

Towards Global Asean:
**Prospects, Impacts
and Challenges**

*Kuala Lumpur Regional Centre for Arbitration (KLRCA), Malaysia.
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Conveners:



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**REDUCING NON-TARIFF BARRIERS IN A MORE
INTEGRATED ASEAN: WILL ASEAN ECONOMIC
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REDUCING NON-TARIFF BARRIERS IN A MORE INTEGRATED ASEAN: WILL ASEAN ECONOMIC COMMUNITY (AEC) BE THE BEST OPTION?

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Introduction

Non-tariff barriers (NTBs) are among the hotly debated topics on trade liberalization issues on multilateral, regional, plurilateral or bilateral levels. As the importance of tariffs continues to decline, there has been a rise in the use of NTBs by States which to some extent has masked protectionism. As regional economic integration in the South East Asia is taken to a new height with the establishment of the ASEAN Economic Community (AEC), the seriousness to reduce non-tariff barriers (NTBs) in intra-regional trade will be subject to scrutiny. This paper will first define what is an NTB. It will then assess the use of NTBs by Members of ASEAN who are also supposed to undertake trade liberalization commitments as part and parcel of their AEC membership. This paper hypothesizes that such use is still high even as regional economic integration within ASEAN came into effect. This paper will then analyse the extent to which the provisions of the AEC treaty instruments (particularly the ASEAN Trade in Goods Agreement (ATIGA)) disciplines the use of NTBs and demonstrate the limits that those provisions have in relation to trade liberalisation. This will be followed by a comparison between the ATIGA and the Trans-Pacific Partnership Agreement (TPPA) which will look at their differential levels of liberalization.

Defining what is an NTB

NTB stands for non-tariff barriers to trade. Literally the term may mean all types of trade barriers other than tariff. Tariff is a type of duty imposed upon or in relation to the importation of a good into the territory of a State, and is imposed at each entry point into the State (whether land, sea or air). Different people have defined the NTB differently. The Organisation of Economic Cooperation and Development (OECD) defines NTBs as all barriers to trade that are not tariffs stating that the examples of NTBs include countervailing and anti-dumping duties, "voluntary" export restraints, subsidies that cause injury to domestic producers and technical barriers to trade.¹ There is also definition of the term non-tariff measures (NTMs) by the United Nations Conference for Trade and Development (UNCTAD) that goes as follows:

¹ See <<https://stats.oecd.org/glossary/detail.asp?ID=1837>> accessed 20 July 2016.

“Non-tariff measures (NTMs) are generally defined as policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.”

The UNCTAD’s conception of NTMs has been accepted in a study by Economic Research Institute for ASEAN (ERIA) on NTMs in ASEAN.² The classification made by UNCTAD which will be discussed below has also been accepted. The question is are non-tariff measures (NTMs) identical with NTBs? The term ‘NTBs’ is chosen for this paper since the question of regulation on the international or regional plane is more suited with NTBs than NTMs because States are supposed to be allowed to take any trade measure that it wishes in line with the notion of sovereignty but once it obstructs trade, it will become a trade barrier.³ Thus NTBs can be a subset of NTMs.

Regarding the classification of NTMs/NTBs, the UNCTAD classification categorises NTMs into the following:

Imports	Technical measures	Sanitary and Phytosanitary Measures
		Technical Barriers to Trade
		Pre-Shipment Inspection And Other Formalities
	Non-technical measures	Contingent Trade-Protective Measures
		Non-Automatic Licensing, Quotas, Prohibitions And Quantity-Control Measures Other Than For SPS Or TBT Reasons
		Finance Measures
		Measures Affecting Competition
		Trade-Related Investment Measures
		Distribution Restrictions
		Restrictions On Post-Sales Services
		Subsidies (Excluding Export Subsidies)
		Government Procurement Restrictions
		Intellectual Property
		Rules Of Origin
		Export-Related Measures
	Exports	

² De Cordoba, S.F. 2016. Collecting and Classifying Non-tariff Measures in ASEAN. In Ing L.Y. et. al. (eds). Non-Tariff Measures in ASEAN. 2016. Jakarta: Economic Research Institute for ASEAN.

³ In fact this is in line with the definition of the term non-tariff barriers in the ATIGA which is: “measures other than tariffs which effectively prohibit or restrict imports or exports of goods within Member States;”

The above classification suggests that NTMs are given broad interpretation by the UNCTAD covering most trade-related measures by a State both in relation to importation and exportation. However, a less complex classification is also adopted by UNCTAD by which the measures are categorized as:

- (i) Technical barriers to trade (TBT)
- (ii) Pre-Shipment Inspection (INSP)
- (iii) Contingent trade-protective measures (CTPM)
- (iv) Quantity control measures (QC)
- (v) Price control measures (PC)
- (vi) Other measure relating to imports (OTH)
- (vii) Export-related measures (EXP)
- (viii) Sanitary and phytosanitary measures

It is the less complex classification that is chosen for the analysis on the use of NTMs by ASEAN Member States below since the statistical data used in the information source is presented along the lines of such a classification.

Use of NTMs in ASEAN

The establishment of a regional trade arrangement is supposed to speed up the process of economic integration in the respective region. Thus with the establishment of the ASEAN Economic Community (AEC) and the implementation of one of its flagships that is the ASEAN Trade in Goods Agreement (ATIGA), reductions of NTBs should be high on the agenda. Notwithstanding that, many have argued that there is still a high level of NTBs used by ASEAN Member States. And as will be seen below, each type of NTB has different degree of frequency with respect to each and every ASEAN Member State.

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Be it as it may, as of 21 July 2016,⁴ a total number of 5881 NTMs have been taken by all ASEAN Member States. The type of NTMs with the highest number of uses is technical barrier to trade (TBT), followed by sanitary and phytosanitary measures (SPS) and export-related measures. If one excludes export-related measures, there is a significance difference in the number of TBT and SPS cases and the rest.

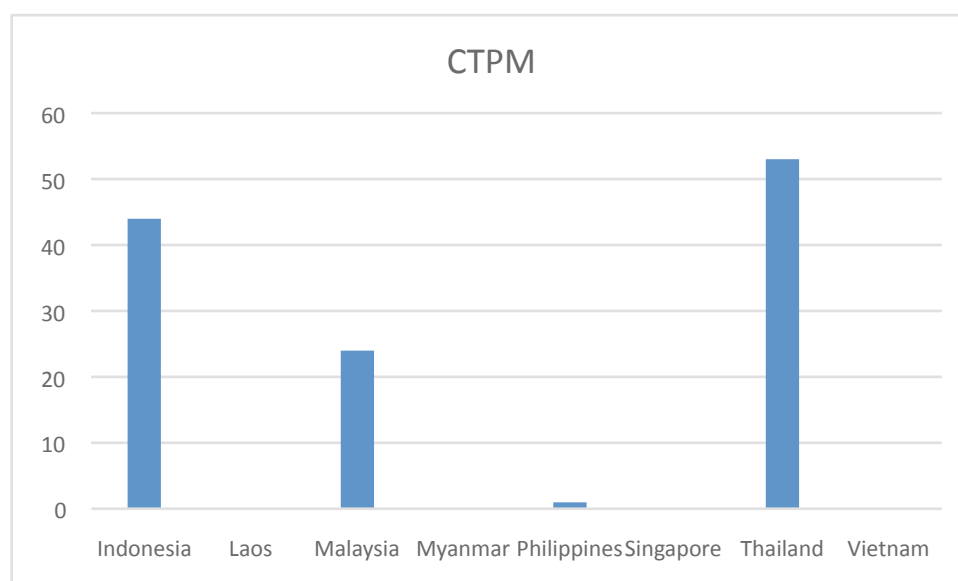
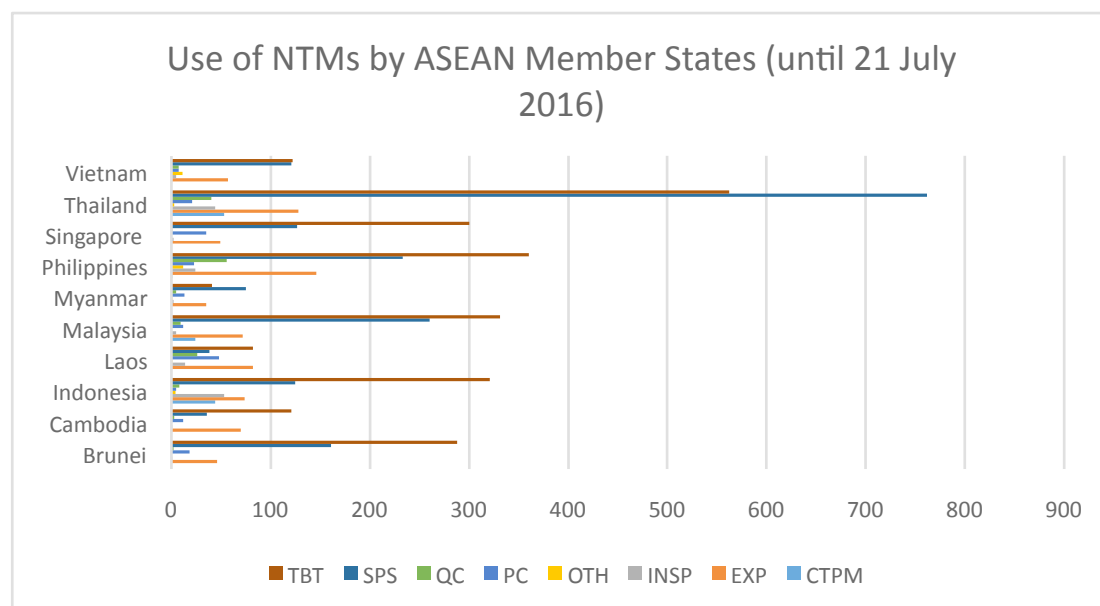
As regards the country users of NTMs, the following table and chart indicate the relevant patterns as to number of NTMs that individual Member State of ASEAN has taken and the type of the measures taken.

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Apparently Thailand is the most frequent user of NTMs with 1613 number of measures. This is followed by the Philippines (855) and Malaysia (713). The

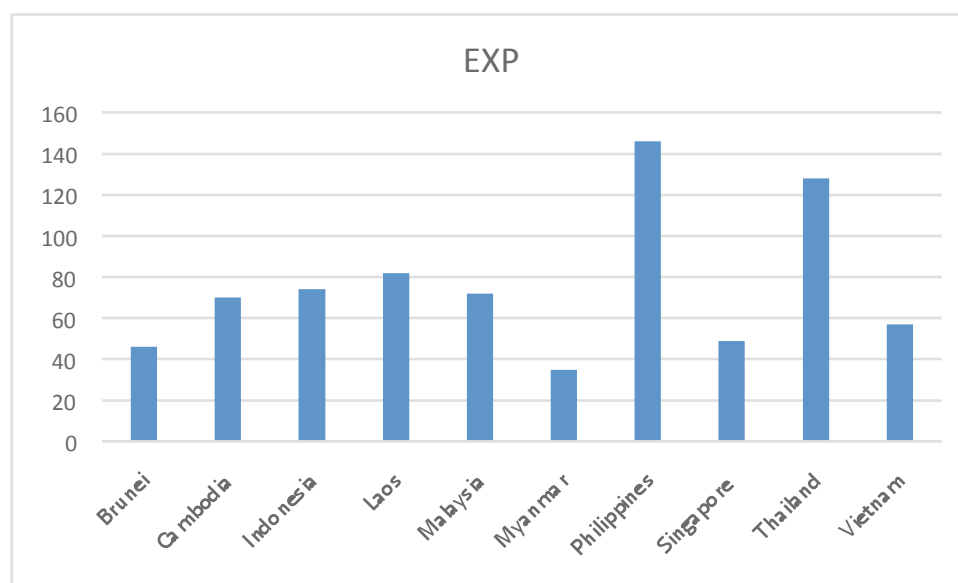
⁴ See <http://asean.i-tip.org/Forms/TableView.aspx?mode=modify&action=search>. Accessed 21 July 2016.

difference between the total measures by Thailand and those by the second and third highest users is significant. The difference with the Philippines is 758 (47%) and with Malaysia is 900 (55.7%). As regards the types of NTMs, TBT is the most frequently used measure taken by ASEAN Member States followed by SPS. All but Thailand and Myanmar have TBT as their most frequently used NTM while SPS is the most frequently used by the two ASEAN Members. This posits that the move to cut down on NTMs through the AEC would be reflected in the disciplining of the national TBT and SPS regulatory regimes of ASEAN Member States. This does not mean however, scrutinizing the other types of NTMs is not pivotal. Different types of NTMs have different nature and conditions which entail different consequences.



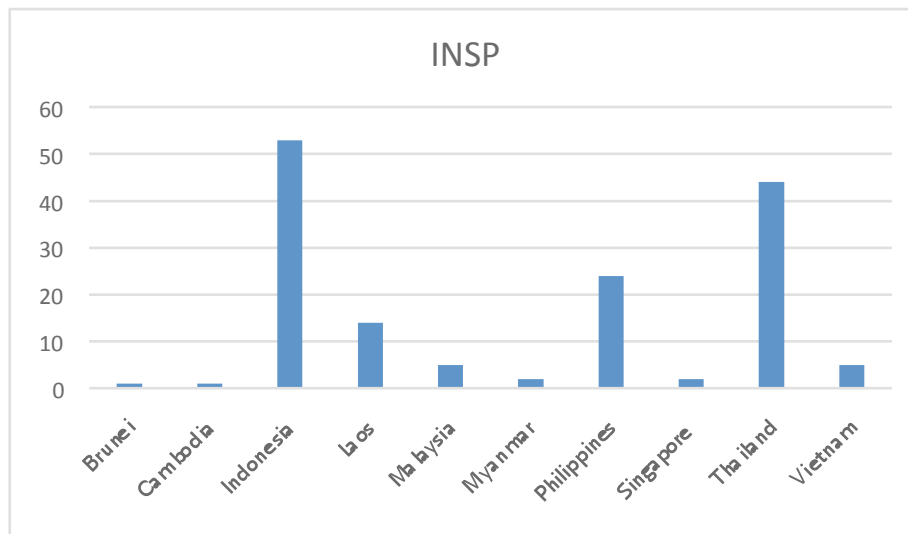
Contingent trade protection measures (CTPMs) though are not as regularly used as TBT and SPS, can still reduce the economic welfare of the user country. CTPMs

include anti-dumping, countervailing and safeguards measures. In the context of ASEAN, only 3 Member States are found to have used them namely Thailand, Indonesia and Malaysia. All CTPMs taken by Indonesia were anti-dumping measures which targeted the so called unfair practices of dumping from both non-ASEAN and ASEAN countries. Among the ASEAN countries targeted were Malaysia, the Philippines, Thailand, Singapore and Vietnam. The same applies to Malaysia where only anti-dumping measures were taken targeting imports from ASEAN and non-ASEAN regions (the ASEAN countries targeted by Malaysia were Indonesia, Thailand, the Philippines and Vietnam). However, for Thailand, apart from anti-dumping measures, safeguard measures were also taken and almost the same ASEAN Members were targeted (this is on top of non ASEAN Members).



As regards export measures, they take the forms of export prohibition, control and licensing. The most frequent user of export measures was the Philippines followed by Thailand and Laos. The presence of Laos as one of the top three most frequent users is remarkable given its small volume of trade compared to other ASEAN Member States. Looking at the statistics, Laos's export measures appear to be focused on specific goods such as agricultural goods (including fertilisers), timber, plant varieties and precious metals, and some of the measures are tied with importation measures causing them to possibly overlap with other measures such as TBT and SPS. This should not be problematic as the purposes of export measures vary. They include protecting national security, the environment, life and health of human, animal and plants, promoting food security and ensuring compliance with food safety and health standards in countries of importation. Nevertheless, export measures can give rise to trade restriction concerns if prohibition is imposed on exportation of raw materials,

particularly minerals which can be evidently found in many export measures taken by Indonesia.⁵



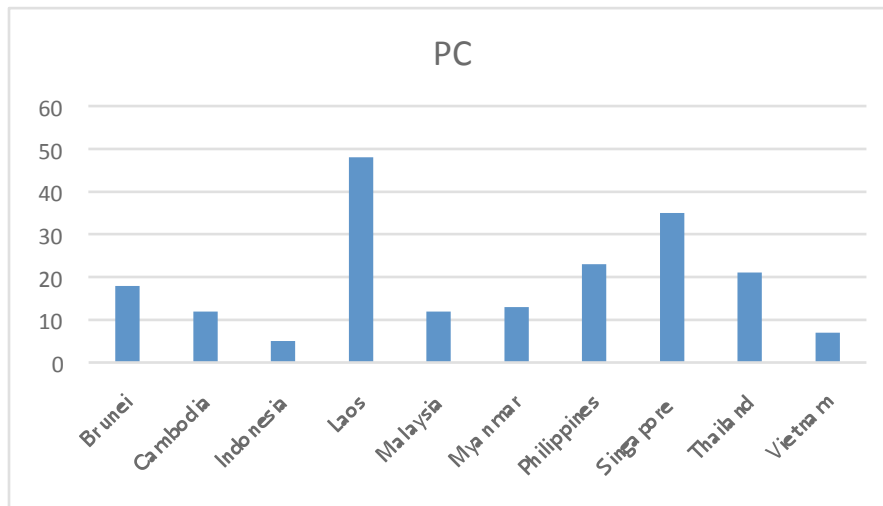
As regards pre-shipment inspections, Indonesia topped the list and this was followed by Thailand and the Philippines. Again, Laos was notably a frequent user of such NTMs. Examples of pre-shipment inspections are the requirement to conduct technical verification for each shipment of import of horticultural products⁶ (Indonesia), the requirement that entry of oil palm planting materials shall be at Manila ports only⁷ (the Philippines), and the requirement that certain products (particularly agricultural) to be imported into Thailand only by sea or air⁸ (Thailand) (in fact most Thailand 'pre-shipment inspection' are in the form of transport-related importation conditions).

⁵ See for example Indonesian Ministry of Trade Regulation No. 04/M-DAG/PER/1/2014 Concerning Provisions for Export of Processed and Refined/Smelted Mining Products.

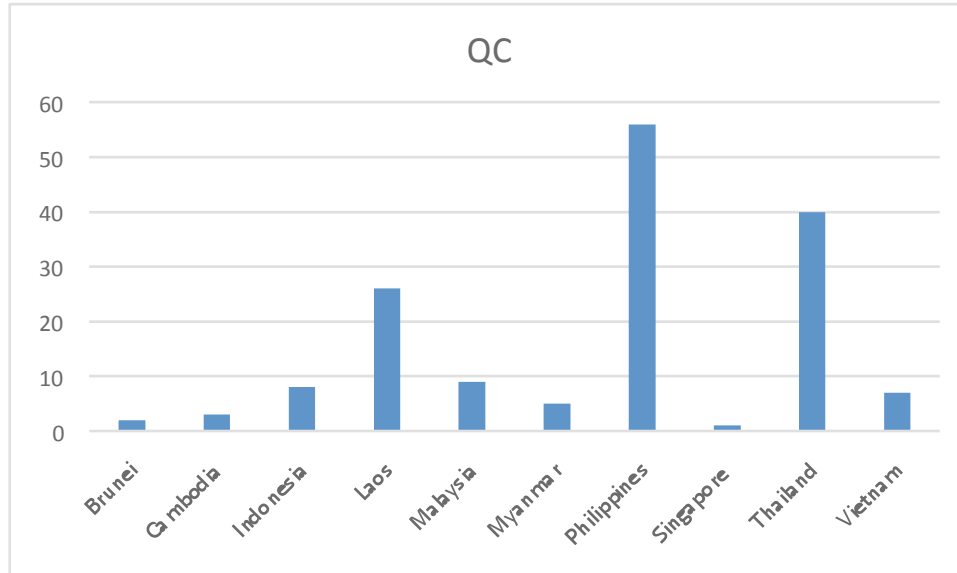
⁶ See the Indonesian Ministry of Trade Regulation No. 16/M-DAG/PER/4/2013 on the provisions of import of horticultural products.

⁷ See the Philippines Department of Agriculture (Bureau of Plant Industry), 'Revised Guidelines on the Importation of Oil Palm Planting Materials', Memorandum Order No 22, Series 2008, February 14, 2008.

⁸ See Thailand Ministry of Agriculture and Cooperatives's Ministerial Notice 2013 on pear imported from Australia.

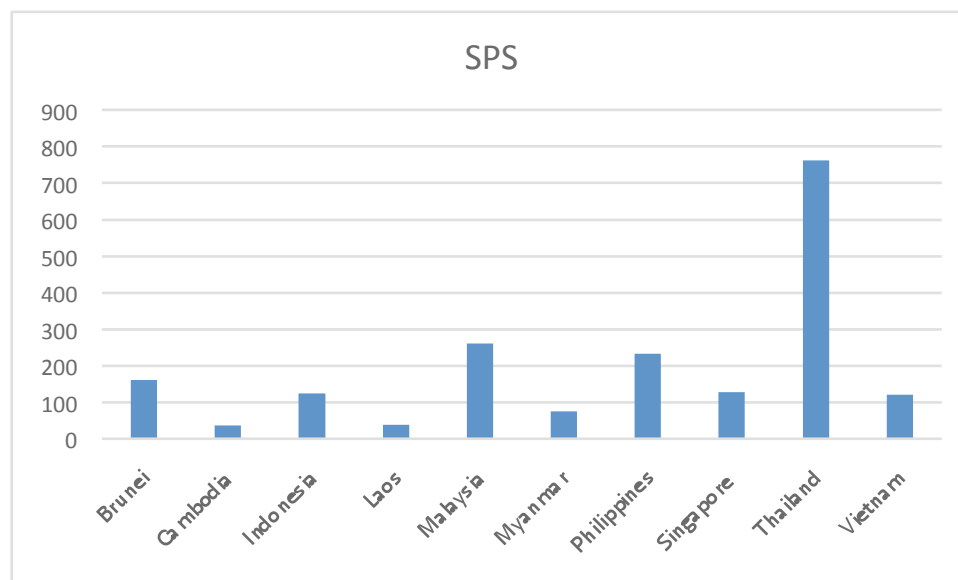


Price control measures are one of the most interesting type of NTMs. Laos topped the list of the most frequent users followed by Singapore and the Philippines. Although price control may be understood as the measures taken by Government to stabilise the price of important and strategic goods, in the context of NTMs, the term 'price control measures' has been consistently used to refer to internal taxation levied upon imports (such as value added tax and excise tax), fees and charges for services related to importation (such as administrative fee, processing fee, certification fee, inspection fee), and issuance of import licenses and permits.



As regards quantity control measures, the Philippines is the highest user followed by Thailand and Laos. Quantity control measures basically involve import and export prohibition and restriction, requirement to obtain import permits and licenses, register or get approval from relevant agencies etc. Quantity control measures are part of quantitative restrictions which are a sensitive issue of international trade. Many questions have been raised as to the transparency level of such measures within the

legal framework of each individual country include ASEAN Member States. One possible State that can be scrutinized is Malaysia. Based on the respective NTM database, Malaysia should only have taken 9 quantity control measures so far, covering gaming products, rice, oil palm planting materials, oil palm products, ethyl fluid, pesticides, hevea plant species and soil. However, it is almost certain that quantity control measures have been taken for a lot more products. One may consult the Malaysian Customs (Prohibition of Imports) Order.

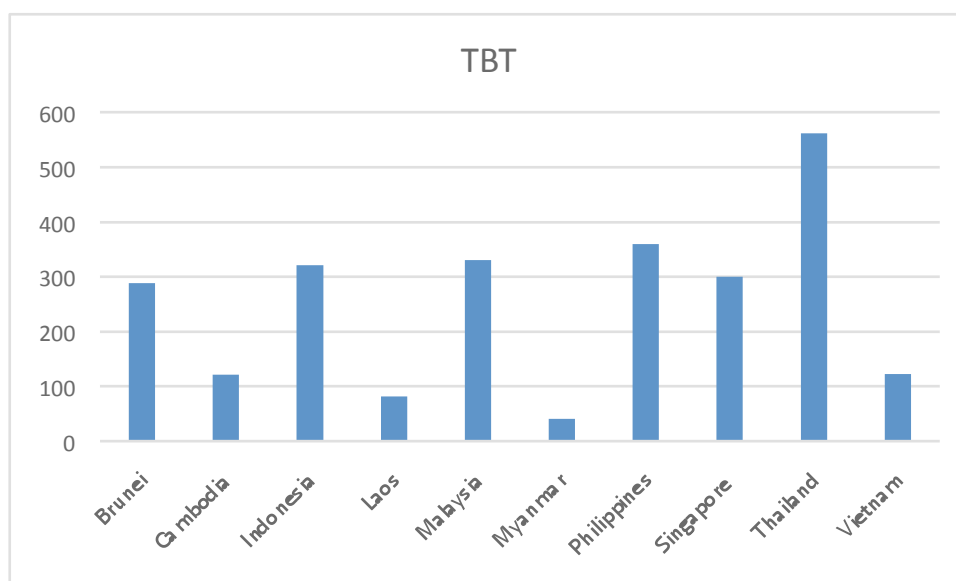


Now the discussion turns to sanitary and phytosanitary measures (SPS). Thailand is the most frequent user of SPS with more than 700 measures taken so far. This is followed by Malaysia (note that the difference between the two countries are more than half), and by the Philippines. SPS is the second most frequently used type of NTMs in ASEAN. The examples of SPS taken by ASEAN Member States include standards and labelling requirements for dried salted vegetable that it shall not contain more than 8 per cent of water (Malaysia)⁹, requirement that production of infant not to use radiation process (Thailand)¹⁰ and the requirement that plant and plant products of GM origin intended for direct use as food, feed, or processing must carry a certificate of GMO content issued by an authorized body (the Philippines).¹¹

⁹ See Malaysian Food Regulations 1985.

¹⁰ See Thailand Ministry of Public Health's ministerial notice (issue 157), 1994 for baby food and follow up formula for infant and kid.

¹¹ See Guidelines for the Phytosanitary Inspection of Regulated Articles for Food, Feed and Processing, Pursuant to AO No. 8 (Series of 2002), "Rules and Regulations on the Importation and Release into the Environment of Plants and Plant Products Derived from the Use of Modern Biotechnology" issued by Philippines Department of Agriculture.

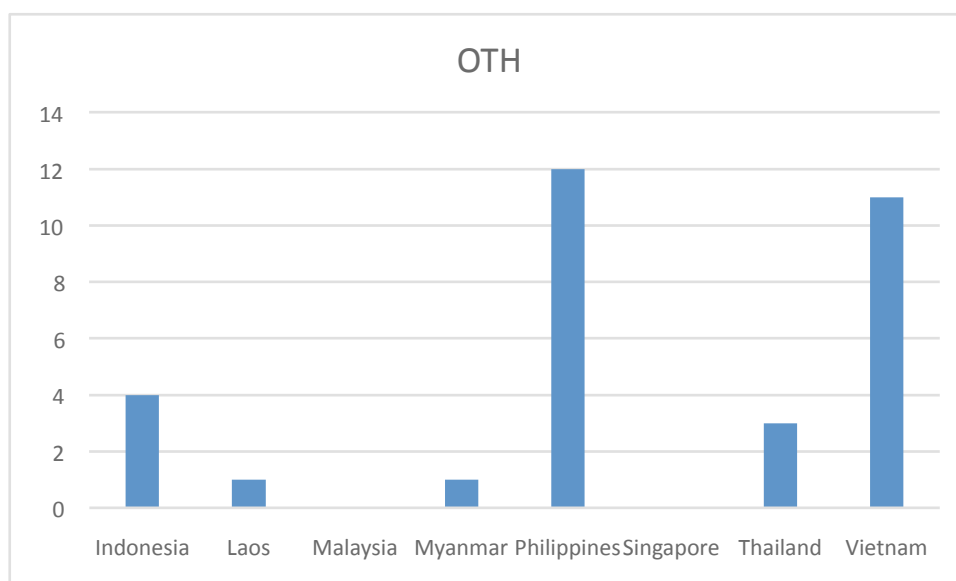


Technical barriers to trade (TBT) is the type of NTMs which has the highest number of uses among ASEAN Member States. The distribution of NTMs used among those states is more balanced with Thailand being the most frequent user, followed by Philippines, Malaysia and Indonesia. The fact that TBT has the highest usage necessitates serious efforts to reduce barriers to international trade stemming from the use of TBT. Examples of TBT used by ASEAN Members are labelling requirement that for seed potato, the label shall have details following the guidelines of the New Zealand Seed Potato Certification Authority (Thailand),¹² the requirement for labelling for pre-packaged food to contain certain minimum mandatory information including product name/name of food, use of brand name etc (Philippines)¹³ and standards and labelling requirements for nut and nut product which includes coconut cream stipulating that it shall contain not less than certain percentage of water (Malaysia).¹⁴

¹² See Thailand's Ministry of Agriculture and Cooperatives's Ministerial Notice 2009 on Potato Imported from New Zealand.

¹³ See Philippines's Revised Rules and Regulations Governing the Labeling of Prepackaged Food Products further Amending Administrative Order 88-B s1984. See also <<http://www.fda.gov.ph/attachments/article/194724/AO2014-0030%20-%20Revised%20Rules%20and%20Regulation%20Governing%20of%20Prepackaged%20Food%20Product>>

¹⁴ See Malaysia's Food Regulations 1985 (updated until Jan 2014).



Other measures are not that significant in number compared to the other types of NTMs and few ASEAN Member States are found to have recourse to them particularly the Philippines, Vietnam and Indonesia. Example of other measures are the prohibition on financial institutions to open any letter of credit covering importations unless the applicant deposits the full amount of duties due thereon (Philippines),¹⁵ measure requiring cigarettes and cigars to be imported only by a State-owned company (Vietnam)¹⁶ and measure requiring narcotics to be imported only by one state-owned pharmaceutical wholesaler that already has a special permit (Indonesia).¹⁷

Extent and Limits of Regulation of NTBs in ASEAN

The previous section of this paper indicates that NTMs used in ASEAN are still numerous. This may mean that level of NTBs used by ASEAN Member States is also high. Thus it is important for us to know what ASEAN could offer to reduce NTBs at least in intra-ASEAN trade.

The ASEAN Economic Community (AEC) Blueprint does mention 'Elimination of Non-Tariff Barriers' as part of the commitments of ASEAN Member States towards the establishment of the ASEAN Single Market where trade in goods should be made free from barriers. The Blueprint states that as ASEAN has achieved significant progress in tariff liberalization, its main focus by the year 2015 would be the full

¹⁵ See Philippines Bureau of Customs, 'Advance payment of Duties in the Import Entry Declaration, Customs Memorandum Order No. 27-2006, 16 August 2006.

¹⁶ See Circular No. 37/2013/TT-BCT dated December 30, 2013 providing the import of cigarettes and cigar, 30/12/2013.

¹⁷ See Indonesia's Ministry of Health Regulation No. 10/MENKES/PER/I/2013 concerning Import and Export of Narcotics, Psychotropics, and Pharmacy Precursors

elimination of NTBs.¹⁸ Several actions have been undertaken namely including to enhance transparency, abide by the commitment of a standstill and roll-back on NTBs, and the most ambitious one being the removal of all NTBs by 2010 for ASEAN-5, by 2012 for the Philippines, and by 2015 with flexibilities to 2018 for Cambodia, Laos, Myanmar and Vietnam, in accordance with the agreed Work Programme on Non-Tariff Barriers (NTBs) elimination. The high number of NTMs that have been taken by ASEAN Member States including those taken very recently may shape the way such actions can become a reality. It is also important to note that the AEC will strive towards establishing a regional regulatory framework to address the NTBs consistent with international best practices. Thus the ASEAN Trade in Goods Agreement (ATIGA) is worth noting. Chapter 4 of the ATIGA speaks about the non-tariff measures. All NTMs must be consistent with Member States' WTO obligations.

All ASEAN Member States have an obligation to generally eliminate quantitative restrictions in accordance with the WTO obligations. For other types of NTBs, there is also an obligation in relation to their elimination but what is expected to be done is identification of the barriers for elimination. This means a future obligation to eliminate those barriers, not a "there and then" obligation. And such an exercise is to be done plurilaterally, not unilaterally, suggesting that agreement of parties is needed before the decision to eliminate is taken. Once identified, the NTBs will be eliminated in 3 tranches the timeline of which differs between different countries. Import licensing is still allowed.

(i) Contingent Trade Protection Measures

Contingent trade protection measures (CTPMs) are the most untouched NTMs not only in ATIGA but also most FTAs (including the TPPA). By the GATT/WTO standards, much greater policy space for Member States to use these measures to protect their domestic industry is evident, prompting claims of protectionism. Viewed as a strategic tool against unfair trade practices (such as dumping and injurious subsidy), CTPM is the least regulated type of NTMs in the ATIGA. The ATIGA affirms the right of Member States to take safeguards, anti-dumping and countervailing measures against sudden increase of imports, dumping and injurious subsidies respectively which are stipulated in GATT, the WTO Covered Agreements (Agreement on Safeguards, the WTO Agreement on the Implementation of Article VI of GATT and Agreement on Subsidies and Countervailing Measures).

(ii) Export Measures

¹⁸ See AEC Blueprint 2008, para

The ATIGA does not allow Member States to adopt NTMs that except in accordance with its WTO rights and obligations or in accordance with this Agreement (ATIGA). And the NTMs include those imposed on the exportation of goods. Export duties are not prohibited by the ATIGA but the ATIGA requires Member States to ensure that export duties are not taken so as to afford protection to domestic production. As regards other export-related fees and charges, they must be limited in amount to the approximate cost of services rendered and do not represent an indirect protection to domestic goods or a taxation on imports or exports for fiscal purposes.¹⁹ The details of those charges must be published promptly (this also applies to fees and charges in connection with importation).

It is also worth noting the provision on general exceptions in the ATIGA (Article 8) which repeats Article XX of the GATT on the same matter. It excludes from trade liberalizing obligations measures which restrict exports of domestic materials to ensure essential quantities of such materials to a domestic processing industry during periods when the domestic price of such materials is below the world price. However such restrictions shall not operate to increase the exports of or the protection afforded to such domestic industry, and shall not depart from the provisions of this Agreement relating to non-discrimination.

(iii) Pre-shipment Inspections

Pre-shipment inspections normally will attract the application of trade facilitation obligations. In the ATIGA Agreement, Article 47 lays down the principles on trade facilitation that Member States have to pay attention to. The principles are (1) transparency, (2) communications and consultations, (3) simplification, practicability and efficiency, (4) non-discrimination, (5) consistency and predictability, (6) harmonization, standardization and recognition, (7) modernization and use of new technology, (8) due process, and (9) cooperation. The operationalization of ASEAN trade facilitation regime is through the ASEAN Trade Facilitation Work Programme which “sets out all concrete actions and measures with clear targets and timelines of implementation necessary for creating a consistent, transparent, and predictable environment for international trade transactions...while monitoring of Member States’ trade facilitation measures will be done”. The initiatives taken so far involve the modernization and integration of customs rules and procedures which include the speeding up of cargo clearance in ports to up to 30 minutes. However, whether this practice has been confined to the selected few ports in certain countries or whether it is in the process of being extended to all Member States of ASEAN remains unclear. The ASEAN Single Window has also been established which allows relevant parties to international trade transactions to only do all the documentation and data

¹⁹ Article 7(1) of ATIGA.

submission at a single entry point. This will help expedite the process of clearance especially for in transit goods.

(iv) Price Control Measures

As mentioned above, price control measures can be reflective of import licensing measures. Hence how the ATIGA may discipline 'Quantity Control Measures', which is elaborated below will also be relevant here. Other than that, ASEAN Member States also have identified their internal taxation levied on imports as price control measures. In this regard, Article 6 of ATIGA requires all Member States to ensure that national treatment is accorded to goods of the other Member States and comply with the GATT/WTO National Treatment Principle enshrined in Article III GATT. The Principle does not allow WTO Member States to levy any internal tax on imports in excess of that imposed on local products.

(v) Quantity Control Measures

As mentioned earlier, only quantitative restrictions have direct elimination obligation under the ATIGA while other NTBs will only be identified for elimination which is to be done gradually. Import licensing is still allowed. In fact non-automatic import licensing is not altogether abolished. What Member States have to do is only ensure that their import licensing measures must follow the import licensing procedures in Article 44 of the ATIGA. It must be noted although quantity control measures are not the most frequently used measures in ASEAN, most of the measures which are labelled as TBT and SPS have the characteristics of import licensing. The use of import licensing must be consistent with the WTO Import Licensing Agreement. Existing and new import licensing procedures of each Member State must be notified to the others. What if a Member State is not satisfied with the granting or denial of import licences by another Member State. The ATIGA stipulates that the Member State that implements an import licensing procedure must answer reasonable enquiries from another Member State with regards to the criteria used when granting or denying import licenses. However, it is not clear whether Member States are required to publish those criteria as the ATIGA only states that the Member State shall consider publication of such criteria. Finally, Article 44.4 stipulates that "elements in non-automatic import licensing procedures that are found to be impeding trade shall be identified, with a view to remove such barriers, and to the extent possible work towards automatic import licensing procedures." This indicates that there is no outright prohibition of non-automatic import licensing procedures but only identification of such procedures in the event that they are found to be impeding trade.

(vi) Technical Barriers to Trade

TBT is the most frequently used form of NTMs. As most of us know, TBT measures come in 3 categories: standards, technical regulations and conformity assessment

procedures (CAPs). The ATIGA approaches to TBT differently in the sense that there is a general obligation not to use NTMs as unnecessary technical barriers to trade. The importance of the WTO principles is evident and there is no strict and instant requirement to come out with harmonized standards but focus is more on operationalising mutual recognition arrangements (MRAs). This is because of the word “any” in Article 73.2 of the ATIGA which suggests that there is no sequencing in the obligations to be undertaken by Member States. As regards technical regulations, deviations from international standards can still be allowed should there be legitimate reasons. There is a unique obligation though. Adoption of prescriptive standards must be avoided to ensure that unnecessary obstacles to trade are not introduced, to enhance fair competition in the market or that it does not lead to a reduction of business flexibility. As regards CAPs, recourse to international standards is exhorted but where that is not possible because of differences in legitimate objectives, differences in the CAPs must be minimised as far as possible. Again special emphasis is placed on MRAs.

(vii) Sanitary and Phytosanitary Measures (SPS)

There is no additional substantive obligation imposed by ATIGA on ASEAN Member States to what is found in the WTO Agreements.²⁰ The nature of obligations is very much confined to commitments by Member States to upholding the WTO obligations, to capacity building, to transparency and to as much as possible upholding the international standards in the related fields. The institutional framework culminates in the establishment of the ASEAN Committee on SPS (AC SPS) and the pursuit of the following – exchange of information, cooperation facilitation, use of consultations to settle disputes and reporting. Notification obligation is also mentioned in the ATIGA: “Member States shall immediately notify all contact points and the ASEAN Secretariat should the following situations occur: (a) in case of food safety crisis, pest or disease outbreaks; and (b) provisional sanitary or phytosanitary measures against or affecting the exports of the other Member States are considered necessary to protect the human, animal or plant life or health of the importing Member State.”

Comparison with TPPA

The Trans-Pacific Partnership Agreement (TPPA) is a comprehensive FTA that has been signed by 12 countries in the Asia-Pacific region and 4 of them are ASEAN Member States namely Brunei, Malaysia, Singapore and Vietnam. A comparison between TPPA and ATIGA can enlighten us on the possibility of the TPPA bringing greater advantage to trade between countries with overlapped TPPA and ASEAN

²⁰ Each Member State commits to apply the principles of the SPS Agreement in the development, application or recognition of any sanitary or phytosanitary measures with the intent to facilitate trade between and among Member States while protecting human, animal or plant life or health in each Member State.

memberships through deeper tariff cuts, removal of NTBs and regional disciplining of other economic regulatory regimes. As regards NTBs, a look at how much the TPPA attempts to reduce them will be very useful. The table below summarises the rules and obligations related to non-tariff measures imposed on Member States of both ATIGA and TPPA. Acknowledging the breadth and lengthiness of TPPA documents, only major points will be covered in this discussion.

Non-Tariff Measures	Rules and Obligations	ATIGA	TPPA
Contingent Trade Protection Measures	Separate rules, standards and procedures for safeguards measures from WTO Safeguards Agreement	X	√
			Application of WTO rules, standards and procedures are not affected but measures under both cannot be taken simultaneously
	Specific “extra-WTO” transparency rules for anti-dumping and countervailing measures	X	√
			The obligations include: <ul style="list-style-type: none"> • Notification of receipt if AD petition 7 days before initiation of investigation • Obligation to maintain public file of investigation records and non-confidential summaries of all relevant information
Export Measures	Prohibition of export duties unless imposed on domestically consumer product	X	√
			Exceptions in Annex 2-C
Preshipment Inspections	Customs procedures must be ensured to be predictable, consistent and transparent.	X	√
		Though those principles are mentioned, no obligation imposed.	
	Procedures for release of goods must be simplified.	X	√
		<ul style="list-style-type: none"> • No clear obligation, but a Work Programme is established • There are 	Maximum is 48 hours

		clearer obligations for in transit goods	
	Obligation to use electronic / automated systems	X	√
Quantity Control Measures	Obligation to remove import and export restrictions	√	√
		The term “MS undertakes not to maintain” is used denoting weaker obligation.	The term “No States shall maintain” is used denoting stronger obligation.
	Specific prohibitions of <ul style="list-style-type: none"> import/export price requirements, import licensing subject to performance requirement and VER 	X	√
Import Licensing	Measures must be consistent with WTO Import Licensing Agreement	√	√
	Obligation to notify existing and new measures.	√	√
Technical barriers to trade	Incorporation of WTO substantive provisions	X	√
		Only reaffirmation of MS’ commitment to abide by WTO TBT Agreement	
	Obligation to ensure TBT measures do not become unnecessary obstacles to international trade.	√	√
	Deviation from international standards if there is a legitimate reason	√	X
			Dispensation with international standards is only if they constitute unnecessary barriers to trade
	Obligation to allow persons from other Member States to participate in the development of TBT procedures	X	√
	Insertion of extra-WTO substantive commitments	X	√
			Annexes on: <ul style="list-style-type: none"> Wine and distilled spirits ICT products Pharmaceuticals Cosmetics Medical devices

			<ul style="list-style-type: none"> • Proprietary formulas for prepackaged foods and food additives • Organic products
Sanitary and Phytosanitary Measures	Members affirm rights and obligations under the WTO SPS Agreement	√	√
	SPS measures must conform to international standards in risk analysis	X	√
			If they do not, they must be based on documented and objective scientific evidence rationally related to the measures
	Members cannot stop importation of goods just because they undertake review of SPS measures.	X	√
		Not found in WTO SPS Agreement	If they do not, they must be based on documented and objective scientific evidence rationally related to the measures
	Testing must use appropriate and validated methods in a facility that operates under a quality assurance program consistent with international laboratory standards.	X	√
		Not found in WTO SPS Agreement	
	Import checks must be without undue delay	X	√

As regards contingent protection measures which are well known for their welfare-reducing effects, both ATIGA and TPPA appear to adopt a minimalist approach whereby WTO safeguards, anti-dumping and countervailing rules remain largely the norm. Such minimalism is evident in the ATIGA which only has two unelaborate provisions in its Trade Remedy Measures Chapter. However, the TPPA has come out with improvements to disciplining safeguards measures taken by national safeguards authorities. The Trade Remedies Chapter lays down rules, standards and procedures for a distinct transitional safeguard measure under the TPPA but such measure cannot be taken at the same time as a measure taken under the WTO. There is no distinct anti-dumping or countervailing measure created under the TPPA requiring State Parties to follow procedures and rules under the WTO instead. However, some extra-WTO transparency rules are created including obligation to maintain public file containing all investigation records and non-confidential summaries of all relevant information.

Then there is the issue of export measures which has become a thorn in the flesh between resource-rich countries and user countries because of the resort by the former to export measures to ensure local players participate downstream and develop a niche in high value added activities using the raw materials extracted there. The ATIGA falls short of any provision that prohibits export duties but the ATIGA does not allow Member States to use export duties to afford protection to local players. Perhaps a Member State of ASEAN may invoke this obligation against another Member State subject to the existence of protection of domestic industries but lack of coherent standards in proving what amounts to 'protection' will make the tasks concerned difficult. The TPPA however, prohibits export duties altogether unless for measures mentioned in Annex 2-C.

The next point of discussion is on trade facilitation which concerns the regulation of customs procedures including pre-shipment inspections. As can be seen from the table above, and the elaboration on the extent of ATIGA's regulation of such procedures, principles of predictability, consistency and transparency are mentioned as among the principles on trade facilitation but the language used indicates that Member States are only guided by those principles and no concrete obligation observe them is evident in the ATIGA, unlike the TPPA. There is also articulation (in the TPPA) of the obligation to make procedures for release of goods more simplified and a maximum time has been fixed under the TPPA (i.e. 48 hours), but there is no such obligation in the ATIGA. The TPPA also requires State Parties to use electronic or automated systems, something which is not clearly mentioned in the ATIGA. However, the ATIGA envisages a Work Programme which may lead to elucidation of what Member States should do in the future.

As regards quantity control measures and import licensing, both will bring the discussion to quantitative restrictions are perceived through the lenses of the international trade regulation. Where States are asked to remove import and export restrictions, both ATIGA and TPPA have taken a clear position on it but the terms used in both differ. As can be seen from the table, the terms used in the ATIGA are that of undertaking not to maintain such restrictions denoting a weaker obligation while the TPPA clearly stipulates that no States shall maintain them denoting a stronger obligation. There is prohibition of specific forms of quantitative restrictions (import/export price requirements, import licensing subject to performance requirement and voluntary export restraints) under the TPPA which does not appear in the ATIGA. Interestingly, the rules on import licensing appear to be in congruence as between the ATIGA and the TPPA.

The remaining types of NTMs are TBT and SPS. With regards to TBT, the continuing importance of the WTO TBT Agreement is worth noting such that the relationships between the Agreement's provisions and both of the ATIGA and TPPA may indicate a certain point of departure from the usual belief that FTAs create standards far above the WTO's. There are a lot of changes that can be brought about by compliance with

the WTO key substantive provisions on TBT. Most of these provisions are incorporated into the TPPA but as far as the ATIGA is concerned, there is only reaffirmation of Member States' commitment to abiding by the TBT Agreement. The obligation to ensure TBT measures do not become unnecessary obstacles appear in both the TPPA and ATIGA. However only the TPPA makes it a must to allow persons from other Member States to participate in the development of TBT procedures. At the same time, the ATIGA allows deviation from international standards if there is a legitimate reason. This is in contrast from the approach taken by the TPPA whereby dispensation with international standards is only if they (the standards) constitute unnecessary barriers to trade. Finally, the TPPA TBT Chapter is well known for inserting extra-WTO substantive commitments annexed to the Chapter. There are annexes on wine and distilled spirits, ICT products etc cementing the application of the Chapter rules to the products covered in each of Annexes in the most specific manner ever.

The last type of NTMs is SPS. Under both ATIGA and TPPA, the participating States affirm their rights and obligations under the WTO SPS Agreement. This means the principles in the Agreement will apply unless the contrary is expressed in the provisions of the ATIGA or TPPA. These provisions can be WTO-plus containing trade-liberalising obligations which exceed the obligations in the WTO. For example, there is an issue on the conformity of SPS measures to international standards in risk analysis. There is no such requirement in the ATIGA nor the WTO SPS Agreement but under the TPPA the risk analysis component of an SPS measure must be based on documented and objective scientific evidence rationally related to the measure. Further, there is an issue whether Member States are not allowed to stop importation of goods just because they undertake review of SPS measures. There is no such an obligation in the WTO but the TPPA has a provision to that effect. Then there is another issue on international standards and testing. The TPPA has a provision requiring testing to use appropriate and validated methods in a facility that operates under a quality assurances program consistent with international laboratory standards. This is not evident in the WTO SPS Agreement. Finally, the TPPA requires import checks to be made without undue delay.

All these WTO-plus obligations may increase the objectivity of SPS measures in the TPPA and be powerful tools against protectionist use of SPS by the State Parties. They can contribute to better trade facilitation and hence greater liberalization in the TPPA as opposed to the ATIGA. However, opponents of TPPA will argue that liberalization a la TPPA may not take into account developmental realities in the region. The gradual liberalization approach of the ATIGA can be a better option in addressing economic inequity in a region where poverty is still widespread. Some Member States like Laos may not completely modernize their trade policy regimes such that reliance on non-tariff measures is still be the norm. It appears that the ATIGA lays stress on the building of consensus and capacity among Member States,

before they could agree on the nature and forms of legal provisions that will deal with trade-obstructing NTMs.

The question now is whether the limits to liberalization under ATIGA will have serious repercussions as certain ASEAN Members make independent move towards deeper liberalisation through mega-FTAs including the Trans-Pacific Partnership Agreement (TPP).

Conclusion

It goes without saying that the intensity of liberalisation under the ATIGA is lesser than that under the TPPA. There is possibility that of trade diversion from non-TPPA to TPPA ASEAN Members particularly Malaysia and Vietnam which may be competing for their export market with Thailand and Indonesia, and with more reductions of NTBs as a result of the TPPA, trade may become easier as between those countries not because of the ATIGA but the TPPA. But whether this will materialize remains to be seen and will depend on the pitfalls that arguably lie in the main text of the TPPA Chapters and Annexes that may slow down the liberalization process, which include the rules of origin. In the meantime, the ASEAN must be aggressive in enhancing objectivity of NTMs, promoting good regulatory practices and concretising mutual interest initiatives including the implementation of MRAs. In the end, the ATIGA NTM initiatives can come to fruition if stakeholders like exporters, importers etc in ASEAN will not face the same unnecessary obstacles in exporting or importing goods within the region. Or else, people and States will be tempted to the other alternatives including the TPPA.

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02

**AN 'ARMS RACE' IN SOUTHEAST ASIA THAT THERE
NEVER IS**

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Introduction

Annual reports published by the IISS and SIPRI have shown that there is an increasing military expenditure in Southeast Asia (IISS 2014, *The Military Balance* 2015). This has led some observers to believe that the interstate dynamics in the region increasingly resemble an arms race (Glaser 2012; Davis 2013; Pilling 2014; Anderson 2015; Einhorn 2015; Gauba 2015). A number of scholars have argued that the arms race is driven by the rise of China, the resulting insecurity amongst other states in the region, and the changing balance of power (Christensen 2006; Emmers 2009; Fravel 2011; Chang 2012; Tan 2014). Scholars such as Tan, Liff and Ikenberry, have partially explained that the causes of inter-state dynamics can be explained in terms of a classical security dilemma (Tan 2014; Liff and Ikenberry 2014). This account maintains that China's increasing military acquisitions has created a classic security dilemma whereby action-reaction dynamics have been formed with regards to military acquisitions on the part of Southeast Asian states (Tan 2014; Liff and Ikenberry 2014).

An alternative view that China's assertiveness with regards to South China Sea territorial and maritime disputes has provoked some of the ASEAN members with competing territorial claims to increase their military capabilities, provides another partial explanation for the interstate dynamics of the regional powers (Lo 2005; Emmers 2009; Buszynski 2010; Thayer 2011; B. S. Glaser 2012; B. S. Glaser 2015). As will be shown, however, these structural explanations are insufficient to explain the full account of the causes of the regional military dynamics. Rather, this research departs from the structural explanation and show that domestic drivers such as the role of elites, corruptions, economic developments and state actors perceptions provide wider range of explanations towards the regional military dynamics. This sample chapter begins with a summary on the claims made by the structural explanations on arms race in Southeast Asia despite the increasing role in domestic politics and decision-making in explaining the phenomena. This paper then challenges the structural explanations on arms race by providing quantitative evidence with a comparative analysis between Southeast Asia and Latin America military expenditure and military acquisition. With the quantitative analysis, this chapter demonstrate in ways how structural explanations are inadequate in explaining the regional military dynamics. Moreover, this paper will also briefly challenge the argument of an arms race by debunking in stages set by the definition provided by Collin Gray. This research then concludes by arguing the alternative perspectives such as domestic politics and decision-making provides a richer account in explaining the current regional military dynamics.

An Arms Race? The Claims

It is claimed that the regional military dynamics in Southeast Asia, and to a larger extent the Asia-Pacific are engaged in a military competition that is unfolding into an arms race. Some scholars had already claimed that an arms race had already been present in Southeast Asia before the end of the Cold War due to an upward trend in defence spending, driven largely by the open competitiveness of the extra-regional powers as well as the competitiveness of the intra-regional members (Wah 1987). It is reiterated that the axiomatic conventional wisdom that the rise of China is causing a geopolitical shift, changing the balance of power that drives states in the region to an intense military build-ups (The Economist 1993; Kaneda 2006; Chang 2012; Lee 2015). There is little doubt that China's economic growth and its military capabilities have grown over the past few decades. Some argue that China's military build-up is interpreted as part of its effort to expand its influence in the region as an emerging power, challenging the US primacy as the regional hegemon (Brzezinski and Mearsheimer 2005; Agnihotri 2011; Majid 2012).

Further, the on-going territorial and maritime dispute in the South China Sea with other multiple claimants have escalated the tensions in the region (Wu and Zou 2009; Dillon 2011; Fravel 2012; Davis 2013; B. S. Glaser 2012; B. S. Glaser 2015). Southeast Asia hosts one of the most complex territorial maritime issues as six states (Brunei, China, Malaysia, Philippines, Taiwan and Vietnam) have overlapping sovereignty claims over the territorial area. Although the claims on the oil reserves varies, it is speculated that the seabed has major oil and gas reserves and that the island chains have strategic significance for defences and surveillances for all parties (Ebbighausen 2012). Significantly, scholars emphasized that the increasing military modernization is due to China's assertive behaviours in the territorial disputed waters, increasing tensions such as the unilateral decision by China to place its oil rig in the overlapping claimed maritime territories between China and Vietnam are amongst the few provoking incidents in the South China Sea (Raine and Le Miere 2013; Hunt 2016). Theoretically, a territorial dispute increases the likelihood of claimants over the territories to militarize in order for states to assert themselves over the area. According to structural explanations, as the international system is of anarchy it is reasonable that states seek security in terms of military capabilities in order to ensure its own survival in the system (Waltz 1979; Mearsheimer 2001; C. Glaser 2010). States therefore strengthen its own military capabilities to ensure the survival in the international system by deterring the uncertainties that may present in the system of anarchy. Similarly, the stakes on this issue is further heightened with regards to the United Nations Convention on the Law of the Sea (UNCLOS) as the law that dictates on how to resolve the issue of overlapping claims does not include on the historical claims that are pursued by claimants (Ba 2011).

These incidents have led scholars to argue that the rise of China along with its accelerated military modernization program have posed as a threat in the region creating a spiral tension provoking states in the region to an intense “security dilemma” for arms race (Christensen 1999; Wu and Zou 2009; Davis 2013; Liff and Ikenberry 2014). Significantly, these wide-ranging security issues have prompted some of the Southeast Asian states namely Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand to increase its military modernization efforts (Till 2012; Tan 2014). On the other hand, this have led some observers to argue that these states are engaged in the military build-ups due to their concerns toward China, with the uncertainties over what the future holds the region (Klare 1993; Klare 1996; Bitzinger 2007; Dutton 2010; Murdoch 2012). Further, due to the volume of weapons purchased as well as modern defence capabilities acquisitions in the region have led journalists, scholars and policymakers alike to conclude that there is a presence of an “arms race” in Southeast Asia (Klare 1996; Gauba 2015). Moreover, the situation in the region has worsened particularly between China and the Philippines when President Aquino of the Philippines compared China’s President Xi Jinping with Nazi Germany’s Adolf Hitler’s ambition for expansion to China’s reclamation efforts in the disputed chains of islands in the Spratly’s (Bacani 2015).

For the first time in recent history, the Asian region has overtaken the Europe’s military spending in 2012 (Military Balance 2013). While Northeast Asia have dominated most of the military expenditure, the Southeast Asian region has also tripled its military spending from \$US13 billion to US\$38 billion from 1988 to 2014 (SIPRI 2014). The general rise in military expenditure is shown in figure 1 Southeast Asian states over the period of 1988-2014. Moreover, there is an increase in demands for sophisticated weapons in the region with countries such as Malaysia, Singapore, Indonesia and Vietnam have all acquired submarines boosting their current offensive capabilities while Thailand and Philippines are also looking to procure submarines (Murdoch 2012; Anderson 2015; Bitzinger 2015; Einhorn 2015; Parameswaran 2015).

While the statistical analyses are true, the real causes are more multifaceted and complex than provocative, as opposed to what have been mentioned by scholars and observers in the literature. Kang amongst the few scholars who problematized the structural explanation has provided a comparison of statistical analyses between East Asia and Latin America and challenge that the spending between the two regions are relatively similar (Kang 2014). Further, Welsh argue that the main drivers of soaring military expenditure are domestic as opposed to structural (Welsh 2015).

A closer inspection on Southeast Asian military spending from figure 1 shows that almost all states have only resumed their increasing military spending after 2001, where states managed to recover from the 1997/98 Asian financial crisis. Thus, upon closer assessment, the key factors in Southeast Asia are complex and multifaceted. For instance, figure 1 shows that Thailand’s military spending soared exponentially

after 2006. This is because, since the military coup in 2006 Thailand military spending has soared yearly despite any external threats. After the military junta took control of the government in 2006, the military rewarded itself with an increase in military expenditure (Abuza 2015). Moreover, the civil-military relations in Thailand are unequal as the military are more powerful than the civilians, which explain the soaring military expenditure (Chambers 2013). This challenge the explanations made by structural factors as inadequate to explain the determinants in the regional military dynamics. Hence, as shown above, a more focused analysis on the region provides a different narrative towards the determinants of military spending in Southeast Asia. It is also imperative to examine domestic politics instead of external threat perception as key drivers in explaining the regional military dynamics.

An Arms Race in Southeast Asia? Quantitative Evidence

Most analysts have used military expenditure as a tool to measure the indicators of arms race. This indicates how much governments allocate their budget to fund its military and how they perceived threats. Generally, there is an increase in military expenditure in Southeast Asia as shown in figure 1. However, a data comparison on military expenditure in both figure 1 and figure 2 shows a similar pattern in the Latin America and in Southeast Asia. Given the data shown in figure 2, there is a clear indication that the trend on military spending in Latin America is similar to Southeast Asia. Therefore, the discourse on arms race made by general consensus in Southeast Asia is problematic because by measuring comparatively with Latin America it shows that there is also a general increasing trend in military expenditure in other parts of the world.

The comparative statistics provides a different perception about the military expenditure in Southeast Asia. When we analyse the military expenditure as a share of GDP percentage, the statistics shows that spending has actually decreased in almost all states in the post-Cold War. Given the current statistical data, it would seem reasonable to suggest that it is unsustainable for states to maintain the high level of military expenditure that would burden its economic resources. However, it is factual that Southeast Asian states are rapidly modernizing their military through the enhancement of the quality and quantity of nation's capabilities, funded by the steady increase in defence expenditure.

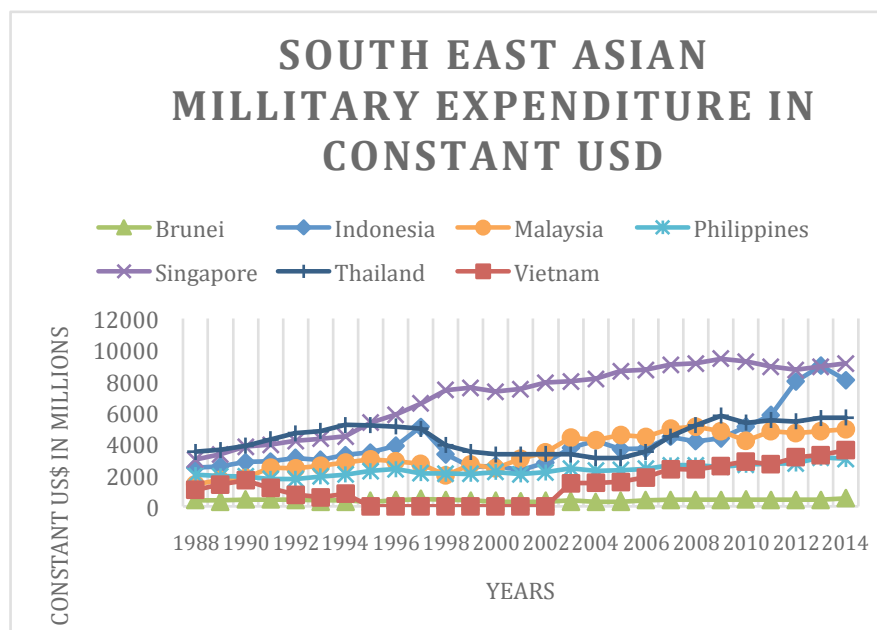


Figure 1: (Source, *SIPRI Index*, 2015).

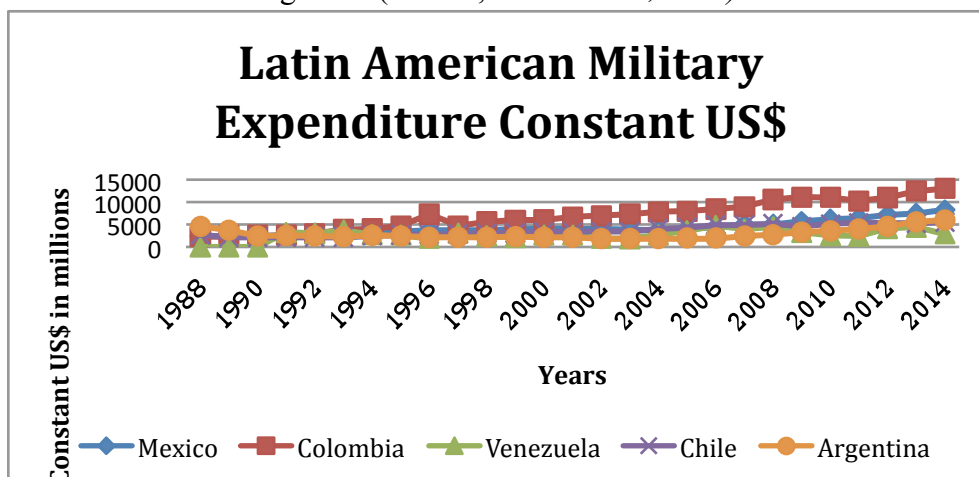


Figure 2: (Source: *SIPRI Index*, 2015)

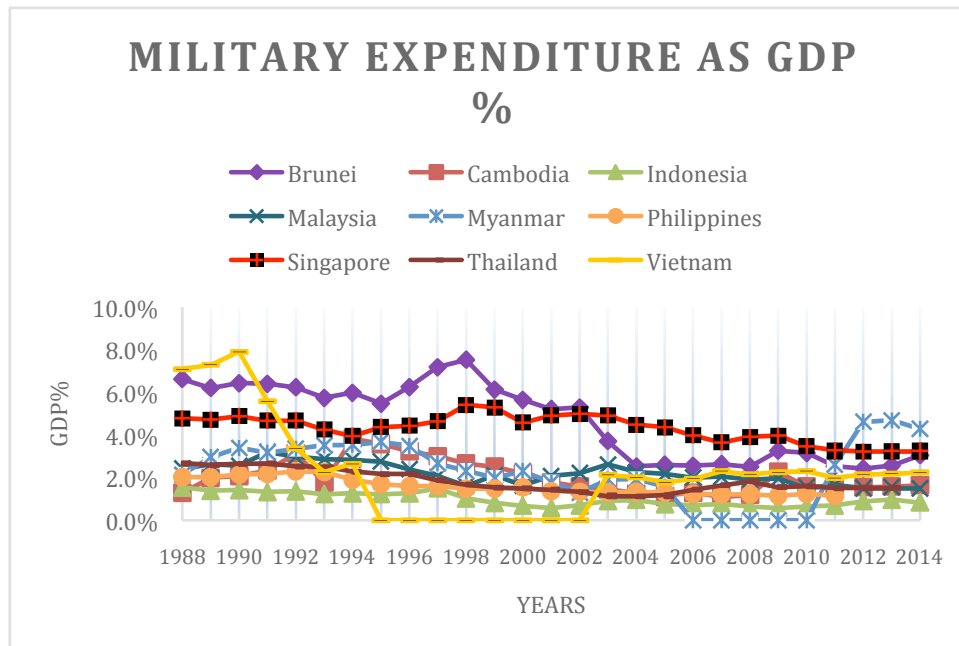


Figure 3: (Source: *SIPRI Index, 2015*).

It is also factual that there have been concerns towards the South China Sea issue. At the heart of Southeast Asia is the South China Sea where there are sovereignty issues between littoral states, competing claims that are overlapping on these territorial waters. The South China Sea largely comprises of the Spratly Islands that has overlapping claims between Brunei, China, Malaysia, Philippines, Vietnam and Taiwan while the other parts of the claimant sea is the Paracel Islands, which is contested between China, Taiwan and Vietnam. The South China Sea features atolls, reefs, islands and islets that are being contested by the claimants (Prescott 1981; Womack 2011). However, the justification over claiming the territorial water varies. China, Taiwan and Vietnam have argued that they claim these features based on historical discoveries and usages while Brunei, Malaysia and the Philippines claim is based on a 200 nautical miles Exclusive Economic Zone (EEZ) that is defined by UNCLOS.

Scholars and policymakers have highlighted that given the geopolitical importance of the South China Sea it is the perennial source of conflict in the region that forced states to modernize its armed forces (Valencia 1995; Lo 2005; Chang 2012). The situation in the region raises concerns by all parties with China being more active in asserting its claims, stepping up in its efforts to increase its presence over the South China Sea through reclamation of lands and building airstrips (Brunnstrom 2015). The issue on sovereignty over the territorial water gets more complex with China's increasing assertiveness over the territorial waters, labelling the South China Sea as part of its "core interest" (Swaine 2011); (Fravel 2012). At present, all claimants of the territorial water except Brunei have occupied the tiny islets and reefs around the Spratlys' through establishing presence on these features for both military and civilian purposes (Mirasola 2015). Further, as the South China Sea plays is the second busiest

shipping lanes in the world, it an important role that oversees the maritime interest to international parties that are trading in the region. The importance of the sea cannot be underestimate through which \$5 trillion in trade flows every year. It is only natural that extra regional countries such as the U.S. is highly involved both militarily and economically as U.S. trade is accounted to a total sum of \$1.2 trillion (Willard 2012). As the U.S. has vested high interest, it plays a major role in the regional security architecture to maintain stability in the region.

Country	Main battle tanks	Armoured personnel carriers	Combat aircraft	Aircraft carriers	Principal surface warships	Submarines	Patrol and Coastal Combatants
China	8800	5500	3566	0	57	63	747
Indonesia	0	200	91	0	17	2	57
Malaysia	0	111	89	0	6	0	39
Singapore	60	750+	157	0	0	1	24
Philippines	0	200	42	0	1	0	67
Thailand	277	970	206	1	14	0	87
Vietnam	1315	1100	201	0	7	2	44

Fig 4: Major weapons systems in selected Southeast Asian states (1998)

Source: *The Military Balance 1998*, London: International Institute for Strategic Studies, 1998

Note: (1) Principal surface warship includes frigates and destroyers.

(2) Patrol and Coastal Combatants include modern corvette.

Country	Main battle tanks	Armoured personnel carriers	Combat aircraft	Aircraft carriers	Principal surface warships	Submarines	Patrol and Coastal Combatants
China	6450	5020	2239	1	72	70	223
Indonesia	26	533	97	0	11	2	88
Malaysia	48	787	67	0	10	2	37
Singapore	96	1395+	126	0	6	4	35
Philippines	0	299	22	0	1	0	68
Thailand	288	1140	134	1	11	0	83
Vietnam	1270	1380	97	0	2	4	68

Fig 5: Major weapons systems in selected Southeast Asian states (2014)

Source: *The Military Balance 2015*, London: International Institute for Strategic Studies, 2015).

Given the significant strategic importance of the South China Sea, it is understandable that states that are involved in the territorial disputed waters are increasing their

asymmetric capabilities. In general, there is an increase in capabilities in the land, naval and aerial capabilities among Southeast Asian states. In particular, the strategic understanding in increasing its naval capabilities is directly related to the protection of its Exclusive Economic Zone that is stated under United Nations Convention on the Law of the Sea (UNCLOS) as well as ensuring the safety passage of the Sea Lane of Communications (SLOC).

A comparison of figure 4 that shows the number of major weapons system used in land, air and naval forces deployed by the selected Southeast Asian states in 1998 and figure 5 that contains data for 2014 however suggest that it is a rather complex case where there is a reduction in some areas and an expansion in others. Often, this issue is accompanied by the introduction of new technology of the major weapons where some countries already acquired these while previously it had not existed. For instance, based on the data from figure 4 and figure 5 it appears that there is a decrease in the principal surface warships being operated in Indonesia and Vietnam.

From the data above, it is evident that there is a significant increase in the main battle tanks in most of the Southeast Asian states while there is also an increase in the submarines operated in the region. Interestingly, since the post-Cold War, Southeast Asian region has been recognized as one of the fastest growing market for arms attracting business from global defence contractors to secure big ticket purchases in the region to replace its aging fleets or to increase its military assets (Dowdy et. al 2014). Despite this, by analysing the amount of military assets in individual countries it tells a different story. In the case of the Philippines, a comparison on its military assets in figure 4 and figure 5 shows only minimal increase despite growing maritime tensions with China on the South China Sea. However, the Philippines is ill-equipped to match its ambitions to challenge China in tit-for-tat military acquisitions to defend its territorial sovereignty as argued by advocates of structural explanations on arms race.

Country	Main battle tanks	Armoured personnel carriers	Combat aircraft	Aircraft carriers	Principal surface warships	Submarines	Patrol and Coastal Combatants
Argentina	213	294	100	0	11	3	17
Chile	245	538	17	0	8	4	11
Colombia	0	114	86	0	4	4	51
Mexico	0	706	74	0	6	0	122
Venezuela	173	81	95	0	6	2	10

Figure 6: Major weapons system in selected Latin American countries in 2014.

Source: The Military Balance 2015

Notes: (1) Principal Surface warships include destroyers and frigates.
(2) Patrol and Coastal Combatants include modern corvette.

On the other hand, a closer observation on Latin America in figure 6 provides comparable picture to Southeast Asia. It shows that there is a significant level of sophisticated naval assets that these countries possessed. Considering that there are similarities in the defence expenditure and the military assets in both regions it is puzzling that scholars and analysts are not calling that there is an arms race in Latin America as well

Moreover, when the data is analysed by region, the increase in military expenditure as a percentage of GDP is not as dramatic as some would have argued. As a region, the percentage of GDP on military expenditure remains steady over the past 24 years from 1990 to 2014. Based on figure 7, military expenditure as a percentage of GDP in East Asia when compared to other regions has been modestly steady. Collectively, the percentage of military expenditure as a percentage of GDP in East Asia has been consistently under 2 percent. Although individually the percentage of GDP varies once we look in depth towards the specific countries in the region. Suffice to say that the military expenditure in the region is considered as normal. Recently, analysts have claimed that East Asian spending as a region is alarming as it has surpassed its European counterparts, however, analysts negate the fact that members of NATO are spending less in its military due to the budget cuts implemented by their governments (Chutter 2015; Croft 2015).

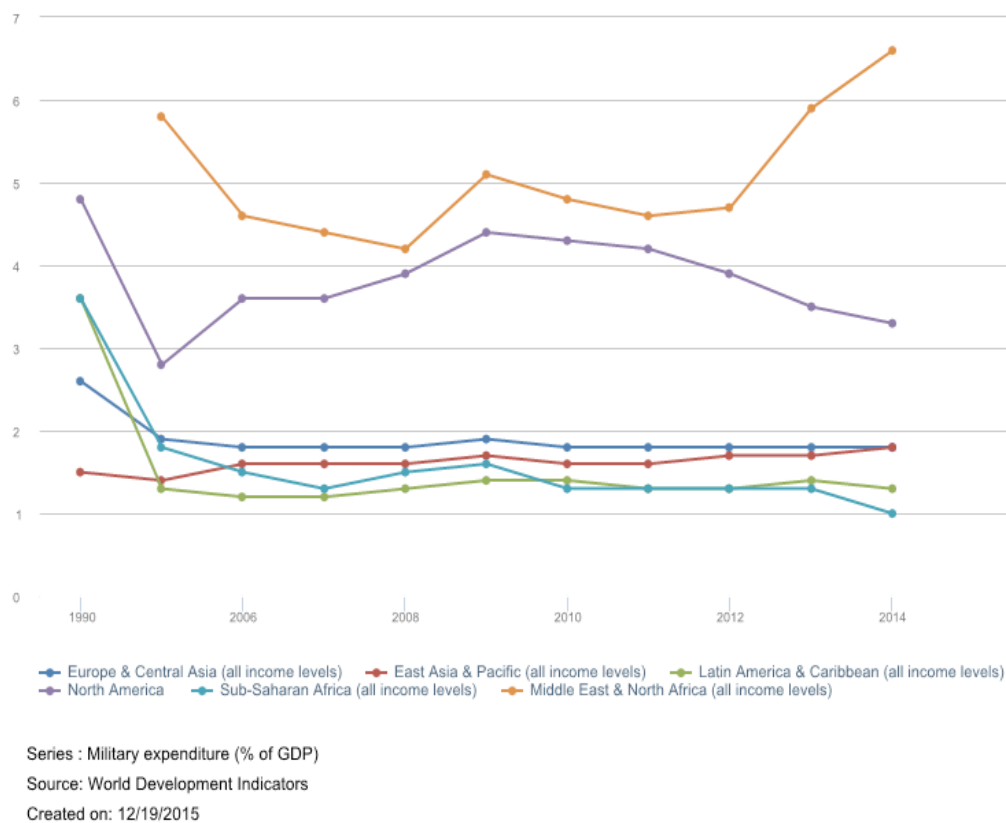


Figure 7: Percentage of GDP in military expenditure

Source: World Bank Data

Yet, the quantitative surveys have its limitations, as it does not explain the quality and the effectiveness of some of the assets that these countries possess. This is because quantitative data do not explain the quality of the military capabilities that states possess and its effectiveness in battle (Tan 2010). To be operationally effective is not determined by its military spending but it also need to incorporate military doctrines in its analysis, planning and execution (Millett et. al 1986). While countries that possess hi-tech weapons have the advantages in war, it does not necessarily ensure victory. The outcome of war is determined on how states are able to fully exploit its resources (Biddle 2004). A more in depth assessment on the quality of the weapons system guided by a well-articulated military doctrine suggests that the military capabilities of Southeast Asian states are increasingly stronger and more sophisticated (Tan 2014). Nevertheless, the figures does present that states in Southeast Asia possess new capabilities into their inventories where they previously they did not have, especially in main battle tanks and submarines that are technologically advanced and more lethal than its previous military assets.

What is an arms race?

It is widely claimed that the current trend on military acquisitions in Southeast Asia is due to an arms race. An arms race is a negative description of how two or more states reacts against each other in a form of building its own military capacities to deal with external threats. Collin Gray (1973) provides a clear definition of an arms race:

“(1) There must be two or more parties, conscious of their antagonism. (2) They must structure their armed forces with attention to the probable effectiveness of the forces in combat with, or as a deterrent to, the other arms race participants. (3) They must compete in terms of quantity (men, weapons) and/ or quality (men, weapons, organization, doctrine, and deployment). (4) There must be rapid increases in quantity and/or improvements in quality. All four of these factors must be present for there to be any valid assertion that a particular relationships is an arms race.”

However, when we apply the definition on arms race by Gray, it is problematic to sustain these arguments to be applicable in Southeast Asia especially in the post-Cold War. In order for arms race to exist, all four conditions must be present which is already proved challenging. The first condition suggests that states should be conscious of their antagonistic intentions in the region. When applied to Southeast Asia, only the Philippines and to a certain extent Vietnam are openly conscious of China's antagonistic intent on the South China Sea with the Philippines leader President Benigno Aquino III openly compared China's actions to Hitler (Bacani 2015; Minh 2016). If we establish that the first condition exists then we move on to the second condition. Although both the Philippines and Vietnam considers that China is a potential adversary as they are embroiled in rival claims on the South China Sea dispute, it is still questionable to label this as an arms race. Based on the inventories provided in figure 4 and figure 5, it is contradictory to the second condition to declare that the Philippines forces are structured to deter against China. Moreover, the Philippines remains focused on the internal challenges as its military resources are confronted by insurgences since 1970s (Abuza 2012).

Further, when applied to Gray's third condition, currently there is no country in the region that is able to compete with China's forces in terms of quantity and quality as evident in figure 5. On the other hand, it is also conceivable that growing economic performances that are significantly impacted by domestic politics have greatly improved both quality and quantity of military assets in Southeast Asia (Bitzinger 2010; Kang 2014). With the fourth condition of Gray's definition for arms race it is reasonable that there have been improvements in the quantities and qualities of the general Southeast Asian forces. It can be argued that based on the sophisticated military acquisitions in the region, individual states generally possess more lethal weapons (Govindasamy 2015).

Despite this, Southeast Asian states still have difficulties on how to operate, develop and sustain sophisticated military assets (Lee 2015). Based on Collin Gray's

definition it is proving to be unsustainable to argue that Southeast Asia is in arms race. Needless to say, this is not the case in Southeast Asia vis-à-vis any other parties in the region, including China. While the South China Sea remains a concern to all claimant states, Sino-ASEAN dynamics have also improved over the last twenty years. For instance, despite the overwhelming literature on security concerns about the South China Sea and the rise of China, China has been the largest trading partner of ASEAN since 2009, while ASEAN is the third largest trading partner of China (China Briefing 2015). Thus, while there are concerns on the security issues with China's behaviour in the region, it is usually overshadowed by the economic ties between China and ASEAN. Furthermore, for the first time in 2015 China hosted an informal ASEAN defence meeting that was aimed to boost defence ties (Parameswaran 2015). Such efforts made between ASEAN and China both economic and security demonstrate that the arms race argument is inadequate to explain the dynamics of the region.

Conclusion

To conclude, this sample chapter sets out to challenge the conventional wisdom that Southeast Asia is in an arms race. Recent efforts on military modernization in Southeast Asia has led some to consensus that arms race is unfolding in the region. Two dominant explanations that have sought to explain the outburst of military acquisitions in Southeast Asia. One of the main arguments on the cause of arms race is the rise of China changing the balance of power, causing instability in the region, which fuels the military acquisitions. Another most cited is the China's assertive behaviour on the South China Sea dispute. However, a comparison of data on Southeast Asia and Latin America appears otherwise. Statistical data demonstrate that the military expenditure in Latin America is similar with Southeast Asia. A close analysis on the military inventories indicates that there is an increase in submarines acquisitions and main battle tanks. However, the inventories show that while there is an increase in some military equipment it also shows a decrease in other inventories. Based on the findings above, it proves difficult to sustain the argument that there is arms race in Southeast Asia. It shows that it is inadequate to describe the interstate regional military dynamics is in arms race. Further, the regional military dynamics failed to meet the condition of arms race when applied to Collin Gray's definition on arms race. Therefore, this chapter sets out as a prerequisite to show ways in which domestic politics and decision-making provides a better alternative explanation. Research on domestic politics and decision-making provides a better foundation in explaining the regional military dynamics that structural explanation fails.

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03

**AN EXPLORATORY STUDY TO MEASURE THE 'CON-
VERGENCE PROCESS' FOR ASEAN COMPETITION
LAW AND POLICY**

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AN EXPLORATORY STUDY TO MEASURE THE ‘CONVERGENCE PROCESS’ FOR ASEAN COMPETITION LAW AND POLICY

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Introduction

The ‘Competition Law’ (CL) described as normative framework involving institutions and processes whose stated objective is to deter restraints on competition. CL prohibits business practices or conducts that can potentially reduce free competition and harm consumer’s welfare. It regulates any business conduct or behaviour that reduces competition and/or prevents consumer markets domination. The law promotes public good, namely a market not distorted or restrained by private conducts (Gerber, 2013). It’s known as ‘anti-trust’ in United States and in Europe and Asia as ‘competition law’. Competition law generally comprises the sets of rules, which maintained by governments to outlaw or restrict anti-competitive practices. Such practices include agreements or arrangements between two or more people or enterprises that contain provisions that substantially lessen competition or increase dominance in a market, including by mergers or acquisitions, are exclusionary, in preventing or limiting dealings with a rival, or fix prices, volumes or other terms of trade amongst competitors. They also include unilateral behaviour by a person or enterprise to take advantage of market power for an anti-competitive purpose or to set the minimum price at which goods are be supplied by the person or enterprise or can be sold by others.

Competition law and competition enforcement institutions introduced by respective competition jurisdictions in the world. However, its realised national competition law alone cannot resolve competition issues, as trade has been increasing globally whereas competition law is national. In a global world where multinational firms become dominant, national competition authorities face difficulties in regulating these cross-border anti-competitive activities. Globalisation has significant impact for competition policy and law in the global economy; it has almost made it inevitable to change competition law. Thus, the harmonisation of international competition law has evolved into a topic of significant contemporary importance. Scholars and practitioners around the world have questioned whether there is a necessity to set up a global competition agency in order to enforce international competition law and if yes, which one international body is the most suitable and what role should it play in order to enforce the principles of international competition. Many organisations, such as the International Competition Network (the ICN).The ICN although not a rule making body but is devoted exclusively to competition law enforcement. ICN issues recommendations or “best practices”, through unilateral, bilateral or multilateral arrangements, as appropriate to the Organisation for Economic Cooperation and Development (the OECD).The OECD has been active in encouraging soft convergence amongst member countries by adopting a number of non-binding Recommendations on

competition law and policy: The United Nations Conference on Trade and Development (the UNCTAD) provides national competition authorities from developing countries and economies in transition with an intergovernmental forum for addressing practical competition law and policy issues. It is also a depository of international competition legislations, the Model Law on Competition (TD/RBP/Conf.5/7/Rev.2) and the United Nations Set of Principles on Competition ((td/rbp/conf/10/rev.2) 01/01/01) and others have considered or even introduced soft law to deal with international competition issues. The World Trade Organisation (the WTO) is not an exception have also given its model of competition regimes and

The term ‘convergence’ referred as the process in which decision- makers decide on their own, accord to move the characteristics of the competition law systems towards a common point (Gerber, 2013, p38). Thus, goals are the focal point of the convergence strategy. As such if all AMS competition law system move towards acceptance of the same set of goals, convergence at this level could possibly lead convergence to bloom as an outcome and ultimately generate a uniform normative framework for the global competition. This would resolve major issues like cartel, anti-dumping, promote innovation and monitor harmful cross border harmful mergers.

An investigation on the growth and convergence in ASEAN showed evidence of unconditional and conditional convergence for a panel spanning 1960 to 2004 showed formation of ASEAN was positively associated with growth. However, the free trade area is ASEAN did not appear to have any significant impact on growth (Normaz, 2008). The call to raise the ASEAN member nation’s living standards to join the ranks of advanced economies for ASEAN future wellbeing requires economic convergence. Yet, there are much more to accomplish but with potential economic forces (such as economic forces such as industrialization, export –led growth, financial stability with appropriate countercyclical response to the crisis raised government debts, fiscal adjustments, large traditional farming, by encouraging home grown innovation economies and ASEAN integration policy) to achieve ASEAN convergence. No doubt, the process of convergence is long journey but the study and thought for this convergence is very pertinent at this juncture reviewed identify what it will take to achieve that goal. Although full convergence with advanced economies is far catch goal for all the AMS. The frontier economies aspiration to join the ranks of the emerging markets itself is an attainable goal. It was pointed out very critically that, the challenges of convergence depend on developments in the global economy. As such the process towards divergence should be reviewed from where we are right now and then turn to ASEAN’s own challenges. (Lipton, 2015). The future of CPL on to the transnational level reflects the assumptions of the role of economics. These assumptions is that economics can provide a basis for competition law convergence (Gerber, 2016).

ASEAN Competition Law and Policy Economic Integration

Association of South East Asian Nations (ASEAN) is a presently a fast emerging, major economic trading block, with a burgeoning middle class society developing rapidly into a thriving hub for consumer demand expected to account for more than USD2 trillion of additional consumption by the year of 2020. ASEAN Member States (AMS) with initially Malaysia, Philippines, Singapore and Thailand expanded to include Brunei, Cambodia, Lao PDR, Myanmar and Vietnam. Although ASEAN was formed in 1967 to promote connectivity, nation building and to counter the spread of communism in the region. ASEAN has in the wave of globalisation, evolved to enhance its economic performance and political stability as a regional community.

CPL was introduced in pursuance of the ASEAN Economic Community (AEC) Blueprint. ASEAN in its thirteenth leadership Summit in 2007 endorsed an agreement to establish the ASEAN Economic Community (AEC) by 2015. The AEC Blueprint 2025 consists of five interrelated and mutually reinforcing characteristics, namely: (i) A Highly Integrated and Cohesive Economy; (ii) A Competitive, Innovative, and Dynamic ASEAN; (iii) Enhanced Connectivity and Sectoral Cooperation; (iv) A Resilient, Inclusive, People-Oriented, and People-Centred ASEAN; and (v) A Global ASEAN. The AEC came into effect in December 2015, gradually liberate and free the flow of goods, services, investment and skilled labour among its member nations. One of the most pressing issue that required much attention in the alleviation from the regional free market to cross-border cases was the establishment of the competition law itself. To face this, the AMS need to harmonize their competition laws to avoid extraterritorial jurisdiction conflicts.

The AEC Blueprints came in the rise of the ASEAN Community Vision 2025 aiming to transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development and a region fully integrated into the global economy. AEC is a community map plan, to move AMS towards their integration process to liberalise their market by introducing the fair competition law and policy to regulate the anti- competition practice in their nation. In this ambitious pursuit, AMS had committed to introduce and implement nation-wide Competition Policy and Law (CPL) by 2015.

The signing the ASEAN Charter and the Declaration of the AEC Blueprint, have unified their intra-ASEAN commitment to market and go forward with trade and investments. AMS have collectively agreed to integrate their economy through their vision of AEC. The ASEAN Experts Group on Competition (AEGC). The AECG in cooperation with the ASEAN Secretariat and the ASEAN Experts Group on Competition (AEGC), is a responsible regional body, in promoting institutionalisation of regional cooperation mechanisms. The AECG conducts programs to introduce competition policy and law through capacity building and enforcing outreach priorities for the newly established competition authorities. Increasing regional integration and intensified international trade calls requires consensus on how to handle cases that impinge on competition across borders within the ASEAN region. This AEC blueprint is a commitment to move away from 'soft-law' approach towards

adherence to rule based system for effective compliance and implementation of economic commitments.

ASEAN Competition Law and Policy Reception in AMS

ASEAN's Regional Guidelines on Competition Policy serves as a non-binding statement to implement and develop a competition policy in the context of each member state. The guidelines served as the standard for member states to draft their competition laws so that they have similar regulations and policies on competition. Furthermore, The AEGC in strengthening competition-related policy and best practices among AMS, has developed "ASEAN Regional Guidelines on Competition Policy" and a 'Handbook on Competition Policy and Law in ASEAN for Business 2013'. Following that, the Guidelines on Developing Core Competencies in CPL for ASEAN, launched based on AMS experiences and internationally recommended practices. These guidelines is serve as a direction for the respective competition agencies to develop and strengthen the three core competency areas, namely: (i) Institutional Building; (ii) Enforcement; and (iii) Advocacy. The guidelines serve as a course of soft approach to evolve their own CPL in each state besides capacity building and intra- and extra-regional networking.

Currently, nine AMS have competition legislation in place (with the final Member State, Cambodia, having published the latest version of its draft law in March 2016).CPL has been comprehensively enforced in Indonesia, Malaysia, Singapore and Vietnam. However, the enforcement CL in the remaining six AMS will take effect over next 12-24 months, although merger notifications in the Philippines is already applicable. Eight AMS have already enacted the competition law statutes, with Brunei Darussalam, Myanmar, and Philippines being the latest to enact competition laws in 2015, joining Indonesia, Malaysia, Singapore, and Thailand. Viet Nam. Cambodia and Lao PDR have finalised their single specific competition law by the end of 2015.

CPL, with effective enforcement capacity, promotes static economic efficiency, fair and efficient markets, lower production costs and consumer prices, and consumer welfare and sovereignty. Evidently, strong competition policy also contributes substantially to the generation of dynamic efficiencies, higher productivity, greater innovation in the form of new high quality products and process technologies, and stronger economic growth and development. These benefits are of particular interest to developing countries and countries in transition, such as a number of the economies in the Association of South East Asian Nations (ASEAN). CPL promotes the economic wisdom by the theory of market economy maximizes general welfare through an optimal allocation of resources. In the framework of such economic freedom, any resources will be attracted towards the most useful production activity as entrepreneurs are not prevented from bidding the services of such resources. This theory is visualized by competition rules by reorganizing the capital goods in the society as well as the restrictions in the exercise of the private property rights in order to achieve the public policy objective.

Although all the ASEAN member countries have formulated and actively enacting their CPL, the question remains, as to how integrated are their enforcement policy and law to in the process of their economic convergence. Amongst the 10-member countries, only Cambodia have yet to have enacted their CL as of now. AMS diverse political and economy stages ranging from developing and developed where, millions have already ascended into the middle class. However, there is still much to accomplish. The unanswered questions remains as to, what is the potential for ASEAN countries to achieve convergence and what it will take to achieve that goal. Reasons for competition law is not solely to create an unrestricted competition. Economic theory and principles presupposes economic liberalization would lead to effective control through convergence.

The Scope of Competition Law and Policy in AMS

Review CPL Score PF Application and Enforcement

A comprehensive competition law covers three core elements. Firstly, the prohibition of anticompetitive horizontal contracts with particular emphasis to major issues such as “hard core cartels” such as price fixing, market allocation and bid rigging. Secondly, the prohibition of monopolization or abuse of dominance. Thirdly, the mechanism to safeguard against anticompetitive mergers. The ASEAN competition law (CL) regimes generally prohibits anti-competitive agreement at the horizontal level or vertical level and prohibits anti-competitive unilateral conduct (abuse of dominance) and anti-competitive mergers and acquisitions. Horizontal level is between enterprises, which operate at the same level in the production or distribution. However this prohibition does not apply to certain conducts or agreement such as an agreement or conduct that complies with the law, collective bargaining or collective agreement between employers and trade unions on behalf of employees and services of general economic interest, which cover public utilities, or having the character of a revenue-producing monopoly in certain jurisdiction in the AMS such Malaysia. The horizontal agreement means an agreement between competitors in the same market. The vertical agreements refers to the arrangement between enterprises operating at different levels that which includes any agreement or consensus between buyers and sellers at different stages of the production and distribution chain. These agreements prohibited if they have an anti-competitive object or effect, which is significantly preventing, restricting or distorting competition in any market for goods or services. In general, “significant” connotes that the agreements have more than a trivial impact and assessed according to their relevant market share threshold test. The trivial impact of an anti-competitive agreement might be the combined market share of those participating in such an agreement. In Malaysia and Singapore for example considered ‘significant’ if the competitors together hold less than 20% market share or if non-competitors each hold 25% market share. This approach sets ‘safe harbours’

for SMEs (or SMEs related association decisions) that otherwise could be in infringement for an anti-competitive agreements.

Competition Law since the launch of AEC actively enacted in pursuance to the AEC declaration. Generally, the objectives of competition law are similar in terms of creating a conducive business environment and restrictive business practices and promoting an equitable competitive market. In terms of barriers to competition, almost all countries prohibit both horizontal and vertical restraints that prevent regional integration but however not all competition regimes have merger control provisions.

Merger control will almost certainly form part of nine of the ten ASEAN competition law regimes (excluding Malaysia as not included in the CL Act or any proposal to add at this point of time). However, only seven member states are likely to have mandatory notification requirements. In a number of cases, thresholds for notification usually based on market shares or asset values. Only two ASEAN competition authorities currently have leniency policies for cartel whistle-blowers, although four other countries' laws either require, or allow leniency policy to be put in place. Three of the newest laws allow criminal penalties (including prison sentences) imposed for a range of breaches, although it is not yet clear how widely such sanctions will be applied.

In Vietnam, from July 2016, parties to certain types of anti-competitive agreements will also be exposed to criminal penalties for the first time. Potential penalties in the competition legislation of Myanmar, Vietnam and Lao PDR (as in Indonesia) also include suspension or withdrawal of the right to conduct business operations. All existing ASEAN competition laws have provisions in relation to unilateral conduct – usually, a prohibition against abuse of a dominant position (or similar). Several also include provisions relating to “unfair trade practices” (e.g. deceptive advertising, interference with other businesses).

Review of the Diversified Objective for CPL

Although all the AMS may have similar competition objective but however not all the AMS competition law covers all the three key anti- competition areas, as some states have not regulated merger control such as Malaysia. The need to put up an effective competition law was driven by various forces in AMS, which includes political, economic and social factors. For instance the objective of the Thailand Competition Act is to foster competition in line to promote fair and free trade within a competitive environment, to promote technical and allocative efficiency and to enable consumers to benefit from more efficient pricing and increased choice in terms of products and services offered. Whereas the objectives of the Indonesian competition legislation is similar to Thailand whereby, the focus is to create a conducive business climate by preventing monopolistic and restrictive business practices and by creating effective and

efficient enterprises. Where the by-product of increased competition is expected to increase public welfare similarly.

Primary objective of the comprehensive Competition Act in Singapore is to “enhance efficient market conduct and promote overall productivity, innovation and competitiveness of markets” (Article 6 1(a)). The Commission in Singapore also has powers to eliminate or control practices having an adverse effect on competition in Singapore; to promote and sustain competition in markets in Singapore and to promote a strong competitive culture and environment in Singapore's economy (Article 6). Section 47 also prohibits activities that are prejudicial to the consumer's welfare. (Sivalingam, 2006). The objectives of the Vietnam Competition Law quite similar to the objectives of the Competition Acts of Indonesia and Singapore. Whereby, the focused to create and promote an equitable competitive market and environment, protect and encourage fair competition, prevent restrictive business practices, protect the interest of the state and the legitimate rights and interests of businesses and consumers and to promote socio-economic development. The objective of the Malaysia's comprehensive national competition law is to “promote economic development by promoting and protecting the process of competition”. The key aspect of this goal is ‘consumers’ welfare, which is driven through prohibiting anti-competitive business conducts. The Competition Act 2010 together with the Consumer Protection Act 1999 (CPA1999) can be regarded as the two main pillars of consumer protection in Malaysia. Both laws are, in a sense, complementary – the Competition Act 2010 focusing on supply-side while the CPA1999 at the demand-side. The newly enacted Myanmar regulation also appears to be similar to other AMS competition laws, where it aims to protect the public interest from monopolistic acts, speculation in goods or services, control of unfair competition, prevention of abuse of dominant position and economic concentration which weakens competition.

Their objectives although are broadly similar, but subtly in their respective competition legislation with respect to the enforcement agencies powers, capacity building, empowerment, investigation procedure and capacity to handle infringement case. As not all AMS, CPL emphasis or have provisions either in the form of policy, advocacy or capacity building program to create an efficient market and create the conditions for increased productivity, innovation or have explicit focus or exemption example for SMEs issues. Indonesia does not emphasise efficient markets and Thailand and Vietnam do not emphasise productivity and innovation. This may be possibly due to the different conditions under which competition legislation introduced in these states. Thus this diversified goal may involve different assessment (effect or rule of reason test) rules in deciding competition infringement.

Challenges on ASEAN Competition Law Integration towards Convergence

Concept of convergence requires certain level a consensus among the nations to adopt identical, or at least compatible, rules and principles in one or several regulatory

areas. Regulatory convergence can be realized by several means , such as through ‘regulatory transplant’ whereby one or several countries decide to borrow the rules of another country or through a process of ‘approximation’ whereby countries negotiate a common set of rules and then adjust their domestic regulatory framework make it compatible with common rules(Damien,2004).

Firstly, the internal challenges in ASEAN integration includes among others the unresolved territorial, anti-dumping, haze disputes between member states, as they are historically reluctant to discuss matters they describe as “internal affairs.” ASEAN’s “consensus approach” to decision-making, whereby a country can prevent the passage of a proposal if it disagrees with it, is highly inefficient when trying to reform the organization. This difficulty further compounded by the political instability and social upheaval within many of the member countries that rode the third wave of democratization. Governments who: – are unconvinced that national CPL will confer net benefits – give higher priority to other government policies – believe that competition policy objectives can be achieved without national CPL (e.g. through industry or sectoral policies) • Lack of technical expertise & institutional capacity to design, implement or enforce an effective national CPL regime • Low receptivity among local business community and other interest groups

Secondly, External Challenges facing ASEAN: includes globalization, regional imbalances, and a lack of engagement mechanisms. ASEAN’s development carries with it the drawbacks of globalization. For instance, rapid regional development has led to fierce competition between ASEAN countries. . ASEAN countries are also worried that Western values have eroded support for their own values. The insecurity for ASEAN is its neighbours. The rise of large neighbouring countries coupled with increased investment in their militaries and economies has made ASEAN countries extremely nervous. In recent years, the rise of American, Japanese, Chinese, and Australian interest in Southeast Asia’s affairs making them worried that they may be marginalized.

The third challenge is ASEAN’s ability to cooperate and coordinate regionally and internationally. While many participants described ASEAN as a passive global player – one that is often an observer rather than an actor in its interactions with the world – they also acknowledge that its engagement capabilities are limited. ASEAN-initiated forums and summits are ineffective mechanisms for decision-making because they usually do not include global powers (Feng, Han& Ji, and Cheng 2008).

The fourth challenge ASEAN CPL consensus state among AMS on the substantive and procedural regulations. The Regional Guidelines on Competition Policy serves as non-binding statement to implement and develop a CPL context in each state. The guidelines stand’s as a standard to draft AMS CL so that they have similar regulations and policies on competition. Unfortunately, diversity among the competition laws remains even after the guidelines were signed and accepted.

Fifthly, the CPL harmonization is as an issue in economic integration to avoid non-tariff barriers. The European Union (EU) as an economic bloc has successfully harmonized national competition laws. This was approached in two forms: cooperation among member states and fully integrated member national laws into a community law. A fully integrated competition law is definitely beyond ASEAN leadership at this early stage. Meanwhile, the cooperation declared in the ASEAN Regional Guidelines on Competition Policy could be an approach AMS take to promote a competition culture. Although the collaboration, not explicit evidence to evaluate what level ASEAN will implement cooperation, to harmonize different competition laws of the member states. ASEAN to achieve it must harmonize three different fields of competition law, which is its legal substance, procedural law enforcement and competition law authority (Cenuk Sayekti, 2016). This may involve AMS have similar perspectives on whether a prohibition is per se illegal or rule of reason. On the point of procedural law enforcement requires consistent approach to avoid different disjunction between the community and its domestic legal systems. Sixthly, the wide range of differences that exist, economic diversity within the region is also vast. This is quite conspicuous especially with reference to Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam, which are collectively known as the CLMV countries—it is also very worrisome. ASEAN is seen as divided or separated between the developed and developing older ones (Singapore, Malaysia, Philippines, Thailand and Brunei) and most separated from the less developed members known as the CLMV. The convergence between but divergence within the AMS must be addressed. Thus, the factors driving the inequality must be identified. The ASIAN Development Bank identified among others the three key processes, which includes technological change, globalization and market-oriented reforms, which is predominantly present in CLMV states (Menon, 2013). The convergence process must address the economic gaps between them to continue without threatening the internal cohesion which may cause polarization within the countries ((Menon, 2013).

ASEAN CPL Convergence and Role of Economics

The topic of future of competition law on the transnational level often reflect assumptions about the role of economics. The most pivotal of these assumptions is that economics can provide a basis for global competition law convergence. It is pivotal, because choices and strategies relating to competition law often depend on it. Moreover, many see convergence among competition law systems as the only viable response to the problems and weaknesses of the current legal framework for transnational competition, and this view reduces incentives to evaluate or pursue other strategies such as coordination among states. However, the prospects for convergence rest on assumptions about the role of economics in the convergence process, and these assumptions therefore deserves careful attention. Gerber (2015 p.206) had identified the roles that economics can play in the context of competition law convergence. In particular, in exploring the issues of how and to what extent economics can provide a

basis for competition law convergence. However he remarked that, the ‘how’ issue is seldom explored and consequently discussions of competition law convergence proceeded on the basis that the science of economics will be central to global convergence., but they seldom explain how it can be expected to play this role(David J. Gerber, 2015).

The term convergence is indeed a process of movement towards a centre. That is its core or lexical meaning. In a convergence process the distances between individual points and a central point are reduced. They move or ‘converge’ toward this convergence point. Unfortunately, however, the term is often used vaguely to refer to increasing similarities without specifying what is increasing in similarity to what.(Increasing similarity refers to a process in which Gerber described as a process in which A is becoming more similar to B and C is becoming similar to D towards a convergence point.) Convergence process is seldom identified as what is changing and how and why. So to facilitate the process of convergence these key elements or factors must identified and established legally and economically. Thus in the context CPL ‘convergence ‘refers to the process in which the characteristics of individual competition law systems progressively resemble some set of characteristics towards a convergence point (Gerber 2015).Thus this very set of characteristics would function as the ‘model’ per se for the convergence.

Good economic analysis is necessary. Any assessment of competition, whether carried out for law enforcement or wider policy purposes, will require a sound understanding of economic principles, and based on careful analysis of the evidence, possibly including statistical and other techniques for the analysis of data. This analysis need not be sophisticated, but all competition professionals need to be prepared to consider and use sophisticated econometric or other techniques where needed, or to respond to evidence of this sort presented by interested parties (OECD)

Regulatory convergence can be realized by several means such as through ‘regulatory transplant’ whereby several countries borrow the rules of another country or through ‘approximation whereby countries may negotiate a common set of rules and then adjust their domestic regulatory framework make it compatible with the common rules. Convergence is sometimes understood under the approach referred as ‘loose convergence’ as a process whereby one or several nations decide to rely on common principles in one regulatory area, whereas the details on how to achieve compliance with the states principle are left to the national law. There is also another one referred as ‘deep convergence’ whereby group of nations completely decide to harmonise their domestic regimes in one or several regulatory areas ASEAN must collaboratively decide of which means of approach they intend to pursue their convergence. Advantages of convergence from the European experience is seen to reduce the cost of elaboration of the domestic CL, have access to soft –law instruments such as guidelines to be transposed in their domestic legal order, will allow the states to speak in common language on competition and would also contribute towards their

.capacity building with growing level of technical and financial assistance from the central authority. (Damien, Geradin,2004).

Recommendation and Conclusion

The success of the AEC is not far-fetched dream, this could be evidenced in ASEAN's assertive manner in dealing with the international community. For instance, in April 2009, ASEAN (as an organisation) was invited to join the world's leading economies at the G20 summit in London for the first time. In 2010, ASEAN engaged the US through the East Asia Summit. ASEAN's growing international recognition can also be seen by the appointment of more than 75 separate ambassadors to ASEAN. Going forward, the AEC, as a strategic project could be developed to attract more Foreign Direct Investments (FDI) into the region, which will help AMS to participate in global supply chains, and strengthen member countries' bargaining power in international economic, financial and strategic matters. And that has to be a good thing for ASEAN (Sanchita Basu Das, 2015). However to realise this, ASEAN should co-operate for convergence or centralisation which not necessarily 'deep convergence' but perhaps 'loose convergence' concept. Centralisation towards convergence can be used where there is comprehensive agreement among members regarding appropriate scope of CPL as well as rules, processes and institutional arrangements underpinning CPL. (Vu Ba Phu, 2009)

A good starting point on the cooperation towards convergence AMS may consider several things such as

1. Address the various internal, external and other challenges highlighted in the paper to identify the key factors driving the inequality and reduce economic polarisation among AMS. CLP must be comprehensively enforced means not just enacted to fight all form of anti-competition practice and conducts in their home grounds.
2. Standardize the CPL policy with respect to the types or forms of anti-competitive offences, which is prohibited as a preparation to set for cross –border joint action actions in ASEAN.
3. AMS must establish their competition regime from the aspect of independence of the competition commission; recognize the importance of confidentiality, rights of the whistle-blower and their community capacity building in their jurisdictions
4. AMS should develop their competition network to cross border level for where, appropriate for the purpose of infringement investigation: exchange of information, consultation, expert opinions and enforcement matters among the AMS.

Efforts of harmonisation to bring about a degree of convergence of CPL, rules and processes across member countries is desirable in common market because it can: – make it easier for members who do not have national CPL to fast-track design and introduction of effective CPL by free-riding on common framework – reduce scope for future conflict between member states – help businesses operate across region as buyers and sellers (Vu Ba Phu, 2013). Convergence does not necessarily mean member countries lose flexibility to tailor CPL to suit local conditions – high degree of harmonisation easier to achieve where there is already moderate level of agreement on basic elements of CPL framework.

Finally, convergence is a viable strategy for global competition law development. Asia which includes ASEAN nations, will necessarily play a central role in the evolution of CPL in the global level. As such Gerber, had pointed out that its, economic and political importance will condition the potential effectiveness of any strategy for improving the legal framework of the global market (Gerber, 2013). As such without widespread support from the ASEAN nations particularly with respect to CPL system, can only be successful if it achieves the full support. I conclude with the words of Moises that “Ignorance, however, has never stopped an issue from becoming a priority to which ample attention and resources are allocated even though clear ideas about how to use them are scarce. Once the economic reform establishment discovered “institutions”, no speech or policy paper could be written about market reforms without including a fashionable reference to the need to strengthen institutions. In particular, it has now become obligatory to refer to the need to develop the institutions that are relevant for the establishment of the rule of law, for effective regulatory frameworks, and, of course, for the provision of health and education to the poor. Unfortunately, far fewer of these speeches and papers include useful ideas of how to implement these needed institutional reforms” (By Moises Naim Editor, *Foreign Policy Magazine* Fads and Fashion in Economic Reforms: Washington Consensus or Washington Confusion? October 26, 1999)

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04

POVERTY, INEQUALITY AND SOCIAL COHESION IN ASEAN COUNTRIES

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POVERTY, INEQUALITY AND SOCIAL COHESION IN ASEAN COUNTRIES

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Introduction

The ASEAN Community is committed to poverty reduction and the wellbeing of its people thanks to inclusive growth and equitable access to opportunity of human development¹. These principles are delineated in the three pillars of ASEAN cooperation namely the ASEAN political and security Community, the ASEAN Economic Community and the ASEAN socio-Cultural Community that are supposed to be mutually reinforcing. For instance, the improvement of wellbeing strengthens political stability which is an important objective for the many “democracies with adjectives” (Collier and Levitsky 1997) that count Southeast Asia.

The objective of this paper is to assess such a claim through the lens of social cohesion because a society which is socially cohesive has a political stability which is rooted in wellbeing. We further develop the meaning of social cohesion in a first section and define its components in order to assess the social cohesion of ASEAN country members. Before going into details, section 2 checks if the existence of ASEAN has favored a process of convergence of living standards by looking at the relative importance of between and within-country inequality. Section 3 looks closer to the recent evolution of within-country inequality. Inequality is a complex phenomenon which is perceived differently if growth benefits all segments of society and in particular if poverty decreases. These questions are explored in section 4 where we show that in several ASEAN countries absolute poverty has receded but has been replaced by relative poverty which creates its own set of expectations and potential frustrations. Finally, in section 5 we present various dimensions of social cohesion in ASEAN countries and conclude by presenting country profiles.

Social Cohesion: Definition and Measure

During decades development has been basically thought as a process of poverty reduction due to employment creation provided by high growth. Because most job creation would occur in cities where the bulk of industry and services would expand, the basic assumption was that development was a process of structural change whereby people migrate from rural to urban areas to benefit from better paid jobs. Initially, development would lead to an increase of income inequality which would later subside when structural change would be achieved and poverty eliminated. More, income inequality was beneficial because wealth would trickle down from the

¹ This the 11th principles enacted in article 2 of the ASEAN Charter which entered into force in 2008.

rich to the middle class and finally to the poor. The observation that poverty did not always decline when growth accelerated and that income inequality was not always provisional but sometimes embedded in societies led to a new agenda of “inclusive growth” at the start of the years 2000. Inclusive growth is based on the idea that growth must be pro-poor which means that it benefits the poor or that it benefits more the poor than the rich when a redistribution of wealth is deemed necessary. But inclusive growth goes beyond pro-poor policies because it should reduce the disadvantages faced by the poor that prevent them from getting access to opportunities in terms of education and health (Ranieri and Almeida Ramos 2013). In other terms, the inclusive growth agenda addresses inequality of opportunity and not only income inequality.

Social cohesion overlaps with inclusive growth but goes beyond because it includes issues of governance and political legitimacy. The reason for this broadening is that poverty reduction and improvement in living standards do not necessarily lead to an improvement in wellbeing. One of the reasons is that material conditions of living, when they improve, change also one’s expectations of life. A shift from absolute poverty to relative poverty and a growing middle class changes the focus of concerns from daily survival to more qualitative aspects of life, personal autonomy and self-realization, freedom and participation in social and political affairs (Delhey 2010, Inglehart and Welzel 2005). Although the concept is old (Jenson 2010, Green et al. 2011), it has been revived by political unrests in Arab countries Brazil, Russia (2010-2011), Thailand (2010-2015) and China (Cai and Wang 2012) because there is an interest in understanding why and how poverty and inequality turn into political conflict (OECD 2011, OECD 2012). In this sense, social cohesion is linked to research on wellbeing which tries to determine what makes people happy or unhappy (Stiglitz et al. 2010). Several official reports have been dedicated to wellbeing and happiness (Helliwell and Wang 2012, Helliwell et al. 2013) and international institutions and researchers have tried to include social cohesion and wellbeing concepts into the development research agenda (Woolcock 2011, Kroll 2013, Malik 2013), WB (2013: 57-58).

Amid the vast literature on social cohesion and the numerous proposed definitions, a consensual point is that social cohesion stems from “the interdependence between the members of the society, shared loyalties and solidarity”... “communities of interpretation, feeling of a common identity, and a sense of belonging to the same community, trust among societal members as well as the extent of inequality and disparities”(Berger-Schmitt 2000: 3). For our purpose, we use a narrower definition which covers parts of the elements cited above and has been proposed by OECD (2012: 56-57): a socially cohesive society combines in an idiosyncratic and holistic way a low degree of exclusion, social capital and social mobility. This definition is more appropriate for estimation.

- Social exclusion comes from poverty and inequality of income and opportunity.
- Social capital combines measures of trust (interpersonal and societal) and forms of civic engagement.
- Social mobility measures the degree to which people believe or are capable of changing their position in their society.

We use this approach to estimate social cohesion in ASEAN as a region compared to the rest of the world. But before, we review the long-term evolution of ASEAN to check if the process of regional integration has led to a convergence of living standards and a reduction of inequality.

Are Living Standards Converging in Asia and in ASEAN?

Regional integration is expected to foster a process of economic convergence whereby the poorest catch up the most advanced countries thanks to new trade and investment opportunities. This is especially the case in the Asia and Pacific region which is made of a wide variety of countries at different stages of development. Figure 1 shows the long-term trend of the between-country inequality of Asia-Pacific measured by the Theil index of real GDP².

Figure 1: Convergence of living standards in Asia-Pacific, 1970-2011 here
Source: Author's calculations with data from Penn World Tables version 8

The Theil entropy index is calculated as follows: $T = \sum_{i=1}^n y_i \ln \left(\frac{y_i}{p_i} \right)$ where y_i is the

share of country i in the total expenditure and p_i is the share of country i in the total

population of all countries in the sample³. A decrease of the index reflects a reduction of inequality and vice-versa⁴. Figure 1 shows that after two decades of fluctuations, there is a clear and steady reduction of inequality between countries. This reflects the rise of China which is catching up with the most advanced countries of the region. If China is excluded from the sample, the decrease of inequality between countries, or in other terms, the convergence of living standards, starts later at the beginning of the years 2000. This proves that the process of convergence is not restricted to China and involves other countries of the region. However when one looks at ASEAN as a sub-region to check if the same phenomenon is occurring between country members, the picture is quite different. Figure 2 displays the long-term evolution of between-

² The real GDP is calculated by the expenditure approach and is expressed in millions of USD2005 at chained PPP. Source Penn World Tables version 8.0

³ We follow the same methodology as Park (2003) but with a larger set of countries (25 instead 19) and Penn World Tables version 8.0 instead of version 5.6.

⁴ There is perfect equality when each country has an expenditure share equal to its population share in which case $T = 0$. The Theil index assumes a maximum value of $\ln(n)$ when there is complete inequality so that all GDP accrues to only one country.

country inequality among ASEAN founders (Indonesia, Malaysia, the Philippines, Thailand and Singapore) and ASEAN as it is today⁵ to see if this larger group has experienced a different pattern.

Figure 2: Between-country inequality of total ASEAN and ASEAN founder countries, 1960-2011 here

Source: Author's calculations with data from Penn World Tables version 8

The first observation is that for both ASEAN founders and total ASEAN there has not been a general trend towards convergence of living standard. There are different sub-periods which are better explained by the pace of world growth and the capacity of ASEAN members to benefit from it than by an inner Southeast Asian integration process. Figure 2 shows that the launch of the Common Effective Preferential Tariff scheme (CEPT in 1992) which started the process of reduction of tariffs to create an ASEAN Free Trade Area (AFTA)⁶ was not conducive to a convergence of living standards. Figure 2 shows that the inclusion of new members is not responsible for this absence of convergence existed previously. In fact, the evolution of between-ASEAN country inequality is due to the vast heterogeneity between the ASEAN founders that did not narrow with time.

On one hand, there is a group of 4 countries (Singapore, Malaysia, Thailand and to a lesser extent Brunei) which get a higher share of expenditure than their population share of ASEAN and contributes to divergence (see Figure 3)⁷.

Figure 3: Contribution to the Theil Index of ASEAN real GDP, 1970-2011 here

Source: Author's calculations with data from Penn World Tables version 8

The case of Singapore is really exceptional: In 2011, Singapore's population amounted to 0.9% of ASEAN population but Singapore made 9% of ASEAN GDP. Singapore's contribution to between-country inequality took off in 1996 and stayed high since then. On the other hand, there is a second group of countries (Indonesia, Vietnam, Laos and Cambodia) whose population share is higher than their expenditure share. The Philippines are the only country which has moved from one group to the second because its growth stayed low while its population grew rapidly.

⁵ Brunei joined ASEAN in 1984, Vietnam in 1995, Laos and Myanmar in 1999 and Cambodia in 1999. Myanmar is excluded of the sample for lack of data. We have grouped newcomers with the founder members since 1970 to see if inequality between these countries which would later form ASEAN as it is today behaved differently than the sole ASEAN founders.

⁶ The AFTA was completed among ASEAN founders in 2010 and among all ASEAN countries in 2015 with the launch of the ASEAN Economic Community (ASEAN EC). In fact, all tariffs have been reduced to zero but many non-tariffs barriers remain.

⁷ Figure 3 presents the contribution of each country to the Theil index of between-country inequality. For each year, the sum of each contribution equals to the Theil index of that year. For instance, in 2011, the Theil index for ASEAN was 0.233, and taking the two extremities of the spectrum, the contribution of Singapore was 0.199 and that of Indonesia was -0.08.

Indonesia is the most important country of this group: on average over the period its population amounted to 45% of the population of ASEAN but its expenditures to only 35%. The biggest country of the region is still one of the poorest in terms of GDP per capita and until this situation improves on a long-term basis ASEAN will stay a heterogeneous region. Figure 3 shows that Indonesia did narrow the gap from 1970 to 1996 when its contribution to between-country inequality got closer to zero but the Asian crisis of 1997-98 inverted the trend with long lasting effect.

Only the last years saw an improvement due to the resilience of Indonesia to the international crisis that broke in 2008 and the acceleration of its growth. Another factor of convergence is the evolution of Vietnam which has slowly but gradually reduced its contribution to divergence. Vietnam, whose population share amounts to 17% has seen its expenditure share reached 10.2% of total ASEAN in 2011, up from 6.3% in 1980. If like Indonesia, the emergence of Vietnam is confirmed on the long-term, then ASEAN could really start to converge⁸. The same is true for Cambodia and Laos which started to catch up during the years 2000 although it does not have a significant impact on ASEAN as a whole because of their small population and GDP size⁹. But if ASEAN has finally started to converge it is not primarily due to its efforts of integration. Intra-ASEAN trade has stayed at a rather low level of around 25% of total ASEAN trade. The integration to the rest of Asia and the Pacific and beyond to global markets has been far more decisive. More, it is a process of convergence of the poorest countries to the middle income countries. This means that the per-capita GDP gap of Indonesia and the newcomers is narrowing with Thailand (see Figure 4) but the gap between Thailand and the richest ASEAN countries - Malaysia, Singapore and Brunei – is not closing¹⁰.

Figure 4: Convergence of Low and Middle-income ASEAN countries towards Thailand here

Source: Author's calculations with data from World Development Indicators 2015

Still, the reduction of between-country inequality of this sort would be an important achievement but providing that within-country inequality does not increase.

A Recent Increase of within ASEAN Country Inequality

⁸ Some econometric studies have also reached the conclusion that there was no convergence in ASEAN over the period 1960 to 1999 but that convergence started over the period 2000 to 2010. For the first period see Michelis and Neaime (2004) and for the second see Chowdhary et al. 2011.

⁹ Chongvilaivan (2014, p308-310) has also calculated a Theil Index of between-country inequality in ASEAN from 1984 to 2010 based on World Development Indicators and excluding Cambodia from 1984 to 1992. Due to the difference of sample and data, he detects a convergence in the aftermath of the Asian crisis while in our estimation the convergence appears much later in 2007 one year before the global international crisis.

¹⁰ In 2012, the GDP per capita in \$PPP2005 in Singapore, Brunei and Malaysia was respectively around 6, 5 and 1.7 higher than the one from Thailand.

To check this hypothesis a new Theil index is calculated to estimate the respective shares of between-country inequality and within-country inequality of ASEAN members. The objective is to determine if inequality between inhabitants of ASEAN has increased or decreased over time because of a divergence or convergence between countries or because of higher or lower inequality within country members or a combination of both. The data on the expenditure distribution of each country comes from Povcalnet completed by World Development Indicators of the World Bank for selected years (1992, 2002, 2008, and 2012) for which data is available for all countries¹¹. Due to the absence of data on expenditure distribution in Povcalnet, Singapore and Brunei are excluded from the sample. Therefore, the between-country inequality is underestimated and cannot be directly compared with the previous one based on Penn World Tables. The analysis thus focuses on the middle and low-income ASEAN countries. These are the most populated which makes them representative of ASEAN¹². The main results are summarized in Table 1.

Table 1: Theil index of between and within inequality in ASEAN here
Source: Author's calculations based on Povcalnet and World Development Indicators, The World Bank

Over the two decades, the Theil index of ASEAN has risen from about 0.37 in 1992 to 0.39 in 2002, and then slowly returned to around its level of 1992. Between-country inequality followed the same pattern which is coherent with what we have seen previously. But Table 1 shows that within-country inequality which had decreased steadily from 1992 to 2008, increase over the period 2008-2012 offsetting partially the decrease in between-country inequality. Around three quarters of inequality among individuals living in ASEAN countries stem from within-country inequality and only one quarter from between-country inequality.

A closer look at the evolution of within-country inequality reveals that two countries only have seen a rise in inequality since 2010, the biggest, Indonesia and the smallest, Lao PDR (see Table 2). These two countries registered the highest growth rate in inequality in Asia after China (Kanbur et al. 2014). In Indonesia, inequality was low and even decreasing between 1993 and 2003 but showed a strong upward trend since then (Yusuf et al. 2014). The rise of inequality among individuals has been pervasive “whereas the gap between regions has been either consistent or decreasing slightly in more recent years” (op cit p 249). The shortage of relatively well-paid industrial jobs due to the stagnation of industry and the massive creation of jobs in low productivity sector is one of the reasons behind the rise of inequality in Indonesia. According to the World Bank, (2014: 36-37) the decline of real wages and salaries while rich

¹¹ See Appendix 1 for technical details.

¹² For practical reason, we will use the term ASEAN in the following comments bearing in mind that Singapore and Brunei are excluded.

Indonesians benefited from rising asset markets is another. The other ASEAN countries have either experienced stagnation (Philippines and Vietnam) or a slight decrease of inequality (Cambodia, Malaysia, and Thailand).

Table 2: Within-Country inequality Indexes of ASEAN Countries here.

Source: Author's calculations and Povcalnet

This observation based on Povcalnet data must be interpreted with caution. One reason for the decrease of inequality in some countries like Cambodia is the improvement of rural incomes in 2007 and 2009 due to good harvests and relatively high prices of rice, growth in agricultural wages and higher income from off-farm self-employment (ADB 2014a: 10-11). These favorable circumstances are volatile so that the reduction of inequality may not be durable. Second, the Gini index does not catch the whole reality on the ground. In the case of Vietnam for instance, the return to a rather low level of consumption inequality with a Gini index of 35.6% in 2012 almost equal to that of 1992 does not mean that nothing happened in between. Badiani and Baulch (2012: 27) show how much inequality has risen between 2004 and 2010: "... growth has favored better-off households, both the relative and absolute gap in incomes between the rich and the poor has risen over time". Third, even when decreasing, inequality is still high in most of ASEAN countries. Malaysia which claims to become a high-income country by 2020 has a Gini coefficient (41) in 2014 much higher than the OECD average (32). The same holds true for the Philippines (43), Thailand (39.3) and even Vietnam (35.6). Fourth, with the exception of Malaysia, all Gini indexes in ASEAN are calculated on consumption and not income like it is the practice in OECD countries and Latin America. While inequality of consumption may reflect more accurately the difficulties of daily life encountered by the majority of the population, they do not reflect the breadth of inequality stemming from income¹³. Income inequality is usually much higher than consumption inequality. In Indonesia, the difference could be 6% "suggesting that the current consumption Gini coefficients of 41 could represent an income Gini of around 47", Word Bank (2014: 35) higher than in Malaysia. This means that seen from the criteria of income, the inequality gap between OECD countries and ASEAN countries is much higher and the idea that Southeast Asian countries are traditionally less unequal than other developing countries has to be reconsidered. In the case of Thailand for instance, Rueanthip (2012: 32) has demonstrated that after controlling for regional price difference, the Gini index of real income was 46.6% in 2011, a very high level, and what's more, almost exactly the same level as in 1996, 46.8%. This gives a

¹³ Either based on consumption or income, inequality indexes suffer from underreport of rich households. For instance, in Cambodia, "the 2009 Cambodia Socioeconomic Survey measured average consumption in the richest quintile at just \$3.75 per person per day" (ADB, 2014, op cit. p 9). In Indonesia, according to the National Socioeconomic Survey (Susenas) "only 1.3 million (0.5% of the population) consumed more than IDR 4 million per month", i.e. \$340 which is not credible and "only around half of the owners of private passenger cars registered with the police are found in Susenas" (World Bank, 2014, op cit. p 36).

complete different picture than the one given by Povcalnet whereby consumption inequality decreased from 42.9% in 1996 to 39.4 in 2010. Beyond the difference of methodology, one explanation of such a divergence between consumption-based and income-based Gini coefficients is that households who have difficulties to cope with necessities resort to indebtedness¹⁴. During some years they can maintain or even improve their living standards until they really have to pay off their accumulated debt. In Thailand, households' debt reached 85.9 % of GDP at the end of 2014. Many households, not only the poor but also the middle class, are over indebted and have to reduce their consumption. As a consequence, the gap between the Gini Income and Gini consumption-based indexes should narrow in the future. The same problem is observed in Cambodia (ADB 2014a: 14) and Malaysia where households' debt was the highest of Southeast Asia with 87.1% of GDP at the end of 2014 (Purnamasari et al. 2015).

To summarize, there are many indications pointing to a high degree of inequality in ASEAN countries which do not appear clearly in inequality indexes. The impact of this high inequality on social cohesion is difficult to establish because it depends a lot on the national context. There may be instances where inequality is increasing but the income of all segments of the population is rising although at a different pace. High inequality may also be perceived as based on meritocracy and not unfair if everyone has a good access to an education of quality. In which cases, a rising inequality may not put social cohesion at risk. But there are also instances where growth is not inclusive and does not benefit much the poor and the middle class and appear as the mere enrichment of the wealthy. If compounded by inequality of opportunity in education and health, corruption and privileges acquired by birth instead of meritocracy, inequality will endanger social cohesion. Finally, the impact of inequality on social cohesion must be interpreted in relation to poverty. If absolute poverty declines sharply from a high level, it will offset at least partially a rise in inequality. Not only because the living standards of many people will have improved but also because it is much easier for governments to get the credit of poverty reduction and improve their legitimacy. Poverty is not justifiable and most countries have an explicit policy to curb poverty which is not the case for income inequality which is a more sensitive political issue. For a government to have an official policy of income inequality reduction implies that income inequality is condemned on moral ground and that a policy of income redistribution is implemented. This means that a fiscal policy is adopted whereby the rich in one way or another are taxed in order to help the poor. We are still very far from such a political agenda in ASEAN countries where a widely shared conception among the elite is "... that those in society holding a disproportionate amount of wealth are not considered responsible for the betterment of the least advantaged..." and taxation to provide the government with financial means is not considered a priority although the government is held responsible for

¹⁴ This is what happened in the USA and this led to the Great Recession of 2008-2009. See: Sturn and Van Treeck 2013.

providing public services, infrastructure and social services (Bock 2014: 20). Poverty is a different matter because the implicit idea is that growth will be enough to curb poverty providing that it is inclusive which means investing in infrastructure, connectivity, education and health but excludes income distribution. During the eighties and nineties most of ASEAN founders governments have been helped by high growth leading to absolute poverty reduction. The CLMV countries are now benefiting from the same phenomenon which explains the recent catch-up vis-à-vis Thailand. But since the Asian crisis, ASEAN founders' growth has slowed and the nature of poverty has changed. While absolute poverty has dramatically declined, it has been substituted by relative poverty and the possibility to reinforce social cohesion thanks to high growth is declining. We turn to the analysis of absolute and relative poverty and draw its lessons for social cohesion in the next section.

Absolute and Relative Poverty and Social Exclusion in ASEAN

In ASEAN countries, many publications have highlighted that the absolute poverty headcount has been decreasing dramatically during the last two decades (ADB 2014b). But this important achievement has overshadowed the rise of relative poverty. Absolute poverty is defined in regard of the cost of basic needs deemed necessary for survival and minimum capabilities and as such is undoubtedly a source of social exclusion. Relative poverty lines are defined in relation to the overall distribution of income for instance 50% (OECD 2009) or 60% of the median national income (Guio et al. 2012). They measure the distance from customary living standard from the society in question and thus include distributional concerns in the definition of poverty (Garroway and Laiglesia 2012: 29-30, Birdsall and Meyer 2014). Below this relative poverty line, since 1985 the Council of the European Union considers that “the persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member state to which they belong” (EUROSTAT 2012). Relative poverty like absolute poverty is also a criterion of exclusion from society. This means that ASEAN country members which have succeeded in getting rid of absolute poverty still face a problem of exclusion when relative poverty has turned significant.

Following Garroway and Laiglesia (2012), we use Povcalnet to calculate the share of relative poverty in the countries where half the median income level is above the international absolute poverty line defined by the World Bank, i.e. 2005 \$PPP 1.25 per day or \$38 per month. Figure 5 shows that three countries, (on top of Singapore and Brunei) Malaysia, Thailand (since 1990) and Vietnam (since 2010) fill this criterion.

Figure 5: Absolute and relative poverty in Southeast Asia around 2009-2012
here

Source: Author's calculations with data from Povcalnet, World Bank

In these three countries absolute poverty has almost disappeared but relative poverty headcount represents between 13 to 21.5 % of the population (see Table 3).

Table 3: Absolute and relative poverty in ASEAN member countries in percentage and thousands of individuals here

Source: Author's calculations with Povcalnet. For Singapore, Donaldson et al. 2013

For Singapore, Donaldson et al. (2013) estimate relative poverty at 21% which is the same as in Malaysia. Three other countries are in an intermediate situation: Indonesia, the Philippines and Cambodia which have a half median income close but still inferior to \$38 but whose absolute poverty headcount is still high, in the range of 10% (Cambodia) to 19% (the Philippines), which makes it a priority in terms of policy objective. But if GDP per capita growth continues on the same trend, we may expect to see the half-median income overcome the absolute poverty threshold in the near future. One may be less optimistic for Lao PDR where the half-median income (\$26) is still far from the absolute poverty level.

Because the international poverty line of the World Bank is often too low to estimate absolute poverty in ASEAN, we also look at the national poverty lines. These are usually better fitted to national specificities but they also suffer sometimes from a political bias because governments decide eventually what is included or not in basic needs. Finally, we compare these objective absolute and relative poverty measures with the dissatisfaction with living standards. We consider the share of the population who answer negatively to the question: “are you satisfied with your living standard?” This question is part of the Gallup world Poll¹⁵. Although it is not a direct estimation of subjective poverty, because the question is not “do you consider yourself poor”, one may consider that the absolute and relative poor have all the reasons to be dissatisfied with their living standards. Figure 6 presents the average results for the most recent periods available.

Figure 6: Objective and Dissatisfaction in ASEAN here.

Source: Author's calculations with Povcalnet, World Bank; Gallup World Polls; Singapore: Donaldson et al. 2013

First, we observe that the headcounts for international and the national poverty lines differ markedly. For Cambodia and the Philippines for instance the national is higher than the international headcount which means that the national authorities value the minimum living standard at a higher level than the World Bank. In Lao PDR, it is the opposite which means that the national poverty line is probably underestimated. In

¹⁵ The Gallup World Poll data has been taken from the Legatum Index website accessed on 1st June 2014 and from the Human Development Report 2013 published by the UNDP, “Table 16, Supplementary Indicators: perceptions of wellbeing”.

Vietnam, the national poverty line is equal to the share of relative poverty while in Thailand it is higher which means that it includes some elements of participation to society above basic necessities. Second, In Cambodia, Indonesia, Malaysia, Vietnam and to a lesser extent Thailand, there is a significant gap (superior to 5%) between the share of the population which is dissatisfied and the share of either absolute or relative poor¹⁶. The gap is higher than 10% for Cambodia, Indonesia, and around 10% for the other countries. This means that in these countries either the estimates of objective poverty do not capture well the reality or that a significant share of the population beyond the poor are not satisfied with their living standards. In both cases, this dissatisfaction can be voiced if there is an opportunity and is potentially a source of political instability. Singapore is an interesting counterexample because the percentage of dissatisfied is equal to the share of relative poor. Still, a share of 20% of relative poor and dissatisfied is quite significant for the richest state of ASEAN¹⁷.

Social Capital and Social Cohesion in ASEAN

A high level of social capital is conducive to a socially cohesive society because social capital encompasses the ties that bind people together and their relationship with the society they live in general¹⁸. Trust among the members of a society and civic participation of individuals are two ways to capture part of the global concept of social capital. Trust can be divided in two dimensions: societal trust, when individuals consider people in their society trustworthy and interpersonal trust when people have someone to rely on when in difficulty. Societal trust can be measured by the share of individuals who answer positively to the question: “Do you think that most people can be trusted?” and interpersonal trust can be measured by the share of individuals of answer positively to the question: “Can you rely on friends and family for help?” Civic participation can be judged by the share of people who answer positively to the question: “Have you volunteered your time in past month?” The data has been collected by the Gallup World Poll and we present the average results for ASEAN country members, total ASEAN and the World over the period 2011-2012 in Figures 7, 8 and 9.

¹⁶ Absolute poverty measured with the international poverty line of \$1.25 is represented in figure 6 in plain bars (Cambodia, Indonesia, Laos, and the Philippines) while relative poverty is represented in hatched bars (Malaysia, Singapore, Thailand and Vietnam).

¹⁷ The situation in Lao PDR must be understood with caution. The share of dissatisfied is equal to the national poverty line which is probably underestimated. Over the period 2006-2008, the Gallup sample excludes 10% of the population living in remote mountainous regions where poverty is high. This proportion declines to 6% in the following years but in 2012 several cities amounting to 19% of the Lao population are excluded from the sample which is clearly not a representative sample.

¹⁸ According to Serageldin and Grootaert, (2000, 44) “a glue that holds societies together” is generally recognized as necessary to a functioning social order, along with a certain degree of common cultural identifications, a sense of “belonging”, and shared behavioural norms. This internal coherence helps to define social capital”.

Figure 7: Interpersonal trust: Can you rely on friends and family for help? (% yes), average 2011-2012 here

Source: Author's calculations with Gallup World Poll

Figure 8: Societal trust: Do you think that most people can be trusted? (% yes), average 2011-2012 here

Source: Author's calculations with Gallup World Poll

Figure 9: Participation: Have you volunteered your time in past month? (% yes), average 2011-2012 here

Source: Author's calculations with Gallup World Poll

Globally, ASEAN has the same level of interpersonal trust than the rest of the world, a lower level of societal trust and a higher level of volunteering. But the differences among ASEAN country members are important. Cambodia has systematically the lowest scores in trust and participation and has definitely a low social capital. Other countries register a mixed record. Lao PDR like Cambodia has a low level of interpersonal trust that can probably be explained by the still high level of poverty and difficulty to support each other in case of hardship. But Lao PDR has a higher than average level of societal trust and volunteering. Malaysia and the Philippines share the same profile: they have a level of interpersonal trust equal to the average, a very low level of societal trust, which may reflect a distrust towards people from different ethnics, religious beliefs and geographical background, and a higher than the average level of participation. The Philippines stand out with a very high level of volunteering, two times higher than the world average which reveals a very high level of solidarity. This can be explained among other things by the importance of the labor movement, the density of NGO advocating on behalf of urban and rural poor and caring organizations under the obedience of the Catholic Church. Singapore, Thailand, and to a lesser extent Vietnam, share also common points. Singapore and Thailand have the highest level of interpersonal trust, (10% above the average), a high level of societal trust, and a low level of volunteering. These three countries have a high level of intra-community ties (bonding ties) and extra-community ties but with people of similar economic status and political influence (bridging ties) (Woolcock and Narayan 2000) but do not engage a lot in the time-consuming grassroots activities. This is coherent with business and self-interest-centered societies where tight political controls erode traditional political participation (Skoric et al. 2009). Indonesia is a different case. It has also a high level of interpersonal and societal trust but also a high level of volunteering. In this sense, Indonesia has a high social capital contributing to a cohesive society.

Mobility and Social Cohesion

Social mobility is important for social cohesion because people who believe in the possibility of seizing opportunity, getting out of poverty and improving their situation

by hard work will place more hope in society and will have a higher sense of belonging. Unfortunately, to our knowledge, there is no systematic cross-country study of social mobility either intergenerational or not. But we can measure the perceptions that people have of social mobility. The Gallup World Poll includes the following question: “Can people get ahead by working hard?” The positive answer reflects the perception that people have about social mobility and the open character of their country. Figure 10 show the percentage of people who answer yes in ASEAN country members, in ASEAN as a whole and in the world.

Figure 10: Can people get ahead by working hard? (% yes), 2011-2012 here
Source: Author's calculations with Gallup World Poll

ASEAN people are in general much more optimistic (88.4%) about the possibility to raise their social status through hard work than in the rest of the world (81.4%). Among ASEAN country members, it is interesting to note that in two countries, Singapore and Thailand, there are less people who believe in social upgrading with hard work. It is surprising for Singapore which is often viewed and praised for being a model of meritocracy. There is probably disenchantment in a country where competition for positions is tough and open to foreigners. Thailand has the lowest score which means that this country is perceived as closed and gives less space for meritocracy and more to advantages acquired by birth. This is the contrary in Malaysia, which enjoys rather high living standards in the region and this may reflect the feeling of ethnic Malays who are optimistic about finding a good job once they have completed their education. Another interesting result is that the poorest countries in terms of living standards have a high belief in the possibility of improving their situation by working hard. It is less so in Lao PDR which is only starting its structural change and where the vast majority of people still live off the farm. But it is striking that Cambodia registers one of the highest score. This means that people are optimistic about the possibility to change their life for the better despite hardship because high growth and catching-up induce people to believe that there opportunities to improve their life.

Conclusion

This paper has tried to present some of the various facets of social cohesion in ASEAN countries. To make sense of the data, building country profiles is instructive. We contrast three countries in our conclusion as representative of the full array of country cases in ASEAN: Cambodia, Indonesia and Singapore. Cambodia is a country where social cohesion is at risk because a high share of people beyond the poor are dissatisfied. There is also a low level of trust and a low level of volunteering. The only element that plays positively for Cambodian social cohesion is social mobility. But this is only perceived mobility and if the objective mobility, the one that people really experienced is low, then the only component that plays positively for social cohesion may vanish and political instability may erupt more than it is already the

case. Singapore is at the other extreme of the spectrum. Its citizens enjoy a high level of satisfaction, and there is a high level of trust. Singapore can be said a highly socially cohesive society. Still, the rather low level of perceived social mobility is an element of concern for future political stability. Indonesia is in an intermediate situation in terms of cohesive society. It has a rather high share of dissatisfied people, but a high level of trust and participation and a high perceived social mobility. Indonesia is representative of the majority of ASEAN countries. Its future stability depends on its capacity to deliver its promises: reducing the motives for dissatisfaction and materializing upward social mobility. In this endeavor, the contribution of the ASEAN community will probably be small and national politics surely more decisive. Error! Not a valid link.

Appendix 1

The 25 countries of the Asia-Pacific region selected are: Australia, Bangladesh, Bhutan, Brunei, Cambodia, China, Hong Kong (China), India, Indonesia, Japan, Laos, Macao, Malaysia, Maldives, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and Vietnam.

Appendix 2

To estimate the within-country Theil index, we have used the mean income and the decile income distribution published in Povcalnet detailed tables for each country and year, accessed 31 January 2015. Data was not always available for all countries for the years 1992, 2002, 2008, 2012, in which case the closest year was selected. For Cambodia: 1994, 2004, 2008 and 2011. Indonesia: 1993, 2002, 2008, 2011. Laos: 1992, 2002, 2008, 2012. Malaysia: 1992, 2004, 2007, 2012. Philippines: 1991, 2003, 2009, 2012. Thailand: 1992, 2002, 2007, 2011. Vietnam: 1992, 2002, 2008, 2012. The Theil index of Malaysia for the year 2012 has been estimated. We have calculated a Theil index of income inequality with the data published by the Department of Statistics of Malaysia over the period 1984-2009 and observed that it follows closely the one calculated with Povcalnet data. It has decreased by 3.5% between 2009 and 2012 and we have applied this reduction to the Theil Index of 2009 calculated with Povcalnet data.

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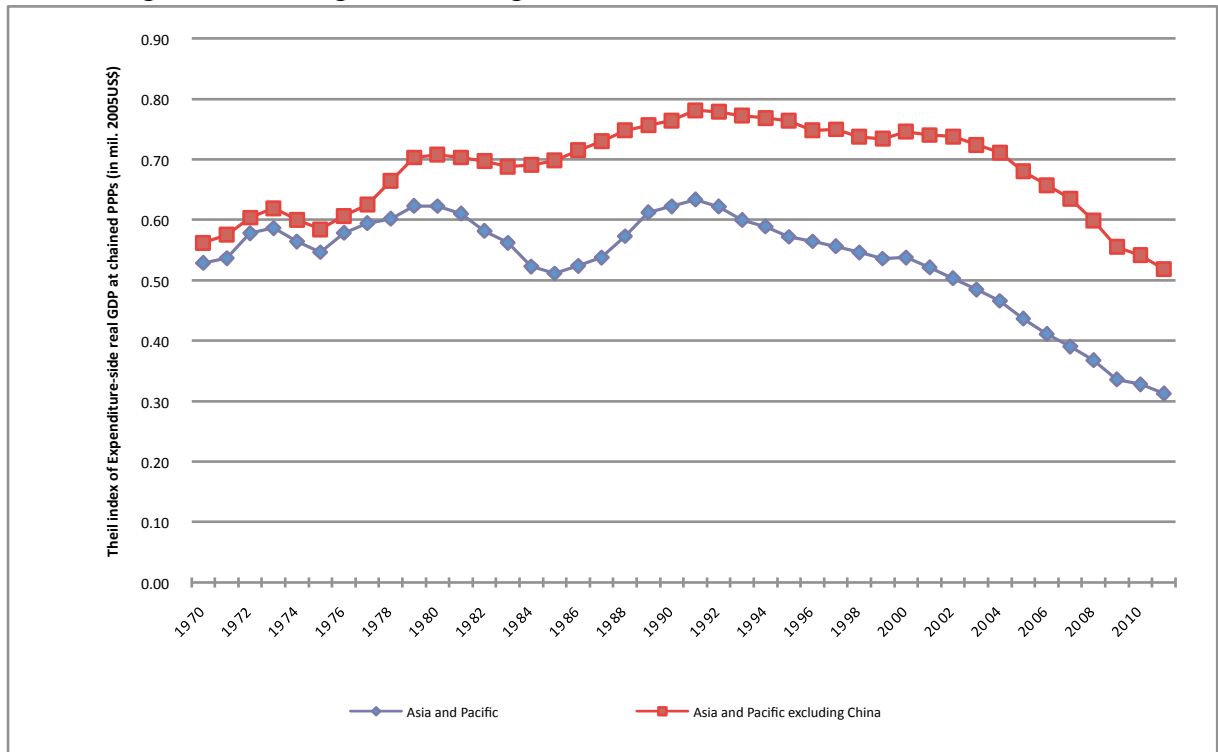
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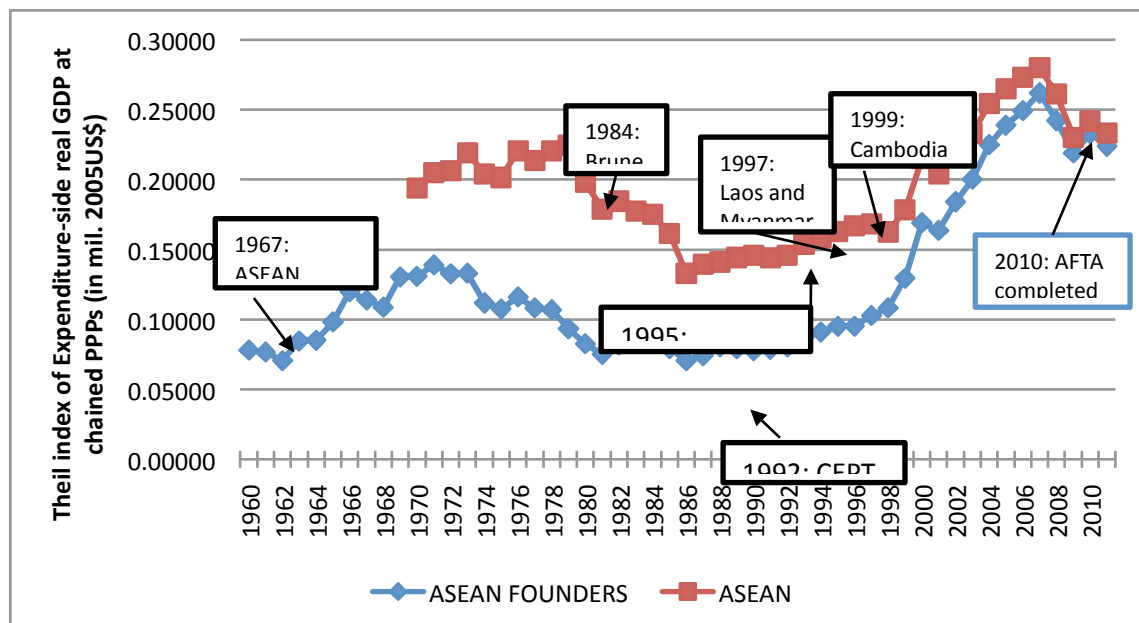
Figures and Tables

Figure 1: Convergence of living standards in Asia-Pacific, 1970-2011



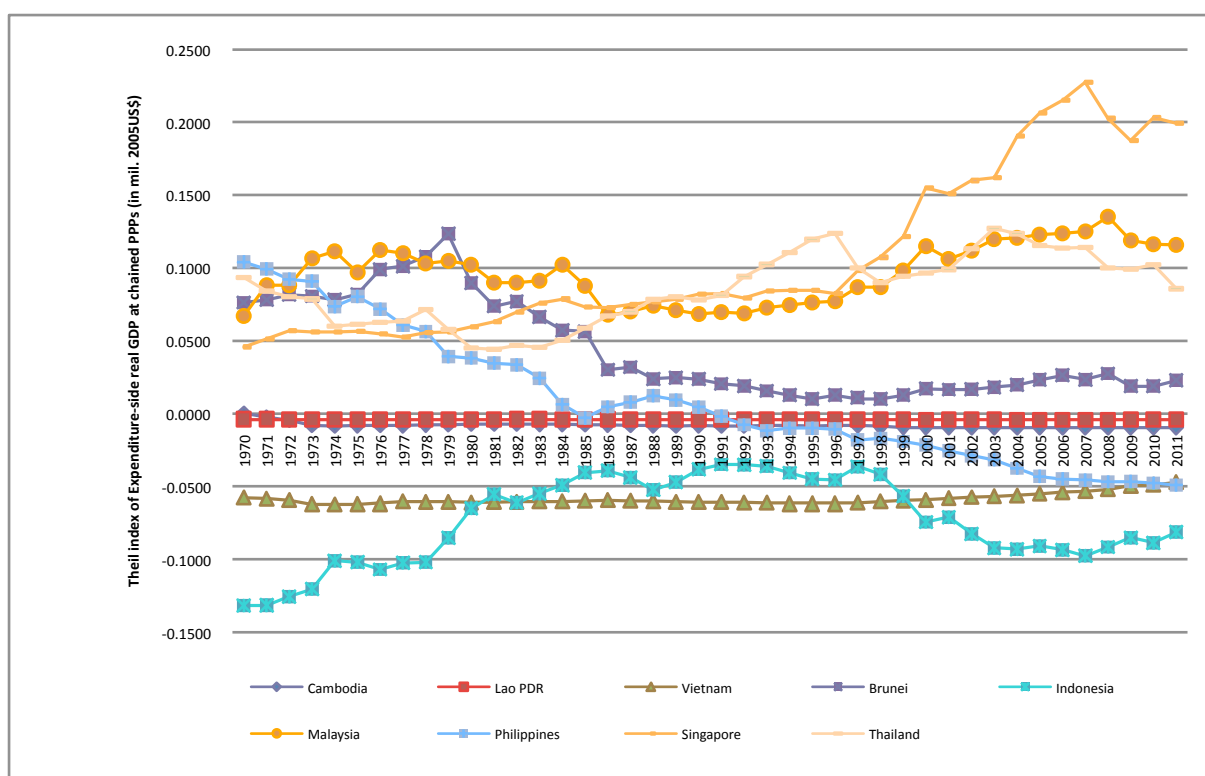
Source: Author's calculations with data from Penn World Tables version 8

Figure 2: Between-country inequality of total ASEAN and ASEAN founder countries, 1960-2011



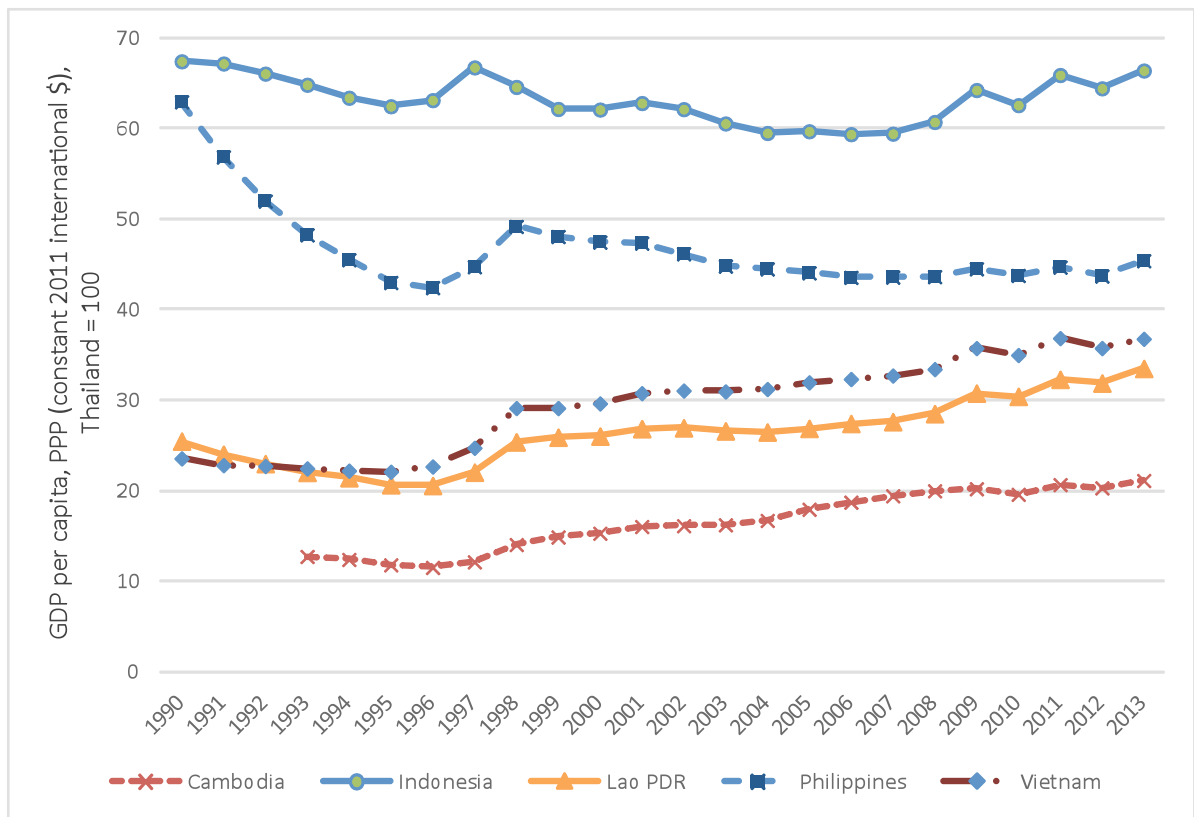
Source: Author's calculations with data from Penn World Tables version 8

Figure 3: Contribution to the Theil Index of ASEAN real GDP, 1970-2011

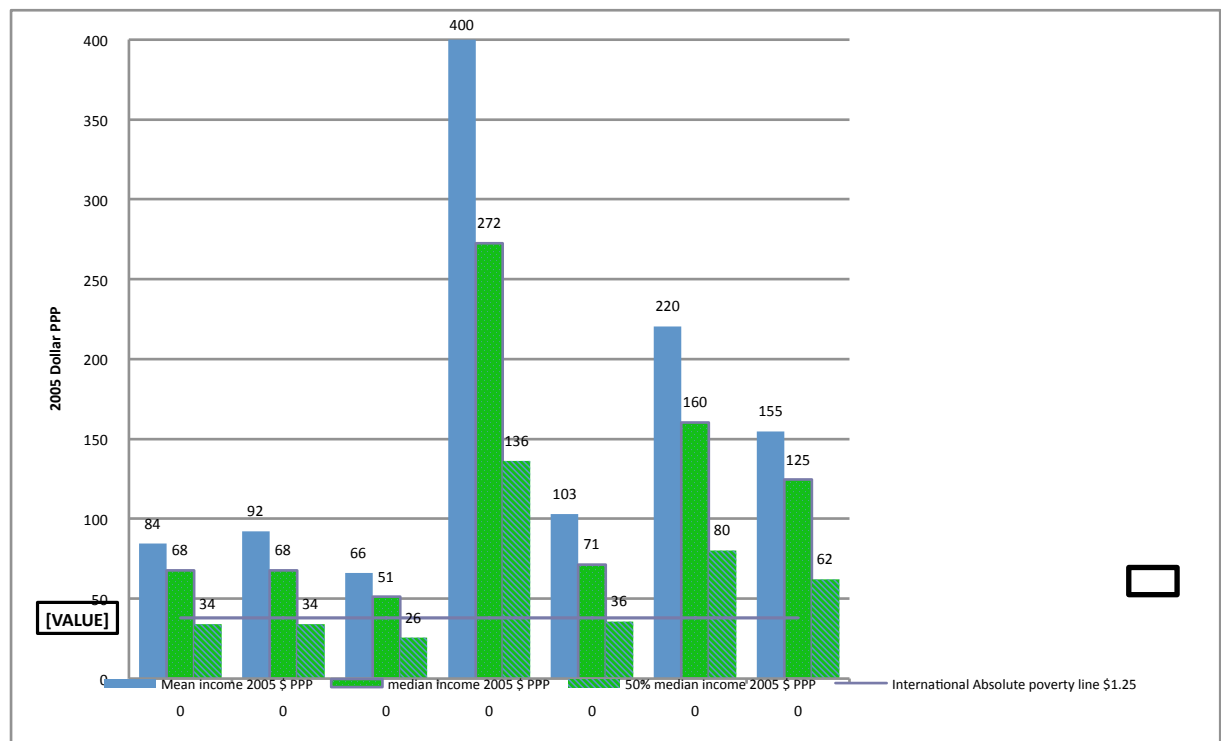


Source: Author's calculations with data from Penn World Tables version

Figure 4: Convergence of Low and Middle-income ASEAN countries towards Thailand

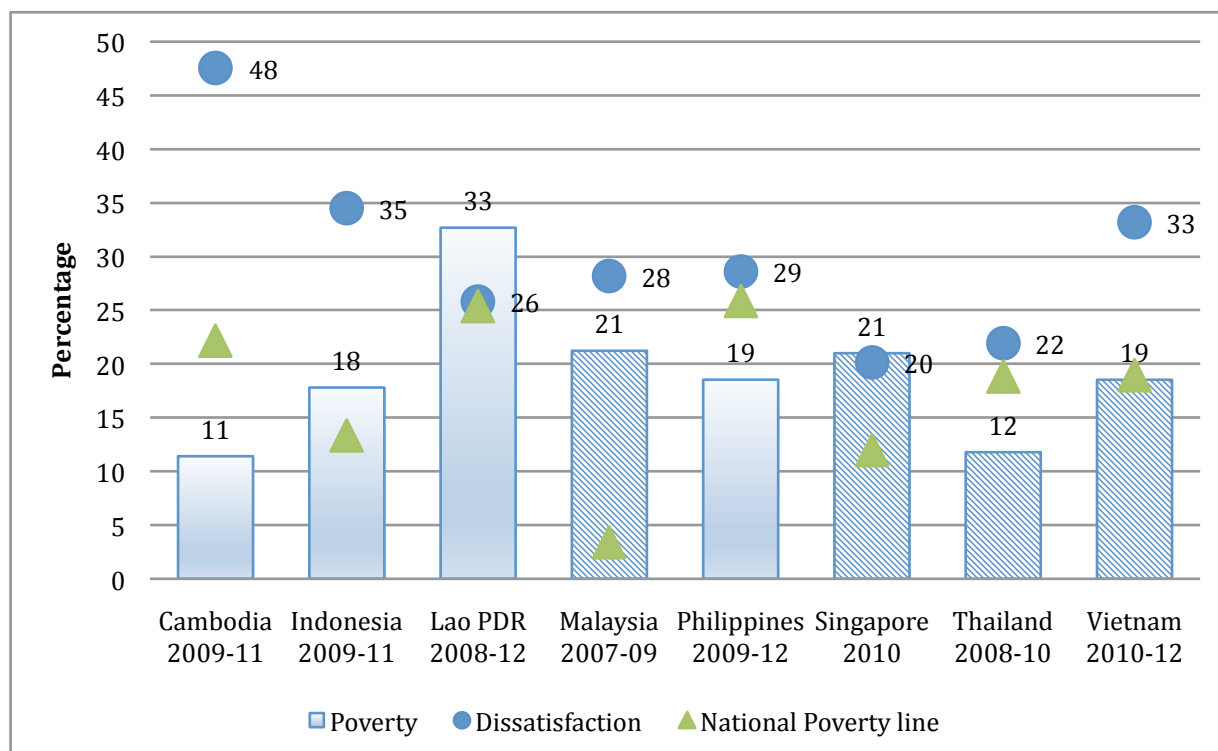


Source: Author's calculations with data from World Development Indicators 2015
Figure 5: Absolute and relative poverty in Southeast Asia around 2009-2012



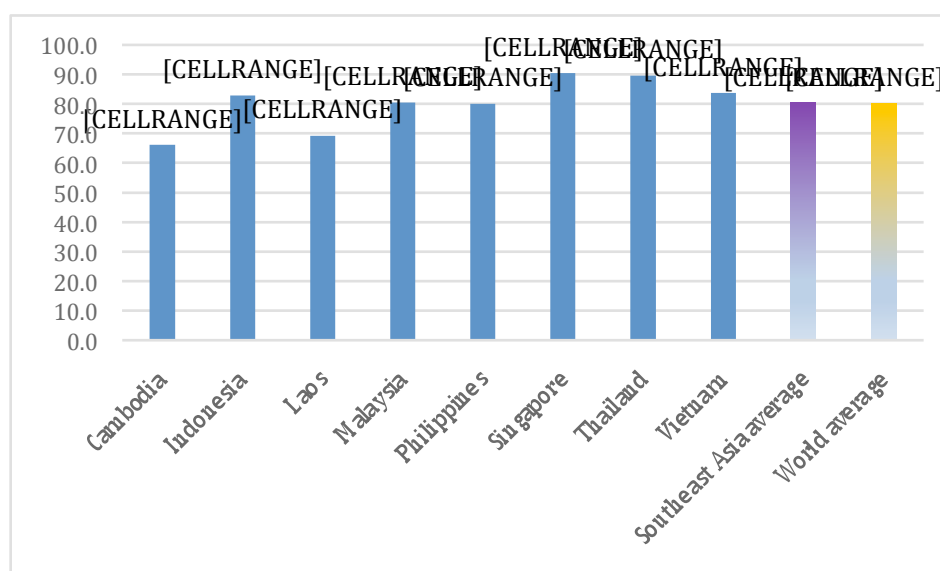
Source: Author's calculations with data from Povcalnet, World Bank

Figure 6: Objective poverty and Dissatisfaction in ASEAN



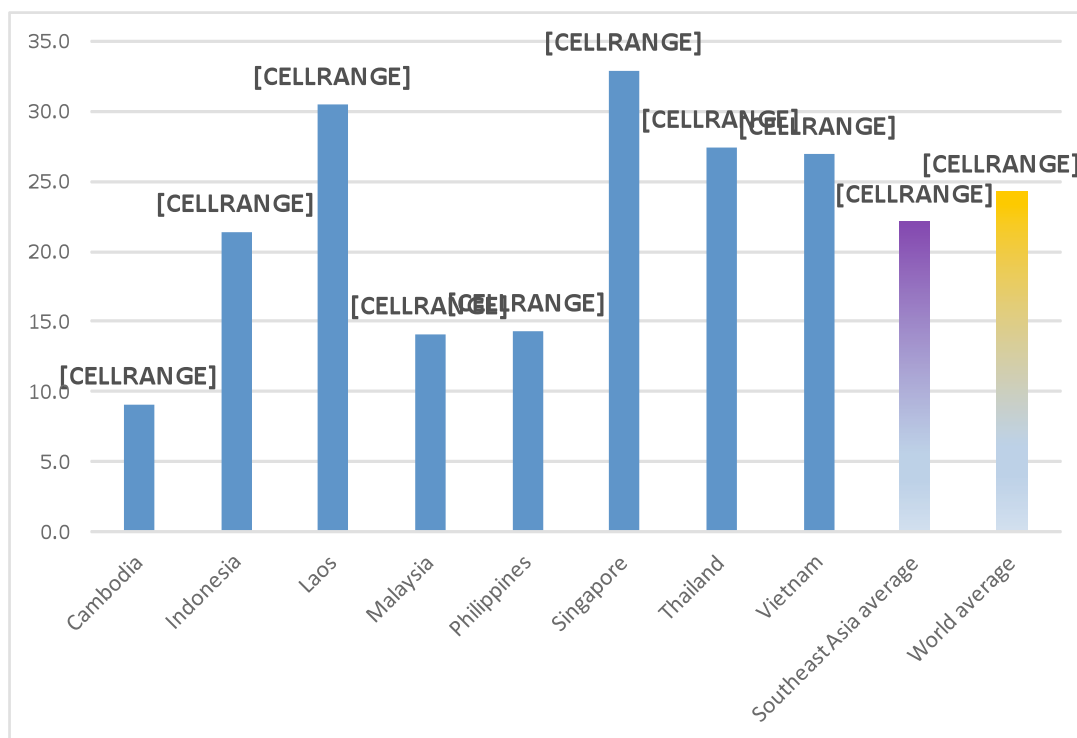
Source: Author's calculations with Povcalnet, World Bank; Gallup World Polls; Singapore: Donaldson et al. 2013

Figure 7: Interpersonal trust: Can you rely on friends and family for help? (% yes), average 2011-2012



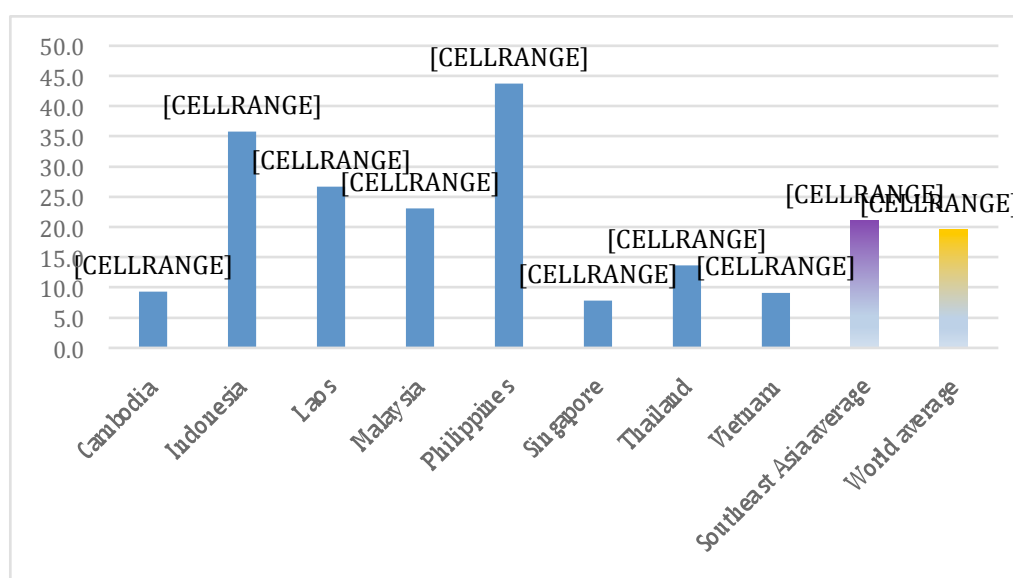
Source: Author's calculations with Gallup World Poll

Figure 8: Societal trust: Do you think that most people can be trusted? (% yes), average 2011-2012



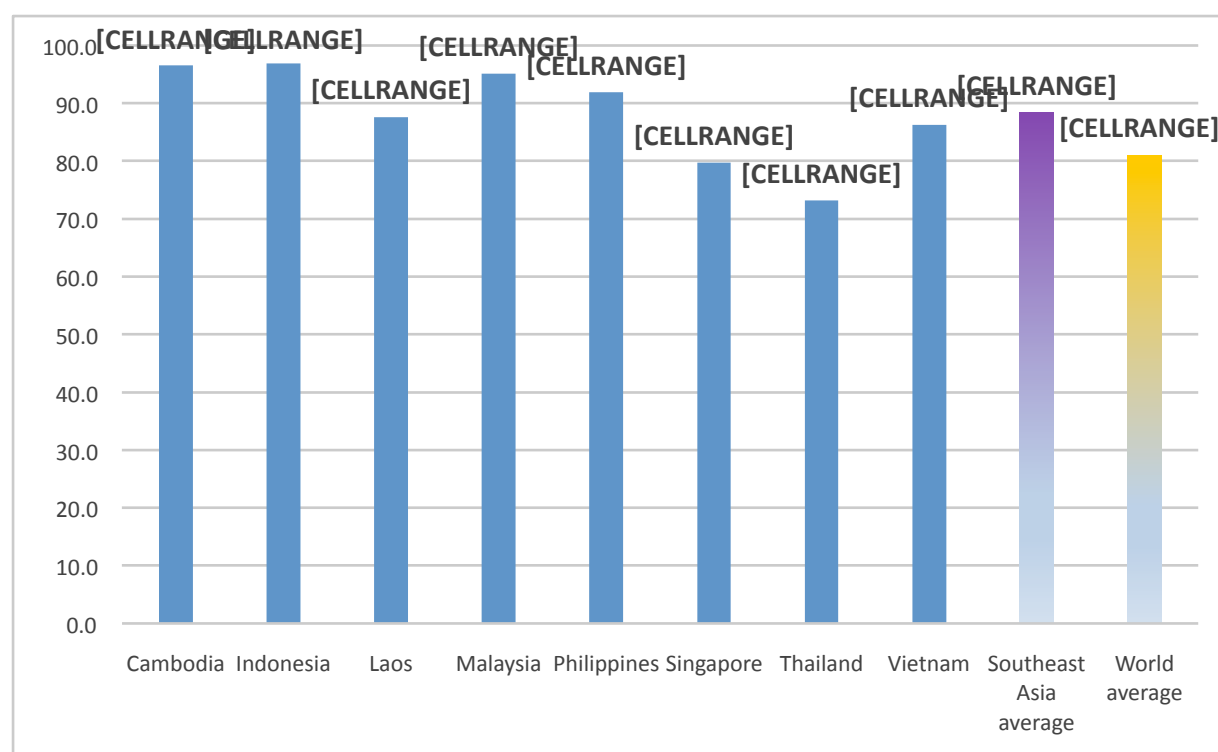
Source: Author's calculations with Gallup World Poll

Figure 9: Participation: Have you volunteered your time in past month? (% yes), average 2011-2012



Source: Author's calculations with Gallup World Poll

Figure 10: Can people get ahead by working hard? (% yes), average 2011-2012



Source: Author's calculations with Gallup World Poll

Table 1: Theil index of between and within inequality in ASEAN				
Summary of results	1992	2002	2008	2012
Theil Index ASEAN	0.3683	0.3909	0.3915	0.3667
Between-country inequality	0.1003	0.1309	0.1259	0.0972
Within-country inequality	0.2680	0.2600	0.2656	0.2695
In %	1992	2002	2008	2012
Between-country inequality	27.2	33.5	32.2	26.5
Within-country inequality	72.8	66.5	67.8	73.5
Source: Author's calculations based on Povcalnet and World Development Indicators, The World Bank				

Table 2: Within-Country inequality Indexes of ASEAN Countries				
Theil Index	1992	2002	2008	2012
Cambodia	0,276	0,218	0,212	0,174
Indonesia	0,142	0,151	0,182	0,244
Lao PDR	0,161	0,183	0,223	0,231
Malaysia	0,376	0,402	0,345	0,335
Philippines	0,34	0,343	0,321	0,321
Thailand	0,389	0,291	0,304	0,292
Vietnam	0,207	0,243	0,215	0,214
Theil ASEAN	0,263	0,257	0,259	0,269

Gini Index	1992	2002	2008	2012
Cambodia	38,28	35,53	35,15	31,82
Indonesia	29,31	29,74	34,11	31,33
Laos	30,43	32,47	35,46	36,22
Malaysia	45,9	46,1	44,1	43,1
Philippines	43,82	44,48	42,98	43,03
Thailand	47,86	41,98	40,51	39,37
Vietnam	35,68	37,55	35,57	35,62
Source : Author's calculations and Povcalnet				

Table 3: Absolute and relative poverty in ASEAN member countries in percentage and thousands of individuals				
Country	Absolute poverty headcount, %	Relative poverty headcount, %	Number of	Number of
			absolute poor, thousands	relative poor, thousands
Cambodia 2011	10,1	5,5	1 467 889	796 019
Indonesia 2011	16,2	13	39 499 925	31 743 035
Laos 2012	30,3	9,8	2 011 027	652 620
Malaysia 2009	0	21,5	0	5 977 699
Philippines 2012	19	16,3	18 335 602	15 743 861
Thailand 2010	0,4	11,5	252 329	7 618 216
Vietnam 2012	2,4	13,3	2 166 122	11 807 142
Singapore	0	21	0	1 088 577
Source: Author's calculations with Povcalnet. For Singapore, Donaldson et al. 2013				

The table should be read like this. In Malaysia all poor are relative poor because absolute poverty is null. In Vietnam, there are 11.8 million relative poor who earn 50% of the median and more than \$38 a day and around 2.2 million of absolute poor who earn less than \$38 a day. So total poverty amounts to around 14 million individuals. In Lao PDR, 50% of the median income is still below \$38 a day so relative poor are also absolute poor and total poverty amounts to 30.3%.

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05

**THE ASEAN ECONOMIC COMMUNITY: INCLUSIVE
AND PARTICIPATORY APPROACH TO ENHANCE
FOOD SECURITY IN SOUTHEAST ASIA?**

Dr Chin Kok Fay

The National University of Malaysia

THE ASEAN ECONOMIC COMMUNITY: INCLUSIVE AND PARTICIPATORY APPROACH TO ENHANCE FOOD SECURITY IN SOUTHEAST ASIA?

DR CHIN KOK FAY

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Introduction

According to last year's *State of Food Insecurity of the World*, much progress in food security has been achieved in Southeast Asia since 1990 (see Table 1). Notwithstanding the progress so far, much work remains to be done to enhance food security in the region due to growing food demand and climate change (see Asian Development Bank, 2013). Moreover, ending world hunger and malnutrition, doubling the agricultural productivity of smallholder farms, or ensuring sustainable and resilient agricultural practices by the 2030 deadline has become the new target envisaged in the Sustainable Development Goals (SDGs), recently adopted by all 193 member countries of the United Nations (UN). Thus, a more concerted regional initiative is necessary to (Islam and de Jesus, 2012: 256-257)

- better regulate the regional food markets amid volatile global markets dominated by major multinational corporations
- can supply essential food staples, such as rice, corn and wheat to regional food markets to suit existing Asian consumption patterns, for a reasonable price
- allows for the achievement and assurance of good Security Sector Governance (SSG) in stakeholders.
- ensure food security for marginalized communities who are more vulnerable to internal social conflicts
- help to direct food resources to deal with declining investments in agriculture in Southeast Asian countries

The paper aims to examine the impact of the AEC on the region's food security in terms of food availability, accessibility and utilisation (safety and quality). Most previous studies look at the issue through the prism of the enabling effects of the AEC on infrastructure and connectivity and intra-regional trade which promote food security. On the other hand, some studies point out several undesirable effects of regional trade liberalization on food security as not only the desired trickle-down effect of regional trade liberalization fails to reach the vulnerable groups, but also regional trade regime tends to be "captured" by powerful economic interests. In light of these different perspectives, the paper synthesizes the analytical findings of the previous studies before concludes with the key lessons learned and policy recommendations.

Table 1 Undernourishment around the world, 1990–92 to 2014–16

Countries	Number of people undernourished (million)					Prevalence of undernourishment ^a (%)				
	1990- 92	2000- 02	2005- 07	2010- 12	2014- 16 ^b	1990- 92	2000- 02	2005- 07	2010- 12	2014- 16 ^b
Brunei	ns	ns	ns	ns	ns	<5.0	<5.0	<5.0	<5.0	<5.0
Darussalam										
Cambodia	3.0	3.6	2.7	2.5	2.2	32.1	28.5	19.6	16.8	14.2
Indonesia	35.9	38.3	42.7	26.9	19.4	19.7	18.1	18.8	11.1	7.6
Lao People's Democratic Republic	1.9	2.1	1.6	1.4	1.3	42.8	37.9	26.9	21.4	18.5
Malaysia	1.0	ns	ns	ns	ns	5.1	<5.0	<5.0	<5.0	<5.0
Myanmar	26.8	24.3	17.0	9.4	7.7	62.6	49.6	33.7	18.0	14.2
Philippines	16.7	16.1	14.3	12.7	13.7	26.3	20.3	16.4	13.4	13.5
Thailand	19.8	11.6	7.7	6.0	5.0	34.6	18.4	11.7	8.9	7.4
Timor-Leste	0.4	0.4	0.3	0.3	0.3	45.2	41.6	34.0	31.2	26.9
Viet Nam	32.1	20.7	15.9	12.2	10.3	45.6	25.4	18.5	13.6	11.0
Southeast Asia	137.5	117.6	103.2	72.5	60.5	30.6	22.3	18.3	12.1	9.6

^a The proportion of undernourished people in the total population

^b Projection

ns not statistically significant

Source: FAO (2015: 46)

Enabling Effects of the AEC on Regional Food Security

The link between regionalism and food security can be studied in two main aspects (Matthews, 2003):

a) the impact of regional trade integration for food security.

Regional integration is expected to enhance food security if rising intra-regional trade promotes economic growth and income-earning capacities of the poor and hence, enhance access to food. In addition, rising intra-regional agricultural trade increases domestic food supplies to meet consumption needs, and reduces overall food supply variability

b) The opportunities which exist to address food security issues within a regional framework.

The 2007/2008 food crisis had spurred ASEAN to embrace food security as a permanent and high policy priority (ASEAN Secretariat, 2014: 1). The ASEAN Integrated Food Security (AIFS) Framework and Strategic Plan of Action – Food Security (SPA – FS) 2009-2013, which was adopted by the ASEAN Summit of 2009 would be continued beyond 2013 and supported by SPA – FS, starting 2015-2020 under the new context and commitments from ASEAN Leaders, focusing on the following contents (ASEAN Secretariat, 2014 :2):

- a strong, equal and sustainable infrastructure for improving food security and nutrition;
- delivered timely and accurate emergency responses;
- developed an integrated new areas of cooperation on food security and nutrition and increased investment in agriculture;
- regular coordination and monitoring of AIFS and SPA-FS.

Table 2 ASEAN's Progress on the Harmonization of Food Control and Safety Requirements and Principles

1.	ASEAN Common Food Control Requirements (ACFCRs) 1.1 <u>ASEAN Principles and Guidelines for National Food Control Systems</u> Provides practical guidance to assist the national government, and their competent authority in the design, development, operation, evaluation and improvement of the national food control system 1.2 <u>ASEAN General Principles of Food Hygiene</u> Stresses the key hygiene controls at each stage of the food chain from primary production through to final consumption. 1.3 <u>The draft to ASEAN General Standards for the Labelling of Pre-packaged Food</u> Provides the guidance on general requirement for the labelling of pre-packaged foods for governments, regulatory authorities, food industries and retailers, and the consumers standard for labelling.
2.	ASEAN Principles for Food Import and Export Inspection and Certification Provides principles that should be considered and applied in inspection and certification system for controlling food import and export (e.g., fitness for purpose, risk assessment, equivalency, and transparency).
3.	ASEAN Guidelines for the Design, Operation, Assessment and Accreditation of Food Import and Export Inspection and Certification Systems Provides governments a framework for the development of import and export inspection and certification systems.
4.	ASEAN Guidelines for Food Import Control Systems (CAC/GL 47 MOD) Provides a framework for the development and operation of an import control system to protect consumers and facilitate fair practices as well as to ensure unjustified technical barriers to trade would not occur. The guidelines cover general characteristics that should be considered in food import control systems.
5.	ASEAN Guidelines Guideline on Inspection and Certification of Food Hygiene Provides practical guidance to assist the national governments of ASEAN Member States, and their competent authority in inspection and certification of food hygiene. It also provides checklist for food hygiene inspection of food establishments.

Source: ASEAN Food Safety Network, 5 June 2015.
<http://www.aseanfoodsafetynetwork.net/CurrentIssueDetail.php?CIId=119>, accessed on August 13 2015

Agriculture and fisheries are among the twelve priority sectors identified under the AEC initiatives to transform the region into an economically integrated market in 2015 and beyond. One of significant contributions for ASEAN to move towards a single market and production base includes achievement made on the harmonization of ASEAN food control and safety requirements and principles. The AEC scorecard, which has been used as a monitoring tool to ensure a timely implementation of the AEC initiatives, identifies measures to harmonise ASEAN food control and safety requirements. The progress made is shown in Table 2.

By encouraging best agricultural practices and investing in regional certification mechanisms such as e.g. food safety certification processes, both intra-ASEAN as well as extra-ASEAN food trade could be bolstered significantly. In addition, priorities given to improve infrastructure such as energy and transport are expected to boost smallholder farmers' physical and informational connectivity with markets.

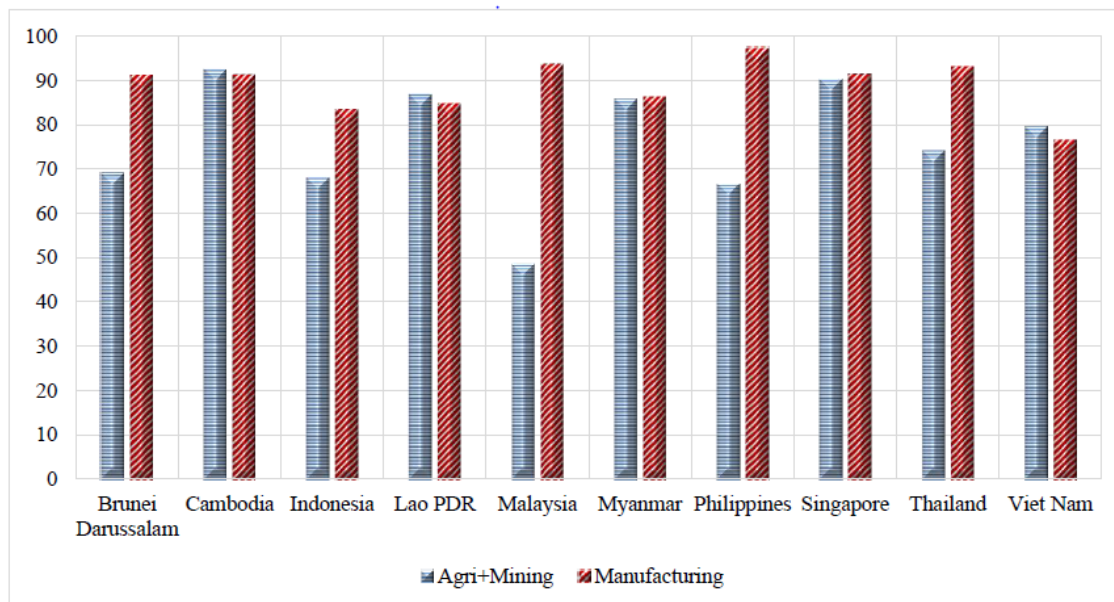
As the move toward AEC in 2015 and beyond will provide for a large and more integrated market and improve trade facilitation, it is expected to enhance the region's food security. Therefore, most conventional studies conclude that the major challenges of the regional food security are "politicisation of the food sector and structural shortcomings" which could impede progress in freer trade for agricultural products. However, such analysis overlooks the shortcomings of the regional approach itself to enhance food security in the region as discussed in the following sections.

Absence of Appropriate Regional Regulation on Transnational Investment in Agriculture

The anticipated benefits of AEC may, however, fail to trickle down to the poor and vulnerable groups. What seems to be a major concern from recent research findings is that the establishment of AEC will accelerate the adoption of a more laissez-faire approach that paved the way for rising transnational land deals and acquisitions (Gironde and Golay, 2015 and Borras and Franco, 2011)

In its quest to attract greater foreign direct investment (FDI) as well as intra-ASEAN investment flows in the region, the Roadmap for an ASEAN Community 2009–2015 envisages a free and open investment regime covering manufacturing, mining, agriculture, fisheries, forestry, and services. While the foreign investment liberalization rate, based on ASEAN Comprehensive Investment Agreement (ACIA) is high in manufacturing except for Indonesia and Vietnam, Figure 1 shows the liberalisation scenario in the agriculture-mining sector is more mixed across ASEAN. In contrast to Brunei Darussalam, Indonesia, Malaysia, Philippines, and Thailand which have lower liberalization rate in the agriculture–mining sector,, Cambodia, Lao PDR, and Myanmar—the three ASEAN member states with the lowest per capita incomes in ASEAN—as well as Singapore are more open to foreign investment in the agriculture and natural resources sector in terms of use of land (usually through long-term leases), not in terms of ownership of land (Intal Jr. 2015: 8-9).

Figure 1 Foreign Investment Liberalisation Rate (ASEAN Comprehensive Investment Agreement, 70% Foreign Equity)



Source: Intal Jr. (2015: 8)

Along with international investment treaties, regional investment liberalisation as envisaged in ACIA will further make it easier for foreign investors to buy lands in the region, accelerating the current waves of land acquisitions. Besides sub-Saharan Africa, Southeast Asia has become a major hotspot of the global land and resource rush (Neef, 2014: 187). States in the region have monopoly on land management owing to the legacy of colonialism which replaced customary laws with land-related laws. Thus, the formalisation of land rights has created markets for such rights (Gironde and Golay, 2015). Together with financial institutions, government-based sovereign wealth fund agencies, are investing in large-scale land purchases and in the agrifood industry (Lawrence et al., 2014). While Singapore and Malaysia were listed in the top ten investor countries in the global land rush during 2000-2014 period, Indonesia was ranked second in the top ten target countries list (see Table 3).

Table 3 Top Ten Investor Countries and Top Ten Target Countries in the Global Land Rush (Land Acquisitions, Leases and Concessions Concluded between January 2000 and January 2014)

Investor Countries	ha	Target Countries	Ha
1. United States of America	7,095,352	1. Papua New Guinea	3,799,169
2. Malaysia	3,349,571	2. Indonesia	3,549,462
3. United Arab Emirates	2,819,223	3. South Sudan	3,491,313
4. United Kingdom	2,296,669	4. DR Congo	2,717,358
5. India	1,990,223	5. Mozambique	2,167,882
6. Singapore	1,880,755	6. Brazil	1,811,236
7. Netherlands	1,684,896	7. Ukraine	1,600,179
8. Saudi Arabia	1,573,218	8. Liberia	1,361,213
9. Brazil	1,368,857	9. Sierra Leone	1,191,013
10. China/Hong Kong	1,342,034	10. Sudan	1,181,105

Source: Neef (2014: 190)

However, it takes more than promoting an investment-friendly environment to ensure food security in the region. The question is not just how committed and intensified the state is in liberalising and protecting foreign investment in agriculture but more importantly how to ensure foreign transnational corporations' involvement would contribute to regional food security. The ACIA, which allowed greater investment liberalization and higher levels of protection for investors in the region¹, is not accompanied by regional regulatory framework to safeguard the interest and rights of its peoples and communities which may be subordinate to neo-liberal investment rules. As pointed out by Oxfam (2012: 6),

[i]n various communities across Southeast Asia, the unregulated influx of large-scale private agricultural investments has been creating problems for many poor people, among them small men and women farmers, fishers and food producers. . . . These problems include the displacement of families and communities from their lands to give way to private companies; the conversion of farms previously devoted to food production to large-scale plantations for biofuels and agricultural exports; the rising incidence of indebtedness resulting from unfair contract growing arrangements; and the worsening impacts of large-scale agribusiness operations on the environment.

Similar concerns about global land rush triggered by the confluence of three major crises – financial, food and fuel – in the years 2007 and 2008 are raised by several studies especially when such deals are either illegal under national and/or international legal framework

¹ Although in 1987 the ASEAN Member States signed the ASEAN Agreement for the Protocol and Protection of Investment or the ASEAN Investment Guarantee Agreement (IGA), which guaranteed investors from other ASEAN countries the national treatment, the ACIA introduced additional provisions that further strengthened investor protection (see Oxfam, 2012: 8).

², resulting in the violent displacement of formal right-holders, largely illegitimate, infringing on customary land rights not acknowledged by the state or at least unethical with minimal or no consideration of natural resource implications or minimal infrastructural development for local communities (Neef, 2014: 188; Lawrence et al., 2014).

Given the unprecedented scale and speed of the current land rush, what are its likely impacts on food security in the region? The debate on this question remains contentious. On one hand, it is argued that large-scale land deals contribute to “technological developments in crop breeding, cultivation, and information technology that make labor supervision easier . . . and increase the benefits from vertical integration throughout the value chain from planting to food production. (Arezki, Deininger, and Selod, 2012: 47). On the other hand, the other views favour small holder farming and raise concerns over various risks of cross-border large-scale land acquisitions. It may pose various challenges to host countries in ensuring national food security (Colchester and Chao, 2013: 1). address various risks and problems associated with transnational investment in agriculture.

Many states of low income countries attempts to attract foreign investment in order to promote economic development, modernize the agriculture sector, create jobs and improve infrastructure. However, most recent research shows that the promised trickle-down impacts on poverty and inequity failed to reach the poor and vulnerable. Samranjit (2015) reports that “the promised benefits of these projects have often not materialized and when they have, they have been unequal, favouring the wealthy and powerful”. As pointed out by Gironde and Golay (2015), “large-scale land acquisitions are a significant challenge for affected populations, but their consequences vary greatly between localities and among social groups. Dispossession, exclusion, disruption, etc. are undeniable” especially in countries with poorer governance mechanisms.

There are several ways in which land grabbing may affect food security in the host countries and the region (see Daniel, 2011). Given the importance of smallholder family farmers who produce 80% of the food in Asia (IFAD, 2013: 11)³, there is serious concern that land grabbing may worsen the region's food insecurity as “[t]he global land rush has marked a move away from family farming, which has long been the backbone of agriculture in many recipient countries, including in much of the mainland Southeast Asian countries, and towards large-scale, mechanised agriculture” (Samranjit, 2015).

In addition, the increasing role of asset management companies, private equity consortia and other financial institutions in acquiring and managing farmland is part

² Termed land grabbing.

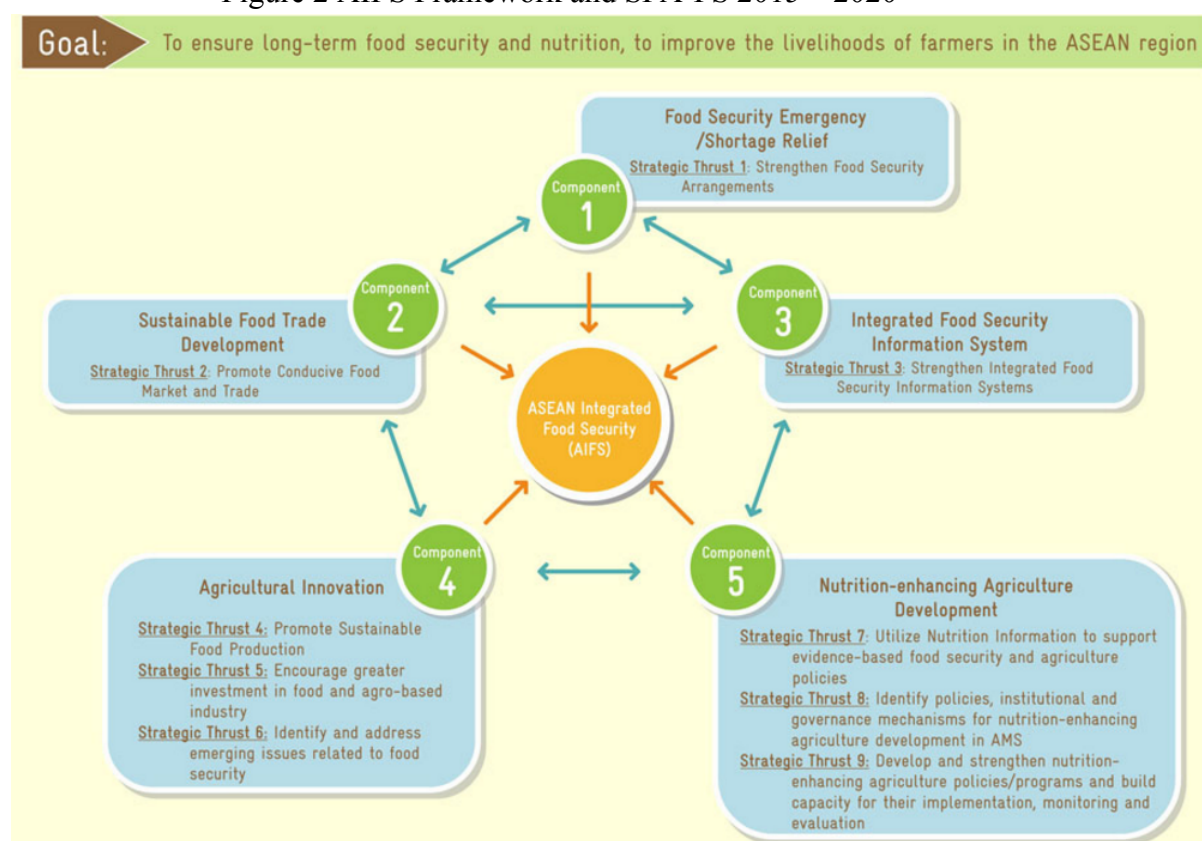
³ In fact, they produce four fifths of the developing world's food (IFAD, 2014: 2).

of financialisation of food and agriculture. Banking on the launch of the ASEAN Economic Community (AEC) on December 31, 2015, U.S. food and agricultural companies expand engagement with ASEAN Agricultural Ministers at the 37th ASEAN Ministerial Meeting on Agriculture and Forestry (AMAF) in Manila, Philippines.

Lack of Inclusive and Participatory Approach

The importance of participation and attention to equity in agriculture and fisheries are now widely accepted (see Béné, Macfadyen and Allison, 2007 and Brooks and Loevinsohn 2010). Nevertheless, there is still little scope for meaningful farmer and civil society organisation participation in the regional approach to food security.

Figure 2 AIFS Framework and SPA-FS 2015 – 2020



Source: <http://www.asean-agrifood.org/what-we-do/food-security/>

The AIFS Framework and SPA-FS, 2015-2020 which sets out nine strategic thrusts—each is supported by action programme(s), activity, responsible agencies and work schedule—does not clearly lay out the engagement of these non-state actors (see Figure 2). It only briefly mentioned in passing that “[p]articipation of relevant stakeholders (e.g. associations of agricultural cooperatives, civil society organizations) in implementation and monitoring and evaluation of SPA-FS is encouraged” (ASEAN Secretariat, 2014: 10). While the responsible agencies mainly comprise the ASEAN Secretariat and its various councils or committees, international

organisations like the Asian Development Bank and Food Agriculture Organization of the United Nations as well as international research centres like International Food Policy Research Institute and International Rice Research Institute are identified as dialogue or development partners in the SPA-FS 2015-2020.

Policy Recommendations and Conclusion

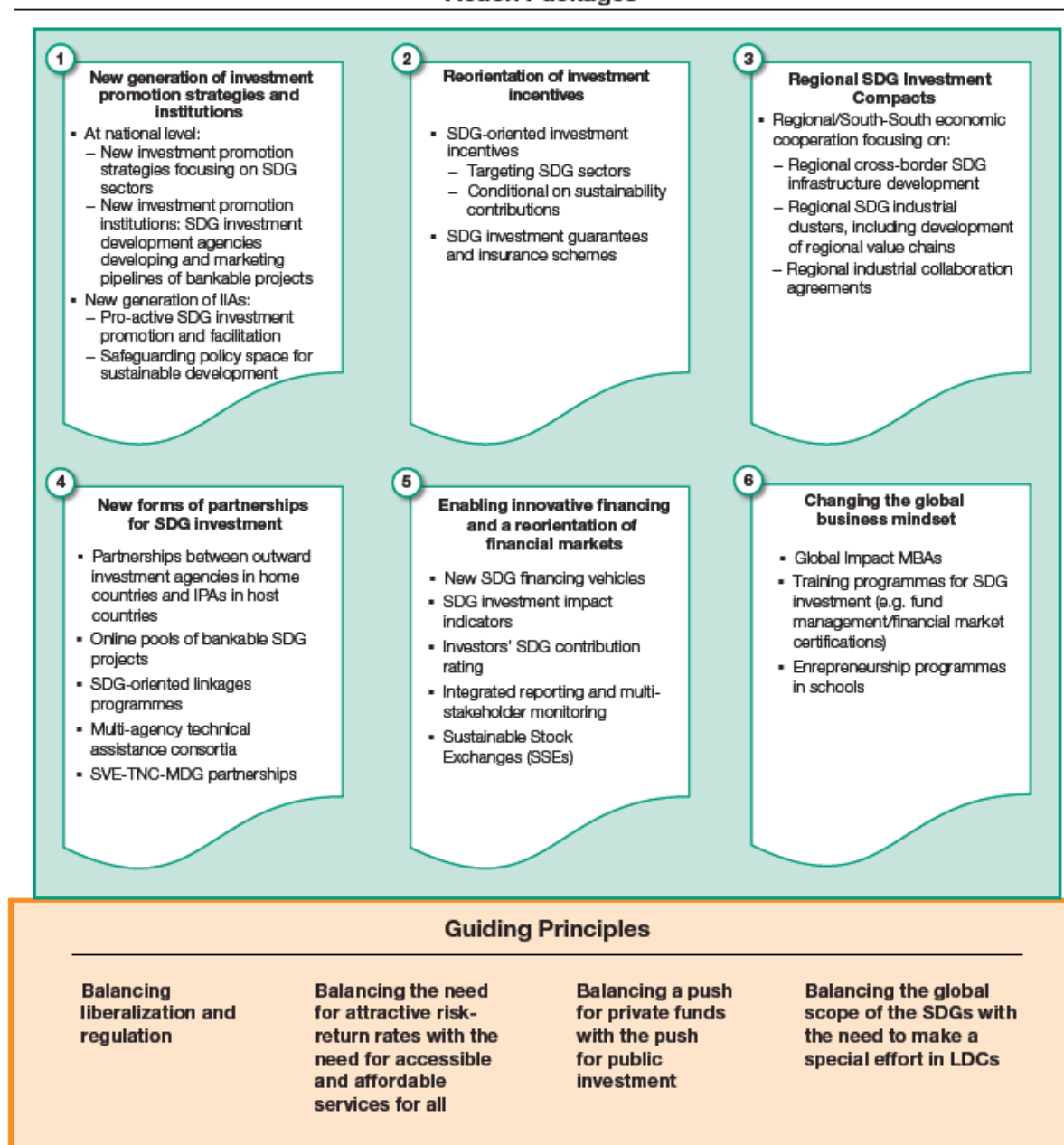
While regional initiative focusing on improving infrastructure and connectivity and intra-regional trade is necessary, it is not sufficient to promote food security in the region. It is equally important to ensure the benefits of AEC to trickle down to the poor and vulnerable groups, especially smallholder farmers. To realize this, ASEAN leaders must have strong political wills and capability to adopt and implement inclusive and participatory economic integration and liberalization policy measures in particular and pro-poor growth strategy in general.

Instead of focusing on economic growth, national and regional investment policymaking should be geared toward sustainable development. As the promotion of private investment in agricultural and fisheries sectors which are sensitive or of a public service nature, leads to policy dilemmas⁴, it is important that policymakers in the region have to “find the right balance between creating a climate conducive to investment and removing barriers to investment on the one hand, and protecting public interests through regulation on the other” (UNCTAD 2014: xi). Figure 2 shows a set of guiding principles proposed by UNCTAD (2014: xxix) that would help overcome the policy dilemmas:

1. Balancing liberalization and the right to regulate. Greater private sector involvement in agriculture need to be accompanied by appropriate regulations and government oversight.
2. Balancing the need for attractive risk-return rates with the need for imposing clear obligations on investors and hence, making investment incentives conditional on social inclusiveness.
3. Balancing a push for private investment with the push for public investment, recognising complementary roles between the public and private investment.
4. Balancing the global scope of the SDGs with the need to make a special effort in LDCs. to attract the required resources from private investors, leveraging ODA for additional private funds, and targeted technical assistance and capacity building.

⁴ For detail of various policy dilemmas related to increased involvement of private investment in sensitive sectors like agriculture, see UNCTAD (2014: xxviii).

Figure 3 Action Packages to Push Private Investment in Sustainable Development
Action Packages



Source: UNCTAD (2014: xxxiv)

Given the importance of smallholder farmers in producing food as well as various development gains in investment in smallholder farmers (see IFAD (2014), ASEAN leaders should come up with more refined policy and regulatory frameworks that safeguard the former interests in order to boost food security in the region. Apart from improving rural infrastructure and connectivity linking them to markets as envisaged in the AEC initiatives, it is recommended that:

- various empowerment programmes can be designed to help them to use modern agricultural technologies effectively and safely as well as to provide legal assistance and protection of their rights to land, fisheries and forests

- reform of national land management and law should be carried out so that it is not biased against weak and vulnerable groups and there would be more transparent guidelines for land deals and transactions
- imposing legally binding obligations on investors and establishing transparent mechanisms for monitoring the activities of investors, which are unfortunately absent in most of the international and regional investment treaties (Polack et al., 2014).

The above recommendations assume that each state in the region act as a neutral actor that aims at maximizing social benefits of its citizens and has strong political wills and capability to adopt and implement pro-poor economic integration and growth strategy. However, it is necessary to cope with the reality that the state is a powerful actor with its own interests and there exists power asymmetry underlying land deals between more powerful actors (state and investors) and powerless local communities. In general, governance mechanisms and institutions in the Southeast Asian countries are relatively weak (Sen, 2014, Table 1: 4). Therefore, the paper advocates that:

- closer monitoring of land acquisition deals by the civil society organisations or groups and the mass media is necessary as “the expansion of international treaty-making has not been accompanied by a comparable expansion in the mechanisms for citizens to hold governments and investors to account” (Polack et al., 2014: 6) in Southeast Asia.
- building on Bali Declaration on Human Rights and Agribusiness in Southeast Asia, a more concerted regional initiative by the civil society organisations is utmost important to engage intensively and extensively with regional processes to promote more accountable and ethical regional standards in relation to land management, agribusiness and food security.

Thus, progress in the fight against food insecurity is extremely challenging as it requires coordinated and complementary responses from all stakeholders—the state and non-state actors alike.

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06

**ECONOMIC VS POLITICAL LIBERALIZATION IN
ASEAN: OPINION IN FOUR MEMBERS**

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ECONOMIC VS POLITICAL LIBERALIZATION IN ASEAN: PUBLIC OPINION IN FOUR MEMBER COUNTRIES

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Introduction

Regional integration, either induced by people's economic regionalisation and/or state regionalism initiatives, are perhaps the most notable and consequential feature of the international economic and political landscape to take shape in many part of the world since the end of the Cold War (Benny, Tham, and Ramli, 2015;). As a worldwide phenomenon of increased interaction between actors (state and non-state) in economic, security, political, social and cultural spheres, regional integration has emerged in different stages in various parts of the world, with its most developed form in the European Union (hereafter, EU).

The Association of Southeast Asian Nations (hereafter, ASEAN) has been regarded as one of the most successful regional integration initiatives among the developing countries (Benny, Tham, and Ramli, 2015). Since its inception in 1967, ASEAN has been considered as successful in maintaining political stability and security that has in part contributed towards the rapid economic growth of its five founding members during 1960s–1990s. Although its initial reasons for establishment was mainly political — to secure the region's peace, stability and development — its aims include the promotion of regional economic, social and cultural cooperation among the five founding countries of Southeast Asia (Tan 2004: 935).

The Asian Financial Crisis (AFC) in 1997 and increasing competition for investment flows from a rising China and India had caused ASEAN leaders to realign strategies for ASEAN economic integration. Accordingly, they adopted the ASEAN Vision 2020 in December 1997 that describe the aspiration of an ASEAN Community 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 to be achieved by the end of 2020. Subsequently, a founding document of the ASEAN Community—the Declaration of Bali Concord II — in 2003 declare the three pillars consisting of the ASEAN Political Security Community (hereafter, APSC), ASEAN Economic Community (AEC), and ASEAN Socio-Cultural Community (hereafter, ASCC) as its new goal in regional integration. Later, the 12th ASEAN Summit accelerated the deadline of the ASEAN Community establishment to 2015.

The Bali Concord II describes that “APSC is envisaged to bring the ASEAN's political and security cooperation to a higher plane to ensure that countries in the

region live at peace with one another and with the world at large in a just, democratic and harmonious environment, of which members shall rely exclusively on peaceful processes in the settlement of intra-regional differences and regard their security as fundamentally linked to one another and bound by geographic location, common vision and objectives, while keep maintaining the respects for the ASEAN Way enshrined in the Treaty of Amity and Cooperation (TAC). The Declaration also defined the AEC as “the realisation of the end-goal of economic integration as outlined in the ASEAN Vision 2020, 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 2007, the lofty goals of the APSC and AEC were translated into action when the ASEAN Leaders issued the Declaration on the APSC Blueprint as well as the AEC Blueprint. The Blueprint is essentially a master plan formulated for guiding the achievement of an APSC and AEC by 2015. There are moderate progress on the economic integration and political cooperation among ASEAN members approaching the declaration of ASEAN Community establishment in 2015 (Abdullah and Benny 2013).

Problem Statement

Critics however remain skeptical on ASEAN political and economic integration (Abdullah and Benny 2013). On political integration, some well-known scholars – Acharya (2003), Caballero-Anthony (2008), and Chaves (2007) argue that the development and process of ASEAN Community appeared to be elitist and state-centric. On ASEAN economic integration, some studies (Research Institute for ASEAN and East Asia, ERIA 2012; Asian Development Bank Institute, ADBI 2012) indicate that there has been some success in achieving some of the goals of the Blueprint, economic integration is still very much work in progress or the AEC is still essentially a community in the making, when measured against its stated goals. Moreover, despite a plethora of summits, meetings, plans and protocols designed both to strengthen economic integration in the region, the AEC is essentially a top-down initiative for establishing a single market and production base (Benny, Tham and Ramli 2015). The general public of member countries has never been involved in the building process of the ASEAN Community and the AEC (Benny and Abdullah 2011; Chavez 2007; Moorthy and Benny 2012a and 2012b). Thus, there is a huge gap between the states’ elites and the public in terms of decision making and the formation of ASEAN Community.

The study strongly argues that establishing regional integration needs basic conceptualization, understanding and appreciation from the public of the region. Theories of regional integration have shown that opinions and participation among the public would determine the success of such efforts (Benny, Rashila, and Tham 2014;

Abdullah and Benny 2013; Benny and Abdullah 2011; Moorthy and Benny 2012a, 2012b, 2013; Collins 2008; Lindberg and Scheingold 1970; Hewstone 1986; Ortuoste 2008). So far, regional integration process in ASEAN lacks public involvement in its process (Abdullah and Benny, 2013). Furthermore, there is also no comprehensive measurement on the support, opinions, or consensus of the public on the creation of the ASEAN Community. There is also an absence of studies that have attempted to capture the voices of the public on an ASEAN Community. This is not to mention the absence of studies that compares public knowledge, perception and supports for the formation of two of three basic pillars of the ASEAN Community, namely the APSC and AEC approaching the date of ASEAN Community effective establishment at the end of 2015.

This research investigated the awareness, perception, and supports among the Gen Y in four ASEAN countries, namely Indonesia, Malaysia, Thailand and Vietnam towards APSC and AEC. More specifically, the research aims to (1) assess the opinion – awareness, perception, and supports – for APSC and AEC in the four ASEAN countries; and (2) to compare the extent of the opinions towards the two ASEAN Community pillars.

Literature Review

There is no scholarly work found comparing economic and political regionalism in the ASEAN Community context. Studies on the ASEAN are numerous, but conducted using the elite decision-making approach for assessing the establishment processes or the social, political and economic challenges of ASEAN (Acharya 2003; Benny, Tham and Rashila 2015; HHew 2007; Guerrero 2008) as well as the readiness of the business sector for the AEC (Abidin et al. 2012; Mugijayani and Kartika 2012). Review on the literature found that only a few studies so far on public opinion on the establishment of AEC or APSC.

Review on the literature found only two studies discussing public opinion on AEC. The first article, “Public Opinion on the Formation of the ASEAN Economic Community: An Exploratory Study in Three ASEAN Countries”, was written by Benny, Tham and Rashila (2015). It discusses the extent of public support, commitment, perceived benefits and aspiration among the public in Indonesia, Malaysia and Singapore in 2010 and found the differences level of support, commitment and perceived benefits in three countries. However, this study is considered limited to the opinion among the public in three Malay archipelagic states five years before the effective implementation of AEC, so more current research is required to capture the present opinion among the public.

The most recent study on AEC was conducted by Benny (2015) who writes an article “Is the ASEAN Economic Community Relevant To Gen Y Professionals? A Comparative Study on Attitudes and Participation of Young Professionals in

Malaysia, Indonesia, and Vietnam on ASEAN Economic Integration” on awareness and perception of relevancy of the AEC among the young professionals in Malaysia, Indonesia, and Vietnam countries during the final year of AEC establishment in 2015. He found that the awareness of the AEC among the Gen Y professionals was very weak, but they perceived the AEC as highly relevant for them individually and also for their country. The study goes further by analyzing the influence of awareness on the perception and found positive association between the two variable. Comparing to the current study, scope of this study is limited on the two variables and only involves Gen Y Professionals in three countries as unit of analysis.

Review on literature found only one study discussing the public opinion on APSC. The article “Regional Public Opinion towards the Formation of Political Security Community in Southeast Asia“, written by Abdullah and Benny (2013) based on their study in 2013, analyzes and compares awareness, attitude, perception and aspiration for the APSC in Indonesia, Malaysia and Singapore based on their survey in 2010 and found that public lacked awareness, perceived APSC as elitist state-centric agenda, but displayed some positive attitudes and supports for APSC.

From those above studies, this study is unique because it aims to compare and analyze the opinion towards APSC and AEC. Secondly, this study also compared the opinion in four ASEAN countries. In this sense, this study includes not only two countries that have been involved in previous studies, but also involve public in two other ASEAN important countries – Thailand and Vietnam.

Research Methodology

Research Variables and Indicators

The study used three research variables measured by ten Likert indicators that underwent a thorough examination in a series of focus group discussions. The first variable – the awareness AEC and APSC– examined the extent of knowledge of AEC and APSC by using two indicators: knowledge on the APSC and knowledge on the AEC. They were adapted from the indicators of the 2009/2010 ASEAN public opinion study conducted by Benny, Tham and Rashila (2015) as well as the study by Abdullah and Benny (2013).

The second variable – perception of APSC and AEC – examined the three kinds of perception using six indicators, including (1) perceived importance of APSC for their country; (2) perceived importance of APSC to the respondent individually; and (3) perceived benefits of APSC on security and peace of the region; (4) perceived importance of AEC for their country; (5) perceived importance of AEC to the respondent individually; and (6) perceived benefits of AEC on the economic development of ASEAN countries. Most indicators were inspired from the 2010 ASEAN public opinion study by Benny, Tham, & Rashila (2015) and Abdullah and Benny (2013) and have undergone a thorough examination in a series of focus group

discussions.

The third variable – support for APSC and AEC” – was measured using two indicators, i.e. support for APSC and support for AEC. The indicator was inspired from the 2010 ASEAN public opinion study by Benny, Tham, & Rashila (2015) and Abdullah and Benny (2013).

Data Collection

Quantitative survey was used as the main method for data collection. A set of structured self-administered questionnaires were used and translated into four national languages – Indonesian, Malay, Thai, and Vietnamese. Questions were pilot tested to 30 respondents in each country to satisfy validity and reliability requirement as well as to ensure their comprehensibility by respondents.

The study selected university students as respondents because of the complexity of the questions. Given the complex structure of questions and concepts used in the study, it is a little bit difficult for general public to answer the questions. Purposive quota sampling was employed in the surveys in each capital city (Kuala Lumpur, Jakarta, Bangkok, and Hanoi) between June and November 2015. In each city, the study targeted around 350 respondents between 18 and 30 years old.

To collect responses from survey respondents, the study assigned group of enumerators in each city. The enumerators were selected from campus networks in main public and private universities in Malaysia (National University of Malaysia in the suburb of Kuala Lumpur), Indonesia (University of Indonesia and Binus University, Jakarta), Thailand (Thammasat University, Bangkok), and Vietnam (Vietnam National University Hanoi). Preceding the survey, focus group discussions was conducted with professors or lecturers in each city to get their knowledge, insights, and opinions regarding the issues under study.

The method of data collection is as follows. Firstly, researcher formed and trained enumerator teams in each city. Enumerator teams directly met the respondents in public spaces on university campuses (such as cafeterias, libraries, or university corridors) and asked them to fill out the self-administered questionnaire. The respondents who were selected in the study should satisfy the working status requirement and purposive quota sampling design, that includes: (1) level of education (undergraduate and postgraduate @50%); (2) gender (male and female @ 50%); and (3) professional education/working background, including 30% from business, banking & economics; 30% from social science, political sciences & law; 30% from engineering, technology & science 30%; and 10% from others (including education, literatures, arts).

Data Analysis

The study uses descriptive and inferential statistics to achieve the aims of study. To achieve the first research objective, data were analyzed using univariate analysis statistics such as frequency, percentage, and mean values. To simplify descriptive analysis, the frequency distributions of 6-point scales were regrouped into two response categories – agree and disagree. In order to find differences between responses in four countries, data in four countries were further analysis to compare means for significant difference. For this purpose, the study employed One-Way Analysis of Variance (One-way ANOVA) with Post-Hoc Least Square Difference (LSD) Tests. Secondly, to achieve the second objective, the study uses Paired-Samples T-Test to compare the indicators of awareness, perception and support for APSC with those for AEC.

Respondents Demography

A number of 1,471 respondents involved in the study consisted of the Gen Y respondents who were attending undergraduate and postgraduate schools in leading public and private universities, since it was logistically impossible (given time and resource constraints) to extend the sample to include the general public in the four countries. The survey involved 387 Indonesians, 374 Malaysians, 350 Thais and 360 Vietnamese. In terms of gender, the respondents were almost balanced between male (47%) and female (53%). In each country the proportion is somewhat different: 49% male and 51% female in Indonesia and Thailand; 48% male and 52% female in Malaysia; and 42% male and 58% female in Vietnam.

Table 1: Respondent Profiles

			Country				
			Indonesia	Malaysia	Thailand	Vietnam	Overall
Number of respondents			387	374	350	360	1,471
Gender	Male		49%	48%	49%	42%	47%
	Female		51%	52%	51%	58%	53%
Age	18 – 25 years old		77%	71%	79%	67%	74%
	26 – 30 years old		23%	29%	21%	33%	26%
Formal education	Under-graduate	Diploma	0%	2%	1%	0%	1%
		Bachelor degree	52%	51%	49%	67%	55%
	Post-graduate	Master degree	48%	44%	50%	33%	44%
		PhD	0%	3%	0%	0%	1%
Area of study	Business, banking & Economics		43%	24%	31%	37%	34%
	Social sciences , humanities & law		24%	34%	30%	30%	29%
	Engineering, technology & sciences		26%	31%	30%	28%	29%
	Others (Literature, Education, etc.)		7%	11%	9%	5%	8%
Occupational background	Public sector		14%	27%	20%	24%	21%
	Private sector		32%	14%	13%	21%	20%
	Self-employed		7%	8%	17%	5%	9%
	Student		47%	51%	50%	50%	49%

The study targeted those between 18 and 30 years old, and divided them into two groups: 18-25 and 26-30. Those between 18 and 25 years old formed the majority of respondents in all countries surveyed (74% in general: 77% Indonesians, 71% Malaysians, 79% Thais and 67% Vietnamese).

Due to complicatedness of the questions, the study set higher education as requirement to the respondents. Therefore, based on the degree of formal education, the respondents have undergraduate (56% in general: 52% Indonesians, 51% Malaysians, 50% Thais and 67% in Vietnam) or postgraduate education (44% in general: 48% Indonesians, 47% Malaysians, 50% Thais and 33% Vietnamese).

The study has tried its best to differentiate the areas of study background of the respondents in the fieldwork. The results of the areas of study are as follow: 34% respondents have either business, banking, and economy education background (43% Indonesians, 24% Malaysians, 31% Thais and 37% Vietnamese); 29% have either social sciences, humanities (24% Indonesians, 34% Malaysians, 30% Thais and 30% Vietnamese) or law or engineering, technology and sciences (26% Indonesians, 31% Malaysians, 30% Thais and 28% Vietnamese); 8% have either literature, education, and so on (7% Indonesians, 11% Malaysians, 9% Thais and 5% Vietnamese). Finally, concerning occupational background, majority (49%) of the respondents are students. Among those who work, majority work in public sector (21%), private sector (20%). In addition, 9% of respondents are self-employed.

Awareness of ASEAN Regionalism Initiatives

The study argue that it is important to know whether public are aware of the economic and political regionalism processes that are occurring in ASEAN because awareness may affect public perception and support for the regionalism processes. In general, the awareness of APSC and AEC is still low in four countries surveyed.

Awareness of APSC. Majority respondents (in general 54%; 66% Indonesia; 38% Malaysia; 56% Thailand; 55% Vietnam) stated that they have knowledge of the APSC. The mean value (3.57) shows the extent of awareness for APSC is actually weak. Using One Way ANOVA and Post-Hoc LSD tests, the study found that respondents in Indonesia (mean = 3.83) and Vietnam (3.68) seem to have better awareness than those in Thailand (3.58) and Malaysia (3.19). The Post-Hoc LSD test also shows the awareness in Malaysia seems very much lower than the other three countries.

Awareness of AEC. Majority respondents (in general 66%; 77% Indonesia; 58% Malaysia; 70% Thailand; 58% Vietnam) stated that they have knowledge of the AEC. The mean value (3.84) shows the extent of awareness for AEC is weak. Using One Way ANOVA and Post-Hoc LSD tests, the study found that respondents in Indonesia

(mean = 3.83) seem to have better awareness than the other three countries, while the Vietnamese awareness (3.81) is better than those in Thailand (3.96) and Malaysia (3.54). The Post-Hoc LSD test also shows the awareness in Malaysia seems very much lower than the other three countries.

The relatively higher awareness in Indonesia and lower in Malaysia can be explained by the socialization of the idea in these countries. The higher awareness in Indonesia maybe resulted from the interaction between (central and local) government campaigns and the role of civil societies and mass media criticizing the lack of preparation strategies from Indonesian government. The role of civil societies and mass media in policy making in Indonesia become significantly stronger after democratic reforms in 1999 after the collapse of authoritarian Soeharto administration one year before. The issue of Indonesian government's lackadaisical moves on preparing the people was heavily criticized and got coverage from the media.

Perception of ASEAN Regionalism Initiatives

The study argue that it is important to know whether the respondents perceive that ASEAN Community as relevant as well as beneficial because it will determine the level of support among the public for the regional integration. This study includes perceived relevancy and perceived benefits as variable measured from the public. Perceived Relevancy indicates the importance of APSC and AEC to the respondent individually as well as to their country and its people while perceived benefits identify whether the respondents think APSC and AEC will benefit them.

Perception of APSC

Perceptions of the APSC among the respondents in four countries are as follow.

Perceived relevance of APSC for the respondents individually: Two-thirds respondents in four countries (66%; 77% Indonesia; 58% Malaysia; 70% Thailand; 58% Vietnam) stated that APSC is “somewhat important” for them individually. The mean value of 3.87 shows the extent of perceived relevancy is actually slightly weak. ANOVA's Post Hoc LSD tests find that perception is the highest in Vietnam (mean = 4.16), followed by Indonesia (3.97) and Thailand (3.82). The perception in Malaysia (3.56) is the lowest among the four countries.

Perceived relevance of APSC for the country and people: Three-fourths respondents in four countries (75%; 75% Indonesia; 72% Malaysia; 74% Thailand; 82% Vietnam) stated that APSC is “somewhat important” for their country and its people. The mean value of 4.09 shows the extent of perceived relevancy is actually slightly weak. ANOVA's Post Hoc LSD tests find that perception is significantly

highest in Vietnam (mean = 4.41) and lowest in Malaysia (3.86). Perception in Indonesia (4.08) and Thailand (4.04) is significantly lower than Vietnam but higher than in Malaysia.

Perceived benefit of APSC for providing more security and peace to the region:

More than three-fourths respondents in four countries (76%; 79% Indonesia; 72% Malaysia; 71% Thailand; 84% Vietnam) stated that APSC will be beneficial for security and peace of the region. The mean value of 4.15 shows the extent of perceived benefit is actually slightly weak. ANOVA's Post Hoc LSD tests find that perception is significantly highest in Vietnam (mean = 4.61) and lowest in Malaysia (3.92) and Thailand (3.97). Perception in Indonesia (mean = 4.13) is significantly lower than Vietnam but higher than in Malaysia and Thailand.

Perception of AEC

Perceptions of the AEC among the respondents in four countries are as follow:

Perceived relevance of AEC for the respondents personally: Four-fifths of respondents in four countries (80%; 86% Indonesia; 70% Malaysia; 81% Thailand; 80% Vietnam) stated that AEC is "somewhat important" for them personally. The mean value of 4.28 shows the extent of perceived relevancy is actually slightly weak. ANOVA's Post Hoc LSD tests find that perception is the highest in Vietnam (mean = 4.58), and the lowest in Malaysia (3.96). Perception in Indonesia (4.37) is not significantly different with that in Thailand (4.23) – they are significantly lower than that in Vietnam but higher than in Malaysia.

Perceived relevance of AEC for the country and people: A very strong majority of respondents (in general 85%; 85% Indonesia and Malaysia; 81% Thailand; 88% Vietnam) stated that AEC is "somewhat important" for their country and its people. The mean value of 4.46 shows the extent of perceived relevancy is actually slightly weak. ANOVA's Post Hoc LSD tests find that perception is significantly highest in Vietnam (mean = 4.68) and lowest in Indonesia (4.35), Malaysia (4.37) and Thailand (4.45).

Perceived benefit of AEC for bringing economic development of ASEAN countries: A strong majority of respondents (88%; 87% Indonesia; 91% Malaysia; 83% Thailand; 91% Vietnam) stated that AEC will bring benefits to economic development of ASEAN countries. The mean value of 4.48 shows the extent of perceived benefit is actually slightly weak. ANOVA's Post Hoc LSD tests find that perception is significantly highest in Vietnam (mean = 4.68) and lowest in Thailand (4.32). Perception in Indonesia (4.41) and Malaysia (4.52) is significantly lower than Vietnam but higher than in Thailand.

The study found that perceived relevance of APSC as well as the AEC for the country and people in general is higher than the relevance for personal matters. This phenomena may be explainable by the current mechanism of establishing the ASEAN Community that mainly state-centric and elitist. Consequently, the public feel a little bit in distance resulting the lower perception of APSC relevance to them personally.

Support for ASEAN Regionalism Initiatives

The study argues that any regionalism initiatives need to be supported by the public because support is the foundation of any policies. Thus, it is important to know the level of support among the public for the ASEAN Community.

Support for the APSC

Nearly three-quarters of respondents (in general 74%; 84% Indonesia; 75% Malaysia; 75% Thailand; 62% Vietnam) stated that they supported the establishment of APSC. The mean value (4.12) shows the extent of support for APSC is weak. Using One Way ANOVA and its Post-Hoc LSD tests, the study found that the support in Indonesia (mean = 4.33) is the highest compared in the other three countries, while the support in Malaysia (4.01) and Vietnam (3.99) is the lowest. The support in Thailand (4.16) is lower than Vietnam but higher than in Thailand.

The finding that Indonesia's support for APSC is the highest among the four countries may related with the history that it has been the strongest promoter of APSC and ASCC idea since its conception reflected in the Bali Concord 2003. Rodolfo Severino (2006) discussed how Indonesian Foreign Minister Hassan Wirayuda promoted the idea of APSC and supported the Philippines' suggestion of ASCC since the end of 2002 because Indonesia did not want economic discussions, particularly on the AEC, dominated the 2003 ASEAN Summit. More substantively, the Indonesian concerned about the flow of arms to Indonesian separatist groups from or through neighbouring countries and the lack of coherence of ASEAN's response to global security issues during that period. Indonesia also has seen an opportunity to advance democratic and human rights agenda in ASEAN in the context of APSC.

Support for the AEC

A strong majority respondents (in general 87%; 90% Indonesia; 89% Malaysia; 74% Thailand; 94% Vietnam) stated that they are for the establishment of AEC. The mean value (4.54) shows the extent of support for AEC is actually in moderate level. Using One Way ANOVA and its Post-Hoc LSD tests, the study found that the support in Vietnam (mean = 4.83) is the highest among the four countries, while the support in Thailand (4.26) is the lowest. The support in Indonesia (4.55), not significantly different with that in Malaysia (4.53), were lower than Vietnam but higher than in Thailand.

The study's finding that support for AEC was significantly higher in Vietnam than in the other three countries is explainable by Vietnamese public's good perception toward ASEAN in maintain their economic growth. For example, Tien Dung Nguyen and Mitsuo Ezaki (2005) argue that ASEAN regional economic integration benefits Vietnam's economy in terms of welfare, income-distribution, household consumption and income, greater market access, and exports. Analysis on the Vietnam's exports to ASEAN countries shows that the figures increased from USD 980.8 million in 1995 to USD 18,063.7 million in 2015. Its imports from ASEAN countries also increased from USD 2,267.2 million to 23,827.4 million (ASEAN Secretariat 2006).

Comparing Awareness, Perception, Support for APSC and AEC

In achieving the second research objective, Paired-T-Test is used to compare the awareness, perception as well as the support for APSC with that of AEC. The result of comparison tests are shown in Table 2.

Table 2: Comparison of Perception of APSC and AEC

Variable for comparison	APSC	AEC	Finding and Analysis
Comparison analysis between awareness of APSC and AEC	Awareness of APSC: Mean = 3.77 Std. Dev. = 1.19	Awareness of AEC: Mean = 3.84 Std. Dev. = 1.19	Finding: $t = -2.193$; $df = 1450$; Sig (2-tailed) = 0.028 Analysis: Awareness of AEC is significantly higher than that of APSC
Perceived relevance for the respondents personally	Mean = 3.87 Std. Dev. = 1.17	Mean = 4.27 Std. Dev. = 1.08	Finding: $t = -12.514$; $df = 1449$; Sig (2-tailed) = 0.000 Analysis: Perceived important of AEC is significantly higher than that of APSC
Perceived relevance for the country/people	Mean = 4.08 Std. Dev. = 1.07	Mean = 4.45 Std. Dev. = 1.01	Finding: $t = -11.740$; $df = 1424$; Sig (2-tailed) = 0.000 Analysis: Perceived important of AEC is significantly higher than that of APSC
Perceived benefits from integration / cooperation	Mean = 4.15 Std. Dev. = 1.11	Mean = 4.48 Std. Dev. = 0.95	Finding: $t = -10.519$; $df = 1450$; Sig (2-tailed) = 0.000 Analysis: Perceived benefit of AEC is significantly higher than that of APSC
Support for integration	Support for APSC: Mean = 4.12 Std. Dev. = 1.14	Support for AEC: Mean = 4.54 Std. Dev. = 1.01	Finding: $t = -12.813$; $df = 1446$; Sig (2-tailed) = 0.000 Analysis: Support for AEC is significantly higher than that for APSC

Comparing the Awareness of APSC and the Awareness of AEC

The Paired-T-Test shows that the awareness of AEC (mean = 3.84) in four countries

is significantly higher than that of the APSC (mean = 3.77). This finding is plausible because government in the four ASEAN countries focuses more on economic benefits from the integration on their messages when they did campaign on the regionalism initiatives to their public.

Comparing the Awareness of APSC and the Awareness of AEC

The Paired-T-Test shows that the perceptions of AEC are significantly higher than that of APSC. The statistics show that, for personal matters, the perception of relevance of AEC (mean = 4.27) is higher than that of APSC (mean = 3.87). In addition, the respondents also perceived relevance of the AEC (mean = 4.45) to their country and people is higher than that of the APSC (mean = 4.08). Finally, the study also discover that the respondents' perception of AEC's benefit (mean = 4.48) is higher than that of APSC (mean = 4.15).

The finding that AEC is considered as more relevant and beneficial for them personally and for their country, people and the region is reasonable because almost all the countries in ASEAN have followed the model of developmental state that focuses more on economic development than political matters, so they mostly discusses economic development in the headlines of mainstream media.

Comparing the Support for APSC and Support for AEC

The Paired-T-Test shows that the support for AEC (mean = 4.54 in four countries is significantly higher than that of the APSC (mean = 4.12). The proximity of economic issues to the respondents may play a role in the state of higher support for AEC in comparison to APSC. In this case, political security integration is considered as more distant than economic integration, resulting in the higher support for AEC than APSC.

Conclusion

This study analysed the data taken by surveying 1,471 Gen Y respondents in four ASEAN countries. The study found that the extent of awareness of both APSC and AEC is still low resulting in low extent of perceived relevancy and benefits as well as low support for APSC and moderate-level support for AEC. Given that previous studies showed the effect of awareness on perception and support, the study urges national government to formulate and implement the strategy to bring ASEAN economic and political security integration and cooperation closer to the public.

Finally, the study found that awareness, perception and support for economic integration in ASEAN was higher than political security cooperation. The study argues that this is the result of state-centric ASEAN process that resulted in the

distance of political security cooperation to the public. However, successful political security cooperation requires active participation not only from the elites but also from the public. Thus, the study reiterates the requirement to bring ASEAN integration to, not only people-centered that is actually very rhetorical, but it should involve the public in its decision making processes.

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07

**REGIONAL ECONOMIC INTEGRATION AND TRADE
IN ASEAN: EVIDENCE FROM TWO EPISODES OF
FINANCIAL CRISIS**

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REGIONAL ECONOMIC INTEGRATION AND TRADE IN ASEAN: EVIDENCE FROM TWO EPISODES OF FINANCIAL CRISES

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Introduction

Two decades ago, the role of Association of Southeast Asian (ASEAN) Free Trade Agreement (AFTA) has been debated among economists as well as politicians. AFTA was created in 1992 and came to effect on the following years. When ASEAN was established, trade among members was insignificant and relatively low. According to Elliot and Ikemoto (2004), the effects of AFTA was not significantly affected immediately after 1992 but gradually increased. The share of ASEAN's trade between 1967 to early 1970s from ASEAN's total trade was between 12 to 15 percent only. The key element in AFTA is the Common Effective Preferential Tariff (CEPT) Scheme covers manufactured products as well as agricultural products. Under the CEPT scheme, tariffs on a wide range of products traded within the region should be totally eliminated by 2010, for ASEAN5 namely Indonesia, Malaysia, Singapore, Thailand and The Philippines. According to ASEAN Secretariat, the total ASEAN trade has expanded more than double from US\$82.46 billion in 1993 to US\$174.25 billion in 2003. In 2009, total ASEAN trade already reached at US\$1.5 trillion. The performance of ASEAN trade has given confident to ASEAN members to expand wider and deeper integration among the ASEAN and Asian region.

The 1997 financial crisis which hurt most of the ASEAN countries was the biggest challenge to ASEAN members which the Association just reached 30 years old. It has not only brought countries to poverty but also impaired the economic systems which have been built for more than three decades. Some experts predicted that it would take a decade for ASEAN economies to recover and would result in broken ties of ASEAN10. On the other hand, the financial crisis appears to have accelerated progress towards closer integration. The ASEAN economy has bounced back within two years of crisis which shows fundamental strength and resilience. Empirical evidences revealed that the Asian crisis has worked as a trigger for a further acceleration of the process of economic integration rather than as a hindrance (see Elliot and Ikemoto, 2004; and Ismail et. al, 2007; and Ismail and Collin , 2013).

Taking a lesson from the past economic turmoil, ASEAN took one step ahead to prevent recurrence of the crisis by setting up a framework for closer economic policies called ASEAN Surveillance Process (ASP). ASEAN has seen the association seriously moving from the free trade agreement which previously only focus in the removal of tariff to the new phase of ASEAN Community (AC) for achieving the goals to transform ASEAN into a highly competitive region with an equitable economic development. In 2007, the ASEAN Secretariat announced the establishment

of ASEAN Economic Community (AEC) to be realized by 2015 with aim to be a single market and production base, highly competitive economic region with equitable economic development and fully integration into global economy. ATIGA was setup to replace the CEPT meant to go beyond the tariff elimination. Additionally, ATIGA also includes several elements to ensure the realization of free flow of goods within ASEAN, including removal of non-tariff barriers, rules of origin, trade facilitation, customs, standards and conformance, and sanitary and phytosanitary measures. Recent development, ASEAN also pursuing the integration in the global economy by supporting ASEAN plus one FTAs. By 2010, ASEAN already concluded and implemented FTA with China (ACFTA), India (AIFTA), Korea (AKFTA) and Australia & New Zealand (AANZFTA). Thus, the benefit of having policy such as ATIGA and ASEAN plus one FTAs should be given advantages to all members to create more trade within ASEAN and global.

However, the global crisis in 2007/2008 that hit most of developed countries especially to the most important trade partners, the US and Western Europe distort trade flows in the region which encounter massive reduction of total ASEAN trade from 14.7% in 2007 to -19% in 2009; meanwhile, Intra ASEAN trade reduce from 13.9% to -20% for the same period. Before the crisis, the region has heavily dependent on developed countries such as the US, Japan and West Europe. The region applied the export led growth strategy at the beginning of 1990s which most of the demand was transmitted to developed countries. The crisis seems to distort the total ASEAN trade as ASEAN members' export are too much depend on the US and her allies. During the crisis, the US reduces the imports from East Asian countries as a whole (Park, 2011). At the same time, the US dollar and the Euro getting weaker and depreciating which leave the ASEAN currency appreciate. This will give disadvantage to the ASEAN members since ASEAN trade are expensive compared to others.

Regarding the above issues, therefore, a question has been raised in this study whether is there any different impact from the two episodes of crisis namely Asian financial crisis 1997/98 and global financial crisis 2007/08 on ASEAN trade. This study further investigate whether the regional policy by implementation of AFTA and ATIGA and ASEAN plus One FTAs trigger the intra ASEAN trade instead of hindrance. This study improves study done by Ismail (2013) to include the financial indicators as one of the determinant in intra ASEAN trade.

Methodology

This study uses gravity model that originally explained the volume of trade flows in terms of the ratio of the product of the gross domestic product (GDP) of countries i and j to the distance between them. The estimation model is presented in equation (1). The dependent variable used is exports from country i (imports to country j)¹. For linearizing the model, variables are in logarithmic form in year t .

$$\ln X_{ijt} = a + a_1 \ln Y_{it} + a_2 \ln Y_{jt} + a_3 \ln POP_{it} + a_4 \ln POP_{jt} + a_5 \ln ENDOW_{ijt} + a_6 \ln DIST_{ij} + a_7 BOR_{ijt} + a_8 \ln FIN_{it} + a_9 \ln FIN_{jt} + e_{ijt} \dots \dots (1)$$

Equation (1) is a basic gravity model which contains basic determinants of bilateral trade such as market size ($\ln Y_i$ and $\ln Y_j$), population ($\ln POP_i$ and $\ln POP_j$), relative endowment ($\ln ENDOW$), distance ($\ln DIST$), and binary variables which are set equal to one if two countries share common border (BOR) and zero otherwise. $\ln FIN$ is financial indicators namely domestic credit provided by financial sector percentage to GDP.

The gravity model predicts that bilateral trade should increase with market size, log of absolute difference in GDP per capita between exporters and importers as a proxy for relative endowment, and common border but decrease with distance. A dummy variable (binary variable) for common border is used to control for countries that share a border which allows them to have border trade. Distance is a proxy for transportation cost which shows the shorter the distance, the lower the transportation cost and the higher the volume of trade between in two countries. However, the expected result of the size of population and FTA are ambiguous. Frankel (1997) and Endoh (1999), considers that countries with a large population would be better able to exploit their own economies of scale in their larger domestic market than smaller countries. On the other hand, Brada and Mendez (1985) believe that a larger population in the importing country allows imports to compete better with domestic goods and compensates exporters for the cost of foreign sales activities.

$$\ln X_{ijt} = a + a_1 \ln Y_{it} + a_2 \ln Y_{jt} + a_3 \ln POP_{it} + a_4 \ln POP_{jt} + a_5 \ln ENDOW_{ijt} + a_6 \ln DIST_{ij} + a_7 BOR_{ijt} + a_8 \ln FIN_{it} + a_9 \ln FIN_{jt} + a_{10} AFTA + a_{11} ATIGA + e_{ijt} \dots \dots (2)$$

The equation (2) is an augmented gravity model which includes AFTA is a dummy which equal to one if exporters and importers are ASEAN members starting from 1993 to 2010, otherwise zero. The dummy represent the period when AFTA was implemented until the full effects of AFTA. ATIGA is a dummy which equal to one starting the announcement Of AEC in 2010 until current period. Following Ghosh and Yamarik (2004), a positive value of the estimated coefficient can be interpreted as trade creation, which indicates that the two countries trade more than predicted by

¹ Other studies use imports as dependent variables such as in Soloaga and Winters (2001) and Elliot and Ikemoto (2004). However, this study following Sharma and Chua (2000) which use exports as dependent variable.

other variables. Therefore, the size and statistical significance of the coefficient on the AFTA and ATIGA suggests the existence of intra-regional trade between the five ASEAN economies. A negative and significance, on the other hand implies that they trade less with each other than what would be expected.

$$\ln X_{ijt} = a + a_1 \ln Y_{it} + a_2 \ln Y_{jt} + a_3 \text{POP}_{it} + a_4 \ln \text{POP}_{jt} + a_5 \ln \text{ENDOW}_{ijt} + a_6 \ln \text{DIST}_{ij} + a_7 \text{BOR}_{ijt} + a_8 \ln \text{FIN}_{it} + a_9 \ln \text{FIN}_{jt} + a_{10} \text{AFTA} + a_{11} \text{ATIGA} + a_{12} \text{CRISIS1} + a_{13} \text{CRISIS2} + e_{ijt} \dots \dots (3)$$

Equation (3) includes dummy for Asian financial crisis 1997-98 (CRISIS1) and dummy for global financial crisis 2007-08 (CRISIS2).

To estimate the impact of ASEAN Plus One FTAs, the dummy variable for each FTAs is included namely ASEAN-China (ACFTA), ASEAN- India (AIFTA), ASEAN-Korea (AKFTA) and ASEAN-Australia & New Zealand (AANZFTA).

$$\ln X_{ijt} = a + a_1 \ln Y_{it} + a_2 \ln Y_{jt} + a_3 \text{POP}_{it} + a_4 \ln \text{POP}_{jt} + a_5 \ln \text{ENDOW}_{ijt} + a_6 \ln \text{DIST}_{ij} + a_7 \text{BOR}_{ijt} + a_8 \ln \text{FIN}_{it} + a_9 \ln \text{FIN}_{jt} + a_{10} \text{AFTA} + a_{11} \text{ATIGA} + a_{12} \text{CRISIS1} + a_{13} \text{CRISIS2} + a_{14} \text{ACFTA} + a_{15} \text{AIFTA} + a_{16} \text{AKFTA} + a_{17} \text{AANZFTA} + e_{ijt} \dots \dots (3)$$

Data description

The estimation of panel data for 25 years (1990 to 2014) includes five exporter countries from ASEAN namely Malaysia, Indonesia, Singapore, The Philippines and Thailand. There are thirty nine selected import countries² mainly from Asia and some developed and developing countries. Therefore, this study consists of an unbalanced panel data of 190 trading pairs with 4534 observations. Bilateral export data are in dollar terms (current prices) taken from COMTRADE database, United Nation. GDP, Per Capita GDP, Population, domestic credit provided by financial sector percentage to GDP were taken from World Development indicators, World Bank. Distance and Common border measures are taken from Centre D'Etudes Prospectives Et D'Informations Internationales (CEPII)³ meanwhile information about free trade agreement is built on the base of ASEAN secretariat information.

Results and Discussions

Table 1 presents the result of the impact of the formation of AFTA and implementation of ATIGA under AEC on ASEAN exports. Prior the estimation, we carried the hausman test to decide our preferred model is the fixed effect model.

² The list of the importers countries refer to the appendix.

³ Distances are calculated following the great circle formula, which uses latitudes and longitudes of the most important city (in terms of population) or of its official capital.

However, variables that are time invariant such as distance, border and language were dropped from the regression. The coefficients for the market size for both exporters ($\ln Y_i$) and importers ($\ln Y_j$) are positive and statistically significant. This suggests that the bigger market size implies higher trade flows of the countries. However, coefficients of log population for exporters and importers are negative and significant, these results suggest that a country in ASEAN with a big population such as Indonesia might produce goods for domestic consumers to serve the domestic population and trade less with other countries, whereas a country with a small population such as Singapore trades more with others. The absolute difference between exporters and importers per capita GDP as a proxy for relative endowment is positive and significant which implies that the more different in relative endowment, the more the two countries trade with each other, that support the Heckscher-Ohlin hypothesis. The result for exporter's financial indicators was positive and significant shows the signals that the important of having financial infrastructure to facilitate trade enhancement among ASEAN countries.

Column 3, report the result on the effects of AFTA on export among ASEAN members with the inclusion of crisis in 1997-98. The AFTA dummy was positive but insignificant. The model also includes the dummy for Asian financial crisis which the result shows negative with ASEAN export. In column 4, both ASEAN free trade agreements are included and the results revealed positive and significant result. The model also includes both dummies for Asian financial crisis and global financial crisis. However, the Asian financial crisis exert negative and significant result implied that during the crisis, the ASEAN export was distorted much rather than during the global financial crisis. ASEAN export would increase by 55% and 143% if the two countries are AFTA members (refer to the period 1992 to 2010), and ATIGA (refer to 2010 to 2014), respectively. Despite facing the economic turmoil, the free trade agreement seems to helps countries to expand the export among the members.

Column 5 and 6 shows the results when the dummy for ASEAN Plus One FTAs are included in the model. The result revealed that the impact of having FTAs within ASEAN members and with other countries such as China, India, Korea and Australia & New Zealand proven beneficial in term of trade creation in ASEAN. Table 2, summarized the implied export expansion for the implementation of FTAs. Among the ASEAN plus One FTAs, ASEAN-India FTA shows the most export expansion by increased more than 300% , followed by ASEAN-China FTA (186%) and ATIGA (163%).

Table 1: The impact of ASEAN FTAs and Financial crises on ASEAN export

	AFTA & ATIGA				ASEAN Plus One FTA	
	1	2	3	4	5	6
lnYi	2.008*** (55.54)	2.00 *** (55.22)	1.073** * (30.16)	1.036*** (28.86)	1.031*** (28.89)	1.01*** (28.34)
lnYj	.0612 (1.33)	0.058 (1.27)	0.121** (2.46)	0.071 (1.43)	0.018 (0.37)	-0.011 (-0.22)
lnPopi	-.6109*** (-45.71)	-0.609*** (-45.41)				
lnPopj	-.2505*** (-3.53)	-.254*** (-3.57)				
lnFini	0.519*** (17.63)	0.527*** (17.66)	1.012** * (30.14)	1.00 *** (30.03)	0.977*** (29.64)	1.004*** (30.11)
lnFinj	-0.099** (-2.33)	-0.102* (-2.39)	0.075 (1.57)	0.061 (1.28)	0.0655 (1.36)	0.0549 (1.14)
Endow	0.1699** * (13.06)	0.170*** (13.07)	0.339** * (22.81)	0.336*** (22.70)	0.340*** (23.0)	0.338*** (22.91)
AFTA		0.022 (0.34)	0.029 (0.38)	0.438*** (4.44)	0.442*** (4.57)	0.444*** (4.59)
ATIGA				0.891*** (7.08)	0.951*** (7.58)	0.968*** (7.72)
ACFTA					1.01*** (4.12)	1.05*** (4.26)
AIFTA					1.44*** (5.90)	1.466*** (6.0)
AKFTA					0.331*** (2.57)	0.349 (1.43)
AANZFTA					0.444*** (2.57)	0.454*** (2.63)
Crisis1		-0.075 (-1.49)	- 0.275** * (-4.53)	-0.252*** (-3.86)	-14.89*** (-11.22)	-0.259*** (-4.31)
Crisis2				.079 (-0.70)		0.131** (2.16)
Constant	-21.67*** (-17.90)	-21.47*** (-17.61)	- 18.77** * (-14.82)	-16.44*** (-12.52)		-13.74*** (-10.13)

Observation	4583	4583	4583	4583	4583	4583
Country effects (F test)	261.70** *	219.37** *	164***	144.25** *	141.83** *	142.93** *

Table 2: Implied export expansion through the free trade agreements (Refer to column 6)

List of FTAs	%
ASEAN Free Trade Agreement (AFTA)	55.89
ASEAN Trade in Goods Agreements (ATIGA)	163.26
ASEAN-China Free trade Agreement (ACFTA)	185.76
ASEAN-India Free trade Agreement (AIFTA)	333.18
ASEAN-Korea Free trade Agreement (AKFTA)	41.64
ASEAN-Australia & New Zealand Free trade Agreement (AANZFTA)	57.45

Note: Author Calculation; [exponential (coefficient) – 1] x 100

Conclusion

This study focuses on the trade among ASEAN members using gravity model for the period of 1990 to 2014. The present study also investigates the effect of implementation of ASEAN free trade agreement (AFTA) and the formation of ASEAN Economic Community (AEC) through ATIGA on ASEAN trade. Generally, the estimated coefficients of most basic determinants are correctly signed and statistically significant, indicating that market size, population, relative endowment, between two countries could influence bilateral trade flows. This study makes a contribution to introduce financial indicators as important infrastructure to help trade facilitation in ASEAN, and thus cannot be ignored in the future research.

The AFTA and ATIGA dummy are used to capture the effect of intra-ASEAN trade. The results show that after the implementation of AFTA, ASEAN members trade each other more than others since some of ASEAN members already removed tariff and non-tariff barriers. The CEPT scheme is an important tool to improve not only domestic reformation but also to enhance the international trade liberalization. In addition, with commitment of ASEAN members to make the realization of AEC by 2015, the result also support that the policy of ASEAN members to pursue in deeper economic integration is worth doing. The AEC is said to have greater impact compared to AFTA which is not only on trade but also on foreign investment and liberalization of financial sector. Thus, this study confirms many empirical evidences at which trade creation can be created either among members or non-members via regional economic integration.

This study also provides two evidences of financial crises namely Asian financial crisis 1997/1998 and global financial crisis 2007/2008. The result reveals that during the Asian financial crisis trade among members were distorted. However, the second episodes of the financial crisis hit most of giant economy including the US and Western Europe has less impacted on intra ASEAN trade. The implementation of ASEAN plus One FTAs with countries such as China, India, Korea, Australia and New Zealand have been beneficial the region to be attracted in term of export expansion to achieve commitment in AEC by 2020 will be realized.

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Short Biography

Normaz Wana Ismail is an Associate Professor in economics at Faculty of Economics and Management, Universiti Putra Malaysia. She is also the Deputy Director of the Institute of Agricultural and Food Policy Studies, Universiti Putra Malaysia. Her research interests include ASEAN studies, particularly issues related to intra-regional trade, foreign direct investment, convergence and economic growth. Current research interest in international economics are mainly focus in the use of gravity model in international trade including trade relationship with free trade agreement, language, infrastructure and other trade costs.

08

MALAYSIA-INDIA COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT (MICECA) AND ASEAN-INDIA FREE TRADE AGREEMENT (AFTA): COMPLEMENTING OR COMPETING?

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**MALAYSIA-INDIA COMPREHENSIVE ECONOMIC COOPERATION
AGREEMENT (MICECA) AND ASEAN-INDIA FREE TRADE AGREEMENT
(AIFTA): COMPLEMENTING OR COMPETING?**

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Introduction

The year 2015 was a challenging year not only for Malaysia but to the global economy as a whole. The nation has had to face plunging global crude oil prices, foreign exchange volatility and extreme Ringgit Malaysia depreciations. The global economy also recorded a downward momentum in 2015. According to the World Bank, developing economies grew 4.3 per cent in 2015, down from 4.9 per cent in 2014 – the lowest and weakest pace since the global financial crisis of 2008-2009 (MITI Report 2015). Among the factors attributed to this weak momentum are tumbling oil prices, low price for commodities, a slowdown in China's manufacturing activity and volatility in financial markets. Amidst the uninspiring performance in 2015, there were few exceptions. Developing and emerging economies around the global have been the engine of global economic growth (MITI Report 2015). These markets have been recorded to achieve higher growth rates than those achieved by developed economies. Furthermore, economic integration and cooperation initiatives either in the form of trade agreements bilaterally and/or regionally, have also contributed to the global economic growth.

This paper examines the role of two trade agreements namely, Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA) and ASEAN-India Free Trade Agreement (AIFTA). Both trade agreements, one signed bilaterally between Malaysia and India (MICECA) and the other regionally, AIFTA (between ASEAN and India) serve as a platform to expand their role in the global economy. Given the two free trade agreements in place, it has been argued that MICECA could be seen as competing with AIFTA, and is therefore redundant. On the other hand, there are other views suggesting that MICECA and AIFTA are indeed complementary mechanisms supporting overall economic growth, both at the bilateral (Malaysia-India) and regional (ASEAN) levels. This paper therefore begins by providing a brief descriptive background about MICECA and AIFTA. Second, it argues the benefits and drawbacks, if any, accruing from MICECA and AIFTA as they contain disciplines across trade in goods, services and investments. And finally, the paper examines and evaluates the extent to which both these regional trade agreements are competitive or complementary.

Malaysia-India Bilateral Relations: An Overview

Historically and traditionally, the relationship between Malaysia and India has been warm and friendly. Although trade relations between the two countries stretch back to many centuries, the cordiality between the two countries reached a new peak after the Cold War ended. Since the early 1990s, a new chapter on India's engagement with Southeast Asia as a whole, and with a few individual countries like Malaysia, started to grow. It might appear to international observers as just another diplomatic interaction among neighbours. But it is much more than that. The reciprocal visits by both Prime Ministers of Malaysia and India in 2010 and other high level ministerial visits from Malaysia and India in the year 2011, served as the launching pad for the present dynamic bilateral relations between these two countries (Malaysia-India Report 2015).

This rapid development in bilateral relations could be measured in various ways. Firstly, there have been more contacts at the political level with the number of official visits increasing from year to year. There have been more than 25 exchanges of high-level visits, besides those at ministerial and track two levels, in the last 25 years (1991-2015). The recent July 2016 visit by the Malaysian Deputy Prime Minister to India further cemented the close bilateral relations in various sectors (Zulkifli Rahman 2016). The bilateral cooperation has been extended to the economic, trade, military and socio-cultural fields. Secondly, Malaysia and India have been developing their economic and trade relations at a very fast pace after the Cold War. Since 1998, India has been Malaysia's largest export destination in the South Asian region (StarBiz, 22 Jan 2013: 6).

The bilateral trade between India and Malaysia in 2014 was US\$ 13.84 billion (US\$ 9.77 billion for Malaysian exports and US\$ 4.07 billion for Indian exports). Malaysia's trade with India in 2015 amounted to US\$12.02 billion (RM46.82 billion), an increase of 3.5% from 2014 (Malaysia-India Relations Report MITI: 2015). Trade remains significantly imbalanced in favour of Malaysia. Malaysia is one of the significant investors in India. It is estimated that, if the Mauritius route is also included, the investment of Malaysia in India could be as high as US\$ 7 billion. However, as per available data, Malaysia is currently the 19th largest investor in India with FDI inflows of US\$ 732 million in the last 15 years. Malaysian FDI in India is primarily focused on Roads and Highways, Telecommunications, Oil & Gas, Power plants, Tourism and Human Resources. The highest investment proposals have been in the Telecommunications Sector, followed by Power Sectors, Oil Refining and Roads & Highways. Notable among these are investments by companies like Maxis Communications in Aircel, Axiata in IDEA Cellular Ltd, Khazanah in IDFC and Apollo Hospitals, AirAsia in civil aviation and several other investments. Malaysian construction companies' largest presence outside Malaysia is in India. On the other hand, as per Malaysian Investment Development Authority (MIDA), Indian

cumulative investment into Malaysia from 1980-2014 has been around US\$ 2.31 billion, which includes Jan-Dec 2014 at US\$ 225.50 million (Malaysia-India Relations Report MITI: 2015). At present, there are more than 115 Indian companies including 61 Indian joint ventures, 7 Indian Public Sector Undertakings and 60 Indian IT companies operating in/from Malaysia. Their areas of operation are manufacture of Textiles and Yarn, Drugs and Pharmaceuticals, Glass Containers, Automobile associated activities, Specialty Chemicals, Steel Furniture, Rubber Products, Services in Information Technologies, Education, Biotechnology, Healthcare, etc. (MATRADE 2015).

Malaysia's total exports to India showed a slight decrease of 0.7 per cent, valued at US\$ 8.12 billion (RM227.4 million) to RM31.67 billion in 2015, as compared to RM31.89 billion attained in 2014 (Malaysia-India Relations Report MITI: 2015). Exports to India accounted for 4.1 per cent share of Malaysia's total exports to the world. The biggest export product to India was palm oil and palm-based products with an increase of 5.9 per cent or RM455.9 million. Exports grew from RM7.74 billion the year before to RM8.19 billion in 2015, as a result of increased demand from cheaper prices. Palm oil and palm-based products comprised a quarter of Malaysia's exports to India. Among manufactures, exports of electrical & electronic (E&E) products also posted a healthy increase, growing by 27.0 per cent to reach RM5.35 billion from RM4.21 billion last year (Malaysia-India Relations Report MITI: 2015).

This upward trend was mainly due to the rise in demand for photosensitive semiconductors used in solar powered projects which rose steadily in demand in 2014. Exports of manufactures of metal also grew strongly to reach RM3.03 billion in 2015, driven by India's increased demand for commodities to fulfill its infrastructure development. Crude Petroleum exports to India experienced a contraction of 33.7 per cent or RM2.59 billion to RM5.09 billion from RM7.68 billion in 2014. The decline was due to the slump in global oil prices and weak demand (Malaysia-India Relations Report MITI: 2015).

As for the imports from India, 2015 posted a double-digit growth of 13.6 per cent or RM1.82 billion. Imports were valued at RM15.16 billion compared to RM13.34 billion in 2014. India was Malaysia's 12th largest source of imports. Main imports were manufactured goods especially manufactures of metals which grew substantially, petroleum products, live animals and meat, chemical & chemical products, electrical & electronic products, machinery, appliances and parts. In 2015, India was Malaysia's 10th largest trading partner, 7th largest export destination and 12th largest import source. On the other hand, Malaysia was India's 14th largest trading partner, 19th largest export destination and 15th largest import source. As a whole, the data clearly indicates that trading with India has been in Malaysia's favour just like the previous years. One of the efforts made by Malaysia and India to increase bilateral economic cooperation was through signing of the Malaysia-India Comprehensive Economic Cooperation Agreement or MICECA

Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA)

Malaysia and India established the MICECA on 24 September 2010 and it came into force on 1 July 2011. MICECA is a comprehensive agreement that covers trade in goods and services, investments, movement of natural persons and economic cooperation. Both countries agreed to establish a framework for cooperation as a means to expand and enhance the benefits of long standing bilateral relations. Moreover, this close cooperation aimed inter alia at complementing existing, and building new, cooperative relationships; creating new opportunities for trade and investment and promoting competitiveness and innovation including through the involvement, where appropriate, of the private sector; and encouraging the presence of goods and services in each other's respective markets.

Specific benefits of the Agreement include (See <http://www.miti.gov.my/cmc/content>):-

- i. MICECA's preferential nature grants advantage to Malaysian exporters and service suppliers wanting to access the Indian market, as opposed to those from other countries that have yet to enter into a preferential trading arrangement with India.
- ii. As a comprehensive Agreement, MICECA also addresses non-tariff barriers and mechanisms to deal with these, such as capacity building programmes aimed at enabling compliance with standards and conformance measures.
- iii. In the area of investments, the Agreement is deemed to be sufficiently comprehensive as it covers the four elements of liberalisation, protection, facilitation and promotion. The Agreement provides assurance that the investors and their investments will be treated fairly and protected. The various provisions such as Minimum Standard of Treatment, Compensation for Losses, Expropriation and Compensation, Transfers and Investor State Dispute Settling Mechanism also provide certainty and predictability to the investment regime in Malaysia and India.
- iv. In the area of services, India has committed to allow Malaysian foreign equity shareholding – ranging from 49 to 100% – in more than 80 sub-sectors. Malaysia too has reciprocated.

Malaysia and India have made deeper tariff commitments for a larger number of products under MICECA. MICECA has also advanced the timelines agreed under AITIG. Compared to AITIG, MICECA pluses are as follows:

- i. The comprehensive nature of MICECA, i.e., it includes Services, Investments, Economic Cooperation, Customs, sanitary and phyto-sanitary standards (SPS) and technical barriers to trade (TBT) chapters. Whereas, AITIG (ASEAN-India Trade in Goods Agreement) only covers Trade in Goods.

- ii. The Exclusion List (i.e., list of products excluded from tariff concessions) of MICECA is shorter than that of AITIG. India has excluded 1,225 products under MICECA compared with 1,298 under AITIG. Malaysia has excluded 838 products under MICECA, compared with 898 under AITIG;
- iii. For Trade in Goods, MICECA has advanced the timelines agreed under AITIG, as indicated below:
 - Normal Track 1 (NT1): tariffs on all products listed in NT1 will be eliminated by 30 September 2013, i.e., three months in advance of AITIG;
 - Normal Track 2 (NT2): tariffs on all products listed in NT2 will be eliminated by 30 June 2016, i.e., six months in advance of AITIG; and
 - Sensitive Track (ST): tariffs on all products listed in ST will be reduced to 5% by 30 June 2016, i.e., six months in advance of AITIG.
- iv. Malaysia has been granted better concessions for palm oil and palm oil products under MICECA such as:
 - India will bind tariffs on refined palm oil (RPO) at 45% by 31 December 2018 (one year earlier than India's committed timeline under AITIG).
 - India will bind tariffs on 3 palm products at 45% by 31 December 2018 (these 3 products were excluded from tariff concessions under AITIG).
- v. MICECA contains more trade-facilitative Product Specific Rules (PSRs) compared with AITIG.
- vi. MICECA contains more stringent anti-dumping provisions compared with AITIG, which will benefit Malaysian exporters. (See <http://www.miti.gov.my>)

Since MICECA was signed, Malaysia and India have shown commitment to make this agreement a meaningful one. Both countries have agreed to include trade in goods (tariffs on rules of origin; sanitary and phyto-sanitary measures; customs cooperation; technical barriers to trade; and trade remedies), trade in services; movement of Natural Persons; investments; legal and institutional issues; and economic cooperation. The summary of the trade in goods can be listed into four main tracks (See <http://www.miti.com.my>). Track 1 is the normal track whereby the tariffs (on products listed) will be reduced to '0' or eliminated by June 2013. The Track 2 is also normal track which includes listed products that will be reduced to '0' or eliminated by 2018. The third track is the Sensitive Track which includes sensitive products whereby tariffs will not be reduced to '0' but will be kept at 5 percent by 2016. The fourth track is the Special Track whereby the tariffs will be kept at 5 percent – 20 per cent over the period of four to seven years. And finally lists of super sensitive commodities track where tariffs will be reduced by 50 or 25 per cent by the end of 2018. There is also a special product which applies to India only where tariffs will be reduced progressively and capped at 37.5 - 50% (depending on the product) by 31 December 2018. Malaysia has also excluded 838 tariff lines from the tariff concession under the Exclusion List (EL) i.e. there will be no elimination or reduction in tariffs on health, security or moral reasons. These include products such as firearms, bullets, tobacco and alcoholic beverages.

In terms of investment, MICECA provides a framework to further facilitate cross-border investments between the two countries. One major benefit from MICECA is that Malaysian investors will be able to enter the Indian market on an equal footing as it incorporates provisions on national treatment as well as protection of investors and investments on issues such as expropriation, transfers and subrogation provisions. In the area of services, India has committed to allow Malaysian foreign equity shareholdings ranging from 49 to 100% in 84 services sub-sectors, including professional services, healthcare, telecommunications, retail and environmental services. In return, Malaysia has made commitments to allow Indian foreign equity shareholding in 91 services sub-sectors. MICECA also contains a dedicated chapter that facilitates the temporary entry of installers and servicers, contractual service suppliers, independent professionals and business visitors (including potential investors) from Malaysia into India, and vice versa. MICECA also provides for economic cooperation in areas including infrastructure development, human resource development (HRD), small and medium enterprises (SMEs), tourism, science and technology, creative industries, finance, and business facilitation.

Overall, MICECA is a complex agreement which provides benefits as well as poses some challenges.¹ Negotiations were arduous and consensus was not achieved easily in MICECA which truly reflects the degree of sensitivity of both sides. Nevertheless, it also reflects the compromises required to create a solid foundation for Malaysia and India to increase the trade relations substantially such as in the service and investment sectors. The service package of MICECA has added unique features. It facilitates temporary entry contractual visitors, service supply, and independent professionals. It provides commitments on a wide range of key service sectors including accountancy, auditing, architecture, urban planning, engineering, medical, dental services and others. This is very important because very often visa restrictions from both sides do act as barriers. MICECA also provides strategic partnerships between Malaysian and Indian companies which can be undertaken through joint ventures, in services sectors such as tourism, construction, franchising and healthcare. Hence, this particular aspect of service has been sufficiently addressed at the present time.

As for the investment segment of MICECA, it aims to provide a liberal and forward looking transparent investment regime which will afford a level playing field for both countries. India is pleased as Malaysia has offered comparatively high level of FTA in key sectors of interest to India such as construction, IT related services, management and consultancy services. Under Malaysia's 2012 budget, Malaysia has opened up 17 service sub-sectors to foreign equity participation and foreign companies to own certain sub-

¹ Paper presented by Amb. Narayanan at the Third ICWA-ISIS India-Malaysia Strategic Dialogue, 12-13 April, 2012, New Delhi, India.

service sectors such as private hospitals, department services, accounting, taxation and legal services. Some of these services are considered as strong sectors for the Indian economy. Meanwhile, MICECA has also set a target of achieving USD 15 billion trade by 2015. Given that the bilateral trade between Malaysia and India in 2012 was USD 13.3 billion, it lends confidence that Malaysia and India can achieve this target well before 2015. Below is the summary of Malaysia's trade performance under MICECA for the year 2014-2015.

Table 1 Malaysia's trade performance under MICECA (2014-2015)

<u>Year</u>	No. of CoOs (Certificate of Origin) issued	FOB (Free on Board) Value (RM Million)
2015	15, 687	RM 3,111.01
2014	14,248	RM 11,619.46

Source: MITI Report 2015

Based on the above table, there has been a decline in the trade performance under MICECA in the year 2015. One of the challenges faced by Malaysia in 2015 was the global economic slowdown, especially the dropping oil price and the depreciation of Ringgit Malaysia. Moreover, the main challenge resulting from the implementation of MICECA was also the increase in competition vis-à-vis the domestic industry (See <http://www.miti.gov.my>). This is particularly true in areas where India has comparative advantage. However, this increased competition is expected to spur Malaysia's industries to increase their competitiveness through increased productivity and efficient utilization of resources by shifting limited resources away from less economically viable activities into areas where Malaysia has comparative advantage. In addition, MICECA will contribute to lower the costs of inputs as Malaysian industries will be able to source cheaper inputs from India (See <http://www.miti.gov.my>).

In sum, MICECA is still in the mid stages of development. Therefore, it is still too early to ascertain the tangible output of MICECA. The Malaysian business community is encouraged to take full advantage of the opportunities offered under the agreement. MICECA creates an attractive operating environment for the business community of both countries to further strengthen their bilateral trade and economic linkages on a long term basis.

ASEAN-India Free Trade Area (AIFTA)

AIFTA means the ASEAN-India Free Trade Area under the framework agreement on Comprehensive Economic Cooperation between India and the ASEAN countries (DEloitti-FICCI Report 2011). This agreement was the outcome of a mutual interest from both parties to enhance and extend their economic growth in the region. Since

India's Look East Policy was launched in 1991, India became a sectoral dialogue partner of ASEAN in 1992 and later full dialogue partner in 1995. The relationship was further elevated with the convening of the ASEAN-India Summit in 2002 in Cambodia. Since then the ASEAN-India Summit has been held annually.

Since India became a Dialogue Partner of ASEAN, the collaboration has transcended the realm of functional cooperation to cover various dimensions mainly the political, security, economic and socio-cultural dimensions. Hence, India takes part in various ASEAN ministerial meetings, dialogues, and cooperation frameworks. Among the arrangements are the ASEAN Regional Forum (ARF), the East Asia Summit (EAS), and the Post Ministerial Conference (PMC), just to name a few. All these forms of cooperation have contributed to enhance regional dialogue and regional integration especially in the economic dimension. And one of the outcomes for regional integration was the establishment of an ASEAN-India Free Trade Area (AIFTA).

The AIFTA was signed in Bangkok, Thailand on August 13, 2009 and came into effect on January 1, 2010 after six years of negotiations. This agreement falls under the Most Favoured Nation (MFN) treatment and includes in-quota rates except for products identified as Special Products in the Schedules of Tariff Commitments (MITI Annual Report 2015). The signing of AIFTA paved the way for the creation of one of the world's largest free trade areas encompassing a market of almost 1.8 billion people with a combined GDP of US\$ 4.6 trillion. In August 2011, India and ASEAN signed an agreement on goods providing tariff-free access to a range of product lines such as textiles, pharmaceuticals, chemicals, engineering products, processed food and auto parts among others. This has contributed to an increase in ASEAN-India annual trade to US\$ 80 billion in 2012. During the 10th ASEAN Summit in 2012, the ASEAN-India leaders urged their economic ministers to also extend the free trade in services and investments. Finally, after some years of deliberation and negotiations, the free trade agreement on services and investment entered into force on 1 July 2015.

The FTA in services and investment will assume even greater significance, particularly because India's growth area is the service sector such as professionals in information technology, healthcare, finance and education. The service sector is of main interest to India as it contributes over 55 per cent to India's gross domestic product and in terms of export revenues (Nataraj & Sinha 2013). It opens up opportunities for movement of both manpower and investments from either side between ASEAN and India. The trade in services and investment follows the "8+1+1" pattern, meaning the agreement provides 3 separate arrangements for 8 ASEAN countries except Indonesia and the Philippines. Indonesia is given special terms because the service sector is vital for its economy, and the state is worried it will affect its local sector. As for the Philippines, it is also having the same fear as Indonesia, given that almost 50% of the Philippines workforce is in the IT sector.

As a whole, there has been a steady increase in trade and investment between India and ASEAN. India benefitted in terms of trade with ASEAN. Between 1993 and 2003, ASEAN-India bilateral trade grew at an annual rate of 11.2%, from US\$2.9 billion to US\$12.1 billion in 2003. The total trade between ASEAN and India slightly decreased by 0.29 per cent, from US\$67.9 billion in 2013 to US\$67.7 billion in 2014. Foreign direct investment (FDI) from India fell by 41 per cent from US\$1.33 billion to only US\$820 million in 2014.

India-ASEAN trade and investment relations have been growing steadily, with ASEAN being India's fourth largest trading partner. The annual trade registered an average growth of 22% per annum in the decade up to 2011-12, but has stagnated thereafter. It stood at approximately US\$ 76.53 billion in 2014-15. Investment flows are also substantial both ways, with ASEAN accounting for approximately 12.5% of investment flows into India since 2000. FDI inflows into India from ASEAN between April 2007 and March 2015 were about US\$ 32.44 billion. Whereas FDI outflows from India to ASEAN countries, from April 2007 to March 2015, as per data maintained by DEA, were about US\$ 38.672 billion.

The trade in FTA goods eliminated tariffs for about 4,000 products (including electronics, chemicals, machinery and textiles) between the regions. Duties for 3,200 products will be reduced gradually, and duties on the remaining 800 products will be brought down to zero or near zero by December 2016. Below are the agreed modalities for the FTA in goods between ASEAN and India.

i. Normal Track (NT)

Coverage: 80% of tariff lines and 75% of trade value (imports).

Tariff Elimination:

	ASEAN 5 & India	Philippines & India	India to CLMV	CLMV to India
71% tariff lines & 72% import value (NT1)	1.1.2010 to 31.12.2013	1.1.2010 to 31.12.2018	1.1.2010 to 31.12.2013	1.1.2010 to 31.12.2018
9% tariff lines & 3% import value (NT2)	1.1.2010 to 31.12.2016	1.1.2010 to 31.12.2019	1.1.2010 to 31.12.2016	1.1.2010 to 31.12.2021

(Source: fta.miti.gov.my)

ii. Sensitive Track (ST):

Coverage: 10% of tariff lines.

	ASEAN 5 & India	Philippines & India	India to CLMV	CLMV to India
Reduction of tariffs to 5%:	1.1.2010 to 31.12.2016	1.1.2010 to 31.12.2019	1.1.2010 to 31.12.2016	1.1.2010 to 31.12.2021

(Source: fta.miti.gov.my)

- Products where the tariff is already at 5% and placed in the ST (Standstill lines), it was agreed that:
 - 50 tariff lines at MFN 5% will be at standstill;
 - duties on remaining tariff lines will be reduced to 4.5% rate upon entry into force; and
 - subsequent reduction to 4% rate by 31.12.2016 for ASEAN 6 and India (special arrangements for Indonesia and Thailand; and 31.12.2019 for Philippines).

iii. Highly Sensitive List (HSL)

A three step modalities for tariff reduction has been adopted as follows:

- products with duties above 50% to be reduced to 50% by 31.12.2019 for ASEAN 5, 31.12.2022 for Philippines , and 31.12.2024 for CLMV;
- products with duties of 50% and below to be reduced by margin of preference (MOP) of 50% by 31.12.2019 for ASEAN 5, 31.12.2022 for Philippines , and 31.12.2024 for CLMV; and
- products with duties of 50% and below to be reduced by MOP of 25% by 31.12.2019 for ASEAN 5, 31.12.2022 for Philippines, and 31.12.2024 for CLMV.

India has placed crude and refined palm oil, coffee, black tea and pepper in the HST.

iv. Highly Sensitive Track (HST)

Tariff Line	Base Rate	AIFTA Preferential Tariffs										31.12.2019
		Not later than 1 January										
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
CPO	80	76	72	68	64	60	56	52	48	44	40	37.5
RPO	90	86	82	78	74	70	66	62	58	54	50	45
Coffee	100	95	90	85	80	75	70	65	60	55	50	45
Black Tea	100	90	90	85	80	75	70	65	60	55	50	45
Pepper	70	68	66	64	62	60	58	56	54	52	51	50

(Source: fta.miti.gov.my)

v. Exclusion (EL):

Threshold: 489 tariff lines and not exceeding 5% trade value (imports) on a bilateral basis. Malaysia has excluded 361 tariff lines. However, Malaysian exporters can export and benefit from preferential tariff for these products, provided these products are not in India's Exclusion List.

Against this backdrop, the AIFTA is perceived as the framework for the way forward to further enhance strategic relations between India and ASEAN.

MICECA and AIFTA: Complementing or Competing?

There have been doubts and apprehensions particularly among the business community on the relevance and existence of two FTAs in the region. Some skeptics, such as business groups in India argue that having two FTAs such as Malaysia with India and another, ASEAN (which includes Malaysia) with India may cause some conflict or overlap in implementing the tariffs on goods.² Whereas, on the other hand some businessmen, such as Krishnan Tan argue that MICECA value-adds to the benefits shared from ASEAN-India Trade in Goods Agreement (AITIG) and further facilitates and enhances two-way trade, services, investments and economic relations in general.³ For Malaysia, trade with FTA partner countries stood at RM927.66 billion with exports of RM492.41 billion while imports totaled RM435.25 billion. FTA countries contributed 63.1% of Malaysia's total exports in 2015 (Malaysia External Trade Statistics 2015). Although Malaysia and India started off with a Free Trade Agreement, it was later decided to convert to Comprehensive Economic Cooperation Agreement (CECA). Malaysia considers MICECA as complementary to ASEAN-India Trade in Goods (AITIG) agreement which was signed in 2009.

Malaysia's signing of the trade agreement with India could well be the driving force in the overall economic relationship although in general the bilateral trade volume between the two countries has remained low.⁴ However, on the positive side, the trade growth trajectory has been on the uptrend and improving in recent years. The Malaysia-India economic relationship is broader than just trade and investments. One area where Malaysia can upscale the economic relationship with India is through the service sector which is identified as one of the national key economic areas (NKEAs). The service sector assumes a pivotal role in spurring the nation's economy, affecting all facets of a country's growth. In Malaysia, the service sector's contribution to GDP was around 58 percent in 2011 (See <http://www.myservices.miti.gov.my>). For the year 2012, the service sector attracted the largest portion of approved investments into the economy (RM117.6 billion), exceeding the total approved investments of RM70.4 billion in 2011, by 67 percent (MIDA Malaysian Investment Performance Report 2012). Hence, growth in this sector is gaining momentum and needs to be sustained through synergistic arrangements – bilaterally, regionally and multilaterally. Malaysia has classified 12 subsectors under services and each sector has its respective growth areas (See <http://www.mysevice.miti.gov.my>).

The 12 subsectors under services (as classified by the World Trade Organisation) are business, communications, construction and engineering, distribution, education, environment, financial services, health related and social services, tourism and travel

² Based on an interview with a senior officer from FICCI (Federation of Indian Chambers of Commerce & Industry) in New Delhi, India on 15 April 2013.

³ Based on an interview with Tan Sri Krishnan Tan, Executive Deputy Chairman, IJM Sdn Bhd & former chairman of MIBC, Kuala Lumpur, on 5 August 2013

⁴ Official Report of the Joint Study Group on the Feasibility of Establishing A Comprehensive Economic Cooperation Agreement Between India and Malaysia, 11 August 2007, Kuala Lumpur, Malaysia. See pp.iii.

related, recreational, sports and sporting services, transport and finally other services. Malaysia has enhanced its cooperation with India in these sectors. India is creating world-class businesses in knowledge-based industries such as software, IT services and pharmaceuticals. Today, India stands out as a source of talent for several service sectors (Levy 2007). Although Malaysia may not have the advantage to collaborate in all these 12 services, nevertheless, there are several significant areas of economic cooperation of mutual interest which both Malaysia and India can exploit and foster collaboration, namely in financial services, information and communications technology (ICT) particularly in software development, biotechnology, SME development, healthcare, and pharmaceuticals. Malaysia's trade performance for the year 2014 and 2015 under AIFTA is indicated in the table below.

Table 2 Malaysia's Trade performance under AIFTA

<u>Year</u>	<u>No. of CoOs issued</u>	<u>Total Export Value</u>
2015	31,298	RM8.26 billion
2014	26,806	RM 11.00 billion

Source: Malaysia-India MITI Report 2015

For Malaysia, MICECA and AITIG are seen as complementary rather than conflictive. Since Malaysia is the coordinating country for the ASEAN FTA, Malaysia perceives the FTA as a pathway for Malaysian companies to increase their participation in various sectors such as business services, environment, healthcare, and biotechnology (*New Straits Times* 2012). India and Malaysia could also liberalize the textile and spice products bilaterally as both countries could not do so through ASEAN.

The benefits accruing from MICECA are multi-fold, as it contains disciplines across trade in goods, services and investments that lead to progressive opening of markets by both Malaysia and India. These market access opportunities are expected to translate into free movement of goods, investments, services and professionals between the two countries. The major benefit of MICECA to Malaysia is that certain products that are deemed to be sensitive products (within ASEAN) could be settled bilaterally with Malaysia through this framework. This is clearly evident from the statement below:-

“...For example with respect to textile products, India exports cotton whereas Malaysia exports synthetics. With MICECA, Malaysia could liberalize textile products because of the bilateral FTA. Similarly, India wanted to sell spices to Malaysia (but India had to compete with other ASEAN countries). However, with India, Malaysia could deal with this issue on a bilateral basis. This is how Malaysia benefitted from MICECA.

AITIG and MICECA are seen as complimentary rather than competitive arrangements...”⁵

However, there are also some concern from India regarding some of the trade pacts that could affect local industries such as the coconut oil. For instance India's FTA with ASEAN in certain products such as palm oil negatively impacts on the local producers in the state of Kerala, India. This is because the reduced price of palm oil is available from Indonesia and Malaysia thus creating negative effects for the coconut industry in the state of Kerala, India. The coconut industry is one of the major industries in the state of Kerala, and the economy of this state has been badly affected by previous similar trade pacts (See <http://www.gktoday.in/current-article-india-asean-free-trade-pact/>). Hence, to overcome this problem, Malaysia prefers to deal bilaterally with India rather than use the AIFTA pact.

Besides the above-mentioned goods issues, FTA in services may help in reducing the trade deficit with ASEAN since India has a comparative advantage over ASEAN in education, healthcare, IT software, accountancy, and consultancy services. Although India is seen as having a greater comparative advantage in the AIFTA (services and investments) in these sectors, there are other service sectors such as finance, construction, shipping and transportation that are strongholds of some ASEAN nations such as Malaysia and Singapore. Hence having MICECA and AIFTA would enable India and ASEAN countries to collaborate where it serves their national interests. The end-result that is more apparent is a win-win situation rather a scenario based on unhealthy competition.

Conclusion

The two FTAs between the two regions (South Asia and Southeast Asia) appear to be operating effectively and efficiently. MICECA and AIFTA have led to progressive opening of markets by both Malaysia and India. India's strong commitment towards the region through the India-ASEAN Summit is also a good indication that India wishes to strengthen its role as an important trading partner of ASEAN, evidenced also by the recent shift in gears under the Government of Narendra Modi from "Look East Policy" to "Act East Policy". Although Malaysia faces competition and challenges from other ASEAN members in terms of products and services, the prospects for expansion in Malaysia-India bilateral trade are bright, under both MICECA and AIFTA. Furthermore with the FTA in services and investments in place, trade between India and ASEAN is expected to flourish and benefit both stakeholders. Nevertheless, there are some precautionary measures that ASEAN nations and India should consider especially in the service sectors as professional

⁵ Interview with the Secretary General of Ministry of International Trade & Industry (MITI) on 14 August 2013 at 12.00 pm.

services remain highly protected in most ASEAN countries. India is one of the fastest growing economies in the world, while ASEAN is the second most successful regional organization after EU. There has been many areas of significant cooperation between Malaysia and India and between ASEAN and India. In terms of Malaysia-India relations, MICECA could only strengthen further the bilateral relations in the globalized world. Both governments are in high gear to work along with the private sectors to improve bilateral economic cooperation. Whereas ASEAN-India have implemented various projects in the field of agriculture, environment, human resource development, capacity building, people to people connectivity and the like, with greater political will and better policy coordination, enhanced trade liberalization and regional integration in these areas would evidently provide immense opportunity for India and ASEAN region to ensure mutual growth and prosperity.

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09

**FOOD SAFETY STANDARDS AND REGULATIONS IN
MALAYSIA: IMPLICATIONS FOR ASEAN**

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Introduction

Regulatory heterogeneity is identified as a challenge for increasing trade, harmonizing standards, and ultimately creating an integrated Association of Southeast Asian Nations (ASEAN) single market. A significant number of non-tariff measures (NTMs), including non-tariff barriers (NTBs) (Chaponniere and Lautier, 2016; Sally, 2014; RSIS, 2013), remain in the food sector, more specifically, for two reasons. First, these products attract a higher level of regulations, namely for food safety or food security reasons (Duval and Feyler, 2016; Chaponniere and Lautier, 2016). Second, there are diverse national standards and regulations pertaining to this sector (Pettman, 2013; USAID, 2013; Norani, 2014). The Member countries are found to arbitrarily adopt and implement food control systems under SPS measures for imports, despite the fact that ASEAN has several bodies dealing with food safety (RSIS, 2013).

The multiple food safety regimes call for increased dialogue on food safety standards within the region. Efforts have been underway to streamline regulatory standards in the food sector under the ASEAN Economic Community (AEC), when it was identified for harmonization in 2004. However, the harmonization of food standards among Member states remains slow and patchy, to date (USAID, 2013). One contributory factor is information shortcomings on the extent of the diversity of NTMs in the various sub-sectors of food trade within the ASEAN countries. The picture on NTMs remains sketchy, as the existing databases lack complete information. For this purpose, there is a need for a nuanced understanding on the types and forms of standards and regulations imposed by the Members, not just for recognizing regional measures, but also allow for Members to adopt each other's regulations, and plausibly harmonize some standards within the region. This paper fills that vacuum by offering updated information on food safety standards and regulations and its implications, from the Malaysian perspective.

How regulated is the food sector in Malaysia? Do NTMs in Malaysia affect food imports from ASEAN? What types of regulations need careful attention? What are the implications for harmonization of standards and regulations on food trade in the ASEAN region? This

paper provides answers to these questions, while contributing to the empirical literature in at least two innovative ways. First, we apply a new and comprehensive database¹ to provide an in-depth assessment of NTMs in food trade from the Malaysian perspective. The database allows us to detail the diverse types of NTMs for the various sub-sectors of food, based on acts and regulations that prescribe the conditions for importing food products into Malaysia. The detailed information from the database on the products covered by NTMs at the internationally comparable 6-digit level of the HS (harmonized system) codes also allows us to precise trade incidence of NTMs in the food sector with greater accuracy. Second, we focus on product-level NTMs used by the importing country (Malaysia) to assess econometrically its directional effects on food imports from ASEAN, and articulate some thoughts concerning the harmonization of standards within the region, based on the national scenario. Due to data limitations, previous work has not adequately addressed these issues in the context of Malaysia and ASEAN.

The rest of the paper is structured as follows. Section 2 reviews the relevant literature on NTMs and trade. Section 3 describes the model specification and the dataset constructed for the study. Section 4 briefly profiles food imports into Malaysia from a regional perspective and presents the coverage ratios and frequency (count measures) for affected products across the different food sub-sectors. Section 5 presents the empirical results and discusses the implications for harmonization of regulations in a regional context. Section 6 concludes.

Food regulations, harmonization and trade

Governments usually set standards for food imports that require foreign producers to meet the same standards required of domestic producers (Webb, 2015; Mitchell, 2003). The food sector is therefore highly regulated (Swinnen et al., 2015), with various measures related to product characteristics, production, processing and distribution. The complexity in regulations for the food sector reflect consumers' demand for food safety (Ferro *et al.*, 2015), firms' reputation for providing safe food and maintaining global market shares, and new hazards that surface in global food trade. These regulations, however, differ across countries in terms of the types/ forms and desired/ stringency levels, for example, different levels of tolerance for food safety risks and different levels of accidental contamination. The regulations also differ significantly across food types, such as raw and processed food, less and highly perishable food products, low or high incidence of risks for human health.

Hence, differences in regulations, following from differences in regulatory approaches and capacity and consumer risk preferences, result in multiple safety regimes that could disrupt

¹ The database that is applied was jointly constructed by the Economic Research Institute of ASEAN (ERIA) and the United Nations Conference on Trade and Development (UNCTAD) in 2015. The authors were engaged in this project to compile NTMs for Malaysia. The database was launched on 14 April 2016, and is available at http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1234&Sitemap_x0020_Taxonomy=UNCTAD%20Home

trade and cause conflict between countries (USAID, 2013). However, Buzby and Unnevehr (2003) argue that these differences could in fact spark more dialogue between countries, leading to change and improvement in the food safety systems.

Implementing food safety standards undeniably represents increased compliance costs to firms. In that aspect, standards may act as a barrier to trade (Ferro *et al.*, 2015; Lei, *et al.*, 2015; Yuan and Beghin, 2012; Jongwanich, 2009; Chen *et al.*, 2008). Alternatively, standards can solve information asymmetries between buyers and sellers and reduce transaction costs (Turkson, 2015; Schuster and Maertens, 2015; Mangelsdorf *et al.*, 2012; Athukorala and Jayasuriya, 2003), thereby surpassing compliance costs. Firms may be willing to adopt stringent food practices, provided that, the costs are manageable, and the benefits from implementing those standards outweigh the risks of losses in terms of reputation and sales. In that case, food safety and expanded trade can be considered mutually reinforcing. Though standards and regulations have implications for food trade, the literature clearly suggests that its effects on trade are ambiguous (Swinnen *et al.*, 2015).

Most studies have examined the trade effects of standards within the context of the developed-developing world (see Disdier *et al.*, 2007; Chen *et al.*, 2006; Moenius, 2004; Otsuki *et al.*, 2001). The common perception is that developed countries are standard-setters, while the developing economies have problems complying with those standards (Webb, 2015) as they lack access to capital, infrastructure and technical support. More recently, NTMs have also been flagged as a developing country issue (Kee *et al.*, 2009), suggesting that reforms will also benefit and flow into developing countries. International harmonization is therefore promoted under the assumption that harmonized standards reduce compliance costs for exporters. Turkson (2015) argues that international harmonization of standards will preclude the need for exporters to pay multiple product adoption costs that are related to many national standards exporters are faced with. Alemanno (2015) adds that harmonization of food safety standards, more specifically, is important to ensure that they cannot be used as discriminatory non-tariff barriers to trade (NTBs)². In short, rapprochement of food safety regulations matters for food trade (Hooker, 1999).

Relevant to ASEAN's ongoing efforts towards regulatory convergence, therefore, are, studies that examine the trade effects of harmonization of standards on a regional basis. Shepherd (2015) and De Frahan and Vancauteran (2006) confirm that harmonization of food regulations within the European Union (EU) single market had significantly increased trade within member countries. Winchester *et al.* (2012) and Wilson and Otsuki (2003) qualify that convergence of specific regulations, such as pesticides maximum residue limits (MRLs) and aflatoxin standard, are important for increasing trade flows. In the context of the Asia-Pacific region, Weir (2004) identified several key constraints, such as inadequate knowledge of food

² NTBs are deemed to be frequent in agriculture and agro-food in ASEAN (Chaponniere and Lautier, 2016).

safety in developing countries, difficulty in understanding and complying with international standards, among others, for the harmonization of the food safety system.

Model specification and data description

The empirical model is based on an extended unidirectional gravity model, widely used in the trade literature (Wilson and Otsuki, 2003; Chen *et al.*, 2008; Mangelsdorf *et al.*, 2012). The equations that are estimated in a three dimensional (the cross-section comprises country-pair-product group) panel framework, covering 18 countries (9 ASEAN and 9 non-ASEAN major import sources of food³) and spanning the period 2000 -2014 (4,860 observations), is as follows:

$$M_{ikt} = \beta_0 + \beta_1 GDP_{it} + \beta_2 \ln GDP_{jt} + \beta_3 \ln DIST_{ij} + \beta_4 TRF_{ikt} + \beta_5 CR_{jkt} + \beta_6 DUMBR_{ij} + \beta_7 DUMCL_{ij} + \beta_8 DUMLL_{ij} + \delta_t + \eta_j + \varepsilon_{ijkt} \quad (1)$$

$$M_{ikt} = \beta_0 + \beta_1 GDP_{it} + \beta_2 \ln GDP_{jt} + \beta_3 TRF_{ikt} + \beta_4 CR_{jkt} + \beta_5 BTC_{ijt} + \delta_t + \eta_j + \varepsilon_{ijkt} \quad (2)$$

where:

M_{ikt} value of Malaysian (i) imports of product k from country j in year t

GDP_{jt} gross domestic product in Malaysia (i) in year t

GDP_{jt} gross domestic product in country j in year t

$DIST_{ij}$ distance between Malaysia (i) and country j

TRF_{ikt} import tariff rate on product k in Malaysia (i) in year t

CR_{ikt} import coverage ratio of technical measures for product k from country j in year t

BTC_{ijt} bilateral trade costs between country i and country j

$DUMBR_{ij}$ dummy for contiguity between country i and country j

$DUMCL_{ij}$ dummy for common language between country i and country j

$DUMLL_{ij}$ dummy for landlocked economies

δ_t time dummies

η_j exporter dummies

ε_{ijkt} is an error term

The GDP for Malaysia is used as a proxy for demand. Likewise, the exporting (j) country's GDP captures the market size of the partner country, the supply side effect of the commodity. This mass factor is also expected to have a positive effect on Malaysia's imports. (The GDP variables for importer and partner countries are used interchangeably with GDP per capita ($PGDP$), the measure of the country's wealth potential effect on food regulations; see Wilson and Otsuki, 2003).

³ The nine non-ASEAN countries command 39 percent of Malaysia's food imports. They include Australia, New Zealand, China, Germany, India, Japan, Netherlands, South Korea and the United States.

Bilateral distance (*DIST*) and tariffs (*TRF*) denote resistance factors in the model. The expected effect of distance and tariffs are therefore negative on Malaysia's imports. Unlike that of tariffs, there is no prior imposition of the signs of the effects of the coverage ratios, *CR*, the core variable of interest, on imports.

There are three dummies incorporated in equations (1) and (3) to control for the omitted variable effects, namely contiguity (*DUMBR*), common language (*DUMCL*) and landlocked economy (*DUMLL*), on trade flows. The dummy variables take the value of 1 if both the trading partners share these common features and of 0 if otherwise. Common language measures cultural distance. The argument is that trade partners with common language makes communication easy, and lowers transaction costs. Alternatively, landlocked economies proxy increasing transaction costs as they reflect difficulties in trading with and investing in remote countries. Finally, δ_t controls for year-shocks in all equations.

The NTMs for the food sector in the newly constructed ERIA-UNCTAD database are drawn directly from the Food Regulations 1985⁴ (gazetted on 26 September 1985) of the Food Act 1983 (enacted as Laws of Malaysia Act 281; gazetted on 10 March 1983), which regulates the various aspects of food standards in Malaysia. They are based on the classification of import measures by UNCTAD (2013), which includes 15 chapters, comprising technical and non-technical measures (Table 1). The database details the products covered by NTMs at the HS6-digit level.

Imports are compiled from the UNCOMTRADE database at the HS2-digit for all food products, and HS6-digit levels for product items subject to NTMs identified through the ERIA-UNCTAD database. The dataset covers 18 food product groups at the HS 2-digit. All import values are expressed in 2005 constant USD.

To measure regulatory intensity or NTM incidence, we calculate the import coverage ratios⁵ (*CR*) for the products covered by NTMs. Since most of the product items in the food sector are affected by one or more NTMs, the dataset is cleaned to avoid double-counting of the former. The dataset at the HS6-digit level therefore covers 740 product items that are subject to at least one NTM. The yearly (*t*) coverage ratios with each partner country *j* are then calculated as the import share of product items (HS6-digit) covered by NTMs in product group category *k* (HS-2 digit level). The *CR* reflects the relative value of affected imports and varies between 0 percent (no coverage) and 100 percent (all products covered), and is represented as:

$$CR_{jkt} = [(affected\ imports)_{jkt} / (total\ imports)_{jkt}] \times 100$$

⁴ Until 2013, several amendments of the regulations have been made.

⁵ The trade coverage ratio does not convey information concerning specific effects of NTMs on prices, production, consumption, or import volumes.

Data on *BTC* for all products are extracted from the ESCAP-World Bank trade cost database, and is used in equation (2). The *BTC* is measures as the ad-valorem equivalent trade costs and expressed in percentage of value of goods. It includes direct and indirect costs related to fulfilling regulatory import and export requirements, as well as costs resulting from differences in currencies, languages, culture and geographical distance. Domestic and international shipping and logistics costs associated with imports and exports are also included. Since the *BTC* is a broad aggregate measure of international trade costs, the three dummy variables (*DUMBR*, *DUMCL* and *DUMLL*) together with *DIST* are excluded in equation (2). The *TRF* and *CR* are however retained in equation (2) as these two variables are specific for food products. Since the latest data available for *BTC* is 2013 and some missing observations for Myanmar, Netherlands and New Zealand, equation (2) is based on a smaller sample 15 countries (excluding the three aforementioned countries) spanning the period 2000-2013.

Import tariff rates (simple average means, *TRF*) imposed by Malaysia on each product group at the HS2-digit level are taken from the database of the United Nations Conference on Trade and Development (UNCTAD) Trade Analysis Information System (TRAINS) within the World Integrated Trade Solution (WITS) developed by the World Bank.

Data for *GDP* and population are sourced from the World Development Indicators (WDI) database. Data for *DIST*, on the basis of the average distance between the capitals for country-pairs, and the information for country-pair contiguity (*DUMBR*), country-pair common language (*DUMCL*) and landlocked (*DUMLL*) countries, are extracted from the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) database.

Regional imports and incidence of non-tariff measures

Food imports of Malaysia from ASEAN recorded an average annual growth rate of 15.9 per cent relative to global food imports at 12.5 per cent for the period 2000-2014. In terms of volume, imports of food from the region rose from a mere USD80 million in 2000 to USD4408 million in 2014 (Figure 1). The ASEAN region is considered an important import source for food⁶ (see also RSIS, 2013); it represents 30.4 per cent of Malaysia's global imports of food in 2014. On a regional level, food is also identified as a potential sector to derive benefits in the AEC (Pettman, 2013).

By categories of food products, high import concentration is noted, with fats, animal and vegetable (HS15), fish, crustaceans (HS03), cereal, flour, starch (HS19), cereals (HS10) and cocoa (HS 18) accounting for more than 60 per cent of total imports from ASEAN. The same products account for large shares in total imports of Malaysia from the world. The only exception is that though ASEAN is not an important source for dairy products, these imports

⁶ The move towards the AEC has increased intra-ASEAN trade, largely due to the increase in processed food trade (RSIS, 2013).

constitute a relatively larger share of global imports (namely from New Zealand, the United States and Australia) to Malaysia. Within ASEAN, food products are mainly imported from Indonesia, Thailand, Singapore and Vietnam. The four major import markets for food products serve the Malaysian market for different food categories. The major imports from Indonesia constitute fats, animals and vegetable (HS15), cocoa (HS18) and fish and crustaceans (HS3). Alternatively, Malaysia imports mainly sugar (HS17) and cereals (HS10) from Thailand. Singapore channels mainly miscellaneous edible preparations (HS21), beverages (HS22) and cereal, flour and starch (HS19) to Malaysia. Imports from Vietnam to Malaysia comprise cereals (HS10), coffee, tea and spices (HS9) and fish and crustaceans (HS3). The varying product concentration of food imports from the region seem to suggest that NTMs are going to affect the ASEAN Member states disproportionately.

The food sector in Malaysia is highly regulated. A total of 471 NTMs⁷, constituting 66 percent of total public NTMs in Malaysia⁸, are found in the food regulations, most of which comprise technical measures (Table 2). Within the technical measures category, 51 percent constitute TBTs⁹ and 46 percent are SPS¹⁰. Since most NTMs hail from the TBT and SPS chapters, Table 3 reports the frequency counts of NTMs within those two chapters. In terms of the SPS measures, most of the NTMs are for restricted use of certain substances in foods and feed and their contact materials, followed by labelling requirements. Likewise there is high concentration of NTMs for the TBT chapter in product quality or performance requirement, followed by labelling requirements.

Labelling requirements are even more important for a country like Malaysia, whereby more than half the population is Muslim, as such requirements apply to products containing pork and alcohol. In addition, among the ASEAN countries that follow the Codex guidelines¹¹, only Malaysia makes nutrition labelling mandatory for energy, protein, carbohydrate, fat and total sugars for foods that are commonly consumed (bread and milk, canned meat, fish, vegetable, fruit and fruit juices, salad dressing and mayonnaise) and for various types of beverages (AFBA, 2014; Kasapila and Sharifudin, 2011; see also Pettman, 2013).

The NTMs in the food sector are found to affect 740 product items at the HS6-digit level (93 percent of total food products). (Table 4). With the exception of cereals and oilseeds, the

⁷ The total number of notifications made at the WTO by Malaysia for TBTs and SPS are 216 and 36, respectively (WTO I-TIP Goods online database, available at <https://i-tip.wto.org/goods/>). Clearly the number of notifications made at the WTO is not a reflection of the number of NTMs in the country (see also Cadot *et al.*, 2013; Malouche *et al.*, 2013).

⁸ A total of 713 NTMs is recorded in Malaysia from the ERIA-UNCTAD database.

⁹ TBTs are also the major impediment for the expansion of regional and global trade in processed food (AFBA, 2014). TBTs are deemed to contribute more than 70 per cent, on average, to world protection (Ferro *et al.*, 2015).

¹⁰ The SPS refers to measures to protect human, animal or plant life or health.

¹¹ For other ASEAN countries that follow the Codex guidelines, nutrition food labelling is voluntary, unless nutrition or health claims are made on food packaging or if the food is for a special purpose (diabetic and fortified foods).

frequency counts (*FC*) of NTMs is high across all major food product groups. Interestingly, the food sub-sectors with relatively high number of NTMs, HS03 and HS15, are also sectors that dominate food imports from ASEAN. The NTMs that dominate the food sector include A14, A22, A31, A33 and B31. Even if NTMs are equally applicable to all exporting countries, that is, they do not discriminate between import sources, exporters are differently affected depending on their structure of exports in terms of products.

Results and discussion

Empirical Findings

The results of the specifications of the gravity model for equations (1) and (2) are given in Table 6. The estimations for Malaysia's imports are conducted for the full sample of ASEAN and non-ASEAN countries, and for the sub-sample of ASEAN countries (in-sample). The Poisson Pseudo Maximum Likelihood (PPML) approach in estimating the gravity model is employed to deal with heterogeneity and zero observational problems¹². Santos and Tenreyro (2006) showed that in the presence of heteroskedasticity and zero trade values, the PPML is a robust approach. Likewise, Burger *et al.* (2009) explained that the PPML provides a viable alternative to the standard log normal specification of the gravity trade model. For comparison, the estimations are also conducted using the fixed effects (FE) and random effects (RE) models for equation (1), in an unbalanced panel for the full sample. The Hausman test between the FE and RE models rejects the null hypothesis of no systematic difference between the two and hence the FE model is preferred. The FE results (not reported here), are largely consistent with the PPML estimates of Table 5.

Most specifications in Table 5 provide the expected results based on the direction and significance of the coefficient estimates. For the common arguments of the gravity model, *GDP*, *PGDP (reporter)* and *DIST*, the coefficients for the former two display the predicted positive signs and are statistically significant. However, the wealth potentials of the partner country lower food imports, counterintuitive with theory. Alternatively, *DIST* has a negative coefficient value with respect to imports from ASEAN, tallying with theoretical expectations.

On the other hand, the common language dummy does not correspond with theoretical prediction. It can be argued that this common feature is not relevant to ASEAN (see also Thangavelu, 2010) and to food trade in ASEAN. For example, Brunei shares a common language with Malaysia, and yet import of food from Brunei is limited to just two sub-sectors. Instead, having a common border is found to be a significant enabler of food trade (see also Duval and Feyler, 2016). Conversely, significantly lower volumes of trade are

¹² Approximately 15 per cent of the import flow observation equal zero.

observed when trading with a landlocked economy like Laos, due to the high bilateral trade costs¹³.

Tariffs, though negative, do not matter for food imports. This is because with progressive liberalization in ASEAN, most tariffs have reached below 5 percent. Conversely, the coefficient of the *CR* variable is consistently negative and significant, suggesting that NTMs, more specifically technical measures, are import restrictive. Based on Table 5, the coefficient for *CR* ranges between -0.006 to -0.011 for the full sample and sub-sample estimations. From equation (2), it is also noted that the magnitude of the coefficient of *CR* is smaller than that of the *BTC*, albeit negative and significant. The result largely conforms to the empirical literature, which observes a negative impact of food safety standards on trade (Keiichiro *et al.*, 2015). In fact, the empirical results contribute to the existing discussion that SPS and TBT measures in Malaysia, though not necessarily implemented with protection intent, constrain regional trade (see also AFBA, 2014; USAID, 2013).

The empirical findings on NTMs in the food sector suggest that they generate some trade costs that could cause imports to fall short of the potential or desired level.

Robustness Checks

To ensure the robustness of the baseline results, we conduct additional checks. First, the evaluation of the trade effects of the aggregate SPS and TBT chapters do not provide indications of the specific measures that could constrain imports. In this regard, it is important to compare the import restrictiveness of the sub-chapters to inform the discussion on harmonization of food standards in ASEAN, which is focused on sub-chapter A22 of the SPS measure. Second, the multiple stacking of NTMs, wherein several measures affect a single product line, also need to be accounted for. This is to proxy for stringency of measures based on product lines that have multiple measures. Based on the frequency of measures, product lines are classified into three groups: low NTMs (subject to 1-4 NTM types); medium NTMs (subject to 5-7 NTM types); and high NTMs (subject to 8-9 NTM types). Table 6 presents a summary of the coefficient estimates for the NTMs.

Technical measures have dual effects on Malaysia's imports of food, depending on the type of measure. Most measures imposed are found to be trade restrictive, except for A42 (which is not robust to the alternative estimators of the FE and RE models) and B7. This implies that in some cases, specific national standards can promote imports. There is some evidence of restricted imports for product lines that are subject to 5 to 6 multiple NTMs.

Implications for Harmonization

¹³ In terms of Malaysia's bilateral trade costs with the ASEAN countries, the highest cost is with Laos (ESCAP-World Bank international trade costs online database).

ASEAN Members have begun to recognize the desirability of having common measures (see also Alemanno, 2015), amidst the growing volume of food trade. For trade purposes, harmonization of standards enables food companies to adhere to one set of regional regulations instead of adjusting to a diverse array of regional standards of Member countries. Following which, ASEAN members have expressed their intention to use global food standards as a basis for harmonization efforts in the food sector at the regional level. Yet, there has not been much progress in this regard (AFBA, 2012).

One reason is that the diverse regulations that govern food and nutrition labelling across ASEAN rest on the different International Guidelines followed by Member countries when preparing national regulations. Kasapila and Sharifudin (2011) point out that for food and nutrition labelling, Singapore, Malaysia, Brunei, Laos, Vietnam and Cambodia have followed the Codex guidelines in preparing their regulations. Conversely, Thailand and the Philippines, to some extent have adapted the United States nutrition labelling guidelines. Further, Member countries with more developed food safety systems have also adopted the ‘hazards’ based-approach, which do not allow for regulatory convergence, as there is no common basis for the adoption of common food safety standards. What is needed is a shift towards a ‘risk’ based approach, which comes with a scientific basis (see also Henson and Caswell, 1999) to adopt common safety standards. There is a need for governments in the Southeast Asia region to ensure that their food legislations are revised in the light of the Codex standards (FAO, 2004).

Notwithstanding the differences in the regulatory framework of Member countries, various efforts are already underway to address the issue of harmonization. While these initiatives are all necessary for pushing the harmonization agenda, it is important to recognize that complete harmonization may not be practical or politically feasible¹⁴. As such, harmonization

¹⁴ For example, in the case of Indonesia, Severino and Thuzar (2016) claim that the general pace of standard harmonization is affected by the government’s perception on how harmonization will benefit industrial development.

of specific regulations in the sub-sectors that have a high product coverage of NTMs (cover a large number of tariff lines), would make more sense. Further, while harmonization of standards is often done through the benchmarking with international standards, Members need to also realize that improving regulatory practices region-wide, may in turn, help Members overcome difficulties in adhering to international standards (RSIS, 2013; AFBA, 2012).

The premises for harmonization often builds on the elimination of TBTs, having recognized that TBTs are prominent in the region (AFBA, 2014). Worth mentioning here is that, not all NTMs (including TBTs) are NTBs. As adequately pointed out by Malouche *et al.* (2013), the onus for policymakers should not be on the suppression of NTMs, given the legitimacy of these measures. From the Malaysian perspective, though food regulations are found to restrict imports, it is also noted that there are only a few recent cases of *potential* NTBs (not clearly defined NTBs) related to food products, levelled by Vietnam, Brunei and Indonesia against Malaysia. Most of these cases have been resolved with the Member countries.

Thus the focus should shift away from eliminating NTMs to streamlining the NTMs across the region, irrespective of the regulatory rapprochement that is taken; coordination, mutual recognition or harmonization. In this respect, this paper contends that the ongoing harmonization of standards and regulations should give priority to the following two areas, given the high frequency of these measures in the food sector:

- Labelling for SPS and TBT reasons; and
- Restricted substances on food.

Though the above suggestion is based on the frequency of NTMs found in the food sector from the regulatory framework of Malaysia, AFBA (2014) has also identified the above two areas (amongst three others) as priority for harmonization within ASEAN. For example, variances in nutrition labelling and contaminant limits within the region has been noted to constrain trade. Harmonization of standards should also be sector specific, as the food sector is highly diversified, and trade within the region is concentrated in a few sub-sectors. It would be worth studying the above specific measures for the fish and crustaceans (HS03)

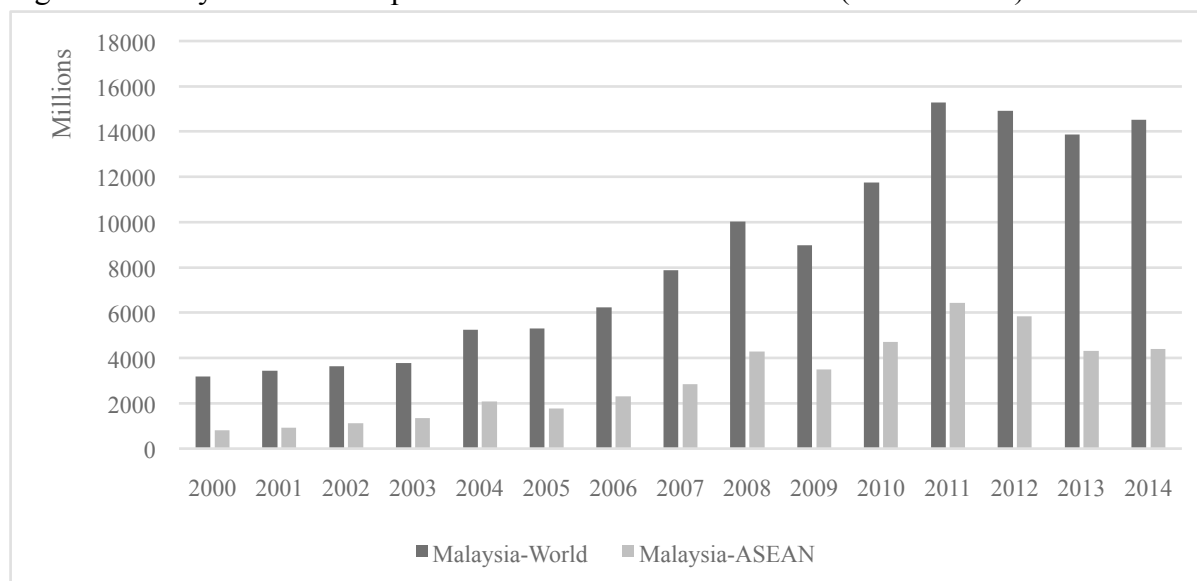
subgroup as ASEAN is also considered an important source of imports for fish and fish products.

Conclusion

This paper reveals that the food sector is highly regulated in Malaysia as it accounts for a large share of public NTMs. NTMs in the food sector mainly consist of technical measures, TBTs, followed by SPS. However, within the TBT and SPS chapters, the measures are confined to just a few sub-categories. In the case of TBTs, the measures that dominate are product quality and labelling requirements, while for the SPS chapter, the measures are largely for restricted substances and labelling requirements. On the whole, the empirical results suggest that the SPS and TBT measures in the food sector are import constraining. The negative impact of technical measures on food imports from the Malaysian perspective, is expected and well supported based on the regional discussion on technical measures and food trade.

The frequency, type and coverage of NTMs, though informative, are certainly not an indication of the severity of those measures. Further research to identify the extent of stringency of standards would significantly benefit policy coordination. Having said that, the snapshot of NTMs in the food sector and the import restricting effects of those measures, however, informs the debate on the importance of tackling the issue of regulatory convergence. The same intensity found in food regulations in Malaysia is most likely to prevail in the other ASEAN countries that adopt the Codex guidelines. To move forward in facilitating trade within the region through the harmonization of standards and regulations in the food sector, it would be best to do it in a piecemeal fashion. First, to prioritize the task of harmonization by considering specific technical measures in sub-sectors of food that have high trade intensities within the region. Second, to establish common grounds in technical measures for the targeted sub-sectors of food with divergent standards.

Figure 1: Malaysia – Food Imports from ASEAN and the World (USD million)



Source: Calculated from UN COMTRADE.

Table 1: NTM Classification for Import Measures

Chapters	Technical Measures	No. of Sub-Chapters
A	Sanitary and Phytosanitary (SPS) Measures	33
B	Technical Barriers to Trade (TBT)	24
C	Pre-Shipment Inspection and Other Formalities (PSI)	5
Chapters	Non-Technical Measures	
D	Contingent Trade Protective Measures (CTPM)	14
E	Non Automatic Licensing, Quotas, Prohibitions and Quantity Control Measures other than for SPS or TBT Reasons (QC)	32
F	Price Control Measures, Including Additional Taxes and Charges (PC)	23
G	Finance Measures	13
H	Measures Affecting Competition	6
I	Trade-Related Investment Measures	3
J	Distribution Restrictions	2
K	Restriction on Post Sales Services	1
L	Subsidies	1
M	Government Procurement Restrictions	1
N	Intellectual Property	1
O	Rules of Origin	1

Source: UNCTAD (2013).

Table 2: Malaysia and ASEAN – NTMs in the Food Sector, by NTM Chapters

Country	Technical Measures			Non-Technical Measures				Total	% of Total NTMs
	A	B	C	D	E	F	G-O		
	SPS	TBT	PSI	CTPM	QC	PC	Others		
Malaysia	218	241	2		4	6		471	66.06
Singapore	119	169			1	13		302	64.95
Thailand	396	145	1		15	9	1	567	38.21
Philippines	100	91	12		20	16	6	245	34.56
Indonesia	106	54	21		4	2	3	190	33.93
Brunei	150	211	1		1	6		369	78.51
Cambodia	36	40			1	8		85	49.13
Lao PDR	27	20	3		1	11		62	29.67
Myanmar	38	13	2		3	4		60	43.80
Vietnam	112	25	1			2	6	146	53.48

Notes: The NTM chapters are defined in Table 1.

Source: Derived from the ERIA-UNCTAD database.

Table 3: Malaysia - Frequency Counts of SPS and TBT Measures for Food,
by NTM Sub-ChaptersError! Not a valid link.Source: Derived from ERIA-UNCTAD database
based on Food Regulations 1985 for Malaysia.

Table 4: Malaysia - Malaysia - Frequency Coverage of SPS and TBT Measures for Food, by Sub-Chapters and Sub-Categories of Food

Food Sub-Categories	No. of Affected Products	FC (%)	FC (%)														TBT			
			SPS																	
			A14	A19	A21	A22	A31	A33	A41	A42	A51	A63	A64	A82	B6	B7	B31	B33		
HS 02 Meat, edible	66	100.00	100.00	0.00	80.30	100.00	100.00	100.00	0.00	0.00	40.91	0.00	0.00	0.00	0.00	62.12	100.00	0.00		
HS 03 Fish, crustaceans	187	98.94	98.94	0.00	0.00	98.41	98.94	98.94	0.00	0.00	0.00	19.05	0.00	0.00	65.61	90.48	98.94	0.00		
HS 04 Dairy products	31	93.94	93.94	0.00	0.00	93.94	93.94	93.94	0.00	3.03	6.06	0.00	0.00	0.00	6.06	36.36	93.94	0.00		
HS 07 Edible vegetables	67	100.00	91.04	0.00	0.00	100.00	100.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	91.04	100.00	0.00		
HS 08 Edible fruits, nuts	64	96.97	96.97	0.00	0.00	96.97	96.97	96.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.52	96.97	0.00		
HS 09 Coffee, tea, spices	39	100.00	100.00	0.00	0.00	100.00	100.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	23.08	82.05	100.00	0.00		
HS 10 Cereals	4	15.38	15.38	0.00	0.00	15.38	15.38	15.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.85	15.38	0.00		
HS 11 Milling products	27	100.00	100.00	0.00	0.00	100.00	100.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	25.93	100.00	0.00		
HS 12 Oilseeds	27	56.25	56.25	0.00	0.00	56.25	56.25	56.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.08	56.25	0.00		
HS 13 Lac, gums, resins	8	100.00	100.00	0.00	0.00	100.00	100.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00		
HS 15 Fats, animal and vegetable	44	91.67	89.58	0.00	0.00	89.58	89.58	89.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	81.25	91.67	0.00		
HS 16 Meat and fish preparations	41	100.00	100.00	0.00	29.27	97.56	100.00	100.00	0.00	0.00	24.39	26.83	2.44	0.00	31.71	92.68	100.00	0.00		
HS 17 Sugars	17	100.00	100.00	5.88	0.00	100.00	100.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	11.76	76.47	100.00	0.00		
HS 18 Cocoa	9	81.82	81.82	9.09	0.00	81.82	81.82	81.82	0.00	0.00	0.00	0.00	0.00	0.00	54.55	63.64	81.82	0.00		
HS 19 Cereal, flour, starch	19	100.00	100.00	0.00	0.00	100.00	100.00	100.00	0.00	5.26	0.00	0.00	0.00	0.00	21.05	47.37	94.74	0.00		
HS 20 Vegetable and fruit preparations	52	100.00	100.00	3.85	0.00	98.08	100.00	100.00	1.92	0.00	53.85	0.00	0.00	7.69	26.92	94.23	98.08	0.00		
HS 21 Miscellaneous edible preparations	16	100.00	100.00	6.25	0.00	100.00	100.00	100.00	0.00	6.25	0.00	0.00	0.00	12.50	18.75	81.25	100.00	0.00		
HS 22 Beverages	22	95.65	95.65	0.00	0.00	86.96	86.96	86.96	0.00	0.00	0.00	0.00	0.00	0.00	56.52	43.48	86.96	65.22		
	740	92.96	92.09	0.63	8.17	92.21	92.59	92.59	0.13	0.38	8.42	5.90	0.13	0.75	32.29	63.44	92.46	1.88		

Notes: (1) The NTM sub-chapters are defined in Table 4. (2) The FC or frequency coverage refers the percentage of import transactions covered by the NTM. (3) HS5, HS6 and HS14 are non-food groups.

Source: Frequency counts are derived from ERIA-UNCTAD database based on Food Regulations 1985 for Malaysia.

Table 5: PPML Estimates for Food Imports

Variable	Full Sample (ASEAN & Non-ASEAN)						ASEAN only			
	(1a)	(1b)	(1c)	(1d)	(2a)	(2b)	(1a)	(1b)	(2a)	(2b)
$\ln GDP_{it}$	1.169*** (0.150)		1.165*** (0.217)		1.318*** (0.207)		0.113 (0.354)		-0.175 (0.386)	
$\ln GDP_{jt}$	0.363*** (0.124)		0.365*** (0.040)		0.137*** (0.017)		1.044*** (0.180)		1.457*** (0.192)	
$\ln PGDP_{it}$		2.183*** (0.302)		2.177*** (0.287)		1.862*** (0.356)		1.904*** (0.394)		2.393*** (0.567)
$\ln PGDP_{jt}$		-0.581*** (0.188)		-0.571*** (0.058)		-0.245*** (0.030)		-0.413* (0.241)		-0.310*** (0.039)
$\ln DIST_{ij}$	-0.080 (0.223)	1.456*** (0.425)	-0.061 (0.076)	1.327*** (0.133)			-1.047*** (0.374)	-0.543*** (0.151)		
TRF_{it}	-0.181 (0.046)	-0.035 (0.070)	-0.018 (0.016)	-0.038 (0.025)	-0.028 (0.001)	-0.043 (0.031)	-0.014 (0.024)	-0.028 (0.041)	-0.016 (0.034)	-0.027 (0.049)
CR_{jt}	-0.008** (0.004)	-0.004 (0.004)			-0.011*** (0.001)	-0.009*** (0.001)	-0.008*** (0.002)	-0.006*** (0.002)	-0.010*** (0.002)	-0.008*** (0.002)
BTC_{ijt}					-0.032*** (0.002)	-0.035*** (0.002)			-0.018*** (0.005)	-0.044*** (0.003)
CR_ASEAN_{jt}			-0.007*** (0.002)	-0.006*** (0.002)						
$CR_NONASEAN_{jt}$			-0.008*** (0.001)	-0.002 (0.001)						
$DUMBR_{ij}$	1.331*** (0.506)	2.692*** (0.748)	1.305*** (0.200)	2.730*** (0.258)			0.114 (0.413)	2.692*** (0.388)		
$DUMCL_{ij}$	-0.380 (0.466)	0.251 (0.356)	-0.357** (0.172)	0.168 (0.125)			-2.145*** (0.449)	-1.621*** (0.569)		
$DUMLL_{ij}$	-10.129*** (0.685)	-11.415*** (0.571)	-10.115*** (0.462)	-11.438*** (0.445)			-8.264*** (0.617)	-10.691*** (0.479)		
Constant	-22.476*** (4.475)	-9.717** (4.269)	-22.595*** (5.591)	-8.747*** (2.688)	-17.932*** (5.428)	5.789** (3.000)	-5.046 (8.201)	5.640* (3.195)	-14.696* (7.643)	1.846 (4.883)
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Exporter dummies	Yes	Yes	No	No	Yes	Yes	No	No	No	No
No. of observations	4860	4860	4860	4860	3780	3780	2430	2430	2016	2016
R-squared	0.087	0.098	0.088	0.100	0.045	0.046	0.135	0.121	0.129	0.035

Notes: (1) The dependent variable is the value of imports (M). (2) Robust standard errors are reported in parentheses. (3) CR_ASEAN_{jt} and $CR_NONASEAN_{jt}$ in specifications (1c) and (1d) refer to the CR interacted with dummies for ASEAN and non-ASEAN countries, respectively. (3) * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 6: Robustness Checks - Summary of Coefficient Estimates for NTMs

Coverage Ratio	PPML		FE		RE	
	coefficient	robust std. error	coefficient	robust std. error	coefficient	robust std. error
A14	-0.009	(0.008)	0.000	(0.008)	-0.005	(0.008)
A19	-0.015***	(0.004)	0.000	(0.005)	-0.001	(0.005)
A21	-0.019***	(0.005)	-0.006	(0.009)	-0.010	(0.009)
A22	0.039	(0.043)	-0.085***	(0.018)	-0.078***	(0.015)
A31	-0.035	(0.044)	-	-	-	-
A33	-0.035	(0.044)	0.095***	(0.021)	0.107***	(0.018)
A41	-0.192***	(0.030)	0.010	(0.008)	0.008	(0.009)
A42	0.007**	(0.003)	0.009**	(0.004)	0.012***	(0.014)
A51	-0.021***	(0.005)	0.023***	(0.007)	0.020***	(0.007)
A63	-0.019***	(0.004)	0.003	(0.006)	-0.000	(0.006)
A64	-0.016	(0.010)	-0.006	(0.012)	-0.007	(0.012)
A82	0.003	(0.006)	-0.009**	(0.004)	-0.007**	(0.003)
B6	-0.011***	(0.002)	-0.008**	(0.003)	-0.007**	(0.003)
B7	0.028***	(0.004)	0.009**	(0.004)	0.008**	(0.004)
B31	-0.014***	(0.004)	-0.022***	(0.007)	-0.035***	(0.007)
B33	-0.006	(0.005)	-0.011	(0.007)	-0.008	(0.006)
Coverage Ratio	coefficient	robust std. error	coefficient	robust std. error	coefficient	robust std. error
Low NTMs	-0.040	(0.027)	0.004	(0.026)	0.007	(0.025)
Medium NTMs	0.002	(0.003)	-0.007**	(0.003)	-0.005*	(0.003)
High NTMs	-0.011	(0.007)	-0.006	(0.005)	-0.006	(0.005)

Notes: (1) The NTM sub-chapters are defined in Table 4. (2) PPML - Poisson Pseudo Maximum Likelihood; FE – fixed effects; RE – random effects. (3) Based on the ASEAN only sample.

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10

**BUILDING THE ASEAN ECONOMIC COMMUNITY –
CHALLENGES AND OPPORTUNITIES FOR CROSS-
BORDER MEDICAL TOURISM DEVELOPMENT IN
MALAYSIA, SINGAPORE AND THAILAND**
Mr. Wong Wai Khuen
Chinese University of Hong Kong

BUILDING THE ASEAN ECONOMIC COMMUNITY – CHALLENGES AND OPPORTUNITIES FOR CROSS-BORDER MEDICAL TOURISM DEVELOPMENT IN MALAYSIA, SINGAPORE AND THAILAND

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Introduction

Healthcare travel or better known as medical tourism refers to the phenomenon where patients choose to leave their own country to seek consumer-oriented medical care abroad that is of high-quality, shorter patient's waiting time and at comparatively lower cost which may include some other treatments that are not readily available in their own country. Medical tourism is defined as all arranged activities related to travel and hosting a tourist who stays at least one night at the destination country for the purpose of maintaining, improving or restoring his/her health through medical intervention (Musa, Doshi, Wong & Thirumoorthy, 2012).

The global medical tourism industry is fast expanding and it is forecasted to generate a revenue between USD38.5 - 55 billion annually based on an estimated number of 11 million patients seeking cross-border care worldwide with an average spending of USD3,500-5,000 per visit which include all medical related costs, transport, in-patient stay and accommodation. The industry is projected to grow at 15-25% due to the increasing number of aging and affluent population that can afford to pursue cross-border healthcare options in order to save medical cost, seek quality treatment or avoid long waiting time for urgent treatments (Patients Beyond Borders, 2011). Expectedly, governments play a leading role in spearheading both the development and promotion of their medical tourism industry. Among the Southeast Asia nations, Malaysia, Singapore and Thailand have emerged as popular medical tourism destinations due to favorable exchange rate and highly regulated healthcare provider system.

Case Description

Purpose of Case Study

In terms of academic literature, notable works have been published over the years to address the knowledge gap concerning medical tourism highlighting end users' experience and their decision making process when pursuing cross-border medical care (Karuppan & Karuppan, 2010). This is preceded with legal literature that studied the overarching ethical and legal considerations regarding medical tourism which further advocates the need for government's intervention in the form of policies and regulations to ensure equal treatment and healthcare access for foreign and local

patients in destination countries when facilitating the development of the industry (Turner, 2013).

Recently business literature has begun outlining specific goals and strategies to be undertaken by government involved to expand the market size of medical tourism industry. Corporate organizations engaged in medical tourism or tourism sector are generally enthusiastic in supporting the development of this industry which is in sharp contrast with other stakeholders associated with public healthcare system and health equity. As more literature began to focus on the impact of medical tourism on the healthcare system of the destination country, the central findings from these literatures reveal a serious lack of data regarding how medical tourism has diverted healthcare resources in the destination countries (Lunt, Smith, Exworthy, Green, Horsfall, & Mannion, 2010).

The objective of this case study is to conduct a comparative research on the latest medical tourism development in Malaysia, Singapore and Thailand by examining the medical tourism outcomes and achievements as well as the potential impact of ASEAN Economic Community (AEC) initiative on the industry in these countries.

Analysis of the Case

This study will be presented in four (4) segments. The first segment provides an overview of the medical tourism industry highlighting the current national strategies of the Government of Malaysia, Singapore and Thailand.

The second segment outlines the case study findings which include each country's latest achievement in medical tourism in terms of intended policy outcomes such as the medical tourist numbers and revenue growth, hospital groups' market capitalization growth and understanding the profile of medical tourists.

The third segment will focus on the case study's thematic analysis by examining the impact of medical tourism policies on the countries' healthcare system through Frenk Framework's four system-level implications namely:

- a) Systemic (Financing) – Rising medical cost and distortion of healthcare resources;
- b) Programmatic (System priorities) – Capacity in terms of Bed Occupancy Rate;
- c) Organizational (Service management) – Brain drain (Attrition Rate of Public Doctors to Private Sector); and
- d) Instrumental (Clinical interface with patients) – Quality of care in terms of number of accredited facilities.

The last segment of this case study will focus on the plausible impact of AEC on the future development and the way forward for the medical tourism industry in Malaysia, Singapore and Thailand.

Research Method

This case study adopts a mixed-methodology comprising qualitative and quantitative methods which are used sequentially to provide a complete and detailed description of the latest medical tourism industry development, healthcare resource utilization and potential impact of AEC on the industry in Malaysia, Singapore and Thailand.

The data, some with modification and extrapolations, were obtained from related policy papers, academic literature and media archival documentary on current industry trend and projected growth using search criteria “medical tourism”, “medical travel”, “healthcare travel” and “AEC medical tourism”. The case study will utilize published figures from the year in which medical tourism was implemented in Malaysia (in 2011), Singapore (in 2002) and Thailand (in 2012) based on the countries’ most recent published national industry strategy papers/ guidelines respectively.

Results

Medical Tourism Industry Policies/ Guidelines Summary

Malaysia, Singapore and Thailand are among the first countries in Southeast Asia to recognise medical tourism as potential engine of economic growth. This is evident when Thailand developed the National Strategy Framework for Medical Hub under the National Economic and Social Development Board in 2012 by setting a target of 2 million foreign patients that will contribute USD 6 billion to its national GDP by 2017. Malaysia incorporated medical tourism industry as one of the Entry Point Projects under the Economic Transformation Program (ETP) in 2011 with a target outcome of attracting 2 million foreign patients with USD1.2 billion potential revenue and creating 5,295 jobs by 2020. Singapore published the Healthcare Services Working Group Strategy Paper under the Economic Review Committee as early as 2002 which set forth a target of 1 million foreign patients that will contribute USD1.6-1.8 billion to its GDP and create 13,000 jobs by 2012, before setting a new timeline of 2020 for the vision.

Table 1 illustrates the many similarities shared by Malaysia, Singapore and Thailand as outlined in their respective medical tourism industry policy papers/ guidelines stated above which are generally categorized under broad classifications such as improving of foreign patients’ experience, marketing initiatives, incentives and capacity planning.

Table 1: A Snapshot of Medical Tourism Industry Development Initiatives of Malaysia, Singapore and Thailand

Initiatives	Malaysia	Singapore	Thailand
Dedicated Government body to spearhead national industry promotion and development	X	X	X
Industry Policy / Guideline in place	X	X	X
Enhancing health travelers experience (Establishing one-stop centers in key regions)	X	X	X
Extensive branding campaign (PR & Trade shows)	X	X	X
Expanding regional referral network (Proactive G2G or B2B alliances)	X	X	X
Medical advertising guideline revision	X	X	X
Streamlining immigration process for medical tourists, express visa approval & extension of stay	X	X	
Addressing demand for healthcare talents		X	X
Developing medical hub as next national industry progression	X	X	X
Tax incentives for accreditation & capacity building	X		

Medical Tourism Policy Outcome - Industry Growth

There is a substantial increase of medical tourists in Malaysia, Singapore and Thailand after the countries incorporated medical tourism industry as part of the national development strategy. However, some industry experts are questioning the accuracy of data as the classification of medical tourists or healthcare travelers differ amongst these countries.

For example, the Ministry of Public Health Thailand with Kasicom Research Centre reported that a total number of 2.53 million medical tourists have contributed 140 billion Baht (USD4.2 billion) to the Thailand economy in 2011, even though the figures were often inflated where one patient making multiple visits to hospital is recorded as multiple patients. There was more confusion when the Tourism Authority of Thailand and the Department of International Trade Promotion reported that there

were 700,000-850,000 medical tourists which included wellness and spa visitors from 2012-2013 (International Medical Travel Journal, 2013).

The Malaysia Healthcare Travel Council, established under the Ministry of Health Malaysia to develop and promote the country's medical tourism industry, reported that in 2014 over 790,000 healthcare travelers sought medical treatment in Malaysia which contributed more than RM730million (USD 204 million) revenue to the country (Azizan, 2015).

Singapore Tourism Board (STB) reported 646,000 medical travelers in 2008 but acknowledged that out of that number only 370,000 were actual patients whereas the remaining 230,000 were family members of patients who accompanied them and did not pursue any medical treatment. In 2012, STB reported that the figure has since increased to 850,000 medical travelers and by 2013 the industry has generated a total revenue of USD630 million (International Medical Travel Journal, 2013 & AFP, 2014).

Table 2 shows that in the span of 14 years, a series of joint ventures and partnership were forged amongst the regional hospital groups in Southeast Asia with many of them already targeting high spending medical tourists, signifying promising growth prospects and increasing commoditization of healthcare service sector in Asia.

Table 2: ASEAN Hospital Groups' Market Capitalisation Growth (2000-2014)

Rank	Company	Country	2000		2014	
			Sales (USD mil)	Market Cap (USD mil)	Revenue (USD mil)	Market Cap (USD bil)
1	Parkway Holdings	Singapore	228.3	1,003.60	7344	49
2	Ramsay Sime Darby Healthcare	Malaysia/Australia	156.6	57.1	3773	13.5
3	Prasit Patana	Thailand	51.5	0.6	As of Dec 2010, Bangkok Dusit Medical Services (BDMS), signed a share-swap agreement with Health Network, the largest shareholder of Prasit Patana.	
4	Bumrungrad Hospital	Thailand	42.6	5.7	482.8	114.8
5	Bangkok Dusit Medical	Thailand	36.3	15.1	1739.6	9.6
6	Pantai Holdings Berhad	Malaysia	30.1	186.3	As of August 2010, Parkway Holdings Ltd	

					became a subsidiary of Parkway Pantai Limited	
7	Samitivej Public	Malaysia	27.9	5.2	294.9	30.0
8	Raffles Medical	Singapore	31.4	279.3	276.1	2.2
9	KPJ Healthcare Bhd	Malaysia	28.3	40.8	725.8	4.5

Source: Economic Intelligence Unit Healthcare Asia Report, Bloomberg Research

Profile of Medical Tourists

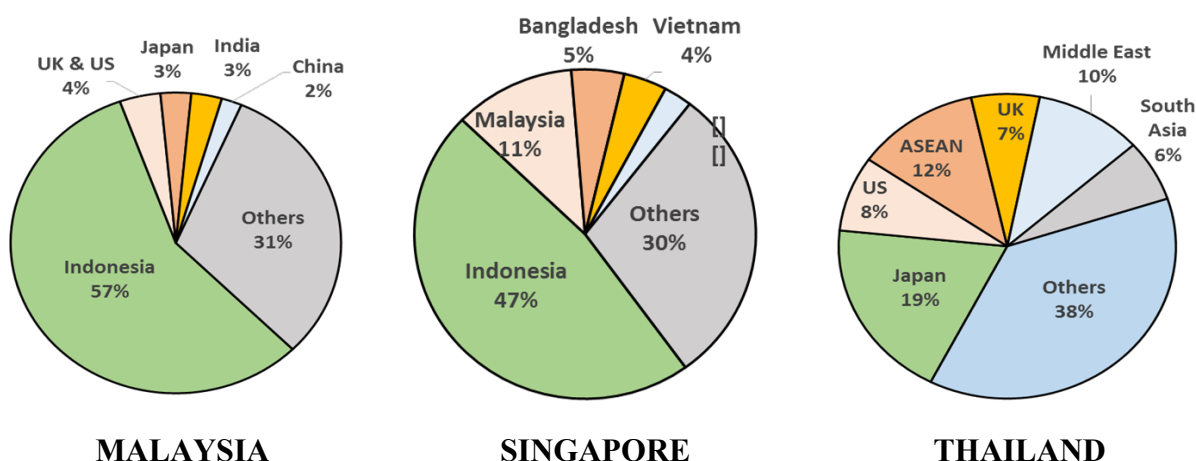
Figure 1 shows that Thailand is truly distinctive as a medical tourism destination as it attracts patients from all over the world. Evidently, Singapore and Malaysia are heavily dependent on Indonesia as the main source of medical tourists, where Malaysia remains the second largest medical tourist source country for Singapore. Consistent with industry observation, many popular treatments sought by medical tourists in these countries are generally divided into three categories namely:

- a) Treatments that require long waiting time in their home countries (e.g. angioplasty, joint or knee replacement);
- b) Treatments that are not yet available in their home countries (e.g. stem cell therapy, cancer treatment); and
- c) Elective treatments not covered under health insurance (e.g. dental, IVF, aesthetic).

Figure 1: Popular Treatments Sought by Medical Tourists and Source Countries of Medical Tourists for Malaysia (2012), Singapore (2011) and Thailand (2011)

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	Popular Treatments							
	Cardiac	Ortho	Oncology	Gastro	Gynae/IVF	Aesthetic / Dental	Ophthalmology	Urology
Malaysia	X	X	X		X	X		
Singapore	X	X	X		X		X	X
Thailand	X	X		X		X		



Source: Ministry of Commerce Thailand, Ministry of Health Singapore, Ministry of Health Malaysia

Benefits of Medical Tourism

This findings above show that the medical tourism policies adopted by Malaysia, Singapore and Thailand were instrumental in achieving the intended policy outcome. In the case of Malaysia, medical tourism has been identified as an effective catalyst to stimulate the country's long term economic growth as factual data shows the total expenditure of a medical tourist is 12 times higher than that of a leisure tourist (Musa, Thirumoorthi & Doshi, 2012).

According to Yap (2014), Pocock & Phua (2011) and Alsagoff (2007), the development of medical tourism in Singapore is crucial not only in terms of economic benefit but also to sustain the expensive medical services, cross subsidize the public funded healthcare and increase critical mass of patients to allow deep sub-specialization in Singapore's hospitals.

Thailand has developed a thriving medical tourism industry which contributed 0.4% added value to the country's GDP and has compelled to position itself to be Asia's medical hub offering medical tourism services, wellness services, alternative medicine, herbal and pharmaceutical products with target revenue of 800 billion Baht (USD84 million) in the next five years (NaRanong & NaRarong, 2011).

Medical Tourism Policy Impact on Healthcare System

As there is a lack of published data tracking mechanism, this case study is unable to establish whether medical tourism is a major factor exacerbating the rising healthcare cost, internal brain drain or straining healthcare capacity in these three ASEAN countries.

Due to the speculative conjecture surrounding the available data, this study will only focus on the perceived impact of medical tourism on the three countries' healthcare delivery system by making reference to some of the more pronounced issues and proposed solutions as highlighted by the related authorities / industry experts as follows:

a) Rising Medical Cost

A study conducted by NaRarong (2011) acknowledged that even though medical tourism causes higher healthcare prices in Thailand, such co-relational analysis should not imply causality. Based on 1993 White Paper on Affordable Healthcare, Singapore concluded that appropriate restraints against supplier induced demands are in place to curb the rise of healthcare costs including possible effects from influx of foreign patients. Singapore anticipated that rising healthcare costs are not necessarily caused by supplier induced demands only but also influenced by the country's ageing population, advancement of medicines / equipment, increasing patient demand, medico-legal litigation and short supply of skilled manpower. Interestingly, there were some isolated cases of alleged exorbitant fees charged on foreign patients after the Singapore Medical Association (SMA) decided to scrap SMA fee guideline in 2007. This resulted in renewed calls for fee guidelines to be re-introduced in order for Singapore to remain competitive as a medical tourism destination (Tan, 2011).

b) Equity of Care (Healthcare Resources Utilization Rate)

As shown in Table 3, the bed occupancy rates in all three countries' public hospitals were notably higher than the private hospitals:

Table 3: Hospitals' Bed Occupancy Rate in Malaysia, Thailand and Singapore

	Malaysia*		Singapore		Thailand	
	Public (2013)	Private (2013)	Public (2013)	Private (2013)**	Public (2008)	Private (2008)
Bed Occupancy Rate	70.8%	58.9%	85%	63%	83%	60%

*Acute Curative Hospital

**Parkway Hospitals as representation

Source: Ministry of Health Singapore, Ministry of Health Malaysia, Ministry of Public Health Thailand, IHH Parkway Pantai Limited

Unlike Thailand and Malaysia, Singapore has been promoting both public and private hospitals under the SingHealth initiatives and invariably issues will arise when medical tourism strains the country's public healthcare delivery and capacity which are mainly funded by local citizens as taxpayers. It is evident that, Singapore is currently facing acute bed shortage in public hospitals which is further aggravated with influx of foreign patients (Khalik, 2013). This may have compelled Singapore to scale back its efforts in promoting medical tourism and clearly indicates a shift in the Government's emphasis on health equity over medical tourism (Wong, Peramarajan, Velasamy, Nuriana & Aishad, 2014).

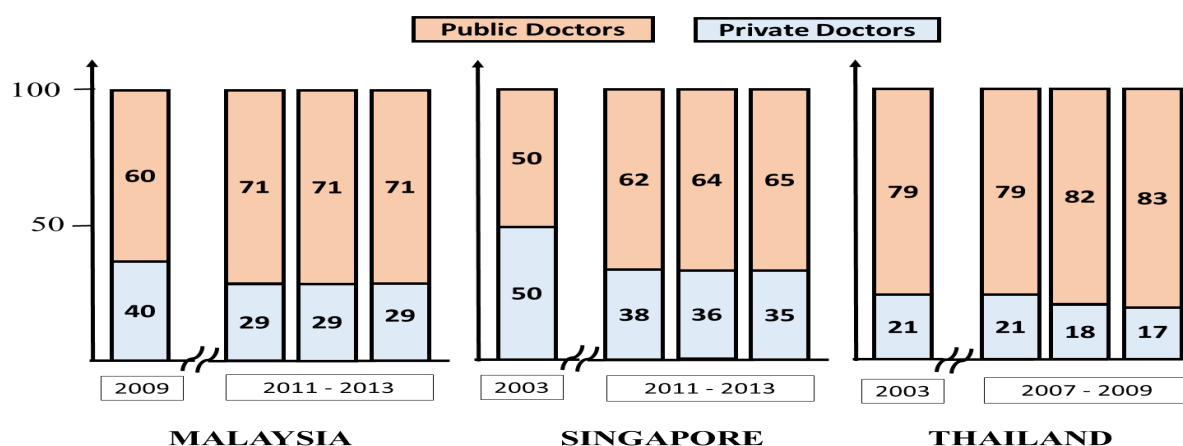
c) Brain Drain – Attrition Rate of Doctors from Public to Private Sector

As indicated in Figure 2, even though there was an increase in the ratio of public doctors to private doctors in Malaysia, Singapore and Thailand, these countries faced similar attrition rates (between 4.4-4.7%) indicating ongoing internal brain drain of specialists from the public to the private sector.

Figure 2: Average Doctors Attrition Rate and Distribution of Private: Public Doctors in Malaysia, Singapore and Thailand

	Period	Increase of Private Specialists (%)	Ave Increase / Year (%)
Malaysia	2010-2013	18.09	4.52
Singapore	2006-2013	38.00	4.75
Thailand	2004-2010	31.30	4.47

Distribution Of Public : Private Doctors



Source: Ministry of Health Singapore, Ministry of Health Malaysia, Ministry of Public Health Thailand

The findings are unable to outline whether there is any clear correlation indicating medical tourism has aggravated internal brain drain. This finding is supported by the study conducted by Janjaroen & Supakankunti (2003) which were unable to confirm a causal relationship between foreign ownership of hospitals and internal brain drain in Thailand. This sentiment is further echoed by Pachanee & Wibulpolprasert (2006) which concluded that demand from local Thai patients, not medical tourists, is the main driver of internal brain drain, bearing in mind this trend may change in the future. Aidalina & Aniza (2015) reported that migration of Malaysian doctors from public to private sector can be due to various factors such as better remuneration, career advancement opportunities, workload, family-friendly policies and non-monetary incentives.

d) Distortion of Healthcare Resources

According to Awardzi and Panda (2006), the development of medical tourism may compel the government to divert funds from other sectors of the economy which may affect funding to the public health sector. Among the three countries,

Malaysia is the only country that introduced tax exemption which allows medical tourism hospitals to undergo expansion/modernization so as to attract more foreign patients. Although Tan, Chow, Tan, and Narayanan (2014) reported that the country has so far approved tax incentives for 21 hospital applications (6 new projects and 15 expansions) worth \$630 million from 2012-2014, the distortion of healthcare resources did not materialise as the Ministry of Health Malaysia continue to increase the annual expenditure from USD4.4 billion in 2012 to USD6.0 billion in 2014. In fact, medical tourism has become part of the contributing factor in sustaining and upgrading medical facilities in Malaysia which ultimately benefit the local patients too since 95% private hospitals' clientele are Malaysians, as observed by Ormond and Wong (2014).

e) Quality of Care – Number of Accredited Facilities

According to Bookman and Bookman (2007), a regulated medical tourism may be able to alleviate government's burden in supporting its top notch domestic medical care facilities where revenue gained could even further ameliorate the health systems to world class standard. As observed by Peters & Sauer (2011) and Chee (2007), international accreditation remains the most important factor when one is considering going abroad for medical care and currently Joint Commission International (or JCI in short) is the most established medical tourist industry accrediting body in the world.

This is evident with the increase of JCI accredited healthcare facilities in Malaysia (7 to 13), Singapore (18 to 21) and Thailand (13 to 43) from 2011 to 2015, indicating more medical facilities are upgrading and striving to provide international-standards of delivery care, patient safety and support (JCI, 2015). The Malaysian Government even provided double tax exemption for hospitals to encourage hospitals to pursue accreditation under the medical tourism initiatives. The quality assurance component from accreditation will invariably benefit the local population by serving as a valid alternative medical care aside from the public healthcare facilities.

AEC Impact on Medical Tourism Industry

The AEC was officially adopted end of 2015 and its implementation will have a profound effect on the medical tourism development in Malaysia, Singapore and Thailand. The AEC aims to remove substantial barriers on trade to consolidate ASEAN integration with liberalised movement of services and skilled labor. Based on the classification and nomenclature under General Agreement of Trade in Services sector, the four modes of trade in health services with foreseeable impact on the industry are as follows:

Mode 1 “Cross Border Supply”

As part of the effort to achieve continued growth by bringing people, goods, services and capital closer, ASEAN has adopted the Master Plan on ASEAN Connectivity (2011) to improve the connectivity among the member countries. The conventional delivery of medical tourism services may be altered significantly as prospective medical tourists will now be able to empower themselves via online information about disease detection and latest treatments, involving medical practitioners who are able to dispense tele-medicine through consultation and diagnostic services (and payment) without the need for patients to physically travel to the intended medical destination. The advent of internet connectivity and emerging ICT technology also open new opportunities for content providers to capitalise on the medical tourism boom in the region, such as the recent introduction of DocDoc, an internet website that assists and charges patients for making online arrangement to book doctor appointments (either locally or abroad) as well as providing concierge services with dedicated Q&A center (Horwitz, 2015).

Mode 2 – Consumption Abroad

Under the ASEAN Open Sky Agreement (2016), the liberalization of air transport system will expand the flight connectivity among the countries which invariably will see the growing middle class consumers deciding to travel to their neighboring ASEAN countries for medical services. The emergence of many low-cost (budget) airlines offering direct flights as well as higher frequency to the various medical tourism destination countries, will allow patients greater flexibility to plan for their consultation visits, post-operation recuperation and subsequent follow-up visits.

Mode 3 – Commercial Presence

It is anticipated that more hospital groups will forge overseas strategic alliances and/or acquire facilities in different countries as a key growth strategy in the region. These expansion models are the logical first step for hospital groups keen to establish their brand presence in a new broader market to provide treatment and also to refer their patients to another hospital abroad which is owned by the same corporate group. Usually, the newly acquired facilities will also undergo modernization and expansion making their facilities more attractive with the intention to encourage the local population to stay back and seek medical services locally. Raffles Medical Group from Singapore has expanded its operation outside its ASEAN base to Hong Kong and Shanghai. Malaysia's owned IHH Group, one of the largest healthcare providers in the world is now operating in Singapore, Malaysia, China and Vietnam (Lee, 2015). However the actual impact of such development on the medical tourism prospective growth of Malaysia, Singapore and Thailand remains to be seen.

Mode 4 – Temporary Movement of Natural Person

As medical tourism is heavily dependent on the availability of skilled healthcare human resource, Singapore and Thailand have allowed the recruitment of foreign doctors to overcome the shortage of healthcare professionals. Malaysia has introduced incentives to entice more Malaysian specialist consultants working abroad to return home with their expertise based on best practices to serve the country (Lohan, 2016). As the services rendered by medical professionals such as physicians, dentists, nurses, midwives, physiotherapists and paramedical personnel have been specifically targeted for progressive liberalisation (Kittrakulrat, Jongjatuporn, Jurjai, Jarupanich, Pongpirul, 2014), it is anticipated that the ongoing effort of the AEC's Mutual Recognition Arrangement will likely further enhance the intra-regional outmigration of these health workers while greatly increasing the talent pool and its availability to further develop the medical tourism industry.

Way Forward

The Government of Malaysia, Singapore and Thailand will need to expand their role beyond an enabler for medical tourism industry by acting as the gatekeeper for the healthcare sector by developing a robust tracking mechanism for empirical analysis of medical tourism impact on healthcare system particularly on medical cost, brain drain, distortion of healthcare resources and quality of care. Likewise, other ASEAN countries that are embarking on developing their medical tourism industry should incorporate the countries' social requirements for domestic health services into the overall medical tourism policy.

Conclusion

The medical tourism sector in Malaysia, Singapore and Thailand offers substantial economic benefits and provides strong impetus for healthcare facilities to improve capacity and pursue quality delivery through accreditation. However, there is no conclusive evidence derived from this case study's analysis on healthcare resources utilization rates of Malaysia, Singapore and Thailand which indicate clearly that medical tourism development has directly induced some capacity shortfall in these countries' healthcare system particularly on internal brain drain, healthcare inequity or rising medical cost.

The implementation of AEC which strives to achieve closer economic integration through services liberalisation provides a growth opportunity for the medical tourism industry in Malaysia, Singapore and Thailand. The desired goal is achievable with ICT related health services proliferation, improved connectivity, increased commercial presence of healthcare facilities and intra-regional outmigration of health workers.

Nevertheless, Governments needs to develop a robust tracking mechanism in order to analyse and understand the significance of medical tourism industry under the influence of AEC so as to ensure the industry development does not cause detrimental effects on country's healthcare system in terms of quality, equity and financial health for its people.

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11

ASEAN PORTS AND LIBERALIZATION OF THE MARITIME TRADE SECTOR

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ASEAN PORTS AND LIBERALIZATION OF THE MARITIME TRADE SECTOR

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Introduction

Of all the economic activities, it is difficult to imagine one more important to the prosperity of a country than maritime trade. Maritime trade is accountable for 80% of global trade. Global trade allows countries to enjoy goods otherwise unavailable to them and this is the backbone of modern lifestyle. The movement of goods generates the movement of capital, and it is this capital that enables the global financial system to remain stable.

Ports, being an essential part of maritime trade, are tasked with the responsibility to move goods from one country to another. Ports are of great significance to nation as it promotes global trade and commercial welfare. Ports can also be of military importance, as they are used to maintain and keep the warships before moving out to the battle scene. The safety and security of a country also depended on the reliability of its port. If a port can be penetrated by negative elements like drug syndicate or terrorist group, the consequences will be very detrimental.

Maritime transport and logistics are crucial to the economic growth and welfare of ASEAN member countries. Efficient and competitive intra-ASEAN shipping services will play an important role in helping to realise the commitment made by ASEAN leaders at the 2003 Bali summit for better economic integration.

The ASEAN Services Integration Report 2015 noted the general restrictions associated with transportation:

“Transportation services are relatively restricted in ASEAN countries, as they are in other parts of the world... Malaysia, the Philippines, Thailand, and Vietnam have restrictions on foreign ships carrying government cargo, but no limitations on private cargo. On commercial presence (Mode 3), for the types of transport covered by the survey (maritime, air, road, and rail), the majority of Member States mention that the control (for example, in terms of the power to name a majority of its directors or otherwise to legally direct its actions) must be held by local companies.”

The major shipping routes through the region epitomize the ASEAN nations prominent position within the global trade network. In addition, mega ports in Singapore and Malaysia can handle the new generation of supersized container vessels.

The recently formed “ASEAN Single Shipping Market” lays out a strategy to create an efficient ocean-shipping network to facilitate the movements of goods throughout the ASEAN community and around the world.

The Single Shipping Market aim to achieve the following:

- To harmonize regulatory requirements and commercial practices.
- To improve the capacity and technologies required to manage shipping and port operations by developing guiding principles for the pricing of port services etc.
- To intensify infrastructure development to support the effective and efficient operation of intra-ASEAN shipping services.
- To carry out liberalization of services that support the maritime trade, including maritime cargo handling services, storage and warehouse services, and freight transport agency services.

Currently, ASEAN has already designated 47 ports as the main ports in the trans-ASEAN transport network.

Background of ASEAN

The Association of Southeast Asian Nations (ASEAN) was founded in 1967 to strengthen further the existing bonds of regional solidarity and cooperation. By 2016, ASEAN has grown to ten members with population of 626 million with an economy valued at \$2.4 trillion.

ASEAN encourages its member countries to be more united while respecting each other's sovereignty. It aspires to promote economic prosperity as reflected in the ASEAN Treaty of Amity and Cooperation (TAC) that lays out the key principles of non-interference and cooperative dispute resolution for members. Chachavalpongpun (2014) noted that as a result of ASEAN, member countries are inclined to solve conflicts and issues, even controversial ones like South China Sea using peaceful and amicable methods.

The European Union and ASEAN share similarities in that both are multinational groups in major regions seeking integration. Contrary to European Union, ASEAN seems to focus more on economic cooperation than political or social integration. Cooperation between ASEAN member states has large been very fruitful in various aspects, from economic to security. Storey (2012) highlighted that this can be seen in relation to the Maritime Straits Patrols by Malaysia, Indonesia and Singapore:

‘The Malacca Strait Patrols (MSP), together with a series of national initiatives to improve maritime security, paid strong dividends. The International Maritime Bureau's Piracy Reporting Centre in Kuala Lumpur has recorded a significant downward trend in the number of recorded

incidents involving piracy and robbery in Southeast Asia: the number of reported attacks fell from 187 in 2003 to forty five in 2009. Particularly striking has been the improvement in Indonesian waters; down from a high of 121 attacks in 2003 to fifteen in 2009.'

Prior to the formation of ASEAN Free Trade Agreement (AFTA) in 1992, ASEAN followed sectoral approach in dealing with transport cooperation whereby ports and shipping services were developed independently with little push for comprehensive transport model within the region. AFTA seeks to increase ASEAN's competitive edge through the elimination of tariffs and non-tariff barriers and to invite more foreign direct investment.

In December 1997, ASEAN adopted ASEAN Vision 2020 that envisaged a stable, prosperous and highly competitive ASEAN economic region with free flow of goods, services, investment and freer flow of capital, equitable economic development and reduced poverty and socioeconomic disparities. Das (2013) explained that a decade later, in November 2007, the vision is translated into ASEAN Economic Blueprint:

'The AEC Blueprint is a binding declaration and stipulates "each ASEAN Member Country shall abide by and implement the AEC by 2015." It is organized along the lines of the AEC's four primary objectives: (a) a single market and production base; (b) a highly competitive economic region; (c) a region of equitable economic development; and (d) a region fully integrated into the global economy, with 17 "core elements" and 176 priority actions" to be undertaken within a Strategic Schedule of four implementation periods (2008-09, 2010-11, 2012-13 and 2014-15). Ministers concerned from each country and the ASEAN Secretariat were tasked to implement the AEC Blueprint and report regularly on the progress of its implementation to the Council of the AEC.'

The establishment of the ASEAN Economic Community (AEC) in 2015 is a major milestone in the regional economic integration agenda in ASEAN that opens up a huge market of US\$2.6 trillion and over 622 million people. This is followed by the AEC Blueprint 2025, adopted by the ASEAN Leaders at the 27th ASEAN Summit on 22 November 2015 in Kuala Lumpur, Malaysia, provides broad directions through strategic measures for the AEC from 2016 to 2025. It succeeded the AEC Blueprint (2008-2015), which was adopted in 2007.

Roadmap on ASEAN Maritime Transport

The Road Map provides a timebound action plan for concrete actions that ASEAN member countries shall pursue in order to achieve a more open, efficient and competitive ASEAN maritime transport system. In keeping with the Bali Concord, the Road Map includes both liberalization and cooperation measures. These measures are grouped around five key themes.

1. Developing a single ASEAN voice
2. Infrastructure
3. Integration
4. Harmonisation
5. Human resources and capacity development

1. Developing a single ASEAN voice

The first key theme is developing the capacity of ASEAN to express a single coherent policy position on maritime matters of common interest to ASEAN countries.

2. Infrastructure

The second key theme is ensuring that the transport infrastructure exists to support the effective and efficient operation on intra-ASEAN shipping services.

SPECIFIC MEASURES ON INFRASTRUCTURE

MEASURES	IMPLEMENTING BODY	TARGET DATE
Review list of ports in the ASEAN transport network to ensure that all ports of regional significance are included.	ASEAN Secretariat under the guidance of STOM through the MTWG	Dec 2005
Compile an full and comprehensive database on ASEAN network ports, including inventory of the facilities available, shipping services, port tariffs and key performance indicators	ASEAN Secretariat under the guidance of STOM through the MTWG	Dec 2007
Identify shortfalls in ASEAN network port performance and capacity	ASEAN Secretariat under the guidance of STOM through the MTWG	Dec 2008
Define agreed criteria and guidelines for assessing port development priorities, including the definition of acceptable performance criteria for ASEAN network ports.	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2008

Develop project priorities for bridging performance and capacity gaps in ASEAN network ports	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2010
Negotiate funding mechanisms to support the implementation of identified projects in the ports of less developed ASEAN nations	ASEAN Leaders	Dec 2012
Ensure that all ASEAN network ports meet defined minimum performance criteria.	Member countries	Dec 2015

3. Integration

The third key theme is the development of a single integrated ASEAN shipping market in which all ASEAN operators can operate without restriction

SPECIFIC MEASURES ON INTEGRATION

MEASURES	IMPLEMENTING BODY	TARGET DATE
Relax cabotage restrictions to allow ship of all ASEAN nations to carry international cargoes between the port or origin and a transshipment port where these two ports are in the same country.	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	DEC 2007
Allow ASEAN ships primarily engaged in international trade but making a number of port calls in another ASEAN country to carry domestic cargos between those ports of call.	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2008

4. Harmonisation

The fourth key theme is ensuring that the single ASEAN shipping market is effective by ensuring that competition takes place on equitable terms and conditions

SPECIFIC MEASURES ON HARMONIZATION

MEASURES	IMPLEMENTING BODY	TARGET DATE
Develop and implement guidelines for structure of port tariffs to be applied in ASEAN transport network ports.	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2008
Complete the harmonization of customs and quarantine procedures	ASEAN Directors general of Customs	Dec 2010

5. Human resources and capacity development

The fifth key theme is developing and spreading throughout ASEAN the management capacity and technologies required to manage shipping and port operations safely, efficiently and in an environmentally acceptable manner.

SPECIFIC MEASURES ON HUMAN RESOURCES AND CAPACITY DEVELOPMENT

Investigate skill enhancement requirements for ASEAN maritime operators and develop detailed training and development strategy	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2006
Establish centres of logistics excellence at selected tertiary institutions within ASEAN.	Senior Transport Officials Meeting (STOM) through the Maritime Transport Working Group (MTWG)	Dec 2007
Establish regional centres of maritime excellence to provide advanced training in high technology aspects	Senior Transport Officials Meeting (STOM) through the Maritime Transport	Dec 2009

of maritime operations and specialized courses in areas such as port and shipboard security	Working Group (MTWG)	
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Malaysia

It is essential to have a long-term plan to manage and develop Malaysia ports in a systematic and efficient manner. Towards meeting this objective, the Economic Planning Unit (EPU) in the Prime Minister's Department commissioned a study in 1987 to draw up a blueprint for a national port policy.

The study, outlining policy recommendations and action plans to enhance the growth and development of ports in the country, set the pace for rapid port development in the country. Central to the policy was port privatization and the establishment of a national load centre featuring modern terminal facilities and large cargo volumes to attract large container vessels.

The achievement of Malaysia has been remarkable in some aspects:

- Port Klang and Port of Tanjung Pelepas have consistently made the list of top 20 container ports by way of throughput handled;
- In 2013, Malaysia's total external trade totalled US\$424 billion, made up of US\$230.7 billion of exports and US\$192.9 billion of imports, making Malaysia the world's 21st largest exporter and the world's 25th largest importer.
- On revenue, the shipping industry is reported to contribute RM14.9 billion in 2010.
- MISC is the world's largest owner/operator of gas tankers and the world's third largest shipping company in terms of market capitalization
- Bintulu Port is the world's largest gas exporting terminal
- Johor Port is the world's largest palm oil export terminal.
- As for the overall cargo handling capacity in 2015, Malaysian ports recorded a container throughput of 20.05 million TEUs between January and October 2015 alone.
- Major projects were undertaken to expand port capacity with addition of new container wharfs at Northport and Westport of Port Klang, PTP, Penang Port, and Kuantan Port.

Despite the remarkable growth in certain aspect, some major challenges are also noted:

- Inadequate planning; In the 9th and 10th Malaysia Development Plan (2006-2010, 2010-2015), over the past 10 years, Malaysia shipping was not given adequate attention and planning to minimize uncertainties, as compared to the previous Malaysia 5 years Development Plans.

- Unbalance reliance on foreign owned and registered ships.
- On the domestic shipping front, the foreign registered ships have a major share of Malaysia domestic cargoes.
- Retreat on shipping tonnage; Malaysia fleet tonnage has continuously been on a retreat beginning around 1998. By 2014, the General Cargo, Bulk Cargo and Container fleet tonnage are at the levels of the 1980s.
- Retreat on shipping enterprises; From 2010 to 2013, on financial performance, of 8 shipping companies listed in the Bursa Malaysia, 3 companies reported losses for 4 consecutive years, 2 companies were on the decline of profits and Malaysia major shipping company had divested the Bulk Fleet, exited Container Fleet by 2013 and optimized Chemical Fleet through right-sizing by 2014.

Recognizing the importance of ports and maritime logistics in Malaysia, the government introduced the Logistics and Trade Facilitation Masterplan in 2015. The Logistics and Trade Facilitation Masterplan is designed to provide guidelines and strategies to enhance the efficiency and the effectiveness of the transport and trade facilitation mechanisms, to improve productivity of the freight logistics industry and to provide a better environment for the logistics industry in the domestics and international markets.

The Economic Planning Unit (EPU) develops this masterplan in cognisance of the potential of the logistics industry in Malaysia. It is to provide the strategic direction for the development of the logistics industry to further improve its productivity and competitiveness in the domestics and international markets.

Maritime Trade Sector and Liberalization Policy

Liberalization in the maritime services sector is currently being undertaken in three levels:

1. ASEAN: through ASEAN Framework Agreement in Services (AFAS) (full liberalization to be undertaken by 2015);
2. WTO: through progressive liberalization;
3. Bilateral and regional FTAs.

In 1995, Malaysia signed the ASEAN Framework Agreement in Services (AFAS) to enhance and strengthen cooperation among service suppliers in ASEAN and to progressively liberalise trade in services among ASEAN countries through reduction/elimination of restrictions. AFAS adopts the structure and approach of General Agreement on Trade in Services (GATS).

The General Agreement on Trade in Services (GATS) under the aegis of the World Trade Organization (WTO) has delineated six main support services in the maritime industry. These activities, also termed as maritime ancillary services, include:

- Cargo handling
- Storage
- Warehouse,
- Customs clearance, container station and depot,
- Maritime agencies,
- Maritime freight forwarding.

AFAS provides the broad guidelines for ASEAN member countries to progressively improve market access and ensure fair and equal national treatment for services suppliers among ASEAN countries in all four modes of services supply. AFAS also specifies rules for related aspects such as dispute settlements, institutional mechanism, as well as other areas of cooperation in services.

Later, according to Malaysia's commitment under ASEAN Comprehensive Investment Agreement (ACIA), there are 24 sub-sectors to be liberalised ranging from transport, logistics, environmental services, healthcare and tourism, each to be liberalised under the ninth and tenth Package of Commitments, respectively.

ASEAN Comprehensive Investment Agreement (ACIA) is an agreement that encompasses four aspects of investments liberalisation, facilitation, protection and promotion, with benefits now extended to Asean-based foreign investors. The ACIA's introduction would complete the final piece of the countdown towards the targeted date of AEC's formation on Dec 31, 2015.

Investing in emerging market countries can sometimes be an impossible task if the country has several barriers to entry. These barriers are usually in the form of tax laws, foreign investment restrictions, legal issues and accounting regulations. The economic liberalization process usually begins by relaxing these barriers and relinquishing some control over the direction of the economy to the private sector. This often involves some form of deregulation and privatization of companies. Furthermore, in terms of attracting foreign investment to the country, a critical area that investors look at is how good the country's logistics and supply chain system is.

According to the MITI, Malaysia subscribes to the principle of progressive liberalisation in the services sector, as part of its overall development strategy on the services sector. Even though Malaysia has made significant commitments under GATS and AFAS, there is still a very big room to further liberalize the services sector. At this moment, Malaysia has adopted progressive liberalization as domestic service providers are less competitive and require more time to build their capacity.

Challenges and the Way Forward

The pro-liberalization stand currently adopted by Malaysia is clear but there are inadequate researches on the formulation of policies to protect domestic interests reflected in the loss of

billions due to inadequate maritime trade policy. For example, in 2007, Malaysia's transport sector registered a deficit of USD4.5 billion and a contraction of 31% from 2006 (USD 6.53 billion). Transport sector remains in deficit due to over reliance on foreign freight, particularly in the transport of goods.

The Malaysia Shipowners Association (MASA) had pointed out that the Malaysian domestic shipping industry has been swamped by rising operating costs, including higher fuel and manning costs and poor market conditions. There are other problems faced by ship operators in Malaysia including prolonged and unsolved shortage of qualified local seafarers, coupled with the increasing costs of employing foreign workers in this sector.

On simple glance, further liberalization might seem positive as foreign investors might invest more in Malaysian maritime trade sector. However, a more comprehensive analysis reveals that further liberalization is not necessarily the best way forward. Malaysia need to start building its own fleets to cater to its short-term and long-term interest.

Currently, Malaysia is losing tens of billions every year in freight payment due to its failure provide sufficient domestic ships to cater to its own need. By having sufficient ship fleets, Malaysia would be able to save tens of billions. A better direction is to strengthen Malaysian maritime trade sector first by building capacity: human resource, infrastructure, facilities etc. Knowledge-transfer and expertise sharing with global leaders in maritime trade sector is also essential. Attempt for knowledge and skill sharing and transfer was made with Dubai Jebel Ali Port in the past but the negotiation failed.

Economic liberalization is generally thought of as a beneficial and desirable process for emerging and developing countries. The underlying goal is to have unrestricted capital flowing into and out of the country in order to boost growth and efficiencies within the home country. However, this simplistic approach is not always accurate.

For example, unlike its automobile industry, Malaysia has adopted a liberalization policy when it comes to global maritime trade sector. In other words, various incentives are made to attract foreign investment etc. However, when it comes to local maritime trade or maritime trade involving East Malaysia, the Cabotage policy is adopted. The Cabotage policy will be a good policy only if it comes together with clear plan to strengthen Malaysian shipping sector with proper capacity building. Proper research must also be undertaken to analyze the effect on the price of goods since the welfare of the people must always be a priority. Otherwise, the harm will be more than the benefit. In any event, the commitment under the Road Map should be observed.

Without a clear and conclusive plan to develop Malaysian maritime trade sector to be self-sufficient, Malaysia nowadays depends heavily on foreign ships to handle even its domestic cargoes. 80% of the cargoes from Malaysia are using foreign ship, despite the fact that Malaysia is a maritime nation. Currently, Malaysia is investing a lot in upgrading its port. It

would make perfect sense for Malaysia to start building its fleet capacity as well so as to cater to its short-term and long-term need.

The effect of unmonitored and unregulated liberalizations is negative. In almost all countries that have undertaken rapid trade liberalization, wage inequality has increased—20-30% fall in wages in some Latin American countries.

By looking at the situation comprehensively, it can be seen that the benefits of liberalization can only be achieved if everything is properly accounted for. There must be a clear policy, sufficient funding, capable management, excellent collaboration and effective implementations in order to reap the benefits of liberalization.

Recommendations and Suggestions

ASEAN is an energetic region of 600 million people with a gross domestic product of US\$1.5 trillion and total trade of US\$1.7 – US\$2.4 trillion. Connectivity is crucial for ASEAN to facilitate the realisation of ASEAN integration. The Deputy-Secretary General of ASEAN for ASEAN Economic Community, S. Pushpanathan elaborated that the physical connectivity will encompass transport, information communications technology and energy while institutional connectivity would also cover trade and economic areas such as trade and investment liberalisation and facilitation.

According to Pupphavesa et al (2009):

‘... logistics is one of the most important aspects of infrastructure and economic integration. Efficient cross-regional coordination will be the basis of an effective logistics system. Barriers to coordination include customs, foreign investment, and mode-specific constraints.’

The basic idea is that growth, accumulation of capital and strong production economy must come first and liberalization can come later. France and Germany embraced laissez-faire briefly, found they were losing out, and reversed themselves in the 1880s. The UK only liberalized after industrialization, at a time when they were the world’s leading economic power. The US industrialized itself through the 19th and most of 20th Century behind high tariff walls and protectionism. Attempt to proceed with unmonitored and unregulated liberalization of maritime trade sector will bring more harms than any perceived benefits.

To further improve competitiveness, the following can be considered. Firstly, while liberalization will improve maritime trade sector in Malaysia to certain extent, the fundamentals must be corrected first. One important issue that must be addressed is the lack of expertise and manpower. Many of the experts in maritime trade preferred to go to Singapore, Hong Kong or other countries due to better incentives and offers. This resulted in insufficient number of experts to cater to Malaysian maritime trade sector. The low salary

offered in Malaysia, coupled with serious bureaucracy make it unattractive to many experts. Lack of manpower and expertise must be properly addressed, as the quality of the project is equal to the quality of the people managing it.

The government and ship owners should also work closely together in building up local human capital for the shipping industry by ways of training grants, increasing and upgrading more affordable training facilities, and providing better financial rewards and welfare to local seafarers.

Universities should also offer more affordable and relevant maritime-related courses. Ng et al (2011) stressed that:

‘While surveyed students are motivated by economic rewards, many of them regard status, networking inspirations, or self-identification (via various sources of information) of the contemporary needs of shipping as incentives which cannot be overlooked. In other words, the choice of particular programs is driven mostly by personal interests in the courses offered by particular programs, the reputation of institution/university, and to a lesser (but considerable) extent, the affordability of the program’s fees. Other researched factors seem to be of less importance.’

Crucial for the success of these policies and strategies is a supportive physical and human infrastructure. More than the agriculture or manufacturing sectors, the services sector is highly dependent on the abilities and know-how of people. Therefore human resources development must be an integral part of any services sector development plan.

The importance of providing high-income, value-adding maritime related services must be understood as competition in the maritime industry is increasing and Malaysia cannot out-compete countries which have advantages such as cheaper labor cost and economies of scale. To have a truly world-class maritime industry, Malaysia cannot afford to continue offering and relying on low-cost maritime services and start investing in developing and nurturing the manpower to cater to high-end, specialized and high-revenue generating activities to remain competitive.

The Malaysian government encourages activities that provide training for maritime personnel. Departments teaching Marine Technology and Marine Science have been set up at public universities. The Government also lends its support to many local and international training programs, seminars, and conferences held in the country.

Secondly, the focus should be on ports and facilities’ development and improvement. Two main factors have been identified as the deciding factor for shipping lines in choosing port: (1) port efficiency and (2) cost. Regional countries like Vietnam and Thailand, which have

invested heavily in maritime infrastructures such as trade and shipyards, are fast catching up and will overtake Malaysia in certain aspects of the maritime industry.

In addition to that, basic facilities must be improved as well. For example, the Port Klang road system, which was identified in the roadmap for the development of freight logistics was drawn up by the MLC back in 2010 under the Third Industrial Master Plan 2006-2020) but no follow up was made.

Next, the liberalization of maritime service sector must be accompanied with proper preparation. This includes strengthening domestic regulations, the identification of issues that currently impedes the growth and development, the identification of incentives that could assist the industry to become more competitive, mergers and acquisitions. According to Yean (2009):

‘... trade liberalization increasingly focuses on domestic rules and regulations that have an impact on trade, but that was traditionally considered to be under the sovereign rights of nation. Malaysia, as a small and open developing economy, has to manage its trade negotiations and trade liberalization process well in order to meet the twin needs of development and trade.’

In addition, the services industry players also need to undertake a proactive role rather than a reactive one and take advantage of the system.

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