ADB Seminar Series on Regional Economic Integration
and the Asian International Economists Network (AIEN) Speaker Series

Services Trade and the ASEAN Economic Community

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18 July 2013, 10:30am–12:00pm
Auditorium A, ADB Headquarters

Key research questions

- What role has been (and /or should be) assigned to services (and services trade) as the ASEAN growth and development model evolves?
- How can one reconcile the region's unambiguous economic and social progress with the still highly restrictive nature of ASEAN's services regime?
- Where does ASEAN currently stand with respect to services rule-making and market opening?
- What are the strengths and weaknesses of ASEAN's services trade regulation architecture?
- What interaction (in legal and policy terms) is there between the internal and proliferating external processes of services trade liberalization in the region?
- Does ASEAN form an optimal regulatory convergence area likely to sustain the creation of an integrated regional market for services?
- What forms of regulatory convergence, variable geometries and institutional strengthening will be needed to meet the AEC objectives?
- What lessons can ASEAN draw from the European experience in creating a single market for services?

Contextual considerations

- ASEAN's growth model has to date primarily centered on manufactured export-led growth in a world of fragmented supply chain production.
- The region's manufacturing prowess could not have occurred without sustained, concomitant, improvements in the supply of a number of key trade facilitating services.
- Much of this appears to have been supplied through unilateral benevolence rather than through concerted (negotiated) collective action.

Contextual considerations

- As in China, growth rebalancing within ASEAN will require deep structural shifts towards consumption-based growth. This will place added pressure on services as an engine of wealth creation, hence require a region-wide focus on nurturing sustained improvements in service sector productivity levels (K and L).
- The service economy will need to respond to the demands of a more assertive middle class.
- In helping a number of more advanced ASEAN nations avoid the “middle income trap”, services will need to support the shift to higher value added manufacturing, sustain continued improvements in human capital, nurture product and process innovation and generate new sources of export earnings, including in services.

Contextual considerations (2)

- The demographic transition under way and to come will place heavier burdens on the need for adequate safety nets and a range of services with public good characteristics
- Some of the above trends are perhaps less salient in the region's poorer member (Cambodia, Lao PDR and Myanmar, and to some extent Vietnam), where greater scope will continue to exist for some time for continued inter-sectoral shifts from agriculture to manufacturing, with services in a supporting, intermediate, role.

A few facts to ponder

- ASEAN’s share of world services trade has been on an upward trend over the past decade, rising from 4.6% in 2000 to just over 8% in 2012.
- 6 ASEAN Members - Singapore, Malaysia, Thailand, Indonesia, the Philippines and Vietnam - ranked in the top 40 exporters of commercial services in 2012.
- If Singapore’s services exports are excluded, the region’s global export share has been stagnant, suggesting weak overall competitiveness gains in much of the region.
- ASEAN services trade remains highly concentrated, with Singapore (51%), Malaysia (16%) and Thailand (15%) accounting for four-fifths (82%) of ASEAN’s services exports. This level is unchanged from 2000.

More facts to ponder

- The services trade agenda consists wholly of behind the border, NTM-like, regulatory challenges. The scope for trade facilitating regulatory convergence is not facilitated by the region's acute disparities, with a 2010 per capita GDP gap of 61.4 between Singapore and Myanmar (45.1 in PPP terms)
- Excluding Singapore however, the case for an ASEAN regulatory convergence club is more easily made, with a per capita GDP gap lower than that currently obtaining within the EU-27.
- But a lot remains to be done to ratchet up good governance, pro-competitive performance throughout the region.
- A cursory glance at selected "Doing Business" and other indicators makes for somewhat sobering reading.

ASEAN Member / Indicator	Brunei Darussalam		Cambodia		Indonesia		Lao PDR		Malaysia		Philippines		Singapore		Thailand		Vietnam	
	Score (1-100)	World Rank (1-141)	Score (1-100)	World Rank (1-141)	Score (1-100)	World Rank (1-141)	Score (1-100)	World Rank (1-141)	Score (1-100)	World Rank (1-141)	Score (1-100)	World Rank (1-141)	Score (1-100)	World Rank (1-141)	Score (1-100)	World Rank (1-141)	Score (1-100)	World Rank (1-141)
Institutions	**73.5**	**28**	**40.7**	**113**	**25.4**	**139**	**29.6**	**138**	**63.5**	**55**	**34.6**	**132**	**92.5**	**8**	**48.6**	**95**	**40.9**	**112**
Government Effectiveness	64.2	34	19.3	122	35.8	80	16.2	130	69.8	28	49.7	114	100.0	1	43.2	62	32.8	85
Regulatory Environment	87.2	22	53.4	106	19.0	139	23.6	137	66.2	70	50.4	116	97.5	5	47.1	120	53.0	109
Business Environment	61.6	39	26.8	116	14.8	132	28.7	112	59.7	44	14.8	133	98.5	1	55.1	59	30.4	106

ASEAN Member / Indicator	Brunei Darussalam		Cambodia		Indonesia		Lao PDR		Malaysia		Philippines		Singapore		Thailand		Vietnam	
Trade Infrastructure	**38.3**	**52**	**23.0**	**113**	**30.5**	**80**	**17.4**	**133**	**44.1**	**41**	**33.8**	**69**	**60.6**	**9**	**36.9**	**60**	**32.5**	**75**
ICT	53.0	35	11.8	132	27.2	86	11.6	134	51.9	38	29.2	80	84.1	4	32.3	75	28.2	83
General infrastructure	38.3	79	21.3	134	36.4	67	38.9	57	41.6	40	28.2	112	56.3	14	39.4	51	41.5	41

ASEAN: Global Competitiveness Index Rankings, 2006-13 (out of 144 countries)

ASEAN Member	Ranking 2012-2013	Ranking 2006-2007	Δ
Brunei Daruss.	28	39	+11
Cambodia	85	105	+30
Indonesia	50	54	+4
Lao, PDR	n.a.	n.a.	n.a.
Malaysia	25	19	-6
Myanmar	n.a.	n.a.	n.a.
Philippines	65	75	+10
Singapore	2	8	+6
Thailand	38	28	-10
Vietnam	75	64	-9

Logistics Performance Index (LPI) Rankings, 2007-12 (out of 155 countries)

Asean Member	2012 Ranking	2012 LPI Score	2007 Ranking	2007 LPI Score	Δ
Cambodia	101	2.56	81	2.50	-23
Indonesia	59	2.94	43	3.01	-16
Lao, PDR	109	2.50	117	2.25	+8
Malaysia	29	3.49	27	3.48	-2
Myanmar	129	2.37	147	2.86	+18
Philippines	52	3.02	65	2.69	+13
Singapore	1	4.13	1	4.19	0
Thailand	38	3.18	31	3.31	-7
Vietnam	53	3.00	53	2.89	0

Global Innovation Index Rankings, 2013 (out of 142 countries)

Country	Ranking
Brunei Daruss.	74
Cambodia	110
Indonesia	85
Lao, PDR	n.a.
Malaysia	32
Myanmar	n.a.
Philippines	90
Singapore	8
Thailand	57
Vietnam	76

ASEAN: Human Development Indicator Rankings, 2012

(Out of 187 countries)

Country	Ranking
Brunei Daruss.	33
Cambodia	139
Indonesia	124
Lao, PDR	138
Malaysia	61
Myanmar	149
Philippines	112
Singapore	26
Thailand	103
Vietnam	128

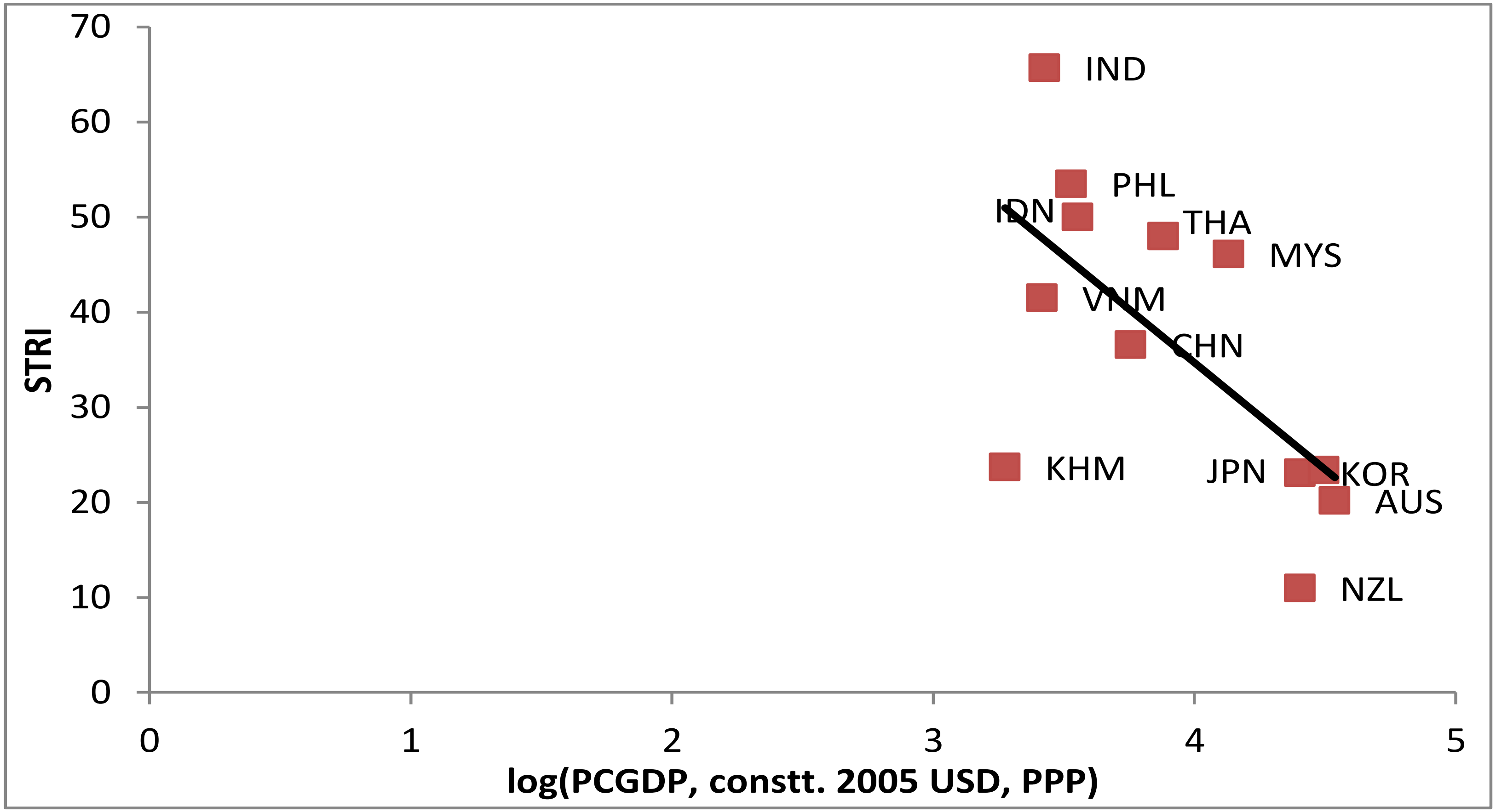
ASEAN: Corruption Perception Index 2012 (out of 176 countries)

Country	Ranking
Brunei Daruss.	46
Cambodia	157
Indonesia	118
Lao, PDR	160
Malaysia	54
Myanmar	172
Philippines	105
Singapore	5
Thailand	88
Vietnam	123

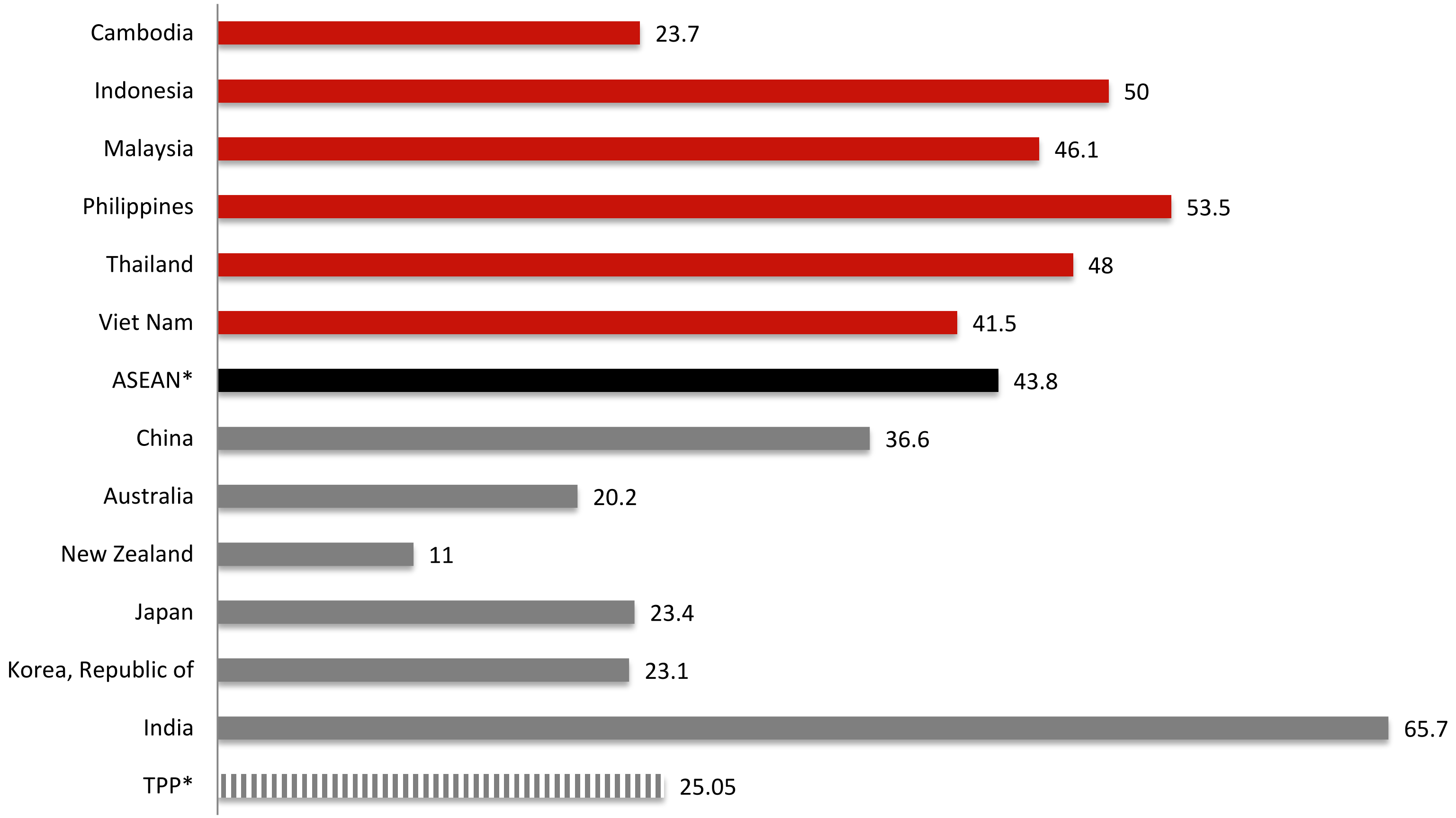
A still very restrictive policy stance

- The World Bank's recently released Services Trade Restrictiveness Index (STRI) database paints a generally unflattering picture of ASEAN's effective (i.e. applied) regulatory treatment of services.
- Considering the region's weak (often *status quo* minus) level of bound commitments under the GATS, AFAS and some of its PTAs with third parties, such results suggest that considerable room exists for deeper, competition-enhancing, reforms in services markets.
- An important caveat: the World Bank data does <u>not</u> include Singapore, arguably the most liberal ASEAN member accounting for 51% of the region's services exports.

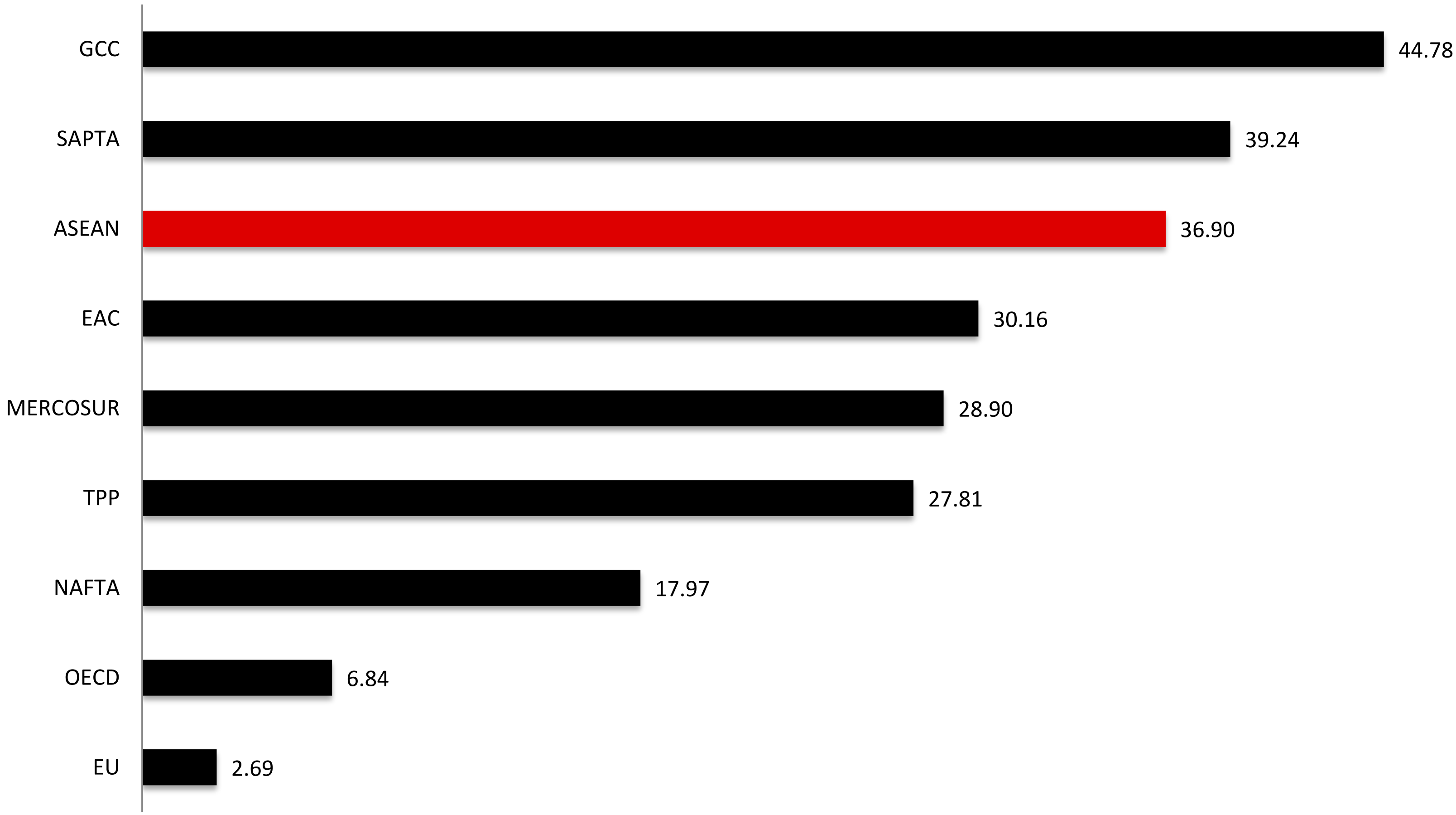
ASEAN +6: STRI and per capita income levels



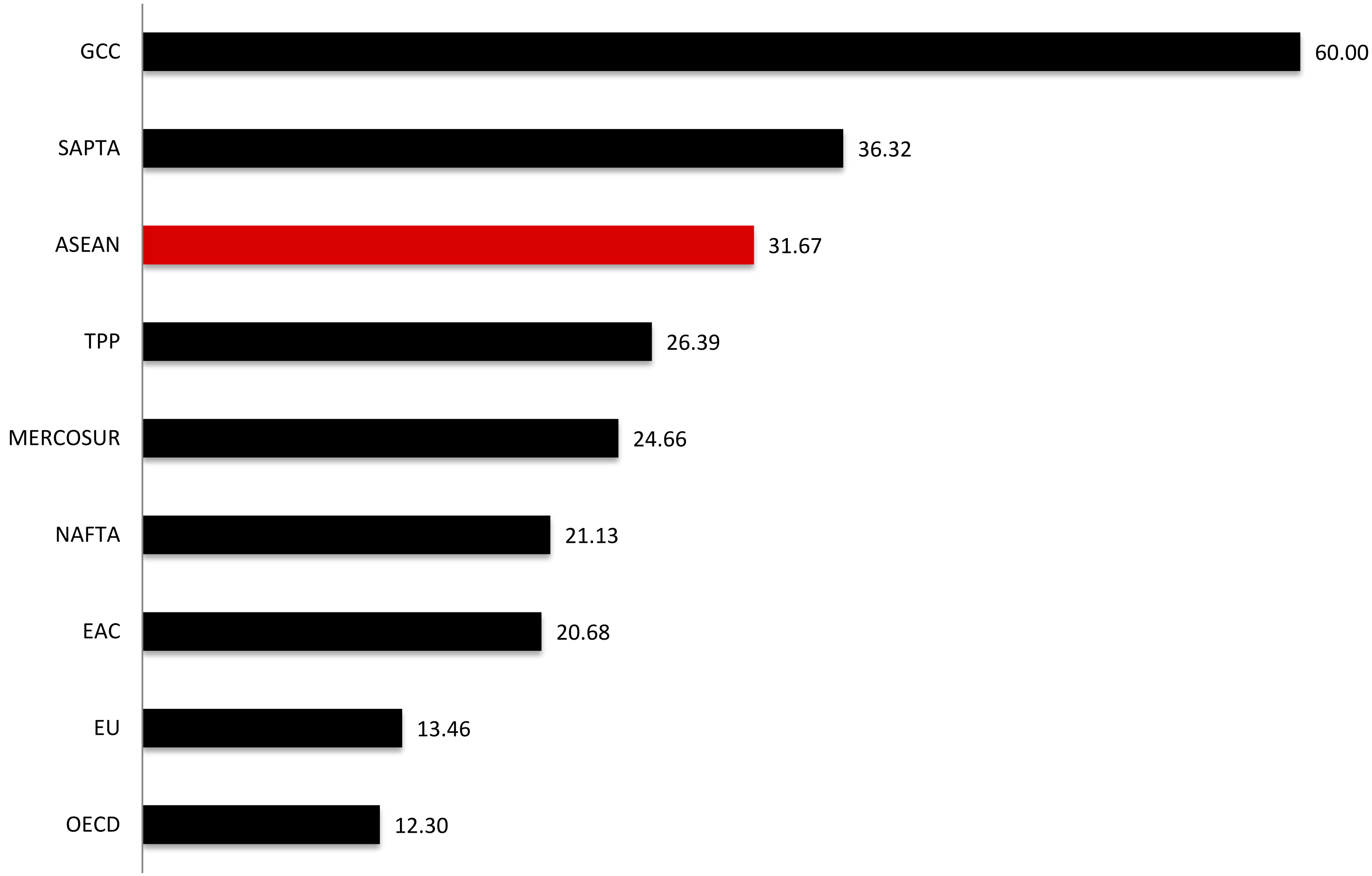
Overall STRI:
ASEAN*, ASEAN+1, ASEAN+3, ASEAN+6, TPP*



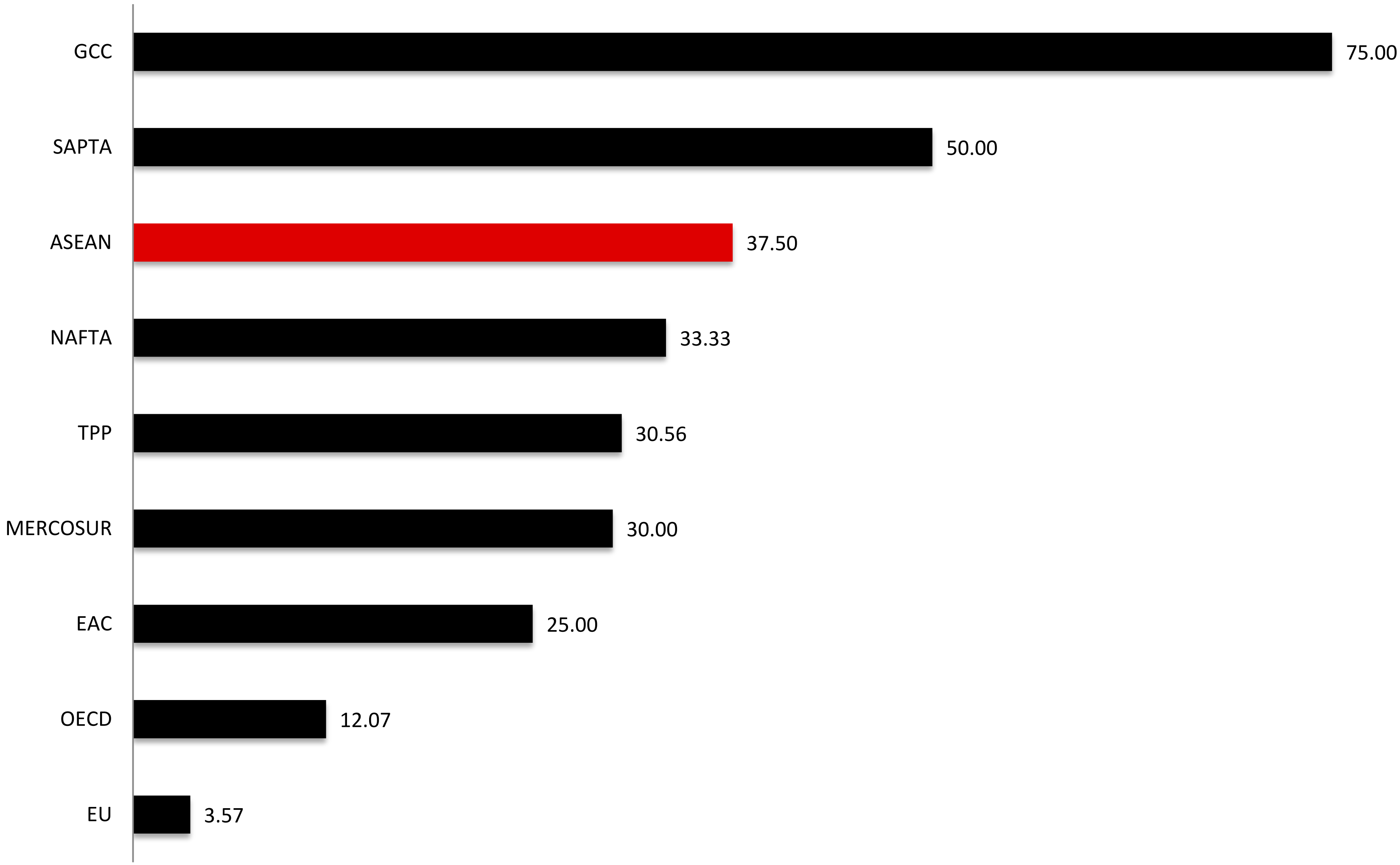
Banking Services: STRI by Regional Groupings



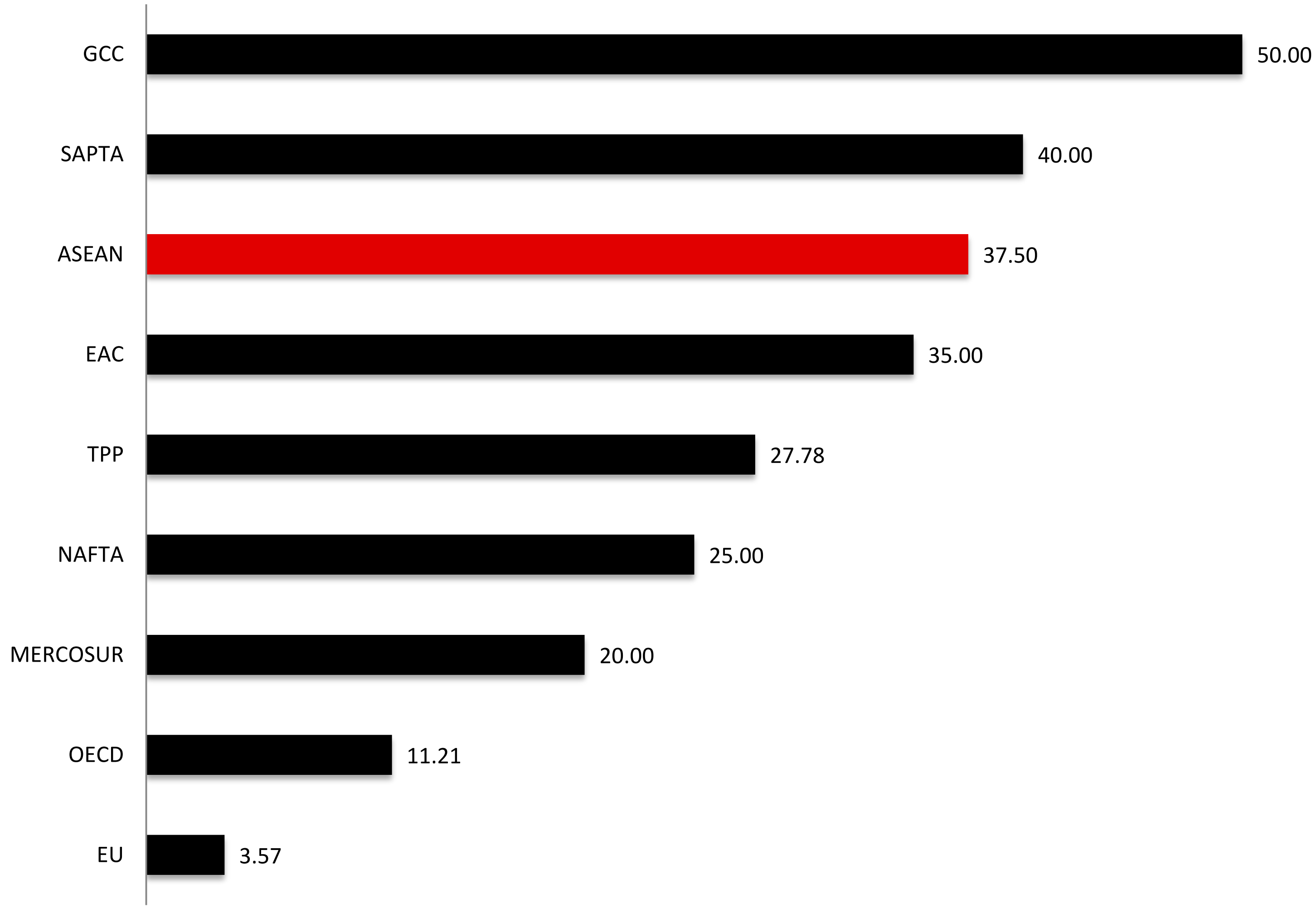
Insurance Services: STRI by Regional Groupings



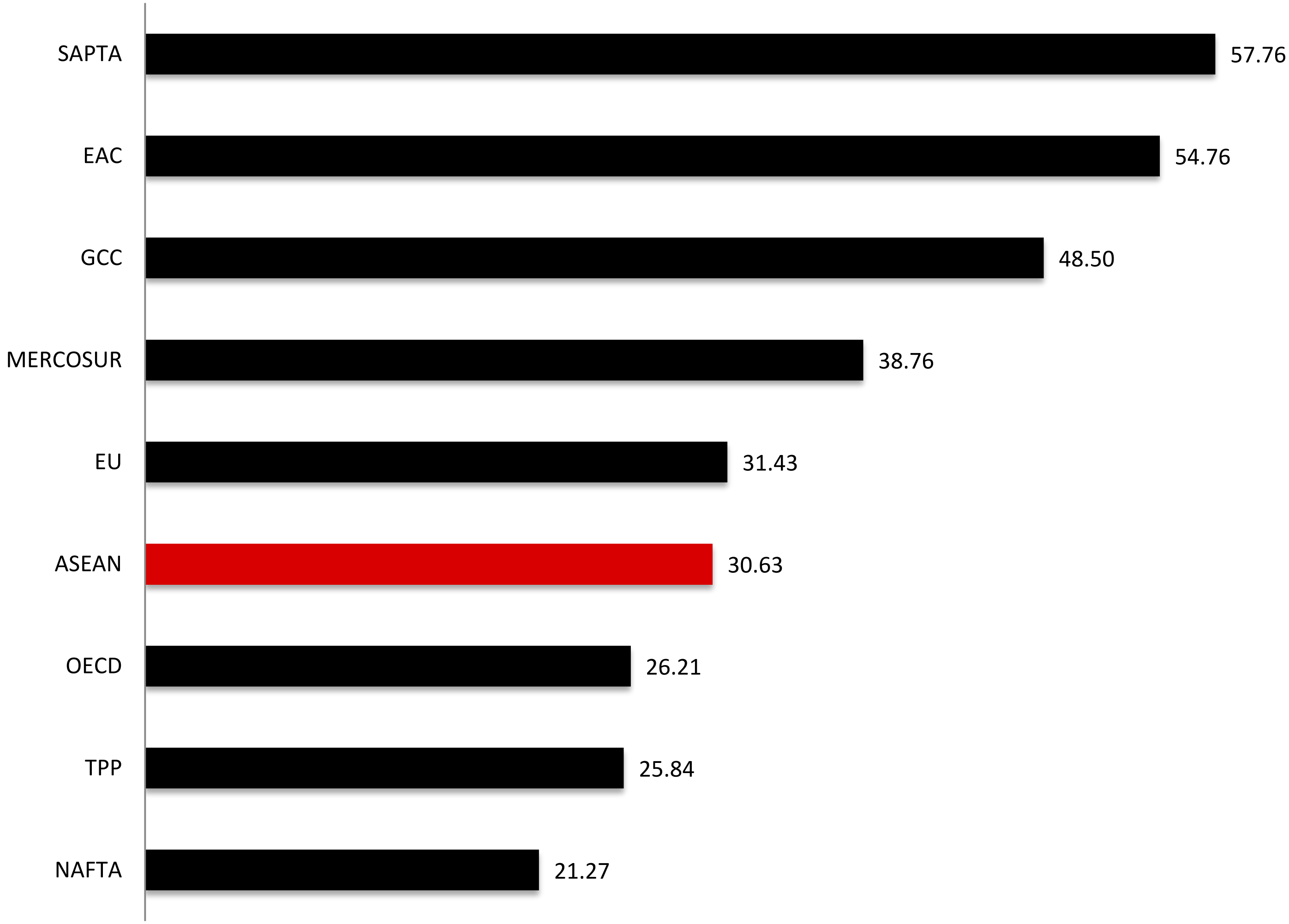
Fixed-line Telecommunications Services: STRI by Regional Groupings



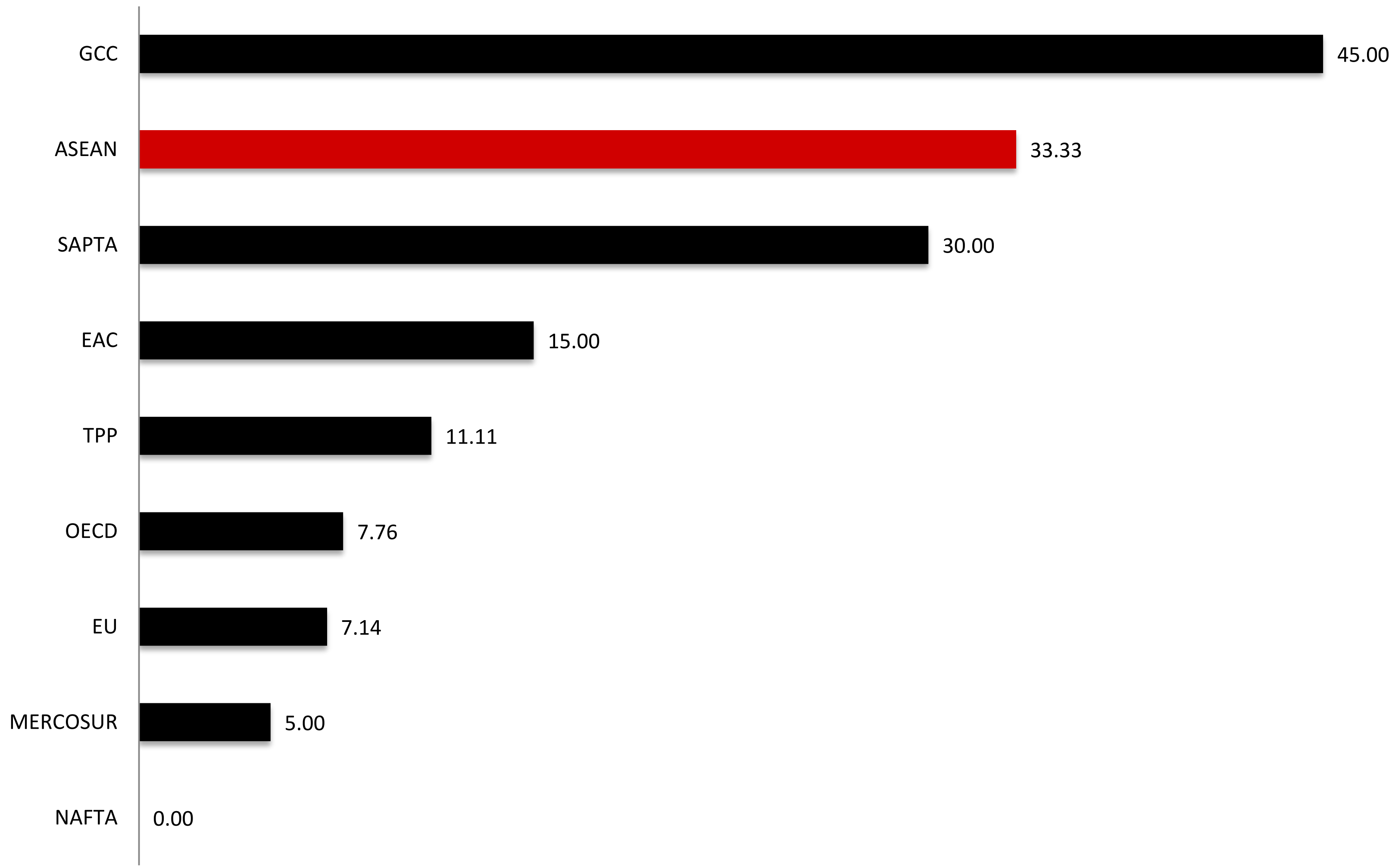
Mobile Telecommunications Services: STRI by Regional Groupings



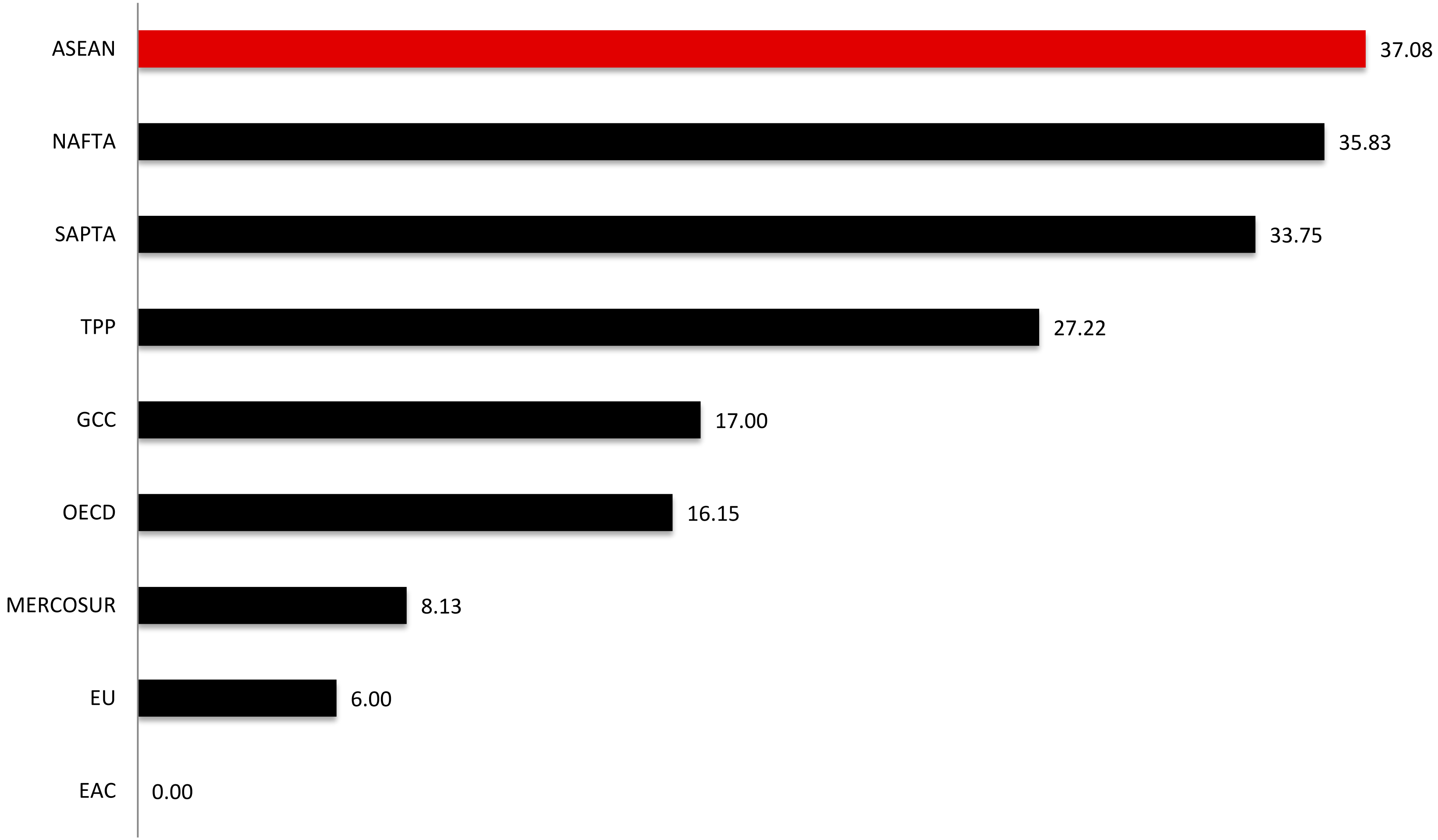
Air Transport (Intl) Services: STRI by Regional Groupings



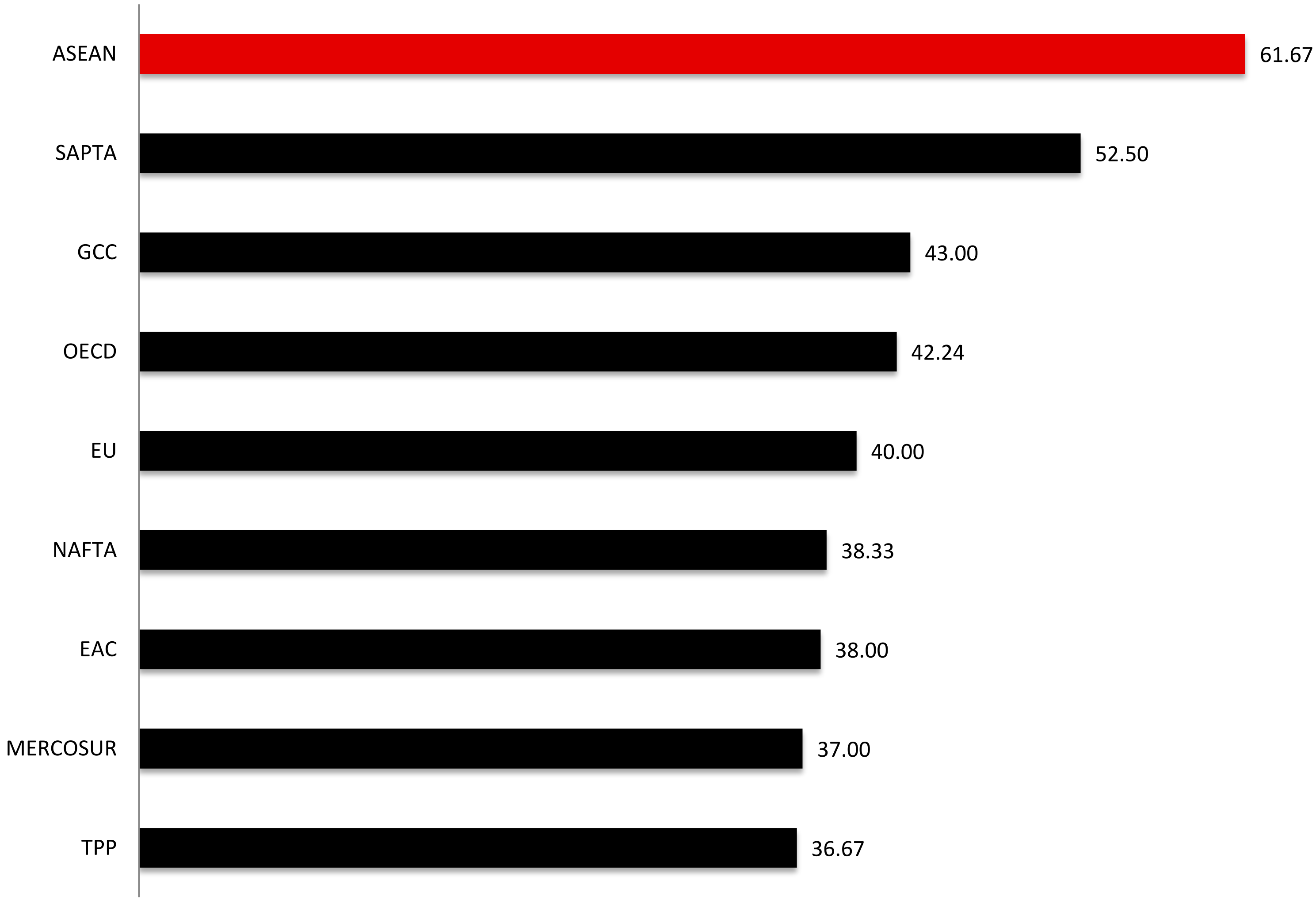
Retail Distribution Services: STRI by Regional Groupings



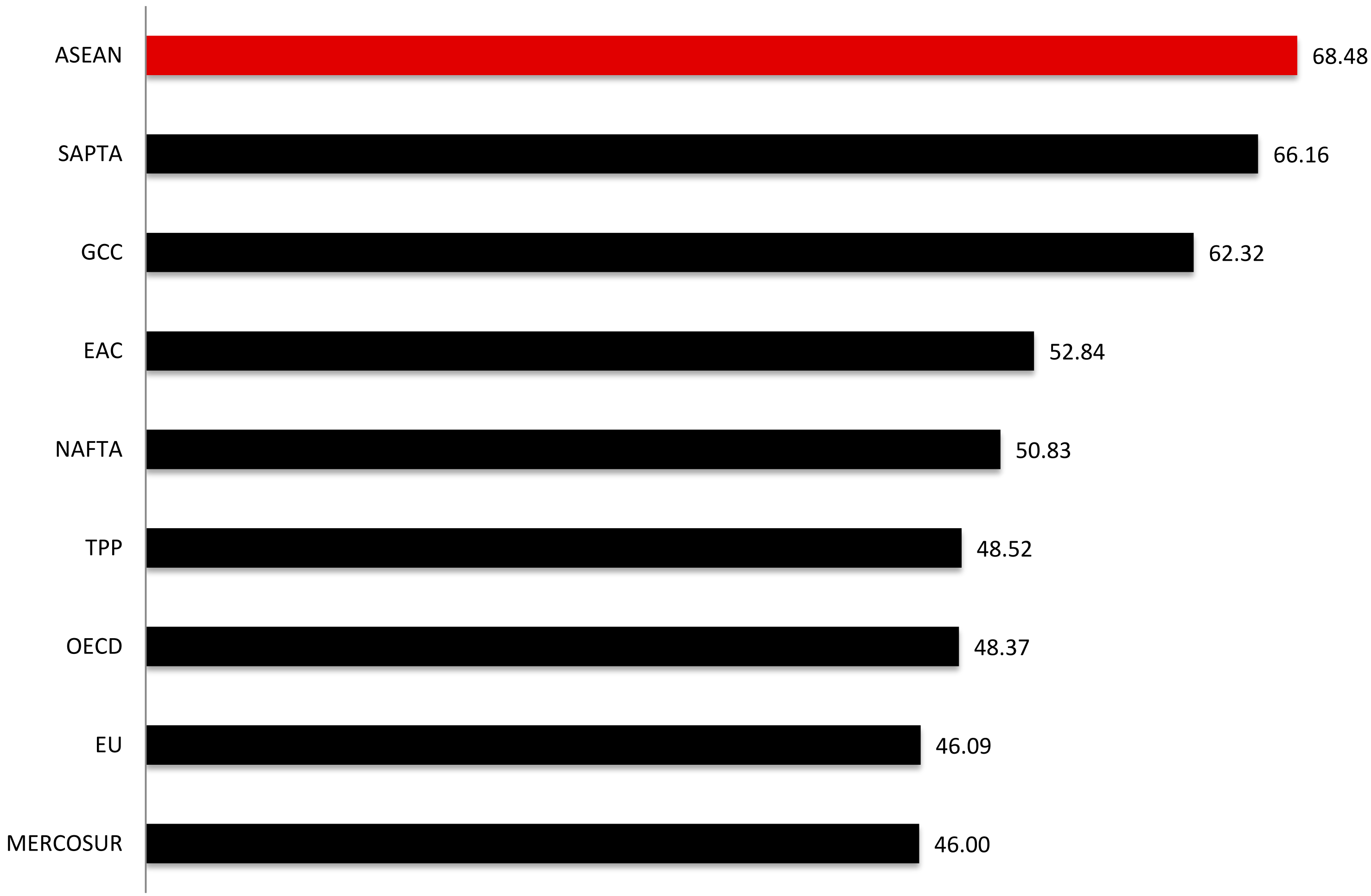
Maritime Transport (Intl) Services: STRI by Regional Groupings



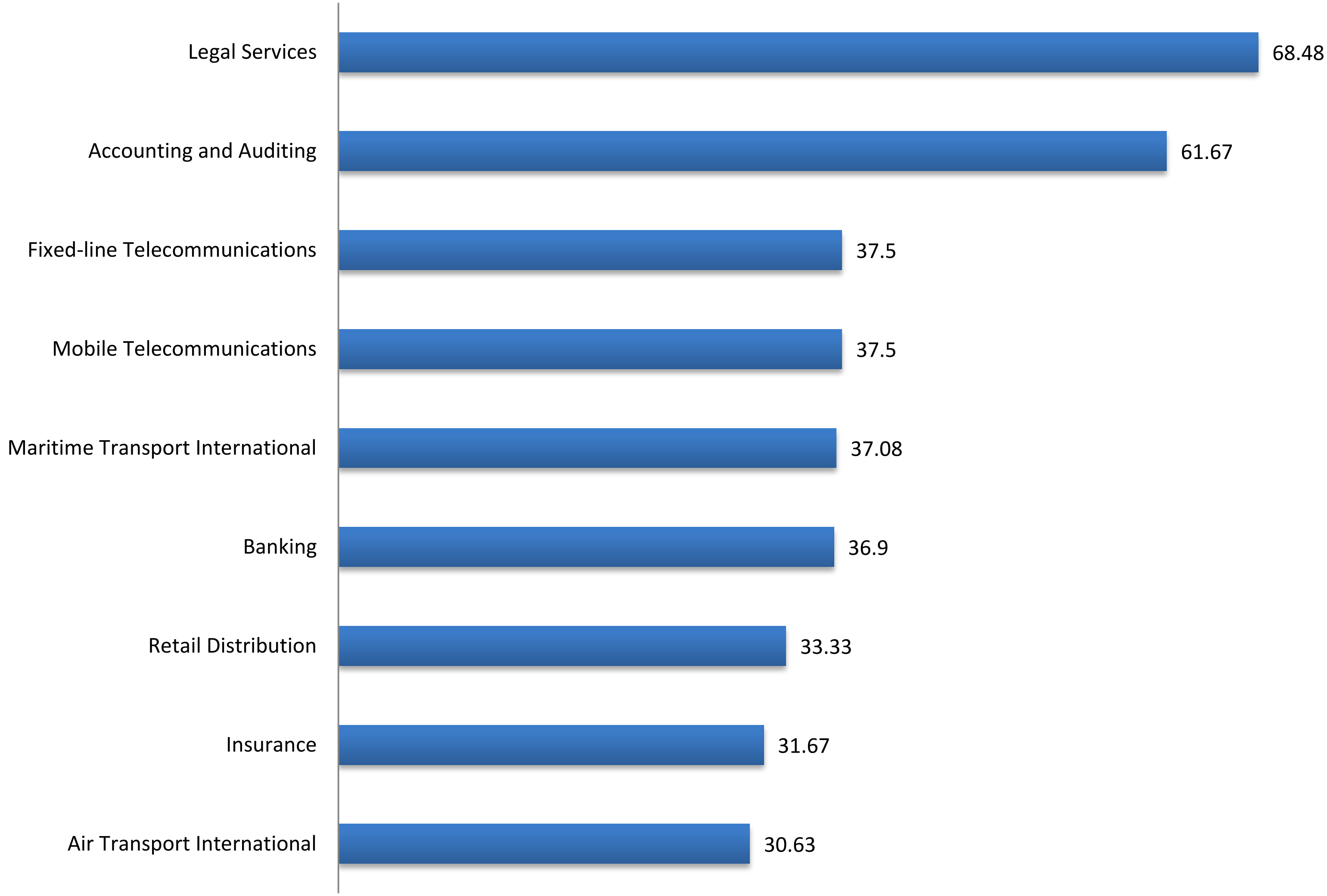
Accounting and Auditing Services: STRI by Regional Groupings



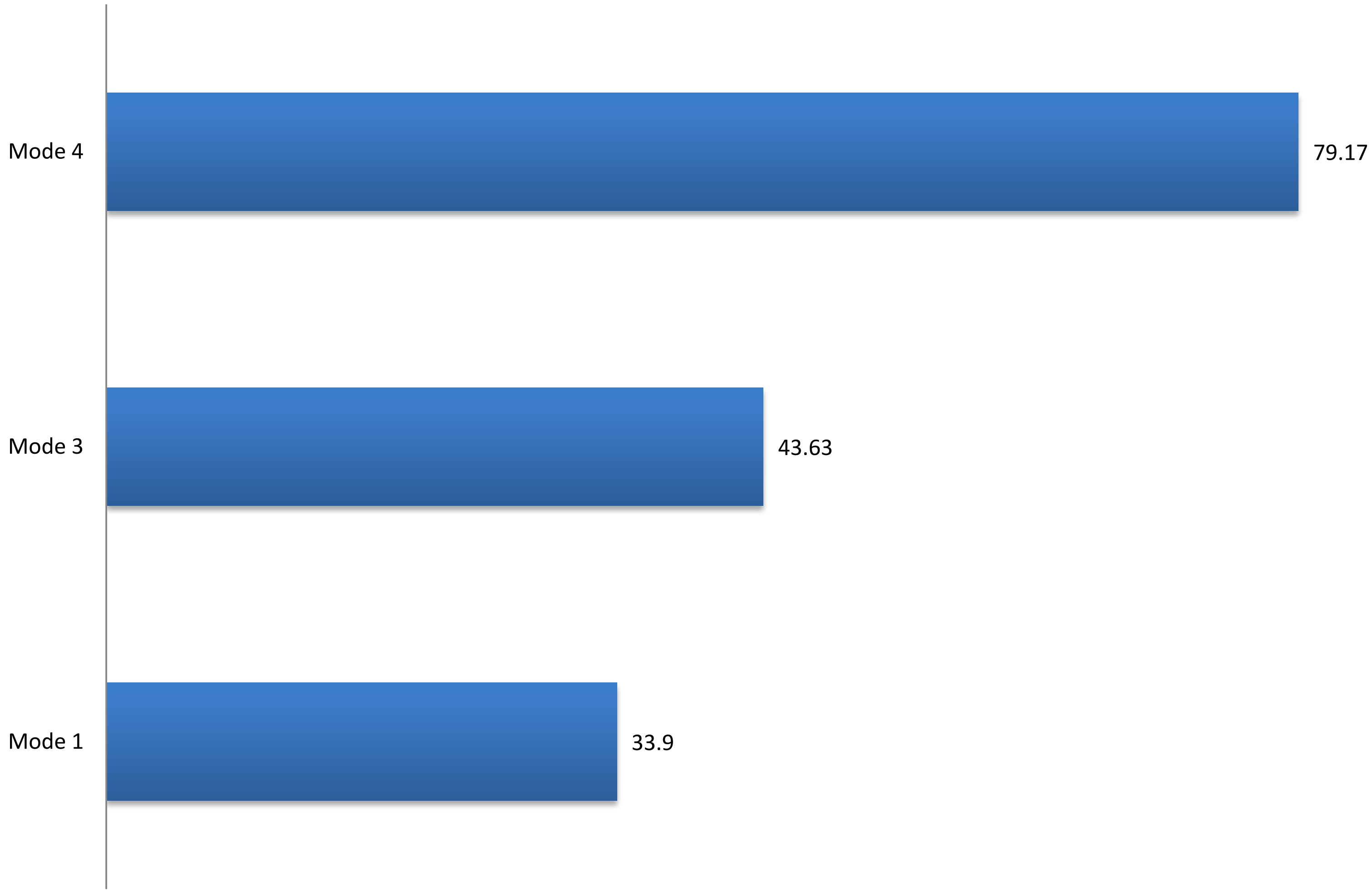
Legal Services: STRI by Regional Groupings



Ranking of ASEAN STRI by Level of Protection



ASEAN STRI by Mode of Supply



More paradoxes

- The static, incomplete, nature of the AFAS rule-book, which Member states have never deemed necessary to revisit and update since the mid-1990's. This stands in marked contrast to investment policy, where ASEAN Members have upgraded from the AIA to ACIA. ASEAN needs an AFAS 2.0!
- The proliferation of extra-regional PTAs, especially bilateral PTAs between individual ASEAN Members and third countries from the OECD area, has generated significant AFAS+ commitments which do not flow back into ASEAN via an AFAS MFN clause.
- A completed TPP, to which 4 ASEAN Members will likely adhere (Brunei Darussalam, Malaysia, Singapore and Vietnam) will significantly deepen such a gap in key sectors.
- No ASEAN Member State currently takes part in the plurilateral Trade in Services Agreement (TISA) negotiations in Geneva among the WTO's "Really Good Friends" of services. Why?

PTA proliferation: Services agreements of ASEAN Members

	Austrailia	BIMST-EC	Canada	China	Costa Rica	EFTA	GCC	Jordan	India	Japan	Korea	New Zealand	Pakistan	Panama	P4	Peru	USA
ASEAN	X			X					G	G	X	X					
Brunei										X		P4			X		
Cambodia																	
Indonesia										X							
Laos																	
Malaysia	S								X	X		X	X				
Myanmar		X															
Philippines										X							
Singapore	X			X	S	X	S	X	X	X	X	X P4		X	X	X	X
Thailand	X	X	X						X	X		X					
Vietnam										X							X

X: in force
G: goods only
S: Signed

Notable ASEAN innovations

- ASEAN was the first PTA to experiment with formula-based market opening in services, first via AFAS minus 2 or 3 approaches, and most recently via the adoption of liberalization packages.
- ASEAN's embracing of CLMV-targeted variable geometry approaches to market opening is also an innovative element.
- ASEAN has arguably influenced the WTO/GATS move away from sole reliance on request-offer negotiations and towards collective requests and formulaic approaches by modes and/or sectors (since the 2005 Hong Kong Ministerial).

Mutual recognition: the limits of regulatory convergence?

- MRAs evidence an ASEAN-wide problem with trade-related labour mobility. There is, still today, no implemented Mode 4 roadmap under the EAC. Can there be deep services market integration without full factor mobility?
- MRAs vary significantly in design, scope, and likely effectiveness, revealing marked sector-specific differences in underlying political economy; some are mere hortatory frameworks for possible adoption, others are considerably more prescriptive in character.
- Need for intra-ASEAN variable geometry to promote forward movement and their adoption by typically reluctant licensing bodies in regulated professions.

ASEAN Services MRAs completed to date

1. Surveying 2. Accountancy	• Framework Agreement • facilitate negotiation of MRAs • exchange information & adopt best practices
Implemented: 3. Engineering 4. Architectural	• Recognition of qualifications to facilitate mobility • ASEAN central coordinating body: confers title 'ASEAN Chartered Professional Engineer' 'ASEAN Architect' • Professional Regulatory Authority in Host Country: license ACPE or AA as foreign practitioner • Monitoring Committee in Country of Origin: certify compliance, process applications, maintain national register • States notify to be 'Participating ASEAN Member Country' • Registered foreign engineers cannot practise independently
In progress: 5. Nursing 6. Medical 7 Dental	• Conditions for recognition (include possible additional assessment by host country), required undertakings • Bilateral: Professional Regulatory Authority of Host Country registers and monitors foreign practitioners •ASEAN Coordinating Committee: facilitate, encourage, review • States can defer application of MRA

Priority sectors

- Tourism
- Health care (link to MRAs for dentists, doctors and nurses)
- *e*-ASEAN (Telecoms, IT and computer-related services)
- Logistics (crucial role of regional public goods supplied by the ADB)
- Air transport services

  – Not all of the above lend themselves readily to a trade-led policy agenda (assignment problem analogy); need for x-border regulatory cooperation key to enhancing trade and investment prospects
  – Why not focus on key sectors with the highest levels of protection and greater overall effects on allocative efficiency and the removal of growth bottlenecks: distribution, energy, education, finance, Mode 4 ?
  – Finance and air transport beat to a different, vertical, sector-specific drum: experience shows that this can lead to regulatory capture by protective bureaucracies and private sector interests. More an issue in finance than air transport thanks to Air Asia!

By way of conclusion: what is an economic community?

- When is free free? What is one to make of the AEC commitment to the free flow of services, freer flows of capital (by far the most important means of supplying services) and the free flow of skilled workers?
- No full intra-ASEAN investment liberalization even when the EAC is achieved (70% foreign equity limitations) and clear implementation problems already
- Murky 15% flexibility rule, nowhere explained or documented on the ASEAN website. What is there to hide?
- ASEAN integration in services is hard to implement on an MFN basis given development and implementation capacity gaps – but variable geometry carries genuine risks of creating parallel regulatory regimes
- Need for greater regulatory convergence and possibly a pooling of regulatory resources via the establishment of region-wide institutions of regulatory governance (finance, telecoms, transport), monitoring/surveillance and dispute mediation – economic and judicial efficiency gains?
- Promoting proportionate, trade-facilitating, regulation: can ASEAN members ever contemplate ECJ-like means of striking down non-discriminatory regulatory impediments to trade and investment in services?
- Some degree of regulatory centralization at the regional level may help countenance national/sectoral demands for protection and mitigate capture risks
- Need for competition policy to complement trade and investment policy in the region's market opening arsenal
- Is ASEAN ready for or institutionally capable of such an evolution? Does it want it?

Comments welcome!

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