

ERIA Discussion Paper Series**ASEAN: Regional Integration and Reforms**

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Abstract: *Over recent decades, the Association of Southeast Asian Nations (ASEAN) has advanced a policy of regional integration, starting with the ASEAN Free Trade Area, followed by the ASEAN+1 free trade agreements with its six main trading partners, and now with ASEAN+6. For ASEAN to further advance regional integration in the East Asian context, it should continue to focus on trade in goods, investment, and services, to smooth out the process of trade creation and investment realisation. East Asian integration is designed not to be just an ‘extensive regional trade agreement’, but more a ‘responsive vehicle’ that consists of trade and investment commitments combined with facilitation, to improve the effectiveness of the implementation of trade and investment agreements and the liberalisation agenda for all members. To keep regional integration viable, it should adopt an open regionalism policy.*

Keywords: ASEAN, integration, global value chains, free trade agreement, reforms

JEL Classification: F1, 12, F14, F15, F6

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1. Introduction

The Association of Southeast Asian Nations (ASEAN), in recent decades, has advanced its integration in trade in goods, services, and investment. ASEAN developed the ASEAN Free Trade Area (AFTA) in 1992, which evolved into the ASEAN Economic Community (AEC) in 2003. The four pillars of the AEC are a single market and production base; a competitive region; equitable economic development; and integration into the global economy. The AEC¹ is arguably much more comprehensive than the AFTA, with the objective of the first pillar being ‘free trade in goods, services, and investment and freer flow of capital, as well as free flow of skilled labor’. The focus of the AEC has mostly been on the first pillar. The major achievements are, first, the creation of the ASEAN Trade in Goods Agreement in 2010, and second, that most intra-ASEAN trade is already at zero tariff, especially for ASEAN–6. The ASEAN Framework Agreement in Services (AFAS) has also progressed, from AFAS–1 in 1995 to AFAS–8 in 2012. On investment there is the ASEAN Comprehensive Investment Agreement concluded in 2009, which transformed the Investment Guarantee Agreement (IGA), which had come into effect in 1987 and was subsequently transformed into an ASEAN Investment Area (AIA), which came into effect in 1998.

Another pillar where there has been a lot of progress is the integration of ASEAN into the global economy, with free trade agreements signed and implemented with six of its East Asian partners. The five agreements are with Australia and New Zealand (AANZFA), China (ACFTA), India (AIFTA), Korea (AKFTA), and Japan (AJCEP).² Since January 2010, with the coming into effect of AIFTA, all five of these agreements have been in effect; the others had come into effect earlier, the first one being ACFTA, which had started with its early-harvest-programmes in 2005. All these agreements cover trade in goods, trade in services, and investment, and in the case of AANZFA, other issues covered include the environment and labour. In November 2011, ASEAN took a bold strategic initiative

¹ The success and challenges of the AEC are discussed in Nikomborirak (2015).

² ASEAN–Australia and New Zealand free trade agreement (ANZFTA), ASEAN–China free trade agreement (ACFTA), ASEAN–India free trade agreement (AIFTA), ASEAN–Korea free trade agreement (AKFTA), and ASEAN–Japan Comprehensive Economic Partnership (AJCEP).

when it formed the East Asia Regional Comprehensive Economic Partnership (RCEP), which is aimed at consolidating the ASEAN free trade agreements (FTA) and broadening the commitments in these agreements into a more comprehensive agreement

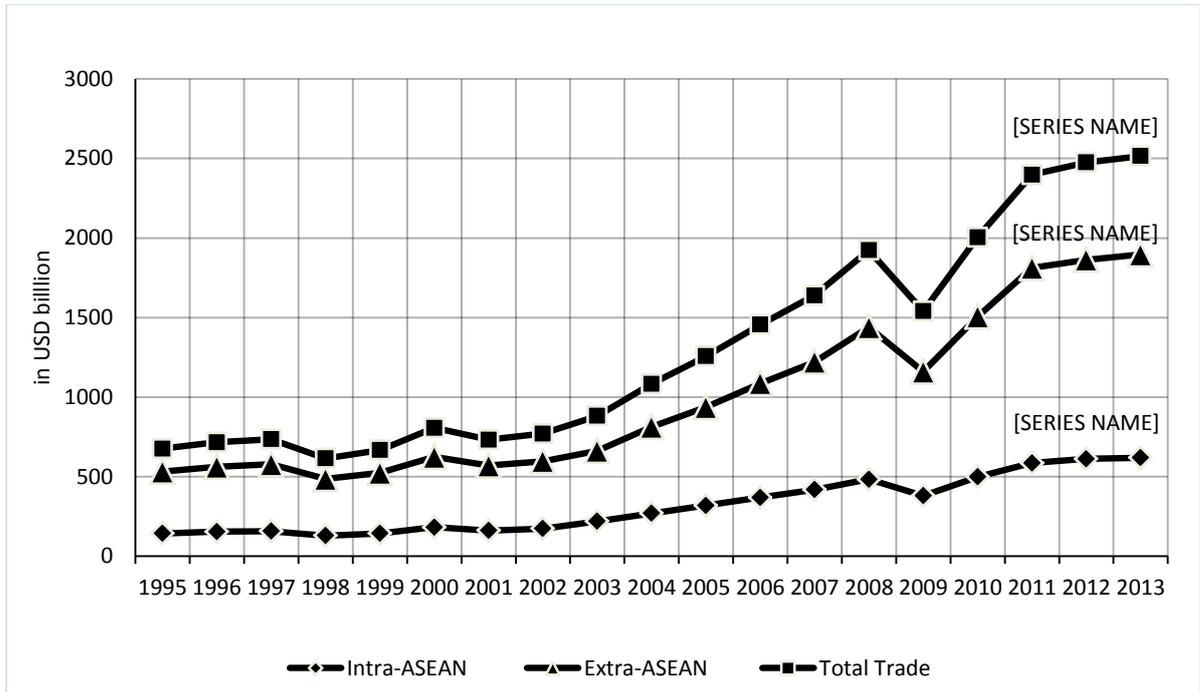
Our paper aims to explain ASEAN and its current and future direction, in the context of regional integration as it faces uncertainties and a slowing global economy. Section 2 reviews the trends in trade and investment in the East Asian region and how it has grown, and the role of ASEAN in East Asia's integration. Section 3 explains the reasons for an expansion of ASEAN to include East Asia. Section 4 also illustrates ASEAN's efforts to advance its regional integration. Section 5 concludes.

2. Regional Trends in Trade and Investment in Southeast Asia

2.1. Trends in Trade and Investment

Figure 1 shows that for the last two decades (1993–2013), intra-ASEAN trade increased at an average annual rate of 10.5 percent, compared with overall ASEAN trade at 9.2 percent and ASEAN's trade with non-ASEAN countries at 8.9 percent. Total trade has posted a six-fold increase since the beginning of the ASEAN Free Trade Area, from US\$430 billion in 1993 to US\$2.5 trillion in 2013. Intra-ASEAN trade surged more than sevenfold in the same period, from US\$82 billion to US\$609 billion, and extra-ASEAN trade grew more than five times, from US\$348 billion to US\$1.9 trillion.

Figure 1: Trends of ASEAN Trade, 1993–2013



Note: ASEAN = Association of Southeast Asian Nations.
Source: Authors’ calculations based on UNCTAD statistics.

Figures 2a and 2b show the changing shares of ASEAN trade with the world, and demonstrate that there have been significant shifts in its trading partners. The share of intra-ASEAN exports increased from 19.8 percent to 25.8 percent, and there was a significant increase in intra-ASEAN imports, from 16.1 percent to 25.8 percent. As for ASEAN’s partners, the dominant trend has been the rise of China, with a more than five times increase in the share of exports and imports traded between ASEAN and China, now at about 12 percent. It has also seen the share of its trade with its previous major trading partners decline, including Japan, the United States (US), and the European Union (EU).

Figure 2a: Share of ASEAN Exports by Destination

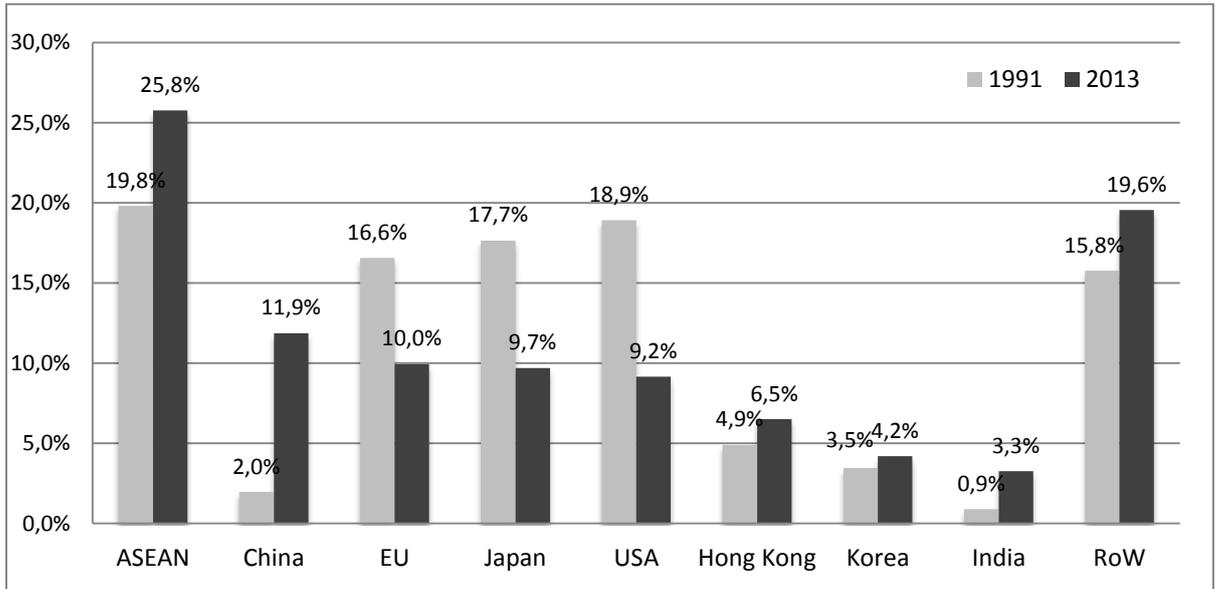
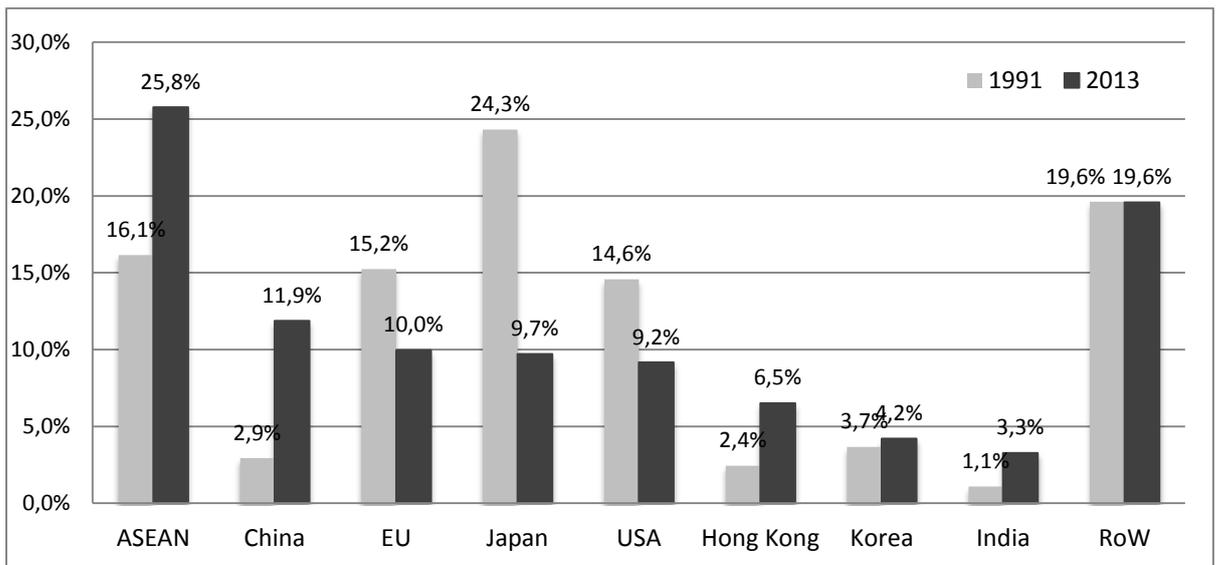


Figure 2b: Share of ASEAN Imports by Origin



Note: ASEAN = Association of Southeast Asian Nations; EU = European Union; USA = United States of America; RoW = Rest of the world.

Source: Authors' calculations based on UNCOMTRADE.

If we just focus on ASEAN’s trade with its six FTA partners, this is the picture that emerges. As already noted, both the shares of ASEAN’s exports and imports of goods to and from trading partners in East Asia increased over the 1991–2013 period. Figures 3a and 3b focus on the six FTA trading partners, and their shares have been increasing gradually over the last 15 years. It shows that integration amongst ASEAN countries and its main trading partners has increased with ASEAN’s exports to its six trading partners increasing from 25 percent of its total exports in 2000 to 34 percent in 2012. Likewise, the share of ASEAN’s imports from these partners increased from 33 percent of its total imports in 2000 to 35 percent in 2012.⁴

Figure 3a: ASEAN’s Exports of Goods to Six FTA Partners
(% of its total exports of goods)

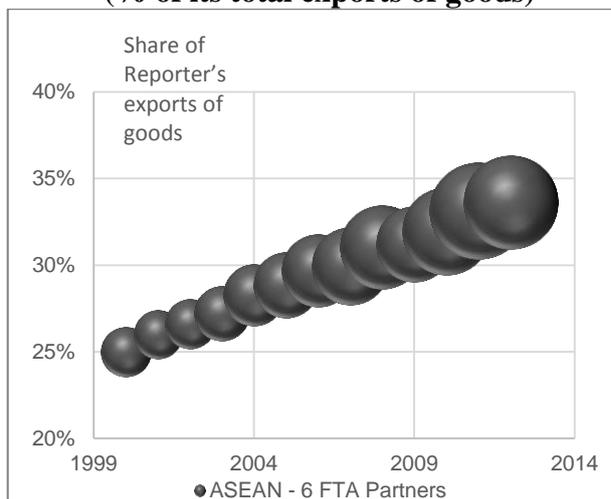
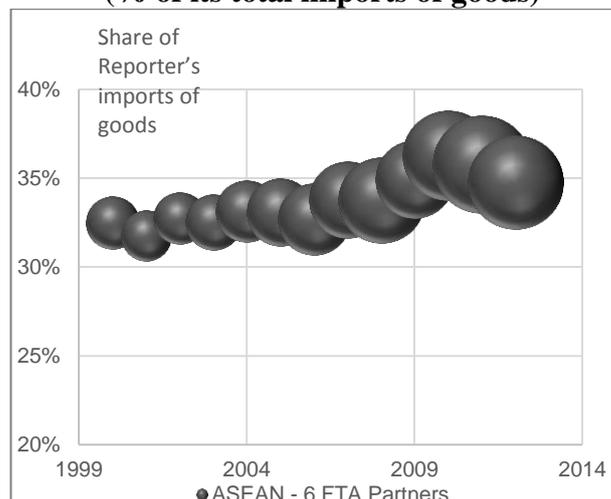


Figure 3b: ASEAN’s Imports of Goods from Six FTA Partners
(% of its total imports of goods)



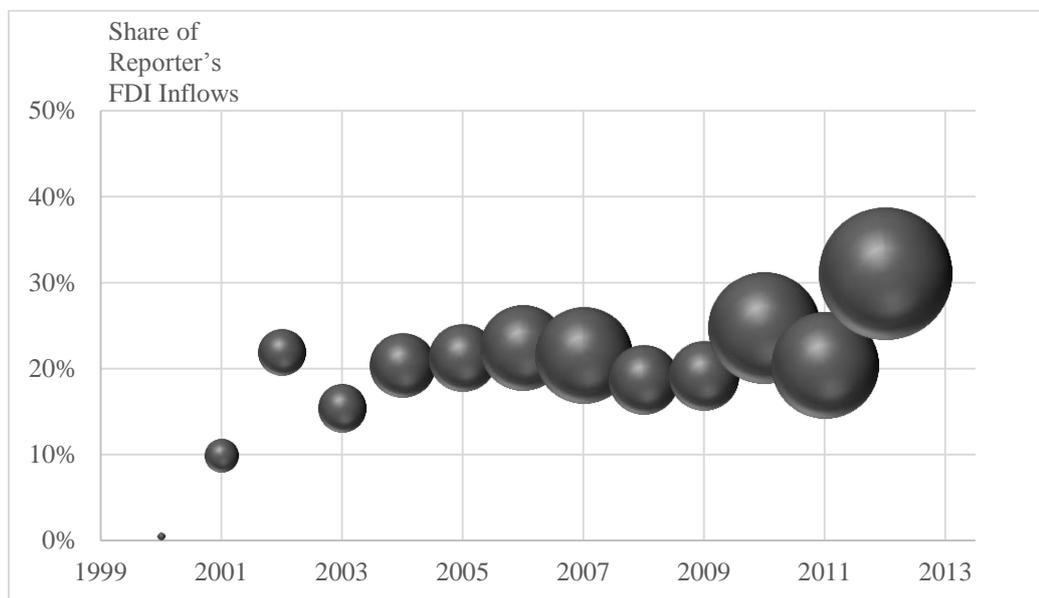
Note: ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement.

Source: Authors’ calculations based on UN–COMTRADE (accessed in January 2014). Data on exports for Brunei Darussalam were only available for 2002, 2003, 2004, 2006, and 2012, and data on exports for Myanmar were only available for 2010. Data on imports for Brunei were only available for 2002, 2003, 2004, and 2006, and data on imports for Myanmar were only available for 2001 and 2010.

⁴ As there are no data on exports and imports of services by country to destination country or from origin country, we cannot produce an analysis of recent trends in exports and imports of services of ASEAN countries to and from its FTA partners.

Foreign direct investment (FDI) from its FTA partners to ASEAN has also increased, particularly after the Global Financial Crisis in 2009 affecting investment markets in the US and the EU, as many investors based in the six partners see Southeast Asia as one of the more promising investment destinations. Figure 4 shows that FDI inflows from the six FTA partners into ASEAN increased from 20 percent of total FDI inflows into ASEAN in 2004 to 31 percent in 2012 (note: the Asian crisis brought the level of FDI from the six main investment partners to its lowest rate of 0.5 percent in 1999).

Figure 4: FDI Inflows into ASEAN from Six FTA Partners



Note: FDI = foreign direct investment; ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement.

Source: ERIA Staff calculations based on Statistics of FDI in ASEAN (2006) and ASEAN Statistical Yearbook (2012).

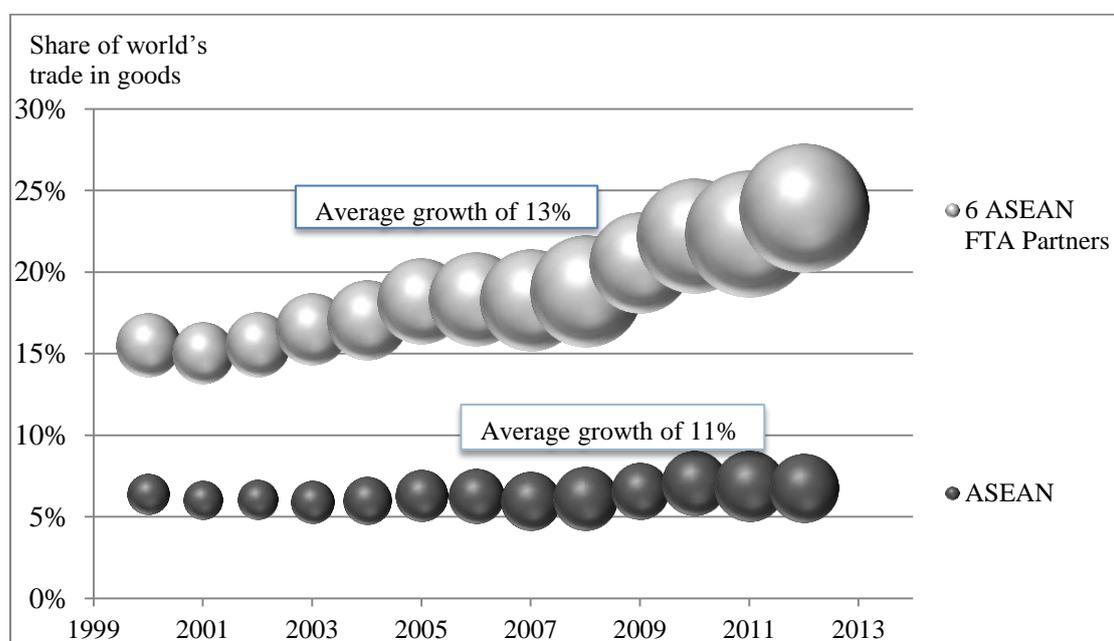
2.2. ASEAN's Role in Its Regional Integration

The ASEAN countries taken together do not constitute a 'giant' when compared with China and India. But ASEAN is an important third growth pole in Asia. In terms of trade in goods, trade in services, and trade in investment, ASEAN's shares of total world trade were far below those of its six FTA partners. ASEAN has, however, successfully advanced economic integration in East Asia. For ASEAN the

issue and dilemma has always been about competition with the two emerging economic powerhouses in Asia, especially China, and at the same time taking the opportunity to grow with them.

The following three figures show ASEAN’s role in the world’s trade in goods, trade in services, and trade in investment, compared with its six FTA partners. Figure 5 shows the share of ASEAN in total world trade in goods was only 6.4 percent in 2000 and increased to a mere to 6.8 percent in 2012. Over the same period, the share of ASEAN’s six FTA partners increased from 16 percent to 24 percent of total world trade, or in cash terms from US\$1.9 trillion to US\$7.8 trillion.

Figure 5: Trade in Goods of ASEAN and Its Six FTA Partners

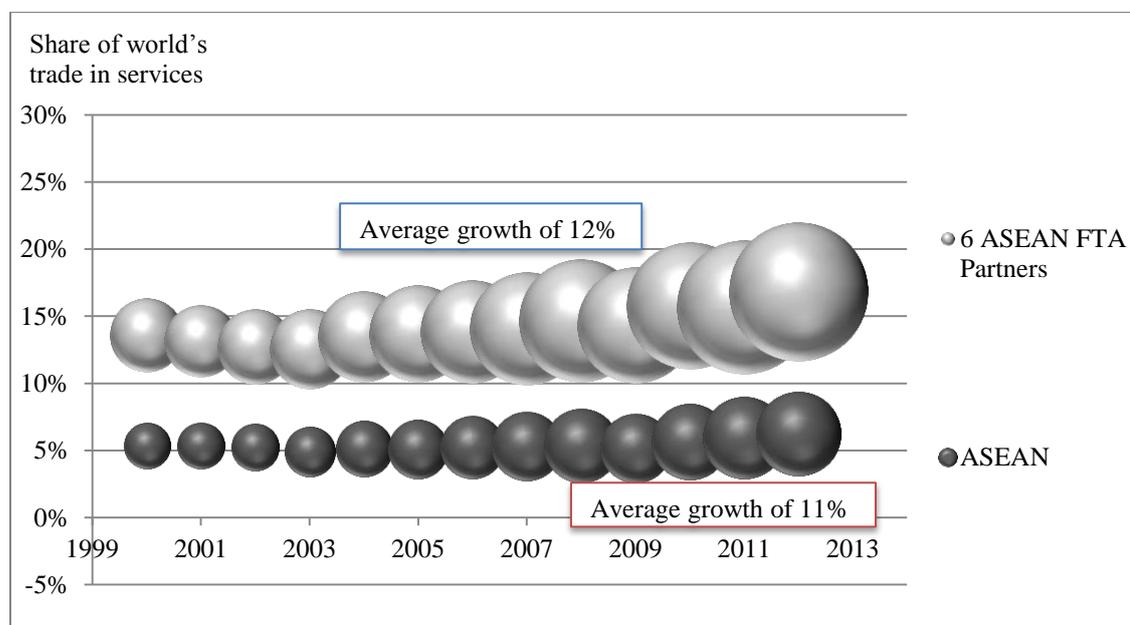


Note: ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement.
Note: 1. The size of the bubbles shows the value of total trade in goods of reporting countries.
 2. Average annual growth rates of trade in goods (total exports and imports) were 13 percent and 11 percent for ASEAN’s six FTA partners and ASEAN, respectively, from 2001 to 2012.
Source: Authors’ calculations based on UNCOMTRADE.

The total trade in services of ASEAN and its six FTA partners increased more than three-fold over the last decade. Figure 6 illustrates that ASEAN’s total trade in services increased from US\$157 billion in 2000 to US\$528 billion in 2012. Over the same period, the total trade in services of its six FTA partners increased from

US\$399 billion in 2000 to US\$1.4 trillion in 2012. These increases amounted to annual growth rates of 11 percent and 12 percent, respectively.

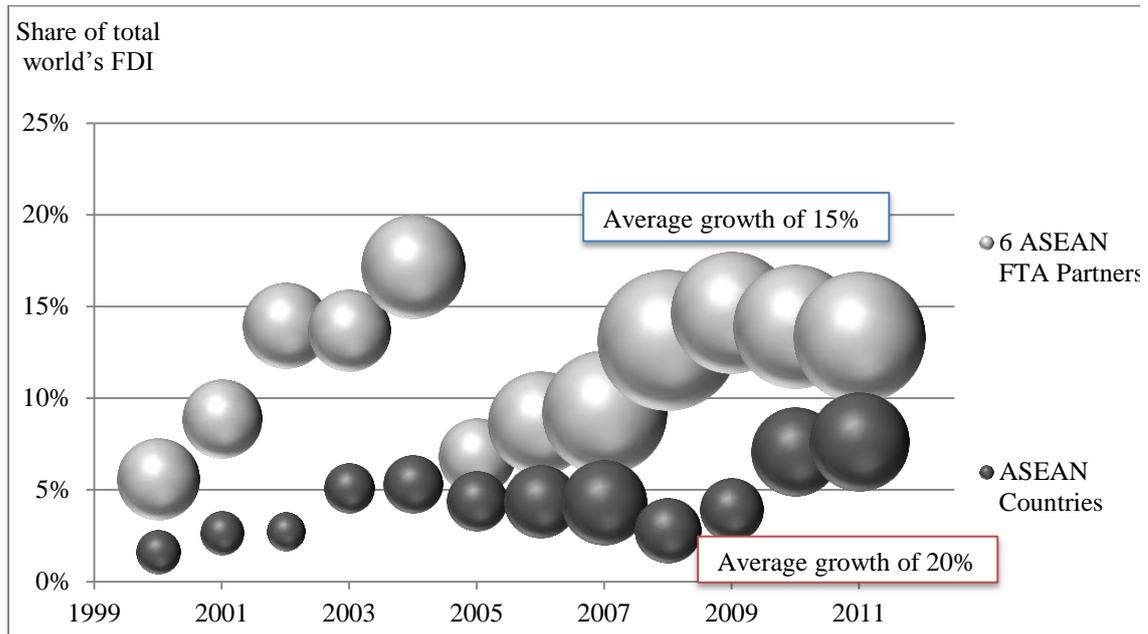
Figure 6: Trade in Services of ASEAN and Its Six FTA Partners



Note: ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement.
Note: 1. The bubble shows the value of total trade in services of reporting countries to the world.
 2. Average annual growth rates of trade in services were 12 percent and 11 percent for ASEAN's six FTA partners and ASEAN, respectively, from 2001 to 2012.
Source: ERIA staff calculations based on International Trade Centre

Turning to foreign direct investment, FDI in ASEAN countries has grown at a higher pace than that in ASEAN's six FTA partners. Figure 7 shows that FDI has grown at an annual growth rate of 20 percent compared to 15 percent for the six partners from 2001 to 2012.

Figure 7: Total FDI in ASEAN and Its Six FTA Partners



Note: ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement.
Note: The size of the bubbles shows the value of inward FDI of reporting countries.
Source: ERIA staff calculations based on UNCTAD Database.

The data show that ASEAN’s shares of total world trade in goods and services, and investment, were far below those of its six FTA partners. However, ASEAN has successfully advanced integration in East Asia and intra-ASEAN trade has grown and trade with its East Asian partners even more so; indeed they displaced the EU and the US. ASEAN trade and investment has continued to become increasingly integrated with that of its East Asian trading partners. Needless to say, growth in trade has been an important driver of growth in ASEAN as well as in East Asia.

3. Factors behind the Regional Integration of ASEAN with East Asia

Given the positive story of growth in trade and increased integration within ASEAN and between ASEAN and East Asia, which in turn have acted as drivers of growth in the region, it is important to understand the factors behind these trends, and to assess whether regional trade agreements played a major role.

3.1. Regional Production Networks and GVCs

In line with the original motivation of AFTA, where the strategy was for ASEAN to be a regional production centre, making the region more competitive by drawing on the resources from the different ASEAN economies, regional production centres, and increasingly global value chains, are driving integration within ASEAN as well as between ASEAN and East Asia where China is the obvious hub.

Has ASEAN served as a backbone in the development of these regional production networks? Even though the conventional measure of the share of ASEAN's trade to total world trade has been relatively small, ASEAN's role as a production base has increased, and is expected to continue to increase. To enable ASEAN to build and/or be part of the production networks, and to enable production networks to be effective and competitive, beyond attracting production outsourcing activities due to lower production costs (i.e. labour costs) or closeness to potential markets, much more needs to be done. It is important that tariffs are low, but for the smooth flow of goods, services, and people necessary for production networks and global value chains to be efficient and effective, non-tariff measures need to be transparent and managed well, supporting services and logistics need to be efficient, and trade facilitation measures such as customs and behind-the-border policies such as domestic regulations need to be conducive to the free flow of goods, services, investment, and professionals.

Indeed, the growth of regional production networks is central to East Asian integration. Full integration would enable firms to enjoy the advantages of the regional cumulation of 16 members, which currently are not provided by any existing regional trade agreements (e.g. a firm in Southeast Asia that imports and uses inputs from China and exports to Japan can claim benefits from the cumulation of Chinese and ASEAN contents together if East Asian integration is fully concluded).

3.2. Growing Economies and Market-Driven Integration

Trade and demand in the ASEAN region has grown simply because of the economic growth and growth prospects of ASEAN, particularly Indonesia, Malaysia, Thailand, and Viet Nam. Initially the focus of AFTA and AEC was on production networks and creation of a single market, but given the economic growth, growing populations, and greater purchasing power, trade in the region is also increasingly driven by final demand – not just by trade of intermediate goods and machinery.

The ASEAN region benefits from ‘the 3Ds’, a phrase coined by Ing (2012). The first D stands for a Durable macro economy. These four ASEAN countries recorded more than 5 percent average annual growth over the last decade. Southeast Asia’s economies are amongst the countries recording the highest growth rates, with an average of 5.3 percent in June 2014. This has been accompanied by a declining ratio of debt to gross domestic product (GDP)⁵ from an average 67 percent in 2000 to 24 percent in 2011 (EIU, 2014) and improved consumer and business confidence indices (Tradingeconomics, 2015). Indonesia, Thailand, Malaysia, and, lately Viet Nam, are amongst the top 10 countries that Japan, the largest FDI investor in Southeast Asia, listed as top investment locations (JBIC Surveys, 2000–2014).

The second D stands for Domestic consumption. On average, more than 65 percent of GDP in these economies is accounted for by domestic consumption. Furthermore, the growing purchasing power and middle class will lead to even greater growth in domestic consumption, both in the ASEAN region and in East Asia.

The last D stands for Demographic dividend. About 50 percent of the population in Southeast Asia is part of the labour force. Growth of wages in Indonesia and Viet Nam has been lower than in China, particularly since 2005, which makes these countries more attractive as investment destinations. This means that these countries could still be sites for relocation as China’s labour cost rises (EIU, 2014).⁶ The aging of populations in Northeast Asia and the demographic bonus in Southeast Asia can lead to complementarities in terms of the goods and services provided (e.g. health, old-age care, and final goods).

⁵ Indonesia, Malaysia, Thailand, and Viet Nam started with a ratio of debt to GDP of 87 percent, 45 percent, 65 percent, and 41 percent, respectively, in 2000 declining to an average of 27 percent in 2011.

⁶ Much of China's demographic dividend now lies in the past (Golley and Tyers, 2012).

Market driven integration has also occurred as the ASEAN economies undertook reforms and most-favoured nation (MFN) tariffs in most cases went down along with AFTA and AEC commitments, and countries became open to investment. The ASEAN commitments provided a framework and a process that helped to shape reforms.

3.3. Role of Regional Trade Agreements and ASEAN's Efforts in Advancing Its Regional Integration

Have ASEAN and the ASEAN +1 parts of the regional agreements created a 'spaghetti bowl effect' and have they been building blocks towards greater opening up? Have they been trade creating rather than trade diverting? Free traders who supported Preferential Trade Agreements (PTAs) will argue that regional agreements will be trade-creating whereas protectionists will claim them to be trade diverting. The ambiguity of the outcome of Vinerian analysis has led economists to look for criteria that would allow them to determine whether a specific union would be largely trade creating or trade diverting. The consensus from Wonnacott and Lutz (1989), to Summers (1991), and to Krugman (1991) would be that if the member countries were geographically close and had already traded intensively with one another, and they were natural trading partners, then the union amongst them would be trade creating. Kemp and Wan (1976) even showed that trade blocs can be constructed in a way that non-members' trade is unaffected.

Southeast Asia is one of the regions that has been relatively successful in advancing regional integration, enriching economic development. As already described, ASEAN has entered into ASEAN and ASEAN+1 free trade agreements, so that it is not only a political integration unit, but it has advanced significantly in integration of trade in goods, services, and investment. While growth and market-driven integration have been the drivers of regional integration, free trade agreements within ASEAN and between ASEAN and its East Asian partners arguably have also had a role, directly and indirectly.

East Asian integration has also been designed not to be a simply an 'extensive regional trade agreement' which includes five out of seven manufacturing gainers in

the last three decades – China, Korea, India, Indonesia, and Thailand – (Baldwin, 2013, p.24), but more as a ‘responsive vehicle’ that consists of trade and investment commitments combined together with economic and technical cooperation and capacity building, to stimulate the effectiveness of the implementation of trade and investment agreements for all members.

Last, East Asian integration aims to improve trade creation without (or at least minimising) trade diversion, and thus, it promotes the principle of ‘open accession’, which allows any country to join the partnership later on.

4. The Way Forward: ASEAN’s Efforts in Advancing Its Regional Integration

Regarding trade in goods, 99 percent of tariffs at the HS–6 digit level were eliminated in the ASEAN–6 countries – Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand – in 2010; they will be eliminated in Cambodia, Lao PDR, Myanmar, and Viet Nam by 2018. Table 1 illustrates that compared with ASEAN+1 FTAs, the AFTA shows the most advanced tariff elimination, and most of the ASEAN+1 FTAs have a tariff elimination scheme covering about 93 percent of products at the HS–6 digit level, except in the case of the ASEAN–India FTA, which has a level of 80 percent (ERIA, FTA Mapping Study, forthcoming). To move forward level of tariff elimination across East Asian countries may face challenges as not all members have a bilateral FTA between them. The current RCEP negotiations indicate that, although it has been relatively easy for countries that have FTAs already to move on consolidating coverage of goods for tariff reduction, it has been much harder for countries that do not have an FTA with each other, such as China and India. They have offered very low coverage of goods.

Evaluation of the utilisation of FTAs shows that usage is increasing, but remains low. ERIA’s recent study on ‘The Use of FTAs in ASEAN’ (a survey-based analysis carried out in 2013) in the manufacturing sector found that the average usage of the AFTA and the ASEAN+1 FTAs for exports was about 23 percent, with FTA used

most, at 59 percent. It shows that, on average, use of the AFTA and the ASEAN+1 FTAs were 21 percent and 18 percent, respectively.⁷

There are two main reasons for the moderate take-up of FTAs: (i) the limited availability of information about FTAs and how to use them; and (ii) the small benefit margins of FTAs. Benefit margins are the differences between the benefits and costs of using FTAs. Benefits from FTAs for business are *margins of preferences* (the differences between tariffs applied to all countries or MFN tariffs and tariffs applied to FTA member countries); and the costs of using FTAs are the costs of compliance to obtain Certificates of Origin (COOs) for FTAs. Whereas the official costs of obtaining an FTA COO are perceived to be reasonable, the procedure for obtaining COOs is perceived as being quite cumbersome.

The Rules of Origin (ROOs) of the AFTA and the ASEAN+1 FTAs have a relatively simple and transparent structure, with a large chunk of trade flows subject to a 40 percent regional value content (RVC-40) or a change of tariff classification (Medalla and Balboa, 2009). In many cases, the importers can choose which rule they claim against, which makes the system less penalising. A recent econometric analysis (Cadot and Ing, 2014) on the cost of compliance with ASEAN's ROOs at the HS-6 digit product level, uncovers evidence of moderately restrictive effects, with an average tariff equivalent, across all measures and products, of 3.40 percent (2.09 percent using trade-weighting). Although moderate, this may contribute to the low take-up rates that have been observed on the basis of fragmentary evidence.

ASEAN governments are cognisant of the complexity faced by firms in complying with ROOs as well as the complication inherent in having to choose to use a specific FTA amongst different types of FTAs, which have different rules of origins due to the growing number of FTAs in the region. Some efforts are being undertaken to solve these issues, such as providing more information on FTAs and how to use them. Furthermore, in the RCEP negotiations there is an attempt to harmonise and generalise the alternative rules on ROOs. There is also an effort to

⁷ Previous studies assert that across ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam), the total utilisation rates of FTA COOs for exports and imports was about 20 percent between 2006 and 2008 (Hayakawa, *et al*, 2009) and increased to about 25 percent in 2011 (Hayakawa, 2013, based on the JETRO Survey on Japanese affiliated firms).

provide a significant *margin of preferences* with a view to businesses being able to enjoy significant benefits from FTAs.

Regarding trade in services, ASEAN developed the ASEAN Framework Agreement in Services (AFAS), starting from AFAS-1 in 1995, to AFAS-8 in 2012. The openness of the services sector could be measured by using the Hoekman Index based on three modes of services covering 155 sectors (1 means liberalised, and 0 means closed). A study by Ishido (2015) asserts that AFAS-8 shows an index of 0.44, which is higher than that of AANZFTA (0.34), ACFTA-package 2 (0.21), and AKFTA (0.21).

Regarding investment, through a process starting with the Investment Guarantee Agreement (IGA) in 1987, and the ASEAN Investment Agreement (AIA) in 1998, ASEAN developed the ASEAN Comprehensive Investment Agreement (ACIA) in 2009 in response to the Global Financial crisis. ACIA has four pillars – liberalisation, protection, facilitation, and promotion. It covers manufacturing, agriculture, mining, fisheries, forestry, and services, with exceptions listed in a single negative list.

Compared with the ASEAN+1 Investment Agreement, and the ASEAN-Korea and the ASEAN-China investment agreements, ASEAN has the most comprehensive agreement package (note: The ASEAN-India Investment Agreement and the ASEAN-Japan Investment Agreement were concluded in 2012 and December 2013, respectively, but have not yet been signed).

ASEAN has been quite good at promoting investment through websites, but it remains poor at responding to inquiries. The big improvement in investment promotion was partly due to massive development of websites and on-line business licensing systems in a number of ASEAN countries, most notably Singapore and Malaysia. According to Global Investment Promotion Best Practices, ASEAN made good progress in promoting investment through its website and through its handling of inquiries in 2009 (Ing and Maur, 2013). East Asian integration could also be a good avenue to improving Facilitation and Promotion, particularly in terms of investment procedures and dealing with inquiries.

AEC encompasses not just opening up trade in goods, services, and investment, but also facilitation. On this front, the ASEAN Single Window for one stop clearance of goods had not been achieved for all ASEAN countries by the targeted date of 2008,

but parts of the single window nationally are in place and several ASEAN countries have already begun to participate in the ASEAN Single Window. However, what has been important is that in the process towards setting up an ASEAN Single Window, countries like Indonesia began a process of building a national single window in which the numerous government departments and agencies involved in export and import are put into one system. This trade facilitation measure has increased efficiency of movement of goods, but the process is still ongoing.

5. Conclusions

Regardless of the debate on the impact of regional agreements on economic development and welfare, regional agreements amongst natural trading partners in the case of ASEAN as well as the ASEAN+1 FTAs tend to be trade-creating. The ASEAN and ASEAN+1 experience also shows that the process of entering into regional agreements is important, as it also drives unilateral and domestic reforms (New Zealand⁸ and Southeast Asia are good examples of this). In the past, ASEAN was seen as a training ground for competing with one's, neighbours first before competing globally. The continued process of widening and deepening AEC, including the consolidation into an East Asia RCEP should be continued, therefore, to further consolidate the reform efforts and institution building.

The continuing process should be about deepening ASEAN's current commitments by completing the AEC targets, some of which will not be achieved by 1 January 2016, but many of which will have to be implemented after that. The coverage is not just goods, services and investment, but also behind-the-border issues related to non-tariff barriers, standards, deepening services liberalisation, movement of professionals, trade facilitation, and visa facilitation. It also needs a widening of AEC through the consolidation of ASEAN+1 into the East Asia RCEP. The urgency is there given other proposed regional agreements such as the Trans-Pacific Partnership (TPP).

⁸ See Richardson (2001) for the case of New Zealand.

Some policy recommendations on important issues to be addressed in regional integration are as follows. First, on trade in goods, ASEAN should set an ambitious yet feasible target level of openness with a common concession approach and simultaneously simplify ROO. In simplifying ROO, it could start to (i) ‘generalize an alternate rules of origins’ such as Regional Value Content or Change in Tariff Heading (RVC or CTH); and (ii) simplify ROO in sectors like apparel, footwear, and prepared foods. Furthermore, if East Asian integration will allow deviation from common concessions in trade agreements, it should start to think about indicators of deviation, such as the percentage level of deviation, and a period of time for deviation.

It is also important to keep in mind that, as tariffs decrease, there will be increased pressures to use other trade instruments to ‘protect’ domestic industries. Typically, they involve non-tariff measures (NTMs). The ATIGA actually requires ASEAN countries to announce their NTMs in a transparent way and to introduce a system of evaluation of NTMs so that their justification and process of determination is made clear. However, there has not been much progress in ASEAN with regard to that. NTMs continue to be determined in an ad hoc manner, creating uncertainties in the investment climate. There is thus room for ASEAN and its trading partners to push ahead with improving transparency in NTMs.

Moreover, and learning from the relatively low usage of the existing FTAs, East Asian integration should provide business with more options to use these vehicles by generalising an “alternate rule”, for example by giving exporters the option of using either a regional value content or a change of tariff classification. This can provide business with more options depending on their operations. It should also be followed by harmonising product-specific rules across all agreements in the region.

Second, on trade in services, ASEAN may consider using the AFAS approach as a reference for further openness between ASEAN and its East Asian trading partners. Moreover, in increasing commitments to liberalisation in the services sector, instead of coming up with a new package approach, ASEAN may consider something innovative, such as setting a level of commitment in advance, and designing targets to achieve these commitments over a certain period of time. To start with, it could prioritise more integration in four to five key services sectors that could stimulate

trade in goods, and investments – for instance, finance, transportation, logistics, telecommunications, and business services.

Third, in terms of investment, ACIA has the most comprehensive investment agreement compared with the ASEAN-Korea, the ASEAN-China, and the ASEAN-Australia-New Zealand investment agreements, so ASEAN may consider using ACIA as a reference point. ACIA consists of the four pillars of liberalisation, protection, facilitation, and promotion. Simultaneously, ASEAN could also propose a ‘single negative list’ approach to be implemented in any East Asian integration agreements. Moreover, East Asian integration could be an avenue for facilitation and promotion, and domestic investment reforms to improve investment procedures and inquiry handling.

Fourth, to further increase trade in goods, trade in services, and investment, ASEAN should continue its efforts in trade and investment facilitation, such as improvements in trade across borders, improving transparency in trade regulations, improving investment facilitation and promotion, including in the clarity of investment approval and rejection procedures and investment inquiry handling.

Last, the issue of standards and mutual recognition of standards are also equally important, if there is to be free movement of goods and professional workers, which is part of achieving a single market and regional production base, and increasingly important for participating in the regional or global value chain.

The bottom line is that ASEAN should advance its regional integration as a vehicle for multilateral integration and domestic reforms as well as institution building, and to achieve this it should set feasible levels of commitments that are achievable within a specified timeframe. This would lead to unilateral reforms in a multilateral world. In East Asia, the heterogeneity of countries in terms of size, economic development, political systems, and cultural background has led to a process of voluntary agreements. To keep regional integration viable, it should adopt an ‘open regionalism’ policy. This is regional economic integration that is not discriminatory against outside countries; typically, a group of countries that agrees to reduce trade barriers on a most-favoured nation basis.

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APPENDIX

Table A.1: Matrix of RCEP countries in Bilateral and Regional FTA

	Brunei		Cambodia		Indonesia		Lao PDR		Malaysia		Myanmar		Philippines		Singapore		Thailand		Viet Nam		Australia		China		India		Japan		Korea		New Zealand	
	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional	Bilateral	Regional		
Brunei																																
Cambodia																																
Indonesia																																
Lao PDR																																
Malaysia																																
Myanmar																																
Philippines																																
Singapore																																
Thailand																																
Viet Nam																																
Australia																																
China																																
India																																
Japan																																
Korea																																
New Zealand																																
Number of Agreement	1	7	0	6	1	7	1	7	4	7	0	6	0	6	6	7	5	6	1	6	6	1	3	2	4	2	9	1	3	2	5	2
List of regional FTA	AFTA		AFTA		AFTA		AFTA		AFTA		AFTA		AFTA		AFTA		AFTA		AFTA		ANZ-AFTA		China-AFTA		India-AFTA		Japan-AFTA		Japan-AFTA		ANZ-FTA	
	Korea-AFTA		Korea-AFTA		Korea-AFTA		Korea-AFTA		Korea-AFTA		Korea-AFTA		Korea-AFTA		Korea-AFTA		Korea-AFTA		Korea-AFTA		Korea-AFTA		Asia-Pacific FTA (with Korea, India, Lao PDR)		Asia-Pacific FTA (with Korea, China, Lao PDR)		Asia-Pacific FTA (with India, China, Lao PDR)		Asia-Pacific FTA (with India, China, Lao PDR)		TPP FTA (with Brunei, Singapore)	
	China-AFTA		China-AFTA		China-AFTA		China-AFTA		China-AFTA		China-AFTA		China-AFTA		China-AFTA		China-AFTA		China-AFTA		China-AFTA											
	India-AFTA		India-AFTA		India-AFTA		India-AFTA		India-AFTA		India-AFTA		India-AFTA		India-AFTA		India-AFTA		India-AFTA		India-AFTA											
	Japan-AFTA		Japan-AFTA		Japan-AFTA		Japan-AFTA		Japan-AFTA		Japan-AFTA		Japan-AFTA		Japan-AFTA		Japan-AFTA		Japan-AFTA		Japan-AFTA											
ANZ-AFTA		ANZ-AFTA		ANZ-AFTA		ANZ-AFTA		ANZ-AFTA		ANZ-AFTA		ANZ-AFTA		ANZ-AFTA		ANZ-AFTA		ANZ-AFTA		ANZ-AFTA												
TPP FTA (with Singapore, NZ)						PTA-DS (with Malaysia)		Asia-Pacific TA (with China, India, Korea)		ANZ-AFTA		PTA-DS (with Indonesia)				TPP FTA (with NZ, Brunei)																

Sources: ARIC-ADB (ASEAN, India, Korea, Japan, China data) and Official Government Website (Australia and New Zealand), The table is provided by Rizqy Anandhika.

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