much for Brunei. Transport costs from and to Brunei are high, and frequent inter-firm trading across the border (which we observe in Thailand, Indonesia, Malaysia, etc.) does not exist in Brunei. Third, Japan is the largest exporting destination for Brunei, with trade dominated by crude oil and liquefied natural gas. As both products are tariff-free in Japan, the value of the BJEPA (or potentially the AJCEP) will be in 'other products': chemical products (methanol is tariff-free on an MFN basis, thus other chemical products), light oils, agricultural products (especially tropical fruits such as durian and mango), and shrimp.¹⁴ The P4 was not used either for different reasons. Within the P4 membership, Singapore is practically zero-tariff on an MFN basis and thus the FTA does not provide additional benefits. New Zealand is a relatively important trading partner, as the eighth-largest exporting destination for Brunei (IMF Database, 2013). New Zealand is also a relatively open economy and does not levy any tariff on crude oil. Thus, Brunei does not need an FTA for its exports to New Zealand.¹⁵ In addition, Brunei does not have significant trading relations with Chile and thus the P4 is not being used.

The descriptions above contain several general points. First, Brunei's exports focus on a limited number of products, especially crude oil, natural gas, and methanol (Table 3.4). When the export destination is tariff-free for those products (e.g. in Japan), the value-added of an FTA covering trade in goods will be limited to 'other products'. On the other hand, if the importing country (e.g. the Republic of Korea and Viet Nam) levies a tariff on those products on the MFN basis, but has eliminated them due to the availability of an FTA, then the FTA utilisation will be significant. The Bruneian producers/exporters of those products are large firms with some foreign capital (e.g. Brunei Shell Petroleum), and thus

¹⁴ These products are listed as examples of improved market access to Japan due to the BJEPA in the briefing by Japanese Ministry of Economy, Trade and Industry: http://www.meti.go.jp/policy/trade_policy/epa/country/pdf/brunei.pdf (accessed on 23 October 2013).

¹⁵ If an FTA is useful for Brunei–New Zealand Trade, then the P4 should be used more than the ASEAN–Australia and New Zealand FTA as the P4 came into force earlier and also the P4 is known as practically a 100 percent tariff-elimination FTA.

one can assume that they have the capacity to learn about and utilise FTAs more effectively than smaller firms. The future agenda for Brunei, therefore, will be to nurture smaller firms in other industries and help them utilise FTAs.

(2) Imports

In Brunei, FTAs are much less frequently used for imports than in exports. In 2012, the total import value using preferential COOs was US\$140.4 million, which was one-twentieth of the export value using preferential COOs. Both the export value and the number of COOs received in Brunei steadily increased from 2008 to 2012.

The ATIGA is the most frequently used FTA for Brunei's imports, with trade worth US\$78.9 million. The majority of exports comprise HS85 products (electrical transformers, etc.), followed by HS84 products (air conditioners, etc.), HS40 products (tires, etc.), HS94 products (wooden furniture), and HS44 products (plywood). The originating country data are not readily available in the information provided by MOFAT.¹⁶

The ACFTA ranks second in FTA utilisation for imports to Brunei, with trade amounting to US\$58.4 million in 2012. The utilisation has dramatically increased since 2010 when Brunei eliminated tariff on the 'normal track 1' products. Next to Singapore, the People's Republic of China is the second-largest import partner for Brunei and thus this figure is a natural result. The product details are not available.

The AKFTA and the BJEPA were also used for imports worth more than US\$789,000 in 2012. Usage of the ASEAN-Australia and New Zealand FTA is small and the other three FTAs (AIFTA, AJCEP, and P4) have not been used in the past five years. India is an important export destination for Brunei, and many professional Indian workers reside in Brunei. But India is not a major import origin for Brunei and hence the non-utilisation of the AIFTA for imports to Brunei is not surprising. For the AJCEP, the same argument as in the case of exports to Japan applies: the BJEPA was implemented earlier and thus Japanese firms do not have much incentive to switch from the BJEPA to the AJCEP. The P4 does not help Singapore much, as Brunei has already offered significant market access in the CEPT or the ATIGA. New Zealand and Chile are not competitive in the products on which Brunei levies a tariff, especially electric equipment and machinery.

¹⁶ In general, Singapore is the largest and Malaysia is the fourth-largest import partner for Brunei. Considering the product categories enjoying ATIGA preferential market access to Brunei, these two countries also probably share dominant positions in the ATIGA trade.

The import aspects of FTAs should not be undervalued, although this topic may not be politically appealing. Lower tariff enhances the efficiency of the economy. It is reasonable for Brunei to eliminate or reduce tariffs when it does not have comparative advantage in the products, which is a rationale for Brunei's FTA policy, as well. This is because tariffs are not a significant revenue source for the country. The benefit of reduced tariff for imports to Brunei will be equally enjoyed by large and small firms, as well as manufacturing and services industries.

2.1.3. Constraints Leading to Non-Usage of FTAs, Analysed by Firm Size

The FGD, supplemented by interviews, revealed the business perspectives on FTA utilisation by the Bruneian private sector. The discussion focused primarily on the challenges faced in the export trade but some points below relate to imports.

ERIA, in collaboration with the ASEAN Business Advisory Council, organised an FGD with 14 out of 21 key business associations in the manufacturing and services sectors in Brunei. The manufacturing and services sectors contributed an average of 13.8 percent and 44.3 percent, respectively, to the Bruneian economy in 2000–2013.

The FGD provided some interesting findings. Among others, fewer than half of the 14 participants asserted that they knew about FTAs and only four claimed that they used FTAs. Why is the use of FTAs in Brunei relatively low?

Source: FGD organised by ERIA in collaboration with ASEAN Business Advisory Council in Bandar Seri Begawan.

First, Bruneian businesses complained that FTA-related information is not sufficiently disseminated by the government. Most of the firms that attended the FGD stated that they had heard of FTAs but that they did not know the details. Some firms even believed that the AFTA was still under discussion, while, in fact, the AFTA has been available for the past 20 years. MOFAT claims that it makes best efforts to disseminate information. One possible way to explain the perception gap is a representation issue. Although MOFAT consults with businesses, the participants in the discussions do not fully represent the private sector. For example, only large firms were invited. Another possibility is that the information provided by MOFAT does not fully address practical issues that firms will face

in utilising FTAs.¹⁷ The MOFAT website has all the basic information on FTAs, i.e. legal texts, tariff schedules, and services schedules.¹⁸ In addition, the MOFAT website explains the key concepts of FTAs such as COOs and rules of origin. It should be noted in this context that some other countries such as Japan disseminate information in a more business-friendly way. For example, the Japan External Trade Organization crafts business manuals for each FTA and makes them available on the Internet. Japan's Ministry of Economy, Trade and Industry provides briefing materials on each FTA, including 'examples of improved market access'.¹⁹ The Republic of Korea is also known for its enthusiasm for promoting FTA utilisation (Cheong, 2014]). There are certain FTA utilisation enhancement strategies that Brunei could learn from its trading partners. Also, business associations in Brunei should collaborate with the government in reaching small and medium-sized enterprises.

Second, Bruneian firms point out that there are 'other barriers' even if tariff is eliminated via FTAs. Two types of non-tariff measures (NTMs) are specifically mentioned by the discussion participants: standards (food and beverages) and special import licensing (food).²⁰ Both national and regional efforts are needed to minimise the NTM issues. At the national level, regulatory-oversight agencies with strong analytical capabilities should be set up to carry out NTM reviews in individual countries. At the regional level, the ASEAN Secretariat might consider organising the collection of NTM data according to the multilateral template and using the data to produce a report on NTMs in the ASEAN area in the next two to three years (Cadot, Munadi, and Ing, 2013). ASEAN economic ministers recently endorsed the 'National Level and Regional Level Work Programme on NTMs'²¹ in the Bandar Seri Begawan meeting in August 2013. The serious implementation of the Work Programme will be the first priority in this aspect.²²

Third, limited capacity of relevant authorities, both in Brunei and exporting

¹⁷ It was a typical complaint by the Republic of Korea's business about the FTA information at the Government of the Republic of Korea's website (Choeng, 2014).

¹⁸ The authors detect, however, that some information on the ASEAN Free Trade Area links to the wrong pages of the ASEAN Secretariat's website (such as services packages).

¹⁹ As exemplified in footnote 14 of this paper for BJEPA.

²⁰ Valued-added tax or VAT was also mentioned as a 'trade barrier'. But VAT is neutral to the origin of products and hence should not be considered as a trade barrier.

²¹ The details of the Work Programme were not publicly available as of October 2013.

²² Key Outcomes of the 10th AEC Council Meeting, 45th ASEAN Economic Ministers' Meeting and Related Meetings, 18–21 August 2013, Bandar Seri Begawan, Brunei Darussalam: <http://www.asean.org/images/2013/economic/key%20outcomes%20and%20highlights%20for%2045th%20aem%20and%20related%20meetings.pdf> (accessed on 23 October 2013).

destinations, is said to be a challenge for FTA utilisation. Even if the rules are implemented in accordance with the treaties, some officials, especially those in the local agencies of neighbouring countries (which are often important export destinations for smaller Bruneian firms), do not necessarily understand well the new rules. Diplomatic channels via MOFAT and Bruneian embassies overseas can help solve this type of problem. In addition, the training of officials in Brunei will be a most important initial step.

Finally, one of the FGD participants from the private sector highlighted the issue of a competitive mindset, saying small and medium-sized enterprises in Brunei are competing for a larger pie in a small market: even if a firm learns to use an FTA, the firm has a significant incentive to keep its know-how secret. There are no easy solutions to this.

2.1.4. Perceptions of the Costs and Procedures of FTAs, by Firm Size

Firms participating in the FGD did not consider as problematic the costs and complexity of the procedures for acquiring COOs for FTA utilisation. In the general context (not in the FTA context), the World Bank's *Doing Business* study shows that Brunei is ranked 40th in the 189 countries trading across borders, which means its operations are more efficient than those of most developing countries.²³ However, it still requires about 19 days to prepare all the necessary export documents to acquire COOS. There are many East Asian countries (or economies) ranked higher than Brunei: Singapore, Hong Kong, the Republic of Korea, Malaysia, Japan, Thailand, Taiwan, New Zealand, and Indonesia. Brunei must continue to improve the business environment.

One effort to do so, particularly in the context of the ATIGA, is a self-certification scheme, where exporters need not apply for COOs for each trade once they have been accredited by governments. A self-certification scheme has already started to function in Brunei. Brunei has joined ASEAN's First Pilot Project for the Implementation of Regional Self-certification together with Malaysia, Singapore, and Thailand. According to MOFAT,²⁴ Brunei has already accredited 10 exporting firms, most of which are small and medium-sized enterprises. Out of the 10, however, only one firm has begun to use the scheme for its exports. This is not surprising as Brunei's main export destinations are out of local

²³ World Bank website: <http://www.doingbusiness.org/data/exploretopics/trading-across-borders> (accessed on 23 October 2013).

²⁴ Interview with MOFAT on 11 September 2013.

geographical scope: e.g. Japan and the Republic of Korea are not members of the self-certification scheme. Brunei does not face challenges in the accreditation process: so far, it has only a limited number of exporters and they are experienced in FTA utilisation. Second, Brunei has already imported products from three ASEAN member states (Malaysia, Singapore, and Thailand) using the self-certification scheme. Based on Brunei's experience, ASEAN's regional scheme for self-certification seems promising. The prompt establishment of a regional framework (i.e. expansion from four countries in the First Pilot Project to 10 ASEAN countries), and possible expansion to the ASEAN+1 FTAs or RCEP, will help Bruneian business.

3. Key Recommendations

Brunei has implemented its FTA policy to expand export opportunities. The FTAs are already utilised mainly by the larger firms for their exports of crude oil, liquefied natural gas, and methanol. However, small and medium-sized enterprises face challenges in fully understanding FTAs and benefiting from national engagement with them. To encourage FTA utilisation by Bruneian business, the following policies are recommended:

1. Improve the quality of guidelines and procedures for obtaining COOs, and improve transparency in obtaining them.
2. Improve the quality of government websites (with the possibility of using other media such as mobile phones, social media networks, etc.).
3. Continue efforts to minimise COO-related costs and simplify administrative procedures.
4. Improve capacity of officials of relevant government agencies (MOFAT, Customs), as well as those in the trading partners.
5. Intensify regional and national efforts to reduce Non-Tariff Measures.

Table 3.1. List of Brunei Darussalam's FTAs

Name of FTAs	TIG Effective Year	TIS Effective Year	Note
ASEAN Free Trade Area	1992	1995	
Trans-Pacific Strategic Economic Partnership (P4)	2006		Membership: Chile, New Zealand, and Singapore
ASEAN-China	2007	2007	
Brunei-Japan	2008		
ASEAN-Japan	2008	Under negotiation	
ASEAN-Korea	2008	2009	
ASEAN-India	2010	Signed in 2014	
ASEAN-Australia and New Zealand	2010		

FTA = free trade agreement, TIG = trade in goods, TIS = trade in services.

Note: The P4, Brunei-Japan FTA, and ASEAN-Australia and New Zealand FTA include both trade in goods and trade in services in one single treaty.

Source: WTO RTA Database.

Table 3.2. Summary of Imports and Exports Using COOs, 2008-2012 (Value, US\$)

FTA/EPA	Type of Form	Imports (US\$)					Exports (US\$)				
		2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
ATIGA	Form D	32,754,965	33,908,937	40,204,161	46,717,440	79,191,659	321,989	406,454	6,862,593	9,256,508	445,085,545
ACFTA	Form E	71,356	1,459,518	11,687,299	38,468,522	58,007,263	17,400	101,098	27,109,226	20,007,377	15,224,841
AKFTA	Form AK				93,584	2,269,586	860,157,438	967,410,580	1,551,349,087	1,769,311,279	2,026,000,097
AANZFTA	Form AANZ					57,651	-	-	48,456	190,424	208,599
AIFTA	Form AI						-	-	9,822	1,010,619,891	1,122,093,897
BJEPA	Form BJEPA			415,700	1,336,531	1,163,851	-	-	7,608	56,144	58,432
		32,826,322	35,368,455	52,307,160	86,616,077	140,690,011	860,496,827	967,918,132	1,585,386,792	2,809,441,623	3,608,671,411

AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN- China Free Trade Agreement, AIFTA = ASEAN-India Free Trade Agreement, AKFTA = ASEAN-Korea Free Trade Agreement, ATIGA = ASEAN Trade in Goods Agreement, BJEPA = Brunei-Japan Economic Partnership Agreement, COO = Certificate of Origin, FTA/EPA = free trade agreement/economic partnership agreement.

Source: Ministry of Foreign Affairs and Trade, Brunei Darussalam (as of 11 September 2013)

Table 3.3. Summary of Number of COOs Received and Issued in Brunei, 2008-2012

FTA/EPA	Type of Form	COOs Received					COOs Issued				
		2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
ATIGA	Form D	462	575	691	817	1,271	60	89	148	41	41
ACFTA	Form E	2	40	421	664	872	2	4	48	30	19
AKFTA	Form AK	-	-	-	6	18	31	70	127	117	120
AANZFTA	Form AANZ	-	-	-	-	1	-	-	6	17	20
AIFTA	Form AI	-	-	-	-	-	-	-	1	19	25
BJEPA	Form BJEPA	-	-	9	22	20	-	-	3	7	5
		464	615	1,121	1,509	2,182	93	163	333	231	230

AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AIFTA = ASEAN-India Free Trade Agreement, AKFTA = ASEAN-Korea Free Trade Agreement, ATIGA = ASEAN Trade in Goods Agreement, BJEPA = Brunei-Japan Economic Partnership Agreement, COO = Certificate of Origin, FTA/EPA = free trade agreement/economic partnership agreement.

Source: Ministry of Foreign Affairs and Trade, Brunei Darussalam (as of 11 September 2013).

Table 3.4. Total Exports Using COOs, by Product Group, 2012

No.	HS-2	Description (HS 2 Digit)	Specific Product Description	Total Export (US\$)
1	03	Fish and crustaceans, molluscs, and other aquatic invertebrates	Frozen fish and prawns	209,546
2	16	Preparations of meats, of fish, or of crustaceans, molluscs, or other aquatic invertebrates	Canned sardines	10,000
3	19	Preparations of cereals, flour, starch, or milk; pastry-cooks' products	Mee Sedap	8,900
4	23	Residues and waste from the food industries; prepared animal fodder	Steam dried fish food	71,500
5	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	Crude oil and natural gas	3,529,042,950
6	28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	Suci distilled water	58,432
7	29	Organic chemicals	Methanol (methyl alcohol)	78,080,680
8	39	Plastics and articles thereof	Gas pipe	32,920
9	44	Wood and articles of wood; wood charcoal	Timber molding	947,884
10	61	Articles of apparel and clothing accessories, knitted or crocheted	Garments	208,599
			Total	3,608,671,411

Source: Ministry of Foreign Affairs and Trade, Brunei Darussalam (as of 11 September 2013).

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Appendix: List of Questions for Discussion at the Focus Group Discussion

1. General information

- Brief introduction about firms/business associations/chambers of commerce
- Description about member firms (note: member firms are referred to members of a business association/chamber of commerce): number of member firms and characteristics of members by size, ownership, location, and others

2. Production, sales and procurement (exports and imports)

- What are the main products of your firms/member firms?
- What are their main export destinations?
- Do your firm/member firms import input materials? Where do input materials usually come from?
- Do you use any preferential schemes for either exports or imports, or both?

3. How familiar are you with general preferential scheme (GPS)? How about free trade agreement (FTA)?

- Do your firms/member firms use any FTAs? Which FTAs do your firms/member firms often use?
- If your firms/member firms use FTAs, what are main benefits that your firms/member firms attain from FTAs? What are the main constraints for obtaining FTA certificate of origins (COOs)? How do you perceive the costs and procedures of obtaining COO FTAs
- If your firms/member firms currently do not use any FTAs, what are the main reasons for not using any of them?

4. As a businessman (woman), do you consider an FTA in expanding your business in the region?

5. How do you perceive the available information about FTA? What kind of media of communication do you think will be very useful and easy to be accessed by firms in communicating about FTAs and/or any other economic cooperation?

6. Do you have any suggestions on what kind of government support or the private sector's involvement (including business associations, etc.) are needed in order to maximize the use of FTAs by firms?
7. What are your key recommendations on moving FTAs towards regional comprehensive economic partnership (RCEP)?
8. Open discussion on other issues related to FTAs or regional integration

CHAPTER 4

Survey Report on Utilisation of Free Trade Agreements in Cambodia

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Cambodia has signed a number of free trade agreements (FTAs) with other member countries of the Association of Southeast Asian Nations (ASEAN) and its main trading partners in the region. However, due to its limited production capacity, Cambodia has not yet fully utilised these FTAs and has not maximised the benefits from them. In contrast, Cambodia has made much more use of other preferential trade systems such as the Generalized System of Preferences (GSP) and most-favoured nation status to export products to developed countries such as the United States, Canada, the European Union, Japan, and others. However, it is not clear whether private sector firms, which are supposed to be actors in implementing the FTAs, know how to use them effectively and benefit from them. This study aims to explore how familiar the private sector in Cambodia has become with FTAs and how firms can optimise the use of FTAs to maximise their benefits. The survey finds that no company in Cambodia has used FTAs, and that the majority of firms are familiar only with the term 'FTA' and are not clear about the details of these trade agreements and how they can participate in order to benefit from them. Difficulties in becoming involved with FTAs include lack of information, high costs, and complications in trade procedures.

Keywords: Cambodia, FTAs, Cambodia Manufacturing, Services, Survey, MFNs

JEL Classification: F1

1. Context

1.1. Background

With its strong political commitment to global and regional economic integration, hard work on reforms, and other preparations, Cambodia was admitted in April 1999 as the last member state of the Association of Southeast Asian Nations (ASEAN). After admission, there has been rapid growth in Cambodia's trade sector. Growth in export has been one of the engines of economic development and employment creation, and trade is strongly correlated with poverty reduction in the country.

Since 2001, a policy framework for promoting Cambodia's local and external trade has been in place to promote growth and help reduce poverty. Various initiatives and reform measures to implement it culminated in dynamic export performance and integration of the country in numerous regional bodies including accession to the World Trade Organization (WTO) in 2004. The Royal Government of Cambodia has also successfully negotiated free and/or favourable trade agreements with many countries. However, there are still many bottlenecks similar to those in private investment in industries, which inhibit growth in this sector. The immediate challenge is to ensure that the private sector takes advantage of existing favourable trade agreements to market products overseas, thus diversifying exports and lessening dependence on the garment industry.¹

The government has put many reforms in place and made decisions to facilitate and promote trade, especially with neighbouring countries.

Cambodia has signed many free trade agreements (FTAs) with ASEAN member countries and other main trade partners in the region. However, due to its limited production capacity, Cambodia has yet to utilise fully the FTAs and maximise the benefits from them. In contrast, Cambodia has made much more use of other trade preferential systems, such as the Generalized System of Preferences (GSP) and most-favoured nation (MFN) status to export the country's products to advanced countries such as the United States (US), Canada, the European Union (EU), Japan, and others.

As result, and because of abundant cheap, young labour, the garment industry in Cambodia, especially garments and textiles, has been expanding rapidly. In recent years,

¹ *National Strategic Development Plan (2006–2010)*, p.55.

textiles have accounted for more than 70 percent of the country's total exports that include footwear, natural rubber, and fish products. Cambodia mainly imports petroleum products, fabrics, vehicles, wholesale yarn, cigarettes, electrical communications equipment, and medicines. Cambodia's main trading partners are the United States; Hong Kong, People's Republic of China; Singapore; Canada; Republic of Korea; Thailand; and Viet Nam.

Cambodian traders applied for a total of 96,618 Certificates of Origin (COOs) in 2012 and 50,080 COOs for the first six months of 2013 from the Ministry of Commerce for exports to North America. No applications were made for COOs for exports to ASEAN due to the limited amount of exports to ASEAN member states.

In 2012, the value of Cambodian exports, mainly textiles and garments, under GSP and MFN schemes, reached US\$5.6 billion (Table 4.1).

Table 4.1. Cambodian Exports Under GSP/MFN Schemes in 2012

No.	Destination	Description	Amount million) (US\$	
Grand Total in Value			5,614.44	
1	Sub-Grand-Subtotal, by sector	Garments and textiles	4,445.64	79.1
		Shoes	311.21	5.5
		Rice	139.68	2.4
		Others	717.91	12.8
2	Subtotal USA		2,086.40	37.1
	USA	Garments and textiles	1,996.02	35.5
		Shoes	30.82	0.5
		Rice	0.96	0.0
		Others	58.57	1.0
3	Subtotal EU		1,932.19	34.4
	EU	Garments and textiles	1,454.01	25.9
		Shoes	154.65	2.7
		Rice	88.07	1.5
		Others	235.43	4.1
4	Subtotal Canada		434.22	7.7
	Canada	Garments and textiles	407.69	7.2
		Shoes	9.68	0.1
		Rice	0.02	0.0
		Others	16.81	0.3
5	Subtotal Japan		189.47	3.3
	Japan	Garments and textiles	140.69	2.5
		Shoes	40.06	0.7
		Rice		
		Others	8.72	0.1
No.	Destination	Description	Amount Million) (US\$	
5	Subtotal Rest of the World		972.14	17.3
	Rest of the World	Garments and textiles	447.20	7.9
		Shoes	75.97	1.3
		Rice	50.60	0.9
		Others	398.35	7.1

EU = European Union, GSP = Generalized System of Preferences, MFN = most-favoured nation, USA = United States of America.

Source: Ministry of Commerce.

1.2. Questions

The Royal Government of Cambodia has signed many FTAs and has been actively involved in several trade agreement negotiations. It is not clear, however, if private sector companies, which are supposed to be actors in the implementation of FTAs, know what to

do to benefit from them. Clearly, more efforts are needed to assist and encourage the private sector.

There has, to date, been limited or no study on the effects of FTAs in Cambodia. This leads to the question of how private sector firms can become more familiar with FTAs and optimise their use.

1.3. Objectives

This study aims to explore how far the private sector in Cambodia has become familiar with FTAs and how firms can optimise use of FTAs to maximise their benefits. The manufacturing and services sectors were surveyed to investigate the use of FTAs by companies, to see if it has resulted in the expansion of foreign trade. In addition, the survey also sought to identify the constraints on using FTAs as their identification could enable policymakers to find ways of increasing the use of FTAs in the Cambodian private sector.

1.4. Methodology

The Cambodia Institute for Cooperation and Peace sent out around 200 questionnaires prepared by the Economic Research Institute for ASEAN and East Asia (ERIA) to manufacturing and services companies selected at random. The study team followed up by meeting respondents either for interviews or to collect completed questionnaires. Eventually, 60 completed questionnaires were collected from manufacturing firms and 20 from services firms.

2. Key Findings of Survey of Manufacturing Firms

Out of 60 firms in the survey, seven are small, 15 are medium-sized, and 27 are large.

The workforces covered in the survey vary from three to 9,000 employees, with an average of 1,089 employees per firm. Paid-up capital ranges from US\$50,000 to US\$200 million, with an average of US\$11,312,720.

Four companies are joint ventures of Cambodian and foreign partners and 54 are 100 percent foreign firms. Joint ventures have an average of 67.5 percent Cambodian shareholding. Twenty-eight firms included in the survey are located in areas that are not 'planned', 19 firms are in industrial parks, and eight firms in special economic zones.

In 2012, only two firms introduced new products and only six firms sold their products in the domestic market. Fifty-one out of 59 companies (86.44 percent) directly exported goods in 2012. In 2012, 54 companies directly imported inputs and materials.

Table 4.2. Firm Characteristics

a. By Size						
	Small	Medium	Large	Unknown	Total	
Number	7	15	27	11	60	
Percentage	11.6	25	45	18.3	100	
b. By Export Activity						
	Exporting only	Importing only	Exporting & importing	Unknown	Total	
Number	2	6	51	1	60	
Percentage	3.3	10	85	1.7	100	
c. By Ownership						
	Domestic	Foreign	Joint venture	Unknown	Total	
Number	2	54	4	0	60	
Percentage	3.3	90	6.7	0	100	
d. By Location						
	EPZ	Industrial zone/park	SEZ	Not in any	Unknown	Total
Number	1	19	8	28	3	59
Percentage	1.6	32.2	13.5	47.6	5	100

EPZ = export processing zone, SEZ = special economic zone.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

In the survey, 50 firms (83 percent) have their own factories, while nine (15 percent) have only main offices or headquarters.

Table 4.3. Company Status

Company Status	Number	Percent
Headquarters/Main office	9	15.0
Regional headquarters	1	1.7
Factory/Plant	50	83.3
Total	60	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

2.1. Use of FTAs

In the survey, 52 companies (86.67 percent) use the Generalized System of Preferences (GSP) while five companies do not.

Table 4.4. Use of GSP

Use of GSP	Number	Percent
No	5	8.3
Yes, and currently using GSP	52	86.6
Yes, but currently not using GSP	1	1.6
Missing	2	3.3
Total	60	100.0

GSP = Generalized System of Preference.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

In the survey, 39 out of 60 companies, or 65 percent, are familiar with the term FTA. However, in in-depth interviews with some of the firms claiming familiarity with FTAs, it was found that they are not clear about the details of FTAs and how they can benefit from them.

Almost half of respondents (26 out of 60 firms) see mass media such as television and the Internet as their main sources of information and 17 firms see the government as their main source of information. Four respondents see business associations and two see chambers of commerce as their main source of information.

Table 4.5. Sources of Information

Sources of Information	Number	Percent
1. Government	17	28.3
2. Business associations	4	6.6
3. Chambers of commerce	2	3.3
4. Trade lawyers/private consultants	3	5.0
5. Media (TV, Internet, etc)	26	43.3
6. Trading partners	4	6.6
7. Others, please specify	0	0.0
	60	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

No company in the survey uses FTAs. Thirty-six out of 60 companies (60 percent) in the survey cite lack of information as the main reason for not using FTAs.

Table 4.6. Reasons for Not Using FTAs

Reasons	Number	Percent
Lack of information	36	60.0
Cannot meet the of rules-of-origin requirement for using FTAs	3	5.0
Small trade volume	0	0.0
Small differences between preferential FTA tariff and normal applied tariff	0	0.0
Using other schemes (tariff exemption in export processing zone or other industrial zones; GSP)	3	5.0
Fee to obtain COOs is too expensive	0	0.0
Procedure to obtain COOs is too complicated	0	0.0
Others, please specify	0	0.0
	60	100.0

COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

2.2. Utilisation of Certificates of Origin

As COOs are required under export procedures, it is compulsory for exporters to apply for COOs. In the survey, 58 out of 60 companies use COOs. Thirty-nine companies (60 percent) use Form A (GSP), while 13 companies (21.67 percent) use Form B (MFN) and 12 (20 percent) use Form D.

Table 4.7. Use of COOs

Type of COOs	Number	Percent
Form A (GSP)	39	65.0
Form B (MFN)	13	21.6
Form D	12	20.0
Form E	10	16.6
Form AANZ	1	1.6
Form AI	0	0.0
Form AJ	0	0.0
Form AK	2	3.3
Others	21	35.0
	60	100.0

AANZ = ASEAN–Australia–New Zealand, AI = ASEAN–India, AJ = ASEAN–Japan, AK = ASEAN–Korea, COO = Certificate of Origin, GSP = Generalized System of Preferences, MFN = most-favoured nation.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

In the survey, 12 companies export their products to the United States (29.27 percent), seven companies export to Japan (17 percent), eight companies export to Canada (14.63 percent), and five companies export to the European Union.

Table 4.8. Destination of Exports

Destination Country	Number	Percent
Canada	6	14.6
EU	5	12.2
EU, US	1	2.4
EU/Canada	1	2.4
France	2	4.8
Holland	1	2.4
Japan	7	17.0
Japan, Europe	1	2.4
Spain	1	2.4
Spain/UK	1	2.4
Turkey	1	2.4
US	12	29.2
US/Canada	1	2.4
US/Germany	1	2.4
Total	41	100.0

EU = European Union, UK = United Kingdom, US = United States.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

In the survey, the majority of firms (50 out of 60 firms, 83 percent) use COOs at the request of the government. The use of COOs is required by the government's export procedures. Many exporters complain about this. Some do not need COOs as the importing countries do not require them.²

Table 4.9. Reasons for Using COOs

Reason	Number	Percent
Lower tariffs	9	15.0
Expanding exports	0	0.0
Reducing import costs	0	0.0
Request from trading partners	13	21.6
Request from government	50	83.3
Don't know	2	3.3
Others (please specify)	1	1.6
Total	60	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

² During the drafting of this report, on 29 November 2013, the government issued an inter-ministerial notification No.233 to eliminate the requirement for COOs. Only when a COO is required by the importing country (or export destination) should a COO be applied for. This reform is part of a process of trade facilitation to promote exports and has received a warm welcome from traders.

Eight related documents are required to obtain a COO.³ The majority of the companies (44 out of 60 or 73 percent) perceive the number of documents as reasonable and 12 perceive it as excessive.

Table 4.10. Perceptions of the Number of Documents Required to Obtain a COO

Perception	Number	Percent
Very few	4	6.6
Reasonable	44	73.3
Many	12	20.0
Total	60	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Only two companies answered the question about the length of time needed to obtain a COO. One says it takes three days and the other says up to six days to obtain a COO. Twenty-eight respondents, or 63 percent, perceive the process to be reasonable, while 21 others, or 35 percent, perceive it as lengthy.

Table 4.11. Perceptions of the Process of Obtaining a COO

Perception	Number	Percent
Very quick	1	1.6
Reasonable	38	63.3
Lengthy	21	35.0
Total	60	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

According to the survey, only one company answered that it cost US\$100 to obtain a COO. Thirty six firms say that the process is costly, while 24 firms think it reasonable.

Table 4.12. Perceptions of the Costs of Obtaining a COO

Perception	Number	Percent
Reasonable	24	40.0
Costly	36	60.0
Total	60	100.0

COO: Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

³ For more detail, see Appendix II.

No company obtained a COO using the online system in 2012. Only four respondents compare the advantages of different COO schemes for their exports, while 29 respondents answer negatively, and 22 others do not know.

Table 4.13: Comparison of the Advantages of Different COO Schemes

Answer	Number	Percent
No	29	49.1
Don't know	22	37.2
Not applicable (only one COO available)	1	1.6
Yes	4	6.7
Total	59	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Only seven respondents (12 percent) have difficulty in applying for more than one COO when their firms export to more than one country, while 12 respondents answer negatively or do not know.

Table 4.14. Difficulties in Complying with More than One COO

Answer	Number	Percent
No	12	20.6
Don't know	38	65.5
Not applicable (using only one FTA)	1	1.7
Yes	7	12.0
Total	58	100.0

COO = Certificate of Origin, FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

If they have any difficulties in using COOs, the majority of companies (36 respondents, 69.23 percent) consult with forwarding or logistics companies, and six respondents, or 11.54 percent, consult the government's website. Some use other sources such as business associations and chambers of commerce.

Table 4.15. Means for Consultation

Answer	Number	Percent
Website of government of your location	6	11.5
Website of government of trading partner	2	3.8
Business associations	2	3.8
Chambers of commerce	2	3.8
Forwarders/logistics companies	36	69.2
Trade lawyers/consultants	1	1.9
Others	3	5.7
Total	52	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

2.3. FTA and Investment

Past investment decisions. Half the respondents (29 firms) consider FTAs a factor in deciding an investment location, 14 (24.86 percent) do not consider them as such, and 15 do not know. Among the firms that say FTAs are a factor, six select ASEAN Free Trade Area and four select low preferential tariff.

Table 4.16: Past Investment Decisions

Decision	Number	Percent
No	14	25.8
Don't know	15	24.1
Yes	29	50.0
Total	58	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Future investment plans. In answer to 'Considering the current situation of your company and the economy in which your company is established, what would you like to do with your business in the next five years?', only three respondents signify intention to reduce the level of business operations.

In answer to 'Is your company considering expanding its existing business overseas or opening a new establishment overseas in the next five years?', five firms say they are still considering it, while six cite growing markets as the reason for expanding into foreign countries.

2.4. Information on FTAs

Thirty-five firms, or 67 percent of respondents, perceive the available information about FTAs as poor, 14 firms, or 26.92 percent, perceive it as good, and three consider it to be very poor.

Table 4.17. Perception of Information on FTAs

Perception	Number	Percent
Very poor	3	5.7
Poor	35	67.3
Good	14	26.9
Total	52	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Nineteen respondents select the Internet as their main source of information, 14 select television, and nine select forums and seminars as being very useful for learning about FTAs and/or any other form of economic cooperation.

Table 4.18. Media of Communication

Media of Communication	Number	Percent
Internet	19	31.6
TV	14	23.3
Forum/seminar	9	15.0
Websites about FTA	5	8.3
Radio	4	6.6
Booklets	3	5.0
Government (Ministry of Commerce)	3	5.0
GMAC	1	1.6
Information technology	1	1.6
International news	1	1.6
	60	100.0

FTA = free trade agreement, GMAC = Garment Manufacturer Association of Cambodia.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Eight firms select eliminating corruption and four firms updating the government's website as their main suggestions on what kind of government or private sector support or involvement (including by business associations, etc.) would help them maximise their use of FTAs.

Table 4.19. Suggestion for Support to Maximise the Use of FTAs by Firms

Suggestions	Number	Percent
Eliminate corruption	8	29.6
Update government website	4	14.8
Reduce the time, cost, and documents required to obtain COOs	4	14.8
Role of private sector/chambers of commerce	3	11.1
Enforcement of one-stop service	2	7.4
Forums/seminars on FTAs	2	7.4
Wide diffusion of information (research papers and other publications)	1	3.7
Clear FTA policy	1	3.7
Rule of law	1	3.7
Standardise the cost of processing documents	1	3.7
Total	27	100.0

COO = Certificate of Origin, FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

3. Key Findings of the Survey on Services

Fifteen firms out of 20 in the survey, or 75 percent, are headquarters or main offices, four are branch offices, and one is a regional/country headquarters.

Table 4.20. Status of Companies

Status	Number	Percent
Headquarters/main office	15	75.0
Regional/country headquarters	1	5.0
Branch office	4	20.0
Total	20	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Among services firms in the survey, the number of full-time workers in 2012 varied from four to 500, with an average headcount of 57. Two firms show invested capital of US\$80,000 and US\$90,000, respectively. The share of ownership held by foreign entities includes firms from the United States, People's Republic of China, France, the Republic of Korea, Thailand, and Viet Nam.

3.1. Firms' Sales and Procurement

The services that the surveyed firms provide are logistics, air-conditioner installation, IT solutions, transport, design and construction, trading, engineering, and spare part supplies.

Only one firm has introduced a new service and only four firms provide services in foreign markets.

Nineteen companies conducted direct imports or purchase inputs and materials to support their operations in 2012. Fourteen companies used goods for inputs and materials that had been imported by distributors or trading companies. Only two firms say they used 40 percent and 89 percent, respectively, of total inputs and materials. In answer to the question, 'Do you know if your imported goods are enjoying preferential tariff rates from FTAs?', six firms answer yes.

3.2. FTAs and Business Planning

FTA usage in importing inputs and materials

Seventeen out of 20 companies know or are familiar with the term 'FTA'. However, the companies seem to have a limited understanding of the use and the benefits of FTAs. Among firms familiar with FTAs, and in a multiple-choice question, 12 respondents know about FTAs from a government source, while 12 know about them from media, including television, radio, and the Internet. Business associations and chambers of commerce have limited roles in spreading information related to FTAs.

Table 4.21. Sources of Information

Source of Information	Number	Percent
Government	12	37.5
Business associations	3	9.3
Chambers of commerce	1	3.1
Trade lawyers/private consultants	3	9.3
Media (TV, Internet, etc)	12	37.5
Trading partners	1	3.1
Total	32	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

No firms report using FTAs to import inputs or materials, and one firm does not know if it does or not.

Thirteen firms (59 percent) perceive the main reason for not using FTAs as lack of information, while four say it is because of small trade volume with FTA partners (Table 4.22).

Table 4.22. Reasons for Not Using ROOs

Reason	Number	Percent
Lack of information	13	59.0
Cannot meet the ROO requirements for using FTAs	1	4.5
Small trade volumes	4	18.1
Small differences between preferential FTA tariff and normal applied tariff	0	0.0
Using other schemes (GSP)	0	0.0
Fee to obtain COOs too expensive	2	9.0
Procedure to obtain COOs too complicated	1	4.5
Others, please specify	1	4.5
Total	22	100.0

COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences, ROO = rule of origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

3.3. Utilisation of COOs

Sixteen out of 19 respondents use COOs (Table 4.23).

Table 4.23. Types of COO

No.	Type of COO	Number	Origin Country
1	Form A (GSP)	4	US
2	Form B (MFN)	2	Canada
3	Form D	13	Singapore, Thailand, Viet Nam, and other Asian countries
4	Form E	9	People's Republic of China, Republic of Korea, Taiwan
5	Form AANZ		
6	Form AI	0	
7	Form AJ	0	
8	Form AK	0	
9	Others	6	

AANZ = ASEAN–Australia– New Zealand, AI = ASEAN–India, AJ = ASEAN–Japan, AK = ASEAN–Korea, COO = Certificate of Origin, GSP = Generalized System of Preferences, MFN = most-favoured nation, US = United States.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

The main reasons given for not using COOs are lack of information and small trade volumes (Table 4.24).

Table 4.24. Reasons for Not Using COOs

Reason	Number	Percent
Lower tariffs	5	17.8
Reducing import	0	0.0
Request from trading partners	11	39.2
Request from government	12	42.8
Don't know	0	0.0
Total	28	100.0

COO = Certificate of Origin.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

If firms have any difficulties in using COOs, nine firms say they consult with freight forwarders and logistics companies, eight use government websites, and three use chambers of commerce.

Table 4.25. Main Sources of Information on FTAs

Source of Information	Number	Percent
Website of government of your location	8	36.3
Website of government of trading partner	2	9.0
Chambers of commerce	3	13.6
Forwarders/logistics companies	9	40.9
	22	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

3.4. FTA and Investment

Past investment decisions. Six out of 20 firms consider the existence of an FTA as a factor in deciding on an investment location, while nine do not think it is a factor.

Table 4.26. Decisions Related to FTAs

Decision	Number	Percent
No	9	45.0
Don't know	5	25.0
Yes	6	30.0
Total	20	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Only two firms use the ASEAN–China FTA, while one firm uses the ASEAN–Korea FTA. Low preferential tariff is one aspect of an FTA that many firms consider when deciding on investment.

Table 4.27. Aspects of FTAs

Aspect of FTA	Number	Percent
Lower preferential tariff	11	68.7
Higher foreign equity share	2	12.5
National treatment for foreign investor	1	6.2
Better investment protection	1	6.2
Other (country development)	1	6.2
Total	16	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Future investment plans. Twelve firms are considering to expand the level of their business operations given the current situation of their firms and the economy.

Table 4.28. Future Investment Plans

Future Investment Plan	Number	Percent
Reduce the level of business operations	0	0.0
Move sites within a country	4	19.0
Maintain the same level of business operations	5	23.8
Expand the level of business operations	12	57.1
Total	21	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Fifteen firms (75 percent) have no plans to expand their existing businesses overseas or open a new establishment overseas in the next five years.

Table 4.29. Future Plans

Future plan	Number	Percent
No plan to expand/invest	15	75.0
Under consideration	4	20.0
Will expand/invest overseas	1	5.0
Total	20	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

No specific country was identified for expanding business outside Cambodia. Four firms cite growing markets, while two cite low logistics costs as the main reasons for expanding into foreign countries.

Table 4.30. Reasons for Expanding Business

Reason	Number	Percent
Growing markets	4	44.4
Low labour costs	0	0.0
Low tax	1	11.1
Low logistics costs	2	22.2
Investment incentives	0	0.0
FTA	1	11.1
Follow business partner's investment	1	11.1
Total	9	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Lower preferential tariffs, higher foreign equity limits, and better investment protection are aspects that are important for firms when using FTAs.

3.5. Information on FTAs

Nine firms (50 percent) perceive that the available information on FTAs is still poor, while eight see it as good. Only one firm sees it as very poor (Table 4.31).

Table 4.31. Perceptions of the Availability of Information

Perception	Number	Percent
Very Poor	1	5.5
Poor	9	50.0
Good	8	44.4
Total	18	100.0

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Eleven respondents see television as the main means of communication and the easiest to access by firms in communicating about FTAs and/or any other economic cooperation, eight prefer websites, and four prefer forums and conferences (Table 4.32).

Table 4.32. Communication Means

Communication Means	Number	Percent
Facebook	1	4.1
Forums/Conferences	4	16.6
TV	11	45.8
Websites for FTA	8	33.3
Total	24	100.0

FTA = free trade agreement.

Source: The survey conducted by Cambodia Institute for Cooperation and Peace, 2014.

Six respondents suggest that promoting awareness of FTAs should be encouraged, six firms suggest that the rule of law is an issue, and four see the elimination of corruption as the main action needed by the government or the private sector (including business associations, etc.) to maximise the use of FTAs by firms.

Table 4.33. Suggestions

Suggestion	Number	Percent
Eliminate corruption	4	21.0
Investment protection	1	5.2
Loan with low rate	1	5.2
Promote the awareness about FTA	6	31.5
Rule of law	6	31.5
Training and study tours	1	5.2
Total	19	100.0

FTA = free trade agreement.

Source: The Survey conducted by Cambodia Institute for Cooperation and Peace , 2014

4. Key Recommendations

4.1. Trade Facilitation

To maximise the benefits that can be derived from FTAs, Cambodia should promote trade with countries in ASEAN and the region. Trade facilitation should focus on reducing red tape and complicated procedures in exporting and importing, especially with ASEAN countries. The implementation of ASEAN's e-Customs and National Single Window projects should be finalised within the timeframe adopted by ASEAN. Systems for electronic linkage of relevant agencies for permits, licenses, and COOs should be created and launched.

4.2. Dissemination of Information on FTAs and the ASEAN Economic Community

Information related to Cambodia's current status in preparation to implement ASEAN Economic Community agreements and protocols, especially FTAs, is important. However, such information is still limited. Government agencies' websites, especially of the Ministry of Commerce, and of the chambers of commerce are outdated and lack useful information such as trade data and rules and regulations related to trade and trade promotion. Forums and workshops should be conducted to exchange views between government agencies, the private sector, and academia. Recommendations from these forums should be reported to decision-makers for adoption.

4.3. Trade Promotion and Diversification

Trade in Cambodia is focused on textiles and garments. The major exports are only to a few countries, such as the United States, Canada, and the European Union. This is not a strong foundation for trade development. The government should identify more sectors such as electronics, rubber-based products, agricultural products, and processing products that should receive information on FTAs. Promoting exports to neighbouring countries and countries in the region, especially ASEAN member states, could develop more sustainable markets for Cambodia.

4.4. Capacity Building

To maximise the utilisation of FTAs, capacity building such as training, workshops, and study tours should be provided to government officials and private sector firms on topics such as trade liberalisation, WTO, ASEAN FTAs, etc.

4.5. Rule of Law and Combating Corruption

Respect for the rule of law and equal treatment for all investors and traders are important in developing a positive and conducive investment climate. Combating corruption should be the government's first priority in promoting trade, investment, and business development.

CHAPTER 5

Survey on the Utilisation of Free Trade Agreements in Indonesia

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The Government of Indonesia has actively involved itself in several free trade agreement (FTA) negotiations and prepared for them at the regulatory level. These efforts will not be effective, however, if the private sector, as the actor in real trade, does not take advantage of the benefits provided by the FTAs. This study is aimed at determining how far the private sector in Indonesia can optimise the use of FTAs to improve overall welfare. It takes the form of a survey of manufacturing sector and services sector firms in Greater Jakarta and Greater Surabaya in Indonesia. The survey reveals that firms' knowledge of the implementation of FTAs is limited. Despite lack of information, the use of FTAs, as indicated by the number of Certificates of Origin (COOs) obtained, is more frequent amongst medium-sized and large firms. Smaller firms face more difficulties in accessing the benefits of FTAs as indicated by the higher costs and longer time required to obtain COOs.

Keywords: trade agreement, ASEAN, Certificate of Origin, Indonesia, investment, manufacturing, services

JEL Classification: F140, F150, F21, L6, L8

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1. Context

1.1. Background

Indonesia's participation in free trade agreements (FTAs) and implementation of some significant reductions in tariff rates indicate that its economy has become open (Soesastro and Basri, 2005). As a member of the Association of Southeast Asian Nations (ASEAN) from its outset, Indonesia has been involved in all FTAs developed in Southeast Asia. According to the tariff regulations enacted by the Ministry of Finance, Indonesia implemented the ASEAN Free Trade Agreement (AFTA) in 2003, the ASEAN-China FTA in 2006, the ASEAN-Korea FTA (AKFTA) in 2007, the ASEAN-India FTA (AIFTA) in 2010, and the ASEAN-Australia and New Zealand FTA (AANZFTA) in 2012 (LPEM, 2013).²To date, however, Indonesia has yet to implement the ASEAN-Japan FTA (AJFTA) and has used instead the Indonesia-Japan Economic Partnership Agreement/IJEPA, signed in August 2007.

The involvement of Indonesia in the FTAs mentioned above is reflected in its national trade policy direction in 2010–2014. The policy focuses on facilitating exports, which is subdivided into eight main activities of coordination and development. Exports are facilitated in Asia and ASEAN through development and implementation of the Indonesia National Single Window and the ASEAN Single Window, and development of economic cooperation and financing in Asia.

Trade-related policies, such as an investment policy to support export facilitation, have also been implemented. The revision of the Investment Law to define all capital investments as investment, by Investment Law No.5/2007, was an important step. The Indonesia Investment Coordinating Board has also launched a one-stop integrated service to streamline business licensing.

²Indonesia started to implement tariff reduction for several products of Chapter 01 to 08 in the framework of ASEAN-China FTA by Early Harvest Program by January 1, 2004 (International Agreement Cooperation Directorate, Ministry of Trade)

1.2. Questions

The Government of Indonesia has actively involved itself in several FTA negotiations and prepared for them at the regulatory level. This work will not be effective, however, if the private sector, as the main actor in real trade, does not take advantage of the benefits provided by FTAs. This survey is aimed at determining how far the private sector in Indonesia can optimise the use of FTAs to improve overall welfare.

1.3. Objectives

The survey on the use of FTAs in Indonesia was performed as part of an international parallel study conducted by the Economic Research Institute for ASEAN and East Asia (ERIA) in 10 ASEAN countries. In the Indonesian context, the survey sought to gather data and information on the implementation of ASEAN+n FTAs in Indonesia, including the use of Certificates of Origin (COOs), through a field survey of manufacturing and services firms, as well of the government institutions.

1.4. Methodology and Sample Distribution

This report is based on primary data collected in a firm survey. The firm survey covered manufacturing and services firms in Greater Jakarta and Greater Surabaya, where businesses are considered to be more highly agglomerated than other areas. To estimate FTA utilisation by manufacturing firms, the target was to find respondents in exporter manufacturing firms that might be expected to use FTAs or COOs. For the services sector, the target was to find respondents in construction (construction of commercial buildings, civil engineering, installation works, rental of construction equipment, etc.); telecommunications (public telephone services, mobile phone services, business network services, data and message transmission, IT services, etc.); and tourism (hotel and lodging services, restaurant and food service, tour operators, travel agencies, retail, etc.).

The firm survey used questionnaires³ developed by ERIA and used in the other nine ASEAN countries. The manufacturing firms were selected from *Indonesia's Industrial Statistics 2010*. For services firms, the targets were obtained from related trade association websites, company directories published on the Internet, and other publications. The survey was conducted from May to July 2013. Before the survey, enumerators were briefed

³ The questionnaires were pre-tested to some firms in Indonesia.

in Jakarta and Surabaya. To encourage responses from the target firms and related institutions, the Ministry of Trade, through its Directorate of Regional Cooperation, supported the survey by providing an endorsement letter.

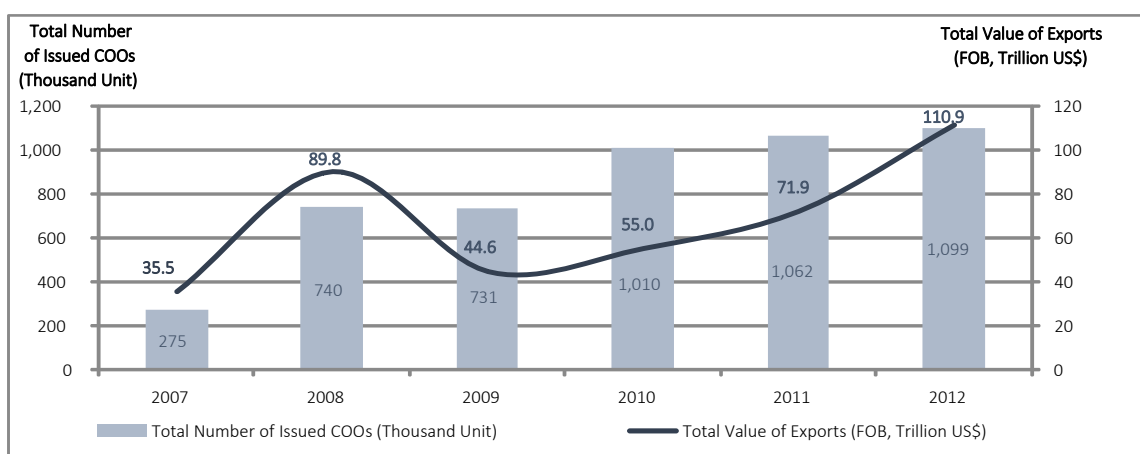
To complement the survey findings, several in-depth interviews and a focus group discussion were held.⁴ The subjects for in-depth interviews were representatives of government institutions involved in implementing FTAs in Indonesia, and the target participants of the focus group discussion were from business associations that may derive benefits from FTAs. Secondary data on the use of COOs for exports were also collected from the Ministry of Trade.

2. Key Findings

2.1 Official Data on the Use of FTAs, Analysed by Agreement, Over the Years

The number of COOs issued by Indonesia's authorised institution (*Instansi Penerbit Surat Keterangan Asal*) rose consistently, from 274,759 in 2007 to 1,099,475 in 2012 (Figure 5.1). The largest increase occurred from 2007 to 2008 just prior to the impact of the global financial crisis. The value of exports rose in line with the increase in the number of COOs after 2009.

Figure 5.1. Total Number of Issued COOs and Total Value of Exports, 2007–2012



COO = Certificate of Origin, FOB = free on board.

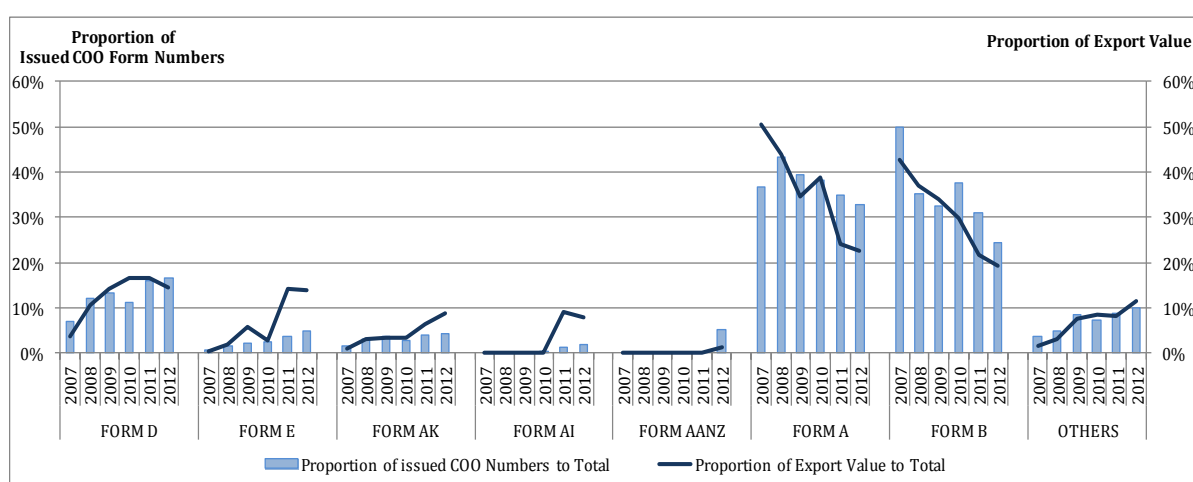
Note: Total value of exports relates only to goods using COOs for export.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

⁵Notes from the focus group discussion and the in-depth interviews are reported separately from this survey report. Some related information from the focus group discussion and the in-depth interviews is included in this report. The conclusion and recommendation section also considers some findings from the focus group discussion and the in-depth interviews.

Form A (Generalized System of Preferences or GSP) and Form B (most-favoured nation or MFN) dominate the total number of issued COOs, but with a decreasing trend. Figure 5.2 shows that Form A accounted for 37 percent and Form B for 50 percent in 2007. By 2012, the numbers had fallen to four percent and 26 percent, respectively, possibly because of an increase in the use of other COO forms, either FTA or non-FTA forms. For example, the total number of forms classified as 'others' (IJEPA, ICC, COA, ICO, TP, GSTP, Handicraft Goods, Handicraft Product, and ANEXO III) rose, largely due to more IJEPA forms being issued. This trend is replicated in the export value profile. The share of exports using Forms A and B decreased from 2007 to 2012, whereas the share using other forms increased.⁵

Figure 5.2. Distribution of Number of COO Forms, 2007–2012



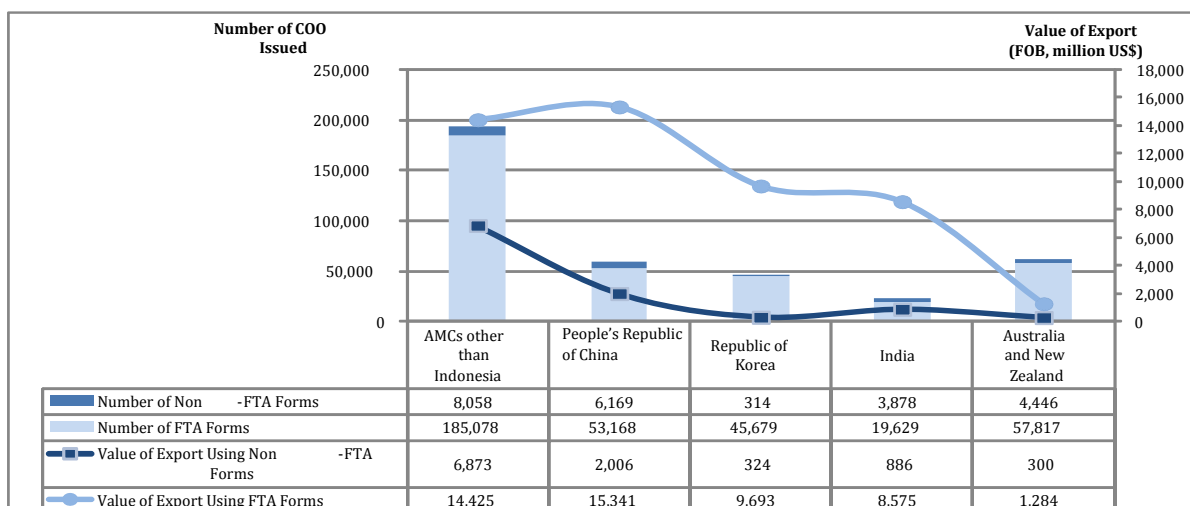
AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AK = ASEAN-Korea, COO = Certificate of Origin. Note: Total value of export is for goods using COOs for export.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

The trend of export value using FTA forms is always higher than that of non-FTA forms (Figure 5.3). Similarly, more FTA COO forms are used than non-FTA COO forms, implying that FTAs are used more frequently for exporting to destinations where an FTA exists.

⁵ An exporter needs to fill a kind of form to obtain COO. The forms are different according to the export destination countries and export facilitation (FTA or non-FTA). The FTA forms are Form D for ASEAN FTA, Form E for ASEAN-China FTA, Form AI for ASEAN-India FTA, Form AK for ASEAN-Korea FTA and Form AANZ for ASEAN-Australia and New Zealand FTA. The non-FTA forms are Form A for Generalized System of Preferences (GSP), Form B for Most-Favoured Nations (MFN), and other specific forms e.g., IJEPA, Industrial Craft Certification (ICC), Certificate of Authenticity Tobacco (COA), International Coffee Organization (ICO), Textile Products (TP), Global System of Trade Preference (GSTP), Handicraft Goods, Handicraft Products, ANEXO III (Certificado De Pais De Origen).

Figure 5.3. Number of COOs Issued and Export Value by FTA ASEAN+1 Destination Countries, Indonesia, 2007–2012



AMCs = ASEAN member countries, COO = Certificate of Origin, FOB = free on board, FTA = free trade agreement.

Note: Total value of export is for goods using COOs for export.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

2.2 Use of FTAs by Manufacturing Firms

This section describes the key findings of FTA utilisation by manufacturing firms. The characteristics of the firms are shown in Table 5.1.

Given the focus of this survey on exporting and importing, it is not surprising that most firms (38 percent of 104 firms) are in bonded zones. Table 5.1 also shows that importing and exporting firms dominate the profile (73 percent of 104 firms). About seven percent of firms directly imported inputs and raw materials.

FTA utilisation is characterised by medium-sized and large firms, and by the role of foreign investors in ownership. Medium-sized and large firms constituted 39 percent and 57 percent of the sample, respectively, and the role of foreign participation is shown by the ownership block in Table 5.1, where domestic firms with foreign participation make up 35 percent and pure foreign firms comprise 39 percent of the total.⁶

⁶ The International Finance Corporation (IFC) criteria for firm size according to the number of workers are: fewer than 50 workers is a small firm; 51–300 workers is a medium firm; above 300 workers is a large firm.

Table 5.1. Firm Characteristics — Manufacturing

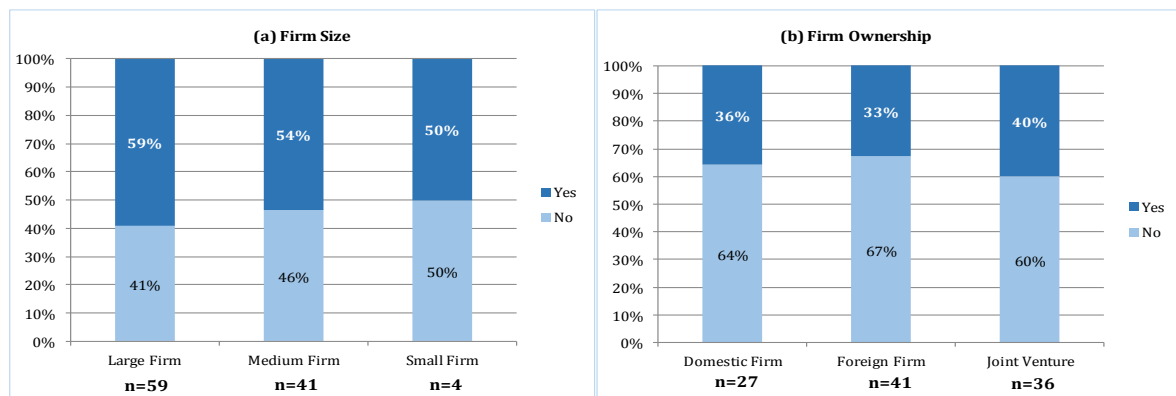
a. By Size				
	Small	Medium	Large	Total
Number	4	41	59	104
Percentage	4	39	57	100
b. By Ownership				
	Domestic firm	Domestic firm with foreign participation	Foreign firm	Total
Number	27	36	41	104
Percentage	26	35	39	100
c. By Activity				
	Exporting only	Importing only	Exporting and importing	Total
Number	21	7	76	104
Percentage	20	7	73	100
d. By Location				
	Not in any particular zone	Industrial zone	Bonded zone	Total
Number	34	31	39	104
Percentage	33	30	38	100

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.1. Use of FTAs, Analysed by Firms' Characteristics

FTAs are used by firms of all sizes and by at least 50 percent of the firms in each category. The largest FTA users as shown by panel (a) in Figure 5.4 are the large firms, and the lowest users are the small firms. It is notable that a (small) number of the small firms are in fact FTA users. Another feature of FTA users in panel (b) is that the users are either domestic, foreign, or joint-venture firms. The joint-venture firms are the largest FTA users compared with the other two categories.

Figure 5.4. Use of FTAs, Analysed by Firm Size and Ownership — Manufacturing

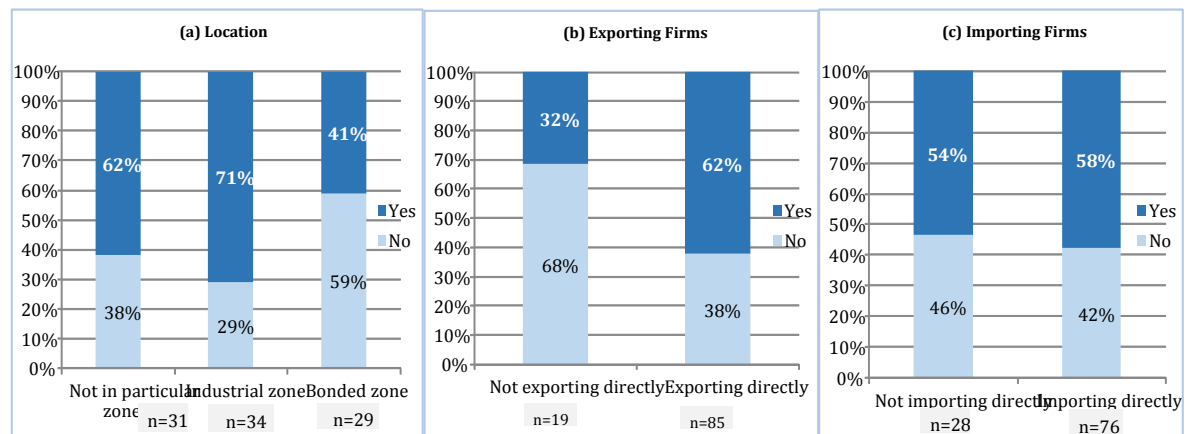


FTA = free trade agreement.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

The FTA users are mostly firms in industrial zones, as shown by panel (a) of Figure 5.5. The firms in bonded zones are possibly not using FTAs frequently, since this particular kind of zone provides special treatment for the industry, e.g. free excise duty for export or re-export of goods and one-stop services for integrated business administration. The FTA users were mostly firms exporting or importing directly as shown by panels (b) and (c).

Figure 5.5. Use of FTAs, by Firms' Location and Activities — Manufacturing



FTA = free trade agreement.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.2 Survey Results of the Use of FTAs, by Agreement

The use of trade schemes by the survey respondents is common, and GSP or an FTA are the usual schemes. Table 5.2 shows that at least 57 percent of the 104 firms surveyed state that they use FTAs. Some new FTA users are firms shifting from GSP to FTAs. The survey reveals a significant increase in the number of FTA users in 2010. Manufacturing firms are generally familiar with FTAs, as indicated by the fact that the proportion of firms that have some knowledge of FTAs is larger than the proportion of COO users, compared with the total sample.

Table 5.2. Firms' Experience with GSP and FTA — Manufacturing

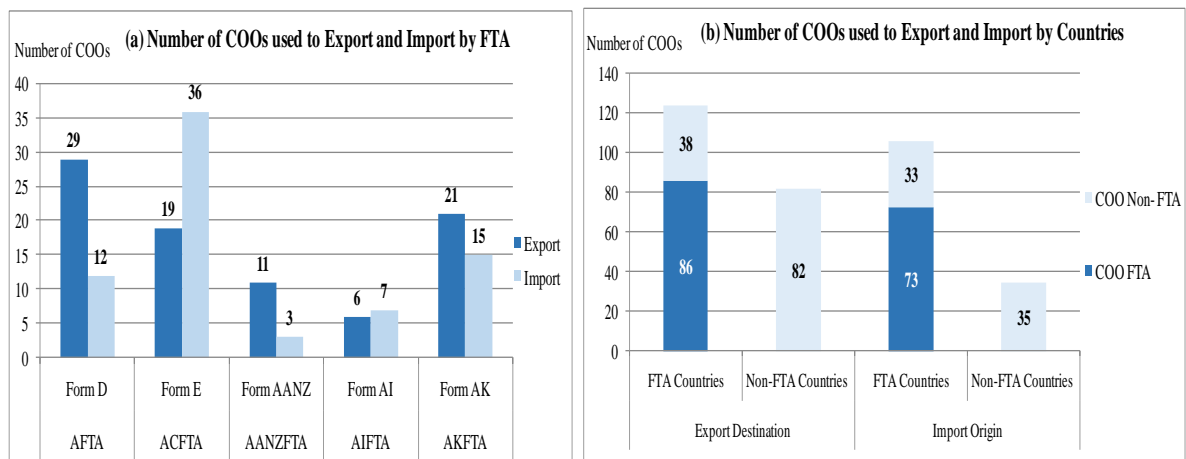
Company has used a GSP	Company has used an FTA		Total
	No	Yes	
No	31	33	64
Yes, and currently using GSP	12	17	29
Yes, but currently using FTA (shifted from GSP to FTA)	1	5	6
Yes, but currently not using GSP	1	4	5
Total	45	59	104

FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

The survey finds that utilisation of the more recently established ASEAN+1 FTAs is generally lower than for the older FTAs (ASEAN-China and ASEAN-Korea) as shown by panel (a) of Figure 5.6. The implementation of these two FTAs was effective in Indonesia in 2006 and 2007, respectively. The ASEAN-India FTA was implemented in 2010, and the Australia and New Zealand FTAs in 2012. Comparing the number of COOs to exports and imports by each ASEAN+1 FTA with the ASEAN FTA indicates that Indonesia's main export destination is still ASEAN, but that imports have spread out to ASEAN+1 countries in addition to the ASEAN member countries, especially imports from the People's Republic of China. This is confirmed by panel (b), which shows that the use of FTA-COOs to export to or import from the FTA countries is higher than that of non-FTA COOs.

Figure 5.6. Number of ASEAN+1 FTA COOs Used for Export and Import —Manufacturing

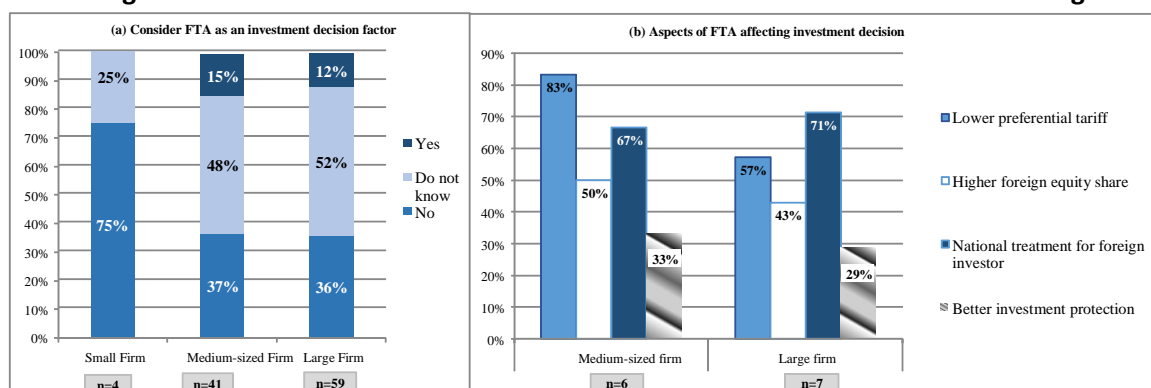


AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AFTA = ASEAN Free Trade Agreement, AIFTA = ASEAN-India Free Trade Agreement, AKFTA = ASEAN-Korea Free Trade Agreement, COO = Certificate of Origin, FTA = free trade agreement.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.3 Perceptions of How FTAs Affect Decisions to Invest, by Firm Size

The survey finds that FTAs have only affected past investment location decisions for a small proportion of firms. Figure 5.7 shows that most firms of all sizes do not know whether an FTA was a factor in investment location. This finding is even more apparent for small firms, 75 percent of which say that there is no FTA effect. For medium-sized and large firms, however, FTAs affected their investment decisions because an FTA benefited the business in some aspects, e.g. lower preferential tariff, better treatment for foreign investors, and opportunity to have a higher foreign ownership share.

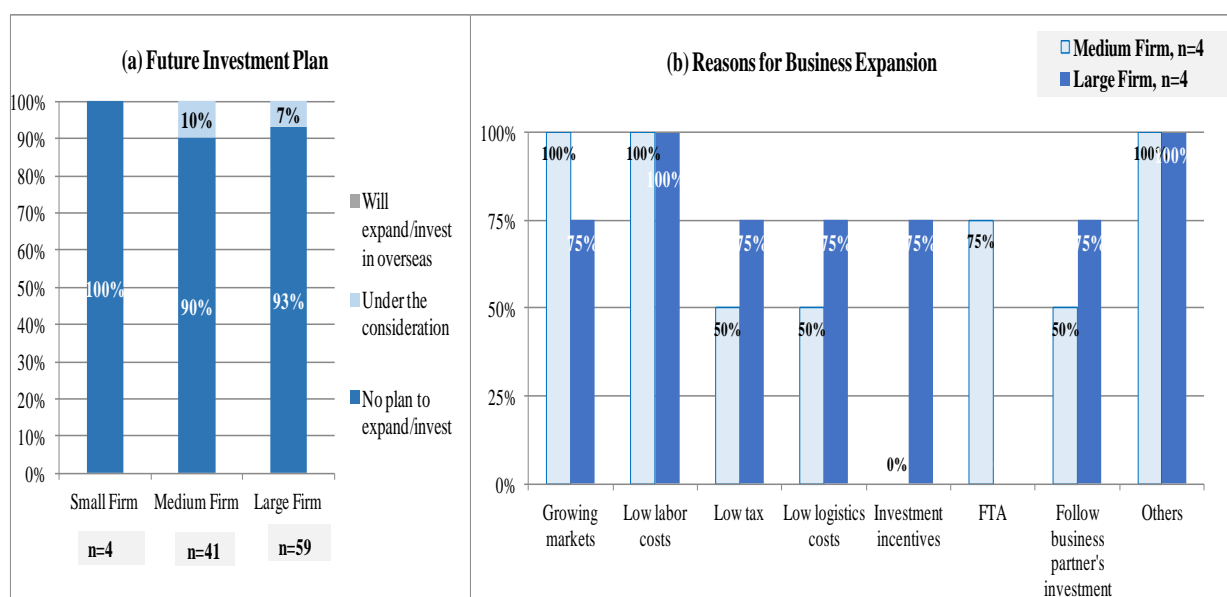
Figure 5.7. Effects of FTA on Past Investment Location Decision — Manufacturing

FTA = free trade agreement.

Note: Multiple answers were allowed for questions on aspects of FTAs affecting investment decisions.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

The survey also captures manufacturing firms' unwillingness to expand their existing businesses or open new establishments overseas in the next five years. Figure 5.8 in panel (a) shows this condition applies for all small firms and for almost all other firms. Overseas expansion is in general motivated by low labour costs in the potential investment destination countries, e.g. Viet Nam, Malaysia, and the People's Republic of China. More specifically, an FTA is a motivating factor only for medium-sized firms.

Figure 5.8. Future Investment Decisions — Manufacturing

FTA = free trade agreement.

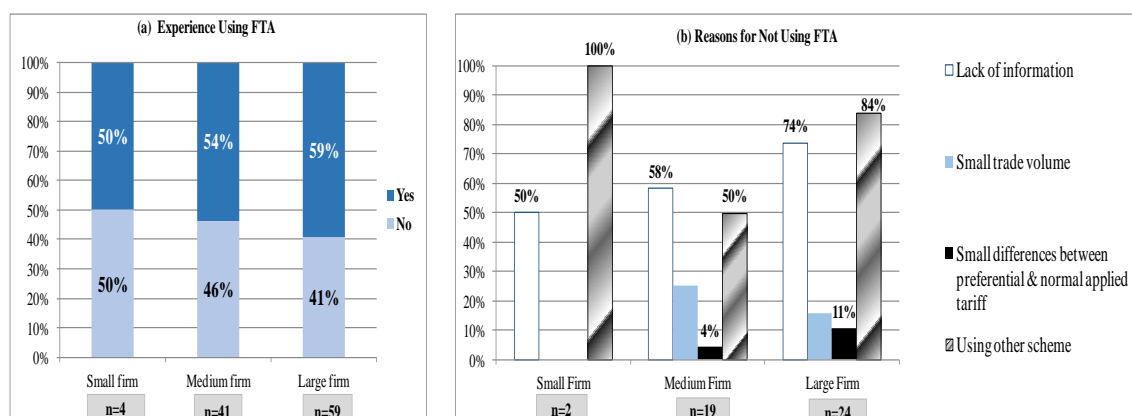
Note: Multiple answers for aspects of FTA affecting investment decision were allowed.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.4 Constraints on Using FTAs, by Firm Size

The survey reveals that experience in using FTAs is considerable across all firm sizes. Figure 5.9 shows that at least 50 percent of firms use at least one of the five existing FTAs. For the non-FTA users, the common reasons are that they are either using another scheme or they lack information. The ‘other scheme’ reply is an obvious reason for not using FTA because most of the firms are located in special economic zones.

Figure 5.9. Experience in Using FTAs and Reasons for Not Using FTAs — Manufacturing



FTA = free trade agreement.

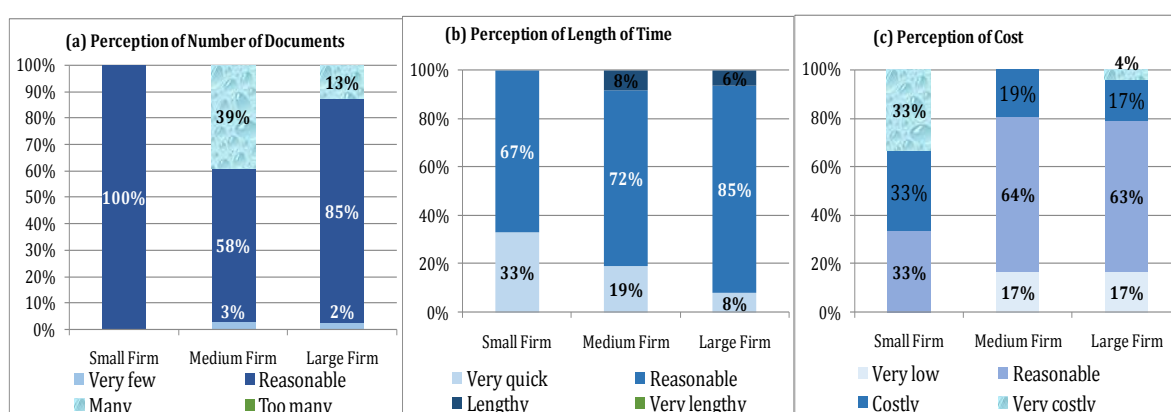
Note: Multiple answers for reasons for not using FTA were allowed.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia..

2.2.5 Perceptions of the Costs and Procedures Associated with FTAs, Analysed by Firm Size

The survey shows that respondents from all firm sizes agree that COOs in general can be obtained with a reasonable number of documents within a reasonable length of time and at a reasonable cost. Panel (a) in Figure 5.10 shows that the variation of opinion across firms about the administrative process, as measured by the number of documents, is less than the variation of opinions of time taken and cost. In panel (b) it can be seen that a small portion of medium-sized and large firms think the time is very short, or too long, whilst panel (c) shows that considerable portion of the firms think the cost is very low or too expensive. However, none of the small firms states that the cost is very low.

Figure 5.10. Aspects of Process of Obtaining COOs — Manufacturing



COO = Certificate of Origin.

Note: In total, three small, 36 medium-sized, and 48 large firms responded to this part of the survey.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia

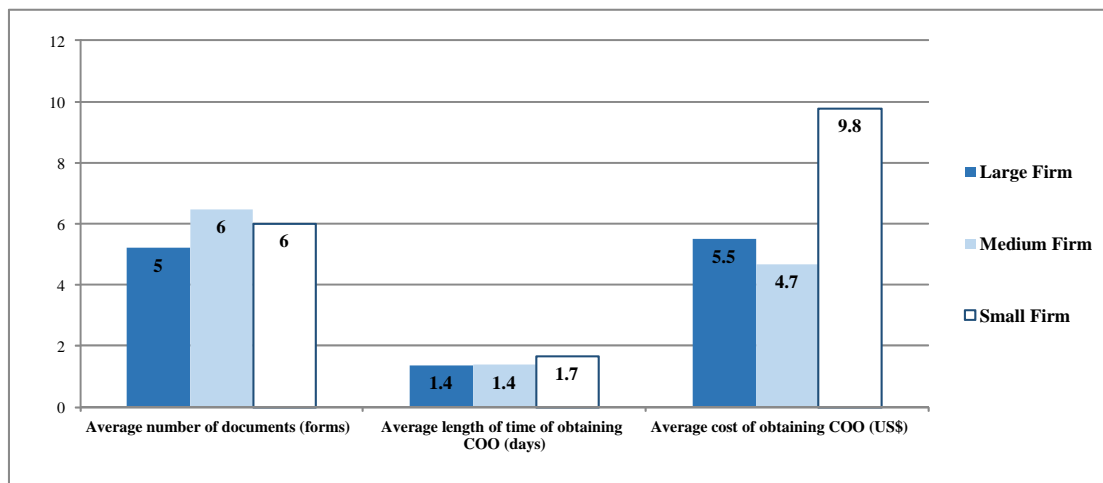
The main variation in aspects of obtaining COOs across firm types is cost. Figure 5.11 shows that small firms pay more than medium-sized and large firms, at US\$9.8 for a COO on average or at least 40 percent more than the fee paid by medium-sized and large firms.⁷ Small firms also need, on average, 0.3 extra days to obtain a COO.⁸ These difficulties in obtaining COOs create obstacles for small firms wishing to take advantage of FTAs⁹

⁷According to the Ministry of Trade Regulation No.31/2009, the cost per issuance of COO is IDR 5,000 [USD 1=IDR 10,400 at Indonesia Central Bank average exchange rate in 2013). The fee is collected as an earmark and a source of non-tax revenue for the national budget.

⁸According to the Ministry of Trade Regulation No.12/2010, the required documents are the customs declaration for export, bill of lading, taxpayer number, invoice, packing list, and specific documents in accordance with types of COO.

⁹The design of the questionnaire did not ask for details of cost and length of time for each document needed for a COO. However, the focus group discussion confirms that the cost for issuance and types of documents are the same for all sizes of firms.

Figure 5.11. Number of Documents, Length of Time, and Average Cost of Obtaining COO — Manufacturing



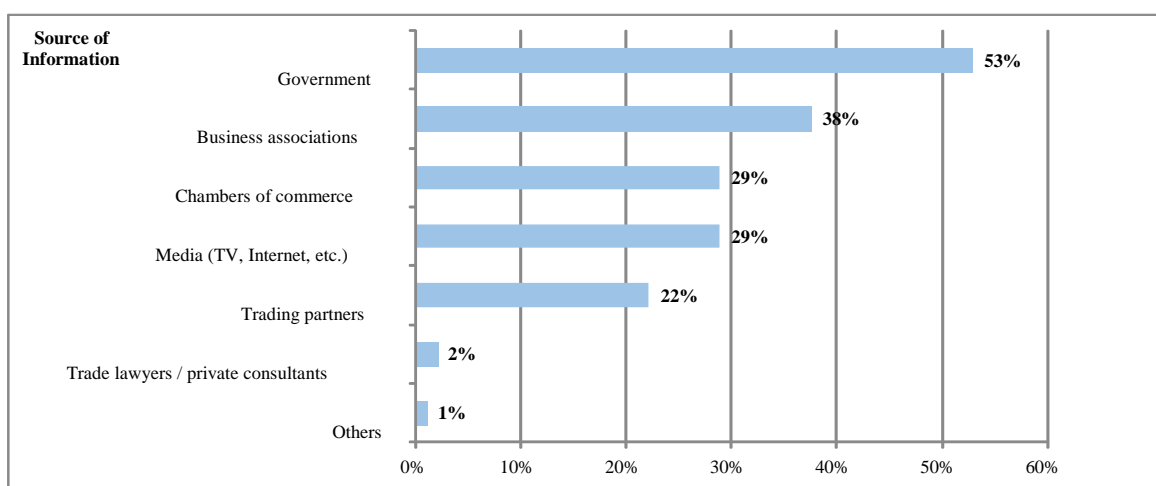
COO= Certificate of Origin.

Note: In total, three small firms, 36 medium-sized firms, and 48 large firms responded to this part of the survey.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.6 Main Sources of Information About FTAs

The government is the main source of information about FTAs for the surveyed firms. Figure 5.12 shows that other important sources of information are business associations, chambers of commerce, and media (television, Internet, etc.). Information also comes from FTA seminars or field visits to firms by trade ministry officials.

Figure 5.12. Main Sources of Information about FTA — Manufacturing

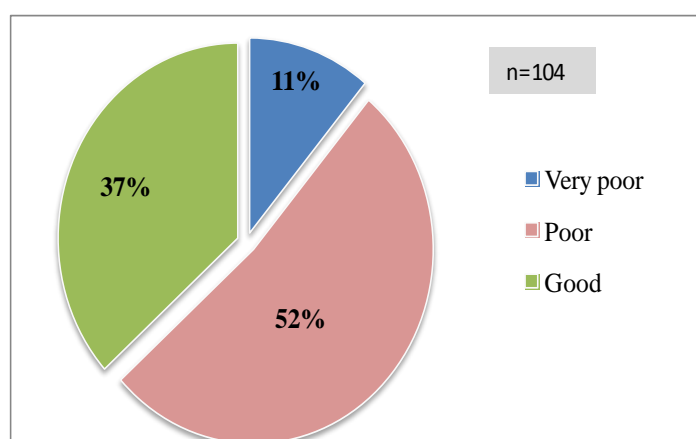
FTA = free trade agreement.

Note: Multiple answers were allowed.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.7 Other Interesting Issues that Need to be Highlighted

The survey shows that FTA-related information is scarce. Figure 5.13 shows that 88.4 percent of total respondents agree on the poor availability of information but a considerable 36.5 percent of total respondents still think that the information availability is good.

Figure 5.13: Availability of FTA-Related Information — Manufacturing

FTA = free trade agreement.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.3. Use of FTAs by Services Firms

This section provides key findings on the services sector, including hotels, restaurants, construction, and telecommunications. The survey of a total of 43 services firms shows that in general only a limited number of services firms know about FTAs. This can be seen from their experience with FTAs, and from the fact that their main reason for not using FTAs is lack of information.

Services firms are mostly large and small firms and only some of the firms are importers (Table 5.3). The non-importers mainly purchase inputs and materials through vendors of imports or use local products. The firms are mainly domestically owned and have their main office or headquarters in Indonesia.

Table 5.3: Firm Characteristics — Services Firms

a. By Size				
	Small	Medium	Large	Total
Number	17	8	18	43
Percentage	40	19	42	100
b. By Ownership				
	Domestic firm	Domestic firm with foreign participation	Foreign firm	Total
Number	28	12	3	43
Percentage	65	28	7	100
c. By Activity				
	Direct importer	Not direct importer		Total
Number	4	39		43
Percentage	9	91		100
d. By Status				
	Headquarters/ Main office	Regional/Country headquarters	Branch office	Total
Number	38	3	2	43
Percentage	88	7	5	100

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.3.1. Use of FTAs, Analysed by Firm Characteristic

FTAs are used by only a small number of firms. Table 5.4 shows only four of 43 surveyed firms use FTAs. The FTA users are those firms importing directly and either

domestic or joint-venture firms. By services sub-sector, these are construction, hotel, and restaurant firms.

Table 5.4: Use of FTAs, Analysed by Firm Characteristic

Firms Characteristic	No	Don't Know	Yes	Total Number of Firms
Firm Size	32	8	4	44
• Large	12	5	1	18
• Medium	6	2	0	8
• Small Firm	14	1	3	17
Ownership	32	8	3	43
• Domestic	22	4	2	28
• Foreign	3	0	0	3
• Joint venture	7	4	1	12
Import activities	32	8	4	44
• Not importing directly	31	8	0	39
• Importing directly	1	0	3	4
Sub-sectors	32	8	4	44
• Construction	5	4	1	10
• Hotel	6	1	1	8
• Restaurant	7	3	1	11
• Telecommunications	14	0	0	14

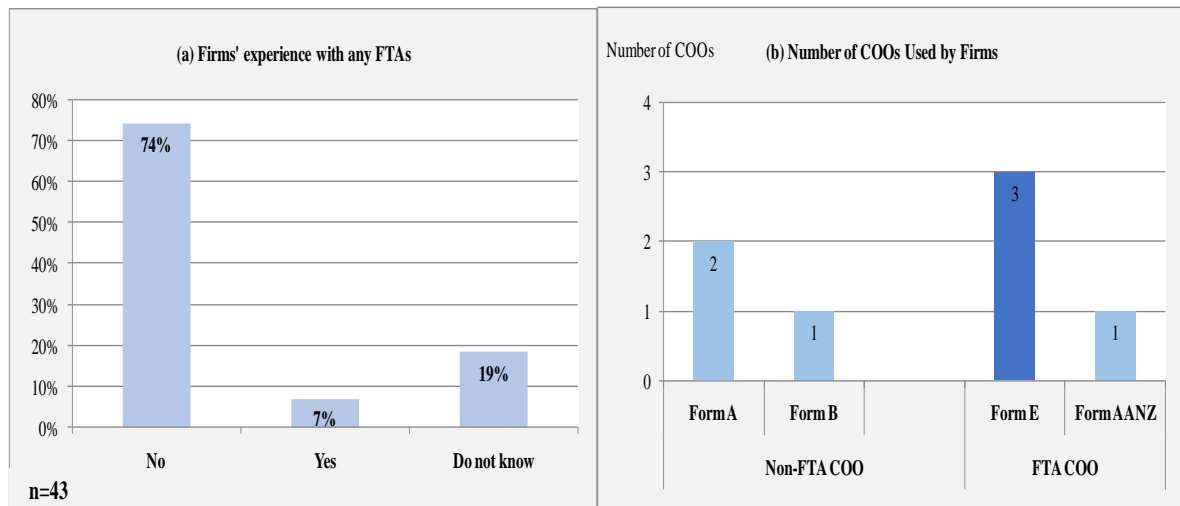
FTA = free trade agreement.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.8 Survey Results on the Use of FTAs

The use of FTAs and COOs is not frequent amongst services firms. This can be seen in Figure 5.14, where only four firms (seven percent of 43 firms) state that they have used any FTA in importing inputs and materials, and only two existing FTAs had ever been used—Form E (ASEAN-China FTA) and Form AANZ. The use of non-FTA COOs is also low.

Figure 5.14. Firms' Experience with FTAs and COOs — Services Firms

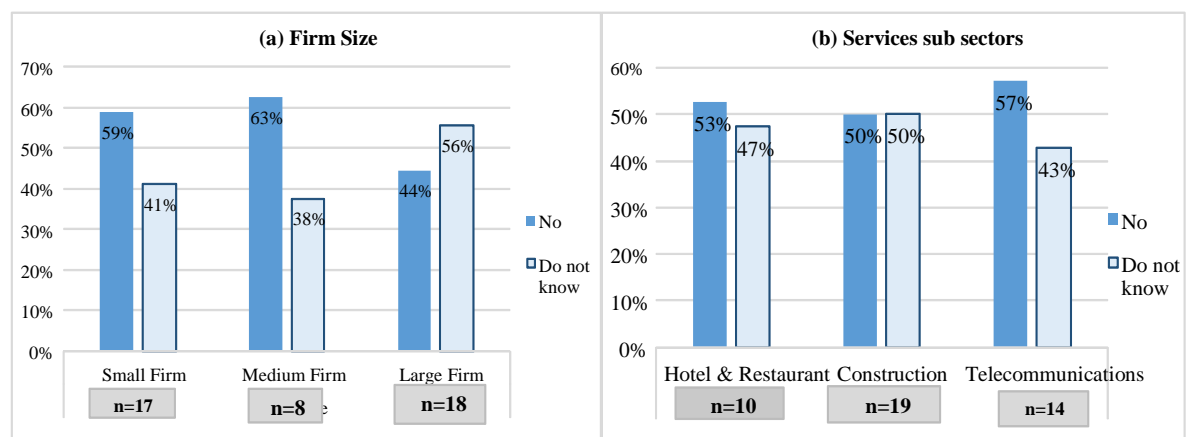


AANZ = ASEAN-Australia and New Zealand, COO = Certificate of Origin, FTA = free trade agreement.
 Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.9 Perceptions of How FTAs Affect Decision to Invest

The survey shows that an FTA is obviously not a factor in deciding investment location for the services sector. Figure 5.15 in panel (a) shows that firms of all sizes do not consider or do not know whether an FTA was a factor in deciding their past investment location. The answer is similar for each sub-sector.

Figure 5.15. Effect of FTA on Investment Decision — Services Firms

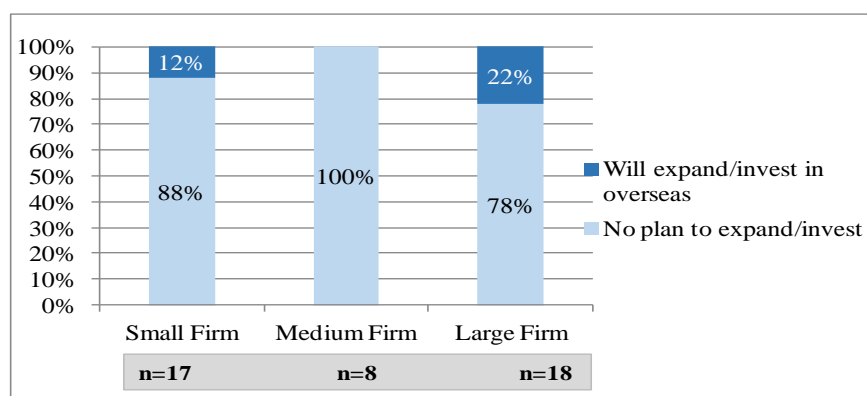


FTA = free trade agreement.
 Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

Services firms also do not consider FTAs in their investment planning. Figure 16 shows the percentage of small and large firms that plan to expand their existing businesses overseas, or to open new establishments overseas in the next five years, with Malaysia,

Singapore, East Timor, and Australia at the top of the destination list. However, none of the firms mention an FTA as the reason for business expansion. The two small and four large firms that were thinking about expanding gave as reasons growing markets, following a business partner's investment, and investment incentives.

Figure 5.16. Business Future Investment Plans — Services Firms



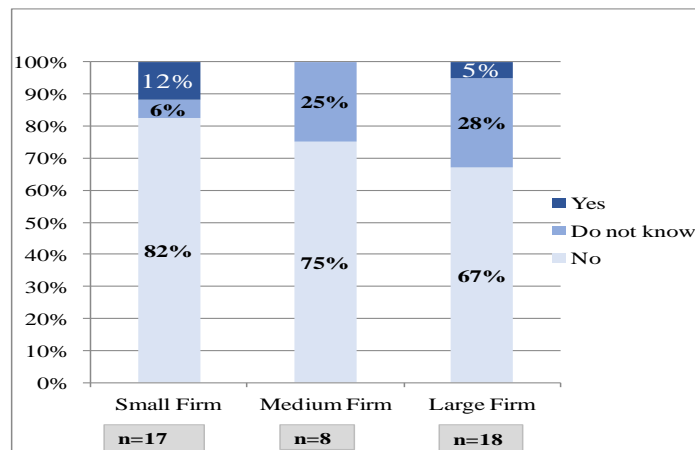
Note: None of the firms chose 'under consideration' for business investment plan.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.10 Constraints on Using FTAs, by Firm Size

The main reason given by services firms of all sizes for not using FTAs is a lack of information. Panel (a) in Figure 5.17 shows that a large share of firms have never used or do not know whether they have ever used an FTA in importing inputs or raw materials. The next panel detailing the reasons behind this behaviour shows that lack of information is listed first amongst other reasons across firm sizes. The second and third reasons differ according to firm size. Some reasons are only stated by the small and large firms, e.g. too expensive and complicated procedures to obtain COOs, and the small difference between the preferential tariff and the normal tariff.

Figure 5.17 a. Experience of Using FTAs— Services Firms



FTA= free trade agreement.

Source: Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

Figure 5.17 b. Reasons for Not Using FTAs — Services Firms

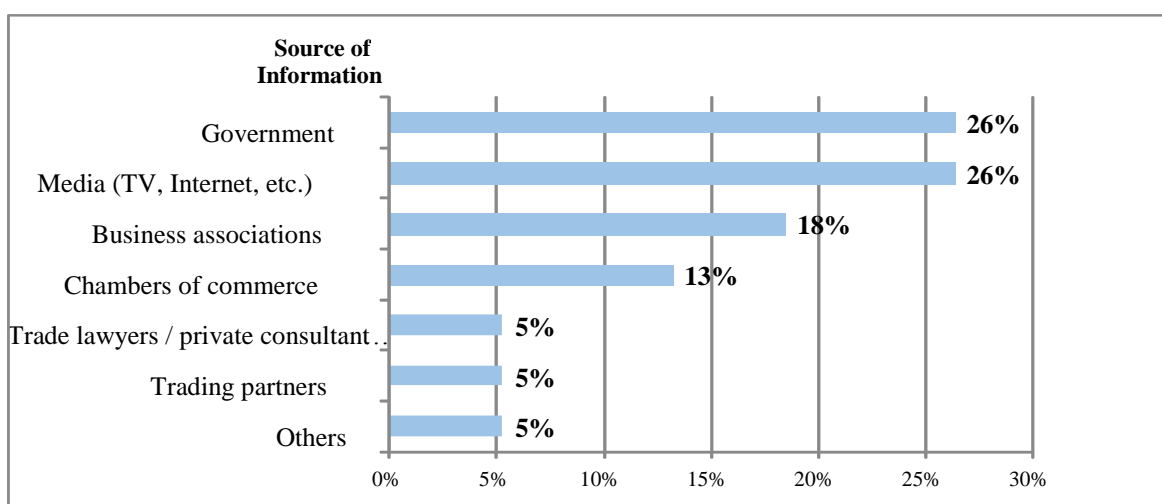
Reason	Small	Medium-Sized	Large
Lack of information	12	5	8
Small trade volume	7	1	0
Small differences between preferential FTA and normal applied tariff	0	0	2
Cost of obtaining COOs too high	0	0	1
Procedures for obtaining COOs too complicated	1	0	1
Cannot meet the ROOs requirement for using FTAs	1	0	0
Others	3	3	8
Total number of firms	14	6	12

COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.11 Main Sources of Information About FTAs

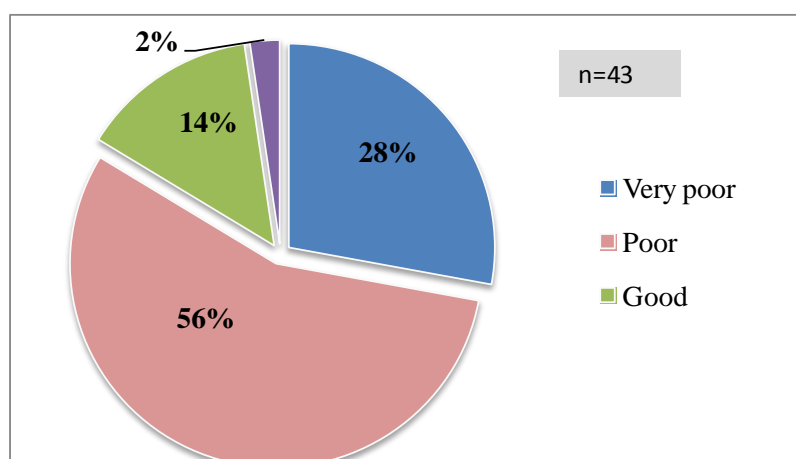
The two main sources of information about FTAs for services firms are government and media (television, Internet, etc.). Figure 5.18 also shows that business associations play a more important role for FTA information than the chambers of commerce. These firms also mention trade lawyers and/or private consultants and trading partners as important sources of information. These last two reasons probably stem from the fact that FTAs in services are tightly regulated.

Figure 5.18. Source of Information — Services Firms

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

2.2.12 Other Interesting Issues that Need to be Highlighted

The survey shows that FTA-related information is scarce. Figure 5.19 shows that 56 percent of firms state that information availability is poor. Even so, a significant portion of services sector firms still think that the information availability is good.

Figure 5.19. Availability of FTA-Related Information — Services Firms

FTA = free trade agreement.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

3. Conclusions and Recommendations

- The survey reveals that firms' knowledge of FTA implementation is limited. It indicates mostly poor availability and quality of information provided by the main sources of information, i.e. government, business associations, chambers of commerce, and media. These parties should therefore work together to provide better and more detailed information about FTAs (e.g. benefits and business opportunities, relationship between FTAs, ROOs, and COOs).

- Small firms face more barriers in using FTAs than medium-sized and large firms in terms of the cost of, and length of time taken in, obtaining COOs. Given that the majority of firms in Indonesia are small, they play an important national role. The government should seek to increase the involvement of small firms in FTAs.¹⁰ Action should be specifically designed to provide information about FTAs and the process for obtaining COOs.

- The government needs to develop an integrated strategy across sectors to motivate and support firms to take full advantage of FTAs. The survey finds that only a small portion of firms consider FTAs in their business plans, e.g. in investment location and business expansion, i.e. new establishment overseas and introduction of new products and entry into new potential markets.

¹⁰ International Finance Corporation (IFC,2012) states that the global financial crisis has intensified policy focusing on small and medium-sized enterprises as the engine of employment and growth. It acknowledges that the role of micro, small, and medium-sized businesses is around 60 percent of Indonesia's gross domestic product, and the provider of livelihoods for more than 90 percent of the country's workforce.

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Appendix

Table 5.A.1. Summary of ASEAN+1 FTA Implementation by Indonesia

Involving Parties	Title of Agreement	Date Signed	Start Date of Implementation in Indonesia	
			Legalisation of Agreement By Presidential Decree	Implementation by Ministry Regulations
ASEAN	ASEAN Free Trade Area	1992	1995	2003 for CEPT
	ASEAN Framework Agreement on Services	1995	1995, with an amendment in 2004	**
ASEAN-China	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement	2004	2004	2006
ASEAN-Korea	ASEAN-Korea Comprehensive Economic Cooperation Agreement	2006	2007	2007
ASEAN-Japan	ASEAN-Japan Comprehensive Economic Partnership	2008	2009	not yet in effect and implemented
ASEAN-India	ASEAN-India Comprehensive Economic Cooperation Agreement	2009	2010	2010
ASEAN-Australia and New Zealand	ASEAN-Australia and New Zealand Free Trade Agreement	2009	2011	2012

Common Effective Preferential Tariff (CEPT), FTA = free trade agreement.

Note: ** Not regulated yet

Source: Summarised from www.asean.org and regulations.

Table 5.A.2. Total Number of Issued COOs and Total Value of Export, Indonesia, 2007-2012

Year	Total Number of Issued COOs (thousand)	Total Value of Export (FOB, US\$ trillion)
2007	274,759	35.5
2008	739,924	89.8
2009	730,787	44.6
2010	1,010,092	55.0
2011	1,062,443	71.9
2012	1,099,475	110.9

COO = Certificate of Origin, FOB = free on board.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

Table 5.A.3. Distribution of Number of COO Forms, Indonesia, 2007-2012

Year	Form D		Form AI		Form AANZ		Form E	
	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)
2007	7	4	0	0	0	0	1	1
2008	12	10	0	0	0	0	2	2
2009	13	14	0	0	0	0	2	6
2010	11	16	0	0	0	0	3	3
2011	16	17	1	9	0	0	4	14
2012	17	15	2	8	5	1	5	14
Year	Form AK		Form A		Form B		Others	
	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)
2007	2	1	37	50	50	43	4	2
2008	3	3	43	44	35	37	5	3
2009	4	4	39	35	33	34	9	8
2010	3	3	38	39	38	30	7	9
2011	4	6	35	24	31	22	9	8
2012	4	9	33	23	24	19	10	12

AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, COO =Certificate of Origin.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

Table 5.A.4. Number of Issued COOs and Export Value by FTA ASEAN+1 Destination Countries, Indonesia, 2007-2012

Export Destination Countries	Number of Export COO		Value of Export		Form FTA		Other than FTA Form	
	Number of FTA Forms	Number of Non-FTA Forms	Value of Export Using FTA Forms	Value of Export Using Non-FTA Forms	Number of Producer Importer	Number of General Importer	Number of Producer Importer	Number of General Importer
AMCs other than Indonesia	185,078	8,058	14,425	6,873	10,023	3,910	3,074	776
People's Republic of China	53,168	6,169	15,341	2,006	3,418	1,378	557	144
South Korea	45,679	314	9,693	324	3,603	1,206	69	20
India	19,629	3,878	8,575	886	1,533	790	482	139
Australia and New Zealand	57,817	4,446	1,284	300	5,118	3,673	997	226

AMCs = ASEAN member countries, COO = Certificate of Origin, FTA = free trade agreement.

Source: Directorate of Export and Import Facilitation, Ministry of Trade recalculated.

CHAPTER 6

Survey Report on the Utilisation of Free Trade Agreements in Lao People's Democratic Republic

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The National Economic Research Institute of Lao PDR

This study aims to examine the use of free trade agreements (FTAs) in Lao PDR, determine constraints related to utilisation of FTAs, and provide policy recommendations. Eighty firms, 60 from the manufacturing sector and 20 from the services sector, in Vientiane Capital, Xayaburi, and Savannakhet provinces were surveyed. The findings show that the use of FTAs as well as Certificates of Origin (COOs) in Lao PDR is minimal. The main constraint is the lack of detailed information to enable firms to use FTAs in their export and import activities. Based on these findings, this study recommends improvement of information dissemination to increase the effectiveness of FTAs in Lao PDR.

Keywords: Use of FTA, Lao PDR, Free Trade Agreement

JEL Classification: F1

1. Context

1.1. Background

The Lao People's Democratic Republic (Lao PDR) became a full member of the Association of Southeast Asian Nations (ASEAN) in 1997. After joining the ASEAN Free Trade Agreement the following year, Lao PDR automatically became a participant in the FTAs between ASEAN and non-ASEAN countries, regions, and zones, including ASEAN-China FTA, ASEAN-Japan FTA, ASEAN-Korea FTA, ASEAN-India FTA, and ASEAN-Australia and New Zealand FTA. Lao PDR has also signed other sub-regional, multilateral, and bilateral economic cooperation agreements, including the Greater Mekong Sub-region Agreement and the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy. Economic cooperation includes trade and investment facilitation amongst countries.

Since then, external trade and investment in Lao PDR have been increasing gradually. The latest statistical data from the Ministry of Industry and Commerce show that the value of total exports increased from US\$330.2 million in 2000 to US\$621 million in 2005, and to US\$2,190.5 million in 2011, a significantly high average growth rate of 51.2 percent per annum. In 2011, the key export commodities from Lao PDR included minerals (60.3 percent), electricity (16.3 percent), industrial and handicraft products (11.1 percent), agricultural products (6.4 percent), and wood and wood products (5.6 percent). Around 60 percent of the commodities were exported to ASEAN countries, particularly Thailand and Viet Nam.

Over the same period, imports also increased, from US\$535.3 million in 2000 to US\$931.4 million in 2005 and further to US\$2,601.5 million in 2011, a significantly high average growth rate of 35.1 percent per annum. In 2011, about 45 percent of imports came from ASEAN countries, particularly Thailand and Viet Nam. Key import commodities include vehicles and spare parts (23.4 percent), construction materials (16.7 percent), fuel (13.6 percent), electrical equipment (13.5 percent), food (9.4 percent), agricultural production equipment (5.3 percent), and industrial production equipment (4.3 percent).

Alongside trade, foreign direct investment in Lao PDR has been increasing rapidly and constantly, from US\$20.4 million in 2000 to US\$1,245.3 million in 2005, and further to US\$1,530.8 million in 2011. In 2011, about half of the foreign direct investment came from ASEAN countries, particularly Viet Nam and Thailand. Key foreign direct investment sectors

include electricity generation (61.9 percent), agriculture (7.4 percent), industry and handicraft (5.8 percent), services (5.9 percent), telecommunications (5.2 percent), and construction (2.8 percent).

In line with increasing trade and investment, the total number of registered firms in Lao PDR has also been increasing, from 39,000 firms in 2000 to 123,457 firms in 2005 and further to 207,870 firms in 2011, a growth rate of 39.3 percent per annum. Manufacturing firms comprise 22.7 percent of these, whilst 77.3 percent are services firms. Over 99 percent of the firms are small and medium-sized enterprises, with workforces of 100 or less. Over 91 percent of the firms are private domestic ventures, 3.16 percent are foreign-owned, and the remaining 5.1 percent are joint ventures. Only 833 firms, or 0.4 percent of the total, are involved in export and import activities.

Despite this rapid growth in trade, investment, and number of firms, the FTAs agreed to by Lao PDR are not automatically in use. Problems or constraints in obtaining COOs hinder the FTAs' effectiveness. Due to limited studies focusing on this area, questions relating to obtaining COOs in Lao PDR persist. The questions include the process for obtaining a COO, the agencies responsible for that process, the documents an export and/or import company has to submit to obtain a COO, amongst others. Thus, to clarify the process, the National Economic Research Institute conducted a survey in cooperation with the Economic Research Institute for ASEAN and East Asia (ERIA).

1.2. Questions

The survey aimed to gather information on many factors, including (i) the types of firms that use FTAs, (ii) the types of FTAs used by firms, (iii) the perception of the private sectors on the effects of FTAs on trade and investment, (iv) the constraints on using FTAs in Lao PDR, and (v) the perceptions of companies on procedures and costs of obtaining COOs.

1.3. Objectives

The general objectives of the survey were to provide evidence on the use of FTAs in Lao PDR, illustrate the effectiveness in the utilisation of FTAs, illustrate the use of COOs, and recommend ways to improve the utilisation of FTAs.

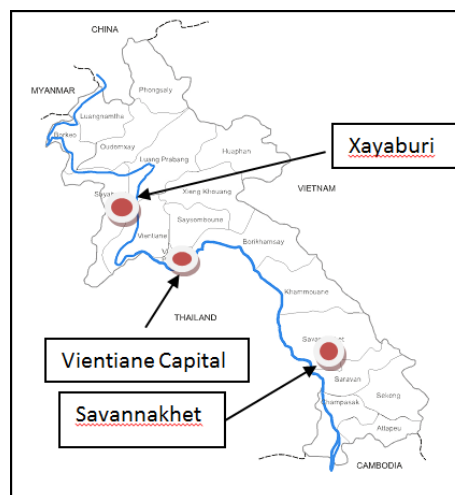
2. Questionnaire Survey

2.1. Survey Location

Due to time and resource constraints, the survey was limited to three manufacturing and services centres in Lao PDR, namely Vientiane Capital and Savannakhet and Xayaburi provinces. These three areas were selected because of the concentration of manufacturing and services firms there, their level of regional economic integration, and their cross-border economic interaction. An enterprise survey conducted by the Lao Statistical Bureau in 2010 shows that 34 percent of all firms in Lao PDR are concentrated in Vientiane Capital, about seven percent in Savannakhet province, and 10 percent in Xayaburi province.

Vientiane Capital is in the central part of Lao PDR, whilst Xayaburi is in the north and Savannakhet in the south (Figure 6).

Figure 6.1. The Size of Surveyed Cities



Source: National Economic Research Institute.

The three provinces share borders with Thailand, have international border gates, and relatively good infrastructure (roads and bridges) connecting to the rest of Lao PDR and facilitating cross-border movement and interaction. Savannakhet, in particular, shares borders with Thailand and Viet Nam, and the East-West Corridor integrates the province to these countries.

Thailand and Viet Nam are important trade and investment partners. Statistical data from the Ministry of Industry and Commerce show that, in 2010, 58.5 percent of total exports from Lao PDR went to Thailand and Viet Nam and over 45 percent of the total

imports came from Thailand and Viet Nam. Finally, 49.4 percent of total foreign direct investment in Lao PDR in the same year originated from Thailand and Viet Nam.

Based on statistical data from the provincial department for industry and commerce, Vientiane Capital accounts for 35 percent of total exports, Savannakhet for 25 percent, and Xayaburi for 10 percent. Vientiane Capital accounts for 30 percent of total imports, Savannakhet for 15 percent, and Xayaburi for 10 percent.

2.2. Determination, Division, and Selection of Sample Size

Statistical data from the Ministry of Industry and Commerce show that only around 833 firms, representing 0.4 percent of the total number of registered firms in Lao PDR, are involved in export and import activities. Of these, over 570 firms, or 68.4 percent of the total, are manufacturing firms, whilst the other 263, or 31.5 percent, are services firms. Based on the approximate proportion of export and import firms, the research team selected 60 manufacturing and 20 services firms for the survey.

The very small sample size represents only 0.1 percent of the total number of firms operating in Lao PDR. The sample size is, however, large enough to represent a general picture of the import–export trade of Lao PDR, since it constitutes about 9.6 percent of active firms.

Based on the concentration of firms involved in export and import activities, the research team selected 42 enterprises in Vientiane Capital for the survey, of which 33 are in manufacturing and the remaining nine are in services. The remaining 38 enterprises were selected in Savannakhet and Xayaburi provinces based on the same criterion, focusing on firms involved in imports and exports. However, with regard to size and ownership, the survey team did not select purposely. After dividing the sample by location, the team used the so-called ‘snowball’ selection for selecting a sample in each location. The Lao National Chamber for Industry and Commerce identified the first one for the survey in Vientiane Capital and the provincial departments for industry and commerce did the same in Xayaburi and Savannakhet. As a result, the team surveyed eight large firms, 28 medium-sized firms, and 44 small firms, of which 33 are domestic, 30 foreign, and 17 joint ventures. Table 6.1 presents more details on samples selected by location, size, and ownership.

Table 6.1. Sampling Size, by Firm Size, Ownership, and Location

Sampling Site	Manufacturing	Services	Total
Location	60	20	80
Vientiane Capital	33	9	42
Xayaburi	14	4	18
Savannakhet	13	7	20
Firm size	60	20	80
Large	7	1	8
Medium	27	1	28
Small	26	18	44
Ownership	60	20	80
Domestic	19	14	33
Foreign	25	5	30
Joint venture	16	1	17

Source: Enterprise survey conducted by the National Economic Research Institute.

Based on discussions with the Ministry of Industry and Commerce and with the Lao National Chamber of Industry and Commerce, the use of FTAs and Certificates of Origin (COOs) amongst export and import companies is significant. However, exact statistical data are lacking on how many export–import firms use or do not use FTAs and COOs, because many agencies issue COOs (including the Lao National Chamber for Industry and Commerce, provincial chambers of industry and commerce, the Ministry of Industry and Commerce, as well as provincial departments for industry and commerce) and there is no integrated data collection system. It was therefore impossible to structure the sample based on the proportion of firms using COOs in the total number of exporting firms.

2.3. Key Findings from the Questionnaire Survey

2.3.1. Key Findings from the Manufacturing Survey

Forty-three firms, or 71 percent of firms surveyed, know about FTAs to a greater or lesser extent. Their information comes from many sources, particularly the mass media (television, radio, newspapers, the Internet), and from advocacy materials distributed by government agencies and chambers of commerce and industry, amongst others. A significant number of responding firms, however, have no knowledge of FTAs. The proportion of such firms is higher in Xayaburi and Savannakhet provinces, where information systems are less developed than in Vientiane Capital. Five firms in Xayaburi

(35.7 percent of surveyed firms) and five firms in Savannakhet (38.5 percent) state that they have no knowledge of FTAs (Table 6.2).

Table 6.2. Knowledge of FTAs

Knowledge of FTA	Vientiane Capital	Xayaburi	Savannakhet	Total
Yes	26	9	8	43
No	7	5	5	17
Information Source				
Government	10	0	4	14
Business associations	10	1	2	13
Chambers of commerce	18	7	2	27
Traders, lawyers, private consultants	2	0	0	2
Media	10	1	3	14
Trading partners	4	0	3	7
Others	1	0	0	1

FTA = free trade agreement.

Source: Enterprise survey conducted by the National Economic Research Institute.

The number of firms using FTAs is lower than the number of firms aware of FTAs. Only 24 firms, or 40 percent of responding firms, state that they use FTAs in their export and import activities. The remaining 36 firms (60 percent) do not use FTAs (Table 6.3).

Table 6.3. Prevalence of the Use of FTAs

Using FTA	Yes	No
Vientiane Capital	11	22
Xayaburi	5	9
Savannakhet	8	5
Total	24	36

FTA = free trade agreement.

Source: Enterprise survey conducted by the National Economic Research Institute.

An important observation from Table 6.3 is that the use of FTAs is not closely correlated with knowledge of FTAs. In Vientiane Capital, where the highest percentage of responding firms stated they know about FTAs, the percentage of firms using FTAs is lowest. The reasons for this mismatch are found in the level of firms' understanding and knowledge of FTAs. The majority has acquired general or basic information on FTAs from mass media (television, newspapers, radio, and the Internet). The information, however, is

not detailed enough to enable firms to use an FTA in their practical export and import activities (Table 6.4). Twenty-four or over half (55.6 percent) of responding firms that do not use FTAs state that their main reason for not using an FTA is their lack of information. On further constraints on using FTAs, 10 (19.4 percent) of responding firms that do use FTAs cited rules of origin (ROOs), and six (16.7 percent) cited small trade volumes.

Table 6.4. Reasons for Non-Use of FTAs

Reason for Non-use of FTAs	Vientiane Capital	Xayaburi	Savannakhet	Total
Lack of information	13	9	2	24
Cannot meet the ROOs	3	7	0	10
Small trade volume	3	0	3	6
Small differences between preferential FTA and normal applied tariff	0	0	0	0
Using other schemes	1	0	0	1
Fee to obtain COO is too high	0	0	0	0
Procedure to obtain COO is too complicated	0	0	0	0
Others	1	0	0	1

COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

The survey also revealed that the use of FTAs is more prevalent amongst large and foreign-owned firms. Large firms use FTAs more than medium-sized firms, and medium-sized firms use them more than small firms. Foreign-owned and joint-venture firms use FTAs more than domestic firms (Table 6.5).

Table 6.5 Use of FTAs Analyzed, by Firm Size and by Ownership

Firm Size¹	Vientiane Capital	Xayaburi	Savannakhet	Total
Small	0	1	2	3
Medium	3	4	2	9
Large	8	0	4	12
Total	11	5	8	24
Firm Ownership				
Domestic	3	0	3	6
Foreign	5	2	3	10
Joint venture	3	3	2	8
Total	11	5	8	24

FTA = free trade agreement.

Source: Enterprise survey conducted by the National Economic Research Institute.

The survey also tried to find out whether the procedures for obtaining COOs constrain the utilisation of FTAs. Twenty-nine firms, representing 48.3 percent of responding firms, state that they use COOs. Associated with use of FTAs, the percentage of firms using COOs is lowest in Vientiane Capital and highest in Savannakhet (Table 6.6).

Table 6.6. Prevalence of Use of COOs

Province/COO	Using COOs	Do not use COOs	Total
Vientiane Capital	14	19	33
Xayaburi	7	7	14
Savannakhet	8	5	13
Total	29	31	60

COO = Certificate of Origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

As cited by 16 firms (58.6 percent), the main reason or incentive for using COOs is the lower tariff they gain access to. The requirement of trading partners and reduction of import costs are also cited (Table 6.7).

¹ The classification of firm size is based on the IFC (International Finance Corporation) classification: a small enterprise has 50 or fewer employees; a medium-sized firm has from 51 to 300 employees; a large enterprise has 300 or more employees.

Table 6.7. Reasons for Using COOs

Reason for Using COOs	Vientiane Capital	Xayaburi	Savannakhet	Total
Lower tariffs	9	5	2	16
Expanding exports	2	1	0	3
Reducing import cost	2	1	2	5
Request from trading partners	4	0	0	4
Request from government	1	0	0	1
Don't know	1	0	0	1

COO = Certificate of Origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

The most favoured types of COO used are Forms A (for Generalized System of Preferences or GSP) and D (for ASEAN FTA).² Thirteen firms, representing 44 percent of firms using COOs, state that they use the forms, indicating that the GSP and AFTA forms are the most prevalent. Form E (for the ASEAN-China FTA) is less used. Five firms (17.2 percent) using COOs state that they use Form E for their export and import activities (Table 6.8).

Table 6.8. Types of COO Used

Type of COO	Vientiane Capital	Xayaburi	Savannakhet	Total
Form A	11	2	0	13
Form B	0	0	0	0
Form D	5	3	5	13
Form E	1	2	2	5
Form AANZ	0	0	1	1
Form AI	0	0	0	0
Form AJ	2	0	1	3
Form AK	1	0	1	2
Others	1	0	0	1

AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, COO = Certificate of Origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

It should be noted that half (51.8 percent) of the firms involved in export and import activities state that they do not use COOs at all, mainly because of lack of information, difficulties of qualification according to rules of origin (ROO),³ and small trade volume,

² Form A is for Generalized System of Preferences, Form B for most-favored nations, Form D for ASEAN FTA, Form E for ASEAN-China FTA, Form AANZ is for ASEAN-Australia and New Zealand FTA, Form AI is for ASEAN-India FTA, Form AJ is for ASEAN-Japan FTA, and Form AK for ASEAN-Korea FTA.

³ Regulations, categories, or process to obtain COOs.

making the application for COO⁴ not much different to exporting and importing without a COO (Table 6.9).

Table 6.9. Reasons for Not Using COOs

Reason for Not Using COO	Vientiane Capital	Xayaburi	Savannakhet	Total
Lack of information	12	5	3	20
Cannot meet the ROOs	8	2	1	11
Small trade volume	2	0	1	3

COO = Certificate of Origin, ROO = rules of origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

As in the use of FTAs, the use of COOs rises with firm size and firm ownership (Table 6.10).

Table 6.10. Use of COO Analysed by Firm Size and Firm Ownership

Firm Size	Vientiane Capital	Xayaburi	Savannakhet	Total
Small	0	1	2	3
Medium	3	4	2	9
Large	11	2	4	17
Total	14	7	8	29
Ownership				
Domestic	4	0	3	7
Foreign	5	5	3	13
Joint venture	5	2	2	9
Total	14	7	8	29

COO = Certificate of Origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

An application for a COO requires from one to five documents (three on average), depending on the exported and imported commodities and the COO form used. The length of time for the process varies from one to five working days (two on average), and the document costs from US\$15 to US\$65 (US\$36 on average). The survey tried to discover whether the number of documents required, the time taken, and the cost of obtaining a COO are acceptable to firms or not (Table 6.11).

⁴ COOs are important international trade documents attesting that goods in a particular export shipment are wholly obtained, produced, manufactured, or processed in a particular country.

Table 6.11. Opinions of Responding Firms on Number of Documents, and Time and Cost for Obtaining COOs

Opinion on Obtaining COO	Vientiane Capital	Xayaburi	Savannakhet	Total
A. Number of documents required				
-Very few	1	2	3	6
-Reasonable	11	5	5	21
-Many	1	0	0	1
-Too many	1	0	0	1
B. Length of time for obtaining COO				
-Very quick	2	6	7	15
-Reasonable	10	1	1	12
-Lengthy	2	0	0	2
-Very lengthy	0	0	0	0
C. Cost for obtaining COO				
-Very low	4	2	0	6
-Reasonable	7	5	5	17
-Costly	3	0	3	6
-Very costly	0	0	0	0

COO = Certificate of Origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

Based on the findings, there seems to be no significant problem in the COO administration process. A clear majority of responding firms state that the number of documents, the length of time taken, and cost of obtaining a COO are reasonable. However, six firms (20.7 percent) claim that the cost of obtaining a COO is high.

2.3.2. Key Findings from Services Sector Survey

In general, the key findings from the services sector survey are similar to those of the manufacturing sector survey. The proportion of responding firms stating that they know about FTAs is neither very low nor very high. Twelve firms (60 percent) say they know about FTAs. The number of responding firms stating they know about FTAs is lowest in Xayaburi, with just one firm (25 percent). The relatively low public information infrastructure development may be an important factor constraining information dissemination in the province.

The use of FTAs in services is much lower than in manufacturing. Only six firms (30 percent) confirm their use of FTAs. The use of FTAs seems to be particularly low (one firm) in Xayaburi.

The main reasons, incentives, or benefits for using FTAs are, as in manufacturing, lower tariffs (three firms, 60 percent), reduction of import costs (five, 80 percent), the requirements of trading partners (two, 40 percent), and others (three, 60%). The main constraints on firms using FTAs are, as in manufacturing, lack of information (11 firms, 84.6 percent), difficulties in qualifying for ROOs (one, 7.7 percent), and other reasons (two, 15.4 percent) (Table 6.12).

Table 6.12. Knowing and Using FTA

Item	Vientiane Capital	Xayaburi	Savannakhet	Total
Knowing About FTAs	5	1	6	12
Information source				
Government	3	0	3	6
Business associations	0	1	0	1
Chambers of commerce	0	0	1	1
Trade lawyers, private consultants	0	0	0	0
Media	4	0	1	5
Trading partners	1	0	1	2
Others	3	0	0	3
Using FTA	2	1	3	6
Reasons for using FTA				
Lower tariffs	0	0	3	3
Reducing import cost	2	1	2	5
Requirement of trading partners	0	0	2	2
Others	1	0	2	3
Using FTA, by firm size				
Small	1	1	3	5
Medium	1	0	0	1
Large	0	0	0	0
Using FTA, by firm ownership				
Domestic	2	1	0	3
Foreign	0	0	2	2
Joint Venture	0	0	0	0

Items	Vientiane Capital	Xayaburi	Savannakhet	Total
Do Not Use FTA	6	3	4	13
Reasons for not using FTA				
Lack of information	6	3	2	11
Cannot meet the ROOs	1	0	0	1
Others	0	0	2	2
Do not know	0	1	0	1

FTA = free trade agreement, ROO = rules of origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

The use of COOs in services is similar to that in manufacturing. Twelve firms (60 percent) confirm their use of COOs. COOs are most used in Savannakhet (six firms, 85.7 percent) and Xayaburi (two, 100 percent). Use is proportionally lowest in Vientiane Capital (four of nine firms, 44.4 percent). The main determinants for the use of COO are, as in manufacturing, lower tariffs, reduced import costs, and the requirements of trading partners.

However, eight firms (40 percent) state that they do not use COOs. Many reasons are cited, particularly the lack of information, small trade volumes, and little to gain (Table 6.13).

Medium-sized services firms use more COOs than small firms, whilst foreign-owned enterprises use more COOs than joint-venture and domestic firms.

Table 6.13. Prevalence of Usage of COOs in the Services Sector

Item	Vientiane Capital	Xayaburi	Savannakhet	Total
Using COOs				
Yes	4	2	6	12
No	5	2	1	8
Reasons for Using COOs				
Lower tariffs	0	1	3	4
Reducing import cost	2	2	1	5
Requirement from trading partners	0	1	3	4
Request from government	0	0	0	0
Don't know	1	0	0	1
Others	1	0	0	1
Items	Vientiane Capital	Xayaburi	Savannakhet	Total
Reasons for Not Using COOs				
Lack of information	3	1	0	4
Small trade volume	0	0	0	0
Small differences between preferential FTAs and normally applied tariff	1	1	0	2
Others	1	0	1	2
Using COOs by Firm Size				
Small	3	0	6	9
Medium	1	2	0	3
Large	0	0	0	0
Using COOs by Firm Ownership				
Domestic	4	1	3	8
Foreign	0	1	3	4
Joint venture	0	0	0	0

COO = Certificate of Origin.

Source: Enterprise survey conducted by the National Economic Research Institute.

The most used forms in the services sector are D (eight firms, 66.7 percent) and E (three, 25.0 percent). Forms A, AI, and AJ are used less frequently (Table 6.14).

Table 6.14. Types of COOs Used in the Services Sector

Type of COO	Vientiane Capital	Xayaburi	Savannakhet	Total
Form A	0	0	1	1
Form B	0	0	0	0
Form D	4	1	3	8
Form E	0	1	2	3
Form AANZ	0	0	0	0
Form AI	0	0	1	1
Form AJ	0	0	1	1
Form AK	0	0	0	0
Others	0	0	0	0

AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, COO = Certificate of Origin.

Note: See footnote 2 for definitions of forms.

Source: Enterprise survey conducted by the National Economic Research Institute.

3. Official Data on the Use of COOs in Lao PDR, 2010–2012

Since 2012, the issuance of COOs in Lao PDR has been decentralized. The Ministry of Industry and Commerce, the Lao National Chamber for Industry and Commerce, the provincial departments for industry and commerce, and the provincial chambers for industry and commerce are all authorized to issue COOs. COOs are available in 17 offices, although a countrywide data collection system is not yet established.

For this project, NERI collected data from each office, in cooperation with the Lao National Chamber for Industry and Commerce. Only data on the use of COOs for exports are available.

According to the data collected, the use of COOs in Lao PDR has been increasing during recent years because of firms' increasing knowledge of FTAs and COOs. The increase was particularly significant in 2012 due to the decentralization of the issuance of COOs. According to the data, the number of COOs issued increased rapidly from 656 in 2010 to 1,064 in 2011 and to 2,084 in 2012. The value of exports using COOs also rose from US\$56.7 million in 2010, to US\$93.8 million in 2011, and US\$552.8 million in 2012. One reason for the large increase in export values in 2012, according to statistical data provided by the Lao National Chamber for Industry and Commerce, is that large mining enterprises such as

Phubia Mining and SRI RAMIPEK have started to export significant quantities of minerals to India using Form AI (Table 6.15).

Table 6.15. Use of COOs for Export in Lao PDR, 2010–2012

No.	Types of COO	2012			2011			2010		
		Numb er of firms	Numb er of COOs	Total value (US\$ millio n)	Numb er of firms	Numb er of COOs	Total value (US\$ millio n)	Numb er of firms	Numb er of COOs	Total value (US\$ million)
1	GSP	46	416	57.0	37	308	35.1	32	230	25.4
2	MFN	29	249	11.0	2	2	0.0	4	6	0.0
3	Form D	49	371	69.0	14	87	12.1	12	113	5.4
4	Form E	45	184	171.0	7	18	0.4	36	55	1.1
5	From AANZ	8	23	0.2	8	36	0.7	0	0	0.0
6	Form AI	5	23	217.1	0	0	0.0	0	0	0.0
7	Form AJ	45	474	24.1	25	338	15.1	0	0	0.0
8	Form AK	14	32	0.3	7	23	0.6	13	32	0.4
9	Others	54	312	3.2	26	252	34.3	20	220	24.3
Total			2,084	552.8		1,064	98.3		656	56.7

AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, COO = Certificate of Origin, GSP = Generalized System of Preferences, MFN = most-favored nations.

Note: See footnote 2 for definitions of forms.

Source: Summarised by the National Economic Research Institute based on data provided by the Lao National Chamber for Industry and Commerce.

In terms of the number of COOs, 70.7 percent of COOs used for export are used by medium-sized firms, whilst about 25.2 percent are used by large firms and small firms. In terms of export value, however, about 95 percent of the usage is attributable to large firms, whilst about five percent is attributable to medium-sized firms and only a small fraction of one percent comes from small firms. This finding indicates that the use of COOs has a positive correlation with firm size. Exports from two large mining enterprises alone, Lanxang Mineral and Phubia Mining, amounted to 60 percent of total exports using COOs in 2012.

Analytical findings indicate that the joint-venture enterprises use the most COOs in terms of export value; foreign firms follow, then domestic firms, with only 1.7 percent of

total export value. Over 60 percent of the value of exports using COOs in 2012 was accounted for by mineral exports by two large joint-venture enterprises (Table 6.16).

Table 6.16. Use of COOs, by Firm Size and Firm Ownership

Firm Size	COO (%)	Export Value (%)
Small	4.0	0.04
Medium	70.7	4.86
Large	25.2	95.1
Total	100	100
Ownership		
Domestic	32.3	1.7
Foreign	23.7	18.4
Joint venture	44.0	79.8
Total	100	100

COO = Certificate of Origin.

Source: Summarised by the National Economic Research Institute based on data provided by the Lao National Chamber for Industry and Commerce.

4. Conclusions and Some Policy Considerations

It seems that the use of FTAs by manufacturing and services firms in Lao PDR is not very high. Only 40 percent of responding firms in the manufacturing sector and 25 percent of responding firms in the services sector say they use FTAs. The remaining 60 percent in manufacturing and 75 percent in services state that they do not use FTAs. The survey findings thus indicate that the use of FTAs in Lao PDR is minimal. The main constraint on firms is the lack of information, particularly detailed information to enable firms to use FTAs in their export and import activities.

The use of COOs is also limited, with 51.7 percent of manufacturing firms and about 40 percent of services firms stating that they do not use COOs. The main constraint on the use of COOs is similar to that on FTAs: lack of information. However, the number of documents, the time taken, and the cost of obtaining COOs seem to be neither major constraints on COO use nor on FTA use. The majority of responding firms in both sectors confirm this to be the case.

Based on the survey findings, we emphasize that the lack of detailed information is the major constraint on the use of COOs and on the utilisation and effectiveness of FTAs.

Provision of detailed information is thus highly important in enhancing the effectiveness and utilisation of FTAs in Lao PDR.

Reference

LNCCI (2013), COO records, Lao: Lao National Chamber for Commerce and Industry. Decree of President on the promulgation of the Customs Law N41/RDP 13.8.94.

CHAPTER 7

The Use of Free Trade Agreements by Malaysian Firms

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This paper examines the use of free trade agreements (FTAs) by Malaysian companies. It is based on a survey administered to firms involved in the manufacturing and services sectors. The study discusses the levels of utilisation of the various FTAs that Malaysia has signed as evidenced through the use of Certificates of Origin (COOs). The study also presents findings on firms' perceptions regarding the use of COOs, both in the manufacturing and services sectors.

The survey results and the statistical analysis of the determinants of the use of FTAs reveal obstacles to their use by Malaysian firms. These findings indicate the need for the government and relevant agencies to make additional efforts to encourage greater utilisation of existing FTAs.

Keywords: Free Trade Agreement, Certificates of Origin, FTA Utilisation

JEL Classification: F10; F13; F15

1. Introduction

The proliferation of bilateral free trade agreements (FTAs) in East Asia is a relatively recent phenomenon. Before the late 1990s, the focus of economic liberalisation of East Asian countries, including Malaysia, was firmly on the multilateral trade process. It was not until 1992, when the Association of Southeast Asian Nations (ASEAN) reached its own milestone agreement to establish a free trade area, that the establishment of FTAs rose in prominence across the region. This development marked a new approach to the pursuit of regionalism. Since the Asian financial crisis in 1998, many countries in the region have embarked on bilateral FTAs.

FTAs are formed between several combinations of partners: (i) individual countries in the same region, (ii) individual countries in different regions, (iii) a country and a regional grouping, (iv) regional groupings, (v) developing countries, or (vi) developed and developing countries. East Asian countries choose this form of economic integration to generate higher levels of economic growth. With FTAs, countries feel they can regain their previous growth momentum (after suffering a severe downturn during the Asian financial crisis), expand export markets, attract foreign investment, drive domestic restructuring and open protected domestic sectors, reduce input costs for exports and make them more competitive, and look for new markets and circumvent the slow progress of trade liberalisation in the World Trade Organization (WTO). A particularly important reason why countries have climbed on board the FTA bandwagon is the fear of exclusion—without preferential treatment given by FTAs, countries fear losing their competitiveness in export markets and becoming less attractive to foreign investment. Business lobby groups are also likely to add their own pressure to improve market access for exports.

International trade is an important contributor to Malaysia's economic growth and development. Malaysia's trade policy is aimed at pursuing and creating a more liberalised and fairer global trading environment. While Malaysia continues to accord high priority to the rule-based multilateral trading system under the WTO, Malaysia is also pursuing regional and bilateral trading arrangements to complement the multilateral approach to trade liberalisation.

The failure of the Doha Development Agenda launched at the Ninth WTO Multilateral Trade Negotiations in November 2001 (Doha Round) and the subsequent collapse of talks threaten the credibility of the multilateral trade system and have led to a

refocusing of countries' interest in FTAs. Since then, FTAs have played a central role in the trend towards regional integration. Malaysia also needs to pursue bilateral and regional trading arrangements to ensure it continues to be able to gain market access in international markets and remains an attractive location for foreign investment.

Malaysia has so far implemented six bilateral FTAs: with Australia, Chile, India, Japan, New Zealand, and Pakistan. Together with ASEAN, apart from the ASEAN Trade in Goods Agreement (ATIGA), Malaysia has implemented five regional FTAs: with Australia and New Zealand, India, Japan, the People's Republic of China, and the Republic of Korea (Table 7.2). Trade with these FTA partners comprised 62 percent of Malaysia's global trade in 2012.¹

Malaysia is currently negotiating further FTAs, including with the European Union (EU) and Turkey. At the regional level, there are also ongoing negotiations for a Trans-Pacific Agreement Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

Table 7.1. Malaysia's Concluded Free Trade Agreements—Bilateral

Country	Name	Date of Signing
Malaysia–Japan	Malaysia-Japan Economic Partnership Agreement	13 December 2005
Malaysia–Pakistan	Malaysia-Pakistan Closer Economic Partnership Agreement	8 November 2007
Malaysia–New Zealand	Malaysia-New Zealand FTA	30 May 2009
Malaysia–India	Malaysia-India Comprehensive Economic Cooperation Agreement	24 September 2010
Malaysia–Chile	Malaysia-Chile Free Trade Agreement	13 November 2010
Malaysia–Australia	Malaysia-Australia Free Trade Agreement	30 March 2012

Source: http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_8ab55693-7f000010-72f772f7-46d4f042 (accessed 8 March 2014).

¹ Ministry of International Trade and Industry (MITI) website, Trans-Pacific Partnership (TPP) Briefing Notes, http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_cccec2a77-c0a81573-f5a0f5a0-6f87fd6f, (accessed 8 March 2014).

Table 7.2. Malaysia's Concluded Free Trade Agreements—Regional

Region	Name	Date of Signing
ASEAN–People's Republic of China	ASEAN-China Free Trade Area	4 November 2002
ASEAN–Republic of Korea	ASEAN-Korea Free Trade Area	13 December 2005
ASEAN–Japan	ASEAN-Japan Comprehensive Economic Partnership Agreement	14 April 2008
ASEAN–Australia and New Zealand	ASEAN-Australia and New Zealand Free Trade Area	27 February 2009
ASEAN–India	ASEAN-India Free Trade Area (Trade in Goods Agreement)	13 August 2009

Source: http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_8ab55693-7f000010-72f772f7-46d4f042 (accessed 8 March 2014).

Table 7.3. Malaysia's Free Trade Agreements Under Negotiation

Country/Region	Name	Start Negotiation
Organisation of Islamic Cooperation	Trade Preferential System Among the Member States of the OIC	6 April 2004
Group of Developing Eight (D-8): Bangladesh, Indonesia, Iran, Malaysia, Egypt, Nigeria, Pakistan, and Turkey.	Developing Eight (D-8) Preferential Tariff Agreement	May 2006
Malaysia–Turkey	Malaysia-Turkey Free Trade Agreement	13 December 2005
Malaysia–European Union	Malaysia-European Union Free Trade Agreement	8 November 2007
United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Viet Nam	Trans-Pacific Partnership Agreement	30 May 2009
ASEAN and Australia, People's Republic of China, India, Japan, Republic of Korea, New Zealand	Regional Comprehensive Economic Partnership	May 2013

Sources: http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_8ab55693-7f000010-72f772f7-46d4f042 (accessed 8 March 2014); <http://www.asean.org/news/asean-statement-communiques/item/regional-comprehensive-economic-partnership-rcep-joint-statement-the-first-meeting-of-trade-negotiating-committee> (accessed 8 March 2014).

The RCEP is an economic partnership arrangement involving ASEAN and its FTA partners: Australia, India, Japan, New Zealand, PRC, and Republic of Korea, (Table 7.3). It aims to enhance the economic integration of East Asia, as well as increase integration between East Asia and India. As for all FTAs, the RCEP offers its members a consolidated

market with streamlined rules of origin (ROOs), which should lead to expansion of trade and investment among the participating countries. The RCEP is an ASEAN-led arrangement based on open accession, which will allow any of the ASEAN FTA partners to participate, either from the outset or when they are ready to join. The arrangement is not exclusive to ASEAN members but is also open to other external economic partners. The RCEP is unique as it will bring together ASEAN members with their FTA partners in a single arrangement for the first time.

The RCEP is of special interest to ASEAN member states because it involves all of ASEAN. It is meant to smooth the knots in the so-called 'noodle bowl' effect that hinder the many trade agreements involving ASEAN members. In this context, the utilisation of FTAs among ASEAN members becomes increasingly important.

2. Methodology and Sampling

According to the Asian Development Bank (ADB) Asia Regional Integration Center, East Asian countries (ASEAN+6) have enacted as many as 156 FTAs to date, but with a utilisation rate of only about 25 percent.

This raises interesting and important questions for Malaysia. First, it would be useful to know the level of utilisation of FTAs in Malaysia. Second, one would naturally be curious to know why firms are not taking more advantage of FTAs, if this is indeed the case. Answers to these questions will enable policymakers to increase the use of FTAs.

A questionnaire-based survey was conducted among firms operating in Malaysia to assess the level of use of FTAs. The questionnaire was designed by the Economic Research Institute for ASEAN and East Asia (ERIA) and administered in the other nine ASEAN member states as well.

The study was originally designed to cover firms from different sectors in four states: Selangor, Kuala Lumpur, Negeri Sembilan, and Melaka. These states were selected because of the density of industrial and commercial activity in and around Selangor and Kuala Lumpur. Geographical coverage was concentrated in and around the central region of Peninsular Malaysia due to budgetary constraints. However, the study area was expanded to include Johor and Perak states for two reasons. First, the representation was broadened in terms of geographical coverage to include the northern and southern regions of the peninsula. Second, it was reasoned that the economic activity in the far north (Perak) and the south (Johor) should not be excluded.

The survey was primarily conducted by email, although a few respondents chose to answer the questions by phone. The survey sought the views of respondents on the use of FTAs and also collected general information about the companies, such as the number of employees, nature of ownership, and trading activities. Firms from the manufacturing and services sectors were sought.

The sampling frame was based on a database consisting of nearly 3,000 companies. To ensure a satisfactory response rate, every company in the database was contacted. If the initial contact proved successful, the enumerator screened the respondent by checking if the firm was involved in international trade activities and proceeded to send the respondent the questionnaire or conduct an interview by phone. Although the survey

started with a list of 3,000 firms, this total came down dramatically after the screening process, and the number fell even further at the point when contact was established.

The survey was conducted from 16 July 2013 to 6 September 2013. Out of 1,160 firms approached, 62 responded and participated in the study; 51 were manufacturing firms and 11 services firms.

2.1 Characteristics of Surveyed Manufacturing Firms

The main characteristics of the surveyed manufacturing firms are summarised in Table 7.4.

Table 7.4. Firm Characteristics—Manufacturing

a. By Size					
	Small	Medium	Large	Unknown	Total
Number	18	23	8	2	51
Percentage	35	45	16	4	100
b. By Ownership*					
	Domestic	Foreign	Joint venture	Total	
Number	34	11	6	51	
Percentage	67	22	12	100	
c. By Activity**					
	Exporting only	Importing only	Exporting and importing	Neither	Total
Number	15	1	32	3	51
Percentage	29	2	6	63	100
d. By Location					
	Not in any particular zone		Industrial zone		Total
Number	20		31		51
Percentage	39		61		100

Source: MIER Survey

2.2 Use of FTAs Among Manufacturing Firms, by Firm Characteristic

The survey found that a majority of the manufacturing firms utilise FTAs in their trading activities. FTAs are utilised by 37 out of 51 manufacturing firms. Awareness of FTAs is even higher among manufacturing firms, with 43 out of 51 having knowledge of FTAs (Table 7.5).

Table 7.5. Use of FTAs² and Knowledge of FTAs Among Manufacturing Firms

	Yes	No	Total
Use of FTAs	37	14	51
Knowledge of FTAs	43	8	51

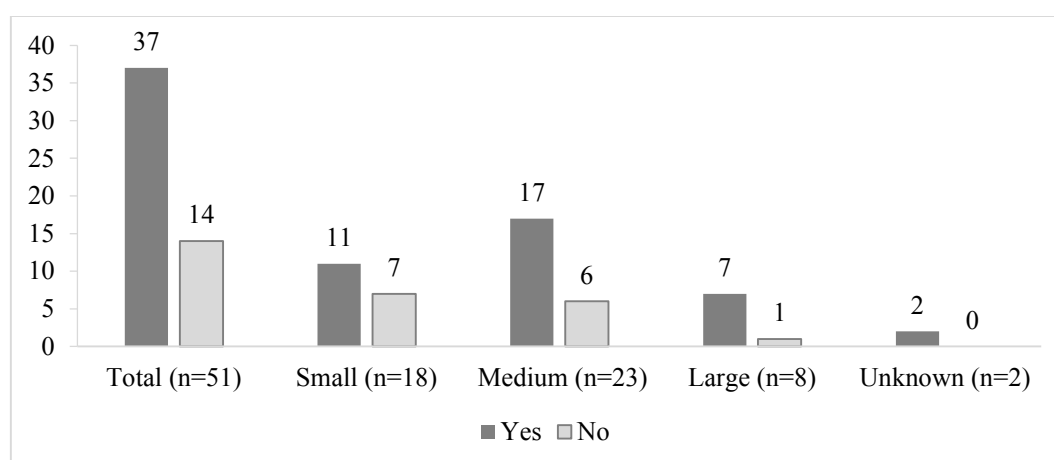
FTA = free trade agreement.

Source: MIER Survey.

As shown in Figure 7.1, FTAs are more widely utilised among medium-sized and large manufacturing firms. About 60 percent of small firms use FTAs, while 73 percent of medium-sized firms use them. Almost all large firms (with one exception) make use of FTAs in their activities, suggesting that FTA utilisation is very high among large firms. This leads to the inference that size matters with regard to the utilisation of FTAs. Small firms may not have the administrative expertise to make full, or even modest, use of FTAs.

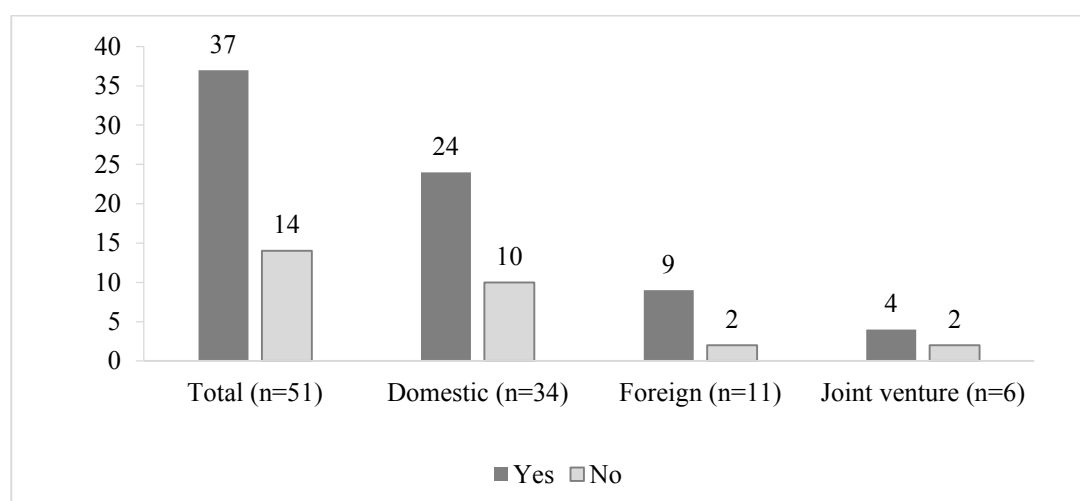
An interesting survey finding is that almost half of the firms using FTAs are domestic manufacturing firms. About 20 percent of firms that do not use FTAs are domestic manufacturing firms. Of the 11 foreign-owned firms in the survey, nine use FTAs. The proportion of foreign-owned firms that use FTAs to the total foreign-owned firms in the sample is high. And, although the number of domestic firms using FTAs is high in absolute terms (i.e. compared with the number of total responses to the survey), it is not high relative to the total number of domestic firms that responded to the questionnaire. It also appears that foreign manufacturing firms tend to use FTAs more than domestic firms. Foreign manufacturing firms seem to be far clearer in their objective of exporting their products, and have the expertise to make fullest use of FTAs to further that objective (Figure 7.2).

² Based on respondents' answers to the question on the use of COOs.

Figure 7.1. Use of FTAs, by Firm Size

FTA = free trade agreement.

Source: MIER Survey

Figure 7.2. Use of FTAs Among Manufacturing Firms, by Ownership

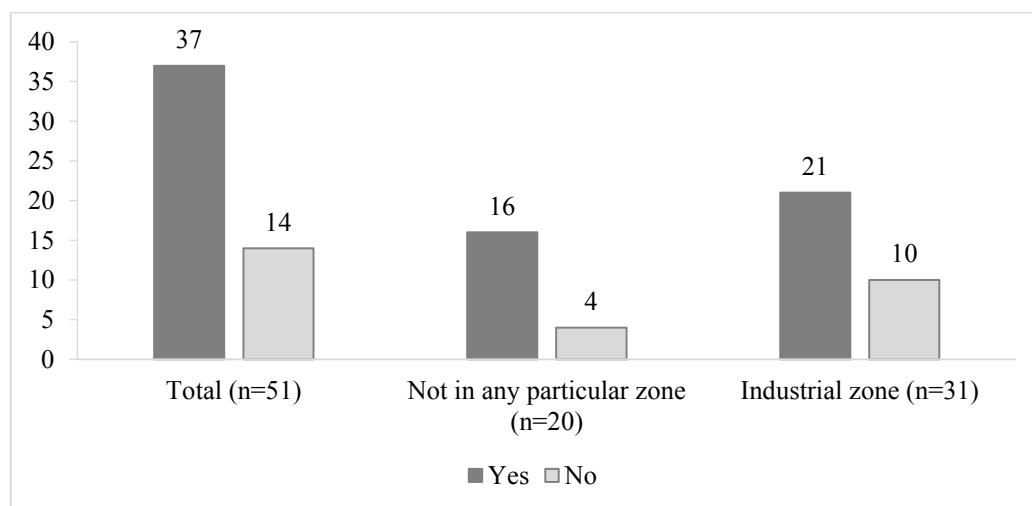
FTA = free trade agreement.

Source: MIER Survey

There is also not much difference in the utilisation of FTAs between firms in different zones (Figure 7.3). It stands to reason that if a firm is involved in international trade, then regardless of its location, whether in an industrial zone or not, it will likely want to export. However, those firms in the industrial zones are more focused on achieving their objective and are better equipped to take full advantage of the facilities provided to them. In tandem with their general ability to make better use of the opportunities, those firms in the industrial zone reported greater use of FTAs.

The survey results indicate that FTAs are more widely utilised among firms involved in both exporting and importing (Figure 7.4). This points to the fact that firms engaged in both activities are, by the nature of their business activities, greater users of FTAs. This could be attributed to the intense nature of their involvement in trade. At the other end of the spectrum, those firms that only import hardly ever use FTAs.

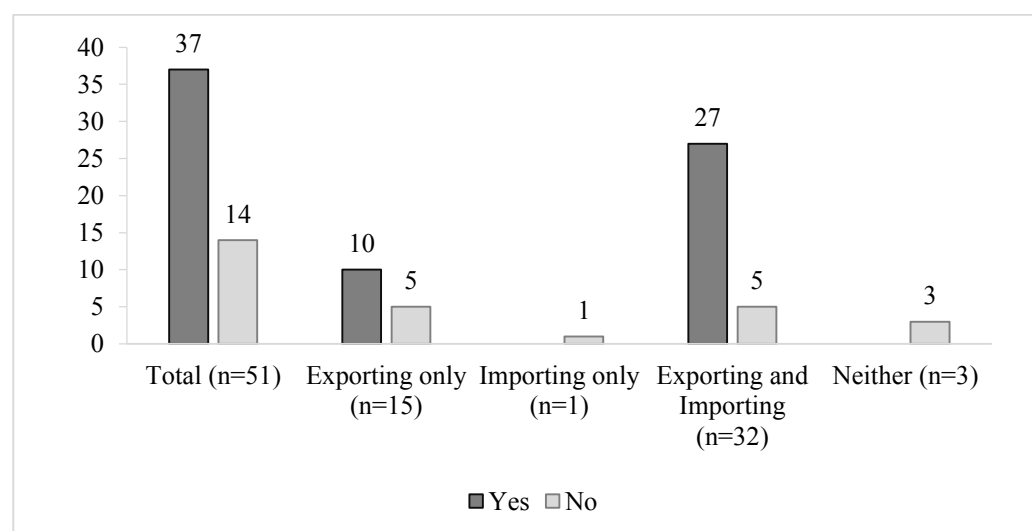
Figure 7.3. Use of FTAs, by Firm Location



FTA = free trade agreement.

Source: MIER Survey

Figure 7.4. Use of FTAs Among Manufacturing Firms, by Activity



FTA = free trade agreement.

Source: MIER Survey

2.3 Preferential Certificates of Origin in Malaysia

The Federation of Malaysian Manufacturers has been authorised by the Ministry of International Trade and Industry (MITI) to be the sole distributor of preferential Certificates of Origin (COOs). The COOs are used to apply for preferential tariff reductions on products offered under FTAs between Malaysia and partner countries, provided the rules of origin (ROO) are fulfilled.

To export using a COO, a firm needs to have its application for cost analysis and COO approved by MITI. The forms for cost analysis (Form BAK 1(a): Details of Exporter/Manufacturer and Products; Form BAK 1(b): Product's Cost Analysis; and Form BAK 1(c): Letter of Indemnity) are obtained from MITI, while COOs can be purchased from the Federation of Malaysian Manufacturers. The COOs must also be certified by the federation before they are submitted to MITI for approval.

In essence, COOs prove that the product originates from an FTA partner country under stipulated ROOs and, hence, qualifies the product for tariff concessions provided under the specific FTA. The range of COOs available in Malaysia is listed in Table 7.6.

Table 7.6. Available Preferential COOs in Malaysia

Name of PCO	FTA	In Force
Form D	ASEAN FTA	1993
Form E	ASEAN-China FTA	2005
Form MJEPA	Malaysia-Japan Economic Partnership Agreement	2006
Form AK	ASEAN-Korea FTA	2007
Form MPCEPA	Malaysia Pakistan Closer Economic Partnership Agreement	2008
Form AJ	ASEAN-Japan FTA	2009
Form AANZ	ASEAN-Australia and New Zealand FTA	2010
Form AI	ASEAN-India FTA	2010
Form MNZ	Malaysia-New Zealand Free Trade Agreement	2010
Form MICECA	Malaysia-India Comprehensive Economic Cooperation Agreement	2011
Form MCFTA	Malaysia-Chile Free Trade Agreement	2012
Form MAFTA	Malaysia-Australia Free Trade Agreement	2013

COO = Certificate of Origin, FTA = free trade agreement, PCO = preferential certificate of origin.

Source: http://www.fmm.org.my/Apply_for_Certificate_of_Origin-@Preferential_Certificate_of_Origin.aspx (accessed 8 March 2014).

Form A, which is for the Generalized System of Preferences (GSP), is also in use in Malaysia to obtain reduced or duty-free tariffs on eligible products exported by the preference-receiving countries to markets of the preference-giving countries on the general rates of duty normally applicable. The preference-giving countries are Belarus, Japan, Kazakhstan, Liechtenstein, Norway, Russia, and Switzerland. Previous preference-giving countries were Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Germany, Greece, Turkey, Finland, France, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. The European Union and Turkey GSP Scheme expired on 31 December 2013, with the exception of the countries listed above. The scheme was still in force when the survey was conducted.

In 2011 and 2012, the number and value of Form Ds (ASEAN FTA) used are clearly the largest among all COOs (Table 7.7). Over the same period, Form A (GSP) is the second-most frequently used, while Form A values are the second highest among all COOs. Although large numbers of Form AANZ were used in 2011 and 2012, the values are far below those of Forms D or E.

Table 7.7. Number and Value of Preferential COOs

Form	Agreement/System		2011	2012
D	ASEAN FTA	No.	230,400	285,014
		Value (US\$ mil)	11,424	21,375
A	Generalized System of Preferences	No.	170,861	229,624
		Value (US\$ mil)	9,525	12,693
E	ASEAN-China FTA	No.	91,112	125,629
		Value (US\$ mil)	6,962	8,588
AK	ASEAN-Korea FTA	No.	29,419	38,196
		Value (US\$ mil)	4,528	7,216
MJEP A	Malaysia-Japan Economic Partnership Agreement	No.	46,924	55,231
		Value (US\$ mil)	3,602	4,084
AI	ASEAN-India FTA	No.	36,612	54,809
		Value (US\$ mil)	1,457	1,945
MPCEPA	Malaysia-Pakistan Closer Economic Partnership Agreement	No.	7,229	7,737
		Value (US\$ mil)	2,272	1,674
AANZ	ASEAN-Australia and New Zealand FTA	No.	90,890	121,905
		Value (US\$ mil)	1,299	1,426
AJ	ASEAN-Japan FTA	No.	8,449	9,595
		Value (US\$ mil)	911	1,117
MICECA*	Malaysia-India Comprehensive Economic Cooperation Agreement	No.	67	724
		Value (US\$ mil)	3	22
MNZ	Malaysia-New Zealand Free Trade Agreement	No.	74	61
		Value (US\$ mil)	1	1

ASEAN = Association of Southeast Asian Nations, COO = Certificate of Origin, FTA = free trade agreement.
 Note : * In force from July 2011.

Exchange rate used: US\$1 = RM3

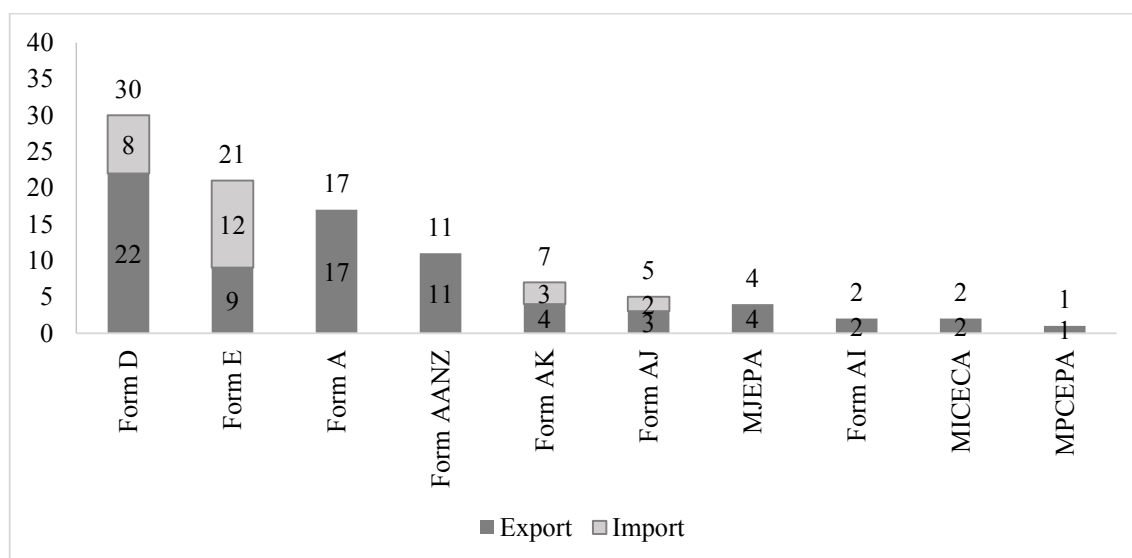
Source: Ministry of International Trade and Industry, Malaysia.

2.4 Use of COOs Among Manufacturing Firms

The survey found that among manufacturing firms that utilise COOs, 31 utilise Form D, 23 utilise Form E, 18 utilise Form A, 11 utilise Form AANZ, seven utilise Form AK, five utilise Form AJ, four utilise Form MJEPA, two utilise Form AI, two utilise Form MICECA, and one utilises MPCEPA. This shows that the ASEAN FTA, ASEAN-China FTA, and ASEAN-Australia and New Zealand FTA are particularly well used by firms.

As shown in Figure 7.5, COOs are mostly utilised for exports. However, Form E (ASEAN-China FTA) is utilised more for imports than exports. This seems to confirm that, in the eyes of firms operating in Malaysia, the PRC is still more of a source country for goods rather than an export destination. Apart from imports from the PRC, COOs are also used for imports from the ASEAN countries, together with the Republic of Korea and Japan. Among the more widely used COOs, Form A (GSP) and Form AANZ (ASEAN-Australia and New Zealand FTA) are utilised only for exports.

Figure 7.5. Utilisation of COOs Among Manufacturing Firms, by Trade Activity



COO = Certificate of Origin.

Source: MIER Survey

Of the seven firms that use COOs for trading with Japan, only one of the two Japan FTA COOs available (Form AJ and Form MJEPA) is used. No firm uses them both. Similarly, the two firms that make use of Form AI for trading with India are not the same firms as the two that make use of Form MICECA.

Manufacturing firms utilise COOs mainly to benefit from lower tariffs. The request for COOs from trading partners is also an important factor behind using COOs. However, the main purpose of FTAs is to encourage trade among members. This can only be achieved if firms export more aggressively. However, the commitment to export does not seem a strong reason for using COOs, at least judging from the responses (17) to the survey (Table 7.8). Only six of the 17 firms cite a reduction of import costs as a reason for using COOs. This may suggest that although the benefits of lower tariffs may not translate into significant reductions in import costs, they are nonetheless worthwhile.

Table 7.8. Reasons that Manufacturing Firms Utilise COOs

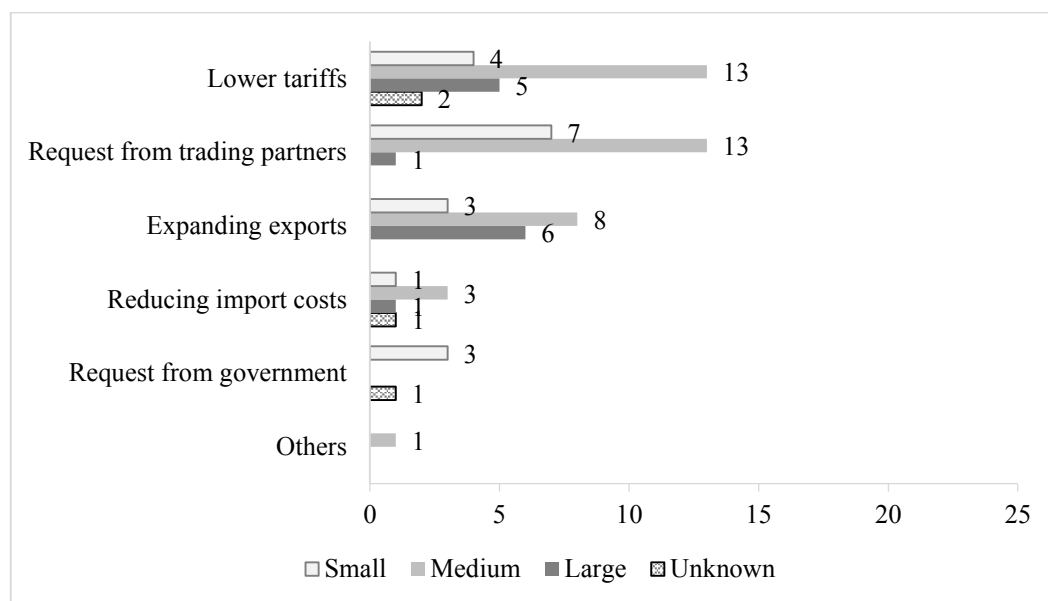
Reason	Manufacturing Firms
Lower tariffs	24
Request from trading partners	21
Expanding exports	17
Reducing import costs	6
Request from government	4
Others	1

COO = Certificate of Origin.

Source: MIER Survey

A priori, one would expect that expanding exports and a preference for lower tariffs would be the most prominent reasons for utilising COOs. The actual findings are slightly, but not vastly, different from expected results. Among small firms, requests from trading partners is a more important motivation to use COOs than lower tariffs (Figure 7.6). Among medium-sized firms, lower tariffs and requests from trading partners are equally important reasons for using COOs. Among large firms, however, expansion of exports is the most frequently cited reason for using COOs. While requests from trading partners is the key reason for using COOs among firms in industrial zones, it is much less important among firms outside industrial zones.

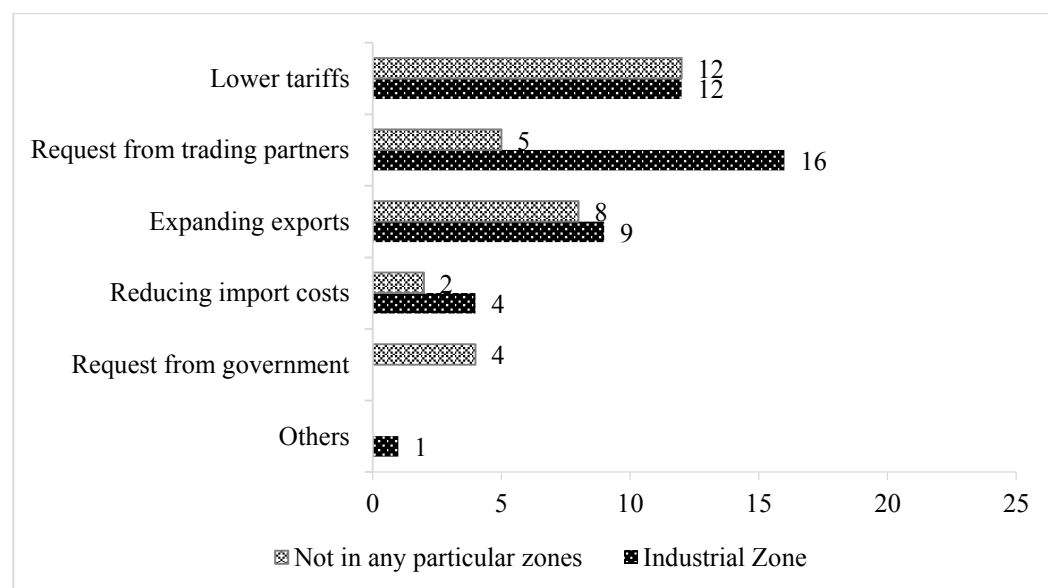
Figure 7.6. Reasons for Utilising COOs Among Manufacturing Firms, by Size



COO = Certificate of Origin.

Source: MIER Survey

Figure 7.7. Reasons for Utilising COOs, by Firm Location



COO = Certificate of Origin.

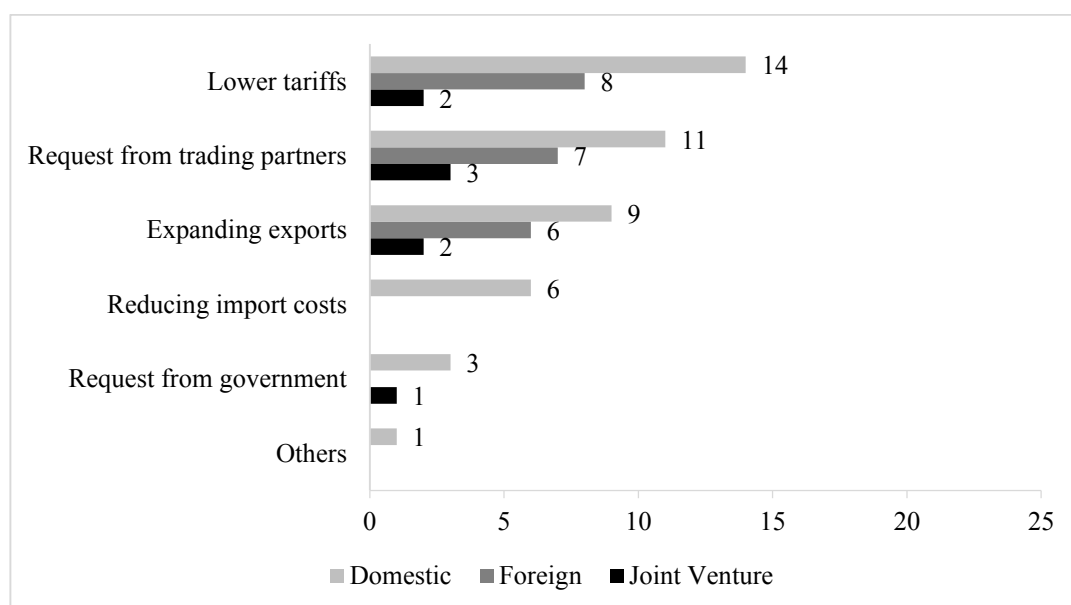
Source: MIER Survey

We now turn to the reasons for utilising COOs from the perspective of firm ownership. Here we consider domestically owned firms, foreign-owned firms, and joint ventures. The promise of lower tariffs is the most important reason among domestic and foreign-owned manufacturing firms for utilising COOs, while requests from trading

partners are the most important reason among joint-venture manufacturing firms. Only domestically owned firms cite a reduction of import costs as a reason for utilising COOs, while only domestically owned and joint-venture firms cite requests from government as a reason for utilising COOs.

Among manufacturing firms involved in both exporting and importing, the promise of lower tariffs is the most important reason for utilising COOs. Among manufacturing firms involved in exporting, requests from trading partners and from government are jointly the top reasons for utilising COOs (Figure 7.9). Only export-only manufacturing firms cite requests from government as a reason for using COOs.

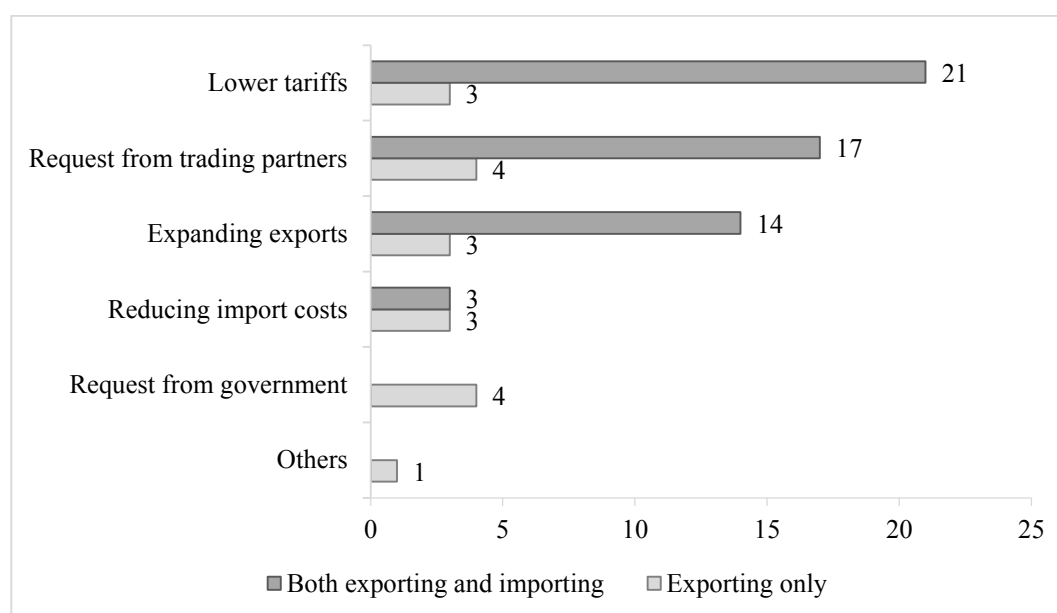
Figure 7.8. Reasons for Utilising COOs Among Manufacturing Firms, by Firm Ownership



COO = Certificate of Origin.

Source: MIER Survey

Figure 7.9. Reasons for Utilising COOs Among Manufacturing Firms, by Firm Activity



COO = Certificate of Origin.

Source: MIER Survey

It is important to discern the reasons why firms do not utilise COOs, as this can shed light on the factors that constrain the use of FTAs. This knowledge can then help policymakers to address and reduce restrictions. Otherwise, entering into FTAs will have little practical value for firms. The key reason for manufacturers not utilising COOs is a lack of information (Table 7.9). Small trade volume is also a notable reason for not using COOs, while the procedures for obtaining COOs also discourage some firms from utilising them. It should be noted that the cost is not an issue at all. This is surprising given the efforts that officials of MITI and the Malaysia External Trade Development Corporation make to render the use of COOs as accessible as possible. It should be added that trade associations are known to help provide firms with knowledge on COOs. More should be done to communicate the benefits of COOs to firms and educate them on the related procedures.

Table 7.9. Reasons for Not Utilising COOs

Reason	Manufacturing Firms
Lack of information	9
Small trade volume	5
Procedure to obtain COOs is too complicated	4
Cannot meet the rules of origin (ROOs)	1
Small differences between preferential tariff rates and normal applied tariff rates	1
Using other schemes	1
Others	1
Fee to obtain COOs is too expensive	-

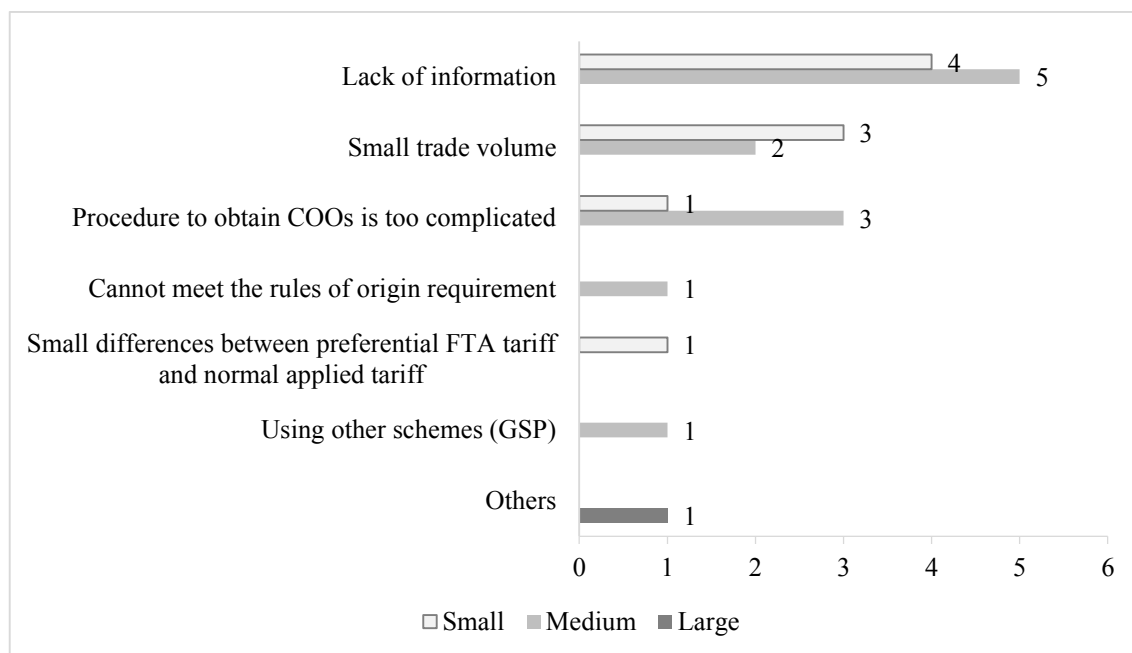
COO = Certificate of Origin.

Source: MIER Survey

Having discussed the overall reasons for utilising COOs, it is useful to delve deeper into the influence of firm size and location. Among small manufacturing firms, the lack of information is the most cited reason for the non-usage of COOs, followed by small trade volume (Table 7.9). Among medium-sized firms, the lack of information is also the most cited reason for non-usage of COOs, while complicated procedures are more of an issue than small trade volume.

With respect to the influence of location on COO utilisation, the lack of information is the most cited reason for non-usage of COOs among manufacturing firms in industrial zones, followed by small trade volume. Lack of information is the most cited reason for non-usage of COOs among manufacturing firms that are not in particular zones, while complicated procedures is the second-most-cited reason.

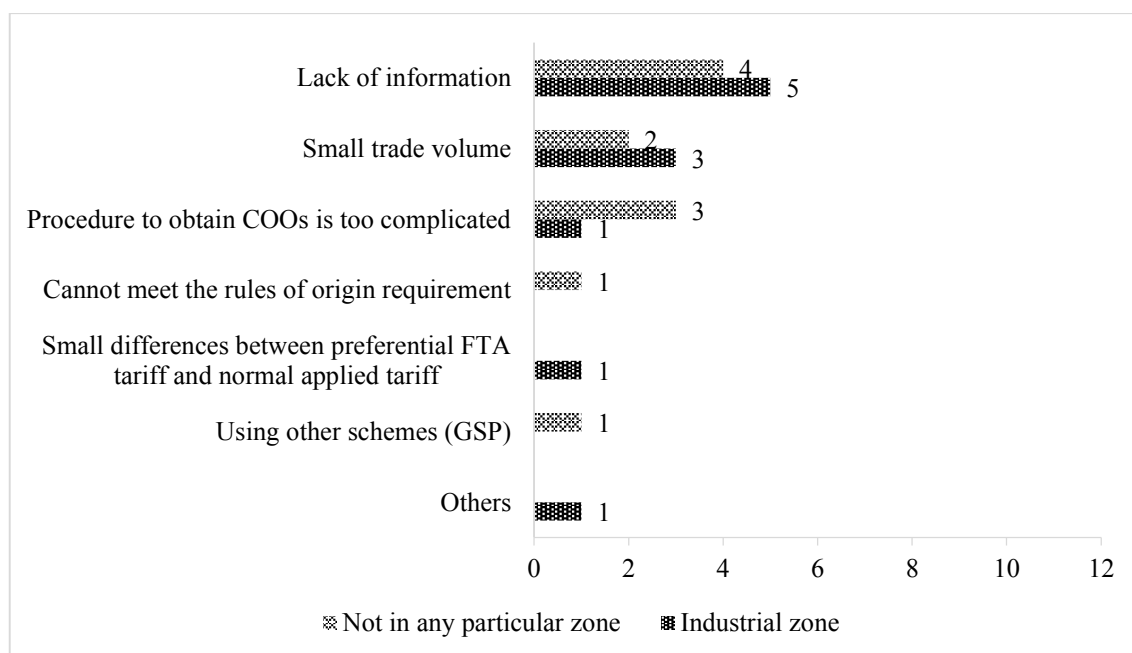
Figure 7.10. Reasons for Not Utilising COOs Among Manufacturing Firms, by Firm Size



COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: MIER Survey

Figure 7.11. Reasons for Utilising COOs Among Manufacturing Firms, by Firm Location



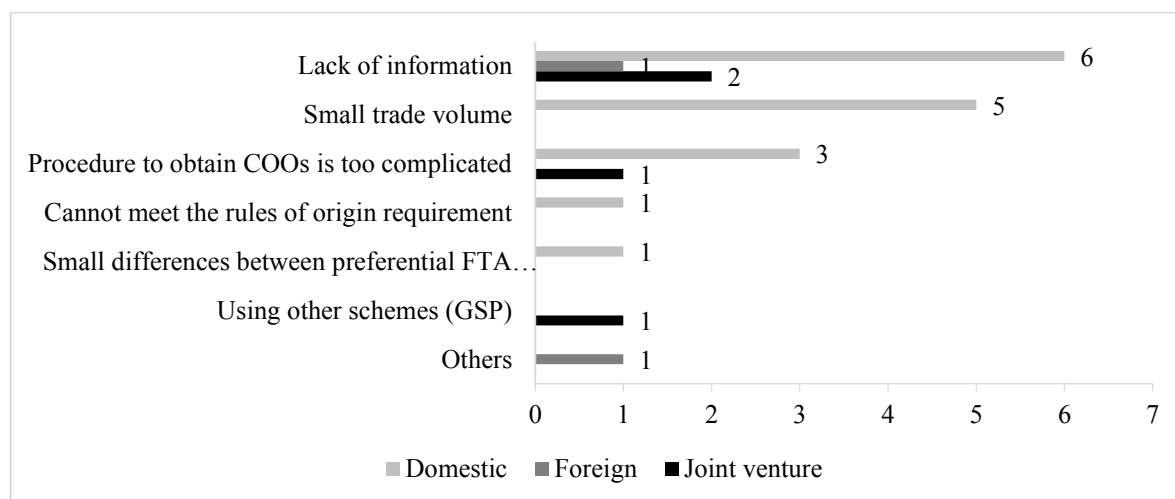
COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: MIER Survey

Looking at the non-usage of COOs from the perspectives of firm ownership and trading activities (Figure 7.12), the familiar problems of lack of information and small trade volume appear again. While small trade volume is the second-most-cited reason for not

utilising COOs among domestically owned manufacturing firms, it is not cited at all by foreign-owned and joint-venture manufacturing firms.

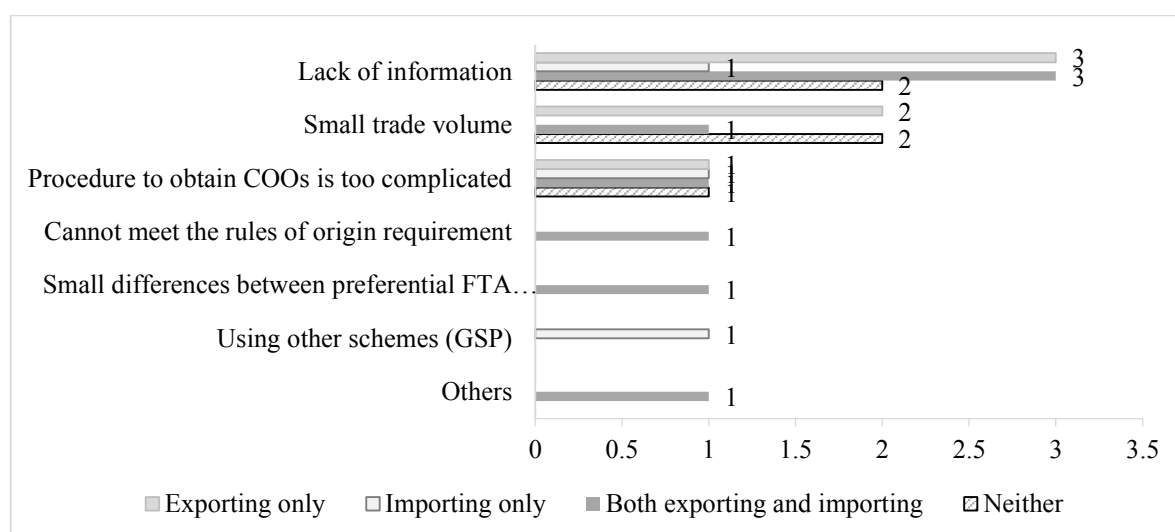
Figure 7.12. Reasons for Not Utilising COOs Among Manufacturing Firms, by Firm Ownership



COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: MIER Survey

Figure 7.13. Reasons for Utilising COOs Among Manufacturing Firms, by Firm Activity



COO = Certificate of Origin, GSP = Generalized System of Preferences.

Source: MIER Survey

Table 7.10 shows that, among the surveyed manufacturing firms, the number of documents required to obtain COOs³ is largely perceived as reasonable (29 out of 37 firms) among those manufacturing firms that make use of them. The actual number of documents used to obtain COOs is mostly between one and five.

³ The questions on perception of number of documents, length of time, and cost required to obtain COOs were only directed at manufacturing firms.

Table 7.10. Perception of the Number of Documents Required to Obtain COOs Among Manufacturing Firms Using COOs

Perception	Number of Firms (out of 37)	Number of Documents	Number of Firms (out of 37)
Very few	1	None	1
Reasonable	29	1 to 5	26
Many	3	6 and above	7
Too many	4	Unsure	3

COO = Certificate of Origin.

Source: MIER Survey

The length of time required to obtain a COO is also largely perceived as reasonable, as a large majority of the COO-using manufacturing firms manage to obtain COOs within three working days. None of them has to wait more than five working days to obtain a COO (Table 7.11).

Table 7.11. Perception of the Length of Time to Obtain COOs Among Manufacturing Firms Using COOs

Perception	Number of Firms (out of 37)	Length of Time	Number of Firms (out of 37)
Very few	4	1 working day	5
Reasonable	28	2 working days	12
Lengthy	5	3 working days	12
Very lengthy	0	4 working days	0
		5 working days	4
		Unsure	4

COO = Certificate of Origin.

Source: MIER Survey

The cost of obtaining a COO is also largely perceived as reasonable, with 25 out of the 37 surveyed manufacturing firms that use COOs holding this opinion. About half of these firms (18 out of 37) say that they spend US\$10 or less to obtain a COO (Table 7.12).

Table 7.12. Perception of Cost to Obtain COOs Among Manufacturing Firms Using COOs

	Number of Firms (out of 37)	US\$	Number of Firms (out of 37)
Very low	3	None	2
Reasonable	25	1-10	16
Costly	7	11-20	4
Very costly	2	21-30	1
		31-50	2
		51-100	1
		101-200	3
		Above 200	2
		Don't know	6

COO = Certificate of Origin.

Source: MIER Survey

The results of the survey are both striking and disappointing. They are striking because COOs are perceived positively; they are not seen as costly, difficult to acquire, or bureaucratically burdensome. They are disappointing because the utilisation of COOs could surely be higher. The lack of information is cited as a reason for the low utilisation of COOs (Table 7.12), leading to the conclusion that perhaps more should be done to disseminate information on COOs. This would mean educating interested parties on the FTAs that Malaysia is party to and also explaining more clearly the opportunities that these agreements can offer firms. This would also entail providing more information on the practicalities involved in applying for and using COOs.

2.5 Use of Generalized System of Preferences (GSP) Among Manufacturing Firms⁴

Use of Generalized System of Preferences (GSP) is lower than that of FTAs among the surveyed manufacturing firms. The survey found that 22 out of the 51 firms use GSP, compared with 37 out of 51 firms that use FTAs (Table 7.13).

⁴ The question on the use of GSP was only directed at manufacturing firms.

Table 7.13. Use of GSP and FTAs Among Manufacturing Firms

	Yes	No	Total
Used GSP	22	29	51
Used FTA	37	14	

FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: MIER Survey

The survey also found that all of the firms that use GSP also use FTAs. Among the firms that do not use GSP, however, about half use FTAs, while the other half do not. This suggests that GSP users are very likely to have experience of both GSP and FTAs, although FTA users are less likely to have experience of both systems (Table 7.14).

Table 7.14. Manufacturing Firms' Experience with GSP and FTAs

Company has used GSP	Company has used FTAs		Total
	Yes	No	
No	15	14	29
Yes, and currently using GSP	10	0	10
Yes, but currently using FTAs (shifted from GSP to FTAs)	8	0	8
Yes, but currently not using GSP	4	0	4
Total	37	14	51

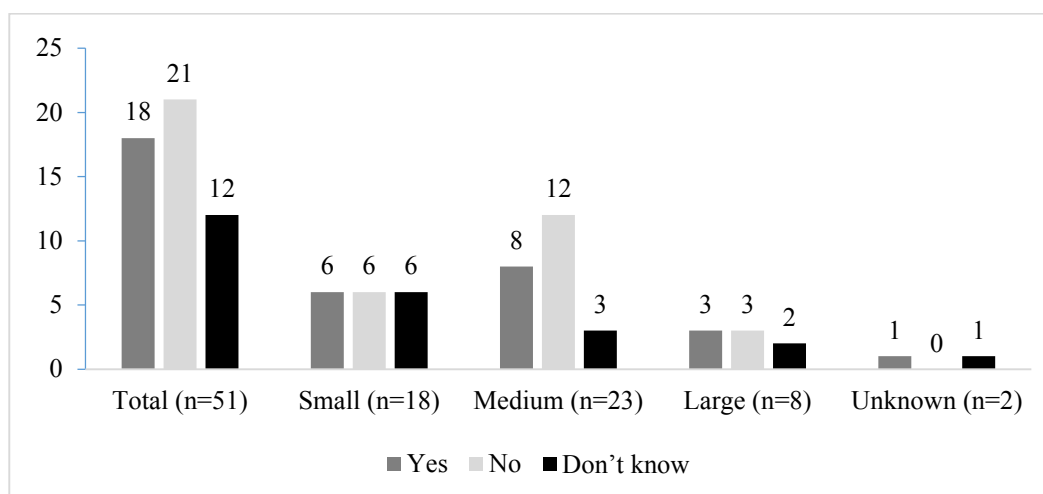
FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: MIER Survey

2.6 FTAs and Investment Considerations Among Manufacturing Firms

When it comes to deciding on investment location, FTAs are not seen as a major factor. A plurality of the surveyed firms reveals that they did not consider FTAs as a factor in deciding where to invest (Figure 7.14). Among medium-sized firms, those that did not consider FTAs as a factor outnumber those that did. Among the small and large firms that gave affirmative answers, the verdict is evenly split.

Figure 7.14. Considered FTAs a Factor in Deciding Investment Location—Manufacturing Firms, by Size

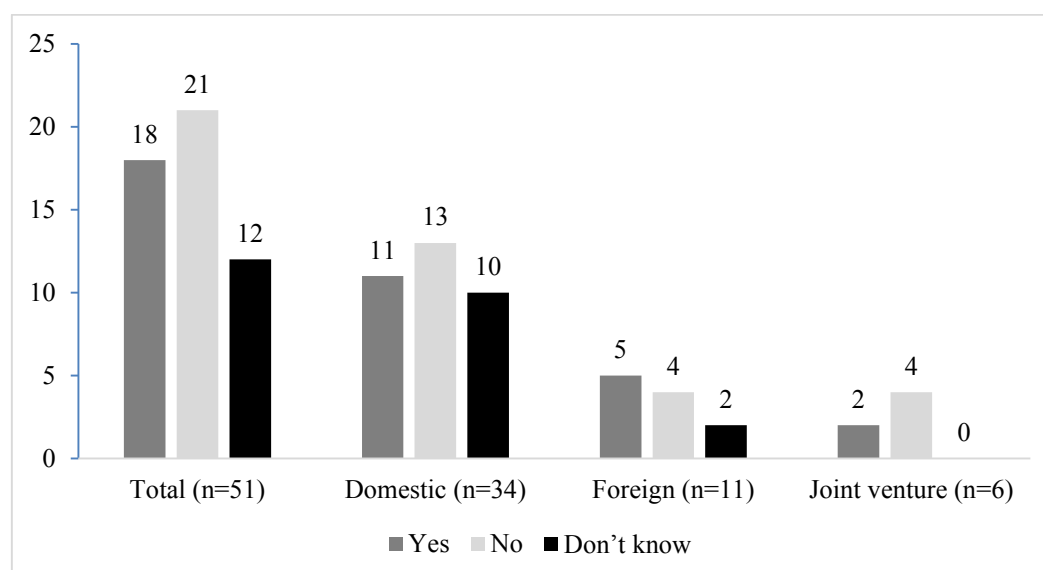


FTA = free trade agreement.

Source: MIER Survey

A plurality of domestically owned and joint-venture manufacturing firms did not consider FTAs to have been a factor in deciding investment locations (Figure 7.15). On the other hand, more foreign-owned manufacturing firms consider FTAs to have been a factor in making such decisions than those that do not.

Figure 7.15. Considered FTAs a Factor in Deciding Investment Location—Manufacturing Firms, by Ownership



FTA = free trade agreement.

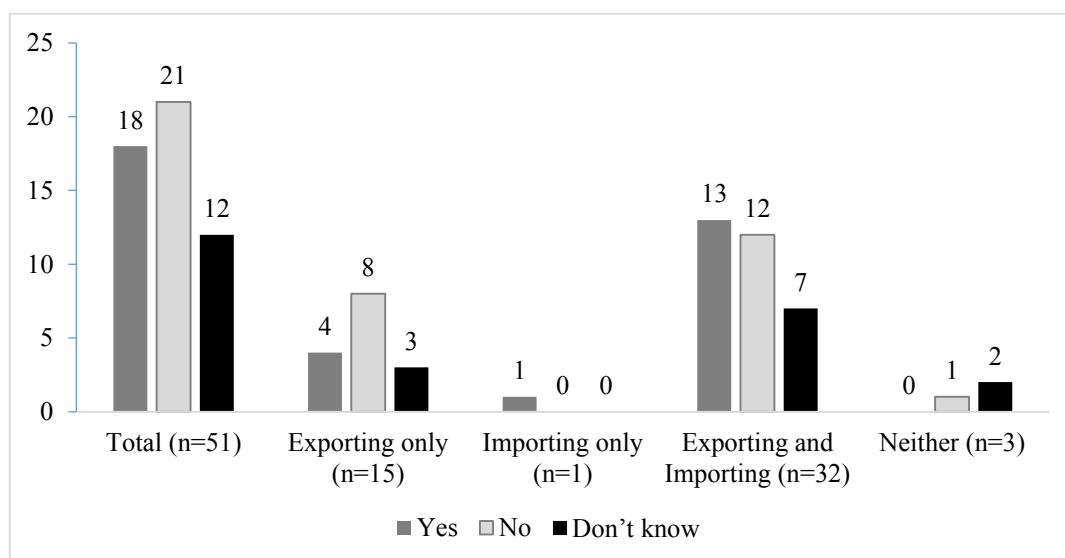
Source: MIER Survey

Therefore, as far as investment location is concerned, FTAs are still more likely to be seriously considered by larger firms with a high level of trading activity and a strong appetite for overseas expansion.

FTAs are only slightly more of a factor in deciding investment location among manufacturing firms involved in both exporting and importing, while it is less of a factor among manufacturing firms only involved in exporting (Figure 7.16). The opinion on FTAs being a factor in deciding investment location is largely similar across all manufacturing firms in different locations (Figure 7.17).

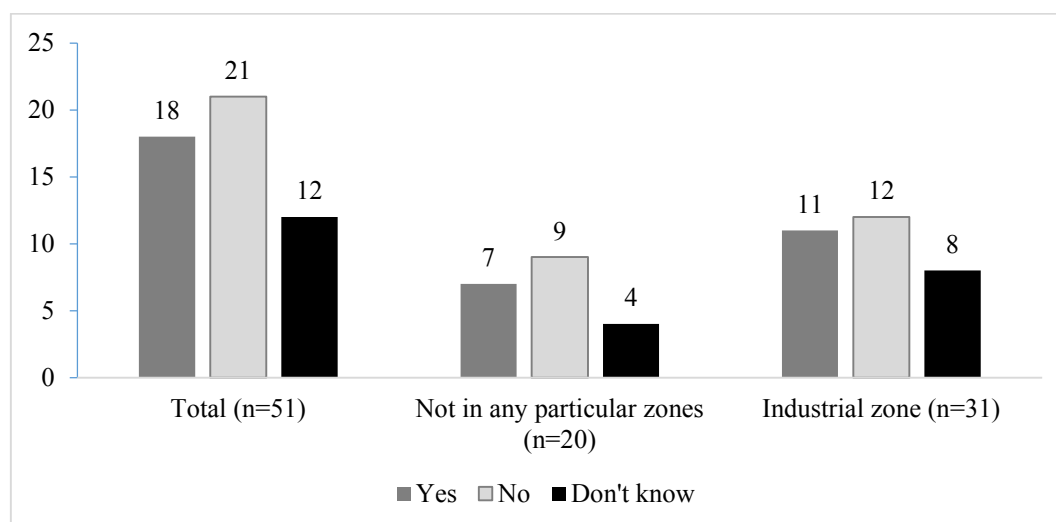
Figure 7.16:. Considered FTAs a Factor in Deciding Investment Location—

Manufacturing Firms, by Activity



FTA = free trade agreement.

Source: MIER Survey

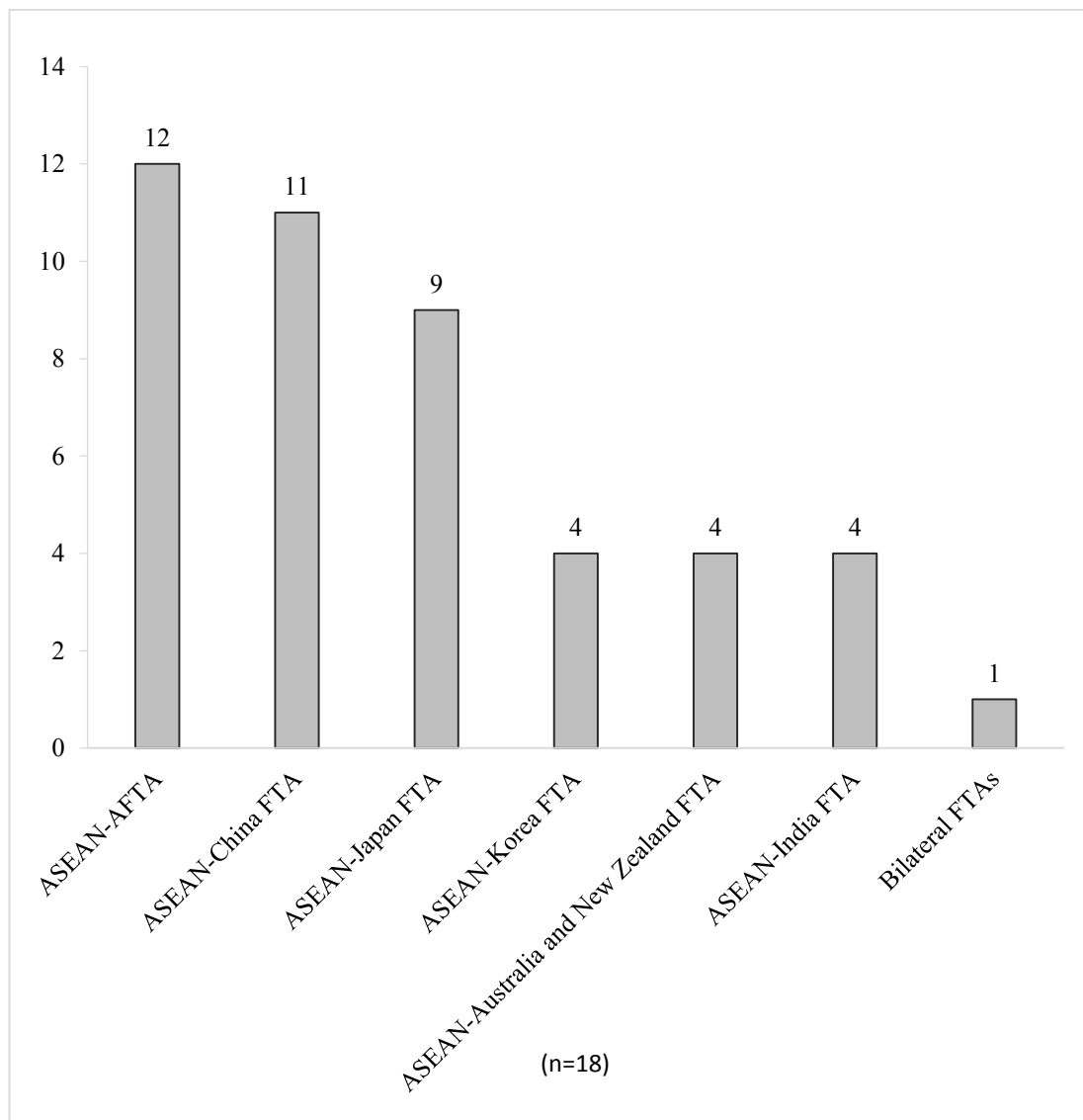
Figure 7.17: Considered FTAs a Factor in Deciding Investment Location—**Manufacturing Firms, by Location**

FTA = free trade agreement.

Source: MIER Survey

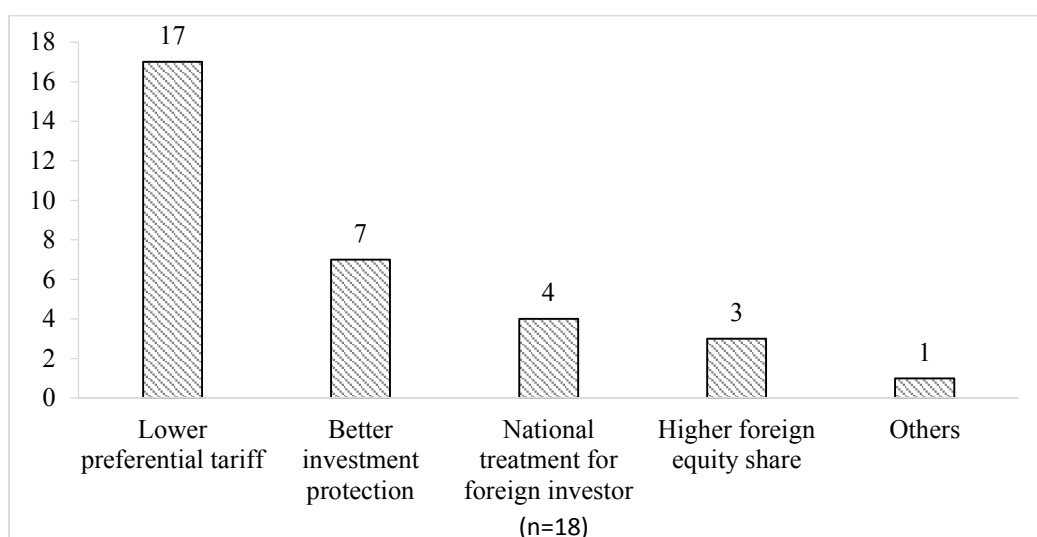
Twelve of the 18 manufacturing firms that considered FTAs in their investment decisions looked at AFTA, while 11 considered the ASEAN-China FTA, and nine considered the ASEAN-Japan FTA. These three FTAs are clearly the most important ones in deciding on investment location (Figure 7.18).

Figure 7.18. FTAs Considered if the Firm Considered FTAs in Deciding Investment Location



FTA = foreign trade agreement.
Source: MIER Survey

Among those firms that consider FTAs when deciding on investment locations, lower preferential tariff is by far the most important factor (Figure 7.19). Firms possibly take for granted that most countries offer good investment protection, and that countries, in their eagerness to attract investment, do not deny national treatment to foreign investors.

Figure 7.19. Aspects Considered by Manufacturing Firms that Considered FTAs

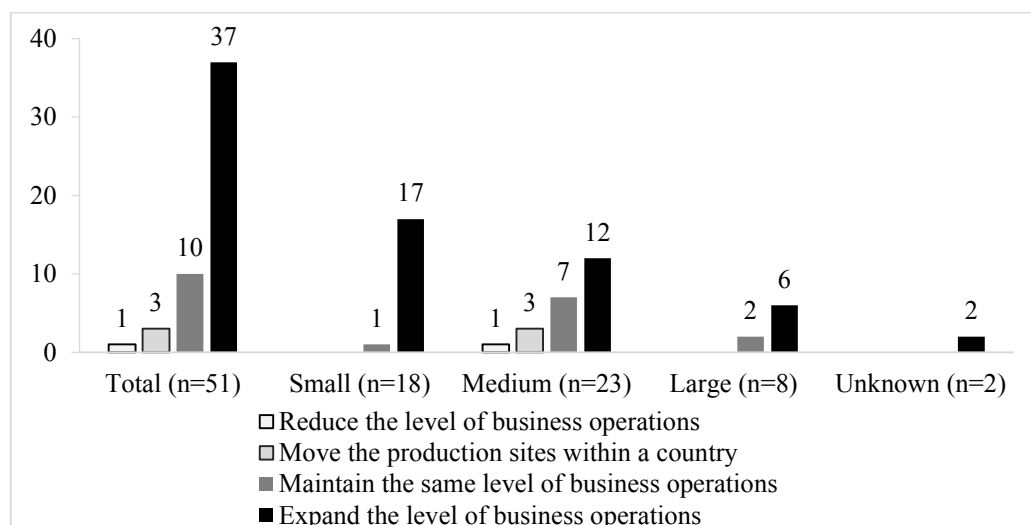
FTA = free trade agreement.

Source: MIER Survey

2.7 Future Investment Plans Among Manufacturing Firms

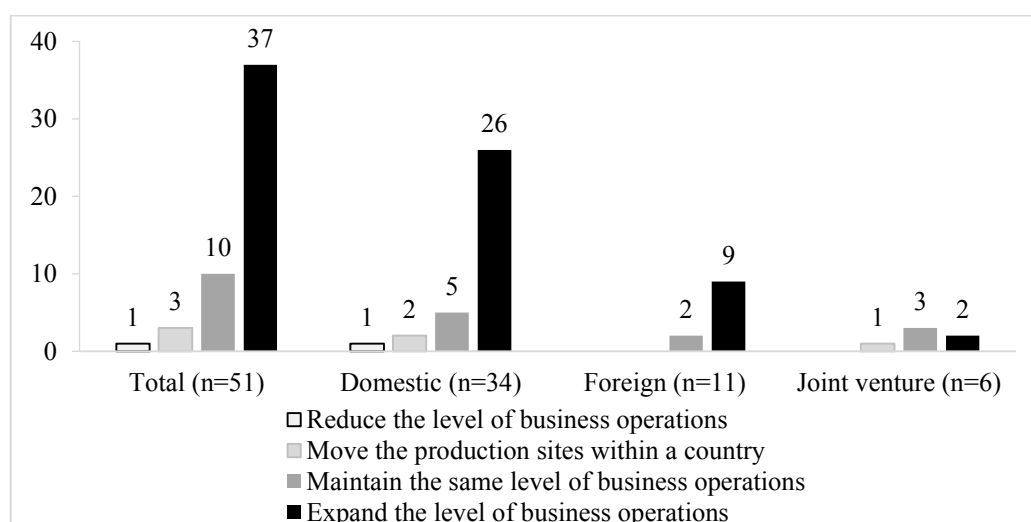
A clear majority (37 out of 51) of the surveyed manufacturing firms intend to expand their level of business operations. Ten firms intend to maintain the same level of operations, three are planning to move production sites within a country, and only one is planning to scale down.

All but one small manufacturing firms are planning to expand their business operations, while only slightly more than half (12 out of 23) of the medium-sized manufacturing firms are planning to do so (Figure 7.20).

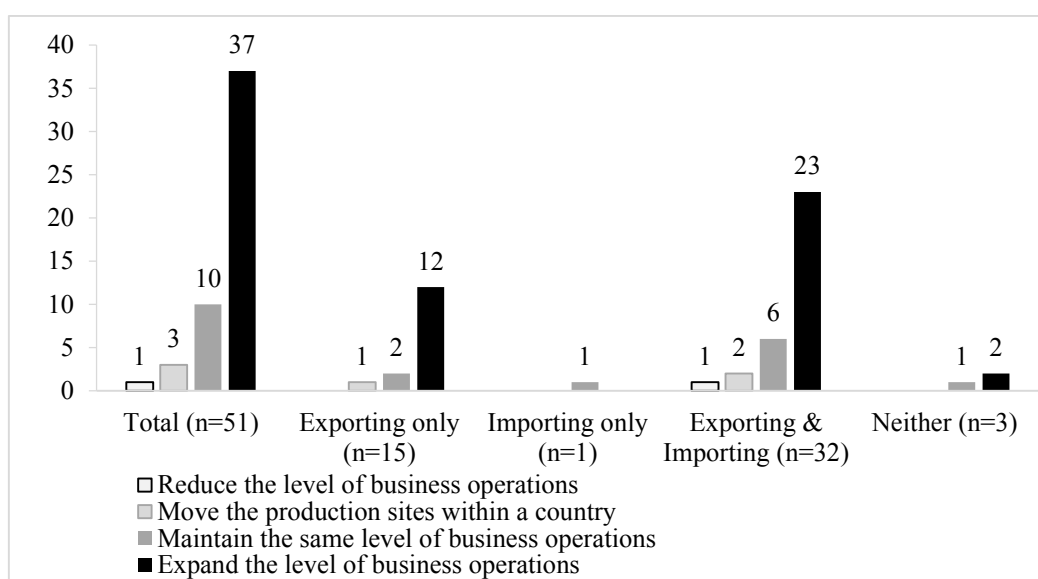
Figure 7.20: Future Investment Plans of Manufacturing Firms, by Size


Source: MIER Survey

The sole manufacturing firm that intends to reduce its level of business operations is domestically owned. None of the surveyed foreign firms is planning to scale down, close down, or move production sites. Arguably, struggling foreign firms in Malaysia had already closed down their facilities in the country in the aftermath of the 2008/09 global financial crisis, and those still operating in 2013 were either the survivors or newcomers looking to expand (Figures 7.21 and 7.22).

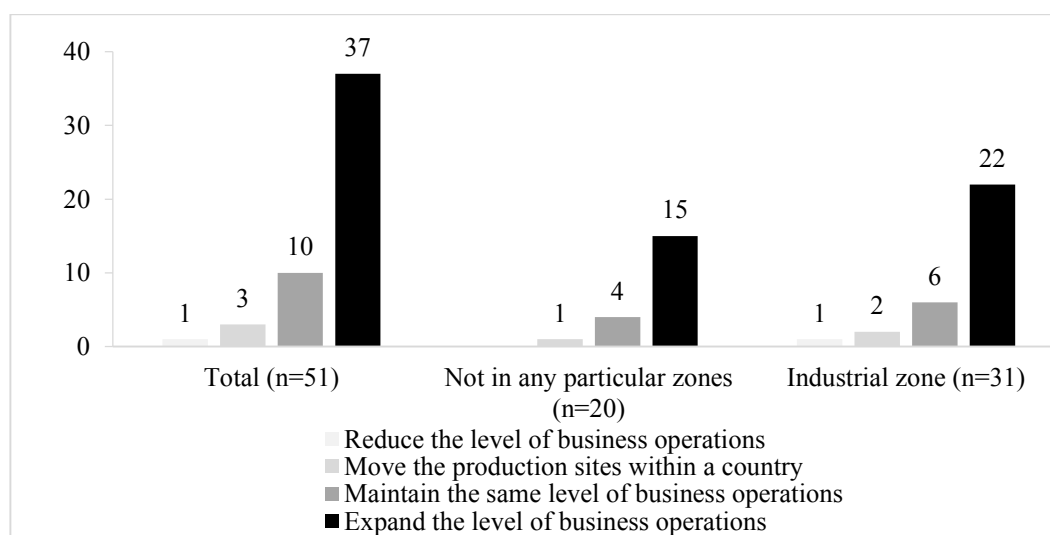
Figure 7.21. Future Investment Plans of Manufacturing Firms, by Ownership


Source: MIER Survey

Figure 7.22. Future Investment Plans of Manufacturing Firms, by Activity

Source: MIER Survey

The patterns are similar among the key groupings when broken down by firm activity, as expansion is in the plans of most manufacturing firms involved in both exporting and importing and those involved in exporting only. The patterns are also similar between manufacturing firms not located in particular zones and manufacturing firms that are located in industrial zones (Figure 7.23).

Figure 7.23: Future Investment Plans of Manufacturing Firms, by Location

Source: MIER Survey

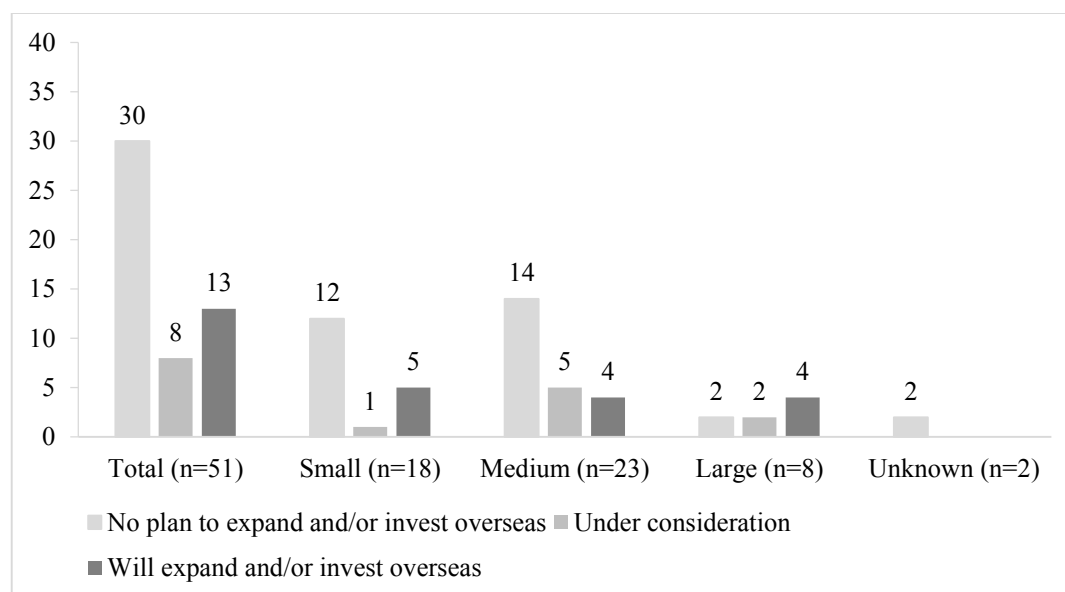
2.8 Overseas Expansion and Investment Among Manufacturing Firms

Most of the surveyed manufacturing firms have no plans to expand or invest overseas: 30 out of the 51 say they prefer to focus on their Malaysian operations, while 13 say they intend to expand overseas, and eight are still considering it.

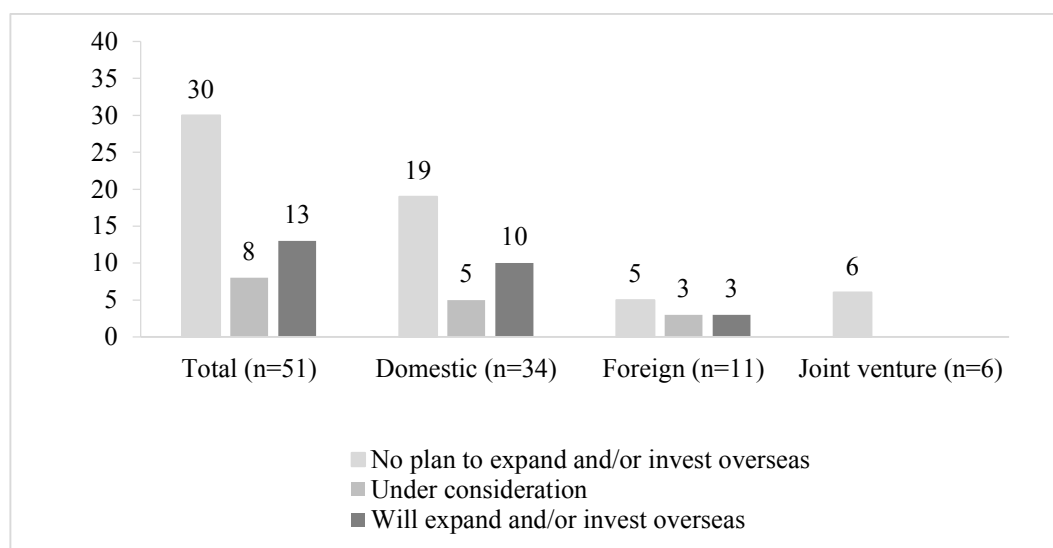
A clear majority of the surveyed small and medium-sized firms have no plans to venture abroad. Among the eight large firms surveyed, however, four intend to expand or invest overseas, while two are considering it.

Among domestically owned manufacturing firms, only 10 out 34 intend to expand or invest overseas. Although 10 firms are not many, they account for more than 30 percent of the firms that responded. Among foreign-owned firms, only three out of 11 intend to expand or invest overseas. None of the six surveyed joint-venture firms have plans to venture abroad.

Figure 7.24. Future Investment Plans Among Manufacturing Firms, by Size and Ownership

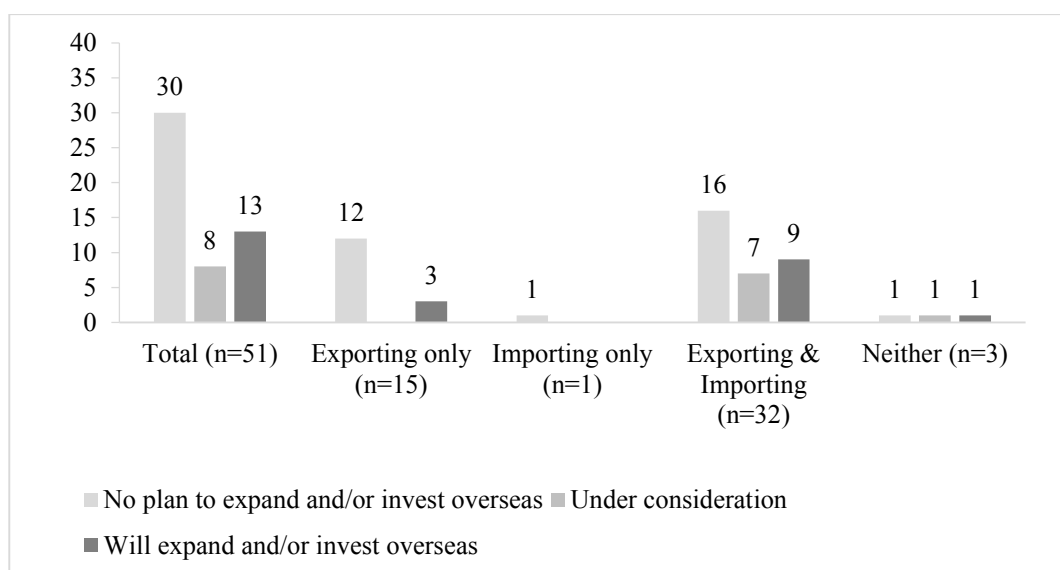


Source: MIER Survey

Figure 7.25. Future Investment Plans, by Ownership

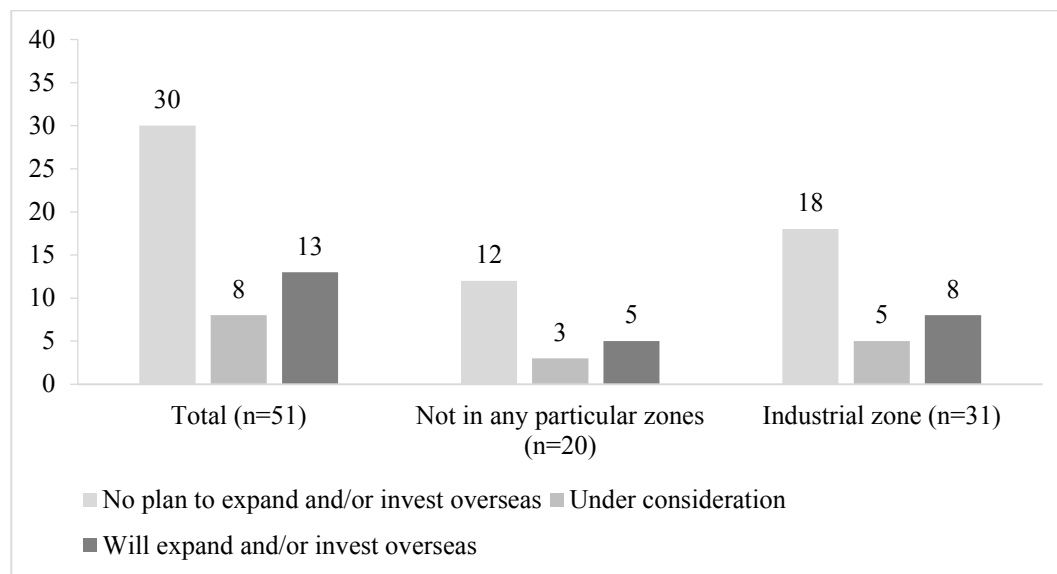
Source: MIER Survey

Although most firms have no plans to expand or invest overseas, the idea has more traction among firms that are involved in both exporting and importing, compared with firms involved in only exporting or only importing. Among 32 firms that both import and export, nine have plans to venture abroad, while seven have similar plans under consideration, and half are considering the idea of overseas expansion. Among the 15 export-only firms, only three intend to expand or invest overseas, while no firm is considering the proposal.

Figure 7.26. Future Investment Plans Among Manufacturing Firms, by Location

Source: MIER Survey

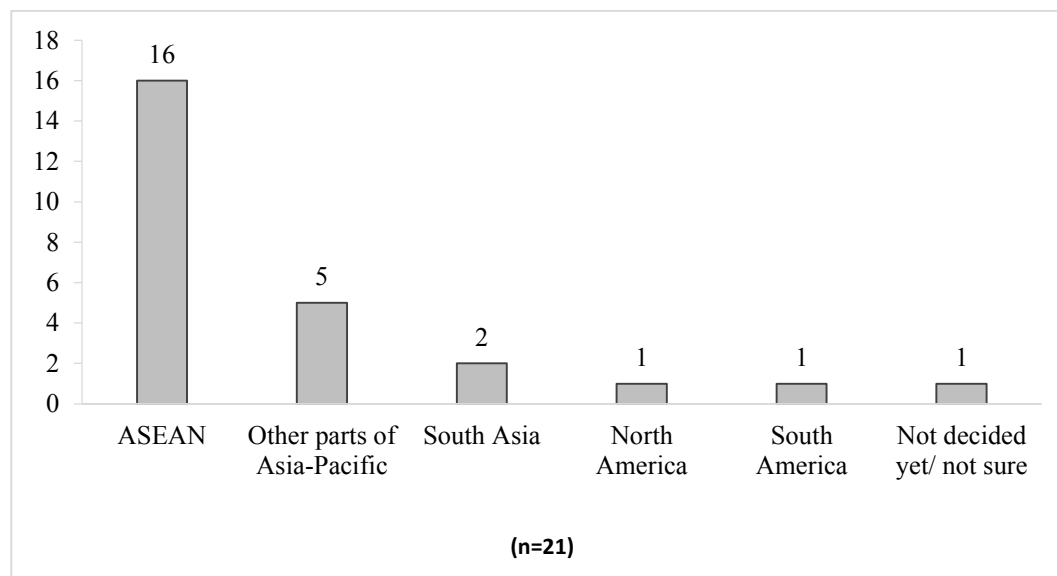
Figure 7.27. Future Investment Plans, by Location



Source: MIER Survey

Unsurprisingly, among firms considering or already planning to expand or invest overseas, ASEAN is the most popular region for overseas investment (Figures 7.26, 7.27, and 7.28). Sixteen out of the 21 firms are considering ASEAN countries, five firms other Asia-Pacific countries, and the rest other regions.

Figure 7.28. Regions Considered for Investment Among Manufacturing Firms

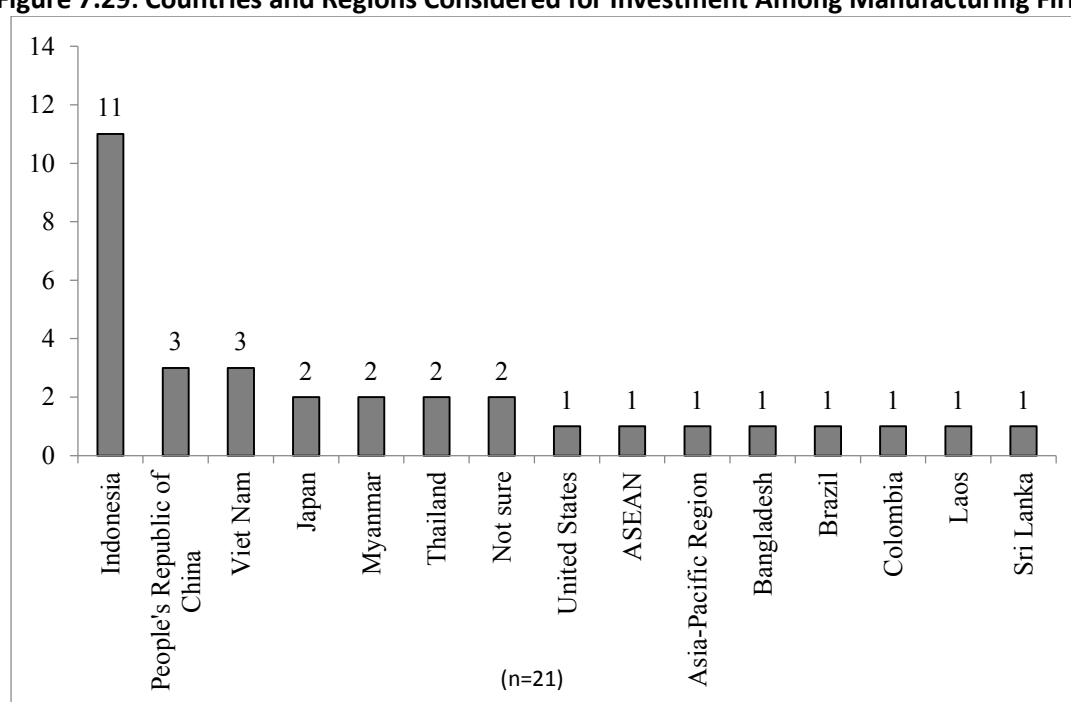


ASEAN = Association of Southeast Asian Nations.

Source: MIER Survey

Indonesia is by far the most popular country for overseas investment, followed by the PRC (Figure 7.29). Among the ASEAN countries, Viet Nam, Myanmar, and Thailand were selected by two firms. Indonesia could be a favourite among the surveyed firms because of the reforms it is undertaking. Indonesia has an additional advantage: its huge potential market size. Viet Nam, Myanmar, and Thailand are the other preferred countries within ASEAN. Viet Nam is likely favoured by virtue of its good growth rates, although they may not continue. Obvious enthusiasm for Myanmar is undoubtedly linked to prospects for ongoing political and economic reform.

Figure 7.29: Countries and Regions Considered for Investment Among Manufacturing Firms



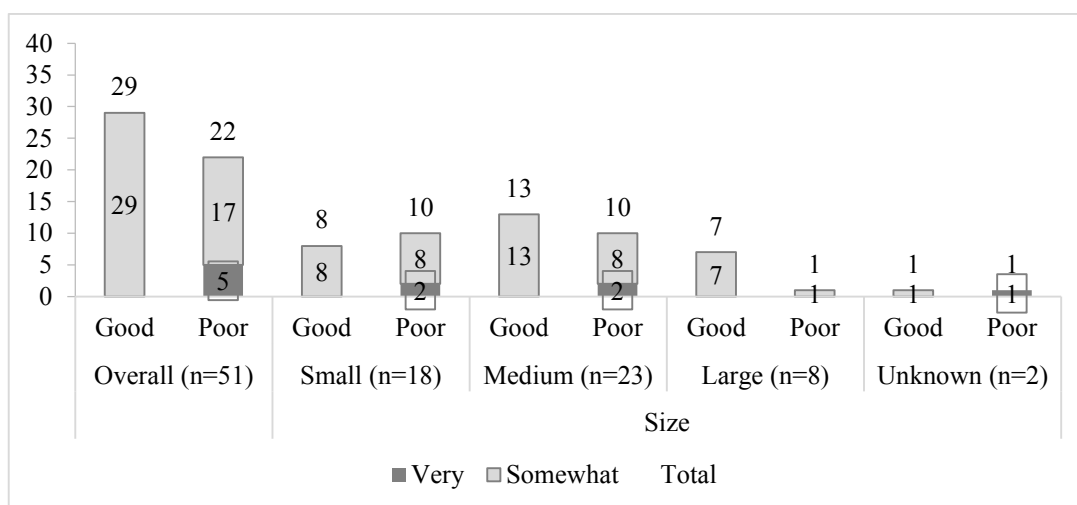
Note: Several firms only specified regions but not countries.

Source: MIER Survey

2.9 Perceptions of Information on FTAs Among Manufacturing Firms

Perceptions among the surveyed manufacturing firms of the available information on FTAs is slightly positive, as 29 manufacturing firms feel that it is good, while 22 feel that it is poor. Among small manufacturing firms, more feel that the information is poor (10 out of 18) than those that feel it is good (eight out of 10). Among the 23 medium-sized manufacturing firms, 13 feel that the information is good, while 10 feel that it is poor. Among the eight large manufacturing firms, seven of them feel that the information is good, while only one is not satisfied (Figure 7.30).

Figure 7.30. Perceptions of Information on FTAs among Manufacturing Firms, by Size

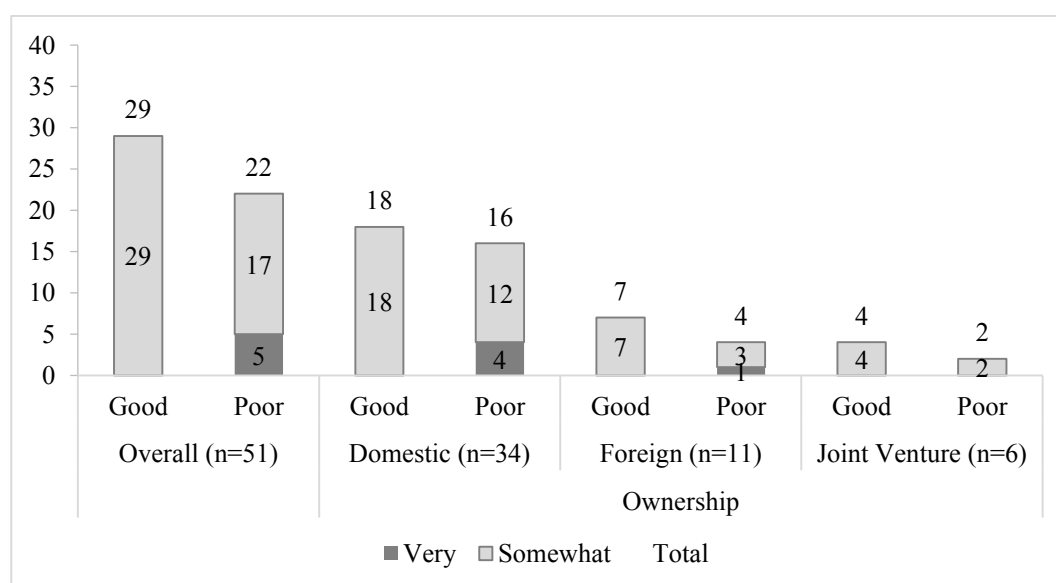


FTA = free trade agreement.

Source: MIER Survey

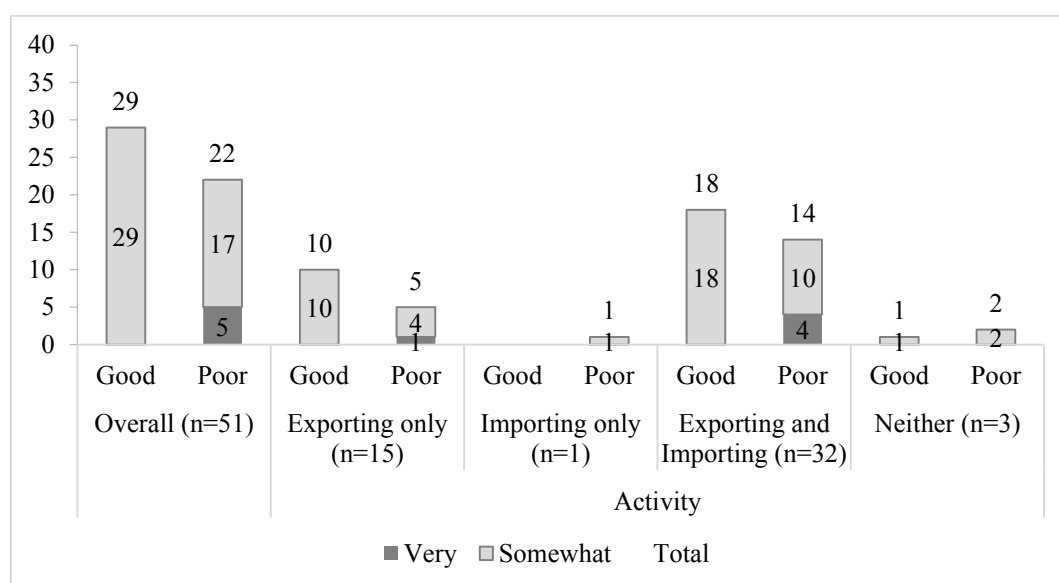
When broken down by ownership characteristics, the survey shows that slightly more manufacturing firms rate the availability of information as good rather than bad across all ownership types (Figures 7.31 and 7.32).

Figure 7.31. Perceptions of Information on FTAs Among Manufacturing Firms, by Ownership



FTA = free trade agreement.

Source: MIER Survey

Figure 7.32. Perceptions of Information on FTAs Among Manufacturing Firms, by Activity

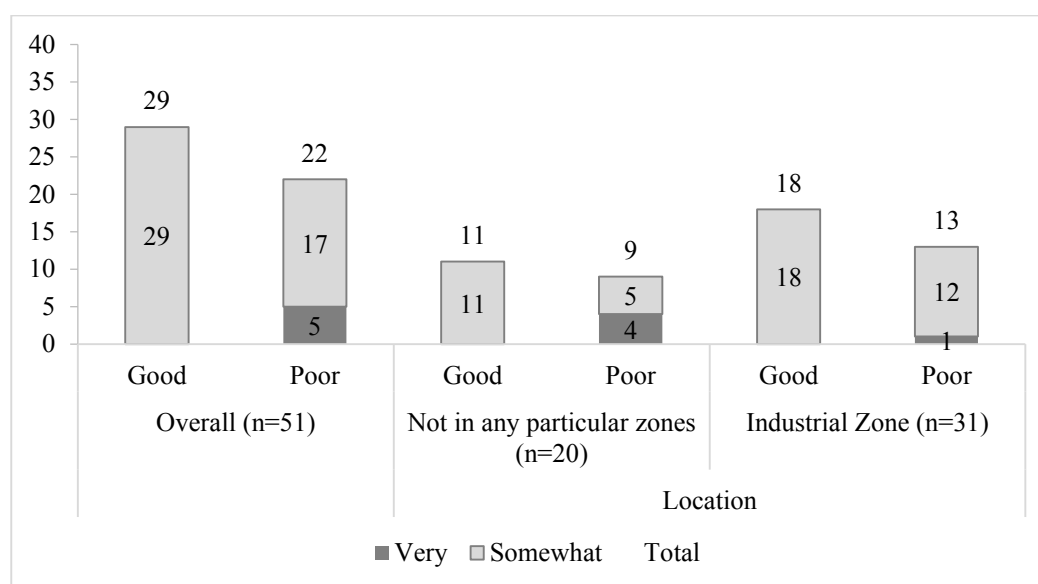
FTA = free trade agreement.

Source: MIER Survey

Perceptions of the availability of information on FTAs are better among manufacturing firms involved in only exporting than among those involved in both exporting and importing (Figure 7.32).

Perceptions of the available information on FTAs are also better among manufacturing firms in industrial zones than among those not in particular zones as (Figure 7.33).

Figure 7.33. Perceptions of Information on FTAs Among Manufacturing Firms, by Location



FTA = free trade agreement.

Source: MIER Survey

The findings indicate that information on FTAs is not delivered well enough to many small and domestically owned firms. Because they are small, they may not have as much knowledge, experience, or capacity to understand the workings of FTAs as larger or foreign-owned firms. Arguably, small and domestically owned firms are in far greater need of assistance than larger firms with regard to information and technical support from the authorities.

2.10 Use of FTAs by Malaysian Services Sector Firms

Characteristics of Surveyed Services Sector Firms

The survey only managed to capture 11 services sector firms, all small and domestically owned. Such a small data set poses severe limitations on drawing conclusions. However, the firms are more diverse in terms of their activities. Roughly an equal number of firms are involved in exporting only, importing only, exporting and importing, and neither exporting nor importing. A greater variety of firm characteristics would have given more breadth to the findings and it would have been preferable if there had been more as far as size and ownership are concerned. This would have allowed more insight into the behaviour of larger firms, as well as those that are foreign-owned and under joint ventures.

The small number of firms that agreed to participate in the survey was also a weakness. The main characteristics of the surveyed services firms are summarised in Table 7.15.

Table 7.15. Firm Characteristics—Services

a. By Size					
	Small	Medium	Large	Unknown	Total
Number	11	0	0	0	11
Percentage	100	0	0	0	100
b. By Ownership					
	Domestic	Foreign	Joint venture		Total
Number	11	0	0		11
Percentage	100	0	0		100
c. By Activity					
	Exporting only	Importing only	Exporting & importing	Neither	Total
Number	2	2	3	4	11
Percentage	18	18	27	36	100

Note: Services firms were not queried on location of their premises.

Source: MIER Survey

Use of FTAs Among Services Firms, by Characteristic

The survey found that FTAs are utilised by only three out of 11 services sector firms. The number of services firms that utilised FTAs is the same as the number of services firms that have knowledge of FTAs (Table 7.16). It can be concluded that those firms that have knowledge of FTAs also take advantage of them. It is worth adding that it is not possible to derive conclusive evidence from these results given the limitations regarding the low number of firms that participated in the survey. Nevertheless, it may be possible to reason that the lack of knowledge of FTAs and their utilisation may be a characteristic of small, domestically owned firms. Larger foreign-owned firms, or those in joint ventures, can be expected to have the knowledge and expertise to take advantage of FTAs. These are also

firms that would be better geared towards exporting their services rather than restricting themselves to the domestic market.

Table 7.16. Use of FTAs⁵ and Knowledge of FTAs Among Services Firms

	Yes	No	Total
Use of FTAs	3	8	11
Knowledge of FTAs	3	8	11

FTA = free trade agreement.

Source: MIER Survey

Use of COOs Among Services Firms

Among the services firms that utilise COOs, only Form D (ASEAN FTA), Form E (ASEAN-China FTA), and Form A (GSP) are used.

Table 7.17. Utilisation of COOs Among Services Firms, by Trade Activity

	Export	Import	Total
Form D		1	1
Form E		2	2
Form A	1		1

COO = Certificate of Origin.

Note: Multiple responses allowed.

Source: MIER Survey

The most cited reason for utilising COOs among services firms is a request from trading partners (Table 7.18). Lower tariffs and reducing import costs are the only other reasons that are acknowledged by services firms for utilising COOs.

⁵ Based on respondents' answers to the question on the use of COOs.

Table 7.18. Reasons for Utilising COOs Among Services Firms

Reason Firm Activity	Request from trading partners	Lower tariffs	Reducing import costs
Exporting only	1	-	-
Both exporting and importing	2	2	2
Total	3	2	2

COO = Certificate of Origin.

Note: Multiple responses allowed.

Source: MIER Survey

The key reason for not utilising COOs among services firms is a lack of information (Table 7.19). Small trade volume is also a notable reason for not using COOs, while the procedure for obtaining COOs also discourages some. Both reasons are consistent with small, domestically owned firms. With narrow scope and limited capital, typically these firms can be expected to have lower expectations with regard to export plans and, hence, use of FTAs. The cost of obtaining COOs is mentioned by one of the firms as a reason for not using COOs.

Table 7.19. Reasons for Not Utilising COOs

Reason Firm Activity	Lack of information	Small trade volume	Procedure to obtain COOs is too complicated	Fee to obtain COOs is too expensive
Exporting only	1	-	-	-
Importing only	1	1	1	1
Both exporting and importing	1	1	1	-
Neither	3	1	1	-
Total	6	3	3	1

COO = Certificate of Origin.

Note: Multiple responses allowed.

Source: MIER Survey

FTAs and Investment Considerations Among Services Firms

When it comes to making decisions on investment location, FTAs are not seen as being a major factor in influencing firms. Only one of the surveyed services firms considers FTAs to have been a factor in deciding investment locations (Table 7.20). The sole firm that thinks this way is involved in both exporting and importing activities.

Table 7.20. Considered FTAs a Factor in Deciding Investment Location—Services Firms

Considered Firm Activity	Yes	No	Don't know	Total
Exporting only	0	1	1	2
Importing only	0	1	1	2
Exporting and Importing	1	1	1	3
Neither	0	1	3	4
Total	1	4	6	11

FTA = free trade agreement.

Source: MIER Survey

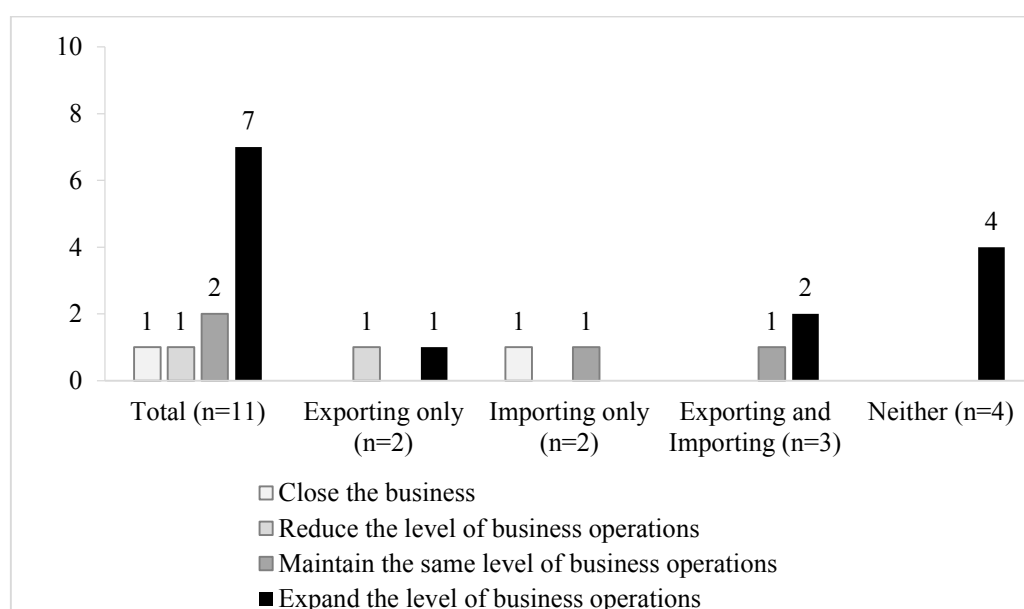
The firm that considers FTAs to have been a factor in deciding investment location also claims that it considered all available FTAs in its decision. The firm claims to have considered two aspects of FTAs in deciding its investment location: lower preferential tariff and better investment protection. Once again, lower preferential tariff is an important factor for firms engaged in manufacturing activities. It is striking that four of the firms did not consider FTAs in making their decisions on investment location. Even more surprising is the fact that six of the firms do not know about FTAs. Due to the small size of the firms, it seems likely that these firms have yet to develop their capacity to trade in services (their own or those of others). However, the results of the survey have to be treated with caution due to the small number of respondents.

Future Investment Plans Among Services Firms

On future investment plans, seven out of 11 surveyed services firms intend to expand their levels of business operations. Two intend to maintain the same level of operations, one intends to reduce its level of business operations, while one intends to close down.

Services firms involved in both exporting and importing, and services firms involved in neither activity, are more positive on future plans than services firms exporting or importing only. The sole firm planning to close down its business is only involved in importing.

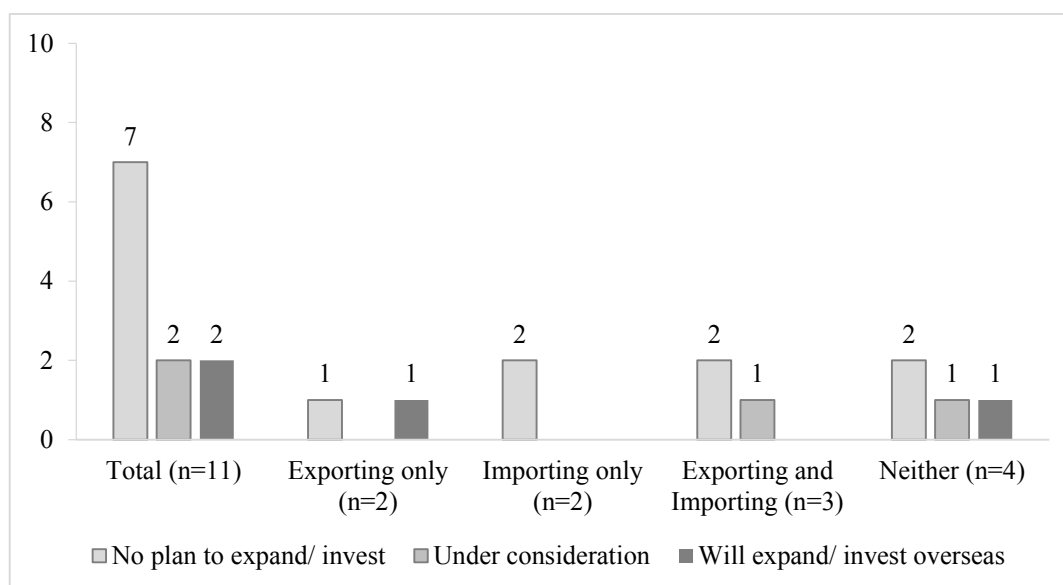
Figure 7.34. Future Investment Plan of Services Firms, by Activity



Source: MIER Survey

Overseas Expansion and/or Investment Among Manufacturing Firms

Seven out of the 11 surveyed services firms have no plans to expand or invest overseas, while only two firms state otherwise. Another two firms are still considering the possibility of expanding outside Malaysia. Among the two firms that claim to be venturing abroad, one is involved only in exporting, while the other is involved neither in exporting nor importing (Figures 7.34 and 7.35).

Figure 7.35. Future Investment Plan Among Services Firms, by Activity

Source: MIER Survey

Among the four firms considering or already on course to expand or invest overseas, the Asia-Pacific region (including ASEAN) is still the most attractive. A North American country (US), a European country (Germany), and an unspecified Middle Eastern country are also mentioned by these firms (Table 7.21).

Table 7.21. Regions and Countries Considered for Investment Among Services Firms

Region	Mention(s)
Other parts of Asia-Pacific	2
ASEAN	1
North America	1
Europe	1
Middle East	1
Not decided yet/ not sure	1

ASEAN = Association of
Southeast Asian Nations.

Note: Several firms specified regions but not countries.

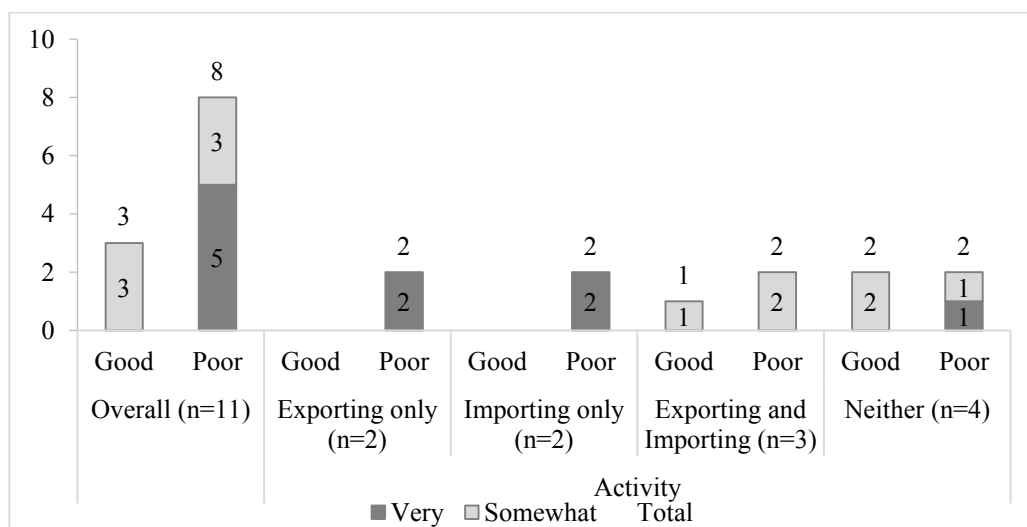
Source: MIER Survey

Country	Mention(s)
Australia	1
Germany	1
Japan	1
Middle East	1
Singapore	1
United States	1
No response	1

Perceptions of Information on FTAs Among Services Firms

Perceptions among the surveyed services firms of the available information on FTAs are largely negative, as eight out of the 11 feel that it is poor, with five rating it as very poor. Services firms involved in only exporting, as well as services firms involved only in importing, have a very negative view of the available information on FTAs (Figure 7.36).

Figure 7.36. Perceptions of Information on FTAs Among Services Firms, by Activity



FTA = free trade agreement.

Source: MIER Survey

Given that all the surveyed services firms are small and domestically owned, it should be stressed once again that information on FTAs is not delivered effectively to many small and domestically owned firms. However, the modest nature of the number of firms surveyed allows us to draw conclusions only about small, domestically owned firms. Such firms are not in the best position to take advantage of FTAs, probably have limited access to knowledge about FTAs, are not covered by agencies that target this sort of information, and, given the limited scope of their activities, are probably not in a position to take advantage of such information.

3. Discussion and Concluding Remarks

The results obtained from these studies are useful in clarifying the utilisation of FTAs by manufacturing and services firms. They are also useful in identifying the perceptions of firms with regard to the use of COOs. The results give some indication of the factors that firms seem to value in deciding to expand and invest.

This study attempts to examine the effects of FTAs at the firm level. Rather than relying on aggregated data, firm-level data that provide information on the use of FTA schemes by firms are considered, as well as information on the firms' trade status with the partner country (i.e. exporting or not). With these unique data, empirical evidence of firms' usage of, and attitudes towards, FTAs is investigated.

The mechanics of firms' FTA usage in exporting can be explained as follows. The use of FTA schemes in exporting depends on its costs and benefits. The benefits refer to how much firms can save in tariff payments by using FTA preferential rates.

Two elements are of crucial importance in exporters' decision-making process. The first element is the difference between FTA rates and general rates. If firms choose to use an FTA scheme, they can export their products at the FTA preferential tariff rates. If not, they will pay general tariff rates, which are usually most-favoured-nation rates. A larger difference between FTA rates and most-favoured-nation rates should result in greater savings in tariff payments. Therefore, the larger the tariff margin (difference between preferential and general tariff rates), the more likely firms are to use FTA schemes.

The survey shows that the utilisation of FTAs among Malaysian firms is at a respectable level, as COOs are used by 40 out of 62 firms. While the benefits of lower preferential tariffs (26 out of 40) are clearly the main motivation behind utilisation, many firms also do so due to requests by trading partners (24 out of 40). This shows that there is a passive element in firms' usage of FTAs.

This observation is also consistent with the finding that FTAs are not a key aspect in investment decision-making. From the firms' point of view, FTA benefits are probably seen as 'extras' rather than integral aspects of their trading strategy. In cases where they are requested by partners to present COOs, FTA utilisation can be seen as an obligation. Therefore, although FTA benefits are widely recognised and reasonably well-utilised by Malaysian firms, the firms' attitude towards FTAs remains far from enthusiastic.

While policymakers cannot easily deal with natural obstacles to more widespread use of FTAs, such as the smallness of a firm's business or small trade volume, the study also identifies key obstacles that could be eliminated by improving policy design and implementation. The lack of information, and procedures that are perceived as complicated are seen to have discouraged a number of firms from utilising FTAs. These

issues could be addressed through more effective communication campaigns and efforts to simplify application processes.

Based on feedback from survey respondents, seminars, training sessions, and dialogue (between companies and government agencies or trade associations) are seen as ways for the authorities to maximise the use of FTAs. While, by and large, the use of FTAs is not found to be costly, cumbersome, or time-consuming, ignorance does seem to be a factor that needs to be addressed. There is a need to educate firms on the uses of FTAs and on the practical benefits that firms can derive from their use. Thus, the practical aspects need to be communicated to firms, particularly small and domestically owned firms.

As policymakers and diplomats continue to pursue wider and more beneficial trade partnerships in more areas across the globe, issues related to service implementation, training, and relationship building between the implementing bodies and firms at the domestic level need to be given more attention.

Short-term fixes might include small-scale communication campaigns and improvements in official delivery systems. In the longer term, institutional reforms of agencies related to business and trade could involve the ministry (MITI), the Malaysia External Trade Development Corporation, the Malaysia Investment Development Authority, the Companies Commission of Malaysia, and other relevant agencies, with a focus on service, skills, and competitiveness.

The larger firms and the foreign-owned firms are in a position to take advantage of FTAs. It is the small firms and domestically owned firms that deserve the attention of government agencies. This is because large domestic firms and multinational corporations, but not the small and domestically owned firms, have the expertise to take advantage of FTAs. This is especially important as part of the national strategy to encourage the development of small and medium-sized enterprises and their forays into international markets.

CHAPTER 8

Survey Report on the Use of Free Trade Agreements in Myanmar

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This study examines the use of free trade agreements (FTAs) as implemented by Myanmar's government institutions, and looks at the constraints of using existing FTAs, making use of the survey results of manufacturing firms and some services firms from the private sector. This study shows that manufacturing and services firms need more knowledge about the use of FTAs.

Key Words: Free Trade Agreement, COO, Myanmar, FTA Utilisation

1. Context

1.1. Background

Myanmar is a member of the World Trade Organization (WTO), the Association of Southeast Asian Nations (ASEAN), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, the Greater Mekong Subregion, and the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy. Myanmar has bilateral trade agreements with Bangladesh, India, the Lao People's Democratic Republic, Malaysia, Pakistan, the People's Republic of China, the Philippines, the Republic of Korea, Thailand, and Viet Nam in Asia, and with six countries in Europe. Myanmar signed border trade agreements with the People's Republic of China in August 1988, India in January 1994, Bangladesh in May 1994, and Thailand in March 1996. Myanmar participates in various free trade agreements (FTAs) in the region, such as ASEAN FTA, ASEAN–China FTA, ASEAN–India FTA, ASEAN–Japan FTA, ASEAN–Korea FTA, and ASEAN–Australia- New Zealand FTA, as well as the Regional Comprehensive Economic Program.

Myanmar's Ministry of Commerce (MoC) has played an important role in the free flow of goods within the ASEAN region and is working with the Ministry of Finance and Revenue for trade facilitation, streamlined customs procedures, and tariff reductions; the Ministry of Science and Technology and Ministry of Health for standardisation and conformity assessment matters; and the Ministry of Agriculture and Irrigation for sanitary and phytosanitary certificates. The MoC is mainly responsible for rules-of-origin and non-tariff measures in the ASEAN Trade in Goods Agreement. The MoC is the issuing authority for preferential Certificates of Origin (COOs) within ASEAN and its dialogue partners such as Australia, India, Japan, New Zealand, the People's Republic of China, and the Republic of Korea. The MoC also issues other preferential COOs such as the Generalized System of Preferences (GSP) (Form A) offered by developed countries, the Preferential Tariffs for Least Developed Countries by the Republic of Korea, the Duty-Free Tariff Preference Scheme for Least Developed Countries by India, as well as COOs for ASEAN FTAs, such as Form D, Form E, Form AI, Form AJ, Form AK and Form AANZ.

1.2 Questions

This survey, the first to explore the utilisation of FTAs in Myanmar in parallel with other ASEAN countries, can help us better understand how FTAs are used by manufacturing and services firms in Myanmar, through answers to questions such as: Which organisations are responsible for issuing COOs in Myanmar? How many firms in Myanmar are using FTAs? To what extent do firms understand FTAs? Which firms best

understand and see the usefulness of FTAs? How do firms use FTAs in their business and investment decisions? What constraints do firms encounter in applying for and using FTAs? What should be done to increase the utilisation of FTAs?

1.3 Objectives

The objectives of the survey are to provide information on the utilisation of FTAs, including COOs, by manufacturing and services firms based in Yangon; understand the role of government institutions in facilitating the use of FTAs; and examine the constraints on using FTAs and the concerns of private firms on using FTAs. The objectives aim to provide policy recommendations for opening more opportunities for firms in the region through bilateral and multilateral trade.

2. Key Findings

2.1. Use of FTAs by Manufacturing Firms

2.1.1 Use of FTAs, by Firm Characteristic

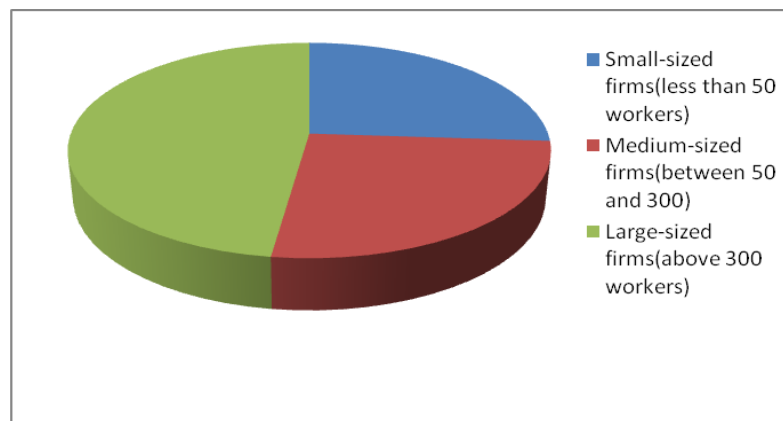
The survey was conducted in 52 manufacturing firms. The number of full-time workers in the firms varies from five to over 7,000 workers, with an average of 703 workers. Excluding the outlier number (i.e. 7,000 workers), the average firm size is of 579 workers. Most of the firms in the survey are large, comprising 54 percent of total number of firms using COOs. Small and medium-sized enterprises using COOs are represented equally at 12 firms each.

Table 8.1. Size of Firms, by Number of Full-Time Workers

Size		No. of Firms
Small firms	Less than 50 workers	12
Medium-sized firms	Between 51 and 300 workers	12
Large Firms	Above 300 workers	22

Source: Survey data.

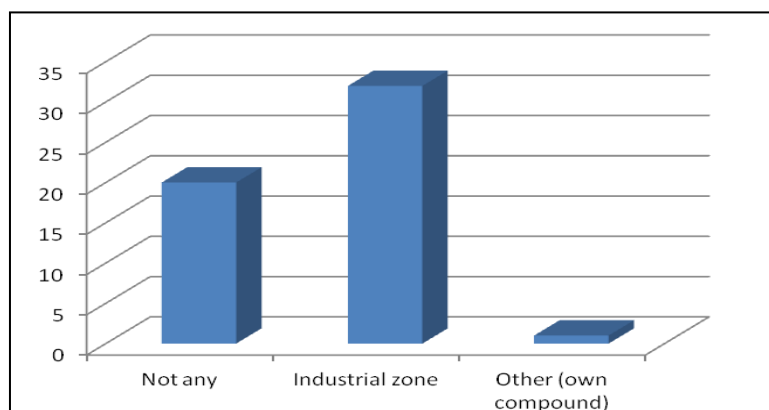
Figure 8.1. Number of Firms, by Size



Source: Survey data.

Only 44 firms provided the number of their full-time workers. The rest, both users and non-users of COOs, responded that all their workers are temporary and recruited in specific areas where their main production activities are located. The production of rattan ware is a good example because activities are mainly in areas where both raw materials and skilled labour are available at the lowest cost. Although the number of workers may depend on the quantity produced, most rattan firms employ hundreds of workers during the working season.

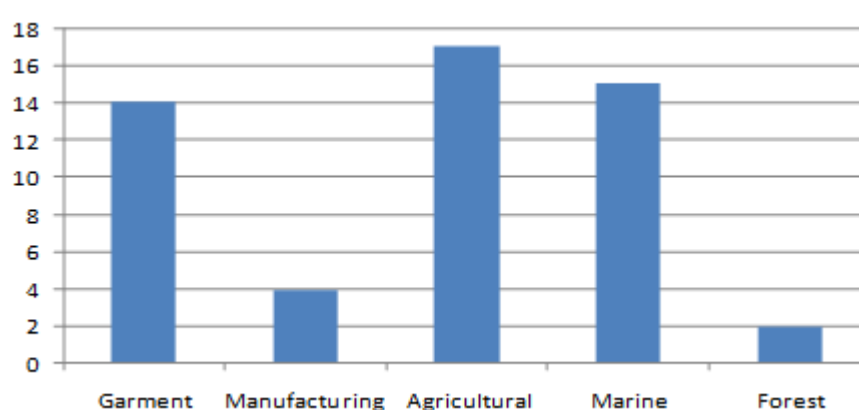
Figure 8.2. Location of Manufacturing Firms



Source: Survey data.

Regarding ownership, almost all firms (51 firms) are domestically owned while one is a joint venture, with 65 percent of paid-in capital owned by a Singaporean partner. The locations of firms are categorised as own compound, industrial zone, or 'not any'. The category of 'not any' refers to firms located neither in any industrial zone nor in own compound. One firm is located in a compound provided by a semi-government organisation, 20 are operating outside Yangon as they are agriculture-related firms, and 30 firms are in industrial zones.

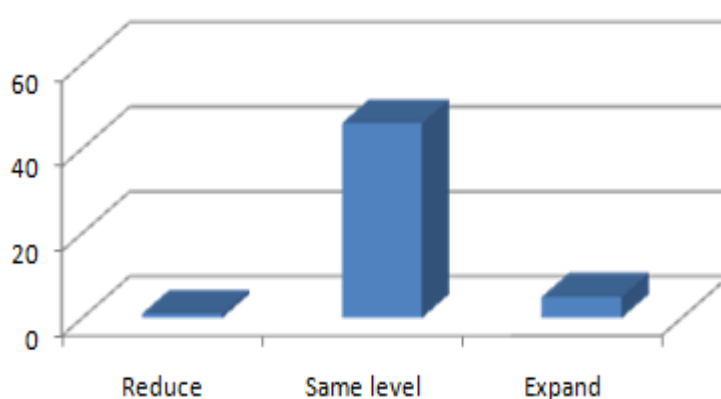
Figure 8.3. Composition of Manufacturing Firms



Source: Survey data.

Since Myanmar's exports are mainly primary products, most firms surveyed are involved in the processing and manufacturing of agricultural products. None of the firms surveyed is fully aware of the relationship between the use of FTAs and business planning, although some are planning to expand their businesses.

Figure 8.4. Future Business Plans



Source: Survey data.

In response to the questions about FTAs and business planning, the manufacturing exporters expressed the need to learn more about free trade and the use of FTAs. While most of them intend to maintain their existing market positions, some 10 percent are planning to expand their businesses. Only one firm states that it may reduce its level of business depending on the future business situation in the region.

2.1.2. Survey Results of the Use of FTAs, by Agreement

Firms in Myanmar mostly use ASEAN FTA and ASEAN–China FTA and, accordingly, Form D and Form E. The majority of exporting firms in the survey are cutting-making-packaging-type factories manufacturing apparel and textiles and processing marine products for export. These firms understand that the use of COOs is important for exporting their products, as well as for importing raw materials.

Among the 52 exporters of manufacturing products, 50 use one or more FTAs, but are not familiar with the term ‘FTA’, although they are familiar with COOs. The majority of firms that use and are able to specify the types of COOs they utilise are large firms. Among them, 16 firms can specify the types of COOs they are using, in which eight exporters use Form A, and two firms use Form B, Form D, and Form E, indicating that some large firms use more than one type of COO. Most firms cannot specify the types of COOs they use, but understand that they use the COO to prove their products are exported from Myanmar. All manufacturing exporters know the ASEAN FTA as Form D. The firms that use Form A are all exporters of garments. Table 8.2 summarises the information on the use of FTAs by firms’ characteristics.

Table 8.2. The Use of FTAs in Manufacturing Firms

No.	Type of COOs	Number of firms using the particular	Size in terms of			Location			Exporting / Importing
			L	M	S	Main office	Regional head quarters	Plant/ Factory	
1	Form A (GSP)	8	6	1	1	1	1	6	Exporter
2	Form B (MFN)	2	1	1		1		1	Exporter
3	Form D	2							Exporter
4	Form E	2	1	1		1		1	Exporter
5	Form AANZ								
6	Form AI								
7	Form AJ								
8	Form AK	2	1	1				2	Exporter
9	Others*	50	22	10	12				Exporter

AANZ = ASEAN–Australia– New Zealand, AI = ASEAN–India, AJ = ASEAN–Japan, AK = ASEAN–Korea, COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences, MFN = most-favoured nation.

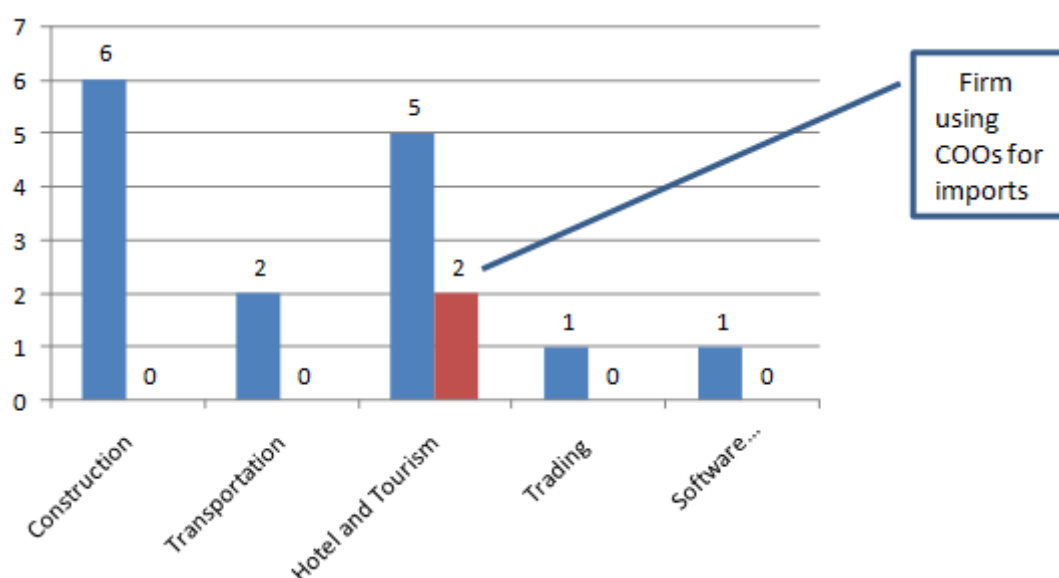
*Firms using COOs but cannot classify the types of COOs they applied for.

Source: Ministry of Commerce.

No firm in the survey uses COOs for partner countries, i.e. Form AANZ, Form AI, and Form AJ. It was found that while border trade with the People’s Republic of China and India is significant for Myanmar, its trade with New Zealand is insignificant. Firms that used to export to Japan previously used the GSP scheme and used Form A. However, with the ASEAN +1 trade agreement, they will need to use Form AJ.

2.2. Use of FTAs by Services Firms

With the assumption that construction, hotel, and tourism industries will make increasingly important contributions to Myanmar’s services sector, the survey of services firms focused in on these types, as well as telecommunications services, given the latter’s promising role in the sector. The survey was carried out in 15 services firms consisting of six construction firms, one city transportation firm, one maritime transportation firm, four hotel and tourism firms, one trading firm, and one telecommunications firm, whose headquarters are in Yangon, and one hotel in Monywa, upper Myanmar.

Figure 8.5. Services Sector Firms


COO = Certificate of Origin.

Source: Survey data.

Among the 15 services sector firms in the survey, two firms in tourism and hotel services say they use COOs for importing inputs for their hotels, but cannot specify the type of FTA. Therefore, they are seen to be lacking knowledge in the use of FTAs.

2.2.2. Survey Results of the Use of FTAs, by Agreement

Table 8.3. Use of FTAs in Services Firms

Number of firms using FTAs/ COOs	Size in terms of full			Location			Exporting / Importing
	L	M	S	Main office	Regional head quarters	Plant/ Factory	
*2	2			2			Importer

COO = Certificate of Origin, FTA = free trade agreement.

Note : *Firms using COOs but cannot classify the types of COOs they applied for.

Source: Survey data.

Clearly, Myanmar's services firms lack knowledge about the use of FTAs, even though they use imported raw materials and intermediate goods. However, they like to learn about the advantages of the use of FTAs through official websites. One respondent from a telecommunications firms expressed the importance of market potential in

expanding his firm's services, but said no emphasis was necessary on using FTAs in his firm's business plan. It is seen that the services firms' knowledge of and use for FTAs remain very low.

2.3 . Official Data on the Use of FTAs Over the Years, by Agreement

The MoC is the issuing authority for two types of preferential COOs for ASEAN FTAs: (a) non-reciprocal basic COOs and (b) reciprocal basic COOs. Non-reciprocal basic COOs include Form A (GSP), Preferential Treatment for Least Developed Countries (Republic of Korea's GSP), and Non-Duty Free Tariff Preference from India (Form DFTP). Reciprocal basic COOs are the ASEAN Trade in Goods Agreement (Form D), ASEAN–China FTA (Form E), ASEAN–Korea FTA (Form AK), ASEAN–Japan Comprehensive Economic Partnership (Form AJ), ASEAN–India FTA (Form AI), and ASEAN–Australia- New Zealand FTA (Form AANZ).

Myanmar enjoyed the ASEAN Integration System of Preferences for exports to Thailand and Malaysia until 2010. These were special preference for Cambodia, the Lao People's Democratic Republic, Myanmar, and Viet Nam offered by Thailand and Malaysia. Beginning January 2010, those countries were able to export freely to other ASEAN 6 before the system was terminated.

Table 8.4. Types, Number of COOs, and the Value of Exports Using COOs

No.	Types of COO	2007-2008		2008-2009		2009-2010		2010-2011		2011-2012	
		Copies	Value*	Copies	Value*	Copies	Value*	Copies	Value*	Copies	Value*
1	FormD	1485	65.013	2569	82.223	2093	100.262	2497	139.699	3082	200.153
2	AISP (Thailand)	561	7.617	287	4.303	191	7.425	16	0.135	-	-
3	AISP (Malaysia)	99	3.301	90	2.743	116	2.846	74	2.619	-	-
4	FormE	2140	46.352	5817	114.702	8396	156.601	8740	201.495	7455	136.432
5	SPT	2470	124.028	4871	203.433	1848	70.982	897	41.090	225	8.994
6	AK Form	646	12.871	1123	86.392	1869	46.193	3714	115.332	3839	183.991
7	AJ Form	-	-	15	0.554	31	1.107	28	0.821	107	6.098
8	AI Form	-	-	-	-	3	0.489	157	4.529	257	8.496
9	AANZ Form	-	-	-	-	2	0.004	-	-	3	0.203
10	FormA	4039	187.048	4326	191.109	4304	213.235	6176	283.860	6675	363.712
11	Korea GSP	254	3.825	307	5.954	650	16.606	648	17.518	415	15.038
12	DFTP Form	-	-	-	-	4	0.067	2	0.002	-	-
Grand Total		11694	450.055	19405	691.413	19507	615.817	22949	807.100	22058	923.117

AANZ = ASEAN–Australia- New Zealand, AI = ASEAN–India, AISP = ASEAN Integration System of Preference, AJ = ASEAN–Japan, AK = ASEAN–Korea, COO = Certificate of Origin, DFTP = Duty-Free Tariff Preference (from India), GSP = Generalized System of Preferences, SPT = Special Preferential Tariff

*Values are expressed in US\$ million.

Source: MoC, Myanmar.

2.4 Perceptions of How FTAs Affect Decisions to Invest, by Firm Size

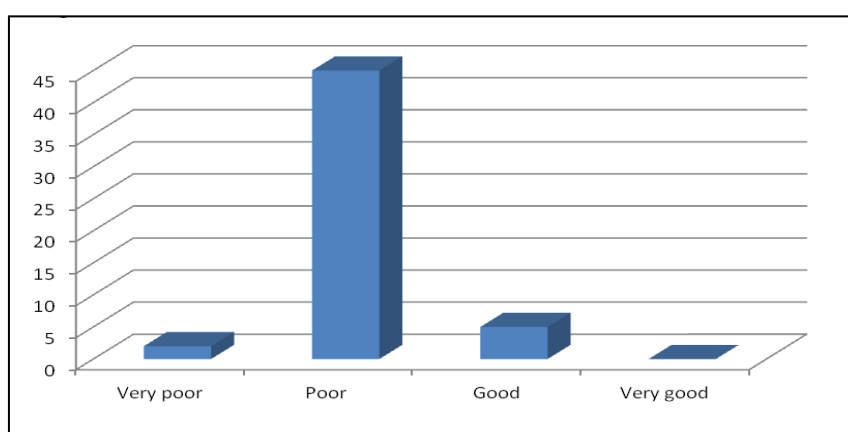
Many exporters need better knowledge of FTAs. By their admission, they do not experience the advantages of using FTAs as all of them make investment decisions independent of FTAs. Almost all exporters assume that the benefits of using FTAs go toward their trading partners and not to them. Some exporters have knowledge of the use of FTAs but continue to trade without COOs with their existing buyers, especially from the People's Republic of China along the border. Furthermore, they feel that the use of FTAs will bring no additional profit but will only require more paperwork.

2.5 Constraints on Using FTAs, by Firm Size

For the manufacturing and services firms surveyed, the main reason for using FTAs is to fulfil requirements set by the authorities. All firms have attended training courses and seminars on the use of FTAs, but they assume that applying for COOs is a must and they simply follow the requirements.

Regarding the reasons for not using FTAs, some firms say they lack information while others respond that FTAs only make a negligible difference. No firms complain about the number of documents required and official costs for applying for FTAs, but they prefer to access information and application procedures online to save time and trouble.

Figure 8.6. Access to Information on FTAs



FTA = free trade agreement.

Source: Survey data.

The constraints are in two categories: knowledge and procedures. Information on the advantages of using FTAs is not very accessible; only a few managers and manufacturing exporters are well informed about the advantages of FTAs. All of them respond that the procedures for applying for FTAs are complicated, and so they rely on agents to apply for them. They also prefer an online system of application.

2.6 Perceptions of the Costs and Procedures of Applying for COOs, by Firm Size

No firms complain about the costs of applying for COOs. Surveyed firms say that the charges are reasonable and there are no unnecessary transaction costs for one-day services, suggesting that COOs can be obtained within one day if all the required documents are submitted. However, respondents add that the preparation of the required documents, such as approvals from relevant ministries and departments for some types of products and values, can take from a few days up to a few weeks. Some exporters and importers accomplish all the required steps through broker firms that export and import on behalf of them.

2.7 Main Sources of Information About FTAs

The main sources of information regarding the types, uses, and advantages of FTAs are government agencies, through training and bulletins provided by the MoC and the Union of Myanmar Federation of Chambers of Commerce and Industry. However, almost all surveyed firms suggest that the government should provide more support to help businesses understand more about FTAs through the Internet. They also claim that customs procedures should be more consistent, instead of constantly being changed, to make FTAs more attractive.

2.8 Interesting Issues

It can be seen from the survey that FTAs in Myanmar are not yet effectively utilised. As far as perceptions of firms' use of FTAs are concerned, most remain unfamiliar with the term 'FTA' and do not realise that a COO is a form of FTA. Most firms assume that FTAs only benefit the buyers (importers) but not the sellers (exporters). Some manufacturing exporters even view FTAs as a kind of trade barrier. These firms, formed by experienced traders, had exported to and imported from neighbouring countries such as the People's Republic of China and India when border trade was illegal. They understand the use of FTAs because the MoC supports them with training and awareness of programmes on free trade. Among those surveyed, the 'cutting-making-packaging' firms best understand FTAs because they have experienced the benefits through formal trade routes. There are also firms surveyed that enjoy the benefits of border trade using few or no documents, via alternative routes that avoid official checkpoints. Such firms may not bother using FTAs but instead buy and sell commodities in the simplest, albeit illegal, way.

3 Key Recommendations

Clearly, exporters and importers need more in-depth knowledge on the use of FTAs. For associated organisations, they should coordinate and collaborate among each other to ensure easier and faster processing of the documents needed to apply for COOs. Due to delays, exporters and importers prefer to apply online so as to reduce the transaction costs. Most importantly, information from ASEAN about the use of FTAs

should be disseminated to traders through the most widespread mass media. Although a website (www.umfcci.net/ecoo) is available for application for COOs, this information has not been widely promoted via mass media. Also, the use of FTAs needs to be studied, not only through the COOs data issued by the MoC but also through data from Myanmar's Customs Department so that the actual conditions in the use of FTAs can be examined.

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CHAPTER 9

Survey Report on the Use of Free Trade Agreements in the Philippines

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The Philippines involvement in the free trade agreements (FTAs) has mainly been as a member of ASEAN, though the ASEAN Free Trade Area (AFTA) and through the various ASEAN+1 agreements, and a lone bilateral free trade agreement with Japan. While the Government of the Philippines is expected to progressively reduce preferential tariffs to zero, Philippine firms have historically been slow to take advantage of FTAs. This survey reaffirms that this awareness and the utilisation of FTAs need significant improvement among manufacturing and services firms. As the main source of information for FTAs, the government needs to increase the efficiency, scope, and reach of its promotional and technical training programmes and to rely further on technology to deliver results. These efforts to enhance FTA utilisation are directly linked with the easing of rules of origin (ROO) compliance and administration. At the national level, these efforts include reforms to promote electronic Certificates of Origin (COOs) and self-certification, and linkage to the national single window. This will improve timelines and ease the entry of micro, small, and medium-sized enterprises. Regional efforts to harmonise ROOs can increase FTA utilisation across ASEAN member countries and pave the way for the forthcoming Regional Comprehensive Economic Partnership (RCEP).

Keywords: Free Trade Agreements, Philippines, Certificate of Origin, FTA utilisation

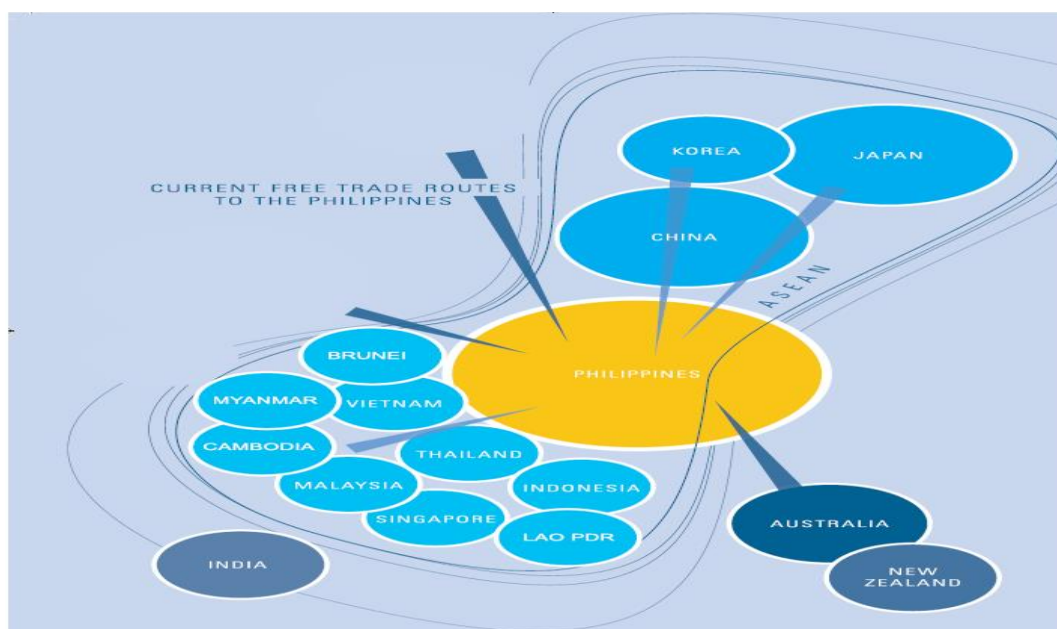
JEL Classification: F1, F2, F6, F610

1. Context

1.1. Background

The Philippines has been more cautious in its policy on free trade agreements (FTAs) than some of its Association of Southeast Asian Nations (ASEAN) neighbours. As a policy, the use of FTAs has not been given much attention until 2008, with the forging of the Philippines–Japan Economic Partnership Agreement (PJEPA), the country’s first bilateral FTA with Japan. The involvement of the Philippines in FTAs or regional trade agreement formation has mainly been as a member of ASEAN or the ASEAN Free Trade Area (AFTA) and through the various ASEAN+1 agreements: ASEAN-Australia and New Zealand FTA (AANZFTA), ASEAN-China FTA (ACFTA), ASEAN-India FTA (AIFTA), ASEAN-Japan Comprehensive Economic Partnership (AJCEP), and ASEAN-Korea FTA (AKFTA). The country’s involvement in FTAs is illustrated in Figure 9.1.

Figure 9.1. Free Trade Routes to the Philippines



Source: Taken from *Department of Trade and Industry Doing Business in Free Trade Areas Handbook* (2011), page iv (Cover and Foreword)

Based on various FTAs, the Philippines’ tariff profile and percentage of duty-free tariff lines are summarised in Table 9.1. As the first FTA signed by the country, the ASEAN Trade in Goods Agreement (ATIGA)¹ covers almost 100 percent of goods. Tariff elimination

¹ An improvement over the ASEAN Free Trade Area–Common Effective Preferential Tariff (AFTA–CEPT) Scheme, it comprises both tariff and non-tariff elements (e.g. trade disciplines on sanitary and phytosanitary measures, customs procedures, and trade facilitation, among others).

is expected to be enforced by 2010 for ASEAN-6 (i.e., Brunei, Indonesia, Malaysia, Philippines, Thailand, and Singapore) and by 2015, with flexibility to 2018, for Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV). For the other ASEAN plus FTAs, the government is expected to progressively grant preferential tariffs with the end goal of zero tariffs on substantially all goods for the respective FTA at later agreed end dates.

Table 9.1. Philippines' Tariff Profile Under Various FTAs

FTA Agreement	Issuance/ Date of Implementation (Enactment)	2010		2011		End Dates
		Simple Average Tariff	% Duty-free Tariff Lines to All Goods	Simple Average Tariff	% Duty-free Tariff Lines to All Goods	
AFTA-CEPT/ATIGA	2006 (EO 489)	0.00	Approx 100.00	0.00	Approx 100.00	2015
ASEAN-China	2005 (EO 485)	0.35	92.24	0.35	92.24	2018
ASEAN-Korea	2007/2008 (EO 638)	0.44	89.69	0.44	89.69	2016
ASEAN-Japan	2009/2010 (EO 852)	2.33	63.22	1.55	71.45	2018
ASEAN-Australia/New Zealand	2009/2010 (EO 851)	3.38	59.52	3.08	60.76	2020
ASEAN-India	2011 (EO 25)			4.90	4.28	2022
Philippines-Japan	2008 (EO 767)	2.68	64.63	2.38	65.57	2018

AFTA-CEPT = ASEAN Free Trade Area-Common Effective Preferential Tariff, ATIGA = ASEAN Trade in Goods Agreement, EO = executive order, FTA = free trade agreement.

Source: Individual Action Plan (AIP) 2012 submitted by the Philippines to the Asia-Pacific Economic Cooperation (APEC) (compiled by Department of Trade and Industry).

A more recent development² was the launch in 2012 of the negotiations for the Regional Comprehensive Economic Partnership (RCEP) involving ASEAN and its six East Asian dialogue partners (People's Republic of China, Japan, Republic of Korea, Australia, New Zealand, and India).

²This part and the succeeding discussions on RCEP and Trans Pacific Partnership (TPP) draws from Policy Updates on International Economic Cooperation, p. 17-19 (Chapter 2 of PIDS Economic Policy Monitor 2012)

RCEP will cover trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues.³ It works on an open accession principle, which allows participation of any of the ASEAN FTA partners either from the outset or whenever they feel ready to join. It also takes into consideration the different levels of development of the participating countries, thereby including appropriate forms of flexibility. RCEP is potentially the largest trading arrangement in the region and could lead to the creation of an integrated market spanning 16 countries with a combined market population of more than three billion people and a combined gross domestic product of US\$19.78 trillion based on 2011 figures.⁴ Another major ongoing development is the US-led Trans Pacific Partnership (TPP), a trade alliance that now represents more than 658 million people, with a combined gross domestic product of US\$20.5 trillion or 26 percent of global trade.⁵ The ultimate goal of this partnership is to include additional Asia-Pacific countries⁶ in successive clusters to eventually cover a region that represents more than half of global output and over 40 percent of world trade.⁷ TPP, labelled as the 21st-century regional agreement, is a vehicle for Asia-Pacific-wide economic integration, and a 'high-quality agreement' because of its wider FTA coverage and deeper and wider liberalisation of the services sector and investments. It also calls for stronger intellectual property rights, stricter labour and environmental standards, regulatory discipline of state-owned enterprises, and transparency, among others.

³As listed in the Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership. Document downloaded from <http://www10.iadb.org/intal/intalcdi/PE/CM%202013/11581.pdf> (accessed 22 November 2012).

⁴Quoted from <http://www.bangkokpost.com/news/local/322261/asean-leaders-begin-rcep-negotiations> (accessed 22 November 2012)

⁵ Estimate taken from <http://www.globalmeatnews.com/Industry-Markets/Mexico-and-Canada-become-TPP-members> (accessed 22 November 2012).

⁶ The Republic of Korea, Japan, Taiwan, the Philippines, and Thailand are among the Asia-Pacific countries that have expressed their interest in TPP membership.

⁷ TPP Frequently Asked Questions <http://www.ustr.gov/sites/default/files/TPPFAQ.pdf> (Accessed 22 November 2012).

1.2. Questions

The Philippines has concluded seven FTAs with new partnerships under discussion. In assessing the impact of FTAs on trade, investment, and other economic activities in the Philippines, it is worth studying whether firms have joined in and availed themselves of the benefits available from these FTAs. Previous studies indicated a relatively low utilisation of FTAs in the Philippines (Hiratsuka, et al, 2009; Baldwin, 2007 and Avila and Manzano, 2007 as cited in Wignaraja, et al, 2010). What constrains firms from using FTAs? What could and should be done to increase utilisation of FTAs? The Certificate of Origin (COO), a requirement for a firm to be able to access preferential tariff rates, is a crucial feature of FTAs. How do firms regard the procedures for obtaining COOs? Better understanding these issues will help policymakers formulate and implement appropriate policies and programmes.

1.3. Objectives

This paper aims to examine the use of FTAs in the Philippines to provide inputs to designing policy support to optimise their use. A firm survey, covering manufacturing and services businesses, was carried out to gain broader insights and better understanding of the extent of use of FTAs, and identify the constraints preventing firms from using FTAs. Specifically, the survey aimed to provide evidence on the use of FTAs by the private sector, illustrate the use of FTAs as demonstrated by the use of COOs, explain the constraints on using existing FTAs, and provide inputs to designing policy support to optimise the use of FTAs.

2. Key Findings

2.1. Use of FTAs in the Manufacturing Sector

Table 9.2a shows the major characteristics of surveyed manufacturing firms by size, location, ownership, and trading activity. The sample is dominated by medium-sized and large enterprises that have trading activities abroad. The majority of the firms included in the survey are either fully or partially owned by foreigners, most of which are in industrial or economic zones.

Table 9.2a. Characteristics of Surveyed Firms

By Size	Small	Medium	Large	Unknown	Total
Number	20	45	43		108
Percent	18.5	41.7	39.8		100.0
By Ownership	Domestic	Foreign	Joint Venture	Unknown	Total
Number	26	41	34	7	108
Percent	24.1	38.0	32.4	5.6	100.0
By Exporting Activities	Exporting only	Importing only	Exporting & Importing	Unknown	Total
Number	15	10	76	7	108
Percent	13.9	9.3	70.4	6.5	100.0

By Location	Not in any particular zone	Industrial zone	Bonded zone	Export processing zone	Special economic zone	Free trade zone	Unknown	Total
Number	32	8	1	16	31	19	1	108
Percent	29.6	7.4	0.9	14.8	28.7	17.6	0.9	100.0

Source: Firm survey.

2.1.1. The Use of FTAs, Analysed by Firm Characteristics

Of the 108 firms that responded, 33 or 30.6 percent are FTA users. These are mostly medium-sized industries with 51 to 300 workers. The survey results showed a higher concentration of FTA users among firms with foreign equity. Over 75 percent, or 25 out of the 33 FTA users, are firms fully or partially owned by foreigners, while only seven of the 26 domestic firms state that they use FTAs (Tables 2b–2c).

This utilisation rate may show a weak inclination to use FTAs in trade transactions, especially since a huge bulk of the sample are exporters and importers. Although not shown here, survey figures and official data (based on results of the firm survey and data from the Philippine Statistics Authority) reveal that these firms mostly export to countries such as the United States (US) and the European Union (EU), with which the Philippines has no outstanding FTA, yet where firms still enjoy lower tariffs because of the Generalized System of Preferences (GSP) (Wignaraja, et al, 2010). Other major export destinations are Japan and the People's Republic of China.⁸ In these cases, the Philippines' FTAs with these countries are fairly recent, perhaps partly explaining the low FTA utilisation rate among the surveyed firms.

⁸The 2012 First Semester Report of the Philippine Statistics Authority identified Japan, the US, the People's Republic of China, and Germany as the Philippines' top export country destinations. As an economic block, the EU ranked fourth in the country's list of top export markets for August 2012.

Moreover, close to 70 percent of the firms surveyed are in export processing zones and special economic zones. These firms tend to have a higher FTA utilisation rate (Table 2c), maybe because exporting firms outnumber importing firms in the sample. Studies (Wignaraja, et al, 2010; Medalla and Rosellon, 2011) show that the use of FTAs complements the tariff exemption privileges on inbound raw materials and equipment offered to firms in economic zones. Firms view incentives granted by economic zones as important to promote and maintain investments, while preferential tariff rates under FTAs, which are just as important, reduce costs and increase the chances of gaining markets abroad (Medalla and Rosellon, 2011).

In terms of sector classification, survey results indicate that FTA use is highest in the automotive and electronics sectors and the apparel and leather clusters. This is consistent with Wignaraja, et al, (2010), who noted high FTA utilisation among the surveyed automotive firms.

Table 9.2b. Firm Characteristics of FTA Users, by Size and Ownership

	FTA User	% of Firms	Total
Total	33	30.6	108
Firm size			
Small	1	5.0	20
Medium	17	37.8	45
Large	15	34.9	43
Ownership			
100% Filipino-owned	7	26.9	26
100% Foreign	14	34.1	41
Joint venture	11	32.4	34
No response	1	14.3	7

FTA = free trade agreement.

Source: Firm survey.

Table 9.2c. Firm Characteristics of FTA Users, by Location and Activity

	FTA User	% of Firms	Total
Total	33	30.6	108
Location			
Not in any particular zone	10	31.3	32
Industrial zone	2	25.0	8
Bonded zone	0	-	1
Export processing zone	2	12.5	16
Special economic zone	12	38.7	31
Free trade zone	7	36.8	19
No response	0	-	1
Exporter			
No	4	26.7	15
Yes	29	31.9	91
Importer			
No	2	10.0	20
Yes	31	36.0	86

FTA = free trade agreement.

Source: Firm survey.

2.1.2. Survey Results on FTA Use, Analysed by Agreement

Central to FTA use are the rules of origin (ROOs) or the set of criteria used to determine where goods are made. Firms have to prepare documents and secure a COO to prove that a good is produced in a particular country and qualifies for a preferential tariff. ROOs vary with each FTA, so different COO forms exist for different FTAs. Based on the COO forms used by the surveyed firms, Table 9.3 measures FTA utilisation by type of agreement. Greater usage for Forms A and D, which cover export products under GSP and AFTA, respectively, are shown. Since the country's preferential trade experience is primarily with GSP and AFTA, exporting firms are presumably more familiar with these forms than with those associated with recently concluded FTAs. It could also be an indication of closer trade relations between the Philippines and the US and ASEAN. As a former US colony, the Philippines has always maintained strong trade relations with US, accounting for nearly 13-20% of the Philippine exports from 1999-2014. Similarly, the Philippines' exports to ASEAN has increased, albeit modestly, from 7.2% in 1999 to 16.87% in 2014 (BSP)⁹. It should be recalled that AFTA, implemented in the early 1990s, was the

⁹ Bangkok Sentral Pilipinas (BSP) Direction of Trade, Online Database. Accessed: August 10, 2015

first full FTA of the Philippines and, presumably, firms are more aware of AFTA than of other FTAs.

Not explicitly stated but reported under 'others' are COO issuances for country destinations, mostly Japan (Figure 9.2), likely because PJEPA was not included among the choices of FTA in the questionnaire. PJEPA even overtook ATIGA in terms of the number of COOs issued by the Bureau of Customs (BOC), the country's COO-issuing authority (Table 9.4). Many of the firms that answer 'others', therefore, likely use the bilateral FTA with Japan.

Table 9.3: FTA Use, by Agreement*

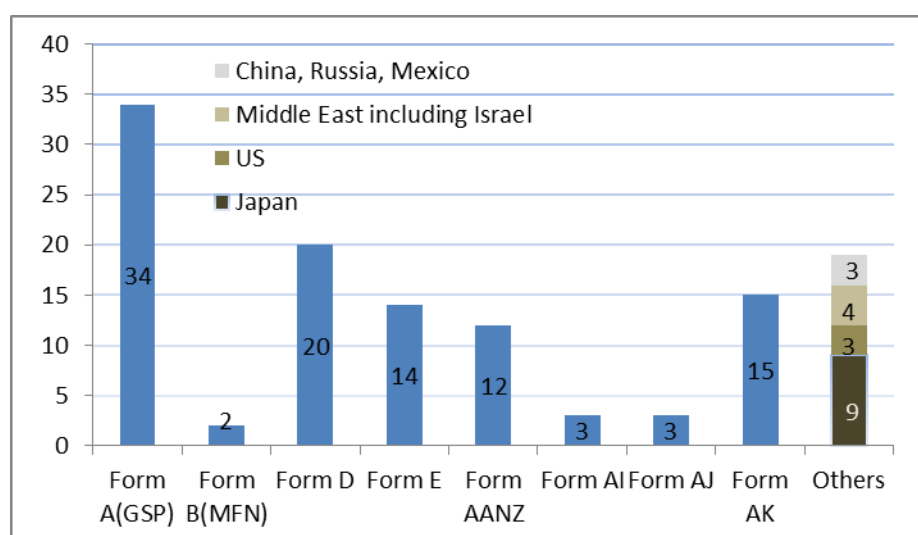
	For Export	For Import
Total	122	63
Form A (GSP)	34	9
Form B (MFN)	2	2
Form D (ATIGA)	20	10
Form E (ACFTA)	14	12
Form AANZ	12	5
Form AI	3	4
Form AJ	3	3
Form AK	15	7
Others	19	11

AANZ = ASEAN-Australia and New Zealand, ACFTA = ASEAN-China Free Trade Agreement, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, FTA = free trade agreement, GSP = Generalized System of Preferences, MFN = most-favoured nation, ATIGA = ASEAN Trade in Goods Agreement.

Note : *Firm survey responses on use of COOs

Source: Firm survey.

Figure 9.2. FTA Use, by Agreement (Exporters)



AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, FTA = free trade agreement, GSP = Generalized System of Preferences, MFN = most-favoured nation, US = United States.

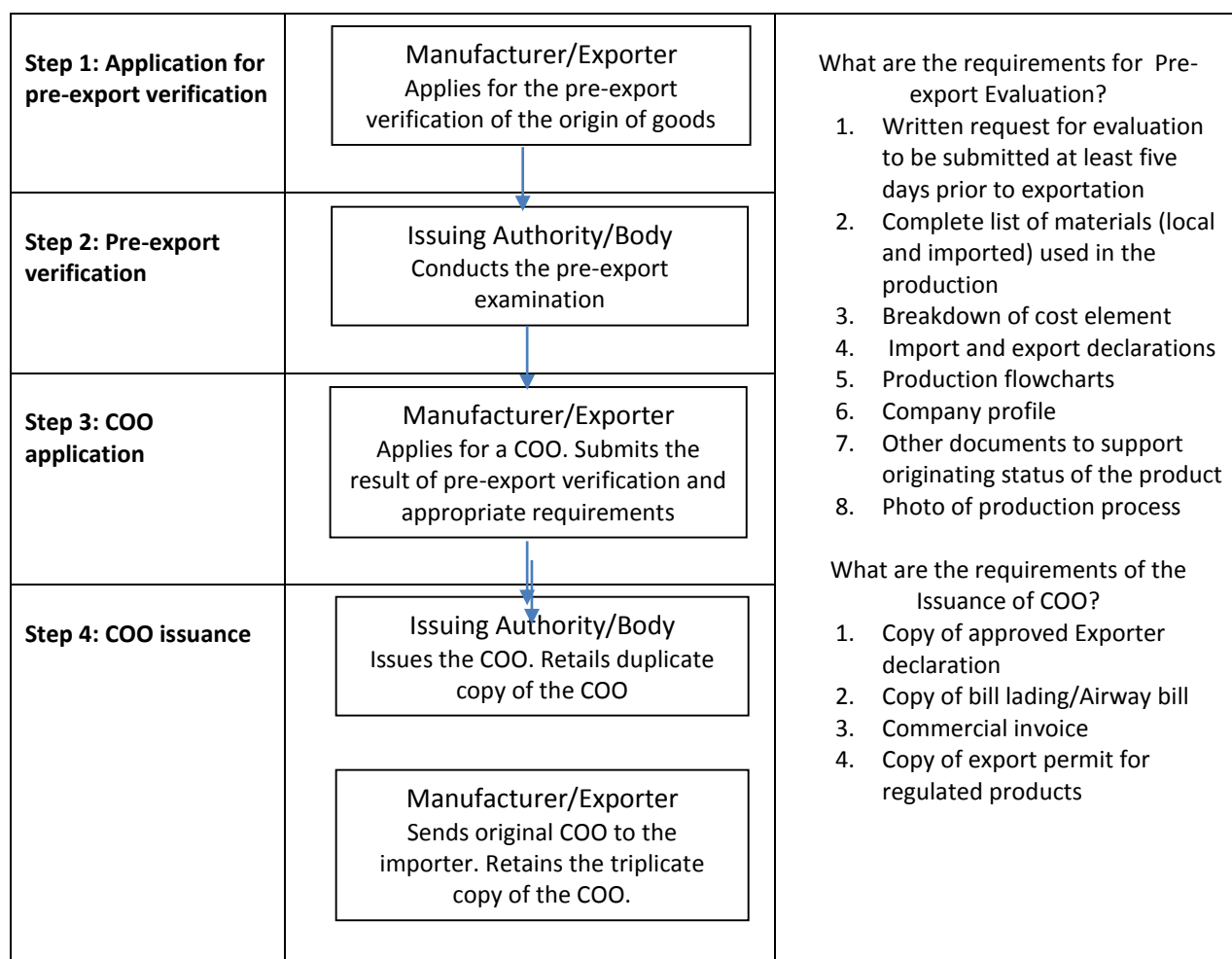
Source: Firm survey.

2.1.3. Official Data on the Use of FTAs, by Agreement, Over the Years

The Philippines uses a single guideline in the issuance of COOs for all its FTAs for ASEAN, various ASEAN+1, and PJEPA. The BOC, the sole authority¹⁰ to issue and receive preferential COOs for FTA usage, facilitates the entire process, from pre-export verification, followed by evaluation of whether the export product will qualify for preferential tariff treatment, up to the issuance of a COO.

Figure 9.3 summarises the process of COO issuance and lists the necessary documents for pre-export evaluation and issuance of a COO. The application and issuance of COOs are done manually.

¹⁰For non-preferential COO or those that use the MFN rates, the Philippine Chamber of Commerce and Industry is also an authorised body.

Figure 9.3. Operational Certification Procedures for ROO

Source: Bureau of Customs.

As confirmed by BOC officials, obtaining COOs takes about five working days for pre-export verification, two hours for verification of supporting documents, and 15 minutes for COO issuance, provided the supporting documents are complete.

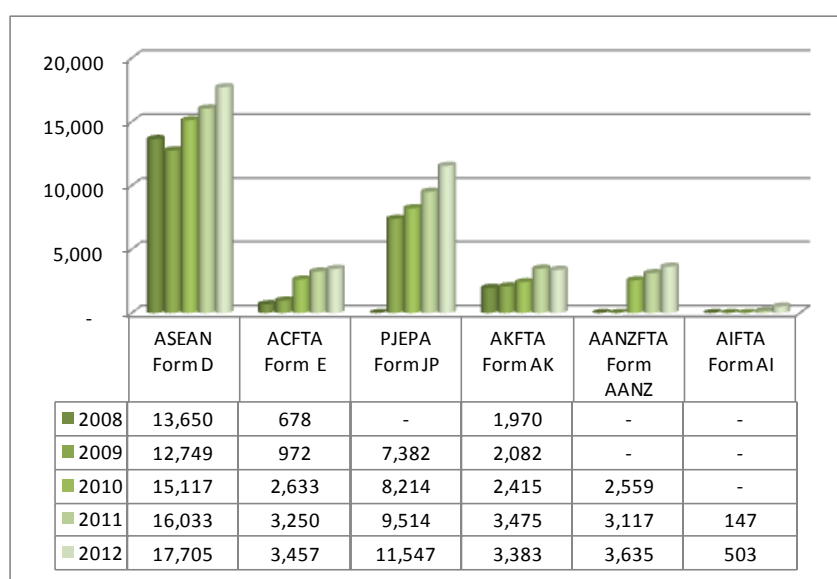
From 2008 to 2012, data from the BOC suggest an increasing utilisation of FTAs in terms of the number (and corresponding export value) of COOs¹¹ issued for exporters. Total COOs issued increased from 16,298 to 40,230 or about 147 percent (Figure 9.4). COO issuances are highest for ATIGA (Form D), followed by Philippines-Japan EPA (Form JP) and then AKFTA (Form AK). The number of COOs issued under ACFTA (Form E) started relatively

¹¹This is the only information available from the BOC and represents the Port of Manila only, covering more than 50 percent of COO issuances for export transactions. Given that the application and issuance of COOs are still done manually, a customs official said there is no system yet of compiling reports from all collection districts. This might be why disaggregated data in terms of size, ownership, products and industry, and location of firms using COOs are not yet available. The relevant division in the bureau is working on this problem.

low but significantly increased. PJEPA became operational only in 2009, and thus no COOs were issued before then, but the utilisation rate quickly overtook that of the earlier AKFTA and ACFTA.

In terms of export value, PJEPA overtook ATIGA in 2009 (Figure 9.5). There also appears to be a preference for the bilateral partnership rather than AJCEP, most likely because PJEPA was implemented earlier.¹² AANZFTA entered into force only in 2010, and thus there were no issuances in 2008 and 2009, but after that the number immediately rivalled the figures for AKFTA and ACFTA. AIFTA was only implemented in 2011, thus data were only recorded for Form AI in 2011–2012.

Figure 9.4. Number of COO Issuances by FTA*

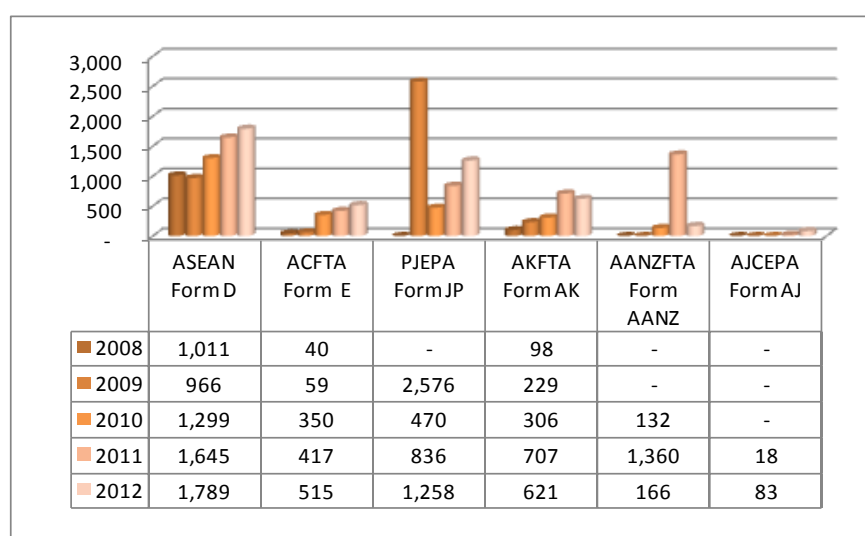


AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AIFTA = ASEAN-India Free Trade Agreement, AKFTA = ASEAN-Korea Free Trade Agreement, ASEAN = Association of Southeast Asian Nations, COO = Certificate of Origin, FTA = free trade agreement, PJEPA = Philippine-Japan Economic Partnership Agreement.

*Represents all the COOs issued to exporters for all kinds of qualified products from the Philippines (i.e. all sectors including oil and gas) but for the Port of Manila only, covering more than 50 percent of COO issuances for export transactions.

Source: Export Division–Bureau of Customs.

¹² PJEPA was implemented in 2008 while AJCEP was in force in early 2010. Awareness of PJEPA is most likely higher than AJCEP. Upon verification with the BOC, records show that exporters are using PJEPA and none of them are availing themselves of AJCEP preferential rates.

Figure 9.5. Value of Cargo Covered by COO* (US\$ million)

AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AJCEPA = ASEAN-Japan Comprehensive Economic Partnership Agreement, AKFTA = ASEAN-Korea Free Trade Agreement, ASEAN = Association of Southeast Asian Nations, PJEPA = Philippine-Japan Economic Partnership Agreement.

Note : * represents all the COOs issued to exporters for all kinds of qualified products from the Philippines (i.e. all sectors including oil and gas) but for the Port of Manila only, covering more than 50 percent of COO issuances for export transactions.

Source: Export Division–Bureau of Customs.

A survey of Japanese-affiliated firms operating in the ASEAN countries, conducted by Hiratsuka, et al (2009), shows the Philippines to have a lower FTA utilisation than the rest of ASEAN, in terms of both exports and imports. Utilisation by exporting firms was around 15 percent in 2006–2007, which declined to 11.8 percent in 2008.¹³ Nonetheless, the levels are higher than previously estimated by earlier studies (at below five percent). They also pertain only to Japanese firms. In a more recent survey by Wignaraja, et al (2010) covering 155 Philippine firms in the transport, electronics, and food sectors, the researchers found that 20 percent used FTAs, with 41 percent planning to do so.

A press release issued by the Department of Trade and Industry (DTI) stated that the Philippines was one of the four countries in ASEAN (including Cambodia, Indonesia, and Thailand) with the highest FTA utilisation rates in 2010. The country's utilisation rate was said to have risen to 41.2 percent,¹⁴ a marked increase from the 20 percent in the 2010 survey of the Asian Development Bank. Nonetheless, while the level of utilisation may

¹³Utilisation was measured as the percentage of firms that used AFTA.

¹⁴Department of Trade and Industry (DTI) Upbeat No. 5. 20 March 2012. However, we were unable to obtain clear documentation of data. In addition, the estimates likely used different methodologies, making comparison of the figures subject to question.

prove to have been less than accurate, the rising trend in the issuance of COOs for exports—much steeper than the comparable rise for imports—supports the finding of increasing FTA utilisation.

Increasing FTA utilisation is among the core strategies identified in the Philippine Export Development Plan. The DTI (specifically the Bureau of Export Trade Promotion and the Bureau of International Trade Relations) started an FTA promotion programme called ‘Doing Business in Free Trade Areas’ (DBFTA) in the last quarter of 2010. Initially conducted in Metro Manila before successfully being carried out in the regions, DBFTA aims to increase nationwide awareness of the benefits of FTAs and increase their utilisation especially by small and medium-sized enterprises. The programme is being conducted along with other government agencies (Bureau of Customs, Tariff Commission, Philippine Statistics Authority) as well as the private sector, including the Philippine Chamber of Commerce and Industry, the Philippine Exporters’ Confederation, and certain academic institutions. Table 9.4 shows the number of DBFTA seminars conducted and the number of participants.

Table 9.4. Number of DBFTA Seminars Conducted, 2010–2012

	November to December 2010	January to December 2011	January to December 2012
No. of information sessions	11	78	116
No. of SME participants benefitted	1,948	8,631	11,169

DBFTA = Doing Business in Free Trade Areas, SMEs = small and medium-sized enterprises.

Sources: Perlada, S., ‘Best Practices on FTA Promotion Policies’, presented at the APEC Workshop on Increasing FTA Utilisation by SMEs, Tokyo, Japan, 7 August 2012.

‘DTI reaches 11,169 participants through its 2012 DBFTA outreach program’,

<http://www.emb.dti.gov.ph/dbfta/news/outreachprogram.htm> (accessed 8 November 2014).

The DTI recently published the *DBFTA Handbook* and *FTA Business Primers* for all Philippine FTA engagements. These publications, as well as presentation materials in the various DBFTA sessions, are also available and downloadable from the Philippine Trade

Training Center website.¹⁵ It is thought that DBFTA is gradually having an impact by encouraging more firms to use FTAs, as seen in the increase in utilisation rates.

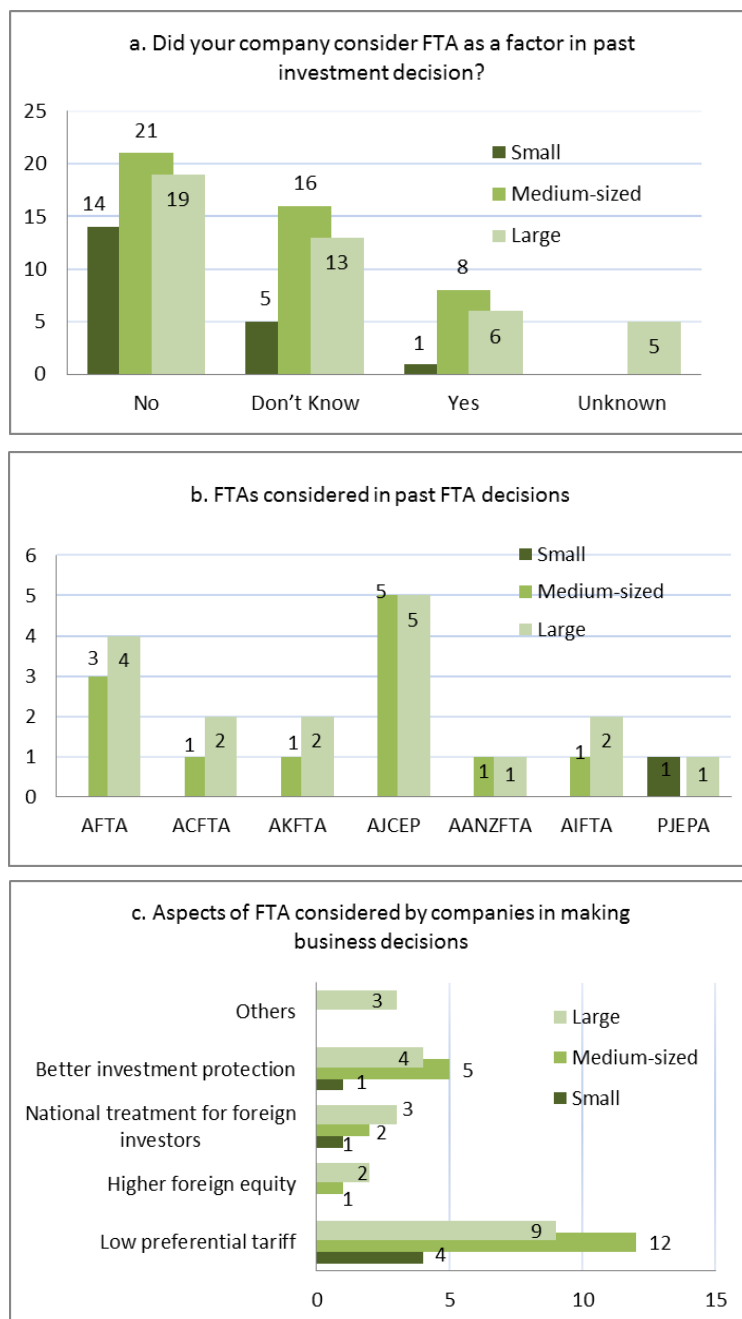
A major reason consistently pointed out in previous studies (Wignaraja, et al, 2010; Medalla, 2011b) and even in the results of the firm survey remains the lack of information and education campaigns focused on FTAs. This issue will be discussed further. Compliance and administration costs related to ROOs also represent a major hurdle in the decision of firms to utilise an FTA. There are signs that the utilisation rate could improve as the government steps up its efforts in information and education campaigning, and as reforms continue to be implemented, especially in ROO administration. Both government and business appear to increasingly recognize the potential benefits of FTAs.

2.1.4. Perceptions of How FTAs Affect Decisions to Invest, Analysed by Firm Size

Half of the firms (54 of the 108) surveyed did not consider FTA availability a factor in past investment decisions. However, 15 out of the 108 firms (14 percent) feel that the existence of an FTA had been a factor for locating investment. Most of these are large and medium-sized enterprises. AJCEP, which is highly regarded, especially by foreign firms, and AFTA are the FTAs most cited in past investment decisions on location of investment. The same preference for AJCEP is also equally shared by medium-sized and large firms included in the survey. Surprisingly, favouring AJCEP is not confined to Japanese firms (16 percent of the 75 firms with foreign equity), as a handful (four percent) of non-Japanese firms also considered it when deciding on investment locations. Low preferential tariff is one aspect of FTAs that attracts most firms to invest in a certain location, and this is true across firm sizes. Better investment protection and national treatment for foreign investors offered by FTAs come in second and third place, respectively, in the firms' recollections of past decisions on locating investment.

¹⁵PTTC website <http://www.pttc.gov.ph/>; <http://www.pttc.gov.ph/dbfta/dbfta-handbook.html>; <http://www.pttc.gov.ph/dbfta/fta-business-primer.html>.

Figure 9.6a-c. Firms' Decisions on Investment Location



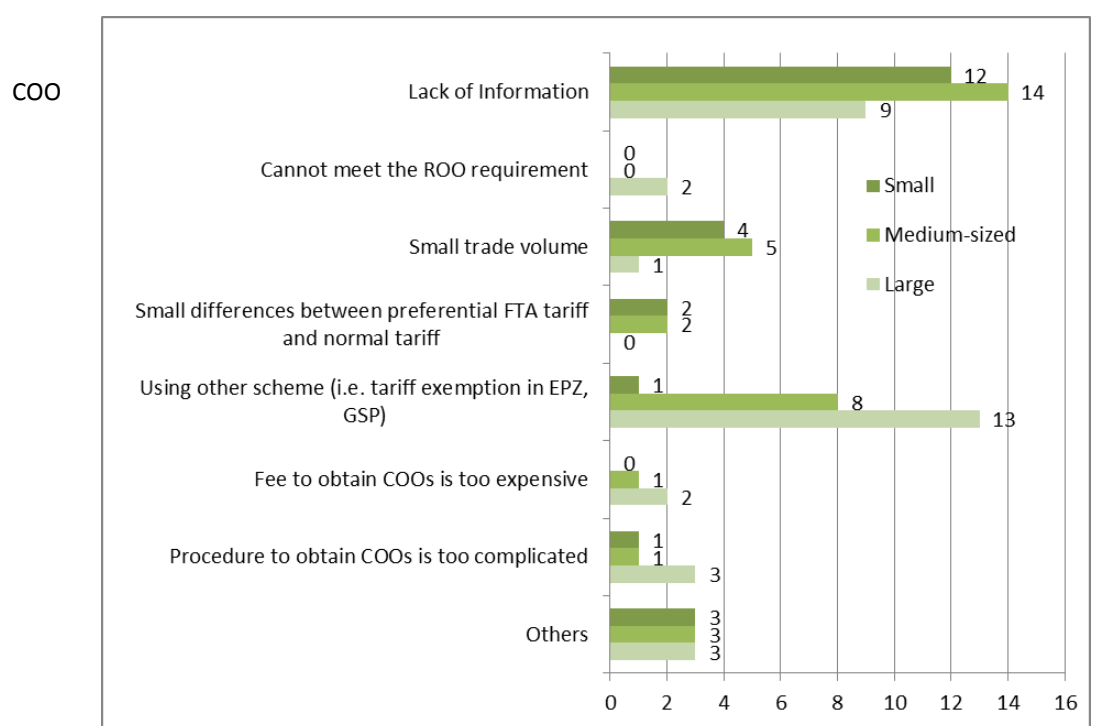
AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AFTA = ASEAN Free Trade Area, AJCEP = ASEAN-Japan Comprehensive Economic Partnership, AKFTA = ASEAN-Korea Free Trade Agreement, ASEAN = Association of Southeast Asian Nations, FTA = free trade agreement, PJEPA = Philippine-Japan Economic Partnership Agreement.

*Figure 6a refers to number of firms; Figures b and c refer to the number of multiple responses.

Source: Firm survey.

2.1.5. Constraints Leading to Non-Usage of FTAs, Analysed by Firm Size

A majority of firms (70 percent) currently do not use FTAs. Figure 9.7 enumerates the most common reasons for non-use among firms. Topping the list is lack of information, followed closely by using another scheme. For small and medium-sized firms, lack of information was cited as a huge impediment to using FTAs. Large firms, on the other hand, are less inclined to use FTAs because they are typically located in economic zones and zone locators are granted duty- and tax-free importation of raw materials, supplies, capital equipment, and spare parts. Twenty-four percent of the large firms and 33 percent of medium-sized sample firms are located in zones. As shown by Figure 9.7, these zones eliminate most incentives for exporters to use FTAs (Kawai and Wignaraja, 2011). Small trade volume and, to some extent, complicated COO requirements are also identified as constraints on using FTAs. All too often, firms, according to Hayakawa, et al (2009), are discouraged by the administrative costs of securing COOs. Preparing all the documents entails work that creates fixed costs, so that only those that can afford to cover the costs are inclined to use an FTA scheme. In the Philippines, despite government efforts to streamline customs processes, some procedural lapses persist (Wignaraja, et al, 2010).

Figure 9.7. Reasons for Not Using FTAs*


Certificate of Origin, EPZ = export processing zone, FTA = free trade agreement, GSP = Generalized System of Preferences.

*Frequency of responses; multiple responses allowed

Source: Firm survey.

2.1.6. Perceptions of the Costs and Procedures of FTAs, Analysed by Firm Size

By and large, respondents find the entire COO procedure generally reasonable. The number of documents required (at most three) is deemed acceptable by over 80 percent of those who responded to the question. In most cases, it only takes about one day to obtain a COO and the average cost of US\$15 is seen as affordable.¹⁶ This view is widely shared by surveyed firms (Table 9.5a, 9.5b), especially among medium-sized and large firms: collective responses were ‘very few’ and ‘reasonable’ for perception of the number of documents, ‘very quick’ and ‘reasonable’ for number of processing days, and ‘very low’ and ‘reasonable’ for cost totalled close to 60 percent of respondents for each group.

¹⁶This, however, pertains only to the issuance of COOs. Figure 9.3 presents the number of documents required by the BOC to complete the pre-export evaluation or ‘examination of origin’ process. The pre-export evaluation and verification process takes about five days, whereas the issuance of a COO takes two hours to one day, provided the necessary documents are complete and accurate.

Table 9.5a. Perceptions of Costs and Procedures of FTAs

Percentage share of total respondents			Percentage share of total respondents		
Freq			Freq		
Number of documents to obtain COO			How do you perceive the no. of documents?		
1	9	8.3	Very few	13	12.0
2	7	6.5	Reasonable	34	31.5
3	8	7.4	Many	8	7.4
4	5	4.6	Too many	1	0.9
6	1	0.9	Unknown	52	48.1
8	1	0.9			
10	2	1.9			
11	2	1.9			
Unknown	73	67.6			
No. of days to obtain COO?			How do you perceive the length of time?		
1 day	16	14.8	Very quick	9	8.3
2 days	3	2.8	Reasonable	40	37.0
3 days	1	0.9	Lengthy	6	5.6
4 days and more	10	9.3	Very lengthy	1	0.9
Unknown	78	72.2	Unknown	52	48.1
Cost to obtain COO (in USD)			How do you perceive the cost of obtaining COO?		
1-9 USD	18	16.7	Very low	4	3.7
10-20 USD	4	3.7	Reasonable	39	36.1
20-30 USD	1	0.9	Costly	10	9.3
30-40 USD	1	0.9	Very costly	1	0.9
100 USD and over	1	0.9	Unknown	54	50.0
500 US\$	1	0.9			
Average	15.7				

COO = Certificate of Origin, FTA = free trade agreement.

Source: Firm survey.

Table 9.5b. Perceptions of Costs and Procedures of FTAs, by Firm Size

How do you perceive the no. of documents?									
No. of Firms					Percent of Total				
	Small	Medium	Large	Total		Small	Medium	Large	Total
Unknown	13	7	7	27	Unknown	72.2	20.0	23.3	32.5
Very few	3	7	3	13	Very few	16.7	20.0	10.0	15.7
Reasonable	2	17	15	34	Reasonable	11.1	48.6	50.0	41.0
Many	0	4	4	8	Many	-	11.4	13.3	9.6
Too many	0	0	1	1	Too many	-	-	3.3	1.2
Total	18	35	30	83	Total	100.0	100.0	100.0	100.0
How do you perceive the length of time to obtain the COO?									
No. of Firms					Percent of Total				
	Small	Medium	Large	Total		Small	Medium	Large	Total
Unknown	13	7	7	27	Unknown	72.2	20.0	23.3	32.5
Very quick	0	6	3	9	Very quick	-	17.1	10.0	10.8
Reasonable	4	19	17	40	Reasonable	22.2	54.3	56.7	48.2
Lengthy	1	2	3	6	Lengthy	5.6	5.7	10.0	7.2
Very lengthy	0	1	0	1	Very lengthy	-	2.9	-	1.2
Total	18	35	30	83	Total	100.0	100.0	100.0	100.0
How do you perceive the cost of obtaining COO?									
No. of Firms					Percent of Total				
	Small	Medium	Large	Total		Small	Medium	Large	Total
Unknown	13	7	7	27	Unknown	72.2	21.2	23.3	33.3
Very low	1	3	0	4	Very low	5.6	9.1	-	4.9
Reasonable	4	18	17	39	Reasonable	22.2	54.5	56.7	48.1
Costly	0	5	5	10	Costly	-	15.2	16.7	12.3
Very costly	0	0	1	1	Very costly	-	-	3.3	1.2
Total	18	33	30	81	Total	100.0	100.0	100.0	100.0

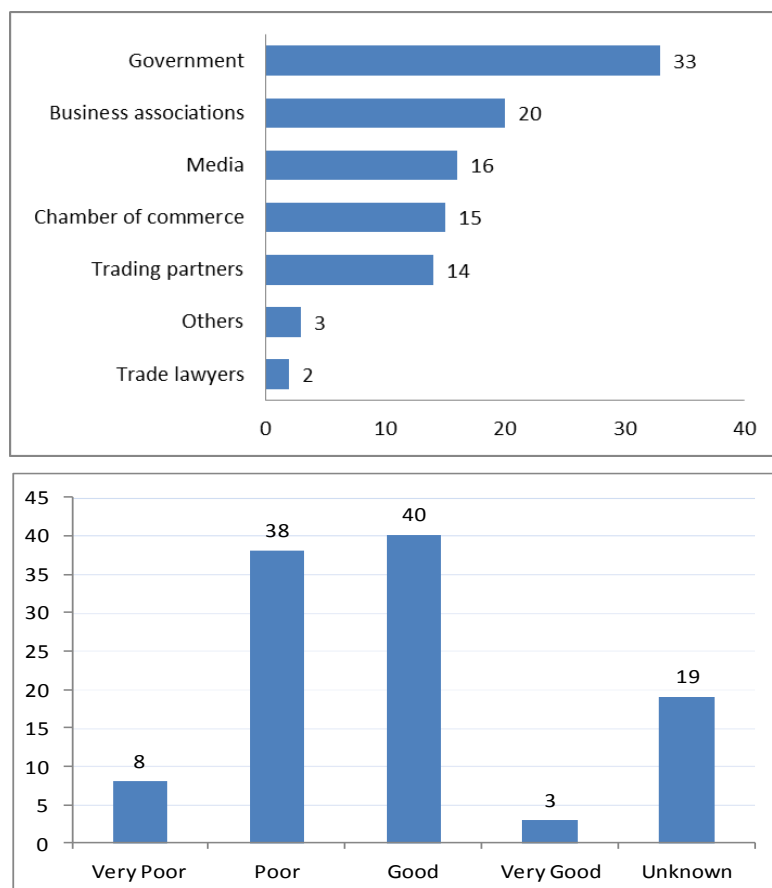
COO = Certificate of Origin.

Source: Firm survey.

2.1.7. Main Sources of Information About FTAs

For most respondents, the government remains the number-one source of FTA information (Figure 9.8). This is especially true for foreign firms (72 percent of 33 FTA users) but less so for locally owned firms (18 percent). Business associations, media, and chambers of commerce are also high on the list of information sources. Respondents' take on the quality of FTA information does not look very encouraging, however, as there is only a very small margin between those that rate the available information good (37 percent of 108) from those that rate it poor (35.2 percent) (Figure 9.8). Taken together, poor and very poor outrank the good and very good responses. These figures indicate that the availability of information is a continuing concern that needs to be addressed if the government wants to encourage greater FTA usage.

Figure 9.8. Firms' Major Sources of FTA Information and Their Views on Available FTA Data



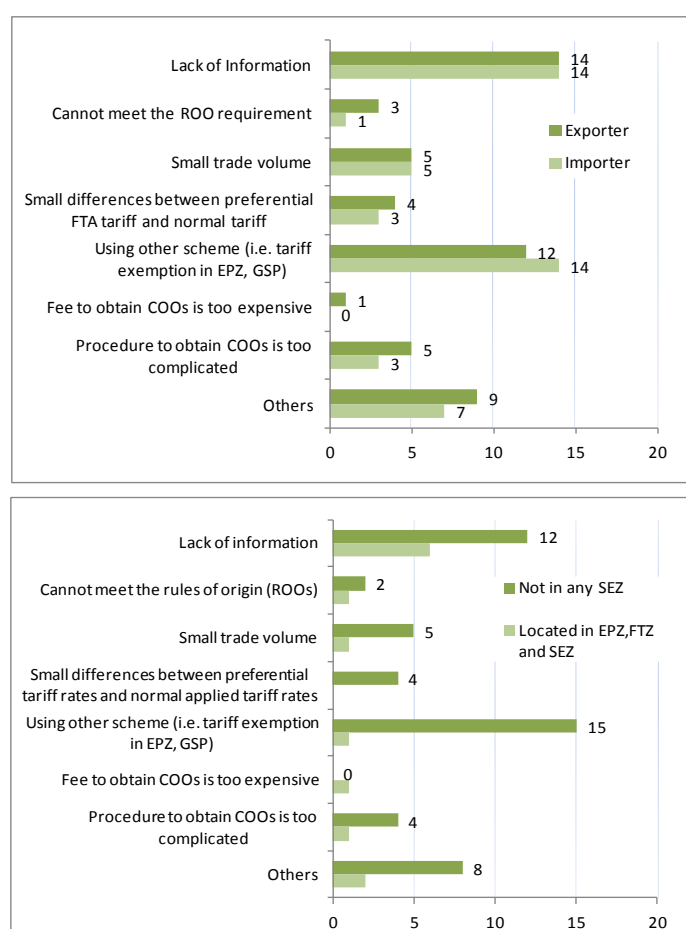
FTA = free trade agreement.

Source: Firm survey.

Other Interesting Issues that Need to be Highlighted

Figure 9.9 dissects the issue a little more carefully by distinguishing the problems encountered by exporters and importers, and by those in an economic zone (locators) and those not (non-locators). It would seem that while exporters and importers have similar problems when it comes to FTA utilisation, importers tend to have less incentive to utilise FTAs. Lack of information is common to both, and strongly so, but for importers the use of other schemes ranks just as high as information insufficiency. The same is true in the case of zone locators, where the presence of other incentive schemes and lack of information are more conspicuous than other identified issues. Perhaps the lack of information stems from confusion among economic zone locators in terms of which incentive to use—FTA or zone import duty-free incentive.

Figure 9.9. Reasons for Not Using FTA COOs*



COO = Certificate of Origin, EPZ = export processing zone, FTA = free trade agreement, GSP = Generalized System of Preferences, ROO = rules of origin.

*Frequency of responses; multiple responses allowed.

Source: Firm survey.

2.2. Use of FTAs in the Services Sector

2.2.1. Use of FTAs, Analysed by Firm Characteristics (Size, Ownership, Location, Exporting and/or Importing)

The results indicate that most of the 34 firms surveyed come from the food and restaurant business, hotels and restaurants, and computer and Internet services. Table 9.6 gives additional information about the firms, including their FTA preferences and trade transactions. The majority of firms surveyed are small and medium-sized enterprises, representing 59 and 29 percent of the sample, respectively. These are firms with 51 to 300 workers.

Table 9.6. Use of FTAs, by Major Characteristics of Surveyed Services Firms

	FTA usage			Total
	No	Don't Know	Yes	
Total	28	3	3	34
Employment size				
Small	18	1	1	20
Medium	7	1	2	10
Large	3	1	0	4
Ownership				
Locally-owned	25	3	2	30
Foreign-owned	0	0	1	1
Joint venture	3	0	0	3
Exporter				
No	27	3	3	33
Yes	1	0	0	1
Importer				
No	22	3	0	25
Yes	6	0	3	9

FTA = free trade agreement

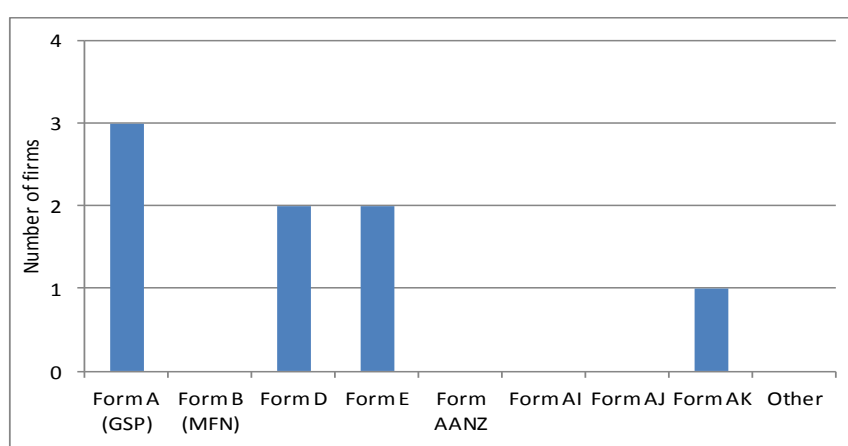
Source: Firm survey.

In terms of capitalisation, most are Filipino-owned, and only about 12 percent of the total respondents are funded with foreign equity. Interestingly, none of the large services firms surveyed use FTAs. Of the 34 respondents, only three are recognised FTA users: they are importers of input goods and are small and medium-sized enterprises.

2.2.2. Survey Results of the Use of FTAs, by Type of Agreement

Using the number of COOs filed, Figure 9.10 shows the surveyed firms' use of FTAs, by type of agreement. Similar to manufacturers, services firms also apply tariff concessions under the GSP, and Forms D, E, and AK, which cover imported goods using AFTA, ACFTA, and AKFTA. However, unlike manufacturing, trade relations with Japan, either via AJFTA or PJEPA, do not feature in the COO applications of firms in the services sector, perhaps because AJCEP and PJEPA are relatively recent.

Figure 9.10. Service Firms' Use of FTAs, by Agreement*



AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, FTA = free trade agreement, GSP = Generalized System of Preferences, MFN = most-favoured nation.

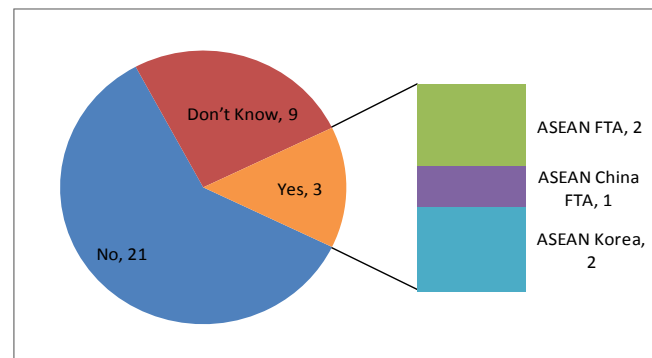
*Multiple responses allowed.

Source: Firm survey.

2.2.3. Perceptions of How FTAs Affect Decisions to Invest, by Firm Size

FTAs do not feature prominently in the business decisions of services firms, and this is very much reflected in the survey results. Among the FTA users surveyed, the FTAs most considered are AFTA, AKFTA, and ACFTA. These companies are engaged in computer and Internet services, hotels and restaurants, and packaging and printing.

Figure 9.11. FTAs Considered in Investment Decisions by Most Firms

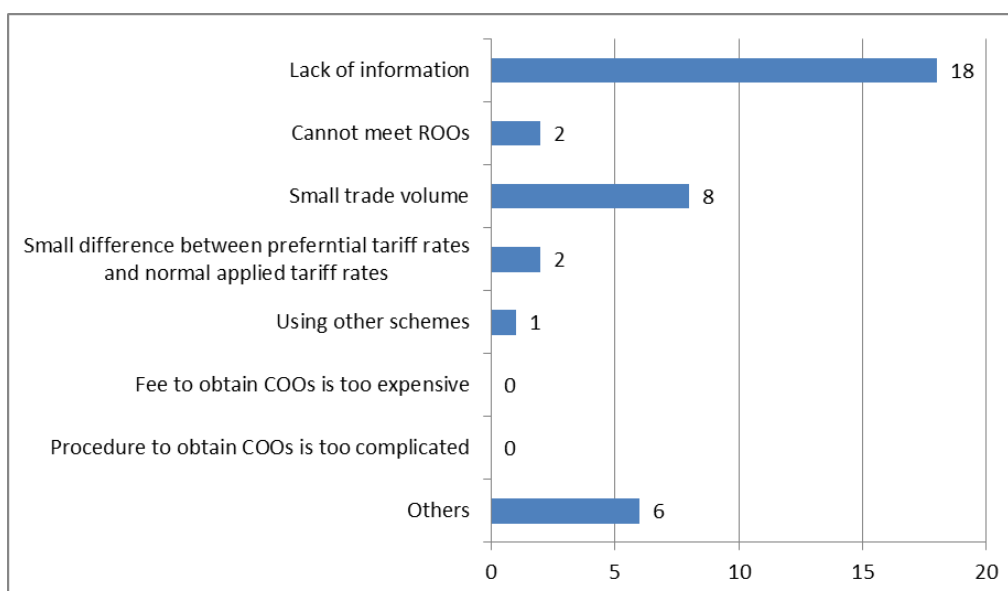


ASEAN = Association of Southeast Asian Nations, FTA = free trade agreement.
Source: Firm survey.

As with most manufacturing businesses, services firms also find positive and favourable aspects of FTAs that motivate their decision to invest in a particular location. Survey results indicate that low preferential tariff is one aspect of FTAs that attracts most firms to investing in a certain location. Better investment protection and the national treatment of foreign investors offered by FTAs come in second and third places, respectively, in firms' considerations for decisions on locating investment.

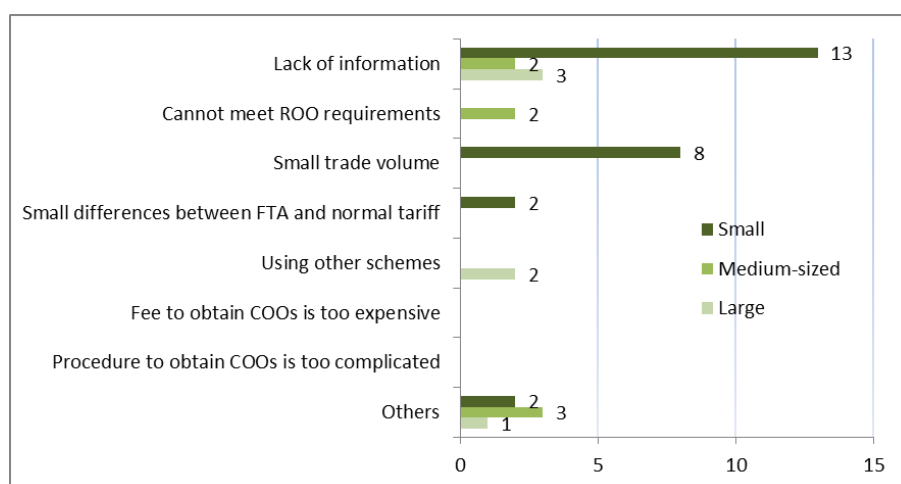
2.2.4. Constraints Leading to Lack of Use of FTAs, Analysed by Firm Size

Of the 34 services establishments surveyed, only three are FTA users and all are small or medium-sized. Since the percentage of non-users is overwhelming, it is important to note the factors that lead to this decision and gain a better understanding of the issue from the firms' perspective. Figure 9.12 tabulates the major reasons for firms' low FTA utilisation. Lack of information is first on the list, followed by small trade volume. These two factors are cited mostly by small firms (Figure 9.12a), which comprise a significant portion of the survey sample. For large and medium-sized firms, the lack of information and the use of other incentive schemes are major impediments to FTA use. Other reasons cited include focus on the domestic market, using other business-related incentives, and inapplicability of FTA in current business operations.

Figure 9.12. Reasons for Not Using FTAs

COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.

Source: Firm survey.

Figure 9.12a. Reasons for Not Using FTAs, by Firm Size*

COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.

*Frequency of responses; multiple responses allowed.

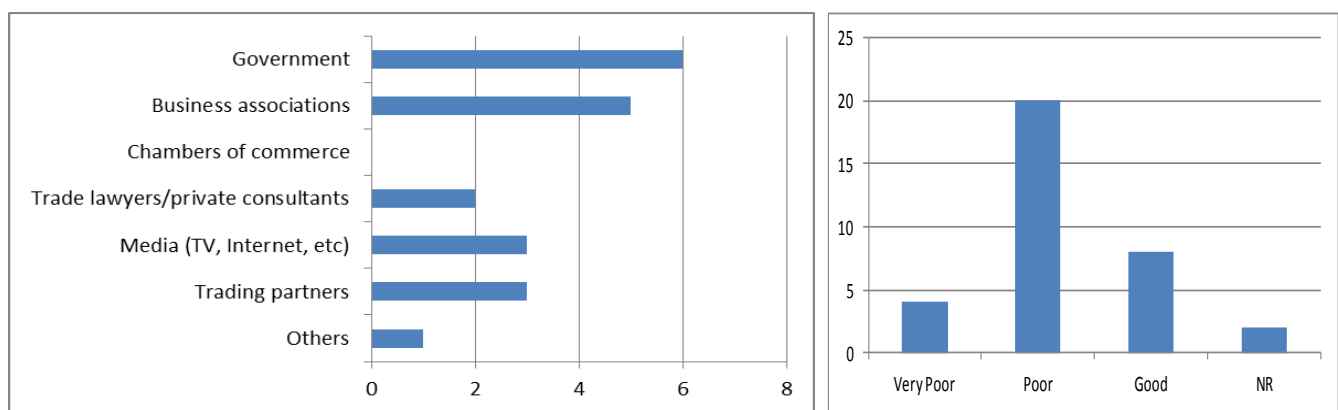
Source: Firm survey.

2.2.5. Main Sources of Information About FTAs

For a majority of those who responded, the government is the main source of FTA information; closely following are business associations, trading partners, and the media. Unfortunately, the quality and volume of information obtained from these sources were

rated very poorly by the respondents. The large percentage of firms that indicate the available data are very poor and poor is cause for concern. It seems that current efforts by the government to inform and educate the public about FTAs are not reaching most stakeholders. Perhaps there is a need to disseminate information more broadly and effectively, and make more information available to stakeholders.

Figure 9.13. Firms' Major Sources of FTA Information and Their Views on Available FTA Data



FTA = free trade agreement.

Source: Firm survey.

2.2.6. Other Interesting Issues that Need to be Highlighted

The low rate of FTA utilisation reported by services firms may be understandable given that they are not usually involved directly in the importation of the raw materials they use. Only six firms are importers and three of them use FTAs. Traders or indent agencies that consolidate bulk imports are more likely hired by services firms to handle their importation needs. In terms of export of outputs, almost all the services firms surveyed say they operate within the domestic economy. The more substantial impact of FTAs on services would come from eliminating trade restrictions in services among ASEAN member countries, which the survey is not able to capture. Relaxing restrictions to entry and investment in services would benefit countries such as the Philippines, as it would open up investments in critical sectors, provide greater mobility to workers, and foster a more efficient and competitive services sector.

3. Key Recommendations

Although the utilisation rate of FTAs reported by the manufacturing sector is increasing more than indicated in a recent study (Wignaraja, et al, 2010), there is room for improvement in the usage of FTAs by both manufacturing and services. The two sectors report that FTA utilisation is hampered by a lack of information, which, when available, was rated poorly in terms of quality and volume. The government, through the DTI, clearly needs to strengthen, broaden the scope of, and make more effective promotional campaigns and technical training, both live and online. Information may need to be targeted at manufacturing firms in export processing and special economic zones to make them aware of the extra benefits available from FTA usage beyond those that are zone-specific.

The DTI has made considerable efforts to increase FTA awareness through DBFTA sessions nationwide and the publication of a DBFTA handbook and FTA primers. However, the government needs to further promote FTAs by setting up a portal (similar to that of the International Enterprise¹⁷ and the Ministry of Trade and Industry in Singapore, and the Ministry of Foreign Affairs and Trade in Australia-New Zealand),¹⁸ where information about the benefits of FTAs, the process of gaining access, the requirements and forms, and other relevant information that firms and other major stakeholders might need, can be easily accessed or downloaded. As indicated in the survey, the government is still the main source of FTA information. This FTA portal, which should be an improvement on what is currently offered on the DTI website, will most likely enhance FTA awareness, eventually translating into increased utilisation levels. This is not only cost-effective on the part of the government but also a means to promote transparency in COO issuance, thereby minimising rent-seeking behaviour of the agencies involved in FTA implementation.

Entities such as business associations and chambers of commerce are reported as the second major source of information on FTAs. Thus, it would be more beneficial for the government and the private sector to coordinate efforts more closely. It would also be useful for the BOC to regularly monitor and set up a system to analyse FTA utilisation. A

¹⁷IE Singapore is the government agency driving Singapore's external economy, i.e. spearheading the overseas growth of Singapore-based companies and promoting international trade <http://www.iesingapore.gov.sg/About-Us/Overview>.

¹⁸Another portal where information about AANZFTA can be accessed at <http://aanzfta.asean.org/>.

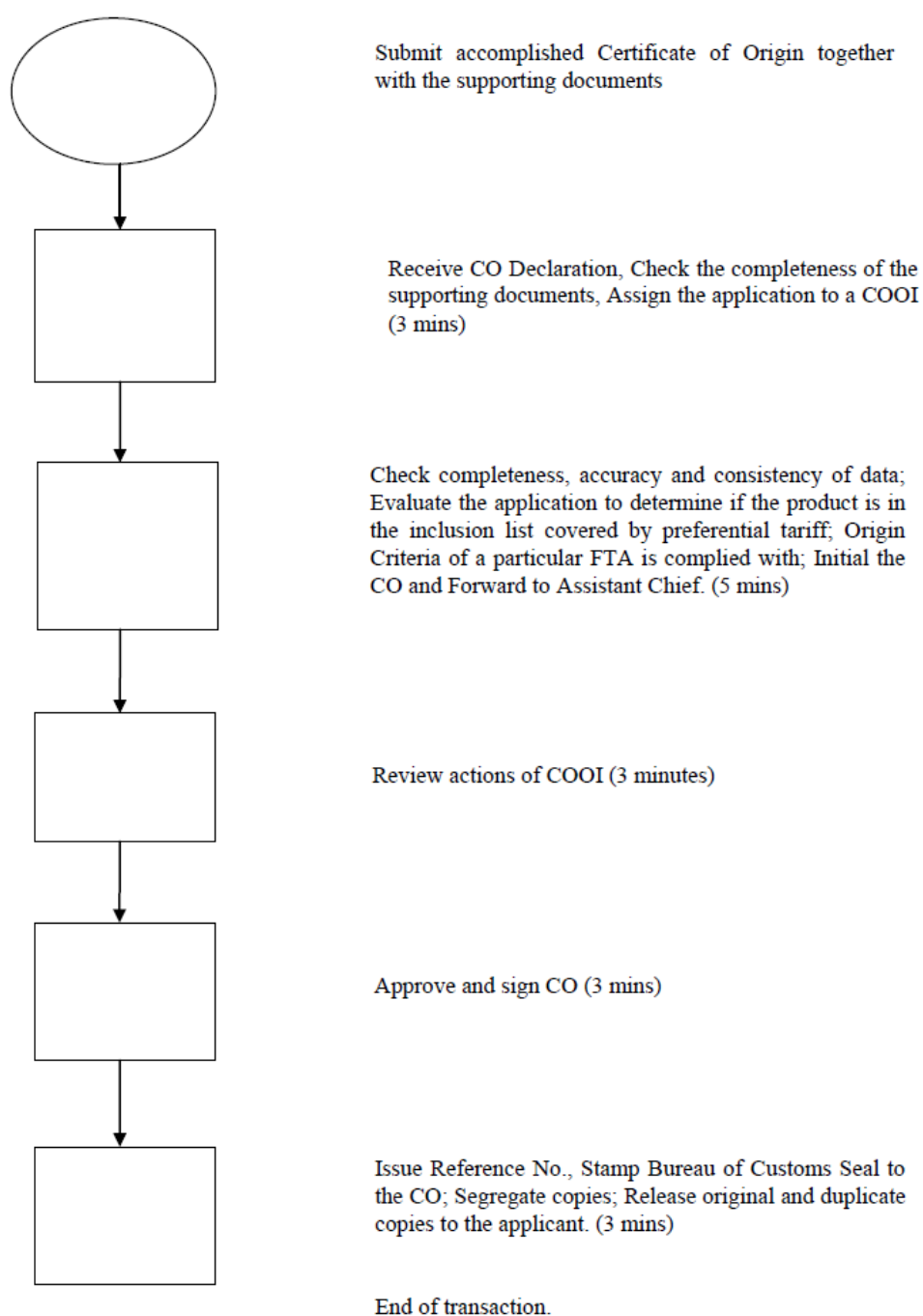
monitoring scheme would provide more accurate data and information about the Philippines' use of various FTAs. The data available are limited to the number of COO issuances and the corresponding value and volume of cargo covered. Information about the characteristics (such as industry or products, size, location, ownership) of the firms using FTAs would also be useful, not only in analysing FTA utilisation but more importantly in designing programmes to maximise FTA benefits. There is no system in place compiling all the reports from all collection districts. At present, official data on COOs cover only the Port of Manila.

A review of the COO access procedures to achieve a smooth, simplified, and speedy process is also recommended, as this will greatly ease the apprehensions of and lessen the cost especially for firms that attempt to use FTAs for the first time. The computerisation of COO issuances should be pursued and integrated with the National Single Window. Identifying steps in the procedure that can be automated is also worth pursuing in the short term. Rationalising the roles of the different issuing authorities (i.e. the BOC for preferential COOs and private industry associations for non-preferential COOs) may also be in order. Specifically, a big push for the DTI's self-certification pilot project could have a potentially significant impact, especially for micro, small, and medium-sized enterprises.

In 2011, the Philippines successfully proposed to ASEAN that member countries be allowed to initiate their own pilot projects on self-certification. This declaration from a certified exporter that a product meets ROOs under an ASEAN FTA eliminates the need to secure COO forms from the BOC and saves time and related financial costs. This study strongly recommends a further step: link self-certification to the National Single Window.

Finally, increasing FTA utilisation can be spurred by greater regional efforts to harmonise ROOs: not just procedures but also the rules themselves. Apart from addressing issues such as fake COOs, continued coordination among countries would help reduce the complications arising from different ROOs and would lay the foundations for RCEP.

Annex 1. Issuance of Certificates of Origin



Source: Taken from page 18 of Medalla, E. and Balboa, J. 2009, *ASEAN Rules of Origin: Lessons and Recommendations for Best Practice*, ERIA Discussion Paper 2009-17, Economic Research Institute for ASEAN and East Asia, Jakarta.

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CHAPTER 10

The Use of Free Trade Agreements by Manufacturing and Services Firms in Singapore

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As a trade-dependent country with a small domestic market, Singapore has a policy of signing regional and bilateral free trade agreements (FTAs) with established trading partners and of opening new economic links. However, there are no official statistics regarding the utilisation of FTAs by companies in Singapore. Feedback from focus group discussions with the relevant organisations in Singapore indicates that the utilisation of FTAs is relatively low. This is in part because the majority of firms in Singapore are small and medium-sized enterprises (SMEs) and are unable to meet the rules of origin (ROO) requirements. However, FTAs are utilised by large Singapore-based firms in the wholesale and retail, chemical and pharmaceutical, and consumer electronic industries. Greater awareness may be necessary to improve the knowledge of FTA procedures and their benefits in Singapore among SMEs. From the perspective of Singaporean firms, it is also important that future FTAs of the Association of Southeast Asian Nations (ASEAN), such as the Regional Comprehensive Economic Partnership, recognise Singapore's role as a re-export centre and a base for sales agents involved in third-country invoicing.

Keywords: ASEAN, FTA, small and medium-sized enterprises (SMEs), re-exports, trade

JEL Classification: F13, F15

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1. Context

1.1. Background

Singapore's economy is one of the most trade-dependent in the world, with the total value of the republic's trade (SGD984.9 billion [US\$794.9 billion]) reaching nearly three times the size of its gross domestic product (SGD 345.6 billion [US\$278.9 billion]) in 2012 (Department of Statistics, 2013). The Government of Singapore has been extremely eager to sign free trade agreements (FTAs), perceiving them as superhighways that connect Singapore to major economies and new markets.

An FTA is a legally binding agreement between two or more countries designed to reduce or eliminate barriers to trade and to facilitate the cross-border movement of goods and services between the territories of the parties. Singapore has also signed economic partnership agreements and comprehensive economic cooperation agreements with its trading partners. These treaties cover the typical contents of an FTA but may also include other areas such as investment regulations and cooperation across various fields. For the purposes of this paper, the term 'FTA' is used in a general sense referring to all of Singapore's trade agreements, including economic partnership agreements and comprehensive economic cooperation agreements.

Since Singapore signed its first FTA under the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) in 1993, its network of FTAs has expanded to cover 21 multilateral and bilateral agreements, either established or concluded and waiting to come into force. Singapore believes in simultaneously supporting multilateralism at the World Trade Organization (WTO) level, even as it signs regional and bilateral FTAs. Singapore's FTAs are all WTO consistent or WTO-plus (beyond what have been agreed by WTO agreements) and the country has made great efforts to reaffirm the primacy of the WTO system.

Singapore uses FTAs as instruments of foreign and economic policy to consolidate relations with selected countries and regions. FTAs are intended to open up markets for Singaporean exports, as well as attract foreign direct investment into Singapore's manufacturing sector. The domestic market is small and Singapore negotiates FTAs to ensure market access not only for Singaporean exporters but also for foreign companies based in Singapore. Singapore's FTAs reflect the country's existing trade and investment

linkages with markets and demonstrate the desire of policymakers to expand trade with new markets. Singapore's approach to FTAs is partially a platform to encourage broader regional liberalisation at the ASEAN and APEC levels (Rajan, et al, 2001). In several instances, Singapore's FTAs have served as pathfinders for economies seeking to sign FTAs with ASEAN. To date, only the People's Republic of China has signed an FTA with ASEAN without first signing one with Singapore.

1.2. Questions

In principle, Singapore's FTAs have been credited with helping Singapore-based businesses strengthen cross-border trade by eliminating or reducing import tariff rates, providing preferential access to goods and services, easing investment rules, improving intellectual property regulations, and opening government procurement opportunities. However, the actual utilisation rate of Singapore's FTAs by private companies is not clear, as there are no official statistics or reports regarding the use of FTAs by firms in Singapore. The government has launched FTA outreach programmes under International Enterprise (IE) Singapore to encourage the business community to take advantage of the opportunities provided by FTAs, but it is unclear how successful these efforts have been. Many large foreign and domestic firms based in Singapore have likely benefited from various FTAs signed by Singapore and they would be expected to have a reasonable utilisation rate due to scale effect, margin effect, and rules-of-origin (ROO) effect as described by Hayakawa et al (2009). However, small and medium-sized enterprises (SMEs) would be expected to have a considerably lower utilisation rate of FTAs than large firms, as substantiated in other ASEAN countries by past studies.

This study examines the current and planned use of FTAs by Singaporean firms, and highlights the businesses' concerns regarding Singapore's FTAs, such as ROOs and the process of applying for Certificates of Origin (COOs).

In other related country studies conducted by the Economic Research Institute for ASEAN and East Asia (ERIA) and partner organisations, the manufacturing and services sectors have been analysed individually. However, the feedback from focus group discussions (FGDs) conducted by the Singapore Institute of International Affairs (SIIA) was that the situation in Singapore is distinct from other ASEAN member states. Due to

Singapore's size and land area, manufacturing is considered a key part of Singapore's economy and manufacturing firms are limited in terms of scale and source of inputs. Much of Singapore's trade in goods consists of re-exports or involvement by Singapore-based sales agents as third-country invoicing companies for trade between other economies. This could be considered to be a utilisation of FTAs by firms in the services sector, namely the wholesale and retail, as well as financial and logistics industries. This paper considers the manufacturing and services sectors in parallel, given the context of Singapore's economy. Therefore, by definition, the use of FTAs is primarily for exporting goods and may include back-to-back (B2B) COO arrangements in the logistics and financial service sectors as Singapore does not have duties for importing goods.

1.3. Objectives

There have been many studies on the economic impact of FTAs using computable general equilibrium models, as a simulation analysis to investigate the likely impacts of FTAs. These analyses are useful for formulating FTA policies but they do not discern the actual impacts of FTAs on the business practices of firms in Singapore, particularly among SMEs. From the quantitative data and qualitative information obtained from FGDs and the relevant agencies and organisations, we aim to assess the use of FTAs by Singapore-based manufacturing and services companies and provide policy recommendations.

2. Key Findings

Attempts at administering the standardised survey designed by ERIA were relatively unsuccessful. The survey was administered to three targeted industrial cluster groups by International Enterprise (IE) Singapore, the government agency responsible for FTA matters under the Ministry of Trade and Industry. We also engaged a private consulting and survey firm to approach 2,000 manufacturing and services companies. IE Singapore was not able to disclose the total number of firms approached in its cluster groups due to confidentiality reasons but indicated that it was in the thousands. Despite these efforts, only 10 companies agreed to respond to the survey, eight of which were in manufacturing. Seven respondent firms were from the groups approached by IE Singapore. The final survey

compliance rate was far below original expectations, even with the backing of a major government agency and its extensive contact list.

Given the low number of survey respondents, FDGs with agencies and organisations in Singapore were conducted, including IE Singapore, Singapore Customs, chambers of commerce, and the Japan External Trade Organization (JETRO) Singapore. The aim of the FDGs was to understand the nature of business practices in Singapore and the reasons why firms may or may not make use of FTAs. These contribute to the observations and conclusions in this paper (Appendix 1).

Singapore companies that utilise FTAs tend to prefer the use of multilateral FTAs corresponding to Singapore's main trade partners, such as AFTA or ASEAN–China FTA (ACFTA). It appears that the majority of firms in Singapore (largely SMEs) do not use FTAs, a conclusion supported by studies on the issue. However, FTAs are utilised by large companies, multinational corporations (MNCs), and group companies in the wholesale and retail, chemical and pharmaceutical, and consumer electronic industries.

Despite efforts by IE Singapore to promote awareness of the benefits of FTAs, most firms do not seem to think that sufficient information is available regarding the benefits of FTAs and the proper procedures for their use.

2.1. Use of FTAs

2.1.1. Use of FTAs, by Firm Characteristics (Size, Ownership, Location, Exporting or Importing)

Singapore practices free trade in goods, with only six tariff lines imposed on alcoholic beverages, and has a policy of unrestricted imports of industrial inputs. As such, FTAs do not significantly benefit importers as goods already enter Singapore duty-free. In general, manufacturing firms must import inputs given the small size of Singapore and its lack of natural resources (only one firm surveyed stated that it does not import manufacturing inputs). The People's Republic of China was the most commonly cited source of manufacturing inputs.

Eight manufacturing firms responded to the survey. All sell to the domestic market, while six also export to other markets. Seven said they have knowledge regarding

Singapore's FTAs but only three state they utilise FTAs and COOs for exports. Two of the three are SMEs and one is a large pharmaceutical and health product firm.

All the companies listed Singapore as their main country of investment, with a majority Singaporean ownership, occupying an array of locations, from industrial zones to no specific zones. The small geographic size of Singapore may mean that location is a relatively minor factor in determining a firm's propensity to utilise FTAs.

The small number of valid respondents to this survey means that the data cannot be considered conclusive. However, previous studies have indicated that there does not appear to be a distinction between domestic and foreign ownership in determining the likelihood of a firm to use FTAs. Singaporean law makes few distinctions between domestic and foreign ownership of companies, and Singapore's trade and investment policy is intended to facilitate imports and exports by all companies regardless of ownership (Chia, 2011). Government agencies and others consulted in FGDs confirmed this characterisation of the business environment in Singapore.

2.1.2. Survey Results of the Use of FTAs, by Agreement

The small number of respondent firms means that the data regarding which FTAs are in use is not definitive: only three firms confirmed the use of FTAs—led by AFTA and ACFTA. Two firms confirm the use of AFTA while two firms utilise ACFTA. This is consistent with ASEAN and the People's Republic of China being the leading trade partners of Singapore. One firm also confirms the use of or interest in Singapore's bilateral and ASEAN-level agreements with Australia, India, and Japan. Singapore is party to both bilateral and ASEAN FTAs with each of these countries.

The FGDs confirm that AFTA and ASEAN-plus agreements are the most commonly used agreements by Singaporean companies. IE Singapore and Singapore Customs think that most companies in Singapore that utilise FTAs generally prefer to use Singapore's multilateral FTAs or bilateral FTAs rather than bilateral FTAs, as there are apparently more benefits for exporters. For instance, firms may prefer to use ACFTA rather than the China-Singapore FTA when exporting products to the People's Republic of China. However, JETRO Singapore notes that, in its experience, most Singaporean firms exporting to Japan utilise the Japan-Singapore Economic Partnership Agreement (JSEPA) rather than the ASEAN-

Japan Comprehensive Economic Partnership (AJCEP). This is because JSEPA has been in effect longer than AJCEP and covers more areas than AJCEP, so there is little incentive for firms to utilise AJCEP.

Notably, many firms in Singapore may not have a reason to utilise FTAs (such as AFTA) in trade between neighbouring countries in ASEAN, given that the tariffs for goods in many product areas are already zero or minor. The use of Form D for AFTA was reported by firms in this study and the FGD with JETRO Singapore confirmed that AFTA remains a popular FTA among companies in certain sectors, but other studies (Chia, 2011; DP Information Group, 2006) have reported a low rate of utilisation for AFTA. This may be because the margin of preference is small, although the use of Form D may become more appealing when the export volume of goods increases as a result of the ASEAN Economic Community.

In the official data on the use of FTAs over the years, there is no official report or study on the utilisation rates of Singapore's numerous FTAs. Singaporean government agencies (IE Singapore and Singapore Customs) do not release any official statistics on the use of FTAs. In ASEAN, only Thailand and Malaysia officially publicise detailed data pertaining to FTA utilisation. In Singapore, government agencies are willing to answer queries regarding FTA use but are concerned about releasing detailed information due to sensitivities or the lack of their own survey data. In the absence of official data, a comparison with previous academic and commercial studies is provided below.

Consultancy firm DP Information Group's *SME Development Survey* has been cited by the Singapore Ministry of Trade and Industry and IE Singapore in presentations on FTA utilisation. These figures, however, are not considered 'official' by the Singaporean authorities, given that DP Information Group has not shared the profile and details of the surveyed firms. The *SME Development Survey 2006* states that only 11 percent of Singapore's SMEs use FTAs. Among these SMEs, the Singapore–India Comprehensive Economic Partnership Agreement has the highest utilisation rate (68 percent), with the US–Singapore FTA having the second highest (47 percent) (DP Information Group, 2006).

An Asian Development Bank and Asian Development Bank Institute study was conducted by SIIA Senior Fellow Dr. Chia Siow Yue and published in 2011.² This study

² Dr. Chia's 2011 study does leave out several FTAs that were in effect by 2011 as the study was initiated prior to 2011 and the data collected in 2009–2010.

covered 75 respondent firms with only 13 firms reporting the existing use of FTAs or 17.3 percent, although when utilisation is broadened to include planned utilisation, the rate rises to 28 percent (Chia, 2011). To date, this is the most comprehensive academic study on FTA utilisation in Singapore. Of the firms in this study, 52 were classified as SMEs but not as defined in Singapore. A portion of the remaining 23 firms could be considered SMEs in a Singaporean context. AFTA is the most popular FTA among firms, with seven actual and four planned utilisations. The Singapore–US FTA has the second-highest utilisation rate with a total of six actual or planned utilisations. This was followed by the Singapore–India Comprehensive Economic Cooperation Agreement, with no actual but six planned utilisations. These figures contrast with the higher utilisation rate reported for the Singapore–India Comprehensive Economic Partnership Agreement by DP Information Group, but the relatively small number of firms reporting the use or planned use of FTAs in both studies may account for the discrepancy.

Singapore's top destinations for non-oil domestic exports by export value are ASEAN (primarily Malaysia, Indonesia, and Thailand), the European Union (EU), the People's Republic of China, and the United States (US). This would suggest relatively high utilisation rates for Singapore's multilateral and bilateral FTAs with ASEAN (AFTA), the People's Republic of China (ACFTA), and the US (USFTA). Singapore has signed an FTA with the EU but it is not due to come into force until 2015. The results of this report and other studies on FTAs utilised by firms appear broadly consistent with Singapore's chief export destinations. The one anomaly is the Singapore–India Comprehensive Economic Cooperation Agreement: at the national level, Singapore's export value to India is not high in comparison with the above countries. However, trade between Singapore and India has expanded significantly since the 1990s, which could account for the cooperation agreement being popular among exporting firms.

Table 10.1. Current and Planned Utilisation of Existing FTAs (ADB)

FTA	Number of firms currently using	Number of firms planning to use	Total current and planned	Distribution of utilisation (%)
AFTA	7	4	11	28.2
Singapore–US FTA	4	2	6	15.4
Singapore–India CEPA	0	6	6	15.4
ACFTA	2	3	5	12.8
ASEAN–Korea CECA	2	1	3	7.7
Korea–Singapore FTA	3	0	3	7.7
Japan–Singapore EPA	1	1	2	5.1
Singapore–Australia FTA	2	0	2	5.1
Singapore–Jordan FTA	0	1	1	2.6
Singapore–New Zealand CEPA	0	0	0	0.0
Transpacific Strategic EPA	0	0	0	0.0
Singapore–EFTA FTA	0	0	0	0.0
Singapore–Panama FTA	0	0	0	0.0
Total	21	18	39	100

ACFTA = ASEAN-China Free Trade Agreement, ADB = Asian Development Bank, AFTA = ASEAN Free Trade Area, CECA = comprehensive economic cooperation agreement, CEPA = comprehensive economic partnership agreement, EPA = economic partnership agreement, FTA = free trade agreement.

Note: Survey of 75 firms. Firms were allowed multiple choices.

Source: *Asia's Free Trade Agreements: How is Business Responding?* (Chia, 2011)

JETRO's annual *Survey of Japanese-Affiliated Companies in Asia and Oceania* covers Japanese-affiliated firms, which are defined as having direct or indirect Japanese investment of 10 percent or greater. In the FY2012 study (JETRO, 2012), 29.9 percent of firms (214 of 715) approached by JETRO Singapore responded to the survey. Singapore had the second-lowest response rate among the countries covered by JETRO's survey, with Malaysia having the lowest. This may reflect the tendency of Singapore-based companies, even ones with Japanese affiliation, to be more reluctant to divulge information than their counterparts in other countries.

According to the FY2012 JETRO study, 48.2 percent of respondent firms in Singapore use FTAs. Singaporean firms showed the sixth-highest utilisation rate of FTAs among the Asian and Oceanic countries or regions covered by the study, with the leading countries being the Republic of Korea, Indonesia, the Lao People's Democratic Republic, Thailand, and Sri Lanka. The leading export destination for the Singaporean firms that responded to JETRO is ASEAN, followed by Japan, the People's Republic of China, and India,

with FTA-utilising firms employing AFTA, JSEPA, ACFTA, and CEPA. Although JETRO's study focused on the practices of Japanese-affiliated firms, it is likely a representation of the practices of other foreign-affiliated firms and locally owned large Singapore companies, as the results are broadly consistent with those of other studies.

Notably, of the 214 Singaporean firms that responded to JETRO's FY2012 survey, 85.5 percent are classified as services firms, covering the wholesale and retail (including trading and logistics), transport, construction, finance and insurance, communications and software, and other industries. They include the respondent firms whose parent companies are in manufacturing. Because the Singapore subsidiaries are trading firms, they should be considered non-manufacturing companies.

2.1.3. Perception of How FTAs Affect Decisions to Invest, by Firm Size

Only one firm that responded to the ERIA survey states that it considered FTAs when deciding to establish its business in Singapore. It is a large firm that utilises FTAs in its exports. The company states that it considered ACFTA when locating its business in Singapore. Another reason for this decision was taxation. The firm noted that the existence of FTAs with other ASEAN countries, as well as Singapore's FTAs with other markets such as the EU, is a factor in determining potential future overseas expansion, due to lower preferential tariffs from FTAs, good treatment of foreign investors, and strong investment protection. Follow-up discussions with the firm and FGDs with IE Singapore seem to confirm that it is primarily MNCs and large firms that consider the presence of FTAs as a leading factor when making investment decisions. While many of Singapore's SMEs are export oriented, they do not consider FTAs as a major factor in making decisions.

The two SME respondents that utilise FTAs state that FTAs were not a factor in establishing their businesses in Singapore, although lower tariffs, expanding exports, and requests from trading partners are cited as reasons why they chose to use FTAs. The two SMEs that utilise FTAs express strong interest in expanding their businesses overseas, primarily to other ASEAN and Asian markets, but this is not because of Singapore's regional and bilateral FTAs. The other SME respondent firms are also interested in expanding their business operations overseas and only one company says it is not considering overseas expansion.

However, in the FGD conducted by JETRO Singapore, it is noted that for an MNC, large, or group company, the significant number of bilateral and multilateral FTAs that Singapore is party to might constitute a significant reason for companies to establish operations in Singapore.

In Singapore, FTAs are typically used by companies for exports. They are not utilised for imports because Singapore only levies import tariffs and duties on alcoholic beverages. However, for export-oriented companies, Singapore is a compelling location for industries where tariffs commonly exist. By comparison, FTA utilisation in Taiwan is low, according to JETRO figures, as Taiwan is party to relatively few FTAs, mostly with the People's Republic of China. The majority of Taiwanese exports are semiconductors or semiconductor components, a product category covered by the Information Technology Agreement under the WTO. Semiconductors are also a staple export of Singapore and covered under the Information Technology Agreement (Hayakawa et al, 2009). However, Singapore's top exports include product categories such as chemicals and pharmaceuticals, consumer electronics, and processed foodstuffs, which are typically dutiable items in most countries. Singapore's FTAs make the country an attractive location for businesses, including foreign firms, to establish production in these sectors.

According to JETRO, the chemical and pharmaceutical industry in Singapore has benefited the most from Singapore's FTAs. Singapore is also considered an oil hub and one of the world's top three export refining centres. The oil refinery sector contributed almost five percent of Singapore's gross domestic product in 2007. It is likely that the oil sector could also be considered a major beneficiary of Singapore's FTAs. In addition, JETRO Singapore believes that Japanese-affiliated manufacturing firms in the consumer electronics and foodstuffs sectors have chosen to establish regional operations in Singapore specifically to take advantage of its FTAs. The wholesale and retail, logistics, and other related sectors are also prominent in Singapore, given the country's role as a hub for agents and re-export firms.

2.1.4. Constraints on Using FTAs, by Firm Size

In addition to being a large company under Singaporean law, the large company that responds positively to the use of FTAs is also a subsidiary of a larger Singapore MNC. It is therefore not surprising that it has greater institutional bandwidth to make use of FTAs than SMEs, along with a greater scale of business to make using FTAs an attractive proposition.

Since Singapore is an island city-state, manufacturing SMEs encounter difficulties in meeting the ROO requirements because of their high use of imported inputs. This is a common concern expressed by not only SMEs but also IE Singapore, Singapore Customs, and other organisations consulted in FGDs. SMEs also appear to face administrative challenges when applying for COOs given their relative lack of expertise and manpower (Appendix 1).

2.1.5. Perceptions of the Costs and Procedures of FTAs, by Firm Size

All three respondent firms that utilise FTAs perceive as reasonable the cost and length of time taken to acquire COOs. However, several respondent firms that do not currently use FTAs express reservations regarding the length of time required to acquire a COO.

Singapore Customs does not charge processing fees. However, the actual application for a preferential COO requires the request to be submitted via TradeNet, Singapore's electronic National Single-Window system. A processing fee of SGD 10 (equivalent of USD 7.30) is paid to TradeNet's operators rather than to Singapore Customs, so the cost of acquiring a COO in Singapore is SGD 10 (equivalent to USD 7.30), which is comparable to or lower than the US\$10–15 charged in most ASEAN countries. Companies' chief concern regarding applications for COOs in Singapore is not the monetary fee involved but the length of time and the procedures necessary.

The first stage of securing a COO in Singapore requires a factory and manufacturing premise to be registered with Singapore Customs, which may be made online. Singapore Customs will arrange to inspect the factory to determine if it complies with production and book records. This stage can take up to one week. Upon successful factory registration, in the second stage the company must submit a cost statement of its products to verify that

they meet the ROO. This stage takes two to three days. Once verified, the cost statement is valid for one year, although any changes in sourcing patterns may require a new statement to be submitted. Finally, once the factory is registered and the cost statement verified, companies may now apply for their preferential COOs for shipments under the online TradeNet system. Singapore Customs recommends that the TradeNet application for an export be made at least one week before it is due to be shipped. However, once approved, the COO may be collected within two to four working hours of confirmation being sent. Collection is made in person from Singapore Customs.

The average length of time a new exporter would take to go through Singapore's three-step application process for the first time is estimated at two to three weeks. This period may be longer than that of other ASEAN members with shorter screening processes. In Indonesia, on-site factory tours are conducted simultaneously with the initial cost-statement screening and the process can take up to three days to complete. In the Philippines, on-site factory inspections by the Bureau of Customs are not required in all instances and are only conducted when necessary.

However, based on consultations with Singapore Customs, it appears that the maximum processing times allowed in the Singapore preferential COO process are conservative estimates to account for any potential delays. Singapore Customs has reported that the two- to three-week window reported by companies is an accurate estimate of average waiting time. However, Singapore Customs has noted that the hold-up in the process is the requirement for a factory site visit and most of the waiting time comes from having to schedule a visit by a customs officer. In some cases, Singapore Customs has been able to schedule visits within 24 hours of receiving an application, resulting in a faster overall processing time.

The above process assumes that a company has ready access to the TradeNet software and personnel familiar with its use. Most firms that import and export already use TradeNet in some capacity, but a firm that does not have the software or personnel familiar with Singapore Customs regulations may have to acquire a TradeNet software license or engage an agent to submit their COO applications, thus incurring additional third-party fees.

Concerns regarding the cost and time of applying for COOs in Singapore are prevalent among SMEs, which are not likely to have the in-house expertise to complete the

process rather than the actual monetary cost or time (rather than application fees or time-consuming procedures imposed by the Customs)

Along with Brunei, Malaysia, and Thailand, Singapore Customs has been conducting the ASEAN pilot Self-Certification Scheme since November 2010 with selected companies. Under this scheme, certain exporters in Singapore are able to use commercial invoices to self-declare the country of origin for their goods instead of requesting a COO from Singapore Customs. The scheme has been deemed successful in Singapore and is expected to be extended to all ASEAN countries by 2016.

2.1.6. Main Sources of Information About FTAs

The sources of information cited by the seven manufacturing firms that stated they have knowledge of FTAs were varied. The government was the most commonly cited source, with three firms stating they received information about FTAs from the government. Business associations, trading partners, the media, and chambers of commerce were also mentioned as sources. It should be noted that in the Singaporean context, media coverage regarding the use of FTAs is often attributable to IE Singapore, a government agency. IE Singapore 'markets' Singapore's FTAs by producing brochures, organising FTA events, as well as providing web articles and online access to the legal texts of the country's FTAs.

When asked to assess whether the available information regarding FTAs is good or poor, only four firms, or 50 percent, say it is good. Despite most firms possessing some degree of knowledge about FTAs, they state that more could be done to raise awareness of FTAs and answer private sector queries about FTAs. Six firms, or 75 percent, call for more information to be made available online, such as via websites, e-mail, or other platforms. Three firms suggest that more seminars and events be organised to educate firms about FTAs, especially if they are sector-specific rather than general. Publications and a telephone hotline to answer queries are other suggestions made by firms. The fact that most companies state that improvements could be made suggests that the various outreach programmes conducted by the government and other parties could be improved, especially in informing SMEs about FTAs.

2.1.7. Other Interesting Issues that Need to be Highlighted

Perceived Issues in Using FTAs

Beyond the issues of cost and time to apply for COOs in Singapore, companies and government agencies indicate there might be potential problems on the receiving end for exports that could discourage firms from using FTAs. The feedback from companies is that, even if exported goods clear Singapore Customs quickly, there are delays in importing at the destination country when FTAs are used, e.g. Form E, F, D, etc. Attempting to bring a shipment through customs under an FTA may draw additional attention from customs officials, resulting in delays.

Due to Thai authorities performing thorough checks on imports, Thailand is perceived to be the market that presents the most problems for Singaporean companies. Thai customs officials often direct many queries to the importers and exporters instead of to the Singaporean issuing authority. Thai officials also generally request cost statements from companies, which some Singaporean firms are unwilling to share. Thus, many firms opt to pay full duties when exporting to Thailand to avoid administrative difficulties and delays. Indonesia is cited as another country where Singaporean exporters opt to pay duties instead of utilising FTAs, especially given Indonesia's anti-dumping rules and the requirement that trade go to different ports across the country. Although the imposition of anti-dumping duties is not linked with the utilisation of FTA, there is a perception among exporters that exporting to Indonesia by using preferential tariffs and to the primary seaport as Tanjung Priok (Jakarta) would be more likely to be imposed anti-dumping duties by Indonesian Customs.

Although ASEAN has implemented a harmonised system of codes and tariffs, the feedback from Singapore's private sector is that different countries—or even officials at different ports within a country—may have different interpretations of the system. Some companies claim that declaring goods under an FTA results in greater customs scrutiny. Once a query is created by customs authorities, the shipment will be delayed, with extra charges involved. Therefore, many Singaporean firms opt to forgo the extra savings from using an FTA, as they would rather their goods reach the customer more quickly.

With the increase in direct FTAs between Singapore's trade partners, there is a perception among some Singaporean firms that Singapore's role of the middleman in trade

is being lost. That being said, the rate of FTA utilisation in Singapore might improve when the flow and volume of trade increase because of scale effect. The margin effect could become smaller but it would be more than compensated for by an increase in the volume of trade.

FTAs Seen as Unnecessary

It appears that many companies in Singapore are already exporting to free trade zones and under special arrangements with tax benefits. In many export destinations for Singaporean firms, governments may grant exemptions and tax holiday or special status to certain industries to promote development. In ASEAN, such investment incentive schemes mean that firms do not need to use FTAs to trade at zero tariff rates. This includes export processing zones and customs bonded areas. The major sectors of intra-regional trade in ASEAN are also in industries where general tariff rates are already low (electrical machinery, for example) or in sectors where ASEAN has a major share of world trade.

ROOs and the Singapore Context

The inability of Singaporean firms to meet ROOs in exports is due to Singapore's small geographic size and because most manufacturing inputs are imported. Singapore's FTAs, especially its bilateral agreements, do utilise ROOs intended to address these concerns.

Under the outward processing rule, a product can accumulate value for manufacturing work done outside Singapore as Singaporean content, provided the final-stage processing, assembly, or testing is done in Singapore. Under the integrated sourcing initiative, certain goods not made in Singapore may be deemed of Singaporean origin if they are exported from Singapore. An example is the US–Singapore FTA, where ASEAN products are often exported to the US market through Singapore.

However, despite these provisions, many firms do not think that they are able to meet ROO requirements, as confirmed by anecdotal evidence from Singapore Customs, the agency in charge of issuing COOs to exporters and ensuring that exports comply with ROOs.

Third-Country Invoicing and the Singapore Services Sector

COOs for goods are issued by the exporting country. However, the agent for the sale is located in a third country and is responsible for determining the prices of products. Commercial flows go through the third country rather than directly between the exporting and importing country.

For instance, Company A in Thailand exports goods to Company C in Indonesia via direct consignment with the COO issued in Indonesia. However, the agent for the sale is Company B in Singapore. Company A issues the first invoice to Company B, which then issues the second invoice to the importer, Company C. Goods shipped in this fashion still qualify for preferential tariff treatment even if the sales invoice is issued by a company in a country that is not part of the FTA being used to conduct the exports and imports. Singapore commonly serves in this capacity for trade conducted under ASEAN's FTAs such as AFTA, AJCEP, ACFTA, and AKFTA (Shiino, 2012).

Third-country invoicing has several benefits for companies. MNCs and affiliated firms within a group of companies are able to concentrate commercial flows through a Singapore office, resulting in greater efficiency. Firms thus practice a 'division of labour', where the Singapore branch company or regional office specialises in handling sales transactions and invoicing, even though manufacturing is not in Singapore. Beyond MNCs and group companies, manufacturing firms in ASEAN countries that have less marketing and sales expertise are able to benefit by collaborating with agents in Singapore, as it may be cheaper and more efficient for firms to conduct sales through an agent.

Singapore is a popular location for MNCs to establish regional headquarters and for sales agents to be located. This in part is due to Singapore's relatively low corporate tax and income tax. Singapore has only one rate of tax imposed on companies, 17 percent, compared with other ASEAN countries where the corporate tax rate generally ranges from 20 to 30 percent. Singaporean firms or the Singapore branches of MNCs and groups are heavily involved in third-country invoicing. The FGDs held with JETRO Singapore confirm that this practice accounts for a sizable proportion of FTA utilisation in Singapore. Such firms should be considered services firms in the wholesale and retail industries. In FGDs, it was noted that it is extremely important for Singaporean firms that third-country invoicing

be included in FTAs signed by Singapore and ASEAN. When ACFTA initially came into effect, third-country invoicing was not an option, although it was implemented in October 2011.

Back-to-back (B2B) COOs and Re-Exports

AFTA and ASEAN-plus FTAs allow for B2B COO arrangements. Under B2B arrangements, products are exported from one FTA member economy to an intermediate economy where it can undergo bulk breaking, packaging, and other operations before being transported to its final destination. A second COO may be issued by the intermediate country but the goods do not lose their originating status from the initial exporter despite passing through an intermediate country.

For example, Company A in Thailand exports 100 units to Company B in Singapore, which keeps the goods in stock in a warehouse. Company B in Singapore subsequently re-exports part of this stock, 30 units out of the original 100, for example, to Company C in Indonesia. As the number of units being re-exported from Singapore to Indonesia differs from the original consignment, the original COO issued in Thailand no longer matches the shipment and it cannot be considered a shipment under direct consignment rules. A second invoice and B2B COO is thus required from Singapore (Shiino, 2012).

This form of stock operation is commonly practiced among the ASEAN economies. It reduces lead time, allowing goods to be kept in inventory at a location closer to the eventual customer or closer to regional port facilities. Singapore is used for such warehousing given its strategic location as a port, its established logistics industry, and national legislation intended to facilitate re-exports from Singapore. For instance, firms may apply to have their warehouse or part of their premises to be exempt from Singapore's goods and services tax, meaning that the goods and services tax is not charged for goods stored in or sold from the warehouse, provided they are for re-export. The goods and services tax only applies if goods are removed from the warehouse for local use.

Singapore's status as a re-export and warehousing hub for regional trade within ASEAN and between ASEAN members with ASEAN-plus FTA partners means that B2B COO arrangements account for a sizable proportion of FTA utilisation in the logistics services sector in Singapore.

However, one concern raised by Singapore-based companies is the inclusion of the free-on-board price on COOs. This is not beneficial to re-exporting firms and agents as the final purchaser is able to view the original procurement price and they are able to calculate the re-exporting firm or agent's margin of profit. This may lead purchasers to renegotiate contracts or request lower prices from the re-exporter or agent. This practice is being abolished under AFTA and is effective from January 2014, but it is still required by most of ASEAN's FTAs and remains a concern for companies.

3. Key Recommendations

Although FTA utilisation among Singaporean firms does not appear to be extensive, the perception among firms is that the use of regional FTAs is preferable to bilateral FTAs for two reasons. First, there is generally a larger market space under regional FTAs for Singaporean firms to take advantage of and, second, regional FTAs are seen to have better constructed ROOs than bilateral FTAs. This bodes well for the potential utilisation of ASEAN and ASEAN-plus FTAs by Singaporean firms.

The only case where firms appear to have a distinct preference for a bilateral FTA between Singapore and the trading partner over the multilateral FTA under ASEAN is JSEPA, which has been in effect longer than AJCEP, its ASEAN-Japan counterpart. JSEPA also covers a larger range of product categories.

Indonesia has yet to ratify AJCEP, which means that Indonesian-supplied raw materials coming to Singapore do not help accumulation by firms exporting their products to Japan. Given Singapore's small size and its heavy reliance on imported inputs for manufacturing firms, accumulation and value-added rules under FTAs are crucial for allowing Singapore products to qualify under ROOs.

Companies that provided feedback to this study said they believed there is insufficient information available in Singapore on the benefits of FTAs and how firms, especially SMEs, can use them. This perception exists despite IE Singapore's extensive efforts to disseminate information regarding FTAs, such as sending representatives to local and overseas speaking events; holding free seminars and workshops, including an FTA certificate programme; offering free one-to-one consultations to companies; and collaborating with industry experts, chambers of commerce, and business associations.

IE Singapore notes that its outreach efforts are voluntary on the part of firms. The agency can only assist companies if they register for its events and request consultation. It may be that the level of resources devoted to organising government-sponsored activities is sufficient, but there is not enough media publicity and visibility given to these efforts in Singapore.

The awareness and use of FTAs in Singapore appear to be increasing but slowly. According to a senior official from Singapore Customs, the view of officers on the ground is that the situation is changing. Several years ago, only MNCs and large Singaporean firms made extensive use of FTAs. While Singapore Customs was not able to provide statistics, it did confirm that it is seeing an increasing number of SMEs approaching Singapore Customs to apply for preferential COOs, which Singapore Customs attributes to the awareness-building and outreach efforts of IE Singapore. IE Singapore has expressed some optimism that as trade volume increases in Asia and across the world, FTA utilisation in Singapore will increase correspondingly.

However, the size of firms and the sector of industry play an important role in deciding to utilise FTAs in Singapore. Meanwhile, Singaporean firms will continue to face challenges from ROO regimes. The value-added rule is simple in principle but difficult for Singaporean companies to comply with, and the administrative cost of compliance to prove the origin is high, even for firms that qualify. Singapore has been one of the world's most active countries in reaching FTAs with its trade partners, but this has resulted in multiple and overlapping FTAs, or the 'noodle bowl' syndrome.

Concern is growing in Singapore that the country's SMEs are being inadvertently 'left behind' by economic development and the push towards regional integration. Measures need to be in place to improve FTA utilisation rates among Singapore SMEs and awareness and education among Singapore's private sector could be strengthened. At the official level, the process of implementing FTAs, facilitating the movement of goods and services, and reducing the cost of doing business across borderless markets could be further improved, to meet the goals of ASEAN's regional economic integration.

From the perspective of Singapore-based MNCs, large firms, and group companies involved in regional trade, it is critical that ASEAN's trade agreements accommodate the role of re-export firms and agents located in third countries. This is a sensitive issue, as Singaporean firms cannot be seen to be unduly profiting from their trade partners and

violating transfer-pricing guidelines. However, Singapore does play an important role in trade as a re-export centre and as a strategically located port with well-developed financial and logistics services sectors. This role should be acknowledged in negotiations for the Regional Comprehensive Economic Partnership and other future ASEAN-led multilateral trade agreements. With the proper provisions, Singapore, its fellow ASEAN members, and ASEAN's trading partners should mutually benefit from the grouping's current and future FTAs.

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Appendix 1: Focus Group Discussions on FTA Utilisation

IE Singapore

The Singapore Institute of International Affairs (SIIA) team began its research by approaching IE (International Enterprise) Singapore for consultations on free trade agreement (FTA) utilisation in Singapore. IE Singapore is an organisation under the Ministry of Trade and Industry and is the lead agency of the Singapore government in spearheading Singapore-based companies to export to regional and global markets. Through its divisional director and staff, IE Singapore assured the SIIA research team of its assistance whenever possible in conducting this research project.

However, the SIIA research team was also informed that IE Singapore had previously attempted its own surveys to assess and monitor the use of FTA by Singapore-based companies. The information obtained from IE Singapore's own assessments is considered strictly confidential and the information, particularly company identities and profiles, are not allowed to be published. IE Singapore confirmed there is no official report on FTA utilisation rates in Singapore.

IE Singapore also stated that the compliance rate of the Singapore private sector in submitting completed questionnaires on the subject of FTAs is extremely poor. This is based on its own experience in attempting to conduct such studies, one reason why there is no official report of the subject in Singapore. This is because surveys conducted by IE Singapore are not legally mandatory, unlike industrial surveys and census taking by the Department of Statistics. Another important reason is the perceived fear of many Singapore-based companies, particularly SMEs, of revealing their business operations to their rivals as domestic competition is so severe. Singaporean firms seem to be extremely reluctant to reveal their views via surveys, particularly ones that ask questions about their sales and future expansion strategy. Feedback from IE Singapore indicates many firms believe that revealing their strategies may harm their individual company's interests, as any revealed information may be used by competitors.

The overwhelming majority of companies in Singapore are small and medium-sized enterprises (SMEs), making up 99 percent of the total number of registered businesses in Singapore (SPRING Singapore, 2013). SMEs are defined in Singapore as having not more than 200 employees with an annual sales turnover of not more than SGD 100 million

(equivalent to USD 73 million). Many SMEs may not be willing to respond to a survey given their limited manpower and resources and they, similarly, may not have much knowledge of FTAs or the organisational capacity to make use of them. Most of IE Singapore's outreach efforts regarding FTA use are directed at SMEs, with the assumption that large Singapore or foreign-owned firms and multinational corporations (MNCs) have adequate internal capability to take advantage of FTAs.

IE Singapore considers that companies may not want other companies to know they are using FTAs or that the use of FTAs is common in their sectors. The firms utilising FTAs may wish to benefit from first-mover advantage. IE Singapore has an ongoing search for 'success stories' on the use of FTAs by Singaporean firms that they could convey to the Ministry of Trade and Industry and publish publicly. So far, it has not been able to find many companies willing to serve as examples. Most success stories cited by IE Singapore and the Ministry of Trade and Industry are from government-linked companies such as Keppel Corp, or from very specific sectors such as OWL International Pte Ltd, a beverage company. IE Singapore believes companies are reluctant to share their successful formulas and are not willing to warn rivals of problems they have previously faced.

This attitude may be short-sighted on the part of firms, as first mover advantage is likely to diminish quickly regardless of their actions. Feedback from Singapore industries would make for better future FTAs and help increase the overall utilisation rate. However, IE Singapore indicates that the above reflects the general sentiment in the Singapore business community.

As this study on the use of FTAs in Singapore is in line with IE Singapore's primary objectives, IE Singapore agreed to help administer the questionnaire template designed by the Economic Research Institute for ASEAN and East Asia (ERIA) to its network of Singapore-based companies. After three rounds of distributing the survey forms to its targeted manufacturing and services cluster groups, IE Singapore received only seven completed survey forms. Due to confidentiality reason, IE Singapore could not disclose the total number of firms in its manufacturing and services clusters, but indicated that thousands of firms had been approached.

Although lacking concrete quantitative evidence to support the estimate, IE Singapore believes that more than half of the companies in Singapore think that there is no need to use FTAs at all, given the perceived minimal difference in savings or the

expected administrative costs. It is not clear how extensive the remaining half might be using FTAs, and some companies that may otherwise have interest in FTAs are nonetheless unable to qualify it for their use. However, IE Singapore notes that it has had more detailed interactions with SMEs on the use of FTAs, compared to interactions with large companies, as large companies have their own research departments and are more knowledgeable on the benefits and preferences of using FTAs and thus do not need to consult IE Singapore.

Consulting and Survey Firm

To supplement the ERIA-designed survey, the SIIA research team approached a specialised survey firm recommended by IE Singapore. This survey firm approached more than 3,000 firms in manufacturing and services clusters as follows.

Five-hundred manufacturing firms were approached with number of employees between 100 and 500. The sectors included electronics (250 firms), chemicals (125 firms), furniture (58 firms), and computer and IT (65 firms). Three-hundred-and-fifty building and construction firms were approached, with number of employees between 50 and 3000. The sectors included building materials (167 firms), plumbing (46 firms), electrical (25 firms), surveyor (25 firms), and mechanical and electrical (87 firms).

Two-hundred food and beverage firms were approached, with number of employees between 50 and 300. The sectors included food (120 firms), storage (25 firms), and services (55 firms). An additional 200 firms from categories not fitting the above were approached with varied numbers of employees.

However, only three firms agreed to respond to the survey. The majority of companies approached by the survey firm were also SMEs, which may in part account for the lack of response.

Singapore Customs

The research team also held informal consultations with Singapore Customs to get further information and insight into the use of FTAs by Singapore-based companies. Singapore Customs was not able to offer support due to strict administrative and confidentiality limits. The SIIA spoke to a senior Singapore Customs official overseeing Certificate of Origin (COO) and rules of origin (ROO) matters. Unfortunately, Singapore

Customs also indicated it could not release any statistics on the profile of firms applying for COOs via Singapore Customs or the preferred FTAs of these firms.

Singapore Customs provided extensive details regarding the application process for COOs in Singapore, as well as the concerns expressed by private sector firms. In addition, Singapore Customs elaborated on their experiences administering ROOs and COOs. In the case of Singapore, many firms cannot meet the ROOs for their products. This is a common problem for all companies but especially true for SMEs. Given that Singapore is an island city-state, most raw materials and many manufacturing inputs do not come from Singapore. Many trading firms do not have significant value-add to their products. Many companies are unable to make use of FTAs despite a willingness to do so. In our consultations with Singapore Customs, it was noted that most exporters are import/export firms rather than manufacturers, considering Singapore's small size. Thus, relatively few product categories exported from Singapore would qualify under ROOs, these being mostly consumer products.

SMEs often do not use FTAs, although obtaining COOs in Singapore is relatively simple, convenient, and can be initiated electronically. In some ASEAN countries, the lack of use of FTAs may be due to cumbersome procedures in obtaining COOs. This problem does not exist in Singapore. The process is very transparent, although personal follow-up visits and inspections are required. Singapore Customs noted that the number of SMEs applying for and successfully securing COOs does appear to be on the rise. Singapore Customs confirmed that 10–15 years ago, MNCs and large companies were primarily the ones exporting goods under FTAs with very few SMEs making use of FTAs. A greater number of SMEs are now applying for COOs, a slow but rising trend. Singapore Customs attributes the increase to IE Singapore's outreach efforts.

Chambers of Commerce

The SIIA research team also held FGDs with the Singapore Chinese Chamber of Commerce and Industry, the largest in Singapore. The research team met with the staff of the department that is in charge of assisting its members to export and take advantage of the FTAs that Singapore has concluded. The information provided by the chamber of commerce is consistent with those given by IE Singapore, results from submitted questionnaires, and Singapore Customs. According to this chamber of commerce, it seems

that many firms in Singapore believe they do not need to use FTAs, as margins of preference may be very narrow. If projected savings are minimal, for instance, only one to two percent of most companies would bother utilising FTAs.

JETRO Singapore

At the recommendation of ERIA, SIIA held a focus group discussion with JETRO Singapore to discuss and compare findings from the annual *Survey of Japanese-Affiliated Companies in Asia and Oceania*. JETRO Singapore was also consulted on the prevailing sentiments and feedback regarding this issue by Japanese-affiliated firms in Singapore.

In comparison to the other focus group discussions, which focused on locally owned Singaporean companies and SMEs that do not employ FTAs in their businesses, the feedback from JETRO Singapore gave insight into the perspectives of MNCs, large companies, and group companies that make significant use of FTAs. JETRO Singapore was able to highlight Singapore as an attractive investment destination for firms seeking to make use of its FTAs in product categories that typically have tariffs in most countries.

JETRO Singapore noted Singapore's unique position as a re-export and services centre, housing sales agents, logistics firms, and other companies that are heavily involved in regional trade in goods but cannot themselves be considered manufacturing firms. Most Japanese-affiliated firms in Singapore that use FTAs would qualify as services sector firms, but are linked to merchandise trade. JETRO Singapore recommended that an analysis of FTA utilisation by Singapore-based firms should not separate the manufacturing and services sectors, but rather examine them as an integrated whole. JETRO Singapore also commented on the features of Singapore and ASEAN's FTAs most relevant to firms operating in the above sectors, such as third country invoicing and Back-to-Back COOs.

Conclusion

The usage of FTAs by Singapore's SMEs is still small relative to its large companies, although some focus group discussion participants noted that utilisation by SMEs is slowly rising. The issue is not so much complicated procedures, as it is the perceived relative benefit of using various FTAs. Many expressed the view that there is ample room to implement more user-friendly rules and regulations as well as conducting a wider outreach and dissemination of information on the benefits of using FTAs. Partly due to the lack of

widespread utilisation of FTAs, and the perceived trouble involved in using FTAs, many firms, particularly SMEs, have been very ambivalent and reluctant to even discuss the topic. Changing this perception will require a focused effort from Singapore government agencies, think tanks, private sector groups, and other stakeholders.

For Singaporean firms that use FTAs, it is important that future FTAs signed by Singapore and ASEAN ensure the liberalisation in key sectors such as chemicals/pharmaceuticals and take note of Singapore's role as a re-export and logistics centre for the region.

CHAPTER 11

Survey on the Use of Free Trade Agreements in Thailand

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There is a proliferation of free trade agreements (FTAs) in Southeast Asia, and Thailand has joined this trend by engaging in 11 FTAs at the bilateral and regional levels. Trade expansion among FTA partners is expected, but it is not automatic because to gain the benefits of FTAs, firms have to apply for Certificates of Origin (COOs). The average utilisation rate of all FTAs in Thailand was 47 percent in 2012. This suggests some constraints may be hindering the use of FTAs. This study examines the obstacles to utilising FTAs and suggests ways to increase usage of FTAs. A survey collected data from 85 manufacturing firms and 19 services sector firms. An in-depth interview and a focus group discussion were held with representatives from FTA-relevant government agencies and the private sector.

The results show the three major reasons why Thai firms do not use FTAs. First, it is not worth utilising FTAs because some firms have small trade volumes. Second, some firms use other schemes that give better benefits. Third, Thai firms of all sizes lack information on FTAs. Suggestions to increase FTA utilisation are as follows. The relevant government agencies should improve their websites to provide information that the private sector needs. Information on FTAs given to firms should be more specific to product or sector types, and a contact list based on inquiry topics should be provided to increase the efficiency of the call centres. An electronic and online system and a national single-window system should also be implemented. For COO application, fees should be harmonised among all FTA partners. The private sector itself should also pay more attention to FTAs. The utilisation rate is also low among services sector firms even though they know about FTAs. Many services firms do not import goods directly to use in their businesses, so they do not directly utilise FTAs and do not use COOs. However, distributors have the potential to utilise FTAs, so the benefits of utilising FTAs and other FTA-related information should be disseminated to all kinds of firms, especially shipping companies.

Keywords: free trade agreement, AFTA, FTA utilisation, manufacturing firm survey, Thailand

JEL Classification: F150

1. Context

1.1. Background

Thailand is party to 11 free trade agreements (FTAs). The Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) is the first FTA that Thailand ratified and it has been in effect since 1 January 2002. Due to the negotiations between ASEAN, Japan, the People's Republic of China, the Republic of Korea, Australia, New Zealand, and India (ASEAN+3, ASEAN+6, and ASEAN+1), a number of additional FTAs have been negotiated and come into effect. The first ASEAN+1 FTA was the ASEAN–China FTA, which came into effect on 1 January 2004. It was followed by the ASEAN–Japan FTA (ASEAN–Japan Comprehensive Economic Partnership) that came into force on 1 June 2009. On 1 January 2010, the ASEAN–India FTA and the ASEAN–Korea FTA came into effect while the ASEAN–Australia–New Zealand FTA became effective on 12 March 2010.

The remaining five FTAs are bilateral agreements between Thailand and major partners in the region. The Thailand–China FTA came into effect on 1 October 2003 but it only covers goods with an Harmonised System code of 01-08. The Thailand–India FTA has been effective since 1 September 2004 and started with the liberalisation of goods in the Early Harvest Scheme and covers only 83 items. The Thailand–Australia FTA came into effect on 1 January 2005. The Thailand–Japan FTA (Japan–Thailand Economic Partnership Agreement) has been effective since 1 November 2007. The latest bilateral FTA for Thailand was the Thailand–Peru Comprehensive Economic Partnership (Bureau of Trade Preference, 2013).

The direct benefit of FTAs is the elimination of import tariffs. Although attention mainly focused on manufacturing, services firms can also benefit from lowering or elimination of tariffs when they import goods.

When firms directly import goods and the goods are eligible for FTA utilisation, firms can ask their trade partners to obtain Certificates of Origin (COOs) and use them for import-duty exemption or reduction. Nevertheless, many services firms do not import directly but buy imported products from distributors. As a result, they may not realise that they could benefit from FTAs through lower prices due to import-tax exemption or reduction. Some firms that recognise the benefits may still face constraints preventing

them from using FTAs. It is therefore important to examine the factors that obstruct services firms from using FTAs and to assess what might help facilitate their use.

The availability of FTAs does not necessarily mean that trade will expand. FTA rules and regulations, especially the rules of origins (ROOs) that differ from one FTA to another, and other constraints, may hinder trade expansion. Many studies employ a Computable General Equilibrium model to simulate the impacts of FTAs. These, however, are ex-ante impacts, and studies about ex-post impacts are limited. This study surveyed manufacturing and services sector firms, directed an in-depth interview, and coordinated a focus group discussion with the public and private sectors to examine the reasons why Thai businesses do not utilise FTAs and to suggest ways to increase FTA usage.

1.2. Questions

When firms want to utilise FTAs, they have to apply for COOs. This study examines what kinds of problems Thai firms face in applying for COOs, from the perspective not only of the private sector but also of the government agencies. It also examines what would help increase the FTA utilisation rate and suggests what the public and private sectors should do or change to achieve the same goal.

1.3. Objectives

The study's objectives are to examine the obstacles in utilising FTAs for businesses in Thailand, and to suggest ways to increase FTA usage.

1.4. Scope of the Study

This survey collected data from 85 manufacturing firms from June to August 2013. An in-depth interview and focus group discussions were conducted with representatives from FTA-relevant government agencies and the private sector. A questionnaire survey was conducted on 19 services firms, focusing on five services industries—telecommunications, construction, hotels, restaurants, and retail—from June to September 2013.

The in-depth interviews were conducted with two government officials from the Bureau of Trade Preference and the Customs Department, and one garment firm owner. The focus group discussion was conducted with four representatives from the Thai Automotive Industry Association, one representative from the Electrical and Electronics Institute, one representative from the Thai

Furniture Club, and two representatives from a steel firm and a plastics firm. All interviews and focus group discussions were conducted in September 2013.

2. Key Findings

2.1. Manufacturing

2.1.1. Use of FTAs

Firms are classified according to their characteristics: size, ownership, location, and whether they export or import.

This paper classifies the samples into small, medium-sized, and large firms. Since the definition of small and medium-sized enterprises (SMEs) varies from country to country, the following definition as set by the International Finance Corporation is used. Small firms have fewer than or equal to 50 (≤ 50) employees, medium-sized firms have more than 50 but less than or equal to 300 ($51 \leq 300$), and large firms have more than 300 (> 300).

In terms of ownership, we define a firm with Thai shareholders holding equal to or more than 50 percent of the total paid-in capital as a Thai firm, and a firm with foreign shareholders holding more than 50 percent of the total paid-in capital as a foreign firm. Ninety-three percent (71 out of 76 answering firms) are Thai firms, with 53 firms owned 100 percent by Thai shareholders and another five owned by foreigners from Japan, India, and Taiwan.

Concerning firm location, most of the firms are not in a particular zone and 18 firms are in an industrial promotion zone. In Thailand, we categorise an industrial promotion zone into two types: a general industrial zone and an export processing zone. There are 10 export processing zones in Thailand (Customs Department).

Taking into consideration the above categorisation, 10 firms are located in the general industrial promotion zone and another eight are in the export processing zone.

When considering export and import characteristics, most of the firms sell goods in the domestic and foreign markets. Eighty-nine percent of the responding firms directly export and 35 percent export more than half of their total sales. Most of the export markets are Japan, the United States (US), the People's Republic of China, Viet Nam, and Malaysia. In terms of importing raw materials and intermediate products, 59 percent directly import their inputs and 21 percent directly import more than half their total inputs and raw

materials. Import origin countries are the People's Republic of China, Japan, the US, Malaysia, and Taiwan. Table 11.1 shows the characteristics of the surveyed firms.

Table 11.1. Firm Characteristic

Size Number Percentage	Small 16 21	Medium 37 48	Large 24 31	Total observations 77 100	Unknown 8
Ownership Number Percentage	Thai 71 93	Foreign 5 7		Total observations 76 100	Unknown 9
Location Number Percentage	Not in any particular zone 66 79	Located in the industrial zone 10 12	Located in the export processing zone 8 10	Total observations 84 100	Unknown 1
Export characteristic Number Percentage	Do not directly export 7 11	Directly export less than 50% of total sales 35 54	Directly export equal or more than 50% of total sales 23 35	Total observations 65 100	Unknown 20
Import characteristic Number Percentage	Do not directly import 27 41	Directly import less than 50% of total inputs 25 38	Directly import equal or more than 50% of total inputs 14 21	Total observations 66 100	Unknown 19

Source: Authors' survey

2.1.2. The Use of FTAs, by Firm Characteristic

FTA utilisation is not automatic, as a firm needs to apply for a COO. Since a firm may or may not be aware that using a COO is actually FTA utilisation,* the first step is to gauge firms' knowledge of FTAs. Table 11.2 shows the use of FTAs corresponding to a firm's characteristics. According to the survey results, most firms of all sizes, but especially large firms, know about FTAs. However, the number of SMEs that utilise FTAs is less than that of large firms. Eighty percent of small firms say they know about FTAs but only 31 percent use FTAs and 53 percent use COOs. For medium-sized firms, 97 percent know about FTAs, while

* There are many types of COOs that a firm can apply for, but they have nothing to do with FTAs. For instance, Form A is used for Generalized System of Preferences which is not FTA, and some countries may require Thai firms to obtain a COO when importing goods from Thailand.

62 percent use FTAs and 73 percent use COOs. Ninety-six percent of large firms say they know about FTAs, but 100 percent use FTAs and COOs. This shows that the larger a firm is, the greater the likelihood it will utilise an FTA.

When considering FTA utilisation according to ownership, 97 percent of Thai firms know about FTAs. Sixty-six percent say they use FTAs and 74 percent use COOs. For foreign firms, 80 percent know about FTAs and 100 percent claim they use FTAs and COOs.

All the firms in the general industrial zone (100 percent) know about FTAs, 90 percent use FTAs, and 89 percent use COOs, while 88 percent of the firms in the export processing zone know about FTAs, and the percentage is the same for FTA utilisation and COO use. As for the remaining firms, which are not in any particular zone, 95 percent know about FTAs but only 65 percent use FTAs while 75 percent use COOs.

In terms of the relationship between export and import characteristics and FTA use, among the firms that do not directly export (11 percent of respondents), 83 percent know about FTAs, 43 percent use FTAs, and 67 percent use COOs and use COOs when importing inputs. Of the firms that directly export less than 50 percent of total sales, 91 percent know about FTAs, 63 percent use FTAs, and 71 percent use COOs. All the firms that directly export equal to or more than 50 percent of total sales know about FTAs, 91 percent use FTAs, and 96 percent use COOs. Eighty-nine percent of firms do not directly import inputs and know about FTAs, 44 percent use FTAs, and 63 percent use COOs. As for the firms that directly import less than 50 percent of total inputs, 96 percent know about FTAs, 88 percent use FTAs, and 92 percent use COOs. Lastly, 92 percent of the firms that directly import 50 percent or more of total inputs know about FTAs, 57 percent use FTAs, and 62 percent use COOs.

Firms tend to use COOs more than FTAs, revealing that some firms do not realise that using a COO is equivalent to utilising an FTA.

Table 11.2. Use of FTAs, by Firm Characteristic

Firm Characteristic	No. of firms	Know FTA		Use FTA		Use COO	
		Know FTA %	Total obs.	Use FTA %	Total obs.	Use COO %	Total obs.
Size							
Small	16	12	15	5	16	8	15
		80		31		53	
Medium	37	34	35	23	37	27	37
		97		62		73	
Large	24	23	24	24	24	23	23
		96		100		100	
Ownership							
Thai	71	66	68	47	71	51	69
		97		66		74	
Foreign	5	4	5	5	5	5	5
		80		100		100	
Location							
Not in any particular zone	66	60	63	43	66	49	65
		95		65		75	
Located in the industrial zone	10	10	10	9	10	8	9
		100		90		89	
Located in the export processing zone	8	7	8	7	8	7	8
		88		88		88	
Export characteristic							
Do not directly export	7	5	6	3	7	4	6
		83		43		67	
Directly export less than 50% of total sales	35	30	33	22	35	24	34
		91		63		71	
Directly export equal or more than 50% of total sales	23	23	23	21	23	22	23
		100		91		96	
Import characteristic							
Do not directly import	27	24	27	12	27	17	27
		89		44		63	
Directly import less than 50% of total inputs	25	23	24	22	25	22	24
		96		88		92	
Directly import equal or more than 50% of total inputs	14	11	12	8	14	8	13
		92		57		62	

COO = Certificate of Origin, FTA = free trade agreement.

Source: Authors' survey

2.1.3. Survey Results of the Use of FTAs, by Agreement

The most utilised FTA is ASEAN Free Trade Area. This is followed by ASEAN–China FTA, ASEAN–India FTA, ASEAN–Australia–New Zealand FTA, bilateral FTAs such as Thailand–

Japan FTA (Japan–Thailand Economic Partnership Agreement), Thailand–India FTA, ASEAN–Japan Comprehensive Economic Partnership, and ASEAN–Korea FTA. Table 11.3 shows FTA utilisation by agreement.

Table 11.3. Use of FTAs, by Agreement

Agreement	Export			Import		
	Number of obs.	Utilisation Rate %	Export Destination	Number of obs.	Utilisation Rate %	Import Origin
AFTA	46	72	Viet Nam, Malaysia, Indonesia	16	25	Malaysia, Indonesia, Viet Nam
ACFTA	18	28	China	16	25	China
AANZFTA	10	16	Australia, New Zealand	2	3	Australia
AIFTA	13	20	India	2	3	India
AJCEP	9	14	Japan	2	3	Japan
AKFTA	9	14	Korea	1	2	Korea
Others (bilateral FTAs)	7	11	Japan, India	5	8	Japan
Total observations	64			64		

AANZFTA = ASEAN–Australia–New Zealand Free Trade Agreement, AFTA = ASEAN Free Trade Area, ACFTA = ASEAN–China Free Trade Agreement, AIFTA = ASEAN–India Free Trade Agreement, AJCEP = ASEAN–Japan Comprehensive Economic Partnership, AKFTA = ASEAN–Korea Free Trade Agreement, FTA = free trade agreement.

Source: Authors' survey

Among the firms that utilise FTAs through COOs, 72 percent use AFTA to export their products to Viet Nam, Malaysia, and Indonesia; 25 percent use AFTA to import inputs from Malaysia, Indonesia, and Viet Nam; and 28 percent use ASEAN–China FTA for export to the People's Republic of China and 25 percent for import from the same country. Sixteen percent of COO-utilising firms use ASEAN–Australia–New Zealand FTA to export to Australia and New Zealand, while only three percent use it for importing inputs from the same countries. Twenty percent use ASEAN–India FTA to export goods to India and three percent use it to import inputs from the same country. Another two FTAs (ASEAN–Japan and ASEAN–Korea) are used by 14 percent of firms for exporting goods to those two countries. However, for importing inputs, only two to three percent of firms utilise these two FTAs. As for bilateral FTAs between Thailand and its partners, 11 percent of firms use bilateral

FTAs for export, with the FTAs between Thailand and Japan, as well as between Thailand and India, as the most utilised. For import, eight percent of firms use bilateral FTAs for importing inputs and the most used bilateral FTA is the Japan–Thailand Economic Partnership Agreement.

Table 11.4. Thailand’s Major Export Markets and Major Export Destinations with COOs

Major Export Market	Major Export Destinations with COOs
1. Japan	1. Viet Nam
2. US	2. People’s Republic of China
3. People’s Republic of China	3. India
4. Viet Nam	4. Japan
5. Malaysia	5. Malaysia

COO = Certificate of Origin.

Source: Authors’ survey

When comparing major export markets with major COO destinations (Table 11.4), the top four out of five export destinations are the same ones that firms export to with COOs: Japan, the People’s Republic of China, Viet Nam, and Malaysia. Although it is the second-largest major export market in this survey, the US does not have an FTA with Thailand.

2.1.4. Official Data on the Use of FTAs, by Agreement Over the Years

The most important FTA is ASEAN Free Trade Area. It had the highest applicable export value (more than US\$30 billion) and the highest value of exports utilising FTA (almost US\$15 billion) in 2012. Both values account for 35 percent of the total respective export values. However, FTA utilisation through AFTA is not the highest. Despite being ranked fourth in 2010, it fell to sixth in 2012 with a utilisation rate of 47 percent. The most utilised FTA is ASEAN-China FTA, which accounts for 80 percent of the FTA utilisation rate. It is followed by Thailand-Indian FTA at 70 percent, Japan-Thailand Economic Partner Agreement at 68 percent, Thailand-Australian FTA at 61 percent, and ASEAN-Korean FTA at 56 percent.

The least utilised FTAs are ASEAN-Japan Comprehensive Economic Partnership with a utilisation rate of one percent, and ASEAN-Australia-New Zealand FTA at three percent.

The utilisation rate of ASEAN–Japan Comprehensive Economic Partnership is substantially lower than that of Japan–Thailand Economic Partnership Agreement since exporters choose to use the latter rather than the ASEAN–Japan Comprehensive Economic Partnership due to its lower preferential tariff rates, especially for items such as prepared food with cacao and tanned leather (Bureau of Trade Preference, 2013). The same reason also explains the low utilisation of ASEAN–Australia–New Zealand FTA. For instance, the Thailand–Australia FTA gives a lower tariff, which is five percent for boys’ swimming suits, compared with 15 percent when utilising the ASEAN–Australia–New Zealand FTA (Textile and Leather Goods Intelligence Unit, 2013).

Table 11.5 shows the value of exports applicable for FTAs, the value of exports utilising FTAs, and FTA utilisation rate by agreement. Table 11.6 shows goods covered by an FTA, by agreement.

Table 11.5. Value of Export Applicable for FTA and FTA Utilisation Rate

	Value of Export Applicable for FTA (US\$ million)			Value of Export Utilising FTA (US\$ million)			FTA Utilising Proportion		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
ASEAN (AFTA)	25,553	29,248	31,235	14,024	15,182	14,794	54.88	51.91	47.36
China (ACFTA)	11,453	11,106	13,997	7,372	9,361	11,287	64.37	84.29	80.64
India (TIFTA)	786	1,003	994	566	748	696	72.00	74.61	70.04
India (AIFTA)	3,684	4,388	4,790	875	1,224	1,385	23.77	27.89	28.91
Australia (TAFTA)	6,557	5,545	8,008	5,613	5,036	4,857	85.60	90.82	60.65
Australia (AANZFTA)	5,643	5,966	7,631	23	84	214	0.42	1.41	2.81
Japan (JTEPA)	7,146	8,484	9,203	4,772	6,039	6,254	66.78	71.18	67.95
Japan (AJCEP)	1,928	7,993	7,626	26	48	56	1.35	0.60	0.74
Korea (AKFTA)	2,637	3,762	3,821	880	2,215	2,131	33.37	58.87	55.78
New Zealand (AANZFTA)	465	557	769	3	8	18	0.61	1.42	2.28
Peru (TPCEP)	-	-	65	-	-	12	-	-	18.53
Total	65,853	78,051	88,139	34,155	39,945	41,705	51.87	51.18	47.32

AANZFTA = ASEAN–Australia and New Zealand Free Trade Agreement, AFTA = ASEAN Free Trade Area, ACFTA = ASEAN–China Free Trade Agreement, AIFTA = ASEAN–India Free Trade Agreement, AJCEP = ASEAN–Japan Comprehensive Economic Partnership, AKFTA = ASEAN–Korea Free Trade Agreement, FTA = free trade agreement, JTEPA = Japan–Thailand Economic Partnership Agreement, TAFTA = Thailand–Australia Free Trade Agreement, TIFTA = Thailand–India Free Trade Agreement, TPCEP = Thailand–Peru Comprehensive Economic Partnership.

Source: Department of Foreign Trade, Thailand.

Table 11.6. Goods Covered by an FTA, by Agreement

Agreement	Top Three Goods Covered by an FTA
ASEAN (AFTA)	Automobiles, transport vehicles, mechanical shovels
China (ACFTA)	Tapioca starch, vulcanized rubber, aromatic hydrocarbon compounds
India (TIFTA)	Air conditioners, jewellery made of precious metals, plastic grains
India (AIFTA)	Diesel engines, polymers, toluene
Australia (TAFTA)	Transport vehicles (gross vehicle weight of not more than five tons), automobiles of more than 1500 cc., but less than 3000 cc., processed tuna
Australia (AANZFTA)	Ethylene terephthalate, eyeglass lenses made of other materials except glass, eyeglasses
Japan (JTEPA)	Prepared or preserved chicken and chicken entrails, prepared or preserved shrimp, frozen black tiger shrimp and frozen giant freshwater shrimp
Japan (AJCEP)	Prepared sardine, prepared or preserved shrimp, shaving cream
Korea (AKFTA)	Technically specified natural rubber, crude petroleum from bituminous minerals, methyloxirane
New Zealand (AANZFTA)	Prepared food, ethylene terephthalate, garments made from knitted or crocheted fabrics
Peru (TPCEP)	Colour TVs, footballs, condoms

AANZFTA = ASEAN–Australia and New Zealand Free Trade Agreement, AFTA = ASEAN Free Trade Area, ACFTA = ASEAN–China Free Trade Agreement, AIFTA = ASEAN–India Free Trade Agreement, AJCEP = ASEAN–Japan Comprehensive Economic Partnership, AKFTA = ASEAN–Korea Free Trade Agreement, FTA = free trade agreement, JTEPA = Japan–Thailand Economic Partnership Agreement, TAFTA = Thailand–Australia Free Trade Agreement, TIFTA = Thailand–India Free Trade Agreement, TPCEP = Thailand–Peru Comprehensive Economic Partnership.

Source: Bureau of Trade Preference, Thailand, 2013.

2.1.5. Perceptions of How FTAs Affect Decisions to Invest, by Firm Size

Small firms do not give any information on whether FTAs have affected their investment decisions. Twenty-five percent of medium-sized firms state that FTAs were not a factor in deciding the investment location, 33 percent say that they did not know, and 42 percent say that FTAs were a factor in investment decisions. Conversely, up to 50 percent of large firms say that FTAs were a factor when deciding investment location, while another 25 percent say they were not, and another 25 percent say that they did not know. The reason why some firms state that they do not know might be because the individuals who

completed the questionnaire or answered via the interview are not in a position to know about past investment decisions.

Firms that say they considered FTAs as a factor in deciding investment location considered ASEAN–China FTA, ASEAN–Korea FTA, ASEAN–Australia–New Zealand FTA, ASEAN–India FTA, Thailand–Japan FTA, Thailand–Australia FTA, and Thailand–New Zealand FTA because of their lower preferential tariffs.

In terms of an investment plan for the next five years, none of the small firms state they would close the business, while several medium-sized and large firms (three to five percent) state they would. The same tendency appears to be the reason for the decisions to reduce the level of business operations or to move the production sites within Thailand. Most of the firms state that they would either maintain the same level of business operations or expand their level of business operations. SMEs tend to expand their business whereas large firms tend to maintain their level of business operation.

Asked about overseas investments, small and large enterprises are likely to expand or invest overseas (44 percent and 52 percent, respectively). However, about half of the medium-sized firms (51 percent) have no plans to do so. The reasons behind overseas investment decisions, on which all firms agreed, are growing markets and low labour costs. The next most important reasons for small firms are low logistics costs and following a business partner's investment, and for medium-sized and large firms, investment incentives and FTAs. A low preferential tariff is the FTA component that all firms consider to be the most beneficial to their future investments. It is followed by higher foreign equity share, for medium-sized firms, and better investment protection, for large firms. As for other motives, some large firms mention natural resources and political stability. The overseas investment destinations mentioned the most are ASEAN countries such as Viet Nam, Myanmar, Indonesia, and the People's Republic of China. Table 11.7 shows the survey results of investment decisions according to firm size.

In-depth Interview and Focus Group Discussion: FTAs and Investment Decision

A garment company owner claimed that the major export markets for Thai garment and textile products were the US and the EU. However, Thailand does not have FTAs with either. There is a possibility that some firms may decide to invest or move their production sites from Thailand to countries that have an FTA with either the US or the EU. The highest possible investment destination for this case is Viet Nam.

Table 11.7. Investment Decision, by Firm Size

Investment Decision	Firm size					
	Small		Medium		Large	
Past investment	Total obs.	3	Total obs.	12	Total obs.	12
FTA was not a factor in deciding the investment location	0		3	25%	3	25%
Don't know	1		4	33%	3	25%
FTA was a factor	2		5	42%	6	50%
Future investment	Total obs.	16	Total obs.	33	Total obs.	22
Close the business	0	0%	1	3%	1	5%
Reduce the level of business operation	0	0%	1	3%	0	0%
Move the production sites within a country	0	0%	0	0%	2	9%
Maintain the same level of business operation	5	31%	13	39%	10	45%
Expand the level of business operation	11	69%	20	61%	9	41%
Overseas investment	Total obs.	16	Total obs.	35	Total obs.	21
No plan	5	31%	18	51%	7	33%
Under consideration	4	25%	11	31%	3	14%
Will expand/ invest overseas	7	44%	6	17%	11	52%
Reasons for overseas investment	Total obs.	11	Total obs.	17	Total obs.	12
Growing markets	9	82%	15	88%	6	50%
Low labour costs	4	36%	15	88%	6	50%
Low tax	1	9%	3	18%	2	17%
Low logistics costs	3	27%	3	18%	1	8%
Investment incentives	1	9%	6	35%	5	42%
FTA	1	9%	6	35%	5	42%
Follow business partner's investment	2	18%	2	12%	0	0%
Others	1	9%	0	0%	2	17%

FTA = Free trade agreement, obs. = observations,

Source: Authors' survey

2.1.6. Constraints on Using FTAs, by Firm Size

Since some firms may not recognise that using a COO is utilising an FTA, they were asked about the reasons for not using FTAs and COOs. The top three reasons for small and medium-sized firms are lack of information, small trade volume, and utilising other schemes. A scheme that most firms use other than FTAs is the investment privileges received from Thailand's Board of Investment. The Board of Investment's tax incentives include the exemption on or reduction of import duties on machinery and the reduction of import duties on raw materials. However, the study could not identify what constrain large firms from using FTAs, because all the large firms in the survey use FTAs and COOs.

Table 11.8. Reasons for Not Using FTAs, by Firm Size

Reasons or constraints	Firm size					
	Small		Medium		Large	
	Do not use FTA	Do not use COO	Do not use FTA	Do not use COO	Do not use FTA	Do not use COO
Lack of information	5 50%	4 67%	2 14%	3 33%	All large firms use FTA and COO.	
Cannot meet the ROOs requirement	1 10%	1 17%	1 7%	1 11%		
Small trade volume	2 20%	2 33%	7 50%	3 33%		
Small differences between preferential FTA and normal applied tariff	0 0%	0 0%	0 0%	0 0%		
Using other schemes	2 20%	1 17%	5 36%	4 44%		
Fee to obtain COOs is too expensive	0 0%	0 0%	1 7%	0 0%		
Procedure to obtain COOs is too complicated	0 0%	1 17%	0 0%	1 11%		
Others	1 10%	1 17%	0 0%	0 0%		
Total observations	10	6	14	9		

COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.

Source: Authors' survey

2.1.7. Perception of the Costs and Procedures of FTAs, by Firm Size

Table 11.9 shows perceptions concerning the costs and the procedures of FTAs, by firm size. Across the board, firms agreed that the number of documents required for the COO application, the cost, and the length of time to obtain a COO are reasonable. Large firms use a COO online application system more than SMEs do. It seems the larger the firm, the greater the possibility that it will use an online system.

Since a firm may export to various countries, it could face different COO schemes, which vary from one country to another. Although a firm may export to one destination, it sometimes encounters different COO schemes from different FTAs between the country of origin and the country of export destination. In the case of Thailand, when a firm exports goods to Japan, it may have to consider the different COO schemes between the Thailand–Japan FTA and the ASEAN–Japan FTA, depending on the product. A firm that exports to India and Australia may have the same problem (Table 11.5).

The survey results show that most small firms (64 percent) do not compare the advantages of different COO schemes when exporting to one country, while another 29 percent compare the advantages of different COO schemes. Medium-sized firms tend to compare (37 percent) or not compare the different COO schemes (34 percent). While up to 48 percent of large firms compare the different COO schemes, 30 percent do not. Some firms clearly stated that comparison of different COO schemes is not applicable to them because the country of their export destination has only one COO scheme or one FTA. Some firms also stated that they did not know.

When exporting to more than one country, 37 percent of medium-sized firms find it difficult to comply with more than one COO, while only 29 percent of small and large firms encounter difficulties. For small firms, the biggest group (43 percent) states that they do not know if they are facing difficulties complying with more than one COO when exporting to more than one country. Medium-sized firms, the second-largest group (29 percent), states the same thing. This is consistent with the answers in the last section, which state that firms lack information, resulting in non-use of FTAs. Although 29 percent of large firms encounter difficulties, 33 percent do not have difficulties in complying with more than one COO when exporting to more than one country. Twenty four percent of large firms state that complying with more than one COO when exporting to more than one country is not applicable to them because they export to only one destination, or

among their export destinations there is only one country (one group in case of ASEAN) that has an FTA with Thailand. This is true for many firms because their major export destinations are the US and the EU, with which Thailand does not have an FTA.

Table 11.9. Perceptions of FTA Utilisation

Perception of FTA utilisation	Firm size					
	Small		Medium		Large	
Number of documents	Total obs.	7	Total obs.	23	Total obs.	22
Very few	0	0%	0	0%	1	5%
Reasonable	5	71%	13	57%	18	82%
Many	2	29%	9	39%	1	5%
Too many	0	0%	1	4%	2	9%
Average number of documents used (documents)	3-4		4-5		2-5	
Length of time to obtain a COO	Total obs.	7	Total obs.	24	Total obs.	23
Very quick	1	14%	2	8%	2	9%
Reasonable	5	71%	14	58%	15	65%
Lengthy	1	14%	7	29%	3	13%
Very lengthy	0	0%	1	4%	3	13%
Average length of time used (working days)	2-3		2-5		1-3	
Cost to obtain a COO	Total obs.	7	Total obs.	24	Total obs.	22
Very low	1	14%	1	4%	1	5%
Reasonable	6	86%	17	71%	17	77%
Costly	0	0%	5	21%	0	0%
Very costly	0	0%	1	4%	3	14%
Average cost (US\$)	23.33		20		7.24	
Online application system	Total obs.	11	Total obs.	30	Total obs.	23
Use online system	3	27%	11	37%	18	78%
Compare the advantages of different COO schemes when exporting to a country	Total obs.	14	Total obs.	35	Total obs.	23
Do not compare	9	64%	12	34%	7	30%
Do not know	1	7%	6	17%	2	9%
Not applicable	0	0%	4	11%	3	13%
Compare	4	29%	13	37%	11	48%
Find difficulties in complying with more than one COO when exporting to more than one country	Total obs.	14	Total obs.	35	Total obs.	21
Do not find any difficulty	2	14%	8	23%	7	33%
Do not know	6	43%	10	29%	3	14%
Not applicable	2	14%	4	11%	5	24%
Find it difficult	4	29%	13	37%	6	29%
Consulting source	Total obs.	12	Total obs.	33	Total obs.	23
Website of Thai government	2	17%	5	15%	9	39%
Website of trading partner's government	1	8%	2	6%	2	9%
Business associations	3	25%	5	15%	5	22%
Chambers of commerce	2	17%	1	3%	7	30%

COO = Certificate of Origin, FTA = free trade agreement.

Source: Authors' survey

In-Depth Interview and Focus Group Discussion: Constraints on Using FTAs

A Customs Department official mentioned that many firms did not use FTAs because they are in the industrial promotion zone or they receive tax privileges under the Board of Investment's scheme. If these firms are not taken into account, the number of firms that do not use FTAs should be smaller. A representative from the Electrical and Electronics Institute added that the Information Technology Agreement had reduced import duty imposed on electrical and electronic goods (covering all goods of HS code 85) to zero and had nothing to do with ROOs. Therefore, firms do not have to apply for a COO to receive benefits from FTAs. A representative from a large plastics company said that some SMEs did not pay attention to FTA utilisation since they had to hire more staff to manage the issue.

The fee to obtain COOs is too expensive in some countries, especially Cambodia; two representatives from a garment company and the Thai Automotive Industry Association said the fee was higher than in other countries. In the instance of the garment company, they paid a COO application fee of US\$50 plus fees imposed on each item, perhaps 5,000 riel [equivalent to US\$1.2]/dozen. The representative from the Thai Automotive Industry Association said they paid US\$150 without the accumulation of local content and US\$450 with the accumulation of local content. Therefore, he suggested harmonising COO application fees.

A customs official stated that the problem of incorrect information being filled in on the COO form was prevalent in the People's Republic of China, Indonesia, and Viet Nam.

The representative from a large plastics company also mentioned that for a shipment valued at less than US\$500, a COO cannot be applied for, which was a constraint.

The most problematic issue is the Harmonised System[sell out or identify] code identification. A firm categorises under one Harmonised System code a product or input that it will import. It will then inform its trade partner to use this Harmonised System code in the COO application form. But when the product enters Thailand, a Thai customs official may say that the product falls under another Harmonised System code, causing many problems. This issue is difficult to resolve because products are varied and it depends on the judgment of each side. The representative from the Electrical and Electronics Institute also added that electrical and electronic goods are multi-functional and it was difficult to identify the HS code.

Furthermore, the definition of some words in FTAs is not clear, such as 'Minimal Operations and Processes' in the ASEAN Trade in Goods Agreement. A representative from the Thai Automotive Industry Association said that what is fallen under 'Minimal Operations and Processes' was also interpreted and judged by customs officials.

When a firm faces problems or needs to consult with a third party about COO schemes, most SMEs consult a freight forwarder or logistics company, not only to facilitate the transport of their goods but also because of the number of documents involved. In Thailand, this kind of company is called a 'shipping company'. For large firms, a shipping company is the second most common choice, while the Thai government's website is the most popular consulting source for large firms. Many firms also consult business associations and chambers of commerce. Some firms clearly state that they directly call government agencies to obtain information, which is a better option than visiting their websites.

2.1.8. Main Sources of Information About FTAs

Most firms (64 percent) consider that the currently available information about FTAs is good, 31 percent say it is poor, 2.5 percent state it is very good, and 2.5 percent say it is very poor. The best communication medium for disseminating information about FTAs, or any other economic cooperation, is the Internet. This also includes government agencies' websites and seminars to convey information about FTAs.

In-Depth Interview and Focus Group Discussion: FTA Information Dissemination

The Bureau of Trade Preference stated that it, together with the Department of Trade Negotiations, conducts seminars two or three times a month, sends staff to lecture at companies, and places virtual data operations support of past seminars on its website.

However, representatives from the private sector requested that seminars be done by sector or by product because the details are different. Firms should also send staff in charge of FTA issues to the seminar, not entrepreneurs or managers. The Bureau of Trade Preference mentioned that many firms use their messengers, not the staff in charge, to apply for and obtain COOs. This means that when there was important information that the bureau would like to pass on to firms, the messages tended to get lost.

2.1.9. Other Interesting Issues that Need to be Highlighted

Firms have provided several suggestions to maximise FTA use. For example, government units should provide enough staff (capacity) to facilitate the procedures. A call centre and one-stop service should be established and those government units should reduce the number of procedures and require fewer documents. More knowledge and information should be disseminated. The information placed on the website should be

clear in terms of procedures, required documents, fees, and time required, and information about FTA benefits should be tailor-made by product.

In-Depth Interview and Focus Group Discussion: Other Interesting Issues

A self-certification system was discussed in Japan–Thailand Economic Partnership Agreement in 2007, but it has still not been established. A representative from the Thai Automotive Industry Association stated that if such a system were in place, the transaction costs would be reduced by up to THB5,000 [equivalent to US\$140]/shipment. A representative from a furniture company also added that government agencies should attach more importance to the electronic and online system and that the system must be harmonised among countries. There are two self-certification systems in ASEAN countries. The representative from the Thai Automotive Industry Association said that many entrepreneurs were wondering if they would be harmonised or incorporated into one system in 2015. As for a call centre, the customs official claimed that it is impossible for call-centre staff to know everything. They can only answer fundamental questions and if the question is too detailed, they will pass it on to the staff in charge. However, a representative from the private sector said they needed both an efficient call centre and one-stop service. If the staff of a call centre cannot answer all questions, the website should clearly state whom to call.

The customs official also commented that the customs tariff is part of the nation's revenue. A loss of revenue because of FTAs is understandable, but all government revenue-collecting units adhere to the idea that this year's revenue (customs tariff revenue) will be the revenue target of the following year. Therefore, there is pressure on the Customs Department to find a way to collect tariffs to meet the target.

Finally, many representatives from the private sector recognise that non-tariff measures are now increasingly employed as trade barriers instead of tariffs.

2.2. Services

2.2.1. Use of FTAs

First we need to define the firm size (small, medium, and large), as the definition of SMEs varies from country to country. We therefore follow the definition from the International Finance Corporation: small enterprises are those with 50 or fewer employees; medium-sized enterprises have between 51 and 300; and large enterprises have more than 300. In this survey, the sample comprised three small firms, five medium-sized firms, and 11 large firms.

Table 11.10. Firm Characteristic

Size	Small	Medium	Large	Total obs.	Unknown	Total
Number	3	5	11	19	0	19
Percentage	16	26	58	100		
Ownership	Thai	Foreign		Total obs.	Unknown	Total
Number	16	1		17	2	19
Percentage	94	6		100		
Import characteristic:						
Direct import of inputs	Directly import inputs	Do not directly import inputs		Total obs.	Unknown	Total
Number	10	9		19	0	19
Percentage	53	47		100		
Import of inputs via distributors	Import inputs via distributors	Do not import inputs via distributors		Total obs.	Unknown	Total
Number	9	9		18	1	19
Percentage	50	50		100		

Source: Authors' survey

In terms of ownership, we define a Thai firm as one in which Thai shareholders hold 50 percent or more of the total paid-in capital, and a foreign firm as one where foreign shareholders hold more than 50 percent of the total paid-in capital. Among the 19 services firms, 12 were 100 percent Thai, four firms have Thai citizen(s) as major shareholder(s), one firm was foreign, and the rest could not be classified by ownership due to lack of information.

About half of the 19 services firms provide services in foreign markets. Half of the firms directly import inputs and materials, with total raw materials comprising 15–70 percent, while the other half import inputs and materials through distributors or suppliers, with total raw materials comprising 15–90 percent. Some firms import both directly and via distributors.

2.2.2. The Use of FTAs, by Firm Characteristic

More than half of the firms in all size groups in the sample know about FTAs. Two out of three small firms and four out of five medium-sized firms know about FTAs, while six out of 11 large firms do. However, none of the SMEs uses FTAs or COOs. Three large firms mentioned that they use and benefit from FTAs but only one uses COOs.

Sixty-nine percent (11 out of 16) of Thai firms in the sample know of FTAs. However, only three use FTAs and only one uses COOs. The single foreign firm does not know about FTAs and does not use FTAs and COOs.

Firms that directly import goods and raw materials are those able to use COOs, and, in turn, directly utilise FTAs. Firms that buy imported raw materials from distributors do not directly utilise FTAs and COOs. They may or may not know, therefore, whether or not the imported raw materials enjoy lower preferential tariffs due to FTA use. The survey results show that 50 percent of firms that directly import their inputs know about FTAs but only one uses COOs. Almost half of the firms that import their inputs via distributors know about FTAs (four out of nine) but just one out of nine answering firms (11 percent) claims that it utilises FTAs. Of course, none of these firms uses COOs. Although only 11 percent mention that they utilise FTAs, three out of eight (38 percent) know that their imported goods enjoy preferential tariff rates from FTAs.

Table 11.11: Use of FTAs, by Firm Characteristic

Firm Characteristic	No. of firms	Know FTA		Use FTA		Use COO	
		Know FTA	Total obs.	Use FTA	Total obs.	Use COO	Total obs.
Size							
Small	3	2 67%	3	0 0%	3	0 0%	3
Medium	5	4 80%	5	0 0%	5	0 0%	3
Large	11	6 55%	11	3 27%	11	1 9%	11
Ownership							
Thai	16	11 69%	16	3 20%	15	1 8%	13
Foreign	1	0 0%	1	0 0%	1	0 0%	1
Import characteristic							
Direct import of inputs							
Directly import inputs	10	5 50%	10	1 10%	10	1 13%	8
Do not directly import inputs	9	7 78%	9	2 22%	9	0 0%	9
Import of inputs via distributors							
Import inputs via distributors	9	4 44%	9	1 11%	9	0 0%	8
Do not import inputs via distributors	9	7 78%	9	1 11%	9	1 13%	8

COO = Certificate of Origin, FTA = free trade agreement.

Source: Authors' survey

2.2.3. Survey Results of the Use of FTAs, by Agreement

Among 19 firms, only one large construction firm uses a COO to utilise FTAs. It uses Form D when importing inputs from Australia, Form E when importing from the People's Republic of China, Form AI when importing from India, Form AJ when importing from Japan, and Form AK when importing from South Korea.

2.2.4. Perceptions of How FTAs Affect Decisions to Invest, by Firm Size

SMEs do not provide information on whether or not FTAs have been important factors in deciding investment locations. Forty percent of large firms confirmed that FTAs were a factor affecting investment location decisions, while the rest said they did not know. This could be because the individual who filled in the questionnaire was not aware of the details of past investment decisions.

When asked about investments in the next five years, none of the firms expects to close their business, reduce its level of business operations, or move its production site within the country. All small firms say they intend to maintain the current level of business operations. Two out of three responding medium-sized firms and four out of five responding large firms say they intend to expand their business in the next five years, while the rest expect to maintain their business operation level.

On the question of overseas investments over the next five years, two out of three small firms are considering this while the rest have no plans. By way of contrast, two out of three medium-sized firms have no plans for overseas investment, while the rest are considering it. However, 60 percent of large firms say they would invest or expand their business overseas. Thirty percent have no plans and the remaining 10 percent are considering it.

Among small firms thinking about overseas investment, the reasons for investing overseas are growing markets, low tax, investment incentives, and other reasons such as being persuaded by foreign partners. Among medium-sized firms considering overseas investment, growing markets is the only reason cited. Large firms' reasons for overseas investments planned in the next five years are, by rank, growing markets, FTAs, investment incentives, low labour costs, and low logistics costs. In terms of FTAs, the aspects of FTA that large firms think will benefit future investment are better investment protection,

lower preferential tariff, and higher foreign equity share. Table 11.12 shows investment decisions by firm size.

Table 11.12. Investment Decisions, by Firm Size

Investment Decision	Firm size					
	Small		Medium		Large	
Past investment	Total obs.		Total obs.		Total obs.	
FTA was not a factor in deciding the investment location	0	n.a.	0	n.a.	5	
Don't know	n.a.	n.a.	n.a.	n.a.	2	40%
FTA was a factor	n.a.	n.a.	n.a.	n.a.	3	60%
	n.a.	n.a.	n.a.	n.a.	0	0%
Future investment	Total obs.		Total obs.		Total obs.	
Close the business	2		3		9	
Reduce the level of business operation	0	0%	0	0%	0	0%
Move the production sites within a country	0	0%	0	0%	0	0%
Maintain the same level of business operation	2	100%	1	33%	4	44%
Expand the level of business operation	0	0%	2	67%	5	56%
Overseas investment	Total obs.		Total obs.		Total obs.	
No plan	3		3		10	
Under consideration	1	33%	2	67%	3	30%
Will expand/ invest overseas	2	67%	1	33%	1	10%
	0	0%	0	0%	6	60%
Reasons for overseas investment	Total obs.		Total obs.		Total obs.	
Growing markets	2		1		7	
Low labour costs	1	50%	1	100%	7	100%
Low tax	0	0%	0	0%	1	14%
Low logistics costs	1	50%	0	0%	0	0%
Investment incentives	0	0%	0	0%	1	14%
FTA	1	50%	0	0%	3	43%
Follow business partner's investment	0	0%	0	0%	4	57%
Others	0	0%	0	0%	0	0%
	1	50%	0	0%	0	0%

FTA = free trade agreement, obs. = observations, n.a. = not available _____.

Source: Authors' survey

2.2.5. Constraints on Using FTAs, by Firm Size

One conclusion from the survey data is that knowledge about FTAs is not well disseminated. For example, some respondents do not recognise that using a COO is utilising an FTA. Questions were asked about constraints on using FTAs and on using COOs. The answers for all firms are similar. Small firms cited lack of information (67 percent), small trade volume (33 percent), procedures to obtain COOs are too complicated (33 percent),

cannot meet the ROO requirements (33 percent), and using other schemes that also provide lower preferential tariff such as Board of Investment schemes (33 percent).

Table 11.13. Constraints on Using FTAs, by Firm Size

Reasons or constraints	Firm size					
	Small		Medium		Large	
	Do not use FTA	Do not use COO	Do not use FTA	Do not use COO	Do not use FTA	Do not use COO
Lack of information	2 67%	2 67%	0 0%	0 0%	4 67%	4 44%
Cannot meet the ROOs requirement	0 0%	1 33%	1 25%	1 50%	0 0%	0 0%
Small trade volume	1 33%	1 33%	2 50%	1 50%	1 17%	2 22%
Small differences between preferential FTA and normal applied tariff	0 0%	0 0%	0 0%	0 0%	1 17%	0 0%
Using other schemes	1 33%	0 0%	0 0%	0 0%	1 17%	0 0%
Fee to obtain COOs is too expensive	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
Procedure to obtain COOs is too complicated	1 33%	1 33%	0 0%	0 0%	1 17%	1 11%
Others	0 0%	0 0%	1 25%	0 0%	2 33%	4 44%
Total observations	3	3	4	2	6	9

COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.

Source: Authors' survey

For medium-sized firms, small trade volume is the most important constraint (50 percent), followed by an inability to meet the ROO requirements. For large firms, lack of information is the most prevalent factor. Among other reasons is that firms do not directly import their inputs and therefore have no need for COOs. The same reason is also given for not using FTAs among medium-sized and large firms. This implies that firms' understanding of the utilisation of FTAs is that a COO is only needed for direct imports, although some firms do recognise that their imported goods purchased from distributors also enjoy preferential tariff rates from FTAs.

When they have difficulties using COOs, firms consult or find information from government agencies' websites, freight forwarders, or logistics companies (in Thailand they are called 'shipping companies'), or lawyers and consulting firms.

Main Sources of Information About FTAs

On the question of FTA information, seven out of 13 answering firms (54 percent) feel the available information is good. The most mentioned media for accessing FTAs information is the Internet, followed by conventional media such as television, radio, and newspapers.

2.2.6. Other Interesting Issues that Need to be Highlighted

Most SME service providers in Thailand import goods directly. They buy imported goods from distributors and do not mind whether or not the imported products' prices are lower because of reduced import tariff. They are interested only in the prices at which the distributors sell the products. Some of them state that if the product incurs a lower import tariff then it is the distributors that benefit.

Services firms suggest that government encourage FTA usage by providing more information about FTAs and FTA utilisation through all possible media. Some services firms, especially those that do not directly import goods, do not understand how they can become involved in and utilise FTAs. The FTA-relevant government agencies should organise more seminars to disseminate information about FTAs and establish efficient call centres.

3. Key Recommendations

Both the public and private sectors mentioned the constraints impeding FTA use and what the other side should do or change to maximise the use of FTAs. Government agencies should improve their websites to provide information the private sector needs. FTA information should be more product- or sector-specific. A contact list according to inquiry topic should be provided to increase the efficiency of call centres. An electronic and online system and a national single-window system should be implemented. COO application fees should be harmonised among all FTA partners. The private sector should also pay more attention to and obtain more information about FTAs.

Services firms can certainly benefit from FTAs. Since many services firms cannot directly import goods and thus cannot utilise FTAs through COOs, focus should instead be on distributors that have the potential to utilise FTAs. FTA-related information should

therefore be disseminated to all kinds of businesses, especially to freight-forwarding and shipping companies, and the content of FTAs and FTA utilisation information publications should be categorised by sector or service type.

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CHAPTER 12

Survey of FTA Utilisation in Viet Nam

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This report provides a summary of the key findings from a survey on free trade agreements (FTAs) utilisation by firms in Viet Nam. The utilisation rate was rather low until 2005, and has only improved gradually in recent years. As most FTAs are new, they have only modest relevance to the past investment decisions of firms in Viet Nam. The key constraints in using FTAs are failure to meet rules of origin (ROOs) requirement, lack of information, small trade volume, and small tariff benefits. The number of required documents and the time taken and costs incurred for obtaining Certificates of Origin (COOs) are generally thought reasonable, though scattered evidence shows that they are more problematic for small- and medium-sized enterprises (SMEs). Compliance with various COOs is another issue for firms, although the problem is rather modest. The Viet Nam Chamber of Commerce and Industry and government agencies are the main sources of information and support, but their role should be enhanced further. Specifically, the Government needs to provide more relevant information, simplify COO procedures, and work with partners to harmonise procedures. The business associations should continue to support firms in compliance with ROO requirements, and facilitate the sharing of experiences among members regarding issues with FTA utilisation.

Keywords: Trade facilitation, FTA utilisation, rules of origin, Viet Nam

JEL Classification: F14, F15.

1. Context

1.1. Background

Since its national unification in 1975, Viet Nam has embarked on continuous economic reforms. However, comprehensive and bold reforms only made a major breakthrough in 1986, when Viet Nam publicly rejected the central planning model in favour of a transformation towards a mixed-market economy. Various market-oriented reforms have accordingly been undertaken, aimed at stabilising and opening the economy, and enhancing freedom of choice for all economic agents. Simultaneously, Viet Nam has engaged in pro-active international economic integration, which both broadened economic opportunities within the economy and exerted pressures for domestic economic reforms.

Viet Nam has consequently achieved significant socio-economic progress, particularly in terms of economic growth, poverty reduction, industrial development, and export growth, etc. The country quickly exited a situation of chronic and severe domestic hunger to become a major exporter of various agricultural products. This induced further efforts for economic reform and integration. Accession to the World Trade Organization (WTO) in 2007 came as a consequence of these processes, although it did not mark an end to Viet Nam's integration process.

Looking back, regional economic integration, with the hub being the Association of South East Asian Nations (ASEAN), has significantly broadened opportunities for Viet Nam. In a direct way, market access was drastically improved, while inflows of foreign direct investment (FDI) and official development assistance (ODA) rose sharply and became significant sources of finance to support Viet Nam's development. In a less direct way, the integration process also brought along the flows of knowledge and shared experience that were critical to an economy in an early stage of development. More importantly, the integration process increased pressures for domestic reform, so as to effectively grasp the arising opportunities. Notwithstanding the presence of inherent weaknesses, Viet Nam's economy has benefited from pro-active integration. This endows the country with confidence in future integration attempts.

The trend of economic integration will continue into the future, particularly as Viet Nam aims towards developing a strong and regionally integrated industrial economy. Key

existing benefits from regional economic integration, particularly under the ASEAN framework, should be further exploited. Key regional free trade agreements (FTAs) with ASEAN centrality, such as ASEAN+1 FTAs and the Regional Comprehensive Economic Partnership (RCEP), have driven progressive trade and investment liberalisation in Viet Nam. Other FTAs outside the ASEAN+ framework, such as the Trans-Pacific Partnership (TPP), the Viet Nam-EU FTA, etc., are also acquiring greater importance.

1.2. Questions

Several questions arise alongside Viet Nam's economic integration process. First, is whether Viet Nam is capable of making full use of FTA-induced benefits that are directly related to trade remains unclear? Second, is whether domestic reforms, including trade facilitation attempts, have been in line with the economic integration process itself? Third, notwithstanding the *ex-ante* expectations of joining various FTAs, is whether FTAs actually improve the business environment, from a business perspective? Finally, if any problems are identified in the answers to the above questions, follow-up policy measures will be needed to address the problems themselves. These questions will be the focus of this report.

1.3. Objectives

This report provides a summary of the key findings from a survey on FTA utilisation by firms in Viet Nam. As Viet Nam's FTAs largely focus on tariff reduction, the utilisation rate of FTAs then reflects the extent to which Viet Nam has benefited from such agreements. The survey was undertaken from April to August 2013, with the target respondents being firms with independent operations and accounting, adjusted by the Enterprise Law, Cooperative Law and Foreign Investment Law in effect from before 2003 and currently in operation. Specifically, the surveyed firms are primarily those operating in export-oriented manufacturing and services sectors. Two batches of questionnaires were designed specifically for firms in the two sectors, aiming to extract their views about and/or their positions on preferential treatment under FTAs, major impediments to such positions, and the perspective of firms about related policies for improvement.

2. Key Findings

2.1. Description of respondents

2.1.1. Description of surveyed manufacturing firms

Table 12.1 classifies the surveyed manufacturing firms in terms of their size. As can be seen, 103 manufacturing firms provided responses to the questionnaires. More than two-thirds of the respondents are small-sized, while those of large and medium sizes account for 8.7 percent and 19.4 percent, respectively. Almost 5 percent of the respondents provided no information on their capital scale.

Table 12.1: Structure of Surveyed Firms by Size

	<i>Large</i>	<i>Medium</i>	<i>Small</i>	<i>Unknown</i>	<i>Total</i>
Number of respondents	9	20	69	5	103
Percentage (%)	8.7	19.4	67.0	4.9	100.0

Source: Authors' calculations from survey data.

Table 12.2 shows the proportions of the surveyed manufacturing firms with different ownership forms. Over three-quarters of the surveyed firms acquired all their capital from domestic sources. Foreign firms made up around 18.4 percent of the survey sample. Only five joint ventures (or 4.9 percent of the sample) provided responses to the questionnaires.

Table 12.2: Structure of Surveyed Firms by Ownership

	<i>Domestic firms</i>	<i>Foreign firms</i>	<i>Joint Ventures</i>	<i>Unknown</i>	<i>Total</i>
Number of respondents	78	19	5	1	103
Percentage (%)	75.7	18.4	4.9	1.0	100.0

Source: Authors' calculations from survey data.

Table 12.3 shows the shares of surveyed manufacturing firms having export and/or import activities in 2012. Some 17.5 percent of the respondents had only direct export activities in the year, while the corresponding proportion for those having import activities in 2012 was 11.7 percent. Almost 46.6 percent of the surveyed firms conducted both

export and import activities in the same year. 24.3 percent of the respondents provided no information on ownership.

Table 12.3: Structure of Surveyed Firms by Activity

	<i>Exporting</i>	<i>Importing</i>	<i>Exporting & Importing</i>	<i>Unknown</i>	<i>Total</i>
Number of respondents	18	12	48	25	103
Percentage (%)	17.5	11.7	46.6	24.3	100.0

Source: Authors' calculations from survey data.

Table 12.4 depicts the surveyed firms by location. Some 24.3 percent operate in industrial zones and 5.8 percent are in free trade zones. The shares of firms operating in export processing zones and bonded zones are all less than 2 percent. The remaining 67 percent of the firms are not located in any particular zone.

Table 12.4: Structure of Surveyed Firms Analysed by Location

	<i>Export Processing Zones</i>	<i>Free Trade Zones</i>	<i>Special Economic Zones</i>	<i>Industrial zones</i>	<i>Bonded zones</i>	<i>Not in any particular zones</i>	<i>Total</i>
Number of respondents	1	6	0	25	2	69	103
Percentage (%)	1.0	5.8	0	24.3	1.9	67.0	100.0

Source: Authors' calculations from survey data.

2.1.2. Description of surveyed services firms

Table 12.5 shows the surveyed services firms in terms of their capital scale. Twenty firms provided responses to the questionnaires. Half of the respondents are large, while small- and medium-sized firms were both 25 percent of the responding sample.

Table 12.5: Structure of Surveyed Firms by Size

	<i>Large</i>	<i>Medium</i>	<i>Small</i>	<i>Total</i>
Number of respondents	10	5	5	20
Percentage (%)	50.0	25.0	25.0	100.0

Source: Authors' calculations from survey data.

Table 12.6 presents the surveyed services sector firms by form of ownership. Four-fifths of the respondents relied solely on domestic capital. The shares of foreign firms and joint ventures in the responding sample were both 20 percent.

Table 12.6: Structure of Surveyed Firms by Ownership

	<i>Domestic firms</i>	<i>Joint Ventures</i>	<i>Foreign firms</i>	<i>Total</i>
Number of respondents	16	4	0	20
Percentage (%)	80.0	20.0	0.0	100.0

Source: Authors' calculations from survey data.

Table 12.7 categorises the surveyed services firms depending on the type of trade activities they conducted in 2012. Only 30 percent of the respondents had direct imports, while just 15 percent conducted export activities in 2012. About 5 percent had both export and import activities in the year.

Table 12.7: Structure of Surveyed Firms by Activity

	<i>Exporting</i>	<i>Importing</i>	<i>Exporting & Importing</i>	<i>None</i>	<i>Total</i>
Number of respondents	3	6	1	10	20
Percentage (%)	15.0	30.0	5.0	50.0	100.0

Source: Authors' calculations from survey data.

2.2. Use of FTAs

2.2.1. Use of FTAs analysed by firm characteristics

In November 2012, Ho Chi Minh and Ha Noi still dominated the value of granted COOs. This is understandable given the large shares of these major cities in the national economy. They are also closely connected with the major cargo ports and logistical centres of the country. From official data, Ho Chi Minh City accounts for 39.7 percent of the value of granted COOs in the first 11 months of 2012, while the corresponding figure for Ha Noi is 23.2 percent. Notwithstanding the proliferation of industrial zones and export processing zones in Viet Nam, the value of COOs granted by these zones is still small—even smaller than other urban cities such as Da Nang, Hai Phong, etc. A possible explanation for the weak role of industrial zones is that export processing zones have relatively less experience

and higher associated time costs than their counterparts in local provinces in processing COO applications.

Table 12.8: Official Value of Granted COOs by Location, First 11 Months of 2012

	<i>Ha Noi</i>	<i>Ho Chi Minh</i>	<i>Industrial zones - Export Processing Zones</i>	<i>Others</i>	<i>Total</i>
Value (USD million)	3,909.0	6,676.8	281.6	5,940.0	16,807.5
Share (%)	23.26	39.73	1.68	35.34	100.00

Source: Calculations from MOIT statistics.

Forty-nine percent of the surveyed manufacturing firms in this project claim that they have made some use of preferential treatment under FTAs (Table 12.9). However, the utilisation rate of COOs exceeds that under FTAs. There are a couple of reasons for this situation. First, other preferential treatment was granted to Viet Nam's exporters outside of the FTA framework, so COO applications help exporters to receive such treatment. Second, in the context of the expanding regional production network, notwithstanding ineligibility for preferential treatment under FTAs, exporters still have to submit COOs so that their importers can, after further processing, export products with FTA-induced treatment. From the survey findings, only 22.3 percent of surveyed manufacturing firms do not use any COOs, while 77.7 percent of surveyed firms actually use COOs as part of their export process.

Interestingly, about one-third of the large firms (i.e., capital of about USD 4.76 million) use FTAs, while the respective figures for medium-sized firms (i.e., capital of between USD 0.95 million and USD 4.76 million) and small firms (i.e., capital of less than USD 0.95 million) are 40 percent and 53.6 percent, respectively. Given the small sample size, it can hardly be argued that the smaller the size of the firm, the more they are inclined to use FTA treatment. Still, as an implication, efforts to promote utilisation of FTAs should target firms of all sizes, rather than just the SMEs.

Table 12.9: Use of FTAs by Size of Surveyed Manufacturing Enterprise

	<i>Number of responses</i>			<i>Percentage (%)</i>		
	<i>No</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Yes</i>	<i>Total</i>
Large	6	3	9	66.7	33.3	100.0
Medium	12	8	20	60.0	40.0	100.0
Small	32	37	69	46.4	53.6	100.0
Total	50	48	98	51.0	49.0	100.0
Unknown	5					

Source: Authors' calculations from survey data.

Table 12.10: Use of FTAs by Location of Surveyed Manufacturing Enterprise

	<i>Number of responses</i>			<i>Percentage (%)</i>		
	<i>No</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Yes</i>	<i>Total</i>
Not in any particular zone	34	34	68	50.0	50.0	100.0
Industrial zone	16	9	25	64.0	36.0	100.0
Bonded zone	1	1	2	50.0	50.0	100.0
Export Processing Zone	0	1	1	0.0	100.0	100.0
Special Economic Zone	0	0	0	-	-	-
Free Trade Zone	4	2	6	66.7	33.3	100.0
Overall	55	47	102	53.9	46.1	100.0
Unknown		1	1			

Source: Authors' calculations from survey data.

Another dimension of FTA utilisation concerns their use by manufacturing firms in different locations (Table 12.10).¹ Specifically, one may ask whether a location in an industrial zone, export processing zone or free trade zone may affect the tendency towards FTA utilisation. From the survey, about 36 percent of surveyed firms in industrial zones make some use of FTAs. This survey result is not inconsistent with that from Table 12.8, since firms in industrial zones have been established for a long time to target the domestic market. The comparable figures for bonded zones and free trade zones are 50 percent and one third, respectively. Notably, all the surveyed firms in export processing zones attempted to use FTAs. This proves the importance of export processing zones in diffusing the benefits from FTAs. As suggested in Table 12.8, nevertheless, efforts should be taken

¹ It should be noted that the overall figures on FTA utilisation differ across

Table 12.9 and Table 12.10 because of the omission of responses without paid-in capital details in

Table 12.9.

to improve the facilitative capacity of export processing zones over the COO issues of firms in the zones.

Similarly, Table 12.10 depicts the use of FTAs by the surveyed firms in the services sector. As can be seen, about three-fifths of the surveyed firms do not use FTA treatment, while only 15 percent claim to have used FTAs. Among the large firms, only 20 percent make some use of FTAs, while 40 percent do not use FTAs at all. For medium-sized firms, the corresponding figures are 20 percent and 60 percent, respectively. None of the small services sector firms in the survey use FTAs.

Table 12.11: Use of FTAs by Size of Surveyed Service Enterprise

	<i>Number of responses</i>				<i>Percentage (%)</i>			
	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>
Large	4	4	2	10	40.0	40.0	20.0	100.0
Medium	3	1	1	5	60.0	20.0	20.0	100.0
Small	5	0	0	5	100.0	0.0	0.0	100.0
Total	12	5	3	20	60.0	25.0	15.0	100.0

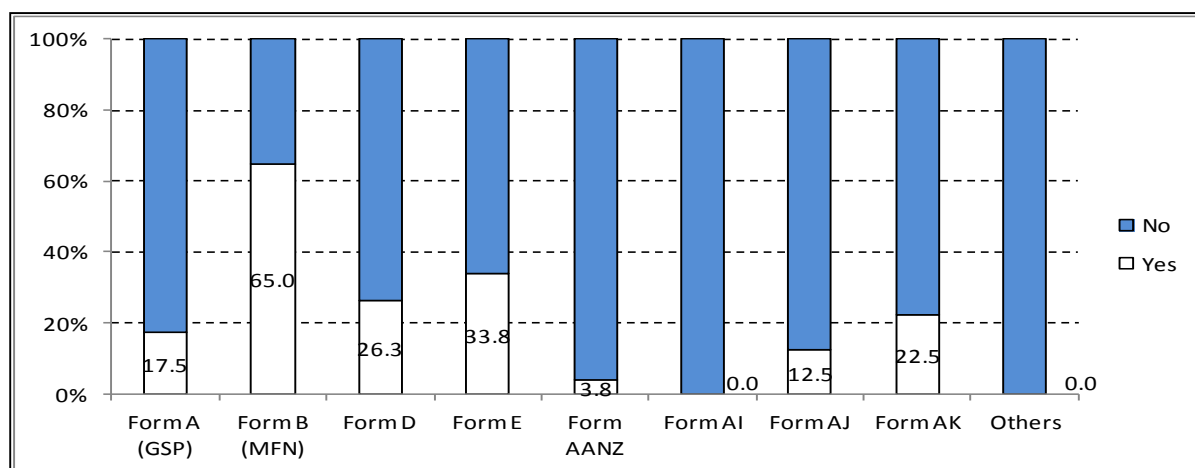
Source: Authors' calculations from survey data.

2.2.2. Survey results of the use of FTAs by agreements

Figure 12.1 illustrates the pattern of preferential treatment utilisation, by agreement, in 2012, from the responses of manufacturing firms. In general, the utilisation of treatments under various agreements has been quite modest. 65 percent of the surveyed firms made some use of most-favored-nation (MFN) treatment. As an explanation, the popularity of MFN treatment was induced by the presence, for a couple of decades, of various trade agreements in Viet Nam. In contrast, other agreements are rather new. As can be seen, about 33.8 percent of the surveyed firms used treatment under the ASEAN-China FTA (ACFTA), and only 26.3 percent attempted to use the ASEAN free trade area (AFTA)/ASEAN trade in goods agreement (ATIGA) treatment. For other FTAs, the extent of FTA utilisation is even lower. In particular, none of the surveyed firms used treatment under the ASEAN-India FTA (AIFTA). While the pattern of utilisation also depends on the relative importance of various FTA partners in Viet Nam's trade, Figure 12.1 still implies that the COO procedures and requirements vary in their ease of use under different FTAs. As such, harmonisation of COO procedures and requirements across FTAs and preferential treatments may help improve utilisation of FTAs by firms. Alternatively,

enhancing the domestic supply chain of export products would also help improve the local content of export products, enabling firms to take advantage of preferential treatment.

Figure 12.1: Use of Preferential Agreements, from Survey of Manufacturing Firms



Source: Authors' calculations from survey data.

2.2.3. Official data on the use of FTAs by agreements, over the years

Table 12.12 summarises Viet Nam's utilisation rates under the various FTAs of which the country is a member. As the first regional trade agreement that Viet Nam joined, AFTA became relevant to the country after 1996, and some utilisation evidence has been collected since then. The utilisation level under AFTA was rather low, however, until 2005: only 6.07 percent of the country's exports to ASEAN member countries enjoyed preferential treatment under AFTA. Over time, this figure has slowly improved, reaching almost 9.4 percent in 2007, 14.1 percent in 2010 and 20.2 percent in 2011.

The utilisation rate under the ASEAN-China FTA has been recorded since 2006, soon after the agreement came into force. This figure remained rather low in 2006-08, at below 10 percent. Starting from 2009, however, the utilisation rate under ACFTA went up dramatically to 21.7 percent in 2009, reaching a peak of over 25.2 percent in 2010 before reversing to 23.1 percent in 2011. In 2009-11, the level of FTA utilisation under ACFTA was also higher than that under AFTA, although the gap narrowed drastically in 2011.

Table 12.12: Utilisation Rates of FTAs, 2005-11 (%)

	2005	2006	2007	2008	2009	2010	2011
AFTA	6.07	7.10	9.41	12.76	11.41	14.11	20.20
AJCEP					27.81	30.52	31.23
AKFTA					79.05	65.97	90.77
AANZFTA						8.89	15.91
AIFTA						2.39	7.37
ACFTA		8.89	6.30	9.83	21.70	25.23	23.11

Note: The utilisation rate (in percentage) of each FTA is calculated as the value of Viet Nam's exports (in USD) enjoying FTA treatment, over the total value of Viet Nam's exports to the corresponding FTA partner.

Source: Ministry of Industry and Trade (Cited in Tran Ba Cuong 2012).

It should be noted that exports to South Korea and Japan had higher levels of FTA utilisation. As can be seen in Table 12.1, data for these agreements have been recorded since 2009. The FTA utilisation rate with Japan (i.e., AJCEP) started at 27.8 percent in 2009 before increasing to 30.5 percent and 31.2 percent in 2010 and 2011, respectively. These figures are significantly higher than those under AFTA, ACFTA, the ASEAN-Australia-New Zealand FTA (AANZFTA) and the ASEAN-India FTA (AIFTA). The utilisation of preferential treatment under the ASEAN-Korea FTA (AKFTA) by Viet Nameese export firms was even more impressive, falling from 79.0 percent in 2009, to 66.0 percent in 2010 before jumping to 90.8 percent in 2011. This achievement is even more impressive considering Viet Nam's rapid export growth to South Korea in this period (over 38.0 percent per annum on average).

The utilisation rates under AANZFTA and AIFTA were less dramatic. Only 8.9 percent of Viet Nam's exports to Australia and New Zealand enjoyed preferential treatment under FTA in 2010, and this figure was only improved to 15.9 percent in 2011. The corresponding figures under AIFTA are even smaller, reaching 2.4 and 7.4 percent in 2010 and 2011, respectively.

Several reasons have been identified for the low levels of FTA utilisation. Most importantly, the local contents of export products have been rather low, thereby preventing Viet Nameese firms from enjoying preferential treatment.² At the same time, use of other ASEAN-originated products is also limited, so ROO requirements under ASEAN

² See Tran Binh Minh, *et al.* (2012) for an initial calculation of import content of export products, though the methodology still poses several questions.

FTAs can hardly be met. For some products, the normal tariff is already low,³ with little difference from the preferential rate. As another reason, COO procedures and requirements differ across FTAs and preferential agreements. This undermines compliance by export firms. These reasons will be discussed in the later sub-sections.

2.2.4. Perceptions of how FTAs affect decisions to invest, by firm size

Table 12.13 shows the responses of surveyed manufacturing firms regarding their past investment decisions, and their connection to FTAs. It should be noted that such connections have been modest, largely because FTAs are rather new to Viet Nam. Twenty-five firms in the survey (or about 25.5 percent) argue that their decisions were somehow based on consideration of FTAs. Among large firms, only two firm (or 22.2 percent) consider aspects of FTAs before making investment decisions. For the medium-sized firms, the corresponding proportion is even smaller, reaching only about 15 percent. Finally, twenty (or 29 percent) small firms in the survey took FTAs into account in making an investment decision. At the same time, the percentage of surveyed firms that disregard the importance of FTAs in investment decisions is also modest (

Table 12.13). In summary, the role of FTAs in investment decision-making should not be under-estimated.

Table 12.13: Perception of Manufacturing Firms on Whether FTAs Affected Past Investment Decisions

	<i>Number of responses</i>				<i>Percentage (%)</i>			
	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>
Large	3	4	2	9	33.3	44.4	22.2	100.0
Medium	3	14	3	20	15.0	70.0	15.0	100.0
Small	12	37	20	69	17.4	53.6	29.0	100.0
Overall	18	55	25	98	18.4	56.1	25.5	100.0
Unknown	1	3	1	5				

Source: Authors' calculations from survey data.

Similarly, Table 12.14 illustrates the views of surveyed services firms on whether their investment decisions had been induced by FTAs. From a mere comparison of

³ Which is a notable feature of ASEAN, as the majority of its effort has been dedicated to liberalising trade in goods.

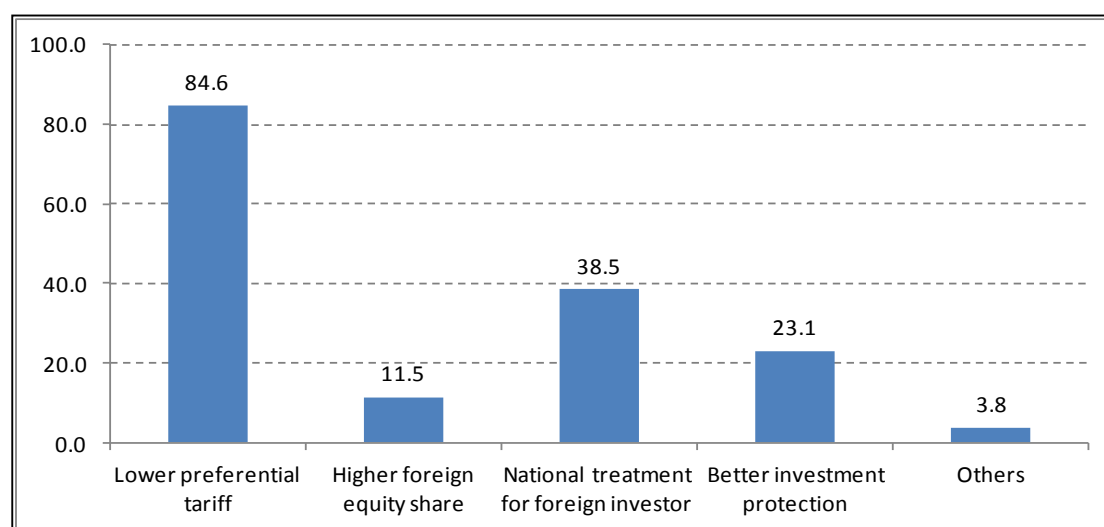
Table 12.13 and Table 12.14, the connection between investment decisions and FTAs seems to have been even more modest among services firms. Only 5 percent of the surveyed services firms says that their decision had been affected by aspects of FTAs. Notably, all these services firms are of small size. None of the medium-sized and large firms was swayed by FTAs in making investment decisions.

Table 12.14: Perception of Services Firms on Whether FTAs Affected Past Investment Decisions

	<i>Number of responses</i>				<i>Percentage (%)</i>			
	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>	<i>No</i>	<i>Don't know</i>	<i>Yes</i>	<i>Total</i>
Large	4	6	0	10	40.0	60.0	0.0	100.0
Medium	2	3	0	5	40.0	60.0	0.0	100.0
Small	0	4	1	5	0.0	80.0	20.0	100.0
Overall	6	13	1	20	30.0	65.0	5.0	100.0

Source: Authors' calculations from survey data.

Figure 12.2: Aspects of FTAs Under Consideration by Manufacturing Firms upon Deciding Investment Location



Note: The numbers of surveyed firms considering Lower preferential tariff, Higher foreign equity share, National treatment for foreign investor, Better investment protection, and Others related to FTA in investment decisions are 22, 3, 10, 6, and 1, respectively.

Source: Authors' calculations from survey data.

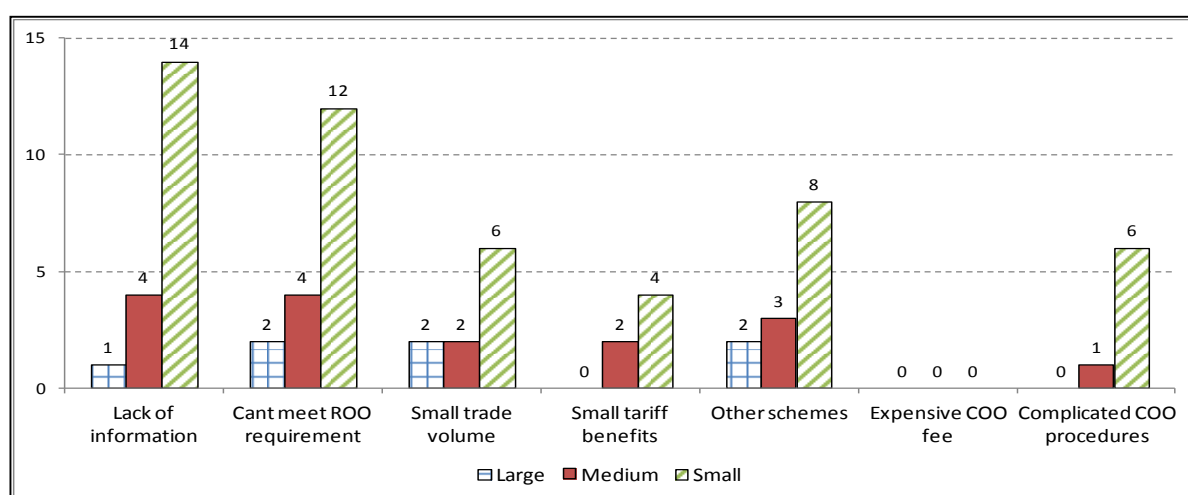
The surveyed manufacturing firms also list the specific aspects of FTAs that they use upon choosing an investment location. As can be seen in Figure 12.2, the most important aspect is reduction of levied tariff, which is given by 84.6 percent of the surveyed firms. National treatment and better investment protection for foreign investors are other

important aspects, mentioned by 38.5 percent and 23.1 percent of the surveyed firms, respectively. The room for foreign participation, as reflected by higher foreign equity shares, is also an aspect under consideration, as indicated by 11.3 percent of the surveyed firms. However, the modest consideration of national treatment, better investment protection, and room for foreign participation may stem from limited knowledge about the technical aspects and contribution of FTAs. In fact, some of the surveyed firms mistook the FTAs for mere arrangements to liberalise trade in goods.

2.2.5. Constraints leading to non-use of FTAs, by firm size

An arising concern is with the major impediments underlying such modest utilisation of FTAs.

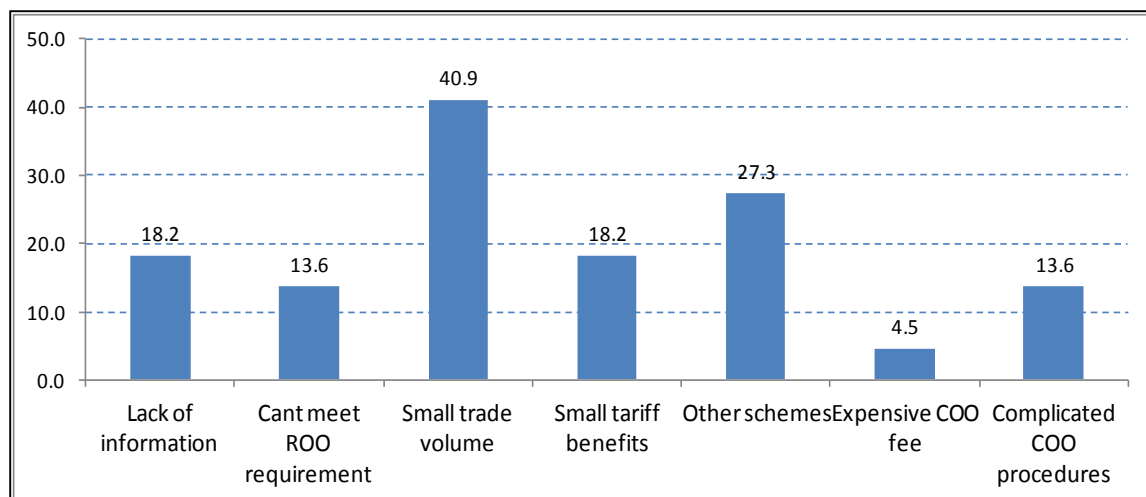
Figure 12.3 depicts the key reasons that prevent surveyed manufacturing firms from using FTAs. Apparently, the most common reason is that the surveyed firms fail to meet requirements related to ROOs. This is confirmed by two (or one third of) large firms, four (or one third of) medium-sized firms, and 12 (or over 34.3 percent of) small-sized firms. Lack of information presents another obstacle, as indicated by one (or 16.7 percent of) large firms, four (or one third of) medium-sized firms, and 14 (or around two-fifths of) small firms. More importantly, failure to meet ROO requirements and lack of information are more prevalent issues for small firms than for their large- and medium-sized counterparts. To a lesser extent, the surveyed firms also encounter the limitation of incentives for using FTAs, due to small trade volume, and small differences between normal and preferential tariff schemes other than FTAs were also adopted. Notably, even two (or one-third of) large manufacturing export firms claim that small trade volume deters them from utilising FTAs, and the same percentage of these large entities turn to alternative schemes. Finally, complicated procedures for obtaining COOs are only problematic for small- and medium-sized firms, and the proportions of surveyed firms facing this issue are significantly smaller than for other impediments. In fact, only one (or 8.3 percent of) medium-sized firms and six (or 17.1 percent of) small firms found COO procedures to be too complicated.

Figure 12.3: Reasons for Not Using FTAs by Size of Surveyed Manufacturing Enterprise

Source: Authors' calculations from survey data.

Figure 12.4 lists the key reasons why the surveyed manufacturing firms do not use COOs. As can be seen, small trade volume is the most cited reason among the surveyed firms (40.9 percent) that do not use COOs. The availability of other schemes follows, as indicated by 27.3 percent of the surveyed firms. Consistent with the reasons for not using FTAs, lack of information and small tariff benefits are other important reasons, both indicated by 18.2 percent of the surveyed firms. The lack of information is a notable impediment, reflecting inadequate access of firms to FTA negotiation and information, notwithstanding the range of information dissemination activities after Viet Nam became a member of the WTO. Other possible causes for not using FTAs include inability to meet ROO requirement, expensive fees and complicated procedures to obtain COOs, but each of these causes is mentioned by a small proportion of surveyed firms (that do not use COOs).

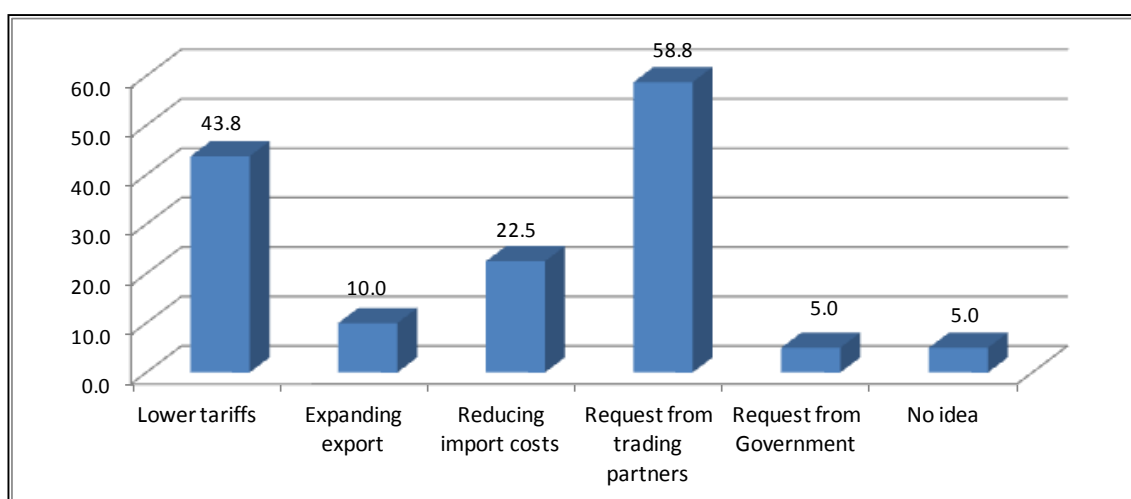
Figure 12.4: Reasons for Not Using COOs by Manufacturing Export Firms



Note: Lack of information, Inability to meet ROO requirement, Small trade volume, Small tariff benefits, Other schemes, Expensive COO fee, and Complicated COO procedures are cited by 4, 3, 9, 4, 6, 1, and 3 firms, respectively.

Source: Authors' calculations from survey data.

In contrast, Figure 12.5 illustrates the key aspects of COOs that induced the surveyed manufacturing firms to use them. The most important reason, as indicated by 58.8 percent of surveyed firms, was that they were requested to do so by their trading partners in importing countries. This is sensible because importers want to reduce the costs of imports where possible, or importers may need to show sufficient COOs from ASEAN in their subsequent export of processed imports. Accordingly, 43.8 percent of the surveyed firms also agree that a smaller tariff presents an incentive for using COOs. Similarly, 22.5 percent of surveyed firms refer to reduction of import costs as a major reason to use COOs. Use of COOs may also be induced by government request or the need to expand exports, but these reasons are not indicated by significant proportions of the surveyed firms.

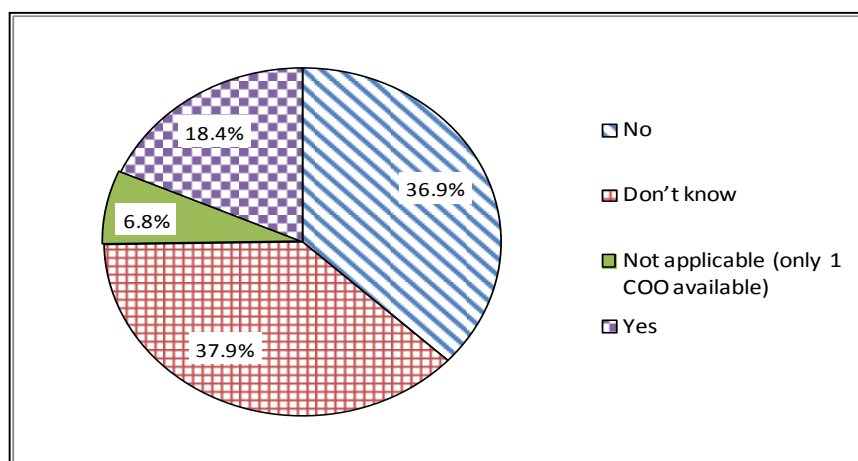
Figure 12.5: Reasons for Using COOs Cited by Manufacturing Firms (%)

Note: The numbers of surveyed firms considering Lower tariff, Export expansion, Reduction of import costs, Request from trading partners, Request from the Government, and Unidentified factors as reasons for using COOs are 35, 8, 18, 47, 4, and 4, respectively.

Source: Authors' calculations from survey data.

Figure 12.6 summarises the responses of manufacturing firms on being asked whether they try to compare the advantages of different COO schemes in Viet Nam. Only 18.4 percent of the surveyed firms make such attempts. Of the remainder, about 36.9 percent of the surveyed firms did not compare the advantages brought about by different COO schemes, and 37.9 percent of the firms were not aware of the need for such comparison. Drawing reference from Figure 12.5, this finding implies that Viet Nameese exporters remain passive in complying with COO requirements and procedures. That is, they tend to fulfill the requirements and procedures due to the requests of partners, rather than their own acknowledgement of related benefits (if any). However, the extent of comparison efforts differs significantly by size of surveyed firms. Among the large firms, about two-thirds make no attempts to compare the advantages of different COO schemes, while about 11.1 percent attempt to do so. For small firms, 31.9 percent make no such attempt, while 20.3 percent try to compare different COO schemes.

Figure 12.6: Attempts of the Surveyed Manufacturing Firms to Compare Advantages of Different COO Schemes



Note: The numbers of surveyed firms with answers of No, Do not know, Not applicable (only 1 COO available), and Yes are 38, 39, 7, and 19, respectively.

Source: Authors' calculations from survey data.

Table 12.15 indicates the extent of the difficulty in complying with various COO schemes. Some 28.7 percent of the surveyed firms encounter difficulty with such compliance. However, 19.8 percent of the surveyed firms have no problem complying with the various COOs, while 44.6 percent of the firms are unaware of the difficulties in complying with a number of COO schemes. In this regard, building capacity for firms to understand and resolve difficulties with various COO schemes emerges as an important need. Notably, the size of manufacturing firms does not seem to affect its difficulty in complying with various COO schemes.

Table 12.15: Difficulty in Complying with Various COOs by Manufacturing Firms

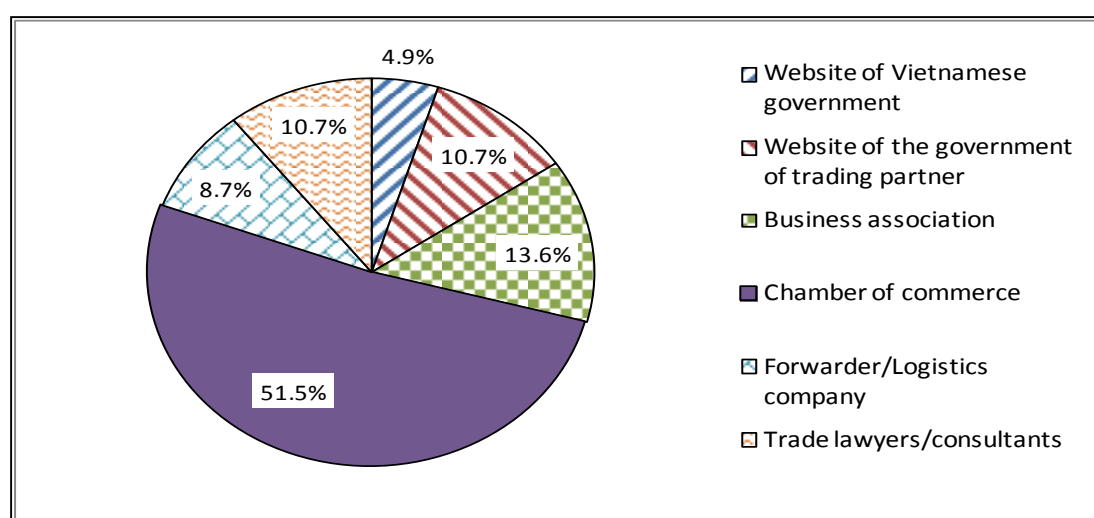
	<i>Number of answers</i>	<i>Proportion (%)</i>
No	29	28.7
Don't know	45	44.6
Not applicable (only one COO available)	7	6.9
Yes	20	19.8
Total	101	100.0

Source: Authors' calculations from survey data.

Figure 12.7 shows the key sources of support that the surveyed firms refer to when complying with various COO schemes became a problem. The most popular source of

support is the Viet Nam Chamber of Commerce and Industry (VCCI), which is sought by almost 53 (or 51.5 percent) of the surveyed firms having difficulty. The firms also approach business associations for help, but this only account for 14 (or 13.6 percent) of the responses. Although the VCCI assumes the role of representing all businesses and firms just as do various business associations, the different levels of sought support may result from the fact that the VCCI remains a semi-private institution⁴ with better professional capacity. Interestingly, the proportion of firms seeking support from the Government's website of trading partners is higher than that looking for support from the Government's website, although these figures are rather small. Therefore, there appears to be a problem in networking the government agencies and export firms in facilitating compliance with various COO schemes, at least in terms of acquiring relevant information.

Figure 12.7: Support Sought by Manufacturing Firms to Address Difficulty in Complying with Various COOs



Note: The numbers of surveyed firms relying on website of Viet Nam Government, Website of the Government of trading partner, Business association, Chamber of commerce, Forwarder/Logistics company, and Trade lawyers/consultants are 5, 11, 14, 53, 9, and 11, respectively.

Source: Authors' calculations from survey data.

Services sector firms, meanwhile, focus more on some major impediments justifying their modest use of FTAs. As indicated in Table 12.16, the most frequently mentioned issue is lack of information. In fact, this issue is affirmed by 80 percent of small firms, one-third of medium-sized firms, and around one half of large firms. Small trade

⁴ Originally established under the Ministry of Foreign Trade.

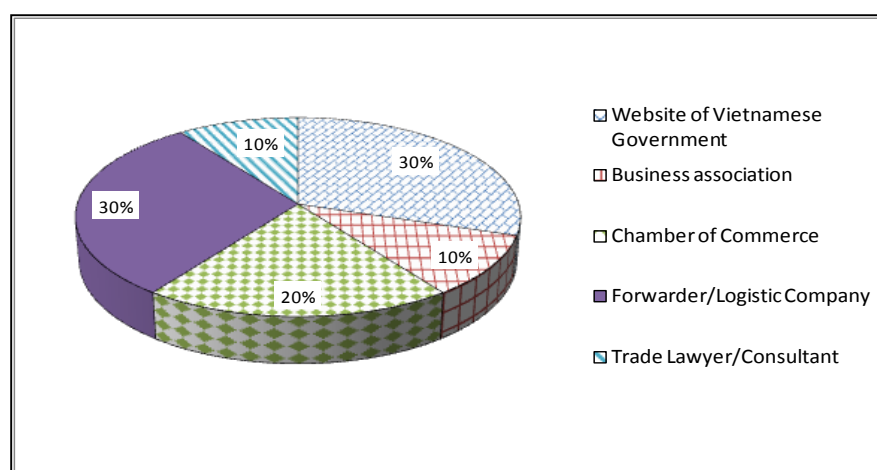
volume also undermines the incentives for FTA utilisation, and is cited by one-third of medium-sized firms, and 20 percent of small firms. Complicated COO procedures are only encountered as a problem by medium-sized firms, and the share of such service firms encountering the problem is only one-third. No other constraints are mentioned by the services firms. Notably, lack of information, small trade volume, and complicated COO procedures are of equivalent importance for medium-sized firms, although the figures deserve some skepticism due to small sample size.

Table 12.16: Reasons for Not Using FTAs by Size of Surveyed Services Enterprise

	<i>Lack of information</i>	<i>Can't meet ROO requirement</i>	<i>Small trade volume</i>	<i>Small tariff benefits</i>	<i>Other schemes</i>	<i>Expensive COO fee</i>	<i>Complicated COO procedures</i>
<i>Number of responses</i>							
Large	2	0	0	0	0	0	0
Medium	1	0	1	0	0	0	1
Small	4	0	1	0	0	0	0
<i>Percentage (%)</i>							
Large	50.0	0.0	0.0	0.0	0.0	0.0	0.0
Medium	33.3	0.0	33.3	0.0	0.0	0.0	33.3
Small	80.0	0.0	20.0	0.0	0.0	0.0	0.0

Source: Authors' calculations from survey data.

Figure 12.8 depicts the key sources of support sought by the surveyed firms upon encountering difficulties in complying with various COO schemes. As can be seen, the most popular sources of support are freight forwarders or logistic companies, cited by 37 percent of the surveyed firms. The VCCI and the Government's websites are also mentioned as sources of support, in both cases by a quarter of surveyed firms. Unlike the survey results of manufacturing export firms, the services firms do not look for support from the Government's website of trading partners.

Figure 12.8: Source of Support for Services Firms against Difficulty with COOs

Note: 10 services firms provided responses to the question.

Source: Authors' calculations from survey data.

2.2.6. Costs and procedures for obtaining COOs, by firm size

In order to explain the modest use of COOs, we should also look into firms' perceptions of costs and procedures for obtaining COOs. Table 12.17 shows how manufacturing firms view the number of documents needed to obtain COOs. As can be seen, 50 (or 64.1 percent) of the surveyed firms deem the number to be reasonable. However, 21 (or 26.9 percent) of the respondents think that the number of documents needed to obtain COOs is large, and four (or 5.1 percent) even claim that the number is too large. The pattern of responses does not differ significantly by firm size, although the number of firms saying that they face too many documents to obtain COOs is small.

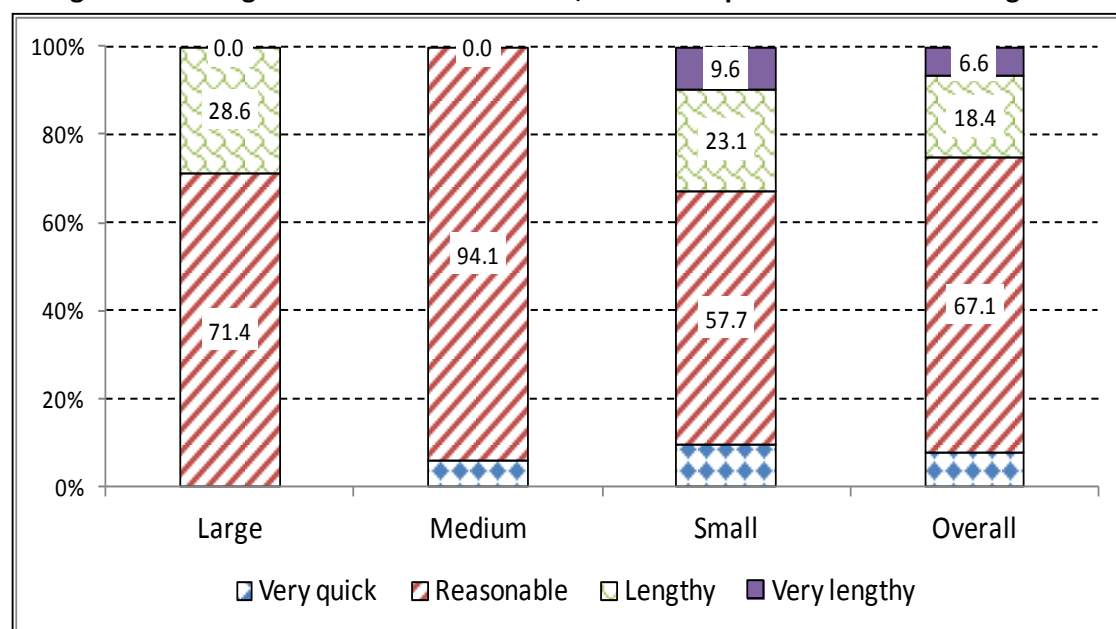
Table 12.17: Number of Documents to Obtain COOs, from Perceptions of Manufacturing Firms

	<i>Very few</i>	<i>Reasonable</i>	<i>Many</i>	<i>Too many</i>	<i>Total</i>
<i>Number of responses</i>					
Large firms	0	5	2	0	7
Medium firms	0	14	3	0	17
Small firms	3	31	16	4	54
Overall	3	50	21	4	78
Unknown	0	3	1	0	4

	<i>Very few</i>	<i>Reasonable</i>	<i>Many</i>	<i>Too many</i>	<i>Total</i>
<i>Percentage (%)</i>					
Large firms	0.0	71.4	28.6	0.0	100.0
Medium firms	0.0	82.4	17.6	0.0	100.0
Small firms	5.6	57.4	29.6	7.4	100.0
Overall	3.8	64.1	26.9	5.1	100.0

Source: Authors' calculations from survey data.

Figure 12.9: Length of Time to Obtain COOs, from Perceptions of Manufacturing Firms



Note: The number of responses overall, the number by small-sized firms, by medium-sized firms, and by large-sized firms are 76, 52, 17, and 7, respectively.

Source: Authors' calculations from survey data.

Figure 12.9 illustrates the assessment by manufacturing firms of the time required to obtain COOs. In fact, 67.1 percent of the surveyed firms rate the length of the COO process as reasonable. Less than 8 percent see the process as very quick, while 18.4 percent of firms claim that the process is lengthy, and 6.6 percent see the process as very lengthy. Again, all firms that see the process as very lengthy are small.

Finally, Table 12.18 summarises the assessment of costs incurred by manufacturing firms in obtaining COOs. As can be seen, 67.5 percent of the surveyed firms assess the costs as reasonable, and 15.6 percent rate the costs as very low. However, 16.9 percent of the respondents still consider the COO process to be costly. Notably, the costs of obtaining COOs seem to be less important for large firms. In fact, among the large firms, 42.9 percent rate the costs as very low. This could be attributed to the economies of scale enjoyed by large firms in obtaining COOs for their export products.

Table 12.18: Costs to Obtain COOs, from Perceptions of Manufacturing Firms

	<i>Very low</i>	<i>Reasonable</i>	<i>Costly</i>	<i>Total</i>
<i>Number of responses</i>				
Large firms	3	2	2	7
Medium firms	3	14	0	17
Small firms	6	36	11	53
Total	12	52	13	77
Unknown	1	2	0	3
<i>Percentage (%)</i>				
Large firms	42.9	28.6	28.6	100.0
Medium firms	17.6	82.4	0.0	100.0
Small firms	11.3	67.9	20.8	100.0
Total	15.6	67.5	16.9	100.0

Source: Authors' calculations from survey data.

Referring to the official indicators on trading across borders in Viet Nam, published by the World Bank (Table 12.19) the number of documents for exports and imports has remained constant over time, notwithstanding the popularisation of electronic documents. The cost of exports and imports both increased over time. Interestingly, the cost of exports went up more rapidly than those of imports, thereby implying some constraints over export activities. The time required for export and import activities was all shortened, albeit not by much. Therefore, Viet Nam still has ample room for improvement in issues related to trade facilitation, including compliance with and utilisation of COOs for preferential treatment.

Table 12.19: Viet Nam's Trading across Border Indicators

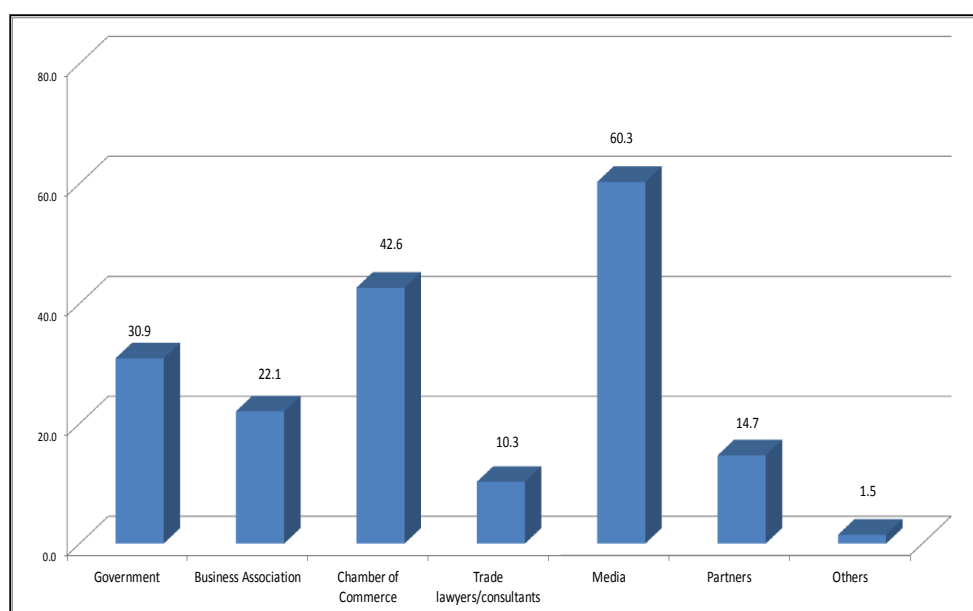
Year	Viet Nam's Trading Across Borders Indicators						
	<i>TAB Rank</i>	<i>Docs to export (number)</i>	<i>Time to export (days)</i>	<i>Cost to export (USD per container)</i>	<i>Docs to import (number)</i>	<i>Time to import (days)</i>	<i>Cost to import (USD per container)</i>
2006	..	6	24	468	8	23	586
2007	..	6	24	468	8	23	586
2008	..	6	24	468	8	23	586
2009	..	6	24	533	8	23	606
2010	..	6	22	555	8	21	645
2011	..	6	22	555	8	21	645
2012	74	6	22	580	8	21	670
2013	74	6	21	610	8	21	600

Source: World Bank (cited from Koh and Chaojirapant 2012).

2.2.7. Main sources of information about FTAs

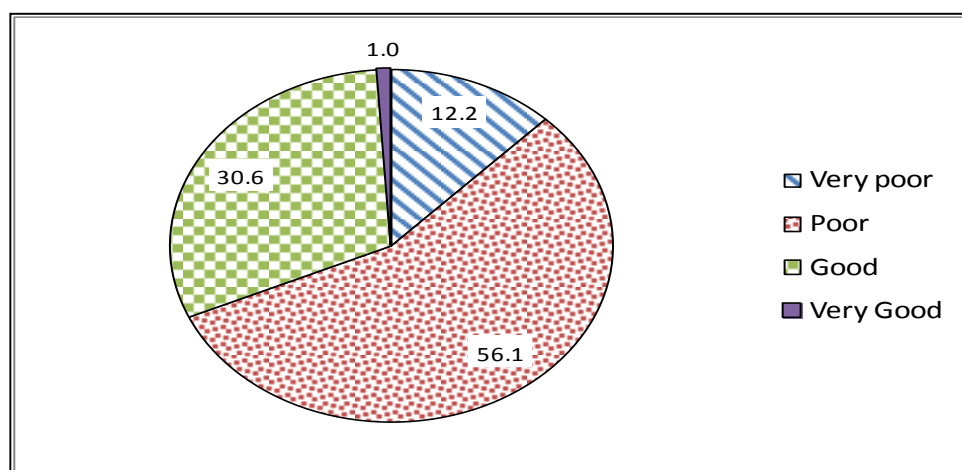
Interesting findings could also be extracted from the answers of firms regarding their sources of information on FTAs. By design, these findings are restricted to the surveyed firms that know about FTAs. In fact, for manufacturing firms, 41 (or over three-fifths) acquire information from the media, such as newspapers, television, etc. The Viet Nam Chamber of Commerce (i.e., the VCCI) provide information on FTAs to 29 (or almost 42.6 percent) of the surveyed firms. Twenty-one (or nearly 31 percent) of the surveyed firms refer to government agencies as the main source of information of FTAs. The business associations do not play a major role in terms of disseminating FTA information to firms, while the contribution from trade lawyers and private consultants is still more limited.

The surveyed manufacturing firms also rate the availability and quality of information on FTAs in Viet Nam. Figure 12.11 summarises the responses of manufacturing export firms on FTA information availability. Some 30.6 percent of the surveyed firms claim that information on FTAs is good, with 1 percent rating it as very good. More than 68.3 percent of the surveyed firms are not satisfied with either the availability or the quality of information on FTAs. Specifically, 56.1 percent of the surveyed firms think that such information is poor, while 12.2 percent even argue that the information is very poor. By firm size, the pattern of responses is similar to the sample structure, which implies that availability and quality of information present a common issue to all firms. Promoting the availability and quality of FTA-related information would therefore seem to be an important area requiring better coordinated measures by the Government, business associations and media agencies.

Figure 12.10: Main sources of Information on FTAs (%)

Note: The numbers of firms using information from government, Business Associations, Chamber of Commerce, Lawyers/Consultants, Media, Partners, and Other Sources are 21, 15, 29, 7, 41, 10, and 1, respectively.

Source: Authors' calculations from survey data.

Figure 12.11: Rating of Information on FTAs by Manufacturing Firms (%)

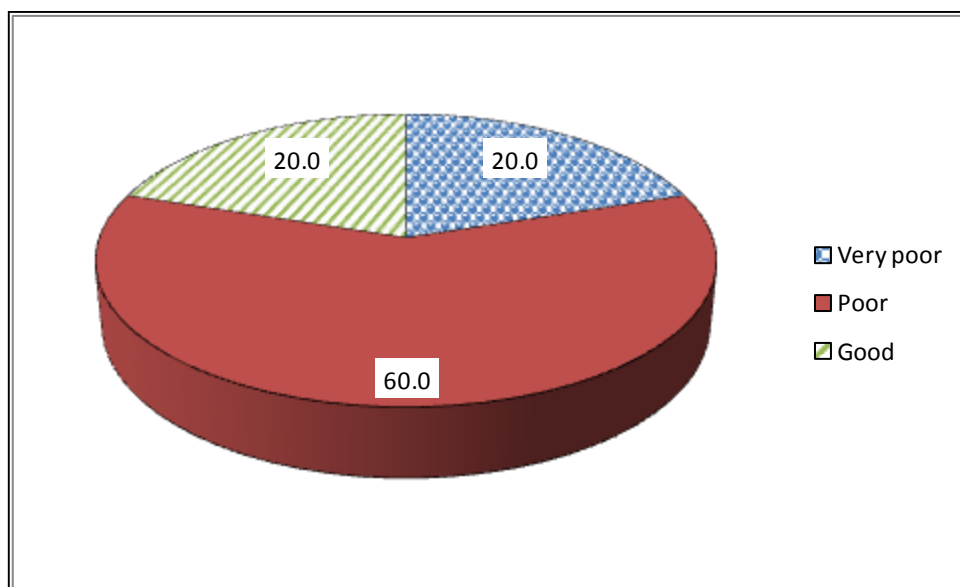
Note: The total number of respondents is 98.

Source: Authors' calculations from survey data.

The surveyed services firms also provide ratings of the availability of information on FTAs in Viet Nam (Figure 12.12). Unlike the manufacturing export firms, the services sector firms generally find such information availability to be less than satisfactory. Three-fifths of the surveyed firms claim that information on FTAs is poor, and 20 percent even rate it as very poor. In contrast, some firms think that information availability on FTAs in Viet Nam

is good, but these firms only make up one-fifth of the survey sample. Some of the useful sources of information, as noted by the surveyed firms, are newspapers, government websites, law databases, and business associations.

Figure 12.12: Rating of Information Availability on FTAs by Services Firms (%)



Note: The total number of respondents is 20.
Source: Authors' calculations from survey data.

3. Key Recommendations

From the above findings, and following consultations with various stakeholders, several recommendations can be made regarding the improvement of FTA utilisation in Viet Nam. Notably, the recommended policy measures should be developed jointly by the Government and the business associations, alongside the efforts of Viet Nameese firms themselves.

The survey findings point to some clear priorities for the Government. First, the Government should make further efforts to provide information on FTAs. Specifically, the information should not be restricted to trade in goods liberalisation, but instead should also cover other technical aspects, such as foreign equity, national treatment for investors, etc. In increasing the availability of FTA-related information, this will also help to properly align the understandings of firms, traders, logistic companies and other stakeholders in the supply chain of key Viet Nameese export products. The information should be related both to completed FTAs and to those under negotiation. The information provided should also

be accompanied by training and other capacity-building efforts to ensure better adaptation of firms. For instance, the talks about possible changes in tariff and terms of market access for certain products should incorporate substantial measures by firms to take advantages of the changes. Government agencies should also acknowledge the importance of information provision, especially for FTAs under negotiation, since this would make the negotiation process more consultation-based. Raising firms' awareness of FTA benefits is also important, since they need to actively undertake measures to enhance such benefits, rather than simply complying with COO requirements at the request of trading partners. As a possible approach, the government agencies could focus initially on enhancing the information available to, and the awareness of FTAs in business associations and major firms in different industries/sub-sectors. These beneficiaries could then extend the information to other firms.

On a related matter, the provision of information should also help firms to address issues and obstacles in utilising FTAs. As noted above, manufacturing firms turn to government websites for support when having difficulty complying with various COO schemes. Timely support from the Government's websites, especially in the form of information provision and instructions, would prove invaluable to the firms. At the same time, a commitment to provide information should also help to improve the stability and transparency of policies and regulations related to COOs, standards, etc., thereby increasing business confidence, as well as FTA utilisation. More broadly, government agencies could channel sharing of experiences across firms, particularly between those with a long experience of using FTAs and those starting to use FTAs.

Another level of information provision should focus on the role of FTA utilisation for firms that rely, albeit indirectly, on imported materials and inputs. From the survey findings, many firms have to apply for COOs. However, such COOs may not necessarily serve to reduce export costs for the firms themselves. Instead, they are requested by the Viet Nameese firms' overseas trading partners, so that they can meet ROO requirements for their own follow-up export activities. In a similar pattern, although many firms have no direct import activities, they still need to understand the broader use and requirement of ROOs that can help in their follow-up operations. In particular, these firms may learn to request COOs from suppliers and/or importers for use in supplying goods to others.

First, at the highest level of information, the Government may need to compile and extend information to local firms on the growth prospects in FTA partner countries, alongside possible preferential investment treatment in these locations. With such information, the firms may acknowledge the opportunities and attempt to make investments overseas. In this regard, the Government itself needs to assume a more active role, rather than just relying on the investment efforts of the firms.

Second, the Government should deepen efforts to simplify COO procedures. Such simplification could reduce the time taken and costs incurred by firms in obtaining COOs. Avoiding tax frauds is an important policy priority, but should be pursued by other modern and practical measures, rather than by lengthy and costly procedures. Moreover, simplifying COO procedures may contribute to larger trade volumes, benefiting tax receipts and tariff revenues. Adopting electronic platforms for document submission is a critical first step that Viet Nam has completed, but this needs to be followed by sufficient electronic processing/handling and risk management methods. Relying solely on manual handling of electronically submitted documents will not help ease COO-related procedures, since it may make way for some arbitrage or inconsistency in treatment. In this regard, information provided by the Government is essential to ensure consistent understanding of COO procedures and their importance. Also, the Government should pay more attention to supporting SMEs, as they have to incur greater time and higher financial costs in obtaining COOs.

Third, at the broader level, the Government should work with FTA partners towards harmonisation of procedures. For many products, including key export goods, Viet Nameese manufacturing firms still suffer from the significant differences in standards and procedures in Viet Nam compared with partner economies. Complying with these differences may incur overwhelming costs for various export firms, thereby deterring them from engaging further in export activities. Mutual recognition of standards is thus just the beginning. Viet Nam should collaborate more closely with FTA partners in developing and amending procedures related to COO processing and management. At the same time, in negotiating new FTAs Viet Nam should pay attention to facilitating the incorporation of existing standards and procedures.

Finally, Viet Nam needs a more rigorous framework for improving connectivity within the supply chains of key export products. This includes measures to upgrade

production capacity, development of infrastructure to support domestic and foreign trade, facilitation of information exchange between government agencies related to trade management, improving the applications of information and communication technology in customs clearance, capacity-building efforts for customs officers, and enhancement of dialogue and cooperation between government and the business community. With better capacity to facilitate trade, the overall utilisation of FTAs should then be improved.

Endeavours aimed at improving FTA utilisation should not be the sole responsibility of government agencies. Instead, the business associations should play an important role in facilitating and supporting such utilisation. Business associations should continue their role as providers of support in harmonising COOs and compliance with various COO schemes. This role has to an extent been fulfilled in past years, as reflected by the responses of manufacturing firms. However, support should be upgraded towards facilitating information provision by government agencies, as well as the connection of export firms to these agencies. This should also enhance the quality of government-business consultation, thereby increasing the relevance of on-going FTA negotiations, and policies and procedures related to COO management.

Business associations may serve as fora for sharing experiences among members regarding issues with FTA utilisation. Some firms may be more experienced and have less difficulty than others in complying with COO/ROO requirements and procedures. By sharing experiences and skills from the former to the latter, the level of ROO compliance and/or the FTA utilisation rate could be improved. In the clearest example indicated by the stakeholders, firms could share their experience in meeting standards and preparing the necessary documents to apply for COOs. In another example, firms could learn from others on how to design a relevant clause requesting suppliers to include COOs, so that preferential treatment can be granted to their own export activities. In particular, as foreign-invested firms are more capable of meeting ROO requirements and pay more attention to FTA-related aspects before making investments in Viet Nam, they could help share valuable experience to their domestic counterparts.

Even with support from the Government and business associations, the benefits from FTAs by way of improving utilisation cannot be realised in the absence of the efforts by firms themselves. Apart from accessing information provided by government agencies and business associations, the firms may attempt to purchase access to important

information and analysis related to FTAs, such as those by research institutes or market research companies. Firms should improve maintenance of systematic details and documents to meet ROO requirements. Firms should be more active in raising relevant questions to the Government and business associations during consultations, so that important issues can be noted for resolution. Improvements in FTA utilisation will not happen overnight. Instead, it is a process, but one with a significant payoff for firms and the overall economy.

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Questionnaire

(ALL INFORMATION WILL BE TREATED **STRICTLY CONFIDENTIAL**, UNLESS IT IS AGREED BY THE RESPONDENTS OTHERWISE.)

Questionnaire©

**On the Use of Free Trade Agreements
Manufacturing Firms
(As of April 24, 2013)**

Economic Research Institute for ASEAN and East Asia

Background and Objective

The last two decades have witnessed a sharp increase in Free Trade Agreements (FTAs) in South East Asia. The first major FTA for Southeast Asian countries was ASEAN Free Trade Area (AFTA) enacted in 1992. ASEAN member countries began to establish FTAs actively bilaterally as well as regionally as ASEAN member countries as a group. Indeed, ASEAN has established five ASEAN+1 FTAs, each with China, Japan, Korea, India, and Australia-New Zealand. Needless to say, one of the objectives of FTAs is to promote foreign trade with FTA members.

Despite the rapid increase of FTAs involving ASEAN member countries, there have been only few studies that examined the impacts of FTAs on foreign trade and other economic activities. It is not well understood that a company needs to obtain the certificate of origin (COO), in order to gain the benefits of 'free trade'. In other words, it is not automatic for a company to use FTAs. As such, establishing FTAs does not necessarily lead to an expansion of trade with FTA partners. Against this backdrop, we conduct a survey to investigate the use of FTAs by companies, in order to see if FTAs have resulted in the expansion of foreign trade, as expected. In addition to finding out the use of FTAs by companies, we also like *to identify the constraints for using FTAs*. Identification of the constraints would enable policy makers *to find the ways to increase the use of FTAs*.

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OTHERWISE.

A. General Information

Company Name			
Address			
Name of Respondent		Title/Position	
Tel		E-mail	
Website			

A.1. Status of the company:

1. <input type="checkbox"/> Headquarters/Main office	2. <input type="checkbox"/> Regional Headquarters	3. <input type="checkbox"/> Factory/Plant	4. <input type="checkbox"/> Branch Office/Sales Office
--	---	---	--

A.2. The year of establishment:

A.3. Number of employment (full time workers) in 2012:

A.3.1. Number of permanent workers:

A.3.2. Number of contract workers:

A.4. The value of paid-in capital in 2012: USD or local currency

A.5. Please provide the information on the share of ownership:

	Country of investors (Source of fund)	Share to pain-in capital (%)
Local		
Foreign		
(1)		
(2)		
(3)		
(4)		

A.6. Location of firm:

1. <input type="checkbox"/> Not in any particular zones	2. <input type="checkbox"/> Industrial Zone	3. <input type="checkbox"/> Bonded Zone	4. <input type="checkbox"/> Export Processing Zone
5. <input type="checkbox"/> Special Economic Zone 6. <input type="checkbox"/> Free Trade Zone 7. <input type="checkbox"/> Others, please specify			

B. Firm's Production, Sales and Procurement

B.1. The number of types of products that your company produced in 2012:

B.2. List the types of main products and their shares to total sales (please provide HS code of products if you know):

	Product	% of total sales	Export (0. No, 1. Yes)	HS Code (if you know)
1				
2				
3				
4				

B.3. Did your company introduce a new product(s) in 2012?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes	If Yes, how many types of new products?
--------------------------------	---------------------------------	---

B.4. Did your company sell products in domestic market in 2012?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes	If Yes, % of total sales
--------------------------------	---------------------------------	--------------------------

B.5. Did your company conduct direct exports in 2012?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes	If Yes, % of total sales
--------------------------------	---------------------------------	--------------------------

*Note: Direct export is defined as the firm directly exports the product to trading partners. The firm can use services from a forwarder to do so.

B.5.1. If the answer for B.5 is Yes, please list the main export destination countries:

	Export destinations (country)	% of total exports
1		
2		
3		
4		

B.6. Did your company conduct direct imports for purchasing inputs and materials in 2012?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes	If Yes, % of total inputs and materials
--------------------------------	---------------------------------	---

*Note: Direct import is defined as the firm directly imports the product from trading partners. The firm can use services from a forwarder to do so.

B.6.1. If the answer for B.6 is Yes, please list the main import origin countries:

No	Country	% of total imports
1		
2		
3		
4		

C. Free Trade Agreement (FTA) and Business Planning

C.I. FTA and Trade in Goods

C.1. Has your company used a General System of Preferences (GSP)?

1. <input type="checkbox"/> No	2. <input type="checkbox"/> Yes, and currently using GSP	3. <input type="checkbox"/> Yes, but currently using FTA (shifted from GSP to FTA)	4. <input type="checkbox"/> Yes, but currently not using GSP
--------------------------------	--	--	--

C.2. Does your company know about FTA? Do you know about FTA?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes
--------------------------------	---------------------------------

C.2.1 If the answer for C.2 is Yes, please list the source of the information (multiple answers allowed):

1. <input type="checkbox"/> Government	2. <input type="checkbox"/> Business Association	3. <input type="checkbox"/> Chamber of Commerce	4. <input type="checkbox"/> Trade lawyers/private consultants
5. <input type="checkbox"/> Media (TV, internet, etc)	6. <input type="checkbox"/> Trading partners	7. <input type="checkbox"/> Others, please specify	

C.3. Has your company used any FTAs?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes
--------------------------------	---------------------------------

If the answer for C.3 is No, please go to C.4. If the answer for C.3 is Yes, please go to C5.

C.4. If the answer for C.3 is No, what are the reasons for not using FTA (multiple answers allowed):

1. <input type="checkbox"/> Lack of information	2. <input type="checkbox"/> Cannot meet the of rules of origin (ROOs) requirement for using FTA	3. <input type="checkbox"/> Small trade volume
---	---	--

4. <input type="checkbox"/> Small differences between preferential FTA tariff and normal applied tariff	5. <input type="checkbox"/> Using other schemes (tariff exemption in Export Processing Zone or other industrial zones; General System of Preferences)	6. <input type="checkbox"/> Fee to obtain COOs is too expensive
7. <input type="checkbox"/> Procedure to obtain COOs is too complicated		
8. Others, please specify		

C.5. If the answer for C.3 is Yes, when did your company start using FTA?

C.II. Utilization of Certificate of Origin (COO)

C.6. Has your company used any COOs?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes
--------------------------------	---------------------------------

C.6.1. If the answer for C.6 is Yes, list the name of COO that your company uses:

No.	Type of COOs	Export		Import	
		Did your company use this form? (0. No, 1. Yes)	Destination countries	Did your company use this form? (0. No, 1. Yes)	Origin countries
1	Form A (GSP)				
2	Form B (MFN)				
3	Form D				
4	Form E				
5	Form AANZ				
6	Form AI				
7	Form AJ				
8	Form AK				
9	Others				

C.6.2. If the answer for C.6 is No, what are the reasons for NOT using COO (multiple answers allowed):

1. <input type="checkbox"/> Lack of information	2. <input type="checkbox"/> Cannot meet the of rules of origin (ROOs)	3. <input type="checkbox"/> Small trade volume
4. <input type="checkbox"/> Small differences between preferential tariff rates and normal applied tariff rates	5. <input type="checkbox"/> Using other schemes (tariff exemption in Export Processing Zone or other industrial zones; General System of Preferences)	6. <input type="checkbox"/> Fee to obtain COOs is too expensive
7. <input type="checkbox"/> Procedure to obtain COOs is too complicated		
8. Others, please specify		

C.7. If Yes, what are the reasons that your company uses COO? (multiple answers are allowed)

1. <input type="checkbox"/> Lower tariffs	2. <input type="checkbox"/> Expanding exports	3. <input type="checkbox"/> Reducing import costs	4. <input type="checkbox"/> Request from trading partners
5. <input type="checkbox"/> Request from government	6. <input type="checkbox"/> Don't know	7. <input type="checkbox"/> Others (please specify)	

C.8. If your company has obtained Certificate of Origin (COO), what is your perception on the following item in processing to enjoy FTA:

C.8.1. Number of documents to obtain a COO: (documents)

How do you perceive the number of documents?

1. <input type="checkbox"/> very few	2. <input type="checkbox"/> reasonable	3. <input type="checkbox"/> many	4. <input type="checkbox"/> too many
--------------------------------------	--	----------------------------------	--------------------------------------

C.8.2. Length of time to obtain a Certificate of Origin: (working days)

How do you perceive the length of time of obtaining a Certificate of Origin?

1. <input type="checkbox"/> very quick	2. <input type="checkbox"/> reasonable	3. <input type="checkbox"/> lengthy	4. <input type="checkbox"/> very lengthy
--	--	-------------------------------------	--

C.8.3. Cost to obtain a Certificate of Origin: (USD)

How do you perceive the cost of obtaining a Certificate of Origin?

1. <input type="checkbox"/> very low	2. <input type="checkbox"/> reasonable	3. <input type="checkbox"/> costly	4. <input type="checkbox"/> very costly
--------------------------------------	--	------------------------------------	---

C.8.4. Have your company obtained a COO by online-system in 2012?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes
--------------------------------	---------------------------------

C.9. Have you compared the advantages of different COO schemes for your export to a country?

1. <input type="checkbox"/> No	2. <input type="checkbox"/> Don't know	3. <input type="checkbox"/> Not applicable (only one COO available)	4. <input type="checkbox"/> Yes
--------------------------------	--	---	---------------------------------

C.10. Do you find difficulties in complying with more than one COO, when your company exports to more than one country?

1. <input type="checkbox"/> No	2. <input type="checkbox"/> Don't know	3. <input type="checkbox"/> Not applicable (using only one FTA)	4. <input type="checkbox"/> Yes
--------------------------------	--	---	---------------------------------

C.11. If you have any difficulties in using COOs, who do you consult with/find the answers for your queries?

1. <input type="checkbox"/> Website of the government of your location	2. <input type="checkbox"/> Website of the government of trading partner	3. <input type="checkbox"/> Business association	4. <input type="checkbox"/> Chamber of Commerce
5. <input type="checkbox"/> Forwarder/Logistics company	6. <input type="checkbox"/> Trade lawyers/consultants	7. <input type="checkbox"/> Others, please specify	

C.III. FTA and Investment

C.12. **Past investment decision:** Did your company consider FTA as one of factors in deciding the investment location?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Don't know	2. <input type="checkbox"/> Yes
--------------------------------	--	---------------------------------

C.12.1. If the answer for C.12 is Yes, please specify the FTAs* that your company considered (multiple answers allowed):

* ASEAN FTA (AFTA); ASEAN China FTA; ASEAN Korea FTA; ASEAN Japan FTA; ASEAN Australia New Zealand FTA; ASEAN India FTA; or Bilateral FTAs (e.g., Indonesia-Japan FTA).

C.12.2. Which aspects of FTA did your company consider in the investment decision? (multiple answers allowed)

1. <input type="checkbox"/> Lower preferential tariff	2. <input type="checkbox"/> Higher foreign equity share	3. <input type="checkbox"/> National treatment for foreign investor	4. <input type="checkbox"/> Better investment protection
5. <input type="checkbox"/> Others, please specify			

C.13. **Future investment plan:** considering the current situation of your company and the economy in which your company is established, what would you like to do with your business in the next five year?

0. <input type="checkbox"/> Close the business	1. <input type="checkbox"/> Reduce the level of business operation	2. <input type="checkbox"/> Move the production sites within a country
3. <input type="checkbox"/> Maintain the same level of business operation	4. <input type="checkbox"/> Expand the level of business operation	

C.14. Does your company consider expanding its existing business overseas or to open a new establishment overseas in the next five years?

0. <input type="checkbox"/> No plan to expand/invest	1. <input type="checkbox"/> Under consideration	2. <input type="checkbox"/> Will expand/invest in overseas
--	---	--

Please explain the reason if the answer is 0:

C.15. If the answer for C.14 is either 1 or 2, please list the counties of your potential investment:

	Country
1	
2	
3	

C.16. If the answer for C.14 is either 1 or 2, please provide the reasons for expansion in the foreign countries that you listed in C.15? (multiple answers allowed)

1. <input type="checkbox"/> Growing markets	2. <input type="checkbox"/> Low labor costs	3. <input type="checkbox"/> Low tax	4. <input type="checkbox"/> Low logistics costs
5. <input type="checkbox"/> Investment incentives	6. <input type="checkbox"/> FTA	7. <input type="checkbox"/> Follow business partner's investment	
8. <input type="checkbox"/> Others, please specify			

C.17. If the answer for C.16 is (6) (FTA), which aspects of FTA do you think are beneficial for future investment? (multiple answers allowed)

1. <input type="checkbox"/> Lower preferential tariff	2. <input type="checkbox"/> Higher foreign equity share	3. <input type="checkbox"/> National treatment for foreign investor	4. <input type="checkbox"/> Better investment protection
5. <input type="checkbox"/> Others, please specify			

C.IV. Information on FTA

C.18. How do you perceive the available information about FTA?

1. <input type="checkbox"/> Very poor	2. <input type="checkbox"/> Poor	3. <input type="checkbox"/> Good	4. <input type="checkbox"/> Very good
---------------------------------------	----------------------------------	----------------------------------	---------------------------------------

C.19. What kind of media of communication that you think will be very useful and easy to be accessed by firms in communicating about FTAs and/or any other economic cooperation?

- 1.
- 2.
- 3.

C.20. Do you have any suggestions on what kind of the government support or the private sector's involvement (including business associations, etc.) in order to maximize the use of FTAs by firms?

- 1.
- 2.
- 3.

THANK YOU

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Questionnaire©
On the Use of Free Trade Agreements
Services Providers
(As of April 24, 2013)
 Economic Research Institute for ASEAN and East Asia

Background and Objective

The last two decades have witnessed a sharp increase in Free Trade Agreements (FTAs) in South East Asia. The first major FTA for Southeast Asian countries was ASEAN Free Trade Area (AFTA) enacted in 1992. ASEAN member countries began to establish FTAs actively bilaterally as well as regionally as ASEAN member countries as a group. Indeed, ASEAN has established five ASEAN+1 FTAs, each with China, Japan, Korea, India, and Australia-New Zealand. Needless to say, one of the objectives of FTAs is to promote foreign trade with FTA members.

Despite the rapid increase of FTAs involving ASEAN member countries, there have been only few studies that examined the impacts of FTAs on foreign trade and other economic activities. It is not well understood that a company needs to obtain the certificate of origin (COO), in order to gain the benefits of 'free trade'. In other words, it is not automatic for a company to use FTAs. As such, establishing FTAs does not necessarily lead to an expansion of trade with FTA partners. Against this backdrop, we conduct a survey to investigate the use of FTAs by companies, in order to see if FTAs have resulted in the expansion of foreign trade, as expected. Especially, ***Services providers may utilize FTAs for imported goods. Also, services liberalization is covered in FTAs.*** In addition to finding out the use of FTAs by services providers, we also like ***to identify the constraints for using FTAs.*** Identification of the constraints would enable policy makers ***to find the ways to increase the use of FTAs.***

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D. General Information

Company Name			
Address			
Name of Respondent		Title/Position	
Tel		E-mail	
Website			

A.1. Status of the company:

1. <input type="checkbox"/> Headquarters/Main office	2. <input type="checkbox"/> Regional/Country Headquarter	3. <input type="checkbox"/> Branch Office
--	--	---

A.2. The year of establishment:

A.3. Number of employment (full time workers) in 2012:

A.3.1. Number of permanent workers:

A.3.2. Number of contract workers:

A.4. The value of paid-in capital in 2012: USD or local currency

A.5. Please provide the information on the share of ownership:

	Country of investors (Source of fund)	Share to paid-in capital (%)
Local		
Foreign		
(1)		
(2)		
(3)		
(4)		

E. Firm's Sales and Procurement

B.1. What kinds of services do you provide?:

B.2. List the types of main services and their shares to total sales (please provide ISIC code if you know):

- | | | | |
|-----------|----------------------|---------|---------------------|
| 1. | <input type="text"/> | (%) | [Code:] |
| 2. | <input type="text"/> | (%) | [Code:] |
| 3. | <input type="text"/> | (%) | [Code:] |
| 4. Others | <input type="text"/> | (%) | [Code:] |

B.3. Did your company introduce new service(s) in 2012?

0. ☐ No 1. ☐ Yes If Yes, what kind of services did you introduce?

B.4. Did your company provide services in foreign markets in 2012?

0. ☐ No 1. ☐ Yes If Yes, % of total sales

B.5. Did your company conduct direct imports for purchasing inputs and materials to support your company's operation in 2012?

0. ☐ No 1. ☐ Yes If Yes, % of total inputs and materials

*Note: Direct import is defined as the firm directly imports the product from trading partners. The firm can use services from a forwarder to do so.

B.5.1. If the answer for B.5 is Yes, please list the main import origin countries:

No	Country	% of total imports
1		
2		
3		
4		

B.6. Does your company use goods for inputs and materials that are imported by distributors or trading companies?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes	If Yes, <input type="text"/> % of total inputs and materials
--------------------------------	---------------------------------	--

B.6.1. If the answer is "Yes", do you recognize if the imported goods are enjoying preferential tariff rates from FTAs?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes
--------------------------------	---------------------------------

F. Free Trade Agreement (FTA) and Business Planning

C.I. FTA Usage in Importing Inputs and Materials

C.1. Does your company know about FTA? Do you know about FTA?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes
--------------------------------	---------------------------------

C.1.1 If the answer for C.2 is Yes, please list the source of the information (multiple answers allowed):

1. <input type="checkbox"/> Government	2. <input type="checkbox"/> Business Association	3. <input type="checkbox"/> Chamber of Commerce	4. <input type="checkbox"/> Trade lawyers/private consultants
5. <input type="checkbox"/> Media (TV, internet, etc)	6. <input type="checkbox"/> Trading partners	7. <input type="checkbox"/> Others, please specify <input type="text"/>	

C.2. Has your company used any FTAs in importing inputs or materials?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Don't know	2. <input type="checkbox"/> Yes
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If the answer for C.2 is No, please go to C.3. If the answer for C.2 is Yes, please go to C4.

C.3. If the answer for C.2 is No, what are the reasons for not using FTA (multiple answers allowed):

1. <input type="checkbox"/> Lack of information	2. <input type="checkbox"/> Cannot meet the of rules of origin (ROOs) requirement for using FTA	3. <input type="checkbox"/> Small trade volume
4. <input type="checkbox"/> Small differences between preferential FTA tariff and normal applied tariff	5. <input type="checkbox"/> Using other schemes (General System of Preferences)	6. <input type="checkbox"/> Fee to obtain COOs is too expensive
7. <input type="checkbox"/> Procedure to obtain COOs is too complicated	8. Others, please specify <input type="text"/>	

C.4. If the answer for C.2 is Yes, when did your company start using FTA?

C.5. If Yes, what are the reasons that your company uses FTA? (multiple answers are allowed)

1. <input type="checkbox"/> Lower tariffs	2. <input type="checkbox"/> Reducing import costs	3. <input type="checkbox"/> Request from trading partners
4. <input type="checkbox"/> Others, please specify <input type="text"/>		

C.II. Utilization of Certificate of Origin (COO)

C.6. Has your company used any COOs?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Yes
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C.6.1. If the answer for C.6 is Yes, list the name of COO that your company uses:

No.	Type of COOs	Import	
		Did your company use this form? (0. No, 1. Yes)	Origin countries
1	Form A (GSP)		
2	Form B (MFN)		
3	Form D		
4	Form E		
5	Form AANZ		
6	Form AI		
7	Form AJ		
8	Form AK		
9	Others		

C.6.2. If the answer for C.6 is No, what are the reasons for NOT using COO (multiple answers allowed):

1. <input type="checkbox"/> Lack of information	2. <input type="checkbox"/> Cannot meet the of rules of origin (ROOs)	3. <input type="checkbox"/> Small trade volume
4. <input type="checkbox"/> Small differences between preferential tariff rates and normal applied tariff rates	5. <input type="checkbox"/> Using other schemes (tariff exemption in Export Processing Zone or other industrial zones; General System of Preferences)	6. <input type="checkbox"/> Fee to obtain COOs is too expensive
7. <input type="checkbox"/> Procedure to obtain COOs is too complicated	8. Others, please specify	

C.7. If Yes, what are the reasons that your company uses COO? (multiple answers are allowed)

1. <input type="checkbox"/> Lower tariffs	2. <input type="checkbox"/> Reducing import costs	3. <input type="checkbox"/> Request from trading partners	4. <input type="checkbox"/> Request from government
5. <input type="checkbox"/> Don't know	7. <input type="checkbox"/> Others (please specify) _____		

C.8. If you have any difficulties in using COO, who do you consult with/find the answers for your queries?

1. <input type="checkbox"/> Website of the government of your location	2. <input type="checkbox"/> Website of the government of trading partner	3. <input type="checkbox"/> Business association	4. <input type="checkbox"/> Chamber of Commerce
5. <input type="checkbox"/> Forwarder/Logistics company	6. <input type="checkbox"/> Trade lawyers/consultants	7. <input type="checkbox"/> Others, please specify _____	

C.III. FTA and Investment

C.9. **Past investment decision:** Did your company consider FTA as one of factors in deciding the investment location?

0. <input type="checkbox"/> No	1. <input type="checkbox"/> Don't know	2. <input type="checkbox"/> Yes
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C.9.1. If the answer for C.9 is Yes, please specify the FTAs* that your company considered (multiple answers allowed: _____)

* ASEAN FTA (AFTA); ASEAN China FTA; ASEAN Korea FTA; ASEAN Japan FTA; ASEAN Australia New Zealand FTA; ASEAN India FTA; or Bilateral FTAs (e.g., Indonesia-Japan FTA).

C.9.2. Which aspects of FTA did your company consider in the investment decision? (multiple answers allowed)

1. <input type="checkbox"/> Lower preferential tariff	2. <input type="checkbox"/> Higher foreign equity share	3. <input type="checkbox"/> National treatment for foreign investor	4. <input type="checkbox"/> Better investment protection
5. <input type="checkbox"/> Others, please specify <input type="text"/>			

C.10. **Future investment plan:** considering the current situation of your company and the economy in which your company is established, what would you like to do with your business in the next five year?

0. <input type="checkbox"/> Close the business	1. <input type="checkbox"/> Reduce the level of business operation	2. <input type="checkbox"/> Move the sites within a country
3. <input type="checkbox"/> Maintain the same level of business operation	4. <input type="checkbox"/> Expand the level of business operation	

C.11. Does your company consider expanding its existing business overseas or to open a new establishment overseas in the next five years?

0. <input type="checkbox"/> No plan to expand/invest	1. <input type="checkbox"/> Under consideration	2. <input type="checkbox"/> Will expand/invest in overseas
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C.12. If the answer for C.11 is either 1 or 2, please list the counties of your potential investment:

	Country
1	
2	
3	

C.13. If the answer for C.11 is either 1 or 2, please provide the reasons for expansion in the foreign countries that you listed in C.12? (multiple answers allowed)

1. <input type="checkbox"/> Growing markets	2. <input type="checkbox"/> Low labor costs	3. <input type="checkbox"/> Low tax	4. <input type="checkbox"/> Low logistics costs
5. <input type="checkbox"/> Investment incentives	6. <input type="checkbox"/> FTA	7. <input type="checkbox"/> Follow business partner's investment	
8. <input type="checkbox"/> Others, please specify <input type="text"/>			

C.14. If the answer for C.13 is (6) (FTA), which aspects of FTA do you think are beneficial for future investment? (multiple answers allowed)

1. <input type="checkbox"/> Lower preferential tariff	2. <input type="checkbox"/> Higher foreign equity share	3. <input type="checkbox"/> National treatment for foreign investor	4. <input type="checkbox"/> Better investment protection
5. <input type="checkbox"/> Others, please specify <input type="text"/>			

C.III. Information on FTA

C.15. How do you perceive the available information about FTA?

1. <input type="checkbox"/> Very poor	2. <input type="checkbox"/> Poor	3. <input type="checkbox"/> Good	4. <input type="checkbox"/> Very good
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C.16. What kind of media of communication that you think will be very useful and easy to be accessed by firms in communicating about FTAs and/or any other economic cooperation?

1. 
2. 
3. 

C.17. Do you have any suggestions on what kind of the government support or the private sector's involvement (including business associations, etc.) in order to maximize the use of FTAs by firms?

1. 
2. 
3. 

THANK YOU

ALL INFORMATION WILL BE TREATED **STRICTLY CONFIDENTIAL**, UNLESS IT IS AGREED BY THE RESPONDENTS OTHERWISE.