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EXECUTIVE SUMMARY

1. Background and Objectives

De facto economic integration through the development of international production and distribution networks in East Asia is one of the key factors behind the remarkable economic growth in the region. East Asian countries have now come to the stage of deepening regional economic integration by actively forming bilateral and plurilateral FTAs. In the process, ASEAN has been emerging as the hub of both aspects, *de facto* and *de jure*, of economic integration in East Asia. The ASEAN Economic Community (AEC), in particular, is a new and innovative initiative, and its successful establishment is regarded as a vital step to maintain the economic dynamism in East Asia as a whole.

The first part of the project was devoted to developing quantitative measures to provide several snapshots of the progress in selected key policy pillars in the AEC Blueprint, namely services liberalization, trade facilitation and investment liberalization, with the objective of facilitating on-schedule implementation of the AEC Blueprint. The quantitative measures were designed (1) to visualize the process of policy reforms consistent with the AEC Blueprint, (2) to provide a framework under which milestones and end goals for each element can be defined, and (3) to evaluate the current status and the progress towards the milestones and end goals. In the second part, we conducted econometric studies on the impacts of economic integration on the performance of firms using micro data from manufacturing surveys in selected East Asian countries, to provide policymakers with valuable implications in designing effective and efficient policies for deepening economic integration and to narrow development gaps. The issues investigated include key aspects of economic integration such as the impact of fragmentation, learning-by-exporting, vertical and horizontal spillovers, and firms' response to policy reforms.

2. Findings and Conclusions

In *medical professional services*, there are (1) considerable variations in the frequency of restrictions across countries but there is a broad tendency for countries with more transparent regulatory regimes to have lower prevalence of restrictions, (2) relatively little variation within countries across the different categories of medical profession, and (3)

considerable variation in restrictions by mode of delivery. For *health services* the pattern of restrictions is similar to those for medical professional services. In *banking* the most prevalent restrictions are on foreign ownership and the movement of intra-corporate transferees and on commercial presence. As a result, restrictions in the banking services are still discriminatory against foreigners. In *insurance* there is little variation of restrictions across different insurance products while the pattern across countries is similar to that in banking. Foreign ownership restrictions are not as prevalent in insurance as they are in banking, though cross-border trade in insurance is widely restricted.

The extent of restrictions on trade in *logistics services* is linked to the perceived performance of the logistics sector as expressed in survey data. The additional discriminatory barriers against foreign suppliers are high in Indonesia, Philippines, China, and Malaysia. The degree of restrictiveness falls as per capita income rises, but even at lower levels of income there is a range of values of the scores. ‘Customs documents’ is identified as the major impediment to trade facilitation. The trade costs in ASEAN countries have been converging towards the best practice level set by Singapore, though there remains large variation.

Although ASEAN countries have been making significant progress in investment liberalization, there remain relatively higher restrictions in: (1) *market access* in Myanmar, Thailand, Malaysia, and Lao PDR; (2) *screening and appraisal* in Indonesia, Cambodia, Myanmar, and Lao PDR; (3) *national treatment* in Brunei and Malaysia; and (4) the services sector.

Conclusions from micro data studies include (1) the larger the gap in capital-labor ratios between MNE’s home and overseas activities, the higher their profitability and labor productivity, implying the benefit of production fragmentation; (2) ‘absorptive capacity’ matters to enhance the learning-by-exporting effects; (3) positive horizontal spillovers are found only in an industry operating in sectors with relatively liberal trade policy; and (4) the utilization of FTAs is positively related to firm size, implying that the opportunity to enjoy the benefits of FTAs is uneven and skewed in favor of large firms.

3. Policy Recommendations

- Tracing the progress in the ASEAN Economic Community building by updating and expanding the quantitative measures developed in this project. This would enable

policymakers (1) to capture the current status of remaining barriers to trade by country, by mode, and by sector, (2) to define the detailed target and milestones in each policy action with reference to the regional best practice, and (3) to facilitate the implementation process through peer pressure.

- Beyond taking up the suggestions in the Singapore Roadmap in health services, the ASEAN countries should work together to establish satisfactory regimes for regulating and enforcing acceptable quality standards, both for individual medical professionals and for healthcare institutions. The aim would be to establish minimum acceptable quality standards. Having a “ladder” of quality standards across the region would (1) put a floor under standards, providing a benchmark for standards that were not more burdensome than necessary, and (2) also provide a viable alternative for the replacement of standards that were discriminatory against foreign providers.
- Significant barriers to cross-border trade (Mode 1) still exist in financial services and removing them would be an important mechanism to facilitate trade. The most likely platform for Mode 1 trade is the internet so encouraging trade of this kind does require improved consumer protection coordination between countries and education of consumers about the risks and their rights.
- Make the best use of the existing FTAs. In particular, special attention should be paid for SMEs to facilitate the utilization, e.g., by preparing modules and templates for value-added accounting.
- Accelerate the efforts toward streamlining and harmonize customs procedures, starting with the Customs declaration form. ASEAN Customs authorities should report regularly and in a comparable manner on clearance time through customs, noting the target of 30 minutes. In addition, a web-based databank of trade regulations, that is regularly updated, should be established.
- Regional cooperation in statistical policy should be strengthened to improve both rule-based access to micro data for researchers and the quality of the data.