

## ASEAN and Trade Integration

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### *Abstract:*

This paper reviews the progress in trade-related areas of ASEAN Economic Community to be established by 2015. It provides empirical evidence and qualitative analysis on how the process of trade integration worked and what could have been done for it to have worked better. Where appropriate it elaborates on forces or institutions driving the process of integration. The paper uses descriptive statistics and some off-the-shelf indicators to track progress in trade integration which is the main pillar of building ASEAN Economic Community. Second part of the paper examines the progress in building effective integration with the other trading partners. Three different but inter-related issues are analyzed: 1) ASEAN in world economy in terms of relative size, discrimination of other partners in trade, and treatment that ASEAN obtains in importing markets of developed countries compared to average of all developing countries; 2) the WTO membership and negotiation positioning of individual ASEAN members, and 3) the role of bilateral and plurilateral preferential trade agreements of ASEAN member countries and of the ASEAN as a bloc.

Keywords: ASEAN, regional trade, regional integration, trade agreements, GATS, WTO, AFTA, AFAS, ATIGA, trade facilitation, MRA.

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**Abbreviations and acronyms**

ADB	Asian Development Bank
AECB	ASEAN Economic Community Blueprint
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Area
AHS	Effectively applied tariff
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEAN+1	ASEAN + a Dialogue Partner country
ASEAN+3	ASEAN + China, Japan and the Republic of Korea
ASEAN-6	Brunei-Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand
ASEAN-10	Brunei-Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam
ASEM	Asia-Europe Meeting
ATIGA	ASEAN Trade in Goods Agreement
CEPT	Common effective preferential tariff
CLMV	Cambodia, Lao PDR, Myanmar and Viet Nam
COMTRADE	Commodity trade database of the United Nations Statistics Division
DCM	Developed country markets
DOTS	Direction of Trade Statistics
EALAF	East Asia - Latin America Forum
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EU	European Union
EU-15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom (from 1995 to 2004).
FDI	Foreign direct investment
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council also known as the Cooperation Council for the Arab States of the Gulf
GDP	Gross domestic product
G-20	Group of 20 developing countries (in WTO)
G-33	Group of 33 developing countries (in WTO)
GMS	Greater-Mekong Subregion Economic Cooperation
IAI	Initiative for ASEAN Integration
IT	Information technology

Lao PDR	Lao People's Democratic Republic
LDC	Least developed country
LPI	Logistics performance index
MDGs	Millennium Development Goals
MERCOSUR	Southern Common Market in Latin America
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
PIS	Priority integration sectors
SAARC	South Asia Association for Regional Cooperation
TRAINS	Trade Analysis and Information System
TRIPS	Trade-related aspects of intellectual property rights
UN	United Nations
VAP	Vientiane Programme of Action
WITS	World Integrated Trade Solution – World Bank software
WTO	World Trade Organization

## Introduction

ASEAN is a region of immense growth potential but is also marked by uneven results in economic, social and political development (cf. ESCAP, 2007). As shown in the recent ESCAP report (2008), convergence between members and regions is not present in many areas. Therefore efforts to deepen integration in ASEAN are not only to secure increased standard of living and prosperity for all, but for that to happen while narrowing the gaps that currently exist.

ASEAN integrative efforts from early on have been focused on building an ASEAN community supported by three pillars: political and security cooperation, economic cooperation, and socio-cultural cooperation “that are closely intertwined and mutually reinforcing for the purpose of ensuring durable peace, stability and shared prosperity in the region” (ASEAN, 2003, p.1). The last five years have witnessed various steps taken to speed up and strengthen community building: (a) bringing forward the date for meeting goals of Vision 2020 to 2015, (b) ratifying ASEAN Charter, and (c) implementing ASEAN Economic Community Blueprint while (d) blueprints for Socio-Cultural Community and Political -Security Community have been adopted.

The end goal of fostering economic integration in ASEAN is to establish an effective ASEAN Economic Community (AEC) which will, by 2015, transform ASEAN “into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital.” (ASEAN, 2008, p.5).

The ASEAN Economic Community Blueprint (AECB) is the principal document defining the scope, modalities and timeline of achieving economic integration. AECB is comprehensive and lists many specific priority actions and policies (176 in total) to be taken in four biannual periods: 2008-09, 2010-11, 2012-13, and 2014-15 (see Strategic Schedule for ASEAN Economic Community, ASEAN, 2008, pp. 30-55). At the 14<sup>th</sup> ASEAN Summit it was reported that almost 70 per cent of 126 ASEAN legal instruments related to AEC have already entered into force (Pushpanathan, 2009).

Building a regional community is understood to mean “regional integration”. Regional integration can be seen as a process through which independent states form a “regional organization in order to increase regional cooperation and diffuse regional tensions” or as a stage in such a process. Defining integration as a stage of a process towards regional integration lends itself to quantitative measurement of the outcomes of formation of integrated markets in goods, services, labour and financial/capital (such as volumes or prices). However, one can also measure if and by how much barriers, that constraint integration in area of movement of goods, services, capital, people, etc. across national borders, have been removed.<sup>2</sup>

To enable monitoring of member states in their progress towards integration one can look at their implementation of the AECB. The ASEAN Secretariat has been developing a comprehensive AEC Scorecard.<sup>3</sup> While the Scorecard would provide the best information for systematic

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<sup>2</sup> OECD (2008, Box O.1, p.26) discusses how the choice of a method of measurement depends not only on the purpose and area of integration, but very often on availability of data.

<sup>3</sup> No working document of Scorecard is available for review. Joint Media Statement of the Fortieth ASEAN Economic Ministers’ Meeting (Singapore, 25-26 August 2008) provided this information: “ASEAN has been developing an AEC Scorecard mechanism tracking the implementation of their commitments in the AEC Blueprint. The AEC Scorecard will provide a comprehensive picture of how ASEAN makes progress towards establishing the AEC by 2015.” and “...the AEC Scorecard and the Enhanced Dispute Settlement Mechanism (DSM) are the most appropriate monitoring and compliance

assessment of integration progress, in its absence it is necessary to use alternative quantitative and qualitative analyses.

This paper focuses on progress in area of trade integration within the ASEAN Economic Community and in integration of ASEAN (members) into the regional (Asian-wide) and global economy. The intra-regional integration part focuses on trade in goods, services and on trade facilitation. Second part is organized in three sections. First section reviews ASEAN in world economy in terms of relative size, discrimination of other partners in trade, and treatment that ASEAN obtains in importing markets of developed countries compared to average of all developing countries. Section two explores the WTO membership and negotiation positioning of individual ASEAN members. Section three explores on the role of bilateral and plurilateral preferential trade agreements of ASEAN member countries and of the ASEAN as a bloc. Final section concludes and draws some policy recommendations.

### **A. Progress in trade integration among member states**

The rationale behind economic integration is that by the removal of all man-made barriers to flows of produced and tradable goods and services, resources and ideas, their better allocation is achieved and therefore they are used with greater efficiency and provide greater total benefits. A single market in ASEAN, where producers will benefit from better supply or resources and ability to serve larger markets, while consumers will have enjoy greater variety and lower prices for consumption, is the basic element of economic community. It will be achieved once barriers that now restrict flows of goods, services and investment and capital as well as manpower are fully removed. AECB identifies twelve priority integration sectors (PIS) representing resource-based, manufacturing and services activities in ASEAN economies that should be focus of these reforms and to serve as a “catalyst for the overall ASEAN economic integration” (ASEAN, 2008, p.16). The following sub-section provides an overview of progress, and the remaining challenges in establishing the single market and production base in ASEAN.

#### A.1. Intra-regional vs. intra-Asian trade in goods

ASEAN-skeptics often refer to low and slow-increasing intra-ASEAN trade as a proof of integration not working. Trade integration is indeed expected to result in more trade among the members. However, that is not the objective of the integration, nor is it the best indicator of progress monitoring. Trade integration is just a means to achieve development goals set for ASEAN members, individually and collectively. Nevertheless, since intra-regional trade is also of interest, Figures 1 and 2 provide some evidence of its current level and growth.

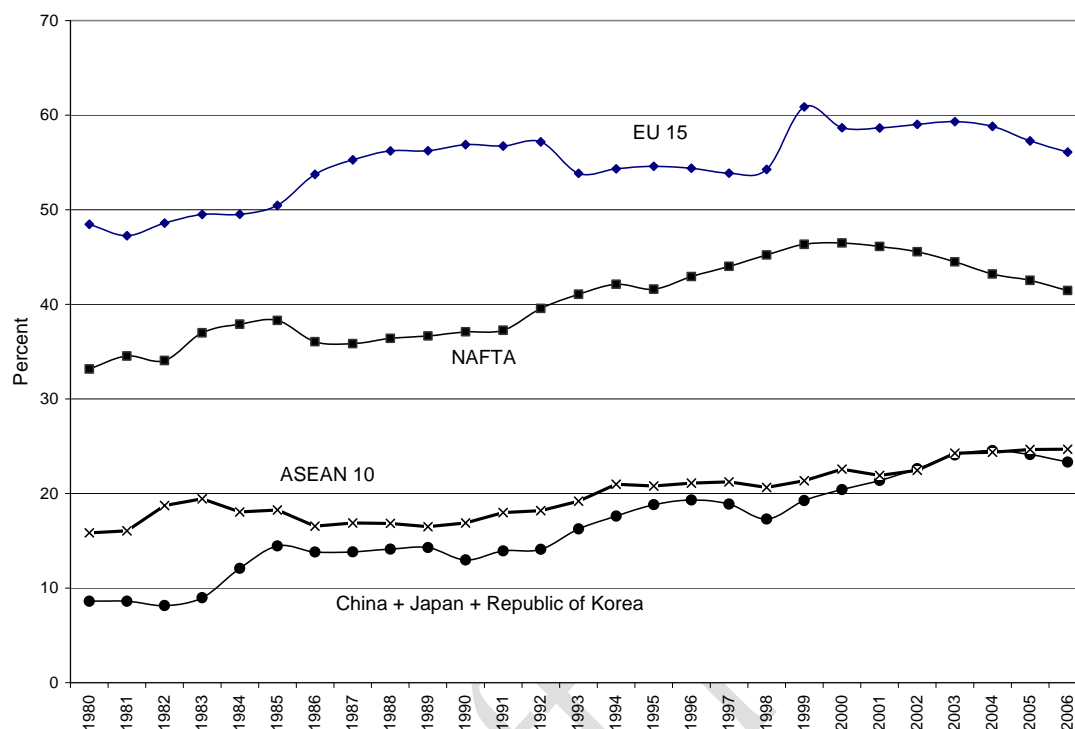
Figure 1 tracks changes of intra-regional trade for several regional blocs. While the level of intraregional trade of ASEAN remains several times lower than among members of the EU or even NAFTA, ASEAN does record stable, albeit slow, growth of this trade.

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tools for ASEAN”. It was reported that ministers agreed that the AEC Scorecard would be web-enabled with public access ‘to produce an assessment of the current situation while highlighting areas for improvement.’ Joint Media Statement of the Inaugural ASEAN Economic Community Council Meeting (Cha-am, Thailand, 27 February 2009) in turn reported that: “The Council underscored the significance of the AEC Scorecard as a monitoring tool which would enable ASEAN to capture information and produce an assessment of the current situation of AEC implementation towards meeting AEC goals. The Council discussed and agreed to submit the first AEC Scorecard and its Executive Summary to ASEAN Leaders at the 14th ASEAN Summit and looked forward to subsequent enhancements to the AEC Scorecard. “



**Figure 1: Intra-regional trade of regional blocs**

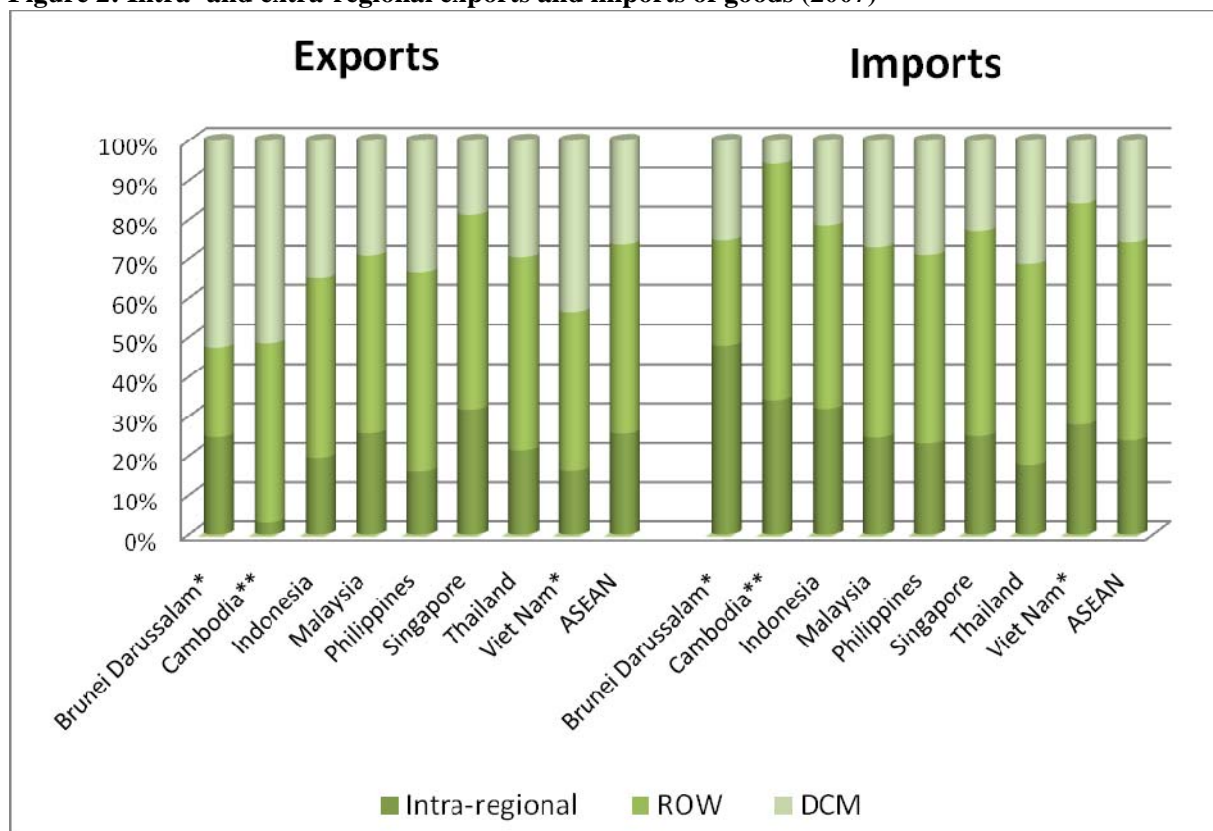


Source: calculated based on COMTRADE data downloaded using WITS, accessed 12.11.2008

Figure 2 compares intra-regional (within ASEAN) and extra-regional (with developed country markets, DCM and rest of the world, ROW) exports and imports for ASEAN members in 2007.<sup>4</sup> The data show that ASEAN on average trades about 70 per cent of its export and imports with developing countries within and outside its trading the block. This trend is more obvious post-Asian crisis and in particular after the end of dot.com crisis in 2001 when share of trade with DCM in total ASEAN trade started to decline and was replaced by faster rise in share of ROW (mostly Asian developing countries) and a slower growth in intra-regional trade (see Annex tables). Reorientation towards trading with developing countries positions ASEAN as a strong partner in South-South trade.

<sup>4</sup> At the time of preparation of this paper, 2007 trade data was still not available for some countries. See Tables in Annex for more information on intra-regional trade trends.

**Figure 2: Intra- and extra-regional exports and imports of goods (2007)**



Notes:

\*=2006; \*\*=2004

DCM stands for “Developed country markets” and includes Australia, Canada, EU, Japan, New Zealand, Norway and USA.

ROW stands for “Rest of the world” (World minus ASEAN minus DCM)

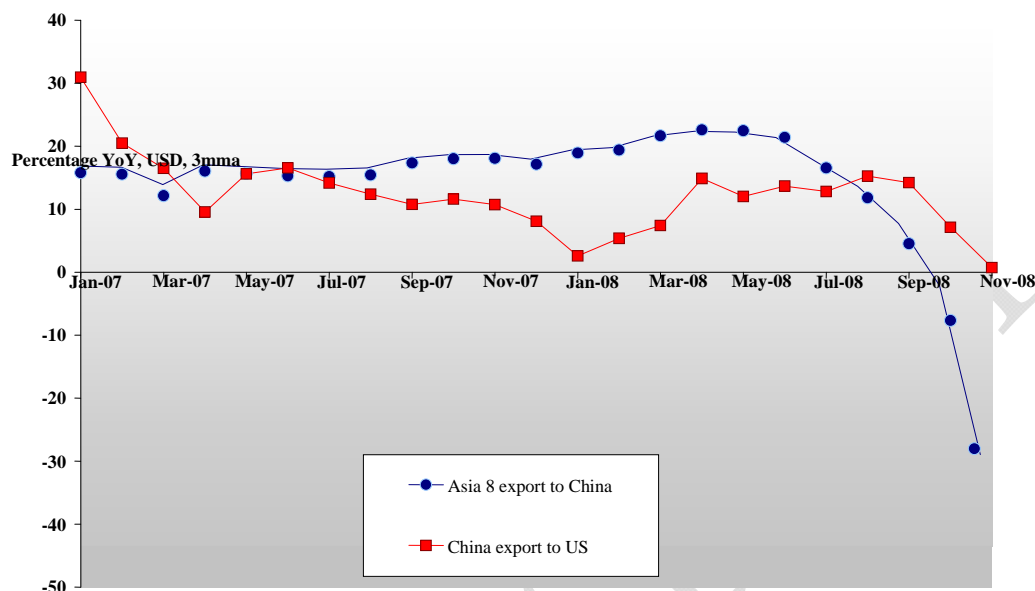
Source: Calculated from COMTRADE data downloaded from WITS

Individual ASEAN members follow similar pattern with regard to regional decomposition of exports and imports as does ASEAN on average, with exception of Brunei Darussalam and Cambodia. In case of both countries the share of DCM in total exports is much larger than in total imports. The share of intra-regional exports for Cambodia is still marginal, with more than half export being destined for DCM. In contrast, intra-ASEAN imports covers about 30 per cent of total Cambodian imports in 2007 (see Figure 2 and Annex tables and figures).

Other ASEAN members show increasing dependency on ROW markets. A lavish share of that trade is still contained to Asia (most notably with partners like China, India, and Republic of Korea) and the rich body of literature explains it by *de facto* integration linkages that have resulted in intra-Asian trade in parts and components for industrial sectors like electronics, car production, textile and clothing, etc.<sup>5</sup>

<sup>5</sup> For example, Kimura and Ando (2008), Athukorala (2008), Ozeki (2008).

**Figure 3: Factory Asia under threat? (export growth, year-on-year in per cent)**



Source: Calculated based on data from CEIC Database (accessed on 28 January 2009), see ESCAP, 2009 (E/ESCAP/65/2).

The factors that have facilitated such industry agglomerations, in addition to obvious removal of border trade barriers, including reliance on economies of scale production technologies, availability of appropriate resources including labour, capital or energy at acceptable cost, and increasingly are dependent on low set-up costs and service link costs. Because ASEAN producers have been key parts of this *de facto* integration, it was neither possible nor desirable to break it in order to divert trade toward ASEAN. Advances in deepening ASEAN integration through the AEC should also introduce more fitting policies to address behind-the-border barriers and other constraints to boost growth of intra-ASEAN trade and production. Moreover, the economic crisis that started to unravel very quickly during 2008 and signaled the contraction of demand for ASEAN (and Asian) products and services, also uncovered the weaknesses of strategy to rigidly bind national export to (international) production networks. A preliminary data on changes in exports of China (the major player in Factory Asia networks) and its major suppliers of parts and components, who mostly belong to ASEAN, is shown in Figure 3. After Asian and dot.com crises, which were followed with stronger orientation of trade of ASEAN members towards Asia, this current economic crisis may results in reorientation of trade more inward looking towards ASEAN.

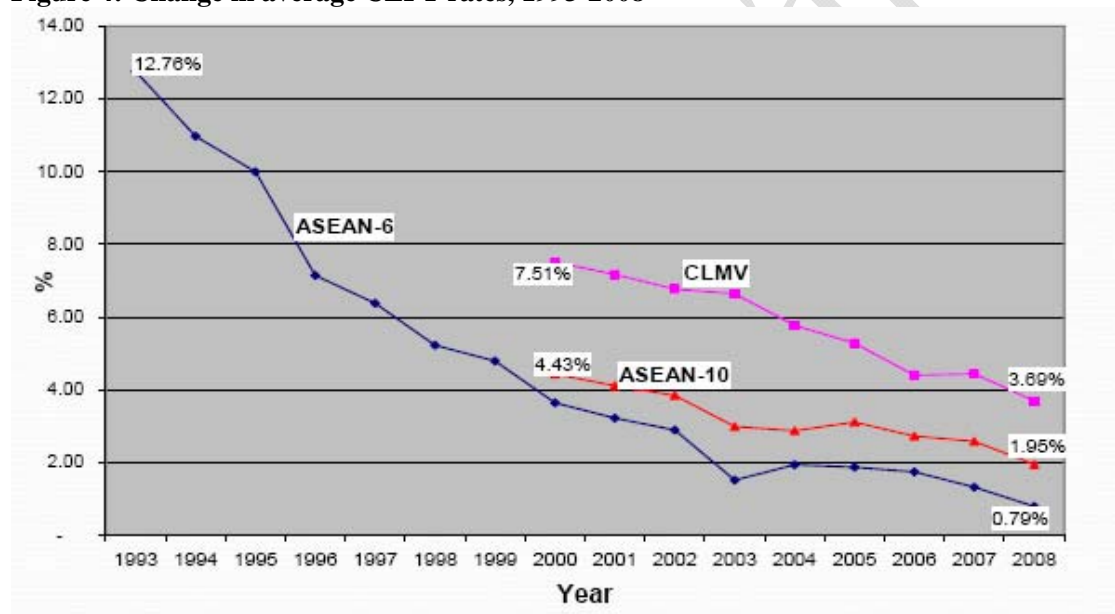
A.2. Tariffs and other barriers in intra-regional trade

The key instrument of trade integration so far in ASEAN was the removal of tariffs. In 1992 the ASEAN Free Trade Area (AFTA) was established with the signing in 1992 of the Agreement on the Common Effective Preferential Tariff Scheme (CEPT) for the ASEAN FTA. This agreement served as the instrument for scheduling tariff reductions. In addition to the general exclusion list (GEL), the agreement had a built-in temporary exclusion list (TEL) and sensitive list (SL). The

intention was to progressively move items from the SL to TEL, and for those on TEL to move out. This approach to liberalization is a “typical” ASEAN approach allowing flexibility for its members, but at the same time also allowing for free-riding. In 2003 Protocol for Elimination of Import Duties was added to push integration forward. Since implementation, applied tariffs have been reduced to planned range of 0-5 per cent for ASEAN-6, who intend to bring them down to zero by 2010. ASEAN newer members, Cambodia, Lao PDR, Myanmar and Viet Nam are expected to reach that target by 2015. Figure 4 reflects those changes in average CEPT rates from introduction of AFTA until 2008.

Figure 5 combines data on effectively applied tariffs in intra-ASEAN trade on selected Broad Economic Categories of goods with data on intra-ASEAN imports of these categories (see Annex for the categories make-up). As evident, most tariffs are in the 0-5 range and that was achieved in a relatively short period of time. Real flows need longer to adapt to these price signals, but intra-regional imports appears to be lifting off at the same time (note that a proper causality test is necessary to make a stronger claim that reduction of tariffs indeed drives growth of intra-regional imports).<sup>6</sup>

**Figure 4: Change in average CEPT rates, 1993-2008**



Source: Pushpanathan, 2009

<sup>6</sup> Furthermore, data for 2007 are incomplete and should not necessarily mean that there will be drop in imports.

**Figure 5: Intra-ASEAN imports and changes in import duties, 1996-2007**

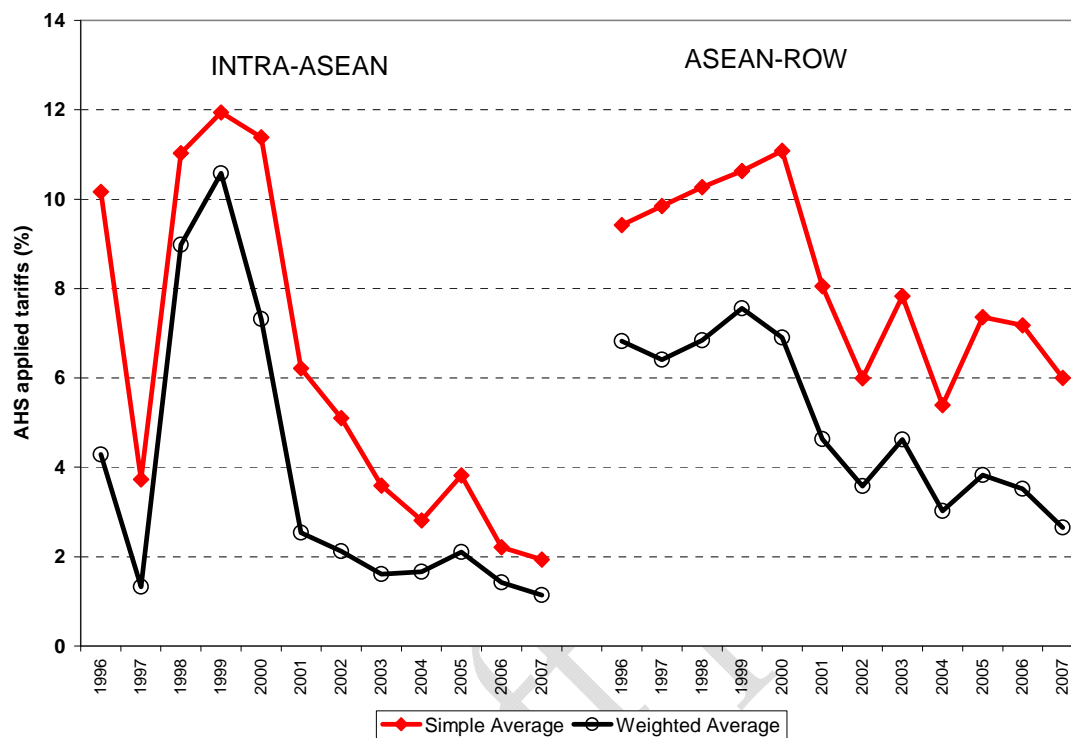


Source; Compiled from TRAINS data downloaded from WITS

Note: 2007 data not complete; categories are based on BEC (Broad Economic Categories) on HS1996 (see Annex for description); the three categories here do not represent total intra-ASEAN imports.

More details on change in tariffs are contained in Figure 6 and table 1. Figure 6 shows averaged levels of both effectively applied tariffs (a combination of preferential and most favoured nation tariffs) relevant for intra-ASEAN imports and imports from the ROW. Evidently tariffs are discriminating imports from the rest of the world, in particular in recent years. Table 1 shows the share of tariff peaks for ASEAN, but also provides average applied tariffs for individual members. The instrumental category of tariffs is AHS, and that one shows lesser variability of average rates across members than the other two categories.

**Figure 6: Trend in effectively applied tariffs for intra-ASEAN imports and imports from the Rest of the World (ROW) – in %**



Source: Compiled from TRAINS data downloaded from WITS

Note: AHS is effectively applied tariff

The above examination of tariffs confirms that the level of tariffs in ASEAN, given that it is developing countries trading group should not be an obstacle to intra-regional trade nor for deepening of the integration.<sup>7</sup> Therefore, AEC appropriately integrates many actions and policies for removing other remaining barriers: non-tariff barriers (NTBs), strengthening of trade facilitation measures, harmonization of standards, laws and regulations for broadening and deepening of integration.

At the 14<sup>th</sup> ASEAN Summit (February 2009) ASEAN leaders reconfirmed their commitment to “achieve free flow of goods in ASEAN as one of the principal means to establish a single market and production base for the deeper economic integration of the region towards the realisation of the AEC by 2015” and signed a new ASEAN Trade in Goods Agreement (ATIGA). ATIGA integrates all existing ASEAN initiatives related to trade in goods into one comprehensive framework, ensuring synergies and consistencies among those various initiatives. It contains a number of key features that are expected to enhance transparency, certainty and predictability within the ASEAN legal framework, and enhance ASEAN Free Trade Area’s rules-based system, which is of importance to the ASEAN business community. It is expected that ATIGA will be

<sup>7</sup> Soesastro, ed.(2008, p.29-30) provides a concise explanation why tariff levels do not matter (much) in regional expansion of trade.

put into force after ratification process which should not take longer than 180 days after it has been signed.

**Table 1: Applied, tariff peaks, bound tariffs and binding coverage (latest year available)**

Reporter Name	Tariff Year	Duty Type	Simple Average	Weighted Average	Max. Rate	Nbr of Total Lines	Nbr of Domestic Peaks	Nbr of Int. Peaks	Binding Coverage in %
Brunei	2007	AHS	2.93	3.81	30	35466	7564	7564	
Brunei	2007	BND	24.33	26.78	50	6840	0	6811	95.35
Brunei	2007	MFN	2.61	5.29	30	10686	2286	2286	
Cambodia	2007	AHS	12.45	9.99	35	41667	0	20496	
Cambodia	2007	BND	19.07	17.42	60	7614	0	5749	100
Cambodia	2007	MFN	14.19	10.92	35	10686	0	5833	
Indonesia	2007	AHS	6.66	4.4	150	48301	1012	7311	
Indonesia	2006	BND	37.14	33.71	210	8025	36	7774	96.59
Indonesia	2007	MFN	6.9	4.55	150	8183	225	1439	
Lao PDR	2007	AHS	5.81	8.3	40	19578	1582	2958	
Lao PDR	2007	MFN	9.71	14.18	40	10687	610	2021	
Myanmar	2007	AHS	4.12	3.87	40	35564	1218	2879	
Myanmar	2007	BND	83.36	72.81	550	1151	35	967	16.78
Myanmar	2007	MFN	5.6	4.78	40	10686	792	2077	
Philippines	2007	AHS	5.3	3.03	65	123619	6588	21843	
Philippines	2007	BND	25.65	10.95	80	4366	2	3564	66.97
Philippines	2007	MFN	6.26	3.67	65	11488	778	2620	
Singapore	2007	AHS	0	0	0	224177	0	0	
Singapore	2007	BND	6.96	2.63	10	4729	0	0	69.76
Singapore	2007	MFN	0	0	0	10686	0	0	
Thailand	2006	AHS	10.82	4.61	80	85159	3969	19387	
Thailand	2006	BND	25.7	15.96	226	4631	49	2813	75.05
Thailand	2006	MFN	11.93	5.35	80	5502	341	1453	
Vietnam	2006	MFN	16.81	14.7	150	10686	332	4460	
Vietnam	2007	AHS	11.68	10.57	150	136264	3210	43854	
Vietnam	2007	MFN	16.81	12.73	150	10686	332	4636	

Source: compiled from TRAINS data downloaded from WITS

In addition to Chapter on tariff liberalization (Chapter 2 with related Rules of origin in Chapter 3 and associated annexes), ATIGA contains chapters on Non-tariff measures, (Chapter 4), Trade Facilitation (Chapter 5), Customs (Chapter 7), Standards, technical regulations and conformity assessment procedures (Chapter 7 which refers also to relevant Mutual Recognition Agreements and Harmonization Agreements and associated annex) and Trade remedy measures (Chapter 8).<sup>8</sup>

<sup>8</sup> Text of the agreement and associated annexes available at <http://www.aseansec.org/22223.pdf>

### A.3. Trade facilitation

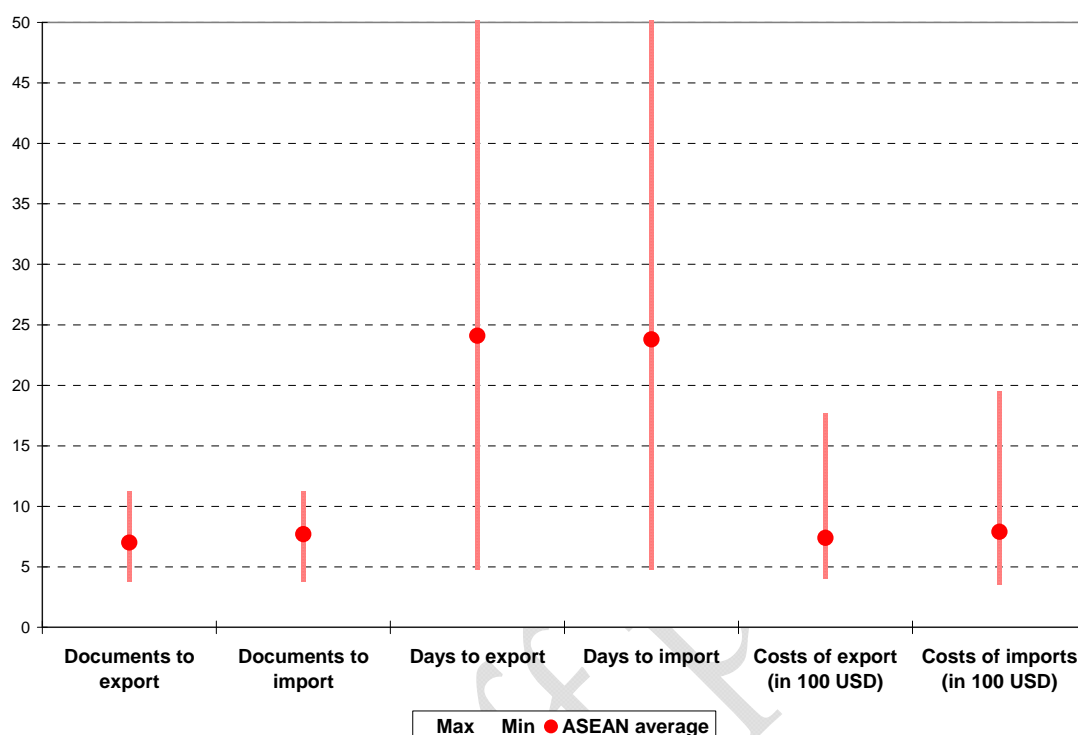
Tariffs evidently fell both intra- and extra-regionally due to trade reforms. However, these “at the border” trade policy measures are not the only, or the most significant obstacles to region’s deeper integration. There are many more problematic components of trade costs, including those non-tariff barriers discussed, which preserve or increase a wedge between producers and consumers prices of traded goods. Measures and policies that can reduce the costs of trading are thus important for both deepening ASEAN integration and its position in the international production networks. AECB groups these policies as Trade facilitation, Customs integration, ASEAN Single Window and Standards and Technical Barriers to Trade. Notwithstanding that, analysts and practitioners very often use term “trade facilitation” to describe a broad range of policies that not only directly affect exporting and importing costs (such as customs formalities, administrative procedures, and regulatory transparency associated to the trading process), but also improvements in infrastructure, institutional transparency, governance and domestic regulatory frameworks (also known as hard and soft infrastructure).

Shepherd and Wilson (2008) emphasize that trade facilitation reforms are more costly to undertake than pure trade reforms (defined as the removal or reduction of tariffs) and that many developing countries may lack resources to introduce and sustain such reforms. In context of ASEAN that implies that measures for improvements of trade facilitation must be linked to the mechanisms working towards the narrowing of development gaps and capacity building (such as IAI) as well as the comprehensive investment measures (of the new ASEAN Comprehensive Investment Agreement).

A snapshot of trading costs and characteristic of trading environment of ASEAN traders is given by Figure 7 and Table 2. Figure 7 reveals the status in ASEAN by contrasting the largest required number of documents and days for export/import, as well as costs of transport per container, to the smallest one as well as providing an ASEAN average. It is evident that there are still great variations among the ASEAN members, in particular with regard to days needed to export/import. The range of documents for export and import is between 4 and 11. This range is much wider for days needed for export and imports: while minimum is 3 (imports) and 5 (exports), the longest period is 50 days pushing the ASEAN average to around 24 days.



**Figure 7: Indicators of Trade Facilitation for ASEAN (2006-2007, latest)**



Source: calculated from data downloaded from World Trade Indicators, World Bank, 2008

Singapore is consistently ranked number one in world-wide comparisons with respect to most all components of trade facilitation so it makes sense to use it as a benchmark.<sup>9</sup> Figure A4.2 in annex provides relative positions of other ASEAN members to Singapore for the latest available period. Unfortunately, there is no good historical data for these components, so the measure of convergence in ASEAN still cannot be obtained. Nevertheless, it is evident from the figure that all members are much closer to the benchmark (Singapore) in terms of number of documents for exports and imports, than the number of days. Cambodia and Lao PDR (the later being LLDC) are most significant outliers when it comes to the time for export and import.

Cost of exports and imports per container of standardized cargo is 4 to 5 times lower for Singapore than for Lao PDR (table 2). Moreover, comparisons of “ease of doing business”, and quality of governance and institutions are further factors defining the degree to which overall business environments facilitate trade. These and some other variables are combined in a measure of overall logistics performance index (LPI). This index “reflects the overall perception of a country’s logistics based on over 1,000 responses to a survey of logistics performance evaluated in seven key subcategories. These categories include: efficiency of customs and other border procedures, quality of transport and IT infrastructures, international and domestic

<sup>9</sup> One has to note that geographic location and a variety of other issues play also a role in quality of trade logistics. Other things equal, a smaller country such as Singapore would have easier task of implementing modern trade procedures, compared to, for example, Indonesia or Philippines which are spread across thousands of islands or Lao PDR which is landlocked (communication from Maria Misovicova, Trade Facilitation Section, ESCAP).

transportation costs, ease of shipments and logistics competence, and tracking ability and timeliness of shipments. The value of the index ranges from 1 to 5, with a higher score representing a better performance” (World Bank, 2008). As expected, ASEAN members vary considerably with respect to LPI.

**Table 2: A snapshot on "trading environment" for ASEAN members**

	LPI	Costs of exports*	Cost of imports*	Ease of doing business**	WGI-Government effectiveness	WGI-Regulatory quality	WGI-Rule of Law	WGI-Control of Corruption
Singapore	4.19	416	367	1	2.20	1.85	1.82	2.30
Malaysia	3.48	432	385	24	1.02	0.672	0.581	0.378
Thailand	3.31	615	786	15	0.287	0.371	0.031	-0.256
Indonesia	3.01	667	623	123	-0.382	-0.259	-0.824	-0.774
Philippines	2.69	800	800	133	-0.012	-0.063	-0.475	-0.691
Cambodia	2.50	722	852	145	-1.010	-0.625	-1.110	-1.193
Lao PDR	2.25	1,750	1,930	164	-0.912	-1.094	-0.947	-1.048
Myanmar	1.86	..	..	..	-1.581	-2.237	-1.449	-1.683
Brunei								
Darussalam	..	515	590	78	0.708	0.963	0.319	0.240

\* USD per container

\*\* rank out of 178 in 2006-07

Source: compiled from World Trade Indicators, World Bank, 2008

#### A.4. Trade in services and services liberalization commitments

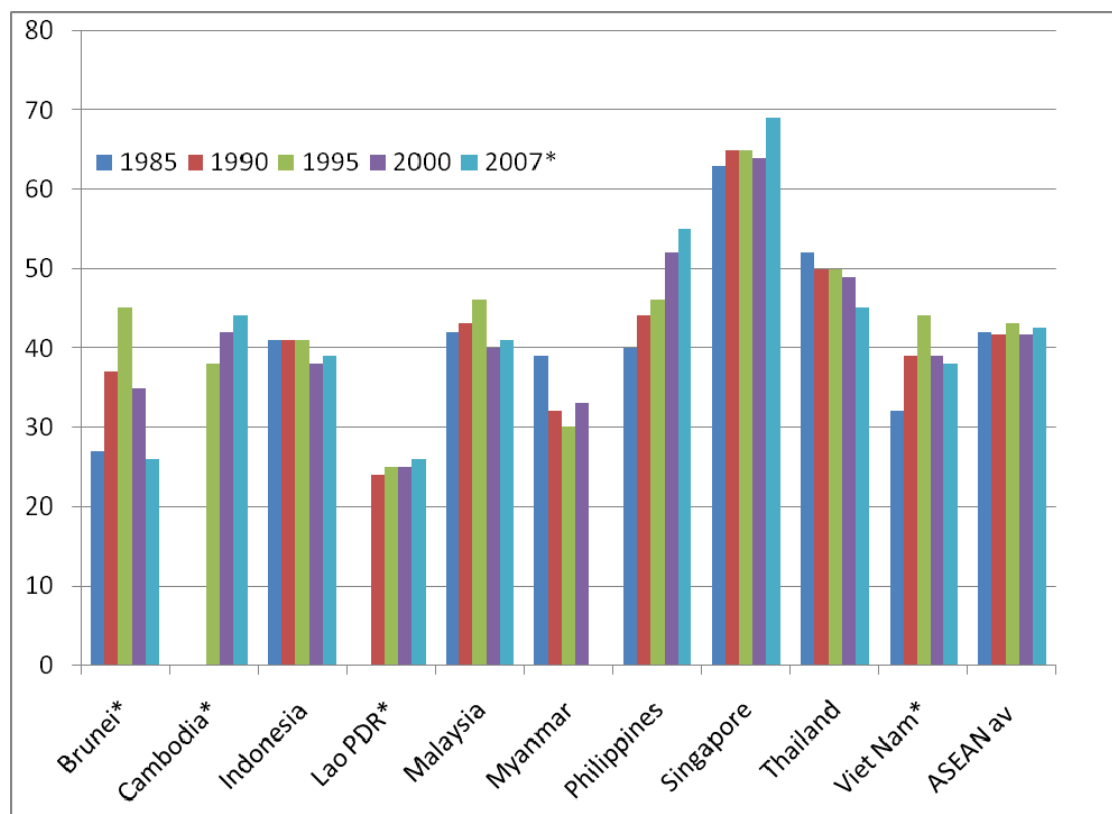
Services and trade in services have long been recognized as having a vital role in economic development, and accordingly, free flows of services have been an important pillar of emerging ASEAN economic community. The most recent data (Figure 8)<sup>10</sup> indicate that service sector contributed in 2007 more than 40 per cent of the GDP value in ASEAN on average (except Lao PDR), but that only two members have larger than 50 per cent share of services in GDP (Philippines 55 per cent and Singapore 69 per cent (World Development Indicators, 2008). At the same time, the contribution to national employment has been increasing, but only Singapore reached share of over 75 per cent employed in service sector, while the shares in Malaysia and Thailand are around 50 per cent (ILO data as quoted in Corbett, 2008).

Measuring contribution of services trade is more complicated since services, traditionally deemed as ‘non-tradables’, are traded through different channels than trade in goods and thus it is much more difficult to capture the full volume of trade in statistics. The reason for this is that most services are traded through commercial presence of service providers or a short-term movement of service providers to a territory of service consumers (so-called Mode 3 and Mode 4 of service supply in language of the General Agreements of Trade in Services, GATS). Only small share of

<sup>10</sup> Lack of reliable time series on both service activities in national economies and services trade make analysis, and monitoring of policies very difficult.

Mode 3 and Mode 4 types of services trade is captured by statistical records (trade and balance of payments) which mostly capture cross-border services trade (Mode 1) and consumption abroad (Mode 2). This is true also for services trade of ASEAN members whose imports and exports of services have been growing, but not as much as their total trade, as reflected in Table 3.

**Figure 8: Shares of services sector in GDP (in %)**



Source: Calculated based on data from World Development Indicators, 2008

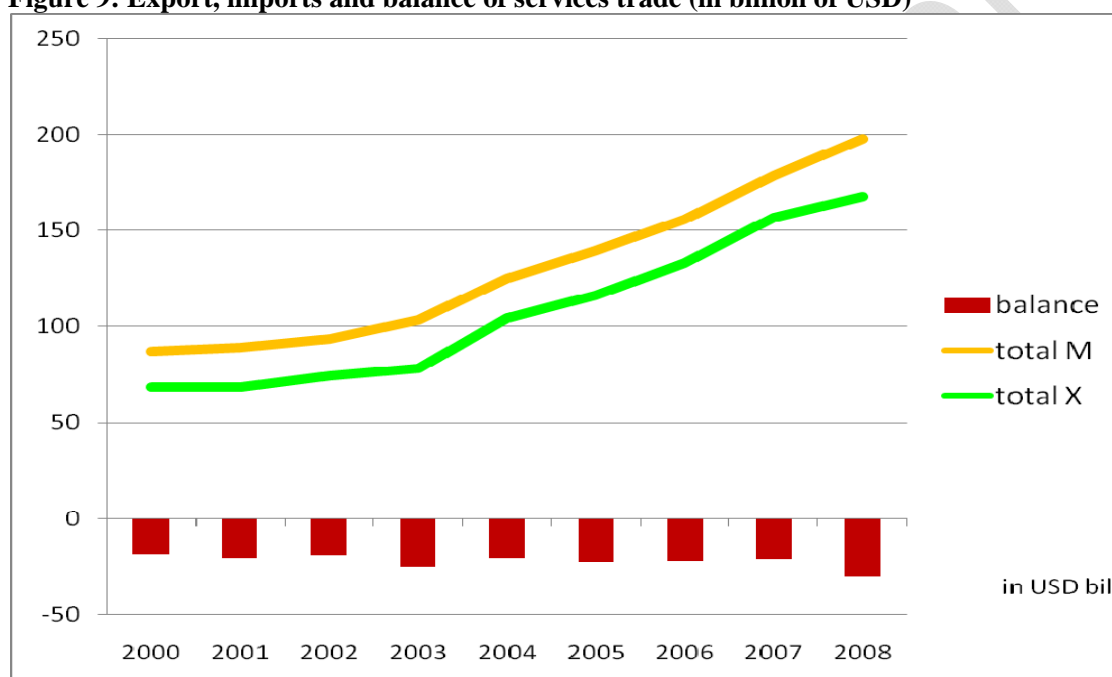
**Table 3: Relative size of services export and imports (in %)**

	Real growth in services export (%)	Real growth in services import (%)	Real growth in services import (%)	Real growth in services import (%)	Real growth in services import (%)
Cambodia	8	10	21.82	13.19	28.09
Viet Nam	7.3	6	8.21	9.43	9.72
Singapore	7.3	7.19	42.97	44.97	16.9
Indonesia	6	3.36	2.68	5.09	8.24
ASEAN av.	6	6.27	13.28	14.05	14.87
Philippines	5	5.09	6	5.09	17.08
Thailand	4	7	12.07	16.13	14.97
Malaysia	3.5	3.5	15	14.82	13.1

Source: Based on World Trade Indicators, World Bank, 2008

ASEAN’s trade in services grew strongly (Figure 9) and ASEAN accounted for US\$331 billion or 5.2 per cent of world trade in services in 2007 (Pushpanathan, 2009). Some of ASEAN members are leading world exporters of services. For example in 2005 they features in the following services: transport – Singapore; travel - Thailand and Malaysia; communication services – Malaysia, Singapore and Philippines; telecommunication – Malaysia; construction – Malaysia, Singapore and Thailand; insurance and financial services – Singapore; computer and information services – Singapore (WTO, 2007a, pp. 117-152). However, on a whole, ASEAN has been a net importer of services since early 1990s, similar to other developing countries trade blocs, and in contrast to NAFTA and EU (see Figure 9 and table A4.2 in annex). No ASEAN members provide comprehensive regionally disaggregated data on services flows, so it is not possible to analyze the trends of services trade within ASEAN.

**Figure 9: Export, imports and balance of services trade (in billion of USD)**



Source: WTO Trade Statistics Database, 2009

While various services are important for final consumption, services are much more important as intermediaries for production of goods and other services. Services liberalization is important as it enables environment for fostering international production networks by providing lower service link costs and network set-up costs (Lim, 2008). It is thus vital that services are produced efficiently and traded without restrictions. Similarly to liberalization in goods trade, ASEAN members have embarked to liberalize services trade along all three fronts: unilateral, regional and multilateral fronts.

Multilateral liberalization in services trade is based on the General Agreements on Trade in Services (GATS) from 1995. ASEAN members that joined WTO after 1995, Cambodia and Vietnam, make commitments under GATS during accession process, as will also be the case with Lao PDR. GATS had a built-in clause on a mandatory continuation on services negotiations in 2000. They started as mandated and became part of the Doha Development Agenda in 2001, the ninth multilateral negotiation Round. This Round has been in a ‘stop-go’ mode almost since it

started and the services negotiations have not performed better than other crucial areas, agriculture and non-agriculture market access.

It is however possible to assess the extent of liberalization those ASEAN members of the WTO committed so far.

Table 4 shows the indicators for all 12 service sectors available at the World Trade Indicators database of the World Bank. Complex methodology<sup>11</sup> results in a measure of liberalization for each sub-sector, which is then used to generate aggregate sectoral scores, and their simple average provides the overall GATS commitment index (last column in table 4).

To ascertain the extent of liberalization by ASEAN member under GATS one has to recall that GATS is based on a so-called “positive list” approach to liberalization, where only the sectors that are specifically scheduled by a country are subject to removal or reduction of barriers. Thus there are number of sectors for which countries score zero, meaning that they opted out of any liberalizing undertakings. Furthermore, barriers under GATS are categorized as restricting “market access” in general for any provider or only discriminate against foreign providers by not providing “national treatment” to those foreigners. Table 4 also includes average scores for those two as well.

Looking at the pattern of commitments made across sectors, one is to conclude that countries with higher income and more developed economies have opened their services sector slightly more. Newly acceding countries, Cambodia and Viet Nam have very different levels of average and sectoral undertakings, with Cambodia giving stronger commitments. In general, the scores in table 4 reflect low liberalizing commitments through GATS. It is important to realize indicators are not necessarily measures of actual level of liberalization. This applies in particular for countries like Singapore that made weak GATS commitments but in reality have undertaken significant services reforms.

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<sup>11</sup> This indicator measures the extent of GATS commitments for all 155 services sub-sectors as classified by the GATS and in the four modes of the GATS. Each entry in the country’s schedule is assigned scores based on its relative, using a criteria set out by Bernard Hoekman’s methodology, which results in 1,240 scores each being assigned a value in a range from 0 (unbound or no liberalization commitments) to 100 (completely liberalized), with an intermediate value of 50 for partial commitments.

**Table 4: GATS Commitments Index (2006/7, latest)**

Country	Market access	National treatment	Business services	Comm. services	Cons. t./engi neeri services	Distributi on services	Educ. services	Enviro n. services	Financ ial services	Health /social services	Touris m/ travel services	Recrea tional/ cultura l services	Transp ort services	Other services	All service sectors (12)
<b>Brunei Dar.</b>	3.57	5.14	7.48	13.78	0.00	0.00	0.00	0.00	15.78	0.00	0.00	0.00	2.11	0.00	<b>4.35</b>
<b>Cambodia</b>	43.68	54.48	31.58	47.35	50	66.1	32.6	75	64.29	23.40	69.12	0.00	25.29	0.00	<b>49.08</b>
<b>Indonesia</b>	11.10	7.94	6.45	13.78	21.4	0.00	0.00	0.00	29.82	0.000	66.73	0.00	3.44	0.00	<b>9.52</b>
<b>Malaysia</b>	20.51	30.30	34.63	40.02	50	0.00	0.00	0.00	44.55	23.40	54.60	46.88	7.57	75	<b>25.40</b>
<b>Myanmar</b>	5.97	3.91	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	93.75	0.00	18.83	0.00	<b>4.94</b>
<b>Philippines</b>	12.22	15.35	1.19	15.20	0.00	0.00	0.00	0.00	61.45	0.00	62.32	0.00	55.14	0.00	<b>14.08</b>
<b>Singapore</b>	21.01	24.30	27.30	20.39	75	0.00	0.00	0.00	52.42	0.00	59.01	6.25	9.04	0.00	<b>22.66</b>
<b>Thailand</b>	16.86	22.59	18.32	21.25	48.2	1.09	24.4	53.57	49.14	0.00	48.53	20.83	25.92	0.00	<b>19.73</b>
<b>Viet Nam</b>	26.11	34.19	31.25	49.13	37.5	14.6	24.7	52.68	52.30	57.05	66.18	18.23	24.99	0.00	<b>30.15</b>

Source: compiled from World Trade Indicators, World Bank, 2008

Note: GATS commitments index - all service sectors (12) - This indicator measures the extent of GATS commitments for all 155 services sub-sectors as classified by the GATS and in the four modes of the GATS. Each entry in the country's schedule is assigned scores based on its relative , using a criteria set out by Bernard Hoekman's methodology. That resulted in 1,240 scores, ranging from 0 (unbound or no commitments) to 100 (completely liberalized), with an intermediate value of 50 for partial commitments. A simple average of the sub-sectoral scores were used to generate aggregate sectoral scores (for the 12 main services sectors as classified by the GATS), modes scores, and market access and national treatment scores. The overall GATS commitment index is a simple average of the sectoral indices.

ASEAN countries chose to support unilateral and multilateral liberalization efforts through the ASEAN-wide agreement – ASEAN Framework Agreement of Services since 1995.<sup>12</sup> Additionally, several ASEAN members are implementing trade agreements with partners from within and outside region that have preferential concessions for services trade,<sup>13</sup> and ASEAN as a bloc is undertaking to negotiate liberalization in services trade with most of dialogue partners.

AFAS is modeled after GATS, thus it is a positive list based agreement, albeit it carries an ambition to provide for GATSplus openness in service sectors. Table 5 outlines the process of negotiations under AFAS and its major outcomes. The process is drive by rounds of liberalization negotiations which conclude with so-called “Protocols to Implement Package of Commitments under the ASEAN Framework Agreement on Services” as drivers of progressive liberalization of trade in services. In addition to a positive list, AFAS introduced “variable geometry” to ASEAN through so-called ASEAN minus X approach. This opened the door for members that are more eager to liberalize to go ahead with mutually exchanging concession without having to extend the same concessions to all ASEAN members. The seventh package of services commitments, concluded in February 2009, aimed to meet the targets of increased share of ASEAN equity (Mode 3), removal of restrictions on cross-border trade in services and purchases of services from abroad (Modes 1 and 2). Details on the latest package are already publicly available:<sup>14</sup> some of the members have scheduled up to 51 per cent foreign equity in priority sectors such as telecommunications and IT, health and tourism or 49 per cent in logistics and in other sub-sectors. The negotiations also included the 4<sup>th</sup> round of financial services liberalization negotiations and an agreement to conclude the 5<sup>th</sup> round by 2010. So far there were also two rounds of negotiations on air-transport services.

**Table 5: Process of services liberalization under AFAS**

Package of Services Commitments	Signed	Modality
1 <sup>st</sup> Package	Dec 1997	Request and offer approach
2 <sup>nd</sup> Package	Dec 1998	Request and offer approach
3 <sup>rd</sup> Package	Dec 2001	Common sub-sectors (if minimum 4 countries => multilateralize)
4 <sup>th</sup> Package	Sep 2004	Modified common sub-sectors/ (if minimum 3 countries => multilateralize but ASEAN minus X)*
5 <sup>th</sup> Package	Dec 2006	“
6 <sup>th</sup> Package	Nov 2007	“
7 <sup>th</sup> Package	Feb 2009	Action v) under #21 of AEC and #22 for financial sector

\* see details in the Protocol to Amend the ASEAN Framework Agreement on Services in 2003 ([http://www.aseansec.org/AFAS\\_Amendment\\_Protocol.pdf](http://www.aseansec.org/AFAS_Amendment_Protocol.pdf))

<sup>12</sup> The Agreement has not yet been notified to the WTO.

<sup>13</sup> For example, Singapore has BTAs with Australia, EFTA, Japan, Jordan, New Zealand, Panama, Republic of Korea, and the USA, and the RTAs with Brunei, Chile and New Zealand; Thailand with Australia and New Zealand, Malaysia with Japan, etc., and many more are under negotiations. Fore more details see APTIAD.

<sup>14</sup> <http://www.aseansec.org/22210.htm> and annexed schedules at <http://www.aseansec.org/22236.zip>

Source: compiled from ASEAN (2007) and ASEAN website  
(<http://www.aseansec.org/6626.htm>)

Table 6 compares the sectoral coverage of AFAS compared to GTAS commitments for the member states (except for Lao PDR). The Sectoral Coverage Ratio (SCR) is defined as the ratio of GATS + AFAS packages sectoral coverage in the nominator and the GATS sectoral coverage in the denominator (Lim, 2008). It therefore does not provide true reflection of openness but willingness of members towards committing sectors to liberalize in these two liberalization frameworks: AFAS and GATS. Countries that recently acceded to WTO (Cambodia, Viet Nam) and traditionally open markets in services (Singapore, Malaysia) have SCR closer to one as expected, while countries that are more careful to multilateral liberalization have SCR higher than three.

**Table 6: Relative sector coverage of AFAS compared to GTAS for ASEAN members**

	Sectoral Coverage Ratio*
Brunei Darussalam	3.38
Cambodia	1.21
Indonesia	1.56
Lao PDR	-
Malaysia	1.26
Myanmar	3
Philippines	3.03
Singapore	1.09
Thailand	1.35
Viet Nam	1.09
ASEAN av.	1.58

Source: Lim, 2008

Corbett (2008) summarized findings of literature comparing AFAS and GATS for ASEAN member states to reach “[t]he broad conclusion ... that AFAS is not particularly liberalising compared with GATS commitments (Stephenson and Nikomborirak, 2002; Vo and Bartlett, 2006; Roy et al, 2006; Fink and Molinuevo, 2007) and that most regional PTAs do not add significant new liberalising elements over GATS (Ochiai et al, 2007). Since AFAS does not go much beyond the GATS it is, therefore, not providing much impetus to liberalising services trade within ASEAN.”

There have been attempts in designing a services restrictiveness index and an inventory of services trade barriers for ASEAN, East Asia and APEC.<sup>15</sup> While these are still being constructed, how does one assess outcome of the liberalization attempts and remaining restrictions? It is helpful to follow the recommendation from the literature with respect to characteristics of services trade restrictions and their impacts. As indicated above, restrictions may be non-discriminatory (denial of market access) and discriminatory (denial of national treatment). Based

<sup>15</sup> For example, most recent projects by Australia Japan Research Center at the Australian National University (AJRC-ANU) projects in 2008.



on received knowledge from literature, even though larger benefits might be accruing from removal of non-discriminatory barriers, it is better to combine removing both non-discriminatory and discriminatory measures. According to McGuire (2008): “If restrictions that affect foreign and domestic service suppliers equally are reduced, all service suppliers will have the same opportunities to increase the amount of services they supply in an expanding market.”

Another avenue for deeper integration in services sectors and trade in services are the Mutual Recognition Agreements (MRAs), as they facilitate movement of professional service providers (ASEAN, 2007, p.7). There are at present seven mutual recognition arrangements that have been concluded by member states:

- Engineering Services (signed December, 2005)
- Nursing Services (signed December, 2006)
- Architectural Services (signed November 2007)
- Surveying Qualifications (signed November 2007)
- Accountancy services (signed February 2009)
- Dental Practitioners (signed February 2009)
- Medical Practitioners (signed February 2009).

## **B. Integration into the global economy**

ASEAN never saw its future in building a fortress-like regional block. One of the unique features of ASEAN as a regional integration is that its trade, financial and business links with the rest of the world have not been weakened as the intra-regional linkages strengthened. Recognition of the importance of partnerships with other economies resulted in the inclusion of measures and actions related to deepening integration into the global economy as part of the Blueprint (section D, AECB). To remain well integrated into and relevant for the rest of the world, it is not sufficient to rely on market forces which have so far treated the ASEAN region as a favourable location for investment and production. Accordingly, ASEAN is now an indispensable building block for what in the literature is known as “Asia’s factory”<sup>16</sup> It is no surprise that, in the long term, AEC will be as strong as its weakest member. Thus, effort for deeper integration must include comprehensive and coherent technical assistance frameworks to assist weaker regions within ASEAN and enable them to become (more effective) part of regional and global production networks. A crucially important characteristic of international production networks is their spanning multiple national markets. Therefore development of such production networks requires removal of barriers across multiple markets rendering bilateral trade agreements ineffective unless they are negotiated in coordinated fashion and based on common rules of origin and coherent other trade rules (cf. Soesastro, 2008, pp. 36-37).

Furthermore, institutional strengthening of ASEAN (Secretariat) is necessary, to be able to not only promote, but also monitor and enforce the implementation of the AECB. This institutional strengthening applies in particular to the ASEAN Secretariat being able to coordinate actions and policies of its member states in external economic relations, especially with respect to consolidation of bilateral trade agreements.

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<sup>16</sup> See recently published work of members of ERIA at <http://www.eria.org/research/no3.html> for more analysis and further references.

The next subsection provides an overview of ASEAN's trade and financial relations with the rest of the world, while the following two subsections discuss the trade relations of ASEAN as a block and of its participating members at multilateral and bilateral levels.

**B.1. ASEAN in world trade**

Compared with four other regional integration in Asia and globally, in terms of total GDP and population ASEAN is not large as seen in table 7 (cf. OECD, 2008, Ch. 1). However, ASEAN depends much more on trade than other regional integrations. For example, in 2006 its trade (goods and services) to GDP ratio almost 168 per cent, almost four times the ratio for South Asia Free Trade Agreement (SAFTA) and more than twice for the Asia-Pacific Trade Agreement (APTA).

**Table 7: Comparing economic size and performance**

	GDP (bill USD, current)	Population (mill)	Trade (bill USD, current)	Average GDP growth (1993-2006)*	Average export growth (1993-2006)*	Trade dependence
ASEAN	947.04	469.83	1,588.90	5.09%	8.52%	167.70%
APTA	4,555.91	2,651.66	3,152.86	8.04%	16.57%	69.20%
SAFTA	1,115.83	1,453.39	513.51	6.18%	12.69%	46.00%
NAFTA**	14,297.32	431.91	4,609.88	3.22%	5.85%	32.20%
EU25	14,393.28	462.87	11,022.02	2.26%	6.13%	76.57%

Source: WDI, World Bank

\* based on 2000 constant USD

\*\*for 2005 data

Although ASEAN's total merchandise trade doubled from USD717 billion in 1996 to USD1,455 billion in 2006, it still makes just 6 per cent of total world trade. ASEAN's intra-regional trade also doubled in that period but it is only 1.5 per cent of the world trade. However, this intra-regional trade contributes close to 18 per cent of total South-South trade (based on value of total for South-South trade in UNCTAD, 2008a, p.2).

The high growth of intra-regional trade did not divert trade from the rest of the world to the bloc and share of intra-regional in total ASEAN trade (as discussed earlier) remains at around one quarter. As illustrated earlier (Figure 4-6 and A.2 in annex), tariff barriers can hardly be blamed for this slow increase in intra-regional trade. Average tariffs applied by ASEAN member states to both intra-regional imports and imports from world fell sharply over this period. The difference between intra-regional and overall tariff protection exists, but it is not excessively discriminatory against non-ASEAN trading partners. In the latest period available 2006-07, the average MFN tariff applied by ASEAN was 4.5 per cent, down from 6.17 per cent in 2000-04. In contrast, ASEAN faced a tariff of 2.96 per cent (on average) when exporting to the world in 2006-07, which was down from 4.31 per cent in 2000-04 (World Trade Indicators, 2008).

**Table 8: Own and ROW applied tariffs of regional blocs**

	Own MFN		Rest of the world	
	2000-04	2006-07	2000-04	2006-07
ASEAN	6.17	4.5	4.31	2.96
SAARC	18.22	13.02	8.62	4.07
MERCOSUR	12.61	8.15	9.04	3.41
EU-25	4.16	3.91	5.55	3.45
NAFTA	8.25	6.22	2.28	1.14

Source: World Trade Indicators, World Bank, 2008

Note: ROW applied tariff are preferential tariffs, while own tariffs are MFN tariffs.

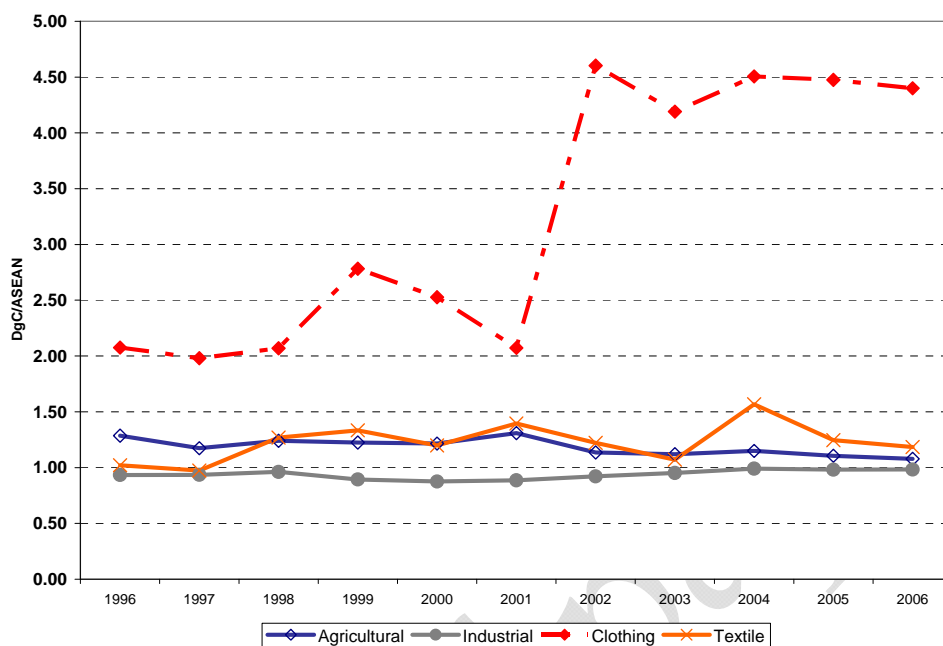
Table 8 compares ASEAN with the four regional integrations with respect to levels of own import tariffs and the tariffs faced by them in the rest of the world. With respect to own tariffs, which in the table are based on MFN applied tariffs, ASEAN is at par with more developed blocs. ASEAN faces lower protection than the other developing country blocs. This could be the result of structure of its exports since the ROW tariffs include preferential applied tariffs (their weighted average). Obviously, sectoral or product level tariffs would provide better foundation for assessing differences between barriers imposed and faced by ASEAN and other blocs. Such an analysis is in particularly relevant for a discussion on trade targets of the Millennium Development Goal (MDG) eight, namely indicators 38 and 39. Based on the data tracking the share of duty-free exports destined for the developed country markets,<sup>17</sup> Figure 10 compares ASEAN's duty-free share to the one of all developing countries in four categories of goods: agricultural, industrial goods and textile and clothing.

Only for industrial goods the ratio of ASEAN duty-free access to developed country markets is at par with the developing country group's access; for the other three categories, ASEAN appears to be discriminated against. In particular, in terms of clothing, developing countries as a group has enjoyed an increase in duty-free access over ASEAN since 2001.

Figure 11 shows the comparison of ASEAN and the developing country as a group with respect to preferential access for the same four categories of exports. Again, ASEAN enjoys more favorable treatment in terms of exports of industrial goods (which is consistent with already mentioned important role of ASEAN in international production networks), while for the other three categories of goods ASEAN's exporters faced higher tariffs than the exporters from developing countries on a whole.

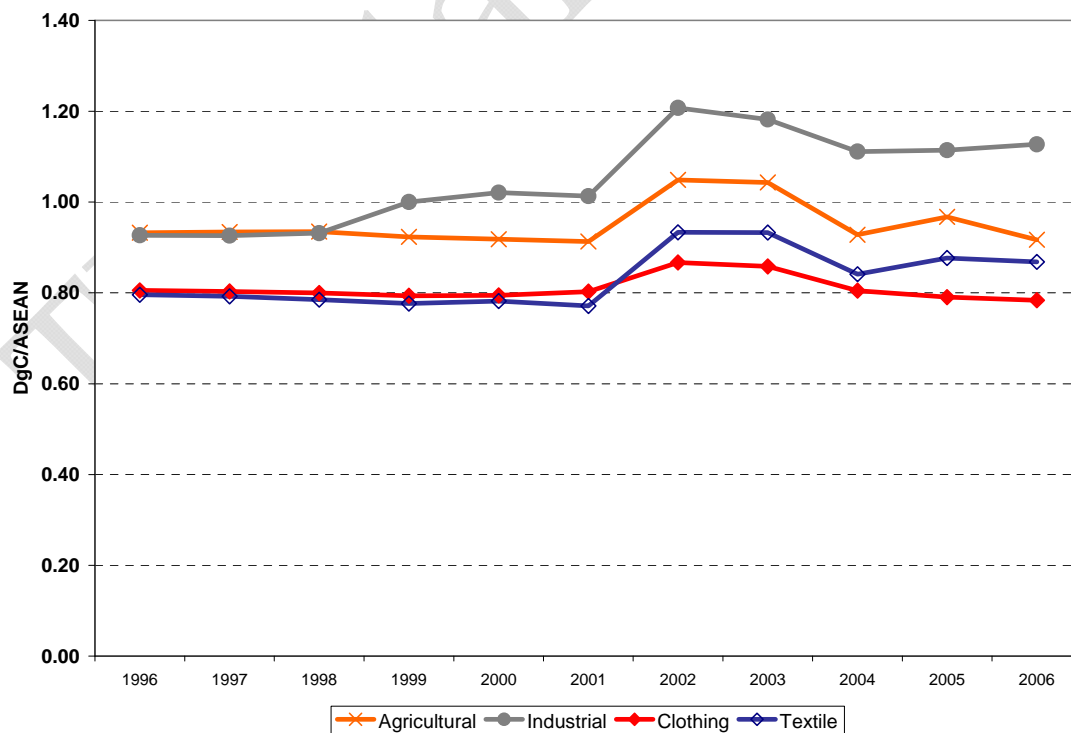
<sup>17</sup> Database available at [www.mdg-trade.org](http://www.mdg-trade.org)

Figure 10: Duty-free shares of exports for ASEAN and Developing Country group



Source: calculated from data downloaded from [www.mdg-trade.org](http://www.mdg-trade.org)

Figure 11: Relative preferential tariffs for exports of ASEAN in developed country markets

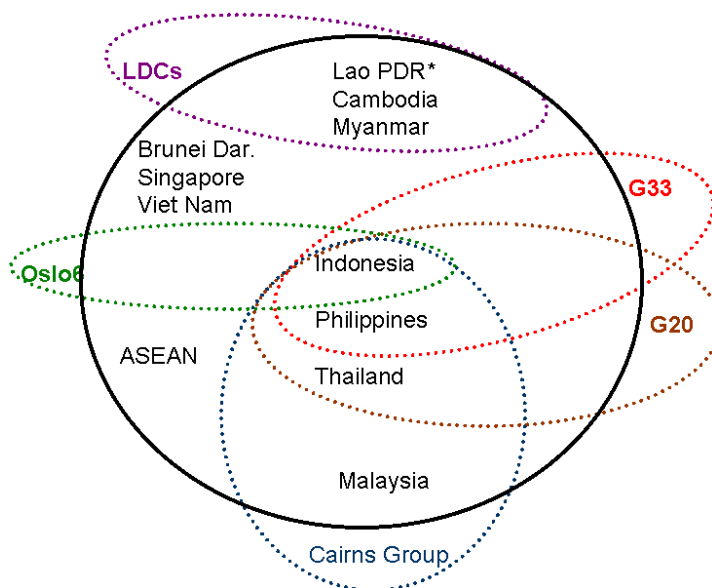


**B.2. ASEAN and its member states in WTO: in single and in many voices**

Since ASEAN is not a customs union forming a single customs territory, it cannot be a member of the WTO (as is European Union). Nine ASEAN member states are members of the WTO, and Lao PDR is in the process of accession (see annex table A.4.4 for details on membership). Even though member states have been autonomously designing their trade policies with the rest of the world, often – but not always - they have had common trade interest in multilateral trade negotiations. In such occasions, members were able to coordinate their positions and to speak with a single ASEAN voice.<sup>18</sup>

However, given the lack of ASEAN-wide common trade policies and large disparities in economic and industrial development and trade dependence of ASEAN members, it is not surprising that members occasionally chose to join other country groupings with an objective to jointly try to influence negotiations. Figure 12 illustrates this “disunity” of ASEAN members with coalitions that have been formed during the most recent Doha Development Round. In this case, Indonesia found an interest to be a member of four different groupings (G-33, G-20, Cairns Group and Oslo-6), Philippines and Thailand are members of two (different) groups while Malaysia joined only Cairns group.

**Figure 12: ASEAN member states and coalitions in the WTO**



\*WTO Observer

Source: based on WTO (2008a)

<sup>18</sup> According to WTO website, “the role of the spokesman rotates among ASEAN members and can be shared out according to topic” (WTO, 2008b). The communications are done on behalf of ASEAN WTO members without prejudice to their individual positions.

### B.3. Coherent approach towards extra-ASEAN regionalism

Given the deep problems that WTO membership encountered in negotiating the DDA, and that many developing countries lost confidence in benefits from the multilateral agreements, it is not surprising that even ASEAN members frequently claim that they are likely to benefit more from regional integration and cooperation, including other “likeminded” countries in and outside the region, than from the multilateral one.<sup>19</sup> Assessment like this is based on hopes that regional initiatives would be WTOplus, that is, they would result in deeper integration in areas of trade in services, investment flows, competition and movement of labour. The reality check however does not necessarily support these views. The apparent lack of regional coordination in RTA building, if unchecked, may give rise to overlapping memberships and increased complexity in intra-regional trade relations; examples include the APTA and the BIMSTEC, both of which include countries that are members of both ASEAN and SAFTA (WTO, 2007).

There are two tracks of extra-ASEAN regionalism: 1) trade agreements between ASEAN as a group and third parties; and 2) trade agreements between individual ASEAN members states and their partners. We comment on each one in turn.

#### *a) ASEAN+ initiatives*

As argued in ESCAP (2007), it is not only ASEAN firms that have attracted attention from the rest of the world, it is also that ASEAN as a regional integration has become an attractive partner for many other countries, and regional blocks. Fast growing developing countries from the region (China, India, Republic of Korea) and more mature industrialized economies (Australia, Japan, and New Zealand) now belong to a group of ASEAN’s Dialogue Partners with whom ASEAN regularly meets to discuss different issues of broad Asian and global interests (e.g. climate change, security, etc.). Together they work towards forming East Asian Community (also referred to as ASEAN+6). However, in line with widely accepted “culinary metaphors”, if ASEAN+6 is to be seen as lasagna (and thus as an improvement to a messy “regime” of trade rules in a noodle bowl), one has to take into account that this lasagna has layers that comprise ASEAN+1 (ASEAN-China, ASEAN-Japan, ASEAN-India, and ASEAN-Republic of Korea, ASEAN-ANZCERTA) and ASEAN+3 (ASEAN-China+Japan+Republic of Korea). The complicating factor is that these layers are not really taming the noodles because they still come with independent rules of origin and other commercial procedures.

In addition to Asian region extending to cover cooperation within the Asia-Pacific Economic Cooperation (APEC), ASEAN has deep interest in both European, and Latin American region. ASEAN is currently engaged in negotiation of trade agreements with European Union, while seven members of ASEAN are also APEC members. The linkages with these other regions, like in Asia, are broader than trade liberalization, so regular meetings with European partners through Asia-Europe Meeting (ASEM), and Latin American partners through East-Asia-Latin America Forum (EALAF) allow to further these links.

#### *b) Bilateral and plurilateral trade agreements of member states*

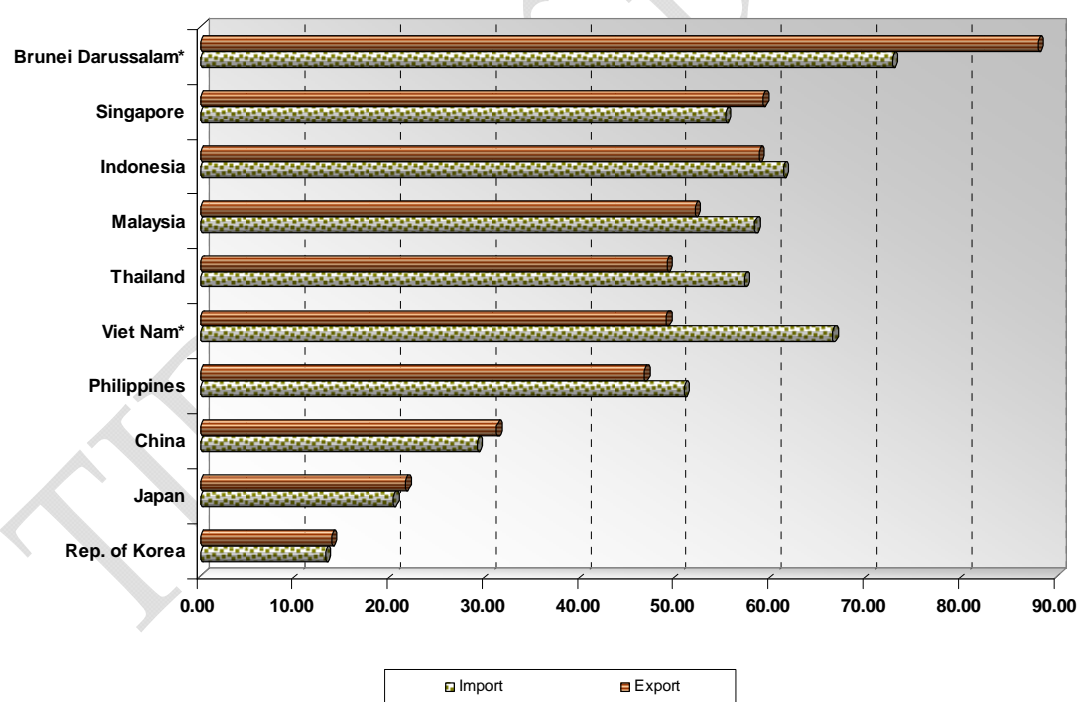
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<sup>19</sup> Most recently, for example, Indonesian Minister for trade said that “The WTO negotiations will go in parallel with and must be consistent with regionalism. We get more from regional negotiations than from the WTO.” As quoted on [www.aseanaffairs.com](http://www.aseanaffairs.com)

Member states of ASEAN have been active in pursuing bilateral and plurilateral trade agreements with other countries in and outside Asia. Figure 13 illustrates that between 50 and 80 per cent of exports and imports (on average) of selected countries in ASEAN is done with their partners in trade agreements.<sup>20</sup> These countries are implementing between 11 and 22 different RTAs, including ASEAN and ASEAN+3 related agreements (APTIAD, 2008) and have started negotiations on a number of other trade agreements. In contrast, partners from ASEAN+3 (China, Japan and Republic of Korea) are implementing lesser number of agreements and their export (import) with partners in those agreements take no more than 30 per cent (and just above 10 per cent in case of Republic of Korea<sup>21</sup>).

In general, this embrace of regionalism by member states was not accompanied by sufficient consultation among the member states. As discussed, a lack of common approach towards negotiating trade and investment agreements with extra-ASEAN members, led to a “noodle bowl” syndrome (see Annex Figure A.4.3) which made RTAs not result in high utilization of negotiated concessions. Accordingly, a newly adopted principle in the AECB, the so-called “ASEAN centrality”, is seen as important step toward consolidation of these agreements. ASEAN centrality implies that member states should take into account ASEAN interests in the formulation of their external economic relations, including bilateral trade agreements (BTAs).

**Figure 13: Share of exports with RTAs partners**



<sup>20</sup> This share does not reflect utilization rate of preferences under agreements. It is rather a ratio of the value of merchandise exports (imports) with RTA partners to the total value of merchandise exports (imports) of a country. Data for remaining ASEAN countries is not available (World Bank, 2008). Only agreements in force are accounted for.

<sup>21</sup> Should be noted that agreement with the US is not included in this calculation as it has not been ratified by either party.

Source: calculated based on COMTRADE data downloaded from WITS

Note: Number in brackets after country name indicates number of partners with whom country has RTAs in implementation (based on APTIAD, 2008)

### C. Conclusions

This paper reviewed progress in international trade related areas of ASEAN Economic Community to be established by 2015. It provided empirical evidence and qualitative analysis on how the process of trade integration worked and what could have been done for it to have worked better. Where appropriate it elaborated on forces or institutions driving the process of integration.

Analysis in this paper would have been helped by availability of recent intra-regional statistics on trade in services, foreign direct investment, official development assistance and other aid flows, movement of skilled labour and migration in general as well as preliminary versions of some reports and documents (e.g. AEC Scorecard).

In concluding, we do not repeat what has been achieved already of the emerging economic community; members of ASEAN progressed well toward their targets. Instead we focus on what could have been done differently also as lessons for less advanced integration initiatives in our region.

1. While a big part of the fundamentals for the single market are in place, it is necessary to speed up elimination of redundant tariffs on trade goods and to more effectively address non-tariff barriers, among other measures by more effective cooperation on mutual recognition of standards or adoption of common standards.
2. Proposed ASEAN Trade in Goods Agreement is a desirable improvement with respect to transparency and coherence of all intra-ASEAN trade policies, in particular with respect to transparency and the simplification of rules of origin and making them more flexible and less restrictive which will allow for *de facto* integration to become *de jure* integration. It is paramount for this Agreement to be put into force as planned.
3. Services liberalization and integration of services sectors lag behind goods market integration but that is not unique for ASEAN. Services liberalization is complex even in developed OECD economies as it mostly requires dealing with behind-the-border barriers which in turn is difficult without strong (and supra-national?) institutions. Further work on MRAs is necessary as well as encouraging members not to be complacent with ASEAN minus X based excuses not to embark on necessary reforms.
4. It is well received fact that regionalism can act as a stabilizing factor, politically, economically and financially. This may be proven for ASEAN in years to come if indeed traditional partner markets (USA and EU) go deeper into a recession. Notwithstanding that, with respect to partnerships with the ROW, ASEAN needs to develop more coherent and collective external policy to deal with the ROW and to assure its role as a core of any Asian-wide integrative frameworks. As explained in ESCAP (2007), this can only be done by further strengthening the open regionalism approach while at the same time consolidating on BTAs.
5. As stressed already in introduction to this paper, deepening of integration must be undertaken at the same time as narrowing of development gaps and gaps in terms of transposition of policies accepted as strategic actions into the national regulatory frameworks and operational plans. As policy changes always create winners and losers, to sustain reforms it is necessary to establish partnership agreements and mechanisms for consultative processes and involvement of all, stakeholders.



6. More reliance on revised dispute settlement mechanism and ASEAN Consultation to Solve Trade and Investment Issues would prevent underperformance in reform and free riding and at the same time inputs to necessary correction in policies during their implementation.

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**Annex**

Table A.4.1 Intra-regional matrix of exports and imports (2006)

Table A4.2 Exports and imports of services (USD millions)

Table A4.3 Membership of ASEAN member states in GATT/WTO

Table A.4.4 BEC and production process

Figure A4.1 MFN bound tariffs and binding coverage

Figure A4.2 Indicators for convergence in trade facilitation (relative to Singapore)

Figure A4.3 ASEAN noodle bowl

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**Table A.4.1. Intra-regional matrix of exports and imports (2006)**

**Table A4.1 Intra-ASEAN bilateral exports and imports (2006) in USD**

EXPORT 2006

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	ASEAN	DCM	World	ROW
Brunei	0	57.615	1515747	116.577	40157.06	37.714	672.258	190989.7	144035.9	74.659	1891888	3785972	7636103	1958242
Cambodia		0												
Indonesia	37557.95	103648.2	0	4344.941	4110757	137708.1	1405669	8929849	2701549	1052004	18483087	36602926	1.01E+08	45712603
Lao PDR				0										
Malaysia	345836.3	108333	4069163	5671.041	0	165293.4	2175270	24757812	8499268	1760287	41886934	50509176	1.61E+08	68273120
Myanmar						0								
Philippines	6285.496	8518.033	364023.5	451.685	2621442	7594.418		3505006	1324723	354159.3	8192204	17435283	47410117	21782630
Singapore	573645.6	459612.9	24880290	41091.47	35503818	563336.2	5080402		11301761	5457593	83861551	54664338	2.72E+08	1.33E+08
Thailand	83032.59	1251692	3335225	1022082	6664972	761778.4	2594369	8425874	0	3092037	27231062	42931807	1.31E+08	60417177
Vietnam	3908.798	780611.2	957926	94957.89	1216590	16464.51	782833.5	1658842	897550.7	0	6409684	17414121	39826223	16002418
ASEAN	1050267	2712473	35122374	1168715	50157820	1652213	12039215	47468389	24868887	11716155	1.88E+08	2.23E+08	7.59E+08	3.47E+08

IMPORTS 2006

	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	ASEAN	DCM	World	ROW
Brunei	0	57.615	1515747	116.577	40157.06	37.714	672.258	190989.7	144035.9	74.659	1891888	3785972	7636103	1958242
Cambodia		0												
Indonesia	1606933	1057.87	0	166.59	3193334	19662.77	284645.8	10034535	2983483	846802.6	18970620	13600005	60656904	28086280
Lao PDR				0										
Malaysia	345836.3	108333	4069163	5671.041	0	165293.4	2175270	24757812	8499268	1760287	41886934	50509176	1.61E+08	68273120
Myanmar						0								
Philippines	86.675	1047.194	1068980		2182962	1710.656	0	4556280	2179742	723235.1	10714044	17592032	54077990	25771914
Singapore	219538.3	112351.4	14757248	572.569	31170565	69549.94	5648503	0	8728801	1651516	62358645	57242883	2.39E+08	1.19E+08
Thailand	127106.8	34654.32	3463288	499804.8	8462139	2341368	2135727	5725774	0	906359.7	23696220	39962005	1.27E+08	63472994
Vietnam	175.382	169450.4	1012810	166618.3	1482039	64625.76	342614.8	6273866	3034381	0	12546581	8348976	44891116	23995559
ASEAN	2029157	338874.3	25304273	716313.5	46853569	2624665	11319635	42195415	24187260	5543345	1.61E+08	1.75E+08	6.57E+08	3.2E+08

Source: COMTRADE data downloaded from WITS

**Table A4.2. Exports and Imports of services (USD millions)**

	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2004</b>	<b>2006</b>	<b>2007</b>
				<i>Exports</i>		
<b>APTA</b>	8,056	20,972	79,577	145,382	222,378	268,762
<b>ASEAN</b>	9,393	29,369	68,717	104,574	130,188	157,303
<b>SAFTA</b>	4,293	7,219	20,690	44,654	82,744	95,160
<b>EU27</b>	213,569	416,424	662,133	1,085,806	1,295,687	1,549,802
<b>NAFTA</b>	59,578	173,736	349,932	409,374	494,573	559,311
				<i>Imports</i>		
<b>APTA</b>	9,382	22,089	91,889	161,583	239,793	262,960
<b>ASEAN</b>	13,748	29,025	87,591	126,054	154,459	170,313
<b>SAFTA</b>	4,852	9,735	25,029	45,412	77,486	63,542
<b>EU27</b>	188,484	386,927	640,578	984,077	1,152,974	1,343,802
<b>NAFTA</b>	58,145	155,671	285,203	370,854	438,298	477,235
				<i>Balance</i>		
<b>APTA</b>	-1,326	-1,117	-12,312	-16,201	-17,415	5,802
<b>ASEAN</b>	-4,355	344	-18,874	-21,480	-24,271	-13,010
<b>SAFTA</b>	-559	-2,516	-4,339	-758	5,258	31,618
<b>EU27</b>	25,085	29,497	21,555	101,729	142,713	206,000
<b>NAFTA</b>	1,433	18,065	64,729	38,520	56,275	82,076

Source: UNCTAD (2008)

**Table A4.3. ASEAN membership in the GATT/WTO**

Member state	Accession date	Article of Accession
Myanmar	11-Jul-48	original contracting party
Indonesia	24-Feb-50	Art XXVI:5 ( C )
Malaysia	24-Oct-57	Art XXVI:5 ( C )
Singapore	20-Aug-73	Art XXVI:5 ( C )
Philippines	27-Dec-79	Art XXXIII
Thailand	20-Nov-82	Art XXXIII
Brunei		
Darussalam	09-Dec-93	Art XXVI:5 ( C )
Cambodia	13-Oct-04	Art XII
Observer:		
Lao PDR	19-Jun-05	

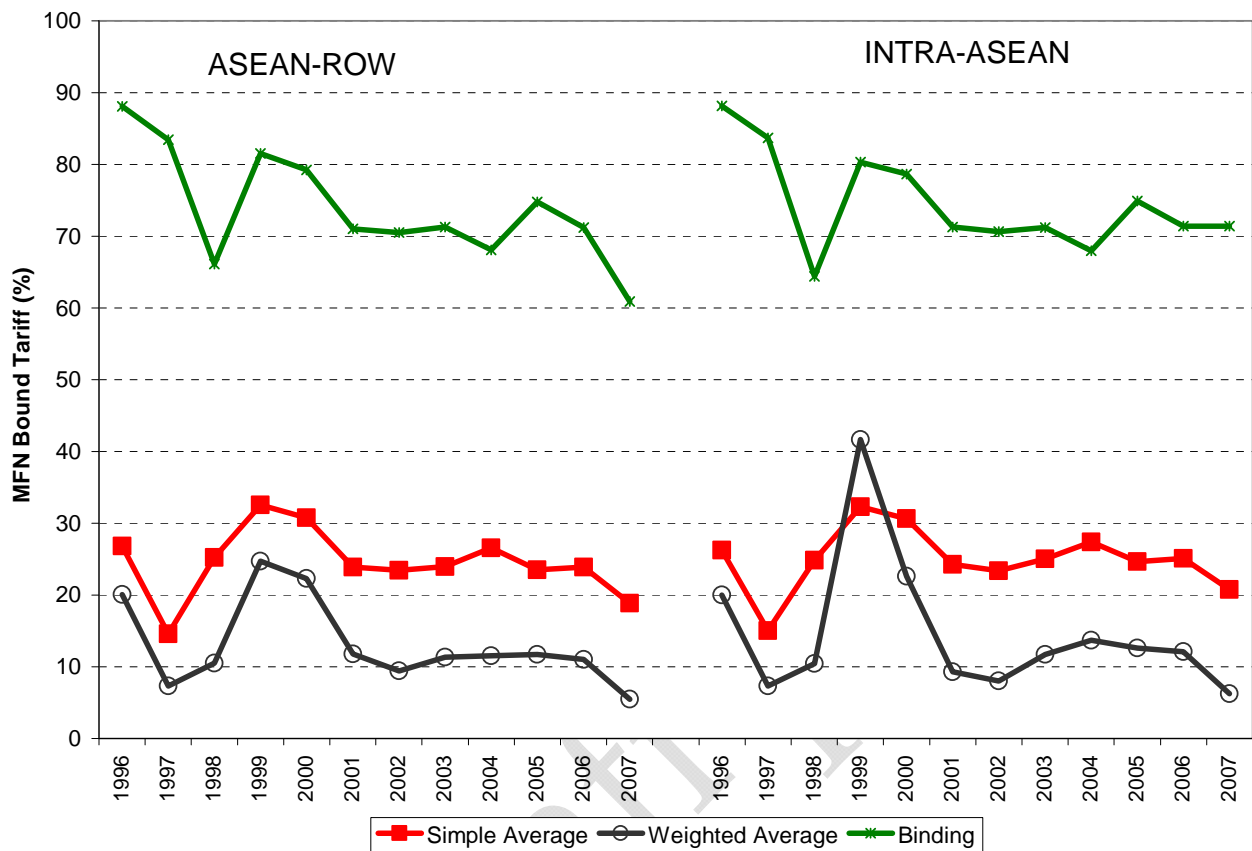
Source: WTO

**Table A.4.4 Broad economic categories and production process**

BEC Code	Item	Production process				
		Primary goods	Processed goods	Parts & components	Capital goods	Consumption good
1	Food and beverages					
11	Food and beverages, primary					
111	Food and beverages, primary, mainly for industry	○				
112	Food and beverages, primary, mainly for household consumption					○
12	Food and beverages, processed					
121	Food and beverages, processed, mainly for industry		○			
122	Food and beverages, processed, mainly for household consumption					○
2	Industrial supplies nes					
21	Industrial supplies nes, primary	○				
22	Industrial supplies nes, processed		○			
3	Fuels and lubricants					
31	Fuels and lubricants, primary	○				
32	Fuels and lubricants, processed		○			
321	Fuels and lubricants, processed, motor spirit					
322	Fuels and lubricants, processed (other than motor spirit)					
4	Capital goods (except transport equipment), and parts and accessories thereof					
41	Capital goods (except transport equipment)				○	
42	Parts and accessories of capital goods (except transport equipment)			○		
5	Transport equipment, and parts and accessories thereof					
51	Transport equipment, passenger motor cars					○
52	Transport equipment, other					
521	Transport equipment, other, industrial				○	
522	Transport equipment, other, non-industrial					○
53	Parts and accessories of transport equipment			○		
6	Consumption goods nes					
61	Consumption goods nes, durable					○
62	Consumption goods nes, semi-durable					○
63	Consumption goods nes, non-durable					○
7	Goods nes					

Source, Ozeki, 2008, p.43.

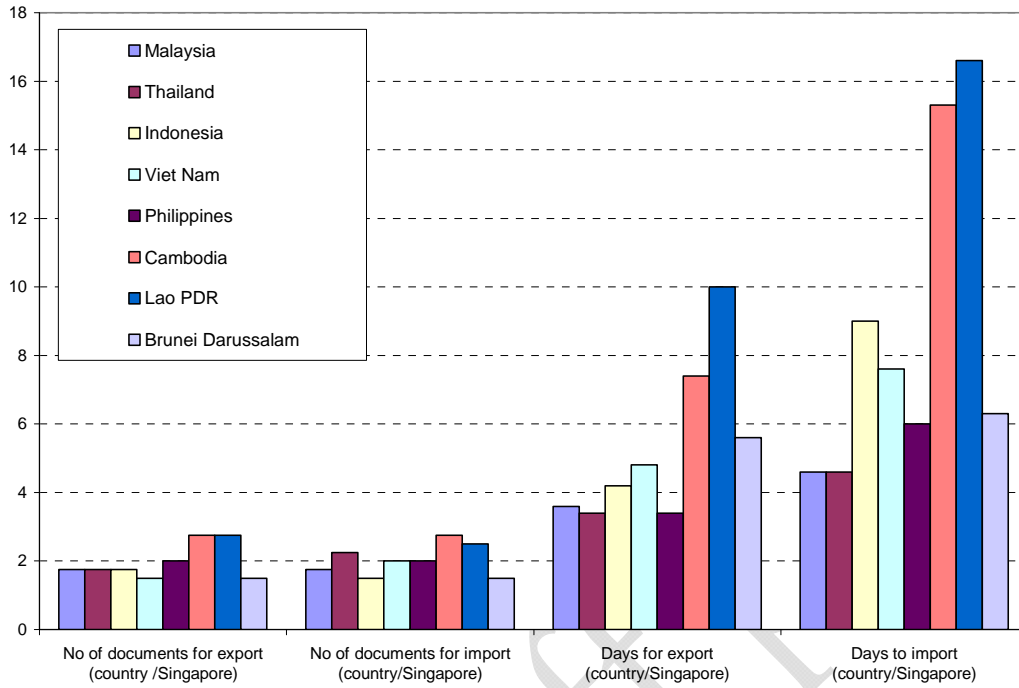
Figure A4.1. MFN bound tariffs and binding coverage (1996-2007)



Source: calculated from TRAINS data downloaded from WITS



**Figure A4.2. Indicators for convergence in trade facilitation (relative to Singapore)**



Source: calculated based on data downloaded from World Trade indicators, World Bank, 2008

Figure A4.3. ASEAN 'noodle bowl'

