

# **Analyzing the Benefits of Joining the Asia-Pacific Trade Agreement (APTA) for Malaysia, Thailand, and Vietnam**

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## I. Introduction

In July 1975, seven ESCAP member countries (Bangladesh, India, Laos, the Republic of Korea, Sri Lanka, the Philippines, and Thailand) met in Bangkok and agreed on a product list for mutual tariff reductions. After the meeting, these countries considered signing the first trade agreement among developing countries, namely the “Bangkok Agreement.” Aimed to promote economic development through a continuous process among ESCAP members, the Bangkok Agreement was finally established and ratified by five of the seven countries, excluding the Philippines and Thailand. However, the Lao PDR has not yet issued customs notification on the tariff concessions granted. Thus, it is not considered an effective participating member.

In 2001, after the first and the second round of negotiations (in 1979 and 1985), the People’s Republic of China, the most populous country and the fastest-growing economy in the region, joined the Bangkok Agreement. The entry of China to the Bangkok Agreement made the Bangkok Agreement the only regional preferential trade agreement linking the two most populous countries of the world: China and India. The third round of negotiations offered a maximum of 50 percent Margin of Preference (MoP) on tariffs with respect to agreed items, using 2001 as the base year and including a wider coverage of products. The concession lists were agreed upon by the member countries during the third round of negotiations.

During the first session of the Ministerial Council of the Bangkok Agreement in November 2005 in Beijing, the Asia-Pacific Trade Agreement (APTA) was signed under the revitalization process. To establish APTA as a true Asia-Pacific trade bloc, one of the revitalization processes was to further liberalize trade among existing members and expand membership as a regional-wide preferential trade agreement of the Asia-Pacific. All developing member countries of ESCAP were eligible to accede to the Agreement. One of the most distinguished gains from joining the APTA was that members would have access not only to the two most populous and two of the fastest growing countries in the region, namely India and China, but also to opportunities to trade in major world markets, such as the Republic of Korea, and in newly developing markets in South Asia, such as Bangladesh and Sri Lanka. However, since intra-trade among the APTA members is still low (at around 10 percent of the total trade volume), the Participating States and UNESCAP, as the secretariat to APTA, identified a priority list of prospective member countries. Malaysia, Vietnam, and Thailand were selected as three prospective new members from ASEAN under APTA. For these countries, the potential gains from joining APTA are needed to be investigated in-depth and presented to them to help them reflect upon the potential benefits should they join.

The main purposes of this study are to analyze the country-specific benefits for Malaysia, Vietnam, and Thailand if they decide to join the agreement, including future policy implications.<sup>1</sup> In this regard, the research plan is presented in the seven sections that follow. In the next section, the overall economic situation and trade regime of Malaysia, Thailand, and Vietnam will be analyzed. The features of bilateral

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<sup>1</sup> This paper aims to deepen and strengthen analysis from Pholphirul (2006), which explains the potential gains if Thailand decides to be a member of the Bangkok Agreement. Pholphirul (2006) calculated some indicators and made estimates using a pool gravity model and found that trade can be increased in these industries within the Bangkok Agreement.

trading agreements between those prospective countries and APTA participating states are identified by examining volumes, trends, and shares of trade. This section will also update the status of free trade agreements, whether they have already been signed, are under review, or under negotiation by prospective countries and their partners. In addition, the Herfindahl-Hirschman Index (HHI) of three potential countries will be computed to measure the extent of the countries' export diversification. Section III analyzes the similarities of trade patterns of the prospective countries with each APTA Participating State by estimating three quantitative trade indices: 1) the Spearman's Rank Correlation between the Revealed Comparative Advantage (RCA), 2) Trade Intensity Index (TII), and 3) Intra-Industry Trade (IIT) Index. The RCA Rank Correlation will be used to discuss gains from trade in terms of whether the trade with APTA is substitutive (competitive) or complementary. The Trade Intensity Index will be used to identify sectors that are highly intensive in the APTA market. And, the Intra-Industry Trade Index will be used to analyze whether there are gains from variety from trading between prospective countries and APTA member states.

After analyzing potential gains/losses to Malaysia, Thailand, and Viet Nam, section IV aims, initially, to identify gains/losses within each country's various sectors. First of all, the paper will compare the RCA exports of the three prospective countries with the RCA imports of the member states to identify effects from "trade creation" and "trade diversion" at the sectoral level. Secondly, this section will match products under the current concession list based on the HS-6 digits for the products that APTA Participating States import from the prospective countries. Section V forecasts the increase in benefits according to further tariff concessions by estimating export demand from Malaysia, Thailand, and Vietnam to APTA member countries. At last, Section VI discusses some further potential benefits for Malaysia, Vietnam, and Thailand according to expansion of the coverage of APTA to trade facilitation, service liberalization, and investment. Section VII concludes.

## **II. Overview of the Economic Situations and Trade Regimes of the Prospective Countries**

Being permanent members of ASEAN since it was formed in 1992, Thailand and Malaysia are among the ASEAN-6 that have made significant progress in the lowering of intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme for AFTA. Vietnam, as one of ASEAN's newer members, is not far behind in the implementation of their CEPT commitments to bring down tariffs on products in the Inclusion List to no more than 5 percent duties.<sup>2</sup> There is no doubt that intra-ASEAN trade has been increasing, not only for Malaysia, Thailand, and Vietnam, but also in other ASEAN economies. The United States, Japan, and the European Union are, as usual, ASEAN's main trading partners. In addition, trade with China has been growing very fast in recent years. Even though intra-regional trade among ASEAN members has continually increased over time from 17.4 percent in 1980 to 22.8 percent in 2002 and 24.9 percent in 2006, intra-trade among ASEAN members is relatively low compared to other trade blocs around the world, such as

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<sup>2</sup> ASEAN achieved the original target of the AFTA as scheduled in 2003. Tariffs on almost all products traded among the ASEAN-6 were reduced to rates between zero and 5 percent. The ASEAN-4 has been implementing their Common Effective Preferential Tariff-(CEPT) commitments in line with timeframes agreed upon at concession.