

EXECUTIVE SUMMARY

1. The Background and objective of the project

The success of long-term stable economic development in ASEAN countries depends on both the stimulation of intra-regional demand, and to opening up the region to outside demand. The ASEAN Economic Community has the potential to meet these conditions for achieving long-term stable development in this region. Free flows of goods, services, investment, capital and skilled labor would promote both regional domestic demand on the one hand and the competitiveness and attractiveness of this region in the global market on the other. At the same time, ASEAN has the potential to play an important role in re-balancing the global economy, by promoting demand growth in the regional market. In light of recent challenges in this region, we have analyzed the progress of liberalization in major sectors as the region moves toward the ASEAN Economic Community (AEC).

The objective of this research project is to develop quantitative measures regarding three core elements of the ASEAN Blueprint, in order to trace the progress toward the AEC. These elements are the free flow of services, goods, and investment. The expected role of our quantitative measures is to facilitate the implementation of the AEC Blueprint by ASEAN countries. In the process of implementing the Blueprint, progress toward the goals needs to be made clear, in order to ensure that all members continue implementing the necessary policy measures, and to prevent any member countries from falling behind. Quantitative measures can play a useful role in highlighting milestones and signposts on the path towards the ultimate goals.

Regarding the degree of free flow of services, we have studied air transportation, maritime services, and telecommunication services by developing restrictiveness indices. In the case of the freedom of flow of goods, we have analyzed logistics service liberalization, focusing on customs procedures and national Single Windows. Trade cost estimation between ASEAN countries and major trading partners has been carried out using commodity trade statistics. The freedom of flow of investment has been studied by focusing on quantitative measures of FDI restriction and investment-related issues in order to provide assessments of FDI policy regimes and the FDI policy environments of the ASEAN countries. Our quantitative measures have been developed using various methods, such as questionnaires, statistical analyses, and firm-level surveys. There has been close collaboration with many researchers from various countries including 10 ASEAN countries.

2. Major findings

There are significant challenges associated with examination of the degree of liberalization inherent in policy regimes. First, there are vast amounts of information related to regulations and treatments. Second, we must collect necessary information, based on interviews with sectoral experts, in order to clarify the actual situation and to obtain correct interpretations, because administrative documents and other information often include many technical issues and much technical language. In order to cope with these challenges, we have collected the information on actual policies in close collaboration with researchers from 10 ASEAN countries. In addition, quantitative analyses based on statistical and firm-level data have been conducted to provide a broad-ranging overview.

2.1 Free Flow of Services

Air Transportation Services: Although most ASEAN countries appear relatively liberal, there are still barriers remaining, which are increasingly preventing effective competition.

We found that only two countries have so far ratified the ASEAN Multilateral Agreement. There are also still two countries that have retained the option to impose restrictions on international and domestic charter flights, although charter flights are not as significant factors in the competitive environment as they used to be. In addition, government subsidies for domestic airlines are still one of many remaining problems.

Maritime Services: Regarding restrictions on trade in mode 1 (cross-border trade), only three countries have stated that they will grant exemptions from cargo restrictions. Concerning restrictions on mode 3 (commercial presence), there is no ASEAN country meeting the Blueprint target by 2010 in all maritime services. In most countries, port operations are still government-owned. In addition, half of the ASEAN countries retain discriminatory licensing conditions for foreign suppliers.

Telecommunication Services: Only two countries meet the Blueprint's target in respect of foreign equity limits on investment in telecommunication service providers. Most countries are relatively even-handed in their regulation of facilities-based and resale-based services. However, only a minority of ASEAN countries have moved comprehensively to general, rather than individual, licensing of telecommunications providers.

2.2 Free Flow of Goods

Customs Clearance: All countries are participating in regional cooperation efforts to simplify and harmonize customs clearance and to introduce mutual recognition of conformance assessments, and most countries are participating in efforts to introduce National Single Windows, and integrate these into an ASEAN Single Window. However, there are variations

caused by differences in levels of development, such as the degree of usage of electronic filing of customs documentation. In addition, although most ASEAN countries are relatively transparent about their trade regulations in general, very few are fully transparent about ex-post performance, such as measures of customs clearance time.

Trade Cost estimation: The trade cost of ASEAN countries has been on a declining trend as a whole. In addition, the various trade costs in the ASEAN countries appear to be converging to the lowest cost country. Building on the calculation of the trade cost in ASEAN, we found the presence of a scale effect in trade cost. In addition, the low general quality level of institutions and infrastructure of the ASEAN countries increases trade cost, particularly for seaborne trade. These results suggest that efficient logistics and distribution, as well as improvement of quality of institution and infrastructure are important factors for trade cost reduction.

2.3 Free Flow of Investment

Based on examination of legal documents relating to FDI, plus additional supplementary information collected from the ASEAN countries, FDI policy regimes in each country were assessed, and the scores to describe the degree of their openness were constructed. We found that ASEAN countries have restrictive FDI regimes in the areas of the movement of investors, and screening and appraisal procedures. There are wide variations among countries in scores for these areas, and for the area of national treatment.

Restriction on market access is considered to be the most important policy relating to inward FDI, and regulations are rather relaxed in the manufacturing sector compared to the high levels of restriction found in the public and service sectors. Although variations among countries are found, tight restrictions are often imposed in service sectors such as information and communication.

In addition, it was found through firm-level survey that various sorts of indirect barriers to FDI still exist in this region, and that the main problems are concerned with FDI facilitation. There is plenty of room to improve FDI facilitation, in particular institutional problems, such as lack of transparency, and implementation problems such as complicated procedures.

3. Policy Implications

Air Transportation Services:

- There are as yet only a few countries meeting the ASEAN Blueprint targets. ASEAN members should work towards further reform of their air services agreements, and should achieve much greater transparency in their provisions.

Maritime Services:

- There are only a few countries that have stated that they grant exemptions from restrictions on cabotage (freight transport between two points in the same country). Therefore, ASEAN countries should make more effort to reduce the scope of these restrictions. Also, all countries should be looking to meet the Blueprint target of allowing at least 51% foreign ownership of maritime services companies by 2010.

Telecommunication Services:

- Most countries have not been able to meet the Blueprint's foreign equity targets in all telecommunication services, even on an MFN (Most Favored Nation) basis. The remaining restrictions on foreign equity limits should be phased out. Also, the problem of the persistence of very high market shares held by incumbent service suppliers needs to be solved.

Customs clearance:

- There are large variations in the extent to which countries have set targets, used information technology, and performed risk assessments in customs clearance. These variations partly reflect levels of development of technology. Region-wide technology cooperation in these fields is necessary to eliminate these differences in ability to implement reforms
- There is room for improvement in transparency relating to ex-post performance. In addition, the publication of clearance times would provide an acid test as to whether ASEAN cooperation efforts are achieving their ultimate aim.

Trade Cost

- Ad valorem trade costs have a tendency to decrease and converge to the lowest-cost country. For further reduction in trade cost, the efficiency of the logistics and distributions sectors, and the quality of infrastructure related to transportation, such as port infrastructure, roads and railroads, should be improved.

FDI Climate

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