

## Deepening Economic Integration



### **21st Century Regionalism, Mega FTAs, and Asian Regional Integration**

*Status: Completed by April 2017*

*Geographic scope: Indonesia, Japan, Philippines, Thailand, Viet Nam*

This study aims to provide solid economic and legal analyses to help ASEAN and East Asian countries formulate trade policies in the new era, especially for those countries that intended to join the Trans-Pacific Partnership (TPP) agreement. It analyses and discusses the rules and regulations set by the TPP that could be the new global standard of international trade and investment in the future. It covers three main areas: intellectual property rights, investment, and state-owned enterprises.

The project aims to:

- Provide a rigorous analysis of the TPP agreement and to evaluate its economic effects on ASEAN and East Asian countries.
- Assess the effects of the TPP on the economic integration progressing in ASEAN, such as the

ASEAN Economic Community and Regional Comprehensive Economic Partnership.

- Guide ASEAN and East Asian countries on the actions to be taken regarding trade, investment, and economic policies.

### **ASEAN SME Policy Index**

*Status: Ongoing*

*Geographic scope: ASEAN*

The 26th ASEAN Summit in April 2015 highlights the importance of ASEAN in strengthening microenterprises and in improving the competitiveness of small and medium-sized enterprises (SMEs) in its member countries. The ASEAN Strategic Action Plan for SME Development 2016–2025 (hereafter SAP) manifests this idea of supporting the vision of the ASEAN Economic Community.

In this context, ERIA and the OECD propose a research project to renew the earlier ASEAN SME Policy Index. This new index should serve as a tool to assess the strength of SME policies, instruments, and institutions of ASEAN Member

States (AMSs), according to the SAP and the level of policy convergence in the priority areas defined by the AMSs.

Two reasons for renewing the policy index. First, the framework of the new policy index will use the SAP instead of the ASEAN Strategic Action Plan for SME Development (2010–2015). The different frameworks result in different policy dimensions that the new policy index will cover. The overall mandate for this work in the SAP aims at improving policies overall and moving towards policy convergence across ASEAN.

Second, the new policy index intends to improve the focus and method of data gathering of the earlier index. It will combine quantitative assessment of the range and intensity of the policy inputs with quantitative information on the outputs of different policy measures. Such data and information will be complemented by data on the structure and the performance of SME population and the evolution of the business end economic environment in order to obtain a full picture of the factors that shape SMEs in each ASEAN country. Thus, the new policy index will be based more on factual information or data instead of the more qualitative information of the earlier index.

## **Digital Economy, Innovation, and East Asia's Competitiveness in GVCs, Phase I: Cross-border e-Commerce in ASEAN and East Asia**

*Status: Ongoing*

*Geographic scope: ASEAN, East Asia, Mekong Subregion; China, Indonesia, Republic of Korea, Malaysia, Thailand, Viet Nam*

The development of e-commerce tends to further promote Asian regional integration by facilitating cross-border trade, investment, and factor movement. Meanwhile, it will also call for new rules and regulations and requires cross-border cooperation in governing e-business. For ASEAN countries, this is a topic directly related to its ambition of establishing a highly competitive economic region and the achievement of ASEAN Economic Community 2025.

The project aims to advance the international debate on the development of e-commerce, the facilitation of cross-border production sharing, and the deepening of regional integration and cooperation in ASEAN and East Asia. It covers the following issues:

- development of cross-border e-commerce;
- e-commerce, global value chains, and regional production sharing;
- e-commerce and inclusive economic growth: development of small and medium-sized enterprises, job creation, poverty reduction, labour mobility, etc.;
- barriers to cross-border e-commerce; and
- e-commerce regulation and governance.

## **East Asian Economic Integration, Second Edition (RCEP, Second Edition)**

*Partners: Research Institutes Network members, Asian Development Bank Institute, Economic Research Institute for Northeast Asia, The Australian National University, prominent economists, governments of RCEP countries*

*Status: Ongoing*

*Geographic scope: Australia, Brunei Darussalam, Cambodia, China, India, Indonesia, Japan, Republic of Korea, Lao PDR, Malaysia, Myanmar, New Zealand, Philippines, Singapore, Thailand, Viet Nam*

The Regional Comprehensive Economic Partnership (RCEP) is a critical element in regional integration in East Asia and Pacific. RCEP takes initiatives on regional

economic integration in East Asia to a higher level:

- In contrast to the ASEAN+1 FTAs (free trade agreements) where individual ASEAN Member States (AMSs) had essentially bilateral commitments with the ASEAN+1 dialogue partners, the AMSs would likely need to have common commitments vis-à-vis the partners (with perhaps a few exceptions) under RCEP.
- The commitments of the dialogue partners need to be common commitments congruent with those of the AMSs.
- The commitments under RCEP need to be substantially better than those under the ASEAN+1 FTAs. In short, RCEP should not be merely a consolidation of the ASEAN+1 FTA commitments simply because mere consolidation is feasible only at the lowest common denominator that delivers far less than a number of the ASEAN+1 FTAs. RCEP would need to be a high-quality agreement for it to be credible and worthy of the resources and time expended for the negotiations and related activities to ensure its successful conclusion. Moreover, given that RCEP effectively includes an implicit FTA agreement among China,

Japan, and the Republic of Korea which results in trade and investment diversion from ASEAN compared to the ASEAN+1 FTAs, only deeper facilitation and liberalisation commitments would provide additional benefits to AMSs compared to the current ASEAN+1 FTAs.

### **Globalisation, Structural Change, and Growth**

*Status: Completed*

*Geographic scope: China, Indonesia, Japan, Republic of Korea, Viet Nam*

This research is eighth in the series of ERIA Microdata Research conducted annually under a different theme. It aims to gauge the impact of globalisation on economic growth in the region using firm-level data. Despite many studies conducted on this subject, our understanding of this issue is far from satisfactory. Although macroeconomic growth models show positive effect of globalisation on long-term economic growth, controversy on the effect among cross-country empirical studies remains. The heterogeneous firm trade theories and empirical studies based on those theories have uncovered several new mechanisms of the aggregate welfare and productivity effect of trade. Yet, most, if not all, of the studies tend

to focus on one-time level effect, not growth effect.

Meanwhile, sustained economic growth is almost always accompanied by structural changes of the economy, such as composition of industries, firms, and activities towards more capital-, skill-, and technology-intensive ones. Without structural changes defined in this way, an economy may not be able to sustain improvement in living standards. Thus, further exploring how globalisation affects structural change will enrich our understanding of the effect of globalisation on economic growth and of its mechanisms.

This research finds and explains various details linking globalisation to growth.

### **Global Value Chain, Cities, and Urban Amenities**

*Status: Phase 2 Ongoing*

*Geographic scope: ASEAN, China, Japan, Republic of Korea*

The current study focuses on the role of cities in creating urban networks and urban

amenities, attracting and developing skills and human capital, and driving creativity. This in turn supports the development and liberalisation of the services sectors and the operation of the global production value chain Asia. These linkages of urbanisation, innovation, services, and the global value chains form the key agenda for the next stage of development and growth in Asia.

This study focuses on the following:

- The regional competitiveness and productivity of cities and what drives creativity in urban areas, leading to innovation and more extensive entrepreneurial activities. Success in this respect also leads to larger cities, achieving economies of scale, which further reinforces success. Such success might then be able to offset the cost of high population density of cities.
- The attraction of cities with urban networks and amenities to skilled workers to live and work, thereby contributing to greater services 'unbundling', and linkages to global production value chain activities. Not only 'skilled' workers are required but also those who are innovative and can operate in different ways. Since new types of work would emerge, the flexibility of the labour market also plays a role in this context.
- The extent to which a creative and innovative

urban environment, which is attractive to the right types of workers, leads to greater support for services liberalisation. This will have important implications for the next stage of growth of the region and the regional free trade agreements such as the Regional Comprehensive Economic Partnership in developing strategies for liberalising the services sector.

- The key policy considerations in terms of strategies for the second stage 'unbundling' or fragmentation of industrial production and its implications for services sector liberalisation. Understanding the effects of urban amenities on the development of small and medium-sized enterprises and entrepreneurial activities in the region is important.
- The observation that both first and second stages 'unbundling' are occurring concurrently in Asia. Understanding the policy considerations for countries in different stages of growth and of fragmentation and the linkages between the first and second stages fragmentation is also important.

## **Impact of FTA on Trade and Industry (Phase I)**

*Status: Ongoing*

*Geographic scope: Australia, Cambodia, China, Indonesia, Japan, Republic of Korea, Philippines, Thailand, Viet Nam*

Bilateral and regional free trade agreements (FTAs) and economic partnership agreements (EPAs) have proliferated in the last 25 years, partly due to the slow progress of multilateral trade agreements.

Reviews on international trade agreements are important and need to be undertaken regularly, given a constantly changing economic environment and policy direction of countries involved in the agreements. One first needs to carefully assess the impact of an agreement to properly review its costs and benefits. This project attempts to do this; it examines the impact of FTA on trade and on how it affects the dynamics of industry or firms in a country. It asks whether an FTA changes the structure of industry or characteristics of firms, including the firms' production and/or exporting characteristic. In assessing the impact, the project uses the firm/plant-level data and connects these with trade data.

The project has two phases: (i) phase 1, conducted in FY 2016, aimed to examine the impact of FTA on trade using trade data at the industry level; (ii) phase 2, to be conducted in FY 2017 and continues the work of phase 1, connects trade data with microdata and examines the adjustments at the firm/industry level. Phase 1 attempts to cover as many RCEP (Regional Comprehensive Economic Partnership) countries as possible, where data is available. Main deliverables are depository of available data by countries covered by the project, and empirical analysis on the determinants of FTA use.

### **International Migration and Development in East Asia**

*Status: Completed*

*Geographic scope: Indonesia, Japan, Malaysia, Thailand, Viet Nam*

This study aimed to (i) better understand the patterns, causes, and consequences of international migration; and (ii) help a better

formulation of immigration policy to increase gains from trade and investment liberalisation. The study addressed the following themes:

- International migration and regional production networks/industrial clusters
- The impact of international migration on labour markets (in sending and receiving countries)
- The interaction between regional integration and cross-border migration
- The effects of immigration policies and the implications for country and regional development

The project emphasises quantitative studies using micro-level data, especially first-hand data drawn from surveys designed and conducted by the participants. The survey data complemented the available data that statistical agencies released.

## **Maritime Connectivity in Southeast Asia: Its Role and Challenges towards Integration**

*Partners: LPEM FEB-UI (Institute for Economic Research, University of Indonesia) as major partner; other members come from the Philippine Institute of Development Studies, Maritime Institute of Malaysia, Victoria University Australia, Nanyang Technological University of Singapore, Hong Kong Polytechnic University*

*Status: Completed*

*Geographic scope: Australia, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, Thailand*

The Master Plan on ASEAN Connectivity identifies three key issues in the region's marine development: port infrastructure, maritime services, and port performance. This study focused on maritime status and port development in Australia, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, and Thailand.

The study revealed the following:

- Port development among East Asian countries covered in this study is diverse.

Hong Kong, Singapore, and Malaysia are way ahead of their peers. Thailand, Indonesia, and the Philippines need to improve and use their ports as an element of regional production network.

- Trans-shipment plays an important role in port utilisation since only a few ports fulfil the requirement of becoming hubs in the region.
- Most Southeast Asian ports, except those of Singapore and Malaysia, suffer from inefficiency, red tape, and underutilised capacity.
- Indonesia's ports remain underutilised as it uses Singapore as a hub for export and import connectivity. As an archipelagic country, Indonesia has just started emphasising the development of its domestic connectivity and less on ASEAN connectivity. Reform in soft infrastructure in the port sector is still fragmented, since the road map of port development is detached from the whole supply chain system.
- The slow modernisation of ports also hampers port development in the Philippines and, to some extent, Thailand. The main challenges come from internal factors, including reforming the port management system and having smooth connectivity with other segments of the supply chain system. Meanwhile, challenges from external factors include decisions made by large shipping lines to make a port call or not.

## **Microdata Analysis on the Impact of Globalisation of Firms**

*Status: Ongoing*

*Geographic scope: East Asia, India, Indonesia, Japan, Republic of Korea, Viet Nam*

Extensive theoretical and empirical literature on firms and trade in the past has indeed deepened our knowledge on key issues of international trade: how firms become globally engaged and how globalisation affects firms and the aggregate economy. At least two features are likely to be important to better understand these issues but have not been the centre of attention of mainstream academic literature. These are interfirm linkages in and across countries, over and above the standard product market competition and factor market demand linkage, and knowledge or information spillovers.

To give some examples, first, firms may have transaction or buyer–seller relationship with each other. This often exists in a broader context of global value chain. Second are ownership linkages among firms, which take

the form of a parent–subsidiary relationship in its simplest form or of a more complex form, such as a group of affiliated firms. Third are geographical linkages among firms. In the presence of external economies of scale, the location of firms in an industry tend to be geographically concentrated, which may facilitate the interaction of firms and humans across space. Finally, there are other types of linkages among firms – among foreign and domestic firms, globally engaged and domestically oriented firms, etc. – that rely on formal or informal personal/business networks and interactions, worker/manager mobility, etc.

These various interfirm linkages will likely be important for understanding how firms become globally engaged and how globalisation affects firms and the aggregate economy. Against this background, this project aims at addressing the following key questions: What linkages exist among firms? How are they determined and how do they evolve over time? What roles do they play in firms' decision to become globally engaged? Do they matter for understanding the effects of globalisation on firms and the economy, and how?

## **Non-tariff Measures in ASEAN (Renewal of Database and Country Report, Phase III)**

*Partners: National Team 1.5 track, ASEAN SEOM, ASEAN HLTF-EI, ASEAN Business Advisory Council, ASEAN countries, Research Institutes Network members, prominent economists working on NTMs; UN Conference on Trade and Development, World Trade Organization (WTO), representatives of ASEAN countries at the WTO, Organisation for Economic Co-operation and Development*

*Status: Phase I (Data): Completed*

*Phase II (Report): ongoing*

*Geographic scope: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam*

With tariffs constrained by the WTO, the number of non-tariff measures (NTMs), designed to protect domestic firms and industries, is expected to increase. This trend is quite possible in ASEAN, whose growth in terms of economy and trade is among the fastest. Between 2008 and 2011, the number of NTMs rose substantially across the globe. This increase is not necessarily a bad sign for the economy. As consumer wealth around the

world rises, the demands on governments for health, safety, and environmental protection increase as well.

Many developing countries have greatly benefited from integration into the global economy through international trade in goods and services. Previously, developing countries' integration into international markets was made possible by appropriate conducive policies such as tariff liberalisation, initiatives related to trade facilitation, and aid for trade. Today, deeper integration in the global economy depends not only on liberal tariffs and supportive policies; it increasingly also requires policy responses to various forms of complex trade-related regional economic integration.

For ASEAN, however, the latest official data on NTMs is available only for 2009, as released by the ASEAN Secretariat. Several surveys have been conducted to fill the gap, but more work is needed. Thus, this project seeks a strong multi-agency collaboration between ERIA and UNCTAD, supported by experts on NTMs, to (i) collect, validate, and classify NTMs data from official sources issued by governments; (ii) improve the general understanding of these measures and their impact on world trade; and (iii) provide insights on policy recommendations to streamline NTMs and trade regulation reforms.

As the NTM data for ASEAN are collected according to the MAST NTM classification and UNCTAD's NTM

data collection approach, analyses can be prepared and policy options can be devised to appropriately assess the trade and development impacts of such barriers to trade.

This project will update the database vis-à-vis current national regulations. It will also assess the impact of trade-related reforms by providing reliable and updated NTM information, conducting rigorous analyses on NTMs and how these will affect trade policy and overall trade performances, comparing NTMs in the ASEAN region to those of other regions, and providing inputs in streamlining NTMs in this region.

### **Non-tariff Measures in East Asia**

*Partners: National think tanks and universities in East Asia, UN Conference on Trade and Development, World Trade Organization (WTO), East Asian and ASEAN Senior Economic Officials, ASEAN High Level Task Force, National Team 1.5 track*

*Status: Ongoing*

*Geographic scope: Australia, China, India, Japan, Republic of Korea, New Zealand*

With tariffs constrained by the WTO, the number of non-tariff measures (NTMs) designed to protect domestic firms and industries is expected to increase. This trend is quite possible in ASEAN whose growth in terms of economy and trade is one of the fastest.

NTMs in general are policy measures, other than ordinary customs tariffs, that could affect the economy in international trade. Thus, NTMs include wide and diverse policies affecting international trade in goods, changing the quantities traded, or prices, or both (UNCTAD, 2013).

Many developing countries have greatly benefited from being integrated into the global economy through international trade in goods and services. Such integration was made possible by appropriate policies, such as tariff liberalisation, and by initiatives related to trade facilitation and aid for trade. Today, deeper integration in the global economy depends both on liberal tariffs and supportive policies, and on increased policies in various forms of complex trade-related regional economic integration. The rise of specialisation and fragmentation of production has led to increased trade in intermediate goods and to regional production networks.

The inclusion of six East Asian countries in the NTM database, as a complement to the NTM data of 10 ASEAN countries collected the year before, will be a significant milestone for economic integration research in the region.

This project aims to provide analytical exercises of impact assessment on trade-related reforms by providing reliable and up-to-date information and by analysing NTMs. The completion of the NTM database of +6 East Asian countries will be useful for policymakers for further integration.

### **Reducing Unnecessary Regulatory Burdens on Business and Engendering Informed Regulatory Conversations in Priority Integration Sectors in ASEAN**

*Partners: Research Institutes Network, Malaysia Productivity Corporation*

*Status: Ongoing*

*Geographic scope: All ASEAN Member States except Singapore*

ASEAN Member States (AMSs) face two critical challenges in an increasingly open

and integrated ASEAN: (i) to promote a conducive business and investment environment, and (ii) to improve economic performance and productivity. To meet these challenges, AMSs need to focus on reducing unnecessary regulatory burdens (RURB) on business and on minimising border barriers to attract greater investment in infrastructure and people. RURB is also an important element of ASEAN's drive towards institutionalising good regulatory practice in the ASEAN Economic Community Blueprint 2025.

RURB addresses unnecessary costs arising from poorly designed or excessive regulation, and from poor administration and enforcement of regulations. RURB supports national regulatory reform initiatives to improve overall regulatory regimes such that policies and regulations complement one another in support of greater efficiency, enhanced competitiveness, and increased trade.

This research focuses on reducing unnecessary regulatory burdens, particularly in trade-related activities of firms in selected sectors that have significant export potential or are of significant policy interest in each AMS (excluding Singapore) covered in the study.

## **Services Supply Chains – Implications and Opportunities for RCEP**

*Status: Phase I Completed*

*Phase II Ongoing (December 2016–June 2017)*

*Geographic scope: Australia, Cambodia, China, Indonesia, Japan, Republic of Korea, Malaysia, Philippines, Thailand, Viet Nam*

This project intends to study value chain activities in service supply chains in the region. It is expected to contribute to the understanding of supply chain activities and implications for the Regional Cooperative Economic Partnership (RCEP) that is currently under negotiation.

This project examines services from a supply chain perspective and provides a deeper assessment of the implications for policy coverage and design of commitments in RCEP related to services.

Specifically, the project aims to:

- Develop a new methodology for identifying and mapping the international supply chain in services activities, in all supply modes.
- Apply this methodology to a series of

services, chosen to provide relevant sectoral and economic coverage in RCEP countries, through interviews with participants in the supply chains.

- Consolidate comments on key policy issues that impede international transactions or distort the shape of supply chains.
- Identify implications for the specification of services commitments in RCEP to enable countries to respond to those policy issues.
- Specify complementary capacity building to support the implementation of policy reform.
- Identify the key factors that contribute to the competitiveness of ASEAN members as participants in these supply chains and the drivers of 'upgrading,' productivity gains, and labour markets.

## **Study on Trade Facilitation Indicators in ASEAN**

*Partner: Department of Trade and Industry, Philippines*

*Status: Ongoing*

*Geographic scope: ASEAN region*

Trade facilitation refers to the streamlining and coordination of international trade procedures governing the movement of goods across borders. Inefficiencies across regulatory areas that significantly

impact the movement of goods can be corrected by informed policymaking. This so-called data-driven decision model, however, requires trade facilitation data that is valid, reliable, accurately measured, relevant, and robust. The quality of the data reflecting trade-obfuscating measures directly informs the nature of the actions that can be undertaken by national regulators. The availability of data also contributes to creating an environment where business stakeholders have access to reliable information that allows them to make sound operating and investment decisions.

ERIA intends to create indicators for the Trade Facilitation Index and the Transport, Transit, and Goods Facilitation Index.

The project is a joint initiative of ERIA's Research and Policy Design Departments, in support of the Department of Trade and Industry's deliverable for ASEAN 2017 of a trade facilitation index.

## **The Indonesian Economy: Trade and Industrial Policy**

*Partners: The Government of Indonesia, renowned economists around the world working on the Indonesia's economy*

*Status: Ongoing*

*Geographic scope: Indonesia, Southeast Asia*

Trade evolves. Production is sliced. Much of production is based on production networks. Imports are largely used as inputs for exports. Many countries are engaged directly and indirectly in producing final products. The development of global production chains, with increased use of imported inputs, reduced the domestic value-added content for each unit of manufactured goods and exports.

Indonesia's manufacturing sector was among seven gainers in the share of the world's manufactured products over the past 3 decades, even though relatively small, in terms of contribution to the world's value added in manufacturing. Indonesia's contribution increased from 0.1% in 1970 to 1.8% in 2011. The winners in the manufacturing sector over the last 3 decades are developing countries that industrialised by joining, rather than by building, production networks

which are part of the production networks of the US and Germany, namely Poland and Turkey, and part of the production networks of Japan, namely China, Korea, Indonesia, and Thailand (Baldwin, 2013:24).

However, the share of Indonesia's machinery parts and components exports to total exports, which is widely used to indicate the degree of participation in international production networks, remains low. Indonesia relatively lags behind its peer countries – the Philippines, Singapore, Malaysia, and Thailand, and even Viet Nam. For Indonesia, the share of exports of machinery parts and components to total exports and total imports are 13% and 37%, respectively in 2000 (Ando and Kimura, 2013). This leads us to ask what we know about the value added of Indonesia.

This study aims to provide (i) evidence on the value added of Indonesia's products, and (ii) insights in designing trade, and industrial and investment policies to improve the value added of Indonesia's products

## **Trade in Value Added of Southeast Asia**

*Partners: Research Institutes Network members, prominent economists, Organisation for Economic Co-operation and Development*

*Status: Completed*

*Geographic scope: Australia, Brunei Darussalam, Cambodia, China, India, Indonesia, Japan, Republic of Korea, Lao PDR, Malaysia, Myanmar, New Zealand, Philippines, Singapore, Thailand, Viet Nam*

East Asia Pacific (EAP) economic growth has outperformed world growth for the last 2 decades, except in 1997–1999 due to the Asian financial crisis. Most East Asian economies are well positioned to weather renewed volatility. The drivers of global economic growth are shifting towards East Asia, and emerging East Asian economies are well positioned to benefit from the growing power of Asian economies. The emerging Southeast Asian economies experienced strong growth in the last 2 decades and are estimated to be on a par with China.

China's growth pattern is changing as it moves up the income stages. It will likely rely more on consumption and less on investment and exports, and more on services and less on industry. This creates opportunities for Southeast Asia to expand their economies through trade and investment.

The study aims to provide a framework on globalisation's second unbundling related to trade and industrialisation in Southeast Asia.

It aims to rigorously analyse Southeast Asia's value added and trade competitiveness; and product development, product variety, quality upgrading, export market concentration, and new market creation of its manufactured export products.

The study was expected to provide inputs in improving Southeast Asia's value added and trade competitiveness, and to provide lessons learnt in building or joining production networks.