

Mid-Term Review of the Implementation of AEC Blueprint:

Executive Summary

October 2012



Economic Research Institute for ASEAN and East Asia (ERIA)
Jakarta

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AEC MTR Report: Foreword and *Précis*

Seize the Moment

ERIA is honored to have been requested by the ASEAN Economic Ministers to undertake the Mid-Term Review of the Implementation of the AEC Blueprint (MTR). ERIA thanks government officials in AMSs, ASEAN Secretariat officials and staffs, and the business sector and research community in the ASEAN for supporting and contributing to the completion of the Mid-Term Review of the AEC Blueprint. The Mid-Term Review was undertaken by a large team of ERIA-based researchers co-led by Dr. Ponciano Intal Jr., Dr. Dionisius Narjoko and Atty. Yoshifumi Fukunaga supported by Dr. Fukunari Kimura and Dr. Shujiro Urata, research team for each AMS under the ERIA Research Institutes Network (RIN), and a number of individual consultants from ASEAN and the Dialogue Partner countries.

Signed by the ASEAN Leaders at the 13th ASEAN Summit on 20 November 2007, the ASEAN Economic Community (AEC) Blueprint lays the foundation just before global financial crisis. In April 2009, the Leaders of ASEAN signed the Cha-am Hua Hin Declaration on the Roadmap for the ASEAN Community (2009-2015) and agreed on the accelerated time table for the realization of the ASEAN Community. At the midpoint of the time period for the implementation of the AEC Blueprint, and in the light of great uncertainty in and bleak outlook for the global economy, the Leaders of ASEAN committed in April 2012 – in the Phnom Penh Agenda for ASEAN Community Building – to redouble their efforts and to set priority activities and concrete key actions to realize the ASEAN Economic Community in 2015 (AEC 2015).

The ASEAN Leaders' remarkable doggedness in the face of unfavorable global economic environment combined with realism is indicative of the Leaders' enduring optimism on and faith in an integrated ASEAN community. The MTR Report shares the ASEAN Leaders' enduring optimism and faith, tempered by realism, on the ASEAN Economic Community.

Seize the Moment

The overall message of the MTR Report is for ASEAN to *seize the moment* and forge ahead at accelerated facilitation and continued and managed liberalization, combined with regional cooperation; measures that are embodied in the AEC Blueprint and related ASEAN agreements like the Master Plan on ASEAN Connectivity.

ASEAN is in the moment. ASEAN has been relatively more resilient to the current global recessionary pressures. ASEAN's share to total inward foreign direct investment in the world has increased by 75% from 2007 to 2011; a number of AMSs are high up in the list of favored direct investment destinations at present. China's overwhelming competitive advantage over ASEAN in terms of labor cost has largely dissipated and the country's likely shrinking labor force in the very near future would firmly shift competitiveness in labor intensive industries toward a number of AMSs. In its stead is a China of a fast growing and vast middle class right on the doorstep of ASEAN. India has been growing robustly also, and ASEAN-India trade has been the growth performer of ASEAN trade in recent years. Thus, ASEAN is right in the geographic heart of the world's premier growth corridor at present and the near future. ASEAN should seize the moment in ASEAN's favor in this fast changing East Asia and grab the opportunity to shine globally.

Implementation of AEC Measures

The drive towards AEC 2015 is already contributing to the surge in foreign direct investment to the ASEAN region drawing from the results of a questionnaire distributed by ERIA to the private sector in the ASEAN. This is in part due to substantial achievements in AEC measures already.

- Tariffs is a success story of political commitment for AMSs, with CEPT rates virtually zero in ASEAN-6 and an average of only 2.6% for the newer CLMV countries in 2010. The impact of the CEPT reduction/elimination on intra-ASEAN trade has been as expected; namely, a rise in share of ASEAN in the import sourcing of AMSs and a geographic spreading of intra-ASEAN trade among AMSs beyond the dominant Malaysia-Singapore trade of the early 1990s.
- Trade facilitation is an emerging success story for ASEAN, with five (5) AMSs having live implementation of National Single Windows (NSW) and a planned full roll out to all the AMSs significant ports and airports and larger number of government agencies connected to NSW by 2015. Two more AMSs are well advanced in their NSW

development while the last three remain committed to the live implementation of NSW by 2015 albeit likely more modestly in light of the tremendous technical, institutional, and regulatory advances that a fully functioning NSW entails. The technical and legal foundations of the ASEAN Single Window, arguably the world's first regional single window, are also being set up for modest live implementation by 2015. The private sector in the ASEAN has been noticing favorably the improvements in customs and import/export clearance in many AMSs in recent years based on the results of the survey of the private sector undertaken as part of the MTR.

- Investment liberalization commitments in the goods sector under the ASEAN Comprehensive Investment Agreement (ACIA) are remarkably liberal in most AMSs, using as yardstick a minimum of 70% allowable foreign equity. Of course, there remains room for further liberalization through a reduction in the number of industries in the ACIA Reservations List.
- There are other more substantial achievements in the AEC Measures, such as the implementation under ASEAN-X formula of the agreements under the Roadmap for Integration of Air Travel Sector (RIATS), the signing and implementation of the five ASEAN+1 FTAs that cover all of the ASEAN+6 partners, the signing and implementation of the Chiang Mai Initiative, and the substantial number of regional cooperation initiatives in many sectors such as agriculture, competition policy and IPR.

Despite the substantial achievements, there remain a lot to be done because the AEC Blueprint covers a much larger policy areas involving so many more policy actions, and even those with substantial achievements have room for improvement. Hence, the Leaders of ASEAN called for prioritization given the limited time in the run up to 2015.

The promise of AEC and the prioritization of AEC measures and policy actions

Simulations using the globally well-known and often used dynamic GTAP model as appropriately modified for the MTR suggest that all AMSs benefit potentially from the ASEAN Economic Community. Simulation results of the IDE/ERIA Geographic Simulation Model (GSM) also indicate that improved connectivity in ASEAN by land and by sea has significant benefit to AMSs, especially the newer AMSs. Much of the benefit would come from reduction in service trade barriers and from improvements in trade and transport facilitation especially in the

newer AMSs. At the same time, the simulations show also that benefits to AMSs are even potentially greater from deeper integration with the rest of the wider East Asia (including Australia, India and New Zealand) with tariff elimination and also more importantly, reduced service trade barriers and improved trade facilitation.

Thus, the simulation results bring out that it is well worth it for ASEAN to push ahead with deeper regional integration and connectivity within ASEAN under AEC and with the rest of wider East Asia under the new approach, Regional Comprehensive Economic Partnership (RCEP). It is also worth noting that underpinning the larger benefits from service trade liberalization and trade facilitation arise from the fact that the more significant barriers to trade and economic efficiency are in those two areas and the barriers tend to be the more difficult to substantially reduce.

Realizing the potentials of AEC and given the limited resources and time to 2015, seizing the moment for ASEAN entails prioritization of AEC measures and policy actions. The MTR Report proposes that ASEAN gives particular emphasis on the implementation towards 2015 of AEC measures that are the central and foundational elements of ASEAN economic integration and connectivity, and at the same time pushing further ASEAN's integration with the rest of East Asia. In addition, ASEAN continues its strong policy emphasis on narrowing development gaps in the ASEAN's regional integration strategy. Thus, the priority AEC measures for implementation in the run up to 2015 are the following: tariff elimination (virtually done in ASEAN-6), addressing NTBs or NTMs with large NTB effects, trade facilitation, services liberalization, investment liberalization and facilitation, transport facilitation, completion of RCEP negotiations as well as enhancing IAI effectiveness and furthering SME development much more. The private sector in the ASEAN gives preponderant emphasis on the implementation of trade, investment and transport facilitation AEC measures in the run up to AEC 2015, based on the results of an ERIA survey. Although these are the AEC measures with the heaviest burden for the success of AEC 2015, their implementation are to be continued, deepened and expanded in scope in terms of policy actions beyond 2015; indeed, for RCEP, the implementation can be expected to be after 2015 even if the negotiations were completed well before 2015.

The other AEC measures are all acknowledged even by the private sector to be important for a fully functioning AEC. However, these measures tend to involve more complex technical or prudential issues or huge financing, requiring a more deliberate and gradual approach and longer time to implementing them. Or the policy actions of the measures are mainly long term and continuing initiatives. Nonetheless, there is a need

for “success stories” of implementation of selected priority policy actions for 2015 of these AEC measures in order to put more bang and add more importance into AEC 2015.

Way Forward toward 2015

The imperatives on the way forward toward 2015 are highlighted below, but the Integrative Report presents the recommendations with greater detail:

1. ***Address the NTB effects of NTMs Systematically.*** The ASEAN economic officials themselves emphasized the importance of having a robust mechanism to address the NTB effects of NTMs considering that there are legitimate reasons for the imposition of a large number of NTMs. The MTR Report recommendations toward a robust mechanism includes standstill on core NTMs, transparency, phase down of both core NTMs and NTMs with substantial NTB effects, establishment of a third party technical monitor and resource, and the strengthening of ACT.
2. ***Deliver better on facilitation.*** Apart from the implementation and continuous improvement of NSW and ASW, improved trade facilitation in the region would call for the full implementation of the ASEAN Trade Repository (underpinned by the national trade repository for each AMS) as well as setting and meeting targets to reduce the number of days to import and export (with the implied streamlining of processes as well as reduction in number of documents and rate of physical inspection of imports). Similarly, improved investment facilitation calls for streamlining processes (preferably with set targets) together with improved inter-agency coordination and increased transparency during the pre-investment stage and operational stage of the firms. The most important MTR recommendation toward improved transport facilitation and connectivity within the region involves the full implementation of the ASEAN transport agreements.
3. ***Forge ahead on liberalization.*** Although the private sector in the ASEAN puts AEC liberalization measures well below facilitation measures in their priorities of AEC measures for implementation by 2015, there cannot be deep ASEAN economic integration and more so a well performing economic community without considerable liberalization. Thus, AMSs need to forge ahead at further services and investment liberalization efforts toward 2015 given the time table and flexibilities embedded in the current approaches. To put more teeth

into the liberalization program, the MTR Report also proposes, among others, that clear guidelines be set with respect to the inclusion of industries in the “minimum” level under Category 2 of ACIA and recommends that domestic regulations need be consistent with the liberalization program. Key recommendation in trade in services include allowing for at least majority foreign ownership in much of the services sectors of the AMSs and setting guidelines on what could not be included in the 15% flexibility clause.

4. ***Enhance AEC Blueprint Third Pillar.*** With relatively modest results of regional SME programs so far as per the results of a survey undertaken for MTR, ASEAN needs to have more concerted regional efforts on SME development to give tangible expression of the Leaders’ commitment to Pillar III of the AEC Blueprint. This includes the implementation of a number of key initiatives of the ASEAN SME Working Group through the ASEAN SME Strategic Plan and the ASEAN SME Policy Index. Similarly, given the relatively favorable assessment of the programs in the IAI by CLMV respondents, the MTR Report recommendations include greater focus on projects that help the newer AMSs countries to meet their AEC obligations, greater coordination of projects in IAI and of Dialogue Partners, as well as graduation of the successful newer AMSs from being recipients of to being a partner-benefactor in the IAI.
5. ***Deepen ASEAN Integration with East Asia and Ensure ASEAN Centrality.*** The challenge is in ensuring a “high quality” regional FTA within East Asia under RCEP. The MTR Report presents specific recommendations toward this end, including setting a 95% tariff elimination target, adoption of a “common concessions” approach as much as possible, deeper services liberalization, extensive use of co-equal rules in rules of origin, and introduction of tangible and concrete trade facilitation programs similar to ASEAN.
6. ***Build Building Blocks by 2015 for a Well Performing Single Market and Production Base and a Fully Integrated, Competitive and Dynamic Economic Community Beyond 2015.*** There is a substantial number of policy actions that, with greater focus and resolve, can be success stories and good building blocks by 2015 in the other AEC measures such as standards and conformance, MRAs on professional services, capital market development and financial integration, ICT, energy, competition policy, IPR, and agriculture. The details are in the MTR Integrative Report.

7. ***Address Institutional Issues and Undertake Concerted Regulatory Reform.*** Toward a more effective implementation of the AEC Blueprint, the MTR Integrative Report emphasizes the importance of strengthening the ASEAN Secretariat as a technical monitor and resource, strengthened monitoring of AEC efforts including the institutionalization of track 1.5 mechanism on AEC, deeper private sector involvement in AEC, more effective dispute settlement system, and the complementary role of concerted regulatory reform in AMSs.

AEC 2015 as Landmark Achievement and Historic Milestone

The concerted region-wide implementation of priority policy actions and reform initiatives under the AEC Blueprint and as set out above in the run up to 2015 would make AEC 2015 a landmark achievement, making ASEAN a region of good economic governance. While AEC's goal and agenda of an equitable, fully integrated globally, and competitive single market and production base is a continuing and evolving challenge and driver for AMSs, AEC 2015 is also a historic milestone, setting well in place solid foundations for an integrated, globally connected, and equitable economic community in ASEAN.

ASEAN Way

More fundamentally, AEC 2015 as landmark achievement and historic milestone is a signature success of "ASEAN Way" of regionalism and integration based on shared aspirations, interests and values; mutual trust and accepted procedures; frequent interaction and consensus building; flexibility and pragmatism, and strong Leaders' commitment to deeper regional integration. The ethos of the echoed spirits to appreciate the various diversities as the source of dynamism and development would be contemplated as one of the most important contribution building "Asian Identity" in the bright future.



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List of Abbreviation

AAC	ASEAN Architecture Council
AAPPI	ASEAN Agreement for the Promotion and Protection of Investment
ABIS	ASEAN Business Investment Summit
AC SPS	ASEAN Committee on Sanitary and Phyto-sanitary
ACCSQ	ASEAN Consultative Committee for Standards and Quality
ACFTA	ASEAN China Free Trade Area
ACI	ASEAN Cargo Information
ACIA	ASEAN Comprehensive Investment Agreement
ACPECC	ASEAN Chartered Professional Engineer Coordinating Committee
ACT	ASEAN Consultation to Solve Trade and Investment issues
AEC	ASEAN Economic Community
AEGC	ASEAN Experts Group on Competition
AEM	ASEAN Economic Ministers
AEO	Authorized Economic Operator
AFAFGIT	ASEAN Framework Agreement on Facilitation of Goods in Transit
AFAS	ASEAN Framework Agreement on Services
AFTEX	ASEAN Federation of Textiles Industries
AH	ASEAN Highway
AHN	ASEAN Highway Network
AIA	ASEAN Investment Area
AIF	ASEAN Infrastructure Fund
AIMO	ASEAN Integration Monitoring Office
AKFTA	ASEAN Korea Free Trade Area
AMRO	ASEAN Plus Three Macroeconomic Research Office
AMS	ASEAN Member State
APG	ASEAN Power Grid
APSC	ASEAN Political Security Community
APTA	Asia Pacific Trade Agreement
APTERR	ASEAN Plus Three Emergency Rice Reserve
ASAM	ASEAN Single Aviation Market
ASCC	ASEAN Socio-Cultural Community

ASEAN	Association of South East Asian Nation
ASEAN CCI	ASEAN Chamber of Commerce and Industry
ASEC	ASEAN Secretariat
ASW	ASEAN Single Window
ASYCUDA	Automated System for Customs Data
ATIGA	ASEAN Trade in Goods Agreement
ATR	ASEAN Trade Repository
BAP	Brunei Action Plan
BDS	Business Development Services
BEDB	Brunei Economic Development Board
BOC	Bureau of Customs
BSEC	Black Sea Economic Cooperation
CAB	Conformity Assessment Body
CARICOM	Caribbean Community
CCA	Coordinating Committee for the Implementation of the ATIGA
CCI	Coordinating Committee on Investment
CCS	Coordinating Committee on Services
CDC	Council for Development of Cambodia
CEPEA	Comprehensive Economic Partnership for East Asia
CEPT	Common Effective Preferential Tariff
CJK	China Japan Korea
CLM	Cambodia Lao PDR Myanmar
CLMV	Cambodia Lao PDR Myanmar Viet Nam
CO	Certificates of Origin
CPR	Committee of Permanent Representatives
CRR	Common Regulatory Regime/Requirements
CTH	Change in Tariff abbreviation
CTS	Custom Transit System
DIP	Department of Investment Promotion
DMIA	Diosdado Macapagal International Airport
DOLE	Department of Labor and Employment
DSG	Deputy Secretary General
DSM	Dispute Settlement Mechanism
DTI	Department of Trade and Industry
EAFTA	East Asian Free Trade Area
EDI	Electronic Data Interface
EDSM	Enhanced Dispute Settlement Mechanism

EEE	Electronics and Electrical Equipment
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FAME	Furnishing and Apparel Manufacturers' Exchange
FDI	Foreign Direct Investment
FGD	Focus group Discussion
FIA	Foreign Investment Agency
FTA	Free Trade Area
GAHP	Good Animal Husbandry Practices
GAP	Good Agriculture Practices
GAqP	Good Aquaculture Practices
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GHP	Good Hygiene Practices
GMP	Good Manufacturing Practice
GTAP	Global Trade Analysis Project
HACCP	Hazard Analysis and Critical Control Point
HLTF-EI	High level task Force – Economic Integration
HPA	Hanoi Plan of Action
HRD	Human Resource and Development
HS	Harmonized Standard
IAI	Initiative on ASEAN Integration
ICT	Information and Communication Technology
IDE	Institute of Developing Economies
IP	Intellectual Property
IPA	Investment Promotion Agency
IPF	Investment Promotion and Facilitation
IPOPHIL	Intellectual Property Office of the Philippines
IPR	Intellectual Property Right
ISC	Institute of Standards of Cambodia
ISO	International Organization for Standardization
IT	Information Technology
LAIA	Latin American Integration Association
LMT	Labor Market Test
MAAS	Multilateral Agreement on Air Services
MAFLAFS	Multilateral Agreement on the Full Liberalization of Air Freight Services

MAFLPAS	Multilateral Agreement on the Full Liberalization of Passenger Air Services
MC	Monitoring Committee
MFN	Most Favored Nations
MIEC	Mekong-India Economic Corridor
MIPR	Ministry of Industry and Primary Resources
MNC	Multi National Corporation
MOF	Ministry of Finance
MOT	Ministry of Transport
MPAC	Master Plan on ASEAN Connectivity
MPI	Ministry of Planning and Investment
MRA	Mutual Recognition Arrangement
MSMEs	Micro, Small, and Medium Enterprises
MTR	Mid-Term Review
NIEs	Newly Industrialized Economies
NSW	National Single Window
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
NTR	National Trade Repository
OECD	Organization for Economic Cooperation and Development
OGAs	Other Government Agencies
OSMEP	Office of Small and Medium Enterprises Promotion
OSOS	One Start One Stop Investment Services
PDR	People Democratic Republic
<i>PEMUDAH</i>	<i>Pasukan Petugas Khas Pemudahcara Perniagaan (The Special Taskforce to Facilitate Business)</i>
PEZA	Philippines Economic Zone Authority
PIS	Priority Integration Sector
PPA	Philippines Port Authority
PPP	Public Private Partnership
PRC	Professional Regulation Commission
PSS	Payment and Settlement System
PWG	Product Working Group
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership
RIATS	Roadmap for Integration of Air Travel Sector
ROO	Rules of Origin
RoRo	Roll-on Roll-off

RTGS	Real-Time Gross Settlement
RVC	Regional Value Content
SKRL	Singapore-Kunming Railway Link
SME	Small and Medium Enterprise
SMEWG	Small and Medium Enterprise Working Group
<i>SNI</i>	<i>Standar Nasional Indonesia</i> (Indonesian National Standard)
SPS	Sanitary and Phyto-sanitary
TAGP	Trans-ASEAN Gas Pipeline
TMHS	Traditional Medicine Health Supplement
TPP	Trans-Pacific Partnership
U.S.	United States of America
USF	Universal Service Fund
WP	Work Plan
WTO	World Trade Organization

Seize the Moment:

Executive Summary of the Mid-Term Review of the Implementation of AEC Blueprint

A. Introduction

The 41st ASEAN Economic Ministers (AEM) held in Bangkok in 2009, as conveyed by the AEM 2011 Chair, H.E. Mari Elka Pangestu, in her 15 April 2011 letter to the Economic Research Institute for ASEAN and East Asia (ERIA) together with the Terms of Reference, requested ERIA to assist ASEAN in undertaking the Comprehensive Mid-Term Review (MTR) of the ASEAN Economic Community (AEC) Blueprint and in providing policy analyses/recommendations to the AEM in order to (a) assess the effectiveness of the adopted measures of the AEC Blueprint as well as the contribution of the AEC Blueprint measures to economic growth, employment, competitiveness and social welfare within ASEAN, and to (b) provide recommendations to enhance the implementation of the AEC Blueprint.

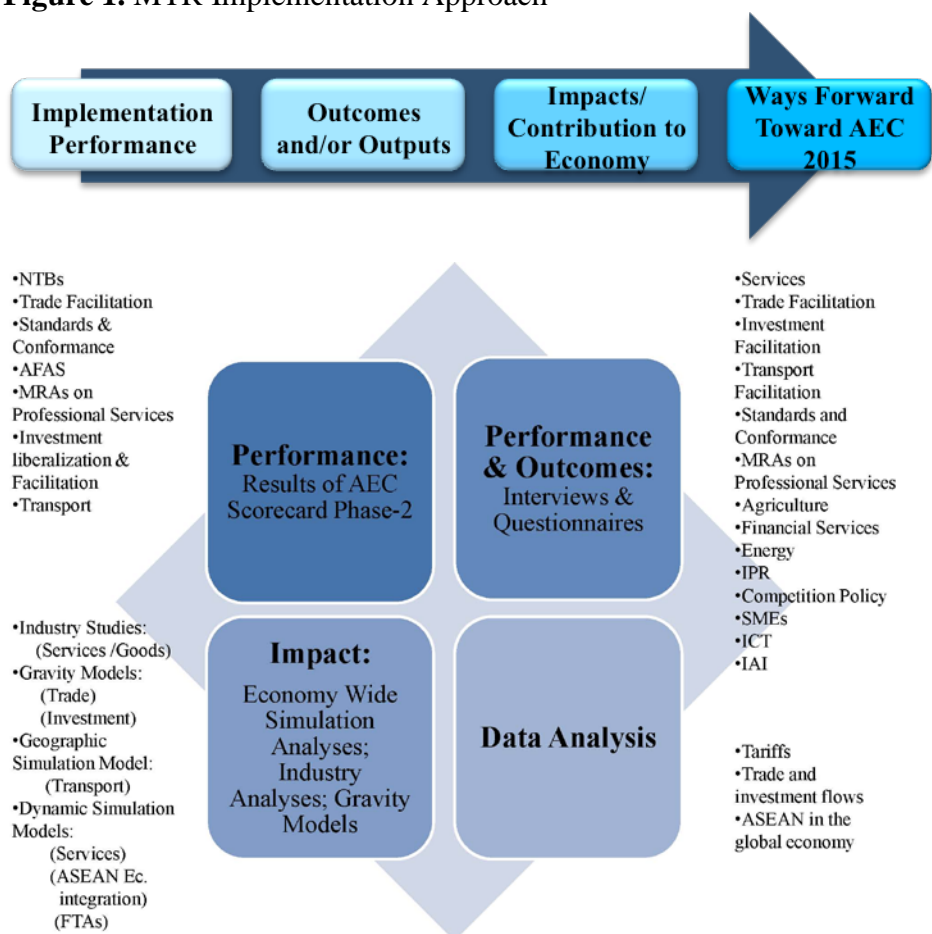
The Terms of Reference of the MTR can be broken down into three (3) major tasks; namely: (a) implementation performance of the ASEAN Member States (AMSs) on the AEC measures; (b) the outcomes and impacts or contributions to the economy, actual or potential; and (c) way forward toward accelerated implementation of the AEC measures toward AEC 2015. The MTR covered most of the key measures in the AEC Blueprint except for the measures under the priority integration sectors, consumer protection, and taxation.

The general approach to the implementation of the MTR is captured in **Figure 1** below. The analysis of the implementation performance of the AMSs is based on the results of the ERIA project “ERIA Study to Further Improve the ASEAN Economic Community Scorecard Phase II: Toward a More Effective AEC Scorecard Monitoring System and Mechanism (AEC Scorecard Phase II)” as well as on updates undertaken by the MTR Study Team¹. For outcomes and impacts, the MTR Study Team

developed a number of questionnaires for small surveys or interviews of concerned officials or the private sector; the MTR Study Team also used secondary data where relevant. The analysis of economy wide effects relied on simulation analyses based on computable general equilibrium models. Three such models were used in the Study to examine the economy wide effects of services liberalization, regional integration in ASEAN and various FTA options, and the household impact of agriculture trade liberalization. In addition, two gravity models were also used to examine impact of CEPT tariff elimination on intra-ASEAN trade as well as bilateral investment flows. Finally, the MTR Study also made extensive use of the IDE-ERIA Geographic Simulation Model to examine the economic implications of transport and trade facilitation initiatives at a more spatially disaggregated level.

The details of the approach and the analysis are discussed in each of the corresponding chapters of the MTR Main Integrative Report.

Figure 1. MTR Implementation Approach



Source: ERIA MTR Core Team

B. ASEAN and the AEC: Opportunities and Challenges

The Importance of the AEC

The AEC is a highly valuable yet ambitious policy goal, aiming at a single market and production base that is a region of equitable development and is competitive internationally and fully integrated to the global economy. The AEC Blueprint, adopted by the Leaders in 2007, elaborated the AEC concept by providing detailed and specific policy measures with strategic schedules for priority actions to achieve the AEC by 2015 (ASEAN, 2009).

AEC is important for ASEAN in the light of opportunities and challenges that the region faces. On the one hand, ASEAN has lost its role as the prime foreign investment destination in the developing world during the early 1990s. Yet, foreign investment has been a central driver of ASEAN's competitiveness and economic dynamism. On the other hand, ASEAN is the geographic center of the world's growth corridor at present, from Northeast Asia through ASEAN and India. This offers opportunities and poses challenges to ASEAN.

Table 1 presents the share to all developing countries of each of the four most important regional integration areas in the developing world; i.e., ASEAN, APTA (Asia Pacific Trade Agreement composed mainly of China, India and South Korea), BSEC (Black Sea Economic Cooperation consisting of countries around the Black Sea including Russia, Turkey, Georgia and Ukraine) and LAIA (Latin America Integration Association encompassing virtually all of the major Latin American countries). As **Table 1** shows, ASEAN had the highest share of FDI, exports and imports among the major regional economic integration areas in the developing world during the early 1990s. However, the ASEAN has been substantially eclipsed by the other regional groupings as an investment destination during the latter 1990s and much of the past decade. The region's economic growth in much of the 2000s has also been less than stellar compared to APTA and, during the early 2000s, BSEC countries (see **Table 2**). As suggested by **Table 1**, the less than stellar growth performance of the AMSs compared to APTA (and to some extent, BSEC) countries can be traced to some extent on the substantial drop in the share of ASEAN to the total FDI flows to, and the total exports and imports of, all the developing countries as compared to the shares of APTA and BSEC regions.

At the same time, ASEAN is in the middle of the fast growing, largest growth corridor in the world today, spanning from Northeast Asia through the ASEAN region and onto India. East Asia is also in the throes of a major economic transformation. The fast economic growth of China and its emergence as an export powerhouse especially in labor intensive manufactures has one important result which will likely lead to further economic restructuring and transformation in East Asia. Specifically, China's hitherto huge "labor surplus reserve" has largely gone and in its place is a huge and growing middle class. In addition, China is moving headlong into skilled labor intensive industries, including major expansions in tertiary education and sharp rise in R&D expenditures. Thus, China's real wages can be expected to spike up more substantially while the growth of China's middle class would mean more solid growth in domestic consumption and imports of goods and tradable services.

The ASEAN region will likely be impacted by these developments. Already, the flow of foreign investments into Cambodia and Viet Nam is partly attributable to the rise in labor costs in China's south eastern provinces. Recent newspaper reports also suggest that ASEAN countries especially Viet Nam, Indonesia, Thailand and the Philippines are likely major beneficiaries of the FDI spillovers arising from the spike up in real wages in China. On the other hand, the significant improvement in the capacity of China in skilled labor intensive industries will pose further pressures on the concerned industries in such countries like Malaysia, Philippines, and Thailand. At the same time, China's surging middle class offers opportunities for profitable market niching by ASEAN firms especially in the light of the ASEAN-China FTA.

The surge in imports of differentiated products in China from the mid-1990s to the latter 2000s is indicative of the potentials for increased exports from ASEAN to China². Similarly, China's fast growing and huge middle class and Northeast Asia's ageing but well off population offer tremendous growth opportunities for tourism, healthcare and wellness service industries where ASEAN countries have strong comparative advantage. East Asia's robust growth would lead to large and growing demand for more income elastic products (e.g., tropical fruits, design based garments and furniture) and industrial materials (e.g., minerals, bio-fuels, rubber) where a number of ASEAN countries have comparative advantage. ASEAN region is also a significant world player in electronics, with strong presence of multinationals and a number of homegrown firms. If ASEAN upgrades alongside China's fast improvement in the industry as well as Japan and NIEs technological advances, East Asia remains the global production hub for the industry. ASEAN countries have proven (Philippines, Singapore, Malaysia) and

potential (Viet Nam, Thailand) international competitiveness in the fast growing voice and non-voice business and knowledge process outsourcing industries and ICT-based service industries (e.g., animation).

Table 1. Selected Statistics on Major Regional Integration Areas in Developing World

Year	Share of GDP (%)				Share of FDI Inward (Flow, %)				Share of FDI Inward (Stock, %)				Share of Total Export (%)				Share of Total Import (%)			
	LAIA	APTA	ASEAN	BSEC	LAIA	APTA	ASEAN	BSEC	LAIA	APTA	ASEAN	BSEC	LAIA	APTA	ASEAN	BSEC	LAIA	APTA	ASEAN	BSEC
1990	32.3	24.1	8.0	10.5	22.2	13.0	36.8	4.9	18.8	5.5	12.4	3.3	15.6	17.7	17.3	3.8	13.3	19.2	20.4	7.2
1995	29.4	28.3	9.1	18.6	24.3	35.6	24.4	4.4	19.9	14.0	18.0	4.1	14.5	21.7	22.5	10.0	14.3	21.0	23.7	11.0
2000	26.7	32.6	8.5	15.6	29.2	21.0	9.2	3.1	23.4	14.9	15.4	4.9	16.1	23.2	21.0	8.7	17.6	23.6	19.8	9.1
2005	23.7	36.5	8.5	16.1	20.5	26.6	12.3	13.4	24.2	15.8	15.0	13.2	13.9	30.6	17.2	11.0	13.3	31.8	17.6	12.2
2010	21.0	42.3	8.0	14.5	18.3	24.2	13.8	12.0	20.6	15.4	15.8	14.5	12.9	36.2	16.6	11.0	13.1	36.5	15.9	11.9

Source: Computed from UNCTAD STAT (2012).

Table 2. Average Growth Rates on Major Regional Integration Areas in Developing World (in %)

Group of Country	1990-1994	1995-1999	2000-2004	2005-2010
Developing economies	4.9	4.4	5.1	6.2
LAIA	3.0	2.4	2.6	3.9
APTA	8.3	7.4	7.5	9.1
ASEAN	7.5	3.2	5.1	5.4
BSEC	-2.3	0.8	5.8	3.9

Source: Computed from UNCTAD STAT (2012).

However, China's fast and dynamic transformation presents tremendous competitiveness challenges to ASEAN industries and firms in third-country and domestic markets across a wide range of industries. Thus, for example, the drop in the global trade shares of Malaysia and the Philippines during the 2000s can be attributed in part to the dramatic rise of China's global share (from 3.3% in 1990 to 19.9% in 2008) in electrical and electronics equipment (EEE, HS 85), a major export item of both countries especially of the Philippines. Indeed, some model simulations suggest that China would significantly crowd out ASEAN exports in most Western and other non-East Asian economies by 2020 if

China liberalizes unilaterally and ASEAN does not follow suit and adjust accordingly (Roland-Holst, 2002).

India is also growing fast and ASEAN-India trade has been surging at a fast clip in recent years, although the level of trade is still relatively small compared to the ASEAN-China trade. India does not appear to be a compelling constraint to ASEAN's exports to third markets at the moment. And as India grows fast and its middle class increases substantially, the potential for possible complementarity between ASEAN countries and India would likely increase also.

There is one important aspect where both China and India pose a challenge to ASEAN: both countries are large countries with huge domestic markets; in contrast, ASEAN consists of 10 countries with varying priorities, policies and institutions. Thus, potentials for economies of scale are better realized in the two large countries as compared to ASEAN unless there is greater connectivity, efficient facilitation, and more common regulatory framework in the ASEAN. Arguably, ASEAN's drive towards a single market and production base under the AEC can be likened to mimic China and India, since an ASEAN population of around 600 million is a pretty large market by itself. The more open, integrated and connected the AMSs are among themselves as well as with the rest of East Asia and beyond, the better would the ASEAN region be able to respond both to the challenges and the opportunities of the two huge countries, East Asia overall, and the rest of the world.

The ASEAN Heads of State have decided that the pursuit of the AEC and implementation of the action plans towards the AEC, embodied in the AEC Blueprint, is the major way forward in restoring and/or improving ASEAN's attractiveness as an investment destination, deepen economic linkages intra-regionally and with the rest of East Asia and the world, and regain its robust economic growth performance and thereby improve further the economic welfare of the citizenry. Greater openness, integration and connectivity are at the heart of the drive for the AEC. ***The fundamental challenge is in ensuring that the action plans in the AEC Blueprint will in fact get implemented.***

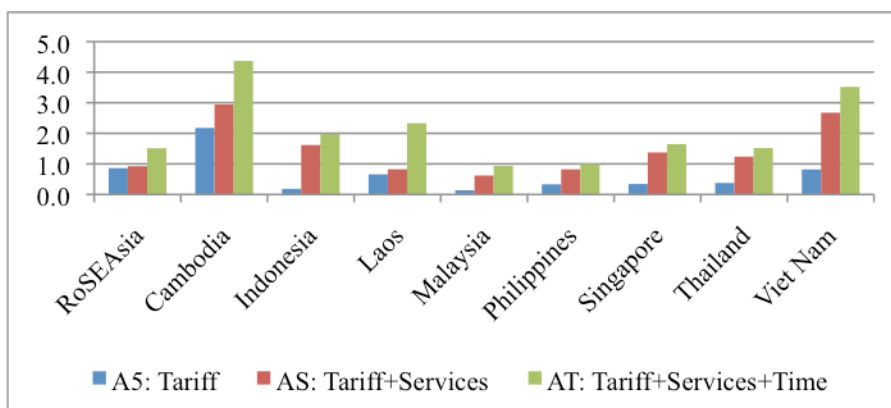
The Promise of AEC (and ASEAN+1 FTAs/RCEP)

Simulation results using a dynamic GTAP global trade analysis computable general equilibrium model indicate that there are benefits to deeper economic integration in the ASEAN region, and much more so, in East Asia, although the magnitude of impacts differs among AMSs. **Figure 2** shows the impact on the GDP of AMSs if (a) all CEPT tariffs

within ASEAN are eliminated; (b) all tariffs are eliminated and there is a 20% reduction in the tariff equivalent of service trade barriers; i.e., some service trade liberalization, and (c) item b plus a 20% reduction in the time cost to export or import; i.e., improved trade facilitation. The simulations show the *cumulative impact* of the policy change on GDP, exports, imports, etc relative to the baseline over the 2011-2015 periods as measured by 2015. Note that, as simulation analyses, we are estimating what would be the likely impact if the policy change indicated in the scenario were to be implemented or were to occur.

The simulation results are instructive. **Figure 2** shows that the impact on GDP of the complete tariff elimination is largely marginal for most AMSs, with the exception of Cambodia and to a less extent Viet Nam and Lao PDR. This is because the CEPT tariffs were very low in the other AMSs while Cambodia had the highest average CEPT rate by 2004 which was the reference year for the simulations. As the figure suggests, the biggest percentage jump on GDP growth for Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam is from the reduction in the tariff equivalent of service trade barriers; i.e., service trade liberalization. Reduction in time costs due to improved trade facilitation, infrastructure and logistics also has significant positive impact on the national outputs of AMSs, but most especially Lao PDR, Cambodia and Viet Nam.

Figure 2. Impact of AEC on GDP (Cumulative percentage increase over baseline 2011-2015 in 2015)



Notes: Brunei is proxied by “Rest of South East Asia” in the simulation.

No estimates for Myanmar because of GTAP modeling constraints.

Source: Itakura (2012).

The results are both insightful and not surprising on equal measure. Lao PDR takes the longest time to move goods for export and import, followed by Cambodia as Chapter IV of the MTR Integrative Report shows. Thus, a proportionate reduction in time to export or import means more days reduced for Lao PDR, with the concomitant large benefit on the country's GDP. Similarly, the AMSs have much higher implied rates of protection in services trade than tariffs; not surprisingly, reducing the rate of protection has large beneficial impact on the economies. The results point essentially to the truism that addressing key bottlenecks give the biggest bang to the economies. It may be noted though that eliminating or reducing such bottlenecks may not be easy at all such that policy focus and push as well as political will may be needed to address such bottlenecks.

Figure 3 presents the impact on AMSs GDP of deeper East Asia integration, either ASEAN+3 or ASEAN+6 where there is tariff elimination, a 20% reduction in the tariff equivalent of service trade barriers, and a 20% reduction in the time cost of exporting or importing in the East Asia region. **Figure 3** shows that the benefits to the AMSs are greater with deeper East Asia integration than with AEC alone. This reflects the fact that ASEAN economies are very much integrated in the production networks in the region. Indeed, for example, much of the most traded commodity within the ASEAN, EEE, ends up in the rest of East Asia (mainly China) since ASEAN EEE exports are mostly intermediates that become inputs to final goods produced in China largely for export to the rest of the world. Input sourcing from the whole of East Asia is also a critical element of the export oriented textile and garment industry in Viet Nam and Cambodia, much of it destined for Western countries. Although not shown in **Figure 3**, the impact of (partial) service sector liberalization and improved trade facilitation on the AMSs GDPs is much greater than that of tariff elimination only, suggesting the critical importance of addressing service sector liberalization and trade facilitation (and logistics related sectors) in deeper economic integration initiatives in the East Asia; i.e., ASEAN+1 FTAs, RCEP.

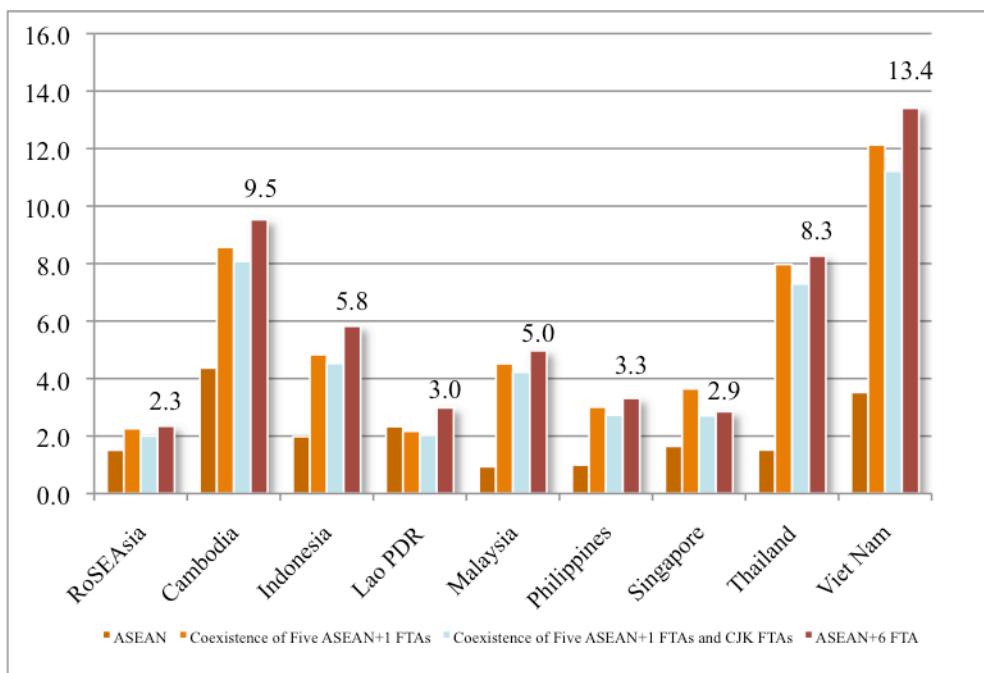
It is worth noting that computable general equilibrium models like the GTAP that was used for **Figures 2** and **Figure 3** tend to underestimate the economic effects because they do not capture well the effects of productive efficiency, technology improvements and even possibly the extent of improvement in investor expectations as a result of the reform efforts embedded in regional integration efforts

Chapter XVI of the MTR Integrative Report discusses the macroeconomic underpinning and sectoral output implications of the

GDP results shown in **Figure 2** and **Figure 3**. Investment is a key differentiator of the GDP effects of AMSs; i.e., countries with high GDP effects are also the ones with high investment effects; countries with low GDP effects tend to also have low investment effects. Similarly, countries with high GDP effects have high growth of real wage rates of unskilled labor; those with low GDP effects have much more modest impact on real wage rates of unskilled labor. It is worth noting also that the AMSs with high growth of real wage rate of unskilled labor necessarily undergo significant economic restructuring, primarily away from the less productive segments of the agriculture sector and towards manufacturing (e.g., Viet Nam), utilities, and construction and tourism related industries (especially Cambodia). The simulation results provide some indications of the potentials and the country specific adjustment challenges in managing deeper economic integration in the ASEAN and East Asia.

In summary, the rapidly increasing presence and influence of China and India in ASEAN's neighborhood provide large opportunities, while at the same time posing risks from competition. These countries can enjoy large economies of scale within their huge domestic markets, free from undue costs from at-the-border costs (e.g., tariffs) and for compliance with a variety of behind-the-border rules (e.g., investment regulations). The AEC measures help address the above mentioned disadvantages of ASEAN while at the same time creating large potential economic impacts to all the AMSs by reducing trade barriers and transaction. Especially, these measures contribute to attracting a large amount of FDIs which are an important source for both economic growth and knowledge acquisition. Also, the peer learning among the countries with similar challenges will help the AMSs governments to improve their governance. Thus, the implementation of the AEC measures is of vital importance for the robust economic growth of all the AMSs.

Figure 3. Economic Impact (on GDP) of ASEAN’s FTA and Five ASEAN+1 FTAs (Percentage Point, accumulated from 2011 to 2015)



Notes: Brunei is proxied by “Rest of South East Asia” in the simulation; Myanmar is not included in the simulations because of GTAP modeling constraints.

Source: Itakura (2012).

Seize the Moment

In summary and to reiterate, it is high time for ASEAN to intensify its efforts towards the AEC. Due to the demographic changes as well as its rapid growth, China is facing increasingly high wages. The size of China’s labor force is estimated to hit the top and start shrinking in the near future, which will result in rising real labor costs as well as fast growing middle class. This potentially increases ASEAN’s attractiveness as an investment destination and as an export platform, other things being equal. ASEAN should **seize the moment** in ASEAN’s favor in this fast changing East Asia and grab the opportunity to shine globally.

In addition, AEC 2015 provides a **golden opportunity** for the AMSs to work together to implement **coordinated and concerted domestic reform initiatives**, which makes each AMS and the region more attractive destination, more competitive production base, and a more

robust and equitable economic area. The initiatives should include both accelerated facilitation and continued, managed, and strategic liberalization, all embodied in the AEC Blueprint.

Three years to 2015 is a narrow window to seize this golden opportunity for such a concerted reform effort in the region, and make **ASEAN globally known as a region of good economic governance**. In addition, it is a narrow window to ensure that AEC 2015 becomes a **landmark achievement** of concerted efforts and “success stories” of community building, economic integration, regional cooperation, and people participation.

While the AEC’s goal and agenda of an internationally competitive and globally connected single market and production base with equitable development remains a continuing challenge and driver for AMSs in years to come in the face of a fast changing international economic environment, *AEC 2015 needs to set well in place (at least) the basic foundations for an integrated, globally connected and equitable ASEAN*. Given the limited time to 2015, it is thus important to set some prioritization among the AEC measures and many policy actions on the one hand and for AMSs to “redouble efforts,” strengthen political will, and allocate sufficient resources to ensure implementation of such prioritized measures and policy actions.

C. Substantial Achievements in AEC Measures

It must be emphasized that there have already been a number of substantial achievements by AMSs on the road to AEC 2015. The following are the most noteworthy:

Tariffs. This is a success story of political commitment for AMSs. CEPT rates are virtually zero for ASEAN-6.³ The average CEPT rate for CLMV was 2.6% in 2010. There is no reason to doubt that the CEPT tariff elimination in the CLMV would not be continually on track as scheduled.

<p style="text-align: center;"><i>Average CEPT Rate</i> <i>ASEAN-6: virtually zero</i> <i>CLMV: 2.6% (2010)</i></p>
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Overall, the impact of the CEPT reduction/elimination has been consistent with expectations: there has been an increase in intra-ASEAN import

sourcing in the 2000s, which is consistent with the rise in Margin of Preference within ASEAN due to CEPT reduction/elimination. Intra-ASEAN trade share increased for around 20 of the top 25 traded commodities in the ASEAN. Moreover, intra-ASEAN trade became more geographically spread out among AMSs. The gravity model results show very many industries where imports are responsive to tariff differentials in many of the AMSs.

Trade facilitation. Assuming strong political support in all the AMSs, this is an *emerging success story* for ASEAN. Five AMSs – Indonesia, Malaysia, Philippines, Singapore and Thailand – have live implementation of NSW already with planned full roll out to all significant ports and airports by 2015. Two more AMS – Brunei and Viet Nam – are in advanced

stages of development towards live implementation by 2015, and for Viet Nam, planned coverage of about half of all import and exports by then.

NSW operational: 5 AMSs

Private sectors noted

improvement in the

import/export and customs

clearance in a number of

AMSs in recent years

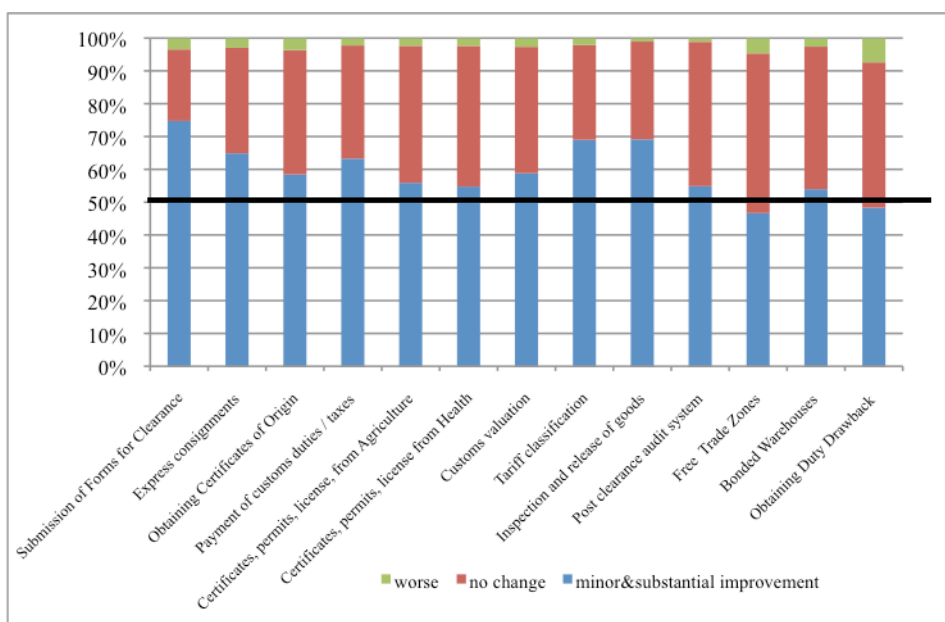
The last three – Cambodia, Lao PDR and Myanmar – are still in the early stages of NSW implementation and would require huge effort in order to have a pilot live NSW implementation covering, say, a very small number of agencies and the main port by 2015. The ASW Pilot project is underway; thus, at least a partial ASW implementation covering 7 AMS appears to be likely by 2015, with a full coverage of ten AMSs not quite farfetched by 2015 given the high policy support for this initiative.

The rules of origin (ROOs) in the ASEAN are also a significant achievement of ASEAN. The ROOs have evolved and become more liberal and business friendly. The utilization rate of the preferential rates of tariff is modest, in part because the number one traded commodity – electrical machinery and electronics – in the region has largely zero MFN tariff and as such there is no margin of preference to be had. Nonetheless, lack of information appears to be an important reason also; thus, it appears that more information dissemination on the ROOs may be needed especially to SMEs. In addition, the more expeditious it is to get a certificate of origin (CO), the higher is the likelihood of utilization of the preferential trade agreements (including ATIGA).

The AMSs trade facilitation unilateral and regional initiatives appear to be bearing fruit already even if they are still very much underway. There has been reduction in the number of days to import and export in some AMSs especially in Thailand. Also, the private sector has noted improvements, either minor or substantial, in the import/export and customs clearance of many of AMSs during the past two years, based on a questionnaire sent out to the private sector under the AEC MTR project (see **Figure 4**).

Nonetheless, the private sector in a number of AMSs still find the documentary requirements for import and export excessive and time consuming. Moreover, a considerable percentage of the private sector in a number of countries view that irregular and arbitrary payments are often required in order to expedite the release of goods from customs.

Figure 4. Good News: Percentage of Respondents in ASEAN Stating Improvement in Customs Performance during 2009-2011

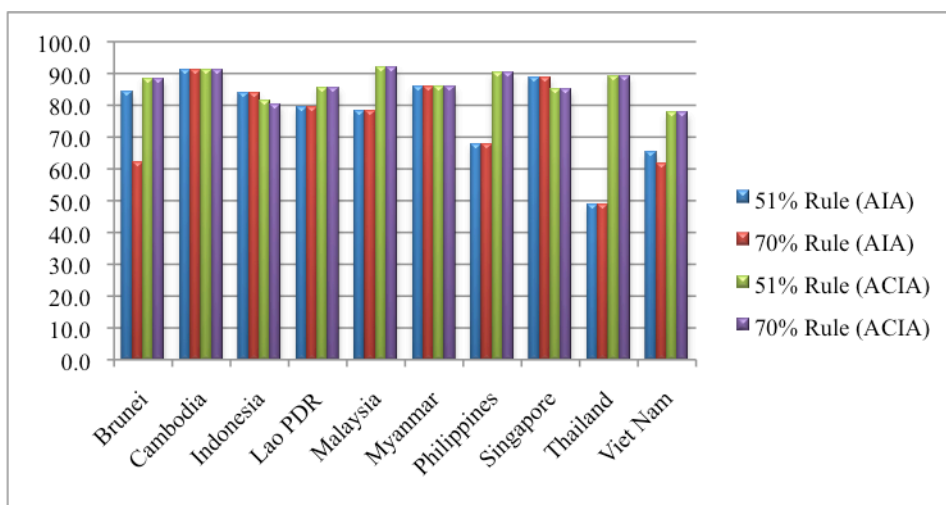


Source: Computed by Intal and Laksono.

Investment liberalization and facilitation. The investment liberalization performance is best captured by **Figure 5** which presents foreign investment liberalization rates in the goods sector in the AMSs. The liberalization rates used an updated methodology used in the ERIA AEC Scorecard Project Phase II. **Figure 5** presents the liberalization rates based on the AIA lists and the more ACIA reservation list (that

superseded the AIA list). **Figure 5** presents a region that has a relatively open investment regime in the goods sector (agriculture, fishery and forestry; mining, and manufacturing), the focus of ACIA (and AIA earlier). Three AMSs have liberalization rates of at least 90% out of 100%; five AMSs are between 85% and 89% and the other two hover around 80%.⁴ Nevertheless, there remains room for further liberalization, although liberalization in the agricultural sector and the oil/gas sector appears to pose political economy challenges in a number of AMSs.

Figure 5. Overall Foreign Investment Liberalization Rate



Source: Intal, et al. (2011), as updated by Intal and Panggabean.

The ERIA AEC Scorecard Phase II also scored AMSs on investment facilitation and promotion against generally accepted international best practices. The methodology is discussed in the AEC Scorecard project. The results show that the original AMSs are near the international best practice while the newer AMSs and Brunei have much more room for improvement toward international best practice.

The results of the MTR survey show that the private sector has noted improvements in the AMSs investment facilitation and climate during the past two years, especially in the CLMV countries and Malaysia. The number of days to start a business has also declined in virtually all the AMSs during the past decade (no data for Myanmar). The improved investment climate is consistent with the significant rise in intra-ASEAN FDI and the share of ASEAN to the total FDI flows to developing countries during the 2000s.

Air Transport. Under ASEAN–X formula, ASEAN has made significant progress toward the establishment of the ASEAN Single Aviation Market (ASAM). The agreements under the Roadmap for Integration of Air Travel Sector (RIATS) and their protocols have been signed (in May 2009).

The agreements are the Multilateral Agreement on the Full Liberalization of Air Freight Services (MAFLAFS) and the Multilateral Agreement on Air Services (MAAS). MAFLAFS has already entered

***MAFLAFS, MAFLPAS,
and MAAS entered into
force under
ASEAN-X***

into force with nine AMSs. MAAS has already been ratified by eight AMSs. The Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS) has been concluded in 2010, ratified by five AMSs and has entered into force among the five ratifying AMSs.

The success of the air transport agreements suggests that ASEAN–X formula can be useful in pushing forward the regional agenda. At the same time, the significant successes of air liberalization in a number of AMSs (e.g., Philippines) as well as the proven benefits of increased competition in air travel through the surge in budget airlines and budget travel globally and regionally could have been important facilitating factors for the relatively faster pace of agreement and ratification of air transport agreements as compared to the ASEAN agreements on land transport and maritime transport.

Deepening ASEAN integration with East Asia. ASEAN has significant achievements in its efforts at deepening integration with East Asia. ASEAN has “completed” five (5) ASEAN+1 FTAs, which cover all the original 16 members of East Asia Summit. Two of the FTAs have also been deepened with more packages and agreements signed; i.e., ACFTA and AKFTA, while negotiations are ongoing for services and investment agreements with Japan and India. The evolution of the FTAs has engendered a more coherent ASEAN approach and policies to external relations, best exemplified by the Regional Comprehensive Economic Partnership (RCEP) templates currently being developed or refined. RCEP is itself a unified ASEAN approach to address the conflicting proposals of EAFTA and CEPEA from two of ASEAN’s most important Dialogue Partners. The interests of other trading partners for an FTA with ASEAN; e.g., EU, US, Gulf Cooperation Council, reflects to some extent

ASEAN's rising visibility and credibility in the international arena as well as an indication of the trading partners' appreciation of the economic opportunities offered by ASEAN itself.

Other achievements. There are more achievements in the other AEC measures. The Chiang Mai Initiative is itself a very significant landmark of ASEAN+3 cooperation. The MRAs on engineers and architects are well on the way to full implementation with regional and national structures and systems in place, a few countries already made recommendations for regional accreditation/certification; what remains are the changes in national laws to enable the ASEAN certified architects and engineers to practice their professions in the destination AMSs. Regional cooperation initiatives in areas such as IPR and competition policy are remarkable. Similarly, AMSs have expanded and deepened their areas of cooperation to more than what is indicated in the AEC Blueprint; e.g., ICT, energy. Nonetheless, perhaps the most remarkable is in food, agriculture and forestry where there is indeed a very wide range of cooperation initiatives in the ASEAN region.

D. Prioritization of AEC Measures and Policy Actions

The ASEAN Leaders reiterated their commitment to AEC 2015 in the Phnom Penh Declaration on ASEAN, issued in the ASEAN Summit in April 2012, which reads:

“[Leaders agreed to commit] to implement AEC blueprint measures toward full economic integration under the ASEAN single market and production base, by deepening and broadening its internal economic opportunities, fostering effective cross-border facilitation to provide greater market size and bigger economies of scale, and by nurturing dynamic linkages with the global supply chain and the world economy by increasing competitiveness through both hard and soft connectivity, and by attaining regional integration through effective implementation of various ASEAN initiatives and Action Plans.”

Three years to the end of 2015 is a narrow window to seize the moment for ASEAN. AEC building requires the implementation of a significant number of policy actions, which is by no means an easy task. On the other hand, having in mind the global competition for attracting FDIs, ASEAN

must not fail in AEC building. Therefore, all the AMSs should double their efforts for the AEC by 2015. In doing so, the ASEAN Leaders stressed, in the Phnom Penh Declaration on ASEAN, the need to “**set priority activities and concrete key measures to address the challenges and obstacles in realizing the [AEC]**” (ASEAN Secretariat, 2012).

The AEC Blueprint consists of the four pillars which are interlinked with each other, namely: (a) single market and production base; (b) competitive economic region; (c) equitable economic development; and (d) integration into the global economy. The MTR Integrative Report examined most of the policy measures in the AEC Blueprint in all the four pillars, while some topics, e.g., consumer protection,⁵ are not covered due to limited time and resources of ERIA MTR Team despite the increasing importance of such policy agendas.⁶

Note that AEC’s **Goal and Agenda** of a single market and production base that is a region of equitable development and is competitive internationally and fully integrated in the global economy **is a continuing and evolving challenge and driver** for AMSs towards 2015 and beyond. As endorsed by the Leaders, all of these policy areas are priority areas. However, given the limited timeframe into 2015, there is a gradation among the policy measures in their relative importance towards the realization of a credible AEC 2015.

We propose two groups of AEC measures; namely:

- **“Before 2015 Measures” or “Priority Measures for 2015”:** These are the AEC measures with the heaviest burden for the success of AEC 2015. The main policy actions of these AEC measures need to be fully or nearly fully implemented by 2015. Nonetheless, the implementation of these AEC priority measures is continued, deepened and expanded in scope in terms of policy actions beyond 2015.
- **“AEC Measures Mainly beyond 2015”:** These are the AEC measures where the main policy actions are expected to be fully implemented beyond 2015 after this region becomes the AEC. This is because these measures involve more complex technical or prudential issues that require a more deliberate approach to implementing them; e.g., financial integration, standards and conformance. Some of the measures will increase in importance once the AEC becomes operative; e.g., IPR, competition policy.

Or that the measures involve mainly long term and continuing initiatives; e.g., agriculture.

Nonetheless, even for these “AEC measures mainly beyond 2015”, there is a need for “success stories” of implementation of selected policy actions for 2015 (i.e., *priority actions*) in order to put more bang into the AEC 2015 as well as for ASEAN to be better ready to fully implement effectively these AEC measures mainly beyond 2015.

In this sense, the categorization and prioritization suggests relative importance in the timeframe towards 2015.

Note that based on the discussion above, the **realization of AEC 2015 is the sum total of the implementation of the “priority AEC measures for 2015 and the implementation of the priority actions of the AEC measures mainly beyond 2015”.**

Priority AEC Measures for 2015. We propose ASEAN to put high priority for implementation of the following ten policy measures:

- tariff and NTMs;
- trade facilitation;
- services liberalization and domestic reform;
- investment liberalization and facilitation;
- connectivity and transport facilitation;
- SME development;
- IAI; and
- RCEP.

The rationale for the list is as follows:

- Tariff elimination, elimination of NTBs and minimization of NTB effects of NTMs, trade facilitation, services liberalization, investment liberalization and facilitation, and transport facilitation and connectivity are *central and foundational elements* of ASEAN economic integration and connectivity. Without major achievements in them, there cannot be AEC even if there is tremendous progress in the rest of the AEC measures.

Accelerated implementation of facilitation measures is the private sectors' top priority agenda for implementation before 2015 based on the results of the ERIA survey of the private sector in the ASEAN on the relative importance of AEC measures. Moreover, based on simulation results for the MTR Study, improved trade facilitation provides large economic benefits to the AMSs. Nonetheless, despite the private sector strong bias for facilitation measures, the Mid-Term Report recommends that AMSs forge ahead on liberalization as much as possible, even as facilitation measures are given more importance in the run up to 2015. This is because there is complementation between liberalization, facilitation and other determinants of investment climate. Continued, managed, and strategic liberalization as well as improved facilitation attract FDIs into the region. ASEAN needs large inflow of FDI to strengthen its competitiveness footing and accelerate its technological upgrading.

- IAI and SME development are Leaders' initiatives for more equitable growth in the region, the first as a means to capacitate newer AMSs to meet AEC obligations, and the latter as a coordinated approach to ensure SMEs in the region adjust well and benefit well from AEC. Indeed, the AEC efforts should benefit the various stakeholders within the region, rather than benefiting only specific sectors (e.g., MNCs and large enterprises) within and outside the region.
- Last but not least, the RCEP negotiation should be viewed as a priority measure for 2015, because many economic activities are integral at the East Asia region rather than within ASEAN; i.e., regional production networks. Indeed, the simulation results show that the benefits from East Asian integration are substantially greater than from AEC. As such, stronger links with the other East Asian economies are critical for robust economic growth in ASEAN. Since the RECP negotiations are likely not to be easy, the implementation of the RCEP agreement(s) will most likely be beyond 2015.

It must be pointed out that, although the key policy actions of the prioritized AEC measures are expected to be nearly fully realized by 2015, the initiatives (with the exception of tariff elimination) under those AEC measures do not stop in 2015 but continue beyond 2015 to deepen, expand and take root. Indeed, as stated above, while RCEP negotiations are expected to be completed by 2015, the actual full implementation will

be beyond 2015. Similarly, the major policy action recommended for NTM/NTB is the establishment of a robust mechanism to address NTBs and NTB effects of NTM; the actual implementation is a continuing affair as AMSs modify or introduce NTMs over time in the face of changing circumstances facing the countries. Likewise, policy actions for SME development can be expected to be continuing, improved upon, and modified as AEC evolves and deepens. Also, the infrastructure component of transport facilitation and connectivity can be expected to be completed only much beyond 2015.

Notice that the list above covers the four (4) pillars of AEC. The priority AEC measures are at the central core of ASEAN economic integration, and largely define the *essence of AEC 2015 at the minimum*.

“AEC Measures Mainly beyond 2015.” Complementing the priority AEC measures, and adding weight and import to AEC 2015, are priority policy actions of the “beyond 2015 AEC measures”. That is, even if the main policy actions of the beyond 2015 AEC measures” are implemented mainly beyond 2015, there are nonetheless policy actions under them that need to be implemented by 2015 to give more bang to AEC 2015, provide solid building block to the implementation of the key measures beyond 2015, and indicate that ASEAN is well on the way toward a single market and production base. As indicated earlier, AEC’s goal and agenda of a single market and production base is a continuing and evolving challenge and driver for AMSs well beyond 2015.

These measures include:

- standards and conformance;
- capital market development and financial market integration,
- MRAs on professional services and labor mobility
- ICT,
- energy,
- IPR,
- competition policy,
- agriculture, and
- others (e.g., consumer protection and taxation).

Common standardization and certification policy, freer capital flows, and free flow of labor are important components of what constitutes a truly single market and production base, as exemplified by the European Union and the Caribbean Community (CARICOM) Single Market and Economy

initiatives. ASEAN does not appear to aim for the EU and CARICOM models despite the stated goal of a single market and production base in the AEC Blueprint. The AEC measures are more modest in reach. Thus, the AEC measures on standards and conformance aim to reduce the NTB effects of technical barriers to trade, stopping short of following EU's common standardization and certification policy, horizontal directives, surveillance mechanism and single marking system. Similarly, ASEAN focuses on MRAs on professional services to facilitate flow of skilled labor in the region, as against what is in effect the right to move and reside freely in the CARICOM and the EU. Likewise, AEC measures on capital market development and harmonization of standards and regulations are basic steps toward financial integration in the region.

ASEAN has not yet clearly articulated what would be the end goal and targets on standards and conformance, capital flows and labor mobility that would help determine and operationalize the ASEAN definition of a single market and production base. At the same time, modest the AEC measures are, there remain a lot of challenges such as complex regulatory and prudential issues as well as technical difficulties which require AMSs to hold certain capacities so that they can address them effectively. In addition, there is a need to be more deliberate in the implementation of the policy actions underpinning these AEC measures. Thus, the implementation of these measures is better pursued over a longer run rather than the short period in the run up to 2015. Nonetheless, in each of the three AEC measures, there are policy actions that can be implemented assiduously and be "success stories" toward 2015.

Efficient ICT and energy are critical for any economic activity. They can also be major facilitators of deeper regional connectivity and integration. The major policy actions on ICT and energy that are stipulated in the AEC Blueprint center on physical infrastructure development, which takes many years to be completed in view of ASEAN's geography and wide gaps in levels of development. They are unlikely to be completed by 2015; indeed, some segments of the infrastructures can be expected to be completed by around 2020 yet.

Nonetheless, there can be policy actions that could be the basis for success stories; such policy actions are in the policy reform and institutional cooperation arena. Thus, for example, liberalization of the ICT sector and even the energy sector can be pursued at an early stage before 2015, consistent with the overall liberalization thrust in the Pillar 1 AEC measures. At the same time, regional cooperation at strengthening regulatory institutions can be pursued more aggressively, such as the

adoption of best practices in addressing international roaming rates (e.g., Malaysia-Singapore agreement). Nonetheless, harmonization of regulatory regimes especially in the energy area can be expected to take longer time than three years to get addressed.

IPR and competition policy (and consumer protection) are increasingly important for the future growth of the region. As such, AMSs are accelerating their domestic policy efforts which can be facilitated by regional cooperation. Moreover, once the AEC is realized in 2015, there will be a new dimension to these policy areas; specifically, regional convergence issues rather than cooperation will become more important with increased intra-regional business activities. Thus, before 2015 is a preparatory stage for AMSs to address even more challenging tasks beyond 2015.

Lastly, agriculture dominates an important share of the ASEAN economies and thus has both competitiveness and inclusiveness implications. With the steady tariff elimination, the main initiatives are cooperation efforts in improving agricultural R&D, addressing climate change, improving sanitary and phyto-sanitary (SPS) regulations and institutions, and many other areas of cooperation which are continuing and take longer timeframe for implementation. Nonetheless, the sector can contribute “success stories” for AEC 2015 including the full implementation of the ASEAN Plus Three Emergency Rice Reserve (APTERR), minimization of core NTMs in agriculture, and possibly more aggressive cooperative efforts in SPS and thereby address concerns related to non-tariff barriers.

Thus to reiterate, as we indicated earlier, there are priority policy actions in these AEC measures mainly for beyond 2015 that are best to be implemented before 2015 to enhance AEC 2015 and for ASEAN to progress better *beyond 2015*. Most of the policy recommendations for these beyond 2015 AEC measures in the MTR Integrative Report focus on the recommended policy actions before 2015.

E. Imperatives on the Way Forward toward 2015

The specific recommendations on the Way Forward for each of the AEC measures included in the AEC MTR are presented in **Appendix A**. The country teams for the ten (10) AMSs also have some recommendations on a number of AEC measures, most of them related to the concerned AMSs; these are presented in **Appendix B**. This section discusses the

recommendations in terms of several proposed imperatives on the Way Forward toward the realization of AEC onto 2015 and beyond.

The proposed imperatives are as follows:

1. Address NTB Effects of NTMs Systematically

As tariffs have gone down to near zero in many AMSs, it is NTBs and the NTB effects of NTMs that are a growing concern of the private sector in the region. ATIGA aims to eliminate NTBs and reduce the NTB effects of NTMs. However, it has been very difficult to define NTBs *ex ante*: the Coordinating Committee on the Implementation of ATIGA (CCA) has not attempted to estimate the magnitude of trade barrier effects of NTMs. In addition, the earlier voluntary approach to NTB elimination has yielded few NTBs eliminated.

The current initiatives to address NTMs/NTBs include:

- Use of a matrix of actual cases/complaints on (mainly new) NTMs at the CCA. So far 35 cases have been solved.
- Engaging regional private sector associations in selected PIS to identify NTB effects of NTMs in the sector. This has started with the regional textile association (AFTEX). EEE and automotive sectors are the ones being considered next.
- Approval of the guidelines on import processing procedures.

There remain important issues that need to be addressed. Specifically,

- There is no updated and comprehensive database of NTMs in the ASEAN.
- It appears that AMSs do not routinely submit notifications of new NTMs to ASEC when they submit such to the WTO.
- There may be a need to develop a “robust mechanism” to minimize the NTB effects of NTMs in the region.

It may be noted that there are four major groups of NTMs that are of interest for the review. They are (1) technical barriers to trade which are addressed through standards and conformance under ACCSQ; (2) sanitary and phyto-sanitary standards which are addressed by AC-SPS; (3) customs related measures which are largely the purview of trade facilitation and the Directors General on Customs; and (4) “core NTMs”. As defined here in the MTR, *core NTMs* are exemplified by non-

automatic licensing; quantitative restrictions; prohibitions; enterprise-specific; single channel for imports; and foreign exchange market restrictions. Core NTMs are the most likely candidates for being NTBs. As shown on **Table 3**, the prevalence rate, coverage rate and the overall restrictiveness index of core NTMs vary tremendously among AMSs, based on the 2009 ASEAN NTM database, from very low to very high⁷.

Table 3. Core NTM Prevalence and Coverage Rates and Restrictiveness Index

Country	Total Tariff Lines	Prevalence Rate	Coverage Rate	Core-NTM Restrictiveness Index
1 - Brunei	5224	0.17	0.15	0.16
2 - Cambodia	5224	0.05	0.04	0.05
3 - Indonesia	5224	0.90	0.44	0.67
4 - Lao PDR	5224	0.05	0.05	0.05
5 - Malaysia	5224	0.61	0.42	0.52
6 - Myanmar (A)	5224	0.08	0.07	0.07
6 - Myanmar (B)	5224	0.17	0.10	0.14
7 - Philippines	5224	0.03	0.03	0.03
8 - Singapore	5224	0.04	0.04	0.04
9 - Thailand	5224	0.03	0.03	0.03
10 - Viet Nam	5224	0.24	0.22	0.23

Notes: Myanmar B (Myanmar A) includes (does not include) use of multiple exchange rates as reported in the 2009 ASEAN NTM database.

Source: Computed by Narjoko and Herdiyanto (2012) and updated by Intal and Laksono.

The proposed Way Forward to address core NTMs as well as NTMs with NTB effects is to have a **robust mechanism** that deals with standstill on core NTMs, transparency on existing and new NTMs, use of two approaches for the phase down of core NTMs and NTMs with substantial NTB effects, the establishment of a third party technical monitor and resource, as well as the strengthening of ACT. The details of the components of the Robust Mechanism are presented in **Appendix A**. It is worth highlighting here the importance of the mandatory reporting to ASEAN Secretariat and CCA of all new NTMs by AMSs as well as the strengthening of the ASEAN Secretariat as a third party technical monitor and resource to help ensure there is indeed an operational and robust mechanism to address the NTB effects of NTMs.

2. Deliver Better on Facilitation

The results of the survey, undertaken under the ERIA Enhancing the AEC Scorecard Phase II project, of the private sector in the ASEAN on their perception of the relative importance of AEC measures show the private sector's preponderant bias for the implementation of AEC facilitation measures (as urgent, beneficial and with political support) by 2015 even if they consider both facilitation and liberalization measures to be important for the realization of the AEC. The top ranking facilitation measures are trade facilitation, investment facilitation, and transport facilitation.

Trade facilitation. This is the most important set of AEC measures from the point of view of the ASEAN private sector. Trade facilitation measures are critical in, and directly impacting, the region's connectivity intra- and extra-regionally and the development and expansion of efficient production networks, which lead to the creation and strengthening of a competitive single market and production base in the region. Simulation results using a dynamic GTAP model shown earlier in the Report show that improved trade facilitation has large economy wide benefits to all the AMSs.

Despite the substantial achievements by AMSs on trade facilitation, the challenge of efficient trade facilitation is enormous in the region because of the huge gap between the best performers and the poor performers among the AMSs, as reflected for example in terms of the number of days to export or import (using the World Bank's trading across borders data) from around 45 days for Lao PDR and 3 days for Singapore.⁸ Similarly, the gap between AMSs in the scores and ranking in the World Bank logistics performance index is much higher in the ASEAN than among BSEC, LAIA and APTA member states.

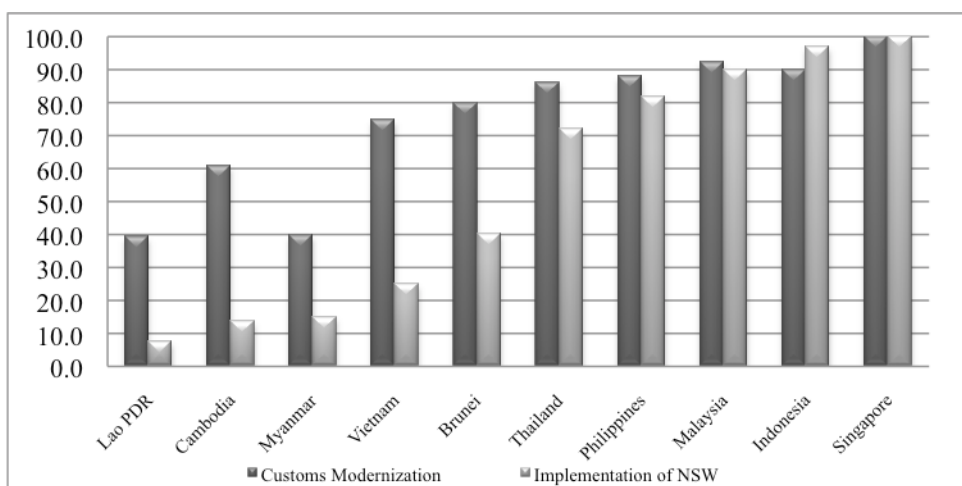
The heart of ASEAN's trade facilitation measures is the implementation of the ASW, which demands the implementation of the NSW in each AMS through which the ASW operates; the NSWs in turn presumes relatively "modern" customs mainly in the sense of having electronic linkages; i.e., e-customs, and implicitly effective risk management, payments systems, etc., as well as the implementation of AEO (authorized economic operator). **Figure 6** provides scores for each of the AMS with respect to customs modernization and the implementation of the NSW based on the results of the ERIA AEC Scorecard Phase II project. As the figure shows, there is much to be done, and huge effort needed, for the

lagging AMSs (mainly Cambodia, Lao PDR and Myanmar) to be able to have modern customs and for the NSW to be operational by 2015.

The proposed recommendations on the Way Forward consist of setting targets and embarking on further reduction in the number of days to export and import primarily through the reduction in the number of documents and process of getting the documents and the reduction of rate of physical inspection (which may likely mean the need for improved risk management), as well as the full roll out of the NSWs for the ASEAN 7 and, hopefully, the pilot live implementation of NSW by 2015 for the remaining 3 AMSs. It also includes pilot implementation of ASW and the operationalization of the ASEAN Trade Repository (ATR). The operationalization of the ATR entails the establishment of the National Trade Repository (NTR) in each AMS.

In pushing for a well performing and fully functioning ASW, the private sector participants in the symposium on the ASW and NSW (held on 18 September 2012 in Jakarta) emphasized that AMSs agree and accept standardized business processes and data elements that are harmonized for electronic exchange under ASW in a number of prioritized activities, integrate the NTRs and ATR with the NSWs and ASW, address the legal requirements in support of pre-arrival processing and the use of Advance Cargo Information (ACI) from the exporting countries to the importing countries for the purpose, address the legal issues related to e-transactions, and the more extensive re-usability of data for the various stages or stages in the import and export processes (see USAID-ADVANCE, 2012 and Tiong, 2012).

Figure 6. AMSs Scores on Customs Modernization and Implementation of NSW



Source: Intal, et al. (2011)

It is worth noting that the assumed 20% reduction in the time cost of exporting and importing (as the proxy for improved trade facilitation) that underpins the GTAP simulation results shown on **Figure 2** earlier involve precisely the kind of process improvements stated in the Way Forward above. It is also worth noting that, as the final comment in Chapter IV of the MTR Integrative Report highlighted, although the NSW and ASW are important outputs ***the process of building the Single Windows is equally important and beneficial***; e.g., reforming and modernizing customs, simplifying business operations, increasing efficiency (e.g., e-payment), harmonizing data and procedures, instilling changes and new mindset of ease of doing business, etc.. Thus, the benefits can be derived earlier than when the NSW (and ASW) is fully implemented and operational.

Assuming strong political support for the trade facilitation initiatives in each of the AMS, this is an ***emerging success story for ASEAN***.

Investment facilitation. The ERIA AEC Scorecard Phase II also scored AMSs on investment facilitation and promotion against generally accepted international best practices. The methodology is discussed in the AEC Scorecard project. The results show that the original AMSs are near the international best practice while the newer AMSs and Brunei have much more room for improvement toward international best practice.

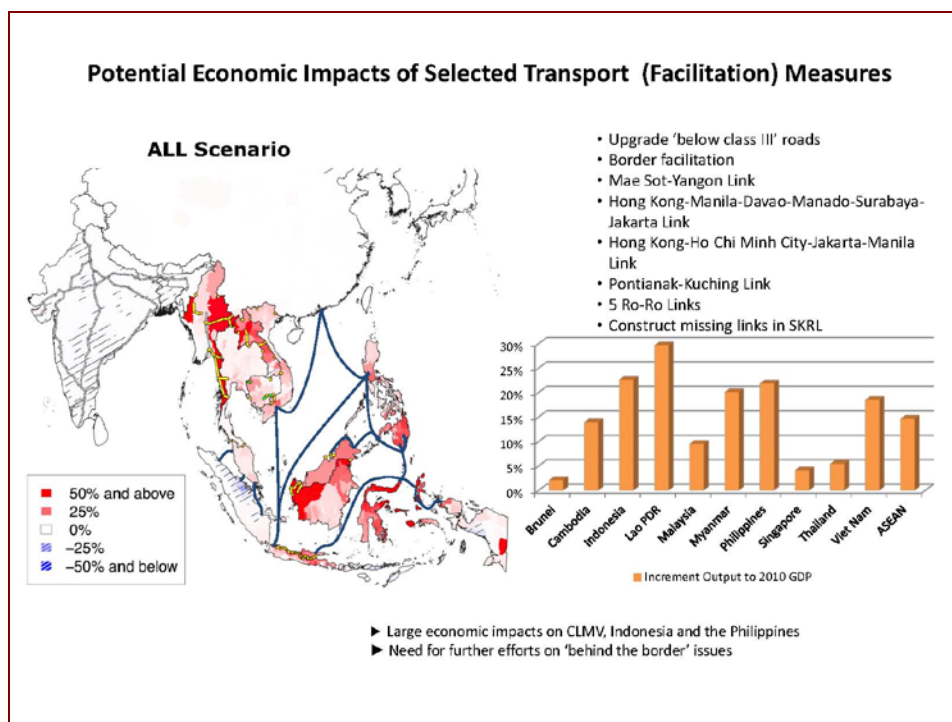
As the discussion in **Section C** indicates, the private sector has been noticing improvements in the investment facilitation as well as the overall investment climate in many of the AMSs in recent years. This is a reflection to some extent of the keen appreciation of the AMSs of the tight global competition for foreign direct investment. Nonetheless, there is much more room for improvement for a number of AMSs as reflected in the Ease of Doing Business indicators of the World Bank as well as comments from the private sector on some of the key bottlenecks of doing business in the AMSs presented in Chapter VIII of the MTR Integrative Report.

The main recommendation for the Way Forward is relatively straightforward: further streamline (and preferably set targets) processes, increase transparency and inter-agency coordination to speed up the processing of papers and approvals during the pre-establishment stage as well as during the operations of the firms. (see **Appendix A**) Malaysia's PEMUDAH Task Force and, more recently, Philippines' Philippine Business Registry are examples of concerted efforts of AMSs to improve processes and ease of doing business. It may be worthwhile for ASEAN in the run up to 2015 to have a coordinated and concerted program to move much closer to the global best practices in this area, of which Singapore is acknowledged as one of the global leaders.

The AMSs may very well take heed also of the recommendations or suggestions by the private sector to improve further the investment climate in a number of AMSs, as reflected in the results of the ERIA questionnaire to the ASEAN private sector. Among the more important suggestions include addressing corruption, improving infrastructure, and strengthening inter-agency coordination and cooperation within AMSs.

Connectivity and transport facilitation. Efficient logistics and distribution services are a source of competitiveness for manufacturing, agriculture and natural resource based sectors. It has significant implications to equitable development by making the rural areas well-connected to ASEAN markets and beyond. An efficient, secure and integrated transport network in the ASEAN is an important underpinning for AEC's agenda toward a single market and production base in the region. Simulations using the IDE-ERIA Geographic Simulation Model undertaken by the MTR team indicate large benefits accrue to AMSs if there is greater, better and faster connectivity in the region (see Chapter X of the MTR Integrative Report and **Figure 7**).

Figure 7. Potential Economic Impacts of Selected Transport Facilitation Measures



Source: Isono and Umezaki (2012)

The AMSs are cognizant of this critical role of transport facilitation and connectivity for ASEAN economic integration. That is why transport cooperation in the region has been carried out since the 1980s, capped in recent years by the Brunei Action Plan and the Master Plan on ASEAN Connectivity. There has been progress, albeit halting at times, in the transport facilitation and connectivity initiatives in the region. Thus, for example, below Class III roads/sections of the ASEAN Highway Network have all been upgraded in Lao PDR, leaving the remaining below Class III roads are all in Myanmar, of which quite a large percentage of them are under process of upgrading. The construction of the Singapore-Kunming Rail Link is also proceeding but slowly, with current efforts focused in the Eastern Line primarily in the Cambodia sections by 2015 while the Viet Nam segments are to be implemented beyond 2015 toward 2020. There is also some progress in the transport facilitation agreements but halting in land transport while more pronounced in air transport. Major initiatives in maritime transport (i.e., Roll on – Roll off (RoRo); development of an ASEAN Single Shipping Market) are under study.

In view of the critical importance of transport facilitation and cooperation measures to ASEAN connectivity, single market and production base goal, and competitiveness, the recommendations on the Way forward include the redoubling of AMSs efforts to finalize Protocols 2 and to “ratify” Protocol 7 (seven AMSs have registered concurrence on Protocol 7) of the AFAFGIT with further flexibility, accelerate the ratification process (including air transport agreements) in a few AMSs, and necessary domestic reforms toward the full operationalization of the transport facilitation agreements. In addition, there is a need to support concerned AMSs to raise necessary funds, by utilizing the ASEAN Infrastructure Fund (AIF) or sharing experiences on effective scheme of Public-private Partnership (PPP), for critical segments of the ASEAN Highway Network and the Singapore-Kunming Rail Link.

3. Forge Ahead on Liberalization

Although the private sector in the ASEAN puts AEC liberalization measures well below facilitation measures in their priorities for implementation by 2015, there cannot be deep ASEAN economic integration and more so a well performing economic community without considerable liberalization. Given that the ASEAN Leaders have remained committed to the realization of “full economic integration” in the Phnom Penh Declaration on ASEAN, it behooves on the AMSs to forge ahead as much as possible at liberalization efforts toward 2015 given the flexibilities embedded in the current approaches.

Services liberalization. The services sectors will play an increasing role in the growth and evolution of ASEAN economies. Efficient services sectors contribute to greater competitiveness and value upgrading of the goods sectors in the ASEAN at the same that the services sectors themselves become drivers of growth. Some services are critical elements to the achievement of enhanced connectivity in the region. ASEAN also has potentials to be a hub for some services at least in the East Asia region. Our simulation results (see **Figure 2** and Dee (2012)) indicate that there are large benefits to AMSs from the reduction in service trade barriers in the region. As stated earlier, the benefits from further services liberalization are substantially more than the benefits from further tariff reduction/elimination. Dee’s (2012) analysis show though that the effectiveness and the beneficial impact of service trade liberalization depend in part on the nature of accompanying or related domestic regulations.

There has been some progress in services trade liberalization in the ASEAN. Sector coverage of AFAS increased from the 5th Package to the 7th Package. (The AFAS 8th Package has been released to the public very recently only and there was no time to analyze it for the MTR.) ‘Policy space’ in Mode 1 commitments has also declined. Liberalization commitments range from moderate to high among the AMSs. However, liberalization commitments in Mode 3 are low; indeed, a number of AMSs have been facing challenges as higher commitments on foreign equity kick in, resulting in the delays in the conclusion and implementation of AFAS packages. Progress in the financial services is also relatively modest; similarly, for air transport services. Arguably, the degree of ASEAN economic integration is shaped to a significant extent by the degree of liberalization of services trade in the region.

In view of the high importance of services liberalization for ASEAN integration as well as for ASEAN’s competitiveness, the way forward toward 2015 is to forge ahead and redouble efforts to ensure that AFAS targets are met as much as possible give and take the flexibility built into the AFAS negotiations. The proposals for the Way Forward call for allowing for at least majority foreign ownership in much of the services sectors of the AMSs, recommending some guidelines on what could not be included in the 15% flexibility clause, and for the use of WTO-type reference papers to ensure consistency of domestic policies to encourage greater services liberalization and concordance of liberalization policies with other domestic policies (see **Appendix A**).

Investment liberalization. The Roadmap for an ASEAN Community 2009-2015 emphasizes that “... free flow of investment is key to enhancing competitiveness in attracting foreign direct investment [and] intra-ASEAN investment. Sustained inflows of new investments and reinvestments will promote and ensure dynamic development of ASEAN economies” (ASEAN Secretariat, 2009, p.27). The estimates of foreign investment liberalization rates shown in **Figure 5** earlier indicate that AMSs have relatively open investment regimes.⁹ Nonetheless, there remains room for further easing up of foreign equity restrictions in the AMSs.

The approach to further investment liberalization under ACIA developed by ASEAN CCI is an innovative one. It sets out clearly the criteria that can be used to put restrictions in the ACIA Reservations List into Component 1 which consists of reservations that are not for elimination or improvement. The rest of the restrictions that are in the ACIA

Reservations List must necessarily be in Component 2 which are meant to be eliminated or improved down to a “minimum” level as decided by each AMS. A peer review mechanism is included in order to ensure that the liberalization program is implemented.

The innovative approach of the CCI implicitly relies on good will and trust among AMSs. Nonetheless, the lack of clarity and the implicit country specificity of the “minimum” level under Component 2 make the “minimum level” prone to possible abuse. Thus, the recommendations for the Way Forward are meant primarily to strengthen further the self-selection modality for ACIA through the establishment of a third party technical resource and monitor. Realistically, this refers to the ASEAN Secretariat with possible research support from credible institutions and research centers in the region. Three possible key functions of ASEC as third party technical resource are: (a) to recommend guidelines for what may be allowed or prioritized for inclusion in the “minimum” level under Component 2, (b) review other possible suggestions for inclusions into Category 1, and (c) determine if there are domestic regulations that have been put in place to counteract the liberalizing intent of ACIA.

4. Enhance AEC Blueprint Third Pillar

In the ASEAN Framework for Equitable Economic Development adopted during the Bali Summit last year, the ASEAN Leaders “... commit [ed] to further enhance the third pillar of the AEC Blueprint on Equitable Economic Development so as to provide [the ASEAN] people with equal opportunities to benefit from regional economic integration... [and] agree[d] that equitable economic development calls on Member States to ensure that regional economic integration helps alleviate poverty and narrow the development gap within ASEAN through mutual assistance and cooperation...” The Framework defines narrowing development gap in terms of both within and between Member States.

The MTR examined the two major AEC initiatives for the third pillar only, and not – as the Framework requires – the equity dimension of the implementation of the AEC measures in the other three pillars of the AEC Blueprint. The two initiatives are SME development and the Initiative for ASEAN Integration (IAI), the former being of importance for narrowing development gap within AMSs and the latter, for narrowing development gap between AMSs. It must be noted that agricultural development is also a major mechanism for poverty reduction and narrowing development gaps especially in the CLM countries. Indeed, the sharp increase in

income inequality in Cambodia during the past decade may have been determined in part by the rural–urban divide in the country, an indication of the big challenge to raise agricultural productivity and farm incomes in the country and for the agriculture sector to play a bigger role as a growth driver of the Cambodian economy. Agriculture is discussed in the AEC measures mainly beyond 2015.

SME development. Non-agricultural employment, the most important poverty reduction mechanism other than raising agricultural incomes, is mainly facilitated by SMEs. SMEs form the backbone the non-agricultural and non-mining sectors of virtually all AMSs as they account for the preponderant share of the number of firms in each of the countries. At the same time, the robustness of SME linkages in both regional production networks and local industrial clusters affect the competitiveness and resiliency of AMSs economies. Thus, SMEs are central to the realization of the goals of competitiveness and equitable development of AMSs and ASEAN under AEC.

The policy actions for SME development under the AEC Blueprint are primarily SME development and cooperation programs. However, it should be noted that SMEs are impacted not only by SMEs development programs but also by many other AEC measures that have large implications on SMEs. For example, enhanced trade facilitation measures in the AEC will ensure that SMEs can enjoy the benefits of the AEC since there is much greater efficiency in import/export and customs processes. However, studies indicate that the region’s SMEs, while positive overall about AEC and the potential of the ASEAN market, feel they have limited information on specific AEC-related initiatives; this lack of information usable to the business appears to be one key reason for the limited use of preferential provisions in existing ASEAN economic agreements.

The results of the survey undertaken under the MTR of perceptions among SME–related government officials and associations on the effectiveness of SME programs in the ASEAN show largely moderate or low effectiveness, except for a few cases especially in Malaysia and the Philippines (see Chapter XIV of the MTR Integrative Report). Although the results may indicate that national SME development programs may have been far more important than the regional initiatives, it appears nonetheless that better design of the regional programs and greater concordance of regional and national initiatives is warranted.

In view of the importance of SME development for the success of AEC and given the relatively modest results of the AEC initiatives for SME development, the recommendations for the Way Forward toward 2015 calls on the implementation of the key programs of the Strategic Plan that address critical constraints facing SMEs, the implementation of the ASEAN SME Policy Index, and the encouragement of business matching among well performing SMEs within ASEAN and with SMEs in the rest of East Asia as well as the promotion of SME clusters, networks and alliances (see **Appendix A**).

The ASEAN SME Policy Index, a joint effort of the ASEAN SME Working Group and ERIA and which has been backed by the ASEAN Leaders, is worth highlighting. It is still under development, with strong cooperation of the OECD, the originator of the SME Policy Index initially for the Balkans and now including Middle East and North African countries. One potential use of the ASEAN SME Policy Index is that it provides a methodical monitoring tool of the progress (or lack of progress) of the various facets of the policy environment facing the region's SMEs over time and via-a-vis some best practice reference points.

It must be noted that virtually all of the SME development programs can be expected to be continued beyond 2015. Nonetheless, it is advisable that there are concerted and upgraded regional efforts on SME development to give tangible expression of the Leaders' commitment to Pillar III of the AEC Blueprint.

Initiative for ASEAN Integration (IAI). IAI is an initiative launched by the Leaders in the year 2000 to narrow the development gap between the old members and the new members of ASEAN. The AEC 2015 cannot be achieved without CLMV countries. IAI has played and continues to play a pivotal role in providing technical assistance from ASEAN-6 to the CLMV countries. As such, IAI is a priority policy measure where major actions should be implemented before 2015.

Our survey results responded to primarily by a variety government officials in the CLMV countries indicate that the IAI programs have been generally useful. However, the survey reveals that challenges are found in such areas as the relevance of common programs amidst different needs of each country, too ambitious levels in some programs, and insufficient attention to institutional issues and new issues and challenges faced by the newer AMSs. The short time available until 2015 necessitates more effective and targeted attempts for closing the gap between CLMV and

ASEAN-6, along with other sets of activities for viable regional economic integration.

Thus, the recommendations on the Way Forward emphasize prioritization of projects primarily to those related to the newer AMSs meeting their AEC obligations, greater coordination with the programs of the Dialogue Partners, in the CLMV countries, greater consultation and CLMV ownership of the IAI programs and projects, and the graduation (from being beneficiaries of IAI to being co-partners of the ASEAN 6) of CLMV countries which have successfully moved up comfortably from least developed countries into the ranks of the lower middle income economies.

5. Deepen ASEAN Integration with East Asia and Ensure ASEAN Centrality

The conclusion and implementation of the ASEAN+1FTAs are concrete expressions of AMSs strong desire to deepen ASEAN integration with East Asia. This reflects ASEAN's "open regionalism". As the simulation results in **Figure 3** show, AMSs can benefit more from deeper integration with East Asia through tariff elimination, reduction in service trade barriers and improvement of trade facilitation.

However, the results of the analysis of the ERIA FTA Mapping project show that there is so much to be done in order to have an economically integrated East Asia. The existing ASEAN+1 FTAs are not liberal or business-friendly enough; tariff liberalization is not high enough; ROOs are not liberal in some ASEAN+1 FTAs, service sector liberalization has only small "GATS plus" components and trade facilitation chapters remain general in most of the FTAs agreements. The differences among the FTAs cause higher transactions costs for business, which impair the potential benefits that ASEAN should enjoy from the FTAs.

A consolidated and high level FTA at the wider region will improve such a situation. Also, there are competing initiatives (e.g., CJK and TPP) for regional architectures which may risk ASEAN Centrality. In order for ASEAN to maintain and strengthen its centrality in the regional architecture development, ASEAN should move quickly. Indeed, ASEAN has been working on the pursuit for possible regional FTAs for many years, and has already held the initial RCEP-Working Group on Trade in Goods. The ASEAN Leaders and Economic Ministers have already stated

their expectation for a launch of the RCEP negotiation within this year. The prompt implementation of the mandate is of vital importance.

The recommendations on the Way Forward present proposals to have a “high quality” regional FTA within East Asia, including a 95% tariff elimination target, adoption of a “common concessions” approach; service sector liberalization at a higher level than 5th AFAS package; extensive use of co-equal rules in Rules of Origin; introduction of tangible and concrete trade facilitation programs as in ASEAN; removal of core NTMs as much as possible, and development of consolidated operational certification procedures. (Please see **Appendix A**)

6. Build Building Blocks for a Well Performing Single Market and Production Base Beyond 2015 and a Fully Integrated, Competitive and Dynamic Economic Community

The “beyond 2015 AEC measures” listed in Section D are all important towards a well performing single market and production base and a fully integrated, competitive and dynamic economic community beyond 2015. Nonetheless the measures have also policy actions that need to be implemented before 2015, partly to put more bang into AEC 2015 and partly to build good building blocks toward full integration in the region under a single market and production base beyond 2015.

Standards and conformance. The results of the survey of the private sector perceptions on the AEC measures, undertaken under the ERIA AEC Scorecard Phase II project in 2011, point out that varying standards and difficulties in conformity assessments are a serious deterrent to a more integrated AEC. Nonetheless, it must be emphasized that the process of harmonization of national standards to international standards, practices and guides; harmonization of mandatory technical requirements and technical regulations, as well as harmonization of conformity assessment procedures is a complex and long process. Moreover, it is also a continuing process in the light of new developments on the scientific, technology and product fronts as well as changing consumption patterns and health and environment concerns. Even the European Union took a very long time to undertake harmonization of standards, technical regulations and conformance assessment and it is still continuing to this day.

Considering that the ASEAN has much fewer technical staff, both at the Secretariat and at the ACCSQ, than the European Commission and considering the much larger gap in development levels among AMSs than in the European Union, it can be argued that ASEAN has advanced well in the field of standards and conformance. Nonetheless, in view of the high importance the private sector in the region puts on standards and conformance measures, much more emphasis needs to be put into the area by the AMSs and ASEAN officials in the run up to 2015 and beyond as ASEAN pursues further the goal of a single market and production base into 2015 and beyond.

There have been significant achievements especially with respect to standards harmonization with identified international standards. There is some progress also in conformance assessment with the completion of the MRAs in two regulated sectors (EEE as well as pharmaceutical); the AMSs have also agreed on the terms of reference of the ASEAN Food Testing Laboratories Network. Two agreements on harmonized technical requirements (on cosmetics and EEE) have already been signed, with the cosmetics agreement already in force. The Cosmetics Directive appears to bring out the significant inadequacies in enforcement capability in the ASEAN however, such that there have been concerns in some AMSs on the apparent “flood” of relatively “low quality” cosmetics.

The challenge for standards and conformance in the run up to 2015 is to develop “success stories” among the currently selected priority sectors, the success story being the successful conclusion and implementation of the MRAs or common regulatory regime/requirements (CRR). The success stories provide strong foundation toward a wider application of standards and conformance measures to sectors beyond the current eight priority sectors after 2015. In addition, the implementation success may involve the strengthening of the enforcement capability of concerned regulatory institutions in the region. The results of the MTR survey of concerned government officials in the AMSs showed significant concerns on the inadequacy of laboratories and skilled personnel as critical constraints to effective implementation of standards and conformance agreements in some AMSs.

The recommendations on the Way Forward toward 2015 include the redoubling of efforts for the successful fruition of at least a majority if not all of the current priority sectors, the institutional strengthening and alignment of standards and conformance bodies, both ACCSQ and PWGs defining what “success” is for each of them by 2015 and ensuring meeting the targets embodied in the “success” criterion, greater involvement of the

private sector, and the need for greater budget to improve facilities and personnel for effective and facilitative conformity assessment (although this recommendation could stretch well beyond 2015). (See **Appendix A**). The recommendations beyond 2015 include addressing the issue of harmonization of standards, technical requirements, conformance assessment and technical regulations for products other than the current priority sectors. This may call for the adaptation to ASEAN of initiatives similar to those undertaken by the European Union such as horizontal directives and enforcement mechanisms. This is clearly a significant expansion and modification of the current approach and therefore it is useful for ASEAN to study carefully the pros and cons of such alternative or complementary mechanisms.

MRAs on professional services and labor mobility. MRAs on professional services are the major initiatives in the ASEAN to facilitate mobility of skilled labor in the region. Seven MRAs have been signed, although two of them are essentially MRA frameworks (accountancy services and surveying qualification services) so that another stage is still needed to make them MRAs.

The scoring results on the implementation performance of the five MRAs indicate substantial progress especially in architecture services and engineering services but the performance varies tremendously among AMSs. Greatest progress has been in the establishment of the implementation mechanism and processes at the regional and national levels, which in architecture and engineering services involve the selection of ASEAN chartered professionals submitted by AMSs to the ASEAN Architecture Council (AAC) and the ASEAN Chartered Professional Engineer Coordinating Committee (ACPECC) respectively. In the health related services, the AMSs would like to maintain their national authority in deciding who can practice in their countries. Where the implementation bogs down, and where much remains to be done, in a number of AMSs is in the revision of domestic policies and regulations to be consistent with the provisions of the MRAs.

The main challenge for the MRAs is to show some success stories in the run up to 2015 in order to bring out the merits and benefits of the MRAs to the AMSs and to the region as a whole. Thus, the main recommendation on the Way Forward toward 2015 is to continue the process of adjusting domestic regulations to be consistent with the MRAs, and thereby ensure full implementation. Corollary to this is the need to undertake more aggressive information campaign on what the MRAs are,

what they entail, what benefits that they provide, etc. The better understanding on the benefits of the MRAs would hopefully generate increased public support and greater enthusiasm for the implementation of the MRAs. In addition, it is useful to have greater coordination between the government agencies and the professional bodies in the implementation of the current MRAs and negotiation of future MRAs. Beyond 2015, ASEAN should expand the scope of MRAs to more professions from the current seven professions, focusing on sectors that may create potentially large commercial impact similar to engineering, accountancy and architecture services.

It is worth noting that the potential economic impact of labor mobility of *unskilled* labor is large. While movement of unskilled workers in ASEAN is NOT part of AEC Blueprint, it is worthwhile to recommend to the Socio-Cultural Community for ASEAN to regionalize the measures that formalize the hiring of unskilled workers. For the receiving countries, formalizing irregular migrants provides an effective way to manage the flow of unskilled workers; this, in effect will help the countries to lessen the possible adverse impact on the welfare of local people/workers. Meanwhile, for the sending countries, the regionalization (instead of bilateral agreements only) could help them negotiate for better terms for employment protection from the receiving countries.

Financial market integration: freer capital flows. A more integrated financial market can benefit the ASEAN region through increased scale and liquidity of the markets, increased risk sharing potential, richer choice of instruments to manage the firms' capital structures, increased ability to issue long term, local currency denominated debt to allow for a better matching of returns and liabilities of firms, and increased attractiveness of ASEAN as an investment destination. ASEAN envisages to achieve integrated financial and capital markets through financial services liberalization, capital account liberalization, and capital market development.

One of ASEAN's success stories has been the establishment of institutional mechanisms and arrangements at the ASEAN+3 level that increase the region's capacity to respond to wide-scale crises as well as enhanced surveillance to prevent such crises from arising in the region, exemplified by the Chiang Mai Initiative and the establishment of ASEAN+3 Macroeconomic Research Office (AMRO).

However, the implementation of initiatives in the other areas has been slow until recently. There has not been much progress in the implementation of the financial services liberalization commitments. Regional integration of capital markets has been constrained by the large differences in the levels of development and in the observance of regulatory standards, capital controls, fragmented infrastructure, and insufficient coordination and monitoring mechanisms. Yet another important factor for the slow progress towards financial integration is that there is trade-off between (the benefits of) risk sharing on the one hand and (the increased danger of) financial contagion risk on the other hand, demanding a much more cautious approach to financial integration in the region.

Given the wide ranging and complex issues involved in financial integration, and the need for more deliberate and cautious approach, it is clear that the fulfillment of the goal of financial integration in the ASEAN lies beyond 2015. The recommendations for the Way Forward toward 2015 (see **Appendix A**) involve primarily the strengthening the foundations for a more integrated capital market in the region, such as regional cooperation in (stock) exchange governance and the completion or upgrading of infrastructure for payments, settlements, and clearing within the region. Further liberalization of financial services is also called for, including putting into the ASEAN commitments the unilateral liberalization measures undertaken by some AMSs.

With greater resolve, there are possibilities of “success stories” in the area of capital market development by 2015. Specifically, the fostering of (nearly) automatic mutual recognition regimes for investment funds, expedited review framework (including the use of harmonized ASEAN disclosure and approval) for secondary listings of primary offerings of securities, and the operationalization of the ASEAN linkages including back office linkage provide a robust starting point for an integrated ASEAN capital market (Lee, 2012). It must be emphasized however that given the very wide levels of financial development and financial infrastructure capacity among the AMSs, especially between the ASEAN-5 (Singapore, Malaysia, Thailand, Indonesia and the Philippines) and the other 5 AMSs, the overall strategy is one of gradual expansion of the country reach of capital market integration in the region. Thus, the potential “success stories” indicated earlier for 2015 are relevant only primarily for the ASEAN-5 countries above.

ICT and Energy. ICT and energy are fundamental services to almost all the industries and thus effective, efficient, and sustainable provision of them will be a key to creating a single market and production base that is competitive in the world. Both of them are closely related to a variety of different policy dimensions. Infrastructure development is the key component for national and regional policies in ICT and energy in the AEC Blueprint. Services trade liberalization and domestic regulation significantly influence the way these industries are evolving. Also, there are some equitable development aspects as in digital divide; similarly, unstable energy supply can adversely affect small firms more than large firms as the former can ill afford the purchase of generators as compared to the latter.

ICT related initiatives started in the early 2000s with the institution of the policy and legal infrastructure for e-commerce and the development of high speed interconnection infrastructure as the key initiatives. Nonetheless, it was in 2011 that TELMIN adopted the first ever ASEAN ICT Master Plan 2015 which provides guidance to regional ICT cooperation in a focused manner. Although there has been no definition of high speed interconnection, it is likely approximated by broadband. As the feasibility of an ASEAN Broadband Corridor is still under study, the focus of the MTR study on ICT was on ICT liberalization and digital divide, two areas of major import in the run up to 2015. Significant challenges remain.

The recommendation on the Way Forward toward 2015 include the imposition of strict obligations for incumbent operators to open access to international gateway facilities with reasonable price, encouragement of facilities-based competition and interconnection policies for affordable ICT services, improvement of the management of Universal Services Funds and the exploration of alternative approach to USF such as a tax-subsidy scheme.

The ICT Master Plan has other action plans that contribute further to the deepening of ICT connectivity in the region. These include the establishment of the ASEAN Broadband Corridor, development of a framework to facilitate transparent and harmonized ICT regulations, sharing of PPP models and practices to formulate PPP models for the implementation of ICT projects, enhanced implementation of MRAs, promotion of secure transactions within ASEAN, recognition and reward of ICT innovators, etc. They are well worth examining and undertaking.

On energy cooperation, the AEC Blueprint focuses on two major infrastructure projects; namely, the ASEAN Power Grid (APG) and the Trans-ASEAN Gas Pipeline (TAGP). TAGP is about halfway completed and it is unlikely to be completed by 2015 since the East Natuna gas field does not appear to be attractive on purely commercial basis. The emerging approach is to bring the construction of LNG regasification terminals into the Master Plan. Construction of the receiving terminals is progressing well in Indonesia, Malaysia, Singapore and Thailand; and a plan for the construction of a regasification terminal in the Philippines has been made public by a major energy company in the world. The APG has 5 out of 16 interconnection systems in operation, with two to three more likely to be operational by 2015, and the rest well beyond 2015 into 2020. Even if all those interconnection systems are finished, a regional power grid is still far away since those interconnection systems are largely bilateral. For APG, the primary question would be: who will build the interconnections? From commercial considerations, some links may not be attractive to private investors. For TAGP, the primary question is who is it for? Because of the lack of a major natural gas supplier, the TAGP may need to be redefined.

The recommendations for the Way Forward toward 2015 involve primarily coordinating energy policies and project development, monitoring AMSs in fulfilling their commitment, and effectively mobilizing resources for infrastructure projects by leveraging public funds with the participation of the private sector. In addition, and perhaps more importantly, there is a need for the strengthening of the institutional infrastructure and cooperation on energy especially on addressing domestic policy and regional institutional barriers towards a more open, competitive and transparent energy market domestically and a more integrated energy market regionally. It is also recommended to expedite the implementation of priority actions, such as trade facilitation, regulatory and technical specifications and harmonization, numerical targets, and financing mechanisms.

Intellectual Property Rights (IPRs). Technological advancement is a critical condition for the economic growth of ASEAN in a long run. Thus, IPR policy which provides a basic infrastructure for innovation is also an important element of the AEC vision. It is worth emphasizing that the ASEAN IPR Action Plan 2004-2010 was implemented to a reasonable degree. As a result of regional cooperation as well as national efforts, the IPR environment is improving in ASEAN. At the same time however, the current level of IPR environment (e.g., local innovation, piracy rates) lags

behind other emerging economies. Therefore, there is much more that AMSs can and should do to strengthen their IPR policy.

Despite all these facts, we put this as a “beyond 2015 measure” because this area becomes even more important once the cross-border business activity within ASEAN has become more active. For example, intra-ASEAN patent application is too small because the patent owners are more interested in exporting to larger markets, e.g., the United States, than the other AMSs. This situation will dramatically change as the AEC is realized in 2015 which creates larger demands for IPR cooperation as well as possible convergence of IPR rules.

The recommendations on the Way Forward toward 2015 include the full implementation of the ASEAN IPR Action Plan 2011-2015, introduction of special treatment for SMEs to enhance local innovation, introduction of numerical targets to monitor administration quality, sharing of best practices on organization issues facing IP agencies, and acceleration of accession to key IP conventions.

Competition Policy. Competition is an important aspect of ASEAN’s vision of regional economic integration. It is integral to all four pillars/characteristics of the AEC. The formation of a single market and production base is premised upon the notion of competition across markets in the AMSs. The economic competitiveness of the ASEAN region and its integration into the global economy requires that AMSs are able to compete globally. Competition also ensures that the benefits from regional integration are equitably distributed between and amongst consumers and producers in the region as well as amongst AMSs. In this regard, competition policy is an important policy for the realization of the AEC.

Being a newly emerging area, competition policy cooperation in ASEAN remains at the initial stage. Since the adoption of the AEC Blueprint, ASEAN has recorded substantial achievements including the ASEAN Regional Guidelines on Competition Policy endorsed in 2010. Yet, five AMSs have not yet introduced their competition policy (in this context, this practically means comprehensive competition laws), which is the primary policy target in the AEC Blueprint. As such, ASEAN needs to keep its focus on this action item into 2015. Many more competition policy issues (e.g., regional aspects of competition policy) will arise as the intra-ASEAN business relationship deepens due to the AEC efforts, which will likely to happen beyond 2015.

The recommendations on the Way Forward toward 2015 (see **Appendix A**) include the introduction of comprehensive competition policy (laws) in the remaining five AMSs and increased regional cooperation on capacity building and enforcement cooperation agreements. Going beyond 2015, the recommendations include expanding the mandate of AEGC to accommodate broader discussion on competition policy at the regional level, initiation of peer learning and review process, in depth studies on the impact of competition policy on economic growth, and embedding competition policy in regional economic integration.

Agriculture. The agriculture sector is a key element in ASEAN's drive for competitiveness, narrowing development gaps, and robust economic growth, especially in the AMSs where the sector remains a large share of national employment and output (e.g., CLMV countries, Indonesia and the Philippines). Not surprisingly, ASEAN cooperation in the sector dates back to the earliest years of ASEAN in 1968. At present, regional cooperation initiatives in food, agriculture and forestry in the region is almost breathtaking in the wide range of areas tackled and initiatives undertaken.

The MTR on agriculture is so much narrower, however, focusing on regional cooperation initiatives indicated in the AEC Blueprint. In addition, a simulation analysis was undertaken to examine the impact on households of agricultural trade liberalization, with and without agricultural productivity improvement. The simulation analysis was undertaken to examine the likely complementarity of agricultural trade liberalization and agricultural productivity initiatives in support of poverty alleviation and reduction in income inequality in an integrated ASEAN.

The results of the Mid-term Review indicate that tariff elimination is essentially a success story with increased intra-ASEAN trade share arising from the increased margin of preference in favor of import sourcing towards AMSs. As tariffs are nearing zero, the concern now is increasingly on NTMs, in terms of core NTMs as well as on SPS. There remain a few AMSs with substantial incidence of core NTMs in food and agriculture. On the other hand, the regional cooperation on HACCP, quality and safety management systems in fisheries, harmonized guidelines on pesticides and quarantine and inspection/sampling procedures, GAP, GAHP, GHP, and GMP have the effect of addressing the potential NTB effects of SPS; the perception survey undertaken under MTR suggests considerable progress in implementation in these areas.

Simulation results suggest that increased agricultural productivity is needed to temper the negative effects of agricultural trade liberalization on the poor agricultural (and urban) households. There is also fairly healthy collaboration among AMSs on agriculture research and development but linkage programs with and among the private sector remain relative weak. The review also includes the progress on food security with the signing of the APTERR, with ASEAN being well placed to undertake such regional cooperation on rice because the region hosts the important importers (e.g., Indonesia, Philippines, and Malaysia) and exporters (Thailand and Viet Nam) as well as potential world suppliers (Cambodia, Myanmar).

The recommendations on the Way Forward toward 2015 focus on reducing the incidence of core NTMs, deepening of regional cooperation in agricultural productivity interventions such as agricultural research, as well as the operationalization of APTERR. The review on agriculture ends with a cautionary note with respect to Myanmar's agricultural sector that might be adversely affected by the elimination of foreign exchange and import controls in the face of the country's very low tariff rates; some temporary buffer may be needed to help the Myanmar farmers to adjust to the new policy environment in the country.

As indicated earlier, ASEAN has been undertaking a very wide range of cooperation initiatives which the MTR did not look into due to resource and time constraints and because they are outside the terms of reference of the mid-term review. It needs to be highlighted that the very wide range of initiatives is itself a major accomplishment of ASEAN and of the region's drive towards one economic community. Such initiatives are well worth undertaking into 2015 and beyond.

7. Address Institutional Issues and Undertake Concerted Regulatory Reform

The institutional design¹⁰ of the ASEAN process influences the effectiveness and efficiency of the AEC efforts. It also affects the confidence of the private sectors and external partners in the AEC efforts. Indeed, these issues are raised in our discussion and interviews with government officials, stakeholders, and researchers. Therefore, we recommend ASEAN to review the current institutional design as one of important cross-cutting agenda to be addressed before 2015. In addition, a more concerted domestic regulatory reform effort may be needed to be embarked into 2015 even if the effort could stretch well beyond 2015.

AEC Monitoring and Technical Resource. The AEC Blueprint has a rich menu of programs and targets by which ASEAN can create the AEC by 2015. The implementation is sometimes not moving at the right pace. The implementation monitoring will lay the foundation for the critical discussion on the way forward. The MTR Integrative Report is intended partly for this end. According to the AEC Blueprint (para. 73), “[t]he ASEAN Secretariat shall review and monitor compliance of implementing the Blueprint.” (ASEAN, 2008). The ASEAN Integration Monitoring Office (AIMO), with the responsibility of updating and improving the AEC Scorecard and many more reports, is at the core of the Secretariat’s monitoring role. However, with AIMO’s limited number of staffs and given its other important responsibilities, the ASEAN Secretariat’s monitoring function in practice is weaker than optimal. This can be also attributed to the broad but not specific mandate in the AEC Blueprint with respect to monitoring. Therefore, we recommend ASEAN to strengthen monitoring function by two means; namely:

- Introduce a third party technical resource and monitoring by the ASEAN Secretariat with the support from regional research institutions in the key policy areas (e.g., NTM, Services and Investment)
- Establish a supplementary track 1.5 monitoring system at regional and national levels and use academic and business insights to supplement the AEC Scorecard

The two recommendations stated above are complementary if not organically connected. The first recommendation effectively means the strengthening of the ASEAN Secretariat as a technical resource and monitor to a number of ASEAN bodies. This means for example that, as indicated earlier in the Report, it is important to have the ASEAN Secretariat as a technical resource in investment liberalization by helping analyze and propose options on guidelines on what is to be included in the minimum allowable investment restrictions by AMSs under ACIA. Similarly, the robust mechanism to address the NTB effects of NTMs necessitates a body such as the ASEAN Secretariat to examine and possibly measure the NTB effects of given NTMs and helps provide options on how to address the NTB effects of such NTMs. In view of the resource and technical constraints in the ASEAN Secretariat, it may be necessary for the ASEAN Secretariat to seek research and analytic support from credible research institutions and individuals in the region and the world.

The second recommendation provides an institutionalized mechanism for the complementary, more analytic, and relatively more independent monitoring of AEC measures. The second recommendation also can become an institutionalized mechanism to support ASEC and/or be involved in third party technical analysis of AEC measures and policy actions, current or planned, by the ASEAN and/or AMSs. In short, the **track 1.5 mechanism** becomes as much a track 1.5 technical resource as it is a track 1.5 monitoring system. Note that a well performing track 1.5 system needs to work closely with the ASEAN Secretariat. Thus, the track 1.5 system supports and complements the ASEAN Secretariat in the latter's enhanced functions as a technical resource and monitor to the ASEAN bodies.

However, the ASEAN Secretariat still needs to be strengthened. This is because the Secretariat is the one that is in the frontline, and there are intra-regional discussions and negotiations that may need to be confidential to any but the concerned government officials and agencies as well as the Secretariat. Indeed, as the policy actions toward an AEC start to “bite” and difficult policy issues have to be addressed in order to move forward towards deeper economic integration, ASEAN needs an ASEAN Secretariat that serves well as a well respected, deeply engaged, and highly competent professional technical support to the ASEAN bodies and the AMSs, and less as a secretariat to all the seemingly enumerable meetings in the ASEAN. However, at present, the ASEAN Secretariat appears to be understaffed at the technical level. In view of the importance of a well performing ASEAN Secretariat towards a well performing AEC, it may well be necessary for AMSs to put up more resources for the Secretariat.

Taking note of the budget constraint facing the ASEAN Secretariat, a complementary option suggested by one high level official from an AMS is to institute a “Virtual Directorate” which will be under the ASEAN Deputy Secretary General for ASEAN Economic Community. A ‘virtual directorate’ is a group of technical people who are based in their home countries rather than in Jakarta, working for ASEC under the DSG for ASEAN Economic Community. The main form of communication is via the internet and their work could be much more focused and analytical. The objective of the proposal is to strengthen the ASEAN Secretariat by leveraging technology in having “virtual directorates” supporting the DSG for ASEAN Economic Community¹¹. The proposal for a virtual directorate or a set of virtual directorates is clearly a radical proposal because it has not been done before. Nonetheless, given the importance of strengthening the ASEAN Secretariat as a technical resource for ASEAN,

it may be useful to explore and examine the feasibility of virtual directorates and how such an approach can help strengthen the institution.

Dispute settlement mechanism. There have been an increasing number of commitments under the AEC efforts, especially in the legal instruments such as ATIGA, AFAS and ACIA. However, the seriousness of AMSs' commitments is sometimes questioned due to the weak dispute settlement mechanism in ASEAN.¹² In accordance with the Bali Concord II which set the outlines of the dispute settlement on economic issues, two major mechanisms were introduced subsequently: the ASEAN Consultation to Solve Trade and Investment Issues (ACT) and the Enhanced Dispute Settlement Mechanism (EDSM).

We recommend the following toward the strengthening the dispute settlement mechanism in ASEAN:

- Take a comprehensive review and introduce full improvement measures of the ACT mechanism (e.g., setting common quality and performance standards in handling cases; communicating successful cases to the public; upgrading the IT system)
- Substantiate the EDSM by implementing the fundamental requirements stipulated in the EDSM Protocol and by introducing more specific procedural rules

Private sector involvement. The private sector plays a pivotal role in AEC building. The ASEAN economic integration has been promoted primarily through production networks building by business, supplemented by government initiatives. In this, the economic integration in ASEAN is often described as “market driven” economic integration especially in comparison with the “government driven” European single market. Many, but not all, of the AEC measures are designed to further enhance the private sector's business activities by improving business environment at national and regional levels, while mitigating the negative effects arising from economic integration. The private sector includes not only multinational enterprises but also SMEs.¹³

Successful implementation of AEC measures toward 2015 and beyond demands ever deeper engagement of the business sector and other stakeholders. Thus, for example, CCA's drive to determine and address NTB effects of NTMs in industries requires deep participation of industry

stakeholders and researchers. Similarly, ACCSQ's drive to harmonize standards and conformance and streamline technical regulations demands deep and continuing participation of industries and technical experts. In addition, ASEAN's operational strategies and institutional structures would need to embed private sector participation in decision making process. For example, institutionalized private sector participation in CCA working group(s) on NTMs may be important to ensure rapid response and regional policy action on proposed NTMs of AMSs. At the same time, there may be a need for greater coordination among the private sector groups/bodies in order to ensure effectiveness and efficiency of public-private dialogues at high levels (e.g., meetings with Ministers and Leaders).

The recommendations toward deeper but more productive private sector participation in the ASEAN process are as follows:

- Increase private sector involvement especially at the sectoral level (e.g., standards and conformance, NTMs)
- Avoid duplications by streamlining public-private dialogue channels, especially those with the Dialogue Partners' business (e.g., one dialogue channel for each Dialogue Partner; ASEAN+X session in ABIS)

Address workloads of ASEAN meetings and improve coordination among ASEAN bodies. The problem of understaffing of the ASEAN Secretariat has been made worse by the expanding workloads of the ASEAN meetings. There are three factors behind the expansion of ASEAN meetings. One is the adoption of the ASEAN Charter which created new ASEAN organs including the three Community Councils and the Committee of CPR, which also influences the economic sphere. The second factor is the introduction of the AEC Blueprint (as well as other Blueprints) which mandated a number of sectoral bodies to implement their tasks. The last factor is increasing interests of non-ASEAN countries in the AEC efforts. All these developments can be and probably should be interpreted as positive changes. Yet, given the limited capacity of the relevant ministries of the AMSs as well as the ASEAN Secretariat, it becomes a serious challenge for AEC building. There is a high possibility for the number of meetings to increase even more rather than decrease due to newly emerging agendas which require new sectoral bodies or working groups as well as due to the world's increasing interest on the ASEAN region. Among all, the RCEP negotiations can be expected to

impose additional resources and man-time on AMSs and the ASEAN Secretariat in the near future.

ASEAN may need to consider measures to rationalize if not reduce the workloads arising from the increasing number of ASEAN meetings, such as possibly (a) combining the *bilateral* meetings with the Dialogue Partners at sectoral meetings into one meeting as much as possible; and, (b) consolidating the outstanding ASEAN+1 negotiations to the RCEP or putting the ASEAN+1 negotiations on hold once RCEP is initiated.

At the same time, ASEAN needs to clarify the mandate, relationship and coordination of relevant bodies. With limited time and resources, ASEAN cannot afford time on meetings with potentially duplicate mandates. Another problem raised in our discussion with officials is weak coordination among the three Communities (i.e., APSC, AEC, and ASCC). These issues could possibly be discussed and addressed with the review of the ASEAN Charter.

Concerted regulatory reform. ASEAN should deepen its initiatives on regulatory reform. Most of AEC measures require national policy or regulatory reform efforts. Moreover, efficient, stable and transparent regulatory structure is a precondition for AEC measures to function well. This is relevant to NTMs, trade facilitation, standards and conformance, services, investment, transport, ICT, energy, IPR and competition policy. SMEs are the primary beneficiaries of regulatory reform since they may miss business opportunities arising from the AEC if they cannot handle complicated regulatory procedures due to their limited resources. At the same time, the future possible convergence of regulations can be expected to strengthen the AEC even more. Although all the regulations have some sector-specific aspects, general regulatory reform initiative can enhance the quality of the regulatory environment in the AMSs and the region. As such, it is best that general regulatory reform be pursued as a priority in the run up to 2015. The new initiatives at the HLTF-EI level, supported by Australia, as well as further academic study, can potentially provide good foundation for future cooperation in the area of regulatory reform in the region.

As suggested earlier, the run up to 2015 is a golden opportunity for concerted policy reform in the region in light of the many policy and institutional changes demanded by AEC in order for the ASEAN to be known globally as a region of good economic governance. In the process, AEC could become known within the region as a harbinger of policy and

regulatory reforms and good governance as much as a regional economic integration initiative.

ENDNOTES

¹The ERIA AEC Scorecard Phase II was undertaken by ERIA in 2010-2011 to score a number of key Pillar 1 measures and transport facilitation. The project developed a number of scoring methodologies. The results have been presented to the AEC Council but are not disseminated to the public.

² A reflection of the growing role of China as a consumer market is the changing attitude of some Filipino exhibitors to Mainland Chinese visitors to the Manila FAME. Before, these Filipino exhibitors did not welcome the Mainland Chinese visitors because they were worried their designs would be copied by the Chinese who could easily undercut the Filipino exporters in third markets. These days however the Chinese visitors to the Manila FAME are welcomed, because the China market for uniquely designed imports from abroad (and not produced in China) is growing fast with the growth of China's upper middle class.

³ A few agriculture products (e.g. copra, rice, and sugar), which are considered sensitive or highly sensitive products, have been excluded from zero-tariff target.

⁴Singapore's relatively moderate liberalization rate is due to its very restrictive regulations on mining, including quarrying, which is understandable for a tiny city state.

⁵ The AEC Blueprint B.3 regards consumer protection. The ASEAN Coordinating Committee on Consumer Protection is the sectoral body in charge of this area. Regional actions include (i) notification and information exchange mechanism; (ii) cross border consumer redress mechanism; and (iii) strategic roadmap for capacity building. The most notable achievement may be the successful launch of the ASEAN Consumer Website in May, 2012. As an emerging policy area, this topic is worth deep academic research in the near future.

⁶ Other topics that are not covered in the MTR Integrative Report include capital account liberalization under the Freer Flows of capital (A.4), forestry under Food, Agriculture and Forestry (A.6), and taxation (B.5). The Priority Integration Sector (A.5) is discussed in the relevant chapters, e.g., services (Chapter VI of the MTR Integrative Report).

⁷ Prevalence rate is the number of core NTMs as a ratio of total tariff lines. Coverage rate is the number of tariff lines with core NTMs as a ratio of total tariff lines. The core NTM restrictive index is the simple average of the prevalence rate and the coverage rate.

⁸The very high figure for Lao PDR is partly due to the fact that Lao PDR is landlocked while the World Bank measure assumes that international movement of goods is by ship. For Lao PDR's major markets of Thailand and China, as such, it is primarily the border customs and land transport that are likely most relevant; the number of days is likely less than the figures indicated in the World Bank's trading across borders database.

⁹ It may be noted that the ASEAN CCI does not have specific foreign equity targets like at least 51% or at least 70% in the ACIA, unlike the case of CCS for AFAS. The 51% and 70% targets used in the analysis are only for analytical purposes, the two figures being good proxies for "majority control" (51%) and "controlling share" (70%, this one is useful especially in the changes of the company's charter). Implicit in the choice of the two targets is that a 100 % foreign ownership ("total control") is not necessarily always the deciding factor in investment decisions. The figures were also used for comparability

of the investment liberalization rate of the goods sector with the services sector which explicitly uses those targets.

¹⁰ “Institutional design” can include a wide range of aspects: (a) relationship between ASEAN organs (ASEAN Secretariat and sectoral bodies consist of AMSs); (b) relationship between ASEAN process and national governments; (c) relationship within national government (e.g., inter-agency coordination); (d) relationship between the national governments and other stakeholders (e.g., business, academia, local government); (e) relationship between ASEAN process and its Dialogue Partners; (f) mandate, human resources, and budget of the ASEAN Secretariat.

¹¹The rationale for the virtual directorate is that top level technical people may prefer to stay in their home countries rather than move to Jakarta. In addition, since there is no need to pay for housing allowance, the take home salary of the technical people in the virtual directorate could be higher. The possible major difficulty in implementing this option is that the supervision challenges could be tremendous for the DSG for AEC, which means that it can be far less productive than initially expected. Moreover, the budget issue still looms large.

¹² This point was raised in the third technical workshop of the ERIA MTR Study (May 30-June 1, 2012).

¹³In addition to business, the involvement of consumers and other stakeholders will be important. In this, it is worth noting that the ASEAN Charter listed “Accredited Civil Society Organizations” in addition to the Business Organizations.

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Appendix A. Recommendations on the Way Forward

Non-tariff measures
<p><u>By 2015:</u></p> <p>The proposed elements of the robust mechanism to minimize NTB effects of NTMs are as follows:</p> <ol style="list-style-type: none">1. Institutionalize standstill and transparency mechanisms<ol style="list-style-type: none">➤ The standstill is on core NTMs, especially on quantitative restrictions.➤ Ensure that the comprehensive NTM database is updated continuously; adhere to compliance with notification requirement in ATIGA to enable pre-installment discussion.2. Institutionalize phase down/modification of NTMs mechanisms by introducing two following approaches:<ol style="list-style-type: none">a. Core NTM approach:<ol style="list-style-type: none">i. Undertake comprehensive review and analysis, with consultations with stakeholders, of core NTMs for significant NTB effects.ii. Set targets for phase down of coverage and prevalence rates of core NTMs toward 2015, including modification of core NTMs to minimize NTB effects.iii. Streamline procedures based on agreed upon guidelines on import licensing procedures on allowed core NTMs by country to minimize NTB effects.b. Sector/Industry approach:<ol style="list-style-type: none">i. Focus on priority integration sectors initially (current focus of CCA are textiles and garments, automotive, and electrical and electronic equipment sectors).ii. Undertake consultations with both regional and national stakeholders for confirmation of the NTMs with large NTB effects.iii. AMSs agree on phase down or modification of NTMs with large NTB effects.3. Establish a third party monitor and technical resource to help ensure effective implementation of the robust mechanism.4. Strengthen ACT to provide grievance and recourse mechanism for the private sector complaints on NTMs by AMSs.
Trade Facilitation
<p><u>By 2015:</u></p> <ol style="list-style-type: none">1. Reduce further the number of documents required to export and import in most of the AMSs.2. Reduce as much as possible the physical inspection rate of goods.3. Complete the full roll out of the National Single Window ASEAN 7 (excluding Cambodia, Lao PDR and Myanmar) and implement pilot NSWs in Cambodia, Lao PDR and Myanmar by 2015.4. Extend the scope of the ASW Pilot Project beyond 2012 to cover more

documents and where feasible all ten AMSs, and widen the scope of the ASW to more stakeholders.

5. Sign Protocol 7 of AFAFGIT, and finalize and implement the ASEAN Customs Transit System.
6. Fully implement the National Trade Repositories and ASEAN Trade Repository.

Standards & Conformance

Towards 2015:

1. Redouble efforts to ensure the successful fruition in the majority if not all of the current 8 priority sectors in the run up to 2015 (such as in cosmetics, EEE, pharmaceuticals, and automotive sectors).
2. Define “success criteria” for each of the 8 priority sectors for 2015.
3. Strengthen and align institutions of standards and conformance bodies to increase understanding of the initiatives and deadlines and buy-in from all involved to ensure speedy agreement and implementation of measures (e.g., expand membership of the ACCSQ to include regulators; strengthen linkages between ACCSW and PWGs; boost technical resources to product working groups and the ASEAN Secretariat; improve national inter-agency coordination).
4. Encourage the organization and engagement of the private sector in standards and conformance (ACCSQ, PWGs, as well as national processes).
5. Increase budget to improve facilities needed for effective and facilitative conformity assessment (e.g., laboratory capacity and skilled personnel).
6. Invest more on data collection, analysis and information dissemination on the benefits and costs to industries, public and the economies of the standards and conformance initiatives.

Beyond 2015:

1. Make more vigorous efforts in the implementation of the regional initiatives in the selected priority sectors.
2. Explore an alternative approach (i.e., non-sectoral approach) to dramatically expand the product coverage outside the PISs (more specific suggestions can be found in Chapter V).

Services Liberalization

Into 2015:

1. Allow at least majority foreign (ASEAN) equity participation by 2015.
2. Set guidelines to ensure at least majority foreign equity liberalization in subsectors under the ASEAN’s services priority integration sectors and critical to the realization of ASEAN connectivity (e.g., logistics and transport, telecommunication including ICT, trade-finance and insurance-related, healthcare, and tourism) which comprise the following elements:
 - a. Exclude these subsectors from the elements of the 15%-flexibility mechanism provided for AFAS.
 - b. Commit ‘conditional liberalization’ if the AMSs face political economy difficulties in liberalizing these sectors.

- c. Apply twofold actions for a subset of these subsectors if they face national security concerns or constitutional constraint; that is, allow minority foreign equity commitment but this needs to be matched by deeper Mode 1 liberalization or by an effective implementation of competition policy.
3. Set specific targets and milestone for the financial subsectors pledged for liberalization by 2015.
4. Commit more financial subsectors to be liberalized by 2015.
5. Develop WTO-type of Reference Paper of domestic regulatory reform (as in the telecommunication sector under WTO scheme) in areas other than telecommunication.
6. Embark on regional initiative on systematic regulatory reform in key sectors before 2015 and expand the initiative to other sectors beyond 2015.
7. Explore ideas to add more detailed regulatory information for scheduling trade commitments (e.g. alternative formats to GATS-style, to invite more commitments while at the same time increasing transparency).
8. Create a peer review mechanism to monitor the implementation of commitments.

Capital Market Development and Financial market Integration

Into 2015:

1. Intensify regional cooperation on exchange governance, including trading and settlement system alliances and infrastructure, with wider membership to address the problem of fragmented market infrastructure (e.g., materialize the depository links for cross-border settlement and custody; upgrade the real-time gross settlement (RTGS) payment systems).
2. Harmonize the payment and settlement system (PSS) among AMSs before 2015 in order for them to be connected and integrated after 2015 (e.g., adoption of ISO 20022).
3. Further liberalize domestic financial markets while properly managing the potential risk of contagion (e.g., materialize and utilize the Early Warning System).
4. Conduct a study on the appropriate steps for new participation in the ASEAN Exchange Linkage including exhibiting real cases of benefits in the fast moving countries.

Investment Liberalization and facilitation

Investment Liberalization by 2015:

1. Set Guidelines on what can be included in the “minimum investment restrictions/impediments” in Component 2 of the ACIA modalities (e.g., subsectors closed to (further) domestic and foreign investment; subsectors with significant cultural importance in an AMS; and national treatment derogation with respect to SMEs).
2. Introduce a third party monitoring by the ASEAN Secretariat to supplement the peer review mechanism under ACIA (Component 3), with research support from credible institution(s) (e.g., analyze whether liberalization commitments are indeed implemented).

Investment Facilitation by 2015:

1. Streamline processes, increase transparency, and improve coordination among agencies to speed up the processing of papers and approvals during the pre-establishment stage as well as during the operations of the firms (e.g., learn from the best practice in the region and set clear definable and monitorable targets).
2. Strengthen national and local government coordination with respect to investment facilitation and promotion.
3. Strengthen, reorganize and capacitate investment promotion agencies.
4. Strengthen linkages between the investors and the government agencies.

MRAs on Professional Services and Labor Mobility

Into 2015:

1. Continue the process to adjust domestic regulations to meet the mandates and standards of the regional MRAs.
2. Undertake more aggressive information campaign on the substances, nature and benefits of regional MRAs.
3. Set greater coordination between the government agencies and the professional bodies in the negotiation and implementation of the MRAs.
4. Focus the negotiations on the sectors of MRA that may create potentially large commercial impact, such as those for architecture and engineering services, accountancy, etc.

Beyond 2015:

ASEAN should expand the scope of MRAs from the current seven professions. Also, the potential economic impacts of labor mobility of *unskilled* labor are huge. While movement of unskilled workers in ASEAN is not part of AEC Blueprint, it is worthwhile to recommend to the Socio-Cultural Community that ASEAN should regionalize the measures that formalize the hiring and manage the intra-regional flow of unskilled workers.

Connectivity and Transport Facilitation

By 2015:

1. Redouble its efforts to finalize Protocols 2 and 7 of the AFAFGIT with further flexibility, and accelerate the ratification process and necessary domestic reforms toward the full operationalization of the transport facilitation agreements.
2. Support concerned AMSs to raise necessary funds, by utilizing the ASEAN Infrastructure Fund (AIF) or sharing effective scheme of Public-private partnership (PPP) for example, for the development of critical infrastructure, in particular, (a) Myanmar to upgrade remaining below Class III sections on AH1, (b) Cambodia and Viet Nam to construct the SKRL missing link between Phnom Penh and Ho Chi Minh City, and (c) Philippines to expand the capacity of Manila airport
3. Designate AH123, which is an integral part of the MIEC, and Dawei-Thaton section of AH112 as Transit Transport Routes, and accelerate the

- construction or upgrading work accordingly
4. Expedite the ratification and the subsequent operationalization of the MAFLAFS, the MAAS, and the MAFLPAS, accompanied by the on-time implementation of the work plans for the ASAM
 5. Establish at least a few international Roll-on Roll-off (RoRo) networks based on the ongoing feasibility study

ICT

Before 2015:

ICT Trade Liberalization:

1. Review the interconnection issues and relevant regulations, and impose strict obligations for the incumbent operators to open access to international gateway facilities with reasonable price.
2. Seek out to streamline their schedule of commitments in AFAS, ideally aligning AFAS commitments to the licensing classification that is now common in at least seven AMSs.
3. Learn from Malaysia–Singapore best practices in reducing the roaming charge and start to initiate negotiation among interested AMSs to reduce roaming rate.

Digital Divide:

1. Document best practices in ASEAN and in other countries, e.g. Japan, to improve the management of the Universal Services Fund (USF).
2. Explore an alternative approach for USF namely, provide subsidy financed from the government tax revenue for ICT services to rural, under-served and remote areas.
3. Promote public private partnership (PPP) scheme and provide incentive for industry sector which are willing to roll out infrastructure and services to rural and most remote areas where profit may be far below those of from urban areas.
4. Encourage facilities-based competition through their licensing regime (i.e., issuing separate licenses for network facilities and service provisioning), and ensure that interconnection and access prices are reasonably set.
5. Document and disseminate the best practices in building community information centres under a PPP scheme.
6. Improve statistic in ICT including urban – rural disparity in term of ICT access.

E-government:

1. Map out e-government development in ASEAN including law and regulations to classify where each AMS is in term of e-government development and assess if there is a need for technical assistance e.g. capacity building programmes, etc from some AMSs for developing e-government national policy.
2. Engage the Dialogue Partners or international organization to support countries which left far behind in term of e-government development.

3. Financially-constrained AMSs would do well to explore various mechanisms of soliciting PPP in e-government initiatives. Here again, lessons from the experiences of more advanced AMSs, e.g., Malaysia and Singapore, are worth documenting and sharing to other Members.

Energy

Into 2015:

1. Coordinate national energy policies and project development with regional plans and agreements, and monitor AMSs (e.g., via peer review) to fulfill their commitment to promptly achieve the APG and TAGP.
2. Strengthen institutional infrastructure and cooperation as an equally important issues as physical ones:
 - a. At nation level, address domestic institutional barriers to establish an open, competitive and transparent energy market; and,
 - b. At regional level, formulate institutional and contractual arrangements for cross-border trade and harmonize legal, technical and regulatory framework.
3. Effectively mobilize resources for infrastructure projects through the leverage of public funds and participation of private sector.
4. Expedite the implementation of priority actions, such as trade facilitation, regulatory and technical specifications and harmonization, numerical targets, and financing mechanisms.

Beyond 2015:

1. Set a clear vision (e.g., EU's Single Energy Market) and have a comprehensive coverage of energy sector in the AEC Planning.
2. Update plans on energy cooperation and the development of energy infrastructure and continuously promote those tasks left over from the AEC 2015.
3. Establish a regional governing institution on energy.
4. Follow economic principles and use market instruments to facilitate energy cooperation.

IPR

Before 2015:

1. Fully Implement the ASEAN IPR Action Plan 2011-2015.
2. Introduce special treatment for SMEs to enhance local innovation (e.g., expedited examination and discounted fee).
3. Continue practice sharing in drafting legislation and enforcement procedures in IPR.
4. Introduce numerical targets to monitor the administration quality (e.g., turnaround time in patents).
5. Initiate sharing best practices in organizational issues (e.g., autonomous budget frame) to better address resource constraints
6. Compile IPR-related data at regional level in a comparable manner and communicate them with stakeholders
7. Accelerate accession to key global IP conventions, including but not

<p>limited to global filing systems</p> <p>8. Review the existing legislation to enhance collaborative inventions and the local participation in them.</p>
<p>Competition Policy</p> <p><u>Before 2015:</u></p> <ol style="list-style-type: none"> 1. Renew commitments for this area at a high level and focus its efforts such as capacity building for the introduction of competition policy in the remaining five countries which have not implemented comprehensive national competition laws. 2. Initiate the setting up of enforcement cooperation agreements to prepare for the future increase in cross-border commercial transactions such as mergers under the AEC. 3. Pool resources for capacity building at a regional level and collaborate with reputable universities to study key issues. <p><u>Beyond 2015:</u></p> <ol style="list-style-type: none"> 1. Expand the mandate of AEGC to accommodate broader discussion on competition policy at the regional level. 2. Initiate peer learning and review process of the existing domestic competition regimes. 3. Conduct comprehensive studies on the impact of competition policy on achieving equitable growth. 4. Embed competition policy in regional economic integration.
<p>Agriculture</p> <p><u>Into 2015:</u></p> <ol style="list-style-type: none"> 1. Minimize NTB effects of “core NTMs” in agriculture products (e.g., shift to automatic import licensing as much as possible). 2. Operationalize ASEAN – Plus Three Emergency Rice Reserves. 3. Expand and deepen regional cooperation in agriculture R&D (in such areas as the forestry, crops sector, fisheries, as well as socio-economic study of farmers, taking into account each country’s strengths). 4. Develop regional funding scheme(s) to co-finance national investments in agricultural and rural infrastructure. 5. Expand regional cooperation in agricultural training and technology transfer as well as dissemination of best practices within ASEAN.
<p>SMEs Development</p> <p><u>Before 2015:</u></p> <ol style="list-style-type: none"> 1. Prioritize the implementation of measures in the Strategic Plan by focusing on the setting up and strengthening of technology incubators, establishment of one-stop SME service centre, and strengthening of SME financial facility by 2015. 2. Intensify the initiatives to encourage business matching for SMEs, with multinationals as well as with other well performing SMEs within the AMSs, the region, and with SMEs in East Asia.

3. Promote SME clusters, networks and alliances.
4. Establish the ASEAN SME Policy Index by 2013 to ensure policy coherence between the regional initiatives and national SME policies.

IAI

Into 2015:

1. Set clear priorities on the key issues in the AEC 2015 Vision, especially in facilitation of investment and trade (e.g., customs reforms, risk management system, investment promotion, and best practices), expanding capacity building programs to the private sector, macroeconomic management and reform, financial resource mobilization (e.g., PPP), and project management capability.
2. Explore an idea to develop a framework to coordinate the CLMV needs with ASEAN-6 and the Dialogue Partners (e.g., a common work program and donor meeting similar to the Paris Club or Tokyo Club).
3. Enhance needs assessment, consultations, and coordination with sectoral bodies.
4. Accelerate cooperation among the CLMV Countries.
5. Enforce regular assessment of the IAI project effectiveness and monitoring.
6. Enhance graduation of CLMV from the IAI once they have achieved a certain level of economic development (e.g., lower-middle income level).

Economy Wide Impact of ASEAN Integration

1. Undertake complementary policies to liberalization that will lead to higher growth path than initially projected, similar to the productivity enhancing investments in agriculture to complement and offset the potential adverse (temporary) impact of liberalization.
2. Ensuring that the action plans in the AEC Blueprints (perhaps, with refinements) will in fact get implemented

Deepening ASEAN Integration with East Asia

By 2015:

1. Set the target of 95 percent tariff elimination with a “common concession” approach in order for ASEAN to gain additional benefits and having in mind the competition with TPP while maintaining more simple, transparent, and business-friendly tariff structure.
2. Introduce the “core NTMs” concept and remove them as much as possible.
3. Allow co-equal rules in the ROOs, and set a general rule of “RVC40 or CTH” as much as possible supplemented by alternative rules (more liberal rules).
4. Develop consolidated operational certification procedures in ROOs.
5. Introduce concrete and tangible trade facilitation programs (as in ASEAN, e.g., ASEAN Trade Repository) and address FTA utilization issues.
6. Enrich the existing economic cooperation programs and develop coordination mechanisms.
7. Commit to liberalize trade in services at a much higher level than AFAS package 5 to gain additionality on the GATS and existing ASEAN+1 FTAs,

with the emphasis on the services sectors which strengthen regional production networks and those related to the connectivity.

8. Pursue a package deal negotiation of trade in goods, services and investment so that the different interests of the RCEP members can be properly accommodated.
9. When special and differential treatment is necessary, allow a longer transitional period, instead of other types of treatment.
10. Consolidate the outstanding ASEAN+1 negotiations to the RCEP once it is initiated.

Institutional Issues for AEC Building

Before 2015:

1. Review the effectiveness of the current monitoring systems and give more specific mandates to the ASEAN Secretariat to play proactive roles in the key areas (e.g., NTMs, services, and investment), introduce track 1.5 monitoring processes involving business and academia, and strengthen the ASEAN Secretariat.
2. Take a comprehensive review of the existing dispute settlement mechanisms, especially ACT and EDSM so that they can provide effective dispute resolution function and thus enhance business confidence in the AEC efforts.
3. Ensure private sector involvement especially at the sectoral levels where business inputs are critical (e.g., standards and conformance) while avoiding duplications by streamlining the channels.
4. Manage the increasing number of ASEAN related meetings to enable AMSs to focus on the priority agendas into 2015.
5. Review the mandates, relationship, and coordination among the relevant AEC bodies, as well as the coordination among the respective ministries responsible for the three Communities (i.e., APSC, AEC, and ASCC).

Appendix B. Country Team Recommendations

Brunei Darussalam

General
<ol style="list-style-type: none">1. Develop monitoring system or mechanism that will help ensure consistent progress of implementation from all relevant agencies.2. Develop central monitoring mechanism of investment facilitation, for example a ‘one stop shop’ or simply a centralized agency.3. Enhance private sector involvement by involving the business in the following areas: public-private partnership and effective dialogues and forums on:<ol style="list-style-type: none">i. Enhancing knowledge to engage the private sector involvement.ii. Identifying support for effective private sector engagement in the context of new and emerging challenges facing AEC.iii. Finding opportunity to leverage the synergies in fostering regional markets and economic integration and private sector development.
Standard and Conformance
<ol style="list-style-type: none">1. Define the single focal point and coordinator for standards and conformity assessment activities.2. Adopt the international standards and provide greater number of human resources needed to expedite the adoption process. Thus, human resource development (HRD) is important particularly in the following relevant sectors: Electrical and Electronic Equipment sector, Medical Device Sector, Traditional Medicine and Health, Supplements (TMHS) Sector, Pharmaceutical Products Sector, and Automotive Sector.
Mutual Recognition Arrangement (MRA)
<p><u>Main recommendations involved:</u></p> <ol style="list-style-type: none">1. Submission of official notification of participation which in turn setting up MC.2. Create national websites for information dissemination.3. Conduct more outreach activities for public knowledge and awareness.
Investment Promotion and facilitation
<ol style="list-style-type: none">1. To set up a one stop shop.2. To coordinate/centralize IPA activities between MIPR and BEDB (for start-up, consultation, inquiries and feedback).3. To build further on information generation related to investment activities.4. Improve investment servicing.

Cambodia

Trade Facilitation
<ol style="list-style-type: none">1. Finalize the implementation of ASEAN e-customs and National Single Window within the time frame adopted by ASEAN.2. Prepare technical works such as system for electronic payment of duty, taxes, fees, system / functionality for integrated risk assessment, system / functionality for electronic port connectivity.3. Update information and statistics in Ministry of Commerce website, which is very outdated at present.
Standard and Conformance
<ol style="list-style-type: none">1. Establish an integrated National Master Plan for the standards and conformance infrastructure of Cambodia.2. Government (ISC and National Standard Council) should develop followings things, such as:<ol style="list-style-type: none">a. Legal document on metrology and its domestic application.b. The establishment of a certification system.c. The accreditation system for product, systems and laboratories.d. Specific training in border control surveillance techniques.e. Implementation of Master Plan - Legal measurement and measurement laboratory establishment.f. Appropriate Laboratory type establishment equipped with equipments.g. Technical and managerial training for laboratories.h. Diffusion of legal metrology across the country, including sub-national seminars.i. Physical search training, recognition and awareness of phyto-sanitary hazard, search documentation and awareness of the implications of international trading agreements.j. Domestic national standards to increase quality and safety within Cambodia.
Investment Facilitation
<ol style="list-style-type: none">1. The country is still in lack of a complete investment promotion and facilitation (IPF) (strategic) plan. The Plan should be done by taking good practices from other ASEAN countries such as Singapore or Thailand. The Plan should spell clearly the different stages such as short, medium and long term objectives and targets and detail plan of actions.2. CDC should improve data management on FDI to reflect the reality of FDI flow. CDC should also regularly update information including opportunities and legal framework in its website to facilitate investors to get information.
Transport Facilitation
<ol style="list-style-type: none">1. The Royal Government of Cambodia should create an integrated and efficient logistics and multi-modal transportation system, including land and railways, for cargo and passengers movement between provinces

and logistics bases (and hubs) and trade centers within the country and prepared the logistics bases at international border checkpoints for transits and linkages with neighboring countries.

2. Build passenger Terminals for local transport vehicles, including containers trucks, passenger buses and cars, in order to facilitate transportation, improve social order and to reduce traffic accidents.
3. Formulate and adopt laws and regulations related to transportation and transport facilities, such as maritime transport, logistics and others, as soon as possible.

Agriculture

1. Finalize national standardization in different categories of Cambodian agro-products such as rice and other crops by the Institute of Standards of Cambodia (ISC) so that Cambodia can have its own standards to access to foreign markets.
2. Agriculture will be continuously important, but it needs to be complemented by development in other sectors.
 - a. Agro-industries in rural areas, i.e. non-farm activities (e.g. rice milling, trade) should be major sources of growth.
 - b. Foreign investors – which can bring access to global value chains, technology, and finance – to invest in contract farming should be encouraged and attracted.
 - c. Market linkages for fish products, fish processing technology and investment, and the ability to produce international certificates for food safety needs to be capitalized.
 - d. Securing additional source of financing for production and export. Cambodia’s financing, which comes primarily from foreign savings, highlights the adverse impact on growth in Cambodia as a result of tighter conditions in international financial markets.
3. The Need for multi prong partnerships, especially with foreign equity partners, with national dialogue partners, and with government-private sector forum.
4. Engage capacity building on market access conditions and implement more trade projects to support Cambodia promising exporting firms by helping them, first, to understand concrete export opportunities arising from numerous regional and sub-regional trade agreements and, second, to understand the export rules and regulations and other procedural aspects of international trade.

Small and Medium Enterprises (SME)

1. Provide government support of low interest rate or monetary policy to support SMEs is really crucial for SMEs development.
2. Explore the best practices in SME Business Development Services (BDS), for example, provided by the Penang Skills Development Center of Malaysia. The BDS could provide part or complete support services ranging from training; counseling and advice; technology development and transfer; information; business linkages; and financing.

<ol style="list-style-type: none"> 3. Provide SMEs with help and facilitation to get technology transfer, especially from FDI companies or through Multinational Corporation if SMEs are sub-contractors. 4. Government and development partners need to provide more fund and technical support to support SME related agencies such as Department of SMEs of the Ministry of Industry, Mines and Energy, SMEs Association, and others.
Initiative for ASEAN Integration (IAI)
<ol style="list-style-type: none"> 1. Coordination Mechanism Royal Government of Cambodia should strengthened IAI unit within ASEAN General Department to coordinate and follow up all projects and activities and established focal points in all ministries and agencies so that IAI should be well implemented and monitored. 2. Fund Raising In order to mobilize fund to sufficiently support IAI activities, fund raising meeting should be organized separately to raise fund from donor both ASEAN 6 countries and other Dialogue Partners. 3. Prioritization IAI projects should be focused on priority projects and not so vague. Areas such as ICT, Human Resource Development, especially in legal training and governance should be emphasized. Donor-driven approach should be linked with recipient's priority areas. 4. Avoid Duplication in other assistance projects IAI should be implemented with the concept of avoiding duplication with other assistance projects that recipient countries already implementing.

Indonesia

Services Liberalization
Facilitate a forum by the government to reach common understanding between services providers and users.
Investment Promotion and Facilitation
Private sector was concerned on the investment promotion agency's lack of interest in assisting their operational problems. Even without having authority over another agencies that might cause operational problems to private sector, it is perceived that the IPA should be able to facilitate meeting with these agencies (operational problems include labor dispute, tax problem etc.)
Standards and Conformance
<ol style="list-style-type: none"> 1. Arrange capacity building to improve surveyors' competency and skills, related to standards and conformance is an urgent matter. 2. Update and revise SNI (Indonesian National Standard) so it will be in

<p>line with standard and conformance which require in regional and international standard.</p> <p>3. Improve the quality of local workshop about this standard and conformance socialization.</p>
<p>Mutual Recognition Arrangement (MRA)</p> <p>1. Strengthen coordination between government agencies, professional institution and academic institution.</p> <p>2. Find the best strategy to socialize and implement this issue because MRA's is still a minor issue. Moreover, Indonesia also has to solve the problem about national standardization immediately.</p>
<p>Agriculture</p> <p>1. Promote collaborative research and technology transfer with other AMS, especially on forestry sector.</p> <p>2. Improve strategic alliances and joint approaches with the private sector.</p> <p>3. Strengthened linkages with regional ASEAN networks, especially on R&D aspects, educating & consulting the farmers to increase their productivity.</p> <p>4. Expanding infrastructure, especially for irrigation in order to increase supply of water.</p>
<p>Trade Facilitation</p> <p>Accelerate the synergy between customs process in ASEAN to support development of economics and trade and also creates conducive investment environment in ASEAN.</p>
<p>Transport Facilitation</p> <p>1. Develop national competitiveness in term of the capacity of domestic airlines/air carriers, fixing the physical (technology and infrastructure) limitation in international airports, maintain the coordination especially between government agencies (MoT, MoF, etc.).</p> <p>2. Develop a different RIATS scoring system for Indonesia.</p>
<p>Small and Medium Enterprises (SME)</p> <p>1. Improve technology literacy.</p> <p>2. More access to financial institution with a special program which have to conduct by government.</p> <p>3. Arrange marketing and business strategy training to develop their capacity.</p> <p>4. Promote export access to qualified SME.</p>

Lao PDR

Trade Facilitation
<ol style="list-style-type: none">1. Continue moving the Customs and Trade Facilitation Project forward toward the successful implementation of ASYCUDA world system nationwide.2. Create awareness of private sector about the launch of the new system to ensure the smooth transition. Provide training on utilizing the modernized system to the private sector.3. Create relevant government awareness of their roles in the implementation of the National Single Window (NSW).4. The Customs Department needs to put more effort to move things forward as currently there progress is slow on this area.
Investment Promotion and Facilitation
<ol style="list-style-type: none">1. Strengthened human capital development through capacity building and conducting in-house research, in order to equip DIP officials with business knowledge and sectoral expertise.2. Speed up the on-going development process of Investment Promotion and Facilitation Strategic Plan.3. Develop the promotional materials catering to target audience (including undertaking necessary research) by the DIP.
Standard and Conformance
<ol style="list-style-type: none">1. Strengthen human resource development and enhance capacity of relevant officials to reduce technical difficulty. Allocate more resource to enhance human resource capacity, attract and retain talents.2. Seek technical assistance from international agencies/organizations for each area.3. Encourage relevant agencies of each sector to adopt international standards and officially make them national standards.4. Increase investment on physical facilities to ensure adequate and laboratories, equipments and other necessary tools.
Mutual Recognition Arrangement (MRA)
<ol style="list-style-type: none">1. Speed up the on-going revision and drafting process of existing and new regulations related to professional services, although it is on track.2. Emphasize and strengthen human resource development and capacity building in all the professional services. Exchanging information and discussion with countries with similar professional qualification system should be encouraged.3. Disseminated information about the MRA and its overall progress to the public through public outreach activities.
Competition Policy
<ol style="list-style-type: none">1. Require more training for human resource in the area.2. Need for good regulation and adequate intervention by the government to avoid the situation that a handful of monopolies possessing capital

and technologies control a majority of the economy. Unfettered competition may be destructive for local small and medium-sized enterprises in the end.

3. Disseminate and implement the law on consumer protection are the priority task. In addition, campaigns to raise consumer awareness of their rights are highly important.

Intellectual Property Right

1. Arrange human resource development, capacity building and increase number of expertise in various aspects of IPR.
2. Create awareness among business sectors on the importance of IPRs and its potential benefits especially to SMEs.
3. Establish special scheme to support SMEs in this area.

Initiatives of ASEAN Integration

1. Matching the funds for IAI programmes with the priority sectors based on scorecard, particularly the services, transport, customs and other related sectors that lag behind. The priority areas in future work plans should be based on the development stage and comparative and competitive advantages of individual country.
2. ASEAN Secretariat needs to provide more details of information to the implementing agencies.
3. Coordinate more effectively with donors, especially for the implement agencies/beneficiaries.

Malaysia

Trade Facilitation (NSW)

1. Reduce documentation requirements for imports and exports.
2. Increase the level of automation in some areas in customs procedures. Particular areas that can have more automation are warehousing, free zones and bonded warehouse.
3. Enhance the accessibility of services.

Investment Facilitation

1. Provide total transparency to all investors (domestic and foreign) regarding the distribution of projects.
2. Abolish all quotas and subsidies in a phased, but definite manner.
3. Ensure that tenders are not given to local suppliers who are not eligible.
4. There is an issue with the quality of human capital in Malaysia, and in order to attract high quality investment it must attract and retain its talent.
5. Ensure that there is uniform environmental regulation at the national level with stronger central government direction.
6. Accelerated approval of investments.
7. Corporate taxes should be reduced.

Agriculture

1. Faster implementation of harmonization of quarantine and inspection/sampling procedures with ASEAN or international standards/guidelines.
2. Implementation of harmonization practices of Malaysian maximum residue limits (MRLs) of commonly used pesticides in accordance with international standards/guidelines.
3. Expediting the use of harmful chemicals in agriculture in accordance with harmonized standards.
4. Improve Malaysian resource management in accordance with ASEAN or international standards.
5. Greater efforts required by the Malaysian government to handle forest fires and resultant effects.
6. Stronger initiatives to combat illegal fishing.
7. Enhance bilateral, regional and multilateral agricultural cooperation with other ASEAN member countries.

Small and Medium Enterprises (SME)

1. More efforts should be focused on creating greater awareness about programmes that are meant to facilitate SME development.
2. SMEs in ASEAN member countries have to be encouraged to employ higher levels of technology. Toward that end, mechanisms have to be developed to enhance the sharing of technology. A first step in that direction will be to share information on technology availability.
3. Human capital development is necessary for the growth of SMEs. The availability of such programmes has to be better publicized. SME Corp. Malaysia should explore ways in which SMEs can develop their human capital. It is also necessary for SMEs to be able to access the human capital programmes that are available on an ASEAN-wide basis.
4. There should be closer links between ASEAN and SME Corp Malaysia to develop the sector in Malaysia. Mechanisms should be established so that SMEs in Malaysia can be updated on initiatives such as the establishment of the ASEAN SME Advisory Board and the Expert Panel on ASEAN SME Access to Finance. The implications of these initiatives should be highlighted to the SMEs in Malaysia.
5. Enhance inter-firm networking and linkages. This has to be accomplished with the country, but also regionally. ASEAN programmes that will help firms network better and form linkages will have to be disseminated more widely.
6. More awareness has to be generated on the implementation of programmes aimed at enhancing the capabilities of SMEs in key functional areas in management, particularly with respect to SME marketing and access to financing. Knowledge dissemination on projects relating to SME technology should also be escalated.

Myanmar

Services (Financial Service)

1. Develop systematically a sound financial infrastructure including money market, equity and bond markets.
2. Establish guidelines and supervision in order to develop the capital market in Myanmar.
3. Develop regulatory system and regulatory body as the requirement to establish the capital market in Myanmar.
4. Establish a stakeholder committee as the initiating financial sector development.
5. Initiate a participatory process for stakeholder consultation and define the procedures and its responsibility.
6. The banks need to consider what degree of institutional built up is in place or planned, such as transformation to public companies status.
7. Train Myanmar bank's staff by upgrading with changing financial environment in the ASEAN region as well as globally.
8. Myanmar banks are needed to hire high-potential personnel domestically or abroad since banking businesses need professional knowledge and skills in modernizing bank services. Moreover, partnerships with financial sector stakeholders should be built.
9. Provide regular training courses on capacity building program to develop cooperation among the stakeholder.
10. Central bank need to establish partnership among stakeholders by seminar, forum and workshop.
11. Review national/regional prevailing policies (or the lack of it), the effects/impacts of its implementation, and develop appropriate strategies for its reform.
12. Enhance collaboration between regulators to expand market access opportunities, and improve the efficiency and competitiveness of ASEAN services are needed to focus under regional cooperation.
13. Develop human resource competencies and effective and efficient utilization of information technology. Therefore, human resources capacity-building programmes for banking and finance professionals, and the modernization of equipment used in the Information technology and financial sectors should be implemented supported by the national education system.

Trade Facilitation: NSW and ASW

1. Accelerate administrative reform in all organizations dedicated to trade facilitation. In particular, Customs Department should necessarily be promoted as a core agency for the NSW.
2. Institutional capacity building will facilitate the reforms of the agencies concerned to be practical, and enable to overcome their operational frustration. Myanmar will then be most benefited from the inclusion of AEC among other members.

<p>Investment Promotion and Facilitation</p> <ol style="list-style-type: none"> 1. Fulfill sufficiently both hard infrastructure and soft infrastructure according to the studies on investment liberalization, promotion and facilitation which is conducted based on interviews with owners/managers of firms from private sector, respective personal from public sector, and a Focus Group Discussion (FGD). 2. Build comprehensive investment environment. This could definitely attract investment from domestic and abroad. It cannot be doubted that many businesses which went back home due to sanctions and new investment firms certainly come to the country based on comprehensive investment environment.
<p>Standard and Conformance</p> <ol style="list-style-type: none"> 1. Provide more technical infrastructure and financial supports to each sector. 2. Prioritize real-life pilot projects; this can be more beneficial for respective sectors for long-term continuity and sustainability. 3. Design private-public partnership programmes to implement each sector. 4. Emphasize quality, safety, efficacy, environmental conservation and awareness programs in implementation of each sector.
<p>Mutual Recognition Arrangement (MRA)</p> <ol style="list-style-type: none"> 1. Create greater public awareness in the implementation of the MRA in the country as well as for the participation of all stakeholders, including the business communities and people in the country. 2. Support from related agencies is required for disseminating with MRA related information to the nation wide area. If the MRA implementation at the national level and regional level could be accelerated, Myanmar citizens can gain more benefits from this process.
<p>Intellectual Property Right</p> <ol style="list-style-type: none"> 1. Coordination of stakeholders to work together to help accelerate the pace and scope of IP asset creation, commercialization and protection. 2. Improve the national framework of policies and institutions relating to IPRs. 3. Promote IP cooperation and dialogues within the region 4. Strengthen IP-related human and institutional capabilities in the country, including fostering greater public awareness of issues and implications relating to IPRs.
<p>Agriculture</p> <ol style="list-style-type: none"> 1. Continuing capacity building program. 2. Promoting Public-Private Partnership. 3. Improving agricultural infrastructure development for sustainable food production. 4. Promoting agricultural innovation.

5. Strengthening national food security programmes and activities for shortage relief, and developing national food security reserve initiatives and mechanisms.

Small and Medium Enterprises (SME)

1. Formulation and enactment of Law on SMEs is required in Myanmar.
2. Formulation and Implementation of SME Development Policies in Myanmar.
3. In Myanmar, the financial system is still not working well for SMEs and at least 90% of SMEs at present are unable to obtain loans. The supply of funds for start-up and existing firms is yet to consider.
4. There should be a special tax system for the income of SMEs in Myanmar.
5. Capacity Building Programme for Myanmar SMEs is also important.

Initiative for ASEAN Integration (IAI)

1. To provide more technical and financial supports to present priority areas rather than including more programs in the IAI WP.
2. To prioritize real-life pilot projects, this can be more beneficial for respective sectors for long-term continuity and sustainability.
3. To design private-public partnership programmes to implement each and every IAI projects.
4. To include the programmes relating to SME development and financial sector development in future IAI WP.
5. To emphasize environmental conservation and awareness programs in implementation of the IAI projects.

Philippines

Investment Promotion and Facilitation

1. Unify and centralize the investment promotion and facilitation efforts by all IPAs under one agency with strong leadership.
2. Strengthen the current efforts of the PIPP inter-agency committee to coordinate the various IPAs' actions and plans.
3. Other IPAs in the country should learn and adopt the "PEZA way" in dealing with operational issues such as slow processing of permits and other clearances required by national agencies and local government units.
4. IPAs should closely collaborate with national agencies and local government units particularly in the following areas: (i) automation of business procedures, (ii) streamlining interrelated procedures, (iii) implementing clear and consistent policies, and (iv) providing assistance to prospective investors.
5. To review the existing investment incentives towards a more comprehensive and harmonized set of incentives governing all the IPAs.

6. Increase infrastructure investment in physical infrastructure, power and logistics, in order to reduce the cost of doing business in the country.
7. Review the Constitutional limitations on foreign equity particularly the 60-40 rule.
8. Improve institutional infrastructure by addressing corruption.

National Single Window and Trade Facilitation

National Level

1. The automation and harmonization efforts of some OGAs well ahead or at the same time as the NSW initiative, should merge with the implementation of NSW (to have systems compatibility and avoid duplicate or multiple lodging of trade-related transactions which could defeat the very purpose of NSW).
2. Allocate e-government funds to the agencies lacking of physical infrastructure as well as technical staff.
3. Disseminate the step-by-step procedure in the use of NSW to all concerned stakeholders the soonest possible time.
4. Sustain the project under the centralized funding of NSW.
5. Implement the NSW project as a part of good governance, not merely an ICT project.
6. Well-informed help desk officers in the customs service and other agencies must be designated and continuously trained.
7. Improve and strengthen the Risk Management System that links directly with the information and database of the NSW and BOC.

ASEAN customs and ASEAN single Window (ASW)

Further steps are needed for (a) manifest processing, (b) declaration processing, and (c) simplification and harmonization.

Transport Facilitation

1. Improve port infrastructure and modernize port operation through efficient public- private partnership.
2. Remove conflict-of-interest situation of a regulatory agency, which owns certain infrastructure, e.g., ports in the case of PPA, and at the same time regulates port operation.
3. Allow international airlines to land and pick up cargo business from the Diosdado Macapagal International Airport (DMIA) in Clark, Pampanga to give exporters from Subic Bay Freeport Zone and Clark Freeport Zone a less costly option for shipping out their exports.
4. Improve the efficiency of concerned regulatory agencies and government departments involved in trade by modernizing and streamlining operations through the use of information and communications technology (ICT).
5. Provide a clear and common understanding among concerned regulatory agencies and government departments of guidelines and policies, a simplification and reduction of export documentation requirements in addition to the automation of processes to bring down transaction costs.

6. Review the cabotage policy in light of the need for more competitive transport and logistics in the country.
Services Liberalization
Review the Constitutional limitations on foreign equity particularly the 60-40 rule.
Mutual Recognition Arrangement (MRA)
<ol style="list-style-type: none"> 1. Formulate clear criteria for Labor Market Test (LMT) and create a skill shortage list or positive list of occupations that are difficult to fill. 2. Formulate clear rules and guidelines in implementing the foreign reciprocity provision. 3. Address sectoral concerns particularly the conflicting regulations in engineering and standards and quality issues in nursing. 4. Strengthen coordination among PRC, DOLE, and other government agencies involved in trade negotiations in the implementation of the MRAs. 5. Designate a central body that would coordinate the different MRA activities such as policy making, information gathering, dissemination and advocacy efforts. 6. Conduct more research impact studies on the implications of the MRA implementation. 7. Conduct more information dissemination and awareness campaigns on MRAs. 8. Conduct more capacity building and trainings both for the government and sector representatives. 9. Increase funding for capacity building, coordination and networking and grants for conducting studies and generating consistent and readily available statistics for the government and the private sector. 10. Encourage sustained sharing of best practices in basic education, core competency development, and implementation of code of ethics through collaborative conferences, research and exchange visits. 11. At the regional level, it is important to develop a common formula for determining competencies and credentials among ASEAN Member States and adoption of the same by the AMSs.
Agriculture
<u>The Philippines Should:</u>
<ol style="list-style-type: none"> 1. Re-examine objectives and targets for cooperation with the private sector, agriculture cooperatives, R&D, and technology transfer. 2. Expedite completion of the ASEAN Good Aquaculture Practices (GAqP). 3. Highlight the issue of small producer inclusion (To this end, the blueprint targets and objectives for cooperatives, including other types of producer associations, should be re-formulated towards collective modalities of approval and certification). 4. Should strengthen cooperatives and other producer associations in the Philippines by addressing their multifarious financial, organizational and

other problems so that they can become a real player in the promotion of better food quality and safety, and good farming, handling, and processing practices.

Both the Philippines and ASEAN should:

1. Promote the AEC blueprint for agriculture more aggressively, with well-articulated reasons why a collective approach may improve over the status quo.
2. Assist SMEs to become active participants in international trade by enabling them to effectively meet international food quality and safety standards through technology, financial, marketing and other necessary forms of assistance.

The ASEAN should:

1. Assist its member countries develop cheaper technologies and facilities that will allow them to meet it harmonized international food quality and safety standards at lower costs.
2. Strengthen ASEAN-wide fisheries research and development as well as technology transfer by providing more funding support to regional agencies doing the task. National level funding alone would not be enough particularly for some countries in fiscal deficits so that ASEAN assistance would be direly necessary.
3. Promote (on voluntary basis) organic farming practices, for crops, livestock, and aquaculture, together with mandatory ban on use of chemicals in aquaculture.

Intellectual Property Right

1. Create full automation of the country's IP system (user-friendly for SMEs).
2. Design special procedures for SMEs.
3. Incorporate trademark application in DTI's one-stop shop for business registration.
4. Streamline the different legal frameworks governing IPR in ASEAN as an important area for cooperation.
5. The ASEAN should focus on accession to other global treaties related to IPR.
6. Increase public awareness of the importance of creating and protecting intellectual property, and consequently build up the country's IP capacity.
7. Build up IPOPHIL's human resources and institutional capacity in order to further speed up the processing of applications and cases of IP violations.

Small and Medium Enterprises (SME)

The Government could facilitate SMEs' gainful participation in ASEAN through:

1. Designing a coherent set of policies and programs.

2. Raising awareness of the potential of participation in international/global production networks and good understanding of the advantages and potential of sub-contracting.
3. Addressing financing issues including inadequate working capital, insufficient equity, difficulties of credit finding and expensive credit cost.
4. Improving the technological capabilities and strengthening supply chains to enable SMEs to move up the technology scale as well as to create and enhance existing linkages with production networks.
5. Creating an enabling environment for firms to survive and realize their potentials to grow, a crucial precondition for both foreign and domestic investment.

In order to improve MSMEs access to finance, it needs to:

1. Implement the Central Credit Information Corporation to improve the overall availability of credit particularly for MSMEs, provide mechanisms to make credit more cost-effective, and reduce the excessive dependence on collateral to secure credit facilities.
2. Change the traditional mindsets of banks and encourage the adoption of non-traditional approach to SME lending.
3. Improve SMEs' financial literacy and management capacity, through trainings and capability building programs.
4. Improve data collection and statistics on SMEs particularly on financing indicators.

Singapore

General Recommendation

1. Expediting outstanding negotiations.
2. Establish monitoring function at the ASEAN secretariat.
3. Continue and greater involvement of the private sector.
4. Prioritize capacity building efforts to narrow development gap (ASEAN-6 members should likewise increase their contribution to IAI to narrow development gap through capacity building in the CLMV countries).

Services liberalization

1. The AEC Blueprint should concentrate on service restrictions that explicitly limit competition other than legitimate reasons.
2. Implement liberalization in key areas of the service sector.
3. Ensure robust regulatory environment and the legal separation of service providers with the regulatory agencies.
4. To enhance competition/contestability of markets.
5. To ensure effective regulation to deal with market failures.
6. To enhance collaboration between regulators to expand market access, develop appropriate standards for professional services, compile regular information on services policies and its performance which done under regional cooperation.

Trade Facilitation
Small maritime service providers have to be efficient and nimble to leverage on rapidly changing maritime market conditions.
Investment Facilitation
Bilateral investment treaties should be consistent with ASEAN Comprehensive Investment Agreement (ACIA) and the ASEAN Agreement, for the Promotion and Protection of Investment (AAPPI) for the liberalization of effective investment policy and environment in ASEAN (there should be a monitoring investment unit at the ASEAN Secretariat to assess and monitor the implementation of FDI rules).
Standards and Conformance
To expedite the process on a priority basis for products that are important and have market potential to intra-ASEAN trade.
Mutual Recognition Arrangement (MRA)
<ol style="list-style-type: none"> 1. Prioritize one or two professions as a designated for MRA and a progression of implementation to other designated professions. 2. Professional qualifications and requirements should be written in English or should have English translation to facilitate comparison, standardization and accreditation.

Thailand

Services Liberalization
<ol style="list-style-type: none"> 1. Improve the flexibilities to minimize the level of being vague and broad for implementation, but still be practical. 2. To ensure compliance to agreed rules and regulations, ASEAN should apply the ASEAN Dispute Settlement Mechanism (DSM) effectively and efficiently to encourage the member countries to implement the commitments or to commit more, especially in the priority services sectors. 3. The measure of free flow of services should cover the limitation on foreign equity participation as well as other key commercial presence limitations to generate significant liberalization and to encourage the implementation. 4. Impose the restrictions on services trade as a result of domestic laws and regulations are not removed. 5. Conduct the research studies on the cause and effect of services liberalization to provide evidence and research based information to the public, and to avoid the propaganda about the effects of services liberalization under the AEC. 6. The Thai government should have the strong political will to liberalize the services sector, especially the sectors which require high technology and high capital, and are regarded as important infrastructure to other

sectors, such as telecommunication and logistics (the government needs to announce a national policy regarding opening up the services sector to investment and labor).

Trade Facilitation (NSW and ASW)

1. Promoting the Customs Department to be a core agency to implement NSW (The synchronized budget and plan is needed to implement NSW).
2. Let the private sector to involve in the operation of NSW (Setting up a private company to run the operation of NSW might be a good alternative).

Investment Facilitation and Promotion

1. Strengthen coordination with related agencies and encourage them to provide services regularly (the OSOS should expand their coverage of investment-related services and their service day to be daily in all types of services).
2. To increase the transparency and minimize the possible negative effects from changing the investment laws, regulations, and policies by the government, the BOI should consider allowing stakeholders to share opinions, and provide comments on these changes.
3. The related government agencies should increase their effectiveness and efficiencies in processing registration, authorization and permit formalities by speeding up their processing time, reducing the unnecessary procedure, and generating clearer and more transparent procedures.
4. Pay more attention to focus on the business sectors which are closely matched with the needs of Thai economy or complement to the domestic business in order to enhance the competitiveness in the global market.
5. Focus more on attracting investment which will cause high value added (including highly skill and technology transfer) to the Thai economy, rather than generate only employment.
6. Build the linkages between foreign investors and domestic research and development capabilities to attract investment, other than the existing incentives.

Standards and Conformance

1. Provide the budget to Conformity Assessment Body (CAB) to increase the capacity of CAB, such as the development of testing equipment and human skills.
2. Encourage the private sector or stakeholders to get more involved in the implementation process.
3. Reduce the development gap among AMSs in term of levels of testing laboratory capacities.

<p>Mutual Recognition Arrangement (MRA)</p>
<ol style="list-style-type: none"> 1. Announce the national agenda and set up the clear national policy to support the mobilization of skilled labor (strong commitment and willingness for the free flow of skilled labor). 2. To mobilize the professional in ASEAN, the member countries have to change or revise their domestic laws and regulations to facilitate the movement of these skilled suppliers (which mostly only establish standard qualification of the particular professional services, but not guarantee the permission to work in ASEAN countries, due to being subject to the domestic laws and regulations). 3. Establish the integrated working system between the related ministries and related professional bodies. 4. Encourage and disseminate the research studies on the impacts and outcomes of free flow of professional services as a result of AEC in particular sectors in Thailand to share the knowledge and information and to avoid the myth of free flow of skilled labor under the AEC. 5. Allocate the budget properly to some professional bodies for implementation and ensuring its accountability.
<p>Intellectual Property Rights</p>
<ol style="list-style-type: none"> 1. Publicize and focus the knowledge and information related to IPR issues more directly to the target group, especially entrepreneurs. 2. Improve the infrastructure on IP administration in terms of human resource, technology and equipment. 3. Outsource some of the IP services to the private firms to expedite some services and to smoothen registration. 4. Standardize the ASEAN IP database system and make it user friendly (the IP data, especially traditional knowledge in ASEAN, should be provided on the website as soon as possible to help entrepreneurs for IP registration). 5. Provide the assistance for matching between innovators and entrepreneurs by setting up a unit or outsourcing to other agencies. 6. The enforcement in Thailand should be stricter, more transparent, and on a regular basis by providing efficient incentive contracts to related government officials, such as police, officials of the Department of Special Investigation, and officials of the DIP.
<p>Agriculture</p>
<p>Better emphasize the coordination among agencies within the Ministry so that the implementation of the measures can be expedited.</p>
<p>Small and Medium Enterprises (SME)</p>
<p><u>Recommendation for the Blueprint and action plan:</u></p> <ol style="list-style-type: none"> 1. Review the blueprint and action plan on particular programs or activities which are far behind the schedule. 2. Set-up the effective follow-up working group required to ensure that objectives are fulfilled and deadlines are met.

3. Promote policy coherence at regional, national and international level (related policies and strategies proposed by concerned government agencies that promote SMEs should parallel the national agenda, the ASEAN strategic action plan and the ASEAN policy blueprint).

Recommendations specific to Thailand, the local government should:

1. Have strong determination, commitment and political will to help resolve the problems facing Thai SMEs and to strengthen SMEs' competitiveness (higher budget allocation towards SME development).
2. Reinforce the role on OSMEP as a central body for SME and entrepreneurship policy formulation and implementation with strong financial (e.g. budget, tax incentives) and non-financial (e.g. technical assistance, enabling infrastructure, conducive business and economic environment) supports at the government level.
3. Develop national agenda for SME development (related policies and strategies proposed by concerned government agencies (particularly OSMEP) that promote SMEs should parallel the national agenda, the ASEAN strategic action plan and the ASEAN policy blueprint).
4. Bring closer cooperation and coordination among related parties such as private firms, financial institutions, government agencies, SME association.
5. Be better emphasized the link and collaborative network between large enterprises and SMEs in order to facilitate technological transfer and skill development.
6. Play an important role to enhance the awareness of the issues concerning the enhancement of competitiveness and resilience.
7. Build up the capacity and knowledge of government officials to help support the effective development of SMEs.

Viet Nam

At Regional Level

Setting up/Restructuring a regional governance body that monitors the establishing AEC. This governance body should be given more power in order to enforce the commitment of AMS governments in implementing commitment AMS governments have agreed to carry out. This is due to the fact that even when a protocol is ratified, the implementation at a member state may be slow. This slowness in turn impedes the implementation of such protocol in other countries. If there is not a more powerful governance body, the cost of this slowness will be much higher.

At National level

1. Implementation of the measures in order to achieve the goal of being a member of AEC needs stronger political commitment from the State leaders. This commitment should be not only statements by leaders but also their actions in order to foster the process. One of the most pressing issues is to upgrade the National Committee for Economic Integration. The leader of this Committee should have more power than the leader of relevant ministry (i.e. Minister) in order to coordinate and manage the process of economic integration. In this committee, working groups for different sectors/areas should be set up.
2. This committee should not only comprise of representatives from government agencies, but also from business community. In fact, trade facilitation and economic integration aims to make it easier and cheaper for enterprise to engage in trade and in production expansion. It is therefore essential that they should be at least consulted and even engaged in identifying trade facilitation/economic integration issues and solutions. The business community should also be encouraged to more actively involved in this process (rather than passively engaging in these activities).
3. This committee should also have representatives from the local authorities who can clearly identify issues that emerges daily during the process of implementation of the central government's commitments and regulations.

Transport Facilitation

1. Increase the traffic right.
2. Improve the custom transit system (currently, low take up since high price of CTS documents, transit fee, high price of transit guarantees, fuel charges, road maintenance fees, etc.). Customs transit remains underdevelopment and also is viewed as an impediment to implementation of the Framework Agreement, especially AFAFGIT. The CTS suffers from a series of shortcomings which include the absence of functioning regional transit guarantee system, customs management systems that are not rolled out to the borders and lack of cross border coordination.
3. Adopt the new concepts of border management, known as Coordinated Border Management, a newly emerged approach to manage the cross border management between countries with the same border. This is an approach to simply border handling procedures and to integrate roles of different stakeholders with responsibilities on the border such as the customs, industrial standard agencies, sanitary and phyto-sanitary standard agencies, immigration. This approach is not only focusing on the roles of domestic agencies but also on the cooperative undertaking of the various border control agencies of the two neighboring countries. This method helps to enhance coordination between customs, SPS and other border agencies.

4. Enhance the SPS regime.
 - a. Risk management that would cover surveillance of plant pests, animal disease, and food safety as well as gathering and sharing risk information and data between and among member states on pest lists, animal disease control and food alerts.
 - b. Improve diagnostics and testing capacities: a broad assessment of laboratories in the country to pave the way for the upgrading and accreditation of laboratories and mutual recognition. This will facilitate inland SPS clearance and reduce border inspections and the associated delays.
 - c. Prepare improve crop pest and pest quarantine lists and prepare program to strengthen national pesticides control capacities; perform risks analysis – collect gaps in pest information; undertake baseline survey design and pilot test to assess diagnostic and testing capacities; prepare lists of low-, medium- and high risk products, conduct border quarantine facility review.
5. Deal with issues relating to insurance liability for third party (exchange rate, service providers).
6. There is a need to promptly promulgate instructing documents to help the local authorities and business community to comply with and realize the policies/regulations on trade facilitation.
7. Policies and regulations should go to the executing agencies and business community in a clear and transparent manner.
8. A strategy to develop the human resources working in the field of trade facilitation is of urgent need.
9. Equipping workers at the border post with foreign languages and computer skills.
10. Have an adequate capital resources to boost up investment in the development of the infrastructure, including equipment, facilities, and IT, required for trade facilitation.
11. Spare funds for the operation of the facilitation agency at the central level.

Investment Promotion and Facilitation

1. Continue to implement stronger business environment reforms; guarantee early fulfillment of all WTO commitments regarding market entry in the service industry.
2. Make the entry and approval procedures relating to domestic and foreign investors and their investment undertakings more transparent and readily accessible; further simplify the investment registration and certification procedures; provide description and explanation of existing procedures; consider changing to a simple registration system for foreign investment certification of conformity with Vietnamese laws; and set clearer rules on areas where investment is prohibited or only allowed conditionally.
3. Effectively communicate and co-ordinate between central and provincial governments with regard to the entry and approval process and provide

more detailed explanations of their respective responsibilities and accountability duties.

4. Upgrade the capacity and enforcement of the Intellectual Property Act and provide adequate training to Vietnamese judges; develop justice supporting services and give more power to intellectual property enforcing agencies.
5. Strengthening co-operation between provincial and central governments in investment promotion; providing sufficient funding for these activities and necessary training for the staff.
6. Optimizing and simplifying oriented investment incentives (including outbound investment); avoiding intervention in investment decision making of the private sector; removing arbitrary and inconsistent preferences at the provincial level.
7. Evaluating on a regular basis the costs and benefits of incentive measures and ruling out those that fail to meet the cost – benefit evaluation requirements.
8. Strengthening co-operation starting from the MPI's promotion agency (FIA); buttressing co-operation efforts to improve protocols and practices and providing information on business conditions and opportunities in Vietnam and international business environments, for both Vietnamese and foreign investors.
9. Strengthening the aftercare services, and making the promotion agencies the focal points for supporting requests.

Trade Facilitation

1. Further accelerate the process of administrative reform in the customs.
2. Minimize customs clearance based upon value and type of products, low value threshold.
3. Further expand the range of products that are eligible for green line throughput.
4. Carry out the complete electronic customs solutions and move it from pilot phase to a live system. Enable all the market participants to use e-customs solutions in order to reduce paper work and speed up import and export process.
5. Implement a unified and linked (EDI) infrastructure for custom to increase supply chain quality and ease customs procedures such as temporary imports.
6. Invest more into the ITs systems so that EDI linkage and e-customs can work properly.
7. Standardize the processes between different customs zones in order to save time, works and money for both importers and exporters.
8. Strengthen the information supplied to the traders.

Standards and Conformance

1. Invest to development of conformity assessment centers.
2. Further adopt international standards.
3. Improve the quality of human resources in this area.

Mutual Recognition Arrangement (MRA)

1. Establishing professional councils to distinguish the government management function and the professional management function.
2. Fostering the process of issuing rules/requirement for professions
3. Redesign the websites; make it a hub of information for registering a certificate of ASEAN professions.
4. Translate the current laws/regulation into English (for Vietnamese regulation).
5. Carry out more outreach activities.

Sources: Country Study Reports



ERIA was established in June 2008 based on the agreement by the East Asia Leaders during the third Summit held in Singapore in November 2007. East Asia Summit consists of National Leaders of ASEAN Member States, Australia, China, India, Japan, Republic of Korea, and New Zealand.

ERIA is an independent international organization based in Jakarta, Indonesia which conducts various research activities working closely with a network of research institutions in The East Asia region. ERIA studies focus on deepening regional integration, narrowing the development gap, and engendering sustainable development in the region.

ERIA provides analytical support as well as concrete and tangible policy recommendations to both ASEAN and East Asian Leaders, ministers and senior officials as well as to the ASEAN Secretariat.

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