



# ASEAN Integration Report 2015



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# **ASEAN Integration Report 2015**

**The ASEAN Secretariat  
Jakarta**

The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967. The Member States of the Association are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam. The ASEAN Secretariat is based in Jakarta, Indonesia.

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ASEAN: A Community of Opportunities

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# Abbreviations and Acronyms

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
ABIF	ASEAN Bank Integration Framework
ACA	ASEAN Cosmetics Association
ACC	ASEAN Cosmetics Committee
ACCSQ	ASEAN Consultative Committee for Standards and Quality
ACD	ASEAN Cosmetics Directive
ACFCR(s)	ASEAN Common Food Control Requirement(s)
ACFTA	ASEAN-China Free Trade Area
ACFTA-JC	ASEAN-China Free Trade Area Joint Committee
ACIA	ASEAN Comprehensive Investment Agreement
ACM(s)	ASEAN Cosmetic Test Method(s)
ACMF	ASEAN Capital Markets Forum
ACMI	ASEAN Capital Market Infrastructure
ACSB	ASEAN Cosmetics Scientific Body
ACTD	ASEAN Common Technical Dossier
ACTI	ASEAN Connectivity through Trade and Investment
AC-TIG	ASEAN-China Trade in Goods Agreement
ACTLC	ASEAN Cosmetics Testing Laboratory Committee
ACTR(s)	ASEAN Common Technical Requirement(s)
ACTS	ASEAN Customs Transit System
ADB	Asian Development Bank
ADP	antidumping
AEC	ASEAN Economic Community
AECSP	AANZFTA Economic Cooperation Support Programme
AEF	Asia Electronics Forum
AEGC	ASEAN Experts Group on Competition
AEM	ASEAN Economic Ministers
AEM-MOFCOM	ASEAN Economic Ministers and China's Minister of Commerce
AFAFGIT	ASEAN Framework Agreement on the Facilitation of Goods in Transit
AFAFIST	ASEAN Framework Agreement on the Facilitation of the Inter-State Transport
AFAMT	ASEAN Framework Agreement on Multimodal Transport
AFAS	ASEAN Framework Agreement on Services
AFEED	ASEAN Framework for Equitable Economic Development
AFIC	ASEAN Furniture Industries Council
AFIF	ASEAN Financial Integration Framework
AFMM	ASEAN Finance Ministers Meeting
AFP(s)	ASEAN FTA Partner(s)
AFTA	ASEAN Free Trade Area
AHCRS	ASEAN Harmonised Cosmetic Regulatory Scheme
AHEEERR	Agreement on ASEAN Harmonised EEE and ASEAN Harmonised Electrical and Electronic Equipment Regulatory Regime

AHKFTA	ASEAN-Hong Kong Free Trade Area
AHN	ASEAN Highway Network
AHTN	ASEAN Harmonised Tariff Nomenclature
AIA	ASEAN Investment Agreement
AIF	ASEAN Infrastructure Fund
AIFTA	ASEAN-India Free Trade Area
AIIF	ASEAN Insurance Integration Framework
AIMO	ASEAN Integration Monitoring Office
AIR	ASEAN Integration Report
AJCEP	ASEAN-Japan Comprehensive Economic Partnership Agreement
AKFTA	ASEAN-Korea Free Trade Area
AMEM	ASEAN Ministers of Energy Meeting
aMP	ASEAN Market Place
AMS	ASEAN Member States
ANZ	Australia and New Zealand
APAEC	ASEAN Plan of Action for Energy Cooperation
APG	ASEAN Power Grid
APSC	ASEAN Political – Security Community
ARISE	ASEAN Regional Integration Support from the EU
ASAM	ASEAN Single Aviation Market
ASCC	ASEAN Socio-cultural Community
ASCOPE	ASEAN Council on Petroleum
ASEAN	Association of Southeast Asian Nations
ASEAN-BAC	ASEAN Business Advisory Council
ASEAN-6	Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand
ASEC	ASEAN Secretariat
ASPEC	ASEAN Patent Examination Cooperation
ASSIST	ASEAN Solutions for Investments, Services and Trade
ASTP	ASEAN Strategic Transport Plan
ASW	ASEAN Single Window
ATAP	ASEAN Transport Action Plan
ATF-JCC	ASEAN Trade Facilitation Joint Consultative Committee
ATFWP	ASEAN Trade Facilitation Work Programme
ATIGA	ASEAN Trade in Goods Agreement
ATISA	ASEAN Trade in Services Agreement
ATR	ASEAN Trade Repository
ATSN	Air Transport Sectoral Negotiations
AWGIPC	ASEAN Working Group on Intellectual Property Cooperation
BA	bioavailability
BAP	Brunei Action Plan
BDS	business development services
BE	bioequivalence
CAL	capital account liberalisation
CCA	Coordinating Committee on ATIGA
CCC	Coordinating Committee on Customs
CCI	Coordinating Committee on Investment
CCS	Coordinating Committee and Services
CEP	Comprehensive Economic Partnership
CEPA(s)	comprehensive economic partnership agreement(s)
CEPT	Common Effective Preferential Tariff Scheme
CIS	Collective Investment Schemes

CITES	Convention on International Trade in Endangered Species
CLMV	Cambodia, Lao People's Democratic Republic, Myanmar, Viet Nam
CMD	Capital Market Development
CO	Certificate of Origin
COMPASS	Capacity Building Project for Monitoring Integration Progress and Statistics
CTC	Change in Tariff Classification
CV	countervailing
DP(s)	Dialogue Partner(s)
DRFI	Disaster Risk Financing and Insurance
EE	energy efficiency
EEE	electrical equipment and electronics
EIU	Economist Intelligence Unit
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FDI	foreign direct investment
FLEGT	Forest Law Enforcement and Governance
FOB	free on board
FSL	financial services liberalisation
FTA	free trade area
FTA(s)	free trade agreement(s)
FTSE	Financial Times and Stock Exchange
GAADI	Gap Adjusted ASEAN Development Index
GAP	Good Agricultural Practice
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GEL	General Exceptions List
GHP	Good Hygienic Practice
GIR	gross international reserves
GMP	Good Manufacturing Practice
GMS	Greater Mekong Subregion
GVC(s)	global value chain(s)
GVP	Good Pharmacovigilance Practices
HACCP	Hazard Analysis Critical Control Point
HDI	Human Development Index
HRD	Human Resource Development
HS	Harmonised System
HSL	Highly Sensitive List
IAI	Initiative for ASEAN Integration
ICT	information and communication technology
IEA	International Energy Agency
IGA	Investment Guarantee Agreement
IIA	International Investment Agreement
IL	Inclusion List
IMF	International Monetary Fund
IMF CPS	IMF Coordinated Portfolio Investment Survey
IMTS	International Merchandise Trade Statistics
IOSCO	International Organization of Securities Commissions
IP	intellectual property
IPR	intellectual property rights
ISDS	Investor-State Dispute Settlement Mechanisms

ISO	International Organization for Standardization
I-TIP	Integrated-Trade Intelligence Portal
IWG	Implementation Working Group
JSC	Joint Sectoral Committee
Lao PDR	Lao People's Democratic Republic
LDC(s)	Least Developed Countries
LNG	liquefied natural gas
LPI	Logistic Performance Index
M&A	mergers and acquisitions
MAT	Maritime, Aviation, and Transit
MFN	Most Favoured Nation
MNE(s)	multinational enterprise(s)
MNP	Movement of Natural Persons
MPAC	Master Plan on ASEAN Connectivity
MRA(s)	Mutual Recognition Arrangement(s)
NAFTA	North American Free Trade Agreement
NDG	Narrowing the Development Gap
NRB	Natural-Resource Based
NSW(s)	National Single Window(s)
NT	National Treatment
NTB(s)	non-Tariff barrier(s)
NTM(s)	non-Tariff measure(s)
OCP	Operational Certification Procedures
OECD	Organisation for Economic Co-operation and Development
OIE	World Organisation for Animal Health
PACT	Pan-ASEAN Timber Certification Initiative
PFPWG	Prepared Foodstuff Products Working Group
PIF	Product Information Files
PIS	Priority Integration Sector
PLC(s)	publicly listed companies
PMS	post market surveillance
PPWG	Pharmaceutical Product Working Group
PSR	Product Specific Rules
QAB	Qualified ASEAN Banks
QR	quantitative restrictions
R&D	research and development
RCEP	Regional Comprehensive Economic Partnership
RE	renewable energy
RIA-FIN	Roadmap for Monetary and Financial Integration of ASEAN
RIATS	Roadmap for Integration of Air Travel Sector
ROK	Republic of Korea
ROO	rules of origin
RoRo	roll-on/roll-off
RPC	RCEP Participating Countries
RVC	Regional Value Content
SAAPCP	Strategic ASEAN Action Plan on Consumer Protection
SC-ROO	Sub-Committee on Rules of Origin
SEOM	ASEAN Senior Economic Officials' Meeting
SG	Safeguards
SKRL	Singapore-Kunming Rail Link
SL	Sensitive List

SME(s)	Small and Medium Enterprise(s)
SMEWG	SME Working Group
SOM-AMAF	Senior Officials Meeting of the ASEAN Ministers on Agriculture and Forestry
SOP	standard operating procedures
SPS	sanitary and phytosanitary measures
SSG	special safeguard
STOM	Senior Transport Officials Meeting
STRACAP	standards, technical regulations and conformity assessment procedures
TAGP	Trans-ASEAN Gas Pipeline
TBT	technical barriers to trade
TIN	Tax Identification Number
TNC	Trade Negotiating Committee
TRS	Tariff Reduction Schedule
TTR	Transit Transport Routes
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
UNSD	United Nations Statistics Department
VA	value-added
WC-CAL	Working Committee on Capital Account Liberalisation
WC-CMD	Working Committee on Capital Market Development
WC-FSL	Working Committee on Financial Services Liberalisation
WC-PSS	Working Committee on Payment and Settlement System
WGIC	Working Group on Industrial Cooperation
WHO	World Health Organization
WO	wholly obtained
WTO	World Trade Organization



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# Foreword

With the launch of the ASEAN Community at the end of this year, it is imperative for ASEAN to have a broad and consolidated assessment of its economic integration efforts. The ASEAN Integration Report (AIR) 2015 provides a comprehensive analysis of the progress and impacts of the measures undertaken by ASEAN towards the establishment of the ASEAN Economic Community (AEC). Building on the progressive efforts to monitor the implementation of the AEC Blueprint through the use of the AEC Scorecard and complemented by regional integration statistical indicators as well as findings from existing studies, AIR 2015 presents a quantitative and qualitative assessment of ASEAN economic integration efforts including both the achievements and challenges.

AIR 2015 shows that ASEAN economic integration measures have contributed fundamentally to the regional economic architecture, ensuring the continuing strong performance of our national and regional economies. Through the enhancement of regulatory frameworks, coupled with broad support and closer policy and programme cooperation among Member States to implement key regional commitments, the AEC presents greater trade, business and investment opportunities, fostering regional competitiveness in various economic sectors in its course of regional and global economic integration.

Looking forward to the implementation of AEC agenda in the next ten years, the ASEAN Integration Report, which will be published periodically, would form part of an enhanced monitoring framework to contribute to more informed policy and decision making process, imbuing the next phase of ASEAN economic integration with equitable development and sustainable growth that benefits all ASEAN peoples and ensures their better future.



**Le Luong Minh**

Secretary-General of ASEAN



# Executive Summary

1. **The ASEAN Integration Report (AIR) 2015** provides a comprehensive assessment of progress and achievements, and evaluates the impact of ASEAN economic integration, since the adoption of the ASEAN Economic Community (AEC) Blueprint in 2007. The Report covers key measures across the four pillars of the AEC 2015 namely (i) the Single Market and Production Base; (ii) the Competitive Economic Region; (iii) Equitable Economic Development; and (iv) ASEAN's Integration into the Global Economy. To allow for a more focused impact evaluation, the Report also contains a thematic chapter on the Priority Integration Sector (PIS) to evaluate the quantitative and qualitative progress made through, and the achievements of, this sectoral approach to economic integration.
2. **The overall structure of ASEAN economies has changed since the adoption of the AEC Blueprint in 2007 with the growing importance of the services sector.** The share of the services sector in the economy steadily increased to reach 50.2% in 2014 while both the industry and the agriculture sector's share declined and stood at 38.0% and 11.0% respectively. Growth in the region has been driven by an increasing share of foreign direct investment (FDI) inflows to the services sector, as well as a solid performance in the trade sector, contributing to the region's output expansion.
3. **Notwithstanding a more subdued growth trend in recent years, globally and in some ASEAN Member States (AMS), the growth outlook in the region remains relatively robust and better than the global average.** The global growth outlook is projected at 3.3% in 2015, slightly lower than last year's growth at 3.4%. While ASEAN's economic performance remained resilient in 2014 at 4.6%, the region is projected to sustain its growth momentum in 2015 before accelerating to 4.9% in 2016.<sup>1</sup> The relatively slower regional output growth in 2014 largely reflected lower growth by most of the larger economies in ASEAN (Indonesia, the Philippines, Singapore and Thailand) while Malaysia, Myanmar and Viet Nam recorded higher growth rates in 2014 compared to 2013.

<sup>1</sup> The global and regional growth projections are from the International Monetary Fund's *World Economic Outlook October 2015* and the Asian Development Bank's *Asian Development Outlook Update September 2015*, respectively.

4. **Regional economic integration will continue to contribute to economic resilience and growth performance.** Looking to 2015 and beyond, the macroeconomic landscape of ASEAN will continue to transform to weather challenging global economic conditions. Continued efforts to implement economic integration initiatives embodied in the AEC will have a significant, positive influence on trade and FDI, promoting overall economic growth in the region as well as stimulating structural transformation across ASEAN economies.
5. **In pursuit of the objective of free flow of goods under the first pillar of the AEC, significant progress has been made in the opening up of markets through tariff elimination.** A key element for establishing a single market and production base, the first pillar of the AEC, is the free flow of goods. Since the agreement to establish the ASEAN Free Trade Area (AFTA) was signed in 1992, AMS have shown continuous commitment to opening their markets through gradual tariff liberalisation, with the objective of a free flow of goods. Significant progress has been made since the entry into force of the Agreement on the Common Effective Preferential Tariff Scheme (CEPT) in 1993, followed by the adoption of the Protocol to Amend the Agreement on CEPT-AFTA for the Elimination of Import Duties in 2003 as well as the entry into force of the ASEAN Trade in Goods Agreement (ATIGA) in 2010. Progress in tariff elimination is demonstrated by the average ATIGA rate for all AMS standing at only 0.54% in 2014, compared with the Most Favoured Nation (MFN) average of 6.90%. In the case of Brunei Darussalam, Indonesia, Malaysia, the Philippines, Thailand and Singapore (the ASEAN-6), the average ATIGA rate is now negligible, while for Cambodia, Lao PDR, Myanmar and Viet Nam (the CLMV), this continues to be on a declining trend until elimination in 2018. The shares of ATIGA tariff lines at ATIGA 0% stand at 99.2% for the ASEAN-6 and 72.6% for the CLMV in 2014, and the latter is expected to increase to 90.8% in 2015.
6. **Beyond tariff elimination, efforts to follow through on other non-tariff initiatives have been redoubled.** The signing of ATIGA in 2009, and its entry into force in 2010, signified the region's holistic approach to address barriers to trade in goods beyond tariff liberalisation. The objective of a free flow of goods in ASEAN is also being pursued through other complementary initiatives and measures, such as reforming the ATIGA Rules of Origin, implementing trade facilitation work programmes, developing the ASEAN Trade Repository, addressing the issues of non-tariff measures, developing the ASEAN Single Window, the signing of the ASEAN Agreement on Customs in 2012 and harmonisation of standards, as well as pursuing mutual recognition arrangements (MRAs).
7. **While the share of intra-regional trade in ASEAN's total trade has been relatively steady at around a quarter of the total, collectively the ASEAN market remains the region's largest among the individual trading partners.** In 2014, intra-regional trade was 58.9% higher than in 2007, marginally above the growth in extra-regional trade of

51.7%. In terms of share of total trade, intra-ASEAN trade remained constant at 24.1% in 2014, but still higher compared to the share of China, ASEAN's largest external trade partner. This indicates that ASEAN's pursuit of regional integration is more far reaching and embraces the broader context of integration to the global economy.

8. **The growing trend for *servicification* calls for renewed focus and strategy to cultivate the potential of services market integration in the region.** Complementing the objective of free flow of goods is the equally important goal of free flow of services. The services trade in the region started at a comparatively lower base to merchandise trade in goods, but it has been on an increasing trend with persistently narrowing deficits with the rest of the world. The services sector now accounts for the largest share of the region's economy and equally is the biggest recipient of FDI inflows. Services market integration is currently pursued under the ASEAN Framework Agreement on Services (AFAS), signed in 1995 or three years after its trade in goods counterpart. To date, nine packages of commitments under AFAS have been concluded. AMS commitments in terms of numbers of committed subsectors and depth of commitments have progressively and significantly improved, as seen in the evolution of the AFAS packages of commitments. Efforts are also underway to enhance the current agreement through the ASEAN Trade in Services Agreement. It is recognised that the benefits from the removal of formal restrictions can be better realised when accompanied by efforts to address other forms of restrictions as well as a greater focus on regulatory co-operation.
9. **Regional competitiveness and productivity is further boosted by skills mobility through MRAs of select sectors.** The AFAS provides a mandate for MRAs to facilitate the free flow of skilled labour in ASEAN while taking into account relevant domestic regulations and market demand conditions. In total, eight MRAs have been concluded, namely on engineering services, nursing services, architectural services, framework for surveying qualifications, medical practitioners, dental practitioners, accounting services and tourism professionals. The ASEAN MRAs adopt different approaches, reflecting the varying nature of the provision of these services and the realities of regulatory regimes across the AMS. To date, some 1,252 engineers are recorded within the ASEAN Chartered Professional Engineers Register, together with 284 architects on the ASEAN Architect Register.
10. **ASEAN continues to improve on its investment regimes to become a single investment destination.** Under the banner of 'free flow of investment', the AEC Blueprint spelled out specific actions to achieve the objective of fostering a free and open investment regime in the region. Indeed, ASEAN is one of the key destinations for FDI, as shown by the steady increase in total FDI inflows into the region, which reached US\$136.2 billion in 2014. Intra-ASEAN FDI constituted a significant

component of the region's total FDI inflows, standing at 17.9% in 2014 compared with just 11.3% when the AEC Blueprint was first adopted. The ASEAN Comprehensive Investment Agreement, signed in 2012, has further transformed the investment environment in the region by making it more liberal, facilitative, transparent and competitive, anchored on the four pillars of investment liberalisation, protection, promotion and facilitation.

11. **Financial integration ensures the availability, accessibility and affordability of capital to implement various economic integration initiatives, and enable stakeholders to seize opportunities presented by the AEC while strengthening the economic resilience through greater reliance on the region's own financial resources.** ASEAN acknowledges the crucial role that financial integration plays towards realising the AEC, as well as the significant benefits that it will yield to the AMS economies. The Roadmap for Monetary and Financial Integration of ASEAN, endorsed in 2003, lays the foundation towards integration of financial markets in the areas of (i) capital market development; (ii) liberalisation of financial services; and (iii) capital account liberalisation. The adoption of an ASEAN Financial Integration Framework further strengthens this, leading to the realisation of several important milestones. The Qualified ASEAN Banks, the ASEAN Trading Link, the ASEAN Corporate Governance Scorecard, the ASEAN Collective Investment Schemes Framework and the ASEAN Infrastructure Fund are among several initiatives and measures that have been advanced to facilitate and support the financial integration agenda in the region.
12. **To allow ASEAN to compete meaningfully in the global arena, the creation of a single market and production base requires competitive regulatory frameworks and the necessary infrastructure in place.** There have been considerable achievements under the second pillar of the AEC, particularly in the creation of a competitive, connected economic region. Highlights for land transport include the construction of 'missing links' and upgraded roads under the ASEAN Highway Network. As for maritime co-operation, the adoption of the Roadmap towards an Integrated and Competitive Maritime Transport in ASEAN sets a framework for progressive development of integrated ASEAN ports and shipping sectors. On aviation, the implementation of the ASEAN open skies policy as part of the ASEAN Single Aviation Market aims at providing competitive space for expansion and opportunities for regional air travel.
13. **Further efforts are required to bring the regulatory frameworks on transport facilitation to their full implementation.** To further enhance an integrated, efficient and competitive transport system, initiatives on transport facilitation have been established to simplify and harmonise international transport procedures, reducing time and costs of logistics involved in transporting cargo and passengers. There are three specific initiatives under transport facilitation, namely: (i) the ASEAN Framework Agreement on the ASEAN Facilitation of Goods in Transit (AFAFGIT); (ii) the ASEAN



Framework Agreement on the Facilitation of the Inter-State Transport (AFAFIST); and (iii) the ASEAN Framework Agreement on Multimodal Transport (AFAMT). Among the major highlights under AFAFGIT, the ASEAN Customs Transit System (ACTS) pilot project in Malaysia, Singapore and Thailand which will commence in 2016 and will facilitate customs and transport procedures between countries to reduce delays in transiting and/or delivery of goods across borders. As of mid-2015, four protocols under the AFAFGIT have been signed but have not been ratified by all AMS, while Protocol 2 remains to be signed. The AFAFIST has been ratified by, and is in force among, Cambodia, Lao PDR, the Philippines, Thailand and Viet Nam and aims to increase the efficiency of inter-state transport. Finally, the AFAMT has been ratified and is in force in Cambodia, Myanmar, the Philippines, Thailand and Viet Nam. The AFAMT aims to facilitate the development and operationalisation of efficient multimodal transport services.

14. **Energy co-operation has an important role in supporting regional economic growth and security.** Guided by the ASEAN Plan of Action for Energy Co-operation, six out of 16 power interconnection projects for the ASEAN Power Grid have been implemented, with an additional six scheduled for completion in 2017, aiming for a regional renewable energy target of 15% in total installed capacity by 2015, as well as promoting development of R&D for renewable and alternative energy initiatives.
15. **Considerable progress has been made in the areas of competition policy, consumer protection and intellectual property rights, while business-enabling regulatory frameworks in the region are being strengthened.** To date, eight AMS have put in place competition law, and all but one AMS also have consumer protection law in place. Achievements under consumer protection include the establishment of an ASEAN Consumer Portal as well as the development of a strategic ASEAN Action Plan on Consumer Protection to develop a higher common level of consumer empowerment and protection. In this regard, a greater level of consumer confidence is being achieved within the AEC and in cross-border commercial transactions. As to the area of intellectual property rights, a major highlight is the establishment of the ASEAN TMView, an online platform that provides users with a practical tool to obtain data on trademarks. Currently, there are comprehensive competition laws and competition authorities in place in Indonesia, Malaysia, Singapore and Thailand, while other AMS are in the process of drafting and implementing competition-related laws.
16. **Pursuit of equitable economic development, the third pillar of the AEC, is undertaken through the Initiative for ASEAN Integration (IAI) for newer AMS, while focusing also on small and medium enterprises (SMEs) development.** Varying levels of development and capacity among and within the AMS need to be taken into consideration in ASEAN's economic integration agenda. In this respect, the IAI was launched in 2001 to narrow this divide through a framework of regional co-operation. The Hanoi Declaration on Narrowing the Development Gap for Closer

ASEAN Integration followed this approach. In 2011, the ASEAN Framework for Equitable Economic Development was endorsed by AMS to provide guiding principles for inclusive and sustainable growth for all sectoral and ministerial bodies under the AEC. These initiatives, along with 285 projects and activities amounting to US\$20.3 million implemented under the second IAI Work Plan, have contributed to assisting the CLMV in building general capacity to participate in the integration process in a more significant manner. More, however, needs to be done, particularly in reviewing and clearly defining the goals and objectives to be achieved in narrowing the development gap in the region.

17. **The contribution of SMEs to economic growth, employment and development in the region plays an important part in achieving equitable economic development and regional economic integration.** SME development in ASEAN is a key strategy, focusing on supporting SME access to finance, markets and global opportunities, human resources development, information and advisory services, technology and innovation. These objectives have given birth to the successful implementation of a number of initiatives which include the ASEAN Benchmark for SME Credit Rating Methodology, the SME Service Centre, the ASEAN SME Policy Index and the ASEAN Common Curriculum for Entrepreneurship. Moving forward, apart from information dissemination and promotion activities, efforts will be targetted at further improving SME capacity to participate effectively and proactively in regional and global value chains.
18. **In line with the fourth pillar of the AEC of integration into the global economy and leveraging on its comparative advantage and dynamic potentials, ASEAN has forged economic linkages with external partners through free trade and comprehensive economic partnership agreements (FTAs and CEPAs).** To date ASEAN as a region is a signatory to five FTAs/CEPAs with China, the Republic of Korea, Japan, India, Australia and New Zealand, respectively. These agreements have made a positive contribution to trade and investment relations between ASEAN and its trading partners. In addition to these FTAs/CEPAs, ASEAN together with its six FTA Partners are currently negotiating the Regional Comprehensive Economic Partnership (RCEP), which with its broader scope and deeper commitments, will bring significant improvements over existing ASEAN+1 FTAs. RCEP provides a platform for ASEAN to assert its centrality and cultivate its leadership role in the emerging regional architecture.
19. **ASEAN has embarked upon focused efforts to deepen and accelerate integration in the identified Priority Integration Sectors (PIS) with mixed results.** The sectoral initiatives were pursued as early as 2004 through the signing of the 'ASEAN Framework Agreements for the Integration of Priority Sectors' and an accompanying roadmap for each identified sector. The objective of the PIS initiative is to enable progressive,

expeditious and systematic integration of these sectors in ASEAN. Eleven original PIS were identified in 2004, namely: electronics, e-ASEAN, healthcare, wood-based products, automotive, rubber-based products, textiles and apparels, agro-based products, fisheries, air travel and tourism. Logistics services was added as the 12<sup>th</sup> PIS in 2006. While notable achievements and progress have been made in initiatives relating to the four natural-resource based (NRB) PIS – being agro-based products, fisheries, rubber-based and wood based products – there is no significant additional impact observed on intra-regional trade from the PIS initiative. More generally, considerable progress has been achieved in the areas of development of harmonisation of product standards and technical regulations in relation to safety, health and the environment, development of common testing facilities and recognition of testing and certification. However, in terms of trade performance, while three of the four NRB sectors have witnessed significant nominal and percentage growth in the value of exports between 2004 and 2014, growth in the share of intra-regional trade for these NRB sectors has been relatively muted.

20. **Focusing on recent initiatives undertaken in the priority integration sectors and subsectors of cosmetics, pharmaceuticals and electrical equipment and electronics (EEE), significant progress has been recorded in regulatory co-operation and standards harmonisation and positive trade performance.** Highlights in the areas of standard harmonisation include the development of MRAs on Bioequivalence study and Good Manufacturing Practice in the pharmaceutical sector. Similarly, in the cosmetics sector, the introduction of the ASEAN Harmonised Cosmetic Regulatory Scheme and the Post Market Surveillance Notification System assure safety and quality information. In EEE, steady progress has been made in the area of standards and conformity assessment under the Agreement on ASEAN Harmonised EEE and ASEAN Harmonised EEE Regulatory Regime.
21. **The strategy towards sectoral integration needs to be revisited and strengthened through clearer criteria, stronger institutional support and an effective review process.** The case studies in Chapter 3, though reflecting varied experiences, appear to highlight a common theme requiring clearer criteria in sector or subsector selection, measured formulation of initiatives taking into consideration the global value chain paradigm, effective institutional support and a participatory consultative mechanism, with an inbuilt review process to ensure relevance. Robust sectoral integration should be facilitated by a focused approach, adapted to sectoral specificities (i.e. effective design and processes and strong institutions, as has been manifested in the cosmetics and EEE sectors). A focused approach to strategic issues engenders tangible outcomes, as has been addressed in food security.

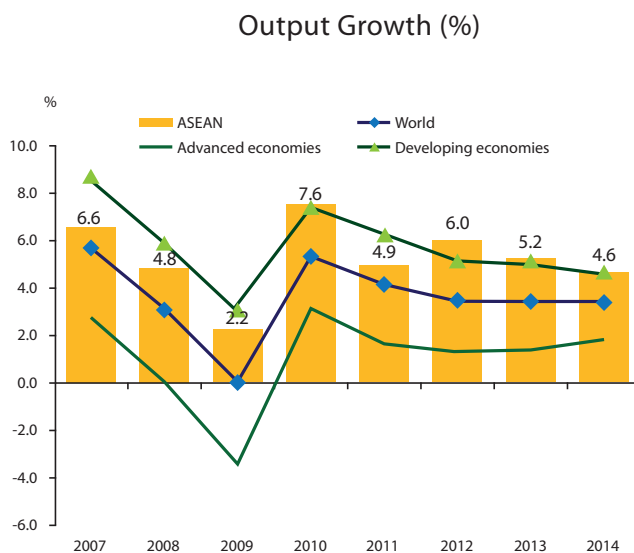
22. **While significant progress has been achieved across the broad areas of the AEC 2015, full implementation of key measures and realisation of benefits for stakeholders may carry through under the Post-2015 Agenda and would need support and commitment, including at the national level.** The Report highlights the ongoing and dynamic regional economic integration processes taking place in ASEAN. The AEC 2015 is not the end-goal but, rather, marks a new phase in ASEAN economic integration. ASEAN economic community building will continue progressively under the post-2015 agenda. Success of regional economic integration requires broad support, including from the AMS on a continuous basis, in terms of resource commitments, domestic reform and in the adjustment process for effective implementation of regional commitments.

# Chapter 1

## ASEAN's Macroeconomic Landscape in 2014

- 1.1 Global output increased by 3.4% in 2014, supported by higher growth in advanced economies at 1.8% compared to 1.4% in the previous year. Emerging economies, however, showed weaker growth at 4.7% in 2014 compared to 5.0% in 2013. Focusing on the region, ASEAN's economic performance remained resilient in 2014, although this was more subdued at 4.6% compared to the 5.2% growth in 2013 (Figure 1.1).

Figure 1.1



Sources: ASEANstats GDP data (September 2015) and IMF World Economic Outlook (October 2015) database.

- 1.2 While ASEAN's economic performance remained resilient in 2014, growth deceleration has been generally apparent over recent years. The slowdown in regional output growth in 2014 largely reflected the lower growth rates recorded by most of the larger ASEAN Member States (AMS), i.e. Indonesia, the Philippines, Singapore and Thailand. While Malaysia, Myanmar and Viet Nam registered higher

growth rates in 2014 relative to 2013, tepid economic performances were evident for the other economies, particularly for Singapore and Thailand, which showed far lower growth rates in 2014 compared to the year before (Table 1.1).

Table 1.1

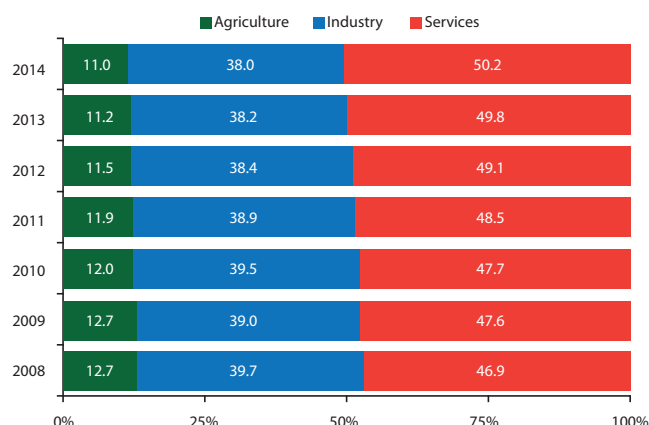
Annual GDP Growth (%)								
	2007	2008	2009	2010	2011	2012	2013	2014
Brunei Darussalam (BRN)	0.6	-2.4	-1.8	2.6	3.4	0.9	-2.1	-2.3
Cambodia (CAM)	10.2	6.7	0.1	6.0	7.1	7.3	7.4	7.0
Indonesia (IDN)	6.3	6.0	4.6	6.2	6.5	6.3	5.7	5.1
Lao PDR (LAO)	6.0	7.8	7.5	8.1	8.0	7.9	8.0	7.6
Malaysia (MYS)	6.3	4.8	-1.5	7.4	5.2	5.6	4.7	6.0
Myanmar (MMR)	12.0	10.3	10.5	9.6	5.6	7.3	8.4	8.7
Philippines (PHL)	6.6	4.2	1.1	7.6	3.7	6.7	7.1	6.1
Singapore (SGP)	9.1	1.8	-0.6	15.2	6.2	3.4	4.4	2.9
Thailand (THA)	5.0	2.5	-2.3	7.8	0.1	6.5	2.9	0.7
Viet Nam (VNM)	7.1	5.7	5.4	6.4	6.2	5.2	5.4	6.0
<b>ASEAN</b>	<b>6.6</b>	<b>4.8</b>	<b>2.2</b>	<b>7.6</b>	<b>4.9</b>	<b>6.0</b>	<b>5.2</b>	<b>4.6</b>

Source: ASEANstats GDP data (September 2015).

- 1.3 On several fronts, ASEAN's agenda of deeper economic integration – as embodied in the ASEAN Economic Community (AEC) Blueprint adopted in 2007 – has contributed to the transformation of the region's macroeconomic landscape. The agenda has assisted in sustaining economic dynamism in the region, and in the process has brought about changes across the AMS. Far from being accidental, the structural transformation of ASEAN economies arose particularly from deliberate implementation of policy measures to diversify narrowly-based economies, seeking new growth drivers preferably anchored to high value-added activities. The single market and production base fostered by the community building efforts of ASEAN provides a platform for output expansion while carving out business opportunities in new, cross-border markets.
- 1.4 Since the adoption of the AEC Blueprint in 2007, the overall structure of economies in ASEAN has changed, as shown by the evolution of the respective shares of economic activities supporting overall output growth (Figure 1.2). The services sector share steadily increased to about 50.2% in 2014 while the agriculture sector share declined to 11.0%. The share representing the industry sector, including mining and quarrying, manufacturing, utilities and construction, broadly remained unchanged at 38.0%.

Figure 1.2

## ASEAN Economic Sector's Average Share in Real GDP (%)



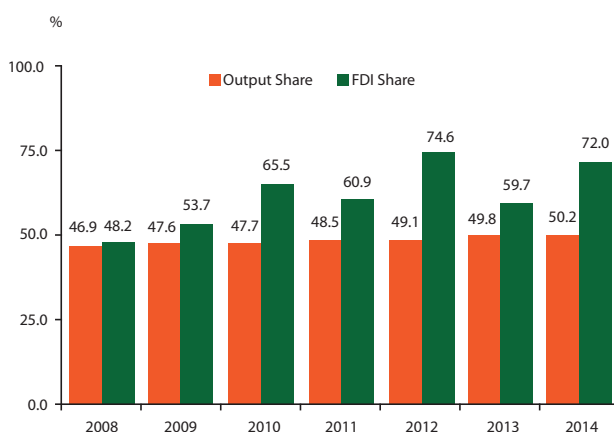
Note:  
GDP data disaggregated by sector are available for all AMS from 2008. Annual sectoral shares sum up to 100% after adding the share of residual balancing items (i.e. import duties, taxes and statistical discrepancies) not included in the three sectors, which is less than 1%.

Source: ASEANstats GDP data (September 2015).

- 1.5 With its steadily increasing share, the services sector has become a key driver of regional output growth. Further, the sector has benefitted from FDI. The uptrend of the services sector share as a recipient of FDI inflows is broadly in step with the rising services sector share in the region's total output (Figure 1.3). Literature about the effects of FDI on economic growth asserts that foreign investment is a key driving force for growth. For instance, the spillover effects of technology and knowledge transfer engender increases in productivity, which in turn bolsters economic growth.

Figure 1.3

## ASEAN Services Sector: FDI and Output Share (%)

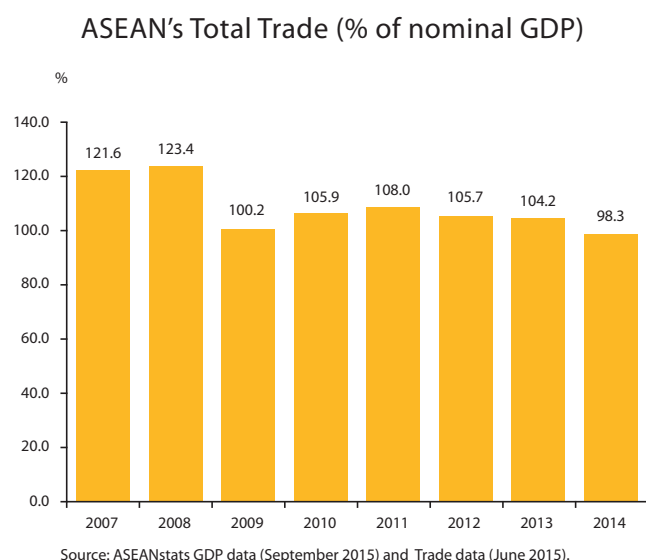


Note:  
The coverage of the services sector in GDP follows the classification under the System of National Accounts (<http://unstats.un.org/unsd/nationalaccount/sna.asp>). The coverage of the services sector in FDI follows the classification adopted by UNCTAD *World Investment Report*.

Source: ASEANstats GDP data (September 2015) and FDI data (May 2015).

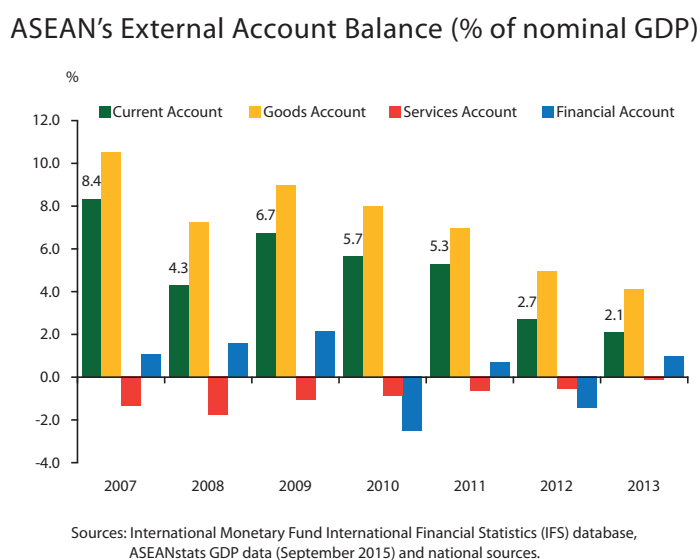
- 1.6 The robust performance of the merchandise trade sector has also been a resilient driver for the region's output expansion. The ratio of ASEAN's total trade to nominal output remains considerable, albeit lower over recent years after the 2008 global financial crisis, reaching 98.3% in 2014 (Figure 1.4).

Figure 1.4



- 1.7 The strong showing of the trade sector, abetted by ASEAN's policy agenda of deepening economic relations within the region and with the global economy, has served ASEAN well through reinforcing the region's external account position. The sizeable positive surpluses of the merchandise goods trade provide an offset to the trade in services deficit, keeping ASEAN's current account balance in surplus. It is worth highlighting that services exports have been growing faster over recent years, resulting in a narrowing of the trade in services deficit. By 2013, the ratio of ASEAN's current account balance to its nominal output stood at about 2.1% (Figure 1.5). Given the weak performance of the goods trade in recent years, the current account surplus ratio has been narrowing.

Figure 1.5

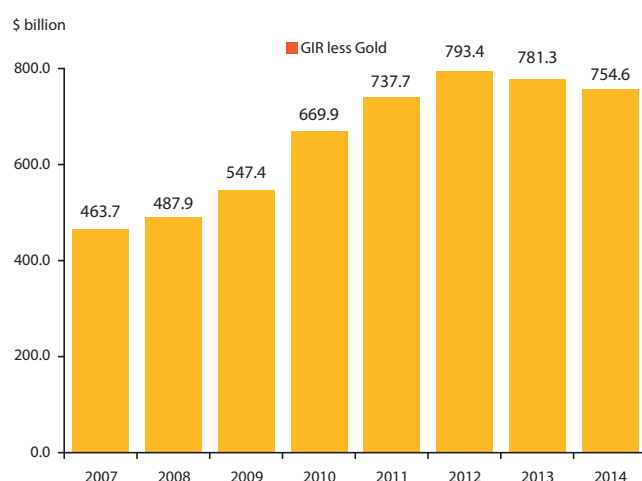




- 1.8 Furthermore, foreign exchange earnings from exports have significantly contributed to building up the region's gross international reserves, which amounted to US\$754.6 billion at the end of 2014 (Figure 1.6). The accumulation of foreign reserves has provided a sufficient buffer for ASEAN to manage external volatilities.

Figure 1.6

ASEAN's Gross International Reserves (GIR) less Gold (US\$ billion)



Source: International Monetary Fund International Financial Statistics (IFS) database.

- 1.9 The changes in the ASEAN region's macroeconomic landscape continued well into 2014. To a large extent, these changes are responses to the ever-changing dynamics of the broader global macroeconomic environment. Still, on several fronts, these transformations have also been influenced by the economic integration initiatives embodied in the AEC. This is evidenced by the sizeable influence of trade and FDI in promoting the region's overall economic growth as well as stimulating structural transformation across economies. In addition, the ASEAN region's resilience when facing possible external shocks is further reinforced through a more broad-based growth and a healthy external sector.
- 1.10 In 2015, however, the growth prospect for ASEAN is poised to be stable, projected to rise by 4.4% before accelerating to 4.9% in 2016 (ADB, September 2015). Further improvements in trade efficiency and the investment climate, building up momentum through the year with the realisation of the AEC by end-2015, are all likely to add to the growth impetus in the region.
- 1.11 These transformations of economic structures are further considered through a closer study of the elements of ASEAN's economic integration policy agenda; their effects draw out significant observations for policy consideration. Chapter 2 considers in further detail ASEAN's initiatives related to its economic integration agenda, as embodied in the AEC Blueprint, and highlights outcomes resulting from implementation of these initiatives.



## Chapter 2

# ASEAN Economic Community

- 2.1 The AEC Blueprint, signed in 2007 in Singapore by the Leaders of all 10 AMS, reaffirms the goal of regional economic integration declared at the Bali Summit in October 2003. The Blueprint carries into operation ASEAN's vision for developing the economic community. The AEC's remit is broad and multi-faceted, spanning a large spectrum of policy themes within four pillars, each with layers of strategic policies and varying implementation timelines.
- 2.2 The four pillars of the AEC comprise: (i) A Single Market and Production Base; (ii) A Competitive Economic Region; (iii) Equitable Economic Development; and (iv) ASEAN's Integration into the Global Economy. As broad and multidimensional as these are, the goals of the AEC have been met on many fronts.

### I. **Pillar 1: A Single Market and Production Base**

#### A. Free Flow of Goods

- 2.3 The goal of free flow of goods is a key element within the AEC's first pillar. The region has progressed significantly since the agreement to establish the ASEAN Free Trade Area (AFTA) was signed in 1992. Adoption of the AEC Blueprint in 2007 and the signing of the ASEAN Trade in Goods Agreement (ATIGA) in 2009 marked important milestones towards this goal.

#### *Elimination of Tariff Barriers*

- 2.4 Signed in 1992, the Agreement on the Common Effective Preferential Tariff Scheme (CEPT) marked the establishment of the AFTA. The agreement encouraged gradual intra-ASEAN tariff liberalisation from 1993.
- 2.5 In 2003, the Protocol to Amend the Agreement on CEPT-AFTA for the Elimination of Import Duties was adopted to push integration forward. Tariff lines in the Inclusion List (IL) were to be eliminated by 1 January 2010 for the ASEAN-6 (i.e. Brunei Darussalam, Indonesia, Malaysia, the Philippines, Thailand and Singapore) and by 1 January 2015 for the CLMV (i.e. Cambodia, Lao PDR, Myanmar and Viet Nam), with flexibility for some sensitive products for the CLMV by 1 January 2018. This timeline does not apply to products on the Sensitive List (SL) and Highly Sensitive List (HSL), which will be liberalised instead in accordance with the provisions of the Protocol

for the Arrangement for Sensitive and Highly Sensitive Products signed in 1999, and these will be gradually phased into the IL. Among others, the Protocol stipulates the phasing in of the remaining products on the Sensitive List into the CEPT scheme and for tariffs to be reduced to between 0% and 5%.

- 2.6 Adopted in 2007, the AEC Blueprint reaffirms this definitive tariff elimination timeline for the realisation of the free flow of goods. Products under the General Exceptions List (GEL) were also to be phased in, to conform to the CEPT Agreement. To date, there remain a few outstanding 'sensitive' products, including 'sin' products<sup>2</sup> on the GEL, despite the AFTA Council's mandate, due to requirements of domestic regulations in some AMS.
- 2.7 In addition to the 'normal track' elimination schedule for products on the IL, import duties on products covered under the Priority Integration Sectors (PIS) were to be eliminated according to an accelerated timeline of 2007 for ASEAN-6 and 2012 for the CLMV, three years earlier than the 'normal track', in keeping with the provisions of the ASEAN Framework (Amendment) Agreement for the Integration of Priority Sectors.<sup>3</sup>
- 2.8 Implementation of the CEPT-AFTA tariff elimination commitments in the AEC Blueprint was given stronger impetus by the signing and entry into force of ATIGA in 2009 and 2010, respectively. The ATIGA enhances the CEPT-AFTA as a more comprehensive legal instrument; consolidating and streamlining all the provisions in the CEPT-AFTA, as well as formalising relevant ministerial decisions and commitments in the AEC Blueprint as a single legal instrument.
- 2.9 With regard to tariff commitments, the ATIGA Annex 2 provides the full tariff reduction schedule for each AMS and spells out the annual tariff rates until 2015, contributing to regulatory transparency and business certainty. The ATIGA provisions also specified that for the CLMV, the flexibility for sensitive products for elimination by 1 January 2018 shall not exceed 7% of tariff lines, reducing opportunities for discretionary action. Further, import duties on all Information and Communication Technology (ICT) products, as defined in the e-ASEAN Framework Agreement, were eliminated by 1 January 2009 for the ASEAN-6, while for the CLMV products in their respective schedule B were to be eliminated in three tranches by 2008, 2009 and 2010.
- 2.10 Beyond tariff commitments, ATIGA also includes provisions on other elements critical for realising a meaningful free flow of goods; these include provisions on non-tariff measures, rules of origin (ROO), trade facilitation, customs, standards and conformance and sanitary and phytosanitary (SPS) measures. These will be considered in a later section.

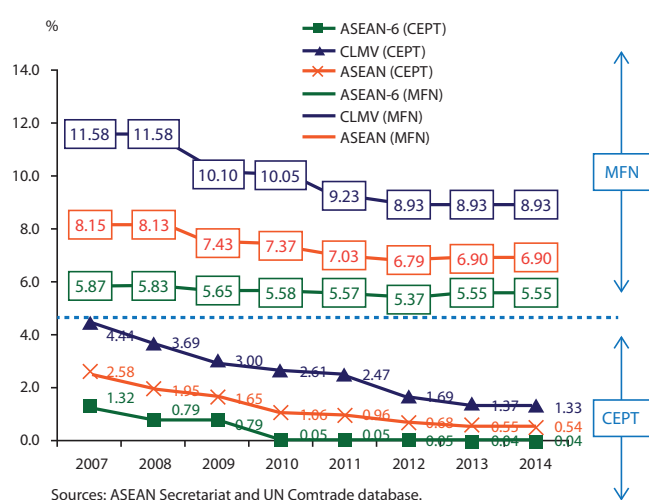
<sup>2</sup> Sin products refer to goods or services deemed harmful and unnecessary to the society, for example alcohol and tobacco.

<sup>3</sup> The PIS will be discussed in detail in Chapter 3.

- 2.11 Significant progress on tariff elimination has been made across AMS. In 2014, the average ATIGA rate stood at just 0.04% for the ASEAN-6, and 1.33% for the CLMV (or 0.54% average for all AMS). This is substantially lower than the 2007 rates of 1.32% and 4.44%, respectively (or a 2.58% average for all AMS) when the Blueprint was first adopted. Figure 2.1 compares ATIGA rates for the ASEAN-6 and the CLMV, with the simple average of applied Most Favoured Nation (MFN) rates<sup>4</sup> over time. For the ASEAN-6, the average ATIGA rate has become negligible since 2010, in accordance with the ATIGA Tariff Reduction Schedules (TRS), while that of the CLMV has also continued to decline.

Figure 2.1

ASEAN'sCEPT/ATIGA Rates and Applied MFN Rates

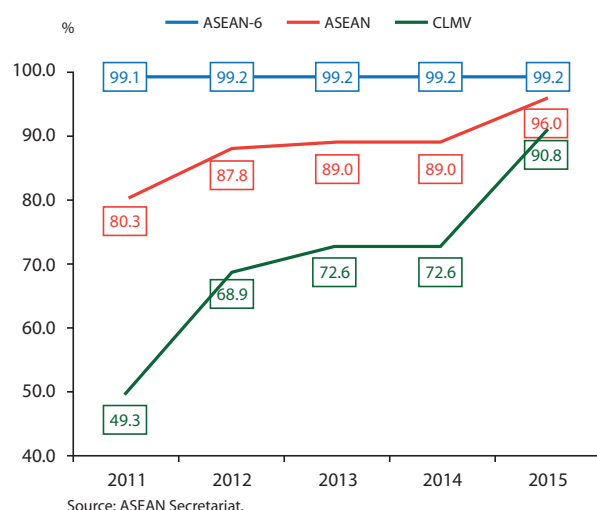


- 2.12 The detailed ATIGA tariff structure further confirmed the progress made on tariff elimination. The share of tariff lines at the ATIGA rate of 0% has increased across the AMS over the period under observation. For the ASEAN-6, the share stood at 99.2% in 2014 (Figure 2.2). The CLMV has also observed an increase in the share of tariff lines at ATIGA 0%, to 72.6% in 2014 from 46.5% in 2007. While the growth appeared more modest for the latter, this is expected to increase even further to 90.8% in 2015. By 2015, the share of ATIGA 0% tariff lines across ASEAN will have reached 96.0%. As stipulated in ATIGA, the CLMV has flexibilities for extended tariff elimination until 2018 for some sensitive products up to 7% of tariff lines. The post-2015 TRS for the 7% flexibility of the CLMV tariff lines have been endorsed by the AFTA Council.

<sup>4</sup> MFN rates are the standard rates charged on imports from all World Trade Organization (WTO) members, excluding preferential rates or lower rates charged within quotas. ([https://www.wto.org/english/res\\_e/statis\\_e/popup\\_indicator\\_help\\_e.htm](https://www.wto.org/english/res_e/statis_e/popup_indicator_help_e.htm))

Figure 2.2

## Share of Tariff Lines at 0% in the ATIGA Tariff Schedule



- 2.13 The remaining non-zero ATIGA tariff lines also continued to fall, far more evidently among the CLMV. The share of non-zero tariff lines at 5% or under for the CLMV has progressively declined from 52.3% in 2010 to 24.9% in 2014, and is expected to fall further to just 7.4% in 2015. For the ASEAN-6, the share remains marginal and somewhat unchanged at around 0.2% from 2010 to 2014 due to their TRS, for which the ATIGA tariff lines have fallen to 0% much earlier. For non-zero ATIGA tariff lines of above 5%, the share for the CLMV has further declined, from 1.6% in 2011<sup>5</sup> to 1.6% in 2014, after peaking at 1.7% in 2012. Again, this share is also expected to fall further to 0.6% in 2015. For the ASEAN-6, the share has remained unchanged at 0.1%. The total number of tariff lines included in the GEL has also declined, albeit marginally, from 632 in 2011 to 613 in 2014. The decline came entirely from the ASEAN-6, for which the number of tariff lines in the GEL decreased from 297 to 277 over the same period, while that for the CLMV actually increased by 1 (from 335) to 336 over the same period.
- 2.14 Nevertheless, it is widely recognised that tariff reduction or elimination is not the sole contributing factor to market integration. Similarly, its contribution is not automatic. Eligibility for tariff preferences in order for traders to enjoy the benefit of tariff reduction or elimination is determined by the originating status of the goods. Not all goods traded among the AMS will be eligible for ATIGA tariff preferences as goods first need to meet the ROO requirement (discussed in the subsequent section). Even for ASEAN-originating goods, not all are necessarily traded under ATIGA tariffs.

<sup>5</sup> The share in 2010 was 1.1%; there is no available data for Cambodia in 2010.

- 2.15 In trading originating goods internally within ASEAN, market players face a choice: to trade under the (non-preferential) MFN rate or to trade using the preferential rate, such as the ATIGA or ASEAN+1 Free Trade Agreement (FTA) rate. While intuitively the latter appears to be a better option, a commercial decision often depends on the margin of preferences (e.g. the difference between MFN rate and preferential rate) and the costs of preference utilisation. The lower the margin of preferences – or alternatively, the higher the costs of preference utilisation – the lower is the incentive for traders to opt for the preferential rate.

### *Rules of Origin*

- 2.16 ROO refer to the criteria used to define where a product was made, hence, its eligibility for preferential tariff treatment. Simple, business-friendly ROO, in design and in application, will contribute to preference utilisation and more broadly to the market integration efforts. However, overly stringent ROO that are unresponsive to the global trade landscape and realities of production will serve as impediments to regional integration efforts.
- 2.17 Under the AEC Blueprint, the free flow of goods is also being sought through continuous reform and enhancement of the ROO to respond to dynamic changes in regional production processes. These include the introduction of advance rulings, the simplification of Operational Certification Procedures (OCP) for ATIGA ROO, and other trade facilitative processes such as harmonisation or alignment of national procedures. Box 2.1 highlights key features of ROO.

#### **Box 2.1: Rules of Origin (ROO)**

The content of the ROO can be classified into two broad categories: ROO for goods that are wholly produced or obtained in the exporting AMS, and ROO for goods that are not wholly produced or obtained in such exporting countries. In ATIGA, the former is set out in Article 27 and generally follows the norms as in other FTAs. The latter is set out in Article 28 of ATIGA, and is usually applicable where negotiations are focused or extensively discussed and where there is considerable variation across FTAs.

Because ROO for non-wholly produced or obtained goods determines the criteria for benefiting from tariff preferences on value-added products, it is seen as critical for AMS value chain participation and upgrading endeavours. Such ROO may be generally applicable i.e. applicable across products or product-specific i.e. applicable only on the particular product for which it is specified. The latter is also known as Product Specific Rules (PSRs).

In terms of content, ROO may follow either of the following approaches: (i) regional value content (RVC); (ii) change in tariff classification (CTC), (iii) specific processes, or (iv) any combination of these.

Reference: ASEAN Secretariat.

- 2.18 Where PSRs exist under ATIGA, producers and exporters are required to comply with these instead of the generally applicable rules for those particular products. PSRs may appear to be more specific, but they are usually more customised for the industry or sector in question, hence may be more liberal in practice, contributing to easier compliance. In a few cases, however, PSRs may actually be less liberal than generally applicable rules.

- 2.19 The ATIGA has generally applicable co-equal rules of RVC at 40% or CTCat four-digit (tariff heading) level. The co-equal rule is comparatively less stringent as it allows exporters the freedom to choose the rules that they can meet most efficiently. This is stipulated in Article 28 (1b) of ATIGA.
- 2.20 The approach to calculating RVC under ATIGA allows for both direct and indirect methods as stipulated in Article 29, again providing more flexibility to exporters. The ATIGA also allows for partial cumulation with goods originating in other Member States, in accordance with the provision in Article 30 of ATIGA. There are also other specificities that further affirm the comparatively less stringent nature of ATIGA ROO, such as a short list of limitations with regard to minimal operations and processes (Article 31) and de minimis of up to 10% of Free on Board (FOB) value (Article 33).
- 2.21 Medalla (2015) compared the ATIGA ROO with those under four ASEAN+1 FTAs (i.e. the ASEAN-Korea Free Trade Area (AKFTA), the ASEAN-China Free Trade Area (ACFTA), the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Agreement and the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA). The study confirmed that ATIGA contains the highest share of tariff lines with a liberal co-equal rule for 84.3% of tariff lines<sup>6</sup>.
- 2.22 The list of applicable PSRs under ATIGA is set out in Annex 3 of the Agreement. The CEPT-PSRs were revised in 2009 and the reviewed PSRs were the ones implemented in 2010 as part of ATIGA. To date, the list has not been reviewed other than for the purpose of transposition to a more recent version of the harmonised system (HS). At present, ATIGA PSR has been developed for 2,652 items or subheadings (6-digit of the HS 2012) out of a total of 5,205 or 50.9% of total tariff lines. At the 22<sup>nd</sup> AFTA Council in August 2008, the AMS endorsed the terms of reference for the Sectoral Study on the most appropriate ROO to facilitate the integration of production networks within ASEAN, and agreed to prioritise sectoral studies on automotive and iron and steel. The AFTA Council considered the recommendations emanating from the study although no review ensued. Work is ongoing to continuously enhance the design of ATIGA ROO.
- 2.23 In addition to ensuring consistency with and facilitating trade under the latest HS version, a review of ROO could, and should, also be undertaken to reflect product developments and evolution, to expand the product coverage of PSRs and to ensure continued ASEAN centrality. This is wholly relevant as ASEAN+1 FTAs continue to advance in the development of their respective list of PSRs. Article 39 of ATIGA deals with the Sub-Committee on Rules of Origin (SC-ROO) and stipulates the functions of the SC-ROO; these include reviewing, as and when necessary, Chapter 3 on ROO to provide appropriate recommendations on making it responsive to the dynamic changes in the regional and global production processes to facilitate trade and investment among the AMS, promote a regional production network, encourage the development of SMEs and narrow development gaps.

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<sup>6</sup> 5,224 tariff lines at HS2002 at 6 digit level.



- 2.24 As well as enhancing the design of ATIGA ROO, work is being undertaken to improve the OCPs, of which the key is to implement ASEAN-wide Self-Certification. ROO Self-Certification facilitates trade by enabling exporters or producers to self-declare the origin of their goods without presenting a certification of origin issued by designated regulatory authorities. This practice, when effectively run, will contribute to cost reduction, particularly for smaller exporters often located at a distance from the regulatory authority.
- 2.25 Two pilot projects on Self-Certification are underway, the first implemented in 2010 and the second in 2014. Cambodia has recently joined Brunei Darussalam, Malaysia, Thailand and Singapore in the first Self-Certification Pilot Project. While Myanmar has joined Indonesia, Lao PDR, the Philippines, Thailand (joining both projects) and Viet Nam in the second Self-Certification Pilot Project. Myanmar is at the final stages of preparations for joining the first Self-Certification Pilot Project. While recognising that newer participants may require additional time to implement the Pilot Projects, ASEAN remains steadfast in achieving the goal for an ASEAN-wide implementation of Self-Certification. By enabling exporters or producers to self-declare the origin of their goods, the Self-certification scheme allows businesses to save costs and time.
- 2.26 Improvement of the Form D Certificate of Origin (CO Form D) is also ongoing. For example, taking effect from 1 June 2014, all but two AMS (Cambodia and Myanmar, which have been given a 2-year flexibility) have been implementing the removal of the requirement to state the FOB value in Form D in cases where Wholly Obtained (WO), Change in Tariff Classification (CTC), Process Rule or Specific Processes is applied as the origin criterion. Likewise, work is underway to complete the amendment of the existing OCPs to enable the acceptance of electronic ATIGA CO Form D under the ASEAN Single Window.

### ***Trade Facilitation***

#### Trade Facilitation Work Programme

- 2.27 The AEC Blueprint stipulates the development and implementation of a trade facilitation work programme aimed at simplifying, harmonising and standardising trade and customs processes, procedures and related information flows. The development of a comprehensive ASEAN Trade Facilitation Work Programme (ATFWP) is also envisioned in Article 35 of ATIGA, and is expected to set out all concrete measures with clear targets and timelines for implementation necessary at both ASEAN and national levels. It is envisaged as covering the areas of customs procedures, trade regulations and procedures, standards and conformance, SPS measures, the ASEAN Single Window and other areas identified by the AFTA Council.
- 2.28 In August 2008, ASEAN Economic Ministers adopted the ATFWP. Subsequently, in 2009, the ASEAN Trade Facilitation Framework was adopted and the ASEAN Trade Facilitation Indicators were endorsed.

- 2.29 The ATFWP 2007-2015 is updated annually before its report is presented to the AFTA Council by the Coordinating Committee on ATIGA (CCA). From 2007 to 2011, the ATFWP was coordinated and monitored by the ASEAN Trade Facilitation Joint Consultative Committee (ATF-JCC), which was then suspended by the ASEAN Senior Economic Officials' Meeting (SEOM) in 2011. Since then, measures forming part of the ATFWP have been monitored by relevant sectoral bodies, including the ASEAN Consultative Committee for Standards and Quality, the ASEAN Single Windows Steering Committee, and the Customs Procedure and Trade Facilitation Working Group. These sectoral bodies will provide recommendations, through the ASEAN Secretariat (ASEC) to CCA, which will then report to the AFTA Council.
- 2.30 At the 21<sup>st</sup> ASEAN Economic Ministers (AEM) Meeting Retreat, Member States agreed to reactivate the ATF-JCC, and a meeting was subsequently held from 11 to 12 May 2015 in Kuala Lumpur. The ATF-JCC was tasked to include active participation from the private sector to address issues relating to non-tariff barriers (NTBs) and non-tariff measures (NTMs). In addition, the ATF-JCC will be considering the OECD trade facilitation indicators as one of the benchmark options when reviewing the ease of doing business across all Member States. At the same meeting, the AEM also agreed on the proposal to revamp and reformulate a system to deal with complaints raised by ASEAN enterprises, which would be referred to as the ASEAN Solutions for Investments, Services and Trade (ASSIST) system.

#### ASEAN Trade Repository

- 2.31 The establishment of an ASEAN Trade Repository (ATR), documenting trade and customs laws and procedures accessible in the public domain, has been authorised under Article 13 of ATIGA. The ATR is expected to contain trade-related information such as MFN tariffs; preferential tariffs offered under ATIGA and other ASEAN+1 FTAs; ROO; NTMs; national trade and customs laws and rules; procedures and documentary requirements; administrative rulings; best practices; and a list of authorised traders. The ATR interface is also being developed with the support of a Dialogue Partner as an on-going process.
- 2.32 To date, four AMS (Indonesia, Lao PDR, Malaysia and Thailand) have completed their National Trade Repository (NTR) web portals, while the others are working towards completing their respective NTR web portals. The establishment of the ATR will contribute to a meaningful reduction in business costs, providing regulatory transparency and greater certainty in business dealings. Further, the ATR is also expected to act as a support mechanism for implementing other AEC measures such as the elimination of NTBs, as will be described in the next section.

### Non-Tariff Measures

- 2.33 The first pillar of the AEC Blueprint addresses the elimination of NTBs. To an extent the goal is aspirational, referring to the full elimination of NTBs. Box 2.2 summarises ASEAN's specific actions on the removal of NTBs.

#### **Box 2.2: Elimination of Non-Tariff Barriers (NTBs)**

While committing to a standstill and roll-back on NTBs, the AEC Blueprint foresees the removal of all NTBs in three tranches.

In accordance with the agreed Work Programme on NTB elimination, the schedule specifies:

- i. by 2010 for Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand;
- ii. by 2012 for the Philippines; and
- iii. by 2015 with flexibilities up to 2018 for the CLMV.

The above commitments also form part of Article 42 of ATIGA on Elimination of other Non-Tariff Barriers (other than Quantitative Restrictions), whereby NTMs identified as NTBs were to be eliminated in three tranches as follows:

- i. Brunei, Indonesia, Malaysia, Singapore and Thailand by 1 January 2008, 2009 and 2010;
- ii. The Philippines by 1 January 2010, 2011 and 2012; and
- iii. The CLMV by 1 January 2013, 2014 and 2015, with flexibilities up to 2018.

Reference: ASEAN Secretariat.

- 2.34 Article 40 of ATIGA plans for the development of a database on NTMs to be applied in the AMS. However, the database is expected to be developed in the context of, and to be included in, the ATR, which has yet to be established. Initial progress has been made, with each AMS submitting a list of NTMs (in MS Excel format), which was posted on the ASEAN website<sup>7</sup>. The current lists for each AMS were variously updated between 2007 and 2010, but have not been revised since the latter date. Further, information was not uploaded in a standardised format, with some AMS using the traffic light system of classification adopted under ATIGA (i.e. green for justified NTMs, amber for potentially barrier-creating NTMs, and red for clear cut NTBs). Given the commitment on NTMs, there is room for further improvement as to the format in which information is made available, accessible and with a clear mechanism for regular review and updating of the lists.
- 2.35 ASEAN has established a Work Programme on Streamlining ASEAN NTMs 2013-2014, under which AMS were expected to establish a revised NTM inventory using WTO-consistent United Nations Conference on Trade and Development (UNCTAD) classifications, while developing NTM information portals at country and ASEAN levels (linked to the NTR and ATR required under Article 13 of ATIGA). An institutional mechanism was also envisaged to monitor and enforce agreed NTM streamlining objectives at the country and ASEAN levels. These commitments broadly match those under Article 42 of ATIGA.

<sup>7</sup> <http://www.asean.org/communities/asean-economic-community/item/non-tariff-measures-database>

- 2.36 There are several ongoing initiatives to address NTMs and trade facilitation, including the reclassification exercise of aligning ASEAN NTMs with the new UNCTAD NTM classification system mandated during the 24<sup>th</sup> AFTA Council Meeting. To follow up, the 26<sup>th</sup> AFTA Council mandated AMS to promptly update their existing ASEAN NTMs prior to re-classification. Currently, Member States are at various stages of upgrading their databases. All Member States have also established interagency bodies at the national level to strengthen coordination when addressing NTMs and NTBs. In taking steps towards addressing existing NTMs, discussions are underway regarding actual NTM cases compiled in the 'Matrix of Actual cases on NTMs/NTB', which are regularly uploaded to the ASEAN website.
- 2.37 In a study by Cadot et al. (2013), challenges were noted in terms of institutional fragmentation (i.e. the number of different regulatory agencies involved) and countries' natural conflict of interest in openly listing their NTMs due to fears of subsequent accusations and/or lower rankings for surveys such as the World Bank's Doing Business. The report further states that based on the available data, the use of NTMs in the ASEAN region appears similar to those in other regions. The overall conclusion is that ASEAN's 'notify-negotiate-eliminate' approach presents some room for improvement.
- 2.38 In quantitative terms, with the available data, it is not feasible to calculate the number of ASEAN NTMs identified as NTBs, or the number of NTBs eliminated. However, the WTO Integrated Trade Intelligence Portal (I-TIP Goods) lists the measures notified by members of the WTO, including the 10 AMS. Measures are classified under six headings: Antidumping (ADP); Countervailing (CV); Quantitative Restrictions (QR); Safeguards (SG); Sanitary and Phytosanitary (SPS); Special Safeguards (SSG); and Technical Barriers to Trade (TBT). Table 2.1 shows notified measures by each AMS.

Table 2.1

Notified Non-Tariff Measures

	ADP		CV		QR	SG		SPS		SSG	TBT		Total
	I	F	I	F	F	I	F	I	F	F	I	F	
BRN	0	0	0	0	0	0	0	2	1	0	2	0	5
CAM	0	0	0	0	0	0	0	0	0	0	2	1	3
IDN	20	15	0	0	0	10	16	53	42	0	78	14	248
LAO	0	0	0	0	0	0	0	1	0	0	1	0	2
MYS	8	19	0	0	0	2	0	27	6	0	205	6	273
MMR	0	0	0	0	0	0	0	0	0	0	1	0	1
PHL	1	0	0	0	0	4	7	119	142	7	242	1	523
SGP	0	0	0	0	43	0	0	36	17	0	28	11	135
THA	4	34	0	0	59	2	2	205	18	0	523	22	869
VNM	0	0	0	0	0	1	1	43	23	0	44	7	119
<b>Total</b>	<b>33</b>	<b>68</b>	<b>0</b>	<b>0</b>	<b>102</b>	<b>19</b>	<b>26</b>	<b>486</b>	<b>249</b>	<b>7</b>	<b>1,126</b>	<b>62</b>	<b>2,178</b>

Note:  
I = initiated; F = in force.

Source: WTO Integrated Trade Intelligence Portal (<http://i-tip.wto.org/goods/default.aspx?language=en>).

- 2.39 Across all sectors, the largest areas of concentration in nominal terms are TBTs (which account for 1,188 measures although only 62 are in force), and SPS (accounting for 735 measures, with 249 in force). The latter are closely linked to trade in natural resource based products, many of which are identified as PIS. (Further consideration on this issue is provided in Chapter 3). At 102 measures, quantitative restrictions are also quite prevalent. While country breakdown of notified NTMs is available, there is considerable variation in the measures listed, ranging from 1 for Myanmar to 869 for Thailand, raising concern over the effectiveness of the notification mechanism and data reliability.
- 2.40 The concrete steps taken to revamp and reformulate a system to address complaints of ASEAN enterprises through the ASSIST system will give timely impetus towards the establishment of an integrated ASEAN goods market.

#### ASEAN Single Window

- 2.41 The region is developing the ASEAN Single Window (ASW) to enhance trade facilitation through an integrated platform of partnerships among government agencies and end-users, such as economic, transport and logistics operators, in the movement of goods. The ASW is a centrepiece of the AEC initiative that will facilitate cross-border trade by enabling electronic data exchange for cargo clearance and release.
- 2.42 The ASW connects and integrates the 10 National Single Windows (NSWs) of AMS once operational. The NSWs enable a single submission and synchronised processing of data and information and a single approval point for customs clearance of cargo, expediting customs clearance and reducing transaction costs. The ASW's implementation ensures compatibility of NSWs with international open communication standards, while also ensuring secure and reliable exchange of data between Member States and any trading partners that use international open standards.
- 2.43 The AEC Blueprint targeted the operationalisation of NSWs in the ASEAN-6 by 2008 and the CLMV by 2012. Likewise, Article 49 of the ATIGA obliges AMS to undertake the necessary measures to establish and operate their respective NSWs and implement ASW, all in accordance with the provisions of the Agreement to Establish and Implement the ASW, and the Protocol to Establish and Implement the ASW, which were signed in 2005 and 2006, respectively. A more comprehensive and binding Protocol on the Legal Framework to Implement the ASW was finalised in September 2014, and is expected to be signed in 2015 by the ASEAN Finance Ministers. It will govern the legal aspects of the eventual implementation of the ASW across the AMS.

- 2.44 Significant progress has been made in the development and implementation of the ASW and the NSWs. This is particularly so with the endorsement in September 2014 of the Terms of Reference for the implementation of the full-fledged ASW Pilot Project Component 2 by the ASEAN Single Window Steering Committee. The full-fledged ASW Pilot Project Component 2 outlined the transition plan proposed by the USAID-funded ASEAN Connectivity through Trade and Investment (ACTI) Project with exchange-ready Member States to commence the implementation of the full-fledged ASW Pilot Project Component 2 in stages with the exchange of the ATIGA Form D. Following appointment of the contractor, work began in early April 2015, and will cover three phases: development and testing with test data; parallel testing prior to cutover to live operation; and live operation. The full-fledged ASW Pilot Project Component 2 is due to end in December 2016.

#### Customs

- 2.45 Customs integration is a key element in the free flow of goods. Chapter 6 of ATIGA deals with the subject, with the broad objectives to: ensure predictability, consistency and transparency in the application of AMS customs laws; promote efficient administration of customs procedures and expeditious clearance of goods; simplify and harmonise customs procedures and practices; and promote co-operation among customs authorities.
- 2.46 The Chapter on Customs in ATIGA offers extensive coverage, including pre-arrival documentation, risk management, the application of IT, customs valuation, Authorised Economic Operators, Post Clearance Audit and advance rulings.
- 2.47 In 2012, ASEAN Finance Ministers signed the ASEAN Agreement on Customs, which operationalises Chapter 6 of the ATIGA. The Agreement entered into force on 4 November 2014 following ratification by all AMS. The objectives of this Agreement are to: simplify and harmonise customs valuation tariff nomenclature and customs procedures; ensure consistency, transparency and fair application of customs laws, regulations and procedures; ensure efficient administration and expeditious clearance of goods; and explore other appropriate intra-ASEAN co-operation arrangements in customs. Mirroring the chapter in ATIGA, the Agreement deals with many aspects of customs procedures, as well as explicitly adopting the WTO Customs Valuation Agreement. The Agreement presented a significant step towards full implementation of the AEC. However, its effectiveness will depend on the degree of its implementation.



- 2.48 Better progress is being made in some areas rather than others. On customs valuation, for example, all but one AMS have implemented the WTO Customs Valuation, and the remaining AMS will soon introduce its new Customs Law. ASEAN is also using its own ASEAN Harmonised Tariff Nomenclature (AHTN), which is an 8-digit nomenclature, based on the 6-digit HS. The use of the AHTN facilitates trade negotiations, calculation of tariffs on trade transactions as well as the collection of trade statistics. All Member States have now adopted the 2012 AHTN, at least for intra-regional trade. As to the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT), the text of Protocol 2 (Designation of Frontier Posts) has been finalised and AMS have been in the process of domestic clearance to sign the Protocol. On Protocol 7 (Customs Transit System), all AMS have completed the ad referendum signing of the Protocol and are expediting ratification.

#### Standards and Conformance

- 2.49 As outlined in earlier sections, standards, technical regulations and conformity assessment procedures (STRACAP) and conformance issues are among the most important classes of NTMs. The removal of TBTs by way of harmonisation of standards, MRAs and regulatory coherence are integral to the establishment of the AEC.
- 2.50 Harmonisation of standards and technical regulations in ASEAN is governed by the ASEAN Guidelines on STRACAP, with a more specific guideline on Harmonisation of Standards now in place. The ASEAN Guideline on Conformity Assessment has also been developed to explain mutual recognition of conformity assessment results among the AMS. Apart from the main STRACAP areas, the ACCSQ looks into legal metrology issues concerning trade supporting the technical infrastructure programme in ASEAN, including common procedures on legal metrology such as the ASEAN Common Requirements on Pre-packaged Products and Common Verification Procedures for Non-automatic Weighing Instruments. Inter-laboratory comparison programmes have also been conducted on mass and on volume measurement standards among the AMS.
- 2.51 Measures to harmonise standards, develop and implement harmonised regulatory schemes as well as develop MRAs – particularly for PIS-relevant products – are also being undertaken. These are in the areas of EEE, medical devices, pharmaceutical products, cosmetics, automotive and auto parts, prepared foodstuff, building and construction materials, traditional medicines and health supplements, and rubber-based products. More detailed consideration on SPS, which is closely related to the four natural resource-based PIS, will be covered in Chapter 3.

- 2.52 MRAs are agreements made between two or more parties to mutually recognise or accept some or all aspects of each other's conformity assessment results. The ASEAN MRAs were developed with reference to the ASEAN Framework Agreement on Mutual Recognition Arrangement, which was signed in 1998 and entered into force in 2002. The Agreement states the general principles for developing sectoral MRAs among the AMS and other related co-operative activities to facilitate the elimination of TBTs within ASEAN. It also sets out the general conditions under which each AMS, which is party to a sectoral MRA, shall accept or recognise the results of conformity assessment procedures from relevant bodies of other parties to the MRA when assessing conformity in the sectoral MRA. To date, ASEAN has concluded three sectoral MRAs, namely in EEE, cosmetics and medicinal products. The ASEAN Sectoral MRA on EEE and the MRA for Good Manufacturing Practice Inspection of Manufacturers of Medicinal products was signed in 2002 and 2009, respectively, and are currently being implemented. The MRA for Cosmetics was superseded due to the implementation of the ASEAN Cosmetics Directive. The MRAs on prepared foodstuffs, automotive and building and construction sectors are also being developed. Integration initiatives on the EEE and cosmetics sectors will be considered further in the section on PIS.
- 2.53 The ASEAN Harmonised Cosmetics Regulatory Scheme and the ASEAN Harmonised EEE Regulatory Regime were signed in 2003 and 2005, respectively. The ASEAN Medical Device Directive was signed in November 2014, and will be followed up by domestic ratification processes. These harmonised regimes provide for the convergence of regulatory controls and technical requirements regarding medical device products in ASEAN. Work is continuing for convergence of the technical requirements for Traditional Medicines and Health Supplements, with 19 technical requirements already harmonised by the AMS.
- 2.54 A proposal to review the ASEAN Framework Agreement on MRAs has recently been endorsed. In 2015, work will be focused on aligning the Framework Agreement with the AEC Blueprint, ATIGA as well as future developments. The work on expanding the scope of the Framework Agreement will be considered post-2015.
- 2.55 A number of principles and guidelines related to food control, such as the ASEAN Common Food Control Requirements, have been developed and recently endorsed. In addition, selected food safety standards for food additives have also been harmonised. Likewise, harmonisation of technical regulations and standards in the agricultural sector has progressed, with achievements including a list of 955 Maximum Residue Limits in commonly-used pesticides for widely-traded crop products, the endorsement of nine ASEAN Phytosanitary Guidelines for the Importation of Priority Commodities, 46 ASEAN Standards for agricultural products and five agricultural practices.



### Overview of ASEAN Merchandise Trade Performance

- 2.56 The different dimensions of ASEAN's policy agenda towards the free flow of goods, as considered above, have brought about consequential results on several fronts. One of the important success stories of the AEC is how the AMS have benefitted from deeper trade links within the region as well as within the global economy. The region's openness to trade has been maintained, despite heightened external volatilities over recent years, with total merchandise trade as a share of nominal output reaching 104.2% in 2013 which moderated to 98.3% in 2014 in step with global trends (Table 2.2).

Table 2.2

Trade Openness (Total Trade, % of Nominal GDP)

	2007	2008	2009	2010	2011	2012	2013	2014
Brunei Darussalam	79.2	88.4	88.8	88.7	88.8	99.3	83.2	82.9
Cambodia	87.8	79.2	85.8	93.3	100.3	133.1	120.3	176.8
Indonesia	43.8	51.9	39.1	41.3	45.0	43.6	42.9	36.0
Lao PDR	25.9	49.7	52.9	66.8	49.1	65.5	54.6	45.8
Malaysia	166.6	146.4	138.3	149.3	143.5	138.8	139.1	135.8
Myanmar	47.9	42.7	37.8	28.8	26.4	30.7	37.9	41.4
Philippines	69.7	60.9	49.7	54.8	49.9	46.8	44.3	45.5
Singapore	312.5	342.3	268.0	280.3	281.5	271.8	259.1	252.1
Thailand	118.8	129.2	108.4	120.6	132.7	130.4	123.4	122.1
Viet Nam	142.2	142.6	118.8	135.0	147.2	146.2	154.6	157.8
<b>ASEAN</b>	<b>121.6</b>	<b>123.4</b>	<b>100.2</b>	<b>105.9</b>	<b>108.0</b>	<b>105.7</b>	<b>104.2</b>	<b>98.3</b>
<b>ASEAN-6</b>	<b>121.9</b>	<b>124.1</b>	<b>100.3</b>	<b>106.0</b>	<b>108.0</b>	<b>104.8</b>	<b>102.3</b>	<b>94.8</b>
<b>CLMV</b>	<b>117.5</b>	<b>116.6</b>	<b>99.4</b>	<b>104.8</b>	<b>108.6</b>	<b>113.2</b>	<b>120.6</b>	<b>126.9</b>

Sources: ASEANstats GDP data (September 2015) and Trade data (June 2015).

- 2.57 ASEAN's total trade reached US\$2.5 trillion in 2014. In terms of trade share, total intra-ASEAN trade has not fluctuated significantly over the period, with a slight decline from 25.0% in 2007 to 24.1% in 2014 (Figure 2.3). While the share of intra-regional trade is often used as an indicator of integration 'success', it may be argued that ASEAN's pursuit of regional integration has been placed consistently in the broader context of integration into the global economy. An increase in the share of intra-regional trade may not be an accurate indicator of success if this takes place due to trade diversion. Intra- and extra-regional trade should be seen as mutually reinforcing, particularly in the era of global value chains (GVCs).

- 2.58 Year-on-year growth in intra-regional trade fluctuated considerably from 2007 to 2014, broadly reflecting the vacillating adjustments and uneven recovery among many economies after the 2008 financial crisis (Figure 2.4). However, using trade value in 2007 as the baseline (2007=100) showed that despite the fluctuations, both intra-regional and extra-regional trade has been consistently increasing. By 2014, intra-regional trade was 58.9% higher than that in 2007, only marginally above the rise in extra-regional trade, for which the 2014 trade value was 51.7% higher than that in 2007.

Figure 2.3

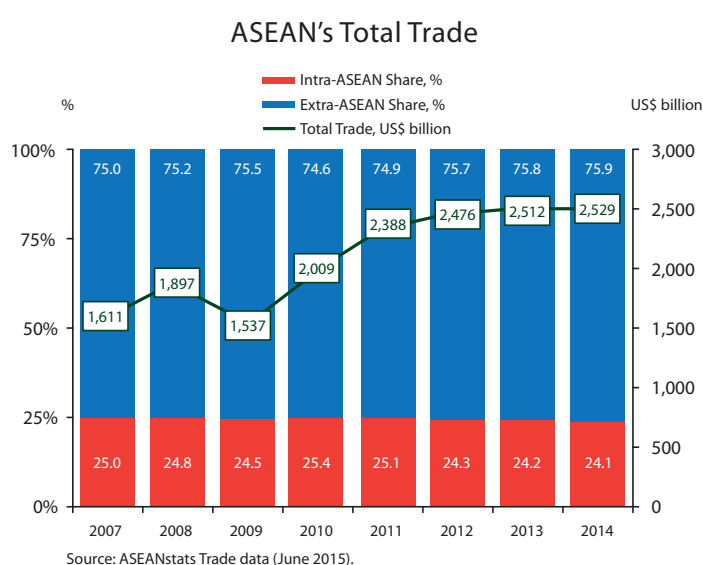


Figure 2.4



Table 2.3

## ASEAN Member States' Trade Shares (%)

	2007	2008	2009	2010	2011	2012	2013	2014
<b>Shares in intra-ASEAN Total Trade</b>								
Brunei Darussalam	0.8	0.8	0.6	0.4	0.5	0.6	0.7	0.6
Cambodia	0.4	0.4	0.6	0.5	0.5	0.9	0.7	1.3
Indonesia	11.5	14.5	13.9	15.7	16.6	15.9	15.6	14.9
Lao PDR	0.2	0.5	0.7	0.5	0.4	0.4	0.6	0.6
Malaysia	20.6	18.1	19.2	18.6	18.1	19.2	19.6	19.6
Myanmar	1.2	1.2	1.4	1.1	1.2	1.2	1.6	1.9
Philippines	5.2	4.6	4.6	5.4	4.0	4.1	3.7	4.2
Singapore	40.0	39.0	37.4	35.5	34.4	34.8	34.0	33.4
Thailand	14.4	14.8	15.7	16.9	18.6	16.5	17.0	16.9
Viet Nam	5.8	6.3	5.9	5.2	5.7	6.4	6.5	6.7
<b>ASEAN</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>ASEAN-6</b>	<b>92.4</b>	<b>91.7</b>	<b>91.5</b>	<b>92.7</b>	<b>92.1</b>	<b>91.1</b>	<b>90.6</b>	<b>89.6</b>
<b>CLMV</b>	<b>7.6</b>	<b>8.3</b>	<b>8.5</b>	<b>7.3</b>	<b>7.9</b>	<b>8.9</b>	<b>9.4</b>	<b>10.4</b>
<b>Shares in extra-ASEAN Total Trade</b>								
Brunei Darussalam	0.5	0.6	0.6	0.6	0.7	0.7	0.6	0.5
Cambodia	0.5	0.5	0.6	0.5	0.5	0.7	0.7	1.1
Indonesia	11.8	13.9	13.9	14.2	15.7	15.3	14.4	13.7
Lao PDR	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.1
Malaysia	19.9	17.8	17.9	17.9	17.2	16.4	16.6	16.9
Myanmar	0.3	0.3	0.4	0.4	0.4	0.6	0.7	0.8
Philippines	7.0	5.9	5.7	5.5	4.9	4.9	5.1	5.4
Singapore	33.2	33.3	32.3	32.1	31.8	30.9	30.3	29.8
Thailand	19.5	19.8	19.6	19.9	19.4	20.2	19.7	18.4
Viet Nam	7.2	7.8	8.9	8.7	9.2	10.1	11.8	13.2
<b>ASEAN</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>ASEAN-6</b>	<b>92.0</b>	<b>91.3</b>	<b>90.0</b>	<b>90.2</b>	<b>89.7</b>	<b>88.4</b>	<b>86.6</b>	<b>84.8</b>
<b>CLMV</b>	<b>8.0</b>	<b>8.7</b>	<b>10.0</b>	<b>9.8</b>	<b>10.3</b>	<b>11.6</b>	<b>13.4</b>	<b>15.2</b>

Source: ASEANstats Trade data (June 2015).

- 2.59 Among the AMS, the CLMV has played an increasing role in intra-regional trade and trade generally. In 2014, the CLMV accounted for 10.4% of total intra-ASEAN trade, an increase from 7.6% in 2007. Likewise for extra-ASEAN trade, the CLMV accounted for 15.2% in 2014, up from just 8.0% in 2007 (Table 2.3). The average year-on-year growth rate of intra-ASEAN trade over the observed period (2007-2014) is also much higher for the CLMV at 12.1% relative to the ASEAN-6 at 7.0%. For extra-ASEAN trade, the difference is more pronounced, with average year-on-year growth at 17.7% for

the CLMV compared to 6.7% for the ASEAN-6. The difference is even more evident for intra-regional exports than for imports, leading to the proposition that an integrated ASEAN market can provide the newer AMS with a stepping stone towards greater integration into the global economy. Likewise, the CLMV's extra-ASEAN trade was over three-fold higher in 2014 than in 2007.

- 2.60 Beyond trade outcomes, it is of benefit to observe other business-relevant indicators. The World Bank's Doing Business Survey compiles indicators measuring the costs to trade, both for exports and imports, financially and otherwise. The time taken to export and import, as well as the number of documents required, have been falling across the AMS from 2007, as seen in Table 2.4.

Table 2.4

Doing Business: Selected Indicators

	2007	2010	2013	2014	2007	2010	2013	2014
	Time to Export (days)				Time to Import (days)			
Brunei Darussalam	27	27	19	19	19	19	15	15
Cambodia	37	22	22	22	45	29	26	24
Indonesia	22	18	17	17	27	27	23	23
Lao PDR	55	38	25	23	65	37	26	26
Malaysia	13	13	11	11	10	10	8	8
Myanmar	...	...	25	25	...	...	27	27
Philippines	17	16	15	15	18	16	14	14
Singapore	6	6	6	6	4	4	4	4
Thailand	24	14	14	14	22	13	13	13
Viet Nam	24	22	21	21	23	21	21	21
	Documents Required to Export (number)				Documents Required to Import (number)			
Brunei Darussalam	5	5	5	5	5	5	5	5
Cambodia	9	9	8	8	10	10	9	9
Indonesia	4	4	4	4	8	8	8	8
Lao PDR	12	10	10	10	15	10	10	10
Malaysia	4	4	4	4	4	4	4	4
Myanmar	...	...	9	9	...	...	9	9
Philippines	6	6	6	6	8	8	7	7
Singapore	3	3	3	3	3	3	3	3
Thailand	9	5	5	5	12	5	5	5
Viet Nam	5	5	5	5	8	8	8	8

Note:  
... = no available data.

Source: World Bank Doing Business database (<http://www.doingbusiness.org/custom-query>).

- 2.61 The World Bank data also showed how efficiency gains, especially in terms of time and procedural costs, have played out in all countries since 2007, with some of the greatest improvements among the CLMV, albeit from relatively low starting positions.

- 2.62 Further, successes in ASEAN's implementation of several initiatives on the free flow of goods have been manifested in an improved ranking of the AMS among the Trading Across Borders criteria, part of the World Bank Doing Business Survey covering a total of 189 economies in 2014 compared to 175 in 2007. Singapore is at the frontier, consistently ranking first since 2008, and Malaysia has done particularly well, placing 5<sup>th</sup> in ranking in 2014. Significant gains were made by Thailand, and, to a lesser degree, the Philippines and Viet Nam (Table 2.5).

Table 2.5

ASEAN Member States' Ranking (World Bank's Trading Across Borders)

	2007	2008	2009	2010	2011	2012	2013	2014
Brunei Darussalam	...	36	42	48	52	35	40	39
Cambodia	114	139	122	127	118	120	118	114
Indonesia	60	41	37	45	47	39	37	54
Lao PDR	161	158	165	168	170	168	160	161
Malaysia	46	21	29	35	37	29	11	5
Myanmar	...	...	...	...	...	...	...	113
Philippines	63	57	58	68	61	51	53	42
Singapore	4	1	1	1	1	1	1	1
Thailand	103	50	10	12	12	17	20	24
Viet Nam	75	63	67	74	63	68	74	65

Note:

... = no available data.

Source: World Bank Trading Across Border database (<http://www.doingbusiness.org/data/exploretopics/trading-across-borders>).

## B. Free Flow of Services

- 2.63 Services contribute to the region's pursuit of economic integration, both internally as a region and externally with the global economy. The role of services is even more critical in an era of GVCs, when services act as the interface enabling production activities to take place in different locations. A competitive services market is imperative for gainful GVC participation. At the same time, services within themselves are a source of value and innovation, a crucial ingredient in GVC upgrading. This is evident in *servicification*, a phenomenon whereby manufacturing firms increasingly buy, produce, sell and export services as integrated or accompanying parts of their primary offerings.
- 2.64 Services play a significant role in ASEAN economies. With the few exceptions of commodity-dependent economies, the services sector accounted for about half of real output among the AMS on average in 2013 (Table 2.6). To an extent, the

distribution of the AMS services sector share correlates with Member States' level of development. The more advanced economies of Singapore and Malaysia have a comparatively higher share of services in their outputs, while less developed or commodity-dependent economies have a comparatively lower share.

- 2.65 Although lagging merchandise trade on a comparative basis, the size of the services trade is far from insignificant in most of the AMS. There is an exception for Indonesia and Myanmar, with the share of services still quantified at a single digit percentage. In addition to domestic production, the services sector also contributes significantly to employment as it tends to be more labour intensive, at least for 'traditional' services. Further, data have shown that services provide better job opportunities for women, accounting for more than half the female employment in Myanmar and the Philippines in 2012 and a sizeable share for other AMS for which data are available.

Table 2.6

ASEAN's Services Sector vis-à-vis Other Sectors

	Output: % of Real GDP (2013)			Trade: % of Nominal GDP (2013)		Employment: % of Female Employment (2012)	
	Agriculture	Industry	Services	Merchandise	Services	Industry	Services
Brunei Darussalam	0.7	64.4	36.8	83.2	15.5	...	...
Cambodia	24.2	29.9	39.2	120.3	32.7	21.7	43.2
Indonesia	12.3	40.0	47.8	42.9	6.7	16.9	30.7
Lao PDR	23.5	33.2	37.4	54.6	12.8	...	...
Malaysia	7.1	36.4	55.2	139.1	27.4	...	...
Myanmar	31.4	28.5	40.1	37.9	6.3	28.9	59.0
Philippines	10.4	32.8	56.8	44.3	14.4	14.9	52.5
Singapore	0.0	25.5	66.6	259.1	85.8	...	...
Thailand	8.3	46.0	45.8	123.4	29.5	20.7	39.4
Viet Nam	17.6	38.6	43.9	154.6	13	21.3	31.5

Notes:

... = no available data.

Output shares of some AMS do not sum up to 100% due to the exclusion of the share of balancing items, which are not included in the three sectors.

These include statistical adjustments (for Brunei Darussalam and Cambodia) and taxes and import duties (for Lao PDR, Malaysia and Singapore).

The latest available data for trade in services are for 2013. For comparability, 2013 data for output and merchandise goods are also used.

The latest available employment data, by sector, are for 2012.

Sources: ASEANstats GDP data (September 2015), Trade data (June 2015) and Services trade data (February 2015); International Labour Organization database; and national sources.

- 2.66 The goal of achieving the free flow of services is integral to the first pillar of the AEC, which is to establish a single market and production base. Broadly, the steps toward services integration in ASEAN involves market access liberalisation and provisions to better facilitate an open and transparent services trade. This may be facilitated through greater certainty in the AMS' services regimes, MRAs on select professional occupations, and the negotiations of trade in services agreements with FTA partners.

- 2.67 ASEAN's goal for services integration was first institutionalised with the signing of the ASEAN Framework Agreement on Services (AFAS) in 1995, one year after the first multilateral agreement on services or the General Agreement on Trade in Services (GATS) in 1994, and three years after the signing of its goods counterpart, the AFTA. Further details on AFAS are discussed in Box 2.3.

### Box 2.3: The ASEAN Framework Agreement on Services (AFAS)

AFAS has three main objectives:

- i. To enhance co-operation in services among Member States in order to improve efficiency and competitiveness as well as diversify production capacity and supply and distribution of services of Member States' services suppliers within and outside ASEAN;
- ii. To substantially eliminate restrictions to trade in services among Member States; and
- iii. To liberalise trade in services by expanding the depth and scope of liberalisation beyond those undertaken by Member States under GATS with the aim of realising a free trade area in services.

As the key instrument to advance ASEAN services integration, AFAS has evolved in its approach over time since its signing in 1995. Several rounds of negotiations were conducted, resulting in packages of commitments from each AMS in the various economic sector or sub-sector. AFAS adopts international rules for trade in services as provided by the GATS while aiming to achieve levels of commitment beyond those under the GATS.

At the 1<sup>st</sup> AFAS round (1996-1998), liberalisation commitments were negotiated based on the request and offer approach before evolving into a more systematic formula-based approach in the subsequent AFAS rounds. To date, nine packages of commitments under AFAS have been negotiated and concluded. The 9<sup>th</sup> AFAS package of commitments is at its final stage of signing completion. Negotiations for the 10<sup>th</sup> package are under way.

Parallel to the negotiations for AFAS packages, efforts are also in process to enhance the AFAS going forward. The AMS are currently discussing the ASEAN Trade in Services Agreement (ATISA), which will build upon the ASEAN+1 FTAs. Work on the ATISA will continue beyond 2015.

Negotiations are carried out under the Coordinating Committee on Services (CCS). Although AFAS is the main framework for the region's services integration, CCS is not the only ASEAN body where negotiations are taking place. Since the Informal Meeting of ASEAN Economic Ministers on 28 June 1999 in Auckland, air transport and financial services liberalisation—initiated within the ambit of the CCS—were transferred to the portfolio of ASEAN Transport Ministers and Finance Ministers, respectively. Negotiations on the two areas are being carried out by the Air Transport Sectoral Negotiations (ATSN) and Working Committee on Financial Services Liberalisation, respectively. The ASEAN Finance Ministers completed the signing of the Protocol to implement the 6<sup>th</sup> Package of Financial Services Liberalisation under AFAS in March 2015 and the ATSN is finalising the Protocol to Implement the 9<sup>th</sup> Package of Air Transport Services Commitments under the AFAS for signing by ASEAN Transport Ministers in November 2015.

AFAS provides the framework for services co-operation and liberalisation through negotiation of specific commitments. The adoption of the AEC Blueprint in 2007 conclusively defined the timeline and parameters for AFAS negotiations and other complementary measures related to services integration.

Reference: ASEAN Secretariat.

- 2.68 On free flow of services, the AEC Blueprint sets out specific goals, pursuing substantial lifting of all restrictions on trade in services: by 2010 for four priority services sectors of air transport, eASEAN, healthcare and tourism; by 2013 for the 5<sup>th</sup> priority services sector of logistics; and by 2015 for all other services sectors. Liberalisation commitments are to be undertaken through biennial consecutive rounds until 2015. The broad parameters within which these commitments are undertaken are summarised in Box 2.4.

#### Box 2.4: Liberalisation of Commitments under AFAS

Target to schedule the minimum numbers of new sub-sectors, based on the GATS W/120 universe of sector classification, for each round are as follows:

- i. 10 in 2008;
- ii. 15 in 2010;
- iii. 24 in 2013; and
- iv. 24 in 2015.

For the packages of commitments to be scheduled for each round:

- i. No restrictions for Mode 1 and 2, except for bona fide regulatory reasons.
- ii. Allow for ASEAN equity participation of not less than:
  - 51% by 2008 and 70% by 2010 for the four priority services sectors;
  - 49% by 2008, 51% by 2010 and 70% by 2013 for logistics services; and
  - 49% by 2008, 51% by 2010 and 70% by 2015 for other services sectors.
- iii. Progressively remove other Mode 3 market access limitations by 2015.
- iv. Parameters on liberalisation of national treatment limitations, Mode 4 and limitations on horizontal commitments for each round to be agreed by 2009.
- v. Complete negotiations on MRAs for architectural services, accountancy services, surveyor qualifications and medical practitioners by 2008, dental practitioners by 2009, and other services sectors by 2015. Expeditious implementation according to the provisions within each MRA, and strengthen human resources and capacity building in the area of services.

Reference: ASEAN Secretariat.

- 2.69 AFAS targets evolve with each package along with the increased numbers and types of thresholds set by the AMS. Signed in 2006, AFAS 5 was the first AFAS package where thresholds were introduced. Although the thresholds were then much simpler than the current thresholds, their introduction led to an extended time to complete the package despite the signing of the Protocol. The Protocol of AFAS 6 was signed immediately before the adoption of the AEC Blueprint in 2007; hence, the AEC Blueprint started with AFAS 7. Table 2.7 provides a summary of AFAS targets.



Table 2.7

AFAS Targets					
	5 <sup>th</sup> /6 <sup>th</sup> Package	7 <sup>th</sup> Package	8 <sup>th</sup> Package	9 <sup>th</sup> Package	10 <sup>th</sup> Package
Completion Target	AEM 2006	AEM 2009	AEM 2011	AEM 2013	AEM 2015
Scheduled Subsectors	55 (When mapped to W120 classification, original target is 70 without this classification)	65 (Mapped to W120)	80	104	128
Mode 1 (including horizontal)	None	None	None (for all 80 subsectors)	None (for all 104 subsectors)	None (for all 128 subsectors)
Mode 2 (including horizontal)	None	None	None (for all 80 subsectors)	None (for all 104 subsectors)	None (for all 128 subsectors)
Foreign Equity Limitation (including horizontal)	PIS: 49% Construction: 51% Other: 30%	29 PIS: 51% 9 Log: 49% 42 Other: 49%	29 PIS: 70% 9 Log: 51% 42 Other: 51%	29 PIS: 70% 9 Log: 70% 66 Other: 51%	29 PIS: 70% 9 Log: 70% 90 Other: 70%
Mode 3 MA Limitations (including horizontal)	N.A. N.A. N.A.	29 PIS: Max 2 limitations 9 Log: max 3 limitations 27 Other: max 3 limit	29 PIS: No limitations 9 Log: Max 2 limitations 16 Other: max 3 limit 16 Other: max 2 limit	29 PIS: No limitations 9 Log: No limitations 26 Other: max 2 limit 26 Other: max 1 limit	29 PIS: No limitations 9 Log: No limitations 90 Other: No limitations
Mode 3 NT Limitations (including horizontal)	N.A.	N.A.	Max 4 Lim/ subsector	Max 3 Lim/ subsector	Max 1 Lim/ subsector
15% flexibility	N.A.	N.A.	15%*(80*3)= 36 modes Max 60% (22 subsectors) in 1 mode	15%*(104*3)= 47 modes Max 55% (26 subsectors) in 1 Mode	15%*(128*3)= 58 modes Max 50% (29 subsectors) in 1 mode

Source: ASEAN Secretariat.

2.70 In terms of additional subsectors committed within each package, Table 2.8 provides the number of subsectors committed to by the AMS in the more recent packages<sup>8</sup>. The total universe of the services sectoral classification list W/120 is 155 while that under the CCS is 128. Table 2.8 shows schedule subsectors under AFAS packages starting from the 5<sup>th</sup> AFAS package of commitments.

<sup>8</sup> Attempts to assess progress in meeting the AFAS commitments set out in the AEC Blueprint was also made in the ERIA Scorecard Study for Phase 2 (*The ERIA Study to further Improve the AEC Scorecard. Phase Two*) and Phase 4 (*AEC Scorecard Study Phase IV Progress Report*), particularly for the 7<sup>th</sup> and 8<sup>th</sup> AFAS. However, there may be differences in classification used, leading to a discrepancy in numbers. Table 2.8 uses ASEAN Secretariat data, which is more complete and current.

Table 2.8

Scheduled Subsectors in AFAS Packages of Commitments

	Number of Scheduled Services Subsectors					Subsectors Newly Scheduled in AFAS 9, (Compared with AFAS 8)			
	*5 <sup>th</sup>	*6 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	PIS	Logistics	Other	Total
Brunei Darussalam	70	70	65	79	92	3	0	10	13
Cambodia	84	86	74	87	94	2	3	2	7
Indonesia	63	80	83	86	97	0	0	11	11
Lao PDR	27	83	74	89	92	1	0	2	3
Malaysia	83	88	81	96	101	1	1	3	5
Myanmar	62	70	66	79	90	0	1	10	11
Philippines	72	93	95	98	99	0	0	1	1
Singapore	89	85	78	84	101	0	1	16	17
Thailand	106	104	93	104	108	0	2	2	4
Viet Nam	67	99	84	88	99	0	0	11	11

Note:

For the 5<sup>th</sup> and 6<sup>th</sup> AFAS packages, the number of subsectors in the table is not mapped to W120 classification, hence, is not comparable to the numbers in the other packages.

Source: ASEAN Secretariat.

- 2.71 Table 2.8 confirms the findings in other studies (Narjoko, 2015 and Dee, 2015) that AFAS commitments have improved considerably in the extensive margin (i.e. through commitments of additional sub-sectors). As AFAS packages of commitments progress, the AMS work towards meeting higher and more difficult thresholds. In the 2007 AEC Blueprint, the 15% figure for overall flexibility was under mandate to be reviewed upon the completion of the inventory of limitations in 2008. This flexibility was subsequently approved with a more complicated formula (see Table 2.7). Initiating the 8<sup>th</sup> AFAS package, the flexibility rule was introduced covering both the subsectors that the AMS were not in the position to liberalise at the time, as well as subsectors in which not all liberalisation thresholds were met. The flexibility rule acknowledges that as AFAS advances its liberalisation targets, there will be greater challenges for AMS to commit additional subsectors. The application of the flexibility rule allows members to make progress when concluding their packages of commitments.
- 2.72 ASEAN's commitments, in terms of numbers of subsectors and depth of commitments, have progressively and significantly improved, as evidenced in the evolution of the AFAS packages. Assessments undertaken in several studies (e.g. Dee, 2015), however, indicate that commitments under AFAS, while significantly above those offered under the GATS (and even the Doha Round), do not go beyond the applicable non-preferential regimes of many Member States and across sectors. The impact of AFAS may therefore be more profound in terms of ensuring the certainty of regional policy rather than delivering additional preferential liberalisation. As economies the world over continue to progress by removing formal restrictions on services, mirroring tariff elimination in trade in goods, greater certainty of regional policy through the AFAS commitments remains important to meaningfully contribute to the objective of free flow of services.

- 2.73 Additional to measures explicitly mentioned under the first pillar of the AEC Blueprint, there are other relevant measures to the services sector that are available under other pillars of the AEC. These include measures relating to information infrastructure (under the infrastructure development element of the second pillar competitive economic region). There are also relevant elements under the fourth pillar of integration relating to the global economy, including consistency in FTA/CEP and other multilateral commitments, as well as enhanced participation in GVCs.
- 2.74 The current on-going initiative to enhance the AFAS through the ATISA will provide ASEAN with the opportunity to deepen services integration, building on the achievements and lessons learned under AFAS and taking into account various international developments in services.

### ***Services Performance in ASEAN***

- 2.75 As earlier explained, and while starting at a low base, the regional services trade has been accelerating over recent years and is notably in step with the FDI inflows to this sector (see the Free Flow of Investment section). In 2013, services exports stood at 12.2% of the region's total GDP, while services imports at 12.4%. Despite ASEAN recording a net deficit in the services trade, services exports have been growing faster than imports at an average of 12.1% per annum between 2007 and 2013, as compared with 10% for imports (Table 2.9). The deficit has therefore narrowed – excepting a dip in 2008 during the global financial crisis – and this is a trend that continued to strengthen up to 2013. In 2013, ASEAN recorded a trade in services deficit of just US\$6.7 billion, significantly lower than that of US\$16.7 billion in 2007.
- 2.76 In 2013, ASEAN's top three services exports were travel services (at 37.1% of the total), other business services (22.1%) and transportation services (21.8%). For services imports, the top three were transportation services, travel services and other business services, with shares of 35.2%, 20.9% and 20.8%, respectively. The dominance of the three subsectors has been consistent from 2007 to 2013, although a number of other subsectors are notably accelerating. Between 2007 and 2013, changes on the use of intellectual property rights and financial services recorded the highest average annual growth among services exports at 22.5% and 15.9%, respectively. For services imports, maintenance and repair services and telecommunications, computer and information services recorded the highest average annual growth in the same period at 16.8% and 16.3%, respectively. Generally, there is a strong upward, albeit volatile, trend across subsectors in both exports and imports, providing evidence of intensification of trade in services across the region.

Table 2.9

## ASEAN's Services Sector: Selected Indicators

Category	Services Trade, US\$ million (2013)			Intra-ASEAN's Services Trade (% of ASEAN's Total Services Trade 2013)		Avg Annual Growth of ASEAN's Total Services Trade (2007-2013)		Avg Annual Growth of Intra-ASEAN's Services Trade (2007-2013)	
	E	I	(E-I)	E	I	E	I	E	I
Maintenance and Repair Services	8,163.8	1,626.1	6,537.7	14.3	12.6	11.8	16.8	13.7	23.4
Transport	63,530.6	105,212.4	(41,681.8)	13.9	13.1	8.8	8.7	11.3	11.9
Travel	108,355.2	62,372.1	45,983.1	25.9	18.9	14.6	12.2	11.4	6.0
Construction	4,624.5	5,498.6	(874.1)	30.6	20.8	10.6	7.5	12.4	16.7
Insurance and Pension Services	5,269.3	12,145.4	(6,876.1)	23.5	15.6	15.2	13.0	18.0	16.4
Financial Services	19,614.4	5,571.7	14,042.7	7.3	9.6	15.9	11.8	22.4	7.0
Charges on the Use of Intellectual Property Rights	2,447.4	28,533.0	(26,085.6)	20.4	3.6	22.5	11.4	20.6	20.6
Telecommunications, Computer, and Information Services	12,598.3	11,699.1	899.2	16.1	20.6	13.7	16.3	11.7	8.4
Other Business Services	64,550.4	62,208.8	2,341.6	14.2	16.5	11.4	9.0	14.8	9.9
Personal, Cultural, and Recreational Services	985.7	1,732.7	(747.0)	37.3	14.3	13.4	13.4	13.5	15.6
Government Goods and Services	1,755.0	1,996.9	(241.9)	15.0	8.2	7.6	7.8	31.9	15.4
<b>Total</b>	<b>291,894.6</b>	<b>298,596.7</b>	<b>(6,702.1)</b>	<b>18.7</b>	<b>14.5</b>	<b>12.1</b>	<b>10.0</b>	<b>12.0</b>	<b>9.3</b>

Note:  
E = exports; I = imports.

Source: ASEANstats Services trade data (February 2015).

- 2.77 In 2013, the composition of intra-ASEAN trade in services followed that of total trade; heavily concentrated in the three subsectors of travel services, transportation and other business services at 40.7%, 23.1% and 19.8%, respectively. For intra-ASEAN exports, the highest average annual growth in the period 2007-2013 was observed for government goods and services (rising by 31.9%) while financial services increased by 22.4%. For imports, maintenance and repair services and charges for intellectual services expanded the most, with an average annual growth of 23.4% and 20.6%, respectively.
- 2.78 This subsection highlights the intensification of ASEAN services trade performances, in step with the patterns exhibited in FDI inflows, albeit from a much lower base when compared with merchandise trade. The analysis is based on gross trade data which, as will be shown in the section on the fourth pillar of the AEC, is a conservative estimate when compared with the findings based on value-added trade data.

### ***Free Flow of Skilled Labour***

- 2.79 For economies to leverage fully on the positive effects of FDI, absorption capacity in terms of skills is key. ASEAN's agenda addresses this by facilitating the free flow of skilled labour across the region, taking into account relevant domestic regulations and market demand conditions.
- 2.80 Expanding the context and the framework for the mobility of people towards a free flow of skilled labour is a multi-sectoral initiative for ASEAN. It covers the ASEAN Political-Security Community pillar through immigration issues, the ASEAN Economic Community pillar through trade issues, and the Socio-Cultural pillar through labour issues<sup>9</sup>.
- 2.81 The AFAS provides the mandate for MRAs. MRAs are seen as one of the policy tools for skilled labour mobility within ASEAN. MRAs facilitate trade in services by mutual recognition among the AMS for professionals authorised, licensed or certified by the respective authorities within the framework of the MRAs.
- 2.82 At the 7<sup>th</sup> ASEAN Summit in November 2001, ASEAN Leaders mandated the start of negotiations on MRAs to facilitate the flow of professional services under AFAS. The 2003 Bali Concord II called for the completion of MRAs by 2008 to facilitate the free movement of professionals and skilled labour. Box 2.5 summarises the eight concluded MRAs.

#### **Box 2.5: Concluded MRAs**

MRAs are seen as embodying the main policy tool for skilled labour mobility in ASEAN. MRAs are not expected to override local laws, instead, the agreements are applicable only in accordance with prevailing laws and regulations of the host country. There have been eight concluded MRAs in ASEAN:

- i. Engineering Services, December 2005
- ii. Nursing Services, December 2006
- iii. Architectural Services, November 2007
- iv. A framework for Surveying Qualifications, November 2007
- v. Medical Practitioners, February 2009
- vi. Dental Practitioners, February 2009
- vii. A framework for Accounting Services, February 2009; subsequently succeeded by MRA on Accountancy Services, November 2014.
- viii. Tourism Professionals, November 2012

Reference: ASEAN Secretariat.

<sup>9</sup> To date, the legal framework for mobility of people includes the ASEAN Framework Agreement on Visa Exemption; the ASEAN Agreement on Movement of Natural Persons (MNP); the Mutual Recognition Arrangements (MRAs); the ASEAN Qualifications Reference Framework; and the Cebu Declaration on the Protection and Promotion of the Rights of Migrant Workers.

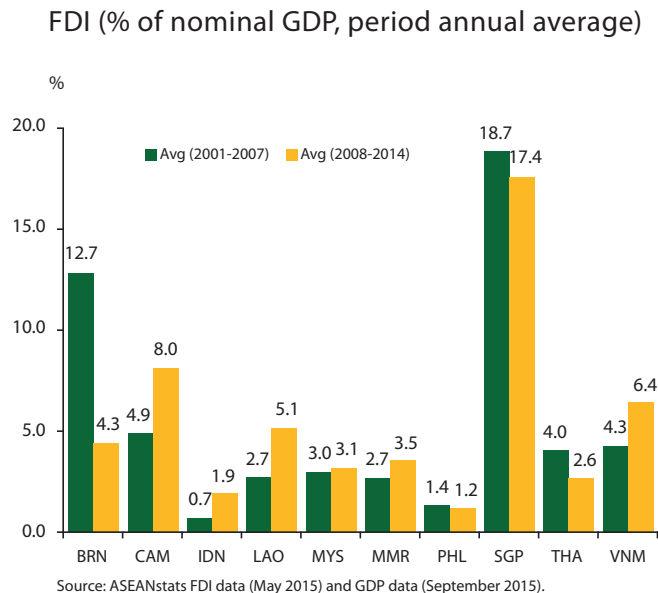
- 2.83 The common objectives of the ASEAN MRAs include: facilitating mobility of services professionals; exchanges of information and expertise; promoting adoption of best practices on standards and qualifications; and facilitating capacity building and technology transfer. There are five common elements across the ASEAN MRAs: definition; recognition provisions; recognition mechanisms; dispute settlement provisions; and capacity building provisions.
- 2.84 The ASEAN MRAs adopt different approaches (Yue, 2013). MRAs on Engineering and Architecture provide recognition of qualifications for registered ASEAN professionals. The MRAs on Accountancy Services and Surveying lay down the broad principles and framework for the negotiating bilateral or multilateral MRAs, although the new MRA on Accountancy Services signed in 2014 supersedes the original framework agreement and adopts a similar approach to engineering and architecture. The MRAs on Nursing, Medical Practitioners, and Dental Practitioners focus on exchange of information and best practices on the licensing and registration of healthcare practitioners, as well as capacity building. The MRA on Tourism Professionals is designed to enable the mobility of a skilled tourism workforce, exchanging information on best practices in competency-based education and training, as well as to provide opportunities for capacity building across the region. The MRA will also serve as an important driver for raising standards of tourism and improving qualifications within the tourism workforce in the region. The different approaches used by ASEAN in crafting its MRAs reflect the varying nature of the provision of these services and the realities of regulatory regimes across AMS.
- 2.85 The progress in implementing the MRAs on architectural services and engineering services are the most visible among the concluded ASEAN MRAs, partly because of the MRA approach, which involves registration of recognised professionals at ASEAN level. To date, there are a total of 1,252 engineers on the ASEAN Chartered Professional Engineers Register and 284 architects on the ASEAN Architect Register. Notwithstanding the various MRAs, AMS need to align their regulatory regimes with the MRA provisions. The full benefits of the MRAs can be realised through legal transposition and effective implementation.

### C. Free Flow of Investment

- 2.86 The influx of FDI to the ASEAN region has increased over the past decade, and more so in recent years, since the 10 AMS were collectively committed to foster a free and open investment regime in support of sustained economic dynamism in the ASEAN region in line with the AEC Blueprint. The majority of the AMS exhibited a higher average ratio of FDI to nominal output over the past seven years to 2014, relative to the earlier seven-year average starting in 2001, following the adoption of the AEC Blueprint (Figure 2.5). The uptrend is even more pronounced for the CLMV countries, which have adopted market-enabling policies on several fronts in recent years.

The emergence of global production networks, among other factors, considerably influenced the surge in FDI not only in the region but also worldwide, as multinational enterprises (MNEs) pursued opportunities of wider market access and new and more competitive sources of inputs.

Figure 2.5



- 2.87 In the course of these developments, ASEAN also developed a regional policy agenda on FDI, harnessing its benefits to facilitate deeper regional economic integration, mutually reinforced with the AMS domestic development objectives. Under the banner of 'free flow of investment', one of the key elements characterising the objective of a single market and production base (Pillar 1), the AEC Blueprint spelled out specific actions aiming for the objective of fostering a free and open investment regime in the region.

#### ***ASEAN's Regional Investment Policy Framework***

- 2.88 The introduction of the ASEAN Comprehensive Investment Agreement (ACIA) on 29 March 2012 marked a key milestone in fulfilling this objective. Prior to ACIA, the primary regional investment policy frameworks in the region were the ASEAN Investment Guarantee Agreement (ASEAN IGA) and the ASEAN Investment Agreement (AIA). ASEAN IGA was designed as an investment guarantee agreement among signatory AMS and centred on protecting and promoting investments while AIA established a more liberal and transparent investment climate among the AMS. ACIA, the current ASEAN-wide investment framework, improves on these two agreements and aims to create a liberal, facilitating, transparent and competitive



investment environment in ASEAN, anchored to the four pillars of investment liberalisation, protection, promotion and facilitation. The improvements of ACIA compared to ASEAN IGA and AIA are highlighted in Box 2.6.

- 2.89 ACIA provides for the progressive liberalisation of investment in five main sectors: manufacturing, agriculture, fisheries, forestry, mining and quarrying, and related services<sup>10</sup>. ACIA, likewise, provides for the AMS to maintain reservations on these five sectors not conforming to certain obligations under ACIA<sup>11</sup>. Further, services investment related to Mode 3 (Commercial Presence) remains under AFAS.

### Box 2.6: Improvements under ACIA

ACIA pursues and deepens the approach taken in both the ASEAN IGA and the AIA within various dimensions:

- i. Adopting international best practices in granting protection to ASEAN investors and their investments in another AMS;
- ii. Embedding emerging trends in international investment rule-making in advocating less restrictive investment regimes;
- iii. Introducing innovation such as a broader definition of investors and investments, as well as the inclusion of portfolio investment and intellectual property;
- iv. Providing an opportunity for third country nationals to benefit from ACIA;
- v. Promoting a higher level of transparency in investment rule-making;
- vi. Affording greater protection to ASEAN investors and their investments; and
- vii. Adopting the Investor-State Dispute Settlement mechanisms (ISDS) and promoting alternative routes to dispute resolution, such as the use of arbitration centres in the AMS.

Reference: ASEAN Secretariat 2013. *ASEAN Comprehensive Investment Agreement: A Guidebook for Businesses & Investors* (<http://investasean.asean.org/index.php/page/view/asean-publications>).

- 2.90 Since ACIA took effect, four AMS countries have submitted changes to their reservation lists<sup>12</sup>. Brunei Darussalam, Lao PDR and Myanmar have introduced more liberalised provisions. Brunei Darussalam narrowed the scope of the sectors to which the National Treatment, as inconsistent measures, are applicable to only agriculture, fisheries and services incidental to these sectors; previously, manufacturing and forestry were included. Lao PDR removed the manufacturing sector from its reservation list. Myanmar removed restrictions in foreign investment for certain products (e.g. wine, corrugated galvanized iron sheets, pharmaceutical drugs except traditional medicines). Indonesia, however, introduced more restrictive changes applicable to the coal and mineral mining sector<sup>13</sup>.

<sup>10</sup> ASEAN could undertake to liberalise other sectors as may be agreed upon by the AMS.

<sup>11</sup> These are the National Treatment (NT) obligation and the Senior Management and Board of Directors (SMBD) obligation. The NT obligation means that investors from other AMS and their investments will not be discriminated against vis-à-vis the domestic/local investors and their investments, unless specified in their reservation lists. The SMBD obligation means a Member State shall not impose any specific nationality requirement for the senior management position unless specified in their reservation lists. (<http://investasean.asean.org/index.php/page/view/acia-reservation-list>).

<sup>12</sup> The AEM-18<sup>th</sup> AIA Council Meeting held 22 August 2015 noted that all AMS have now submitted their official endorsement of the revised reservations lists.

<sup>13</sup> Minister of Forestry (Pinjam Pakai Regulation No.14 of 2013, No. P.14/Menhut-II/2013) ([http://www.dephut.go.id/uploads/apl/P.14\\_2013\\_Pinjam\\_Pakai\\_Kawasan\\_Hutan\\_.pdf](http://www.dephut.go.id/uploads/apl/P.14_2013_Pinjam_Pakai_Kawasan_Hutan_.pdf))



- 2.91 The progressive elimination of restrictions and impediments on investment is still a work in progress, guided by the structured, phased approach articulated in the ACIA Modality. The ACIA Modality adopts an Investment Peer Review Mechanism to monitor compliance by the AMS. The mechanism involves the AMS submitting individual country reports which provide information on reform programmes and changes in laws and regulations relevant to domestic investment regimes. The first Investment Peer Review was undertaken in 2012 and the most recent report to its ministerial body (i.e. the AIA Council) was in August 2015.
- 2.92 In addition to enforcing the ACIA, several measures have been implemented in support of a free, open, transparent and integrated investment regime. Box 2.7 provides a succinct review of these measures.

### Box 2.7: In Support of The Free Flow of Investment

Supporting measures to facilitate an open and integrated investment regime in the ASEAN region can be largely categorised into four types, i.e. measures which are geared towards: (i) regional investment promotion; (ii) regional harmonisation of best practice investment measures; (iii) regional networking and business linkages; and (iv) regional investment information and transparency initiatives.<sup>1</sup>

On regional investment promotion, four outbound investment missions from ASEAN-6 to the CLMV were undertaken over 2012-2014, the most recent of which was to Lao PDR in October 2014. A trade and investment road show to the US was held in May 2010 to increase the visibility of ASEAN in the US business community.

On harmonisation, an on-going study on best practice for investment promotion and facilitation in ASEAN is expected to be completed within 2015. The study will contribute to the identification of applicable international best practices, with the end-goal of potential collective adoption of these practices by ASEAN. As to networking and business linkages, four socialisation forums and seminars on ACIA were held for business and private sector adherents: Kuala Lumpur, Malaysia in March 2013; Makati City, the Philippines in January 2014; Davao City, the Philippines in October 2014; Jakarta, Indonesia in April 2015; and Bandar Seri Begawan, Brunei Darussalam in May 2015.

In terms of information dissemination and transparency, the ASEAN Investment Portal (<http://investasean.asean.org/>) was officially launched in August 2013. This is the official website for investment promotion in ASEAN, providing a one-stop information gateway about ASEAN as a single investment destination. Publication and wide dissemination of several knowledge resources have been undertaken (e.g. ASEAN Investment Reports and ACIA – A Guide for Business & Investors) to raise awareness of ASEAN's policy agenda as to FDI and to deepen understanding of emerging policy issues related to investment.

<sup>1</sup> The text is culled from *The ERIA Study to Further Improve the AEC Scorecard Phase Two: Chapter IV. Scoring System, Results and Analysis: Investment Liberalization and Facilitation* (Economic Research Institute for ASEAN and East Asia (ERIA), November 2011).

### Investment Liberalisation in ASEAN

- 2.93 There are several measures which attempt to 'quantitatively characterise' FDI regulations across economies. While far from comprehensive in terms of policy coverage, these measures provide adequate profiles of major policies and regulations by individual economies, and at the same time enable benchmarking exercises across economies. For instance, the foreign equity indices estimated by the World Bank for 103 economies as part of its Investing Across Border FDI Regulation database (<http://iab.worldbank.org/>) provide a summary of existing statutory restrictions on foreign ownership based on investment codes, commercial laws, mergers and acquisition laws and other related statutes of a country, covering 32 sectors.

- 2.94 Additionally, the Economic Research Institute for ASEAN and East Asia (ERIA) developed a scoring methodology for 'core AEC measures' (broadly focusing on Pillar 1 measures), as part of its AEC Scorecard Study (Thangavelu, 2015). The Investment Liberalisation Rate is the principal scoring tool for investment liberalisation, considering three main classes of investment restrictions: foreign equity restriction, market access limitations or impediments, and restrictions or deviations from national treatment. The investment liberalisation rates were estimated for the agriculture and mining sectors (combined) as well as for the manufacturing sector. Results from the ERIA study indicate that many among the AMS are more restrictive in the agriculture and natural resources sector than in the manufacturing sector. This draws attention to the fact that ASEAN's regional production networks are mainly in the manufacturing sector.
- 2.95 One measure that is far broader in characterising FDI regulations is provided by the OECD, which recently included ASEAN in its estimation of the FDI Regulatory Restrictiveness Index<sup>14</sup>. Table 2.10 shows the estimated indices for ASEAN, which largely reflect the regulation profiles embodied in the estimates by the World Bank. Cambodia and Singapore have the lowest restrictions on FDI. On average, ASEAN as a group has more restrictive FDI regulatory policies than its FTA partners.

Table 2.10

FDI Regulatory Restrictiveness Index in 2013

	Index
Cambodia	0.049
Indonesia	0.324
Lao PDR	0.265
Malaysia	0.212
Myanmar	0.356
Philippines	0.425
Singapore	0.047
Thailand	0.291
Viet Nam	0.214
<b>Average</b>	<b>0.243</b>
<i>Memo Items: ASEAN FTA Partners (AFPs)</i>	
Australia	0.128
China	0.418
India	0.264
Japan	0.052
Korea	0.135
New Zealand	0.240
<b>Average</b>	<b>0.206</b>

Note:

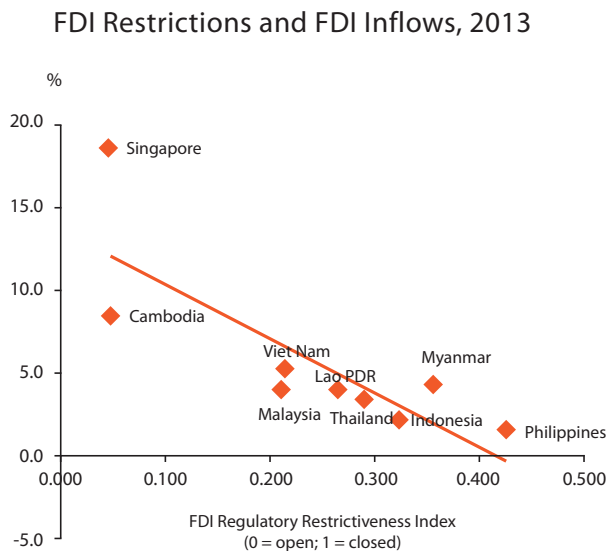
The FDI Regulatory Restrictiveness Index evaluates different dimensions of FDI restrictions: foreign equity limitations; screening or approval mechanisms; employment restrictions; and operational restrictions. The index ranges from 0 (open) to 1 (closed).

Source: OECD FDI Regulatory Restrictiveness Index database (<http://www.oecd.org/investment/fdiindex.htm>).  
No available data for Brunei Darussalam.

<sup>14</sup> Aside from the foreign equity limitations similar to estimated indexes provided by the World Bank, the FDRRI evaluates three additional types of restrictions on FDI, i.e., screening or approval mechanisms, restrictions on the employment of foreigners as key personnel, operational restrictions (such as restrictions on branching, capital repatriation and land ownership). Scores range from 0 (open) to 1 (closed) and are currently available for 64 countries (i.e. 34 OECD member countries; 30 non-OECD members) covering 22 sectors. The Index has been estimated for 7 years (1997, 2003, 2006, 2010-2013); 2013 estimates are available for ASEAN except for Brunei Darussalam.

- 2.96 Setting the index against the FDI to nominal GDP ratios (from Figure 2.5) for 2013 draws out an interesting outcome. Countries with fewer restrictions on FDI, such as Singapore and Cambodia, have higher FDI ratios to nominal output (Figure 2.6). The persistence of this relationship into the future may demonstrate that the policy agenda on lowering investment barriers relates positively with FDI inflows.

Figure 2.6



Sources: ASEANstats FDI data (May 2015) and GDP data (September 2015); and OECD FDI Regulatory Restrictiveness Index (FRI) database.

### ***ASEAN's International Investment Agreements***

- 2.97 Focusing on ACIA, ASEAN's primary investment framework, the region-wide investment framework has substantive provisions compared to investment provisions contained in several regional trade agreements concluded by ASEAN. The proliferation of investment agreements has given rise to various analyses attempting to draw greater coherence to the complexity of the international investment agreement (IIA) networks. These analyses are even more relevant now, due to concerns arising over the complex inter linkages within accumulated. Possibly this may be borne out by issues such as gaps, overlaps and even inconsistencies arising in international investment rulemaking. Box 2.8 further contextualises the methodologies for analysing investment provisions included in IIAs.

### Box 2.8: Analysing Investment Provisions – New Methodologies

The analysis of investment provisions in international investment agreements are, by and large, undertaken to understand the impact of these agreements on attracting FDI. The central propositions guiding the analyses are twofold. First, the scope and depth of investment-related provisions differ across IIAs. Second, variations within these provisions, in terms of scope and depth, have varying effects on FDIs.

In order to make use of the analyses for empirical research, quantitative indicators need to be constructed representing the nuances of investment provisions across IIAs.

Several studies focus on key investment provisions like Investor-State Dispute Settlement (ISDS) provisions assigning numerical codes reflecting the variations within these provisions (Neumayer, et.al, 2014). Other studies are broader in the scope of their analyses by designing indices of investment provisions based on categories covering market access, investment regulation and protection, and investment promotion and co-operation (Leshner and Mirooudout, 2006). Some studies are even more comprehensive by using original databases to create quality indicators in investment treaties (Chaisse and Bellak, 2011).

A composite index is estimated for each agreement that typically adopts the simple average of the codes across provisions. There are studies that attempt to assign different weightings across provisions (known as a principal component analysis). However, this methodology requires imposing assumptions on the hierarchy of importance within provisions that are often subjective.

#### References:

Chaisse J. and C. Bellak, 2011. "Do Bilateral Investment Treaties Promote Foreign Direct Investment? Preliminary Reflections on a New Methodology", *Transnational Corporations Review* Volume 3, Number 4.  
Leshner, M. and S. Mirooudout, 2006. "Analysis of the Economic Impact of Investment Provisions in Regional Trade Agreements", *OECD Trade Policy Papers*, No.36, OECD Publishing.  
Neumayer, E., P. Nunnenkamp and M. Roy, 2014. "Are Stricter Investment Rules Contagious? Host Country Competition for Foreign Direct Investment through International Agreements", *WTO Working Paper ERSD-2014-04*.

- 2.98 A similar analytical exercise undertaken in the OECD paper (referred to in Box 2.8) has been attempted for ASEAN's regional investment agreements, including ACIA and three ASEAN+1 FTAs (i.e. AANZFTA, ACFTA and AKFTA). The investment provisions within the four agreements are analysed, based on four broad categories. These include: (i) non-discrimination at the post-establishment phase; (ii) investment regulation and protection; (iii) dispute settlement; and (iv) investment promotion and co-operation. The information is standardised by assigning a code on a zero-to-one scale: one represents the presence of the provision and zero otherwise. An index is then constructed by computing a simple arithmetic average of the codes. Given how the coding system is structured, a higher index is favoured indicating that the agreements include the substantive provisions in focus. Annex 2.A describes the coding system used.
- 2.99 Table 2.11 presents the results, providing a representation of the depth and extensiveness of the investment provisions within the four agreements. ACIA generates the highest index (0.87), followed by AKFTA (0.80). AANZFTA generates an index of 0.73 while ACFTA has fewer of the provisions in focus and hence generates the lowest index (0.67).

Table 2.11

ASEAN's Regional Investment Agreements: Investment-Related Provisions Matrix

Provisions	AANZFTA	ACIA	ACFTA	AKFTA
<b>1. Non-discrimination</b>				
1.1 National treatment	1	1	1	1
1.2 Limitations to national treatment	0.5	0.5	0	0.5
1.3 Most-favoured-nation	0	1	1	1
1.4 Limitations to most-favoured-nation	0	1	1	1
<b>2. Investment regulation and protection</b>				
2.1 Provisions prohibiting performance requirements	0.5	0.5	0	0.5
2.2 Free transfer of funds	1	1	1	1
2.3 Temporary entry and stay for key personnel	1	1	0	0
2.4 Provisions on expropriation	1	1	1	1
2.5 Specific reference to fair and equitable treatment	1	1	1	1
<b>3. Investment protection and dispute settlement</b>				
3.1 State Investor dispute settlement	1	1	1	1
<b>4. Investment promotion and co-operation</b>				
4.1 Investment promotion	1	1	1	1
4.2 Co-operation mechanisms	1	1	1	1
4.3 Harmonisation of rules	0	0	0	0
4.4 Any type of symmetries (in favour of a developing country)	1	1	0	1
4.5 Clause foreseeing the future liberalisation of investment	1	1	1	1
<b>Composite Index (Simple Arithmetic Average)</b>	<b>0.73</b>	<b>0.87</b>	<b>0.67</b>	<b>0.80</b>

Source: ASEAN Secretariat.

### *Investment Performance in ASEAN*

- 2.100 Favourable outcomes in line with specific policy goals are often the results of a confluence of several factors: the effective implementation of a coherent policy agenda, pursued within a broader macroeconomic environment, is of itself similarly propitious, with a wider policy space which, in consonance, should be taken as a whole. This holds true in setting out the policy agenda to nurture a free and open investment regime in the ASEAN region. It is often challenging to carry out one-to-one mapping between certain policies and specific outcomes, and more so when quantifying the precision with which policies contributed the most in engendering these outcomes. Policy agendas are transmitted within several channels that operate within a broader policy environment. Still, advances in the implementation of ASEAN's policy agenda on FDI highlighted in the previous section have, in one way or another, generally transformed the investment environment in the region towards the goal of a free and open investment regime.

2.101 Since the adoption of the AEC Blueprint, total FDI inflows into the ASEAN region have remained steady, progressively recovering from the downturn in 2008 and reaching US\$136.2 billion in 2014 (Table 2.12). The region proved to be the preferred destination for foreign investment, especially shortly after the 2008 crisis, exhibiting positive growth at a time when there was evident contraction of FDI inflows in many developed and developing economies. Indeed, FDI in the region rose by 15.7% (year-on-year) in 2014 (Figure 2.7). The stable macroeconomic fundamentals of the ASEAN economies induced foreign investors to shift their preference to the region. Similarly, during the same period, ASEAN's reaffirmation of its commitment to deepen regional economic integration through implementation of the AEC Blueprint provided clarity about the region's policy agenda. This reduced policy uncertainties and bolstered foreign investors' confidence in the region.

Table 2.12

ASEAN: Total FDI Inflows (US\$ million)

	2007	2008	2009	2010	2011	2012	2013	2014
Brunei Darussalam	260.2	330.1	371.4	625.4	1,208.3	864.8	725.5	568.2
Cambodia	867.3	815.2	539.0	782.6	891.7	1,557.1	1,274.9	1,726.5
Indonesia	6,928.3	9,318.1	4,876.8	13,770.9	19,241.6	19,137.9	18,443.8	22,276.3
Lao PDR	323.5	227.8	318.6	332.6	466.8	294.4	426.7	913.2
Malaysia	8,538.4	7,248.4	1,405.1	9,155.9	12,000.9	9,400.0	12,297.4	10,714.0
Myanmar	714.8	975.6	963.3	2,248.8	2,058.2	1,354.2	2,620.9	946.2
Philippines	2,916.0	1,544.0	1,963.0	1,298.0	1,815.9	2,797.0	3,859.8	6,200.5
Singapore	46,337.8	11,115.4	25,036.4	55,034.5	46,774.3	60,980.3	56,138.3	72,098.3
Thailand	11,330.2	8,539.5	4,853.5	9,111.6	3,861.1	10,699.2	12,999.8	11,537.9
Viet Nam	6,700.0	9,579.0	7,600.0	8,000.0	7,519.0	8,368.0	8,900.0	9,200.1
<b>ASEAN Total</b>	<b>84,916.5</b>	<b>49,692.9</b>	<b>47,927.0</b>	<b>100,360.1</b>	<b>95,837.9</b>	<b>115,452.8</b>	<b>117,687.0</b>	<b>136,181.4</b>
<i>Memo Item:</i>								
<i>ASEAN FDI Growth</i>	32.9	-41.5	-3.6	109.4	-4.5	20.5	1.9	15.7

Source: ASEANstats FDI data (May 2015).

2.102 ASEAN's Dialogue Partners, as a group, form the largest source of FDI inflows to the region, reaching US\$77.1 billion in 2014 (Table 2.13). In comparable terms, EU was the largest external source of FDI inflow to the region in 2014, investing US\$29.3 billion and accounting for 21.5% of the total. EU was followed by Japan (US\$13.4 billion) and the US (US\$13.0 billion), with shares of 9.8% and 9.6% respectively in 2014. Intra-ASEAN FDI inflows came second after the EU at US\$24.4 billion, equivalent to a share of 17.9%.

Table 2.13

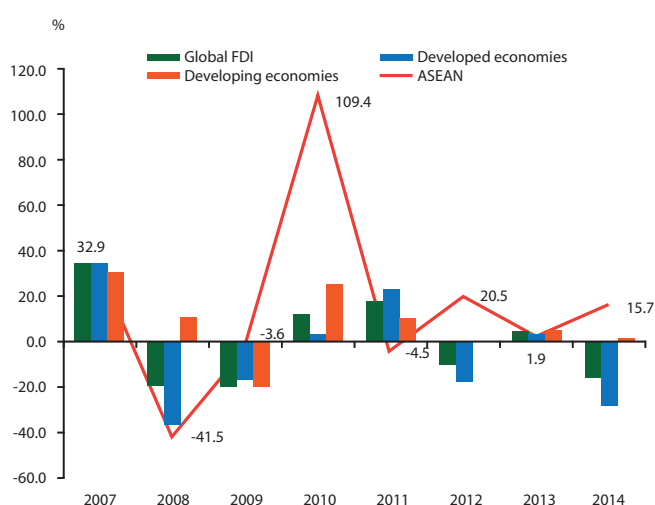
ASEAN: Total FDI Inflows, by Source (US\$ million)

Intra-ASEAN	9,634.0	10,448.8	6,672.5	15,200.4	14,559.8	20,548.8	19,399.6	24,377.4
Dialogue Partners	51,753.5	22,530.6	23,793.8	59,709.0	62,186.7	58,049.3	66,144.6	77,111.7
Australia	2,240.2	1,091.3	994.1	4,000.7	5,075.7	3,219.2	3,489.2	5,703.4
Canada	389.8	546.9	753.2	1,297.5	955.7	1,048.0	1,030.3	1,264.0
China	2,129.6	946.8	1,965.5	4,052.3	7,860.2	5,718.1	6,778.5	8,869.4
European Union 28	22,065.2	9,448.8	8,598.1	19,017.7	30,166.9	6,542.3	22,255.7	29,268.5
India	2,724.8	1,505.8	553.1	3,474.0	-1,732.1	4,299.0	1,330.7	819.5
Japan	8,801.4	4,285.5	3,919.3	11,171.1	8,790.5	21,206.1	21,766.0	13,381.1
New Zealand	109.4	-35.0	-157.1	21.7	57.2	-141.8	388.5	319.9
Pakistan	19.8	6.8	14.7	29.5	12.4	1.3	-2.1	3.3
Republic of Korea (ROK)	2,439.1	1,533.6	1,798.6	4,298.8	1,557.3	1,577.0	3,652.4	4,468.9
Russian Federation	30.9	81.3	139.8	60.3	67.6	184.4	542.1	-28.4
USA	10,803.4	3,118.7	5,214.6	12,285.3	9,375.4	14,395.7	4,913.3	13,042.3
Rest of the World	23,529.0	16,713.6	17,460.7	25,450.7	19,091.4	36,854.7	32,142.9	34,692.2
<b>Total</b>	<b>84,916.5</b>	<b>49,692.9</b>	<b>47,927.0</b>	<b>100,360.1</b>	<b>95,837.9</b>	<b>115,452.8</b>	<b>117,687.0</b>	<b>136,181.4</b>

Source: ASEANstats FDI data (May 2015).

Figure 2.7

ASEAN Total FDI Inflows Growth vis-à-vis the Rest of the World

Sources: ASEANstats FDI data (May 2015) and UNCTAD database (<http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>).

2.103 With a focus on ASEAN economic integration, the intra-ASEAN component of the region's total FDI inflows shows that ASEAN accounted for about 17% on average from 2008 to 2014 (Figure 2.8). This is an improvement from the early-2000 period average (i.e. 2001-2007) of 12%. In terms of sources and destinations of intra-ASEAN inflows, wide swings are apparent in most countries' annual shares, demonstrating the volatile nature of foreign investment (Table 2.14). This also highlights the difficulty of keeping FDI well entrenched, i.e. of sustaining an economy's fair share of FDI flows. Nonetheless, comparing period averages, there was an increase in the shares of the CLMV economies as destinations of intra-ASEAN FDI in the past seven years (2008-2014) to 15.1% from 8.1% in early 2000. This is a welcome

development arising from the regional policy agenda on FDI, which likewise aims to narrow the development gap among the AMS through increasing FDI inflows to the least developed AMS.

Figure 2.8

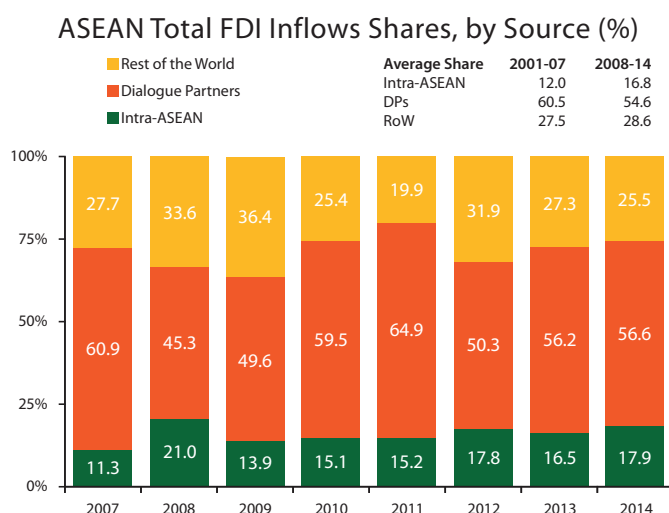


Table 2.14

Intra-ASEAN FDI Inflows Shares (%)

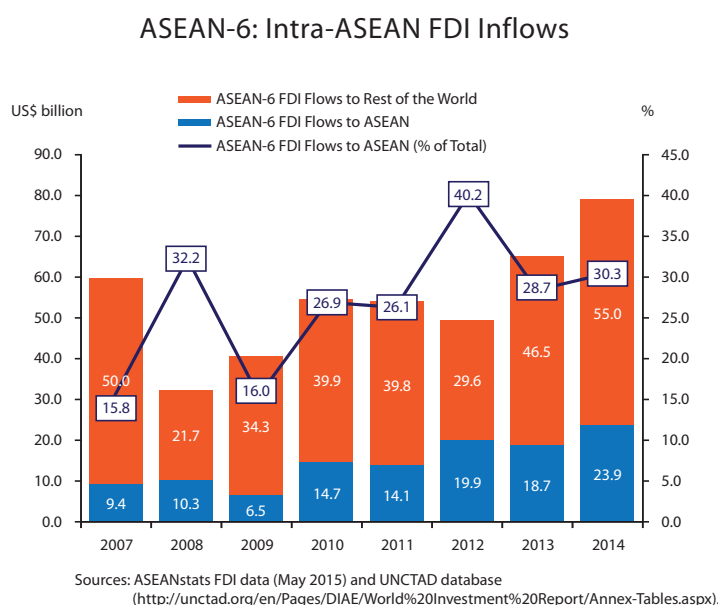
	2007	2008	2009	2010	2011	2012	2013	2014	Avg (01-07)	Avg (08-14)
<b>By Source, FDI from:</b>										
Brunei Darussalam	-0.0	0.8	1.9	-0.2	1.0	1.5	4.5	0.2	0.3	1.4
Cambodia	0.0	0.1	-0.2	0.1	0.2	0.0	0.0	0.1	0.1	0.1
Indonesia	8.2	8.2	20.6	9.6	14.3	15.4	11.6	7.8	8.3	12.5
Lao PDR	0.1	-0.7	0.0	0.2	0.0	-0.0	-0.2	0.0	0.1	-0.1
Malaysia	10.0	35.6	39.6	22.6	13.7	17.1	8.2	15.9	18.9	21.8
Myanmar	0.7	0.6	1.1	0.5	0.8	0.5	0.5	0.5	0.2	0.6
Philippines	3.7	1.5	-6.6	1.7	-3.0	5.1	-2.4	0.3	2.5	-0.5
Singapore	66.2	44.2	33.3	52.7	81.0	50.2	75.3	70.2	64.4	58.1
Thailand	9.2	8.5	8.8	10.3	-10.1	8.1	0.7	3.7	4.6	4.3
Viet Nam	1.9	1.3	1.4	2.6	2.0	2.1	1.9	1.4	0.6	1.8
<b>ASEAN-6</b>	<b>97.4</b>	<b>98.7</b>	<b>97.7</b>	<b>96.6</b>	<b>97.0</b>	<b>97.4</b>	<b>97.9</b>	<b>98.1</b>	<b>99.1</b>	<b>97.6</b>
<b>CLMV</b>	<b>2.6</b>	<b>1.3</b>	<b>2.3</b>	<b>3.4</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>	<b>1.9</b>	<b>0.9</b>	<b>2.4</b>
<b>By Destination, FDI to:</b>										
Brunei Darussalam	0.6	0.0	0.0	0.6	0.5	0.2	-0.3	0.6	0.6	0.2
Cambodia	2.8	2.3	2.6	2.3	1.5	2.5	1.5	1.5	1.6	2.1
Indonesia	11.5	32.5	20.7	38.8	57.2	36.9	45.0	55.2	13.4	40.9
Lao PDR	1.0	0.5	0.9	0.9	0.5	0.4	0.5	0.6	0.3	0.6
Malaysia	39.2	15.7	-0.9	3.5	18.3	13.7	11.3	11.4	14.8	10.4
Myanmar	1.0	1.0	1.0	0.2	0.6	0.7	6.1	2.8	1.0	1.8
Philippines	-7.3	2.9	-0.1	0.3	-0.5	0.7	-0.2	0.3	2.7	0.5
Singapore	20.0	14.3	47.4	36.8	11.8	40.4	18.9	18.6	21.2	26.9
Thailand	25.5	4.9	21.9	8.1	-0.3	-1.7	6.5	2.7	39.2	6.0
Viet Nam	5.6	25.9	6.4	8.6	10.4	6.1	10.7	6.3	5.3	10.6
<b>ASEAN-6</b>	<b>89.5</b>	<b>70.4</b>	<b>89.1</b>	<b>88.1</b>	<b>86.9</b>	<b>90.2</b>	<b>81.1</b>	<b>88.8</b>	<b>91.9</b>	<b>84.9</b>
<b>CLMV</b>	<b>10.5</b>	<b>29.6</b>	<b>10.9</b>	<b>11.9</b>	<b>13.1</b>	<b>9.8</b>	<b>18.9</b>	<b>11.2</b>	<b>8.1</b>	<b>15.1</b>

Source: ASEANstats FDI data (May 2015).



- 2.104 As shown in Table 2.14, the ASEAN-6 remained the main source of intra-ASEAN FDI, accounting for an average share of 97.6% from 2008 to 2014. Investment in the region by the ASEAN-6 kept pace with its total FDI outflow, with both increasing correspondingly over recent years (Figure 2.9). Notably, the preference of ASEAN-6 economies to invest in the region intensified after the 2008 crisis, as shown by the increasing share of intra-ASEAN FDI in the total FDI outflows of the six AMS, reaching 30.3% in 2014 from 15.8% in 2007.
- 2.105 Similar to many investors, the ASEAN-6 found a safe haven in the region for its foreign investment immediately after the 2008 financial crisis at a time of high volatility and weak demand in other markets. A sustained increase in share going forward, even during periods of more positive prospects in other markets, supports a strong case for deeper regional integration, as ASEAN economies still maintain a strong preference to invest within the region.

Figure 2.9



- 2.106 Further assessing intra-ASEAN FDI in terms of sectoral distribution showed the services sector being the largest recipient of intra-ASEAN FDI, with a share of 48.8% in 2014 (Table 2.15). There is a marked shift in the sectoral distribution comparing period averages (i.e. averages for 2001-2007 and 2008-2014), geared towards an increase in the services sector share. It bears to highlight, however, that within the services sector, only real estate and its related services have a higher average share for 2008-2014 relative to the period 2001-2007. For the services sector, FDI inflows into the sector have buttressed the stable and robust growth of services output (considered in Chapter 1). As ASEAN further undertakes progressive liberalisation of investment in the five main sectors under the ACIA, new growth engines are likely to emerge and economic growth is expected to be more broad-based across sectors.

Table 2.15

## Intra-ASEAN FDI Inflows Shares, by Sector (%)

	2007	2008	2009	2010	2011	2012	2013	2014	Avg (01-07)	Avg (08-14)
1. Agriculture, Fishery and Forestry	21.6	2.8	1.5	2.5	2.5	6.3	8.2	16.1	4.9	5.7
2. Mining and Quarrying	7.6	7.3	4.6	3.0	5.4	2.6	2.5	5.0	8.0	4.3
3. Manufacturing	24.8	31.6	12.9	19.1	39.0	26.5	29.9	27.0	29.5	26.6
4. Construction	2.2	7.8	2.4	0.5	2.5	0.6	-0.1	0.7	2.1	2.1
5. Trade/Commerce	-1.9	7.5	-5.0	12.0	15.9	3.1	4.0	4.2	9.1	5.9
6. Financial Intermediation	30.9	26.6	23.0	23.1	8.6	29.4	15.1	14.3	24.1	20.0
7. Real Estate and related Services	9.2	14.0	46.4	23.6	26.9	21.2	24.8	18.7	15.4	25.1
8. Professional, Social and other Services	9.1	-0.6	11.9	16.0	-1.9	8.1	7.5	10.9	9.3	7.4
9. Others (n.e.c.)	1.2	1.4	2.9	0.1	0.8	0.1	1.4	-0.2	-12.4	0.9
10. Unspecified	-4.7	1.6	-0.4	0.1	0.3	2.2	6.7	3.1	10.1	1.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Consolidated Sectors</b>										
<b>Primary (1+2)</b>	<b>29.2</b>	<b>10.1</b>	<b>6.1</b>	<b>5.5</b>	<b>7.9</b>	<b>8.9</b>	<b>10.7</b>	<b>21.1</b>	<b>12.8</b>	<b>10.0</b>
<b>Secondary (3)</b>	<b>24.8</b>	<b>31.6</b>	<b>12.9</b>	<b>19.1</b>	<b>39.0</b>	<b>26.5</b>	<b>29.9</b>	<b>27.0</b>	<b>29.5</b>	<b>26.6</b>
<b>Tertiary (4-9)</b>	<b>50.7</b>	<b>56.7</b>	<b>81.5</b>	<b>75.3</b>	<b>52.8</b>	<b>62.5</b>	<b>52.7</b>	<b>48.8</b>	<b>47.6</b>	<b>61.5</b>

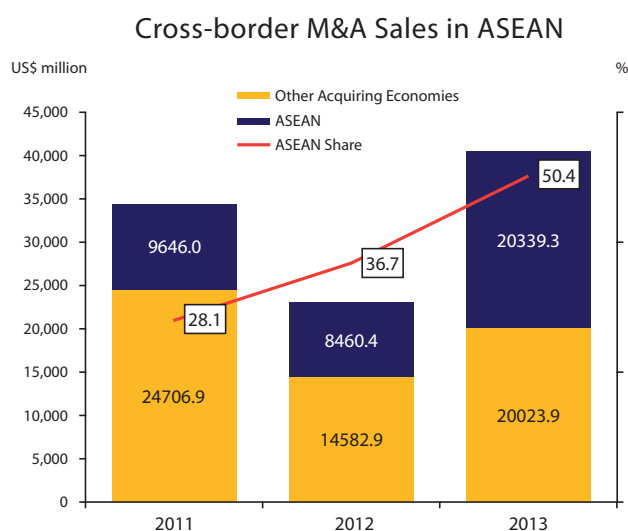
Note:

n.e.c. = not elsewhere classified; includes utilities (i.e. electricity and water); household services.

Source: ASEANstats FDI data (May 2015).

2.107 Effects of the resolute and steady implementation of ASEAN's policy agenda for a free, open and transparent regional investment regime have also brought about changes in the investment strategies of firms. Firms are more keen to increase their regional presence, proof of a shift in their investment strategies now inclining towards a more regional orientation, rather than regarding the ASEAN region as consisting of separate, fragmented markets (ASEAN Investment Report 2013-2014). Cross-border mergers and acquisitions (M&A) activities have increased since 2011, with the share of ASEAN firms' total acquisitions in the region reaching 50.4% in 2013 (Figure 2.10). A sustained rise of M&A acquisitions in the region by ASEAN companies points to a strong commitment by home-grown firms to further regionalise their operations.

Figure 2.10

Source: ASEAN Investment Report 2013-2014 (<http://www.asean.org/resources/publications>).

- 2.108 Linked with the emerging approach by firms to purposely establish a more defined regional footprint, ASEAN's regional policy agenda on investment has also affected investors' perceptions of such prospects. This is a welcome result of the region's investment policy agenda given that perception is a key criterion which anchors investors' decisions to sustain or even increase their investment in ASEAN. Box 2.9 highlights the results of most recent surveys among companies doing business in the region.

### Box 2.9: Looking Ahead

Interest in the ASEAN region among the business sector has intensified, especially in recent years leading up to the AEC milestone in 2015. This has been well documented in the results of regular surveys among the business community conducted by several institutions.<sup>1</sup> Driven by the primary objective of enhancing their business opportunities in the region, interestingly, firms' decision to set up shop or expand operations in ASEAN has been influenced by the regional economic integration policy agenda embodied in the AEC.

The *ASEAN Business Outlook Survey 2015* (AmCham Singapore) indicated that 'a vast majority (81%) of surveyed business executives across all ASEAN countries believe that ASEAN integration is important in helping their companies do business in the region'. This anchors the perception of 89% of the respondents to expect their companies' level of trade and investment in ASEAN to increase in the next five years. Business executives surveyed likewise noted the importance of regional agreements in their investment plans in the region, with about 54% considering the ACIA as important in their companies' investment strategy.

In the report *Re-drawing the ASEAN Map: A Pan-regional ASEAN Strategy* (EIU), 76% of companies indicated that they have a strategy that is focused on the ASEAN bloc; companies already think of 'ASEAN as an identifiable entity that demands its own strategy'. ASEAN economic integration policies have influenced firms in crafting their strategies. More notably, rising importance is given to these policies. The number of survey respondents who strongly affirmed that ASEAN's integration policies are driving their ASEAN strategy increased to 31% compared to the 23% of respondents in the past survey of December 2012.

In the *2013 ASEAN-BAC Survey on ASEAN Competitiveness*, almost half of the businesses surveyed (48% of respondents) responded that their organisations take into account the investment attractiveness of the ASEAN region as a whole when planning investment strategies. This is up from 39% of the 2012 survey, signifying that a growing number of ASEAN businesses now have an 'ASEAN strategy' in mind.

Results of the *ASEAN-BAC Business Competitiveness Survey 2014*, conducted between August and December 2014, have yet to be released. For the first time in ASEAN-BAC surveys, the responses were collected only through online self-administrated survey questionnaires through the survey website ([www.aseanbizsurvey.com](http://www.aseanbizsurvey.com)). Preliminary analysis of survey results indicates that the major criteria for respondents when expanding in another country include the rule of law, availability of financial resources and the size of the potential market.

<sup>1</sup> These include, among several others, the *ASEAN-BAC Survey on ASEAN Competitiveness* (ASEAN Business Advisory Council in collaboration with research institutions); *ASEAN Business Outlook Survey* (American Chamber of Commerce Singapore with US Chamber of Commerce); *Economist Corporate Network Survey of Companies* (EIU);

#### References:

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The Economist Intelligence Unit, November 2014. *Re-drawing the ASEAN Map: A Pan-regional ASEAN Strategy*.

## D. Freer Flow of Capital

- 2.109 With a backdrop of increasing regional integration through trade and FDI, financial markets and intermediaries have become increasingly important in facilitating flows of funds between borrowers and savers. Existing literature on capital market development and economic growth suggests that a sound and well-functioning capital market can promote investment efficiency and economic growth.
- 2.110 Regional financial integration is a key catalyst for financial sector development, which, in turn, improves allocation efficiency and lowers the cost of capital. It can also play an important role in increasing economic growth and narrowing the current gap in the financial development among the AMS.
- 2.111 Under the AEC Blueprint, the financial integration framework is set to achieve a well-integrated and well-functioning regional financial system with more liberalised financial services, capital account regimes and inter-linked capital markets, to facilitate greater trade and investment flows in the region. In particular, it explicitly states the need to consider national policy objectives and the level of economic and financial sector development within the AMS in the financial liberalisation process.
- 2.112 ASEAN's financial integration is facilitated through the Roadmap for Monetary and Financial Integration of ASEAN (RIA-Fin), endorsed by the ASEAN Finance Ministers in 2003, which established the route towards integration of financial markets in the areas of (i) Capital Market Development; (ii) Financial Services Liberalisation; and (iii) Capital Account Liberalisation. These three areas will be considered further in the following sections.
- 2.113 Subsequently, several further initiatives or schemes have been launched to foster financial liberalisation in ASEAN, notably the ASEAN Financial Integration Framework (AFIF) which was adopted by the ASEAN Central Bank Governors and acknowledged by the ASEAN Finance Ministers in April 2011. AFIF provides a general approach to the liberalisation and integration initiatives under the AEC with the aim of creating a semi-integrated financial market by 2020. While agreeing on the end-goal of financial integration, AFIF also recognised that since each AMS differs in terms of its initial conditions, it may therefore define its own milestones and timelines in achieving the common end goal.

### *Financial Services Liberalisation*

- 2.114 Financial Services Liberalisation (FSL) within ASEAN aims for gradual removal of restrictions for ASEAN financial institutions (i.e. banks, insurance companies or investment companies) to offer and provide financial services in other AMS.

- 2.115 In general, the ASEAN financial environment is bank-dominated. Therefore, the banking sector is identified as an important enabling mechanism to maintain the pace of the FSL process within the region. Acknowledging the key role of the banking sector, the ASEAN Bank Integration Framework (ABIF) seeks to apply the principles of equal access, equal treatment and equal environment to the banking industry and was approved by the Central Bank Governors in December 2014. The main objective of the ABIF is to establish a more integrated regional banking sector led by a network of Qualified ASEAN Banks (QABs), which will be provided with greater market access and operational flexibilities consistent with those of domestic banks in the respective host countries. It is hoped that this will encourage the QABs to play a greater role in facilitating intra-ASEAN trade and investment. In order to support the effective surveillance and supervision of QABs, the home-host country regulatory and supervisory co-operation arrangements will be strengthened in parallel with the implementation of ABIF. The implementation of ABIF will also include the development of capacity building programs to ensure all AMS are able to meet the objectives of the framework.
- 2.116 The ASEAN Insurance Integration Framework (AIIF) is a platform to help guide the progressive liberalisation of the insurance sector to make it more competitive and thus provide greater choice for consumers. Currently, the Maritime, Aviation, and Transit (MAT) insurance sector has been identified as the key entry point for the liberalisation process of the ASEAN insurance industry. Catastrophe insurance and reinsurance are among other areas being considered as priorities for liberalisation.
- 2.117 The progressive commitments made by the AMS in the liberalisation of their respective financial services sectors are enshrined in the AFAS. To date, six rounds of negotiations of FSL have been completed. In March 2015, the ASEAN Finance Ministers completed the signing of the Protocol to implement the 6<sup>th</sup> Package of Financial Services Liberalisation under the AFAS. The enabling provision for the implementation of ABIF, which will pave way for its operationalisation, is contained in the 6<sup>th</sup> Package.
- 2.118 The 7<sup>th</sup> round of negotiations was launched in September 2014 at the 41<sup>st</sup> ASEAN Working Committee on Financial Services Liberalisation (WC-FSL) Meeting. The 7<sup>th</sup> Package is targeted at being completed in 2016, as the WC-FSL Members have agreed to shorten the length of the AFAS liberalisation cycle for financial services from three years to two years. The WC-FSL is also currently in the process of negotiations to review the financial services obligations under the AFAS, in the form of a chapter in the ATISA.

### *Capital Account Liberalisation*

- 2.119 In the area of capital account liberalisation (CAL), the objective is to achieve a freer flow of capital among the AMS by gradually removing restrictions in the current account, FDI, portfolio investments and other flows. The AMS have completed the processes of assessment and identification of rules for these types of financial flows. This has led to the development of individual CAL Heat Maps<sup>15</sup> used to assess the level of openness of the capital account regime in each of the AMS. The CAL Heat Map is regularly updated by Member States to monitor the development in the capital account regime of the AMS. To date, the AMS agreed to further improve the CAL Heat Map by providing more detailed information on the various measures implemented by the AMS, implementing a more objective scoring methodology and reflecting the actual levels of development of the AMS' capital account regime.
- 2.120 The AMS also each drafted their individual milestone blueprints, or monitoring tools, used to assess (i) accomplishments of the milestones of individual countries and the presence of specific preconditions to achieve CAL; (ii) developments in the CAL Heat Map vis-à-vis the achievements in the milestone blueprints; and (iii) how far each AMS is from the target level of liberalisation and to assess the gaps (i.e. analyse what still needs to be done).
- 2.121 Nearly all AMS have adopted Article VIII of the IMF Articles of Agreement<sup>16</sup>, with Myanmar expected to follow suit by 2015. Currently, pertinent legal and regulatory frameworks of Myanmar are being drafted to enable compliance with the obligations under the IMF Agreement.
- 2.122 In line with the guiding principles in the AEC Blueprint, providing allowances for adequate safeguards against potential macroeconomic instability and systemic risks that may arise from the liberalisation process, the AMS have established a policy dialogue process on safeguard mechanisms for CAL. The dialogue provides a platform for the AMS to monitor capital flow trends and to exchange experiences on capital flow management. The objective is to assist the AMS in the formulation of relevant policies on safeguard measures during their respective CAL processes. To date, four policy dialogues have been conducted, the latest of which was held on 21 August 2015 during the 30<sup>th</sup> meeting of the Working Committee on Capital Account Liberalisation (WC-CAL).

<sup>15</sup> CAL Heat Maps assess Member States' current levels of capital account regime openness and serve as the basis for the AMS' individual milestone blueprints. The milestone blueprints show Member States' plans to progressively liberalise their capital account, sequenced in accordance with the AFIF. Indicators used in the Heat Maps include: (i) portfolio and other inflows; (ii) portfolio and other outflows; and (iii) FDI inflows and outflows.

<sup>16</sup> Article VIII of the IMF's Articles of Agreement explains the general obligations of its Members, including avoidance of discriminatory currency practices, furnishing of information, and the status of the IMF when it rescues member countries, which usually happens in cases of external crises (such as current account crises).



### ***Capital Market Development***

- 2.123 The capital market development (CMD) initiative focuses on the building of capacity and on laying the infrastructure for development of ASEAN capital markets, with a long-term goal of achieving cross-border collaboration among the various capital markets in ASEAN. Among others, this will be implemented through mutual recognition and harmonisation of rules and regulations and the linkage of market infrastructure.
- 2.124 In 2004, the ASEAN Capital Markets Forum (ACMF) was established, comprising the heads of capital market regulatory authorities from the AMS. In 2008, the ACMF proposed the Implementation Plan to Promote the Development of Integrated Capital Market in ASEAN to Achieve the Objectives of AEC Blueprint by 2015 (The Implementation Plan), which was endorsed by the ASEAN Finance Ministers Meeting (AFMM) in 2009. The Implementation Plan provides for a comprehensive approach to: (i) building an integrated regional capital market, with strategic initiatives and milestones; (ii) strengthening financial intermediation; (iii) enhancing capacity; and (iv) managing risks in support of national and regional growth.
- 2.125 The ACMF, in collaboration with the Working Committee on Capital Market Development (WC-CMD), WC-CAL, and Working Committee on Payment and Settlement System (WC-PSS) has been mandated by the 17<sup>th</sup> AFMM with developing an ASEAN Capital Market Infrastructure (ACMI) Blueprint to establish clearing, settlement and depository linkages among the ASEAN capital markets. The ACMI Blueprint was completed and reported to the 18<sup>th</sup> AFMM in 2014. The ACMI Task Force is currently looking into possible approaches in progressing towards post-trade linkages, while ensuring the benefits of such connectivity are shared by all AMS.
- 2.126 As part of the ASEAN Exchanges Collaboration to promote awareness and visibility of ASEAN as an asset class, three major milestones were achieved. First, the ASEAN Exchanges brand identity, the ASEAN Exchanges website and the ASEAN Stars Index (a selection of the ASEAN Top 180 blue chip stocks) were created and launched in April 2011 during the AFMM in Bali. Subsequently, FTSE ASEAN analytics were made available on the ASEAN Stars. Finally, the ASEAN Trading Link was launched in September 2012. The ASEAN Trading Link electronically connects the stock market exchanges of Malaysia, Singapore and Thailand and provides investors easier and more seamless access into these markets from one single access point. The Link will be further supported with the implementation of the ACMI Blueprint, which will enhance connectivity of ASEAN capital markets through post trading linkages.
- 2.127 In an effort to raise corporate governance standards and practices among Public Listed Companies (PLCs) in ASEAN, the ACMF launched the ASEAN Corporate Governance Scorecard in 2011. The Scorecard is based on the corporate governance

principles of the OECD. The ASEAN Corporate Governance Scorecard is expected to enhance the visibility of well-governed ASEAN PLCs and promote ASEAN as an asset class internationally.

- 2.128 The ACMF is finalising the proposed best practices guidelines and framework for domestic dispute resolution bodies to co-operate. The aim is to ensure that investors who invest in or receive services from licensed persons or entities residing in other AMS enjoy equal protection when investing in their domestic markets.
- 2.129 The ACMF has initiated the ASEAN Collective Investment Schemes (CIS) Framework for cross-border offerings. The Framework has been operational in Malaysia, Singapore and Thailand since August 2014. As of August 2015, 11 qualified funds have been authorised for offers to retail investors in these three signatory countries.
- 2.130 The ACMF has pursued facilitating requirements for multi-jurisdictional offerings of equity and plain debt securities. An MoU on Expedited Entry of Secondary Listings was signed between regulators and exchanges from Malaysia, Thailand and Singapore in 2012. This has led to a significant decrease in time-to-market for corporations seeking a secondary listing within a participating AMS from 16 weeks to 35 business days. Disclosure standards for prospectuses were also implemented in 2013 based on the International Organization of Securities Commissions' (IOSCO's) disclosure standards on cross-border offerings as the benchmark. Additionally, this fully adopts the International Financial Reporting Standards and the International Standards on Auditing. The Streamlined Review Framework for the ASEAN Common Prospectus was implemented on 2 September 2015 pursuant to an MoU signed on 3 March 2015. A handbook which details the operational aspects of the framework has been issued. This will further facilitate offerings across multiple ASEAN jurisdictions, allowing for shorter time-to-market periods and faster access to capital across signatory countries through a streamlined review process. These measures are expected to enhance the region's attractiveness as a fund-raising centre.
- 2.131 The progress of the ASEAN bond market development, openness and liquidity is monitored by the WC-CMD using the Bond Market Development Scorecard. In order to improve the monitoring of development and provide greater clarity and guidance, ASEAN continued to progressively enhance the parameters of the Scorecard.

### ***Payment and Settlement System***

- 2.132 The ASEAN recognised the role of payments and settlements systems in achieving a financially integrated ASEAN. In this regard, the ASEAN Governors endorsed in 2010 the establishment of the WC-PSS to foster an integrated, safe and efficient payments system in the region that enables businesses and individuals to make or receive



cross-border electronic payments with greater convenience'. More specifically, ASEAN aims to improve the payment and settlement systems of the AMS in five principal areas namely, trade settlement, remittances, retail payments, capital markets and standardisation. Towards that end, the WC-PSS has completed an assessment of the current situation in the ASEAN PSS and, based on the findings, formulated several priority policy recommendations to develop and harmonise its operation. Further, the WC-PSS adopted the Principles for Product Transparency and Disclosure on Cross-Border Trade Settlement (Principles) on 27 January 2015 to improve the level of transparency on charges and services offered by financial institutions in the ASEAN region for cross-border trade settlement. Malaysia, the Philippines, Singapore, and Thailand have implemented the Principles, while other AMS are expected to adopt them within 2015.

- 2.133 Post-2015, the WC-PSS aims to identify technical aspects of the retail payment systems and large value payment and settlement to facilitate regional interlinkages as well as establishing co-operative oversight arrangements with home regulator of regional/international payments system, among others. The WC-PSS also conveyed a possible re-organisation of its taskforces at the Meeting of the Senior Level Committee on ASEAN Financial Integration held on 15 September 2015 in Manila, Philippines.

#### ***ASEAN Infrastructure Fund***

- 2.134 In recognition of the huge requirements for infrastructure financing in the region, AMS signed the ASEAN Infrastructure Fund (AIF) Shareholders' Agreement in September 2011. Subsequently, the AIF became a legal entity in 2012 and came into operation in 2013. The AIF aims to provide an alternative financing opportunity for the AMS to finance their sovereign or sovereign-guaranteed infrastructure projects as well as to leverage on the relatively high savings in the region. It is expected that the AIF will finance up to US\$300 million worth of projects yearly to support infrastructure development in the AMS, including the estimated annual need of US\$4 billion to develop infrastructure for regional connectivity projects in the ASEAN region by 2020.
- 2.135 The AIF now stands at US\$485.3 million of which US\$335.3 million is equity contribution from all AMS and the remaining US\$150 million is contributed by the Asian Development Bank (ADB). The AIF is currently making efforts to reduce the costs of borrowing through improved technical analysis and policy formulation and to improve administrative support. The first project financed by AIF was the Java-Bali Power Transmission Crossing Project in December 2013. Other projects financed by the AIF so far include Metropolitan Sanitation Management Investment as well as Sustainable and Inclusive Energy Programme in Indonesia and Power Grid Development Project in Viet Nam. The AIF is also supported and endorsed by The ASEAN-World Bank Infrastructure Finance Network.

## ***ASEAN Finance Co-operation***

2.136 There have been advances in several areas under ASEAN Finance Co-operation. These are highlighted in Box 2.10.

### **Box 2.10: Progress in ASEAN Finance Co-operation Initiatives**

#### **Insurance Co-operation**

Progress has been made in developing the ASEAN Disaster Risk Financing and Insurance through development of enabling policies and institutional environments. Efforts have also been made to promote multilateral co-operation towards the adoption of regional agreement on DRFI.

The Insurance Core Principles of the International Association of Insurance Supervisors are continuously observed as an important measure to enhance the performance of insurance regulation and supervision.

#### **Taxation Co-operation**

The AMS have continuously worked towards the completion of the network of bilateral agreements on avoidance of double taxation. The AMS are also working towards the enhancement of withholding tax structure, where possible, to promote the broadening of investor base in ASEAN debt issuance.

In terms of Exchange of Information (Eol), the AMS are making the necessary preparations to adopt international standards. At this stage, commitments on exchanging information on request under existing bilateral tax treaties have been put in place.

Under the roadmap developed for the ASEAN Forum on Taxation Working Group, co-operation in the following areas are to be studied: (i) capacity building for Eol; (ii) enhancing the implementation of Eol under existing bilateral tax treaties; (iii) capacity building for tax treaty negotiations; (iv) global Tax Identification Number (TIN) feasibility study; and (v) exploring tobacco and alcohol taxation in ASEAN.

#### **Customs Co-operation**

Ratification of The ASEAN Agreement on Customs was completed by all AMS in 2014. Nine AMS have implemented the WTO Customs Valuation, while Myanmar was still awaiting entry into force of a new Customs Law.

Following the signing of the MOU for the ASW Pilot Project, a more comprehensive and binding Protocol on the Legal Framework to implement the ASW has been drafted and finalised that will govern the legal aspects of the eventual implementation of the ASW across Member States. The Protocol is currently in the process of being signed by AMS.

Reference: ASEAN Secretariat.

## ***Financial Integration Performance in ASEAN***

2.137 The financial systems of the AMS have evolved through the years. ASEAN, as a region, has pursued its agenda on financial integration. As the extensive literature on the theme suggests, there is no single and generally accepted definition and measurement of financial integration. However, the term financial integration typically encompasses financial openness, free cross-border movement of capital and integration of financial services. As used in the literature, financial integration can be measured by employing different approaches, divided into three broad categories: (i) institutional/regulatory measures; (ii) quantity-based measures; and (iii) price-based measures. Quantity-based measures are closely related to the notion of financial openness and cross-border movement of capital, while price-based measures are essentially a test of the law-of-one price hypothesis. In succeeding discussions, institutional/regulatory measures and

quantity-based measures are afforded additional focus in characterising the progress made by ASEAN on pursuing its agenda for regional financial integration, as embodied in the RIA-Fin.

2.138 The market structure of the commercial banking system, in terms of market participation and penetration by foreign banks, varies across the AMS. The AMS adopt several taxonomies for identifying the scope of its domestic commercial banking system; Figure 2.11 to Figure 2.14 illustrate those for AMS based on official national data sources. The presence of foreign entities in the commercial banking systems of Indonesia, Thailand and especially the Philippines are still extensively dominated by the presence of domestic entities. While the current data used are not capable of distinguishing the composition of foreign entities in the commercial banking sector, the joint ADB-ASEAN study on the Road to ASEAN Financial Integration (ADB, 2013) indicates that foreign banks are likely to be the large international banks rather than ASEAN-based banks. As such, cross-border penetration of ASEAN-based banks within ASEAN seems to be minimal to date.

Figure 2.11

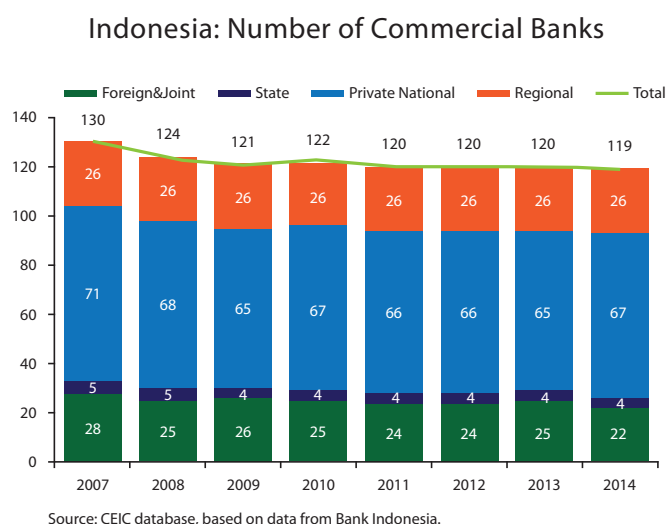


Figure 2.12

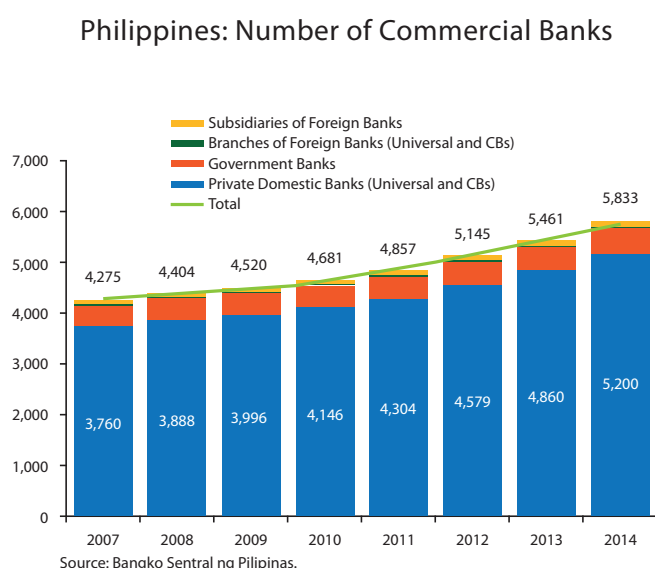
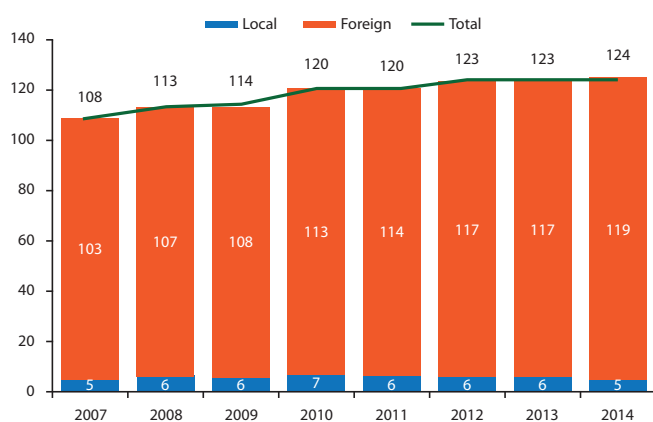


Figure 2.13

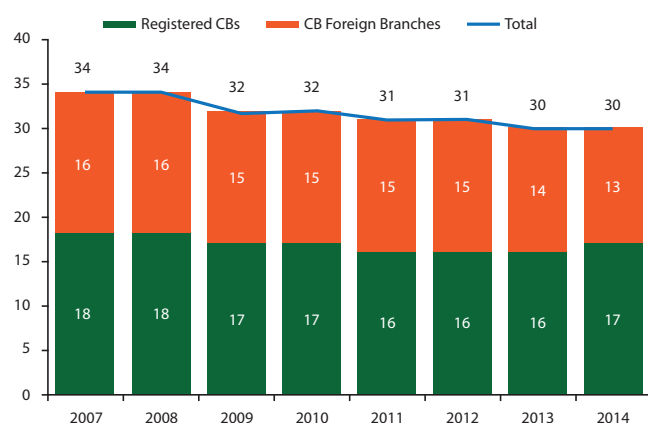
## Singapore: Number of Commercial Banks



Source: CEIC database, based on data from Monetary Authority Singapore.

Figure 2.14

## Thailand: Number of Commercial Banks

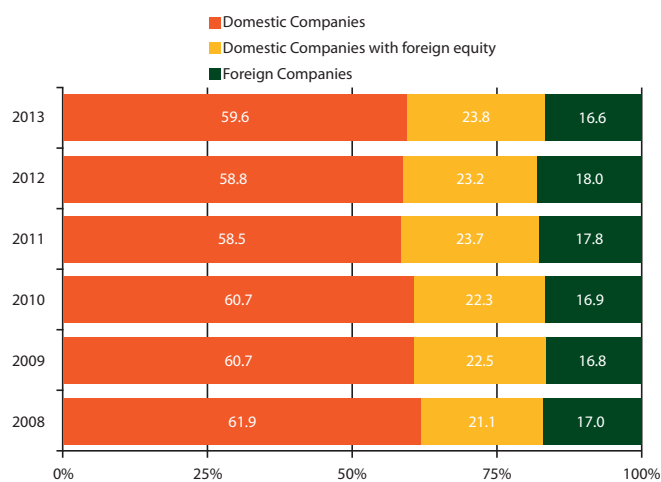


Source: Bank of Thailand.

2.139 The market structure of the region's insurance sector, in terms of number of providers, shows a far larger presence of foreign entities compared to other sectors such as banking. While domestic companies account for more than 50% of the market, foreign entities, including domestic providers with substantial foreign equity, accounted for an average of 40% from 2007 to 2013 (Figure 2.15). The ADB-ASEAN study highlights that insurance companies are the only type of non-bank financial institution that is common across ASEAN. This being so, the co-operation agenda for insurance is critical to engender meaningful outcomes on financial integration in a broad-based market, as in the insurance sector.

Figure 2.15

## Market Structure of Insurance Sector in ASEAN (Share, %)



Source: ASEAN Secretariat.

2.140 Focusing on cross-border financial activities that capture transactions related to capital accounts, intra-regional portfolio investment asset holdings of the AMS have increased in recent years (Table 2.16). Total portfolio investment assets are the holdings of portfolio securities issued by non-residents reported by countries participating in the IMF Coordinated Portfolio Investment Survey (IMF CPS), wherein five of the 71 countries participating are AMS (i.e. Indonesia, Malaysia, the Philippines, Singapore and Thailand). It is noteworthy that there has been a sharp increase in intra-regional portfolio investment asset holdings from 2012 to reach US\$96.3 billion in 2013, due particularly to the increase in equity securities. However, the share of intra-ASEAN portfolio investment holdings in ASEAN's total portfolio investment holdings remains at less than 10% on average since 2001. In terms of composition, intra-regional portfolio investment asset holdings of the AMS have been more concentrated in debt securities in recent years. However, from 2001 to 2006, equity securities represented a higher share (Figure 2.16).

Table 2.16

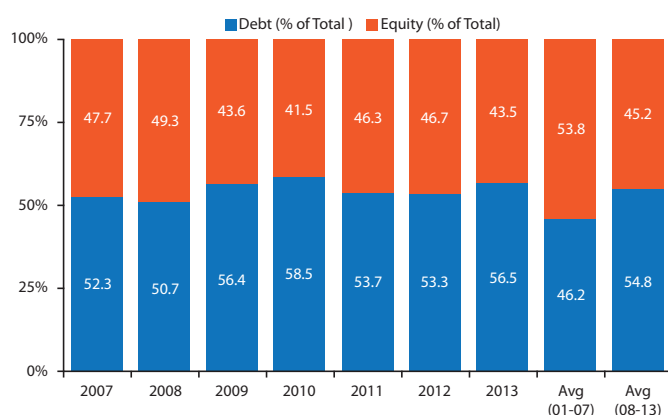
## ASEAN-5: Intra-regional Portfolio Investment Assets (US\$ million)

	2007	2008	2009	2010	2011	2012	2013	Avg (01-07)	Avg (08-13)
Total Debt Securities	23,767	13,887	19,727	35,959	32,352	49,002	54,416	11,514	34,224
Long-term	17,254	12,080	18,081	30,626	25,950	32,580	28,504	8,716	24,637
Short-term	6,513	1,807	1,646	5,333	6,402	16,422	25,912	2,798	9,587
Total Equity Securities	21,664	13,491	15,262	25,518	27,885	42,961	41,901	12,442	27,836
<b>Total</b>	<b>45,431</b>	<b>27,378</b>	<b>34,990</b>	<b>61,477</b>	<b>60,237</b>	<b>91,963</b>	<b>96,317</b>	<b>23,956</b>	<b>62,060</b>
<i>Memo Item:</i>									
<i>Intra-ASEAN (% of Total)</i>	8.4	6.7	6.5	9.2	8.5	10.2	9.8	8.6	8.5

Source: Asian Development Bank, Asia Regional Integration Center ([www.aric.adb.org](http://www.aric.adb.org)), based on data from IMF CPIS.

Figure 2.16

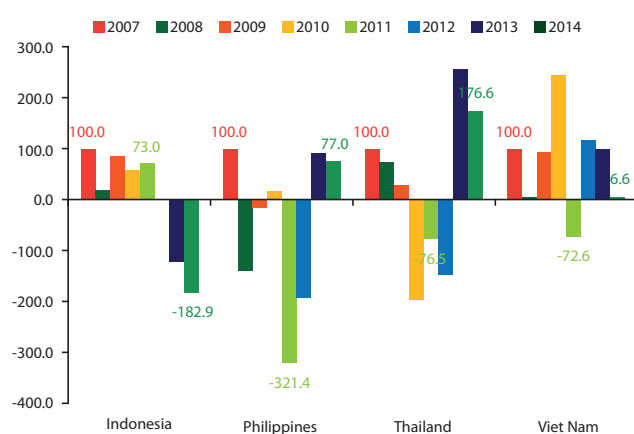
ASEAN-5: Composition of Intra-regional Portfolio Investment Assets (%)

Source: Asian Development Bank, Asia Regional Integration Center ([www.aric.adb.org](http://www.aric.adb.org)).

2.141 The presence of foreign investors in the equity market can also be reflected through the cross-border transactions in stock market trading activities. The value of net foreign purchases, indexed to 2007 transaction values, in selected AMS with available data from national stock exchanges are presented in Figure 2.17. Foreign investors, including those from the AMS, remain active participants in the equity markets of these economies. The marked dip and rise of annual indices reflect the heightened volatility in capital markets over recent years as a consequence of the 2008 financial crisis. As the implementation of initiatives related to capital market development gains traction, a sustained increase in net foreign participation ahead would be a positive sign of the growing robustness of cross-border transactions, at least in the equities markets.

Figure 2.17

Stock Market Trading: Index of Net Foreign Purchase Value (2007=100)



Source: CEIC database, based on data from national Stock Exchanges.

### ***Recommendations***

- 2.142 Appreciating the critical role that financial integration plays towards realising the AEC, as well as the significant benefits that this will yield to the AMS, ASEAN has advanced several initiatives and measures to facilitate and support the region's financial integration agenda. The foundation was laid by the RIA-Fin that provided clear goals to be achieved. The adoption of AFIF further strengthened this, leading to the realisation of several important milestones that progressively brought ASEAN closer to achieving its targets for financial integration.
- 2.143 However, it should be noted that with the interdependence of financial markets, financial integration efforts need to be implemented in a cautious and prudent manner to avoid any form of adverse shock to economies. Another major challenge lies in the large development gap among the AMS, thus necessitating a more progressive liberalisation process that takes into consideration the different levels of readiness within ASEAN. The various co-operation mechanisms promoting capacity building and technology transfer across the AMS also need to continue and be further enhanced.

## **II. Pillar 2: Competitive Economic Region**

- 2.144 The framework for a competitive economic region under Pillar 2 of the AEC Blueprint lays out different areas within the regulatory environment that will contribute to enhancing competitiveness and economic growth in the region, tackling intellectual property, competition and consumer protection. It also provides impetus for better connectivity in terms of infrastructure development and energy co-operation. The elements of taxation and electronic commerce are beyond the scope of this analysis.
- 2.145 An efficient, secure and integrated transport network in the region is an important underlying factor for the AEC's progress towards achieving a single market and production base in the region. Efficient logistics and distribution services are important sources of regional competitiveness. Well-developed infrastructure and transport facilitation networks reduce transportation costs and time-to-market, as well as improve the physical accessibility of many households in the region to essential products, both of goods and services.
- 2.146 Likewise, energy is a fundamental factor for all industries and households. An efficient energy market is crucial for operationalising an economic community to reach its optimal potential. Both a commodity and production input, energy is a key ingredient for economies and stakeholders to take part in the single market and production base.

- 2.147 In order for ASEAN to be fully integrated and engaged in deepening regional production networks, the AMS will need to sustain productivity growth over time, for which an enabling policy and regulatory environment is imperative. Policies that promote competitiveness, innovation and those that protect consumer interests could complement the reduction of trade barriers, and this is particularly so for developing countries (Cernat, 2005). Such policies ensure that the benefits from regional integration are maximised and more equitably distributed between and among consumers and producers in the region (ASEAN, 2010).
- 2.148 The ability to increase productivity and be globally competitive is imperative for the AEC to be effective and sustainable. The international rankings on competitiveness for 2014 by the *IMD World Competitiveness Scoreboard* assessed competitiveness of economies under four main factors: economic performance, government efficiency, business efficiency, and infrastructure. The Scoreboard placed six of the AMS within the top 50 competitive economies in the world. Similarly, the *WEF Global Competitiveness Report* also provided insight into the driver of competitiveness in 12 areas such as institutions, technological readiness, infrastructure and goods market efficiency. Again, several AMS improved over their rankings in past years and three (Singapore, Malaysia and Thailand) were ranked among the top 10 most competitive economies in the Asia-Pacific region in 2014.
- 2.149 The following sub-sections present highlights of progress and achievements under Pillar 2 of the AEC Blueprint in the areas of infrastructure development, energy co-operation, competition law, consumer protection and intellectual property.

### ***Infrastructure Development***

- 2.150 A well-integrated transportation network is a cornerstone for a competitive and efficient economy, as it is crucial for facilitation of goods and services while enhancing resource allocation efficiency.
- 2.151 Transportation co-operation in ASEAN started in 1982 as part of five-year integrated framework plans. The first ASEAN Transport Ministers Meeting was subsequently established in 1996, when it adopted a Ministerial Understanding on ASEAN Co-operation in Transportation and revised the timeline of the Plan of Action in Transport and Communications to 1996-1998. The ASEAN Transport Co-operation Framework Plan for 1999-2004 was then launched in 1997, focusing on the development of the ASEAN transportation network, finalisation of the ASEAN transport facilitation agreements as well as enhanced regional transport programmes to support the increasing trend towards intra-regional trade and investment.



- 2.152 At the 10<sup>th</sup> ASEAN Transport Ministers Meeting in Phnom Penh in 2004, the ASEAN Transport Action Plan (ATAP) 2005-2010 was adopted to provide the basis for broadening co-operation and promoting collective action to further enhance regional transportation networks. Currently, ASEAN transport co-operation is guided by the ASEAN Strategic Transport Plan (ASTP)/Brunei Action Plan (BAP) 2011-2015, which has served as the main reference for transport co-operation under the AEC 2015.
- 2.153 The Master Plan on ASEAN Connectivity (MPAC) 2010-2015 was launched and adopted at the 17<sup>th</sup> ASEAN Summit in 2010, with the aim of intensifying and strengthening ASEAN community building efforts and creating synergies among three key elements, namely physical connectivity (including transportation), institutional connectivity and people-to-people connectivity. The MPAC aims to consolidate existing relevant initiatives as well as those ongoing and currently under development, to facilitate the establishment of the ASEAN Community.
- 2.154 The MPAC is expected to contribute to ASEAN community building by: (i) enhancing rules and governance; (ii) enhancing competition and competitiveness; (iii) enhance the well-being and livelihood of ASEAN people; and (iv) narrowing development gaps in the region. To realise the full potential of the MPAC, a new regional financial design, including the AIF, was developed for support. The AIF is a dedicated fund established by the Asian Development Bank (ADB) to address the ASEAN region's infrastructure investment needs. In 2011, nine of the AMS became members of the AIF in 2011; since then, all the AMS are members of the AIF. The AIF finances projects that promote ASEAN infrastructure development by mobilising regional savings, including foreign exchange reserves. All AIF-financed projects are also to be co-financed up to 70% by the ADB.

#### Land Transport

- 2.155 Land transportation plays an important role in supporting domestic and cross border trade as well as the movement of people within and across borders. The key land transport initiatives include the ASEAN Highway Network (AHN) and the Singapore-Kunming Rail Link (SKRL); the latter is a rail development project linking ASEAN with China with a total length of 7,000 km. Both are flagship land transport infrastructure projects, which have been identified as the priority agenda in ASEAN transport co-operation. Other initiatives under land transport include the installation of common road signs and the route numbering system in all designated routes, with a specific priority on Transit Transport Routes (TTRs) and on establishing a sustainable, efficient and environmentally-friendly transport system.

- 2.156 Once completed, the AHN and SKRL projects will serve as the main skeleton for cross-border land transport in the region as they will link capitals, seaports and airports, with high-potential areas for investment and tourism in the AEC. Further, these will enhance transport connectivity not only in and between the AMS but also with neighbouring countries and beyond, with connections to the AHN<sup>17</sup> and the Trans-Asian Railway<sup>18</sup>, respectively. Both producers and consumers are beneficiaries of the AHN and SKRL projects as these will engender open access to an enlarged market, reduce transportation and trade costs, establish links with regional and global supply chains, and facilitate greater regional economic co-operation and integration.
- 2.157 Since its adoption of the Ministerial Understanding on the Development of the ASEAN Highway Network Project in September 1999, the AHN has connected the AMS through routes totaling 38,400 km, with the aim of upgrading all designated national routes to Class I standard, and low-traffic routes to Class II standard by 2020. Each AMS is responsible for its own funding for construction and/or upgrading of the AHN. The priority target of the AHN is to complete the remaining missing links and upgrade 'Below Class III'<sup>19</sup> roads within the TTRs by 2015.
- 2.158 Works to complete the AHN by constructing missing links and upgrading to Class III and above will be done progressively and will continue under the post-2015 agenda. To further support facilitation of goods in transit, implementation of the AFTA and increased economic activities in the region, 34 sections on various ASEAN Highways routes were designated and classified as TTR in 2007. As stipulated in ASTP/BAP, the highest priority for the recent AHN development is to upgrade existing ASEAN Highways Below Class III on TTRs in Indonesia, Lao PDR and Myanmar, followed by constructing missing link sections in Myanmar, and upgrading other Below Class III roads. In 2014, one of the two missing links in Myanmar, the AH-123 link connecting Dawei Deep seaport to Thailand, has been constructed but not yet paved (and is classified as below Class III). Construction is currently underway for the AH-112 link through southern Myanmar. As of 2014, 2,169.5 km of 5,538.2 km (or 39.2%) have been upgraded under the AHN Project.

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<sup>17</sup> The AHN was initiated in 1959 with the aim of promoting development of an international road and transport system for the region. It covers 141,000 km of road networks through 32 countries.

<sup>18</sup> The Trans-Asian Railway project was first initiated in 1960 comprising 117,500 km of railway lines connecting 28 countries

<sup>19</sup> Class III highways are of minimum desirable standards and contain two narrow lanes and have double bituminous surfaces as a pavement type compared to Class II highways which have the same number of lanes but have asphalt or cement concrete surfaces.

- 2.159 Table 2.17 summarises the total length and different classes of AHN in 2006, 2008, 2010 and 2012 as indicators of progress in the implementation of the AHN, including completion of missing links and upgrading of road quality. Comparison between 2010 and 2012 indicated considerable progress in road-upgrading for Class III and Below Class III roads with a growth of 7.1% and 8.1, respectively. The expansion in the Below III Class roads was attributed to the construction of new unpaved roads.

Table 2.17

Overview of the ASEAN Highway Network by Class in 2006, 2008, 2010 and 2012

	Year	Total	Primary	Class I	Class II	Class III	Below III
Total length (km)	2006	23,594	1,397	3,808	7,053	8,861	2,194
	2008	23,592	1,397	4,475	11,278	4,590	1,852
	2010	24,035	1,397	4,267	8,213	8,071	2,087
	2012	25,981	1,397	4,352	8,800	8,727	2,705
Difference ('10 and '12)		1,946	0	85	587	656	618
Growth (%)		8.1	0	2.0	7.1	8.1	29.6

Source: UNESCAP (2015).

- 2.160 The SKRL was proposed at the 5<sup>th</sup> ASEAN Summit in December 1995. Once completed, the rail link will connect the capital cities of Cambodia, Lao PDR, Myanmar, Viet Nam and Thailand. The SKRL will also establish a crucial linkage in the 'North-South Economic Corridor' by connecting Singapore, Malaysia, Thailand, Viet Nam and southern China. It will also complement other infrastructure projects, such as the various transport corridors under the Greater Mekong Subregion (GMS), ASEAN Highway routes and other existing transport networks, and thus create an integrated multi-modal transport network in the region. The SKRL has two lines: an Eastern Line through Thailand, Cambodia and Viet Nam with a spur line between Lao PDR and Viet Nam and a Western line through Thailand and Myanmar.
- 2.161 For SKRL, based on the ASTP/BAP, there are 1,287 km of missing links necessary for construction in Cambodia, Lao PDR, Myanmar, Thailand and Viet Nam, as well as 1,253 km links in need of improvement in Cambodia, Malaysia and Thailand. The two ongoing constructions of SKRL missing link sections, namely Poipet–Sisophon (Cambodia) (48 km) and Aranyaprathet–Klongluk (Thailand) (6 km), are expected to be completed by the end of 2015. As of 2014, 42 of 46 km of the missing link in Cambodia have been completed.
- 2.162 Of the missing link sections and spur lines of SKRL, 309 km and 978 km have been targeted for completion in 2015 and 2020, respectively. As of 2014, 42 out of 309 km of the missing link sections targeted for 2015 have been built (or approximately 13.6%).

### Maritime transport

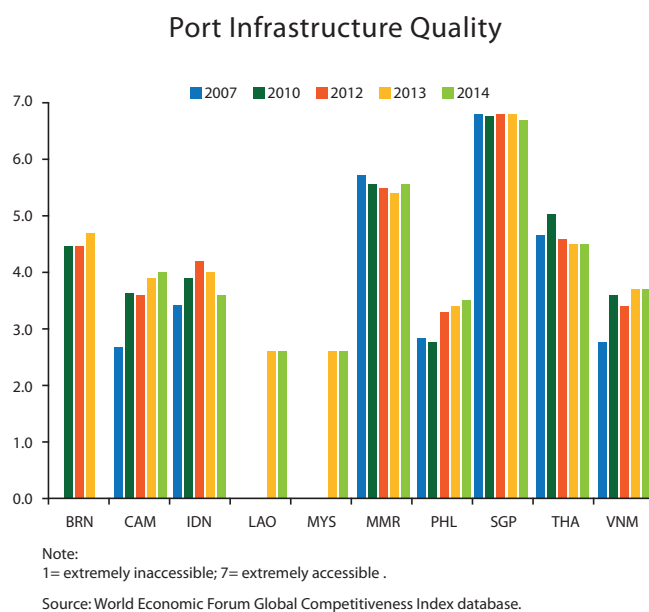
- 2.163 The establishment of an efficient, integrated and competitive maritime market is important for the region, with its many archipelagic parts. Additionally, a maritime transport system is crucial for international trade. In fact, container shipping, introduced after World War II, is often regarded as one of the biggest transport revolutions of the 20<sup>th</sup> Century. To fully benefit from the advantages of container transportation, economies require supporting hard infrastructure such as properly equipped ships, port facilities and storage space, as well as soft infrastructure. Therefore, development of quality port infrastructure and efficient shipping routes are crucial for regional connectivity and competitiveness.
- 2.164 The adoption of the Roadmap towards Integrated and Competitive Maritime Transport in ASEAN in November 2007 denotes one of several important steps in maritime co-operation in the region. The objective of the Roadmap is to promote and strengthen intra-ASEAN maritime transportation services. It also sets out a framework for a progressive development of globally competitive and integrated ASEAN ports and shipping sector by developing infrastructure, promoting a liberalised regulatory environment, harmonising standards and building human resources and institutional capacity.
- 2.165 As an initiative under the Roadmap framework, the Implementation Framework of the ASEAN Single Shipping Market was endorsed by the ASEAN Transport Ministers in November 2014, and aims to promote a free and fair competition in the international shipping market in the region.
- 2.166 Another important initiative in regional maritime co-operation is the ASEAN roll-on/roll-off (RoRo) network<sup>20</sup>, which is still in its early stage of planning and development. Under this initiative are three current projects, namely: the Dumai-Malacca Route, the Belawan-Penang-Phuket Route and the Davao/General Santos-Bitung Route.
- 2.167 In addition, a total of 47 designated ports have been identified as priority ports for the ASEAN transport network in the ASEAN Transport Co-operation Framework Plan of 1999 which was later adopted at the 9<sup>th</sup> Senior Transport Officials Meeting (STOM) in 2002. Of 47 designated ports, 17 have been identified as priority projects. As of 2014, 16 of 47 designated ports have been constructed or are under construction or rehabilitation, while 24 are scheduled for construction or rehabilitation. However, the construction plan for three of the remaining seven ports has been discontinued from respective national development plans.

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<sup>20</sup> Ro/Ro vessels are designed to carry wheeled shipments such as trucks; these can enter directly into vessels.

2.168 Despite some of the regional initiatives not being fully implemented, the quality of regional port infrastructure has generally improved, as illustrated in Figure 2.18. The quality of port infrastructure is measured by business executives' perception of their country's port facilities. While the overall pattern suggests a broad improvement in the quality of such infrastructure, recent data demonstrate a small reduction in the score, notably in Indonesia and Thailand, and to a lesser extent in Singapore.

Figure 2.18

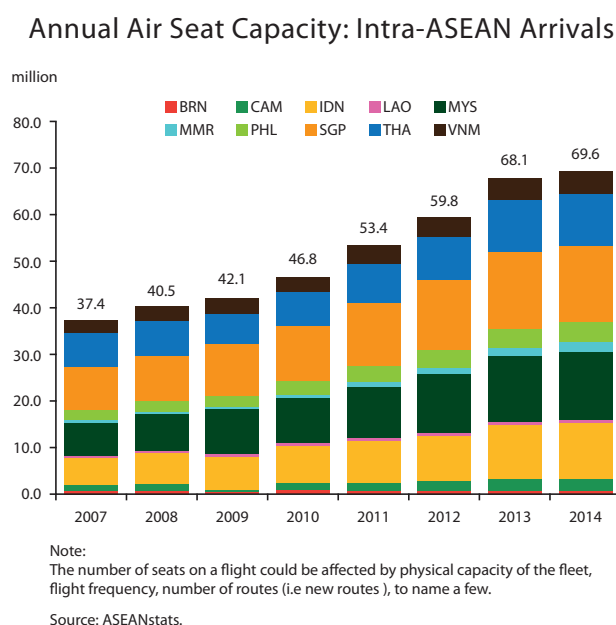


### Air Transport

- 2.169 The liberalisation of passenger and cargo air services in the region is intrinsic to regional integration. It provides the necessary facilitation for movement of goods and people in the region. Regional initiatives for the air transport sector have been outlined in the Roadmap for Integration of Air Travel Sector (RIATS), which was adopted at the 10<sup>th</sup> ASEAN Transport Ministers Meeting in 2004. The Ministers reaffirmed their commitment towards the RIATS goals and agreed to expand these to implement the ASEAN Open Skies Policy by 2015, as part of the ASEAN Single Aviation Market (ASAM).
- 2.170 To date, the following agreements have been signed by all AMS: the ASEAN Multilateral Agreement on Air Services, the ASEAN Multilateral Agreement on the Full Liberalisation of Air Freight Services and the ASEAN Multilateral Agreement on the Full Liberalisation of Passenger Air Services and their respective protocols.
- 2.171 These agreements provide competitive scope for expansion and opportunities for air travel within the region for service providers, as well as offering more destinations and lower fares for consumers. They also contributed to the development of low-cost carrier operations, which now account for more than half of all airline capacity in the region.

- 2.172 The ASAM also covers technical components including aviation safety, aviation security and air traffic management where significant progress has been made. In the area of aviation safety, ASEAN has made good progress in implementing several initiatives including the ASEAN Aviation Regulatory Monitoring System, ASEAN Foreign Operator Safety Assessment, and MRA on Certificates, Approvals and Licenses of Civil Aviation. In the area of air traffic management, ASEAN has also successfully implemented the ASEAN Regional Contingency Plan, Capacity Building Framework on Air Traffic Management and established a database and information sharing system on ASEAN air navigation infrastructure and services.
- 2.173 Figure 2.19 shows the annual air seat capacity for intra-ASEAN arrivals. A rapid growth rate can be observed between 2010 and 2013, coinciding with the implementation of the ASAM and the ASEAN Open Skies agreements.
- 2.174 In line with the MPAC, which calls for greater connectivity with Dialogue Partners in support of the ASAM, ASEAN has been actively negotiating air transport agreements with other Dialogue Partners. This resulted in the signing of the ASEAN-China Air Transport Agreement in January 2011. ASEAN is also continuing to engage other partners such as the EU, India, Japan, and Korea to conclude liberal air transport agreements with the region.

Figure 2.19



### Transport Facilitation

- 2.175 An integrated, efficient and globally competitive transport system will enhance ASEAN's regional and global connectivity. To achieve this, discussions to facilitate the seamless movement of goods in the region were initiated at the end of the 1990s. Initiatives on transport facilitation have been established to simplify and harmonise international transport procedures and information flows, in order to reduce time and logistics costs involved in transporting cargo and passengers.

- 2.176 To facilitate seamless movements of goods in the region, the AMS has concluded three transport facilitation agreements: (i) the ASEAN Framework Agreement on the Facilitation of Goods in Transit; (ii) the ASEAN Framework Agreement on the Facilitation of Inter-State Transport; and (iii) the ASEAN Framework Agreement on Multimodal Transport.

ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT)

- 2.177 The AFAFGIT aims to provide the most effective arrangement for facilitating transit transportation, with objectives committed to the elimination of burdensome customs and transport procedures. The AFAFGIT consists of nine protocols: (i) designation of Transit Transport Routes and facilities; (ii) designation of frontier posts; (iii) types and quantity of road vehicles; (iv) technical requirements of vehicles; (v) ASEAN scheme of compulsory motor vehicle insurance; (vi) railways border and interchange stations, (vii) a customs transit system; (viii) sanitary and phytosanitary measures; and (ix) dangerous goods.
- 2.178 The full implementation of AFAFGIT relies on the operationalisation of its protocols. As of mid-2015, four protocols (Protocols 3, 4, 5 and 8) have been signed and ratified by, and have entered into force for all AMS<sup>21</sup>. Four protocols (Protocols 1, 6, 7 and 9) have been signed but have not been ratified by all AMS, while one protocol (Protocol 2) has not been signed.
- 2.179 To enhance trade by facilitating faster transportation of goods between borders and increase the efficiency and the effectiveness of transit procedures, the ASEAN Customs Transit System (ACTS) has been developed with the assistance of the ASEAN Regional Integration Support from the EU (ARISE). The Phase 1 pilot project of ACTS will be tested in Malaysia, Singapore and Thailand. ACTS will be a catalyst for the implementation of AFAFGIT and provide full end-to-end computerisation of transit operations with a single electronic customs transit declaration. This will also allow free movement for trucks and drivers across borders with no trans-shipment for transit goods required at border points. A pilot test will be conducted during May-October 2016 for road haulage along designated TTRs.
- 2.180 With the implementation of ACTS and AFAFGIT, more generally, traders may transport their goods freely between countries, from point-to-point, with fewer obstacles and delays. Customs and transport procedures will be streamlined and goods can be transported within each transit country in the same truck. Movement of goods will be much faster with the reduced procedural complexity. This will lead to lower costs to traders, which in turn will help to increase ASEAN intra-regional trade.

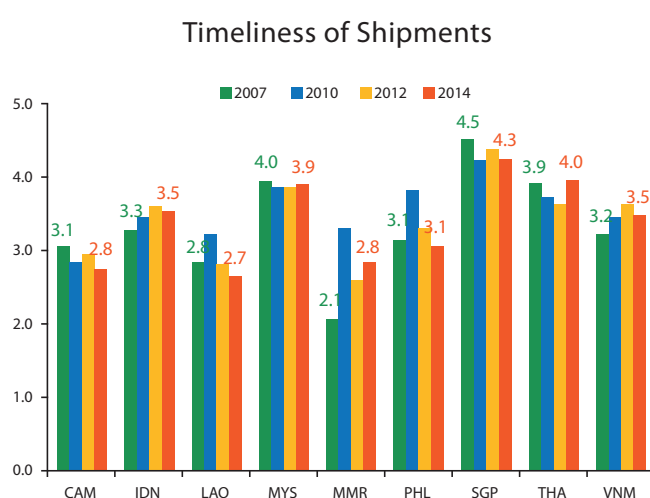
<sup>21</sup> Protocol 3 - Types and quantity of road vehicles; Protocol 4 - Technical Requirements of vehicles; Protocol 5 - ASEAN Scheme of compulsory motor vehicle insurance; and Protocol 8 - Sanitary and Phytosanitary measures.



### ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST)

- 2.181 The AFAFIST was signed in 2009 with the objective of allowing registered transport operators in one AMS to provide transport services in other AMS when goods are transported to or from the country of registration. The AFAFIST is expected to increase the efficiency of cross-border transport in conjunction with AFAFGIT. The AFAFIST also shares seven of the nine protocols with the AFAFGIT (while Protocols 6 and 7 are not applicable under the AFAFIST). The AFAFIST has been ratified by, and is in force, in Cambodia, Lao PDR, the Philippines, Thailand and Viet Nam.
- 2.182 An assessment of the outcome of these initiatives is quite difficult to conclude, given the breadth and legislative nature of the transport facilitation initiatives. Bearing this in mind, several indicators may provide an inference as to the outcome of these initiatives.
- 2.183 Among other factors, improvements in transit time could be reflected by reduced delays in transiting and/or delivery of goods across borders. The “timeliness” indicator for the delivery of shipments as part of the World Bank’s Logistics Performance Index (LPI) is used to broadly assess the outcome of the implementation of AFAFGIT and AFAFIST.
- 2.184 Figure 2.20 presents a snapshot of the average frequency with which shipments reach consignees within scheduled or expected delivery times for selected AMS. Comparing 2007 and 2014, an improvement in average delivery timeliness is observed in Indonesia, Myanmar, Thailand and Viet Nam while average delivery timeliness in Cambodia, Lao PDR, Malaysia and Singapore has fallen.

Figure 2.20



Note:  
Based on survey question on timeliness of delivery services; Rated from 1 ('hardly ever on time') to 5 ('nearly always on time'). Brunei Darussalam is not included in the survey.

Source: World Bank Logistics Performance Index (<http://lpi.worldbank.org/>).

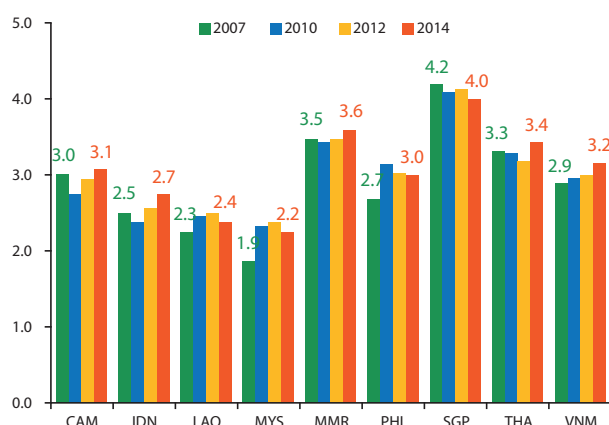


### ASEAN Framework Agreement on Multimodal Transport (AFAMT)

- 2.185 The AFAMT was concluded in 2005 to facilitate the development and operationalisation of efficient multimodal transport services adequate to the requirements of international trade. This has been ratified by and is in force in Cambodia, Myanmar, the Philippines, Thailand and Viet Nam.
- 2.186 Data required for assessing the development of multimodal transport in the region are based on cargo passing through modal points, such as air-to-road and rail-to-sea, which are not currently available. Nonetheless, the objective of the AFAMT is to enhance efficiency of the logistics environment in the region.
- 2.187 Figure 2.21 presents the overall LPI, as estimated by the World Bank, which consists of six components: (i) efficiency of customs; (ii) quality of trade and transport infrastructure; (iii) ease of arranging competitively-priced shipments; (iv) competence and quality of logistics services; (v) ability to track and trace consignments; and (vi) frequency with which shipments reach consignees within scheduled or expected delivery times. Comparing 2007 and 2014 indices, steady progress has been made in all the AMS except for Singapore.

Figure 2.21

Overall Logistics Performance Index



Note:  
LPI is a weighted average of the country scores on the six key dimensions; with scores ranging from 1 (lowest) to 5 (highest). Brunei Darussalam is not included in the survey.  
Source: World Bank Logistics Performance Index (<http://lpi.worldbank.org/>).

- 2.188 In terms of competence and quality of logistics services, most AMS have incrementally improved their score from 2007 with the exception of Lao PDR, Myanmar, the Philippines and Singapore. According to the 2014 index, Singapore still has the best quality logistics in the region, followed by Malaysia and Thailand. In comparison to global averages, among the CLMV countries, Viet Nam has performed above global averages in every survey since 2007 (Table 2.18).

Table 2.18

## Competence and Quality of Logistical Services

	2007	2010	2012	2014
Cambodia	2.47	2.29	2.50	2.67
Indonesia	2.90	2.47	2.85	3.21
Lao PDR	2.29	2.14	2.49	2.31
Malaysia	3.40	3.34	3.45	3.47
Myanmar	2.00	2.01	2.45	2.07
Philippines	2.65	2.95	3.14	2.93
Singapore	4.21	4.12	4.07	3.97
Thailand	3.31	3.16	2.98	3.29
Viet Nam	2.80	2.89	2.68	3.09
<i>Memo Item:</i>				
<i>Global Average</i>	2.71	2.77	2.84	2.85

Note:

The competence and quality of logistics services was rated from 1 ('very low') to 5 ('very high'). Brunei Darussalam is not included in the survey.

Source: World Bank's Logistic Performance Index (<http://lpi.worldbank.org/>).

### Energy Co-operation

- 2.189 ASEAN has emerged as a key player in the global energy system parallel with the region's fast-growing need for energy, driven by economic growth and social development. The International Energy Agency (IEA)'s study on World Energy Outlook (Sept, 2013) – Special Report on South East Asia, projected energy demand to increase by over 80% between 2015 and 2035. As the region continues to grow, its energy demand has risen two-and-a half times since 1990 and is now equivalent to about three-quarters of the energy demand of India. Table 2.19 presents key energy indicators in ASEAN, highlighting an increase in primary energy demand between 2000 and 2011.

Table 2.19

## Key Energy Indicators in ASEAN

	Unit	1990	2000	2011	Growth 2000-2011*
GDP, in current US\$ price	US\$ billion	788	1,261	2,185	5.1%
GDP, in purchasing power parity	US\$ billion	1,225	1,966	3,413	5.1%
Population	million	444	522	597	1.2%
Primary energy demand	mtoe	223	373	549	3.6%
Primary demand/GDP, in current US\$ price	toe	0.5	0.7	0.9	2.3%
Net oil trade	toe/\$1000	0.28	0.30	0.25	-1.5%
Net gas trade	bcm	46.8	68.7	62.1	-0.9%
Net coal trade	mt	0.4	37.8	219.6	17.4%

Notes:

mtoe = million tonnes of oil equivalent; bcm = billion cubic metres; mt = metric tonne.

\*Compound average annual growth rate.

Source: International Energy Agency database and analysis.

- 2.190 Energy policies across the AMS vary considerably, reflecting differences in levels of economic development and in resource endowment. To balance the improvement in energy security with the sustainability of energy use and to manage economic costs, many AMS have adopted policies to diversify energy supply, through the increased use of liquefied natural gas (LNG), coal and renewable energy sources. Several AMS are also pursuing energy efficiency programmes.
- 2.191 Guided by the ASEAN Plan of Action for Energy Co-operation (APAEC), a series of 5-year implementation plans for energy, the AMS cooperate with one another to enhance energy security, accessibility and sustainability for the ASEAN region. The current APAEC 2010-2015 is the third series of implementation plans, a successor to two previous energy plans, namely: APAEC 1999-2004 and APAEC 2004-2009.
- 2.192 The APAEC 2010-2015 covers the energy component of the AEC Blueprint 2015 and directs ASEAN towards achieving the objective of enhancing energy security and sustainability for the ASEAN region, including health, safety and the environment, through accelerated implementation of action plans. These action plans include, but are not limited to: (i) The ASEAN Power Grid; (ii) The Trans-ASEAN Gas Pipeline; (iii) Coal and Clean Coal Technology; (iv) Renewable Energy; (v) Energy Efficiency and Conservation; (vi) Regional Energy Policy and Planning; and (vii) Civilian Nuclear Energy. The APAEC 2010-2015 contains 26 strategies and 91 actions.
- 2.193 At the 32<sup>nd</sup> ASEAN Ministers of Energy Meeting (AMEM) held in 2014, the Ministers recognised the important roles of the energy sector in advancing a regional integration process and agreed that the development of the next phase of the APAEC should build on the achievements of the APAEC 2010-2015. The theme for the APAEC 2016-2025 is 'enhancing energy connectivity and market integration in ASEAN to achieve energy security, accessibility, affordability and sustainability for all'.
- 2.194 The ASEAN Power Grid (APG) is a flagship programme mandated in 1997 by the ASEAN Leaders under the ASEAN Vision 2020. It is a key energy infrastructure project under the APAEC, and is also included in the MPAC endorsed by the ASEAN Leaders in October 2010. Construction of the APG is first carried out on cross-border bilateral terms, and then expanded on a sub-regional basis and finally completed as a total, integrated South East Asian power grid system. This is expected to enhance the electricity trade across borders to provide benefits in meeting rising electricity demand and improving access to energy services in the region. The APG's investment requirement is estimated at US\$5.9 billion.

- 2.195 To date, six of 16 power interconnection projects for the APG have been implemented, connecting Singapore and Peninsula Malaysia, Thailand and Peninsula Malaysia, and via Thailand to Cambodia, Lao PDR and Viet Nam, with 3,489 MW of power purchase achieved. Six projects under the APG are currently under construction, with scheduled completion in 2017. Recently, the Heads of ASEAN Power Utilities/Authorities embarked on their initiatives to complete the Sarawak-West Kalimantan interconnection, a priority interconnection project, by 2015 and conduct sub-region multilateral electricity trading by 2018 as planned. At the 32<sup>nd</sup> AMEM in September 2014, four AMS (i.e. Lao PDR, Thailand, Malaysia and Singapore) announced their intention to embark on a pilot project to explore cross-border power trading from Lao PDR to Singapore on a pathfinder basis to complement existing plans towards realising the APG, creating opportunities for electricity trading beyond neighbouring borders.
- 2.196 The APG provides opportunities for private sector involvement in terms of investment, including financing and technology transfer. About US\$990 billion investments will be required in the ASEAN's power sector development through to the year 2035, representing more than 50% of the total needed in the region's energy-supply infrastructure (IEA, 2013). Yet, as the expansion of interconnections under the APG continues, financing required for less-developed AMS remains a challenge. Private sector involvement is expected to play an important role in developing the ASEAN power infrastructure.
- 2.197 Under the first APAEC (1999-2004), the conclusion of the Trans-ASEAN Gas Pipeline (TAGP) Master Plan by the ASEAN Council on Petroleum (ASCOPE) has paved the way for an enhanced regional energy security framework. The TAGP is a physical energy infrastructure project, which envisages the creation of a trans-national pipeline network linking ASEAN's major gas production and utilisation centres. The aim is to provide long-term security of energy supply in the region, including availability and reliability. This will be achieved through the interconnection of the gas pipeline infrastructure of Member States, as well as connectivity through LNG regasification terminals, to enable gas to be transported across AMS borders. Based on the projection of the ASCOPE-TAGP Master Plan in 2000, the TAGP will include many projects involving construction of 4,500 km of pipelines, mainly undersea, worth up to US\$7 billion.
- 2.198 The recent successful completion of the Zawtika (Block M-9, located in Myanmar) marked the latest of the cross-border gas pipelines; such projects have expanded pipelines from 815 km in 2000 to the current existing 3,377 km, comprising 12 bilateral pipeline connections across the region. Following an assessment of its strategic direction, the focus of the TAGP Project now includes LNG as an option for gas supply in the region, which aims to link up the AMS not just by physical gas pipelines, but also through regional regasification terminals that would act as virtual pipelines.

- 2.199 Energy Efficiency (EE) is viewed as one of the most cost-effective means of enhancing energy security and addressing climate change, as well as promoting competitiveness within ASEAN. ASEAN is on track to achieve the target set in the APAEC 2010-2015, which is to reduce regional energy intensity by at least 8% from 2005 levels by 2015. Between 2005 and 2013, energy intensity in ASEAN has been reduced by 7.4%. Building on this achievement, ASEAN Energy Ministers further agreed to look into a longer-term ASEAN energy intensity target under initiatives of the Energy Efficiency and Conservation Subsector Network.
- 2.200 ASEAN experiences many challenges in the EE field, with some common barriers across AMS in EE technology development and deployment. Under the APAEC 2010-2015, the focus is on: (i) removing subsidies on fossil fuels; (ii) building public confidence in EE technologies; (iii) promoting good energy management; and (iv) facilitating investment through soft loans, co-investment funds, targeted subsidies and tax incentives.
- 2.201 As a means of de-carbonising the energy system, ASEAN has agreed to a collective target of 15% for regional Renewable Energy (RE) in total installed capacity by 2015. Besides this important target, the Renewable Energy Sub-Sector Network is also tasked with strengthening regional co-operation on the development of RE and alternative energy, promoting the development of R&D centres for RE in the region, and promoting open trade, facilitation and co-operation in the RE sector and related industries. Due to strong market fundamentals and governments' increasing emphasis on clean energy, the outlook for the growth of the RE sector remains positive.

### ***Competition Policy***

- 2.202 With the imminent establishment of the AEC, characterised by the free flow of goods and services and better conditions for foreign investment, the need for more efficient functioning of markets has gained greater prominence. The ASEAN competition landscape is being shaped by the goals of achieving higher levels of economic dynamism, sustained prosperity, inclusive growth and integrated development within ASEAN. The need for competition laws has grown with the increasing liberalisation of goods and services, and the subsequent presence of more actors and stakeholders in the ASEAN markets. The impending integration and launch of the AEC by end-2015, the continuing dynamic and sustained growth in the region, and the sizeable and growing middle-class consumer market require high competition standards calls for a strong competition regime to promote and ensure a fairer playing field for small companies.

- 2.203 Corresponding legal frameworks that are being established will promote and strengthen competition processes. These are aimed at preventing anti-competitive practices and are divided into three broad categories: anti-competitive agreements; abuse of dominant position; and anti-competitive mergers and acquisitions. Together with the establishment and maintenance of competition regulatory bodies, ASEAN hopes to move forward towards better functioning markets.
- 2.204 ASEAN aims to enact comprehensive competition laws in all the AMS. Currently, eight AMS have introduced comprehensive competition laws within their economies. Of the eight, those with more established competition regimes are updating their respective competition laws to better respond to emerging issues and new developments. Those at an earlier stage of implementing such laws are focusing their efforts on building capabilities in the area of investigations and case-handling. Cambodia and Lao PDR, the remaining AMS that do not have competition law in place, are in the process of drafting respective laws.
- 2.205 Table 2.20 provides an index of the effectiveness of anti-monopoly policy from the World Economic Forum's Global Competitiveness Index. Singapore remains the region's top performer in terms of the effectiveness of anti-monopoly policy. Many countries in the region have also scored well over the past few years.

Table 2.20

Effectiveness of Anti-Monopoly Policy

	2007	2008	2009	2010	2011	2012	2013	2014
Brunei Darussalam	...	3.54	3.80	3.93	3.98	4.22	4.60	...
Cambodia	3.02	2.93	3.36	3.86	4.02	4.30	4.32	3.95
Indonesia	5.15	4.77	4.73	4.56	4.26	4.46	4.50	4.49
Lao PDR	...	...	...	...	...	...	4.62	4.54
Malaysia	4.91	4.47	4.32	4.59	4.84	4.79	4.80	5.05
Myanmar	...	...	...	...	...	...	...	3.27
Philippines	3.57	3.59	3.54	3.71	3.61	3.82	3.87	3.97
Singapore	5.08	5.28	5.44	5.32	5.20	5.39	5.39	5.26
Thailand	4.05	3.88	4.14	4.25	3.90	3.89	4.12	4.06
Viet Nam	3.16	3.38	4.10	4.23	3.78	3.87	3.97	3.86

Notes:

... = no available data. Scoring is a weighted average on a scale from 1 to 7 based on the question: "In your country, to what extent does anti-monopoly policy promote competition?" (1= does not promote competition; 7= effectively promotes competition).

Source: World Economic Forum Global Competitiveness Index (<http://www.weforum.org/>).

- 2.206 The ASEAN Experts Group on Competition (AEGC) was established in 2007 as a regional sectoral body to discuss and coordinate competition policies. The work of the AEGC has been focused on four regional initiatives to: (i) endeavour to introduce competition policy in all AMS; (ii) establish a network of authorities or agencies responsible for competition policy to serve as a forum for discussing and coordinating competition policies; (iii) encourage capacity building programmes and activities for the AMS to develop national competition policy; and (iv) develop a regional guideline on competition policy, based on in-country experience and international best practices with a view to creating a fair competition environment.

- 2.207 A number of these measures have already been achieved, such as the development of regional guidelines on competition policy and guidelines in developing core competencies for competition policy and law within ASEAN. Post 2015, emphasis will be given to ensure that all AMS have comprehensive competition laws in place, together with continued capacity building activities and initiatives.
- 2.208 Moving ahead, the work of the AEGC will be guided by the ASEAN Competition Action Plan (2016-2025), which identifies five strategic goals that support the overarching vision of a competitive, innovative and dynamic ASEAN with an effective and progressive competition policy.

### ***Consumer Protection***

- 2.209 The rapid growth of the ASEAN middle class and consumer environment is expected to bring with it significant challenges for public policy as well as legal and regulatory issues associated with consumer protection.
- 2.210 The ASEAN Committee on Consumer Protection was established in 2008. It has focused on working with the AMS to facilitate consumer protection legislation; enhancing consumer access to information by developing a notification and information exchange mechanism for recalled/banned products; developing information digests on consumer protection issues and models for cross-border consumer redress mechanism and strengthening the capacity of consumer protection officials and enhancing advocacy of consumer protection. At present, nine AMS have Principal Consumer Protection Acts. Cambodia is expected to enact its Consumer Protection Law by the end of 2016.

### **ASEAN Consumer Portal**

- 2.211 One of the outcomes of ASEAN's work in consumer protection is the establishment of an online portal ([www.aseanconsumer.org/](http://www.aseanconsumer.org/)) with the following features:
- i. A regional online ASEAN Consumer Complaint Facility: this provides a channel for ASEAN consumers to make a complaint or claim against any loss incurred (in respect of any goods or services purchased or acquired) in a simple, quick and efficient manner and at minimal cost. The website links the complainant to the relevant ASEAN consumer protection agency to enable the ASEAN consumer to lodge a complaint, including for cross-border purchases;
  - ii. Product Alert: a listing of Officially Recalled/Banned Products and Voluntary Recalled/Banned Products within ASEAN, which alerts consumers to the recalled or banned products related to each AMS; and
  - iii. Legislation: the portal has a section on the consumer legislation of each AMS.



### Policy Digests and Case Studies

- 2.212 The Consumer Protection Digests and Case Studies: A Policy Guide (Volume 1) was published containing 12 policy digests and two case studies that will assist in the development and strengthening of consumer protection systems, by highlighting and sharing information on key issues and emerging concerns.

### Strengthening Technical Competency for Consumer Protection in ASEAN

- 2.213 Manuals are being developed in 2015 on six core areas: (i) product safety and labelling; (ii) phone and internet services, and e-commerce; (iii) consumer credit and banking; (iv) environment; (v) healthcare services; and (vi) professional services. The overall objective is to enhance AMS capacities to adopt and implement consumer protection laws and to build/strengthen capacity focusing on technical requirements involving consumer concerns and demands.

### ASEAN Consumer Protection Conference

- 2.214 The 1<sup>st</sup> ASEAN Consumer Protection Conference was convened from 8-9 December 2014 in Hanoi, Viet Nam. The Conference served as a platform to exchange views on emerging themes on consumer protection and identified issues and challenges drawing on the first year of Policy Digests (1-12) and Case Studies (1 & 2). The 2<sup>nd</sup> Consumer Protection Conference is scheduled from 15-16 December 2015 in Bangkok, Thailand. The 1<sup>st</sup> Conference noted that institutional frameworks are mainly in place in the ASEAN region and that, going forward, there is a need for further regional co-operation, updating of consumer protection laws, regulatory improvements, and better capacity training for consumer protection officials.

### The Strategic ASEAN Action Plan on Consumer Protection (SAAPCP)

- 2.215 The SAAPCP will chart the course of work over the next 10 years (2016-2025). The strategy sets out four long-term goals, implemented through Action Plans and a Mid-Term set of goals included in a rolling programme (2016-2020), to be regularly reviewed. The four goals are: developing a common ASEAN consumer protection framework; developing a high, common level of consumer empowerment and protection; establishing a high level of consumer confidence in the AEC and in cross border commercial transactions; and streamlining consumer concerns on all ASEAN policies.

### ***Intellectual Property***

- 2.216 Over the past few years, ASEAN has been working towards developing Intellectual Property (IP) systems in the region through the ASEAN Working Group on Intellectual Property Co-operation (AWGIPC). The AWGIPC was established in 1996 pursuant to



the ASEAN Framework Agreement on Intellectual Property Co-operation, signed in December 1995. The aim of the AWGIPC is to transform ASEAN into an innovative and competitive region through the use of IP, and to ensure that the region remains an active player in the international IP community.

- 2.217 To support the development of the regional IP system, the ASEAN Intellectual Property Rights (IPR) Action Plan 2011-2015 was adopted, based on the AEC Blueprint. There are five strategic goals: (i) develop a balanced IP system that enables AMS IP Offices to deliver timely, quality and accessible IP services; (ii) develop legal and policy infrastructures and enhanced participation by AMS in global IP systems; (iii) use IP as a tool for innovation and development through promotion of IP creation, awareness and utilisation, as well as support technology transfer and protection of indigenous products and services; (iv) enhance regional participation in the international IP community together with relationships with dialogue partners; and (v) intensify co-operation and an increased level of collaboration among the AMS to enhance skills and institutional capacity of their IP offices.
- 2.218 Highlights of some of the recent achievements include the ASEAN Patent Examination Co-operation (ASPEC), the adoption of the Common Guidelines for the Substantive Examination of Trademarks (Common Guidelines), the launch of the ASEAN TM View trademark database as well as the ASEAN Designview which is a database on industrial designs<sup>22</sup>.
- 2.219 ASPEC is a regional patent work-sharing programme that provides a platform to share search and examination results among the nine participating AMS to allow applicants to obtain corresponding patents faster and more efficiently. Patents are granted according to domestic laws, and the territorial nature of patents requires businesses to file applications for the same patent in countries where protection is sought. ASPEC enables search and examination work done on a corresponding application by an IP office to serve as a useful reference for producing quality reports in another IP office, potentially reducing duplication of work and saving time and effort.
- 2.220 ASPEC procedures are continuously enhanced to render the process increasingly user-friendly and statistics are constantly reviewed to identify cross-filings in ASEAN for purposes of promoting its use by applicants. Going forward, ASPEC is envisaged as increasingly office-driven, so that AMS IP Offices can take the initiative to assist each other in the examination process for corresponding applications, without the requirement to await an ASPEC request from the applicant.

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<sup>22</sup> ASEAN ASEAN TM View trademark database: <http://www.asean-tmview.org/tmview/welcome.html>  
ASEAN Designview : <http://www.asean-designview.org/tmdsview-web/welcome>

- 2.221 Another highlighted achievement is contained in the Common Guidelines, a reference document prepared by AMS IP Offices to enhance the quality and transparency in the substantive examination of trademark applications. Substantive examination refers to a procedure that involves evaluation of the contents of a trademark application to determine if a trademark can be registered against a set of criteria comprised of absolute and relative grounds. This is carried out to ensure the issuance of stronger trademark rights.
- 2.222 The Common Guidelines contains principles and standards that may be applied regardless of the manner in which the individual AMS IP Office carries out the examination process according to its domestic laws. Usage of the Common Guidelines is intended to focus the practices of AMS IP Offices to enable a higher level of consistency in examiners' decisions. This will offer the potential to reduce average turnaround time for the registration of trademarks and to expedite examination of trademark applications filed by businesses seeking protection of their brands in the region.
- 2.223 Additionally, the ASEAN TMview is an online platform that provides users with a practical tool to obtain data on trademarks in the ASEAN region. It contains more than two million trademark applications and registrations taking effect in participating AMS (except Myanmar and Viet Nam). Companies and market researchers conducting trademark screenings can refer to the ASEAN TMview when preparing a search report, to determine if a brand for its new product is similar to one already in use in the region by a competitor. The ASEAN TMview will guide businesses in their product launches and provide them with informed decisions to avert disputes with competitors over brand usage.

### ***Recommendations***

- 2.224 While considerable progress has been made on many fronts, continuous collective effort needs to be sustained and fostered to accelerate implementation of outstanding measures.
- 2.225 On infrastructure development, the finalisation of the outstanding Protocol 2 under the AFAFGIT, the ratification process of signed protocols and necessary domestic reforms for full operationalisation of the transport facilitation agreements are all to be accelerated. The benefits of the AFAFGIT would thus materialise to define the frontier posts and customs transit system, without which the benefits of other physical connectivity projects (such as the AHN and the SKRL) would be limited. Furthermore, the establishment of the RoRo networks could bring significant economic impacts to the region and strengthen connectivity among economic corridors, thereby promoting the integration between archipelagic and mainland ASEAN.

- 2.226 On competition policy, priority should be given to establishing effective competition regimes by putting in place competition laws and policies in the remaining AMS. Additionally, further effort should be made to establish regional co-operation arrangements on competition policy law, as well as to engender greater harmonisation of competition policy and law in ASEAN.
- 2.227 In the area of consumer protection, moves to further strengthen a common ASEAN consumer protection framework could be carried out through the adoption of high level principles that are adaptable to changes in the AEC, and by establishing a policy dialogue between consumers and businesses to enhance consumer confidence in the AEC and in cross border transactions.
- 2.228 Although most IPR legislations and procedures are already in place in most AMS, the new AMS (Cambodia, Lao PDR and Myanmar) still lack some IPR legislation. Therefore, efforts towards strengthening regional co-operation in IPR drafting legislation and enforcement procedures could enhance regional capacity for implementing IPR laws across the region.

### III. Pillar 3: Equitable Economic Development

- 2.229 When the AEC Blueprint was adopted in 2007, the AMS declared their determination to pursue regional economic integration to achieve not only higher levels of economic dynamism and sustained prosperity, but also inclusive growth and integrated and shared development. Since the AEC's inception, ASEAN Leaders have recognised that the broadening and deepening of regional economic integration could not fully proceed without mechanisms to address the varying levels of development and capacity among and within the AMS. In this respect, ASEAN put in place focused measures to augment AMS' capabilities to participate in the integration process and provide relevant AMS with appropriate flexibilities for implementing regional commitments. These include longer implementation timeframes and lower thresholds for compliance, as in the case of special and differential treatment provisions<sup>23</sup> for the CLMV in the AEC Blueprint in terms of commitments related to elimination of tariffs.

<sup>23</sup> These provisions are as follows:

- i Eliminate import duties on all products, except for those phased in from the Sensitive and Highly Sensitive Lists by 2010 for the ASEAN-6 and by 2015, with flexibilities for some sensitive products by 2018, for the CLMV, in accordance with the provisions of the Protocol to Amend the CEPT Agreement for the Elimination of Import Duties;
- ii Eliminate import duties on products in the Priority Integration Sectors by 2007 for the ASEAN-6 and 2012 for the CLMV in accordance with the provisions of the ASEAN Framework (Amendment) Agreement for the Integration of Priority Sectors;
- iii 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% by 1 January 2010 for the ASEAN-6, 1 January 2013 for Viet Nam, 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.

- 2.230 Likewise, small and medium enterprises (SMEs) are key stakeholders in the AEC Blueprint's equitable economic development agenda. As SMEs make up more than 90% of all enterprises in the region, their potential gains from and contribution to regional integration efforts cannot be overlooked. Their continuing growth and development are vital in narrowing the development gap, due to their significant contribution to employment generation and, increasingly, to value-addition and ingenious innovation. Strategies for enhancing their growth, such as in the areas of access to finance, access to markets, information dissemination and supporting services targeted at SMEs have also been developed to ensure their awareness of, access to, as well as capabilities to seize the opportunities developed by the AEC.
- 2.231 Placing emphasis on inclusiveness helps ensure that benefits from the regional economic integration process are equitably shared among and within countries, as well as across various sizes of business enterprises. It is in this context that equitable economic development, the third characteristic and pillar of the AEC, was designed to comprise two elements: the Initiative for ASEAN Integration (IAI) for newer AMS, and SME Development.

#### *Initiative for ASEAN Integration*

- 2.232 The IAI is an initiative launched in November 2000 at the 4<sup>th</sup> Informal Summit of ASEAN Leaders with the aim of narrowing the divide within ASEAN and enhancing ASEAN's competitiveness as a region<sup>24</sup>. It is intended to be a framework for regional co-operation where 'more developed' AMS would contribute resources as well as share expertise and experience to help other AMS in the spirit of a 'prosper thy neighbor' principle, or more specifically, 'ASEAN helps ASEAN' principle. This was followed by the Hanoi Declaration on Narrowing the Development Gap (NDG) for Closer ASEAN Integration, which was adopted in 2001<sup>25</sup>. The Declaration defined the relationship between IAI and NDG, and stated that the IAI gives direction to and sharpens the focus of collective efforts to achieve NDG. The Declaration also called for effective co-operation and mutual assistance to promote 'dynamic and sustained growth and prosperity'.
- 2.233 The general direction and acceptance of the concept of IAI, and even of NDG, has been for assistance to be directed to the last four countries that joined ASEAN – Viet Nam which joined in 1995, Lao PDR and Myanmar in 1997, and Cambodia in 1999. These 'newer member states', also collectively referred to as the 'CLMV', are not just preceded by a three-decade head start in regional co-operation efforts among the five founding AMS (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and by at least a decade in the case of Brunei Darussalam, but they also face domestic socio-economic development challenges. Three are classified by the UN as among the least developed countries (LDCs) in the world, together with 45 other countries.

<sup>24</sup> See <http://www.asean.org/news/item/the-fourth-asean-informal-summit-22-25-november-2000-singapore>

<sup>25</sup> See <http://www.asean.org/news/item/ha-noi-declaration-on-narrowing-the-development-gap-2001>

- 2.234 Thus, addressing the two-fold challenges of the CLMV countries, i.e. being relatively new entrants into ASEAN while being less socio-economically developed on most fronts compared to the rest of the region, is the context in which IAI and NDG have to operate. In addition to IAI, there are also other sub-regional co-operation initiatives involving select AMS that complement regional integration efforts.
- 2.235 The broad IAI framework has been translated into two comprehensive work plans, IAI Work Plans I and II, covering the periods 2002-2008 and 2009-2015, respectively. Both work plans were developed with the intention of helping the CLMV as newer Member States, particularly their governments, in building their general capacities, and in gaining a better understanding of their regional commitments.
- 2.236 The IAI Work Plan I, having predated the 2009 Roadmap for an ASEAN Community 2015, covered a set of priority areas<sup>26</sup> and was implemented through a collection of projects that were proposed by the AMS and were either self-funded or funded with the support of donor partners.
- 2.237 Meanwhile, the IAI Work Plan II is congruent with and designed to support the goals of the ASEAN Community. The IAI is referenced in the AEC and the ASEAN Socio-cultural Community (ASCC) Blueprints. The IAI work plan's action lines also support measures found in the three ASEAN Community Blueprints. In short, having been aligned to these three ASEAN Community Blueprints, the IAI Work Plan II is focused on assisting the CLMV countries to meet specific ASEAN-wide targets and commitments towards realising the ASEAN Community as a whole.
- 2.238 The IAI Work Plan II is comprised of 182 action lines, each to be implemented either through a specific project or set of projects. The composition of these action lines offers a clearer view of ASEAN's approach to supporting enhanced CLMV integration in the region.

Table 2.21

IAI Work Plan II Composition: Number of Action Lines

	Studies	Policy Development and Implementation	Capacity-Building, Training	Total
AEC-related	14	41	39	94
ASCC-related	5	34	39	78
APSC-related	0	1	5	6
General Enabling Actions	0	2	2	4
<b>Total</b>	<b>19</b>	<b>78</b>	<b>85</b>	<b>182</b>

Note:

Classifications of the type of technical assistance provided are not indicated in the IAI Work Plan II and were determined based on the author's judgment.

Source: IAI Work Plan II.

<sup>26</sup> These include infrastructure, human resource development, information and communication technology, capacity building for regional economic integration, energy, investment climate, tourism, poverty reduction and improvement in the quality of life

- 2.239 Table 2.21 classifies the action lines of the IAI Work Plan II based on the ASEAN Community Pillars they support, and the nature of technical assistance required (e.g. studies, policy development and implementation, and capacity-building and training).
- 2.240 The Work Plan is mostly comprised of training and capacity-building initiatives (or 47% of all action lines), and a majority (about 52%) of the Work Plan's action lines are related to AEC Blueprint measures. Most of these AEC-related measures support the transposition and direct implementation of regional frameworks and agreements at the national level. Furthermore, most of the projects that have been implemented in line with these measures are in the form of providing assistance in policy review and development and advisory services for implementing these policies. Simple yet effective initiatives, such as the translation of a primer on ROO into the four national languages of the CLMV, have facilitated the effective conduct of ROO training for the CLMV officials involved in trade negotiations<sup>27</sup>. The translated primers help encourage knowledge transfer and post-training sustainability. Another example is seen in the training programmes on fundamentals of international economics, trade, WTO issues, and specific trade issues requested by relevant CLMV ministries – topics and levels of discussions which would not have been chosen otherwise for a typical ASEAN-wide project offered to all AMS – have also been conducted as introduction or refresher courses<sup>28</sup>, under the IAI.
- 2.241 Apart from being attributed to the three Blueprints, some of the IAI work plan's action lines also fall under a fourth category called 'general enabling actions', which are measures that aim to reinforce the CLMV's general capacity to participate in the overall integration process. These include organising attachment programmes for CLMV officials, which place them in practical work settings to deepen their understanding of regionalism and ASEAN, conducting various forms of English language training (e.g. basic, business English, technical English and report-writing) and building capacity in project management.
- 2.242 In fact, throughout the years, IAI's flagship projects have tended to focus on implementing these general enabling action lines. For instance, among ASEAN's Dialogue Partners' projects, the CLMV Attachment Programme to the ASEAN Secretariat is IAI's earliest and probably most prominent one. The Programme has been supported by Japan since 2002 and has since graduated 13 batches, each batch having a representative from each CLMV country. Most of its alumni currently hold high-level positions at their respective ministries. Some have also joined ASEC. Given its success, young diplomats and junior officials in the CLMV continue to actively seek nomination into the Programme.

<sup>27</sup> As part of its contribution to the IAI, the AANZFTA Economic Co-operation Support Program has provided assistance in translating the AANZFTA Primer on ROO, which was originally published in English, into the national languages of the CLMV. These primers supplemented the conduct of in-country training on ROO in CLMV.

<sup>28</sup> For example, the Programme 'Enhancing ASEAN-EU Economic Co-operation' conducted in-country trainings on FTA negotiations in the CLMV countries, with the expressed aim of helping build capacity in negotiating FTAs.



- 2.243 Additional to receiving support from ASEAN's Dialogue Partners, the ASEAN-6 countries have also provided substantial assistance to the CLMV countries through the IAI. In the implementation of the IAI Work Plan II, the ASEAN-6 countries have implemented or are in the process of implementing a total of 285 projects amounting to US\$20.3 million. Aside from projects that are being directly reported under the IAI, it is also recognised that there are contributions to support ASEAN integration that are coursed through other sub-regional groupings and co-operation arrangements.
- 2.244 Beyond anecdotal demonstrations of success in selected IAI projects, some approximation of the CLMV countries' increasing capacity to comply with, conform to and benefit from regional commitments and agreements are also available.
- 2.245 Figure 2.2 which presented the share of tariff lines at 0% among those committed for tariff elimination since ATIGA's entry into force, shows that in the CLMV countries, the share has risen from 46.5% at the start of ATIGA to an expected 90.8% in 2015. Further, as indicated in Table 2.3, the average year-on-year growth of CLMV countries' intra-ASEAN trade during the implementation of the AEC Blueprint until 2014 stands at 12.1%, higher than the ASEAN-6 average of 7.0%. From this observation, the importance of the ASEAN region to CLMV economies' trade-related activities, and how enhanced regional integration could, in turn, generate greater benefits to the CLMV, may be inferred. Table 2.10 illustrates that on the level of restrictiveness in FDI-related regulations, Cambodia and Viet Nam are comparable to the level of openness of Singapore and Malaysia, respectively. Caution may, however, need to be exercised in interpreting the data as the absence of limitations may, in some cases, be due to the gap in or incomplete mapping of the regulations rather than on a policy position. ASEAN's compliance monitoring system, the AEC Scorecard, also indicates that the CLMV countries' individual implementation rates of the AEC Blueprint measures have been comparable to those of the ASEAN-6 countries, especially in recent years.
- 2.246 However, it must be noted that country-level compliance with regional commitments in the form of signing and ratifying agreements, which the AEC Scorecard captures, does not always automatically translate into national implementation and application. A gap between the CLMV and other AMS remains evident, for instance, in how the CLMV countries have fared in third-party studies of various competitiveness indicators and outcomes through business chamber and firm-level interviews and surveys on the ease of trading across borders, obtaining licenses and doing business, as seen in Table 2.5. The presence of such development outcome gaps posits that an IAI approach to NDG remains relevant.
- 2.247 The link between IAI's compliance-driven objective and achieving NDG is implicit. While the IAI Work Plan's operational goal is limited to supporting compliance and conformance with ASEAN-wide commitments, it could be implied that socio-economic development goals of regional integration have been considered in

the development of the ASEAN Community 2015 Roadmap and its Community Blueprints, which in turn form the bases for the commitments that IAI supports. In an effort to better understand this implied link, some efforts have been made to measure the development gap between the CLMV and ASEAN-6 countries, as discussed in Box 2.11.

- 2.248 An initiative to ‘further enhance the third pillar of the AEC Blueprint on Equitable Economic Development’ led to the ASEAN Framework for Equitable Economic Development (AFEED), which was endorsed by the AMS in 2011. More specifically, the AFEED aims to provide guiding principles for inclusive and sustainable growth for all sectoral and ministerial bodies under the AEC Pillars.
- 2.249 The inaugural ASEAN Equitable Development Monitor<sup>29</sup> was completed and presented to ASEAN Heads of State in 2014. The report mainly focused on identifying the development gaps within ASEAN across various economic development and human development indicators. The report found that while significant progress in reducing development gaps in ASEAN through rapid economic growth has been achieved, sustaining high economic growth rates is a key determinant to ensuring that development gaps will continue to narrow. Disparities such as in levels of access to formal banking systems and savings rates still remain evident, and gaps in access to water, sanitation and electricity also remain challenging, not only between countries but also between rural and urban areas within countries. The report has thus prompted discussion on evolving the next phase of the AFEED Monitor to look at development gaps within individual countries.

### ***Recommendations***

- 2.250 The major challenge in operationalising the existing frameworks described above is the need to review and clearly define the goals of these frameworks. Only when the goals are defined can the existing frameworks be assessed in terms of how effectively they work and how they relate to and reinforce each other.
- 2.251 Gathering empirical evidence on the relationship between regional integration and economic development, and distinguishing development drivers and barriers from development outcomes, has been a positive starting point. As earlier indicated, some work on this has already been initiated, including the development of indices (described in Box 2.11), the ASEAN Equitable Development Monitor and the mid-term review of the IAI Work Plan II. The analysis and recommendations may contribute to strategic planning for the next phase of implementing these frameworks.

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<sup>29</sup> See [http://www.asean.org/images/pdf/2014\\_upload/ASEAN%20Equitable%20Development%20Monitor%2020143%20copy.pdf](http://www.asean.org/images/pdf/2014_upload/ASEAN%20Equitable%20Development%20Monitor%2020143%20copy.pdf)



### Box 2.11: Measuring the ASEAN Development Gap

*Measuring Development Gap Outcomes: Gap Adjust ASEAN Development Index (Narrowing the Development Gap, Drivers and Policy Options, 2013)*

The ASEAN-commissioned study 'Narrowing the Development Gap: Drivers and Policy Options' (McGillivray, et al, 2013) proposed an index that is largely based on the United Nations Development Programme's Human Development Reports, particularly the Human Development Index (HDI), which measures achievement in three dimensions: longevity, education/ knowledge and the material standard of living. The HDI's measures of achievement in health and income are based on life expectancy and gross national income per capita at purchasing power parity (PPP GNI), respectively, while its measure of achievement in education is a combination of expected years of schooling for children and the mean years of schooling for adults. Low achievements in the HDI are assumed to have been caused by factors associated with the ASEAN development gap.

To monitor the ASEAN development gap, the study proposed a three-stage process:

- i. Stage 1: Calculate the size of the HDI gap and the gaps in each of the five HDI measures. Gaps in each of these achievements should be monitored separately, alongside that of the HDI as a whole. Assess the gaps over time and check whether the CLMV average achievement is significantly different from that of the ASEAN-6. The authors' initial tests found that the development gap for all indicators on education, income and the HDI are significant at the 99% confidence level, and health at 95%.
- ii. Stage 2: Assess the achievements of individual CLMV countries by taking the average ASEAN-6 achievement and deducting from it the development achievements of each CLMV country.
- iii. Stage 3: Express the ratio of the average multidimensional development achievements of the CLMV and the ASEAN-6 by dividing the CLMV HDI average by the ASEAN-6 HDI average. If there is no gap, this ratio takes the value of one, and a lower ratio will imply a higher gap. Then, multiply the ASEAN-10 HDI average development achievement by this ratio. The ASEAN-10 HDI average is to be interpreted as the potential HDI the ASEAN community could achieve if there was no development gap.

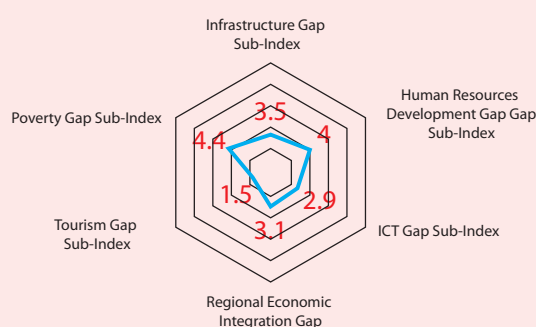
This index calculated in Stage 3 has the proposed title Gap Adjusted ASEAN Development Index (GAADI). The difference between the ASEAN average HDI and GAADI can be interpreted as the 'loss in multidimensional development achievement due to the existence of the ASEAN development gap'.

The findings estimated that it may take at least two decades before the development gaps between the CLMV countries and the ASEAN-6 can be narrowed, unless appropriate drastic policies are in place and properly implemented.

*Measuring the Drivers of the Development Gap: NDG Indicators (OECD Development Centre, Southeast Asia Outlook 2013)*

The OECD Development Centre's annual publication, the Southeast Asia Outlook, took on the issue of 'Narrowing the Development Gap' in its 2013 edition. The publication proposed NDG Indicators and how to calculate the gaps.

Unlike the GAADI, the OECD Development Centre's NDG Indicators mostly measure 'drivers' of the ASEAN Development Gap and not the outcomes of the gap. The NDG Indicators were classified into six key policy areas: poverty, human resource development, infrastructure, tourism, ICT, and trade and investment. Variables were selected for each policy area and were normalised and indexed into a scale of between 0 to 10 base points – where a score of 0 denotes no gap and 10 denotes the widest gap. The CLMV and ASEAN-6 averages were then computed. For each variable, the ASEAN development gap is defined by the difference between the average indices of these two groups. The chart below compares the gaps between CLMV and ASEAN-6 across these six key policy areas. As illustrated, estimates based on 2011-2012 data show that the gaps are largest in poverty-related indicators and smallest in tourism.



### ***SME Development***

- 2.252 SMEs form the backbone of ASEAN economies. They account for between 90% and 99% of all enterprises in each AMS, and generate employment for over half of each of the AMS working population (accounting for between 70% and 90% in certain AMS). Based on available information, SMEs in ASEAN have proven to contribute from over a third to more than half of a country's GDP.
- 2.253 In ASEAN, the current regional co-operation initiatives on SMEs are guided by the Strategic Action Plan for SME Development for 2010-2015. The key strategies for SME Development in ASEAN are focused on supporting SMEs' access to finance, market and internationalisation, human resources development, information and advisory services, and technology and innovation. Table 2.22 lists some of these initiatives.

Table 2.22

ASEAN's Strategic Action Plan and Initiatives for SME Development

Strategies	Selected Initiatives
Access to Finance	ASEAN SME National Development Fund Credit Rating System for SMEs within AMS SME Financial Facility in each AMS
Access to Market and Internationalisation of SMEs	Improving Rural Living Conditions Through One Village One Product Movement
Access to Human Capital Development	ASEAN Common Curriculum for Entrepreneurship ASEAN SME On-Line Academy
Access to Information and Advisory Services	SME Service Centre (SME Web Portal) AEC Information Packages Directory of Outstanding ASEAN SMEs 2015 Guidebooks
Access to Technology and Innovation	SME Business and Technology Incubator ASEAN SME Innovation Awards

Sources: Strategic Action Plan for SME Development (2010-2015) and the ASEAN Secretariat.

- 2.254 A number of these initiatives have been completed while some will continue to be further advanced under the AEC's Post-2015 agenda. Under the Access to Finance component, an ASEAN Benchmark for SME Credit Rating Methodology was developed under Myanmar's ASEAN Chairmanship year in 2014. The Benchmark aims to reduce asymmetric credit information in order to enhance the access to funding by SMEs. While there is no imposition or binding commitment to encourage the use of the Benchmark, information on the benefits and methodologies for applying it have been disseminated among central banks, credit rating agencies, SME development agencies and commercial banks in ASEAN, through the ASEAN Bankers' Association.
- 2.255 With respect to Access to Information, the SME Service Centre is a web-based system currently being developed to provide services and information to ASEAN SMEs. It will operate through a virtual network of SME service centres and ASEAN service desks. Among other services that are to be identified by ASEAN SMEs, the Centre will feature a referral system for contact points, business partners, and consultants, an electronic market place for identification of business and investment opportunities,

and will be a repository for information materials relevant to SMEs, such as AEC initiatives and information on FTAs. Noting that the portal represents a frontline tool for SMEs, its features would be further enhanced post-2015 to deliver more effective services to SMEs. In addition, several information packages on the AEC relating to tariffs and customs processes have been produced to assist SMEs in understanding the internal integration benefits under the AEC. Further, a private sector-led initiative, the ASEAN Market Place (aMP), was launched on 26 May 2015 in conjunction with the ASEAN SME Showcase and Conference 2015 organised by Malaysia in Kuala Lumpur. The aMP is a collaboration of seven major ASEAN telecommunications companies as shareholders with the aim of being a one-stop portal to assist ASEAN SMEs to access information, markets, technology and finance, using ICT. To create synergy between the two SME resource portals, the ASEAN SME Service Centre and aMP will collaborate to leverage on ICT to facilitate market expansion for ASEAN SMEs.

- 2.256 Under Access to Human Capital Development, the ASEAN Common Curriculum for Entrepreneurship, which was developed in 2012, adopts a consultation-based learning methodology, involving students, academics and SMEs. Its syllabus consists of 60% common content and 40% localised content. Core subjects include entrepreneurial leadership, business planning, business policy and strategy, operations management, human resource management, marketing management and strategies, business creativity, commercial law, communications, financing, environmental studies, business start-up and IT management. Post 2015, assessments of the actual adoption of the curriculum and its impact would need to be conducted and the curriculum refreshed. A related programme was held on the sidelines of the ASEAN SME Showcase and Conference 2015, entitled 'Workshop on SME Development for Cambodia, Lao PDR, Myanmar and Viet Nam Countries'. The workshop aims to provide an understanding on policies and implementation of programmes and strategies needed to promote the development of SMEs, particularly on the role of government institutions and private agencies for providing support to SMEs.
- 2.257 In the midst of continuous implementation of various SME initiatives and looking towards developing a post-2015 agenda for SME development in ASEAN, the AMS recognised that it was important to assess more effectively the regulatory environment in which SMEs operate. The ASEAN SME Agencies Working Group (SMEWG) deemed it as a 'timely milestone', in the context of AEC 2015, to 'review the policy development for the SMEs, and to examine the effectiveness of their implementation'. As such, an ASEAN SME Policy Index study was undertaken with the assistance of the ERIA in collaboration with the OECD. The study enabled a comparative independent evaluation of the status and the effectiveness of SME policy design and implementation in each AMS against a set of policy dimensions.

The Index provided information on the policies that support SME development in ASEAN countries and provided policy recommendations for each AMS and for the region as a whole.

- 2.258 Drawing from OECD's SME Policy Index, ASEAN's index is comprised of eight policy dimensions: an institutional framework; access to support services; a cheaper and faster start-up environment and better regulations; access to finance, technology and technology transfer; international market expansion; promotion of entrepreneurial education; and more effective representation of small enterprises' interests (Table 2.23). The eight policy dimensions are measures based on a total of 58 sub-dimensions, each of which has six degrees or levels of policy: starting from one, if no specific policy measures or institution is in place, to six for a well-functioning institution or effective implementation of each policy measure. The scores of each AMS for the aforementioned SME Policy dimensions are presented. Among the dimensions, the AMS have done best in international market expansion, pertaining to export promotion and capacity building programmes, and in entrepreneurship education.

Table 2.23

ASEAN SME Policy Index										
	BRN	CAM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM
Institutional Framework	2.6	2.6	4.4	2.6	4.6	2.9	3.7	5.4	3.9	3.8
Access to Support Services	3.3	2.4	4.0	2.3	4.8	2.7	3.8	5.4	3.8	3.6
Cheaper and Faster Start-up and Better Regulations	3.2	2.1	3.9	3.4	4.5	3.2	3.9	5.5	4.8	4.3
Access to Finance	3.0	2.0	5.0	2.0	5.0	2.5	2.0	4.5	3.5	4.0
Technology and Technology Transfer	3.2	1.9	3.8	2.0	4.9	2.4	3.6	5.6	4.3	3.6
International Market Expansion	3.2	3.3	4.2	3.1	5.0	3.3	4.4	6.0	4.7	4.0
Promotion of Entrepreneurial Education	3.0	2.1	3.9	2.3	4.2	2.9	3.7	5.0	3.1	2.9
More Effective Representation of Small Enterprises' Interests	2.3	2.5	3.8	2.3	4.3	3.8	4.7	5.0	4.2	4.3

Note:

Estimates are based on eight policy measures disaggregated into 58 sub-dimensions. Each has six degrees or levels of policy. Estimates range from one (if no specific policy measure or institution is in place) to six (for a well-functioning institution or effective implementation of each policy measure).

Source: AIMO's calculations based on the data from ERIA's SME Policy Index 2014 ([http://www.eria.org/publications/research\\_project\\_reports/FY2012-no.8.html](http://www.eria.org/publications/research_project_reports/FY2012-no.8.html).)

- 2.259 While the impetus to implement SME policy reforms remain at the country level, an assessment of the general and specific state of SME policies and institutions in the AMS could help ASEAN identify initiatives for policy or institutional support that can be delivered at the regional level. The descriptions below were not directly lifted from the ASEAN SME Policy Index report, but are based on the mean scores of AMS for each policy dimension and were mainly referenced from the assessment framework matrix of the report presented in its appendix.

### Institutional Framework

- 2.260 In most AMS, a form of legislation on SMEs is already in place. Such legislation provides a definition of what SMEs are in terms of their income, number of employees, assets, capital and other factors. However, in some AMS, the definition is

not necessarily streamlined in government programmes such as those that provide privileges, incentives, or other concessions to SMEs. In most cases, there is already legislative approval for the establishment of a single institution to lead and co-ordinate SME policy formulation, and their multi-year SME development strategies have been implemented with some degree of success. These SME institutions are fully operational and cover a range of activities with measurable outcomes. However, the human resources and the required expertise remain limited on most fronts. In ASEAN, plans on how to address the informal economy have been adopted in a variety of ways, although implementation remains limited and could be exercised under the post-2015 programme.

#### Access to Support Services

- 2.261 SME plans tend to provide for a range of support services for those countries that have SME strategies in place and these have been implemented with a reasonable amount of success. There are also one-stop shop business development services (BDS) centres, which provide integrated and comprehensive services but these are limited in number and reach. Support services also include ICT-based solutions and services, including e-commerce facilities. E-commerce laws have been adopted and some services can be filed online, although operational capacity remains limited. In ASEAN, there is also a centralised portal for SMEs that directs users to key websites.

#### Cheaper, Faster Start-Up and Better Legislation and Regulation for SMEs

- 2.262 On average, in the AMS, it takes between five to 10 working days to obtain business registration certificates, requiring four to five administrative steps (or six to seven steps including licences, costing from US\$100 to US\$150). The overall registration process, including the procurement of licences, takes between 20 and 30 working days. The average minimum capital requirement in the AMS is equivalent to 10% or less of gross national income per capita. In most cases, enterprises are able to register online, although few decisions made after the submission process are made known. As for policy reforms, amendments of redundant or ineffective legislation and regulations on business registration and licensing have been carried out on an ad hoc basis. Simplified regulatory impact analysis is applied in certain areas of regulations.

#### Access to Finance

- 2.263 Generally, SMEs do not own the property used as hard collateral to access bank finance. Additionally, collateral registration systems, either for the real estate, motor vehicle, machinery or equipment industries, are not functioning well enough to allow firms to use various types of assets as collateral in their efforts to access bank loans.

On average, collateral value requirements range from 100% to 150% of the loan amount. Legal procedures for litigation take up to four years or more and cost up to 30% of the value of collaterals. Credit guarantee facilities cover limited geographical scope and types of businesses, and credit facilities are mainly state or donor funded. The products offered are limited in range. Laws and regulations related to risk capital (e.g. venture capital, private equity funds, business angels and crowd funding) have been approved in most AMS and institutional responsibilities have been assigned.

#### Technology and Technology Transfer

- 2.264 In the AMS, a national innovation programme or strategy is typically under implementation and contains specific or explicit provisions and programmes for SMEs. There tend to be several technology and business incubators in operation but most are in the experimental phase. Frameworks linking SMEs with research and development (R&D) labs, universities, incubators and pilot public funds for supporting R&D activities are being implemented, although strong coordination efforts among them in terms of business-academia networks are still at an early stage.

#### International Market Expansion

- 2.265 For most AMS, export promotion programmes are adequately funded and executed by a coordinating agency, though not solely targeted towards SMEs. Comprehensive information on export and trade is disseminated though the provision of advisory services remains limited. Export capacity building programmes exist, although geographical coverage is limited. Entrepreneurship promotion is in place in school curricula, with pilots in basic education and with national quality assurance system and course subjects for small business and entrepreneurship being developed. Some major universities offer degrees in entrepreneurship and have adopted the ASEAN Common Curriculum, or have organised apprenticeship/internship programmes for SMEs.

#### More Effective Representation of SME Interests

- 2.266 On average, the membership of SMEs is usually concentrated in industry associations and chambers of commerce. Services provided by the associations and chambers include providing links to international business networks, business matching, processing of trade certificates of origin, trade and investment promotion and training. In policy discussions, SMEs are usually consulted on specific issues. The private sector, including SMEs, can make suggestions on initiatives or measures during consultations, although proof of which suggestions were adopted are not necessarily monitored.



### ***Recommendations***

- 2.267 Regional initiatives on SME development could move beyond only creating an environment that enhances participation in regional and global markets to one that encourages and supports value creation.
- 2.268 In the past, ASEAN's SME development initiatives have tended towards creating opportunities for SMEs to participate more effectively in the integration process and have equitable access to finance, business development and advisory services through region-wide platforms that build awareness and capacity.
- 2.269 While there is greater room for growth in ASEAN's inclusive policies and initiatives for SMEs, an SME development strategy that provides incentives and supports SME contribution for value creation would be equally important for the post-2015 agenda. Considering SMEs, both their limitations and strengths, and making more productive use of their participation in the economy, is the direction that SME development initiatives must take. In addition to improving the policy and regulatory environment, access to finance and means for spurring innovation, facilitating technology transfers would be among the key policy measures to move forward.

## **IV. Pillar 4: Integration to the Global Economy**

### ***ASEAN External Economic Relations***

- 2.270 The AEC's fourth pillar refers to integration into the global economy. It is a pillar that is distinct from the preceding three and focuses on integration within the region, leading to a two-pronged approach towards a globally-integrated economy. The fourth pillar recognises that ASEAN's community building cannot take place in isolation. It also emphasises that for the AEC to be strong and sustainable it needs to respond to global trends and be proactive in seizing new opportunities.
- 2.271 Two policy goals have been identified under the fourth pillar: (i) a coherent approach towards external economic relations; and (ii) an enhanced participation in global supply networks. Before the consideration of the AEC measures introduced and implemented to achieve these goals, this section will offer a brief overview of ASEAN's relative position in the global economy.
- 2.272 Based on a McKinsey & Company study (2014), ASEAN is viewed as a single entity and the seventh largest economy in the world. In 2014, the combined GDP of the region stood at over US\$2.6 trillion. While this still remains low compared to China, which at US\$10.4 trillion is the world's second largest economy after the US (at US\$17.4 trillion), and significantly behind the world's largest economic grouping, the EU, with a combined economy of US\$18.5 trillion, ASEAN is ahead of major economies such as Brazil, India and Russia. If growth trends continue, ASEAN could be the world's fifth largest economy by 2030 and the fourth largest by 2050.

- 2.273 Likewise, in terms of population, ASEAN represents the world's third largest market, with a total population of over 622 million. This is ahead of the EU at just under 508 million, and behind only China and India at 1.37 billion and 1.26 billion, respectively. Further, ASEAN has much to expect from the demographic dividend of its relatively young population. About 27% of Southeast Asia's population aged between 10 and 24 years represents more than that of China at 22% and Europe at 17% (Population Research Bureau, 2013). And more than half of ASEAN's population is under 30, much younger than that of Europe at 34% and East Asia at 40%, respectively (BDG Asia, 2014). This demography will offer opportunities to companies that want to tap into a dynamic market of eager, young, new consumers.
- 2.274 ASEAN is one of the most open economic regions in the world, with total merchandise exports of over US\$1.3 trillion, which represents over half of ASEAN's total GDP. ASEAN is currently the fourth largest exporting region in the world, trailing only the EU, North America and China (including Hong Kong), accounting for 7% of global exports (McKinsey & Company, 2014). In nominal terms, ASEAN intra-regional trade has increased significantly, albeit its share has remained somewhat constant at around a quarter of total trade since 2003. This compares with 40% for the North American Free Trade Agreement (NAFTA) countries of Canada, Mexico, and the US and 59% for the EU. But a non-increasing trend in intra-regional trade share does not automatically imply failure in regional integration efforts. ASEAN is a region well integrated into global value chains, as will be discussed in the later sub-section. Most of its output is targeted for consumption outside ASEAN, at least for the present. Regional economic integration is aimed at boosting collective potential to ensure that ASEAN as a region, including each of its members, are globally competitive.
- 2.275 ASEAN's strengths are derived from its current comparative advantages as well as dynamic potentials. These can be further promoted through proactive efforts to broaden and deepen as well as cultivate economic linkages with the region's trading partners. Hence, while deeper integration among the AMS remains a work in progress, ASEAN has also forged economic linkages with external partners through FTAs and CEPAs, as will be considered later.

#### An Overview of ASEAN External Trade Relations

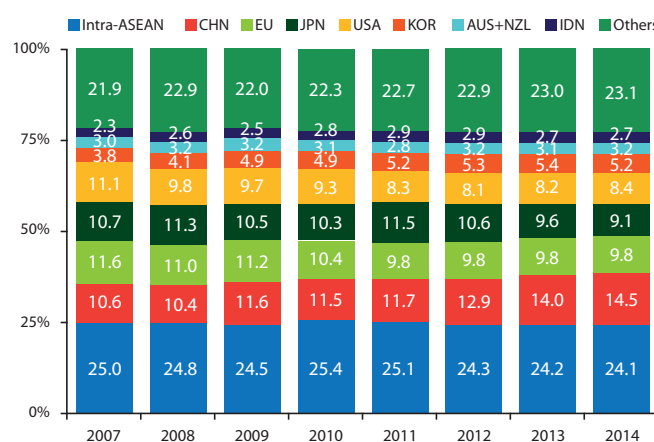
- 2.276 The merchandise trade data for 2007-2014 (Figure 2.22) shows that in 2014 five of the top 10 trading partners among the Dialogue Partners of ASEAN are ASEAN FTA Partners. China (14.5%) is ASEAN's top trade partner, followed by the EU (9.8%), Japan (9.1%), the US (8.4%) and Korea (5.2%). Other FTA partners, Australia and New Zealand (3.2%) and India (2.7%) are ranked sixth and seventh. The rest of ASEAN's



Dialogue Partners, (i.e. Canada, Russia and Pakistan) account for 1.7% of the total. From 2009, China replaced the EU to become ASEAN's top trading partner. There is an increase in the share of trade between 2007 and 2014 for Korea (from 3.8% to 5.2%), India (from 2.3% to 2.7%), as well as Australia and New Zealand (from 3.0% to 3.2%). In contrast, declines in share have been observed for the EU (from 11.6% to 9.8%), the US (from 11.1% to 8.4%), and Japan (from 10.7% to 9.1%). There has been a recent moderation in trade growth, which is in line with the global trend, largely as a consequence of the 2008 financial crisis.

Figure 2.22

ASEAN's Merchandise Trade with Dialogue Partners, Share in ASEAN's Total Trade (%)



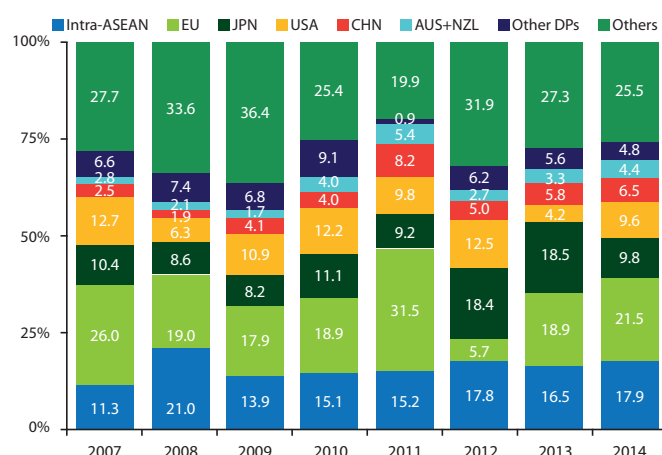
Note:  
Others = Other ASEAN DPs (Canada, Pakistan and Russia) and rest of the world.  
Source: ASEANstats Trade data (June 2015).

### An Overview of ASEAN Investment Relations

- 2.277 ASEAN's ongoing efforts to strengthen investment regimes and improve on the region's attractiveness as a single investment destination have continued to bear fruit. Since 2012, FDI inflows into ASEAN have surpassed the US\$100 billion mark. In 2014, FDI inflows to the region peaked at US\$136.2 billion, a 15.7% increase year-on-year (Figure 2.23).
- 2.278 In 2014, the EU remains the largest source of FDI, which stood at US\$29.2 billion (21.5% of the total) followed by Japan at US\$13.3 billion (9.8%), the US at US\$13.0 billion (9.6%) and China US\$8.9 billion (6.5%). It is worth noting, however, that Singapore received the bulk of these investments at US\$72.1 billion in 2014 or 52.9% of the total. The FDI inflows to Indonesia, Thailand, Malaysia, and Viet Nam were at 16.4%, 8.5%, 7.9%, and 6.8%, respectively.

Figure 2.23

ASEAN's Total FDI Inflows by Dialogue Partners, Share in ASEAN's Total FDI Inflows (%)



Note:  
Other DPs= Canada, India, Korea, Pakistan and Russia; Others = rest of the world.

Source: ASEANstats FDI data (May 2015).

2.279 As a region, ASEAN formalises its investment relations with external partners largely through investment provisions in FTAs and CEPAs, with recent FTAs more likely to incorporate investment provisions, which are in themselves increasingly comprehensive (see Pillar 1.C).

### *Coherent Approach towards External Economic Relations*

2.280 ASEAN's regional economic integration goals are not limited to intra-regional integration. The region's integration to the global economy is not only signified by its external trade and investment relations but is also institutionalised in FTAs and CEPAs with ASEAN Dialogue Partners (DPs).

### An Overview of ASEAN+1 Free Trade Agreements

2.281 To date, ASEAN as a region is a signatory to five FTAs/CEPAs with China, Korea, Japan, India, Australia and New Zealand, respectively. In addition, there are 50 bilateral FTAs (between one ASEAN country and one non-ASEAN country), and 11 plurilateral agreements (between one ASEAN country and two or more non-ASEAN countries)<sup>30</sup> or 23 multilateral agreements (between two or more ASEAN countries and one or more non-ASEAN countries). Of the 50 bilateral FTAs, 29 are under negotiation and 21 are under study or being proposed. This sub-section will focus on ASEAN FTAs/CEPAs only. A short summary of these agreements is presented in Table 2.24.

<sup>30</sup> Based on information from ADB's Asia Regional Integration Center FTA database, accessed May 2015 (<http://aric.adb.org/fta-comparative>).

Table 2.24

## ASEAN FTAs/CEPAs: Capsule Summary

	AFTA	ACFTA	AKFTA	AJCEP	AIFTA	AANZFTA
Approach to negotiations	Sequential	Sequential	Sequential	Single undertaking (modified)	Sequential	Single-undertaking
Entry into force	1993	2005	2007	2008	2010	2010
Market size (million)	622	1,989	672	749	1,881	650
Economic size (US\$, trillion)	2.5	12.8	3.9	7.1	4.5	4/1
Coverage	Goods Services Investment DSM	Goods Services Investment DSM	Goods Services Investment DSM	Goods (services & investment in bilateral EPAs) DSM	Goods Services Investment DSM	Goods Services Investment MNP e-Commerce IPR Competition Economic Cooperation DSM
Duty phase out (A6+DP)	2010	2012	2012	2026	2019	2020
ROO	40% or CTH PSRs	40% Limited PSRs	40% or CTH PSRs	40% or CTH PSRs	35%+CTH PSRs	40% or CTH PSRs

Source: ASEAN Secretariat.

2.282 The rest of this sub-section is focused on each of the ASEAN FTAs/CEPAs in which trade and investment has evolved, both shares and ranking, between 2007 and 2014.

ASEAN-China Free Trade Area (ACFTA)

Table 2.25

## Trade and Investment Relations between ASEAN and China (2007 and 2014)

	Size		Share to ASEAN (%)		Rank among 11 DPs	
	Value in 2014 (US\$ billion)	2014 index (2007=100)	2007	2014	2007	2014 <sup>P</sup>
ASEAN exports to China	150.4	193.0	9.1	11.6	4	1
ASEAN imports from China	216.1	232.0	12.4	17.5	1	1
Total trade with China	366.5	214.2	10.6	14.5	4	1
Trade balance with China	-65.7					
FDI inflows from China	8.9	416.5	2.5	6.5	7	4

Source: ASEANstats FDI data (May 2015) and Trade data (June 2015).

2.283 China has continued to be ASEAN's largest trading partner since 2009. In 2014, China has also become the premier destination for ASEAN exports, with a value of US\$150.4 billion, almost twice the value in 2007 (Table 2.25). But the main driver of trade has been imports, which at US\$216.1 billion in 2014 is 2.3 times the value in 2007. As imports have been growing much faster than exports, ASEAN's trade deficit with China has continued to widen to US\$65.7 billion in 2014, from -15.2 billion in 2007. Improvement of the trade balance has been identified as one of the key objectives in

the on-going discussions on the upgrading of the ACFTA. FDI inflows from China to ASEAN reached US\$8.9 billion in 2014, an increase of 30.8% from 2013 and four times the value in 2007. However, China is only the fourth largest source of FDI to ASEAN, after the EU, Japan and the US, representing 6.5% of the total in 2014.

- 2.284 Co-operation between ASEAN and China was elevated to a higher level with the signing of the Framework Agreement on Comprehensive Economic Co-operation by the ASEAN and China Heads of State on 4 November 2002 in Phnom Penh, Cambodia, the first of such agreements for ASEAN. The Framework Agreement came into force on 1 July 2003 and is an umbrella agreement providing general provision on the establishment of ACFTA within 10 years.
- 2.285 The ASEAN-China Trade in Goods Agreement (AC-TIG) was effective from January 2005, preceded by an early harvest initiative that saw the elimination of tariff lines for agricultural products under Chapter 01-08 for all parties to ACFTA, effective on 1 January 2004. Tariff elimination has been completed for more than 90% of total tariff lines for the ASEAN-6 and China. The AC-TIG has been revised twice. In 2012, parties signed a Protocol to Incorporate Technical Barriers to Trade and Sanitary Measures into AC-TIG. The Protocol to Implement the Second Package of Specific Commitments under the Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China was signed at the 14<sup>th</sup> ASEAN-China Summit in November 2011 in Bali, Indonesia. The ASEAN-China Investment Agreement has been ratified by all parties and entered into force on 1 January 2010. China also contributed funds to the ASEAN-China Co-operation Fund, which was established in 1997, to support co-operation between ASEAN and China, including economic co-operation related to the ACFTA.
- 2.286 At the 12<sup>th</sup> AEM-MOFCOM Consultations between the Economic Ministers from the AMS and China's Minister of Commerce on 20 August 2013 in Bandar Seri Begawan, China proposed upgrading the ACFTA in terms of coverage and content with the aim of creating a comprehensive and high quality agreement. The ACFTA was the first FTA with external parties to be signed by ASEAN, and as it has been surpassed in coverage and content by many of the latter FTAs/CEPAs, it was deemed timely to revisit the Agreement. ASEAN supported China's proposal and at the 16<sup>th</sup> ASEAN-China Summit on Commemoration of the 10<sup>th</sup> Anniversary of the ASEAN-China Strategic Partnership, in October 2013 in Bandar Seri Begawan, Brunei Darussalam, the Leaders welcomed the initiative to enhance the ACFTA through, among others, improving market conditions and trade balance between both sides as well as expanding the scope and coverage of the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China.

- 2.287 Following the Leaders' decision, the 13<sup>th</sup> AEM-MOFCOM held on 26 August 2014 endorsed the Elements Paper, and tasked the ACFTA-JC to commence upgrading negotiations as soon as possible. The first round of negotiation for upgrading the ACFTA took place at the 6<sup>th</sup> ACFTA-JC Meeting from 22 to 24 September 2014 in Ha Noi, Viet Nam. To date, three rounds of discussions have been held.

#### ASEAN-Korea Free Trade Area (AKFTA)

**Table 2.26**

Trade and Investment Relations between ASEAN and Korea (2007 and 2014)

	Size		Share to ASEAN (%)		Rank among 11 DPs	
	Value in 2014 (US\$ billion)	2014 index (2007=100)	2007	2014	2007	2014
ASEAN exports to Korea	51.9	175.9	3.4	4.0	5	5
ASEAN imports from Korea	79.8	251.7	4.2	6.5	5	5
Total trade with Korea	131.7	214.8	3.8	5.2	5	5
Trade balance with Korea	-28.0					
FDI inflows from Korea	4.5	183.2	2.9	3.3	5	6

Source: ASEANstats FDI data (May 2015) and Trade data (June 2015).

- 2.288 Korea is ASEAN's fifth largest trading partner (Table 2.26). ASEAN exports to Korea have been increasing over the years and currently stood at US\$51.9 billion, 1.8 times the value in 2007. ASEAN imports from Korea have been growing at a faster pace. In the period 2007 to 2014, imports grew by more than 2.5 times its 2007 value to reach US\$79.8 billion in 2014. As a result, ASEAN's trade deficit with Korea has increased markedly to -US\$28.0 billion in 2014 from just US\$2.2 billion in 2007. Korea is also one of the main sources of FDI for AMS. In 2014, Korea is the sixth largest investor in ASEAN. Investment from Korea has increased from US\$2.4 billion to US\$4.5 billion, resulting in an increase in the share of Korea's direct investment into ASEAN from 2.9% in 2007 to 3.3% in 2014.
- 2.289 Negotiations for the AKFTA commenced in 2005, two years after it was first proposed at the ASEAN-Korea Summit in 2003. At the 8<sup>th</sup> ASEAN-Korea Summit held on 30 November 2004, Leaders of respective countries signed the ASEAN-ROK Joint Declaration on Comprehensive Co-operation Partnership Agreement.
- 2.290 The Framework Agreement on Comprehensive Economic Co-operation between ASEAN and Korea was signed by the Leaders at the ASEAN-Korea Summit on 13 December 2005 in Kuala Lumpur, Malaysia and came into force on 1 July 2006. The Agreement on Trade in Goods within the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and Korea entered into force in June 2007 and stipulates the conclusion of a duty phase out period as: for Korea in 2010; for the ASEAN-6 in 2012; for Viet Nam in 2018; and for Cambodia, Lao PDR and Myanmar in 2020. The Agreement also provides for the inclusion of limited products to a sensitive list, which can be further divided into an SL and HSL.

- 2.291 The Framework Agreement stipulates the FTA for Trade in Services and Investment to be implemented within the timeframes to be mutually agreed between ASEAN and Korea. The ASEAN-Korea Trade in Services Agreement was signed by the ASEAN Economic Ministers and Korea at the ASEAN-Korea Summit on 21 November 2007, while the AKFTA Investment Agreement was signed on 2 June 2009. Further, the AKFTA also includes economic co-operation projects in 19 sectors, including (i) customs procedures; (ii) trade and investment promotion; (iii) SMEs; (iv) human resource management and development; (v) tourism; (vi) science and technology; (vii) financial services; (viii) information and communication technology; (ix) agriculture, fisheries, livestock, plantation commodities and forestry; (x) intellectual property; (xi) the environmental industry; (xii) broadcasting; (xiii) construction technology; (xiv) standards and conformity assessment and sanitary and phytosanitary measures; (xv) mining; (xvi) energy; (xvii) natural resources; (xviii) shipbuilding and maritime transport; and (xix) film.

#### ASEAN-Japan Comprehensive Economic Partnership (AJ-CEP) Agreement

Table 2.27

Trade and Investment Relations between ASEAN and Japan (2007 and 2014)

	Size		Share to ASEAN (%)		Rank among 11 DPs	
	Value in 2014 (US\$ billion)	2014 index (2007=100)	2007	2014	2007	2014
ASEAN exports to Japan	120.2	141.2	9.9	9.3	3	4
ASEAN imports from Japan	108.8	123.8	11.7	8.8	2	3
Total trade with Japan	229.1	132.4	10.7	9.1	3	3
Trade balance with Japan	11.4					
FDI inflows from Japan	13.4	152.0	10.4	9.8	3	2

Source: ASEANstats FDI data (May 2015) and Trade data (June 2015).

- 2.292 Japan is a major trading partner of ASEAN. In 2014, with total trade amounting to US\$229.1 billion in 2014, Japan is ASEAN's third largest trading partner (Table 2.27). In 2014, exports value grew by 41.2% compared to its 2007 value to reach US\$120.2 billion. Imports grew slightly slower during the same period at 23.8%. Together this led to a trade surplus for ASEAN at US\$11.4 billion in 2014, compared to a deficit of US\$2.8 billion in 2007. In term of investment, Japan is the second largest source of FDI for ASEAN in 2014, contributing almost 10% of the total. In 2014, Japan's FDI to the AMS increased by 52% relative to 2007, from US\$8.8 billion to US\$13.4 billion.
- 2.293 The AJ-CEP Agreement was negotiated using a single undertaking approach. It originated in the ASEAN-Japan Framework for Comprehensive Economic Partnership (CEP) signed on 8 October 2003 in Bali at the ASEAN-Japan Summit. The negotiations on the AJCEP Agreement took over two years to complete, commencing in April 2005 and concluding in December 2007. The AJCEP Agreement entered into force on 1 December 2008 and normal track duty phase out between the ASEAN-6 and Japan will end in 2018.

- 2.294 The AJCEP Agreement began as an agreement on trade in goods but included enabling clauses for negotiations on trade in services and investment by sub-committees, both of which are currently on-going for completion within 2015 and are identified as among ASEAN priorities.
- 2.295 Economic co-operation activities under the AJCEP Agreement are also being undertaken in the areas of trade-related procedures, the business environment, IPR, energy, ICT, human resources development, SMEs, tourism and hospitality, transportation and logistics, standards and conformance and MRA. Other possible technical co-operation projects include environment, automobiles, bio-technology, science and technology, sustainable forest management, competition policy, food security and financial services co-operation.

#### ASEAN-India Free Trade Area (AIFTA)

Table 2.28

Trade and Investment Relations between ASEAN and India (2007 and 2014)

	Size		Share to ASEAN (%)		Rank among 11 DPs	
	Value in 2014 (US\$ billion)	2014 index (2007=100)	2007	2014	2007	2014
ASEAN exports to India	43.3	174.5	2.9	3.4	7	7
ASEAN imports from India	24.4	196.5	1.7	2.0	7	7
Total trade with India	67.7	181.9	2.3	2.7	6	7
Trade balance with India	19.0					
FDI inflows from India	0.8	30.1	3.2	0.6	4	8

Source: ASEANstats FDI data (May 2015) and Trade data (June 2015).

- 2.296 In recent years, trade and investment relations between India and ASEAN have continued to improve. Total bilateral trade increased significantly from US\$37.2 billion in 2007 to US\$67.7 billion in 2014, with an average annual growth for the period 2007-2014 of 13.2% (Table 2.28). The average annual growth rate of exports over the period stood at 13.2%, while that of imports stood at 15.5%. Together, this led to a trade surplus of US\$19.0 billion for ASEAN in 2014, an increase from US\$12.4 billion in 2007. FDI inflows from India to ASEAN, however, has been on a declining trend from US\$2.7 billion in 2007 to US\$0.8 billion in 2014, constituting only 0.6% of the total FDI inflows to ASEAN in 2014.
- 2.297 Like the ACFTA and AKFTA, the AIFTA was negotiated based on a sequential approach. The ASEAN-India Framework Agreement on Comprehensive Economic Co-operation was signed at the 2<sup>nd</sup> ASEAN-India Summit in 2003. The Framework Agreement laid a sound basis for the eventual establishment of an ASEAN-India Regional Trade and Investment Area, which includes FTA in goods, services, and investment.



- 2.298 The ASEAN-India Trade in Goods Agreement was signed at the ASEAN Economic Ministers Meeting with India on 13 August 2009 in Bangkok, Thailand and the free trade area came into effect on 1 January 2010. At the 10<sup>th</sup> ASEAN-India Summit in New Delhi on 20 December 2012, India and ASEAN concluded negotiations for FTAs in services and investments. The Agreements on Investment and Trade in Services under the Framework Agreement on Comprehensive Economic Co-operation were formally signed ad referendum in 2014. The two sides expect bilateral trade to increase to US\$100 billion by 2015, and US\$200 billion within a decade.
- 2.299 Economic co-operation activities under the AIFTA are now being undertaken on agriculture, fisheries and forestry; services; mining and energy; science and technology; transport and infrastructure; manufacturing; human resource development; and other sectors such as handicrafts, SMEs, competition policy, Mekong Basin Development, intellectual property rights and government procurement.

#### ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)

Table 2.29

Trade and Investment Relations between ASEAN and Australia and New Zealand (2007 and 2014)

	Size		Share to ASEAN (%)		Rank among 11 DPs	
	Value in 2014 (US\$ billion)	2014 index (2007=100)	2007	2014	2007	2014
ASEAN exports to AUS & NZL	51.7	166.9	3.6	4.0	5	6
ASEAN imports from AUS & NZL	29.4	175.0	2.2	2.4	6	6
Total trade with AUS & NZL	81.1	169.7	3.0	3.2	7	7
Trade balance with AUS & NZL	22.4					
FDI inflows from AUS & NZL	6.0	256.4	2.8	4.4	6	5

Source: ASEANstats FDI data (May 2015) and Trade data (June 2015).

- 2.300 Trade between ASEAN and the combined economies of Australia and New Zealand increased by 69.7% in 2014 compared to its 2007 value, from US\$47.8 billion to US\$81.1 billion in 2014 (Table 2.29). Together, Australia and New Zealand have become the sixth largest destination for ASEAN exports with a value of US\$51.7 billion in 2014, 1.7 times the value in 2007. Meanwhile, ASEAN imports from Australia and New Zealand grew faster by 1.7 times the value in 2007, to reach US\$29.4 billion in 2014. As a result, ASEAN's trade surplus with Australia and New Zealand has increased to US\$22.4 billion in 2014, an increase from US\$14.2 billion in 2007. FDI flows from Australia and New Zealand to ASEAN reached US\$6.0 billion in 2014, 2.6 times the value in 2007. Australia and New Zealand ranked fifth as investment partner in 2014.



- 2.301 The Agreement Establishing the AANZFTA, which was negotiated as a single undertaking, entered into force on 1 January 2010 for (and between) the following countries: Australia, Brunei Darussalam, Malaysia, Myanmar, New Zealand, Singapore, the Philippines, and Viet Nam. It entered into force for Thailand on 12 March 2010; for Lao PDR and Cambodia on 1 and 4 January 2011, respectively; and for Indonesia on 10 January 2012. It was the first plurilateral agreement for both ASEAN and Australia (New Zealand has a plurilateral agreement with Brunei, Singapore and Chile). It is also the first region-to-region engagement for ASEAN and the first agreement that Australia and New Zealand have jointly negotiated.
- 2.302 The AMS, Australia and New Zealand are bound by the AANZFTA Agreement to progressively liberalise tariffs on at least 90% of all their tariff lines within the agreed timeframes; by 2020 for Brunei, Malaysia, Philippines and Thailand, 2025 for Cambodia, Indonesia, Lao PRD and Myanmar, and 2022 for Viet Nam. Meanwhile, Australia and New Zealand (ANZ) will have 100% of tariff lines at 0% by 2020.
- 2.303 Under the AANZFTA, ASEAN and ANZ also agreed to facilitate the movement of goods by implementing specific provisions on ROO, customs procedures, SPS measures and standards, technical regulations and conformity assessment procedures.
- 2.304 On 26 August 2014, Economic Ministers from ASEAN and ANZ signed the First Protocol to amend the Agreement Establishing the AANZFTA. The Protocol does not change any of the preferences under the Agreement but introduces new procedures to ensure that administrative revisions are expedited in an efficient manner, removes some unnecessary information requirements and streamlines the presentation of the product specific ROO to make the Agreement more user-friendly for businesses. Both sides also agreed to work on finalising the transitional arrangements to ensure the smooth implementation of the Protocol and to avoid uncertainty and disruption in trade under AANZFTA.
- 2.305 In terms of services and investment, AANZFTA provides a framework to strengthen services and investment outcomes over time, including through provisions to ensure greater certainty and transparency for service suppliers doing business in the region. In addition to investment promotion and facilitation, AANZFTA also provides better certainty to investors, including through provisions relating to compensation for losses, transfers relating to profit and capital, and transfer of rights or claims to investments.
- 2.306 Economic co-operation under AANZFTA is undertaken through the AANZFTA Economic Co-operation Support Programme (AECSP), which has been supporting the implementation of the AANZFTA, particularly in operationalising the Agreement, progressing the built-in-agenda and building institutional capacity. AECSP has

the benefit of its demand-driven nature and alignment with the Parties' priorities and synergies with AEC objectives. ASEAN and ANZ are now deliberating on the extension of the AECSP beyond 2015 for economic co-operation activities relevant to the AANZFTA.

#### ASEAN-Hong Kong Free Trade Area (AHKFTA) Negotiations

Table 2.30

Trade and Investment Relations between ASEAN and Hong Kong, China (2007 and 2014)

	Size		Share to ASEAN (%)	
	Value in 2014 (US\$ billion)	2014 index (2007=100)	2007	2014
ASEAN exports to Hong Kong	85.3	150.3	6.6	6.6
ASEAN imports from Hong Kong	14.1	122.5	1.5	1.1
Total trade with Hong Kong	99.4	145.7	4.2	3.9
Trade balance with Hong Kong	71.2			
FDI inflows from Hong Kong	9.3	480.3	2.3	6.9

Source: ASEANstats FDI data (May 2015) and Trade data (June 2015).

- 2.307 Trade and investment relations between Hong Kong and ASEAN have continued to improve over the past few years. Total bilateral trade has increased from US\$68.2 billion in 2007 to US\$99.4 billion in 2014 (Table 2.30). The average annual growth rate of exports over 2007-2014 stood at 6.6%, while imports grew by 9.9%. Investment has also increase from US\$1.9 billion to US\$9.3 billion; growing at an average of 51.6% from 2007-2014.
- 2.308 At the AEM Retreat held in Viet Nam from 7-10 March 2013, ASEAN Economic Ministers decided to engage in separate FTA negotiations with Hong Kong, with expected conclusion of negotiations by 2016. Four rounds of negotiations have been convened since then.
- 2.309 As agreed upon by the ASEAN Hong Kong Free Trade Agreement-Trade Negotiating Committee, the scope of the AHKFTA will cover the elements of trade in goods, trade in services, investment, intellectual property rights, dispute settlement, horizontal and institutional issues, economic and technical co-operation and other areas of interest to be mutually agreed upon. Relevant working groups have also been established on the areas under the agreed scope of the AHKFTA.

#### Regional Comprehensive Economic Partnership (RCEP)

- 2.310 In addition to the FTAs and CEPAs elaborated upon above, ASEAN is also working towards elevating its role and centrality in the regional economic architecture. On 20 November 2012, at the East Asia Summit in Phnom Penh, Leaders of ASEAN and of the six ASEAN FTA Partners (AFPs), namely Australia, China, India, Japan, Korea and New Zealand, issued the Joint Declaration on the Launch of Negotiations for

the Regional Comprehensive Economic Partnership (RCEP). Likewise, the RCEP Participating Countries (RPCs) Leaders also endorsed the 'Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership' (Guiding Principles). The RCEP negotiations are therefore pursued based on the agreed objective of achieving a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement among the AMS and AFPs.

- 2.311 Upon its successful conclusion, RCEP would form a mega trading bloc. In 2014, RPCs comprise 3.5 billion people or almost half of the total world population, with a combined GDP of about US\$22.7 trillion, 28.4% of world trade amounting to US\$10.8 trillion and total FDI inflows reaching US\$366.3 billion (29.8% of global FDI inflows). Some studies (Petri and Plummer, 2014) also suggest that the income of the AMS is expected to rise by around 3% under RCEP by 2025. Further, the income of the AFPs is expected to rise as well, to a varying degree, ranging from 1% to almost 4%<sup>31</sup>.
- 2.312 The RCEP negotiations will recognise ASEAN centrality in the emerging regional economic architecture as well as the interests of the AFPs in supporting and contributing to economic integration, equitable economic development and strengthening co-operation among RPCs. RCEP could harmonise rules and regulations across the multiple and overlapping FTAs in the region, thereby serving as a building block for the multilateral trading system, as well as reducing the costs of trading across borders. A successful conclusion of the RCEP will broaden and deepen integration and production networks in the region, building upon existing economic linkages.
- 2.313 ASEAN played a key role in commencing the RCEP negotiations and has a key role to play in seeing their successful conclusion. FTA relations with ASEAN bind all RPCs, including those AFPs that currently do not have bilateral FTAs with one another. Another common element among RPCs is that all are also members of the WTO and RCEP will be consistent with the WTO, including GATT Article XXIV and GATS Article V criteria for regional trade agreements. That said, the RCEP will not be solely about market liberalisation but will also include trade and investment facilitation provisions, enhanced transparency in trade and investment relations and other provisions to facilitate RPC engagement in global and regional supply chains.
- 2.314 The RCEP Agreement should bear out significant improvements over existing ASEAN+1 FTAs, which can be interpreted as broader in scope and deeper in commitments, while recognising the individual and diverse circumstances of the participating countries. This includes diversity in levels of development, which will be taken into consideration in the RCEP through the inclusion of provisions for special and differential treatment and additional flexibility for the least developed AMS,

<sup>31</sup> The estimates are: 1.7% for India, 3.9% for Korea, 1.8% for Japan, 1.4% for China, 1.4% for Australia and 0.8% for New Zealand.

consistent with existing ASEAN+1 FTAs, as applicable. The RCEP process also foresees the provision of technical assistance and capacity building to the developing and least developed RPCs to enable full participation in the negotiations, implement obligations under the RCEP as well as enjoy the benefits from the RCEP.

- 2.315 To date, all ASEAN FTA Partners are taking part in the RCEP process. The RCEP agreement will have an open accession clause to enable the participation of others, including external economic partners, after the completion of the RCEP negotiations.
- 2.316 In terms of coverage, RCEP will include goods, services, investment, economic and technical co-operation, intellectual property, competition, dispute settlement, and other key emerging issues as identified and mutually agreed during the course of the negotiations. The Guiding Principles also set out the aim under each area. To facilitate negotiations, working groups and sub-working groups have been established for agreed, aforementioned areas as follow: working groups on (i) trade in goods; (ii) trade in services; (iii) investment; (iv) economic and technical co-operation; (v) intellectual property; (vi) competition; (vii) legal and institutional issues; and (viii) electronic commerce. Further, four sub-working groups under the trade in goods have also been established to discuss trade-related issues like ROO, customs, standards and conformance measures as well as under trade in services to include telecommunications and financial services.
- 2.317 On the status of the negotiations, 10 rounds of negotiations have been completed, the most recent held in Busan, Korea from 12 to 16 October 2015, since the first round of negotiations held in Brunei Darussalam in May 2013. At the TNC level, RCEP negotiations are co-chaired by ASEAN, an embodiment of ASEAN centrality and leadership, and by the AFP Facilitator, the latter on a rotating basis. The same applies to other working groups and sub-working groups.

### ***Enhanced Participation in Global Supply Networks***

#### ASEAN participation in Global Value Chains (GVCs): An Overview

- 2.318 The value chain describes the full range of activities that firms and workers carry out to bring a product from its conception to its end use and beyond: from design, sourcing, conception to distribution, marketing and post-consumption. A product can be goods or services, and production activities may be undertaken within a firm or across multiple firms. Global value chains (GVCs) simply describe where production activities comprising value chains are located across multiple countries. The reference to a world of GVCs signals the dominance of international production sharing in a global trade and production landscape. The cross-boundary nature of production calls for a paradigm shift in how to regard a country's participation in the global economy, with gross trade increasingly recognised as an inferior measure to value added trade.

- 2.319 ASEAN's increasing participation in GVCs is evident in its trade and investment performance as elaborated earlier in the report. In terms of stock, ASEAN hosted over US\$1.7 trillion of FDI in 2014. Though this came to just 6.5% of the global total, it accounted for 29.7% of total FDI stock hosted in developing Asia, which includes some of the world's largest economies and which in turn accounted for 21.8% of the world total (UNCTAD, 2015). In terms of FDI flows, in 2014, ASEAN accounted for 10.8% of global FDI inflows, or 28.6% of developing Asia's total. Two AMS, Singapore and Indonesia, were among the top 20 FDI inflows host economies in 2014, ranking fifth and 14<sup>th</sup>, respectively (UNCTAD, 2015).
- 2.320 Six out of 10 AMS were among the top 25 developing country exporters in 2010: Singapore (4<sup>th</sup>), Malaysia (9<sup>th</sup>), Thailand (10<sup>th</sup>), Indonesia (11<sup>th</sup>), Viet Nam (16<sup>th</sup>) and the Philippines (17<sup>th</sup>) (UNCTAD, 2014). The same economies were also among developing country exporters with the highest GVC participation rates: Singapore at 82% (1<sup>st</sup>), Malaysia at 68% (3<sup>rd</sup>), the Philippines at 56% (8<sup>th</sup>), Thailand at 56% (9<sup>th</sup>), Viet Nam at 48% (14<sup>th</sup>), and Indonesia at 44% (15<sup>th</sup>). These rates are comparable to those of advanced economies, such as the United Kingdom at 76%, Germany at 64%, Korea at 63%, Japan at 51%, and the US at 45%. The rate for China stood at 59%.
- 2.321 The extent and nature of GVC participation vary with economic structure and level of development. It is also influenced by factors such as market size and sophistication, access to and availability of skills and technology, resource endowments, business and investment environment and policy framework. GVC participation assesses the role that an individual economy plays in GVCs and its reliance on GVC participation for production and, consequently, economic growth and development. Participation in GVCs can be done either through backward linkages or forward linkages. Backward linkages<sup>32</sup> refer to the connections of an economy to GVCs in terms of sourcing of inputs. Forward linkages<sup>33</sup> refer to instances where a country provides intermediate inputs for the production of other countries' exports. GVC participation is the share of a country's backward and forward linkages in total global value added. In practice, obtaining these figures is highly improbable due to data constraints.
- 2.322 While it is intuitive to assume that a high GVC participation rate is good, the reality is more nuanced due to the complexity in its calculation. A higher GVC participation rate indicates deeper GVC integration, but may not guarantee higher accrued gains, at least not to all GVC participants within the jurisdiction. Participation through the

<sup>32</sup> The more imported intermediates are used in the production of its exports, either final products or further processed products, the stronger are the country's backward linkages. A common indicator used to measure backward linkages is foreign value added in gross exports. While the use of imported intermediates may lower the share of domestic value added in gross exports, it could lead to higher domestic value added in nominal terms if imported intermediates enable the production of higher value products.

<sup>33</sup> They show how domestic industries export value added both through direct final exports and via indirect exports of intermediates through other countries to foreign final consumers. Forward linkages reflect how industries are connected to consumers in other countries, even where no direct trade relationship exists. The indicator used to measure this is the domestic value added embodied in foreign final demand.

importation of value added (backward linkages) will also generate gains different from those generated through the exportation of value added (forward linkages). The development outcomes of GVC participation should also be assessed by looking at the impact on employment (quantity and quality), income distribution, knowledge creation and skills building, economic resilience, and non-economic factors such as social and environmental impact.

- 2.323 A key aspect of ASEAN exports is their high reliance on imported parts and components. In 2011, the shares of foreign value added in AMS gross exports range from 23.5% for Philippines to 41.7% for Singapore (Table 2.31). Only Brunei and Indonesia have a share of less than 15%, likely a reflection of the dominance of commodities in their export composition; in the case of Brunei this is partly compensated by stronger forward linkages.

Table 2.31

Key GVC Indicators (2011) for Select AMS and ASEAN FTA Partners

	Gross Exports (US\$ million)	Foreign VA (% Gross Exports)*	Domestic VA in Foreign Final Demand (% GDP)**	Re-exported Intermediate Imports (% of Total)	Services VA (% of Gross Exports)
Brunei Darussalam	7,683	11.3	63.1	46.5	20.6
Cambodia	5,932	34.1	37.6	44.0	41.0
Indonesia	125,692	14.4	19.8	21.9	21.0
Malaysia	179,790	37.9	57.3	72.6	36.5
Philippines	51,845	38.4	18.9	52.1	44.2
Singapore	212,449	49.9	57.5	76.6	56.5
Thailand	173,976	34.5	43.0	60.9	30.1
Viet Nam	63,056	36.7	41.0	41.0	26.8
<i>Memo Items:</i>					
Australia	193,401	12.5	16.7	23.6	39.7
China	1,283,964	32.6	16.6	50.2	29.5
India	255,032	21.9	14.6	25.4	52.5
Japan	618,022	14.8	10.3	22.6	40.1
Korea	401,162	40.6	28.1	55.2	37.7
New Zealand	31,573	18.4	21.9	31.0	45.7
European Union	2,228,065	13.6	11.1	N/A	54.1

Note:

\* = proxy indicators for backward linkages;

\*\* = proxy indicators for forward linkages.

Source: WTO-OECD TiVA Database.

- 2.324 The high shares of re-exported intermediate imports in total intermediate imports across AMS, from 19.6% for Indonesia to 73.5% for Singapore, reconfirm the region's reliance on imported inputs for their export production. The shares for other AMS range from 30% to 60% (Table 2.31).
- 2.325 The regional (intra-ASEAN) market remains the largest for ASEAN's (merchandise) exports, accounting for 25.5% of the total in 2014 and placing it ahead of China (11.6%), EU (10.2%), the US (9.5%), and Japan (9.3%). The same pattern is observed



in imports. In today's world of GVCs, it is recognised that most are more regional than global in nature. The region has the highest average share of intra-regional GVC participation (58% in 2011 and 56% in 2001) as compared with Southern and Eastern Africa (16%) as well as the Middle East and North Africa, Western and Central Africa and South Asia, which stood at less than 10% (OECD, 2015). This emphasises the contribution and dynamic potential of regional economic integration among AMS to remain globally competitive.

### ***Competing in a World of GVCs***

- 2.326 The brief analysis above demonstrated how ASEAN is embedded in GVCs. Further, it also highlighted the opportunities that this poses to the regional market. Under the AEC 2015, no specific initiatives have been explicitly put in place with the main objective to enhance global supply chain participation, the second component of pillar 4. Nevertheless, relevant initiatives have been undertaken in other pillars of the AEC that would be supportive of AMS participation in GVCs, from the extensive work on standards development and harmonisation, enhancement of regulatory regimes, efforts to put in place facilitative trade and investment regimes to a greater focus on connectivity through infrastructure development, both hard and soft.
- 2.327 As tariffs continue to fall, standards and other non-tariff measures are exerting a greater influence on trade. The proliferation of standards has real implications for policies; the impact is multiplied in GVCs as products and components cross multiple borders. Further, standards development often go beyond the public sector domain, as in the case of private standards, adding nuances to the role of the public sector, including in government to government regional co-operation. Participatory consultative mechanisms between the regulators, business and wider stakeholders, including consumers, industry associations, technical bodies and civil society will contribute to more effective standard-setting exercises. The public sector continues to play a key role, including in setting technical regulations and in ensuring compliance for appropriate public policy objectives. As standards compliance capacity is becoming more important as a source of competitive advantage, it is imperative for ASEAN to focus increasingly on the availability, quality and efficiency of standards and conformity assessment infrastructure, as well as in ensuring compliance capacity building by the smaller economic actors. Where the private sector is involved in providing conformity assessment services, it is important to ensure that the market is competitive, and when the service is rendered by the public sector then it should be efficient and cost effective. Effective participation in standard setting bodies, and in negotiating and implementing equivalence/mutual recognition agreements is imperative; technical and capacity building support may be necessary for some.

- 2.328 In addition to the proliferation of standards, one phenomenon that has gained increased recognition in a world of GVCs is servicification. Servicification blurs the dichotomy of goods and services. In 2014, world merchandise exports grew by 0.6% reaching US\$19 trillion while world services exports recorded a much higher 4.2% global increase at US\$4.9 trillion. The average annual growth of merchandise exports from 2009 to 2014 is, however, still higher than that of services exports for all groups of countries except for those that are the least developed.
- 2.329 The discussion on services sector trade in ASEAN up to this point has been based on gross numbers. Table 2.31 showed that value-added services accounted a significant share of gross export value across the AMS, from the still considerable 10.5% for Brunei and a high 66.4% for Singapore. A closer examination of sectoral level value-added data also reiterates the importance of services to ASEAN GVC participation across sectors, both goods and services.

### ***Recommendations***

- 2.330 ASEAN has made great strides in pursuing coherent external economic relations. For the existing FTAs and CEPAs the biggest challenge remains in promoting the realisation of benefits through better preference utilisation and by enabling market players to tap into new opportunities offered by the free trade areas. The benefits from the preferences and provisions under FTAs and CEPAs alone can only be realised if complemented with supply capacity within the AMS, both at the sectoral (vertical) and horizontal level, including adequate infrastructure and an enabling regulatory regime.
- 2.331 RCEP is among the most important ASEAN-led initiatives. Its successful conclusion will reaffirm ASEAN's centrality in the new regional economic architecture. It is, however, a complex undertaking and challenges are expected along the process. It is important for ASEAN to maintain its unity and centrality in the RCEP process.
- 2.332 On GVC participation, ASEAN should augment its current efforts, which are mostly geared towards supporting participation, with more strategic efforts towards enhanced participation. This could be done, among other aspects, by placing a greater focus on key GVC-enabling services, strengthening standards infrastructure and compliance capacity, encouraging innovation, technology and skills transfer, and redoubling efforts to enhance connectivity.



# Annex 2.A

## Investment-Related Provisions Composite Index

### Coding of Investment Provisions

Provisions	Score
<b>1. Non-discrimination</b>	
1.1 National treatment	
No	0.00
Yes	1.00
1.2 Limitations to national treatment	
n/a	0.00
Positive or negative list	0.50
None	1.00
1.3 Most favoured nation	
No	0.00
Yes	1.00
1.4 Limitations to most favoured nation	
n/a	0.00
Positive or negative list	0.50
None	1.00
<b>2. Investment regulation and protection</b>	
2.1 Provisions prohibiting performance requirements	
No	0.00
Yes	0.50
Yes, beyond Trade-Related Investment Measures (TRIMS)	1.00
2.2 Free transfer of funds	
No	0.00
Yes	1.00
2.3 Temporary entry and stay for key personnel	
No	0.00
Yes	1.00
2.4 Provisions on expropriation	
No	0.00
Yes	1.00
2.5 Specific reference to fair and equitable treatment	
No	0.00
Yes	1.00
<b>3. Investment protection and dispute settlement</b>	
3.1 State-Investor dispute settlement	
No	0.00
Yes	1.00
<b>4. Investment promotion and co-operation</b>	
4.1 Investment promotion	
No	0.00
Yes	1.00
4.2 Co-operation mechanisms	
No	0.00
Yes	1.00
4.3 Harmonisation of rules	
No	0.00
Yes	1.00
4.4 Any type of symmetries (in favour of the developing economy)	
No	0.00
Yes	1.00
4.5 Clause foreseeing the future liberalisation of investment	
No	0.00
Yes	1.00



# Chapter 3\*

## Sectoral Approach to Regional Economic Integration

### I. Introduction

- 3.1 In pursuing its regional economic integration agenda, and prior to the adoption of the AEC Blueprint, ASEAN started in 2004 by focusing its effort on deepening and accelerating integration in priority sectors, complementing the efforts under AFTA and AFAS. These priority integration sectors (PIS), once integrated, were expected to serve as a catalyst for overall ASEAN economic integration.
- 3.2 The ASEAN Framework Agreement for the Integration of Priority Sectors<sup>34</sup> was signed in 2004 with the objective of identifying measures to be implemented by AMS, with clear timelines and in a mutually beneficial manner for the progressive, expeditious and systematic integration of these sectors in ASEAN. There were originally 11 identified under PIS, namely electronics, eASEAN, healthcare, wood-based products, automotive, rubber-based products, textiles and apparel, agro-based products, fisheries, air travel and tourism. The logistics sector was added as the 12<sup>th</sup> PIS two years later.
- 3.3 While the criteria for selecting these sectors were not set out in the relevant agreement, it has been noted that the sectors were selected on the basis of their comparative advantage in natural resource endowments, labour skills and cost competitiveness, with a value-added contribution to ASEAN's economic development. The original 11 PIS together accounted for more than half of intra-ASEAN trade in 2003.
- 3.4 The Agreement contains key provisions that could be broadly classified into three categories. First, provisions relating to liberalisation include those on trade in goods, trade in services and investment. Second, provisions relating to trade and investment facilitation include those on ROO, customs procedures, standards and conformance, logistics services, facilitation of travel in ASEAN and movement of business persons, experts, professionals, skilled labour and talents. Third, provisions relating to promotion and monitoring include those on trade and investment promotion and trade and investment statistics. The Agreement also identifies other areas for integration: IP, industrial competition and human resource development. General provisions include those on general exceptions, institutional arrangement, review, sectoral integration protocols and annexes, consultations, dispute settlement, and in relation to other agreements.

\* Keith Atkinson from the ASEAN Regional Integration Support from the EU (ARISE) and David Martin from EU-ASEAN Capacity Building Project for Monitoring Integration Progress and Statistics (EU COMPASS) assisted in the development of Chapter 3.

<sup>34</sup> <http://www.asean.org/news/item/asean-framework-agreement-for-the-integration-of-priority-sectors-vientiane-29th-november-2004>

- 3.5 Each of the 12 PIS was assigned to a country coordinator, and all also possess protocols annexed to the Agreement. Appended to each protocol is a roadmap for integration of each PIS. Each roadmap restates the PIS objective of strengthening regional ASEAN integration through liberalisation and facilitation measures for trade in goods, services and investments, with private sector participation. The PIS roadmap spells out measures to be taken by the AMS on a priority basis to enable the progressive, expeditious and systematic integration of each PIS. The integration measures to be pursued are grouped into two broad categories: (i) common measures that cut across all PIS; and (ii) specific measures that are of direct relevance to the respective PIS.
- 3.6 This Chapter focuses on the progress made by and achievements of the PIS Initiative. It starts by presenting a general overview of the approach to the PIS. It then elaborates on the assessment of selected PIS, namely the four natural-resource-based (NRB) PIS of agro-based products, fisheries, rubber-based and wood-based products, with a particular focus on the impact of the PIS roadmaps on sectoral development and integration. Drawing from the lessons from the four NRB PIS, it continues with cosmetics and pharmaceuticals (subsectors of the healthcare PIS), as well as EEE, focusing on the relevant recent initiatives in these sectors, including those that are not included in the roadmaps as currently exist.

### ***Overview of the Priority Integration Sectors***

- 3.7 The PIS Framework Agreement, protocols and roadmaps predated and are reflected in the AEC Blueprint. The two action lines relating to PIS in ASEAN-6 (the Priority Integration Sector) are (i) the conduct of a bi-annual review to monitor the status, progress and effectiveness of PIS roadmaps to ensure their timely implementation; and (ii) the identification of sector-specific projects or initiatives through regular dialogues or consultation with stakeholders, particularly the private sector.
- 3.8 The strategic schedule appended to the Blueprint specified that under Phase II (2010-2011) the target for ASEAN-6 was to complete most of the measures identified under the roadmaps of the original 11 PIS, while for logistics services (the 12<sup>th</sup> PIS) the target was for completion by Phase III (2012-2013).
- 3.9 Apart from section A6 in the AEC Blueprint, which refers specifically to the PIS, the PIS are also referred to indirectly in other sections. Key PIS measures include an accelerated timeline for liberalisation of trade in goods, trade in services and investment in the PIS, the setting up of an NTM database and establishment of a definitive work programme. Section A1(ii) refers to the elimination of import duties in accordance with the revised PIS Framework Agreement; section A3(ii) sets out the reduction and possible elimination of restrictions to entry for investments while

section A7 deals with food, agriculture and forestry (all 18 actions under the section). PIS-relevant measures are also found under other pillars, for example, regional co-operation on Genetic Resources that form part of Pillar 2 B3(v) and relevant aspects of Pillar 4.

- 3.10 On the PIS Roadmaps, in terms of common measures applicable across the PIS, each contains 45 measures that can be grouped according to 15 main themes (Table 3.1):

Table 3.1

## Common Issues under the PIS Roadmaps

Issues
<b>I. Tariff Elimination</b>
<b>II. Non-Tariff Measures (NTMs)</b>
<b>III. Rules of Origin (ROO)</b>
<b>IV. Customs Procedures</b>
<b>V. Standards and Conformance</b>
<b>VI. Logistics Services</b>
VII. Outsourcing and Industrial Complementation
VIII. ASEAN Integration System of Preferences
<b>IX. Investments</b>
X. Trade and Investment Promotion
XI. Intra-ASEAN Trade and Investment Statistics
XII. Intellectual Property Rights
XIII. Movement of Persons
XIV. Facilitation of Travel
XV. Human Resource Development

Source: ASEAN Secretariat.

- 3.11 Each measure is described (e.g. to eliminate non-tariff barriers on all included products), the responsible implementing body identified (e.g. the Coordinating Committee on the Implementation of the ATIGA) and a timeline given for completion of the measure (and any intermediate milestones).
- 3.12 Given the inclusion of cross-sectoral issues in the PIS, a number of other ASEAN legal instruments are therefore directly relevant, above and beyond the Framework Agreement for the integration of priority sectors and associated roadmaps. Some of the main relevant legal instruments are shown in Table 3.2, many of which are discussed in Chapter 2. Of those that have formally entered into force some, such as the ASEAN Transport Agreements and the Agreement to Establish and Implement the ASEAN Single Window, are not yet fully operational.

Table 3.2

## ASEAN Legal Instruments directly Relevant to the PIS

Legal Instrument	Area(s) of Coverage
ASEAN Trade in Goods Agreement (2009) IF	Tariffs, NTMs, ROO, Customs, Standards, IPR, etc.
Protocol Governing the Implementation of the ASEAN Harmonized Tariff Nomenclature (2003) ** IF	Tariffs, Customs, Statistics
MoU on the Pilot Project for the Implementation of a Regional Self-Certification System (2010) IF	ROO
MoU on the Second Pilot Project for the Implementation of a Regional Self-Certification System (2012) NIF	ROO
Agreement to Establish and Implement the ASEAN Single Window (2005) IF	Customs
Protocol to Establish and Implement the ASEAN Single Window (2006) IF	Customs
ASEAN Agreement on Customs (2012) NIF	Customs
ASEAN Framework Agreement on Mutual Recognition Arrangements (1998) IF	Standards and Conformance
ASEAN Framework Agreement on the Facilitation of Inter-State Transport (2011) IF	Logistics
ASEAN Framework Agreement on the Facilitation of Goods in Transit (1998) *** IF	Logistics
ASEAN Comprehensive Investment Agreement (2009) * IF	Investment
ASEAN Framework Agreement on Intellectual Property Cooperation (1995) NIF	IPR
ASEAN Framework Agreement for the Integration of Priority Sectors (2004) IF	PIS
ASEAN Sectoral Integration Protocols for PIS (2004) IF	PIS
ASEAN Framework (Amendment) Agreement for the Integration of Priority Sectors (2006) IF	PIS
Protocol to Amend Article 3 of the ASEAN Framework (Amendment) (2007) IF	PIS
ASEAN Trade in Goods Agreement (2009) IF	Tariffs, NTMs, ROO, Customs, Standards, IPR, etc.

## Notes:

\* = The 2014 Protocol to the 2009 ACIA is not yet in force.

\*\* = There are two subsequent Protocols on the AHTN from 2004 and 2010 also in force.

\*\*\* = The AFAFGIT has nine Protocols of which two have yet to enter into force.

The date for signature of each instrument is shown in brackets and its status recorded as being IF (in force) or NIF (not in force) as of October 2014. The fact that an agreement is in force (typically by virtue of ratification by a quorum of 'x' Member States) does not mean that it has been implemented.

The AHTN is important, not just with regard to tariff rates, but for trade data and the production of statistics, with Member States committed to apply the AHTN, up to the 8-digit level, for all trade transactions both intra- and extra-ASEAN. In practice this has been difficult to achieve, since some AMS are party to trade agreements using other tariff nomenclatures, and/or have found it difficult to migrate data. The 2003 AHTN has been updated twice, in 2007 and in 2012. The product lists contained in the PIS Roadmaps refer to the 2003 AHTN.

Source: ASEAN Secretariat.

### Common Measures in the PIS Roadmaps

- 3.13 In Table 3.1, the most relevant common measures and outputs in terms of their potential trade impact (numbered in line with the roadmaps) are identified in red. These are: (i) Tariff Elimination; (ii) NTMs; (iii) ROO; (iv) Customs Procedures; (v) Standards and Conformance; (vi) Logistics Services; and (ix) Investments, and are also discussed in Chapter 2. Tariff elimination is an area in which ASEAN has performed well. The AEC achievements on tariff elimination have been extensively discussed in Chapter 2.

- 3.14 In the area of NTMs, the PIS Roadmaps call on the AMS to establish a database of ASEAN NTMs by 2004, and to regularly update this database to ensure transparency thereafter, with clear criteria to identify measures classified as NTBs. The definitive timeline for the establishment of a database is an example of a PIS-specific measure, as there is no set timeline specified for the development of a database on NTMs in the AEC Blueprint or corresponding Article 40(5) under ATIGA. The timeline for elimination of NTBs is, however, set out in Article 42 of ATIGA, which is the same as those stipulated in the PIS roadmap, and is in line with the broad timeframe of the AEC Blueprint. This means that there is no prioritisation of timeline for NTB elimination for the PIS. The work of classifying and updating NTMs is ongoing.
- 3.15 The PIS Roadmaps support this process through the early identification of NTBs and the measures required to eliminate them, which are included in the sector specific issues sections of the Roadmaps. For example, TBTs are addressed in terms of measures related to regulatory harmonisation (i.e. the adoption of common technical regulations and harmonised standards and the implementation of MRAs).
- 3.16 With significant achievements in tariff elimination, effective resolution of NTBs should be a key focus in the AEC agenda post-2015. Analysis of the progress made to address NTBs in select PIS showed a mixed picture at present. Further details are given in the sector-specific summaries that follow.

## **II. Natural Resource-Based Priority Integration Sectors**

- 3.17 The following section attempts to provide an initial assessment on the progress and impact of the four NRB-PIS, namely agro-based products, fisheries, rubber-based and wood-based products.
- 3.18 The PIS Roadmaps set out a list of agreed measures for priority implementation, relating both to common issues and measures that are sector-specific; the former is elaborated upon in the preceding section. The scope of the Roadmaps is further defined in terms of annexed lists of included products, together with a further attachment listing excluded products in the form of a Negative List.
- 3.19 Some commonalities across NRB-PIS are also found in the sector-specific issues in the Roadmaps, as outlined in Table 3.4.



Table 3.3

## Sector-Specific Issues under the NRB PIS Roadmaps

Issues	
<b>Agro-based Products</b>	
<b>XVI. Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBTs)</b>	
XVII. Research and Development (R&D) and Human Resource Development (HRD)	
XVIII. Information	
<b>Fisheries Products</b>	
<b>XVI. Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBTs)</b>	
<b>XVII. Research and Development (R&amp;D)</b>	
XVIII. Human Resource Development (HRD)	
<b>XIX. Information</b>	
<b>Rubber-based Products</b>	
<b>XVI. Testing Facilities for Rubber Products in ASEAN</b>	
<b>XVII. Harmonisation of Standards and Technical Regulations</b>	
XVIII. Promote the Usage of Natural Rubber Products	
XIX. Research and Development (R&D)	
XX. Development of Rubber Plantations in CLMV Countries	
<b>Wood-based Products</b>	
<b>XVI. Enhancing Cooperation in Timber Products</b>	
XVII. Joint Marketing and Image Building Investment on Forest Plantation and Wood-based Industry	
XVIII. Human Resource Development (HRD)	

Source: ASEAN Secretariat.

- 3.20 In Table 3.1 and Table 3.3, the headings deemed to contain measures with the greatest potential impact on intra-regional trade and market integration in line with the objectives of the first AEC Pillar (single market and production base) are highlighted in red.
- 3.21 The list of included products annexed to the NRB PIS Roadmaps are defined at the 8-digit AHTN level based on the 2002 AHTN and vary from 270 products for rubber-based products to 106 for agro-based products. The number of products covered as a proportion of the total number also varies from 100% of all eligible products for fisheries to 11.9% of agro-based products, as shown in Table 3.4 below.

Table 3.4

## Summarised Product Coverage of the NRB Roadmaps (2002 AHTN 8-digit level)

PIS	Products covered	Total Products	Percentage covered
Agro-based	106	1,000	11.9%
Fisheries	177	177	100.0%
Rubber-based	270	329	82.1%
Wood-based	165	287	57.5%

Source: ASEAN Secretariat.

- 3.22 The Agro-based Products Roadmap is relatively narrow, covering a small number of vegetables (fresh or preserved), some fruits and nuts (fresh, preserved or processed), a comprehensive range of oilseeds (although not most vegetable oils or margarines under sub-headings 1516-1517), an array of oilseed-based animal feed and a small

number of grains and flour, principally maize. Among the products omitted are all live animals and meat related products under Chapters 01 and 02, all dairy products under Chapter 04, all live plants under Chapter 06, most fresh fruits and vegetables under Chapters 07 and 08, and all coffee- and tea-based products under Chapter 09. Among these, some of the most relevant (in trade terms) are vegetable oils, coffee and rice. The number of products included in the Roadmap at the 2002 AHTN 8-digit level is 106 out of a total 1,000 tariff lines at the same level, equivalent to 11.9%.

- 3.23 On the other hand, the Fisheries Product Roadmap includes all 177 products at the AHTN 8-digit level under relevant Chapters 03, 15, 16 and 21.
- 3.24 The Rubber-based Products Roadmap coverage is also quite broad, but notable for excluding all unprocessed rubber products under heading 40.01 and all synthetic rubber, waste rubber, and compound rubber products under headings 40.02 to 40.06. The tariff codes included in the Roadmap begin at heading 40.07 and cover all rubber products from headings 40.07 to 40.17, as well as headings 56.04, 59.06, and 64.01 to 64.06, plus a large series of insulated fibre cables under heading 85.44, and some machinery, spectacles, mattresses and toys under other headings. Overall, 270 tariff lines are included out of a total of 329, meaning that the total coverage of the Roadmap as a percentage of total rubber-based products at the 2002 AHTN 8-digit level is about 82.1%.
- 3.25 The Wood-based Products Roadmap includes most (semi-) processed wood products (including sawn wood, fibreboard, plywood, particleboard), but no rough timber, basketwork, rattan (other than furniture) or wood-derivatives, such as wood pulp and paper. The number of products included in the Roadmap at the 2002 AHTN 8-digit level is 165 out of a total of 287, equivalent to 57.5%.
- 3.26 Table 3.5 shows the number of products covered relative to the total number of products, as well as the products included in the AMS' Negative Lists of excluded products.

Table 3.5

Summary of NRB PIS Roadmap Products Coverage and Negative Lists (2014)

PIS	Incl.	Excl.	% Incl.	BRN	CAM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM
Agro-based	106	894	11.9	0	19	16	0	8	3	10	0	20	0
Fisheries	177	177	100.0	0	11	7	0	36	23	14	0	26	0
Rubber	270	329	82.1	80	67	58	0	68	76	21	0	83	11
Wood-based	165	287	57.5	33	30	0	0	12	0	25	0	52	0

Source: ASEAN Secretariat.

- 3.27 As can be seen, the coverage of agro-based products in the PIS Roadmap is particularly narrow (11.9% coverage). Similarly, the products included in the PIS Roadmap for wood-based products are also relatively limited (57.5% coverage). Fisheries products are all included (100% coverage, although not including live

fish), while most rubber-based products are contained in the PIS Roadmap (82.1% coverage). Nevertheless the coverage of some AMS' Negative Lists is significant for rubber-based products (covering close to a fifth of products included in the Roadmap when averaged across the 10 AMS), and likewise restrictions in each of the three other NRB-PIS. Notwithstanding, tariff elimination is an area in which ASEAN has performed well. The AEC achievements on tariff elimination have been extensively discussed in Chapter 2.

- 3.28 The subsequent subsections look into each of the four NRB-PIS, assessing their key achievements and analysing the impact of the PIS Initiative and roadmaps in terms of trade outcomes. A detailed quantitative assessment was made of the four natural resource-based PIS Roadmaps using ASEANstats harmonised data, focusing on intra- and extra-ASEAN exports over the period 2004 to 2014 using the 2012 AHTN (to allow the like-for-like comparison of data). The aim was to establish a pre-PIS Roadmap baseline, and monitor the export-related impacts of measures undertaken to create a single ASEAN market and production base (Pillar 1) and integration of ASEAN into the global economy (Pillar 4), up to 2014, for which complete data was available. Annex 3.A discusses in detail the data coverage and methodology used.

#### Agro-based Products

- 3.29 For agro-based products, SPS and TBT are arguably the most important areas of activity with measures that include the establishment of general ASEAN requirements for food hygiene and safety; the harmonisation of national standards with relevant international standards (i.e. CODEX Alimentarius for food standards, OIE-World Organization for Animal Health for animal health standards and International Plant Protection Convention for plant health standards); the compliance of national agro-based industries with regional and international requirements (e.g. in terms of quality management standards, being GAP, GHP, GMP, GVP, HACCP); strengthened testing facilities and recognition of test results among competent authorities (i.e. trade regulators); and the harmonisation of sector-specific ASEAN regional, technical regulatory regimes.
- 3.30 A common regional Food Safety Framework is a key component in the creation of a single ASEAN market and product base to enable efficient regional trade in food products. At the policy level, there is ongoing consultation on the form that the Framework will take, but it is expected to include a coordinated regulatory regime with MRAs, to ensure the safety and quality of products across the supply chain, i.e., from good agricultural practices to common food control requirements, conformity assessment and food labelling practices.
- 3.31 ASEAN has made progress in this area, including through the development of (non-binding) guidelines on ASEAN Common Food Control Requirements (ACFCRs) using an integrated farm-to-fork approach based on risk analysis. The ACFCRs

provide a referenced and harmonised basis for subsequent mutual recognition, founded on international standards to ensure compatibility with international obligations.

- 3.32 The Prepared Foodstuff Products Working Group (PFPWG) is taking this a step further in terms of a systems-based (as opposed to product-based) draft MRA for prepared foodstuffs (i.e. HS Chapters 16-22) as a means to allow Member States to mutually accept food control inspections, test data and test certificates, and thereby contribute to eliminating technical barriers to trade. It is hoped that similar MRAs, covering trade in livestock and meat products, raw vegetables and horticultural products, and nutritional labelling, among others, will follow as part of a comprehensive regional Food Safety Framework, with measures to secure the required national levels enabling legislation and effective implementation.
- 3.33 Common approaches to conformity assessment also need to be supported, for example, through the development of an effective legal basis for the ASEAN Food Testing Reference Laboratories (starting with the prepared foodstuffs for the MRA) so that they can properly operate across the region.
- 3.34 The outcome of these efforts should be to create an ASEAN single market and production base for agro-based products with fewer goods subject to quarantine or rejection at the border and greater common acceptance of test data, inspection results and product safety certificates.
- 3.35 In the associated areas of R&D, HRD and Information, activities have been undertaken to exchange commercial planting varieties, collaborative research, training, seminars, and exchange of research information. A prototype ASEAN Early Warning System on Hazards and Outbreaks exists, but information exchange activities are limited, with a need to further strengthen co-ordination among the competent authorities for agriculture, food and health at the regional level and within some AMS. An ASEAN Rapid Alert System for Food and Feed has been established but, to date, contains notifications from only two AMS for the years 2009, 2010 and 2014.

### ***Trade Performance***

- 3.36 Total ASEAN exports of agro-based products rose from US\$29.0 billion in 2004 to US\$99.8 billion in 2014, an increase of US\$70.8 billion, or 244.5% (Table 3.6 and Figure 3.1). Of these, intra-ASEAN exports accounted for US\$6.4 billion in 2004 and US\$24.7 billion in 2014, an increase of US\$18.3 billion (or 287.4%), while extra-regional exports rose from US\$22.6 billion in 2004 to US\$75.1 billion in 2014, an increase of US\$52.5 billion (or 232.4%). That is to say, the growth in exports of agro-based products from the ASEAN region has been notable. This is as shown in Table 3.6.

- 3.37 Further analysis on the trade data provides some preliminary conclusions that could warrant deeper research on the production, supply and demand of key products. For example, it appears that agro-based products included in the PIS Roadmap (which constitutes only about 12% of tariff lines of all agro-based products under the 2002 AHTN) have performed less well in terms of both intra-ASEAN and extra-ASEAN exports than excluded products. Therefore, the (included and excluded) product lists in the PIS Roadmaps did not seem to have resulted in differentiated trade outcomes, which upon reflection provide lessons on the effectiveness of the product list approach to the PIS.
- 3.38 The share of intra-regional exports in total exports of agricultural products has fluctuated between 21.5% and 26.0% from 2004 to 2014. This is the highest of the four NRB-PIS, and with a trend over the last 10 years that is broadly positive. The relatively slight impact of the PIS initiative on intra-regional trade may partly be due to the narrow product coverage of agro-based products in the PIS Roadmap.

Table 3.6

Export Performances of Agro-based Products 2004-2014 (US\$ million)

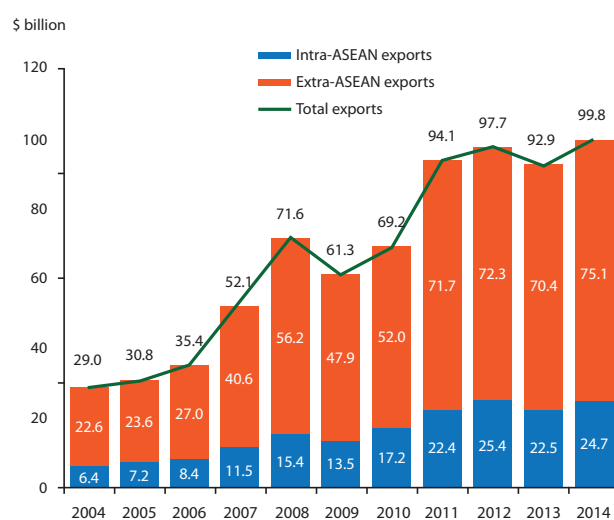
Agro-based Products	2004	2006	2008	2010	2012	2014	Change 04-14	% Change 04-14
Intra-ASEAN Exports	6,378.2	8,429.2	15,412.0	17,247.0	25,412.8	24,710.9	18,332.6	287.4%
Extra-ASEAN Exports	22,584.8	26,998.0	56,212.5	51,967.1	72,312.9	75,078.1	52,493.3	232.4%
Total Exports	28,963.1	35,427.3	71,624.6	69,214.1	97,725.7	99,789.0	70,826.0	244.5%
Intra-Trade Share	22.0%	23.8%	21.5%	24.9%	26.0%	24.8%	2.7ppt	12.4%

Note:  
ppt = percentage point.

Source: ASEANstats Trade data (June 2015).

Figure 3.1

ASEAN's Trade in Agro-based Products



Source: ASEANstats Trade data (June 2015).

### Fisheries products

- 3.39 The coverage of the PIS Roadmap for Fisheries Products is comprehensive. As with agro-based products, the most trade relevant sector-specific measures are in section XVI. They include SPS and TBTs in section XVII, and R&D and HRD in section XVIII. Key SPS- and TBT-related measures include the establishment of specific targets and harmonisation of selected national standards, both for SPS and TBTs; the establishment of a fisheries quality and management system; compliance with international good practices, standards, and international and regional requirements; strengthened test facilities and recognition of testing and certification; regulatory harmonisation; and mutual recognition of selected fisheries products.
- 3.40 On-going activities include the implementation of Guidelines for ASEAN Good Aquaculture Practices; the continued harmonisation of SPS measures; the agreement among the AMS on guidelines and measures to eliminate the use of harmful chemicals in aquaculture; and the strengthening of efforts to combat illegal fishing.

### *Trade Performance*

- 3.41 In terms of trade data, total ASEAN exports of fisheries products rose from US\$8.7 billion in 2004 to US\$20.5 billion in 2014, an increase of US\$ 11.8 billion or 135.3% (Table 3.7 and Figure 3.2). Of these, intra-ASEAN exports accounted for US\$0.8 billion in 2004 and US\$1.8 billion in 2014, an increase of US\$1.0 billion or 132.0%, while extra-regional exports grew from US\$8.0 billion in 2004 to US\$18.7 billion in 2014, an increase of US\$10.8 billion or 135.7%.

Table 3.7

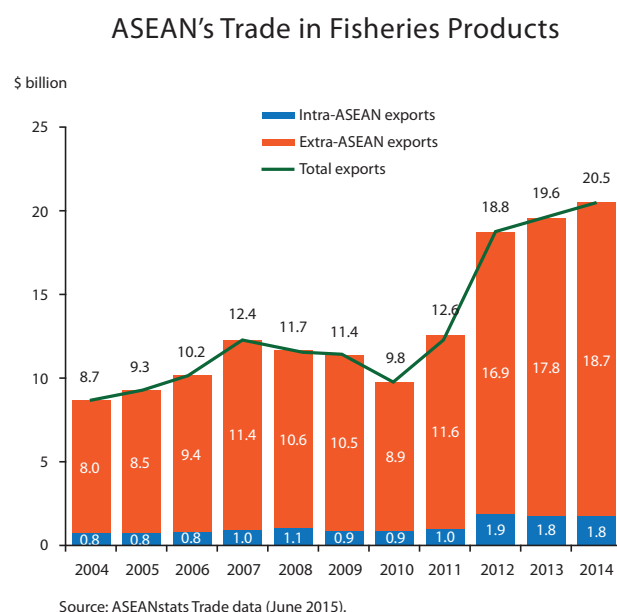
Export Performance of Fisheries Products 2004-2014 (US\$ million)

Fisheries Products	2004	2006	2008	2010	2012	2014	Change 04-14	% Change 04-14
Intra-ASEAN Exports	770.3	821.2	1,099.5	942.1	1,944.9	1,787.0	1,016.7	132.0%
Extra-ASEAN Exports	7,954.3	9,398.1	10,595.8	8,854.0	16,862.9	18,744.6	10,790.3	135.7%
Total Exports	8,724.6	10,219.3	11,695.3	9,796.1	18,807.8	20,531.6	11,807.1	135.3%
Intra-Trade Share	8.8%	8.0%	9.4%	9.6%	10.3%	8.7%	-0.1ppt	-1.4%

Note:  
ppt = percentage point.

Source: ASEANstats Trade data (June 2015).

Figure 3.2



- 3.42 At first glance, the comparatively low level of intra-regional trade, which has fallen slightly since 2004 (albeit surpassing 10% in 2012), suggests that the fisheries sector in ASEAN is currently more externally-orientated. This has arisen either with most ASEAN countries producing many of the same fishery products, or their domestic production being sufficient for domestic consumption.
- 3.43 Since the Fisheries Products Roadmap includes all relevant products there are no comparators for included versus excluded products.

#### Rubber-based Products

- 3.44 The most trade relevant sector-specific measures contained in the PIS Roadmap for Rubber-based Products are in section XVI. Testing facilities for rubber products in ASEAN; XVII. Harmonisation of standards and technical regulations; and XIX. R&D.
- 3.45 The harmonisation of standards and technical regulations and development of common testing facilities are separated in the Rubber-based Products Roadmap, but can be combined (in line with the other Roadmaps) and are among the most important areas of activity. On-going key measures include the harmonisation of standards and technical regulations based on international standards; the harmonisation of technical regulations in relation to safety, health and the environment; and the establishment of regionally accredited testing facilities and encouragement of rubber manufacturers to use these conformity assessment bodies. The development of MRAs is currently being investigated.
- 3.46 The harmonisation of product standards (specifications and test methods) and other technical requirements are being undertaken by the Rubber-Based Product Working Group under the ASEAN Consultative Committee for Standards and Quality (ACCSQ),



with activities (lead countries in brackets) focused on pacifiers/elastomeric teats/babies' dummies (Thailand); hoses (Indonesia); foam (Malaysia); rubber bearings (Malaysia); and non-UNECE automotive rubber-based products (the Philippines). Specific items for harmonisation of standards in the rubber sector by 2015 have been identified as follows:

- i. Development of specification standards for natural rubber latex foam which do not have an ISO standard;
- ii. Development of an ISO standard for bridge and seismic bearings initiated by ASEAN;
- iii. Harmonisation of seven ISO standards for hoses: ISO 5772, ISO 4641, ISO 4642-1, ISO 4642-2, ISO 2398, ISO 4079 and ISO 1403;
- iv. Harmonisation of five ISO standards on non-UNECE automotive rubber parts: ISO 4081, ISO 8789, ISO 11424, ISO 11425 and ISO 1436; and
- v. Harmonisation of 35 ISO Test Methods Standards and one specification.

### **Trade Performance**

- 3.47 In terms of trade data, total ASEAN exports of rubber-based products grew from US\$19.6 billion in 2004 to US\$51.1 billion in 2014, an increase of US\$31.5 billion or 161.0% (Table 3.8 and Figure 3.3). Intra-ASEAN exports accounted for US\$2.3 billion in 2004 and US\$6.9 billion in 2014, an increase of US\$4.6 billion or 203.9%, while extra-regional exports rose from US\$17.3 billion in 2004 to US\$44.2 billion in 2014, a rise of US\$26.9 billion or 155.4%. That is to say, the value of both intra- and extra-ASEAN exports of rubber-based products has grown, but with intra-ASEAN trade performing better in terms of its relative share.
- 3.48 The share of intra-regional exports in total exports for all rubber-based products increased from 11.5% to 13.4% between 2004-2014. The increase in share is more pronounced for included products; while not within the scope of the *AIR 2015*, this observed trend may warrant more detailed sectoral analysis on the scope for strengthening regional value chains for rubber-based products.

**Table 3.8**

**Export Performance of Rubber-based Products 2004-2014 (US\$ million)**

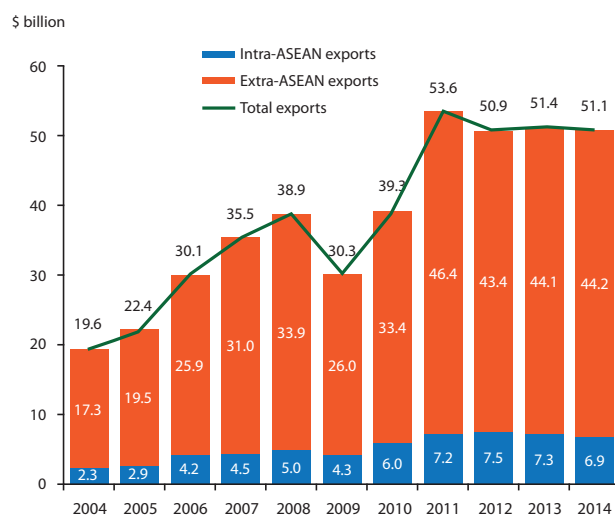
Rubber-based Products	2004	2006	2008	2010	2012	2014	Change 04-14	% Change 04-14
Intra-ASEAN Exports	2,258.8	4,213.3	4,970.1	5,954.3	7,511.2	6,865.2	4,606.4	203.9%
Extra-ASEAN Exports	17,308.0	25,876.8	33,905.9	33,360.1	43,384.7	44,210.3	26,902.3	155.4%
Total Exports	19,566.8	30,090.1	38,876.0	39,314.5	50,895.9	51,075.5	31,508.7	161.0%
Intra-Trade Share	11.5%	14.0%	12.8%	15.1%	14.8%	13.4%	1.9ppt	16.4%

Note:  
ppt = percentage point.

Source: ASEANstats Trade data (June 2015).

Figure 3.3

## ASEAN's Trade in Rubber-based Products



Source: ASEANstats Trade data (June 2015).

Wood-based Products

- 3.49 For wood-based products, the most trade relevant sector-specific measures contained in the PIS Roadmap are in section XV: this is for enhancing co-operation in timber products, under which the main activity was pursuit of the Pan-ASEAN Timber Certification Initiative (PACt), and for which a Working Group was established under the authority of SOM-AMAF (the Senior Officials Meeting that oversees ASEAN co-operation on Agriculture and Forestry).
- 3.50 The PACt was established to develop an ASEAN regional timber legality standard, requiring: (i) payment of all statutory charges; (ii) Convention on International Trade in Endangered Species (CITES) compliance; (iii) a system for tracking logs to the forest of origin (traceability); (iv) compliance with relevant laws and regulations; (v) compliance with the laws governing social and environmental aspects, i.e. workers' safety and health, and environmental impact assessments; and (vi) the presence of legal rights to carry out logging at the designated forest area based on an approved cut. The PACt was also expected to work on the basis of voluntary third party certification at the Forest Management Unit level. The ASEAN Guidelines for the Chain of Custody of Legal Timber and Sustainable Timber was developed in 2008, and formally published in 2011.
- 3.51 An additional principal reference point in terms of timber certification is the adoption of Forest Law Enforcement and Governance (FLEGT) systems in individual AMS. This is not a PIS initiative per se, but an ASEAN Regional Knowledge Network on Forest Law Enforcement and Governance that has been established, and Voluntary Partnership Agreements have been signed between the EU and Indonesia, Lao PDR, Malaysia, Thailand and Viet Nam.

- 3.52 Integration of the wood-based products sector in terms of product standards is being supported by the ASEAN Furniture Industries Council (AFIC), which also attends meetings of the Task Force on Wood-Based Products. On the proposed timber trade regulations and certification scheme in ASEAN, 34 ISO standards have been identified for harmonization: wood-based panels (12 standards); sawn timber (10 standards); and flooring products (12 standards). An additional 12 standards have also been identified in the second priority list making a total of 46 standards that have been identified for harmonisation. The Task Force is in the process of gathering information from the AMS on their national positions vis-à-vis adoption of these standards and the steps to be taken to align their national conformity assessment regimes.

### *Trade Performance*

- 3.53 In terms of trade data, total ASEAN exports of wood-based products grew from US\$14.1 billion in 2004 to US\$21.4 billion in 2014, an increase of US\$7.3 billion or 51.8% (Table 3.9 and Figure 3.4). Intra-ASEAN exports accounted for US\$1.1 billion in 2004 and US\$1.3 billion in 2014, an increase of US\$0.2 billion or 20.1%, while extra-regional exports rose from US\$13.0 billion in 2004 to US\$20.1 billion in 2014, an increase of US\$7.1 billion or 54.4%. That is to say, the value of both intra- and extra-ASEAN exports of wood-based products has grown, but with intra-ASEAN trade growing more slowly than trade with countries outside the region.
- 3.54 Overall, wood-based products that are included in the Roadmap (58% of total tariff lines of all wood products under the 2002 AHTN performed better than excluded products in terms of intra-regional exports.
- 3.55 The share of intra-regional exports as a percentage of total ASEAN exports of wood-based products decreased from 7.6% in 2004 to 6.0% in 2014. This indicates that wood-based products are in a sector that is currently highly orientated towards non-ASEAN markets and may be an indication of its international competitiveness in nominal terms (although a further study would be required). Pending a more detailed sectoral analysis, which is beyond the scope of the *AIR 2015*, there may be potential to increase intra-regional trade through the promotion of regional value chains.

**Table 3.9**

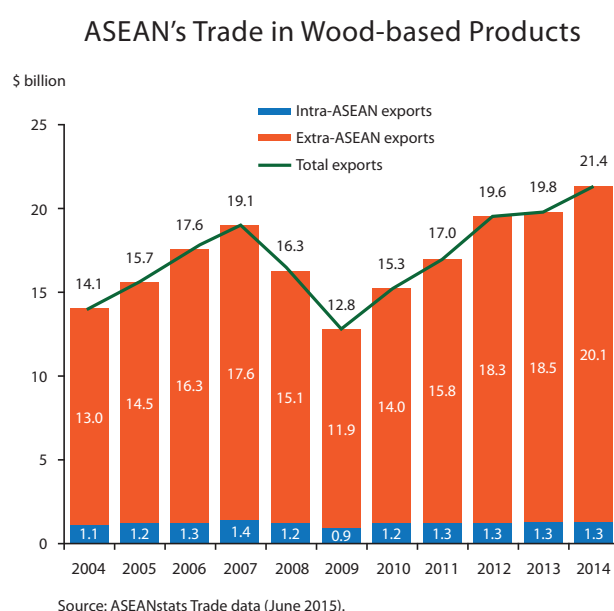
Export Performance of Wood-based Products 2004-2014 (US\$ million)

Wood-based Products	2004	2006	2008	2010	2012	2014	Change 04-14	% Change 04-14
Intra-ASEAN Exports	1,075.2	1,265.8	1,244.7	1,230.5	1,269.3	1,291.6	216.4	20.1%
Extra-ASEAN Exports	13,008.0	16,299.4	15,081.2	14,026.3	18,313.7	20,090.6	7,082.6	54.4%
Total Exports	14,083.2	17,565.2	16,325.9	15,256.8	19,583.1	21,382.2	7,299.0	51.8%
Intra-Trade Share	7.6%	7.2%	7.6%	8.1%	6.5%	6.0%	-1.6ppt	-20.9%

Note:  
ppt = percentage point.

Source: ASEANstats Trade data (June 2015).

Figure 3.4



### *Key Lessons from the Four NRB-PIS*

- 3.56 For three of the four NRB sectors there has been significant nominal and percentage growth in the value of exports over the 2004 to 2014 period, with the best performance registered by agro-based products (US\$70.8 billion at 245%), followed by rubber-based products (US\$31.5 billion at 161%), fisheries products (US\$11.8 billion at 135%), and wood-based products (US\$7.1 billion at 52%).
- 3.57 With the exception of fisheries products, the nominal US\$ value increase in extra-ASEAN exports products for the period 2004-2014 exceeds that of intra-ASEAN exports. This is unsurprising, given that the starting share of intra-ASEAN exports is much lower than that of extra-ASEAN exports, at around a quarter of regional exports across all sectors (i.e. total ASEAN exports).
- 3.58 In contrast, the impact of the PIS Roadmaps on growth in intra-regional trade, however, has been marginal, with slight increases in the share of intra-regional exports as against total exports between 2004 and 2014 for agro-based and rubber-based products. At the same time, the share of intra-regional exports of wood-based and fisheries products has declined relative to total exports between 2004 and 2014. While it might be intuitive to assume that this signalled the ineffectiveness of the PIS Initiative, in reality some NRB-PIS are outward orientated. Hence, the expectation of an increase in intra-regional trade share as an indicator of success may not accurately reflect the reality of some sectors. In fact, total export growth has been high, more than triple for agro-based products and more than double for rubber-based and fisheries products since 2004. This is an indication that ASEAN has to retain capacity to compete globally.

- 3.59 Moreover, for three of the four NRB PIS the included products coverage is partial, with some of the most intensively-traded products excluded. Comparing the performance of products included and excluded in each of the NRB PIS (using 2002 AHTN data) also showed little differentiation. This may have been due to tariff regimes at the time of the PIS formulation in the early 2000s but, given the subsequent drive to remove intra-ASEAN tariffs, such distinctions between included and excluded products appears to be no longer relevant in a post-2015 environment.
- 3.60 The subsection on the four NRB PIS assessed the qualitative achievement and quantitative impact of the implementation of the PIS Roadmaps. The following subsections in this Chapter will consider three case studies, including two priority integration sub-sectors relating to healthcare (namely cosmetics and pharmaceuticals) and electrical equipment and electronics (EEE). The more recent initiatives that may not be reflected in the 2004 PIS roadmaps will also be discussed.

### III. Cosmetics Priority Integration Sub-Sector

- 3.61 The ASEAN cosmetics industry is one sub-sector of the Healthcare PIS, and in a number of key respects has pioneered harmonisation processes as well as the collaborative approach between regulators and the private sector. It is an industry that lends itself to even deeper regional integration and the achievement of the AEC goal of a single market and production base. The other sub-sectors within the Healthcare PIS are medical devices, pharmaceuticals, traditional medicines, and health supplements and healthcare services.
- 3.62 'Cosmetics' includes a wide range of skin, hair and face products such as toilet soaps, bath and shower preparations, make-up for face, lips and eyes, shampoos and hair care products, deodorants, sun creams, skin-whitening and anti-ageing creams and the like. It covers the entire AHTN Chapter 33 and also part of Chapter 34 (34.01).
- 3.63 Under the Framework Agreement for the Integration of Priority Sectors, signed in November 2004, agreement was reached on the Sectoral Integration Protocol for Healthcare. This is in the same format as the other PIS Agreements and is also supported by a Roadmap, which comprises common and specific integration measures. Discussion of the common measures has been presented in the earlier section of Chapter 3. The Roadmap also specifies timelines for the various measures for cosmetics to be implemented as shown in Table 3.10.

Table 3.10

Cosmetics Sector-Specific Issues under the PIS Roadmaps

Measures	Implementing Body	Timeline
Accelerate implementation of the ASEAN Harmonised Cosmetic Regulatory Scheme (AHCERS), and automatic listing for cosmetics products	ACCSQ ASEAN Cosmetics Committee (ACC)	1 January 2008
Formalise a post- marketing alert system for defective or unsafe cosmetic products	ACCSQ ASEAN Cosmetics Committee (ACC) National Regulatory Bodies	Completed 31 December 2005

Source: ASEAN Secretariat (<http://www.asean.org/news/item/asean-sectoral-integration-protocol-for-healthcare>).

- 3.64 Both of these measures have been implemented by ASEAN cosmetics regulators and the industry and are considered in more detail below.

### *Implementation of Harmonisation and Integration Measures*

- 3.65 On the first measure, the ASEAN Economic Ministers (AEM) signed the Agreement on the ASEAN Harmonised Cosmetic Regulatory Scheme (AHCRC) at the 35<sup>th</sup> AEM Meeting in Cambodia in September 2003. The objective of the agreement is to harmonise regional systems and market opening.
- 3.66 The agreement provided for a two-phased approach:
- i. Phase 1: the ASEAN Mutual Recognition Agreement (MRA) of Product Registration Approvals for Cosmetics<sup>35</sup> (to be implemented on a voluntary basis); and
  - ii. Phase 2: the ASEAN Cosmetics Directive (ACD), based on the European model, which all AMS should implement by January 2008.
- 3.67 Phase 1 was implemented during the period 2003-2007 prior to the adoption of the ACD in 2008.
- 3.68 The overarching compliance by the industry and regulators with the essential requirements of the ACD provides for the key purposes of consumer protection, product safety and health, as well as product labelling and product information. The fact that the ACD has been transposed into national regulatory frameworks and therefore given full legal effect is fundamental and makes this a pioneering initiative in the context of the AEC.
- 3.69 There are three major regulatory processes that have driven the high level of harmonisation and coordination within the cosmetics sector in ASEAN. They are as follows:

### Transposition of the ACD into National Legislation

- 3.70 Since its adoption in 2008, there has been a high level of adherence by all the AMS in terms of implementing national regulations to bring the ACD into effect. This is a considerable achievement for the harmonisation of the sector and also from an AEC Scorecard compliance perspective. It is noted that each country has its own legislative process and therefore different legal instruments have been used to bring the ACD into effect; but, broadly, the net result is the same. The ACD is closely modelled on the 76/768 EC Directive, which has now been replaced by the new Regulation (EC) No 1223/2009. The ACD has adopted the technical content of the 76/768 EC Directive.

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<sup>35</sup> The AHCRC has two Schedules: Schedule A is the MRA and Schedule B is the ACD. It also has a large body of technical documents dealing with subjects such as definitions, labelling, registration, claims, guidelines on GMP, and allowed and excluded ingredients.

### Cosmetic Product Notification/Registration Procedures

- 3.71 One of the most important changes that have occurred from a regulatory perspective has been the move from a cosmetic registration to a notification system. In some AMS, prior to the entry into force of the ACHRS in 2003, there was no regulation or registration of cosmetics. By adopting the ACD there has been recognition by all stakeholders of the consumer safety aspects of placing cosmetics in the market. The regulation does not require pre-market registration and the obligation on suppliers is reduced to notification.
- 3.72 Nevertheless, there are still a number of differences between the systems as currently functioning in the AMS. The major one is whether there is an online or manual system. A few Member States receive and process notifications on paper and these have become cumbersome and inefficient as trade has grown and involve large numbers of notifications. However those AMS using a manual system intend to install online systems. Other differences include fees for notification, a validity period of notification, and maximum time for regulator to approve notification. These country specific processes are not regulated by the ACD, as the overarching approach is one of harmonisation leading to increasing conformity by the AMS.
- 3.73 With regard to placing notification numbers on labels, this is currently required by some AMS. The reasons given by regulators for this requirement include:
- i. Preventing counterfeit and illegal cosmetic products
  - ii. Protecting consumers and promoting consumer safety
  - iii. Protecting the entitlements of legitimate product owners
  - iv. Facilitating the work of Post Market Surveillance (PMS) inspectors
- 3.74 However, from the perspective of the industry, additional costs arise from the lack of standardisation in this regard, including due to the requirement for placing country specific notification numbers on products that are distributed across the region.

### Post Market Surveillance (PMS)

- 3.75 The ACD was modelled on EU regulations and prescribed a system based on notification by suppliers followed up by post market surveillance. Under the ACD, suppliers are required to both notify the regulatory authorities of the products placed on the market in each AMS and to maintain Product Information Files (PIF) containing product manufacturing, safety and quality information.



- 3.76 The ACD has removed the need for suppliers to obtain approval of their products prior to being placed on the market. Indeed, the ACD obliges regulatory agencies to assure safety and protect consumers through the PMS mechanism.
- 3.77 The PMS has been one of the most important elements of the ACD. It is also the one area that poses the greatest challenge to some among the AMS. It is observed that the text of the ACD does not provide precise details on which activities constitute a minimum obligation by the AMS. As a result, each AMS has developed its own PMS system. The degree and frequency of PMS also varies, depending on the resources available to the respective regulators or inspectors. In some instances, it also has to do with inter-agency arrangements and the degree to which the cosmetics regulator can or does take enforcement action.
- 3.78 An important part of PMS is the undertaking for PIF audits. Each AMS has its own internal systems for undertaking such audits. The ACD is not prescriptive in this regard. However, at ASEAN Cosmetics Committee (ACC) meetings, the AMS do provide briefings on their PMS activities.
- 3.79 There are reports from the AMS that some SMEs struggle to meet the full PIF requirements. This does not necessarily mean that their products are not of suitable quality but rather that firms find it difficult to understand and comply with requirements due to inadequate technical knowledge or resources. This is predominantly a national capacity building issue that can be facilitated by training and monitoring.
- 3.80 Laboratory testing capabilities are also an important part of PMS in terms of verifying banned or unsafe ingredients and the efficacy of a product claim. The ASEAN Cosmetics Testing Laboratory Committee has designated reference laboratories in four of the AMS. This network of laboratories facilitates product testing. However, in a number of the AMS there is a significant constraint due to inadequate laboratory testing facilities and technical knowledge.
- 3.81 Although the ACD has an annex for Good Manufacturing Practice (GMP) guidelines, the manner in which each AMS implements GMP is left open. GMP is, however, increasingly recognised by the industry as an essential element of a competitive marketplace and necessary for giving both regulator and consumer confidence in a given product.

### ***Institutional Arrangements***

- 3.82 The work of implementing the ACD is undertaken by the ACC, which was established in 2003 by the ASEAN Consultative Committee on Standards and Quality (ACCSQ), with the introduction of the AHCRS in the same year. The ACC is a joint public/private sector committee that meets twice a year, reports to the ACCSQ and debates and makes decisions on issues affecting the sector, in particular in the context of the ACD.

- 3.83 The ACC has two sub-committees: the ASEAN Cosmetics Scientific Body (ACSB) and the ASEAN Cosmetics Testing Laboratory Committee (ACTLC). The ACSB, which has been active for nearly as long as the ACC, focuses on technical implementation issues. It deals with topics such as updates to EU Cosmetics Regulations, product safety issues, regulatory approaches to concentrations of chemicals and ingredients, reviews of labelling guidelines and product risk assessments. The ACTLC has only been recently formed and focuses on issues arising from the ASEAN Cosmetic Laboratory network, along with ASEAN Cosmetic Test Methods (ACMs), analytical testing of ACMs and identification of reference materials. It also examines the validation of new proficiency testing including analytical testing and identification of baseline data.
- 3.84 At the industry level, there is the ASEAN Cosmetics Association (ACA), which represents national cosmetics industry associations. ACA is a member of the ACC and participates in all its meetings. However, not all AMS have established a national association so as to be represented as a member of the ACA. Once an official national association is established, it can then apply for membership of ACA. There are currently five national representative members.

### *Challenges*

- 3.85 Cosmetics regulators in the ASEAN region are faced with three major challenges:
- i. The ever-increasing number of cosmetics products entering the market from an ever-widening range of manufacturers and source countries (and marketing modes) with the requirement for a regulatory framework and process that can keep up with these changes.
  - ii. The requirement for robust, enforceable PMS systems backed by enforceable penalties.
  - iii. The need to balance support for local industry, in particular SMEs, with open trading markets for the benefit of both the economy and consumers.
- 3.86 Challenges faced by the industry include:
- i. Implementing GMP, particularly for SMEs.
  - ii. Broadening representation of the industry at the ACA to benefit all AMS.
  - iii. Developing products and product markets based on indigenous ingredients.
  - iv. Ensuring the self-regulation of product safety is maintained and non-conforming products are prohibited from the market.

### *Opportunities*

- 3.87 It is worth noting that the cosmetics sector is rapidly evolving. However, there is significant variation in the depth and spread of cosmetics enterprises within the AMS. Some AMS possess no significant domestic manufacturers, but only importers, distributors and retailers. Others have domestic manufacturers, with both transnational and local firms producing cosmetics. In a few cases, locally-owned manufacturers have even managed to get into the international export markets.
- 3.88 Transnational companies operating in ASEAN usually have their factories geared for both domestic and regional market supply. There are a number of examples of very significant investment by major international brands from manufacturing facilities in ASEAN countries, and this trend is likely to continue as economies and the middle-income consumer base grow.

### *Trade Performance*

- 3.89 The growth of ASEAN's cosmetics sector has been steadily increasing over the past 10 years. It shows three significant features:
- i. An increase of inward FDI into selected AMS, propelled by international corporations developing manufacturing capabilities to supply domestic and regional markets.
  - ii. The growth of locally-owned manufacturing capabilities, with larger enterprises now exporting regionally and internationally.
  - iii. The significant growth of intra-ASEAN trade in cosmetic products.
- 3.90 Intra-ASEAN exports for cosmetic products<sup>36</sup> have increased from US\$891.5 million in 2004 to US\$3.4 billion in 2014, or 282.6% over the period (Table 3.11 and Figure 3.5). The trend has also been steadily upward over the past decade, supported by the major cosmetics exporting countries within ASEAN: Singapore, Thailand, Indonesia, Malaysia, Viet Nam and the Philippines.
- 3.91 Over the period 2004-2014, ASEAN cosmetics exports to the external markets have increased from US\$1.7 billion to US\$6.5 billion, or 289.3% increase. The increased level of exports implies an increase in production by cosmetic manufacturers in ASEAN countries. At the same time the rapid growth of the consumer market has driven imports from a wide range of international suppliers.
- 3.92 Intra-ASEAN exports as a percentage of total exports have remained fairly consistent over the period 2004-2014, at about 35%. It reached a peak of nearly 39% in 2010 but has settled back around the long-term average since then.

<sup>36</sup> These include: AHTN 33: Essential Oils and Resinoids; Perfumery, Cosmetics or Toilet Preparations and AHTN 34.01: Soaps.

Table 3.11

Export Performance of the Cosmetics Sector 2004-2014 (US\$ million)

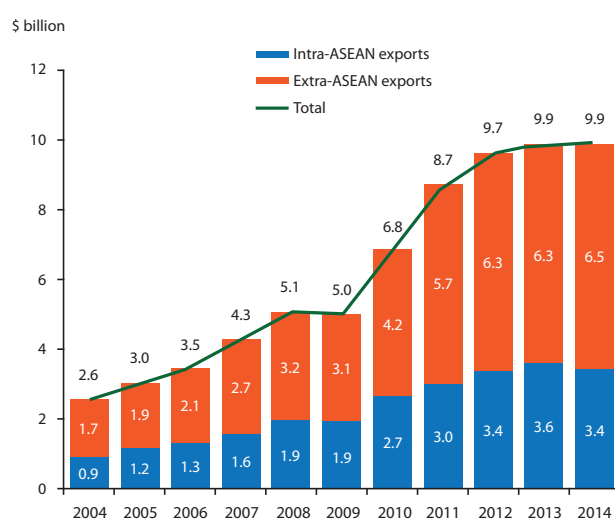
Cosmetics	2004	2006	2008	2010	2012	2014	Change 04-14	% Change 04-14
Intra-ASEAN Exports	891.5	1,330.5	1,919.8	2,655.2	3,372.7	3,411.0	2,519.5	282.6%
Extra-ASEAN Exports	1,672.1	2,124.0	3,168.3	4,193.5	6,277.6	6,508.8	4,836.6	289.3%
Total Exports	2,563.6	3,454.4	5,088.1	6,848.6	9,650.3	9,919.7	7,356.1	286.9%
Intra-Trade Share	34.8%	38.5%	37.7%	38.8%	34.9%	34.4%	-0.4ppt	-1.1%

Note:  
ppt = percentage point.

Source: ASEANstats Trade data (June 2015).

Figure 3.5

ASEAN's Trade in Cosmetics



Source: ASEANstats Trade data (June 2015).

### Key Lessons from the Cosmetics Priority Sub-sector

- 3.93 There are several key achievements in implementing the ACD. The ACD provides a functioning framework for mutual recognition of ingredients, a harmonised approach to product notification, as well as a strong institutional framework with a system of reference laboratories. It also facilitates a formal interaction between AMS regulators and the private sector and offers arrangements for post-market surveillance.
- 3.94 The ASEAN cosmetics sector demonstrates that regional harmonisation is driven by appropriate industry-sensitive and responsive regulation. This ensures consumer safety and regular collaboration at the policy and technical levels between the industry and the regulator and supports the development of a vibrant and competitive sector. The sector has, in general, avoided a tendency to either over-regulate or institute protectionist measures. There are positive lessons to be learnt from this approach by other ASEAN industry sectors aiming for regional harmonisation and market development.

#### IV. Pharmaceutical Priority Integration Sub-Sector

- 3.95 As with cosmetics, the ASEAN Pharmaceutical industry is a sub-sector within the Healthcare PIS. Pharmaceuticals cover a range of medicaments such as vaccines, antibiotics, antiseptics, analgesics and the like. They are covered by the AHTN, Chapter 30. The measures specific to pharmaceuticals contained in the PIS Roadmaps are shown in Table 3.12.

Table 3.12

Pharmaceutical Sector-Specific Issues under the PIS Roadmap

Measures	Implementing Body	Timeline
<b>Standards and Conformity</b>		
Study the feasibility of an ASEAN MRA for pharmaceutical / medicinal products.	ACCSQ Pharmaceutical Product Working Group (PPWG)	Completed: 30 December 2005
Implement the ASEAN Common Technical Dossier (ACTD)	PPWG	By 31 December 2008
Harmonise the labelling standards for pharmaceutical/medicinal products.	PPWG	By 6 March 2006 - (comparative study completed in Nov. 2006)
Explore the feasibility of adopting a harmonised placement system for pharmaceutical / medicinal products into the ASEAN markets.	PPWG	From 1 January 2007 - ongoing)
To facilitate the approval process for harmonisation of pharmaceuticals on a regional basis, the ASEAN-X formula can be applied. The recognition of the approval process can only be realised when Member States fully implement the ACTD.	PPWG	Beginning 1 January 2009
Explore the feasibility of implementing a flexible twinning system, where Member States voluntarily pair with one or other Member States to co-operate in enhancing mutual regulatory capacity and resource development.	PPWG	Completed: 31 December 2005
Formalise a post-marketing alert system for defective and unsafe pharmaceutical/medicinal products.	ACCSQ –PPWG National Regulatory Bodies	Completed: 31 December 2005

Source: ASEAN Secretariat (<http://www.asean.org/news/item/asean-sectoral-integration-protocol-for-healthcare>).

#### *Implementation of Harmonisation and Integration Measures*

- 3.96 The MRA and the ACTD are core aspects of the Roadmap within which considerable work has taken place through the PPWG. Other ongoing priorities include labelling post-market alert system and guidelines on GMP to enhance harmonisation of product placement in ASEAN markets.
- 3.97 The ACTD is a guideline on the agreed common format for preparing well-structured Common Technical Dossier (CTD) applications to be submitted to ASEAN regulatory authorities for the registration of pharmaceuticals for human use. The guideline describes a CTD format that will significantly reduce the time and resources needed to compile applications for registration and in the future, will ease the preparation of electronic documental submissions. The ACTD covers administrative data, quality, safety and efficacy with the attendant ASEAN Common Technical Requirements (ACTRs). The ACTD is part of the marketing authorisation application dossier that is

common to all the AMS, while the ACTR is the set of written materials intended to guide applicants to prepare application dossiers consistent with the expectations of all ASEAN Drug Regulatory Authorities.

### *Institutional Arrangements*

3.98 The PPWG is ASEAN's key technical body for this sector, working to harmonise, and if necessary, develop common technical documents and requirements appropriate and applicable to the ASEAN region, and with a view to achieving alignment with international technical documents and requirements. The scope of the PPWG is as follows:

- i. Develops regional strategies for the harmonisation of standards, technical requirements, guidelines and conformity assessment procedures for pharmaceutical products.
- ii. Oversees and monitors, where appropriate, implementation of harmonised initiatives and measures while also addressing the implementation gaps that may hinder achievement of the objective.
- iii. Identifies appropriate technical assistance and capacity building programmes to enhance capabilities for implementing harmonised approaches through close co-operation with Member States, stakeholders and Dialogue Partners within the framework for co-operation and harmonisation.

3.99 The PPWG started operating in 1999 under the auspices of the ACCSQ. The PPWG's objective is to be the focal point in ASEAN to facilitate development of strategies and integration initiatives or approaches to support the elimination of TBTs in pharmaceutical products without compromising the safety, efficacy and quality of pharmaceutical products in the ASEAN market.

3.100 The PPWG harmonisation process was initiated with an exchange and review of information on the existing pharmaceutical requirements and regulations of Member States. This has been followed by a comparative study of requirements and regulations, together with identifying key areas needed for harmonisation. A lead country is assigned, and an ad hoc committee appointed to draft the Guideline required for agreed technical harmonisation. The draft Guideline will in turn reference a recommended international guideline. Following this process, the Guideline is circulated to all AMS for comment. The resulting comments are then consolidated into a revised draft Guideline, which is submitted to the PPWG for discussion and a decision at its next meeting. Once consensus and an agreement are reached by the PPWG on the Guideline, endorsement is sought, via the ACCSQ, from the higher bodies within ASEAN. The AMS then endeavour to align their national technical requirements with the agreed Guideline on ACTR.

- 3.101 The adopted ACTR as well as recent Guidelines are given below:
- i. ASEAN Guideline on Submission of Manufacturing Process Validation Data for Drug Registration;
  - ii. Guidance on Process Validation Scheme for Aseptically Processed Products;
  - iii. Guidance on Process Validation Scheme for Terminally Sterilised Products;
  - iv. ASEAN Guideline for Validation of Analytical Procedures;
  - v. ASEAN Guideline for the Conduct of BA/BE Studies;
  - vi. ASEAN Guideline on Stability Study of Drug Products;
  - vii. Criteria for the Selection of ASEAN Comparator Products;
  - viii. ASEAN BE Study Reporting Format; and
  - ix. Standard Operating Procedures (SOP) for ASEAN Inspection Check Lists for BA/BE studies.
- 3.102 The implementation of the ACTD and the ACTR is being monitored by the Implementation Working Group (IWG), sub-committee of the PPWG, consisting of ASEAN Drug Regulatory Authorities as well as ASEAN Regional Drug Industry Associations.
- 3.103 The scope of pharmaceutical products covered by the PPWG includes New Chemical Entities, biotechnological products, major and minor variation products and generics.
- 3.104 The PPWG is equivalent to a steering committee, in that it serves in an executive capacity with responsibilities for decision making related to ASEAN pharmaceutical harmonisation, including the endorsement of ad hoc committees and adoption of technical guidelines. Certain policy documents may need endorsement by the ACCSQ but technical documentation endorsement by the PPWG is sufficient and its activities are duly supported by the ASEAN Secretariat.
- 3.105 The core membership of the PPWG includes the Chair and Co-Chair of the PPWG, representatives from the government agency responsible for pharmaceuticals regulation from each AMS and a representative from the ASEAN Secretariat. Additional delegates from Member States may participate in PPWG meetings as observers. In addition, the PPWG may invite ACCSQ members and experts, including representatives of the ASEAN pharmaceutical industry, its associations and other relevant organisations, such as the World Health Organization (WHO) or Dialogue Partners, to attend its meetings. The PPWG reports its proceedings and decisions to the ACCSQ.

### ***Challenges***

- 3.106 The implementation of the ASEAN harmonisation scheme in relation to the ACTD took longer than originally planned. After a trial period in 2003 and an attempt at implementation in January 2007, implementation was postponed until January 2009 to allow Member States' regulatory authorities to implement both the ACTD and the ACTR.



- 3.107 Country specific labelling requirements still remain, due to technical, cultural and political aspects regarding each AMS so it is not feasible currently to create one package usable in all ASEAN countries. A comparative study on labelling was completed in November 2006. The compilation of inputs from AMS, except Myanmar, on country specific labelling requirements, is available on the ASEAN website.
- 3.108 ASEAN pharmaceutical product registration requirements (under ATCD and ACTR) place special emphasis on product quality because the majority of pharmaceutical products reviewed by regulators are generic and consolidating information on quality as part of the ACTD facilitates any review. Furthermore, different interpretations of ACTR can create gaps in the implementation process. Development of a common SOP on implementation of ACTD and ACTR can assist AMS to ensure successful ACTD and ACTR implementation and evaluation.

### *Opportunities*

- 3.109 The PPWG is currently working on developing an MRA on a Bioequivalence (BE) Study Report. The establishment of a recognition arrangement will lead to mutual acceptance of BE study reports generated and produced by BE centres across ASEAN, which will be listed under the MRA. There are BE centres in several AMS which are producers of generic pharmaceutical products. A BE centre is needed to analyse the bioequivalence of a generic product with the ethical product prior to manufacturing the generic variety. Such recognition will enable the pharmaceutical industry to avoid the need for multiple study reports<sup>37</sup> for new generic drugs, facilitating intra-ASEAN trade and development of the generic drug industry.
- 3.110 Another key area is GMP. Acceptance of GMP certificates among AMS reduces the number of inspections conducted on manufacturers, while ensuring the quality of products traded in the region and increasing acceptance of the products manufactured within ASEAN. AMS adopted the ASEAN Sectoral MRA for GMP Inspection of Manufacturers of Medicinal Products in 2009, subsequently implemented in January 2011.
- 3.111 Under the MRA on GMP, all AMS are obliged to recognise and accept inspection reports and certificates issued by listed (accepted) ASEAN inspection services without duplicating GMP inspection in each other's territories. The Singapore Health Sciences Authority, Malaysia's National Pharmaceutical Control Bureau and Indonesia's National Agency for Drug and Food Control were the first three Listed ASEAN Inspection Services. The Food and Drug Administration of Thailand applied to be included in the List of Accepted ASEAN Inspection Services in June 2013 and became the fourth Listed Service with effect from 13 March 2015, following the 22<sup>nd</sup> PPWG Meeting. There are ongoing efforts to include more AMS organisations as listed Inspection Services.

<sup>37</sup> The elimination of the need for multiple study reports is dependent on the harmonisation of comparator products.

### Trade Performance

- 3.112 The pharmaceutical market in ASEAN was valued at over US\$25 billion in 2014, with Indonesia and Thailand currently the largest markets, with about 25% and 20% share, respectively, followed closely by the Philippines (with about 15%). Market analysts anticipate that the regional market value will experience a double-digit increase annually over the next few years. This is due to significant health reform initiatives and an increasing middle-income population. In parallel, there is also a focus on cost-containment, demonstrated by the rise in market share of generics and branded generics.
- 3.113 The pharmaceutical industry's intra-ASEAN exports have increased gradually from US\$305.2 million in 2004 to US\$1.11 billion in 2014 or a 265.8% increase (Table 3.13 and Figure 3.6). Extra-ASEAN exports in the pharmaceuticals industry experienced a significant increase in trade value between 2004 and 2014 from US\$2.3 billion to US\$10.4 billion or a 344.9% increase.
- 3.114 Intra-ASEAN exports as a percentage of total exports have remained reasonably consistent over the period 2004-2014 at 11%. It reached a peak of nearly 14% in 2008 but shifted back to just below 10% in 2014. This could indicate the increasing emphasis of pharmaceutical producers on penetrating international markets.

Table 3.13

Export Performance of the Pharmaceutical Sector 2004-2014 (US\$ million)

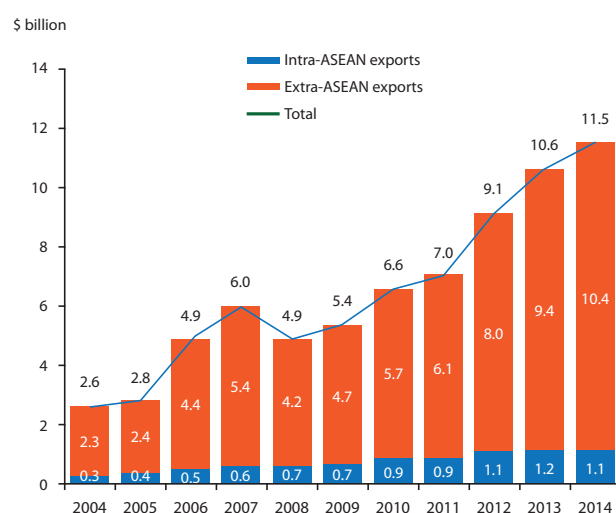
Pharmaceutical	2004	2006	2008	2010	2012	2014	Change 04-14	% Change 04-14
Intra-ASEAN Exports	305.2	498.8	673.4	873.4	1,086.4	1,116.6	811.4	265.8%
Extra-ASEAN Exports	2,337.2	4,373.8	4,216.4	5,697.1	8,029.2	10,399.1	8,061.9	344.9%
Total Exports	2,642.4	4,872.6	4,889.8	6,570.5	9,115.6	11,515.7	8,873.2	335.8%
Intra-Trade Share	11.6%	10.2%	13.8%	13.3%	11.9%	9.7%	-1.9ppt	-16.1%

Note:  
ppt = percentage point.

Source: ASEANstats Trade data (June 2015).

Figure 3.6

ASEAN's Trade in Pharmaceuticals



Source: ASEANstats Trade data (June 2015).

### *Key Lessons from the Pharmaceutical Priority Sub-sector*

- 3.115 The Pharmaceutical PIS is a dynamic and economically important sector in ASEAN that has shown rapid growth in recent years, and has attracted significant investment, both foreign and domestic. As the sector moves forward its key concerns will be:
- i. To work towards ensuring quality, efficacy and safety of drugs whilst trying to contain the escalating drug prices.
  - ii. To eliminate gaps among Member States on implementation of harmonised requirements for drug registration.
  - iii. To increase the number of listed inspection services in the MRA for GMP to enhance the capability of GMP Inspection Services in the ASEAN region, which in parallel minimises duplication of inspection activities.
  - iv. To allow mutual acceptance of BE Study Reports, to minimise the cost of manufacturing generic products, while facilitating the trade in generic products within ASEAN.
  - v. To better network, improve information sharing and enhance collaboration.

## **V. Electrical Equipment and Electronics Priority Integration Sector**

- 3.116 The EEE is among the original 11 PIS. The objectives for integrating the EEE sector, as specified in the sector Roadmap, are to: develop, strengthen and enhance the competitiveness of the sector and promote ASEAN as an integrated business platform; strengthen regional integration efforts through liberalisation, facilitation and promotion measures; and promote private sector participation.

- 3.117 The products covered in the Roadmap include electronic data processing equipment; electrical and electronic home appliances; medical and industrial equipment; telecommunication equipment; communications and radar; semiconductor devices; other machineries and equipment for the manufacture of semiconductors; and printed circuit boards<sup>38</sup>. The measures covered in the Roadmaps specifying EEE are shown in Table 3.14.

Table 3.14

## EEE Sector-Specific Issues under the PIS Roadmap

Measures	Implementing Body	Timeline
<b>Customs Procedures</b>		
Institutionalise RosettaNet or other internationally compatible system in ASEAN for the exchange of trade documents.	CCC/Customs Procedures and Trade Facilitation Working Group	31 December 2007
Implement 24x7 customs operations, as may be applicable or deemed feasible, through operationalisation of systems of electronic processing and those similar on the basis of the ASEAN Cargo Processing Model.	CCC/Customs Procedures and Trade Facilitation Working Group	31 December 2007
Implement the ASEAN Customs Declaration Document and measures of trade facilitation.	CCC/Customs Procedures and Trade Facilitation Working Group	31 December 2007
<b>Investment</b>		
Intensify regional investment promotion activities by focusing on ASEAN's competitive advantage which includes a large manufacturing base and a long established presence of MNCs, vis-à-vis other investment locations.	CCI	Ongoing
Undertake regional investment promotion activities such as the following: (i) ASEAN Electronic Database; Joint ASEAN Electronics Investment Promotions Collateral; and (iii) regular ASEAN Electronics Investment Forum.	CCI, ASEAN Electronics Forum (AEF) and relevant boldies	Beginning December 2006
<b>Market and Production Base Integration</b>		
Promote intra-ASEAN trade and increase outsourcing for electronics through: (i) linking existing individual Member State's database; (ii) enhancing ASEAN Supporting Industries Database to become more user-friendly; and (iii) holding regular trade exhibitions with Reverse Trade component, where applicable.	AEF, CCI and SMEWG	Beginning December 2006 for (i) and (iii); beginning December 2007 for (ii)
<b>Standards and MRAs</b>		
Accelerate the implementation of MRAs for electrical and electronic equipment	ACCSQ	Beginning December 2005
Harmonise technical regulations for electronics and electrical sector in ASEAN	ACCSQ	31 December 2010
Ensure transparency or regulatory schemes in ASEAN	ACCSQ, AEF and other relevant Bodies	Ongoing
Cooperate in capacity building in terms of testing and accreditation	ACCSQ and AEF	Ongoing
<b>Capacity Building</b>		
Develop and promote ASEAN centres of excellence in the areas of R&D, design and prototyping, outsourcing from within ASEAN	WGIC and AEF	Beginning 30 June 2005
Promote networking of electronics skills development entities to explore possible collaboration among these entities	WGIC and AEF	Beginning December 2007

Source: ASEAN Secretariat.

<sup>38</sup> EEE includes products from AHTN 39, 71, 73, 84, 85, 90, 91 and 95.

### *Implementation of Harmonisation and Integration Measures*

- 3.118 There are several important initiatives focused upon by the EEE sector. In April 2002, the AEM signed the ASEAN Sectoral Mutual Recognition Arrangement for EEE (ASEAN EEE MRA). The MRA provides for recognition of test results and product certifications conducted by listed testing laboratories and certification bodies, respectively, in ASEAN thereby allowing the products tested and certified in the source country to verify compliance of the products to the importing country requirements prior to export. This saves costs and reduces time to market of an EEE product without compromising consumer safety and product quality.
- 3.119 The EEE sector has progressed beyond the MRA. While the ASEAN EE MRA is an effective tool for facilitating the entry of the product to the importing country, it does not fully address the existence of technical barriers with different national standards still in existence, and different conformity assessment procedures that apply for the same EEE product.
- 3.120 The Agreement on ASEAN Harmonised Electrical and Electronic Equipment Regulatory Regime (AHEEERR) was signed in December 2005 by the AEM to integrate the EEE sector in the area of standards and conformity assessment. Under the AHEEERR, the essential requirements for EEE have been defined, including health, safety and electromagnetic compatibility. Common standards are to be used for a particular EEE product, to accompany common conformity assessment procedures. An ASEAN risk assessment guideline for EEE has also been developed as a basis for a common approach to determining the risk level of EEE, while an appropriate conformity assessment regime will be applied throughout the AMS.
- 3.121 To date, there have been 121 international standards identified as meeting the essential requirements of the AHEEERR. In the absence of an international standard, relevant regional or national standards may be used. However, if necessary, the Joint Sectoral Committee (JSC) for EEE may supplement the listed standards with mutually-agreed harmonised regulatory requirements. If different editions of international standards are being used by the AMS, or more than one standard can be applied, then the JSC EEE may consider listing more than one standard.
- 3.122 The AHEEERR places demands within several areas which are interrelated: the creation of harmonised standards ensuring the ER are met; the ability to harmonise conformity assessment in its broader context of measurement, methodology, certification and accreditation; the operation of effective post-market surveillance to protect consumers; and the essential compliance with any MRA. The failure to address issues in any one of these areas would compromise the operation of the AHEEERR. In this regard the JSC has the following guidelines in place, to date:

- i. Listed Mandatory Standards that meet the essential electrical safety requirements of the AHEEERR.
- ii. Guidelines to determine the type of Conformity Assessment Regime based on the risk assessment for EEE.
- iii. Guidance notes on the applicable Conformity Assessment Regime for the AHEEERR.
- iv. Post-Market Surveillance Guidelines on EEE.

3.123 These guidelines were developed by the JSC on EEE for the implementation of AHEEERR. It is anticipated that more guidelines will be developed to provide clarity on implementation. Areas include such requirements as essential standards for electromagnetic compatibility and environmental protection.

### ***Institutional Arrangements***

3.124 Implementation of the AHEEERR and the ASEAN EE MRA is overseen by the JSC that comprises representatives of the regulatory authority of each AMS. The JSC reports to the ACCSQ. Its predecessor was the Electrical Products Working Group, which was formed in 1999 and renamed as the JSC in 2003. The first JSC EE was set up to implement the ASEAN EE MRA. When the AHEEERR was signed, a committee was required for its implementation, hence, the JSC EE transposed itself into the JSC EEE to implement both the ASEAN EE MRA and AHEEERR.

3.125 Under the ASEAN EE MRA, any EEE product that has been tested or certified by a listed testing laboratory or certification body, respectively, would be accepted as having met the regulatory requirements of the importing AMS. As of June 2015, 16 testing laboratories and 5 certification bodies from five AMS were listed. As yet there have been no listed certification bodies from Brunei Darussalam, Cambodia, Lao PDR, Myanmar or the Philippines. Two testing laboratories from the Philippines are under process for listing.

3.126 A number of private sector business associations are specifically focused on the EEE sector. They currently operate in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. As yet, there is no umbrella or apex ASEAN organisation representing the sector although the Asia Electronics Forum (AEF) has representation from some national associations. The AEF has met annually since 2004 as a venue for business associations representing the electronics sector to discuss and exchange views on important issues affecting electronics industries in the region. There is also the ASEAN Supporting Industries Database, a private enterprise-run data repository that includes information on electrical and electronics suppliers and is accessed through a membership-based system.

### ***Key Findings***

- 3.127 Despite being signed in 2005, the AHEEERR has not been fully implemented. Six AMS have completed transposition of national legislation to meet the requirements of the AHEEERR. The remaining AMS that have relevant national legislation are in the process of transposing their legislation accordingly, while currently two have no EEE regulatory regime.
- 3.128 The ASEAN EE MRA allows the AMS to maintain their EEE regulatory regimes. Listed testing laboratories and certification bodies have to test and certify EEE according to the different mandatory requirements of participating AMS. The AHEEERR leverages on the ASEAN EE MRA by accepting test reports and certifications authorised through listed testing laboratories and certification bodies.
- 3.129 In working to implement the AHEEERR, the JSC EEE has completed its listing of harmonised standards, risk assessment and post-market surveillance guidelines, which then need to be adopted by the AMS in their national regulations. The JSC EEE is working with Member States to provide risk ratings, based on the consensus assessment guidelines required for adoption of either ISO Certification System 1 or 5 according to the agreed list of regulated EEE.

### ***Challenges***

- 3.130 The challenges in the implementation of the AHEEERR are twofold. First, for the remaining two AMS with EEE regulatory regimes to complete their transposition to meet the AHEEERR. Second, for the JSC EEE to reach a consensus on which ISO Certification System to use. There is also a shared requirement among all AMS to establish a common system and procedure related to conformity assessment and regulation.
- 3.131 Full implementation of the AHEEERR implies deeper market integration. The AHEEERR advocates one standard, one testing regime, one certification procedure and acceptance by all AMS of a regulated product. This would address the issue of harmonising standards by using listed standards (e.g. the JSC EEE has listed standards for 121 regulated EEE) and thereby reduce compliance costs by eliminating different standards or different editions of the same standards for each type of regulated EEE.

### ***Opportunities – Narrowing the Gap***

- 3.132 For the CLMV countries there are ongoing activities related to the AHEEERR. Cambodia has an EEE regulatory regime and its government has signed the national proclamation in January 2015 on Management and Safety Requirement for Electrical



and Electronic Equipment to meet AHEEERR requirements. Lao PDR has no regulatory regime on EEE. Under Article 4.3 of the AHEEERR, the country is not required to introduce a regulatory regime on EEE. However, both Cambodia and Lao PDR have plans to enact laws to meet the requirements of the AHEEERR.

- 3.133 Each of the CLMV has different needs going forward. These include: (i) enhancing market surveillance and safety alert systems; (ii) reviewing laws on EEE and, if necessary, enacting new decrees to meet the requirements of AHEEERR; (iii) generating awareness among stakeholders of both ASEAN EEE MRA and AHEEERR; and establishing a regulatory authority to regulate EEE and a testing laboratory on EEE where this does not exist.

### *Trade Performance*

- 3.134 Intra-ASEAN exports for the EEE industry showed a relatively modest increase from US\$51.1 billion in 2004 to US\$55.5 billion in 2014 (Table 3.15 and Figure 3.7). The largest exporting countries in this sector include Singapore, Malaysia, Thailand, Indonesia and Viet Nam.
- 3.135 The extra-ASEAN exports for the EEE industry indicated a consistent increase from 2004 to 2014 from US\$174.7 billion to US\$233.6 billion. ASEAN has experienced significant positive trade balances in this sector.
- 3.136 Intra-ASEAN exports as a percentage of total exports have remained reasonably consistent over the period 2004-2014, at about 22%. Intra-ASEAN exports reached a peak of 25% in 2008 but the figure has fluctuated around the long-term average since then, before shifting down to just above 19% in 2014. This could indicate the sector's increasing role in the global value chains and the sector's increased access to international markets.

Table 3.15

Export Performance of the EEE Sector 2004-2014 (US\$ million)

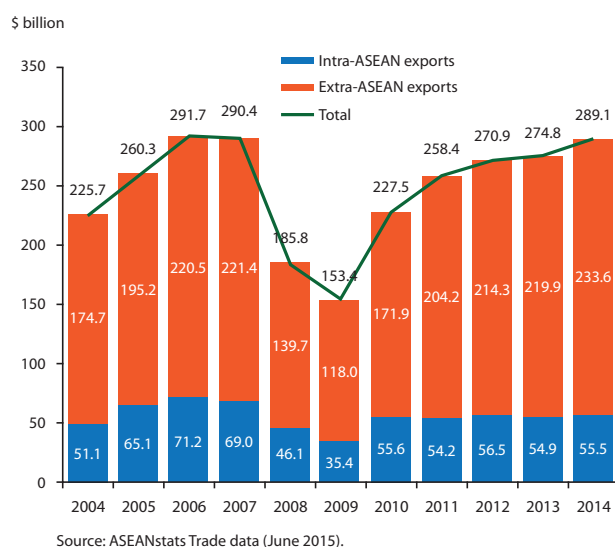
EEE	2004	2006	2008	2010	2012	2014	Change 04-14	% Change 04-14
Intra-ASEAN Exports	51,061.4	71,208.3	46,119.8	55,564.1	56,548.3	55,512.4	4,451.0	8.7%
Extra-ASEAN Exports	174,686.2	220,501.6	139,726.6	171,913.9	214,339.5	233,629.4	58,943.2	33.7%
Total Exports	225,747.6	291,709.8	185,846.4	227,478.0	270,887.8	289,141.9	63,394.3	28.1%
Intra-Trade Share	22.6%	24.4%	24.8%	24.4%	20.9%	19.2%	-3.4ppt	-15.1%

Note:  
ppt = percentage point.

Source: ASEANstats Trade data (June 2015).

Figure 3.7

## ASEAN's Trade in Electrical Equipment and Electronics

**Key Lessons from the Electrical Equipment and Electronics PIS**

- 3.137 An effective ASEAN regulator in an increasingly global market place implies the need for adopting and implementing hazard alert systems and risk management models, combined with standards based on international guidelines aligned across similar domestic infrastructures, with the application of conformity assessments. The ASEAN EEE regulatory sector is making steady progress in this regard, but it also bears acknowledging that it is operating in one of the largest and most dynamic regional environments. Therefore, considerable resources need to be provided to regulators to remain cognisant of technological advances, as well as to be able to respond to changes or improvements in international standards regimes.
- 3.138 Global supply chains dominate the EEE sector, involving design, R&D, production, transportation, marketing and distribution and assembly of the many precision components that make up the final product. The process of manufacturing is complex and fragmented, involving different suppliers or firms operating within ASEAN and elsewhere. Some suppliers manufacture a single-sourced component, while others manufacture a number of different components from facilities they own in ASEAN and non-ASEAN countries for one or multiple customers.
- 3.139 An increasing number of indigenous ASEAN companies are participating in the region's value chains, many of which started as small firms, suppliers or contract manufacturers. Over time, they grew larger and gained experience operating as suppliers to international companies. These ASEAN firms form an important group of players, contributing to development of a competitive support industry within the region's EEE industrial cluster. Regional integration provides these firms with an opportunity to co-ordinate with and connect within the value chains more efficiently, benefitting from their business strengths to match location advantages offered in the region.

- 3.140 Going forward, the JSC EEE is continuing to focus on the issue of safety for consumers and users and reduction of compliance costs to benefit both suppliers and consumers. In addition, there is a need to expedite full implementation of AHEEERR to achieve deeper ASEAN market integration in the EEE Sector.

## **VI. Recommendations on the PIS**

- 3.141 Chapter 3 has looked at the achievements and impact of a sectoral approach in the AEC, focusing on the PIS. It has assessed the integration outcomes of the four NRB-PIS, as well as the Cosmetics and Pharmaceuticals healthcare sub-sectors and the EEE sector, particularly on trade performance and qualitative achievements. The analysis revealed that although trade has been growing across the board in nominal and percentage terms since the implementation of the PIS Roadmap, there has been no distinct advantage in terms of the promotion of intra-regional trade. Looking closely at the product lists of the NRB-PIS, no significant difference has been detected between the performance of excluded and included products.
- 3.142 The findings confirm that tariff reductions, begun in 1992, have progressed as expected, lessening any additional impact on intra-regional trade of tariff-focused integration measures at the sectoral level. The criteria and scope of the product lists were not expressly stated (i.e. whether they were formerly drawn up based on the trade regime at the beginning of the PIS Initiative and whether they were applicable beyond tariff-related PIS measures). In the case of cosmetics, pharmaceuticals and EEE, for example, recent initiatives do not seem to be strictly guided by the product lists, and likewise for initiatives on prepared foodstuffs and food security. That the PIS Roadmaps have never been reviewed since their adoption would partly explain the reduced relevance of the lists.
- 3.143 As intra-regional tariffs fall, sectoral approaches to economic integration may also be more sustainable within a broad sectoral perspective, focusing on those products that are commercially viable, without any truncation of the coverage early in the process.
- 3.144 However, efforts in other areas linked to the establishment of a single ASEAN market and production base, including the harmonisation of standards and quality infrastructure, are works in progress and could be intensified. Further, common measures are largely dealt with by cross-cutting bodies and ASEAN agreements dealing with trade in goods, services, investment, to name a few. The current scope of the PIS Roadmaps is broad and perhaps thin. It may be argued that, for the future, a sectoral approach could focus more on smaller numbers of sector-specific measures but with an emphasis on the greatest impact areas, such as the removal of NTBs and greater transparency of NTMs.

3.145 In terms of process, regular reporting on updates of activities in the PIS has been carried out by different country co-ordinators. There is also no specific unit or official in charge of coordinating and monitoring the PIS within the ASEC. This makes regular, even and comprehensive monitoring across PIS a challenge. Further, the PIS Roadmaps were developed in 2003 (and a few years later for logistics services) and there were no official processes of review or updating. This has added to the complexity of monitoring the status, progress and effectiveness of the PIS Roadmaps, as stipulated in the AEC Blueprint. That said, more successful lessons can be found in recent sector and issue-focused initiatives, an example of which is ASEAN's work on food security and prepared foodstuffs, which were pursued independently off the PIS Initiative.



## Annex 3.A

# Data and Methodology

The explanatory notes presents an overview of ASEAN's international merchandise trade (IMTS) data including coverage and time of recording, sources of data, system of trade employed, commodity classifications, partner country, reporting and dissemination as well as revision procedures. It also discusses the data processing methodology undertaken to perform the analysis on the PIS.

### **I. International Merchandise Trade Statistics (IMTS)**

#### *i. Data sources*

The International Merchandise Trade Statistics refers to merchandise trade between ASEAN countries and the rest of the world. The IMTS data are compiled primarily from the ASEAN Member States Statistics Office and other national trade data institutions.

#### *ii. Reporting period*

The data contained in the IMTS are derived from the data submitted to ASEANstats quarterly and are compiled on a calendar year basis (i.e. January to December). The data are recorded in the calendar month in which the customs procedures have been completed. This, at times, may result in discrepancies between the data published by ASEANstats and those obtained from other sources.

#### *iii. Coverage*

The trade figures represent ASEAN's merchandise trade primarily based on the 'General System' of trade as defined by the United Nations Statistics Department (UNSD).

#### *iv. Classification systems*

The import and export data are recorded using ASEAN's adaptation of the Harmonised Commodity Description and Coding System (HS). Currently, the data are being recorded using ASEAN's adaptation of the Harmonised System 2012 version (HS2012) referred to as ASEAN Harmonised Tariff Nomenclature (AHTN).

#### *v. Partner countries*

Exports are assigned to the 'Country of Last Known Destination', which is the final country to which the goods are to be shipped from ASEAN without, as far as known, any commercial transaction in an intermediate territory, irrespective of whether or not bulk has been broken in the course of transport. Imports are credited to 'Country of Origin or Manufacture' or, where origin cannot be established, to the country of consignment.

vi. *Rounding of figures*

The figures are rounded to the nearest million. As a result, addition of the rounded figures may not always exactly agree with the rounded totals.

vii. *Revision procedure*

IMTS data submitted to ASEANstats sometimes contain preliminary figures. These figures are subsequently revised and published in the IMTS Annual Report. The figure is considered as final in November of the following year.

## **II. Priority Integration Sectors (PIS) Data Processing**

The PIS commodity codes are defined based on the AHTN code. The AMS have committed to applying the AHTN up to the 8-digit level for all trade transactions both at the intra- and extra-ASEAN levels. The ASEAN Working Group on IMTS has also committed to submit the data in AHTN 8-digit. However, in practice, this has been challenging to achieve, as some AMS are party to trade agreements using other tariff nomenclatures, and/or have obstacles when migrating data to the AHTN. The 2002 AHTN has been updated twice, in 2007 and in 2012. The product lists contained in the PIS Roadmaps refer to the 2002 AHTN, and for data processing purposes, the most recent AHTN (i.e. 2012) will be used as the base.

More specifically, the following is the methodology adopted in processing data used for trade performance analysis in Chapter 3.

- i. The list of products has been defined in the form of AHTN2002 8-digit codes which are then converted to AHTN 2012.
- ii. For the years 2004-2009, the ASEANstats database contains only 6-digit codes. Therefore, the list of distinct HS 6-digit codes was built based on the list provided by AHTN2012 8-digit codes. The extraction of data is based on this 6-digit codes list.
- iii. For the years 2010 and 2011, the database includes 8-digit AHTN2007 codes with the exception of data on Malaysian trade with non-ASEAN partners.
- iv. For data from 2012 and beyond, AHTN2012 codes are used.
- v. Using conversion tables, a list of AHTN2012 codes was built based on the AHTN2002. The list is then used to extract 2010-2014 data for each 8-digit code. In cases where only 6-digit data was available, a 6-digit code list was used.
- vi. After all the data have been extracted, these were aggregated at the 6-digit level.



## Chapter 4

# The Way Forward

- 4.1 ASEAN's regional integration agenda has progressed significantly towards the establishment of the AEC by 2015. Focusing on the implementation and impact of measures across the four pillars of the AEC, the *AIR 2015* assessed the progress and achievements to date, while identifying some of the gaps and challenges to be addressed for the future. In the theme chapter on the PIS (Chapter 3), the *AIR 2015* also assessed the progress made through and the achievements of the sectoral approach to regional economic integration in select priority integration sectors and sub-sectors, namely the four NRB-PIS of agro-based products, fisheries, rubber-based products and wood-based products, the cosmetics and pharmaceuticals priority integration sub-sectors (as part of the Healthcare PIS) and the EEE PIS. The *AIR 2015* evaluated the broad impact of these efforts using a number of outcome-based indicators from both internal and external sources.
- 4.2 As the flagship report of AIMO, the *AIR 2015* signifies the on-going effort to enhance the AEC's monitoring system, particularly to support the AEC post-2015 agenda. It has often been challenging to carry out one-to-one mapping between certain measures and specific outcomes, and more so, quantifying with exact precision which policies contributed the most in engendering these outcomes. However, by qualifying the timeframe and choice of indicators, it is hoped that a justifiable explanation has been offered.
- 4.3 At the macro-level, ASEAN's economic performance remained resilient in the face of several external challenges, from the moderation in major external markets to falling oil prices. To a certain extent, this resilience has been influenced by the economic integration initiatives embodied in the AEC. This is evident in the sizeable impact of trade and FDI for promoting overall regional growth as well as stimulating structural transformation across economies.
- 4.4 On trade in goods, commendable achievements in tariff liberalisation have been verified, bringing the region closer to the goal of the free flow of goods. There has also been an indication that the intra-regional preference utilisation rate has been consistently increasing, albeit from a low base since 2007. Other efforts are underway to lower the costs of cross-border trade, including through trade facilitation initiatives such as the simplification of customs procedures and rules of origin, harmonisation of standards, and other co-operation and promotion initiatives. ASEAN's merchandise trade has recorded a consistent, marked increase through the

period under observation. The relatively stable share of intra-regional trade, however, has led to questions on the efficacy of the ASEAN economic integration agenda, often without due consideration of the significant rise of total trade and success of intra-regional trade in keeping in step with the overall growth trend. At around a quarter of total trade, the intra-ASEAN market is still the largest regionally for both exports and imports, even when compared with its largest external trading partners.

- 4.5 The introduction of the ATIGA is commendable on addressing barriers to trade in goods in a more holistic manner. With the good progress made in tariff elimination, the benefits of market integration for goods can be further maximised. This can be done with the timely realisation of other complementary initiatives, such as those related to the ASEAN Single Window, the ASEAN Trade Repository and the ASEAN-wide Self-Certification Initiatives. Efforts also need to be redoubled in expediting the setting up and operationalisation of a system to address NTBs and the barrier effects of NTMs, with recent concrete steps marking a noteworthy start.
- 4.6 Although beginning from a lower base, the intra-regional services trade has been picking up pace in recent years, with exports growing faster than imports and a pattern of narrowing deficits. The services sector has generated a significant contribution to some economies in the region and has been the main sector attracting FDI in the region. Further, there has also been growing recognition of the role and importance of services for facilitating and enhancing participation in global value chains. With services no longer seen as ancillary to goods value chains, but rather as yet another source of innovation and value added, a competitive services sector will be imperative for effective participation in global value chains. Going forward, there is scope to deepen services beyond liberalisation commitments. The issue of regulatory co-operation, for example, should be given due consideration.
- 4.7 The region has made progressive commitments on services liberalisation under AFAS. ASEAN's commitments in terms of numbers of subsectors and depth of commitments have progressively and significantly improved over time. Commitments under AFAS are significantly above those offered under the GATS and even the WTO Doha Round, but not necessarily beyond the applicable non-preferential regime in many AMS and across sectors. This implies that the impact of AFAS may become more profound in terms of ensuring regional policy certainty. The fact that AFAS provides the region with an evolving negotiating framework on services is in itself an achievement and this has then been adopted in the region's negotiations with some Dialogue Partners. As the removal of formal restrictions in services continues to progress, greater regional policy implementation will contribute meaningfully to the objective of free flow of services.

- 4.8 Advances in the implementation of ASEAN's policy agenda on FDI have, in one way or another, transformed the investment environment in the region towards achieving the goal of a free and open investment regime. The region proved to be the preferred destination of foreign investment, especially shortly after the 2008 crisis, exhibiting positive growth at a time when FDI inflows contracted in many developed and developing economies. The total FDI inflows into the ASEAN region has kept steady, progressively recovering from the downturn in 2008 and reaching US\$136.2 billion in 2014. The intra-ASEAN component of the region's total FDI inflows shows that ASEAN accounted for about 17%, on average from 2007 to 2014, of total FDI inflows in the region. Firms, including MNCs, are already demonstrating a shift in their investment strategies towards a more regional orientation. Cross-border mergers and acquisitions activities have also increased in recent years, with a greater share of ASEAN firms in total acquisitions. An increased interest among firms for expanding their regional presence should be further nurtured by a holistic approach to investment policy making and continued improvements in the region's investment policy regimes and environment.
- 4.9 In recognising the critical role that an effective financial market plays towards the achievement of AEC goals, ASEAN has advanced several initiatives and measures to facilitate and support the financial integration agenda in the region. The foundation was laid by the RIA-Fin that provided clear goals to be achieved and this was then further strengthened by the adoption of AFIF. Given the interdependence of financial markets, however, efforts need to be advanced in a cautious and prudent manner to avoid any adverse shock to economies. Also, the large development gap among the AMS calls for a more progressive liberalisation process that takes into consideration differing levels of readiness across the AMS. Moving forward, the priority should be to continue dialogues among the AMS, carry out capacity building and technical assistance for the AMS to implement necessary measures to harmonise the regulatory framework across the region as well as improve the necessary infrastructure for further development and integration of the sector. More engagement with the private sector will also help ensure that the direction taken by the ASEAN financial sector authorities is the right way to go and provides impetus for market participants to utilise opportunities offered by the AEC.
- 4.10 MRAs are seen as the main policy tool for skilled labour mobility in ASEAN. The ASEAN MRAs adopt different approaches, reflecting the differing realities across economies and sectors. There have been considerable advances in implementing some of the concluded ASEAN MRAs including on architectural services and engineering services, there is still more to be done to ensure that AMS regulatory regimes are consistent with AMS provisions. MRAs provide a regional framework for skilled labour mobility, taking into account relevant domestic regulations and market demand conditions. The full benefits from MRAs can be realised through legal transposition and effective implementation.

- 4.11 ASEAN has also made great strides in boosting the region's economic competitiveness, including by establishing agreements to facilitate the movement of goods and people. The finalisation of outstanding protocols as well as ratification and transposition of signed agreements are critical for ensuring optimal realisation of the benefits of these agreements. Energy co-operation will contribute to better energy connectivity, ensuring accessibility, affordability and sustainability to all. Mobilisation of resources to step up implementation of the ASEAN Power Grid, and the projects in the ASEAN Connectivity Master Plan more generally, remain priorities. ASEAN should also expedite measures to strengthen the business-enabling regulatory framework, including efforts to achieve effective competition regimes, further strengthen a common ASEAN consumer protection framework and facilitate regional co-operation when drafting legislation and enforcement procedures in the IPR.
- 4.12 In striving towards the objective of equitable economic development, ASEAN has focused its efforts under AEC 2015 on two sets of issues: NDG mainly through the IAI as well as the AFEED and on SME development. On the former, a key challenge in operationalising the existing frameworks is to clearly define a set of focused development goals that should be worked towards, while operating within the context of enhancing regional economic integration. On the latter, while there is much room for growth in ASEAN's inclusive policies and initiatives for SMEs, additional efforts towards having an SME development strategy that incentivises and supports SMEs' contribution in value creation would be equally important for the post-2015 agenda.
- 4.13 As the region contemplates the formal establishment of AEC 2015, ASEAN has made great strides in pursuing coherent external economic relations. The benefits from the existing FTAs and CEPAs may not have been optimally realised, and the biggest challenge remains in promoting better preference utilisation and in communicating the new opportunities offered by these agreements. To realise the benefits from the preferences and provisions under FTAs and CEPAs, supply capacity within the AMS both at sectoral (vertical) and horizontal levels will need to be improved. RCEP is arguably the most important ASEAN-led initiative. Building on the existing ASEAN+1 FTAs, it is also one that would directly contribute to the objective of coherent external economic relations. The region needs to exert maximum effort towards its successful conclusion, while at the same time reaffirms ASEAN's centrality in the new regional economic architecture.
- 4.14 The *AIR 2015* has shown how embedded the region is in the GVC. ASEAN should augment its current efforts, which are mostly geared towards supporting participation, with more strategic efforts towards enhanced participation. This can be achieved by giving greater focus on key GVC-enabling services, strengthening standards infrastructure and compliance capacity, encouraging innovation, technology and skills transfer, and redoubling efforts to enhance connectivity, among other initiatives.

- 4.15 Chapter 3 assessed the progress as well as the impact of ASEAN's sectoral approach to regional economic integration, focusing on the PIS Initiative. Looking at trade performances and qualitative achievements, the Chapter assessed the integration outcomes of the four NRB-PIS, as well as the cosmetics and pharmaceuticals priority integration sub-sectors and the EEE PIS. The assessment showed that trade has been growing across the board, in nominal and percentage terms, since the implementation of the PIS Roadmaps. However, as explained, there has been no significant advantage in terms of promoting intra-regional trade. Looking closely at the product lists of the NRB-PIS, the same was also found between the performance of the excluded and included products.
- 4.16 The findings reiterated that significant tariff reductions in the region have lessened any additional impact of tariff-focused integration measures at the sectoral level on intra-regional trade. The precise effectiveness of the product lists was hard to measure, as the criteria and scope of the lists were not expressly stated (i.e. whether they were formerly drawn up based on trade regime at the beginning of the PIS Initiative, and whether they were applicable beyond tariff-related PIS measures). As intra-regional tariffs fall, sectoral approaches to economic integration may be more sustainable when taking a broad sector perspective; focusing on products that are commercially meaningful and without delineation of the coverage early in the process to accommodate a flexible and proactive approach to sector-specific dynamics. Going forward, it may be argued that a sectoral approach should focus on a lesser number of sector-specific measures, but with an emphasis on the highest impact areas such as the removal of NTBs and greater transparency of NTMs.
- 4.17 The PIS case studies have also provided us with lessons learned in terms of process; from the need for institutional, coordination and monitoring capacity to effective design of the initiative including review provisions to ensure its continued relevance. That said, a few successful cases can also be found in recent sector- and issue-focused initiatives, an example of which is ASEAN's work on food security, which were pursued independently from the original PIS Roadmaps.
- 4.18 Finally, through exploring emerging sectors and renewing strategies to enhance GVC participation, the ASEAN market will not only serve as a 'stepping stone' for participation in the global market but also as a sustainable source of comparative advantage. New approaches to, and broader scope of, priority integration sectors, with enhanced relevance, will contribute to achieving higher potential growth rates and deepening economic integration in ASEAN.



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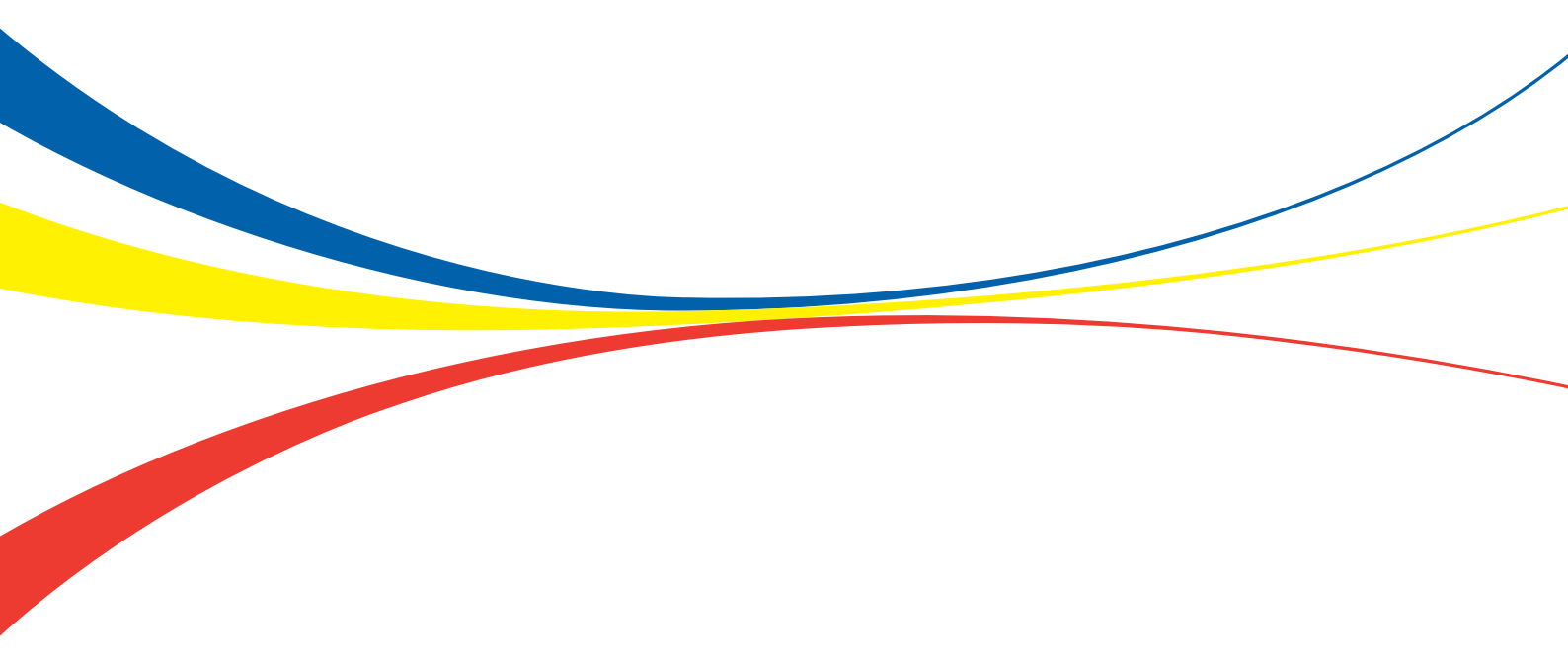
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