ASEAN Economic Integration in Theory and Practice

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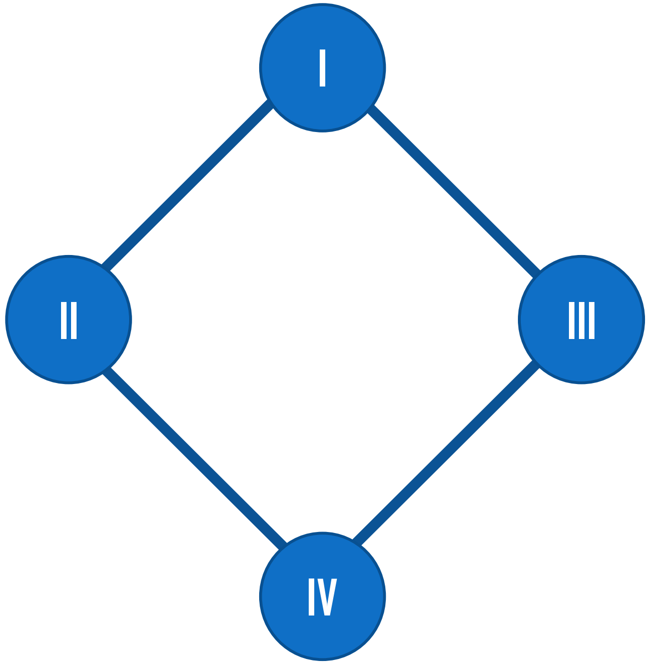
Presentation Outline

1. ASEAN Economic Integration: In Theory
   - ASEAN Integration Timeline
   - Progress in Goods, Services/Investment, Capital, Labor
   - Comparisons with European Integration
2. ASEAN Economic Integration: In Practice
   - Border Trade
   - Cross-border Payments and Remittances

1.1 "Four Freedoms" of Economic Integration

Free movements of goods

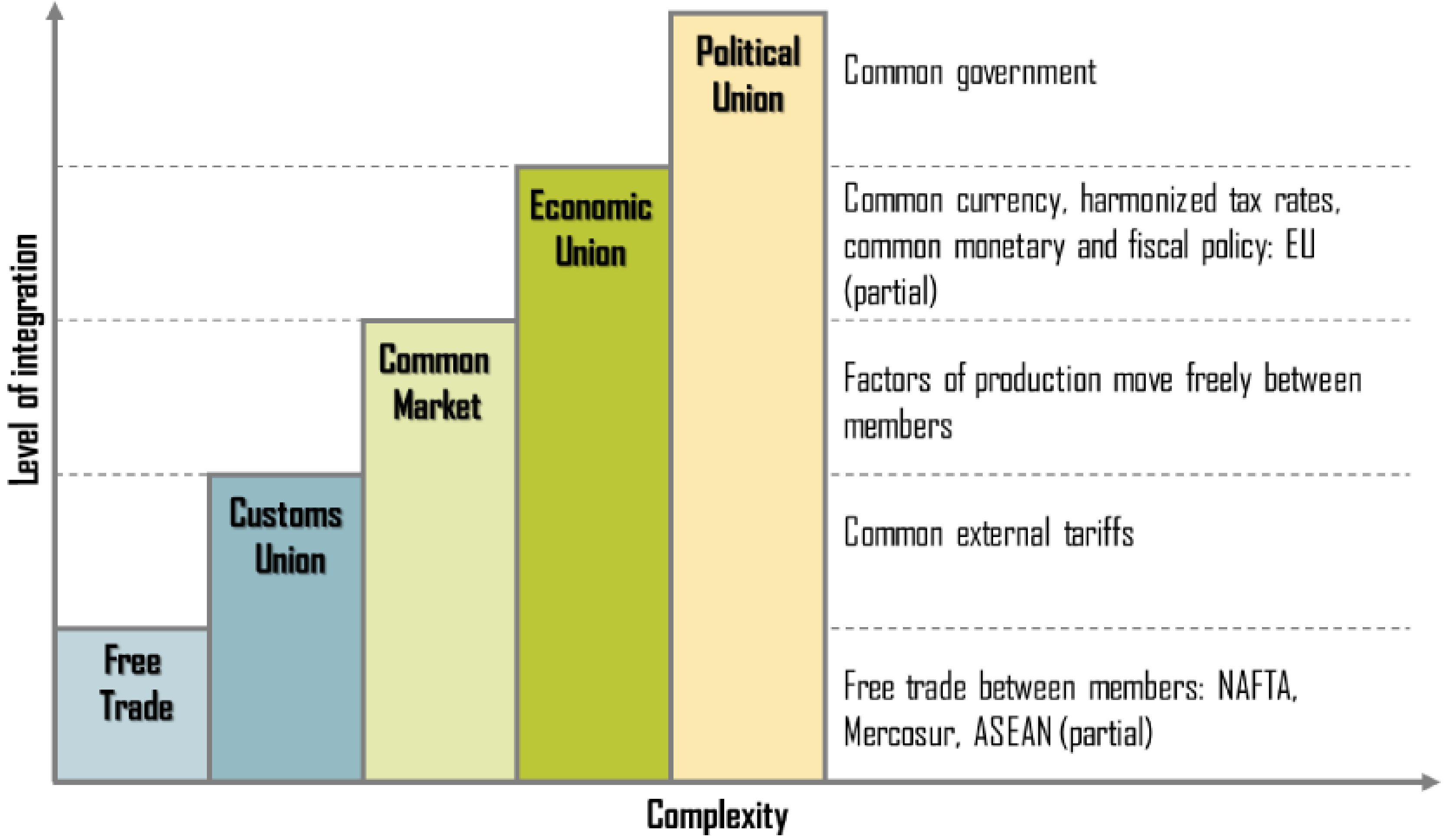


Free movements of services and investment

Free movements of labour

Free movements of capital

1.2 Levels of Economic Integration



1.3 ASEAN Community

ASEAN Political and Security Community (APSC)

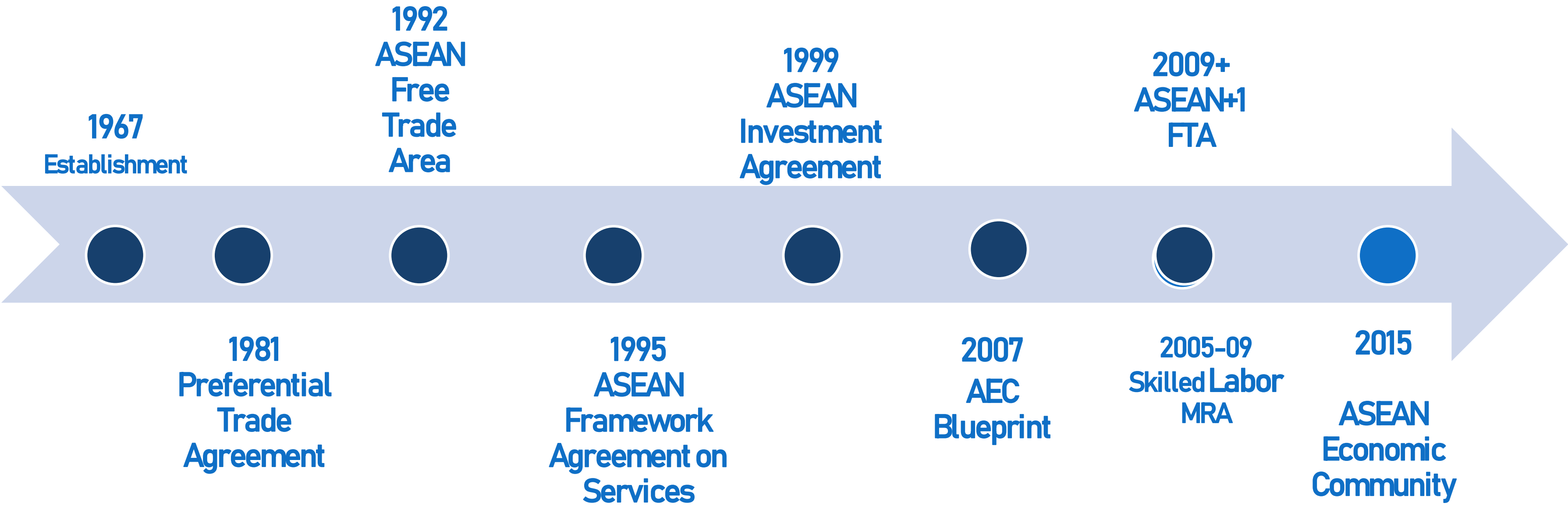
ASEAN Economic Community (AEC)

AEC Blueprint :

1. Single market and production base
2. Competitive economic region
3. Equitable economic development
4. Integration into the Global economy

ASEAN Socio-Cultural Community (ASCC)

1.4 ASEAN's Path of Economic Integration



ASEAN Economic Community Blueprint (2007)

1.5 AEC and ASEAN's Diversity

ASEAN Economic Community: a work in process, moving in "baby steps".

Loose and flexible integration due to diversity

ASEAN: The World's Most diverse economic bloc

Population and Markets	▪ From Brunei (0.4 mil) to Indonesia (237 mil)
Income	▪ Sixty times' difference in per-capita GDP between richest and poorest country
Development Stages	▪ One advanced economy, six emerging market and three low-income developing economies
Economic Infrastructure	▪ From nascent capital markets to regional financial centers

1.6 Pillars of the ASEAN Economic Community

Pillar I

Single Market and Production Base

- Free flow of Goods
- Free flow of Services
- Free flow of Investment
- Freer flow of Capital
- Free flow of Labor

Pillar II

Competitive Economic Region

- Competition Policy
- Consumer Protection
- Intellectual property rights (IPR)
- Infrastructure Development
- Taxation
- E-commerce

Pillar III

Equitable Economic Development

- SME development
- Initiative for ASEAN Integration (IAI)

Pillar IV

Integration into the Global Economy

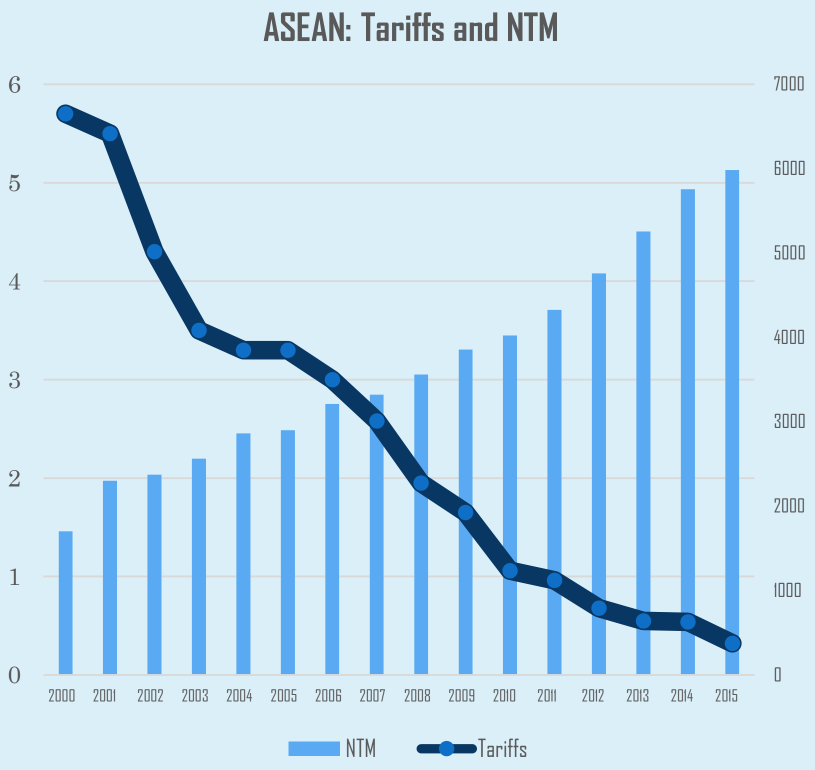
- Coherent Approach towards External Economic Relations
- Enhanced participation in global supply networks

Source: ASEAN ECONOMIC COMMUNITY BLUEPRINT - ASEAN Secretariat, January 2008

1.7 AEC Goods

1

Tariffs are virtually eliminated, but non-tariff measures are on the rise.



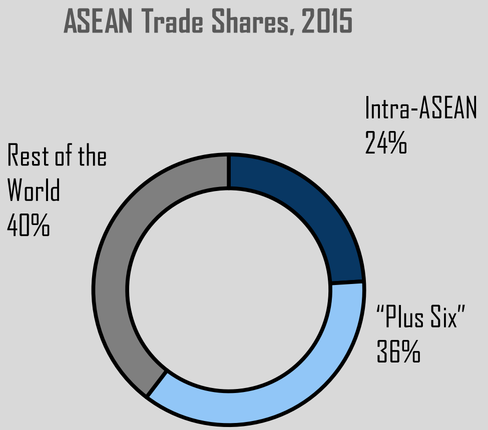
2

Greater trade facilitation through connectivity and streamlined customs procedures.

But: Non-Tariff Barriers remain

3

ASEAN trades more with its "+6" dialogue partners with ASEAN+ FTAs and the rest of the world than with itself.



Sources: ASEAN Secretariat, ASEAN-ERIA-UNCTAD NTM Database (2016), ADB (2010)

1.8 AEC Services/Investment

1

Liberalisation of services is very uneven

Foreign Equity Ownership in Service Sectors

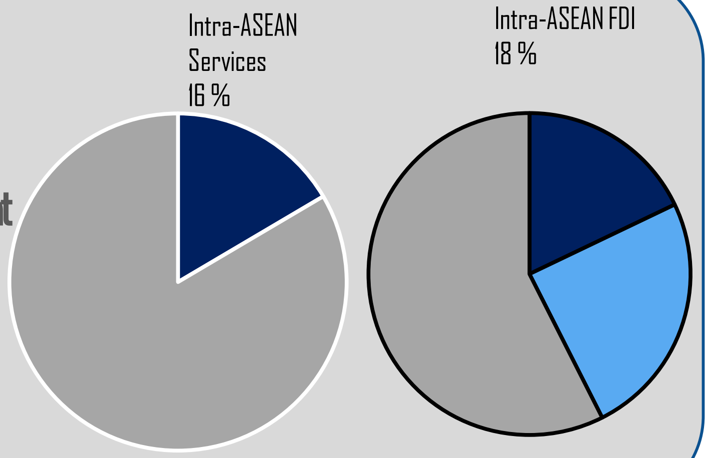
2

Investment liberalization within ASEAN is also uneven.

	ASEAN (ACIA)	FDI Index (zero is no restriction)
	Foreign equity participation dependent on negative list	0.324
	Mostly open except for some sectors (oil, culture)	0.212
	Generally at 40%	0.425
	Mostly open	0.047
	Generally at 49%, higher conditional	0.291

3

Intra-ASEAN Services and Investment are only a fraction of the total.



Sources: AFAS Tenth Package (2018), ACIA Reservation List (2009), OECD FDI Regulatory Restrictiveness Index, ASEAN Secretariat (2016)

1.9 AEC Labor

1

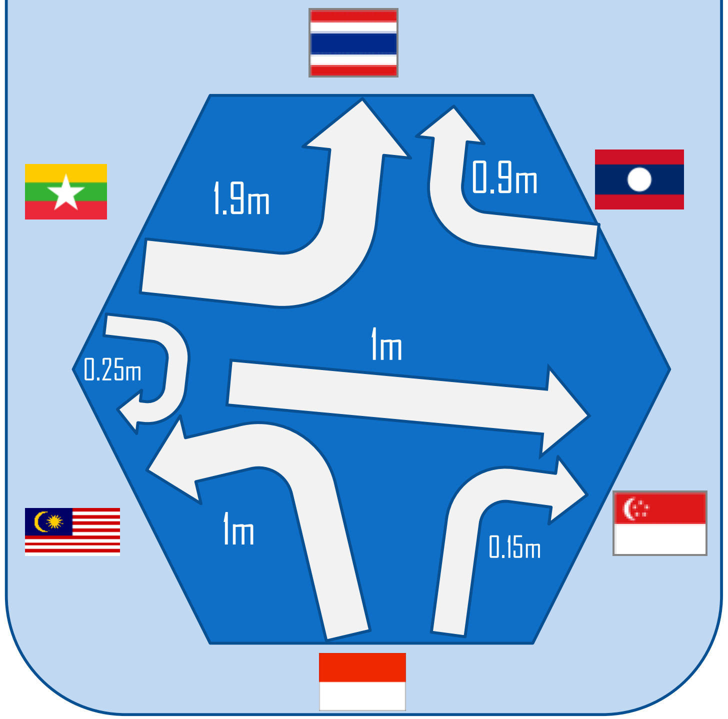
Only facilitation of 8 skilled professionals—but they still need to comply with domestic entry regulations.

- Doctors
- Dentists
- Nurses
- Architects
- Surveyors
- Accountants
- Tourism Professionals

2

Most migrant workers within ASEAN are non-professionals, whose remittance total up to 5% of GDP (for Myanmar).

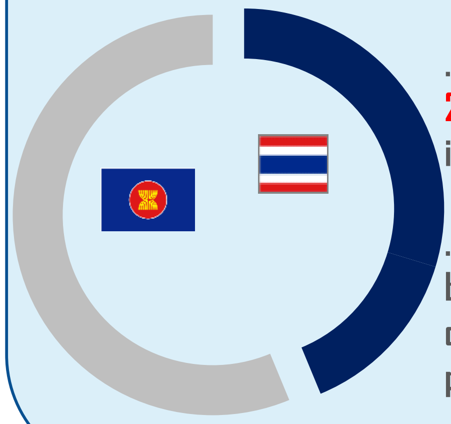
Corridors of labour movements



3

But: Professionals account for only a minuscule share of labour movements.

6.5 million registered migrants in ASEAN



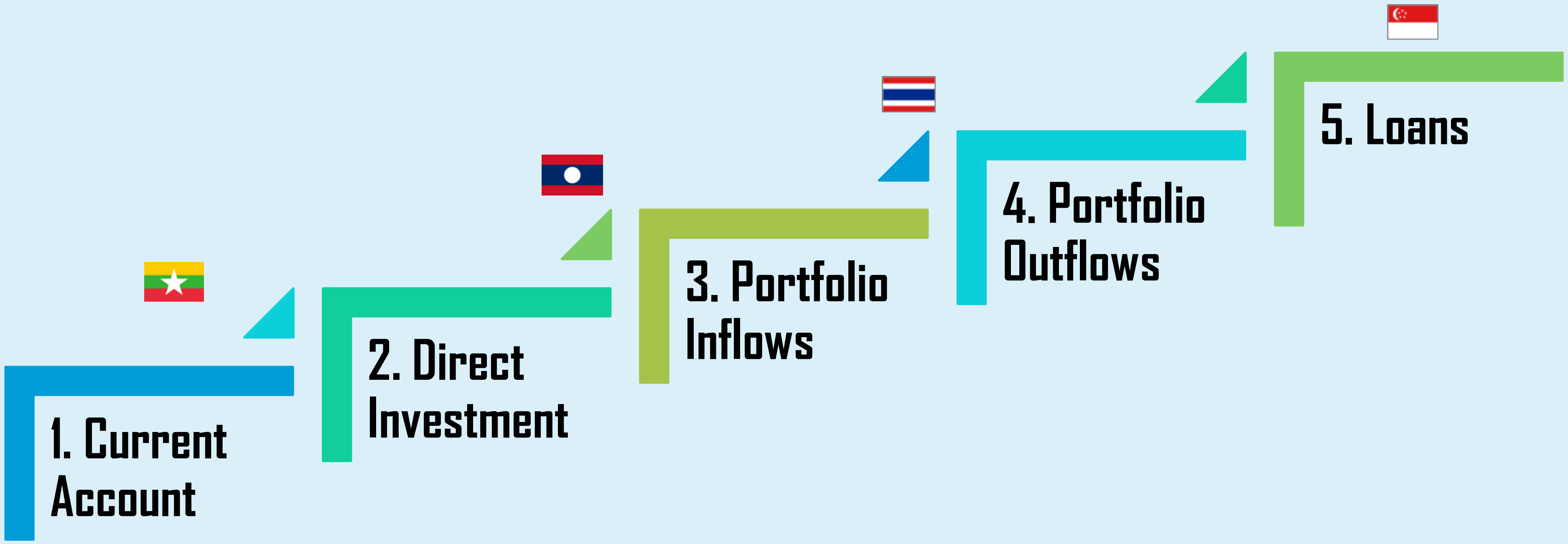
...of which **2.9 million** are in Thailand

...of which **390** belong to one of the eight professions

Sources: ASEAN Secretariat (2015), World Bank (2016), International Organization for Migration (2016), Office of Foreign Workers' Administration, Thailand (2016)

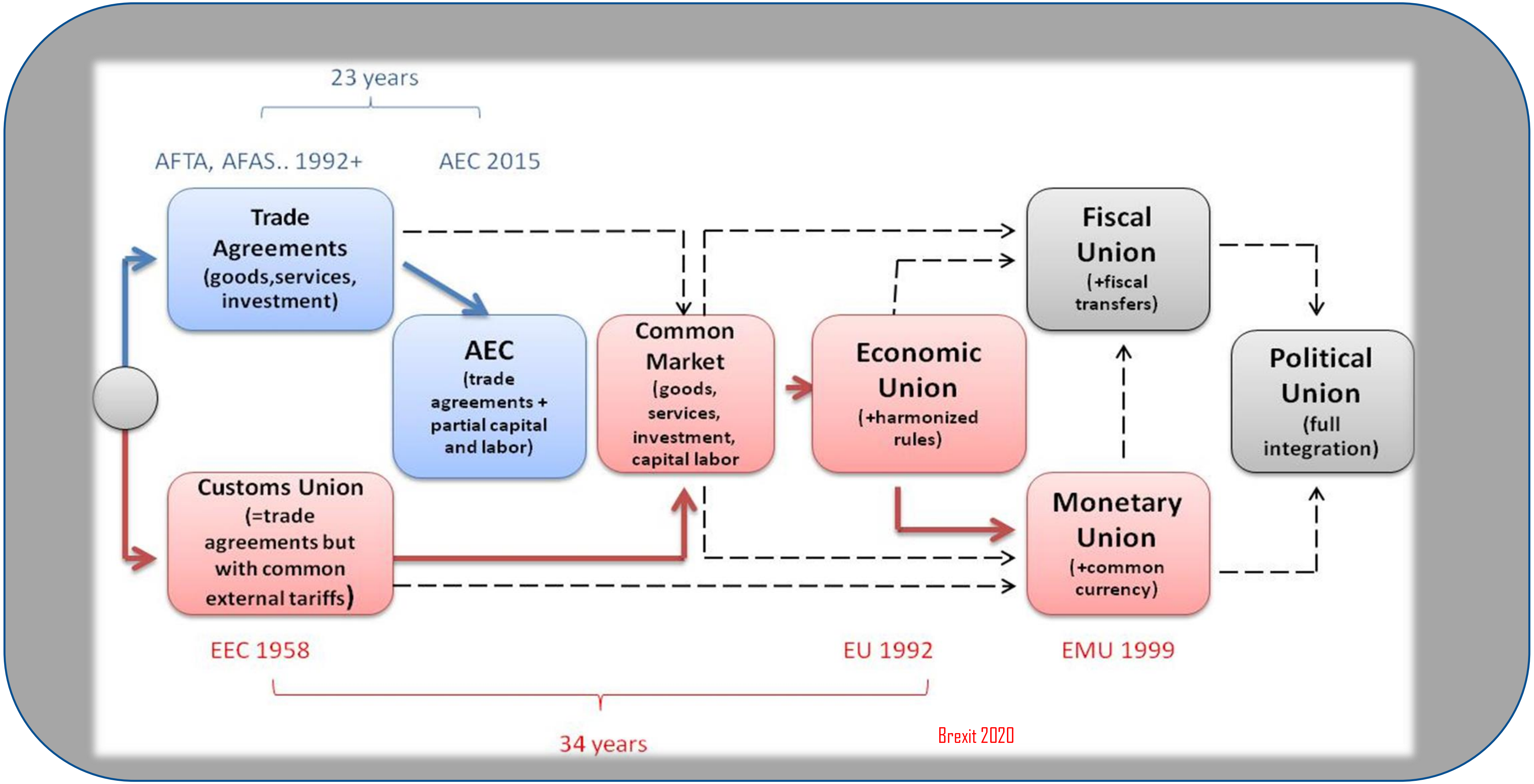
1.10 AEC Capital

Freer flows of capital implies gradual capital account liberalisation—corresponding with members' different capital account regimes.



Sources: AEC Blueprint, Capital Account Liberalization Plans of ASEAN members via their central banks, ASEAN Exchanges, Interview of the OJK Commissioner (2016)

1.11 Paths of Integration: ASEAN vs EU



Source: Kanithasen et al. (2011): ASEAN Economic Integration,
adapted from Balassa (1961, 1996) : *Theory of Economic Integration* and Crowley(2001) : "Institutional Implications of the EMI"

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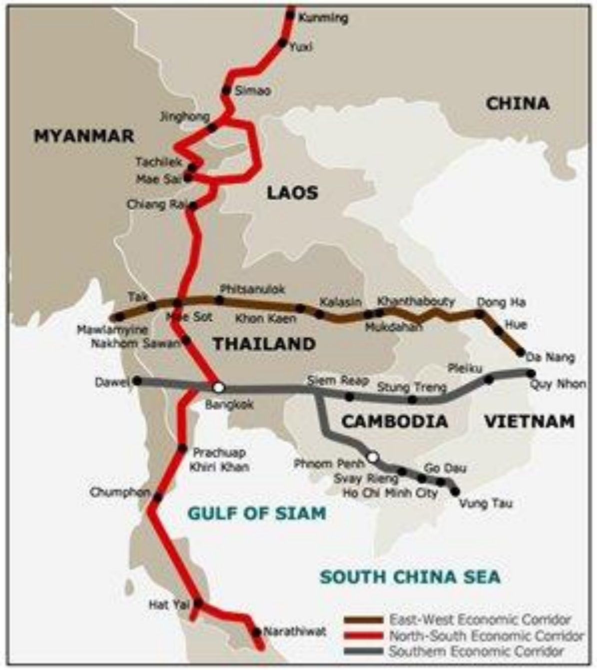
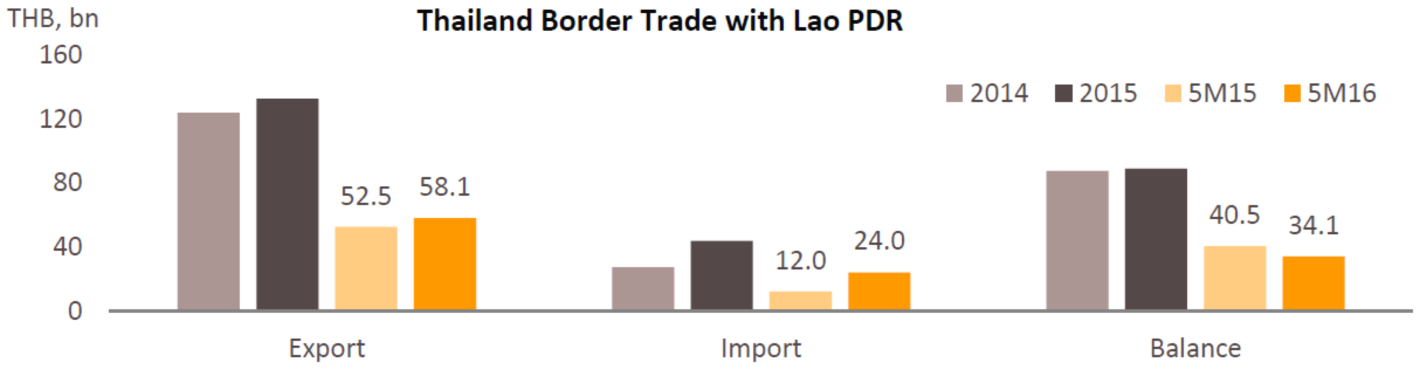
2.1 Cross-border trade in goods

International Trade → Border Trade → Informal Border Trade

-What is being traded?
-Who are buyers and sellers?
-What is the final desination?
-What are the barriers to trade?

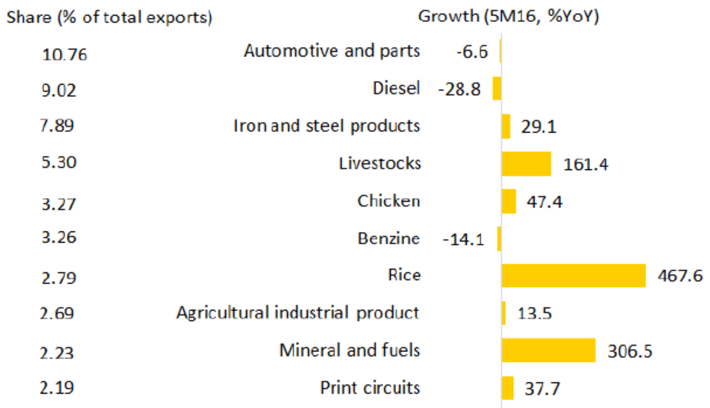


2.2 What are being traded?

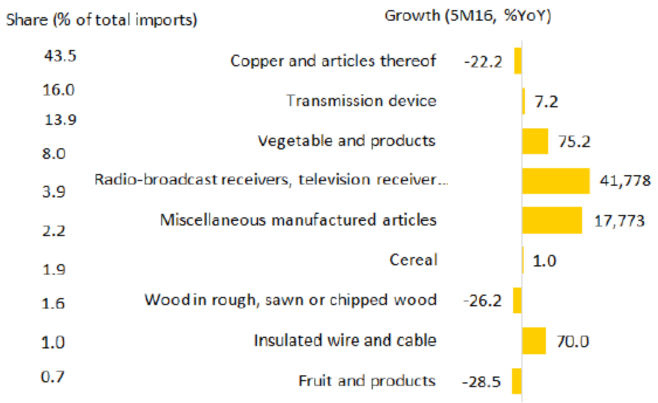


Source: DFT, Krungsri Research

Thailand border exports to Lao PDR: Product



Thailand border imports from Lao PDR: Product



2.3 What are the barriers to trade?

1. Tariffs: Generally Zero
2. Non-tariff barriers: Rules/Regulations
3. Facilitation/Logistics: Conditions of roads, Customs procedures (National Single Windows)

2.4 Services and Investment

-Who are the service providers?
-What are the key investments in the border area?
-What services/investment are available on only one side of the border?

2.5 Movements of people

-What kind of movements of people take place across borders? Tourists? Workers?
-Skilled/unskilled? Day workers? Migrants?
-Immigration?
- Requirements and restrictions for crossing the border?

Table 1. Top 25 Intra-ASEAN Migration Corridors, 2013

Rank	Country Corridor	Intra-ASEAN Migrant Stock	Proportion of Total Intra-ASEAN Migrant Stock (%)
1	Myanmar to Thailand	1,892,480	29
2	Indonesia to Malaysia	1,051,227	16
3	Malaysia to Singapore	1,044,994	16
4	Lao to Thailand	926,427	14
5	Cambodia to Thailand	750,109	12
6	Myanmar to Malaysia	247,768	4
7	Indonesia to Singapore	152,681	2
8	Singapore to Malaysia	78,092	1
9	Viet Nam to Cambodia	37,225	1

2.6 Payments: Motivation for Digital Financial Services

Cost of a domestic bank transfer:

1 USD

(2015)

Cost of a cross-border bank remittance transfer:

18% of total amount transfered

Cost of cash management

155 million USD

(2018)

Tourist arrivals 38 million

Migrant workers 5 million

(2018)

2.7 Payments: Interoperable QR Code for Payments

an **open infrastructure** and **interoperability** in payment and financial systems

ONE QR Code for

- ✓ **ANY** mobile applications
- ✓ **ANY** payment instruments
- ✓ **ALL** merchants
- ✓ **OPEN** infrastructure
- ✓ **CROSS-BORDER** payments

Standardized QR Code for payments
compatible with international standard (EMVCo*) and domestic infrastructure

2.8 Cross-border Payments and Remittances

To promote more efficient, innovative, and secured domestic and cross–border payment transactions, i.e. payment, remittance and settlement, as well as to promote usage of local currencies and financial innovation

Interoperable QR Code for Retail Payments

- Promote e-Payment by local currency, reduce cost of payment services and facilitate domestic and cross-border payment

Innovative Real-time Remittance

- Enhance efficiency / security and reduce cost of remittance via new technologies and innovative products

2.9 Cross-border Payments and Remittances: Projects

THE STRAITS TIMES

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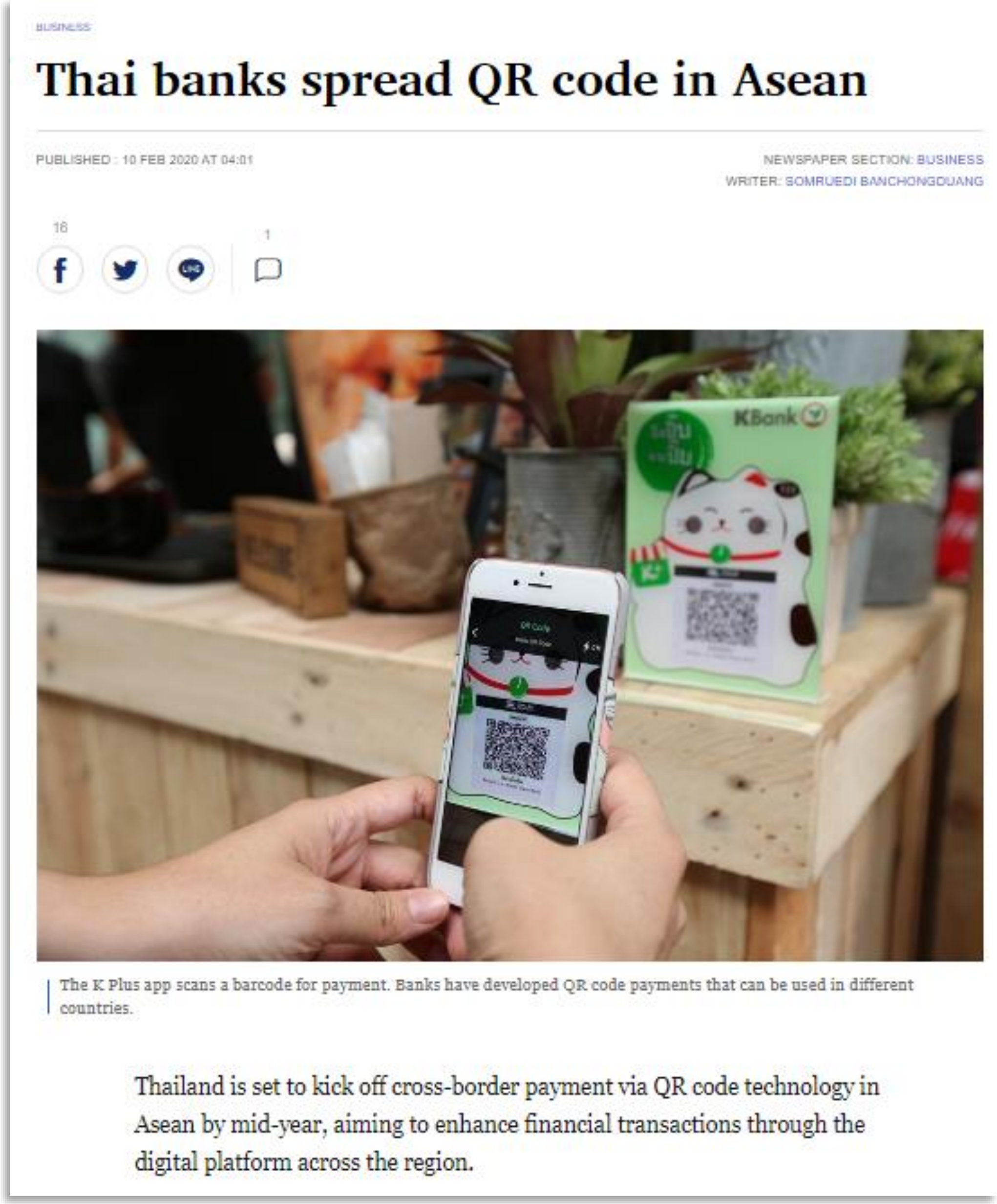
PayNow to be linked to Thailand's PromptPay, among slew of initiatives announced at Fintech Festival

CAMBODIA THAILAND

Thailand and Cambodia's Payments QR are Now Interoperable

by Fintechnews Singapore / February 21, 2020



BUSINESS

Thai banks spread QR code in Asean

PUBLISHED : 10 FEB 2020 AT 04:01

NEWSPAPER SECTION: BUSINESS

WRITER: SOMRUEDI BANCHONGDUANG

The K Plus app scans a barcode for payment. Banks have developed QR code payments that can be used in different countries.

Thailand is set to kick off cross-border payment via QR code technology in Asean by mid-year, aiming to enhance financial transactions through the digital platform across the region.

Key Takeaways

1. ASEAN Economic integration consists of small yet progressive steps of negotiated economic agreements to foster free(r) movements of goods, services, investment, capital and labor.
2. In practice, these movements are affected by a wide range of factors (e.g. non-tariff barriers), as evidenced in cross-border trade.
3. A real use-case example of trade facilitation is the innovation in cross-border payments and remittances