Moving towards a Common External Tariff Regime in ASEAN

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List of Acronyms and Abbreviations

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asia Nations
ASEC	ASEAN Secretariat
ASEAN-6	ASEAN original signatories
ASEAN-CLMV	ASEAN Cambodia, Laos, Myanmar and Vietnam
ASEM	Asia-Europe Meeting
CAP	Common Agricultural Policy, EC
CARICOM	Caribbean Common Market
CCCA	Coordinating Committee for the CEPT implementation of AFTA
CCT	Common Customs Tariff
CEPT	Common Effective Preferential Tariff, ASEAN
CET	Common External Tariff
COMESA	Common Market of Eastern and Southern Africa
CGE	Computable General Equilibrium
CTS	Consolidated Tariff Schedules
CU	Customs Union
DDA	Doha Development Agenda
DG Trade	Directorate General of Trade, EC
EAC	Eastern African Community
EC	European Commission
ECOWAS	Economic Community of Western African States
EEC	European Economic Community
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Agreement for the Americas
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GPA	Government Procurement Agreement
GSP	Generalized System of Preferences
GTAP	Global Trade Analysis Project
HS	Harmonized System
IMF	International Monetary Fund
InWEnt	International Weiterbidung und Entwicklung gGmbH
IPR	Intellectual Property Rights
ITA	Information Technology Agreement
ITC	International Trade Centre
LDCs	Least Developed Countries

MERCOSUR	South America's Southern Common Market
MFN	Most Favoured Nation
NGO	Non-governmental Organization
NTB	Non-Tariff Barriers
RoO	Rules of Origin
RTA	Regional Trade Agreement
SACU	South African Customs Union
SADC	Southern African Development Community
SEOM	Senior Economic Officials Meeting, ASEAN
SME	Small and Medium-Size Enterprise
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TOR	Terms of Reference
TREATI	Trans-Regional EU-ASEAN Trade Initiative
TRIPs	Trade-related Intellectual Property Rights
TRTA	Trade-related Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

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EXECUTIVE SUMMARY

Motivation for Study – Under the ASEAN Economic Community Blueprint signed at the 13th ASEAN Summit in November 2007 in Singapore, ASEAN Leaders agreed to the realization of a single market and production base by 2015. The Coordinating Committee for the Implementation of the CEPT for AFTA (CCCA) was tasked by the Senior Economic Officials Meeting (SEOM) to do further work on the possibility of establishing an ASEAN common external tariff (CET), a process that is likely to involve a number of challenges since existing MFN tariffs of ASEAN Member States vary widely.

Objective – The objective of this study is to provide a preliminary analysis on a range of CET options that could be adopted by ASEAN and to quantitatively assess their implications for each ASEAN member state and the region as a whole. The results of the study are intended to assist the ASEAN Secretariat and the ASEAN member states in considering options under deliberations by the CCCA, which will eventually be presented to the Senior Economic Officials Meeting (SEOM) for its deliberation on the application of a CET as a long term objective of economic integration in ASEAN.

A. Overview and CET Experiences in Other Regions

Stages of Regional Trade Agreements – Regional blocs are based on trading arrangements that aim to harmonize rules and regulations governing trade flows between member states and the rest of the world. The stages of these arrangements normally consist of the creation of, first, a free trade area with a zero tariff on intra-regional trade and the retention of individual member tariffs on third countries; second, a customs union with free trade between members and a common external tariff; third, a common market with unrestricted mobility of labor and capital, as well as goods and services; and finally, an economic union that harmonizes macroeconomic and sector policies.

CETs in Other Regional Trade Arrangements – There are several customs unions operating with CETs throughout the world. The European Union is undoubtedly the most well-known and has moved beyond a customs union to become a common market on a path to becoming an economic union. However, the range of existing customs unions with CETs includes several in Africa, Latin America and Central Asia.

- **European Union –** In 1968 the founding members of the European Union (EU) agreed to the common customs tariff (CCT), which was set at the unweighted average of the six member states' tariff rates. The transition to the CCT included provisions that (a) each member state should move by three stages at least by 30 percent, 30 percent and 40 percent closer to the common external tariff rates; (b) the European Commission (EC) had the right to authorize any member states with special difficulties to postpone the adjustments of duty rates towards the common customs tariff for a limited period of time; and (c) the CCT should be applied in its entirety by the end of the transitional period. In the financing arrangements, member states were required to transfer part of their customs revenue to the EC budget, as well as making contributions to the EC budget according to their gross national income (GNI) shares.
- **Africa** – the Southern African Customs Union (SACU) is the oldest customs union in the world. The 1910 SACU Agreement created the following structure: (a) a common external tariff (CET) on all goods imported from the rest of the world; (b) a common pool of customs

duties as per the total volume of external trade; and common excise duties based on the total production and consumption of excisable goods; (c) free movement of SACU manufactured products within SACU, without any duties or quantitative restrictions; and (d) a revenue-sharing formula for the distribution of customs and excise revenues collected in SACU. Two additional provisions were later added: (a) the inclusion of excise tax in the revenue pool; and (b) a multiplier in the revenue sharing formula that would boost the revenue of some members. The revenue sharing formula uses three components: (1) a share of the customs pool; (2) a share of the excise pool; and (3) a share of a development pool. Other customs unions in Africa include the Economic Community of West African States (ECOWAS); the Common Market of Eastern and Southern Africa (COMESA); and the East African Community (EAC).

- **Latin America –** In the Western Hemisphere one of the principal customs unions is that of the Southern Common Market (Mercosur). Although the common external tariff was formally launched in Mercosur in 1995, enforcement of the CET has been quite weak, which has given rise to the need to enforce rules of origin for all trade in the region. More recently, Mercosur member states have agreed to circulate the imported goods freely if the CET was at zero in all member states or if Mercosur granted the third parties 100 percent concessions. The other important customs union in the region is the Central American Common Market (CACM).

B. Options for a Common External Tariff

Optimal Tariff – The economic motivation for applying a tariff is base on the argument that it should improve a country's overall well-being to the extent that any welfare improvement should exceed the losses incurred by the tariff. A large country that has the ability to impact world market prices of a product can derive welfare gains by taxing its imports. If any of the ASEAN countries were large enough that it imports a significant share of the world's supply of a particular product, a tariff on that product could lower the price it had to pay to world suppliers, which in turn would improve its terms-of-trade. While this argument is theoretically valid, there are unlikely to be any products in ASEAN where countries possess sufficient monopsony power to influence the terms of trade of that internationally traded product. In that case, the actual tariffs in the ASEAN member states are typically larger than the values that optimal tariffs could reasonably be expected to take, and for all practical purposes, tariff policy in ASEAN can be established without reference to the theoretically optimal tariff.

Alternative CET Structures – There are two types of structures that broadly reflect the preferences of ASEAN member states. The first is a cascading tariff structure in which higher tariffs are applied to final goods than to production inputs, that is, intermediate and capital goods, as well as raw materials. The advantage of this type of structure is that it promotes local industries that would otherwise be unable to complete with internationally produced goods in the domestic markets. The problem is that it is difficult to design, and government authorities often find themselves making recurrent tariff adjustments in response to lobbying interests of different industries. These adjustments are confusing to enterprises, fail to reflect a long-term vision or ASEAN's policy priorities, and undermine sustainable private sector development. The second type of tariff structure is a uniform tariff that is applied to all goods equally. It has the advantage of providing simplicity, ensuring that a country's trade reflects its comparative advantage, and maximizing consumer welfare by setting the cost of the domestically produced goods at those established in global markets.

Trade Tax Dependencies –Several ASEAN members use tariffs as an important source of government revenue. In our interviews conducted with government tax authorities, it was generally recognized that trade taxes are not optimal instruments to achieve revenue objective because they significantly distort production and consumption choices. However, the use of tariffs to raise revenue is motivated by the lack of trade-neutral tax instruments, with the result that the domestic tax base is fixed either because the tax base cannot be enlarged rapidly enough or the marginal costs of increased domestic tax collection are high.

Revenue Sharing – All customs unions must establish procedures for sharing common customs revenues and those revenue sharing procedures have followed different rules in different customs unions. The revenue sharing experience of existing customs unions will be useful guides for ASEAN, but it is clear that a practical system suitable for the characteristics of the region's countries will need to be designed in a somewhat independent manner to those of other regions. Most customs unions adopt the destination principle whereby tariff revenue accrues to the country where the import is finally consumed. This option is administratively attractive and politically appealing since it means that member states retain control over the revenue they collect. Revenue sharing arrangements can be used to compensate members for losses in revenue deriving from CET-related tariff restructuring. It would require that that revenue be collected at the point where it first enters into the ASEAN region, and that it then distributed between members countries based on additional agreements on how the revenue should be shared.

Sequencing and Implementation Arrangements - The level of effort and time horizon for an ASEAN CET depends on the types of policies being implemented. Immediate short-term initiatives, like the CET rates to be implemented, are unrelated to the operational system of the government, and they usually involve stroke-of-pen reforms of tariff structures. The more challenging measures, such as monitoring and evaluation mechanisms, often involve a strong institutional base for their successful implementation. The prioritization and phasing of the recommended tariff initiatives are based on discussions with government authorities of ASEAN member states based on the impact that specific initiatives would have on the following areas: (1) a revenue-neutral effect, (2) the promotion of private sector, market-driven development, and (3) and compensation for tariff revenue losses suffered by high tariff countries by those with low tariffs during the transition period towards a CET.

Tariff Strategy – Based on the preference structures of ASEAN member states, the recommended tariff strategy is based on complementarities and adjustments in the overall design of trade policy reforms among ASEAN member states. The approach is motivated by the empirical findings that individual policy initiatives are less effective in promoting economic growth that are a combination of tariff policies that are mutually reinforcing to one another in the AEAN region. The strategy consists of the following sequence of arrangements for the CET:

> ***Stage I:*** Apply uniform tariffs to those HS 8-digit tariff lines that are most similar to one another across the ASEAN member states. Annex B shows that tariff lines that are most similar across member states under the current tariff structure of each country. No compensatory action would be required at this stage.
>
> ***Stage II:*** Reduce the number of tariff bands to three or four rates with a small standard deviation. Revenue compensation would be provided to those countries with existing high tariff rates that would suffer substantial tariff revenue declines in moving towards the common tariff band under the CET.
>
> ***Stage III:*** Move tariff regime to a neutral incentive system by implementing a uniform tariff across all HS 8-digit tariff lines.

C. Welfare Effects of an ASEAN CET

Model Summary –To measure CET-related welfare effects, we applied a detailed partial equilibrium model for commodity-level imports and tariffs at the level of the 6-digit Harmonized System (HS). Application of the model to the ASEAN member country imports relative to total world trade in those products implies that the import supply of each of those products is infinitely price elastic so the effect on other markets of a change in tariffs can be ignored, since both the country and the region as a whole is unlikely to be able to influence world market prices of an single imported product. Import demand is calibrated for each country and product using 2006 trade values with non-ASEAN member countries and tariffs at the 6-digit HS product level. The aggregate results for total imports of each ASEAN member state apply to both uniform and multiple tariff rates structures. They differ at the disaggregated level and it is straightforward to calculate the effects of multiple rates since the model is based on disaggregated welfare estimates at the 6-digit HS product level.

Treatment of Singapore and Brunei – Two exceptions have been made in the application of the CET to member states. First, Singapore has expressed its intent to maintain zero tariff rates on all its imports regardless of the CET adopted by other ASEAN members; the welfare impact assessment therefore maintains Singapore's rates at zero throughout the modeling exercise. This position could be approved by ASEAN member countries under the ASEAN Minus X formula in which a member state can opt out from certain economic schemes in which it is not yet ready to participate, although it has taken part in determining and approving such economic schemes in the first place. The formula is permitted under the newly signed ASEAN Charter. Second, Brunei has indicated that it would like to maintain low tariffs and the present welfare effects are therefore only calculated for that country at rates that are near its current trade-weighted average tariff of 3.8 percent. In particular, alternative CET rates have been applied to Brunei up to a limit of 7 percent, after which the 7 percent tariff upper bound is maintained despite CET increases by other member states.

Range of CET Options – The ASEAN-level welfare effects from CET rates ranging from 0 to 15 percent are examined in detail in this study. At low CET rates the change in consumer welfare is large, while government revenue changes from their existing current levels fall sharply. The opposite occurs at high CET rates, where government revenues increase sharply from their present levels and consumer welfare falls. At a CET rate of 5.5 percent government revenue at the ASEAN regional level is nearly unchanged from the trade-weighted average of the existing tariff rates of the member states. For consumer surplus, it is a CET rate of 6.5 percent that yields no change from its regional level. At a CET rate of 6.1 percent, the net change in consumer welfare is equivalent to the change in government revenue. Above-average tariff rates exist in Cambodia, Lao PDR, Vietnam and, to a lesser extent, Thailand, while below-average rates exist in Brunei, Indonesia, Myanmar, Malaysia, Philippines and Singapore. The 6.1 percent CET rate would produce an overall contraction of ASEAN imports of 2.5 percent as a result of trade contractions in Brunei, Indonesia, Myanmar, Malaysia, Philippines and Thailand. These imports changes refer to trade with countries other than ASEAN member states and have been calculated at the 6-digit product level for each country.

Tax Revenue Gains – We benchmarked the effects of a 6.1 percent ASEAN CET rate to provide illustrative details on the welfare effects. Tariff revenues would increase in Brunei, Indonesia, Myanmar, Malaysia and the Philippines as a result of their average tariff increases; in contrast, there would be significant revenue shortfalls in Cambodia and Vietnam. Total ASEAN tariff revenue would increase by over 10 percent on imports from non-ASEAN countries, which would represent an overall 7 percent increase in trade taxes from all sources of imports.

Consumer Welfare Effects – The consumer welfare effects are large in absolute dollar terms but small in percentage terms since consumer welfare is generally much larger in absolute terms than government revenue effects in a country. Tariff rate increases and the associated declines in the goods imported into Brunei, Myanmar, Malaysia and the Philippines would drive down consumer welfare in those countries. In contrast, there would be net positive consumer gains in Cambodia and Vietnam because of the larger volume of imports and the lower prices that consumers would need to pay for imported goods. While government revenue compensatory schemes are sometimes provided to countries that experience tariff revenue shortfalls during the implementation of a CET, the fact that they benefit from consumer welfare gains also needs to be considered when designing revenue sharing mechanisms in a CET. Therefore, what matters in determining whether or not compensatory payments should be made to countries is not limited to government revenue losses from the implementation of the CET, but rather whether the overall welfare situation for any one member country is inferior to that which existed in its pre-CET situation.

Static versus Dynamic Effects of Sequencing FTAs and a CET – In this study, we compare the welfare effects of ASEAN FTAs relative to pre-CET and post-CET rates. While the static effects are unlikely to be large since, in the end, the final trade-weighted average tariff is the same, the dynamic effects could be significant and give rise to questions about revenue compensations prior to joining new FTAs. The welfare effects of the two sequencing paths can vary considerably. Implementation of a customs union and an FTA can also move forward simultaneously since the implementation of a customs union may be phased and FTA negotiations initiated during that time. In those cases, the existence of customs union commitments by the ASEAN member states can be considered as preceding the FTA, even though the customs union commitments are not fully implemented.

D. Transitional Issues

Transitional arrangements – A transitional arrangement should be considered to help move from the current tariff regimes of individual ASEAN members to an ASEAN CET. In particular, CLMV countries are likely to need more time to implement a CET. For example, if the ASEAN CET can be designed and negotiated for a specific start-up year, ASEAN-6 members could be given three years to transition their tariff rates to those of the CET, while CLMV countries could be given another three years for the adjustment. During the transitional period, each of the ASEAN members would move their national tariff schedules incrementally towards the ASEAN CET regime.

Free Trade Zones and Export Processing Zones – Singapore is a free port in ASEAN and it does not levy customs duties on its imports. Once the CET is introduced, Singapore has indicated that it would like to retain the zero tariff rates on its imports. Brunei has also applied zero tariffs on many of its imports. One of the options is to treat Singapore and possibly Brunei as free trade zones within an ASEAN Customs Union. If products come from non-ASEAN countries to Singapore and Brunei, they would not pay customs duties. However, if they were to move from Singapore and possibly Brunei to other ASEAN member states, they would then pay the ASEAN CET duty.

E. Recommendations for Further Studies

Country-Focused Studies – During consultation held with ASEAN stakeholders, several member state representatives requested that case studies be conducted of their countries on the proposed CET. The objective of the studies would be to allow policymakers to better assess the impact and consequences of changes likely to occur in moving from current tariff regimes to the CET system. Country case studies could be conducted individually for each member or for sub-groups like the CLMV as a means of providing comparative analytical information for policymakers. It is recommended that additional studies be supported to address the CET impact on individual country members as a benchmark to determining the desirability of alternative implementation strategies, as opposed to the welfare analysis of a CET to the ASEAN as a whole. It is important that these studies focus on practical CET-related issues that are understandable and useful to policymakers.

Capacity Building – The CLMV countries have also requested training and capacity building programs for government officials, trade negotiators and other individuals to better understand the CET and related initiatives. Several countries have also requested capacity building in drafting and preparing legislative and regulatory procedures for the transition from current tariff regimes to a CET system.

Analytical Extensions – The following are key analytical areas that would support the interests of ASEAN member stakeholders in moving towards an ASEAN CET: (a) a set of studies on sector-level trade flow prospects under an ASEAN CET; (b) a set of studies addressing the macroeconomic consequences of an ASEAN CET; (c) a large-scale study on an ASEAN CET in the global economic context; (d) a set of studies on tariff revenue sharing rules and their measureable consequences on the ASEAN member states; and (e) and a set of studies on modeling the political economy effects of CET determination by ASEAN member states.

Roadmap – An essential part of the (CCCA) work on the possibility of establishing an ASEAN CET will involve the preparation of a roadmap on sequencing and implementation arrangements that would be required for the establishment of a customs union and the associated common external tariff. That work should involve a detailed study of the process needed for the adoption of a common external tariff, the transition arrangements required for its eventual implementation, institutional and structural arrangements, and possible options for ASEAN members to consider. By accepting a model of integration that requires successive steps, the time scale of benchmark targets and the overall commitment to the roadmap, ASEAN member states would be able to move forward in achieving the integration goals for the establishment of a customs union and ASEAN CET.

1. INTRODUCTION AND BACKGROUND

1.1. Background

Common External Tariff (CET) Initiative – The Association of Southeast Asian Nations (ASEAN) was the first regional integration arrangement in Asia. It still remains the centre for current and future economic integration in the Asia-Pacific region. At the 13th ASEAN Summit in Singapore on 20 November 2007, the ASEAN Leaders signed the Declaration on the ASEAN Economic Community Blueprint to accelerate the establishment of the ASEAN single market and production base by 2015 and to transform ASEAN into an integrated region with free movement of goods, services, investment, skilled labor and freer flow of capital. One of those initiatives involves the move from the current Common Effective Preferential Tariffs (CEPT) included in the ASEAN Free Trade Area (AFTA) to a Common External Tariff (CET) of an ASEAN Customs Union. The Coordinating Committee for the Implementation of the CEPT for AFTA (CCCA) is tasked by the Senior Economic Officials Meeting (SEOM) to advance work on the possibility of establishing a CET in ASEAN.

Motivation for Present Study: The AFTA has already achieved significant progress in the removal of tariffs among the ten ASEAN members. Through WTO tariff reductions and various free trade agreements signed by ASEAN and its member states, tariffs with the non-ASEAN members have been gradually reduced. The next step involves the analysis of options and consequences of moving towards an ASEAN CET. Process in this area is likely to involve a number of challenges since existing MFN tariffs of ASEAN member states vary widely. The present study is the first attempt to analyze a range of CET options for the region and to measure their welfare effect on each ASEAN member state.

Reconciling National Interests – Unlike the European Union and other customs union arrangements in Africa and Latin America, the ASEAN has not applied a CET to imported goods from non-ASEAN countries. The AFTA is essentially a free trade agreement under which each ASEAN member exercises its own tariff regime. A common external tariff would require the ASEAN to move from AFTA to a custom union, which needs to reconcile diverse national interests including the large discrepancies in applied MFN tariffs. For example, Singapore does not levy import duties and Brunei applied them to only a relatively few products, while other ASEAN members levy import tariffs in a variety of rate structures and in various degrees. If a uniform common external tariff were required of all member countries, then Singapore and Brunei would have to begin applying tariffs or other member states would need to completely eliminate their tariffs. While convergence of tariffs would be difficult in the short term because of large development gaps between Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand (ASEAN-6) and the CLMV countries, in the medium to long-run it is likely that such convergence would be both desirable and feasible.

1.2. Objective and Outputs

Objective – The objective of this study is to provide a preliminary analysis on a range of CET options that could be adopted in ASEAN and to provide details on the implications of the proposed CET for each ASEAN member state. The results of the study are intended to assist the ASEAN Secretariat and the ASEAN member states in considering the options under the deliberations by the Coordinating Committee for the Implementation of the CEPT for AFTA (CCCA), which will eventually be presented to the Senior Economic Officials Meeting (SEOM) for its deliberation on the application of the harmonized ASEAN common external tariffs as a long term objective of economic integration in ASEAN.

Outputs – The main output of the study is the identification of a range of options of the CET scenario that could be adopted in ASEAN. The study provide an analysis on the implications of the possible CET scenarios for each member state with regard to the following factors: (a) the adjustments required; (b) the implications on the structural adjustments; (c) the ultimate welfare effects; (d) review on the issue of loss of revenue as a result of lowered customs tariffs; and (d) other issues that may be affected by the required adjustments. The study also provides alternatives for the use of customs revenue, for example, in terms of potentially providing resources towards supporting the establishment of the ASEAN Economic Community (AEC) envisioned under the ASEAN Economic Community Blueprint. Finally, the study suggests key aspects of further trade technical support that would be required in establishing a customs union in ASEAN, especially in the form of follow-up work to the present study.

1.3 Coverage

The present study builds on the results of an in-depth review of previous CET experiences and consultations with ASEAN stakeholders to construct a modeling framework that has been able to provide quantitative estimates of the welfare effects from a CET.

- *Literature Review*: A comprehensive review has been undertaken on (a) the historical developments of the ASEAN trade initiatives including CEPT under AFTA and FTA negotiations, and (b) comparative analysis of CET experiences in other regions, including the EU, MERCUSUR, SACU, and others.
- *Consultation with Stakeholders*: Stakeholders were consulted during the field studies in nine ASEAN member states (except for Myanmar) by two senior consultants on revenue and competition effects, as well as export potentials in the ten ASEAN member states.
- *Modeling CET Welfare Effects*: A partial equilibrium model is used to measure CET-related welfare effects on consumption and revenue in the ASEAN member states.
- *Analysis of CET Options and Their Implications:* The three experts worked together to identify a range of options of the CET scenarios that could be considered by ASEAN and analyze the implications of each option for the ASEAN member states.

The present report summarizes the results of the aforementioned activities and is divided into the following chapters.

- Chapter 1 provides the background to the study in terms of the evolution of ASEAN towards an economic community, summarizes the objective and outputs of the study, and highlights its coverage and limitations of the preliminary study.
- Chapter 2 summarizes the historical developments of ASEAN economic integration from the AFTA/CEPT to FTAs and to CET. It also provides the comparative analysis of the CET options and practices of other customs unions.
- Chapter 7 describes and evaluates the current tariff structure in ASEAN and puts forward a set of options for designing a CET for the ASEAN member states.
- Chapter 4 presents the modeling methodology to be used to measure the welfare effects of a range of alternative common tariff regimes and how the costs and benefits would be distributed across ASEAN member states.

- Chapter 5 analyzes the sequencing of the FTAs and CET and the implications that it has on member states' welfare effects.
- Chapter 6 describes a number of key architectural issues that need to be addressed as part of the CET design and implementation.
- Chapter 7 provides the recommendations on the options of the CET design and implementation in ASEAN and also on further studies on the subject.
- The Annexes to the report present the technical details of the model used to measure welfare, and statistical information on sequencing modalities and the welfare effects of alternative CET options.

2. MOVING TOWARDS A COMMON EXTERNAL TARIFF IN ASEAN: AN OVERVIEW

2.1 Regional Trade Agreements

A common external tariff (CET) is one of the most important features of a customs union in which a single external tariff is applied by all member states to imports coming from non-member countries. After the imports clear the customs in one of the member states, they can move freely within the single customs territory. Along with the CET, some customs unions have also instituted other common commercial policies among the member states. However, the WTO only requires the common external tariff be created for a customs union under the WTO rules.

Stages of Regional Trade Agreements – Traditional regional blocs have been based on formal trading arrangements that aim to harmonize rules and regulations governing trade flows between member states and the rest of the world. The stages of these formal arrangements consist of the creation of, first, a free trade area with a zero tariff on intra-regional trade and the retention of individual member tariffs on third countries; second, a customs union with free trade between members and a common external tariff; third, a common market with unrestricted mobility of labor and capital, as well as goods and services; and finally, an economic union that harmonizes macroeconomic and sector policies. Each of these can be described in the following manner:

- **Free Trade Area (FTA) –** The lowest level of economic integration is a free trade area in which the tariffs among the members' products are lowered but the member countries retain their own tariff regimes on products from non-member countries. The ASEAN-AFTA is one of the examples of this type. Another important example is the North American Free Trade Agreement (NAFTA) which includes Canada, Mexico and the United States. ASEAN and other countries are currently negotiating many FTAs which also fall into this category.
- **Customs Union (CU) –** The second level of economic integration is a customs union in which the member states apply free trade within their customs territory and adopt a CET and possibly other commercial policies towards non-member countries. Compared with FTAs the benefits of the customs union come primarily from the further integration of the member states, common external tariffs and collective actions towards third parties and the removal of non-tariff barriers through common commercial policies. The European Union is the most successful example of the customs union in the world. There are other customs unions in South America (MERCOSUR) and in Africa (SADU, ECOWAS), etc. Even there are proposals in North America to move from NAFTA to a customs union between Canada and the United States.
- **Common Market (CM) –** The third level of economic integration is a common market which is a further integration under the customs union. Under the common market, member states not only have a common external tariff, but also they will have free movement of goods, services, capital and labor. The European Union has already achieved the goal of the common market among the member states. According to the ASEAN Economic Community Blueprint, ASEAN is in fact moving towards a common market of free movement of goods, services, investment, skilled labor, and capital by 2015. In order to achieve the goal, the first step is to create a customs union with a common external tariff in ASEAN.
- **Economic Union (EU) –** The highest level of regional economic integration is an economic union in which a common market is created, common economic institutions established, and common commercial policies formulated and coordinated among the member states. At present, the European Union is the only regional bloc moving towards the economic union in the integration process. The example of the European Union integration has inspired many other regional

groupings to move towards higher level of economic integration. ASEAN member states are also moving toward that direction.

2.2 Potential Benefits of a Common External Tariff

There are six possible benefits for ASEAN member states from a CET:

(1) **Substantial economic gain –** Like the European Union (EU), ASEAN could derive large economy-wide gains from a common external tariff. In the case of the EU, it is estimated that when the European Single Market was first created, the effect was to expand economic activity by more than 6 percent of the EU economy.[1] The next chapter illustrates some of the effects that a CET would have on the welfare of the ASEAN member states.

(2) **Formalization of policy reforms and best practices –** The creation of an ASEAN CET requires that the most efficient rules will prevail to become the ASEAN regional rules. Under the ASEAN Economic Community (AEC), ASEAN decisions are supposed to govern businesses in ASEAN and supersede national policies that could otherwise contradict them. Cambodia, Lao PDR, Myanmar and Vietnam are still in the transition to become more efficient market economies. Through the creation of the ASEAN CET, these countries could learn the best practices of other ASEAN member states and lock-in more efficient policies and practices through the integration process.

(3) **More Attractive Regional Market for Foreign Investors –** Although the AFTA has created positive gains for the ASEAN member states, the independent national policy environment has become less attractive to multinational corporations doing business in ASEAN as their transaction costs in the segmented markets are higher than they would otherwise be in an integrated regional market. The CET or ACU could create an ASEAN Single Market that would have more positive effects in attracting FDI inflow to ASEAN, particularly given the strong competition for FDI from China and India in the region.

(4) **Abolishment of Rules of Origin and Reduced Transaction Costs –** The establishment of an ASEAN CET would mean that the ASEAM member states, along with the elimination of internal tariffs, would also eliminate the need for rules of origin required for the goods imported from other ASEAN member states. The AFTA rule of origin would expire after the creation of a CET. Imports from non-ASEAN member states could enter any ports of the ASEAN member states to the ASEAN customs territory. As long as importers pay the ASEAN import duties under the CET, imported goods would also be allowed to move freely within the region. The advantage eliminating rules of origin in ASEAN is that it would allow the trade and investment to move more freely in the region as otherwise sometime rules of origin can be used as non-tariff barrier (NTBs) to trade.

(5) **Functional Enhancements of the ASEAN Secretariat –** Enhanced functions related to the monitoring and implementation of the CET would strengthen the ASEAN Secretariat. This process would, in turn, allow ASEAN to be in a better position to harmonize, coordinate and implement the ASEAN rules, regulations and policies, as well as to monitor the economic integration process and to resolve any disputes that may arise during the CET implementation process.

(6) **Enhanced Negotiating Capacity with WTO and Other Trade Organizations –** With the joint actions in the WTO and other regional trade organizations, the collective ASEAN positions would be much more powerful than individual ASEAN members. However, ASEAN

[1] Cecchini. P. The Costs of Non-Europe. Brussels: European Commission, 1988

members may have different commercial interests in multilateral and regional trade negotiations. In the long run, ASEAN member states would benefit from the collective bargaining in trade negotiations if their common trade interests could be coordinated and represented by the ASEAN trade negotiation team.

2.3 Historical Developments of ASEAN Trade Arrangements

The Association of Southeast Asia Nations (ASEAN) was established in August 1967 in Bangkok by the following five original member countries: Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Initially ASEAN intended to establish a forum for discussing political and security concerns in the region. Brunei Darussalam joined the ASEAN in 1984 after its independence, and Cambodia, Laos, Myanmar, and Vietnam (CLMV) joined the ASEAN in the 1990s as part of their reform programs and regional integration process. Vietnam became a member in July 1995, Laos and Myanmar in July 1997, and Cambodia in April 1999.

Early Development – In the early years, ASEAN primarily focused on political goals, striving for peace and security in Southeast Asia. Only in the late 1970s, did ASEAN member states begin to give more thoughts on closer economic integration among the ASEAN countries. The first Preferential Trading Agreement (PTA) was signed by five original ASEAN member states in 1977. However, the impact of the PTA was limited because the tariff concessions granted by ASEAN member states only covered a small portion of the intra-ASEAN trade. Due to the large development gaps between the member states, ASEAN countries were not ready to open up to the regional economic integration at that time. In the late 1980s the ASEAN-6 became more serious with their trade liberalization and economic integration process, partly to counterweight the growing trends of other trading blocs such as the European Union and NAFTA. In January 1992, ASEAN leaders decided to establish the ASEAN Free Trade Area (AFTA). In 1995, they also concluded the ASEAN Framework Agreement on Services (AFAS). In 1998, the ASEAN Investment Area (AIA) was also created.

ASEAN Free Trade Area (AFTA) – The AFTA, which replaced the former PTA, went much further and aimed at reducing tariffs at much broader range of products and also tried to eliminate non-tariff barriers and other cross-border restrictions. In the tariff area, the Common Effective Preferential Tariff (CEPT) was introduced to implement the AFTA Agreement. Under the CEPT, ASEAN member states were required to lower down most of their tariffs to 0-5 percent gradually – for ASEAN-6 by 2002 and for ASEAN-CLMV by 2008. It was envisioned that intra-ASEAN import tariffs could be completely eliminated for ASEAN-6 by 2010 and for ASEAN-CLMV by 2015 with some exceptions of sensitive products and general and temporary exclusion products.

Common Effective Preferential Tariff (CEPT) – The CEPT applies only to goods originated with the ASEAN member states. The general rule is that the ASEAN content must constitute at least 40 percent of the value of the goods to be qualified. The local ASEAN content can be cumulative – i.e. the value of material, labor and processing inputs from various ASEAN members that can be combined to meet the 40 percent requirement under the ASEAN rules of origin (RoO). The exporters must obtain a Form D certification from its national government confirming that the goods have met the 40 percent ASEAN RoO requirement. The Form D must be presented to the customs authorities of the importing ASEAN countries to qualify for the CEPT rate. Sometimes difficulties have arisen with regards to the proof required to support such a claim and the question of how ASEAN national customs authorities can verify Form D submissions. In fact, the customs authority from each ASEAN member state interprets and implements the Form D requirements independently without much coordination and consistency.

Remaining CEPT Issues – Although the ASEAN can officially claim that the AFTA has been virtually created, there are some problems in the implementation of the CEPT. First of all, there are a large number of sensitive products excluded from the CEPT scheme by each of ASEAN member states. For example, rice and sugar are considered by many ASEAN members as highly sensitive products and excluded from the CEPT reduction. Second, there is a quite low utility of the CEPT scheme for the intra-ASEAN trade. Local enterprises do not bother to go through the necessary formalities to be qualified for the CEPT scheme or simply do not know that their business transactions are qualified for the preferential tariff rates. Some government authorities still apply relatively high tariffs and do not bother to inform the local businesses about the CEPT as they want to meet their tariff revenue targets.

The ASEAN leaders understand that the ultimate goal of AFTA is to move the tariff rates to zero and to achieve the free movement of the goods within ASEAN. In this regard, ASEAN member states will have to make more efforts before the free movement of goods is reached in ASEAN. The ASEAN leaders are calling for the establishment of the ASEAN Economic Community (AEC) with a free movement of goods, services, investment, capital and skilled labor in ASEAN by year 2015. In fact, the AEC is a much higher level of economic integration – somewhere between a customs union and a common market.

ASEAN Economic Community Blueprint – The ASEAN Economic Community Blueprint indicates that free flow of good is one of the principal means by which the ASEAN member states can achieve the single market and production base. The following actions are being taken to eliminate tariffs within ASEAN under the CEPT:[2]

- Eliminate import duties on all products, except for those phased in from the Sensitive and Highly Sensitive Lists by 2010 for ASEAN-6 and by 2015, with some flexibilities for some sensitive products by 2018, for CLMV in accordance with the provisions of the Protocol to Amend the CEPT Agreement for the Elimination of Import Duties;
- Eliminate import duties on products in the Priority Integration Sectors 2012 for CLMV, following their elimination by the ASEAN-6 in 2007, in accordance with the provisions of the ASEAN Framework Agreement for the Integration of Priority Sectors;
- Complete the phasing in of the remaining products in the Sensitive List (SL) into the CEPT Scheme and reduce tariffs on these products to 0-5 percent by 1 January 2010 for ASEAN-6, 1 January 2013 for Vietnam, 1 January 2015 for Lao PDR and Myanmar, and by 1 January 2017 for Cambodia, in accordance with the provisions of the Protocol on Special Arrangements for Sensitive and Highly Sensitive Products; and
- Phase in products, which are in the General Exceptions List, in conformity with the CEPT Agreement.

One of the initiatives proposed by the Senior ASEAN Officials Meeting (SEOM) as a means of promoting the free movement of goods has been to study ways in which ASEAN member states could move towards a common external tariff regime. To that end, the SEOM requested the Coordinating Committee for the Implementation of the CEPT for AFTA (CCCA) carry out an investigation of the possibility of establishing a CET regime in ASEAN.

2.4 Free Trade Agreements and Implications for CET

In addition to the various efforts being made to promote free movement of goods within the region, ASEAN and the individual ASEAN member states are also active in pursuing regional and bilateral free trade agreements (FTAs) with other countries or regional trading blocs. Box 2.1 shows that ASEAN member countries, both as a group and individually, have concluded a

[2] ASEAN Economic Community Blueprint, P. 6-7.

Box 2.1: Free Trade Agreements and Negotiations Involving ASEAN and the Member States

Country/ASEAN	FTAs Currently in Force	FTAs under Negotiations
ASEAN as a Group	• ASEAN Free Trade Area (AFTA) • China • Korea • Japan	• European Union • India • Australia and New Zealand • ASEAN + 3 (China, Korea and Japan)
Brunei Darussalam	• ASEAN Free Trade Area (AFTA) • Japan • US TIFA • New Zealand-Singapore-Chile (Strategic Economic Partnership)	
Cambodia	• ASEAN Free Trade Area (AFTA) • US TIFA	
Indonesia	• ASEAN Free Trade Area (AFTA) • Japan • US TIFA	• Australia • Pakistan • EFTA countries
Lao PDR	• ASEAN Free Trade Area (AFTA) • Asia-Pacific Trade Agreement (Bangkok Agreement) – India, Bangladesh, Sri Lanka, China and Myanmar	
Malaysia	• ASEAN Free Trade Area (AFTA) • Japan • Pakistan • US TIFA	• Australia • New Zealand • United States • Chile • India • Trade preferences with Organization of Islamic Conference Countries
Myanmar	• ASEAN Free Trade Area (AFTA) • Bangladesh, Bhutan India Myanmar, Nepal, Sri Lanka (BIMSTEC) • Asia-Pacific Trade Agreement (Bangkok Agreement) – India, Bangladesh, Sri Lanka, China and Lao PDR	
Philippines	• ASEAN Free Trade Area (AFTA) • Japan • US TIFA	• US
Singapore	• ASEAN Free Trade Area (AFTA) • Australia • Japan • EFTA countries • New Zealand • USA • Jordan • India • Brunei, New Zealand and Chile Economic Partnership • Korea • China • Panama	• Canada • Mexico • Sri Lanka • Peru • Egypt • Pakistan • Morocco • Ukraine
Thailand	• ASEAN Free Trade Area (AFTA) • Australia • China • New Zealand • Japan • BIMSTEC • US TIFA	• India • Bahrain • USA • EFTA • Chile • Peru • Pakistan
Vietnam	• ASEAN Free Trade Area (AFTA) • US TIFA	• Japan

large number of free trade agreements, and that they are also engaging in numerous FTA negotiations with other countries or trading blocs. Singapore, Thailand and Malaysia have been most active in FTA negotiations, though all other member states have contributed to the so-called spaghetti-bowl of free trade agreements involving ASEAN and its member states. Apparently the increased FTAs in ASEAN have some important implications for the ASEAN economic integration and, in particular, for the proposed common external tariff in ASEAN.

There are several characteristics that emerge from the FTA experience in ASEAN:

- **Trade Creation and Trade Diversion Effects** – FTAs in ASEAN have both trade creation and trade diversion effects. In particular, since some bilateral FTAs contain more favorable treatments to their trade partners than the ASEAN members under AFTA, the trade diversion effects may be greater than the trade creation effects. The proliferation of the bilateral FTAs in ASEAN can hardly contribute to the economic integration among the ASEAN members. This may also have created tension between the more advanced ASEAN members and the less developed CLMV countries. Apparently the advanced ASEAN members are more active in pursuing the bilateral FTAs with other countries.
- **Negotiating Capacity of Member States** – Involvement in the FTA negotiations in ASEAN has added a strain on some ASEAN member states, particularly on those less developed ones. Apparently those ASEAN members do not have the skills and capacity to conduct the FTA negotiations and they feel pressured by their trading partners or to follow the trend to negotiate the FTAs and they do not have a good understanding of the impact of the proposed FTAs on their industries, government and the people. They also lack the capacity to implement the FTA commitments even they finally conclude the FTA negotiations.
- **Range of Commitments** – ASEAN member states have made numerous FTA commitments with their trading partners and the implementation of these FTA commitments is scheduled to take place immediately or with certain transitional arrangements, particularly for the CLMV countries. The FTA commitments are legally binding to the ASEAN member states. In the tariff area, the ASEAN members are typically committed to reducing their tariff rates to zero on most of the products except for those sensitive products. Sometimes those FTA tariff reductions are much deeper than those in the AFTA. It is interesting to note that the ASEAN countries are conducting their FTA negotiations with their respective trading partners separately without the coordination and comparison. In reality, the ASEAN members are competing among themselves on the FTA deals with other countries. As a result, many ASEAN members have indicated that it would be good to conduct a mapping study on the FTA commitments involving ASEAN and the member states so that they will be in a better position to negotiate the FTA deals and to consider the CET in ASEAN.
- **Sequencing of Commitments –** Under various FTA agreements, ASEAN member states have agreed to lower down their tariff rates to zero with most of the FTA partners by year 2010, 2012, 2015, 2018 and 2020. The best time to implement the CET could be after the key FTAs are fully implemented, probably after 2015. In particular, if those FTA in force and FTA under negotiations are being implemented in the next few years, it is likely that the bulk of the ASEAN trade will be conducted with those FTA partners. Since there is a tendency to move the tariff rates to zero for the ASEAN members with those FTA partners, the ASEAN members may eventually move to a common external tariff at zero on most of the products, at least with those FTA partners.
- **FTA-CET Complementarities –** ASEAN members may have to consider what happens to those FTAs after the CET is being negotiated and implemented. Naturally, a customs union

should replace the AFTA to move up to a higher level of economic integration in ASEAN. However, since CET only covers tariff-related issues, the FTAs may have to be in place to cover the services, investment and other issues until the ASEAN member states are completely ready for a deeper integration – not only with the CET, but also with the common commercial policies and regional institutions. Once the ASEAN customs union is firmly formed, it is imagined that bilateral FTAs with individual ASEAN member states will no longer exist and the ASEAN will negotiate the FTAs on behalf of all the ASEAN member states.

2.5 Common External Tariffs in Other Regional Trade Arrangements

There are several customs unions operating with common external tariff throughout the world. The European Union is undoubtedly the most well-known and has moved beyond a customs union to become a common market on a path to becoming an economic union. The following section provides summarizes several customs unions with particular focus on their common external tariff so that ASEAN member states may be able to learn from their experiences and lessons in order to benefit the design and implementation of the CET in ASEAN.

2.5.1. The European Union

Common Customs Tariff (CCT) – Six founding members (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) of the European Customs Union agreed to the common customs tariff (CCT) on 1 July 1968 – one and a half years earlier than planned in the 1957 Treaty of Rome. The CCT was set at the unweighted average of the six member states' tariff rates on 1 January 1957, which implied that average rates of France and Italy would generally fall while those for Germany and the Benelux countries generally rose.[3] Since that time EU member states have not been allowed to unilaterally carry out customs policy. Only the European Council could waive the normal application of CCT by means of regulations adopting various tariff measures.

Transitional Arrangements – The following transitional arrangement were adopted – (a) each member state should move by three stages at least by 30 percent, 30 percent and 40 percent closer to the common external tariff rates; (b) the European Commission (EC) had the right to authorize any member states with special difficulties to postpone the adjustments of duty rates towards the common customs tariff for a limited period of time; and (c) the CCT should be applied in its entirety by the end of the transitional period. During the transitional period, member states were to refrain from introducing any new customs duties and from increasing the tariff rates among the members. The internal customs duties should be progressively abolished. It was agreed that customs duties within the European Union (EU) were eliminated in three stages with the first reduction amounted to at least 25 percent of the basic duty and the second reduction at least 50 percent of the basic duty and the third covering the remaining percentage. The internal customs tariffs were completely eliminated on 1 July 1968 when the EU common customs tariffs officially began operational.

Flexible Arrangements – Although the internal customs duties were eliminated and the common customs tariff established for the EU, specific rules and regulations were still in force in member states on checks for safety and conformity assessment purpose on products imported from third countries. Each member state was allowed to impose restrictions or prohibitions on

[3] The CCT is published annually in the Official Journal of the European Union L Series. For example, the 2008 CCT was published in the 31 October 2007 issue of the Official Journal of European Union L286, volume 50. A CD ROM and an on-line version of the CCT can be purchased through the EU documentation publishing house.

imports or exports justified on grounds of public morality, protection of health and life of humans, animals and plants, etc. This was consistent with the GATT requirement. EU member states are gradually harmonizing the practices in those areas.

Common Elements Tariff Regime – The common elements of the customs tariff regime comprised: (a) tariff nomenclature providing a systematic way to classify the imported goods; (b) a common customs code; (c) import duty rates or duty exemption attached to the items of the tariff nomenclature. The tariff nomenclature can also be used for the purpose of foreign trade statistics, import and export restriction, rules of origin determination, VAT and excise duties, government procurement and freight tariffs and others. The Harmonized System (HS) Convention adopted under the auspices of the World Customs Organization (WCO) provided the international basis for these nomenclatures (96 chapters, 1,244 four-digit headings, and 5,225 six-digit subheadings). The EC adopted the HS and expanded its subheadings to establish the Combined Nomenclature (CN) that is a combination of tariff and statistical subheadings. The result was a system of 10,400 eight-digit subheadings. At times, 15,000 ten-digit subheadings, supplemented by four-character additional codes in certain cases, are also used in the EEC in order to capture the statistical information on tariff preferences, tariff suspensions, agricultural, anti-dumping and countervailing duties, import-export restrictions, and export refunds.

Monitoring and Supervision – The EC has created a supra-national system with institutions mostly headquartered in Brussels. Each member state has representation in these EU institutions. Full membership gives the government of a member state a seat in the European Council. Similarly each state has assigned seats in the European Parliament according to their population. The European Commission, serving as a permanent executive body of the EU, has an exclusive right on common trade policy formulation, coordination and implementation. It monitors the implementation of the CCT and other instruments of the common commercial policies and makes decisions on the use of safeguards and antidumping under the EU trade remedy laws. It is also responsible for the WTO and FTA negotiations on behalf of the 27 member states. When the WTO and FTA agreements are being negotiated, the EU will consult all the member states for their positions and inputs. Once the trade agreements are reached, the obligations and commitments will apply to all the member states.

Financing Arrangements – From the beginning, member states have transferred part of their common customs revenue to the EC budget. Member states also contribute to the EC budget according to their Gross National Income (GNI) shares. A proportion of the VAT collected by member countries serves as an additional source of the Community financing to cover the increased cost of the EC operation and other adjustment costs. Since 2001, the European Communities have the following resources for its financing: (a) 1.27 percent of the GNI of the member states (maximum ceiling, about 70 percent of the revenues); (b) 75 percent of customs and agricultural duties (minus 25 percent retained by the member states as collection costs, about 15 percent of the total EC revenues); and 0.5 percent of the VAT collections from the member states (about 15 percent if the total EC revenues). In 2008 total EC budget expenditure stood at €129.1 billion, of which €7.3 billion (5.7 percent of the total) were allocated for the administrative costs of EC institutions while the remaining budget was used for regional growth, competitiveness, research, training, agricultural support, environment and development assistance.[4]

[4] Europedia. The Common Customs Tariff of the EU.

Compensation to Member States – During the implementation of the CCT, some extra-regional countries requested compensation because the net effect of alignment of tariffs could their diminish market access to the EU. This process also became a part of trade negotiations in the Dillon Round (1960-62) and also provided impetus for trade negotiations in the Kennedy Round (1964-67). The reductions in MFN tariff rates agreed in those trade negotiation rounds were estimated to have left the average rates of Germany and the Benelux broadly level, while imposing a double cut on France and Italy. In the subsequent enlargement of the EU, the issue of compensation was also brought up but further cuts were made to the EC's tariffs in the Tokyo Round (1973-79) and the Uruguay Round (1986-93), thereby reducing the margin of the discrimination against third countries. As a result, no compensation made to extra-regional countries during the EU's formation and enlargement.

2.5.2. MERCOSUR

Membership – The Southern Common Market (Mercosur) is a regional trade agreement signed by Argentina, Brazil, Paraguay and Uruguay on 26 March 1991. There are two main instruments of Mercosur which include a four-year trade liberalization program and a commitment to implement a common external tariff by January 1, 1995. Bolivia, Chile, Columbia, Ecuador and Peru currently hold the associate member status with Mercosur. Venezuela signed a Mercosur membership agreement on 17 June 2006. However, the Parliaments of Brazil and Paraguay have not yet approved the Venezuela's membership. Mexico is an observer to Mercosur.

Purpose – The purpose of Mercosur is to promote trade and investment and free movement of goods, services and the people and common currency within the Southern American region. The motivation for creating Mercosur was to counterbalance the other regional trading blocs, particularly the EU and NAFTA. It was also thought that Mercosur could be a stepping stone or a collective bargaining chip for the South American countries to engage in the Free Trade Agreement for Americas (FTAA) negotiations. However, the development of Mercosur was weakened partly by the collapse of the Argentine economy in 2001. More importantly, it seems that the internal conflicts over trade policies and trade relations among the Mercosur member states still prevent them from moving to a customs union or common market. At this moment, the free movement of people remains controversial and the development of common currency for Mercosur has also met with obstacles. Nonetheless, Mercosur has also made progress towards a regional trade bloc. In the last 17 years, Mercosur has gradually moved from a substantially restricted trade structure to a practically free trade area with additional efforts in creating a customs union and moving toward a common market.

Tariff Structure – In 1995 Mercosur members established a common external tariff (CET) which covered around 85 percent of the imports with the exceptions of some sensitive products (including capital goods, telecommunications, computer equipments and electronic products) which continued to be subject to the national tariff rates until the end of the transition period. The Mercosur CET includes 11 tariff bands, ranging from 0 to 20 percent and represents a real cut in overall tariffs with the non-members. It was agreed that the member states would converge to the CET by 2001. To implement the arrangement, Mercosur created the Common Market Council (CMC) to act as the legal representative of the group. The CMC, comprising the foreign ministers and ministers of economic affairs of the four members, is the highest policy making body in Mercosur.

Sensitive Products – Some sensitive products will gradually converge to the CET. For example, for the computer equipments and communications goods, the CET rate would be 16 percent, starting in 2006. Capital goods would have a maximum common tariff of 14 percent effective from the year of 2001 (2006 for Paraguay and Uruguay). Each Mercosur member state was allowed to have a list of exceptions (300 tariff items for each country except for Paraguay with 399) which would be phased out in five years. These exceptions would converge towards the agreed CET according to a predetermined calendar capital goods in 2001 (Paraguay was given a special waiver until 2006), telecommunication and computer products in 2006 and the items included in the national exception lists would converge by 2001 (Paraguay in 2006). The convergence process was automatic, linear and progressive. All exceptions would be eliminated as of 2006.

Enforcement – Although the common external tariff was formally launched in Mercosur in 1995, enforcement of the CET was quite weak and fragmented. In particular, the myriad of the large exceptions made it necessary to continue the enforcement of the rules of origin for all traded products within Mercosur. In fact, over a third of tariff items do not fall into the CET in Mercosur. The discretionary authorities that allow the national governments to depart *de facto* from the CET make things worse. Until today, there is no common customs code for Mercosur member states. Each of Mercosur members still collects its own tariff revenues and there is no customs revenue sharing among the Mercosur members. In fact, the imports from third countries cannot move freely in Mercosur. If they move from one Mercusor member state to another, they may end up paying double common external tariffs. Therefore, in a strict sense, Mercosur is not really a customs union but simply a regional trade bloc of four customs territories with the same external tariffs on most of the products.

Moving the Process Forward – Aware of the need to fine tune the Mercosur CET, the Common Market Council highlighted three tasks in its 2004-2006 Work Program: (1) remove the double levying of CET on imports from third countries; (2) identify priority sectors for creating a common import regimes; (3) analyzing the dispersion and consistencies of the CET. Subsequently, the Mercosur member states agreed to circulate the imported goods freely if the CET was at zero in all member states or if Mercosur granted the third parties 100 percent concessions. They also agreed to establish a common import regime for some sectoral products such as capital goods, information technology and telecommunication goods. Mercosur member states still need to create a common customs code to apply within their respective borders. They also must agree to share the customs revenues if the imported goods are allowed to move freely within the Mercosur region. Finally, they will need to consider what common commercial policies should apply to Mercosur member states.

2.5.3. Southern African Customs Union (SACU)

Origin and Membership – Southern African Customs Union (SACU) is the oldest customs union in the world. SACU dates back to 1889 Customs Union Convention between the British Colony of Cape of Good Hope and the Orange Free State Boer Republic. An official agreement was signed on 29 June 1910 to extend to the Union of South Africa and the British High Commission Territories of Bechuanaland (Lesotho), Bechuanaland (Botswana) and Swaziland. After the independence of these territories, the Customs Union Agreement was renewed on December 11, 1969 and signed by South Africa, Botswana, Lesotho and Swaziland. The updated customs union officially entered into force on March 1, 1970. After Namibia became independent from South Africa in 1990, it joined SACU as the fifth member.[5] SACU members have different levels of economic scale, structure and development. South Africa and Botswana are middle-income countries, Namibia and Swaziland are lower income countries and Lesotho is a least developed country.

[5] For more details, see SACU website www.sacu.int

Box 2.2: The 2002 SACU Revenue-Sharing Formula

The revenue sharing formula of the 2002 SACU Agreement, for a given financial year, is:
Ri = C (Ai/A) + (0.85) E (GDPi/GDP) + 20*(0.15) E (1-((Yi/Y)-1)/10)
where:

Ri	=	revenue share of SACU country i;
i	=	Botswana, Lesotho, Namibia, South Africa or Swaziland;
C	=	all customs duties actually collected on goods imported into SACU, less the cost of financing the Secretariat, the Tariff Board, and the Tribunal, less the customs duties rebated or refunded;
Ai	=	c.i.f. value (at the border) of imports of SACU country i from all other SACU members, less re-exports;
A	=	total c.i.f. value (at the border) of intra-SACU imports, less re-exports;
E	=	all excise duties actually collected on goods produced in the SACU area, less the cost of financing the Secretariat, the Tariff Board, and the Tribunal, less the excise duties rebated or refunded;
GDPi	=	Gross domestic product of SACU country i;
GDP	=	total gross Domestic product of SACU members;
Yi	=	Gross domestic product per capita of SACU country i;
Y	=	average gross domestic product per capita of all SACU members.

After some algebraic manipulations, Ri becomes: Ri = C (Ai/A) + (0.85) E (GDPi/GDP) + (0.3) E (11- Yi/Y)

The customs component: C (Ai/A). The pooled customs revenue will be distributed according to intra-SACU imports. On the basis of 1998/99 trade, South Africa would have contributed about 80% to the customs component, and its share of this component would have been 20.5% (in 1998/99 South Africa's intra-SACU imports were R7,520 million, while total intra-SACU imports amounted to R36,706 million). On the same basis, the BLNS would have contributed around 20% to the customs component, and their shares of the customs pool would have been: Botswana (26.6%), Lesotho (13.4%), Namibia (24.9%), and Swaziland (14.6%). These shares are expected to remain stable over time, though the size of the customs pool (C) will depend upon the value of imports and changes to the SACU tariff regime.

The excise component: (0.85) E (GDPi/GDP). The size of the excise component has been set initially at 85% of the excise pool, and will be distributed on the basis of the GDP of each of the SACU countries. In 1998, South Africa's GDP represented 92.8% of SACU's total GDP, and its share of this component would have been 78.9% (92.8 times 0.85). The remainder of the 85% of the excise component would have been distributed as follows: Botswana (3.0%), Lesotho (0.5%), Namibia (1.8%), and Swaziland (0.8%).

The development component: (0.3) E (11- Yi/Y). The size of the development component has been set initially at 15% of the excise pool, and will be distributed inversely to each country's GDP per capita: the smaller the GDP per capita, the greater the share of the development pool. In 1998, GDP per capita in the SACU area was: Botswana (R17,968), Lesotho (R2,395), Namibia (R9,615), South Africa (R17,578), and Swaziland (R7,024); this leads to an average GDP per capita of R10,916. On this basis, the 15% share of the development component would have been distributed as follows: Botswana (2.80%), Lesotho (3.23%), Namibia (3.04%), South Africa (2.82%), and Swaziland (3.11%).

The composition of SACU payment by component: On the basis of the previous figures, the BLNS countries would largely derive their total SACU revenues from the customs component: Namibia (83.7%), Botswana (82.1%), Swaziland (78.9%), and Lesotho (78.2%); while South Africa would receive 20.1% from this component. South Africa would get the majority of its SACU revenue from the excise component (77.2%), followed by Botswana (9.3%), Namibia (6.1%), Swaziland (4.3%), and Lesotho (2.9%). The development component is relatively more important for Lesotho and Swaziland (18.9% and 16.8%, respectively, of their total SACU revenues), followed by Namibia (10.2%), Botswana (8.6%), and South Africa (2.7%).

Source: WTO Trade Policy Review: SACU 2003; WT.TPR/S/114.

Key Elements – The 1910 SACU Agreement, which was in effect until 1969, created the following for the SACU: (a) a common external tariff (CET) on all goods imported from the rest of the world; a common pool of customs duties as per the total volume of external trade; and common excise duties based on the total production and consumption of excisable goods; (b) free movement of SACU manufactured products within SACU, without any duties or quantitative restrictions; and (c) a revenue-sharing formula for the distribution of customs and excise revenues collected in SACU.

Transition – Under apartheid, South Africa was the sole administrator of the common SACU revenue pool, deciding the SACU import duties and setting the SACU excise policy. This resulted in some structural issues of management and decision making process as well as the complaints about the unfair and inequitable revenue sharing among the members. Through the negotiations, the independent states signed a new SACU Agreement on 11 December 1969 with the two major changes as follows: (a) the inclusion of excise tax in the revenue pool; and (b) a multiplier in the revenue sharing formula that would boost the revenue of Botswana, Lesotho and Swaziland by 42 percent.

Compensation Arrangements – Although there was an improvement under the 1969 SACU Agreement, South Africa still retained the sole decision-making power over the customs and excise policies. Since South Africa was the only country with manufacturing capacities among SADU members, the high common external tariffs in SACU benefited mostly the South African manufacturers. Batswana, Lesotho and Swaziland requested for compensation through the revision to the revenue sharing formula. In 1976, South Africa agreed to include a stabilization factor in the revenue sharing formula – i.e. ensuring that BLS received at least 17 percent, and at most 23 percent of the value of their imports for their revenues.

Further Elements – After Namibia became independent in 1990 and South Africa ended its apartheid policy in 1994, SACU members began a new round of negotiations which led to the 2002 SACU Agreement. The new agreement addresses the following three outstanding issues: First, it created a joint decision making processes. An independent administrative secretariat was created to oversee SACU with its headquarters in Windhoek, Namibia. Several independent institutions were also established – these include a Council of Ministers, a Customs Union Commission, Some technical Liaison Committees, a SACU Tribunal and a SACU Tariff Board. These institutions are intended to enhance equal participation of the member states. The 2002 Agreement also provides for policy coordination in agriculture, industry, competition, and unfair trade practices and protection of infant industries. Second, it agreed to a new revenue sharing formula which includes a customs excise and development component. Finally, it emphasized the need for developing strategies that enhance the political, economic, social and cultural integration of the region without jeopardizing the economies of the small member states.

Customs Revenue Sharing – With regard to the customs revenue sharing formula, the SACU members agreed the shared revenue should be calculated from three basic components: (1) a share of the customs pool; (2) a share of the excise pool; and (3) a share of a development pool. They further agreed that these three different components would be distributed as follows (see Box 2.1):

- The customs component should be allocated according to each country's share of total intra-SACU trade, including re-exports;
- The excise component (85 percent of the total excise pool) should be allocated on the basis of GDP of each member state;
- The development component (15 percent of the total excise pool) should be distributed to all SACU members according to the inverse of each member's GDP/capita.[6]

[6] The 2002 SACU Agreement

2002 SACU Agreement – Under the 2002 SACU Agreement signed in July 2004, SACU member states can maintain preferential trade arrangements existing at the time of entry into force of the 2002 SACU Agreement. It establish a common negotiating mechanism to negotiate future trade agreements and no member states shall negotiate or enter into any preferential agreements with third parties or amend the existing agreements with taking into account the concerns of the other member states. According to Article 2 of the SACU Agreement, the objectives of the SACU are: (a) to facilitate the cross-border movement of goods between the territories of the member states; (b) to create effective, transparent and democratic institutions which will ensure equitable trade benefits to member states; (c) to promote conditions of fair competition in the common customs area; (d) to substantially increase investment opportunities in the common customs area; (e) to enhance the economic development, diversification, industrialization and competitiveness of member states; (f) to promote the integration of member states into the global economy through enhanced trade and investment; (g) to facilitate the equitable sharing of revenue arising from customs, excise and additional duties levied by member states; and (h) to facilitate the development of common policies and strategies.

Operational Mechanism – South Africa plays an important role in the operation of the SACU. It serves as the custodian to the pool of the SACU revenue, which means all customs and excise revenues collected in SACU are paid into South Africa's national Revenue Fund. The collected revenue is shared among the SACU members according to the revenue sharing formula described above. In fact, only the shares of Botswana, Lesotho, Swaziland and Namibia are calculated according to the formula with South Africa receiving the residual which may be smaller than South Africa's share calculated by the formula. The SACU revenue constitutes a substantial share of the state revenue of the four smaller SACU members.

Tariff Structure – All intra-SACU trade in goods is free of tariff and non-tariff barriers. Imports from third countries would face a common external tariff and a common excise tax. Recently SACU members, led by South Africa, have reformed and simplified their common tariff structure. Tariff rates were reduced from a simple average of more than 20 percent to 5.8 percent. The tariff rates fell within eight bands ranging from zero to 30 percent with some exceptions of higher rates on clothing and automobile items.

FTA Commitments within CU Framework – Before 2002 individual SACU members were allowed to enter separately into trade agreements with other countries. However, under the 2002 SACU Agreement, FTA negotiations with SACU would only be possible with SACU as a whole and not with individual SACU members. SACU members are also currently engaging in several FTA negotiations with the United States and Mercosur. SACU and Mercosur completed the FTA negotiations and signed the trade deal on 1 July 2008. The SACU-Mercosur FTA reduced the customs duties of both sides on more than 1,000 products. The SACU-US FTA negotiations are still continuing but facing some difficulties, due primarily to the US demands for stronger investment and IPR provisions in the FTA. SACU is also negotiating an EPA with the EU in the context of the Cotonou negotiations. The five SACU members are also members of the Southern African Development Community (SADC) which aimed at progressively establishing a free trade area among the 11 members.

2.5.4. Other Customs Unions in Africa

There are several other customs unions in Africa. These include the Economic Community of West African States (ECOWAS) with 15 members; the Common Market of Eastern and Southern Africa (COMESA) with 19 members; and the East African Community (EAC) with 5 members. They are either at the beginning of the integration process or they have met some difficulties on their integration initiatives.

Economic Community of West African States (ECOWAS) – ECOWAS is a regional trading bloc of 15 West African countries. The Treaty of the Economic Community of West African States was signed in Lagos on 25 May 1975. The current ECOWAS members include Benin, Burkina Faso, Cape Cerde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. The objective of ECOWAS is to promote economic cooperation and integration among the West African countries, leading to the establishment of an Economic Union of West Africa. ECOWAS was intended to achieve the collective self-sufficiency for the member states by means of economic and monetary union. It intended to promote economic integration in all the fields of economic activities, particularly in agriculture, industry, transport, energy, telecommunications, natural resources, commerce, monetary and cultural matters. The headquarters of ECOWAS is located in Abuja, Nigeria. ECOWAS is one of the important pillars of the African Economic Community (AEC).

- **Acceleration under 1992 Treaty** – Economic integration in ECOWAS was quite slow in the 1970s and 1980s. In 1993 the ECOWAS Treaty was revised by the 15 member states to accelerate the integration process. Among other specific provisions, the ECOWAS Treaty covers the following: (a) the harmonization and coordination of national policies and the promotion of integration programs, projects and activities; (b) the liberalization of trade by the abolition of customs duties among the member states on imports and exports and the abolition of non-tariff barriers among the member states; (c) the adoption of a common external tariff and a common trade policy vis-à-vis third countries; (d) the removal, between member states, of obstacles to the free movement of persons, goods, services and capital, and to the rights of residence and establishment; (e) the establishment of an economic union through the adoption of common policies in the economic, financial, social and cultural sectors and the creation of a monetary union; (f) the harmonization of standards and measures; and (g) the harmonization of national investment codes leading to the adoption of a single community investment code.[7]
- **Common External Tariff –** The ECOWAS leadership realized it was necessary to introduce a common external tariff and to establish a single customs territory among the 15 member states. It was also necessary to harmonize other economic and financial policies. As a result, the ECOWAS Heads of State at their 2001 summit required the member states to harmonize their import tariffs with the common external tariff adopted mainly by eight francophone member states under the Economique et Monétaire Ouest Africaine (UEMOA), (UEMOA) in 1998. It was intended to apply the UEMOA CET in the entire ECOWAS region by the end of 2007.
- **Economique et Monétaire Ouest Africaine (UEMOA) –** The UEMOA CET contains four tariff bands with essential social goods at 0 percent, basic raw materials, capital goods and specific inputs at 5 percent, intermediary products at 10 percent, and the final consumption goods at peak tariff rate of 20 percent. The unweighted UEMOA average tariff rate is 12.1 percent.
- **Guidelines** – ECOWAS Executive Secretariat prepared guidelines for the national governments to follow. However, from 2001 to 2006, there was not much happening in the harmonization process. As a result, the ECOWAS Heads of State adopted a fast tracking decision to accelerate the CET harmonization in line with the UEMOA rate at the 2006 Summit in Niamey. They also provided a two-year transitional period from 1 January 2006 to

[7] WTO, ECOWAS Revised Treaty – Notification from the Parties of the Agreement, WT/COMTD/N/21, 26 September 2005

31 December 2007. It was hoped that the ECOWAS CET could enter into force on 1 January 2008. It seems that some ECOWAS member states have passed the deadline. However, it is reported that Nigeria and other members have recently wrapped up their work on the CET harmonization. It was indicated that Nigeria would like to have the fifth band of the CET rate at 50 percent in order to have the adequate protection of the industries of ECOWAS but this was not accepted by other ECOWAS members. With more harmonization of the individual member states with the CET, it has shown some hope that the ECOWAS Customs Union will finally take off in 2009.

Common Market of Eastern and Southern Africa (COMESA) – COMESA has 19 members situated in the Eastern and Southern Africa. It is called the Common Market for Eastern and Southern Africa (COMESA) which include Burundi, Comoros, D.R. Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe. After the independence in 1960s, these African countries began to consider a proposal to create a mechanism for the promotion of the regional economic integration. Under the auspices of the United Nations Economic Commission for Africa, a ministerial meeting of the newly independent states of Eastern and Southern Africa was held in Lusaka, Zambia in 1965 to begin the process of the treaty negotiations. However, it was until 1978 at a meeting of the Ministers of Trade, Finance and Planning in Lusaka, the creation of a sub-regional economic community was agreed under the "Lusaka Declaration of Intent and Commitment to the Establishment of a Preferential Trade Area for Eastern and Southern Africa" (PTA). It took more than three years for the preparatory work and negotiations, and the Heads of States and Government finally signed the PTA Treaty on 21 December 1981. The COMESA PTA Treaty entered into force on 30th September 1982.

- **Strategy –** In the 1980s most COMESA member states followed the import substitution policy and emphasized the role of the states in their economies. The growth of the private sector and the economic integration among the COMESA members were largely ignored. It was only until the 1990s when the COMESA integration was promoted again as many COMESA member states fell into poverty under the previous government policy. The reemergence of the COMESA regional integration took a gradual strategy. First, it was agreed to form a free trade area by October 31, 2000. The second step was to form a customs union with a common external tariff by 2004. Finally it was agreed to create a monetary union by 2025.
- **Intra-COMESA Trade Liberalization** – COMESA member states adopted a program for the reduction and eventual elimination of tariff and non-tariff barriers to intra-COMESA trade. It was agreed that the reduction program towards evaluation of tariffs would go through the five-stage process, i.e. 60 percent reduction by 31 October 1993; 70 percent reduction by 31 October 1994; 80 percent reduction by 31 October 1996; 90 percent reduction by 31 October 1998; and 100 percent reduction (elimination of tariffs) by 31 October 2000. In fact, only a few countries reached this goal. Part of the problems was related to the revenue loss of the member countries when they implemented the tariff reductions. This made some countries reluctant to reduce the intra-COMESA tariffs.
- **Common External Tariff** – COMESA member states reached an agreement to implement a common external tariff by 2004 and further agreed to the four bands of the CET tariff structure, i.e. 0 percent for capital goods and raw materials, 10 percent for intermediate goods and 25 percent for final goods. COMESA has also adopted the common tariff nomenclature, common customs valuation and a single customs declaration document. But there are no revenue collection and sharing agreements yet. There are no common

commercial policies and no institutional and administrative structure for the customs union. With regard to the CET, there are a number of specific obstacles. These include the compliance issue of the CET schedules, the revenue loss as the result of the CET implementation, and the monitoring and administration of the CET in COMESA. By 2005, it seemed that the COMESA had extended the deadline to the end of 2008 to implement the CET since many member states found difficult to converge to the CET and implement the new tariff schedule. It is not clear that the member states will be able to meet the new deadline.

East African Community (EAC) – EAC is a regional trade group of 5 East African countries which include Kenya, Uganda, Tanzania, Burundi and Rwanda with the institutional headquarters in Arusha, Tanzania. The objective of the EAC is to widen and deepen the cooperation among the member states and other regional economic communities on political, economic and social matters for their mutual benefits. Some Eastern African countries had close relations before. For example, Kenya and Uganda created a customs union in 1917. But the real regional economic integration only began in the 1990s when the leaders of Kenya, Uganda and Tanzania decided to establish a permanent Commission in East Africa in 1993. Through the negotiations, the Treaty for the Establishment of the East African Community was signed in Arusha on 30 November 1999 and it entered into force on 7 July 2000. Burundi and Rwanda became full members of EAC in 2007.

- **Customs Union** – The EAC intended to create the East African Community Customs Union which was launched on 31 December 2004. The main objectives of the EAC Customs Union are to: (a) liberalize intra-regional trade in goods; (b) promote efficiency in production; (c) enhance domestic, cross-border foreign investment; and (d) promote economic development, diversification and industrialization. The EAC also enacted the East African Community Custom Management Act 2004 intended to apply uniformly in East Africa. Under the Act, EAC agreed to a transitional decentralized administrative structure under which the day-to-day operations of the customs union, including the collection of customs revenue continue to be the responsibility of individual member states. The Directorate of Customs under the EAC Secretariat will focus on policy issues, coordinate and monitor customs and trade related activities for EAC.
- **Common External Tariff** – Member states agreed to a common external tariff (CET) regime which contains three bands ranging from 0, 10 and 25 percent with sensitive products at 60 percent. The EAC CET entered into force on 1 January 2005. But the enforcement has been quite weak. There are more than 20 products classified as sensitive products, mostly agricultural and dairy products charging tariff at more than 25 percent and sometime as high as 100 percent. For example, Tanzania charges a CET of 50 percent for the imported wheat from third countries while Kenya charges 60 percent and Uganda 35 percent. This situation caused friction in the intra-regional wheat trade and may also disqualify the EAC as a standard customs union since the member states do not apply a CET.[8]
- **Intra-EAC Trade** – Member countries agreed the goods from and to Uganda and Tanzania should be duty free immediately and the goods from Uganda and Tanzania to Kenya should also be duty free. However, the good from Kenya to Uganda and Tanzania should be subject to customs duties at 10 percent and 25 percent during the transition period and reduced to zero by five equal installments. This arrangement was due to the consideration of Kenya's economy was more advanced than those in Uganda and Tanzania.

[8] The Citizen, Dar es Salaam: East Africa: Common External Tariff Poses Problem, 20 December 2007.

- **Harmonization of Commercial Policies** – The EAC also intended to harmonize other commercial policies among the EAC member states. These include the policies in the areas of non-tariff barriers, trade facilitation, standards harmonization, trade remedies, competition, and export promotion. The EAC has also created a series of regional institutions to implement and monitor the economic integration in East Africa. These institutions include the Summit, the Council of Ministers, the EAC Coordination Committee, Sectoral Committees, East African Court of Justice, East African Legislative Assembly, the East African Development Bank and the EAC Secretariat.

3. OPTIONS FOR A COMMON EXTERNAL TARIFF

3.1. Existing Tariff Structures

Tariff Trends - Trade policies in the ASEAN region have become progressively more liberal in the last 15 to 25 years, although that trend has been somewhat mixed since the Asian Crisis.[9] Major trade and investment liberalization began in Singapore with export-led industrialization; it was followed in the 1980s by Malaysia, Thailand, Indonesia and Vietnam, and in the 1990s by the Philippines, Cambodia and Lao PDR. In Indonesia, there has been an increasing trend towards protectionism, particularly of the manufacturing sector which now has effective rates of protection (ERPs) that are much higher than those for agricultural products.[10] Malaysia has also had higher ERPs for manufacturing industries relative to other sectors, yet has favored its domestic oriented manufacturing industries over export-oriented ones.[11] In the Philippines, attempts were made in the early part of this decade to lower and simplify MFN tariffs but political considerations and the potential loss of government revenue prevented the implementation of those reforms.[12] Despite its support of low and simplified tariff regimes in the WTO Doha Round, Thailand's trade regime remains complex in an effort to protect key sectors of the economy and maintain the country's competitiveness relative to India and China.[13]

ASEAN Tariffs – At present the trade-weighted average tariff rate of all ASEAN member countries is 6.1 percent, which rises to 6.8 percent if the two countries with few if any tariffs, Brunei and Singapore, are eliminated (Box 3.1). At the lower range are Singapore and Brunei, with zero or minimal tariffs, followed by Malaysia (1.2% trade weighted average), Indonesia (3.2%) and the Philippines (3.7%); in the mid-range are Myanmar (4.8%), Thailand (6.6%) and Lao PDR (7.8%); and in the upper range are Cambodia (8.3%) and Vietnam (9.9%). For the unweighted averages, it is Vietnam, Cambodia and Thailand that are in the upper range, while Lao PDR, Malaysia, the Philippines, Indonesia and Myanmar are in the mid-range, with Singapore and Brunei the only countries in the lower range. By way of comparison, overall unweighted average of the ASEAN countries (7.2%) is somewhat below that of all developing countries (9.8%) but substantially higher than that of industrialized countries (2.4%).[14] Across regions, the 7.2 percent unweighted average tariff rate of the ASEAN countries compares with 15.6 percent in the Middle East and North African countries, 14 percent in the South Asian

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[9] For a earlier comprehensive review of tariff structures in the ASEAN countries, which shows that the region's MFN tariffs declined by over 50 percent between 1986 and the second half of the 1990s, see C. Azarcon, "Comparative ASEAN Policies of ASEAN Member Countries". Journal of Philippine Development, No. 43, Vol. XXIV, No. 1, First Semester 1907.

[10] See H. Soesastro, "The political economy of trade policy in Indonesia". ASEAN Economic Bulletin, April 2005.

[11] P. Athukorala, "Trade policy in Malaysia: Liberalization Process, Structure of Protection, and Reform Agenda". ASEAN Economic Bulletin, April 2005.

[12] A. Menardo, "Tariff Reforms in the Philippines". Trade, Industry and Utilities Staff, National Economic and Development Authority. Prepared for the APEC High-level Conference on Structural Reform, Tokyo, Japan, 8-9 September 2004.

[13] P. Talerngsri, "Trade Policy in Thailand: Pursuing a Dual Track Approach". ASEAN Economic Bulletin, April 2005.

[14] World Bank, World Bank Trends in Applied Tariffs Rates in Developing and Industrialized Countries, 1981-2007. Site: http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:21051044~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html

countries, 12.8 percent in Sub-Sahara Africa, 9.2 percent in Latin America and the Caribbean, and 5.2 percent in Eastern Europe and Central Asia.[15]

Box 2.1: Characteristics of ASEAN Member States' Tariff Structure

Characteristic of Tariff Structure	All ASEAN Members	Excluding Brunei & Singapore
▪ Number of unique 8-digit tariff lines	76,762	76,477
▪ Number of unique 6-digit tariff lines	5,466	5,375
▪ Number of tariff lines with imports a/:	3,709	3,706
▪ Number of official rate	137	137
▪ Unweighted mean average	7.2%	9.1%
▪ Trade-weighted mean average b/	6.1%	6.8%
▪ Maximum tariff rate	226%	226%
▪ Minimum tariff rate	0%	0%
▪ Median of all tariff rates c/	5.0	5.0
▪ Median of non-zero tariff rates c/	7.0	7.0
▪ Mode of all tariff rates d/	0.0	0.0
▪ Mode of non-zero tariff rates d/	7.0	5.0
▪ Dispersion e/	11.3	12.0

a/ Based on 2006 import (CIF) data and current customs duties.
b/ Current structure has 10 bands above 'general maximum' of 40% and 10 bands at and below 'general maximum.
c/ Median refers to the middle value in the list of tariff rates.
d/ Mode refers to the tariff rate that appears most often.
e/ Measured by the standard deviation.
Source: calculations by the authors.

Tariff Distribution –It is the range of tariffs that affects the pattern of trade more than their simple average. The ASEAN member countries have fairly wide dispersion of tariff rates that vary from 0 to 226 percent with 137 tariff rates within that range. This dispersion is particularly characteristic of the tariff structures of Thailand, Vietnam, Indonesia and, to a lesser extent, Malaysia. The tariff structure of most countries follows a "cascading" approach in which tariffs are generally higher on final goods than on production inputs (intermediate and capital goods). In such cases the rate of protection is progressively raised and escalated. The dispersion of these tariffs then to interfere with the optimal allocation of resources since the relative returns to activities are not determined by comparative advantage but rather by the differences in protection rates arising from the differential in tariffs. Generally, the activities that seek and receive protection are those industries that cannot compete well with foreign imports or use their resources to compete in external markets. The higher the dispersion of tariffs, the higher is the deviation of activities from their most efficient use, while if all industries were instead protected to the same extent, then resource flows would be neutral among sectors.

Effects of Tariff Escalation – While it is not the purpose of this study to evaluate the effectiveness of national trade policies, the design of a common external tariff in ASEAN will depend not only on the average tariff itself but also on the structure of the ASEAN-level tariffs across imported products in the region. The existing high tariff escalation tends to discourage the growth of input producing industries. This may also be counterproductive to the best use of resources for those countries like Brunei, Laos, Cambodia, Indonesia and Myanmar that tend to have a comparative advantage in the production of natural resource intensive products.

- ***Evaluation –*** *When activities related to the production of natural resource intensive products are discriminated against by low tariffs, entrepreneurs will receive greater profits from downstream activities in the production chain, which may not have comparative advantage. In addition, input producing industries often are more labor intensive and the low protection accorded to them also leads to fewer persons being employed in these activities. This limits the opportunities for labor to acquire more human capital, which is the mainspring of skill development. Finally, the protection accorded from the high tariffs, their high dispersion and escalation influences the pattern of investment, which may in turn exacerbate the current international financial crisis effects on trade and investment flows*

[15] R. Islam and G. Zianini, World Trade Indicators 2008: Benchmarking Policy and Performance. Washington, DC, World Bank, 2008.

Table 3.1: Profile of Tariffs in ASEAN Member Countries

	Tariff Revenue Share of Total Tax Revenue a/	Average Tariff		Maximum Tariff Rate	Number of Tariff Rates	Rates
		Weighted b/	Unweighted			
Brunei	na	1.0	2.4	30	6	0, 5, 10, 15, 20, 30
Cambodia	25.2% (2006)	8.3	12.0	35	4	0, 7, 15, 35
Indonesia	4.4% (2004)	3.2	5.9	150	16	0, 5, 7.5, 10, 12.5, 15, 20, 25, 30, 40, 45, 50, 55, 60, 90, 150
Lao PDR	na	7.2	8.4	40	6	5, 10, 15, 20, 30, 40
Myanmar	8.9% (2000)	4.8	5.0	40	16	0, 0.1, 0.5, 1, 2, 3, 4, 5, 7.5, 10, 15, 20, 30, 40
Malaysia	5.6% (2003)	1.2	6.5	60	19	0, 2, 5, 6, 7, 8, 10, 11, 15, 17, 18, 19, 20, 25, 30, 35, 40, 50, 60
Phiippines	0.7% (2006)	3.7	5.7	65	15	0, 1, 3, 5, 7, 10, 15, 20, 25, 30, 35, 40, 45, 50, 65
Singapore	0%	0.0	0.0	0	0	none
Thailand	12.3% (2003)	6.6	10.2	226	43	0,1,3, 4.5, 5, 9, 10, 12.5, 13.5, 15, 17, 18, 20, 23, 25, 27, 30, 35, 36, 40, 41, 49, 50, 51, 52, 53, 54, 57, 60, 72, 73, 80, 84, 90, 94, 119, 125, 142, 146, 216, 218, 226
Vietnam	18.4% (2000)	9.9	15.7	150	16	0, 1, 3, 5, 7, 10, 15, 20, 25, 30, 40, 50, 60, 80, 100, 150
ASEAN Total		6.2	7.2	226	137	0 to 226

a/ Weighted by share of imports of the corresponding good in total value of all imports.
Sources: Author calculations from ASEAN trade and tariff database, and IMF, GFS database.

within the region. The major challenge currently facing the ASEAN economies in gaining economic maturity is to move towards a more uniform incentive structure with a view to redressing the structural protection and supporting the movement towards an efficient allocation of resources.

3.2 The Optimal Tariff

Definition – The economic motivation for applying a tariff is base on the argument that it should improve a country's overall well-being to the extent that any welfare improvement should exceed the deadweight losses incurred by the tariff.[16] A large country that has the ability to impact world market prices of a product can derive welfare gains by taxing its imports. The resulting reduction in demand for the imported good would lower the price of the product on world markets and increases national income of that country. Under these circumstances, the optimal tariff can be shown to be equal to the reciprocal of the foreign supply elasticity of the country.

Practical Use for ASEAN – If any of the ASEAN countries were large enough that it imports a significant share of the world's supply of a particular product, a tariff on that product could lower the price it must pay to world suppliers, which would improve its terms-of-trade. Consistent with this argument, the government of that country could impose tariffs at different levels on different products to exploit the monopsony power it possesses and the 'optimal' tariff on each product

[16] The argument dates back to the writings of Robert Torrens in 1821 and those of John Stuart Mill in 1844. The view was widely accepted until Jan de V. Graaff's book on welfare economics appeared a century later (*Theoretical Welfare Economics*. Cambridge, UK: Cambridge University Press, 1957), which showed that free trade could be more advantageous for a large country when there are no distorting elements from taxes, imperfect markets, nonconvex production sets, and public goods. For a historical perspective, see K. Murray and K. Shimomura, "An Antiquarian Note on Optimal Tariffs". History of Political Economy, Volume 32, Number 3, Fall 2000.

would be the based on the so-called inverse elasticity rule.[17] While this argument is theoretically valid, there are unlikely to be any products where any ASEAN member state possesses sufficient monopsony power to influence the terms of trade of that internationally traded product. In that case, the actual tariffs in the ASEAN member states are typically larger than the values optimal tariffs could reasonably be expected to take, and for all practical purposes, tariff policy in ASEAN can be established without reference to this basically theoretical issue.

Effects of Interest Groups – For countries like those in the ASEAN region that are unable to influence the world markets for their imports, the optimal tariff can easily be shown to be zero when the objective is to maximize the overall welfare of an economy in which consumer surplus normally dominants welfare.[18] In practice, however, consumers normally have little, if any, influence over how the authorities determine tariffs. Instead, the authorities tend to focus on government revenue and producer import-substitution interests since tariffs are often an important source of tax revenue and industry lobbyists are able to consolidate their interests through business associations. In such cases, it has been shown that non-zero tariffs are optimal when the political support function gives greater weight to producer profits and government revenue than it does to consumer welfare.[19]

3.3 Alternative CET Structures

Tariff Structure Preferences of ASEAN Countries – Notwithstanding difficulties of classifying goods in the Harmonized System (HS) according to degree of process, we were able to glean the type of tariff structure preferred by ASEAN member states through member consultations and the existing national tariff structures of member states. For countries other than Brunei and Singapore, the preferred tariff structure is one that reflects the following basic characteristics: (a) cascading tariff structures, wherein tariffs on inputs are lower than those on final products; (b) few tariff rates within a narrow band and having a small standard deviation; and (c) the eventual adoption of a single uniform tariff for all goods.

Cascading Tariff Structures – There are two types of structures that broadly reflect the preferences of member states. The first is a cascading tariff structure in which higher tariffs are applied to final goods than to production inputs, that is, intermediate and capital goods, as well as raw materials. The advantage of this type of structure is that it promotes local industries that would otherwise be unable to complete with internationally produced goods in the domestic markets. To achieve domestic competitiveness by local enterprises, tariffs on vertically linked products reflected in input-output relationships need to have tariffs structured according to their position in the production process. Otherwise producers will face a negative effective protection

[17] In practice, the rule is difficult to implement because it requires consideration of substitution effects between goods, as well as consideration of intermediate goods and non-taxable goods. This information is seldom available and application of the rule is impractical. For a detailed discussion of this issue, see M. Corden, "Normative Theory of International Trade" in R. W. Jones and P. B. Kenen (ed.), Handbook of International Economics, Elsevier, edition 1, volume 1, number 1, 1984.

[18] In particular, the optimal tariff rate is that which makes the extra losses and extra gains from changing tariff equal to one another such that $M(dP/dt) – t^*P(dM/dt) = 0$, where M is the level of imports, P is the initial foreign price level, *t* is the fraction of time, and t^* is the optimal tariff rate. Since $t^* = [(dP/dt)M]/[(dM/dt)P]$, then the formula for the optimal tariff is $t^* = 1/s_m$, where s_m is the foreign supply elasticity. Note that for countries like those in the ASEAN region that are unable to influence the world markets for their imported products, the foreign supply elasticity is infinite and $t^* = 0$, that is, the optimal tariff is 0.

[19] Grossman, Gene and Helpman, Elhanan, 1995, "The Politics of Free Trade Agreements," *American Economic Review* 85(4), September, 667-690; and Krishna, Pravin, 1998, "Regionalism and Multilateralism: A Political Economy Approach," *Quarterly Journal of Economics* 113(1), February, 227-251.

rate that will ultimately erode their international competitiveness, weaken their industry and that of the supporting industries needed to produce their products.

- ***Limitations –*** *The problem in applying this type of tariff structure is that it is difficult to design and government authorities often find themselves making recurrent tariff adjustments in response to lobbying interests of different industries that are confusing to enterprises and fail to reflect a long-term vision or nation or regional policy priorities. This situation can create an unpredictable and inconsistent investment environment for enterprises. Tariff structures with a few rates therefore allow for protection and suffer from virtually all the problems of the diverse structures that are currently in effect in the ASEAN member countries, which include lobbying for high protection by industry groups and encouraging misclassification and corruption at customs. Only a simplified tariff structure with few rates that has a small standard deviation and is designed to move towards a uniform tariff will provide many of the same benefits as a single tariff rate.*

Uniform Tariff Structures – The second type of tariff structure is a uniform tariff that is applied to all goods equally. There are several advantages to this structure. First, the HS classification system does not lend itself to identifying input-output relationships for industries, so it avoids the need for policymakers to have a good knowledge of all the important industries in their economies, as well as their global market. Second, protecting one industry often hurts others within vertically linked industrial structures since protection of upstream industries undermines the competitiveness of downstream industries through higher cost for their imported goods. Finally, protection of internationally uncompetitive industries through import-substitution policies is against the interest of consumers since it increases the cost of the domestically produced goods relative to the cost in the global markets.

- ***Advantages –*** *Uniform tariffs therefore convey a number of administrative advantages to the ASEAN countries: there is no incentive to misclassify goods, which enables customs authorities to concentrate on assuring that the value of the imported goods is not understated, and will reduce corruption related to customs clearing; the transparency and administrative simplicity of uniformity in customs clearance procedures will lower the administrative costs of trading; and it dramatically reduces the incentive to lobby for protection.*

3.4 Revenue Sharing and Compensations

Trade Tax Dependencies – In practical terms, several ASEAN members use tariffs as an important source of government revenue because of the state of their public finances. In our interviews conducted with government tax authorities of these member states, it was generally recognized that trade taxes are not optimal instruments to achieve their revenue objective because they significantly distort production and consumption choices. They acknowledge that preferred instruments to raise revenue are taxes such as income or value added taxes since these types of taxes are applied neutrally to domestically produced and imported goods, and they therefore impose less distortion or inefficiency costs than tariffs. However, their use of tariffs to raise revenue is motivated by the present lack of present availability of other trade-neutral tax instruments, with the result that the domestic tax base is fixed either because the tax base cannot be enlarged rapidly enough or the marginal costs of increased domestic tax collection are high.

Revenue Sharing – All customs unions must establish procedures for sharing common customs revenues and those revenue sharing procedures have followed different rules in different customs unions. In the European Union it is based on a common fund to finance joint policies. The creation of a common fund was considered an essential step in the creation of the European Union's set of common policies, particularly for the operation of the European Commission and its management of the Common Trade Policy that included the Common External Tariff.[20] In the South African Custom Union (SACU) revenue sharing is based on measures of country size involving imports, consumption and population, as well as member countries' per capita income levels, which is used to measure a country's deviation from the average level of economic development of the regional grouping.[21]

Formula for Revenue Sharing – Most CUs adopt the destination principle for revenue determination in which tariff revenue accrues to the country where the import is finally consumed. The alternative is a final consumption criterion in which the customs union tariff revenue is shared among members according to the final destination of the revenue-generating import.[22] The final consumption criterion means that the country of consumption of an extra-regional CET receives the tariff revenue regardless of the location of its import. If a good enters the CU via one country and then it, or a transformation of it, is exported to another CU member the revenue collected in the original country of importation must be transferred to CU member in which the final consumer resides. However, the approach is cumbersome and requires share information member countries to share information about trade, harmonize their input output tables and manage a common fund to perform compensations among countries.

Alternative Formula – An interesting alternative to the standard formula is the one used by the Southern African Customs Union (SACU). In that case, all customs duties collected are distributed on the basis of (a) each country's percentage share of total intra-SACU imports, excluding re-exports; (b) all excise duties collected on goods produced in the Common Customs area are allocated on the basis of each country's share of total SACU GDP; and (c) the development component, which represents a form of development assistance, initially funded from 15 percent of the total excise component and distributed on the basis of each country's GDP per capita so that countries with lower income per capita will receive more assistance.[23]

- ***Evaluation –*** *The SACU formula relies heavily on the amount of intra-regional trade among member countries as a means of determining revenue shares from extra-regional imports. Difficulties with obtaining reliable trade statistics have given rise to conflicts between members, though it has provided a means of redistributing revenue from its largest and richest member, South Africa, to the lesser developed countries in the region. Basing customs revenue sharing on trade which itself is not subject to any customs duties has created serious administrative difficulties. Moreover, as with the ASEAN countries, there is no authoritative, consistent and mutually agreed source of intra-regional trade data with*

[20] Pelkmans, Jacques, 1997: "European Integration Methods and Economic Analysis," Netherlands Open University, Longman, England.

[21] Kirk Robert and Stern Matthew, 2003: "The New Southern African Customs Union Agreement," Africa Region Working Paper Series, No. 57.

[22] M. Vaillant and A. Lalanne, "Tariff revenue sharing rules in a customs union: a new methodology applied to the MERCOSUR case" (undated).

[23] According to the 2002 SACU Agreement covering the common revenue pool and sharing formula, all customs, excise, and additional duties collected in the common customs area are paid into the common revenue pool within three months of the end of each quarter of a financial year. South Africa managed the common revenue pool for two years from the entry into force of the Agreement; thereafter, a member state or SACU institution is to be appointed by the Council to manage it, and specify the accounts into which the common revenue pool is to be paid and from which all SACU payments are to be made. All transactions into and out of the common revenue pool are reported to the Secretariat, and are subject to regular audits. For details, see World Trade Organization, "Trade Policy Review South African Customs Union. Report by the Secretariat". WT/TPR/S/114, 24 March 2003.

> *which to base information needed for revenue sharing decisions. Moreover, the information required for the SACU revenue-sharing formula imposes a substantial additional customs administration and compliance burden on intra-regional trade and each member country has an incentive to over-report its level of intra-regional imports.*[24]

Application to ASEAN – The revenue sharing experience of existing customs unions will be useful guides for ASEAN, but it is clear that a practical system suitable for the characteristics of the region's countries will need to be designed in a somewhat independent manner to those of other regions. Alternative revenue sharing methods are currently being proposed for the South African Development Community (SADC) that would be usefully studies by the ASEAN Secretariat and its members.[25] Most customs unions adopt the destination principle whereby tariff revenue accrues to the country where the import is finally consumed makes the administrative process attractive and the political incentive appealing since it means that member states retain control over the revenue they collect. Whether or not the need for a revenue sharing arrangement disappears depends on whether member states are willing or able to compensate other members for possible losses in revenue deriving from tariff restructuring under the CET. That process would require that that revenue be collected at the point where it first enters into the ASEAN region, and that it then distributed between members countries based on additional agreements on how the revenue would be shared, and whether or not some form of compensation mechanism is needed.

3.5 Sequencing and Implementation Arrangements

ASEAN Member Preferences –The level of effort, or time horizon, varies considerably for the implementation of different policies. In general, immediate short-term initiatives are unrelated to the operational system of the government, and they usually involve stroke-of-pen reforms of tariff structures. The more challenging measures often involve a strong institutional base for their successful implementation. The prioritization and phasing of the recommended tariff initiatives are based on discussions with government authorities of ASEAN member states based on the impact that specific initiatives would have on the following areas: (1) a government revenue neutral effect, (2) the promotion of private sector, market-driven development of the country, and (3) and compensation for tariff revenue losses suffered by high tariff countries by those with low tariffs during the transition period towards a CET.

Tariff Strategy – Based on the preference structures of ASEAN member states, the recommended tariff strategy is based on complementarities and adjustments in the overall design of trade policy reforms among ASEAN member states. The approach is motivated by the empirical findings that individual policy initiatives are less effective in promoting economic growth that are a combination of tariff policies that are mutually reinforcing to one another in the AEAN region. The strategy consists of the following sequence of arrangements for the CET:

> ***Stage I:*** Apply uniform tariffs to those HS 8-digit tariff lines that are most similar to one another across the ASEAN member states. Annex B shows that tariff lines that are most similar across member states under the current tariff structure of each country. No compensatory action would be required at this stage.

[24] For details on the SACU revenue sharing system and the difficulties associated with it, see F. Flatters and M. Stern, "Implementing the SACU Revenue-Sharing Formula: Customs Revenues". Prepared under the USAID RCSA, Gaborone, and USAID South Africa, under the Trade Policy Development Project (TPDP) and Support for Economic Growth and Analysis (SEGA II) project (undated).

[25] For alternative proposals under the system, see Development Network Africa, "Evaluation of an Appropriate Model for a SADC Customs Union – Policy Brief". Report Commissioned by the SADC Secretariat. 3 September 2007.

Stage II**:** Reduce the number of tariff bands to three or four rates with a small standard deviation. Revenue compensation would be provided to those countries with existing high tariff rates that would suffer substantial tariff revenue declines in moving towards the common tariff band under the CET.

Stage III**:** Move tariff regime to a neutral incentive system by implementing a uniform tariff across all HS 8-digit tariff lines.

4. MODELING WELFARE EFFECTS OF AN ASEAN COMMON EXTERNAL TARIFF

4.1. Methodology for Estimating Welfare Effects

Model Summary – The substantial divergence of Most Favored Nation (MFN) tariffs among ASEAN Member States implies that a CET will have varying effects on the welfare of those countries. To measure those possible welfare effects, we applied a detailed partial equilibrium model for commodity-level imports and tariffs of the 6-digit Harmonized System (HS).[26]

Assumptions – The model assumes that the each commodity-level import represents a small share of each country's economy, which implies that the effect of tariff changes on other markets can be ignored. It also assumes that intra-regionally traded products are perfect substitutes for one another but that products traded intra-regionally are imperfect substitutes for extra-regionally traded products, and that world markets are perfectly competitive. The motivation underlying these assumptions is that ASEAN member countries are currently applying a zero tariff rate on most intra-regional trade and that commodity coverage is likely to continue and broaden when the CET is implemented. Hence, perfect substitution of intra-ASEAN trade is a useful representation, while imperfect substitution in extra-ASEAN trade is a better characterization of the current situation because tariff changes resulting from the introduction of a CET would cause the relative price changes between foreign and domestic goods to make consumers and producers adjust their purchases between goods produced within the region and those produced outside the region.

Model Specification – Details of the model are presented in the Technical Appendix.

4.2 Estimates of the CET Welfare Effects under Alternative Regimes

Application to ASEAN – Application of the model to the ASEAN member country imports relative to total world trade in those products implies that the import supply of each of those products is infinitely price elastic so the effect on other markets of a change in tariffs can be ignored since both the country and the region as a whole is unlikely to be able to influence their world market price. Import demand is calibrated for each country and product using 2006 trade values with non-ASEAN member countries, tariffs at the 6-digit HS product level. World markets are assumed to be perfectly competitive and integrated in the sense that there are no reaction functions to changes in tariffs preferences by trading partners, and traded products are assumed to be perfectly homogeneous at the 6-digit product level. The aggregate results for total imports of each ASEAN member state apply to both uniform and multiple tariff rates structures. They differ at the disaggregated level and it is straightforward to calculate the effects of multiple rates since the model is based on disaggregated welfare estimates at the 6-digit HS product level.

[9] The specification for the model follows Tumbarello, P. (2005), "Regional Trade Integration and WTO Accession: Which Is the Right Sequencing? An Application to the CIS", IMF Working Paper WP/05/94, Policy Development and Review Department, International Monetary Fund. The theoretical framework underlying the model is based on the work of Lord, M. (1991), *Imperfect Competition and International Commodity Trade: Theory, Dynamics, and Policy Modelling.* Oxford: Clarendon Press. Finally, the implementation of the model using Excel spreadsheet software uses the approach of Francois, J., and K. Hall (1997), "Partial Equilibrium Modeling," in Applied Methods for Trade Policy Analysis: A Handbook, edited by J. Francois and K. Reinert. London: Cambridge University Press.

Treatment of Singapore – Two exceptions have been made in the application of the CET to member states. First, Singapore has expressed its intent to maintain zero tariff rates on all its imports regardless of the CET adopted by other ASEAN members, and the welfare impact assessment therefore maintains Singapore's rates at zero throughout. This position could be approved by ASEAN member countries under the *ASEAN Minus X formula* in which a member state can opt out from certain economic schemes that it is not yet ready to participate, although it has taken part in determining and approving such economic schemes in the first place. The formula is permitted under the newly signed ASEAN Charter.[27]

Treatment of Brunei –Brunei has indicated that it would like to maintain low tariffs and the present welfare effects are therefore only calculated for that country at rates that are near its

Table 4.1: Change in Government Revenue from MFN Tariffs Applied to Non-ASEAN Imports under Alternative Common External Tariffs (Million US dollars)

CET	Brunei	Cambodia	Indonesia	Laos	Myanmar	Malaysia	Philippines	Singapore	Thailand	Vietnam	Total ASEAN
0.0	-44.3	-221.6	-1,890.9	-27.8	-59.8	-3,711.3	-1,229.1	0.0	-5,081.4	-2,378.1	-14,644
0.5	-37.8	-209.0	-1,711.5	-24.9	-50.1	-3,231.8	-1,022.7	0.0	-4,648.3	-2,233.7	-13,170
1.0	-31.4	-196.7	-1,534.6	-22.1	-40.6	-2,763.5	-824.3	0.0	-4,222.8	-2,091.8	-11,728
1.5	-25.0	-184.7	-1,360.4	-19.4	-31.2	-2,306.0	-633.4	0.0	-3,804.6	-1,952.5	-10,317
2.0	-18.8	-172.9	-1,188.7	-16.8	-22.1	-1,858.9	-449.6	0.0	-3,393.5	-1,815.7	-8,937
2.5	-12.6	-161.4	-1,019.4	-14.2	-13.1	-1,421.6	-272.5	0.0	-2,989.3	-1,681.3	-7,585
3.0	-6.6	-150.0	-852.6	-11.6	-4.4	-993.9	-101.8	0.0	-2,591.7	-1,549.3	-6,262
3.5	-0.6	-138.9	-688.1	-9.1	4.2	-575.3	62.9	0.0	-2,200.7	-1,419.7	-4,965
4.0	5.3	-128.0	-525.9	-6.7	12.6	-165.5	221.9	0.0	-1,816.0	-1,292.2	-3,695
4.5	11.1	-117.3	-366.0	-4.3	20.9	235.8	375.5	0.0	-1,437.3	-1,167.0	-2,449
5.0	16.9	-106.9	-208.3	-1.9	28.9	629.0	524.0	0.0	-1,064.7	-1,044.0	-1,227
5.5	22.5	-96.6	-52.8	0.3	36.8	1,014.3	667.7	0.0	-697.9	-923.0	-29
6.0	28.1	-86.5	100.6	2.6	44.6	1,392.1	806.8	0.0	-336.7	-804.2	1,147
6.1	39.0	-66.9	401.1	7.0	59.6	2,126.1	1,072.1	0.0	369.3	-572.3	3,435
6.2	39.0	-66.9	401.1	7.0	59.6	2,126.1	1,072.1	0.0	369.3	-572.3	3,435
6.3	39.0	-66.9	401.1	7.0	59.6	2,126.1	1,072.1	0.0	369.3	-572.3	3,435
6.4	39.0	-66.9	401.1	7.0	59.6	2,126.1	1,072.1	0.0	369.3	-572.3	3,435
6.5	33.6	-76.6	251.9	4.8	52.2	1,762.6	941.5	0.0	19.0	-687.3	2,302
7.0	39.0	-66.9	401.1	7.0	59.6	2,126.1	1,072.1	0.0	369.3	-572.3	3,435
7.5	39.0	-57.4	548.3	9.1	66.9	2,482.7	1,198.7	0.0	714.4	-459.3	4,543
8.0	39.0	-48.1	693.6	11.2	74.0	2,832.9	1,321.7	0.0	1,054.5	-348.2	5,631
8.5	39.0	-38.9	836.9	13.2	81.1	3,176.6	1,441.1	0.0	1,389.5	-238.8	6,700
9.0	39.0	-29.9	978.4	15.2	87.9	3,514.3	1,557.1	0.0	1,719.7	-131.3	7,750
9.5	39.0	-21.0	1,117.9	17.1	94.7	3,846.0	1,669.9	0.0	2,045.2	-25.5	8,783
10.0	39.0	-12.4	1,255.7	19.1	101.3	4,172.1	1,779.7	0.0	2,366.1	78.6	9,799
10.5	39.0	-3.8	1,391.6	20.9	107.7	4,492.5	1,886.5	0.0	2,682.5	181.0	10,798
11.0	39.0	4.5	1,525.8	22.8	114.1	4,807.6	1,990.6	0.0	2,994.4	281.8	11,781
11.5	39.0	12.8	1,658.3	24.6	120.3	5,117.5	2,092.0	0.0	3,302.1	381.0	12,748
12.0	39.0	20.8	1,789.1	26.4	126.5	5,422.3	2,190.9	0.0	3,605.6	478.7	13,616
12.5	39.0	28.8	1,918.2	28.1	132.5	5,722.2	2,287.5	0.0	3,905.0	574.8	14,636
13.0	39.0	36.6	2,045.7	29.8	138.3	6,017.4	2,381.7	0.0	4,200.4	669.5	15,558
13.5	39.0	44.2	2,171.6	31.5	144.1	6,307.9	2,473.7	0.0	4,491.8	762.6	16,467
14.0	39.0	51.7	2,295.9	33.2	149.8	6,594.0	2,563.7	0.0	4,779.5	854.4	17,361
14.5	39.0	59.1	2,418.6	34.8	155.4	6,875.7	2,651.6	0.0	5,063.3	944.7	18,242
15.0	39.0	66.4	2,539.9	36.4	160.8	7,153.2	2,737.6	0.0	5,343.5	1,033.7	19,111

[27] The ASEAN Charter was signed on 20 November 2007 by the Leaders of the ASEAN Member States at the 13th ASEAN Summit in Singapore.

current trade-weighted average tariff of 3.8 percent. In particular, alternative CET rates have been applied to Brunei up to a limit of 7 percent, after which the 7 percent tariff upper bound is maintained despite CET increases by other member states.

Revenue Impact – The direct welfare effects associated with government revenue and consumer welfare changes for alternative CETs are reported for the aggregated of trade with non-ASEAN member countries in Tables 4.1 and 4.2 respectively. Table 4.1 shows the government revenue effects from CET rates ranging from 0 to 15 percent for each of the ASEAN member countries and the region as a whole. The net regional impact is negative for any CET rate below 5.5 percent since the existing trade-weighted average rate is 6.1 percent and any reduction in the average tariff below that rate will reduce tariff revenue. In contrast, any CET rate above 6 percent generates additional revenue at the regional level. The country-level impact varies considerably, however, because existing rates vary across countries. Singapore, Brunei, Philippines, Myanmar, Malaysia and Indonesia have below average rates, and changes in their tariff revenues therefore become positive at lower CET rates, for example, 4 percent for Brunei, 3.5 percent for the Philippines, and 4.5 percent for Malaysia.

Consumer Welfare Effects – The consumer welfare effect is summarized in Table 4.2. It shows that the change in consumer welfare remains positive but gradually declining with increasing CET rates up to 6.3 percent. Positive consumer welfare changes continue into higher CET rates for those countries currently having high trade-weighted average rates. These countries include Cambodia and Vietnam, where the change in consumer welfare remains positive, though declining, through a CET rate of 11.5 percent; and Thailand, which also remains positive through a relatively high CET rate of 7 percent. In other countries the consumer welfare becomes negative at low CET rates because their existing average tariff rates are relatively low.

Negatively Affected Countries – Unless regional tariff rates were set at rates whose average exceeded 11 percent, some ASEAN member states will experience government revenue losses the CET. At a CET rate of 6.1 percent, the direct tariff revenue losses are estimated at nearly $640 million in Cambodia and Vietnam since both of these countries would need to lower their existing tariffs to the lower ASEAN rates. These losses would be particularly burdensome to Cambodia, which relies on tariff revenue for about one-fourth of its total tax revenue, while Vietnam relies on tariff revenue for about 10 percent of its total tax revenue. Whether or not the ASEAN CET were to include a revenue compensation formula for countries experiencing revenue losses from the CET is a decision that would need to be addressed by the member states if a common tariff scheme were to be adopted.

Figure 4.1: Total Change in ASEAN Consumer Welfare and Government Revenue Changes

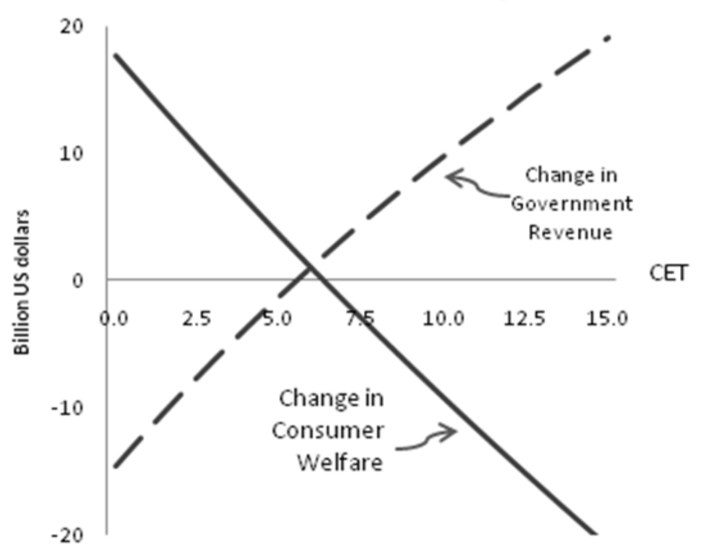

Table 4.2: Change in Consumer Welfare from MFN Tariffs Applied to Non-ASEAN Imports under Alternative Common External Tariffs (Million US dollars)

CET	Brunei	Cambodia	Indonesia	Laos	Myanmar	Malaysia	Philippines	Singapore	Thailand	Vietnam	Total ASEAN
0.0	48.8	267.4	2,212.3	32.5	71.6	4,354.9	1,535.4	0.0	6,008.9	3,113.1	17,645
0.5	42.3	254.8	2,032.2	29.7	61.8	3,872.5	1,327.0	0.0	5,573.9	2,968.0	16,162
1.0	35.8	242.3	1,853.4	26.8	52.2	3,395.9	1,122.6	0.0	5,142.8	2,824.1	14,696
1.5	29.3	230.0	1,676.0	24.0	42.6	2,924.7	922.1	0.0	4,715.3	2,681.6	13,246
2.0	22.9	217.8	1,499.8	21.3	33.1	2,458.9	725.4	0.0	4,291.6	2,540.3	11,811
2.5	16.6	205.7	1,324.9	18.6	23.7	1,998.4	532.3	0.0	3,871.4	2,400.4	10,392
3.0	10.2	193.7	1,151.2	15.9	14.4	1,543.0	342.8	0.0	3,454.7	2,261.6	8,987
3.5	4.0	181.8	978.8	13.2	5.2	1,092.6	156.6	0.0	3,041.5	2,124.1	7,598
4.0	-2.3	170.1	807.5	10.5	-3.9	647.0	-26.4	0.0	2,631.6	1,987.7	6,222
4.5	-8.4	158.4	637.5	7.9	-12.9	206.1	-206.2	0.0	2,225.1	1,852.6	4,860
5.0	-14.6	146.9	468.7	5.3	-21.9	-230.2	-383.0	0.0	1,821.8	1,718.6	3,512
5.5	-20.7	135.5	301.0	2.7	-30.7	-662.0	-556.9	0.0	1,421.7	1,585.8	2,176
6.0	-26.7	124.2	134.5	0.2	-39.4	-1,089.5	-727.9	0.0	1,024.8	1,454.0	854
6.1	-27.9	121.9	101.3	-0.3	-41.2	-1,174.4	-761.8	0.0	945.8	1,427.8	591
6.2	-29.2	119.7	68.2	-0.8	-42.9	-1,259.2	-795.6	0.0	866.9	1,401.7	329
6.3	-30.4	117.5	35.1	-1.3	-44.6	-1,343.9	-829.2	0.0	788.1	1,375.5	67
6.4	-31.6	115.2	2.1	-1.8	-46.4	-1,428.3	-862.8	0.0	709.5	1,349.5	-195
6.5	-32.8	113.0	-30.9	-2.3	-48.1	-1,512.6	-896.2	0.0	630.9	1,323.4	-456
7.0	-38.7	101.9	-195.2	-4.8	-56.7	-1,931.6	-1,061.9	0.0	240.1	1,193.9	-1,753
7.5	-38.7	90.9	-358.4	-7.3	-65.2	-2,346.6	-1,225.0	0.0	-147.8	1,065.4	-3,032
8.0	-38.7	80.0	-520.4	-9.7	-73.6	-2,757.5	-1,385.6	0.0	-532.7	938.0	-4,300
8.5	-38.7	69.2	-681.4	-12.1	-81.9	-3,164.6	-1,543.8	0.0	-914.8	811.7	-5,556
9.0	-38.7	58.5	-841.3	-14.5	-90.1	-3,567.9	-1,699.8	0.0	-1,294.0	686.4	-6,802
9.5	-38.7	47.9	-1,000.2	-16.9	-98.3	-3,967.5	-1,853.4	0.0	-1,670.4	562.0	-8,036
10.0	-38.7	37.4	-1,158.1	-19.3	-106.4	-4,363.5	-2,004.9	0.0	-2,044.2	438.7	-9,259
10.5	-38.7	27.0	-1,314.9	-21.6	-114.4	-4,755.9	-2,154.3	0.0	-2,415.2	316.4	-10,472
11.0	-38.7	16.7	-1,470.7	-23.9	-122.4	-5,144.8	-2,301.7	0.0	-2,783.6	195.0	-11,674
11.5	-38.7	6.4	-1,625.5	-26.2	-130.2	-5,530.3	-2,447.0	0.0	-3,149.4	74.5	-12,866
12.0	-38.7	-3.7	-1,779.3	-28.5	-138.0	-5,912.6	-2,590.5	0.0	-3,512.6	-45.0	-14,049
12.5	-38.7	-13.8	-1,932.2	-30.7	-145.8	-6,291.5	-2,732.1	0.0	-3,873.3	-163.5	-15,222
13.0	-38.7	-23.7	-2,084.0	-32.9	-153.4	-6,667.3	-2,871.8	0.0	-4,231.5	-281.2	-16,385
13.5	-38.7	-33.6	-2,235.0	-35.1	-161.0	-7,039.9	-3,009.8	0.0	-4,587.3	-398.0	-17,538
14.0	-38.7	-43.4	-2,385.0	-37.3	-168.5	-7,409.4	-3,146.1	0.0	-4,940.7	-513.9	-18,683
14.5	-38.7	-53.1	-2,534.0	-39.5	-176.0	-7,776.0	-3,280.8	0.0	-5,291.7	-628.9	-19,819
15.0	-38.7	-62.8	-2,682.2	-41.6	-183.4	-8,139.6	-3,413.8	0.0	-5,640.3	-743.0	-20,945

Range of CET Options – The ASEAN-level welfare effects from CET rates ranging from 0 to 15 percent are shown in Figure 4.1. At low CET rates the change in consumer welfare is large, while government revenue changes from their existing current levels fall sharply. The opposite occurs at high CET rates, where government revenues increase sharply from their present levels and consumer welfare falls sharply. At a CET rate of 5.5 percent government revenue at the ASEAN regional level is nearly unchanged from the trade-weighted average of the existing tariff rates of the member states. For consumer surplus, it is a CET rate of 6.5 percent that yields no change from its regional level. At a CET rate of 6.1 percent, the net change in consumer welfare is equivalent to the change in government revenue. Table 4.3 shows the welfare effects of a CET rate of 6.1 percent. The first rows compare the existing weighted and unweighted MFN tariff rates in the ASEAN member states and the ASEAN regional average, relative to the 6.1 percent CET rate. Above average tariff rates exist in Cambodia, Lao PDR, Vietnam and, to a lesser extent, Thailand, while below average rates exist in Brunei, Indonesia, Myanmar, Malaysia, Philippines and Singapore. The 6.1 percent CET rate would produce an overall contraction of ASEAN imports of 2.5 percent as a result of trade contractions in Brunei, Indonesia, Myanmar, Malaysia, Philippines and Thailand. These imports changes refer to trade with countries other than ASEAN member states and have been calculated at the 6-digit product level for each of the countries, and the results reported in Table 4.3 represent the combined total of the individual trade variations in each of the products.

Tax Revenue Gains – Notwithstanding the decline in extra-regional trade in some countries, tariff revenues would increase in Brunei, Indonesia, Myanmar, Malaysia and the Philippines as a result of the average tariff increase following the introduction of the 6.1 percent CET rate. Total ASEAN tariff revenue would increase by over 10 percent on imports from non-ASEAN countries, which would represent an overall 7 percent increase in trade taxes from all sources of imports. Those governments likely to benefit the most would be in Brunei, Myanmar, Malaysia and the Philippines. In contrast, there would be significant revenue shortfalls in Cambodia and Vietnam.

Table 4.3: Welfare Impact of 6.1 Percent CET on ASEAN Member States

	Brunei	Cambodia	Indonesia	Lao PDR	Myanmar	Malaysia	Philippines	Singapore	Thailand	Vietnam	ASEAN
Tariff Rates											
Pre-CET											
Trade-Weighte	3.8%	10.1%	5.1%	10.5%	3.7%	4.3%	3.2%	0.0%	6.4%	10.3%	6.1%
Unweighted	2.4%	11.9%	5.9%	8.4%	5.0%	6.5%	5.7%	0.0%	10.2%	15.7%	7.2%
With CET											
Trade-Weighte	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	0.0%	6.1%	6.1%	5.5%
Unweighted	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	0.0%	6.1%	6.1%	5.5%
Change in Imports a/											
Million US$											
Extra-Regional	-64	212	-581	5	-3,467	-121	-6,224	0	-1,350	3,208	-13,980
Intra-ASEAN	-	-	-	-	-	-	-	-	-	-	-
Total	-64	212	-581	5	-3,467	-121	-6,224	0	-1,350	3,208	-13,980
Percent											
Extra-Regional	*-4.4%*	*9.2%*	*-1.0%*	*2.1%*	*-3.7%*	*-6.8%*	*-13.3%*	*0.0%*	*-1.2%*	*7.4%*	*-2.5%*
Intra-ASEAN	-	-	-	-	-	-	-	-	-	-	-
Total	*-3.2%*	*4.0%*	*-0.6%*	*0.5%*	*-2.4%*	*-3.7%*	*-10.8%*	*0.0%*	*-1.0%*	*5.3%*	*-1.8%*
Change in Tariff Revenue											
Million US$											
Extra-Regional	29.7	-83.5	146.0	-4.3	46.9	1,503.6	847.5	0.0	-229.8	-769.0	1,486.9
Intra-ASEAN	-	-	-	-	-	-	-	-	-	-	-
Total	29.7	-83.5	146.0	-4.3	46.9	1,503.6	847.5	0.0	-229.8	-769.0	1,486.9
Percent	*67.1%*	*-37.7%*	*7.7%*	*11.8%*	*78.3%*	*40.5%*	*69.0%*	*na*	*-4.5%*	*-32.3%*	10.2%
Change in Consumer Welfare											
Million US$											
Extra-Regional	1,153	1,260	168,700	288	2,129	462,287	46,924	759,162	354,502	59,634	1,856,039
Intra-ASEAN	-	-	-	-	-	-	-	-	-	-	-
Total	1,153	1,260	168,700	288	2,129	462,287	46,924	759,162	354,502	59,634	1,856,039
Percent											
Total, of which	*-0.25%*	*0.97%*	*0.01%*	*-0.02%*	*-0.20%*	*-0.03%*	*-0.17%*	*0.00%*	*0.03%*	*0.24%*	*0.00%*
Gainers b/	*0.25%*	*1.19%*	*0.07%*	*0.52%*	*0.15%*	*0.06%*	*0.16%*	*0.00%*	*0.09%*	*0.37%*	*0.05%*
Losers c/	*-0.50%*	*-0.22%*	*-0.06%*	*-0.54%*	*-0.35%*	*-0.08%*	*-0.33%*	*0.00%*	*-0.07%*	*-0.14%*	*-0.05%*
Total Change in Welfare											
Million US$											
Extra-Regional	1,183	1,176	168,846	284	2,176	463,791	47,772	759,162	354,272	58,865	1,857,526
Intra-ASEAN	-	-	-	-	-	-	-	-	-	-	-
Total	1,183	1,176	168,846	284	2,176	463,791	47,772	759,162	354,272	58,865	1,857,526
Percent											
Total	*0.01%*	*0.29%*	*0.01%*	*0.09%*	*0.02%*	*0.01%*	*0.01%*	*0.00%*	*0.02%*	*0.11%*	*0.01%*

a/ Base year 2007.

a/ Refers to HS-6 digit products that register a gain in consumer welfare relative to the base level as a result of the CET.

b/ Refers to HS-6 digit products that register a loss in consumer welfare relative to the base level as a result of the CET.

Consumer Welfare Effects – The consumer welfare effects are large in absolute dollar terms but small in percentage terms since consumer welfare is generally much larger in absolute terms than government revenue effects in a country.[28] Tariff rate increases and the associated declines in the goods imported into Brunei, Myanmar, Malaysia and the Philippines would drive down consumer welfare in those countries. In contrast, there would be net positive consumer gains in Cambodia and Vietnam because of the larger volume of imports and the lower prices that consumers would need to pay for imported goods. While government revenue compensatory schemes are sometimes provided to countries that experience tariff revenue shortfalls during the implementation of a CET, the fact that they benefit from consumer welfare gains also needs to be considered when designing revenue sharing mechanisms in a CET. Therefore, what matters in determining whether or not compensatory payments should be made to countries is not limited to government revenue losses from the implementation of the CET, but rather whether the overall welfare situation for any one member country is inferior to that which existed in its pre-CET situation.

Country Level Effects – Table 4.3 also reports on the net consumer welfare gains and losses by each country to suggest that the welfare effects from the CET are likely to impact on different products and sectors in the economy differently. To this end, Annex C presents the 2-digit HS product welfare effects of a 6.1 percent CET rate in the ASEAN region.

[28] In a supply-demand framework, the consumer welfare is represented by the triangular area covered by the import demand curve above the horizontal import supply curve of a country, while the tariff revenue is the rectangular area between the world price and the import price below the country's supply and demand curves for any imported product. See, for example, E. Helpman and P.Kruegman, "Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Economy". MIT Press, 1987.

5. SEQUENCING FTAs AND A COMMON EXTERNAL TARIFF

5.1 Estimates of the ASEAN FTAs before CET

Motivation for Sequencing – The proliferation of free trade agreements (FTAs) between ASEAN and non-ASEAN countries raises the question about whether it is preferable to move from FTAs to a CTE-based customs union or whether the gains are greater if the customs union is first established and FTAs are later negotiated.[29] Table 5.1 shows the percentage distribution of imports originating from current ASEAN FTAs with China, Korea and Japan, as well as the ASEAN AFTA itself; FTA under negotiations with the European Union, India, Australia and New Zealand, and ASEAN+3 (China, Korea and Japan). Overall, the total value of imports originating in current and forthcoming FTAs other than AFTA represents over 40 percent of total imports. AFTA originating imports account for 25 percent, and imports from the rest of the world are 32 percent. The countries that import the most from those FTAs are Myanmar, Vietnam, Thailand and Indonesia, while they account for a small proportion of Lao PDR's imports. Imports from other destination account for a high proportion of total imports in the Philippines because of that county's large trade volume with the United States.

Table 5.1: Percent Distribution of ASEAN Country Imports from Actual and Forthcoming ASEAN-FTAs, ASEAN Countries and Rest-of-World, 2006

Exporter:	Australia	China P.R.	India	Japan	Korea	European Union	New Zealand	Total FTAs	ASEAN	Rest-of-World	World
Importer:											
Brunei	1.1	5.5	2.3	5.6	1.2	14.6	3.7	34.1	57.9	8.0	100.0
Cambodia	0.4	17.5	0.9	4.3	4.9	4.1	0.0	32.2	34.3	33.4	100.0
Indonesia	4.9	10.9	2.3	9.0	4.7	9.9	0.5	42.2	31.1	26.7	100.0
Lao PDR	1.2	11.2	0.4	1.4	1.6	2.4	0.0	18.1	77.7	4.1	100.0
Malaysia	1.9	12.2	1.0	13.3	5.4	11.4	0.3	45.4	24.6	30.0	100.0
Myanmar	0.7	34.5	3.9	3.0	3.5	2.9	0.1	48.6	47.2	4.2	100.0
Philippines	1.2	7.1	0.8	13.6	6.2	8.6	0.5	38.1	19.8	42.1	100.0
Singapore	1.6	11.4	2.0	8.3	4.4	11.3	0.1	39.2	26.1	34.7	100.0
Thailand	2.6	10.6	1.3	19.9	4.0	8.6	0.2	47.2	18.3	34.4	100.0
Vietnam	2.4	16.5	2.0	10.5	8.7	6.9	0.4	47.4	27.9	24.7	100.0
ASEAN Total	*2.2*	*11.5*	*1.6*	*12.1*	*5.0*	*10.1*	*0.3*	*42.7*	*24.8*	*32.6*	*100.0*

Source: International Monetary Fund, Direction of Trade database.

Static versus Dynamic Effects – In this chapter we compare the welfare effects of the ASEAN FTAs relative to pre-CET and post-CET tariff rates. While the static effects are unlikely to be large since, in the end, the final trade-weighted average is the same, the dynamic effects could be significant and give rise to questions about revenue compensations prior to joining new FTAs. The welfare effects of the two sequencing paths can vary considerably. Implementation of a customs union and an FTA can also move forward simultaneously since the implementation of a customs union may be phased and FTA negotiations initiated during that time. In those cases, the existence of customs union commitments by the ASEAN member states can be considered as preceding the FTA, even though the customs union commitments are not fully implemented.

[29] A free trade arrangement establishes zero tariff rates between participating countries and different has tariff rates with non-members of the individual FTA member countries, while a customs union has zero tariff rates among members and a common external tariff.

Table 5.2: Welfare Impact on ASEAN Member States: Moving from Pre-CET to CET Rate

	Pre-CET to CET	CET to FTA	Total Effect	Pre-CET to FTA	FTA to CET	Total Effect
Tariff Rates						
Initial (trade-weighted)	*6.1%*	*4.2%*	-	*6.1%*	*2.7%*	-
Final (trade-weighted)	*4.2%*	*1.8%*	-	*2.7%*	*1.8%*	-
Change in Imports a/						
Million US$	4,676	17,484	22,160	15,471	6,689	22,160
Percent						
Extra-Regional	*1.2%*	*3.1%*	5.8%	*1.8%*	1.2%	5.8%
Total	*0.9%*	*2.3%*	4.2%	*1.3%*	*0.9%*	4.2%
Change in Tariff Revenue						
Million US$	-3,199	-6,242	-9,441	-7,056	-2,385	-9,441
Percent	-27.9%	-54.5%	-64.5%	-48.2%	-31.4%	-64.5%
Change in Consumer Welfare						
Million US$	5,676	6,659	12,334	9,828	2,506	12,334
Percent	0.03%	0.04%	0.06%	0.05%	0.01%	0.06%
Total Change in Welfare						
Million US$	2,477	416	2,893	2,772	121	2,893

a/ Base year 2007.

Options for CET Rate – In this chapter we examine a CET rate that provides useful results in gauging the welfare effects of alternative sequencing paths to FTAs. In the previous chapter the CET rate was established at the trade-weighted average of the prevailing pre-CET MFN rates applied by the ASEAN member states. That rate was then applied to the analysis of the welfare implications of a CET for the ASEAN member states in the previous chapter. The results are less interesting at the regional level than those at the member states level since the CET rate is the same as the pre-CET rate. If all member countries had uniform tariff lines prior to the CET, then the national welfare impact would be the same as the regional welfare impact. In practice, however, the results presented in the previous chapter showed that divergences in the national welfare effects of the trade-weighted average occur because movements from multiple tariff rates within member states produce different welfare effects across ASEAN member countries. Those welfare differences are relatively small, so an assessment of CET versus FTA sequencing paths may yield little, if any, conclusive results about preferred sequencing paths for ASEAN member countries.

Application of Mid-Point CET Rate – The alternative CET rate is one that lies between the pre-CET rate and the trade-weighted regional average of the MFN rates applied to extra-regional trade and the zero-tariff rates under the current and proposed FTAs. The resulting adjustments in moving from the pre-CET rate to both an FTA and CET is therefore likely to be similar to one another and can therefore provide a better comparison of the welfare effects under the two sequencing paths. Table 5.2 presents the results for sequencing the 6.1 percent CET presented in the previous chapter relative to FTAs with the extra-regional countries in Table 5.1 above. There is a more favorable net welfare impact on sequencing FTAs before the CET since the total revenue and consumer welfare effects from first negotiating the FTAs and then adopting a CET outweigh the total effects from first adopting a CET and then negotiating FTAs. The reason is that the redistribution effects across the 6-digit HS tariff lines are relatively small compared with the alternative of moving from an average MFN rate applied to extra-regional trade to zero-tariffs for major trading partners of the ASEAN member countries. For tariff revenue, the redistribution effects from the pre-CET to CET rate are negative but those redistribution effects become positive when applied to the low average pre-CET with the FTAs for the ASEAN countries. For consumer welfare, the changes that occur when moving from pre-CET national tariff rates to zero-tariff rates with FTA member countries significantly outweigh gains that occur when moving from the region CET rate to zero-tariff rates with FTA member countries. These results, however, depend largely on redistribution effects from a CET rate that is, on average, the same as the pre-CET rate and the more interesting results are those that reflect large movements between the pre-CET and CET rates.

Comparative Welfare Effects – Table 5.2 summarizes the effects of a CET equal to 4.2 percent, which represents the midpoint between the pre-CET trade-weighted average without FTAs and the extra-regional trade-weighted rate with FTAs for those trading partners listed in Table 5.1.[30] In all simulations, we assume that Singapore retains a zero tariff rate but that Brunei adopts the CET rate since it represents a relatively low rate that is in line with its trade policy regime.

Option A: From Pre-CET to FTAs to CET – The first option for the sequencing approach is one that first adopts a CET and, once implemented, introduces FTAs.

- ***Stage 1*:** Member states adopt a uniform CET rate of 4.2 percent. Table 5.3 shows that overall imports rise by about 1 percent, reflecting considerable variations among the member states. Cambodia's and Vietnam's trade expand by 13 percent and 11 percent respectively as tariff rates in these countries are more than halved; Thailand's imports also expand in response to the cut in their average tariff rate from a trade-weighted average of 6.4 percent; in contrast, imports of the Philippines contract by around 7 percent since its average tariff rate rises by one percentage point. Revenue and consumer welfare adjustments reflect these same patterns, with the magnitude of Vietnam's and Thailand's revenue contraction dominating the regional average.

Table 5.3: Welfare Impact of 4.2 Percent CET Rate on ASEAN Member States

	BN	KH	ID	LA	MM	MY	PH	SG	TH	VN	ASEAN
Tariff Rates											
Pre-CET	3.8%	10.1%	5.1%	10.5%	3.7%	4.3%	3.2%	0.0%	6.4%	10.3%	*6.1%*
With CET	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	0.0%	4.2%	4.2%	*4.2%*
Change in Imports a/	-1.8%	13.3%	1.7%	4.9%	0.1%	-3.0%	-7.6%	0.0%	1.9%	11.1%	*1.2%*
Change in Tariff Revenue	17.2%	-55.8%	-24.4%	-20.6%	26.6%	-0.1%	23.1%	na	-32.7%	-52.2%	*-21.8%*
Change in Consumer Welfare	-0.04%	1.33%	0.04%	0.33%	-0.04%	0.01%	-0.02%	0.00%	0.07%	0.33%	*0.03%*

- ***Stage 2***: FTAs with ASEAN trading partners are introduced. Since those countries account of 43 percent of the region's imports, ASEAN's trade-weighted average MFN tariff rate for non-regional member countries falls to 1.8 percent (Table 5.4). At the regional level, imports expand by a further 3 percent, reflecting strong gains by the Philippines, Cambodia, and Malaysia. The liberalization of trade with large trading partners causes a halving of trade tax revenue but an even larger increase in consumer welfare, measured in absolute terms.

Table 5.4: Welfare Impact of FTA Plus 4.2% CET Rate and FTAs on ASEAN Member States

	BN	KH	ID	LA	MM	MY	PH	SG	TH	VN	ASEAN
Tariff Rates											
Pre-CET	3.8%	10.1%	5.1%	10.5%	3.7%	4.3%	3.2%	0.0%	6.4%	10.3%	*6.1%*
With CET	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	0.0%	1.8%	1.8%	*1.8%*
Change in Imports a/	3.4%	5.4%	3.5%	3.8%	5.0%	5.2%	8.3%	0.0%	4.1%	4.8%	*3.1%*
Change in Tariff Revenue	-55.2%	-54.7%	-55.2%	-54.5%	-54.6%	-54.4%	-52.9%	na	-55.0%	-54.9%	*-54.5%*
Change in Consumer Welfare	0.26%	0.45%	0.05%	0.44%	0.21%	0.05%	0.19%	0.00%	0.06%	0.11%	*0.04%*

[30] From a methodological viewpoint, the process involves running the model for the base solution (with CET but no FTAs, or with FTAs but no CET in the first instance), then running the model again for the second stage (CET with FTAs, or FTAs with the CET) in the second instance, using the results from the first stage for comparative purposes.

- ***Total Effect***: The combined effects of the CET and the FTAs produce major adjustments in trade, consumer welfare and government revenue. ASEAN trade would expand by 6 percent, and while tax revenue would suffer a large reduction (equivalent to overall two-thirds of current levels) there would be a more-than-proportional increase in overall consumer welfare.

Option B: From Pre-CET to CET to FTAs – The alternative sequencing approach would be to adopt the FTAs first and, once implemented, to introduce the CET.

- ***Stage I***: In the first stage, the member states adopt a zero tariff rate with uniform Australia and New Zealand, China, India, Japan, Korea and the European Union. Under these conditions, Table 5.5 shows that ASEAN's trade-weighted average MFN tariff rate would fall from 6.2 percent to 2.7 percent. Overall imports would rise by nearly 2 percent, reflecting a strong surge in imports by Cambodia, Vietnam and, to a lesser extent, Lao PDR and Thailand. Among the other member states, only the Philippine's trade would experience a contraction. Revenue and consumer welfare adjustments reflect these same patterns, with the magnitude of Vietnam's and Thailand's revenue contraction dominating the regional average.

Table 5.5: Welfare Impact of ASEAN FTAs on Member States

	BN	KH	ID	LA	MM	MY	PH	SG	TH	VN	ASEAN
Tariff Rates											
Pre-CET	3.8%	10.1%	5.1%	10.5%	3.7%	4.3%	3.2%	0.0%	6.4%	10.3%	6.1%
With CET	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	0.0%	2.7%	2.7%	2.7%
Change in Imports a/	0.3%	16.7%	3.9%	7.2%	3.2%	0.2%	-2.5%	0.0%	4.4%	14.0%	1.8%
Change in Tariff Revenue	-23.0%	-70.8%	-50.4%	-47.4%	-16.1%	-33.7%	-16.6%	na	-55.7%	-68.5%	-48.2%
Change in Consumer Welfare	0.12%	1.61%	0.07%	0.61%	0.09%	0.04%	0.10%	0.00%	0.10%	0.39%	0.05%

- ***Stage 2***: In the second stage, a uniform CET rate of 4.2 percent would be introduced, further lowering the average MFN tariff on extra-regional trade to 1.8 percent (Table 5.6). Since the additional reduction in tariff rates are below existing rates of most member countries, excepting Singapore, the further cut in average tariffs would affect member countries in a fairly similar manner. Imports would expand between one and three percent, while tax revenue would contract by over 30 percent. Consumer welfare gains, nonetheless, would expand by a more-than-proportional amount in absolute value terms, especially for countries like Cambodia, Brunei, Laos, and the Philippines.

Table 5.6: Welfare Impact FTAs and 4.2% CET Rate on ASEAN Member States

	BN	KH	ID	LA	MM	MY	PH	SG	TH	VN	ASEAN
Tariff Rates											
Pre-CET	3.8%	10.1%	5.1%	10.5%	3.7%	4.3%	3.2%	0.0%	6.4%	10.3%	6.1%
With CET	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	0.0%	1.8%	1.8%	1.8%
Change in Imports a/	1.3%	2.1%	1.3%	1.4%	1.9%	2.0%	3.2%	0.0%	1.6%	1.8%	1.2%
Change in Tariff Revenue	-31.8%	-31.5%	-31.8%	-31.4%	-31.4%	-31.4%	-30.5%	na	-31.7%	-31.6%	-31.4%
Change in Consumer Welfare	0.10%	0.17%	0.02%	0.17%	0.08%	0.02%	0.07%	0.0%	0.02%	0.04%	0.01%

- ***Total Effect:*** The combined effect of the FTAs and CET would be the same as in the previous sequencing option. ASEAN trade would expand by 6 percent, and while tax revenue would suffer a large reduction that would be equivalent to overall two-thirds of current levels. Offsetting these declines would be a more-than-proportional increase in overall consumer welfare.

5.2 Dynamic FTAs and CET Sequencing Effects

The previous welfare analysis of alternative FTA-CET sequencing modalities is based on a static partial equilibrium modeling framework. There are a number of dynamic sequencings issues that must also be considered by ASEAN member states.

- **Arguments in Favor of Sequencing FTAs before a CET**

  (1) ***Argument No. 1 –*** First, even though a customs union may not limit the scope for FTAs, it can delay their implementation and progress towards liberalizing trade at a regional or multilateral level. The reason is that adoption of a CET under a customs union involves large political and economic commitments on the part of member countries, while FTAs there is often less to enter into regional trade agreements. There can therefore by costs associated with sequencing a CET before adopting FTAs that are not measured in a static modeling framework.

  (2) ***Argument No. 2 –*** A second argument against implementing a customs union before FTAs is that, once the customs union is formed, protected industries may apply pressure on the ASEAN state governments against further liberalization of their protected sectors. However, the formation of a customs union is likely to promote greater competition and induce industries to become more efficient in order to compete with others within the region. Moreover, the formation of a customs union prior to FTAs could facilitate the transition of import-substituting industries to more competitive behavior by lowering the above-average national tariffs to the CET. Lower tariff rates may produce the necessary domestic adjustments that would facilitate the opening of the economy to other countries that form part of the FTA. From a political economy viewpoint, formation of a customs union first may increase ASEAN's bargaining power in FTA negotiations by having a common regional position toward MFN rates that include sensitive products in agriculture. Without a common external policy, FTA negotiations could be dominated by the larger countries and some of the larger countries could have higher levels of protection across-the-board or in sensitive products that are likely to dominate the FTA discussions at the expense of the smaller member countries. A cooperative approach to FTA negotiations can have significant welfare implications in the absence of a customs union and the prevalence of protective large member states.

- **Arguments in Favor of Sequencing a CET before FTAs**

  (1) ***Argument No. 1 –*** A powerful argument in favor of adopting a customs union before FTAs is that regionalism can act as a stumbling block toward the process of further integration. Political economy considerations suggest that inefficient firms will lobby against future removal of the preferential rates that protect their interests and will exert political pressure to avoid moving towards a more efficient uniform tariff structure.[31] A simplified tariff structure is more efficient for countries, especially small member states in regional groupings that must compete with larger members to attract trade and investment.

  (2) ***Argument No. 2 –*** A second argument in favor of first implementing a customs union is that it can increase the bargaining power of member states in negotiating FTAs. The political leverage offered by a customs union can be especially beneficial for members in negotiations with industrial countries and other regional groupings in sectors that are often sensitive and highly protected like those of agriculture and textiles.

[31] This argument has been advanced in a well-regarded and often referenced work by A. Kruger, ""Free Trade Agreements Versus Customs Unions," NBER Working Paper No. 5084, Cambridge, MA: National Bureau of Economic Research, 1995.

6. DESIGNING AND IMPLEMENTING A CET

6.1 Key Issues for the CET Design and Implementation

If ASEAN member states adopt a common external tariff (CET) they will need to design and implement the CET from the current tariff regimes under the AFTA and FTAs with which each member state maintains its own external tariffs with non-ASEAN countries towards a common external tariff regime. In addition to the CET, the ASEAN member states will also need to consider the harmonization of other commercial polices in ASEAN, including import quotas, import restriction and other non-tariff barriers to trade to all goods entering the ASEAN member states. The following section discusses some fundamental and structural issues for the CET design and the next one covers the transitional and technical issues that are likely to arise in the CET implementation process.

Single ASEAN Customs Territory- Before the ASEAN CET is introduced, the ten ASEAN member states will have to create a single ASEAN customs territory which is the combined customs territories where the ten ASEAN member states are exercising their sovereign rights according to international and domestic laws. Since all the ASEAN members (except for Lao PDR, which is in the accession process) are WTO members, they are required by the WTO Secretariat to register their single customs territory as the ASEAN Customs Union in the WTO. Under the single ASEAN customs territory, a single schedule of import duties and uniform customs procedures should be applied at all entry points of the ten ASEAN member states to imports from any non-ASEAN countries. Once the imported goods from non-ASEAN countries had paid the import duties and entered the single ASEAN customs territory, they would be allowed to move freely among the ASEAN member states without paying additional import duties. The national customs authorities will become an integral part of the ASEAN customs administration and cooperation, although they may still play a role in import inspection, standards conformity, and statistical collection according to the national laws of the member states. The customs revenues collected from the imports could be poured into an ASEAN common revenue pool and shared by the member states or kept by ASEAN for the regional institutional operation and/or for the structural support to the member states, particularly to the CLMV countries.

Zero Tariffs on Intra-ASEAN Trade – Before the ASEAN CET is adopted, there is a prerequisite that the intra-ASEAN trade should be duty-free in order to allow ASEAN products and imported goods to move freely within ASEAN single custom territory. Currently ASEAN-6 have completely eliminated their intra-ASEAN tariffs on 65.09 percent of ASEAN products and kept another 34.68 percent of products at below 5 percent under the CEPT. They have agreed to completely eliminate the import duties by 2010 on all products from ASEAN except for a few sensitive and highly sensitive products. Under the CEPT scheme, the CLMV countries have lowered the intra-ASEAN tariffs to 0-5 percent on 76.86 percent of their products from ASEAN countries and the average CEPT rate of the CLMV countries was 4.65 percent in 2006. Under the ASEAN Economic Community Blueprint, the CLMV countries have promised to eliminate import duties on all ASEAN products, except for some sensitive and highly sensitive products, by 2015. This timeframe has provided an indication that the ASEAN CET can be adopted after 2015 when the intra-ASEAN import tariffs are completely eliminated.

Common External Tariff in ASEAN – The common external tariff (CET) is the most important requirement for a customs union. If ASEAN member states intend to move to a customs union, a common external tariff will have to be designed and negotiated among the member states. The process involves the merge and reconciliation of the tariff schedules of the ten ASEAN member states. In order to convert the current tariff regimes to the common external tariffs, there are two criteria that can be taken into consideration. First, the WTO requires that the duties of a customs union shall not be higher or more restrictive than the duties of the member states prior to the formation of such a customs union. Second, in the practical terms, most of the customs unions moved to the average of the duties of the member states at the pre-union level.

Presently there are significant differences of the MFN applied rates of ASEAN member states as indicated in the modeling exercise of the previous chapters. If the average tariffs of ASEAN member states are adopted as the ASEAN CET, Cambodia, Thailand and Vietnam will have to reduce the tariffs substantially while some other ASEAN countries, particularly Brunei and Singapore, will have to raise their tariffs. The next issue of the CET design is related to the structure of the CET which includes the tariff rates and bands. Currently ASEAN member states have different tariff rates ranging from 0 to 226 percent. Cambodia only has four bands (0%, 7%, 15% and 35%) while Thailand has 41 bands (from 0% to 226%). The convergence of the different ASEAN tariff rates and bands into a simplified, if not uniform, ASEAN common external tariff would be desirable.

Customs Revenue Sharing Agreement – The single ASEAN customs territory and common external tariff will require the ASEAN member states to share the common customs revenue from the collection of the import duties. Apparently many ASEAN member states do not have the luxury of the EU practice to leave the customs revenue to the ASEAN for its administrative operation and other purposes. For example, the tariff revenue of Cambodia and Vietnam accounts for 25.2 percent and 18.4 percent of the total tax revenue of the two countries respectively. Even Thai tariff revenue constitutes 12.3 percent of the total tax revenue of the country. As a result, it may be more desirable to design an adequate and fair formula to share the customs revenue among the ASEAN member states. Many customs unions have adopted the "destination principle" which means the tariff revenue should go to the member country where the import is finally consumed. In that case, there is no need for the revenue sharing agreement and the member states retain the control over the customs revenue. The alternative approach is to surrender the collected ASEAN customs revenue to a joint regional revenue pool and distribute to the member states according to the pre-determined customs revenue sharing formula.

The customs revenue sharing formula should take into consideration several factors. First, part of the customs revenue should be retained by the national customs authorities in order to cover the costs of the duty collecting operation. The EU has left 25 percent of the customs duties to the member states for that purpose. The ASEAN could leave a smaller portion of the collected revenue to cover the collection costs of the national customs authorities. Second, another part of the customs revenue could be kept at the regional level to finance the operation of the ASEAN regional institutions and/or to provide financial support to less developed member states (i.e. CLMV countries). Third, the remaining portion of the customs revenue should be shared by the member states based on the negotiated formula, taking into account the special needs of the CLMV countries to compensate for their revenue loss after the adoption of the CET. Fourth, richer ASEAN member states may consider giving up the customs revenue to benefit the poorer CLMV countries and to support the regional ASEAN institutions. Finally, ASEAN may also consider setting up a development fund to support the CLMV in the CET implementation.

ASEAN Institutional Arrangements – At present, ASEAN has relatively weak regional institutional arrangement. The ASEAN Secretariat is the only regional ASEAN organization with limited capacity. Most of the ASEAN work has been delegated to the member governments through the ASEAN summit and various ASEAN committees. Compared with other customs unions, ASEAN may wish to strength and develop the ASEAN regional institutions in order to achieve the goals of the ASEAN Charter and the ASEAN Economic Community Blueprint. The ASEAN institutional building could be a three-step process. First, the ASEAN Secretariat should be strengthened with the analytical and coordinating capacities. Second, some regional ASEAN institutions could be created according to the ASEAN Charter and the ASEAN Economic Community Blueprint. These institutions could include the ASEAN Economic Community Council, the ASEAN Security Community Council, and the ASEAN Social and Cultural Community Council. Third, in the late years, ASEAN may also consider the establishment of the ASEAN Parliament, ASEAN Court of Justice, and ASEAN Development Fund, the ASEAN Central Bank and other regional institutions in order to promote and facilitate the further integration of the ASEAN member states.

The Financing of the ASEAN - With the expansion of the ASEAN regional institutions and the need for financial support to the CLMV countries and selected sectors and regions, ASEAN will have to consider the financing issue of the ASEAN operation. The following could be the potential sources for the ASEAN financing: (1) part of the customs revenues; (2) part of the VAT and excise tax; (3) certain percentage of GDP or GNI; (4) voluntary contributions of the rich ASEAN members; and (5) financial support of bilateral and multilateral donors. At this moment, the total EU budget in 2008 is about €129 billion. The financing of the EU budget comes primarily from the contributions of the member states (85% in total, of which 70% derived from the percentage of GNI and 15% from the national VAT collections) and the remaining portion (15%) is the customs revenue collected directly from the EU customs. The size of the ASEAN budget should be much smaller than that of the EU, at least at the beginning of the CET implementation. However, the financing of the ASEAN regional institutions and the support to the CLMV countries and other sectors and regions will require adequate financial resources for the purpose. The ASEAN members should take it into consideration from the beginning of the CET design and the ASEAN institutional capacity building.

6.2 Transition and Adjustment Issues for CET Implementation

Transitional arrangements – A transitional arrangement should be considered to help move from the current tariff regimes of individual ASEAN members to the ASEAN CET. In particular, CLMV countries may need more time to make the transition. For example, if the ASEAN CET can be designed and negotiated by 2012, ASEAN-6 could be given three years until 2015 to adjust their tariff rates and bands to those of the CET while the CLMV countries could be given another 3 years until 2018 for the adjustment. In that case, the CET could be officially launched between 2015 and 2018. During the transitional period, each of the ASEAN members should move their national tariff schedules incrementally every year towards the ASEAN CET regime. The ASEAN Secretariat or another newly created ASEAN regional institution should be tasked to monitor the progress of the integration process and prepare the annual report on the CET transition and implementation.

Sensitive Products under the CET – Under the CEPT scheme, there are a number of sensitive products for which some ASEAN member states maintain high levels of tariff protections. These reflect the sensitivities to import competition in some ASEAN member states. Some agricultural products (particularly rice and sugar) are sensitive due primarily to their direct connection with the basic human needs, especially for the poor households. As a result, these products have special and specific high tariffs in ASEAN member states. Some ASEAN members maintain the flexibility of quantitative restrictions of imports of those products. Under the proposed ASEAN CET, how the sensitive products are treated will be an important political and negotiating issue. There are several options for consideration. First, each ASEAN member could be given the flexibility to list 3-5 sensitive products for the CET at which higher tariffs could be negotiated among the ASEAN members. In the end, these sensitive products will be part of the CET schedule. Gradually these sensitive products could be moved to the normal products list under the CET with reduced tariff rates. Second, each ASEAN member could be allowed to list 3-5 sensitive products as exceptions from the CET schedule. The consolidated list of the ASEAN sensitive products could be subject to specific tariffs outside of the CET regime. However, the first option is more preferable as the sensitive products with high tariffs under the CET could become the normal products with gradually reduced tariffs while the sensitive products identified as exceptions have the tendency to stay there forever.

VAT and Excise Taxes under the CET – In addition to the customs duties, most of the ASEAN members also collect value-added tax (VAT) and excise taxes by the national tax authorities. In principle, if these indirect taxes apply to both domestically produced goods and imported products, they will not have a trade-distorting effect. However, this is not always the case in ASEAN. ASEAN member states need to gradually harmonize their VAT and excise tax regimes. In particular, after the CET is introduced, a harmonized VAT and excise tax system in ASEAN will provide an equal playing field for companies doing businesses in ASEAN since they are treated with the same tariff and VAT in ASEAN. Moreover, if VAT and excise taxes are also part of the ASEAN revenue, it would be more important to link the VAT and excise taxes with the operation of the ASEAN regional institutions.

Relationship between the CET and FTAs – As mentioned above, ASEAN as a group and individual ASEAN member states have concluded a number of free trade agreements or are currently negotiating FTAs with other countries. After the CET is implemented, there are several important considerations for ASEAN, given the numerous FTAs involving ASEAN and its member states. First of all, ASEAN CET under the ASEAN Customs Union should replace the AFTA. Second, since the CET covers only the tariff issue of goods, the FTAs may have to stay since they cover not only goods, but also services, investment, trade facilitation and other issues. If the ASEAN Economic Community (AEC) covers all the issues as indicated by the AEC Blueprint, the AEC could act as the focal point of the ASEAN member states to deal with the ASEAN trading partners on the FTA issues. Third, the bilateral FTAs with individual ASEAN member states should be wrapped up or consolidated to become an ASEAN FTAs with those trading partners. Fourth, immediately after the CET is introduced, no ASEAN member states should be allowed to negotiate bilateral FTAs with other countries. The negotiations of the FTAs should be the collective actions conducted by ASEAN as a group.

Future Trade Negotiations with ASEAN – Currently most of the ASEAM member states are engaging in the WTO DDA negotiations except for the Lao PDR which is still in the WTO accession process. Although the DDA negotiations are stalled, the ASEAN members are engaged in the consultations with other major trading partners. Unlike the EU, each ASEAN member state is presenting the country at the WTO and other trade negotiations. By the same token, the individual ASEAN members are also negotiating bilateral FTAs by themselves. Sometimes, they are competing for their trade interests in the multilateral and bilateral negotiating processes. After the ASEAN CET is introduced and the ASEAN Customs Union is formed, ASEAN member states should negotiate their WTO, regional and bilateral trade agreements collectively as a group. One of the most important issues to negotiate a trade deal as a group is to coordinate the negotiating positions of the trading bloc. Since ASEAN has ten member states and each member may have different trade interests due to their geographical locations, market sizes and import/export structures, the ASEAN negotiating team will have to coordinate the ASEAN regional negotiating positions in order to compromise and advance their national interests and maximize the benefits for the entire ASEAN region.

Free Trade Zones and Export Processing Zones – Singapore is a free port in ASEAN and it does not levy customs duties on its imports. Once the CET is introduced, Singapore has indicated that it would like to retain the zero tariff rates on its imports. Brunei has also applied zero tariffs on many of its imports. With some ASEAN member states, there are also export processing zones or special economic zones where imports of raw materials and industrial parts are duty free. After the processing, the products made in the zones are primarily destined for exports. If the products made in the zones enter the domestic markets, they will have to pay the customs duties as the same as the imported products. This situation has brought an important interesting issue in light of the CET design and implementation. How can the ASEAN Customs Union accommodate Singapore and Brunei and how do these export processing zones fit into the ASEAN Customs Union?

With regard to Singapore and Brunei, one of the options is to treat Singapore and Brunei as the free trade zones within the ASEAN Customs Union. If the products come from non-ASEAN countries to Singapore and Brunei, they do not have to pay the customs duties. However, if they move from Singapore/Brunei to other ASEAN member states, they will have to pay the ASEAN CET duties. As part of the ASEAN Economic Community, Singapore and Brunei will be fully implementing the commitments in the areas of services, investment, and trade facilitation, etc. They will also make contributions to the ASEAN regional institutional building. In the long run, when the ASEAN CET moves close to zero through the multilateral and regional trade negotiations, Singapore and Brunei will naturally integrate into the ASEAN CET regime. As far as the export processing zones are concerned, the implementation of the CET in ASEAN will not have a problem as long as they maintain the same practices in the past. Smuggling and corruption may become a problem if the law enforcement is weak and the customs officials are corrupt along the borders of these zones.

Monitoring and Compliance – In order to make the CET implementation effective and time-sensitive, the ASEAN should institute a good monitoring system for the compliance of the CET commitments of the member states. The monitoring system should include a framework for gauging progress on the harmonization of the national tariff regimes towards a regional ASEAN CET. It is important for each ASEAN member state to prepare a CET Harmonization Action Plan to show the annual progress of the harmonization. In that case, ASEAN will also be in a good position to monitor the progress of the CET implementation and the compliance of the commitments of each member state in the integration process. It will also allow the national CET experts and officials to share experiences and information in order to build the local capacity in the area and also inform the public awareness of the CET implementation.

7. RECOMMENDATIONS FOR FURTHER STUDIES

Country-Focused Studies – During consultation held with ASEAN stakeholders, several representatives, including those of Cambodia and Vietnam, requested that case studies be conducted of their countries on the proposed CET that would allow them to better assess the impact and consequences to change from the current tariff regimes to the CET system. The country case studies could be conducted individually for each country or for sub-groups like the CLMV to provide comparative analytical information for policymakers. It is therefore recommended that additional studies be supported to address the CET impact on individual country members as a benchmark to determining the desirability of alternative implementation strategies, as opposed to the welfare analysis of a CET to the ASEAN as a whole that this study has addressed.[32]

Capacity Building – The CLMV countries have also requested for some training and capacity building programs in order to train government officials, trade negotiators and other people to understand the CET and other integration initiatives. The CLMV countries also requested capacity building in the drafting and preparation of legislative and regulatory procedures for the transition from the current tariff regimes to the CET system.

- ***Analytical Extensions:*** *The following are key analytical areas that would support the interests of ASEAN member stakeholders in moving towards an ASEAN CET:*
    - **Sector-Level Trade Flows under an ASEAN CET –** The sector-level impact of a CET on trade flows between the ASEAN member states and other regional and country trading partners would provide meaningful information for policymakers in assessing national interests in alternative CET options. Gravity models provide a useful means of assessing the impact of CET-related trade policies on trade flow of ASEAN member countries.[33] Like the present study they rely on a partial equilibrium framework to analyze detailed HS 6-digit trade flows between ASEAN member states and extra-regional trading partners and regions. Also like the present study, the can provide detailed information about the welfare implications of alternative CET rates and tariff structures at the national and regional levels.
    - **Macroeconomic Consequences of an ASEAN CET –** The international transmission of changes occurring in CET-induced trade in the context of the open macro-economies are particularly important for the ASEAN member states. The analytical framework provides information about the dynamic transmissions of CET-related policies on key macroeconomic variables such as investment, consumption, and government expenditure patterns. From an analytical point of view, they are offer dynamic linkages that are not available within the partial equilibrium framework used in this study and they are more tractable for policymakers than general equilibrium models.[34]

[32] For the small country case, see A. Panagariya, "Preferential Trading and Welfare: The Small-Union Case Revisited". New York: Columbia University April 2005.

[33] For a recent application to customs unions in the Western Hemisphere, see B.M. Hilbun, "Analysis of Trade in the Western Hemisphere Utilizing a Gravity Model Framework". Department of Agricultural Economics and Agribusiness, Louisiana State University, 2003. See also, S. Armstrong, "Measuring Trade and Trade Potential: A Survey, Crawford School of Economics And Government, Asia Pacific Economic Papers No. 368, 2007.

[34] For an application to the South Asian SAARC, see K.K. Guru-Gharana, "Macro-Economic Modeling of South Asian Economies with Intra-SAARC Trade Link". Institute for Integrated Development Studies (IIDS), June 2000.

- **ASEAN CET in the Global Economic Context** – The country-level effects of a CET on output mix and demands for factors of production can be extended to the global economy. At the ASEAN regional level, changes in relative prices of outputs and inputs resulting in the region's change in trade policy are transmitted to the industries and input markets of other trading partners and regions. For trade policy analysis to be meaningful, the interactions that prevail among different sectors as a result of CET-related change in the ASEAN group of countries should be taken into account. A general equilibrium methodology is the most appropriate analytical framework for the analysis of inter and intra-sectoral changes in outputs and, by extension, the demand for different factors of production to be captured. The CET-related effect on ASEAN within the global economic framework is appropriately examined within the Global Trade Analysis Project (GTAP) model and database.[35]
- **Tariff Revenue Sharing Rules –** It would be useful to quantify the national and regional level effects of alternative mechanisms for sharing the common tariff revenue in an ASEAN customs union. The focus should be on the two main mechanisms currently use by customs unions. As mentioned earlier, the first involves rules for sharing revenue based on measures of country size, such as imports, consumption and population; the other involves a common fund to finance joint policies, as used in the European Union.[36] Because of significant developmental and tariff-structure differences among ASEAN member countries, the CET impact will initially have significant distributional effects among countries. Measuring those differences and offering mechanisms to possibly neutralize those effects could lead to greater support my member countries to a customs union and thereby help to fast-track the CET mechanism.
- **Political Economy Effects on CET Determination –** A growing body of empirical work has been growing on the effects of political pressures on the formation of CETs in customs unions.[37] These pressures mainly occur from cross-border lobbying and their effects have been analyzed within the context of tariff formation in political economic models for the determination of CETs. The results are useful in measuring potential influences among member states in their susceptibilities to lobbying, as well broader political influences the member states in the CU-wide decision-making. They can provide policy-makers with useful information about sources of pressure on CET rate determination that can point to ways in which they can work with lobby groups in cooperative or non-cooperative manner.

Roadmap – An essential part of the (CCCA) work on the possibility of establishing an ASEAN CET will involve the preparation of a roadmap on sequencing and implementation arrangements that would be required for the implantation of a customs union and the associated common external tariff. That work should involve a detailed study of the process needed for the adoption of a common external tariff, the transition arrangements required for its eventual implementation, and institutional and structural arrangements and possible options for ASEAN members to consider. By accepting a model of integration that requires successive steps, the time scale of benchmark targets and the overall commitment to the roadmap, ASEAN member states would be able to move forward in achieving the integration goals for the establishment of a customs union and ASEAN CET.

[35] For an application of the GTAP model to CET analysis, see S. Karingi et al, "The Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements". ATCP Briefing No. 6. Economic Commission for Africa, May 2005. For a discussion of the assumptions of these models in the context of customs unions and Nash equilibrium, see L. Abrego, R. Riezman and J. Whalley, "How Reasonable are Assumptions Used in Theoretical Models?: Computational Evidence on the Likelihood of Trade Pattern Changes". April 28, 2005.

[36] For an application to Mercosur, see M. Vaillant and A. Lalanne, "Tariff revenue sharing rules in a customs union: a new methodology applied to the MERCOSUR case". Departamento de Economía, Universidad de la República, Uruguay and Universidad de la Republica, Montevideo, Uruguay.

[37] For a recent application, see "S. Bandyopadhyay, S. Lahiri and S. Roy, Political Asymmetry and Common External Tariffs in a Customs Union". Research Division, Federal Reserve Bank of St. Louis, 2007.

ANNEX A: THE EMPIRICAL MODEL

Much of the literature on the welfare effects of customs unions and preferential trade arrangements (PTAs) in general derive from Viner's seminal work, *The Customs Union Issue*.[38] The initial work in this area was based on homogeneous goods models characterized by perfect competition. More recently the literature has largely switched to imperfect competition models, which has also relied on the so-called natural trading partners hypothesis in which trade creation effects dominate the trade diversion effects if the potential union members are natural trading partners in the sense that they already trade intensively with each other and are geographically proximate to one another.

Attempts to quantify the effects of a CET on member states rely on one of the following approaches, each of which provides a level of information that is not generally available in the other approaches:

(1) *Partial equilibrium analysis* uses single-sector or single-product estimates of supply and demand to examine the effects of trade liberalization on particular sectors or products. Since these types of models examine narrow product categories, they are able to capture the likely direct effects of policy changes on individual products. Moreover, partial equilibrium analysis is dynamic in nature and can therefore be used to assess the impact of trade liberalization on such factors as the growth rate of economic activity. The main limitation of this approach, however, is that it does not capture interactions between various economic sectors, and therefore does not account for secondary or indirect effects that could result as capital and labor move from the less productive to the more productive sectors of the economy.

(2) *Macroeconomic analysis* provides valuable information about the transmission of tariff policies on the economy, and the feedback effects that occur in the external sector from income and price changes. The dynamic nature of these models allow us to track the effect that relative prices changes will have on investment, consumption and other major components of the economy, as well as the fiscal revenue implications of those adjustments. Like partial equilibrium analysis, macroeconomic analysis of tariff policies focuses on the demand-side of the economy, and the results therefore allow us to examine the difference between estimates of the direct effects of tariff reforms and those arising from both direct and indirect changes in the macro-economy. Also like the partial equilibrium approach, this type of analysis does not look at supply-side adjustments from relative prices changes in the economy.

(3) *Industry-level analysis* offers useful measures of how trade policies alter effective rates of protection (ERP), and how these ERPs changes could shift the existing tariff-induced bias away from import substitution to export expansion and investment in the production of non-tradables. Because the magnitude of protection tends to vary considerably across industries, this type of detailed industry analysis can be used to show how changes in tariffs on US traded goods could influences production and the distribution of benefits and costs among the Colombian industries and consumers. While this type of analysis addresses industry-specific demand and supply conditions by examining factor input prices, it fails to provide an economy-wide perspective on the effects of trade policies.

[38] Viner, Jacob, 1950, *The Customs Union Issue*, New York: Carnegie Endowment for International Peace.

(4) *General equilibrium analysis* provides the type of economy-wide perspective that is not available in the other three approaches. As such, it offers a useful means of analyzing the effects of trade policies on upstream, downstream and substitute products. The key advantage of the approach is the ability to capture feedback effects of relative price changes and resource flows on overall gross domestic product (GPD) and social welfare. The major limitations are, first, the comparative static nature of the analysis, which precludes us from examining year-to-year changes arising from trade liberalization and, second, the sensitivity of the results to the parameters of the model and the fact that the parameters are not generated from within the model and therefore not internally consistent.

The model used to calculate the welfare effects of a CET is a partial equilibrium model for commodity-level imports and tariffs of the 6-digit Harmonized System (HS).[39] It assumes that the each commodity-level import represents a small share of each country's economy, which implies that the effect of tariff changes on other markets can be ignored. It also assumes that intra-regionally traded products are perfect substitutes for one another but that products traded intra-regionally are imperfect substitutes for extra-regionally traded products, and that world markets are perfectly competitive. Usage of intra-regional and extra-regional goods depends on the constant elasticity of substitution, which is the so-called Armington specification. So any change in the price of price of extra-regional imports because of tariff changes under the CET would change the amounts used of intra and extra-ASEAN originating goods according to the elasticity of substitution between them.

From the start, it is important to determine whether the imported and domestic competing goods are perfect or imperfect substitutes and then needs to determine whether the country is "small" with reference to the rest of the world (in which case the import supply curve is horizontal or perfectly elastic) or "large" with reference to the rest of the world (in which case the import supply curve is upward sloping or less than perfectly elastic). If imports and domestic competing goods are best modeled as imperfect substitutes (following Armington, 1969), the transmission of shocks from the market for the imported good to the market for domestic goods relies on the cross-price elasticity of demand or, alternatively, the elasticity of substitution. This measure affects the extent to which changes in the price of an imported good affect demand for the domestic competing good.

A.1 National Welfare of a Member Country

For the CET the welfare effects are decomposed into trade that occurs between ASEAN member states and that which occurs with non-ASEAN countries. The welfare effect following the introduction of the CET can therefore be represented by the change in the welfare effect following the introduction of a common MFT tariff with non-member countries, denoted $\Delta W_{i,ASEAN}$, and that under the CEPT-AFTA preferential arrangement among ASEAN countries:

$$\Delta W_i = \Delta W_{i,ROW} + \Delta W_{i,ASEAN} \qquad \text{(A.1)}$$

[39] The specification for the model follows Tumbarello, P. (2005), "Regional Trade Integration and WTO Accession: Which Is the Right Sequencing? An Application to the CIS", IMF Working Paper WP/05/94, Policy Development and Review Department, International Monetary Fund. The theoretical framework underlying the model is based on the work of Lord, M. (1991), *Imperfect Competition and Internaitonal Commodity Trade: Theory, Dynamics, and Policy Modelling.* Oxford: Clarendon Press. Finally, the implementation of the model using Excel spreadsheet software uses the approach of Francois, J., and K. Hall (1997), "Partial Equilibrium Modeling," in Applied Methods for Trade Policy Analysis: A Handbook, edited by J. Francois and K. Reinert. London: Cambridge University Press.

where ΔW_i denotes the total change in welfare of ASEAN country *i*, $\Delta W_{i,ROW}$ represents the change in welfare between ASEAN country i and the non-ASEAN countries (rest-of-world), and $\Delta W_{i,ASEAN}$ is the welfare change between country *i* and other ASEAN member states.

We further decompose the welfare effects into those associated with changes in consumer surplus, denoted ΔTC_i, and the change in the government's tariff revenue, ΔTR_i:

$$\Delta W_i = \Delta TC_i + \Delta TR_i \qquad (A.2)$$

Substituting (A.1) into (A.2) yields:

$$\Delta W_i = \Delta TC_{i,ROW} + \Delta TC_{i,ASEAN} + \Delta TR_{i,ROW} + \Delta TR_{i,ASEAN} \qquad (A.3)$$

such that the total change in country i's welfare is the change in consumer surplus with the non-ASEAN countries, $\Delta TC_{i,ROW}$, and the change in government revenue with those non-ASEAN countries, $\Delta TR_{i,ROW}$, resulting from the new MFN tariff common to all ASEAN countries, as well as the change in consumer surplus with the ASEAN countries, $\Delta TC_{i,ASEAN}$, and the change in government revenue with ASEAN countries, $\Delta TR_{i,ASEAN}$, resulting from the CEPT-AFTA preferential arrangement of the ASEAN countries.

The utility maximization for the importer in country *i* for a given import price P_i and level of income Y is

$$max\ [\pi_i M_i^{\alpha} + (1\text{-}N_i)]^{1/\alpha} \qquad (A.4)$$

$$subject\ to\ P_i M_i + N_i = Y_i \qquad (A.5)$$

where $\alpha < 1$ and $0<\pi<1$. For the initial country-base tariff t_i^I, the solution for (3.5) yields the overall demand for imports from country *i*:

$$M_i = \frac{A_i}{[P_i(1+t_i^I)]^{\theta}} \qquad (A.6)$$

where θ is the price elasticity of demand for imports, and A_i represents the so-called demand parameter such that $A_i = Yk_o$ and $k_o = [(1\text{-}\pi)/\ \pi]^{1/(1\text{-}\alpha)}$ with expected sign $A_i > 0$. That demand parameter A_i is unknown and is calibrated by (a) applying the latest 6-digit tariff lines of the ASEAN member states provided by the member countries to the ASEAN Secretariat, as well as various CET options; (b) normalizing prices to 1; and (c) using nearly 4,700 price elasticities of import demand calculated by the World Bank for 6-digit imports.[40]

The import price is derived from the import supply schedule:

$$M_i^s = k_1(P_i/P)^{\eta} \qquad (A.7)$$

where P_i is the import price and P is the world price of the import, which can be expressed as the import price of country *i*. $Pi = k_i^{-1/\eta} PM^{-1/\eta}$. Unless the importer is a monopsonist, the import price will be given and the relative price elasticity of import supply will approach infinity ($\eta \approx 0$), from which it can be seen that the following relationship holds for import prices:

$$P_i = k_1'\, P \qquad (A.8)$$

The change in ASEAN imports from the rest-of-world, denoted ROW, resulting from the introduction of a CET is given by:

[40] Kee, H. L., A. Nicita, and M. Olarreaga, 2004, "Estimating Import Demand Elasticities," Washington, DC: The World Bank.

$$\Delta M_i^{ROW} = \frac{A_i^{ROW}}{[P_i(1+t_i^{CET})]^{\theta}} - \frac{A_i^{ROW}}{[P_i(1+t_i^{I})]^{\theta}} \quad \text{(A.9)}$$

For intra-ASEAN trade, the change in imports is zero since the preferential tariff rate applied to intra-ASEAN trade is the same under the under the CEPT-AFTA as that prior to the introduction of the CET:

$$\Delta M_i^{ASEAN} = \frac{A_i^{ASEAN}}{[P_i(1+t_i^{CEPT})]^{\theta}} - \frac{A_i^{ASEAN}}{[P_i(1+t_i^{I})]^{\theta}} = 0 \quad \text{(A.10)}$$

The change in each ASEAN member's government tariff revenue derived from rest-of-world imports, TR_i^{ROW}, is given as follows:

$$\begin{aligned}\Delta TR_i^{ROW} &= P_i t_i^{CET} M_i^{ROW} - P_i t_i^{I} M_i^{ROW} \\ &= P_i t_i^{CET} \frac{A_i^{ROW}}{[P_i(1+t_i^{CET})]^{\theta}} - P_i t_i^{I} \frac{A_i^{ROW}}{[P_i(1+t_i^{I})]^{\theta}} \\ &= P_i^{1-\theta} A_i^{ROW} \left[\frac{t_i^{CET}}{(1+t_i^{CET})^{\theta}} - \frac{t_i^{I}}{(1+t_i^{I})^{\theta}}\right] \quad \text{(A.11)}\end{aligned}$$

For government tariff revenue from intra-ASEAN imports, TR_i^{ASEAN}, the change is:

$$\Delta TR_i^{ASEAN} = P_i t_i^{CEPT} M_i^{ASEAN} - P_i t_i^{I} M_i^{INTRA} = 0 \quad \text{(A.12)}$$

since CEPT tariffs, t_i^{CEPT} are the same as the initial tariffs, t_i^{I}.

The change in consumer surplus with the non-ASEAN countries, $\Delta TC_{i,ROW}$, resulting from the introduction of the CET is as follows:

$$\begin{aligned}\Delta TC_i^{ROW} &= \int_{P(1+t^{i})}^{P(1+t^{CET})} \frac{A}{P^{\theta}}\, dP = \frac{A_i^{ROW}}{\theta - 1}\left[\frac{1}{[P_i(1+t_i^{CET})]^{\theta-1}} - \frac{1}{[P_i(1+t_i^{I})]^{\theta-1}}\right] \\ &= \frac{A_i^{ROW} P_i^{1-\theta}}{\theta - 1}\left[\frac{1}{(1+t_i^{CET})^{\theta-1}} - \frac{1}{(1+t_i^{I})^{\theta-1}}\right] \quad \text{(A.13)}\end{aligned}$$

and change in consumer surplus with the ASEAN countries, $\Delta TC_{i,ASEAN}$, is given by:

$$\Delta TC_i^{ASEAN} = \frac{A_i^{ROW} P_i^{1-\theta}}{\theta - 1}\left[\frac{1}{(1+t_i^{CEPT})^{\theta-1}} - \frac{1}{(1+t_i^{CEPT})^{\theta-1}}\right] = 0 \quad \text{(A.14)}$$

The total change in welfare is therefore the change in government revenue, ΔTR_i, plus the change in consumer surplus with the non-ASEAN countries, $\Delta TC_{i,ROW}$:

$$\begin{aligned}\Delta W_i &= \left[\frac{1}{(1+t_i^{CET})^{\theta-1}} - \frac{1}{(1+t_i^{I})^{\theta-1}}\right] + \frac{A_i^{ROW} P_i^{1-\theta}}{\theta - 1}\left[\frac{1}{(1+t_i^{CET})^{\theta-1}} - \frac{1}{(1+t_i^{I})^{\theta-1}}\right] \\ &= \left[\frac{1}{(1+t_i^{CET})^{\theta-1}} - \frac{1}{(1+t_i^{I})^{\theta-1}}\right]\left[\frac{A_i^{ROW} P_i^{1-\theta}}{\theta - 1} + 1\right] \quad \text{(A.15)}\end{aligned}$$

ANNEX B: PRODUCT-LINES HAVING SIMILAR TARIFFS APPLIED BY ASEAN MEMBER STATES

Several government authorities of the ASEAN member states have suggested a transition program towards a common external tariff that would initially harmonize tariffs having the greatest similarity among countries. Subsequent harmonization would sequentially include the next most similar tariffs among countries, until eventually all tariffs were included in the coverage. To this end the following table ranks tariffs at the 6-digit HS level according to their standard deviation from the mean. The list is indicative since only the first 115 tariff lines of a total of 5,466 are presented in this annex.

No.	HS Code	Existing Tariff KH	ID	LA	MM	MY	PH	TH	VN	Mean Tariff	Standard Deviation	Description
1	851770	-	-	-	-	-	-	0.5	-	0.06	0.18	Parts of telephone sets, telephones for cellular n
2	851769	-	-	-	-	-	-	0.7	-	0.08	0.24	Apparatus for the transmission or reception of voi
3	845690	-	-	-	-	-	-	1.0	-	0.13	0.35	Machine tools for working any material by removal
4	854310	-	-	-	-	-	-	1.0	-	0.13	0.35	Electrical particle accelerators for electrons, pr
5	880100	-	-	-	-	-	-	1.0	-	0.13	0.35	Balloons and dirigibles; gliders, hang gliders and
6	848610	-	1.4	-	-	-	-	0.9	-	0.29	0.55	Machines and apparatus for the manufacture of boul
7	848620	-	1.7	-	-	-	-	0.8	-	0.30	0.61	Machines and apparatus for the manufacture of semi
8	851762	-	1.9	-	-	-	-	0.2	-	0.26	0.66	Machines for the reception, conversion and transmi
9	848640	-	1.9	-	-	-	-	1.0	-	0.36	0.71	Machines and apparatus specified in Note 9 C to ch
10	848690	-	1.9	-	-	-	-	1.0	-	0.37	0.72	Parts and accessories for machines and apparatus o
11	848630	-	2.5	-	-	-	-	1.0	-	0.44	0.90	Machines and apparatus for the manufacture of flat
12	852359	-	1.7	-	-	-	-	2.2	-	0.48	0.91	Semiconductor media, unrecorded, for the recording
13	852351	-	2.0	-	-	-	-	2.8	-	0.59	1.12	Solid-state, non-volatile data storage devices for
14	851761	-	3.3	-	-	-	-	3.0	-	0.79	1.47	Base stations of apparatus for the transmission or
15	390591	7.0	5.0	5.0	1.5	5.0	3.0	5.0	5.0	4.56	1.64	Copolymers of vinyl, in primary forms (excl. vinyl
16	120921	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Alfalfa seed for sowing
17	120922	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Clover "Trifolium spp" seed, for sowing
18	120923	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Fescue seed for sowing
19	120924	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	"Poa pratensis L." seed for sowing
20	120925	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Ryegrass "Lolium multiflorum lam., Lolium perenne
21	293621	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Vitamins A and their derivatives, used primarily a
22	293622	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Vitamin B1 and its derivatives, used primarily as
23	293623	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Vitamin B2 and its derivatives, used primarily as
24	293624	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	D-Pantothenic or DL-pantothenic acid "Vitamin B3 o
25	293626	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Vitamin B12 and its derivatives, used primarily as
26	293628	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Vitamin E and its derivatives, used primarily as v
27	293629	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Vitamins and their derivatives, used primarily as
28	293690	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Provitamins and mixtures of vitamins, of provitami
29	293712	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Insulin and its salts, used primarily as hormones
30	293721	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Cortisone, hydrocortisone, prednisone "dehydrocort
31	294120	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Streptomycins and their derivatives; salts thereof

32	294190	-	-	5.0	1.0	-	1.0	1.0	-	1.00	1.69	Antibiotics (excl. penicillins and their derivativ
33	120926	-	-	5.0	1.0	-	1.0	-	-	0.88	1.73	
34	120991	-	-	5.0	1.0	-	1.0	-	-	0.88	1.73	Vegetable seeds, for sowing
35	293610	-	-	5.0	1.0	-	1.0	-	-	0.88	1.73	
36	293711	-	-	5.0	1.0	-	2.0	1.0	-	1.13	1.73	Somatropin, its derivatives and structural analogu
37	391000	-	2.5	5.0	1.5	-	1.0	2.5	-	1.56	1.74	Silicones in primary forms
38	010210	-	-	5.0	-	-	1.0	-	-	0.75	1.75	Pure-bred breeding bovines
39	010310	-	-	5.0	-	-	1.0	-	-	0.75	1.75	Pure-bred breeding swine
40	100510	-	-	5.0	-	-	1.0	-	-	0.75	1.75	Maize seed
41	292521	-	5.0	-	-	-	-	1.0	-	0.75	1.75	Chlordimeform "ISO"
42	292529	-	5.0	-	-	-	-	1.0	-	0.75	1.75	Imines and their derivatives; salts thereof (excl.
43	293050	-	5.0	-	-	-	-	1.0	-	0.75	1.75	Captafol "ISO" and methamidophos "ISO"
44	293920	-	5.0	-	-	-	-	1.0	-	0.75	1.75	Alkaloids of cinchona and their derivatives; salts
45	310270	-	-	5.0	-	-	1.0	-	-	0.75	1.75	
46	310320	-	-	5.0	-	-	1.0	-	-	0.75	1.75	
47	310410	-	-	5.0	-	-	1.0	-	-	0.75	1.75	
48	500300	-	5.0	-	-	-	-	1.0	-	0.75	1.75	Silk waste, incl. cocoons unsuitable for reeling,
49	730411	-	5.0	-	-	-	-	1.0	-	0.75	1.75	Line pipe of a kind used for oil or gas pipelines,
50	730419	-	5.0	-	-	-	-	1.0	-	0.75	1.75	Line pipe of a kind used for oil or gas pipelines,
51	540269	7.0	5.0	5.0	2.0	7.5	7.0	5.0	5.0	5.44	1.76	Multiple "folded" or cabled synthetic filament yar
52	250620	-	5.0	-	-	-	-	-	-	0.63	1.77	Quartzite, merely cut, by sawing or otherwise, in
53	285300	-	5.0	-	-	-	-	-	-	0.63	1.77	Inorganic compounds, incl. distilled or conductivi
54	290331	-	5.0	-	-	-	-	-	-	0.63	1.77	Ethylene dibromide "ISO" "1,2-dibromoethane"
55	290339	-	5.0	-	-	-	-	-	-	0.63	1.77	Fluorinated, brominated or iodinated derivatives o
56	290352	-	5.0	-	-	-	-	-	-	0.63	1.77	Aldrin "ISO", chlordane "ISO" and heptachlor "ISO"
57	290811	-	5.0	-	-	-	-	-	-	0.63	1.77	Pentachlorophenol "ISO"
58	290819	-	5.0	-	-	-	-	-	-	0.63	1.77	Derivatives containing only halogen substituents a
59	290891	-	5.0	-	-	-	-	-	-	0.63	1.77	Dinoseb "ISO" and its salts
60	290899	-	5.0	-	-	-	-	-	-	0.63	1.77	Halogenated, sulphonated, nitrated or nitrosated d
61	291040	-	5.0	-	-	-	-	-	-	0.63	1.77	Dieldrin "ISO" "INN"
62	291536	-	5.0	-	-	-	-	-	-	0.63	1.77	Dinoseb acetate "ISO"
63	291636	-	5.0	-	-	-	-	-	-	0.63	1.77	Binapacryl "ISO"
64	291818	-	5.0	-	-	-	-	-	-	0.63	1.77	Chlorobenzilate "ISO"
65	291891	-	5.0	-	-	-	-	-	-	0.63	1.77	2,4,5-T "ISO" "2,4,5-trichlorophenoxyacetic acid",
66	291899	-	5.0	-	-	-	-	-	-	0.63	1.77	Carboxylic acids with additional oxygen function a
67	291910	-	5.0	-	-	-	-	-	-	0.63	1.77	Tris"2,3-dibromopropyl" phosphate
68	291990	-	5.0	-	-	-	-	-	-	0.63	1.77	Phosphoric esters and their salts, incl. lactophos
69	440721	-	-	-	-	-	-	5.0	-	0.63	1.77	Mahogany "Swietenia spp.", sawn or chipped lengthw
70	440722	-	-	-	-	-	-	5.0	-	0.63	1.77	Virola, imbuia and balsa, sawn or chipped lengthwi
71	440727	-	-	-	-	-	-	5.0	-	0.63	1.77	Sapelli, sawn or chipped lengthwise, sliced or pee
72	440728	-	-	-	-	-	-	5.0	-	0.63	1.77	Iroko, sawn or chipped lengthwise, sliced or peele
73	440793	-	-	-	-	-	-	5.0	-	0.63	1.77	Maple "Acer spp.", sawn or chipped lengthwise, sli
74	440794	-	-	-	-	-	-	5.0	-	0.63	1.77	Cherry "Prunus spp.", sawn or chipped lengthwise,
75	440795	-	-	-	-	-	-	5.0	-	0.63	1.77	Ash "Fraxinus spp.", sawn or chipped lengthwise, s

76	440921	-	-	-	-	-	-	5.0	-	0.63	1.77	Bamboo, incl. strips and friezes for parquet floor
77	440929	-	-	-	-	-	-	5.0	-	0.63	1.77	Wood, incl. strips and friezes for parquet floorin
78	681292	-	5.0	-	-	-	-	-	-	0.63	1.77	Paper, millboard and felt of asbestos or of mixtur
79	740100	-	5.0	-	-	-	-	-	-	0.63	1.77	Copper mattes; cement copper "precipitated copper"
80	844399	-	-	-	-	-	-	5.0	-	0.63	1.77	Parts and accessories of printers, copying machine
81	903032	-	5.0	-	-	-	-	-	-	0.63	1.77	Multimeters with recording device
82	903033	-	5.0	-	-	-	-	-	-	0.63	1.77	Instruments and apparatus for measuring or checkin
83	903084	-	5.0	-	-	-	-	-	-	0.63	1.77	Instruments and apparatus for measuring or checkin
84	980300	-	5.0	-	-	-	-	-	-	0.63	1.77	
85	390320	7.0	5.0	5.0	1.5	6.0	3.0	5.0	6.0	4.81	1.77	Styrene-acrylonitrile copolymers "SAN", in primary
86	300210	-	-	5.0	1.0	-	2.5	0.7	-	1.15	1.78	Antisera and other blood fractions and modified im
87	120910	-	-	5.0	1.0	-	3.0	1.0	-	1.25	1.83	Sugar beet seed, for sowing
88	280430	7.0	5.0	5.0	1.0	5.0	3.0	5.0	3.0	4.25	1.83	Nitrogen
89	280440	7.0	5.0	5.0	1.0	5.0	3.0	5.0	3.0	4.25	1.83	Oxygen
90	293722	-	-	5.0	1.0	-	3.0	1.0	-	1.25	1.83	Halogenated derivatives of corticosteroidal hormon
91	293723	-	-	5.0	1.0	-	3.0	1.0	-	1.25	1.83	Oestrogens and progestogens
92	300120	-	-	5.0	1.0	-	3.0	1.0	-	1.25	1.83	Extracts of glands or other organs or of their sec
93	300190	-	-	5.0	1.0	-	3.0	1.0	-	1.25	1.83	Dried glands and other organs for organo-therapeut
94	321410	7.0	5.0	5.0	7.5	5.0	5.0	0.0	5.0	6.19	1.85	Glaziers" putty, grafting putty, resin cements, c
95	321490	7.0	5.0	5.0	7.5	5.0	5.0	0.0	5.0	6.19	1.85	Non-refractory surfacing preparations for facades,
96	390920	3.5	5.0	5.0	1.5	-	4.0	5.0	2.5	3.31	1.85	Melamine resins, in primary forms
97	251690	7.0	5.0	5.0	3.0	5.0	3.0	1.0	3.0	4.00	1.85	Porphyry, basalt and other monumental or building
98	310100	-	2.5	5.0	-	1.4	3.0	-	-	1.49	1.87	Animal or vegetable fertilisers, whether or not mi
99	300110	-	-	5.0	1.0	-	3.0	-	-	1.13	1.89	
100	871390	-	-	5.0	1.5	-	3.0	-	-	1.19	1.89	Carriages for disabled persons, motorised or other
101	902690	-	-	5.0	1.5	-	-	3.0	-	1.19	1.89	Parts and accessories for instruments and apparatu
102	390450	7.0	5.0	5.0	1.5	2.5	3.0	5.0	2.0	3.88	1.90	Vinylidene chloride polymers, in primary forms
103	390940	3.5	5.0	5.0	1.5	-	5.0	5.0	3.0	3.50	1.91	Phenolic resins, in primary forms
104	270400	-	-	5.0	-	-	1.0	-	3.3	1.17	1.94	Coke and semi-coke of coal, of lignite or of peat,
105	391290	2.3	1.7	5.0	1.5	-	3.0	5.0	-	2.31	1.95	Cellulose and chemical derivatives thereof, n.e.s.
106	285200	-	5.0	-	-	-	-	3.3	-	1.04	1.98	Compounds, inorganic or organic, of mercury (excl.
107	380290	7.0	5.0	5.0	1.5	5.0	4.3	5.0	1.0	4.23	2.00	Activated kieselguhr and other activated natural m
108	300630	-	1.3	5.0	1.5	-	1.0	5.0	2.5	2.03	2.00	Opacifying preparations for x-ray examinations; di
109	293790	-	5.0	5.0	1.0	1.7	2.0	1.0	-	1.96	2.00	Hormones, natural or reproduced by synthesis; deri
110	300220	-	3.8	5.0	-	-	1.0	-	-	1.22	2.01	Vaccines for human medicine
111	390330	-	5.0	5.0	1.5	4.0	3.0	5.0	6.0	3.69	2.05	Acrylonitrile-butadiene-styrene copolymers "ABS",
112	010110	-	-	5.0	-	-	4.0	1.0	-	1.25	2.05	Pure-bred breeding horses and asses
113	490199	3.5	-	5.0	-	-	3.7	-	2.5	1.83	2.07	Printed books, brochures and similar printed matte
114	252510	7.0	5.0	5.0	5.0	-	3.0	5.0	3.0	4.13	2.10	Crude mica and mica rifted into sheets or splittin
115	252530	7.0	5.0	5.0	5.0	-	3.0	5.0	3.0	4.13	2.10	Mica waste

ANNEX C: WELFARE EFFECT OF 6.1% CET ON ASEAN MEMBER STATES AT HS 2-DIGIT LEVEL

Table C.1: Impact of Uniform CET Rate of 6.1 Percent on Government Revenue from Non-ASEAN Country Imports

Sub-Heading	Brunei	Cambodia	Indonesia	Laos	Myanmar	Malaysia	Philippines	Singapore	Thailand	Vietnam	Total ASEAN
Total	74,082,852	138,018,980	2,036,870,412	31,020,700	106,702,208	5,214,883,837	2,076,539,764	6,088,004,245	4,851,551,097	1,609,119,132	22,226,793,225
01	81,207	-	351,398	28,861	3,273	740,788	397,003	283,254	1,022,362	145,026	3,053,172
02	189,695	5,633	3,139,651	2,336	3,655	2,462,894	3,495,902	15,890,630	816,067	97,752	26,104,216
03	788,098	139,925	2,080,408	50,264	2,311	23,524,794	3,464,657	15,438,451	78,780,194	9,705,279	133,974,381
04	805,405	295,145	24,818,361	173,696	1,914,325	17,671,719	19,971,170	20,622,201	26,701,423	11,216,463	124,189,909
05	-	1,256	405,349	11	11,138	219,556	93,251	478,680	1,599,221	780,230	3,588,692
06	72,037	197	66,409	18,987	58	253,815	23,017	500,225	273,396	276,796	1,484,938
07	537,182	18,386	10,332,317	10,528	15,690	17,657,173	2,844,867	6,866,787	8,984,010	2,204,326	49,471,266
08	523,198	259,588	18,507,212	22,024	2,167	6,916,996	3,396,754	11,385,092	12,070,307	7,340,445	60,423,784
09	155,636	8,062	1,695,176	1,744	43,256	9,049,448	1,046,759	4,053,643	4,572,439	1,223,527	21,849,689
10	1,285,118	372,681	38,995,060	178,407	92	50,462,185	78,708,736	3,263,012	7,987,860	8,185,082	189,438,234
11	155,322	253,737	6,283,644	85,658	159,748	5,564,102	3,115,445	2,114,374	5,374,693	1,942,558	25,049,282
12	22,859	21,212	1,190,111	25,909	23,957	5,187,056	1,505,781	3,305,219	4,061,143	1,671,975	17,015,223
13	11,867	16,001	1,551,756	1,263	5,711	1,246,993	903,362	816,831	3,049,920	474,422	8,078,128
14	858	0	60,960	1	214	233,279	56,604	100,357	477,502	141,173	1,070,948
15	347,004	300,746	3,856,778	99,574	3,559,778	37,061,905	9,322,286	1,783,012	6,700,376	17,202,261	80,233,718
16	242,643	80,968	726,547	74,802	250	3,225,975	512,463	6,513,327	2,302,346	189,021	13,868,342
17	328,995	1,540,676	25,629,802	317,276	20,198	14,563,315	6,637,582	8,647,368	3,198,604	11,774,227	72,658,042
18	203,888	1,919	1,702,898	1,396	2,793	3,083,091	1,565,355	5,451,960	2,498,080	487,045	14,998,424
19	1,030,355	892,071	4,085,971	201,569	366,153	16,037,328	8,902,960	4,044,093	14,033,418	12,767,764	62,361,681
20	438,218	78,679	2,270,108	8,846	3,697	4,806,592	2,880,617	5,594,333	8,533,916	629,991	25,244,998
21	736,008	417,498	10,972,457	237,858	662,367	15,502,498	13,550,601	10,426,168	12,878,799	4,252,422	69,636,676
22	1,272,458	262,139	2,647,053	100,802	65,254	8,224,597	4,339,699	51,814,165	16,694,676	2,997,074	88,417,915
23	1,529,841	1,761,988	29,283,654	345,488	70,493	9,725,937	7,531,617	1,554,870	18,715,119	13,596,374	84,115,382
24	629,391	4,400,925	12,529,731	109,276	2,657,850	11,525,122	9,695,694	11,162,777	40,434,415	23,590,444	116,735,626
25	3,265,734	5,249,726	14,706,242	780,590	1,238,844	15,521,017	2,817,580	6,641,949	5,525,757	11,848,472	67,595,910
26	1,337	-	11,875,120	-	7,718	14,531,810	4,606,586	413,568	1,249,442	123,875	32,809,456
27	1,429,749	12,885,898	12,744,966	10,903,879	27,371,585	333,191,647	33,969,316	863,199,948	155,068,533	252,540,298	1,703,305,819
28	575,323	388,556	29,008,555	242,460	560,477	38,445,918	13,628,551	32,629,637	46,305,051	11,943,028	173,727,555
29	920,853	985,227	171,930,785	177,069	590,390	112,689,277	32,692,241	188,499,604	199,608,734	29,909,040	738,003,219
30	1,796,308	3,270,527	12,999,711	320,728	2,324,267	30,857,084	24,227,793	70,626,549	46,720,860	21,863,262	215,007,088
31	316,534	840,024	28,366,186	113,605	359,026	35,718,560	14,487,289	453,382	51,514,330	24,088,805	156,257,741
32	521,537	524,226	23,543,950	230,738	461,006	30,997,702	8,004,550	38,105,706	41,612,737	13,427,384	157,429,537
33	582,636	827,553	31,383,951	323,843	359,981	24,256,209	14,004,531	46,953,855	29,381,522	11,363,461	159,437,541
34	513,765	943,485	17,307,233	239,886	393,896	16,770,295	7,870,292	12,330,993	24,456,338	6,483,517	87,309,700
35	67,122	205,660	6,679,418	56,175	183,662	6,275,090	5,051,387	9,292,329	6,924,690	4,032,130	38,767,662
36	23,122	3,006	134,608	2,271	253	127,631	19,850	854,881	524,625	18,944	1,709,191
37	60,295	36,929	4,275,432	2,255	132,471	6,507,468	2,961,967	36,081,381	10,483,436	3,149,847	63,691,482
38	384,814	234,922	27,921,314	23,362	545,261	23,964,985	12,834,100	49,662,557	43,043,171	22,161,569	180,776,056
39	1,624,787	3,884,843	106,873,614	1,045,272	6,225,759	277,326,122	73,363,441	144,050,354	271,669,785	103,093,801	989,157,778
40	410,408	1,326,131	39,667,515	423,710	1,390,698	76,435,897	11,484,533	33,200,604	57,208,107	26,192,922	247,740,526
41	70	33	3,607,713	3	201	513,283	2,430,469	1,436,169	313,187	190,249	8,491,377
42	249,646	110,372	2,584,175	16,220	32,314	3,443,473	1,630,547	20,585,350	8,727,708	500,042	37,879,847

43	68	13	3,924	-	982	85,553	6,364	39,879	201,000	435,389	773,172
44	250,317	61,791	10,154,514	8,844	55,155	17,994,233	10,756,529	3,421,696	26,937,082	23,430,984	93,071,145
45	999	5,630	67,160	3,633	1,034	40,224	45,724	45,013	157,717	44,322	411,455
46	10,832	1,972	89,890	3,797	2,708	219,358	20,561	176,653	195,362	136,097	857,232
47	262	1,097	34,136,804	5,251	78,625	10,798,405	3,197,807	913,392	22,600,350	4,762,318	76,494,313
48	1,137,105	3,269,243	28,172,596	229,747	2,393,016	40,504,909	27,360,776	17,688,900	35,865,759	18,866,159	175,488,209
49	2,362,541	156,544	1,673,716	11,773	29,423	10,431,929	4,090,947	16,686,418	7,220,913	2,701,724	45,365,925
50	117,453	6,760	24,731	29,423	12,360	747,605	129,726	1,601,782	213,179	2,945,852	5,828,872
51	2,846	307,259	612,623	92	42,458	707,729	1,604,540	467,108	3,123,592	804,306	7,672,552
52	2,027,878	3,350,669	10,034,365	141,001	637,600	13,100,747	16,185,495	3,788,069	19,099,982	36,568,281	104,934,087
53	307	509	377,848	1,413	1	121,025	431,685	78,397	1,605,334	401,774	3,018,294
54	42,170	605,182	15,946,402	41,625	930,188	11,071,731	6,736,999	2,644,786	23,445,968	16,530,533	77,995,583
55	80,533	25,555,795	13,952,111	22,676	12,179,422	11,396,610	11,675,232	6,163,624	16,929,896	69,366,477	167,322,377
56	74,267	209,672	1,333,126	73,013	391,961	2,315,233	1,003,465	3,091,448	3,058,871	6,794,005	18,345,060
57	102,901	5,638	516,494	2,572	86,739	1,901,548	239,516	2,897,175	521,731	893,274	7,167,588
58	686,534	4,539,080	1,573,971	955	1,248,407	3,017,155	5,033,454	3,942,565	8,421,592	18,020,275	46,483,988
59	25,650	1,301,059	6,639,870	10,881	162,995	4,417,822	2,840,162	4,585,824	12,475,713	8,548,904	41,008,880
60	4,962	6,728	4,095,009	6	9,337	8,147,415	22,444,330	885,623	2,317,058	6,967,025	44,877,493
61	733,403	349,153	1,942,935	34,110	18,806	7,836,322	2,712,946	41,701,991	8,678,502	1,962,099	65,970,268
62	734,036	7,813,797	2,439,817	69,521	41,059	12,886,006	2,978,300	41,600,039	16,133,326	6,884,599	91,580,500
63	184,424	97,157	1,264,150	91,241	11,649	5,108,916	1,052,415	5,763,395	4,980,735	543,810	19,097,890
64	316,531	294,247	4,866,032	86,238	183,797	6,639,325	3,208,727	11,275,663	8,983,789	8,966,634	44,820,984
65	19,853	10,383	532,864	2,905	21,134	206,285	117,075	629,068	338,483	56,088	1,934,136
66	9,200	8,208	542,485	2,111	19,786	97,986	209,784	359,229	397,511	12,912	1,659,212
67	14,842	4,774	293,904	116	-	76,599	64,208	146,094	259,516	61,408	921,461
68	603,681	378,272	4,936,642	278,501	283,484	13,782,703	2,065,747	10,070,350	10,417,217	5,935,117	48,751,714
69	637,638	1,558,399	7,901,316	211,175	262,965	9,237,883	4,496,587	5,991,844	17,305,050	3,836,802	51,439,658
70	307,092	357,071	3,886,362	94,867	429,795	17,952,116	2,903,655	11,283,811	15,399,970	7,376,267	59,991,006
71	19,639	114,359	156,520	27	-	89,410,867	12,870,249	49,848,686	71,959,337	1,781,630	226,161,314
72	2,258,037	1,477,590	93,806,205	497,790	2,153,841	143,983,345	32,047,440	73,016,956	242,860,024	74,798,688	666,899,915
73	5,605,863	1,429,177	66,749,049	530,385	3,451,574	208,228,018	20,748,975	127,593,635	213,405,784	42,929,733	690,672,195
74	319,825	301,120	9,803,444	22,673	78,637	117,304,610	21,947,225	66,991,679	133,722,713	21,751,365	372,243,292
75	8,903	-	759,875	466	6	2,057,086	219,362	12,567,416	4,165,781	346,608	20,125,503
76	442,250	2,162,156	25,496,151	105,456	544,321	69,562,718	9,795,305	79,708,734	73,024,646	14,251,671	275,093,408
78	3,838	7,217	4,218,278	5	16,141	3,805,687	496,393	10,156,042	5,768,650	754,018	25,226,268
79	10,504	179,560	12,527,964	77,081	83,851	9,126,493	2,964,956	14,772,967	5,659,610	2,656,734	48,059,721
80	381	6,895	394,894	23	51,879	9,127,107	377,498	1,620,869	10,290,922	184,771	22,055,238
81	1,671	74	724,661	92	105	7,144,821	392,743	3,777,064	2,770,721	314,063	15,126,014
82	1,149,674	115,875	8,990,185	71,027	106,883	22,930,558	1,744,826	44,126,343	38,285,658	4,422,204	121,943,235
83	284,605	715,269	9,192,185	4,688,705	196,852	23,441,042	5,310,759	14,439,116	18,051,574	6,967,207	83,287,314
84	9,534,126	12,191,331	379,968,744	1,701,712	13,807,965	924,442,331	324,630,837	1,374,722,654	940,850,724	237,840,676	4,219,691,099
85	5,744,079	4,895,734	152,316,225	539,601	3,315,111	1,470,591,562	819,201,242	1,337,932,265	983,881,002	132,744,677	4,911,161,498
86	30,171	3,615	1,989,384	5,581	238,506	4,221,383	4,720,224	4,569,952	592,553	1,367,162	17,738,533
87	8,940,067	15,941,591	172,198,376	3,893,243	4,585,269	220,813,609	143,808,338	190,744,109	300,797,091	78,361,469	1,140,083,163
88	1,389,336	21,259	55,186,866	79,579	560,371	88,346,215	31,373,767	333,713,673	58,795,331	94,652	569,561,050
89	23,955	212,572	83,803,048	98	4,566,643	43,176,791	2,856,212	41,071,313	12,028,198	4,165,239	191,904,069
90	1,678,723	1,192,857	28,048,491	272,844	1,027,420	188,344,366	41,578,189	295,116,845	141,707,965	35,077,222	734,044,923
91	-	-	-	-	-	-	-	-	-	-	-
92	28,447	6,804	2,245,797	642	8,034	1,968,633	328,750	3,169,399	1,847,518	718,715	10,322,739
93	-	6,582	453,287	-	-	1,127,958	519,361	393,350	1,310,407	151,757	3,962,703
94	1,261,751	815,411	8,691,101	55,000	306,128	24,692,163	6,283,229	26,545,511	18,261,561	7,533,122	94,444,978
95	416,887	172,967	5,615,413	14,122	49,705	9,183,376	4,513,942	27,700,979	9,896,338	1,806,491	59,370,221
96	310,471	2,946,307	6,729,311	8,420	245,844	8,489,103	4,149,981	8,635,200	12,233,490	8,423,501	52,171,630

Table C.2: Impact of Uniform CET Rate of 6.1 Percent on Consumer Welfare from Non-ASEAN Country Imports

Sub-Heading	Brunei	Cambodia	Indonesia	Laos	Myanmar	Malaysia	Philippines	Singapore	Thailand	Vietnam	Total ASEAN
Total	11,530,529,654	12,596,616,557	1,687,004,114,649	2,882,976,506	21,287,722,191	4,622,872,980,351	469,243,504,565	7,585,233,535,903	3,545,015,888,865	596,337,735,988	18,554,005,605,228
01	16,436,173	-	127,208,854	400,275	48,345	192,150,314	124,968,035	(15,720,249)	70,904,235	37,762,735	554,158,717
02	2,132,037	792,590	(238,737,777)	18,786	32,641	(188,390,126)	(304,110,994)	(369,737,388)	(37,773,126)	(3,501,309)	(1,139,274,666)
03	179,967,791	26,780,867	123,218,598	9,976,590	5,304,143	5,387,850,133	(93,099,056)	3,649,846,408	(1,415,465,072)	(117,485,312)	7,756,895,091
04	(60,257,699)	(3,113,218)	(2,125,688,124)	(11,574,993)	(3,861,230)	(852,867,828)	(204,052,782)	(85,765,204)	(842,365,790)	(1,053,063,707)	(5,242,610,575)
05	-	(105,651)	37,675,060	216	(888,662)	(9,178,613)	(2,311,502)	11,241,064	18,845,592	(32,334,912)	22,942,593
06	(44,988,785)	4,999	(5,606,739)	(1,613,972)	(7,613)	(7,833,494)	(897,191)	14,122,740	(19,892,409)	(2,957,329)	(69,669,793)
07	(13,615,474)	(1,126,120)	293,401,648	(82,223)	336,669	66,381,590	(34,115,356)	(76,134,012)	(6,503,455)	30,026,819	258,570,087
08	10,335,763,507	10,418,462,439	576,542,740,692	1,202,871,460	28,541,721	131,891,872,725	164,649,784,883	231,668,254,584	516,998,439,813	130,829,585,449	1,774,566,317,273
09	32,745,743	136,469	(15,000,643)	106,498	311,803	319,282,814	(65,949,908)	232,152,533	145,564,627	53,411,005	702,760,941
10	37,177,841	4,717,623	6,008,310,976	5,120,967	898	3,202,437,868	2,716,416,909	90,345,049	407,868,402	1,257,798,340	13,730,194,874
11	(20,348,036)	(50,670,249)	(357,042,766)	(7,523,421)	(6,075,533)	(348,345,240)	(309,885,866)	(500,705,244)	(907,314,028)	(249,995,279)	(2,757,905,662)
12	(5,052,101)	326,570	(560,361,075)	1,166,624	(5,336,716)	(46,368,812)	(496,102,089)	(358,986,502)	(1,646,069,504)	(339,998,182)	(3,456,781,787)
13	2,505,670	(56,535,075)	13,035,049	(3,338,992)	(16,624,716)	(214,806,244)	(110,176,090)	90,575,892	(2,098,524,778)	(501,656,430)	(2,895,545,714)
14	35,640	1	1,748,249	17	5,889	6,614,437	2,335,470	2,781,026	(27,543,985)	5,885,319	(8,137,937)
15	10,270,992	5,842,329	203,394,809	4,463,840	106,877,597	(21,547,558,969)	294,670,140	(42,411,754)	213,496,260	360,531,092	(20,390,423,662)
16	(8,763,292)	(2,313,797)	(57,429,531)	4,344,687	(75,522)	77,771,813	(159,643,951)	(789,813,332)	(159,775,952)	(14,725,803)	(1,110,424,680)
17	(112,381,788)	(108,410,803)	(3,395,911,597)	(50,064,722)	(704,357)	(1,052,626,631)	(1,182,254,163)	(2,371,586,820)	(1,068,947,141)	(667,953,735)	(10,010,841,756)
18	(84,427,706)	(41,159)	(546,874,185)	(96,628)	423,224	(1,399,479,628)	(586,164,070)	(2,130,040,104)	(844,771,389)	(224,321,331)	(5,815,792,976)
19	73,857,092	29,834,022	81,573,383	17,588,937	66,148,957	1,334,990,834	238,791,938	275,630,957	1,102,073,947	503,540,411	3,724,030,479
20	12,410,944	18,222,012	326,581,386	3,269,602	1,673,239	523,155,976	349,278,025	156,766,897	686,671,552	140,839,267	2,218,868,900
21	(76,408,855)	(49,589,015)	(1,462,069,399)	(25,666,257)	(73,659,490)	(2,254,779,466)	(1,784,858,413)	(1,230,325,778)	(1,635,156,347)	(554,093,733)	(9,146,606,753)
22	45,275,959	38,901,070	89,482,580	2,946,192	11,739,792	491,595,375	91,615,043	3,462,858,436	863,859,670	209,926,306	5,308,200,424
23	104,234,268	126,159,808	895,659,901	24,357,243	4,687,606	68,897,489	310,519,016	24,315,407	742,737,831	8,954,432	2,310,523,001
24	3,372,971	(15,224,379)	43,356,447	1,706,968	15,277,541	20,732,198	213,899,690	90,945,645	273,007,624	24,932,136	672,006,841
25	61,850,258	46,402,185	479,577,917	6,670,120	8,008,704	385,706,263	128,368,072	169,483,062	418,505,708	244,577,800	1,949,150,088
26	6,873	-	54,716,372	-	109,692	(423,273,244)	29,761,815	2,372,775	6,578,200	(11,138,726)	(340,866,243)
27	100,861,994	136,611,395	2,037,649,105	116,687,130	511,372,453	2,777,603,534	92,886,975	10,481,671,582	3,165,842,300	4,516,568,742	23,937,755,210
28	(23,114,210)	(55,326,392)	716,450,560,023	1,319,512,550	19,207,982,114	3,933,577,700,387	170,815,892,068	7,113,580,191,185	2,547,227,506,252	353,753,392,575	14,855,854,296,554
29	(4,968,810)	66,450,295	272,861,018	6,710,963	179,051,931	5,315,000,060	504,702,553	8,655,857,323	9,500,783,002	2,982,860,031	27,479,308,366
30	742,221,741	804,751,512	2,676,207,012	(116,159,605)	1,092,392,873	9,684,330,788	5,486,325,760	24,358,994,969	14,619,487,012	5,777,577,504	65,126,129,565
31	(8,351,991)	(17,108,618)	(259,216,744)	(4,813,014)	(4,557,175)	282,640,062	(1,292,316,342)	15,084,042	(5,673,575,239)	(1,181,957,197)	(8,144,172,216)
32	20,645,704	(4,717,801)	(141,179,271)	12,050,574	9,679,911	1,443,850,045	339,133,448	519,309,175	1,634,004,749	529,048,037	4,361,824,570
33	(83,234,421)	(234,027,741)	2,415,125,471	(84,355,437)	(37,832,720)	386,436,095	(237,392,866)	3,758,385,865	3,143,196,836	1,129,939,704	10,156,240,787
34	(9,724,997)	(138,936,441)	1,653,278,874	(44,797,955)	(123,429,566)	806,544,779	(700,437,562)	199,515,945	2,228,702,453	571,193,367	4,441,908,896
35	11,396,157	26,064,463	689,753,265	13,314,815	25,628,470	776,393,674	600,584,208	1,419,177,862	1,490,709,464	564,160,077	5,617,182,454
36	780,230	116,675	7,062,962	310,164	7,887	4,955,339	1,525,024	59,055,680	28,508,787	1,435,091	103,757,838
37	21,645,187	14,692,411	1,780,924,931	2,469,709	26,060,567	2,415,599,140	1,505,552,990	9,315,193,536	3,388,952,115	1,718,172,322	20,189,262,905
38	(7,017,965)	(93,401,530)	4,575,497,755	(5,732,583)	(124,669,287)	6,000,325,890	452,356,111	5,344,717,544	2,472,130,376	(2,909,429,729)	15,704,776,584
39	156,192,961	516,485,969	7,667,449,473	(45,508,335)	561,735,602	28,873,389,599	8,028,584,284	14,245,111,963	26,145,271,901	7,998,043,980	94,146,757,397
40	50,820,053	80,542,324	(2,042,890,388)	23,657,936	135,800,924	(9,089,982,224)	(240,024,154)	1,497,244,805	(753,070,539)	(1,605,816,037)	(11,943,717,299)
41	(6,526)	(3,390)	98,978,069	(312)	(18,477)	(47,052,816)	(1,706,784)	2,964,847	(15,679,331)	385,887	37,861,165
42	12,815,131	2,044,932	189,280,378	1,760,191	(666,551)	202,521,495	93,470,607	2,686,548,961	662,407,451	28,081,709	3,878,264,304
43	3,122	362	49,478	-	8,546	1,958,227	225,876	1,239,425	4,697,085	12,972,257	21,154,379
44	(7,093,446)	(1,692,824)	153,210,037	(512,081)	631,810	(307,192,907)	125,165,409	(158,428,443)	486,074,312	836,213,717	1,126,375,584
45	(38,435)	1,165,108	11,701,201	(688,926)	462,261	(4,119,769)	(10,434,828)	(3,952,750)	24,510,580	(8,944,012)	9,660,431
46	(651,055)	(310,616)	(5,902,803)	41,074	(344,290)	(15,487,671)	(757,386)	(13,266,221)	(15,780,624)	(15,890,826)	(68,350,418)

47	792	98,784	3,397,343,703	(729,603)	2,368,623	3,137,702,377	170,843,148	292,265,426	1,098,363,011	520,811,939	8,619,068,201
48	74,293,681	284,689,184	(67,155,981)	17,665,253	301,194,345	4,729,669,904	3,152,557,021	1,966,982,653	5,209,028,976	2,363,167,354	18,032,092,389
49	(694,075,341)	6,282,890	218,601,368	1,546,709	880,153	3,759,523,136	1,690,006,046	4,901,316,952	1,281,623,769	938,805,549	12,104,511,231
50	5,552,633	412,239	1,210,179	1,337,085	355,762	24,037,453	5,249,097	63,510,925	7,872,469	131,753,202	241,291,042
51	92,029	20,232,724	6,100,669	10,381	4,322,230	3,708,642	42,835,807	21,667,182	(25,643,789)	5,676,870	79,002,745
52	1,491,433,214	(299,188,863)	2,430,014,404	2,532,418	7,071,319	3,759,758,760	817,550,001	218,679,588	2,127,680,998	1,375,222,446	11,930,754,285
53	(929)	12,683	1,140,228	161,190	5	21,350,174	16,163,596	9,519,466	25,068,580	11,497,845	84,912,837
54	1,108,973	(10,079,648)	629,594,963	(1,823,849)	42,140,384	(12,889,348)	37,702,176	104,743,099	(87,304,920)	753,821,195	1,457,013,025
55	(4,889,377)	404,955,016	694,590,046	234,455	(57,596,049)	765,110,781	568,823,633	71,750,541	650,014,660	2,040,669,811	5,133,663,517
56	1,389,968	1,608,754	1,440,050,610	(5,679,435)	(12,757,909)	481,660,552	793,074,722	2,427,271,314	1,310,791,641	693,478,106	7,130,888,322
57	2,488,998	145,992	29,029,426	40,370	4,899,354	83,877,592	7,448,815	78,767,995	23,266,508	27,510,979	257,476,030
58	(18,396,816)	89,120,704	(55,245,472)	56,078	(123,798,449)	(85,642,643)	(732,168,612)	(216,217,180)	(907,143,839)	(545,079,217)	(2,594,515,444)
59	1,640,371	13,256,730	(478,196,302)	792,926	(32,010,151)	4,404,261,963	191,300,864	2,380,277,509	3,115,439,459	654,767,314	10,251,530,683
60	191,287	877,016	277,579,941	150	194,186	324,104,071	515,488,844	24,206,162	276,851,091	86,268,762	1,505,761,511
61	(401,633,697)	(42,593,632)	(564,455,668)	1,376,177	(3,007,767)	(2,000,282,111)	(128,561,252)	(14,617,266,544)	(1,363,921,368)	41,168,698	(19,079,177,163)
62	3,652,457	56,154,059	24,327,566	144,777	1,569,071	222,710,133	169,299,319	(93,738,959)	506,496,208	236,622,882	1,127,237,514
63	13,274,293	17,945,160	67,242,929	7,387,534	351,000	431,856,165	179,584,996	711,439,944	1,168,729,246	65,760,014	2,663,571,281
64	28,604,187	2,201,407	118,313,091	822,592	5,320,099	1,256,279,709	288,185,597	1,281,848,900	856,290,297	226,476,714	4,064,342,593
65	(3,229,517)	(5,140,221)	(241,665,932)	(1,315,473)	905,693	(17,690,412)	(29,734,734)	(163,501,767)	(20,856,021)	(22,947,078)	(505,175,463)
66	492,565	343,859	28,961,235	154,542	880,236	5,223,577	9,493,583	24,244,454	25,880,389	829,791	96,504,231
67	1,052,191	253,798	9,380,671	8,917	-	5,556,517	3,803,982	9,554,177	12,835,548	3,465,664	45,911,464
68	(39,902,812)	(5,421,767)	992,434,669	(32,221,064)	(26,606,070)	(209,808,955)	94,401,147	1,178,199,846	1,586,734,754	394,509,712	3,932,319,459
69	70,089,112	928,396,657	793,029,147	7,487,959	97,589,298	(4,669,273,827)	1,877,713,020	23,406,763	(8,176,968,618)	(155,186,718)	(9,203,717,206)
70	40,419,299	43,059,290	605,670,207	8,808,145	35,011,206	2,136,216,941	326,545,133	877,948,608	1,768,889,995	942,852,281	6,785,421,104
71	516,327	5,761,592	4,522,770	673	-	4,444,835,867	642,108,935	1,842,506,449	1,290,326,967	60,541,045	8,291,120,625
72	24,048,952	(20,650,497)	538,014,361	19,072,856	(448,455,216)	(5,949,161,356)	1,785,307,347	2,672,916,458	(25,213,702,441)	145,900,434	(26,446,709,101)
73	617,802,595	(56,267,793)	(2,917,419,765)	(11,247,374)	(136,870,411)	(3,885,387,212)	(376,618,890)	(2,007,588,202)	(6,426,198,402)	776,837,032	(14,422,958,423)
74	8,959,710	1,232,399	1,679,451,367	11,417,756	3,590,195	8,918,830,906	1,661,615,877	6,122,107,353	9,071,394,582	436,593,187	27,915,193,333
75	214,913	-	38,871,230	28,303	135	809,761	(5,367,624)	(702,208,157)	(275,440,318)	7,784,694	(935,307,062)
76	4,946,088	49,332,764	272,158,711	3,097,574	(20,109,678)	13,550,958,446	838,542,488	2,836,010,269	3,803,432,592	471,361,855	21,809,731,109
78	(111,810)	93,268	276,482,148	111	675,742	236,207,063	8,074,898	659,080,602	438,619,376	9,606,031	1,628,727,429
79	(2,457,433)	6,518,360	467,950,928	(14,926,374)	3,838,852	352,925,072	125,371,076	546,669,840	199,748,973	137,969,768	1,823,609,062
80	(31,826)	241,057	7,096,105	263	549,081	208,362,311	10,052,353	49,912,087	347,402,766	10,133,343	633,717,540
81	(357,227)	(32,359)	(298,242,575)	4,550	(14,878)	(22,938,526)	(4,103,430)	7,622,969	(189,518,994)	(15,198,241)	(522,778,711)
82	(711,557,781)	52,160,089	1,847,808,084	(4,354,507)	(16,681,770)	2,363,977,559	309,033,170	8,631,322,239	5,832,196,273	922,006,517	19,225,909,874
83	(1,904,871,979)	(320,893,780)	(20,433,940,178)	73,798,716	(724,627,271)	(34,403,485,054)	(24,240,932,733)	(53,666,502,498)	(99,852,179,051)	(9,818,564,964)	(245,292,198,791)
84	(860,088,356)	(2,311,432,387)	320,808,982,075	65,634,471	267,905,590	295,370,452,449	80,722,710,584	132,295,541,749	300,338,084,555	47,031,772,590	1,173,729,563,321
85	393,345,115	220,217,750	17,177,390,179	68,283,344	412,890,028	126,179,629,976	31,878,276,591	103,613,584,732	107,559,172,893	15,973,700,996	403,476,491,604
86	2,822,663	(41,408)	(1,534,756,136)	237,391	(334,082,517)	(1,484,601,554)	(506,877,855)	(1,847,122,826)	(298,898,632)	(25,634,871)	(6,028,955,746)
87	2,215,147,052	1,279,159,618	28,025,518,541	122,800,709	110,076,591	43,761,379,027	8,205,844,959	24,823,720,092	46,910,697,692	5,908,746,585	161,363,090,868
88	(878,394,536)	466,333	1,740,013,920	(41,485,184)	5,156,558	(4,060,141,037)	(4,416,204,523)	(121,629,855,013)	(10,103,410,682)	(54,601,526)	(139,438,455,691)
89	576,502	(12,928,057)	(1,904,297,427)	12,086	31,520,749	(147,366,262)	(17,984,891)	865,643,306	8,351,620	20,792,621	(1,155,679,752)
90	253,628,384	203,512,851	9,476,001,903	194,914,620	211,268,379	48,899,635,302	11,065,124,856	39,433,620,153	71,956,030,163	16,047,596,261	197,741,332,873
91	-	-	-	-	-	-	-	-	-	-	-
92	4,172,550	891,493	341,813,746	58,460	2,737,636	492,015,795	84,216,521	327,377,002	242,477,172	79,956,117	1,575,716,492
93	-	53,214	(20,577,524)	-	-	(26,777,455)	(39,304,408)	(703,976)	(318,264,688)	(35,138,878)	(440,713,715)
94	206,077,338	109,681,584	1,412,487,240	1,427,061	35,734,750	2,895,232,441	863,290,526	4,915,614,561	1,638,092,522	789,393,070	12,867,031,094
95	46,006,421	35,422,040	1,485,780,213	170,821	(1,000,512)	342,666,051	46,367,118	389,229,813	54,533,400	(372,836,067)	2,026,339,298
96	71,507,982	313,642,001	3,367,749,105	6,237,273	32,751,685	7,568,554,365	1,157,232,677	5,543,076,466	6,529,792,053	2,404,541,747	26,995,085,353

ANNEX D
MEETINGS HELD WITH REPRESENTATIVES OF ASEAN MEMBER STATES

Brunei	Mr. Nazmi, Deputy Permanent Secretary Mr. Vincent Kong, Director, Trade Development Ms. Tutiaty Wahab; Ms. Noramali Jumat Ministry of Foreign Affairs and Trade
Cambodia	Mr. Uy Sambath, Director, Min of Economy and Finance Ms. Bun Neary, Deputy Director, Min of Economy and Finance
Indonesia	Mr. Hotman Sitanggang Ministry of Trade of Indonesia
Lao PDR	Mr. Khampoun Inpenglasabout, Director for International Cooperation Division Customs Department, Ministry of Finance
Malaysia	Ms. Jaysiwanta Kaur, Director, Ministry of International Trade and Industry Mr. Norman Peter, Principal Assistant Director, Min of International Trade and Industry Representative from Ministry of Primary Commodity and Industry
Philippines	Representative from Dept of Trade Industry-Bureau of International Trade Relations; Representative from Bureau of Customs
Singapore	Ms. Venetta Miranda Ms. Karen Yeo Meng Keow Ministry of Trade and Industry
Thailand	Mrs. Pongwaiai Puapan Min of Commerce Representatives from Ministry of Finance
Vietnam	Ms. Nguyen Thi Hong Thuy, Director Min of Industry and Trade Representative from Min of Finance