



ASEAN Prosperity Initiative

# ASEAN Integration Report 2022





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## List of Terms / Abbreviations

**ADB:** Asian Development Bank Institute

**ADB:** Asia Development Bank

**AEC:** ASEAN Economic Community

**AMR:** Antimicrobial Resistance

**AMS:** ASEAN Member State

**APEC:** Asia-Pacific Economic Cooperation

**APHDA:** ASEAN Post-2015 Health Development Agenda

**ARCH Project:** ASEAN Regional Capacity on Disaster Health Management

**CLM:** Cambodia, Lao PDR and Myanmar

**CLMV:** Cambodia, Lao PDR, Myanmar and Vietnam

**COPD:** Chronic Obstructive Pulmonary Disease

**CVD:** Cardiovascular Disease

**DHM:** Disaster Health Management

**EU:** European Union

**FAO:** Food and Agriculture Organisation

**IAI:** Initiative for ASEAN Integration

**ILO:** International Labour Organisation

**FCTC:** Framework Convention on Tobacco Control

**FL:** Food Loss

**FLS:** Flexible Learning Strategies

**HRH:** Human Resources for Health

**JICA:** Japan International Cooperation Agency

**LAYS:** Learning Average Years of Schooling

**MAMRASCA:** Mutual Recognition of Agri-food Standards and Conformity Assessment

**MoES:** Ministry of Education and Sports

**MRA:** Mutual Recognition Agreement

**MSME:** Micro, Small and Medium Enterprises

**MTR:** ASEAN Mid-Term Review

**NAP:** National Action Plan

**NCD:** Non-communicable Disease

**NIEM:** Thai National Institute for Emergency Medicine

**OECD:** Organisation for Economic Co-operation and Development

**OOSC:** Out-of-School Children

**SDG:** Sustainable Development Goals

**SPS:** Sanitary and Phytosanitary

**TRIPS:** Trade-Related Aspects of Intellectual Property Rights

**TVET:** Technical and Vocational Education and Training

**UN:** United Nations

## Foreword

With the rise of protectionism and trade tensions in the past few years compounded by the spread of the pandemic, it is important for the Association of Southeast Asian Nations (ASEAN) members to work together to continue their commitment towards further regional integration and trade reforms in the region. Such an effort is very timely to offset the inward-looking policies adopted by certain countries in the region in the midst of curbing the spread of the virus. Yet, to move forward with further trade integration, the lowering of tariffs is not enough. Non-tariff barriers need to be eliminated especially in the time of emergencies like we have faced many times. It was unfortunate yet inevitable to observe that the spread of the COVID-19 virus across the globe has caused countries to close their borders and restrict physical economic activities, consequently disrupting the smooth flow of international trade. This was clear with the trade in personal protection equipment (PPE) products among ASEAN member countries due to the disruption of value chains of these essential products.

As ASEAN aims to be incorporated in the global value chains (GVCs) efficiently, the signing of the Regional Comprehensive Economic Partnership (RCEP) agreements put ASEAN centrality at the core of such commitment. For ASEAN centrality to be strengthened and visible, ASEAN member states (AMS) need to work together to set guidelines and rules that strengthen the ASEAN Economic Community. With this said, reforms and collaboration need to take place beyond trade related issues.

To be the engine of growth, ASEAN needs to narrow the divide between different member countries. Access to education and healthcare need to be examined deeper, and capacity building and training need to be deployed in an effective manner in the near to medium term. To ensure that integration leads to an inclusive economy and society, initiatives and commitments agreed upon, need to take into account the micro, small and medium enterprises (MSMEs) that continue to be the backbone of the local economies. Initiatives that do not give access for the participation of the MSMEs will lead to a marginalised community that is not in line to what is envisioned by the ASEAN Economic Community (AEC) Blueprint 2025.

In the next few years, ASEAN has an important task to define the vision of integration it sees fit within the context of the region and the global environment. Even though progress in different sectors has been observed in the past few years, without a clear and unified vision of integration, further cooperation may not lead to a satisfactory outcome. In a post-pandemic era, it is clear that no country can survive on its own. ASEAN needs to leverage its strength and uniqueness to ensure that no one is left behind, in good times and especially in times of crises and emergencies.



**Tricia Yeoh,**  
Chief Executive Officer, IDEAS

## Executive Summary

Progress in integration among AMS is mixed throughout the different pillars and the sub-pillars highlighted by the AEC 2025 Blueprint. Under Pillar 1: A Highly Integrated and Cohesive Economy, in a nutshell, trade in goods has seen the most progress compared to the other five sectors within this pillar. Nevertheless, on the regional front, the free movement of goods is clearly an unfinished agenda. Many of the achievements in facilitating the movement of trade in goods have remained inconsistent across the AMS, driven by country-specific factors rather than ASEAN-wide initiatives. The overall progress for the free movement of trade in goods within the region remains patchy. It is necessary for the AMS to work together to continue their efforts to streamline non-tariff measures (NTMs) and review some of the Mutual Recognition Arrangements (MRAs), to shift towards a seamless exchange of documentation and seamless logistics, and to ensure the interoperability between regional (ASEAN Single Window (ASW) and digital) frameworks.

Under Pillar 2: A Competitive, Innovative and Dynamic ASEAN, on competition specifically, all AMS have made significant progress in fulfilling Strategic Goal 1 of ASEAN Competition Action Plan (ACAP) 2025, which calls for effective competition regimes to be established in all AMS. As of now, all AMS have enacted their own respective competition law frameworks, with Cambodia being the last state to implement theirs in October 2021. With all AMS having adopted a legal framework on competition covering all three pillars, namely laws prohibiting anti-competitive agreements, abuse of dominance, and anti-competitive mergers, ASEAN has effectively achieved Strategic Goal 1 of the ACAP 2016-2025 as well as sub-pillar BI.i. of AEC 2025. With ASEAN having crossed the first hurdle of establishing competition laws in every AMS, the focus now must be on capacity building, particularly in light of the unique challenges brought on by the pandemic. The ASEAN Heads of Competition Agencies (AHCA's) Joint Statement released in the aftermath of the pandemic called for strengthening outreach to MSMEs, with complaints of abusive conduct by larger enterprises towards MSMEs having been received by regulators early on in the pandemic. In response, competition agencies should focus on advocacy work, with MSMEs made aware of their respective rights as well as the process for reporting any potential abuse by larger enterprises through the proper channels. When looking at ASEAN's efforts at promoting greater harmonisation of AMS' competition policy and law, we find that at the macro-level there is already considerable similarity between AMS laws covering cartels, anti-competitive agreements (horizontal and vertical), abuse of dominance and mergers. However, at the micro-level we find regional incoherency, mostly with regards to the interpretation and application of the laws.

Under Pillar 3: Enhanced Connectivity and Sectoral Cooperation, even though there is a huge potential in the e-commerce sector in a post-pandemic setting, integration among the AMS sector is still lacking. The different agreements and action plans introduced have been beneficial in paving areas for cooperation between AMS even before the pandemic, but without electronic payments interoperability and digitisation of key documents for trade, integration may not be achieved in the e-commerce sector.

Under Pillar 4: A Resilient, Inclusive, People-oriented and People-centred ASEAN, on access to education it was found that despite the significant progress on narrowing the gap between AMS in accessing primary education, a significant divide between Cambodia, Lao PDR, Myanmar (CLM) countries and the rest of the AMS in accessing secondary and tertiary education still remains. COVID-19 appears to have exacerbated the education divide between AMS due to the uneven distribution of digital accessibility, which affects countries' ability to deliver quality online education during school closures. If left unaddressed, the widened educational divide will have significant implications on broader socioeconomic disparities across AMS. Additionally, on healthcare, the incremental triumphs and achievements in regional healthcare before 2020 were severely hampered by the emergence of COVID-19. More than just impeding progress, the pandemic exposed

hitherto unaddressed issues, such as the limited operationalisation of MRAs to promote health worker mobility and shared resources. More than anything, it shed light on a fundamental obstacle toward inclusive economic integration in ASEAN: however understandable during a time of crisis, each AMS holds an overarching priority in its national interests, as opposed to a regional focus.

Under Pillar 5: A Global ASEAN, there are steady progress and efforts from AMS towards integrating into the global economy by ratifying regional FTAs and regional comprehensive economic partnership. RCEP has contributed 30% of global output and trade as confirmed by the ASEAN Secretariat's Mid Term Review (2022). It continues to be an important initiative towards an integrated market within the region. ASEAN continues to strengthen its position as a trading partner even amidst the COVID-19 pandemic that has exacerbated challenges when it comes to trade. To date, ASEAN remains as an open and inclusive economic region through ASEAN centrality in the global economic architecture. The question now is what can be done to achieve the end goal of the ASEAN Economic Community 2025?

## Introduction to the ASEAN Prosperity Initiative 2022

The ASEAN Prosperity Initiative (API) is a research and advocacy-based project which seeks to highlight the key opportunities and challenges presented by the ASEAN economy for the period up to 2025. The API is one of the flagship projects of the Institute for Democracy and Economic Affairs (IDEAS) and is intended to serve as a focal reference for development and economic-related issues in relation to Southeast Asia. The project is jointly funded by the Friedrich Naumann Foundation for Democracy.

As part of the API project, the ASEAN Integration Report is a research study that evaluates the various aspects of integration in the ASEAN Economic Community and the impact of COVID-19 on economic integration, as well as discusses policy recommendations moving forward. This study was conducted by experts and researchers across ASEAN, with input from a diverse range of stakeholders such as representatives from multilateral organisations, businesses and academic institutions.

### The ASEAN Economic Community (AEC)

The ASEAN Economic Community (AEC) is the economic arm of the broader ASEAN Community, alongside other sub-communities for political security and socio-cultural affairs. It provides a consolidated and coherent vision for the region's economic integration, propelling ASEAN towards becoming a highly competitive region, with equitable economic development and a single market and production base that is fully integrated into the global economy.

Before the AEC's establishment in 2007, ASEAN's priority on economic integration was characterised by a host of other initiatives: in 1992, there was the ASEAN Free Trade Area (AFTA) to intensify the region's economic potential; in 1998, there was the Hanoi Plan of Action (HPA) to chart initiatives for economic integration, and in 2003, the Declaration of ASEAN Concord II was established, paving the way for the formation of the ASEAN Community.

The first AEC Blueprint was established by the ASEAN Secretariat in 2007. It provided the guiding principles for ASEAN to enhance trade in Southeast Asia through liberalisation and facilitation, paving the way for the eventual transition into a fully integrated and competitive region. While initially set for completion in 2020, the ASEAN Secretariat made the collective decision to accelerate this timeline to 2015. Up until then, four

pillars characterised the AEC: a single market and production base to support the free-flow of goods, services, investment, skilled labour and capital; the creation of a competitive economic region to foster a culture of fair competition and to protect consumers; equitable economic development aimed at narrowing the development gap within and among member states and relieving poverty in all ten member countries; and integrating ASEAN into the global economy.

While 2015 marked an important milestone, in November of that year, the ASEAN Secretariat published the AEC Blueprint 2025 to address unresolved goals in the original framework, as well as renew its focus on deeper economic integration and better connectivity. The current blueprint is composed of five pillars:

1. A highly integrated and cohesive economy;
2. A competitive, innovative and dynamic ASEAN;
3. An ASEAN with enhanced economic connectivity and deeper sectoral cooperation;
4. A resilient, inclusive and people-oriented and people-centred ASEAN;
5. A global ASEAN.

In order to support the realisation of the AEC's priority areas, ASEAN has signed several agreements over the last decade. In 1995, the ASEAN Framework Agreement on Services (AFAS) was established; the ASEAN Trade in Goods Agreement (ATIGA) was signed in 2009 and implemented in 2010, replacing the Common Effective Preferential Tariff (CEPT) Scheme; and in 2012, the ASEAN Comprehensive Investment Agreement (ACIA) replaced the ASEAN Investment Agreement (AIA). In support of these agreements are facilitation measures, including the ASEAN Agreement on Movement of Natural Persons (AAMNP) and Mutual Recognition Arrangements on Services (MRAs) signed in 2012. To tackle the implementation of the AEC Blueprint 2025, ASEAN leaders agreed on the Consolidated Strategic Action Plan (CSAP) in 2017, a complement to the blueprint that details over 100 measures with over 500 lines of supporting actions required. The CSAP is reviewed periodically to integrate stakeholder feedback on integration priority areas, and was updated in 2018 to include further measures to support implementation.

## Monitoring the Implementation of the AEC

This study monitors progress with regard to the implementation of the AEC Blueprint 2025, evaluating all five pillars to take stock of what has been achieved so far and conversely which areas have seen little progress. The report focuses specifically on the developments for the past five years leading up to the COVID-19 pandemic, before moving on to analysing how the pandemic impacted progress. Finally, the report provides policy recommendations on how the end goals of the blueprint can be achieved. The research was conducted by including input from a diverse range of stakeholders from across ASEAN through interviews, including representatives from multilateral organisations, businesses, and academic institutions.

The report builds upon previous studies conducted on the progress of the AEC 2025 under the ASEAN Prosperity Initiative. These include IDEAS' ASEAN Integration Reports released in 2018 and 2019 respectively, which was IDEAS' attempt to provide an external assessment of the extent to which the AEC 2025 is being implemented on the ground. These reports monitored publicly available information on measures and actions which have been implemented up until the date of publication, as well as general economic indicators to

assess the stated outcomes of ASEAN integration.

As well, the report builds upon the ASEAN Secretariat's Mid-Term Review (MTR) of the ASEAN Economic Community Blueprint 2025, commissioned by ASEAN and released in 2021. The MTR likewise assessed the progress made in the first five years of implementation of the Blueprint, identified gaps, and made policy recommendations with regard to the way forward. The MTR noted that while ASEAN had made good progress towards the goals in the AEC Blueprint 2025, intensification of effort must be made in 'high impact economic integration initiatives', a focus on the quality rather than the quantity of initiatives, and acceleration in the pace of implementation.

## **The Purpose of The Report**

This report tracks the progress of the AEC Blueprint 2025 since 2015. 2015 marks the end of the timeline of the AEC Blueprint 2015. Nevertheless, the commitments towards integration continue with new areas of focus being highlighted, such as the E-commerce and ICT sectors, among others.

The authors tracked the progress of integration by analysing publicly available data and evidence in quantitative and qualitative forms. Information and literature review on programmes and their progress were collated to gauge the level of effectiveness and impact they had on different stakeholders.

This report also focuses on the impact the pandemic has had on the different pillars of integration by examining case studies and evidence both qualitatively and quantitatively. From the challenges put forward in each section, policy recommendations are also suggested to strengthen the ASEAN Economic Community in the medium to long term.

# Pillar I: Highly Integrated & Cohesive Economy

## Sub-Pillar A - Trade in goods

Evelyn S. Devadason, PhD

### Author Profile



**Dr. Evelyn S. Devadason** is a Professor at the Faculty of Business and Economics, University of Malaya, and Vice President of the Malaysian Economic Association. She received her Ph.D. (Economics) from the University of Malaya in 2006 and M.Soc.Sci. (Economics) from the National University of Singapore in 1992. Her research focuses on international trade and regional integration. She currently serves as Editor-in-Chief to the *Institutions and Economies journal*, Associate Editor to the *International Journal of Social Economics*, and member to the Editorial Boards of the *Journal of Contemporary Asia* and *International Journal of Rural Management*. She has been engaged as a consultant in several international research projects, namely the EU Horizon 2020, ERIA, FIA, ADBI, ADB, World Bank, and joint projects of the ICFTU-APRO, ERIA-UNCTAD, UNEP-DTU.

## I. Introduction

After the formation of the ASEAN Economic Community (AEC) in 2003 and the adoption of the AEC Blueprint in 2007, the establishment of the AEC—or an “ASEAN Free Trade Area (AFTA)-plus” at the end of 2015—is considered a major milestone in the regional economic integration agenda. The first pillar of the AEC envisions ASEAN as a single market and production base. In 2009, the ASEAN Trade in Goods Agreement (ATIGA)<sup>1</sup> was signed, and it entered into force in 2010 to pave the way for the establishment of the first pillar with a free flow of goods. ATIGA is broad in scope as it goes beyond tariff reductions and covers non-tariff barriers (NTBs), non-tariff measures (NTMs), and trade facilitation (TF), among other specific provisions.

Despite the above developments, there is mixed evidence on the progress of integration (Ishika-wa, 2021; Sukegawa, 2021) through trade in goods and the participation of ASEAN in global value chains (GVCs). Recognisably, ASEAN has made good progress in tariff elimination under the ATIGA (ERIA, 2021; ASEAN Secretariat (ASEC)<sup>2</sup>, 2022), but the prevalence of non-tariff barriers (NTBs), the slow progress in streamlining NTMs, and other provisions related to TF are among factors that have impacted the free movement of goods. As a result, in 2015, the ASEAN Member States’ (AMS) adopted the AEC Blueprint 2025 to strengthen the implementation of incomplete parts from the 2015 Blueprint and define new areas of cooperation. Recently, the ASEAN Economic Ministers (AEM) also launched negotiations to upgrade the ATIGA on 16 March 2022, in response to challenges from the unprecedented COVID-19 pandemic and geopolitical tensions.

The key question posed in this chapter is: has the AEC been able to deliver through deeper integration of trade in goods? This chapter takes stock of the progress of the AEC’s first key pillar to inform the debate on the status of integration for trade in goods.

The remainder of the chapter is organised as follows. Section 2 highlights the progress of regional trade in goods, covering issues such as tariffs, NTMs and trade costs, since the 2000s up to the COVID-19 pandemic. Then follows a discussion of the impacts of the pandemic and the emerging issues for the integration of the regional goods market in Section 3. Section 4 provides an update on the challenges for realising the next phase of ASEAN’s economic integration agenda, the AEC Blueprint 2025. This section also offers a range of policy recommendations for deepening integration for trade in goods. Section 5 concludes the chapter.

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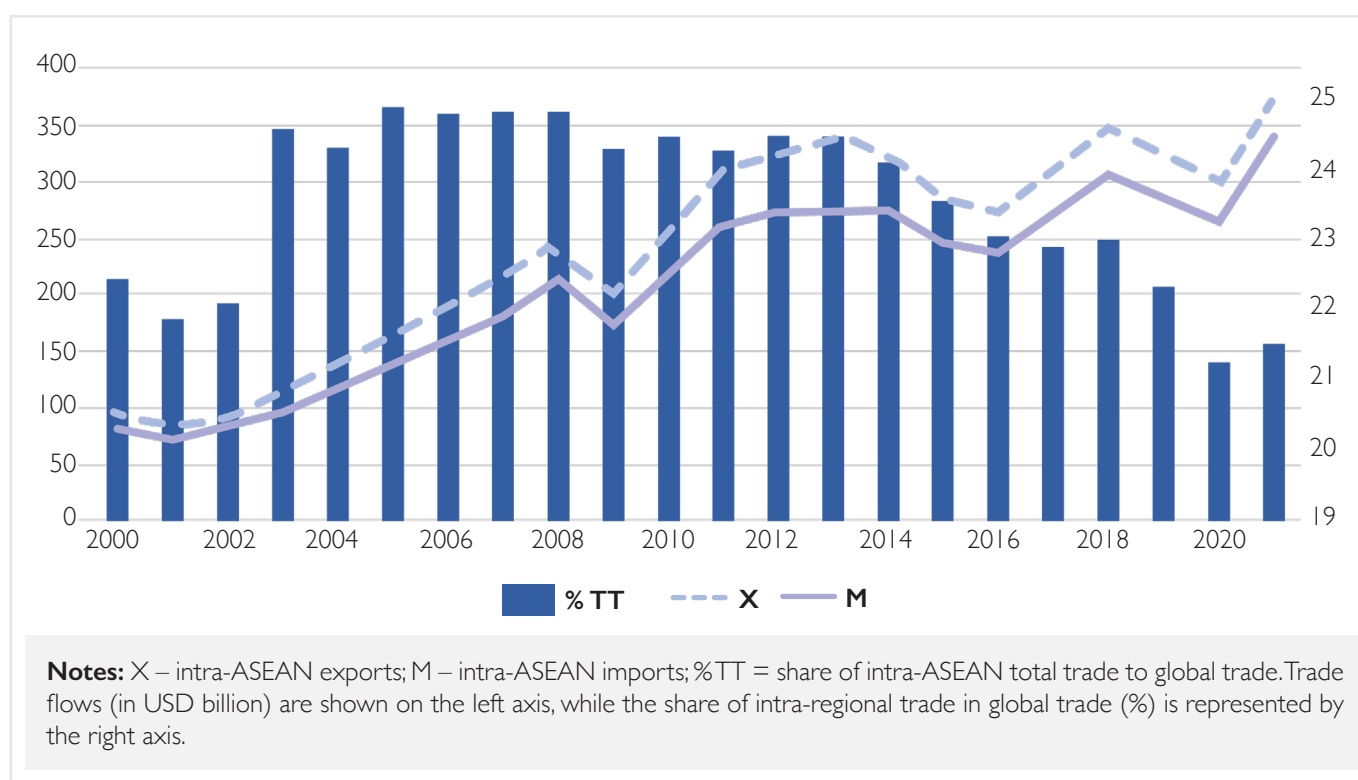
<sup>1</sup>. ATIGA is the successor to the 1992 agreement on the Common Effective Preferential Tariff (CEPT) Scheme of the AFTA.

<sup>2</sup>. <https://asean.org/our-communities/economic-community/trade-in-goods/>

## 2. Development since 2000s up to the pandemic

Intra-ASEAN trade grew at an average of 7.8% for the period 2000 to 2021, with a marginal higher growth rate in intra-regional imports relative to exports. Though intra-regional trade has increased from USD176 billion in 2000 to USD710 billion in 2021, the share of intra-regional trade in global trade remains low at 23.3% on average (see Figure 1). Lao PDR is the only AMS that trades more within the region than beyond the region, where 56.7% of its global trade was directed to ASEAN in 2021. Yet, among the AMS, Lao PDR remains the lowest contributor to intra-regional trade, while Singapore followed by Malaysia, Thailand, and Indonesia are key players in the region, commanding average regional trade shares of 35.8%, 20.5%, 15.6% and 12.6%, respectively.

**Figure 1: Intra-ASEAN Trade in Goods, 2000-2021 (USD billion)**



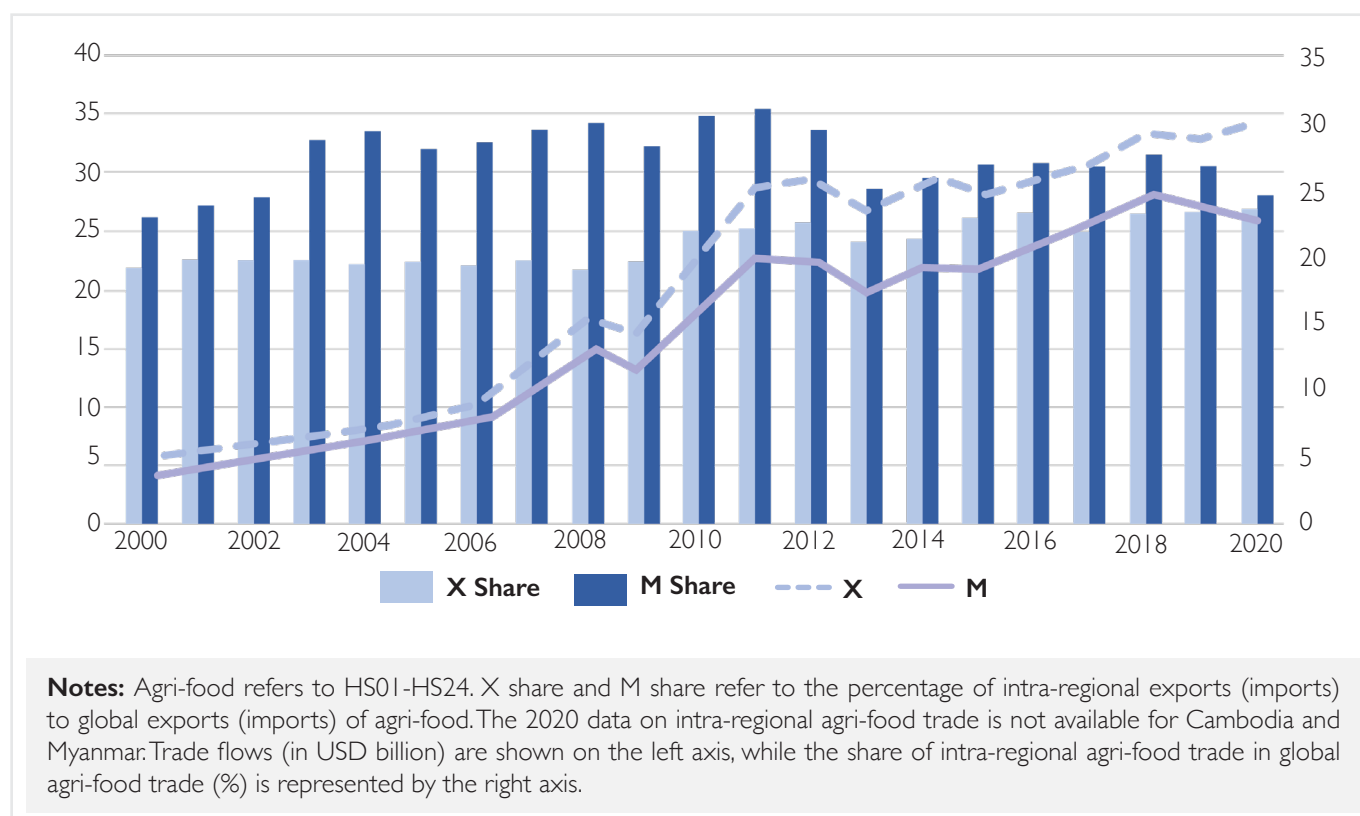
Sources: UN Comtrade (2022) and ASEANStatsDataPortal (2022)

The generally low intra-regional trade shares have been widely acknowledged and documented in existing literature. Even with tariff liberalisation under ATIGA<sup>3</sup>, the already low to zero MFN tariffs (small margins between ATIGA and MFN rates) and the high compliance with ATIGA's provisions have for long led to the under-utilisation of the preferential tariffs. In a recent study, ERIA (2021) identified limited positive impact of ATIGA to some sectors, such as agri-food and automotives, where the existing margin of preference is sufficiently large due to the high most-favoured nations (MFN) tariffs. Yet, some sceptics question whether regional tariff liberalisation has benefited the protected agri-food sector, since ASEAN trades more with countries outside the region relative to other regions, such as the European Union (EU). At 27.9% on average, the share of intra-ASEAN agri-food trade in its global agri-food trade, though higher than that of total intra-

<sup>3</sup> As of 2020, ASEAN was already considered virtually tariff-free, with tariffs on 98.6% of products fully eliminated under the ATIGA (ASEC, 2022).

regional trade in global trade (see Figure 1), has not changed significantly despite the gradual uptrend in both exports and imports (see Figure 2). The global shares of intra-ASEAN exports and imports of agri-food remained at 21.1% and 27.4% for the 2000 to 2020 period (see Figure 3), respectively. ERIA's (2021) estimates allay such doubts as the increase in intra-ASEAN trade between 2010 and 2018 was found to be driven by the higher utilisation of ATIGA, particularly in agri-food in the Philippines, Thailand, and Vietnam.

**Figure 2: Intra-ASEAN Trade in Agri-Food, 2000-2020 (USD billion)**



Source: UN Comtrade (2022)

Bearing in mind that the agri-food sector is highly networked, the decision to source from the region is not dictated solely by tariffs, but includes NTMs, apart from the availability of suppliers and supply chain decisions of traders. Sanitary and phytosanitary (SPS) measures, which dominate the region's import-related NTM portfolio after technical barriers to trade (TBTs) (see Figure 6 below), and generally apply to agri-food, have price raising effects, while the heterogeneous SPS measures across the AMS can restrict the extensive margin (Govindaraju et al., 2021). According to Suvannaphakdy and Neo (2021), the country that is most severely affected by SPS measures is Vietnam, where these regional requirements have pushed prices of imported agri-food products upward by 116.4%. They also affirm that agri-food trade of Brunei, Cambodia, Laos, Myanmar, and Singapore can potentially be reduced due to the high export concentration or exposure of these countries to the burdensome SPS measures in the intra-ASEAN market (see also Oizumi, 2020).

The low intra-regional agri-food trade is therefore a growing concern since the outbreak of the pandemic, especially when ASEAN is seeking to secure a stable supply (food security) of these products and raw materials amidst rising commodity prices, and other external supply shocks (e.g.: economic crises, trade wars, climate change). From the discussions above, it is obvious that tariff liberalisation alone is insufficient for providing genuine integration for trade in goods, as NTMs can also be trade-restricting. Unlike tariffs, (legitimate)

genuine integration for trade in goods, as NTMs can also be trade-restricting. Unlike tariffs, (legitimate) NTMs must be maintained as they serve public policy objectives (such as animal plant and human health, environmental protection, national security, and cultural reasons).

Since NTMs can incur substantial trade costs (information costs due to information asymmetries; and compliance costs related to testing, sampling, certification etc.) due to their poor implementation and design (Devadason, 2020b) and/ or from lack of harmonisation of those regulations<sup>4</sup> (Devadason, et al., 2018; Suvannaphakdy, 2021), ASEAN remains committed to reduce trade costs but has only achieved limited progress. Based on Figure 3, trade costs from tariffs and non-tariffs<sup>5</sup> declined, albeit marginally, for most bilateral flows between 2015 and 2020, with a few exceptions, such as Brunei-Lao; Cambodia-Lao; Lao-Thailand; Lao-Philippines; Myanmar-Singapore; and Indonesia-Thailand. That said, there is still significant heterogeneity in bilateral trade costs within the region. For example, the 2020 data suggests that goods traded between Brunei and Lao, on average, involved an additional cost of 908% of the value of goods as compared to when the two countries traded these goods within their borders (UN, 2021). This is in sharp contrast to the ad valorem tariff and non-tariff equivalent trade costs of 70% and 75% for goods traded between Brunei and Malaysia in the same year.

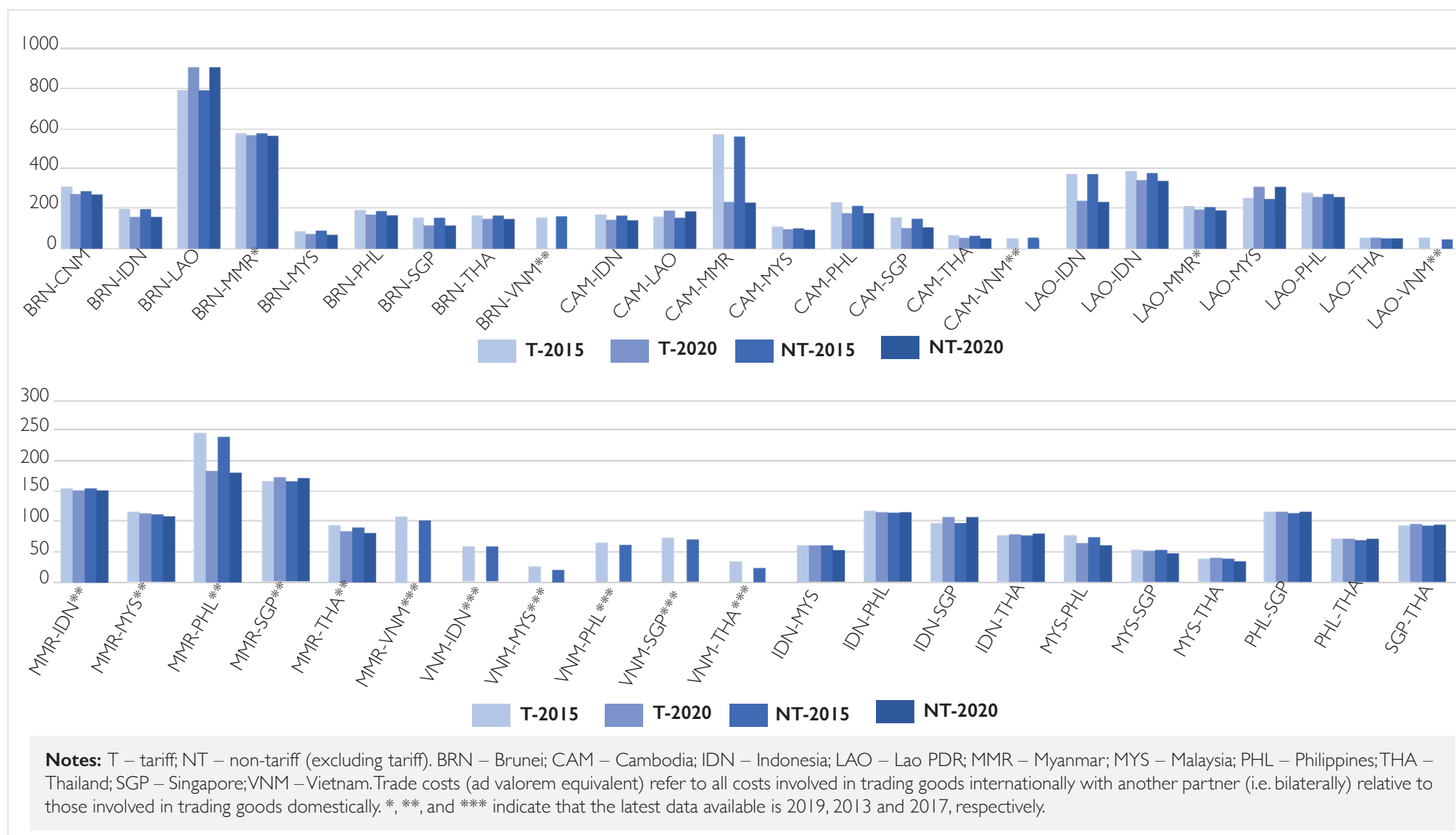
While burdensome regulations pervade the agri-food sector, the same problem persists for trade in environmental goods (EGs). The study by Paramasua et al. (2021) indicates that administrative burdens (complex/multiple/overlapping documentation) related to non-technical NTMs (certification, permits, licences) were major constraining factors for this sector in Malaysia. The companies surveyed in their study also argued that the Asia Pacific Economic Cooperation (APEC) list of 54 products for EGs—which is much narrower in scope than the framing of EGs by the Organisation of Economic Co-operation and Development (OECD)—is inadequate (see also Kuriyama, 2021), as it is confined to a small range of goods. They are therefore unable to reap the full advantage of tariff liberalisation in this sector.

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<sup>4</sup> Examples of procedural obstacles tied to NTMs in ASEAN include administrative burdens due to the overlapping, complicated cross-bureaucracy, and somewhat conflicting responsibilities of regulators; lack of information/transparency of compliance procedures; discriminating behaviour of government officials towards importers; delays and informal or unusually high payment for import approvals; lack of sector specific facilities (for example testing and storage); and lack of recognition/accreditation.

<sup>5</sup> Apart from NTMs and unnecessary regulatory procedures and documentation, non-tariff sources of trade costs include transport, logistics infrastructure and services.

Figure 3: Bilateral Trade Costs between AMS, 2015 and 2020

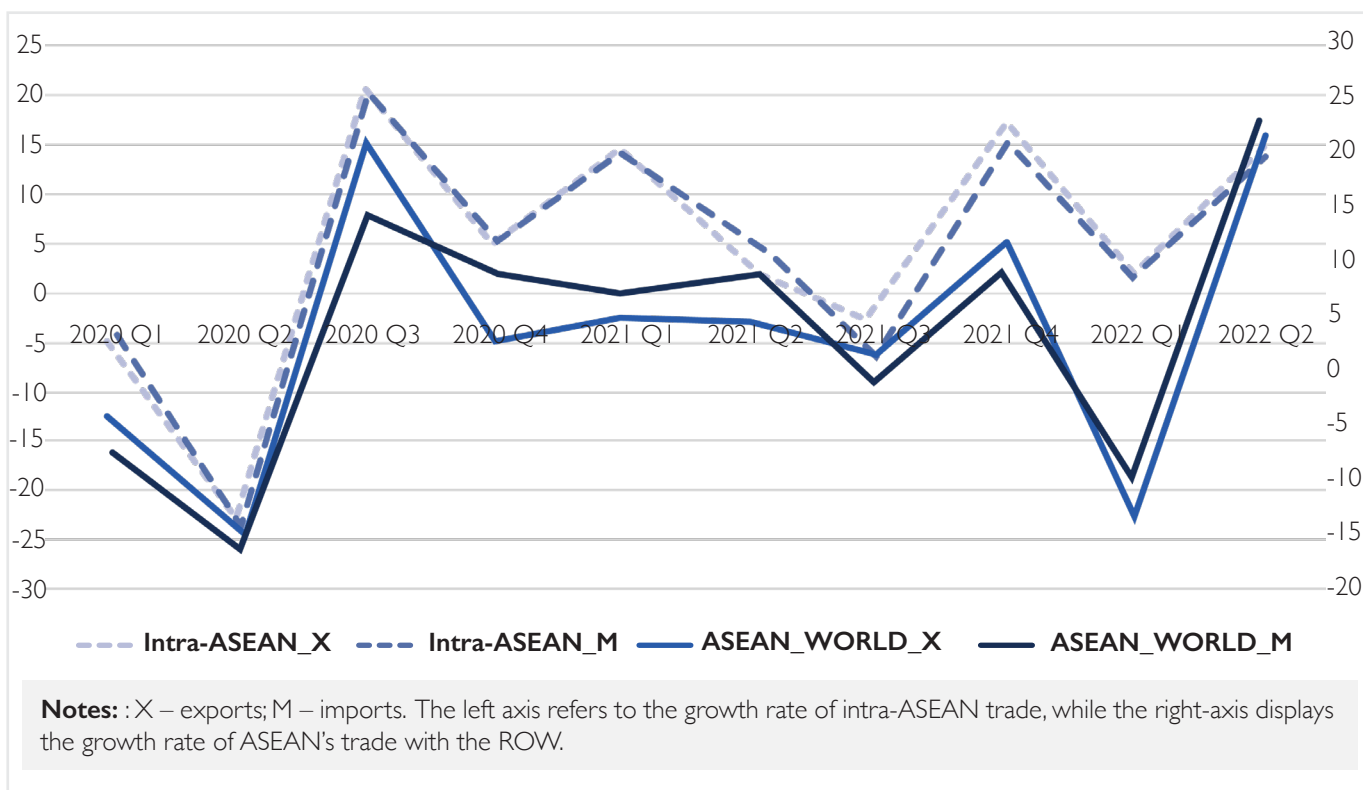


Source: ESCAP-World Bank trade cost database (2022).

### 3. How did the COVID-19 pandemic impact progress?

The pandemic had significant negative impact on regional trade, extra-regional trade, and supply chains. Intra-ASEAN exports and imports of goods fell by 24% and 25% on a year-on-year basis in the second quarter of 2020. Similarly, ASEAN’s exports and imports to the rest of the world (ROW) dipped by 14% and 20% in the second quarter of 2020 (on a year-on-year basis) (ASEANStatsDataPortal, 2022). Though the growth rates of intra-ASEAN trade and the region’s trade with the ROW have been rather volatile and unpredictable during the pandemic period (2020-2021), the vertiginous plunge in goods trade observed in the second quarter of 2020 may in fact be bottoming out in the second quarter of 2022, as shown in Figure 4.

**Figure 4: ASEAN - Intra-Regional and Extra-Regional Growth of Trade in Goods, 2020Q1 – 2022Q2 (%)**



Source: ASEANStatsDataPortal (2022).

There is however no clear-cut answer to the direct consequences of the pandemic for trade in goods due to its heterogeneous impact across sub-sectors and countries within the region, and the complexity of the trade networks. Hence, one should be cautious in interpreting overall trade patterns, particularly the large declines in trade volumes during the 2020 to 2021 period, to draw conclusive impacts of the pandemic per se on trade in goods. Kiyota (2022) further confirms that the trade shock from the pandemic is not necessarily regarded as a point of structural change as the breakpoints for the AMS were identified before 2020. This implies that the structural issues underlying trade in goods before the pandemic were exacerbated (and not caused) by the economic shock of COVID-19. Kiyota (2022) further argues that there was also no significant change in the trade network of the ASEAN countries before or after the pandemic.

Despite the trade contractions during the pandemic, as shown in Figure 4, the arguments above point to the overall resilience of trade in goods in ASEAN. ADB (2022b) reports that merchandise exports have proved

resilient amid the pandemic, specifically in Malaysia, Singapore, Thailand, and Vietnam as they have built regional value chains (RVCs) that are more integrated relative to the pre-pandemic period. Therefore, there are reasons to believe that the temporary and limited (direct) impacts of the pandemic on trade in goods may have been exaggerated, setting back the structural weaknesses of the pre-pandemic period. Hence, the pre-pandemic issues that pervade the goods sector require significant attention to inform the debate on the likely consequences for the AMS as it transitions to the endemicity phase from the pandemic period. The existing problems, and the emerging issues for the goods sector (particularly for sub-sectors like essential goods and environmental goods), are raised in this section.

### 3.1. External shocks and trade resilience

ASEAN's participation in global value chains (GVCs) at 61% on average is higher than the global average of 57% and that of many regions, except for the EU (ASEAN-Japan Centre, 2019). More than half of ASEAN's GVC participation, as shown in Figure 5, is derived from the upstream part of value-chains (foreign value-added or FVA), reflecting its dependence on foreign inputs, or supplier market concentration. Interestingly, while total GVCs have somewhat stagnated at 61% of total exports since 2015, RVCs<sup>6</sup> have increased from 12% (20%) of total exports (GVCs) in 2000 to 16% (25%) in 2018. Within the region, Malaysia, Singapore, Thailand, and Vietnam are key suppliers to the other AMS exports. Despite the growing emphasis on RVCs, the global non-ASEAN networks continue to dominate the value-chain participation of ASEAN.

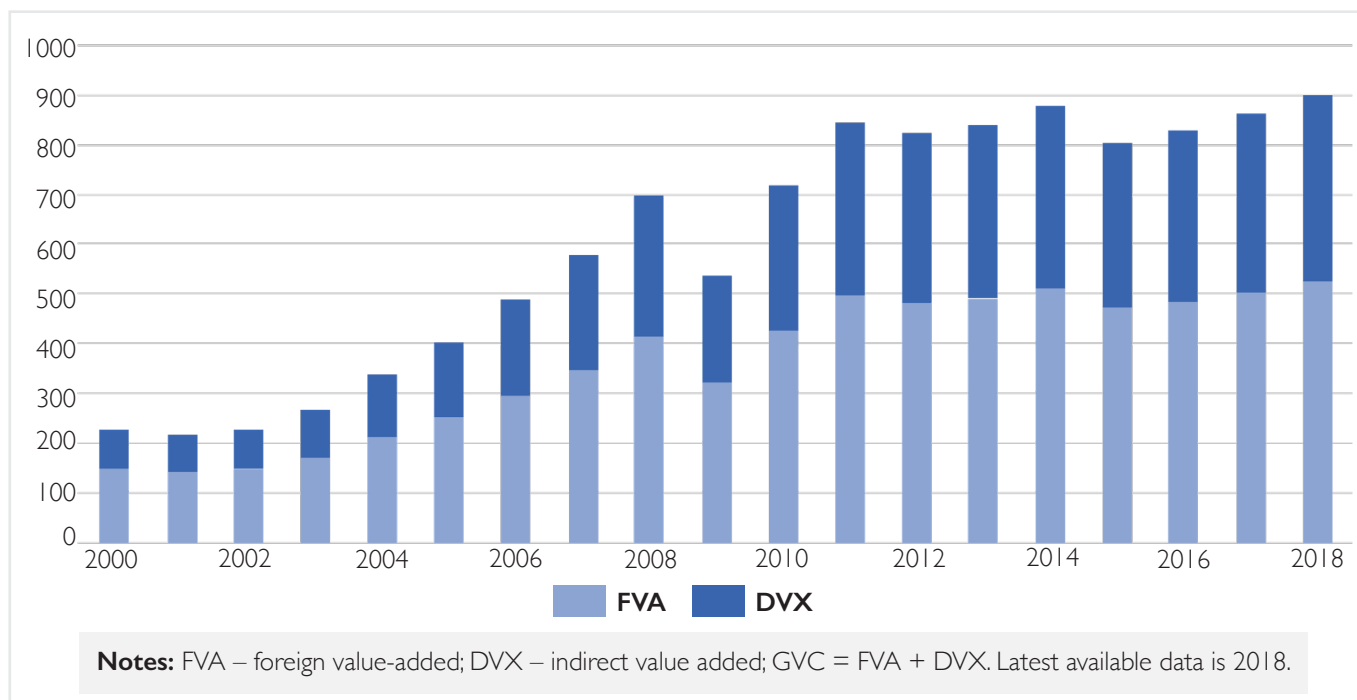
Following the high (direct and indirect<sup>7</sup>) trade interdependencies via RVCs and GVCs, the issue of the region's resilience<sup>8</sup> to supply chain disruptions—which began with the global financial crisis (GFC, 2008/2009), was followed by the United States (US)-China trade war, and was then accelerated by the outbreak of the COVID-19 pandemic (since 2020)—has now become a subject of intense debate. Outside ASEAN, the manufacturing sector is tightly interwoven with the People's Republic of China (PRC). Hence, ASEAN is unsurprisingly found to be less resilient to shocks propagated from the PRC, congruous to the goods trade intensities between the two (Raghavan and Devadason, 2020), and relative to (direct) regional shocks. The trade exposure of ASEAN to the PRC is considerably high given the dominant market share of Chinese FVA in the region, and the high concentration by Chinese suppliers in at least one industry in all ASEAN countries, except the Lao PDR and Myanmar (ASEAN-Japan Centre, 2020). Accordingly, the findings of Raghavan et al. (2021) support that the output shocks from China are more pronounced than regional shocks through the FVA channel.

<sup>6</sup> RVCs are value-chains created within ASEAN and are a part of GVCs.

<sup>7</sup> The indirect linkages refer to ASEAN's dependence on China through the triangular trade with third party countries outside the region, and the additional linkages established through RVCs.

<sup>8</sup> Economic (or supply chain) resilience involves both the ability of a system to withstand an impact or shock (robustness) and recover from it (responsiveness).

Figure 5: ASEAN – GVC Participation, 2000-2018 (USD billion)



Source: ASEANStatsDataPortal (2022).

Given the risks from exposure through the upstream part of the GVCs and supplier market concentration that are in select industries of AMS, ASEAN must diversify its markets not just to provide a buffer against extra-regional (indirect) shocks but to achieve stable export growth. Substantial risks are already evident with the geographical concentration of semiconductor chip manufacturing, an essential component for the electronics sector.

### 3.2. Rising protectionism and market access

With a total of 9,492 public (mandatory) NTMs<sup>9</sup> in the region, imports, which constitute 82.8% of total NTMs, are highly regulated relative to exports. Import-related measures in the ASEAN portfolio are dominated by technical measures<sup>10</sup>, namely that of TBTs and SPS (see Figure 6), and they apply mostly to agriculture and foodstuff, two priority integration sectors (PIS) of the AEC. Most of these cost-raising measures are not harmonised or even streamlined within the region, and this is compounded by standard-like measures (SPS and TBTs) that involve compliance with procedures, which are evidently regarded as harmful, discriminatory, and burdensome (Devadason, 2020a).

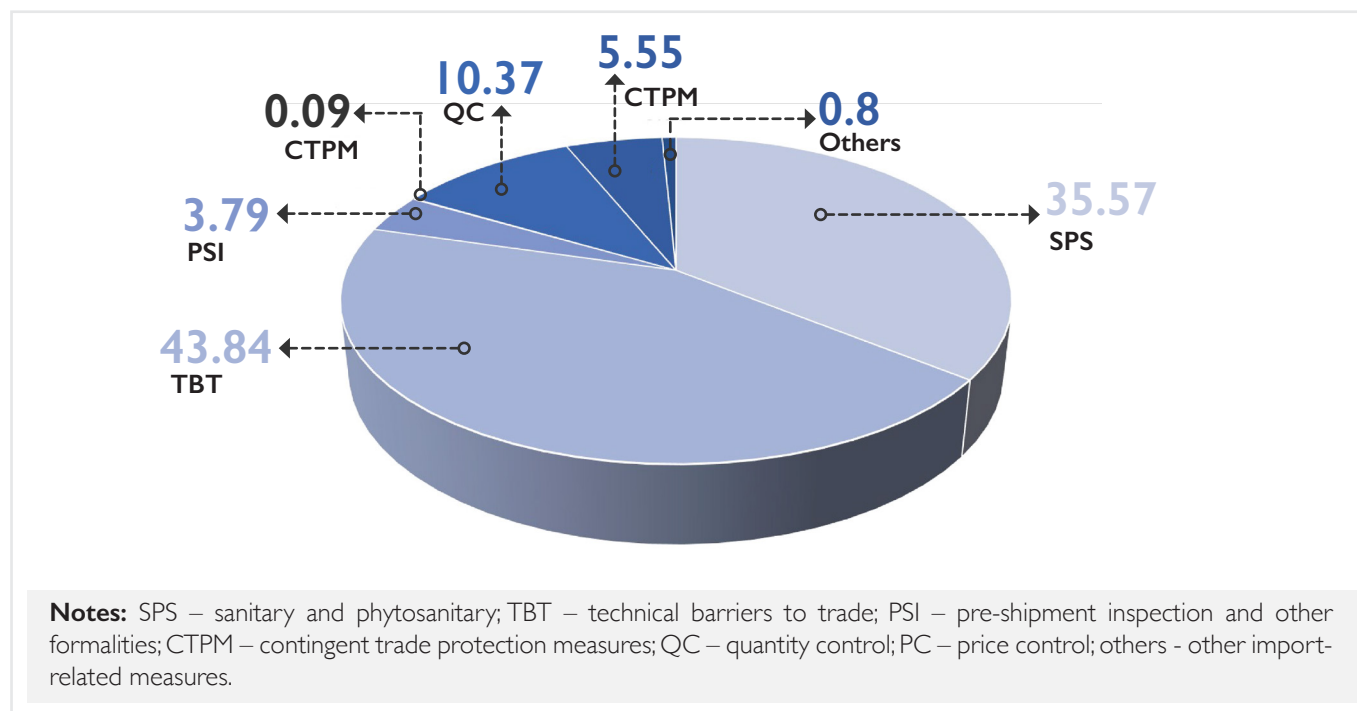
Unfortunately, regulatory reforms have progressed slowly, unlike that of tariff liberalisation, despite the commitments by AMS to streamline NTMs. The ASEAN Framework Agreement for the Integration of Priority Sectors<sup>11</sup> began its work to reduce trade distorting effects of NTMs on agri-food trade since 2004, while the AMS was tasked by ATIGA to identify NTBs for elimination. The lack of harmonisation of NTMs, therefore, continues to occupy the debate on the need for regulatory convergence in the regional agenda to reduce regulatory compliance costs and improve market access.

<sup>9</sup> The number of NTMs is not a reflection of the restrictiveness or stringency of the regulations.

<sup>10</sup> Technical measures refer to SPS, TBT and pre-shipment inspection (PSI).

<sup>11</sup> The PIS initiative was adopted to fast-track integration towards the realisation of the AEC.

Figure 6: Import-Related Non-Tariff Measures in ASEAN (%)



In addition to the existing regulations in Figure 5, the early stages of the pandemic saw an increase in the implementation of new NTMs in the region. These new NTMs include the relaxation of import measures and the tightening of export regulations, particularly for trade in essential goods,<sup>12</sup> to address supply shortages. Many of the implemented measures were temporary (short-term) NTMs, and some of them have been gradually rolled back. As of 12 August 2020,<sup>13</sup> a total of 31 measures were implemented by the AMS following the pandemic, of which 67.7% (or 21 measures) were considered essential goods involving both a tightening (47.6%)<sup>14</sup> and a relaxation (52.4%) of existing regulations. An example of a lax regulation is when Malaysia exempted import and excise duties to manufacturers of hand sanitisers that use raw materials (undenatured ethyl alcohol and denatured ethyl alcohol). Likewise, Singapore eliminated import tariffs and other duties and charges on essential goods, including medical, hygiene, pharmaceutical, and agricultural products. Unilateral tariff liberalisation and temporary tariff/duty exemptions and reductions provided the necessary relief for supply chains during the pandemic (ADB, 2022a).

Realising the importance of crisis-related provisions to remove restrictions on international trade, the AEM signed a memorandum of understanding (MOU) on the Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic on 13 November 2020<sup>15</sup> to phase out or eliminate NTMs for the ASEAN List of Essential Goods, which covered 152 tariff lines of mostly medicines and medical supplies and equipment. In 2021, the AFTA endorsed an additional

<sup>12</sup> At that point, there was no proper definition of essential goods to support the AMS.

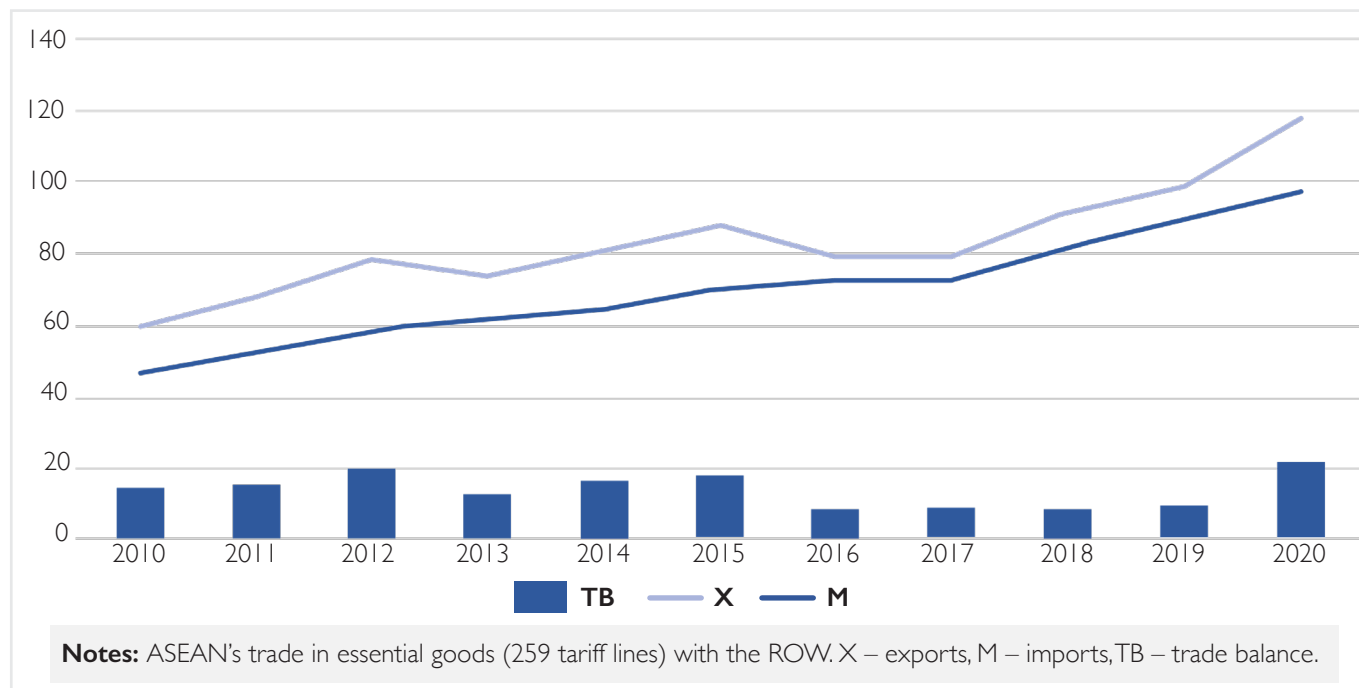
<sup>13</sup> Latest data available from the ASEC: <https://asean.org/wp-content/uploads/2012/05/NTM-in-response-to-Covid-19-as-of-12Aug2020.pdf>

<sup>14</sup> Tightening of regulations during the pandemic comprised the suspension of exports, ban on imports (from China), temporary export bans, temporary export quota and export licensing, while relaxation of regulations included the waiver (temporary elimination) of import duties, exemption of import duties, taxes and other fees, exemption of import licence fees, exemption of commercial tax, temporary elimination of import certification requirement, relaxation of import quota, temporary relaxation of import licensing requirements.

<sup>15</sup> <https://asean.org/wp-content/uploads/2021/09/15-MOU-on-NTMs-on-Essential-Goods-for-upload.pdf>

107 tariff lines consisting of agricultural and food products, bringing the total list of essential goods to 259 tariff lines. At present, the region is a net exporter of essential goods (food, medicines, and medical and other essential supplies) to the ROW, as shown in Figure 7.

**Figure 7: ASEAN - Trade Flows of Essential Goods, 2010-2021 (USD billion)**



Source: Calculated from UN Comtrade (2022).

As the region continues to be challenged by the COVID-19 pandemic, and the validity of the two-year MOU is about to end, the 35th AFTA Council has tasked the ASEC<sup>16</sup> to prepare a list containing potential goods for the expansion of the existing list of essential goods for AMS deliberation.

### 3.3. Sustainable GVCs and FTA provisions

The interplay between trade with labour and the environment is crucial for the next frontier of sustainable GVCs. Based on the 2020 Sustainable Trade Index, which represents the readiness of 20 Indo-Pacific economies for sustainable trade, only Singapore seems well prepared to conduct trade that benefits the society and protects the environment with scores<sup>17</sup> of 63.1 and 78.7, respectively. At the lowest end of the social and environmental pillars are Myanmar and Malaysia, with scores of 35.7 and 33.8, respectively (Hinrich Foundation, 2022). It is noted that Vietnam, an emerging hub for GVCs, has backslid on the scores for the social and environmental pillars.

Ultimately, the demand for sustainable GVCs requires businesses in the AMS to have strong environmental, social and governance (ESG) credentials if they want access to markets and capital. With the onset of the EU green deal (launched in 2019), businesses exporting to the EU<sup>18</sup> will eventually need to provide information on their social and environmental standards (throughout the value chain) for sustainable production under the EU Product Environmental Footprint method (PEF).

<sup>16</sup>At the time of writing, the ASEC is undertaking this study with the AMS.

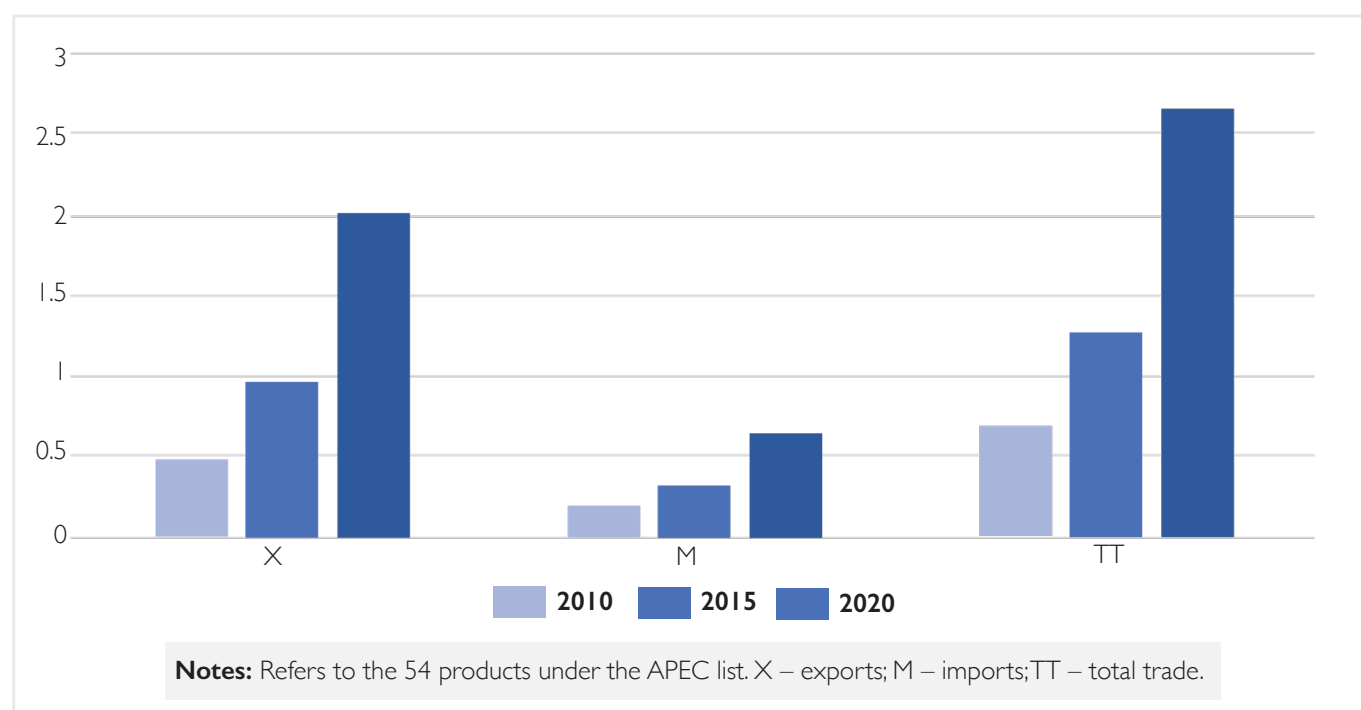
<sup>17</sup>Indicator scores are in the range of 0 to 100, where the best performing economy receives a 100 while the weakest performing economy receives a 0.

<sup>18</sup>ASEAN is the EU's third largest trading partner.

Close to the agenda of sustainable trade is the case of environmental goods (EGs). EGs are important as they can contribute towards climate change mitigation and adaptation. Trade in EGs within ASEAN, however, is not at a level that promotes green trade. While total intra-ASEAN trade in EGs grew from USD0.7 billion in 2010 to USD2.7 billion in 2020 (see Figure 8), it only constituted a small percentage of the region's global trade in EGs, at 1.5% and 3.2% in 2010 and 2020 respectively. Within the region, the key exporters of EGs to the rest of the world are Singapore, Malaysia, and Thailand. Unlike that of essential goods, ASEAN remains a net importer of EGs globally.

ASEAN needs to unlock opportunities for trade in EGs by liberalising trade in EGs and TF for EGs, both of which can be done as part of regional or multilateral initiatives. The AMS should also increase their readiness to participate in high quality agreements that include modern trade agenda provisions, such as labour and the environment, as this is necessary to make the transition and meet the sustainability requirements of their traded goods in the global market.

**Figure 8: Intra-ASEAN Trade in Environmental Goods, 2010-2020 (USD billion)**



Source: Calculated from UN Comtrade (2022).

## 4. What can be done to achieve the ASEAN Economic Community 2025 goals?

From major risks to the outlook of the tradable goods sector identified in the preceding section, this section underscores the unfinished agenda, or rather work in progress for achieving the AEC 2025 goals. Prioritising sub-sectors (see also ADB, 2022a) are important for a more focused approach to deepening regional integration in the goods market. Among the sub-sectors, are essential goods (including agri-food), and environmental goods, both of which have been dealt with in Section 3. Digital trade, which is relatively new, is discussed in this section.

### 4.1. Trade costs and trade facilitation

In line with ASEAN's commitments to TF under the ATIGA and the AEC Blueprint 2025, the ASEAN Trade Facilitation Framework (ATFF)'s twin goals of reducing trade transaction costs by 10% by 2020 and doubling intra-ASEAN trade between 2017 and 2025 are both important, especially for GVC trade. The progress in the reduction of non-tariff trade costs (Figure 3) has, however, been less impressive. For example, the regulatory distance for technical measures that dominate the portfolio of ASEAN (see Figure 5) remains somewhat high. According to Govindaraju et al. (2021), there was no reduction in the regulatory distance between the AMS from 2014 to 2018. They found the regulatory distance of SPS to be higher in agri-food (particularly for pre-packaged food) relative to manufacturing.

In the case of pre-packaged food, nutrition labelling (Devadason & Govindaraju, 2018) and halal food certifications were identified as typical barriers of TBTs in ASEAN (Neo, 2019). ASEAN, therefore, needs to move ahead aggressively with streamlining the NTMs to achieve greater regulatory coherence. The policy option for regulatory coherence in ASEAN is generally that of mutual recognition agreements (MRAs)<sup>19</sup>, instead of the harmonisation of standards and regulations. Despite the many existing sectoral MRAs and the long agenda of harmonisation, ASEAN continues to struggle with the intra-harmonisation of standards (food additives, food contaminants, food contact materials, etc.) in the agri-food sector<sup>20</sup> due to the diversity<sup>21</sup> in the design and implementation of NTMs (Govindaraju et al., 2021). Cadot and Ing (2020) in this regard recommend "soft" convergence through mutual recognition of conformity assessment procedures (generally tied to SPS and TBT measures that include testing, inspection, sampling, and certification).

In reducing trade costs from NTMs *per se* and other behind-the-border measures, TF<sup>22</sup> obviously plays an important part of the overall approach. ASEAN has made some progress in its commitments to the World Trade Organisation (WTO) Trade Facilitation Agreement (TFA). The average implementation rate of ASEAN's commitments under the TFA is 81.6% as of 1 August 2022, higher than the Asia-Pacific regional average of 77%. Figure 9 shows that five AMS (Brunei, Indonesia, Malaysia, the Philippines, and Singapore) have reached

<sup>19</sup>The list of concluded MRAs is given at: <https://asean.org/asean-sectoral-mutual-recognition-arrangement-mras/>

<sup>20</sup> Following from a workshop of the ASEAN Prepared Foodstuffs Working Group (PFPWG) in 2019, a recommendation was made for nutrition information to be made mandatory for pre-packaged foods with the identification of the main elements and their form on which such harmonisation should be based.

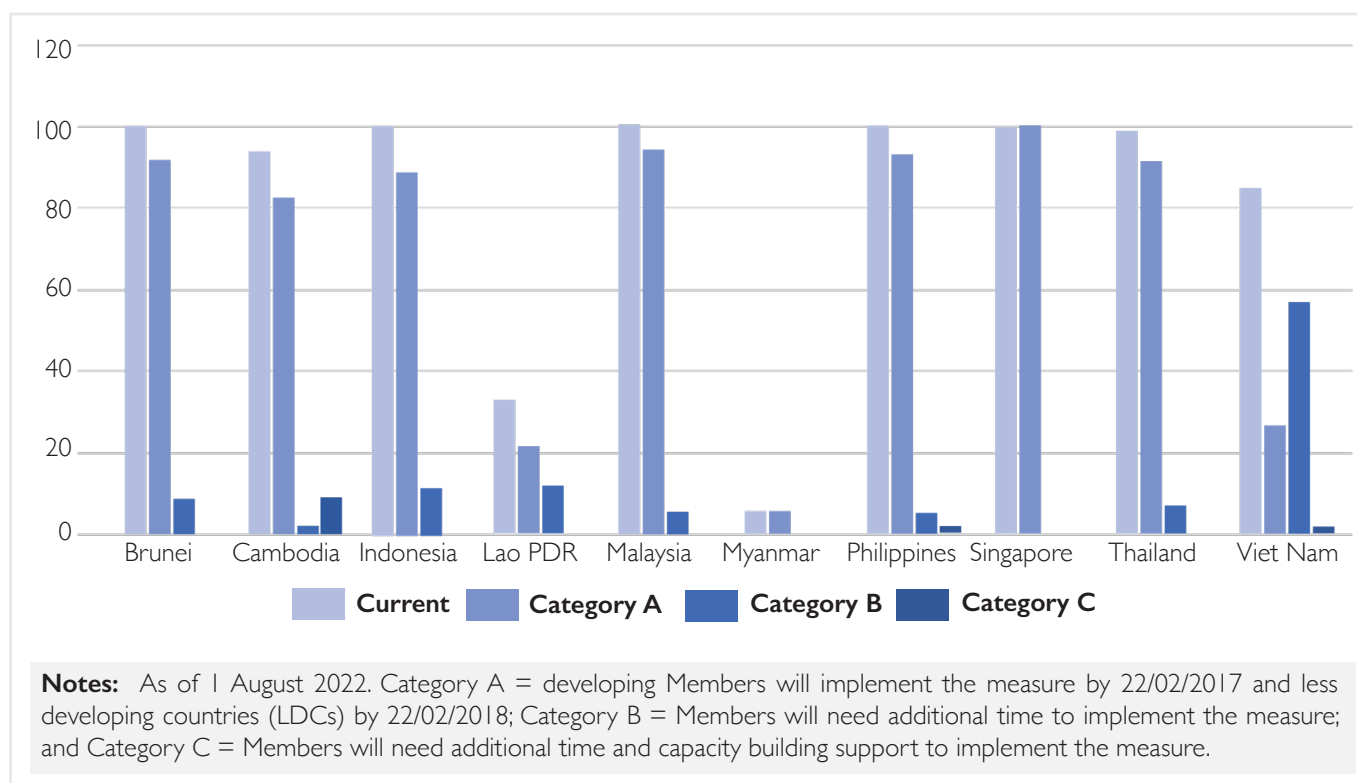
<sup>21</sup> The regulatory distance for ASEAN ranges from 0.087 to 0.346 (Govindaraju et al., 2021); a value closer to 1 indicates higher regulatory dissimilarity.

<sup>22</sup> TF includes the following: publication and availability of information (for example enquiry points); advance rulings (ARs); appeal or review; disciplines on fees and charges imposed on or in connection with importation and exportation; release and clearance of goods (including, *inter alia*, pre-arrival processing (PAP), risk management, post-clearance audit (PCA), authorised economic operators (AEOs), and expedited shipments; border agency cooperation; formalities connected with importation and exportation and transit (for the single window, temporary admission of goods); freedom of transit; and customs cooperation.

a 100% rate of implementation of commitments. In contrast, Myanmar and Lao PDR have only implemented 5.8% and 32.8% of their commitments under the TFA. The rate of implementation of TF measures within the region is uneven due to the different state of readiness and capabilities of the AMS (Tham, 2017).

According to the United Nations (UN, 2021), the most implemented measures in the region are the acceptance of paper or electronic copies of supporting documents, independent appeal mechanism and publication of existing import-export regulations on the internet. The UN survey notes that, since the pandemic, most trade cost reductions were associated with cross-border paperless trade measures rather than conventional TF measures. Much of this was contributed by the ASEAN Single Window (ASW)<sup>23</sup> Live Operation since 2018, a key component of the AEC for TF, which took 14-years to be established. It now supports the exchange of the intra-ASEAN certificate of origin (ATIGA e-Form D) and the ASEAN Customs Declaration Document (ACDD)<sup>24</sup>. In the pipeline are the exchange of additional electronic documents, the electronic Phytosanitary (e-Phyto) certificate targeted to be exchanged in Q3 2022 by Indonesia, Malaysia, and Thailand, the electronic Animal Health (e-AH) certificate, and the electronic Food Safety (e-FS) certificate that are both under discussion. There is still room for improvement, as the implementation rate of cross-border paperless trade at 57% in 2021 is still the lowest when compared with other TF measures—transparency at 93%, formalities at 89%, institutional arrangement and cooperation at 77%, and paperless trade at 78% (UN, 2021).

**Figure 9: Current Rate of Implementation Commitments under TFA (%)**



Source: WTO Trade Facilitation Agreement database (2022).

<sup>23</sup> It is a regional initiative, agreed by ASEAN leaders at the 9th ASEAN Summit in 2003 that culminated in the signing of the (ASW) Agreement in the 11th ASEAN Summit in 2005, and followed by the signing of the (ASW) Protocol to establish and implement the ASW in 2006, which connects and integrates the National Single Windows (NSWs) of the AMS to expedite cargo clearance.

<sup>24</sup> The AMS have exchanged more than 900,000 of the ATIGA e-Form D through the ASW in 2021. For the ACDD, only six AMS – Cambodia, Myanmar, Singapore, Malaysia, Thailand and the Philippines – have started exchanging this document through the ASW (<https://asw.asean.org/index.php/about-asw#:~:text=The%20ratification%20of%20the%20Protocol,e%2DForm%2D%20through%20ASW>).

Apart from documentation, ASEAN has made some strides in the cross-border movement of goods under the ASEAN Customs Transit System (ACTS). The ACTS, which was piloted in 2017, became fully operational at the end of 2020, with six participating AMS – Malaysia, Singapore, Thailand, Vietnam, Cambodia, and Lao PDR. That is, DHL Global Forwarding Singapore successfully carried out cross-border transit operations from Singapore to Thailand through Malaysia on 23 October and 28 October 2020. Recently, another live ACTS transit movement, along both the north–south and east–west corridors, was successfully initiated in Malaysia on 10 February 2021, which arrived safely inland in Cambodia on 13 February 2021, passing through Thailand in transit (ACTS, 2021).

The overall regional progress in TF, as discussed above, obscures details for improvement and reforms at the country-level. For example, in the case of Malaysia, further improvements are needed to<sup>25</sup>: (i) address inter-agency delays that impact the import approval processes at the entry points with the adoption of service-level agreements, (ii) complete the legal and policy framework needs so that the advance ruling (AR) on the origin of goods can be implemented, (iii) expedite the full operationalisation of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT) with the enactment of the relevant laws and regulations, and (iv) conclude bilateral AEO mutual recognition agreements (MRAs)<sup>26</sup> with the non-ASEAN Regional Comprehensive Economic Partnership (RCEP) members to address supply chain security from a broader regional architecture.

## 4.2. Market diversification and digital trade

ASEAN needs to be more GVC resilient, especially for industries in AMS that have reached a relatively high level of market concentration. It has been observed that even larger firms are expanding more along the intensive margin relative to the extensive margin (Govindaraju et al., 2021). One reason is that the regulatory distance (i.e., higher trade costs) limits an increase in the number of active export lines via new products and new markets.

Market diversification is needed to reduce ASEAN's vulnerability to adverse external shocks. A classic narrative of the region's exposure is ASEAN's trade linkages with China and China's domination of supply chains, apart from the repercussions of the pandemic. China has been ASEAN's largest trading partner since 2009. From the Chinese perspective, ASEAN overtook the EU to become China's top trading partner in 2020 through a steady increase in bilateral trade. China also accounted for approximately 15.7% of exports from ASEAN in 2020, while backward integration with China within the context of RCEP has been relatively high at 24.3% (calculated from UNCTAD Eora GVC database) for the 2000 to 2018 period. In fact, ASEAN imported a wider range of products—including medical supplies and capital goods—from China during the pandemic; export expansion, for example, occurred along the extensive margin from the Chinese side (Li, 2021). ASEAN is therefore directly exposed to shocks from China, and indirectly to shocks from third countries, as China's exports to ASEAN are highly integrated with GVCs (Raghavan et al., 2021).

<sup>25</sup> Gathered from discussions with the relevant Ministries and agencies.

<sup>26</sup> The MRA for AEO was a new item placed on the agenda of the 51st meeting of the AEM in 2019.

Apart from diversification, another reflection from the pandemic is the changing nature of trade, i.e., the exponential growth of digital trade (or digitally enabled products). There was a strong push towards digitising trade<sup>27</sup> since the pandemic, but this is still work in progress, as much needs to be done in terms of optimising inventory management, streamlining sourcing, and addressing chokepoints in production chains. It is worth mentioning here that the demand for digitisation is growing, as businesses recognise that digitisation through paperless trade serves as a catalyst for trade cost reduction, which was also discussed in the preceding section. Unfortunately, the status of the nature and potential of digital trade in the region cannot be gleaned from any statistics as there are no proper metrics that capture cross-border economic activities, underpinned by digital technologies. Reference is often made to e-commerce (digitally-ordered trade), which is only a proxy for digital trade—and even then, not all e-commerce involves cross-border trade.

Recognising the prospects of digital trade, Singapore, by example, has started to aggressively pursue cooperation on digital issues. This is demonstrated by its Digital Economy Partnership Agreement (DEPA) with Chile and New Zealand, and the Singapore-Australia Digital Economy Agreement (DEA), both signed in 2020. DEAs will eventually emerge as important drivers for digital trade, especially with the rise of new barriers of trade in the form of additional domestic regulatory issues—privacy and cyber security—both of which are important for digital trade to function. The AMS, therefore, need to leverage their position through DEAs and balance data storage (protection) and movement, as data flows may eventually exceed the flow of goods across borders.

### 4.3. Other platforms

ATIGA's tariff liberalisation has encouraged intra-regional trade for specific product groups (ERIA, 2021). The launching of negotiations for an updated ATIGA is a step in the right direction to support GVC trade and to stay relevant with the onset of new multilateral agreements, such as the RCEP and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) agreement. Likewise, the plan to expand the ASW to ASEAN dialogue partners under the ASEAN Comprehensive Recovery Framework (ACRF) is crucial for advancing reforms on NTMs and TF.

In short, to support GVC trade—that is, to deepen, diversify and digitalise GVCs — regional priorities should be redefined within broader contexts, as follows:

- In streamlining NTMs at the regional level to reduce regulatory distance, these NTMs need to be aligned with international standards. One case in point is the food sector, where alignment with international standards, such as the Codex Alimentarius, is critical for trading with the rest of the world.
- In expanding AEOs from trusted traders to logistics providers at the regional level to reduce time and costs associated with cross-border customs control, the AEO MRAs should also be established with other key trading partners (China, Japan, South Korea, etc.).
- In integrating the NSWs with the ASW, the region should also move ahead to connect the ASW with foreign single windows.
- In addressing the disruption of the supply of essential goods during crises, the AMS should ensure that existing/ future treaties provide specific consideration for these goods.
- In transitioning to sustainable trade, the AMS need to participate in high quality agreements with modern trade agenda provisions on labour and the environment.

<sup>27</sup>To leverage on trade digitalisation, the Bandar Seri Begawan Roadmap (BSBR) on the ASEAN Digital Transformation Agenda was adopted by the 53rd ASEM Meeting on 8 September 2021, and subsequently endorsed by the 20th ASEAN Economic Community (AEC) Council Meeting on 18 October 2021.

- In enhancing digital trade, the AMS should participate in DEAs that contain provisions to promote digital trade through regulatory convergence, while facilitating interoperability between digital systems (including payment systems)

## 5. Concluding remarks

As a small and outward looking bloc, deepening regional integration in ASEAN cannot occur at the expense of global integration—they are not mutually exclusive. Trade with the ROW continues to represent an important component of ASEAN's overall trade flows, and this is translated into the observed higher participation of ASEAN in GVCs relative to RVCs. Setting this perspective right is important when assessing the progress that the AEC has made in goods trade in the run-up to the AEC Blueprint 2025. Laudably, the 2025 Blueprint has underscored the importance of ASEAN's integration into the global economy.

Pandemic-induced disruptions in demand and supply have exposed the importance of resilient and sustainable (GVC) trade for integrating the goods market and maintaining market access in the global economy. The pandemic has also given rise to the next frontier of exchanges across borders, most significantly: digital trade.

On the regional front, the free movement of goods is clearly an unfinished agenda. Many of the achievements in facilitating the movement of trade in goods have remained inconsistent across the AMS, driven by country-specific factors rather than ASEAN-wide initiatives. The overall progress for the free movement of trade in goods within the region remains patchy. It is necessary for the AMS to work together to continue their efforts to streamline NTMs and review some of the MRAs, to shift towards a seamless exchange of regulatory/commercial documentation and seamless logistics, and to ensure the interoperability between regional (ASW and digital) frameworks.

Sectoral trade flows that require immediate attention are: agri-food, essential goods, and environmental goods. For agri-food (including other essential goods), ASEAN needs to collectively address the rising protectionist policies, and the lack of robust regional market linkages (see also ADB, 2022a). In the case of essential goods and environmental goods, ASEAN should ensure that specific provisions are accorded to these goods through relevant treaties. On a final note, the AMS need to pursue new areas of regulatory cooperation by managing data flows (removing content and data restrictions) while balancing them with privacy and protection regulations. The free, or intangible, flow of data will be the biggest challenge as they become increasingly inseparable from the free movement of goods in the post-pandemic transformation of trade in goods.

## Appendix Table 1: Regional Agreements and Initiatives Related to Trade in Goods

Year	Agreements/ Initiatives/ Mechanisms
2004	ASEAN Framework Agreement for the Integration of Priority Sectors
2010	ASEAN Trade in Goods Agreement (ATIGA) <a href="https://asean.org/asean-trade-in-goods-agreement-atiga/">https://asean.org/asean-trade-in-goods-agreement-atiga/</a>
2019	ASEAN Trade in Goods Agreement (ATIGA) e-FormD <a href="https://www.aseanaccess.com/trade/trade-in-goods.html">https://www.aseanaccess.com/trade/trade-in-goods.html</a>
Customs Integration	
1998	ASEAN Customs Transit System (ACTS) <a href="https://acts.asean.org/">https://acts.asean.org/</a>
	Protocol 7 of ASEAN Framework Agreement on the Facilitation of Goods In Transit (AFAF-GIT) <a href="https://acts.asean.org/Legal_Framework/asean-framework-agreement-facilitation-goods-transit-afafgit">https://acts.asean.org/Legal_Framework/asean-framework-agreement-facilitation-goods-transit-afafgit</a>
2003	ASEAN Harmonised Tariff Nomenclature (AHTN)
2005	ASEAN Single Window (ASW) <a href="https://asw.asean.org/index.php/about-asw">https://asw.asean.org/index.php/about-asw</a>
2020	ASEAN Customs Declaration Document (ACDD)
Trade Facilitation Mechanism	
2003	ASEAN Trade Repository (ATR)
2008	ASEAN Trade Facilitation Framework (ATFF) - Adoption of ASEAN Trade Facilitation Work Programme
2020	ASEAN-wide Self Certification <a href="https://asean.org/asean-wide-self-certification/">https://asean.org/asean-wide-self-certification/</a>
2020	MOU on the implementation of NTMs on Essential Goods Under the Hanoi Plan of Action on
	Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic <a href="https://asean.org/wp-content/uploads/2021/09/5.-MOU-on-NTMs-on-Essential-Goods-for-upload.pdf">https://asean.org/wp-content/uploads/2021/09/5.-MOU-on-NTMs-on-Essential-Goods-for-upload.pdf</a>
Digital Trade	
2021	ASEAN Digital Integration Framework

**Note:** The year refers to the signing of the relevant agreements and the launching of the related initiatives/ mechanisms.

Source: Author's own compilation.

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## Sub-Pillar B - Trade in Services

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## I. The rising role of services in the world economy

Servicification is believed to be one of the key features of the 21st century Global Value Chains (GVCs). This is closely linked to digital transformation that is reshaping GVCs and redefining a country's advantages/disadvantages in the world economy.

Digital is a new gene of the 21st century GVCs. To see this, Figure 1 puts technological progress and economic globalisation into the same box and shows how this gave birth to international trade and nurtured its development. One way that technological progress affects the international economy is via its effect on the reduction of the trade cost, more precisely, the cost of transportation, the cost of communication, and the cost of people-to-people connection. Throughout the process, one can see that technological progress works on cost reduction, and pushes forward economic specialisation. Along with the deeper unbundling of globalisation is the continuous effort of new technologies on the finer international division of labour. Baldwin (2016) classifies this evolution process into three main changes - the 1st unbundling refers to the separation between production and consumption; the 2nd unbundling refers to the international fragmentation of production; and the 3rd unbundling refers to further fragmentation within the tasks of production.

**Figure 1: Technological Progress in Global Value Chain Evolution**

	Pre-Globalised world	The 1st unbundling	The 2nd unbundling	The 3rd unbundling
Cost of transportation Costs of communication Face-to face costs	High High High	Lower High High	Lower Lower High	Lower Lower Lower
What to move	None	Goods	Production factors, Know-how	Skill, Services Data and Information
Int'l division of labor	Autarky	Industry-wise	Task-wise (production fragmentation)	Person-wise (task fragmentation)
Technology		Automation, Transport	CT & IT	SMACI

**Notes:** CT = communications technology, IT = information technology, SMACI = Social media, Mobile phone, Artificial intelligence, Cloud computing and Internet of Things

Sources: Baldwin (2016), Kimura (2018), Kimura and Chen (2018).

In the 19th century, the applications of new technologies, especially the use of steamships and railway effectively reduced the time and lowered the cost needed for long distance transportation, making feasible the separation between production and consumption activities – that is, the 1st unbundling of globalisation. The world economy started to be linked via international trade, and the main content of trade was final goods or raw materials.

The 20th century Information revolution further drove down trade cost and gave birth to international fragmentation of production. This 2nd unbundling allowed more firms, especially medium and small enterprises, to join Global Value Chains (GVCs). The idea of trade and investment liberalisation became widely accepted, as the way to facilitate the country's involvement in GVCs to pursue economic prosperity. Trade in service were making great strides forward, driven by the needs of GVCs links.

The application of digital technologies in the 21st century, effectively reduced the cost of people-to-people connections, particularly via the internet. The changes unlocked the further potential of GVCs.

Digitisation blurs boundaries between different links of the value chains. Firms can benefit from international fragmentation of production, as well as that of services. Moreover, the application of digital technologies and related business models within the service sector makes services much more innovative and productive. Digital-empowering service links, either digital enabled or digital born, can improve the capacity of GVC coordination, and motivate the network extension.

This chapter provides some critical views on ASEAN's effort in facilitating regional trade in services and discusses its future in the context of digital transformation. The rest of the chapter is organised as follows: Section 2 reviews the development of ASEAN trade liberalisation in services up to the COVID-19 pandemic; Section 3 assesses the potential impacts of the COVID -19 pandemic on promoting services sector liberalisation; and Section 4 provides policy discussions on how to support the implementation of the new AEC blueprint on liberalising trade in services.

## **2. Development for the past five years up to the COVID-19 pandemic**

### **2.1. Initiation and early development**

In essence, cross-border trade in services have played a vital role in global trade for many years – introducing the notion of service liberalisation as a crucial stepping stone in fostering the exchange of services between nations. The process of trade liberalisation in services between the ten member states of the Association of Southeast Asian Nations (ASEAN) involves several initiatives that laid the groundwork for achieving a regionally integrated market for services in the ASEAN region.

The process formally began when the ASEAN Framework Agreement on Services (AFAS) was inked in 1995. The agreement came about following the ASEAN Member States (AMS) recognition on the fundamental role of trade in services for economic growth and job creation, and the importance of a concerted effort to work towards the free flow of trade in services within the region (ASEC, 2009).

The signing of AFAS was preceded by the General Agreement on Trade in Services (GATS) – a treaty of the World Trade Organization (WTO) – in 1994, and the ASEAN Free Trade Area (AFTA) for trade in goods liberalisation in 1993 (ASEC, 2009; ASEC & World Bank, 2015). The agreement carries the objectives of eliminating restrictions to liberalise trade in services along with enhancing cooperation amongst the AMS to achieve a free trade area where services, investment and skilled labour can move freely across the borders of ASEAN countries by 2015 (ASEC & World Bank, 2015).

The administration of AFAS involves several working bodies undertaking specialised work for different services sectors in ASEAN, including:

1. **CCS (Coordinating Committee on Services)** that reports to the ASEAN Economic Ministers through SEOM (the Senior Economic Officials Meeting);
2. **CCI (Coordinating Committee on Investment)** that reports to AEM–AIA Council (the ASEAN Economic Ministers–ASEAN Investment Area) through SEOM;
3. **ATSN of ATWG** (Air Transport Sectoral Negotiation, of the Air Transport Working Group) that reports to the ASEAN Transport Ministers (ATM) through the Senior Transport Officials' Meeting (STOM);
4. **WC-FSL/AFAS** (Working Committee on ASEAN Financial Services Liberalisation under AFAS) that reports to the ASEAN Finance Ministers Meeting (AFMM) through the ASEAN Finance and Central Bank Deputies Meeting (AFDM).

The scope of liberalisation in AFAS was agreed to go beyond member states' commitment under GATS, and its implementation is expected to bring not only efficiency and competitiveness, but also a diversified production capacity, supply and distribution of services (ASEC, n.d.-a). Since AFAS's approach was built upon GATS – that is to achieve trade liberalisation in services – the guidelines provided by AFAS also follow GATS “four modes of supply” shown in Table 1.

**Table 1: The four modes of supply adopted in AFAS**

Provision of services	Focal point	Definition	Examples
Mode 1	Cross-border supply	The service moves across the border.	Consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.
Mode 2	Consumption abroad	The customer moves across the border to receive the service.	Tourists, students, or patients who consume the respective services.
Mode 3	Commercial presence	The producer moves across the border to provide the service through commercial establishments.	A locally established affiliate, subsidiary, or representative office of a foreign-owned and -controlled company (i.e., bank, hotel group, construction company).
Mode 4	Movement of natural persons	The producer moves across the border temporarily to provide the service.	Independent suppliers (i.e., consultant, health worker), or employees of a service supplier (i.e., consultancy firm, hospital, construction company).

Source: ASEC (2009)

AFAS specifically aims to eliminate all restrictions for supply services in Mode 1 and Mode 2, raising up to 70% of ASEAN equity participation, substantially eliminating restrictions regarding market access on Mode 3's supply of services, and eliminating restrictions regarding national treatment of Mode 3 for a maximum of one out of 128 subsectors. A more detailed list of the target commitments of AFAS is provided in Table 2.

Since the signing of AFAS in 1995, the AMS have concluded ten packages of commitments with the last one signed in 2018. During this period, the negotiations for financial services and air transport services, which were previously included in the beginning of AFAS' dialogues, were carried out separately and have led to the conclusion of eight financial services packages, and 11 air transport services packages (ASEC, n.d.-a). All of these packages have now been incorporated into the ASEAN Trade in Services Agreement (ATISA).

**Table 2: The AFAS targets**

	5th/6th Package	7th Package	8th Package	9th Package	10th Package
Completion target	AEM 2006	AEM 2009	AEM 2011	AEM 2013 (signed 2015)	AEM 2015 (signed 2018)
Scheduled Subsectors	55	65	80	104	128
Mode 1 (including horizontal)	None	None	None (80 subsectors)	None (104 subsectors)	None (128 subsectors)
Mode 2 (including horizontal)	None	None	None (80 subsectors)	None (104 subsectors)	None (128 subsectors)
Foreign Equity Limitation (including horizontal)	PIS: 49% Construction: 51% Other: 30%	29 PIS: 51% 9 Log: 49% 42 Other: 49%	29 PIS: 70% 9 Log: 51% 42 Other: 51%	29 PIS: 70% 9 Log: 70% 42 Other: 51%	29 PIS: 70% 9 Log: 70% 42 Other: 70%
Mode 3 MA (including horizontal)	N/A	29 PIS: Max. 2 limitations 9 Log: Max. 3 limitations 27 Other: Max. 3 limitations	29 PIS: No limitations 9 Log: Max. 2 limitations 16 Other: Max. 2 limitations	29 PIS: No limitations 9 Log: No limitations 26 Other: Max. 2 limitations 26 Other: Max. 1 limitations	29 PIS: No limitations 9 Log: No limitations 90 Other: No limitations
Mode 3 NT Limitations (including horizontal)	N/A	N/A	Max. 4 lim/subsector	Max. 3 lim/subsector	Max. 1 lim/subsector
15% flexibility	N/A	N/A	$15\% \times (80 \times 3) = 36$ modes max. 60% (22 subsectors) in 1 mode	$15\% \times (104 \times 3) = 47$ modes max. 55% (26 subsectors) in 1 mode	$15\% \times (128 \times 3) = 58$ modes max. 50% (29 subsectors) in 1 mode

**Note:** PIS: Priority Integration Sectors; MA: Market Access; NT: National Treatment  
Source: La (2021) and ASEC (n.d.-b)

## 2.2. Achievements and progress

In 2007, after the conclusion of the 6th AFAS package, all member states adopted the AEC Blueprint 2008-2015 as a guideline that would aid in accelerating the creation of an integrated regional market with free flow of goods, services, capitals and people. The 2008-2015 Blueprint aims to remove all restrictions on trade in services for the four priority services sectors, namely, air transport, e-ASEAN, healthcare and tourism by 2010, and logistic services by 2013. The Blueprint also aims to substantially remove all restrictions on trade in services for all other services sectors by 2015, and to take on liberalisation through successive rounds, biennially from 2008 to 2015.

The AEC Blueprint also specify particular liberalisation goals for the pertinent services sectors. The first goal is to have no restrictions in all sectors for Mode 1 and Mode 2 except for bona fide reasons such as public safety. This would be subject to agreement on a case-by-case basis decided by all member states. Another goal relates to the foreign equity participation where for the four priority services sectors the minimum was 51 per cent by 2008, and 70 per cent by 2010. For logistic services, the foreign equity participation should at least be 49 per cent by 2008, 51 per cent by 2010 and 70 per cent by 2013. For the rest of the services sectors, the foreign equity participation should be at minimum 49 per cent by 2008, 51 per cent by 2010, and 70 per cent by 2015. The member states also agreed to remove all limitations for other Mode 3 market access by 2015 (Gootiiz and Mattoo, 2015).

In 2015, ASEC and the World Bank reported that the overall achievement of the AMS in relation to the targets of the 8th package was rather modest. The report explains that although a greater certainty for regional-level policy has arisen following the signing of each package, this certainty did not always translate well into the national policies of individual member states. In terms of market access, for example, entry to many ASEAN countries remains somewhat restricted. The explicit and implicit limit placed on new licences, as well as the opacity and discretionary nature of the licensing process, have created some unpredictability for the provision of services in sectors including banking and transportation.

The evidence of national treatment for the member states was also weak in that the difference between policy treatment of intra-ASEAN and extra-ASEAN trade was minuscule. This means that the AMS practically received the same treatment as non-preferential or Most Favoured Nation (MFN) policies (ASEC & World Bank, 2015).

Following the signing of the last package (10th package) in 2018, which was initially scheduled to be inked in 2015, member states demonstrated some mixed results. While most member states have been quite successful in meeting their target levels of openness in the Priority Integration Sectors (PIS) as listed in Table 2, they could not meet the target levels in the other sectors. For example, the level of openness for Mode 3 remained low in Myanmar, the Philippines and Vietnam compared to that of the other member states. When it comes to the 15 per cent flexibility introduced in the 8th AFAS package, all member states were unsuccessful in achieving the target numbers (La, 2021).

With that said, some ASEAN countries fared reasonably well with regards to air transport and the movement of natural persons. The regional open skies policy, officially known as the Open Skies Agreement (OSA) or the ASEAN Single Aviation Market (ASAM), has helped to further ASEAN's effort for air transport liberalisation in the region. The discussion of having a more integrated air transport market was set in motion in 1995 as part of the 5th ASEAN Summit in Bangkok where AFAS was signed (Heriyanto & Putro, 2019).

The objective of OSA centres around achieving the integration of national aviation markets into a single regional aviation market by the end of 2015, in which ASEAN would benefit from the growth of global air travel bringing seamless flows of tourism, investment and other services (Lee, 2015; Wee, 2013). A recent study that looked into the impacts of OSA in promoting competition among national carriers found that the agreement indeed raised the number of low-cost carriers (LLCs) and full-service carriers (FSCs) to and from the ASEAN region (Bilotkach et al., 2021).

Looking into the progress of facilitating the movement of natural persons (Mode 4), the pertinent agreement – the ASEAN Agreement on Movement of Natural Persons (AAMNP) – was set in motion in 2016. Since then, the AMS have signed the requisite Mutual Recognition Agreements (MRAs) for eight professional services listed in Table 3.

**Table 3: MRAs concluded under the purview of ASEAN Economic Ministers**

Mutual Recognition Arrangement	Signing date	Implemented through
Engineering Services	December 9, 2005	ASEAN registration (ASEAN Chartered Professional Engineer Coordinating Committee)
Nursing Services	December 8, 2006	Bilateral registration
Architectural Services	November 19, 2007	ASEAN registration (ASEAN Architecture Council)
Framework Arrangement on Surveying Qualifications		MRA
MRA Framework on Accountancy Services	February 26, 2009	MRA
Medical practitioners		Bilateral registration
Dental practitioners		Bilateral registration
Accountancy (superseding MRA Accountancy above)	November 13, 2014	MRA

*Source: ASEC & World Bank (2015)*

The MRAs for these eight professions could be seen as the member states' progressing efforts to facilitate the movement of services professionals in the region. Still, a few hurdles remain to be addressed. These include the varying degrees of openness, the different ways of cooperation across professions, existing national rules governing the provisions of services of these professions, worries of job losses, the true length of permitted stay, and different qualification and educational systems between AMS – all seem to prevail over the goal of realising a regional integration in professional services among member states (ASEC & World Bank, 2015; Das, 2016; La, 2021).

Meanwhile, when it comes to the integration of financial services among the member states, several important initiatives were taken following the 1997-98 Asian Financial Crisis. The first being the establishment of the Roadmap for ASEAN Integration in Finance (RIA-Fin) in 2003. The roadmap covers three main areas of finance integration, and was set out to further deepen ASEAN's financial and monetary integration by 2015. Alongside the establishment of the RIA-Fin were the formation of three committees responsible for taking care of the respective areas covered in the roadmap, namely (i) capital markets development, (ii) liberalisation

of financial services, and (iii) capital account liberalisation (ASEC, n.d. c). The adoption of the 2003 ASEAN Concord II at the 9th ASEAN Summit in Bali further cemented the goal of realising financial integration as part of the member states' commitment to realise the ASEAN Economic Community vision.

In 2015, the First Joint Meeting of the ASEAN Finance Ministers and Central Bank Governors (AFMGM) was held during the 19th ASEAN Finance Ministers Meeting. The joint meeting facilitated the deliberation of common concerns and key issues, as well as helped to expand the policy dialogue discussion on monetary and financial stability issues. It also restated its support towards the RIA-Fin activities. In the following year, the 2nd Joint Meeting of the AFMGM took place to endorse the Strategic Action Plans (SAPs) of the ASEAN Financial Integration 2016–2025. The SAPs serves as a guideline from which member states could refer to in terms of policy actions, targets and milestones of the financial integration initiatives (ASEC, n.d. c).

From the viewpoint of ASEAN as a regional body, the progress of financial integration can be seen from the work done by the committees as well as several working committees (WC) and working groups (WG) established during and after the launch of the RIA-Fin in 2003.

**Table 4: The progress and achievements of the RIA-Fin**

Relevant committees	Purpose of formation	Progress as of 2019
Capital Account Liberalisation (CAL)	Established to achieve freer flow of capital among AMS by gradually removing restrictions in the current account, FDI, portfolio investments, and other flows.	The pertinent working committee (WC-CAL) has: <ul style="list-style-type: none"> <li>Produced a heatmap to follow the progress of capital account liberalisation, and the trends of policy formulation in the region;</li> <li>Completed the ASEAN Guiding Principles on Local Currency Settlement Framework.</li> </ul>
Capital Market Development (CMD)	<ul style="list-style-type: none"> <li>Established to build capacity and to lay infrastructure for the development of ASEAN capital markets, specifically the bond market.</li> <li>In the long run, the CMD's goal is to achieve cross-border collaborations among capital markets in ASEAN.</li> </ul>	The pertinent working committee (WC-CMD) has: <ul style="list-style-type: none"> <li>Collaborated with the ASEAN Capital Markets Forum (ACMF) working groups to promote sustainable infrastructure financing;</li> <li>Developed a report on sustainable finance in ASEAN focusing on government and quasi-government sectors.</li> </ul>
Financial Services Liberalisation (FSL)	FSL was established to: <ul style="list-style-type: none"> <li>Provide a forum for AMS to share information and exchange experiences on financial services liberalisation;</li> <li>Conduct the process of financial services liberalisation among AMS;</li> <li>Facilitate financial services liberalisation by ASEAN with its dialogue partners.</li> </ul>	The pertinent working committee (WC-FSL) has: <ul style="list-style-type: none"> <li>Signed eight protocols to implement the Packages of Specific commitments on Financial Services under AFAS. These protocols emphasise ASEAN's commitment in furthering linkages among AMS by opening market access and progressively removing restrictions in the financial sector;</li> <li>Facilitated negotiations for several Free Trade Agreements (FTAs) with dialogue partners including the recent Regional Comprehensive Economic Partnership (RCEP) Financial Services Annex conclusion;</li> <li>Organised a series of capacity building activities in preparation for the transition from the AFAS' positive list to the non-conforming measures negative list in ATISA.</li> </ul>

Relevant committees	Purpose of formation	Progress as of 2019
ASEAN Capital Markets Forum (ACMF)	<ul style="list-style-type: none"> <li>Established in 2004 to develop a deep, liquid and integrated regional capital market.</li> <li>The AMS' participation in ACMF initiatives is based on their readiness and ability to meet the requirements of the respective framework.</li> </ul>	<p>The ACMF has introduced the following initiatives:</p> <ul style="list-style-type: none"> <li>The ASEAN Corporate Governance Scorecard;</li> <li>The Collective Investment Schemes (CIS);</li> <li>The Professional Mobility Initiative;</li> <li>The Disclosure Standards and Streamlining Review Framework;</li> <li>The Digital Oversight Initiative;</li> <li>The ASEAN Green Bond Standards;</li> <li>The ASEAN Social Bond Standards;</li> <li>The ASEAN Sustainability Bond Standards.</li> </ul>
ASEAN Insurance Regulators' Meeting (AIRM)	<p>Established in 1998 as a platform to:</p> <ul style="list-style-type: none"> <li>Strengthen the insurance cooperation via the ASEAN Insurance Training and Research Institute (AITRI);</li> <li>Work together on various insurance initiatives with the insurance industry, the ASEAN Insurance Council (AIC), the ASEAN Council of Bureaux (COB), the ASEAN Insurance Education Committee (AIEC) and the ASEAN Natural Disasters Research Works Sharing (ANDREWS).</li> </ul>	<p>The AIRM has supervised and provided guidance for the implementation of Protocol 5 on the ASEAN Compulsory Motor Vehicle Insurance under the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT).</p>
ASEAN Forum on Taxation (AFT)	<p>Established in 2010 as a platform to:</p> <ul style="list-style-type: none"> <li>Address tax-related impediments and policies on regional economic integration;</li> <li>Support regional dialogue on taxation issues for regional integration, et cetera.</li> </ul>	<p>The AFT has:</p> <ul style="list-style-type: none"> <li>Completed 68 of the possible 90 bilateral tax treaties among AMS;</li> <li>Submitted a study on ASEAN Withholding Tax Structure to the ASEAN Finance Ministers;</li> <li>Developed a new initiative to standardise a certificate of residence in ASEAN.</li> </ul>
ASEAN Banking Integration Framework (ABIF)	<ul style="list-style-type: none"> <li>Established in 2011 as a task force to formulate the initial milestones and timelines for financial service liberalisation within the ASEAN banking sector.</li> <li>The original mandate for the ABIF Task Force was met in 2014 with the completion of the ABIF Guidelines.</li> </ul>	<p>The pertinent working committee (WC-ABIF) has:</p> <ul style="list-style-type: none"> <li>Concluded the signing of three ABIF arrangements among AMS;</li> <li>Established two Qualified ASEAN Banks (QABs) in Indonesia (CIMB and Maybank);</li> <li>Developed a roadmap on strengthening regulatory transparency, standards and coherence with a compilation of AMS' cross-border data sharing practices and requirements.</li> </ul>

Relevant committees	Purpose of formation	Progress as of 2019
ASEAN Insurance Forum (AIFo)	Established in 2011 to facilitate collaboration between WC-FSL and AIRM, and to leverage the private sector to help achieve significant progress in ASEAN insurance integration.	The AIFo has: <ul style="list-style-type: none"> <li>Published a handbook for ASEAN insurers offering Cross-Border Marine, Aviation and Goods in Transit (MAT) in 2019;</li> <li>Finalised the ASEAN Insurance Integration Framework's Roadmap.</li> </ul>
Financial Inclusion (FINC)	Established in 2015 to: <ul style="list-style-type: none"> <li>Deliberate and coordinate initiatives to advance financial inclusion in ASEAN through close collaboration with relevant working committees and working groups;</li> <li>Serve as a platform for sharing country experiences, expertise and information to develop national financial inclusion strategies and initiatives.</li> </ul>	The pertinent working group (WC-FINC) has published the following guidance notes: <ul style="list-style-type: none"> <li>Developing a Monitoring and Evaluation Framework for Financial Inclusion;</li> <li>Digital Financial Services;</li> <li>Financial Education and Consumer Protection;</li> <li>National Financial Inclusion Strategy;</li> <li>Report on Advancing Digital Financial Inclusion in ASEAN.</li> </ul>
Payment and Settlement Systems (PSS)	Established in 2010 to prepare the PSS of member states to embrace the AEC by conducting studies and providing policy recommendation for the development of PSS, including the harmonisation of the ASEAN PSS.	The pertinent working committee (WC-PSS) has: <ul style="list-style-type: none"> <li>Completed the environmental scan of real-time payment systems of the AMS;</li> <li>Finalised the ASEAN Payments Policy Framework for cross-border real-time retail payment and its implementing policy guidelines.</li> </ul>
ASEAN Cross-Sectoral Coordinating Committee on Disaster Risk Financing and Insurance (ADRFI)	<ul style="list-style-type: none"> <li>Established in 2013 to serve as a platform for coordination among ASEAN Finance and Central Bank Deputies Meeting (AFCDM), AIRM, and ASEAN Committee on Disaster Management (ACDM) to implement the ASEAN DRFI Roadmap.</li> </ul>	<ul style="list-style-type: none"> <li>The ADRFI has completed its first phase (2017–2018) and contributed to the development of AMS' capabilities in ex-ante risk financing and risk transfer strategies.</li> <li>The ongoing phase two, 2019–2021, emphasises risk assessment, risk advisory and capacity building.</li> </ul>

Source: ASEC (n.d.-c)

From the individual member states' viewpoint, the adoption of the Strategic Action Plans (SAPs) in 2016 did point to a more integrated financial market in the region as evidenced by the result of a 2020 study on the evolution of ASEAN financial integration. The study analysed selected indicators including (i) money and banking markets, (ii) bond and stock (capital) markets, (iii) Foreign Direct Investment (FDI), and (iv) portfolio investments. The analysis of the region's capital market, bond market, FDI and investment returned a conclusive indication of financial market integration, with the capital market being the most integrated of the three. One exception, however, was from the analysis of the money and lending market indicators where the result was

inconclusive towards market integration. In terms of the integration's trajectory, when juxtaposing ASEAN's financial market integration with that of the European Union (EU), the AMS appear to be moving towards market integration in a way similar to the route taken by the EU, albeit more slowly. That in itself is considered promising (Ariyasajakorn et al., 2020).

### 2.3. Introspection

Upon looking at the above generic overview, the varying degrees of achievements raises the question on the challenges that might cause such differences. Identifying these hurdles, however, has been proven challenging as it involves a thorough exploration into individual member states' policy environment with its complexity and variety. There are two common approaches often used in determining the challenges to achieving the goal of an integrated services market in ASEAN. These approaches involve exploring the policy pattern by sector as well as examining the nature of some key policy measures (Gootiiz and Mattoo, 2015).

There were still obstacles due to certain explicit and implicit limitations on entry, ownership, and licences including the opacity of licensing processes. Gootiiz and Mattoo (2015) found evident from their survey on seven sectors, namely, financial services, telecommunications, retail, transportation, education services, medical services, and professional services. The result indicates that on average ASEAN was among the more restrictive countries in the world – alongside countries in South Asia, Middle East and North Africa – in terms of access to its services market, and such restrictiveness was related to these limitations.

Another hurdle closely linked to the aforesaid limitations is the discretionary nature of policy environment prevailing in nearly all AMS. For example, the criteria for licensing and market entry was available publicly in most AMS. However, the study found that meeting these criteria was not a guarantee that a licence would be granted. Also, in the case where institutional capacity was insufficiently implemented, the presence of necessary regulations or formal policy was unlikely (Gootiiz and Mattoo, 2015).

A more profound challenge lies at the great variations in economic status and the diversity in politics, social and cultures among the ten AMS that at times slow down the efforts towards regional cooperation and integration (Ishikawa, 2021). Such variations, however, can be considered a promising opportunity that can strengthen regional value chains and reinforce cooperation among the ten member states.

## 3. How did the COVID-19 pandemic impact progress?

By the time the AEC Blueprint 2008-2015 was completed, ASEAN was the 6th largest economy in the world in term of GDP. It had the world 3rd largest population, of which, more than half were young and under 30. Both ASEAN trade and investment showed strong intra-regional bias – the largest share of regional total trade and inward investment occurred among AMS.

The ASEAN leaders adopted the ASEAN Economic Blueprint 2025 (AEC 2025) during the 27th ASEAN Summit in Kuala Lumpur in 2015. The AEC 2025 envisages the region to be more cohesive, competitive, resilient, people-oriented, and more integrated with the world's economy. It outlined the measures to be taken upon by the member states and is complemented by the AEC 2025 Consolidated Strategic Action Plan (CSAP) where more detailed sectoral work plans and schedules are listed (ASEC, n.d. -d). When compared to the AEC 2015 that has straightforward objectives of trade liberalisation, the AEC 2025 focuses more on trade facilitation in which topics pertaining to competitiveness and inclusiveness become more pivotal. The implementation of AEC 2025 is currently ongoing and it therefore requires more time to demonstrate

meaningful levels of progress (Ishikawa, 2021).

The outbreak of the COVID-19 pandemic and the government's policy measures in response had multiple impacts on the AEC's progress in liberalising trade in services. Table 5 examines AEC 2025's strategic measures and key action lines individually and provides premier views on the potential impact of the COVID-19 in each action line.

**Table 5: Potential impacts of the COVID-19 pandemic on the AEC 2025 trade in service liberalisation**

Strategic Measures	Key Action Lines	Potential impacts*
i. Review	Assess the effectiveness, flexibilities, limitations, thresholds and carve-outs under AFAS and ATISA with a view to improve services liberalisation within ASEAN.	Positive
	Guidelines to transition from AFAS 10th Commitments to NCMs in ATISA.	Positive
ii. Promoting FDI in the services sectors	A more attractive environment for FDI. Simplify and streamline domestic rules and procedures related to investment in the services sectors.	Negative in the short term, positive in the long term
iii. Further liberalisation of services	Explore alternative approaches for further liberalisation of services.	Negative in the short term, positive in the long term
iv. Competitiveness of the services sector	Establish possible disciplines on domestic regulations based on best practices.	Positive
v. Sectoral analysis	Establish the advantages and disadvantages of having sectoral annexes or chapters.	Positive
	Develop sectoral annexes or chapters under ATISA for Telecommunications and Financial services.	Positive
vi. Technical cooperation	Organise regular engagements with industry associations on best practices in regulatory regimes in the services sectors.	Positive
	Organise regular joint activities with CCI on promoting investment in the services sector.	Positive
	Undertake other technical cooperation activities.	Positive

\* Positive means the pandemic will motivate and accelerate liberalisation of trade in service; Negative means the pandemic will put back the pace of implementing AEC 2025 blueprint in the aspect(s).

Source: Authors' analyses based on ASEC (2018).

Except for the strategic measure (ii) Promoting FDI in the services sectors and (iii) Further liberalisation of services, the potential impacts of the COVID-19 pandemic were positive. First, the COVID-19 pandemic forced the government to press a pause button on many economic and social activities. It showed a real-world scenario of how limitation and policy resistance on trade in services could damage society. This helps produce a more thoughtful and comprehensive overview of the effectiveness of existing agreements, and then smoothen the transition from AFAS to ATISA.

Second, the outbreak of the COVID-19 pandemic and the consequent measures affected the performance of services akin to policy restrictions. It highlights the importance of discipline in domestic regulations in improving the competitiveness of the services sector.

Third, the effect of the COVID-19 pandemic varied across sectors. In-depth sectoral analysis can make the AEC 2025 Blueprint more practical, and facilitate its implementation, especially in field of telecommunications and financial services. The COVID-19 pandemic has accelerated the pace of digital transformation in both sectors and moreover, further unleashed their potential in promoting the development of the digital economy.

Forth, during the COVID-19 pandemic, the adoption of data-driven business models and the embracement of digital tools with traditional services helped many sectors survive the shocks from the public health crisis. It further emphasised the importance of technical cooperation in implementing the AEC 2025 Blueprint for trade in services.

Finally, the COVID-19 pandemic slowed down the process of further promoting FDI and the liberalisation of services because of the consequent uncertainty of the market. ASEAN is one of the world's most dynamic destination of FDI and service activities. The long-term effect of the COVID-19 pandemic on the region's fundamental competitiveness in international trade and investment must be limited. Moreover, the government's consequent measures turned out to be a "big push" of digitalisation and online services for both public administration and doing business during the pandemic. For that reason, one can expect significant advances in promoting FDI and liberalisation in services in the post-pandemic period.

## 4. What can be done to achieve the ASEAN Economic Community 2025 goals?

The AEC Blueprint 2016-2025 will take the AEC to the next level based on what the region had achieved under the guidance of the previous blueprint. The new blueprint aims for (i) a highly integrated and cohesive economy, (ii) a competitive, innovative and dynamic ASEAN, (iii) enhanced connectivity and sectoral cooperation, (iv) a resilient, inclusive and people-oriented, people-centred ASEAN, and (v) a global ASEAN (ASEC 2017). The new blueprint's objective of trade in service is "to further broaden and deepen services integration within ASEAN, ASEAN's integration into the global supply chains in both goods and services, and enhance AMS competitiveness in services." (ASEC 2018) Accordingly, ASEAN adopted the AEC Monitoring & Evaluation (M&E) framework as the main mechanism to make the implementation of AEC 2025 promising.

To help ensure ASEAN achieves its AEC 2025's goals in liberalising trade in services, our recommendations are from two aspects. First, the region can coordinate the implementation of AEC 2025 with that of the Regional Comprehensive Economic Partnership (RCEP) Agreement. Second, policy thoughts in the context of digitalisation will help ASEAN keep pace with the global trend of digital transformation while implementing its 2016-25 blueprint.

### 4.1. Implementing RCEP

The RCEP is a multilateral free trade agreement that pursues a primary goal of achieving tariff reductions and more streamlined regulations, signed in late 2020 by the ten AMS, Australia, China, Japan, South Korea and New Zealand. The RCEP Agreement sets out the liberalisation of trade in services in one of its chapters, namely Chapter 8, where three services sectors are listed including financial services, telecommunication services, and professional services. The RCEP agreement dedicates one chapter, Chapter 9, to discuss and define the temporary movement of natural persons (MNP) including the conditions under which temporary entry and temporary stay can be granted to persons engaged in the provision of services, trade in goods, or investment. The RCEP's MNP is fairly similar to the GATS and/or AFAS' Mode 4 Movement of Natural Persons

with one fundamental exception, that is, the RCEP's MNP does not facilitate the movement of professionals who seek to access the employment market on a permanent basis.

The chapter for investment covers four pillars of investment – which includes investments, protection, liberalisation, promotion and facilitation – that support and enhance the existing ASEAN plus One Free Trade Agreements. The discussion on investment incorporates a most-favoured-nation (MFN) treatment clause and commitments, and the prohibition of performance requirements that go beyond multilateral obligations under the WTO Trade-Related Investment Measures (TRIMS) Agreements.

The RCEP Agreement applies a negative-list approach for the scheduling of market access commitments where obligations such as national treatment will apply to all sectors listed in the agreement except for specific non-conforming measures and/or sectors or subsectors that are cleared from obligations as specified by the participating countries. This approach is substantially different from that of GATS and AFAS that use a positive-list approach where commitments or obligations such as national treatment only applies to the sectors listed in the members' schedule. (see Table 6)

**Table 6: Selected points extracted from the RCEP “negative-list” commitments**

Commitments	Scope and details
Market Access	<p>The RCEP does not allow limitations on market access as follows:</p> <ol style="list-style-type: none"> <li>1. Limitations on the number of suppliers including numerical quotas, monopolies, exclusive service suppliers, and requirements of an economic needs test;</li> <li>2. Limitations on the total value of service transactions or assets in the form of numerical quotas, and the requirement of an economic needs test;</li> <li>3. Limitations on the total number of service operations and the total quantity of service output expressed in terms of designated numerical units in the form of quotas and the requirement of an economic needs test;</li> <li>4. Limitations on the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ, and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test;</li> <li>5. Measures that restrict or require specific types of legal entities or joint ventures through which a service supplier may supply a service;</li> <li>6. Limitations on the participation of foreign capital in terms of a maximum percentage limit on foreign shareholding, or the total value of individual, or aggregate foreign investment.</li> </ol>
National Treatment	<p>Treatment should be no less favourable than that provided to domestic services and service suppliers. However, there is no requirement to compensate for any inherent competitive disadvantages resulting from the foreign character nature of the relevant services or service suppliers. Formally identical, or formally different treatment is considered less favourable if it modifies the conditions of competition in favour of domestic services or service suppliers.</p>
Others	<p>On local presence, participating countries are prohibited from requiring the service suppliers of another member countries to establish a representative office, a branch, or any form of juridical person, or to be resident as a condition to supply a service through Modes 1, 2 or 4.</p>

Source: RCEPSEC (2019), Serafica and Ramli (2022)

## 4.2. Digitalisation of the world economy

With international fragmentation of production, the world economy has been highly interdependent via Global Value Chains (GVCs). ASEAN's participation into GVCs turned out to be one of the key factors that drove regional economic growth and development. The idea of trade and investment liberalisation became widely accepted, as the way to facilitate a country's involvement in GVCs was to pursue economic prosperity. (Chen and Intal 2017). To meet the needs for coordinating GVCs, service links – especially those of business and financial services – were making great strides forward as well.

The application of digital technologies has reduced the cost of people-to-people connections, particularly via enhancing connectivity in cyberspace. It can blur boundaries between the different links of value chains and increase the information transparency to all participants. Firms can benefit from the low cost of people-to-people connections and further fragment tasks internationally. (Kimura and Chen 2018)

There are some digital-driven changes on services that are worth further policy consideration. First, digitalisation has introduced new services activities and turned more non-tradable sectors to tradable sectors and therefore, expanded the territory of services in economic activities. (Nakatomi 2022) Second, digital solutions have brought about new sources of value added to businesses. In particular, digitalisation has sharpened the edge of competitiveness of data-driven business models such as servicification, with which the delivery of end-products is no longer the end of sale but merely a milestone that is followed by more producer–consumer interactions. (Chen 2022) Third, the application of digital technologies and related business models into the services sector makes services more innovative and productive. Digital-empowering services links – either digitally enabled or digitally created – can improve the capacity of GVC coordination and motivate network extension. ASEAN is recommended to take this potential into account when implementing AEC 2025 in promoting regional trade in services.

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## Sub-Pillar C - Investment Environment

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## I. Development for the past five years up to the COVID-19 pandemic

This chapter examines the progress of the investment environment from the perspective of the ASEAN Economic Community (AEC) Blueprint 2025, which envisions ASEAN as a single market and production base. Under the investment environment, ASEAN aims to increase its attractiveness as a global investment destination through the establishment of an "open, transparent and predictable investment regime" in the region (ASEAN Secretariat 2016).

While ASEAN views cohesive regional economic integration as a "dynamic, ongoing process" recurring over time (ASEAN Secretariat 2015, 59), this chapter reveals that the investment environment has made patchy progress in equitable regional economic integration and development, particularly due to interruptions caused by the COVID-19 crisis. This chapter is based on mixed methods, employing a qualitative review of the changing policy landscape and a quantitative review of sectoral investment progress made in ASEAN. It emphasises the importance of having more region-wide investment promotion and facilitation initiatives to improve the ASEAN investment environment and centrality.

This section has three parts. First, it sets out the background of the ASEAN Comprehensive Investment Agreement (ACIA) and its four areas of investment cooperation in ASEAN to review the FDI-related policy progress for the AEC Blueprint. Second, it reviews the foreign direct investment (FDI) statistics, highlighting the changing trend of FDI in ASEAN by sector and country source. Finally, some observations are made concerning the rising investment mechanism called Sustainable Investment.

### I.1. The investment environment shaped by the ACIA and policies

The ASEAN investment environment is maintained and strengthened under the broad principles, and implementation, of the ACIA. The ACIA was established as a result of the decisions made in the 39th ASEAN Economic Ministers Meeting held in Makati City, Philippines, on August 23rd, 2007, to revise the Framework Agreement on the ASEAN Investment Area (AIA Agreement) signed in 1998, as well as the ASEAN Agreement for the Promotion and Protection of Investments (ASEAN IGA) signed in 1987. The AIA Agreement and ASEAN IGA were amended and incorporated into a comprehensive investment agreement to be more forward-looking and to enhance regional integration for the realisation of AEC. This move also aimed to improve features and provisions more aligned to international best practices to promote ASEAN's competitiveness and induce intra-ASEAN investments.

The ACIA serves to enforce the following three agenda items for the AEC Blueprint 2025, to ensure that it:

1. Provides progressive liberalisation of existing investment restrictions in manufacturing, agriculture, fishery, forestry and mining, and the services incidental to these sectors;
2. Significantly strengthens investment protection; and
3. Ensures transparency of investment laws, regulations and administrative guidelines.

For these, four measures are stipulated. They include:

- Completing the built-in agenda of the ACIA, including the effective implementation of the modality on the elimination or improvement of investment restrictions and impediments;

- Identifying appropriate approaches or mechanisms for the phasing out and/or reduction of the ACIA Reservation Lists;
- Continuing to undertake and, where necessary, enhance the Coordinating Committee on Investment (CCI) Peer Review Mechanism; and
- Continuing to undertake joint promotion of ACIA, as well as of ASEAN as an investment destination

In order to build the capacity of AMS to consistently improve investment-related policy and practice, the 2016-2025 Investment Work Programme was established under the general principles of ACIA. This programme, built on the preceding 2011-2015 Investment Work Programme, aims to enhance the following four investment areas of cooperation: liberalisation, protection, facilitation, and promotion (ASEAN Secretariat 2022a).

**Table 1: Four areas of investment cooperation**

Investment areas of cooperation	Content
<b>Liberalisation</b>	<p>Openness</p> <ul style="list-style-type: none"> <li>• Ongoing annual investment peer review process</li> <li>• Assessment of the openness of ASEAN investment regimes</li> </ul>
<b>Protection</b>	<p>Dispute settlement</p> <ul style="list-style-type: none"> <li>• Study of investment provisions in ASEAN FTAs</li> <li>• Workshops on Investor-state dispute settlement</li> <li>• Assessment of the reform of Investor-State Dispute Settlement</li> <li>• Possible establishment of an ASEAN Investment Tribunal/Multilateral Investment Court</li> </ul>
<b>Facilitation</b>	<p>Capacity building</p> <ul style="list-style-type: none"> <li>• Technical assistance for newer AMS</li> <li>• Study on outsourcing opportunities and best practices in ASEAN</li> <li>• Implementation of investment policy dialogues</li> </ul>
<b>Promotion</b>	<p>Engagement and education</p> <ul style="list-style-type: none"> <li>• Engaging with intra-ASEAN outbound investment missions</li> <li>• Development of the ASEAN Investment website to promote ASEAN as a single investment destination</li> <li>• Promoting ACIA through the publication of the ACIA Guidebook for businesses and investors</li> <li>• The ACIA Handbook and Kit for investment promotion agencies</li> <li>• Seminars on ACIA to raise awareness of the most up-to-date ASEAN investment environment</li> </ul>

Source: *The ASEAN Secretariat 2022*

These four areas of cooperation are an ongoing endeavour by AMS that serve to inform AMS of specific actions required to improve the investment environment as an integrated investment area for the AEC vision.

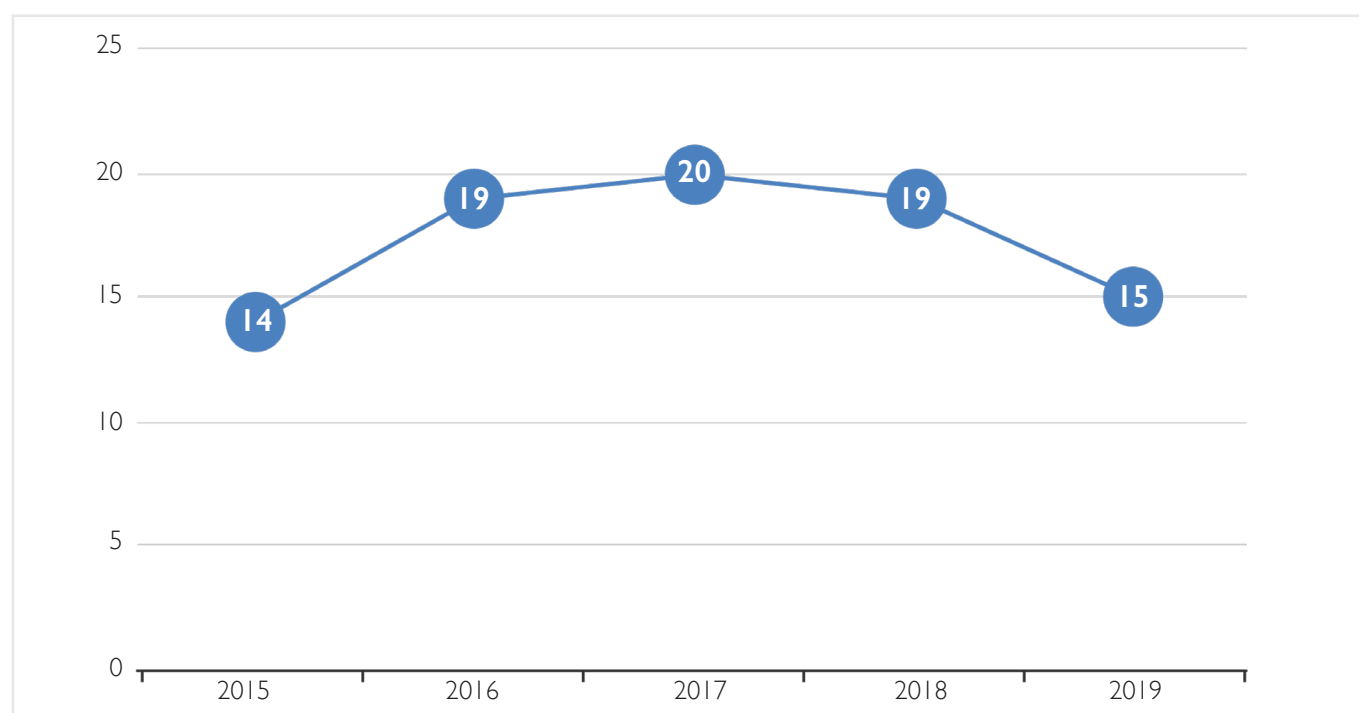
### 1.1.1 Policy landscape and policy review on the progress of AEC

In line with the ACIA principles and objectives, a number of favourable investment policies were introduced to draw a positive FDI landscape in ASEAN. Firstly, since the establishment of ACIA until the onset of the COVID-19 pandemic, ACIA has been reviewed three times – once in 2014 and twice in 2017. Upon the inception of the AEC Blueprint, ACIA was revised in 2017 to re-assess the definition of "natural person" to reflect the issue of the treatment of permanent residents, and to reflect the deletion of Paragraph 8 on Thailand's Foreign Business Act in the Headnote for the List of Reservations (ASEAN Secretariat 2022a). These two contributed to increasing liberalisation for further regional openness and inclusiveness in the ASEAN investment environment. ACIA continues to be reviewed to cater to regional investment-related challenges.

Secondly, ASEAN's FDI policy landscape demonstrates an increasing trend in investment liberalisation, protection, facilitation and promotion in each nation. The Investment Policy Monitor provided by the UN Conference on Trade and Development (UNCTAD 2022b) demonstrates FDI policy health in terms of liberalisation (entry and establishment such as ownership and control, access to land, approval and admission), facilitation and protection (treatment and operation such as non-discrimination, nationalisation and expropriations, capital transfers, FOREX, dispute settlements and operational conditions) and promotion (incentives and special economic zones). This paper utilises the combined ideas from the ACIA and UNCTAD's Investment Policy Monitor for the four investment areas of cooperation of liberalisation, facilitation, protection and promotion for the ASEAN-specific contextual policy review.

Figure 1 illustrates the pre-COVID-19 trend of the growing number of favourable policies in ASEAN conducive to FDI up to 2019.

**Figure 1: Number of favourable policies in ASEAN**



Source: UNCTAD 2022b

Since the inception of the AEC Blueprint 2015, the number of investment policies favourable to attracting investment has steadily grown, yet not explicitly aimed at ASEAN regional integration. The open policy environment was encouraged by several national FDI-related measures, making it more fertile for FDI in the region. To illustrate, the favourable number of policies increased from 14 in 2015 to 20 in 2017 across ASEAN countries. National FDI-related measures primarily focused on liberalisation (simplifying investment processes, relaxation of investment conditions and lowering transaction or business costs), followed by facilitation (revision and improvement of investment-related laws reflective of international best practices) and promotion (granting investment incentives through initiatives such as the special economic zone infrastructures). (UNCTAD 2022b).

The policy changes introduced above mainly present the non-discriminatory opportunity for both ASEAN and non-ASEAN investments. This suggests its openness to increased FDI on the global stage and not necessarily for holistic, region-wide investment promotion that shapes ASEAN as a single market and production base.<sup>1</sup>

**Table 2: Number of favourable policies in ASEAN**

Year	2015	2016	2017	2018	2019
<b>Brunei</b>		1			
<b>Cambodia</b>		1			
<b>Indonesia</b>	3	3	3	3	5
<b>Lao PDR</b>			2		
<b>Malaysia</b>					1
<b>Myanmar</b>	4	6	4	9	2
<b>Philippines</b>	1	3	1	1	2
<b>Singapore</b>		1	2	1	
<b>Thailand</b>		1	4	1	1
<b>Vietnam</b>	6	3	4	4	4

Source: UNCTAD 2022b

The increase of conducive investment policies is contributed particularly by countries such as Indonesia, Myanmar, Philippines, Thailand and Vietnam in the period (see Table 2). In Myanmar specifically, the jump from 4 policies in 2017 to 9 policies in 2018 appeared to have been derived from the improvement of the openness with the set of new laws that took effect in 2018, most importantly the Myanmar Foreign Investment Law, Myanmar Citizen Investment Law, and Myanmar Companies Law, which aimed to reach for the international standard (Rastogi 2018). This has resulted in an encouraging rise in Myanmar's position in the Ease of Doing Business ranking to 165 in 2020 (pre-COVID-19) from 171 in 2018 (World Bank 2020).

Such policy changes contributed to the establishment of an open, transparent and predictable investment regime in each nation, as clearly evidenced in the FDI inflows in the next section. It is possible to conclude, however, that the AEC progress on the investment policy environment was more nationally-focused rather than holistic regional enrichment.

<sup>1</sup> This paper uses the UNCTAD Policy database which includes the filtration of nationalisation and expropriation of business operations, and therefore does not cover the specific review on ASEAN Free Trade Area (AFTA) Agreements to review the openness of the investment policy environment.

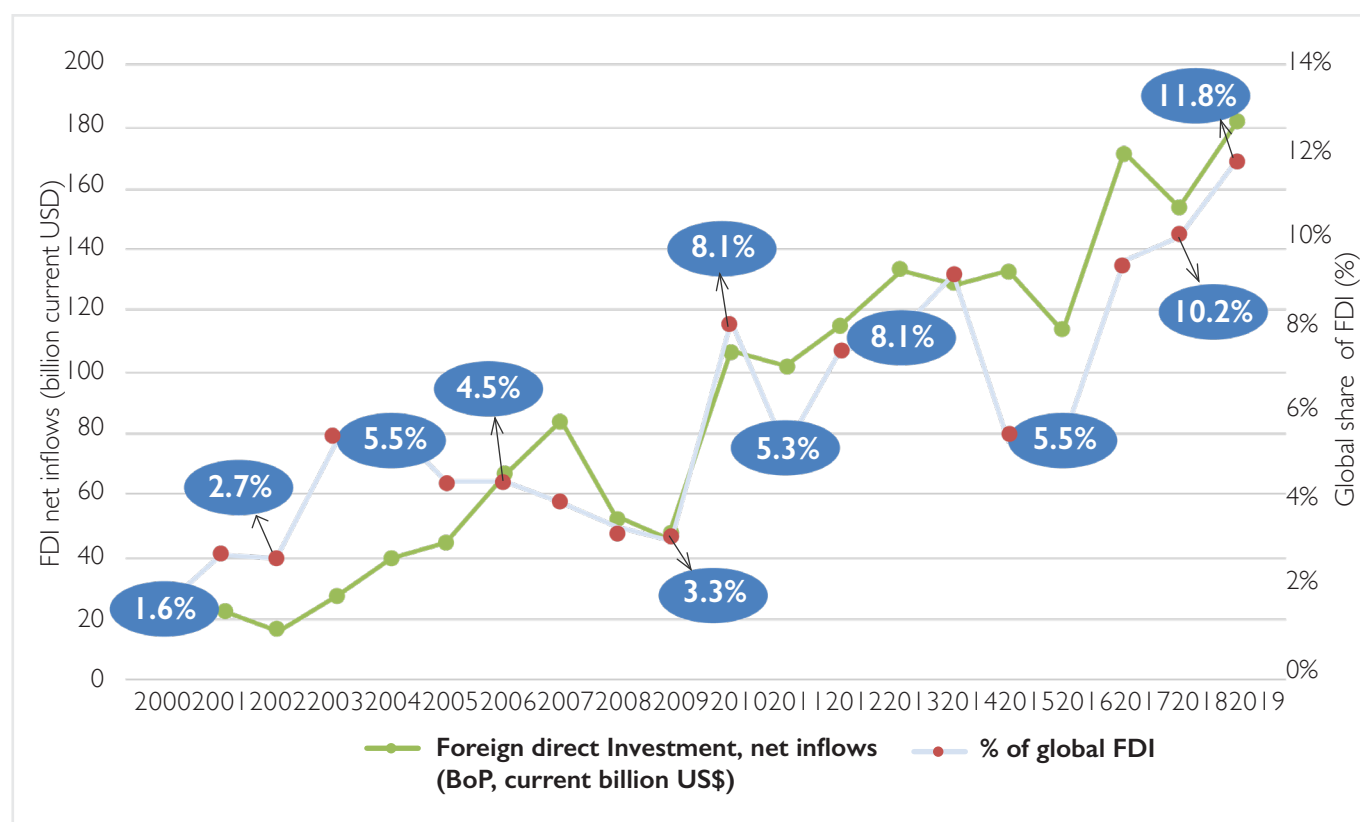
## 1.2. The development of investment inflows to ASEAN

### 1.2.1. Total FDI inflows

ASEAN has been an attractive region for FDI, maintaining a high investment inflow. Except for some plunges caused by international uncertainty (e.g., the 2007-2008 financial crisis), the trend of FDI inflow to the region is positive (see Figure 2). The value of FDI inflow to the region increased nearly tenfold, from around US\$20 billion in 2000 to US\$181 billion in 2019. This was the record highest FDI inflow to the region. Intra-ASEAN investment continues to contribute significantly to the development of the regional investment environment, reflecting the effort of AEA in promoting integration and connection of the Seamless ASEAN Economic Community since the early stages.

Given the high volume of FDI inflow, ASEAN has become an important destination for foreign investors. Notwithstanding the fluctuation, the ASEAN share in global FDI also shows a robust journey, from just about 1.6 percent of the world FDI in 2000 to 11.8 percent in 2019. The growth in significance was observed mostly during the 2010s by virtue of ASEAN efforts to promote the openness and inclusiveness of the investment environment. Taking a larger portion of the world's FDI reflects the successful introduction of liberalisation, facilitation and promotion policies in the region and indicates international investors' confidence in the region's potential. Up until 2019, investment within ASEAN was resilient and moving steadily on an upward trajectory.

**Figure 2: ASEAN's inward FDI and its share in global FDI**



Source: UNCTAD 2022a, ASEAN Stats Data Portal 2022

### 1.2.2. Sectoral Development

Under the vision of the AEC 2015 blueprint, AMS continued to further liberalise the investment restrictions in some key sectors, including Manufacturing, Mining, Agriculture, and services that are incidental to these sectors. The efforts have shown some positive progress, reflected in the significant development in FDI in these sectors, especially manufacturing.

Over the years, there have seldom been changes in the concentration of invested sectors in ASEAN. Financial and Insurance Activities remain the top investment sector for foreign investors, ranking first in the volume of FDI inflows to the region (see Table 3). This region's growing middle-income population and high-net-worth individuals attract MNEs to set up and/or expand their business entities. Additionally, regional digital infrastructure advancement and change in consumer behaviour promote the footprints of digital banking and fintech, especially digital payment solutions.

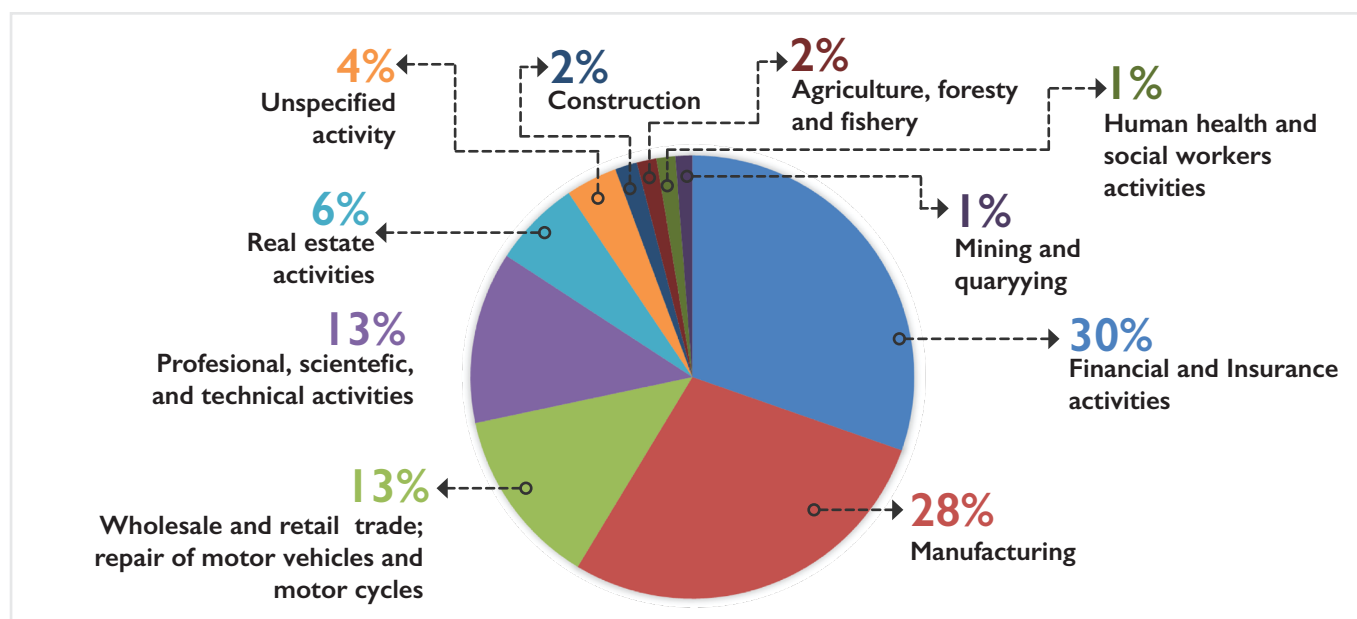
**Table 3: Ranking of sectors based on the size of FDI inflows**

Sectors	2015	2016	2017	2018	2019
Financial and insurance activities	1	1	1	2	1
Manufacturing	2	2	2	1	2
Wholesale and retail trade; repair of motor vehicles and motorcycles	4	3	3	3	3
Professional, scientific and technical activities	3	6	8	6	4
Real estate activities	5	4	4	4	5

Source: ASEAN Secretariat, ASEAN FDI database

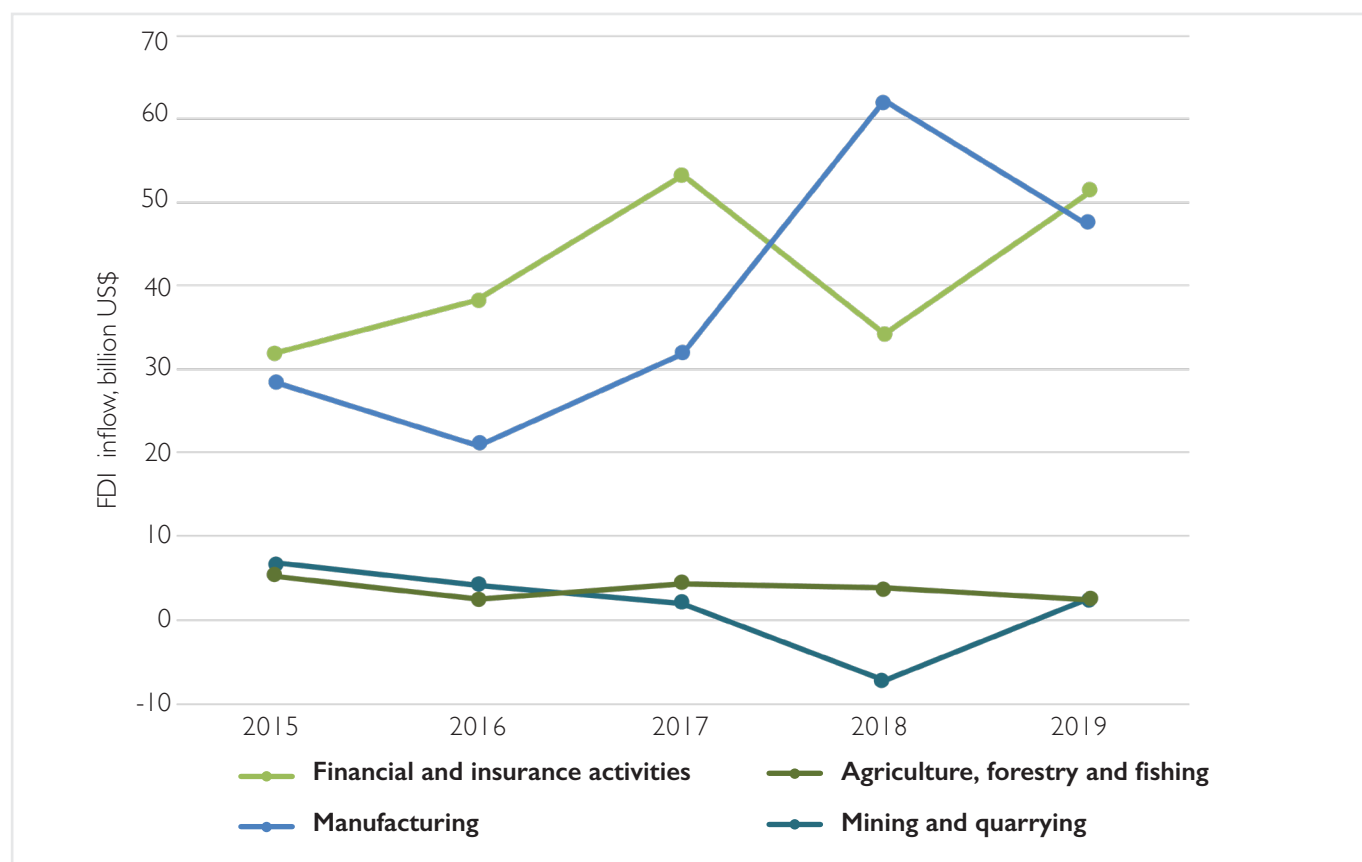
The top three sectors are also popular, with little changes in the order of ranking. In addition, these three sectors are critical investment sectors in ASEAN. In 2019, the Financial, Insurance Activities, Manufacturing and Wholesale and Retail Trade sectors accounted for over two-thirds of the total investment (see Figure 3).

**Figure 3: The composition of FDI inflow to ASEAN in 2019 by sector**



Source: UNCTAD 2022a, ASEAN Stats Data Portal 2022

Figure 4: FDI inflows of some selected sectors from 2015-2019



Source: ASEAN Statistics Data Portal 2022

From Figure 4, we can see the growing significance of the manufacturing sector as a force to attract FDI. From Table 3 and Figure 4, we can observe that in recent years, the investment in the Manufacturing sector has doubled and surpassed that of the hitherto dominant Financial Insurance Activities in 2018. This development might be due to several factors, including the diversification of Global Value Chains (GVCs) from Multinational Enterprises (MNEs) to this region as a result of trade tensions between the US and China, and sourcing more affordable labour in the region, both inter- and intraregionally (American Chamber of Commerce in Shanghai 2019).

Agriculture, Forestry, and Fishery are among the top ten sectors that receive considerable investment from international actors (see Figure 3). While its growth is not as significant as manufacturing, the inflow to this sector is stable, with an average of US\$4 billion annually (see Figure 4). Intraregional investors dominate this sector. While Indonesia is the principal recipient, Singaporean and Malaysian firms are the most active financiers in these sectors.

On the other hand, Mining (or extractive activities) has not seen a major improvement in this period. In fact, this sector observed major disinvestment (sales of assets to local firms) in 2018, mainly from the EU (-3.4 billion USD) and the US (-0.9 billion USD). The disinvestment has primarily taken place in Indonesia this year. For example, PT Indonesia Asahan Aluminium acquired 40 per cent of the Grasberg Mine stake from Rio Tinto (United Kingdom) for US\$3.5 billion.

In terms of investment sources, investors from the US and Japan maintain dominance in the region, consistently ranked in the top 3 (see Table 4). Except for 2018, when significant disinvestment in Mining, Wholesale, and Financial Insurance Activities in Singapore occurred<sup>2</sup> (UNCTAD 2018), the amount of investment from the US to the region is consistently among the highest.

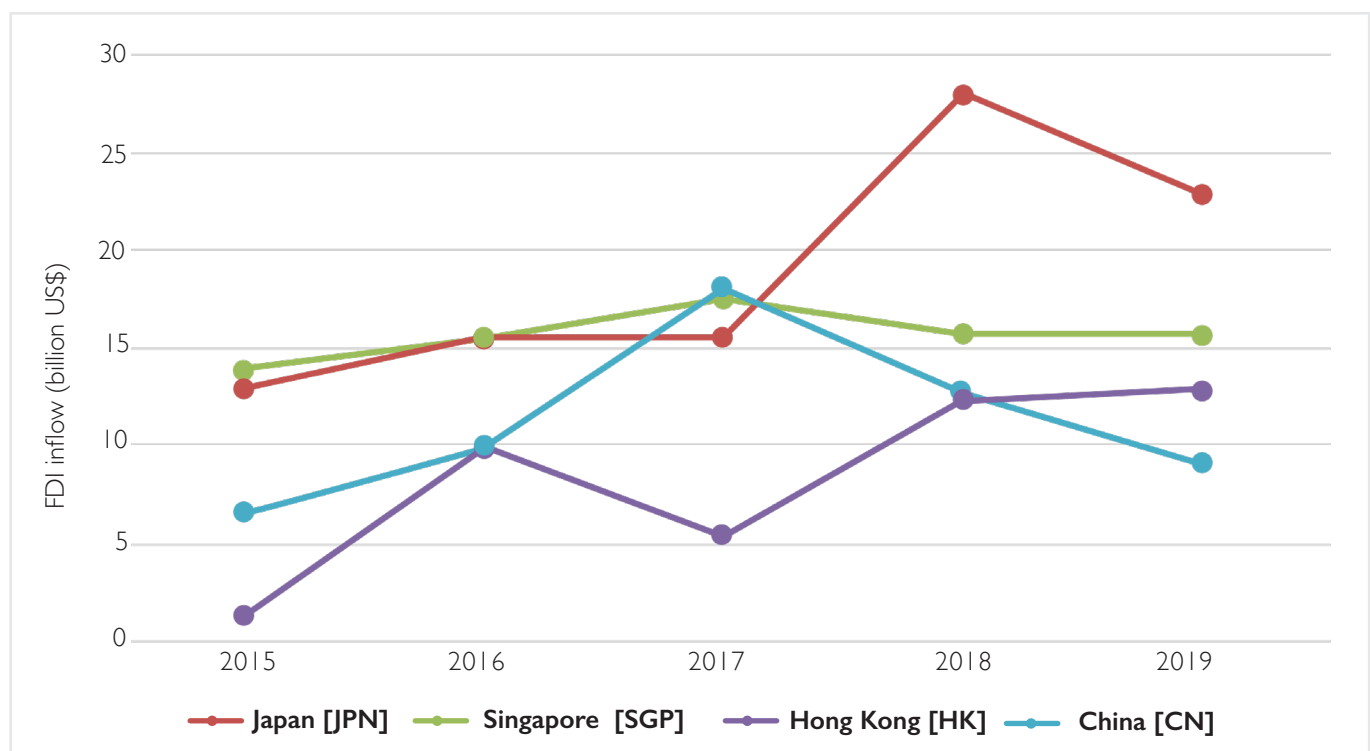
**Table 4: Ranking of nations based on the investment size**

Source	2015	2016	2017	2018	2019
United States	1	3	1	246	1
Japan	3	1	4	1	2
Singapore	2	2	3	2	3
Hong Kong	15	5	7	4	4
China	6	4	2	3	5

Source: ASEAN Statistics Data Portal 2022

On the other hand, Japan has gradually increased its regional investment over the years (See Figure 5). With that constant growth rate, Japan is expected to become the most important investor in the region.

**Figure 5: FDI inflows from selected investment sources in FY2015-2019.**



Source: ASEAN Statistics Data Portal 2022

<sup>2</sup>The disinvestment of the US is not limited to ASEAN but was a global phenomenon, which was induced by tax reform introduced at the end of 2017 that encouraged firms to move profit back to the home country (UNCTAD, 2018)

The reduction of US investments is cushioned by the improvement from neighbouring nations and intra-ASEAN investment. Investors from Hong Kong and China expanded their businesses to this region to avoid specific tariffs against them, especially after the trade tension between the US and China. The tension started with a series of tariffs and trade barriers against China in 2018, imposed by former President Donald Trump as one of his efforts in the "America First" economic policy to reduce the trade deficit between nations. The trade conflict is still ongoing, with an escalation in 2019 and 2020, and shows no sign of improvement since Joe Biden took office in 2021. The conflict demonstrates a "lose-lose" situation, as it has imposed a significant cost on both countries (high cost of manufacturing, high prices for consumers in the US; reduction in production outputs in China that led to an economic slowdown) and led to a sizeable trade reduction between them.

However, it proposes an opportunity for ASEAN as a destination for the investment flow by (i) MNEs as their effort of GVC diversification out of China, and (ii) Chinese firms with the hope of avoiding the discrimination tariff against them. We will return to this argument later in this chapter when we review the investment origins.

Intra-ASEAN investment became more significant in the development of regional FDI. Malaysia and Thailand are two nations that are very active in the region's investment landscape. Singapore rose to become either the second or the third largest investor in the region, staying around US\$15 billion annually after its record high of US\$18 billion in 2018. However, it should be noted that not all investments from Singapore are indigenous, as many MNEs invest through Singapore to operate in ASEAN<sup>3</sup>.

### 1.2.3 The Digital Age and Economy in ASEAN

ASEAN's rapid growth could also be attributed to the rise of the digital economy. The digital economy<sup>4</sup> is increasingly facilitating the expansion of digital networks and digital businesses in ASEAN, with growing users of the internet and mobile phones – in many cases, smartphones. The ASEAN Investment Report in 2018 emphasised the increasing potential of ASEAN becoming a major digital hub, fuelled by factors such as the rising young population, middle-income consumers and the region bringing the third largest number of internet users. Most importantly, the internet economy is expected to grow from US\$50 billion in 2017 to over US\$200 billion in 2025, the culmination of the AEC Blueprint.<sup>5</sup> ASEAN's growing influence in the global digital landscape is an important regional force for advancing ASEAN's economic integration.

The digital economy fosters development by increasing productivity, facilitating access and promoting interconnectivity within international markets and GVCs. Companies operating in traditional sectors, from manufacturing to agriculture, can also benefit from the ICT infrastructure and digital services in the way of conducting business operation through robotics, artificial intelligence, data analytics, cloud computing, fintech<sup>6</sup>

<sup>3</sup> MNEs often operate in a system that have regional headquarters and holding companies in one relatively developed/easy-to-access nation in the area (for ASEAN, Singapore is a good example) to perform regional activities, such as expanding strategy, investment, etc. Such investment is referred to as "conduit investment" and overexaggerate the value of intraregional investment. In the 2021 World Investment Report, UNCTAD propose a new methodology to compute the intraregional investment to minimise the error. Please refer to the report for more information.

<sup>4</sup> The definition of the digital economy can be varied, but the ASEAN Investment Report refers to the application of Internet-enabled technologies to the production and trade of goods and services, built on information and communication technology (ICT) infrastructure, which provides Internet access for users and enterprises (ASEAN Secretariat 2018, 164).

<sup>5</sup> As of 2018, the digital economy was expected to add US\$1 trillion to the entire GDP of the ASEAN region by 2025 through the increase in broadband penetration, workers productivity and revenues from digital industries (ASEAN Secretariat 2018).

<sup>6</sup> Further explanations on financial technology (fintech) will be made in the following Chapter.

and e-commerce<sup>7</sup>. The changing industrial landscape in ASEAN is increasingly transforming the nature of sector-wide operations and making ASEAN a hotbed for so-called digital or tech "startups"<sup>8</sup>, another driver of the digital economy.

However, ASEAN witnesses differing levels of progress in geographic distribution. As of 2018 (ASEAN Secretariat 2018), the estimated number of digital or tech startups reached over 13,500 across ASEAN, the majority of which are based in Singapore (34 percent) and Indonesia (31 percent). For comprehensive economic integration and for ASEAN to be a digital economic hub, further intraregional cooperation for digital infrastructure is critical to enable digital industries, MSMEs and startups to serve the underserved markets.

#### **1.2.4 Investment in Sustainable Development Goals in ASEAN**

There is an urgent need for financing the initiatives that serve to achieve the 17 Sustainable Development Goals (SDGs). As the ACIA Article 25 also stipulates, there is a need to "create the necessary environment for *all* forms of investments" (Invest in ASEAN 2009). Financing the SDGs is anticipated to require US\$3.3 to 4.5 trillion annually (UN SDG 2018, 3)<sup>9</sup>.

There is growing attention towards Sustainable Development Goal Investing (SDGI), redefined and coined in 2017 in the discussion paper *Advancing A New Normal in Global Capital Markets*. SDGI is defined as "all investment strategies whereby sustainability and/or the SDGs form a 'material' factor in investment decisions" (C-Change 2017, 4). As of 2017 (C-Change 2017), SDGI was estimated at US\$23 trillion globally. Many investments in ASEAN are already increasingly taking environment, society and governance (ESG) into consideration for investment decisions, and its greater profitability has been proven in ASEAN (Korwatanasakul and Majoe 2019). The notions of responsible, sustainable and impact investment are on the rise (see 2.3.3).

The investment environment in ASEAN up to 2019 presents differing levels of liberalisation, protection, promotion and facilitation in the policy environment. By sector, financial and insurance activities, manufacturing and wholesale and retail trade sectors remained concentrated in the total FDI in ASEAN. With the rise of the digital era, more connectivity is encouraged, particularly through digital or tech startups. Further investments could bring these digital and tech services to the underserved population and spur progress toward the SDGs. The pandemic shock has, however, negatively affected the ASEAN region like everywhere else. The next section highlights the pandemic's impacts on the ASEAN investment environment.

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<sup>7</sup> E-commerce, as we are commonly familiar with, is an early outcome of the digital economy that involves the sales and purchase transactions of goods or services over computer networks, Internet and social media.

<sup>8</sup> There is no universal definition of a number of years defining a company to be a "startup". A report on startup investment in Southeast Asia and India (METI and PwC 2020) categorises startups to be those in operation within 15 years. They contribute to enhancing regional interconnectivity through their inter and intraregional operations and investments, enabling micro, small and medium enterprises (MSMEs), often serving the unbanked or underserved markets.

<sup>9</sup> The areas that require the largest financing include energy (excluding renewables) estimated at US\$370-690 billion in investment gap in developing countries and climate change mitigation at US\$380-680 billion in developed countries (UNCTAD 2020, 182).

## 2. How did the COVID-19 pandemic impact progress?

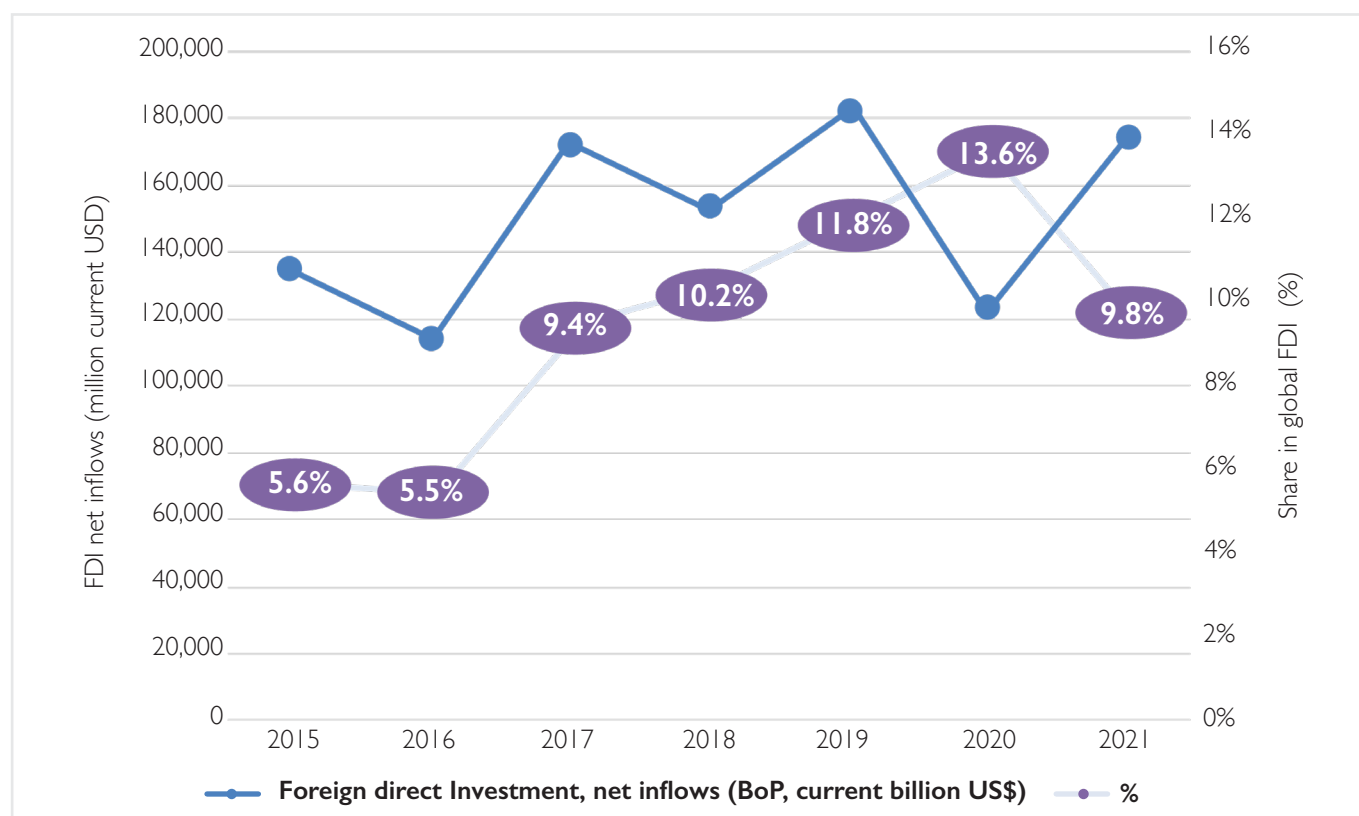
### 2.1. The impact of COVID-19 on investment in 2019-2021

#### 2.1.1. FDI progress overall

The most immediate impact of COVID-19 on investment in ASEAN was on the FDI inflows. The FDI inflow to AMS was reduced by more than 30 per cent from its historical peak in 2019 (see Figure 6). The decline is likely due to the insular measures of AMS to the widespread pandemic, leading to the postponement of investment by MNEs. These led to disruptions in GVC and business uncertainty, thus deteriorating the profits of MNEs and investment confidence (ASEAN Secretariat 2021b).

Nevertheless, the investment value in the ASEAN region is still very robust. Despite the downturn, the value of the 2020 FDI inflow is still higher than that of previous international shocks. The 2020 value is double that of the 2007-2008 financial crisis and nearly five times that of the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003-2004. Furthermore, despite the reduction in the 2020 FDI absolute value, the percentage of FDI inflow to ASEAN takes a more significant portion of the world FDI<sup>10</sup>. It is also noteworthy that nett FDI inflows in ASEAN regained momentum from US\$123 billion in 2020 to US\$174 billion in 2021. The record highest share of the global FDI and bounceback in 2021 during the pandemic and economic crisis ratifies our argument in Section 1.2.1 regarding the region's robustness, potential, and foreign investors' confidence brought about by the regional policy landscape that harnessed liberalisation and facilitation.

Figure 6: ASEAN's FDI nett inflows and its share in global FDI



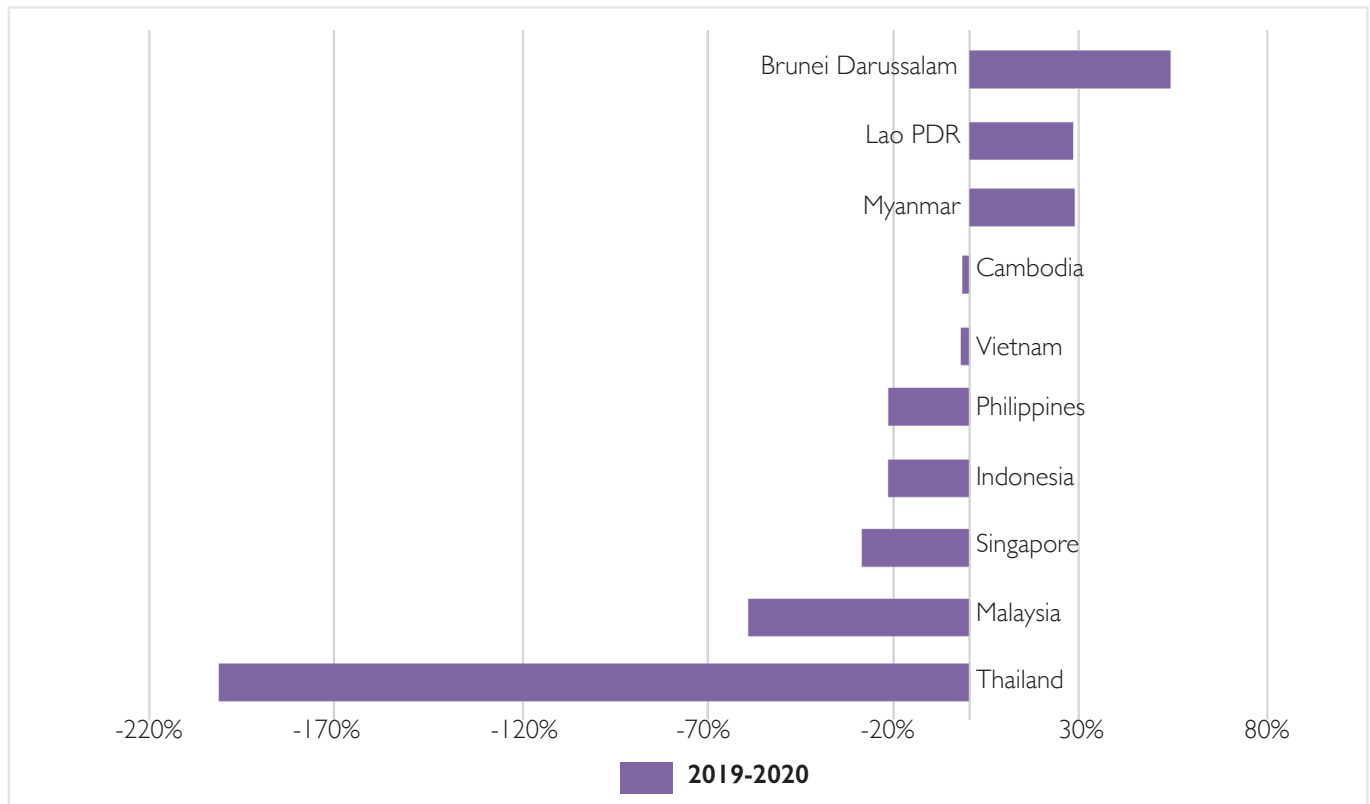
Source: ASEAN Statistics Data Portal 2022

<sup>10</sup>The right axis in the Figure 6 points out an increase from 11.8 per cent in 2019 to 13.6 per cent in 2020.

### 2.1.2. FDI inflow by country

All AMS are affected by the COVID-19 crisis, yet the magnitude of its effect on each nation is different. Compared to 2019, FDI inflow in 2020 was negative to a large extent for Indonesia, Malaysia, Singapore and Thailand. However, Brunei and CLMV (Cambodia, Lao PDR, Myanmar, and Vietnam) were fairly resilient to the pandemic shock (see Figure 7).

Figure 7: FDI change in 2019-2020 among the ASEAN Member States

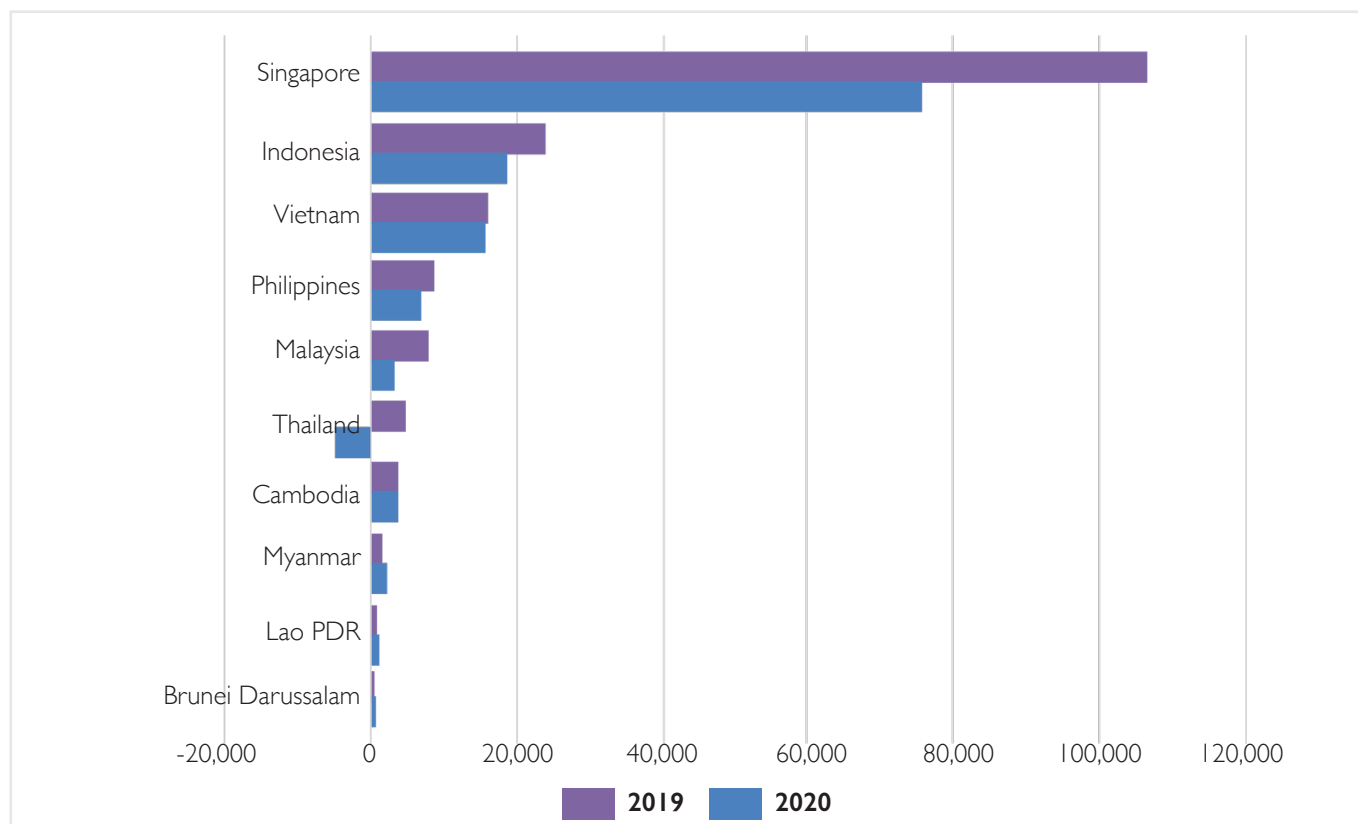


Source: ASEAN Statistics Data Portal 2022

While Cambodia and Vietnam only observed a modest reduction, Brunei, Lao PDR and Myanmar enjoyed positive growth in FDI in 2020. CLMV's robustness might be due to the supply chain diversification of MNEs from China in their effort to cope with GVC disruptions. As mentioned in section 1.2.2, the GVC diversification started pre-COVID-19 due to rising production costs and trade tensions between the US and China (ASEAN Secretariat 2021b). Brunei Darussalam enjoys the most considerable growth but from an insignificant base. Thus, their growth impact on regional FDI is minimal.

On the other hand, Singapore, Indonesia, and Thailand observed significant reductions in this period. The three countries are also the region's primary and steady recipients of foreign investments. The three nations' FDI reductions account for nearly 90 per cent of the regional reduction in 2020 (see Figure 8). In particular, Singapore's FDI deflated by US\$30 billion in value. The nation's FDI reduction significantly impacts the region through direct and indirect channels. Directly, Singapore's contraction takes up 60 percent of the total reduction. Indirectly, as mentioned earlier, the decline in Singapore's FDI set back the investment picture of the region because Singapore is a major intra-regional investor. Following this decline is Indonesia which saw a significant FDI reduction, predominantly caused by the decrease in investments from Singapore.

Figure 8: Investment inflows by nation in ASEAN in 2019 – 2020

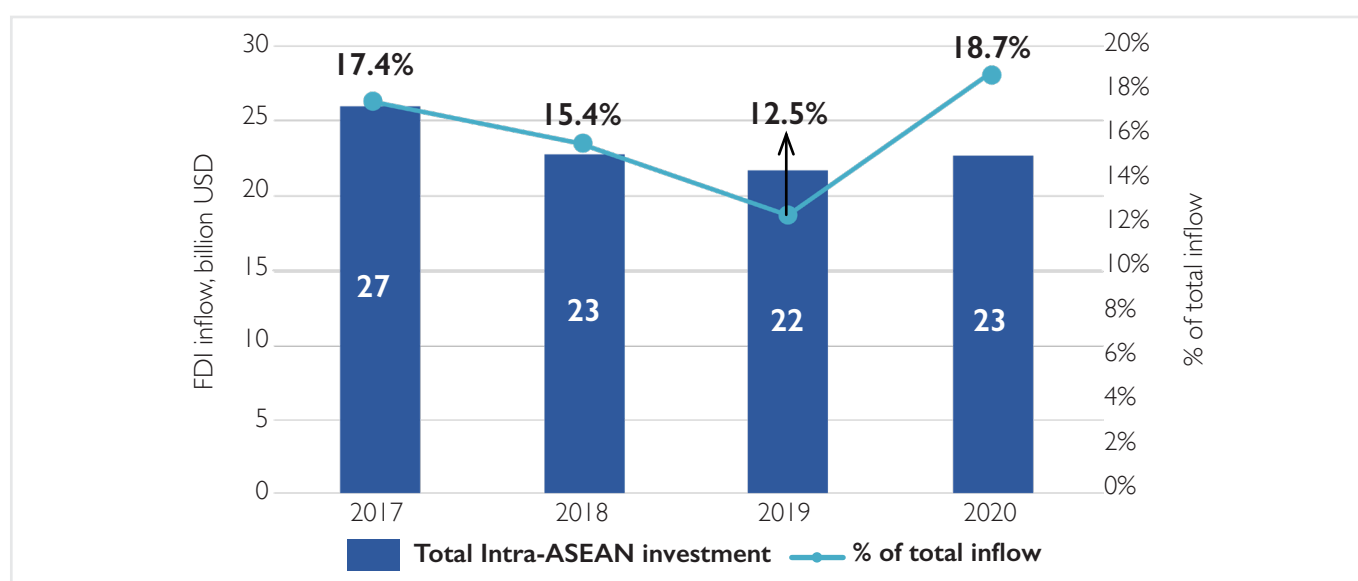


Source: ASEAN Statistics Data Portal 2022

### 2.1.3. By source

Although there was a considerable reduction in investments from major sources overseas by 35 per cent from 2019 to 2020, intraregional investment grew by 5 per cent, to nearly US\$23 billion (see Figure 9) and contributed nearly 19 per cent of total inward investment to ASEAN.

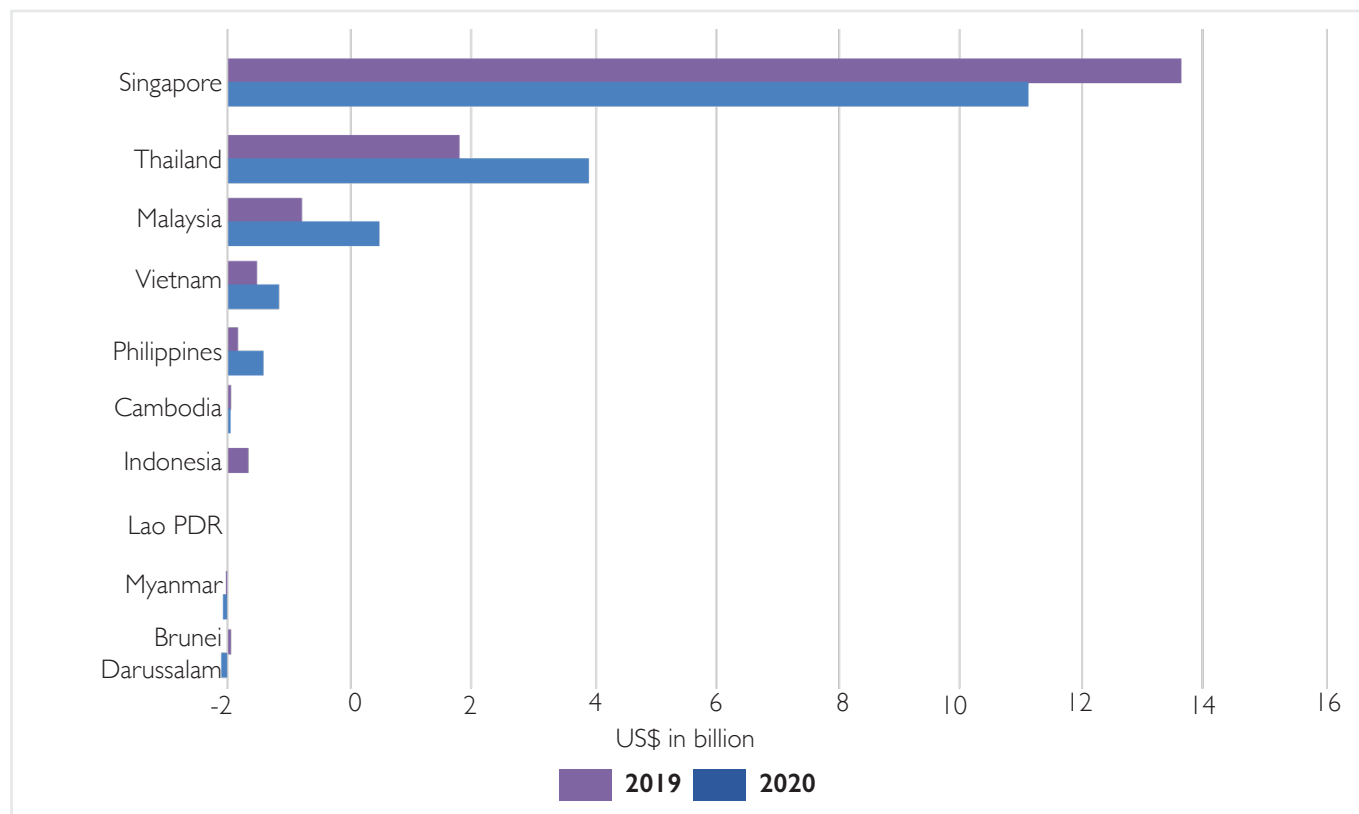
Figure 9: Intra-ASEAN investment and its share as the total inflow FDI



Source: ASEAN Statistics Data Portal 2022

Examining this more closely, we found that, despite the 16 per cent decline to US\$13 billion, Singaporean firms were still the primary investors in the area (see Figure 10). Nevertheless, the reduction from Singapore was cushioned by the improvement of investments from Thailand, which actively engaged in international expansion. Thailand took over the second highest investor from Malaysia. Vietnam, Malaysia and the Philippines expanded their intraregional investment by at least two times.

**Figure 10: Source of intraregional investment of ASEAN**



Source: ASEAN Statistics Data Portal 2022

#### 2.1.4. By sectors

The pandemic affects each economic sector differently. In 2020, the top ten sectors accounted for 99.7 per cent of the total investment in ASEAN, up by 3 per cent from 2019, indicating that investments were more concentrated in these sectors (see Figure 11).

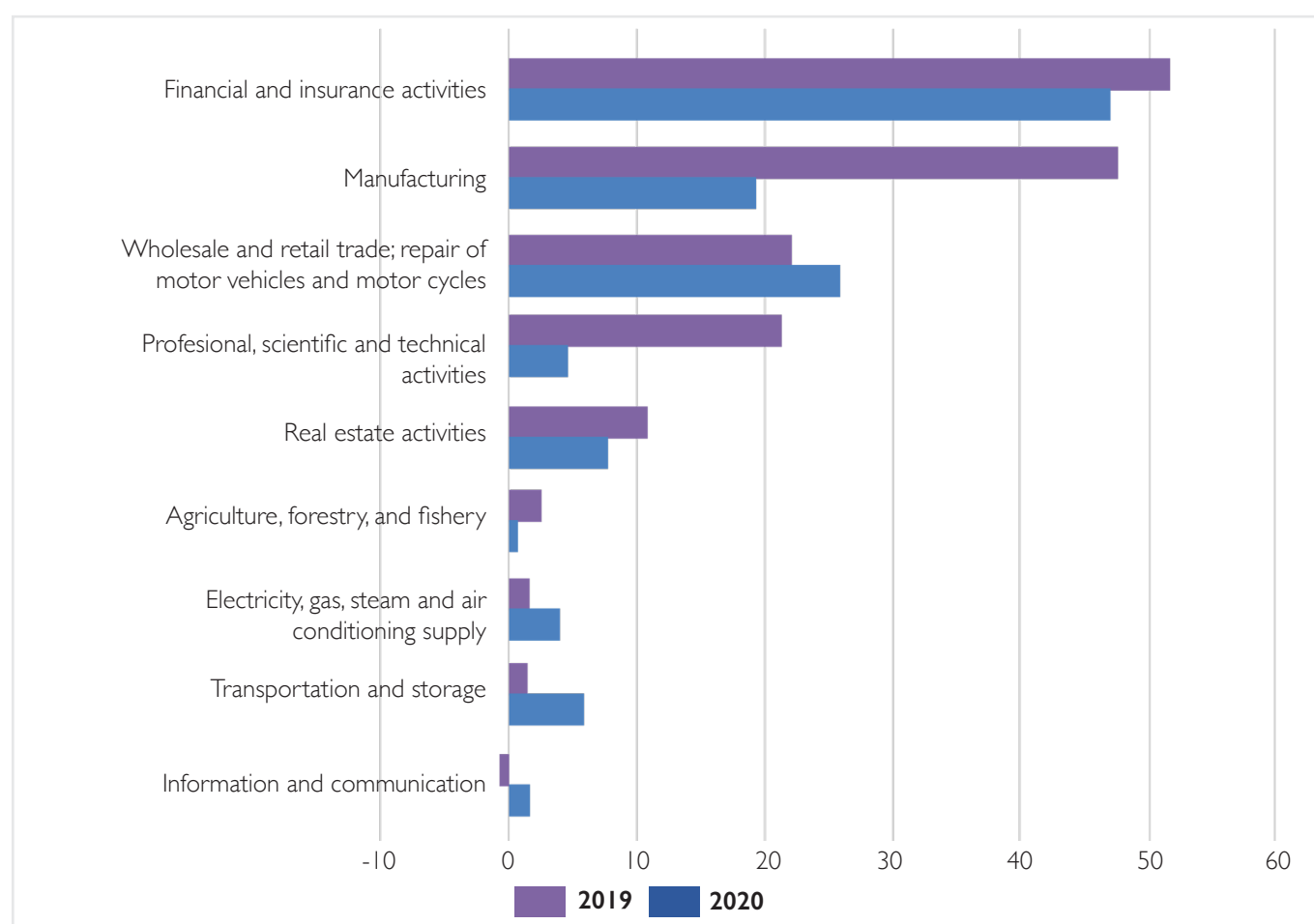
Financial insurance activities remain the top FDI recipient in the region, as the reduction rate of FDI inflow to this sector was relatively low at 9 per cent. In contrast, one of the key sectors, manufacturing, suffered the largest reduction at nearly US\$30 billion, equivalent to a 60 per cent reduction from 2019. Supply chain disruption – caused by the lockdown measures in AMS and reduced global demand resulting in the production scale-down of MNEs, especially in the garment sector – is the main reason for the contraction of investment in this sector.

Another key sector, agriculture, forestry, and fishery, also experienced a plunge of nearly 90 per cent. Similar to manufacturing, the decrease in investments in this sector was due to GVC disruption caused by COVID-19-response policies, which considerably reduced the production among MNEs. The falter in these two traditionally important sectors was the main contributor to the total reduction of FDI in ASEAN.

On the contrary, investment in infrastructure-related sectors like transportation and storage, information and communication and electricity, gas, steam and air conditioning supply increased. There was a change in AMS' approach and priority in attracting investment in this economically challenging time. The investments went toward more infrastructure-building for future recovery and development. It included:

1. Building infrastructure for digital services development, as consumers and businesses moved toward digital solutions for purchasing goods and services, and integrating into several markets. The investment activities included the roll-out of 5G licences, building data centres and cloud computing, and reallocation of factories to AMS nations, for instance, Samsung smartphone factories in Vietnam.
2. Creating facilities to generate energy, especially alternative energy, such as wind farms in Lao PDR, Thailand, and Vietnam, solar power complexes in Vietnam, and hydro-power plans in Lao PDR. The building of energy generation facilities is also related to point (i) above, as preparation for the development of the digital economy.
3. Relating to point (i), the development of digital services and digital infrastructure led to the improvement of wholesale and retail trade, which increased 15 per cent from US\$22 billion in 2019 to US\$25 billion in 2020. Along with it is the development of IT and logistics facilities for e-commerce sales, including warehouses and roads, reflected by increased investments in transportation, storage, and information and communication sectors.

**Figure 11: FDI developments by sectors in 2019-2020**



Source: ASEAN Statistics Data Portal 2022

## 2.2. Bounceback in 2021

2021 has been a momentous year for ASEAN in terms of considerable bounceback. As seen in Figure 6, nett FDI inflows in ASEAN regained momentum from US\$123 million in 2020 to US\$174 million in 2021. In 2020, the top three sectors in 2021 remained the finance and insurance, manufacturing, and wholesale and retail trade, all of which account for 72 per cent of the total investment (see Figure 12). The larger portion of the top three relative to total investment indicates a more concentrated money flow to these three sectors instead of being spread to other sectors like the previous year.

The investment ratio in these sectors also remained almost unchanged since 2019. The finance and insurance sector is still the largest designated sector, increasing from 30 per cent to 33 per cent. Manufacturing went down from 28 per cent to 26 per cent, and wholesale and retail trade went up from 13 per cent to 14 per cent (see Figures 3 and 12).

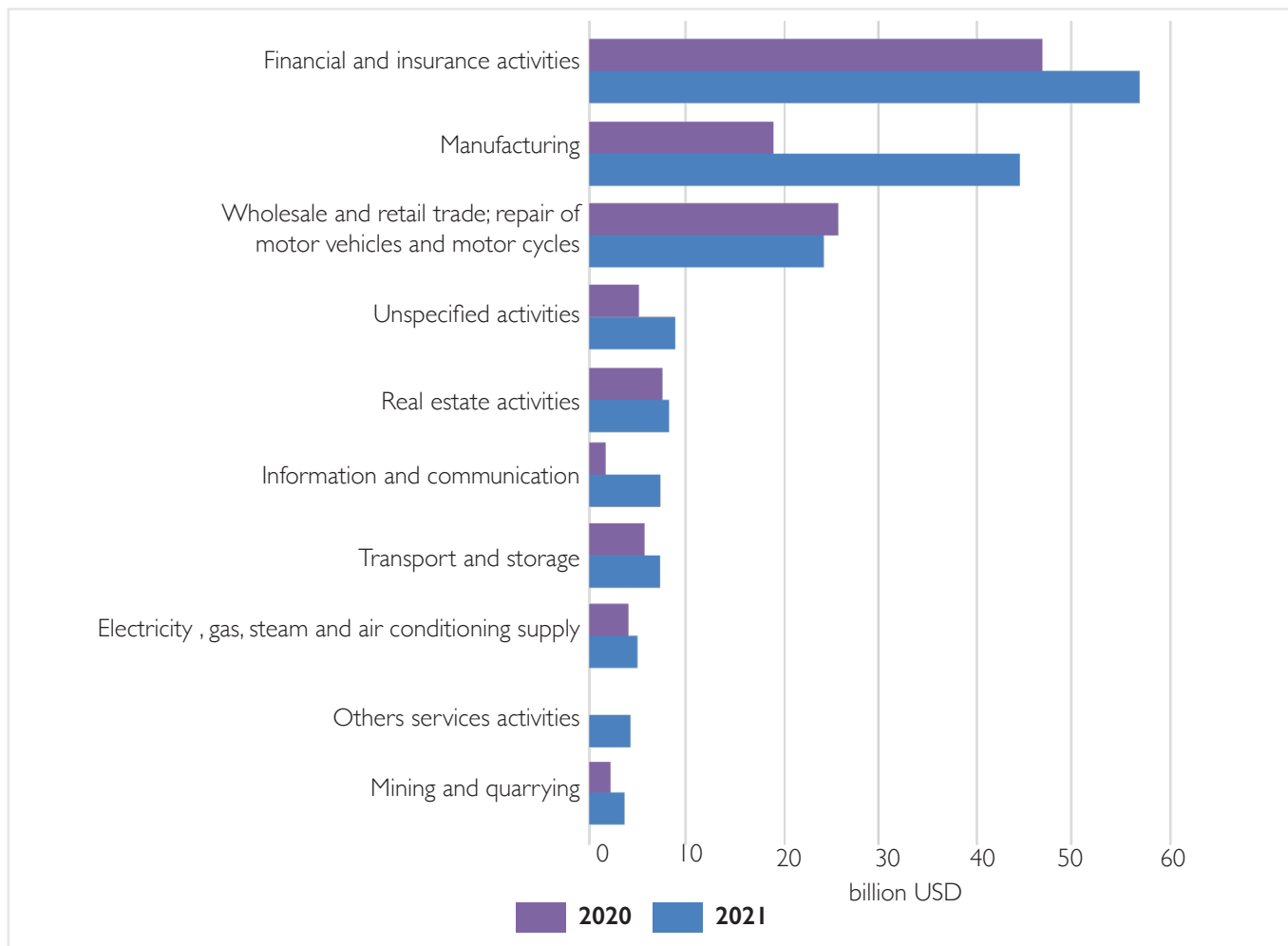
In value, we can observe improvements in FDI in almost all top ten sectors (see Figure 12). Manufacturing has returned to its pre-COVID-19 level of investment, reaching nearly US\$4.5 billion in 2021, doubling its value from 2020. The recovery of this sector is due to several reasons:

- The restoration of investors' confidence in investment in ASEAN, boosted by the ASEAN Comprehensive Recovery Framework;
- The ongoing US-China trade tension mentioned in 1.2.2 which proposes an opportunity for ASEAN as a new destination for GVC diversification outside China;
- The MNEs' transition from China due to the Chinese "Zero COVID-19" policy severely disrupting the production and supply chain of the region<sup>11</sup>; and
- A significant reduction in oil prices was caused by the "oil price war".

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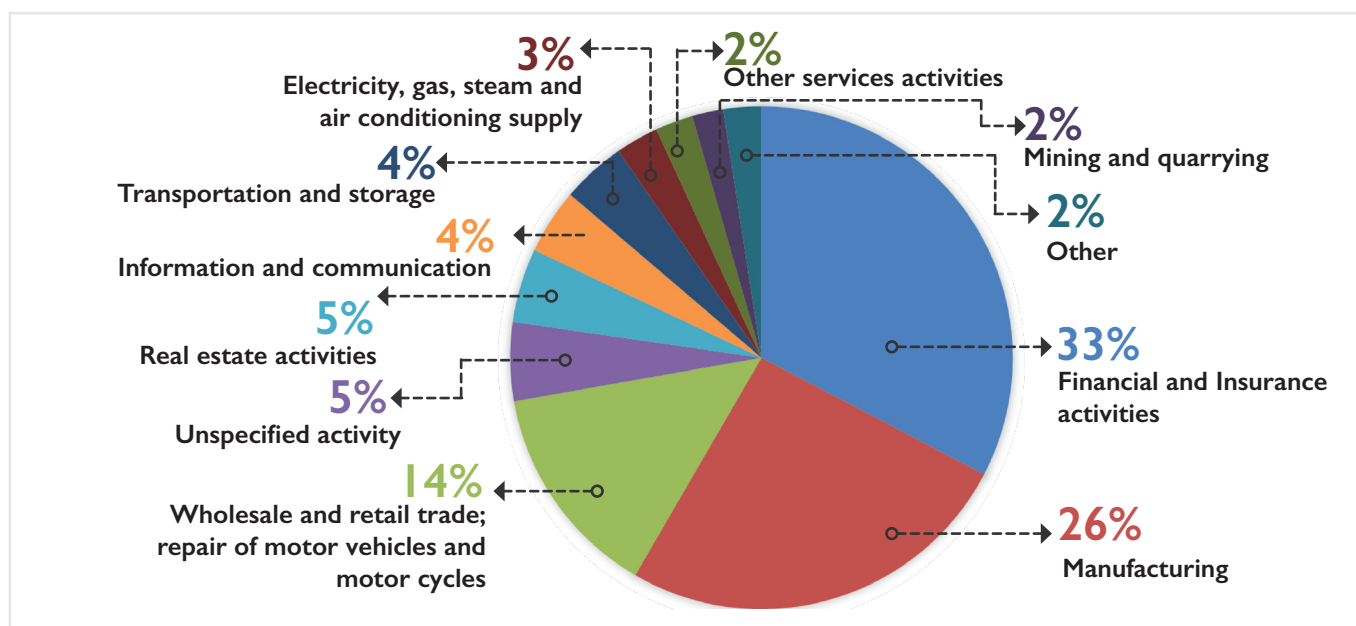
<sup>11</sup>. For example, Japan offered US\$2.2 billion "exit subsidies" for businesses to move out of China and "diversify production bases ... including ... ASEAN" after the COVID-19 exposed overreliance (Prime Minister of Japan and His Cabinet 2020).

Figure 12: FDI inflow to the top 10 sectors in 2020, and 2021



Source: ASEAN Statistics Data Portal 2022

Figure 13: The composition of FDI inward to ASEAN in 2021, by sector



Source: ASEAN Statistics Data Portal 2022

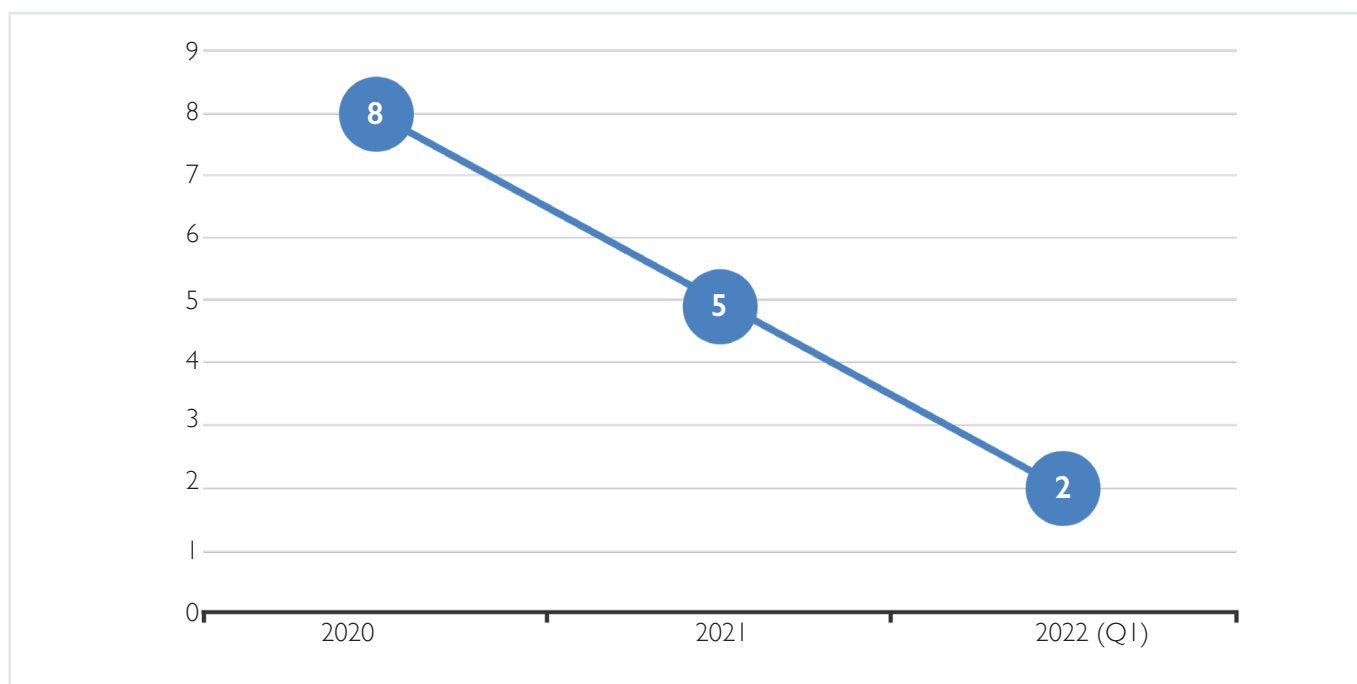
The bounceback momentum in ASEAN has the potential to continue, if (i) the US-China trade tension shows no sign of reduction, (ii) ASEAN remains relatively peaceful and less affected by the economic consequences of the Russo-Ukraine war, and (iii) the RCEP ratification makes progress. As for (iii), Indonesia has ratified the treaty as the 13th of the 15 signatory countries (Strangio 2022). The remaining country, the Philippines, is encouraged with more national coordination to enhance the position of Global ASEAN. In addition, Thailand and Vietnam – 26 per cent of global rice export – made a progressive step to jointly increase the rice price (Thepgumpanat 2022). This was mainly due to the spike in the global price of rice, and the production cost as a result of the Russo-Ukraine war, pushing farmers to grow other crops for higher income (The Nation 2022). The bilateral cooperation will be expanded to other rice exporters in the future, which gives an opportunity for other rice-producing AMS to attract investment from overseas. It is possible to view this move as the first step towards ASEAN centrality and achieving a more equitable AEC across industries.

### 2.3. Policy developments of the investment environment in light of COVID-19

#### 2.3.1. Reduction in favourable investment policies in ASEAN

The immediate pandemic shock resulted in both a positive and negative investment policy environment for ASEAN. Looking at the number of favourable investment policies introduced in ASEAN from 2020, evidently the momentum of investment liberalisation has decelerated (see Figure 14).

Figure 14: Number of favourable investment policies in ASEAN



Source: UNCTAD 2022b

Table 4 displays the country-specific details of investment policies introduced in ASEAN.

**Table 4: Number of favourable policies**

Year	2020	2021	2022 (Q1)
<b>Total of favourable policies</b>	<b>8</b>	<b>5</b>	<b>2</b>
<b>Brunei</b>			
<b>Cambodia</b>	1	1	
<b>Indonesia</b>	1+1	2+3	
<b>Lao PDR</b>	1		
<b>Malaysia</b>			
<b>Myanmar</b>			
<b>Philippines</b>	1	2	1
<b>Singapore</b>	1		1
<b>Thailand</b>			1
<b>Vietnam</b>	3	2	

**Note:** Red figures signify the number of restrictive policies, excluded from the total  
*Source: UNCTAD 2022b*

The cases of Vietnam and Indonesia can be cited as examples. In 2020, Vietnam was a country that had the most policy introductions favourable to FDI, on all four areas – liberalisation (entry, ownership and control for medium-sized creative startups, or funds for such startups as well as PPP contract industries), facilitation (guarantees on the right to transfer assets abroad) and protection (disputes between foreign investors and the State can be taken to international arbitration with conditions applied), and promotion (investment incentives for SME supply chains, business incubators for SMEs, technical support facilities for SMEs and co-working space of SMEs).

Indonesia's double-sword investment regime was introduced in 2021, when the nation introduced two favourable policies as well as three restrictive policies simultaneously. They entail liberalisation (expansion of strata title rights for foreign citizens and legal entities) and facilitation (new Ministry of Investment aimed to enhance the ease of doing business). Simultaneously, however, restrictions were also introduced predominantly on liberalisation. They include (i) increased capital requirements for foreign investors starting a new company in Indonesia, (ii) selected industries were closed to foreign investors<sup>12</sup> and (iii) new requirements for the minimum 15 per cent of Indonesian shareholding and 51 per cent voting rights held by Indonesian investors in the payment services industry.

From double-digit favourable policies introduced pre-COVID-19 (see Figure 1) to only a few in all 10 countries, the shift demonstrates increased protectionism and reduced openness to a differing degree, resulting in diverse – occasionally conflicting – measures which are deterrents in achieving an ASEAN single market and production base.

<sup>12</sup> These selected industries include (1) food and beverages, tobacco, chemicals, pharmacy, cosmetics, and laboratory equipment; (2) textile, clothes, footwear and personal equipment; (3) household and kitchen equipment closed to foreign investment as these items are now allocated to cooperatives and MSMEs.

### 2.3.2. Fourth protocol to amend the ACIA – AEC progress on the investment environment

On a positive front, however, the pandemic crisis served to strengthen the commitments to achieve the AEC Blueprint. The fourth amendment of ACIA aims to promote liberalisation and facilitation of the investment environment, by mandating additional commitments to forge openness of inter- and intraregional investment regimes (ASEAN Secretariat 2022a). This amendment to Article 7 (Prohibition of Performance Requirements), prohibits AMS from imposing or enforcing a prerequisite condition to serve, achieve, purchase, produce, use, and/or supply a given level or percentage of domestic goods, goods produced exclusively in its territory, relating the volume or value of imports and exports to the amount of foreign exchange inflows associated with the investments of that investor, and restrict sales of goods in its territory (ASEAN Secretariat 2022b). This amendment suggests its improved openness to non-discriminatory opportunity and non-biased business operations that surround the investment environment in ASEAN. The fourth protocol amendment, therefore, can be perceived to help provide an environment conducive to the advancement of holistic, region-wide investments necessary in making ASEAN a single market and production base.

### 2.3.3. New investment approaches – sustainable and impact investment

In addition, the COVID-19 shock has indeed accelerated some positive forces to strategise a post-pandemic economic recovery<sup>13</sup> and has fuelled the need for mainstreaming social and sustainable financing for development across sectors. The ASEAN Comprehensive Recovery Framework (ACRF) was published by the ASEAN Secretariat (2020b) to devise a coordinated recovery strategy in and post COVID-19 pandemic. The ACRF Broad Strategy 5 accentuates actions that advance towards a more sustainable and resilient investment environment, reflective of the paradigm shift required in the post-pandemic world. In line with the SDGs, ASEAN declares its commitment to promote sustainable investment policy-making at both national and regional levels<sup>14</sup>.

There are new investment approaches that can be highlighted (see Table 5).

**Table 5: Sustainable and impact investment**

Investment approach	Definition
Sustainable investment	An investment approach that conducts "positive screening", i.e., actively investing in companies that work to mitigate issues surrounding the factors of environment, society and governance (ESG) in the investment decisions.
Impact investment	An investment approach that has a clear intention of creating positive societal impact alongside financial return <sup>15</sup> .

Source: Compiled by authors

<sup>13</sup> The existing demand for globally concerted effort further increased the more socially and environmentally responsible financing actions where social stock exchanges have actively supported the social bond market by waiving listing fees (ASEAN-Japan Centre 2021, UNCTAD 2020).

<sup>14</sup> This is also reflected in the recognition of the need to "create the necessary environment for all forms of investments" in the ACIA Article 25 (Invest in ASEAN 2009). The ACIA Article 26 also mandates the ASEAN Member States to build and strengthen "capacity of Member States, including human resource development, in the formulation and improvement of investment policies to attract investment" (Invest in ASEAN 2009).

<sup>15</sup> It is beyond mitigating risk assessing companies' performance on social benefit created and incorporating the ESG-related factors and compliance in their investment decisions alongside financial return.

In ASEAN, the ESG investments made by companies to confirm profitability is higher for ESG-implementing firms than non-ESG firms (Korwatanasakul and Majoe 2019). Impact investment in ASEAN is also growing exponentially, as ASEAN as a whole captured over US\$6 billion through 298 deals made in the market from 2017-2019. The report by ASEAN-Japan Centre (2021) illustrates the highly promising potential of ASEAN in producing strong financial and societal performance that contribute to the SDGs.

As stressed by the ACRF, the use of sustainability bonds and proceeds bonds for new and existing projects will leverage available sources of financing to assist ASEAN in the collective mitigation of the pandemic's effects. The Asian Development Bank (ADB) and ASEAN Catalytic Green Finance Facility (ACGF) published the Green Finance Strategy of Southeast Asia in 2020 for a green and sustainable "recovery package" through bond issuance in ASEAN capital markets (ADB and ACGF 2020). The issuance of the 50-year COVID-19 bond by the Government of Indonesia was the largest tranche of US dollar bonds in history (ADB 2021). Malaysia, in particular, is another key leading figure in ASEAN's socially responsible investing market because of its first-ever green *sukuk* – sharia compliant bonds – worth US\$58 million (The ASEAN Post 2020). Momentum such as this can lead to the creation of positive societal outcomes, contributing to addressing the development gaps in ASEAN.

### 3. What can be done to achieve the ASEAN Economic Community 2025 goals?

The AEC Blueprint 2025 details four measures to advance investment in the environment and achieve the AEC goals (see Section 1.1).

**Table 6: Summary of recommendations**

	Measures of AEC Blueprint	Recommendations to spur progress
3.1	Completing the built-in agenda of the ACIA, including the effective implementation of the modality on the elimination or improvement of investment restrictions and impediments;	3.1.1 Increased access to investment for socially-, growth- and innovation-oriented startups.
		3.1.2 Developing policies that add incentives for sustainable and impact investment.
		3.1.3 Integrating sustainable development in the regional promotion of Special Economic Zones.
3.2	Continuing to undertake and, where necessary, enhance the CCI Peer Review Mechanism;	3.2.1 Continue to conduct Forums and Seminars on Sustainable and Impact Investment.
3.3	Identifying appropriate approaches or mechanisms for the phasing out and/or reduction of the ACIA Reservation Lists; and	Continue to strengthen the momentum under these measures to re-energise the ASEAN investment environment. Other aspects for these points can include (i) the RCEP ratification as a whole and (ii) bi- or multi-lateral, regional collaborative actions for trade (e.g. lifting the rice price).
3.4	Continuing to undertake joint promotion of ACIA, as well as of ASEAN as an investment destination.	

Source: Compiled by authors

### **3.1. ACIA: Elimination or improvement of investment restrictions and impediments**

Informed by the built-in agenda of ACIA, the elimination or improvement of investment restrictions and impediments is the first step. For this, there are three recommendations.

#### **3.1.1. Increased access to investment for socially-, growth- and innovation-oriented startups**

Regional integration efforts require narrowing the development gap, and for this, access to finance is one of the key factors particularly in the emerging markets. Risk-averse investors have reservations about startup firms, as they are commonly considered to come with high risk and cost of doing business (ASEAN Secretariat 2020a). Access to finance is critical because the fast-paced penetration of the digital economy can potentially generate a digital divide, leaving the marginalised groups without internet access behind. This is also emphasised by the Industry 4.0 agenda in the ASEAN Investment Report 2020-2021.

As previously mentioned, startups can potentially reach the underserved market. The health and economic threat of COVID-19 led to the decline in investment relevant to SDGs 18 in developing and transition economies (UNCTAD 2021). Even though the current decline of ASEAN economies is triggered by the repercussions of the pandemic, the previous business models seeking only financial return are no longer sufficient to achieve meaningful economic recovery. There is an urgent need for adjusting and adapting the new normal of driving the renewed economic paradigm. Policymakers can take a more systematic and intensive approach to promote sustainable and impact investment.

#### **3.1.2. Developing policies that add incentives for sustainable and impact investment**

The promotion of sustainable investment and impact investment must come with companies and industries that "look beyond efficiency consideration" (ASEAN Secretariat 2020b, 40). Firstly, tax incentives for foreign and intra-ASEAN investors that consider the ESG factors in investment must be embedded in investment policies. Secondly, further incentives for investors in startups, public and private co-investment schemes, and financial education programs can also be emphasised<sup>19</sup>. Such investment incentives will facilitate more engagement with investors that consider ESG factors leading to SDGs achievement and beyond – the planetary benefit. This will support the AEC Blueprint vision to spur progress towards "equitable economic development" through strengthening the role of MSMEs, the private sector, public-private partnership and regional integration efforts.

#### **3.1.3. Integrating sustainable development in the regional promotion of Special Economic Zones (SEZ)**

Linked to the second recommendation above, ASEAN could consider two steps for investment promotion in the region-wide SEZ. Firstly, ASEAN could endorse and participate in the Global Alliance of Special Economic Zones (GASEZ) to leverage SEZ promotion and spur progress towards the SDGs by attracting investment that put SDGs at the forefront of their value proposition. Secondly, ASEAN policy-makers could consider devising incentives for investors investing in such SEZ that have intent to contribute to the SDGs. The GASEZ was established in May 2022 by seven global, regional and national associations, with over 7,000 SEZs,<sup>20</sup> to pool the network of expertise from members to increase collaboration and maximise the SEZ contribution to the UNSDGs (UNCTAD 2022c). ASEAN's membership, with its over 1000 SEZs (industrial parks, technology parks and economic zones) as of 2015 (UNIDO 2015) could benefit from GASEZ open access knowledge resource and thus contribute more to the attainment of SDG in the region.

## 3.2. Undertake the CCI Peer Review Mechanism

### 3.2.1. Continue to conduct Forums and Seminars on Sustainable and Impact Investment

As part of investment promotion in the four areas of cooperation, ASEAN could continue to hold forums and seminars related to topics such as sustainable investment and impact investment to exchange information and best practices on relevant initiatives. In November 2021, the ASEAN CCI held a two-day virtual Forum on Sustainable Investment in ASEAN with an aim to enhance analytical support and technical capacity of AMS (ASEAN Secretariat 2021a). Such events could continue to invite relevant intergovernmental and international agencies, private sectoral bodies, academics and those in the private sector of the diaspora network which can potentially bring an additional pool of network, expertise and finance (ASEAN Secretariat 2020a).<sup>21</sup> The events may be held in a series to cover a range of topics for each sectoral actor or industrial representative to understand how sustainable and impact investments can be embedded in their business operations. Holding such events can provide the feedback loop to the aforementioned 3.1.2 where policymakers can be supported to design and implement policies that can benefit AEC.

Two other measures on the ACIA Reservation Lists and joint promotion of the ACIA and ASEAN as an investment destination (see Section 1.1) continue to remain important. Aside from the four AEC Blueprint measures mentioned above, the effort for improving the investment environment should continue from other aspects to materialise the true shape of AEC envisioned. They can include (i) the RCEP ratification as a whole and (ii) bi- or multi-lateral, regional collaborative actions for trade (e.g. lifting the rice price). AMS are encouraged to build and further strengthen the momentum to re-energise the ASEAN investment environment.

## 3.3. Final remarks

All in all, actions of importance are increased access to investment for startups, developing policies that add incentives for sustainable and impact investment, integrating sustainable development in the regional promotion of Special Economic Zones (SEZ) and holding forums and seminars that incorporate the topics of sustainable and impact investment.

This chapter emphasises the importance of further region-wide investment promotion and facilitation initiatives to drive the ASEAN investment environment and centrality. The economy in ASEAN has shown diverse challenges in responding to the ongoing spread of COVID-19 and other viruses, including travel restrictions, yet the 2022 forecast of the ASEAN economy indicates 5 per cent positive growth (ADB 2022). ASEAN is well-positioned, leveraging the assets such as the RCEP trade pact, GVC diversification and industry 4.0 transformation in the digital era. It is vital for ASEAN to increase their concerted effort to act fast to achieve the AEC goals and showcase Global ASEAN by 2025 and beyond.

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## Sub-Pillar D -

# Financial Integration, Financial Inclusion, and Financial Stability

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### Author Profile



**Dr. Poppy S. Winanti** is a senior lecturer at the International Relations Department, Faculty of Social and Political Sciences, Universitas Gadjah Mada (UGM). Her research interests cover global and regional trade relations in the global political economy; conflict and the political economy of natural resources and extractive industries; Indonesia's economic diplomacy; and South-South Cooperation. She holds a Ph.D. in Politics from the University of Glasgow and two master's degrees (an MSc in International Political Economy from the LSE and an MPP from KDI School of Public Policy). Her recent publications include energy transition in emerging economies, localising global norms in extractive industries, resource nationalism, regulatory framework on IPR in Indonesia, Indonesia-Australia trade relations in the Indo-Pacific Era, and Indonesia's South-South Cooperation.

## I. Development for the past five years up to the COVID-19 pandemic

### I.1. Introduction

The ASEAN Economic Community (AEC), established at the end of 2015, is one of the ASEAN community pillars aimed at creating a highly cohesive, integrated, competitive, global, and people-centred ASEAN economy. It is expected to strengthen economic growth and resilience in the region, as well as integrate with the global economy (Ishikawa, 2021, p. 30). To achieve its main objectives, ASEAN member states agreed to implement a comprehensive action plan for all the sectors under the AEC Blueprint 2025 (as a revision of AEC 2015).<sup>1</sup> As stated in the AEC 2025 Blueprint, one of the AEC's main characteristics is a highly integrated and cohesive economy to facilitate the seamless movement of goods, services, investment, capital, and skilled labour within ASEAN to enhance ASEAN's trade and production networks, as well as to establish a more unified market for its firms and consumers (ASEAN Economic Community 2025 Blueprint).

One of the key elements of a highly integrated and cohesive economy includes three strategic objectives (financial integration, financial inclusion, and financial stability) and three cross-cutting areas (capital account liberalisation, payment and settlement systems, and capacity building) (ASEAN Secretariat, 2015a). The vision of ASEAN financial integration under the AEC Blueprint 2025 is to accomplish a well-integrated and proficiently performing regional financial system represented by more liberalised capital account regimes and interlinked capital markets. This report elaborates on ASEAN's endeavor and the challenges to achieving financial integration, financial inclusion, and financial stability. In doing so, this report will be divided into three main sections. The first section discusses basic information about the ASEAN financial integration, including its current development and how to assess its realisation to date. The second section discusses ASEAN's challenges in achieving financial integration amid COVID-19. The last part concludes the discussion and highlights policy recommendations, particularly what needs to be done to realise financial liberalisation in ASEAN.

### I.2. Achieving ASEAN Financial Integration: Key Elements and Performance

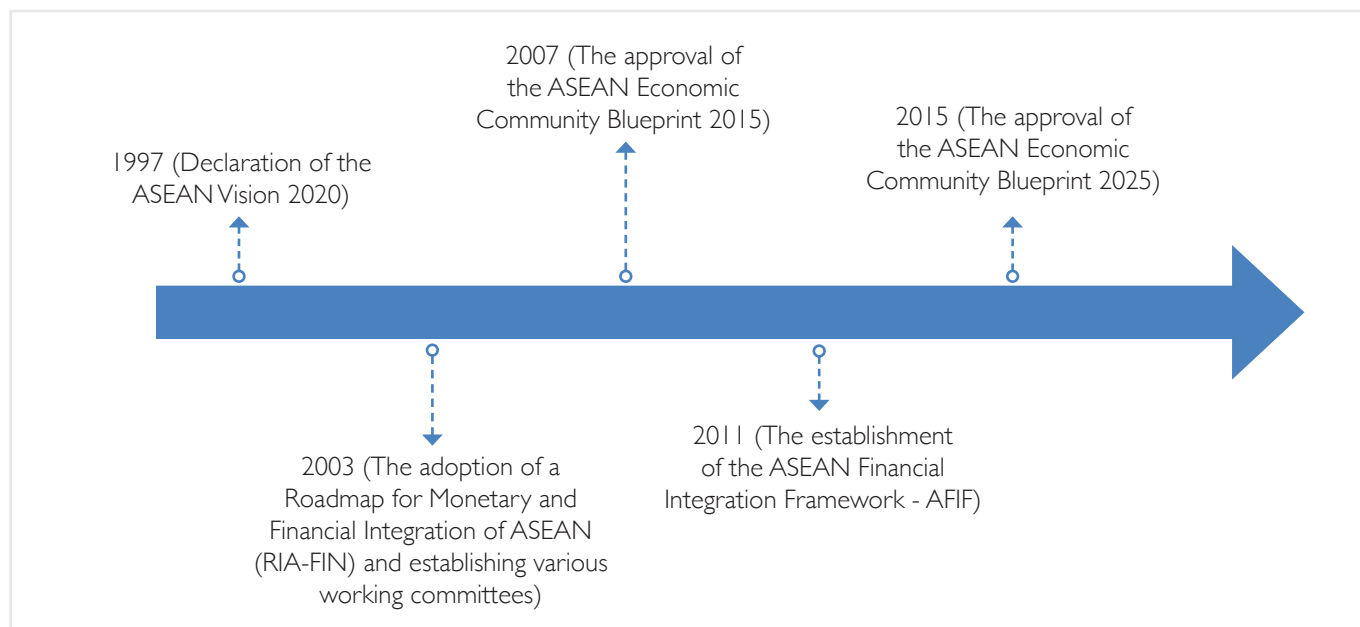
ASEAN financial integration framework aims at attaining the free flow of services and capital. It is supported by financial services liberalisation, capital account liberalisation, and capital market development. The initiative to enhance regional financial integration in ASEAN can be traced back to the late 1990s. It started in 1997 when the ASEAN heads of state and government declared the ASEAN Vision 2020, which included the idea of promoting the financial sector and capital market liberalisation. To accomplish the objectives, in 2003, the ASEAN finance ministers adopted a Roadmap for the Monetary and Financial Integration of ASEAN (RIA-FIN). The roadmap covers the three primary financial areas of financial services liberalisation (aims for a gradual removal of restrictions for ASEAN financial institutions); capital account liberalisation (to achieve a freer flow of capital by gradually removing restrictions in the current account, FDI, portfolio investment, etc.); and capital market development (to achieve cross-border collaboration through mutual recognition and harmonisation of rules and regulations) (ASEAN Scorecard, 2008; ASEAN Integration Report 2015). This roadmap consisted of concrete measures, timelines, and indicators for promoting financial and capital liberalisation. It was also strengthened by establishing various working committees to amplify the details of establishing a financial integration framework. In 2007, the ASEAN Economic Community (AEC) Blueprint 2015 was approved by the heads of state and government. In 2011, the ASEAN Financial Integration Framework (AFIF) was established, followed by several other frameworks, such as the ASEAN Banking Integration Framework (ABIF)

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<sup>1</sup> Even though the scope and level of integration are similar between AEC 2015 and AEC 2025, the AEC 2025 covers broader elements, including Common external tariffs, free movement of unskilled workers, and government procurement (Ishikawa, 2021).

and the ASEAN Insurance Integration Framework. In 2015, the AEC Blueprint 2025 was introduced to revise the AEC Blueprint 2015 (see the following figure for the historical development of ASEAN financial integration).

**Figure 1: Historical development of ASEAN Financial Integration**



Source: Volz, 2016

As explained earlier, the three strategic objectives in financial liberalisation are financial integration, financial inclusion, and financial stability. While financial integration is designed as part of achieving a highly integrated and cohesive economy, the other two strategic objectives, financial inclusion and financial stability, are closer to the broad goals of AEC in realising a resilient, inclusive, and people-centered ASEAN.

The AEC Blueprint 2025 has set strategic measures to ensure ASEAN financial integration. It acknowledges that strengthening financial integration will facilitate intra-ASEAN trade and investment. Financial integration can be reinforced by enhancing the role of ASEAN indigenous banks, and more integrated insurance and capital markets. To achieve its main objectives, a set of rules and timelines were adopted through the Strategic Action Plan. However, in terms of implementation, ASEAN adopts a flexible mechanism for its member states to comply with the agreed commitments.

Financial inclusion in ASEAN is aimed at addressing the uneven digital gap in the region and ensuring financial access and services to the unprivileged society, including MSMEs. As argued by Naidoo and Loots (2020: p.3), financial inclusion “leads to the improvement of the welfare of individuals ... which in turn leads to a more sustainable and inclusive economy and creates an overall positive impact on financial sector development”. The strategic outcome of financial inclusion includes increased financial access, usage, and the quality of financial service. In terms of policy actions and key focus areas, financial inclusion includes promoting innovation via digital platforms.

Learning from the Asian Financial Crisis in 1997 – 1998, ASEAN considers financial stability as one of the main priorities for establishing financial integration (Ariyasajakorn, D., P. Sirivunnabood, and M. Molineris, 2020). To ensure financial stability, a robust regional financial infrastructure is urgently needed, particularly in times of crisis. It is implemented through regional economic surveillance and crisis management with the establishment of the Macroeconomic and Finance Surveillance Office (which was then renamed as the ASEAN Integration

Monitoring Directorate - AIMD) in 2016 (Ariyasajjakorn, D., P. Sirivunnabood, and M. Molineris, 2020). ASEAN also adopted a financial safety net known as the “Chiang Mai Initiatives Multilateralisation” (CMIM). CMIM is a network of bilateral currency swap arrangements to assist ASEAN member states in overcoming their short-term liquidity shortage.

The adoption of the AEC Blueprint 2025 is complemented by the Consolidated Strategic Action Plan (CSAP) as a guide for achieving ASEAN economic integration from 2016 to 2025. This document, released in 2017, is also intended as a reference for a wider public audience. Based on CSAP (2017), the main objective of economic integration in finance is to promote financial integration, financial inclusion, and financial stability to support ASEAN's macroeconomic stability and growth. To achieve this main objective, CSAP (2017: pp. 8-10) identifies several strategic measures as follows:

1. Strengthen financial integration to facilitate intra-ASEAN trade and investment by increasing the role of ASEAN indigenous banks, having a more integrated insurance market, and having more connected capital markets;
2. Promote financial inclusion to deliver financial products and services to a wider community that is underserved, including MSMEs;
3. Ensure financial stability through the continuous strengthening of regional infrastructure, particularly in times of regional stress;
4. Enhance capital account liberalisation to encourage greater capital flow among ASEAN member states to facilitate cross-border investment and lending in the region;
5. Payment and settlement systems will be further enhanced in several areas, such as promoting standardisation and developing settlement infrastructure for cross-border trade, remittance, retail payment systems, and capital markets;
6. Capacity building will help to narrow the financial development gap of the region.

To facilitate the achievement of those objectives, ASEAN established a coordinating forum (see Table 1) and institutional framework (see Table 2). Through these mechanisms, ASEAN member states are expected to be able to coordinate on the issues of the financial integration framework that covers financial services, capital accounts, payments and settlement systems, and capital markets. In addition to that, financial integration is also enhanced by capacity-building initiatives and infrastructure building. Financial integration also requires an enabling environment for effective and efficient financial flows, and appropriate safeguards to preserve financial stability (Erskine, 2017: p.72). See Table 3 below for a more detailed discussion.

**Table 1: ASEAN's Coordinating Forum for Financial Liberalisation**

Coordinating Forum	Responsibilities
The Coordinating Committee on Services (CCS)	The main body involved in services trade negotiations, reporting to the ASEAN Economic Ministers through the Senior Economic Officials Meetings (SEOMs), which provide political guidance.
The ASEAN Finance Ministers' Meeting and its Working Committee on ASEAN Financial Services Liberalisation (WC-FSL),	Carrying forward negotiations on financial services (the WC-FSL representatives are generally officials from the finance ministries, central banks, monetary authorities, and securities and insurance regulators).
The ASEAN Central Bank Governors' Meeting (ACGM)	Advancing specific financial trade integration matters, such as approving the ASEAN Banking Integration Framework (ABIF), which enables "Qualified ASEAN Banks" (QABs) to conduct cross-border business.
The ASEAN Capital Markets Forum (ACMF)	Carrying forward initiatives to promote the freer flow of capital, and greater connectivity of ASEAN capital markets, and the deepening and strengthening bond markets in the region.

Source: (Erskine, 2017: pp.70-71).

**Table 2: ASEAN's Institutional Framework for Financial Liberalisation**

Institutional Framework	Scope and responsibilities
The ASEAN Banking Integration Framework (ABIF)	To establish a more integrated regional banking sector by applying the principles of equal access, equal treatment and equal environment to the banking industry. To arrange specific qualifying criteria for Qualified ASEAN Bank (QAB) and to enable banks with QAB status to operate freely in neighbouring countries and receive national treatment.
The ASEAN Insurance Integration Framework (AIIF)	To support the progress of the liberalisation of the insurance sector to be more competitive, which sequentially will provide consumers with greater choice.
The ASEAN Capital Markets Initiatives (ACMI)	To support the implementation of capacity building and infrastructure for capital market development. The ACMI is a joint initiative of the ASEAN central banks and monetary authorities, the ASEAN Secretariat, and the Asian Development Bank (ADB).
The ASEAN Integration Monitoring Directorate (AIMD)	To measure the implementation progress and ensure timely implementation. AIMD is a monitoring office under the ASEAN Secretariat that oversees all progress under the AEC. Previously known as ASEAN Integration Monitoring Office (restructured and renamed in 2016 to become AIMD).

Source: Erskine, 2017: p.72; ASEAN Integration Report, 2015.

**Table 3: Key elements of ASEAN Financial Integration, Financial Inclusion, and Financial Stability**

Elements	Objectives	Mechanisms	Frameworks and coordinating forum
Financial integration	Greater market access and operational flexibility for Qualified ASEAN Banks (QABs).	Based on the country's readiness and on a reciprocal basis.	ASEAN Banking Integration Framework (ABIF)
	Providing deeper penetration in insurance markets.	Greater risk diversification, deeper underwriting capacity, improved and strengthened insurance sector supervision and regulatory frameworks.	ASEAN Insurance Integration Framework (AIIF)
	Deepening and interlinking capital markets to allow investors and issuers to tap cross-border ASEAN capital markets efficiently.	More connectivity in clearing settlements and custody linkages to facilitate investment in the region.	ASEAN Capital Market Infrastructure (ACMI)  The Working Committee on Capital Account Liberalisation  The ASEAN Payments Policy Framework for Cross-border Real-Time Retail Payment Systems
Financial inclusion	Ensuring the delivery of financial products and services to a wider community that is underserved, including MSMEs.	Enhance the financing ecosystem in the region to benefit MSMEs, including through cross-collaboration among various working groups in ASEAN.	The establishment of credit bureaus to facilitate the MSMEs in establishing credit standing to improve access to financing, and credit guarantee institutions to provide credit enhancement to MSMEs that do not have collateral.
	Addressing the uneven digital gap in the region and to reflect changes in the demographic structure.	Expand the scope of financial access and literacy, as well as intermediary and distribution facilities, such as digital payment services to promote cost-reducing technologies and the development of financial services for smaller firms and lower-income groups.	
		Enhance discussion channels in ASEAN to develop best practices and exchange information as well as strengthen cooperation.	
		Intensify the implementation of financial education programmes and consumer protection mechanisms to bolster financial management capacity and encourage the take up of financial services.	

Elements	Objectives	Mechanisms	Frameworks and coordinating forum
		Raising awareness of personal safeguard measures against deceptive practices as well as enhancing technical countermeasures against threats of digital fraud.	
		Promote the expansion of distribution channels which improve access to, and reduce the cost of financial services, including mobile technology and microinsurance.	
Financial stability	A robust regional financial infrastructure.	Intensify the existing process of macroeconomic and financial surveillance through identifying financial system risks and vulnerabilities.	The ASEAN+3 Research Office (AMRO) as the macroeconomic and financial surveillance body
		Intensify the exchange of key macroeconomic information among monetary and fiscal authorities.	
		Enhance cross-border cooperative arrangements in relation to the implementation of the ABIF with the emergence of regionally active banks.	
		The integral role of the existing regional and bilateral cooperation platforms for macro-surveillance and supervision.	
		Closer dialogues between authorities through regional supervisory colleges.	
	Achieving greater consistency with international best practices and regulatory standards.	Make prudential regulations more cohesive.	

Source: ASEAN Economic Community 2025 Blueprint and ASEAN 2025 Forging Ahead Together.

To measure the implementation of AEC in general, including financial integration, in 2008, ASEAN established an AEC Scorecard mechanism. The AEC scorecard is designed as a self-assessment tool to monitor progress in achieving the milestones in the Blueprint (Menon and Melendez, 2015). The progress of the AEC Scorecard is managed by the ASEAN Integration Monitoring Office (AIMO) under the ASEAN Secretariat (ASEAN Secretariat, 2015b).

After publishing two AEC Scorecards for two phases of AEC implementation (2008 – 2009 and 2010 – 2011), ASEAN no longer publishes subsequent scorecards. Since then, there has been no systematic measurement to monitor the progress of AEC. The unavailability of systemic reports has made measuring the progress of financial integration rather challenging. Nevertheless, several reports indicate that, as compared to other sectors, the financial sector is considered to reveal slow progress and unevenness among the ASEAN members. In the global trade regime, trade in services (including the financial sector) has been introduced more recently compared to trade in goods. In this context, achieving financial liberalisation has also faced more challenges and has taken more time to be implemented. Financial liberalisation in ASEAN, therefore, has adopted the “ASEAN-X” formula or flexibility, which permits the members to implement financial liberalisation according to the country’s readiness (Menon and Melendez, 2015). This, as a consequence, also contributes to sluggish progress and disproportion in its implementation, such as a gap in regulatory quality among members.

The Mid-term Review (MTR), conducted by the ASEAN Secretariat in 2021, is the evaluation of the implementation of the AEC Blueprint 2025 for the period between 2016 to 2020. The MTR was conducted when the COVID-19 pandemic broke out. ASEAN member states were also significantly affected by COVID-19, which disrupted the implementation of the AEC Blueprint. The MTR categorises the AEC Blueprint into five main characteristics: highly integrated and cohesive economy; competitive, innovative, and dynamic ASEAN; enhanced connectivity and sectoral cooperation; resilient, inclusive, people-oriented, and people-centered ASEAN; and global ASEAN.

Based on the MTR, the overall status across five AEC Blueprint characteristics is 54.1% completed, 34.2% in progress, 9.2% not started, and 2.5% withdrawn (ASEAN Secretariat, 2021a). Compared to other characteristics, characteristic A shows the most significant achievement, especially in terms of completion, which reached 60.3%. The second best achievement falls into the characteristics of Global ASEAN, which achieved 54.3% completion. Several new frameworks were able to be finalised in financial integration, inclusion, and stability, such as the ASEAN Payments Policy Framework for Cross-border Real-Time Retail Payment Systems and its Implementing Policy Guidelines and the Guidelines on ASEAN Local Currency Settlement Framework. In terms of financial stability, the Chiang Mai Initiative Multilateralism has been strengthened; therefore, it can be in line with the financing period of the IMF. The data from MTR also shows that the ASEAN financial exclusion level has decreased significantly during the last five years, from 44% in 2016 to 30% in 2020 (ASEAN Secretariat, 2021a).

In its efforts to meet its financial integration objectives, ASEAN faces numerous challenges. If these challenges are not adequately addressed, the target of AEC 2025 will be difficult to accomplish significantly. First is ASEAN's internal disparity. Not only in terms of GDP but also its population. In addition, ASEAN is internally characterised by two distinct economic groups: ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore, and Thailand) and LCMVB (Lao PDR, Cambodia, Myanmar, Vietnam, and Brunei). The commercial flows are more present in ASEAN-5 as compared to LCMVB. This is also worsened by the fact that there is a significant gap in terms of the Bank presence in each individual member state. The disparity in terms of its economic development has affected the degree of financial infrastructure modernisation in ASEAN member states. This includes inequality in terms of payment and settlement systems and, as a result, affects the level of each

member's readiness to adopt the global standard in finance under ISO 20022. The data from the World Bank (2020) shows that around 44% of adults (or around 265 million people) are still unbanked and mostly involved in informal activities. In this regard, to achieve financial inclusivity, it is crucial to reach the unbanked population through financial literacy activities and improving infrastructure, especially in remote areas (ASEAN Secretariat, 2020a).

Second, as can be found in the trade issue, ASEAN member states have more extra-trade than intra-trade; in the financial sector, ASEAN economies are more integrated with global financial markets (Swift Report, 2017). This can also be seen from the fact that ASEAN heavily depends on external payment intermediation (Swift Report, 2017). A substantial portion of ASEAN commercial flows is intermediated by extra ASEAN currencies, mostly the US Dollar, which accounts for 85% of total intra-ASEAN commercial flows (Swift Report, 2017). As argued by Almekinders, et.al (2015), there has been an improvement in the level of banking integration in ASEAN; however, global banks have a bigger role in ASEAN rather than their regional banks.

Third, even though commercial banks are the most important financial institution in ASEAN (occupied around 82% of financial assets, Poenisch, 2014), measured in assets, banks in ASEAN are considerably small on an international scale. Only four ASEAN Banks (three from Singapore and one from Malaysia) are among the world's top 100 banks (Poenisch, 2014). Due to restrictions that are still prevalent in ASEAN member states, especially in the services sector, the cross-border banking is still limited in ASEAN. The cross-border banking mostly only exists in ASEAN 5 states. While on the other hand, as mentioned previously, the penetration of foreign banks in ASEAN member states is quite substantial. To achieve a more profound financial integration, the ASEAN member states should attempt to reduce restrictions on financial services.

Fourth, even though ASEAN has established a monitoring mechanism through ASEAN Integration Monitoring Directorate, there is no comprehensive data set that is available for assessing the progress. The unavailability of a database will affect the effectiveness of measuring the integration progress. The database is also necessary to ensure transparency and improve investor confidence (Aviles, A; Sitorus, D.; Trujillo, T., Veronica, P., 2019).

In conclusion, the existing assessment of the progress of ASEAN financial liberalisation that covers financial integration, financial inclusion, and financial stabilisation shows that it is moving in the right direction and it has been growing significantly especially compared to other regions. However, the achievement is also tied with disparity among the member states. Addressing this gap, thus, will be beneficial in order to accomplish a meaningful integration.

## 2. How did the COVID-19 pandemic impact progress?

The COVID-19 pandemic has posed unprecedented challenges in many aspects of life worldwide. As health protocols must be imposed to prevent the spread of the virus, it has also affected people's mobility, including international borders. The global health crisis has turned into a global economic crisis due to its severe impact on global supply chains, trade flows, and global direct investment. Furthermore, COVID-19 has disrupted not only the supply chain performance but also affected the global consumer demand, which decreased sharply (ERIA Policy Brief, 2020). The impact of COVID-19 on ASEAN can be seen, for example, in the GDP contraction in most ASEAN member states in the 2nd quarter of 2020 by 3.3%, the decline in ASEAN member states' income per capita, and the decrease in international tourism (fell by 81.8%) and acute job loss (ASEAN Secretariat, 2021a; 2021b). COVID-19 has also contributed to the uncertain conditions for most ASEAN member states due to the high level of informality in the job sector and uneven social security nets (ASEAN Secretariat, 2020a). Trade also fell by 7.4% during 2020, and the FDI inflows fell by 33.2% (ASEAN Secretariat, 2021a). The data reflects the first economic contraction in ASEAN in 22 years (ASEAN Secretariat, 2020a).

The situation is exaggerated by more restrictive policies implemented by some countries to prevent disease transmission, including limiting the supply of services, imposing social distancing, travel restrictions, and temporary closure of non-essential businesses, etc. In addition, some countries also employ bans on exporting essential goods, including medical equipment and face masks, to ensure domestic supply (ERIA Policy Brief, 2020). The pandemic has also disrupted financial markets, triggering a swift outflow of capital and rapid depreciation of the key currencies in the region (ASEAN Secretariat, 2020b). Due to their limitation in fiscal capacity, there has been a surge in foreign debt in some ASEAN member states to finance the COVID-19 responses. Many ASEAN member states must undertake necessary massive fiscal stimulus through the sovereign bond market (Guinigundo, D. Kawai, M., Park, C.Y., and Rajan, R.S., 2021: p.21). This short-term policy has a long-term financial impact which can result in nonperforming loans due to the economic deterioration as the ASEAN member states are in the process of recovery. Furthermore, the pandemic has also underlined the vulnerability of ASEAN's economy and society. It has widened inequalities and unveiled the gaps and uneven capacities within and among the ASEAN member states. In short, the economic consequences of the COVID-19 pandemic have affected ASEAN in extraordinary scale and harshness, and the ASEAN Secretariat describes the impact as "a crisis like no other" (ASEAN Secretariat, 2020a, p.10). These situations obviously have posed significant challenges to the progress of the achievement of the AEC including financial integration.

Despite posing unprecedented challenges for ASEAN, the emergence of the COVID-19 pandemic, on the other hand, has also hastened digital transformation. During COVID-19, there has been an increase in the use of digital finance and fintech platforms in ASEAN member states. The increase is not only based on individual use, but also government financial aid that has utilised electronic means. This is part of reducing direct physical contact, including bank visits.

The acceleration of the use of technology in financial services has been recognised as a significant instrument for achieving financial inclusion targets in some ASEAN member states. Technological advancement in financial services can reduce costs of payments and can be used as a tool to support Micro, Small, and Medium Enterprises (MSMEs). Furthermore, promoting financial inclusion innovation via digital platforms is one of the key focus areas that are being implemented by ASEAN member states to increase financial access, usage, and the quality of financial services to all. However, acknowledging the different levels of financial infrastructure readiness among its members, the ASEAN member states agreed to determine the target for the infrastructure readiness for financial inclusion of 85% by 2025 (Naidoo and Loots, 2020).

Digital transformation can be perceived as both a challenge and an opportunity for the ASEAN member states. Financial integration and inclusion can be achieved through promoting digital financial services. In doing so, ASEAN member states should put emphasis on cultivating digitalisation opportunities in the finance sector. However, a low level of digital competency can hamper the process (Swift Report 2017). Furthermore, as the technology in finance progresses, other daunting problems also need to be mitigated, including data protection/threat to data privacy, cyberattacks, money laundering, etc. Therefore, one of the main challenges of technology in financial services for ASEAN member states is promoting digitalisation in the finance sector amidst the infrastructure gap and mitigating new digital issues.

### 3. What can be done to achieve the ASEAN Economic Community 2025 goals?

As ASEAN is experiencing the pandemic and in the recovery process, a more resilient and sustainable future for ASEAN should be achieved to attain a more meaningful recovery. As discussed previously, in achieving financial liberalisation, ASEAN faced numerous challenges such as internal disparity, higher dependency on the external financial market, and financial integration, which is not necessarily in line with trade integration. Even though the COVID-19 pandemic has posed a daunting challenge for ASEAN economic integration, it also provides new opportunities, especially with the digital transformation acceleration. The following are the recommendations that can be taken by the ASEAN member states to achieve financial integration, financial inclusion, and financial stabilisation.

First, strengthening institutional capacity. ASEAN needs to strengthen its institutional capacity to monitor the progress of the policy measures. Since there is no central authority to impose, implement, and monitor the progress of the policy measures, and no single supervisory mechanism, AEC progress is in general, fragmented. ASEAN has been praised for formulating a solid and sizeable institutional framework for its cooperation; however, it has been criticised as being lacking in terms of monitoring and enforcement. After the policy framework has been adopted, there is no central authority or agreed mechanism to monitor and impose the sanctions if the deadlines are missed, and the policy measures are not being implemented. The existing mechanism is heavily market-driven without sanctioning mechanism. Therefore, it is necessary for ASEAN to establish a more comprehensive and coherent approach to coordination and enforcement mechanisms with financial liberalisation. In addition, the institutional capacity to standardise and harmonise regulatory framework across the region is crucial to ensure the policies taken by an individual member align with the regional framework to achieve regional financial integration.

Second, narrowing down the internal disparity. Most ASEAN members are still at a relatively early stage of development, and the infrastructure and regulatory gaps are still prevalent. ASEAN member states must prioritise ensuring that less financially developed economies can catch up with the more developed ones. Developing a different track or “strategic schedule” for a different level of members’ economic development has been regarded as the best solution considering the existing divergence (Menon and Melendez, 2015). This strategic schedule entails flexibility for the ASEAN member states. Through this mechanism, ASEAN member states may opt to adopt minimal compliance. Nevertheless, flexibility can also lead to uncertainties and hindrances in achieving the AEC main objectives. Thus, intensified dialogues among the member states to implement capacity building, and providing technical assistance for taking necessary measures to narrow the gap are needed. This includes capacity building and technical assistance to harmonise the region’s regulatory framework (AEC Key and Progress Achievements, 2015).

Third, maximising the technological development in finance. Even though COVID-19 has resulted in an economic slowdown globally, including ASEAN, the use of technology in financial services has been accelerating considerably. Financial innovation has found its momentum during the COVID-19 pandemic. This condition presents both opportunities and challenges for ASEAN member states. The substantial increase in technological transformation in financial services provides opportunities for ASEAN member states to achieve their financial liberalisation objectives. However, this may also widen the existing gap among its members due to infrastructure discrepancies. In this context, therefore, ASEAN member states should have a clear framework for balancing between managing financial innovation to boost financial integration and the need to achieve financial inclusion and maintain financial stability.

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## Sub-Pillar E -

# Facilitating the Movement of Skilled Labour and Business Visitors

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### Author Profile



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*Any view or opinion stated in this article is solely by the author and does not represent the position or view of the institution she belongs to.*

## I. Introduction

ASEAN aspires towards a highly integrated and cohesive economy, as envisioned in the ASEAN Economic Community (AEC) Blueprint 2025. Free mobility of skilled labour, as part of the larger trade in services, is one of the key elements intended to realise this goal. To facilitate the mobility of professionals and skilled workers within the region, ASEAN member states have ratified and implemented Mutual Recognition Arrangements (MRAs) in seven occupations namely accountancy, architecture, engineering, dentistry, medicine, nursing, and tourism, and a framework arrangement in surveying. Meanwhile, other skilled workers and occupations under the electronic, cosmetic, and pharmaceutical sectors are covered by the ASEAN Sectoral MRAs. The MRAs are largely derived from the existing ASEAN Framework Agreement on Services (1995) which outline the free flow of trade in services within the region under the Mode 4 (movement of natural persons) commitments. Recent developments include the ratification of the 2012 ASEAN Agreement on Movement of Natural Persons, which supersedes and updates the AFAS commitment packages, and the 2020 ASEAN Trade in Services Agreement (ATISA), which is the regional legal instrument for the integration of service sectors.<sup>1</sup>

This chapter focuses on the mobility of skilled labour and professionals mainly through the MRA channels. It assesses how the MRAs have facilitated labour mobility in ASEAN in the recent years since its implementation. It covers the progress in the mobility of skilled labourers and business visitors in ASEAN in the seven professions covered by MRAs, with the exception of surveying since it remains as a framework arrangement, from 2015 to present, taking into consideration the impacts of the COVID-19 pandemic in the movement of natural persons within the region. This paper draws from existing literature and data from ASEAN Sectoral Working Groups on Services, as well as the latest country data on the seven professions covered by the MRAs.

The second section discusses the regional frameworks governing the movement of skilled labourers in ASEAN, followed by a discussion of the progress and status of MRA implementation in the selected professions in the third section. The fourth section considers the impact of the travel restrictions in the movement of peoples during the COVID-19 pandemic and related challenges to the implementation of the MRAs. The final and fifth section offers a future outlook and policy recommendations on the mobility of skilled labourers in ASEAN.

## 2. Intra-regional frameworks for the movement of skilled labourers and business visitors in ASEAN

The movement of skilled workers in ASEAN is seen as part of a greater regional trade in goods and services. In 1995, the ASEAN Framework Agreement on Services (AFAS) was signed in Bangkok to drive inter-regional trade (Manning & Bhatnagar, 2004). Based on the four modes<sup>2</sup> of trade identified in the General Agreement on Trade in Services (GATS), AFAS refers to Mode 4 or movement of natural persons (MNP) in defining the terms of labour mobility in the region, and its provisions allow market access and national treatment to ASEAN service suppliers. The AFAS refers specifically to the temporary movement of contractual service suppliers (independent or employed by a company), intra-corporate transferees, and business visitors. These groups are considered as highly skilled and professional, and the restrictions and sector-specific commitments identified in AFAS ensure that service providers have a high level of skills (Iredale et al., 2010).

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<sup>1</sup> URL: [Services - ASEAN Main Portal](#)

<sup>2</sup> The GATS definition of the four modes of services are: Mode 1 (Cross-border trade); Mode 2 (Consumption abroad); Mode 3 (Commercial presence); and Mode 4 (Presence of natural persons).

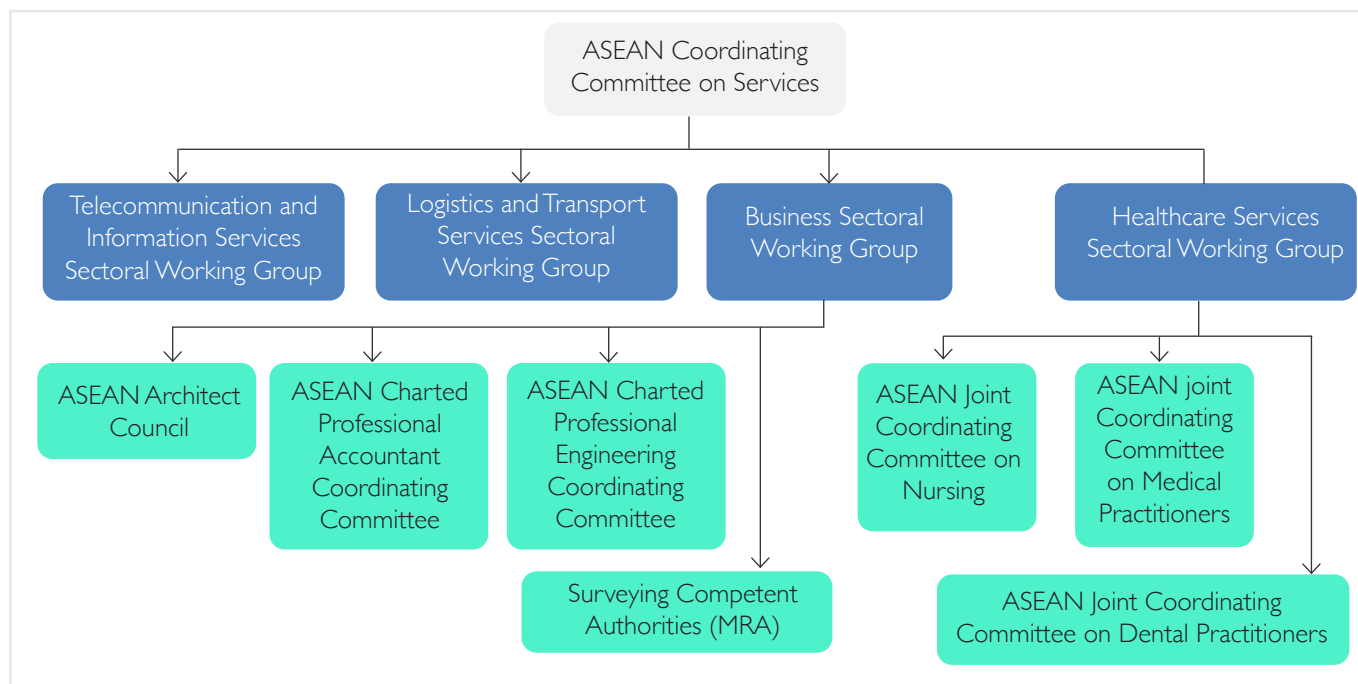
While there is considerable mobility of skilled workers from ASEAN, the majority of such movements are towards outside of ASEAN (Manning & Bhatnagar, 2004; Jurje & Lavenex, 2015; Fukunaga & Ishido, 2015). The patterns of outmigration of ASEAN workers vary across the ten countries. According to the 2013 International Labour Migration Statistics (ILMS) Database for ASEAN, the top five destination countries for ASEAN nationals is the United States, Thailand, Malaysia, Saudi Arabia, and Singapore. In terms of the mobility of ASEAN health workers, Singapore, Malaysia, and Brunei Darussalam import significant health services, especially for Singapore and Malaysia's thriving medical tourism activities (Te et al., 2018). On the other hand, top health worker exporting countries like the Philippines and Indonesia export outside of ASEAN. For the Philippines, the top destinations for Filipino nurses and doctors include Saudi Arabia, USA, UK, and the UAE, while for Indonesia, these include Saudi Arabia, UAE, Malaysia, and Singapore (Te et al., 2018).

To facilitate the actual movement of professionals and highly skilled workers, ASEAN member states have signed the Agreement on the Movement of Natural Persons in 2012, which contains the implementing guidelines and protocols for the mobility of skilled workers. With the signing of the ASEAN Trade in Services Agreement (ATISA) in 2020, negotiations of Mode 4 were no longer included in the subsequent negotiations in AFAS (10th package). ATISA became the primary framework for the discussion of MNP in ASEAN, which also moved from a positive listing of AFAS Schedules of Commitments to a negative listing (Schedules of Non-Conforming Measures), which reflects a greater commitment from ASEAN member states, unless otherwise specified in the negative list.

In specific occupational categories, ASEAN MRAs have been signed to facilitate the recognition of education and training of skilled professionals in the fields of Engineering, Architecture, Accountancy, Medicine, Nursing, Dentistry, and Tourism. Meanwhile, the Surveying profession is still a framework arrangement that is expected to facilitate the negotiations of an MRA among the ten AMS. The ASEAN Qualifications Reference Framework (AQRF) works in alignment with MRAs in harmonising the standard of professional qualifications across all the ten ASEAN member states.

At the regional level, the implementation bodies of the MRAs for the seven professions, with the exception of tourism, are managed by their respective working groups under the ASEAN Coordinating Committee on Services (CCS) and under the purview of the ASEAN Economic Community. Figure I shows the structure of the sectoral working groups under the CCS (ASEAN Sectoral Bodies, n.d.). The ASEAN MRA for Tourism Professionals is separately managed by the ASEAN MRA Tourism Professional Monitoring Committee (ATPMC) and the Regional Secretariat for the ASEAN MRA-TP under the ASEAN Tourism Sector.

Figure 1: ASEAN Sectoral Working Groups



Source: ASEAN Trade in Services. URL: <https://asean.org/our-communities/economic-community/trade-in-services-2/>

The following section discusses the progress in the implementation of the MRAs in the seven professions, excluding Surveying.

### 3. Development for the past five years up to the COVID-19 pandemic

Earlier assessments of the implementation of the MRAs have highlighted its impact in raising the standards of professional qualifications in the region based on the minimum standards set by the framework (Mendoza & Sugiyarto, 2017). Furthermore, for professions with varying levels of professional qualifications and standards among different ASEAN countries, the MRAs have served as a benchmark tool that drove lagging countries to improve their standards and meet the minimum, thereby ensuring that the quality of professionals is comparative with those in other countries. Mendoza & Sugiyarto (2017) found varying degrees of implementation level. Of the eight professions, Accountancy, Engineering, Architecture, and Tourism were the most advanced in terms of creating regional bodies of professional registration, while the medical services including Dentistry, Medicine, and Nursing, due to the ethical considerations of the professions, have not created a regional level of recognition process and instead require a country-based recognition. As will be discussed below, the MRA implementation in the healthcare professions has focused on improvements in the educational and professional qualifications, and information sharing on the professional requirements in each ASEAN country. In general, the MRAs remain lacking in enabling the seamless mobility of professionals across ASEAN countries as it does not include immigration provisions for the entry of professionals in receiving countries (Fukunaga 2015). The following discussion provides the latest status in the implementation of the MRAs in the seven professions.

### 3.1. Engineering

The ASEAN Chartered Professional Engineering Coordinating Committee (ACPECC) has registered 6,094 ASEAN Chartered Professional Engineers (ACPE) as of 2022. ACPEs can apply for recognition in other AMS to become a Registered Foreign Professional Engineer (RFPE) upon satisfaction of the country's legal and professional requirements. In practice, RFPEs are allowed to work in the destination country only in collaboration with a locally designated Professional Engineer.

### 3.2. Architecture

For the architecture profession, there are 667 ASEAN Architects (AA) who have registered in the regional registry as of 2022 (see Table I), but Registration of Foreign Professional Architects (RFPE) has not been made yet in any AMS.

### 3.3. Accountancy

There are 6,350 ASEAN Chartered Professional Accountants (ACPAs), who have registered with the ASEAN Chartered Professional Accountant Coordinating Committee since the start of implementation until present.

Table I shows the cumulative number of registered ASEAN Professionals in the three professional services - Engineering, Architecture, and Accountancy – in each AMS.

**Table I: Cumulative Number of ASEAN Certified Professionals in Engineering, Architecture, and Accountancy (2022)**

	Engineering		Architecture		Accountancy	
	(ACPEs)		(AAs)		(ACPAs)	
	Cumulative	Active	Cumulative	Active	Cumulative	Active
Brunei Darussalam	32	32	19	18	8	7
Cambodia	102	98	31	29	-	-
Indonesia	1,411	1,397	185	178	2,220	2,220
Lao PDR	17	17	22	20	-	-
Malaysia	2,259	2,249	49	49	1,550	1,550
Myanmar	625	613	16	16	477	477
Philippines	769	769	143	132	138	138
Singapore	323	323	132	107	1,054	1,043
Thailand	234	234	29	29	753	707
Vietnam	322	322	41	41	150	150
<b>Total</b>	<b>6094</b>	<b>6054</b>	<b>667</b>	<b>619</b>	<b>6,350</b>	<b>6,292</b>

Source: ASEAN Coordinating Committee on Services 102nd Meeting, September 2022.

### 3.4. Nursing

The MRA on Nursing Services was signed in 2006 and the implementing body, the ASEAN Joint Coordinating Committee on Nursing (AJCCN) was established in 2007 (ASEAN Health Care Services, n.d.). At the regional level, the AJCCN has adopted the five domains of ASEAN Nursing Core Common Competencies, established a website that contains consolidated information on the status of Nursing MRAs in the ten AMS, and completion of comparison matrices providing information on each AMS' qualification and registration requirements (ASEAN Health Care Services, n.d.).

It is widely recognised that at the beginning of the MRA implementation, ASEAN member states are in varying stages of developing their regulations and regulatory bodies, and the MRAs triggered the development of professional standards and regulating institutions for nurses in several ASEAN countries. For instance, in Cambodia, the Cambodian Council of Nurses was only established in 2007; the Core Competency Framework for New BSN Graduates was only developed in 2012; and the Law on Regulation of Health Practitioners, which established registration, licensure and renewal of practicing health professionals including nurses, was only passed in 2016 (Fujita et al., 2019). In Vietnam, the Law on Examination and Practice, which mandated the registration and licensure of health professionals, was only implemented in 2011; the competency standards for nursing were drafted in 2009 but still not fully reflected in most nursing educational programmes (Fujita et al., 2019). On the other hand, more advanced countries in terms of existing professional regulatory bodies and procedures, such as the Philippines and Singapore have provided capacity building assistance to other ASEAN countries.

Table 3 compares the registration requirements for the registration of foreign nurses across all ten ASEAN member states.

Despite the differences in professional standards, there has been actual movement for ASEAN nurses to move in other AMS due to existing bilateral labour agreements. For example, nurses from the Philippines, Indonesia, and Myanmar account for the bulk of ASEAN foreign nurses in Malaysia (Table 2). This shows that bilateral agreements, other than MRA, have been facilitating the movement of nurses within ASEAN countries.

Table 2: ASEAN Foreign Registered Nurses in Malaysia (2006-2020)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*	Total
Brunei	0	1	0	0	0	0	0	0	0	0	0	0	0	0	n.d.	<b>1</b>
Cambodia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	n.d.	<b>0</b>
Indonesia	6	42	26	55	64	61	28	7	5	4	5	1	0	0	n.d.	<b>304</b>
Lao PDR	0	0	0	0	0	0	0	0	0	0	0	0	0	0	n.d.	<b>0</b>
Myanmar	58	75	77	91	70	75	30	12	3	2	2	1	0	0	n.d.	<b>496</b>
Philippines	18	40	107	135	97	69	49	26	16	15	17	8	9	9	n.d.	<b>615</b>
Singapore	1	2	1	2	2	2	2	2	2	2	3	3	3	3	n.d.	<b>30</b>
Thailand	0	0	0	0	0	0	0	0	0	1	1	0	0	0	n.d.	<b>2</b>
Vietnam	3	4	1	3	4	2	3	3	2	1	1	1	0	0	n.d.	<b>28</b>
<b>Total</b>	<b>86</b>	<b>164</b>	<b>212</b>	<b>286</b>	<b>237</b>	<b>209</b>	<b>112</b>	<b>50</b>	<b>28</b>	<b>25</b>	<b>29</b>	<b>14</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>1488</b>

Source: Data from 2006-2019: Ministry of Health Malaysia, Nursing Division. Accessed 1 September 2022. URL: <https://nursing.moh.gov.my/wp-content/uploads/2020/12/ASEAN-Registered-Nurse-Workforce-2019-04122020.pdf>

Data from 2020: <https://nursing.moh.gov.my/wp-content/uploads/2020/12/Summary-Data-Of-ASEAN-Registered-Foreign-Nurses-2019-04122020.pdf>

**Table 3: Comparison of requirements for the registration of foreign nurses across 10 ASEAN countries**

Qualifications	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Education	Diploma/ Bachelors	Diploma/ Bachelors	Bachelors	Diploma/ Bachelors	Diploma/ Bachelors	Diploma/ Bachelors	Bachelors	Diploma/ Bachelors	Diploma	Diploma/ Bachelors
Licensure in source country	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Licensure exam in host country	N/A	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Competency assessment in host country	Currently N/A	Yes	Yes	N/A	No	N/A (for future consideration)	No	N/A	N/A (in the process of formulation)	Currently N/A
Clinical work experience	3 years	3 years	3 years in specialized area	3 years	3 years	3 years	3 years	3 years	3 years	Optional
Continuing Professional Education (CPE)		Post basic/ advance specialization		Post basic/ advance specialization						
Language requirement	English	Khmer and English	Bahasa Indonesia	Lao	English or Malay	English or Burmese (preferable)	English	English	Thai	Vietnamese, or at least with interpreter

Source: Compiled by author from country data published by the ASEAN Joint Coordinating Committee for Nursing Services 2020. URL: <https://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/services/healthcare-services/nursing-services-ajccn/>

**Note:** These data are available at the ASEAN website on Healthcare Services, which compiles all the legal frameworks, professional competencies, and mobility requirements for the three health professions among the ten member states. The list is supplemented and updated with the latest country data where it is available.

### 3.5. Medical

The MRA on Medical Practitioners was signed in 2009. The ASEAN Joint Committee on Medical Practitioners (AJCCM) has been established to facilitate the implementation of the MRA. An ASEAN-wide registration for doctors and medical practitioners does not exist, instead, foreign doctors need to apply and satisfy the requirements of the specific countries they wish to obtain recognition from. Aside from the uneven development of medical education and qualification standards across countries, the country-specific registration can be seen as promoting national interests and not regional interest (Kittrakulrat et al., 2014). Moreover, provision of quality care is dependent as well on interpersonal communication and relations between doctors and patients, and the use of a common language such as English over the local language is regarded by some countries as a threat of “cultural domination” (Kittrakulrat et al., 2014).

Despite these challenges, the AJCCM is moving forward in their targets, albeit slowly and carefully. As of 2020, selected AMS have established regulations for the temporary and full registration of ASEAN doctors, except for Cambodia, Indonesia, and Myanmar; for full registration of foreign doctors, while Vietnam does not allow temporary registration (ASEAN). Temporary registration allows medical practitioners to engage in private practice, limited practice, expert visits, education and training, humanitarian services, and research with or without patient contact. However, the extent of allowed practice varies among the ten AMS: private practice is only allowed in Brunei and Myanmar, and accountability is commonly under the responsibility of the employing institution in the host country. Only Indonesia, Malaysia, and Thailand have provisions for mandatory malpractice insurance for foreign medical practitioners. Table 6 compares the registration requirements for the full and temporary registration of foreign medical doctors across all ten ASEAN member states.

Tables 4 and 5 show the number of ASEAN foreign medical practitioners in Thailand and Myanmar, respectively. As shown in Table 4, there are more ASEAN medical practitioners in Myanmar who have been registered in Thailand than any other ASEAN country, mainly through bilateral labour agreements.

**Table 4: ASEAN Foreign Medical Practitioners on Temporary Licensing in Thailand (2009-2017)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Myanmar	6	8	12	8	10	15	13	10	2	<b>84</b>
Vietnam	0	0	0	1	1	1	0	0	1	<b>4</b>
Malaysia	0	0	0	0	1	0	1	0	0	<b>2</b>
Singapore	0	0	0	0	0	0	1	1	3	<b>5</b>
Philippines	0	0	0	0	0	1	1	3	1	<b>6</b>
<b>Total</b>	<b>6</b>	<b>8</b>	<b>12</b>	<b>9</b>	<b>12</b>	<b>17</b>	<b>16</b>	<b>14</b>	<b>7</b>	<b>101</b>

Source: (Ungthavorn, 2017).

In Myanmar, ASEAN foreign medical practitioners from Malaysia, Thailand and Vietnam have registered through the MRA and other channels.

**Table 5: ASEAN Foreign Medical Practitioners in Myanmar (2015-2017)**

	2015	2016	2017
Brunei	0	0	0
Cambodia	0	0	0
Indonesia	0	0	0
Lao PDR	1	0	2
Malaysia	22	14	14
Philippines	3	0	0
Singapore	83	66	71
Thailand	53	27	26
Vietnam	1	4	1
<b>Total</b>	<b>163</b>	<b>111</b>	<b>114</b>

Source: (Myanmar Medical Council, 2017)

**Table 6: Comparison of requirements for the registration of foreign medical doctors across the 10 ASEAN countries**

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Temporary registration	1 year (renewable)	1 year (renewable)	1 year (renewable)	1 year	3 months to 1 year	1 year (renewable)	1 year (renewable)	1 year	1 year	N/A
Limitations in practice for temporary registration	Private practice, limited practice, expert visit, education and training, humanitarian missions, research with patient contact	Under the responsibility of recognised host institution	Limited practice, expert visit, education and training, humanitarian missions, research with patient contact	Limited practice, expert visit, education and training, humanitarian missions, research with patient contact	Limited practice, expert visit, education and training, research with patient contact	Private practice, limited practice, expert visit, education and training, humanitarian missions, research with patient contact	Scope of work according to the hiring institutions	Expert visit, education and training, research with patient contact	Under the responsibility of government or hiring institution	N/A

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Full registration	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes
Required specialisation	No	No	Yes	Yes and must have residency in Laos	Yes	Yes	No	No	No	No
Licensure in source country	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Licensure exam in receiving country	No	No	No	Yes	No	No	Yes	No	Yes	Yes
Clinical work experience	None	None	5 years	5 years	None	None	None	None	None	18 months
Clinical work experience	None	None	5 years	5 years	None	None	None	None	None	18 months
Language requirement	None	None	Bahasa Indonesia	Lao	English and Bahasa Malaysia	Burmese	English	English	Thai	Vietnamese, or at least with interpreter
Mandatory malpractice insurance	No	No	No	No	Yes	No	No	No	Yes	No

Source: Compiled by author from country data published by the ASEAN Joint Coordinating Committee for Medical Services 2020. URL: <https://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/services/healthcare-services/medical-practitioners-ajccm/>

**Note:** These data are available at the ASEAN website on Healthcare Services, which compiles all the legal frameworks, professional competencies, and mobility requirements for the three health professions among the ten member states. The list is supplemented and updated with the latest country data where it is available.

### 3.6. Dentistry

The MRA for Dental services was signed in 2009, and the ASEAN Joint Coordinating Committee on Dental Practitioners (AJCCD) was established to facilitate its implementation. The AJCCD has developed and adopted an ASEAN Dental Practice Standard, as well as the ASEAN Minimum Common Competency Standard, both of which serve as guidelines for the AMS to integrate elements into their respective national standards of dental practice (ASEAN).

As of 2020, the AJCCD has also established the matrix for the full and temporary licensing of foreign dental practitioners in ASEAN. Similar with the medical services, not all ASEAN countries have fully established their licensing system for foreign dental practitioners: Cambodia and Lao PDR have no full registration yet for foreign practitioners, Malaysia and Myanmar do not accept full registration, only temporary; while Vietnam does not yet grant temporary licenses, only on a case-to-case basis. Table 7 compares the registration requirements for the registration of foreign dentists across all ten ASEAN member states.

Table 7: Comparison of requirements for the registration of foreign dentists across the 10 ASEAN countries

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Temporary registration	1 year (renewable)	1 year (renewable)	1 year (renewable)	1 year (renewable)	3 months (renewable)	3 months (renewable)	1 year (renewable) *with conditions	3 years (renewable)	1 year (renewable)	None, case by case basis only
Full registration	Yes	N/A	N/A	N/A	N/A	N/A	Yes* (country must have reciprocity to practice with the Philippines)	Yes	Yes	N/A
Internship requirement	No	N/A	N/A	N/A	N/A	N/A	No	No	No	N/A
Required specialisation			Yes		Yes				Yes	
Licensure in source country	Yes	Yes	Yes		Yes		Yes	Yes	Yes	
Licensure exam in receiving country	No	N/A	N/A	N/A	N/A	N/A	Yes	Yes* (only for non-recognised basic qualifications)	Yes* (in Thai)	N/A
Clinical work experience		5 years	5 years		Yes but no. of years not specified					
Language exam requirement	None	N/A	N/A	N/A	N/A	N/A	None	English (TOEFL or IELTS)	None	N/A

Source: Compiled by author from country data published by the ASEAN Joint Coordinating Committee for Dental Services 2020. URL: <https://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/services/healthcare-services/dental-practitioners-qjccdl/>

**Note:** These data are available at the ASEAN website on Healthcare Services, which compiles all the legal frameworks, professional competencies, and mobility requirements for the three health professions among the ten member states. The list is supplemented and updated with the latest country data where it is available.

**Table 8. Status of ASEAN Master Trainers and Master Assessors under the ASEAN MRA-TP (as of July 2022)**

Primary Labour Division	Secondary Labour Division	Title	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Hotel Services	Front Office	ASEAN Master Trainer		3	2	1	2	2	2		3	2
		ASEAN Master Assessor		3	2	2	2	3	3		3	2
	House Keeping	ASEAN Master Trainer		2	6	3	1	4	3		1	2
		ASEAN Master Assessor		2	4	3	3	5	4		1	2
	Food Production	ASEAN Master Trainer		2	2	1	2	2	2		3	2
		ASEAN Master Assessor		2	2	1	2	2	3		3	1
	Food and Beverage Service	ASEAN Master Trainer		3	2	1	2	1	4		4	1
		ASEAN Master Assessor	2	3	2	2	2	1	3		3	2
Travel Services	Travel Agencies	ASEAN Master Trainer		2	2	2	2	1	2		3	2
		ASEAN Master Assessor		2	1	1	1	1	2		2	1
	Tour Operation	ASEAN Master Trainer		3	2	3	2	4	2		2	4
		ASEAN Master Assessor		3	2	2	2	2	2		2	4

Primary Labour Division	Secondary Labour Division	Title	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Meeting, Incentive, Conference and Exhibition (MICE) Professionals	Conference	ASEAN Master Trainer										
		ASEAN Master Assessor										
	Exhibition	ASEAN Master Trainer										
		ASEAN Master Assessor										
	Event	ASEAN Master Trainer										
		ASEAN Master Assessor										
Event Professionals	Event	ASEAN Master Trainer										
		ASEAN Master Assessor										

Source: ASEAN MRA Tourism Professional Monitoring Committee

**Note:** Blank entries have no available data.

### 3.7. Tourism

The ASEAN MRA for Tourism Professionals (TP) was signed in 2008 to facilitate the movement of tourism professionals in the region. At present, it has established the ASEAN Common Competency Standards for Tourism Professionals (ACCSTP), the Common ASEAN Tourism Curriculum (CATC), and the Regional Qualifications Frameworks and Skills Recognition System (RQFSRS). The ASEAN MRA-TP Monitoring Committee composed of the ten ASEAN National Tourism Organisations (NTOs) is the main driver for the implementation activities, and the Regional Secretariat for ASEAN MRA-TP has started the registration of Master Trainers and Master Assessors at present. Table 8 shows the number of ASEAN-registered tourism professionals in 2022 according to service industries in the ten AMS.

The onset of the COVID-19 pandemic in the ASEAN region in the early part of 2020 has severely impacted the movement of skilled workers in the region. The following section discusses the challenges and the impacts of the COVID-19 pandemic in the regional mobility of professionals through the MRAs.

## 4. How did the COVID-19 pandemic impact progress?

### 4.1. Stalled mobility due to COVID-19

The travel restrictions imposed during the COVID-19 pandemic have severely limited any form of movement of peoples between the AMS. The ASEAN Migration Outlook 2022 reports that the region saw massive return and repatriation of migrant workers to Philippines, Cambodia, Lao PDR, Indonesia, and Vietnam; a temporary ban in the deployment of migrant workers from the Philippines, Indonesia, Myanmar, and Thailand; a decline in the number of temporary work permits issued by Thailand; as well as a decline in the remittance growth in 2020 at the onset of the pandemic. These reflect the socio-economic vulnerability of cross-border mobility in the region that relies on physical movements of natural persons in times of pandemic.

Aside from these, the existing challenges to the MRA implementation remain. For the Nursing, Medical, and Dental professions, regional-level registration systems have not yet been established at present due to the country-specific regulations for the recognition of professional qualifications and ethical considerations of the medical professions. Institutional barriers remain the most important challenge to the movement of professionals, as can be gleaned from the uneven levels of MRA implementation by ASEAN countries in the selected occupations.

### 4.2. Differences in domestic laws and professional regulations

An important hurdle for the standardisation of recognition and harmonisation of skills is the differences in the domestic laws and professional regulations among the ten AMS. Studies have shown that the MRAs have become an enabler for countries with no existing law to create and implement their national laws to comply with the regional standards set forth in the MRA. This is seen, for instance, in the development of the nursing professional standards in Vietnam, Cambodia, and Lao PDR.

### 4.3. Increased labour demand in economies outside ASEAN

Migration of health professionals within ASEAN is already existing with or without the ASEAN MRA framework, through bilateral labour agreements that are driven by demands from mostly developed countries with increased needs for health care workers. For instance, countries such as Japan has begun experiencing the

labour demand for long term care workers concurrent with its ageing population and has opened its labour market for foreign workers.

In the medical professions, apart from Singapore and Thailand, health professionals from ASEAN are more inclined to migrate to developed countries outside of the region where better qualification recognition and migration systems are in place. Further, the institutional experience of hiring foreign health care workers in destinations such as the US, GCC, UK, and Canada for example, provide better prospects for migrants who may regard their temporary migration as a starting step towards permanent migration much later.

#### **4.4. Differences in professional standards and language requirement**

In terms of qualifications, health professionals are constrained by language proficiency requirements such as in Indonesia, Lao PDR, Vietnam, and Thailand. Passing the national licensure exams is also mandatory for several countries, and while this is done in English for some countries like Malaysia, foreign medical doctors have to take the exam in the Thai language if they wish to be accredited in Thailand.

#### **4.5. Disconnect between the social and economic aspects of labour mobility**

The mobility of workers within the region who are mostly low skilled are not included in the occupations and sectors covered by the regional frameworks, such as the AFAS (Manning & Bhatnagar, 2004), ASEAN Trade in Services Agreement (ATISA) and MRAs. Moreover, a significant pattern is the predominance in the mobility of low- and unskilled workers within the region in the industries of construction, domestic work, and agricultural workers (Manning & Bhatnagar, 2004).

Despite the salience placed by ASEAN on trade in services as key to regional economic integration, a lingering question that most AMS consider is the impact of skills mobility to their domestic labour markets. The trade in services looks at labour mobility primarily as a movement of suppliers and consumers, but skilled labour migration involves a more comprehensive process of production of skilled workers, participation of the private sector in the recruitment and hiring, employment conditions, and repatriation, among many others. Especially for medical professions, the production of licensed doctors is an important factor (Kittrakulrat et al., 2014) as it translates to competency. Since medical access is often a public good, competent medical skill directly translates into the wellbeing of a society. As noted in earlier studies (Mendoza et al., 2016; Mendoza & Sugiyarto, 2017; Te et al., 2018), there is much concern in the implementation of MRAs in the healthcare profession due to the professional liabilities and different standards of medical practice across the ten AMS. ASEAN itself recognises this limitation, as most countries prioritise “patient safety as the paramount consideration” (ASEAN, 2021, p. 37), hence the difficulty to adopt an ASEAN-wide registration system unlike that of non-medical occupations such as Engineering, Architecture, and Accountancy.

The progress in the MRA implementation in the three healthcare occupations reflects the complex nature of safeguarding a nation’s public health. The unevenness of standards, educational qualifications and training, licensing, and registration systems among the ten AMS is an important obstacle to progressing in the MRAs. Especially for developing countries with nascent professional licensure systems, acceptance of foreign professionals is limited in terms of the extent and scope of practice that are allowed for foreign professionals.

## 5. What can be done to achieve the ASEAN Economic Community 2025 goals?

There has been considerable progress in the registration of ASEAN Certified Professionals in Engineering, Architecture, and Accountancy, but those who have registered in other AMS as foreign professionals is still notably very low, or none at all. Various reasons account for this: (1) MRA does not allow independent practice, but working in collaboration with registered professionals in the destination countries; (2) the costs for regional recognition is expensive; (3) the minimum qualifications require several years of experience and obtaining post graduate continuing education, which are usually held by advanced experts in their profession; and (4) professional movement is usually tied with Mode 3 investments, which do not usually require a regional certification such as what the MRA provides.

The mobility of professionals in ASEAN relies on three key aspects that are specific to each ASEAN country: immigration laws, labour laws, and professional regulations. For actual movement to begin, the MRA should incorporate a visa specific to holders of regional professional registration that circumvents the bureaucratic processes and enable a seamless mobility across various ASEAN countries. This visa can be tied with labour and profession-related requirements that allow for regional professionals to practice the profession within a specific duration of time, and can be renewed. Manning & Bhatnagar (2004) emphasises the reduction of administrative and procedural barriers to liberate the immigration aspect and allow for mobility to take place. These include rationalising a fee structure based on the approximate costs of services, harmonising the administrative procedures for the place of issue of work permits, and imposition of foreign worker levies to employers. Within a country, a foreign worker has to separately apply for professional registration, work permit, and entry permit and this shows the administrative disconnect among the immigration, labour, and professional entities that complicate their mobility.

Despite the existence of regional frameworks such as the MRAs that allow the movement of skilled labourers and professionals in the region, the volume of movement at this skill level is surpassed by the number of those moving with lesser skills. The MRAs may provide an avenue for the movement of professionals and business visitors but fails to capture the bulk of movement at the lower skill level, and this is an important consideration for ASEAN in the near future. That being the case, while the ASEAN MRAs in place, a “freer” instead of a free labour mobility can be regarded at best (Sugiyarto & Agunias, 2014).

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## Sub-Pillar F - Enhancing Participation in Global Value Chains

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## I. Development for the past five years up to the COVID-19 pandemic

Since the first quarter of 2020, most economies around the globe have been hard hit by the pandemic of coronavirus disease 2019 (COVID-19), posing great challenges to global public health systems. Millions of infected cases and casualties have been confirmed worldwide. Governments, including those of the Association of Southeast Asian Nations (ASEAN), resorted to a series of lockdowns and severe restrictions on public activities to contain the scope and scale of the disease. As a result, the pandemic caused short-term fiscal shocks and long-term adverse shocks to the growth of the global economy as it disrupted Global Value Chains (GVCs), discouraged domestic and international consumption and investment, and imposed uncertainties in financial and foreign exchange markets (Intarakumnerd and Korwatanasakul, Business impacts and government supports for firms' upgrading and innovation under COVID-19 in Southeast Asia 36). The world faced a significant trade-off between the health emergency and the economic crisis.

The economic impacts of the COVID-19 pandemic are substantial among ASEAN countries. ASEAN's gross domestic product growth fell sharply from 4.9 per cent in 2019 to -2.29 in 2020. The original ASEAN-5<sup>1</sup>, including Indonesia, Malaysia, the Philippines, Singapore, and Thailand, was hit the hardest and experienced negative growth ranging from -2.07 per cent (Indonesia) to -9.52 per cent (the Philippines). There was a modest rebound in the growth of the ASEAN economy of 1.03 per cent in 2021. International investment and trade also experienced a slowdown. There was an apparent fall in inward foreign direct investment (FDI) to ASEAN from 174 billion United States Dollars (USD) in 2019 to 122 billion USD in 2020, a drop of approximately 30 per cent. ASEAN exports have been growing slowly since 2018 and demonstrated strong resilience against the pandemic. However, ASEAN imports dropped from 1.09 trillion USD in 2019 to 1 trillion USD in 2020 due to the drastic changes in regional and global consumption and production.

ASEAN trade has been increasingly characterised by the fragmentation of production across borders or value chains. Each ASEAN member state (AMS), along with GVCs, specialises in a particular role and function in the production of a specific industry. This specialisation significantly affects domestic firms' operations and productivity. A country directly participates in GVCs through either backward or forward GVC participation, reflecting the upstream or downstream link in the chain (Korwatanasakul, Baek and Majoe, Analysis of Global Value Chain Participation and Workers' Wages in Thailand: A Micro-level Analysis 5). Backward GVC participation (backward linkage) is when a country imports foreign input to produce intermediates or final goods and services to export. In contrast, forward GVC participation (forward linkage) occurs when a country feeds intermediates to foreign firms for further processing and exports. This change has called for a specialised analysis of GVCs and new trade measures, one of which is trade in value-added. The disruption of value chains during the pandemic may potentially cause adverse impacts on the ASEAN community, hence is worth a closer examination.

### I.1. Trends of Global Value Chains in ASEAN

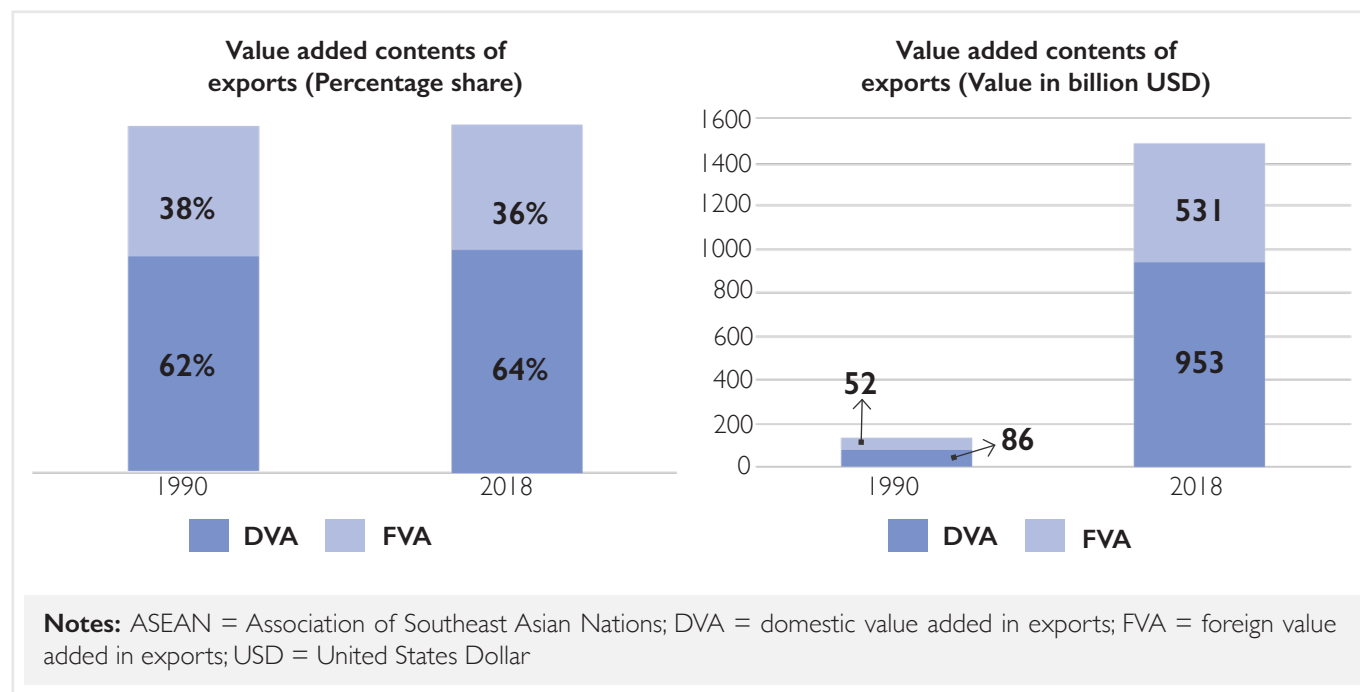
ASEAN has boosted its export volume and overall production by participating in GVCs. Under the ASEAN Economic Community Blueprint, ASEAN has been striving for trade liberalisation to achieve a single market, which would help facilitate its GVC participation. In 2018, the share of foreign value added in exports (FVA)<sup>2</sup> was 36 per cent (Figure 1). Despite a slight drop in the share of FVA after 1995, the volume of domestic and

<sup>1</sup> According to the International Monetary Fund (IMF), ASEAN-5 includes Indonesia, Malaysia, the Philippines, Singapore, and Thailand. However, starting from 2020, ASEAN-5 refers to Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

<sup>2</sup> For definition, see Figure 2.

foreign value added in exports and total export volume increased approximately 10-11 times (9 per cent annually) during 1990–2018.

**Figure 1: Value Added Exports from ASEAN, 1990 and 2018**



Source: Authors, based on UNCTAD-Eora Global Value Chain Database

**Figure 2: Global Value Chain (GVC) Terminology**

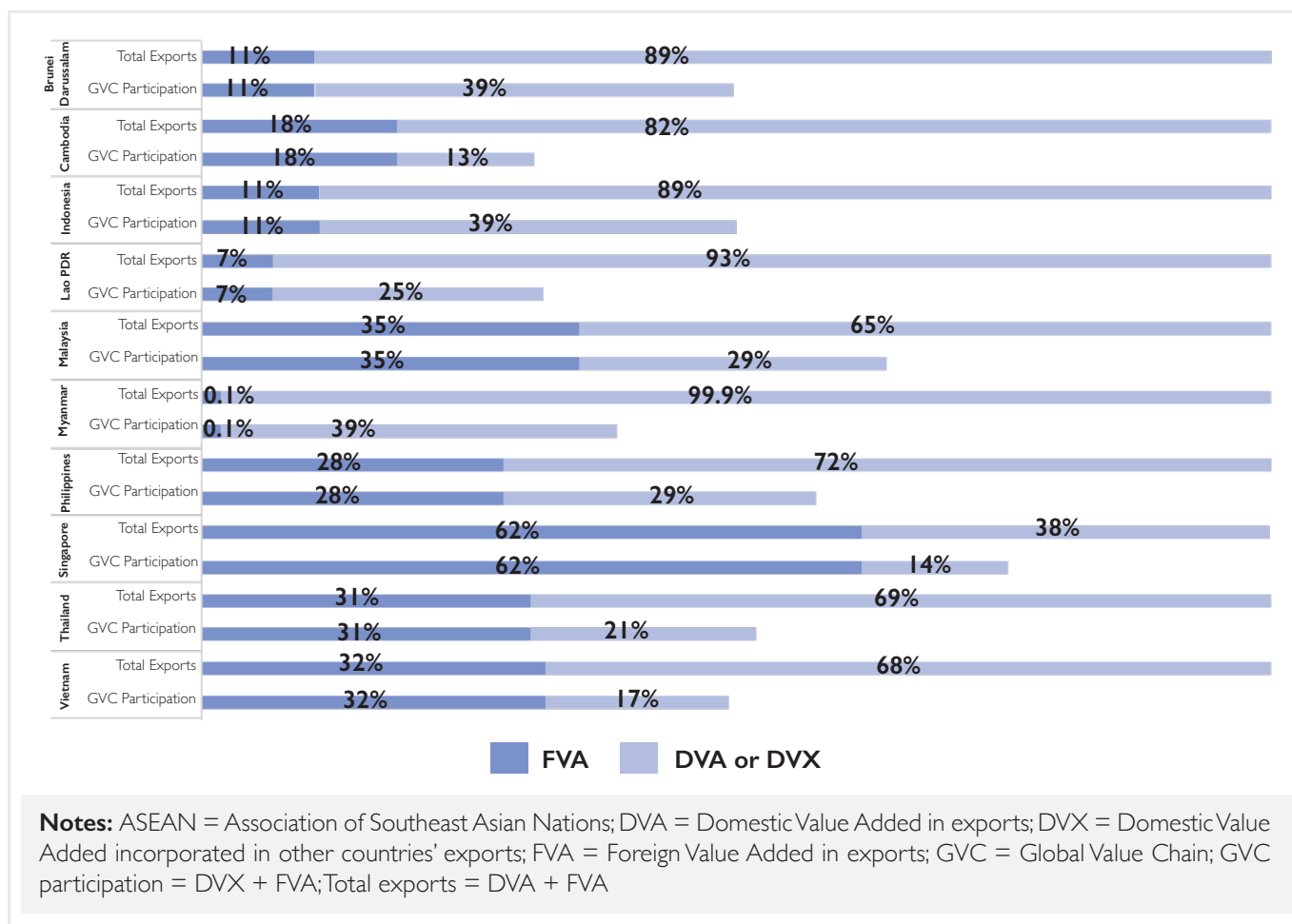
Term	Definition
Domestic Value Added in exports (DVA)	DVA is part of exports created in-country. The sum of foreign and domestic value added is equal to gross exports.
Foreign Value Added in exports (FVA)	FVA indicates what part of a country's gross exports consists of inputs that were produced in other countries.
Domestic Value Added incorporated in other countries' exports (DVX)	DVX indicates the extent to which a country's exports are used as inputs to exports from other countries. At the global level, the sum of this value and the sum of foreign value added are the same.
GVC participation	It indicates the share of a country's exports that is part of a multistage trade process. It is the sum of FVA and DVX. The participation rate is a helpful indicator of the extent to which a country's exports are integrated into international production networks.

Source: Korwatanasakul and Purbantina (5)

ASEAN's Domestic Value Added in exports (DVA) share, which is higher than that of FVA, is driven by different economic statuses and positions along value chains (Figure 3). On the one hand, relatively more advanced economies, e.g. Indonesia, Malaysia, the Philippines, and Thailand, enjoy the benefits of FDI and GVC participation, including domestic capabilities and competitiveness enhancements, local product quality improvement, financial stability, and market expansion (Korwatanasakul and Paweenawat 166-167). Those economies are involved in relatively more value-added activities after upgrading their production through the help of FDI. Multinational companies (MNCs) from different industries, such as automobiles, electrical and electronic (E&E) products, and textiles and clothing, moved their production bases to, and created production hubs in, ASEAN countries and expanded production networks throughout the region. Serving as production hubs, AMS could utilise domestic raw materials, intermediates, and labour, contributing to a higher DVA share. In other words, they could reduce imports of foreign raw materials and intermediates to produce export products with relatively higher value added by using local products and services (lowering an FVA share).

On the other hand, less advanced economies, such as Cambodia, the Lao People's Democratic Republic (PDR), Myanmar, and Vietnam (CLMV), could not attract FDI as much due to their small domestic markets and, in turn, underdeveloped industries. Without FDI, their industries are situated in lower tiers of value chains producing less value-added export products, requiring only simple production technology with domestic raw materials and intermediates (high DVA share). In other words, they merely rely on foreign inputs (low FVA share).

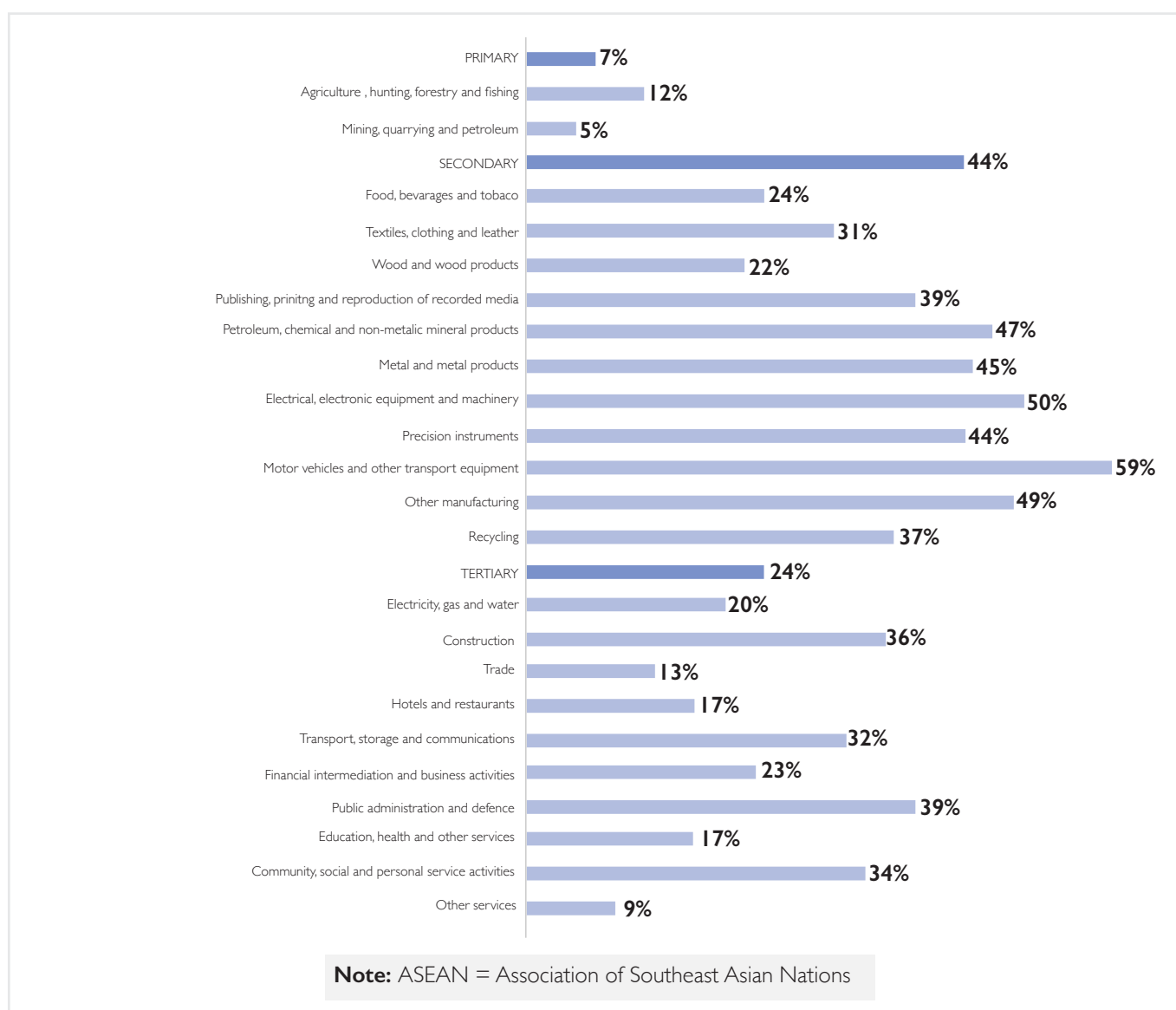
**Figure 3: Total Exports and GVC Participation by ASEAN Country, 2018**



Source: Authors, based on UNCTAD-Eora Global Value Chain Database

Even though all ASEAN economies, except Singapore, show a large DVA share at the country level, the shares of DVA and FVA vary by industry and sector. The secondary or manufacturing sector manifests the largest share of FVA (44 per cent) as most ASEAN countries import foreign technologies and high value-added components to produce export goods and services (Figure 4). Within the manufacturing sector, FVA share is the highest in the motor vehicles and other transport equipment; E&E and petroleum; and chemical and non-metallic mineral products industries, signifying FVA share of 59 per cent, 50 per cent, and 47 per cent, respectively, which are above the sector average. The motor vehicles and other transport equipment, and E&E industries are ASEAN's strategic industries with global and regional production hubs and networks.

**Figure 4: Share of Foreign Value Added in ASEAN Exports by Industry, 2015**



Source: Authors, based on UNCTAD-Eora Global Value Chain Database

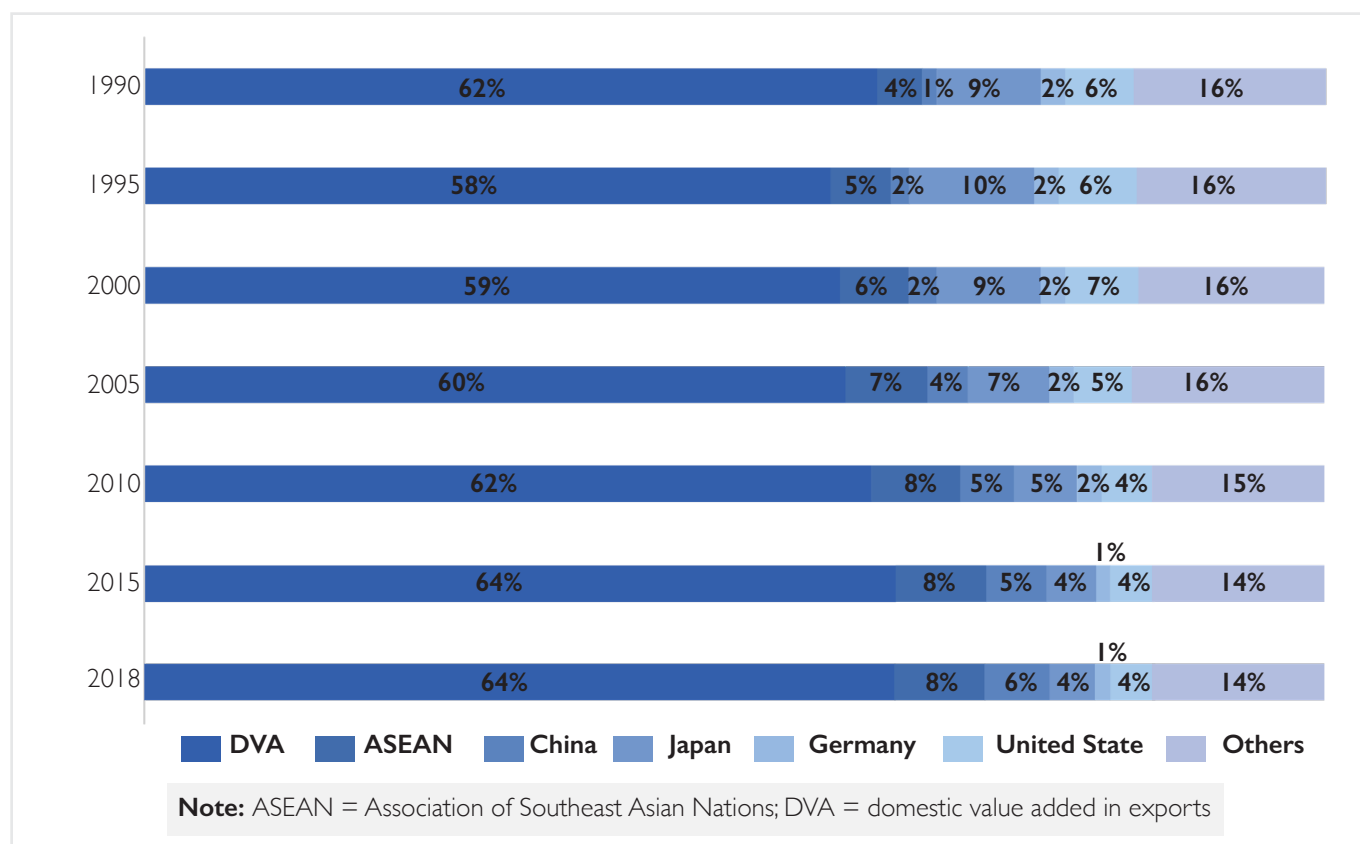
With regards to the automobile industry<sup>3</sup>, despite heavy reliance on foreign inputs (high FVA share), the ASEAN mobile industry tried to raise its DVA and the total amount of exports and output by enforcing local content requirements, and enhancing productivity and technological upgrading of local firms (Korwatanasakul and Intarakumnerd, Automobiles 9). However, the industry still primarily produces low value-added output and offers a limited multiplier effect. The E&E industry is in a similar situation where the industry heavily depends on foreign inputs and technology, potentially posing risks to the industry, particularly in terms of technological upgrading among local firms (Intarakumnerd and Korwatanasakul, Electronics 6). The dependency degree varies according to a country's position on value chains. For instance, countries located relatively near the beginning or the end of a value chain, such as Malaysia and Singapore, intensively utilise foreign inputs, e.g. raw materials and intermediate products, but possess sufficient local technological capabilities to deliver high value-added products. On the other hand, countries, such as the Philippines, Thailand, and Vietnam, are situated relatively in the middle of the value chains, indicating excessive reliance on domestic labour and foreign inputs and technology. Rapid economic development in these countries raised domestic wages, resulting in the deterioration of their competitiveness in labour-intensive manufacturing. They are also facing technological and value chain upgrading challenges because they have been relying on foreign technologies without improving local technological capacity. Therefore, the high degree of foreign input and technology dependency adversely affects less technologically advanced countries as they are likely to remain locked in low value-creating segments of value chains.

Since 1990, China, Germany, Japan, and the United States have been among the largest foreign input suppliers for ASEAN exports (Figure 5). Japan was once the largest foreign input supplier, but its share has declined since 1995 with the rising number of Japanese affiliates in AMS, e.g. Indonesia, Malaysia, and Thailand (Korwatanasakul, Thailand 7). Moreover, ASEAN began to diversify sources of inputs by raising the imports of inputs from China and within ASEAN. From 1990-2018, the shares of FVA from China and ASEAN increased significantly from 1 per cent to 6 per cent, and 4 per cent to 8 per cent, respectively. Corresponding to Figure 5, Figure 6 manifests the rising importance of regional value chains (RVCs) (7.6 per cent in 1990 to 15.4 per cent in 2018) and the declining role of GVCs, indicating stronger intra-ASEAN trade and possibly, production networks. However, ASEAN remains relatively globally oriented, with the GVC participation rate at 60.9 per cent in 2018, diminishing from its peak in 2005 (63.8 per cent). The declining trend of backward GVC participation (FVA share) drives the trend of overall GVC participation, while the trend of forward GVC participation (DVX share) was on the rise during 1995–2010 but occupied a smaller part of GVC participation. In contrast, backward and forward value chain participation shows equal significance towards RVC participation at 7.7 per cent.

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<sup>3</sup>. The automobile industry is considered as a part of the automotive industry covering a wide range of motor vehicles, including automobiles (cars), buses, motorcycles, off-road vehicles, light trucks and regular trucks (Korwatanasakul and Intarakumnerd, Automobiles 3). This report focuses on the car industry and its parts and components industry; therefore, it adopts the narrow definition of the automobile industry.

Figure 5: ASEAN Value Added Exports by Value Added Creators, 1990-2018



Source: Authors, based on UNCTAD-Eora Global Value Chain Database

Figure 6: GVC and RVC Participation by ASEAN, 1990-2018 (per cent)

Year	FVA			DVX			Value chain participation	
	Total	Outside ASEAN	Within ASEAN	Total	Outside ASEAN	Within ASEAN	GVC	RVC
1990	37.7	33.9	3.8	18.6	14.8	3.8	56.3	7.6
1995	42.0	36.6	5.4	17.9	12.5	5.4	59.9	10.8
2000	41.0	35.0	6.0	20.3	14.3	6.0	61.3	12.0
2005	40.5	33.7	6.8	23.3	16.5	6.8	63.8	13.6
2010	38.3	30.8	7.5	25.5	18.0	7.5	63.8	15.0
2015	36.2	28.6	7.6	24.7	17.1	7.6	60.9	15.2
2018	35.8	28.1	7.7	25.1	17.4	7.7	60.9	15.4

**Notes:** ASEAN = Association of Southeast Asian Nations; DVX = Domestic Value Added incorporated in other countries' exports; FVA = Foreign Value Added in exports; GVC = Global Value Chain; GVC participation = DVX + FVA; RVC participation = DVX (within ASEAN) + FVA (within ASEAN)

Source: Authors, based on UNCTAD-Eora Global Value Chain Database

## 1.2. The development of GVC-related policies

Enhancing economic integration to GVCs is the sixth pillar of the first ASEAN Economic Community (AEC) characteristic. Participating in regional value chains is a stepping-stone for newer AMS (i.e. CLMV) to integrate into GVCs. Meanwhile, the more developed AMS strive to become leaders in regional value chains, and ultimately, Global Value Chains. According to recent studies on GVC integration (United Nations ESCAP; Ambashi; OECD-UNIDO; De Marchi and Alford), countries can be at different GVC integration stages based on their technological and income level. This subsection analyses GVC promotion policies based on different GVC stages of each AMS.

### Stage 1: Securing access to GVCs

Compared to the other AMS, Cambodia, Myanmar, and the Lao PDR are still in the initial stage where they need to secure access to regional and Global Value Chains (Ambashi 221). At this stage, national governments focus on four policy categories to enhance greater access to GVCs through a) policies on hard infrastructure development (e.g. connectivity, energy supply, and logistics systems); b) domestic regulatory reforms (e.g. bureaucratic transparency in relation to the trade cost); c) trade and investment liberalisation and trade facilitation (e.g. trade-cost reduction) (United Nations ESCAP 164); and d) standardisation (e.g. harmonisation with international standards) (Figure 7).

### Stage 2: Expanding GVC participation (learning stage)

Indonesia, the Philippines, and Vietnam are at a similar technological stage. They emphasise expanding indigenous firms' participation in GVCs (Ambashi) (Korwatanasakul) (Korwatanasakul and Hue 1). Their primary strategy is to enhance national competitiveness to attract FDI inflows through a) soft-infrastructure development policies (e.g., education and training) accompanying hard infrastructure; b) trade and service liberalisation; c) strong and well-functioning domestic regulations to create a healthy investment environment; and d) an open and well-regulated financial service (United Nations ESCAP 165). However, Indonesia, the Philippines, and Vietnam have different challenges and approaches to GVC expansion.

### Stage 3: Upgrading within GVCs and creating new GVCs (catch-up and frontier stage)

Malaysia and Thailand are catching-up countries in terms of technological advancements, while Singapore is on a technological frontier (Ambashi 221). At this stage, the focus is no longer on expanding GVC participation but on upgrading within GVCs, in line with the AEC Blueprint 2025, which states that the more developed AMS need to transform into leaders in RVCs (ASEAN 11). Upgrading within GVCs involves "moving away from a low-value, low-cost segment of the chain" into a higher-value and more complex technological level (United Nations ESCAP 165). To upgrade and create GVCs, Malaysia, Singapore, and Thailand implemented crucial policies: a) institutional capacity building that supports technology transfer, including indigenous absorptive capacities; b) maintaining FDI openness (e.g. investment and trade liberalisation); c) intellectual property rights policies; and d) harmonisation of rules and standards (United Nations ESCAP 165). At this stage, the post-COVID-19 policies become even more essential to support indigenous firms' survival and competitiveness within GVCs.

### Unclassified stage

Unlike the rest of the AMS, Brunei Darussalam is heavily dependent on oil and gas, which makes up over 90 per cent of exports of goods and government income. Despite its relatively high GVC participation rate (50

per cent), its manufacturing sector is not emerging and thus does not have opportunities to be part of RVCs and GVCs of key industries, such as automobiles and E&E. Nevertheless, Brunei Darussalam tries to achieve economic diversification by following policies implemented by the countries in Stage 3.

**Figure 7: The Development of Global Value Chain (GVC) Promotion Policies**

Stage 1: Securing Access to GVC		Cambodia	Lao PDR	Myanmar
<b>Facilitative Policies</b>	Hard infrastructure (e.g. connectivity, energy and logistics)	○	○	×
	Trade policies (e.g. trade and investment liberalisation and trade facilitation)	○	○	×
	Financial support (e.g. loans, subsidies, tax relief)	○+	○+	○+
<b>Regulative Policies</b>	Domestic regulatory reforms (e.g. pricing, certification, standardisation, protective measures)	○	○	×
Stage 2: Expanding Participation in GVCs (Learning Stage)		Indonesia	Philippines	Vietnam
<b>Facilitative Policies</b>	Soft infrastructure (e.g. education and training to increase the absorptive capacity of firms and workers, ICT development)	○	○	○
	Preferential trade agreements to support regional integration	○	○	○
	Financial support (e.g. loans, subsidies, tax relief)	○+	○+	○+
<b>Regulative Policies</b>	Competitive environment and services trade liberalisation (e.g. competitive market conditions, domestic regulatory standards)	○+	○	○
	Open services sector backed by strong and enforceable regulation (e.g. financial services)	○	-	○
	Standardisation	○	○	○
Stage 3: Upgrading within GVCs and Creating New GVCs (Catch-Up and Frontier Stage)		Malaysia	Singapore	Thailand
<b>Facilitative Policies</b>	Innovative, human, and firm capital enhancement	○+	○+	○+
	Openness to FDI and imported technology	○	○	○
	Financial support (e.g. loans, subsidies, tax relief)	○+	○+	○+
<b>Regulative Policies</b>	Governance and intellectual property protection	○	○	○
	Harmonisation of rules and standards with international norms	○	○	○
Unclassified: Oil Economy - High Income		Brunei Darussalam		
<b>Facilitative Policies</b>	Innovative, human, and firm capital enhancement	○		
	Openness to FDI and imported technology	○		
	Financial support (e.g. loans, subsidies, tax relief)	○+		
<b>Regulative Policies</b>	Governance and intellectual property protection	○		
	Harmonisation of rules and standards with international norms	○		

**Notes:** ○ = Available before and after the pandemic; × = Available before the pandemic but not after; ○+ = Additional specific policies due to the pandemic; - = not available

Source: Authors, based on (Ambashi) (De Marchi and Alford) (Intarakumnerd and Korwatanasakul) (United Nations ESCAP) and World Trade Organization's Policy Reports (2015-2021)

## 2. How did the COVID-19 pandemic impact progress?

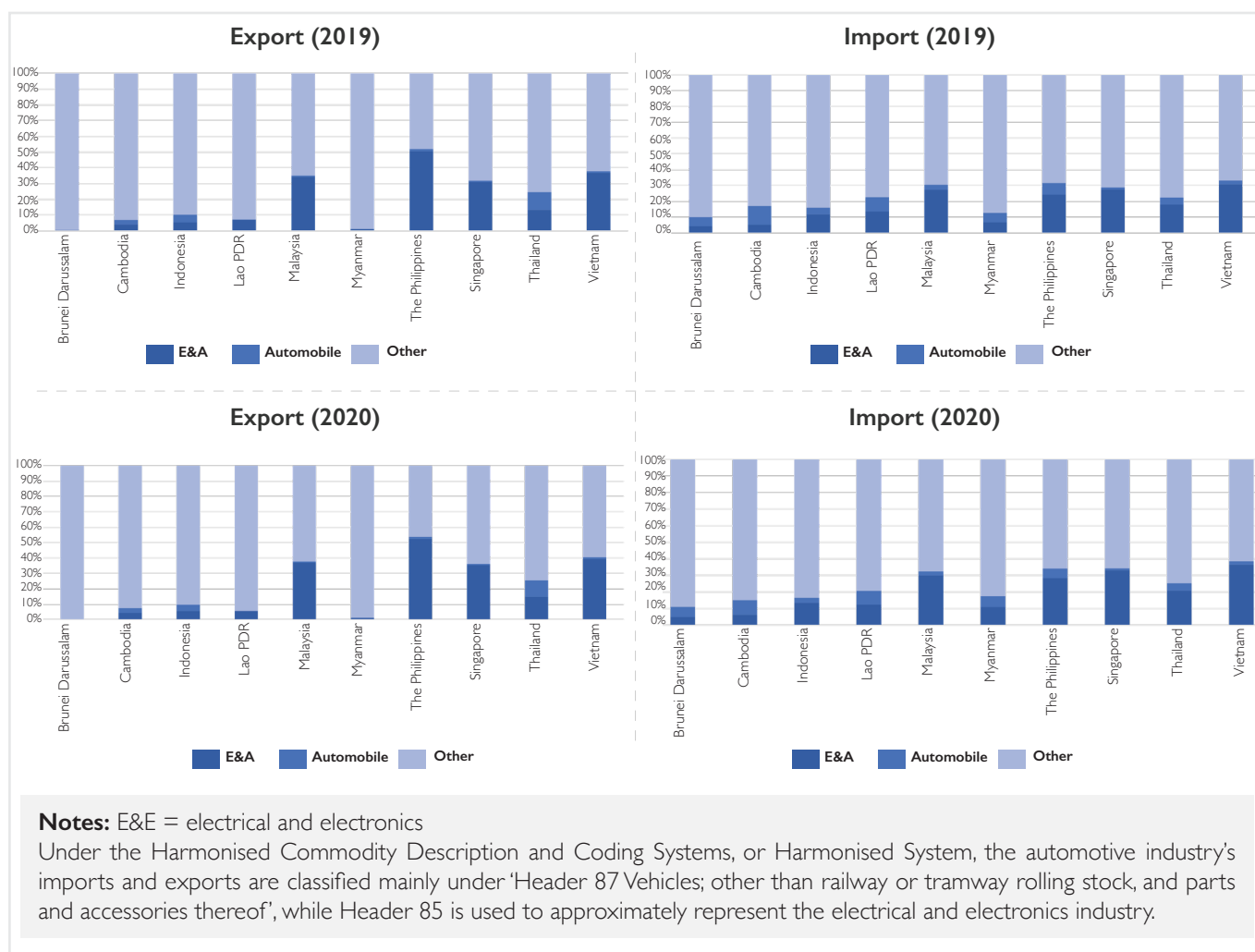
### 2.1. The impact of COVID-19 on Global Value Chains

This section examines the impacts of COVID-19 on GVCs in ASEAN through the parts and components and final product trade data of the automobile and E&E industries, as the two industries are considered strategic industries among the AMS and also represent high trade volume of parts and components, implying high involvement in backward and forward GVC participation. Regardless of a country group, Figure 8 indicates constant trade patterns among ASEAN countries before and after the COVID-19 outbreak (2019 and 2020). The E&E industry accounts for a large share of both exports and imports in most countries among machinery industries. Nevertheless, the significance of the two industries in terms of trade varies widely among the ASEAN countries. On the one hand, except for Brunei Darussalam and Indonesia, the more advanced economies, including Malaysia, the Philippines, Singapore, Thailand, and Vietnam, have a relatively high share of E&E and automobile trade, both exports and imports, occupying more than 20 per cent of total trade. The relatively high share implies greater engagement in both value chains. On the other hand, Brunei Darussalam, Cambodia, Indonesia, the Lao PDR, and Myanmar demonstrate a relatively low share of E&E and automobile trade. Cambodia, the Lao PDR, and Myanmar, strategically focusing on labour-intensive production activities, joined the E&E and automobile value chains in the early 2010s. Thus, their industries are relatively new compared with those of more advanced economies. The E&E and automobile industries in Brunei Darussalam are not emerging, while those in Indonesia focus mainly on the domestic market and not international markets; therefore, they have limited involvement in GVCs (Intarakumnerd and Korwatanasakul, Electronics iv).

According to Figure 9, Singapore shows the largest E&E export volume above 120-131 billion USD in 2019 and 2020, followed by Vietnam (97-111 billion USD), Malaysia (82-86 billion USD), the Philippines (34-35 billion USD), and Thailand (30-34 billion USD). Among ASEAN-5, Indonesia has the smallest E&E export volume at about 9 billion USD in the same period. The rest of AMS, except for Brunei Darussalam, is involved in the production of the low-value-added E&E value chain; therefore, it shows lower export volumes from 2019 to 2020 (577-762 million USD for Cambodia, 283-404 million USD for the Lao PDR, and 178-200 million USD for Myanmar). Only the E&E industries in the Lao PDR and the Philippines experienced a mild drop in E&E exports during the pandemic. E&E imports manifest a similar pattern as the exports. However, the import volume is smaller than that of the exports for Malaysia, the Philippines, Singapore, and Vietnam. In contrast, Indonesia and Thailand experienced a slight trade deficit for E&E products. At the same time, less developed economies, i.e. Cambodia, the Lao PDR, and Myanmar, face a relatively larger trade deficit for the same product category. The import volumes in these countries are approximately two to five times larger than the exports. During the pandemic, the import volumes slightly declined in Indonesia, the Lao PDR, and the Philippines. Thus, most E&E industries among the AMS were resilient to the external shock, i.e. the pandemic, and could respond to the growing E&E product demand induced partly by the pandemic.

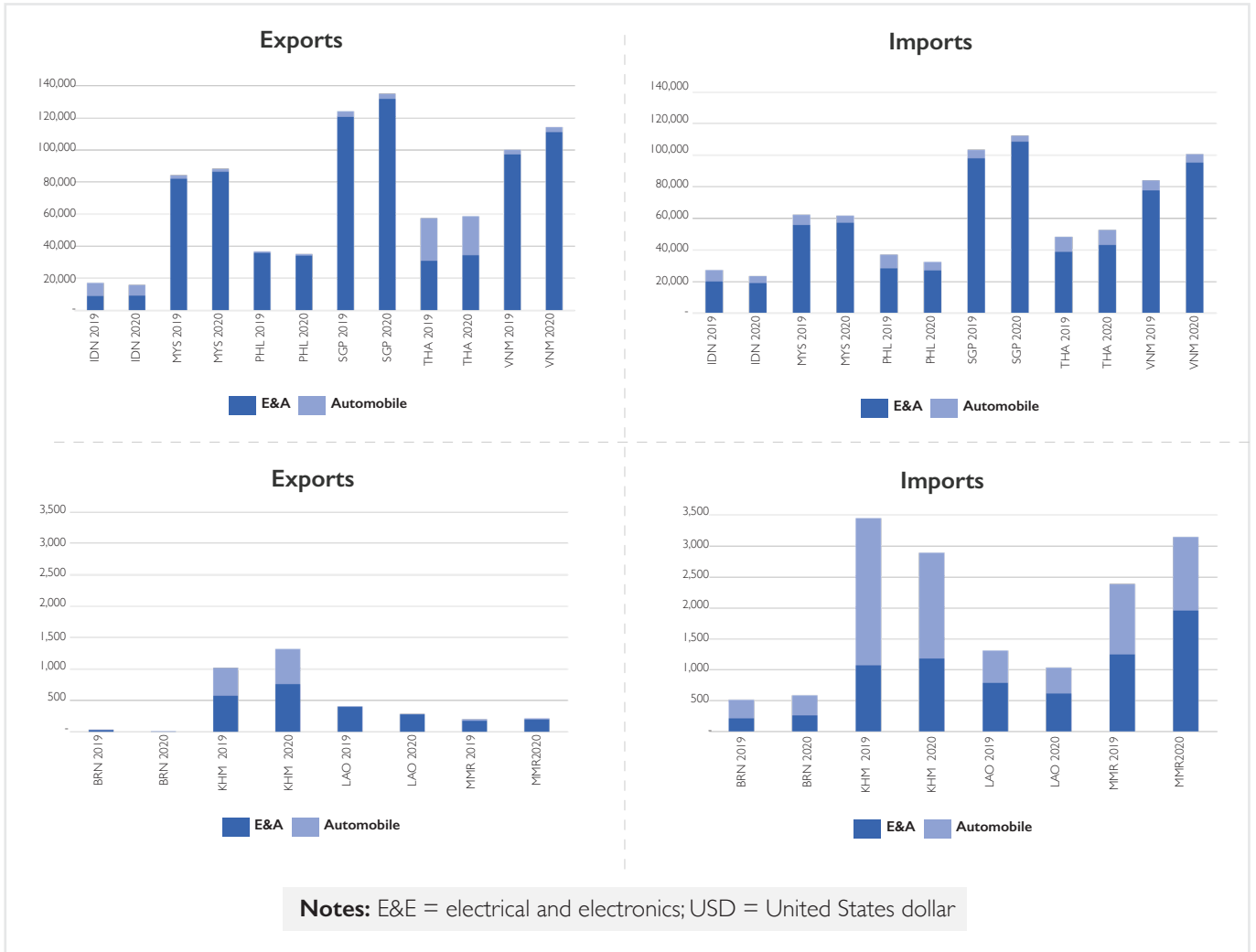
With regards to the automobile industry, Thailand is the largest exporter with an export volume of 24-26 billion USD between 2019 and 2020, followed by Indonesia (6-8 billion USD), Singapore (3 billion USD), Vietnam (3 billion USD), and Malaysia (2 billion USD). Cambodia demonstrates relatively high performance and involvement in the automobile value chain among the less developed AMS. Its export volume was approximately 0.4-0.5 billion USD. Except for Indonesia and Thailand, the rest of the AMS ran a trade deficit in the automobile trade, especially less developed economies and Brunei Darussalam. The difference between their automobile imports and exports ranges from one to 86 times. Overall, most of AMS's automobile export and import volumes dropped in 2020, signalling the adverse impact of the pandemic on the industry and its value chain.

Figure 8: Shares of E&amp;E and Automobile Trade in Total Trade by Trade Flow, 2019-2020



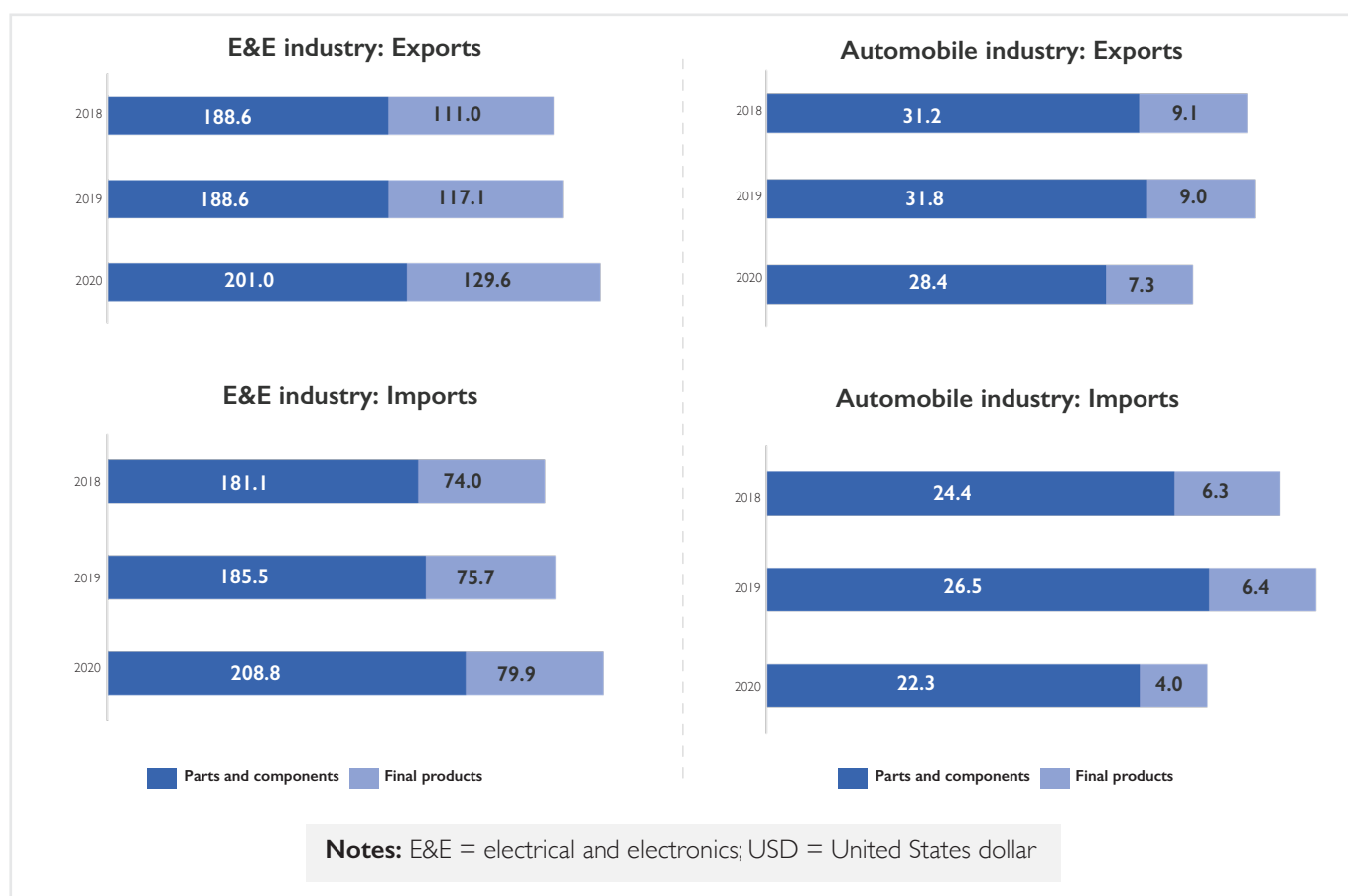
Source: Authors, based on UN Comtrade Database

Figure 9: E&E and Automobile Trade by Country, 2019-2020 (million USD)



Source: Authors, based on UN Comtrade Database

**Figure 10: Parts and Components and Final Products Trade by Industry and Trade Flow, 2018-2020 (billion USD)**



Source: Authors, based on UN Comtrade Database

Figure 10, examining parts and final product trade in the E&E and automobile industries, manifests somewhat different trade patterns before and after the outbreak. Changes in parts and components trade imply the impact of the pandemic on a particular value chain. On the one hand, consistent with the overall trend (Figure 9), the E&E industry trade has increased over time, even during the pandemic. The rise in E&E exports and imports reflects higher demand for E&E products, such as personal computers, microphones, and cameras, due to social isolation policies, e.g. teleworking and online meetings. On the other hand, the automobile industry/trade (Please confirm which would be more appropriate) provides a contrasting trend as the trade volume for parts and final products declined after the outbreak, mirroring a drop in demand for cars and other means of transportation during the pandemic. Therefore, there are industries gaining and losing from the pandemic.

Even though the negative impact of the pandemic in terms of GVCs is small among MNCs and top-tier manufacturers that dominate value chains, local firms, particularly small and medium-sized enterprises (SMEs), suffered from the crisis and containment measures and therefore exited the market temporarily or permanently (Intarakumnerd and Korwatanasakul 57) (Lertphusit and Korwatanasakul 55). Nearly 70 per cent of operating firms operated at half capacity or less, while one out of three firms faced a severe liquidity crisis, which forced them to stop operating within three months. One of the greatest concerns among SMEs was the sharp drops in demand and revenue, resulting in cash-flow or liquidity problems. In response to the COVID-19 pandemic, most enterprises were aware of the benefits and importance of innovation and technological upgrading, such as e-commerce, financial technology (FinTech), and teleworking. Nevertheless, a very limited number of

enterprises were ready to adopt the technology. Regardless of the GVC participation stage, a limited domestic capability is a common challenge among the AMS, covering issues such as the low capability of local firms and domestic labour; insufficient supporting industries, and limited knowledge, skill, and technology transfer from MNCs to local firms. Short-term economic lifelines and recovery, e.g. grants and subsidies, soft loans, tax relief packages, deferment of debt, rent and utility fee payments, and employee-related measures, were the most common policy support desired by the private sector. Enterprises also called for government assistance in terms of long-term or post COVID-19 business models and operations, emphasising human resource development, innovation, digitalisation, and e-commerce.

## 2.2. GVC promotion policies during the COVID-19 pandemic

In response to the COVID-19 pandemic, all countries have been heavily focusing on short-term policy issues, such as economic lifelines and short-term recovery, while the longer-term and structural issues, such as GVC upgrading policies, have not been paid enough attention (Figure 7). Without structural adjustment of business models and operations to the new normal, enterprises are vulnerable and less resilient to future risks. Hence, there is still a large room for policymakers to develop and improve longer-term policy measures that potentially reform the structure of both the public and private sectors. Even though half of the AMS have started a few initiatives regarding technological upgrading and innovation, the depth and dimension of the policy measures are still limited (Intarakumnerd and Korwatanasakul 59). For instance, most countries except for Singapore and Malaysia, do not have concrete policy measures on innovation and upgrading in response to the new normal under and after COVID-19. In addition, only sporadic incentive programmes (rather than holistic measures), capacity-building programmes (rather than targeted innovation capability development), and economy-wide (rather than industry or sector-specific) innovation policy measures are observed in most cases.

The COVID-19-related policies in Cambodia, the Lao PDR, and Myanmar primarily took the form of financial support, such as soft loans and tax reductions, and support for SMEs, particularly in the agriculture and tourism sector (International Monetary Fund). The Cambodian government also focused on infrastructure investment for the post-COVID-19 period. Similarly, Indonesia, the Philippines, and Vietnam employed financial support and tax reduction measures. For example, affected firms in Vietnam are eligible for concessional loans from the Vietnam Social Policy Bank with no interest from May 2020 - January 2021 for salary payments. In the Philippines, the Corporate Recovery and Tax Incentives for Enterprises Act 2021 reduced the corporate income tax rate from 30 per cent of net taxable income to 25 per cent for non-resident foreign corporations and large corporations while reducing the rate to 20 per cent for SMEs (International Monetary Fund). Bank Indonesia provided a stimulus package that included measures to lift restrictions on imports and exports, aiming to ease global supply-chain disruptions caused by the pandemic (International Monetary Fund). In 2021, the Bank of Thailand provided 500 billion Baht to financial institutions to support SMEs in Thailand, particularly in the tourism and tourism-related sector. Malaysia provided support through fiscal stimulus and grants to their SMEs in 2020.

Innovation and technological upgrading, particularly in terms of digitalisation, are expected to empower individuals to adapt their working styles, including reskilling and upskilling, and to allow enterprises to adjust their operations to stay competitive, relevant, and resilient in the domestic and global markets. Thus, the pandemic is considered an accelerator of digitalisation and upgrading in all economic sectors. Despite the importance of innovation and technological upgrading, policymakers in ASEAN demonstrate different levels of engagement in the technological development process. On the one hand, less developed countries, i.e. Cambodia, the Lao PDR, Myanmar, the Philippines, and Vietnam, have not explicitly initiated policy measures related to innovation and technological upgrading. This is mainly due to the lack of government finance and

human capital capabilities. More urgent and pressing issues, such as the short-run cash flow and liquidity crisis, and insufficient ability to formulate and implement effective technology and innovation policies themselves, may prevent the governments from issuing such policies. On the other hand, Brunei Darussalam, Indonesia, Malaysia, Singapore, and Thailand, to some extent, utilise support measures to promote innovation and technological development in both the public and private sectors. For instance, the Central Bank of Malaysia announced the establishment of a High-Tech Facility to provide additional assistance for SMEs affected by COVID-19, especially those in the advanced manufacturing and services sectors or SME project participants in Government programmes involved in research and development (R&D) for critical technologies. Singapore also supported R&D investment in the post-COVID-19 period. The government supported SMEs innovation through the Enterprise Development Grant (International Monetary Fund) (KPMG) (Central Bank of Malaysia).

### 3. What can be done to achieve the ASEAN Economic Community 2025 goals?

ASEAN needs a general policy framework for promoting regional and global value chain participation among the AMS, which is considered the sixth pillar of the first AEC characteristic. Apart from Brunei Darussalam, the AMS have engaged smoothly in regional and global value chains. Nevertheless, only Malaysia and Singapore successfully achieved the functional upgrading process, while the upgrading process of the other AMS is relatively slow and needs more effort to catch up with the leading economies.

In general, the policy framework should prioritise upgrading the production activities of domestic firms, particularly SMEs, along value chains. Enhancing public-private partnerships and regional cooperation potentially mitigates the issues of the low capability of local firms and domestic labour, and limited knowledge, skill, and technology transfer. Specifically, the AMS should focus on fundamental factors encouraging domestic and foreign investment, such as human capital and basic industrial infrastructure. A good investment environment attracts more MNCs to invest in a country and, in turn, brings a chance to adopt and learn foreign knowledge and technology for local firms. Nevertheless, knowledge and technology transfer from MNCs to local firms is unlikely to happen unless there are policy mechanisms to encourage the process (Korwatanasakul and Purbantina 16-17). For instance, Malaysia and Singapore encouraged foreign managers to work in local firms for a limited period and granted R&D funds to local and foreign firms.

The following are policy recommendations to upgrade local firms during and after the pandemic:

Firstly, it is reasonable to have short-term policy measures to guarantee the survival of firms during the pandemic. However, it is also increasingly important to provide more resources and time to formulate long-term policies for the post COVID-19 period. Firms are facing the new normal, e.g. digitalisation and new business activities models. These activities and models involve multiple actors and sectors. Thus, there is an urgent need to improve the functions and sophistication of work for macroeconomic and institutional structures and enhance inter- and intra-sectoral coordination and corporation. The actors also include those in the private sector for knowledge creation and diffusion, and financing innovation and technology upgrading. With national and regional coordination among government agencies, local firms and MNCs, all these efforts will likely alleviate the existing issues and promote further development of ASEAN's regional and global value chains.

Secondly, to help firms seize new opportunities under the post COVID-19, the government must provide holistic measures to support innovation. Targeted financial incentives, especially in the form of grants, should

be implemented to encourage firms to develop and deepen their technological capabilities underpinning several types of innovations (e.g. new products, new processes, and new business models). Simultaneously, the government should provide non-financial incentives, such as government-subsidised training programmes, digital infrastructure (e.g. 5-G telecommunication networks), consultancy/guidance services, conducive regulation, and market-creation measures. For instance, according to Mohamad and Korwatanasakul (21), enhancing digital infrastructure, bridging the digital divide, emphasising capacity building and best practices, developing skilled workers, and ensuring fair entry into digital trade zones improve local firms' innovative capacities and, in turn, facilitate the smoothing functions of GVCs.

Lastly, developing and implementing industry-specific policy measures is essential apart from economy-wide or generic innovation policy measures. Though the impact of changes derived from COVID-19 encompasses most, if not all, industries, the nature of business opportunities and concomitant innovation processes differ across sectors. It is imperative for government to study how innovation happens or will happen in different industries (both traditional and emerging) and later devise appropriate policy measures to promote and facilitate innovation processes in those industries.

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# Pillar 2: Competitive, Innovative and Dynamic ASEAN

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## Author Profile



**Mr Imran Shamsunahar** is an Executive Researcher at the Economics and Business Unit at IDEAS. He focuses mostly on political economy and international trade. He received his Bachelors in History and Contemporary Asian Studies at the University of Toronto, as well as his Masters in Strategy and International Security from the University of Hull. He is also a freelance writer, having published pieces on Asia Pacific in Nikkei Asia, the South China Morning Post, and National Interest. He's also been interviewed on Australia's ABC Radio National and quoted in Benar News.

## I. Introduction

The second pillar of the ASEAN Economic Community (AEC) Blueprint 2025, titled “A Competitive, Innovative, and Dynamic ASEAN”, builds upon the previous iteration of the AEC’s “Competitive Economic Region” constituent from 2015. The focus of this pillar is bolstering the region’s competitiveness and productivity growth through several elements, namely “engendering a level playing field for all firms through effective competition policy” as well as “strengthening related regulatory frameworks and overall regulatory practice and coherence at the regional level.”

Building upon the competition pillars of both the AEC Blueprint 2015 and AEC Blueprint 2025, the ASEAN Competition Action Plan (ACAP) 2016-2025 was released, which laid out five strategic goals for working towards effective and enforceable competition policies and laws. The Strategic Goals include (i) that effective competition regimes are established in all ASEAN Member States (AMS); (ii) the capacities of competition-related agencies in AMS are strengthened to effectively implement competition laws; (iii) regional cooperation arrangements on competition laws are in place; (iv) fostering a competition-aware ASEAN region; and (v) moving towards greater harmonisation of competition policy and law in ASEAN. In 2020, ASEAN released the Mid-term Review (MTR) of the ACAP 2025, which took stock of the current implementation status of the ACAP, and developed a new Implementation Schedule for the 2021-2025 period.

This chapter intends to analyse what developments have taken place under Pillar II over the last five years leading up to the outbreak of COVID-19 in 2020, in terms of developing and instituting effective and enforceable competition laws within ASEAN. This chapter first looks at how competition policies and laws are commonly understood, focusing on the three pillars of prohibiting anti-competitive agreements, abuse of dominance, and anti-competitive mergers. The chapter proceeds to analyse the progress of ASEAN Member States (AMS) in enacting their own respective competition legal frameworks. It is noted that with Cambodia’s enactment of its competition law in October 2021, all AMS now have adopted a legal framework on competition covering all three pillars (with the exception of Malaysia with regards to merger laws), effectively achieving AEC 2025 BI.i. as well as Strategic Goal 1 of the ACAP 2016-2025.

In light of ASEAN’s success in crossing the first hurdle of establishing national competition statutes in all AMS, focus must now shift to ensuring effective enforcement of said statutes through institutional capacity building. In particular, focus should be made on capacity building in light of the unique challenges brought on by COVID-19. This chapter will proceed to look at how COVID-19 impacted competition issues in relation to Micro, Small and Medium Enterprises (MSMEs), and how competition agencies within ASEAN have sought to address these challenges.

Finally, this chapter looks into what efforts are being made to harmonise competition regimes across the region in order to realise the free movement of goods, services and capital as envisioned by the AEC. This chapter notes that while there are many commonalities at the macro level with regards to AMS competition laws, differences abound at the micro-level. To achieve regional coherency at the macro-level, region-wide policy objectives and guidelines should be adopted which would establish minimum rules and standards. At the micro-level, AMS should consider adopting mutual-recognition mechanisms.

## 1.2 What is competition policy and law?

Competition policy can be understood as the overall policy strategy formulated by governments in order to promote competitive markets, where players are able to participate competitively in whatever market they wish to participate in. Competition policy tries to regulate the way businesses interact with each other, or how they behave individually. Competition policy may also regulate the way that state-owned enterprises interact with businesses. Effective competition policies benefit consumers by providing them access to a myriad of goods and services at good quality and competitive prices, while also encouraging businesses to continuously innovate their goods and services.

Competition laws broadly cover three pillars:

1. Prohibition against anti-competitive agreements: e.g. price fixing agreements.
2. Preventing abuse of dominance: trying to regulate the behaviour of dominant businesses.
3. Preventing anti-competitive mergers: when the merger of businesses creates market power.

## 2. Development for the past five years up to the COVID-19 pandemic

In the Mid Term Review of the ACAP 2016-2025 released in 2021, it was noted that progress was still ongoing in terms of enacting consolidated national competition statutes in all ten ASEAN member states, with only Cambodia lagging behind (as envisioned under Strategic Goal 1 of the ACAP 2016-2025). However, in the OECD's subsequently released Asia-Pacific Competition Law Enforcement Trends 2021 report, it was observed that Cambodia had adopted its competition law in October 2021, thereby ensuring that as of now, all ASEAN member states have adopted a legal framework on competition law and policy, effectively achieving Strategic Goal 1.

## 3. How did the COVID-19 pandemic impact progress?

With ASEAN having already established competition laws in every AMS, the focus now must be on effective enforcement, particularly in light of the unique challenges brought on by the pandemic. One area of competition law enforcement which warrants focus is competition issues in relation to MSMEs, which comprise some 95% of businesses in many ASEAN jurisdictions. In the aftermath of the COVID-19 pandemic, the ASEAN Heads of Competition Agencies (AHCA) Joint Statement on Maintaining Competition Policy in Post-Pandemic Economic Recovery (2022), called for the strengthening of outreach to MSMEs, identifying it as one of the key actions needed to strengthen competition in the region.

In a survey carried out by the Indonesia Competition Commission on behalf of ASEAN and released in October 2021, it was observed that several ASEAN jurisdictions, including Indonesia, Vietnam, Malaysia, Singapore, and the Philippines, had received complaints related to the potential abusive conduct of large-scale enterprises since early 2020, when the pandemic first broke out.

The report quizzed the participating AMS competition agencies on how to effectively support MSMEs from the abusive conduct of larger enterprises. Among the recommendations that were provided included advocacy work, softened merger regimes, case investigations, conducting market investigations, and policy recommendations (see Table 1). The most common answer provided in terms of supporting MSMEs was advocacy work.

**Table I : Recommendations on how competition agencies can support MSMEs**

Method of advocacy	BN	ID	MY	MN	PH	SG	TH	VN
Advocacy	X			X	X		X	X
Soft merger regime			X					
Investigation						X		
Market study/surveillance				X	X			
Information exchange					X			

Source: Indonesia Competition Commission, 'The Impact of Covid-19 Pandemic and Economic Recovery to Competition Law and Policy in ASEAN Countries', (Jakarta, 2021)

Ultimately, AMS competition agencies should prioritise advocacy work when it comes to strengthening outreach to MSMEs. MSMEs should be made aware of their respective rights as well as the process for reporting any potential abuse by larger enterprises through the proper channels. As argued by Qaqaya (2020), the pressure on AMS competition agencies to relax competition rules and enforcement to facilitate the post-pandemic recovery may ultimately have an adverse impact on the state of competition in the long-term. It is therefore crucial to recognise the risks posed by the pandemic to MSMEs, and ensure that the economic recovery does not come at their expense.

In terms of promoting regional competition, ASEAN has seen significant progress made, with all ASEAN states having effectively implemented their respective legal frameworks on competition law and policy, thereby effectively achieving Strategic Goal 1 of the ACAP 2016-2025. All ASEAN states now have competition policies and laws in place which cover the three main pillars of prohibiting anti-competitive agreements, abuse of dominance, and anti-competitive mergers (with the exception of Malaysia with regards to merger laws). However, the COVID-19 pandemic has introduced new challenges with regards to competition, including how it has exposed MSMEs to potential abuses by large-scale enterprises. In response, ASEAN competition agencies have mooted several solutions, including advocacy work, softened merger regimes, case investigations, conducting market investigations, and policy recommendations.

## 4. What can be done to achieve the ASEAN Economic Community 2025 goals?

### 4.1 The benefits of greater harmonisation of competition law in ASEAN

Point v. of sub-pillar B1 of Pillar II of the AEC Blueprint 2025 calls for “greater harmonisation of competition policy and law in ASEAN” through the development of “a regional strategy on convergence”. This is elaborated further under Strategic Goal 5 of the ACAP 2025, which aims for “moving towards greater harmonisation of competition policy and law in ASEAN”.

As argued by Thanadsillapakul (2012), the removal of regulatory trade barriers and investment liberalisation as envisioned under the AEC may not be as effective as hoped if anti-competitive behaviours simply create new barriers to entry. The need for greater regional alignment in competition law is more pressing than

ever in light of the marked increase in cross-border mergers around the world, including within ASEAN. As previously noted by Qaqaya (2020), a significant proportion of FDI into ASEAN takes the form of M&As, and that more such M&As will be encouraged by ASEAN governments as part of their economic recovery strategies. With an increase in the number of cross-border activities will come more frequent overlaps between the operations of different countries' competition laws, as well as the application of the extraterritoriality provisions contained in certain AMS' laws. As such, achieving greater regional convergence in competition laws will allow AMS to more effectively deal with cross-border competition issues.

## 4.2 Differences and commonalities across ASEAN competition laws

As noted by the "Commonalities and Differences across Competition Laws in ASEAN and Areas Feasible for Regional Convergence" report published by ASEAN in 2020, at the macro level there is considerable similarity between AMS laws covering cartels, anti-competitive agreements (horizontal and vertical), abuse of dominance and mergers. Exceptions included the exclusion of vertical agreements from the prohibition against anti-competitive agreements in Brunei Darussalam and Singapore, and Malaysia's absence of regulation with regards to anti-competitive mergers.

As such, regional incoherency in competition laws comes more at the micro level, including differences in terminology, whether the laws will apply to "concerted practices", differences in merger notification thresholds (a mix of mandatory and voluntary, pre- and post-merger requirements), sanctions, leniency regimes, and investigation powers. The report noted that a failure to achieve consistency in the "interpretation and application" of the laws in these areas would present a risk to the convergence of regional competition laws.

Recognising the differences across ASEAN's competition laws at the micro-level, the report stresses that ASEAN can better promote regional convergence through soft law, cooperation, and coordination between AMS competition regulators.

With this in mind, AMS should push for greater convergence at the macro-level through the adoption of region-wide policy objectives and guidelines for areas including cooperation, merger regimes, and the enforcement of cartels. These would preferably establish minimum rules and standards which would be adopted region-wide by AMS, while also establishing clarification of terminologies and applications for certain laws. For differences at the micro-level, mutual recognition mechanisms should be adopted, such as for intellectual property rights, intellectual property protections, and court awards with regards to intellectual property infringement

## 4.3 Conclusion

All AMS have made significant progress in fulfilling Strategic Goal I of ACAP 2025, which calls for effective competition regimes to be established in all AMS. As of now, all AMS have enacted their respective competition law frameworks, with Cambodia being the last state to implement theirs in October 2021. With all AMS having adopted a legal framework on competition covering all three pillars, namely laws prohibiting anti-competitive agreements, abuse of dominance, and anti-competitive mergers, ASEAN has effectively achieved Strategic Goal I of the ACAP 2016-2025 as well as sub-pillar BI.i. of AEC 2025.

With ASEAN having crossed the first hurdle of establishing competition laws in every AMS, the focus now must be on capacity building, particularly in light of the unique challenges brought on by the pandemic. The AHCA's Joint Statement released in the aftermath of the pandemic called for strengthening outreach to MSMEs, with complaints of abusive conduct by larger enterprises towards MSMEs having been received by

regulators early on in the pandemic. In response, competition agencies should focus on advocacy work, with MSMEs made aware of their respective rights as well as the process for reporting any potential abuse by larger enterprises through the proper channels.

Finally, when looking at ASEAN's efforts at promoting greater harmonisation of AMS' competition policy and law, we find that at the macro-level there is already considerable similarity between AMS laws covering cartels, anti-competitive agreements (horizontal and vertical), abuse of dominance and mergers. Exceptions included the exclusion of vertical agreements from the prohibition against anti-competitive agreements in Brunei Darussalam and Singapore, and Malaysia's absence of regulations with regards to anti-competitive mergers. However, at the micro-level we find regional incoherency, mostly with regard to the interpretation and application of the laws.

Specifically, to push for greater convergence at the macro-level, AMS should adopt region-wide policy objectives and guidelines for areas including cooperation, merger regimes, and the enforcement of cartels. At the micro-level, mutual recognition policies are recommended, such as for intellectual property rights, intellectual property protections, and court awards with regard to intellectual property infringement.

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# Pillar 3: Enhanced Connectivity and Sectoral Cooperation

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## Author Profile



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## 1. Introduction

The Global E-commerce sector is a key part of the global economy to date. Through various developments since before the pandemic, the region's E-commerce sector has also experienced significant growth. It was stated that the ASEAN Digital Economy alone reached USD 72 billion in Gross Merchandise Value (GMV) for online travel, E-commerce, online media and ride hailing sectors by the end of 2018. It was also projected that before the pandemic in 2018, the GMV grew beyond the 32% compounded annual growth rate that was recorded between 2015 and 2018. At the time, Southeast Asia's internet economy was projected to grow beyond USD 240 billion by 2025 (Google & Temasek, 2018).

Due to the sector's potential for growth, the AEC Blueprint 2025 highlighted that cooperation in the E-commerce sector was key. This cooperation is built upon Article 5 of the e-ASEAN Framework Agreement that was adopted by the ASEAN Leaders in November 2000, 22 years ago. Within the framework, there were several strategic measures that were identified to ensure facilitation for cross-border E-commerce transactions among AMS. These measures are related to Consumer Protection, Infrastructure, Education and Technology Competency, Modernising the Legal Framework, Security of Electronic Transactions, Payment Systems, Trade Facilitation, Competition, Logistics and an E-commerce Framework.

Under this pillar, aside from E-commerce, to further enhance connectivity and sectoral cooperation among AMS, cooperation in sectors like Transport, ICT, Energy, Food, Agriculture and Forestry, Tourism, Healthcare, Mineral, and Science and Technology was also emphasised. Given the exponential growth of the E-commerce sector since 2015, the chapter will focus on its developments and barriers in terms of integration.

## 2. Development for the past five years up to the COVID-19 pandemic

The latest study by Ascential Digital Commerce reported that the E-commerce sales in the region alone are projected to observe drastic growth of 18% this year, reaching a sales value of USD 38.2 billion. By 2026, sales in this sector will reach USD 57.8 billion.

The drastic growth in this sector is due to the switch to online commerce made by consumers. Indonesia, which was projected to be the region's largest e-commerce market, will expect USD 9 billion spending this year, which is a high jump from 6 years ago in 2016. Then, online consumers spent approximately USD 17.4 billion. The growth in the sector for Philippines, Vietnam, Thailand and Malaysia will also be exponential in the near future as the growth of the digital world creates more opportunities on the ground (Marketing Magazine Asia, 2022).

Since 2015, there has been progress in cooperation within this pillar. In 2016, the ASEAN Coordinating Committee on Electronic Commerce (ACCEC) was established for the purpose of strengthening the coordination mechanism on regional E-commerce efforts within the ASEAN region. Additionally, AMS countries are guided by the ASEAN Work Programme on Electronic Commerce 2017-2025, which was established by ACCEC to facilitate conduciveness of E-commerce activities in the region.

Only a year before the pandemic, a joint agreement on Electronic Commerce in 2019 was signed by Economic Ministers in AMS. The core purpose of the agreement was to facilitate the growth of E-commerce transactions in ASEAN and deepen cooperation within the region to develop and intensify the use of E-commerce, in an environment of trust and confidence.

The Work Plan on the Implementation of the ASEAN Agreement on E-Commerce highlights that under the trade facilitation and logistics element, the E-commerce drivers include an Authorised Economic Operator (AEO) scheme, and a risk-based approach to customs clearance, among others. To elaborate, the AEO is a customs administration's partnership programme with businesses to secure and facilitate trade. Companies with robust supply chain security procedures would have to undergo a validation process based on the World Customs Organisation SAFE Framework of Standards to Secure and Facilitate Global Trade ("WCO SAFE Framework") before they could be certified by the customs administration as an AEO company (Singapore Customs, 2022). By signing on to the Mutual Recognition Agreement this can lead to a higher level of facilitation during cargo clearance, domestically and overseas; access to priority treatments for inspection; and expedited customs cargo clearance during trade disruptions.

Under various high-level objectives such as the AEC Blueprint 2025 and ASEAN Work Programme on Electronic Commerce 2017-2025, as well as the collaborative activities within the ASEAN Trade Facilitation Framework, the AEC 2025 Trade Facilitation Strategic Action Plan and the ASEAN Digital Integration Framework, in June 2022, the ASEAN Customs chiefs launched a Joint Action Plan committing to implement the ASEAN Authorised Economic Operator MRA by 2025. Through such efforts, growth in trade activities among AMS can steadily be strengthened in line with the exponential growth that is fuelled by the digital economy and E-commerce.

Apart from trade facilitation and E-commerce efforts, in terms of developing the legal and institutional framework for E-commerce, progress has been observed since 2015 according to the Mid-term Review AEC 2025 Blueprint. The ASEAN Digital Integration Framework (ADIF) and its action plan have been adopted, and the ASEAN Digital Integration Index is now used as a tool to measure the effectiveness of digital integration initiatives. To further strengthen consumer protection and trust, the Guidelines on Accountabilities and Responsibilities of E-marketplace Providers, ASEAN Online Business Code of Conduct and ASEAN Guidelines on Cross Border Business-to-Consumer (B2C) Complaints have been finalised (ASEAN Secretariat, 2021).

### 3. How did the COVID-19 pandemic impact progress?

The pandemic has hit the traditional retail sector particularly hard due to several lockdowns and social distancing measures implemented in various AMS in different intensities. It was noted that in 2020, both Singapore and Indonesia were the most hard-hit with retail sales dropping by 18% due to strict lockdown measures. In contrast, Vietnam, which had managed to contain the pandemic, was able to retain its sales in brick and mortar stores with only a drop of 0.1% in the same year.

On the adoption of E-commerce tools, the rate is much higher in ASEAN compared to the world average. In 2020, it was recorded that Indonesia had the highest E-commerce adoption rate in the world. About 87% of its internet users purchased goods and services online. This rate is higher compared to the UK (86%), Thailand (84%), and Malaysia (83%). Even China, which is considered to be the world's largest E-commerce market, fell behind ASEAN economies such as the Philippines, Singapore, and Vietnam in terms of E-commerce adoption rates (We are Social and Hootsuite, 2021).

The pandemic has led to an accelerated transition to online retail by consumers within ASEAN. This is marked by the drastic increase in the number of internet users in the region. In 2020 about 40 million people from Southeast Asia came online for the first time. The total number of internet users grew to 400 million, which is a drastic increase from 250 million in 2015. Given the higher number of internet users, it is no surprise that

the time spent online per day also increased on average by about 1 hour across ASEAN countries. The Philippines recorded the highest average where consumers spent more than 5 hours online (Google & Temasek, 2018).

Another important gauge for E-commerce adoption is the mobile E-commerce adoption rate. The ASEAN region has a unique characteristic whereby the primary channel of online shopping for many ASEAN users is through mobile devices. In 2020, Indonesia came first as 79% of Indonesia's internet users executed online retail transactions via mobile devices. This is then followed by Thailand and the Philippines, with 74% and 70% respectively (We are Social and Hootsuite, 2021).

Even though a significant growth of the sector is observed especially in a post-pandemic setting, integration in terms of electronic payments interoperability is still lacking among member countries. Without interoperability, the existing E-commerce platforms developed by different AMS will continue to be localised; by only including local SMEs and Chinese exporters.

To strengthen E-commerce activities within ASEAN, the digitisation of documents for trade needs to be achieved. To date, as the usage rate for digitisation documents for trade is still low this has resulted in existing E-commerce platforms being unable to grow widely to cover sellers from across all ten member countries.

In short, even though there is a huge potential in the E-commerce sector in a post-pandemic setting, integration among the AMS sector is still lacking. The different agreements and action plans introduced have been beneficial in paving areas for cooperation between AMS even before the pandemic but without electronic payments interoperability and digitisation of key documents for trade, integration may not be achieved in the E-commerce sector.

#### **4. What can be done to achieve the ASEAN Economic Community 2025 goals?**

To further integrate, the AMS need to examine the taxation and regulatory environment within the region. Setting an attractive threshold and standardising the de minimis value will reinvigorate E-commerce activities while pulling various players across economies onto an integrated market. For example, Singapore stood as an attractive E-commerce market with a high de minimis rate of around USD 300. For shipments with higher values, businesses will need to pay the 7% GST, while no import duties are collected except for restricted goods.

Interoperability of payment systems is key for an integrated E-commerce sector. Even though there has been an effort on this front by selected countries, implementation is still restricted across many AMS. For an inclusive marketplace to be created, while championing and strengthening the competitive advantage of the local SMEs, interoperability of payment systems needs to be constantly promoted and monitored.

To support the growth of trade activities fuelled by the growth of E-commerce, the ASEAN Single Window needs to be optimally used by SMEs and bigger firms alike. To date, uptake on the ASW is still low especially among SMEs. Support and training for SMEs need to be prioritised so that they too can be integrated onto the ASEAN online market and partake effectively in the E-commerce sector.

Last but not least, to support an E-commerce environment that is characterised as safe and trusted for consumers, engagements and programmes on cybersecurity, data protection and data localisation need to be carved and implemented in a timely manner. As risks in the E-commerce environment may be high in terms of security, data management and data transfer issues need further examination among AMS, so that transparent rules and guidelines can be adhered to by the different stakeholders within the region.

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# Pillar 4: Resilient, Inclusive, People- Oriented & People-Centred ASEAN

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## 1. Introduction

The fourth pillar of the ASEAN Economic Community Blueprint 2025 demonstrates a concerted effort to refine and expand upon the AEC's existing "Equitable Economic Development" constituent from 2015 (ASEAN Secretariat, 2008). Regardless of its name, the ultimate aim of this pillar is to achieve a resilient, inclusive, people-oriented, and people-centred ASEAN by narrowing the broad-based economic development divide within this region. There are two broad action fronts under this pillar: the development of SMEs and the Initiative for ASEAN Integration (IAI). The former is an affirmative action to enhance the development of micro, small and medium-sized enterprises in the region. The latter refers to systematic assistance from the ASEAN-6 for the integration of new members: Cambodia, Lao PDR, Myanmar, and Vietnam, also known by the moniker "CLMV" countries (ASEAN Secretariat, 2015), with the rest of the member states. This section will evaluate the progress of two development areas highlighted in the IAI Work Plan IV (2021-2025): education and health.

## 2. Education

In early 2021, ASEAN activated their Work Plan for Education IV (2021-2025), an updated 5-year framework promoting ubiquitous education for all (Das and Naranayan, 2022). The aim of this third phase is to expand upon the priority areas of ASEAN's previous 2010-2015 and 2016-2020 work plans, with a renewed focus on improving integration through the access to digital educational tools across the region. Education is a particularly relevant and—in the case of CLMV countries—opportune sector for development: a more educated, skilled, and mobile labour force, after all, contributes significantly to the rise of any economy's productivity and development capacity. As acknowledged in the latest IAI Work Plan, while their previous strategies tackled the expansion of education access to marginalised groups, there is still significantly more work that needs to be done to close this gap in accessibility (ASEAN Secretariat, 2020e).

### 2.1. Development for the past five years up to the COVID-19 pandemic

Many CLMV countries continue to struggle disproportionately with regards to developing their human capital in the realm of education. The most notable progress in recent years is seen in the narrowing of the gap in primary enrolment and completion rates between all AMS. Between 2011 and 2019, there was a discernible increase in the primary school net enrolment ratio for most ASEAN countries, in particular for Indonesia (91.1% to 97.6%), Myanmar (84.8% to 97%), Lao PDR (94.1% to 98.9%), and Vietnam (95.3% to 98%) (ASEAN Secretariat, 2021). Overall, the nett enrolment ratio for primary education remains high, above 90%, across all AMS.

Despite such progress, the divide in secondary and tertiary education still remains significant, with CLM countries severely lagging behind. With the exception of Singapore (2018; 99.3%), Malaysia (2019; 91.3%), the Philippines (2019; 83.3%) and Vietnam (2019; 89.2), all AMS have a nett enrolment ratio in secondary school below 80%, as of 2018. Among these AMS, Cambodia (2019; 34.4%) has the lowest nett enrolment ratio in secondary school, followed by Myanmar (2019; 63%) whereas there is no official data available for Lao PDR (ASEAN Secretariat, 2021). In addition, CLM countries are also faced with significant dropout rates that often exceed 20%. While it is important to note the lack of reliable data on the numbers of out-of-school children (OOSC) across AMS and the reasons behind it, the Work Plan III highlights that the inflexibility of formal education models is likely a major factor of dropouts, especially in remote rural areas.

There have been some efforts to improve access to, and the completion of basic education for OOSC through Flexible Learning Strategies (FLS) such as flexible school and non-formal education. For instance, the *Increasing Access to Basic Education in CLMV Countries through Flexible Learning Programmes* such as the Primary Education Equivalency Programme implemented by the Department of Non-formal Education, Ministry of Education and Sports (MoES), Lao PDR, Educate A Child, UNESCO Bangkok (Noppakunthong, 2021). While FLS initiatives exist, the lack of information on monitoring and evaluation as well as scaling up these initiatives remain an issue.

## 2.2. How did the COVID-19 pandemic impact progress?

The COVID-19 pandemic appears to have exacerbated pre-existing issues in education across ASEAN's various economies. A primary concern is the lack of cohesion or uniformity across AMS, particularly in the realm of digital accessibility. To put this into perspective, in 2020, the UN reported that Singapore had four times the internet bandwidth of Thailand, Vietnam, and Malaysia, and 58 times that of Myanmar (UN, 2020). Currently, more than 50% of ASEAN remains offline (Das and Naranayan, 2021), a statistic which continues to curtail the access to information in the worldwide, pandemic-mandated digital transition.

One of the biggest educational impacts of the pandemic was also the disrupted learning opportunities across AMS at the level of basic education through region-wide school closures. According to the Asia Development Bank (ADB) it was estimated that students in Southeast Asia had lost more than 35% of a learning year, as measured by the Average Years of Schooling (LAYS) indicator (Das and Naranayan, 2021). This was 6% more than the loss experienced by the whole of developing Asia. There is not yet an estimation on how the shift to digital classrooms has managed to attenuate this loss, but it has been widely recognised that e-learning has brought its own set of unique technical challenges, the chief one being the gap in digital accessibility across AMS. At the height of the pandemic between 2020 and 2021, the shortest government school closures across ASEAN were in Singapore (13 weeks), closely followed by Brunei Darussalam (17 weeks) and Vietnam (18 weeks), with Singapore and Vietnam employing only partial closures. At 47 weeks, closures were the longest for the Philippines (Das and Naranayan, 2021).

Malaysian and Singaporean households have the highest access to the internet at home of all AMS, averaging 92% and 98% respectively. They are followed closely by households in Thailand (85%), Indonesia (78%), and Vietnam (76%). In Brunei, only 54% of households have internet access at home, while the numbers in Cambodia (21%), the Philippines (18%), and Lao PDR (2%) fall well below the halfway mark (ITU-D, 2022). There are long-term implications of this disruption to basic education, predicting a loss of labour productivity, economic competitiveness, and individual earnings over time (Das and Naranayan, 2021).

In terms of overall progress, despite the significant advancement on narrowing the gap between AMS in access to primary education, a sizeable divide between CLM countries and the rest of the AMS in access to secondary and tertiary education still remains. COVID-19 appears to have exacerbated the education divide between AMS due to the uneven distribution of digital accessibility, which affects countries' ability to deliver quality online education during school closures. If left unaddressed, the widened educational divide will have significant implications on broader socioeconomic disparities across AMS.

## 2.3. What can be done to achieve the ASEAN Economic Community 2025 goals?

In order to narrow the education divide between CLMV countries and the other AMS, existing efforts to improve access to and completion of basic education for OOSC through FLS should be scaled up, as

mentioned in section 2.1. While such initiatives exist, there is a lack of information with regards to its impact, sustainability and effectiveness. This calls for the need for more transparent reporting of monitoring and evaluation data with regards to such initiatives.

ASEAN's latest Work Plan for Education IV has emphasised a focus on Technical and Vocational Education and Training (TVET). Their objectives and actions include enhancing the quality of TVET education by providing technical and capacity support to improve TVET and improve awareness; increasing regional student mobility by supporting CLMV countries to reduce intra-regional student barriers; increasing the adoption of alternative learning channels by assisting CLMV countries in developing programmes to achieve this, and improving teacher quality and English language training standards to enhance the quality of education (ASEAN Secretariat, 2020e).

To accelerate this development in a post-pandemic ASEAN, it would be beneficial to focus on the realm of digitalisation and technological advancement, as is already acknowledged in the theme of Industry 4.0 in the latest IAI Work Plan (ASEAN Secretariat, 2020e). Through a cross-country study across 117 economies (both developing and advanced), the ADB was able to demonstrate that improved internet access can mitigate the economic damage wrought by the pandemic. Their estimates signal that "improving internet access per population from the average for an emerging market (52.9%) to that of an advanced economy (87.8%) will help to reduce the former's growth slowdown by half" (Das and Naranayan, 2021). Existing ASEAN initiatives to promote digital connectivity in AMS can be leveraged to address the issue of learning loss as a result of the digital divide. For example, the Go Digital ASEAN is an ASEAN initiative that provides digital literacy training for the marginalised communities in AMS for the purpose of broadening participation in the digital economy. Such initiatives can be leveraged to reach students particularly in CLMV countries to improve access to digital devices and skills.

Another area to consider focusing on would be the educational curriculum. While the idea of a standardised educational curriculum across the region has not been thoroughly explored enough to warrant present recommendation (Das and Naranayan, 2021), the ASEAN Curriculum Sourcebook could perhaps be considered a prototypical resource that toys with this possibility. Published in 2012, the sourcebook is framed as a reference for AMS teachers in developing a shared sensibility of cultural understanding among their students, one that aims to highlight "the complex ways in which peoples and lands across ASEAN are connected" and encourage students to "exchange and appreciate diverse perspectives, and envision new ways in which they can work together to realise common goals" (ASEAN Southeast Asian Ministers of Education Organisation, 2012). It is composed of "strategies for teaching various ASEAN concepts", all of which are "designed to enhance and complement the current curricula of ASEAN member countries" (ASEAN Southeast Asian Ministers of Education Organisation, 2012). Significantly, Technology Education is also one of the priority subject areas mentioned to promote connectivity within ASEAN. One way to achieve the AEC's 2025 goals for a more resilient, inclusive ASEAN would be to situate this sourcebook in a post-pandemic context, and from there, harness it as a communal educational resource for all AMS moving forward. Leveraging this critical, post-pandemic moment of a region-wide evaluation of our existing educational mechanisms, a sourcebook such as this one could be an extraordinarily effective tool for achieving educational integration across ASEAN.

## 3. Health

### 3.1. Development for the past five years up to the COVID-19 pandemic

Preceding the emergence of COVID-19, the ASEAN Health Sector developed a Post-2015 Health Development Agenda (APHDA) 2021-2025 with a region-wide vision of forging a “healthy, caring and sustainable ASEAN community” through four ASEAN Health Clusters, or AHCs. These clusters were: i) promoting healthy lifestyles, ii) responding to all hazards and emerging threats, iii) strengthening health systems and access to care, and iv) ensuring food safety (ASEAN Secretariat, 2018). Within each AHC, there is a wealth of different specific health priorities.

The outcome indicator for AHC I was an at least 5% relative reduction in premature mortality from noncommunicable diseases (NCDs)—including diabetes, cancer, chronic obstructive pulmonary diseases (COPD) and cardiovascular diseases (CVD)—as compared to the baseline in 2010 (ASEAN Secretariat, 2018). By 2020, the collective aim was for the following process indicators to be in place in all AMS: to have finalised a national multi-sectoral plan and strategies related to NCDs, including active ageing; to have baseline data available or surveys completed for trend analysis for NCDs over time; to have implemented national laws to reduce demand for tobacco and alcohol use; to have established policy/legislation to promote good nutrition; to have implemented a multi-sectoral plan of action to achieve food and nutrition security; to have finalised guidelines and capacity-building for health promotion; to have reliable data on road traffic crashes compiled at a national level in line with the Decade of Action Indicators; to have a profile report on best practices on injury prevention and safety promotion; to have guidelines on the promotion of occupational health, and to have implemented the ASEAN Policy Brief on Mental Health (ASEAN Secretariat, 2018).

This, of course, was an ambitious aim. Regarding NCDs, the data shows that in 2017, Singapore was one of the five countries with the lowest levels of premature avertable mortality from NCDs, while the Lao PDR was one of the ten countries of more than 2 million people with the highest levels of premature avertable mortality from NCDs (Martinez et al., 2020). Among high-income countries, Singapore was one of the six countries that are on track to meet the SDG target in reducing premature mortality for both men and women if they maintain or surpass their recent rates of progress (O’Hare, 2020). NCD4—an acronym for four NCDs: cancers, cardiovascular diseases, chronic respiratory diseases, and diabetes—mortality among women in Thailand is on track to achieve the UN SDG target of a one-third reduction by 2030 (Bennett et al., 2018).

With respect to tobacco, an assessment of the Framework Convention on Tobacco Control (FCTC) 2018 implementation in AMS illustrated the three challenges that ASEAN faces in controlling and reducing tobacco use: i) tackling the increasing burden of disease from tobacco use, ii) tobacco industry interference, and iii) the need for better governance based on stronger political will and commitment (Amul et al., 2018). This study, conducted by the Australian National University, noted that while more AMS are demonstrating leadership in adopting effective policies—such as increasing tobacco taxes, establishing smoke-free spaces, and imposing graphic health warnings—this enforcement was hindered by a lack of policies that protected public health measures from “tobacco industry interference” (Amul et al., 2018).

The strength of each AMS’ FCTC implementation was measured against a series of health system building blocks: leadership and governance, financing, service delivery, information, and human resources. Singapore’s level of tobacco control was consistently strong among all of these categories, while Indonesia and Myanmar

had nearly exclusively weak levels. Malaysia and Thailand's level of control was mostly moderate, but strong in particular areas, such as leadership and governance and information. The study pushed for AMS to further invest and innovate on tobacco control and the promotion of healthy lifestyles to achieve their SDG target in this particular health area.

AHC 2 was without a doubt the most severely tried health cluster with the outbreak of COVID-19 in 2020. But up until then, some progress had been made in various priority areas. Health Priority 10 on Combating Antimicrobial Resistance (AMR), for one, saw some advancements in specific national action plans (NAPs) across ASEAN intended to combat this issue. Local AMR burden was covered in the majority of NAPs, according to one study, with concerted efforts to reinforce transparency (Chua, 2021). Thailand described the NAP development and participatory process, and provided a detailed chronology on the actions taken, while Brunei and Singapore had clearly defined sections on ongoing and future actions contained within each particular objective to clarify the state of implementation at the time. However, weaknesses continued to abound even before the onslaught of the pandemic, with a lack of accountability, sustained engagement, equity, sustainability plans, international collaboration, and the integration of the environmental sector.

In terms of Disaster Health Management, or DHM (Health Priority 12), the ASEAN Regional Capacity on Disaster Health Management (ARCH Project) was implemented in February 2016 by the Japan International Cooperation Agency (JICA) and the Thai National Institute for Emergency Medicine (NIEM) (Ikeda, 2022). This project was intended to strengthen coordination on disaster health management for rapid and effective responses to disasters occurring in the ASEAN region and to enhance the capacity of each AMS in this area. The project managed to satisfy all the indicators it had set, including: establishing a coordination platform on disaster health management; developing a framework of regional collaboration practices; developing tools for effective regional collaboration on disaster health management; enhancing the academic network on DHM in AMS; and implementing capacity development activities for each AMS. After its implementation from 2016 to 2019, this project was extended for 21 more months until March 2021 due to the COVID-19 pandemic.

AHC 3 focused on promoting improved access to safe, affordable and appropriate services, technology, essential drugs and vaccines, traditional and complementary medicine, by developing national policies and regulations for ASEAN people including vulnerable groups and advocating for appropriate levels of health resources, including human resources for health (HRH) and health financing (ASEAN Secretariat, 2020e). In the realm of Mutual Recognition Agreements (MRAs), significant progress was made in establishing the relevant implementing bodies to facilitate the intra-regional mobility of healthcare professionals and the exchange of expertise and best practices (Te et al., 2018). However, the operationalisation of MRA principles has been limited, and extensive health worker mobility through the MRA principles have yet to be observed.

### **3.2. How did the COVID-19 pandemic impact progress?**

Despite the progress made after 2015, the COVID-19 pandemic exposed significant existing fissures in healthcare systems not just in ASEAN, but around the world. Within AMS, these cracks were particularly prominent in countries with weak healthcare systems, such as Cambodia, the Philippines, the Lao PDR, and Indonesia (Das and Naranayan, 2021). More than anything, in the realm of healthcare, the pandemic spurred a renewed national focus—as opposed to a collective regional agenda—among AMS, highlighting the socioeconomic disparities and cultural differences amid AMS in their different approaches to curbing the crisis.

In 2020, the OECD published a report assessing the socio-economic impacts, challenges and policy responses to the COVID-19 crisis across ASEAN. All AMS felt the impacts of their overstretched medical sector through the pandemic-induced surge in demand, and socially vulnerable groups across the region were particularly

affected, both directly by infection, as well as by the various containment measures implemented by their respective governments (OECD, 2020). The containment measures within each country, however, shed light on some different priorities between AMS, as well as illuminating their very different styles of governance. Vietnam's response to the virus outbreak was exceptionally efficient, if authoritarian: all flights to and from Wuhan were cancelled when the first case was confirmed in January 2020, strict quarantines and contact tracing measures were implemented immediately with strong actions against those who violated these rules, and accurate reporting to the media was made a priority in order to inform preventative measures and keep citizens up-to-date (OECD, 2020). Singapore—an AMS which surpasses Vietnam distinctly in terms of economic prowess but is comparable with regards to its more authoritarian style of leadership and strict legislation—employed similarly aggressive containment measures. Because of their access to more sophisticated resources, Singapore was able to use digital tools and serological tests to contain and map the transmission of cases. The country's encounter with the 2003 SARS outbreak also meant that it had already effectively implemented a series of precautionary measures, such as existing government quarantine facilities and a brand-new national centre for managing infectious diseases by 2020 (OECD, 2020). The WHO lauded both countries for the efficacy of their measures early on in the pandemic (Quynh, 2020). While other AMS such as Malaysia, Thailand, the Philippines and Indonesia also halted cross-border travelling and implemented strict lockdowns soon after, Vietnam and Singapore stood out as the first two countries to adopt such strong measures.

Although all AMS experienced strains on their national health systems after the pandemic, the extent varied greatly. Indonesia struggled greatly in 2020 with inadequate medical supplies and hospital worker deaths; for similar reasons, the Philippines Congress held a special meeting to discuss an emergency boost to the government's powers that would enable them to seize control of institutions and utilities in the public interest to support the burdened healthcare system. Malaysian nonprofits and grassroots organisations banded together to raise funds for marginalised communities that were not supported by governmental healthcare systems, while Thailand authorised the disbursement of central funds from its national emergency budget to the ministries of essential services, such as public health and transportation.

As the pandemic progressed, a greater effort was made to collectivise policy decisions in relation to COVID-19 (OECD, 2020). ASEAN emphasised the need for greater regional collaboration and the need for collective action to alleviate the virus' negative impacts in their shared statements: the ASEAN Collective Response to the Outbreak of Coronavirus Disease 2019 (ASEAN Secretariat, 2020a) and the Strengthening ASEAN's Economic Resilience in Response to the Outbreak of the COVID-19 (ASEAN Secretariat, 2020c). One result was the formation of the COVID-19 ASEAN Response Fund following a meeting with the ASEAN Economic Ministers and Japan, “a pool of financial resources to provide support to ASEAN Member States in the detection, control and prevention of COVID-19 transmission and in protecting the safety of medical professionals, healthcare workers, frontline workers, and the wider population from ASEAN Member States” (ASEAN Secretariat, 2020d). The 36th ASEAN Summit in June 2020 led to the Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic (ASEAN Secretariat, 2020b). Within the action plan's framework was a priority to strive for cooperative access to medication and vaccines within appropriate Trade-Related Aspects of Intellectual Property Rights (TRIPS) flexibility, in the name of protecting public health across the region. It also promoted a willingness to share supply sources of raw materials for the production of medicines and vaccines wherever possible.

In terms of overall progress, the incremental triumphs and achievements in regional healthcare before 2020 were severely hampered by the emergence of COVID-19. More than just impeding progress, the pandemic exposed hitherto unaddressed issues, such as the limited operationalisation of MRAs to promote health worker mobility and shared resources. More than anything, it shed light on a fundamental obstacle toward

inclusive economic integration in ASEAN: however understandable during a time of crisis, each AMS holds an overarching priority on its national interests, as opposed to a regional focus.

### 3.3. What can be done to achieve the ASEAN Economic Community 2025 goals?

The current ASEAN Work Plan highlights strategic areas of focus in the realm of health and well-being. A primary objective is promoting a more effective and responsive healthcare system through the following actions: strengthening public health security by developing national capacities in prevention, detection and responses through improved digital adoption and raising awareness regarding disease outbreaks, pandemics and disasters, and providing technical and capacity support to rural health services. Other strategic objectives and actions hone in on CLMV support, including the implementation of programmes to enhance food safety in CLMVs, strengthening the capacity of CLMV healthcare systems to address the rising prevalence of non-communicable diseases to reduce deaths, and fostering the eradication of all forms of malnutrition in CLMVs by scaling up on nutrition surveillance and developing effective mechanisms to address places of concern (ASEAN Secretariat, 2020).

As the onslaught of COVID-19 has shown, the need to strengthen the prevention of diseases and health promotion is an urgent priority, and one that will be necessary to uphold the improvements made over the last five years and progress further. As such, enhanced regional cooperation in the health sector between AMS should be brought to the fore in order to further integrate ASEAN and stimulate growth across all member states. This cooperation could take the form of knowledge sharing, particularly between high-achieving AMS and CLMV countries, and streamlining health systems across the region, both of which would lead to improved public health gains for the region's diverse populations (Hashim et al., 2012).

For the AEC to have any significant impact in improving health worker mobility, curbing the spread of diseases, and bolstering healthcare systems across all AMS, the full implementation of health-related Mutual Recognition Agreements (MRAs) is of key necessity (Te et al., 2018). For this to happen, there needs to be a meaningful commitment by policy-makers across ASEAN to align the region's trade and immigration policies in a way that places inclusive integration above competing national interests. If all AMS genuinely dedicate themselves to the AEC's vision for tackling the development divide across ASEAN through inclusive, mutually beneficial cooperation, they will be able to reap the full rewards of a health-related MRA system and collectively emerge stronger and more resilient as a region.

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# Pillar 5: A Global ASEAN

Jazreen Harith

## Author Profile



**Mr Jazreen Harith** is a Senior Research Executive at IDEAS' Economics and Business Unit. At IDEAS, he leads the ASEAN Prosperity Initiative Project 2022, and has assisted in research on the digital trade ecosystem, organised and moderated a webinar on youth perspectives on ASEAN, and been involved in regional stakeholder engagements across ASEAN. His past experience in international trade has helped to contribute to this chapter on creating a global ASEAN. His interests include (but are not limited to) international political economy, sustainable developments, and global K-Pop Diplomacy.

## 1. Introduction

ASEAN is continuously making progressive efforts in integrating the region into the global economy through ratifying Free Trade Agreements (FTAs) and comprehensive economic partnership agreements with the Republic of Korea, Australia, China, New Zealand, India, and Japan. Currently, ASEAN member states have concluded several trade agreements and partnerships which involve ASEAN member states that this section aims to explore. These include the Regional Comprehensive Economic Partnership (RCEP), the ASEAN Plus Agreements, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the US-led Indo-Pacific Economic Framework which cumulatively contribute to the expansion of the ASEAN Economic Community globally. Another important component that drives ASEAN economic integration is the Global Value Chains or GVCs which have developed into a dominant system of production for both goods and services in the East and Southeast Asian region.

## 2. Development for the past five years up to the COVID-19 pandemic

There have been many developments from the last AEC Blueprint 2015 to the current AEC Blueprint 2025. Previously, the pillar was titled “Integration into the Global Economy” which has been updated and upgraded into “A Global ASEAN” for AEC Blueprint 2025. However, the definition remains as both share similar goals to create a global ASEAN that integrates with the Global Economy through ratifying free trade agreements and expanding Global Value Chains. The question then comes down to how much progress has been made in creating a global ASEAN?

### 2.1. ASEAN Free Trade Agreements (FTAs)

“Regional agreements are like ‘pepper’ in the multilateral curry,” said Pascal Lamy, a former Director-General of the World Trade Organisation (WTO). According to Verico (2017), WTO takes regional trade agreements (RTA) with an open-regionalism nuance which includes the ASEAN Free Trade Agreement (AFTA) which complements the multilateral process. In general, trade agreements can be used as a vehicle to drive up trade relations between signatory countries. An increased intra-regional trade stimulates a positive impact on investment in the region. Verico (2017) further argues that trade agreements will enhance trade and investment integration which is vital for building a solid economic community.

The ASEAN Free Trade Agreement (AFTA) was created following the 1992 ASEAN Summit in Singapore with the objectives of creating a single market and a global production base, attracting foreign direct investment, and expanding intra-ASEAN trade and investment.

**Table 1: Concluded and On-Going Free Trade Agreements and Negotiations across ASEAN (as of 2022).**

Name	Status
Regional Comprehensive Economic Partnership (RCEP) or ASEAN+6	Entered into force 1 January 2022
Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)	Signed and in effect 30 December 2018
ASEAN-EU Free Trade Agreement	Negotiations suspended in 2009. Proposed/Under Consultation and study
ASEAN-Eurasian Economic Union Free Trade Agreement	Proposed/Under consultation and Study 2016
ASEAN-Hong Kong, China Free Trade Agreement	Signed and in effect 11 June 2019

Source: Asia Regional Integration Center <https://aric.adb.org/fta-group>

On top of the popular CPTPP and RCEP agreements, ASEAN has concluded several negotiations for the region's free trade agreement, as outlined in Table 1.0 above. Table 1.0 portrays several free trade agreements that were signed in recent years. An important development to note is that the ASEAN-EU negotiations for FTA which have particularly been suspended in 2009, are now set to resume negotiations. As reported by Arunmas (2021), ASEAN is set to resume FTA talks with the EU and will build mutual understanding through joint expert meetings on emerging trade issues, including government procurement, e-commerce, and sustainable trade and development. According to Binder (2020), during the suspension of negotiations for the ASEAN-EU FTA, the EU decided to pursue bilateral trade agreements with the individual ASEAN member states. At the same time, region-to-region cooperation continues through dialogues on work program collaboration. This is evident from the discussion at the 29th EU-ASEAN Joint Cooperation Committee Meeting where the parties discussed ways to strengthen bilateral trade and investment flows by adopting the EU-ASEAN Trade and Investment Work Programme 2022-2023 (EU, 2022). Nevertheless, it is important that all parties continue such dialogues and discussions bilaterally and negotiations can be resumed immediately that will hopefully lead to a concrete agreement to further strengthen trade and investment activities with the ASEAN community.

In addition to ASEAN-led FTAs, the Indo-Pacific Economic Framework (IPEF) provides avenues for participating countries from ASEAN such as Thailand, Malaysia, the Philippines, Singapore, Brunei, Vietnam and Indonesia to further strengthen trade and economic cooperation in the region. There are four pillars that serve as the foundation of IPEF which includes fair and resilient trade, supply chain resilience, infrastructure, clean energy, decarbonisation, tax, and anti-corruption (The White House, 2022). IPEF would serve as a prime example of an economic initiative that can supplement the existing FTAs during the COVID-19 pandemic. However, the important question to ask now is how much has COVID-19 derailed plans for a more integrated ASEAN economy?

### 3. How did the COVID-19 pandemic impact progress?

At the onset of the pandemic, ASEAN and the world's focus had shifted to prioritising healthcare products and vaccine supply for its citizens. This is given the fact that health protection and herd immunity were vital components for economic recovery especially for ASEAN, considering that it is one of the most densely populated regions in the world. However, while the journey to economic recovery remained promising

ahead of 2021, ASEAN member states faced spikes in COVID-19 cases by the third quarter of 2021, which resulted in a huge setback in ASEAN economies which were already anticipating the economic reopening.

RCEP officially entered into force on 1 January 2022 serving as the world's largest trade bloc in history by progressing FTAs within APEC with the goal to push for economic integration and shape future trade policy. One of its first signatories, Singapore, hopes to reap RCEP's long-term benefits by integrating further into the global supply chain. Signatory members to RCEP have expedited their domestic approval process during the pandemic in order to ratify the Agreement. However, out of the ten AMS that are signatories, the Philippines and Myanmar have not ratified RCEP at the time of writing. ADB(2022) argues that policymakers and economic operators for RCEP are encouraged to work further on implementation to unlock the potential of RCEP to create value beyond the network of existing FTAs in Asia. However it is important to note that even with the challenges introduced by COVID-19, the ratification of RCEP is evidence that the priority of upgrading existing FTA within ASEAN and its plus-one partners is strong.

ASEAN has continued several rounds of discussions and negotiations to upgrade the ASEAN Plus FTAs. According to the ASEAN Secretariat's MTR (2022), ASEAN continues to work on improving and upgrading its existing FTAs and Comprehensive Economic Partnership Agreements (CEPAs) with Australia and New Zealand (AANZFTA), Japan through AJCEP, and also the review of the ASEAN-India Investment and Trade in Goods Agreement has commenced. The AANZFTA for example, was upgraded to further modernise the trade agreement, reduce trade barriers and boost trade and investment which can benefit MSMEs in the region. On top of that, ASEAN Secretariat's MTR (2022) reveals that the ASEAN-Korea Trade in Goods Agreement has enforced its revision on trade facilitation and further liberalisation of products. Multiple action plans involving ASEAN plus partners have also been adopted to respond to economic and social challenges.

In terms of overall progress, ASEAN is committed towards achieving the goal of AEC Blueprint 2025, particularly on the fifth pillar which is A Global ASEAN. There are steady progress and efforts from AMS towards integrating into the global economy by ratifying regional FTAs and regional comprehensive economic partnership. This chapter also highlights the importance of RCEP that has contributed 30% of global output and trade as confirmed by the ASEAN Secretariat's MTR (2022). ASEAN continues to strengthen its position amidst the COVID-19 pandemic that has exacerbated existing challenges. ASEAN remains an open and inclusive economic region through ASEAN centrality in the global economic architecture. The question now is what can be done to achieve the end goal of the ASEAN Economic Community 2025?

#### **4. What can be done to achieve the ASEAN Economic Community 2025 goals?**

The AEC 2025 Blueprint outlines several strategic measures that act as guidance in order to achieve the goal of creating a global ASEAN. ASEAN is encouraged to develop a more strategic and coherent approach towards external economic relations with a view to adopting common positions in both the regional and economic fora. ASEAN should also continue to review and improve current and future FTAs and Closer Economic Partnerships (CEPs) in ensuring that they remain modern, comprehensive, high-quality and more responsive to the needs of businesses operating the production networks in the region. However, the focus should not only be on FTAs partners but to extend the conversation with non-FTAs Dialogue Partners as well by upgrading and strengthening trade and investment work plans. This can be done by engaging with regional and global partners to explore strategic engagement to pursue economic partnerships with emerging economies and regional groupings that share the same goals of improving individual livelihoods through economic integration. ASEAN should also support the multilateral trading system and actively participate

in regional economic for a whilst promoting engagement with regional and global institutions.

Arguably, establishing free trade agreements seems to be the best option for trade liberalisation within and beyond the borders of ASEAN. However, when free trade agreements are delayed due to ongoing negotiations or studies, ASEAN leaders should look beyond the free trade agreements and cooperate with member states on a Business-to-Business (B2B) or sectoral basis. One of the elements of the Global ASEAN pillar supports this notion which is to Enhance Economic Partnership with non-FTA Dialogue Partners by strengthening and upgrading trade and investment work programmes or plans. The experts from our stakeholder engagements are of the same opinion and suggested that we should focus on sectoral cooperation in engaging a wider range of partners. For example, ASEAN established a Sectoral Dialogue Partner to enhance economic cooperation with countries such as Switzerland and Turkey which only established a few bilateral FTAs with AMS. Nonetheless, ASEAN-Turkey and ASEAN-Switzerland Sectoral Dialogue Partnerships were introduced and institutionalised to facilitate economic cooperation and have since enjoyed considerable trade and investment relations. Through our stakeholder engagements, there was a similar proposal for member countries to look into cooperation on trade and investment that do not require an FTA. For instance, the Memorandum of Cooperation on Semiconductor and Supply Chain Resilience was concluded between the US and Malaysia which was built upon the spirit of transparency, trust and facilitation (Bernama, 2022). In this manner, the collaboration between ASEAN bloc and its plus-one partners could be expanded globally through economic partnerships in the absence of FTAs.

In a post-pandemic environment, digitalisation can be an important tool for more seamless ASEAN integration. Brende (2021) believes that digital technologies can advance progress, especially in the sustainable development goals (SDGs). However, the positive outcomes of digitalisation can only be realised if leaders from the public and private sectors take purpose-driven, concerted action to shape technology development and use. Brende (2021) further argues that trade in digital goods and services and trade over digital platforms are increasingly important components in creating a global ASEAN. This can be strengthened by having free trade agreements that can harmonise rules on taxes and duties, improve interoperability, and enable safe and efficient data flows across the ASEAN economic community. The ASEAN Agreement on Electronic Commerce is one of the ways to accelerate digital trade. This effort is evident when AMS such as Indonesia, Singapore, Malaysia, and Thailand are working together on interoperable platforms by authorising cross-border QR payments. For instance, Bank Negara Malaysia and Bank Indonesia launched the cross-border QR payment linkage which enables consumers to make retail payments by scanning the QR code (Bank Negara Malaysia, 2022). In line with the elements of the AEC Blueprint 2025 (to address the uneven digital gap), such developments may accelerate the efforts in creating an ASEAN retail payment system that is fast and seamless which can benefit individuals and businesses. Therefore, more initiatives like these should be promoted across ASEAN through agreements and frameworks to further narrow the digital divide.

In order for the ASEAN Economic Community to achieve its 2025 goals of creating a global ASEAN, it has to enable further participation in GVC. Upalat (2019) suggests that this involves creating a conducive environment for trade and investment which involves overarching policy for the business environment which includes trade and investment, competition, labour market policy, and intellectual property. On top of that, it is also important for ASEAN to establish a strong environmental, social, and governance framework. Guidelines should be formulated by ASEAN leaders to further guide AMS to revise their local laws and regulations in accordance with requirements outlined in the FTAs. Therefore, this will prepare both governments and businesses to be able to further utilise the benefits of FTAs and participate in GVCs. ASEAN should continue to leverage on its platforms in engaging potential FTA partners via policy dialogues to promote further cooperation in paving the way for a global ASEAN.

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ASEAN Business Advisory Council (ASEAN-BAC) Malaysia	Malaysia
ASEAN-Studies Centre, ISEAS Yusof Ishak Institute	Singapore
Asia Competitiveness Institute, Lee Kuan Yew School of Public Policy, National University Singapore	Singapore
ASEAN +3 Macroeconomic Research Office (AMRO)	Singapore
Center for Industry, SME, and Business Competition Studies, Trisakti University.	Indonesia
Foreign Policy Community of Indonesia (FPCI)	Indonesia
Monitoring, Surveillance, and Coordination Division, The ASEAN Secretariat	Indonesia
International Labour Organization (ILO) Regional Office for Asia and the Pacific	Thailand
ASEAN Studies Centre, Chulalongkorn University	Thailand
United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)	Thailand
Center for Economic Research and Development, Ateneo De Manila University	The Philippines
Asian Development Bank	The Philippines
Stratbase ADRI	The Philippines









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