

Chapter 4

The ASEAN Member States and ASEAN Economic Integration

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The pace and success of the ASEAN economic integration ultimately lie in the willingness, pace, and success of ASEAN Member States (AMSs) in opening up, undertaking domestic policies consistent with deepening economic linkages with the rest of ASEAN and the world, and benefiting from the integration process. As the country essays in this volume bear out, the ASEAN economic integration story contributed to and benefited from the remarkable economic transformation of ASEAN's newest members while at the same time gradually shaped and is being shaped by the more measured and halting opening up and integration efforts of its original members. How the regional initiatives and the domestic imperatives interact and weave together in the context of a fast-changing international economic and technological environment would likely largely determine the pace and future of ASEAN economic integration.

ASEAN's New Members: Remarkable Success Story

A significant part of the diplomatic and economic glow of ASEAN during the past 2.5 decades stems in part from the remarkable political–security and economic transformation of ASEAN's newest four members, namely, Cambodia, the Lao PDR, Myanmar, and Viet Nam – or the CLMV countries. Once the principal theatre of conflict in Southeast Asia in the 1970s and 1980s, and for Cambodia's internal discord into most of the 1990s, the CLMV countries would become the economic growth leaders of ASEAN from the late 1990s to the present. In addition, they would become the more aggressive economic liberalisers and integrators in the region. In this remarkable economic transformation and success story, ASEAN has been both a co-driver and

a handmaiden, highlighting the interplay of regional integration initiatives and the domestic policy imperatives that characterise ASEAN economic integration.

Cambodia. ASEAN's newest member, Cambodia, is also one of ASEAN's most remarkable transformations. Chap Sotharith, in his essay in the volume, puts it well: '... once a failed state with civil war, genocide, and political turmoil ... [Cambodia] has been transformed from a centrally planned economy into a free market economy ... and from a battlefield on the verge of destruction into a country of emerging development [that is] increasingly ... becoming integrated into the regional and global community.'

ASEAN played a key role in Cambodia's transformation. ASEAN helped bring peace and stability to Cambodia, highlighted by the 1991 Paris Peace Accords and ASEAN's backroom efforts supporting domestic political reconciliation within Cambodia in the 1990s. The 1991 Paris Peace Accords raised significantly the international diplomatic standing of ASEAN. They also arguably helped ASEAN get the support of the Big Powers in the region to take the central facilitating role in the regional security architecture through initially the ASEAN Regional Forum since the mid-1990s and the subsequent institutions like the East Asia Summit since the mid-2000s. Cambodia's membership in ASEAN effectively erased the country's international isolation. Its participation in the ASEAN Free Trade Agreement (AFTA) and the ASEAN Economic Community (AEC), together with its accession to the World Trade Organization (WTO) in 2004, would cement Cambodia's outward-oriented structural reforms and drive for integration into the regional and international economies.

According to Sotharith, Cambodia accelerated domestic institutional and legal reforms in many fields to prepare for WTO admission and in line with ASEAN, e.g. public administration reform, economic management, judicial reform, financial reform, good governance and promotion of transparency, public-private partnership. Investment and trade reforms were noteworthy as trade became an important instrument for economic development. Cambodia has become one of the most aggressive liberalisers in ASEAN. The country has virtually become the most open AMS in terms of foreign equity in both manufacturing and services. On trade policy, Cambodia reduced dramatically its intra-ASEAN tariffs consistent with AFTA/AEC, streamlined the structure of most-favoured-nation (MFN) tariff rates and gradually reduced the average MFN rate, and established a national committee on non-tariff measures (NTMs). Cambodia is also in the process of implementing the trade facilitation initiatives under the AEC blueprint such as the National Trade Repository but more slowly the National Single Window (NSW) because of the inadequacy of financial resources and trained personnel to undertake well such initiatives. Cambodia has one of the most open investment regimes, with more than 90% of all manufacturing, agriculture, and mining sectors open to 70% or more of foreign

equity (see Figure 3.4). Similarly in the services sector, Cambodia's overall liberalisation rate for ASEAN Framework Agreement on Services (AFAS) 9 commitments is among the highest, second only to those of the Lao PDR and Myanmar. Cambodia is benefiting from the various subregional and regional programmes on enhancing physical connectivity in the Mekong Region that the donor community and ASEAN dialogue partners – like Japan, China, and the Asian Development Bank – substantially fund. Cambodia is also benefiting from various capacity-building programmes for the CLMV countries that the donor community and ASEAN support.

The result of peace, domestic structural reforms that led to great openness to trade and foreign investments, improved infrastructure and physical connectivity with its neighbours, and strengthened institutional capacity has been tremendously positive for Cambodia. The annual net inflow of foreign direct investment (FDI) increased from about US\$54 million in 1993 to about US\$1.9 billion in 2015, or from 2.3% of GDP in 1993–1994 to about 9.7% in 2014–2015. Indeed, the FDI inflow per population ratio is much higher than the ASEAN regional average. As much of this FDI is also export oriented, total trade as a percentage of Cambodia's GDP increased substantially from 56 % in 1995 to 106 % in 2015. Cambodia is slowly becoming part of the regional production networks.

An important aspect of Cambodia's trade performance is the sharp redirection of its export flows, with a greater percentage of exports going to non-ASEAN countries as implied in the marked decline in the share of ASEAN in Cambodia's exports (see Table 2.5) because the country's main exports of garments are primarily geared for the United States (US) and European Union markets where the country has Generalized System of Preferences (GSP) privileges¹. Thus, interestingly, Cambodia's liberalisation drive as part of the AEC resulted in the country being more integrated with the rest of the world, a reflection of the 'open regionalism' espoused in ASEAN.

In addition to the surge in exports of manufactures, Cambodia's tourism boomed. International tourist arrivals rose dramatically from 220,000 in 1995 to 4.77 million in 2015. Estimated tourism receipts grew from US\$100 million in 1995 to US\$3.0 billion in 2015. Exports of agricultural products, specifically rice and rubber, also expanded robustly in recent years.

¹ The data are official figures. It is known that substantial informal, unofficial trade occurs between Cambodia and Thailand. Thus, the share of ASEAN to total Cambodia trade is underestimated.

Not surprisingly, Cambodia has experienced one of the fastest economic growth rates in the world of more than 7% per year since 1986. Cambodia has turned from a poor and troubled least-developed country to a robustly growing and transforming lower middle-income country. Despite such remarkable success, Chap Sotharith highlights several significant challenges that the country faces. These include the large development gap between Phnom Penh, provincial capitals, and rural areas; the pervasiveness of NTMs; low productivity and product quality amidst intensifying market competition; poor logistic and transport system; and the limited capacity, human capital, and entrepreneurship to propel the country towards a much more diversified economic structure than what it is at present.

Nonetheless, the challenges above are themselves seeds of opportunity. Arguably, just as ASEAN was an important catalyst and facilitator of the political stabilisation and economic reforms in the country, the implementation of the AEC Blueprint 2025 and the Master Plan on ASEAN Connectivity 2025 – with their special focus on good governance, regulatory excellence, and institutional connectivity, among others – could provide the environment for the private sector and the government to undertake complementary efforts to address the challenges stated above. And as Chap Sotharith indicates, addressing those challenges would enable Cambodia to maximise the benefits from regional integration.

Lao PDR. ASEAN has also been important in the transition of the Lao PDR from a relatively closed and planned economy to an open market economy. Before it became a member of ASEAN in 1997, the Lao PDR had a centrally planned economy under the ambit of the former Soviet Union in 1975–1986, followed by a transition towards a market economy in 1986–1997. ASEAN’s admission of the Lao PDR accelerated the process of warming relations with its ASEAN neighbours and the process of economic liberalisation under AFTA and eventually the AEC. As a small and landlocked country surrounded by four AMSs and China, the Lao PDR’s economic fortune is necessarily affected by the stability and economic fortunes of its four ASEAN neighbours and China. As Leebuapao and Sayasenh in their essay in this volume points out, ASEAN is the ‘golden opportunity’, the nearest and biggest market for the Lao PDR both for export and import, in particular Thailand and Viet Nam. Thus, not surprisingly, the Lao PDR sees ASEAN membership as a safeguard to ensure peace, security, and economic opportunities for its development.

Leebuapao and Sayasenh highlight that the Lao PDR has been adjusting its economic policy in accordance with the AEC blueprint, with emphasis on trade liberalisation and facilitation, as well as with the requirements for WTO accession. Among the policy actions are the adoption of the ASEAN Harmonized Tariff Nomenclature 2012,

together with the other AMSs; reduction and near elimination of intra-ASEAN tariffs following its commitments under the ASEAN Trade in Goods Agreement; granting of preferential tariffs under the ASEAN+1 FTAs, etc. As in Cambodia, implementation of trade facilitation measures has been challenging due to limited financial resources and inadequate institutional capability. Also, the Lao PDR's commitments to the ASEAN investment and services liberalisation agreements (under the ASEAN Comprehensive Investment Agreement and AFAS, respectively) are among the most liberal among the AMSs. Indeed, for the latest AFAS 9 commitments, the Lao PDR and Myanmar share the highest liberalisation rate among the AMSs (see Table 3.1).

The result of the openness to trade and FDI can be seen in the sharp increase in both trade and foreign investment over time. The value of total trade exploded from US\$213 million in 1990 to US\$10.35 billion in 2015; the total trade-to-GDP ratio increased from 23% in 1990 to about 83% in 2015, using World Bank estimates.² Most of Lao exports are in electricity and minerals, with the latter vulnerable to global price fluctuations. Not surprisingly, the share of trade to GDP has fluctuated significantly during 2011–2015 for example. Among the AMSs, the Lao PDR is the most dependent on ASEAN for its international trade, with ASEAN accounting for about 70% of its exports. ASEAN, essentially Thailand and Viet Nam, is also the main channel for the robustly growing tourism sector.

Electricity generation and mining are capital intensive. The capital-intensive nature of the Lao PDR's main exports shows the critical importance of the country's liberalised investment regime. FDI into the country increased markedly in recent years, raising the ratio of FDI to GDP from about 4.7% in 2010 to around 8.5% in 2015. The high growth of FDI, tourism, and international trade translated into a very robust economic growth rate, with the Lao PDR having the highest economic growth on average among the AMSs in the latter 2000s and into early 2010s.

² There is substantial difference in the estimates of the foreign trade-to-GDP ratio for the Lao PDR. The ASEAN Secretariat, in its 'ASEAN Community in Figures 2016', estimates the trade-to-GDP ratio for the Lao PDR in 2015 to be 53.5%, which is much smaller than the World Bank's 82.9%. Behind this large difference is the estimate of imports into the Lao PDR. The ASEAN Secretariat relies on the official submissions of the AMSs whereas the World Bank estimates (and those of the International Monetary Fund [IMF]) include information from partner countries of the Lao PDR (mainly Thailand, China, and Viet Nam), i.e. export data to the Lao PDR from these countries. The gap between the two estimates arises primarily from the import estimates, with the World Bank/IMF estimates much higher than the official import data. This suggests that there is either large under-declaration of imports in the Lao PDR (i.e. technical smuggling) or there are large informal (from the Lao PDR's perspective) imports into the Lao PDR (outright smuggling) or informal export and import trade between the Lao PDR and its neighbours (which is probable given that the border is mainly a river between Thailand and the Lao PDR, for example, and the people in northern Thailand are culturally close to the Lao people).

Myanmar. Myanmar is a recent significant diplomatic success for ASEAN. Instead of sanctions against Myanmar that many Western countries resorted to, ASEAN engaged and quietly encouraged the former military rulers of Myanmar over the years to democratise the country. The ascension of the neo-civilian government under President U Thein Sein led to major and wide-ranging reforms in the country, complemented by the lifting of the sanctions against investments in and trade with Myanmar. The successor civilian government, led by State Counsellor Daw Aung San Suu Kyi and President U Hin Kyaw, is continuing the reform process. The wide-ranging reforms were shaped partly in the context of ASEAN, especially the AEC Blueprint 2015, but have been strongly facilitated and supported by major international multilateral institutions such as the World Bank, the International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD) as well as by major bilateral donors like Japan. The successful hosting by Myanmar of the ASEAN Summit in 2014 is an affirmation of the dramatic political, diplomatic, and economic reforms in the country consistent with the overall regional thrusts of the ASEAN integration and community-building efforts.

In terms of commitments, Myanmar is indeed one of the leading liberalisers in ASEAN as shown in Figures 3.3 and 3.4 for services and investment. Similarly, intra-ASEAN tariff reduction and eventual elimination have been moving apace. Myanmar also agreed on other AEC measures including, for example, trade facilitation measures. The challenge is in the implementation. Some domestic reforms are related to the implementation of the measures. For example, the country's customs law since the late 1940s was updated to be consistent with the World Customs Organization Kyoto Convention provisions that are the backbone of modern customs administration and which underpin the ASEAN customs modernisation and single window initiatives. Implementation also entails improvement in the capacity of institutions tasked to implement the domestic measures consistent with and supportive of ASEAN measures and other domestic policy imperatives. Domestic reforms and capacity building are ongoing.

The end result so far has been sharply expanding FDI inflow, robustly growing foreign trade, and surging foreign tourist inflow. Myanmar is now the fastest-growing economy in ASEAN.³

Viet Nam. Viet Nam has the enviable achievement of having the highest average growth rate in ASEAN since the mid-1990s. Indeed, the country has one of the highest average growth rates in the world during 1996–2015. This meant a remarkable economic

³ Note that the country essay on Myanmar is not included in the volume because the country author could not finish it due to health reasons.

transformation into a major global exporter of agricultural products such as rice, coffee, and fish as well as an emerging manufacturing hub in East Asia. The country experienced one of the sharpest declines in poverty rate in the world, arguably only second to China. Underpinning this remarkable success story is the positive interplay of aggressive domestic reform and proactive international economic integration efforts backed by solid human capital and infrastructure investments. Like the other new members of ASEAN, and indeed much more so, the sharp rise in foreign trade (with Viet Nam now having the second-highest trade-to-GDP ratio in ASEAN) and FDI has been central to Viet Nam's economic dynamism.

ASEAN contributed to Viet Nam's economic dynamism even as the country's domestic reform efforts have gone on earnest since the mid-1980s under *Doi Moi* (renovation)⁴. As Vo Tri Thanh highlights in his essay in this volume, '...ASEAN integration has marked an essential first step towards international economic integration' for Viet Nam. Viet Nam joined ASEAN in 1995, and joined AFTA in 1996. The next decade would see the country signing the Viet Nam–US bilateral agreement in 2000 and joining the WTO in 2007. These two landmark events had a major impact on Viet Nam. The first led to a sharp rise in trade with the US; the latter forced Viet Nam to undertake amendments or promulgate many laws, ordinances, and decrees to meet WTO commitments. The next decade would find Viet Nam even more aggressive in regional and bilateral trade agreements, both signed and under negotiations: (i) under ASEAN, through the ASEAN+1 FTAs, the AEC and the ASEAN Community, and the Regional Comprehensive Economic Partnership (RCEP); (ii) under bilateral agreements like the Japan–Viet Nam Economic Partnership Agreement, Viet Nam–Eurasian Economic Union FTA, and the EU–Viet Nam FTA; and (iii) under regional agreements like the Trans-Pacific Partnership. Thus, ASEAN integration paved the way for the wide range of integration agreements that Viet Nam signed with many other countries.

Vo Tri Thanh observes that ASEAN integration induced institutional reforms in Viet Nam, particularly in the areas related to trade and investment. For instance, in line with the implementation of the AEC Blueprint, the country developed the NSW in 2005 under the ASEAN integration framework and got it connected to the ASEAN Single Window (ASW) in 2015. The progress in customs modernisation mirrors the government's strong political willingness to foster economic integration. This reaffirms international donors to support its reform. Learning from advanced AMs, Viet Nam also launched a policy package (Resolution 19) to improve its business environment aiming for the standards of ASEAN.

⁴ This paragraph and the next draw heavily from Vo Tri Thanh's essay in this volume.

Vo asserts that ASEAN holds the highest importance for Viet Nam, despite the many FTAs it has signed with other countries. This is because the gradualist nature of ASEAN integration is more consistent with Viet Nam's development level; ASEAN initiatives are more comprehensive as they involve the three ASEAN communities; and ASEAN has a growing role in international and regional initiatives, such as the East Asia Summit. Nonetheless, a key challenge for Viet Nam is to ensure that the various FTAs it has signed are harmonised and do not conflict with the interest of the country.

ASEAN and the Older ASEAN Six: Concerted Goading and Facilitation

If the role of ASEAN in the newer CLMV countries is relatively straightforward, the interaction between ASEAN and the six older AMSs⁵, especially in the economic field, is more complex. Included among the factors behind this complexity are more assertive parliaments of most ASEAN-6 countries and more complicated political economy considerations for losers and winners from liberalisation. The ASEAN-6 are a highly varied lot, ranging from an active globalist and international pacesetter on the one hand and a reluctant regional integrationist despite robust regional diplomatic leadership on the other. In short, the AEC is as much shaped by, as it is shaping, the AMSs.

Singapore. The quintessential globalist, Singapore nonetheless shows us an example where ASEAN's goals are in line with an AMS's national interests; and the country can eventually gain from what it contributes to regional integration. As a small country lacking natural resources, Singapore needs ASEAN to foster regional political and security stability. Different from the CLMV countries, it is concerned more with vulnerability from an unfavourable external political and security environment.

Hank Lim discusses in his essay the importance of ASEAN to Singapore by dividing the country's development into four phases. The Singapore story shows us how a small city-state managed to link domestic growth via its efforts of pushing forward the process of ASEAN integration and achieving economic success. To countries like Singapore, it seems clear that an open and competitive economy works as the base for its development and prosperity. For that reason, deregulation and trade liberalisation seldom see domestic resistance. The country has been actively accelerating and deepening the process of ASEAN integration, advocating and promoting ASEAN internationally, and providing technical and financial assistance to CLMV on capacity

⁵ These are Singapore, Brunei Darussalam, Indonesia, the Philippines, Malaysia, and Thailand.

building. On the other hand, ASEAN integration provides Singapore (i) a safeguard on regional security and stability, (ii) a regional single market as an external wing for its economy, and (iii) a strengthened position as a regional hub for multinational corporations and FDI.

Singapore has a two-pronged approach to its external economic policy. In addition to actively promoting closer economic integration in ASEAN, Singapore has also been emphasising closer economic relations with many non-ASEAN countries. In fact, it has been the most active among AMSs in negotiating FTAs with many non-ASEAN countries because Singapore, being a tiny city-state, is driven by foreign trade (in goods and services). Hank Lim provides a positive spillover effect to ASEAN of Singapore's deep economic engagement with the rest of the world; and it could:

...spur other ASEAN economies to liberalise and deregulate their economies in the global marketplace [as]...Singapore's proven success in its bilateral and plurilateral FTAs with non-ASEAN economies has given a strong impetus for other ASEAN countries to emulate Singapore's FTA policies. In turn, the more open and successful other ASEAN economies become, the more receptive and likely they are to accept Singapore's initiative for wider and deeper ASEAN economic integration.

For Singapore (with its tiny domestic market and no natural resources) to compete well with such deep economic linkages with so many countries worldwide, it must have top-flight infrastructure and global connectivity, a global pacesetter trade facilitation environment, effective governance and ease of doing business, and forward-looking human capital investments. And indeed, tiny Singapore has become, as one well-known business network puts it, a global trade colossus. Arguably, more than Singapore's success with its FTAs, as Hank Lim avers, are the domestic measures Singapore has been undertaking to succeed in international competition that have been the important learnings to emulate as a spillover effect to ASEAN countries. A reading of the AEC Blueprint 2025 and national programmes of several AMSs suggests the growing emphasis on improving governance and ease of doing business, trade facilitation, infrastructure, regulatory institutions, etc. All these are consistent with the direction towards the Singapore experience, albeit considering the resource constraints the AMSs face.

Brunei Darussalam. As the smallest AMS of about 400,000 people, Brunei Darussalam has embraced ASEAN fully – from its long-serving Sultan Bolkiah (ASEAN’s longest serving leader) to its citizens – as the results of the survey on what ASEAN means to ASEAN peoples⁶ indicate. Joyce Teo, in her essay on Brunei Darussalam in this volume, shows that Bruneian small and medium-sized enterprises (SMEs) have benefited from their access to a much larger regional market. She also indicated the domestic and policy reforms undertaken with regional initiatives, such as on competition policy and consumer protection. She further pointed out that ASEAN’s emphasis on SME development initiatives also benefited Brunei’s SMEs.

Just as Brunei Darussalam benefited and will benefit from ASEAN, Joyce Teo also highlights the actual and potential contribution of the country to ASEAN. Perhaps foremost is the constructive role of Brunei for its neutral position that allows the country to undertake trust and confidence-building measures as exemplified by the South China Sea issue during its most recent ASEAN chairmanship. Another is the essential congruence of AEC initiatives and Brunei’s outward-oriented strategies, the country being a small and open economy with pro-progress policies. Another possible contribution of Brunei to ASEAN is as a bridge between ASEAN and the Commonwealth group of nations, of which Brunei Darussalam is a member; similarly, as a leader in the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA).

Finally, while Brunei has embraced ASEAN, it has not yet fully embraced the potentials of the association for the country. Specifically, although Brunei is the second-richest in ASEAN country, it has been the slowest growing among the AMSs for some time. This reflects the overdependence of the economy on oil and gas whose global prices have been volatile and low in recent years. The fact that the domestic market is extremely small means that an effective diversification of the economy would call for Bruneian firms, large and small, to be more deeply integrated into the ASEAN economy and business milieu. This means Brunei and its firms should know their niches and work with ASEAN firms and institutions to provide services and goods for the regional market, not just for the Brunei market. This clearly calls for the Brunei business sector to have an ASEAN market perspective rather than one focused on Brunei Darussalam’s tiny domestic market. The results of the face-to-face interviews reported in Joyce Teo’s essay suggest that there are ASEAN-oriented members in the business sector. It may well be that Brunei Darussalam needs to encourage more of them as a way forward for the country’s diversification growth strategy.

⁶ See Intal and Ruddy (2017).

Indonesia. As the largest economy and most populous country in ASEAN, it is not surprising that Indonesia has greatly impacted the pace of the ASEAN economic integration project. Nonetheless, the ASEAN integration initiatives have also helped shape Indonesia's domestic policies. This interplay of the design and implementation of ASEAN initiatives and the domestic policy environments in the AMSs can be considered as at the heart of the essential characteristic of the ASEAN integration agenda. This is a much more measured (although criticised as slow) liberalisation and integration process against which there is no significant backlash.

Thus, early proposals in the mid -1970s for ASEAN economic integration were nixed in favour of industrial economic cooperation and preferential tariffs. At that time, Indonesia preferred an import substitution policy and a more inward-looking development strategy as Yose Rizal Damuri notes in his essay on Indonesia in this volume. Indeed, the word 'integration' was deemed taboo in ASEAN until the 1980s⁷. As noted in Volume 1 of *ASEAN@50: The ASEAN Journey: Reflections of ASEAN Leaders and Officials* (Pitsuwan et al., 2017), the ASEAN industrial cooperation programme largely failed and the preferential tariffs were inconsequential. Necessarily, as Damuri highlights, Indonesia's early initiatives towards economic openness were unilateral. Those were in response to adverse external developments, most importantly the fall in the global price of oil in the early 1980s, Indonesia's main export product during the 1970s and 1980s. Those early liberalisation initiatives – such as reduction in tariffs and non-tariff barriers (NTBs) especially in labour-intensive manufacturing together with customs reforms – have facilitated the surge in Indonesia's exports of labour-intensive manufactures since the latter 1980s. During the ASEAN Economic Ministers Meeting in December 1989 in Bandar Seri Begawan, Indonesian economic officials agreed that it was time for ASEAN to explore deeper economic cooperation in ASEAN in response to the growing regionalism worldwide. In the next 2 years, ASEAN would agree on an integration project, AFTA, anchored on the Indonesian Common Preferential Tariff (CEPT) proposal, and launched it in 1992.

AFTA, the WTO's Uruguay Round, the Asia-Pacific Economic Cooperation (APEC) forum, and the structural adjustment programme in the aftermath of the 1997–1998 Asian financial crisis have all contributed to the furthering of liberalisation efforts of Indonesia. Damuri shows the strong correlation between the tariff reductions under CEPT and MFN rates, which he surmises as suggestive of the AFTA CEPT programme influencing the overall tariff reduction programme of the country in the late 1990s and early 2000s. Indonesia's commitments in the WTO on bindings on tariffs and selected service sectors, reduction of NTBs, and elimination of quantitative restrictions, among

⁷ Based on personal interview with Ambassador Delia Albert of the Philippines.

others, were all complementary to the AFTA initiatives. Similarly, the tariff reductions and/or removal of NTBs in sensitive products and industries, and services liberalisation under the IMF structural adjustment programme were also all complementary to the AFTA initiatives. Through AFTA, and eventually the AEC, ASEAN would deepen its facilitating role to Indonesia's domestic reform programme to include ASEAN trade facilitation initiatives like the NSW, the National Trade Repository, and air transport liberalisation initiatives under the Roadmap for Integration of Air Travel Sector. The AEC Blueprint 2025 can be expected to continue the facilitating role of ASEAN in Indonesia's domestic reform programme with deepening commitments on a large range of liberalisation and facilitation areas and to even wider areas of cooperation such as good regulatory practice. Thus, on the whole, the concert of ASEAN, the WTO, APEC, and the IMF provided the external driving force for Indonesia to move further in its economic opening up in the 1990s and early 2000s. Since then, ASEAN has been largely a goad for reform, as part of a concerted regional programme, in areas that Indonesia itself (and similarly, other AMSs) has been wont to undertake in the face of tight global competition for markets and investments.

Indonesia's trade with the rest of ASEAN has been expanding robustly. As Table 2.5 shows, ASEAN's share to total Indonesian merchandise exports rose from 10% in 1990 to 17.5% in 2000 and 22.3% in 2015. The share of ASEAN to total Indonesian merchandise imports rose from 8.4% in 1990 to 19.4% in 2000 and 27.5% in 2015. This apparent trade imbalance for Indonesia vis-à-vis ASEAN has led to, as Damuri notes in his essay, '...[a] general suspicion that AFTA was less beneficial to Indonesia, at least in terms of trade'. Damuri explains the trade deficit in terms of low ASEAN Trade in Goods Agreement utilisation rate by Indonesian firms and the growth of ASEAN-sourced inputs to Indonesia's manufactured exports as part of the production networks in the region. Possibly two other factors would complement and strengthen Damuri's explanations. The first is the rise of ASEAN-sourced inputs for manufactures sold in the domestic market (e.g. parts for cars assembled and sold in Indonesia). The second is the composition of Indonesia's exports, which remains substantially consisting of commodities geared primarily for non-ASEAN markets.

Sound explanations notwithstanding, there is such a 'general suspicion' of AFTA being less beneficial to Indonesia. And it is likely the presence of such general suspicion that appears to have made Indonesia more cautious and less willing to push further on deeper liberalisation initiatives in ASEAN, especially as they increasingly touch on more sensitive sectors of the economy. It is worth noting that the negative trade imbalance vis-à-vis ASEAN is even worse for countries like the Philippines and Cambodia than Indonesia, but without apparent public push for protection against imports from ASEAN. Perhaps by emphasising more what Damuri asserts in his essays that 'protectionist policies

have cost Indonesian society very dearly', would Indonesia become more engaged in implementing the deeper integration and cooperation programme embodied in the AEC 2025.

Philippines. The Philippines underwent wrenching domestic macroeconomic, trade, and industrial policy reforms and adjustments under a series of IMF and World Bank programmes for about 2 decades in the aftermath of the economic crisis in the country in the early to mid-1980s. No other AMS experienced such wrenching adjustments for so long. The structural adjustments of the transition economies of Cambodia, the Lao PDR, and Viet Nam in the latter 1980s and 1990s were largely efficiency enhancing and foreign investment attracting. In contrast, opening up the Philippine economy with comparatively high wage costs from long decades of industrial protection and in a fragile macroeconomic environment proved far more disruptive to the Philippine manufacturing sector and the overall economy during most of the latter 1980s until the early 2000s. Only in the last decade or so has the Philippines righted itself macroeconomically, and its underlying comparative advantage has shone and become potent. As a result, the mediocre economic performance of the 1980s through the early 2000s changed to sustained robust growth with markedly rising foreign investments in recent years. And the contentious debates in the latter 1980s between protectionism and openness have now been transformed into a nationally agreed industrial strategy ('Manufacturing Resurgence Program'): an open manufacturing sector is a given to compete better in an integrated ASEAN and more open East Asia.

In his essay in this volume on the Philippines, Gilbert Llanto presents the evolution of Philippine trade policies from the protectionist, inward-looking policy of the 1950s–1970s towards the increasingly outward-looking and more open trade regime from the latter 1980s onwards. While the liberalisation initiatives were initially unilateral under the IMF/World Bank programmes, AFTA, the WTO Uruguay Round, and APEC all played a part in the trade and industrial reforms of the 1990s. ASEAN, through AFTA and then the AEC and facilitated by APEC, has deepened its influence on the domestic policies of the countries since the early 2000s. Llanto presents several examples where '... ASEAN has influenced and provided impetus to the crafting of better policies, programmes, and regulations'. Examples include the (i) establishment of the NSW (and relatedly, the National Trade Repository); (ii) services liberalisation and the mutual recognition arrangements (MRAs) on several professional services as well as the ASEAN (and Philippines) Qualifications Reference Framework; (iii) liberalisation of banking services; (iv) alignment of quarantine and inspection procedures of Philippine fisheries with ASEAN and international standards; and (v) reduction in regulatory burden on firms. Indeed, many more are not cited in Llanto's paper, e.g. signing on ASEAN's open skies policy, standards and conformance measures such as MRAs in priority goods

sectors like electronic and electrical machinery, and harmonised technical regulations and requirements as in cosmetics.

The role of ASEAN for the Philippines appears like a mirror image for Indonesia, i.e. as a driver of trade reform together with the WTO and APEC in the 1990s and early 2000s, and as a facilitator and goader for the broader set of domestic reforms consistent with the measures in the AEC blueprints. ASEAN integration has impacted the direction of Philippine merchandise trade primarily in the sourcing of inputs because Philippine exports have become more geared to Northeast Asia, as Llanto's essay shows. Like Indonesia, the Philippines has a trade deficit with ASEAN. Unlike Damuri's observation for Indonesia, there does not appear to be any general suspicion that ASEAN has been less beneficial to the Philippines with a pressure for increased protection against imports. Instead, the increased pressure has been for improvement in infrastructure, governance and processes, and regulatory regime in the country for it to be more attractive to investors, and for domestic firms to be more competitive in both domestic and foreign markets, and thereby reap the benefits from economic integration.

Malaysia and Thailand. Malaysia and Thailand are the two upper middle-income countries in ASEAN, with Malaysia very close to being a high-income country. In contrast to ASEAN's high-income city-states, both Malaysia and Thailand have a considerable domestic market to build on and grow outward into the region. The essays on Malaysia and Thailand in this volume bring out a key rationale for the AEC agenda; that is, to provide the private sector the supportive environment to adjust and grow, meet the challenges of, and reap the benefits from deeper economic linkages and integration in the region. After all, an integrated regional market brings about larger market potential, more job opportunities, greater economic attraction to foreign investment, and therefore more space for development. Ideally, reaping the benefits of economic integration has a greater chance if national policies and the ASEAN regional initiatives are congruent.

Saowaruj Rattanakhamfu shows the impact of ASEAN on Thailand through the increased trade, investment, and labour flows. Thailand increased its import sourcing from ASEAN; the region is now the second-largest import source after China. Thailand also expanded tremendously its exports to ASEAN; indeed, ASEAN has been Thailand's largest export market, replacing the United States, since 2003. Thailand now has a large merchandise trade surplus vis-à-vis ASEAN. The reduction and eventual elimination of intra-ASEAN tariffs and ASEAN's rules of origin facilitated the marked rise in Thailand's trade with its ASEAN neighbours.

Although not discussed in Rattanakhamfu's essay, the rise of Thailand as the automotive hub of ASEAN exemplifies how economic integration helps an industry grow. Thailand was the primary beneficiary of the export-oriented foreign investment flow from Japan to ASEAN in the aftermath of the yen appreciation in the mid-1980s that was induced by the Plaza Accord. The resulting high growth rate meant a surge in domestic demand for vehicles which, together with massive infrastructure investments especially in the Eastern Seaboard, enticed Japanese, American, and other multinational corporation assemblers and suppliers to set up plants in Thailand for the domestic and foreign markets. This 'first mover advantage' with a robust domestic supply chain became even more important as intra-ASEAN tariffs on automotive products were drastically reduced for enhanced market access to a robustly growing market. With economies of scale and increasingly more extensive regional production networks, the Thailand automotive industry has become export competitive not just regionally but also globally. It is now a major industry of Thailand.

ASEAN is also important in Thailand's direct investment inflow and outflow. Rattanakhamfu notes that the region has been the second-largest source of FDI after Japan during 2005–2015. She also notes the surge in Thailand's outward direct investment to ASEAN since the Bank of Thailand eliminated in late 2010 the ceiling on Thai investment abroad. The investments have gone primarily to Singapore and to the CLMV countries. The investment in the CLMV countries is noteworthy because the liberal investment regimes in these countries (discussed in the previous chapter) are enabling the Thai private sector to develop supply chains in the Mekong subregion, with Thailand as the hub. This is similar to the 'Thailand Plus' strategy that multinational corporations seem to be developing in the area, with their Thailand plants as the hub. Such a process has evolved partly because of the regional integration initiatives in ASEAN.

Labour flows, overwhelmingly unskilled, are also an important pillar of Thailand's linkage with ASEAN. Of 1.33 million workers, only about 23,000 of them are semi-skilled and skilled. Given Thailand's ageing population, the foreign labour force has been important for the country's many industries, especially the tourism and food-related industries. Rattanakhamfu notes that there is no ASEAN-wide agreement on the movement of unskilled labour in ASEAN, yet a huge number, primarily from neighbouring Myanmar, Cambodia, and the Lao PDR, are working in Thailand. In contrast, despite several ASEAN MRAs on professionals, there are comparatively few semi-skilled and skilled workers in Thailand, and most of them were not hired under the ASEAN MRA process. Indeed, implementation of the MRAs in Thailand faces many problems. This issue of constraints to the implementation of the ASEAN agreements is discussed further in the next subsection. What the contrasting cases of foreign unskilled versus skilled labour in

Thailand suggest is that the imperatives of the market sometimes trump official regional agreements, and bilateral agreements may be sufficient.

Nonetheless, economic integration is better managed if the national policies and programmes of the AMSs and the regional integration programme under the AEC are congruent.

Nambiar highlights that Malaysia's strategies and programmes in the Eleventh Malaysia Plan and the New Economic Model are indeed very much aligned with the AEC blueprints. This is because trade and investment have been the cornerstone of Malaysia's economic development and continual economic transformation towards becoming a high-income country. As Nambiar emphasises, the various transformation programmes are meant to strengthen the national foundations that can take advantage of the external environment facing the country. At the same time, as a small, open economy, Malaysia manages its external environment largely through FTAs and the AEC. Malaysia gives high importance to ASEAN and the AEC, as reflected by the fact that the ASEAN division of the Ministry for International Trade and Industry is the largest. More importantly, Malaysia sees ASEAN and the AEC as one collective entity, which now ranks as the sixth-largest economy and the third-most populous in the world.

An example of the congruence of Malaysia's strategy and the AEC is the liberalisation of services under AFAS. As Figure 3.3 and Table 3.1 show, and as Nambiar details in his essay, Malaysia has liberalised more of its services sector compared to Indonesia, the Philippines, and Thailand. This reflects a growing appreciation that its rising comparative advantage is in higher-value services industries such as tertiary health services, private higher education, and international schools to which the country is enticing more international patients and students. Another example of this congruence is Malaysia's leadership in institutionalising good regulatory practice in ASEAN under the AEC Blueprint 2025, an initiative that Malaysia has been assiduous in undertaking for the past decade as exemplified by the Pemudah Task Force and the National Plan on Good Regulatory Practice.

Nonetheless, Nambiar notes that there are limits to Malaysia's liberalisation drive, such as limits on the mobility of skilled workers and on foreign ownership of hotels ranked below four stars. What this brings out is the challenge of balancing national interests and imperatives on the one hand and the regional integration goals on the other. There lies at the core of the challenge the implementation and design of the AEC integration programme moving forward.

Challenges

Implementation is key to the success of ASEAN community building. However, there are significant challenges, as the country essays in this volume bring out. The NSW serves as an illustrative example. As Llanto cites in the case of the Philippines, ‘... implementation of the NSW has been hampered by turf issues among government agencies, a lack of understanding of stakeholders of the value of NSW, and disjointed supply chains’ (Ibrahim, 2011).

Similarly, the commitments on the liberalisation of the services sector of a few AMSs are relatively low due to political economy considerations, the constraints from the country’s domestic regulatory environment, or, in the case of the Philippines, constitutional restrictions. Thus, for example, as Nambiar tells us, despite Malaysia’s progress in liberalising its financial sector, until now there are still domestic restrictions on the operations of foreign banks, which are not ‘in keeping with the liberalisation of the banking sector’. The slow progress of liberalisation in services has negative impacts on development. As Yose Rizal Damuri notes for Indonesia, ‘[d]espite being framed to protect national interest, protectionist policies have cost Indonesian society dearly ... ASEAN initiatives for services have, unfortunately, yet to lead to a better and more open regulatory environment for Indonesia’s services sector’.

NTMs, the reduction of the tariff barrier effects, and the elimination of NTBs stay on top of the to-do list for ASEAN as well. The ERIA–UNDP study shows increasing NTMs in ASEAN, as is the experience in most of the rest of the world also. The majority are technical barriers to trade, with largely non-economic reasons for their imposition in Member States. Making them less of a trade barrier would call for greater regional efforts to harmonise rules, standards, and procedures and increase the transparency of the related administration. At the national level, the establishment of good testing and standards processes would help, as the experience of Malaysia’s SIRIM Berhad⁸ indicates. Nonetheless, even for SIRIM, the SMEs still call for further simplification of documents and procedures as well as more skilled personnel, as Nambiar points out. The AMSs, in several ERIA monitoring studies on the implementation of AEC 2015, raised the inadequacy of good testing facility and complex certification processes. As a first step, greater transparency on NTMs region-wide through the ASEAN and national trade repositories could be pursued more assiduously.

⁸ Formally known as the Scientific and Industrial Research Institute of Malaysia.

Deepening regional integration requires at-the-border liberalisation and behind-the-border actions. Fulfilling the commitments to the regional blueprint demands AMS's individual actions that involve coordination and collaboration among government agencies, cooperation and synchronisation among countries, public-private partnership, and the involvement of stakeholders from various backgrounds. Moreover, the beneficial effects from the implementation of AEC commitments would also need complementary efforts under the socio-cultural community blueprint.

Infrastructure, including logistics, transportation, market mechanism, and others, is still the bottleneck in many countries. Especially for the CLMV countries, poor infrastructure and logistics limit the benefits they get from the regional single market and constrains them in hooking up more to the regional production networks and global value chains. Equally important, Leebuopao and Sotharith highlight the inadequacy of human capital in the Lao PDR and Cambodia, respectively, that limits their economies' competitiveness and, in principle, their growth potential. In this regard, it becomes more relevant to enhance the existing regional mechanism, such as the Singapore Cooperation Programme that Hank Lim introduces in this volume, and the establishment of additional means of technical assistance and capacity building to the poorer AMSs. A related common concern by ASEAN countries is how to improve the global value chain-regional integration-sustaining growth nexus. Thus, for example, Thailand and Malaysia are challenging themselves to graduate from high middle-income to high-income countries by further integrating their domestic economies with the regional market and then upgrading the capability of higher value-added activities.

Last but not the least, ASEAN needs more effort to increase the awareness of ASEAN. Vo Tri Thanh mentions that for countries like Viet Nam, building awareness of and consensus on regional integration for domestic reform is important. In the case of Thailand, Rattanakhamfu suggests ASEAN integration to be 'a catalyst for [the country's] domestic institutional and regulatory reforms'. As the progress of ASEAN integration tends to increase the awareness of ASEAN, wider public support tends to facilitate the further movement towards the ASEAN Community. This calls for multilayered actions, including education, cultural exchanges, and various media, to get people in the region to know more about ASEAN and better understand the pros and cons of regional integration.

Concluding Remarks

ASEAN has been both a co-driver and a handmaiden of domestic reform and adjustment of the AMSs. ASEAN as a co-driver (together with the WTO and bilateral FTAs) is most evident in the case of the newer ASEAN members largely because they had to transition from relatively closed, planned economies to market and outward-oriented economies. For the older AMSs, ASEAN, specifically AFTA and the AEC, provided further impetus to their reform and institution-building efforts, in part together with the WTO and APEC in their liberalisation efforts in the 1990s. The design and pace of implementation of the AEC measures were also shaped by the varied institutional capacity and political economy environments of the member economies. Overall, ASEAN has been a positive force for the development of and improved policy regimes in the AMSs.

Moving forward, the fundamental challenge is to ensure greater congruence between national and regional policies; indeed, to embed ASEAN into the national strategies and policies, as Malaysia's approach, while each AMS attempts to influence regional policies to be consistent with national imperatives; thus, for the regional to be national in the same way that the national informs deeply the regional. This is clearly a tough task in a region consisting of members with varied levels of development and priorities. Nonetheless, AFTA and the AEC have shown that the interests and concerns of the AMSs are congruent to a large degree, and that the experiences and policy innovations of individual member countries are good sources of learning. In the end, this is a matter of degree, and the challenge is to widen and deepen further the areas of congruence. This is necessary as the countries move deeper into the goals of the AEC – a region that is deeply integrated and economically cohesive; dynamic, competitive, and innovative; resilient and inclusive; and globally connected. Such goals demand greater coherence at both the border and behind-the-border levels while at the same time allowing flexibility to accommodate the unique specificities of each AMS.

Such goals need to be ultimately in the service of the ASEAN people. For this reason, ASEAN community building requires some further strengthening of the integration–domestic reform–FDI encouragement–job creation nexus. For that, as Vo and Rattanakhamfu emphasise, there is a need to build awareness of and consensus on regional integration for domestic reform as well as domestic reform for regional integration.

One of ASEAN's jobs is to provide its members the best development-friendly regional conditions feasible, and encourage everyone to adopt outward-looking economic policies that favour openness and inclusiveness. This is certainly not an easy task,

given the changing domestic, regional, and international political and socio-economic conditions. The solution may come from some joint or concerted actions from the AEC, ASEAN Political-Security Community, and ASEAN Socio-Cultural Community. It would be ideal to have a self-reinforcing cycle where ASEAN integration encourages cooperation and collaboration among the AMSs. The consequent regional cohesion in turn reinforces ASEAN's capacity in facilitating domestic transition, and thereby increases AMSs' willingness to further regional cooperation and coordination for smoother adjustment and transition and for dynamic development. In short, ASEAN's success is built on all AMSs' common interests. As Hank Lim states, 'a more developed and richer ASEAN ... provides wider and deeper opportunities and benefits [to all AMSs] through a more open and competitive economic environment'.

The companion Volume 5, *The ASEAN Economic Community into 2025 and Beyond*, elaborates the key elements of moving the AEC into 2025 and beyond.

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