

Chapter 1

Toward a Competitive ASEAN Single Market: Sectoral Analysis

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CHAPTER 1

Overview:

Toward a Competitive ASEAN Single Market: Sectoral Analysis

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This project report of the 2010 fiscal year is the latest report in the ERIA research project on economic integration toward the ASEAN Economic Community (AEC), in which several studies on the free flow of goods, services and investment among ASEAN countries since the year 2008 have been conducted. The ERIA research project has investigated actual policies and the current degree of liberalization of each issue area in each ASEAN country, adopting a variety of methodologies. This chapter reviews research outcomes in the past two years in Section 2. We then summarize the key findings of each study on each issue area in the 2010 fiscal year in Section 3. During the 2010 fiscal year, we have continuously conducted analyses on the current status and progress of liberalization of trade in goods and services and foreign direct investment (FDI) climates. By using and updating the research accumulated during the past three years, it is possible to examine variations in the degree of liberalization over time. The research project also covers conceptual analysis of the liberalization of mobility of skilled labor in ASEAN countries, as they move toward an AEC. Based on discussion of the research outcomes of the year 2010, we introduce several policy implications for each issue area in Section 4.

1. Introduction

Based on the ASEAN Vision 2020, and in anticipation of realizing the ASEAN Community, the ASEAN Economic Community (AEC) was proposed at the Bali Summit in October 2003 as the goal of regional economic integration, to be achieved by 2020. ASEAN leaders subsequently developed an action plan and roadmap to set clear targets and timelines for each sector. In 2007, the leaders agreed to bring forward the establishment of an AEC to 2015. In addition, they adopted an AEC Blueprint to serve as a coherent master plan guiding the establishment of an AEC. The AEC Blueprint sets out work plans and strategic schedules for the implementation of an AEC, as well as presenting the vision of an AEC. The key characteristics which are envisaged in an AEC are; a single market and production base; realization of a highly competitive economic region; achievement of equitable economic development; and full integration into the global market.

According to a press release issued by the ASEAN secretariat in December 2009, as of January 1st 2010, 99.1 % of total tariff lines are to be traded at zero tariff rate among ASEAN 6 countries and 98.6% at 0-5% tariff rate among the other four countries, (Cambodia, Laos, Myanmar and Vietnam), under the Common Effective Preferential Tariffs of ASEAN Free Trade Area (CEPT-AFTA). In addition, the ASEAN Trade in Goods Agreement (ATIGA) has been in place since May 2010 in order to facilitate further intra-ASEAN trade and accelerated economic integration towards an AEC by 2015. With respect to service trade, under the ASEAN Framework of Agreement in Services (AFAS), the ASEAN member countries have already signed a protocol to implement the first to the eighth packages of service commitment by October 2010. Also, up to now, ASEAN member countries have signed Mutual Recognition Agreements (MRAs) covering seven service sectors¹. In addition, in order to achieve the free flow of investment which is one of the core elements of a single ASEAN market, the ASEAN Comprehensive Investment Agreement (ACIA) was entered into at the end of 2009².

With the backdrop of such substantive progression of the implementation of economic integration in this region, there is rising concern surrounding maintaining competitiveness against faster-growing neighboring economies such as China and India in exporting, production and

¹ MRAs on engineering services in December 2005, on nursing services in December 2006, on surveying qualification and architectural services in November 2007 and on accountancy services, medical and dental practitioners in February 2009 have been signed.

² The ACIA is a comprehensive agreement on investment covering improvements to the framework agreement on the ASEAN Investment Area (AIA) and the ASEAN Investment Guarantee Agreement (IGA).

attracting FDI. To ensure sustainable development and the competitive advantage of each ASEAN country, regional economic integration which realizes efficient production and sales networks and generates economies of scale is an essential option. In addition, the Asian currency and financial crisis that began in 1997 is another important factor in building momentum for economic cooperation and deepening integration in this region.

In order to facilitate the implementation of the AEC Blueprint, the ASEAN secretariat has constructed the AEC Scorecards which monitor the status of implementation of each issue area in the Blueprint, in each country. The detailed results of the AEC scorecards, however, have not yet been made public³, hence the scorecards still have not been shared with a wide range of stakeholders such as consumers, business people, administrators, scholars and policy makers from each sector and country. The AEC scorecards are not yet at the stage where they can serve as the basis for discussion among a wide range of people about the gap between the current situation and the goals set out in the Blueprint, as well as efforts necessary to fill those gaps. To complement the weakness of the Blueprint, the ERIA research project on economic integration toward an AEC includes studies, employing various methodologies, on actual policies and the current degree of liberalization of each issue area in each country since 2008⁴.

ERIA has organized a working group consisting of experts in each issue area and researchers from 10 ASEAN member countries, and they have discussed and developed methodologies to investigate “actual rules and regulations” and “actual situations in terms of liberalization” in each issue area and country during the last three years. They have published research outcomes in an ERIA research project report, and also made policy recommendations toward the implementation of the AEC. This research project report from fiscal year 2010 is the latest in the series of the research projects. During this fiscal year 2010, the working group focused on analyses on trade in goods and services, foreign direct investment (FDI) climates, and skilled labor mobility. Each study aims to construct quantitative measures which are designed 1) to chart the process of policy reforms following the AEC blueprint; 2) to provide a framework on which the milestones and end goals of each element can be defined; and 3) to evaluate the current state and progress vis-à-vis the

³ Although the report on the AEC scorecards from 2008 to 2009 has been released on the ASEAN Secretariat website (<http://www.asean.org/publications/AEC%20Scorecard.pdf>), the detailed scores by country and sector, and methodologies of scoring, are not referenced in the report.

⁴ The research outcomes in 2008 were reported by ERIA Research Project Report No.1, entitled “Deepening East Asian Economic Integration” edited by Corbett and Umezaki (2009), and the 2009 research project report was published as ERIA Research Project Report No.3, entitled “Tracing the Progress toward the ASEAN Economic Community” edited by Urata and Okabe (2010).

milestones and end goals. In order to introduce this year's research report on each issue area, this chapter reviews research outcomes in the last two years and summarizes this year's study of each issue area. The remainder of this chapter is organized as follows: the main research outcomes of this research project in the last two years, namely the fiscal year 2008-2009, are reviewed in Section 2. Section 3 introduces key findings in each study of the 2010 fiscal year. Based on the discussion in Section 3, we summarize policy implications.

2. Review of studies on AEC implementation

The ERIA research working group on economic integration toward an AEC has conducted several studies on trade in goods and services, and the investment climate during the 2008-2009 fiscal year. We review the main results of each issue area below.

2.1 Free Flow of Services

Dee (2009) conducted a mapping of actual policies covering medical and health services, and banking and insurance services, by type of service and mode of trade based on the detailed study of existing policies in these sectors by Dee and Dinh (2009), and examined the ways in which service trade barriers interact with other domestic regulations in these fields. Using questionnaires that were completed by researchers in each of the ASEAN countries, her studies reveal actual implemented policies in detail, rather than only information contained in published version of regulations. In the case of medical services, it seems that a majority of ASEAN countries meet the foreign equity target of the Blueprint, while the other modes are more restricted and domestic regulatory regimes also impose restrictions with relatively high frequency. In addition, for health services, as compared with medical services, the regulatory restrictions in health are skewed so as to penalize foreign suppliers. Health services are also more likely to be affected by restrictions on commercial presence than medical services. Dee (2009) summarized that the ASEAN countries should work together to establish minimum acceptable standards of quality, both for individual professionals and for healthcare institutions. This will be a key prerequisite to dismantling the regulatory and other restrictions that, while having a possible rationale in quality assurance, are either more discriminatory or more burdensome than required.

With respect to banking services, the questionnaires cover all four modes of supply, and are focusing on non-prudential regulation which is the target of the Blueprint's liberalization initiatives.

It was found that the restrictions are still discriminatory against foreigners. In the case of insurance services, while restrictions on foreign ownership are less prevalent than those on banking services, restrictions on cross-border trade are imposed widely. Dee (2009) pointed out that the costs of these restrictions are very significant.

Subsequently, Dee (2010) conducted studies on air transport services, maritime services and telecommunication services. Studies on service trade in air transport covered a variety of air transport services, not only international and domestic passenger and freight-only services, but also various related sectors such as fuel provision, luggage and freight loading and unloading, aircraft repair and maintenance, and selling and marketing of air transport services. Based on survey responses and investigation of ASEAN multilateral agreements on air services, she pointed out that effective liberalization of mode 3 of trade in air services not only requires the reform of investment laws, but also requires the reform of withholding clauses in air services agreements. In addition, further reform of the agreements on air services and much greater transparency of their provisions are required among ASEAN members, in order to lift the secrecy surrounding the provision of air services agreements, in turn enabling outside observers to monitor progress.

Regarding maritime services, Dee (2010) found that most ASEAN member countries have taken a relatively liberal approach to cargo sharing arrangements, while only three countries have stated that they grant exemptions from cabotage restrictions⁵, but retain the restrictions in law despite their having been shown to be costly. She also found that no ASEAN countries meet the Blueprint target of allowing at least 51 per cent foreign ownership by 2010 in all maritime services. However some countries meet the target for at least some services and have moved to a relatively liberal 'landlord port' model for at least some ports.

Based on the survey covering actual barriers to trade in telecommunications services, and restrictions on the ability of non-telecommunications businesses to lease lines or build private networks, only two ASEAN countries meet the Blueprint's foreign equity targets in all telecommunications services, at least on a Most Favored Nation (MFN) basis. Considering the relatively contestable market structure in most countries, the remaining restrictions on foreign equity limits are hard to understand and should be phased out.

⁵ "Cabotage" means that the carriage of passengers or freight within a country by an aircraft or ship registered in another country.

2.2 Free flow of goods

The AEC Blueprint mentions that free flow of goods is one of the principal means by which the aims of a single market and production base can be achieved. The Blueprint highlights integrating customs procedures, establishing the ASEAN Single Window, continuously enhancing the Common Effective Certification Procedures, and harmonizing standards and conformance procedures, as trade facilitation measures which would greatly facilitate the free flow of goods.

Findlay (2009) conducted two business surveys on trade facilitation with companies engaged in import transactions, and with logistics service providers within ASEAN countries. He summarized that border procedures continue to be pervasive and critically affect both goods and services businesses across ASEAN countries. Following the results of these surveys, other policies such as licensing and rules on operations, and lack of transparency generally constrain the establishment of new businesses and operations.

Using Australian c.i.f. and f.o.b. import data, Sourdin and Pomfret (2009) calculated an index of trade cost between Australia and ASEAN member countries from 1990 to 2007. They found a substantial decline in trade costs for five ASEAN members during the 1990s and convergence towards the lowest-cost country, while there was no clear pattern for the other five ASEAN countries. Sourdin and Pomfret (2010) also calculated the same index by using USA, Chilean and Brazilian import data and found that the ASEAN economies' trade costs are converging. They examined the determinants of trade cost variation by regression analysis, and found that market access, border administration, transport and communications infrastructure, and business environments, are negatively correlated to trade costs for sea-borne imports⁶.

As Findlay (2009) pointed out, the ASEAN Single Window program has been one of the important factors in encouraging free flow of goods among ASEAN countries; there are, however, difficulties in realizing the program since even the importance and urgency of national Single Windows are yet to be recognized in many countries. Based on the survey on implementation of the National Single Window, Dee (2010) found that there is little apparent variation in countries' participation in formal ASEAN efforts to improve customs clearance procedures. There are still only two countries which have fully electronic filing of customs documentation, and there is considerable variation in the extent to which countries have set targets and used information

⁶ They use "the Enabling-Trade Index" from the World Economic Forum which is composed of these four sub-indexes.

technology to automate decision-making in their clearance and release procedures.

2.3 Free flow of investment

As the AEC Blueprint states, a free investment regime is the key to enhancing ASEAN's competitiveness in attracting FDI as well as intra-ASEAN investment. Building a business environment which is conducive to FDI without constraints is an important factor in making ASEAN more dynamic and competitive. ASEAN countries have made efforts to promote investment flows through the Framework Agreement on the ASEAN Investment Area (AIA) and the ASEAN Investment Guarantee Agreement (IGA), which aim to create a free and open investment regime, so as to attract investment. In addition, the ASEAN Comprehensive Investment Agreement (ACIA) was signed in 2009 and has promoted liberalization and the facilitation of investment more comprehensively, as well as making improvements to AIA/IGA provisions.

The ERIA research working group on economic integration toward an AEC has examined the actual condition of liberalization and the openness of investment flows into and within ASEAN countries by several measures since 2008. Urata and Ando (2009 and 2010) evaluated the restrictiveness of FDI rules by examining legal documents, such as FDI laws, in ASEAN countries. They constructed scores indicating restrictiveness in six areas for 21 sectors that include 88 ISIC two-digit sub-sectors for 10 member countries. They found that, among ASEAN countries, FDI policy regimes have wide variations in terms of their openness/restrictiveness. Screening and appraisal, and the movement of investors in particular, were found to be serious impediments in several countries. They pointed out that service sectors such as public administration, electricity, gas, steam and air conditioning supply, and information and communication are quite restricted by policies on restriction on the rights of establishment or market access, which are considered to be the most important policies regarding inward FDI. A fear of market domination by competitive foreign companies should be dealt with by appropriate competitive policy since the provision of greater market access to foreign companies would contribute to an improvement in technical efficiency.

Urata and Ando (2009 and 2010) also analyzed the FDI environments of ASEAN countries by using the information obtained from the survey conducted on Japanese firms operating in ASEAN

countries in order to assess the actual FDI climate in ASEAN countries⁷. They focused on two types of problems which Japanese firms face, namely, problems related to FDI liberalization and FDI facilitation. According to their analysis, there were various types of indirect barriers to FDI in ASEAN countries; in particular, the majority of these problems are related to FDI facilitation. More than half of the problems fall into two categories: institutional problems such as lack of transparency in policies and regulations on investment, and implementation problems such as complicated and/or delayed procedures with respect to investment-related regulations. They pointed out that although neither institutional nor implementation problems are necessarily discriminatory against foreign firms, they need to be resolved to promote investment activity in the region.

Compared with the survey results of 2008 by Urata and Ando (2009) and the 2005 survey provided by Urata et al. (2007), Urata and Ando (2010) concluded that ASEAN countries as a whole tend to have improved the explicit investment climate. The number of the incidents revealing problems preventing FDI declined in so far as FDI liberalization is concerned. However, they pointed out that direct barriers to FDI still remain; further efforts to reduce them by ASEAN countries are therefore necessary in order to attract FDI continuously. As the same time, the results of the survey demonstrated the necessity for reduction of indirect barriers to FDI or the promotion of FDI facilitation by showing the increasing number of issues identified in categories for FDI facilitation. Important areas for improvement include institutional problems, complicated and delayed procedures, underdeveloped infrastructure, inflexible labor market conditions and problems involving taxation regulations.

3. Key Findings in Each Study relating to Three Core Elements

Based on studies on quantitative measures regarding key policy pillars in the ASEAN Economic Community Blueprint, conducted during the 2008-2009 fiscal years, we have continuously conducted analyses on the current status and progress of the free flow of goods, services and investment, in order to draw implications for realization of a competitive ASEAN single market and production base, which is an important target of the ASEAN Blueprint. Our studies aim to update and expand quantitative analysis and conduct in-depth analysis of trade

⁷ They conducted their analysis using information obtained from the survey conducted by the Japanese Machinery Center (JMC) for Trade and Investment. The respondents to the survey are its members which are involved in trade and FDI activities.

facilitation, service trade liberalization, FDI inflows and skilled labor mobility among ASEAN countries by sector and country. This chapter provides an overview of the main results of each study on the 2010 fiscal year.

3.1 Free Flow of Services

With respect to service trade liberalization, Chapter 2 by Dee (2011) has mapped the actual policy space by conducting questionnaires in five key service sectors: medical, health, banking and insurance services, and accountancy. The first four of these sectors were also mapped in 2008, thus we can examine the extent of real reform since 2008 and assess whether this reform was generated by AFAS commitments.

3.1.1 Updating banking and insurance

Dee (2011) conducted a questionnaire survey covering barriers to trade in banking services which asked about actual policies affecting all four modes of supply, namely, cross-border services (mode 1), via the movement of consumers (mode 2), via commercial presence (mode 3) and the movement of individual bank personnel (mode 4). With regard to insurance services, the structure of the questionnaire is similar to that for banking, but it included some factors peculiar to insurance services, such as restrictions on reinsurance, limitations on whether insurance companies can hold assets overseas, and limitations on the form in which they must hold their assets.

She finds that six out of ten ASEAN countries have foreign equity limits that do not yet meet the ASEAN Blueprint's benchmarks for banking services; however seven ASEAN countries have already met the benchmark of the Blueprint. In addition, although the Blueprint is aimed unequivocally at liberalization of cross-border trade, barriers to this mode of service delivery in banking and insurance services are still prevalent in most countries. Liberalization of mode 1 and also mode 2 trades in financial services should proceed on a most-favored nation basis.

In the case of banking services, the recent reforms have made only a slight difference to the overall prevalence of restrictions for both domestic and foreign service providers. Dee points out that there is evidence that ASEAN countries are still using unnecessary regulatory restrictions instead of better targeted prudential requirements. Similarly, there has been very little reform of regulatory restrictions on trade in insurance services. Since insurance is a sector that is typically

under pressure during WTO accession negotiations, she points out that other ASEAN countries will need to accelerate their reform efforts if the ASEAN Blueprint targets are to be met.

3.1.2 Updating medical and health services

The questionnaire covering barriers to trade in medical services, namely medical professional services via mode 3 and mode 4, and medical, dental and para-medical services via mode 1 and mode 2, used by Dee (2008) asks about policies affecting all of these modes of delivery. In addition, the questionnaire asks about potentially anti-competitive aspects of the regulatory regime, and it also reveals information about the transparency of the regulatory regime by canvassing which stakeholders are consulted in advance of regulatory changes and by asking how regulatory decisions are made public. The questionnaire covering barriers to trade in health services used by Dee (2008) also asks about actual policies affecting all four modes of delivery. In addition, the questionnaire on trade in health services asks about potentially anti-competitive aspects of the domestic regulatory regime, and it also reveals information about the transparency of the regulatory regime. Using these questionnaires, Dee (2011) conducted the same survey of these sectors for all the ASEAN 10 countries, in order to highlight improvements and changes in these regulatory regimes.

She finds that three ASEAN countries still need to take definitive action to achieve the level of foreign equity participation targeted in the Blueprint, and barriers to the movement of individual professionals are still prevalent in the medical professional services sector. There is significant further scope to promote a single market for medical professional services by ensuring that existing regulation does not discriminate against foreign providers. In health services, she points out that non-discriminatory barriers to entry and operations have already been removed, so removing discrimination against foreign suppliers is the only remaining task. Progress here should prove less controversial than in the medical professions.

3.1.3 Accounting services

Dee (2011) conducted a questionnaire survey covering barriers to trade in accounting services which asked whether there are restrictions on the entry of new professional service firms, either domestically-owned, foreign-invested or both, and whether there are restrictions on the legal form of such firms, as well as restrictions on ownership. She finds that while six ASEAN countries

already meet the Blueprint's target for foreign equity participation in accountancy firms, restrictions on the movement of individual professionals are more prevalent than restrictions on commercial presence. She points out that development of a single market for this and other professional services depends crucially on the free mobility of individual professionals. Mutual recognition agreements can help, but the relaxation of other restrictions on entry and operation is also required.

3.2 Free Flow of Investment

Turning to the FDI climate, Chapter 3 by Urata and Ando (2011) analyzes FDI firms' assessment of the investment climate using two types of firm survey on the FDI environment for foreign firms in the ASEAN countries. The goal is to gain a deeper understanding of the FDI policy environment of ASEAN countries, and to help those countries formulate FDI policy. The first type of survey looks at Japanese firms operating in ASEAN countries, and was conducted by JMC. As in their previous studies (Urata and Ando (2009, and 2010)), they classify the problems and obstacles faced by Japanese firms into ten categories, and group these ten categories into two problem areas, namely four categories related to FDI liberalization and six categories related to FDI facilitation. The second type of survey is the original survey conducted on mainly non-Japanese foreign firms in the ASEAN 10 countries. As with the survey on Japanese firms, they analyze the information on assessment of the FDI climate according to ten categories of problems faced by these firms.

With regard to the assessment of Japanese firms operating in ASEAN countries, they confirm the same findings as their previous studies. The major problems faced by Japanese firms are related to FDI facilitation and, in particular, the major problems are implementation problems such as complicated and/or delayed procedures with respect to investment-related regulations, and institutional problems such as lack of transparency in policies and regulations on investment. They point out that this result indicates that there is plenty of room to improve FDI facilitation in order to promote FDI in ASEAN countries. In addition, they compare the patterns of pervasiveness of identified problems with their previous studies (Urata, et al. (2005) and Urata and Ando (2009 and 2010)), and concludes that further efforts to improve the investment climate through various liberalization and facilitation measures are expected, since the number of issues in both FDI liberalization and facilitation has increased. They also point out that while ASEAN countries explicitly improved their investment climates, more and more indirect barriers to FDI emerged,

partly reflecting more active and deepening operations by Japanese firms in ASEAN countries than before, which are therefore more likely to face various problems through their operations.

Basing the assessment of FDI climate on their original survey on mainly non-Japanese foreign firms in ASEAN countries, they find that institutional problems, implementation problems, and underdeveloped infrastructure and shortage of human resources are more serious than others, similar to the results of the above mentioned survey on Japanese firms in ASEAN countries. Therefore, they again point out the necessity of improvement of FDI facilitation in order to promote FDI in ASEAN. Urata and Ando (2011) also present detailed findings by score and categories for individual ASEAN 10 countries. This will be useful not only for examining the variation of FDI climates among countries, but also in identifying specific problems for each country. Based on their results on the trend of FDI assessment by foreign firms in ASEAN countries, further studies are expected on the various types of obstacles facing FDI firms in each individual ASEAN country.

3.3 Free flow of skilled labor

The AEC Blueprint covers only “free flows of skilled labor” and is silent on flows of unskilled/semi-skilled labor. However, as ASEAN countries move up the technology ladder, demand for skills will increase. In order to explore the framework of liberalization of skilled-labor mobility in ASEAN countries toward an AEC, Chapter 4 by Chia (2011) examines the provisions of movement of people and recognition of professional qualifications in the WTO and in ASEAN(+1) FTAs, as well as policy frameworks in ASEAN countries with MRAs.

ASEAN countries have been working to facilitate the issuance of visas and employment passes for ASEAN professionals and skilled labor, to facilitate movement of professional service providers under Mutual Recognition Arrangements (MRAs), and to enhance cooperation among ASEAN University Network (AUN) members to increase mobility for both students and staff within the region. Although MRAs appear to be the main tool for skilled labor mobility in ASEAN, Chia points out that negotiating for recognition is a complex and time-consuming process given the wide differences in development levels among ASEAN countries. Therefore, negotiating bilateral MRAs might be easier to achieve and implement. Towards implementation of the free flow of skilled labor under the AEC, ASEAN countries should try to remove, as far as possible, impediments to such flow. In addition, more information exchange and transparency and simplifying visa and employment permit applications would help.

Based on Chia's (2011) conceptual analysis on the free flow of skilled labor in ASEAN countries toward an AEC, further investigation on actual implementation of these agreements in each country, such as surveys on firms and professional persons, is expected.

3.4 Empirical analyses on free flow of goods among ASEAN countries.

In order to investigate the actual situation of the free flow of goods from a different perspective, we conducted a comprehensive and extensive empirical analysis using bilateral trade data and various indexes on trade barriers in order to find significant impediments to trade in goods in ASEAN countries.

Chapter 5 by Otsuki (2011) develops measures of trade facilitation indicators, and provides empirical investigation by applying a gravity model with trade facilitation indicators including four areas of trade facilitation, namely port efficiency; customs environment; regulatory environment and service sector infrastructure, to estimate the effect of trade facilitation on trade flows of manufactured goods with particular focus on the ASEAN countries. He also conducts a simulation of the impact of trade facilitation on trade flows based on the empirical results.

From these analyses, he finds that ASEAN countries' performance in trade facilitation is diverse, from the world's best to the world's worst. He also points out that there is slight improvement in the ASEAN countries' score over time in port efficiency, and remarkable improvement in service sector infrastructure. Based on the estimation analysis, he finds that all four trade facilitation indices have positive effects on bilateral trade flows. In particular, the effect of regulatory environment is greatest. Using a simulation analysis, he finds that, taken together, all the areas in trade facilitation generate trade expansion of 99 billion US dollars in the ASEAN countries. About 75% of the gain comes from the region's own improvement, thus encouraging aggressive commitment to investment in trade facilitation. In addition, although efforts by ASEAN only marginally contribute to creation of intra-regional trade, they will have a much greater effect on trade expansion with the rest of the world.

4. Policy Implications

4.1 Policy implications from research on the free flow of services

- Medical services: Some ASEAN countries still need to take definitive action to achieve the target of allowing 70% foreign equity participation, and barriers to the movement of individual professionals are still prevalent. There is significant further scope to promote a single market for medical professional services by ensuring that existing regulations do not discriminate against foreign providers.
- Health service: Non-discriminatory barriers to entry and operations have already been removed, and removing discrimination against foreign suppliers is the only remaining task.
- Banking services: Six out of ten ASEAN countries have foreign equity limits that do not yet meet the ASEAN Blueprint's benchmark. Also, there is evidence that some countries are still using unnecessary restrictions in place of better-targeted prudential requirements. With the recent strengthening of prudential regulation, there is scope for further market opening.
- Accountancy services: Although six ASEAN countries already meet the Blueprint's targets for foreign equity participation, restrictions on the movement of individual professionals are more prevalent than restrictions on commercial presence. A single market for this and other professional services depends crucially on the free mobility of individual professionals. Mutual recognition agreements can help, but relaxation of other restrictions on entry and operation is also required.

4.2 Policy implications from research on the free flow of goods

- It has been proved that trade facilitation in this region contributes to long-term growth. Collective actions are needed, as well as a step-by step building block approach from core principles towards expanded policies.
- Capacity building in below-average countries is found to be particularly effective in promoting intra-ASEAN trade and its trade with the rest of the world.
- It is recommended that primary focus be on enhancing governance and the transparency of government policy, and particularly trade regulations, in order to realize the returns to their effort rapidly, and on fostering capacity building of the member countries that lag behind in terms of trade facilitation.

4.3 Policy implications from research on the free flow of investment

- In order to promote FDI policy liberalization, the ASEAN countries should use various existing frameworks, such as WTO/GATT's Trade Related Investment Measures agreement, bilateral investment treaties, free trade agreements, and other legal frameworks. In particular, ASEAN should use the ASEAN Comprehensive Investment Agreement.
- To overcome obstacles concerning FDI facilitation, the ASEAN countries should actively use various cooperation programs with developed countries to improve human resources engaged in the implementation and enforcement of FDI policies. Possible multilateral and regional sources of technical assistance in this area may be UNCTAD, the OECD, and ERIA.
- Monitoring of the achievements of FDI liberalization and facilitation has to be emphasized, in order to achieve a freer FDI environment. In this regard, a monitoring mechanism should be established by ASEAN, if it has not been established yet, or by ERIA.

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