

# Chapter 7

## The Use of Free Trade Agreements by Malaysian Firms

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## 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.<sup>1</sup>

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

<sup>1</sup> 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\\_ccec2a77-c0a81573-f5a0f5a0-6f87fd6f](http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_ccec2a77-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](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](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-communicues/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**

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

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

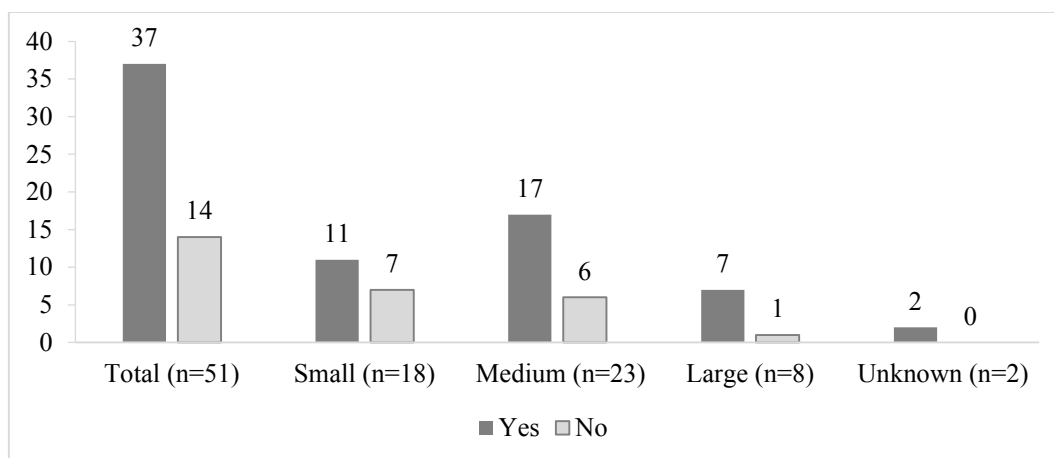
FTA = free trade agreement.

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.

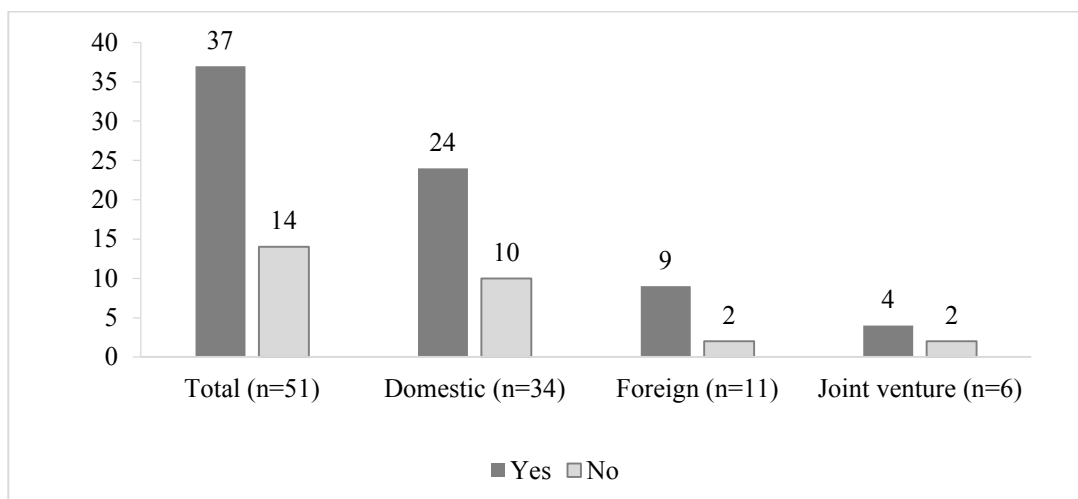
An interesting survey finding is that almost half of the firms using FTAs are domestic manufacturing firms. About 20 percent of firms that do not use FTAs are domestic manufacturing firms. Of the 11 foreign-owned firms in the survey, nine use FTAs. The proportion of foreign-owned firms that use FTAs 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).

<sup>2</sup> 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**

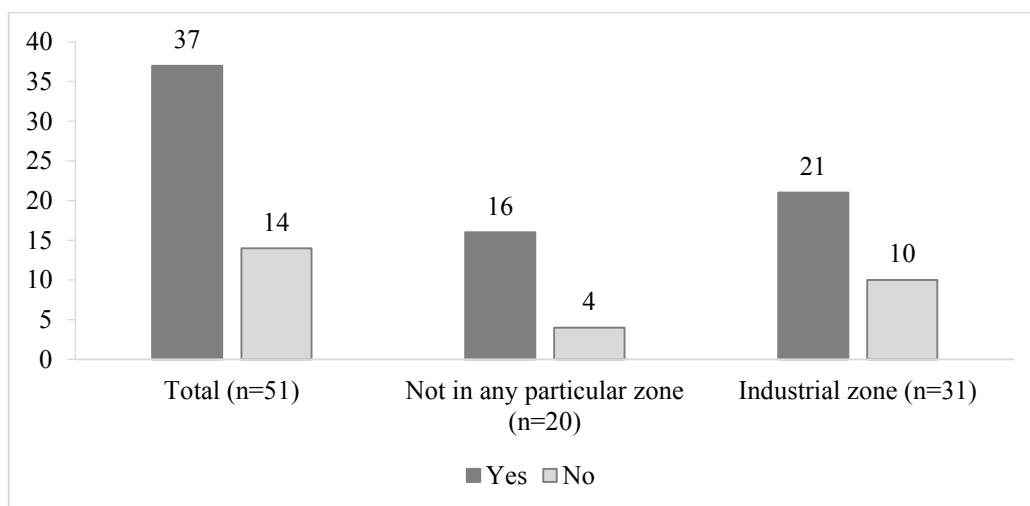
FTA = free trade agreement.

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.

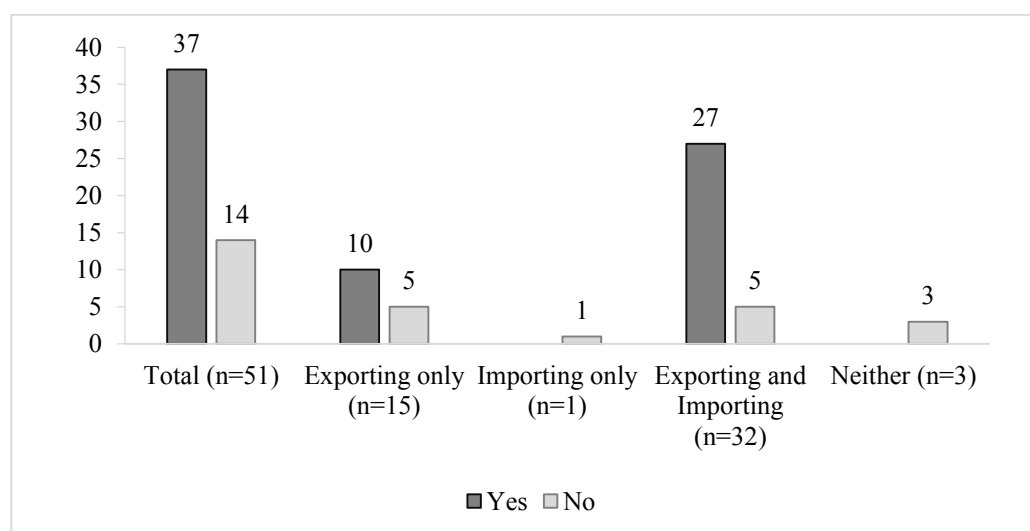
**Figure 7.3. Use of FTAs, by Firm Location**



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](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
MJEPA	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

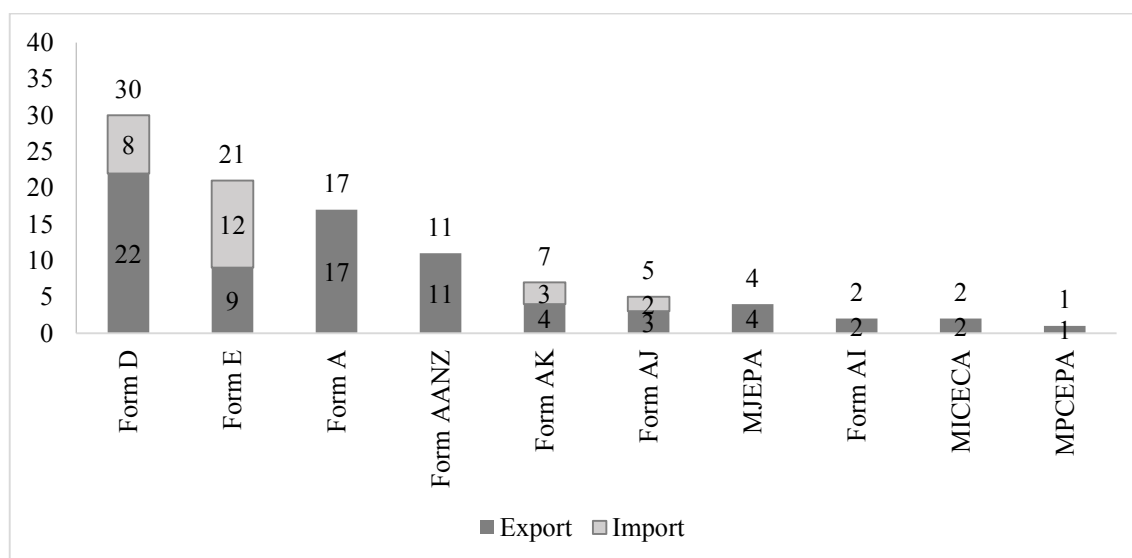
Source: Ministry of International Trade and Industry, Malaysia.

## 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

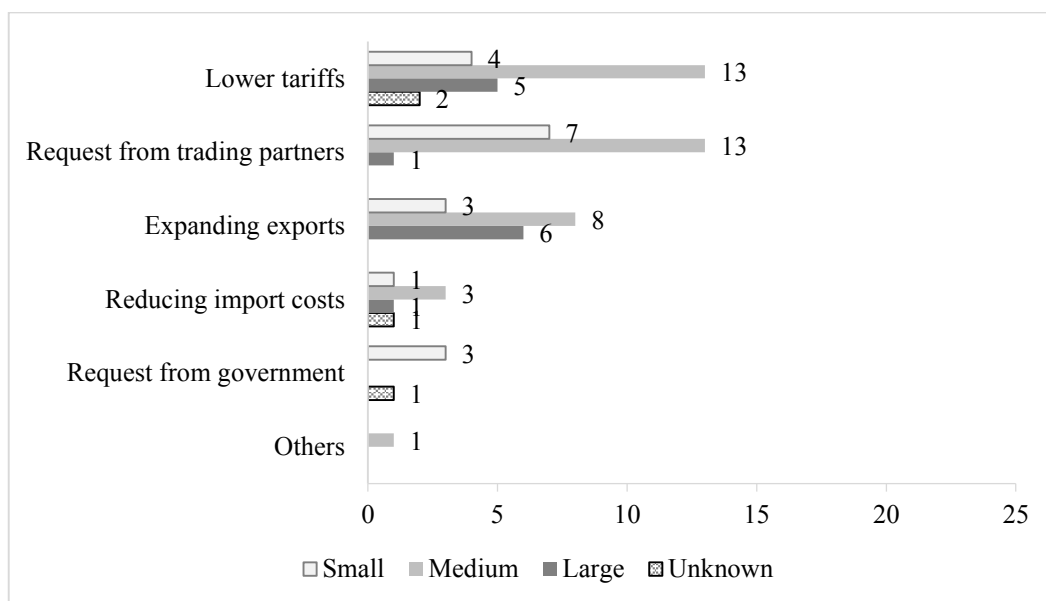
COO = Certificate of Origin.

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.



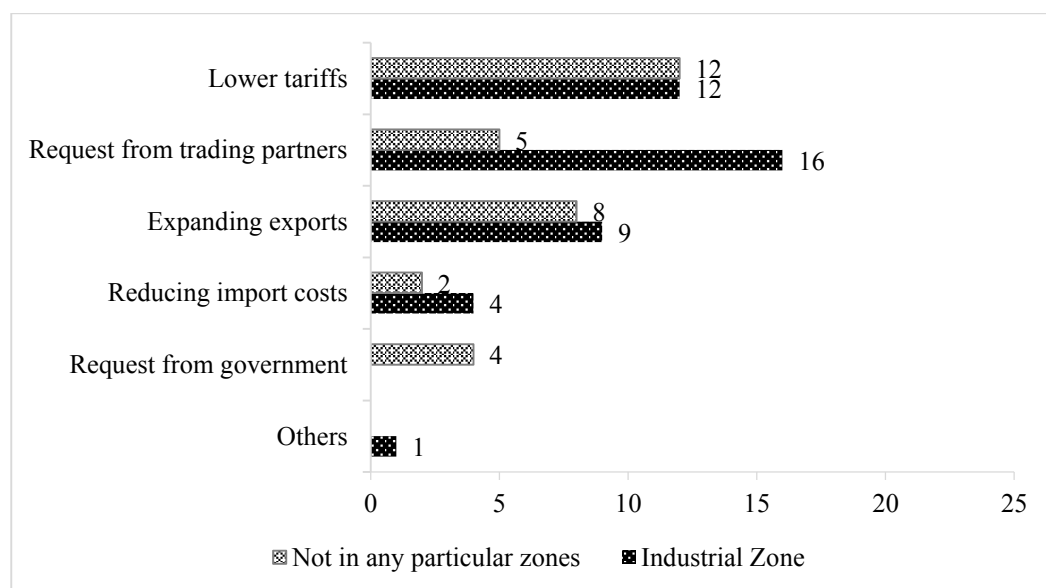
**Figure 7.6. Reasons for Utilising COOs Among Manufacturing Firms, by Size**



COO = Certificate of Origin.

Source: MIER Survey

**Figure 7.7. Reasons for Utilising COOs, by Firm Location**



COO = Certificate of Origin.

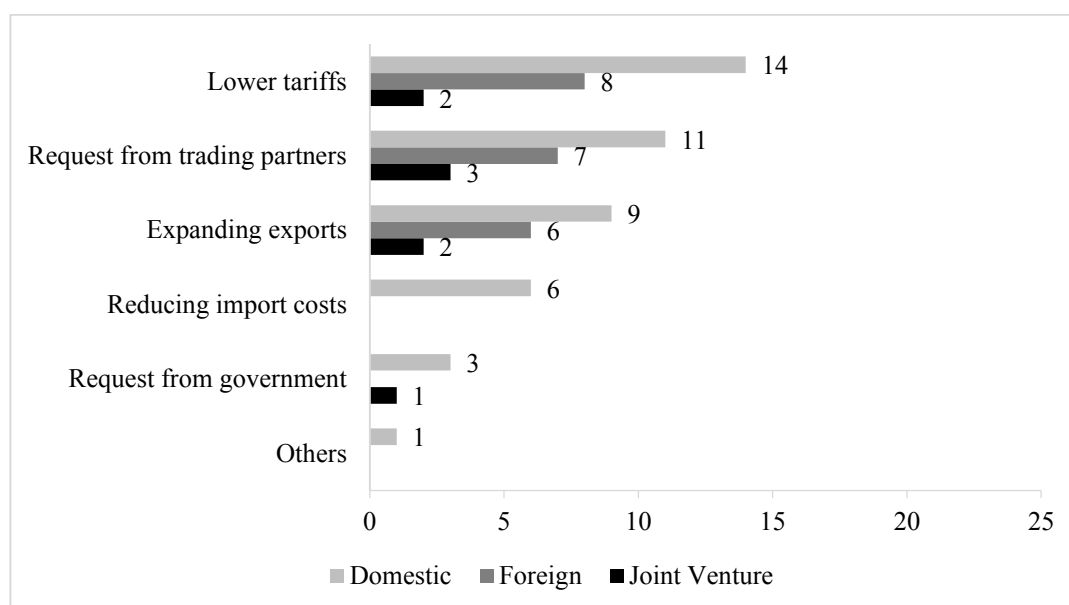
Source: MIER Survey

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.

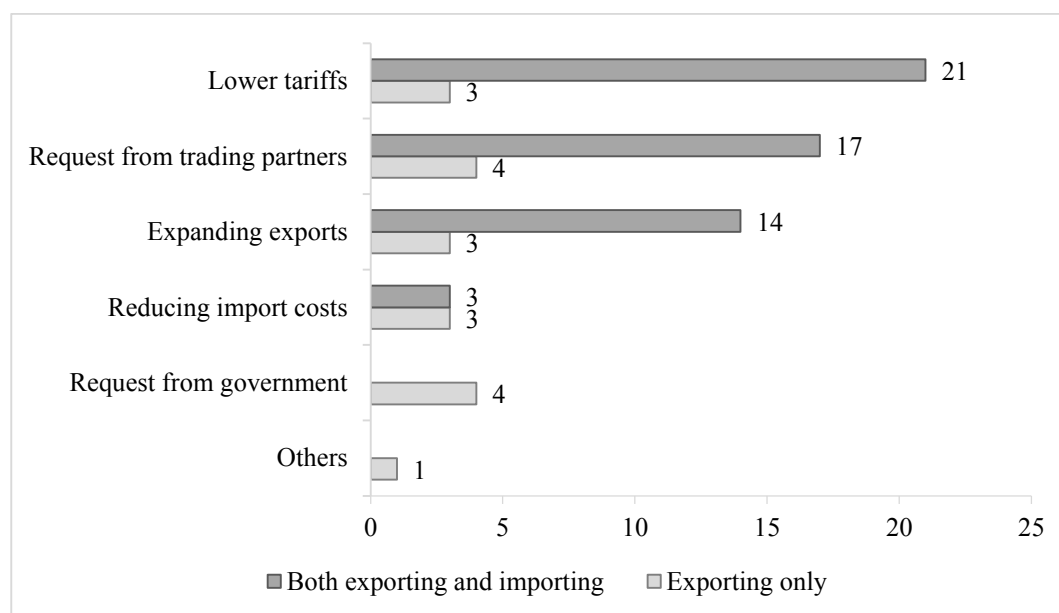
**Figure 7.8. Reasons for Utilising COOs Among Manufacturing Firms, by Firm Ownership**



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**

<b>Reason</b>	<b>Manufacturing Firms</b>
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	-

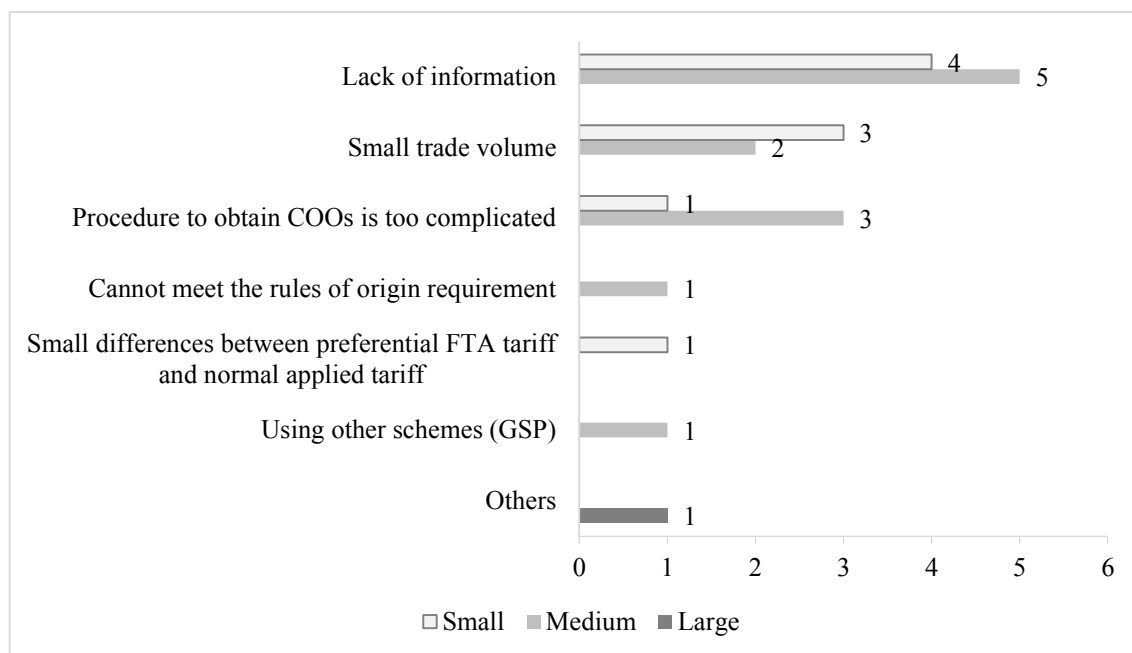
COO = Certificate of Origin.

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.

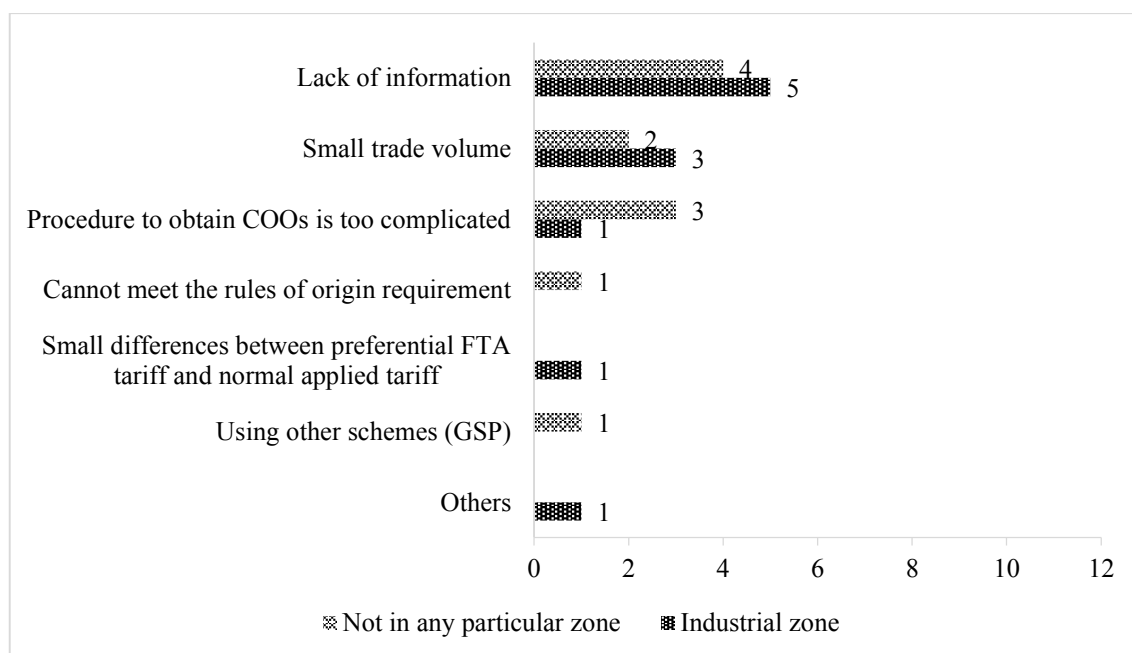
With respect to the influence of location on COO utilisation, the lack of information is the most cited reason for non-usage of COOs among manufacturing firms in industrial zones, followed by small trade volume. Lack of information is the most cited reason for non-usage of COOs among manufacturing firms 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**

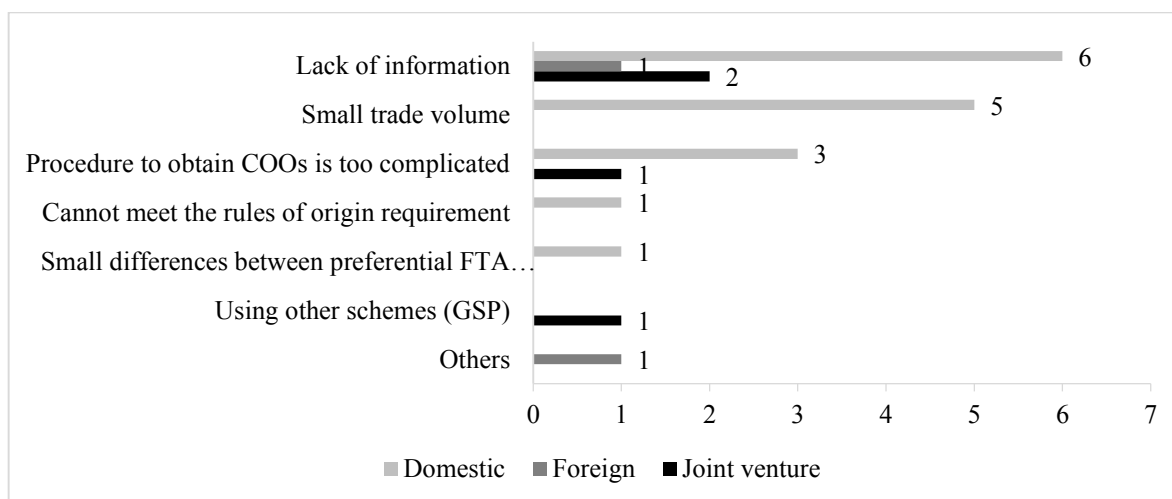


COO = Certificate of Origin, FTA = free trade agreement, GSP = Generalized System of Preferences.  
Source: MIER Survey

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.

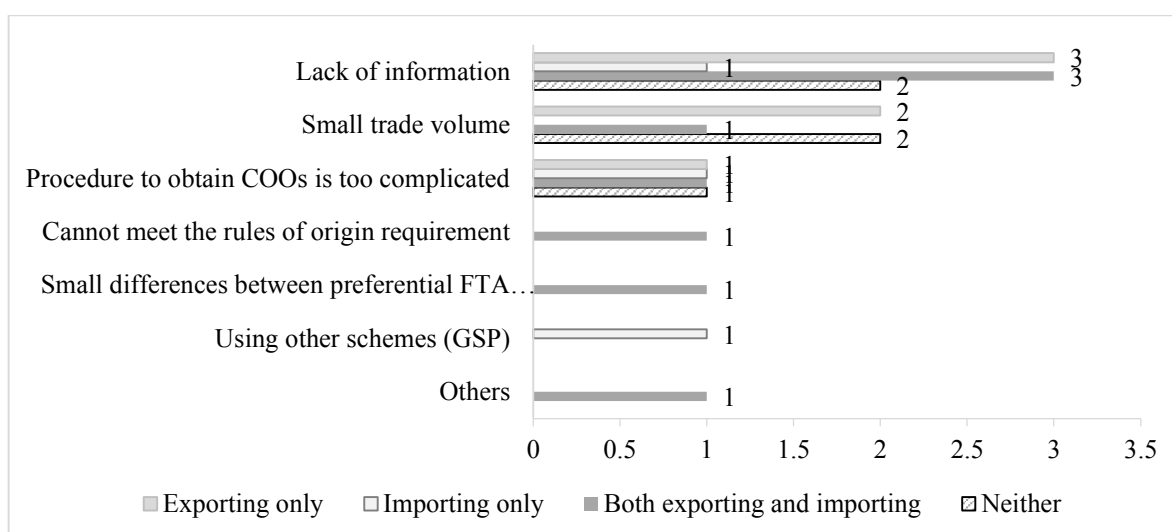
**Figure 7.12. Reasons for Not Utilising COOs Among Manufacturing Firms, by Firm Ownership**



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 COOs<sup>3</sup> 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.

<sup>3</sup> 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 Firms<sup>4</sup>

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).

<sup>4</sup> 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
<b>Total</b>	<b>37</b>	<b>14</b>	<b>51</b>

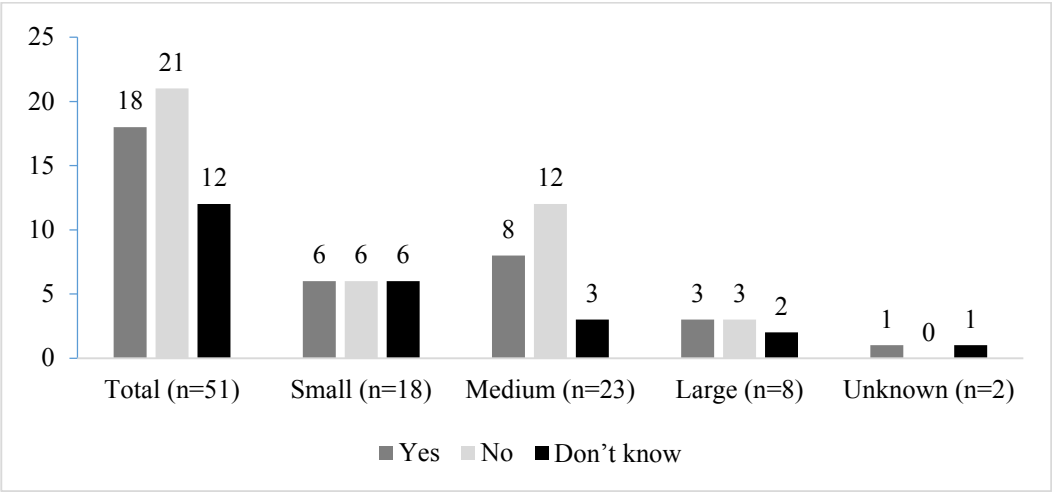
FTA = free trade agreement, GSP = Generalized System of Preferences.

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.

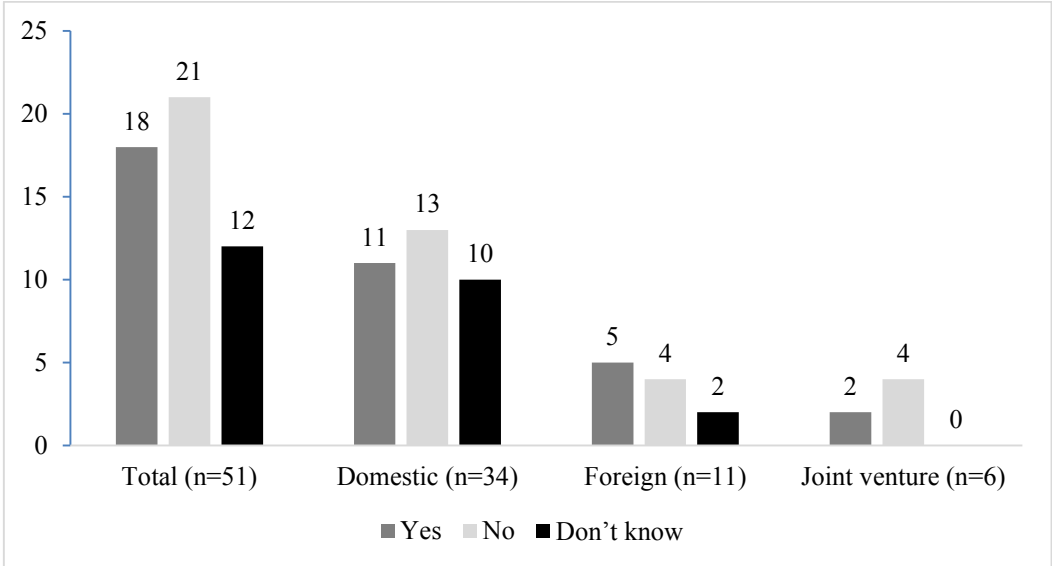
**Figure 7.14. Considered FTAs a Factor in Deciding Investment Location—Manufacturing Firms, by Size**



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**



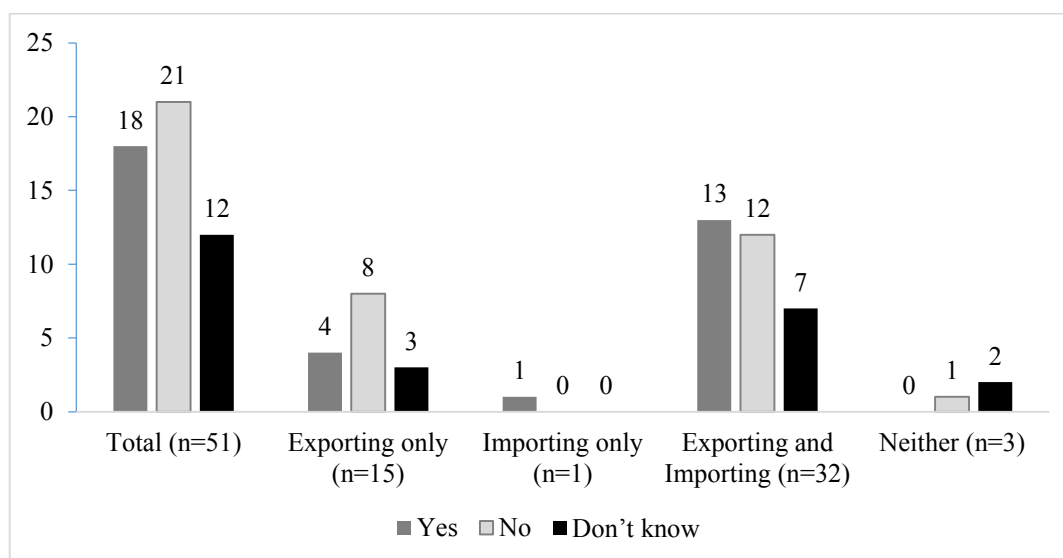
FTA = free trade agreement.  
 Source: MIER Survey

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).

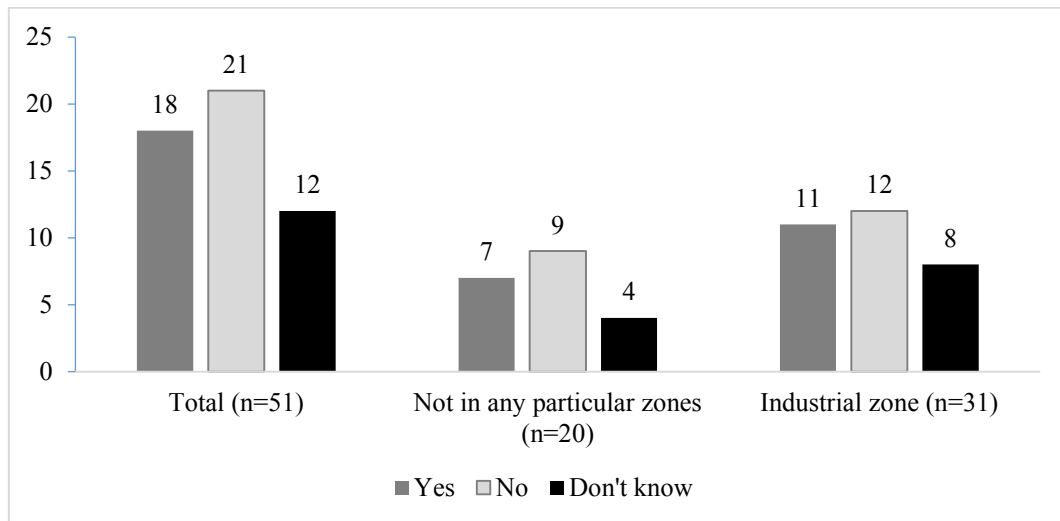
**Figure 7.16:. Considered FTAs a Factor in Deciding Investment Location—**

**Manufacturing Firms, by Activity**



FTA = free trade agreement.

Source: MIER Survey

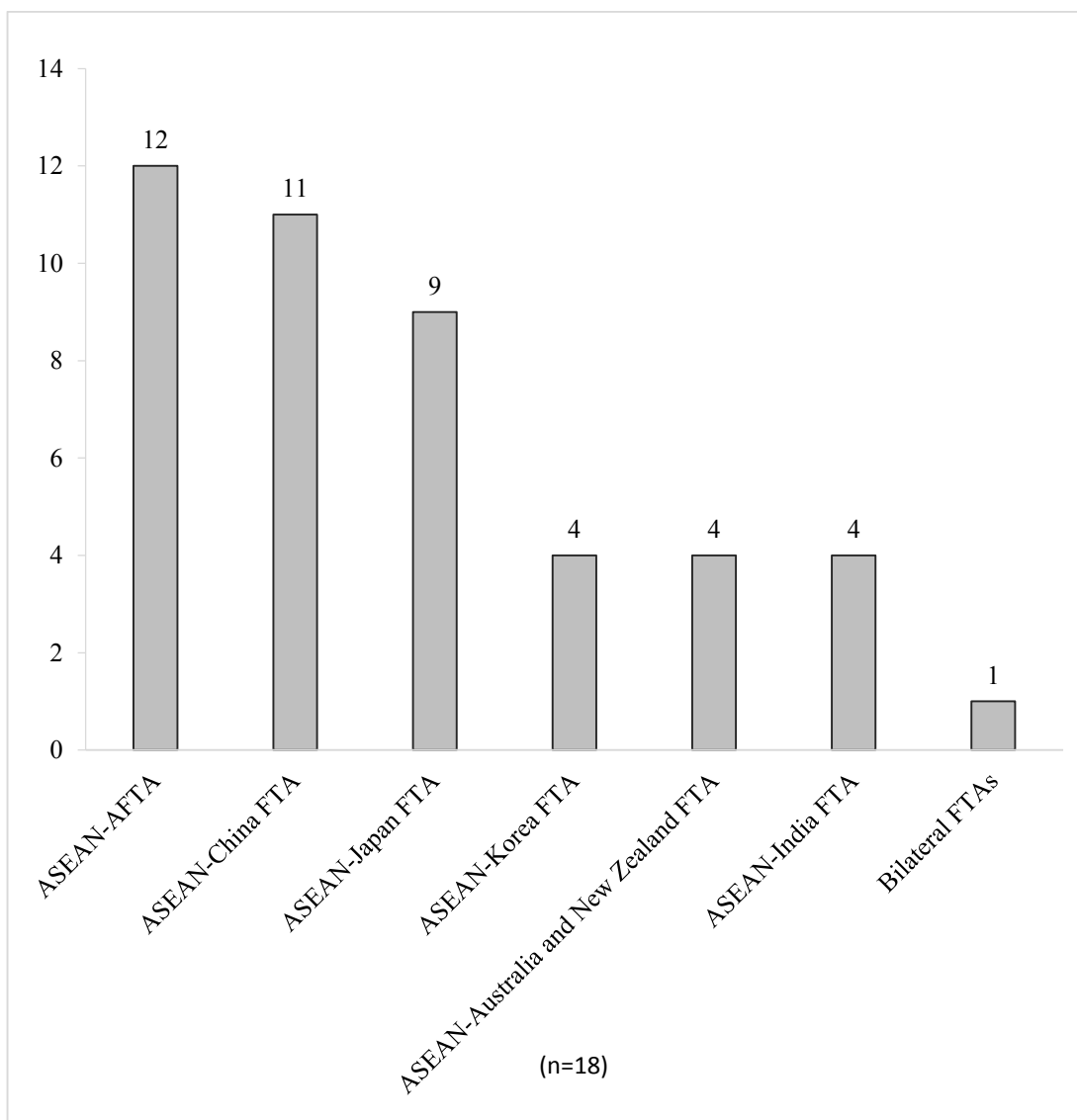
**Figure 7.17: Considered FTAs a Factor in Deciding Investment Location—****Manufacturing Firms, by Location**

FTA = free trade agreement.

Source: MIER Survey

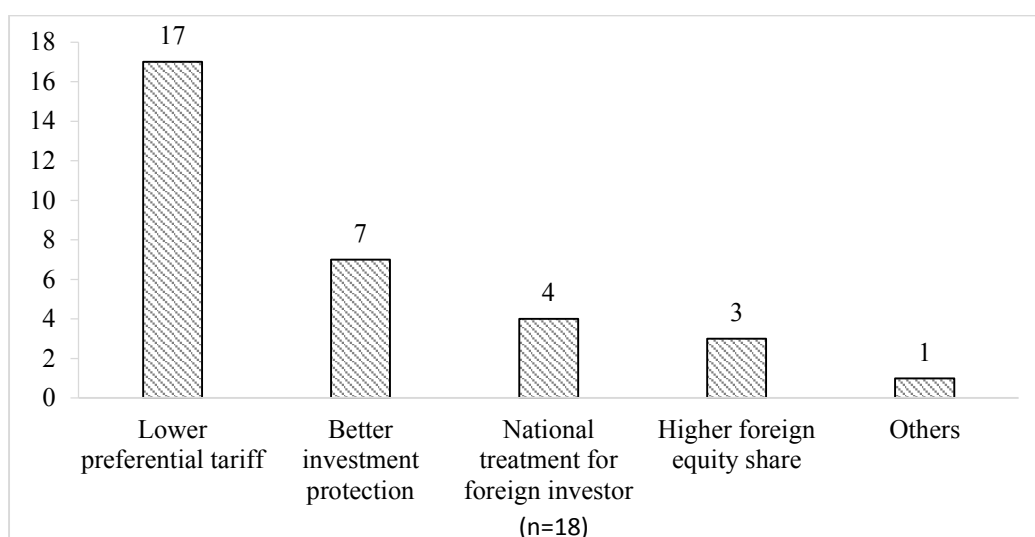
Twelve of the 18 manufacturing firms that considered FTAs in their investment decisions looked at AFTA, while 11 considered the ASEAN-China FTA, and nine considered the ASEAN-Japan FTA. These three FTAs are clearly the most important ones in deciding on investment location (Figure 7.18).

**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.

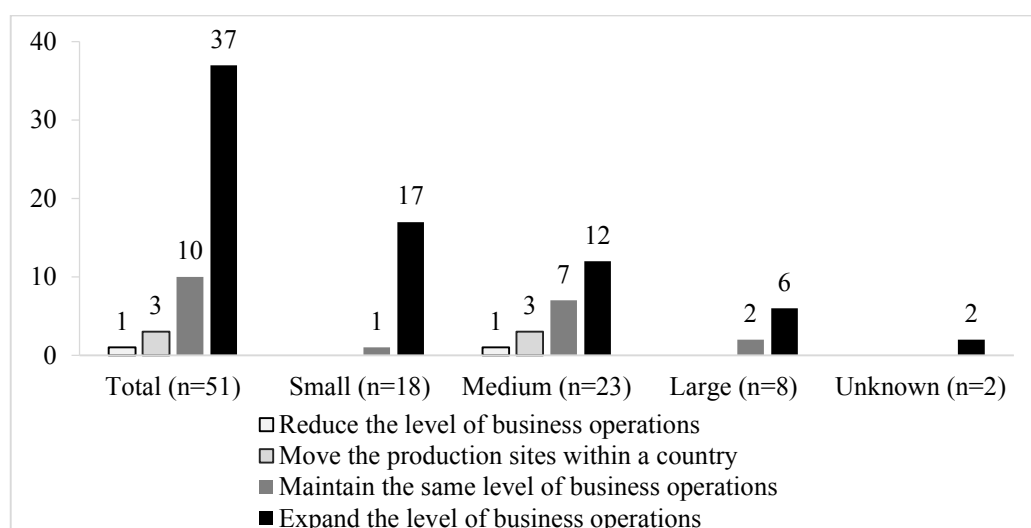
Source: MIER Survey

## 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).

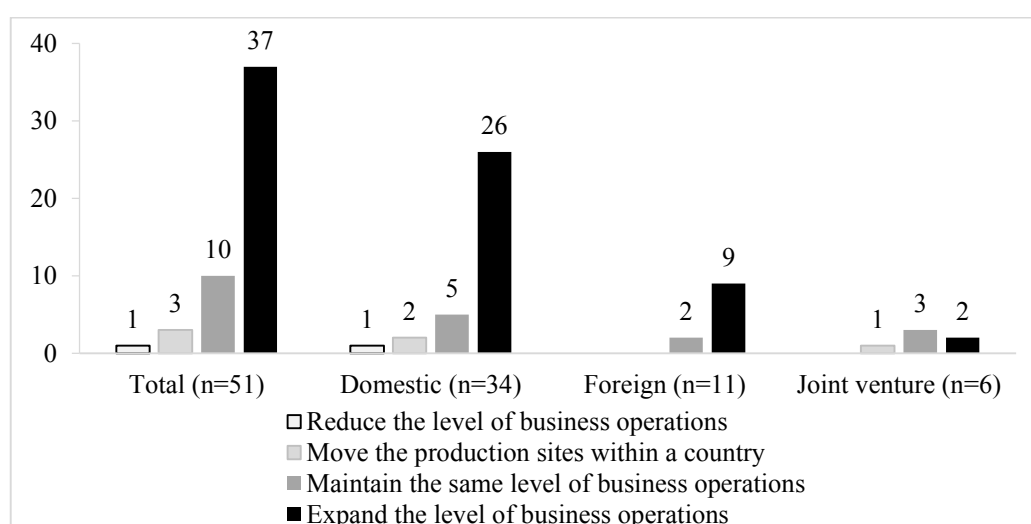
**Figure 7.20: Future Investment Plans of Manufacturing Firms, by Size**



Source: MIER Survey

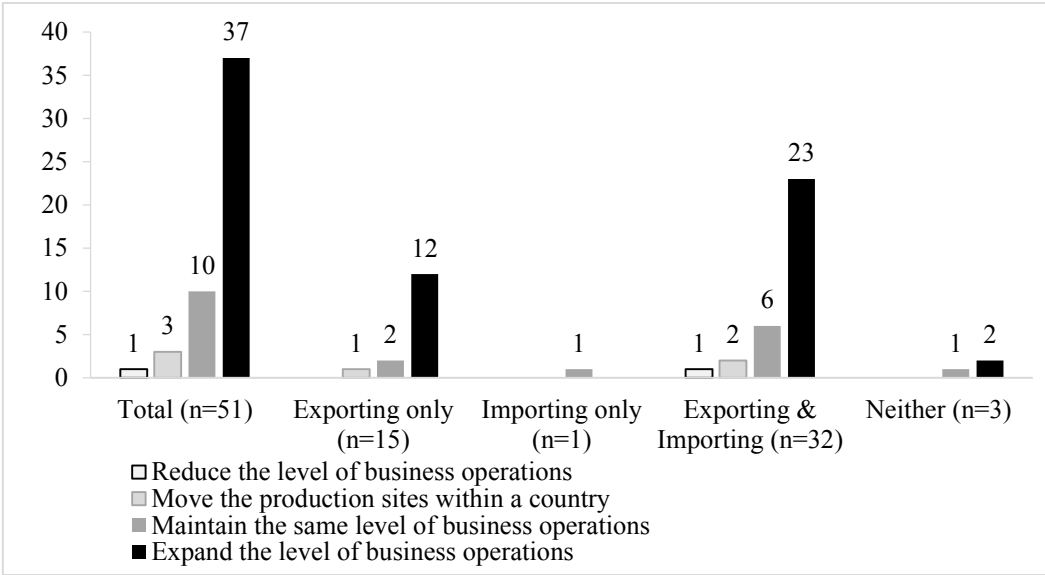
The sole manufacturing firm that intends to reduce its level of business operations is domestically owned. None of the surveyed foreign firms is planning to scale down, close down, or move production sites. Arguably, struggling foreign firms in Malaysia had already closed down their facilities in the 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

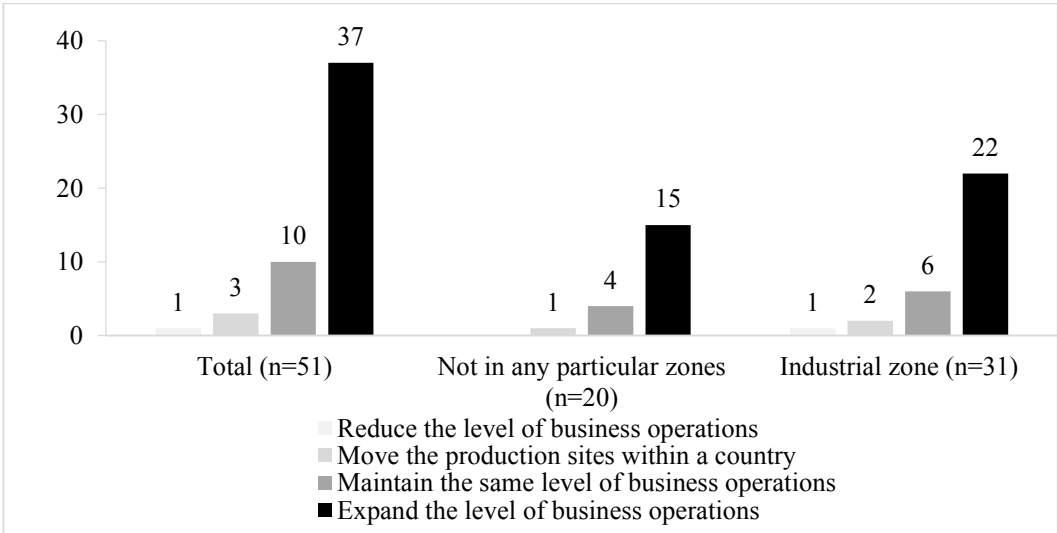
**Figure 7.22. Future Investment Plans of Manufacturing Firms, by Activity**



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



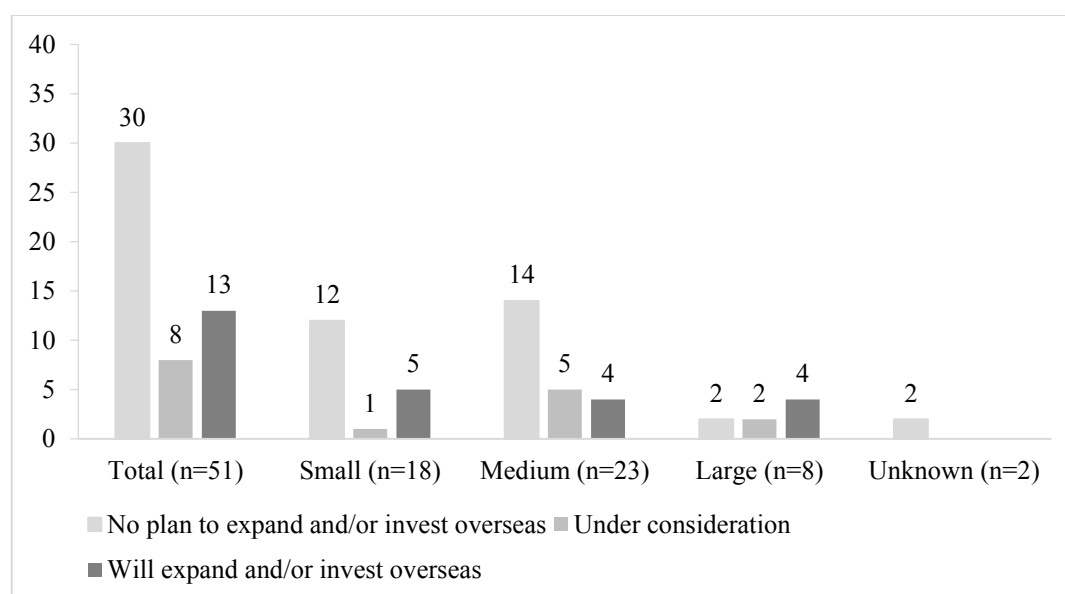
## 2.8 Overseas Expansion and Investment Among Manufacturing Firms

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.

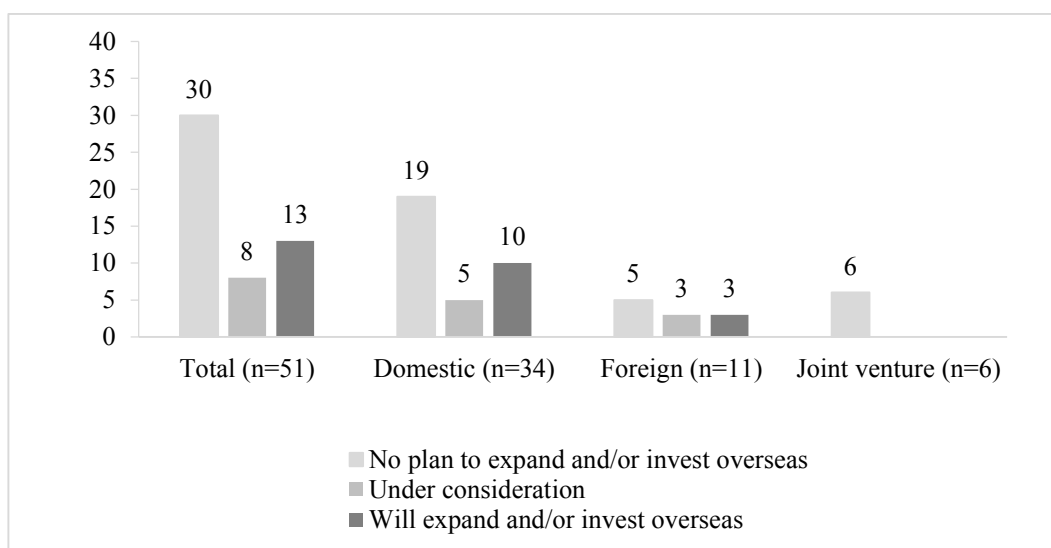
A clear majority of the surveyed small and medium-sized firms have no plans to venture abroad. Among the eight large firms surveyed, however, four intend to expand or invest overseas, while two are considering it.

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**

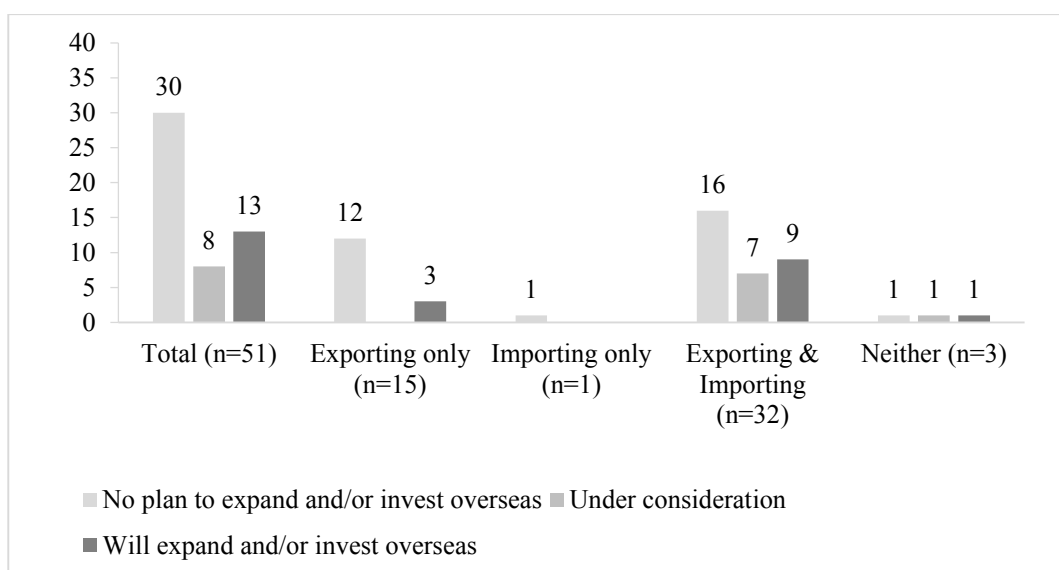


Source: MIER Survey

**Figure 7.25. Future Investment Plans, by Ownership**

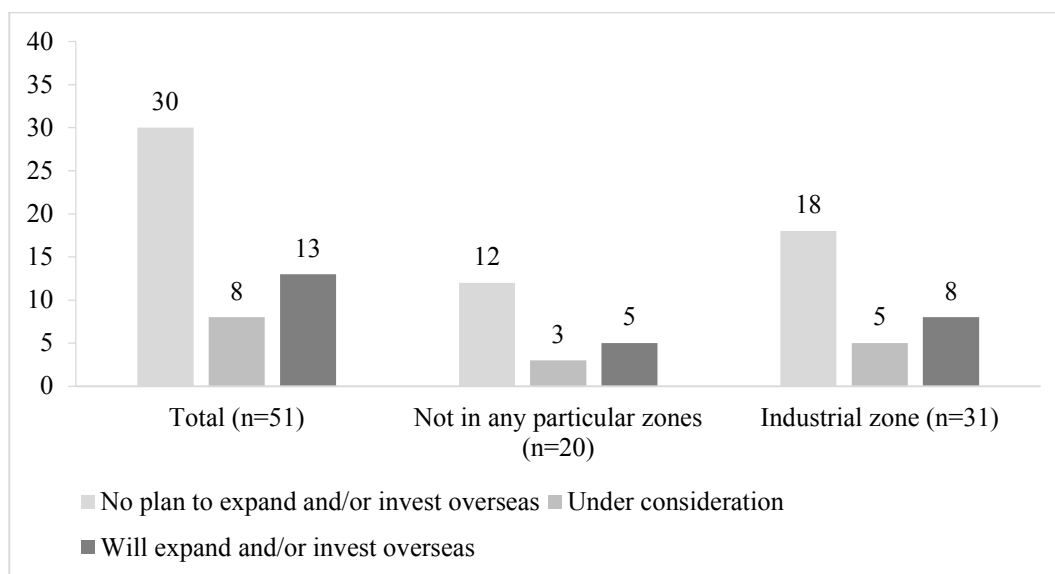
Source: MIER Survey

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

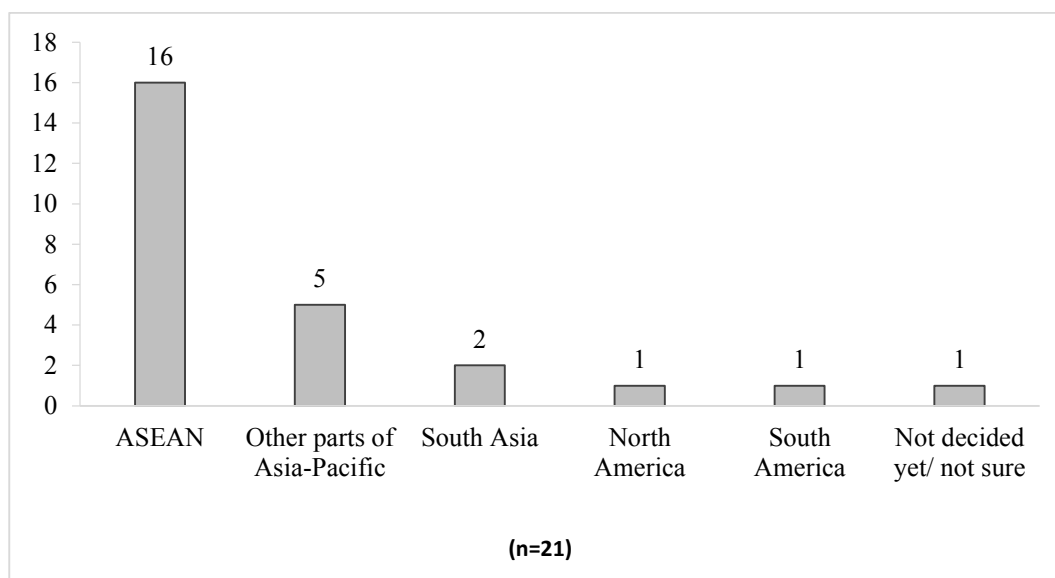
**Figure 7.27. Future Investment Plans, by Location**



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**

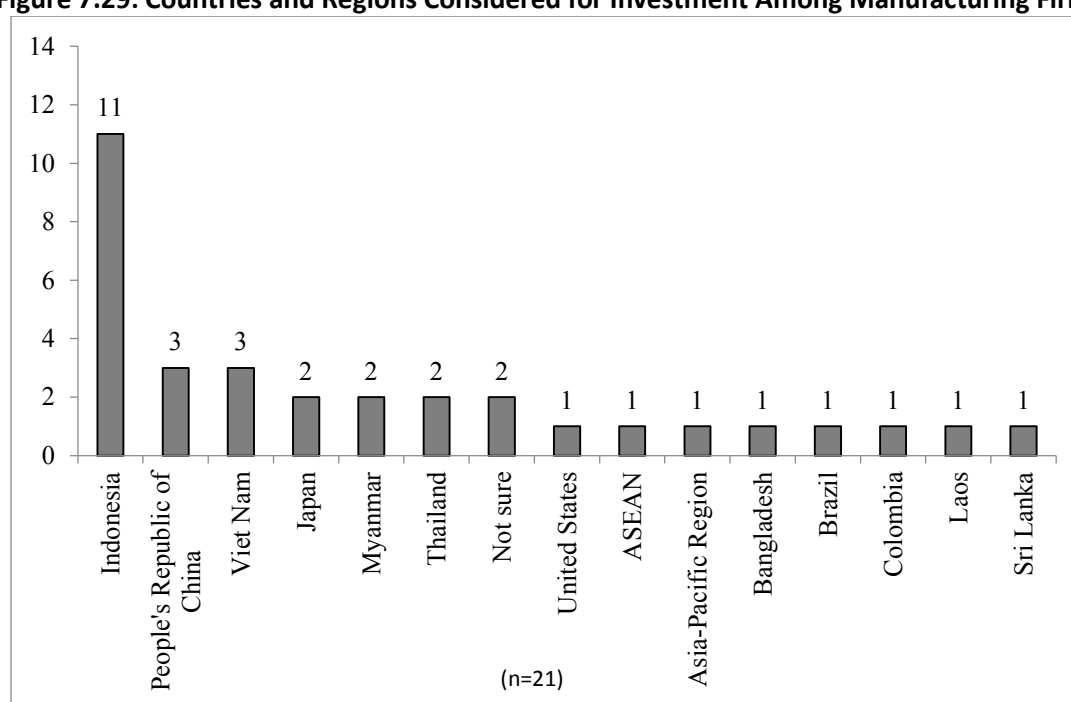


ASEAN = Association of Southeast Asian Nations.

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**



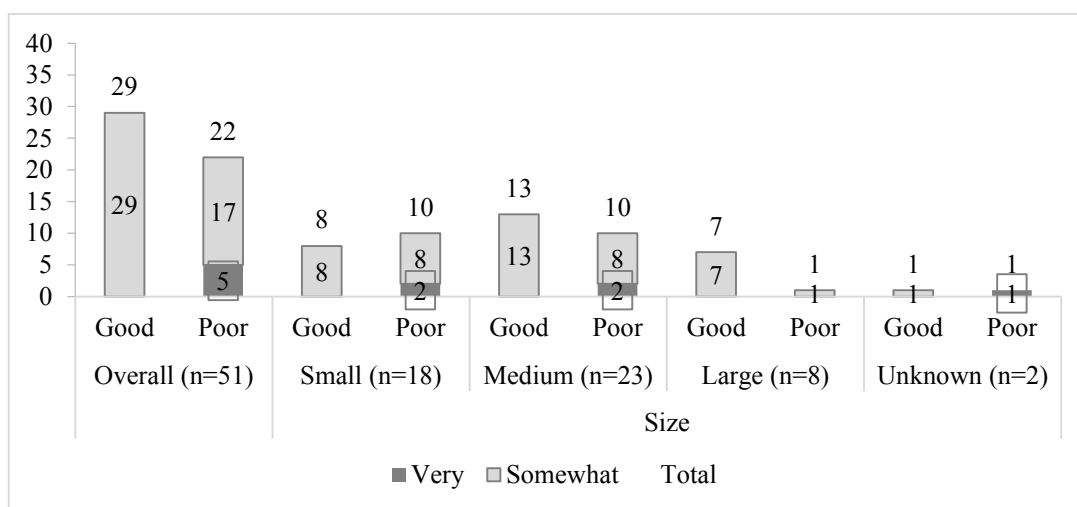
Note: Several firms only specified regions but not countries.

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).

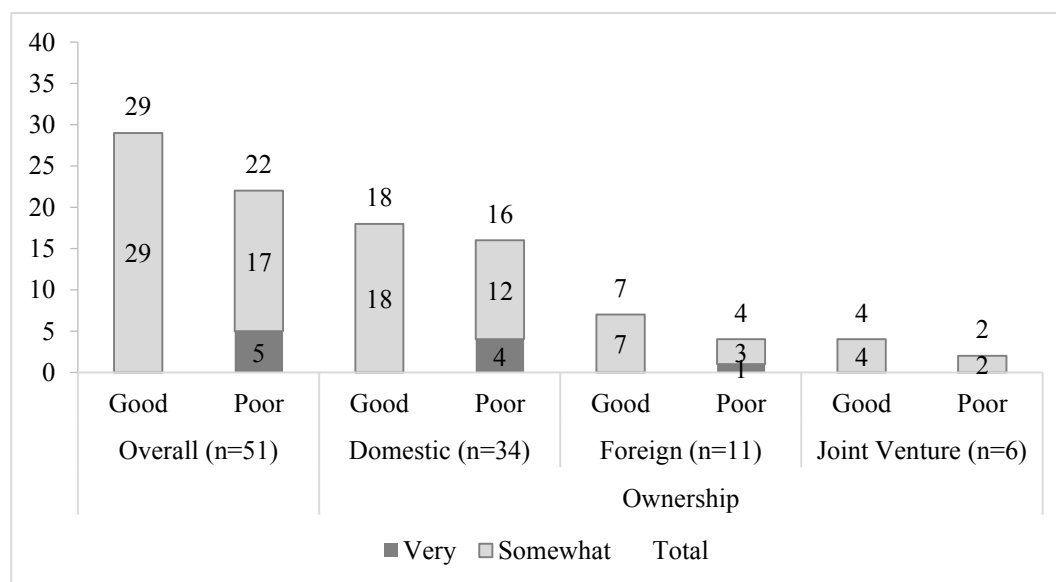
**Figure 7.30. Perceptions of Information on FTAs among Manufacturing Firms, by Size**



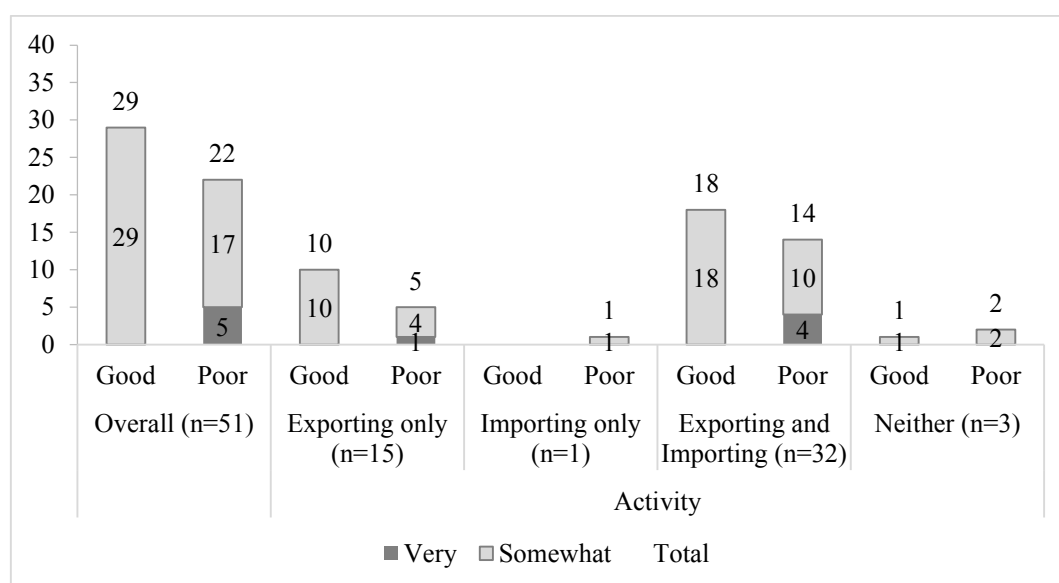
FTA = free trade agreement.  
Source: MIER Survey

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**

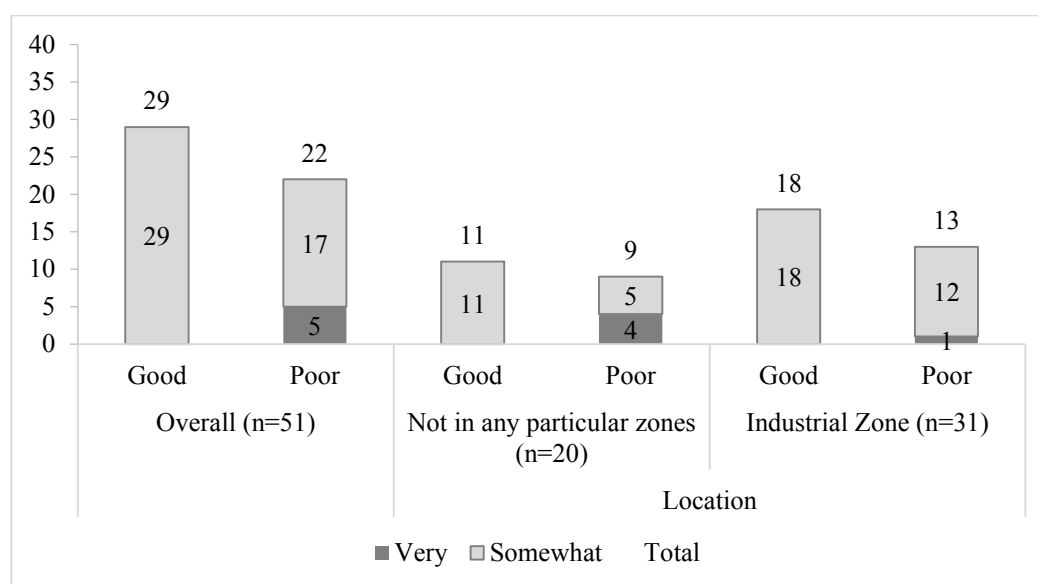
FTA = free trade agreement.

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**

<b>a. By Size</b>					
	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>Unknown</b>	<b>Total</b>
Number	11	0	0	0	11
Percentage	100	0	0	0	100
<b>b. By Ownership</b>					
	<b>Domestic</b>	<b>Foreign</b>	<b>Joint venture</b>	<b>Total</b>	
Number	11	0	0	11	
Percentage	100	0	0	100	
<b>c. By Activity</b>					
	<b>Exporting only</b>	<b>Importing only</b>	<b>Exporting &amp; importing</b>	<b>Neither</b>	<b>Total</b>
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 FTAs<sup>5</sup> 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.

<sup>5</sup> 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
<b>Total</b>	<b>3</b>	<b>2</b>	<b>2</b>

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	-
<b>Total</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>1</b>

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**

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

FTA = free trade agreement.

Source: MIER Survey

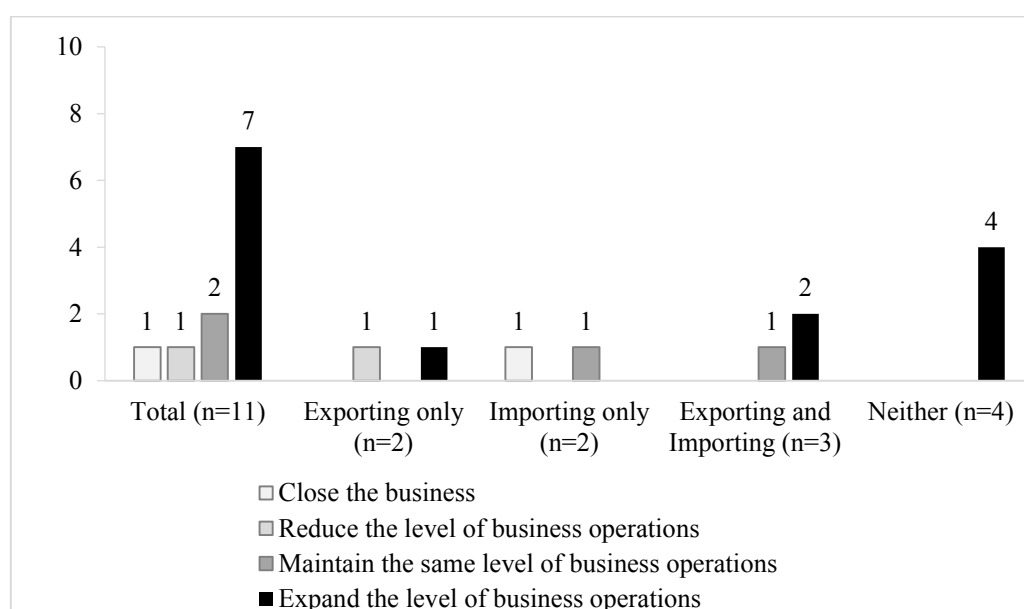
The firm that considers FTAs to have been a factor in deciding investment location also claims that it considered all available FTAs in its decision. The firm claims to have considered two aspects of FTAs in deciding its investment location: lower preferential tariff and better investment protection. 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**

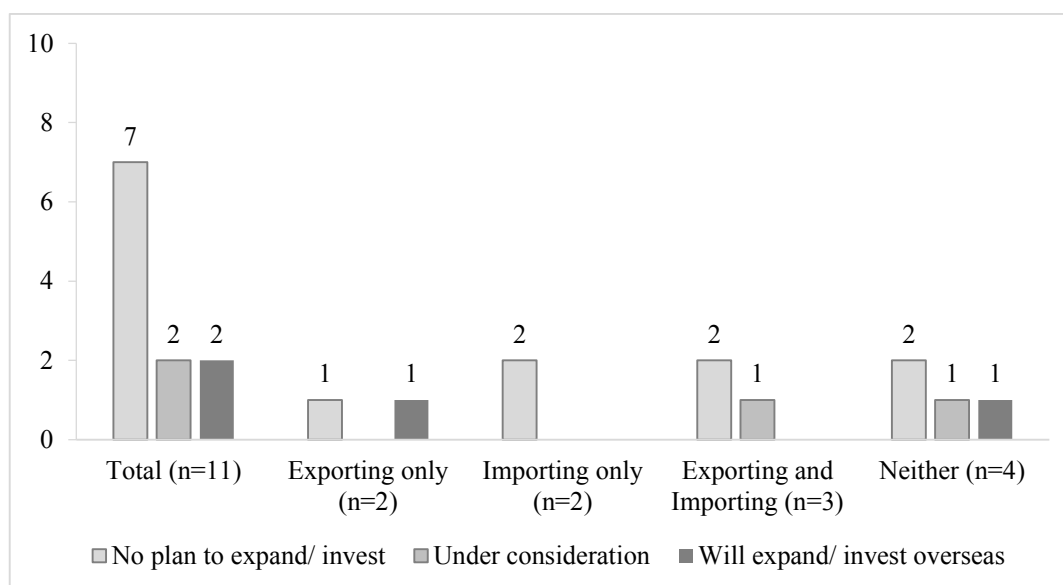


Source: MIER Survey

### **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.

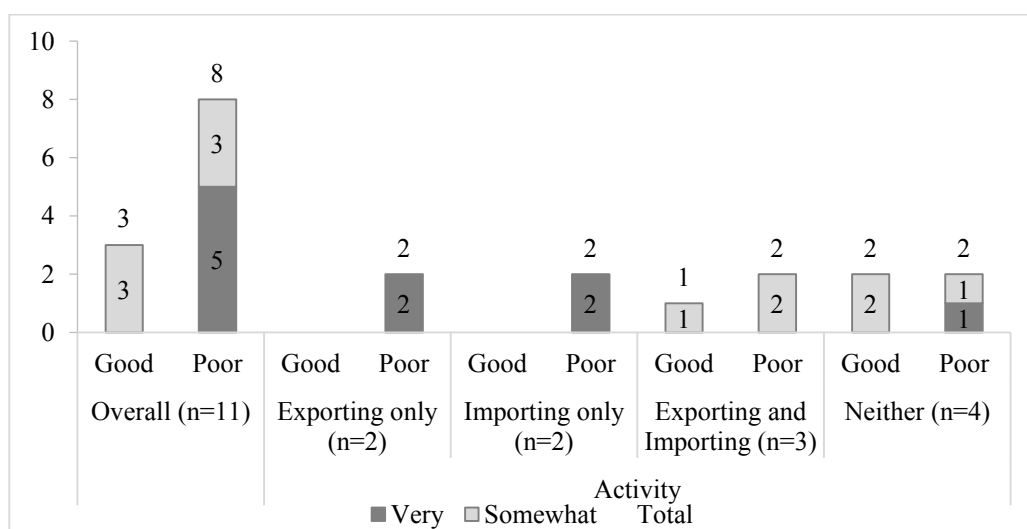
Source: MIER Survey

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.



