

EXECUTIVE SUMMARY

1. Background and objectives of the project

In order to facilitate the implementation of the ASEAN Economic Community (AEC) Blueprint, the ASEAN secretariat has constructed AEC Scorecards which monitor the status of implementation of the Blueprint. The detailed results of the AEC scorecards however, have not yet been made public. Hence the scorecards still have not been shared with a wide range of people in this region. In order to complement the weakness of the Blueprint, the ERIA research working group on economic integration toward an AEC has conducted various studies on actual policies, and the current degree of liberalization of each issue area, in each country during the past three years. ERIA has published research outcomes as well as policy recommendations toward the implementation of the AEC since 2008.

This project report for the fiscal year 2010 is the latest in the series of our research projects. The working group has focused on analyses of trade in goods and services and foreign direct investment (FDI) climates, as well as skilled labor mobility during the 2010 fiscal year. In addition, by using and updating the accumulation of our studies during the past three years, it is possible to examine variations in the degree of liberalization over time. Each study aims to construct quantitative measures which are designed 1) to visualize the process of policy reforms, following the AEC blueprint; 2) to provide a framework against which milestones and end goals of each element can be defined; and 3) to evaluate the current position and progress vis-à-vis the milestones and end goals.

2. Major findings

2.1 Free Flow of Services

With respect to service trade liberalization, 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, enabling us to examine the extent of real reform since 2008 and assess whether this reform was generated by AFAS commitments.

In the case of banking services, recent reforms have made only a slight difference to the overall prevalence of restrictions for both domestic and foreign service providers. Thus, Dee (2011) 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 regulations which restrict 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.

Regarding medical services, 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. In health services, Dee (2011) points out that non-discriminatory barriers to entry and operation 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.

In accounting services, Dee (2011) finds that six ASEAN countries already meet the Blueprint's target for foreign equity participation in accountancy firms, but that 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 the relaxation of other restrictions on entry and operation is also required.

2.2 Free Flow of Goods

There is limited room for tariff reduction despite its well-recognized effects, therefore the current focus of ASEAN in trade facilitation is demonstrably rewarding. Otsuki (2011) finds that ASEAN countries' performance in trade facilitation is diverse, from the world's best to the world's worst, while there is slight improvement over time in ASEAN's overall score in port efficiency, and remarkable improvement in service sector infrastructure.

Otsuki (2011) also estimates the effect of trade facilitation on trade flows of manufactured goods using a gravity model. He finds that all four trade facilitation indices have positive effects on bilateral trade flows; in particular, the effect of the regulatory environment is

greatest. In addition, using a simulation analysis, he estimates that all areas of trade facilitation, taken together, would 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 he points out that aggressive commitments to investment in trade facilitation are encouraged.

2.3 Free Flow of Investment

Looking at the FDI climate, Urata and Ando (2011) analyze FDI firms' assessment of the investment climate using two types of firm surveys. In the case of Japanese firms operating in ASEAN countries, they confirm the same trends highlighted in their previous studies. The major problems faced by Japanese firms are related to FDI facilitation and, in particular, 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. While ASEAN countries explicitly improved their investment climate, 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.

By using their original survey on non-Japanese foreign firms in ASEAN countries, they also find that institutional problems, implementation problems, and underdeveloped infrastructure and shortage of human resources are more serious. The improvement of FDI facilitation is extremely necessary in order to promote FDI in ASEAN. Urata and Ando (2011) also describe the detailed findings by score and categories for individual ASEAN 10 countries. This will be useful not only in examining variations in the FDI climate among countries, but also in identifying specific problems for each country.

2.4 Free Flow of Skilled labor

In order to explore the framework of liberalization of skilled-labor mobility in ASEAN countries in anticipation of an AEC, Chia (2011) surveys provisions of movement of individuals and recognition of professional qualifications in the WTO and in ASEAN (+1)

FTAs, as well as the policy framework in ASEAN countries such as Mutual Recognition Arrangements (MRAs).

Although MRAs appear to be the main tool for skilled labor mobility in ASEAN, Chia (2011) points out that negotiating for recognition is a complex and time-consuming process given the wide variety of development levels among ASEAN countries. Bilateral MRAs might therefore be easier to achieve and implement. ASEAN countries should make even more effort to remove impediments to the free flow of skilled labor. Furthermore, greater information exchange and transparency, and the simplification of visa and employment permit applications would be useful.

3. Policy Implications

➤ Medical service;

Some ASEAN countries still need to take definitive action to achieve the target of allowing foreign equity participation. Also, barriers to the movement of individual professionals are still prevalent. There is significant further scope available for promoting 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; removing discrimination against foreign suppliers is the only remaining task.

➤ Banking services;

Many ASEAN countries have foreign equity limits that do not yet meet the ASEAN Blueprint's benchmark, and there is evidence that some countries are still using unnecessary restrictions instead of better-targeted prudential requirements. With the recent strengthening of prudential regulation, there is scope for further market opening.

➤ Accountancy services;

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.

➤ **Trade facilitation;**

From a trade facilitation perspective, port efficiency and the customs environment should be priority areas for capacity development. Also, flexibility should be given according to levels of development and development goals, and a step-by-step building block approach from core principles towards expanded policies is needed.

➤ **Investment climates;**

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 and, in particular, the ASEAN Comprehensive Investment Agreement.

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. In addition, monitoring of the achievements of FDI liberalization and facilitation has to be emphasized, in order to achieve a freer FDI environment.