

Chapter 12

More (or Less) than Meets the Eye? An Assessment of ASEAN's Trade Performance in Services

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12.

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1. Introduction

The Association of Southeast Asian Nations (ASEAN) regional integration efforts in services have arguably been more extensive and substantive than those of any other regional integration efforts involving developing countries. Beyond binding the regional grouping's 10 economies to a core set of General Agreement on Trade in Services (GATS)–like obligations on trade in services, the ASEAN Framework Agreement on Services (AFAS) has involved the negotiation of incremental liberalisation commitments. These efforts have been carried out through almost continuous negotiating rounds, which produced 10 packages of scheduled commitments over the past 3 decades. This incremental opening of markets in services has been underpinned by a regional institutional architecture and innovative negotiating formulas, which balance collective advances with the flexibility required to address far-reaching development gaps. In terms of process and negotiating effort, ASEAN represents one of the most extensive regional integration endeavours, alongside the European Union (EU), the North American Free Trade Agreement (NAFTA), and its successor, the United States–Mexico–Canada Agreement.

However, extensive negotiations do not necessarily equate to effective integration. Have ASEAN's efforts in trade integration successfully deepened regional integration in services? Or does ASEAN's regional integration remain primarily driven by – and responding to – merchandise trade, with services playing a more peripheral role? This chapter assesses ASEAN's progress in regional integration in services to address these questions. Section 2 explores ASEAN's trade performance in services within the context of global trends. Section 3 reviews key achievements under the AFAS and its successor, the ASEAN Trade in Services Agreement (ATISA), which has been in effect since 2015. This includes an analysis of ASEAN's institutional architecture, negotiating modalities, rule-making advances, and market-opening progress. Section 4 assesses the applied services trade policies of ASEAN economies, situating them alongside those of other developing economies and regional groupings. Section 5 chronicles the performance of ASEAN Member States (AMS) against various regulatory and institutional metrics relevant to services trade and governance. Section 6 discusses key lessons and policy implications for future efforts to deepen services integration in the region.

2. Situating ASEAN in the Global Shift Towards Services

The services sector is more important in the economies of AMS than all other sectors combined, contributing more than half – 54.2% – of the region's aggregate output in 2022. However, the productive structure of national economies varies significantly, with the share of services value added in gross domestic product (GDP) ranging from a low of 41.0% in Lao People's Democratic Republic (Lao PDR) to a high of 72% in Singapore at the end of 2022. Except for Lao PDR, which registered a 6% contraction in the share of services in aggregate output in 2010–2022, all other ASEAN economies have shifted towards more service-centric structures over the past decade. The most pronounced changes occurred in Brunei Darussalam, Thailand, and the Philippines (Table 12.1).

Table 12.1. Services Value Added as a Percentage of GDP, 2010 and 2022

Country	2010	2022	%Δ
Brunei Darussalam	32.5	41.5	+27.6
Cambodia	50.6	51.8	+2.0
Indonesia	40.7	44.4	+9.1
Lao PDR	43.6	41.0	-6.0
Malaysia	48.5	54.8	+13.0
Myanmar	54.0	58.8	+8.9
Philippines	53.9	61.4	+13.9
Singapore	67.8	72.0	+6.2
Thailand	49.6	58.0	+16.9
Viet Nam	40.6	41.8	+3.0

GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.

Source: World Bank, World Development Indicators.

Services also represent a centrally important source of employment in ASEAN, providing 51.3% of jobs across all AMS in 2021, a 21.3% gain compared to 2010. Employment trends in services, like output trends, exhibit stark variance, ranging from a low of 31% in Lao PDR to a high of 85% in Singapore (Annex Table A.1). Over the past decade, all member states, except Brunei Darussalam, have witnessed a more service-centric employment landscape, with the largest gains observed in Lao PDR, Viet Nam, and Cambodia. Despite this, services employment in ASEAN remains somewhat biased towards domestic markets, particularly in public services and wholesale and retail trade. However, the retail sector exhibits increasing trade intensity due to higher intra- and extra-regional foreign direct investment (FDI) in recent years.

The services sector reinforces its exclusive character by offering a growing share of female employment throughout ASEAN. In 2010–2021, all AMS other than Brunei Darussalam reported increases in female employment within the services sector. This inclusivity is particularly most pronounced in the region's three poorest members – Lao PDR, Cambodia, and Myanmar – though significant gains were also noticeable in Indonesia and Viet Nam (Table 12.2).

Table 12.2. Share of Female Employment in Services in ASEAN, 2010, 2015, 2021

Country	2010	2015	2021
Brunei Darussalam	90.0	90.0	89.0
Cambodia	29.0	31.0	37.0
Indonesia	47.0	49.0	58.0
Lao PDR	20.0	26.0	32.0
Malaysia	71.0	73.0	74.0
Myanmar	34.0	36.0	43.0
Philippines	68.0	71.0	76.0
Singapore	83.0	88.0	89.0
Thailand	46.0	49.0	53.0
Viet Nam	32.0	35.0	42.0

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.

Source: World Bank, World Development Indicators.

2.1. Trade Flows Measured by Balance-of-Payment Statistics

ASEAN's trade performance in services is highly differentiated, with Singapore emerging as the region's leading exporter. It ranks amongst the world's top 10 exporters of commercial services,¹ with exports valued at US\$290 billion in 2022. This accounted for a significant 65.6% of ASEAN's total commercial services exports, a notable increase from 49.4% in 2019 before the coronavirus disease (COVID-19) pandemic. This growth reflects Singapore's ability to leverage digital trade during pandemic-induced restrictions on travel and in-person interactions. The other leading ASEAN service exporters, in absolute terms, include Thailand (US\$40.2 billion, 9.1% of ASEAN's total services exports), the Philippines (US\$41 billion, 9.3%), Malaysia (US\$31.6 billion, 7.1%), Indonesia (US\$22.7 billion, 5.1%), and Viet Nam (US\$12.6 billion, 2.8%). The remaining member states – Brunei Darussalam, Cambodia, Lao PDR, and Myanmar – collectively contributed less than 1% to the region's commercial services exports.

¹ Expressed on a balance-of-payments basis and counting the EU as a single entity.

For many ASEAN economies, however, services do not represent a significant source of total exports. Whilst some countries, particularly those reliant on tourism (e.g. Thailand), have yet to fully recover to pre-pandemic levels in their services exports, most ASEAN economies recorded services exports comprising less than 10% of their total exports in 2022. Notable exceptions include Singapore (36.1%), the Philippines (34.3%) and, to a lesser degree, Thailand (12.3%). Such trends reflect regional specialisation patterns, where agricultural and manufactured goods dominate ASEAN's export baskets.

As Table 12.3 shows, the share of services exports in total exports (goods and services) rose significantly for the Philippines and Singapore, doubling over the past 2 decades. In contrast, other AMS saw declines or only marginal increases in the relative importance of services exports, with Myanmar exhibiting minimal change.

Table 12.3. Commercial Services Exports as a Percentage of Total Exports in ASEAN (goods + services)

Country	2005	2022
Brunei Darussalam	9.0	1.8
Cambodia	25.6	9.1
Indonesia	12.7	7.2
Lao PDR	25.0	4.9
Malaysia	12.2	8.2
Myanmar	6.4	7.1
Philippines	17.3	34.3
Singapore	16.5	36.1
Thailand	15.1%	12.3%
Viet Nam	11.5%	3.3%

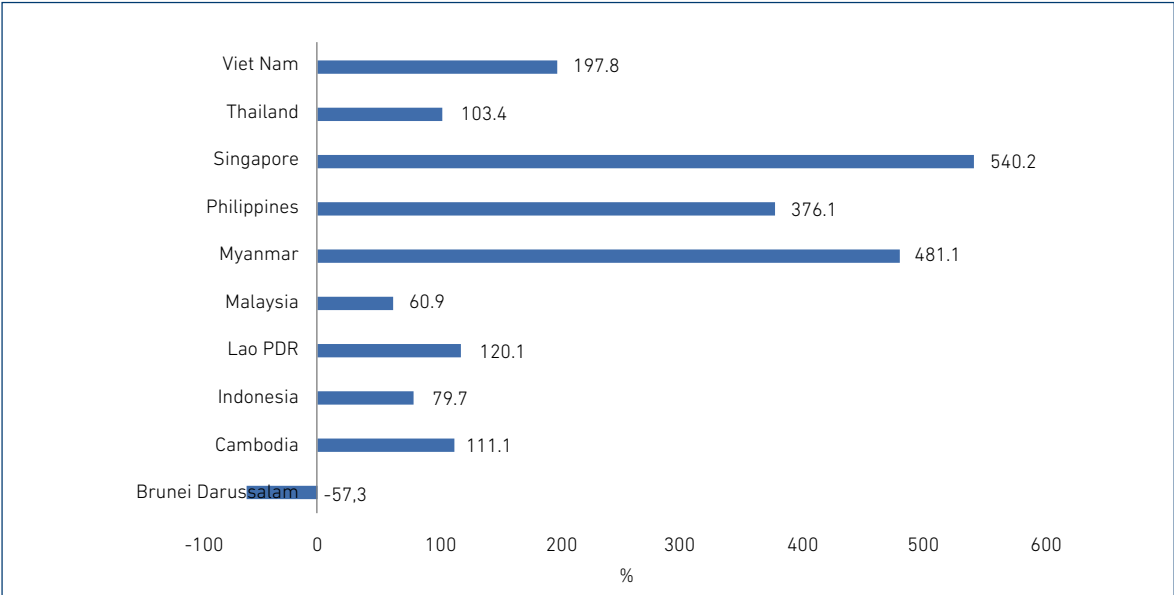
ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.

Source: Computed from World Trade Organization's statistics, <https://stats.wto.org/>.

In 2005–2022, global exports of commercial services increased by almost 170%, with least developed countries (LDCs) registering the largest growth at +348%, significantly above that registered by other developing economies (+282%). Within ASEAN, only a handful of economies matched or exceeded the global average growth rates (Figure 12.1). Singapore (+541%) and the Philippines (+376%) exceeded the average growth rates for developing economies, as did Myanmar (+481%), albeit from a very low base in 2005. In contrast, other ASEAN economies experienced slower growth, often lagging behind non-LDC developing economies. For instance, Viet Nam recorded a +198% increase, whilst Cambodia (+111%), Brunei Darussalam (–57%), Indonesia (+80%), Lao PDR (+120%), Malaysia (+61%), and Thailand (+103%) all reported growth rates well below the global average.

ASEAN's performance in services exports over the past 2 decades needs to be set against that of China and India, two regional economic powers with close economic and commercial ties to ASEAN but whose firms compete directly with ASEAN services providers in several important market segments. In 2000, ASEAN's exports of commercial services were 48% higher than the combined value of Chinese and Indian exports. However, by 2021, ASEAN's share had declined to just over half (52%) of the aggregate total of these two powerful neighbours' exports.²

Figure 12.1. Growth of Services Exports in 2005–2022 in ASEAN (% increase; BOP basis)



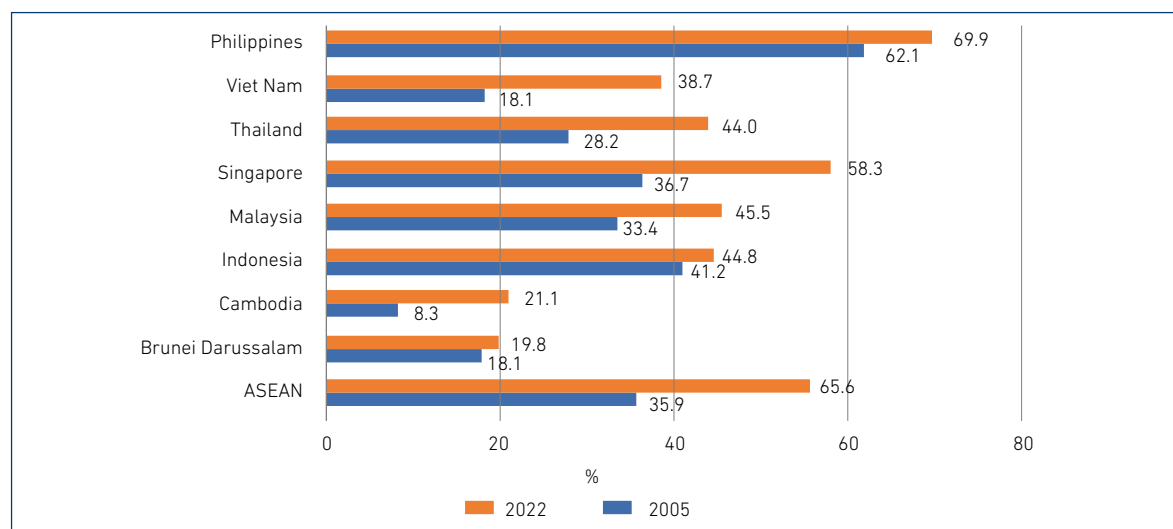
ASEAN = Association of Southeast Asian Nations, BOP = balance of payments.
Source: Computed from WTO (2024b). <https://stats.wto.org/>.

Relative to traditional sectors such as transportation and tourism, the expansion of developing countries' commercial services exports is increasingly tied to modern sectors that can be supplied digitally (WTO–World Bank, 2023).³ Such structural change is proxied by the growth of 'other commercial services', where the share of developing countries in global exports increased from 17% to 28% in 2005–2022. Within ASEAN, however, the growth of 'other commercial services' has been uneven. Whilst this sector registered strong growth in Singapore, the Philippines, Thailand, and Viet Nam, growth was more subdued in Indonesia and Malaysia (Annex Figure A.1).

² See WTO (2023).
³ Globally, the category of 'other commercial services', which includes many digitally delivered services, grew at a faster pace in 2005–2022 than traditional sectors such as transport and travel services. Within this category, telecommunications, computer, and information services recorded the fastest growth rate at 10%, followed by personal, cultural, and recreational services as well as business services, both growing at 7%.

For ASEAN as a whole, the share of 'other commercial services' in total services exports increased from 35.9% in 2005 to 55.6% in 2022. This trend is chiefly attributable to Singapore's dominance within the region and the high share of modern services in its export basket, as well as that of the Philippines (Figure 12.2).

Figure 12.2. 'Other Commercial Services' as a Proportion of Total Exports of Commercial Services in ASEAN (%), 2005 and 2022



ASEAN = Association of Southeast Asian Nations.

Note: No data available for Lao People's Democratic Republic and Myanmar in 2022.

Source: Computed from WTO (2024b), <https://stats.wto.org/>.

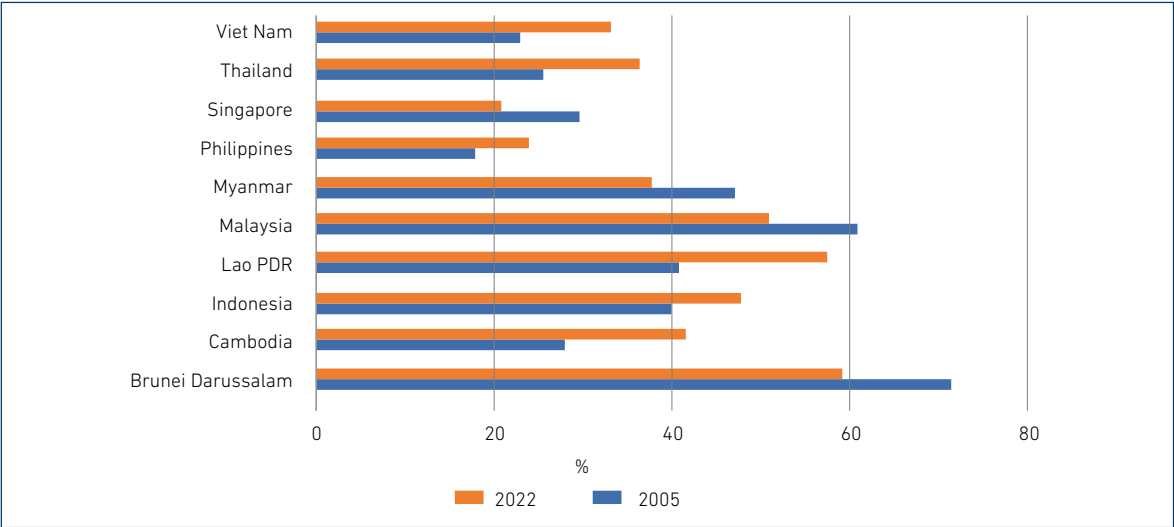
2.2. Insights From Bilateral Trade Data

The WTO's Balanced Trade in Services (BaTiS) analytical dataset provides estimations of bilateral trade in services, allowing an assessment of the extent and recent trends in intra-ASEAN trade in services. In 2021, only 13.5% of the region's services exports were intra-regional, down from 16.8% in 2005. Such a trend reveals a disquietingly low level of regional integration in services despite 10 packages of progressive market opening conducted under the region's services trade frameworks (AFAS and ATISA). ASEAN's intra-regional trade in services lags behind both its intra-regional merchandise trade and the levels observed in other regions.

The BaTiS dataset further shows that ASEAN's leading services exporters largely export outside the region. In 2021, exports within ASEAN accounted for 10.7% of Singapore's total commercial services exports, compared with 18.3% for Thailand, 12% for the Philippines, 24.1% for Indonesia, and 25.6% for Malaysia (Figure 12.3). Overall, these shares were not markedly higher than those prevailing before the COVID-19 pandemic, when travel services accounted for a greater share of the region's exports.

Since 2005, the relative importance of intra-regional services exports has declined for several ASEAN countries, including large exporters like Singapore and Malaysia. Notably, the two AMS with the strongest overall growth in services exports – Singapore and Myanmar – have both witnessed a drop in the share of services exports destined for the region. This decline suggests a diminishing role for the regional market and the integration processes under AFAS and ATISA.

Figure 12.3. Exports of Commercial Services as a Share of Total Commercial Services Exports in ASEAN (%), 2005 and 2021



ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People’s Democratic Republic.
Source: World Trade Organization, Balanced Trade in Services dataset.

2.3. ASEAN's Trade by Mode of Supply

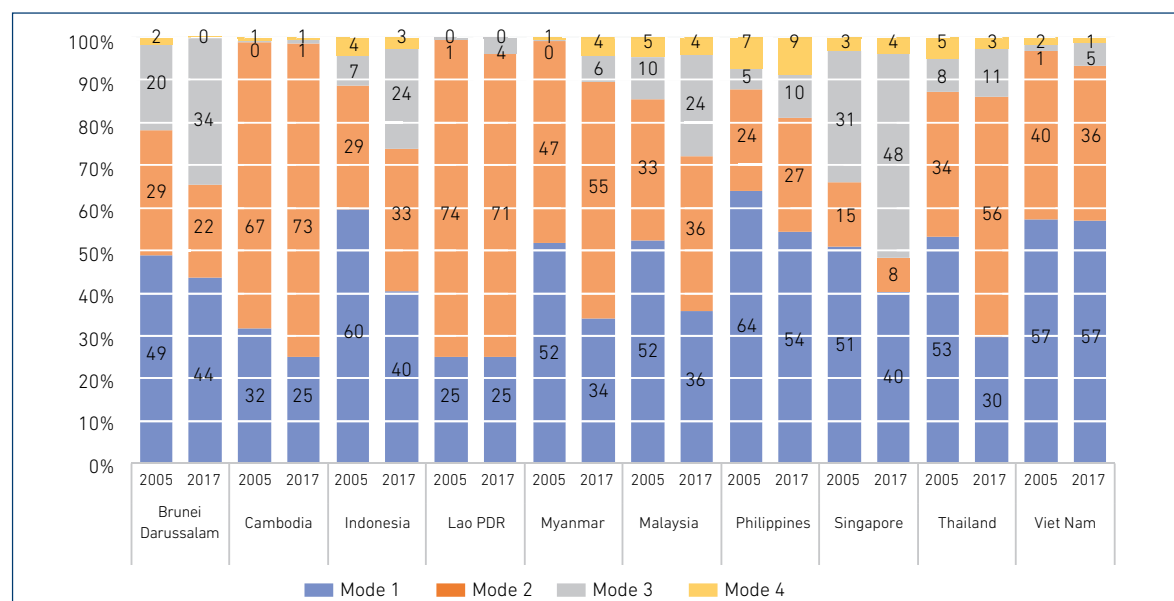
The WTO’s Trade in Services by Mode of Supply (TiSMoS) dataset chronicles trends in services trade across the four international modes of supply.⁴ Whilst the dataset is available only up to 2017 and does not include bilateral trade flows, it provides insights into global exports and imports.

⁴ Trade agreements in services categorise trade in the sector into four modes of supply: services supplied across borders, akin to the trade in goods (Mode 1); services provided to consumers abroad (Mode 2); services sold through a commercial presence in a foreign market (Mode 3); and services supplied through the temporary movement of natural persons (Mode 4).

TiSMoS data shows that ASEAN's total services exports across all modes of supply rose sharply from US\$158 billion in 2005 to US\$581 billion in 2017. This increase owes chiefly to a significant jump in services supplied through a commercial presence abroad (Mode 3), which accounted for 39.4% of ASEAN's total services exports in 2017, more than double its 2005 share of 18.9%. The rising contribution of Mode 3 to ASEAN's total services exports was most pronounced in Singapore (from 31% of its total services exports in 2005 to 47.7% in 2017), Malaysia (from 9.9% to 23.7%), Indonesia (7.1% to 23.6%), and Brunei Darussalam (20% to 34.4%) (Figure 12.4). Despite this growth, ASEAN's reliance on Mode 3 services exports remains significantly lower than the global average of 59%. Such a gap may be due to the maintenance of significant intra-ASEAN barriers to investment in services that continue to weigh on regional integration prospects. Still, ASEAN's share of global Mode 3 exports rose markedly, from 0.7% in 2005 to 2.5% in 2017.

TiSMoS data also draws attention to marked differences in the contributions of various modes of supply across ASEAN economies. For half of the AMS – Cambodia, Lao PDR, Myanmar, Thailand, and Viet Nam – Mode 2 trade (consumption abroad) accounted for over 50% of total services exports in 2017, reflecting the dominant role of travel and tourism in these economies. In contrast, Mode 1 (cross-border supply) dominates services exports in Brunei Darussalam, Indonesia, and the Philippines, pointing to their reliance on digitally delivered services. Singapore's exports are predominantly driven by Mode 3 transactions (47.7%), whilst Malaysia shows a more evenly spread-out distribution between Modes 2 (36.4%) and 3 (35.7%).

Figure 12.4. Share of Services Exports by Mode of Supply in ASEAN, 2005, 2017



ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.

Source: World Trade Organization, Trade in Services by Mode of Supply dataset.

2.4. Services Value Added in Exports of ASEAN Member States

The Trade in Value Added (TiVA) dataset of the Organisation for Economic Co-operation and Development (OECD) offers a measure of input linkages across sectors by measuring the share of services embodied in traded goods and services. Amongst its key contributions, TiVA data documents the degree to which both foreign and domestic services value-added contribute to exports in other sectors, as well as the role of imported services value-added from certain partners or regions in supporting a country's or a region's exports. Given ASEAN's strong growth as a hub for manufacturing within regional and global value chains, one might expect the services trade to constitute a significant share in ASEAN countries' manufacturing exports.

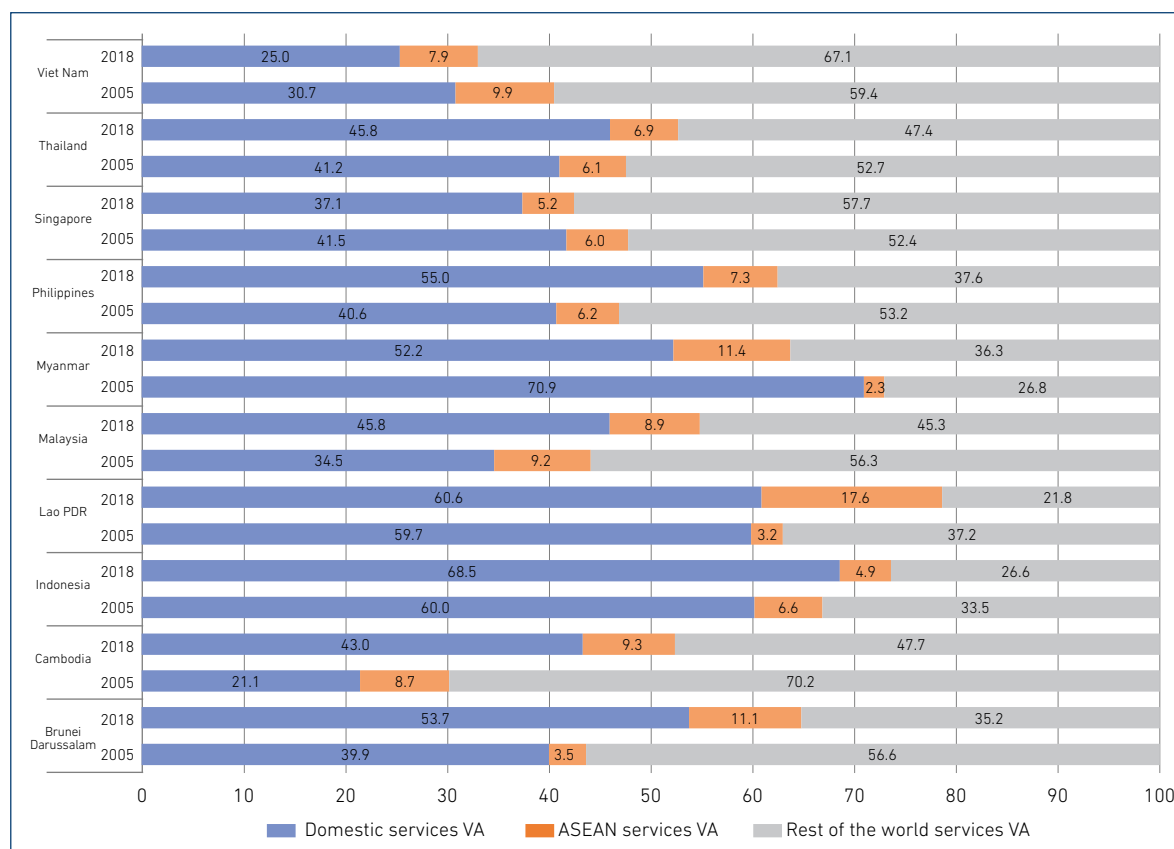
However, at 25.9%, the share of services value-added content in ASEAN's manufacturing exports is lower than the non-OECD average of 29% in 2020. Evidence of the so-called 'servicification' of manufacturing varies markedly across ASEAN economies. At the upper end, Singapore (39.8%) and Malaysia (31.8%) show a higher integration of services value-added into their manufacturing exports, whilst Myanmar (14.3%) and Brunei Darussalam (11%) stand at the lower end. Notably, contrary to global trends, ASEAN's average share of services value added in manufacturing exports decreased slightly from 27.3% in 2005 to 25.9% in 2018.

ASEAN's services value-added in manufacturing exports is split between foreign (14.1%) and domestic (11.8%) components. Reliance on imported services inputs varies markedly across ASEAN economies: Singapore (23.7% foreign and 16.1% domestic) and Viet Nam (20.8% foreign and 6.8% domestic) rely mostly on foreign services value added. Indonesia exhibits a greater reliance on domestic services value added (17.5%) compared to foreign inputs (6%).

The share of services value added in ASEAN's manufacturing exports has seen a slight decline, falling from 31.9% in 2005 to 30.4% in 2020. Surprisingly, the share of domestic services value added in ASEAN's manufacturing exports – comprising services inputs produced domestically or imported from within the region – remained stagnant at 15% over the same period. This lack of growth underscores the limited traction that successive AFAS and ATISA negotiating packages have had on enhancing intra-regional integration. In contrast, services value added imported from outside ASEAN was marginally higher, at 15.4%. By comparison, the EU demonstrates far stronger regional integration: In 2020, intra-EU services value added accounted for 29% of the services embodied in manufacturing exports, almost double ASEAN's intra-regional share.

Figure 12.5 details the origin of services value added in the manufacturing exports of individual ASEAN countries, distinguishing between national, intra-ASEAN, and non-ASEAN services inputs. The data underscores that services value added from other ASEAN countries represent only a small share of total services value added embodied in manufacturing exports, especially when compared to domestic or non-ASEAN contributions. For ASEAN's largest economies and main exporters, services value added from other ASEAN countries represented less than 10% of the total in 2018: Indonesia, 4.9%; Malaysia, 8.9%; the Philippines, 7.3%; Singapore, 5.2%; Thailand, 6.9%; and Viet Nam, 7.9%. Compared to 2005, the proportion of services value added from other ASEAN countries declined for Indonesia, Malaysia, Singapore, and Viet Nam.

Figure 12.5. Origin of Services Value Added in the Manufacturing Exports in ASEAN (%) (2005, 2018)



ASEAN = Association of Southeast Asian Nations.

Source: Organisation for Economic Co-operation and Development, Trade in Value Added dataset.

3. Assessing ASEAN's Achievements in AFAS and ATISA

This section chronicles the evolution of ASEAN's negotiating modalities, rules, and commitments governing trade and investment in services, documenting how the region has addressed deep development and regulatory disparities amongst its member economies. It pays particular attention to the shift from AFAS, agreed in 1995, to ATISA, adopted in October 2020. The latter forms part of an architectural overhaul of the legal instruments guiding the region's integration process. The section assesses the above shift along three broad lines: architecture and liberalisation modalities, rule-making, and market-opening commitments.

3.1. Architecture and Negotiating Modalities

Since 1995, AMS have progressively opened the region's services markets, building on the entry into force of the WTO's GATS, which governs services trade multilaterally. This process was initially anchored in AFAS, a preferential trade agreement (PTA) that largely replicated the substantive provisions and negotiating modalities of GATS. AFAS also called for the incorporation by reference of disciplines that were left outstanding during the original GATS negotiations, such as emergency safeguard provisions and services-related subsidy practices. AFAS set out a gradual liberalisation process, enacted through 10 successive 'packages' over 2 decades, to complete the process by 2018, when the 10th package was slated for completion.

ASEAN's legal and institutional ecosystem for services trade is amongst the most comprehensive of any major regional grouping. AFAS (now replaced by ATISA) features three GATS-like sector annexes addressing the regulatory specifics of trade in financial services, telecommunications, and air transport ancillary services. This legal construct in services is further complemented by (i) the ASEAN Comprehensive Investment Agreement (ACIA) of 2009, which extends treaty provisions, such as investment protection, payments and transfers, and investor–state dispute settlement, to services supplied through a commercial presence (Mode 3); (ii) the 2012 ASEAN Agreement on the Movement of Natural Persons, which governs Mode 4 services trade; (iii) a set of eight MRAs aimed at facilitating cross-border trade in professional services, including tourism professionals; and (iv) the mostly hortatory ASEAN Agreement on Electronic Commerce of 2019, which commits AMS to eschew intra-regional data localisation requirements, subject to domestic laws and regulations.

Whilst ASEAN's integration process has shown signs of reduced buoyancy in recent years, its approach to services liberalisation reveals a dynamic and innovative framework. This framework employs a set of regional strategies explicitly designed to account for – and respond to – the political and economic challenges posed by ASEAN-wide income disparities and implementation gaps, leveraging the principle of variable geometry in market opening.

The AMS have adopted three notable departures from the WTO's GATS framework to advance intra-regional integration in services. Building on earlier approaches that allowed liberalisation to proceed with fewer than all AMS (the ASEAN Minus Two/Three model) the ASEAN Minus X mechanism has become a formalised feature of the liberalisation process. First practised under various AFAS packages and subsequently formalised in Article 7.6 (Most-Favoured-Nation Treatment) of ATISA, this approach allows any two or more AMS to negotiate and liberalise trade in services in specific sectors or sub-sectors without requiring region-wide participation. It also allows participating AMS to extend or withhold preferential treatment from non-participating AMS. Under this framework, AMS initiating ASEAN Minus X negotiations must notify the ASEAN Secretariat of their aims or outcomes. Other AMS are free to join these agreements by offering commitments at comparable or acceptable levels to the original participants.

ASEAN's liberalisation journey has also featured GATS+ sector- and mode-specific formulas, employed under AFAS to progressively secure the market opening aims outlined in the AEC Blueprint.⁵ These efforts culminated in 10 successive negotiating packages, with the goal of completing liberalisation by 2018. However, the incomplete nature of this journey is acknowledged in Article 1 of ATISA (Objectives), which explicitly lists the reduction of barriers to trade and investment as one of the new treaty's core aims.

Another ASEAN-specific liberalisation innovation under AFAS, though not carried forward into ATISA, allowed AMS a 15% margin of flexibility in scheduling commitments across all modes of service supply. This flexibility, introduced during the final two AFAS packages, reflected the region's recognition of the need for adaptability in managing divergent levels of readiness amongst member states.

Upon ATISA's entry into force, AMS undertook a significant overhaul of the region's services liberalisation framework by adopting a more transparent negative-list approach. This shift requires AMS to disclose all measures inconsistent with ATISA's core provisions, including national treatment, market access (non-discriminatory quantitative restrictions), local presence requirements, and nationality requirements for boards of directors. By locking in the prevailing regulatory status quo through reservation lists annexed to the treaty, ATISA provides an important signalling function, particularly for resource-constrained AMS where business and investment regimes often carry higher risk premiums.

⁵ See Chapter 4 in Neo, Sauvé, and Strehö (2019) for a detailed review and critical assessment of the negotiating history of AFAS.

This transformation in ASEAN's negotiating modalities aligns with the approach now prevalent in most PTAs and represents an important commitment to improved regulatory governance. The preparation and periodic review of lists of non-conforming measures serve as important anchors for strengthening inter-agency coordination, which is essential for sound policy formulation in services given their economy-wide ubiquity and intermediation function. This process provides an opportunity for AMS at all income levels to review their domestic regulatory landscapes and assess their alignment with sector and economy-wide policy objectives.⁶

Despite these advantages, it remains uncertain whether the lengthy transition periods granted to some member states – up to 13 years for Cambodia, Lao PDR, and Myanmar – will yield the governance improvements typically associated with a negative-list approach. This uncertainty arises even though several AMS, including Brunei Darussalam, Malaysia, Singapore, and Viet Nam, have already adopted the negative-list modality in PTAs with external partners, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). The availability of substantial technical assistance to support the transition from the GATS-like positive-list approach should, in theory, mitigate implementation challenges.

3.2. Rule-making

ATISA, signed in 2020, marks a significant advancement in rule-making relative to the rather vague and embryonic provisions of the 1995 AFAS. Unlike AFAS, which lacked core disciplines to guide the liberalisation process and omitted many provisions already present in the 1994 GATS, ATISA establishes a more comprehensive framework. AFAS mainly focused on securing GATS+ liberalisation commitments through successive negotiating packages rather than developing or completing the incipient body of rules governing trade and investment in services introduced by GATS.

By contrast, ATISA largely mirrors the more complete set of provisions found in GATS and in many PTAs covering trade in services. It improves upon GATS and similar PTAs in two important ways. First, it marks a major shift in negotiating modalities by adopting a negative-list approach to market opening. Second, heeding recommendations from several observers,⁷ ATISA incorporates a more-favoured-nation clause. This ensures that benefits from future agreements entered by individual AMS with external partners are automatically extended to all AMS. The inclusion of this clause corrects the anomalous situation in which some AMS granted non-AMS better market access than that offered to their ASEAN partners.

⁶ For a fuller discussion on the use to which negative listing can be put, see Sauvé and Lacey (2013).

⁷ See USAID (2019); Neo, Sauvé, and Streho (2019); and Mercurio (2019).

Equally of note is ATISA's national treatment obligation, which departs from GATS by adopting language pioneered in the 1994 NAFTA. Under this approach, national treatment is extended to services and service providers deemed to be 'in like circumstances', rather than simply ensuring no less favourable treatment to 'like' services and service providers. This formulation reflects a preference for greater policy flexibility and addresses the concerns of domestic regulatory authorities regarding the potential for legal challenges.

AMS have not used the regional integration process as a laboratory to advance rules in areas not yet subject to multilateral consensus. This restraint is evident in ATISA's provisions on emergency safeguard measures and subsidy disciplines for services, which closely parallel GATS language. The emphasis remains on progressively eliminating intra-regional barriers to trade and investment in services. However, two exceptions may be noted. The first is the ASEAN Framework Agreement on Mutual Recognition Agreements of 1998, which codified key elements for completing MRAs and paved the way for the conclusion of eight MRAs facilitating trade in professional services amongst ASEAN economies. The second is Article 25 of ATISA, which focuses on boosting the participation of micro, small, and medium-sized service enterprises (MSMEs) within the AEC. These provisions drew inspiration from the recommendations of the Joint Statement Initiative talks on MSMEs, held amongst like-minded WTO members interested in enhancing the integration of smaller firms into global trade and investment currents.⁸

3.3. Market Opening

A notable feature of ASEAN's extensive formal regional integration process has been the 10 incremental packages of market-opening commitments on services trade, conducted in 1997–2023. This negotiating activity stands in contrast to the limited regional integration on services described in Section 2 and the relatively restrictive policy environment for services trade in the region outlined in the section that follows, which partly explains the limited de facto integration achieved.

Looking at the liberalisation commitments undertaken in services within ASEAN, one might expect that these prolonged and frequent regional efforts would have resulted in lower barriers than those applied to other trading partners. Assessing de jure integration is important, as such commitments not only encourage greater openness but also carry added value through the predictability and transparency they provide (Ciuriak et al., 2020; Lamprecht and Miroudot, 2018).

⁸ See the set of measures agreed in December 2020 by the 98 WTO members taking part in the Joint Statement Initiative (JSI) on MSMEs at WTO (2021).

Although an in-depth assessment of the commitments made by the 10 ASEAN economies across all negotiating packages lies beyond the scope of this chapter, the following discussion explores regional integration trajectories in services for a sample of AMS at different points in time, comparing these against other preferential endeavours. Focusing solely on the 10th package of commitments, finalised in 2023, would not provide comprehensive guidance, as it would have had no bearing on the levels of de facto integration achieved over the preceding 10–15 years. To correct such bias, the analysis first considers the liberalisation levels achieved through the seventh package, concluded in 2009.⁹

Using the index developed by Marchetti and Roy (2008), Table 12.4 compares the commitments undertaken under the seventh AFAS package with those in GATS and other PTAs signed by AMS during the same period.¹⁰ The table shows that, for various ASEAN countries, the seventh AFAS package comprised a higher level of commitments than those found in other PTAs to which they were parties. This was most notably the case of Indonesia, Thailand, and Brunei Darussalam. However, for Singapore – the region's most important services economy – commitments in several other PTAs were more significant than those in the seventh AFAS package.

The intra-regional differences observed in the seventh package outcome can be attributed to the varying levels of experience AMS had in negotiating services PTAs at that point, particularly their exposure to liberalisation modalities that differed from the GATS framework. Singapore had engaged in services PTAs outside the region much earlier than other ASEAN countries, and many such agreements adopted negative-list modalities. Singapore's three PTAs with the highest levels of commitment – those with the United States, the Republic of Korea, and Australia – were all based on negative-list modalities.¹¹ The difference between such agreements and Singapore's commitments under the seventh AFAS package was, not surprisingly, significant. In contrast, most other ASEAN countries largely continued to rely on GATS-type and AFAS-type positive-list approaches.

⁹ We rely on the dataset and methodology first developed by Roy et al. (2007), and subsequently expanded in Marchetti and Roy (2008) and Roy (2014).

¹⁰ This dataset covers Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

¹¹ In their simplest forms, positive-list agreements, such as GATS or AFAS, are characterised by the fact that liberalisation obligations apply only to sectors expressly listed in each party's schedule of commitments and are subject to the limitations listed therein. In contrast, negative-list agreements impose liberalisation obligations across all sectors by default, unless exceptions are explicitly stated through scheduled reservations. Unlike GATS, negative-list agreements require reservations for non-conforming measures to reflect existing restrictions, unless otherwise specified in a second annex. Another key difference is the inclusion of a ratchet mechanism for reservations on existing non-conforming measures. This mechanism ensures that any future liberalisation becomes automatically bound under the agreement.

Table 12.4. Index of GATS+ Commitments in AFAS Seventh Package and Other PTAs Concluded by Seven ASEAN Member States

ASEAN Member State	Other PTA partner								
		GATS	JPN	AUS-NZE	CHN	KOR	AFAS Seventh Package		
Brunei Darussalam	Mode 1	9	12	11	11	11	35		
	Mode 3	7	11	10	8	8	27		
		GATS	JPN	AUS-NZE	CHN	KOR	AFAS Seventh Package		
Indonesia	Mode 1	18	26	25	19	25	49		
	Mode 3	16	23	20	17	20	34		
		GATS	JPN	AUS-NZE	CHN	KOR	AFAS Seventh Package	PAK	
Malaysia	Mode 1	26	28	31	28	33	41	28	
	Mode 3	29	31	34	29	35	46	35	
		GATS	JPN	AUS-NZE	CHN	KOR	AFAS Seventh Package		
Philippines	Mode 1	12	22	15	14	12	28		
	Mode 3	21	33	27	23	24	41		
		GATS	JPN	IND	CHN	KOR	AFAS Seventh Package	US	AUS
Singapore	Mode 1	34	54	50	38	68	39	72	65
	Mode 3	41	65	62	47	74	45	79	72
		GATS	JPN	AUS-NZE	CHN	KOR	AFAS 7 th Package	AUS	
Thailand	Mode 1	12	12	12	13	12	35	15	
	Mode 3	26	28	27	27	27	41	31	
		GATS	JPN	AUS-NZE	CHN	KOR	AFAS Seventh Package		
Viet Nam	Mode 1	32	32	32	32	32	38		
	Mode 3	36	36	37	36	36	39		

AFAS = ASEAN Framework Agreement on Services, ASEAN = Association of Southeast Asian Nations, AUS–NZE = Australia–New Zealand, CHN = China, GATS = General Agreement on Trade in Services, JPA = Japan, KOR = Republic of Korea, PAK = Pakistan, PTA = preferential trade agreement, US = United States of America.

Note: The index scores are scaled from 0 to 100 for each sector, with 100 representing full commitments (i.e. without limitations) across all relevant sub-sectors. 'GATS' reflects the index value for both GATS commitments and services offers in the Doha Development Agenda.

Another key finding is the limited scope of the PTA commitments in the seventh AFAS package and, consequently, in many ASEAN countries, when compared with commitments pursued by other countries within their preferential agreements during a similar timeframe. Despite the extensive involvement of ASEAN countries in PTA negotiations, both within and outside the region, their best PTA commitments are,¹² on average, almost 50% lower than Singapore's index score for best PTA commitments. Leaving Singapore aside, the best average index score for ASEAN countries' best PTA commitments is 33% lower than the corresponding average for 47 other developing and developed economies engaged in services PTAs over the same period.¹³

Such results underscore how the extensive negotiation of liberalisation commitments within ASEAN has not yielded the depth of commitments necessary to facilitate and sustain the intra-ASEAN services trade integration called for by the AEC Blueprint. Whilst successive AFAS packages demonstrate an improvement over the limited commitments undertaken multilaterally by AMS, the bindings under the seventh package (2009) remain modest compared to what other regional groupings secured and, in some cases, to the commitments of the ASEAN economies made with external partners.

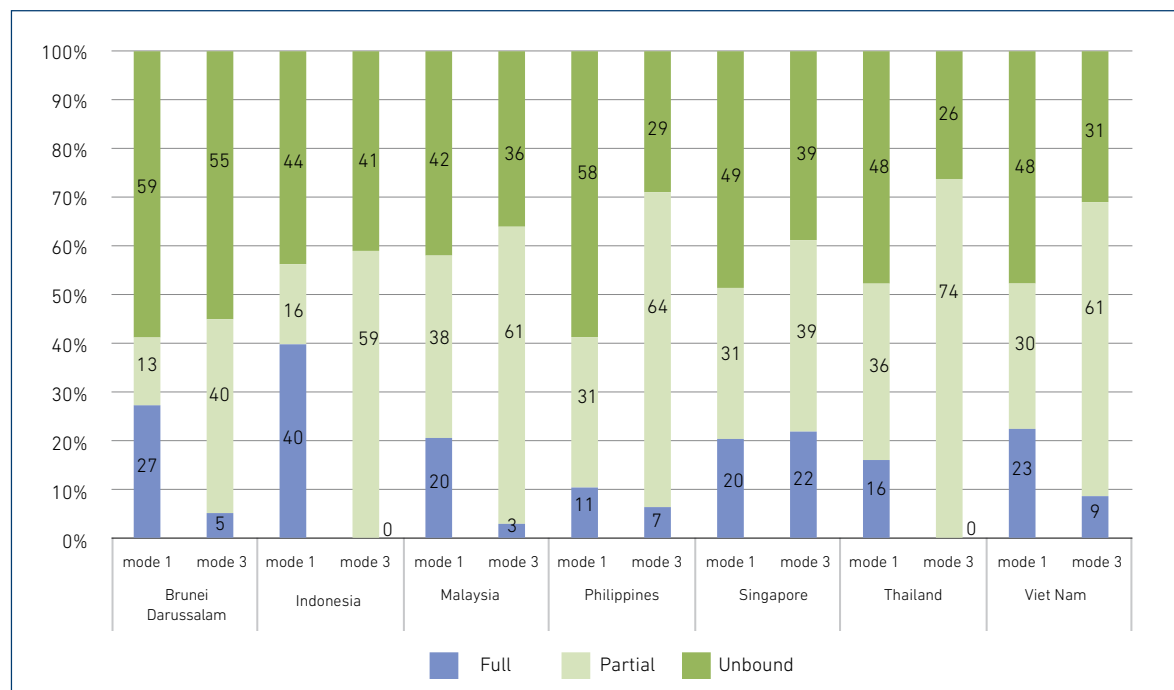
Figure 12.6 illustrates some shortcomings in intra-ASEAN liberalisation commitments. Rather than comparing AFAS commitments to those undertaken in other PTAs, the figure shows the share of *full* (i.e. unrestricted at the sector-specific level), *partial* (with sector-specific restrictions), and *unbound* commitments across all subsectors for Modes 1 and 3 in seven ASEAN economies under the seventh package. Most striking, a large share of services subsectors remain unbound for Modes 1 and 3. For example, up to 59% of subsectors are unbound for Brunei Darussalam and 58% for the Philippines under Mode 1, whilst 42% of subsectors are unbound under Mode 3 in Indonesia. Unbound commitments imply the absence of guarantees of access and non-discrimination, affording parties within the region full autonomy to introduce new quantitative (e.g. market access) or discriminatory (e.g. national treatment) restrictions at any time.

The share of full commitments at the sector-specific level is also surprisingly low, especially for Mode 3. With the exception of Singapore, the share of unrestricted sub-sector bindings never surpasses 10% for the most important mode of supplying services. The limitations inscribed in the commitments are not inconsequential, typically consisting of foreign equity limits.

¹² 'Best PTA' commitments refer to the highest level of commitment undertaken in any PTA across each sub-sector and mode of supply.

¹³ Roy (2014).

Figure 12.6. Share of Full, Partial, and Unbound Commitments in the Seventh AFAS Package of Specific Commitments in ASEAN



AFAS = ASEAN Framework Agreement on Services, ASEAN = Association of Southeast Asian Nations.

Source: Computed from the dataset and methodology used in Roy (2014).

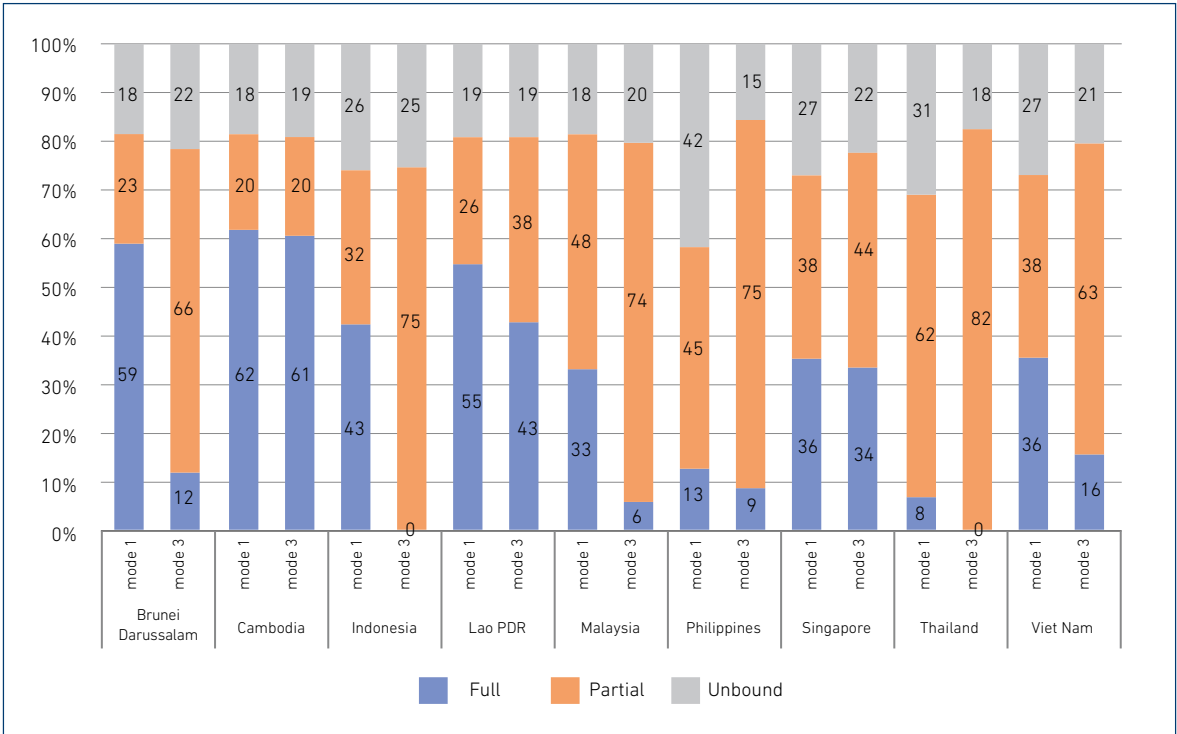
The 10th package of commitments, completed in 2023, represents a notable improvement over the seventh package, improving commitments in sectors already committed in 2009 and, in some cases, adding commitments in previously unbound sectors.¹⁴ Nonetheless, the 10th package still features fewer commitments than those undertaken by some ASEAN members, such as Singapore, which have long adopted negative-listing modalities. More importantly, as illustrated in Figure 12.7, whilst the 10th package builds upon the seventh, it remains restrictive, especially for many of the region's larger economies, excluding Singapore. The most significant improvements under the 10th package are observed in Mode 1, where the share of unbound subsectors has declined considerably. This arguably reflects the growing feasibility of delivering services across borders in digital form. Still, more than a fifth of subsectors remain uncommitted in Mode 1 for several economies, including Indonesia (26%), the Philippines (42%), Singapore (27%), Thailand (31%), and Viet Nam (27%).

¹⁴ This set of commitments still uses a positive-list approach, with all AMS gradually transitioning to a negative-listing framework.

In Mode 3, despite improvements, the level of full commitments at the sector-specific level remains low in most of the nine countries examined, except Cambodia, Lao PDR, and Singapore. Less than 10% of subsectors are unrestricted for Indonesia (0%), Malaysia (6%), the Philippines (9%), and Thailand (0%). In Thailand, for example, all committed subsectors are subject to foreign equity limits, ranging from 25% to 70%. Similarly, Indonesia, Malaysia, and the Philippines include foreign equity limits in many of their committed sectors under the 10th package. In these economies, most of the improvements in Mode 3 from the seventh to the 10th package involve sector restrictions, with improvements often limited to increasing the permitted levels of foreign capital ownership.

For countries using the positive list modality under RCEP, such as Cambodia, Lao PDR, the Philippines, and Thailand, the 10th package commitments go further. However, the improvements remain modest, particularly for Thailand and the Philippines.

Figure 12.7. Share of Full, Partial, and Unbound Commitments in ASEAN's 10th Package of Specific Commitments



ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.

Source: Authors.

4. A Closer Look at *Applied* Services Trade Regimes in ASEAN

One might reasonably expect ASEAN's extensive integration process in services to place the region's *applied* services trade policies at the global frontier. However, the limited scale of intra-regional trade and investment in services begs the question of the restrictiveness of the services trade policies of AMS.

To assess these policies, we first rely on the WTO–World Bank services trade restrictiveness index (STRI).¹⁵ A preliminary look (Figure 12.8) reveals that ASEAN is, overall, more trade restrictive than the world average across all nine major sectors surveyed by the STRI. This includes key infrastructure services – distribution, finance, and transport – which significantly inflate trade costs. Such findings do not align with ASEAN's quest to create a single regional production space anchored in deeply integrated services markets.

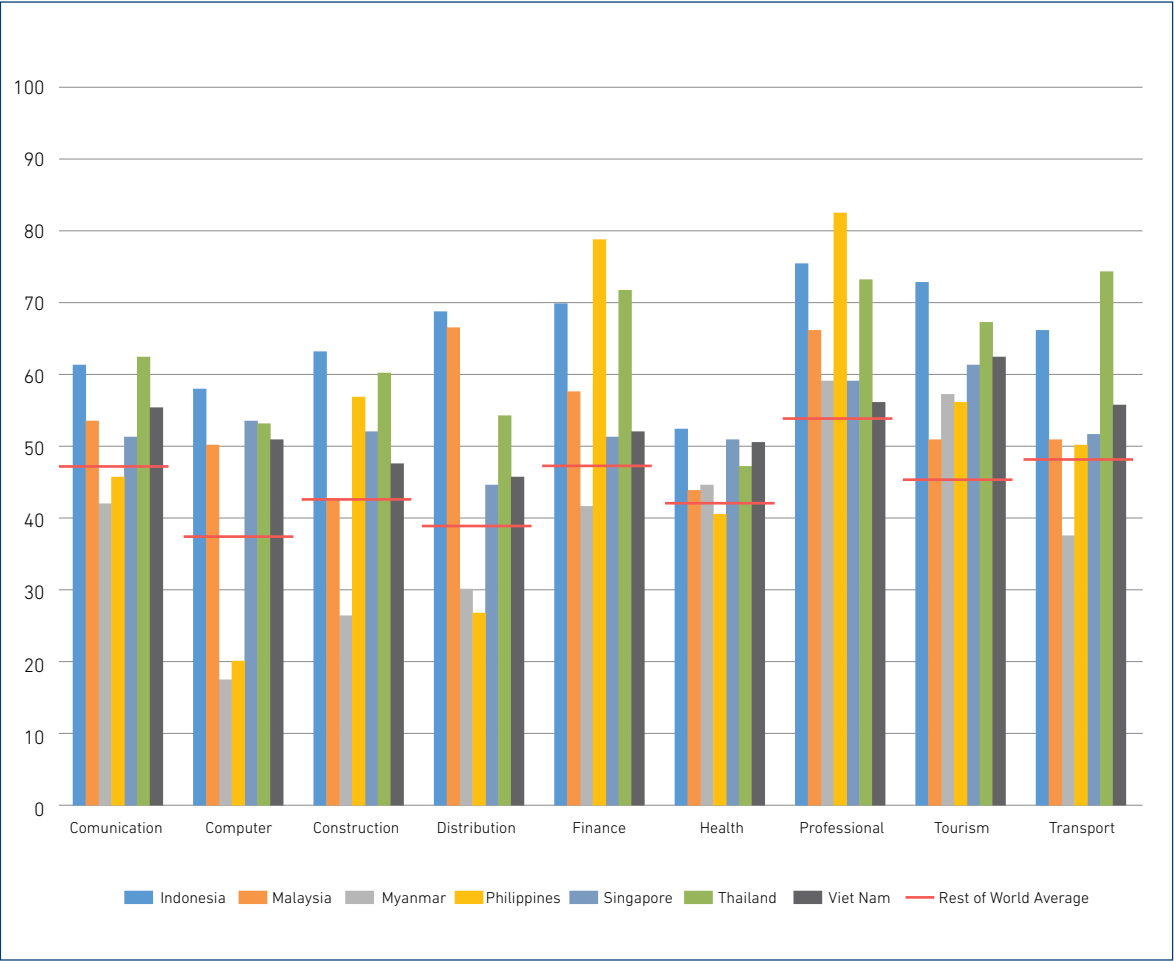
Amongst the nine major sectors, professional, tourism, and financial services are the most restricted in ASEAN. Tourism services exhibit the biggest difference with the world average, with ASEAN countries being 31.8% more restrictive, followed by finance (28.1%) and professional services (24.4%). Whilst restrictions in professional services partly reflect the nature of policies governing the mobility of service providers under Mode 4, they appear incongruous with ASEAN's eight MRAs designed to facilitate the seamless intra-regional movement of highly skilled ASEAN professionals.

Considerable intra-regional variance can be observed, with Indonesia and Thailand topping the restrictiveness chart.¹⁶ Myanmar, having made notable strides towards liberalisation in recent years, is the only AMS with a services trade restrictiveness level below the world average. Peaks in restrictiveness are sector specific: professional services in Indonesia, distribution services in Malaysia, finance in the Philippines, and transport services in Thailand.

¹⁵ The WTO–World Bank STRI measures the level of policy restrictiveness in the services markets of 133 economies. This index assigns a score ranging from 0 (fully open) to 100 (fully restricted), reflecting the level of access afforded by a range of regulatory measures across five leading services sectors: communications, distribution, finance, professional services, and transport. These services are further broken down into 34 sub-sectors. The data supporting the index is collected through surveys conducted by the World Bank and the WTO.

¹⁶ Brunei Darussalam, Cambodia, and Lao PDR are not yet covered by the WTO–World Bank STRI.

Figure 12.8. Services Trade Restrictiveness in Selected ASEAN Economies, 2022



ASEAN = Association of Southeast Asian Nations.
 Source: World Bank and World Trade Organization Services Trade Restrictiveness Index.

When examined by mode of service supply, AMS regimes show particularly high levels of restrictiveness in cross-border supply (Mode 1) and trade in services via commercial presence (Mode 3). ASEAN’s average STRI scores for these modes well exceed the world averages (Table 12.5). Malaysia, Indonesia, and Viet Nam are the most restrictive under Mode 1, whilst Indonesia, Thailand, and the Philippines are the most restrictive under Mode 3. Singapore, in contrast, is the most restrictive under Mode 4.

**Table 12.5. Services Trade Restrictiveness by Mode of Supply in ASEAN
(WTO–World Bank STRI)**

	Mode 1	Mode 3	Mode 4
World average	58.5	44.5	44.8
ASEAN average	70.1	54.4	51.2
Indonesia	83.1	64.3	64.5
Malaysia	86.7	51.8	42.5
Myanmar	48.1	53.4	26.4
Philippines	46.3	60.4	42.5
Singapore	74.8	40.5	70.7
Thailand	75.1	61.6	64.3
Viet Nam	76.6	49	47.7

ASEAN = Association of Southeast Asian Nations, STRI = services trade restrictiveness index, WTO = World Trade Organization.

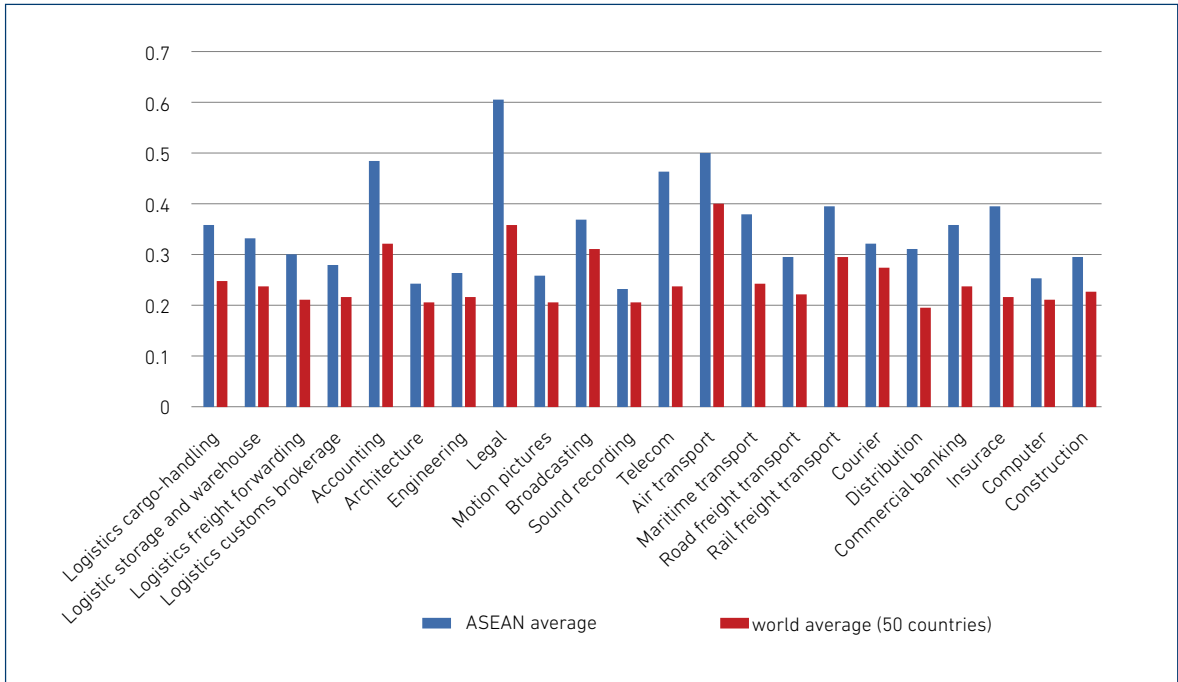
Note: Simple unweighted average.

Source: World Bank and World Trade Organization Services Trade Restrictiveness Index.

The OECD's STRI, introduced in 2014, complements this analysis. Covering five AMS – Indonesia, Malaysia, Singapore, Thailand, and Viet Nam – alongside a sample of 50 economies and across 22 sectors, it paints a broadly similar picture to the WTO–World Bank index.¹⁷ ASEAN countries are, on average, more restrictive than other economies in all 22 sectors examined (Figure 12.9).

¹⁷ See OECD (2024).

Figure 12.9. OECD Services Trade Restrictiveness Index for Five ASEAN Countries and the World Average, by Sub-sector



ASEAN = Association of Southeast Asian Nations, OECD = Organisation for Economic Co-operation and Development.
Source: Organisation for Economic Co-operation and Development Services Trade Restrictiveness Index.

5. Not Quite There Yet: ASEAN's Regulatory and Institutional Performance in Services

Despite 3 decades of successive regional liberalisation efforts, ASEAN's integration process in services continues to display considerable intra-regional policy variance. Such variance is rooted for the most part in the region's far-reaching, if slightly reduced, development gaps and the marked differences in implementation capacity and supply-side readiness. This section explores how these development gaps weigh on region-wide policy convergence and the role played by AFAS and ATISA in promoting improved services sector governance.

Table 12.6 documents the marked heterogeneity amongst ASEAN economies across a range of regulatory, governance, and innovation-related metrics relevant to services market integration. Beyond geographical proximity, which facilitates production sharing and supports connectivity and trade facilitation agendas centred on regional infrastructure public goods, ASEAN lacks many attributes of an optimal regulatory convergence area.^{18 19}

Of significant concern, particularly considering the deep integration aims outlined in the AEC Blueprint, are continued weaknesses and wide intra-regional discrepancies in institutional, regulatory, and innovation performance. Neo, Sauvé, and Streho (2019) reported such shortcomings for the period up to 2017, and Table 5.1 indicates that these issues remain prevalent. Notable weaknesses persist in institutional performance metrics, such as government effectiveness and regulatory quality – centrally important determinants of services sector advances – where six of the 10 AMS rank below the sample median. Similar results are evident in rule of law and regulatory quality metrics, where only a minority of AMS rank above the sample median. Worth recalling is that only three AMS – the Philippines, Singapore, and Thailand – have committed to the disciplines on services domestic regulation agreed upon in December 2021 by 70 WTO members. These disciplines aim to improve regulatory transparency and governance and reduce compliance costs linked to licensing requirements, qualification requirements and procedures, and technical standards.²⁰

¹⁸ Optimal regulatory convergence areas can be understood as groups of countries or regional groupings where the adoption of harmonised regulatory norms and practices would maximise collective welfare. Such areas aim to balance the benefits and costs of participation in a preferential agreement. The potential gains from eliminating policy differences through regulatory approximation or harmonisation largely depend on the feasibility of creating truly integrated markets. This feasibility is often conditioned by ‘natural’ ties between countries, such as geographic and linguistic proximity and other contextual factors. The costs of pursuing regulatory convergence are shaped by the ex-ante similarities or divergences in regulatory or collective preferences and the compatibility of the regulatory regimes and institutions designed in response to such preferences. By definition, an optimal regulatory convergence area assumes that cooperation can be an important means of sharing information and experience regarding regulatory reform, identifying good regulatory practices, and facilitating their eventual adoption by parties to an integration process. For further insights, see Roy, Sauvé, and Shingal (2014); Polanco Lazo and Sauvé (2017); and Neo, Sauvé, and Streho (2019).

¹⁹ This observation traces its origin in the pronounced development gaps within the region, reflected in a per capita GDP ratio of almost 30 to 1 between the region’s richest and poorest member states (expressed in purchasing power parity terms). Whilst such a gap was significantly reduced since 2011, when it stood at 47 to 1, it recalls why convergence towards a common ASEAN norm is only feasible through significant doses of variable geometry. Such convergence also requires liberalisation modalities that incorporate intra-ASEAN forms of special and differential treatment, specifically directed towards the region’s most resource-constrained members.

²⁰ See WTO (2024a).

Table 12.6. Global Ranking on Selected Service Sector Performance Metrics in ASEAN, 2023

Indicator/ASEAN Member State	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar (2022 data)	Philippines	Singapore	Thailand	Viet Nam
Global Innovation Index	87	101	61	110	36	116	56	5	43	46
Institutions	20	87	70	95	29	123	79	1	85	54
Government effectiveness	20	96	49	105	31	124	62	1	57	54
Regulatory quality	31	110	56	120	43	106	69	1	65	94
Rule of law	32	116	74	105	40	125	106	4	59	72
Business environment	52	74	11	56	20	105	51	1	73	31
Human capital	57	101	85	115	32	102	88	2	74	71
Education	63	81	113	122	72	126	115	46	100	70
Tertiary education	39	100	95	99	11	68	45	2	72	89
Research and development	63	109	39	119	31	106	70	14	45	44
Infrastructure	54	108	69	109	51	128	86	8	49	70
ICT access	81	89	49	109	17	-	103	1	29	40
ICT use	41	79	80	104	45	-	100	40	47	67
Logistics performance	-	103	60	103	25	117	42	1	33	42
Knowledge creation	89	120	82	124	66	120	67	20	42	80
Knowledge workers	68	118	125	105	62	126	51	5	56	75
Knowledge intensive employment	43	118	105	96	51	119	83	2	95	112
High tech exports' share of total trade (%)	98	65	45	46	1	69	2	4	8	3
ICT services exports' share of total trade (%)	129	109	93	97	74	110	18	46	128	115
Online creativity	101	77	71	126	64	127	74	16	69	54

ASEAN = Association of Southeast Asian Nations, ICT = information and communication technology, Lao PDR = Lao People's Democratic Republic.

Note: Sample size = 132 economies.

Source: World Intellectual Property Organization, Global Innovation Index 2023.

Situating these trends within a longer timeframe, Table 12.7 shows that from 2016 to 2022, institutional and regulatory performance in ASEAN remains correlated with income and development levels. For eight AMS, data from the World Justice Project's rule of law and regulatory enforcement index indicates that most experienced deteriorating rankings over this period. Recent improvements, observed in 2010–2022, coincide with intensified competition from extra-regional players, notably China and India.

Table 12.7. Selected Regulatory Governance Indicator Rankings in ASEAN, 2016 and 2022

ASEAN Member State	Rule of Law Index Rank		Regulatory Enforcement Rank	
	2016	2022	2016	2022
Cambodia	112	139	112	139
Indonesia	61	64	53	47
Malaysia	56	55	74	53
Myanmar	98	132	87	113
Philippines	70	97	55	82
Singapore	9	17	1	7
Thailand	64	80	56	101
Viet Nam	67	84	91	102

ASEAN = Association of Southeast Asian Nations.

Note: Data for Brunei Darussalam and Lao People's Democratic Republic are unavailable.

Source: World Justice Project (2022), Rule of Law Index 2022.

Equally preoccupying, given the regulatory and licensing intensity that characterises the service economy, is ASEAN's poor overall performance in addressing corruption. Transparency International's latest Corruption Perceptions Index shows limited progress across the region since 2010, with most AMS ranking in the lowest two quartiles of the sample (Table 12A.2).

The disparities observed in the key innovation-related metrics outlined in Table 5.1 weigh heavily on the skills upgrading required to integrate ASEAN workers and firms into higher value-added regional supply chains. Weak innovation metrics inhibit resilience-enhancing diversification efforts, particularly in the digital realm.

Encouragingly, the region's logistics sector shows trade-facilitating efficiency gains. Six of the nine economies for which data are available under the World Bank's Logistics Performance Index improved their rankings between 2016 and 2023. However, only two AMS – Thailand (marginally) and Viet Nam – showed sustained improvements over the longer period from 2010 to 2023 (Table 12.8). To sustain ASEAN's edge as a unified production hub, it is essential to prioritise a comprehensive connectivity agenda. This entails sustained improvements in both the hardware (physical infrastructure) and software (policy and institutional environments) dimensions of transport, logistics, and customs-related performance.

Table 12.8. Logistics Performance Index Rankings in ASEAN, 2010, 2016, 2023

ASEAN Member State	2010	2016	2023	2016–2023 Δ	2010–2023 Δ
Cambodia	129	73	129	–56	0
Indonesia	75	63	75	–12	0
Lao PDR	118	152	118	+34	0
Malaysia	29	32	29	+3	0
Myanmar	133	113	133	–20	0
Philippines	44	71	44	+27	0
Singapore	2	5	2	+3	0
Thailand	35	45	34	+9	+1
Viet Nam	53	64	44	+20	+9

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.

Note: Sample size = 155 economies.

Source: World Bank, Logistics Performance Index 2023.

Of relevance to the previous section's discussion of ASEAN's uneven structural shift towards modern and digitally delivered services exports is the fact that four AMS – Indonesia (4th), Viet Nam (5th), Thailand (10th), and Malaysia (11th) – rank amongst the most restrictive digital trade regimes out of the 65 economies assessed in the Digital Trade Restrictiveness Index compiled by the Brussels-based European Centre for International Political Economy (ECIPE).²¹ Notably, all AMS other than Cambodia and Viet Nam have participated in the plurilateral Joint Statement Initiative talks on e-commerce at the WTO since 2017.

The pronounced intra-regional diversity in regulatory and institutional performance arguably places important limitations on ASEAN-wide policy convergence. This confirms the need for formula-based flexibilities in the design and implementation of services sector reforms that engage the region as a whole. At the same time, persistent gaps in development, income, and implementation capacity have driven several of ASEAN's more advanced economies to seek deeper forms of services trade and investment liberalisation with external partners in the Asia-Pacific and beyond.

²¹ See ECIPE (2023), *Digital Trade Restrictiveness Index 2023*.

6. Concluding Thoughts and Policy Recommendations

ASEAN's rapid economic advance and the steady rise in living standards witnessed in recent decades have largely been anchored in a growth model that emphasises external demand and integration into global value chains, particularly in manufacturing. Such progress could not, however, have been proven possible without marked improvements in the efficiency with which the region's underlying services infrastructure has sustained productivity growth in upstream and downstream industries, from natural resource extraction and agriculture to manufacturing and services. Yet, the efficiency gains observed appear to have been driven more by unilateral policy initiatives, albeit limited, than by concerted collective action. Consequently, the impact of regional integration processes under AFAS and, more recently, the 2020 ATISA on the region's economic trajectory remains an open question.

The road ahead confronts AMS with numerous (and simultaneous) challenges that mirror those encountered by other successful middle-income emerging economies in a world characterised by heightened production fragmentation and significant trade policy turbulence. For lower-income AMS, such as Cambodia, Lao PDR, and Myanmar, these challenges revolve around narrowing development gap by moving towards greater economic complexity and diversifying export baskets, particularly in the services sector. For more advanced AMS, such as Malaysia and Thailand, the focus must be on guarding against the 'middle-income trap' by moving up the innovation ladder and transitioning towards exports of goods and services with higher technological content. Brunei Darussalam, Indonesia, and Viet Nam face the imperative of leveraging the services sector to accelerate decarbonisation efforts and promote more sustainable patterns of production and exchange.

Moving in this direction will require continued improvements in product and process innovation and sustained gains in labour productivity through skills development. These are areas where, with few exceptions, ASEAN has made inadequate headway since the AEC Blueprint was decreed in 2015. Significant scope exists for deeper structural reforms in key product and factor markets, alongside a more prominent role for services sector reforms and increased trade and investment in services as central pillars of ASEAN's growth and development path.

First, services remain the most important driver of employment growth throughout the region as well as a critical vector of greater inclusivity, given their strongly positive impact on female and youth employment, as well as entrepreneurship.

Second, recent empirical evidence shows that the contribution of services to aggregate labour productivity – hence, to long-term income growth – has been higher than that of manufacturing across all major economies of the region (World Bank, 2023). As services typically employ more skilled workers than manufacturing or agriculture, continued growth in the services sector will increase the relative demand for skilled workers. Such a trend will place heightened pressure on AMS to supply the human capital needs of more service-centric economies through reforms in higher and specialised vocational education, with a particular focus on improving the digital literacy and skills of workers and firms alike.

Third, mounting evidence, including in ASEAN, demonstrates that reducing barriers to competition in the services sector can spur higher productivity growth not only within services but also in manufacturing sectors that heavily depend on service inputs. Despite the sharp drop induced by the COVID-19 pandemic, trade and investment in services remain particularly buoyant, representing the most dynamic component of cross-border exchange in East Asia. In 2012–2029, FDI in services will exceed the growth of FDI in manufacturing in most AMS, in some cases outpacing it by a factor of 5 (World Bank, 2023). Given the central role of FDI as a catalyst for integration in services markets, AMS should lift restrictions on intra-regional investment flows, including the caps currently imposed on foreign equity participation.

Fourth, apart from transport, where determined efforts, particularly in maritime shipping, are underway to reduce carbon footprints through recourse to cleaner energy sources, services sectors generally produce significantly lower greenhouse gas emissions per unit of output than industry or agriculture. ASEAN's structural transformation towards a services-based economy supports the region's shift to lower carbon growth (World Bank and World Trade Organization, 2023). AMS should pursue the greening of regional trade and show global leadership by progressively lifting barriers to trade and investment in environmental goods and services. Doing so could provide AMS with scope to grow new sources of comparative advantage in environmental services that are central to climate mitigation and adaptation efforts within and beyond the region.

Fifth, AMS must deepen liberalisation and improve regulation within the services sector. Despite the recent conclusion of ASEAN's 10th package of service commitments, much work remains under ATISA to promote more competitive and integrated regional services markets. This chapter has documented the degree to which liberalisation of trade and investment in services remains unfinished business in ASEAN. Advancing this agenda requires tackling policy restrictions to market entry and competition, such as discretionary and opaque licensing practices that hold back the potential benefits of MRAs, as well as restrictions on foreign ownership.

In parallel, AMS must strengthen regulatory frameworks in key service markets and address longstanding and emerging market distortions. This includes tackling restrictions that limit competition in digital marketplaces, where several ASEAN economies rank amongst the world's most restrictive. It is doubtful whether ASEAN's Framework Agreement on E-commerce, consisting chiefly of soft law provisions, can move the needle significantly in heeding the call for an ASEAN-wide digital economic community by 2025. AMS, several of which are already bound by more ambitious extra-regional disciplines under agreements such as CPTPP, RCEP, or various bilateral agreements, have an opportunity to exercise leadership by crafting a region-wide digital economy framework that builds upon the latest global advances in digital trade governance. In doing so, attention must be paid to the digital divides within ASEAN by providing targeted technical assistance and allowing flexibility in implementation timetables.

Creating opportunities for digital trade will require adherence to best regulatory practices, as exemplified by the latest generation of PTAs. However, liberalisation commitments in key digitally enabling and enabled services will be key to the region's proposed establishment of a digital economic community. Many services sectors that provide the basic infrastructure for the digital economy and e-commerce, such as telecommunications, computing, distribution, and payment services, remain subject to limited commitments under ASEAN's schedules of commitments. The same can be said of various services sectors that can now readily be supplied digitally. Improving guarantees for market access and non-discrimination would foster competition, improve sector performance, and enhance the business climate by increasing transparency and predictability.

This chapter has pointed out ASEAN's uneven participation in frontier negotiations brokered plurilaterally at the WTO, in areas such as services domestic regulation, investment facilitation, and e-commerce. Joining recently concluded or ongoing plurilateral talks in these areas offers a direct route to enhancing domestic regulatory governance in support of service market integration, an area where region-wide progress has been inadequate over the past decade. AMS should consider incorporating as many of these disciplines as possible into relevant ASEAN instruments, such as the ASEAN Trade in Services Agreement (services domestic regulation and MSMEs), the ASEAN Comprehensive Investment Agreement (investment facilitation), or the Digital Economy Framework Agreement (e-commerce).

Looking ahead, AMS must contend with the demographic transitions that accompany sustained improvements in living conditions. These transitions bring increasingly assertive demands from a growing middle class for enhanced social safety nets, better governance, and improved delivery of public goods such as health, education, housing, transportation, and freedoms of the press and internet. These demands all stand to be improved through greater intra-regional trade, investment flows, and associated factor movements.

At the same time, AMS must decide whether the region's future is best served through continued cohesion and collective intra-regional action or by allowing greater flexibility for individual member states to join other preferential groupings that might deliver ASEAN+ outcomes for third countries. Narrowing intra-ASEAN income and development gaps will reduce the temptation for more advanced AMS to prioritise growth through extra-regional ties with higher-income, technologically advanced partners.

In meeting the AEC's Blueprint 2025 objectives, AMS must continue to face the challenge of devising flexible policy pathways capable of reconciling and accommodating persistent gaps in income levels and implementation capacities across the region. One of ASEAN's defining strengths is its remarkable diversity in development levels – by far the greatest amongst the world's major regional integration initiatives. ASEAN's long-standing and novel practice of promoting deeper integration progressively through variable geometry approaches should continue to serve it well. Flexibility must be complemented by higher-market commitments, supported by stepped-up levels of intra-regional aid for trade. This support is important, as services sector reforms involve complex issues of regulatory convergence and approximation, which require strengthened regulatory institutions and enforcement capacities. However, care must be taken to ensure that the flexibilities and extended transition periods granted to less developed AMS do not dilute the urgency needed to advance policy reforms. These measures must actively contribute to reducing intra-regional development divides. The transition from positive to negative listing under ATISA, whilst significant, has arguably failed to achieve its full potential, largely due to unnecessarily extended transition periods. To instil a greater sense of urgency and facilitate improvements in domestic regulatory governance, these transition periods should be limited to no more than 5 years. This adjustment would better align with ASEAN's ambitions and ensure that reforms progress at a pace consistent with the region's overarching goals.

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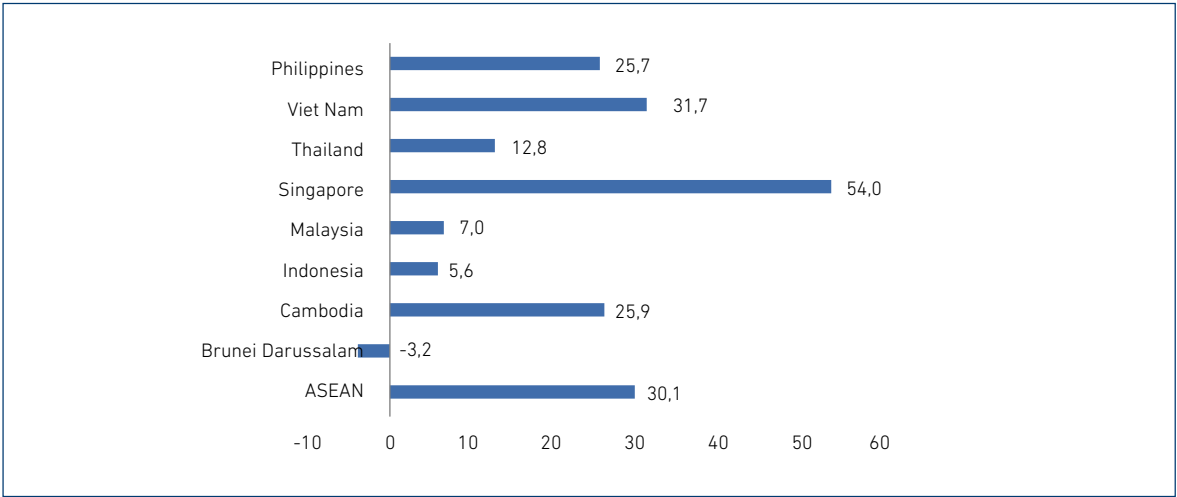
Annex:

Table 12A.1. Share of Employment in Services in ASEAN, 2010, 2015, 2021 (%)

ASEAN Member State	2010	2016	2016–2023 Δ	2010–2023 Δ
Brunei Darussalam	81.0	82.0	74.0	-8.6%
Cambodia	29.0	33.0	36.0	+24.1%
Indonesia	42.0	45.0	49.0	+16.7%
Lao PDR	20.0	27.0	31.0	+55.0%
Malaysia	59.0	60.0	62.0	+5.1%
Myanmar	30.0	32.0	35.0	+16.7%
Philippines	52.0	55.0	57.0	+9.6%
Singapore	76.0	82.0	85.0	+11.8%
Thailand	41.0	44.0	46.0	+12.2%
Viet Nam	30.0	33.0	38.0	+26.7%

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People’s Democratic Republic.
 Source: World Bank, World Development Indicators.

Figure 12A.1. Average Annual Growth Rate of Exports of Other Commercial Services in ASEAN, 2005–2022



ASEAN = Association of Southeast Asian Nations.
 Note: No data is available for Lao PDR and Myanmar in 2022.
 Source: Computed from WTO (2024b).

Table 12A.2. Corruption Perception Index Rankings in ASEAN, 2010, 2015, 2022

ASEAN Member State	2010 Sample size: 178 economies	2015 Sample size: 167 economies	2022 Sample size: 180 economies
Cambodia	154	150	150
Indonesia	116	88	110
Lao PDR	154	139	126
Malaysia	59	54	61
Myanmar	176	147	157
Philippines	146	95	116
Singapore	1	7	5
Thailand	87	76	101
Viet Nam	127	111	77

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.

Source: Transparency International, Corruption Perceptions Index 2022.