

# FOREWORD BY THE PRESIDENT



One of the vehicles to foster economic integration by regional groupings all over the world is through free trade agreements. The Association of Southeast Asian Nations (ASEAN) is no different. In pursuit of the goal of establishing a single market and production base with free flow of goods, ASEAN Member States (AMS) signed the ASEAN Trade in Goods Agreement (ATIGA) in 2009. ATIGA is a result of almost 2 decades of trade integration efforts amongst the AMS, starting with the signing of ASEAN Free Trade Area (AFTA) in 1993.

ATIGA, which is the forerunner of the ASEAN Plus 1 FTAs, including the recently signed Regional Comprehensive Economic Partnership (RCEP) agreement, consolidates and streamlines the provisions in the Agreement on the Common Effective Preferential Tariff (CEPT) and other relevant ASEAN agreements, and broadens its scope. The ATIGA goes beyond tariff reductions and contains specific provisions on rules of origin (ROO), non-tariff measures (NTMs), trade facilitation, and sanitary and phyto-sanitary (SPS) measures.

In 2019, the Coordinating Committee on the Implementation of ATIGA (CCA) requested the Economic Research Institute for ASEAN and East Asia (ERIA) to conduct a quantitative assessment of the impact of ATIGA on intra-ASEAN trade, as a contribution to the CCA's general review of ATIGA. This public version of the report, 'Impact of the ASEAN Trade in Goods Agreement (ATIGA) on Intra-ASEAN Trade', presents the outcome of the study. It is a result of the partnership and collaboration between ERIA, the AMS through the Coordinating Committee on the Implementation of ATIGA (CCA), and the ASEAN Secretariat.

This report finds that as a direct consequence of ATIGA, tariffs on intra-ASEAN trade have been reduced to zero for almost all tariff lines. The assessment has shown that commitments for tariff liberalisation under ATIGA have mostly been achieved. These liberalisation efforts have brought ASEAN closer to its goal of becoming a 'single market and a production base', which was one of three goals of AFTA as laid out in 1993.

But ATIGA exists in a context of unilateral liberalisation by AMS as well as the existence of alternative tariff preferences such as those enshrined in the World Trade Organization's Information and Technology Agreement and the ASEAN Plus One FTAs. Thus, only a limited number of tariff lines offer a margin of preference (MOP) high enough to incentivise firms to utilise ATIGA when trading within ASEAN because many AMS have set MFN tariffs to zero or at low levels. Furthermore, the cost of compliance with ATIGA provisions reduces the likelihood of utilisation due to low MOP. For these reasons, the impact of ATIGA is limited to sectors and products where MOP remains high (due to high MFN tariffs), mostly agriculture, processed food, and automotive. In these sectors, we find increasing utilisation of ATIGA preference over time. Gravity analysis also shows that only a handful of products show a trade creation effect of ATIGA, and that the trade creation effect is positively related to the MOP and FTA utilisation rate.

As AMS further liberalise their economies unilaterally and as new multilateral agreements (e.g. RCEP) enter into force, ATIGA needs to be updated to remain relevant. The key focus of reform should be on reducing the cost of compliance by, amongst other things, enhancing the rules of origin and the procedures for issuance of the certificates of origin that would help reduce cost and encourage utilisation. This would ensure that even the small margins offered by ATIGA continue to be valuable to traders. Furthermore, the sectors where ATIGA is most effective due to high MOP are those where small and medium-sized enterprises (SMEs) are involved. So, ATIGA can continue to be an important driver of SME engagement in intra-ASEAN trade. But to ensure ATIGA's success in doing so, specific information on barriers to utilisation of ATIGA by these firms needs to be collected and underlying issues need to be addressed.

As we continue progressing in deepening and strengthening regional economic integration through the ATIGA and the various ASEAN Plus 1 FTAs and RCEP, ERIA remains committed to continuing this fruitful partnership and collaborative work with ASEAN.



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The opinions expressed are solely those of the study team and do not represent the official view of any ASEAN bodies, AMS, or ERIA.