

▶ Chapter 2

## Progress and Challenges of Establishing the ASEAN Economic Community

— Steady progress on the elimination of tariffs, but slow progress on non-tariff barriers

Koichi Ishikawa Professor, Institute of Asian Studies, Asia University

### 【Key Points】

- The ASEAN Economic Community (AEC), which is planned to be established by the end of 2015, has been implementing measures according to the AEC Blueprint. Since 2013, the AEC Scorecard that evaluates the progress of these measures has not been published. However, in August 2014, it was reported that 82.1% of the prioritized AEC deliverables had been implemented.
- The elimination of tariffs is proceeding smoothly and the intra-regional liberalization rate among the ASEAN 6 has already exceeded 99%. CLMV countries (Cambodia, Laos, Myanmar, and Vietnam) are also planning to eliminate tariffs by 2018. However, the elimination of non-tariff barriers has barely been implemented. The rules of origin are being improved, but trade facilitation measures – such as mutual recognition of the standards and the implementation of a single window – need effective measures.
- The liberalization of trade in services is behind schedule. Due to the 15% Exclusion Rule, Member States are reporting they have liberalized a sector even when all the sub-sectors are not liberalized. Therefore, in reality, there are a number of sectors that have been excluded from liberalization measures and negotiation will be needed even after 2015. Investment liberalization will develop considerably, but liberalization of the sectors on the negative list will be a challenge.

### Progress on the implementation of the AEC Blueprint

Elimination of Tariffs	◎	Free flow of investment	○
Elimination of Non-Tariff Barriers	×	Free flow of skilled labor	△
Improvement on Rules of Origin	○	Transport facilitation	△
ASEAN Single Window	△	Development of land transportation infrastructure	△
Free flow of services	○	External FTAs	◎

Notes: ◎ indicates that targets are being implemented according to the blueprint, ○ indicates that there is partial delay but targets are mostly being achieved, △ indicates that targets are partially being implemented, but with delay, and × indicates that there has been a significant delay or that the targets are not being achieved at all.

## **1. Foreword**

This chapter will confirm the progress of the AEC Blueprint using ASEAN's official documents as a basis, as well as other sources. It will focus on the "single market and production base," which is the most important goal of the four goals laid out in the AEC Blueprint. Other sections of this chapter will focus on transportation, which is closely related to market integration.

## **2. Assessment of progress toward the ASEAN Economic Community and the Blueprint**

### **2.1 What is the ASEAN Economic Community?**

In 1997, on the 30<sup>th</sup> anniversary of the establishment of ASEAN, the ASEAN Vision 2020 was announced. It included a vision of the future "of ASEAN as a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies." The ASEAN Vision 2020 consists of three pillars: (1) security cooperation, (2) economic cooperation, and (3) socio-cultural cooperation. These three pillars were concretized as policy objectives with the adoption of the Declaration of ASEAN Concord II in 2003, which planned for the establishment of the ASEAN Community by 2020. The ASEAN Community also consists of three pillars: the ASEAN Security Community, the ASEAN Economic Community, and the ASEAN Socio-Cultural Community.<sup>1</sup>

The prime minister of Singapore at the time, Goh Chok Tong, proposed the ASEAN Economic Community at the 2002 ASEAN Summit. Prime Minister Goh had concerns that the ASEAN Member States would lose its attractiveness as investment destinations and be buried under the rising of China and India. He thought that investors must understand that ASEAN is "taking serious measures toward economic integration and have a clear goal and plan for integration." Therefore, he proposed the Economic Community. The AEC is the next step of regional integration following the ASEAN Free Trade Area (AFTA), which for the most part realized its original goals of reducing tariffs to 0-5% in 2002, and establishing the AEC shows that attracting foreign investment is a major goal for ASEAN.

### **2.2 Outline of the AEC Blueprint**

In 2007, the establishment date of the AEC was pushed to 2015 and the AEC

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<sup>1</sup> The Security Community was changed to the Political-Security Community.

Blueprint – the master plan for the AEC – was announced. The AEC Blueprint clearly specifies the strategic objectives of the action plans of each area up through 2015.

According to the AEC Blueprint, the four main strategic objectives are: (1) a single market and production base (market integration), (2) a highly competitive economic region (transportation, development of energy infrastructures, competitive policy, etc.), (3) a region of equitable economic development (reducing disparities and developing small and medium enterprises), and (4) integration into the global economy (external free trade agreements). The implementation schedule targets 2008 through 2015 and is divided into four phases of two years.

The most important target is the establishment of a single market and production base (in other words, market integration), through which the AEC aims to realize the free flow of goods, services, investment, skilled labor, and freer flow of capital. This translates to the liberalization of trade, trade in services, and investment. Economic integration that liberalizes goods, services, capital, and labor is called a common market. Common markets are rare around the world (with the exception of the European Union (EU)). However, what the AEC aims to achieve is not a common market, but a restricted or limited free flow. For example, the free flow of people is limited to skilled labor. Restrictions remain in the trade of goods and services as well. The level and the extent of integration of the AEC is limited compared to that of the EU and is similar to the Economic Partnership Agreements (EPAs) that Japan holds with various countries (figure 1).

The AEC is fundamentally different from EU's idea of integration. The EU introduced the Euro, the common currency used in 18 countries. This was possible because an important national sovereignty – the right to issue currencies such as the Deutsch Mark and Franc – was handed over to the European Union. The EU member states transferred their economic sovereignty to the European Commission; therefore, the European Union law and rules supersede the laws of the member states regarding matters on market integration.

Meanwhile, ASEAN's basic principle is non-interference in internal affairs; therefore, there has been no transfer of national sovereignty. This is one of the causes of delay in economic integration among the ASEAN countries.

**Figure 1: Comparison of Targets between ASEAN Economic Community (AEC) and Other Regional Integration**

	<b>EU</b>	<b>AEC</b>	<b>EPA</b>
Elimination of tariffs	○	○	○
Common external tariff (CET)	○	×	×
Elimination of non-tariff barriers	○	○ (*)	△
Liberalization of trade in services	○	○ (*)	△
Harmonization of standards	○	△	△
Free movement of persons	○	△	△
Trade facilitation	○	○	○
Flow of investment	○	○	○
Flow of capital	○	△	△
Liberalization of government procurement	○	×	△
Protection of intellectual property rights	○	△	○
Competition policy	○	△	△
Cooperation	○	○	○
Common currency	○	×	×

Note: ○ indicates a target that is likely to be achieved, △ indicates measures that are listed as targets, but have not yet been addressed, and × indicates measures will not be achieved or have not been listed as targets. (\*) indicates measures that are included as targets, but will be difficult to fully achieve. However, this is not a strict definition.

Source: Created by the author.

### 2.3 The Master Plan on ASEAN Connectivity (MPAC)

The AEC's target areas cover more than that of the economic partnership agreements and aim to reduce disparities, integrate and cooperate in transportation and energy sectors, and conclude external FTAs. In particular, cooperation in transportation is extremely important. ASEAN can be divided into the ASEAN of the land and the ASEAN of the sea. With the exception of Thailand, which serves as a hub in ASEAN's land portion, many countries such as Cambodia, Laos, and Myanmar are poorer and less industrialized. These countries have been plagued by long-running wars and civil wars, and transportation infrastructures such as roads and railroads remain underdeveloped. As for the ASEAN's sea portion, it is necessary to develop ports starting from island countries such as Indonesia and the Philippines. Goods will not flow smoothly, even if tariffs are eliminated, unless transportation infrastructure is developed.

The Master Plan on ASEAN Connectivity (MPAC) announced in 2010 covers topics on integration and cooperation in the field of transportation. MPAC sets forth three areas of connectivity with 19 strategies: (1) physical connectivity, (2) institutional connectivity, and (3) people-to-people connectivity.

Physical connectivity includes the construction and development of hard

infrastructure. With regard to land transportation, the completion of the ASEAN Highway Network (AHN) and the Singapore Kunming Rail Link (SKRL) are two major projects. Challenges for Laos, Myanmar, and Cambodia include the construction and repair of incomplete road networks and missing railway links, which are planned to be completed by 2020. Institutional connectivity includes the development of soft infrastructure. The objective of institutional connectivity is to facilitate smooth cross-border cargo transport that requires crossing multiple borders, such as transporting cargo by land from Thailand to Vietnam via Laos.

## **2.4 Implementation of 82.1% of prioritized key deliverables**

In 2013, ASEAN published a scorecard that indicates the progress of the AEC Blueprint. At the 46<sup>th</sup> ASEAN Economic Ministers Meeting (AEM) held in Nay Phi Taw, Myanmar on August 25, 2014, it was reported that ASEAN has implemented 82.1% of 229 prioritized key deliverables targeted for completion by the end of 2013. It was also reported that 52 key deliverables for the fourth phase (2014-2015) are being implemented.<sup>2</sup>

## **3. Free flow of goods**

### **3.1 Elimination of tariffs**

The elimination of tariffs is AEC's biggest achievement. According to the blueprint, the ASEAN 6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) eliminated tariffs in 2010 and the CLMV countries are expected to eliminate tariffs on all goods by 2015 (with flexibility of 7% on tariff lines up to 2018).<sup>3</sup> As of May 2012, 99.1% of tariff lines have been eliminated among the ASEAN 6 and 67.6% of tariff lines have been eliminated among the CLMV countries. Cambodia's tariff elimination has been delayed; however, it has lowered 58.2% of tariff lines to a tariff rate of below 5%. Among the CLMV countries, 28.9% of tariff lines have been lowered to a tariff rate of below 5% (as of February 2013) and the elimination of tariffs is on schedule. The simple average of common effective preferential tariff (CEPT) rates among the ASEAN 6 were reduced from around 4% in 2000 to 0.05% in 2012 (0.06% even excluding Singapore). Similarly, the simple average of CEPT rates among the CLMV countries was also reduced from 7.3% to 2.5% in the same time frame. By 2018, when tariffs will be eliminated in the

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<sup>2</sup> The traditional scorecard and evaluation method has been changed and major prioritized deliverables are used as the denominator.

<sup>3</sup> According to Seiya Sukekawa, items that are postponed for liberalization until 2018 are 663 items (6.94%) in Cambodia, 669 items (6.99%) in Laos, and 645 items (6.75%) in Myanmar. Vietnam has not announced its figures.

entire ASEAN region, ASEAN will be able to achieve a free-trade zone with one of the highest liberalization rates in the world.<sup>4</sup>

**Figure 2: Status of the Elimination of Tariffs (May 2012, %)**

	0% duty	> 0% duty	Other
Brunei	99.07	0.00	0.93
Indonesia	98.72	0.18	1.10
Malaysia	98.69	0.54	0.78
The Philippines	98.63	1.06	0.31
Singapore	100.00	0.00	0.00
Thailand	99.84	0.16	0.00
ASEAN 6	99.11	0.35	0.54
Cambodia	40.29	59.71	0.00
Laos	78.87	21.13	0.00
Myanmar	79.42	19.87	0.71
Vietnam	71.75	26.22	2.04
CLMV	67.58	31.73	0.69
ASEAN	87.24	12.17	0.60

Source: ASEAN Secretariat.

The simple average of most favored nation (MFN) tariff rates among the ASEAN Member States are low in Singapore and Brunei, but Thailand, Cambodia, and Vietnam have relatively high rates of around 10%. As a WTO member, Laos has bound its tariffs at 18.8%, which is an extremely high number. Tariff rates on agricultural products are high with Thailand at the top at 21.8% (excluding Singapore and Brunei). Looking by item, tariff rates on beverages and tobacco are commonly high, and clothing and transportation have high tariff rates within industrial products. Therefore, the utility value of the AFTA varies from country to country, but it still has a large impact overall.

### 3.2 Elimination of non-tariff barriers

Measures to eliminate non-tariff barriers have been implemented since the 1990s, but there has been little progress. According to the blueprint, the ASEAN 5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) were scheduled to eliminate non-tariff barriers in 2010, the Philippines was scheduled to eliminate non-tariff barriers in 2012, and the CLMV countries are scheduled to eliminate them in 2015 (non-tariff barriers on sensitive products will be eliminated by 2016). The ASEAN Trade in Goods Agreement (ATIGA) had similar provisions. However, since there had been no real progress on this

<sup>4</sup> Japan's liberalization rate for FTA is around 85% to 89%. Therefore, a liberalization rate of 99% is extremely high.

matter in 2010, the MPAC announced the following key actions: (1) use the most updated international classification of non-tariff barriers, (2) develop a set of guidelines for quantitative restrictions by 2014, and (3) eliminate the non-tariff barriers components of these measures by 2014. Though the rules of the AEC Blueprint call upon countries not to introduce new measures, some countries have introduced new non-tariff barriers (e.g. Indonesia).<sup>5</sup>

### **3.3 Trade facilitation (ASEAN Single Window, etc.)**

#### **(1) Improvement on the Rules of Origin**

The Rules of Origin are based on a co-equal approach, where exporters are given a choice between the Regional Value Content (RVC) rule and the Change in Tariff Classification (CTC) rule that has been adopted since 2008. Since 2014, ASEAN Member States agreed to remove the requirement to state the Free On Board (FOB) value in the Certificate of Origin (CO) Form (excluding RVC criterion<sup>6</sup>). These improvements to the Rules of Origin are being made in compliance with the requests made by Japanese-affiliated companies.

With regard to the Certificate of Origin, ASEAN introduced the self-certification system in addition to the third party certification. Since 2010, Singapore, Malaysia, and Brunei have been piloting The First Self-Certification Pilot Project for Certified Exporters. Thailand joined this pilot project in 2011, and at the AEM in August 2014, Cambodia and Myanmar announced their intentions to join the program. In 2012, Indonesia, the Philippines, and Laos started The Second Self-Certification Pilot Project for Certified Exporters, which has more restrictions. At the AEM in August 2014, Thailand and Vietnam announced their intentions to join the second program.<sup>7</sup>

#### **(2) Customs facilitation**

Measures toward customs facilitation (pre-arrival clearance, ASEAN Customs Declaration Document (ACDD), ASEAN Customs Transit Systems (ACTS), ASEAN Harmonized Tariff Nomenclature (AHTN), etc.) are moving forward. However, there are many cases that show that customs facilitation is developed as a system on the ASEAN

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<sup>5</sup> The ASEAN Blueprint calls for all Member States to abide by the commitment of a standstill (to not increase barriers from the current state) and roll-back (to not recede from liberalization) on non-tariff barriers.

<sup>6</sup> The FOB value does not have to be stated in the Certificate of Origin form in cases where Wholly Obtained (WO), Change in Tariff Classification (CTC), or Process Rule or Specific Processes is applied. The ASEAN+1 FTAs with Japan (effective from October 2014), South Korea, and Australia-New Zealand, also removed the requirement to state the FOB value in the Certificate of Origin form.

<sup>7</sup> Additional requirements under the Second Self-Certification Pilot Project are (1) only manufacturers to be appointed as Certified Exporters (CEs), (2) back-to-back and third party invoicing not allowed, and (3) the HS Code to be on the Invoice Declaration.

level, but not actually implemented on the ground. For example, (1) ACDD is not introduced in Malaysia, (2) tariff codes differ from country to country, (3) advanced ruling system cannot be used practically, and (4) there have been insufficient efforts to go paperless with the customs electronic data interchange (EDI) system.<sup>8</sup> With regard to the ASEAN Customs Transit Systems (ACTS) (which is one of the objectives of the AEC Blueprint), at the AEM in August 2014, the ministers commended the progress of the preparation for the pilot project that is being implemented among Malaysia, Thailand, and Singapore. They also urged ASEAN Customs to finalize the text of Protocol 2 (the designation of frontier posts) and the remaining ASEAN Member States to expedite their domestic clearance for the signing of Protocol 7 (customs transit system) of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAGIT). These measures aim to streamline and facilitate customs process by standardizing the paperwork when crossing two customs offices to transit goods via a third country by land. How to handle the risk of remaining cargo-in-transit in the stopover country remains a challenge.

### **(3) The ASEAN Single Window (ASW)**

The ASEAN Single Window (ASW) is a system that streamlines and facilitates the customs process by: computerizing customs processes; actualizing the National Single Windows (NSWs) of the Member States that make it possible to apply and submit customs documents to the authorities concerned with a single entry; and sending, exchanging, and sharing data by interconnecting the NSWs. The Agreement to Establish and Implement the ASEAN Single Window was entered into force in 2005. The blueprint scheduled the implementation of NSWs in the ASEAN 6 for 2008 and the CLMV countries for 2012; however, both have been delayed. Singapore was taking the lead in implementing the NSW and other ASEAN 5 countries also have started to implement the NSWs since 2009. Vietnam is scheduled to start the NSW system in 2014.<sup>9</sup> Cambodia, Laos, and Myanmar are at the initial stage of establishing their NSWs.

## **4. Trade in services**

### **4.1 Cross-border trade in services**

#### **(1) Liberalization objectives and schedule**

Following the signing of the ASEAN Framework Agreement on Services (AFAS) in 1995, ASEAN has adopted the “positive list” approach since the 1<sup>st</sup> Package in 1996

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<sup>8</sup> Sukekawa (2014).

<sup>9</sup> Japan Association for Simplification of International Trade Procedures (JASTPRO), pp. 73, 2013.

when beginning negotiations. The negotiation methods have changed a few times, but since the 7<sup>th</sup> Package, ASEAN Member States have been negotiating according to the AEC Blueprint. The blueprint outlines liberalization of trade in services as follows (table 3).

An overall flexibility of 15% in services liberalization is approved. The subsectors that are excluded (1) promise to liberalize in the next round, (2) replace subsectors that have agreed but not promised to liberalize with subsectors other than those that have been agreed upon, and (3) liberalize using the ASEAN-X method.

**Figure 3: Liberalization targets for trade in services**

Mode 1 (Cross-border trade)	No restrictions (with exceptions due to bona fide regulatory reasons)
Mode 2 (Consumption abroad)	No restrictions (with exceptions due to bona fide regulatory reasons)
Mode 4 (Commercial presence)	Allow for foreign (ASEAN) equity participation of not less than 70%, progressively remove market access limitations.
Mode 4 (Movement of natural persons)	Schedule commitments according to agreed parameters for national treatment limitations (Limited liberalization)

Note: Bona fide regulatory reasons (e.g. public safety) are subject to agreement by all member states on a case-by-case basis.

## (2) Agreement to liberalize the 9<sup>th</sup> Package of Commitments

All the Member States of ASEAN agreed to implement the 8<sup>th</sup> Package of Commitments by the end of 2012. At the 2014 AEM, it was reported that the ministers welcomed the progress toward the finalization of the 9<sup>th</sup> Package; however, the report does not say that an agreement was written or signed, and no schedule of commitments were announced. When the Japan External Trade Organization (JETRO) Bangkok Center made an inquiry about this to the Department of Trade Negotiations at Thailand’s Ministry of Commerce, it was confirmed that nine countries excluding the Philippines agreed and signed the completion of negotiations on August 25, 2014.<sup>10</sup> A press release by Thailand’s Ministry of Commerce also reported that the 9<sup>th</sup> Package was signed and that additional 25 sectors were opened up in addition to the 81 sectors that were opened up in 2012 for the 8<sup>th</sup> Package.

<sup>10</sup> See JETRO Daily published by the Japan External Trade Organization (JETRO) dated on September 2, 2014.

## **4.2 Financial services**

The liberalization of financial services is planned to be carried out in two stages in 2015 and in 2020. Unlike other measures, it will not be completed by 2015. The liberalization of financial services will be done using the ASEAN-X method. The sectors to be liberalized by 2015 include insurance, banking, capital market and four other sectors, which are specified by each country. The new ASEAN members are the only ones who have promised to liberalize the banking services, while the ASEAN 5 have not promised to liberalize it by 2015. The goal for the other countries are set to be 2020.

## **5. Investment**

The AEC Blueprint lays out that the ASEAN Comprehensive Investment Agreement (ACIA) will be established by merging the ASEAN Investment Area (AIA) and the ASEAN Investment Guarantee Agreement (AIGA). The ACIA was signed in 2009 and entered into force in March 2012. Investment will be liberalized in accordance with the negative list in 2015 with minimum restrictions remaining. The ministers signed the Protocol to Amend the ASEAN Comprehensive Investment Agreement (ACIA) at the 2014 AEM. This protocol stipulated procedures for reducing the number of reservations on the negative list and promoted the liberalization of investment. The ACIA affects industries other than services and the ASEAN Framework Agreement on Services (AFAS) regulates investment in services.<sup>11</sup> However, services incidental to manufacturing are affected by the ACIA. The ACIA also includes obligations on national treatment before investment, no performance requirements, and the Investor-State Dispute Settlement mechanisms (ISDS). ASEAN will liberalize investment using the negative list approach. Similar to the AFTA, reciprocal treatment will be adopted.<sup>12</sup>

## **6. Free flow of skilled labor**

The AEC Blueprint requires that a Mutual Recognition Agreement (MRA) of qualified professionals be established by 2008. The MRA of certified professionals already includes eight sectors that have been signed. These are engineering services (2005), nursing services (2006), architectural services (2007), surveying services (2007), accounting services (2009), medical services (2009), dental practice services (2009), and tourism

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<sup>11</sup> Investment protection and investor-state dispute settlement mechanism are applied to Mode 3 of the AFAS. Liberalization is applied under the AFAS.

<sup>12</sup> See Ishikawa (2010) on the ACIA.

services (2012) (table 4). At the 2014 AEM, the ministers agreed on a new MRA on Accountancy Services that would replace the current MRA.

**Figure 4: Signing and effective dates of Mutual Recognition Arrangements for Qualified Professionals**

	Date Signed	Date Effective
Engineering services	December 9, 2005	December 9, 2005
Nursing services	December 8, 2006	December 8, 2006
Architectural services	November 19, 2007	November 19, 2007
Surveying services	November 19, 2007	December 19, 2008
Medical services	February 26, 2009	August 26, 2009
Accounting services	February 26, 2009	August 26, 2009
Dental practice services	February 26, 2009	August 26, 2009
Tourism services	November 9, 2012	Not yet effective

Source: ASEAN Secretariat.

Among the eight sectors, MRAs in engineering and architecture are relatively developed.<sup>13</sup> For engineering, the ASEAN Chartered Professional Engineers Coordinating Committee (ACPECC) has been established. The ACPECC is a system in which engineers who passed exams in their countries and received a license as a Registered Foreign Professional Engineer (RPFE) from the Professional Regulatory Authority (PRA) of a host participating ASEAN country can apply to be registered as an ASEAN Chartered Professional Engineer (ACPE) to be eligible to work in other ASEAN countries. As of 2012, there are a total of 440 ACPEs; specifically, 149 ACPEs in Malaysia, 183 in Singapore, 99 in Indonesia, and 9 in Vietnam. Countries that are not on the list do not have a PRA. However, the number of ACPEs is not the number of engineers who are working in other countries. There is a similar system for architects as well. Architects who received a domestic license from a PRA are eligible to register for the ASEAN Architect Council as an ASEAN Architect in the ASEAN Architect Register. However, having this registration does not automatically allow architects to work in other ASEAN countries. This is because there are requirements on nationality and residency. Many foreign architects can work on a project basis only in cases where there are no qualified architects in the other country. As for nurses, in order to work as a foreign nurse in Thailand, one must pass the national qualification exam in Thai.

The ASEAN Agreement on the Movement of Natural Persons (MNP) was concluded in 2012 but is not yet in effect. This agreement is limited to skilled workers pursuant to trade and investment; therefore, it does not include unskilled laborers.

<sup>13</sup> Deunden **Nikomborirak** and Supunnavadee Jitdumrong (2013).

## 7. Transportation

### 7.1 The Transport Facilitation Agreement

The main goals are to conclude and enter into effect the ASEAN Framework Agreement on Goods in Transit (AFAGIT), the ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST), and the ASEAN Framework Agreement on Multimodal Transport (AFAMT). Out of the nine protocols of the AFAGIT, three are outstanding (designation of transit transport routes, railways border and interchange stations, and dangerous goods). Two protocols (designation of frontier posts and customs transit system) have not yet concluded nor taken into effect.

Only three countries (Thailand, Vietnam, and Laos) have ratified the AFAFIST. Similarly, only four countries (Cambodia, the Philippines, Thailand, and Vietnam) have ratified the AFAMT and the progress has been slow.

At the 2014 AEM, the ministers commended the progress of the preparation for the pilot project of the ASEAN Customs Transit System (ACTS). They also urged ASEAN Customs to finalize the text of Protocol 2 (designation of frontier posts) and the remaining ASEAN members to expedite the signing of Protocol 7 (customs transit systems) of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAGIT). These measures aim to streamline and facilitate customs process by standardizing the paperwork when crossing two customs offices to transit goods via a third country by land. The challenge remains on how to handle risk of in-transit cargo that is left behind in the transit country.<sup>14</sup>

### 7.2 Land transportation

In terms of land transportation, the ASEAN Highway Network (AHN) and the Singapore-Kunming Rail Link (SKRL) are the two major projects. The AHN is an expansion of the Trans-Asian Highway network within the ASEAN region, comprising 23 routes and covering 34,800 km.<sup>15</sup> The project consists of completing the AHN missing links and upgrading roads that are below standard (“Below Class III”) roads.<sup>16</sup> Missing

<sup>14</sup> Enlightenment by Yoshifumi Fukunaga.

<sup>15</sup> See Hisao Kasuga’s “ASEAN renketsu sei no kyoka to kotsu. unyu bunya no kaizen — ASEAN keizai kyodo tai ni muke ta torikumi no hashira toshite —” (2013) edited by Ishikawa, Shimizu, and Sukekawa (2013).

<sup>16</sup> The ASEAN Highways shall be classified as shown below.

Primary	4 lanes or more, design speed of 60-120 km/hr, access controlled highway
Class I	4 lanes or more, design speed of 50-100 km/hr

links include 227 km of roads in Myanmar and 5,300 km of below class III roads encompassing six Member States. The AHN has also designated transit transportation routes (TTRs). Those include 21,200 km of total road length, in which 2,069 km are below class III. The below class III roads are located in Myanmar, the Philippines, and Laos. Key actions in the Master Plan on ASEAN Connectivity include (1) upgrading all “Below Class III” sections of AHN into at least “Class III,” (2) installing common road signs in all designated routes by 2013, and (3) upgrading “Class II or III” sections with high traffic volume to “Class I” by 2020. According to resource materials of 2013, 757 km of Myanmar’s roads were below class III, but they are getting upgraded.<sup>17</sup> The route that Japanese companies have high expectations for– the route from Mae Sot to Yangon via Myawaddy – has a section between Myawaddy and Hpa-An that is particularly in poor condition that is only open in one direction each day.<sup>18</sup>

## 8. Conclusion

The following are suggestions for ASEAN policy makers.

- (1) ASEAN should publish a detailed progress report on the AEC Blueprint by sector and by country. Companies have high expectations for the AEC and they are incorporating the AEC into their business strategies. ASEAN should announce not only the overall statistics, but also on specific implementation status and challenges.
- (2) ASEAN should swiftly formulate and announce the AEC Post-2015 Vision and the new blueprint. At the ASEAN Economic Ministers Meeting, the High Level Task Force (HLTF) on ASEAN Economic Integration was ordered to develop the AEC Vision for post-2015 targeting the next 10 years. It is necessary to incorporate requests from the private sector and promptly formulate the vision. Japanese industries should also actively make suggestions.
- (3) In connection to (2), the new blueprint should place the elimination of non-tariff measures (including standard MRA) and the liberalization of trade in services (especially Mode 3) as priorities and announce an effective action plan.

Class II	2 lanes, design speed of 40-80 km/hr
Class III	2 lanes, design speed of 30-60 km/hr

<sup>17</sup> The “Status Paper on Development of Asian Highways in Myanmar” by the Ministry of Construction Public Works is a report on the Asian Highways. According to the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), excluding two routes, it is the same as the ASEAN Highway Network (AHN) (Hisao Kasuga).

<sup>18</sup> See pages 117-118 and 121-122 of JETRO (2013).

- (4) According to the denial of benefits clause of the AFAS and the ACIA, ASEAN companies are the only ones who can enjoy liberalization within the region in terms of trade in services and investment. However, “a juridical person engaged in substantive business operations in the territory of member states” can enjoy the benefits of liberalization. Japanese-affiliated companies are in this category. However, the definition is ambiguous; therefore, ASEAN should lay out and announce the definition in a prompt manner.

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