

Chapter 1

Overview: Tracing the Progress toward the ASEAN Economic Community

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CHAPTER 1

Overview:

Tracing the Progress toward the ASEAN Economic Community

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The objective of this Chapter is to provide an overview of the ERIA Research Project, "Tracing the Progress toward the ASEAN Economic Community". After looking at the current situation of the ASEAN economies in the global market, we review the scope and visions of the ASEAN Economic Community (AEC) based on the ASEAN Blueprint. The objective of our research project is to develop quantitative measures regarding three core elements of a key characteristic of the ASEAN Blueprint, that is, the free flow of services, goods, and investment, in order to trace the progress toward the AEC. Concerning the free flow of services, we have studied three key service sectors, namely air transportation, maritime services and telecommunication services, to map the existing policy space. Mapping actual policies in these examinations helps to indicate the extent of real policy reform that will be needed in each ASEAN member country in order to achieve the liberalization laid out in the AEC Blueprint. As for the free flow of goods, our project has conducted research on the progress of trade facilitation in each ASEAN country by examining two issues, that is, an examination of implementation status of the ASEAN Single Window in each country, and quantitative analysis of trade costs between ASEAN countries and outside major trading partners. Regarding the free flow of investment, we have investigated and evaluated the restrictiveness of FDI policy regimes and environments in the ASEAN countries based on a questionnaire survey and study of the relevant legal documents. In the light of these findings, we present several policy implications for the implementation of the AEC Blueprint.

1. Introduction

The global financial crisis originated from the collapse of the housing market, and the subsequent liquidity and confidence crisis in the US has triggered a chain reaction of economic turmoil in the global economy. Although the financial and economic crises hit the US, Europe and Japan immediately and significantly, ASEAN economies have been affected rather indirectly through shrinking exports brought about by the collapse of demand in major global markets. According to Asian Development Outlook 2009, updated in September 2009, the average GDP growth rate in Southeast Asian countries is estimated to have been 0.1% in 2009, while it was 4.1% in 2008. Likewise, the World Bank reported in the Prospects for the Global Economy 2010 that the simple average GDP growth rates at market price for seven countries from ASEAN is estimated to have been 1.04% in 2009, while it was at 4.3% in 2008. Due to the collapse in external demand in late 2008 and early 2009, slowdown of the larger export-oriented economies, Malaysia, Singapore and Thailand, and energy exporter, Brunei Darussalam, and Cambodia which depends on tourism, clothing exports and FDI, is relatively serious, and negative GDP growth rates are expected in these economies in 2009¹.

Most of the ASEAN economies, however, have already begun to rebound from the downturn since the middle of 2009. According to the Asia Economic Monitor in December 2009, by the Asian Development Bank, in 2010 the GDP growth rates of nine ASEAN countries are expected to be restored and mark positive values. Indonesia, the Lao PDR and Vietnam are projected to attain at least a 5% GDP growth rate. This strong rebounding is due to timely and forceful fiscal stimulus programs and easing monetary policies by the governments in this region, and improving the external economic environment. Generally speaking, economic decline in the ASEAN countries has been much less serious and recovery is much quicker than with the Asian financial crisis in 2007/2008. The current challenge in this region is to maintain economic recovery and to realize stable long-term growth.

Based on the experiences gained from the Asian financial crisis, countries in this region have restrained foreign debt growing and engaged in regional financial cooperation, in order to prevent the resurgence of a crisis. Therefore, currency and financial market turmoil in this global

¹ ADB outlook 2009 updated.

financial crisis was not as significant as in the Asian financial crisis. However, the impact of the global financial crisis in this region resulting from a reduction in international trade has severely affected the economies of ASEAN countries. Sharp decreases of exports to the US and EU areas have demonstrated vulnerability in the East Asian region including ASEAN countries. In other words, this region's high dependency on external demand should be reduced to realize stable long-term growth. East Asian economies, including ASEAN members, need to rebalance sources of growth by stimulating domestic demand.

The export dependency of ASEAN countries is relatively high. The average share of exports in the total GDP of eight ASEAN countries (except Singapore and Myanmar) is 63%, much higher than the world average of 30%. In addition, ASEAN countries' share of regional trade in each production stage, i.e., capital goods, intermediate goods and consumption goods are still relatively low compared to EU and NAFTA (Table1). Taking the size of population and growth of the middle income class into consideration, potential domestic demand in ASEAN countries remains big, and there seems to be plenty of scope for expanding regional trade². Regional economic integration into ASEAN can thus be a key to promoting domestic demand and rebalancing sources of demand in this region.

Table 1: Share of regional trade in 2008.

ASEAN			EU15			NAFTA		
Capital goods	Intermediate goods	Consumption goods	Capital goods	Intermediate goods	Consumption goods	Capital goods	Intermediate goods	Consumption goods
Export			Export			Export		
22.54%	25.50%	16.76%	46.51%	57.05%	63.56%	42.70%	49.56%	53.74%
Import			Import			Import		
16.15%	21.05%	30.86%	51.82%	49.67%	54.49%	29.85%	37.17%	22.21%

Notes: Calculated by UN Commodity trade statistics at BEC. As for ASEAN, Laos and Myanmar does not included because of data availability.

² The populations of the ASEAN 10, the EU27 and NAFTA in 2008 are 575million, 497 million and 444 million respectively. Moreover, the Asian Development Bank's key indicator in 2009 states that "The emergence of a large and rapidly growing urban middle class in the region is a key to increasing domestic demand".

At the same time, regional economic integration among the ASEAN countries should be open to non-ASEAN countries. Foreign direct investment from outside the region, and extra-regional trade remain the most essential factors influencing the development of the ASEAN countries, since they also bring about technological progress and high value-added production. Moreover, improving cooperative economic relations with very competitive neighboring countries, particularly China and India, is central to the realization of long-term stable economic development in the ASEAN countries. As stated in the ASEAN Economic Community Blueprint, ASEAN should act in accordance with the principals of being open and outward-looking in establishing the ASEAN Economic Community, and the ASEAN should also be a region fully integrated into the global economy.

The success of long-term stable economic development in ASEAN countries depends on both stimulation of intra-regional demand and opening up to outside the region. The ASEAN Economic Community, which aims to become a single market and have production integrated into the global market so as to achieve high competitiveness and equitable development, has the potential to meet the conditions for realizing long-term stable development in this region. Achieving a free flow of goods, service, investment, capital and skilled labor promotes both regional domestic demand on the one hand and the competitiveness and attractiveness of this region in the global market on the other. At the same time, ASEAN has the potential to play an important role in re-balancing the global economy by promoting the large demand in the regional market. In light of these recent challenges in this region, we have analyzed the progress of the degree of liberalization in major sectors as the region moves toward the ASEAN Economic Community (AEC).

The remainder of this chapter is organized as follows: Section 2 describes the targets of the AEC by reviewing the scope and structure of the AEC Blueprint. Section 3 introduces an outline for and objectives of our research project. Sections 4 summarizes the key findings of each study on the three core elements, namely free flow of services, trade and investment. Based on the discussion in Section 4, we derive policy implications before discussing a general policy recommendations in Section 5.

2. The ASEAN Economic Community and the AEC Blueprint

The vision of the ASEAN Economic Community has started to proceed toward the realization since the Bali summit in October 2003, at which the ASEAN leaders stated that the ASEAN Economic Community should be the goal of regional economic integration by 2020. Subsequently, development of a single and coherent blueprint with clearly targets, and gives implementation timelines for, advancing the AEC by 2015 was agreed at the economic ministers' meeting in August 2006. At the 12th ASEAN Summit in 2007, the leaders signed the Cebu Declaration on the Acceleration of the Establishment of an AEC by 2015, and then adopted the ASEAN Economic Blueprint at the 13th ASEAN Summit in the same year, to serve as a coherent master plan to guide the establishment of the AEC.

The ASEAN Blueprint describes the vision of the AEC, which is the realization of the end goal of economic integration, and establishes ASEAN as a single market and production base in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities, as declared in the ASEAN Vision 2020, agreed at the ASEAN Summit in 1997. Relevant sectoral ministerial bodies have responsibility for implementation, and the ASEAN Economic Ministers are accountable for the overall implementation of the Blueprint. The Secretary General of ASEAN must report the progress to relevant ministerial meetings and at the summit. Major means for accomplishment of the Blueprint could be its supervision and surveillance mechanism, led by the ASEAN secretariat. The execution of evaluation functions by using the AEC scorecards, which are used to assess the progress of the work plan for the AEC.

The AEC Blue print presents the visions of the AEC, as well as work plans and strategic schedules for its implementation. Table 2 shows the key characteristics of the Blueprint, namely, A) establishment of a single market and production base, B) realization of a highly competitive economic region, C) achievement of equitable economic development and D) full integration into the global economy. Each characteristic consists of several core elements and each core element has its objectives, action plans and strategic schedules. The strategic schedule in four-phased stages by 2015 is set in details under each core elements. While the expected objective of the blueprint is expected to play a role of an indicator of the goals and timeframes for developing the AEC, it is not a detailed agreement with clearly defined targets based on lengthy up-front

negotiations in consideration of the gaps existing amongst Member countries (Soesastro, 2007). Soesastro (2007) also pointed out that the Blueprint still has some vaguely defined goals and missing milestones, therefore signposts should be set up along the road to indicate the progress in achieving the goals.

Table 2; 4 key characteristics and core elements of the AEC blueprint.

<ul style="list-style-type: none"> A. Single market and production base <ul style="list-style-type: none"> A1. Free flow of goods (9 Strategic approaches) A2. Free flow of services (3 strategic approaches) A3. Free flow of investment (5 strategic approaches) A4. Freer flow of capital (7 strategic approaches) A5. Free flow of skilled labor A6. Priority of integration sectors A7. Food, agriculture and forestry B. Competitive Economic Region <ul style="list-style-type: none"> B1. Competition policy B2. Consumer protection B3. Intellectual priority rights B4. Infrastructure development (10 strategic approaches) B5. Taxation B6. E-commerce C. Equitable economic Development <ul style="list-style-type: none"> C1. SME development C2. Initiative for ASEAN Integration D. Integration into the Global Economy <ul style="list-style-type: none"> D1. Coherent approach towards external economic relations D2. Enhanced participation in global supply networks
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Source: the AEC Blueprint.

Behind the proposal for the AEC has been rising concern that ASEAN economies lost their competitiveness against emerging markets such as China. Despite this strong common incentive, development gaps amongst member countries may often become an impediment to the implementation of the Blueprint. The actual implementing agencies, the governments of member countries, differ in their ability to implement the Blueprint, and there is no penalty for any defaulting defined in the Blueprint or in other agreements and the ASEAN Charter, which took effect in 2008 and defines the AEC. The biggest and most indispensable challenge for

accomplishment of the Blueprint is to ensure implementation in each member country. Besides, the ASEAN evaluates and reports the progress in implementation by members. The ASEAN Scorecards, which are to monitor the implementation of the Blueprint, have not been disclosed publicly. It might be necessary to disclose the progresses made under the Blueprint in order to successfully achieve the AEC.

3. The Objectives of this Research Project

This research project is an extension of the research conducted over the last two years. An ERIA test-run project “Deepening Economic Integration” in FY2007 recognized the ASEAN’s initiatives toward establishing the AEC as a crucial step in deepening economic integration in East Asia. In the second phase of the project, conducted in FY2008, quantitative measures regarding key policy pillars in the AEC Blueprint were developed, in order to complement the AEC Scorecard being developed by the ASEAN Secretariat. These quantitative measures can be described as an ERIA version of the AEC Scorecard (ERIA/AEC Scorecard). The project focused on the restrictions in the three core elements, categorized into a key characteristic of “Single market and production base”, that is, trade in services, trade facilitation and FDI policy, and examined the current state of policy across countries and the changes over-time change within countries. Building on these studies, this project aims to extend and update the quantitative measures on the above three core elements in order to trace the progress toward the AEC over a wider range of sectors and time. Our quantitative measures are designed 1) to visualize the process of policy reforms, following the AEC Blueprint; 2) to provide a framework on which milestones and end goals of each element can be defined; and 3) to evaluate the current state and the progress vis-à-vis the milestones and end goals.

The most important aspect of our quantitative measures is their use as an indicator of progress towards goals, rather than a ranking across countries. The expected role of our quantitative measures is to facilitate the implementation of the AEC Blueprint. In the process of implementing of the Blueprint, the progress should be indicated on the road toward the goals in order to ensure that all members continue implementing the necessary policy measures, and to

prevent any member countries from falling behind. The quantitative measures can play a useful role in providing the milestones and signposts to achieve the goals.

The quantitative measures are also useful for econometric analysis of regulations/ liberalization in each sector. Since the quantitative measures are based on detailed research, on refined classifications for each sector, we can investigate the different impacts of policy reforms, as outlined by the Blueprint, with for the purpose of deriving implications of how to prioritize and improve the wide-ranging policy reforms in the Blueprint.

In addition, when we look at the Blueprint and its quantitative measures from the view point of mechanism design, we can utilize the quantitative measures to improve the mechanism of realizing the AEC designed by the Blueprint. The key to success in creating the AEC is that the mechanism designed by the Blueprint should provide the member countries incentives to implement it. The quantitative measures enable us to assess the degree of progress made toward achieving the AEC and to identify the problem of the mechanisms applied in the member countries. In other words, we can check whether the mechanism fulfill both incentive compatibility and participation constraints for all member countries by using the quantitative measures.

This project consists of studies on three elements as noted above, that is, the quantitative measures relating to the degree of free flow of services, free flow of goods and free flow of investment. Regarding the degree of free flow of services investigated by Philippa Dee (Chapter 2 of this report), air transportation service, maritime transportation service, and telecommunication services are studied by developing restrictiveness indices. As for the degree of free flow of goods, analysis on logistics service liberalization focusing on custom procedures and national Single Windows, is conducted by Philippa Dee (Chapter 2), while trade cost estimation between ASEAN countries and major trading partners is undertaken by Patricia Sourdin and Richard Pomfret (Chapter 3). The study on trade cost provides restrictiveness indices of trade facilitation systems, and quantitative measures on the cost of trade in goods. Air transportation service and logistics service are listed among the priority integration sectors of the ASEAN Framework Agreement on Services (AFAS). In terms of the degree of free flow of investment, studies on the quantitative measures of FDI restriction and investment-related issues are conducted by Shujiro Urata and Mitsuyo Ando (Chapter 4). They present assessments of FDI

policy regimes and the FDI policy environments of the ASEAN member countries. Chapter 5 provides background data, which were used to construct our quantitative measures for Chapters 2 to 4. The data are developed by working with country study members and research members of this project.

4. Key Findings in Each Study on Three Core Elements

4.1 Free Flow of Services

Promotion of the free flow of services is an essential factor in the realization of free flow of goods and investment, capital and skilled labor, which are core elements for one of the principal pillars of the single market and production base defined by the ASEAN Blueprint. The ASEAN Framework Agreement on Services (AFAS), which were signed in 1995, defined that the object of liberalization in trade in services as being to improve the efficiency and competitiveness of services, increase their production capacity, and diversify sources of service supply and destinations of service demand within and outside ASEAN³. The share of service sectors in industrial structures has increased in most of the member countries of the ASEAN, and thus improvement of service sector competitiveness is one of the critical issues in this region.

Dee (2010) examines three key service sectors, namely air transport, maritime services, and telecommunications services, to map the existing policy space⁴. Mapping actual policies in these examinations helps to indicate the extent of real policy reform that will be needed in each ASEAN member country in order to achieve the liberalization laid out in the AEC Blueprint. There are significant challenges associated with examination of the degree of liberalization of service sectors from the view of policy regimes. First, there are vast amounts of information related to regulations and treatments of the service sector⁵. Service trades are classified into 4 modes, i.e., cross-border trade (mode1), consumption abroad (mode2), commercial presence

³ See for details, <http://www.aseansec.org/6628.htm>

⁴ Dee (2010) also investigates the implementation of the ASEAN Single Window. This is more related to the section 1.5, free flow of goods, and we review the results of this sector in section 1.5.

⁵ These regulatory restrictions preventing integration are categorized as follows; Derogations from national treatment which causes discrimination against foreign providers, limitations on market access which limits the number of service suppliers, service transactions, people employed and foreign equity participation, and anti-competitive domestic regulation.

(mode3) and movement of natural persons (mode4). We need to study administrative documents and other information on all modes for each service sector. Second, we must collect necessary information, based on interviews with sectoral experts in order to clarify the actual situation and to obtain correct interpretation because administrative documents and other information on service trade often includes many technical issues and much technical language, particularly on transportation and telecommunication services. It is also necessary to pay careful attention to differences between the engineering approach and the economic approach. Dee (2010) has collected the information on actual policies by using questionnaires, which were completed for each ASEAN economy over the period September 2009 to March 2010 by researchers contracted by ERIA.

4.1.1 Air transport services

Air transport service is one of the priority sectors under the AEC Blueprint. Recognizing the cost of restriction imposed by air services agreements, a growing number of countries are negotiating more liberal agreements. Also domestic aviation services have been liberalized in ways such as allowing additional entry on domestic routes, and privatization of government-owned carriers. The questionnaire studies by Dee (2010) cover actual barriers to trade in air transport services. Table 3 presents an extract of the scorecard for air transport by Dee (2010).

Table 3: Score of Restrictions on Trade in Air Transport Services (%)

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Average	S.D.
A. Commercial presence (mode 3)	18	9	0	55	32	27	0	18	0	18	18	17.2
B. Cross-border trade (Mode 1)	33	33	100	33	67	33	100	0	33	33	47	32.2
C. Movement of persons (mode 4) – intra-corp. transferees	100	50	100	50	100	50	50	0	50	50	60	31.6
E. Ownership	54	73	45	67	72	44	26	2	24	80	49	25.6
F. Regulation	24	16	21	32	16	37	21	5	21	68	26	17.2
TOTAL	40	44	32	55	51	38	22	6	19	61	37	17.3

Source: Excerpt from Table 2 in Dee (2010)

From the result, we find that only two countries; Singapore and Thailand have so far ratified the ASEAN Multilateral Agreement. Meanwhile, Indonesia and the Philippines have retained to impose restrictions on international and domestic charter flights, although charter flights are not as significant factors in the competitive pressures as they used to be. Dee (2010) also examines the restrictions on commercial presence (mode 3). Giving an example of Singapore she points out that effective liberalization of mode 3 in air services not only requires the reform of investment law, but also requires the reform of withholding clauses in air services.

Although most ASEAN countries appear relatively liberal, there are still remaining barriers, which are becoming increasingly to prevent effective competition. In addition, government subsidies of domestic airlines are still one of remaining problems.

4.1.2 Maritime Services

Regulatory restrictions on shipping services have been shown to be costly, particularly to developing countries. Also, regulatory restrictions on port services inflate the cost of maritime shipping. Improvement of maritime services by elimination of restrictions and promotion of competition are also considered an important pillar of the ASEAN as a single market.

Dee (2010) examines restrictions on the entry of new service providers and restrictions on the legal form of establishment, in a variety of maritime services separately; international shipping, cabotage, internal waterways, port superstructure, cargo handling services, storage and warehousing, freight forwarding, pilotage, towing and tying, and the maintenance and repair of vessels. Table 4 is excerpted from Table 4 in Dee (2010) and presents summary restrictiveness scores.

Table 4: Score of Restrictions on Trade in Maritime Services (%)

	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Average
Movement of intra-corporate transferees (mode 4)	71.7	33.3	61.7	68.3	58.3	45.0	68.3	55.0	57.7
INTERNATIONAL SHIPPING (TOTAL)	14.3	28.6	26.9	20.0	24.9	2.9	31.5	40.0	23.6
CABOTAGE (TOTAL)	13.0	26.2	36.5	52.2	30.4	na	27.8	54.3	34.4
INTERNAL WATERWAYS (TOTAL)	0.0	53.3	22.7	73.3	40.0	na	36.0	30.1	36.5
PORT SUPERSTRUCTURE (TOTAL)	41.7	16.8	11.7	75.0	35.0	66.7	16.8	29.3	36.6
CARGO HANDLING (TOTAL)	0.0	16.8	11.7	16.7	26.7	0.0	16.8	29.3	14.7
STORAGE AND WAREHOUSING (TOTAL)	0.0	16.8	11.7	16.7	10.0	66.7	16.8	29.3	21.0
FREIGHT FORWARDING (TOTAL)	0.0	16.8	11.7	16.7	26.7	0.0	16.8	29.3	14.7
PILOTAGE, TOWING AND TYING (TOTAL)	91.7	50.0	11.7	91.7	26.7	66.7	16.8	66.7	52.7
MAINTENANCE AND REPAIR (TOTAL)	0.0	16.8	11.7	16.7	18.3	0.0	16.8	29.3	13.7
PORT OPERATION (TOTAL)	47.9	49.2	6.3	50.4	58.3	16.7	36.0	52.1	39.6
TOTAL	21.9	30.8	19.2	41.9	31.8	17.6	26.5	41.1	28.9

Source: Excerpt from Table 4 in Dee (2010)

Regarding restrictions on trade in mode 1, only three countries; Cambodia, Indonesia and Thailand have stated that they will grant exemptions from cargo restrictions. Concerning restrictions on mode 3, there is no ASEAN economy meeting the Blueprint target by 2010 in all maritime services. In most countries, port operations are still government-owned. Dee (2010) points out that a half of the ASEAN countries retain discriminatory licensing conditions for foreign suppliers.

4.1.3 Telecommunication services

Actual barriers on those telecommunication services recognized as being trade-impeding are investigated in Dee (2010). Restrictions on the entry of new service providers are examined for a variety of telecommunication services separately; that is, domestic fixed line services, international services, mobile services using various technologies, data services, leased lines, internet access services and Voice over Internet Protocol telephony. Table 5 is excerpted from Table 6 in Dee (2010) and presents a summary restrictiveness scores.

Table 5: Score of Restrictions on Trade in Telecommunication Services (%)

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Average
FACILITIES-BASED SERVICES (TOTAL)	20	24	18	94	20	80	22	0	21	18	32
A. Commercial presence (mode 3)	4	35	4	96	4	96	0	0	4	4	25
B. Cross-border trade (mode 1)	0	100	100	100	100	100	50	0	50	50	65
C. Ownership	26	17	19	92	26	70	30	0	26	25	33
D. Regulation - licensing	100	4	100	100	0	100	100	0	100	0	60
RESALE-BASED SERVICES (TOTAL)	18	45	17	99	20	96	23	1	3	18	34
A. Commercial presence (mode 3)	4	62	4	96	4	96	0	0	4	4	27
B. Cross-border trade (mode 1)	0	100	100	100	100	100	100	0	50	50	70
C. Ownership	26	33	19	100	26	95	30	0	0	25	35
D. Regulation - licensing	100	73	100	100	0	100	100	50	0	0	62
LEASED LINES AND PRIVATE NETWORKS (TOTAL)	22	22	33	11	33	11	0	33	44	22	23
A. Commercial presence (mode 3)	22	22	33	11	33	11	0	33	44	22	23
GENERAL (TOTAL)	34	42	23	59	52	92	58	44	52	43	50
D. Regulation - licensing	50	50	75	50	50	75	25	25	50	50	50
D. Regulation - other	23	45	15	65	55	95	73	55	55	45	53
Market structure	92	8	8	33	33	92	8	0	33	17	33
TOTAL	21	35	19	87	25	85	26	8	19	21	35

Source: Excerpt from Table 6 in Dee (2010)

Regarding restrictions related to the targets of the ASEAN Blueprint, a majority of countries score poorly on restrictions on mode 1 trade. However, Dee (2010) points out that the relevant restriction on mode 1 trade in telecommunication services is by now a technical restriction that has very little real relevance. As for the existence of foreign equity limits on investment in telecommunication service providers, only two countries; Singapore and Vietnam, currently meet the Blueprint's target. Dee (2010) indicates that most countries are relatively even-handed in their regulation of facilities-based and resale-based services, however, only a minority of ASEAN countries have moved comprehensively to general rather than individual licensing of telecommunications providers.

4.2 Free Flow of Goods

As stated in the ASEAN Blueprint, a single market for goods and services will facilitate the development of production networks in the ASEAN and enhance ASEAN's capacity as a part of the global supply chain; therefore, free flow of goods which is one of the principal means of achieving a single market and production base is regarded as an indispensable element. A broad range of issues is encompassed in the scope of the free flow of goods indicated in the ASEAN Blueprint, not only the elimination of tariffs on all intra-ASEAN goods, but also non-tariff barriers⁶, rules of origin, trade facilitation by customs procedures and related information flows, customs integration, the ASEAN Single Window, and standards and technical barriers. Our project has conducted research on the progress of trade facilitation in each ASEAN country by examining two issues, that is, an examination of implementation status of the ASEAN Single Window in each country, and quantitative analysis of trade costs between ASEAN countries and outside major trading partners. Examination of the implementation of the ASEAN Single Window by Dee (2010) is conducted by questionnaires as the previous section, while quantitative analysis on trade costs by Sourdin and Pomfret (2010) used commodity trade statistics classified by transportation mode. The former deals with the Single Window program, in which concrete schedules and actions are set in the Blueprint, and the latter is relevant to the

⁶ ASEAN Trade In Goods Agreement signed in 2009 sets out the details of schedules of elimination of non-tariff barriers. See (<http://www.aseansec.org/22223.pdf>).

more comprehensive issues of trade facilitation, including not only transaction cost related trade in goods, but also the productivity of transportation services.

4.2.1 The ASEAN Single Window

Dee (2010) examines the status of implementation of the ASEAN Single Window in the same way as in the previous section 4.1 on studies on the other service sectors. Based on questionnaires covering customs clearance about implementation of the National Single Windows and on cooperation to achieve and the ASEAN Single Window, the current status of implementation of the National Single Windows in member countries, transparency and due process, and each country's participation in regional cooperation efforts toward an ASEAN Single Window are examined. Table 6 is a summary of the scorecards on implementation of ASEAN Single Window of each country, excerpted from Table 8 in Dee (2010)⁷.

All countries are participating in regional cooperation efforts to simplify and harmonize customs clearances and to introduce mutual recognition of conformance assessments, and most countries are participating in efforts to introduce National Single Windows and integrate these into and ASEAN Single Window. However, there are variations which are caused by differences of levels of development, such as the degree of usage of electronic filing of customs documentation. In general, Dee (2010) points out that although most ASEAN counties are relatively transparent about their trade regulations, very few are fully transparent about ex post performance such as measures of customs clearance time.

⁷ Contrary to the restriction indexes of 4.1, this index is an implementation index. Thus a higher score denotes a 'better' rather than a 'worse' outcome. See more details Dee (2010).

Table 6: Summary of implementation of ASEAN Single Window (%)

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Average
I. National Policy	73	45	78	43	83	48	90	60	81	46	64
<i>A. National Single Window</i>	73	38	65	42	81	50	92	62	78	47	63
<i>B. Transparency and due process</i>	71	57	100	43	86	43	86	57	86	43	67
II. Regional Cooperation	90	90	90	90	90	80	100	100	90	90	91
TOTAL	76	54	80	52	84	54	92	68	83	54	70

Source: Excerpt from Table 8 in Dee (2010)

4.2.2 Trade cost in the ASEAN member countries.

Sourdin and Pomfret (2010) develop a composite indicator of trade cost for each individual ASEAN countries based on the gap between cif (cost insurance, freight) and fob (free on board) values at the HS6 digit level of ASEAN exports to third countries; namely, Australia, Brazil, Chile and the U.S. Although the cif/fob measures should be treated as a benchmark rather than a perfect indicator to capture the impact of a country's commitment to trade facilitation, this measurement of trade cost is suitable as an operational definition using universally acceptable concepts, and approximating the cost of international trade as it includes transport and logistics costs, which may be driven by technical improvements as well as by improved policies and procedures. Table 7 shows the average trade cost of ASEAN countries.

On average, the trade cost of ASEAN countries has been on a declining trend between 1990-2008 as a whole. Sourdin and Pomfret (2010) also find that ad valorem trade cost for imports arriving by air are lower than by sea, and fell slightly faster compared to imports arriving by sea. In addition, they pointed out that variation in trade costs in the ASEAN countries appears to be converging to the lowest cost country, Singapore. Building on the calculation of the trade cost in the ASEAN countries, Sourdin and Pomfret (2010) conduct a regression analysis to find the determinants of ad valorem trade cost. They find that the longer the distance of transport and the larger the degree of bulkiness of an imported product, the more trade cost increases. By contrast, the larger the size of bilateral imports, the smaller the trade cost found. This result indicates the presence of a scale effect in trade cost. In addition, the low level of general quality of institutions and infrastructure of the ASEAN countries increases trade cost for seaborne only. These results suggest that efficient logistics and distributions, as well as besides improvement of quality of institution and infrastructure are important factors for trade cost reduction particularly in trade by sea, which is still major means of transportation of goods.

Based on the analysis of trade costs in ASEAN countries, Sourdin and Pomfret (2010) draw an implication for the scorecards being developed by the ASEAN secretariat to achieve the AEC Blueprint. They suggest the importance of an indicator, which can be used to provide the benchmark of best practice for reducing trade cost.

Table 7: Average trade cost of ASEAN countries during 1990-2008.

Year	Brunei	Indonesia	KHM	Lao PDR	Myanmar	Malaysia	Philippines	Singapore	Thailand	Vietnam	ASEAN
1990	0.072	0.102	0.176	0.104	0.049	0.05	0.074	0.03	0.059	0.072	0.054
1995	0.045	0.073	0.077	0.08	0.048	0.032	0.052	0.021	0.046	0.067	0.039
2000	0.062	0.082	0.066	0.076	0.051	0.035	0.039	0.022	0.062	0.069	0.045
2005	0.047	0.079	0.061	0.033	0.054	0.032	0.05	0.028	0.059	0.08	0.048
2006	0.043	0.069	0.064	0.029	0.045	0.03	0.047	0.026	0.055	0.072	0.045
2007	0.035	0.064	0.055	0.051	0.045	0.031	0.045	0.026	0.047	0.067	0.043
2008	0.036	0.059	0.056	0.048	0.05	0.032	0.047	0.028	0.047	0.066	0.044

Source: Sourdin and Pomfret (2010)

4.3 Free flow of investment:

The member countries of the ASEAN have been quite successful in attracting FDI in recent years, and FDI inflows to ASEAN quadrupled between in 2002 and 2007. However, their performance has fallen behind China. Although ASEAN's members had been ahead of China in attracting FDI in 1980s, they have lost their commanding position since the early 1990s. It is reasonable that rising momentum towards forming the AEC was motivated by a sense of anxiety about losing attractiveness of FDI in the ASEAN. Thus one of the principal pillars of the AEC is to boost ASEAN's regional competitiveness on attracting FDI.

The chapter by Urata and Ando (2010) investigates and evaluates the restrictiveness/openness of FDI policy regimes and environments in the ASEAN countries. Based on a questionnaire survey and study of the relevant legal documents, they examine FDI policies from six aspects in 10 ASEAN member countries. In addition, they study the FDI policy environment in each member country by using an FDI firm-level survey in order to examine the information on barriers to FDI from the business point of view. The contribution of their study is to shed light on the actual FDI environment from both sides of the policies in force, and on the actual business environment, It will provide useful information on which to base new means of improving the FDI environments in the ASEAN.

4.3.1 Assessment of FDI Policy Regimes in ASEAN Member Countries

Based on examination of legal documents relating to FDI, plus additional supplementary information collected from the ASEAN countries, Urata and Ando (2010) assess the FDI policy regimes in each country and construct scores to evaluate the degree of their openess. Applying a modified methodology by Golub (2003), they evaluate the restrictiveness of FDI rules in six areas. These are: foreign ownership/market access; national treatment, screening and approval procedures, boards of directors and management composition, movement of investors; and performance requirements. Evaluated scores for each industry and weighted average overall scores for the ASEAN 9 countries are shown in Table 8.

Table 8: Restrictions on FDI rules by six areas.

	Brunei	Cambodia	Indonesia	Lao, PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Average	Standard deviation
Market access, total	0.24	0.14	0.36	0.39	0.32	0.38	0.26	0.20	0.42	0.34	0.31	0.09
Agriculture, forestry and fishing	0.10	0.10	0.40	0.50	0.10	0.45	0.35	0.00	0.50	0.20	0.27	0.19
Mining and quarrying	0.02	0.20	0.04	0.30	0.20	0.55	0.30	0.00	0.34	0.10	0.21	0.17
Manufacturing	0.05	0.10	0.21	0.27	0.13	0.09	0.10	0.00	0.16	0.05	0.12	0.08
Services	0.26	0.15	0.44	0.38	0.39	0.42	0.29	0.26	0.49	0.42	0.35	0.11
National treatment, total	0.80	0.18	0.20	0.41	0.83	0.40	0.28	0.14	0.00	0.26	0.35	0.27
Agriculture, forestry and fishing	0.75	0.00	0.00	0.75	1.00	0.75	0.75	0.00	0.00	0.00	0.40	0.43
Mining and quarrying	0.75	0.75	0.00	0.00	1.00	0.40	0.75	0.00	0.00	0.15	0.38	0.40
Manufacturing	0.75	0.00	0.14	0.00	0.78	0.04	0.00	0.03	0.00	0.05	0.18	0.31
Services	0.81	0.19	0.25	0.43	0.92	0.45	0.21	0.19	0.00	0.33	0.38	0.29
Screening & appraisal, total	0.43	0.62	0.79	0.61	0.25	0.92	0.11	0.15	0.50	0.36	0.48	0.27
Agriculture, forestry and fishing	0.00	0.75	0.75	0.50	0.10	0.90	0.10	0.00	0.50	0.35	0.40	0.34
Mining and quarrying	0.18	0.10	0.75	0.50	1.00	0.97	0.10	0.00	0.50	0.70	0.48	0.37
Manufacturing	0.19	0.10	0.75	0.50	0.21	0.90	0.00	0.01	0.50	0.15	0.33	0.31
Services	0.52	0.66	0.80	0.61	0.25	0.92	0.13	0.20	0.50	0.40	0.50	0.26
Board of directors, total	0.59	0.00	0.31	0.25	0.40	0.40	0.52	0.36	0.00	0.29	0.31	0.19
Agriculture, forestry and fishing	0.50	0.00	0.25	0.00	0.10	0.10	0.50	0.25	0.00	0.25	0.20	0.19
Mining and quarrying	0.50	0.00	0.05	0.00	0.10	0.46	0.50	0.25	0.00	0.05	0.19	0.22
Manufacturing	0.50	0.00	0.14	0.00	0.21	0.14	0.50	0.25	0.00	0.00	0.17	0.20
Services	0.62	0.00	0.38	0.27	0.50	0.47	0.53	0.39	0.00	0.36	0.35	0.21
Movement of investors, total	0.18	0.75	0.55	0.79	0.56	0.71	0.04	0.07	0.81	0.47	0.49	0.30
Agriculture, forestry and fishing	0.00	0.75	0.50	0.75	0.60	0.60	0.00	0.00	1.00	0.40	0.46	0.36
Mining and quarrying	0.00	0.75	0.50	0.75	0.60	0.76	0.00	0.00	0.95	0.25	0.46	0.36
Manufacturing	0.00	0.75	0.50	0.75	0.30	0.62	0.00	0.00	0.79	0.20	0.39	0.33
Services	0.24	0.75	0.56	0.79	0.64	0.74	0.06	0.10	0.79	0.54	0.52	0.29
Performance requirement, total	0.18	0.12	0.26	0.25	0.23	0.28	0.11	0.09	0.00	0.15	0.17	0.09
Agriculture, forestry and fishing	0.00	0.10	0.10	0.00	0.25	0.00	0.25	0.00	0.00	0.10	0.08	0.10
Mining and quarrying	0.00	0.25	0.10	0.00	0.10	0.40	0.25	0.00	0.00	0.05	0.12	0.14
Manufacturing	0.00	0.10	0.14	0.10	0.34	0.04	0.25	0.00	0.00	0.05	0.10	0.11
Services	0.24	0.11	0.30	0.25	0.26	0.35	0.09	0.12	0.00	0.19	0.19	0.11
Total Score of all sectors	0.394	0.242	0.375	0.428	0.438	0.463	0.237	0.175	0.300	0.315	0.339	0.100

Source: Urata and Ando (2010)

Note: Scores of service are simple average of all service sectors. The higher the values are, the higher the restrictions are imposed.

As Urata and Ando (2010) point out, ASEAN countries have restrictive FDI regimes in the areas of the movement of investors and the screening and appraisal procedures, and there are wide variations in scores for these areas, and for national treatment, among countries. Restrictions on market access is considered to be the most important policy towards inward FDI, and regulations are rather relaxed in manufacturing sector compared to the high levels of restriction found in the public sectors and service sectors. Although variations among countries are found, tight restrictions are often imposed in service sectors such as information and communication.

The examination on FDI regimes by Urata and Ando (2010) clearly shows that the degree of restriction/openness varies widely by country and sectors. They suggest that screening and appraisal which are found to be serious impediments in many countries, and market access regulations which are more restrictive in service sectors, should be improved. Service sectors, in particular, have taken up an important role in economic activity in ASEAN countries; therefore provision of greater market access should be improved in order to promote allocative and technical efficiency.

Urata and Ando (2010) analyze the FDI environment of ASEAN countries by using the information from a survey conducted on Japanese firms⁸. They categorize the problems and obstacles faced by Japanese firms operating in ASEAN countries into two groups, each consisting of four categories of problems related to FDI liberalization and six categories of problems related to FDI facilitation, based on literature surveys and discussions. Table 9 compares the results of their analysis in 2009, 2008 and 2005.

⁸ The survey were “Issues and Request for Trade and Investment Activities by Country/Region” conducted by the Japan machinery Center (JMC) for Trade and Investment. See more details in Chapter 4, Urata and Ando (2010).

Table 9: Assessment of FDI Invest Climate of ASEAN Countries by ten categories, in 2005, 2008 and 2009.

	Brunei		Cambodia		Indonesia		Laos		Malaysia		Myanmar		Philippines		Singapore		Thailand		Viet Nam		Total
	2009	2005	2009	2008	2009	2005	2009	2008	2009	2005	2009	2008	2009	2005	2009	2005	2009	2005	2009	2005	2009
(a) The number of Japanese affiliates in each country	1		10		659		6		759		10		419		991		1,577		332		4,764
(b) Issues to be solved for FDI liberalization and facilitation																					
<u>FDI liberalization</u>	0	0	0	0	17	10	0	0	11	17	8	7	10	11	1	3	19	16	8	16	138
i) Restrictions on foreign entry	0	0	0	0	10	5	0	0	5	4	2	2	7	6	0	1	8	6	3	5	59
ii) Performance requirements	0	0	0	0	3	2	0	0	3	5	0	0	0	2	0	0	3	1	2	5	21
iii) Restrictions on overseas remittances and controls on foreign currency transactions	0	0	0	0	2	1	0	0	1	4	6	5	2	1	0	0	5	3	2	4	32
iv) Restrictions on the movement of people and employment requirements	0	0	0	0	2	2	0	0	2	4	0	0	1	2	1	2	3	6	1	2	26
<u>FDI facilitation</u>	0	1	14	16	51	52	4	4	44	36	20	21	42	37	6	6	50	53	58	34	515
v) Lack of transparency in policies and regulations concerning investment (institutional problems)	0	1	5	5	13	14	0	1	13	10	8	8	7	10	0	1	12	14	18	6	140
vi) Complicated and/or delayed procedures with respect to investment-related regulations (implementation problems)	0	0	3	5	23	21	1	1	14	14	7	7	16	12	0	0	24	24	19	14	191
vii) Insufficient protection of intellectual property rights	0	0	0	0	1	4	0	0	2	3	0	0	3	1	0	0	1	2	1	2	18
viii) Labor regulations and related practices excessively favorable to workers	0	0	0	0	2	3	0	0	5	5	0	0	10	6	3	3	3	3	4	2	47
ix) Underdeveloped infrastructure, shortages of human resources, and insufficient investment incentives	0	0	6	6	9	8	3	2	8	4	5	5	6	8	3	2	9	9	13	8	106
x) Restricted competition and price controls	0	0	0	0	3	2	0	0	2	0	0	1	0	0	0	0	1	1	3	2	13
Total	0	1	14	16	68	62	4	4	55	53	28	28	52	48	7	9	69	69	66	50	653

Source: Urata and Ando (2010)

Their results show that various sorts of indirect barriers to FDI exist in this region, and the main problems are concerned with FDI facilitation. They point out that this result indicates that there is plenty of room to improve FDI facilitation in order to promote inward FDI in ASEAN. In particular, institutional problems such as lack of transparency and implementation problems such as complicated procedures, need to be resolved to promote investment activity. They also find that an access to the necessary infrastructure, human resources, and investment incentives are important factors for firms in making the decision for entering a new market or expanding operations. Compared to the results of their previous studies (Urata, Ando and Ito (2007) and Urata and Ando (2009)), it is found that seven countries in ASEAN as a whole experienced a decline in the number of issues directly hindering FDI, while they saw the increase in the number of issues indirectly doing so. They point out that this result suggests that improvement of the FDI investment climate has been achieved in ASEAN, but that more indirect barriers to FDI have emerged.

Judging from the lower number of the incidents concerning FDI related problems faced by Japanese firms compared to the previous year, ASEAN economies, on the whole seem to have improved their explicit FDI climate. However, their challenge is to remove indirect barriers to FDI, which still remain and have even increased. Addressing these challenges are steps toward the realization of the ASEAN's short and middle term goal, than is, to become an FDI-attractive region.

5. Policy Implications

The ERIA research project “Tracing the progress toward the ASEAN Economic Community” has aimed to evaluate the degree of implementation of the ASEAN Blueprint particularly in the free flow of service, goods and investment. Our quantitative measure is conducted by applying various methods such as questionnaires, statistical analyses, and firm-level surveys with close collaboration with many researchers from various countries including 10 ASEAN countries in order to ensure the objectivity and stringency of the analysis. Below we review and

summarize several policy implications of each study, then discuss on overall research results.

5.1 Policy implications from research on the free flow of services

- Air transportation services: There are yet only few countries meeting the ASEAN Blueprint targets. ASEAN members should work towards further reform of their air services agreements, and should achieve much greater transparency in their provisions.
- Maritime services: Although most countries have taken a relatively liberal approach to many aspects of maritime regulation, there are only few countries that have stated that they grant exemptions from cabotage restrictions. Therefore, ASEAN countries should reduce the scope of cabotage restrictions. Also, all countries should be looking to meet the Blueprint target of allowing at least 51% foreign ownership by 2010.
- Telecommunication services: Foreign equity limitations should be phased out. Also, there remains the problem of persistent very high market shares possessed by incumbent service suppliers.

5.2 Policy implications from research on the free flow of goods

- There are great variations in the extent to which countries have set targets and used information technology to automate decision-making in their clearance and release procedures. Also, there is considerable variation in the extent to which risk assessment is used in customs clearance. These variations partly reflect levels of development of technology. Region-wide technology cooperation in these fields is necessary to eliminate these differences of ability of implementation.

- There is room for improvement in transparency relating to ex-post performance. In addition, the publication of clearance times would provide the acid test as to whether ASEAN cooperation efforts were achieving their ultimate aims.
- Judging from estimations of trade cost in ASEAN countries, ad valorem trade costs have a tendency to decrease and converge to the lowest-cost country. For further reduction of this trade cost, efficiency of logistics and distributions sectors, and quality of infrastructure related to transportation such as port infrastructure, roads and railroad should be generally improved.

5.3 Policy implications from research on the free flow of investment

- In order to promote FDI policy liberalization, the ASEAN countries should use various existing frameworks. In particular, ASEAN should use the ASEAN Comprehensive Investment Agreement (ACIA).
- To overcome obstacles concerning FDI facilitation, the ASEAN countries should actively use various cooperation programs with developed countries to improve the human resources engaged in the implementation and enforcement of FDI policies.
- Monitoring of the achievement of FDI liberalization and facilitation has to be emphasized, in order to achieve a freer FDI environment.

5.4 General discussion

There is still a lot of variation in the progress of elimination of restrictions among the ASEAN on the whole. The research results of each chapter suggest that many direct or indirect restrictions still remain and lack of transparency impedes goods, services and investment from movement freely in this region. Judging from overall results, ASEAN members should make greater efforts toward the goal of the ASEAN Blueprint as scheduled, and should promote regional corporation. For this purpose, monitoring system by using quantitative measures should be constructed for all

elements of the ASEAN Blueprint in order to highlight concrete policy measures required. In addition, the information on quantitative measures should be made available for the public, so that not only policy makers, but also private sectors and consumers may understand the situation correctly.

Furthermore, there are more than a few cases in which the differences in the levels of economic development impede the ASEAN members from acting in concert for the introduction of new technology and systems toward regional integration such as the ASEAN Single Window project. The ASEAN members should strengthen technology cooperation necessary for regional integration such as introducing a common electronic filing system of customs documents, development of port/road/railroad infrastructure, in order to decrease the gap of ability of implementation of common integration among the member countries.

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