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Comparative Study of ASEAN Tariff Profiles

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Comparative Study of ASEAN Tariff Profiles

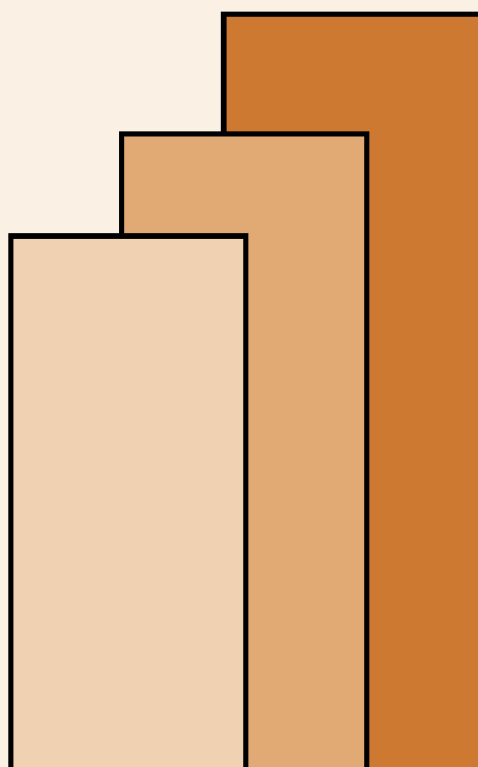
Chulia J. Azarcon

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PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES
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**TARIFF FRAMEWORK FOR MORE EFFICIENT,
GLOBALLY COMPETITIVE PHILIPPINE ECONOMY**

**COMPARATIVE STUDY
OF
ASEAN TARIFF PROFILES**

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CJA Consultants, Inc.

FINAL REPORT
22 September 1997

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COMPARATIVE TARIFF POLICIES OF ASEAN MEMBER COUNTRIES

EXECUTIVE SUMMARY

Dramatic changes have taken place in ASEAN tariff policy over the last decade. Notable advances were made in reducing the general or most favored nation (MFN) tariffs through commitments made under the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) multilateral trade negotiations. More significant gains, however, were achieved through unilateral actions of individual economies in the region, moving towards more liberalized and outward looking trade regimes.

This study forms part of a broader analysis of the impact of the Tariff Reforms of 1995 on Philippine industries, specifically the adoption of the uniform 5% tariff by the year 2000. The analysis of ASEAN tariff profiles is envisioned to arm policymakers and industry leaders with a more informed basis for assessing the competitiveness of Philippine products in the ASEAN region and vis-a-vis the rest of the world.

This study tracks the changes in the tariff structure of ASEAN countries since the 1980s, based on the latest available customs tariff schedules of seven ASEAN member countries. The tariff regimes in ASEAN were compared along four dimensions: (i) average tariff levels over time; (ii) degree of dispersion, as measured by standard deviation; (iii) simplicity and transparency, as measured by the range of tariffs, number of rate levels, prevalence of non ad valorem based rates and (iv) notable exceptions or use of peak rates. The study also looked into the preferential rates adopted by each country under the Common Effective Preferential Tariff (CEPT) Program in comparison to the MFN rate. Sectoral profiles of the CEPT rates were likewise constructed.

The study confirms that average MFN tariffs in ASEAN have declined substantially in the last decade. Average MFN rates in ASEAN have declined by as much as 51% since 1986. The overall average MFN tariff in ASEAN is below 10% (9.9%), but there continues to be a wide disparity in the tariff structures of ASEAN member countries.

- Singapore's tariff system is virtually duty free, with very few exceptions.
- Brunei's average tariff is lower than 5%, with fairly limited dispersion; its modal rate is 0%.
- At the other extreme is Thailand whose tariff rates are the highest for most sectors and the most widely dispersed. Its average tariff (19.2%) is double that of the regional average. It is also the one that relies most heavily on non ad valorem based rates, levying specific or alternative duties on 1,970 of its tariff lines.
- The Philippines and Indonesia have about the same level of average tariffs of close to 12%, but still slightly higher than the overall ASEAN average. However, tariffs are more widely dispersed in the Philippines than in Indonesia.
- Malaysia has relatively low average tariffs (7.6%), although this figure does not take into account the impact of specific or compound rates which are used widely for selected subsectors. The actual average could be higher if one were to estimate the ad valorem equivalents of the 523 tariff lines bearing specific or compound rates instead of ad valorem rates.
- The tariff structure of Vietnam, although amended in 1992 and again in 1993, still follows the pattern of highly escalated tariffs commonly used in the 1970s. Negligible tariffs are imposed on capital equipment and raw materials while high tariffs of from 50% to 100% are applied on selected final goods. The average MFN tariff is estimated at 12.1%.

Sectoral averages were also constructed and compared across countries. The study showed that high tariff rates were applied to consumer goods such as Footwear, Textiles and Garments, Furniture and Processed Food. Sector by sector comparisons revealed that rates are generally higher in Thailand, followed by Philippines and Indonesia.

Tariff regimes adopted by each of the ASEAN countries for the following industry clusters were also compared: Food Processing; Textiles and Garments; Leather and Footwear; Motor Vehicles and Transport Equipment. The subsectors bearing the highest CEPT rates were Textiles & Garments, Plastics & Rubber, and Leather and Leather Products.

The diversity in tariff structure and underlying policy poses a problem in the formation of the ASEAN Free Trade Area (AFTA). The use of margins of preference (MOP) under the ASEAN Preferential Trading Arrangements (PTA) was a first attempt to bring ASEAN tariffs closer to a common base. The adoption of the CEPT could be the answer to the full realization of AFTA. The process is far from over, however, as a number of problems remain. The impact of the exclusion lists and the continued existence of non-tariff barriers such as import licensing, export quotas, and quantitative restrictions may also have a negative effect on future trade liberalization efforts. The steady movement toward trade liberalization in most countries in the region augurs well for the steady progress of ASEAN economic cooperation.

Policy implications for the Philippines are examined in the light of the continued protectionist trend in some ASEAN countries. Closer coordination between Government and the private sector in reducing general tariffs and the drawing up of policy guidelines for CEPT concessions may go a long way in ensuring the sustainability of the country's trade reforms.

COMPARATIVE TARIFF POLICIES OF ASEAN MEMBER COUNTRIES

I. Introduction

A number of significant events have led to dramatic changes in the ASEAN trading environment, notably the conclusion of the GATT Uruguay Round of Multilateral Trade Negotiations and the establishment of the ASEAN Free Trade Agreement (AFTA). Significant advances have been made in reducing tariffs among ASEAN member states under the Common Effective Preferential Tariff (CEPT) Program. Consensus is building steadily within ASEAN towards the adoption of a free trade area, as envisioned under the AFTA Agreement in 1992. Confronted with similar pressures in the international trade arena, ASEAN member countries have taken unilateral actions to liberalize trade further, reacting in various degrees in revising their respective trade regimes.

Beyond ASEAN, the last decade has been marked by an unprecedented number of international trade negotiations. The protracted debates which ended in the signing of the GATT/World Trade Organization Agreement in 1994 have contributed to the proliferation and/or expansion of regional trading arrangements all over the world. A number of other neighboring countries have also signified interest in joining the ASEAN under this more liberalized trading environment.

All these developments have expectedly resulted in dramatic changes in the tariff schedules of all the individual ASEAN member states. Caught in this environment, Philippine policymakers have taken a hard look at the prevailing trade policy regime and embarked on a determined path of trade liberalization, in relation to its partners in ASEAN, with other member countries of APEC and with the rest of the world.

II. Objectives

The goal of this project is to contribute to a better understanding of the outcome of trade and tariff negotiations among ASEAN countries, given the realities of conflicting pressures on the home front. It is undertaken in response to the pressing need for a basic understanding of the tariff policies underlying the conduct of trade negotiations under the ASEAN Free Trade Agreement.

This study forms part of a broader analysis of the impact of the Tariff Reforms of 1995 on Philippine industries, specifically the adoption of the uniform 5% tariff by the year 2000. The analysis of ASEAN tariff profiles is envisioned to arm policymakers and industry leaders with a more informed basis for assessing the competitiveness of Philippine products in the ASEAN region and vis-a-vis the rest of the world.

The study also offers a baseline which could be used for an objective and systematic assessment of the progress made thus far in giving substance to the goal of closer economic cooperation under the Common Effective Preferential Tariff Program (CEPT) in ASEAN. Armed with this information, policymakers can work more meaningfully towards eventual harmonization of ASEAN trade policies within the framework of the ASEAN Free Trade Area (AFTA).

A brief historical perspective of the development of tariff policy in the ASEAN countries will be provided in Section III, describing the impact of tariff reforms resulting from the ratification of the GATT WTO Agreement in 1994 and any other unilateral measures taken in recent years. The methodology and data sources used in this study are discussed in Section IV. In Section V, current tariff profiles in ASEAN countries are

examined, both on a regionwide basis and on an individual country basis. Sectoral averages will also be compared across countries.

A parallel exercise will be undertaken in Section VI to compare average tariffs on intra-ASEAN imports. The study will discuss briefly the general coverage of the concessions granted by each of the countries under the CEPT and will compare the resulting average tariffs in 1996 and 2000. Tariff profiles with MFN rates and CEPT concessional rates will be compared, noting that where no concessional CEPT rates are provided, MFN rates will apply to imports from ASEAN countries.

Finally, conclusions and policy recommendations will be drawn in Section VII. A brief discussion on non-tariff forms of industrial protection which continue to plague the ASEAN region will also be provided to help provide a better understanding of the obstacles that still stand in the way of efforts at regional economic cooperation.

III. Recent Changes in Tariff Policy among ASEAN Countries

Recent shifts in tariff policy in ASEAN have arisen from developments on three fronts: the multilateral trade negotiations which resulted in the GATT/WTO Agreement, the unilateral tariff reforms undertaken by most ASEAN countries and the accelerated pace in intra-ASEAN trade liberalization under the CEPT. The result of all these reforms, barring any major policy reversal, is the narrowing of the gap between the MFN tariffs and CEPT rates at the end of the program. With the dismantling of trade barriers among them, will AFTA lose its relevance? The analysis that follows may help to shed some light on this question.

Multilateral trade negotiations. The intense and protracted debates under the GATT Uruguay Round of Negotiations helped to forge the ties that brought the ASEAN

COMPARATIVE TARIFF POLICIES OF ASEAN MEMBER COUNTRIES

countries closer to one another. While trade negotiations were conducted on an individual country basis, the ASEAN member countries were perceived to form a single negotiating bloc whose position was considered worthy of debate. The experience of participating in the WTO negotiations served the ASEAN countries in good stead as they were forced to review their individual trade policies in the context of overall benefits of a more open trading system for the region.

The individual ASEAN countries' response to the Uruguay Round can be best described as cautious and conservative. The net results on their tariff averages before and after the Uruguay Round are shown in Table 1. Note that while tariff bindings generally increased, a good number of rates were bound at rates higher than those actually applied.

**Table 1. SUMMARY OF URUGUAY ROUND COMMITMENTS FOR INDUSTRIAL PRODUCTS
ASEAN MEMBER COUNTRIES**

COUNTRY	IMPORTS (in US\$) ^{1/}	TRADE-WEIGHTED MFN TARIFF AVERAGES ^{2/}			Bound Tariffs Import Shares	
		Pre-UR	Post-UR	Reduction (%)	Pre-UR	Post-UR
Indonesia	12,603	20.4	36.9	0	30	92
Malaysia	11,270	10.2	9.1	10.8	2	79
Philippines	9,189	23.9	22.2	7.1	9	73
Singapore	32,860	12.4	5.1	58.9	0	67
Thailand	14,555	37.3	28.0	24.9	12	70

Source: Tariff data was supplied by the GATT Secretariat and the International Trade Policy Division of the World Bank, 1995.

Notes:

1/ - Imports for most economies are for 1990 or the latest available data (1988 or 1989)

2/ - The base year for the data on tariff is 1986; based on bound tariffs

N.A. - Not available

Regional liberalization. Disappointed with the progress of the GATT-Uruguay Round negotiations and the eventual outcome for developing countries, smaller trading blocs sought to find ways to improve their trade opportunities and began to discuss ways of increasing trade on a preferential basis among themselves. One such group was the ASEAN Free Trade Area (AFTA), formally launched in 1992 before the conclusion of the Uruguay Round. ASEAN announced the elimination of tariff and trade restrictions within seven to fifteen years on a preferential basis among ASEAN member countries. Initially, this move was regarded with skepticism by some sectors who looked on the modest improvement from the general tariff as unlikely to make a meaningful impact on intra-ASEAN trade.

These perceptions began to change, however, with the agreement of the ASEAN Economic Ministers in 1995 to: (1) accelerate the timeframe of AFTA from 15 years to 10 years; (2) draw up a schedule for the gradual reduction of the products excluded from the CEPT scheme; and (3) the inclusion of unprocessed agricultural products (UAP) into the CEPT scheme. A more detailed discussion on the effects of the new CEPT package will be made in Section VI.

Unilateral Trade Reforms. Most of the ASEAN countries have undertaken major unilateral trade liberalization programs, some of which occurred only in the last two years. Annex A provides an update of recent trade policy reforms in the ASEAN countries. It is noteworthy that, while a number of high tariffs remain in selected subsectors, the reductions in tariffs are greater than those committed under the Uruguay Round. The development of ASEAN tariffs is shown below.

**Table 2. EVOLUTION OF ASEAN TARIFFS
1978-1996**

Country	1978	1983-84	1996
Brunei	-	-	4
Indonesia	33	33	12
Malaysia	15	25	8
Philippines	44	29	13
Singapore	5	6	0.04
Thailand	29	32	20
Vietnam	-	-	12
ASEAN	25.3	24.8	9.85

IV. Methodology, Data Sources and Issues

Analytical Framework. This comparative study of ASEAN tariff policies is based on a framework of aligned tariff schedules. The study established some degree of concordance among the individual tariff schedules of the countries which have been participating actively in the ASEAN Preferential Tariff Arrangements and the Common Effective Preferential Tariff Program (CEPT), namely, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam which was officially accepted as a full member of ASEAN only in 1995.

Under the existing post-WTO tariff regime, Most Favored Nation (MFN) rates apply to imports from all non-ASEAN countries. For imports among ASEAN member countries, the applicable tariff rate would be the CEPT rate, for items covered by the program or, where no CEPT concessions are granted, MFN rates.

In this study, two sets of cross-country comparisons have been undertaken for:

- generally applied tariff rates or most favored nation (MFN) rates; and
- consolidated ASEAN preferential tariffs under the CEPT scheme and MFN rates

A brief analysis of the CEPT tariffs will be included in this study, but the more relevant comparison to determine impact of tariff concessions granted under the CEPT is between the MFN schedule and the consolidated CEPT and MFN rates.

While this study does not go into the intricacies of economic and political pressures surrounding economic policy formulation in the ASEAN countries, it identifies the sensitive and non-sensitive areas in each country compared to other countries in the region through an examination of the levels and structure of their respective tariff regimes. Aside from comparing overall average tariffs, averages are compared for each of the major industry groups across all ASEAN member states.

The approach used in this study will be similar to the ones adopted in two earlier studies undertaken by the Tariff Commission (1979 and 1985). Three types of estimates will thus be calculated:

- Simple average of nominal tariffs
- Weighted average tariffs, using individual country imports as weights
- Weighted average tariffs, using total ASEAN imports as weights

Methods of Tariff Averaging. Estimates of the over-all average levels of tariffs were determined for each ASEAN country and for the ASEAN region as a whole. Based on methods used by the Secretariat of the General Agreement on Tariffs and Trade

(GATT)¹, inter-country comparisons of tariff structures were obtained by three basic methods:

- Simple arithmetic averages
- Averages obtained using the pattern of actual imports of each country as weights; and
- Averages based on statutory duty rates weighted by combined ASEAN imports of that commodity or group of commodities.

In making a choice of the most acceptable method of averaging tariffs, this study is cognizant of the inherent problems in presenting averages of tariff levels. Being a form of price index, tariff averaging is subject to the index number problem with respect to weighting.

Unweighted averages, or simple averages, of all tariff lines (whether in each commodity group or in the whole tariff schedule) in effect really involves weighting according to an irrelevant, fortuitous and internationally incomparable criterion: the fineness of nomenclature subdivisions (subheadings) in the particular tariff document.² The tariff for an important item of trade, such as crude petroleum, would have the same weight as a minor item, like tennis balls. Another problem with such unweighted tariff averages is that they are often biased upwards by the presence of a few extremely high tariffs of little economic significance.

On the other hand, own-trade-weighted averages generally tend to be biased downwards since prohibitive duties are, by definition, excluded from the average because of minimal or non-existent imports in these tariff lines.

¹ Tumlr, Jan and Till, Ladislav, *Tariff Averaging in International Comparisons*.

² Bell, Harry H., *Tariff Profiles in Latin America*, Praeger Publishers (1971).

This particular bias can be remedied in a way by introducing a more neutral standard, external to the country under study. In this case, one could use the pattern of total ASEAN trade in the commodity group in question. For this purpose, a third set of tariff averages was estimated on the basis of tariff rates per commodity group, weighted by the combined imports of ASEAN in the same group of commodities.

In addition, several measures of dispersion will also be estimated in order to assess the potential for influencing trade protection policy, noting that a more dispersed tariff structure lends itself to a more protectionist regime by raising effective protection rates.

Data Sources. The primary data sources for the study were the respective tariff schedules of ASEAN member countries as officially published by government sources. The analysis was performed on the tariff schedule for 1996, with the exception of Brunei and Viet Nam where the most recently available data on MFN tariffs are for 1992 and 1994, respectively. The list of reference documents is shown in **Annex B**. CEPT rates have been obtained from official releases of the ASEAN Secretariat in Jakarta. The complete lists of commodities excluded from the CEPT consisting of Sensitive Products and those in the Temporary Exclusion Lists would have been useful for this study but unfortunately these were not available at the time of this report.

Data Issues. The task of preparing an aligned tariff schedule for the entire ASEAN region was complicated by a number of problems, including (a) the lack of harmonization of customs tariff schedules; and (b) the continued application of specific, compound and alternative duties by a number of countries.

Harmonization of Tariff Schedules. All the ASEAN countries had agreed to adopt the universal Harmonized Commodity Description and Coding System of the World Customs Organization up to the 6-digit level of commodity description. However,

because of different statistical needs or the desire to promote or protect specific commodities, the total number of tariff lines continue to vary from country to country. In addition, there is no common format for creating new subdivisions within the tariff code.

The result has been a proliferation of sub-classifications of varying complexity. This has proven to be a roadblock in efforts to conduct inter-country comparisons of tariff levels. The AFTA Council in its 7th Meeting in September 1995 recognized this need and has included the harmonization of tariff nomenclatures at the 8th digit of the Harmonized System Code to be completed by 1997. This is particularly important in the context of the CEPT where tariff concessions at the 6-digit level may be eroded by the exclusion of, or imposition of higher tariff rates on, items under finer subclassifications, e.g. at the 8- or 9-digit HS levels.

Inasmuch as this target still remains to be achieved, for the purposes of this study, all tariff lines were aggregated at the 6-digit level by taking the average of the tariff rates applicable to all lines within this common base.

A separate analysis will be done for Viet Nam because its tariff schedule is patterned after an earlier version of the Harmonized System. An attempt to estimate regional and sectoral averages will be made based on latest available information.

Specific and Compound Tariff Duties. Despite a standing agreement in ASEAN to express all tariff rates on an ad valorem basis, a number of countries have continued to administer specific, compound or alternative rates of tariff duties. The total number of tariff lines with specific, compound or alternative rates of duty are shown in Table 3.

The use of specific or compound tariff rates obscure the true level of the tariff rate, the exact equivalent of which will need to be estimated from disaggregated volumes and values of imports in foreign trade data. The ideal way to deal with these rates would have been to estimate the ad valorem equivalents for such rates based on unit prices obtained from foreign trade statistics. The ad valorem equivalent may be derived by multiplying the specific rate by the volume of imports for that particular tariff line and dividing the product by the value of imports for the same product. Because of data limitations, however, this study simply noted the incidence of such rates in Table 3 below and excluded them from the analysis.

Table 3. USE OF SPECIFIC, COMPOUND OR ALTERNATIVE RATES

Country	No. of Tariff Lines			Total
	Specific Rate	Compound Rate	Alternative Rate	
Brunei Darussalam	89	-	-	89
Indonesia	-	-	-	-
Malaysia	153	239	131	523
Philippines	-	-	-	-
Singapore	8	-	3	11
Thailand	157	-	1,813	1,970
Viet Nam	-	-	-	-
TOTAL	407	-	1,947	2,593

Definitions:

- Specific rate - tariff duty based on given value per unit of imports
- Compound rate - tariff duty consisting of a combination of an ad valorem duty and a specific rate of duty
- Alternative rate - tariff duty based on an ad valorem duty or a specific duty, whichever is higher

Products with specific, compound or alternative rates are found in the following subsectors:

Country	Subsectors
Malaysia	Fruits and fruit preparations Processed food Petrochemicals Plastic and rubber products Iron and steel products Ceramics and glass Motor vehicles
Thailand	Vegetables Fruits and fruit preparations Cereals Animal and vegetable fats and oils Alcoholic beverages and tobacco Processed food Petroleum products Detergents Plastic and rubber products Wood and wood products Textiles and garments Paper and paper board Primary cells and batteries Electric lamps and bulbs

V. ASEAN Tariff Profiles

A. Most Favored Nation (MFN) Basis

Compared at a common base of 6 digits, the overall average MFN tariff rate for ASEAN is 9.9%. Table 4 summarizes the unweighted simple average tariff rate per country. Figure 1 shows the relative levels compared to the over-all ASEAN average. Note the wide disparity in the range of country averages, from 0% (Singapore) to 19.8% (Thailand). At one end of the scale would be the open and liberal trade regimes of

Singapore and Brunei and on the other end would be the high levels of tariffs in Thailand, Indonesia, and the Philippines.

Note further the higher standard deviations from the average rate registered by Thailand, Malaysia and the Philippines. This situation suggests possible opportunities for manipulating the effective rates of protection (EPRs). Those countries whose standard deviations are low have fairly uniformed tariffs across tariff lines and are expected to have more neutral protection systems.

Table 4 indicates that Thailand has the highest average tariff and the most dispersed tariff structure. The Philippines and Indonesia have about the same level of average tariffs but Philippine tariffs are more widely dispersed. Malaysia, Brunei and Singapore have low average tariffs and fairly limited dispersion.

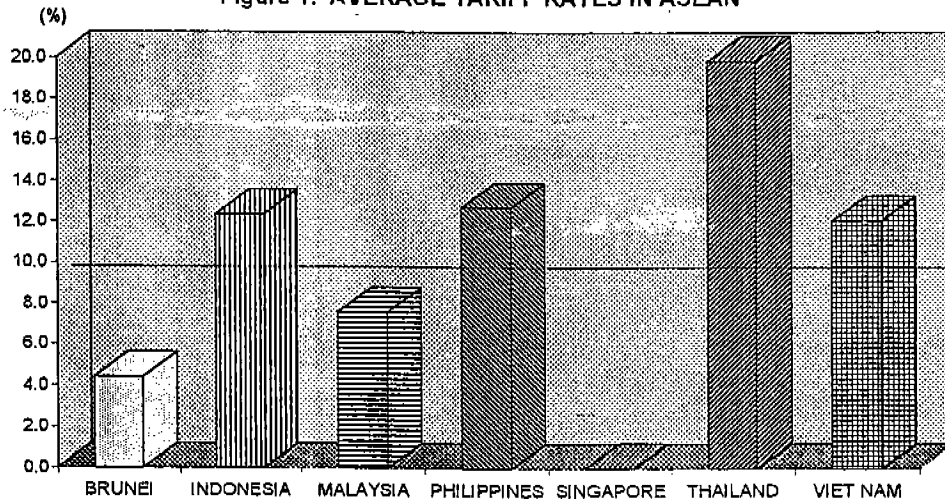
With the exception of Singapore and Brunei, ASEAN tariffs are generally escalated, with tariffs rising according to the degree of processing. Based on the frequency distribution of ASEAN tariffs shown in **Table 5**, a number of significant observations can be made:

- 91.2% of total tariff rates in ASEAN are within the range of 0 to 30%.
- Of the remaining tariff rates (8.8% of total), one half cluster around the 31 to 40% range; 1.1% of all tariff lines are between 90 to 100%.
- Three countries -- Brunei, Malaysia, and Singapore--are characterized by a large number of tariff lines with zero duties, representing more than 50% of the total number of tariff lines in their respective tariff schedules.

Table 4. AVERAGE TARIFF RATES IN ASEAN
Most Favored Nation (MFN) Basis

COUNTRY	TOTAL LINES	MFN AT 6-DIGITS HS CODE			COEFFICIENT OF VARIATION
		NO. OF LINES	AVERAGE RATE	STD DEVIATION	
BRUNEI	6,183	4,730	4.4	0.06	74
INDONESIA	7,248	5,117	12.4	0.04	309
MALAYSIA	7,874	4,995	7.6	0.11	69
PHILIPPINES	5,741	5,113	12.7	0.10	127
SINGAPORE	5,777	5,062	0.0	0.00	-
THAILAND	5,268	5,015	19.8	0.25	170
VIET NAM	2,921	-	12.1		
ASEAN			9.9		150

Figure 1. AVERAGE TARIFF RATES IN ASEAN



COMPARATIVE TARIFF POLICIES OF ASEAN MEMBER COUNTRIES

Indonesia, Malaysia and Thailand continue to apply tariff rates of 100% and above on a significant number of tariff lines. In contrast, in Singapore, 99.9% of tariff rates are nil.

Country	No. of tariff lines at 100% or higher
Viet Nam	70
Indonesia	58
Malaysia	29
Thailand	11

The sectors with rates of 100% or more are the following: motor vehicles, motorcycles, alcoholic beverages, and perfumery in Indonesia; and textile and garments, footwear, umbrellas, and motor vehicles in Thailand.

Table 5. DISTRIBUTION OF TARIFF LINES BY RATE LEVEL

RATE	BRU	IND	MAL	PHI	SIN	THA	TOTAL	% OF TOTAL	CUMULATIVE % OF TOTAL
0%	4,259	1,400	4,144	6	5,770	228	15,807	41.5%	41.5%
0.01 - 10%	958	2,670	1,090	3,608	1	247	8,574	22.5%	64.0%
10.01 - 20%	939	1,640	1,142	1,128	1	286	5,136	13.5%	77.5%
20.01 - 30%	27	1,455	1,342	838	2	1,562	5,226	13.7%	91.2%
30.01 - 40%	-	10	67	34	1	1,336	1,448	3.8%	95.0%
40.01 - 50%	-	1	44	59	-	130	234	0.6%	95.6%
50.01 - 60%	-	-	15	1	2	726	744	2.0%	97.6%
60.01 - 70%	-	8	-	10	-	8	26	0.1%	97.6%
70.01 - 80%	-	3	-	56	-	324	383	1.0%	98.7%
80.01 - 90%	-	3	-	-	-	-	3	0.0%	98.7%
90.01 - 100%	-	-	1	1	-	410	412	1.1%	99.7%
Over 100%	-	58	29	-	-	11	98	0.3%	100.0%
Total	6,183	7,248	7,874	5,741	5,777	5,268	38,091	100.0%	

The range of tariff rates (lowest and highest rate), the total number of tariff levels and the modal rate for each country are contained in Table 6. This information reflects the complexity and the general framework of the individual country tariff schedules.

**Table 6. COUNTRY COMPARISONS: DEGREE OF DISPERSION,
AVERAGE & MODAL TARIFF RATE BY COUNTRY³**

Country	No. of Rate Levels	Range of Tariff Rates	Mean	Modal Rate (% ad val)
Brunei Darussalam	6	0 - 30	4.41	0
Indonesia	19	0 - 200	12.35	5
Malaysia ³	23	0 - 100	7.58	0
Philippines	16	0 - 100	12.72	3
Singapore	6	0 - 60	0.04	0
Thailand	29	0 - 100	19.82	5
Viet Nam	22	0 - 200	12.01	0

All these observations highlight the wide disparity in tariff structures applied by ASEAN countries. A wide gap exists between the virtually free trade regimes in Singapore and Brunei and the high levels of tariff rates in Indonesia and Thailand.

On the other hand, the low figures for Thailand and Malaysia do not discount the possibility of the existence of higher rates in the tariff schedule. The number of tariff lines bearing specific or compound rates is estimated at 1,970 tariff lines in Thailand and 523 tariff lines in Malaysia.

In the case of the Philippines, while 97% of its tariff rates are in the range of 0 to 30%, 161 tariff lines or the remaining 3% of total tariff lines are in the range of 35% to 100%. It will be recalled that most of these rates are the result of the "tariffication" procedures associated with the lifting of quantitative restrictions in the context of agreements made at the GATT/WTO Agreement. They are of limited duration however and are programmed to be reduced within a specified period of time.

³ Excluding specific and compound rates

B. Sectoral Analysis

The average MFN rates for the ASEAN region, by sector are shown in Annex C. Based on this table, the average levels for each sector are ranked in descending order to identify the relative sensitivity of sectors concerned and shown in Table 7.

Table 7. SECTORAL PROFILE OF ASEAN TARIFFS

HS Chapter/s	Description	Average Sector Rate (per cent)
16-24	Alcoholic Beverage, Tobacco Products and Processed Food	26.51
64-67	Footwear, Headgear, Umbrellas	20.42
86-89	Vehicles and Transport Equipment	19.41
06-14	Vegetable Products	19.25
50-63	Textiles and Garments	19.21
39-40	Plastics and Rubber & articles thereof	18.52
15	Animal and Vegetable fats and oils	18.19
94-96	Furniture	15.85
01-05	Live animals and animal products	15.58
47-49	Pulp, Paper and paper products	15.48
68-70	Ceramics and Glass	15.17
72-83	Base metals	15.02
41-43	Raw Hides and Leather	12.90
93	Arms and ammunition	11.53
44-46	Wood and wood products	10.98
71	Precious metals, stones and jewelry	9.38
97-98	Works of art, Collector's pieces	8.62
84-85	Machinery and mechanical appliances	7.96
25-27	Mineral and petroleum products	7.95
90-92	Optical, medical, photographic and musical instruments	7.12
28-38	Chemicals and chemical products	6.38

Among the more sensitive sectors are consumer goods such as footwear, textiles and garments and processed food. Many ASEAN countries started out as major exporters of simple manufactures, such as textiles and footwear and continue to protect these sectors heavily. Accustomed to continued "infant industry" protection, these sectors have resisted trade liberalization moves in a number of ASEAN countries. Alcoholic beverages

are consistently levied higher rates of duties in all countries along with cigarettes and tobacco products.

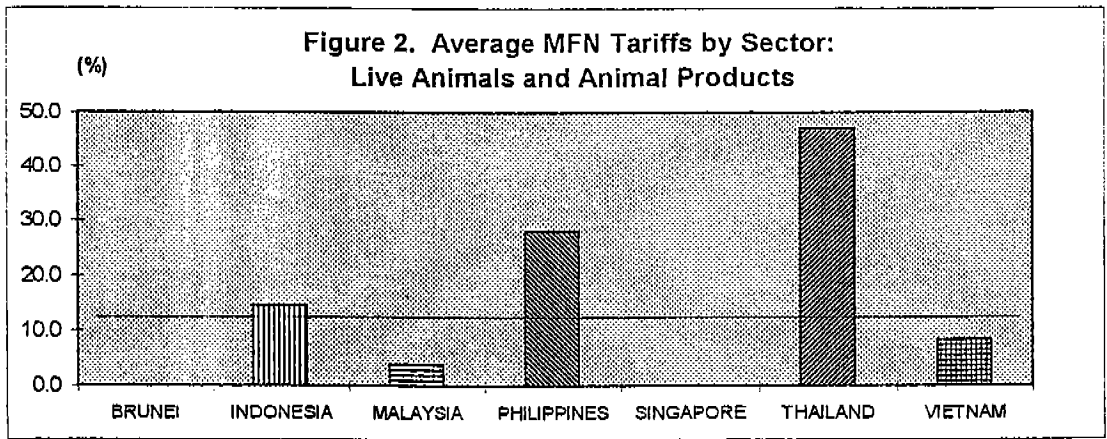
Vehicles and transport equipment also enjoy protected status except in Brunei. Tariff protection for motor vehicle assembly or manufacturing are part of country's commitment to foreign partners when they made the decision to invest in a particular country. It is also closely linked to progressive manufacturing programs which may or may not include the production of a national car. In Brunei, among the few items that are dutiable are sophisticated manufactures such as electronics, electrical machineries, and photographic equipment. Tariffs on agricultural products are politically sensitive issues. Because of this, negotiations on agricultural tariffs are generally considered separately from industrial tariffs, both in the GATT/WTO and in the CEPT. Average rates of less than 10% are imposed on most base metals, chemicals and mineral and petroleum products.

A comparison of sectoral tariff averages across ASEAN countries highlight the following observations. Based on MFN rates, average sectoral rates are consistently higher in Thailand followed by the Philippines and Indonesia. On a sector by sector basis, the comparative levels in all countries are shown in Annex C. The highest rates are found in Alcoholic Beverages & Tobacco (HS Chapters 16-24); Motor Vehicles (HS Chapters 86-89); Coffee & Tea (HS Chapter 9); Fruits & Nuts (HS Chapter 8); Processed Foods (HS Chapters 16-24); Textiles and Garments (HS Chapters 50-63); and Footwear (HS Chapters 64-67).

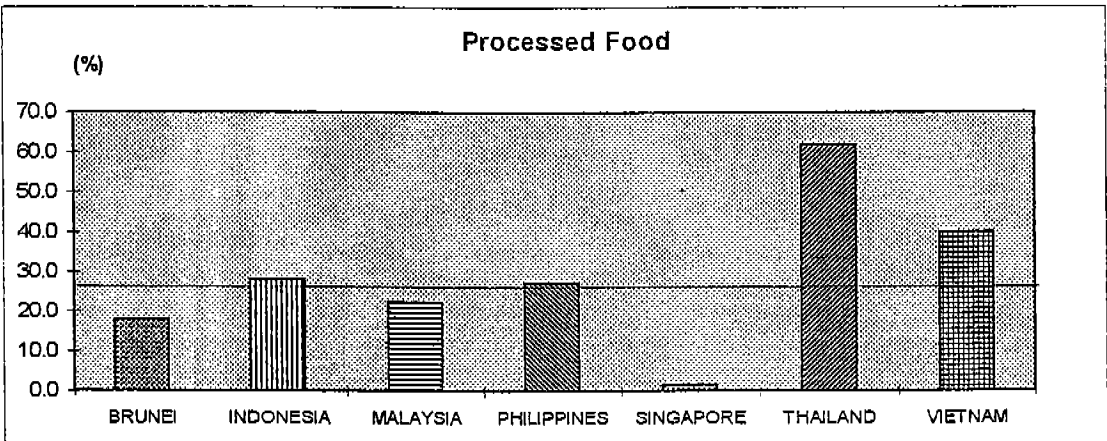
Figures 2 and 3 compare the levels of tariffs on some selected subsectors:

- Live Animals and Animal Products
- Processed Food
- Iron & Steel Products
- Textiles & Garments

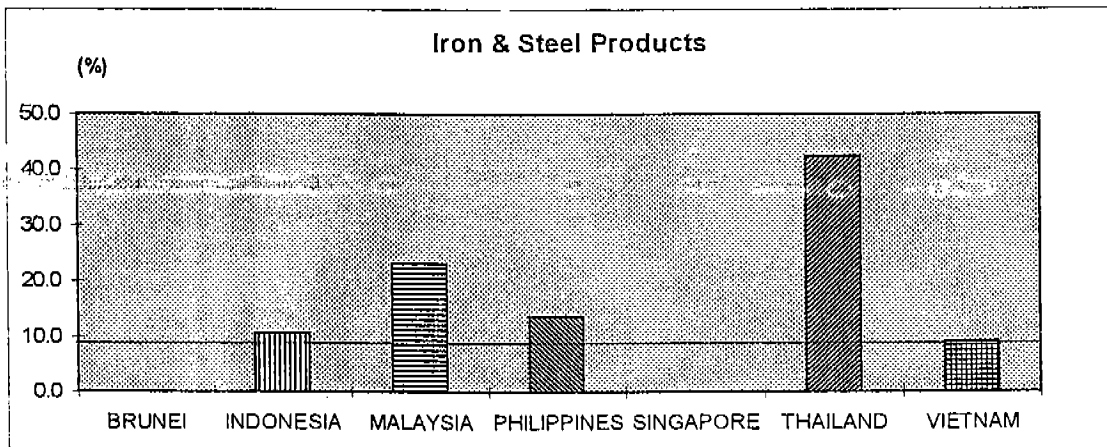
**Figure 2. Average MFN Tariffs by Sector:
Live Animals and Animal Products**



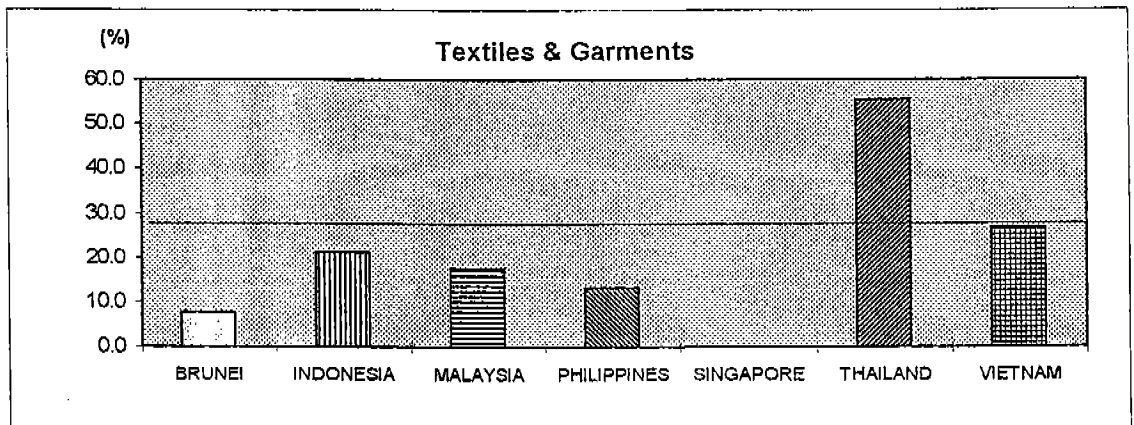
Processed Food

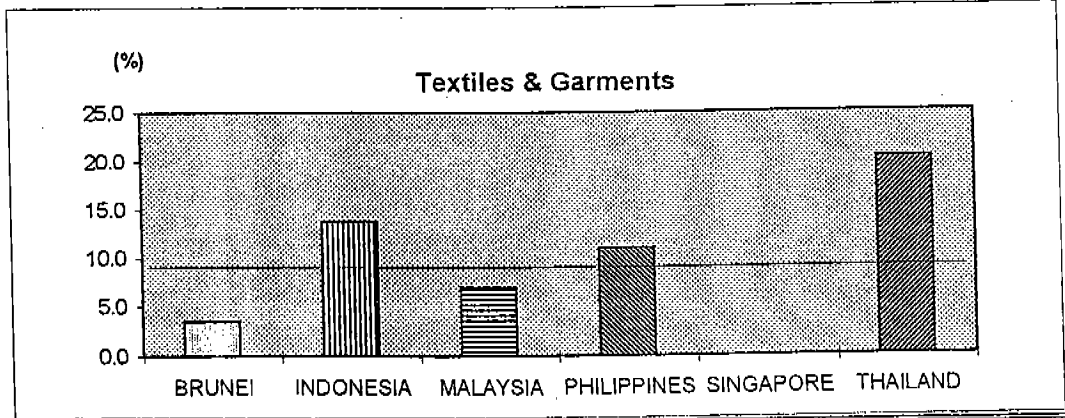
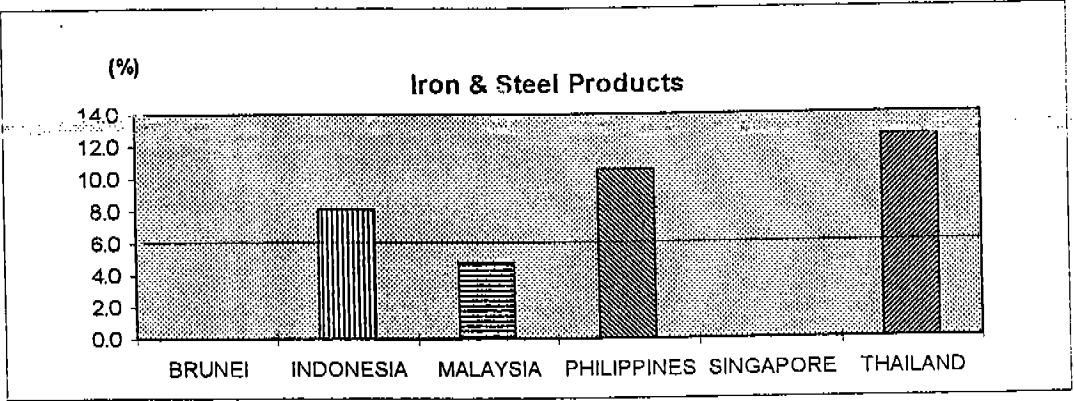
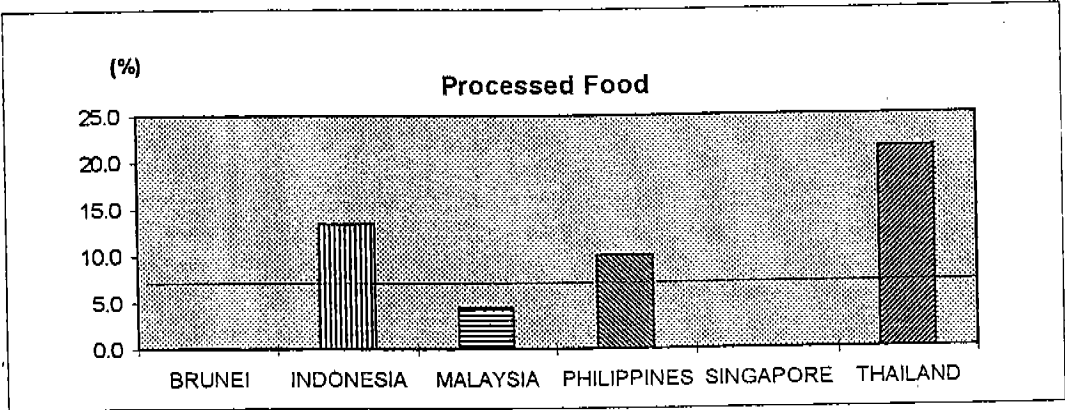
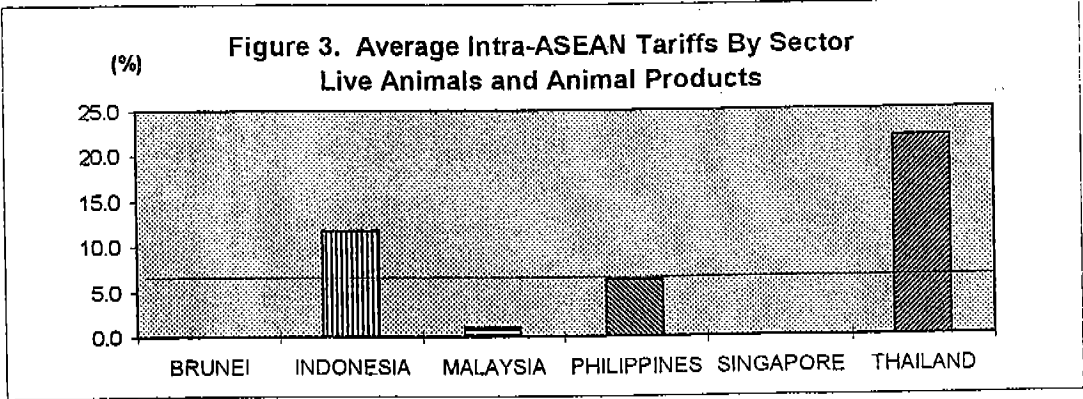


Iron & Steel Products



Textiles & Garments





C. Progression of Tariff Rates within Sectors

A more relevant analysis, however, is the examination of the progression of rates within sectors and to compare the findings across countries. For this analysis, special emphasis was given to selected politically sensitive industries viz Leather and Footwear; Textile and Garments, Food Processing, and Transport Equipment.

By and large, in all the subsectors examined tariff structures remain escalated with the highest protection afforded to final goods. Evidence of excessively high rates of EPRs is demonstrated with practically duty free entry of raw materials and capital equipment and high than average rates on final products. In contrast, the free trade regime of Singapore highlights the wide disparity in tariff regimes in ASEAN.

- Textile and Garments

Tariff levels are compared from raw fiber to garments with the finding that the structure of protection is comparable in the Philippines, Indonesia, and Malaysia but is much higher in Thailand. It is also interesting to note that the Philippines is the only ASEAN country which imposes the same tariff rate on textile yarns and woven or knitted fabrics.

**Table 8. Tariff Structure of Selected Industries:
TEXTILES & GARMENTS**

PRODUCT	PHI	IND	MAL	SIN	THA	
					<i>Ad valorem</i>	<i>Applied</i>
Textile Fibers	3	10	Nil	Nil	5	5
Yarn	10	10	10	Nil	30	20
Woven Fabrics	10	20	20	Nil	80	40
Knit Fabrics	10	20	20	Nil	100	40
Garments	20	30	20	Nil	100	45

- Leather and Footwear

Raw hides, the basic raw material for footwear, is duty free in other ASEAN countries but is subject to the minimum 3% duty in the Philippines. Leather, on the other hand, enjoys protection in the Philippines but is practically duty free in other ASEAN countries. This is good news for the Philippine leather industry but is a major problem to footwear manufacturers. The implications for the Philippine footwear industry are clear: the 20% tariff on leather makes the footwear industry uncompetitive in the region.

**Table 9. Tariff Structure of Selected Industries:
LEATHER & FOOTWEAR**

PRODUCT	PHI	IND	MAL	SIN	THA	
					<i>Ad valorem</i>	<i>Applied</i>
Raw Hides	3	0	Nil	Nil	30	
Leather	20	0	Nil	Nil	20	5
Footwear	30	20	30	Nil	100	45

- Food Processing

Table 10 presents the tariff structure in the meat processing industry. The distorted tariff structure of the food processing industry in the Philippines stems from the high tariff duties on corn. This is one area which clearly calls for policy review. Compared to the rest of ASEAN, the Philippines is the only country that imposes heavy import duties on corn. The \$2.75/kilogram specific duty on corn in Thailand has no effect on domestic users of corn since Thailand is a net exporter.

**Table 10. Tariff Structure of Selected Industries:
FOOD PROCESSING**

PRODUCT	PHI	IND	MAL	SIN	THA	
					<i>Ad valorem</i>	<i>Applied</i>
Corn	35/80	0	Nil	Nil		B2.75/kg
Animal Feeds	45	5	Nil	Nil	10	10
Live Animals						
Bovine	30/40 ^{a/}	0 to 10	Nil	Nil	40	10
Swine	30/50 ^{a/}	10	Nil	Nil	40	10
Poultry	40/65 ^{a/}	10	Nil	Nil	40	40
Meat of						
Bovine	30/80 ^{a/}	20	Nil	Nil	60	60
Swine	30/80 ^{a/}	20	Nil	Nil	60	60
Poultry	45/80 ^{a/}	15 to 20	Nil	Nil	60	60
Processed Meat	30/80 ^{a/}	20 to 25	Nil to 20	Nil	60 or B50/k	60 or B50/kg

^{a/} Refers to tariffs on In-quota and Out-quota imports.

• Motor vehicles and other transport equipment

Motor vehicle assembly and manufacturing enjoys one of the highest levels of protection across ASEAN. Malaysia applies the most protective tariffs on motor vehicles followed by Indonesia, the Philippines and Thailand. Added to this is the adoption of domestic car manufacturing programs in Malaysia, Indonesia, and the Philippines. Under this system, the EPRs increase to atrocious levels because of special low rates on CKD packs. Singapore imposes no duties on motor vehicles but subjects all car sales to a 41% excise tax.

**Table 11. Tariff Structure of Selected Industries:
TRANSPORT EQUIPMENT**

PRODUCT	PHI	IND	MAL	SIN	THA	
					<i>Ad valorem</i>	<i>Applied</i>
Motor Vehicles	30	25	25 to 30	No duties applied	60	30 to 60
Parts				41% Excise tax		
CKD Assemblies	3	0 to 5	5	No duties applied		
CBU Vehicles	40	105 to 200	140 to 200	41% Excise tax	100 to 200	42 to 68.5
				No duties applied		
				41% Excise tax		
Motorcycles						
Parts	20	25	25	No duties applied	40	40
				12% Excise tax		
CKD Assemblies	3	25	5	No duties applied	40	40
				12% Excise tax		
CBU Motorcycles	40	35 to 150	25	No duties applied	60	60
				12% Excise tax		
Bicycles						
Parts	20	10 to 15	25	No duties applied	40	40
				12% Excise tax		
Bicycles	20	30	25	No duties applied	40	40
				12% Excise tax		

Motorcycle assembly or manufacturing is likewise a protected subsector, enjoying special tariff regimes for CKD packs in the Philippines and Malaysia. Bicycle manufacturing no longer enjoys the protective levels it once enjoyed in the region, with the exception of Thailand which still continues to impose a 40% duty on imported bicycles.

A World Bank Study (1993) suggests that the current trade regime in Viet Nam has substantial tariff and quantitative restrictions. Viet Nam's tariff structure, though

amended in 1992 and again in 1993 follows the pattern in most developing countries in the 1970s. Negligible tariffs are imposed on capital equipment and medicines while high tariffs of 50 to 100% are applied on footwear, softdrinks, alcoholic beverages, cigarettes, and cosmetics. The MFN average tariff (unweighted) basis, for Viet Nam is estimated at 12.1%.

Viet Nam also has considerable quantitative restrictions such as import licensing and quotas for some commodities.

Comparison of Simple and Trade-weighted Averages of ASEAN Tariffs. There is no marked pattern in the different tariff averages obtained by the three methods of computing tariff averages. The averages are generally highest using ASEAN trade values of weights. This supports the view that using the total imports from ASEAN as weights leads to a more neutral standard compared to one using own country import values. The latter are prone to be biased downwards especially in the case of restrictive duties.

**Table 12. Average MFN Tariffs of ASEAN Countries
Simple and Trade Weighted Averages**

Country	Simple Average	Trade Weighted	
		Own Country	ASEAN
Brunei	4.4	6.3	8.2
Indonesia	12.4	11.6	5.5
Malaysia	7.6	10.64	10.7
Philippines	12.7	10.8	10.3
Singapore	0.4	0.5	0.4
Thailand	19.8	23.4	24.6

VI. Intra-ASEAN Tariffs

With the impressive gains made in implementing the goals of CEPT Program, it will be interesting to note how these translate into concrete tariff concessions affecting

intra-ASEAN trade. A parallel analysis was conducted for tariff rates under the CEPT Program, both for 1996 and 2000, and comparing these with current MFN rates.⁴

Comparisons were drawn from the official country submissions to the ASEAN Secretariat in Jakarta. The impact of the CEPT concessions on the overall tariff average for the ASEAN region is presented in Table 13. Note that the average tariff of all CEPT lines is 5.28% in 1996 and 2.92% in year 2000 as compared to the estimated MFN average of 9.86 in 1996. This represents a 46.5% reduction in 1996 with rates under the CEPT Program and an even better outlook for the year 2000 when the percentage reduction drops by a total percentage drop of 70.5%. Based on these observations, the highest CEPT rates are found in the following subsectors:

HS Chapter/s	Industry
50-63	Textile & Garments
39-40	Plastics & Rubber
41-43	Leather & leather products (excluding footwear)
15	Vegetable oils
97-98	Works of Art
94-96	Furniture
44-46	Wood & wood products
93	Firearms
68-70	Ceramics & glass
72-83	Base metals

⁴ The same reservation is made regarding the limitations related to the exclusion of specific rates from the analysis.

Table 13. AVERAGE RATES BY HS SECTION/SECTOR
Common Effective Preferential Tariff (CEPT) Program

Chapter From To		BRUNEI				INDONESIA				MALAYSIA				PHILIPPINES			
		Average Rate			No. of Lines	Average Rate			No. of Lines	Average Rate			No. of Lines	Average Rate			No. of Lines
		1996	2000	% Dec.		1996	2000	% Dec.		1996	2000	% Dec.		1996	2000	% Dec.	
01	05	0.00	0.00	-	193	11.82	7.52	36.38	194	1.10	0.81	26.36	194	6.35	3.46	45.51	194
06	14	0.00	0.00	-	273	6.48	4.82	25.62	270	0.63	0.47	25.40	268	7.14	3.19	55.32	271
15	15	0.00	0.00	-	53	5.14	3.11	39.49	52	1.55	1.50	3.23	53	7.85	2.34	70.19	53
16	24	0.06	0.06	-	165	13.49	8.30	38.47	181	4.46	2.21	50.45	180	10.02	5.48	45.31	181
25	27	0.00	0.00	-	151	3.07	2.79	9.12	151	0.84	0.55	34.52	151	3.73	2.74	26.54	150
28	38	0.29	0.28	3.45	756	3.11	2.43	21.86	759	0.66	0.42	36.36	760	4.96	3.23	34.88	759
39	40	0.08	0.04	50.00	187	7.06	2.69	61.90	189	8.20	3.51	57.20	187	9.18	4.46	51.42	189
41	43	0.59	0.59	-	74	7.16	2.87	59.92	74	2.82	1.26	55.32	74	16.34	6.69	59.06	74
44	46	8.31	2.81	66.19	79	7.34	4.81	34.47	79	9.36	6.01	35.79	67	12.11	5.90	51.28	79
47	49	0.00	0.00	-	149	6.27	3.20	48.96	149	7.17	5.01	30.13	148	6.16	3.09	49.84	149
50	63	3.50	3.50	-	808	13.82	4.78	65.41	809	7.00	3.93	43.86	809	11.06	5.23	52.71	809
64	67	3.68	3.68	-	55	19.83	12.38	37.57	55	10.62	5.16	51.41	52	10.24	6.18	39.65	55
68	70	0.27	0.17	37.04	138	9.42	5.55	41.08	138	5.03	2.86	43.14	139	11.63	5.60	51.85	138
71	71	2.60	2.60	-	52	7.99	4.64	41.93	52	1.25	1.21	3.20	52	5.91	5.48	7.28	52
72	83	0.02	0.01	50.00	587	8.12	5.26	35.22	587	4.79	2.86	40.29	586	10.57	5.38	49.10	587
84	85	5.25	2.59	50.67	739	7.60	4.23	44.34	762	2.67	1.73	35.21	762	5.74	4.03	29.79	762
86	89	0.00	0.00	-	135	3.90	2.51	35.64	132	3.89	2.61	32.90	131	3.75	2.75	26.67	132
90	92	3.32	2.45	26.20	208	7.12	4.94	30.62	230	0.93	0.71	23.66	230	8.07	3.81	52.79	230
93	93	0.00	0.00	-	17	0.00	0.00	-	17	1.29	0.94	27.13	17	0.97	0.68	29.90	17
94	96	1.72	1.72	-	133	17.08	10.90	36.18	131	6.79	4.28	36.97	131	15.13	8.06	46.73	131
97	98	0.00	0.00	-	10	10.52	6.63	36.98	7	3.06	2.78	9.15	8	20.00	7.86	60.70	7
Average		1.81	1.28	29.28	4,962	8.36	4.60	44.98	5,018	3.76	2.21	41.22	4,999	8.17	4.38	46.39	5,019

Note: Rates and number of lines are based on averages at 6-digit level

Table 13. AVERAGE RATES BY HS SECTION/SECTOR
Common Effective Preferential Tariff (CEPT) Program

Chapter From To		SINGAPORE				THAILAND				VIETNAM				ASEAN			
		Average Rate			No. of Lines	Average Rate			No. of Lines	Average Rate			No. of Lines	Average Rate			No. of Lines
		1996	2000	% Dec.		1996	2000	% Dec.		1996	2000	% Dec.		1996	2000	% Dec.	
01	05	0.00	0.00	-	194	21.92	12.97	40.83	195	4.29	4.29	-	7	6.50	4.15	36.13	167
06	14	0.00	0.00	-	268	19.13	11.20	41.45	233	4.43	4.43	-	23	5.40	3.44	36.23	229
15	15	0.00	0.00	-	52	13.56	4.72	65.19	53	4.00	4.00	-	16	4.59	2.24	51.18	47
16	24	0.00	0.00	-	158	21.47	12.58	41.41	143	5.00	5.00	-	1	7.79	4.80	38.29	144
25	27	0.00	0.00	-	142	5.53	3.94	28.75	151	1.21	1.21	-	67	2.05	1.60	21.91	138
28	38	0.00	0.00	-	759	9.36	5.47	41.56	758	1.00	1.00	-	21	2.77	1.83	33.80	653
39	40	0.05	0.04	20.00	189	19.69	8.11	58.81	189	2.81	2.81	-	16	6.72	3.09	53.98	164
41	43	0.00	0.00	-	74	10.59	4.73	55.34	74	3.67	3.67	-	24	5.88	2.83	51.88	67
44	46	0.00	0.00	-	79	12.41	7.49	39.65	79	4.50	4.50	-	8	7.72	4.50	41.66	67
47	49	0.00	0.00	-	149	16.81	10.54	37.30	149	1.87	1.87	-	27	5.47	3.39	38.06	131
50	63	0.00	0.00	-	809	20.28	5.19	74.41	809	1.39	1.39	-	42	8.15	3.43	57.90	699
64	67	0.00	0.00	-	55	22.62	13.41	40.72	55	1.00	1.00	-	1	9.71	5.97	38.51	47
68	70	0.00	0.00	-	138	18.37	7.00	61.89	138	1.88	1.88	-	25	6.66	3.29	50.52	122
71	71	0.00	0.00	-	52	7.27	2.89	60.25	52	0.00	0.00	-	-	3.57	2.40	32.77	45
72	83	0.00	0.00	-	587	12.62	8.39	33.52	587	0.46	0.46	-	145	5.23	3.19	38.87	524
84	85	0.00	0.00	-	762	7.96	5.44	31.66	762	0.09	0.09	-	336	4.19	2.59	38.21	698
86	89	0.00	0.00	-	117	9.40	5.94	36.81	132	0.31	0.31	-	35	3.04	2.02	33.55	116
90	92	0.00	0.00	-	230	9.24	6.38	30.95	230	0.71	0.71	-	42	4.20	2.71	35.35	200
93	93	0.00	0.00	-	17	22.79	13.38	41.29	17	0.00	0.00	-	-	3.58	2.14	40.12	15
94	96	0.00	0.00	-	131	20.58	10.67	48.15	131	0.00	0.00	-	1	8.76	5.09	41.88	113
97	98	0.00	0.00	-	9	8.93	5.36	39.98	7	0.00	0.00	-	-	6.07	3.23	46.77	7
Average		0.00	0.00	-	4,971	13.95	7.08	49.25	4,944	0.92	0.92	-	837	5.28	2.92	44.63	4,393

Note: Rates and number of lines are based on averages at 6-digit level

COMPARATIVE TARIFF POLICIES OF ASEAN MEMBER COUNTRIES

A question is raised however, Which countries and what sectors are likely beneficiaries of these concessions? To answer these questions, comparisons were made of MFN tariffs and CEPT tariffs for 1996 and 2000 across all ASEAN countries. The results are shown in Table 14. It is suggested, however, that the more pertinent comparison that needs to be made is not only between MFN and CEPT tariffs but the comparison of MFN rates and those contained in a consolidated tariff schedule resulting from the integration of the MFN files and CEPT files. To explain further, the consolidated file will consist of the CEPT levels where these are granted, and with MFN rates where no CEPT concessions are granted. This new file will more accurately reflect the prevailing tariff regime in any particular country and in ASEAN as a whole.

Comparison of MFN & CEPT Tariff rates. The results of the analysis comparing CEPT tariffs across industry groups or subsectors are summarized in Table 14.

Table 14. Comparison of MFN and CEPT Tariff Rates

Country (1)	Tariff MFN Rates (2)	CEPT Tariff Rates			
		1996 (3)	% Decrease (4)	2000 (5)	Total Decrease (%) (4-5)
Brunei Darussalam	4.4	1.81	58.9%	1.28	70.9%
Indonesia	12.4	8.36	32.6%	4.6	62.9%
Malaysia	7.6	3.76	50.5%	2.21	70.9%
Philippines	12.7	8.17	35.7%	4.38	65.5%
Singapore	0.0	0	--	0	--
Thailand	19.9	13.95	29.8%	7.08	64.4%
Viet Nam	12.1	0.92	92.4%	0.92	92.4%
ASEAN	9.9	5.28	46.6%	2.92	70.5%

Comparison of MFN & CEPT rates under a Consolidated Schedule. For purposes of a more realistic basis for looking at how ASEAN tariffs will change with the introduction of CEPT concessions a consolidated table of MFN and CEPT rates was constructed. Specifically, where CEPT concessions were granted (at 6-digit level CEPT rates were used) where no concessions were granted MFN rates were used. The resulting consolidated table more accurately reflects the situation in ASEAN where some subsectors do not enjoy any concessions.

To use only MFN rates would overstate ASEAN tariff levels; to use only the CEPT rates would ignore the excluded items which would be subject to MFN rates. The ideal situation would be to work at the most disaggregated level say, at 9-digit level and replace the CEPT rate with the MFN rates where applicable. The results of the comparison are shown below.

Table 15. Average ASEAN Tariffs under a Consolidated Tariff Schedule

Country	Tariff MFN Rates	Merged MFN/CEPT	CEPT Rates
Brunei Darussalam	4.4	2	1.81
Indonesia	12.4	8.6	8.36
Malaysia	7.6	4.0	3.76
Philippines	12.7	8.5	8.17
Singapore	0.0	0.0	0.00
Thailand	19.9	14.	17.95
Viet Nam	12.1		0.92
ASEAN	9.9	6.2	5.28

VII. Summary and Conclusions

The study confirms that MFN tariffs in ASEAN have declined substantially in the last decade. Compared to findings in earlier studies, ASEAN MFN tariffs have declined by as much as 51% since 1986. This is the combined effect of multilateral and unilateral actions involving trade liberation. In addition, acceleration in the pace of dismantling tariff barriers under the CEPT Program is expected to result in further reducing the ASEAN tariff average by as much as 70%. This development augurs well for the future of trade cooperation in the ASEAN region.

A few problems still remain. The intransigence of some sectors of remaining behind protective tariffs by seeking exclusion from CEPT reduction continues to challenge ASEAN leaders. There is also the continuing problem of non-tariff barriers including state trading operations, the use of export taxes, arbitrary customs procedures and abuse in the application of the Rules of Origin which threaten the success of the CEPT Program.

Transparency in the rules of the game is essential in the administration of a complex undertaking such as the CEPT Program. The harmonization of customs tariff schedules along the lines of the scheme adopted by the European Community will facilitate the progress of future exchanges of concessions under the CEPT. Also, the use of ad valorem tariffs instead of the increasing incidence in the use of specific or compound rates can make cross-country comparisons less tedious in the future.

The study has identified the sectors and subsectors whose rates make them likely prospects for further trade liberalization in the context of CEPT. The wide disparity in average tariffs among certain industry groups could be useful in pinpointing targets for future discussions on regional cooperation.

VIII. Policy Implications for the Philippines

Where does the Philippines find itself, given this background of the tariff policies of other ASEAN countries? Some sectors claim that the Philippines must chart its own economic destiny, without regard to what the other ASEAN countries are doing. Ultimately, they say our economic programs must rely primarily on the proper management of our own resources. On the other hand, international trade is an interactive exercise and does not take place in a vacuum. Like water, imports will flow where the tariffs are lowest.

Some disturbing aspects in the progress of AFTA come to mind as a result of this limited analysis:

(1) Some countries, such as Thailand, Malaysia, and Indonesia continue to pursue protective tendencies in their tariffs. Given the similarity of our production mix, what effect will this have on Philippine industries?

(2) It is observed that under the unilateral reform programs undertaken by ASEAN countries, exceptions were made for certain industries. This trend is carried over to the area of CEPT concessions resulting in the application of higher rates or special exclusions.

The Philippines, on the other hand, makes no exceptions, to the delight of ASEAN manufacturers and the consternation of Philippine producers. The prospect of adopting a uniform tariff of 5% within 3 years needs to be justified due to very real threats arising from alternative suppliers in ASEAN.

(3) With the cumulative rules of origin, Singapore is the likely biggest beneficiary of CEPT. How does the Philippine Government propose to counter this trend? What steps can it take to make the benefits more equitably distributed?

In trying to evaluate the dimensions of the problem of further trade reforms in the Philippines, it may be useful at this stage to take a hard look at the competitiveness of Philippine industries vis-a-vis its neighbors in the region. Furthermore, the timing of the Philippine unilateral tariff reforms needs to be synchronized with those under the CEPT program.

It is hoped that the findings of this study can contribute to the crafting of a well-coordinated approach to the announced targets by pinpointing areas for further reform.

Recent Changes in Trade Policies of ASEAN Countries

BRUNEI	<p>The relatively small size of Brunei compared to the rest of ASEAN countries belies the economic importance of this country. Brunei Darrussalam is a stable and prosperous country (GNP: US\$ 4624 M, 1995) which enjoys a strategic location in Southeast Asia. Its economy is based mainly on oil, and liquified natural gas industries.</p> <p>Because of its heavy dependence on crude oil and petroleum based exports, tariff policy does not play a major role in Brunei's economic development plans and programs. It is only in recent years that Brunei has consciously pursued a drive to increase the share of non-oil and gas based sector in GNP.</p> <p>Brunei's trade policy is essentially open, next only to Singapore, with 68.8% of import commodities at zero duty and the rest within a range of 5 to 30%. The only exceptions are those on alcoholic beverages, and tobacco. The average rate of duty is computed at 4.41%, the dutiable items of which are in Alcoholic Beverages and Tobacco, Coffee and Tea, Electrical Machinery, Photographic Equipment, Furniture, and Textile and Garments.</p>
INDONESIA	<p>Indonesia suffered large current account deficits in the early 1980s due to falling prices of its oil exports. This situation led to an overall reform and adjustment process which included a reform of the tariff in 1985 and 1986. From an average tariff of 32% at the start of the program, it dropped to 27 per cent by 1986 and was dropped further to 20 percent in 1993. However, the dispersion remained high with a standard deviation of 17 per cent from the average tariff. The tariff system was rationalized further: peak rates were dismantled resulting in a new tariff range of 0 to 30 per cent. In May 1995, tariffs on 6,030 were reduced, bringing the average tariff down to 15 per cent. For the first time, a schedule of time bound tariff reductions were announced. By the year 2003, the average tariff will be 7 per cent with most rates within a range of 1 to 7 per cent and a maximum rate of 10 per cent.</p> <p>Some exceptions are made however. Among these are agricultural products, which like other countries will be "tariffied" in accordance with WTO commitments, motor vehicles, chemicals and metal products all of which have a separate schedule of reduction over a ten-year period. There will be no tariff</p>

reductions on alcohol and alcoholic products. Finally, import surcharges which was a non-tariff barrier affecting imports, were reduced or eliminated in 1995. These exceptions make it difficult to gauge the impact of the reforms on the dispersion of rates.

Side by side with the reform of the tariff rate structure was the simplification of the tariff system. The use of specific and compound tariff rates was terminated, and the number of levels of rates was reduced.

MALAYSIA

After serious setbacks in export revenues caused by heavy dependence on primary exports in the 1970s and early 1980s, Malaysia undertook some major reforms in trade and industrial policies. These reforms led to impressive gains in its manufactured exports at the same time maintaining its primary exports. The tariff reforms helped to ensure that an over-all favorable environment was in place to support the export drive.

Malaysia has achieved a considerable degree of openness, with low import duties on manufactured goods. But tariffs on most high value agricultural products have remained comparatively high at 20 per cent and duties have been especially high for some food and agricultural products. The average (unweighted) nominal tariff rate declined from 37.9 per cent in 1978 to 27.3 per cent in 1987, and dropped further to 14 per cent in 1992. Tariffs are the main trade policy instrument in Malaysia and the tariff structure is reviewed and revised regularly so that there has been consistent liberalization on a unilateral basis for the past several years, with annual tariff reductions announced as part of the annual budget.

At the same time, a series of tariff reductions were undertaken to fulfill its commitments under the Uruguay Round of negotiations under GATT/WTO. Unfortunately, the impact of all these reforms on the general tariff average cannot be accurately determined due to the prevalence of the use of specific or compound tariff duties which obscure the real level of the tariff. For this reason, there is a standing agreement in the CEPT to avoid the use of specific or compound rates in the tariff submissions. Despite this agreement, more than 500 tariff lines or a total of 6.8 per cent of total tariff lines bear specific or compound rates.

The tariff schedule of Malaysia is based primarily on the latest version (1996) of the Harmonized System of Commodity Classification, but has been expanded to contain various subclassifications, bringing the total number of tariff lines to 7,874. There are 9 levels of tariff rates with a range of a minimum

PHILIPPINES	<p>of 0 to a maximum of 200 per cent.</p> <p>Over the last 15 years Philippine trade policy has gone through significant changes resulting in a steady decline in the level of tariffs. The first overall tariff reforms began in the early 1980s as part of a broader based industrial restructuring program. The level of average tariffs was brought down from 42% to 34.6%. The next round of tariff reforms took effect in 1991 consisting of a five year program of tariff reduction with gradual and substantial reductions in the number of tariffs still remaining at 40 and 50 per cent. The aim was to reduce the number of tariff levels to only four levels - 3, 10, 20 and 30 per cent, with limited exceptions for sensitive agricultural products and selected industrial products which remained subject to 50% duty. As a result of the program, average tariffs fell from 27.6 per cent in 1985 and was projected to fall to 16 per cent in 1995.</p> <p>Before the end of the 5-year period, subsequent changes in the tariff schedule reduced the tariff levels even further with the passage of E.O. 189 which immediately cut down tariff duties on capital equipment and spare parts for machinery to 10 percent and 3 per cent respectively. This was followed by E.O. 264 and E.O. 288 which again reduced the duty on industrial products and agricultural products, respectively. This new multi-year program will bring 767 per cent of total tariff lines to 0 to 10 per cent by 2000, after which only two levels will apply, 3 per cent for raw materials and 10 per cent for finished products by the year 2003.</p> <p>The Philippines has announced its intention to reach a uniform level of tariff of 5 per cent for all industrial products by 2004, achieving its intention to adopt a uniform level of protection across all sectors by reducing the level and spread of tariff rates begun in the 1980s.</p>
THAILAND	<p>Tariffs have played a major role in Thailand given that revenues from tariff duties heavily accounted for about one fourth of tax revenues. In fact, due to fiscal imbalances, tariffs were raised in 1985. A comparison of average tariffs in 1978 and 1984 showed that average tariffs in Thailand increased from 29.4 to 30.6 per cent second only to Indonesia. By 1987 the unweighted average tariff was only slightly lower than in 1983 and the dispersion in tariffs increased (Dean et al. 1994).</p> <p>The budget surplus in 1988 onwards gave the government greater flexibility in pursuing trade liberalization through substantial tariff reform. Tariffs had been identified as the main barrier to imports in Thailand. A Tariff Rate</p>

	<p>Restructuring Scheme was first introduced in 1990, reducing tariff rates on a product by product basis at the same time simplifying the tariff nomenclature. The second part of the program was announced at the end of 1994 as part of Thailand's commitment in the Uruguay Round and AFTA. The reductions are more broad based and will result in:</p> <ul style="list-style-type: none"> • a reduction of tariffs for more than 90 per cent of all tariff lines; • phase down of tariffs on 3,900 items, bringing down the average tariff to 27.24 in 1994 and 17.01 in 1997; and • reduction in the number of tariff levels from 39 to 6, with peak tariff at 30 per cent. <p>Some exceptions still remain, namely motor vehicles and parts thereof which remain at 60 per cent and alcoholic products and tobacco at 60 per cent. A number of tariff lines still impose specific or compound tariff duties, a reversal of previous policy which removed these types of rates in Thailand.</p> <p>Another feature of Thailand's tariff system is the wide dispersion of its tariff rates, resulting in high effective protection for a wide array of manufacturing subsectors such as agroprocessing products, food products, leather products, chemicals, textiles and motor vehicles. Implementation of tariff policy is sometimes inconsistent and discretionary.</p>
Viet Nam	<p>From a pure centrally planned economy based on agriculture, Vietnam is moving on the road to becoming a socialist market economy. Recent economic reforms in Vietnam are geared to move it towards a more open trading system over the next decade. Already there are signs of increased adherence to free trade rules topped with its application for accession to the World Trade Organization.</p> <p>In the wake of its economic reforms, Vietnam's tariff policy is undergoing a radical transformation as it seeks to find its place in a more liberalized trading environment. With formal acceptance of its full membership in ASEAN on 28 July 1995 and its accession to the Agreement on the Common Effective Tariff Scheme (CEPT) Vietnam will now participate actively in ASEAN affairs.</p> <p>As it joins the rest of Asean countries in pursuing the goals of AFTA, Vietnam's tariff policy needs to be reexamined. From a system that is built on a policy of protecting agricultural products and domestic import substituting industries it may need to reorient its targets as it enters the global market.</p> <p>The general pattern of protection in Vietnam is shown in Table 3 indicating the</p>

frequency distribution of tariff rates. Vietnam's tariff nomenclature is based on earlier versions of the Harmonized System. It does not however faithfully adhere to the System, eliminating or creating certain tariff lines, as local conditions require. This can lead to potential difficulties in negotiations with other trading partners.

The present tariff structure is a complex one consisting of twenty-two (22) tariff levels ranging from zero to 200% ad valorem. Its over-all average nominal rate is estimated at 12.1%.

Average tariffs of selected sectors are shown below, giving some indication of the relative restrictiveness of trade in some commodities. Peak tariffs of 100% and above are found in Alcoholic Beverages, Tobacco, and Motor Vehicles. At the other end of the range, there is a prevalence of what GATT/WTO refers to as "nuisance tariffs" of 1% or 2%, which are difficult to implement.

During the transition period of trade policy reforms, one of the policy options could well be the simplification of the tariff structure, first by reducing the levels and the wide dispersion in the rate structure. More importantly, a deliberate move towards bringing down peak rates (often redundant in any case) could achieve the goal of reducing the average level of protection within a reasonable period of time.

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AVERAGE RATES BY HS SECTION/SECTOR

Most Favored Nation (MFN)

Chapter From To		BRUNEI		INDONESIA		MALAYSIA		PHILIPPINES		SINGAPORE		THAILAND		ASEAN	
		Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	Ave. # of Lines
01	05	0.00	246	14.51	274	3.85	287	28.00	305	0.00	243	47.12	201	15.58	259
06	14	4.22	305	12.05	388	10.77	363	22.18	296	0.19	317	66.06	286	19.25	326
15	15	0.00	60	9.12	68	8.59	160	16.43	46	0.00	48	74.99	78	18.19	77
16	24	17.83	317	28.13	312	22.39	434	27.20	254	1.62	281	61.86	204	26.51	300
25	27	5.71	156	4.61	178	8.54	199	4.68	162	3.56	176	20.60	159	7.95	172
28	38	2.85	955	7.02	1,021	6.94	1,065	5.79	828	0.08	870	15.62	941	6.38	947
39	40	1.07	356	14.31	350	20.78	610	10.96	228	0.00	231	64.00	376	18.52	359
41	43	1.60	75	8.79	95	6.95	105	15.55	82	0.00	74	44.52	89	12.90	87
44	46	10.12	83	6.86	269	9.02	312	19.57	86	0.00	96	20.33	92	10.98	156
47	49	0.00	157	8.91	188	11.77	252	14.76	169	0.00	154	57.45	180	15.48	183
50	63	7.68	992	21.31	1,192	17.63	1,084	13.25	840	0.02	926	55.39	1,282	19.21	1,053
64	67	6.79	53	21.53	75	22.93	85	26.00	55	0.00	58	45.20	66	20.42	65
68	70	0.76	132	9.95	184	26.17	199	17.31	166	0.04	149	36.80	172	15.17	167
71	71	5.09	53	13.56	66	2.87	61	9.49	61	0.00	51	25.27	56	9.38	58
72	83	0.16	549	10.66	830	23.13	1,040	13.71	672	0.05	606	42.36	673	15.02	728
84	85	11.33	1,027	6.25	1,061	8.15	1,202	8.50	907	0.00	913	13.55	869	7.96	997
86	89	7.65	306	37.17	187	31.19	388	13.75	163	0.00	156	26.68	215	19.41	236
90	92	9.34	272	9.50	280	1.91	282	8.52	250	0.00	245	13.47	244	7.12	262
93	93	0.00	14	11.86	35	15.00	21	14.06	18	0.00	17	28.24	17	11.53	20
94	96	6.24	149	19.36	181	17.93	234	20.83	146	0.00	151	30.71	143	15.85	167
97	98	0.00	14	18.21	14	3.53	17	20.00	7	0.00	24	10.00	12	8.62	15
Average		6.02	6,271	13.02	7,248	14.52	8,400	13.42	5,741	0.22	5,786	37.94	6,355	14.19	6,634

AVERAGE RATES BY HS SECTION
Common Effective Preferential Tariff (CEPT) Program

Chapter From To		BRUNEI				INDONESIA				MALAYSIA				PHILIPPINES			
		Average Rate			No. of Lines	Average Rate			No. of Lines	Average Rate			No. of Lines	Average Rate			No. of Lines
		1996	2000	% Dec.		1996	2000	% Dec.		1996	2000	% Dec.		1996	2000	% Dec.	
01	05	0.00	0.00	-	193	11.82	7.52	36.38	194	1.10	0.81	26.36	194	6.35	3.46	45.51	194
06	14	0.00	0.00	-	273	6.48	4.82	25.62	270	0.63	0.47	25.40	268	7.14	3.19	55.32	271
15	15	0.00	0.00	-	53	5.14	3.11	39.49	52	1.55	1.50	3.23	53	7.85	2.34	70.19	53
16	24	0.06	0.06	-	165	13.49	8.30	38.47	181	4.46	2.21	50.45	180	10.02	5.48	45.31	181
25	27	0.00	0.00	-	151	3.07	2.79	9.12	151	0.84	0.55	34.52	151	3.73	2.74	26.54	150
28	38	0.29	0.28	3.45	756	3.11	2.43	21.86	759	0.66	0.42	36.36	760	4.96	3.23	34.88	759
39	40	0.08	0.04	50.00	187	7.06	2.69	61.90	189	8.20	3.51	57.20	187	9.18	4.46	51.42	189
41	43	0.59	0.59	-	74	7.16	2.87	59.92	74	2.82	1.26	55.32	74	16.34	6.69	59.06	74
44	46	8.31	2.81	66.19	79	7.34	4.81	34.47	79	9.36	6.01	35.79	67	12.11	5.90	51.28	79
47	49	0.00	0.00	-	149	6.27	3.20	48.96	149	7.17	5.01	30.13	148	6.16	3.09	49.84	149
50	63	3.50	3.50	-	808	13.82	4.78	65.41	809	7.00	3.93	43.86	809	11.06	5.23	52.71	809
64	67	3.68	3.68	-	55	19.83	12.38	37.57	55	10.62	5.16	51.41	52	10.24	6.18	39.65	55
68	70	0.27	0.17	37.04	138	9.42	5.55	41.08	138	5.03	2.86	43.14	139	11.63	5.60	51.85	138
71	71	2.60	2.60	-	52	7.99	4.64	41.93	52	1.25	1.21	3.20	52	5.91	5.48	7.28	52
72	83	0.02	0.01	50.00	587	8.12	5.26	35.22	587	4.79	2.86	40.29	586	10.57	5.38	49.10	587
84	85	5.25	2.59	50.67	739	7.60	4.23	44.34	762	2.67	1.73	35.21	762	5.74	4.03	29.79	762
86	89	0.00	0.00	-	135	3.90	2.51	35.64	132	3.89	2.61	32.90	131	3.75	2.75	26.67	132
90	92	3.32	2.45	26.20	208	7.12	4.94	30.62	230	0.93	0.71	23.66	230	8.07	3.81	52.79	230
93	93	0.00	0.00	-	17	0.00	0.00	-	17	1.29	0.94	27.13	17	0.97	0.68	29.90	17
94	96	1.72	1.72	-	133	17.08	10.90	36.18	131	6.79	4.28	36.97	131	15.13	8.06	46.73	131
97	98	0.00	0.00	-	10	10.52	6.63	36.98	7	3.06	2.78	9.15	8	20.00	7.86	60.70	7
Average		1.81	1.28	29.28	4,962	8.36	4.60	44.98	5,018	3.76	2.21	41.22	4,999	8.17	4.38	46.39	5,019

Note: Rates and number of lines are based on average at 5-digit level

AVERAGE RATES BY HS SECTION
Common Effective Preferential Tariff (CEPT) Program

Chapter		SINGAPORE				THAILAND				VIETNAM				ASEAN			
		Average Rate			No. of Lines	Average Rate			No. of Lines	Average Rate			No. of Lines	Average Rate			No. of Lines
From	To	1996	2000	% Dec.		1996	2000	% Dec.		1996	2000	% Dec.		1996	2000	% Dec.	
01	05	0.00	0.00	-	194	21.92	12.97	40.83	195	4.29	4.29	-	7	6.50	4.15	36.13	167
06	14	0.00	0.00	-	268	19.13	11.20	41.45	233	4.43	4.43	-	23	5.40	3.44	36.23	229
15	15	0.00	0.00	-	52	13.56	4.72	65.19	53	4.00	4.00	-	16	4.59	2.24	51.18	47
16	24	0.00	0.00	-	158	21.47	12.58	41.41	143	5.00	5.00	-	1	7.79	4.80	38.29	144
25	27	0.00	0.00	-	142	5.53	3.94	28.75	151	1.21	1.21	-	67	2.05	1.60	21.91	138
28	38	0.00	0.00	-	759	9.36	5.47	41.56	758	1.00	1.00	-	21	2.77	1.83	33.80	653
39	40	0.05	0.04	20.00	189	19.69	8.11	58.81	189	2.81	2.81	-	16	6.72	3.09	53.98	164
41	43	0.00	0.00	-	74	10.59	4.73	55.34	74	3.67	3.67	-	24	5.88	2.83	51.88	67
44	46	0.00	0.00	-	79	12.41	7.49	39.65	79	4.50	4.50	-	8	7.72	4.50	41.66	67
47	49	0.00	0.00	-	149	16.81	10.54	37.30	149	1.87	1.87	-	27	5.47	3.39	38.06	131
50	63	0.00	0.00	-	809	20.28	5.19	74.41	809	1.39	1.39	-	42	8.15	3.43	57.90	699
64	67	0.00	0.00	-	55	22.62	13.41	40.72	55	1.00	1.00	-	1	9.71	5.97	38.51	47
68	70	0.00	0.00	-	138	18.37	7.00	61.89	138	1.88	1.88	-	25	6.66	3.29	50.52	122
71	71	0.00	0.00	-	52	7.27	2.89	60.25	52	0.00	0.00	-	-	3.57	2.40	32.77	45
72	83	0.00	0.00	-	587	12.62	8.39	33.52	587	0.46	0.46	-	145	5.23	3.19	38.87	524
84	85	0.00	0.00	-	762	7.96	5.44	31.66	762	0.09	0.09	-	336	4.19	2.59	38.21	698
86	89	0.00	0.00	-	117	9.40	5.94	36.81	132	0.31	0.31	-	35	3.04	2.02	33.55	116
90	92	0.00	0.00	-	230	9.24	6.38	30.95	230	0.71	0.71	-	42	4.20	2.71	35.35	200
93	93	0.00	0.00	-	17	22.79	13.38	41.29	17	0.00	0.00	-	-	3.58	2.14	40.12	15
94	96	0.00	0.00	-	131	20.58	10.67	48.15	131	0.00	0.00	-	1	8.76	5.09	41.88	113
97	98	0.00	0.00	-	9	8.93	5.36	39.98	7	0.00	0.00	-	-	6.07	3.23	46.77	7
Average		0.00	0.00	-	4,971	13.95	7.08	49.25	4,944	0.92	0.92	-	837	5.28	2.92	44.63	4,393

Note: Rates and number of lines are based on averages at 6-digit level

SIMPLE AVERAGE OF TARIFF RATES BY SECTOR/SECTION

Merged CEPT and MFN Rates

Sector		BRUNEI		INDONESIA		MALAYSIA		PHILIPPINES		SINGAPORE		THAILAND		ASEAN	
		Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	No. of Lines	Ave. Rate	Ave. # of Lines
From	To														
01	05	0.00	198	12.09	213	1.06	216	10.02	213	0.00	213	21.92	195	7.52	208
06	14	0.00	275	6.99	282	0.65	281	7.88	283	0.07	281	20.23	241	5.97	274
15	15	0.00	53	5.33	53	1.62	54	8.11	55	0.00	53	13.31	54	4.73	54
16	24	0.06	167	15.30	191	4.43	189	11.23	191	0.00	189	19.87	169	8.48	183
25	27	0.00	153	3.06	153	0.83	154	3.74	152	0.00	153	5.53	151	2.19	153
28	38	0.36	767	3.25	813	0.68	813	5.04	812	0.00	813	9.36	758	3.12	796
39	40	0.07	193	7.45	204	8.44	200	9.19	204	0.05	204	19.59	190	7.47	199
41	43	0.59	74	7.16	74	2.82	74	16.34	74	0.00	74	10.59	74	6.25	74
44	46	8.31	79	8.05	95	10.67	96	13.92	95	0.00	96	12.41	79	8.89	90
47	49	0.00	149	6.26	151	7.16	151	6.16	151	0.00	151	16.81	149	6.07	150
50	63	3.53	818	13.83	828	7.32	827	11.07	828	0.00	828	20.28	809	9.34	823
64	67	3.79	56	19.93	57	11.27	57	10.93	57	0.00	57	22.62	55	11.42	57
68	70	0.27	138	9.20	153	6.79	154	11.46	153	0.04	153	18.37	138	7.69	148
71	71	2.60	52	7.99	52	1.25	52	5.91	52	0.00	52	7.27	52	4.17	52
72	83	0.06	590	8.27	665	4.87	661	10.67	664	0.00	663	12.58	589	6.08	639
84	85	5.70	762	7.95	852	3.15	854	6.40	852	0.00	845	7.98	763	5.20	821
86	89	0.15	136	3.88	133	4.06	133	3.74	133	0.00	133	9.40	132	3.54	133
90	92	4.89	231	7.25	246	1.14	246	7.74	246	0.00	246	9.24	230	5.04	241
93	93	0.00	17	0.00	17	1.29	17	0.97	17	0.00	17	22.79	17	4.18	17
94	96	1.85	134	17.08	131	6.79	131	15.13	131	0.00	131	20.58	131	10.24	132
97	98	0.00	10	10.52	7	3.06	8	20.00	7	0.00	9	8.93	7	7.09	8
Average		1.99	5,052	8.55	5,370	4.00	5,368	8.54	5,370	0.01	5,361	13.99	4,983	6.18	5,251

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