

# Chapter 2

## Transport Facilitation in the Era of the ASEAN Economic Community

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## Chapter 2

### Transport Facilitation

#### in the Era of the ASEAN Economic Community<sup>1</sup>

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*Transport facilitation is regarded as an integral step in deepening the Association of Southeast Asian Nations' (ASEAN) economic integration and achieving the goals outlined in the Asian Economic Community Blueprint. This chapter reviews the progress and challenges of transport facilitation initiatives in the ASEAN, which are governed by three framework agreements and their supplementary protocols. For example, despite delays, the ASEAN has made significant progress in establishing an institutional framework to facilitate cross-border movement of trucks and passenger vehicles. Other transport facilitation initiatives – the Cross Border Transport Agreement (CBTA) and bilateral and trilateral arrangements – are also discussed.*

#### **Introduction**

The remarkable growth of many Association of Southeast Asian Nations (ASEAN) member states (AMS) is a success story on economic development. During this growth, AMS have successfully attracted foreign direct investments, upgraded their industrial structures, and integrated themselves fully into the world economy through participation in regional production and distribution networks. All of these developments have been supported by the continuous improvement of the region's transport network. Indeed, a more efficient, secure, and integrated ASEAN transport network is an indispensable element of the ASEAN Economic Community (AEC).

Transport cooperation in the ASEAN has been pursued since the 1980s based on consecutive 5-year plans. Key initiatives of the ASEAN Transport Action Plan such as the ASEAN Highway Network, the Singapore–Kunming Rail Link, the Roadmap for Integration of the Air Travel Sector, and three framework agreements on transport facilitation were incorporated in the

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<sup>1</sup> This article was submitted to ERIA in March 2016.

AEC Blueprint. The Brunei Action Plan, which was adopted in November 2010, updated the implementation status and timelines of these transport initiatives, based on a comprehensive assessment of the ASEAN Transport Action Plan and other related issues (ASEAN, 2010b; ERIA Study Team, 2010).

These transport initiatives were incorporated also in the Master Plan on ASEAN Connectivity (MPAC), which was adopted in November 2010, as key strategies for enhancing the physical and institutional connectivity within the ASEAN, and between the ASEAN and other parts of the world (ASEAN, 2010a). In November 2015, the 21st ASEAN Transport Ministers Meeting adopted the Kuala Lumpur Transport Strategic Plan 2016–2025 as the successor to the Brunei Action Plan. Transport facilitation, a key agenda item in the ASEAN transport cooperation, is regarded as a requirement for the AEC to become a single market and production base. Against this backdrop, this chapter discusses the progress and the future of transport facilitation initiatives in ASEAN.

## **1. Launch of the ASEAN Economic Community (AEC)**

Since the mid-1980s, the original members of the ASEAN have been proactively absorbing direct investment from Japan and elsewhere to achieve rapid industrialisation and economic development while forming regional production and distribution networks. In the early 1990s, however, factors such as the rise of China and the Asian Financial Crisis caused ASEAN leaders to become increasingly concerned about the future. To address their concerns, they developed the concept of an ASEAN community, positioning the AEC at its core.

The AEC Blueprint adopted in 2007 defined the AEC's four characteristics as (i) a single market and production base; (ii) a competitive economic region; (iii) one with equitable economic development; and (iv) integrated in the global economy. It then laid out a roadmap for the establishment of the AEC in 2015. In addition to liberalisation of trade in goods, which the ASEAN has been addressing since 1993 under the auspices of the ASEAN Free Trade Area, the AEC sought a deeper level of economic integration, including service liberalisation, investment liberalisation and facilitation, harmonisation of various economic

institutions, development of wide-area infrastructure, and regional economic and technical cooperation.

The ASEAN Community, inclusive of the AEC, was officially launched at the end of 2015. Although not all of the measures planned in the AEC Blueprint have been implemented, major progress has been achieved in certain areas such as the liberalisation of trade in goods. The trade liberalisation rate (measured as the ratio of zero-tariff items in the tariff line) of the original members of the ASEAN increased from 40.1% in 2000 to 99.1% in 2010.

In Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV), the same ratio rose from 9.6% in 2000 to 72.6% in 2010 and 90.9% in 2016. In January 2018, when the grace period granted to CLMV countries ends, the ratio will increase further to 97.8%.

In addition to trade liberalisation within the region, the ASEAN has concluded free trade agreements with neighbouring countries, including China (2005); Republic of Korea (2007); Japan (2008); and India, Australia, and New Zealand (2009). The ASEAN has emerged as the hub of a network of free trade agreements in Asia. At the same time, measures to realise deeper economic integration such as the development of the ASEAN Single Window for trade facilitation, elimination of non-tariff barriers, and facilitation and liberalisation of trade in services and investment, are proceeding – although at a slower pace than was agreed in the AEC Blueprint. The ASEAN's economic integration still has several steps to go, with wide reference being made to the 2015 version of the AEC.

As a result of direct investment in the ASEAN, the production and distribution networks built since the 1980s have served as the platform for the dramatic economic development and industrialisation of the ASEAN and neighbouring countries. Although *de facto* economic integration has preceded *de jure* economic integration in East Asia, the AEC has seen steady progress with the latter, and a virtuous cycle is emerging whereby *de jure* integration in turn deepens *de facto* integration.

In the six years between 2008 and 2014, intra-ASEAN trade increased by 24.9% while trade of the ASEAN+3 (i.e. ASEAN plus Japan, China, and the Republic of Korea) rose by 33.1%, compared to the 11.6% growth in world trade. Direct investment into the ASEAN has also

grown, from US\$85 billion in 2007 (a world share of 5%) to US\$136 billion in 2014 (11% share).

Moreover, 17.9% of the direct investment in ASEAN countries in 2014 came from within the ASEAN. This increase in trade and investment is indicative of the way in which production and distribution networks in the ASEAN and the surrounding region have expanded and deepened. 'Thailand Plus One' investment – a popular corporate strategy in recent years – is an example. In the Bangkok metropolitan area, major industrial agglomerations have formed, particularly in industries such as automobiles, electronics and electrical machinery, and textiles and apparel, turning the area into a hub of the production and distribution network in the ASEAN.

Recently, however, against the backdrop of rising wages and other production costs accompanying rapid economic development, and increasingly fierce competition in global markets, there has been a second unbundling, a concept claimed by Richard Baldwin in which labour-intensive production processes are transferred to less-developed neighbouring countries such as Cambodia, Lao PDR, and Myanmar.<sup>2</sup> One factor behind this trend is the reduced cost of linking geographically dispersed production processes (also called service-link costs) that have resulted from the *de jure* economic integration realised by the AEC.

The reduction not only in monetary costs such as freight charges and tariffs but also in time-related costs such as transport time, along with the predictability of those costs, has made cross-border production activities much easier to conduct. Take, for example, the process in apparel manufacturing. First, raw materials are procured at a main factory in Thailand. Then, these are sent to a factory in Lao PDR for labour-intensive processes such as cutting and sewing. Finally, these are returned to Thailand for the next stage in the production process.

In addition, after Myanmar's transition to civilian rule in March 2011, the Myawaddy–Kawkareik section of the ASEAN Highway Network (also the Asian Highway Network) that

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<sup>2</sup> Factors behind the 'Thailand+1' strategies are investigated in Umezaki et al. (2015), and the mechanism of 'second unbundling,' or fragmentation of production processes, is fully demonstrated in ERIA (2010).

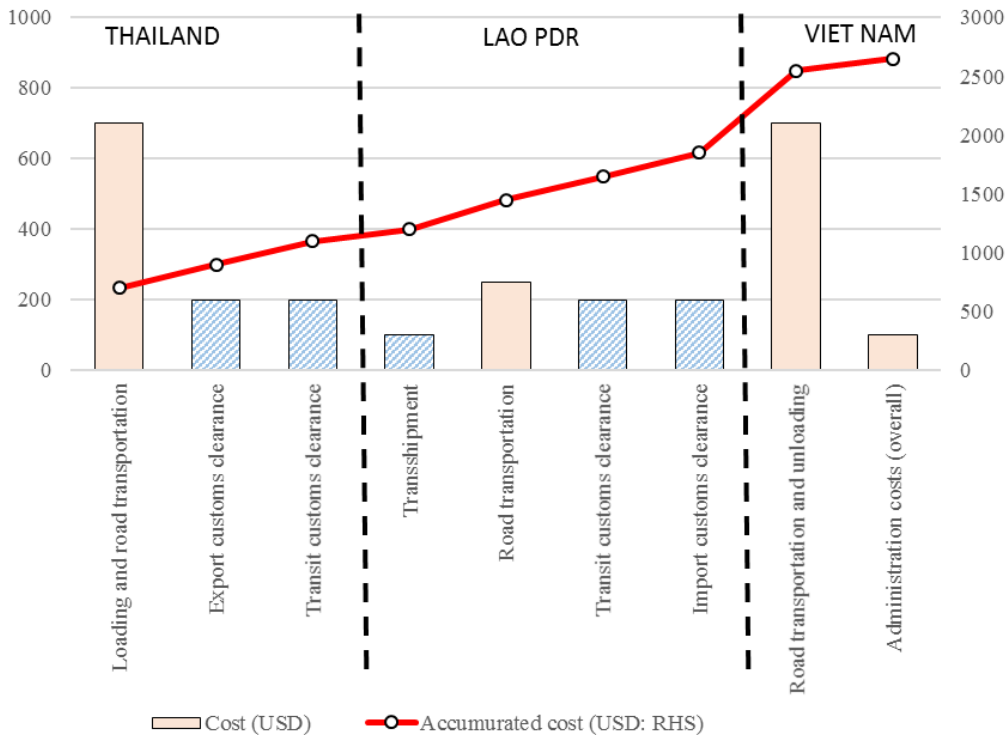
links Myanmar and Thailand was built with assistance from Thailand. This road is also part of the East–West Economic Corridor being constructed through the Greater Mekong Subregion (GMS) Economic Cooperation Programme.

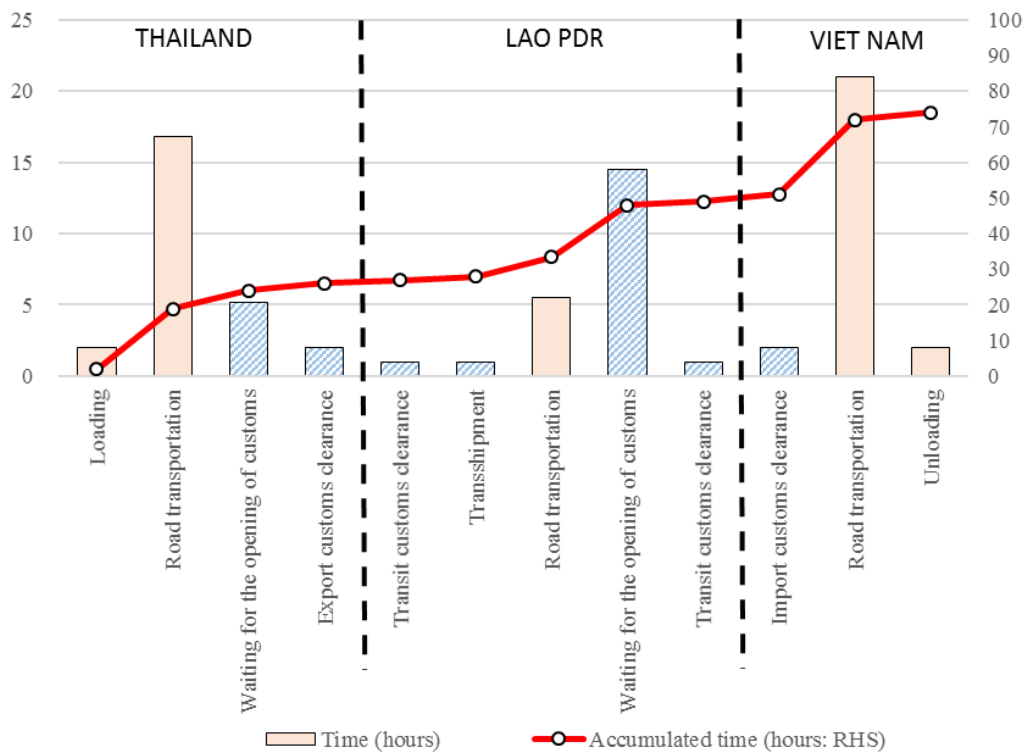
Such improvements in physical infrastructure are expected to trigger further expansion of production and distribution networks and continued economic development along economic corridors.

## 2. Framework Agreements on Transport Facilitation in the AEC

Although it is necessary to enhance physical connectivity by road or railway networks, this is not enough to achieve the goals of the AEC, which include creating an ASEAN single market and production base and narrowing the development gaps. For example, because cross-border transportation by trucks is usually not allowed, unloading and reloading are required at national borders. Land transportation sometimes requires passing through a third country, i.e. one between the country of origin and the country of destination.

**Figure 2.1. Process-wise Cost and Time for Cross-border Transportation from Bangkok to Hanoi via Lao PDR by Truck**





Note: Bar graphs with stripes indicate costs and time related to border crossing.  
 Source: Author's compilation based on JETRO (2008), p.112 and p.125.

In the absence of an agreement on transit transport, logistics service providers need to go through customs procedures twice: (i) when they enter the third country; and (ii) when they enter the country of destination from the third country. As illustrated in Figure 2.1, the costs and time for border crossing are significant, indicating that the expected effects from transport facilitation are significant as well.

In addition, international transportation services often involve multiple modes of transportation such as trucks, railways, ships, and aircraft. To facilitate international trade, it is important to have a common understanding of the legal liability of logistics companies that provide integrated logistics services across multiple modes of transportation.

## **2.1 Framework Agreements on Transport Facilitation**

Based on these premises, AMS have signed three framework agreements on transport facilitation ever since they started to consider deeper economic integration in the late 1990s.

The ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT) was signed in Hanoi on 16 December 1998, with the objective of mutually allowing transit transport amongst AMS. As stipulated in Article 4 of the AFAFGIT, 'goods carried in sealed road vehicles, a combination of vehicles, or a container shall not be subjected to examination at customs offices en route' except for exceptional cases 'to prevent abuses such as smuggling and fraud' or 'when irregularity is suspected'. A significant reduction in time and costs is expected.

The AFAFGIT consists of the main text of the agreement and the following nine protocols: (i) designation of Transit Transport Routes and facilities; (ii) designation of frontier posts; (iii) types and quantity of road vehicles; (iv) technical requirements of vehicles; (v) ASEAN scheme of compulsory motor vehicle third-party liability insurance; (vi) railways border and interchange stations; (vii) customs transit system; (viii) sanitary and phytosanitary measures; and (ix) dangerous goods.

The ASEAN Framework Agreement on Multimodal Transport (AFAMT), meanwhile, was signed in Vientiane, Lao PDR on 17 November 2005 to specify the legal liability of multimodal transport operators and consigners and the standard format of their transport contracts. The AFAMT applies to international multimodal transport services provided by registered transport operators from and to AMS. As stipulated in the strategic schedule of the AEC Blueprint, AMS are required to enact domestic legislations regarding multimodal transport.

The ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST) was signed in Manila, Philippines on 10 December 2009, with the objective of allowing transport operators that are registered in an AMS to provide transportation services in other AMS when the goods are transported from or to the operator's country of registration.

Together with the AFAFGIT, the AFAFIST is expected to significantly increase the efficiency of transit transport by eliminating the need to unload and reload the goods at national borders.



The AFAFIST shares the nine protocols with the AFAFGIT. Although the number of vehicles allowed to operate in other AMS was limited to 60 in the original text of the AFAFGIT's Protocol 3, it was increased to 500 in Article 9 of the AFAFIST in anticipation of the growing intra-ASEAN trade.

The AEC Blueprint followed the ASEAN Transport Action Plan, the then-working five-year plan of transport cooperation in the region, in setting timelines for the implementation of these transport facilitation agreements. Majority of the AFAFGIT stipulations were to be implemented by 2009, contingent on the speedy conclusion of Protocol 2 (designation of frontier posts) and Protocol 7 (customs transit system). Protocol 6 (railways border and interchange stations) was to be concluded by 2011. The AMS agreed to enact the necessary domestic legislation by 2009 as a prerequisite to the implementation of the AFAMT. Per the plan, the AFAMT was to be implemented in at least two AMS by 2011 and across all of ASEAN by 2013. The main text of the AFAFIST was to be finalised and adopted by 2009 so that the implementation could begin by 2011 and complete its ASEAN-wide coverage by 2015.

## **2.2 Implementation Status**

The AFAFGIT was enacted on 2 October 2000, a year after the schedule agreed upon in the AEC Blueprint, when Singapore deposited its instrument of ratification with the Secretary-General of the ASEAN (Table 2.1). Based on the latest official information in the ASEAN Secretariat Website, six out of the nine protocols shared by the AFAFGIT and the AFAFIST have been enacted as of May 2018. That is, by the middle of 2015, Protocols 3, 4, 5, and 8 had been ratified and enforced by all AMS (ASEAN, 2015b). Although not all AMS have ratified Protocol 1 (designation of Transit Transport Routes and facilities), such protocol was enacted on 21 August 2011 by those members that had backed it, due to the relaxed condition for enactment (i.e. the ASEAN Minus X formula). The remaining contention under Protocol 1 is between Malaysia and Singapore, who have not yet agreed on the designated transport routes (ARISE, 2015).

**Table 2.1. Implementation Status of Transport Facilitation Agreements**

	Signature	Entry into force	Conditions for entry into force
<b>AFAFGIT:</b> ASEAN Framework Agreement on the Facilitation of Goods in Transit	16/12/1998	02/10/2000	All
Protocol 1. designation of TTRs and facilities	08/02/2007	21/08/2011	60 days after the deposit of 6th instrument, only among ratified members.
Protocol 2. designation of frontier posts	Ongoing		
Protocol 3. types and quantity of vehicles	15/09/1999	19/04/2010	All
Protocol 4. technical requirements of vehicles	15/09/1999	19/04/2010	All
Protocol 5. ASEAN scheme of compulsory motor vehicle insurance	08/04/2001	16/10/2003	All
Protocol 6. railway border and interchange stations	16/12/2011	Not in force	All
Protocol 7. customs transit system	24/02/2015	Not in force	All
Protocol 8. sanitary and phytosanitary measures	27/10/2000	13/01/2011	All
Protocol 9. dangerous goods	20/09/2002	13/09/2017	All
<b>AFAMT:</b> ASEAN Framework Agreement on Multimodal Transport	17/11/2005	01/10/2008	30 days after the deposit of 2nd instrument, only among ratified members.
<b>AFAFIST:</b> ASEAN Framework Agreement on the Facilitation of Inter-State Transport	10/12/2009	30/12/2011	30 days after the deposit of 2nd instrument, only among ratified members.

TTR = Transit Transport Route.

Notes: ASEAN agreements enter into force only amongst AMS that ratify them, based on the number of instruments of ratification/acceptance that the AMS deposit with the Secretary-General of ASEAN. This is a version of the 'ASEAN Minus X' formula, which was designed to facilitate the enactment of ASEAN agreements even when some AMS take longer than others to complete the domestic processes for ratification.

Source: Compiled based on 'ASEAN Transport Instruments and Status of Ratification' (As of May 2018), ([http://asean.org/storage/2017/05/Ratification-status-Transport-Agreement-as-of-Aug2018\\_T.pdf](http://asean.org/storage/2017/05/Ratification-status-Transport-Agreement-as-of-Aug2018_T.pdf)), last accessed on 22 August 2018.

Protocols 6 and 7 have been signed and are in the process of being ratified, while Protocol 2 (which pertains to the designation of frontier posts) is still under negotiation.

The remaining disagreement in Protocol 2 also involves Malaysia and Singapore. Because Protocol 2, together with Protocol 7, is a critical component of the ASEAN Customs Transit

System, this issue needs to be addressed from a wider point of view rather than as a bilateral problem. The ASEAN Customs Transit System is expected to facilitate cross-border movement of goods by providing 'full end-to-end computerisation of transit operations with a single electronic customs transit declaration' (ASEAN, 2015b).

With assistance from the European Union in the form of the ASEAN Regional Integration Support from the EU programme, an ASEAN Customs Transit System pilot project will be conducted in Malaysia, Singapore, and Thailand in 2016. Moreover, it is highly reasonable to assume that this disagreement between Singapore and Malaysia on the designation of frontier posts is one of the major reasons for the delay in the ratification process of Protocol 1 (designation of transit transport routes and facilities).

Under Protocol 3 (types and quantity of road vehicles), AMS have agreed to allow each member state to use a maximum of 500 trucks for transit transport. To make this work, each AMS must establish a system for allocating cross-border permits to transit transport vehicles (ARISE, 2015). In addition, a database for sharing domestic rules and regulations on road transportation has been developed under the purview of the Transport Facilitation Working Group of the Senior Transport Officials Meeting.

The Blue Card Scheme is one of the mechanisms for operationalising Protocol 5 (on compulsory motor vehicle insurance). The Blue Card can be issued by any national authority as an identification card to prove the existence of a compulsory motor vehicle insurance policy. Lao PDR, Thailand, and Viet Nam have been operating the Blue Card Scheme since 2009, while Cambodia is preparing for implementation. Singapore has its own arrangements that enable drivers of foreign-registered vehicles (except for those registered in Malaysia) to buy mandatory insurance coverage at the immigration checkpoint.

Protocol 7 (on customs transit system) has taken a long time to be finalised and signed. The delay has been caused by the cross-sectoral nature of this issue. Although the overall implementation of the transport facilitation initiatives is under the purview of the ASEAN Transport Ministers Meeting, this customs transit system must be designed mainly by each member state's customs authority and Ministry of Finance.

Protocol 8 was enacted on 10 August 2012 upon ratification by all AMS. The ASEAN has been trying to enhance its coordination with sectoral bodies such as the ASEAN Ministers on Agriculture and Forestry working group, and to maximise the role of the ASEAN Sanitary and Phytosanitary Contact Points as the central coordination body with regard supervision, inspection, and quarantine services.

Protocol 9 was finally ratified by all ASEAN nations on 13 September 2017 when Malaysia reported the ratification after completing the process of amending or developing their domestic regulations on the transportation of dangerous goods.

As shown in Table 1, the conditions for enactment are much more relaxed for the AFAMT and AFAFIST than the AFAFGIT or its protocols. The AFAMT and AFAFIST have been designed to enter into force 'upon the thirtieth day after the deposit of the second Instruments of Ratification or Acceptance, and shall be effective only amongst the Contracting Parties who have ratified or accepted it.'

Although the AFAMT and the AFAFIST have been enforced, not all AMS have ratified them. As of the end of 2015, the AFAMT had been ratified and entered into force amongst six AMS: Cambodia, Lao PDR, Myanmar, the Philippines, Thailand, and Viet Nam. The AFAFIST had been ratified and entered into force amongst five AMS: Cambodia, Lao PDR, the Philippines, Thailand, and Viet Nam.

### **2.3 Ways Forward**

The full operationalisation of the AFAFGIT, the AFAMT, and the AFAFIST is an important element of the AEC. For this purpose, the ASEAN needs to finalise AFAFGIT's Protocol 2 and expedite the ratification of Protocols 6 and 7.

Albeit a major step, the enactment of these agreements and protocols is not sufficient to fully operationalise the transport facilitation agreements. As gleaned from the ASEAN's efforts to develop a database of road traffic rules and regulations, a number of technical issues, including the difference between right-hand driving and left-hand driving, are still being resolved by AMS.

Some of the protocols require closer cooperation and coordination amongst AMS' government authorities such as Ministries of Transport, Finance (including Customs), Foreign Affairs, and Agriculture. For example, the Philippines' ratification of the AFAFIST is now only awaiting the concurrence of its Department of Justice.

Inter-ministerial coordination is necessary in various stages of the agreement process: from drafting and finalising the agreement's content, ratifying the agreements and protocols, to preparing standard operating procedures for full implementation. Such coordination must take place within each AMS as well as at the ASEAN level. In this regard, the roles of the National Transit Transport Coordination Committee in each AMS and the Transit Transport Coordination Board at the ASEAN level are highly important. Concurrently, to realise its vision for the region, the ASEAN needs to design efficient mechanisms and facilities, such as the physical and institutional infrastructure for the customs transit system.

Moreover, some of the agreements or protocols may require AMS to enact new laws, rules, or regulations or to amend existing ones. The AFAMT, which requires each AMS to enact domestic laws governing multimodal transport operators, is a typical example.

These domestic reforms, however, tend to take a while to be implemented, probably due to insufficient prior consultation with relevant domestic authorities. These sometimes require technical assistance, particularly when new variables (such as new concepts and recommendation from other AMS) have to be introduced.

The exchange of information amongst AMS on such matters as best practices and lessons learned from unsuccessful cases is a practical and feasible way to address these challenges. For example, since some AMS have allowed transit transport based on bilateral/trilateral agreements or the CBTA under the GMS Economic Cooperation Programme, these nations have lessons learned that can be used as a reference point when implementing transport facilitation agreements in the whole ASEAN.

Even after a transport facilitation agreement has been fully operationalised, AMS may encounter additional problems caused by conflicting domestic laws, rules, or regulations. To explore the full potential of transport facilitation agreements, nations should continuously and collectively look at fine-tuning their processes and rules.

### **3. Transport Facilitation under the GMS-CBTA**

This section provides an overview of other transport facilitation initiatives, including the Cross-border Transport Agreement (CBTA) under the GMS Economic Cooperation Programme led by the Asian Development Bank (ADB). Also reviewed are other bilateral and trilateral arrangements for transport facilitation, taking examples from the case of AMS in the Indochinese Peninsula (e.g. Thailand as well as the other nations it shares land national borders with: Myanmar, Lao PDR, Cambodia, and Malaysia) based on the findings from the previous round of this ERIA project conducted in 2014–2015.

#### **3.1 Cross-border Transport Agreement**

As earlier discussed, the ASEAN took the first step towards deeper economic integration by establishing the AEC in the late 1990s. At around that same time, the concept of economic corridors, including the idea of transport facilitation along the corridors, began to take form. At the 8th Ministerial Meeting of the GMS Economic Cooperation Programme in 1998, ADB proposed these corridors as catalysts for breaking free of the region's deepening financial crisis (Ishida, 2007). The aim was to stimulate economic activity by developing key transport infrastructure such as roads, railways, and ports so as to facilitate the cross-border movement of goods, services, capital, and people. The original ideas contained in the CBTA were first discussed in 1994 and then became key components of the strategy for the development of economic corridors (Ishida, 2013).

The official agreement on the CBTA dates back to the 'Agreement between and amongst the Governments of the Lao People's Democratic Republic, the Kingdom of Thailand, and the Socialist Republic of Viet Nam for Facilitation of Cross-border Transport of Goods and People', which was signed by the three above-mentioned countries on 26 November 1999. Cambodia later acceded to the agreement on 29 November 2001, followed by China on 3 November 2002, and Myanmar on 19 September 2003.

The main text was subsequently supplemented by 16 annexes, three protocols, and bilateral and trilateral memoranda of understanding (MoUs) to promote 'the elimination of intermediary stops or transshipment, as well as promot[e] the reduction in the amount of

time spent in crossing borders'.<sup>3</sup> The objectives of the CBTA are similar to that of transport facilitation agreements at the ASEAN level.

However, the conditions for the CBTA's enactment were more stringent than those in the ASEAN transport facilitation agreements. For the CBTA to be enacted, all contracting parties are required to ratify the main text and all of its annexes and protocols. This contrasts with the conditions for enactment of the AFAMT, the AFAFIST, and Protocol 1 of the AFAFGIT. Although the signing process was completed on 20 March 2007, the CBTA was not enacted until September 2015 – eight and a half years after the completion of the signing process, when Myanmar completed its ratification.<sup>4</sup> The institutional design of the CBTA had become outdated by the time it was enacted. It now requires reviews and updates to accommodate the progress in information and communications technologies, and other developments.<sup>5</sup>

### **3.2 Bilateral and Trilateral Arrangements for Transport Facilitation<sup>6</sup>**

On 24 November 1979, even before transport facilitation initiatives in the ASEAN began, Thailand (which shares national borders with Myanmar, Lao PDR, Cambodia, and Malaysia) had already agreed with Malaysia to permit the transit transportation of perishable goods by road from Thailand (Sadao crossing) through Malaysia (Bukit Kayu Hitam crossing) and on to Singapore without duties, taxes, fees, or any other charges.<sup>7</sup> According to the agreement, vehicles, where needed, must be capable of being sealed to meet the security requirements of various customs regimes. Malaysian authorities were in charge of approving the vehicles.

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<sup>3</sup> This quote is taken from the Asian Development Bank's website. The CBTA is fully described in ADB (2011).

<sup>4</sup> The ratification process was completed by Lao PDR in 2007; Cambodia and China, in 2008; Viet Nam, in 2009; Thailand, in January 2015; and Myanmar, in September 2015.

<sup>5</sup> Based on his 5 October 2015 interview with James Lynch, the ADB's Director for Regional Cooperation and Operations Coordination in Southeast Asia, Sukegawa (2015) stated, 'Because the CBTA was designed based on paper-based customs procedures, several articles need to be reviewed although all the contracting parties have completed the ratification process.'

<sup>6</sup> This subsection is based on information from the previous round of this research project conducted last year, referring specifically to Sopadang, et al. (2015), Sisovanna (2015), Nolintha (2015), MMRD (2015), and Nguyen (2015).

<sup>7</sup> 'Memorandum of understanding between the government of the Kingdom of Thailand and the government of Malaysia on the Movement in Transit of Perishable Goods by Road from Thailand through Malaysia to Singapore' that was signed in Bangkok.

On 5 March 1999 – 8 months before the signing of the original CBTA agreement – Thailand and Lao PDR signed an agreement on road transport. On 17 August 2001, a subsidiary agreement was signed to specify the details on the transshipment of goods, which included the designation of border crossing points, routes, technical requirements for vehicles, and documents. The agreements covered transportation of goods and passengers between the two countries and through a third country. These excluded transportation of dangerous goods and domestic road transportation within the territory of each other, which was consistent with the rules and regulations of each country.

Of the bilateral and trilateral transport agreements signed by GMS countries, some were undertaken as Initial Implementation of the CBTA (II-CBTA), a modality agreed in August 2004 to open key border-crossing points on a pilot basis. The II-CBTA aims to accelerate ‘the implementation by allowing the early identification of key issues and the early realisation of benefits from improved transport facilitation’ (ADB, 2011). Others were undertaken even before the CBTA was formalised.

On 4 July 2005, Thailand signed two MoUs on II-CBTA – one with Lao PDR and the other with Cambodia – to exchange the traffic rights through specific border-crossing points: Mukdahan–Savannakhet with Lao PDR, and Aranyaprathet–Poipet with Cambodia.

On 30 March 2008, Thailand and Cambodia signed a bilateral MoU, under which the maximum number of transport permits through the Aranyaprathet–Poipet border-crossing points was limited to 40 for the 12 months after the enactment but would be renegotiated later for future revision (Article 9, [c]).

Although this MoU was originally based on a previous memorandum on II-CBTA, the linkage was dissolved by the subsequent addendum signed on 17 September 2009, so as to avoid expected delays in implementing the original MoU.<sup>8</sup> Recently, Thailand and Cambodia reached a draft agreement to increase the quota of the number of cars from 40 to 500 ‘alongside the opening of a second border crossing point at Hat Lek, Thailand and Cham Yeam, Cambodia’ (ADB, 2015).

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<sup>8</sup> Article 1 of the Addendum stipulates that all references in the MoU between Cambodia and Thailand on 30 March 2008 to the MoU on II-CBTA between Thailand and Cambodia shall be disregarded.



There has been no such MoU regarding transport facilitation between Thailand and Myanmar. Under the ongoing Transport and Trade Facilitation Action Programme, however, ADB has been supporting Myanmar to develop a draft MoU template for the negotiation of cross-border traffic rights exchanges with Lao PDR, Thailand, and China (ADB, 2015). It was also reported that Thailand, Myanmar, and India would sign a transport agreement sometime in 2016.<sup>9</sup>

Cambodia and Viet Nam signed an agreement on road transport on 1 June 1998 but took a long time to finalise the implementation protocol, and finally signing it on 10 October 2005. The initial quota of cross-border transport permits was set at 40, but was expanded gradually, reaching 500 vehicles by 15 September 2012.<sup>10</sup> The exchange of traffic rights between Cambodia and Viet Nam is being implemented at Bavet–Moc Bai and other border-crossing points.

For Cambodia and Lao PDR, the exchange of traffic rights is governed by an agreement signed on 21 October 1999, and the supplementary protocol signed on 14 December 2007. Consequently, cross-border transport between Lao PDR and Cambodia follows the terms and conditions of both agreements: the main agreement, on the basic principles for cross-border transportation; and the subsidiary agreement, on specific technical terms and requirements, including designated checkpoints and routes, technical requirements for vehicles, rules regarding passengers and drivers, and documents. A quota of 40 trucks per year is also set for each country.

Meanwhile, a trilateral MoU on the exchange of traffic rights was signed amongst Cambodia, Lao PDR, and Viet Nam on 17 January 2013. Although the MoU had been enacted, it has not yet been operationalised.

Lao PDR and Viet Nam's guidelines on cross-border transport are governed by a main agreement signed on 23 May 2009 and a subsidiary agreement signed in September 2010.

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<sup>9</sup> See, for example, 'India to Sign Motor Transport Agreement with Myanmar, Thailand' in *The Economic Times*, 1 November 2015, and 'India–Myanmar–Thailand to Work on Cross-border Transport' in *The Myanmar Times*, 22 December 2015.

<sup>10</sup> Ishida (2017) summarised the development of bilateral transport agreements between Cambodia and Viet Nam, and between Thailand and Cambodia.

As early as 23 August 2007, however, Lao PDR and Viet Nam, along with Thailand, signed an MoU on the II-CBTA, which allows properly licensed transport operators to provide international transportation services through two border-crossing points: Dansavanh–Lao Bao and Savannakhet–Mukdahan. Currently, cross-border transportation amongst these three countries is governed by the MoU on II-CBTA and its addendum signed on 21 February 2013.

Cross-border transportation amongst Lao PDR, Cambodia, and Viet Nam was liberalised by an MoU on road transport amongst the three countries on 17 January 2013. This MoU applies to cross-border road transportation of goods and people by commercial, non-commercial, and licensed transport operators.

#### **4. AEC Blueprint 2025 and the Kuala Lumpur Transport Strategic Plan Plan 2016–2025**

The 27th ASEAN Summit in Kuala Lumpur, Malaysia in November 2015 adopted the AEC Blueprint 2025, a plan for the next decade.

Although it takes its cue from the previous blueprint, the AEC Blueprint 2025 includes several innovations in terms of the implementation method. First, it does not include a strategic plan with specific measures and dates, which was the feature of the previous AEC Blueprint. Instead, specific action plans will be drawn up per individual sector such as transport, tourism, information and communications technologies, and energy.

Second, it emphasises strengthening the functions of ASEAN institutions, including the ASEAN Secretariat, and enhancing cooperation amongst sectors. The aim appears to be for the relevant ministerial meetings to take responsibility for drafting and implementing detailed action plans for sectoral cooperation and for facilitating inter-sectoral coordination by enhancing the functions of the ASEAN Secretariat, the AEC Council, and other organisations.

Third, more emphasis has been placed on the role of the private sector as a source of funds for infrastructure development and of information for improving the investment environment.

Fourth, consideration has been given towards developing a certain discipline for evaluating how domestic institutions could hamper further economic integration. The ASEAN as a highly diverse community has always emphasised the principle of non-interference in government to maintain its cohesiveness. The AEC Blueprint 2025 appears to be taking a new step towards realising the economic integration envisioned by the AEC.

These four innovations could be viewed collectively as a practical approach for boosting the feasibility of the AEC Blueprint 2025 and sectoral action plans, which are expected to be completed in 2016.

The action plan for the transport sector in the next decade – called the Kuala Lumpur Transport Strategic Plan 2016–2025 – was adopted during the 21st ASEAN Transport Ministers Meeting in 2015. It maintains the previous strategic plan's goal for transit transport: to 'establish an integrated, efficient and globally competitive logistics and multimodal transportation system, for seamless movement of passengers by road vehicles and cargos within and beyond ASEAN.'

Given what they had achievements until 2015, AMS aim now to fully operationalise the three framework agreements on transport facilitation in the next three decades. In addition, further work will be made on the implementation of the ASEAN Framework Agreement on the Facilitation of Cross-border Transport of Passengers by Road Vehicles.

## **5. Conclusion**

This chapter highlights two challenges in future transport facilitation in the ASEAN. The first challenge relates to the distribution of the gains from economic integration. Economic integration *per se* is expected to facilitate the allocation and reallocation of production processes based on comparative advantages. This enables better utilisation of production factors, which then increases the economic welfare of all participating countries.

However, the process also requires that participating countries undergo structural adjustments. In addition, there will be social demand for some form of income redistribution. With economic development also driving the democratisation of ASEAN countries, there will be a growing public call for protection of domestic companies and industries. The AMS will face a difficult challenge in the new economic environment created by the AEC: They will need to adopt appropriate income redistribution policies and steadily implement programmes that can satisfy their commitments to agreements with other countries while seeking to avoid becoming excessively protectionist.

Transport facilitation is no exception to this challenge, as shown by an example introduced in Umezaki, et al. (2015). 'The provincial government of Savannakhet introduced a regulation to prohibit Thai trucks with empty containers to enter the province on 26 August 2014. It was reported that the policy came out after a short period of notice, and the similar regulation was found neither in other provinces nor at the national level. Before the introduction of the regulation, several companies operating in Savannakhet province used to arrange Thai trucks with empty container when they export their products to Thailand, without using Lao trucks. Therefore, it is conjectured that the new regulation was introduced to promote the use of Lao trucks.'

The second challenge is the fundamental difficulty of implementing multilateral agreements for transport facilitation. As already discussed, despite long-drawn efforts, ASEAN-wide agreements for transport facilitation (e.g. the AFAFGIT, the AFAMT, and the AFAFIST) have not yet been implemented. Although the main agreements and more than half of the protocols have been enacted, their utilisation have been stalled by delays in the ratification of key protocols and in the enactment of necessary domestic laws and regulations.

As one would expect, the more parties to an agreement, the more difficult is the agreement's implementation. The fact that the high-demand Transit Transport Routes have been effectively opened by bilateral and trilateral agreements seems to undermine the expectations that AMS could expedite the ratification process for ASEAN-wide agreements. As observed in the CBTA, the original design could become outdated if member states spend too long in the ratification process.

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