

Chapter 3

Building the ASEAN Economic Community: Progression and Progress

Ponciano S. Intal, Jr.

Senior Economist, Economic Research Institute for ASEAN and East Asia

Introduction

The ASEAN Economic Community (AEC) was formally established on 31 December 2015. It was the culmination of nearly a quarter century of progression and progress in regional economic integration efforts in ASEAN. At the same time, it is the formal affirmation of the beginning of the drive towards deeper integration and community building in ASEAN. There is thus both continuity and progression as well as an implicit commitment to ensuring progress towards deeper regional economic integration, best encapsulated in the AEC blueprint.

A companion volume to this publication, Volume 1 entitled *The ASEAN Journey: Reflections of ASEAN Leaders and Officials*, describes the evolution of ASEAN and the road to the ASEAN leaders' decision to establish the AEC and the approval of the AEC Blueprint 2009–2015. From the First ASEAN Summit in Bali in 1976 up to the momentous Fourth Summit in Singapore in 1992, ASEAN focused largely on regional economic cooperation primarily through the preferential trading agreement and industrial cooperation initiatives (e.g. ASEAN Industrial Projects, ASEAN Industrial Ventures, and ASEAN Industrial Joint Ventures). On 28 January 1992, on the occasion of the Fourth ASEAN Summit, the ASEAN leaders decided to move ASEAN political and economic cooperation to a higher level in view of the profound political and economic changes in the world since the end of the Cold War. In the economic arena, the leaders signed the Framework Agreement on Enhancing ASEAN Economic Cooperation. This was highlighted by the signing on the same day by the ASEAN ministers of trade of the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area.

The framework agreement on enhanced economic cooperation and the CEPT for AFTA agreement on that fateful day of 28 January 1992 were the signal of the shift from pure economic cooperation towards economic integration, hitherto a taboo word in ASEAN. ASEAN started a slew of major regional initiatives in the 1990s that became the foundation of the AEC – i.e. work on non-tariff barriers; customs cooperation; standards and conformance with the establishment of the ASEAN Consultative Committee on Standards and Quality (ACCSQ); services, with the signing of the ASEAN Framework Agreement on Services (AFAS) and the start of rounds of negotiations on services liberalisation; investment, with the agreement to establish an ASEAN Investment Area; and other initiatives, such as for transport facilitation. The ASEAN initiatives in the aftermath of the 1992 ASEAN Summit were apparently far more than for a standard free trade area.

The ASEAN Vision 2020 – adopted during the Second ASEAN Informal Summit in Kuala Lumpur in December 1997, a few months after the outbreak of the East Asian financial crisis in Thailand and amidst depreciating ASEAN currencies – provided the first cohesive framework of the enhanced cooperation efforts since the early 1990s. The ASEAN Vision 2020 envisages ASEAN as a concert of outward-looking Southeast Asian nations living in peace, stability, and prosperity bonded together in partnership in dynamic development and in a community of a caring society. The vision for 2020 is for a region that is a zone of peace, freedom, and neutrality as well as a highly competitive economic region where there is free flow of goods, services, and investment; a freer flow of capital; equitable economic development; and reduced poverty and socio-economic disparities.

The core elements and key strategies of what would become the AEC Blueprint 2009–2015 were apparently drawn from the ASEAN Vision 2020. The Hanoi Plan of Action of 1998 provided implementation details for the ASEAN Vision 2020, thereby becoming an important building block to the eventual AEC Blueprint 2009–2015. At the turn of the 21st century, former Prime Minister Goh Chok Tong of Singapore suggested that ASEAN move towards an economic community. The High-Level Task Force on ASEAN Economic Integration was assigned to study it and make recommendations drawing from the ASEAN Vision 2020 and the Hanoi Plan of Action, among others. The decision to establish an ASEAN economic community snowballed into the Bali Concord II of 2003 setting out the establishment of the ASEAN Community by 2020 consisting of the ASEAN Economic Community (AEC), ASEAN Security Community (eventually the ASEAN Political–Security Community) and the ASEAN Socio-Cultural Community. The recommendations of the task force on economic integration became an appendix to the Bali Concord II, thereby becoming mandates to ministers and senior officials to formulate the specific commitments and plans of action to implement the

recommendations. These eventually fed into the blueprint to realise the AEC by 2020. Noting progress in the implementation of the AEC action plans and in the face of tighter competition for foreign investment from countries like China, the ASEAN leaders decided in 2007 to accelerate the realisation of the AEC from 2020 to 2015.

In conclusion, a review of the road to the AEC raises two remarkable points:

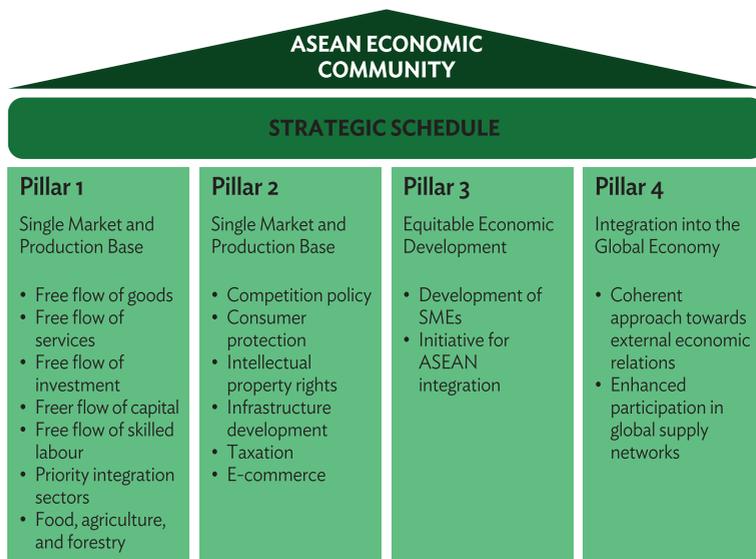
- **Progression and progress.** The story of the road to the AEC is one of progressive expansion and deepening of cooperation and integration initiatives. This is no doubt facilitated largely by the progress in implementing the continuous expansion and deepening of the tariff reductions under the CEPT scheme. The success of the CEPT scheme and the widening CEPT Plus initiatives lead almost naturally to the proposal for the next level of economic integration – an economic community such as the European Economic Community (one of the earliest partners of ASEAN).
- **Forward-looking leadership.** It is remarkable that the ASEAN leaders responded to significant global and regional challenges by pushing further the drive for regional economic integration. They decided in 1992 to move towards an ASEAN free trade area in response to the threat of a possible ‘Fortress Europe’ with the planned European Union and the impending start of the North American Free Trade Agreement, two major developments that signalled less-than-open major export markets for ASEAN Member States (AMSs). Similarly, the ASEAN leaders in 1997 pushed ahead with the ambitious ASEAN Vision 2020, mandated at the height of an economic boom a year earlier, despite the ASEAN region being in the midst of an economic and financial crisis. The decision to move towards an ASEAN economic community in the early 2000s and the decision in 2007 to accelerate the timeline from 2020 to 2015 were made amidst relatively poor foreign direct investment (FDI) inflows into ASEAN and the surging Chinese economy and rising Indian economy, ASEAN’s two large neighbours and competitors for FDI. All the above shows forward-looking leadership and commitment to the ideals of the 1967 Bangkok Declaration that gave rise to ASEAN.

The ASEAN Economic Community Blueprint 2015

The AEC Blueprint 2009–2015 consists of a large number of measures aimed at realising an outward-oriented ASEAN Community that has the following interrelated and mutually reinforcing key characteristics: (i) a single market and production base, (ii) a highly competitive economic region, (iii) a region of equitable development, and (iv) a

region fully integrated into the global economy (see Figure 3.1). The AEC with these key characteristics is essentially the end goal of regional economic integration in ASEAN.

Figure 3.1. The Pillars of the ASEAN Economic Community



SMEs = small and medium-sized enterprises.

Source: ASEAN Secretariat (2015b).

Single market and production base

Achieving a single market and production base is the central theme of the regional economic integration initiative towards a regime of free flow of goods, services, investment, skilled labour, and freer flow of capital. To a large extent, the aim is to have an ASEAN region as if it were a single economy.

Free flow of goods. Towards a free flow of goods within ASEAN, the AEC blueprint measures include (i) the elimination of tariffs and non-tariff barriers; (ii) putting in place rules of origin that are responsive to and facilitative of a dynamic trading environment with simplified certification processes; (iii) having simple, harmonised, transparent, and standardised trade and customs processes that are regionally integrated and with a well-performing ASEAN Single Window (ASW); and (iv) establishing a regime of harmonised standards, technical regulations, and conformity assessments aligned with international practices, if applicable, together with mutual recognition arrangements (MRAs) and enhanced technical infrastructure and competency.

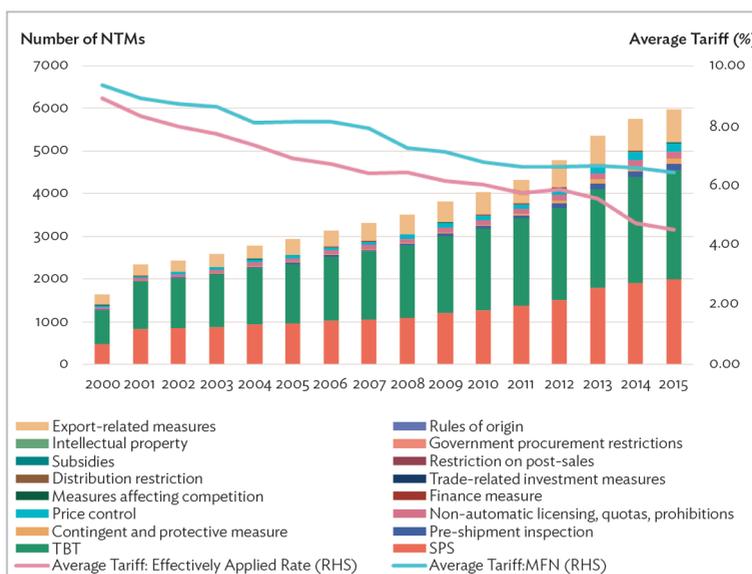
The implementation of the AEC blueprint measures towards a free flow of goods has seen substantial progress, but much remains to be done especially involving institutions and processes. For the most part, the implementation of the measures can be characterised by gradual progression but significant cumulative progress, which is almost like the ASEAN DNA. Arguably, it is unrealistic to expect the institutional underpinnings of the free flow of goods to be well established in less than a decade of the AEC Blueprint 2009–2015 in light of the vast differences in the levels of development and the varied political-legal systems of the AMSs. Institutional development and regulatory change facilitative of the free flow of goods is a long-term process. The successor AEC Blueprint 2016–2025 continues the progressive implementation of the still incompletely implemented AEC 2015 measures towards the free flow of goods in ASEAN.

■ **Tariffs.** This is one of the most important achievements of the AEC 2015. As of mid-2016, 99.2% of all intra-ASEAN tariffs in Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand have been eliminated. Similarly, 90.9% of intra-ASEAN tariffs in Cambodia, the Lao PDR, Myanmar, and Viet Nam (CLMV) have been eliminated. The 48th ASEAN Economic Ministers' (AEM) Meeting Joint Media Statement reports that by 2018, 97.8% of intra-ASEAN tariff rates in CLMV will be zero, making 98.6% of intra-ASEAN tariffs in all of ASEAN zero (ASEAN, 2016: 3–4). The ASEAN Secretariat reports that the average CEPT rate for the ASEAN-6 countries declined from 11.44 % in 1993 to 0.03% in 2015; that of the CLMV countries fell from 6.31% in 1999 to 0.55% in 2015. An ERIA report indicates that intra-ASEAN trade in several products responded positively to the reduction or elimination of intra-ASEAN tariffs (ERIA, 2015).

It should be noted, however, that the reduction of intra-ASEAN tariffs started in the early 1990s. Indeed, it was the success of the reduction (to a range of 0%–5%) of the intra-ASEAN tariffs (called CEPT rates under AFTA) in ASEAN-6 by the early 2000s that encouraged ASEAN leaders and officials to go beyond AFTA and move towards an ASEAN economic community. The tariff case exemplifies ASEAN's apparent approach of gradual progression for substantive progress towards meeting the AEC's goals.

■ **Non-tariff measures (NTMs)/non-tariff barriers (NTBs).** Whereas ASEAN has been successful in eliminating tariffs, it has continued to be largely concerned about NTMs and NTBs. Indeed, with tariffs nearly eliminated, the issue of NTMs and NTBs has loomed larger among the ASEAN business sector and ASEAN officials. The recent ERIA-UNCTAD study shows that NTMs increased in the ASEAN region in the past decade just as tariffs declined (see Ing and Cadot, 2017) (see Figure 3.2).

Figure 3.2. Non-tariff Proliferation in ASEAN



SPS = sanitary and phytosanitary, TBTs = technical barriers to trade.

Source: Ing, Cordoba, and Cadot (2016).

ASEAN has been attempting to address the issue of NTMs and NTBs since the latter 1990s. Initially, the focus was on understanding and classifying NTMs (then viewed almost synonymously with NTBs) and generating information on NTMs in ASEAN following UNCTAD classification. In the AEC Blueprint 2009–2015, the approach to eliminating or addressing NTBs was voluntary (the result being minimal).

Although there were a few successful cases, the Ing and Cadot study (2017) and voices from the private business sector indicate that addressing the NTBs or the NTB effects of NTMs remains a significant concern in the region.

The Ing and Cadot study highlights that NTMs are usually imposed for worthwhile non-economic reasons like food safety and environmental purposes. In addition, a large number of NTMs do not necessarily translate into a more burdensome regime as a comparison among AMSs indicates. In short, how the NTMs are implemented has a large bearing on the level of burden of the NTMs. This is especially the case for sanitary and phytosanitary measures and technical barriers to trade, which tend to form the largest shares of NTMs. Thus, Ing and Cadot recommend that the best way to deal with the NTMs is to look at them from the perspective of regulatory improvement in a country rather than from a trade negotiations point of view.

ASEAN is addressing the issue of NTB effects of NTMs through five mechanisms. The first, negotiating down NTBs, has so far had a minimal impact. The second is the resolution of specific cases, initially through the ASEAN Trade in Goods Agreement body, but which is meant to be strengthened via ASEAN Solutions for Investments, Services and Trade. Launched in 2016 and initially focused on trade in goods, ASEAN Solutions for Investments, Services and Trade is an Internet-based facility for receiving and responding to complaints submitted by ASEAN-based businesses (ASEAN, 2016). Two other mechanisms are also very important parts of the AEC blueprint. The third is standards and conformance, an important mechanism to help address technical barriers to trade. To the extent that trade and customs processes are burdensome to importers and exporters, and can potentially be used to discriminate foreign goods in the domestic market, the drive towards efficient customs and trade processes could be considered as another mechanism to temper the trade barrier effect of NTMs (now to include excessive administrative costs). Both are important initiatives in their own right. The last mechanism is captured in the AEC Blueprint 2016–2025, which is the promotion of good regulatory practice. This is consistent with the Ing and Cadot perspective on NTMs discussed earlier. The companion Volume 5, *The ASEAN Economic Community into 2025 and Beyond*, discusses good regulatory practice and international regulatory cooperation for the AEC towards 2025 and beyond.

- **Trade facilitation.** In a 2011 survey conducted by ERIA, the private business sector in ASEAN considered trade facilitation measures for efficient customs administration and facilitative rules of origin to be the top priority for AEC measures to be implemented by 2015. ASEAN is cognisant of the importance of trade facilitation for the region, with AEC measures focusing on rules of origin, customs modernisation and integration, transparency especially through the national and ASEAN trade repositories, and the national and ASEAN single windows. Progress on the initiatives has been considerable.
 - All AMSs have established their national trade repositories. The ASEAN Trade Repository was launched in November 2015, to which the national trade repositories are being linked. The trade repositories are one-stop online databases of national and ASEAN trade and customs-related information, including NTMs. The repositories enhance transparency and the business sector's access to information (ASEAN, 2016).
 - National single windows (NSWs) are operational in at least seven AMSs, albeit at varying levels of efficiency, with Singapore's being one of the world's pioneers and one of the best. The ASW has successfully tested the electronic

exchange of e-Form D among five exchange-ready AMSs, and there is now the live exchange of e-Form D among Malaysia, Singapore, and Thailand. The important protocol on the legal framework to implement the ASW has been signed and being ratified by Member States. Live implementation of the ASW could be commenced thereafter (ASEAN, 2016).

- o Customs modernisation and integration is ongoing, with e-customs in all member states and the 'pilot project on ASEAN Customs Transit System (ACTS) including the establishment of the ACTS Central Management Team within the ASEAN Secretariat' (ASEAN, 2015: 3). Other key achievements include the implementation of the ASEAN Harmonized Tariff Nomenclature and the development of best practice documents to support customs modernisation and reform in ASEAN (ASEAN, 2013).
- o Rules of origin for the ASEAN Trade in Goods Agreement have been refined over time to be more business friendly, drawing partly from the experiences in the ASEAN negotiations of the bilateral free trade agreements with the ASEAN+6 partners.

The implementation of the trade facilitation initiatives in ASEAN coincided with the improvement in the indicators for Member States' ease of doing business and trade across borders. A survey conducted by ERIA (2012) of the private sector in all AMSs in 2012 also indicated positive feedback of improvements in the customs and trade processes in many Member States. Nonetheless, gaps in the trade facilitation environment remain large, and an ERIA survey in 2013 (Intal, 2013) focusing on the agricultural trade facilitation environment in ASEAN showed significant complaints related to the efficacy, transparency, and burdensome paperwork in several AMSs. In addition, Ing and Cadot in the companion ASEAN@50 Volume 5 highlight that the ASEAN rules of origin remain complicated in practice with significant ad valorem equivalent (implicit tariffs) in products like footwear, textile and garments, and vehicles.

Given the still substantial gaps and challenges in several AMSs and the region towards a world-class customs and trade facilitation environment in ASEAN in the light of dynamic changes in East Asia, ASEAN has decided to reinvigorate the ASEAN Trade Facilitation Joint Consultative Committee. The association is also exploring the development of an ASEAN Trade Facilitation Indicators system as an important monitoring tool of the state of the trade facilitation environment in the region and the implementation of the ASEAN trade facilitation initiatives. The system is also expected to be consistent with, and useful for, the monitoring of

the implementation of the World Trade Organization (WTO) Trade Facilitation Agreement, which Member States have signed.

- **Standards and conformance.** ASEAN established the ASEAN Consultative Committee for Standards and Quality (ACCSQ) in 1992, the same year the decision to establish AFTA was made. The main aim of the standards and conformance initiatives in ASEAN is to eliminate technical barriers to trade for the realisation of a highly integrated and unified ASEAN economy, or the so-called single market and production base. The results of a 2012 ERIA survey on private sector perception on AEC measures in ASEAN (ERIA, 2012) point out that varying standards and technical requirements and difficulties in conformity assessments are a serious deterrent to a more integrated AEC. The ACCSQ's main approach, through its working groups and product groups, has been to set out the key policy documents of ASEAN guidelines governing standards and conformance initiatives in the region¹ and to focus on the agreed-upon priority integration sectors that have a substantial bearing on intra-ASEAN trade.

The achievements of the ACCSQ have been considerable. In addition to the four major ASEAN policy guidelines, it has succeeded in harmonising many standards and technical requirements and agreed on several sector-specific guidelines in the identified priority sectors, such as electrical and electronic equipment, automotive, pharmaceutical, medical devices, processed food, rubber, and traditional medicines and health supplements. It has developed sectoral MRAs for electrical and electronic equipment and the Good Manufacturing Practice inspection of manufacturers of medicinal products. It has also succeeded in harmonising technical regulations in cosmetics, electrical and electronic equipment, and medical devices.² Many of the agreements are recent, suggesting an intensification of efforts of the various working and product groups under the ACCSQ in the run-up to the realisation of the AEC in 2015.

The approach of establishing working and product groups and tapping the expertise of the private sector (including international institutions) has contributed to the ACCSQ's considerable achievements. Nonetheless, the deepening economic integration in the region means more and more products are potentially tradable

¹ The key policy documents are the ASEAN Guidelines on Standards, Technical Regulations and Conformity Assessment Procedures; ASEAN Guideline on Accreditation and Conformity Assessment; ASEAN Guideline on the Development of Mutual Recognition Agreements; and ASEAN Guideline on Harmonization of Standards.

² See Annex 1 of the ASEAN Standards and Conformance Strategic Plan 2016–2025 for the list of the major achievements.

within the region, thereby raising the standards and conformance issues in those not-yet-prioritised sectors and products. Moreover, implementation is the key to ensuring that the ASEAN standards and conformance initiatives bring benefits to the business sector and the public. For example, the results of the AEC Scorecard Study conducted by ERIA in 2015 (ERIA, 2015) indicate several implementation issues and concerns in several AMSs as regards the ASEAN Cosmetic Directive. The results suggest that monitoring of the standards and conformance initiatives would need to include the actual implementation of the agreements.

Free flow of services. Services, and with them the free flow of services, are important for ASEAN. Except for Brunei where industry remains the most dominant, the services sector is now the largest economic sector in all AMSs, accounting for more than 50% of GDP in Malaysia, the Philippines, Thailand, and especially Singapore. Services exports and imports of ASEAN grew robustly at double digits during 2009–2014 before dipping somewhat in 2015 to account for about 13% of GDP for either exports or imports in that year. ASEAN is a net importer of services, although the Philippines stands out as having the largest net service export surplus among the Member States. Travel, business services, and transport dominate services exports and imports in the region, both intra-ASEAN and overall. In addition, services value added accounts for a large share of manufacturing exports for a number of AMSs, accounting for more than 30% of the value of the manufactured exports of Brunei, the Philippines, and Singapore in 2009; more than 25% for Malaysia and Viet Nam; and between 17% and 23% for Indonesia and Thailand (Pasadilla and Wirjo, 2014/2015). FDI in services now accounts for at least 40%, and at times more than 50%, of all FDI into ASEAN.

Christopher Findlay highlights in the companion Volume 5 that services, especially modern services, can contribute to productivity growth through several channels. At the same time, they are undergoing a ‘service revolution’, owing to greater tradability, technological changes, the ‘servicification’ of manufacturing, and the growth of service value chains. This offers significant opportunities for the AMSs to improve and expand trade in services directly and indirectly through the service content of goods exports. Capturing the opportunity, however, calls for more liberalised and competitive services markets, the freer flow of specialist service providers, and good infrastructure. Service liberalisation in ASEAN is one key way by which ASEAN can be a service hub in the region and the world. At the same time, a study by Dee (2012) shows that the liberalisation of key services sectors, such as banking, transport, and logistics, can substantially boost productivity and growth.

ASEAN has been pursuing the liberalisation of trade in services since the signing of the ASEAN Framework Agreement on Services (AFAS) in 1995, a year after the

WTO General Agreement on Trade in Services (GATS). Heavily influenced by GATS, AFAS aimed to go beyond GATS in liberalisation; i.e. GATS Plus. Indeed, AFAS went substantially beyond GATS, innovating in its approach in a series of rounds, shifting from pure ‘request and offer’, similar to GATS, to a subsectoral approach bringing in for the AFAS sectors of interest to at least four – and then reduced to three – AMSs. It then became more progressive with the scheduling of several new subsectors while deepening commitments on previous subsectors at successive rounds, until obtaining an expected liberalised free trade regime in services after the completion of the 10th round. Likely as a means to move the AFAS rounds forward, ASEAN in 2009 allowed overall flexibilities up to 15%. The flexibilities include enabling a Member State to catch up in the next round if it cannot meet the parameters of commitments set for the previous round; or allowing a Member State to substitute those subsectors agreed upon for liberalisation though it cannot make a commitment with subsectors outside of the agreed subsectors; or allowing liberalisation through the ASEAN minus X formula. These institutional innovations of liberalisation formulas, frequent rounds, and flexibilities have proven to be successful in moving service liberalisation commitments far more than in GATS, even if the commitments tend to be short of what the actual reality on the ground is.

AFAS negotiations have been undertaken through the Coordinating Committee on Services under the AEM. The Coordinating Committee on Services and AEM also oversaw the negotiations on MRAs on professional services and, eventually, also on the movement of natural persons. Later on, the ASEAN Working Committee on Financial Services Liberalization under the ASEAN Finance Ministers Meeting tackled the negotiations on financial services liberalisation while the ASEAN Transport Ministers Meeting supervised air transport liberalisation. This is likely because financial liberalisation needs to be tackled in conjunction with macro-prudential and other financial sector development issues, while air services liberalisation follows an air transport-specific approach that is very different from the AFAS approach.

The results from the institutional innovations, including the series of rounds, have been considerable given the sensitivity of many services sectors that have bedevilled services liberalisation negotiations everywhere, including the WTO. Nonetheless, services liberalisation under AFAS remained incomplete by the target year of 2015, with the difficult subsector liberalisation challenges postponed by the flexibility rule to the 10th and final round post-2015. Remarkably, it is in the financial services and air service sectors where the most cohesive (financial services) and most far-reaching (air transport) liberalisation initiatives in ASEAN have been undertaken so far.

Figure 3.3 and Table 3.1 provide a good snapshot of the progression and progress of AFAS from AFAS 5 to AFAS 9. (While there is already AFAS 9, the commitments of Indonesia and Singapore are still not publicly available at the time of writing this paper and therefore could not be included.) The figure shows the expansion in the number of subsectors over the years. Member States differ in the round in which they offered the most number of additional subsectors. This is expected because the design of the rounds includes the addition of new subsectors over the minimum required for the previous round. Cambodia is noteworthy for offering the most number of subsectors in AFAS 5; Indonesia, the Lao PDR, Philippines, and Viet Nam offered the most additional subsectors in AFAS 7; and Thailand is noteworthy for its expansion in AFAS 8.^{3,4}

What is equally important is the growing number of subsectors where the AMSs committed more than 51% foreign equity. It is interesting to note that for many AMSs, it is in AFAS 8 where the number and percentage – indeed preponderance – of subsectors with foreign equity of more than 51% allowable foreign equity sharply increased. This is especially true for Brunei, Cambodia, the Lao PDR, and Singapore. It is also worth noting that the new ASEAN members have been far more aggressive in services liberalisation, with the Lao PDR, Myanmar, and Viet Nam having most of their subsectors committed at more than 50% allowable foreign equity.

Table 3.3.1 gives the liberalisation rates for Modes 1, 2, and 3 and the overall liberalisation rate under AFAS 8 and AFAS 9. AMSs are most liberal with Mode 2 as is expected; i.e. there is virtually no restriction to consumption abroad. For Mode 1 – i.e. cross-border consumption – the liberalisation rate varies among the AMSs, with marked increase in liberalisation rates between AFAS 8 and AFAS 9 for Malaysia, Myanmar, and Viet Nam. Myanmar and the Lao PDR stand out as the most liberal; the Philippines has a particularly low liberalisation rate, reflecting the unwillingness to bind commitments (i.e. ‘unbound’). In Mode 3, or commercial presence, the liberalisation commitments between AFAS 8 and AFAS 9 for Brunei Darussalam, the Lao PDR, Malaysia, Myanmar, and, to a less extent, Viet Nam sharply improved. As the table shows, the Philippines and Thailand have much lower liberalisation commitments than the rest of the AMSs

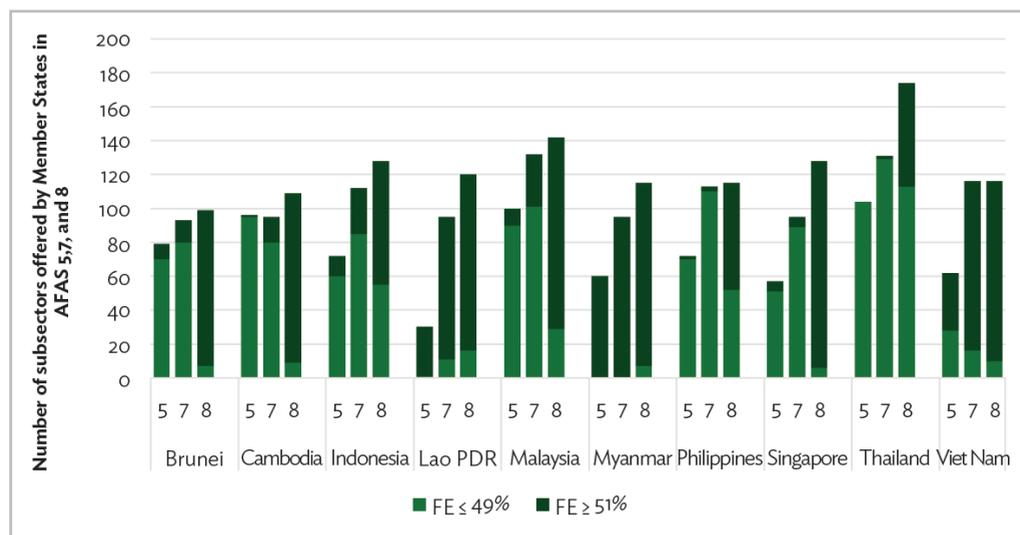
³ It should be noted though that the numbers are not always comparable across countries because a commitment is considered one no matter what the disaggregated level of the subsector is. Thus, a country can have very high numbers if its offers are at a much more disaggregated level than another country that has commitments at a more aggregated level.

⁴ The sharp increase in the number of commitments for Thailand (and to some extent Malaysia) in AFAS 8 arose from highly disaggregated and specific subsectors with different commitments, even if they are all under the same customs procedure code. In the figure, they are estimated as separate subsector commitments.

(no publicly available data yet for Indonesia and Singapore for AFAS 9). The Lao PDR and Myanmar lead the AMSs in terms of overall liberalisation commitments in AFAS 9, followed by Cambodia and then Brunei Darussalam and Malaysia.

As Figure 3.3 and Table 3.1 suggest, it is primarily in Indonesia, the Philippines, and Thailand where the challenges of further services liberalisation in ASEAN lie. AFAS 10, when finished, will be the last round that will define the outcome of the whole AFAS process. This is because the flexibility rule benefits of delaying implementation for the next round and substitution with non-agreed subsectors for liberalisation will no longer apply in principle given that AFAS 10 is the last and all subsectors are meant to be covered by it.

Figure 3.3. Progress and Progression of AFAS



AFAS = ASEAN Framework Agreement on Services, FE = foreign equity liberalisation.

Note: One major reason for the sharp spike in the number of subsectors in AFAS 8 is due to much greater disaggregation and industry specificity because of different foreign equity restrictions despite being with the same customs procedure code at the four-digit level.

Source: Estimated by Jaysa Prana (ERIA) based on AFAS submissions.

Table 3.1. AFAS Liberalisation Rates (%)

Country	Mode 1		Mode 2		Mode 3		Overall Liberalisation Score	
	AFAS 8	AFAS 9	AFAS 8	AFAS 9	AFAS 8	AFAS 9	AFAS 8	AFAS 9
Brunei	68	68	98	98	84	93	81	86
Cambodia	68	71	100	100	92	97	86	89
Indonesia	72		98		66			
Lao PDR	95	96	100	100	82	92	88	94
Malaysia	56	71	99	99	82	92	76	86
Myanmar	84	99	100	100	84	91	85	94
Philippines	47	45	99	100	71	66	67	63
Singapore	87		96		90			
Thailand	66	65	98	97	52	57	61	64
Viet Nam	47	59	99	100	85	91	75	82
Average	69	72	99	99	79	75	78	82

AFAS = ASEAN Framework Agreement on Services.

Source: ERIA.

AFAS 10 is effectively under the purview of the new ASEAN Trade in Services Agreement in the AEC Blueprint 2016–2025. The strategic action plan for services under the AEC Blueprint 2016–2025 includes the assessment of the ‘existing flexibilities, limitations, thresholds and carve-outs’ under AFAS’ (ASEAN Secretariat, 2015c: 6). This is one mechanism that would likely impact on AFAS 10. The other is the exploration of ‘alternative approaches for further liberalisation of services’ (ASEAN Secretariat, 2015c: 6). This is likely essentially a code phrase for exploring a shift from a positive approach – which AFAS is – to a negative approach to services liberalisation moving forward into 2025.

The progressive liberalisation of financial services under AFAS is built on a cohesive ASEAN Financial Integration Framework that aims towards a semi-integrated financial region by 2020. This framework was adopted in 2011 by the ASEAN Central Bank Governors and ASEAN Finance Ministers. It includes frameworks for ASEAN banking and insurance integration, initiatives for capital market development and for interoperable cross-border payments and settlements systems, cooperation in the management of capital account liberalisation, and capacity building.

As banking dominates the financial sector in ASEAN, and banking integration is low in the region, the ASEAN Banking Integration Framework is of particular interest. Banking liberalisation under the framework is specifically ASEAN-biased in contrast to much of AFAS, which tends to be MFN (most favoured nation) even if it is under AFAS. The framework relies on reciprocal bilateral arrangements to give qualified ASEAN banks greater market access and grant them national treatment. The bias for ASEAN banks instead of MFN liberalisation stems partly from the fact that non-ASEAN multinational banks have a much larger presence in ASEAN countries than banks from other ASEAN countries. Other financial industries given special focus for liberalisation are insurance with high priority given to the liberalisation of the cross-border supply of marine, aviation, and goods in international transit insurance as well as natural catastrophe insurance; reinsurance and retrocession for risk diversification; and financial leasing to help firms when acquiring equipment.

Liberalisation initiatives are being undertaken alongside initiatives to improve the institutional and related policy and prudential environments. This includes the agreement to adopt ISO20022 as a common standard for fund transfers in ASEAN, following the readiness of individual countries to have interoperability and greater efficiency in cross-border payments. It also includes several initiatives to develop the capital markets in the region. Such initiatives include (i) the electronic ASEAN Trading Link, initially among the stock exchanges of Malaysia, Singapore, and Thailand; (ii) the adoption of ASEAN disclosure standards to facilitate the multi-jurisdictional offering of equity and debt; (iii) the memorandum of understanding for the expedited entry of secondary listings among regulators and exchanges from Malaysia, Singapore, and Thailand; (iv) efforts to raise corporate governance standards and practices such as the ASEAN Corporate Governance Scorecard; and many more. Improved macroeconomic coordination initiatives to manage capital account liberalisation include the Policy Dialogue Process on Capital Flows and Safeguard Mechanisms for Capital Account Liberalisation, as well as the monitoring tool on the progress of capital market liberalisation through the ASEAN Capital Account Liberalisation Heatmap⁵.

With respect to the liberalisation of air transport services, it is best to view the AFAS liberalisation packages (ninth package as of 2015) of primarily air transport ancillary services together with the ASEAN multilateral agreements on air transport outlined in the Roadmap for Integration of Air Travel Sector. These multilateral agreements are the ASEAN Multilateral Agreement on the Full Liberalisation of Air Freight Services, the ASEAN Multilateral Agreement on Air Services, and the ASEAN Multilateral Agreement

⁵ See Summary of Achievements of ASEAN Financial Integration, http://www.bnm.gov.my/documents/2015/20150321_Summary_of%20Achievements_final.pdf

on the Full Liberalisation of Passenger Air Services, together with their respective protocols. All these agreements aim to establish ‘open skies’ in the region and eventually the ASEAN Single Aviation Market with its open skies policy.

The multilateral agreements and their protocols have all been fully ratified since May 2016. Thus, ASEAN open skies for the so-called third, fourth, and fifth freedoms are now in force. This means that an airline of one Member State can land at an international airport of another with unlimited seat capacity.⁶ It is worth noting that the multilateral air agreements in ASEAN eschew the issue of cabotage (i.e. domestic air transport is reserved for domestic carriers) nor do they address the extent of allowable foreign ownership of airlines. (The AFAS air transport services packages are primarily for the liberalisation of ancillary air transport services.) Nonetheless, the full liberalisation of air traffic rights (i.e. third, fourth, and fifth freedoms) ensures great potential contestability in the air services markets in the region. Although all 10 AMSs fully ratified these agreements and protocols in May 2016, the agreements have been in force before that date. Arguably, the sharp increase in air traffic and the rapid increase in sea capacity, especially of low-cost carriers in ASEAN, have been a by-product of the more liberalised air transport in the region in tandem with lower airfares and the marked improvement in per capita incomes of the AMSs that are generating large increases in demand for travel within the region. And that is what liberalisation and enhanced competition in a dynamic economic environment are expected to bring.

Free movement of skilled labour. Linked closely with services, and indeed the key initiatives mainly undertaken by the Coordinating Committee on Services, are the initiatives towards the free movement of skilled people. The main measures are the MRAs on a few professional services, the ASEAN Agreement on the Movement of Natural Persons (MNP), and the ASEAN Qualifications Reference Framework (AQRf).

The MRAs are for the ‘mutual recognition of authorisation, licensing, or certification of professional service suppliers in one ASEAN Member State by other ASEAN Member States’ (ASEAN Secretariat, 2015a: 27). Negotiations since 2003 have produced MRAs in engineering, architectural, and accountancy services, and a framework arrangement for the mutual recognition of surveying qualifications, all in the field of business services. A similar MRA is for tourism professionals. The other ASEAN MRAs for which negotiations started in 2004 are medical services, specifically medical, nursing, and dental services.

⁶ Indonesia, the Lao PDR, and the Philippines imposed some conditions in their ratification of the agreements. Specifically, Indonesia allowed open skies in only five (major) international airports; the Lao PDR excludes open skies privileges to Thai airlines in Vientiane and Luang Prabang; and the Philippines limits access to Manila International Airport due to capacity constraints and overcrowding concerns. Note that complete open skies includes allowing an airline of one Member State to operate between domestic airports of another Member State – the so-called seventh freedom; this is not in the cards for ASEAN. See J. Jordan (2016).

The template is similar among the MRAs involving business services: establish an ASEAN-wide registration system allowing professional engineers, architects, or accountants to be certified as ASEAN-chartered professional engineers, ASEAN architects, or ASEAN certified professional accountants, after meeting the agreed criteria and receiving approval from an ASEAN technical coordinating body overseeing the certification process (e.g. the ASEAN Architect Council). The ASEAN certified professional can then work as a registered foreign professional engineer, a registered foreign architect, or a registered foreign professional accountant in other Member States. Work for registered foreign professional engineers is in collaboration with other professional engineers in the host country, while registered foreign architects and registered foreign professional accountants can work independently or in collaboration with other licensed architects or accountants in the host country. Registered foreign professional accountants cannot sign off on independent auditor reports or other accountancy services requiring licensing in the host country (ASEAN Secretariat, 2015a: 27–34).

The MRA on Tourism Professionals is somewhat similar to the MRAs in business services, except that tourism professionals tend not be as regulated as engineers, accountants, or architects. Eligibility to work in a host country requires possession of a valid certificate in a job specified in the ASEAN Common Competency Standards for Tourism Professionals issued by a tourism professional certification board in a Member State. Toolboxes consistent with the competency standards are being developed and so is the registry system of the successful certificate holders, the ASEAN Tourism Professionals Registration System. To a large extent, for largely unregulated or far less regulated professions like tourism professionals, the certification system becomes a quality-signalling device for, and a contributor to, improved efficiency of the labour market in the whole region (ASEAN Secretariat, 2015a: 27–34).

The MRAs on health services do not have a system of ASEAN-certified health professionals nor an ASEAN-wide registration system. A registered nurse in one country can apply in another as a foreign nurse if he or she meets the conditions stipulated in the MRA. Much of the work of the coordinating committees on medical, nursing, and dental practitioners has focused on (i) the exchange of information on laws, practices, and developments in healthcare practice; (ii) procedures for the registration and licensing of domestic and foreign practitioners; and (iii) the required qualifications, etc. These initiatives are nonetheless supportive of facilitating the mobility of professionals within the region, the promotion of best practices on standards and qualifications, and enhancement of cooperation with respect to mutual recognition and capacity building. This cautious approach is likely a recognition that healthcare services are more sensitive

and in culturally shaped sectors (e.g. language requirements so that health service providers can communicate directly with patients) (ASEAN Secretariat, 2015a: 27–34).

The results on the ground have been less than overwhelming for the MRAs so far if the MRAs are evaluated in terms of the number of professionals involved. As of October 2015, only six out of 1,483 ASEAN-chartered professional engineers had been registered as foreign professional engineers; ASEAN architects were only 284 (ERIA, 2015). The low numbers suggest that the MRAs do not contribute much to the intra-regional mobility of skilled professionals. While the low numbers may be because of the newness of the schemes, they are more likely the result of the presence of alternative legal schemes that allow foreigners to practise in the host countries. An example is the temporary registration or temporary permits for architects or engineers in countries like Malaysia, the Philippines, and Thailand. Labour market conditions in host countries influence unilateral host country policies on foreign providers of professional services. Thus, for example, about 15% of nurses in Brunei in 2015 were from overseas and around 3,000 foreigners were enrolled as nurses at the Singapore Nursing Board in 2013. Many Member State professionals, such as engineers, architects, or accountants, work in other Member States as corporate employees rather than as independent professionals (ERIA, 2015).

In short, in a region of dynamic economies with varying labour market conditions, unilateral policies and market arrangements have so far played a much greater role in facilitating the flow of skilled workers and professionals within the region than the MRAs. Perhaps it is best to view the MRAs on regulated professions, such as those on business services, as managed liberalisation initiatives towards greater contestability of professional services markets in host countries rather than as important means of increasing the mobility of skilled labour and professionals in ASEAN.

The MRAs similar to the MRA on Tourism Professionals, the AQRF, and the MNP agreement probably will have a greater impact on the mobility of skilled labour and professionals within ASEAN. As indicated earlier, the MRA on Tourism Professionals can be a good signalling device because of the clear standards set for the region for the certification. Therefore, it expands the employability potential of a certificate holder to the whole region instead of only the home country. At the same time, the regional registry allows labour demanders a potential regional supply of qualified professionals. This labour market enhancing function of such an MRA is useful for largely unregulated or lightly regulated professions or skills, as those in the tourism industry. The AQRF provides a similar signalling device to the regional labour market by providing a common reference for comparing national qualifications (in education and training) among AMSs according to specified levels of complexity of learning outcomes. This is voluntary at the

moment and does not require changes in national qualification systems. Nonetheless, when fully operationalised, it could provide pressure for transparency and improved quality assurance systems and standards in Member States (ASEAN Secretariat, 2015a: 33–34).

The MNP agreement, signed in 2012, supersedes the earlier AFAS negotiations on Mode 4, which tended to focus on intra-corporate transfers. The agreement also covers business visitors, contractual service suppliers, and other categories that may be specified in the commitment schedules of AMSs. The MNP agreement is on the temporary movement of natural persons to other AMSs to provide services, whereas the MRAs on professional services include the long-term movement of professionals. The agreement aims to establish streamlined and transparent immigration procedures to facilitate the cross-border movement of temporary service providers. An ERIA analysis in 2015 of the Member States' commitments to the MNP agreement showed improvement over the commitments under AFAS 8; namely, wider sectoral coverage (i.e. 72% vis-à-vis AFAS 8's 53%); expanded scope of providers to include business visitors (at least six AMSs) and short-term contractual service providers (Cambodia, the Philippines, and Viet Nam); and expanded sectoral coverage in intra-corporate transfers (nine AMSs) (ERIA, 2015: 136–137).

In summary, ASEAN has been improving the institutional mechanisms to facilitate the movement of skilled labour and professionals in the region. Nonetheless, it is likely that the more important facilitators are not the MRAs in professional services that ASEAN focused on at first since the early 2000s. Rather these would be the more recent initiatives that serve more as signalling devices to harmonise skills standards (MRA on Tourism Professionals and the AQRf) and to widen the scope and sectoral reach (and preferably depth) of commitments for the temporary movement of skilled people as well as the promise of more streamlined and transparent immigration procedures. All these would substantially contribute to the labour market impulses towards the freer movement of skilled labour in ASEAN.

Investment liberalisation and the free flow of investments.⁷ As put strongly in the Roadmap for an ASEAN Community 2009–2015 (p. 27), a 'free and open investment regime is key to enhancing ASEAN's competitiveness in attracting foreign direct investment (FDI) as well as intra-ASEAN investment. Sustained inflows of new investments and reinvestments will promote and ensure dynamic development of ASEAN economies.' Investment liberalisation is central to attaining a free and open investment regime in the region.

⁷ This section is largely taken from ERIA (2015: 109–121).

FDI is important to ASEAN. Indeed, ASEAN relies more on foreign investment for its capital formation than do China and India. Moreover, in the context of the so-called second unbundling phenomenon of production networks and global value chains, FDI that is increasingly bundled with technology, management and quality control, and market linkages has been a critical factor in ASEAN's success of embedding itself firmly in East Asia's regional production and global value chains. ASEAN's industrial and technological upgrading imperatives are better served by new investments and reinvestments.

Experiences in the European Union and the North American Free Trade Agreement area show that FDI inflows surged into these regions at the start of their formation. It is worth noting that the surges of FDI into ASEAN occurred during the period of the announcement of the formation of the AEC (2003–2004) and the years coinciding with the Roadmap for an ASEAN Community (2009–2015) going into AEC 2015. No comprehensive analysis of the link between FDI inflows into ASEAN and the impending establishment of the AEC has been undertaken. However, recent surveys of multinational firms suggest that the formation of the AEC has been an increasingly important factor in their investment decisions in the region. Thus, there appear to be good indications that the AEC has already been delivering in one aspect: it has eased the concerns of the ASEAN leaders expressed in the early 2000s that AMSs were losing out to China in terms of FDI. Indeed, ASEAN surpassed China as the leading FDI destination in the developing world and was a very close second to China in 2015. With labour costs in China rising substantially, making the lower-wage AMSs increasingly attractive for more labour-intensive manufacturing companies, ASEAN has recently become a growing global investment hotspot. Firms from within and outside the ASEAN region appear to be increasingly taking note of the growing middle class in ASEAN, creating another source of impetus for FDI inflows into the region.

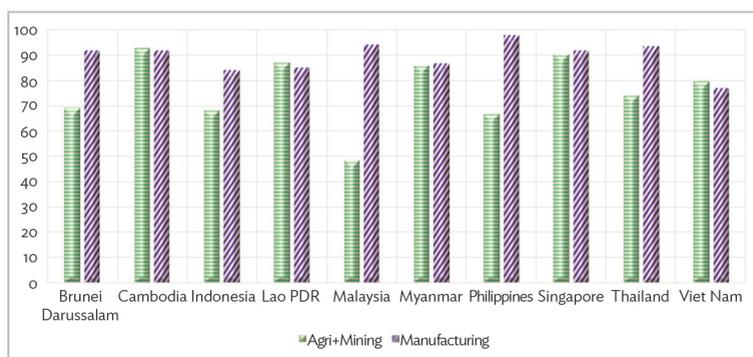
Under the AEC Blueprint 2009–2015, investment liberalisation in services is covered by AFAS which, as discussed earlier in the chapter, shows the predominance of the services sector where majority foreign ownership is allowed in most AMSs. Investment liberalisation in the goods sector, including services incidental to agriculture, mining, and manufacturing, is covered by the ASEAN Comprehensive Investment Agreement.

To determine the degree of foreign investment liberalisation in the goods sector in ASEAN, ERIA estimated in 2015 the percentage of subsectors in agriculture, mining, and manufacturing (including services incidental to the sectors) where at least 70% of

foreign equity is allowed. The choice of at least 70% allowable foreign equity is based on the presumption that effective control of a corporation (that allows the change in the nature and organisation of a corporation, for example) would generally require a two-thirds majority of the voting rights of the corporation. Although the 70% cut-off is less stringent than the usual 100% foreign equity benchmark, the implied assumption of the 70% threshold as ‘liberalised’ is that it is not difficult to find local partners. Also, such joint ventures may have positive societal benefits through technology and managerial transfers as well as market linkage opportunities. Nonetheless, it is worth noting that countries that allow at least 51% foreign equity tend to allow 70% foreign equity and, in most cases, also up to 100% foreign equity, except in some cases of legal or constitutional constraints or sociopolitical objectives.

Figure 3.3.4 presents the investment liberalisation rate for the case of 70% allowable foreign equity. The figure differentiates the investment liberalisation rate for the combined agriculture and mining sectors from that for the manufacturing sector. The figure shows that the majority of AMSs allow at least 70% foreign equity in at least 90% of all manufacturing subsectors, and virtually all allow at least 70% foreign equity in at least 80% of all manufacturing subsectors. The figure suggests that AMSs have relatively liberal investment regimes in terms of foreign equity in the manufacturing sector. Note that regional production networks are mainly in the manufacturing sector.

Figure 3.4. Foreign Investment Liberalisation Rate (ACIA, 70% Foreign Equity)
(%)



ACIA = ASEAN Comprehensive Investment Agreement.

Source: ERIA (2015).

It is in the agriculture and natural resource sector where, as Figure 3.4 indicates, a significant divide exists among AMSs in terms of the degree of openness to foreign equity majority control. The figure seems to suggest that the more land-abundant AMSs tend to be more open to foreign majority control of their agriculture and mining subsectors. Country reports in the ERIA study indicate that there are indeed complex non-economic sensitivities or constitutional restrictions to foreign equity control in some subsectors, especially in the agriculture and natural resources sectors.

Pillars two, three, and four

Pillar one: a single market and production base. This is the most articulated of the four pillars of the AEC Blueprint 2009–2015. To a large extent, pillar one is the core of the AEC, and the AEC is defined in people’s minds in terms of the phrase ‘single market and production base’. Nonetheless, the three other pillars are also important because they complement pillar one and help ensure that the liberalisation and facilitation measures in pillar one benefit more people and keep ASEAN well engaged globally or at least within the broader East Asia and Asia-Pacific region.

Pillar two: towards a competitive economic region. The AEC measures geared towards making ASEAN a competitive region are infrastructure development, competition policy, consumer protection, intellectual property rights, taxation, and e-commerce. No cohesive framework weaves all the above together in the same vein as in pillar one; indeed, it may be difficult to make one such a framework to pull them all together. Nonetheless, the list points to at least three major factors that contribute to improved efficiency and productivity growth. These factors are (i) infrastructure and connectivity, (ii) the promotion of a competitive domestic business environment through a competition policy consistent with consumer protection, and (iii) the promotion of innovation and technological adaptation through a facilitative intellectual property rights regime. The three major factors above were the primary emphasis of the implementation of the AEC Blueprint 2009–2015.

Taxation, focusing on bilateral agreements to eliminate double taxation, does not seem as compelling as a factor towards a competitive region. However, it may contribute to an improved FDI climate within the region and thereby improve the competitiveness of the region. A more important role of taxation, not captured in the AEC blueprint, is its centrality in improving the domestic fiscal resources of several AMSs for infrastructure investment because Member States cannot just rely on public–private partnerships for infrastructure development. However, this is the province of macroeconomic policy rather than trade and integration per se. E-commerce is emerging as an important

innovation for trade and development of small and medium-sized enterprises (SMEs) and has a greater emphasis in the AEC Blueprint 2016–2025.

Connectivity, transport facilitation, and infrastructure development are central to the competitive economic region pillar because they not only contribute to improved productivity and a more efficient geographically spread-out production base but also engender the sense of a ‘One ASEAN’ community. ASEAN adopted the Master Plan on ASEAN Connectivity, which envisions physical connectivity, institutional connectivity, and people-to-people connectivity and gives the spatial-economic expression of ASEAN economic integration and community building. It complements and presents a different and complementary perspective to the AEC blueprint.

On physical connectivity, the emphasis on land transport was on the ASEAN Highway Network and the Singapore–Kunming railway link. The ASEAN Highway Network provides links (primarily continental) between AMSs and with neighbouring countries. It also includes priority transit transport routes. The progress of the network has been considerable, with no more missing links and with nearly a 50% reduction in the roads below class III from 2010 to 2015. Work on the Singapore–Kunming (China) Railway Link is ongoing albeit delayed. The section from Phnom Penh to the Viet Nam border as well as the spurs into the Lao PDR are awaiting funding; the line between Thailand and Myanmar has been modified; and upgrading of railroad tracks is being undertaken (ASEAN Secretariat, 2015a).

Transport facilitation is critical as institutional connectivity complements efficient land physical connectivity. Member States have signed three major transport facilitation agreements. They are the ASEAN Framework Agreement on the Facilitation of Goods in Transit, the ASEAN Framework Agreement on the Facilitation of Inter-State Transport, and the ASEAN Framework Agreement on Multimodal Transport, with their corresponding protocols. They are all in force, but only in those countries that ratified the protocols or whole agreements; that is, until 2015, the agreements were not yet fully operational. In addition to these agreements, the AMSs are in negotiations on an ASEAN Framework Agreement on the Facilitation of Cross-Border Transport Passenger by Road Vehicles for seamless cross-border mobility of passengers between and among Member States by simplifying and harmonising transport, customs, immigration, and quarantine procedures and requirements (ASEAN Secretariat, 2015a).

With respect to air connectivity, as discussed in the section on the free flow of services, ASEAN has undertaken significant liberalisation measures, best exemplified by the ratification of all multilateral agreements on air services, air freight, and passengers leading to an open skies regime (except without seventh freedom) and the finalisation

of the ninth package of liberalisation of air transport ancillary services. With respect to maritime transport, the significant initiatives have been in the development of roll-on/roll-off services between identified points in Indonesia, Malaysia, the Philippines, and Thailand; the improvement of selected ports in the region; and efforts to liberalise shipping services (albeit given cabotage rules), etc. towards the ultimate goal of an ASEAN Single Shipping Market.

In short, there has been an improvement in the region's connectivity, transport facilitation, and infrastructure development, although it has been slow in many cases, except notably in air transport. The Kuala Lumpur Transport Strategic Plan or ASEAN Transport Strategic Plan 2016–2025 (ASEAN Secretariat, 2015d) aims for accelerated implementation. The companion volume, Volume 5 of ASEAN@50 entitled *The ASEAN Economic Community into 2015 and Beyond*, discusses the connectivity issue in greater detail.

The AEC Blueprint 2009–2015 measures for competition policy aim at fostering a culture of fair competition in the region. The focus of the initiatives was to introduce competition policy in each Member State, create a network of competition agencies, undertake capacity building, and develop regional guidelines on competition policy. Achievement of the AEC measures has been reasonably high. To date, 9 out of 10 have enacted competition policy laws and established competition agencies. An ASEAN Experts Group on Competition has been established and has been instrumental in driving the activities on competition policy, including several capacity-building activities and the development of regional guidelines on competition policy in ASEAN. A comparison of the competition laws of a number of AMSs shows significant differences in their provisions, e.g. the threshold for dominance and merger controls. The implementation experiences of the competition agencies also differ significantly, with Indonesia's competition policy agency (KPPU Komisi Pengawas Persaingan Usaha/The Indonesian Competition Authority) being the most mature (Lee and Fukunaga, 2013). To some extent, these experiences and the regional capacity-building initiatives can contribute towards the convergence of competition policy regimes as well as to greater cooperation among the region's competition agencies in the future. This is needed as deeper economic integration would mean deeper business relationships among firms in the region and, therefore, a greater chance of cross-border anti-competitive behaviour.

ASEAN has long acknowledged the important role of intellectual property in technological, economic, and social progress. In fact, ASEAN formed the ASEAN Working Group on Intellectual Property Cooperation early on in 1996, a year after the signing of the ASEAN Framework Agreement on Intellectual Property Cooperation in 1995. Note that the focus of the working group has been on regional cooperation and

coordination and not on designing a single harmonised regional intellectual property system. This is in cognisance of the wide difference in levels of development of the Member States with their own intellectual property-related laws, rules, and practices as well as institutions.

The ASEAN Intellectual Property Rights Action Plan provides a wide and long set of cooperation and coordination initiatives. The strategic goals are (i) the improvement of the efficiency of the administration and protection of intellectual property rights, (ii) the development of national or regional legal and policy infrastructure responsive to the dynamic changes in the intellectual property landscape, (iii) systematic promotion of intellectual property, (iv) active regional participation in the international community, and (v) intensified regional cooperation and collaboration on capacity building. Of interest is the ASEAN Patent Examination Cooperation, built on the principle of mutual recognition, wherein patent examination in one AMS may build on the results of examination in another, in effect a mechanism for work-sharing to ease patent workloads in the region (Degelsegger, Remoe and Trienes, 2016). Also of note are the capacity-building initiatives with the support of AMSs' dialogue partners, most especially the European Union.

Despite the lofty goals of the ASEAN Intellectual Property Rights Action Plan, however, there are major challenges towards a well-performing system in the region. The results of the study by Degelsegger, Remoe, and Trienes (2016) show a wide variation in the capacities of the intellectual property offices of AMSs. This has constrained the effectiveness of the ASEAN Patent Examination Cooperation because of differentiated levels of trust among the intellectual property offices of Member States. For example, patent applications with available search reports from Singapore may be fast-tracked compared to patent application from another AMS with a known weak intellectual property office. Some intellectual property offices are understaffed and/or staff are inexperienced and not well trained. The patent filing and granting process can sometimes take more than a decade in one Member State compared to only a few years in another, like Singapore. Thus, much is to be done to have a well-performing system that is supportive of ASEAN's drive towards an innovative region. Indeed, the patenting activity in ASEAN is low and dominated by non-resident filing, although the filing for utility models is predominantly by residents. There are also major challenges in the ecosystem for generating intellectual property in many Member States; nonetheless, there is a growing trend of filings by residents, although from a level, especially in comparison with neighbouring countries like China (Degelsegger, Remoe, and Trienes, 2016). The ASEAN Intellectual Property Rights Action Plan 2016–2025 presents a wider set of initiatives going into 2025 that builds on the initiatives of the earlier Intellectual Property Rights Action Plan. It also attempts to address major challenges facing the intellectual

property rights regime in the region, with the ultimate goal of transforming ASEAN into an innovative and competitive region through the use of intellectual property. The issue of innovation and intellectual property rights regimes is discussed further in Volume 5.

Pillar three: region of equitable development. Narrowing the development gap between AMSs (most specifically, the gap between the ‘older’ ASEAN-6 and the ‘newer’ ASEAN-4 [CLMV] countries) and engendering more inclusive growth through the growth and development of ASEAN SMEs are the focus of AEC pillar three towards a region of equitable development. The centrepiece AEC measures are the Initiative for ASEAN Integration (IAI) for narrowing the development gap and the ASEAN strategies and plans of action for SME development.

The IAI is essentially a mechanism for the ASEAN-6 countries to help the CLMV countries meet the ASEAN-wide targets and commitments towards the realisation of the ASEAN Community. The activities are primarily of a capacity-building nature. A survey of government officials in the CLMV countries by ERIA in 2012 (Intal, 2012) indicated that the IAI activities have generally been beneficial to the CLMV countries and have been largely well received there. The respondents indicated the programme can be improved through the tailoring of the training programmes to the specific needs and concerns of the CLMV countries, more realistic objectives for the specific projects, greater attention to institutional issues as well as to newer and emerging issues of interest to the CLMV countries, improved prioritisation of projects, greater coordination with the projects in CLMV of the dialogue partners, and greater CLMV ownership of the IAI projects (ERIA, 2012). Similarly, the report of the official midterm review of the IAI voiced concerns for the need to fine-tune the prioritisation process to be more attuned to the needs of the CLMV countries, the need for improving the coordination mechanisms internally and with the donor community involved in the Mekong Basin, and the need to enhance the ownership of IAI projects. The report also recommended the expansion of the project coverage of the IAI programme⁸.

It is worth noting that the IAI, while relatively low budget and focused primarily on capacity building, may have had a salutary effect of signalling to the donor community the special bias of ASEAN for the CLMV countries to narrow the development gap with ASEAN-6. There has indeed been significant donor community support, including infrastructural support, to the CLMV countries, oftentimes in the context of the Mekong River basin development.

⁸ See ‘Report on the Mid Term Review of the Initiative for ASEAN Integration (IAI) Work Plan’, http://asean.org/?static_post=report-on-the-mid-term-review-of-the-initiative-for-asean-integration-iai-work-plan (accessed 3 April 2017).

It may be arguable whether the IAI has been a critical facilitating factor, but the CLMV countries (especially Cambodia, the Lao PDR, and Viet Nam) have been the more enthusiastic reformers for implementing the mandates of the AEC measures. They have been more enthusiastic liberalisers than several older AMSs. They have also been working hard on the facilitation initiatives, although they face constraints on financing for some initiatives, such as the National Single Window (NSW). While some facilitation environments are less favourable, such as in trading across borders, there have been substantial improvements.

Domestic reforms, improved institutional capacity, and better infrastructure have led to remarkable increases in FDI. Each CLMV country has registered higher growth rates than ASEAN-6 since the early 2000s. The CLMV story is certainly a success story for ASEAN and a great example for the developing world, especially Africa.

The other important AEC measure towards a region of equitable development is SME development. SME development has received nearly constant emphasis by the country hosts of the ASEAN summits. This reflects the high importance that ASEAN leaders give to SME development in their own countries and the region. This is not surprising because about 89% to nearly 100% of firms in ASEAN countries are SMEs. They also account for the predominant share of total employment, although their shares to national output and exports are decidedly less. Because of their centrality in creating jobs and the sheer numbers, SME development is a strategic measure towards a more inclusive growth and development in an integrating ASEAN region.

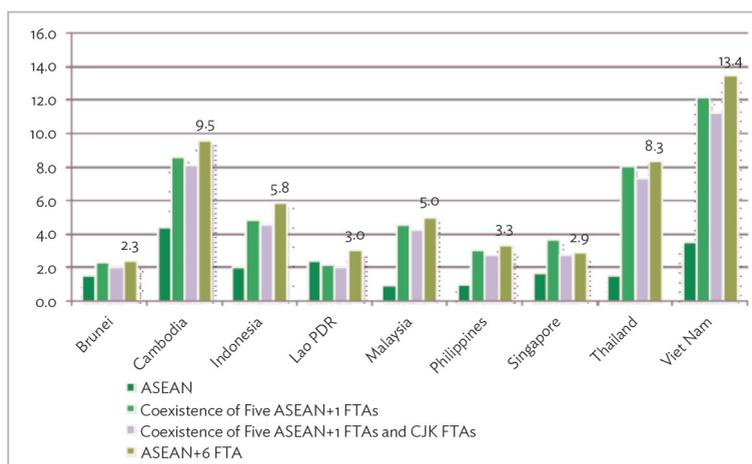
The ASEAN Strategic Plan for SME Development 2010–2015 focused on enhancing the internationalisation of SMEs, improving their access to finance, achieving human resource development, encouraging incubators for SMEs, establishing SME service centres, and establishing the ASEAN SME Development Fund. While the goals were noteworthy, the action plan was not cohesive. However, the successor action plan, the ASEAN Strategic Action Plan for SME Development 2016–2025, effectively addressed this issue. Nonetheless, several significant initiatives have brought the cause of SME development forward in recent years. Perhaps the most important are the series of SME trade/business fairs that have been undertaken by the Member States or business groups themselves in support of the ASEAN community-building and integration efforts.

The other significant initiatives include the development of the ASEAN SME Policy Index jointly with ERIA and the Organisation for Economic Co-operation and Development (OECD) that is meant to be a tool for generating a better policy

environment for SME development, the development of the methodology for an ASEAN benchmark for SME credit rating, and the study on the strengthening of the SME business and technology incubators. ASEAN has also started putting together the outstanding and innovative SMEs in the region. These initiatives are a good foundation for implementing the ASEAN Strategic Action Plan for SME Development 2016–2025, arguably a much better document than the previous one. This is discussed further in Volume 5, which focuses on the AEC into 2025.

Pillar four: integration into the global economy. The AEC Blueprint 2009–2015 is very thin with respect to pillar four, with the stated measures being a coherent approach to international economic relations and enhanced participation in global supply networks. Despite this, ASEAN has been strengthening its economic relations with its partners especially the ‘+6 partners’ (Australia, China, India, Japan, New Zealand, and the Republic of Korea [henceforth, Korea]) through the ASEAN+1 FTAs. ASEAN is also at the centre of current negotiations for the Regional Comprehensive Economic Partnership (RCEP), which is hoped to be finalised and signed in November 2017 during the ASEAN Summit. The issue of the ASEAN FTAs and RCEP is discussed further in Volume 5. Nonetheless, it is worth concluding the discussion on pillar four and concluding this chapter by highlighting what Figure 3.3.5 suggests: AMSs would benefit a lot more by integrating with ASEAN+3 (China, Japan, and Korea) and with RCEP than with the AEC solely.

Figure 3.5. Economic Impact of ASEAN’s FTA and Five ASEAN+1 FTAs
(percentage points, accumulated from 2011 to 2015)



ASEAN = Association of Southeast Asian Nations, CJK = China, Japan, and the Republic of Korea, FTA = free trade agreement.

Source: Itakura (2013).