The Role of ASEAN Services Integration in Promoting Economic Growth

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Some Stylized Facts on Services and Economic Growth

- Services and trade in services can offer new opportunities and areas of economic growth (direct growth effects)
  - Growth impact depends on the sectoral composition of services value added and employment
  - “Middle income trap”
- Services sector has strong linkages with the rest of the economy; improving its competitiveness should be seen as a critical component of overall national competitiveness (indirect growth effects)
- Services sector has become even more important given the globalization of production
  - Development of the services sector is critical in supporting an economy’s participation in production networks and industrial upgrading
- Government action to support development of a vibrant and competitive services sector is critical
  - Important role for trade-related policies in enhancing services sector productivity and competitiveness
  - Regional integration can play an important role in continued reform of services sector policies to promote competitiveness of the sector

Services play a significant role in ASEAN economies

- Services sector accounts for around half of ASEAN's total GDP in 2014; higher in the more advanced economies
- Service-related activities received the highest shares of the region's total FDI inflows in 2014 (58%)
- Services sector's importance also reflected in employment
  - More labour intensive for traditional services
  - Higher value jobs for modern services
- Services trade growing fast although starting from a relatively low base
  - Full trade potential yet to be realised

Key Results from ERIA Studies

- ERIA has been undertaking a series of studies over the years to assess the extent to which AFAS is helping ASEAN Member States achieve their AEC goal of free flow of services in the region (more recently, Dee 2015 and Narjoko 2015)
- Rate of liberalization of the AFAS commitments from the 7th to the 8th package:
  - Liberalization rate of three modes of services (Modes 1, 2 and 3), based only on the subsectors that have been committed for liberalization
  - 3 broad sectors: Priority Integration Sectors (PIS), Logistics Services, and Other Services
- Key results:
  - Significant increase in the number of subsectors covered by AFAS 8, particularly under Other Services
  - Comparing overall liberalization rates of AFAS 7 and 8, coming from all commitments and for all modes of services: marginal increase in the liberalization rate from the commitments of AFAS 7 to 8 (Figure 1).
  - Deeper examination of the commitments suggests that many ASEAN Member States utilized a facility under AFAS (Flexibility Rule) to put a number of sensitive subsectors which are not subject to liberalization commitments (Figure 2).
  - There have been improvements in commitments between the seventh and eighth packages (Table 1); the trade commitments lag actual practice.

Key Results from ERIA Studies

- Overall:
  - Services trade reform is occurring, and actual policies are being liberalised.
  - AFAS commitments are being deepened and widened.
  - Areas of concern: instances in which trade commitments lag so far behind actual practice; regulatory restrictions that are not primarily designed to meet legitimate regulatory objectives .
  - If the AFAS process is to do a better job of driving real reform, it will need to be more closely linked to the domestic policy development processes in each AMS.
  - ➢ ***The key to making further real progress towards a free flow of services in the region is to focus on domestic regulatory improvement more generally.***

Some Key References

- Dee, P. (2015). Monitoring the Implementation of Services Trade Reform towards an ASEAN Economic Community, ERIA Discussion Paper No. 2015-44. (http://www.eria.org/publications/discussion_papers/DP2015-44.html)
- Narjoko, D. (2015). AEC Blueprint Implementation Performance and Challenges: Services Liberalization, ERIA Discussion Paper No. 2015-39 (http://www.eria.org/publications/discussion_papers/DP2015-39.html)

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Figure 1: Liberalization Rates by Modes of Services, AFAS 7 and AFAS 8 (%)

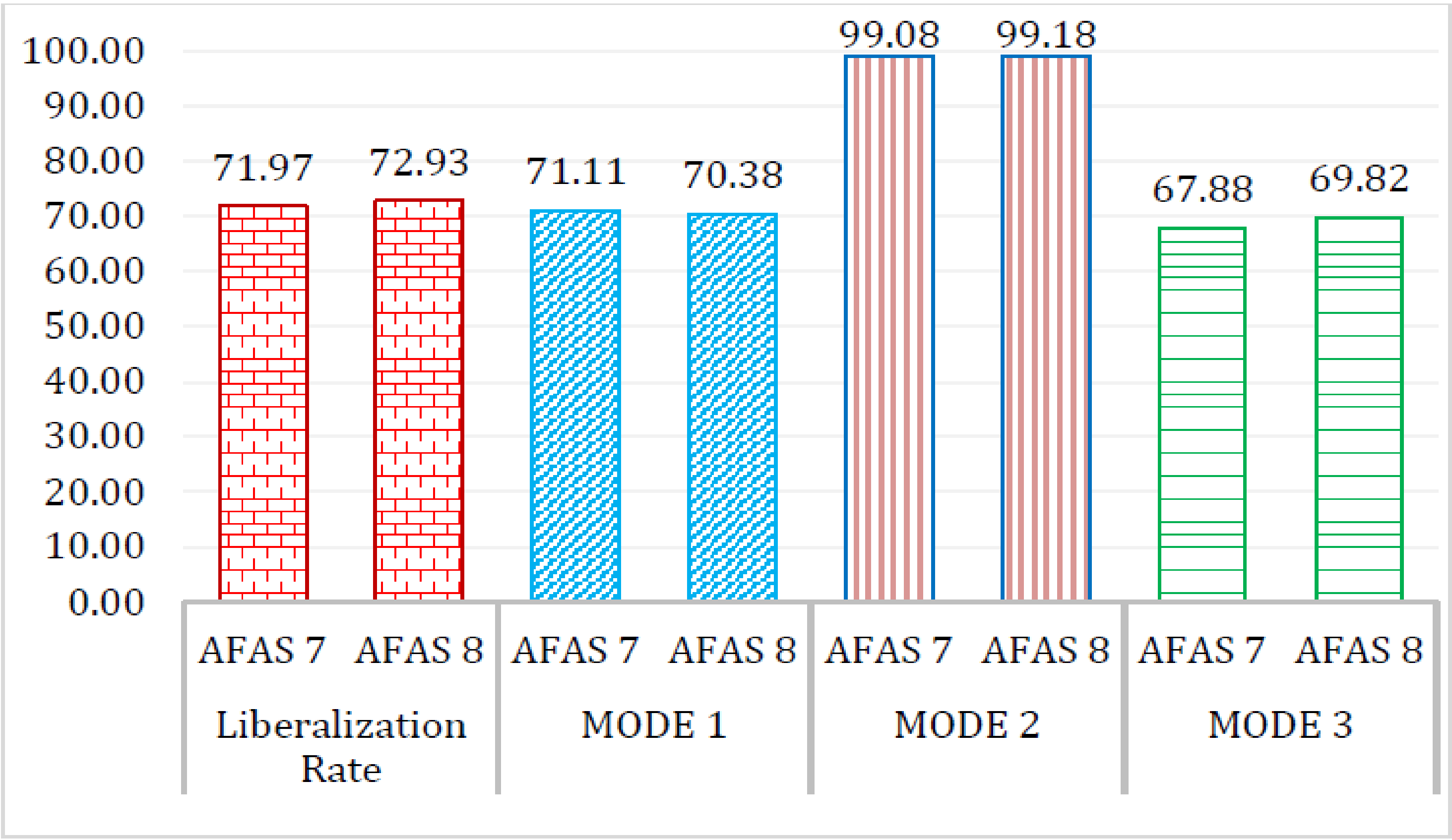

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Figure 2

with Assumption of Flexibility Rule (%)

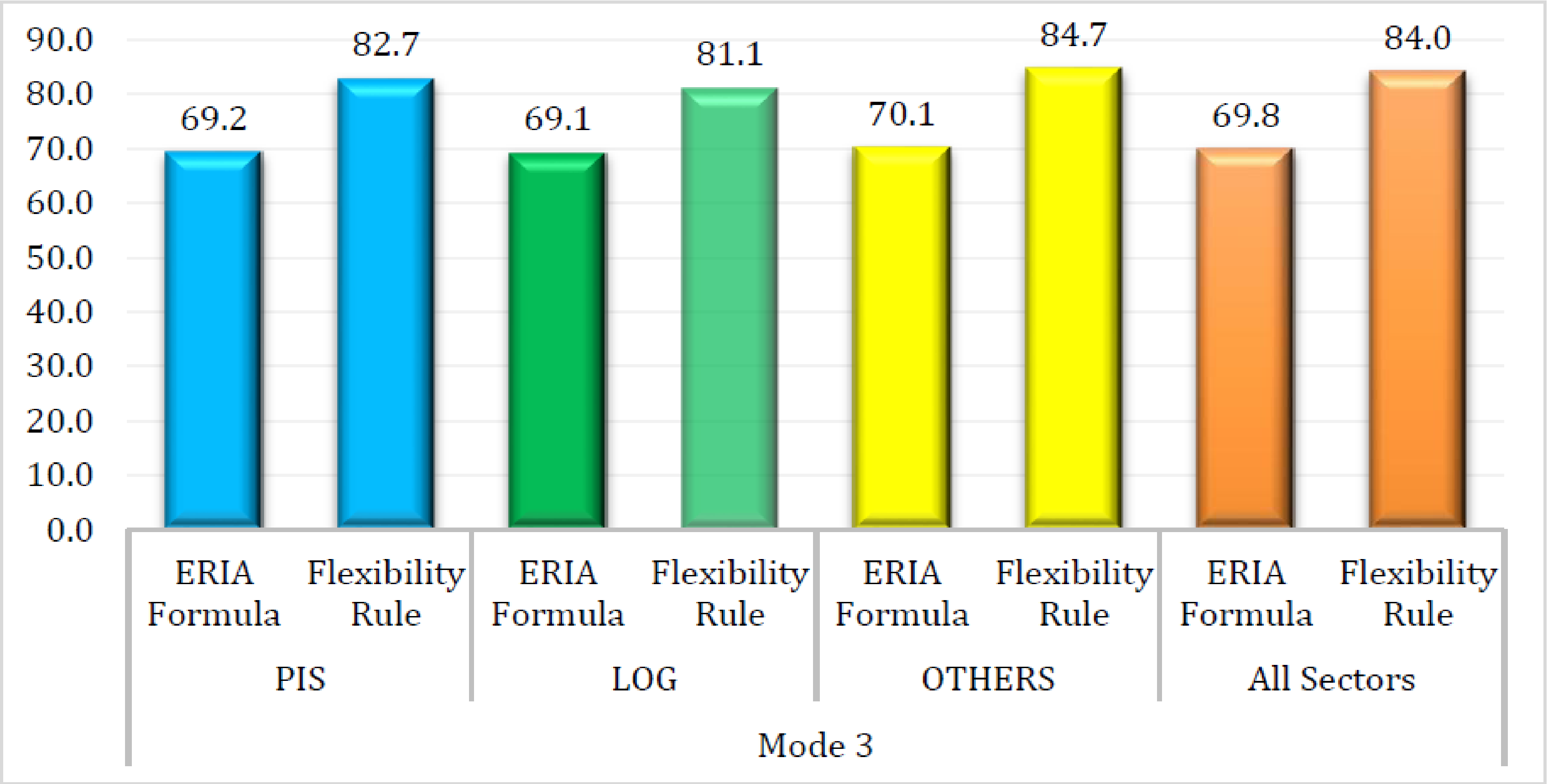

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Table 1: Areas of Improvement in AFAS Commitments between Seventh and Eighth Packages

	Brunei Darussalam	Cam-bodia	Indo-nesia	Lao PDR	Malay-sia	Myan-mar	Philip-pines	Singa-pore	Thailand	Viet Nam
Health-care	mode 1 mode 2 mode 3 mode 4		mode 1 mode 2 mode 3	mode 3 mode 4	mode 1 mode 2 mode 3 mode 4	mode 3	mode 3	mode 3	mode 1 mode 2 mode 3	mode 1 mode 2 mode 3 mode 4
Tourism	mode 3		mode 3	mode 3	mode 3	horiz.	mode 3	mode 3	mode 3	
Mari-time	mode 1 mode 2 mode 3 mode 4	mode 1 mode 2 mode 3 mode 4	mode 3 mode 4		mode 1 mode 3	mode 1 mode 2 mode 3 mode 4	mode 1 mode 2 mode 3 mode 4	mode 3	mode 3	mode 1 mode 2 mode 3 mode 4
Telecom	mode 1 mode 2 mode 3 mode 4		mode 1 mode 2 mode 3 mode 4	mode 1 mode 2 mode 3 mode 4	mode 3	mode 1 mode 2 mode 3 mode 4		mode 1 mode 2 mode 3 mode 4	mode 1 mode 2 mode 3 mode 4	
Banking	horiz.					horiz.				
Insu-rance	horiz.					horiz.				

Notes: Colour indicates mode, 'horiz.' indicates that improvement was in horizontal rather than sector-specific commitments.
Sources: Schedules of commitments for AFAS seventh and eighth packages.

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