

The Economic Impact of Increased *De Minimis* Thresholds on ASEAN Economies

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Overview of presentation

- Background to presentation
- Nature of ASEAN *de minimis* regimes
- Impact of increased thresholds on ASEAN economies



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Background



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What is a *de minimis* regime?

- Imports < a specified value can receive
 - More streamlined customs clearance
 - Exemption from customs duty
 - Exemption from other indirect taxes
 - Or some combination of the above
- Tax exemption: recognition of where revenue collected < cost of collection



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Why *de minimis* is important

- *De minimis*: one of the keys to trade facilitation
 - Reduces transaction costs on low value (LV) consignments
 - Recommended by WTO, WCO, OECD, ICC & APEC
 - BRN, MYS & SGP are participating in the APEC De Minimis Pathfinder



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Recent Consideration of *De Minimis*

- Petersen Institute (2011)
 - examined economic impact of a higher *de minimis* threshold on USA
- ITS & CCES (2011 & 2012)
 - evaluate economic impact of higher thresholds on 12 other economies
 - included IDN, MYS, PHL, THA & VNM (ASEAN-5)



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De Minimis Regimes in ASEAN



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De minimis regimes in ASEAN-5 (1)

- Regimes vary greatly across ASEAN-5
 - Thresholds: < US\$1 to US\$150
 - Coverage: from air express only to all by all modes (air, sea & mail)
 - Tax exemptions: customs duty (all) + VAT/GST (some)
- Design of regime affects balance of economic benefits & costs



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De minimis regimes in ASEAN-5 (2)

Economy	Tax Free Threshold (US\$)	Restrictions on Indirect Tax Exemption
Indonesia	50	No exemption for some taxes
Malaysia	150	No exemption for some taxes
Philippines	0.35	No exemption for some taxes
Thailand	33	No exemption for some taxes
Viet Nam	48	No exemption for some taxes. Exemptions only for air express

Economic Benefits & Costs of a Minimum Threshold

Approach to assessment (1)

- Estimated net economic benefit (NEB) for each economy
 - under 4 scenarios: minimum thresholds of US\$50, US\$100, US\$150 & US\$200
- NEB =
 - resource savings in: govt admin. + business compliance + goods transit time
 - *less* tax revenue foregone
 - ❖ estimated with & without GST/VAT loss
 - ❖ max. loss = nominal GST/VAT rate x total value of LV consignments



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Approach to assessment (2)

- Each scenario based on annual projection for each economy of:
 - total value of LV consignments
 - total no. of LV consignments
- Scenario projections based on:
 - survey of LV consignments entering each economy
 - estimates of modal shares of LV consignments
 - ❖ based on recent research on Australia



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Approach to assessment (3)

- Savings for government based on:
 - Processing fees for LV consignments charged by AUS Customs
 - ❖ Under AUS law, based on full cost recovery
 - ❖ GATT prohibits > full cost recovery
- Savings for business based on:
 - Customs brokerage on LV consignments entering AUS
- Both assumptions adjusted for labour cost differences with AUS



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Results for ASEAN-5 (1)

- Each ASEAN-5 gets net economic benefit from a higher threshold
 - under all scenarios
- On average, total benefits
 - > 5.3 - 5.6 x Revenue loss
 - ❖ assuming no GST/VAT revenue loss
 - > 1.8 - 2.0 x Revenue loss
 - ❖ assuming maximum possible GST/VAT revenue loss



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Net Economic Benefit for ASEAN-5, US\$ million per year

Economy	US\$200 scenario	US\$150 scenario	US\$100 scenario
Indonesia	13.3	9.2	4.3
Malaysia	22.5	0	0
Philippines	20.6	18.7	17.0
Thailand	43.4	35.5	27.0
Viet Nam	9.4	8.6	6.9
ASEAN-5	109.2	72.0	55.2



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Ratio of Benefits to Costs for ASEAN-5

Economy	US\$200 scenario	US\$150 scenario	US\$100 scenario
Indonesia	5.5	4.7	3.5
Malaysia	7.6	n.a.	n.a.
Philippines	6.0	6.3	7.0
Thailand	6.6	6.8	7.6
Viet Nam	2.8	2.9	3.1
ASEAN-5 (weighted av.)	5.6	5.3	5.6



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Benefit-Cost Ratios for ASEAN-5 under Maximum Possible VAT/GST Revenue Loss

Economy	US\$200 scenario	US\$150 scenario	US\$100 scenario
Indonesia	1.4	1.2	0.9
Malaysia	3.2	n.a.	n.a.
Philippines	1.6	1.6	1.8
Thailand	2.9	2.9	3.1
Viet Nam	1.0	1.0	1.0
ASEAN-5 (weighted av.)	2.0	1.8	1.8



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Results for ASEAN-5 (2)

- Of total benefits
 - 76% = savings in govt. administration
 - 23% = savings in business compliance
- Economics of low value transactions =>
 - 'volume effects' (processing savings) necessarily dominate
 - 'value effects' (revenue losses)



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Results for ASEAN-5 (3)

- ASEAN-5 revenue base has been cut by tax rate & coverage concessions
- Tariff concessions:
 - trade in goods already effectively duty-free among ASEAN-6
 - CLMV are well advanced to duty-free trade in all goods with ASEAN-6
 - ASEAN implementing tariff cuts under its FTAs with CHN, KOR, JPN, IND, AUS & NZL



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Results for ASEAN-5 (4)

- Differences in NEB estimates reflect differences in:
 - customs clearance arrangements
 - intensity of use of low value imports
 - size & structure of importing economy
 - geography of trading patterns
 - 'hidden' transaction costs for imports
 - ❖ uncertainty of transit time
 - ❖ uncertainty of condition on arrival
 - stage of economic development
 - level of existing *de minimis* threshold



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Results for ASEAN-5 (5)

- Paucity of data major constraint
 - Adopted highly conservative approach
 - No allowances for:
 - ❖ behavioural change => higher trade in LV consignments
 - ❖ co-ordinated approach by ASEAN economies => deeper economic integration
 - ❖ significant rate & coverage concessions in GST/VAT regimes
 - ❖ input tax credits in VAT/GST regimes
 - Better data should only *increase* our NEB estimates in a positive direction



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Conclusions (1)

- All ASEAN economies would benefit from
 - increasing their *de minimis* thresholds
 - broadening product coverage of their *de minimis* regimes
 - applying *de minimis* to all modes of delivery (air, sea & mail)
 - exempting *de minimis* consignments from GST, VAT & sales taxes



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Conclusions (2)

- Liberalisation benefits likely to be >> revenue loss
 - esp. where GST/VAT regime allows full tax credits on business inputs
 - => no net financial cost to government
- Commercially attractive *de minimis* both economically & fiscally sound
 - optimal level of the threshold somewhat open
 - but optimal direction of policy change very clear



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Conclusions (3)

- *De minimis* is a strong candidate for the ASEAN reform program
 - would generate a net benefit for each AMS
 - would deepen ASEAN economic integration
 - would enhance the outcomes from the AEC, ATIGA & ASEAN Connectivity Master Plan
 - offers an opportunity for quick gains to be made in each of the above



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Thank you!

***We welcome questions &
comments***



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