The devil and the details : ASEAN' s struggle with its economic community and implementation

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**THE DEVIL AND THE DETAILS: ASEAN'S STRUGGLE WITH ITS
ECONOMIC COMMUNITY AND IMPLEMENTATION**

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ABBREVIATIONS

AAF	ASEAN Automotive Federation
AANZFTA	ASEAN-Australia-New Zealand FTA
ABAC	ASEAN Business Advisory Council
ACIA	ASEAN Comprehensive Investment Agreement
ACCSQ	ASEAN Consultative Committee for Standards and Quality
ACFTA	ASEAN-China FTA
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEI	ASEAN Economic Integration
AEM	ASEAN Economic Ministers
AFAS	ASEAN Framework Agreement on Services
AFC	Asian Financial Crisis
AFTA	ASEAN Free Trade Area
AHEEERR	ASEAN Harmonized Electrical and Electronic Equipment Regulatory Regime
AHTN	ASEAN Harmonised Tariff Nomenclature
AIA	ASEAN Investment Area
AICO	ASEAN Industrial Cooperation
AIGA	ASEAN Investment Guarantee Agreement
AIMO	ASEAN Integration Monitoring Office
AIFTA	ASEAN-India FTA
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
AKFTA	ASEAN-Korea FTA
AmCham	American Chamber of Commerce in Singapore
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three
APWG	Automotive Product Working Group
ARIC	Asia Regional Integration Centre
ASC	ASEAN Security Community
ASCC	ASEAN Socio-cultural Community
ASEAN	Association of Southeast Asian Nations
ASEAN-5	Indonesia, Malaysia, the Philippines, Singapore and Thailand
ASEAN-6	Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand
ASW	ASEAN Single Window
ATFWP	ASEAN Trade Facilitation Work Programme
ATIGA	ASEAN Trade in Goods Agreement
BBC	Brand-to-Brand Complementation
CAB	Conformity Assessment Bodies
CARI	CIMB ASEAN Research Institute
CEP	Comprehensive Economic Partnership
CEPT	Common Effective Preferential Tariff
CGE	Computable General Equilibrium
CLMV	Cambodia, Laos, Myanmar and Vietnam
CTC	change in tariff classification
DSM	Dispute-Settlement Mechanism
EAS	East Asia Summit

EC	European Commission
EDSM	Enhanced Dispute Settlement Mechanism
EEC	European Economic Community
EEE	electronics and electrical equipment
EMU	Economic and Monetary Union
ERIA	Economic Research Institute of ASEAN and East Asia
EU	European Union
EU-ABC	EU-ASEAN Business Council
FDI	Foreign Direct Investment
FOB	free-on-board
FTA	Free Trade Agreements
FTAAP	Free Trade Area of the Asia-Pacific
GAIKINDO	The Association of Indonesia Automotive Industry
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIAMM	Automotive Parts and Components Manufacturers Association
GLCs	government-linked companies
HDI	Human Development Index
HLTF	High Level Task Force
HO	Heckscher-Ohlin
HPMs	High Priority Measures
IAI	Initiative of ASEAN Integration
ICT	Information and Communication Technology
IEC	International Electrotechnical Commission
IMF	International Monetary Fund
INSW	Indonesia National Single Window
IPE	International Political Economy
IPR	Intellectual Property Rights
ISEAS	Institute of Southeast Asian Studies
ITA	Information Technology Agreement
JBC	Joint Business Council
Jetro	Japan External Trade Organisation
LPI	Logistics Performance Index
MFN	Most-Favoured Nation
MICT	Ministry of Information and Communication Technology
MNCs	Multi-national Corporations
MRAs	Mutual Recognition Arrangement
NAFTA	North American Free Trade Agreement
NESDB	National Economic and Social Development Plan
NGOs	Non-governmental Organisations
NSW	National Single Window
NTBs	Non-tariff Barriers
NTMs	Non-tariff Measures
NTR	National Trade Repository
OCP	Operational Certification Procedure
OEM	Original Equipment Manufacturers
P&C	Parts and Components
PKDs	Prioritised Key Deliverables
PSR	product specific rules
PTAs	Preferential Trade Agreements

RCEP	Regional Comprehensive Economic Partnership
ROO	Rules of Origin
ROW	Rest of the World
RTAs	Regional Trade Agreements
RV	Ricardo-Viner
RVC	Regional Value Content
SEOM	Senior Economic Officials Meeting
SL	Sensitive List
SMEs	Small and Medium-scale Enterprises
SOEs	State-owned Enterprises
SPS	Sanitary and Phyto-sanitary
SS	Stolper Samuelson
S&C	Standards and Conformance
TBT	Technical Barriers to Trade
TEL	Temporary Exclusion List
TISI	Thailand Industrial Standards Institute
TNCs	Trans-national Corporations
TPP	Trans-Pacific Partnership
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
UNECE	United Nations Economic Commission for Europe
US	United States
VAP	Vientiane Action Programme
WEF	World Economic Forum
WEO	World Economic Outlook
WGI	Worldwide Governance Indicators
WTO	World Trade Organisation

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Thesis abstract

This study examines the reason why ASEAN countries fall short of their AEC commitments. While agreeing with the existing studies that ASEAN economic integration is a function of globalisation and has substantial welfare generating effect, this dissertation argues that this is only part of the story. The globalisation variable is unable to explain why AEC offers flexibilities in its commitments. It is also unable to explain why despite such far-reaching benefits, member countries are not able to align their domestic policies to regional promises. There is indeed a gap in the existing literature on why, despite agreeing to binding commitments, AEC implementation remains incomplete among member countries.

The dissertation introduces the domestic variable to explain the disconnect between policy goals and policy implementation. Following International Political Economy (IPE) rather than neoclassical economics, domestic variable, derived from the demand side of trade policy, explains the flexible design of AEC measures. The division over liberal and protectionist preference in national economies and varied domestic interests across members explain the broad principles in AEC policy documents, which makes implementation difficult. The broad measures provide room to implementing agencies to interpret the policy as per their own understanding and convenience, thereby creating a mismatch between policy goals and final outcome.

Domestic variables, in terms of organising the national implementation process and supportive interest groups, are also key imperatives for timely implementation. Inefficiency in domestic administrative process and lack of government-private sector engagement are important reasons for ASEAN to fall short of full implementation. Unlike existing studies of AEC, which are mostly based on trade theory models or examine the progress in AEC policy implementation with limited explanation for the gaps, this dissertation considers domestic factors as a crucial analytical variable for success or not of policy implementation.

Using documentary research and elite interviews, and guided by theoretical insights, the study concludes that although AEC is a function of both globalisation and domestic interest, it is the latter that plays a crucial role in the state of regional economic integration. It is the domestic variable that influences not only the form of the regional policy but also the national administrative process and attitude of interest group and has implication for policy implementation eventually. The domestic determinant explains why AEC has fallen short of 'single market and production base' in practice till now.

Chapter 1

Introduction

1. The Research Problem

The question of why the Association of Southeast Asian Nations (ASEAN)¹ member economies could not meet a proportion of their stipulated integration measures, despite committing themselves to the binding initiatives of the ASEAN Economic Community (AEC) is of immense interest to scholars studying regionalism². An uneven rate of AEC implementation across ASEAN states remains questionable. The issue gets more attention as the member states are far away from delivering their promise of ‘single market and production base’. Indeed, by committing to AEC, especially when these countries were already on their economic liberalisation path and had committed to lower trade and investment barriers in the 1990s³, the ASEAN governments had shown their willingness for deeper and wider economic cooperation. They showcased their readiness for subsequent adherence to a rules-based society. But then the attitude towards translating the regional commitments to national policies and actions remains debatable.

1.1 Emergence and State of AEC

¹ ASEAN was founded in 1967 by five Southeast Asian nations – Indonesia, Malaysia, the Philippines, Singapore and Thailand. Thereafter, Brunei joined the grouping in 1984, Vietnam in 1995, Laos and Myanmar in 1997 and finally Cambodia in 1999, bringing the total number of membership to ten.

² Wyatt-Walter (1995:77) defined economic regionalism as actions by member governments to cooperate on economic policies within a given region. This is different from regionalisation, which is economic integration driven by market forces, mainly by businesses and individual (Hurrell 1995:39). This thesis looks at only economic regionalism i.e. political decision to cooperate on a number of economic matters in a given geographical area. Other words that are used in the thesis inter-changeably with regionalism are regional economic cooperation or regional economic integration or regional trading arrangements (RTAs).

³ Under ASEAN Free Trade Area (AFTA), ASEAN adopted the Common Effective Preferential Tariff (CEPT) scheme in 1992 that governed the liberalisation of goods trade by addressing tariff and non-tariff barriers. Subsequently, the region adopted the ASEAN Framework Agreement on Services (AFAS) governing the services trade and the ASEAN Investment Area (AIA) governing investment liberalisation.

ASEAN's desire for a formal economic cooperation could be traced back to 1992 when it adopted the ASEAN Free Trade Area (AFTA), although the organisation was originally formed in 1967 with a political rationale to resist the spread of communism. By the mid-1970s and particularly in the late 1980s, the region started to pay more attention to economic cooperation (Naya, 2004: 5-6).

A more comprehensive project of regional cooperation within ASEAN was adopted in December 1997, when the Leaders espoused the ASEAN Vision 2020 in order to give a long-term direction to the region. This was the year when the region suffered from the blow of the Asian financial crisis. But despite that, instead of looking inwards to focus on domestic issues, the countries became bolder in strengthening its institutions and respond to external crisis. The ASEAN Vision 2020 articulated the region's vision as "ASEAN as a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies". A closer look at the statement indicates that the vision covered all three agendas of security, economics and caring society (ASEAN Secretariat 1997).

This got reaffirmed at the Ninth ASEAN Summit in October 2003, when the Leaders envisioned the formation of an ASEAN Community by 2020, comprising three pillars of ASEAN Security Community (ASC)⁴, ASEAN Economic Community (AEC) and ASEAN Socio-cultural Community (ASCC)⁵. More particularly, for the AEC, the objective was 'to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020'. In January

⁴ This pillar is later known as ASEAN Political and Security Community (APSC).

⁵ This is known as Declaration of ASEAN Concord II or Bali Concord II

2007, during the ASEAN Summit in Cebu, Philippines, the deadline to realise the AEC was brought forward by five years to 2015 (ASEAN Secretariat, 2003; 2007b).

Subsequently, ASEAN achieved a major milestone at the November 2007 ASEAN Summit in Singapore as the Leaders endorsed the AEC Blueprint that laid out a roadmap to strengthen economic integration and realise the AEC by 2015. The AEC Blueprint was a binding declaration and stipulated that 'each ASEAN Member Country shall abide by and implement the AEC by 2015' (ASEAN Secretariat 2008a: 2). It was organised along the lines of AEC's four objectives: (i) a single market and production base; (ii) a highly competitive economic region; (iii) a region of equitable economic development; and (iv) a region that is fully integrated to the global economy, with 17 'core elements' and 316 'measures' to be undertaken within a Strategic Schedule of four implementation periods (2008-09, 2010-11, 2012-13 and 2014-15) (ASEAN Secretariat 2008a). Over time, the original set of 316 ASEAN-wide measures was expanded to 611 and a focused list of Prioritised Key Deliverables (PKDs) that has high impact capacity was created (ASEAN Secretariat 2015a: 8-10).

By end of 2015, it was clear that ASEAN has not met all its stipulated integration measures. According to the ASEAN Integration Monitoring Office (AIMO) of the ASEAN Secretariat, an official source to track AEC implementation, the implementation rate of the ten member countries stood at 92.7 per cent, or 469 of 506 measures, where the denominator included a subset of PKDs, termed as High Priority Measures (HPMs), and measures that were fully implemented since 2008. Of the full set of 611 measures, the implementation rate of AEC was reported at 79.5 per cent, or 486 out of 611 measures, as of 31 October 2015 (ASEAN Secretariat 2015a: 8-10). ASEAN's mixed success with AEC implementation and falling

short of a ‘single market and production base’ was also extensively studied by many in the academic community (Chia 2011:19; Severino 2011: 30-32; Basu Das 2013:17; Chia and Plummer 2015, Intal et al. 2014: 48-49). It has been repeatedly mentioned that, despite some progress, the ASEAN region continues to be ten disparate markets, thereby reflecting member countries’ differences in socio-economic development, policy formulation and institutional capacities (Menon 2012: 9; Intal et al. 2014: 40-45; Carpenter et al. 2013: 2). Studying the gap and challenges in AEC implementation, Severino and Menon (2013: 13) noted that 2015 is not going to change anything significantly for ASEAN; its nature, processes and member countries’ interests will largely remain unchanged.

How do we interpret the distinct trend in ASEAN economic regionalism? That ASEAN member governments agreed to an ambitious commitment of AEC, despite their efforts in trade and investment liberalisation in the 1990s and differences in stages of economic development, is in itself significant irrespective of implementation record. It indicates the willingness of member governments to cooperate on economic matters and in the process adhere to a rules-based mechanism. But while a disconnect between commitment and implementation is not uncommon in regional or international cooperation, it still needs to be seen why the ASEAN member governments, after committing to AEC measures, still fell short of full implementation. Why are the ASEAN countries far away from their aspiration of ‘single market’? Merely stating that ASEAN states are protectionist in nature is not going to bring out the underlying factors for gaps in implementation. All these together will help us to understand ASEAN’s drive for a certain kind of regionalism and its mixed record in implementation.

1.2 Key Research Question and Arguments

The ambiguous pattern mentioned above in ASEAN economic cooperation leads to a critical empirical question that this thesis seeks to answer. Despite committing themselves to a deeper and wider economic cooperation measure through AEC, why did the ASEAN member economies fail to implement a proportion of their stipulated integration measures? Related to this, why do we observe an uneven rate of implementation across member states? Why is ASEAN far away from delivering its policy aspiration of ‘single market’ and final outcome? Most often, a single market is understood as an area where there are no barriers to flows of goods and factors of production, ultimately satisfying the law of one price (Lloyd 2005).

There are several arguments that need to be explored to answer the critical question mentioned above. The discussion below highlights three key strands of arguments that are available in the existing literature.

First, ASEAN’s informal institutional basis is often mentioned as an important determinant for lack of progress. The member countries prefer an inter-governmental form of regional cooperation, where agendas and progress are determined by their political willingness. This is reflected in most of the ASEAN documents that discuss the vision, decision making process and policy measures but miss out on the mechanisms through which member economies can implement the regional policy initiatives. Rizal Sukma (2014: 12-13) lists four characteristics of ASEAN’s weak institutional framework, governed by the organisation’s principle of ‘non-interference’, mentioned in several ASEAN documents⁶. First, ASEAN’s regional decision-making process continues to be guided by the principle of consultation and consensus.

⁶ In the economic context, the principle of non-interference was mentioned in the 1976 ‘Declaration of ASEAN Concord’ (the Bali Concord) (ASEAN Secretariat 1976): ‘Member states shall vigorously develop an awareness of regional identity and exert all efforts to create a strong ASEAN community, respected by all and respecting all nations on the basis of mutually advantageous relationships, and in accordance with the principles of self-determination, sovereign equality and non-interference in the internal affairs of nations.’ The 2007 ASEAN Charter reaffirmed the adherence to fundamental principles, including ‘non-interference in the internal affairs of ASEAN Member States’ (ASEAN Secretariat 2008b).

Second, despite the adoption of the ASEAN Charter in 2007, the new institutions (organs) mentioned in the document are subject to member countries' interpretation, especially with regard to their functions and roles, and their relation to each other. Third, despite the enhanced role of the ASEAN Secretariat and the Secretary-General over time, these two remain constricted by member states' unwillingness to provide more human and financial resources. Fourth, ASEAN continues to be characterised by lack of enforceable mechanism to comply with regional commitments and a strong bias for consultative mechanism in place of legalised dispute-settlement mechanism, both reflecting ASEAN's preference for loose organisational structures. In literature, while Stubbs (2000) gives credibility to ASEAN's consultative and consensus-driven process and notes that a rigid approach would have gone against ASEAN's culture and may have broken the regionalism initiative, Akrasanee and Arunanondchai (2005) criticize ASEAN's informal institutions as a reason for not fulfilling the economic commitments (these two arguments are discussed further in chapter 2 of literature review).

Second, ASEAN's lack of implementation is observed to be a function of the way the regional policy is designed. On one hand, a substantial part of ASEAN literature discusses the trade and investment diversion from ASEAN to China and emergence of production networks, i.e. breaking up of the production process into fragmented segments across borders, as two key reasons for ASEAN countries to undertake AEC. It was felt that AEC, through its liberalisation and facilitation measures, will help ASEAN countries to raise their competitiveness in order to attract Foreign Direct Investment (FDI) (Hew et al 2005: 293-294, Hew 2007a: 2-3) and will prepare them to participate in the global and regional

production networks (Chia 2013 :7; Kimura 2013: 11; Cheewatrakoolpong et al. 2013: 3-15).⁷

On the other hand, there are general discussions of strategic imperatives for member countries' decision for economic cooperation. For example, Ravenhill (2014: 146-147) stated that countries like the ASEAN members go for regional integration exercise as the arrangement enables continued protectionism in a bigger geographical space and shuts producers from outside the region. There is also a possibility that regional arrangements allow the governments to exclude 'politically sensitive' and uncompetitive domestic sectors from the trade liberalisation efforts. This aspect of the discussion becomes particularly relevant as the ASEAN member countries are significantly different from each other in terms of their socio-economic setup and have different intensity of linkage with the global economy. They have, thus, dissimilar national priorities and interests. It is quite possible that the ASEAN countries decided to undertake AEC, given the dual features that a regional arrangement can offer. The countries realised that while a deeper and comprehensive form of economic cooperation is important to match the demands of globalisation, it is also helpful to have a regional cooperation arrangement that can accommodate the varied domestic interests of ASEAN members. To serve these twin underlying rationales, it is often observed that AEC policy documents are broad in nature with limited liberalisation targets (Severino and Menon 2013: 12), and much of it is subject to member countries' interpretation. This, in turn, impinges on the subsequent process of implementation.

Third, a few have argued that the gap and difference in the pace of implementation could be attributed to the varied structure of domestic policy-making systems (Lipson 1991:518;

⁷ This is also mentioned as one of the policy objectives in the AEC Blueprint: 'ASEAN shall also enhance participation in global supply networks' (ASEAN Secretariat 2008a: 26)

Chayes and Chayes 1993: 195-201). In addition, in case of ASEAN economic cooperation, it seemed that there was a lack of domestic pressure for economic integration from the region's business community (Severino 2011: 33-36). The demand for liberalisation within ASEAN generally came from foreign MNCs who were thought to have benefitted from a region-wide production process (Ravenhill 2008: 482).

The broad nature of AEC policy affecting member countries' implementation decisions, varied structure of domestic policy-making/ implementation systems and lack of domestic pressure for regional integration will be expanded and discussed in detail in this thesis. The argument of informal institution at regional-level would not be dealt in the empirical chapters as much has already been written on that. Moreover, a key thing to note is that though AEC is a regional initiative, compliance with and implementation of AEC commitments depend on national action. Initiatives like tariff cutting, removal of non-tariff barriers, customs reform, opening up of services sector and many others have to be adopted in domestic law and policy decisions. While peer pressure is generally applied among the friendly ASEAN members or mutual assistance and capacity-building are offered in implementation efforts, the region does not have an institution like the European Commission (EC)⁸ that can insist that the member countries comply with ASEAN commitments, or face some form of sanctions (Severino 2006: 5). Hence, discussion of AEC from a national perspective will give useful insights on the gap between agreed regional commitments and final implementation.

⁸ The European Commission represents and upholds the interests of the EU as a whole. It drafts proposals for new European laws. It manages the day-to-day business of implementing EU policies and spending EU funds (EU Institutions and Other Bodies, Europa.Eu)

That said, the thesis provides an account of the current state of AEC between 2003 and 2015, using the question and arguments mentioned earlier as a guide. Accordingly, the thesis sets up two *hypotheses*:

- a) Implementation of the ASEAN Economic Community (AEC) is a function of the way the policy is designed. While the AEC has been developed to serve member countries' common interests in line with globalisation (key being the production networks and FDI), it has also offered flexibilities to manage the interests of domestic economic actors.
- b) Despite the far-reaching commitments, implementation remains incomplete and uneven across countries, primarily due to varied structure and capacity in the domestic policy-implementation process and lack of coherent domestic pressure (mainly from the end-users, i.e. the private sector) for economic integration.

2. Framework of the Research

This dissertation builds upon the arguments mentioned in the earlier sections and uses two theoretical frameworks to undertake an International Political Economy (IPE) study. It discusses the interaction between international and domestic levels for a foreign economic policy decision like AEC that, though may result in high aspiration of the governments, can also leave much ambiguity in the policy document to accommodate varied domestic interests. Complying with such policies could be a challenging task and can lead to gap in policy implementation. To further strengthen the domestic variable, the dissertation, subsequently, uses a top-down framework approach, discussed in public administration theories, and

examines some of its sufficient and generally necessary conditions to identify reasons behind gaps in foreign economic policy implementation.

2.1 International- Domestic Interaction

To study the gap in AEC implementation, it is important to look into the nature of the policy that has to be implemented. Implementing complex but loose policy measures that derive from broad aspirations outlined in government documents (such as, non-paper⁹) can be a challenging task for implementing agencies. This can lead not only to a gap in policy commitment and implementation but can also be a source of mismatch between a government's aspiration (such as, single market in case of ASEAN) and final outcome. This nature of mismatch between government's goals and policy directives is most often a function of multiple interests that governments have to serve in its national economies. For policies on international trade, the interaction between global and domestic economy result in different trade policy choice of domestic interest groups that can translate to flexibility in policy documents, eventually influencing the process of implementation.

This dissertation adopts the theoretical framework outlined by Frieden and Martin (2003) to explain the interaction of international and domestic factors as a crucial determinant for the nature of the foreign economic policy (in this case the policy of regional economic integration). One approach of domestic-international interaction is to look at the effect of global economy on the preferences of national economic and political actors. In this case, the international economic trends, such as trade and foreign investment, directly affect the preference choice of domestic interest groups, thus influencing their expectation for certain policy decisions from the national governments.

⁹ A non-paper is an informal document often used by policymakers during closed-door negotiations.

The discussion by Frieden and Martin (2003) further mentions that to understand the international and domestic interaction as an underlying factor for foreign economic policy, it is important to study the two building blocks, i.e. the international level and the domestic level. One way to look at the international level of analysis is to examine the strategic interaction among nation states (in particular, interaction through global economic trends), which depends on identification of states' interests and the strategic context. It is generally implied that there is a good understanding of the general pattern of states' interests and the outcome that states desire. In other words, it is the common interests among participating states, rather than their particular interest, that is important in such analysis. These interests are then placed in the strategic context of global developments.

The domestic politics of foreign economic policymaking, the second building block in international-domestic interaction, is highly influenced by interests of economic and political actors, i.e. the demand-driven variable of trade policy formulation. In this demand-driven approach, which is also sometimes known as the bottom-up approach (Hicks, et al. 2014:108), international trade theories are used to provide insights on trade policy preference. These trade theories assume that the electorate are able to measure the economic consequences of international trade developments and related policies and vote according to the impact of these developments and policies on their individual economic well-being. In general, arguments for the role of economic interests in determining trade policy preference derives from the Heckscher-Ohlin (HO) model and its related Stolper Samuelson (SS) theorem. The models suggest that while trade liberalisation adversely affects the owners of relatively scarce factors, it tends to benefit the owners of abundant factors. An alternative model by Ricardo-Viner (RV) assumes immobility of at least one factor of production to an

industry. The model postulates that factors that are specifically tied to export-oriented industries tend to gain from trade liberalisation, and hence they favour a liberal trade policy, whereas the factors tied to import-competing industries tend to lose and hence favour a protectionist policy.

Thus this dissertation considers regional economic integration as an outcome of international interaction among states and domestic actors. While the interaction among the governments in a given global strategic setting can lead to high aspirations, the interaction among global trend and domestic economy can lead to policy documents that generate flexibility and ambiguity to accommodate varied trade policy interests of domestic stakeholders. Implementing such policies could be challenging for government agencies and can delay the process of implementation.

2.2 Top-Down Approach of Policy Implementation

Implementing regional policies can be further challenged by the presence of other domestic factors in national economies. This thesis uses the theoretical framework of ‘top-down’ approach, developed by Mazmanian and Sabatier (1989: 18-48)¹⁰ to further explain the gap in implementation. The key feature of this approach is the important role played by the central government officials as the starting point of policy decision and implementation in a country (Sabatier 1986:22). In their framework, Mazmanian and Sabatier have identified 16 independent variables that influence the implementation process and affect the final policy objectives (dependent variable). The independent variables include understanding of the technical issue, diversity of the target group population, extent of change required, spelling

¹⁰ Daniel A. Mazmanian and Paul A. Sabatier first published the book, *Implementation and Public Policy*, in 1983 with the publisher Scott, Foresman and Company. Later, they re-printed the book in 1989 with the publisher University Press of America.

out of policy objectives, understanding of adequate causal theory, availability of financial resources, hierarchical integration within and among implementing bodies, capacity of implementing officers, prevalent socio-economic conditions, availability of public support and others. They clubbed these variables under three broad categories – a) ‘tractability’ variables, b) statutory variables and c) non-statutory variables – while acknowledging that these variables are all linked to each other as well. For example, the extent of change one expects to bring to the target population will affect the development of policy directives, willingness to understand the causal theory, the degree of needed public support and many others.

Mazmanian and Sabatier further streamlined the 16 independent variables into a shorter list of six sufficient and necessary conditions for effective implementation of stated objectives. These included a) clear and consistent policy objectives, b) adequate causal theory, i.e. a sound theory, identifying principal factors and causal linkages delivering on policy objectives, c) distinct implementation process with adequate hierarchical integration, supportive decision rules and sufficient financial resources, d) committed and skilful implementing officials, including leaders of implementing agencies with political authority, e) adequate support of interest groups and key legislature (or key executives) and f) no significant change in socio-economic conditions that may undermine objectives over time by conflicting public policies. While the first three conditions are mostly determined during the policy formulation phase, the last three conditions are the by-products of subsequent political and economic pressure during the actual implementation process.

Since Southeast Asia's economic cooperation is mainly led by the political elites of initially foreign and subsequently trade/ commerce ministries¹¹, a top-down approach is an appropriate way to explain the gap in implementation. Moreover, existing ASEAN literature has mentioned that economic cooperation activities among the Southeast Asian countries have limited stakeholders' inputs or influence (Terada 2009: 165, Hoadley 2007: 324). This dissertation looks into a subset of the six conditions mentioned above to illustrate ASEAN countries' lack in AEC policy implementation. These include structure of implementation process in national economies, committed officials in implementing ministries/ agencies and supportive interest groups, i.e. the businesses.

The thesis rejects the 'bottom-up' theoretical framework of implementation, as it emphasises on target groups and service deliverers, arguing that most implementation problems stem from the linkage of the policy with the local-level institutional setting (Matland 1995: 148). This theory's overemphasis on local autonomy does not go well with the economic integration initiative of ASEAN. Almost all of the AEC policies are centrally determined and it is the central actors who structure the goal and provide the institutional structure and resources that affect the final policy outcomes.

2.3 The ASEAN Economic Community and Gap in Implementation

Extending the above discussion, a comprehensive study framework looking at the issues of policy implementation in ASEAN economies which are influenced by domestic factors of organisation capacity, interest groups and states' decision to pursue a certain form of economic regionalism is presented in Figure 1-1.

¹¹ Severino (2006: 223)

The framework depicts the following points. First, AEC implementation is influenced by the way the regional policy is designed by the member states: it can be challenging to implement policies that are broad and flexible in nature. Indeed, all ASEAN states had a common interest to draw FDI and participate in the production networks in the face of developments in bigger markets in the West (NAFTA and European Union) and an economically rising China. But, as trade has distributive consequences at national level, there are demands for both liberal and protectionist trade policies, depending on the nature of industry, i.e. export-oriented or import-competitive sectors. Hence, the AEC policies are designed to accommodate both kinds of interests at domestic-level, thereby offering flexibility and eventually affecting the pace of implementation. Second, following a top-down approach, all pre-conditions may or may not be present in national economies in ASEAN countries for successful policy implementation. The two conditions that are going to be examined in the thesis for lack of implementation are: a) structure of domestic policy-implementation process and capacity of committed policy officials and b) availability of adequate and coherent support of interest groups (mainly the private sector). The framework, thus, shows the domestic variable as a key factor for the current state of AEC.

Figure 1-1: Study Framework

Source: author's illustration

2.4 Scope of the Research

The thesis covers the 2003 to 2015 period and talks about both ASEAN as a region and its individual member countries. Given the socio-economic heterogeneity across ASEAN members, the empirical chapters of the thesis (mainly chapter 4, 5 and 6) uses Indonesia and Thailand in many instances as case studies to provide more focused discussion. The countries are chosen as they are the founding members of ASEAN and represent the two biggest economies in the region, in terms of nominal GDP (Table 1-1).

Table 1-1: ASEAN Countries' Nominal GDP, 2016

Country	GDP (US\$ billion)	Country	GDP (US\$ billion)
Brunei	10.5	Myanmar	68.3
Cambodia	19.4	Philippines	311.7
Indonesia	940.9	Singapore	296.6
Laos	13.8	Thailand	390.6
Malaysia	302.7	Vietnam	200.5

Source: IMF-World Economic Outlook Database, October 2016

However, Indonesia and Thailand differ in terms of their merchandise trade openness, defined as total trade as a share of GDP. In 2015, while Thailand had a general trade openness of 105, Indonesia had 34, reflecting the latter's huge domestic economy and a more protective nature. A similar pattern can be observed for intra-ASEAN openness, though the gap is significantly narrower (Table 1-2). This provides less incentive for Indonesia to carry on with liberal policies, similar to AEC, in its domestic economy.

Table 1-2: ASEAN Countries' Merchandise Trade Openness, 2015

	Total Trade Openness	Openness to ASEAN		Total Trade Openness	Openness to ASEAN
Brunei	74.3	27.6	Myanmar	43.0	39.4
Cambodia	106.6	22.7	Philippines	44.5	19.8
Indonesia	34.2	21.7	Singapore	227.1	27.6
Laos	53.5	64.4	Thailand	105.4	25.1
Malaysia	127.4	27.4	Vietnam	169.5	12.8

Source: ASEAN Secretariat (2016)

A relatively more closed Indonesian domestic market is also indicated by prevalence of non-tariff measures (NTMs) in the country¹² (Austria 2013: 33). In the case of Indonesia, the

¹² NTMs refer to any measure, not related to tariff, that alters trade. It can be in form of quantitative restriction on trade or border (cumbersome customs regulations and duties) and behind-the-border (import taxes, non-automatic licensing) measures that arise from government policies. While it is rightful to pursue a policy that is of national interest, the same policy (NTM) could translate to non-tariff barrier (NTB) when they are imposed to restrict imports to protect domestic industries.

share of imports in ASEAN priority sectors¹³ that are subject to NTMs stands at 85 per cent, whereas the same for Thailand is around 27 per cent (Table 1-3). This indicates the stakeholder's preference in the respective countries for an open or closed trade policy outcome, thereby determining the country's political willingness to implement AEC policies and subsequently undertake domestic reforms.

Table 1-3: Share of Imports with Non-tariff Measures (NTMs)

Priority-Sectors	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN-5
Agro-based	93.8	89.3	23.4	21.6	53.9	66.2
Fisheries	100	100		100	28.9	82.4
Healthcare	61.1	4.2		71.3	17.9	44.7
Rubber-based		12.4			0.9	1.7
Wood-based	90.2	95.9				49.0
Textiles and Garments	60.5	8.6			8.9	16.9
Information and Communication Technology	99.0	23.6	84.1	83.5		64.8
Electronics	100.0	81.3	1.6	29.6	21.4	40.9
Automotives	79.7	82.8	99.9	96.2	54.3	70.5
Total Priority Sectors	85.2	46.4	62.4	71.7	27.5	58.7

Source: Austria (2013:51)

The similarities and differences between Indonesia and Thailand can also be traced to the countries' attitude towards their overall trade policies and regulatory reforms. Both countries started to undertake trade policy reforms, in line with other developing countries, in the second half of the 1980s. While both had the political will to undertake reforms, clear economic strategy was lacking (Sally and Sen 2005: 104-106). In case of Thailand, overall tariff rates declined since the late-1980s, though such liberalization co-existed with irregular government intervention. The latter was found extensively in agriculture and services. Manufacturing showed dual characteristics where competitive sectors were exposed to global economy and the non-competitive ones were kept protected. In the wake of the 1997 financial

¹³ ASEAN has identified 12 priority sectors in its overall integration measures: agro-based goods, air transport, automotive products, e-ASEAN (including ICT equipment), electronics goods, fisheries, health care products, rubber-based goods, textiles and clothing, tourism, wood-based products, and logistics.

crisis, Thailand did not change its approach towards liberalization. Other than some short-term import surcharges to safeguard vulnerable sectors, it continued with its liberalization exercises. In addition, in the post-1997 crisis, the country added measures on regulatory reforms and institution building (such as competition policy, banking sector reform, increased transparency, good corporate governance and others). However, the momentum to carry on with the reforms waned off after a while. By mid-2000s, Thailand was an active participant in signing FTAs, but effectiveness of such FTAs in terms of cost and benefit remained an open question.

In the case of Indonesia, trade liberalization was on the cards since the mid-1980s and the economy swung between protectionism and openness within a short span of time. By the late-1990s financial crisis, the IMF Structural Adjustment Programme pushed the country towards further external sector liberalization and also drove it towards other domestic regulatory reforms. Nonetheless, high tariffs continued to be observed in the agriculture sector and high incidence of non-tariff barriers existed in agricultural products and some manufacturing sectors, like textile and steel. It was felt that government's willingness for further liberalization had faded by early-2000s. One plausible reason for this could be the political and economic instability in Indonesia in the post-crisis era. Domestic issues like labour market regulations, property rights, public administration and corruption seem to be greater barriers to trade and investment than the market access tariff barriers. The government turned its attention to general economic policies rather than focusing on trade openness. Indonesia never got on the bandwagon with other countries like Singapore and Thailand to sign FTAs with its trading partners.

Hence, Indonesia and Thailand together exhibit characteristics that could be found in other developing countries of ASEAN nations and the findings from these countries have the potential to be generalised to others, especially the middle-income, developing ones. The less developed ASEAN members, i.e. Cambodia, Laos, Myanmar and Vietnam (also known as CLMV countries), are not considered as case studies as they are late entrants in ASEAN. For most of the AEC commitments, the countries have been given longer timeline to comply with or have flexibility to adhere to ASEAN-X formula, where even if member countries agree on a particular commitment, they can defer its implementation till they have the necessary capacity to undertake such reforms. Moreover, the outright objective of CLMV countries to be part of ASEAN was not to benefit from trade integration but more to undertake domestic reform to transform their economies to market-driven ones, while in the process attracting FDI in various economic activities and benefiting from technical assistance programs from both more developed ASEAN members and ASEAN Dialogue Partners. Nonetheless, these and other ASEAN countries are mentioned in several places in the study to present a comparative picture in AEC policy implementation.

As AEC is a comprehensive economic integration plan and includes a number of policies that relate to liberalisation, facilitation and domestic regulations across multiple sectors, two key policies are particularly chosen in Chapter 5 and 6 to explain in a focused manner the nuances of translating regional policies to national implementation. These two policies relate to trade facilitation initiatives in ASEAN, namely the National Single Window (NSW) and the Standards and Conformance (and its related Mutual Recognition Arrangement (MRA) of selected products). Trade facilitation is chosen for this dissertation as lately this has evolved as a key determinant for efficiency in international trade and economic integration. As countries have made significant progress in tariff liberalisation, it has increased the pace of

globalisation and production fragmentation, raising the intensity of cross-border movement of goods. The latter has put pressure on the governments to deliver on efficient, timely and reliable cross-border rules and clearance procedures. NSW assumes importance in this respect. Moreover, as NTBs, derived from diverse standards and conformance procedures across countries, continue to hinder international trade, MRAs are seen as an important policy tool to reduce trade transaction cost. As Wilson (2007:6) mentions, in an era of rising globalisation, there has to be a holistic approach to lower trade transaction cost and time.

In order to provide analytical leverage and to provide purposeful discussion, this thesis also shifts the level of analysis to sectors (automotive and electronic), mainly in Chapter 4 and 6. The two sectors have been selected as they are the priority integration sectors for ASEAN and account for around 25 per cent of ASEAN's total exports in 2012. These two sectors are also suitable as an example of global production network, where production is fragmented into several stages and in multiple countries, thus increasing the cross-border trade intensity and need for efficient trade facilitation measures. Both sectors are important for Indonesian and Thai economies; although they face similar external pressures of globalisation, domestic regulations with respect to protectionism (or not) are developed keeping in mind their target markets. Both sectors face different degrees of protectionism in their domestic market as shown in Table 1-3. The study did not take into account any example of services sector as the ASEAN countries continue to have concerns regarding benefits from services sector integration in the region. This translates into slow progress in negotiation and limited commitments with in-built flexibilities.¹⁴ Moreover, at the time of this study, the negotiations

¹⁴ For example, the ASEAN countries have signed agreements on movement of 8 professionals. But the agreements are mostly in terms of facilitating guidelines and offer flexibilities to member countries. In addition, the agreements are mindful about any domestic regulations around these professionals.

under the ASEAN Framework Agreement on Services, the main vehicle through which the ASEAN countries undertake their discussion, were not completed.¹⁵

All these tools together are expected to provide new insights on the challenges in ASEAN economies that are slowing down the implementation process. By explaining the broad policy design, inefficient structure and capacity in domestic policy-implementation process and lack of adequate support from the private sector, the thesis brings out the issues and concerns for timely AEC policy implementation.

3. Research Methods

This dissertation adopts a case study approach and involves detailed examination of economic developments and key domestic/ regional influencing factors in order to identify the state of economic regionalism in ASEAN. The objective is to build a causal relationship around AEC - to account for the development of the AEC project from 2003 to 2015. The research tools employed are mainly qualitative, although simple quantitative means are used throughout the study.

Qualitative analysis is employed more rigorously in the thesis as it is felt that in-depth focus on case studies will encompass a wide range of issues and contextual parameters that are often lacking in isolated quantitative variables. It provides explanation of the current state of development for the case under discussion, rather than stipulating an expansive view that can be further generalised. Moreover, as the current research asks an explanatory question (rather

¹⁵ Out of the scheduled 10 packages, the ASEAN countries concluded negotiations for only 8 packages by 2015. The ninth package was completed in 2016 and the last package is still under discussion. The significant slow pace in concluding AFAS discussions is due to the sensitivity around FDI liberalisation of the services sector.

than examining effectiveness of variables to generate an outcome), qualitative deductive research using case studies is more appropriate. Within the real-world context, this kind of research facilitates data collection in natural environment rather than using ‘derived’ data.

This study, thus, uses documentary research, semi-structured elite interviews and economic databases and survey findings as sources of empirical material. It employs both primary and secondary sources of information to develop the causal narrative. While primary sources include elite interviews on behind-the-scene discussions related to developing AEC or on implementing a policy in national economies, secondary sources include official documents or agreements, newspaper reports, economic data and survey findings.

3.1 Documentary Research

Documentary research materials, as secondary sources, came from the ASEAN Secretariat in Jakarta, Indonesia and national governments of Indonesia and Thailand. From the Secretariat and its official website (www.asean.org), documents like formal agreements, declaration, communiqués, official press statements and publications related to AEC were collected.

From the national governments of Indonesia and Thailand, national data and information related to domestic policies were collected. Moreover, resources related to AEC in form of pamphlets and brochures were gathered. Most of the materials were in English, ASEAN’s official language. National governments official websites were also used to secure information on AEC policy implementation. For example, on Thai National Single Window, information is available on the Thai Customs Department (<http://www.customs.go.th/wps/wcm/connect/custen/nationsinglewindow/nationsinglewindow>).
[w](http://www.customs.go.th/wps/wcm/connect/custen/nationsinglewindow/nationsinglewindow)).

Scholarly papers and reports on globalisation, economic regionalism, domestic politics, policy implementation and AEC were used and consulted to find empirical information and additional insights on ASEAN economic cooperation and to place it in a broader framework of regional integration. Information and publications from international organisations, such as the World Bank, the Asian Development Bank and the UN-ESCAP were obtained from their official websites. Newspaper sources, essentially in English, were also used to construct the AEC narrative. However, as newspaper sources may not always be accurately reflective of the incident and may have biases, it was cross-referenced across other newspapers and international sources.

3.2 Elite Interviews

Elite interviews, as primary sources, were conducted in a semi-structured style between February 2015 to July 2015. Instead of a rigid questionnaire, informal discussion was used as a reference during the interview. A total of 49 face-to-face interviews were conducted, for about an hour per interview, in three countries – Thailand, Indonesia and Singapore¹⁶. Clarification or information (in soft copy) from interviewees, if needed, was obtained through electronic email. Singapore was added as an extra country for field interviews as there are many eminent persons present in the country who are directly or indirectly related to the decision-making process of AEC in the early 2000s. Moreover, the national secretariat of ASEAN community and AEC in Singapore are useful in validating facts on AEC

¹⁶ Field interviews are conducted only in Indonesia and Thailand as ASEAN follows a principle of ‘non-interference’ and to understand the ambiguities in implementation, it can be best done at the national level of the selected country studies. A less developed ASEAN member will not be able to add any perspective on lack of implementation in Indonesia and Thailand.

developments and implementation progress. Two interviews over electronic mail and one interview over telephone were also conducted during the stated period.

Elite interviewees here refer to three groups of people: policy makers, academics and business community. For policy makers, interviews were conducted with senior officials (Director-General level) from trade/ commerce ministry, foreign ministry and few line ministries or agencies (like customs department, Investment promotion agency) of two national economies. Few interviews with mid-level government officials were also organised in order to gain detailed operational information on government and inter-governmental workings and processes. Interviewees from the ASEAN Secretariat included the Deputy Secretary General of AEC, and senior officials from the ASEAN Integration Monitoring Office and other departments, such as legal, standards and harmonisation, national single window and businesses.

Local and international scholars (including ones from international organisations) working on ASEAN economic issues were included in the interviewees' list to gain unbiased insights on ASEAN developments. Interviews were also conducted with business representatives so as to validate on the progress of AEC implementation reported by the ASEAN official documents. It is important to include businesses as they are not only the final users and beneficiaries of AEC policies, but they also showcase the demand side of AEC policies. Mostly the business representatives for the interviews were heads of business associations, both local and foreign, though they own their firms too. Interviews were also conducted with ASEAN Business Advisory Council representatives of Indonesia and Thailand. ASEAN Business Advisory Council (ABAC) is the official channel to communicate business community's wish list to political leaders.

The Civil Society Organisations (CSOs) are not included in the interviews as it is still evolving. It is felt that the ASEAN countries are still reluctant to include CSOs in their regional agenda-setting and decision making processes. CSOs are generally part of ASEAN's discussion on rural development, disaster relief, women development and youth and hence can be linked more readily with ASEAN's political-security and socio-cultural pillars. In fact, at this stage ASEAN prefers civil society groups that will support its already stated objectives and initiatives, rather than encourage them to increase two-way deliberations over ASEAN's goals and agendas from the beginning (Nesadurai 2012:173).

Although it is said that interviews can be electronically recorded, for this dissertation, following Richard (1996: 202), interviews were not recorded in that sense as it may have resulted in interviewees becoming less forthcoming in the information they provided. Detailed notes were prepared for all face-to-face interviews. While almost all interviews in Indonesia have been 'on the record', few from Thailand and Singapore requested for anonymity. For interviews, reliability of information is always an issue as interviewees tend to present their own personal view of events. In order to minimise biases, information and explanation of events from one person were cross-referenced with other interviewees and also with other documentary research.

3.3 Economic Databases and Survey Findings

Finally, economic databases were used to obtain information on global trends and ASEAN member countries' economic developments. These databases include World Trade Organisation (WTO) publications; Asia Regional Integration Centre (ARIC), an online resource devoted to Asian economic regionalism by the Asian Development Bank (ADB);

CEIC Database; International Monetary Fund (IMF) World Economic Outlook (WEO) and UN-Comtrade. Statistics and data on ASEAN economies were also obtained from the ASEAN Secretariat library and their official website.

This dissertation also uses industry periodicals and surveys to gain deeper understanding of business perspective on AEC matters. It, thus, uses the findings of surveys of business executives on ASEAN countries and economic integration conducted by a range of business associations and organisations – Japan External Trade Organisation, EU-ASEAN Business Council, American Chamber of Commerce and ASEAN Business Advisory Council. The results of these surveys are available on the organisation's website and are also reported in various newspapers.

4. Conclusion: Outline of the Dissertation

Following this introductory chapter (chapter 1), Chapter 2 first systematically reviews the empirical studies on AEC to identify the gap in existing research. Thereafter, it provides a theoretical literature review on each of the components of the analytical framework of the study. It begins with a literature review of New Economic Regionalism, as it resonates with the features of AEC, followed by a discussion on policy implementation. The chapter further analytically reviews the push and pull factors, i.e. globalisation trends and demand-side variables for international trade at domestic level that eventually led to a broad policy document, affecting the course of implementation. The chapter finally presents theoretical literature on the top-down approach of policy implementation, before ending by reiterating the dissertation's central propositions.

These theoretical insights lead to a more organised understanding of the empirical study of AEC developments that is detailed in Chapter 3. The chapter lays down the discussion and developments while extending ASEAN economic cooperation from AFTA, AIA and AFAS in the 1990s to AEC in the 2000s. It also presents the current state of AEC implementation. The chapter concludes that AEC implementation is imperfect as countries are yet to comply with all regional measures and the ones that are met have challenges. Giving this as a background, Chapters 4, 5 and 6 develop the arguments of the thesis.

As the form/ design of ASEAN economic integration guide the subsequent implementation process, Chapter 4 discusses the two building blocks that influenced the decision-making process from the beginning - international developments and domestic strategic imperatives. For the international developments, the current literature mostly points to AEC as a project to attract FDI soon after the 1997-98 Asian Financial Crisis, as a way to participate in the production network and as a defensive mechanism for regionalism elsewhere. This dissertation adds the domestic variable to this analysis to explain the demand side of trade policy in individual ASEAN countries (including Indonesia and Thailand). At domestic-level, economic actors are divided over liberal and protectionist preferences, based on their understanding of distributive consequences of the AEC trade liberalisation policies. Considered holistically, both these push and pull factors have implications for eventual design of AEC measures. While the developments in production network (with the cases of automotive and electronics industries) and desire to attract FDI explain much of the rationale for AEC, the varied domestic interest across members and across industries explain the broad and flexible principles engraved in AEC policy blueprint. This mixed nature of AEC, on one hand, gave incentives to less open economies not to comply with AEC measures in a timely manner, and on the other hand, posed difficulties for countries' implementing agencies as

much is subject to their own interpretation. The flexibility and loopholes provided in the AEC blueprint also highlight the fact that AEC was never meant to deliver on its lofty goal of ‘single market and production base’.

Chapter 5 examines the implementation structure for AEC policies in domestic economies, namely in Indonesia and Thailand. The chapter focuses on one key policy of National Single Window (NSW). The chapter concludes that the implementation gap in AEC initiatives can be attributed to lack of thoughtful consideration on the ways policy implementation effort is or should be organised. Differences in organising implementation process also explains why Indonesia and Thailand may have different implementation performance with respect to a similar ASEAN initiative. Four organisational aspects and their related challenges are discussed in the chapter. These include- a) creation of a new body and organisational mechanism challenges, b) lack of knowledge and resources for creating support base, c) attitude of bureaucrats to coordinate across multiple bodies (horizontal coordination) and d) other contextual factors like infrastructure availability and political priority.

Chapter 6 explains the lack of coherent domestic pressure, mainly from the business groups, as a key reason for gaps in AEC policy implementation. It argues this case with respect to the regional policy of Mutual Recognition Arrangement (MRA) of products. The chapter reveals the fragmented interests over MRAs of automotive and electronic products that resulted in long negotiations. It is also evident that the businesses hardly request the national governments for faster implementation of AEC policies. More importantly, the business pressure in ASEAN mostly comes from the foreign firms and these firms might have different priorities. There is also lack of a unanimous voice among the business community for fear of increased competition. Finally, the existing official mechanism of ASEAN

Business Advisory Council is yet to be developed to communicate business interest to ASEAN political leaders.

The concluding chapter (Chapter 7) sums up the results of the dissertation and concludes that it is the domestic variable that explains the disconnect between commitments in regional policies and its subsequent implementation. The gap in implementation can be traced back to the in-built flexibility clauses mentioned in the AEC policy document. While following along the lines of globalisation, AEC adhered to a liberal trade policy approach and undertook facilitation initiatives. However, the extent of liberalisation and the will to carry on with facilitation activities are limited. The explanation for such deviations lies in domestic demand-side factors for trade policy, i.e. the competing interest groups of import-competing and export-oriented industries in ASEAN countries. In order to address the issues of both groups of firms, ASEAN governments of elected officials agreed to a regional policy document that can serve the dual function of liberalisation and protectionism. The nature of flexible stance, derived from the domestic economy, affected the eventual pace of AEC implementation. It sent a mixed signal to ASEAN member states on timely implementation.

Again, for policy implementation in national economies, it is the domestic capacity in the form of supportive implementers and coordination across implementing agencies that influence the nature of the outcome. The end-users of regional integration, i.e. the private sector, also have the potential to make an economic project successful by their acceptance, or unsuccessful by their ambivalent attitude and rejection. Thus, despite committing to far-reaching measures of AEC, ASEAN countries missed the deadline or did not implement a proportion of the measures uniformly as the countries were challenged by different organisational capacity and lack of coherent domestic pressure from the business community.

4.1 Contribution to knowledge

From the above discussion and the subsequent chapters, this dissertation claims to make three key contributions to the scholarly literature. First, at the time of the writing, although there have been many studies on progress in AEC implementation done both by the ASEAN Secretariat (AEC Scorecard, 2010, 2012b, 2015b) and the research institutes like ERIA and ISEAS, none of these attempt to explain the reasons behind the gap in policy implementation. This is of particular relevance as a notable feature of AEC developments during 2003 to 2015 is the disconnect between commitments made and its ambivalent implementation by member countries. Of course, scholars have attributed this to ‘lack of political will’¹⁷ or domestic policies not being aligned to regional ones, but scholars need to explore – what are the challenges in developing the political will. This thesis, looking at the underlying causes of gaps in implementation, attempts to fill this gap in the ASEAN literature. This is also echoed in some of the recent ASEAN literature, as Jon Quah (2016:4) mentions that there is a significant research gap in policy implementation studies in the context of Asian economies.

Second, the empirical analysis of AEC strengthens the key finding that although globalisation forces play an important role in development of economic cooperation, it is the domestic variable that influences the shape and the final outcome of the policy. In the case of ASEAN, globalisation is indeed a determining factor for countries to get together under AEC, but its broad structure and in-built flexibilities are governed by domestic interests, which, in turn, are primarily shaped by the stakeholder’s understanding of distributive consequences of trade policy. It is the mixed nature of AEC, which is ultimately left to the national governments’ discretion and understanding for implementation, that has led to an incomplete outcome.

¹⁷ Ravenhill (2008: 482)

Even in the national economies, organisation structure and knowledge of government officials dealing with the policy are determining factors for efficient implementation. Lack of enthusiasm from the final users, i.e. the private sector, slows down the implementation process as well. These findings of the dissertation can be generalised for many other regional integration exercises elsewhere.

Third, the dissertation makes an empirical contribution to the future of ASEAN studies and economic regionalism by presenting a holistic discussion on global economy, domestic interest, implementation structure and attitude of the private sector. It highlights that to develop a sustainable regional economic integration model, that has more than two developing countries from different levels of economic development, it should have two key characteristics – a) be pragmatic in nature where national economic interests are not overshadowed by regional imperatives; and b) develop a common understanding of regional integration in domestic economies across all government ministries/ agencies and all levels of bureaucracies. While ASEAN can be termed as successful in terms of the first parameter, the second aspect is still a work-in-progress. Both have pros and cons for the subsequent process of policy implementation.

Looking at some cross-regional comparisons of the European Union and MERCOSUR, it seems that both have important lessons for ASEAN. The European Union (EU) is currently negotiating the exit of Britain from the organisation. The organisation of 28 members is generally considered as the most advanced form of economic integration model in the developed world, as it got extended from sectoral integration in steel and coal to European Economic Community and further to Monetary Union. Both political and economic rationales (post-World War II and high proportion of intra-regional trade respectively) served as

motivations for the EU economies to get together. However, unlike ASEAN, a key characteristic of the EU is its governance structure that is guided by supranational institutions - European Commission, European Central Bank, European Parliament and others. The EU laws override national policies and are legally binding to the extent that both member governments and residents can take a non-abiding government to court. It was this stringent nature of the organisation that prompted the British resident to vote against UK's membership in the EU in mid-2016. Along with other reasons, the residents were unhappy with immigrants of other European nationalities, which put competitive pressures on education, job market and access to public utilities. The experience of the EU clearly tells us that a regional integration process should be pragmatic in nature and should evolve with changing phase of globalisation. As globalisation has varied impact on different economies, it is important to keep in mind the context of domestic economies when participating in a regional organisation. These may include a country's extent of engagement with international community, human resource development and governance structure. Too stringent a regional organisation matching interests of global economy is difficult to be sustained in the future¹⁸.

The case of MERCOSUR, comprising four Latin American countries, explains the importance of knowledge and support of domestic stakeholders for success or failure of an organisation. The Latin American organisation, which has existed since the 1960s, is termed as "largely unsuccessful" (Kaltenthaler and Mora 2002:72). The reasons lie in initial motivations, economic conditions and lack of support. The political elites from the very beginning conceptualised the economic integration process to serve their domestic political

¹⁸ There could be argument that too much focus on domestic economy may slow down the process of economic integration. But it will be in political interest of member countries to undertake domestic reforms, liberalise their economies and raise competitiveness so that they can stay relevant in the fast changing global economy. ASEAN integration can be considered as a pilot case for member economies to engage themselves more effectively in the bigger international platform.

interests of strengthening democracy and supporting economic reform agendas. They did not agree to cede their policy autonomy to supranational institutions and were unwilling to harmonize their macroeconomic policies. Unlike the ASEAN countries, MERCOSUR economic integration was not guided by market-forces of trade and investments that was essentially led by the multinationals. On the other hand, the economies were struggling with weak macroeconomic conditions and low level of industrialisation. Finally, the decision-makers for integration kept the societal participation at a bay and hardly engaged the domestic economic actors. This led to lack of understanding on MERCOSUR's form of integration among the domestic stakeholders, which contributed to lack of support for the project and hence its failure subsequently. This thesis, therefore, highlights that it is important to develop a common understanding of regional economic integration, especially of its economic and strategic objectives, among policy-makers, implementers and other stakeholders, such as the private sector. A comprehensive understanding of the 'policy' itself will generate support for the same and will thus have impact on pace of implementation and final compliance. This will also add to the sustainability of the economic integration project in the future.

Chapter 2

Economic Regionalism and Policy Implementation: A Review of Empirical and Theoretical Literature

1. Introduction

In their seminal book 'Implementation', Pressman and Wildavsky said (1984: xxi): 'Implementation, to us, means just what Webster and Roget say it does: to carry out, accomplish, fulfil, produce, complete. But what is it that is being implemented? A policy, naturally. There must be something out there prior to implementation; otherwise there would be nothing to move forward in the process of implementation. A 'verb' like 'implement' must have an object like 'policy'. But policies normally contain both goals and the means for achieving them'.

What Pressman and Wildavsky wanted to say is that for success or failure of policy implementation there are two crucial variables: a) the policy itself and b) the subsequent actions. There are high chances that policies with unclear goals and objectives will result in incomplete implementation or will leave a gap between aspiration and final outcome. Again, if the policy formulators and policy implementers are not the same group of people, it is important to identify the variety of stakeholders. But it is also important to note that it is these variety of actors that have a key role to play as a facilitator or hindrance to policy implementation. The issue gets complicated when the policy decision concerns a regional one and implementation is a subject of national economies that have different resources, interests and capacity to carry on with the implementation process. One such regional policy that has gained immense importance lately in policy debate is regional economic integration.

Regional economic integration or Regional Trade Agreements (RTAs), in its current form, came into being in the mid-1980s. Also termed as ‘new’ regionalism, they involve integration not only in trade but also in other areas like finance and Foreign Direct Investment (FDI). A key feature of this new form of economic integration is its outward oriented policies and hence is said to have been driven by globalisation and vice-versa. However, as a significant component of new regionalism continues to involve trade, domestic interest group preference generated by the distributive consequences of international exchange, creating both winners and losers among the participating members, becomes an important determinant of its final form. It is quite possible that many times policy decisions on regional integration are taken with lofty goals but with limited, broad or contradictory measures on liberalisation. This eventually has a bearing on the process of implementation.

The act of regional policy implementation in domestic economies also gains relevance to comprehend the eventual state of economic integration. This includes the activities that happen once the regional policy directives are issued in national economies and encompasses the work of a number of administrative bodies that are responsible for compliance. In addition, it involves a network of economic and social actors that have implications for the responsible bodies and also the pace of implementation.

This chapter elaborates on each of the components discussed above. But before that it critically evaluates the existing AEC literature and identifies the gaps in the existing studies. The chapter is organised as follows. Section 2 presents the existing literature on AEC and justifies how the current dissertation builds on the available empirical literature. Section 3 examines the theoretical literature of regional integration and ‘new’ economic regionalism

that resonates with AEC. Following that, Section 4 reviews the theoretical literature on policy implementation. The literature on underlying factors for a broad regional policy, i.e. globalisation and domestic trade policy preference, are examined in Section 5. It is the in-built flexibility in the regional policy that gets reflected in government's attitude towards policy compliance. Subsequently, discussion on the top-down approach of policy implementation is presented in Section 6. As development and execution of policies involve numerous agencies and interest groups, it discusses the implication of such complex interaction in policy implementation. Finally, section 6 concludes the chapter and provides a short account of how the two propositions in connection to ASEAN's economic regionalism, derived from the hypotheses, will be fleshed out further in this study.

2. Evaluating and Identifying Gaps in AEC literature

Almost all works on AEC are atheoretical in nature. It can be divided into three major categories: a) neoclassical framework of analysis, using econometric analysis, assessing the welfare implications of regional integration on its member economies, b) economic rationale from deeper economic integration, particularly in the global context of production networks and the related trade flows and investments, and c) accounting for AEC implementation and some possible regional explanations on gaps discussed in older studies. A key thing to note is that none of this empirical research paid much attention to domestic imperatives that might have influenced the AEC implementation.

2.1 Neoclassical Approaches

The studies under this are based on the seminal customs union model by Jacob Viner (1950). This model talks about the net welfare effect of trade creation and trade diversion. In short,

trade creation is the phenomenon of displacing the less efficient domestic production to the more efficient partner country production. This leads to economic gain as now the country's resources are more efficiently utilised¹⁹. However, it is also possible that preferential treatment is extended to a partner country that replaces a more efficient non-FTA partner. In that case, there will be trade diversion: the importing country is using a less efficiently produced import.

When ASEAN adopted AEC that consisted of economic cooperation measures ranging from lowering trade and investment barriers to harmonising rules and regulation and ways to place the region in the global value chain of production, one could say that such deep, well-encompassing integration, leading to creation of a 'single market and production base', was likely to generate welfare gains much more than only through the tariff liberalisation initiative of AFTA. A comprehensive estimation technique emerged to examine the effect of a deeper integration through AEC. Computable General Equilibrium (CGE)²⁰ modelling became popular in recent years in that respect. One such study undertook a broader approach of trade cost by defining it as more than just removal of tariff and non-tariff barriers (border impediments other than tariff rates) and including indirect expenses such as time and uncertainties due to custom clearance, aligning standards and other facilitation measures, and stipulated that while real income rises in the range of 1.9-6.6 per cent for Southeast Asia, using a narrow definition of trade cost, it rises in the range of 35.5-116.6 per cent with the broader definition (Brooks, Roland-Holst and Zhai, 2005).

¹⁹ This is the same effect as the WTO's approach to non-discriminatory trade liberalisation.

²⁰ CGE models provide an empirical foundation to trade policies that can quantify the magnitude of the effects identified in the theory of net welfare gain from trade creation and trade diversion.

Other studies using direct and indirect trade cost also came up with a similar result. According to De Dios (2006), there will be an increase in trade of 6 per cent with a 10 per cent savings in transport cost. Wilson and Shepherd (2008) show that the gains from trade in ASEAN are better with trade facilitation rather than only with tariff reduction, such as under AFTA in the 1990s. Petri, Plummer, Zhai (2012:115), based on assumptions of key blueprint initiatives and FTAs with external partners, used the CGE model to conclude that 'AEC could yield benefits amounting to 5.3 per cent of the region's GDP and more than twice of that if the AEC leads to FTAs with key external partners. There will be mild trade and investment diversion effects, but the world as a whole will benefit from the AEC'.

2.2 Explaining AEC using the Global Context

It is important to understand the underlying economic dynamics of ASEAN member countries that led them to the decision for AEC. While this is mainly derived from the interaction of member economies both at international and domestic levels, it has implications for the subsequent process of implementation as well. It has been documented that, in almost all instances, a country's domestic variables influence its foreign economic relations and vice-versa (Milner 1997a: 3).

In case of ASEAN, it has often been criticised for lack of market-driven pressure for cooperation arising from 'potential for economic gains from market exchange within a region' (Mattali 1999:42). In other words, the low intra-ASEAN trade share of 18-25 per cent makes Southeast Asia an inappropriate case for regional integration (Ravenhill 2008: 482; Hill and Menon 2010: 13-15). This is because, if member countries have limited trading opportunity with each other, it translates into their firms' reduced international ties in the form of exports, related imports, multinational production and intra-firm trade, leading to

demand for protectionist measure and slowing down economic integration (Milner 1988: 360-362).

However, there are scholars who refer to ASEAN's economic cooperation, especially AEC, in its role to attract FDI. The 'single market production base' feature of AEC was viewed as a pathway of the ASEAN members to attract FDI that appeared to be diverted to bigger emerging markets like China (Freeman and Hew 2002: 1-2; Schwartz and Villinger 2004; Hew 2007a: 2). As the ASEAN economies, mainly Indonesia, Malaysia, the Philippines and Thailand, have followed an export oriented and FDI-led growth strategy since the middle of the 1980s, AEC was perceived to be necessary. In this context, AEC, which is primarily based on AFTA, AFAS and AIA, is a policy tool which will avoid the investment diversion from ASEAN member countries (Petri 1997: 192). It has been believed that removal of trade barriers will encourage intra-regional trade and a bigger market space will attract industries to benefit from the scale economy (Athukorala and Menon 1997: 161). This implies that in the case of AEC, trade and investment are considered as related concepts.

Continuing with trade, two key features that are regularly being discussed for ASEAN's reasons for economic integration are – role of ASEAN in regional production networks and ASEAN's open regionalism. Regarding the role, most of the ASEAN countries are linked to the bigger Asian economies through the intricacies of regional production networks. These production networks are generally a market-driven process led by Multi-nationals (MNCs) and are supported by Free Trade Agreements (FTAs) that encourage FDI flows through liberalisation and facilitation. Industries with long value chains, such as automobiles, electronics and electrical appliances, computers and textiles and garments are regularly found to be part of such production networks (Cheewatrakoolpong et al 2013: 1; Chia and Plummer

2015). As Higgot and Stubbs note (1995:524), ‘the flexibility and efficiency that comes with the building of networks of subcontracting firms has become a crucial ingredient in the manufacturing structure of the East Asian region’. This was acknowledged in the Bali Concord II document of the ASEAN Community, ‘The AEC shall establish ASEAN as a single market and production base, turning the diversity that characterises the region into opportunities for business complementation making the ASEAN a more dynamic and stronger segment of the global supply chain’²¹. This is further explained in Chapter 2 and 4.

As for open-regionalism, ASEAN member states trade significantly with the rest of the world and the share of extra-regional trade for ASEAN is larger than that of intra-regional trade. This led to the realisation that ASEAN’s kind of integration is not restricted within itself but is also connected to key trading partners (Nesadurai 2003a: 240). With regard to the destination countries, the share of extra-regional trade has varied over time with China’s growing importance at the expense of the traditional US and the EU markets and to a certain extent, Japan²². The development of production networks in the bigger geography of East Asia is an important reason for such shift in trade share.

Keeping in mind the development of production networks and importance of FDI, one cannot deny ASEAN countries’ interest to raise their competitiveness to participate effectively in the forces of globalisation. This provides a useful value addition to neo-classical theory of interpretation to AEC.

2.3 Accounting for AEC Implementation

²¹ ASEAN Secretariat (2003), Declaration of ASEAN Concord II (Bali Concord II), Para B3

²² During 2001-2011, ASEAN’s trade with China almost tripled from 5 per cent to 13 per cent.

With regard to AEC implementation, it has been mentioned by many that while ASEAN has implemented several of its AEC measures (lower tariff, trade and investment facilitation, simplified rules of origin, ASEAN+1 FTAs), there are significant number of policy actions that are not completed yet (Intal et al 2014; Basu Das 2013; Chia and Plummer 2015; Severino and Menon 2013; ASEAN Secretariat 2015b). Non-tariff barriers have been cited by all studies as a major barrier to regional integration. Even for the measures under trade facilitation, such as the ASEAN Single Window and Mutual Recognition Arrangement for selected sectors, implementation is not complete and is not uniform across member countries. Nikomborirak and Jitdumrong (2013: 106-108), in their writings, mention that as many of the provisions, such as liberalization of services sector, are saddled with loopholes, it provides flexibility to the member countries, thus dragging out the implementation.

There are studies done by research institutes like Economic Research Institute of ASEAN and East Asia (ERIA) and ISEAS that confirms that impediments to FDI in the region are not only with respect to policies, but also in their implementation in the national economies²³. Some of the implementation, especially under AFAS and ASEAN Comprehensive Investment Agreement (ACIA)²⁴, may even require structural changes in the domestic economies and these could be difficult due to political factors, such as vested interests and fear of competition (Bhaskaran 2013: 161-163). Although the physical and institutional regional connectivity involve institutional mechanism or huge funding, member states often give preference to national needs over regional as most of them have to fulfill the demands of their own constituencies (Zainal Abidin and Rosli 2013:156-160). Thus, although the private

²³ ERIA research includes a Mid-term review of AEC in 2012 and more recently a publication by Intal et al (2014). ISEAS study includes the one done with the Asian Development Bank over 2011-2012. The study resulted in a joint publication between ISEAS and ADB: The ASEAN Economic Community: A Work in Progress in 2013.

²⁴ ACIA (ASEAN Comprehensive Investment Agreement) that came in 2012 is a comprehensive document covering liberalisation, protection, facilitation and promotion. It includes both new and improved provisions to AIA and ASEAN Investment Guarantee Agreement (AIGA) documents.

sector acknowledges the importance of a fully functioning AEC, the utilisation rates of FTA preferences are low (Kawai and Wignaraja 2011: 33; Hu 2013:443). A more detailed account of AEC implementation or lack of it is presented in Chapter 3.

Although there does not exist any direct literature on reasons behind lack of AEC implementation, some earlier studies commenting on AFTA and ASEAN's approach towards implementation at regional-level can be considered for broad understanding. For example, Stubbs (2000) and Akrasanee and Arunanondchai (2005) provide contrasting literature on the implementation aspect of ASEAN regional economic cooperation. Both observed that for most of the ASEAN initiatives, they focus on vision and initial decision making process but miss out on the implementation process. The initiatives do not define how the commitments can be met by the member economies at a domestic level or lay out any consequences for not complying. While Stubbs gives credibility to this aspect of ASEAN's culture and its unique style of decision making as the 'ASEAN Way'²⁵, Akrasanee and Arunanondchai criticize ASEAN's informal institution as a reason for missing the envisaged goals.

Stubbs (2000) argues that the success of AFTA, the core of AEC, should be viewed in the distinctive approach of the ASEAN Way that member economies pursued for economic cooperation. He believes that in the case of ASEAN, a more rigid rules-based approach would have gone against the region's culture and that in turn would have broken the economic regionalism initiative at any point in time. However, with the inception of AEC, ASEAN saw a move towards a rules-based system. The AEC Blueprint was developed with specific commitments that have to be carried over within definite timelines. It included a

²⁵ The 'ASEAN Way' of making decisions is *musyawarah* (discussion and consultation), *mufakat* (unanimous decision), and *consensus* (Hew 2007b: 218).

‘strategic schedule’, which specified the ‘priority actions’ to be undertaken over four two-year periods from 2008 to 2015.

Akrasanee and Arunanondchai (2005), in contrast, argue that the absence of strong institutions have hampered ASEAN’s economic integration project. The scope of economic cooperation would be limited because of a disconnect between domestic interest groups and AEC policy makers. Moreover, a consultative and consensus-driven decision making process is time consuming and with the existing developmental divide, it will add further complexity. Hence, it is wishful thinking that AEC’s building blocks – AFTA, AFAS and AIA – would deliver the desired objectives of efficient allocation of resources.

2.4 Limitations and Unanswered Questions

Neo-classical Explanation

The regionalism studies that are mainly based on neo-classical framework of analysis, have several limitations. They pay little attention to the variables at the domestic level that are responsible for the drive and shape of regionalism. They focus on the comparative advantage of a country and take that as the sole basis for policy makers’ decisions to undertake external trade and related economic policies. To study economic regionalism, however, it is important to consider the political, historical and cultural dimensions, and not only the rational market-driven mechanisms (Higgot and Stubbs, 1995: 531). In addition, the neo-classical approach depends heavily on merchandise goods trade, less on services trade and almost nothing on investment, although these other forms of flows are equally important in economic interactions, as there is almost always a close nexus between trade and investment (Athukorala and Menon, 1997).

In the case of ASEAN, economists continue to focus more on trade generating welfare effects despite the core basis for establishing a single production base being to attract FDI flows. The CGE modelling employed to give a quantitative magnitude to the regionalism exercise is limited as it may not capture the effect of non-tariff barriers in an FTA. It does not capture the time dimension i.e. the model is a simulation exercise that allows economists to estimate the impact of trade agreement, which is essentially static in nature (Krein and Plummer, 2012:142). Moreover, to incorporate the level of services trade is very challenging, as very little data exists. The CGE model also does not deal with FDI effects, more so because of lack of coherent data across member states (Scolay and Gilbert, 2001:19).

Therefore, although the studies of AEC's net welfare benefits are useful to quantify and hence justify the regional policy outcome, they are less able to provide an explanation of why AEC came up with a broad economic structure and offered in-built flexibilities to its member countries. They do not explain why ASEAN's aspiration of 'single market' is not matched with appropriate policy instruments to deliver the outcome. Moreover, they do not explain whether ASEAN countries are likely to benefit substantially from establishing the AEC, why there is a gap between member countries' commitment and implementation of regional initiatives.

A more realistic approach to study AEC is International Political Economy (IPE), where political forces play between winners and losers from global economic exchange (Oatley 2008: 2). In such a scenario, the regionalism process is said to be driven by both economic and political considerations. There might be factors both in the domestic economy and within the international system that prompt the policy makers to undertake certain form of regional

economic cooperation. However, the set of writings that discuss AEC from a political economy dynamics is minimal (Severino 2006; Ravenhill 2008).

Explaining AEC using the Global Context

Taking into account the production network and investment diversion, although a valid explanation to undertake economic cooperation, does not say much about the rationale for member countries to have flexibility in their trade liberalisation and facilitation commitments. For example, while eliminating non-tariff barriers is a key pre-requisite to encourage intra-regional trade, the commitment under AEC provides three separate deadlines to comply with the measure: 2010 for ASEAN-5²⁶, 2012 for the Philippines and 2015 with flexibilities to 2018 for CLMV²⁷. Moreover, it's the responsibility of the ASEAN member states to voluntarily declare their non-tariff measures and there is no mechanism of verification, thus generating considerable loopholes to comply with the measure. Similarly, despite limiting investment diversion being a crucial rationale for deeper ASEAN integration, investment liberalisation commitments mentioned in the AEC document come with several broad and ambiguous phrases, generating different interpretation and flexibilities among member states.

There must be some domestic imperatives that convinced the ASEAN members to have these in-built flexibilities. There are few papers in the late-1990s that give an account of domestic level developments (Bowles and MacLean 1996; Solingen 1999; Stubbs 2000), but the discourse is more about how the business interests are changing in some of the Southeast Asian countries. Bowles and MacLean (1996: 337-339) talk about a growing strong business interest within ASEAN, though the interest groups were divided into two camps, those who operated under a protected environment and others who favoured a liberalised approach. This

²⁶ ASEAN-5 denotes Brunei, Indonesia, Malaysia, Singapore and Thailand

²⁷ CLMV refers to Cambodia, Laos, Myanmar and Vietnam.

mix differed by countries. While Singapore favoured liberalization efforts, Indonesia was more inclined towards protectionism and the rest were inbetween. Over time, these business groups became stronger and there were changing dynamics of close relationships between the business group and state. Solingen (1999: 41-42) advanced a domestic coalition approach to understand the countries' behaviours. According to him, there were key politically connected entrepreneurs across the region that lobbied for the international behaviour and in turn favoured domestic and regional politics as well as economic stability and access to global markets. Stubbs' (2000) analysis looked at the shift in the balance of influential societal groups from economic nationalists to liberal reformers, especially for the four key states – Indonesia, the Philippines, Malaysia and Thailand. While in the 1980s, economic nationalists were prominent, there was a change in attitude with liberal reformers gaining strength after the decline in commodity prices and subsequent recession in the mid-1980s.

Hence, it is important to study AEC in a more holistic approach by incorporating ASEAN's own integration with the region's integration in the bigger geography of East Asia. While the AEC can be considered a response to international production networks and growing competition for foreign investment, we need to consider other dynamics too centred on the flexibilities offered in the ASEAN economic cooperation documents, which also limits its function as a 'single market and production base' and affects the implementation process eventually. It is highly likely that the explanation lies in the domestic factors of the member states, specifically in the demand or interest for regional integration.

Accounting for AEC Implementation

Most of the latest AEC implementation studies are with respect to progress in economic cooperation. The discussion on underlying reasons for incomplete implementation is hardly

there. Even the earlier explanations on AFTA and its related measures are incomplete as they only discuss about ASEAN's success with economic integration (or not) from a regional perspective. As implementation of ASEAN economic cooperation, i.e AEC, is the responsibility of individual members, one should look at issues at domestic level too to provide a comprehensive analysis.

One way to look into this issue is to examine state capacity and its application in good governance. State capacity, defined as the 'degree of control that state agents exercise over persons, activities and resources within their government's territorial jurisdiction', is important to deliver on a stable political system and has positive implication for public administration (McAdam et al. 2001:78). While high capacity states are often understood to be capable of delivering on public goods like healthcare, education and infrastructure, low capacity states regularly fail to serve its people (Rotberg 2003:2-4). However, there is no systematic way to measure this across countries (Fukuyama 2013:353-355). A common way to assess the state's capacity in implementing public policies is to examine the Worldwide Governance Indicators (WGI). This is published by the World Bank and is divided across six categories (Kaufmann et al 2010: 4). These include:

1. Voice and accountability that measures the extent to which country's residents can participate in selecting their government and there is freedom of expression.
2. Political stability so as to measure the likelihood of a government to be destabilised by unconstitutional and violent means.
3. Government effectiveness, which measures the quality of public service, including the capacity of civil servants and the quality of policy formulation.
4. Regulatory quality measures the ability of the government to provide good policies and regulations that will facilitate development of the private sector.

5. Rule of law, which shows the extent to which agents abide by the rules of the society, including that of the courts and the police.
6. Control of corruption measures the use of public power for private gain.

For all these indicators, the World Bank uses a survey approach where it aggregates existing indicators and, hence, it does not measure governance directly. Each measure is graded from -2.5 to 2.5, where higher value implies better performance. For the ASEAN countries, the numbers, particularly the ones related to government effectiveness, regulatory quality and control of corruption, are provided in Table 2-1²⁸.

Table 2-1: Average Governance Score of ASEAN-6 Countries, 2006 and 2016

		Government Effectiveness	Regulatory Quality	Control of Corruption
Indonesia	2006	-0.33	-0.38	-0.84
	2016	0.01	-0.12	-0.39
Malaysia	2006	1.24	0.55	0.23
	2016	0.88	0.71	0.11
Philippines	2006	-0.13	-0.17	-0.83
	2016	-0.01	0.00	-0.53
Singapore	2006	2.2	1.8	2.2
	2016	2.2	2.2	2.1
Thailand	2006	0.45	0.24	-0.38
	2016	0.34	0.17	-0.40
Vietnam	2006	-0.25	-0.62	-0.75
	2016	0.01	-0.45	-0.40

Source: World Bank WGI Interactive Database (accessed on 9 Nov 2017)

It can be said that Singapore has the highest governance score and Malaysia is a close second. Both have positive values in all three aspects of public administration. For others in the region, the score varies. Thailand has a good governance score in government effectiveness and regulatory quality, but it fails in control of corruption. Indonesia, the Philippines and Vietnam have a negative score for most of the governance categories. Comparing 2006 and

²⁸ These three are more closely related to policy making and implementation or in other words public management.

2016, while Malaysia has deteriorated in terms of government effectiveness and control of corruption, Indonesia, the Philippines and Vietnam have all improved. Other than the corruption parameter, Thailand has also shown improvement in its governance indicators.

But the WGI method has severe limitations: it is atheoretical in nature (Arndt 2008) and lacks measurement validity, implying that it is not very clear what exactly the indicator is measuring (Adcock and Collier 2001). It does not talk about several aspects of public administration. These could be quality of public administration, capacity of policy implementers, financial resources, organisation structure and political priority, among others. In addition, mechanisms provided by ASEAN policy makers for the business community to voice their preferences and concerns need to be studied. Are these mechanisms effective in carrying the feedback from the business community to policy-makers? Why is there an ambivalent attitude of the business community towards the AEC? As mentioned earlier in the chapter, economic integration in ASEAN seems to be proceeding irrespective of domestic pressure from the business community. Moreover, it is the foreign MNCs that are advocating extensively for ASEAN's economic cooperation, depending on their benefits from such initiative.

The Dissertation: Building on the Existing Studies

Despite some limitations, incorporating the domestic variable in studies about the AEC provide more details than the ones established in the atheoretical discussions of AEC and their welfare implications. First, they bring out the contemporary economic developments and interactions between international and domestic levels that have the potential to provide better understanding of ASEAN countries' behaviour towards AEC. Second, although the studies on lack of full implementation seek explanation in regional institutional set-ups, there

could be factors present at domestic-level too that slow down compliance of the member countries. The domestic factors remain unexplored in almost all these studies. Third, the existing studies point out to the need for enhanced understanding of regionalism projects so that they can be further deepened and sustained by the participating members in the future.

Following this, the sections below, using the study framework described in Chapter 1, bring out the theoretical debate about new economic regionalism, policy implementation and its key influential factors, such as the policy itself and the process. While ASEAN's form of economic integration resonates highly with the new economic regionalism process, it is the availability or lack of certain characteristics in domestic economies that hampers the policy implementation process. Complying with regional commitments becomes more challenging given the broad nature of the policies as an outcome of interaction of global developments and distributional consequences in domestic economies.

3. Economic Integration and New Economic Regionalism

The last two decades witnessed a rapid proliferation of economic integration. Balassa (1961) describes economic integration in five hierarchical stages: free trade area (FTA), customs union, common market, economic union, and total economic integration. While FTA is the lowest form of integration with only tariff and quantitative restrictions being removed among member economies, total economic integration is the highest form. Under total economic integration, participating members are expected to unify their economic, fiscal and other policies and form a supranational authority whose decisions are binding for all members.

ASEAN's form of integration or AEC effectively falls in between FTA and customs union. More precisely, it is an *FTA plus* arrangement as parties have agreed to remove barriers to trade among themselves and agreed to undertake cooperation on related regulations (such as harmonisation of standards, investment policy, competition policy and others) that is needed to provide economies of scale and attract investment. But ASEAN is not yet a Customs Union as the members have not agreed for a common external tariff for non-ASEAN countries. Each member country continues to impose different tariffs against their non-ASEAN trading partners. The ASEAN countries also follow an institute-light organisational structure, i.e. they maintain ASEAN as an inter-governmental organisation, implying that national sovereignty is not transferred to a supranational body (also discussed in Chapter 1). This is termed the ASEAN Way, where a non-interference principle in domestic affairs is followed and flexibilities are accorded to reach a common goal, thereby making it distinct from the traditional theory of economic integration as described above. Thus, another way to describe ASEAN's integration is through the lens of new economic regionalism.

The new economic regionalism, from the late 1980s and the early 1990s, had emerged primarily as a state-led project in the face of global competition. Grugel (2004: 604) describes new regionalism as a 'route through which states mediate the range of economic and social pressures generated by globalisation'. It evolved as a result of several structural and policy changes in the global economy (Gamble and Payne 1996b, Mansfield and Milner 1999, Hettne and Soderbaum 2000: 457; Kim 2004:42-43). This included (a) decline of the US hegemony, which left space for loose economic regionalism; (b) emergence of multipolar or tripolar structures with new division of power and new division of labour; (c) erosion of the Westphalian nation state system and the growth of interdependence or 'globalisation'; (d) increasing doubt over the GATT-based global trading system and formation of the Asia-

Pacific Economic Cooperation (APEC) in 1989 and the North American Free Trade Agreement (NAFTA) in 1994; (e) inclusion of smaller states in the bilateral and multilateral trading arrangements; (f) changing attitude towards neoliberal economic development and increasing awareness towards export-oriented growth strategies in the developing countries; and (g) the Asian Financial Crisis of 1997-98.

The new regionalism could thus be best explained as a way to cope with the globalisation process, especially for the smaller states that may lack capacity at national level. As Kim (2004: 43) says, ‘the new regionalism may be seen as a calculated response to the complex process of change occurring as a result of global, regional, national and local interactions simultaneously involving state as well as non-state market and society actors’.

There are several features of New Regionalism that the existing literature discusses. Some of the explanations that are relevant for ASEAN are discussed below:

a) Open Regionalism – The new era of regionalism is different from its earlier form of the 1960s (based on protectionism, sealed internal markets or security communities) with respect to their outward oriented policies (de Melo, Panagariya and Rodrik 1993:159; Perroni and Whalley 1996:57; Grugel 2004:605). The outward oriented policies of the latest initiative of the regionalism process are termed as ‘open regionalism’ that led many academics to surmise that they are conceptualised to accelerate the global liberalisation exercise, i.e. multilateralism, practiced in the WTO (Bergsten 1997; Gamble and Payne 1996a: 251-252).

In general, open regionalism is based on a strategy of unilateral trade liberalisation that aims to give greater access to free trade first within member countries, but increasingly produces

positive trade liberalising effect on other countries and trade blocs through GATT's MFN principle (Jayasuriya 2003:341). This implies that eventually open regionalism is non-discriminatory in nature as preferences agreed between two countries will be applied to other members in the future. It helps in trade liberalisation and creates lower trade barriers across the world economy. Hence, new regionalism, which concurs with 'open' regionalism, is outward-looking and conforms to the globalisation process of the world political economy (de Melo and Panagariya 1993: 3-21). The idea of 'open regionalism' in the context of ASEAN is discussed in detail chapters 3 and 4. According to prominent economists like Hadi Soesastro (2006: 217-218), a crucial aspect of the ASEAN economic integration is its emphasis on "outward-looking" model. The integration of these 10 economies to increase intra-regional trade and investment was not at the expense of extra-regional activities. The decision for regional integration followed the path of market integration, which involved countries of ASEAN and others like Japan and China. Both the regional and global markets remained important for the ASEAN countries. Following this, it was observed that AEC not only talks about economic integration measures among the ten Southeast Asian members but also simultaneously gets the member economies together to commit to trade agreements with Australia-New Zealand, China, India, Japan and South Korea.

b) Mix of countries in regional integration: The latest wave of regionalism saw a better mix of member countries that is often termed as 'North-South regionalism' (Bowles 1997: 225). While developing countries pursued regional integration with other developing countries during the 1960s, they looked for developed members in the 1990s. In the process, the new regionalism formalised relations across the North-South divide and went against the traditional view that trading blocs were suited for countries that have the same level of per capita income (Krugman 1993). This is also observed in the case of ASEAN, as the mix of

countries in the grouping are from different strata of economic development. Moreover, the ASEAN countries institutionalised their trade and investment relations with both developed and developing non-ASEAN countries.

c) New regionalism as a response to globalisation - There is literature that takes a viewpoint of liberal political economy and interprets the current initiative of regionalism as a response to globalisation so as to increase competitiveness and efficiency (Mittelman 1996: 198). The arrangement among a select group of countries facilitates participation at a multilateral level by preparing the export-oriented domestic industries to become competitive in the world market (Oye 1992: 6-7, 143-44). This feature of regionalism eases participation at a multilateral level or global scale and in the process reduces conflicts. Consequently, governments undertake projects of regionalism as a response to industries in the region that are export oriented and have greater interest in achieving returns of scale (Milner 1997b: 80-81). It is believed that the export industries can compete only if production is free from price regulations, like tariffs, so as to reduce the transaction cost arising from transnational economic activities. In this neoliberalism form of regionalism, corporates undergo a specialised regional production system along with intraregional division of labour among countries and industries (Mittelman 1996: 200). In the case of ASEAN, AEC was undertaken to raise competitiveness of the participating members to attract FDI that was believed to be diverted to China in the late 1990s. Moreover, the countries wanted to participate effectively in the emerging regional production networks. This discussion of AEC as a response of globalisation is discussed earlier in Section 2.2 of this chapter and will be dealt in detail in Chapter 4 of the thesis.

d) Multiple regionalism - A less discussed nature of new regionalism is 'multiple regionalism' i.e. countries are not members of one but multiple regional groupings (Bowles 1997: 226). Although the multiple regionalism can be attributed to the fact that regionalism and multilateralism are not alternatives but reinforce each other, the other explanation could also be increasing globalisation of capital. It was observed that during the 1980s and the 1990s, there was massive flow of FDI from the developed to the developing countries. As the United Nations Centre on Transnational Corporations (UNCTC 1995:16) notes, FDI 'flows into developing countries increased more than fourfold between 1986 and 1993....This underlines the fact that developing countries as a group are becoming more attractive to TNCs because of improved growth performance, liberalized FDI policies and privatization programmes open to foreign participation'. This encouraged the countries to explore for options of formal cooperation arrangement so as to facilitate such flows and minimise the risk of capital investment across borders. In this process, countries became keen to be part of a number of groupings that are attractive to global capital. For example, with regard to the ASEAN countries, they are part of bilateral, regional and multilateral groupings. For a country like Singapore, which has a bilateral deal with China, it is also linked with China through ASEAN-China FTA, APEC and WTO.

e) Comprehensive in nature - Regionalism is a comprehensive programme covering economic, monetary, developmental, security, environment, labour and other issues (Hettne 2005: 549). It has the capability of addressing multiple issues, especially the ones that are regional in character²⁹. Hence, new regionalism is qualitatively better, keeping in mind the developments at the global level. This dimension of new regionalism raises the demand for a coordination mechanism at an institutional level (de Melo, Panagariya and Rodrik 1993:

²⁹ With regard to ASEAN, besides ASEAN Economic Community, it also talks about ASEAN Political-Security Community and ASEAN Socio-cultural Community.

176). According to Jayasuriya (2003: 339), new regionalism can be understood as an attempt for 'regional governance'. However, it is not of one kind and varies in the context of institutional linkage, coalition structure and policy content (Grugel 2004:606). Gamble and Payne (1996b) talk about three models of regionalism: American, European and Asian, that have different kinds of regional governance projects, depending on the nature of North-South relationship, institutions and policy content. This is inevitable because of the differences in the structure of power and production that have emerged over time in each of the three regions (Gamble and Payne 1996a:253).

f) Participation of state and non-state actors - Lastly, because of its multi-dimensional nature, new regionalism could also be distinguished by its participatory nature. Besides the state, many non-state actors play an important role to mediate the negative impact of globalisation. As regional mechanism and new initiatives evolve and resources of the governments get limited, it opens up opportunities for non-state actors like the businesses, non-governmental organisations (NGOs), civil society groups and other external agencies. This was noted by Grugel (2004:617) as he mentioned that the new approach also encourages engagement of a broad range of society-based actors. Similarly, Jayasuriya (2009:343) pointed out that private or non-state actors are playing a growing role in the regulatory function of a region. For ASEAN, this is where matching of regional policies and domestic interest with regard to international trade policy becomes important. Often, countries constitute both export-oriented and import-competing firms. Depending on their understanding of distributional consequences of economic cooperation, they request for liberal or protectionist policies at a regional level. While liberal commitments are made for export-oriented and competitive sectors, protectionism is pursued for domestic-oriented, unproductive firms. This is explained further in Chapter 4.

Regionalism can be argued as an outcome of globalisation...

Summarising the discussion of this section, one can say that regionalism is an outcome of developments in the global landscape. If regionalism is defined in Hurrell's (2007: 130) terms as 'the impact of rising levels of regional social and economic exchange and the links between economic integration, institutions and identity' and globalisation as 'the internationalization of production, capital flows and markets, the emergence of transnational and supranational agencies and the internationalization of culture' (Wilding 1997:411), then regionalism could be viewed as supporting globalisation. As Nesadurai (2002:14) has mentioned, if more and more countries undertake the regionalism process, it could constitute an interim approach to global liberalisation.

...though the strategic rationale to match domestic imperatives remain important

However, this leads to the question of why policymakers or the private sector would 'support a regionalism policy rather than their final objective of engaging in the global platform. The answer lies in the fact that a regionalism project has a limited number of partners, which makes it easier to negotiate and implement policies of mutual interest than a multilateral one at a global scale (Ravenhill 2014:146; Oye 1985: 19). The arrangement enables continued protectionism in a bigger geographical space and shuns producers from outside the region³⁰. Also, a regional arrangement may help the governments to exclude 'politically sensitive', non-competitive domestic sectors completely from the trade liberalisation measures Ravenhill (2008: 181). One could say that regionalism is a solution to the challenges faced when the number of players is large.

³⁰ This happens, when the interests groups, like manufactures' or farmers' associations, lobbying the government, assert that domestic producer will be successful in competition from regional partners and will benefit from a larger market that a regional scheme creates, but they would not survive competition from outside the region.

Therefore, in case of a regionalism initiative, both globalisation and domestic imperatives are key parameters. In general, while a country's position in international activities has implications for its internal politics and economics, conversely, its domestic situation governs its behaviour in foreign economic policy (Milner 1997a:3-5). It can be said that a political leader is constantly balancing the domestic and international factors simultaneously as he faces different – and often contradictory – pressures and constraints from each other. As Putnam describes: 'At the national level, domestic groups pursue their interests by pressuring the government to adopt favourable policies and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximise their own ability to satisfy domestic pressure, while minimising the adverse consequences of foreign developments. Neither of the two games can be ignored by central decision makers' (1988: 434). It is, thus, important to take into account the responses of the state and non-state (mainly businesses) actors in reactions to the globalisation pressures. Studying domestic factors concurrently with a country's foreign policy of economic cooperation will provide a complete picture of the current empirical study.

Following on from the above, the subsequent sections discuss the literature on public policy implementation. It looks at the building blocks of economic regionalism – globalisation and domestic trade policy preference – as factors influencing policy implementation. While the global interactions in the form of trade and investment may lead governments to formulate policies with high aspirations, the domestic economic orientation may push them towards ambiguity in the policy document so as to manage the varied domestic interests. Complying with such policies could be a challenging task and can lead to a gap in policy implementation. Moreover, for implementing public policies, it is important for the countries to have the

necessary conditions, such as financial and man-power resources, political willingness at all levels of bureaucracy and efficient organisation structure in order to achieve the desired outcome. In case of a lack of one or more of these characteristics, countries can have a distorted implementation. The issue gets more complicated if it is a regional policy and implementation prerogatives lie with national economies.

4. Conceptualising Policy Implementation

The seminal study on policy implementation by Pressman and Wildavsky defines implementation in a simple way – ‘Implementation, to us, means just what Webster and Roget say it does: to carry out, accomplish, fulfill, produce, complete. But what is it that is being implemented? A policy, naturally’ (1984: xxi)³¹. They state that policy is a proposition including certain conditions and expected significance. It can be viewed as a ‘process of interaction between the setting of goals and actions to achieving them’ (p. xv).

Van Meter and Van Horn (1975: 443) view policy implementation as actions by public and private individuals or groups to attain objectives set in a prior policy decision. This covers both a one-time effort to translate decisions into operational action and on-going efforts to realise the changes authorised by policy decisions. O’ Toole (2000: 266) describes implementation as a phase between the establishment of an intent to do something (or to stop doing something) by the government and the final impact on the world, thereby conceptually differentiating the policy implementation process and policy outcomes.

³¹ The first edition of this book came in 1973. 1984 was the third edition.

Mazmanian and Sabatier (1989:20-21) provide a very comprehensive description. According to them 'policy implementation is the carrying out of a basic policy decision, usually incorporated in a statute, but which can also take the form of important executive orders or court decisions. Ideally, that decision identifies the problem(s) to be addressed, stipulates the objective(s) to be pursued, and, in a variety of ways, 'structures' the implementation process. The process normally runs through a number of stages beginning with passage of the basic statute, followed by the policy outputs (decisions) of the implementing agencies, the compliance of target groups with those decisions, the actual impacts of agency decisions, and, finally, important revisions (or attempted revisions) in the basic statute.' (p.20). The key starting point of Mazmanian and Sabatier's description is the authoritative decision, implying involvement of actors like politicians, top-level civil servants and others, who are generally seen as capable of delivering a desired policy outcome (Paudel 2009: 37).

Hence, the existing literature includes several concepts of policy implementation. All the concepts adopt a process view of policy implementation, implying that there are factors in terms of organisational structure, financial resources, support groups and many contextual variables that contribute to the realisation or non-realisation of the desired policy outcome. Based on their own definition, Mazmanian and Sabatier (1989:21) identify a number of variables that may affect the achievement of legal objectives. They divide the variables in three broad categories – a) the tractability of the problem(s) being addressed, b) the ability of the statute to structure the implementation process and c) the net effect of a variety of political variables on the balance of support for statutory objectives (described in detail in the next sub-section). Elmore (1978: 195) identifies four components for effective or successful

policy implementation³². These are a) distinctly specified tasks and objectives that accurately describe the policy intent, b) a management plan that divides the tasks and performance standards to subunits, c) an objective way to measure sub-unit performance and d) a system of management control to hold subordinates accountable for their action. Giacchino and Kakabadse (2003: 141) argue that there are three decisive factors for a successful policy implementation – the decision to place the political responsibility of the initiative, development of strong project management team dynamics and the level of commitment shown to a policy initiative.

The theoretical account mentioned above highlights that policy implementation studies are characterised by different approaches and research methodologies. The efforts of policy implementation take different shapes and features, depending on the diverse political, social and institutional setting (DeGroff and Cargo 2009: 50). There is no ‘one-size-fits-all’ kind of rule that exists for a successful policy implementation.

The sub-sections below look at two kinds of theoretical discussions that influence public policy implementation – a) the ‘policy’ itself, where the policy is a regional economic one that is built upon globalisation and domestic factors. These factors when put together can result in broad policy measures, which become difficult for implementation later; b) the process of policy implementation and top-down approach that the current thesis adopts.

5. Regional Policy as an Outcome of Globalisation and Domestic Interests

³² A successful policy implementation implies a policy initiative in which the planned action adopted by the administrative division of the government was deemed to have delivered the desired policy decision and to have achieved the envisioned outcomes (Giacchino and Kakabadse 2003:140).

5.1 Globalisation and its Trade-Investment Dimension

The European Commission defines globalisation as ‘the process by which markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology’³³. This phenomenon of globalisation is not a new concept and is spread over the last 100 years in three distinct phases (Oman 1996: 5). Since the 1980s, we are in the third wave of globalisation driven by ‘the globalisation of financial markets; the massive shift by developing countries from inward- to outward-oriented growth strategies; the emergence of widespread concern for the global environment; the end of bi-polarity; and the globalisation of corporate competition and co-operation’ (Oman 1996: 10).

A distinct feature that emerged in the latest wave of globalisation is the way corporates managed production. This was influenced by the fact that international trade over the last two decades was not fully explained by the traditional comparative advantage theory. There was a rapid development of cross-border production networks with each country specializing in a particular stage of the production sequence (Ando 2006: 258; Athukorala and Yamashita 2006: 234). Such production networks got developed in the machinery industry³⁴, as it incorporated a large number of parts and components produced by diversified inputs and technology (Kimura and Obashi 2011: 1). These developmental changes were observed in the Asian countries as they aggressively received FDI both from the US and Japan³⁵. For these countries the trade composition also changed to a higher share in machinery parts and

³³ quoted in Thompson (1999: 139)

³⁴ It was also observed in automotive industry, electronics, textiles and sports goods and toys (Oman 1996: 16). In Asia, production network also exists in services sector with the development of offshore services like call centers, software outsourcing, and others (Kimura and Obashi 2011:9).

³⁵ The US firms, challenged by productivity growth, used FDI as a tool and moved their labour-intensive part of production to the low-waged country of Asia, Latin America and Caribbean. During the same time, Japanese firms, following the ‘flying geese’ development pattern and favouring trade and FDI, also moved to low-wage destinations of Asia and the Pacific (Kojima 2000: 376).

components, thus increasing the intra-industry trade among the producing countries (Kimura 2005: 5-6; Ando 2006: 259-266).

Jones and Kierzkowski (1990) were one of the pioneers in studying the production network. They pointed towards the fragmentation theory and the difference between trade in final and intermediate goods. Transnational corporations (TNCs) became leading players in this form of production, trade and FDI as this gave the TNCs flexibility to cut their production process in blocks that are joined by the existence of service link costs. However, this nature of fragmentation is only viable if the production costs are low in the producing country and there is a small service link cost i.e. trade and transport costs are small.

Thus, as production decisions remain with the TNCs, there is increasing competition among the governments to attract FDI (Petrella 1996:74). With the lowering of tariff rates, there are more choices among the firms for its production base (Dunning 1993: 13-15). Asia, being a forerunner in the global production network, aggressively attracted FDI since the middle of the 1980s (Kimura and Obashi 2011: 13). The competition became harsher in early 1990s with further liberalisation of trade, particularly in electronic industry, using the Information Technology Agreement (ITA) (Baldwin 2006: 1504).

Apart from the competition, it should be noted that the degree of development and participation in production network differs across countries and regions (Kimura and Obashi 2011: 13). The flexibility in the production process leads to economic agglomeration (or concentration of economic activities), which is dependent on proximity between the producers and consumers and also on transportation and distance-related cost (Oman 1996: 18-21; Athukorala and Yamashita 2006: 251). Thus, while globalisation helped to refine the

production space beyond a single nation-state, it also led to concentration of economic actions (Oman 1996). One may view this as a form of regionalisation, an outcome from the factors of globalisation. In other words, both expansionary and contractionary forces work simultaneously for globalisation and provide explanation for regional, rather than global, production activities.

This new form of production, where the economic activity is slashed based on a country's available resources, is different from the cross-border activity of the 1960s and the 1970s. During those times, the decision to produce overseas was mainly dependent on low labour costs and production was primarily for exports to developed economies. This form of international production activity did not involve any reconfiguration of production space. Although there were cross-border economic activities and production was organised overseas, it was in a particular nation-state. However, now with the change in global production process, a single production chain is cut in different segments and is produced in multiple countries. This pattern of managing production, which leads to a regionalisation tendency, is an outcome of globalisation. Indeed, the form of regionalisation is a factor of the decision-making process of both the governments and the TNCs. While the TNC's decision-making processes plays a critical role in locating its production base that leads to a regionalisation exercise, it also gets influenced by the government's policy decisions. According to Walter (2000: 65), market size, infrastructure development, geographical location and 'access to large regional markets' are a few key determinants for firms to invest abroad. Thus, in order to meet the firms' demands and lower transaction costs, the role of the governments became crucial, especially in terms of participating in regional economic cooperation.

Summarising the above discussion, globalisation can be seen as a reconfiguration of the production space beyond a single nation-state. The production space is increasingly led by the decisions of the TNCs who adopt a flexible mechanism in their production process and cut it in blocks across multiple nations. However, governments may influence this decision by their FDI and trade policy measures, often leading to economic agglomeration. This can be viewed as a form of regionalism, deriving from the economic pressures of globalisation.

While these dimensions of globalisation can be argued to lead to the formation of regionalism, it does not explain its form as rigid or flexible or even open or closed. Much of this will depend on the domestic structure of the economy, its interests groups and the political context. There are increasing protests in the global economy today as they discourage the neoliberal economic thoughts of globalisation (Mittelman 2000). This could be seen during the WTO Ministerial Meeting in 1999, IMF and World Bank meetings in 2000, the World Economic Conference in 2001 or more recently failure of the 2013 WTO Ministerial Meeting, 2016 Brexit or the US' Presidential election. This brings us to the discussion of domestic trade policy preference.

5.2 Domestic Trade Policy Preference

In order to understand the nature of regional trade policies, interests at domestic level become an important determinant. This can be observed from the demand-side or bottom-up approach of trade policy formulation³⁶.

³⁶ The literature looks at two key approaches to understand trade policy formulation, namely supply-side and demand-side. Supply-side models examine the role and interplay of domestic and international political institutions to shape international trade policy formulation (Frieden and Martin 2003: 131-136). While earlier literature spoke of strength of state to influence non-state actors (mainly private sector and interest groups), recently more studies focus on regime types and their capacity to influence trade policies (Busch and Mansfield undated: 11-16, Frye and Mansfield 2003: 637-638). In general, empirical studies have mixed evidence on the role of democracies in promoting free trade with some showing that there is no systematic relationship. For this study, the focus is mainly on the demand-side approach for trade policy outcomes.

The demand-driven models of trade policy preference arise from the distributive consequences of trade policy and the public votes based on their perception of personal and, more broadly, their country's economic well-being (Mayda and Rodrik 2005: 1394; Hicks, et al. 2014: 108). The trade theoretic models used to understand this distributional effect, thereby shaping economic interests in determining trade policy preference, derives from the Heckscher-Ohlin (HO) theorem or its related Stolper-Samuelson (SS) theorem and Ricardo-Viner (RV) Model. The HO or SS theorems claim that factors of production that are relatively scarce in a country lose from trade liberalisation and hence benefit from trade protection³⁷. In other words, one may say that labour in capital-rich (developed) countries and capital in labour-rich (developing) countries should be protectionist. The theorems, thus, predict conflicts between the factors of production of capital and labour over trade policy (Beaulieu et al. 2005: 941-942; Peamsilpakulchorn 2006: 67-70; Frieden and Martin 2003: 121). However, there are studies that suggest that the argument of the SS trade model may not be applicable for developing countries (Ethier 2005: 254; Epifani and Gancia 2008: 955). Many developing countries that have liberalized their trade have experienced increased inequality as liberalisation resulted in gains for higher skilled workers and losses for lower-skilled ones (Anderson 2005: 1059; Goldberg and Pavcnik 2007: 40-41).

The RV, or specific-factors, approach assumes that factors of production are immobile in the short-run³⁸, i.e. at least one factor of production is assumed to be tied to an industry, implying that its return depends on the fortunes of that particular industry. Hence, for factors that are

³⁷ The Heckscher-Ohlin trade model (or the related Stolper-Samuelson model) assumes that factor endowment determines a country's comparative advantage. A country will export product that uses its abundant resources in higher proportion in production, while importing products that employs its scarce resources in relatively higher proportion.

³⁸ The argument of Ricardo-Viner model is that, in reality, factors are not mobile and once they are employed in a particular industry, they get tied to it to the extent that when the industry sets to decline, they cannot, in the short-run, they cannot move to a more profitable industry.

specific with the export-oriented industries, trade liberalisation will produce gains, reflecting trade policy preference for liberalisation. Alternatively, for factors that are specific to the import-competing industries, trade liberalisation will result in losses and hence there will be opposition to a liberal outcome. The preferences of mobile factors (usually assumed to be labour) will depend on their consumption patterns, which in developing countries are often biased towards import-competing industries. The model, thus, predicts conflicting economic interest between the export-oriented or competitive industries (free traders) and import-oriented or uncompetitive industries (protectionists).

While the traditional trade theories are better fitted for inter-industry trade, more recently new theories have been developed keeping in mind the imperfect competition and product differentiation to explain the intra- industry trade³⁹ (Kim 2013: 9). This new trade theory shifts the unit of analysis from country to industry level and further to firm level, assuming heterogeneity across firms rather than homogeneity (Melitz 2003: 1695-1697). In this trade model, difference in productivity among varied firms influence firms' capability to export and hence accordingly alter their preference for trade. Following this, in general, high productive firms will tend to be exporters and low productive firms will be import-competing. As both these kinds of firms could be operating in the same industry, political conflict is likely to happen within the same industry, unlike the factor of production or industry conflicts in the HO and RV models (Kim 2013: 6-10).

In summary, at domestic-level, irrespective of whether the unit of analysis is developed around factor endowment or industry or firms, regional integration is discriminatory in

³⁹ Intra-industry trade is trade of products for the same industry. In recent times, due to international production network on the back of globalization and technologies, intra-industry trade has become an important factor in trade growth.

nature. It will benefit certain actors, who are highly likely to support the formation (Nye 1988: 240). These winners are, in general, highly productive and present in the export-oriented sectors. Concurrently, there are industries that may seek temporary or continued protection in an expanded market space, thereby resisting trade liberalisation. They are the losers from regional integration and, in general, are less productive and exist in import-competing sectors. Given this conflict among the domestic interest groups for economic integration efforts, Ravenhill argues (2014:146) that regionalism among few countries enables the governments to exclude ‘politically sensitive’ non-competitive domestic sectors completely from the arrangement. Thus, the new regionalism can also be termed as ‘the new protectionism’ (Hettne 2005: 549).

Combining the discussion of the earlier two sub-sections of globalisation and domestic trade policy preference, it is crucial to note that it is these together that offer a holistic insight into the form of economic regionalism exercise. While open regionalism, in support to globalisation or patterns of international exchange, is propagated for economic growth and efficiency through competition, domestic trade preference literature offers explanation for political viability of the project and hence a mixed nature of policy prescription. The mixed feature of policy design, especially of a regionalism project, is important to understand as policy makers often have to balance policies between maximising a country’s economic welfare, given the global developments, and considering domestic interests which is key for future sustainability of the project. Thus, it can be inferred that while factors in the global economy lead to emergence in economic regionalism, its form depends heavily on the preferences of the domestic interest groups.

The form of Regional Integration can be challenging for Implementation

However, the form itself can influence the willingness and pace of implementation. It has been argued that implementing policy decisions that are derived from broad aspirations can be a difficult task for government's implementing agencies (Flanagan et. al 2011: 704-705). This is especially when the policy concerned is a complex issue and involves ambiguity and flexibility.

6. Top-Down Approach of Policy Implementation

Since the pioneering implementation study of Pressman and Wildavsky in the early 1970s, at least two prominent theoretical approaches that emerged in the literature are top-down and bottom up perspectives. While the 'top-down' approach is policy-centric and led by politicians and top-level bureaucrats, the 'bottom-up' approach has society as the starting point and the street level bureaucrats are central to the whole process (Paudel 2009: 39-42). As ASEAN economic cooperation and policies on regional trade are decisions of the federal governments and is carried out by the senior bureaucrats (Severino 2006: 223, Terada 2009: 165, Hoadley 2007: 324), the top-down implementation model is used for this dissertation and is discussed in detail below.

The initial study of Pressman and Wildavsky set the direction of a top-down policy approach as they, and subsequently others, gave an account of a policy decision that had to be carried out at a single location (Goggin 1986: 328, Paudel 2009: 38). These models, according to Sabatier (1986: 22), started with a policy decision (usually a statute) and assessed the degree to which its legally mandated goals were met over time and why. Most of these models tried to develop a generalised pattern of policy advice (Matland 1995: 147). They showed how indigenous factors, such as size, intra-organisational relations, commitment, capacity and institutional complexity changes the policy outcome (McLaughlin 1987: 172).

In terms of specific questions for the top-down approach, Lester et al. (1987), while reviewing the policy implementation frameworks during 1975 to 1980, list down the following: ‘(a) to what extent were the actions of implementing officials and target groups consistent with (the objectives and procedures outlined in) that policy decision?; (b) to what extent were the objectives attained over time, i.e., to what extent were the impacts consistent with the objectives?; (c) what were the principal factors affecting policy outputs and impacts, both those relevant to the official policy as well as other politically significant ones?; (d) how was the policy reformulated over time on the basis of experience?’ (p. 202)

Van Meter and Van Horn (1975) were the pioneers in developing a top-down theoretical framework. According to them, policies are more difficult to implement if the extent of change needed, both in the policy and the target implementing agency, is significant and there is lack of consensus over the policy goal among the participants of the implementation process (p. 458-462). Following the logic, they identified important variables to draw the policy implementation process. These are the kind of policy itself, including its stated objectives and allocated financial resources; inter-organisational communication and enforcement activities; features of the implementing agencies; the economic, social and political context affecting the jurisdiction and the disposition of implementers in terms of their understanding, extent of acceptability and degree of willingness for the policy change (p. 462- 474).

Subsequently, Mazmanian and Sabatier (1989: 18-48)⁴⁰ developed a comprehensive theoretical framework that captured a big range of implementation activities. As ‘top-downers’, they started their analysis from authoritative decision-making point, which, in general, takes the form of statutorily-enacted policy and is communicated as important executive orders or court decisions. They identified three broad categories that affect a government-led policy implementation process – a) tractability of the problem, b) ability of statute to structure implementation and c) non-statutory variables affecting implementation. These independent factors, though linked to each other, affect the stages of implementation, such as policy outputs of implementing agencies, compliance with policy outputs by target groups, actual and perceived impact of policy output and major revisions in statute. Tractability of the problem covers the basic elements of policy implementation, such as understanding of technical issues, extent of diversity in target group behaviour, percentage share of target group population in total population and extent of behavioural change required. Statutory variables include the elements that any statute or executive order is expected to provide and facilitate. These include clear objectives, understanding of appropriate causal theory, allocation of financial resources, hierarchical integration within and among implementing institutions, decision rules of implementing agencies, capacity of implementing officials and formal access by outsiders. Non-statutory factors are outside the legal system and include general socio-economic conditions, public support, attitudes of constituency groups, support from sovereigns and commitment and leadership skill of implementing officials. The model is explained diagrammatically below (Figure 2-1).

⁴⁰ Daniel A. Mazmanian and Paul A. Sabatier first published the book, *Implementation and Public Policy*, in 1983 with the publisher Scott, Foresman and Company. Later, they re-printed the book in 1989 with the publisher University Press of America.

Figure 2-1: Variables Affecting the Implementation Process

Source: Sabatier (1986:24)

Mazmanian and Sabatier further streamlined their variables into a shorter list of six sufficient and necessary conditions for effective implementation of stated objectives (also described in Sabatier 1986: 23-24):

- a) Clear and consistent policy objectives – The enabling legislation clearly spells out the policy objective. This provides substantive criteria for evaluation and is an important legal tool for implementing officials (also mentioned by Van Meter and Van Horn 1975).

- b) Adequate causal theory – The enabling legislation includes a sound theory, recognising the principal factors and building causal linkages to policy objectives. This gives the implementing officials a means to ascertain the causal assumptions on the target population.
- c) Distinct implementation process legally structured to enhance compliance by implementing officials and target groups - The legislation facilitate the structuring of implementation process. This includes adequate hierarchical integration, supportive decision rules and sufficient financial resources.
- d) Committed and skilful implementing officials, including leaders of implementing agencies with sufficient political authority.
- e) Support of interest groups – The statutory order is actively supported by organised constituency groups and key legislatures and chief executives throughout the implementation process. This recognises the importance of political support from the interest groups for effective implementation.
- f) No significant change in socio-economic conditions that may undermine objectives overtime by conflicting public policies.

A subset of these six conditions are used in subsequent chapters of the study - Organisation of Implementation process for ease of compliance by implementing officials and target groups (statutory variable) and Support and Attitude of Interest Groups (non-statutory variable).

For organisation of implementation process, it has been argued that a large part of success in execution of public policy depends on the nature of public administration. In the past, public administration was seen as a comprehensive, functionally uniform and hierarchical organisation. While there is a strong executive, who is politically appointed, there are a

number of capable civil servants carrying out their tasks. Also termed as ‘lonely organisation syndrome’, this brings all related functions under one public agency (Hjern and Porter 1981: 212). However, most often, public administration of a single policy is not responsibility of one but multiple agencies – public, non-governmental bodies and sometimes, private sector – and in that case the lessons learnt from managing single ‘lonely’ organisation is no longer useful (Hall and Toole 2000:669).

This environment of multiple agencies made public policy implementation very complex. The involvement of several participants distort and delay implementation (Kettl 1990: 412). This is because, for any act of implementation, it is the public agencies that are responsible for the goals to be attained set by the political leaders, say the Cabinet Ministers or the prime minister/ president. But officers of these agencies may have their own personal goals and other political pressures that may alter their actions away from legislative goals and eventually result in a gap in implementation. Difficulties continue as bureaucrats/ civil servants delay, impede, create red tape and hesitate to comply with the policy instruction. There is a general lack of enthusiasm in learning from past mistakes and adaptation to new trends in and across the government agencies. Bureaucracy becomes ‘a preference for procedure over purpose’ (Pressman and Wildavsky 1984: 133). Often, they get blindsided and are caught in their daily routines and existing conventions. This leads to lack of coordination among agencies, therefore, delaying the process of implementation.

Implementation gets more complicated as continual political support from the interest groups, defined as the economic actors involved in production of goods and services, i.e. the private sector, is a pre-requisite for its success throughout the period (Sabatier 1975: 318)⁴¹. This

⁴¹ Interest groups are often defined as any association of individuals or organisations that have on basis of common interests or concerns, attempt to influence public policy. These groups can be classified according to

function is often performed better under an organised constituency, that is typically immortal, have expertise in an array of issues and facilitate information flows between government and members of the organisation, rather than an individual entity. Organised interest groups can influence the agency statute, its technical resource and the attitude of implementing officials. They are capable of not only monitoring an agency and its deliverables but also its pace of implementation over time. As agencies and its participants may slip on a variety of decisions, thereby delaying and distorting the final outcome, an organised interest group can influence agency officials via testimony at hearings or informal discussion. They can supplement the administrative process through their technical expertise.

Thus, for timely or accurate implementation while the empirical chapters of the study look at the inter-organisation coordination and capability as a necessary condition for ease of compliance by implementing officials, the support of organised interest groups, largely a product of political and economic pressure, is seen as a general condition that needs to be present throughout the duration of implementation.

7. Conclusion – The Dissertation’s Propositions

The analytical framework of the study looks at the challenges in policy implementation of a foreign economic policy, i.e. regional economic integration. It is derived from the form or policy document of economic integration, which is centred around the interaction of domestic and international factors. For ASEAN, this explains the underlying basis for a drive towards deeper and wider economic cooperation through AEC, while maintaining flexibility in its inherent structure. It is this dual nature of AEC that explains why the policy actions of AEC

their motivations: a) economic, including firms and businesses; b) professionals, such as trade unions, bankers and lawyers; c) public interest, covering human rights, environmental groups (Chari et al. 2010: 3).

initiatives are kept broad in nature. This not only convinced the member countries, who were significantly different from each other in terms of their economic development, to advance their economic integration measures of the 1990s to the latest form of AEC, but also gave them the leeway to interpret and implement the measures at their comfortable pace. To explore the domestic variable further, the second and third parts of the framework explain the difficulties encountered at national-level during a policy implementation process, which leads to gap in commitments for the ASEAN members. All these together offer substantial value addition over the existing literature of liberal perspective of economic regionalism and institution-level explanation for ASEAN countries falling short of their AEC commitments.

The form or design of the regional integration policy document is often an important determinant for successful implementation in domestic economies. There are high chances of mismatch between policy goals and final outcome, if there is lack of appropriate linkage between the government's high aspirations and ways to achieve the same. For most of the cases of regional integration, policy measures are an outcome of interactions at two levels, i.e. between different national governments and between national government and domestic interest groups. For the interaction among national governments, it is a common strategic interest given the global developments. For other international-domestic linkage, it is important to examine the extent to which the international economy of trade and investment affects domestic interests, which in turn is linked back to national policy choice for regional economic integration. Hence, the international economy affects the member governments' policy outcomes through the preference of national socio-economic and political participants. This implies that domestic socio-economic dynamics and international exchange (or interaction of states) are important building blocks to understand the form of regional economic integration.

This thesis looks at the economic interests as a variable for domestic demand and discusses governments' recourse to liberalisation and protectionism as a function of demands made by domestic economic interest groups. In other words, domestic interest groups prefer a policy of liberalisation or protection (or flexibility) as such policies may affect their income positively. This perspective assumes that domestic groups understand the distributional consequences of trade policy and hence provides an explanation for its eventual form. For the other building block of the study, i.e. the interaction of states at an international level, this thesis considers the common interests of member countries to participate in the international production network and attract foreign direct investment (FDI) in the strategic context of China's economic rise and economic integration in the West.

The other exploratory variables of the analytical framework look at the policy implementation process itself, undertaken at national-level, and offer substantial value addition over existing literature of institution-level explanation for gaps in AEC implementation. Most often implementation efforts involve more than one government ministries and hence engage bureaucracies of many agencies. Implementation of any policy can be carried out smoothly and in timely manner, provided there is – a) commitment from the initial policy-maker, i.e. the top level of the government, b) commitment from implementing officials spread over many organisations and c) interest from the target groups, i.e. the final beneficiaries of the policy. Literature explains many factors in terms of organisational structure, financial resources, support groups and other contextual variables that help in the realisation or non-realisation of the desired policy outcome. In case of the current study of ASEAN economic integration, it looks at two factors at domestic level – varied structure of domestic implementation systems and lack of coherent domestic pressure

for economic integration - to describe the disconnect between commitments made and its ambivalent implementation.

Therefore, the value of this theoretical approach derives from its recognition that domestic level dynamics are important for regional policy implementation. Given the global developments, it is the domestic demand that influences the form of the project. It is in the interest of the member governments to accommodate both liberal and protectionist viewpoints in the regional economic integration project, thereby providing flexibilities and loopholes in the policy actions. This has implications for the implementation process thereafter. Moreover, it is the national governments who have the responsibility to organise the implementation process in their own economies. Interests of the domestic economic groups on regional policy matters also affect the pace of implementation. Therefore, it is the factors present at domestic-level that explain the gap and uneven rate of compliance among member countries for the regional economic integration project.

The dissertation's central propositions

The two hypotheses in the dissertation are – a) implementation of the ASEAN Economic Community (AEC) is a function of the way the policy is designed: while the AEC has been developed to serve member countries' common interests in line with globalisation (key being the production networks and FDI), it also offers flexibilities to manage interests of domestic economic actors; b) despite the far-reaching commitments, implementation remains incomplete and uneven across countries, primarily due to varied structure and capacity in domestic policy-implementation process and lack of coherent domestic pressure (mainly from the end-users, i.e. the private sector) for economic integration.

Based on the discussion in this chapter, the following propositions in connection to AEC derived from the hypotheses are advanced. These will be subsequently illustrated in the rest of the dissertation.

The first proposition is that implementation of AEC is affected by the way it is formulated, keeping in mind the factors of globalisation and domestic interests that are impacted as a consequence of regional integration. While the liberal form of ASEAN economic regionalism is derived from globalisation, the demand-side variable for trade policy preference at domestic level is equally important. It is the consideration of the domestic economic groups' interest that defines the final design of the regional integration project. Indeed, the forces of globalisation, including the desire to attract FDI and participate in production networks, pushed for a comprehensive model of economic integration. But it is also the varied domestic interests among the member countries that resulted in a loose structure of the regionalism project. It is this dual nature of AEC that explains why ASEAN is far away from the overall aspiration of 'single market and production base'. Chapter 3 and 4 discusses these arguments in detail.

The second proposition is that the extent of implementation of AEC measures is a function of two factors. First is the domestic capacity and organisation structure of ASEAN member countries. This is dependent on the common understanding and commitment of the government officials of a country (in this case Thailand and Indonesia) to deliver on a policy outcome. As countries might differ in their organisational structure of policy implementation, more complex structures may result in delay in implementation. The second factor is the extent of support from domestic interest groups (in this case the private sector), which is dependent on the past culture of government-business interaction on regional issues and

understanding and the need for the current policy issues by the private sector. Chapter 5 and 6 flesh out this proposition.

Chapter 3

Development of ASEAN Economic Cooperation Project: AEC, 2003-2015

1. Introduction

Before moving to examine the thesis' main research question that was mentioned in chapter 1, it is necessary to look at the developments in the ASEAN Economic Community (AEC) from 2003 to 2015. This chapter provides an empirical background to the rest of the thesis. It explains the way AEC was initiated and was subsequently developed. It highlights the puzzling aspects of ASEAN's regional economic cooperation project that were brought out in the first chapter and, later, the rest of the chapters seek to explain. This chapter unfolds the AEC project since it was conceptualised in 2003, was developed as the AEC Blueprint in 2007 with four pillars – single market and production base, competitive economic region, equitable economic development and integration into the global economy – and was subsequently implemented from 2008 to 2015. It notes the state of implementation by the member states.

Section 2 explains the discussion that happened prior to 2007 for the ASEAN economic cooperation project and promised to substantially deepen and widen the earlier efforts of the 1990s. In particular, economic cooperation in ASEAN took a comprehensive approach in the 2000s, going beyond trade and investment liberalisation, and included issues that were necessary to make the ASEAN region competitive vis-à-vis the rest of the world. Its pace was accelerated from 2020 to 2015 in line with rising globalisation. Section 3 unfolds the pillar-wise implementation of AEC measures and also discusses the AEC official scorecard. The section concludes that despite a number of ambitious commitments, the implementation

record remains mixed and is far from delivering ASEAN's promise of a single market and production base. Section 4 concludes the chapter and paves the way for the subsequent chapters.

2. AEC: Ambitious Commitments

For analytical purposes, the AEC development process can be studied over two milestones (Table 3-1). The first milestone is the year 2003, when the ASEAN leaders defined AEC in terms of the economic goals set by the 1997 ASEAN Vision 2020. The second milestone comes in the year 2007, when the ten member states adopted the ASEAN Blueprint – a document with targets and timelines for implementation of various regional economic integration initiatives to be carried out by the member countries. The following subsections provide a more detailed description of each of these milestones.

Table 3-1: Two Milestones of AEC Development, 2003-2007

2003: Initial Conceptualisation	2007: Adoption of AEC Blueprint
<p><u>The 2003 Bali Summit</u> ASEAN leaders defined the AEC in line with the economic goals of the 1997 ASEAN Vision 2020</p> <p>The High Level Task Force on ASEAN Economic Integration recommended a slew of economic measures to kick start the AEC project.</p> <p><u>The 2004 ASEAN Summit in Laos</u> A six-year Vientiane Action Programme 2004-2010 was launched.</p> <p><u>The January 2007 ASEAN Summit in the Philippines</u> The Leaders signed the Cebu Declaration on</p>	<p><u>The November 2007 ASEAN Summit in Singapore</u> The leaders adopted the AEC Blueprint, organised along AEC's four main characteristics, namely:</p> <ul style="list-style-type: none"> a) A single market and production base; b) A highly competitive economic region; c) A region of equitable economic development; and d) A region that is fully integrated into the global economy

the Acceleration of the Establishment of an ASEAN Community by 2015.	
<u>The November 2007 ASEAN Summit in Singapore</u> ASEAN countries adopted the AEC Blueprint.	

Source: author's compilation

2.1 Initial Conceptualisation, 2003

During the Phnom Penh Summit in November 2002, ASEAN leaders decided to move beyond AFTA, AFAS and AIA that came during the decade of 1990s. The idea was to showcase ASEAN's strong intention for economic integration and to get serious in implementing the measures that have already been agreed upon. On the suggestion of Mr. Goh Chok Tong, the then Prime Minister of Singapore, ASEAN named this new stage as the ASEAN Economic Community, a phrase that instantaneously made people think of the European Economic Community⁴² (Severino 2006: 251). The idea was strongly supported by the then political leaders of Malaysia, Thailand and the Philippines, who were concerned about the countries' attractiveness in terms of Foreign Direct Investment (FDI) after the 1997-98 financial crisis⁴³. Other ASEAN countries, such as Cambodia and Vietnam, saw AEC as an external factor to undertake domestic reforms in the respective economies⁴⁴.

During the same time, ASEAN also commissioned a study, titled ASEAN Competitiveness Study, to an international consultant in order to identify specific industries that the member countries can develop as internationally competitive sectors and to draw recommendations

⁴² The European Economic Community was created by six European nations of Belgium, France, Italy, Luxembourg, the Netherlands and West Germany in 1957 that eventually transformed into the Single European Market and the European Union.

⁴³ Interview with government officials in Singapore in July 2015.

⁴⁴ Interview with government officials in Singapore in July 2015.

for countries to undertake regional initiatives to enhance international trade and investment (ASEAN Secretariat 2001a). At the end of the study period, in August 2003, the consultants highlighted three aspects of ASEAN economic cooperation: a) ASEAN had lost to China in terms of its competitive edge in labour costs and premier location for FDI, b) ASEAN's economic challenge must be tackled through both domestic reforms and regional integration. Member countries should develop the political will to remove domestic barriers that raise costs and discourage new investment, while simultaneously work together to reduce tariffs and nontariff barriers that raise the cost of doing business across borders in the region, c) as reforms across an entire economy are not politically feasible, ASEAN countries should consider sector-specific approaches (such as consumer goods and electronics) to benefit from integration and to generate political support to extend the program further (Schwarz and Villinger 2004).

While the study of the international consultant was ongoing, in September 2002, the ASEAN Economic Ministers decided to form a High Level Task Force (HLTF) on ASEAN Economic Integration (AEI) to discuss and recommend initiatives to deepen the region's economic integration beyond AFTA. The group was requested to submit its recommendations to the Ministers for consideration in early 2003. Although the idea to form such a body was in response to the international consultant's preliminary findings in 2002, it was also felt among the Ministers that ASEAN needs a permanent body or unit to monitor compliance with the AFTA and other ASEAN economic cooperation agreements (ASEAN Secretariat 2002).

The HLTF on AEI recommended a slew of economic measures in trade in goods, services and investment that were already present among the ASEAN economies in the 1990s and also prescribed new initiatives like priority integration sectors and institutional strengthening. The

HLTF-AEI further recommended an enhanced ASEAN dispute-settlement mechanism (DSM) as they thought there could be an increase in number of trade disputes with the rise in cross-border economic activities after a successful implementation of AEC⁴⁵.

Subsequently, in the 2003 Bali Summit, the ASEAN leaders, during the *Declaration of ASEAN Concord II (Bali Concord II)*, defined the AEC in line with the economic goals of the 1997 ASEAN Vision 2020 – ‘a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020’. These were said to be achieved by making ASEAN a ‘single market and production base’ and a ‘more dynamic and stronger segment of the global supply chain’. Accordingly, ASEAN was tasked to set up ‘new mechanisms and measures to strengthen the implementation of its existing economic initiatives’. To start with, the Leaders reinforced its seriousness with implementation and highlighted the *Recommendations of the HLTF on AEI* (ASEAN Secretariat 2003). This decision to undertake the AEC initiative by the ASEAN member states is considered as one of the two key milestones in this thesis.

In the following year, a six-year action plan was launched at the 2004 ASEAN Summit in Vientiane, Laos (ASEAN Secretariat 2004). The plan, known as the Vientiane Action Programme 2004-2010 (VAP), was to realize the end goal of the ASEAN Vision and the Declaration of ASEAN Concord II. The VAP focused on intensifying economic cooperation initiatives that were targeted to be completed on or before 2010. It also emphasized on

⁴⁵ The HLTF’s Economic Recommendations are annexed to the Bali Concord II (http://www.asean.org/?static_post=recommendations-of-the-high-level-task-force-on-asean-economic-integration, accessed on 4 March 2016)

removal of barriers to trade in goods, services and skilled labour, narrowing the development divide and implementation of new measures, such as the eleven priority sectors⁴⁶.

Subsequently, the ASEAN Economic Ministers Meeting (AEM) held in August 2006 in Kuala Lumpur, Malaysia, agreed to develop ‘a single and coherent blueprint for advancing the AEC by identifying the characteristics and elements consistent with the Bali Concord II, along with clear targets and timelines for implementation of various measures as well as pre-agreed flexibilities to accommodate the interests of the CLMV and other concerned Member Countries (ASEAN Secretariat 2008a, p: 5). In addition, on the 2006 AEM’s recommendation, the 12th ASEAN Summit in January 2007 agreed to advance the achievement of AEC from 2020 to 2015. The acceleration of the deadline by five years was to showcase the commitment of ASEAN leaders to enhance the region’s competitiveness and to ensure that the member countries remain attractive to investors. In the then Malaysian Prime Minister’s Abdullah Badawi’s words, ‘This is particularly necessary in view of the pressure of increasing competition, regionally and globally’⁴⁷. Finally, in January 2007, at the 12th ASEAN Summit, the Leaders signed the *Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015* and affirmed their strong commitment for an ASEAN Community (ASEAN Secretariat 2007a). Later on during the same year on November 20th, at the 13th ASEAN Summit in Singapore, the ten ASEAN Leaders adopted the AEC Blueprint that was expected to serve as a coherent master plan guiding the establishment of the AEC 2015 (ASEAN Secretariat 2007b, 2008). This blueprint

⁴⁶ The eleven priority sectors are electronics, e-ASEAN (information and communication technology), healthcare, wood-based products, automotives, rubber-based products, textiles and apparel, agro-based products, fisheries, air travel and tourism. At the 2007 ASEAN Cebu Summit, ASEAN’s leaders endorsed a 12th priority sector – logistics.

⁴⁷ ASEAN Secretariat (2006a), Address by the Honourable Dato’ Seri Abdullah Ahmad Badawi Prime Minister of Malaysia at the Opening of the 38th ASEAN Economic Ministers Meeting Kuala Lumpur, 22 August- ‘ASEAN’s Strategic Role in a Dynamic Global Economy’

development is regarded, in this thesis, as the second key milestone in ASEAN's economic cooperation.

2.2 AEC Blueprint, 2007

ASEAN achieved a major milestone at the November 2007 ASEAN Summit in Singapore when the leaders adopted the AEC Blueprint (Table 3-2). The AEC Blueprint laid out a roadmap for ASEAN economic integration by 2015 and included action plans, targets and timelines to facilitate the process. The 'strategic schedule' in the form of a matrix, mentioned in the blueprint, specified 'priority actions' that needed to be undertaken over four two-year periods from 2008 to 2015. The Blueprint became a binding declaration of commitments by all member states. It got organised along the AEC's four main characteristics, namely:

- a) a single market and production base;
- b) a highly competitive economic region;
- c) a region of equitable economic development; and
- d) a region that is fully integrated into the global economy

Soesastro (2008: 31) noted that the blueprint is a serious document and the first of its kind for ASEAN. Its four characteristics showcased ASEAN's move towards a deeper, comprehensive and rules-based approach for its regional economic integration in the future. He further described the usefulness of the four pillars, from ASEAN perspective, to develop understanding of the characteristics (Soesastro 2008: 32-33).

First, 'a single market and production base' implies an expanded market space for regional consumers to meet their consumption needs and an enlarged space for producers to undertake their production activities at lower transaction cost. With almost no administrative

boundaries, both producers and consumers are likely to enjoy economies of scale and different comparative levels of the member states. This, in turn, implies efficiently participating in production networks and exploiting fragmented trade opportunities. Indeed, a single market requires complete elimination of trade and investment barriers. Hence, the AEC is built on AFTA, AFAS and AIA, taking it beyond liberalisation measures.

Second, 'a competitive economic region' reflects ASEAN's idea of raising its attractiveness to foreign investors vis-à-vis the rest of the world. Initiatives like AFTA and subsequently the AEC that covers issue such as competition policy, Intellectual Property Rights (IPR), infrastructure development and others are steps in that direction. While a competition framework in developing countries helps to nurture a healthy private sector and addresses anti-competitive behaviour, infrastructure development ensures an efficient transport system, communications and energy networks that deepen economic integration, leading to economic growth and better preparedness for international competition.

Third, 'a region of equitable economic development' implies that ASEAN would like to ensure that all its members can benefit from the regional integration. As ASEAN integration is challenged by issues of developmental gap, i.e. large disparities in income, poverty incidence and other dimensions of human development indicators (Salazar and Basu Das 2007: 1-10), AEC tries to ensure that the less developed members can effectively participate and enjoy the benefits of regional economic integration. This can be in the form of technical assistance, preferential market access without immediate reciprocity, and other privileges,

such as the focus on the Small and Medium-scale Enterprises (SMEs) and Initiative of ASEAN Integration (IAI)⁴⁸.

Finally, ‘a region that is fully integrated into the global economy’ brings out ASEAN’s characteristics of ‘open regionalism’. ASEAN, in addition to its regional integration initiative, has always strengthened its linkages with the rest of the world. It has taken an active part in wider regional cooperation arrangements and community building processes. These include the ASEAN Plus Three (APT) and the East Asia Summit (EAS) processes. ASEAN is also engaged in a number of ASEAN+1 initiatives (with Australia-New Zealand, China, India, Japan, and South Korea). ASEAN members need to coordinate all these efforts and develop common strategies to implement the agreements that can, in turn, reinforce the efforts to realise the AEC.

Hence, the Blueprint for an AEC can be seen as a comprehensive plan that promises to transform the ten disparate small economies of ASEAN to a coherent and integrated regional market. It is expected to benefit ASEAN from economies of scale and its participation in production network processes. The differences in developmental level could offer complementary location for such production networks. While all these were expected to boost intra-regional trade and investment flows, a 600 plus million consumer market was believed to be attractive for investors. These characteristics are further analysed in Chapter 4, which discusses in one of its sections that AEC is an outcome of the globalisation process.

⁴⁸ Initiative of ASEAN Integration is a measure launched by the ASEAN States in 2000 with the objective of narrowing the development gap between the more developed members i.e. the ASEAN-6 and the four newcomers in the late 1990s – Cambodia (in 1999), Laos (in 1997), Myanmar (in 1997) and Vietnam (in 1995).

Table 3-2: Main highlights from the AEC Blueprint

I. Single Market and Production Base

5 core elements

	Liberalization	Facilitation
Free flow of goods	Tariff and NTB elimination Synchronized external tariff alignment	Custom integration Standards and technical barriers to trade
Free flow of services	Full market access and national treatment Remove substantially all restrictions on trade in services	Mutual recognition Arrangements (MRAs) on professional services; professional exchange
Free flow of investment	All industries and services incidental to these industries to ASEAN investors	Transparency; streamlined procedures, avoidance of double taxation; joint promotion
Free flow of capital	Relax capital control measures on intra-ASEAN portfolio investments	Harmonize capital market standards; facilitate market driven efforts to establish exchange and debt market linkages
Free flow of skilled labour	Remove discrimination on employment	Harmonization of standards in education and training; MRA on vocational training

Priority Integration Sectors (PIS)

- Conduct a biannual review to monitor the status, progress, and effectiveness of the PIS road maps to ensure timely implementation
- Identify sector-specific projects or initiatives through regular dialogues or consultation with stakeholders, particularly the private sector.

Food, Agriculture and Forestry

- Enhance trade and long-term competitiveness of ASEAN food, agriculture, and forestry products
- Promote cooperation with international and regional organizations and private sector

II. Competitive Economic Region

- Develop a competition policy
- Strengthen consumer protection
- Regional cooperation in intellectual property rights (IPRs)
- Regional cooperation in infrastructure development
- Complete network of bilateral agreements on avoidance of double taxation
- Promote electronic commerce (e-commerce)

III. Equitable Economic Development

- Accelerate the development of small and medium-sized enterprises (SMEs)
- Enhance the Initiative for ASEAN Integration (IAI) to narrow the development gap

IV. Integration into the Global Economy

- Achieve a coherent approach towards external economic relations, including its negotiations for free trade area (FTAs) and comprehensive economic partnerships (CEP) agreements
- Enhance participation in global supply networks

3. AEC: The State of Implementation, 2008-2015

As the discussion above shows, the ASEAN economic integration project was advanced from AFTA in the 1990s to a more comprehensive and deeper project of AEC in 2003. The pace of the project was accelerated from 2020 to 2015 as the ASEAN leaders felt that regional integration among ten Southeast Asian countries is a way to mitigate the adverse effect and uncertainties of rising globalisation pressures. The AEC Blueprint in 2007 laid down the commitments agreed by the member countries and developed a schedule in biennial years from 2008 to 2015. Moving closer to the AEC deadline of 2015, ASEAN countries developed a prioritisation list to focus attention in areas crucial for economic integration. This led to rescheduling of initiatives across four strategic periods and also a shift in monitoring technique (ASEAN Secretariat 2015a: 8). Despite such commitment and political willingness, the following discussion shows that there is a gap in implementation and the record across member countries is mixed. While tariff liberalisations of member countries are largely on schedule, set backs are observed in other AEC initiatives, such as the non-tariff barriers, services and investment sectors, trade facilitation, infrastructure development and others.

3.1 Pillar I: Single Market and Production Base

A. Free Flow of Goods

a) Tariffs

The commitments under the free flow of goods are based on ASEAN's 1992 initiatives of Common Effective Preferential Tariff Scheme (CEPT) that marked the establishment of AFTA. This was subsequently advanced to a comprehensive initiative of ASEAN Trade in Goods Agreement (ATIGA) that was signed in 2009 and came into effect in 2010. ATIGA consolidates all commitments related to trade in goods and focuses on tariff liberalisation,

non-tariff measures, simplification of Rules of Origin (ROO), trade facilitation, customs, standards and conformance and their implementation (ASEAN Secretariat 2009a).

Under ATIGA, ASEAN countries have made significant progress in terms of tariff liberalisation⁴⁹. For the ASEAN-6 countries⁵⁰, the average ATIGA rate is negligible since 2010, while the CLMV countries⁵¹ are also fast lowering their border tariffs. Table 3-3 provides decreasing ATIGA rates for ASEAN-6 and CLMV countries over time and also compares the preferential rate to average applied MFN rates.

Table 3-3: ASEAN's ATIGA and MFN Rates

	ATIGA rates			MFN rates		
	ASEAN-6	CLMV	ASEAN	ASEAN-6	CLMV	ASEAN
2007	1.32	4.44	2.58	5.87	11.58	8.15
2008	0.79	3.69	1.95	5.83	11.58	8.13
2009	0.79	3.00	1.65	5.65	10.10	7.43
2010	0.05	2.61	1.06	5.58	10.05	7.37
2011	0.05	2.47	0.96	5.57	9.23	7.03
2012	0.05	1.69	0.68	5.37	8.93	6.79
2013	0.04	1.37	0.55	5.55	8.93	6.90
2014	0.04	1.33	0.54	5.55	8.93	6.90

Source: ASEAN Secretariat (2015b)

The tariff lines under zero per cent ATIGA tariff have also increased for ASEAN countries overtime. For ASEAN-6 countries, the share of tariff lines with zero percent ATIGA rate stood at 99.2 per cent in 2014, whereas the share increased to 72.6 per cent in 2014 from 46.5 per cent in 2007 for CLMV countries.

⁴⁹ Tariff elimination in ASEAN is according to four tracks – Inclusion List (IL, normal track), Sensitive List (SL), Highly Sensitive List (HSL) and General Exception List (GEL). In 2003, according to Protocol to Amend the Agreement on CEPT-AFTA for the Elimination of Import Duties it was decided that in order to advance economic integration, tariff lines under the IL should be eliminated by 2010 for ASEAN-6 countries and 2015 for CLMV countries, with exception to few products in the CLMV countries till 1st January 2018. SL and HSL followed a different schedule as stipulated in the 1999 Protocol for the Arrangement for Sensitive and HSL. (both the documents are superseded by ATIGA) The tariff lines under these two tracks have to be gradually phased to IL and tariffs to be reduced to 0-5 per cent. Even for the GEL, products have to be phased to CEPT-AFTA scheme, except for few products (like tobacco and alcohol) that are harmful for the society.

⁵⁰ Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand

⁵¹ Cambodia, Laos, Myanmar and Vietnam

b) Non-tariff Barriers

But there exist several non-tariff barriers (NTBs), which become an impediment to trade. Although ASEAN has put in place mechanisms to have stock-take on non-tariff measures (NTMs), it is difficult to identify all NTMs at country and provincial levels and also to identify the NTBs from the NTMs that are set in line with domestic policy objectives⁵². For instance, national policies to protect domestic industry or unjustifiable application of sanitary and phytosanitary (SPS) measures and other technical barriers to trade (TBT) could be legitimate for domestic purposes, but they could be trade restrictive as well.

In a recently concluded study, it was found that during 2000-2015, the number of NTMs have gone up in ASEAN from 1,634 to 5,975 measures. Of the total 5,975 measures in 2015, 33.2 per cent are in form of SPS, 43.1 per cent are TBT, 12.8 per cent are related to exports and the rest of the 10.9 per cent are other measures, like pre-shipment inspection, non-automatic licensing, price control measures including additional taxes and Charges (Ing et al 2016: 22-24). A few earlier studies also provided observations on ASEAN's nature of NTMs: First, almost half of all tariff lines in ASEAN were linked to at least one Non-tariff measure (NTM). While Myanmar, Indonesia, and the Philippines are the most NTM- restrictive countries, Cambodia and Thailand are the least restrictive (Ando and Obashi 2010: 37-39). Second, NTMs, both at the border⁵³ and behind-the-border⁵⁴, are used as policy tools by ASEAN members. Third, the NTMs with highest incidence are non-automatic licensing and

⁵² Conceptually, NTMs are behind-the-border measures that arise from government regulatory policies, procedures and administrative requirements which are imposed to serve a particular national purpose (like safety, environmental or social). They have the potential to become barriers to trade (NTBs or core-NTMs), when applied in a discriminatory fashion.

⁵³ NTBs at the border include import bans, import subsidies, non-automatic import licensing, new procedures for importation, additional requirements for importation, quotas, sanitary and phytosanitary measures, and technical barriers to trade.

⁵⁴ NTBs behind the border include state aid measures, public procurement requirements, trade finance, export taxes and restrictions and investment measures

technical regulations and quality standards (both at 31.8 per cent of total ASEAN NTMs). Among the industries, chemical and allied industries with 20.9 per cent of the total and machinery and electrical with 17.9 per cent of the total are affected by NTMs (table 3-4) (ASEAN Secretariat and World Bank 2013).

Table 3-4: NTMs in ASEAN as Official Notified

By type	Percent of the total NTMs	By Industry	Percent of the total NTMs
Tariff Rate Quotas	0.6	Transportation	6.5
Internal Taxes and Charges	1.7	Machinery/ Electrical	17.9
Automatic Licensing	7.1	Metals	5.4
Discretionary Import Licensing	1.3	Stone/ Glass	0.9
Import ban on certain goods	0.0	Footwear/ Headgear	0.3
Non-automatic licensing	31.8	Textiles	5.8
Quota	0.7	Wood & wood products	2.5
Prohibition	21.4	Raw hides, skins, Leather and Fur	0.4
Selective approval importers	0.8	Plastics/ Rubber	1.7
State Trading Administration	1.4	Chemical & Allied Industries	20.9
Import ban due to hazardous components	0.0	Mineral Products	2.6
Technical Regulation – Quality Standard	31.8	Foodstuffs	12.2
Technical Regulation – Pre-shipment inspection	0.9	Vegetable products	11.1
Technical measures	0.4	Animal & animal products	7.1
		Miscellaneous	4.8

Source: ASEAN Secretariat and World Bank (2013)

For a particular country like Indonesia, in 2015, there were 638 NTMs that affected 5,712 out of almost 10,000 products. A key reason for such prevalence of NTMs is lack of a centralised agency to manage export and import regulations. Indonesia seems to have around 14 different agencies to manage such regulations (Munadi 2016: 67). Moreover, Indonesia is adhering to

protectionist measures in the post-2008 Global Financial Crisis to increasingly support domestic industries. In that regard, while the Ministry of Trade had introduced import licensing requirements on a number of products, it had also imposed a ban on exports of raw materials to encourage domestic value-added activities in mining. The government had also increased local content requirements for several of the telecom, electronics and automotive products (Patunru and Rahardja 2015: 4-7). According to Marks and Rahardja (2012: 81), during 1995 and 2008, Indonesia's nominal and effective rates of protection (NRP and ERP) have gone up for several sectors⁵⁵. For example, in the case of food crops, the NRP and ERP have gone up from 11 to 17 per cent and 16 to 24 per cent respectively.

With regard to elimination of NTBs, ASEAN has enlisted several measures – elimination of import surcharges, mutually recognition or harmonisation of product standards, adoption of pro-competition, introduction of market access measures and elimination of quantitative restrictions. Nevertheless, due to some inherent problems in dealing with the issue (like voluntarily NTMs declaration of member states, lack of mechanism to verify the list of NTMs and no common definition of NTBs that arise from NTMs), there has been limited progress in eliminating NTBs from intra-ASEAN trade (Basu Das 2016: 41).

c) Rules of Origin (ROO)

Initially, AFTA started with a simple ROO of 40 per cent regional value content (RVC). But it was later extended to other rules, such as the change in tariff classification (CTC) and product specific rules (PSR), as it was thought these will provide the business community with more options. The ROO was further advanced by introducing advance ruling, simplified

⁵⁵ Nominal rate of Protection provides the proportion by which domestic producer price exceeds the border price (for an imported item, it is the price just before entering the customs). Effective Rate of Protection gives the proportion by which value added per unit of output with distortive policies exceeds the level under free trade.

Operational Certification Procedure (OCP) that includes ASEAN-wide self-certification⁵⁶, abolition of the free-on-board (fob) value in the ASEAN Certification of Origin Form D, and third-party invoicing.

Despite such privileges, ROO suffers from arbitrary classification of origins as there remain differences in tariff classification among member countries due to slow adoption of AHTN (Chia and Plummer 2015: 96). In addition, as ASEAN is involved in other regional free trade agreements (FTAs) with Australia, New Zealand, China, India, Japan and South Korea and several bilateral ones exist between ASEAN member countries and similar trade partners, this adds to the ‘spaghetti-bowl’ effect⁵⁷ of multiple ROO, resulting in higher business transaction costs.

d) Trade Facilitation

As elimination of tariffs and NTBs are not enough to ensure smooth cross-border movement of goods, trade facilitation initiatives are necessary to streamline the border procedures. ASEAN countries adopted the Trade Facilitation Work Programme (ATFWP) in 2008 and subsequently the Trade Facilitation Framework in 2009 so as to address issues with modernising customs procedures, establishing ASEAN Single Window (ASW), harmonising standards and conformance process.

For customs procedures, besides ATIGA stating it as one of its chapters, ASEAN countries adopted the ASEAN Agreement on Customs in 2012. The agreements covered simplification

⁵⁶ Self-certification will enable exporters to self-declare the origin of their goods without presenting a certificate of origin issued by a designated regulatory body in the national economy. This is expected to reduce cost and save time for the businesses.

⁵⁷ Spaghetti bowl effect, also dubbed as ‘noodle-bowl’ refers to complications that arise from signing multiple FTAs and applying multiple ROO in domestic economy.

and harmonisation of customs valuation tariff nomenclature and customs procedures, fair application of customs laws and regulations, assurance of efficient administration and fast goods clearance (ASEAN Secretariat 2012a). Most of the ASEAN countries have implemented the WTO Customs valuation and the member countries have adopted ASEAN Harmonised Tariff Nomenclature (AHTN), which helps in developing trade statistics, tariff calculation and trade negotiation. However, much of the administrative and customs efficiency initiatives depend on ASEAN states' willingness and extent of implementation.

Looking at the ASW, which is going to be a network of National Single Windows (NSW) of every ASEAN member state, the AEC blueprint targeted to operationalise NSWs of ASEAN-6 by 2008 and the CLMV by 2012. There is notable progress in developments of NSWs in the national economies. Indonesia, the Philippines, Singapore, Malaysia and Thailand have largely implemented the NSWs, though some of them suffer from lack of coordination between agencies, data standardisation issues or lack of appropriate human resources. Cambodia, Laos and Myanmar are at a very early stage (Intal, P., et al. 2014:134-135). Although ASEAN planned to launch a pilot project, testing the exchange of Form D among seven ASEAN countries, on 1st January 2016, the idea got delayed due to a last minute technical issue⁵⁸. The developments and implementation challenges of ASW/ NSW are dealt in more detail in Chapter 5.

Harmonising standards, technical regulations and conformity assessment are other trade facilitation initiatives that are important for ASEAN countries to eliminate technical barriers to trade (TBT), a form of NTM, and to deliver on the AEC. The ASEAN countries have

⁵⁸ Just before 1st January 2016, three ASEAN countries - Singapore, Malaysia and Thailand – decided to do a parallel test (i.e. exchange of documents both electronically and physically) to check for any data discrepancies. The test came up with some errors in data between Singapore and Thailand and hence the pilot project on 1st January 2016 was stopped. The countries are now working on compatibility of systems across ASEAN.

established the ASEAN Consultative Committee for Standards and Quality (ACCSQ) in 1992 to discuss and reduce the TBT. The ACCSQ focuses on four main activities – align national standards to international ones, develop practices to eliminate conflicts with different national standards, implement mandatory technical requirement and set up conformity assessment process. In addition, ASEAN countries have undertaken several sectoral Mutual Recognition Arrangements (MRAs) – electronics and electrical equipment (EEE), pharmaceutical products, cosmetics, automotive and auto parts, prepared food stuff and few others – under the Framework Agreement on MRA, signed in 1998, but effective from 2002. MRAs entail that two or more parties agree on a certain standard and accept each other’s conformity assessment results.

Till recently, ASEAN has concluded negotiation for three sectoral MRAs, namely EEE, cosmetics and pharma products, though implementation in ten national economies remains incomplete and uneven (this aspect will be discussed in more detail in Chapter 6). The discussions on other sectoral MRAs are still on-going.

B. Free Flow of Services

Services sector plays an important role in global production network as they connect the production facilities in different locations (Thangavelu et al 2015:1-2). The sector accounts for more than half of national output in several ASEAN economies, especially for the more developed ASEAN states. In terms of trade, services is less in size compared to merchandise trade, though it cannot be termed as insignificant, except for Indonesia and Myanmar (Table 3-5).

Table 3-5: Services Sector Compared to Other Sectors in ASEAN

	Output: % of Real GDP, 2013	Trade: % of Nominal GDP, 2013
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	Agriculture	Industry	Services	Merchandise	Services
Brunei	0.7	64.4	36.8	83.2	15.5
Cambodia	24.2	29.9	39.2	120.3	32.7
Indonesia	12.3	40.0	47.8	42.9	6.7
Laos	23.5	33.2	37.4	54.6	12.8
Malaysia	7.1	36.4	55.2	139.1	27.4
Myanmar	31.4	28.5	40.1	37.9	6.3
Philippines	10.4	32.8	56.8	44.3	14.4
Singapore	0.0	25.5	66.6	259.1	85.8
Thailand	8.3	46.0	45.8	123.4	29.5
Vietnam	17.6	38.6	43.9	154.6	13.0

Source: ASEAN Secretariat (2015b), ASEAN Integration Report (p.26)

ASEAN's desire to liberalise services trade was institutionalised by signing of AFAS in 1995. In the AEC Blueprint, free flow of services stipulates the following: removing restrictions on trade in services by 2010 for four priority services sector (air transport, e-ASEAN, healthcare and tourism); by 2013 for Logistics and by 2015 for all other services sector (such as, construction, distribution, maritime transport, education, environmental services). In 2004, it was also decided to adopt the ASEAN-X formula, where negotiation can be undertaken if there are at least three members involved. Since the fifth package was signed in 2006, it was decided that an AFAS package would include all commitments made by ASEAN countries under WTO, under earlier AFAS packages and new promises made in the current round.

Studies have mentioned that AFAS commitments have improved considerably over the years (Dee 2015: 6). The AEC blueprint in 2007 introduced a limited pre-agreed flexibility, which made the eighth package, in terms of commitments, the most ambitious till date. The commitments included: no restriction for cross-border supply (mode 1) and consumption abroad (mode 2), except for certain regulatory reasons; foreign equity participation not less than 51 per cent by 2008 and 70 per cent by 2010 for the four priority services sector; 49 per cent by 2008, 51 per cent by 2010 and 70 per cent by 2013 for logistics services and 49 per

cent by 2008, 51 per cent by 2010 and 70 per cent by 2015 for other services sectors (mode 3) and progressive removal of other market access restrictions by 2015. ASEAN states have also committed themselves to the Mutual Recognition Agreement (MRA) for certain professionals (mode 4): the countries committed to complete negotiation of MRA for architectural, accountancy, surveyor and medical professionals by 2008, dental professional by 2009 and others by 2015. This enables the qualification of service providers recognised by a regulatory authority in their home country to be mutually recognised by other ASEAN countries.

With regard to implementation, ASEAN countries have met most of the Mode 1 and Mode 2 commitments. For Mode 3, all ASEAN countries, except for Singapore, have fallen behind the liberalisation targets of foreign equity participation. Restrictions in national economies in terms of equity and land holdings and licensing requirements continue to act as a barrier to services sector trade. As AEC does not mention domestic regulation issues of services trade liberalisation, these are likely to continue as barriers to trade (Chia and Plummer 2015: 105).

For MRAs (mode 4), they have been signed for eight professionals – engineering (2005), nursing (2006), architectural (2007), surveying qualification (2007), accountancy (2009), medical and dental practitioners (2009), tourism professional (2009). There are different ways of cooperation under these MRAs: the ones under engineering and architecture provide recognition of qualifications for registered ASEAN professionals, MRAs for nursing, medical and dental practitioners aim to exchange information and best practices on the licensing of healthcare practitioners, MRAs on accountancy and surveying services provide a framework of broad principles to advance bilateral and multilateral negotiations among the ASEAN states and MRA on tourism professionals facilitate mobility of skilled workforce by exchanging information and providing capacity building exercises.

In general, MRAs do not contain any liberalisation commitments but try to facilitate mobility of professionals between member states on a voluntary basis, thereby generating flexibilities. As MRAs are not supposed to override local laws and is applicable only in accordance with host countries' prevailing regulations, this acts as behind-the-border barriers to trade. For example, in Thailand, the Alien Employment Act remains in force and this requires a work permit for all foreigners working in the country. The country is yet to align its domestic legislation to regional agreements on MRAs. Hence, MRAs cannot be equated with market access and effective intra-ASEAN mobility of skilled labour (Nikomborirak and Jitumrong 2013:103-104).

Altogether, services sector liberalisation under the AEC 2015 blueprint does not support full integration. This is because while liberalisation in mode 3 envisions 70 per cent of ASEAN equity shares, liberalisation of mode 4 is confined to movement of professional only and there are many flexibilities and exceptions.

C. Free Flow of Investment

Since the AEC came into practice in 2008, ASEAN countries introduced the ASEAN Comprehensive Investment Agreement (ACIA) in March 2012 (though the agreement was signed in 2009). This superseded the earlier regional investment agreements by ASEAN countries– ASEAN Investment Area (AIA) that promoted liberal and transparent investment climate and ASEAN Investment Guarantee Agreement (ASEAN IGA) that was designed to protect and promote investments.

ACIA comprises of four components, namely liberalisation, protection, promotion and facilitation so as to create a competitive investment climate in ASEAN. While liberalisation calls for MFN and national treatment for investors, facilitation encourages ASEAN countries to develop transparent and predictable investment rules and harmonise, where possible, streamline application procedures and discuss with the private sector how to improve the investment climate further. Investment promotion aims at increased intra-ASEAN investment, develops linkages between SMEs and MNCs and encourages bilateral arrangements among ASEAN members on avoidance of double taxation. Investment protection provides provisions on the investor-state dispute settlement and promises to protect investors in terms of transfer and repatriation of capital, profits and dividends. It looks for progressive liberalisation of investment in agriculture, fisheries, forestry, mining and quarrying, manufacturing and related services⁵⁹ (ASEAN Secretariat 2009b).

Most of the efforts under ACIA remain a work in progress, although ASEAN countries have worked together on linking investment agencies' website, developing and disseminating investment publications and conducting roadshows and public seminars. It should be noted that investment liberalisation among ASEAN countries is difficult to achieve. It took more than three years from February 2009 for ASEAN countries to ratify ACIA. Member countries also delayed submission of their reservation lists, although they were required to submit it within six months of their signing⁶⁰. Some countries in ASEAN, particularly Indonesia and Thailand, have long temporary exclusion lists (TEL) or sensitive lists (SL) on opening up of certain sectors to foreign investors and on according national treatment. For example, in Thailand, foreign equity participation is restricted to less than 50 per cent for most manufacturing sectors. For anything higher, many conditions have to be met, including

⁵⁹ Investment in services sector remains under AFAS (mode 3 – commercial presence).

⁶⁰ The ACIA adopts a negative list approach to the listing of reservations.

minimum capital investment levels, hiring quotas for Thai nationals as employees and directors, qualifying for the Investment Promotion Law and obtaining permission from Ministry of Commerce. The sectors requiring such conditions to be met are food processing, silk, wood and metal crafts, material manufacturing and others.

Moreover, as majority of ACIA provisions have to be carried out in national economies, most particularly the ones of investment facilitation, it seems that implementation of domestic reforms is lacking. According to a survey of Japanese investors in ASEAN member states, 86 complaints were filed for lack of transparency in policies and regulations (institutional problems) and 121 complaints were filed for complicated and delayed procedures (implementation problems). Most of the complaints were in Indonesia, Malaysia, Thailand and Vietnam, suggesting investment facilitation problems (Urata and Ando 2011:147). From the latest surveys of the World Bank and the World Competitive Index, ASEAN countries seem to be divided among themselves, again in terms of necessary domestic reforms so as to improve investment attractiveness (Table 3-6). While countries like Singapore, Malaysia and Thailand rank high on the investment scale; Brunei, Cambodia, Laos and Philippines rank low, leading to differences in attracting quantum of investment in national economies.

Table 3-6: Attractive of ASEAN Member Countries

	Ease of Doing Business, 2015 ¹ (rank)	Global Competitiveness Index, 2014-15 ² (rank)	FDI to ASEAN	
			US \$million, 2003-2013	% of total
Brunei	101	28	8,796	1.11
Cambodia	135	95	7,808	0.99
Indonesia	114	34	10,6266	13.41
Laos	148	93	2,642	0.33
Malaysia	18	20	77,279	9.76
Myanmar	177	134	12,142	1.53
Philippines	95	52	22,147	2.80
Singapore	1	2	40,1002	50.62

Thailand	26	31	89,999	11.36
Vietnam	78	68	64,080	8.09

Note: 1- out of 189 economies; 2- out of 144 countries

Source: World Bank (2015), Doing Business 2015; World Economic Forum (2014), Global Competitiveness Index 2014-2015 (p.13), ASEAN Secretariat (2015c), ASEAN Statistical Yearbook 2014 (p. 107)

3.2 Pillar II: Competitive Economic Region

This pillar of AEC has two aspects: first, to develop an appropriate regulatory environment in the region by addressing competition policy, intellectual property and consumer protection and second, to improve connectivity, infrastructure development and energy cooperation.

A. Competition Policy

For competition policy, several ASEAN-wide activities were initiated. ASEAN Expert Group on competition has been set up. Also ASEAN Regional Guidelines on Competition Policy and the Handbook on Competition Policy and Laws in ASEAN for Businesses were written. While the Guidelines provide a reference point for the current experience of countries and international best practices, the Handbook provides a basic idea of competition law as applicable to some ASEAN countries. Hence, none of these talks of a region-wide standardized competition policy and leaves it as a national subject.

B. Intellectual Property Rights

Apart from Singapore that pursues strong IPR protection, ASEAN countries see themselves as developing ones and have interest in protection of their traditional cultures. However, development of a robust IPR culture is crucial for application of science and technology and innovation in the region. Following that, ASEAN has promoted ideas of strengthening IPR institutions and has adopted ASEAN IPR Action Plan 2011-15. Several capacity building

exercises have also been undertaken in collaboration with ASEAN Dialogue Partners⁶¹. Similar to competition policy, IPR in ASEAN, at this stage, does not talk of uniform regulations. All it does is to promote discussion and understanding of the subject.

C. Consumer Protection

Under this, ASEAN has established a regional Committee on Consumer Protection (ACCP), adopted the Guidelines for Notification and Information Exchange on Banned Products and has floated a couple of ideas - a region-wide website that would exchange information on consumer redress and ASEAN Consumer Complaints pamphlet to raise awareness on visitors' rights while travelling across the region.

D. Infrastructure Development

A well-connected ASEAN is a key determinant for a competitive region. It is not only important to facilitate cross-border movement of goods and services but is also necessary to distribute AEC benefits inclusively in the region. Since the AEC discussion in 2003, ASEAN countries have adopted the ASEAN Transport Action Plan 2005-2010 in 2004 and ASEAN Strategic Transport Plan 2011-2015 to enhance regional transportation networks. A comprehensive plan, called the Master Plan for ASEAN Connectivity 2010-2015 was adopted by ASEAN states in 2010 with the aim of strengthening physical, institutional and people connectivity.

There are several initiatives covering land, maritime and air transport, in addition to transport facilitation agreements and energy cooperation. For example, land transport includes projects like ASEAN Highway Network, Singapore-Kunming Rail Link; maritime transport aims for

⁶¹ ASEAN has ten dialogue partners – Australia, Canada, China, EU, India, New Zealand, Japan, Russia South Korea, and USA.

an ASEAN Single Shipping Market, ASEAN Roll-on/ Roll-off network; and air transport talks about ASEAN Open Skies Policy as part of ASEAN Single Aviation Market. All these also cover technical components including common road signs and route numbering system across ASEAN, aviation safety and security. Transport facilitation arrangements cover issues of transit transportation, customs for transit goods, cross-border transport service and multi-modal transport service in the region. ASEAN countries have also adopted a series of energy plans to enhance energy security and sustainability in the region. They have also endorsed two energy infrastructure projects –ASEAN Power Grid and Trans-ASEAN Gas Pipeline - in order to promote electricity and gas trade and accessibility in the region.

Despite multiple initiatives and identification of projects, all these are in different stages of development and are not being fully implemented (ASEAN Secretariat 2015b: 60-72). While some are in planning stage, others are being signed but are not ratified by all member countries or are being implemented in selected member countries, thereby diluting the impact of a region-wide arrangement. There are several challenges in ASEAN infrastructure development plans. First, member countries need to align their national needs to regional ideas and plans. Most often national needs take precedence over regional commitments as governments need to fulfil demands of their own constituencies. Second, developing a region-wide plan implies harmonization of rules and regulations and also of standards. Many times regulations in a country have evolved from past history and cultures, and hence any change may involve significant cost. For example, while Malaysia, Thailand and Singapore use the British left-side road convention, the rest use right-side driving system, causing difficulties in harmonizing ASEAN-wide regulation (USITC 2010: 5-19).

Third, ASEAN lacks a regional institutional mechanism to coordinate, implement and monitor projects across countries, which often leads to overlaps and missing links. Although the ASEAN Secretariat in Jakarta has a full-fledged connectivity department, it lacks adequate number of staff. The Connectivity Coordinating Council, which is expected to work closely with national coordinators and relevant ASEAN sectoral bodies, comprises civil service staff from member countries' foreign ministries, who may not have full understanding about all the components of connectivity – physical (covering road, sea, air), institutional (or regulatory) and people-to-people (covering tourism and education). Fourth, the financing need of ASEAN infrastructure development is huge. According to an Asian Development Bank-ASEAN Secretariat estimate (quoted in Basu Das 2016: 205), ASEAN needs about US\$60 billion a year for infrastructure investment in the 2010-20 period. ASEAN is looking at both traditional and new sources of funding. These include loans from international institutions and dialogue partners, engaging the private sector through Public-Private-Partnership model. ASEAN has also established US\$485 million of an ASEAN Infrastructure Fund in collaboration with ADB in 2011 and has set up a Credit Guarantee Investment Facility of US\$700 million among ASEAN+3 countries⁶² managed by ADB (Pipoppinyo 2013: 165). However, all these sources together are not enough to fund the entire regional infrastructure plan. ASEAN also lacks marketable infrastructure projects to attract funding (Basu Das 2015a: 213).

3.3 Pillar III: Equitable Economic Development

ASEAN faces a serious challenge of developmental divide among its member states, as shown in Table 3-7. The divide ranges from per capita income to economic structure and quality of human resources. To bring the member countries to a level where all can benefit

⁶² ASEAN+3 countries comprise of ten ASEAN countries and China, South Korea and Japan.

from economic integration, ASEAN lists two key measures under this pillar – Initiative of ASEAN Integration (IAI) and development of Small and Medium Scale Enterprises (SMEs).

Table 3-7: State of Development Divide in ASEAN

	Per Capita GDP (PPP, international dollar), 2014	Trade to GDP Ratio, 2011	HDI Ranking, 2014	Poverty headcount ratio (% of population)*, latest year
Brunei	79,890	99	31	--
Cambodia	3,275	126	143	53.3 (2008)
Indonesia	10,651	44	110	46.1 (2010)
Laos	5,006	64	141	66 (2008)
Malaysia	25,145	148	62	2.3 (2009)
Myanmar	4,752	33	148	--
Philippines	6,974	52	115	41.5 (2009)
Singapore	83,065	298	11	--
Thailand	15,579	132	93	4.6 (2009)
Vietnam	5,656	166	116	43.4 (2008)

*Note: *the population living on less than \$2.00 a day at 2005 international prices*

Source: World Economic Outlook 2015, IMF; World Trade Organisation; UNDP Human Development Report 2015; World Bank

A. Initiative for ASEAN Integration (IAI)

The IAI programme, first launched in 2000, serves as a platform to identify technical assistance and capacity building projects for less developed ASEAN states (Cambodia, Laos, Myanmar and Vietnam), thereby narrowing the divide in ASEAN and raising competitiveness. Mostly the services are rendered by the six developed ASEAN states, dialogue partners and ADB. The broad IAI framework has been translated into two work plans, covering period 2002-2008 and 2009-2015. While the first Work Plan covered a number of priority areas⁶³, the second work plan was designed in line with ASEAN Community goals, especially in terms of assistance to CLMV countries to meet specific region-wide targets, and retained all the priority programmes.

⁶³ The priority areas covered are infrastructure development, human resources development, ICT development, capacity building for regional economic integration, energy, tourism, poverty and quality of life.

Vo (2013:191-196) analyses the usefulness of the IAI programme and reports certain conclusions. Although the CLMV countries appreciate the initiative, better results could have been achieved if the project designs, implementation and funding are coordinated among donor agencies. Contributions to developmental divide have been limited as IAI program areas did not fully fit into CLMV's priority areas. The programme also did not follow closely the new issues or challenges like the emergence of bilateral and regional FTAs. For instance, although Myanmar and Vietnam needed to address the issues of agricultural development and climate change, respectively, these areas were not incorporated in the IAI Work Plans. The main reason for the mismatch could be an attempt to adopt a common framework for all CLMV countries, ignoring their heterogeneity and different long-term needs.

B. SME Development

This is a necessary measure to mitigate the dominance of foreign MNCs and large state-owned enterprises (SOEs) in the region and encourage local entrepreneurs to participate in the production networks. Developing SMEs is a policy tool for employment generation and hence more equitable income distribution. However, as Sotharith (2013:14-15) enumerates, SME developments in ASEAN face several challenges, 'including limited access to finance and technology, severe competition from MNCs and SMEs of other countries such as China, Japan, and Korea, weak entrepreneurial and management skills, lack of awareness of AEC initiatives and benefits and difficulties in complying with AEC preferences and market standards'.

To overcome the issues and to develop resilience, the ASEAN countries have introduced the Strategic Action Plan for ASEAN SME Development (2010-15). The key strategies under this are for supporting SME's access to finance, access to new markets and

internationalisation of SMEs, access to human capital development, access to information and advisory services and access to technology and innovation. While some of the initiatives under each of these strategies have been completed, such as an ASEAN Benchmark for SME Credit Rating Methodology⁶⁴, a web-based portal of SME Service Centre, ASEAN Common Curriculum for Entrepreneurship and an ASEAN SME Policy Index⁶⁵, some have remained a work in progress and will be carried out beyond 2015.

3.4 Pillar IV: Integration into the Global Economy

The fourth pillar of AEC aims to integrate ASEAN to the global economy. It emphasizes the fact that ASEAN economic integration cannot happen in isolation: it has to happen in line with the changing global trends and opportunities. The pillar talks of two components: coherent approach towards external economic relations and an enhanced participation in the global supply network.

ASEAN as a region has progressed significantly under this pillar. By end 2015, ASEAN has successfully signed five FTAs with Australia-New Zealand⁶⁶, China, India, Japan and South Korea. A summary of the FTAs is provided in Table 3-8.

Table 3-8: Comparing the Five ASEAN FTAs

	AFTA	ACFTA	AKFTA	AJCEP	AIFTA	AANZFTA
Approach to Negotiation	Sequential	Sequential	Sequential	Single-undertaking (modified)	Sequential	Single-undertaking
Entry into Force	1993	2005	2007	2008	2010	2010
Market Size (million)	622	1,989	672	749	1,881	650
Economic	2.5	12.8	3.9	7.1	4.5	4.1

⁶⁴ The objective of the Benchmark is to reduce asymmetric credit information in order to raise chances for access to funding by SMEs.

⁶⁵ The index, developed by ERIA and OECD, provide information on the policies that support SME development in ASEAN countries and provide policy recommendation for individual ASEAN countries and the region.

⁶⁶ Australia and New Zealand together are known as Closer Economic Relation (CER)

Size (US\$ trillion)						
Coverage	Goods Services Investment DSM	Goods Services Investment DSM	Goods Services Investment DSM	Goods (Services and Investment as bilateral agreements) DSM	Goods Services Investment DSM	Goods Services Investment MNP e-Commerce IPR Competition Economic Cooperation DSM
Duty Phase Out (A6+DP)	2010	2012	2012	2026	2019	2020
ROO	40% or CTH PSRs	40% Limited PSRs	40% or CTH PSRs	40% or CTH PSRs	35%+CTH PSRs	40% or CTH PSRs

Note: AFTA- ASEAN Free Trade Area; ACFTA- ASEAN-China FTA; AKFTA- ASEAN-Korea FTA, AJCEP- ASEAN-Japan Comprehensive Economic Partnership; AIFTA – ASEAN-India FTA; AANZFTA – ASEAN-Australia-New Zealand FTA; A6+DP- ASEAN-6 and Dialogue Partner Countries; DSM – Dispute Settlement Mechanism; IPR – Intellectual Property Rights; CTH- Change in Tariff Heading; PSR – Product Specific Rule

Source: ASEAN Secretariat (2015b: 95)

The FTAs differ from each other in terms of the approach to negotiation, coverage and timeline of duty phase-out, although there are some similarities between ACFTA and AKFTA. While AJCEP approaches services and investment negotiation bilaterally, aggregating them later; AANZFTA is the most comprehensive FTA. For tariff elimination, AJCEP takes the timeline to the longest period and AIFTA proposes the most difficult ROO.

In order to harmonize the FTAs/ CEPs and to work on its centrality in the regional economic architecture, ASEAN and six FTA partners proposed the Regional Comprehensive Economic Partnership (RCEP) in November 2012. Subsequently, the RCEP participating members endorsed the guiding principles and negotiations were pursued since May 2013 to achieve a modern, comprehensive and mutually beneficial FTA. Upon completion, RCEP would represent a mega trading bloc of 3.5 billion people that is equivalent to half of the total world

population, with a combined GDP of about US\$22.7 trillion and total trade of US\$11 trillion or 28.4 per cent of world trade.

3.5 AEC Scorecard

ASEAN developed an AEC scorecard, which is expected to track the implementation of measures and the achievement of milestones committed in the AEC Strategic Schedule. It is aimed at identifying specific actions that must be undertaken by ASEAN collectively and its Member States individually to establish AEC by 2015. The scorecard is only meant to be a compliance tool and not a mechanism for impact assessment.

Since the Blueprint was adopted, ASEAN Secretariat came out with two official scorecards, one in 2010 and the other in 2012 (ASEAN Secretariat 2010, 2012b). Thereafter, it was discontinued, justifying that ASEAN countries have prioritised their integration activities that are critical for establishing AEC by 2015 and hence, restructured measures across phases that altered the monitoring exercise of overall implementation of AEC Blueprint (ASEAN Secretariat 2015a: 8).

Looking at the earlier scorecard, the one published in March 2012, ASEAN had achieved 68.2 per cent of its targets for the 2008–11 period. While the first scorecard for 2008-09 reported an implementation rate of around 87.6 per cent of 105 total measures, the second scorecard for 2010-11 reported a lower rate of 56.4 per cent of 172 measures (Table 3-9).

Table 3-9: AEC Scorecard, 2008-2015

Key Areas	Phase I (2008-09)		Phase II (2010-11)		Total Measures	
	FI	NFI	FI	NFI	FI	NFI
<i>Pillar I- Single Market and Production Base</i>						
Free Flow of Goods	9	0	23	24	32	24
Free Flow of Services	10	3	13	17	23	20
Free Flow of Investment	5	1	5	8	10	9

Freer Flow of Capital	1	0	5	0	6	0
Free Flow of Skilled Labour	-	-	1	0	1	0
Priority Integration Sectors	28	0	1	0	29	0
Food, Agriculture and Forestry	8	0	5	6	13	6
Total Number of measures	61	4	53	55	114	59
Implementation Rate	93.8%		49.1%		65.9%	
Pillar II- Competitive Economic Region						
Competition Policy	2	0	2	0	4	0
Consumer Protection	2	0	5	4	7	4
Intellectual Property Rights	-	-	4	1	4	1
Transport	15	10	6	8	21	18
Energy	0	0	2	1	2	1
Mineral	1	0	7	0	8	0
ICT	2	0	4	0	6	0
Taxation	-	-	0	1	0	1
E-Commerce	-	-	1	0	1	0
Total Number of measures	22	10	31	15	53	25
Implementation Rate	68.7%		67.4%		67.9%	
Pillar III- Equitable Economic Development						
SME Development	1	0	4	3	5	3
Initiative of ASEAN Integration (IAI)	2	0	1	1	3	1
Total Number of measures	3	0	5	5	8	4
Implementation Rate	100%		55.5%		66.7%	
Pillar IV- Integration into the Global Economy						
External Economic Relations	5	0	7	2	12	2
Total Number of measures	5	0	7	2	12	2
Implementation Rate	100%		77.8%		85.7%	

Note: FI- fully implemented; NFI –not fully implemented

Implementation rate is calculated as the ration of measures that are fully implemented to total number of measures targeted.

(-) depicts no measures targeted for the phase

Source: ASEAN Economic Community Scorecard 2012 (ASEAN Secretariat 2012b)

From the above table, it can be seen that during 2008-11, the first pillar – Single Market and Production Base – has implemented 65.9 per cent of the total 173 targeted measures. The laggards in Pillar I are mainly under free flow of goods and services, which had 24 and 20 ‘not fully implemented’ measures. The second pillar – Competitive Economic Region – has

met 67.9 per cent of its targets of 78. The commitments under the transport sector seem to be the most difficult ones as countries' failed to implement them in the given time. The pillar on Equitable Economic Development, the third pillar, achieved 66.7 per cent of its targets; but initiatives under SME development did not meet their targets. Finally, the fourth pillar – Integration into the Global Economy – is one of the most successful pillars in the AEC Blueprint with 85.7 per cent of total targets met.

But the AEC scorecard, in this form, is not very useful. It does not provide detailed information on the progress in terms of specific initiatives (such as elimination of non-tariff barriers, customs integration, standards and technical barriers to trade) and in terms of member countries and the provinces. The aggregate scores do not reveal the reasons for delays or difficulties in implementation in member countries' domestic economy. Moreover, the AEC Scorecard mentions that 'a regional measure will only be considered implemented if all the ten ASEAN Member States are able to implement the measures in their individual jurisdiction. Hence, failure of one country to move and implement the measures may result in non-implementation of regional measures'⁶⁷. To have all ten countries together to implement uniformly a similar measure is difficult to be achieved. It should be noted that implementation of several of the AEC initiatives needs significant political will as it entails translating regional initiatives to domestic laws, strengthening coordination mechanism across different national implementation agencies and developing common understanding of the initiatives among the implementing officers and final users. Moreover, there is no clear guideline for the countries on the timeline for reporting an implemented measure, i.e. whether the reporting is carried out at an early stage or at a later stage. Many times, it is found that a measure is said to be implemented by a country when the process has just begun. This defeats

⁶⁷ ASEAN Secretariat (2012b: 17)

the purpose of a scorecard, as the final users are unable to access the service till the measure is fully implemented⁶⁸. Thus the scorecard, with such broad information, is too general to be useful to the general public and other stakeholders of AEC.

Thereafter, moving closer to 2015, as the ASEAN countries changed certain integration measures or prioritised certain activities to deliver on AEC 2015, the ASEAN Integration Monitoring Office (AIMO) at the ASEAN Secretariat, Jakarta, published the ASEAN Integration Monitoring Report 2015 that outlines the progress in implementing AEC measures from 2008-2015. The report is a detailed effort, overcoming the issues of earlier scorecards, though it does not talk about country-wise implementation rate and reasons for delays in national economies.

For the overall implementation rate by 31st October 2015, it has been reported that the ten ASEAN countries have met 92.7 per cent, or 469 out of 506 measures. It has also been reported that the implementation rate of AEC measures stood at 79.5 per cent, or 486 out of 611 measures over the same time period, if one considers additional measures since the 2007 blueprint. Indeed, the base figures of 506 or 611 are not the original set of 316 measures mentioned in the AEC Blueprint Strategic Schedule in 2007. During the last 3-4 years, in line with the changing circumstances in global and regional economies, AEC measures have been reviewed and updated. The list of measures in the full Scorecard reached a total of 611. However, there was a prioritisation approach too, as discussed below, that led to focused implementation of 506 measures in ASEAN member states (ASEAN Secretariat 2015a: 8-10).

⁶⁸ Interview with policy makers in Thailand in March 2015.

In 2012, during the 20th ASEAN Summit, it was decided to come up with prioritised high-impact AEC measures to realise a community by 2015. Two lists were drawn up for these Prioritised Key Deliverables (PKDs): a) first, for implementation by 2013 and b) second, for implementation by 2015. The two lists were adopted by the ASEAN Economic Ministers in 2013. Since then, monitoring activities for AEC Scorecard mainly focused on the PKDs. However, in the first quarter of 2015, ASEAN countries reviewed the unimplemented PKDs and decided on 54 measures that have the greatest impact on trade and can be achieved by end-2015. These were termed as high-priority measures (HPMs). The 54 HPMs, along with the measures that were fully implemented since 2008, formed a focused base of 506 measures for the final monitoring exercise. Based on these 506 measures, it has been calculated that the ASEAN countries have met 92.7 per cent of the target. A pillar-wise breakdown reports that while pillar I and II have met 92.4 per cent and 90.5 per cent of their target measures respectively, the other two pillars have met 100 per cent of their targets.

From the above discussion, one can say that ASEAN policymakers have concerns about the pace of AEC implementation in domestic economies. The discontinuation of the scorecard in 2012 and consequently the methodology adopted to arrive at a respectable implementation rate reflects the governments worries about people's perception of regional economic integration in ASEAN. While this indeed put some peer pressure to undertake reforms in ASEAN economies, it was difficult to carry through honestly in domestic economies. The reason lies in division of responsibilities in member governments, where trade ministries are responsible for reporting AEC progress and line agencies are responsible for actual implementation of measures.

3.6 ASEAN Businesses

While the ASEAN governments had provided the policy framework for regional integration by 2015, it was important to see how the business community was responding. This is because it is the firms and the people that are key beneficiaries of these regional integration measures. There are a number of surveys done to judge the business sentiments across ASEAN. One is reported by the ASEAN Secretariat in a joint study with the World Bank (ASEAN Secretariat and World Bank 2013: 5-6). According to the study, despite ASEAN's progress with economic cooperation, utilisation rate of the CEPT preferences remained low (table 3-10). While value of imports using CEPT increased from US\$9.2 billion to US\$26 billion during 2005-2010, preference utilization rate ranged from a low of 0.5 per cent for Myanmar to a modest 22.6 per cent for Thailand and a high of 47 per cent for the Philippines. However, it should be noted that for any member country, utilisation rate varies depending on the ASEAN partner country⁶⁹.

Table 3-10: ATIGA Preference Utilization

	2005	2006	2007	2008	2009	2010
Brunei	0.9	1.3	--	2.6	--	3.3
Indonesia	3.0	--	0.3	--	--	19.0
Malaysia	5.4	2.7	3.5	--	12.5	11.1
Philippines	19.5	18.2	20.6	--	38.6	41.2
Thailand	16.4	12.3	12.2	8.3	15.2	22.6
Cambodia	--	--	--	--	--	47.1
Laos	--	--	--	2.6	2.8	3.4
Myanmar	--	0.3	0.34	0.34	0.37	0.5
Vietnam	8.8	19.1	10.7	9.9	16.1	13.4

Source: The ASEAN Secretariat and the World Bank, 2013

There could be two key reasons for this. First, the importers may not find it cost effective to comply with the CEPT-ATIGA's ROO even though ASEAN has a simple ROO requirement of minimum regional value-added of 40 per cent or a change in tariff classification at 4-digit level. Second, the low MFN tariffs offered little incentives for ASEAN members to use the

⁶⁹ For example, in 2010, in the case of Indonesian imports, CEPT utilisation rate was 56 per cent from Thailand, 20.6 per cent from Laos, 33 per cent from the Philippines, 19 per cent from Malaysia, 10 per cent from Cambodia, 4.9 per cent from Singapore and 86.2 per cent from Myanmar.

CEPT preferential rates. While the average preference margins between MFN and CEPT tariffs are four to six per cent for ASEAN-5 (Singapore has zero), it is three to seven percent for CLMV countries.

In another survey of 841 export-oriented firms, it was found that among the ASEAN countries, firms in Thailand use the FTAs the most (25 per cent), followed by the Philippines (20 per cent) and Singapore (17 per cent). Although companies reported benefits from AFTA, like wider market access and preferential tariff, they also complained about increased competition from imported products and increase in documentation required for FTA preference use. The survey also found that ROO had negative impact to a limited extent and it was the larger firms relative to SMEs that complained more about the multiple ROOs in the region⁷⁰. Companies reported lack of information, low margin of preference, prevalence of non-tariff barriers, exclusion list and administrative cost as reasons for limited use of FTAs (Kawai and Wignaraja, 2011: 262-263).

Another study by ADB-ISEAS⁷¹ reported similar trends as above and lack of information and prevalence of NTBs came out as two prime reasons for low utilisation of FTAs in the region. Some also revealed that a problem common to several ASEAN countries, but not all, is corruption in the form of bribery to facilitate import clearances, license applications and renewals, testing, customs inspections and work permits (ASEAN Studies Centre 2009: 6). The business community in the less developed ASEAN members are also said to be

⁷⁰ This is because larger firms export to multiple markets and change their plans according to FTAs and therefore may complain. Smaller firms tend to export to a single market and hence ROO is less of a hassle.

⁷¹ Hu, Albert G. (2013)

challenged by the language as they have to wait for the ASEAN documents to be translated into their local language⁷².

Implementation Remains Incomplete

From the above, it can be said that although the ASEAN countries committed themselves to a binding declaration of the AEC blueprint, implementation remains incomplete. While tariff elimination has progressed the most, there are issues of non-tariff barriers, differences in standards and lack of infrastructure that have prohibited smooth movement of goods across borders. Both services and investment liberalisation need significant domestic reform, especially to align the domestic policies to regional initiatives. Indeed, there is notable progress in the institutional connectivity such as the National Single Window, but more needs to be done beyond 2015 for its efficient working. The regional ASEAN Single Window will need some time to come into practice.

In many cases of AEC initiatives like competition policy, IPR and consumer protection, efforts are in documentation stage i.e. either a regional document is prepared to do a stock take or good practices and information are shared among ASEAN countries. These cannot be termed as policy implementation at a national level. For the SME development or the IAI programme, it is yet to be seen in any marked change of behaviour of small companies, while the less developed countries need to catch up a lot in terms of their institutions and human resource development. ASEAN has made significant progress in institutionalising its relationship with major economies in the region, but worries remain in terms of business utilisation of those FTAs.

⁷² ASEAN's official language is English and hence all ASEAN agreements and notices are published in the English language.

On the whole, ASEAN is very far from achieving a ‘single market and production base’. Examining the details of AEC blueprint (as discussed in chapter 4), one can say that ASEAN never intended to form a single market by 2015. It looked for a *FTA plus* arrangement and integration is sought keeping in mind domestic sensitivities and sectors (like electronics, automotive, food etc) that can benefit from the globalisation process. As tariffs were already declining, initiatives of trade facilitation and infrastructure development were proposed in order to lower business cost and time and participate effectively in the global supply networks. Issues of competition policy, consumer protection and IPR were seen more as a long-term process.

4. Conclusion

The preceding sections described how AEC had evolved and implemented during the period of 2003 to 2015. Remaining competitive in an increasingly globalised world is a key determinant for the ten ASEAN countries to cooperate in economic areas. The countries followed a comprehensive approach that covered not only liberalisation measures but also initiatives under facilitation, competition policy, infrastructure, narrowing development gap and the region’s linkages to a broader regional cooperation. The countries agreed to a binding declaration of the AEC Blueprint.

However, the AEC implementation record remains mixed. Tariff liberalisation under ATIGA is the most advanced, although the CLMV countries have a longer deadline till 2018. The member countries are still struggling with the non-tariff barriers, although there have been repeated commitments to reduce the incidence of NTBs in the region. Progress is also observed to be limited in services and investment liberalisation as well as in movement of

professionals. In many areas, AEC measures only promised to deliver a regional policy document or study and hence was far away from tangible implementation. Finally, although ASEAN has been appreciated for its economic engagement with giants of the bigger Asian region, much more need to be seen in terms of its final usage and benefits. This mixed record of AEC policy implementation has led to the narrative that ASEAN's effort in economic integration should be seen as a work in progress. The year 2015 was a milestone in ASEAN's journey of economic integration, when the rules were set as a foundation for broader and deeper integration in the future.

These facts relate to the hypotheses that this dissertation wishes to address. Implementation is a function of the way the policy document is designed. As will be explained in the next chapter (Chapter 4), the AEC policy document offers flexible arrangements, which can be justified by the governments desire to develop a regional economic arrangement that can serve the dual purpose of global and domestic interests. While AEC was designed to serve the participating members' common interests to remain competitive in an era of globalisation, it was also meant to serve the interests of domestic socio-economic actors. Chapter 5 and 6 will explain the mixed record of AEC implementation due to varied structure and capacity in the domestic policy-implementation process and lack of adequate coherent support of interest groups (mainly the private sector) for economic integration. Both these variables are key to influencing the member countries' behaviour in fulfilling the targets mentioned under the regional integration.

On the whole, one can infer that though ASEAN's regional behaviour was in reaction to global developments, it was dictated significantly by domestic variables both during policy-decision and policy-implementation. It was the domestic variable that ultimately influenced

the form of the regional economic cooperation projects and, in turn, affected the implementation process. As complying with regional measures is a national responsibility, inefficient organisation structure and lack of economic group support also lead to delays in implementation. It is these domestic dynamics that this dissertation wants to examine, looking at ASEAN's economic cooperation in that context.

Chapter 4

Broad Nature of AEC: Serving Dual Interests of Global and Domestic Economies

1. Introduction

In its concluding section, the previous chapter mentions that despite committing to far-reaching measures of economic integration, implementation remains incomplete in ASEAN. This chapter looks at the underlying political economy dynamics to elucidate that although the economic cooperation in ASEAN is in response to remaining competitive in an increasingly globalised world, it is also to manage the domestic expectations. The latter is observed in the many ambiguities present in the AEC blueprint. As there is a mismatch between policy aspiration and policy action, execution of policies by each government's implementing agencies becomes challenging, resulting in gaps in implementation.

To explain the underlying dynamics for the mixed nature of the AEC blueprint, the chapter discusses that AEC was an outcome of forces of globalisation that challenged the ASEAN members in the 1990s. However, as the external dynamics mediated the domestic political economy, it led to a regional project that not only had the economic characteristics of raising competitiveness and 'open regionalism' but also had features that accord a certain degree of flexibility to national economies to adhere to domestic economic interests. This is expounded in the study framework in chapter 1, as Frieden and Martin (2003) contend that the interaction of international and domestic factors are crucial determinants for a foreign economic (in this case regional economic) policy decision.

This chapter begins by highlighting AEC's role to serve both global and domestic demand. Following on from the discussion in Chapter 3 (in particular, the section on *Initial Conceptualisation, 2003*), Section 2 reiterates the fact that 'globalisation' is a key factor for AEC developments. It further explains some of the ambiguities in the AEC blueprint, thereby arguing that the AEC was never meant to serve its lofty goal of a single market and production base (Section 2). Thereafter, the chapter elaborates on the underlying dynamics for an AEC with mixed characteristics that has presented challenges to the implementing agencies.

As the FDI and production network explanations have been discussed at length in the literature, this chapter reiterates certain analytical points. In Section 3, it examines the desire to attract FDI and participate in regional production networks, reinforced by the latter's importance in two manufacturing industries – automotive and electronics. It explains the importance of a bigger market of 600 million people in ASEAN. The section argues that although economic integration within ASEAN is said to develop in the absence of a higher level of intra-ASEAN trade, it follows a principle of 'open-regionalism' in economic relations, implying that ASEAN countries' own integration should be seen in conjunction with the region's deepening cooperation with key trading and investment partners. The political economics of the member countries to band together lies in the strategic significance of undertaking domestic reforms and institutionalising the market-driven integration in the wider Asia-Pacific region.

Section 4 explains the limited liberal characteristics of the AEC project. There is a departure from full liberalisation in AEC as while the project talks about priority sector integration in selected industries, liberalisation of 'movement of natural persons' is confined to movement

of professionals only and there are many flexibilities and exceptions in the AEC document. This nature of mixed characteristics is explained by the socio-political nature of ASEAN states, such as inward looking small- and medium-scale enterprises (SMEs) or state assisted business community, difference in trade openness of ASEAN countries and market-integration across a bigger geography, where the objective of foreign multi-nationals is to maximise profit rather than strong economic integration. Section 5 reinforces the political economy argument at the individual state level of Thailand and Indonesia and explains that there were socio-political circumstances present in the domestic economy that led to limited liberalisation commitments in the AEC policy document.

Following the discussions of sections 2, 3, 4 and 5, Section 6 provides a few examples on the way AEC manages to serve dual interests of global development and domestic economic imperatives. This generates ambiguities in the AEC blueprint and hence poses difficulties for implementing agencies while complying with the promised regional measures. Finally, Section 7 concludes the chapter.

2. AEC – aligning with Global Interest but with Ambiguities

2.1 Globalisation is key to AEC Development

As observed in chapter 3, through the period from 2002 to 2006, the forces of globalisation and an intention to keep ASEAN competitive for investors seem to be the two key determinants in advancing ASEAN's integration from AFTA, AFAS, AIA in the 1990s to the AEC. This is reflected in the international consultant's report of ASEAN Competitiveness Study, in the recommendations of the HLTF-AEI, declaration of Bali Concord II and VAP. Almost all ASEAN Economic Minister's Meeting during the period repeated the importance

of ASEAN competitiveness and discussed economic growth, trade and FDI in the region⁷³. The heightened commitment to integration is showcased in 2007, when ASEAN Leaders decided to advance the deadline of AEC by 5 years to 2015.

Increasingly, ASEAN's approach to economic integration has been to emphasize on reducing barriers to trade and investment, harmonising rules and procedures in the region and providing technical assistance to less developed members so as to compete more effectively in the global economy. Two of the indicators to compete effectively in international markets are participating in international and regional production networks (or global supply network as mentioned in the AEC Blueprint 2008, p. 26) and attracting investors that had taken a blow after the 1997-98 Asian financial crisis. Through AEC, the ten member countries wanted to ensure a competitive economic region in the context of an increasingly globalised world.

2.2 Ambiguity in AEC Blueprint

a) Wordings in the Blueprint indicates flexibility

Although the AEC blueprint is a serious document with a definitive action plan and dates (as explained in chapter 3), it should not be seen as an initiative to deliver on an economically integrated market, as described in economic theory⁷⁴. There are words and phrases in the document that may lead to several interpretations for a similar action and may become a reason for member countries not to comply with certain initiatives. For instance, the blueprint provides loopholes by using words and phrases like 'freer', 'promote', 'minimal', 'where

⁷³ Global and regional macro-economic situation and the trends in ASEAN trade and FDI have always been mentioned in the joint media statement of the ASEAN Economic Ministers' Meeting under the heading of 'economic performance'.

⁷⁴ In economic theory, Balassa (1961) describes economic integration as five stages: free trade area (FTA), customs union (CU), common market, economic union and total economic integration. AEC is said to be in between the FTA and CU stages, where the former is said to have removed all barriers to trade, mainly tariff and non-tariff ones. For the ASEAN countries, CLMV countries are yet to eliminate all tariffs and non-tariff barriers still prevail in the region (described later in the chapter).

appropriate and possible’ and ‘possibly’. More particularly, in the Blueprint’s fourth characteristic, i.e. integration into the global economy, it is stated to ‘establish a system for enhanced coordination and possibly arriving at common approaches and/or positions in ASEAN’s external economic relation and in regional and multilateral fora’ (p. 25) as a policy action. The word ‘possibly’ connotes flexibility. Similarly, one of the elements of AEC Blueprint is ‘freer flow of capital’ and the document does not explain the word ‘freer’. In the strategic schedule too, under free flow of investment, it is mentioned - ‘realise free and open investment regime with minimal investment restrictions in 2015’ (p. 39) as a priority action. But it does not clarify what the ‘minimal investment’ restrictions entail.

The AEC blueprint offers flexibility in meeting targets and timelines for implementation of various measures, as it states there are ‘pre-agreed flexibilities to accommodate the interests of all ASEAN member countries’ (p.5). For example, free flow of services mentions ‘in liberalising services there should be no back-loading of commitments, and pre-agreed flexibility shall be accorded to all ASEAN Member Countries’ (p. 10).

Some of the liberalisation targets mentioned in the document are far from establishing ASEAN as an integrated market. This can be observed under services sector commitment, where movement of people is only restricted to professionals, excluding the unskilled labour altogether. Under competition policy, it mentions drawing up of a regional work plan and exploring funding options for implementation of selected elements, rather than effectively implementing a regional competition policy.

Last, but not the least, while the AEC measures are binding in nature, requiring domestic ratification by national legislatures, they are not subject to the ASEAN Protocol on Enhanced

Dispute Settlement Mechanism (EDSM). This can be observed in Section 72 of the Blueprint, which states that utilisation of the EDSM to encourage a rules-based community is ‘recommended’. It further states that the ASEAN Minus X formula⁷⁵ can be invoked to comply with the implementation of agreed economic initiatives.

b) Implementation Mechanism is Broad

The implementation mechanism spelled out in the blueprint is generic. It accords responsibility to the sectoral ministerial bodies for implementation and monitoring of blueprint commitments. But it does not specify how these initiatives have to be carried out in domestic economies. The implementation process gets complicated as ASEAN countries have different political and administrative systems in their respective domestic economies (explained in chapter 5).

The Blueprint mentions that ‘the ASEAN Economic Ministers (AEM), as the Ministers-in-Charge of Economic Integration in the Council of ASEAN Economic Community, shall be accountable for the overall implementation of the blueprint’ (p. 26), implying that it is the Ministry of Trade or Commerce in individual economies who will be responsible for AEC implementation and regular monitoring. However, responsibility for the entire ASEAN Community, comprising the three pillars of political-security, economic and socio-cultural, resides with the ASEAN Coordinating Council, which is based in the Ministry of Foreign Affairs of member countries (ASEAN Secretariat 2008b: 11-12). The blueprint does not specify how the coordination between these two key agencies should be managed in the national economies. Many times it is possible that the officials in the Ministry of Foreign

⁷⁵ ASEAN Minus X is a way to proceed on integration if all members are not ready. According to the formula, negotiation can be undertaken if there are at least three members involved. This is mainly for free flow of services.

Affairs may not have full understanding of AEC matters or they may not have amicable relationship with their counterpart in the Trade Ministry of a country⁷⁶.

Lastly, under the implementation mechanism, although the AEC Blueprint says ‘ratification of ASEAN legal instruments shall be made within six months of signing’, or ‘develop and maintain [...] the AEC scorecards to monitor and assess the progress of implementation of each element of the AEC’ (p. 27), it does not mention the consequences if these conditions are not met⁷⁷.

c) ASEAN Single Market does not denote ‘Law of One Price’

Although the 2003 Declaration of ASEAN Concord II announced that ‘the ASEAN Economic Community shall establish ASEAN as a single market and production base’, the term ‘single market’ was not clearly defined. Economists have defined single market as ‘one in which the Law of One Price must hold in all goods, services and factor markets’ (quoted in Llyod (2005:254)). In other words, there should be a single price in the region for tradable commodities and factors, after adjusting for the costs of transport between locations. But for this to happen, the following conditions have to be met:

- a) a single market requires a competition law and other competition policies to promote competition
- b) a single market requires full information for buyers and sellers

⁷⁶ Interview with academics and policy makers in Singapore in February 2015.

⁷⁷ ASEAN took three years to ratify the ASEAN Comprehensive Investment Agreement (ACIA). The agreement, which was signed in February 2009, came to effect in March 2012 due to delay was caused by Thailand and Indonesia. For the AEC scorecard, while the first two, covering periods 2008-09 and 2010-11 came on time, it was stopped subsequently for 2012-13 and a different format, titled ASEAN Integration Report 2015, came by end-2015.

- c) a single market requires removal of all border restrictions applying to imports and full National Treatment⁷⁸ with respect to beyond the border measures like taxes and regulations.
- d) a single market requires harmonisation of measures across member countries.

These conditions are very difficult to be met, especially for countries within ASEAN, who are very different from each other in terms of economic and governance structure. The data provided by the World Economic Forum (2014) *Enabling Trade Report* confirms this further. The ‘enabling trade index’ ranks 138 countries on quality of institutions, policies and services that facilitate cross-border flows. The overall trade index benchmarks the performance of each country in four areas that represent possible institutional barriers to trade. These are - ease of accessibility to country’s domestic market (in terms of tariff rates, complexity of tariff structure and share of duty-free imports) and foreign market (captures tariffs faced in the international market and the margin of preference in destination markets); border administration; infrastructure (combining availability of transport infrastructure and services and use of ICTs) and business operating environment (assesses a country’s level of protection of property rights, quality of public institutions, availability of finance and openness to foreign protection).

Table 4-1: Enabling Trade Index Rankings for ASEAN members, 2014

	Enabling Trade Index 2014 Rankings	Market Access sub-index		Border administration sub-index	Infrastructure sub-index	Operating environment sub-index
		Domestic market access	Foreign market access	Efficiency and Transparency of border administration		
Singapore	1	3	13	1	1	2

⁷⁸ National Treatment means same treatment for foreign and domestic entities.

Malaysia	25	75	42	33	23	27
Thailand	57	113	12	56	46	75
Indonesia	58	26	37	69	64	61
Philippines	64	19	26	71	89	82
Vietnam	72	76	28	86	60	81
Cambodia	93	133	1	108	101	74
Laos	98	121	4	114	115	68
Myanmar	121	97	6	117	136	134

Source: World Economic Forum (2014)

It can be observed from Table 4-1, that Singapore ranks first for the enabling trade index, reflecting the liberalized trading environment, transparency in border-crossing procedures and well supported by a strong infrastructure and business operating environment. Malaysia is also perceived positively in terms of its institutional quality for liberalising and facilitating trade with an overall ranking of 25. The rest of the ASEAN members, particularly Cambodia, Laos and Myanmar, are too far below to support the cross-border movement of goods leading to a ‘single market’ in ASEAN. Among the four sub-indices, Cambodia, Laos and Thailand perform poorly with respect to allowing access to their domestic market, followed by Myanmar, which faces least hurdles when gaining access to foreign markets. The Philippines, ranked 19, and Indonesia, ranked 26, seem to be liberal, giving access to their domestic markets, after Singapore (ranked 3). In terms of efficiency and transparency of border administration that represents the non- tariff barriers, most of the ASEAN members with an exception of Singapore performs poorly, with Myanmar, Laos and Cambodia apparently having the most non-transparent cross border administration, followed by Vietnam, Philippines, Indonesia and Malaysia. The same pattern can be observed for the infrastructure sub-index that again reflects the non-tariff barriers in the ASEAN region. For the business operating environment, although the ranking gap ranges from 2 for Singapore to 134 for Myanmar, countries that performed badly in other indices (like Cambodia and Laos), rank in relatively decent positions.

This implies that, despite announcing its single market objective in 2003, ASEAN is far away from satisfying the conditions that are necessary to adhere to the definition of a single market, as mentioned in theoretical literature. Most of the countries do well on the domestic market access (except for Cambodia, Thailand and Laos) and foreign market access, but there remains a huge room for improvement in the other indices, especially in border administration and infrastructure. Indeed, Singapore and Malaysia, with their simple regulations and infrastructure availability fare relatively better, but the latter still needs to catch up on administration procedures to narrow the gap with the former. Hence, elimination and harmonization of the non-tariff barriers are likely to be the most important factors if ASEAN intends to move closer to a single market characteristic in the future.

That said, although AEC is a significant beginning for ASEAN to advance economic integration among ten developing countries, it has offered flexibilities too. On one hand, it has signalled to the global economy and the investors that AEC is a ‘fresh’ comprehensive framework, building on agreements that were already been signed by the member countries - AFTA in 1993, AFAS in 1995 and AIA in 1998. It included several commitments like modernization of customs procedures, harmonization of standards, infrastructure development, capacity building exercise for the CLMV countries and plans to plug the region in the global supply network. On the other hand, AEC was not designed to deliver on a ‘single market, production base’. It provided flexibilities in its policy documents and kept things broad to allow for different interpretations. Implementation was largely left to individual economies and was at the mercy of their own interpretation of the policy measures, domestic capacity and administrative systems. Looking at both these facets of AEC, one can conclude that while AEC was expected to raise ASEAN’s competitiveness to attract

investments, especially vis-à-vis China, which was then a new member of WTO, and was a dominant player in the regional production network, it was not meant to deliver on a ‘single market and production base’. The phrase was used more for aspirational purposes, while many of its elements were developed on generic basis.

The sections below elaborate on the underlying dynamics of AEC to serve the dual demand of globalization and domestic interests.

3. ASEAN in Global Economy: FDI and Trade Flows

Economic globalisation has pushed the ASEAN governments to look at different policy options both within and outside their national boundaries. This section analytically examines the context of systemic change that led these governments to look for a regional response, such as the ASEAN Economic Community (AEC) in 2003.

3.1 Foreign Direct Investment

The ASEAN countries’ decision to establish AEC came from the top political leadership who were concerned about the pressure from increasing globalization. This had raised competition for countries in the region to serve as destinations for FDI inflows⁷⁹. FDI has long played a crucial role in the development strategy of these countries. The Japanese FDI, in particular, has been active in catalysing the growth of ASEAN manufacturing exports, explained by the ‘flying geese’ model of shifting comparative advantage (Sally and Sen 2005: 97). However, with the advent of the 1997-98 financial crisis and Japan’s prolonged period of economic recession, the ASEAN countries experienced a significant slowdown in FDI inflows. The

⁷⁹ See the discussion of Section 2 in Chapter 3

economic surge of China and, to a certain extent, India, as competing destinations for FDI were also said to be instrumental in the decision for AEC (Hew 2007a: 2). The trend in ASEAN FDI inflows is shown in table 4-2, with comparable figures for China and India.

Table 4-2: FDI Inflows in ASEAN-10, China and India (US\$ billion), 1990-2014

Year	ASEAN	China	India	Developing economies	World
1990	12.8 (37.0)	3.5 (10.1)	0.2 (0.7)	34.6	204.9
1991	13.6 (34.6)	4.4 (11.1)	0.1 (0.2)	39.5	154.1
1992	12.7 (23.8)	11.0 (20.6)	0.3 (0.5)	53.5	163.0
1993	16.6 (21.9)	27.5 (36.3)	0.5 (0.7)	75.7	220.1
1994	20.5 (20.0)	33.8 (33.0)	1.0 (1.0)	102.4	254.9
1995	28.6 (24.3)	37.5 (31.9)	2.2 (1.8)	117.8	341.5
1996	32.9 (22.4)	41.7 (28.4)	2.5 (1.7)	147.1	388.7
1997	35.9 (19.4)	45.3 (24.4)	3.6 (1.9)	185.7	481.2
1998	20.9 (11.8)	45.5 (25.7)	2.6 (1.5)	176.6	692.3
1999	31.0 (14.3)	40.3 (18.7)	2.2 (1.0)	216.2	1,076.3
2000	22.5 (9.7)	40.7 (17.5)	3.6 (1.5)	232.2	1,363.2
2001	21.9 (10.1)	46.9 (21.7)	5.5 (2.5)	215.6	684.1
2002	17.0 (10.2)	52.7 (31.6)	5.6 (3.4)	166.7	591.4
2003	3.1 (1.6)	53.5 (27.3)	4.3 (2.2)	196.3	552.0
2004	40.2 (15.2)	60.6 (23.0)	5.8 (2.2)	264.1	682.7
2005	43.2 (13.1)	72.4 (21.9)	7.6 (2.3)	330.2	927.4
2006	64.5 (16.0)	72.7 (18.0)	20.3 (5.0)	403.9	1,393.2
2007	86.0 (16.3)	83.5 (15.8)	25.3 (4.8)	528.5	1,871.7
2008	50.3 (8.6)	108.3 (18.5)	47.1 (8.0)	585.6	1,489.6
2009	46.1 (9.9)	95.0 (20.5)	35.6 (7.7)	463.6	1,186.4
2010	105.1 (18.1)	114.7 (19.8)	27.4 (4.7)	579.9	1,328.1
2011	93.5 (14.6)	124.0 (19.4)	36.2 (5.7)	639.1	1,563.7
2012	108.1 (16.9)	121.1 (18.9)	24.2 (3.8)	639.0	1,402.9
2013	126.0 (18.8)	123.9 (18.5)	28.2 (4.2)	670.8	1,467.2
2014	132.8 (19.5)	128.5 (18.9)	34.4 (5.1)	681.4	1,228.3

Note: Figures in parentheses denotes share of FDI flows to total flows to developing countries.

Source: UNCTAD (2015)

Following observations can be made from the above table. First, in absolute terms, while ASEAN experienced an increase in FDI inflows till 1997, the trend reversed and nearly

halved from 1997 to 2003. Second, before 1993, ASEAN was leading in attracting FDI flows compared to China. However, the reverse happened post-1993 and it continued till 2013. Third, as percentage share of total flows to developing countries, although ASEAN was attracting 37 per cent of FDI inflows in 1990 vis-à-vis 10 per cent to China, the share dropped significantly to 10 per cent in 2002 while it increased to 32 per cent for China. It was perceived that after the 1997-98 crisis, China gained on FDI inflows at the expense of ASEAN. This was indeed alarming for the ASEAN policy-makers who have relied on FDI to support high growth strategies. Later, ASEAN picked up momentum from FDI flows and the proportion of flows stabilised around 19 per cent of the total FDI to developing countries. Currently, this number is at par with Chinese share of investment flows. Fourth, although India cannot be seen as a full-fledged competitor for FDI destination, when compared to ASEAN or China, the country started to attract more FDI since its domestic reforms in the early 1990s and was expected to pick up steam with further reforms.

In the late 1990s, with the advent of the financial crisis, economic growth of the ASEAN countries showed a declining trend from 7.3 per cent in 1995 to 4.6 per cent in 1997 and further to a negative growth rate of 1.1 per cent in 1998. Although most of these ASEAN economies recovered by 2002-03, the average growth rate of 6.3 per cent was lower than the pre-crisis level. As opposed to this, in 2003, the big economies of China and India registered economic growth rates of 10 per cent and 7.9 per cent respectively⁸⁰. This had an important bearing on ASEAN countries' decision to pursue AEC.

It should thus be noted at this point that ASEAN policy makers saw the utility of AEC as an economic project, in particular the value of FDI for their respective economies. In 2002, then

⁸⁰ IMF (2016)

Singapore Minister for Trade and Industry, Mr. George Yeo, mentioned, ‘In 1990, China accounted for less than 20 per cent of total foreign investments in developing Asia, while Southeast Asia took 60 per cent. Today, the numbers are reversed.’ (quoted in Severino 2006: 250). The concern over the ability of ASEAN countries to attract FDI pushed the ASEAN Leaders to propose AEC as the next phase of economic integration⁸¹. The leaders were convinced that deepening ASEAN integration is a way to raise investors’ confidence in the region.

Moreover, for the new ASEAN countries, namely Cambodia, Laos, Myanmar and Vietnam, who joined ASEAN in the 1990s, they would not have agreed for AEC, which was seen to have the potential to introduce domestic reforms in their respective economies, if the project did not have economic benefits. The economic benefits were in terms of attracting FDI to support the economic growth rate in the national economies. This was also the time when Cambodia and Vietnam were trying to gain accession to the World Trade Organisation (WTO)⁸². Hence, undertaking changes in the domestic economy simultaneously for WTO and AEC looked plausible for these countries. Thus, when the idea of AEC was floated in 2002 by then Singapore Prime Minister, Mr. Goh Chok Tong, it was soon supported by other ASEAN Leaders. The idea was to get more serious about regional integration and implement measures that have already been agreed upon and introduce new commitments to raise overall competitiveness of the region.

3.2 Trade and the Production Network (with discussion of automotive and electronic industries)

⁸¹ Interview in Singapore in July 2015 with policy-makers.

⁸² Cambodia became a member of WTO in 2004 and Vietnam in 2007. Laos became a member of WTO much later in 2013.

Besides FDI, effective participation in the global production network and increased trade volume were also important factors for ASEAN countries to get together for a deeper integration through AEC and institutionalise trade relations with the broader Asian region. This can be observed in the 2003 speech of Dr. Thaksin Shinawatra, then Prime Minister of Thailand, when he said ‘ASEAN will not be able to maintain the status quo in the global production network in this fast-changing global competitive equation. [...]On the one hand, it is imperative for ASEAN to forge economic partnership with its major partners. Australia, New Zealand, China, India and Japan are among those partners. The United States and the European Union should be another. But on the other hand, it is also equally imperative that ASEAN must arrange its own house to strengthen its competitive edge, to make itself more attractive as economic partners for others and bring more benefits to its own people’⁸³.

The ASEAN countries are part of a larger East Asian regional production network process since the beginning of the 1990s. There are three key characteristics of East Asia’s engagement in production networks (mentioned as network trade), as described by Athukorala (2013: 6-12). First, although the advent of production networks can be traced back to 1968 with two US’ MNEs setting up their operations in Singapore and later relocating to neighbouring countries, like Malaysia, Thailand and the Philippines, to take advantage of lower production cost⁸⁴, the phenomenon picked up steam when China emerged as a ‘global factory’ in the early 1990s. China’s performance as a destination of final assembly, based on imported parts and components (P&C) from neighbouring countries,

⁸³ ASEAN Secretariat, Address by His Excellency Dr. Thaksin Shinawatra Prime Minister of Thailand at the Inauguration Ceremony of the ASEAN Business and Investment Summit (ASEAN-BIS), Nusa Dua, Bali (<http://asean.org/address-by-his-excellency-dr-thaksin-shinawatra-prime-minister-of-thailand-at-the-inauguration-ceremony-of-the-asean-business-and-investment-summit-asean-bis-nusa-dua-bali/>); accessed on 27 May 2016)

⁸⁴ The inception of production network can be observed in 1968, when the two US companies, National Semiconductors and Texas Instruments, set up their plants in Singapore to assemble semiconductor devices. Thereafter, they moved their production facilities out of Singapore to neighbouring countries of Malaysia, Thailand and the Philippines in the late 1970s as the production cost spiked due to rise in wages and land prices.

assumes importance in this respect. More recently, the production networks saw gradual expansion to Vietnam. Over time, the development of production network led to a new form of division of labour among countries in East Asia, especially on the basis of their skill differences, relative wages and communication and transport infrastructure.

Second, the share of East Asia in world network trade increased from 32 per cent in early 1990s to more than 40 per cent more recently, implying that the region is an active participant in this new form of production. Within East Asia, China, with rise in its share of network products' exports from 2 per cent to 15 per cent, has been a major driving force in network trade. The shares of advanced ASEAN countries also went up during this period, except for Singapore (Table 4-3). The decline in Singapore's share reflects on its changing role in production network: from assembly and testing activities to managerial functions, product design and technology-intensive augment of production (Athukorala 2008: 483).

Third, P&C accounts for a much larger share in network trade across all countries in the region. Except for China and Thailand, P&C account for more than 50 per cent of total network export by 2007-08. The P&C share is particularly high for ASEAN countries. Moreover, the share of P&C is higher in imports vis-à-vis exports, implying that although the East Asian countries depend on their neighbours as markets for P&C, they rely on the rest of the world as markets for the final products (Table 4-3).

Table 4-3: Total and Network Manufacturing Trade in East Asia (per cent of world total)

	Total Manufacturing		Total Network Products*		Share of P&C in total Network Products	
	1992-93	2007-08	1992-93	2007-08	1992-93	2007-08
Exports						
East Asia	28.3	34.0	32.2	40.3	39.0	56.5

(including Japan)						
China	4.5	14.3	2.1	14.5	35.0	49.4
ASEAN	4.5	6.0	5.6	7.8	39.9	66.9
Indonesia	0.6	0.6	0.1	0.5	40.3	56.1
Malaysia	1.2	1.7	1.8	2.6	40.5	68.1
The Philippines	0.3	0.7	0.4	1.2	61.6	82.1
Singapore	1.5	1.4	2.5	1.9	38.7	74.1
Thailand	0.8	1.3	0.8	1.6	32.7	47.5
Vietnam	0.0	0.3	0.0	0.1	23.6	59.2
World	100	100	100	100	42.4	53.2
Imports						
East Asia (including Japan)	21.7	23.7	21.0	28.1	61.2	70.3
China	2.9	7.1	2.2	9.0	59.3	69.0
ASEAN	6.2	5.8	7.4	7.3	66.1	74.9
Indonesia	0.8	0.4	0.6	0.3	74.7	58.0
Malaysia	1.4	1.3	1.9	1.9	66.7	69.4
The Philippines	0.4	0.5	0.4	0.8	68.6	77.9
Singapore	2.3	2.1	3.2	3.2	64.6	77.7
Thailand	1.3	1.1	0.6	1.3	66.2	74.4
Vietnam	0.0	0.4	0.2	0.0	--	66.2
World	100	100	100	100	42.8	54.0

*Note: * there are two components of total network products- parts and components (P&C) and final assembly. In world total, the export share of final assembly for China was 15.7 per cent in 2007-08 and for ASEAN, it was 5.5 per cent, depicting China's role as 'factory of Asia'.*

Source: Athukorala (2013: 24-25)

The network trade in total manufacturing exports is much more pronounced in East Asia, including the ASEAN countries, compared to the other regions in the world (Table 4-4). In 2007-08, production network exports accounted for more than 60 per cent of total manufacturing exports in East Asia, compared to a world average of 50.9 per cent, NAFTA 59.3 and the EU 43.5. Within East Asia, the share of network exports for ASEAN went up from 57 per cent in the early 1990s to a high of 66.2 per cent in 2007-08, with Malaysia, the Philippines, Singapore and Thailand leading the group. ASEAN has a similar pattern for imports as well. All these reflect the region's significant dependence on cross-border trade in regional production network.

Table 4-4: Share of Total Network Products in Total Manufacturing Trade (per cent)

	1992-93	2007-08
Exports		
East Asia (including Japan)	51.8	60.7

China	21.1	52.1
ASEAN	56.8	66.2
Indonesia	9.3	38.4
Malaysia	68.4	78.8
The Philippines	53.4	87.3
Singapore	74.9	66.5
Thailand	43.1	62.9
Vietnam	--	18.5
NAFTA	59.7	59.3
EU-15	40.7	43.5
World	45.5	50.9
Imports		
East Asia (including Japan)	44.1	59.8
China	34.4	63.7
ASEAN	54.4	64.0
Indonesia	36.1	37.7
Malaysia	60.7	72.0
The Philippines	47.6	78.6
Singapore	61.8	77.7
Thailand	46.2	48.5
Vietnam	--	28.8
NAFTA	50.7	51.2
EU-15	25.9	33.8
World	45.7	50.7

Source: Athukorala (2013: 26-27)

The Automotive and the Electronic industries are two appropriate examples of production networks in the East Asia region. Both of these are assembly industries, where parts and components (P&C) are produced by independent industries and, often, across multiple nations. The sub-section below discusses in detail the globalisation process in the automotive industry, including certain characteristics and the development of production networks in the industry across ASEAN nations and beyond. It briefly gives an account of electronics industry, demonstrating the spread of production network across ASEAN and the broader East Asian region.

Automotive Industry

The automotive industry is an assembly industry, where a number of suppliers of components and assemblers of vehicles are connected through cross-border production networks. Dicken

(2011: 333) categorizes three major processes prior to the final assembly - the manufacture of bodies, of components and of engines – that are vertically integrated (Figure 4-1).

Figure 4-1: The Automobile Production Circuit

Source: Dicken (2011: 333)

Figure 4-1 also shows three tiers of suppliers. The first-tier suppliers are responsible for major components of the final assemblers and are involved in research and development and design activities. While the second-tier suppliers support the final assemblers or the first-tier

suppliers by producing components as per requirements, third-tier suppliers provide the basic parts and components.

The method for manufacturing automobiles has experienced transformation over decades (Cheewatrakoolpong et al 2013: 22). Since the 1970s the production methods in the industry have been changing from mass production to international production networks. In North America, the shift in manufacturing processes was observed as the US auto producers moved to Canada and Mexico, using the Canada-United States Automotive Products Agreement of 1965 and later the North American Free Trade Agreement (NAFTA). In East Asia, the Japanese auto producers moved from Japan to other countries in Asia, including the ones in ASEAN, as the yen appreciated in the 1980s, increasing their production costs. The financial crisis of 1997 further motivated Japanese and US auto manufacturers to set up their factories in the ASEAN region as the asset prices crashed and restriction on foreign equity ownership was eased for some countries. The investments came either in the form of direct investment by MNCs or were in forms of joint ventures. As a result, international production network was developed in the automotive industry across the East Asian region.

In East Asia, China, Japan, South Korea, Thailand, Indonesia and Malaysia are the biggest auto manufacturers⁸⁵. Among these, Thailand is a major production base for MNCs in the ASEAN region. With its ambition to be the Detroit of Asia, Thailand's success in automobile production is not by chance. There were well-thought out policies (such as localisation policy, export promotion, trade and investment liberalisation) since the early 1970s that have

⁸⁵ International Organisation of Motor Vehicles Manufacturers. According to the 2015 Production Statistics, China is the biggest car manufacturer (31 per cent of total world production of 68 million), followed by Japan (10.3 per cent) and South Korea (6 per cent). Thailand and Indonesia each has a global share of 1.2 per cent.

helped the industry to gain its present position.⁸⁶ Developments in ASEAN were also in the government's perspective, especially the ones like AFTA and ASEAN Industrial Cooperation Project (AICO). The Thai government followed a clustering strategy and focused on eastern Bangkok for automobile manufacturing and assembly activities. A key factor that differentiates Thailand's strategy from other Asian countries like Malaysia or South Korea is its decision to "attract foreign investors to set up their production bases in Thailand" and not create its own national brand (Wonglimpiyarat 2016: 81-83).

Over the years, the Thai automotive manufacturers, predominantly the Japanese, have developed most of the ancillary industries in the domestic market and minimised the logistics cost. While the first tier firms in the Thai auto industry are, in general, Japanese foreign investors, the second-tier firms have a mix of Thai or Joint Venture between Thai and Japanese companies, although the firms use Japanese technology or are assisted by Japanese companies to ensure product quality. The third tier firms are small parts and component manufacturers and are mostly Thai (though Japanese SMEs exist in small proportions)⁸⁷.

The production network of Toyota in East Asia is shown in Figure 4-2. It can be seen that Thailand is the main assembly base for Japanese automotive producers in ASEAN. Other ASEAN members, such as Malaysia, Indonesia and the Philippines, are involved in the

⁸⁶ Long back in late 1960s, the Thai government, in order to increase investments, imposed a minimum local content requirement of 25 per cent on automotive assembly. This pushed the manufacturers to procure some inputs from domestic sources. At that time, the Japanese manufacturers responded by moving Japanese auto-parts manufacturers to Thailand. Again, in the early 1980s, the government imposed restrictions on number of automotive models and raised the local content requirement to 54 per cent for passenger cars and 60-72 per cent for pick-up trucks. This attracted fresh FDI into automotive parts and component industry (Interakumnerd and Techakanont: 5). Later, under the the General Agreement on Trade and Tariffs (GATT), Thailand had to remove prohibition on imports of vehicles. In addition, the Board of Investment in Thailand has provided regular incentives to develop the automotive industry in the country (Interview in Bangkok in March 2015). IDE-Jetro in its research has mentioned that the Thai government laid out distinct policies and regulations that have been flexible and aligned towards meeting the interests of MNCs (Techakanon 2011:195)

⁸⁷ Interview in Bangkok with the business community in March 2015.

production of parts and components and are assemblers of certain product lines that are imported for final assembly in Thailand. Japan continues to serve as the Headquarters for investment decisions and supply of high-tech products to Thailand. In East Asia, China is another main final assembly base of automotive manufacturers, while Japan, India, Malaysia, the Philippines and Indonesia export auto parts and components.

Figure 4-2: Production Network of Automotive Industry in East Asia: Case of Toyota

Source: Cheewatrakoolpong et al 2013: 25

This production network leads to intra-regional trade in broader East Asia (EA) and table 4-5 (along with appendix IV.1) confirms this fact with distribution of exports and source of imports. It can be observed that the share of East Asia's (EA10) own trade is increasing over time. For individual countries, East Asia as a destination for exports and origin for imports is rising in importance for China, Singapore, Malaysia and Thailand. Japan plays a minor role as an export destination. Although Japan features relatively better as a source of imports, it has a declining share over time. This reiterates the point that Japanese automakers use East Asian countries as their final assembly base in order to serve local markets and to export to the rest of the world (ROW). Among the ASEAN countries, Thailand is the biggest production base for foreign multinationals and the largest exporter⁸⁸. The auto industry in Thailand procures majority of parts and components locally, while some are imported from other ASEAN countries and Japan.

Table 4-5: Distribution of exports and imports by destination and origin (%) and trade balance (US\$ billion) for Automotive Products

		EA10		Japan		ROW		World	
		2000	2014	2000	2014	2000	2014	2000	2014
EA10	X Dest.	14.9	19.5	4.4	4.3	80.8	76.2	100	100
	M origin	10.8	16.2	52.1	22.2	37.1	61.6	100	100
	TB (US\$bn)	1.2	8.3	-10.3	-27.0	11.2	35.2	2.1	16.6
China	X Dest.	13.7	14.0	15.1	6.9	71.2	79.1	100	100
	M origin	7.0	7.6	39.8	18.4	53.2	74.1	100	100
	TB (US\$bn)	-0.1	-0.2	-1.4	-13.9	-1.1	-30.8	-2.5	-44.9
Singapore	X Dest.	61.9	67.0	3.9	1.6	34.2	31.5	100	100
	M origin	9.6	16.3	48.2	21.0	42.1	62.6	100	100
	TB (US\$bn)	0.2	1.8	-1.3	-1.1	-0.9	-2.1	-1.9	-1.4
Malaysia	X Dest.	42.4	63.3	5.4	4.1	52.2	32.7	100	100
	M origin	7.7	46.0	75.1	30.0	17.2	24.0	100	100
	TB (US\$bn)	0.0	-2.1	-1.4	-1.9	-0.2	-1.1	-1.6	-5.2

⁸⁸ Among the EA10 countries, Thailand is the third largest exporter (US\$26.4), after South Korea and China. In 2014, the automotive exports for South Korea and China were US\$76.5 billion and US\$49.6 billion respectively.

Indonesia	X Dest.	52.9	44.0	20.0	9.5	27.1	46.5	100	100
	M origin	18.5	48.4	60.2	36.0	21.4	15.5	100	100
	TB (US\$bn)	-0.2	-1.0	-1.1	-1.9	-0.3	1.3	-1.7	-1.6
Thailand	X Dest.	14.2	27.7	7.5	5.2	78.3	67.1	100	100
	M origin	8.4	27.6	71.9	50.4	19.7	22.1	100	100
	TB (US\$bn)	0.1	4.6	-1.5	-3.6	1.4	15.6	0.0	16.6
Philippines	X Dest.	33.8	51.6	18.9	23.4	47.3	24.9	100	100
	M origin	26.7	61.2	60.4	30.1	12.9	8.6	100	100
	TB (US\$bn)	-0.1	-1.1	-0.5	-0.6	0.1	0.1	-0.4	-1.6
Vietnam	X Dest.	37.4	27.9	30.1	38.2	32.5	33.9	100	100
	M origin	47.6	68.7	36.4	15.9	16.1	15.4	100	100
	TB (US\$bn)	-0.1	-1.9	-0.1	-0.1	0.0	-0.1	-0.3	-2.1

Note: X-Dest – Export Destination; M Origin – Import Origin; TB – Trade Balance; ROW – rest of the world; EA10 (East Asia 10) includes China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

Source: UN-Comtrade Database and author's calculation

Despite the cross-border trade in final and intermediate inputs in auto products in East Asia, the countries are not yet a close-knit regional automotive production network (Dickens 2011: 362, Lall et al 2010: 419). The region remains to a certain extent as individual markets as some countries continue to have protection against automotive imports⁸⁹. However, this does not mean that automotive production networks cannot be strengthened in the region. Given the rapid demand growth and the free trade agreements (FTAs), including initiatives like the ASEAN Economic Community (AEC) and the ASEAN+1 FTAs, there is potential that integrated production will increase.

Electronics Industry

⁸⁹Although tariff has been lowered overtime in the industry, protectionism exist in form of local content requirement or different standards (Local content requirement is mentioned earlier in footnote 10 in case of Thailand). Most of the developing countries in ASEAN wants to develop its own auto industry, because of the industry's spill over benefit in terms of economic growth, technology transfer and employment creation. To circumvent, the import restrictions, the Japanese manufacturers have developed a significant proportion of assembly line in individual countries to serve the local markets in the region.

A similar discussion on regional production networks can be brought out in case of the electronics industry as well. Electronics is a leading industry in intra-regional trade flows in developing East Asia (EA10). In 2000, the share of electronics trade within East Asia was 44 per cent of East Asia's electronics trade with the world. This share increased to 66 per cent by the end of 2014, reflecting the surging importance of the sector in intra-regional trade flows.

Among ASEAN economies, Singapore was once a prominent location for electronics manufacturing. However, since the late 1980s, with the advent of multi-stage production process across several national boundaries, Singapore has faced some challenges. While initially the city-state started developing the sector in assembly activities that were labour intensive, with the rise in wages, these activities shifted to other low-cost production sites, such as Malaysia, Thailand and the Philippines. China's entry into the sector further put competitive pressure and accelerated the relocation of assembly activities out of the ASEAN region (Chia and Basu Das 2015: 246).

Table 4-6 (and Appendix IV.2) explains the intra-regional trade pattern of electronics products. It can be observed that the share of East Asia's (EA10) own trade has increased significantly from 2000-2014. For individual countries, China, Singapore, Malaysia, Thailand and the Philippines are trading more deeply within East Asia vis-à-vis the rest of the world (ROW). The importance of Japan as an export destination or source of imports has gone down in the last decade. The trade balance for China has grown more negative over time, the deficit within EA10 growing faster than with Japan. The trade balance with the rest of the world (ROW) has increasingly grown positive. This reflects China's growing role in electronics assembly activities, importing parts and components from ASEAN and other developing countries in the region and exporting to the ROW, mainly the US and the EU.

Thus, a tight regional network has emerged among the EA10 countries, with China playing the role of a base for neighbouring countries to serve the export market of the West.

Table 4-6: Distribution of exports and imports by destination and origin (%) and trade balance (US\$ billion) for Electronics Products

		EA10		Japan		ROW		World	
		2000	2014	2000	2014	2000	2014	2000	2014
EA10	X Dest.	39.5	61.9	10.7	5.3	49.8	32.7	100	100
	M origin	51.0	71.5	19.5	6.8	29.5	21.6	100	100
	TB (US\$bn)	8.6	94.3	-13.1	2.4	104.3	188.2	99.8	285.0
China	X Dest.	36.6	42.4	12.5	6.4	50.9	51.2	100	100
	M origin	45.4	60.6	22.1	6.8	32.5	32.6	100	100
	TB (US\$bn)	-4.9	-39.2	-4.3	2.6	5.6	99.2	-3.6	62.6
Singapore	X Dest.	42.2	70.7	7.0	5.9	50.8	23.4	100	100
	M origin	57.2	80.1	17.3	4.5	25.5	15.5	100	100
	TB (US\$bn)	0.2	15.4	-4.0	3.1	22.8	14.0	18.9	32.4
Malaysia	X Dest.	39.5	60.8	11.5	6.9	49.0	32.3	100	100
	M origin	42.2	59.7	19.3	7.3	38.5	33.0	100	100.0
	TB (US\$bn)	5.9	11.4	-0.5	1.0	11.6	5.5	17.0	17.9
Indonesia	X Dest.	42.3	37.7	14.5	11.3	43.1	51.0	100	100
	M origin	51.5	80.2	13.9	6.7	34.5	13.1	100	100
	TB (US\$bn)	2.7	-4.1	0.9	0.1	2.8	1.9	6.4	-2.0
Thailand	X Dest.	40.2	44.2	12.5	8.0	47.3	47.9	100	100
	M origin	43.5	67.6	21.9	14.0	34.6	18.4	100	100
	TB (US\$bn)	1.4	-0.0	-0.7	-0.4	3.8	12.1	4.5	11.7
Philippines	X Dest.	39.1	61.6	12.8	11.8	48.1	26.5	100	100
	M origin	34.8	54.6	20.9	11.6	44.3	33.8	100	100
	TB (US\$bn)	4.5	6.8	0.1	1.2	5.3	1.5	10.0	9.5
Vietnam	X Dest.	86.1	26.6	8.4	2.8	5.6	70.6	100	100
	M origin	22.9	68.3	51.0	6.2	26.1	25.5	100	100
	TB (US\$bn)	0.3	-13.4	-0.4	-1.2	-0.2	2.4	-0.3	-12.1

Note: X-Dest – Export Destination; M Origin – Import Origin; TB – Trade Balance; ROW – rest of the world; EA10 (East Asia 10) includes China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

Source: UN-Comtrade Database and author's calculation

At this point, it should be noted that the production network for the electronics industry was primarily driven by the WTO Information Technology Agreement (ITA) that came in 1996

and got commitments from signatory members to eliminate tariffs on ICT products. However, the agreement did not cover much of the facilitation measures, including modernisation of customs procedures. ASEAN economic agreements assume importance in this respect. For the electronics industry, where P&C cross borders multiple times, measures like speedier customs procedure or Mutual Recognition Arrangement, for goods that prevent the requirement for product testing multiple times, becomes far useful.

3.3 Offer of an Enlarged Market Space

The above discussion of trade and investment are only partial explanations for the ASEAN countries to undertake deeper economic integration both within itself and with the bigger economies of East Asia. The countries could have undertaken alternative avenues like unilateral reforms or policy incentives in individual countries to attract FDI. They could have signed bilateral treaties with bigger East Asian nations, rather than the regional FTAs, in order to institutionalise trade relations. However, it is the perception of ASEAN Leaders that a bigger market - like the North American Free Trade Area (NAFTA) or the European Union (EU) as well as China - is more tempting for foreign investors in that it led them to think of a similar project in ASEAN.

Three key characteristics, both internal and external, during the mid- to late- 1990s helped shape the ASEAN response to AEC. First is the rise of regionalism projects in the western economies, notably NAFTA and the Single Market Program in Europe. For the latter, by the late 1990s, the region integrated more deeply into an Economic and Monetary Union (EMU). The ASEAN governments realised that the formation of regional integration projects in the developed world implies competition for global flows of FDI. While regional integration offers a bigger market size to lure investment, it also introduces a predictable investment

climate. The investment climate is said to be enhanced under a regional integration scheme as domestic policies get locked into regional commitments and any change in those policies not only has domestic consequences, but also constitutes a breach of international conduct (Buthe and Milner 2008: 744).

Second, China with its status as ‘factory of Asia’ became a significant source of competition for investment destination compared to ASEAN. Its entry in the WTO in 2001 led the country to undertake all-encompassing market-based reforms, including the ones in trade and FDI liberalisation (Sally and Sen 2011: 568). This promise of deeper economic reforms and alignment of domestic policy to international standards was believed to boost up foreign investment in that country. The rise in FDI flows to China was felt to be at the expense of ASEAN, as, subsequently, observed in outward FDI flows of Japan, South Korea and the US between 2001 and 2005 (Table 4-7). This trend of FDI flows became a matter of concern for the ASEAN policymakers, leading them to think about the potential of a large regional market.

Table 4-7: FDI Flows to ASEAN and China, US\$ million

	Japan		South Korea		US	
	ASEAN	China	ASEAN	China	ASEAN	China
2001	3,892	2,161	-534	-186	8,835	1,912
2002	4,060	2,608	260	914	663	875
2003	290	3,946	582	1,641	5,232	1,273
2004	2,681	5,867	487	2,039	1,294	4,499
2005	5,059	6,589	570	2,620	5,930	1,955
2006	6,957	6,167	1,285	3,159	10,292	4,226
2007	7,787	6,203	2,959	4,974	17,864	5,243
2008	6,306	6,482	3,048	3,418	11,087	15,971

Source: UNCTAD Bilateral FDI Statistics (FDI Flows abroad by geographical destination)

Third, internally in ASEAN, the 1992 ASEAN Free Trade Agreement (AFTA) was not seen to be moving fast enough. The agreement initially promised to reduce tariffs of its member countries to 0 to 5 per cent over a 15- year time period. Some of the agreement’s specifics

were left ambiguous. For example, though ASEAN called the agreement a 'Free Trade' one, tariffs were not completely eliminated. There was substantial flexibility, bundled under temporary exclusion or permanent exemption (Nesadurai 2003b: 54). The cautious approach was also observed in other ASEAN agreements, such as the ASEAN Investment Area (AIA) in 1998, which made a distinction between ASEAN and non-ASEAN investors and pledged national treatment and market access to ASEAN investors by 2010 and to foreign investors by 2020. However, with the fear of rising competition to FDI flows, changes were made both in AFTA and AIA documents. The end-date of AFTA was brought forward to 2002 for the ASEAN-6 countries and to 2006-10 for the less developed ASEAN members. Eventually, a zero tariff level was agreed among the ASEAN members and in January 2003, it was agreed that tariffs would be completely eliminated for ASEAN-6 by 2010 and for Cambodia, Laos, Myanmar and Vietnam by 2015, though a few exceptions will remain till 2018. For the AIA, the distinction of ASEAN and foreign investors was removed in 2001. All these demonstrate ASEAN governments' intention to undertake deeper integration.

The key point to note here is that the temptation of foreign investors to go into bigger markets of NAFTA, EU or even to China persuaded the ASEAN policymakers to form a larger regional market. In 2003, an economically integrated ASEAN market comprised 545 million people, which was bigger than NAFTA (429 million) and EU (492 million) and was half the size of the Chinese population of 1.3 billion.

Although ASEAN was pursuing regional economic integration since the early 1990s, there were several developments internally that needed a fresh look at economic cooperation (Soesastro 2005a: 22). During 1995 to 1999, ASEAN expanded its membership to less developed countries - Vietnam, Myanmar, Laos and Cambodia – and in the process

encountered a serious development gap in the region⁹⁰. The Initiative of ASEAN Integration (IAI) was introduced in 2001 for capacity building efforts to the CLMV countries⁹¹. Additionally, the 1997-98 crisis prompted the ASEAN countries, who were already trading more with extra-regional partners, to recognize the importance of economic cooperation in the broader Asian region and to institutionalize such relations (Soesastro 2005a: 22; Kawai 2005: 30). For example, the ASEAN-China Comprehensive Economic Cooperation Framework Agreement was the first such initiative signed in 2002 and it was followed by similar agreements with Japan, India, Australia-New Zealand and South Korea. Hence, AEC could be seen as a ‘fresh’ comprehensive framework, building on agreements that had already been signed by the member countries - the AFTA scheme in 1992, AFAS in 1995, AIA in 1998 and IAI in 2001⁹². The wider scope and deeper commitments in AEC were expected to deliver a bigger market space and raise the region’s competitiveness to attract FDI, especially vis-à-vis China.

The views and thinking of the ASEAN leaders for a bigger market-size were also echoed in the words of Singapore’s Senior Minister, Mr. Lee Kuan Yew, in 2003, as he said ‘the diversion of foreign investments away from ASEAN is palpable. [...] Individually, most ASEAN countries do not have the economic weight of a province in China or a state in India. We must create a larger and more attractive economic entity. With stability, ASEAN countries will grow steadily. How strongly we grow depends on two key factors: first, our success at continuing to deepen integration within ASEAN, and second, our ability to keep ASEAN outward-looking [...]. When ASEAN began its initiative to establish an ASEAN

⁹⁰ The development gap is not only in terms of per capita income but also in terms of human resource, efficiency of economic institutions, incidence of poverty, ‘soft’ and ‘hard’ infrastructure, finance and information and communication technology (ICT) (Salazar and Basu Das 2007, pp 2-5)

⁹¹ ASEAN Secretariat (2001b)

⁹² This was mentioned in ISEAS concept paper on the proposed ASEAN Economic Community done in February 2003 and was later published in an ISEAS publication (Hew, at al. 2005:296). The same was verified while interviewing policy makers in Singapore in March 2015.

Free Trade Area (AFTA) in 1992, it was a milestone. But more than 10 years later, AFTA has not kept pace with the breadth and depth of other economic agreements such as NAFTA. ASEAN leaders are well aware that they need to band together. [...] This (AEC) consolidated market of 500 million people will make us more competitive. [...]. At the same time, ASEAN will need to remain outward-looking. [...] We must remain focused on our ties with key partners worldwide. With many of these partners, ASEAN has already instituted FTA negotiations. China and India's FTA proposals with ASEAN, Japan's CEP (Comprehensive Economic Partnership), and the ROK's proposal for a joint study on a possible FTA can be seen in this light'⁹³.

Summing up, AEC is a regional response to economic globalisation that increased the competition to attract foreign investment and made it crucial for countries to participate in the production network. The discussion above explains the developments around 2000 that prompted the ASEAN governments to band together for deeper integration among themselves and to institutionalise trade relations in the broader geography of the Asia-Pacific region. Moreover, with emergence of big markets closer to home and far West, the governments saw integration as a way to offer an enlarged market space to do business effectively in the region.

4. Intermediation of Domestic Factors leading to Limited AEC Liberalisation

While the earlier section explained the global context under which ASEAN countries decided to band together and agree for an AEC, this section explains the limited nature of

⁹³ Singapore Government Press Release, 'speech by Senior Minister Lee Kuan Yew at the Thammasat Business School International Forum 2003, Bangkok, 16 December 2003 (<http://www.nas.gov.sg/archivesonline/speeches/view-html?filename=2003121603.htm>); accessed on 26 May 2016).

liberalisation (by according flexibility and broad implementation parameters) built into the document for the AEC Blueprint. In general, this nature of ASEAN economic integration is shaped keeping in mind the socio-political dimension of member states. There are four such characteristics that explain ASEAN members' intent of restricted liberalisation.

First, at the very basic level, the ASEAN countries lack indigenous big firms that support economic liberalisation (this is explained further in chapter 6 as a reason for the gap in implementation). The countries are dominated by small-and medium-scale enterprises (SMEs), who are operating parallelly with a handful of big conglomerates. These SMEs constitute around 95 per cent of all business enterprises in the member states and are said to have little interest to expand overseas (CARI 2013: 3). The lack of interest stems from the limited knowledge in SMEs about overseas customers, their language and culture as well as the regulatory and bureaucratic issues involved in cross-border transactions. They fear competition from large firms (ERIA and OECD 2014: 1). Moreover, most of the SMEs are not clear about what to expect from regional integration initiatives like the AEC⁹⁴.

Second, many large businesses in the ASEAN region have emerged with significant state assistance. These constitute state-owned enterprises (SOEs) or government-linked companies (GLCs) and firms that have close links with bureaucrats and politicians. For example, in both Thailand and Indonesia, personal connections between firms and politicians have been a key determinant for business and political success. While politicians or bureaucratic figures receive material wealth in return for state facilities, such as export and import licenses, forestry concessions and state bank loans, state enterprises are used to providing business opportunities to well-connected firms in order to generate extra-budgetary revenues for

⁹⁴ The Diplomat, 28 June, 2015

organisations like the military (Jayasuriya and Rosser 2006:264-269). Even in Singapore, the state plays a crucial role in the economy through the GLCs (Nesadurai 2003b: 97).

However, in the aftermath of the Asian Financial Crisis (AFC) and subsequent domestic reforms, some of these firms have grown out of the need for government protection in advanced ASEAN economies. But others continue to request for protection under increasing competition in order to maintain their profit margins. Most of these economies are divided in two sections: a tradeable one largely owned by foreign capital and a domestic one that includes firms and enterprises with strong connections to the political establishment. It is the second group of firms that, in general, have apprehensions towards any form of regional cooperation that may lead to structural change in domestic economies (Jones 2015: 7). They often request the state to come up with domestic regulations that circumvent the necessary reforms needed to adhere to a regional policy. For example, in AEC's Mutual Recognition Agreements (MRAs) for professionals, although it enables the qualifications of professional services to be mutually recognised by member countries, it does not guarantee jobs across borders. Permission for employment is subject to domestic rules and regulations. In Thailand and Indonesia, it is compulsory to learn Thai and Bahasa to work in the country, thereby creating barriers to regional commitments of MRAs of professionals⁹⁵.

Third, the importance of economic growth is an imperative for all ASEAN economies for their political stability and to avert any social unrest (Nesadurai 2003b: 45). This economic growth is delivered by FDI and export, as most of these economies have long embraced an export-oriented growth strategy. However, ASEAN economies differ substantially, especially in terms of trade and investment. Their trade-to-GDP ratio varies from 221 per cent for Singapore to 33-34 per cent for Myanmar and Indonesia (Table 4-8). The difference explains

⁹⁵ Interview with academics in Jakarta and Bangkok during March-May 2015.

a moderate share of 24-25 per cent of intra-ASEAN trade in ASEAN's total trade and its plateaued nature since early 2000. In addition, looking at the latest year of 2014, intra-ASEAN trade is mostly dominated by firms operating in Laos and Myanmar (around 65 per cent and 42 per cent respectively), followed by Brunei, Malaysia, Cambodia and Singapore (around 27 per cent) (Table 4-9). This suggests that few economies are going to benefit from AEC, whereas uncertainty remains for the rest. Participating effectively in AEC will subsequently expose the relatively closed economies to global competition as AEC is WTO compliant. Hence, an institutional framework that serves the interests of both competitive firms in open economies and uncompetitive enterprises in a relatively closed economy is of importance.

Table 4-8: Trade-to-GDP Ratio of ASEAN Countries, 2015

Country	Ratio	Country	Ratio
Brunei	0.78	Myanmar	0.33
Cambodia	1.45	Philippines	0.44
Indonesia	0.34	Singapore	2.21
Laos	0.50	Thailand	1.06
Malaysia	1.27	Vietnam	1.71

Source: author's estimate using WTO Trade Database and IMF World Economic Outlook April 2016

Table 4-9: Country-wise Share of Intra-ASEAN Trade

	2000	2005	2010	2012	2014
ASEAN-10	22.0	25.7	25.4	24.3	24.1
Brunei	36.3	28.8	20.6	19.8	27.2
Indonesia	18.5	23.1	27.4	25.1	25.6
Malaysia	22.7	25.8	26.2	27.4	26.9
Philippines	15.7	18.1	25.4	21.1	19.6
Singapore	26.0	28.9	27.2	26.6	26.2
Thailand	17.4	20.0	22.5	20.9	22.6
Cambodia	22.6	19.8	22.8	27.6	25.7
Laos	-	58.2	57.1	37.9	64.9
Myanmar	44.1	87.7	48.6	39.3	42.0
Vietnam	-	22.8	17.0	16.8	13.9

Source: author's calculation, ASEAN Secretariat Statistics Publications (various issues)

Fourth, the market-driven economic integration is spread over a bigger geography of East Asia, where ASEAN plays a significant role (as explained in the earlier section). This market force was primarily led by Japanese firms, followed by the European and the American firms and more recently by the Chinese capital. Much of the intra-ASEAN trade originated from the intra-firm trade of these foreign multi-nationals (Lim 2009: 316). Moreover, it was observed that the regional production network formed by these multinationals were both sectorally and geographically focused, i.e. the intra-regional flows are not across all ASEAN countries, but are across selected ones, depending on technical and market requirements of different industries. For example, the Japanese automakers in ASEAN, since their early days in the 1970s, were operating in four ASEAN economies – Thailand, Indonesia, the Philippines and Malaysia – mostly in joint-ventures with local firms. However, the idea was not to set up a regional production base but to circumvent national import restrictions in each of the ASEAN economies (Dicken 2005: 15). With the progressive elimination of intra-ASEAN tariff since the advent of AFTA in 1992, the Japanese firms exploited the economies of scale and predominantly concentrated production in Thailand, from where automobiles were exported overseas (Lim 2009: 314). Lately, the Japanese manufacturers have also focused their attention to Indonesia, in order to produce for the large local market⁹⁶. While the Thai automobile industry surged, the same for Malaysia and the Philippines suffered damages and incurred large trade deficits in automobile sector (Wad 2009: 175-178). This uneven importance of ASEAN economies to serve as a production base for certain industries creates intra-ASEAN friction and acts as a hindrance to intra-regional liberalisation.

These underlying dynamics in ASEAN countries explain the true form of AEC. Studies have reported that although border tariffs have fallen or are altogether removed, non-tariff barriers

⁹⁶ Interview in Jakarta with the business community in May 2015

to trade and investment remain prevalent across ASEAN economies. Progress under trade and investment facilitation has been limited and regional initiatives are often not translated to national rules⁹⁷. Progress in ASEAN's liberalisation is often determined by struggle between liberal reformers, who propagate about welfare gains by economic openness, and their opponents, who argue on domestic protection that can benefit them and their allies (Nesadurai 2003b). A case in point is the automotive industry. Among the ASEAN countries, the Malaysian government was against liberalising the auto sector till 2004 as the sector was key to promote import-substitution policy in order to generate wealth for the Malay Capitalist class. However, in the aftermath of the Asian Financial Crisis, due to economic and political upheaval in Malaysia, the government was compelled to undertake domestic reforms, including elimination of support for politically connected industries (Case 2005: 293). This subsequently led to the liberalisation of the auto industry in Malaysia, though NTBs continue to prevail in different forms.

In summary, this section explains that AEC as a regional economic cooperation mechanism is not only an outcome of economic globalisation or rising international competition, but also shaped by socio-political friction of the participating states. These social and political contestations, both within member states and across states, emerge as there are different groups, one supporting liberalisation (for example, the foreign MNCs doing business in some of the countries in ASEAN), one opposing it due to falling profit-margins or the needed adjustment costs (for example the SMEs) and the ones in between with a selective liberalisation approach. Among the states, due to their different economic structures, not all were sure about the extent of gains from economic integration. This explains many of the flexible words used in AEC documents or lack of mention of consequence, in case any

⁹⁷ Discussed in detail in chapter 3.

ASEAN countries fail to meet their AEC commitments. This further demonstrates the preference of businesses or countries for regional economic arrangements within ASEAN (vis-à-vis the multilateral ones or even larger groupings like APEC), that is among a small number developing countries and allow national economies the flexibility to adjust over a long time.

5. The case of Thailand and Indonesia with respect to Regional Economic Integration

As mentioned earlier, following the 1997-98 Asian Financial Crisis, the ASEAN Leaders had significant growth concerns due to FDI diversion and lacklustre export growth. Both FDI and export-led growth strategy were the cornerstone to ASEAN countries' fast economic growth in the 1980s and the early 1990s. FDI was also seen to help these countries in technology transfer and skill upgradation, thereby enabling them to plug into the developing production network. Regional economic cooperation, institutionalising the trade and investment relations, was, thus, aggressively pursued by the ASEAN governments. However, the concerns with trade and FDI were underpinned by varying degrees of domestic political imperatives. This led to differences in attitude towards AEC, leading to the accommodative nature of the AEC document and lack of mention of stringent implementation rules. This section, looking at the case of Thailand and Indonesia, elaborates on the difference in political economy dynamics at a domestic level that have had an impact on the overall development of the AEC blueprint.

5.1 Thailand

Thailand is considered as one of the successful economies following an export-oriented growth model since mid-1980s⁹⁸. Its economy grew at an average rate of 9 per cent between 1990-95, underpinned by rising exports of manufacturing and tourism services (table 4-10). Two key structural change that drove Thai economy around this time was rising importance of manufacturing and services sectors, marginalizing agriculture; and the country's deeper linkages to international economy. This shift in economic structure was also accompanied by change in export composition from agricultural and labor-intensive manufactured products to technology-based goods, like computer parts, electronics and electrical parts and appliances and automotive parts. FDI also served as a catalyst for this structural transformation as the yen appreciated and the country saw substantial inflows of Japanese foreign capital. These foreign investments were directed mainly towards the manufacturing exports of auto, electronic and electrical industries.

The big Thai businesses, such as Siam Cement, Charoen Pokphand and the Phornprapha group, did extremely well around the time by mobilizing their resources to take up joint-venture opportunities offered by foreign capital. The local firms not only expanded manufacturing facilities in Thailand, but they also benefitted from market access of their foreign partner. A large number of small firms engaged in trade, services business and related manufacturing also took advantage of the changing structure of the Thai economy (Phongpaichit and Baker 2002:156-164).

Table 4-10: Trend of GDP, Exports and Foreign Investment in Thailand, 1990-2014

	GDP Growth Rate (year-on- year %)	Export Growth Rate (year-on- year %)	Trade as percentage of GDP	FDI as percentage of GDP
1990	11.2	12.6	75.8	2.9

⁹⁸ Prior to this period, Thailand followed an import substitution policy.

1995	8.1	13.4	89.8	1.2
1996	5.7	0.6	84.3	1.3
1997	-2.8	12.2	95.1	2.6
1998	-7.6	-0.8	100.2	6.4
2000	4.5	24.2	121.3	2.7
2002	6.1	4.0	115.0	2.5
2003	7.2	11.7	116.7	3.4
2005	4.2	7.5	137.9	4.3
2010	7.5	16.4	126.8	4.3
2014	0.9	0.7	131.8	0.9

Source: World Development Indicators, World Bank; World Economic Outlook Database, International Monetary Fund

In this scenario, it is not surprising that Thailand was one of the leading proponents of ASEAN economic cooperation in the 1990s⁹⁹. Even when the 1997-98 Asian Financial Crisis hit the Thai economy badly, integration with the global economy continued to be an important policy, albeit at a slower pace (table 4-10). The support for AEC in 2003 was a natural progression for the country. By then, Thailand, under Prime Minister Thaksin Shinawatra, also adopted regional economic cooperation as one of the centerpieces for Thai international economic policy. Besides institutionalizing economic relations in ASEAN, Thailand signed bilateral FTAs with China, India, Australia, New Zealand, Japan, the US and few others. There were three reasons for Thailand to embrace regional economic cooperation in the aftermath of the financial crisis: first, as the WTO was not progressing much, regional integration was felt to fast-track liberalization. Singapore from the ASEAN region took a lead and signed its first FTA with New Zealand in 2000. Thailand soon followed suit. As these agreements were among a small number of countries, they provided flexibility and advanced market access in sectors that Thailand had strong interest in, i.e. mostly in the export-oriented manufacturing business. Second, regional trade agreements were felt to maintain the competitiveness of Thai exports in existing markets, such as ASEAN, the US and Japan, and

⁹⁹ AFTA was first proposed by the Thai government of Anand Panyarachun in 1991. This is also validated during interviews in Bangkok in March 2015.

for new markets as well. Third, regional cooperation was seen as a policy tool to attract FDI and position Thailand as a regional trade and investment hub (Peamsilpakulchorn 2006: 80).

Although the Thai economy was largely market-driven and internationalized, a distinguishing characteristic was strong links between business and politics. The business community, instead of transparent collective behavior, preferred a more covert individualist form of relationship with the political representatives (Macintyre 1994). The business groups, in general, supported the overall idea of economic cooperation, but they opposed it if there was any threat to their interests. Hence, strong business resistance was witnessed in import-competing industries. It was also observed that greater emphasis on trade liberalization in the 2000s created new socio-economic groups¹⁰⁰. The new groups included non-governmental organizations (NGOs), environmentalists, SMEs, proponents of gender equality and the general public. The increased participation of all these new stakeholders led to increased discussion on the impact of regional integration in the domestic economy (Phongpaichit and Baker 2002: 385-413). Finally, disturbance in domestic leadership also resulted in a drag on regional economic policy matters. For over a decade now, Thailand has been witnessing political uncertainties, including the two military coups of 2006 and 2014 and six different Prime Ministers. There were regular street protests and violence under the rubrics of ‘yellow shirt’ and ‘red shirt’ that made political survival of the government a key priority¹⁰¹. This affected Thailand’s attention on regional integration and limited the progress of any major economic reform that may further accelerate the political turmoil.¹⁰²

¹⁰⁰ Traditionally, there are two generic groups - private sector and public sector.

¹⁰¹ This was more pronounced in the pre-2014 period.

¹⁰² Although in 2015, it was felt that Thailand put lot of attention on AEC, it was relatively late to make major difference (observation from the interviews in Bangkok in March 2015).

Two examples where intense discussion led to a limited liberalization initiative of Thailand under AEC was found in the agricultural and logistics industries. Thailand had committed to eliminate almost all tariffs on agricultural goods, except for coffee, potato, copra and cut flowers¹⁰³. Simultaneously, the government made commitments to liberalize three agriculture sub-sectors – plant cultivation, fishery and forestry – under the ASEAN Investment Agreement (AIA) that later transformed to ASEAN Comprehensive Investment Agreement (ACIA). The investment liberalization commitment instigated immense discussion among NGOs as they objected to the fact that this opens up the market to foreign MNCs, which would drive out the local farmers and eventually monopolize the business. The entrance of big players would also put pressure on the limited plantation resources and may either lead to price increase or replacement of forests to agriculture land, thereby affecting the environment. Despite the government's assurance to provide compensation, these groups sided with the farmers and small businesses and pushed the government to delay the market access provision of these sub-sectors. Hence, in AEC, the three sub-sectors were under Thailand's reservation list and required 51 per cent of Thai equity participation (Sermcheep and Chirathivat 2015: 267).

Similarly, logistics is a priority industry for Thailand and the industry constitutes both big firms such as DHL, Linfox, DB Schenker and Eternity and small local firms. The latter are operated by single owners as family businesses without much financial, technological and man-power support. These firms are mostly sub-contractors to partially foreign-owned logistics firms. Although under AFAS commitments of logistics sectors, Thailand has agreed for foreign equity participation not exceeding 70 per cent for some of the sub-sectors like international sea cruises, storage and warehousing services for frozen goods, most of the key

¹⁰³ These four products have tariffs of less than 5 per cent.

sub-sectors still require majority Thai ownership. This way, while there are liberalization efforts in some sectors, others are still protected from foreign competition (Sermcheep and Chirathivat 2015: 269).

Hence, although Thailand's participation in AEC was driven by its interest to encourage trade and FDI in the national economy, it was also influenced by the country's domestic politics, especially the stakeholders' disagreement with the dominance of foreign MNCs at the cost of local players. This impacted Thailand's commitment to AEC, which provides a regional framework of limited liberalisation.

5.2 Indonesia

Indonesia undertook a series of trade reforms (along with domestic deregulations) from the mid-1980s. The country realised that export growth is necessary to deliver on economic growth and development and all these depend on a competitive domestic market. According to Soesastro (1989: 866-869), this was a period of 'low politics' as a few technocrats convinced the President of the economic rationale of the actions and there was not much of a public debate involved. It was estimated that between 1987 and 1995, the weighted average rate of effective protection for manufacturing sector was reduced from 59 per cent to 16 per cent. The non-tariff barriers (NTBs) fell faster as only 17 per cent of non-oil manufacturing value added were affected by NTBs by the end of the period, compared to 77 per cent earlier (Fane and Condon 1996: 40-51). Hence, on the eve of the 1997-98 Asian Financial Crisis, Indonesia was a broadly open economy and this helped when Indonesia decided to join the AFTA and subsequently advance its support for AEC.

However, Indonesia went into a deep economic and political crisis starting 1998. The economy contracted by 13 per cent and the country experienced significant financial distress (Table 4-11). In politics, a 32- year of Soeharto regime fell, leaving a big political vacuum and increased social tension. FDI, which was net inflow prior to the crisis, turned to net outflow after the crisis. While the economic growth picked-up steam to reach 5 per cent by the early 2000s, the FDI inflows rose from 2005 onwards. Merchandise exports responded positively soon after the crisis, as the Indonesian Rupiah depreciated. However, it remained sluggish compared to the pre-crisis period. It should be noted that Indonesia was never an active member of the regional production networks due to its factor market rigidities and unfavourable business environment (Athukorala and Kohpaiboon 2015: 143).

Table 4-11: Trend of GDP, Exports and Foreign Investment in Indonesia, 1990-2014

	GDP growth (annual %)	Exports of goods (annual % growth)	FDI, net inflows (% of GDP)
1990	9.0	0.4	1.0
1995	8.4	7.7	2.2
1996	7.6	5.5	2.7
1997	4.7	23.8	2.2
1998	-13.1	8.9	-0.3
2000	4.9	17.9	-2.8
2002	4.5	0.5	0.1
2003	4.8	-2.1	-0.3
2005	5.7	11.6	2.9
2010	6.2	6.8	2.0
2014	5.0	0.7	3.0

Source: World Development Indicators, World Bank; World Economic Outlook Database, International Monetary Fund

As a result of the financial crisis and the collapse of the Soeharto regime, the political environment in Indonesia changed drastically, leading to a timid attitude towards trade policy and hence towards AEC. Bird, Hill, and Cuthbertson (2008: 951-52), provide several

explanations on the change of the economic policy-making environment in Indonesia in the post- 1997-98 crisis period. First, there was a weak presidency as a deliberate outcome to oppose an authoritarian Soeharto regime, weaker cabinet unity and a powerful, but unpredictable, parliament. Second, in addition to proliferation of political parties and lack of coherence in policy ideologies, there was a low level of economic literacy and strong leaning towards populist politics, thereby leading to an apprehension towards liberal economic policies. Third, as the new political parties were facing funding challenges for campaigning, this spilled over to economic policy-making, where favourable policies, including trade policies, were requested for in exchange of allocation of rents. Fourth, civil society and labour unions became active, after years of control. Finally, Indonesia introduced a major policy reform of decentralisation in 2001 that diluted the power and resources from the central government to the provincial governments.

Indonesia's trade policy faced a further blow after the 2008 economic crisis. Although the country continued to market itself as an active member of regional groupings like ASEAN and APEC, it also increased its protectionism tendencies. These included non-tariff measures similar to quantitative restrictions in certain sectors, import licensing and ban on exports. Ministries introduced new regulations for acquiring permits on additional products and also imposed restrictions on the use of foreign professionals. There were increased discussions among the ASEAN bureaucrats for postponing AEC implementation (Patunru and Rahardja 2015). Occasionally, it was also heard that Indonesia had been blocking major policy amendments or additions to the new AEC document of 2025¹⁰⁴.

Throughout the pre- and post-Soeharto regime and till recently, one thing that did not change much in Indonesia was the government-business relations. In a survey of Indonesian

¹⁰⁴ Interviews in 2015 in Bangkok, Jakarta and Singapore during Feb- July 2015

corporates' linkage to politicians, Carney and Hamilton-Hart (2015: 137) found that while the share of family-owned firms with political ties dropped from 59 per cent to 47 per cent during 1996-2008, almost half of them still have political connections. Often the government-business relation is said to have gone up after the 1997-98 crisis. One facet of that is that many businessmen joined politics after the crisis, including rich elites like Aburizal Bakrie and Jusuf Kalla (Aspinall 2013: 232). Again, as mentioned earlier, as there was a proliferation of political parties, they needed strong financial backing as the campaign cost had gone up in the democratic era of Indonesia. Moreover, state funding, which was a generous amount from 2001 to 2005, went down significantly. This is where the businesses played an important role, as a major source of funding. They provided money for campaigns, major party congresses and sometimes office space. In return, the businessmen got to nominate party members or parliamentarians who could influence policy decision in areas of their economic interests (Mietzner 2007: 249-250).

Hence, in this environment of close government-business relationships, there were a number of Indonesian businesses that had requested for preferential trade policy environment and had gained benefits from their desired outcome. Studies also confirm that in post-crisis Indonesia, trade barriers had gone up and preferential trade policy have been designed to protect certain industries (Bird, Hill, and Cuthbertson 2008: 959, Armstrong and Sjamsu 2014: 14)¹⁰⁵. Moreover, in the post-crisis period, Indonesia suffered from weak institutions, i.e. unreliable

¹⁰⁵ It has been found that although during the post crisis era, Indonesia continued with its tariff liberalisation efforts under the Ministry of Finance (MOF), removing NTBs became a larger problem and had emerged as a form of protectionism. One form of NTB in Indonesia was licence requirement issued by sectoral ministries and approved by the Ministry of Trade (MOT). There were three types of them: importer-producer (IP) licence, meaning that only the producer of that commodity can also import it, b) restricted import licence (or IT) that imposes quantitative restrictions on the importation of the commodity and c) importers' registration (NKIP) licence, which requires the importer of a listed commodity to register with the MOT, implying extra costs of dealing with the bureaucracy. Once in a while, the MOT also requests for inter-island trade registration licences. During 2002-2004, NTBs in Indonesia rose by 40 per cent, leading to a highly protectionist behaviour (Bird, Hill and Cuthbertson 2008: 955).

property rights, weak public administration, corruption, irregularities in wage rate and labour market - and lack of infrastructure, which altogether became a bigger issue in policy circles than formal market access barriers (Sally and Sen 2005:105).

In this context it is difficult to see how a trade policy decision like AEC could be stringent in terms of liberalisation commitments. In case of Indonesia, though it had agreed on tariff liberalisation, there were domestic political-economy issues that put pressure to ensure protectionist behaviour using other trade policy tools. In the end, the mixed nature of domestic socio-political behaviour led to a regional policy document like the AEC Blueprint that has characteristics of limited liberalism and broad implementation mechanisms.

6. Broad nature of AEC Pose Challenges for Timely Implementation

This section ties up the arguments of the earlier sections to describe the mixed nature of the AEC and its implication for subsequent implementation.

One of the key pillars of AEC Blueprint, namely single market and production base, is mainly to support the liberalisation objective of ASEAN countries i.e. a joint response of ten countries to forces of globalisation. Its primary purpose is to attract FDI. The five core elements of free flow of goods, free flow of services, free flow of investment, freer flow of capital and freer flow of skilled labour is to undertake liberalisation and facilitation commitments to provide an expanded market, thereby raising the attractiveness of ASEAN members to foreign investors. In addition, the 'single market production base' also included two other components –the priority integration sector and food, agriculture and forestry. The priority integration sector has identified 12 industries that need to be fast-tracked and

developed as a catalyst for integration in the broader ASEAN region. These industries were identified based on their role in the global value chain. Automotive and electronics industries discussed earlier in the chapter are under the priority sector integration.

The core elements under this pillar are also tied to the fourth pillar of AEC, i.e. ASEAN in the global economy, and covers the ASEAN+1 FTAs with Australia-New Zealand, China, India, Japan and South Korea. This largely imitates the market-led integration in the broader geography of East Asia (as discussed in section 3 of the chapter) and indicates ASEAN's strategic necessity to institutionalise its economic relations. Although there are significant divergences in the AFTA and ASEAN+1 average tariff preferences, most of the trade facilitation measures under single market and production base are also extended to ASEAN+1 FTAs. The extension of ASEAN integration to economies that are important trade and investment partners reinforce the open-regionalism or liberal credentials of AEC.

However, AEC's structure also offers immense flexibility. For example, for a serious issue in eliminating NTBs, AEC policy document offers several measures – elimination of import surcharges, mutual recognition of product standards, adoption of pro-competition policies, introduction of market access measures and elimination of quantitative restrictions. However, the usefulness of such NTB measures is an open question and the lack of success in eliminating NTB is attributed to how ASEAN deals with the issue. It is the responsibility of the ASEAN member states to voluntarily declare their list of NTMs¹⁰⁶ that will eventually form part of the ASEAN Trade Repository System. There is no mechanism of verification system, thereby generating loopholes for the member countries. Moreover, there is no common definition or understanding of NTBs that emerge from the NTMs and which have

¹⁰⁶ NTMs include both trade restrictive and non-restrictive measures. The measures that are defined as trade-restrictive ones are called NTBs.

evolved over a period of time in reaction to political imperatives of countries (Austria 2013: 79). Similarly, for the aspect of free flow of investment, ASEAN provides a robust document of ASEAN Comprehensive Investment Agreement (ACIA). But the document contains underlying clauses that permit the member countries to interpret them differently. Moreover, the agreement includes temporary exclusions and sensitive lists, based on ASEAN member countries' political economy climate (Bhaskaran 2013: 158).

This binary nature of AEC and a mismatch between the objectives and the policy instruments has evolved due to varied demand pressures from international and domestic economies, as described in sections 3, 4 and 5. This has implications for the subsequent implementation process. Complying with policies that have broad objectives and talk about policy instruments that can be interpreted in different ways become difficult in ASEAN economies. Often, it is observed that during the course of implementation of AEC measures, the focus on achieving overall policy objectives and its related outcomes is replaced by an increased focus on narrow outputs that are quantifiable¹⁰⁷. The emphasis on small output plays an important political role in the ASEAN context as it showcases individual government's willingness and implementation progress on AEC matters. However, this becomes a contentious issue for official reporting on progress on AEC. For example, in the case of National Single Window (NSW), a pre-requisite for the ASEAN Single Window, there are many small outputs that have to be delivered to obtain a full functioning NSW. As individual ASEAN countries have different capabilities in terms of both human and financial resources, the implementation of NSW happens at a different pace. While often member countries prefer to report compliance with NSW at its very initial stage of output delivery, in reality, the NSW does not function in the manner described in ASEAN policy documents. It is also too far from supporting the

¹⁰⁷ Interview with implementing agencies in Bangkok and Jakarta in March-May 2015.

overarching objective of ‘single market and production base’. The difficulty in reporting progress in AEC is also reflected in the discussion of section 3.5 of the earlier chapter. While originally in the AEC Blueprint 2007, there were a total of 316 measures to be implemented, it was expanded to 611 by the end of 2015.

Moreover, focussing on selected outputs helps ASEAN governments to ignore the presence of sensitive ideas in the blueprint and work on measures that are easy to define, understand and implement. This can be observed in the case of the ‘elimination of non-tariff barriers’, which, though an important policy directive to develop a single market, offers broad policy action and eventually was not delivered on time. Same holds true for ‘free flow of services’, which, despite the phrase, talks of selective or restrictive policy actions. Both of these pillars are politically sensitive issues for many ASEAN countries, given their penchant for protecting infant industries. However, ASEAN has 100 per cent implementation record for the third pillar of AEC, which talks about Equitable Economic Development and has policy actions that talk about delivering on documents or facilitating exchange of general information. This bias towards implementation for certain policies does not fulfil the overall stated policy objectives, thereby generating a mismatch between regional commitments and compliance.

It was also noted in case of ASEAN that implementing a comprehensive policy like AEC requires processing a lot of information, which becomes costly in terms of the time, financial resources and people involved. Most of the time, implementing agencies in ASEAN face constraints on the amount of financial and cognitive resources that can be dedicated for their commitments towards regional integration. This restricts effective implementation and generates a mismatch between overall policy objectives and final outcome.

7. Conclusion

The AEC does talk about liberalisation of intra-regional trade and FDI. It also extends its economic liberalisation efforts to bigger areas of East Asia. As the ASEAN governments were concerned about investors' sentiments after the 1997-98 Asian Financial Crisis, they undertook AEC commitments to stay competitive to foreign investors and to generate export-led economic growth by participating in production networks. The political economy of the ten ASEAN members to unite together lay in their strategic motive to undertake domestic reforms and institutionalise the market-driven integration in the wider Asia-Pacific region.

However, one of the notable features of AEC is its characteristic of not being a truly liberal regionalism exercise but a limited one. This is found in the AEC policy document that prescribes selected liberalisation measures or accords flexibility to the national economies. Indeed, other dynamics were at play in addition to the interest in attracting FDI and boosting trade. These dynamics could be found in the socio-political factors entrenched in all of the ASEAN economies. This chapter discusses certain domestic socio-economic characteristics of ASEAN members - the inherent nature of ASEAN SMEs to look inwards, differences in trade openness among members leading to distrust and friction, a culture of business-government alliance over time, the political environment in the countries around the development of AEC (as discussed particularly in the case of Thailand and Indonesia) – that persuaded policy makers to maintain status-quo in many areas in order to avoid any socio-political conflict, arising due to structural changes needed for the AEC.

A number of political-economy experts studying AEC, notably Ravenhill (2008: 484), have mentioned that although the liberalisation forces in ASEAN have been rising since the late 1980s, forces of economic nationalism have not altogether vanished. Developments around the 1997-98 Asian Financial Crisis in the major ASEAN member countries have only altered the configuration of such nationalistic representatives. These representatives continued to exert influence, requesting for protection through non-tariff measures, leading to obstruction for deeper integration. Moreover, market driven integration was primarily driven by foreign multinationals, whose interest was integration among selected ASEAN members or with extra-regional partners. This line of thinking seems to bear similarity to the mixed nature of the AEC, as advanced in the dissertation.

But this mixed nature of AEC Blueprint has a bearing on implementation in member economies. As AEC was not designed to deliver on a 'single market, production base', it provided flexibilities in its policy documents and kept things broad to accommodate interests of different economic groups and countries. Implementation was largely left to individual countries' capability to interpret and execute in their domestic administrative system, thereby leading to a gap between commitment and final outcome. Indeed, it has been reported that when AEC was implemented from 2008 to 2015, there was lack of alignment of regional and national policies for several measures,, which explained to a large extent the gap in implementation (ASEAN Secretariat 2012b).

The lack of alignment between ASEAN's regional initiatives and individual member countries' national policies is further advanced in the next two chapters. Why is there this lack of alignment leading to incomplete implementation? Chapter 5 and chapter 6 examine two critical factors for ASEAN countries falling short of their regional commitments. First is

organisational inefficiency and second is the lack of coherent business community interest for regional integration. The latter involves mainly the foreign multinationals as these are the firms that are undertaking investment and production decision across borders.

Chapter 5

Inefficient Organisational Structure and Capacity in Domestic Policy-Implementation Process

1. Introduction

The previous chapter suggested that due to the underlying political economy dynamics, although ASEAN's economic cooperation was undertaken in response to remain competitive in an increasingly globalised world, it was also developed to manage the varied domestic demands. This led to many ambiguities in the AEC blueprint, thereby generating a mismatch between policy aspiration and policy action. This, in turn, presented challenges to the implementing agencies to comply with the commitments in a timely manner, thus resulting in gaps in implementation.

Chapter 4 clearly illustrated that a key rationale for AEC formulation is the increasing pace of globalisation. A prominent factor for such increasing linkage is the development of production networks, which have encouraged the emergence of intra-regional division of labour and resulted in the growth of intra-industry trade in parts and components. ASEAN countries and bigger nations of Asia like China and Japan were part of such networks and decided to come up with regional policies to support the economic linkages further. Hence, ASEAN's economic cooperation and its broader initiatives of ASEAN+1 FTAs can be regarded as part of such supporting policy framework. Another factor that significantly contributed to the decision to form an AEC is the rapid growth of China and its capacity to attract FDI. The country increasingly played an important role in the production networks as its rising exports needed imports composed of intermediate inputs from Asian neighbours.

However, AEC offered limited liberalisation and prescribed many broad measures and flexibilities. This is mainly derived from the domestic political-economy imperatives of ASEAN member countries. As all ASEAN countries' economic activities are not linked to globalisation to the same degree, there are always differences in preferences for liberalization across member states. Moreover, there are also national SMEs that are afraid of an increase in competition. Among the domestic interest group, while some preferred liberalisation, others demanded protectionism, depending on their understanding of the distributional consequences from regional integration.

This mixed nature of AEC made implementation difficult. Often implementing agencies of ASEAN countries focused on narrow outputs that were measurable rather than overall policy objective or the entire policy action. This behaviour, though marked as progress in the AEC implementation process, did not deliver on the desired outcome or the stated objective. Many times, agencies focused on implementing measures that are not politically sensitive and easy to understand and deliver. Also, constraints in terms of money and cognitive resources for a comprehensive policy document like AEC also hindered the implementation process in ASEAN.

This chapter looks at the process of policy implementation at domestic level and focuses on a particular AEC policy to further understand the issue of implementation gap. It should be noted that AEC comprises many policy initiatives that have to be carried out by the individual member states. Hence, it is the member countries that are accountable for ASEAN falling short of its economic goals and targets.

As discussed in the theoretical literature review of Chapter 2, Mazmanian and Sabatier (1989) have hypothesised that a distinct implementation process, if appropriately structured with adequate hierarchical integration, supportive decision rules and sufficient financial resources, helps to enhance compliance by implementing officials. Skilful implementing officials and senior executives of implementing agencies with adequate political influence are also necessary to provide further support to the implementation process. This chapter argues that among various domestic factors, the organisational mechanism and capacity of the implementing officials in a country is indeed a decisive variable in determining the implementation performance of a regional initiative. A combination of multiple factors – reconfiguration of government agencies, lack of horizontal coordination among national ministries, shortage of quality staff in terms of technical expertise and infrastructure – lead to organisational inefficiency that delay a country's compliance to regional initiatives, thereby slowing down the process of overall implementation. As these explanatory variables could be present in an economy to varied degrees, these could lead to different levels of performance among the ASEAN member countries.

To elaborate on this argument, the chapter looks at the case of ASEAN trade facilitation, in particular the National Single Window (NSW) in Indonesia and Thailand. Before elaborating on the cases and the argument, it is necessary to understand the need for trade facilitation in ASEAN member countries and the current state of implementation. Section 2 addresses this aspect. Following this, Sections 3 and 4 discuss how the two countries in ASEAN – Indonesia and Thailand – have organised themselves to implement the NSW measure and what are the organisational challenges they face that delay the pace of implementation. Section 5 briefly discusses some of the common public administrative challenges prevalent in

several countries of ASEAN that may slowdown the process of implementation, thereby distorting the final outcome. Section 6 concludes the chapter¹⁰⁸.

2. ASEAN Trade facilitation Initiative and Regional Implementation Status

Trade facilitation has evolved as a key determinant for efficiency in international trade and economic integration. In recent times, with countries making significant progress in lowering trade tariffs under multilateral, regional and unilateral efforts, international trade has expanded, implying that more goods cross borders and comply with customs procedures. Changing business practices with increased globalisation and fragmentation of manufacturing activities in multiple locations have also raised intensity of movement of goods across borders. These changing circumstances have put pressure on the governments to deliver efficient, timely and reliable cross-border rules and clearance procedures. The governments have realised that to successfully participate in global supply chains, where exports of manufactured goods depend on efficient import procedures, there has to be a holistic approach to lower trade transaction cost and time. Lack of transparency in border procedure, need for lengthy customs clearance process and multiple document requirements in different formats, in general, raise transaction costs of international trade. These obstacles seem to have replaced tariffs as key impediments for trade and are said to have ‘thickened’ the borders (Wilson 2007:6).

Trade facilitation assumes importance in this respect. In general, trade facilitation constitutes a set of policies in order to reduce cost of imports and exports. In accordance with WTO

¹⁰⁸ This chapter discusses the cases of Singapore and Malaysia as an appendix. These countries are recognised as leading trade facilitation service providers in the region and description on their organisational experience brings out some distinguishing organisational characteristics that may help other policy makers of the region in the future.

definition, it is ‘simplification and harmonisation of international trade procedures’. Trade procedures here constitute ‘activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade’.¹⁰⁹ Hence, in a narrow sense, trade facilitation is defined as an initiative that addresses logistics issues of moving goods across border. The United Nations Centre for Trade Facilitation and Electronic Business (UN/ CEFAC), takes the definition a little further and mentions it as ‘the simplification, standardisation and harmonisation of procedures and associated information flows required to move goods from seller to buyer and to make payment’.¹¹⁰ A much broader definition covers the entire ecosystem in which international trade takes place, including transparency of regulatory rules, harmonisation of standards, and conformation to international or regional. This includes, on one hand, customs rules, administrative processes and regulatory formalities, and on the other, hard infrastructures (e.g. ports), information technology, good governance and domestic regulations (Wilson et al 2003: 369).

ASEAN countries describe trade facilitation as ‘simple, harmonized and standardized trade and customs, processes, procedures, and related information flows [that] are expected to reduce transactions costs in ASEAN which will enhance export competitiveness and facilitate the integration of ASEAN into a single market for goods, services and investments and a single production base’ (ASEAN Secretariat 2008a: 8). It has been discussed that improvement in trade facilitation is likely to benefit ASEAN members both in terms of Gross Domestic Product (GDP) and intra-regional trade. One study by Wilson, Mann and Otsuki (2003: 19) estimates that if ASEAN members that are also part of the Asia-Pacific Economic Cooperation (APEC), undertake reforms in their key trade facilitation measures, namely port

¹⁰⁹ http://gtad.wto.org/trta_subcategory.aspx?cat=33121; accessed on 23 October 2015

¹¹⁰ <http://tfig.unece.org/details.html>; accessed on 25 October 2015

efficiency, customs environment, regulatory environment and e-business usage, their per capita GDP will go up significantly with their increase in value of total trade (imports plus exports). In particular, the GDP per capita would increase by 10.4 per cent for the Philippines, 7.4 per cent for Indonesia, 5.3 percent for Thailand, 4.2 per cent for Vietnam and Singapore, and 2.8 per cent for Malaysia (Wilson et al 2003: 35). More recently, Itakura (2013) estimates that by lowering export and import time by 20 per cent, all ASEAN member economies are expected to gain in a range of 0.20 (for the Philippines and Singapore) to 1.50 (Cambodia and Laos) percentage points over the baseline GDP growth rate of 2011-2015 (quoted in Intal 2015: 2).

As for the impact of trade facilitation measures on intra-regional trade, in the same study of Wilson et al (2003: 18), it has been mentioned that if one would like to compare the magnitude of the impact of trade facilitation vis-à-vis only tariff elimination, in order to raise intra-APEC trade by US\$27.8 billion, while there has to be complete elimination of average manufacturing tariff of 6.5 per cent among APEC economies, the same outcome could be achieved by 0.55 per cent proportionate improvement in port efficiency, by 5.5 per cent proportionate improvement in customs environment, by 1.5 per cent streamlining of regulatory environment or by 3.7 per cent increase in e-business usage among APEC economies. The positive impact of trade facilitation on intra-ASEAN trade is also derived in another study, which indicates that a 1 per cent improvement in customs and logistics facilities among ASEAN member states is likely to push up the intra-regional trade by 1.5 per cent (Intal 2015: 4).

ASEAN countries have several commitments in order to facilitate trade in the region. These include customs modernisation, adoption of international best practices for uniform tariff

classification, customs valuation and origin determination, establishment of ASEAN e-custom, enhancement of customs efficiency and effectiveness, setting up of ASEAN Trade Facilitation Repository and regional cooperation mechanism (ASEAN Secretariat 2008a: 8-9). A key component of such a comprehensive approach to trade facilitation is the ASEAN Single Window (ASW) that simultaneously demands for the initiative of National Single Window (NSW) in each of the ten member states. This was adopted by the ASEAN member states in 2005, followed by signing of protocol to establish and implement the ASW in December 2006¹¹¹. The protocol document defined the ASW as ‘the environment where National Single Windows (NSWs) of Member Countries operate and integrate’ (ASEAN Secretariat 2006b: 2). The AEC Blueprint 2008 describes NSW as an initiative that is expected to enable ‘a single submission of data and information, a single and synchronous processing of data and information and a single decision making for customs clearance of cargo’, which, if implemented, is likely to ‘expedite the customs clearance, reduce transaction time and costs’, thereby enhancing trade efficiency and regional competitiveness in the global economy (ASEAN Secretariat 2008a: 9). The original timeline for establishing NSW by the ASEAN-6 members – Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand – was 2008, while the remaining four, Cambodia, Laos, Myanmar and Vietnam were expected to operationalise their NSWs by 2012.

An ASW/ NSW is crucial in meeting trade facilitation objectives of governments, which is mainly to streamline bureaucratic procedures and clearance times at the border. In order to measure efficiency of trade procedures in a country, simple indices of ‘Ease of Doing Business’, ‘Logistics Performance’ and ‘Enabling Trade’ are used regularly. Few such

¹¹¹ Agreement to Establish and Implement the ASEAN Single Window Kuala Lumpur, 9 December 2005 (<http://www.asean.org/communities/asean-economic-community/item/agreement-to-establish-and-implement-the-asean-single-window-kuala-lumpur-9-december-2005-2>, accessed on 26 October 2015); Protocol to Establish and Implement ASEAN Single Window (<http://www.asean.org/archive/23084.pdf>; accessed on 26 October 2015)

indices and indicators are used to present comparative tables of ASEAN member states in terms of their time and cost of trade transactions (Table 5-1, 5-2 and 5-3).

Table 5-1: Ease of Doing Business for ASEAN Members, 2015

	Trading Across Border						
	Rank (score)	Document to export (number)	Time to export (days)	Cost to export (US\$ per container)	Document to import (number)	Time to import (days)	Cost to import (US\$ per container)
Brunei	46 (80.8)	5	19	705.0	5	15	770.0
Cambodia	124 (65.9)	8	22	795.0	9	24	930.0
Indonesia	62 (77.4)	4	17	571.8	8	26	646.8
Laos	156 (52.9)	10	23	1,950.0	10	26	1,910.0
Malaysia	11 (89.9)	4	11	525.0	4	8	560.0
Myanmar	103 (70.0)	8	20	620.0	8	22	610.0
Philippines	65 (77.2)	6	15	755.0	7	15	915.0
Singapore	1 (96.4)	3	6	460.0	3	4	440.0
Thailand	36 (83.5)	5	14	595.0	5	13	760.0
Vietnam	75 (75.6)	5	21	610.0	8	21	600.0
<i>East Asia and Pacific</i>	-- (73.5)	6.1	20.2	864.0	6.7	21.6	895.6
<i>OECD High Income Countries</i>	-- (86.1)	3.8	10.5	1,082.2	4.3	9.6	1,101.6

Note: Trading across border is one of the ten topics under Ease of Doing Business and it is further divided into indicators. The ranking is out of 189 countries

Source: World Bank Doing Business Database

Table 5-2: Domestic Logistics Performance Index for ASEAN Members, 2014

	LPI Customs Rank (score)	No of Agencies		No of Forms		Clearance Time ^a (days)		Physical Inspection (% of import shipments)	Multiple Inspections (% of shipments physically inspected)
		X	M	X	M	Without Physical Inspection	With Physical Inspection		
Brunei	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cambodia	71 (2.6)	3	3	3	3	1	1	17	3
Indonesia	55 (2.8)	4	3	5	4	2	5	8	3
Laos	100 (2.4)	3	3	5	5	1	1	75	1
Malaysia	27 (3.3)	2	2	4	4	1	2	2	1
Myanmar	150 (1.9)	3	2	5	5	0	1	75	3
Philippines	47 (3.0)	5	4	7	4	2	5	10	4
Singapore	3 (4.0)	1	1	1	1	0	1	5	3
Thailand	36 (3.2)	4	3	2	2	1	1	3	2

Vietnam	61 (2.8)	4	4	5	3	1	2	53	7
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Note: X denotes Exports and M denotes Imports. n.a. – data not available

a- Time taken between the submission of an accepted customs declaration and notification of clearance.

The LPI index is a multidimensional assessment of logistics performance, rated on a scale from 1 (worst) to 5 (best). Customs is one of the 6 core dimensions. The ranking is out of 160 countries and maximum score is 4.10 for customs

Source: World Bank (2014), Logistics Performance Index and its Indicators

Table 5-3: Enabling Trade Index for ASEAN members, 2014

	Efficiency and Transparency of Border Administration					
	Border Administration Index Ranking (score 1-7)	Customs Services Index (0-1)	Efficiency of Clearance Process (1-5)	Irregular Payments in Exports and Imports*	Time Predictability of Imports Procedures*	Customs Transparency Index (0-1)
Brunei	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cambodia	108 (3.4)	0.58	2.7	2.4	3.7	0.07
Indonesia	69 (4.4)	0.75	2.9	3.1	3.8	0.53
Laos	114 (3.4)	n.a.	2.4	2.8	3.9	n.a.
Malaysia	33 (5.2)	0.47	3.4	4.4	5.0	0.80
Myanmar	117 (3.3)	n.a.	2.0	2.2	3.0	n.a.
Philippines	71 (4.3)	0.71	3.0	2.7	3.5	0.50
Singapore	1 (6.3)	0.97	4.0	6.5	5.9	0.80
Thailand	56 (4.7)	0.72	3.2	3.0	3.8	0.63
Vietnam	86 (4.0)	0.40	2.8	2.3	3.5	0.60

*Note: Efficiency and transparency of border administration is a sub-category of Enabling Trade Index. * Indicator derived from the World Economic Forum's Executive Opinion Survey and measured on a 1-to-7 scale, where 7 indicates best outcome; n.a. – data not available; The ranking is out of 138 countries*

Source: World Economic Forum (2014), The Global Enabling Trade Report

Table 5-1 of *Doing Business* showcases that while all ASEAN countries (except Singapore for exports and Malaysia and Singapore for imports) require more documents and time to export and import compared to the average of OECD countries, the estimated costs per shipment amongst ASEAN members (except for Laos) are lower than the average. The differences of number of documents and time are much narrower when compared to the averages of East Asia and Pacific. The region fares relatively well on 'trading across border' when compared to the broader Asian region, owing much to the regional initiatives and

discussions on trade facilitation for the last several years. However, there is significant scope for improvement to match the efficiency of OECD countries.

Table 5-2 of *domestic LPI* indicates ASEAN countries' logistics performance on issues of number of agencies and documents needed to export and import, clearance time with or without inspection and inspection of shipments as percentage of total import shipments. Eight out of nine ASEAN countries (information is not available for Brunei) were in the top 50 per cent of the 160 countries ranked in 2014. Most of the ASEAN members need 4-5 forms and 3-4 agencies in order to export or import into the country. The Philippines stands out with the highest number of agencies and corresponding documents needed to export, which in turn raises the number of days for clearance i.e. the time taken between the submission of an accepted customs declaration and notification of clearance. Highest incidence of physical inspection is found in Laos and Myanmar (75 per cent), followed by Vietnam (53 per cent), while there is a small possibility of multiple physical inspections for all ASEAN countries.

Enabling Trade indicators provided in Table 5-3 compare quality of service, predictability and transparency in border administration that in turn is expected to facilitate cross-border flows across ASEAN countries. Most of the ASEAN members, with the exception of Singapore and Malaysia, perform poorly and rank in the lower 50 per cent of the total number of countries surveyed. Though the Philippines, Singapore, Indonesia and Thailand perform relatively well in terms of customs services, it is only Singapore (and Malaysia) that show good scores for efficiency of the clearance process. The irregular payment index is mixed, with Singapore showing the best outcome and countries like Myanmar, Cambodia, Vietnam, Laos and the Philippines scoring below 3 in a scale of 1-to-7, where 7 indicates the best performance.

There are three points that need to be noted. First, both Logistics Performance Indicators and Enabling Trade Index are perception surveys of key global stakeholders on customs services/efficiency and could be sometimes inconsistent when compared to the Trading Across Borders parameters. Second, an aspect that is common across all the three indices is the gap or the divide among the ASEAN countries. In all the cases, it can be observed that Singapore, and to some extent Malaysia, are the best performers in facilitating trade across border. Most of the times the other extremes are the less developed members – Cambodia, Laos, Myanmar and Vietnam. For example, in case of the less developed ASEAN members, they need 21 to 26 days to import as against only 4 days for Singapore and 8 days for Malaysia. Similar gaps can be observed in the time to export. There is also significant difference in perception on incidence of irregular payments between Singapore with almost a perfect score and Cambodia, Myanmar and Vietnam with low scores of around 2.3. Hence, a key challenge for ASEAN trade facilitation measure is to narrow the performance gap between the leading members and the tail-ends. Third, ASEAN countries have progressed markedly in aspects of trade facilitation in the last five years, thanks to ASEAN's initiative of customs modernisation as well as to preparation for implementing the NSWs (Intal 2015: 6-13). However, significant challenges remain before ASEAN's trade facilitation initiatives can support for a seamless integration in the form of an ASEAN Economic Community.

The National Single Windows (that depend to a large extent on customs modernisation¹¹² and National Trade Repository¹¹³) at domestic level addresses many of the impediments that

¹¹² Customs modernization involves streamlining procedures, thereby eliminating 'excessive bureaucracy' at the border. NSW takes the streamlining process a step further by helping exporters and importers to fulfil their regulatory needs through a single nationwide border administration system. ASEAN has envisioned advancing its trade facilitation objectives by exchanging cross-border information between both governments and the private sector by the ASEAN Single Window.

underlie the scores of *Ease of Doing Business*, *Logistics Performance Index* and *Enabling Trade Indicators*. The ASEAN countries have been working on the NSWs for the past decade, though it is not fully implemented yet. Countries are facing challenges to have the ASEAN Single Window ready, engaging all ten member countries, and the deadline of end-2015 has already passed. The implementation of NSWs at domestic level is also happening at various paces, with some having more success than the other.

The progress made in implementing NSWs in ten ASEAN states can be best viewed in Table 5-4. While the advanced member countries, namely Indonesia, Malaysia, the Philippines, Thailand and Singapore (the city-state has its NSW, called TradeNet since 1989, much before the discussions in ASEAN), have their NSWs operationalised, the less developed members (Cambodia, Laos and Myanmar) continue to struggle in the early phase of development, i.e. customs modernisation and setting up of NSW system. Brunei and Vietnam come in between as although they have established their Customs Single Window, they have not linked their technical control agencies to the designated platform (Koh and Mowerman 2013: 10-11). Even between the two larger groups, there are differences. For example, in case of the advanced countries that have gone live with their Single Window, they are yet to have complete interface of systems with customs (barring Singapore). These countries are also in various stages of streamlining and connecting all trade related government agencies and all ports and airports to their respective NSWs (Intal et al 2014: 133-135). Hence, there is significant scope of improvement for a fully functional NSW for most of the ASEAN states.

¹¹³ National Trade Repository (NTR) in ASEAN member countries is a one-stop online system to provide information on trade laws and procedures. It is expected to provide a single reference point for all tariffs and non-tariff measures to be applied on goods trading across borders. The initiative of NTR is to provide greater transparency and predictability in the trading environment, thereby supporting efficiency of NSWs.

Table 5-4: Status of NSW in ASEAN Member States

	Current NSW Status	NSW Linked to Customs System	NSW Interface with Customs	ASEAN Pilot – ATIGA Form D
Brunei	Implementing	Pending	Future	yes
Cambodia	No information	No NSW	possibly	no
Indonesia	Live	yes	yes	yes
Laos	No information	No NSW	Unknown	no
Malaysia	Live	yes	yes	yes
Myanmar	No information	No NSW	Unknown	no
Philippines	Partial	Pending	Future	yes
Singapore	Live	yes	yes	yes
Thailand	Live	yes	yes	yes
Vietnam	Live	yes	yes	yes

Source: adapted and updated from Koh and Mowerman (2013:11)

The slow pace of implementation with regard to NSWs has implications for eventual establishment of the region-wide ASEAN Single Window. The current form of NSWs at national level varies greatly in terms of information systems and there are significant differences in operating mandates of government bodies/ agencies (customs, port authorities and licence issuing agencies) and trading stakeholders (trading partners, logistics service providers, banks and insurance companies) in member economies. Nevertheless, ASEAN has progressed in building a regional ASW architecture. In 2013, seven members (excluding Cambodia, Laos and Myanmar) participated in a scaled-down version of the ASW Pilot Project. The effort was to test the connectivity among the NSWs of the participating states, though no information was being exchanged. More recently, in 2015, five ASEAN members (Indonesia, Malaysia, Singapore, Thailand and Vietnam) have agreed to a full-fledged ASW pilot project, exchanging information on intra-ASEAN certificate of origin (ATIGA Form D)¹¹⁴. The services on ASW are likely to be expanded further to facilitate exchange of data on advance cargo information, exchange of certificates of origin and policy harmonisation

¹¹⁴ For a regional ASW pilot project, member countries have agreed upon a basic legal framework and are developing a legal text for the live project. In addition, all participating countries need to evaluate their legal environment to ensure support for submission, exchange, archiving of information, and use of electronic documentation as evidence in a single window architecture.

(e.g. phytosanitary measures and conformity assessment procedures) (Benjelloun et al 2012: 3)¹¹⁵.

In summary, ASEAN countries have recognised the importance of trade facilitation measures to increase intra-regional trade and deepen regional integration. In its comprehensive program to facilitate trade amongst themselves, the ASEAN Single Window assumes special importance. This is because an ASW demands a corresponding national level initiative of NSW, which is likely to expedite cargo clearance and improve enforcement at the border. Most of the ASEAN members need such improvement as currently there are countries that need 20 plus days to import or export. There are issues related to time predictability on import procedures and irregular payments in the clearance process. A major challenge in the region is performance gap in trade facilitation, especially between Singapore/ Malaysia and the less developed members, namely Cambodia, Laos and Myanmar.

The ASEAN countries are in various stages of implementing the NSWs in their domestic economy. While Singapore is a global trend setter in this respect and Malaysia is also regarded as a good performer in trade facilitation indices, it is the other economies that are lagging behind. Cambodia, Laos and Myanmar are facing the most challenges in terms of funding, human resources and technical expertise and are in the early stages of development (developing the legal and other related infrastructure in place). Though countries like Indonesia, the Philippines and Thailand have established their NSWs, they need to improve greatly so as to ensure a well-performing single window system. As for the ASW, though it was decided to be launched in 2015 among a small group of ASEAN states, it missed the

¹¹⁵ Information on ASW is upadted from the field interviews with the ASEAN Secretariat in 2015.

deadline due to certain technical differences among member states¹¹⁶. The project is expected to be expanded in future in terms of country coverage, number of documents handled and ports involved.

The fact that the ASEAN governments decided to adopt the trade facilitation measure of ASW/NSW in itself showcases their political will and their recognition of the fact that trade facilitation does make a difference to economic development of a country and regional economic integration. But the gap between commitment and actual implementation suggests a lack of understanding of challenges in domestic execution. Moreover, the differences in the stage of development of the single window among member states need further probing. This chapter suggests that the answer lies in the organisational efficiency of the member states i.e. degree of coordination among national ministries, quality of human resources and their technical expertise, government's priority and thereby funding availability. The rest of the chapter elaborates on this argument looking at the case of Indonesia and Thailand.

3. Domestic Implementation Process and Record of NSW: Case of Indonesia and Thailand

This section of the chapter examines the implementation of NSW measure in Indonesia and Thailand. It looks at three key aspects of the NSW project: a) implementation, b) level of process integration and current status and c) unfinished tasks.

3.1 Indonesia

Indonesia's NSW (INSW) is a policy to reduce trade cost and improve competitiveness by undertaking regulatory and bureaucratic reforms. It is also a way to match demands for

¹¹⁶ Interview with the ASEAN Secretariat and USAID officials in October-November 2015

international cooperation, including ASEAN economic cooperation.¹¹⁷ All key stakeholders – government and the business community – acknowledge the benefit of Indonesia’s initiative of NSW. While for the government INSW is to facilitate the flow of services in customs release, provide a user friendly and reliable service system, improve accuracy of data and facilitate law enforcement related to trade; for the businesses, INSW is expected to provide certainty in the context of cost and time required, to have better and efficient access of factors of production and to support the application of Good Corporate Governance principles in Indonesian trade matters.

a) Implementation

Implementation of Indonesia’s NSW (INSW) involves engagement of multiple government agencies (Figure 5-1). While the Coordinating Ministry of Economic Affairs is the secretariat of AEC in Indonesia, it is the Ministry of Trade that is responsible for implementation of AEC measures in the domestic economy on a regular basis. For the particular case of INSW, the Customs Department, under the Ministry of Finance, is the lead coordinator for planning, designing and implementing the measure.

¹¹⁷ Other than ASEAN, international cooperation includes trade facilitation initiative under WTO, Asia Pacific Economic Cooperation (APEC). Indonesian Experience in Developing INSW, The Asia-Pacific Trade Facilitation Forum 2009, UNESCAP-ADB, Bangkok, 25 November 2009 (<http://unpan1.un.org/intradoc/groups/public/documents/ungc/unpan040184.pdf>; accessed on 22 October, 2015.)

Figure 5-1: Implementation of National Single Window in Indonesia- A Simple Illustration

Source: author's illustration based on the discussion with Indonesian policy makers¹¹⁸

¹¹⁸ Interview with a government official in Jakarta in May 2015

The preparation for INSW started from 2007, by forming a team of three groups – legal, business processes and technical matters. Although Presidential Decree No 10 Year 2008 forms the basis of the INSW i.e. use of electronic system in INSW framework and to establish it as a single point of reference, there are several others decrees or regulations and instructions issued by the President. These include Presidential Decree No. 24 Year 2005 regarding coordination team for facilitation of export-import flow, President's Instruction No 3 Year 2006, President's Instruction No. 6 Year 2007 and President's Instruction No. 5 Year 2008, all focusing on economic programs. There are also regulations issued by the lead ministries. For example, the Decrees of Coordinating Minister for Economic Matters concerning establishment of NSW preparation team (Table 5-5) and a number of Decrees of Finance Minister as the Head of NSW preparation team¹¹⁹.

¹¹⁹ Interview with Indonesian government officials in Jakarta in May 2015

Table 5-5: Preparation Team of INSW Establishment

Source: derived from author's discussion with Indonesian policy-makers

In addition to Indonesia Customs, there are 17 other government agencies that are currently engaged in clearance of goods (table 5-6).

Table 5-6: List of Government Agencies Involved in Goods Clearance in Indonesia

Ministry of Trade	Director General of Post and Telco
Plantation Quarantine	Ministry of Agriculture
Animal Quarantine	Ministry of Health
Fishery Quarantine	Ministry of Police
Food and Drugs Control	Ministry of Environment
Ministry of Industry	Ministry of Defense
Ministry of Energy	Ministry of Transport
Nuclear Control	Central Bank

Ministry of Forestry	Customs (DGCE)
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Source: author's compilation

b) Level of process integration and current status

In case of Indonesia, in 2015, for most of the 18 connected government bodies, the system interfaces with the NSW are fully automated. The few exceptions are the National Police and the Ministry of Defence, as these agencies are authorised to provide trade permits and licenses on limited number of goods (such as arms and ammunition). The INSW is currently set up to work as a multi-window interface, where it 'integrates information from all agencies and redirects users from the INSW portal to those agencies' system interfaces before once again returning users to the INSW portal'¹²⁰ (Damuri 2016: 48).

As of end-2015, INSW connects 17 out of 126 ports (covering land, air and sea), and the connected ports account for around 95 per cent of Indonesia's total foreign trade. The INSW has 18,000 registered users, composed of both importers and exporters and it handles approximately 400 import and export licenses.¹²¹

The INSW provides an operational trade repository, called the Indonesia National Trade Repository (INTR), which offers information on Indonesia's export and import regulations and procedures. The INSW is also one of the five NSWs in ASEAN that is connected to ASW, slated to function by end-2015. To make this happen, Indonesia has already approved

¹²⁰ The INSW portal can be found on <http://www.insw.go.id/>. One needs to register first, before using its services.

¹²¹ Source of the statistics is author's discussion with Indonesian Custom's officials and The Jakarta Post (<http://www.thejakartapost.com/news/2015/10/02/new-website-offers-more-services-traders.html>, accessed on 31 October 2015).

the legal framework on cross-border exchange of data that has been developed by the ASW steering committee and accepted by other ASEAN member countries.

c) Unfinished Task

INSW, currently, is in an early stage of development. Indonesia plans to upgrade the system to enable users to avail a single, integrated online portal. This is illustrated in Figures 5-2a and 5-2b. This requires not only technical upgradation but also necessitates better management, coordination and willingness on part of government officials to deliver the system. Presidential Regulation No 76 Year 2014 has already been provided as a legal basis for the formation of a committee for managing and developing the NSW system in the country. It is increasingly becoming difficult to manage the complex form of INSW system by an ad-hoc team from multiple government agencies.

Figure 5-2a: Before INSW Portal

Figure 5-2b: After INSW Portal

Source: <http://www.insw.go.id>

The regulation also specifies establishment of a new governing agency, namely the INSW Governance Board, that is expected to comprise of ministerial level officials from concerned ministries (such as finance, trade and industry) to formulate necessary policies and regulations.¹²² However, it is not yet clear how the transfer of authorities would be carried out from different government agencies to the Indonesian Customs. Despite acknowledging the benefits of an integrated INSW portal by both the government and the business community, it

¹²² This new agency, however, will operate under the authority of the Ministry of Finance and will report to the Ministry of Finance.

will take some time for such a front-end integrated border administration system to be developed. The initiative may entail intense discussion among the government agencies to develop better understanding for the system¹²³.

From the above discussion of INSW implementation process, it can be inferred that though NSW in Indonesia has progressed significantly and is inching towards the ‘international best practice’¹²⁴, there needs to be further improvement and streamlining of administration by establishing a single integrated portal. This is not an easy task as agencies in a country are developed over a long period of time, given the institutional setting and its socio-economic fabric. It is not technically easy to coordinate multiple agencies under a synchronised system. Section 4 of this chapter will subsequently discuss the difficulties in implementing the trade facilitation measures, particularly the NSW, in a domestic economy.

3.2 Thailand

The Thai National Single Window (NSW) is a policy for the country to reduce cost, increase competitiveness and support international trade. It is recognised as a part of the national strategy to improve on efficiency of documentary procedures needed to speed-up the movement of goods across borders. It also permits Thailand to pursue its trade facilitation goals in line with the Thailand Logistics Master Plan (2005-2009), National Logistics Development Strategy (2007-2011) and more recently the 11th National Economic and Social Development Plan (2012-2016) (NESDB 2005, 2007 and 2011). In addition to national

¹²³ The information is obtained from the filed interviews with academics and policy-makers in Jakarta in May 2015.

¹²⁴ International best practice – Singapore, with its TradeNet, can be considered as following the best practice

policy directives, Thailand's effort to establish a NSW also reflects its willingness to advance regional integration¹²⁵ and fulfil its commitments under the ASEAN Economic Community.

a) Implementation

Implementation of Thailand's NSW involves businesses and multiple government agencies both vertically and horizontally (Figure 5-4). Looking at the organisation structure of AEC implementation, although the Ministry of Foreign Affairs hosts the ASEAN Coordination Council at the top, it is the Ministry of Commerce that is the secretariat of AEC and is also responsible for AEC implementation in the national economy. In the particular case of NSW, the Thai Customs Department, under the Ministry of Finance, is the lead coordinator for planning and implementing the measure. The department is also responsible for information exchange between Thai NSW and NSWs of other ASEAN countries, once ready. Initially the government (or the cabinet) appointed one more ministry as a lead agency for the NSW. This was the Ministry of Information and Communication Technology (MICT), which was given a mandate to promote e-governance in the country. Later, the role of MICT was moderated to only managerial aspect of the NSW and the Thai Customs were given the mandate to carry on NSW implementation as a lead agency (UNESCAP 2013: 83).

¹²⁵ Thailand aims to become a world-class logistics hub for Indochina. Its national infrastructure plan is developed keeping in mind cooperation under various frameworks – sub-regionals (including Greater Mekong Sub-region, Indonesia-Malaysia-Thailand Growth Triangle, the Bay of Bengal Initiative, the Ayeyawady-ChaoPhraya-Mekong Economic Cooperation Strategy), ASEAN, the ASEAN plus alliances and the Asia-Pacific Region (NESDB 2011: 102-103).

Figure 5-3: Implementation of National Single Window in Thailand- A Simple Illustration

Source: Author's illustration, based on her field interviews with Thai academics and policy-makers

A key feature of the Thailand AEC implementation is the formation of ‘committees’ and ‘sub-committees’, bringing together representatives from government ministries, academics and the private sector. The idea is to bring together a high-level management team in order to plan and develop knowledge on NSW and, subsequently make them accountable for implementing the initiative. A sub-committee for AEC resides in the Ministry of Commerce, which interacts regularly with the National Committee of Economics, chaired by the Deputy Prime Minister of the Country. For the NSW, there are two key committees (table 5-7). First is the National Committee on Logistics Department (NLD), residing in the National Economic and Social Development Board (NESDB)¹²⁶, consisting of permanent secretaries from economic-related Ministries and representatives from trade associations. This was approved in 2007¹²⁷. The second one is like a working group/ steering committee (sub-committee), appointed by the Thai Customs Department, to facilitate communication and coordination among various stakeholders of NSW. The working groups constitute representatives from government ministries and agencies as well as related trade and transport communities. Apart from these, there are sub-committees on data integration for import, export and logistics, a legal working group, a steering committee on regulatory framework and a technical working group¹²⁸.

Table 7: Interagency Committees and Sub-committees

National Logistics Committee (NLC) (resolution issued by the office of the Prime Minister) Chairmanship: Prime Minister Membership: permanent secretaries from trade and transport-related ministries and representatives from trade and transport-related associations	Steering Committee on NSW Development (resolution issued by Royal Thai Customs) Chairmanship: Director General, Royal Thai Customs Membership: Representatives from government agencies participating in the NSW project as well as representatives from MICT, Bureau of Budget, Department of
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¹²⁶ NESDB is a government think tank in Thailand dealing with economic policy.

¹²⁷ ASEAN Single Window Trade Facilitation, Thailand General Information (<http://asw.asean.org/nsw/thailand/thailand-general-information>, accessed on 3 November 2015).

¹²⁸ United Nations Economic Commission for Europe (UNECE), Trade Facilitation Implementation Guide, Case Stories – Thailand (<http://tfig.unece.org/case-stories.html>; accessed on 4 November 2015)

	Business Development and Bank of Thailand
Sub-committee on Data Integration for Import, Export and Logistics (resolution issued by NLC) Chairmanship: Permanent Secretary of Ministry of Finance Membership: Director General from government agencies that are involved in the administration of cross-border trade and representatives from trade and transport-related associations	Technical Working Group (resolution issued by Steering Committee on NSW Development) Chairmanship: Director, Information and Communication Technology Division, Royal Thai Customs Membership: Experts from government agencies involved in the administration of cross-border trade and representatives from trade and transport-related associations
Legal Working Group (resolution issued by Sub-committee on Data Integration for Import, Export and Logistics) Chairmanship: Deputy Director General, Royal Thai Customs Membership: Experts from Office of the Council of State of Thailand, MICT and government agencies that are involved in the administration of cross-border trade	Steering Committee on Regulatory Framework and Quality Assurance (resolution issued by Royal Thai Customs) Chairmanship: Director General, Royal Thai Customs Membership: experts from government agencies involved in the administration of cross-border trade and representatives from trade and transport-related associations

Source: UNECE, Trade Facilitation and Implementation Guide (<http://tfig.unece.org/cases/Thailand.pdf>; accessed on 9 November 2015)

The Electronic Transaction Act (ETA) of 2001 is the enabling legal framework for Thailand to enhance electronic transactions. The Act came into force in 2002 and since then it has allowed the use and exchange of documents in electronic formats. Thailand has amended the ETA in 2008, permitting scanned documents to be accepted as original. The Thailand Electronic Transactions Development Agency (ETDA) has further offered amendments to the ETA so as to facilitate international electronic transactions. Specific laws and regulations have been drafted for the government agencies involved in the Thai NSW to increase information sharing in a paperless environment among them and with other stakeholders – businesses and banks.

It should be noted that Thailand's desire to establish a single electronic window system for export and import started in 1998 with its electronic data interchange (EDI) system for customs clearance. In that system, although traders were able to put together several sets of

documents for single submission, they still needed to submit paper documents for cargo clearance. A major change occurred in 2006, when the EDI system was replaced by an electronic-Customs paperless service that introduced ebXML standard¹²⁹, adopted Public Key Infrastructure (PKI) and recognised digital signatures. Subsequently, with ASEAN's initiative of ASW and its related NSWs in 2005, Thailand changed the name of its single window service to Thailand National Single Window in January 2008¹³⁰. Thereafter, the Thai NSW became fully operational in July 2008, enabling exchange of electronic documents among government bodies and businesses in a paperless service environment (UNNExT 2012: 2-3).

Since 2008, the Thai Customs Department has signed memorandums of understanding (MOU), linking the NSW to its customs and to other 36 government agencies (Table 5-8). 58 major ports and border posts in Thailand have also been integrated with the NSW.

Table 5-8: List of Government Agencies Involved in Good Clearance in Thailand

Thai Customs Department	Office of Rubber Replanting Aid Fund
Department of Foreign Trade	Port Authority of Thailand
Industrial Estate Authority of Thailand	Revenue Department
Department of Industrial Work	Defence Industry Department
Department of Livestock Development	Department of Internal Trade
Excise Department	Office of the National Broadcasting and Telecommunications and Commission
Office of the Board of Investment	Department of Mineral Fuels
Department of Fisheries	Department of Provincial Administration
Department of Energy Business	Department of Medical Sciences
Food and Drug Administration	Department of Mineral Resources
Office of the Cane and Sugar Board	Department of Primary Industries and Mines
National Bureau of Agricultural Commodity and Food Standard	Electrical and Electronic Institute
Department of Land Transport	Department of National Park Wildlife and

¹²⁹ ebXML (or Electronic Business Extensible Markup Language) enables the global use of electronic business information in an interoperable, secure, and consistent manner by all trading partners.

¹³⁰ ASEAN Single Window Trade Facilitation, Thailand General Information (<http://asw.asean.org/nsw/thailand/thailand-general-information>, accessed on 4 November 2015).

	Plant Conservation
Fine Arts Department	Office of Atoms for Peace
Royal Forest Department	Department of Agriculture
Airport of Thailand Public Co. Ltd	Department of Civil Aviation
Thai Industrial Standard Institute	Thai Chamber of Commerce and Board of Trade of Thailand
Federation of Thai Industries	Department of Diesel Control
	Marine Department

Source: UNNExT (2012: 4)

b) Level of process integration and current status

For process integration, the Customs Department's system is interfaced with the Single Window for only coordination of fees payments, though later the interface has to be extended to other services like permit application and issuance and coordination of goods inspection. For the other 36 government agencies, 28 of them have interfaced their own systems with the Single Window, while seven of them are testing the system and the last one is still developing it¹³¹.

Thailand's NSW seems to have evolved over the years in terms of its 'best practices' as exemplified by Singapore. It has developed a common understanding of NSW between the Thai Customs Department and 36 other participating government agencies. It has completed simplification and harmonisation of processes and documents, rolled out the single window, implemented information technology infrastructure for traders and has even set up a helpdesk. As the Thai NSW is one of the five NSWs in ASEAN that was supposed to be connected to ASW by end-2015, the message format and data elements of goods declaration are already made consistent with the ASW guidelines. As of April 2013, Thai NSW has exchanged 6.3 million electronic messages, attracted 10,100 subscribers, served about 100,000 trading companies and 20 government authorities¹³².

¹³¹ Interview with customs officials in Bangkok in March 2015

¹³² ASEAN Single Window Trade Facilitation, Thailand General Information (<http://asw.asean.org/nsw/thailand/thailand-general-information>, accessed on 4 November 2015)

A supporting facility of NSW under Thailand's trade facilitation agenda is the National Trade Repository (NTR), which is set up to provide information on trade measures and regulations in the country. In Thailand, this system is getting developed independent of the NSW. The Department of Trade Negotiation under the Ministry of Commerce has been given the mandate to implement the NTR system. Following the website of Thai NTR, it can be seen that information is available in both Thai and English language on tariff nomenclature, harmonised tariff schedule, rules-of-origin, non-tariff measures, trade and customs rules, administrative rulings and few others. The website is also operational since end of 2014¹³³.

Figure 5-4: Conceptual Model of Thailand National Single Window

¹³³ Thailand National Trade Repository Website (<http://www.thailandntr.com/>; accessed on 4 November 2015)

Source: UNNExT (2012:3)

c) Unfinished Task

Thailand is yet to set up a Single Window in an integrated sense, wherein users can submit only one form to get clearance, permits (if required) and pay fees. Currently, other than three government agencies (Thai Customs, Port Authority of Thailand and Office of Rubber Plantation), the Thai NSW is working as a multi-window interface. The Customs Department has to increase participation in the single window environment and has to expand its paperless service nationwide. The business community continues to complain about dual ways of submission – paper documents and e-submission – and about lack of communication among the government agencies¹³⁴.

One other unfinished task in Thai NSW is that while almost all agencies have their systems interfaced with the NSW, some of them have not registered all products with the system. This inhibits NSW to provide a one-stop service, as, for example, permits/ licenses for the unregistered products have to be acquired manually. Rattanakhamfu et al (2015: 64) have cited that a possible reason for this is lack of linkage between IT infrastructure and legal instruments. It is highly likely that for some agencies like the Thai Chamber of Commerce and the Board of Trade of Thailand, it is difficult to approve an electronic permit for customs, thus leading to inefficient operations. In this regard, approval of relevant national laws and regulations would be useful for NSW implementation.

Thus, from the above discussion, it can be seen that Thailand's NSW is building on the country's earlier initiative of a single window started in 1998, although the significant developments have happened since 2008. The government showed political will by

¹³⁴ Interview with government officials and private sector representatives in Bangkok in March 2015

establishing inter-agency collaborative platforms (in the form of committees and working groups) and legal frameworks, but given the complicated nature of the project, Thai NSW implementation seems to suffer from trust and coordination issues among government departments. This will be subsequently discussed in detail in Section 4 of this chapter, which will also provide a comparative picture vis-à-vis Indonesia.

4. Domestic Organisational Challenge of NSW Implementation: Observations from the cases of Indonesia and Thailand

Following the discussion of implementation process in Indonesia and Thailand, this section analytically looks at the organisational challenges of implementing the National Single Window (NSW) in the domestic economy. This is a topic of significance as the implementation gap in policy initiatives could be attributed to lack of thoughtful consideration on the ways policy implementation effort is or should be organised. Difference in organising implementation process also explains why Indonesia and Thailand may have different implementation performance with respect to a similar ASEAN initiative. Following are discussions on four organisational aspects and their related challenges that have been observed in cases of Indonesia and Thailand - creation of a new body and organisational mechanism challenges, lack of knowledge and resources for creating support base, attitude of bureaucrats to coordinate across multiple bodies (horizontal coordination) and other contextual factors like infrastructure availability and political priority – leading to performance gaps and differences with respect to implementation of the NSW system in the domestic economy.

a) Creating a New Body and Organisational Mechanism Issues

With the idea of a new policy task, traditional policy planning and implementing bodies within a government may find it difficult to cope. As a result, some governments create a separate body of decision making on the new policy initiative. In case of Indonesia and Thailand, as part of the overall reform process, the NSW system is established as a separate structure in the Customs Department, under the Ministry of Finance. Although top-down influence was exerted from the Ministry of Trade/ Commerce, the overall secretariat of the ASEAN Economic Community (AEC), an explicit body was created in both the countries - Preparation Team in Indonesia and Committee on NSW Development in Thailand – to manage the process of transition and restructuring. While in Indonesia, the Coordinating Minister for Economics led the ad-hoc Preparation Team composed of three key ministries- Finance, Trade and Transport, in Thailand, the Director-General of Royal Thai Customs served as the chairman of NSW development.

A common factor for both these new bodies is the need to develop and manage a mechanism that goes beyond the host agency duties i.e. the Customs Department. Because of the high degree of interdependence and interaction of this new border administrative process with several government agencies, it is important to include either the heads or representatives from the affected agencies for smooth implementation process. This was done in Indonesia and Thailand by including officials from the related ministries at the operational level (18 for Indonesia and 37 for Thailand). Both these explicit bodies dedicated to NSW seem to have worked best as a bridging mechanism to provide the collective political will in order to move the implementation of the NSW system forward. These groups broke the inertia caused by the obstinate bureaucrats in their respective ministries and provided support and realignment of government bodies as demanded by the policy change.

However, challenges remain. While Indonesia created one distinct body bringing in people from related ministries (such as Ministry of Finance, Coordinating Ministry, Ministry of Trade, and Ministry of Transport) and organised them together under a single structure, in Thailand, though there is a specific body for NSW (Committee of NSW Development), there are multiple interagency collaborative platforms linked to the NSW implementation (National Logistics Committee and Working Groups or Committees on legal affairs, regulatory framework, technical matters and data integration). For the latter, a number of collaborative platforms slowed down the process as most of these groups have approximately 40 members each, involving representatives from government agencies participating in the NSW project. It is highly unlikely that all members are equally trained and knowledgeable on AEC/ NSW and were present for every discussion at a common date and time. It should be noted that the new bodies in the two countries are working under the Ministry of Finance and thus have less authority to make decisions or coordinate with other agencies¹³⁵.

Moreover, unlike Indonesia where the NSW is linked mostly to related ministries (10 out of 18 government agencies), in Thailand, most of the linked government agencies to the NSW are a department inside a ministry. This leads to the issue of level of representation in the distinct bodies created to establish NSW in each country. In Indonesia, the lead coordinators of the preparation team are of ministerial rank and operational implementation team members are at least of Director-General (DG) rank. As against this, in Thailand, while the Committee on NSW Development is chaired by the Director-General of the Thai Customs Department, rest of its members, representing the related government agencies, are below the DG level¹³⁶. It should be noted that the level of representation participating in these committees/ working

¹³⁵ These are reflected during the discussion with officials of different ministries in Thailand in March 2015.

¹³⁶ It should be noted that the National Logistics Committee in Thailand is chaired by the Prime Minister. The Thai NSW is just one small aspect of the entire logistics development in the country.

groups matters as a high ranking official (permanent secretary, director general) would be relatively more influential than middle-level officers both during a group meeting and back in his ministry or government agency. This is particularly true for Southeast Asia as most of the countries in the region espouse a bureaucratic culture of hierarchical control (Jones 2007: 108).

b) Building Support Base – Challenges in Mobilising Stakeholders and Resources

The need to create a support base for any new policy initiative is critical; without such support, the policy could fail. Most of the time, as the benefits of the policy initiative are not obvious, it is important to have repeated consultation to convince the stakeholders. It is also vital to involve the private sector as they are the final users for most of the economic policy initiative. In case of the NSW, a general constituency existed in Indonesia and Thailand for improving time and efficiency on the border. In addition, the Ministry of Economic Coordination in Indonesia had regular public-private consultation, where they shared information on NSW and also listened to complains from the concerned parties. Thailand included a number of private sector participants in its committee of NSW development. They are from multiple associations like Thai Chamber of Commerce and Industry, Federation of Thai Industries, Bank Federation and Freight Forwarder Association.

However, these activities were not enough. The customs department of both the countries needed highly consultative processes with the individual affected ministries to identify key issues as well as vetting those ideas that had been discussed as high priority during consultation. Despite such actions, gaining support for the NSW policy was not easy. This was due to two key reasons – a) knowledge of the operational team members and b) political

willingness at lower level of bureaucracy, constraining the budgetary support¹³⁷. It was observed that although the operational team members in both countries have learnt about the technical aspect of the NSW system and its benefits, they were not aware of AEC, which is the overarching regional policy to make countries commit to the new initiative of NSW. This absence of overall vision is reflected in the lack of drive to deliver NSW commitments by the deadlines stipulated in the AEC Blueprint. In the case of Thailand, multiple committees and sub-committees also blur the knowledge of the overarching theme. While bureaucrats and technical officers of NSW implementation team seem to acknowledge the existence of the National Logistics Committee, they were not aware of the Thai National Committee on AEC under the Ministry of Foreign Affairs, chaired by the Deputy Prime Minister¹³⁸.

In addition, most often the team responsible to implement NSW in both the countries, or more prominently in Thailand, found themselves dealing with agencies that were not interested in the new initiative. With lack of political willingness at lower levels of bureaucracy, financial resources became an issue, which in turn made it difficult to disseminate relevant information or to carry capacity building exercises for the attached agencies and industry players. In the case of Indonesia, in addition to customs' own limited financial resources, it is the agencies that are linked to the NSW that contributed a small part of their resources to smooth operation of the system. However, for Thailand, things were significantly tougher. It was hard for the NSW team to make agencies agree to sign MOUs, as

¹³⁷ It should be noted that ASEAN economic integration is supported by not only national budgets but also technical and financial assistance from the advanced economies like the European Union, the US, Japan, Australia and others. For example, the EU has earmarked more than 170 million euros for the post-2015 ASEAN integration. But all of this sum is not for economic integration itself and covers other aspects like security and social issues. Moreover, much of the funds is allocated to research and monitoring activities at the ASEAN Secretariat. A part of the fund that is allocated to AEC implementation activities, such as the NSW, goes to the less developed ASEAN members, i.e. Cambodia, Laos, Vietnam and Myanmar.

¹³⁸ These are reflected during the discussion with officials of different ministries in Thailand in March 2015.

the agencies felt that ‘it’s not their responsibility and hence also not their priority’¹³⁹. This kind of indifference made progress difficult and also constrained the budgetary resources.

c) Attitude of Bureaucrats to Coordinate (Challenges in Horizontal Coordination)

Coordination across agencies affected by the new policy initiative is a necessary condition for its successful implementation. It is important that no organisation undertakes processes and regulations that may hinder the smooth working of the new system. It is also important for the agencies to be aware of what the others are doing and accordingly coordinate. In case of the NSW initiative, the transformation from a fragmented system to a more concentrated ‘one stop facility’ to improve speed and efficiency of border administration processes had caused shake-ups in government departments. As discussed in Section 3, the new bodies in both the countries, i.e. the Permanent Team in Indonesia and Committee on NSW Development in Thailand, consolidated functions from several government agencies (18 in Indonesia and 37 in Thailand) within the Customs Department. To make the NSW system work, these agencies were obliged to devolve functions to the new body¹⁴⁰. This created resistance and anxiety in two levels. While the top level management of the affected government agencies were unhappy with their functions being curtailed, the operational staff were apprehensive that they may have to move to a different location or to new job descriptions that may demand new skills¹⁴¹. The latter group may also have to give up on the illegal fees that they have procured during their direct interaction with the traders in exchange of permits and licenses. These factors lengthened the negotiation process between the Customs Department and the government agencies. For Indonesia, while it took nine long years from 2006 to reach the

¹³⁹ Quote from the field interviews in Bangkok.

¹⁴⁰ In case of Indonesia, there was also transfer of certain employees to the newly created body, though at the time of the interview, it was an ad-hoc one. A more permanent body will be created to run the NSW platform in the future.

¹⁴¹ The information came forth during the discussions with the policy officials in Thailand and Indonesia in March and May 2015 respectively.

present state of automation, for Thailand, which was already on its path to set up a single window system since 1998, the MOU between the Customs Department and the government agencies were signed during 2008 and 2011. Both the countries have still not delivered an integrated NSW system.

To overcome the issue of resistance, Indonesia followed a regulatory format of ‘Presidential Decree’, where every key action necessary for building a synchronised system of NSW is legally authorised by the President of the country. Moreover, the country addressed some of the resistance by placing Ministers of key government agencies as lead coordinators of the Preparation Team. These not only made the related government bodies relatively more accommodative to the demands of coordination but also made the top management of key Ministries more supportive towards moving border administrative functions to the new body. As against this, Thailand followed a broader approach by starting with the Electronic Transaction Act as its key regulatory framework. It was the Customs Department that was left to negotiate and sign the Memorandum of Understanding (MOU) with the related government agencies, thereby making the negotiations significantly difficult.

Even with the support of resources combined with the supporting regulatory framework, the implementation might be slow due to the reluctance of related agencies to implement necessary measures. For example, although Indonesia’s NSW, manages to connect 18 different institutions, it remains a gateway of different windows, each representing its own institutions, rather than a single portal that integrates all necessary functions. It took more than five years to get the current system to function. Even now, a handful of less relevant agencies are not fully connected to the system.

d) Contextual Factors – Issues of Political Priority and Existing Infrastructure

These refer to factors outside the policy course that can either add value or impede the implementation process. Depending on the nature of the policy, the contextual factors can exist at several levels (international, national and local) and can change overtime. For example, as most of the policy implementations are multi-year in nature, they are subject to political transition and also to economic and social conditions. In case of the NSW project, which is getting formulated and implemented over a multi-year framework, two key issues that affect its progress and subsequently its effective execution are political priority of the project and the existing infrastructure.

Indonesia suffers from both these issues. The NSW in Indonesia currently connects only 17 ports (sea, air and road) out of 126 present in the country. The customs department do not have the permission from the Ministry of Trade to connect the other ports to the system. A possible reason given for this is lack of infrastructure in terms of handling imports and exports. For example, at present most Indonesia's imports of electronic products happen through the Tanjung Pirok port. However, Malaysia has requested Indonesia to open up its Entikong port for export of electronic products so as to lower the transport cost. Indonesia is unable to give the access, citing that the port is not equipped for international imports. Likewise, there are some ports in Indonesia that are not allowed to be use for exporting mining products. Indonesia also had slow implementation of port connectivity to the NSW system due to sub-standard IT infrastructure and deficiency in electricity supply, though it first connected the Tanjung Pirok port in 2007 (Damuri 2016: 59). A key reason given for insufficient infrastructure and slow implementation is lack of financial resources, coupled with shortage of skilled labour that have the technical know-how to develop such ports.

Developing efficient trade facilitation facilities may not be Indonesia's priority. The country feels that its trade problems do not arise from inefficient border procedures but due to its own competitiveness and supply side capacity. Being the largest economy in Southeast Asia and with improved trade procedures, Indonesia has the potential to provide a bigger market access for rest of its neighbours, but the country itself may not benefit and may worsen its trade balance. According to this line of argument, Indonesia needs to focus on issues that will strengthen its domestic economy and will improve the country's competitiveness, rather than devote resources to improve import facilities (Damuri and Day 2015: 23).

In Thailand, the country is facing unstable political conditions from early 2006. It has experienced two coups, four constitutions and six Prime Ministers since then. Currently, from mid-2014, Thailand is under military rule and the incumbent administration is trying to stabilise the economy. This political instability has also stymied Thailand's ability to pursue AEC policy on a regular basis. This is more so as Thailand has formed several committees that are either directly or indirectly linked to NSW implementation. Although some of these committees are formed outside government ministries (like NESDB hosting the National Logistics Committee), they include members from the ministries or sometimes the committee is chaired by a minister. In a situation of protracted political uncertainty and vacuum in leadership, such kind of organisational structure hinders the project continuity.

Observing the gridlock in Thai political affairs, foreign investors have showed their concerns as they felt that the country's priorities have shifted from development policies and AEC commitments to more imminent issues of domestic political impasse. The Joint Foreign Chambers of Commerce in Thailand (JFCCT) reported in March 2014 that 'A number of specific changes to laws and procedures are required to ensure smooth implementation and to

allow Thai companies and citizens to obtain the benefits envisioned. The current political situation, unclear outcome of elections, uncertainty of government functions and control issues raise significant concern in terms of decision making and implementation capabilities. Some changes will require a functioning parliament'.¹⁴²

Thus, even though the change in political regime or lack of resources for conducive infrastructure do not directly relate to NSW's course of implementation, they can slow down the performance, leading to implementation gaps.

Summarising the above, one can say that many policy reforms fail or slow down due to lack of consideration on how the implementation process is organised. New initiatives often need a change in stakeholders' configuration, shifts in structure, innovative rules in existing agencies and new forms of interaction. These are highly likely to bring about organisational challenges of implementing a new policy change. In the case of Indonesia and Thailand, both have the political will to carry on with AEC commitment of NSW but their domestic organisation pattern differs, which in turn affects the nature of support base and attitude of bureaucrats to cooperate. In addition, as the political economy changes, the priority of a country also move, in turn affecting the operational and service delivery of the new policy initiative, i.e. the NSW.

5. Public Administration and Bureaucratic Challenges in Southeast Asia

¹⁴² Slow Process towards AEC concerns foreign chambers, The Nation, March 4, 2014 (<http://www.nationmultimedia.com/business/Slow-process-towards-AEC-concerns-foreign-chambers-30228346.html>; accessed on 7 November 2015.)

Following on from the discussion of case studies, this section shifts the argument of administrative challenges to a broader scale and presents observations on the ASEAN region. It also illustrates how the variation in public administration efficiency corresponds to differences in socio-economic development among ASEAN countries.

As discussed in chapter 3, the ASEAN economies decided to undertake economic cooperation by liberalising their economies among each other, thereby offering opportunities for increased trade and investment. Yet liberalisation was not accompanied by the facilitation that mainly entailed harmonising rules, simplifying procedures and increasing transparency. This is because, although the ASEAN economies recognise the importance of reforms for trade facilitation, they face difficulties in terms of organisational challenges of public administration in their domestic economies, leading to delay in implementation. These challenges are not uniform across the region. For example, with regard to the National Single Window (NSW) initiative that aims to streamline border administration processes, while countries like Singapore and Malaysia¹⁴³ have managed to undertake reforms and have provided 'one-stop' customs facility, there are countries like Cambodia, Laos that have high degree of government regulations in relation to trade permits, licences and customs levies, resulting in delays and higher costs at the border (refer to section 2 for detailed discussion). Some key organisational or public administrative challenges that are present in various degrees in ASEAN countries are described below.

The most significant challenge is inter-organisational cooperation in ASEAN countries as trade facilitation, or in particular, establishment of the NSW system, is not the subject of a single public authority, but multiple ones. Mutual resource dependence and harmonising

¹⁴³ Singapore has been using TradeNet since 1989 and Malaysia Dagang*Net since 1995 (Appendix V.1: Development Experience of Singapore's and Malaysia's single window).

goals are important qualifiers for cooperative behaviour across various authorities. In other words, in order to achieve a common goal through a policy commitment, it is important for the multiple organisations to understand the mutual dependence, which in turn is underpinned by a sense of shared interest and trust for exchanging resources (O'Toole 2003: 239-42). For the ASEAN countries, though there are congruent goals at the highest level of political leaders, this does not automatically promote cooperation among national ministries. The ministries have different priorities, translating into lack of trust to exchange manpower and financial resources. Furthermore, understanding of ASEAN Economic Community (AEC) varies across ministries and is quite diluted by the time it reaches the lower level of bureaucrats, leading to lack of shared interest and a sense of timely delivery of AEC commitments.

Another reason for implementation gap in national economies is due to the bureaucrats and their self-interest in terms of their own income, career and status. Usually, these bureaucrats' primary concerns are gains or losses after certain reforms and hence their actions (Painter 2004: 363). This is also true when implementing NSW in national economies as the initiative entails interdependence of a number of ministries and exchange of resources, thereby redistributing power and wealth among the bureaucrats. In the case of ASEAN, the development of production networks adds to the complexity further. As the private sector changes their way of undertaking production and fragments it over multiple countries, generating more wealth and shifting power within a society, the bureaucratic elites increasingly attempt to match the power by staying relevant and a decisive factor in the administrative process. Hence, any negative change in bureaucrats' authority and power, derived from new initiative of AEC, will have adverse implication over implementation.

A related point to bureaucrats' behaviour is their opportunity to earn unethical income. In the border administration process, this is generated from the private businesses as they need to pay illegal fees in order to expedite otherwise protracted procedures and to obtain licence and permits or to get clearance of goods' inspection. This is highlighted in the Doing Business and Enabling Trade indices discussed earlier in Section 2. Except for Singapore and to a certain extent Malaysia, illegal fees are a major issue for trading goods across national borders for all ASEAN countries. The issue of unethical fees or corruption in ASEAN countries is also reiterated by the businesses operating in the region¹⁴⁴. According to the 2015 Transparency International report on ASEAN, 'public sector corruption remains a major problem for many ASEAN countries. Only Malaysia and Singapore score above 50 out of 100 (where 100 is very clean and 0 highly corrupt) in Transparency International's Corruption Perceptions' (Transparency International 2015: 4). In case of the NSW, the issue of unethical income is likely to go down significantly as permits and licences are going to be issued online, almost eliminating personal contact. This is not viewed favourably by the bureaucrats of ASEAN countries as they are likely to lose income from the border administrative reform, thereby dragging the implementation process.

Another reason for mismatch between commitments and implementation of ASEAN initiatives, i.e. the NSW, is the prevalence of traditional bureaucratic culture in most of the member countries. This includes adherence to rules and procedures that involve paperwork, hierarchical control and strict division of responsibility. Such traditional attitudes among government bodies that are responsible for licences and permits is often accompanied by the bureaucrats' obstinate behaviour to pursue their own policies, irrespective of new executive

¹⁴⁴ AmCham and US Chamber of Commerce, ASEAN Business Outlook Survey 2015 (pp. 30)

orders or legislations (Jones 2007: 108). This implies that despite the good intentions of political leaders, the implementation process slows down in the national economies.

Lastly, one cannot ignore the fact a country's administrative inefficiency or bureaucratic procedures are directly correlated to its level of socio-economic development, implying that better socio-economic development is either a cause or result of better administrative efficiency. While a country's administrative inefficiency is explained in tables 1-3, the level of socio-economic development is illustrated by the per capita GDP in terms of purchasing power parity (PPP) and Human Development Index (Table 5-9).

Table 5-9: Socio-economic Development Indicators of ASEAN Countries

	Human Development Index 2013		Per Capita GDP, 2013
	Score (0-1)	Ranking (out of 187 countries)	2011 PPP \$
Brunei	0.85	30	70,883
Cambodia	0.58	136	2,805
Indonesia	0.68	108	8,970
Laos	0.56	139	4,351
Malaysia	0.77	62	21,824
Myanmar	0.52	150	3,998
Philippines	0.66	117	6,381
Singapore	0.90	9	72,371
Thailand	0.72	89	13,364
Vietnam	0.63	121	4,892

Source: UNDP, 2014

From table 5-9, it can be easily seen that ASEAN can be divided in three broad categories. While one group can be termed as developed economies in terms of human development indicators and per capita income (Brunei, Malaysia, Thailand and Singapore), showcasing scores of more than 0.70 (out of 1) and per capita income of above \$12,000, the other extremes are the less developed ones (Cambodia, Laos, Myanmar) with HDI scores below 0.60 and per capita income \$4,500. Indonesia, the Philippines and Vietnam fall in the middle. Similar categorisation can be observed in table 5-1 to 5-3. For example, under *Doing*

Business indicators, while Brunei, Malaysia, Singapore and Thailand rank among the top 50 countries out of 189, Indonesia, the Philippines and Vietnam are in the range of 62 to 75 and the worst performers are Cambodia, Laos and Myanmar with ranking above 100.

This correlation between the level of development and efficiency in administrative procedures implies that countries with low scores in HDI index have heavily regulated bureaucratic procedures and face organisational challenges in domestic reform. Both can be cause and effect of each other. While improved border procedures imply lower organisational impediments and better business prospects, leading to better quality human resources and income; low quality human resources imply lack of competent man-power to undertake domestic reforms, resulting in cumbersome border procedures. For ASEAN countries' initiative of NSW, the less developed members, in addition to lack of financial resources, face a serious challenge of quality of human resources in terms of technical know-how, altogether slowing the process of implementation.

Summarising the above, one can see that there is indeed the highest level of political commitment among ASEAN countries to adopt NSW in their domestic economies - AEC Blueprint (head of state), ASW/NSW Protocol (finance ministers) and NSW implementation (key are economic and trade ministers). However, much of the implementation outcome depends on how the organisational mechanism is developed and executed in the national economies. With regard to the NSW establishment in ASEAN countries, though proper institutional arrangement is necessary for cross-agency collaboration, it is not sufficient to drive the countries towards their goal. There exist challenges (such as lack of alignment of interest among politicians and various levels of bureaucrats, rigid bureaucratic culture of self-

interest and hierarchical structures and human resource capacity) that influences the organisational framework, thereby distorting the final outcome.

6. Conclusion

By examining the domestic implementation process and record of NSW, this chapter shows that the implementation structure of ASEAN countries in their national jurisdictions is one reason for the mismatch between the actual performance versus the countries' commitments made under the ASEAN economic integration. Although both the countries studied in the chapter have established a bridging mechanism to organise the task of implementation, they continue to face challenges as the task has crosscutting and multiagency dimensions. The challenge gets more pronounced as the new body/ mechanism is not a distinct government ministry; but is a part of an existing organisation. While initially competitive pressure and absence of cooperation among the bureaucracies of the government organisations is prevalent, with time the existing government agencies emerge to learn new functions and begin to adapt to new directives, structures and forms of cooperation. However, all this involves financial and human resources and time for long inter-agency negotiations.

A number of scholars studying ASEAN's approach to economic integration, notably Severino (2011: 33), have mentioned about AEC that 'the rationale for such integration is intellectually recognised. However, political obstacles in member states prevent many of the agreed measures from being effectively carried out.' This line of argument is similar to the one presented in this chapter in detail. Severino's view of ASEAN falling short of its commitments on economic cooperation due to 'obstacles', comes about from his description of economic cooperation measures and their underlying national-level impediments. However, there is no explicit explanation of 'many domestic political obstacles to integration

and cooperation’.¹⁴⁵ The notion of domestic organisational challenges in this chapter is to a large extent similar to the ‘domestic political obstacles’ argument, as it describes more specifically a key reason for implementation gap in ASEAN member countries’ commitments and performance. By presenting two country cases, the chapter also elaborates on why the scale of performance among the ASEAN members could be different from each other.

While, in 2003, the ASEAN governments decided to eliminate all tariffs on their international trade for six members by 2015 and for the other four by 2018, with few exceptions, they also knew that regional economic integration would require more than just the reduction or elimination of tariffs on trade. All of them advocated for trade facilitation measures that included customs modernisation and application of efficient border laws, rules and procedures. The National Single Window is one major initiative to meet the targets of trade facilitation measures. The key idea underneath is to introduce domestic reform in customs procedures so as to enable the member countries to meet global competition. However, the governments and the policy makers failed to anticipate the difficulties in implementing such new initiatives in the national economies. This chapter is not about whether the organisational mechanisms developed by the member economies are appropriate or not, but it clearly gives an account of the implementation gap among the ASEAN member states and reiterates the phrase that ASEAN economic initiative is a ‘work in progress’¹⁴⁶.

But what does the private sector want from the member governments in terms of regional integration? As they are a significant beneficiary from ASEAN’s economic cooperation, do they have a coherent voice to request the national governments to comply with regional AEC measures and deliver on deeper integration? The next chapter attempts to answer these

¹⁴⁵ Severino (2011: 38)

¹⁴⁶ Severino and Menon (2013: 13)

questions by analysing the behaviour and thinking of the private sector towards ASEAN economic integration.

Chapter 6

Lack of Adequate and Coherent Support of the Private Sector

1. Introduction

The mismatch between members' commitment to AEC measures and actual implementation has been a constant point of discussion during the last few years. In some instances, ASEAN countries falling short of its economic ambition of 'single market and production base', obscured the region's strategic imperatives to stay relevant in an increasing pace of globalisation. In such instances, it became important to examine the reasons why ASEAN's implementation is not only slow across initiatives but is also uneven across member states. The previous chapter showed how organisational mechanisms and public administration capacity in ASEAN domestic economies are important variables to slow down the implementation process. These include, among others, lack of horizontal coordination among national ministries, unwillingness to reconfigure government agencies, shortage of quality staff in terms of technical expertise and lack of infrastructure.

As discussed in chapter 2, Mazmanian and Sabatier (1989: 18-48) have emphasized the importance of the support of interest groups during policy implementation. They have mentioned that constant support (or not) of constituency groups is related to effective policy implementation. This chapter elaborates on this variable of implementation theme and looks at the ultimate beneficiaries (i.e. the business community) of the AEC measures. To what extent is the private sector in ASEAN countries aware of AEC measures? Do they request for timely implementation of AEC measures to the national governments? Is ASEAN's existing

mechanism for government-private sector consultation (i.e. ASEAN Business Advisory Council) useful for member countries to comply with AEC measures? To answer these questions, the chapter focuses on a key trade facilitation measure - harmonisation of standards, conformance procedures and mutual recognition arrangements (MRAs). This measure is currently targeted towards priority integration sectors in ASEAN, including automotive products and electrical and electronic products. To provide analytical rigour, this chapter mainly discusses the case of the automotive industry in two ASEAN countries, Indonesia and Thailand, though the case of electrical and electronic industry is discussed in a number of sections of the chapter.

The discussion in Section 2 brings out the need for standards and conformance (S&C) in regional economic cooperation and ASEAN's action plan and implementation progress under such initiative. The section shows the technical complexity of the matter that goes beyond tariff reduction, reflecting on government-business' nature of discussion on domestic regulatory issue rather than quantitative liberalisation. Section 3 presents the case study of automotive industry (with brief description of the electronic industry too as sub-sections) in Indonesia and Thailand and the countries' varied interest with respect to the sector that contributes to prolonged negotiation and also implementation. Connected to this, section 4, describes business interest group's desire (or not) to improve their competitive position in the integrated market by requesting for regional policy of S&C independently or collectively. Section 5 discusses the role of the ASEAN-Business Advisory Council (ABAC) as the business community's voice to regional policy makers. The last Section 6 concludes the chapter.

This chapter argues that while in theory business interest groups play an important role in implementation success or failure, in practice, much depends on the ASEAN country's priority regarding the sector, past culture of government-business interaction on policy decisions, awareness and understanding of AEC policies and also whether the private sector wants to demand for ASEAN policy implementation collectively or independently. Moreover, ASEAN business groups' role in policy determination and implementation is still evolving both at national and regional levels.

2. The Initiative of Standards and Conformance

2.1 The Existing Literature

As the traditional barriers to trade have been declining, other forms of trade barriers, namely the non-tariff barriers (NTBs)¹⁴⁷, have been proliferating globally. It is reported that NTBs have replaced tariffs as measures to influence trade or to protect domestic industries, as they are often used in products and industries where tariffs have been reduced (World Bank 2008:1; WTO 2012: 45). One such NTB is the Technical Barriers to Trade (TBT) that includes regulations, standards, testing and certification procedures and are generally said to be crafted in response to consumers' demand for safety, health protection and environment concerns. According to the WTO Annual Report, there is a clear upward trend in the number of TBT standards measures getting reported to the organisation (WTO 2015: 56-7). In 2014, 47 new trade concerns were raised to the TBT committee of WTO, up from 42 in 2013 and highest since 1995 (Figure 6-1). Matters related to human health and safety, such as

¹⁴⁷ Non-tariff measures (NTMs) are policy measures other than customs tariff that has the potential to change the conditions of international trade i.e. change in quantity, price or both. Not all NTMs are NTBs. NTBs are a subset of NTMs that are discriminatory in nature and are expected to protect domestic producers (UNCTAD 2013: 2).

nutritional labelling about food and drinks products, continue to be a dominant theme of concern.

Figure 6-1: New Trade Concerns on Technical Barriers to Trade

Source: WTO (2015:57)

Despite its prevalence, there is no distinct definition of product standards. Most often it is described in terms of a set of specifications – size, dimension, weight, design, functions, components and product attributes (Stephenson 1997: 6). A unique feature of standards is that the compliance is voluntary i.e. products that do not conform to a given standard can still be sold in a given market with no penalty¹⁴⁸. However, products complying with the standard are often allowed to use a hallmark that assures consumers of its quality. Although setting standards does not directly discriminate against foreign trade (as both domestic and foreign producer may decide to comply with the standard), they may be able to influence trade

¹⁴⁸ Standards are mandatory in nature when it is laid down by regulatory authorities and is applied in area of governments' assurance of public health and safety. Products cannot be sold without complying to such regulations. However, the boundary between voluntary and mandatory standards are often not very distinct (Stephenson 1997: 7).

indirectly as a domestic firm in an import-competing industry is more capable of complying with standards compared to a foreign one¹⁴⁹. That is why, it has been mentioned that increasing number of technical standards is problematic, especially when they are less transparent than tariff (WTO 2012: 37).

Related to product standards is the conformity assessment that refers to acceptance of standards and their use in a given market. It is a measure adopted by the entire ecosystem of producers and consumers so as to be assured that the product meets the requirement set out in a given standard or regulations. Conformity assessment has four dimensions: first is the declaration of conformity by the manufacturer based on his own testing and quality assurance mechanism, second is testing of products or parts done by an independent laboratory upon request of manufacturer, third is the certification process by an independent third party for product conformation with a given standard and the last area is quality system registration that engages unbiased auditors to approve of manufacturers quality system (Stephenson 1997: 8). Except for the first area, all are carried out by a third party and not necessarily by the government. Most of the time, especially in case of voluntary compliance, the government authorises a private independent laboratory to carry out product testing, certification and accreditation of laboratory competence.

All these entail cost and are an obstacle to international trade. Even if a manufacturer has the capability to produce a good in accordance to a product standard, it may not be accepted in the importing country. Exporters often have to test and get certification of their products in each of the countries they are exporting. The cost further escalates when conformity

¹⁴⁹ National Standards may also increase trade as consumers would be more assured of the quality of the product and that may generate more usage. Standards could also provide information beforehand about a country's taste and culture thereby helping foreign companies to produce goods according to the requirement in advance.

assessment requirements vary across countries and information is not transparent. Companies need to spend their own resources to obtain information and produce goods of different standards in accordance to the requirement of exporting countries.

The ill-effect of standards and conformance can be resolved by harmonisation or Mutual Recognition Arrangement (MRA) between two or more countries. While harmonisation of standards refer to common definition and understanding of policy measure and requirements, MRA implies reciprocal acceptance of measures and certificates among countries that have agreed to be party to the policy. With harmonisation or MRA in place, companies are able to sell one certified product in multiple member economies, thereby generating economies of scale and lowering cost.

General findings in the literature state that there is negative correlation between technical regulations, firms' propensity to export and their diversification of markets. One such study specifies that technical barriers to trade have a negative impact on firms' exports, especially if they are agricultural firms. The same study also estimates that standards and technical regulations adversely affect firms' decisions of number of export destinations, more particularly when firms depend on imported inputs for their final products (Wilson 2005: 88). This is where harmonisation or MRA helps. With regard to harmonisation, Moenius (2004: 25) stipulates that shared standards across countries have a positive impact on international trade. This is consistent with the argument that transaction cost goes up in case of incomplete information: while absence of standards leads to increase in cost in gathering information, explicit standards lower information cost and hence promotes trading with foreign partners. Another study by Clougherty and Grajek (2008: 629-30) finds that International Organisation

for Standardization (ISO) 9000 acceptance in developing nations helps to boost exports to developed countries, although the study could not confirm the effect the other way round.

International harmonising standards are also said to have an effect in terms of diversifying export markets. Looking at the case of textile, clothing and footwear exports, Shepherd (2007: 23) mentions that harmonisation of product standards translate into greater export variety, mainly for the low-income countries. In another study on MRA for testing procedures and harmonisation initiative, Baller (2007: 26-27) finds that MRAs have strong impact on greater number of firms' decision to export and countries' bilateral trade volumes. She further stipulates that for developing countries, MRA is more effective in terms of a policy instrument compared to harmonisation as MRA and its related procedures will be applicable to only export sector, the cost of enforcement will be lower compared to enforcement of harmonised standards in an entire sector.

These observations on standards, conformance procedure and MRAs illuminate that international trade policy not only includes reciprocal reduction of tariff barriers but also covers a gamut of NTB issues, thereby focusing more on domestic regulation that have an impact on trade. This is also changing government-business interaction from business lobbying for protection of home market or access to new market (Frieden and Martin 2003: 126) to a kind of working relationship where both parties interact for exchange of information and learning and in the process, businesses go for regulatory advocacy (Woll and Artigas 2007: 122-123).

2.2 ASEAN's Initiative of S&C and its Implementation Status (with special focus on automotive and electronic sectors)

For the ASEAN countries, as customs tariffs have been lowered or eliminated, standards, technical regulations and conformity assessment are put in place to ensure that public health and safety are not jeopardised. While some such standards and assessments are justifiable, others become technical barriers to trade (TBT), increasing production and transaction costs for manufacturers and traders (Pasadilla 2013: 21).

To develop the necessary standards and to minimise the adverse effects, ASEAN developed its Policy Guidelines on Standards and Conformance (S&C) that is expected to provide guidance to ASEAN bodies working on this area, and fast-tracking integration of priority sectors by 2010 (ASEAN Secretariat 2005: 1). These priority sectors, chosen based on their bearing on intra-ASEAN trade, are agro-based products, automotive products, building and construction material, cosmetics, electrical and electronic equipment (EEE), medical devices, pharmaceuticals, rubber-based products and traditional medicines and health supplements (TMHS). The aim of the guideline is ‘implementation of joint efforts of ASEAN member countries in the area of standards and conformance both in regulated and non-regulated sectors as one of the measures for accelerating economic integration towards the AEC’ (ASEAN Secretariat, 2005:1). The initiative of Standard and Conformance is also mentioned in AEC Blueprint (ASEAN Secretariat 2008a: 9-10) so as to promote ‘greater efficiency and enhance cost effectiveness of production of intra-regional imports/exports’. The key actions under ASEAN’s S&C initiative are –

- Harmonize standards, technical regulations and conformity procedures through their alignment with international practices, where applicable;
- Develop and implement sectoral mutual recognition arrangements (MRAs) on conformity assessment for (identified) specific sectors;

- Enhance technical infrastructure and competency in laboratory testing, calibration, inspection, certification, and accreditation based on regionally/internationally accepted procedures and guides;
- Promote transparency in the development and application of standards, technical regulations, and conformity assessment procedures in line with the requirements of the World Trade Organization (WTO) Agreement on Technical Barriers to Trade and the ASEAN Policy Guideline on Standards and Conformance;
- Strengthen post market surveillance systems to ensure the successful implementation of the harmonized technical regulations; and
- Develop capacity building programs to ensure smooth implementation of the work programme.

The ASEAN Consultative Committee for Standards and Quality (ACCSQ), established in 1992, has been entrusted to deliver on ASEAN's S&C initiative. The ACCSQ focuses on the mutual recognition of conformity assessment by listed testing laboratories and certification bodies. The ACCSQ works closely with the sectoral working groups that have private sector participation and three working groups on standards and MRAs, conformity assessment and legal matters.

This section of the chapter focuses on two priority sectors - the automotive sector and the electrical and the electronic equipment (EEE) - for further discussion on the S&C initiative. To start with, table 6-1 list down major undertakings for the automotive and the EEE sector integration under standards harmonisation, conformity assessment and technical regulations. It can be observed that the sectors do not include all elements of the initiative, reflecting importance and necessity of such elements for the sectors covered under the initiative.

Table 6-1: Standards and Conformity Initiative of Automotive and EEE Sectors

Sector	Standards Harmonisation	Conformity Assessment	Technical Regulations
Automotive	Harmonisation of national standards and technical requirements/ regulations with United nations Economic Commission for Europe (UNECE) regulations of the 1958 Agreement	Development of ASEAN MRA for Type Approval of Automotive Products for mutual acceptance and recognition of conformity assessment results issued by listed technical services.	--
Electrical and Electronic Equipment	Harmonisation of national standards with International Electrotechnical Commission (IEC) standards	ASEAN sectoral MRA for electrical and electronic equipment	ASEAN Harmonised Electrical and Electronic Equipment

Source: Prassetya and Intal (2015: 5)

In a region like ASEAN that has countries from different levels of economic development, applying S&C is not an easy task to achieve. On one hand the initiative implies harmonising the regional standards to international standards and safety regulations, with minimal flexibility to accommodate countries' culture (so as to ensure that it does not turn into a TBT), on other hand, the initiative need to balance the interest of the big and the small firms operating in the region. The conformity assessment also demands some stringent criteria for the Conformity Assessment Bodies (CAB)¹⁵⁰. These are necessary as there are different compliance mechanisms among ASEAN countries. But above all, implementation of S&C initiative in domestic economies requires political will at all levels of bureaucracies, financial resources and skilled human resources.

¹⁵⁰ such as a) accreditation by an internationally recognised body that is a signatory to a regional or international MRA, which is conducted in conformance with the relevant International Organisation of Standardisation (ISO) /International Electrotechnical Commission (IEC) Guides; b) participation in regional/international MRAs for testing and certification bodies, which are conducted in conformance with the relevant ISO/IEC Guides; c) regular peer evaluations which are conducted in conformance with the relevant ISO/IEC Guides (ASEAN Secretariat 1998).

The challenges in uniformly applying S&C across ASEAN countries can be observed in the varying pace of implementation among the countries. Discussions on the implementation performance are presented below for the two priority sectors.

The Automotive Sector

The key objectives of the ASEAN Automotive Product Working Group (APWG) are to meet objectives of trade facilitation and lower business costs by ensuring safety and quality of auto-products across the region, reduce TBTs in the sector, while simultaneously developing MRAs for recognition of conformity assessment results and strengthening the capability of testing facilities. Standards harmonisation in the automotive sector is carried out by aligning the national standards to the UNECE Regulations of the 1958 Agreements. In the first phase, ASEAN member countries have agreed to harmonize 19 national standards to UNECE regulations to facilitate the ASEAN MRA for Type Approval of Automotive Products (table 6-2). The ASEAN Economic Ministers' were said to sign the MRA before end-2015. The negotiations for the second phase, including 32 products, has also started. Once implemented, the MRA is expected to eliminate duplicative testing of auto-products in the region. It will also help member countries to develop their capacity in terms of their human resource and testing facilities.

Table 6-2: ASEAN Regionally Agreed International Standards for Automotive Products

Heavy vehicle braking	Noise emission (L category)
Braking of passenger cars	Safety glass
Safety-belt anchorages	Devices for indirect vision (rear view mirror)
Safety-belts	Diesel emission
Strength of seats, their anchorages, and head restraints	Noise emission of M and N categories of vehicle
Head restraints (headrests)	Tyres for commercial vehicles and their trailers
Driver Operated Controls	Tyres for motorcycles/mopeds
Tyres for passenger cars and their trailers	Steering equipment
Speedometer	Exhaust emission of M1 and N1 vehicle
Exhaust emission	

Source: EU-ASEAN Business Council (2014: 23)

According to a study by the Economic Research Institute for ASEAN and East Asia (ERIA), under standards harmonisation, Indonesia, Laos and Malaysia have fully complied with the regionally agreed 19 international standards. Singapore is the missing one as the city-state has an extra requirement for safety glass vis-à-vis UNECE standards. Thailand has adopted 15 standards while Vietnam has adopted 11 standards. While Cambodia has adopted more than 50 per cent of the given standards, Myanmar is facing a significant struggle due to lack of cooperation between the focal point, private sector and the stakeholders. For conformity assessment, the ASEAN MRA for Type Approval of Automotive Product is currently a work in progress, though most of the countries have agreed to adopt the description mentioned in the MRA and have also decided to recognise the test reports or certificates issued by the Listed Technical Service under the MRA (Prasetya and Intal 2015: 13-15).

The Electrical and Electronic Equipment (EEE) Sector

The EEE sector was the first one to start discussions on ASEAN's S&C initiative, much before the inception of AEC. The sector has 121 regionally agreed standards that are aligned with the IEC standards and mostly comprised equipments that can be connected to low-voltage power supply or can be battery-operated. The sector also had an early consensus on mutual recognition of conformity results (ASEAN EE MRA in 2002) and harmonized regulatory regime (ASEAN Harmonized Electrical and Electronic Equipment Regulatory Regime (AHEEERR) in 2005). Like the automotive sector, the idea is to have standards and technical regulations harmonized across the ten member countries, and the conformity assessment result issued by any one member state to be acceptable by the others. For this purpose, the testing laboratories and the certification bodies are to be identified and monitored by certain designating bodies and are to be accredited by an accreditation body. For example, in Singapore, while Spring Singapore is the designating body, Singapore

Accreditation Council is the accreditation body. All this together would help ‘...manufacturers and traders of EEE made in ASEAN...find it easier and less costly to export their EEE to ASEAN Member Countries....(and)... can plan their new product launches with greater certainty and shorter time-to-market ...(but also).. save on cost of testing and certification’ (ASEAN Secretariat 2006c: 1).

Regarding domestic implementation of the EEE sector’s S&C initiative, ASEAN has made notable progress, although there are some country-level differences (Table 6-3).

Table 6-3: Implementation stage of Standards Harmonisation

	Direct Use	Identical adoption	Use with Modification	Still being adopted/ adopted in the next batch
Brunei	14	74	--	33
Cambodia	72	49	--	--
Indonesia	--	101	1	19
Laos	--	78	--	43
Malaysia	24	84	5	7
Myanmar*	--	10	--	--
Philippines	22	84	11	6
Singapore	118	--	3	--
Thailand*	--	27	--	11
Vietnam	41	80	--	--

*Note: *In case of Thailand, 83 standards remain unaccounted for and in case of Myanmar, rest of the standards are under discussion.*

Source: adapted from (Prasetya and Intal 2015: 13-15)

On conformity assessment procedures, all ASEAN members have reported that the MRA has been ratified and six of them - Brunei, Indonesia, Myanmar, Singapore, Thailand, and Vietnam - have fully revised their national regulations. However, progress is much slower for harmonization of technical regulations. While Brunei, Cambodia, Malaysia, Myanmar, the Philippines, Singapore and Vietnam have fully transposed the AHEEERR into applicable national regulations, it remains a work in progress for Indonesia, Laos and Thailand.

In summary, though ASEAN has achieved much progress in tariff reduction, greater challenge remains in non-tariff barriers (NTBs). To address the issue of NTBs, among others, ASEAN has adopted harmonisation of member countries' standards to international ones and mutual recognition agreements to streamline conformity assessment procedures, thereby attempting to facilitate intra-regional trade flows. However, implementing the standards and conformance (S&C) initiative in ASEAN member countries is not an easy task. The focused discussions of automotive and EEE sectors showed that though ASEAN countries have made notable progress in translating the regional measures to domestic economies, the pace of progress is not uniform across countries, thereby falling short of targets at regional level. Often, reasons cited for such shortcomings are lack of transparency in separating NTBs from NTMs, misplaced priority of member countries to regional initiatives leading to financial constraints and absence of technical expertise to carry out testing, certifying and effectively participating in standards setting. These will be discussed in more detail in the next section, especially with regard to Indonesia's and Thailand's automotive industry. The electronic and electrical industry case will be briefly presented to enrich the discussion.

But how much are the business groups in ASEAN interested in these complex regulatory measures? It is difficult to gauge any direct benefit of these regulations for the private sector and this makes it problematic for the business community to strongly recommend for timely AEC policy implementation in national economies. Adding to this technical complexity and understanding is how much the private sector speaks in a unanimous voice. If the business community in ASEAN has different preferences and priorities, it gives little incentive to the government for effective implementation. These are discussed further in Section 4 and 5 of this chapter.

3. Automotive Industry and Standards and Conformance: Case of Indonesia and Thailand

This section brings out the similarities and differences of a particular industry in ASEAN that has a bearing on private sector interest in ASEAN's policy over sectoral S&C, thereby affecting the pace of implementation.

3.1 Basics about the Automotive Industry

The automotive industry is one of the priority industries in ASEAN that has been identified for fast-track integration. The industry is the 6th largest in the world and is estimated to rise to the 5th position by 2020 (table 6-4) (EU-ASEAN Business Council 2015a: 6).

Table 6-4: Top 10 Automotive Markets Globally

2014 Global Sales (actual)			2020 Global Sales (estimated)		
Rank	Country	Sales (million)	Rank	Country	Sales (million)
1	China	23.5	1	China	34.5
2	USA	16.8	2	USA	17.4
3	Japan	5.6	3	India	7.7
4	Brazil	3.5	4	Brazil	4.9
5	Germany	3.4	5	ASEAN	4.5
6	ASEAN	3.3	6	Japan	4.3
7	India	3.2	7	Russia	3.6
8	UK	2.8	8	Germany	3.4
9	Russia	2.6	9	UK	2.8
10	France	2.2	10	France	2.6

Source: EU-ASEAN Business Council (2015a: 6)

Indonesia and Thailand are the largest producers of motor vehicles in ASEAN. Thailand is the world's second largest pick-up truck market after the US. According to the ASEAN Automotive Federation (AAF), the two countries account for 80 per cent of the gross

production in the region (table 6-5). In the last two years, while production in Thailand stagnated or slowed down, it grew markedly in Indonesia.

Table 6-5: Total Vehicle Production in ASEAN-5 Countries

	2014 ('000)	2013 ('000)	2012 ('000)	Growth Rate (% (%, 2012-2013))	Growth Rate (% (%, 2013-2014))
Indonesia	1,298.5	1,208.2	1,065.5	13.4	7.5
Malaysia	596.4	601.4	569.6	5.6	-0.8
The Philippines	88.8	79.1	75.4	4.9	12.3
Thailand	1,880.0	2,457.0	2,453.7	0.1	-23.5
Vietnam	121.1	93.6	73.7	27.0	29.4
Total	3,984.9	4,439.5	4,237.9	4.8	-10.2

Source: ASEAN Automotive Federation Statistics, 2014, 2013

As for the sales, although Thailand has been the largest market till 2013, the share has been declining from 41 per cent in 2012 to 27.6 per cent in 2014. Indonesia raced to the top in 2014 with a market share of 37.8 per cent, reflecting its growing market potential. Both Indonesia and Thailand posted a negative growth trend recently, though the latter showed a steep decline (table 6-6).

Table 6-6: Total Vehicle Sales Volume in ASEAN Countries

	2014 ('000)	2013 ('000)	2012 ('000)	Growth Rate (% (%, 2012-2013))	Growth Rate (% (%, 2013-2014))
Brunei	18.1	18.6	18.6	0.0	-2.7
Indonesia	1,208.0	1,229.9	1,116.2	10.2	-1.8
Malaysia	666.4	655.8	627.7	4.5	1.6
The Philippines	234.7	181.7	156.6	16.0	29.2
Singapore	47.4	34.1	37.2	-8.3	39.0
Thailand	881.8	1,330.7	1,436.3	-7.4	-33.7
Vietnam	133.6	98.6	80.4	22.6	35.5
Total	3,190.2	3,549.5	3,473.3	2.2	-10.1

Source: ASEAN Automotive Federation Statistics, 2014, 2013

While both Indonesia and Thailand are significant markets for auto production and sales, their export patterns are different. Vehicle manufacturers in Indonesia are to feed the domestic demand. For Thailand, over half of the vehicles are exported. The top five destinations of Thai automotive exports account for more than 40 per cent of Thailand's total automotive exports globally. Australia, Indonesia and Malaysia are the major destinations of Thai-manufactured automotive products¹⁵¹.

There are two other notable features of the ASEAN automotive industry. First, the industry is led by the Japanese manufacturers. In Thailand, the biggest producer is Japan's Toyota, followed by Honda, Isuzu, Nissan and Mitsubishi. In recent years, European players like Daimler Chrysler, producing Mercedes-Benz and BMW, have also increased their investments. For Indonesia, the market is again dominated by Japanese giants like Toyota, Mitsubishi, Isuzu, Suzuki and Daihatsu, along with a home-grown company, called PT Astra International (Nag et.al. 2007: 24-27).

Second, for the success of the ASEAN automotive industry, the parts and components sector plays an important role. In Thailand, there are around 2,400 automotive suppliers, of which 709 are original equipment manufacturers (OEMs). Key manufacturers in this include Bosch, Denso, Continental, Magna International, Aisin Seiki, Johnson Controls and others. Local manufacturers supply around 85 per cent of the parts used in pick-up truck assembly¹⁵² and around 70 per cent of the parts used for passenger car assembly in Thailand¹⁵³. As against this, in Indonesia, there are only a third of Thailand's auto parts suppliers. The foreign parts

¹⁵¹ Thailand Board of Investment (BOI) (2015a)

¹⁵² Thailand is the world's second largest pick-up truck market after the US.

¹⁵³ Thailand Board of Investment (BOI) (2015a)

suppliers occupy most of the market, while the high-tech components are imported from Thailand (Kobayashi 2014: 11).

3.2 AEC Initiatives and Implication for the Automotive Industry

The AEC initiatives are going to have implications for the Indonesian and Thai automotive industry, though not in terms of production facilities re-location. The production networks, dominated by the Japanese manufacturers have already been built over the decades and the fixed cost investment is large to limit any form of reconfiguration. Hence, most of the implications will be for intra-industry trade in the region. In intra-regional trade too, as tariffs have been lowered or almost eliminated among the member countries, there will be marginal impact. It is the non-tariff barriers (NTBs) which will affect the regional trade of vehicles and parts and components. And most of the times, these NTBs facing the automotive sector are in the form of standards and technical regulations and the conformity assessment attached to them.

In order to look at the NTBs (mainly in terms of standards and conformance) faced by the automotive industry, it is important to note a distinction between OEM and the after sale market. The OEM both in Indonesia and Thailand supplies to national and foreign automobile manufacturers that are operating under the same parent company and hence standards are not much of an issue as they are determined by the parent company. However, it is the aftermarket replacement auto-parts which are problematic, as parts comply with different standards in different countries. Hence, under the AEC, as of end-2015, 19 international UNECE standards have been identified that the ASEAN countries must adopt in its national economies. However, as discussed in Section 2, the pace of adoption is slow and varies

considerably across the ten constituent markets. Attached to this is the conformity assessment that also is not completed in ASEAN yet.

There are three key reasons cited for the slow and non-uniform adoption of standards among ASEAN countries. These are varied interests of countries, domestic culture leading to different national standards and government policies and costs associated with implementation.

Varied Country Interest – Within ASEAN, development of automotive industry varies depending on its national policies. The industry is primarily concentrated in Thailand, and Indonesia is a close second and is fast rising since 2010. Both these countries have put the auto industry (both OEMs and parts maker) as central to their industrialisation policy and have given incentives to consumers to purchase cars, promoted export growth and have attracted investment from foreign automobile makers. Malaysia promotes its national brand, Proton and Perodua, and the industry has come under pressure since AFTA came into practice since the 1990s. The market is also not favourable for foreign investments as conditions remain on including national carmakers and bumiputra companies. In Philippines, though sales are high, production has been declining as companies moved out of the country and relocated in Thailand for lower production cost. Though Vietnam is showing potential for a viable automotive industry, it is currently awaiting for a concrete domestic policy (Kobayashi 2014: 9-15). Despite lack of an automobile industry, Singapore is a source of electronic automotive components, probably because of its earlier role in leading electronics manufacturing base in the region (USTIC 2010: 7-3). These varied national roles in the automotive and parts industry prolong negotiation and its subsequent implementation. For example, during negotiation of ASEAN Agreement on Automotive Standardisation and

Product Certification, there was a lot of debate on the clause of ‘manufactured and marketed’ among ASEAN countries and the industry¹⁵⁴. While the automotive industry producing complete vehicles was flexible on the clause, it was the parts and components industry that fought for the complete clause, as they were apprehensive about imports from non-ASEAN countries. Among the countries too, on one hand there was Thailand and Indonesia favouring the full clause of ‘manufactured and marketed’, and on the other hand, the Philippines, Malaysia and Singapore were negotiating for only ‘marketed’. The latter would have implied that any of the ASEAN countries can import from non-ASEAN members, say China or Japan, and the auto-parts could be sold in the entire region. This would have raised competition not only for the local manufacturers but also for Japanese manufacturers that are already producing auto-parts in the region¹⁵⁵.

There was also delay due to the approach followed for standardisation and harmonisation. There was some international discussion and pressure (especially from the United States) to adopt the 1998 UNECE agreement, instead of the 1958 standards. The former would have included the option of self-declaration (USTIC 2010: 7-9).

Domestic Culture, National Standards and Government Policies – Although ASEAN countries are in close geographical proximity, there are differences in social and cultural aspects. The state of the automotive industry varies depending on demand and consumer preference. For example, Indonesia has large family sizes and hence they prefer large family cars (8-10 seaters). This in turn influences the Indonesian government to promote Multi-Purpose Vehicle (MPV) production. Indonesia also enforces certain labelling requirements in its auto-parts industry. One is to satisfy the ‘Halal’ requirement in the domestic economy and

¹⁵⁴ Interview with the business community in Bangkok in March 2015

¹⁵⁵ Interview with a think tank researcher in Jakarta in May 2015

that can be obtained from the Ministry of Health under the monitoring of National Agency of Drug and Food Control and Ministry of Religious Affairs. The use of labels in Bahasa Indonesia is also mandatory in all goods types¹⁵⁶.

Thailand, by contrast, is popular for pick-up trucks so that people can use them to carry both passengers and utilities. Accordingly, the Thai government has provided incentives to develop the automotive industry. Standards are not a major issue in Thailand. The country is relatively more active in following UNECE standards and, being a key exporter, its interest lies in harmonising it across ASEAN¹⁵⁷.

With regard to government policy, it is a key driver of automotive industry growth among the ASEAN states. Individual governments, acknowledging the importance of the industry in an economy and in job creation, have tried to develop their own local automotive industry and hence enacted policies and measures accordingly. As a consequence, in the past, the industry was often protected in ASEAN countries¹⁵⁸.

Although many of these policies have been eliminated as AFTA came into practice and member countries committed to WTO, there remain certain measures that generate protectionist behaviour and limit the industry from becoming regional. For example, in 2013, the Indonesian government provided tax incentives to local auto manufacturers (such as exemption from luxury goods tax) in exchange for 85 per cent of local content, to develop

¹⁵⁶ Interview with a private sector representative in Jakarta in May 2015.

¹⁵⁷ Interview with a government official in Bangkok in March 2015 and discussion with a business representative in Jakarta in May 2015.

¹⁵⁸ Before 2005, there were a number protectionist policies for the automotive sector among ASEAN countries. During 1995-2003, the Philippines imposed local content requirements and foreign exchange balancing under the Car Development Programme and the Commercial Vehicle Development Program. Before 2000, Thailand used to have local content requirement policy in the automotive sector. Indonesia eliminated its significant tax incentive programmes for local content only in 1999 (USITC 2010: 7-10).

low-cost green cars (LCGC), thereby promoting fuel efficient but cheap cars for US\$8000¹⁵⁹. The policy was enacted not only to encourage local auto parts manufacturers but also to reduce the trade deficit in Indonesia's auto parts and component industry and to safeguard the interest of low income households. Thailand is often accused of using indirect methods (like excise tax differential) to generate demand for pick-up trucks, in which it is a leading producer in the region¹⁶⁰. More recently in 2007, the country's Eco Car policy, in terms of preferential excise tax rate, reduction in import duties for imported inputs and corporate tax holiday, has created a new segment for cars and seems to be shifting demand away from the pick-up trucks.

Hence, the difference in member countries' culture, leading to different standards and government policies, prolongs the negotiation and implementation of standards harmonization in ASEAN national economies.

Cost Associated with Implementation – While discussing with the line Ministry (or agency)¹⁶¹ responsible for implementing S&C in domestic economies, it became evident that inadequate funding and technical capability also leads to delays. In order to satisfy the conformity assessment, each ASEAN country has to identify designated and accreditation agencies. The test laboratories also have to be listed. However, not all ASEAN countries have listed their testing laboratories. For example, Indonesia suffers from inadequate capacity in the industries, especially the small firms in parts and components industry that support the value chain of the automobile industry. The firms complain about detailed standards and have

¹⁵⁹ Interview with a private sector representative in Jakarta in May 2015 and Indonesia-Investment Website (Automotive Manufacturing Industry Indonesia)

¹⁶⁰ The excise tax on pickup trucks is 3 – 20 per cent for engine below 2,500cc, whereas those for regular passenger cars with engines over 2,000 cc range from 35 to 50 per cent (http://www.boi.go.th/index.php?page=opp_automotive; accessed on 27 January 2016).

¹⁶¹ While in Indonesia BSN (National Standardization Agency of Indonesia) is responsible for Standard and Conformance implementation, in Thailand it is the Thailand Industrial Standards Institute.

requested for longer timelines for implementation. Government funding is also lacking in building technical capabilities in the industry segments as well as infrastructure of the testing facility and transport¹⁶².

In Thailand, the agency responsible for S&C, Thailand Industrial Standards Institute (TISI), takes a long time to implement the agreed standards as TISI has to translate most of the documents from English to Thai and in the process faces difficulties on appropriate words usage and their meaning. Translation also needs funding and most often it comes from the voluntary budget of the Thai Automotive Association. Moreover, adoption of each automotive standard and their test methods to Thai law takes time¹⁶³. Thailand also faces challenges due to old testing centres in the Thai Automotive Institute that lack new technology¹⁶⁴. The Thai government needs to have a separate budget for building new test centres and upgrading the old ones¹⁶⁵.

The issue of TBT and lack of common automotive standards in ASEAN are in line with observations made by academics or business groups. According to Austria (2013: 62), the incidence of non-tariff measures in the automotive sector is high in terms of additional taxes and charges, as well as technical regulations (Singapore), automatic import licensing (Brunei and Malaysia) and non-automatic import licensing (Indonesia and the Philippines). Almost the same things have been reiterated by the business groups (ASEAN-EU Business Council 2015a: 13): while tariff has been largely abolished, the NTBs pose a significant challenge for the industry. These include import quotas and anti-dumping actions as well as technical, administrative, health and safety regulations that could be protectionist in nature.

¹⁶² Interview with Indonesian government official in Jakarta in May .

¹⁶³ At the time of the interview, in March 2015, only 60 per cent of ASEAN Auto Standards has been announced under Thai Law.

¹⁶⁴ In Thailand, there are some private testing centres too, but they are not enough to serve.

¹⁶⁵ Interview in Bangkok with the automotive business association representatives in March 2015.

ASEAN countries exhibit non-harmonised technical standards of replacement auto parts and components, which have developed due to each country's own culture and national interests. This is even true for Indonesia and Thailand, the two leading manufacturing hub of auto products in ASEAN. As these countries are on their way to implement harmonised standards, as decided under the AEC process, they face challenges in terms of cost of implementation and other nuances in national jurisdiction. All these discussion on standards and conformance (S&C) in ASEAN are not only happening among the government officials but also involving the private sector as ASEAN has developed the ASEAN Consultative Committee for Standards and Quality (ACCSQ), that engages the private sector to deliver on S&C implementation. But does this government-private sector interaction help in timely implementation? This and more questions will be answered in the next two sections.

3.3 Similar Challenges Exist with the Electrical and Electronic Industry

Although Singapore took a lead in Electrical appliances and Electronics production in ASEAN, it was spread across to Malaysia, Thailand and the Philippines in the late 1980s with the advent of the production network (explained in Chapter 4). Vietnam and Indonesia emerged as late industrializers due to low their wage cost and for low-value activities (Chia and Basu Das 2015: 246). These countries not only produce consumer electronics and parts and components of television, radio, refrigerator, air-condition, computer and cellular phone but are also involved in the production of electronic applications for manufacturing activities and information processing. Even the automotive industry is a key source of demand of electronics products. The sector accounts for around 20 to 30 per cent of the total value of exports of most of the ASEAN countries.

More particularly for Thailand, it serves as one of the largest assembly bases among ASEAN countries with over 2,300 companies. It is a leading production hub of hard drives, integrated circuits and semiconductors and is a world leader in producing air-conditioning units and refrigerators¹⁶⁶. In 2014, Thailand had exported US\$55 billion of electrical and electronic products, accounting for 24 per cent of the country's annual export revenues. The US, ASEAN, Hong Kong, Japan and China are the top destinations of Thai electrical and electronic exports¹⁶⁷. Top manufacturers in the country include companies from Europe (Philips, Electrolux, Schneider), America (Western Digital, Seagate, Honeywell), Japan (Toshiba, Mitsubishi, Hitachi, Sharp, Sony), South Korea (LG and Samsung) and Taiwan (Acer).

As against this, Indonesia's electronics and component industry is relatively small with 250 producers. The high-end production process is dominated by international firms, who have a presence in the country through joint ventures with local firms. The electronics industry is spread across several products, such as television, air-conditioning, refrigerators and many home appliances, that are sold in domestic and overseas markets. Japanese and South Korean foreign firms, namely Toshiba, Sony, Panasonic, LG and Samsung, dominate the market. As the local manufacturers (e.g. Maspion Group, Polytron and Denpoo) face increasing competition from the foreign brands, they regularly raise their concerns to the government and request for protection¹⁶⁸.

Similar to the automotive industry, benefit from tariff elimination under the AEC is very marginal for the electronic industry. This is because, much of the electronics tariff has been

¹⁶⁶The ASEAN Secretariat (*not dated*), Invest in ASEAN website

¹⁶⁷ Thailand Board of Investment (BOI) (2015b)

¹⁶⁸ Global Business Guide Indonesia Website

eliminated under the WTO's plurilateral Information Technology Agreement (ITA) among its signatory members¹⁶⁹. In addition, most of the trade in electronics happens in the export processing zones of ASEAN countries, where duties are free for all inputs and products. Hence, the importance of AEC measures is derived from its facilitation initiatives like MRAs for electrical and electronic goods, which has promised to eliminate the need for testing products multiple times as the goods cross borders. Even facilitation measures such as efficient customs procedures, operation of single window system and enhanced physical and IT connectivity are supposed to help the electrical and electronic goods trade among ASEAN countries (Chia and Basu Das 2015: 248). According to a McKinsey report (2014: 1-3), electronics manufacturing is likely to benefit from economies of scale and inventory cost savings (derived from the trade facilitation measures) in the ASEAN region, with the total impact accounting for between 11 and 21 percent of the cost base.

Despite its benefits, implementation of EEE agreed standards in ASEAN countries is incomplete. The process of adoption in many member countries is long. For example, in Indonesia, adoption of a technical EEE standard involves formation of technical committees, review of compatibility of the standard, consultation with government agencies and industry associations (Damuri et. al. 2014). In Thailand, a key constraint is its requirement to translate all mandatory standards and test methods in Thai language and subsequently adopt it as the law. Budgetary resources and personnel with appropriate technical know-how are also significant issues in many ASEAN countries (Cambodia, Laos, the Philippines and Indonesia), slowing down the implementation process (Prasetya and Intal 2015:20).

¹⁶⁹ Six of ASEAN members are signatories of WTO-ITA– Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

For conformity assessment, while all ASEAN members have accepted the terms and conditions for a regional MRA, not all of them recognise the test reports and product certificates of fellow members even though they are issued by the authorised test laboratories and certification bodies. Many such cases are reported for Indonesia and an excuse given for such discrepancy is the difference in the version of the International Electro-technical Commission (IEC) standard used by member countries. There are also complaints for inadequate audit of testing laboratories and quality of electrical and mechanical engineering testing¹⁷⁰.

Summarising the above, it can be said that S&C initiative under AEC has significant business benefit not only to sell goods in ASEAN markets but also to promote exports globally. But there are several challenges that prolong negotiation and slow down implementation in the national economies. Some of the noteworthy challenges are - process of domestic consultation, financial resources, translation of standards and related provisions to local language and availability of appropriate human resources. As all these discussions and issues related to S&C are happening in the presence of business community representatives, do they advocate for fast domestic and region-wide implementation? Or do they talk to the rest of the members of their community to develop a collective voice with regard to the challenges faced during implementation? This will be discussed in the rest of the chapter.

4. Business Interest in AEC: Evidence from Automotive and Electronic Industry of Indonesia and Thailand?

The focus of this section is to determine whether or not the private sector is interested in ASEAN's economic integration process. And if they are, how much are their requests to the national governments effective for timely policy implementation? To this end, the section

¹⁷⁰ Interview in Bangkok in March 2015 with ASEAN experts from a national university.

looks at three aspects – an account over time of the private sector’s engagement in ASEAN economic integration, preference-based advocacy with evidence from the automotive industry and uneven support among the business groups. These three are explained using region-based evidence, as well as country-based and sector-based approaches.

4.1 An Account over time of the Private Sector’s Engagement of ASEAN Economic Cooperation

Much before the inception of AEC, ASEAN was instituted in 1967 among five members - Indonesia, Malaysia, the Philippines, Singapore and Thailand – to alleviate tensions and to promote peace and stability in newly independent states of Southeast Asia¹⁷¹. But the countries had different understanding of their goals: for them ASEAN was an organisation ‘to promote regional peace and stability’, largely through the means of socio-economic development (ASEAN Secretariat 1967). The member states, in reality, were more concerned about security coercions, though they were unable to form a security alliance in the absence of a common regional threat. Nevertheless, an external threat always remained a factor behind ASEAN’s development over the years (Narine 2008: 414).

Despite ASEAN’s inaugural document’s mention of economic well-being and growth, economic cooperation was first discussed only in 1976. The Leaders agreed to implement measures mentioned in the United Nations report on ASEAN economic cooperation, commissioned by the foreign ministers of ASEAN states in 1969. Thereafter, ASEAN adopted the Preferential Trade Arrangement (PTA) in 1977 and also fiddled with several industrial cooperation projects, namely the ASEAN Industrial Project in 1976, ASEAN

¹⁷¹ These tensions included Indonesia’s *Konfrontasi* against Malaysia, Singapore-Malaysia’s separation, the Philippines’ continued claim to the territory of North Borneo and Thailand, though not affected by all of these, felt vulnerable to threats arising from communist insurgency within Vietnam, Laos and Cambodia (Severino 2006: 2).

Industrial Complementarity in 1981 and ASEAN Industrial Joint Venture in 1983. But none of these initiatives made much headway. For the ASEAN PTA initiative, failure was attributed to low tariff cuts, limited coverage of goods compared to total number of goods traded intra-regionally and inclusion of irrelevant items like snowploughs and nuclear reactors that ASEAN countries do not manufacture or use (Tan 1992: 239). The industrial cooperation schemes did not advance much because of competition among the member states, excessive state bureaucracy, inadequate financial and technical support, and in the process there was a waning out of private sector interests (Ravenhill 1995: 851-2).

In the post-Cold War era, with reduction in security cooperation imperatives, ASEAN is at a crossroads again in search of its own purpose. It decided to pursue a free trade agreement (AFTA), both as a defensive mechanism and changing domestic circumstances. ASEAN members realised that the global economy was transforming. There was an increasing trend of regionalism with the formation of NAFTA and the EU that got ASEAN members worried over their exports to the North American and European markets. One study estimated that ASEAN is bound to lose 4 per cent and 8 per cent of its 1988 export value to North America and the European market due to trade diversion effect of NAFTA and the EU respectively (Kreinin and Plummer 1992: 1345). In addition, competition to attract FDI was intensifying with the emerging and strengthening economy of China (Elliott and Ikemoto 2004: 4). These factors suggested that ASEAN thought of AFTA as largely a defensive mechanism.

As against these, there were also changing domestic circumstances, especially in Indonesia, Thailand, Malaysia and the Philippines, that motivated ASEAN Leaders for AFTA. The domestic economic liberalisation in many of the ASEAN economies in the late 1980s and high economic growth around the same time boosted confidence among these economies to

handle competitive pressures arising out of a regional free trade agreement¹⁷². There were also growing differences between export-oriented industries and inward looking ones, with export-oriented ones having more political clout than the domestic-oriented one (Stubbs 2000: 301-03). Thus, in 1991, led by Thailand, ASEAN foreign ministers proposed the idea of AFTA to prepare their industry for global competition, attract investment and increase industrial exports (Severino 2006: 223).

With AFTA, the member economies decided to bring down the intra-regional tariff levels for a range of manufactured and processed agricultural goods to the 0-5 per cent band within 10 years from 1994. This signalled the countries' willingness to adopt a low tariff regime and hence trade liberalisation. But again, AFTA had several weaknesses. Although non-tariff barriers, in form of domestic standards requirement, local content and licensing requirements, had been mentioned to be eliminated, there were no explicit details on the process. The bureaucracies of the key economies, that continued with their nationalistic sentiments, delayed implementation of AFTA commitments at national levels (Akrasanee and Stifel 1992: 40). ASEAN also lacked institutional settings in the form of a strong dispute settlement body or a secretariat. The organisation preferred 'high degree of discreteness, informality, pragmatism, expediency, consensus-building, and non-confrontational bargaining styles' and this 'ASEAN-way' of decision-making process has provided justification for not transferring any authority to regional institutions (Acharya 1997: 329). The ASEAN Secretariat was instituted more to provide support to the national governments (Pelkmans 1992:102). All these together led one of the intellectual leaders of AFTA, Narongchai Akasane, to expand the AFTA acronym as 'agree first, talk after' (Baldwin 1997: 55).

¹⁷² Singapore has pursued export-oriented economic growth strategy since its separation from Malaysia in 1965. The economy of Brunei has always been dependent on petroleum exports.

Moving to the phase of AEC, it was again motivated by both economic and strategic rationale (Basu Das 2016: 12). While it re-affirmed ASEAN's commitment for trade liberalisation, it was built on a defensive mechanism after the 1997-98 crisis and rising competition for FDI with an economic giant like China. Although AEC marked a major milestone in transforming ASEAN from a loose organisation to a more rule-based one, details remained sketchy and little was mentioned about how the regional commitments would be implemented in domestic economies. Even the initial AEC scorecards and subsequent quantitative reporting of progress under AEC, developed by the ASEAN Secretariat, remained vague and opaque for the general people and business community (refer to Chapter 3 for details on AEC).

There are several implications that can be drawn from the above observations for the private sector interest in ASEAN economic cooperation. First, the economic agreements (first APTA and later AFTA and AEC) that rise from security-motivated arrangement are of little business interest. It is only when there are significant economic stakes that the private sector actors play a more active role. Second, when trade agreement decisions are taken involving broader national interests, it is mostly bound to be a top-down decision-making approach, where strategic imperatives would undermine the narrower economic objectives. This was observed in the early days of ASEAN economic cooperation in the 1970s and the 1980s and hence there was little incentive for the business community to be part of such initiatives. It is only when the strategic aspect of cooperation was watered down, that there could be some room for domestic negotiations between policy makers and business groups, some advocating for trade negotiation and others discouraging it.

Third, for the businesses, while the initiative of tariff reduction was commendable under AFTA, it was not enough to warrant resources to advocate for deeper integration. They were

increasingly aware of ASEAN's and AFTA's way of working that was based on personal contact network and social obligations, rather than on formal institutions or legally binding commitments. Businesses also found little incentive to show preference for AFTA, because, by then, unilateral liberalisation, ASEAN countries participation in multilateral agreements and the prevalence of export-processing zones had significantly liberalised the intra-regional trade for ASEAN members. The additional benefits of AFTA on non-tariff barriers remained sketchy, leading to an ambivalent attitude of the private sector for ASEAN economic integration. At this point, it should be noted that ASEAN intra-regional trade is a small share of around one-quarter of its total trade and there is no marked increase in the figure over the last two decades.

Fourth, in case of ASEAN, there has been patchy involvement of the private sector¹⁷³. Although the AIC plan of 1976 was advocated by the ASEAN Automotive Federation and the AIJV scheme by the ASEAN Chamber of Commerce and Industry in 1980, for both the cases, business interests faded due to disagreement and competitive attitude among member economies, resulting in delays in implementation. For AFTA, industry voice was pronounced when they were afraid of losing from increased competition¹⁷⁴. But around that time there was an increase in the pace of globalisation, leading to export-industries gaining more influence with the political leaders. This led many governments to introduce assistance packages to allay fear among the affected industries, while some also reinforced non-tariff barriers to protect the industries (Stubbs 2000: 307-10). However, the business uproar in case of AFTA was not before negotiation, but after. This was in line with ASEAN's top-down approach, where its low tariff regime was not created with substantial input from the private

¹⁷³ This will be discussed in more detail under the explanation of Preference-based advocacy.

¹⁷⁴ These included petrochemical, electronic, plastic product industries in Thailand, textile, apparel, footwear and iron and steel in the Philippines, automobile and petrochemical industries in Malaysia, who all demanded for special protection (Stubbs 2000: 308).

sector, apart from cases of excluded or sensitive goods and sectors (Ravenhill 1995: 864). This way one can say that there was a clear mismatch between ASEAN's economic cooperation policy supply and demand.

Finally, one should mark that the current form of ASEAN economic cooperation (i.e. the AFTA plus arrangement or the AEC) has moved beyond liberalisation measures and has incorporated actions of 'behind-the-border' measures that were earlier under the purview of national regulatory bodies: customs modernisation, national single window, foreign direct investment, movement of professionals, competition policy, and infrastructure, among others. Interestingly, even though academic discussion talks about substantial gain from the facilitation measures, there are uncertainties in domestic economies to carry on such regulatory reform and thereafter internationalise it. To negotiate, understand and implement such measures, it requires in-depth knowledge of the subject by the government officials. Moreover, often, change in regulation necessitates new legal directives, which requires a longer timeline to develop and is also highly dependent on technical expertise of the available human resources among the policy-makers. The private sector lacks patience for final delivery of such regulatory policy reform, especially when ASEAN documents and blueprints remain sketchy on implementation plans and there is lack of transparent monitoring and evaluation mechanisms at regional level. Unless and until the ASEAN governments include the private sector from the beginning in 'behind-the-border' initiatives, the latter will remain ambivalent to ASEAN's economic cooperation initiative.

4.2 Preference-Based Advocacy

Following the discussion from above, it can be said that while ASEAN's move to regional integration has been slow and incomplete, domestic interest groups, mainly the private sector,

were also not motivated enough to demand regional arrangements. The section of the private sector that are interested are mainly the foreign corporations. This is because ASEAN integration has long been driven by market-forces of trade and FDI, where the latter is primarily led by the US, the EU and Japan (Ravenhill 2008:482, Chia 2013:7, Kawai and Wignaraja 2007: 4).

In addition, among the foreign multinationals, it was observed that their interest lies in regional integration, provided their industry follows the cross-border pattern of production network in the region, such as the electronics and automotive industries. For example, the Japanese car assemblers, Mitsubishi Motors Corporation, Toyota Motors, and Nissan Motors, lobbied for ASEAN's Brand-to-Brand Complementation (BBC) program in 1988 between Malaysia, Thailand, the Philippines (Indonesia joined the pack in 1991). The idea is for automobile manufacturers to produce parts of a certain brand of car and get import duty privileges on such parts (Kitagawa 2008: 371). Subsequently, the programme was subsumed under the ASEAN Industrial Cooperation (AICO) Scheme introduced in 1996¹⁷⁵. Hence, one can say that the demand for ASEAN regional integration is limited to a handful of industries in the region. This nature of preference is observed in the AEC blueprint as well, as it lists down automotive products, ICT equipment (under e-ASEAN), electronics goods, textile and clothing, wood-based products and few others as strategic industries for fast-track integration.

Moreover, this advocacy for intra-ASEAN integration is different in nature as it is simultaneously outward looking. This is because, many of the foreign parent companies depend on imported parts and components from their home country or on their own

¹⁷⁵ The AICO project lowered tariff rates on joint ventures in ASEAN to between 0 and 5 per cent. It also had some additional features, like guaranteed rapid turnaround on applications, references to dispute settlement and benefits in terms of more liberal equity restrictions for foreign investors. AICO was later subsumed under the ASEAN Investment Area (AIA) in 1998.

subsidiaries located in ASEAN countries. Hence, many times resources are spent requesting for trade agreements with their home country or other relevant countries that are the part of the supply chain process (Ravenhill 2008: 483). The presence of foreign subsidiaries of MNCs in export-oriented industries raises domestic political economy issues in ASEAN countries¹⁷⁶. While often the subsidiaries might find it difficult to get access to the national governments, their dominance in national economies leads to concerns that foreign corporations are primary beneficiaries of economic integration. Hence, in one of the studies by the Institute of Southeast Asian Studies, it had mentioned that there is a need to explain to the private sector that ASEAN economic integration not only benefits the MNCs, but also the ASEAN companies (ISEAS 2004: 14).

4.3 Uneven Advocacy among the Business Interest Groups

The discussion above provided the argument that while there is little reason for businesses to take interest in a security-motivated trade agreement, there are also some selected cases that talk to the government for intra-ASEAN liberalisation. The businesses take interest if they see economic gains from the initiative. But how likely is it that businesses' views are reflected in AEC policy implementation, in this case the initiative of standard and conformance in the automotive and electronics sectors in Indonesia and Thailand? The effectiveness of business support (or not) depends on three factors: their awareness of the issue, technical expertise to understand issues and ability to mediate the preferences.

This section uses the business surveys of ASEAN Business Councils, namely the US, the EU, Japan and ASEAN's own, as proxies to examine the business interests in AEC policy implementation.

¹⁷⁶ For example, in Singapore and Malaysia, the foreign subsidiaries are estimated to account for more than 80 percent of manufactured exports.

The US Multinationals

The ASEAN Business Outlook survey is a collaborative effort between the American Chamber of Commerce in Singapore (AmCham Singapore) and the US Chamber of Commerce annually that serves as a barometer of US business sentiment in Southeast Asia. The survey brings out the opportunities and challenges in doing business in the region. The survey devotes a significant section to ASEAN and other economic integration processes in the region.

The 2016 survey includes the opinion of around 500 US businesses. Following are the key observations from the survey: first, over 51 per cent of survey respondents indicate that they have an ASEAN-wide strategy based on the promises made under the AEC blueprint. For companies' investment plans in ASEAN, the largest percentage of respondents considers the Framework Agreement on Services to be important (70 per cent), while 66 per cent consider the Trade Facilitation Work Program and Strategic Plan of Customs Development to be important. Second, for the priority areas of work for an integrated ASEAN region, around 66 per cent of the total respondents feel that non-tariff barriers is a top issue that ASEAN governments should work earnestly to deliver. This is followed by transparency (65 per cent) and good governance (56 per cent). Third, the issue of S&C comes at 6th position in the order of hierarchy, reflecting low business interest on the issue. The issue of S&C again figures in a question on what are the factors in AEC that may affect a company's regional operations. Although movement of professionals across the region is the top factor (with 55 per cent of respondents), reduction in transaction cost occupies the third position (46 per cent) and standardization of product lines occupies sixth (19 per cent) (AmCham and US Chamber of Commerce 2016: 15-18).

European Multinationals

For the European multinationals, the EU-ASEAN Business Council (EU-ABC) catches the general thoughts and attitudes of doing business in the ASEAN region through 'Business Survey Sentiments'. In addition, the EU-ABC develops regular papers in consultation with leading MNCs and representatives from the European Chamber of Commerce. The papers address both individual commercial sectors (for example, automotive, financial services) and cross-industry issues (for example, human resource, intellectual property rights).

For the 2015 Business Survey Sentiments (EU-ASEAN Business Council 2015b), 71 per cent of the 151 respondents feel that ASEAN has become an important region in the last two years and this positive sentiment over ASEAN will continue in the next five years. Although around 60 per cent of the respondents indicate that AEC is important for their commercial activities in the region, there is also a significant proportion that mentions that they are not sure of AEC benefits for their businesses. Within the AEC, almost two-third of the respondents consider ATIGA to be the important for their business. With regard to an ASEAN business strategy, 17 per cent of the respondents indicate that they have one, whereas 51 per cent of them denied any such strategy. Among the 51 per cent, the most come from Myanmar (83 per cent), followed by Indonesia (67 per cent) and Singapore (59 per cent). The extent of government consultation has been included as a separate question in the survey. While, according to the respondents, Malaysia, Singapore and Thailand have relatively high levels of government-business consultation, Laos, Cambodia and Indonesia continue to struggle with this process.

EU-ABC is also active in developing position papers in consultation with its industry groups from the region. One such paper on AEC recommends that EU businesses would like to see ratification and transposition of key AEC trade facilitation agreements into national laws, including automation of customs procedure by 2017. The business council has also recommended ASEAN to quickly formalise the involvement of business councils in ASEAN Working Groups as full consultation partner (EU-ASEAN Business Council 2016: 5-6). EU-ABC position paper on ASEAN automotive industry in 2015, distinctly recommends adoption of internationally recognised technical standards and harmonisation of approval processes of standards. The position paper states that ‘the different regulatory and technical standards regimes that exist across the region add unnecessary bureaucracy and costs on the industry and therefore inhibit increased integration within ASEAN. The harmonisation of automotive product standards is an essential basis for a single manufacturing base as envisioned under the AEC’ (EU-ASEAN Business Council 2015a: 23).

Japanese Corporations

This survey is conducted every year by Japan External Trade Organisation (Jetro) in order to understand the business activities of Japanese-affiliated companies operating in Asia and Oceania. While for most of the previous years, the survey was conducted for sales forecast, future business plans, issues with doing business and utilisation of FTAs in the entire region, ASEAN economic integration has been given due importance as a separate section from 2014. Other integration initiatives, like RCEP and TPP, have also been added in the recent survey questionnaire to gauge Japanese businesses expectation from these processes.

The key observations on Japanese business preference with regard to ASEAN integration can be summarised in three points. First, of 4,767 Japanese firms (involving both manufacturing

and non-manufacturing sectors) that took part in the survey, simplification of ASEAN customs clearance procedure is a top priority (i.e. 64 per cent) for most of them. This is followed by avoidance of double taxation (32 per cent) and mutual duty exemption among CLMV countries (30 per cent). Second, simplified customs clearance covers two parameters - unified customs declaration and introduction of a single window system for import and export – and is a priority among the manufacturing sector (71 per cent) vis-à-vis the non-manufacturing ones (54 per cent). Moreover, this ASEAN issue is of importance for 74 per cent of the Japanese firms in Indonesia, followed by Laos (73 per cent) and Vietnam (70 per cent). Third, in the list of expectations from AEC, reduction of non-tariff barriers (i.e. license requirement and mandatory standards) and region-wide introduction of Standardisation and Conformance initiative is placed at number 6 and number 7 respectively. While Indonesia features in top three for both the issues, the Japanese businessmen do not have the same expectation from Thailand. In case of Thailand, the issues of NTB and S&C do not feature in the top five list of delivery under ASEAN economic integration (Jetro 2014: 61-63).

ASEAN Businesses

The idea and responses of ASEAN businesses are collated in the ASEAN-Business Advisory Council (ABAC) Survey on ASEAN Competitiveness done over 2011, 2012 and 2013¹⁷⁷. The survey tracked the business sentiments towards attractiveness of ASEAN to trade and investments over a three-year period and their perception of AEC efforts. Three key points that can be distilled from the survey are: first, half of the 502 respondents perceive the current efforts of AEC to raise trade and FDI flows as average, while 29 per cent perceive the same as low or very low. Of these, manufacturing entities value the efforts more than the companies in the services sector, reflecting manufacturing firms' linkages across ASEAN

¹⁷⁷ The survey was stopped after that because of lack of funding.

nations due to the regional production network. Second, ASEAN businesses are most satisfied with national governments' efforts to remove tariff, followed by protection of investments and promotion of joint investment that lead to regional clusters and development of production network. The respondents are most dissatisfied with dissemination of information and consultation with businesses on AEC matters. Third, 60 per cent of the survey respondents mentioned that they have general knowledge about AEC initiatives and lack specific information. While 21 per cent of the business respondents (mostly from manufacturing sector) have mentioned using AEC (or AFTA) privileges, the rest have complained about lack of information, administrative costs, non-tariff barriers in partner countries as key constraints for doing business overseas. More than 70 per cent of the respondents indicated that the AEC policy implementation is important for their firms' decision to expand exports and investments to other ASEAN countries (ASEAN-BAC 2013:15-22).

From the above, several observations can be made on businesses interest towards AEC that has direct implication for domestic implementation. First, surveys are not similar and give an indication of which business groups have better understanding of AEC and hence about their interaction with the government. The EU-ASEAN Business Council is the most organised business interest group on AEC, preparing reports from broad surveys to focused position papers on the industries and issues of their interest. This not only helps the ASEAN policy makers to develop clear understanding of what is happening on the ground but also helps the EU businesses to be more aware of AEC matters. As compared to EU-ASEAN business group, the survey for ASEAN businesses, though presenting a broad barometer, do not serve the purpose of directing the governments on what is working and what are the remaining challenges in ASEAN integration. Surveys of Japanese companies and the US multinationals

come in the middle of these extremes. Second, NTBs, in general, are a common issue for all business groups. But almost all fail to specify what are these NTBs. The definition of NTBs followed by each could be different from each other and hence may not lead to a unanimous voice for the policy-makers.

Third, as ASEAN is a market of ten Southeast Asian economies, the private sector needs to specify the challenges pertaining to individual economies. While EU-ASEAN Business Council and Jetro (for Japanese firms) provide some country-wise information and policy-wise challenges, the survey of American and ASEAN firms lacks such national-level information. This defies the survey's usefulness as responsibility of AEC implementation resides with national governments. Fourth, AEC policy priority also varies depending on the business groups. While for the US multinationals, removal of NTBs, transparency and good governance comes as top priorities, AEC initiative of Standards and Conformance takes a lower priority. Similarly, for the Japanese firms, customs clearance procedures and avoidance of double taxation are top priorities, while harmonising standards and conformance procedure comes in seventh position. ASEAN business survey hardly provides any discussion on S&C. Following these business groups' interests and varied ranking of issues, it is difficult for the national governments to prioritise their policy implementation process with regard to AEC initiatives. As S&C is not a priority for the US, Japanese or ASEAN businesses, it gives little incentive for ASEAN governments to implement the measure timely. Moreover, it should also be noted that automotive and electronics may not be a strategic industry for all ASEAN countries. It may be of importance to Thailand, Indonesia or Malaysia, and, hence, it is these governments who have more incentive to implement S&C measures compared to the other ASEAN members.

Lastly, one common factor across all the business groups' survey is low awareness about AEC initiatives and lack of government consultation. The EU-ABC survey mentions, 'the survey revealed that the majority of respondents were not fully informed about the various trade agreements that are currently in place or which are being negotiated, perhaps showing a lack of communication from governments on the benefits of these agreements for business' (EU-ABC 2016: 23). The American business survey in 2016 mentions, '43 per cent of respondents say that the government in their response location rarely or never seeks and consider inputs from the private sector when developing new laws and regulations that impact the business environment' (AmCham and US Chamber 2016: 13). While Singapore reports a reasonable level of consultation, Brunei, Indonesia and Laos have very low or almost no consultation. ASEAN business' key complaint is lack of specific AEC information and this is also one of the reasons for low utilisation of AEC privileges.

Hence, from the above, can one say that there is business group interest in the initiative of standard and conformance of the automotive and electronics sectors in Indonesia and Thailand, thereby pushing the member countries for timely implementation? Three key factors that can result in effective business advocacy, i.e. transform the business groups' interests to real action, are: their awareness of the issue, technical expertise to understand issues and ability to mediate the preferences. Taking the business surveys as proxy for ASEAN and foreign businesses' way to advocate with the governments, one can deduce that these businesses do not have complete awareness of the AEC issues (except for the EU-ABC that has both survey and distinct position papers). Moreover, their current priority is not about standards and conformance, but customs modernisation and NTBs. Standards and conformance is a technical issue and has to be referred to the government industry-wise and

country-wise. Although the foreign MNCs have some form of information on S&C, the ASEAN businesses lack that evidence.

Finally, the ability to mediate the preference varies across business groups. All business groups talk separately to the government, mostly to the Minister of Trade or Industry. Many times advocacy happens at the country headquarter or it is government-to-government. For example, for the US firms, Washington may talk to ASEAN ambassador. For the Japanese, their advocacy may not only use the channel of AEC, but also Japan's bilateral FTAs with individual ASEAN countries or ASEAN+Japan FTA¹⁷⁸. For ASEAN companies, most of the time, it is the big businesses that talk to the top leader or politician of their constituency. They do not go to the business associations on fear of rising competition¹⁷⁹. This complicates the process as there is no single advocacy channel from the business community. Moreover, many times the business requests are different. While for some instances, such as customs modernisation or general request for removal of NTBs, business requests are same across Japanese, European or American firms, there are cases where there are differences too. The difference in advocacy is observed in case of Standards as Japan and the EU follow different standards in their automotive industry¹⁸⁰. As it is difficult for the ASEAN governments to discriminate across business groups, concrete action gets delayed till the industry resolves the issue¹⁸¹.

National Business Associations

In addition to the ASEAN business councils, there are national business associations in Indonesia and Thailand. There are all-industry encompassing umbrella associations, such as

¹⁷⁸ Interview in Singapore and Bangkok in March 2015.

¹⁷⁹ Interview with academics and government officials in Singapore, Bangkok and Jakarta in March and May 2015.

¹⁸⁰ Interview with business representatives in Singapore in February, March 2015.

¹⁸¹ Interview with academics in Singapore in March 2015

Kadin (the Indonesian Chamber of Commerce and Industry) or Federation of Thai Industries (FTI), and there are also narrow producer associations, like the GAIKINDO (The Association of Indonesia Automotive Industry) and the GIAMM (Automotive Parts and Components Manufacturers Association) in Indonesia and the Thai Automotive Industry Association and the Thai Autoparts Manufacturers Association in Thailand.

‘Ability to influence’ these business associations depends on their technical understanding of the AEC matters and by their regular role in state-driven trade negotiations. This is because economic cooperation in ASEAN is no longer restricted to tariff liberalisation but has gone to non-tariff barriers that includes domestic issues and has an impact on trade. For the case of Standard and Conformance in the automotive industry, it is highly technical and includes provisions related to formation or harmonization of several economy-wide or industry-specific regulatory regimes. This requires policy-makers both during negotiation and implementation to have appropriate technical expertise, which they try to receive from the national business associations.

However, for both the Indonesian and Thai apex business associations (KADIN and FTI), it is often difficult to evaluate benefits of regulatory reform to their member firms and hence advocacy with the government becomes difficult and rare. The AEC measures, other than tariffs, are still evolving and any discussion on regulatory change that entails cost meets with a negative connotation. For Indonesia, which is a closed economy compared to Thailand, any form of internationalisation that departs from the tradition and new regulatory issues demands huge learning for the economic actors. It is in this regard that the sectoral business associations play a more useful role. In case of the AEC issue of Standards and Conformance, a more focused role is played by the Thai Autoparts Manufacturers Association. They are

involved in the ASEAN Working Group meetings and, Thailand being a major player in the parts and components of the automotive business, contributes significantly in negotiation of S&C. This is the group of businesses that work with Thailand Industrial Standards Institute (TISI) on adopting the agreed standards to national economies¹⁸². Similarly, for Indonesia, it is the GAIKINDO or GIAMM who are more involved during the negotiation and implementation stages of harmonising standards in the auto sector. This understanding of the technical matters and accordingly their demand from the government officials places the producers association in a more influential position than the apex bodies of the ASEAN member countries.

This form of government-business relationship that has evolved more recently, at least over certain issues, has turned out to be relatively more stable and regular. It is a win-win situation for both parties. While the member governments get access to technical information for ASEAN economic integration, the private sector gets access to the policy-making process. Moreover, participation in the policy-circle is highly valued by the private sector in ASEAN as they believe that sometime in the future their participation and regular interaction with the government will pay off. However, this kind of government-business relation is not feasible for all ASEAN member countries or for all the while. Many times, the cost of government consultation with the private sector may outweigh the benefits as the country may lack sufficient institutional settings or may have a weak entrepreneurial class that does not have complete information on the technical matters¹⁸³. Hence, for several countries, the private sector is consulted by the national governments on need basis, and the private sector develops its own network to obtain information, if it seems to benefit from the regional initiative.

¹⁸² Interview in Bangkok in March 2015 with business representatives

¹⁸³ For example, section 3 discussed how the automotive sector is developed differently across ASEAN countries.

Summing up the section, one can say that in the past, there is general lack of business support for ASEAN economic cooperation as explained by the propensity of this arrangement to be seized by the security agenda and hence low motivation to advocate for an arrangement that promises limited economic gains. It is specific industries that develop interest for regional economic integration in ASEAN: one that is part of the regional production network and economic cooperation promises to save cost and generate corporate profitability. More recently, as there is increasing awareness of AEC, the understanding and interest of specific measures of AEC varies across groups of industry. This results in lack of coordination of preferences across foreign and local firms and hence may not be communicated effectively to policy makers for timely implementation of AEC initiatives. Moreover, the emerging government- sectoral association relation in national economies due to new regulatory issues on trade is still in an uncertain phase. While the government solicits technical advice from the sectoral actors, this may not be sustainable for many less developed ASEAN countries.

5. ASEAN Business Advisory Council (ABAC) – Evolving Role and Challenges

In order to bring the private sector into the mainstream of ASEAN economic cooperation, what has been instituted in the last ten years? How far is the entity useful as an interface between the businesses and the policy-makers, especially in terms of specific AEC policy implementation?

During the 7th ASEAN Summit in 2001, the idea of the ASEAN Business Advisory Council (ABAC) was endorsed to channel the private sector feedback to the ASEAN governments, prioritise AEC measures for implementation and, in turn, strengthen economic integration¹⁸⁴.

¹⁸⁴ ASEAN Secretariat (2001c)

Thereafter, ABAC was established in 2003 in the premises of the ASEAN Secretariat in Jakarta. ABAC has two key functions: a) review and identify issues of importance to ASEAN integration and accordingly submit annual report for consideration to the ASEAN Leaders and Economic Ministers; b) raise awareness of AEC to both ASEAN and foreign private sector. To serve its functions, ABAC has been organising an annual business and investment summit (ASEAN-BIS) to coincide with the ASEAN Summit and has been undertaking a private sector survey in collaboration with an educational institute¹⁸⁵ to highlight the concerns, perceptions and expectations of businesses from ASEAN integration initiative. Members of ABAC, appointed by the Ministers-in-charge, comprise of CEOs of companies from each of the ten member countries. There are three CEOs from each country, with one representing the interest of small and medium sized enterprises (SMEs)¹⁸⁶. The Chair of ABAC changes annually as it comes from the economy that is hosting ASEAN meetings for that year.

ABAC is self-funded¹⁸⁷ and there are no distinct instructions on how often the members should meet among themselves and with the policy-makers. While in its initial days ABAC members used to meet three times with the policy-makers - Senior Economic Officials' Meeting in July, ASEAN Economic Ministers in August and ASEAN Summit in October/November – in 2015, they had interface only twice with the political Leaders, namely during the Summits in April and November. The ABAC members are expected to meet at least five times in a year, but this may not be always possible, given the members' busy schedule and lack of funding, especially for the SME members.

¹⁸⁵ ABAC has been collaborating with the Lee Kuan Yew School of Public Policy in Singapore for its annual survey.

¹⁸⁶ ASEAN Business Advisory Council Website

¹⁸⁷ The ABAC Secretariat in Jakarta is funded out of the profits of two ABAC events – ASEAN Business and Investment Summit and ASEAN Business Award.

Since 2013, ABAC members were advised to coordinate with the foreign business councils that are termed as Joint Business Council (JBC). The request for such meetings came from the ASEAN Economic Ministers as each business council representative used to send separate meeting requests to the Ministers. The JBC is further divided into two – lead and associate. While there are around ten lead JBCs, comprising business councils from all of ASEAN's Dialogue Partners and a broad one of East Asia Business Council, there are six associate JBCs, such as the ASEAN Business Club, the Asia House and others¹⁸⁸.

Despite ASEAN's effort to institutionalise private sector representation in ASEAN through the ABAC, the initiative is still evolving and is not yet able to perform its role as an effective interlocutor between the government and the private sector¹⁸⁹. There are several reasons for such limited impact, as mentioned below.

No definite criterion for choosing ABAC members and coordination is personality-driven: ABAC members are appointed by their respective country leaders (or Ministry of Commerce), but the criteria of the appointment are not transparent, except for the fact that one has to represent the SMEs. There is a possibility that these members are not completely independent from the countries' political establishment and, hence, there are times when they have to align their views to their country's Leaders¹⁹⁰. As the members of ABAC are self-funded, they have little incentive to learn on their own about AEC measures or to organise meetings with other business groups to develop a unanimous voice on matters of AEC's

¹⁸⁸ Interview in Jakarta in May 2015 with business community representative and ASEAN Secretariat Official.

¹⁸⁹ This is a view expressed by many during the interviews in Jakarta and Singapore, both government officials and researchers who closely worked with the ASEAN Secretariat in the past.

¹⁹⁰ Interviews in Singapore in February 2015 and in Jakarta in May 2015 with researcher and Secretariat official. This is a case more for the CLMV countries and especially for Cambodia and Laos.

concerns. Members agree to be part of ABAC as they feel it's a matter of prestige given to them by their country's leadership¹⁹¹. Effectiveness of ABAC depends much on the ABAC Chair and his/ her willingness to understand AEC issues, coordinate meetings among business groups, generate funding for such meetings and his/ her personal influence with the regional policy-makers. For 2015, the ABAC Chair from Malaysia was applauded for his active interest in AEC matters and his decision to set up exclusive meetings with the JBCs few times during the year¹⁹².

Lack of systematic interaction between the businesses and the governments in the national economies: In any ASEAN economy, as ABAC members are from certain industries, they are more familiar with their own industry issues, thereby narrowing the focus of the feedback system from the private sector to the government. There is no formal system in the ASEAN national economies where the three ABAC members talk to the foreign and local businesses to incorporate their views on AEC measures and transfer their priorities and concerns to the ASEAN Leaders. The meetings of ABAC members with the economic ministers in national economies are also not formalised¹⁹³. For example, in Thailand ABAC talks to Ministry of Commerce only when they are invited, especially during the preparatory meetings before the ASEAN Economic Ministers' (AEM) Meeting or Senior Economic Officials Meeting (SEOM)¹⁹⁴. For Indonesia too, the interaction between ABAC and national government is on a need basis¹⁹⁵. While the ASEAN-BAC seems to have developed keeping in mind the APEC-BAC, that was institutionalised in 1995 and has significant contribution to APEC business facilitation initiatives, it should be noted that the culture in the APEC system is

¹⁹¹ Interview in Jakarta in May 2015 with business representative

¹⁹² Interviews in Jakarta in May 2015 and in Singapore in February 2015 with business representative and an ASEAN Secretariat official.

¹⁹³ Interviews in Bangkok in March 2015 with private sector representative and in Jakarta in May 2015 with an academic

¹⁹⁴ Interview in Bangkok in March 2015 with government official.

¹⁹⁵ Interview in Jakarta in May 2015 with government official.

mainly driven by the US and Australia, which have distinct lobbying system in their home country¹⁹⁶. The ASEAN countries do not have formal lobbying system and are often driven by personal contacts and strength of the business in terms of attracting FDI¹⁹⁷.

Limited knowledge about AEC Measures and lack of position papers and subsequent follow-ups: ABAC's feedback to regional leaders are mostly about non-tariff measures (NTMs) of non-automatic licencing, labelling requirement, illegal payment etc¹⁹⁸. While they are not aware of ASEAN measures like Dispute Settlement Mechanism, they do not see benefits from National Single Window yet as they have to follow both electronic and paper-application systems¹⁹⁹. ABAC members do submit position papers to the ASEAN Leaders on AEC initiatives, reflecting their concerns and requests. But the papers are not developed by the members themselves but by research organisations like CIMB ASEAN Research Institute (CARI), Economic Research Institute for ASEAN and East Asia (ERIA) and LKY School of Public Policy. Though these research organisations earlier used to prepare a generic questionnaire and circulate it among business leaders to seek their opinion, they currently prepare papers on specific themes like NTMs for ASEAN priority sectors, SME regional bank and AEC 2025. As there were no specific position papers till very recently, ABAC reports submitted to Leaders till 2012 were very short and mostly articulated about ABAC and its evolving role. There were complaints, mostly from the foreign business councils, that

¹⁹⁶ Interview in Singapore in March 2015 with APEC Secretariat officials. APEC-BAC presents recommendations to APEC Leaders annually and advises APEC officials on business sector wishes and concerns. The APEC-BAC meets four times a year, and they also attend APEC Senior Officials' Meetings, the Annual Ministerial Meeting and the sectoral Ministerial Meetings. The APEC-BAC comprises of three senior business representatives from each member economy, who are appointed by the Leaders of the member economies. The Chair of the APEC-BAC changed annually as it comes from the economy that is hosting APEC for that year.

¹⁹⁷ Interviews in Bangkok in March 2015 with academics and government officials.

¹⁹⁸ Interview in Bangkok in March 2015 with government official.

¹⁹⁹ Interview in Bangkok in March 2015 with private sector representative.

there are no follow-ups after submission of ABAC reports to the Leaders²⁰⁰. More recently, the ABAC reports have been made more detailed and comprehensive. In 2014, ABAC instituted a relation with the ASEAN Secretariat that as ABAC will provide a report, with summary tables on requests and feedback, the ASEAN Secretariat has to answer how far there requests have been considered by the policy-makers and have been eventually adopted in ASEAN economies. However, these are very new phenomenon and, hence, are yet to see any tangible impact in ASEAN circles.

Hence, from the above, one can deduce that at this juncture it is hard for ABAC as an ASEAN entity to play the role of an effective interlocutor between the government and the private sector for AEC implementation. Till very recently, ABAC, through its surveys, has been taking a macro-approach to support ASEAN integration. However, that is not very useful as it does not address the regular issues of businesses, such as the standards and conformance (S&C), discussed earlier in the chapter. Although S&C is a priority issue and is a significant source of technical barriers to trade, ABAC members do not have complete understanding or resources to dive in deep and discuss such facilitation measures among their network of private sector. This, in turn, hampers the private sector's astute feedback to the ASEAN national governments to address the impediments of AEC implementation. In other words, ASEAN private sector continues to lack effective institutionalised representation in AEC implementation process.

6. Conclusion

This chapter continues with the public policy implementation theory to strengthen the dissertation's second proposition that implementation outcome in ASEAN is driven by the

²⁰⁰ Interview in Singapore in February 2015 with a private sector representative.

kind and extent of support by interest groups (mainly the private sector) for economic integration. While the earlier chapter showed how the varied structure of domestic policy-making or implementation systems lead to differences in AEC implementation, this chapter goes a step further and explains that the ambivalent nature of interest among the ASEAN private sector and lack of strong institutional arrangement for government-business interface also contribute to gaps in AEC policy implementation.

There are three key observations that came forth from this chapter. First, some of the ASEAN regional integration matters are highly technical in nature, such as the Standards and Conformance, and need understanding of both the policy makers and the business actors for effective implementation. As the issue of S&C is dealt industry-wise in ASEAN, the implementation issue gets complicated as all member countries may not view a certain industry with the same strategic interest. This influences the negotiation, implementation priority of member states and extent of government-private sector consultation. Second, although in the past there was limited private sector interest in ASEAN economic cooperation, it is growing more recently and is shifting from general macro-support to interest in specific AEC measures (like in this chapter the case of Standards and Conformance). But this specific interest is not across all business groups in ASEAN. Indeed, the foreign multinationals have more resources to expend to understand and request for particular AEC measures, but it is the ASEAN companies who also need to understand and benefit from the AEC measures to advance regional economic integration and lobby for its timely implementation. It is a unanimous voice from the business community that is going to convince the ASEAN governments to take into account the private sector requests in policy-decision and implementation.

Third, there is partial institution building in ASEAN (such as the ASEAN-BAC), as the policy-makers are increasingly feeling that ASEAN economic integration cannot happen without feedback from the private sector. However, it is still evolving and needs to be significantly coordinated among foreign and local business associations. Institutionalising this process is important in ASEAN as it signals to the business actors, in particular the foreign investors, that AEC is a serious project despite implementation taking longer than desired.

That said, although most of the time it is the policy-makers who are and will be criticised for gaps in AEC implementation, it is also important to look at the private sector to examine how interest they are taking in ASEAN matters and trying ways to communicate it to the government, thereby eventually incorporating the initiatives in their business decision. It is the experience and awareness of both the government and the private sector that is going to create a compatible condition for policy implementation and for meeting overarching policy objectives over time. Indeed, slow progress in complying with ASEAN measures is inevitable, especially for the less developed member countries, but the willingness to be engaged in ASEAN regional integration from both supply and demand perspectives is what matters for ensuring implementation in national economies. A former ASEAN Secretary General, Mr. Ong Keng Yong, says that although the economic implementation agenda in ASEAN has slowed down over time, AEC has a momentum of its own and will continue to be of importance as trade and investment are key determinants for growth and development for all ASEAN members²⁰¹.

²⁰¹ Interview in July 2015

Chapter 7

Conclusion

1. Key Findings of the Study

The study started with a key empirical question: Despite committing themselves to a deeper and wider economic cooperation measure through AEC, why did the ASEAN member economies fail to implement a proportion of their stipulated integration measures? Related to this, why do we observe an uneven rate of implementation across member states? Why is ASEAN far away from delivering its policy aspiration of a ‘single market and production base’?

To summarise the thesis, the domestic determinant plays a crucial role in policy implementation. From an international economic policy perspective, while the domestic interests with regard to trade policy preference affect its form, thereby influencing the process of implementation subsequently, they also affect the process and pace of the implementation process, thereby distorting the final outcome.

The ASEAN Economic Community (AEC) followed a liberal trade policy in line with globalisation. But the extent of liberalisation was not much. The explanation for deviations from a liberalised form of economic integration lies in domestic demand. More specifically, while AEC was designed in 2003 to attract foreign capital and prepare the member countries to participate in the regional production networks, it was also developed to match the domestic imperatives of member countries. The latter is especially because the countries have a different orientation to external sector and constitute both export-oriented firms and import

competing ones. Hence, the AEC policy document covered twin features: it made countries commit to liberalisation and also offered certain in-built flexibilities and exceptions. The implementation directives, mentioned in the AEC Blueprint, are kept generic and do not state any consequences for lack of compliance. While this made the task of compliance easy, it also challenged the implementation process in ASEAN. It should be noted that implementation of AEC is the prerogative of national governments and much is left to their understanding and interpretation. As ASEAN follows voluntary reporting of member countries' progress on AEC, it was often observed that the focus of implementing agencies at national level were on producing narrow outputs that were easily quantifiable rather than on achieving overall policy objectives and its related outcomes. It was also felt that usually, the focus was on selected outputs that are easy to comply with, while ignoring the more sensitive ones in the blueprint. The latter also gets expensive to implement as it involves processing of a lot of information and hence requires time, financial resources and people.

In addition, implementation of AEC policies can be facilitated or hindered by several other existing domestic factors. The two factors that this study examined were – a) the structure and capacity in domestic policy implementation process and b) the business interest group's pressure (or not) to improve their competitive position in the integrated market by requesting for regional policies independently or collectively. The former is determined by the ability of government agencies to re-configure themselves in the light of regional commitments, need for horizontal coordination among national ministries, quality of staff in terms of technical expertise and available infrastructure. Availability of resources both in terms of finance and man-power are, thus, a critical determinant of timely policy implementation.

The latter factor of business groups' interest to follow-up on AEC policy measures depends to a large extent on member countries' interest and culture. Most often it was found that there is a lack of awareness and understanding of AEC measures among business groups, and hence there is no organised or coherent way for the business community to pass on their messages to policy makers for timely implementation. This is a significant bottleneck as it is the end-users of regional integration, i.e. the private sector, that have the potential to make an economic project successful by their acceptance or unsuccessful by their ambivalent attitude and rejection. As Warwick (1982:163), highlighting the 'significance of clients' mentions, they can 'speed, slow, stop or redirect implementation' of any public policy.

2. The Framework of Analysis to Study Regional Economic Integration

The illustration of AEC presented in the dissertation, and summarised above, was guided by approaches described in Chapter 1. The study was broadly shaped around an International Political Economy (IPE) framework of analysis and looked into an international economic issue from domestic political and public administration imperatives. To explain the gap in implementation, it looked at three exploratory variables – broad nature of AEC, derived from balancing the demands of globalisation and domestic interest, administrative capacity in domestic economies and attitude of interest groups towards economic integration.

The broad nature of AEC is explained by the underlying political economy dynamics of the ASEAN countries. Of course, FDI and production network were crucial variables of global economic trends that resulted in the decision of a regional project like AEC in 2003. It was felt appropriate to position the study on AEC within the IPE literature of globalisation-regionalism relationship. A dominant variant of this linkage, namely open regionalism, was

regarded as a concept underpinned by neoliberal ideas of economic efficiency and benefits from raising market competition. As discussed in Chapter 2, much of the existing literature on AEC is embedded in this theoretical argument, i.e. AEC is developed as an open regionalism project to link with the rest of the world. The current study does not refute this broad notion of AEC as a project of open regionalism. It has added to the discussion by embracing the second aspect - the interaction between global economic trend and domestic trade policy interest. The latter is shaped over time by the domestic and political setting of a country. The study, therefore, undertook a more refined discussion of AEC that displayed characteristics of open regionalism, but to a limited extent. It is the combined examination of global market forces and domestic interests that provided insight to the fact that despite pressures from the international economy, national governments had to meet the demands for domestic interest groups, thus keeping the AEC blueprint relatively broad and generic, and this became a hindrance during the course of implementation.

To dig deeper into the domestic factors of implementation for a regional economic policy, the study adopted the top-down theoretical approach, where the national governments are key actors responsible for the policy's subsequent implementation. Literature has often identified a set of conditions that have to be met for a major policy implementation involving substantial reform to achieve its stated objectives. A few of the conditions that were looked into in this study were- structure of implementation process in national economies, committed officials in implementing ministries/ agencies and supportive interest groups. The argument advanced here was that the success of a policy decision is not merely defined by a good vision or a stated objective, but more by how it is organised in the domestic economy for implementation, and the behaviour or interest of the demand side variable of such policies.

It is this holistic form of implementation study of a regional economic policy, covering issues both within the policy document and in the subsequent process of compliance at national level that the current literature on AEC has been missing till date.

3. AEC's dual nature to serve global and domestic interest poses problem for implementation

ASEAN's form of economic regional integration in 2003 was stimulated by the emerging forces of globalisation and domestic politics. In the late 1990s, the increasing pace of globalisation prompted structural change in the pace and quality of Foreign Direct Investment (FDI) flows that led to concerns among ASEAN leaders and policy-makers of the possible investment diversion to bigger economies of the region, most particularly to China. This was the primary catalyst for the ASEAN countries to revisit the economic regionalism of the 1990s, i.e. AFTA, AFAS and AIA, and work for a comprehensive project of AEC.

The structural shift in foreign capital flows was only one systemic force impinging on the ten countries. There were others too, mainly the way multi-nationals (MNCs) were conducting their manufacturing activities in the region since the early 1990s. International production networks, i.e. the diffusion of manufacturing tasks of an integrated production process across multiple nations, had been a key determining factor for the Southeast Asian nations to come together under AEC as well. These production networks were spread not only among the ASEAN countries but also the larger East Asian region, thus paving the way for ASEAN's economic cooperation with the larger economies of China, South Korea, Japan, India, Australia and New Zealand. The Automotive and the Electronic industries were the leading

examples of production networks in the East Asia region. Both of these were assembly industries, where parts and components (P&C) were produced by independent industries and, often, across multiple nations. These factors of globalisation, to a large extent, encouraged the formation of AEC and its feature of 'open regionalism'.

In addition to these, with the inclusion of new ASEAN members from the mid- to end- 1990s, it was felt that AEC can accelerate the earlier piecemeal efforts of regional economic integration. All ten countries together can provide an expanded market space for production that was expected to be comparable to NAFTA or the EU as well as China, and was thus expected to be more tempting for foreign investors. Chapter 3 and 4 have discussed these arguments in great detail.

However, there were concerns in the domestic economies with regard to the AEC regionalism project, and that eventually led to a restricted liberalisation. This originated because of the inherent nature of the domestic political economy of ASEAN member countries, as discussed in chapter 4. First, the ASEAN economies were dominated by small-and medium-scale enterprises (SMEs) and they have limited or no interest in expanding overseas. They also fear competition from large firms. Second, since the Asian Financial Crisis (AFC), while some of the government-assisted large firms have managed to grow without needing government protection, others have continued to request for protection under increasing competition. It is the second group of firms that have apprehensions about regional cooperation and hence have opposed the liberalisation goals of AEC. Third, the basic economic structure of the ASEAN members is very different from each other: while Singapore, Malaysia and Thailand are very open economies with strong trade and foreign investment linkages, Indonesia and Myanmar are relatively closed. This has led to different kinds of interests while negotiating AEC.

Finally, the market-driven integration in ASEAN has been generally led by foreign firms. These firms have had their production activities not only in ASEAN states but also across a larger geography of East Asia and hence their interest has developed accordingly. Even among ASEAN states, uneven importance has been given to serve as production bases for certain industries, thus creating friction for intra-ASEAN trade liberalisation and cooperation.

Looking at the country cases of Thailand and Indonesia, although there were some differences in their economic structure with respect to international linkages, one factor that was common to both was strong linkage between business and politics. Indeed, Thailand was relatively more successful as an open economy compared to Indonesia. The manufacturing exports had consistently played an important role in the Thai economic growth story, both before and after the 1997 AFC. The country was also an active member of the regional production network, thus progressing naturally to AEC in 2003. Indonesia undertook several trade policy reforms in the early 1990s. But after the 1997-98 crisis, trade policy became less of an economic issue and more of a political issue for the country. This inhibited the country's ability to participate fully in the regional production network as well. The differences in economic structure itself were an important underlying factor for limited liberalisation promises under AEC.

In addition, as seen in both Thailand and Indonesia, since the business community had individualistic forms of relationship with the countries' political representatives, there was lack of transparency. Many times politicians or bureaucratic figures have received material wealth in return for preferred trade policies. Hence, although the business groups broadly supported the overall idea of regional economic cooperation, they opposed it if there was any threat to their interests. Moreover, by the 2000s, there were new groups emerging in these

countries, such as non-governmental organizations (NGOs), environmentalists, SMEs and proponents of gender equality, who participated more actively in the discussions on impact of regional integration and resisted any initiative that might harm the domestic economy.

Thus, the ASEAN member governments endorsed an AEC blueprint in 2007, which, in spite of being a serious document with a definitive action plan and timeline for trade liberalisation and enhanced economic cooperation, was not meant to deliver a ‘single market’ as defined earlier in the study. The document stressed on tariff elimination for intra-regional trade and promised trade facilitation measures like single window, addressing the non-tariff barriers and harmonising standards. It also mentioned regional commitments on services sector liberalisation, investments, better infrastructure and many other initiatives to make the region competitive. But there were words and phrases in the document that might lead to several interpretations for a similar action and thus become a reason for member countries not complying with certain initiatives. The AEC blueprint also offered flexibility in meeting targets and timelines for implementation of various AEC measures. Moreover, some of the liberalisation targets mentioned in the document were far from establishing ASEAN as an integrated market. For example, the movement of people was restricted to only professionals. Finally, the implementation mechanism spelt out in the blueprint was very generic. Chapter 4 discussed the dual nature of the AEC Blueprint document, i.e. liberalisation and flexibility, in great detail.

The point to be stressed here is that the ASEAN countries went for a form of regionalism that was not only governed by globalisation forces, but also tempered by domestic political-economy factors. Trade liberalisation and facilitation measures among the ten members as well as between ASEAN and the bigger countries of the Asia-Pacific was mainly to attract

increased Foreign Direct Investment (FDI) flows in the face of growing competition particularly from other regionalism exercises in the West and China. It was also to support the fragmented production method for manufacturing of certain products. It was these imperatives that convinced the ASEAN leaders and policy-makers in the early 2000s to adopt AEC and extend it beyond the piecemeal efforts of AFTA, AFAS and AIA.

However, in order to address the political-economy concerns of member countries, ASEAN took an accommodative approach through its regionalism project. It followed a form of regionalism that was different from the one understood by the phrase 'single market'. Although the 2003 Declaration of the ASEAN Concord II announced that 'the ASEAN Economic Community shall establish ASEAN as a single market and production base', the term 'single market' was never clearly explained. Moreover, the provisions spelt in the blueprint were not meant to deliver on a 'single market' as understood in economic theory. The phrase was more to symbolise ASEAN countries' positive intentions for trade liberalisation, where alternatives were provided to be inclusive to all sections of the society.

This created challenges during the course of implementation. Complying with policies that have broad objectives and instruments and can be interpreted in different ways, becomes difficult in ASEAN economies. Often, it is observed that during the course of implementation of AEC measures, the focus on achieving overall policy objectives and its related outcomes is replaced by increased focus on narrow outputs that are quantifiable. The emphasis on small output plays an important political role in ASEAN context as it displays individual government's willingness and implementation progress on AEC matters. However, this may not necessarily be sufficient to achieve the stipulated target in the blueprint or the mentioned overall objective.

Moreover, as processing information of a complex document like AEC involves financial and cognitive resources, the ASEAN governments most often focus on selected deliverables that are easy to achieve, ignoring the measures that are more complex and sensitive in nature. The excuse of not implementing measures on time becomes easier as the policy document spells out broad policy action. This can be observed in the case of the ‘elimination of non-tariff barriers’ which, though an important policy directive to develop a single market, offered broad policy action and eventually was not delivered on time. However, ASEAN has 100 per cent implementation record for Equitable Economic Development that merely mentioned delivery on documents or facilitating exchange of general information. This bias-ness towards implementation for certain policies, ignoring others, was encouraged by the accommodative nature of the AEC blueprint, which finally resulted in gap in implementation.

Therefore, while forces of globalisation led to the extension of AFTA, AFAS and AIA to an all-encompassing form of regionalism like the AEC, it took an accommodative approach to the overall objective of ‘single market’ with the mediation of domestic factors of member countries. This kind of mixed nature of AEC had bearings on the willingness of government agencies and pace of implementation.

4. Incomplete Implementation is a Result of Domestic Organisational Inefficiency

The mixed nature of the AEC policy document and its broad prescription on implementation process in domestic economies resulted in a slow pace and, in several instances, incomplete compliance. The study revealed, particularly in Chapter 5, that the implementation gap in AEC policy initiatives was due to lack of thoughtful consideration on the ways policy

implementation efforts were organised in national economies. The cases of Indonesia and Thailand relating to compliance with the National Single Window (NSW) showed many challenges and varied nature of the implementation process, explaining gaps in meeting the targets and difference in execution performance.

The chapter showed four organisational aspects and their related challenges in Indonesia and Thailand that led to the slow pace of implementation. These were – a) creation of a new body and attendant organisational mechanism challenges, b) lack of knowledge and resources for creating a support base, c) attitude of bureaucrats towards coordinating across multiple bodies (horizontal coordination) and d) other contextual factors like infrastructure availability and political priority. These points are briefly reiterated below.

Both Indonesia and Thailand have created an explicit body under the Ministry of Finance (in particular under the customs department) to implement NSW that is expected to act as a bridging mechanism across multiple government bodies and provide a collective political will for implementation. The idea for a new body was also to circumvent the inertia generally caused by obstinate bureaucrats in their respective ministries. But connecting 18 government ministries for Indonesia and 37 government agencies for Thailand under a coherent system is a humungous task. Often, representative members from other ministries who were given the task to work with the customs department of the country did not have full training and understanding of AEC/ NSW. Worse, while some may have known about the technical aspects of the NSW system, they were not aware of the overarching AEC regional initiatives, resulting in a lack of drive to deliver NSW commitments according to the timeline prescribed in the blueprint. The rank of representation in the new body from other ministries was also a matter of importance, as most of the countries in Southeast Asia have a bureaucratic culture

of hierarchical control and hence higher ranking bureaucrats have more authority and decision-making power than the mid- or low-level bureaucrats. These, in turn, have a bearing on building the support base for mobilising stakeholders and financial resources in the country.

As NSW is meant to be a 'one stop facility' and the linked government agencies need to concede some functions to the new body, this has created resistance and anxiety in both Indonesia and Thailand. The top level management of the affected government agencies were unhappy with their functions being curtailed and the operational staff were apprehensive that they may have to move to a different location or to a job description that may demand new skills. The groups were also worried over foregone illegal income that they often procured during their direct interaction with the traders in exchange of permits and licenses. These factors lengthened the negotiation process between the Customs Department and the government agencies.

In addition to these, the contextual factors in Indonesia and Thailand were also important in meeting regional commitments in a timely manner. These contextual matters were factors outside the normal course of policy, but they either added value or impeded the implementation process. In case of NSW, as it was a multi-year project, two issues that affected their implementation were political priorities of the government and the existing infrastructure. Indonesia suffered from both these issues. The NSW in Indonesia connected only 17 ports (sea, air and road) out of 126 present in the country as the rest suffered from lack of infrastructure in terms of handling imports and exports. Moreover, developing efficient trade facilitation facilities may not be Indonesia's top priority. This is because of the country's perception that its trade issues were not due to inefficient border procedures but

because of its domestic competitiveness and supply side capacity. Hence, the government's focus is primarily to strengthen the domestic economy. In the case of Thailand, the country was facing unstable political conditions from early 2006. It had experienced two coups, four constitutions and six Prime Ministers since then. Currently, from mid-2014, Thailand is under military rule and the incumbent administration is trying to stabilise the economy. This kind of political instability had also stymied Thailand's ability to pursue AEC policy on a regular basis.

Comparing the cases of Indonesia and Thailand with respect to their implementation of NSW, the former seems relatively better organised at the national level. Indonesia developed a coherent organisation structure under the Coordinating Minister for Economics. To address some of the resistance in the existing structure, Indonesia placed ministers of key government agencies as lead coordinators of NSW Preparation Team. It made all government agencies accountable for smooth delivery of NSW by ensuring manpower and financial resource contributions from the linked ministerial bodies to the Preparation Team, apart from the customs department, who had the primary responsibility. This also helped the country to overcome some of the financial issues. Moreover to develop political willingness, Indonesia followed a regulatory format of 'Presidential Decree', where every key action necessary for building a synchronised system of NSW was legally authorised by the President of the country. This not only made the related government bodies relatively more accommodative to the demands of coordination but also made the top management of key Ministries more conducive towards restructuring border administrative functions to the new body. Nonetheless, challenges as described earlier and elaborated in Chapter 5 remained, which ultimately led to slow implementation.

Extending the case of Indonesia and Thailand to the entire region of ASEAN, Chapter 5 drew a similar conclusions in terms of organisational challenges as a key reason for delay in timely implementation of regional commitments. For almost all of the AEC initiatives, it was not an effort by a single public authority, but multiple agencies. Mutual trust and harmonising of goals were important enablers for developing political will and hence timely delivery of regional commitments. Though the ASEAN countries have congruent goals at the highest level of political leaders, it did not automatically promote cooperation among national ministries. Moreover, in many instances, bureaucrats' actions were driven by their primary concerns over gains and losses from undertaking domestic reforms. It was also found that understanding of AEC varied across ministries and got diluted as it was disseminated to the lower level of bureaucrats. This lack of shared interest ultimately hindered the timely delivery of AEC commitments.

The key point to stress here is that many policy reforms fail or slow down due to challenges in the organisation structure of the implementation process in the national economies. New initiatives often need a change in stakeholders' configuration, shifts in structure, innovative rules in existing agencies and new forms of interaction. These are highly likely to create friction for a new policy change. In case of the ASEAN countries, though they have the highest-level of political commitment to adopt the NSW - AEC Blueprint (head of state), the ASW/NSW Protocol (finance ministers) and the NSW implementation (key are economic and trade ministers), much of the implementation outcome depends on how the organisational mechanism is developed and executed in the national economies. Most often challenges exist in terms of lack of alignment of interest among politicians and various levels of bureaucrats, rigid bureaucratic culture of self-interest and hierarchical structures, and human resource capacity that influences the organisational framework, thereby distorting the final policy

outcome. In addition, as political-economic conditions are dynamic in nature, the priority of ASEAN countries also change, in turn affecting the operational and service delivery of the new policy initiative, such as the NSW.

5. AEC Implementation Lacks Pressure from the Private Sector

The slow pace of implementation at domestic level was also because of a lack of organised private sector pressure for the AEC measures to be implemented in a timely manner. In general, there was wide-spread indifference among the firms with respect to AEC measures, or the interest for regional integration was limited to a handful of foreign corporations that were part of the cross-border pattern of production network in the region. This was explained in detail in Chapter 6, which elaborated on the AEC policy of standardisation and harmonisation across automotive and electronics products.

The general indifference towards AEC policies stemmed from the political nature of economic integration ever since ASEAN made a decision to undertake economic integration in 1976. At that time, trade agreement decisions were taken keeping in mind the broad national interest and hence mostly governed by a top-down decision-making approach. Economic decisions were devised without constructively listening to the private sector voice. The emphasis of strategic rationales over economic objectives kept the business community at bay from the regional economic policy-making exercise. Thereafter, with institutionalisation of AFTA, though the promise of tariff reduction was commendable, the marginal benefits from such commitments were low as by then countries were already lowering their tariffs under a multilateral arrangement or firms were operating from export-processing zones. A small section of the business community that were interested was already

working through personal contacts and social obligations. This gave little or almost no incentive to the private sector to expend resources to advocate for ASEAN economic integration. The additional benefits that AFTA could have provided derived from removing the non-tariff barriers, but it remained sketchy, accentuating the ambivalent attitude of the private sector.

As the ASEAN economic cooperation advanced from AFTA to AEC, commitments moved beyond liberalisation measures and incorporated actions of ‘behind-the-border’ facilitation measures that were under the purview of national regulatory bodies. Even though academics have regarded such measures as positive, there were challenges and frictions in domestic economies to carry on with the required regulatory reforms and subsequently internationalising them. As explained in Chapter 5, understanding and implementing such measures required in-depth knowledge and financial resources among the government bodies. Many times, change in regulation necessitated new legal directives that required longer timeline to develop. The private sector lacked patience for final delivery of such long drawn regulatory policy reform. This was more so because ASEAN documents and blueprints remained imprecise on implementation plans and there was lack of transparent monitoring and evaluation mechanisms at a regional level.

However, there were some selected cases where the private sector spoke to the government for intra-ASEAN cooperation. This group, that were part of the market-forces of trade and FDI, predominantly derived from the foreign corporations of the US, the EU and Japan. Among the foreign multinationals too, it was observed that their interest lay in regional integration, provided their industry followed the cross-border pattern of production networks in the region, such as the electronics and automotive industries. In addition, their advocacy

for integration was of a different nature as it was simultaneously outward looking. This was because many of the foreign parent companies depended on imported parts and components from their home country or on their own subsidiaries located in ASEAN countries. Hence, quite often resources were spent requesting for trade agreements with their home country or other relevant countries that were the part of the supply chain process.

In more recent times, when AEC was coming into play in late-2015, it was found that the private sector continued to be plagued by a lack of awareness and technical expertise on AEC issues, thereby hampering their ability to mediate preferences to policy makers. Chapter 6 scanned through several business surveys of the European, American, Japanese and ASEAN firms over the past three years. The main points that were inferred are: the businesses did not have complete awareness of AEC issues (except may be the EU-ASEAN Business Council). Although AEC had dealt with a number of domestic regulatory issues, the priority of businesses lay with something general like removal of NTBs or streamlining of customs procedures rather than issues like standards and conformance (S&C), the case in discussion in chapter 6. This implied that though member governments might implement measures of customs modernisation more sincerely, they will drag issues like S&C over a longer period of time. The highly technical nature of S&C also made it difficult for the firms to refer it to the government regularly, though it was found that the foreign MNCs were more informed about S&C than the ASEAN firms.

Chapter 6 also highlighted the individualistic nature of business advocacy. Most of the time businesses talked separately to the government, primarily to the Minister of Trade and Industry. While for some cases business pressure was applied from the country headquarters, others used bilateral or regional trade agreements as a way to push governments to implement

certain measures. The big ASEAN companies tended to talk to the top leader or politician of their constituency, rather than organise a collective voice due to fear from rising competition. Moreover, the business requests were often different. While there was congruence in the business community voice over issues like customs modernisation or removal of NTBs, there were cases like S&C, where the Japanese and the Europeans argued for different standards in their automotive industry. As it was difficult for the ASEAN governments to discriminate across business groups, concrete action got delayed till the industry reached a compromise.

Compared to the regional business associations, the national business associations were found to be relatively useful. This derived from the fact that policy-makers both during negotiation and implementation lacked technical expertise on AEC issues like S&C and they had to turn to their national business associations, particularly the sectoral ones, for consultation. Hence, in the case of Thailand, the Thai Autoparts Manufacturers Association contributed significantly in AEC S&C negotiation and were also working with Thailand Industrial Standards Institute (TISI) on adopting the agreed standards at domestic level. Similarly, for Indonesia, it was the GAIKINDO (The Association of Indonesia Automotive Industry) and GIAMM (Automotive Parts and Components Manufacturers Association) who were involved during the negotiation and implementation stages of harmonising standards in the auto sector. This understanding of specialised economic integration measures and accordingly their demand from the government officials placed the producers associations in a more influential position with regard to integration matters. However, this kind of government-business relation was not feasible for all ASEAN member countries or across time. Often, the cost of government consultation with the private sector may outweigh the benefits as the country may lack sufficient institutional settings or may have a weak entrepreneurial class. Hence, in several cases, the private sector was consulted by the national governments on a need basis,

while the private sector developed its own network to obtain information, as and when they seemed to benefit from a regional measure.

In order to bring the private sector into the mainstream of economic cooperation, ASEAN instituted the ASEAN Business Advisory Council (ABAC) to channel the private sector feedback to the member governments for both policy formulation and implementation. But the study found out that the initiative is still evolving and has not been able to perform its role as an effective interlocutor between the two parties. Few key reasons cited for this in Chapter 6 were lack of transparency in appointing ABAC members, limited financial resources for organised discussion and absence of a formal and coherent ABAC report.

On the whole, the key points to stress here are: first, AEC issues like S&C are highly technical in nature and need understanding of both policy makers and business actors for effective implementation. As the issue of S&C is dealt industry-wise in ASEAN, the implementation issue gets complicated as all member countries may not view a certain industry with the same strategic interest, in turn influencing the negotiation, implementation priority and extent of government-private sector consultation. Second, although in the past there is limited private sector interest in ASEAN economic cooperation, it is growing more recently and turning towards specific issues. But this is not across all business groups in ASEAN. Indeed, the foreign MNCs have more resources to spare to understand and request for particular AEC measures, but it is not the same for ASEAN companies. It is a unanimous voice from the business community that is going to convince the member governments to take into account the private sector requests in policy-decision and implementation. Third, ASEAN-BAC is developing to institutionalise the dialogue between the public and the

private sector. Significant organisational and financial challenges need to be overcome before this can be called useful.

6. AEC and the Future of Economic Regionalism

6.1 AEC and the Future of ASEAN

The adopted theoretical approach of AEC, which revolves around regional integration and state of implementation, suggests that, going forward, ASEAN governments will continue to face the same kind of challenges. While they will continue to deepen their own integration, they will simultaneously continue to forge free trade agreements (FTAs) with key trading and investment partners. But implementation will remain a challenge. This will be due to the practice that ASEAN-led initiatives follow, i.e. once an agreement is agreed and signed, it is the responsibility of national economies and its government agencies to understand and implement. As the priorities, understanding and resources for trade agreements vary across participating members, it will create a gap between commitment and final outcome. However, one thing that may change is that ASEAN will be more careful in using aspirational phrases in their policy documents. They will be more cautious on stating the total number of measures in the blueprint as it may differ according to countries' administrative processes and will try to work out a generic way to report on implementation progress.

ASEAN countries will continue with their own integration project as long as it can serve their own national interest, given the global context. All countries have realised that AEC, if not an important push factor to undertake domestic reforms, is useful to attract the attention of foreign governments and investors. Hence, as AEC 2015 was advanced to AEC 2025 in late 2015, we observed that ASEAN continued with its deeper coverage of regional economic

issues (such as non-tariff barriers, productivity, research and development, innovation, sustainable development and customs reforms) and also embraced emerging 21st century economic issues. The latter included re-iteration of the importance of Global Value Chains (GVCs) in ASEAN countries' economic activities, good governance and e-commerce (ASEAN Secretariat 2017). The latest 2025 Blueprint strives to improve the region's participation in GVCs as a fragmented production process across several countries is a new way of raising economic efficiency. Many of the advanced ASEAN countries are already part of the production network process and have greatly benefitted from it. ASEAN integration needs to support the less developed members now to gain access to such networks. In that regard, AEC 2025 has included commitments from countries over trade facilitation, harmonisation of standards and improved connectivity.

The new blueprint acknowledges the role of various stakeholders in strengthening economic integration. It categorically mentions greater transparency between the public and the private sectors and increased engagement between them. Finally, AEC 2025 introduces cooperation around e-commerce, which has immense potential in Southeast Asia and is beneficial to small businesses and traders. Currently, the ASEAN-6²⁰² economies contribute only 1 per cent of global online retail sales, though they account for 3-4 per cent and 8 per cent of world GDP and population respectively. The US and China account for 32 per cent and 15 per cent respectively in global retail e-commerce (ATKearney and CARI undated).

However, the new documents, AEC 2025 Blueprint and AEC 2025 Strategic Action Plan, also provided exceptions and agreed to flexibilities over most of the policy issues, keeping in mind the varied domestic interests. For many activities, timeline is mentioned as the entire

²⁰² ASEAN-6 here refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam

period of 10 years, from 2016-2025. A key point to note is that the policy document no longer stated the aspirational phrase ‘single market and production base’, and simply replaced it with terms like trade in goods and trade in services. This distinctly indicates that the ASEAN governments have learnt from their experience that use of aspirational phrases raises people’s expectation and may lead to disappointment when the aspirations are not met. Of course, ASEAN 2025 has continued with its principle of ‘open regionalism’ as the member countries traded extensively both within and outside the region. In addition to ASEAN+1 FTAs, AEC 2025 also mentioned about a comprehensive trade agreement, the Regional Comprehensive Economic Partnership (RCEP), in order to address the issue of multiple FTAs in the region (ASEAN Secretariat 2015d).

It should be noted that although ASEAN’s latest form of economic integration can be dated back to early 1990s and later consolidated and deepened in 2003 under AEC, its move towards a plus one process started in 2001 when China approached the grouping to establish an ASEAN plus China FTA within ten years (Soesastro 2005b: 3). This was soon followed by similar requests by Japan, India, South Korea and Australia-New Zealand. These proposals of FTAs served well for ASEAN as its manufacturing production was not restricted to only ten members but was also extended to China, Japan and others. However, these FTAs were very different from each other as they were not signed in a single point in time or under a single framework. The approach to negotiating the FTAs also varied²⁰³. This led to the problem of ‘noodle bowl’, implying intertwined and overlapping rules and regulations among participating members, that discouraged the private firms, specifically the small and medium-scale enterprises, from utilising the preferential systems (Fukunaga and Isono 2013: 2-3; Kawai and Wignaraja 2013: 2).

²⁰³ For details, please refer to Basu Das 2015: 75-78

This negative fallout from the ASEAN+1 FTAs led to the discussion of the Regional Comprehensive Economic Partnership (RCEP) agreement. The objective of RCEP, as it came into being in 2011 among ASEAN 10 and 6 FTA partners, was to streamline and harmonise the ASEAN FTAs that were mutually beneficial, transparent and WTO-consistent (ASEAN Secretariat 2011). The overall idea of RCEP was to widen and deepen members' cooperation in regional production networks, thereby minimising transaction costs for businesses and inefficiencies created by multiple ASEAN+ 1 FTAs (Basu Das 2016: 111-113).

Despite such far reaching economic integration measures over the last two decades, implementation of commitments has become an important issue in ASEAN. While the region has made its mark in designing vision and action plans and accommodating interests of both global and domestic trends; as discussed in Chapter 1 and 3, a key bottleneck in ASEAN economic integration remains in the implementation process. Implementation happens when the agreed commitments are translated to domestic actions and member countries are more coherent with each other for smoother and timely movement of goods and services. Although ASEAN till very recently had announced that it had implemented 90 percent of its agreed 2015 commitments, they were mostly in areas like delivering regional documents/ projects or promoting good economic practices, rather than specific actions that needed significant domestic changes in terms of new legislation or reforms. This study gives three explanations in Chapter 4, 5 and 6 on why the ASEAN countries are missing on delivering the agreed commitments at regional level. There are other explanations too, like the growing nationalistic sentiments, which have influenced a country's decision not only to keep the regional policy document broad but has also encouraged it to drag on the national

implementation process²⁰⁴. Even the weak capacity of the ASEAN Secretariat with limited manpower and financial resources to monitor progress under AEC is a valid justification. While ASEAN had created the ASEAN Integration Monitoring Office (AIMO) in 2011 to strengthen its regional surveillance role, the function remained limited in terms of doing independent research²⁰⁵. Moreover, monitoring 500 plus AEC action lines across 10 economies is a humungous task.

The study, thus, suggests that going forward, implementation of AEC policies face bigger obstacles to provide an integrated market of 630 million people. This will not only create problems for ASEAN while negotiating and discussing the ASEAN+1 FTAs/ RCEP, but will also become an hindrance in raising ASEAN's competitiveness to attract FDI vis-à-vis China. The latter is ASEAN's overarching rationale to integrate its 10 economies. The study is not putting forth an argument that the ASEAN countries will not be able to deliver on a coherent market forever. ASEAN will deliver in the long run, though the countries will not concur with liberal expectations of complete integration both within the region and in the wider geography of Asia. However, economic integration in ASEAN will always be on a limited scale as witnessed in the earlier policy documents. In the implementation stage, the member countries will continue missing their deadlines by putting their national priorities over regional commitments. They will drag on the implementation to prolong the protection of the domestic market or till they truly believe that they need to undertake reforms, in order to remain economically competitive in the face of China.

6.2 Domestic Variable is key for Future Sustainability of ASEAN Economic Regionalism

²⁰⁴ Interview with policy-makers in Jakarta in May 2015

²⁰⁵ AIMO is answerable to member economies and publication of their research output is subject to member governments approval.

The current thesis makes it clear that it is the domestic economy that shapes a regional economic integration project. Policy makers often balance policies between maximising a country's economic welfare, given the global developments, and considering domestic interests. For them, while factors present in global economy are persuasive enough to undertake an economic regionalism project, it is also important to take into account the preferences of the domestic interest groups, mainly the private sector, citizens and NGOs. It is the latter that ensures the future sustainability of the project.

In the case of ASEAN, while it was developed keeping in mind the global context, its design and form were pragmatic in nature and kept broad to accommodate different member countries' interests. This is explained in detail in Chapter 4 of the thesis. There are many areas, such as the movement of professionals, that are kept restricted only to eight professionals and for all these cases, national employment policies continue to remain relevant. This shows that the ASEAN countries are well aware of their domestic sensitivity and they pursue regionalism in order to serve national interests. In other words, it is the national economy that takes a precedence over the regional economy and not vice versa. This also convinces ASEAN countries to follow an institution-light organisation. While this has attracted criticism and has been seen as slowing down the economic integration process, this is also essential for sustainability of the project. As the ASEAN countries are very different from each other, especially in terms of their economic development, culture and demographics, anything more stringent than the existing system may break the organisation.

The issue of sustainability gets more attention as the world is witnessing the separation of the UK from its regional grouping, the European Union. Also termed as Brexit, one of the underlying causes of the breakdown was to gain greater control over immigrant flows in the

UK from other EU nations. It has been documented that in the last 20 years, immigration had gone up significantly in the EU region. During 1995-2015, EU immigrants living in the UK tripled from 0.9 million to 3.3 million. The share of EU nationals rose from 1.5 per cent to 5.3 per cent of the total population and from 1.8 per cent to 6.3 per cent of the working age population (age of 16-64) (Wadsworth et al undated: 2). There was serious concern that the high level of immigration was putting pressure on jobs, wages and quality of life. A key reason for such significant flows of immigrants is the way EU is designed: it is defined as a group of nation-states where citizens of EU members can live, work and study anywhere in the region.²⁰⁶ The EU is highly governed by its supra-national institutions and the national policies are superseded by the policies and regulations of regional organisations. This takes away the autonomy of individual EU nations, thereby leaving no room for adjustment at domestic level during the time of crisis. This also hampers advanced economies like the UK from pursuing their own foreign policies.

Thus, one way to sustain a regionalism project is to balance the global and national interests. It is important to follow regional economic integration to serve a country's national interest. This fact will gain more importance going forward. In case of ASEAN, it is crucial to note that a common national interest for all participating members is to attract FDI. Going forward, to serve this common interest, AEC will be a platform to provide policy prescriptions to its member countries to undertake domestic reforms that is eventually expected to raise their competitiveness to attract foreign capital. Much will be left in the hands of the national governments to understand and implement the policies to meet the final goal. This is especially in light of the region's institutional set-up, i.e. the authority lies with the member governments.

²⁰⁶ European Commission Upholds Free Movement of People, Brussels, 15 January 2014 (http://europa.eu/rapid/press-release_MEMO-14-9_en.htm)

7. Areas of Future Research

Three further areas of research that emerge from the present study of AEC is identified in this conclusion. The first is to build on the current line of work. The thesis, employing an in-depth case-study methodology in their real-world setting, generates useful insights and understanding about the state of AEC development. It brings out the complex conditions that distort implementation outcomes. These complex conditions can be applied to other country or sectoral cases of ASEAN. However, to generalise it further to other parts of the world or other models of integration, some form of quantitative analysis could be useful. The translation of qualitative observations to quantitative variables would help to summarise the key findings in numerical terms and with a specified degree of confidence.

The second possibility for further research arises from the issue of implementation again. AEC started with a high ambition of providing a ‘single market and production base’ and seemed to be altering the landscape of ASEAN countries. However, the deadline of 2015 passed and ASEAN is still far away from being called a single market. The narrative has changed to AEC being a work in progress (Severino and Menon 2013:13). But for how long? While the Japanese firms, the oldest to have a presence in the region, might be aware of ASEAN countries’ manner of implementation in practice, European and American firms will be highly disappointed and might decide to limit their investment decisions in the region. The latter groups might also decide to invest only in a few developed ASEAN markets, disregarding the offer of economies of scale, and consider other bigger emerging economies in the region as their investment destination. This will be unfortunate for ASEAN, as the whole idea of AEC to attract FDI will be forfeited. In this regard, further research is needed

that explores, on one hand, how investment and production decisions might change if ASEAN countries fail to implement AEC measures in due course and, on the other, what could be a few efficient ways to implement integration measures in national economies that ultimately deliver on ASEAN's unity and credibility

The final kind of research stems from the discussion in the dissertation that ASEAN's regional production network is not among the member countries only but in a bigger geography of East Asia. To serve the manufacturing activities in a seamless manner, as mentioned above, ASEAN is in the process of consolidating its existing *plus one* trade agreements and is putting them under a common framework of RCEP. However, this is not the only economic cooperation arrangement getting discussed in the region. There are others too, like the Free Trade Area of Asia-Pacific (FTAAP), discussed under the APEC, and the EU-ASEAN FTA. Though the 12-member Trans-pacific Partnership (TPP), earlier negotiated and signed, has reached a stalemate due to the US withdrawal from the grouping, it is not completely dead²⁰⁷. Hence, despite ASEAN's idea of providing a coherent form of economic integration to support the regional supply chain and raise competitiveness to attract FDI, it is getting distracted by the other regional integration projects that may have differences in terms of membership, scope and depth. This puts ASEAN's objective in jeopardy and defies its purpose of providing a coherent solution to a criss-cross of multiple FTAs in the region. The issue of how the interaction of different regional integration initiatives between ASEAN and other Asia-Pacific economies shape the ultimate regional trading architecture promises to be not only an attractive line of research but also a key policy issue in the years to come. All

²⁰⁷ FTAAP under APEC has only 7 of 10 ASEAN members and TPP has only 4 of ASEAN members. Areas covered under EU-ASEAN FTA and TPP are likely to be much wider than what is currently discussed under AEC or RCEP. These agreements touch upon state owned enterprises, labour reforms, government procurement, climate change issues and many others. They are also much deeper in terms of tariff coverage.

three lines of research identified above have implications for regional integration going forward.

A related further area of research can be around the impact of different political regimes on the regional integration process. This thesis assumed the political structures in countries like Indonesia and Thailand as a given, and examined how that impacted the implementation of AEC measures. For example, it was mentioned that the use of a Presidential Decree in Indonesia for all amendments to existing procedures helped significantly in implementation. However, the same was not true of Thailand. In future, a research proposal can be built around examining how the political regime has evolved in various ASEAN countries, and what that has meant for implementation of bilateral or multilateral/regional agreements. Such a study can also broaden the context by grouping ASEAN countries based on the received level of democracy and any similarities or differences in implementation between them.

Appendix IV.1 Automotive Exports and Imports by EA10, by destination and origin (US\$ billion)

	Exports to									Imports from							
Country of origin	Products	EA10		Japan		ROW		World		EA10		Japan		ROW		World	
		2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014
EA10	Finished	1.7	12.3	0.0	0.8	14.6	76.8	16.4	89.9	1.1	10.1	5.3	17.3	3.9	69.3	10.2	96.7
	P&C	1.9	21.1	1.0	6.6	4.6	54.0	7.5	81.7	1.3	15.1	6.1	17.1	4.2	26.3	11.6	58.4
	Total	3.5	33.5	1.0	7.4	19.3	130.8	23.8	171.7	2.3	25.2	11.3	34.4	8.1	95.6	21.8	155.1
China	Finished	0.1	2.1	0.0	0.1	0.2	13.7	0.3	16.0	0.1	1.9	0.8	9.2	0.6	52.0	1.5	63.1
	P&C	0.2	4.8	0.2	3.3	1.0	25.5	1.4	33.6	0.2	5.3	0.9	8.2	1.6	18.0	2.7	31.5
	Total	0.2	6.9	0.2	3.4	1.2	39.2	1.6	49.6	0.3	7.2	1.7	17.3	2.2	70.0	4.2	94.5
Singapore	Finished	0.1	0.4	0.0	0.0	0.1	0.2	0.1	0.7	0.2	0.3	1.0	0.6	0.5	1.3	1.6	2.1
	P&C	0.4	2.2	0.0	0.1	0.2	1.0	0.6	3.3	0.1	0.6	0.3	0.5	0.6	2.1	1.0	3.2
	Total	0.5	2.6	0.0	0.1	0.3	1.2	0.8	4.0	0.3	0.9	1.3	1.1	1.1	3.3	2.7	5.3
Malaysia	Finished	0.0	0.4	0.0	0.0	0.1	0.1	0.1	0.5	0.0	1.4	1.2	1.3	0.2	1.1	1.4	3.8
	P&C	0.1	0.5	0.0	0.1	0.1	0.4	0.2	0.9	0.1	1.6	0.2	0.7	0.1	0.5	0.4	2.8
	Total	0.1	0.9	0.0	0.1	0.1	0.5	0.3	1.4	0.1	3.0	1.4	2.0	0.3	1.6	1.8	6.6
Indonesia	Finished	0.0	1.2	0.0	0.2	0.0	1.7	0.1	3.1	0.2	1.5	0.2	0.6	0.2	0.6	0.6	2.7
	P&C	0.1	1.0	0.1	0.3	0.1	0.6	0.3	1.9	0.2	1.7	1.0	1.8	0.2	0.4	1.4	3.9
	Total	0.2	2.2	0.1	0.5	0.1	2.3	0.3	5.0	0.4	3.2	1.2	2.4	0.4	1.0	2.0	6.6
Thailand	Finished	0.2	4.1	0.0	0.4	1.6	14.0	1.8	18.6	0.0	0.9	0.3	1.1	0.2	0.7	0.5	2.8

	Exports to									Imports from							
Country of origin	Products	EA10		Japan		ROW		World		EA10		Japan		ROW		World	
		2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014
		P&C	0.2	3.2	0.2	1.0	0.3	3.7	0.6	7.9	0.2	1.8	1.4	3.8	0.3	1.4	1.8
	Total	0.3	7.3	0.2	1.4	1.9	17.7	2.4	26.4	0.2	2.7	1.7	5.0	0.5	2.2	2.4	9.8
Philippines	Finished	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.2	1.7	0.4	0.7	0.1	0.2	0.7	2.7
	P&C	0.2	0.7	0.1	0.4	0.3	0.4	0.6	1.5	0.1	0.2	0.2	0.2	0.0	0.0	0.3	0.5
	Total	0.2	0.8	0.1	0.4	0.3	0.4	0.6	1.6	0.3	2.0	0.6	1.0	0.1	0.3	1.0	3.2
Vietnam	Finished	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.3	0.1	0.3	0.0	0.3	0.2	2.0
	P&C	0.0	0.3	0.0	0.4	0.0	0.4	0.0	1.1	0.0	0.8	0.0	0.2	0.0	0.1	0.1	1.2
	Total	0.0	0.3	0.0	0.4	0.0	0.4	0.0	1.1	0.1	2.2	0.1	0.5	0.0	0.5	0.3	3.2

Note: P&C- parts and components, EA10 (East Asia 10) includes China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

Source: UN-Comtrade Database and author's calculation

Appendix IV.2: Electronics Exports and Imports by EA10, by destination and origin (US\$ billion)

Country of origin	Exports to									Imports from							
		EA10		Japan		ROW		World		EA10		Japan		ROW		World	
	Products	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014
EA10	Finished	91.3	528.2	27.2	51.5	135.1	297.2	253.6	876.9	91.7	473.9	30.4	40.7	42.1	122.1	164.2	636.8
	P&C	54.9	180.3	12.2	9.7	48.9	77.0	116.0	267.0	45.9	140.3	22.2	18.0	37.6	63.8	105.7	222.1
	Total	146.2	708.5	39.4	61.2	184.0	374.2	369.6	1,144	137.6	614.2	52.5	58.8	79.7	185.9	269.8	858.9
China	Finished	7.0	126.7	2.6	22.5	14.7	178.7	24.3	327.9	12.8	191.4	5.4	17.8	6.4	76.4	24.5	285.7
	P&C	6.49	52.7	2.0	4.5	4.0	38.0	12.4	95.1	5.6	27.2	3.5	6.6	6.7	41.1	15.8	74.8
	Total	13.45	179.4	4.6	27.0	18.7	216.7	36.7	423.1	18.3	218.6	8.9	24.4	13.1	117.5	40.3	360.5
Singapore	Finished	21.41	69.3	3.7	6.0	27.7	20.8	52.9	96.1	21.2	55.7	6.2	2.8	9.1	9.5	36.5	68.0
	P&C	8.53	10.4	1.3	0.7	8.4	5.6	18.1	16.6	8.6	8.6	2.8	0.7	4.2	2.9	15.6	12.3
	Total	29.94	79.7	5.0	6.7	36.1	26.4	71.0	112.7	29.8	64.3	9.0	3.6	13.3	12.4	52.1	80.3
Malaysia	Finished	12.0	30.1	3.8	3.7	16.3	15.3	32.1	49.0	8.6	16.4	2.9	1.1	3.0	7.1	14.5	24.7
	P&C	7.3	6.8	1.7	0.5	7.5	4.3	16.5	11.6	4.7	9.1	3.2	2.0	9.1	7.0	17.0	18.0
	Total	19.2	36.9	5.6	4.2	23.8	19.6	48.6	60.6	13.3	25.5	6.1	3.1	12.2	14.1	31.6	42.7
Indonesia	Finished	1.5	1.5	0.5	0.6	2.4	2.6	4.4	4.7	0.2	4.1	0.1	0.4	0.1	0.6	0.4	5.1
	P&C	1.4	0.7	0.5	0.0	0.6	0.4	2.5	1.1	0.1	2.2	0.0	0.1	0.0	0.4	0.1	2.7
	Total	2.9	2.2	1.0	0.7	3.0	3.0	6.9	5.8	0.3	6.2	0.1	0.5	0.2	1.0	0.5	7.8
Thailand	Finished	2.7	11.1	1.3	2.4	5.3	13.6	9.3	27.1	3.1	9.5	1.3	2.0	1.0	1.5	5.5	13.1

	Exports to									Imports from							
Country of origin		EA10		Japan		ROW		World		EA10		Japan		ROW		World	
	Products	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014	2000	2014
	P&C	4.3	3.8	0.9	0.3	3.0	2.5	8.2	6.6	2.6	5.4	1.5	1.1	3.5	2.5	7.7	9.0
	Total	7.1	14.9	2.2	2.7	8.3	16.1	17.6	33.7	5.7	14.9	2.9	3.1	4.5	4.1	13.1	22.0
Philippines	Finished	7.6	12.1	2.5	2.3	10.8	5.5	21.0	20.0	1.9	1.8	0.4	0.2	0.5	0.9	2.8	2.9
	P&C	2.0	2.0	0.6	0.4	1.0	0.6	3.6	2.9	3.2	5.5	2.6	1.4	6.0	3.7	11.8	10.5
	Total	9.6	14.1	3.1	2.7	11.8	6.1	24.6	22.9	5.1	7.3	3.1	1.6	6.5	4.5	14.6	13.4
Vietnam	Finished	0.1	1.7	0.0	0.2	0.0	7.5	0.1	9.4	0.1	7.0	0.4	0.9	0.2	6.1	0.8	14.0
	P&C	0.4	1.6	0.0	0.1	0.0	1.2	0.5	2.9	0.1	9.7	0.0	0.6	0.0	0.2	0.2	10.4
	Total	0.5	3.3	0.1	0.3	0.0	8.7	0.6	12.3	0.2	16.7	0.5	1.5	0.2	6.2	0.9	24.4

Note: P&C- parts and components, EA10 (East Asia 10) includes China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

Source: UN-Comtrade Database and author's calculation

Appendix V-1: Development Experience of Singapore's and Malaysia's single window

Singapore and Malaysia are both considered to be ahead in trade facilitation services vis-à-vis the other countries in the ASEAN region (refer to discussion in Section 2). This section briefly looks at these two countries that have already established their single window system. While Singapore is a global pioneer and has been operating the system since 1989, Malaysia is also an early implementer and has been applauded for its border administration efficiency globally.

Singapore initiated its single window, called the TradeNet, development process in 1985-86 by appointing the Singapore Trade Development Board (STB) as the leading coordinating agency. During the same time, a TradeNet Steering Committee was created to oversee the whole process and subsequently three working sub-committees (sea shipping, air shipping and various government agencies) were formed to give inputs on functional requirements. A new company (Singapore Network Services Pte Ltd²⁰⁸) was formed in 1988 so as to develop the TradeNet system and process the services. Thereafter, the TradeNet system became operational in 1989 and connected multiple parties engaged in external trade transactions, including 35 controlling agencies in the country. Currently, in Singapore all trade documentation tasks, such as export and import permits, Certificate of Origin, are done electronically. The number of permit applications had increased from 10,000 declarations per day in 1987 to between 30,000- 40,000 per day in 2010, amounting to 9 million transactions a year. One main benefit from Singapore's TradeNet is reduction in processing time of trade documents from 2-4 days to a low of 10 minutes, resulting in gains in productivity (Table I) (UNNEXT 2010: 2-4).

²⁰⁸ The company is now renamed as Crimson Logic Pte Ltd

Table I: Impact of Singapore's TradeNet (National Single Window)

Key Indicators	Before TradeNet	After TradeNet
Processing Time of Permits Submission of Documents	4 hours to 2-7 days Multiple Submissions	10 minutes Single document through a single interface
Number of Documents	3-35 documents	1 document
Trade Documentation Fees	US\$6.25/ document	US\$1.80/application

Source: UNNExT (2010: 5)

As for Malaysia, the government mandated the task of a paperless, electronic-customs service to the National Chambers of Commerce and Industry in 1989, which in turn set up a company called DagangNet. The company introduced its single window as a form of trade facilitation exercise in 1993 that later, in 1995, was adopted and incorporated in the Royal Malaysian Customs as the 'SMK-Dagang*Net'. The first interface between Dagang Net and Malaysian Customs was implemented for the Port Klang Community, which led to reduction in documentation error rate from 40 per cent to 5 per cent, cost savings of US\$29 million per year and reduction of cargo turn-around time from an average of four days to two days. By 2004, SMK-Dagang*Net automated trade facilitation at all Customs entry points and drove it for all maritime and aviation activities of major ports in the country²⁰⁹. The scope of the service of the Net expanded from use of e-government, digital signatures, smartcards and electronic fund transfers in Klang Port community in 1995 to a nationwide portal to facilitate payment of duties and taxes in 2004 and further to linkage of permit-issuing agencies in 2009 for submission and approval of import-export permits. As of 2010, the single window system is available at around 500 customs stations located nationwide, handling about 275 million electronic trade transactions annually (UNNExT 2010: 2-3). The evolution of a single

²⁰⁹ Port Klang, Kuala Lumpur International Airport, Penang's major ports in Butterworth and Bayan Lepas, Johor's two major ports and the major ports in Kota Kinabalu and Kuching.

window system also formed the basis for Malaysia to move to its next phase of development as a National Single Window, in line with its commitments made under the AEC Blueprint.

For both the countries, they faced challenges of a multi-agency project and adaptation to new technology. Although Singapore, being a small country or city-state, overcomes the issues with ease, Malaysia faced challenges similar to Indonesia and Thailand, discussed earlier. Nevertheless, both countries show certain distinct characteristics in its institutional capacity that affected the final outcome. These key organisation characteristics are discussed below.

- a) Both the countries showed political commitment at the highest level. While, in 1986, the then Singapore's Minister of Trade and Industry provided full support to the TradeNet team and gave a deadline of two years, for Malaysia, the government championed the idea of electronic trade and related infrastructure since the late 1990s.
- b) Singapore appointed a lead agency (STB) and clearly delineated its tasks - setting up of multi-agency steering committee, drawing up the concept of the system, establishing the policy direction for change and putting in place the mechanism to implement the new system. Malaysia followed a model of public-private partnership from the beginning. Although the government took the leadership role in propagating the idea, it also empowered the private sector to develop and execute the initiative (DagangNet was set up by the Malaysian National Chambers of Commerce and Industry). The NSW project was positioned as a nationally concerted effort, rather than mere application of technology.
- c) Both Singapore and Malaysia demonstrated cooperation across multiple government agencies. Singapore formed three subcommittees, involving representatives from the government agencies and the private sector and connected 35 agencies. Malaysia also

involved 30 agencies for implementation of its one-stop border-administration service.

- d) A unique feature that is observed in Singapore and Malaysia is the establishment of a separate corporate vehicle. These are Singapore Network Services Pte Ltd and Dagang Net Technologies (in Malaysia) as the designer, developer and operator of the NSW. This is a good example of Public-Private-Partnership in building connectivity in the region. The public sector may not have the manpower to provide the appropriate infrastructure and the private sector may not be prepared to take the financial risks for a system that essentially does the regulatory functions of the government. To address this issue, the lead government agency may feel that a distinct company with shareholders from both the public and private sectors would be more appropriate in this situation.

- e) Singapore showcased two special features with regard to its development of NSW. It went for a phased implementation of a fully integrated system but on limited scale and scope. The country did not go for phased implementation in the sense that each government agency develops their own system in the first phase and then try to merge their systems together in the second phase. Singapore also provided user-friendly TradeNet service centres for small and medium scale enterprises. This group of private sector may not have resources to buy a computer system to prepare and submit their trade and Customs documents. Establishing service centres is critical for acceptance and success of the new system.

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