



Asia-Pacific Roundtable

30 May - 1 June 2011 | Kuala Lumpur, Malaysia



PS 6 (a)

PLENARY SESSION SIX

Tuesday, 31 May 2011

Physical and Institutional Connectivity in ASEAN

Institutional Connectivity and the AEC Blueprint

by

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Institutional Connectivity and the AEC Blueprint

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25th Asia-Pacific Roundtable, Kuala Lumpur, 31 May 2011

Introduction

- Institutional Connectivity is “linking various international or regional agreements and protocols to facilitate international transactions of goods and services as well as the movement of natural persons across borders” (Master Plan on ASEAN Connectivity, p. 18)
- Enhanced institutional connectivity increases effectiveness of physical connectivity by
 - *easing the flow of goods and services* (thru elimination of barriers),
 - *reducing cost of moving goods and services* (thru transport facilitation), and
 - *raising returns to physical connectivity* (thru higher investments) (Master Plan, p. 43)
- Institutional Connectivity measures are the key AEC Blueprint measures

Key Initiatives/ Measures Towards AEC

Domestic Policy Imperative and Regional Initiatives

- (1) Elimination of tariffs
- (2) Elimination on Non Tariff Barriers (NTBs)
- (3) Liberalization of Services Industries
- (4) Trade facilitation, including ASEAN (and National) Single Window and Customs Integration
- (5) Investment Liberalization and facilitation
- (6) MRAs
- (7) Standards & conformance
- (8) Competition Policy & IPR
- (9) SME Development
- (10) Transport, Infrastructure and Logistics

Roadmaps of Priority
Integration Sectors

Pathways

- (i) Free flow of Goods
- (ii) Free flow of Services
- (iii) Free flow of direct investment
- (iv) Free flow of skilled labor
- (v) Freer flow of (financial) capital

"Glues"

- (i) Efficient transport, infrastructure and logistics
- (ii) Fair and effective competition

AEC Goals

- (1) Towards a Single Market and Production Base
- (2) Towards a Highly Competitive Economic Region
- (3) Towards a Region with Equitable Economic Development
- (4) Towards Full Integration with the Global Economy

Source: Author's; AEC Blueprint

Challenge of Institutional Connectivity in ASEAN (1)

- **Low utilization rate** of ASEAN tariff preferences (Medalla)
 - 6.5% to 8.8% of exports to ASEAN for Indonesia, Philippines and Viet Nam
 - 13.7% to 15% of exports to ASEAN for Malaysia and Thailand
- **Key Reasons:**
 - Low margin of preference between MFN and AFTA, given cost of COO
 - Threshold MOP needs to be at least 5.2 % in ASEAN to encourage use of FTA and COO (Medalla and Balboa, 2009)
 - High cost of getting COO: in most ASEAN countries, it takes around in 1-5 days, except Philippines (in a few hours)

Challenge of Institutional Connectivity in ASEAN (2)

- **Significant barriers to service trade (primarily Mode 3 or commercial presence) in ASEAN remain**
 - Legal constraints or even constitutional constraints in a few countries are bottlenecks to easing foreign equity ceilings in a number of service subsectors
- **Still wide variation in degree of investment liberalization (Urata and Ando)**
 - Most open: Singapore, Philippines and Cambodia
 - Most restrictive: Myanmar, Malaysia and Laos

Challenge of Institutional Connectivity in ASEAN (3)

- **Major concerns of business sector (based on ERIA survey on AEC measures)**
 - Need for efficient import and customs procedures as well as transparent import and customs administration
 - Need for efficient and transparent investment facilitation and ease of doing business
 - Need to harmonize standards to international standards and effective conformity assessment and certification bodies
 - Need to implement transport facilitation agreements

Investor Servicing and Facilitation

- **Speed of processing**

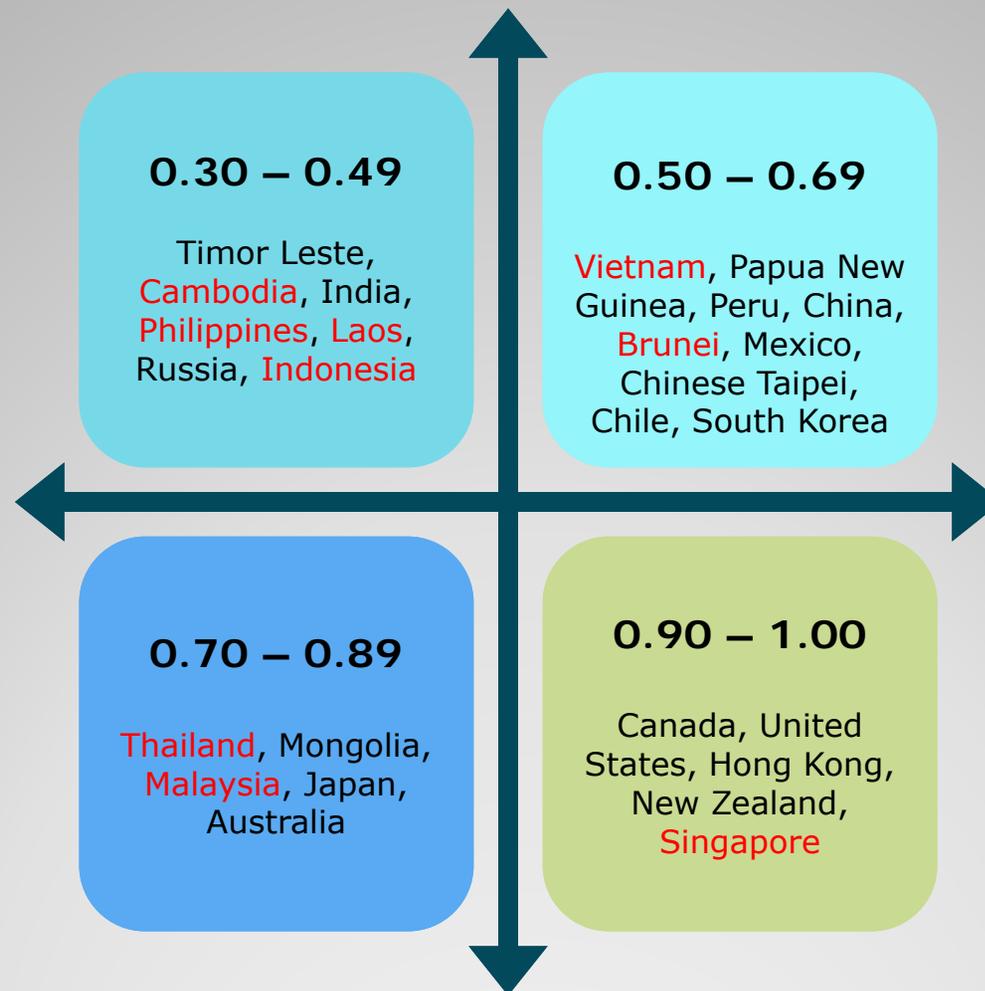
- Alright to Quick : Singapore, Malaysia
- Alright : Philippines, Thailand, Viet Nam
- Slow to alright : Indonesia
- Mainly slow : Cambodia, Laos, Myanmar

- **Key common investor concerns/problems:**

- Too much red tape/ long and complex procedures/long time
- Lack of transparency/corruption/unofficial payments
- Local permit process from local governments/unnecessary regulations of local governments
- Lack of coordination among government agencies

(NOTE: Virtually no investor processing concern in Singapore)

EASE OF DOING BUSINESS – ASEAN Vs APEC



Note: Scale 0-1 where 1 is the highest score

Source: World Bank (2010), Author's Calculation

Insights from the customs and import clearance results of ERIA Study (1)

- **Customs clearance times vary widely within a country except for Singapore** (which has fully functioning NSW). Singapore also has fastest clearance times.
 - Implication: NSW reduces the variability and average clearance time, resulting in greater certainty for business
- **Percentage of imports going through green lane varies tremendously across ASEAN countries.** Yellow and red lanes more time consuming due to document review and physical inspection.
 - Regulated imports, classification and valuation issues, and suspicious or incomplete documents are major factors
 - NSW demands clear and transparent rules and regulations, refined risk management, and more effective coordination of customs with OGAs re permits, certifications, etc.

Insights from the customs and import clearance results (2)

- **The variability in the import clearance times is determined in part by the nature of the imported product and therefore the concerned OGAs for needed import related clearance**
 - Focus on agencies with inordinately high processing time (e.g, streamlining, better coordination between agencies, computerization)
- **Significant inter-country variation, suggesting capacity constraints and need for regulatory or bureaucratic reform (e.g., Brunei, Myanmar).**
 - ASEAN Single Window process can be expected to help catalyze trade regulatory reform
 - NSW/ASW not merely IT program but governance program

Transport and Logistics (1)

- “Transport and logistics, not tariffs, are the biggest barriers to trade...by a factor of 9:1” (LMW, 2009)
- “New “sources of competitiveness: speedy, guaranteed delivery, flexibility, just-in-time, reliability: important in high value, time sensitive products and services
- **Trade costs**, in terms of cif-fob gap, **declined** in ASEAN countries since 1990s; gap with Singapore narrowed but still substantial in sea freight for Indonesia, Phil, Thailand and Viet Nam. Gap in air freight trade costs much narrower.

Transport and Logistics (2)

- Trade costs partly capture **port efficiency costs**
- **Liner connectivity** of most ASEAN countries, except for Singapore and Malaysia, **is low vis a vis China**. Implied lower shipping cost for China an added source of competitiveness for China viz ASEAN
- **LPI ratings** show *ports* and onshore infrastructure **poor to very poor** for Myanmar and VietNam, largely poor for Indonesia and to a less extent, Cambodia. None of the ports in Malaysia, Singapore and Thailand was rated poor or very poor.
- *Maritime services in Singapore high/very high*; no such rating for those in Cambodia, Indonesia, Myanmar, Philippines, and Viet Nam.
- *Transport infrastructure and services* rate **low** relative to Singapore. Roads mainly poor/very poor in Indonesia, Myanmar, Philippines and Viet Nam relative to the roads in Malaysia, Singapore and Thailand.

Key challenges: from Country Studies

- Poor and weak infrastructure, esp. in CLMV and large swaths of Indonesia and Philippines
- Congestion in ports or lack of adequately equipped alternative ports, esp in CMV, Indonesia and Philippines
- Substantial incidence of informal solicitation and payment along trucking routes in many ASEAN countries
- Low quality of domestic logistics providers
- Lack of coordination among government agencies

Table 4.2.a. Assessment of FDI Policy Regimes of ASEAN Countries

	Total score	Market access	National treatment	Screening & appraisal	Board of directors	Movement of investors	Performance requirement
<i>weight</i>	<i>1</i>	<i>0.4</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>
Brunei	0.394	0.243	0.795	0.434	0.590	0.180	0.180
Cambodia	0.242	0.140	0.183	0.622	0.000	0.750	0.117
Indonesia	0.375	0.364	0.198	0.789	0.308	0.546	0.255
Lao, PDR	0.428	0.392	0.410	0.608	0.250	0.793	0.245
Malaysia	0.438	0.320	0.833	0.250	0.397	0.562	0.227
Myanmar	0.463	0.378	0.401	0.921	0.399	0.714	0.284
Philippines	0.237	0.257	0.279	0.112	0.519	0.043	0.107
Singapore	0.175	0.197	0.143	0.154	0.356	0.074	0.091
Thailand	0.300	0.423	0.000	0.500	0.000	0.805	0.000
Vietnam	0.315	0.338	0.262	0.364	0.286	0.469	0.152
Average	0.339	0.305	0.350	0.475	0.310	0.494	0.194
Standard deviation	0.100	0.092	0.272	0.266	0.193	0.296	0.113

Source: Urata and Ando, 2010.

Towards Greater Institutional Connectivity in ASEAN: Monitoring the Key Initiatives Towards AEC

Domestic Policy

Imperative and Regional Initiatives

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Roadmaps of Priority Integration Sectors

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Source: Author's, ASEAN Economic Community Blueprint (ASEAN Secretariat).

Towards Greater Institutional Connectivity in ASEAN: the AEC Scorecard

- ASEAN currently **implementing** AEC Blueprint measures toward an ASEAN economic community by 2015.
- **AEC Scorecard** measures compliance rate of member countries on the AEC Blueprint measures as programmed.
- Drawbacks of AEC Scorecard:
 - **Yes and No yardstick** if fully implemented. Many measures involve many steps before fully implemented, however. Member countries prefer to measure rate of implementation; not only degree of compliance
 - Apparent unbalanced list of measures in the Scorecard with equal weights; some critical and difficult to implement; many more minor and easy to implement.

ERIA Study to further improve AEC Scorecard

- **ERIA Study aims to improve the current AEC Scorecard system**
 - Alternative scoring system meant to measure the rate of implementation of each (important) AEC measure
 - Questionnaires for the Study to estimate scores for each ASEAN member country on each (important) measure also help provide information on factors leading to slower implementation of some measures
 - Recommendations to raise the implementation rate and on institutionalizing a monitoring system on AEC measures implementation

Next Steps of ERIA Study

- **Design of scoring system underway**
 - Services, NTBs, investment liberalization and facilitation, trade facilitation, MRAs. standards and conformance , transport facilitation
- **Structured interviews and data/information gathering, scoring and analysis of scores:**
 - June - July 2011
- **Report of scores and analyses to HLTF & AECC**
 - August 2011
- **Stakeholders consultations to generate recommendations to raise implement measures and raise scores**
 - July –August 2011
- **Submit Full Report to AECC**
 - November 2011

Other Initiatives

- **Mid-Term Review of AEC Blueprint**
 - Emphasis on outcome, impact, and private sector perception on the effectiveness of AEC measures
 - Examines key areas in the four pillars of AEC Blueprint, not just Pillar 1 (towards a single market and production base)
 - ERIA for AEM to undertake June 2010- February 2012
- **ASEAN SME Policy Index**
 - Being proposed for consideration of ASEAN WG SMEs and AEM
- **Moving ASEAN forward into 2015 and beyond**
 - Thinking about ASEAN beyond 2015 target to establish ASEAN Economic Community
 - One Key element: deepening institutional connectivity measures towards a fully functioning single market in the 2020s.

Terima kaseh!
Terima kasih!
Thank You.



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