

ARTNeT-AFD Capacity Building for Trade Policy Researchers

6-10 June 2016, Bangkok

Session 2

AEC: Progress towards Commitments on Regional Integration including NTMs

Dr. Witada Anukoonwattaka
anukoonwattaka@un.org

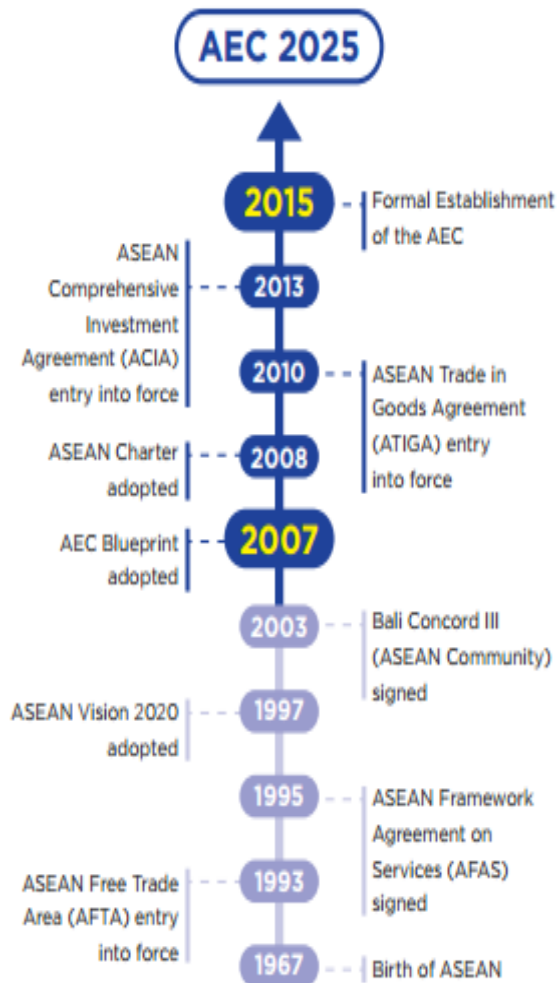
Agenda

- Background
- Progress assessment
 - Assessment by the ASEAN Secretariat
 - Assessment from different dimensions
- Take-home messages

The background

The long story of ASEAN

AEC Timeline



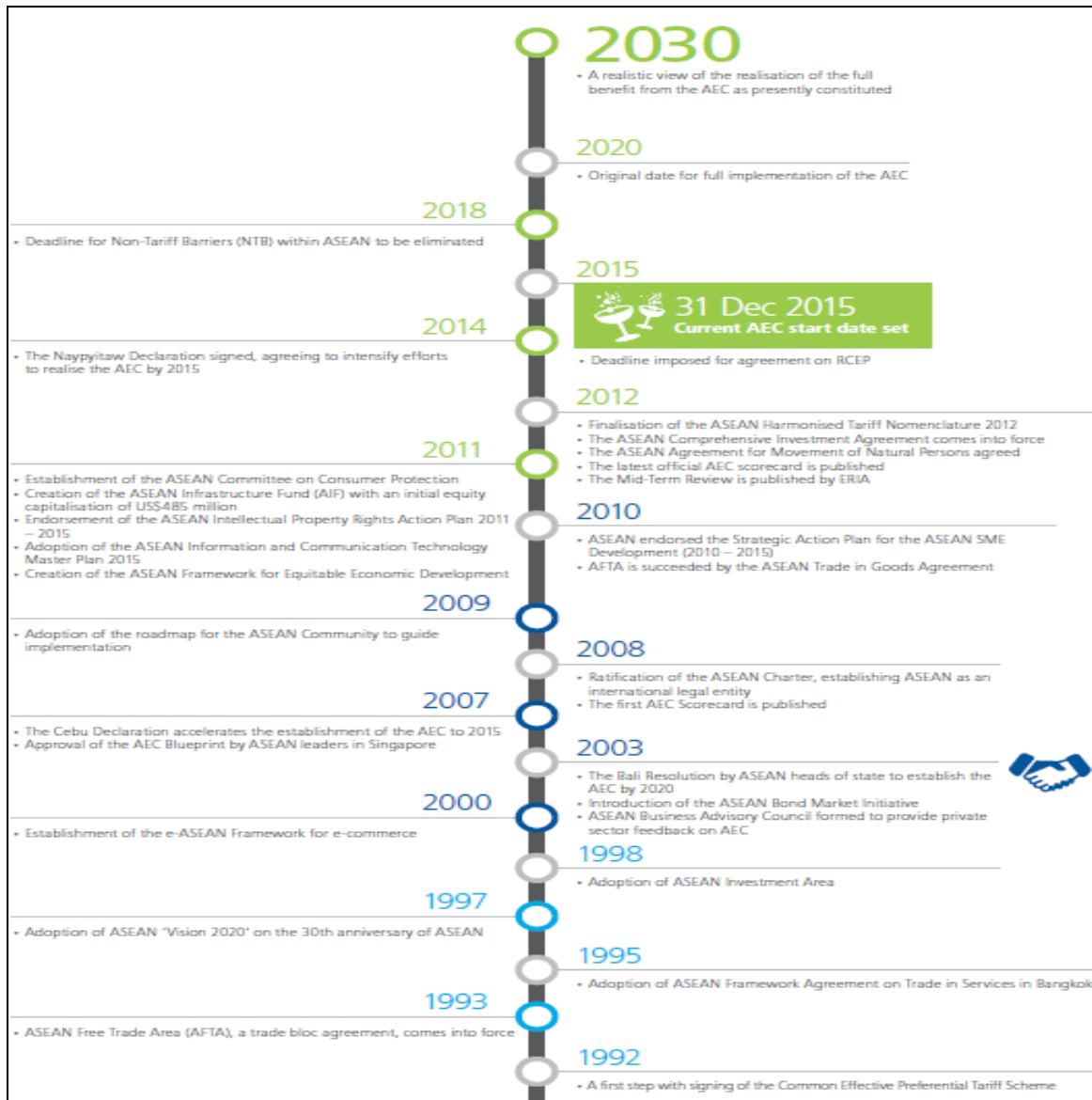
“The AEC Blueprint will transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy.”

ASEAN Economic Community Blueprint

“Our ASEAN Economic Community by 2025 shall be highly integrated and cohesive; competitive, innovative and dynamic; with enhanced connectivity and sectoral cooperation; and a more resilient, inclusive, and people-oriented, people-centred community, integrated with the global economy.”

AEC Vision 2025

The long story of ASEAN






A number of positive steps have been done.

...But it is still a glass half-full.

What exactly is the focus of ASEAN?

The ASEAN Economic Community (AEC) differs from other regional economic cooperation agreements

	 AEC ¹	 Eurozone ²	 NAFTA ³	
Elimination of tariffs	■	■	■	<p>■ Already realized (or significant progress toward realization)</p> <p>■ Targeting but not sufficient realization</p> <p>■ Not targeting (to any meaningful extent)</p>
Elimination of non-tariff barriers	■	■	■	
Common tariffs with other countries	■	■	■	
Liberalization of service trade	■	■	■	
Mutual recognition of standards	■	■	■	
Trade facilitation	■	■	■	
Liberalization of foreign investment	■	■	■	
Free movement of people	■	■	■	
Intellectual property	■	■	■	
Government procurement	■	■	■	
Competition policy	■	■	■	
Common currency	■	■	■	

1 The AEC comprises the 10 ASEAN countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

2 Refers to the monetary union created in 2002. Includes Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. A further 10 member countries are in the European Union but do not have the common currency.

3 North American Free Trade Agreement. Comprises Canada, Mexico, and the United States.

SOURCE: Japan External Trade Organization; International Trade Administration, US Department of Commerce; McKinsey Global Institute analysis

Implementation guided by Economic Blueprint

Progress measured by AEC Scorecard

AEC Blueprint

Pillar 1
Single Market
& Production Base

- Free flow of goods
- Free flow of services
- Free flow of investment
- Freer flow of capital
- Free flow of skilled labor
- Priority Integration Sectors
- Food, agriculture and forestry

Pillar 2
Competitive Economic
Region

- Competition policy
- Consumer protection
- Intellectual property rights
- Infrastructure development
- Taxation
- E-Commerce

Pillar 3
Equitable Economic
Development

- SME development
- Initiative for ASEAN Integration

Pillar 4
Integration into
the Global Economy

- Coherent approach towards external economic relations
- Enhanced participation in global supply networks



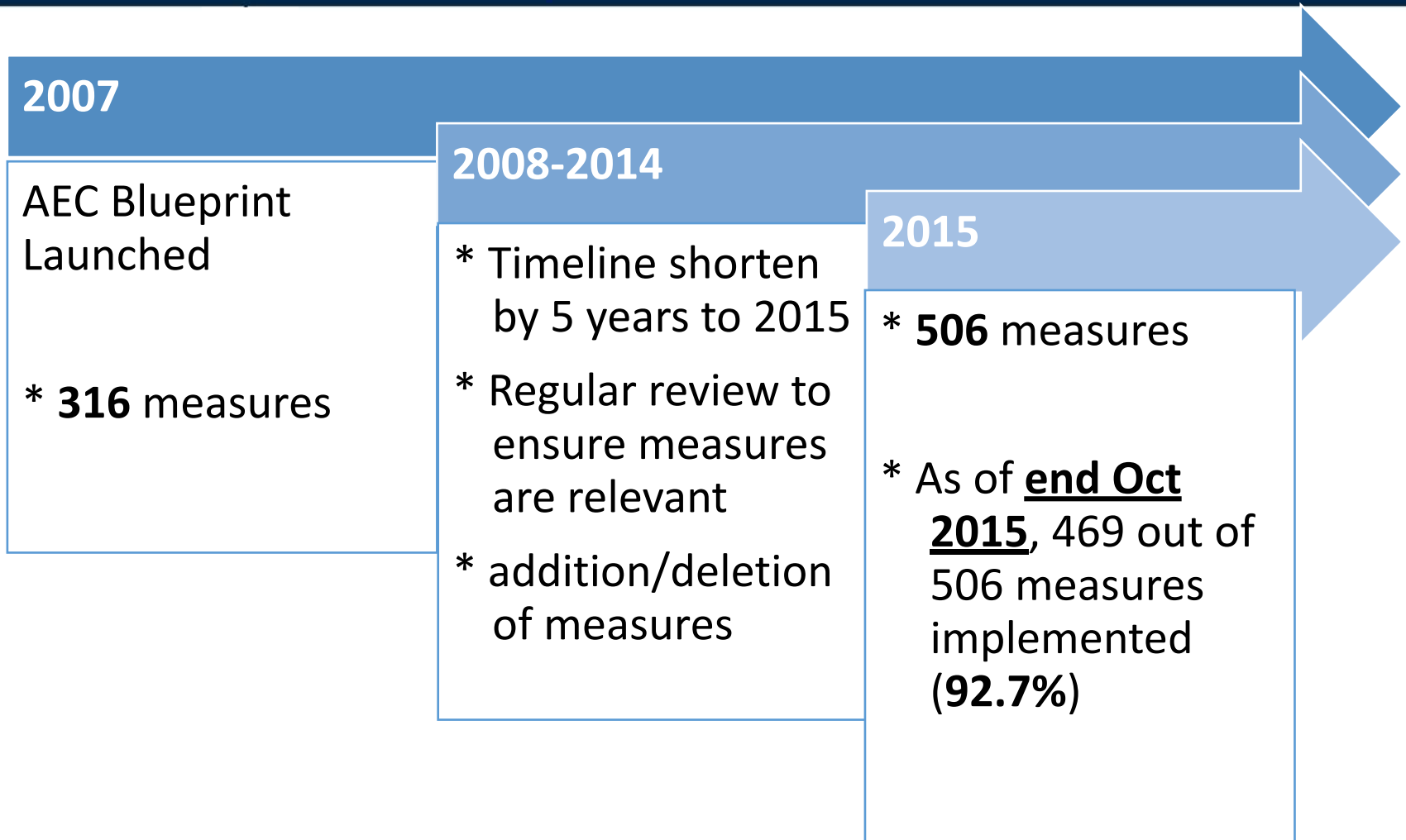
Progress Assessment by ASEAN Secretariat

Based on publications and presentations of ASEAN Secretariat

AEC Scorecard

- AEC Blueprint originally contained 316 priority measures.
- The full scorecard has been risen to 611 measures.
- This has been scoped down to 506 measures. (includes 54 high priority measures identified at the 21st ASEAN Economic Ministers' Retreat, March 2015)
- After 2012, the scorecard has not been published in a systematic fashion. Updated information is found from ad-hoc reports and presentations by ASEC

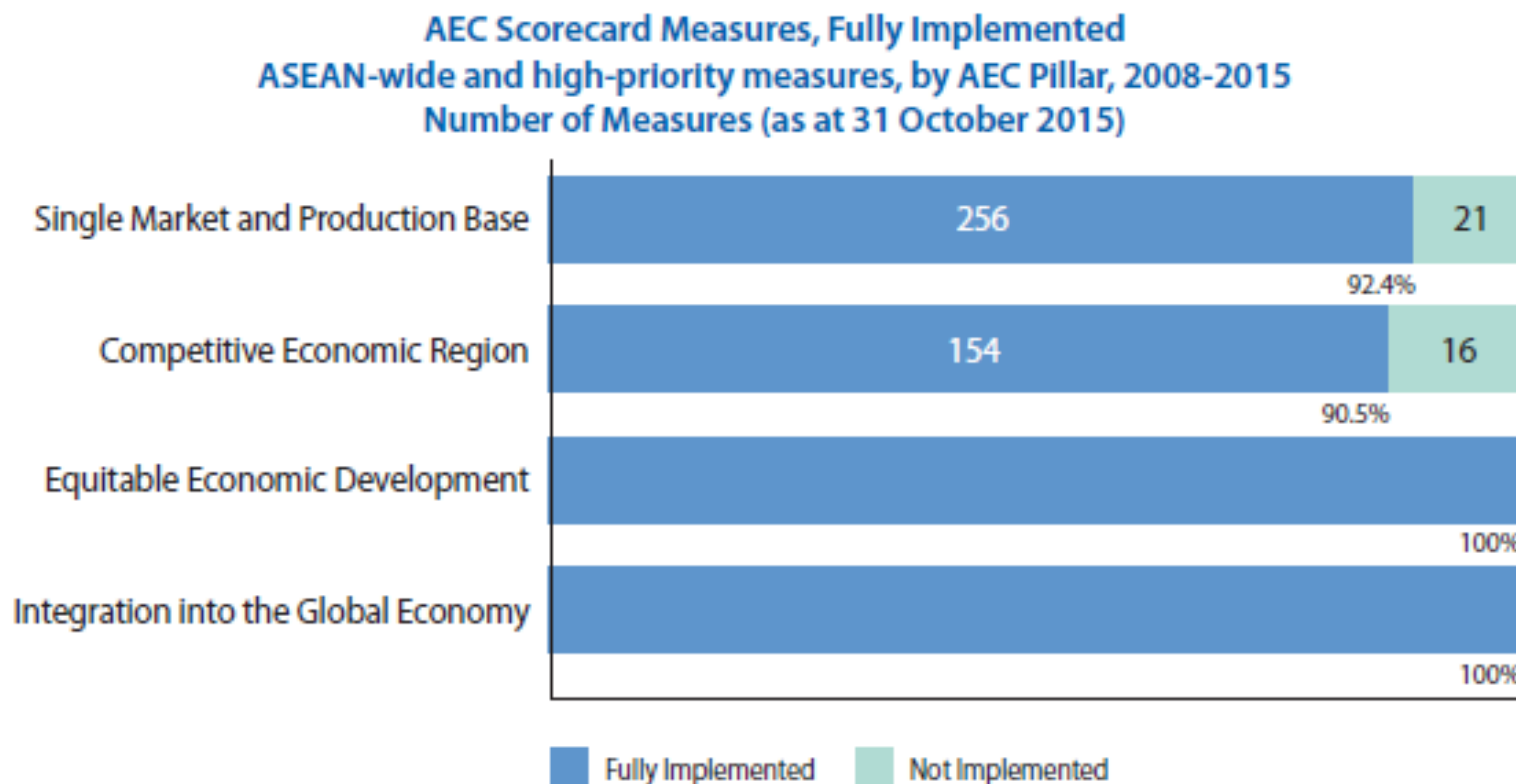
AEC Scorecard: Implementation Rate



Note: the implementation rate of the **full** AEC Scorecard stood at **79.5%**, or 486 out of **611 measures**.

Breakdown of implementation by AEC pillar

Figure 1



Some caveats to be kept in mind

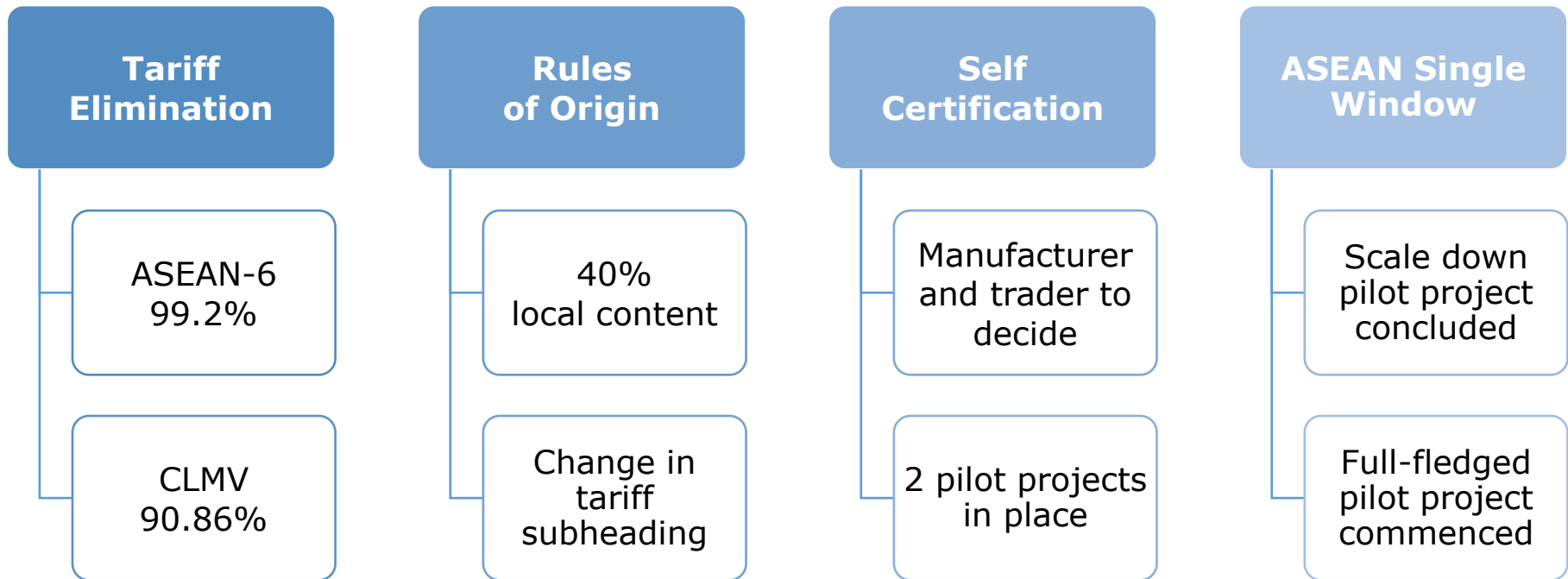
- The data used are based on self-assessment provided by member states.
- It leaves latitude for interpretation.
- It shows “adoption” rather than “implementation” of policies
- It does not offer view of progress by sector
- The country-based scorecards are kept confidential.



Important Achievements

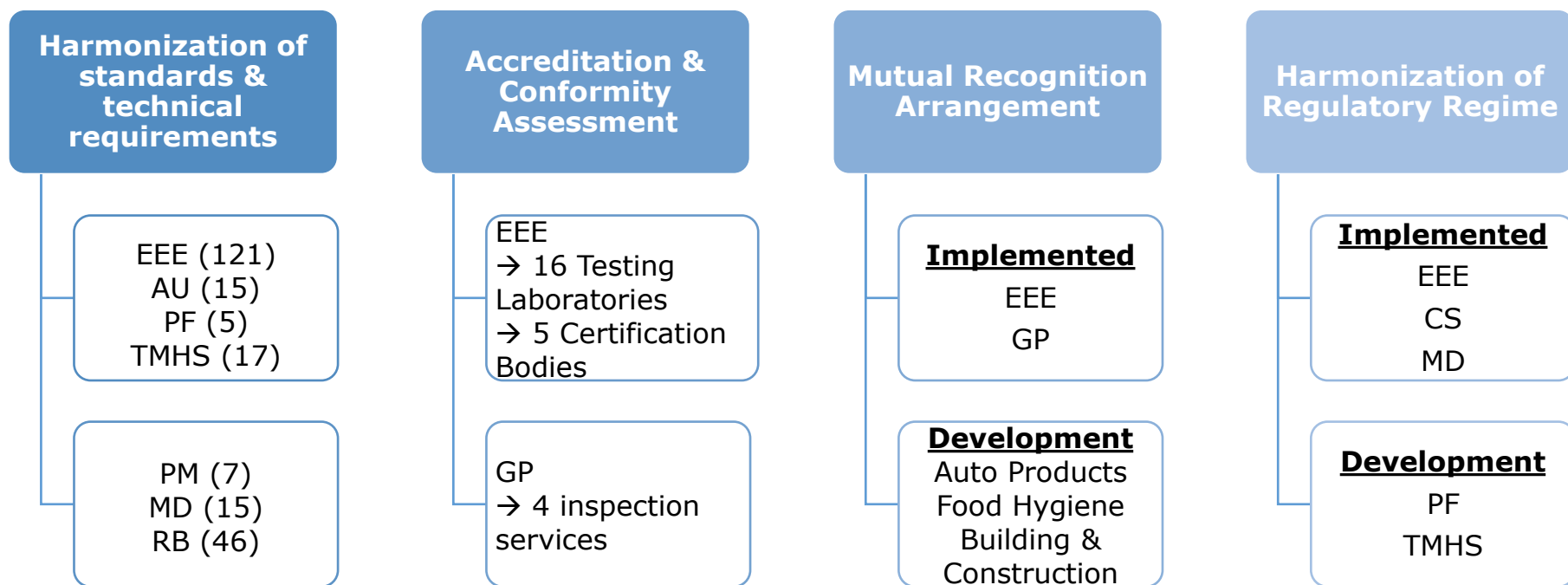
Based on publications and presentations of ASEAN Secretariat

About single market and production base



About single market and production base

One Product, One Test, Accepted Everywhere

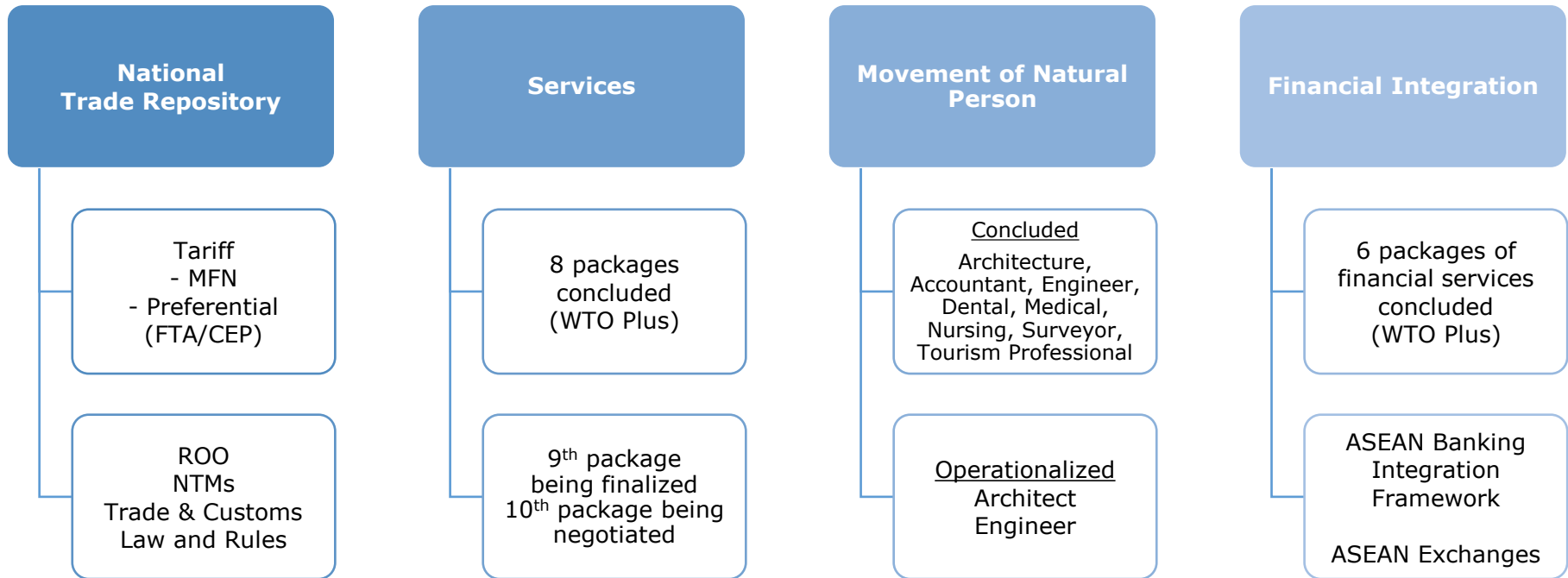


AU – Automotive **CS** – Cosmetic **EEE** – Electrical & Electronic Equipment

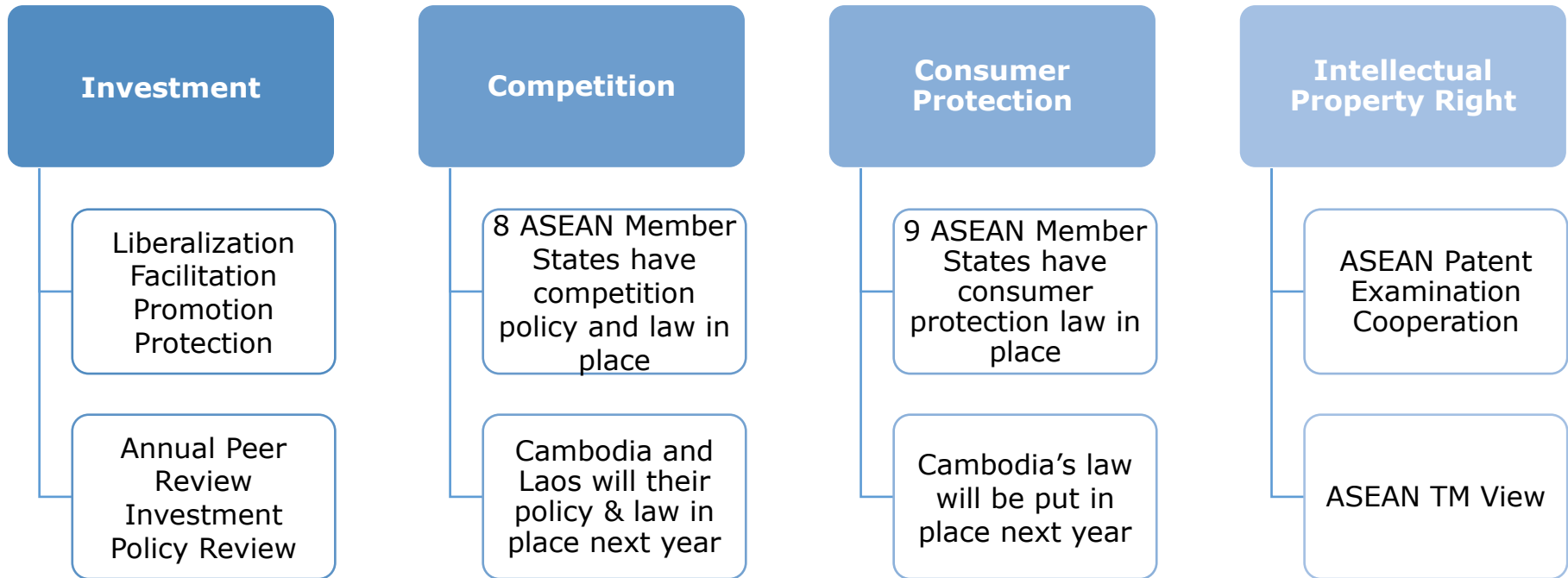
GP – GMP Inspection of Manufacturers of Medicinal Products **MD** – Medical Device **PF** – Prepared Foodstuff

PM – Pharmaceuticals **RB** – Rubber Based **TMHS** – Traditional Medicine & Health Supplement

About single market and production base



About competitive region



About convergence

- Access to information
 - ❖ Development of ASEAN SME Service Web Portal
 - ❖ Information pack on tariffs, rules of origin, customs procedures
- Access to finance
 - ❖ Developed ASEAN Benchmark for SME Credit Rating System
 - ❖ Policy studies with concrete proposals including financial inclusion
- Promote SME participation in supply chain
 - ❖ Completed training on garments, footwear and electronic sectors
 - Training on automotive and healthcare to be conducted later this year
- ASEAN Strategic Action Plan for SME Development 2016-2025 completed
- IAI
 - ❖ Technical assistance and capacity-building programmes aimed at narrowing the development divide between the ASEAN-6 and CLMV

About integration to the global economy

	Entry Into Force	Size of Market	Size of Economy (\$)	Total Trade (\$)
ASEAN	1992	0.625 B	2.57 T	608 B
ACFTA (China)	2005	1.99 B	12.95 T	366.5 B
AKFTA (Korea)	2007	0.67 B	3.98 T	131.4 B
AJCEP (Japan)	2008	0.75 B	7.18 T	229.9 B
AANZFTA (Aus-Nzl)	2010	0.65 B	4.21 T	81 B
AIFTA (India)	2010	1.88 B	4.61 T	67.7 B
AHKFTA (Hong Kong)	Jul 2014*	0.63 B	2.89 T	99.3 B
RCEP	May 2013*	3.45 B	22.67 T	875.8 B

* On-going negotiations

Assessment from different dimensions:

Integrated Region?

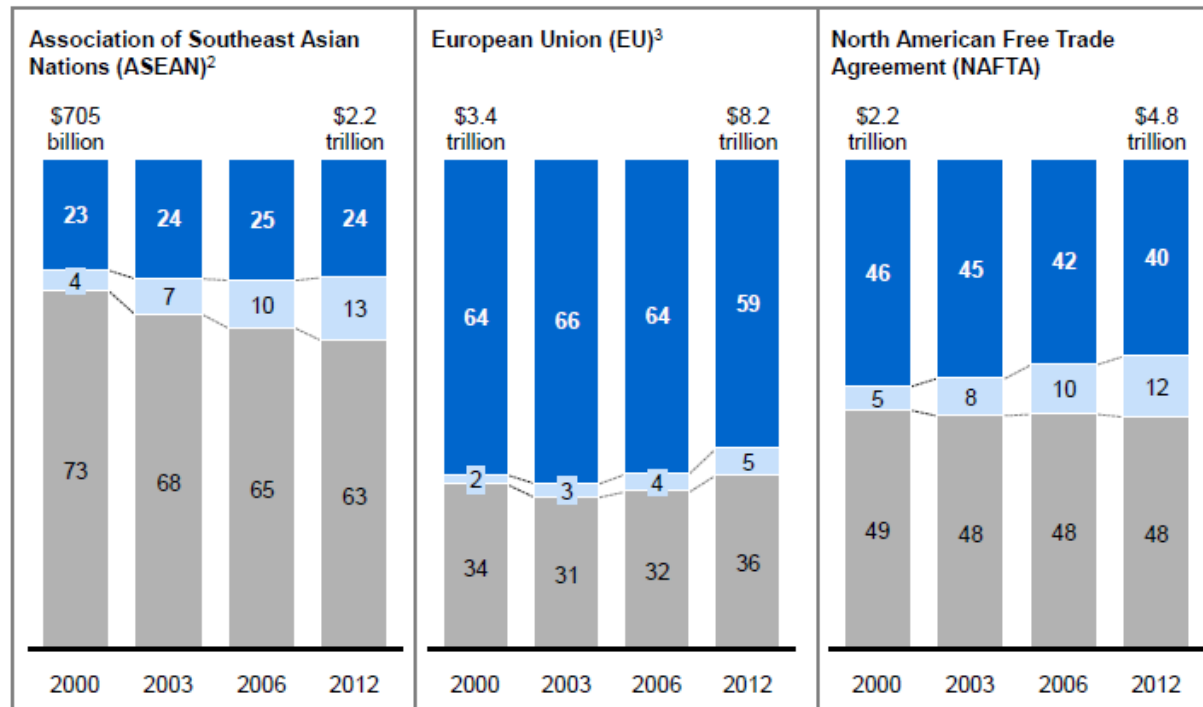
Factory “ASEAN”?

ASEAN's intra-regional trade is much lower than that of other trading blocs

Trade within and outside of trading blocs

Share of total goods trade, %¹

- Intra-regional
- Trade with China
- Extra-regional (excluding China)



¹ The value of total trade calculated as imports into ASEAN from extra-ASEAN plus all exports out of ASEAN (to avoid double counting).

² ASEAN 10.

³ EU-27.

NOTE: Numbers may not sum due to rounding.

SOURCE: Comtrade; McKinsey Global Institute analysis

Utilization of trading preference

- Utilization rate: Percent of dutiable imports that utilized tariff preference.
 - Margin of preference: the attractiveness of a preferential regime relative to MFN treatment
 - Costs of compliance
- Lacking of official data (existing studies seem to show mixed evidence)
 - Enterprise-level surveys
 - Certificate of origin information

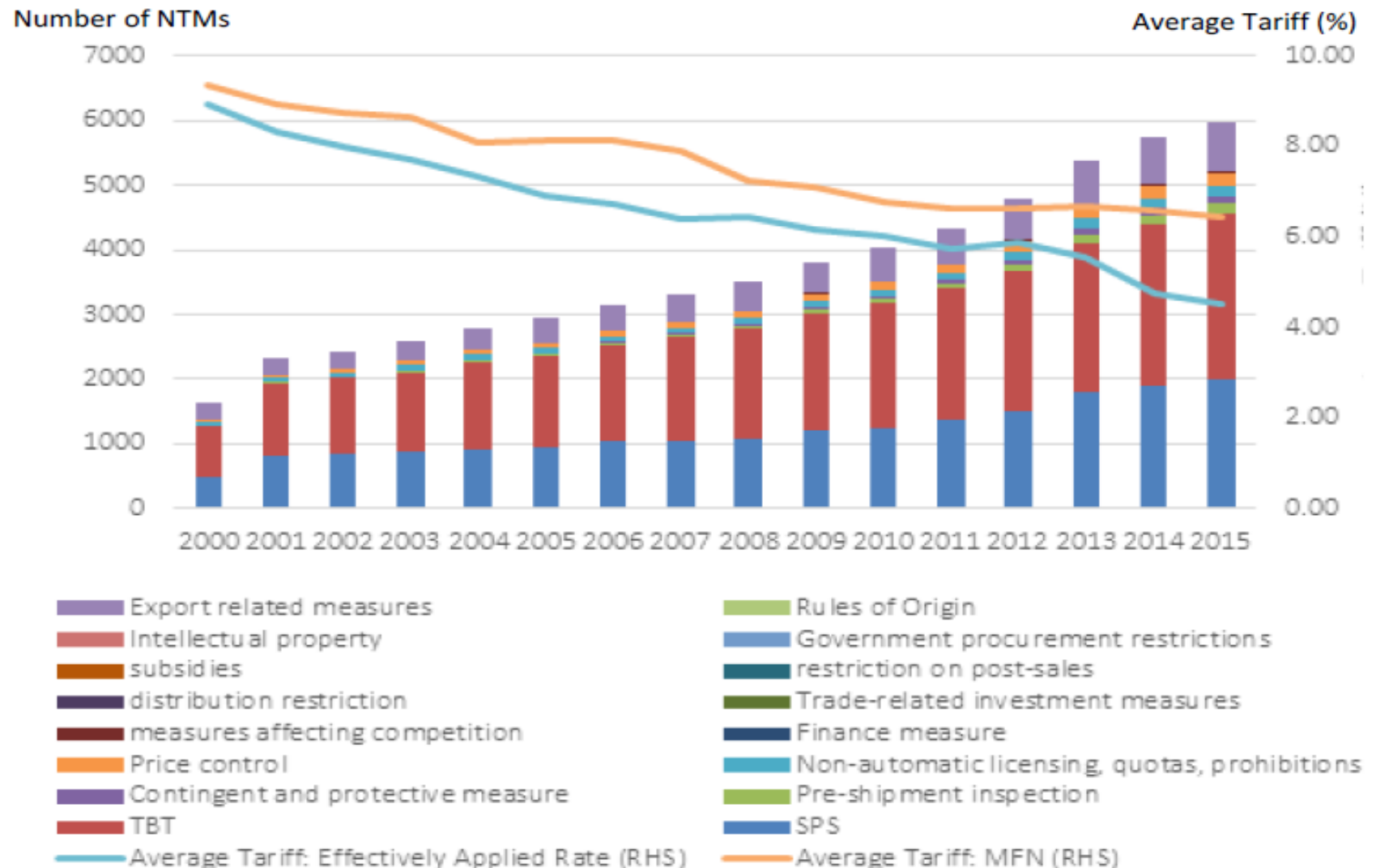
Utilization rates

- Underutilized free trade agreements

Country	FTA	AFTA
Indonesia	42%	51%
Malaysia	16%	39%
Singapore	21%	43%
Viet Nam	37%	65%
Average	26%	50%

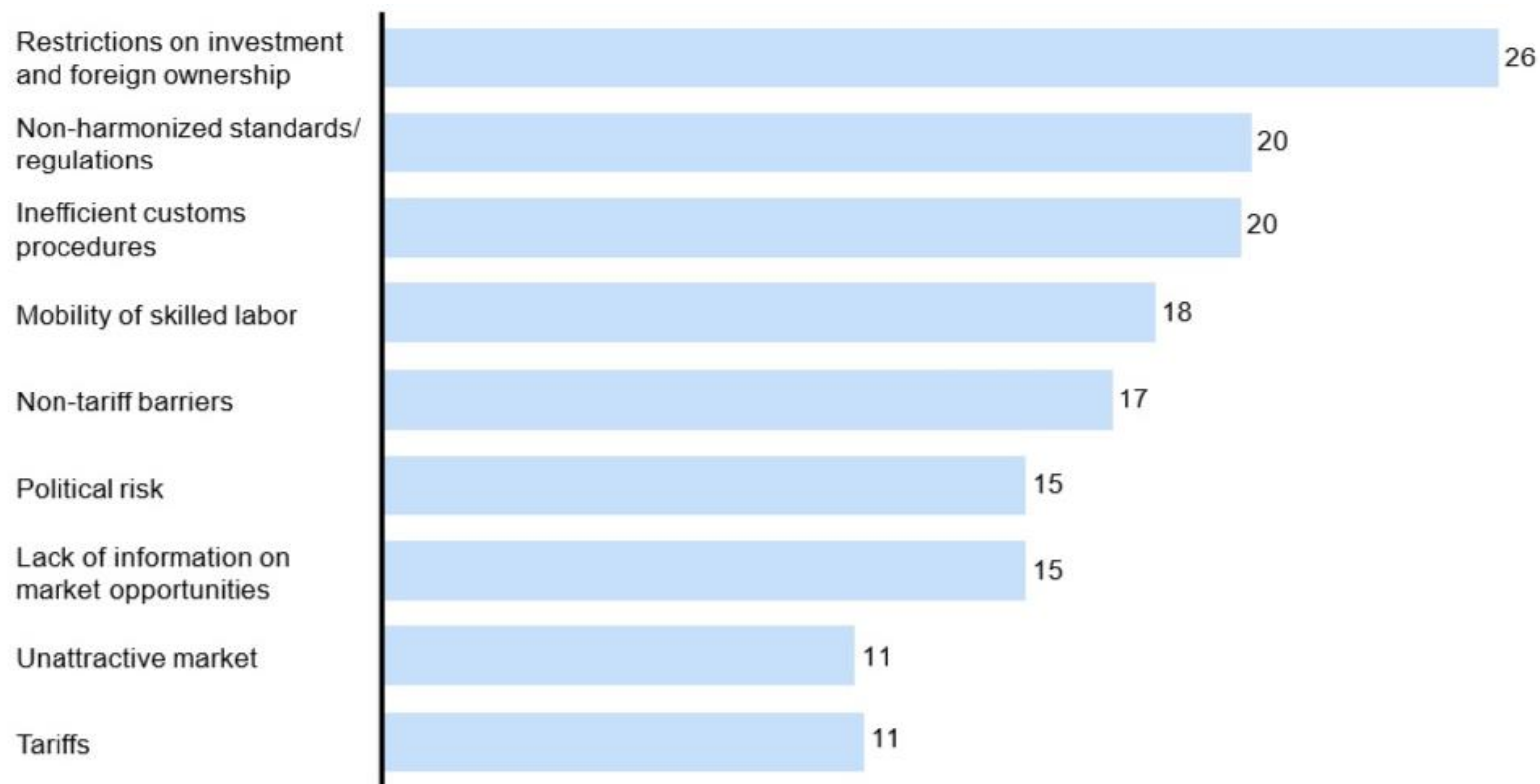
Source: "FTAs in South-east Asia: Towards the next generation." Economist Intelligence Unit, 2014.

Tariff and non-tariff measures in ASEAN, 2000-2015



ASEAN = Association of Southeast Asian Nations; NTM = non-tariff measure; SPS = sanitary phytosanitary; TBT = technical barriers to trade.

Overall outlook: progress on other barriers



1 Sample size of 96 respondents.

SOURCE: McKinsey Global Institute analysis

Priority Integration Sectors

- 12 priority sectors: agro-based products, fisheries, rubber-based products, wood-based products, textiles and apparel, automotive, electronics, e-ASEAN, air transport, healthcare, logistics, and tourism.
- Food, agriculture and forestry
- Uneven progress across sectors

Progress on integration by sector

Levels of integration vary significantly by sector
Progress on ASEAN economic integration by sector¹

Progress (%) 0–24 25–49 50–74 75–99 100

		Tariffs		Non-tariff measures		Trade procedures				Services	Investment	Labor	Average	Lowest	
		Tariffed goods	Tariffed amount	Standards and regulations	Other non-tariff measures ²	Single window status	Single window trade	Customs	Trade speed	Trade cost	Services restrictiveness	FDI restrictions			Labor mobility
Goods	Agriculture, fisheries	91	88	57	70	70	58	61	85	94		71		75	57
	Rubber	93	98	98	96							71		82	58
	Wood	94	99	96	75							68		80	58
	Textiles	96	99	99	73							81		82	58
	Auto	94	94	94	39							81		77	39
	Electronics	98	99	57	62							81		76	57
	Consumer	94	99	60	56							81		76	56
	Resources ³	84	93	79	89							61		78	58
Services	Air travel										71	61	n/a ⁵	66	61
	E-ASEAN ⁴										60	47		54	47
	Health care										33	83	10	42	10
	Tourism										71	90	30	64	30
	Logistics										46	94	n/a ⁵	70	46
	Finance										59	64		62	59
	Telecom										60	47		54	47
Average		93	96	80	70	70	58	61	85	94	57	72	20	69	20

¹ Based on assessments of Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. Brunei, Cambodia, Laos, and Myanmar excluded due to lack of comprehensive data; Singapore excluded to avoid bias toward developed economies.

² Includes administrative charges, certificates of approval, import licensing, quantity control measures, internal taxes, and prohibition measures.

³ Includes mining, and oil and gas.

⁴ Digital readiness through connectivity, local content, e-commerce, common marketplace for ICT goods and services, skills development, and e-governance.

⁵ Sectors not covered in mutual recognition agreements.

SOURCE: McKinsey Global Institute integration database

Barrier on FDI by sector

Foreign equity ownership index¹

0–24 25–49 50–74 75–99 100

		Vietnam	Malaysia	Indonesia	Philippines	Thailand	ASEAN ²
Goods	Agriculture	100	70	95	40	49	79
	Wood	100	100	49	40	49	77
	Manufacturing	75	100	69	75	87	87
	Mining, oil and gas	50	70	98	40	49	72
Services	Aviation	66	100	49	40	49	62
	Telecom	50	40	57	40	49	62
	Health care	100	100	65	100	49	88
	Tourism	100	100	100	100	49	93
	Logistics ³	100	70	100	100	100	96
	Financial services ⁴	65	49	99	60 ⁶	49	75
Cross-sector ⁵		81	80	78	64	58	79

1 Measures related to overt statutory restrictions on foreign ownership of equity in new investment projects (greenfield FDI) and on the acquisition of shares in existing companies (mergers and acquisitions). 100 = full foreign ownership allowed.

2 Malaysia, Indonesia, the Philippines, Thailand, Vietnam, Cambodia, and Singapore (excludes Brunei, Laos, and Myanmar due to data availability).

3 Retail distribution services used as proxy for logistics.

4 Banking used as proxy for financial services.

5 Includes only focus sectors profiled above, not exhaustive of sectors in the economy.

6 Philippines signed into law “full entry of foreign banks” in July 2014.

SOURCE: *Investing across borders*, World Bank Group, 2012; McKinsey Global Institute analysis

Implications of integration by sector

The impact of ASEAN Economic Community integration will vary by sector

Size = 2013 GDP¹
 Goods Services

Potential impact from full integration



¹ 2013 sector GDP for Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. Tourism and e-ASEAN not included due to lack of available data. Agriculture-based sectors include fisheries.

SOURCE: Expert interviews; IHS; McKinsey Global Institute analysis

Sector: Financial services

- A highly concentrated market in every ASEAN country apart from Viet Nam
- Sector remains fragmented due to differing regulations at the regional level
- Slow progress on both capital markets and trading sides

Sector: Airlines and tourism

One of the priority service sectors targeted for integration by the AEC. Robust growth, partly due to:

- Entrance of low-cost airlines
- Ongoing removal of visa requirements for short-term travel by ASEAN citizens within the region

Barriers to integration:

- Myanmar's visa requirement
- Domestic routes open only to national carriers
- Lack of common standards for air traffic control and other systems across the regions

Airlines remain a highly protected industry.

Sector: Telecommunication

- Not one of the priority sectors in the AEC plan
- Progress is limited due to:
 - The difficulties of aligning national regulators
 - Barriers on foreign ownership and operations
- Ongoing discussion on plans to lower roaming prices through region-wide or bilateral action.

Sector: Automotive

- ASEAN automotive already experienced significant tariff reduction in the ASEAN-5 countries
- Still considerable non-tariff barriers:
 - Quantity control measures
 - Luxury taxes
 - Incompatible technical regulations, including emission regulation
- Potential increase in efficiency from greater economies of scale

Sector: Consumer goods

- Level of integration already high on tariff measures
- But non-tariff barriers remain a problem:
 - Inconsistent standards and regulations across the region
 - Import licenses that are selectively rewarded
 - Excise and luxury taxes
 - Quotas, etc.
- Companies unlikely to consolidate to the same degree as firms in other industry.
 - Opportunities for “national champions” to expand regionally

Challenged under pillar 1

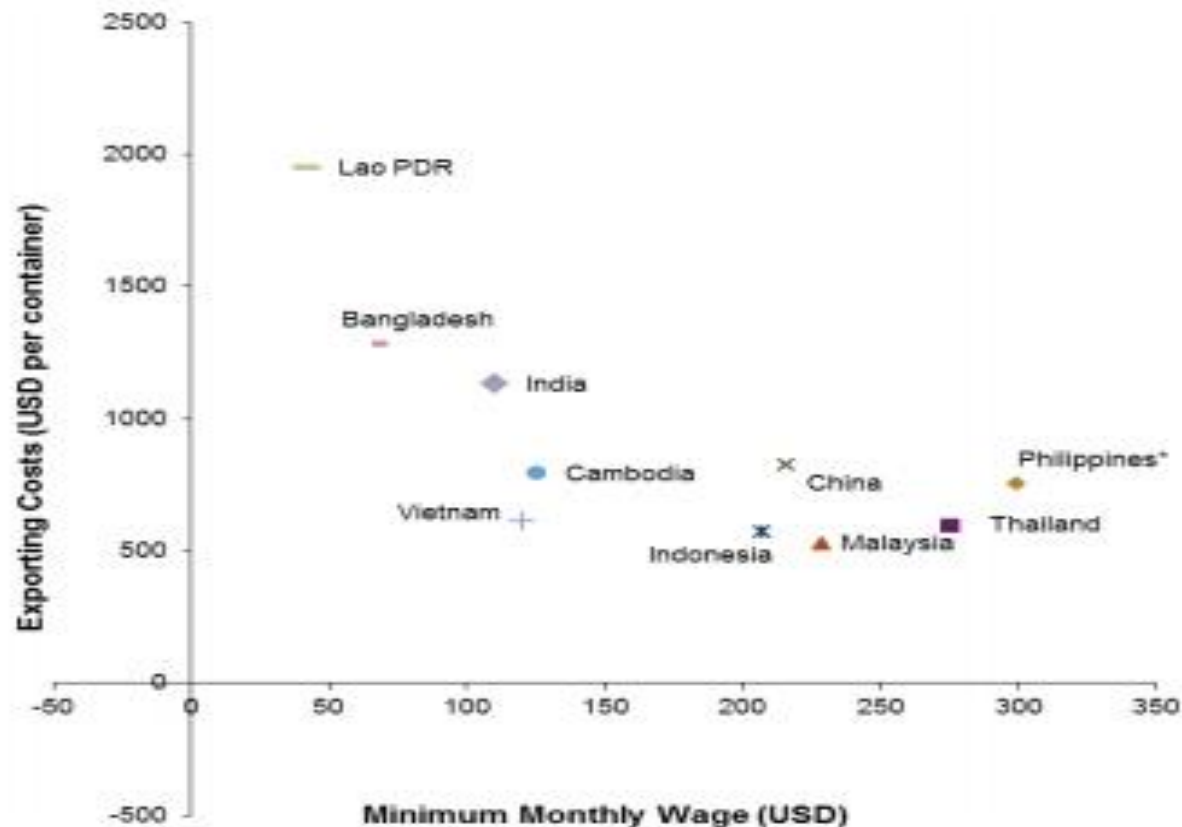
- Removing barriers to trade in sensitive areas like agriculture, steel and services.
- Improving the domestic regulatory environment, particularly prudential regulation for financial services
- Removing behind-the-border constraints related to logistics, transport, infrastructure problems, and weak institutions
- Promoting greater labor mobility

Assessment from different dimensions:

Competitive Region?

Competitiveness of ASEAN countries

Figure 6: Exporting cost and minimum wages



**For Philippines: Minimum Wage in Manila's region*

Sources: World Bank, Department of Labor Employment of Philippines, Euler Hermes

Challenges under pillar 2

- Biggest challenge still lies in competition policy and IPR – both difficult areas of reform
- Competition policy and IPR protection are essentially national in application
- Given different levels of development and national interests, cooperation and coordination—rather than uniformity in competition and IPR rules—are likely to be more achievable

Assessment from different dimensions:

Convergence?

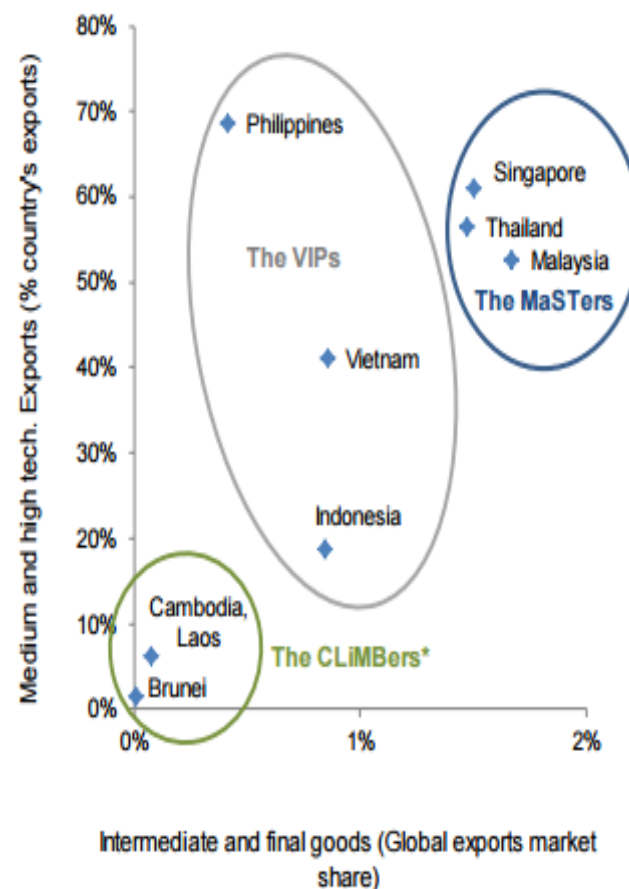
Convergence

Figure 3: Leveling the playing field when doing business

		Doing Business (1=best, 189 = worst)	Logistics (1=best, 160=worst)	Financial market development (1=best, 144=worst)	Innovation (1=best, 144=worst)
The MaSTers	Singapore	1	5	2	9
	Malaysia	18	25	4	21
	Thailand	26	35	34	67
The VIPs	Philippines	95	57	49	52
	Indonesia	114	53	42	31
	Vietnam	78	48	90	87
The CLiMBers	Laos	148	117	101	84
	Cambodia	135	81	84	116
	Myanmar	177	147	139	138
	Brunei	101	n.a	56*	59*

* rank in 2013-2014 survey

Sources: World Bank, World economic forum, Euler Hermes



* Figures for Myanmar were not available
Sources: Chelem, Euler Hermes

Challenges under pillar 3

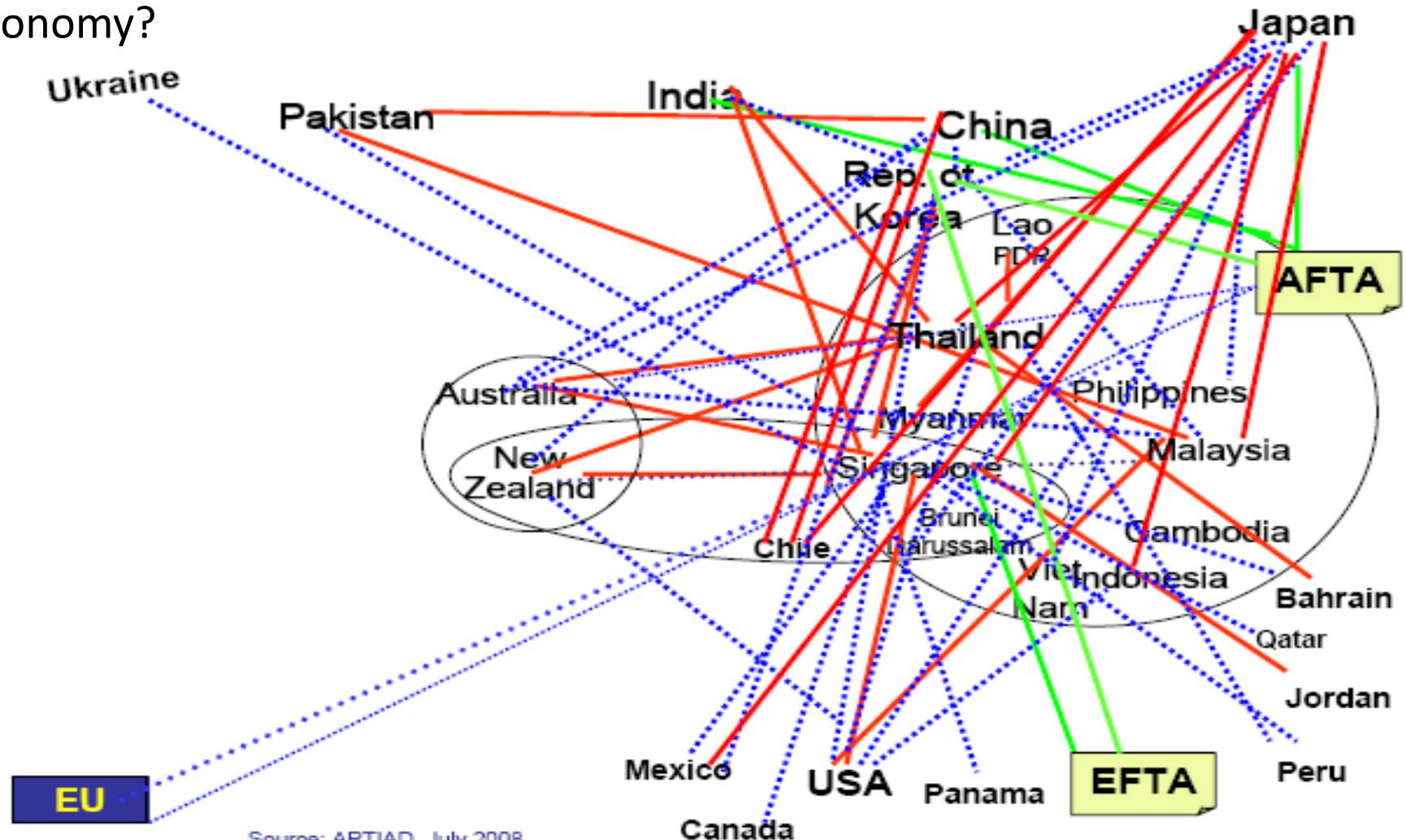
- AEC priority actions under Pillar 3 are useful, but not sufficient
- Domestic policy actions are more important than regional initiatives
 - Investments in social infrastructure, especially in education and health

Assessment from different dimensions:

Integration to the global economy?

The “noodle bowl” of ASEAN FTAs

Do those ASEAN FTA's actually promote integration into the wider economy?



Source: APTIAD, July 2008,
not all PTAs shown here

Rules of Origins of ASEAN FTAs

Figure 4: RoO Frequency Ratios, by Agreement and Type of Rule

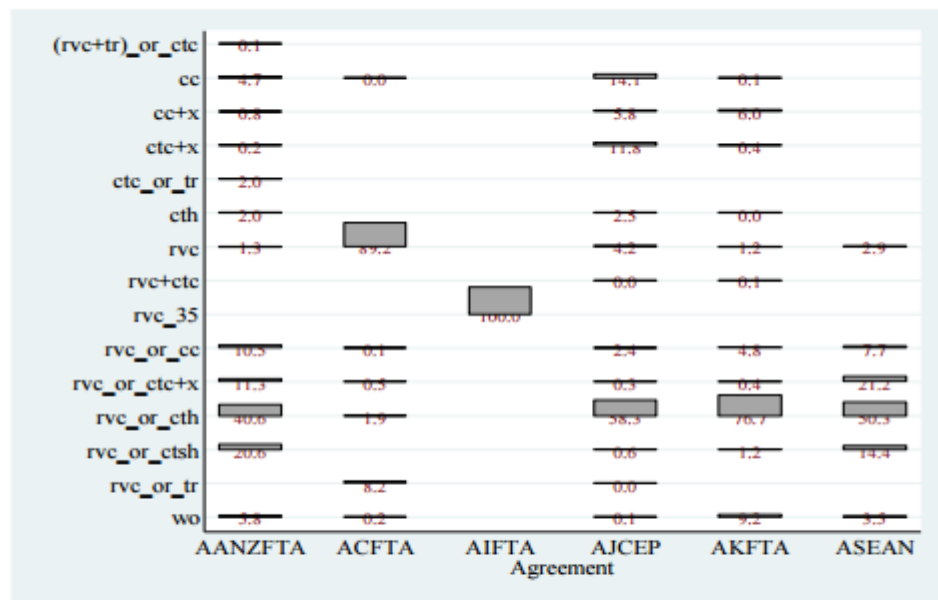
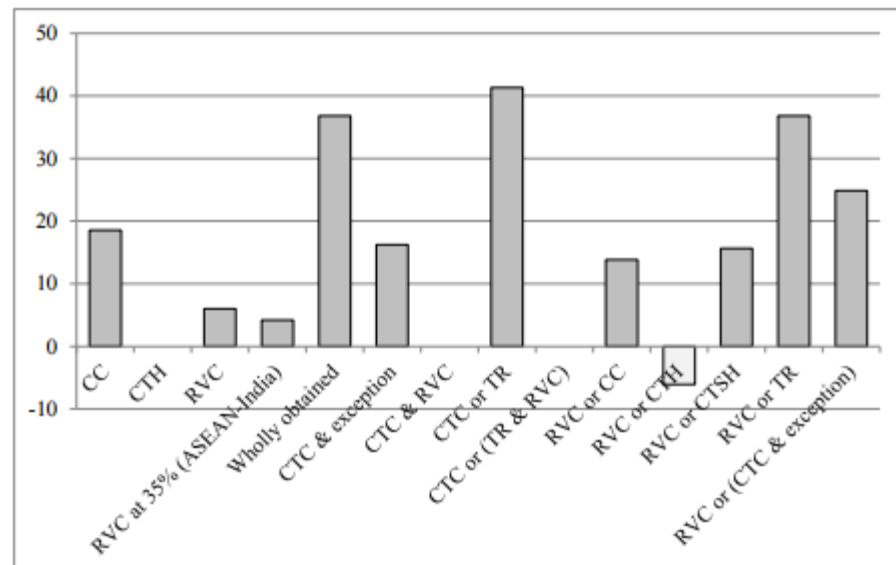


Figure 15: Ad-valorem Equivalents of RoOs, All Sample



rvc: regional value content (all thresholds combined except 35 percent); rvc_35: regional value content at the 35 percent threshold; cc: change of chapter; etc: change of tariff classification (any aggregation level); cth: change of tariff heading; ctsh: change of tariff subheading; x: exception; tr: textile rule; wo: wholly obtained.

AANZFTA: ASEAN-Australia/New Zealand FTA; ACFTA: ASEAN-China FTA; AIFTA: ASEAN-India FTA; AJCEP: ASEAN-Japan Economic Partnership; AKFTA: ASEAN-Korea FTA.

Source: Cardot and Ing (2014)

AEC is not the only game in town

- Two significant mega-regionals are the ASEAN+6 (RCEP), and the TPP- negotiations for which recently concluded.
- Also APEC's FTAAP, but early days still
- Mega-regionals partly a response to proliferation of bilateral FTAs involving at least one country from the region

In a nutshell

- Adoption of policies is not showing the progress of integration or commitment.
- Assessment based on the core elements sometimes tell nothing about progress of integration
- Thinking about multi-dimensions of integration when doing assessment.
- Focus on the goal, not the process!

Thank you

Q&A

Witada Anukoonwattaka
anukoonwattaka@un.org

Annex: technical note on MGI analysis

Countries	Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam
Areas	Goods, services, investment, and skilled labor
Method	A simple average of the scores in each of the 4 areas

Goods	Simple average of 9 areas
Services	World Bank's Services Trade Restrictiveness Index
Investment	World Bank's Foreign Investment Restrictiveness Index
Skilled labor	Covers only the healthcare and tourism sectors. Calculated based on assessment of ASEAN-wide progress, along with country-specific measures.