

# CHAPTER 8

## **Building the ASEAN Economic Community: Challenges and Opportunities for Myanmar**

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## Chapter 8

# Building the ASEAN Economic Community: Challenges and Opportunities for Myanmar

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### Abstract

In recent years, ASEAN has been accelerating its efforts to establish the ASEAN Economic Community (AEC) by 2015. As a member of ASEAN, Myanmar has a mandate to implement a number of policy reforms, as agreed to in the AEC Blueprint. Key reforms include trade liberalization and facilitation in accordance with the ASEAN Trade in Goods Agreement (ATIGA), investment liberalization and facilitation as set forth under the ASEAN Comprehensive Investment Agreement (ACIA), services liberalization to comply with the terms of ASEAN Framework Agreement on Services (AFAS), infrastructure development in support of projects such as the ASEAN Highway Network (AHN) and Singapore-Kunming Rail Link (SKRL), and so on. At the same time, since the inauguration of the Thein Sein administration in March 2011, Myanmar has been transforming itself to a democratic country with more liberal economic policies including the elimination of dual exchange rates and the introduction of the new foreign investment law. Both of these regional and domestic efforts are critical for Myanmar to seize the moment to capture the benefits of being a fully-integrated member of a regional and global economic community.

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### 1. Introduction

At the 21<sup>st</sup> ASEAN Summit in Phnom Penh, Cambodia, on 18 November 2012, ASEAN Leaders expressed their satisfaction with the progress made in building the ASEAN Community, which comprises three pillars – the ASEAN Political-Security Community (APSC), the ASEAN Economic Community (AEC), and the ASEAN

Socio-Cultural Community (ASCC)<sup>1</sup>. The leaders decided that the ASEAN Community would launch on 31 December 2015. With regard to building the AEC to ensure it achieves its goals by 2015, leaders agreed to intensify their efforts in the areas facing challenges in implementation

ASEAN has, indeed, made significant progress in AEC building. The most visible and important achievement can be observed in tariff reduction, a traditional mode of economic integration. Under the AFTA (ASEAN Free Trade Area) scheme, CEPT (Common Effective Preferential Tariff), as of 2010 tariffs were reduced to virtually zero for the original ASEAN Member States (AMS) and to 2.6% (on average) for the newer AMS. Furthermore, over the last decade, ASEAN has established itself as the indispensable hub for FTA networks in the region. In addition, ASEAN has enhanced its internal connectivity by upgrading transport networks, including the entry into force of three air transport agreements.

However, a number of challenges still remain, particularly in newer AMS, namely Cambodia, Lao PDR and Myanmar. Based on these observations, this chapter aims (1) to provide an overview of the AEC Blueprint and the implementation status based on the AEC Scorecard, (2) to highlight Myanmar's performance in implementing the AEC Blueprint, and identify key challenges for Myanmar, (3) to discuss expected impacts of the AEC on Myanmar's economy, and (4) to provide policy recommendations for the Myanmar government. As the scope of the AEC Blueprint is comprehensive, we will put explicit focus on trade liberalization and facilitation, investment liberalization, services liberalization, and transport infrastructure, as those are of the highest relevance in the context of Myanmar.

Regarding the AEC and the progress thereof, a number of comprehensive studies have been conducted, for example, Hew (2005, 2007), Severino (2006), Soesastro (2008), Corbett and Umezaki (2009), Plummer and Chia (2009), and Basu Das (2012), among others. In addition, the ASEAN Secretariat (2010, 2012) published official scorecards to track the implementation status of the AEC Blueprint. The latest and the most comprehensive study was conducted by the Economic Research Institute for ASEAN and East Asia (ERIA), in response to a request from the ASEAN Economic

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<sup>1</sup> ASEAN (2007, 2009, 2010).

Ministers (AEM), and the findings and recommendations were reported to the 21<sup>st</sup> ASEAN Summit in November 2012. Our study relies very much on ERIA (2012), the executive summary of this latest report, with explicit focus on the implications for Myanmar.

## **2. The ASEAN Economic Community (AEC) Building**

ASEAN has been emerging as the hub of both the production networks and the trade agreement networks in East Asia (Soesastro, 2008). The ASEAN Economic Community (AEC), in particular, is a new and innovative initiative to deepen the degree of economic integration within the hub, while enhancing connectivity through the spokes to countries and regions outside ASEAN. With the goal of establishing the AEC by 2015, AMSs adopted the AEC Blueprint as a binding document in November 2007. This was a very significant step for ASEAN in the sense that the economic integration of ASEAN has moved from a *de facto* process to a *de jure* integration with clearly defined end goals and timelines.

The AEC Blueprint is organized along AEC's four main characteristics, namely: (a) a single market and production base; (b) a highly competitive economic region; (c) a region of equitable economic development; and (d) a region fully integrated into the global economy.

Built upon the ASEAN Free Trade Area (AFTA), the AEC envisages deeper economic integration. The AEC Blueprint was formulated by combining prevailing sectoral initiatives and master plans in ASEAN, and identified 17 core elements and delineates 176 priority actions to be undertaken in accordance with the strategic. The implementation mechanism consists of the following elements: (a) relevant sectoral Ministerial bodies to be responsible for the implementation of the Blueprint and for the monitoring of commitments under their respective purviews; (b) the ASEAN Economic Ministers (AEM) to be in charge of economic integration in the newly established Council of ASEAN Economic Community (as stipulated in the ASEAN Charter) and also accountable for overall implementation; (c) the High Level Task Force (HLTF) to

assist the AEM; (d) regular consultation meetings with stakeholders to be organized by the AEM; (e) a progress report on the implementation of the AEC to be prepared by the ASEAN Secretary General for relevant Ministerial meetings and the Summit; and (f) the ASEAN Secretariat to review and monitor compliance with the AEC Blueprint. Of key importance to the successful implementation of the AEC Blueprint is the clear separation between policy making (HLTF and AEM) and the monitoring of implementation (ASEAN Secretariat). For this purpose, the ASEAN Secretariat has been tasked with developing the AEC Scorecard to monitor the progress of the AEC Blueprint, covering all provisions in the AEC Blueprint.

The AEC Blueprint was adopted as a binding document. However, a feature of the AEC Blueprint at this stage is that some goals remain vaguely defined, and “milestones” are still missing (Soesastro 2008). In addition, the comprehensive scope of the AEC Blueprint, though a desirable feature in itself, makes it difficult to track the progress of implementation.

The AEC Scorecard was prepared by the ASEAN Secretariat and released in 2010 and 2012, with reference years of 2008-09 and 2010-11 respectively. The scores are the ratios of “the number of measures fully implemented” to “the number of measures scheduled to be implemented” during the reference years.

Despite its importance, the AEC Scorecard is not informative enough to fulfill its objectives, mainly because of its low degree of transparency<sup>2</sup>. A number of critically important information, such as the scoring method and the breakdown of the AEC scorecard, is not fully publicized. For example, the number of measures in the AEC Scorecard matches neither the number of “strategic approaches” nor “priority actions” in the strategic schedule attached to the AEC Blueprint.

ASEAN Economic Ministers, who had access to the full details of the AEC Scorecard, found it necessary to understand the degree of implementation of the AEC measures instead of binary assessment (i.e. “fully implemented” or “not fully implemented”), and tasked out the work to the Economic Research Institute for ASEAN and East Asia (ERIA). Based on this request, ERIA developed a scoring system with respect to various policy measures under the AEC Blueprint based on the nature of the

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<sup>2</sup> This view is shared by a number of researchers. See Basu Das (2012) for example.

measures and feasibility. For example, the degree of implementation of some agreements is measured by multiple steps (with different weights) in the processes of ratification and implementation. Furthermore, ASEAN Economic Ministers conducted the midterm review of the AEC Blueprint with intellectual assistance from ERIA. The final report was submitted to the ASEAN Summit in November 2012, and the executive summary was published (ERIA, 2012).

### **3. Implications for Myanmar**

As the AEC is a highly comprehensive initiative, it is expected to have wide-ranging impacts on Myanmar. After reviewing the expected impacts of economic integration in general, this section will highlight several key initiatives of high relevance for Myanmar, namely trade liberalization, trade facilitation, investment liberalization, services liberalization, and transport cooperation, among others.

#### **3.1 Impact of Economic Integration**

A number of simulation analyses have been conducted to investigate the expected impacts of economic integration in ASEAN or of the AEC in particular. However, Myanmar tends to be excluded from such exercises because the necessary statistical data is not available. This subsection describes some of the common implications from the literature as background information.

Theoretically, economic integration is expected to increase the economic welfare of the members by facilitating efficient use of production factors based on comparative advantage. In the age of globalization, the process of economic integration is much more complex than textbook explanations in which a country-wise or industry-wise division of labor is highlighted. Given the complexity of growing regional production networks, which are observed as a key driving force of the economic development of emerging economies, including the original AMS, it has become more important to pay explicit attention to facilitate international divisions of labor in terms of production processes. Recent efforts for economic integration, therefore, include a wide range of

liberalization and facilitation measures in addition to trade liberalization, the traditional mode of economic integration.

The potential impacts of the AEC, per se, are wide-ranging and expected to be significant although exact forecasts are extremely difficult. Figure 1 may provide an indirect indication by comparing Myanmar's recent economic growth with that of other AMS, particularly Cambodia, Lao PDR, and Vietnam. The horizontal axis shows nominal GDP per capita in 2005 and the vertical axis shows the subsequent rates of economic growth. The negative correlation indicates a sign of convergence; one of the most important goals of the AEC is to narrow such development gaps. Although Myanmar's growth performance is higher than those of five advanced AMS, it is lower than Cambodia, Lao PDR and Vietnam, all of which have been adopting more outward-oriented policies. As indicated in Table 1 below, Myanmar's exposure to the world has been much lower than these three AMS, and the window has been becoming narrower, although the accuracy of the statistics needs to be carefully examined. The establishment of the AEC, reinforced by the ongoing economic reforms, is expected to change this trend, and thereby enable Myanmar to draw more dividends from the regional economic integration.

=== Figure 1 ===

=== Table 1 ===

According to a dynamic GTAP analysis by Itakura (2012), as referred in ERIA (2012a), the expected impacts of complete tariff elimination is largely marginal for most of AMS because their CEPT rates are already low (Figure 2). In contrast, the expected impacts are higher in Cambodia and Lao PDR and Vietnam to a lesser extent, where average CEPT rates are the highest among AMS. Although Myanmar is not explicitly analyzed in the study due to lack of data, it is reasonable to expect significant impacts comparable to what has occurred in Cambodia, Lao PDR and Vietnam.

=== Figure 2 ===

Another important implication identified by Itakura (2012) is that the scope of economic integration does matter for higher gains in terms of GDP. Expected impacts of AEC on GDP is the highest in AT scenario in Figure 2, which includes trade facilitation measures in addition to liberalization in trade in goods (A5) and services (AS). This result provides encouraging evidence for ASEAN to pursue deeper economic integration in the AEC which goes far beyond AFTA.

### **3.2 Free Flow of Goods**

The ASEAN Free Trade Area (AFTA) has been at the cornerstone of economic integration in ASEAN since the 23<sup>rd</sup> AEM in October 1991 when ASEAN Economic Ministers agreed to establish AFTA within 15 years. The Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (CEPT-AFTA) was signed in 1992 and entered into force at the beginning of 1993. Since then, CEPT rates have been regarded as key policy measures to realize AFTA, with the end goal to reduce tariffs to 0-5% by 2008. In 1995, ASEAN leaders agreed to accelerate the establishment of AFTA by five years.

The newer AMS joined ASEAN after these initial steps were started. Vietnam became a member of ASEAN in July 1995, followed by Myanmar and Lao PDR in July 1997, and Cambodia in 1999. These CLMV countries, therefore, were granted a certain moratorium to comply with the CEPT-AFTA agreement.

In response to the changing environment, ASEAN Leaders found it necessary to reinforce their efforts toward liberalization of trade in goods by including various non-traditional measures of trade liberalization. In accordance with the AEC Blueprint, the AFTA-CEPT Agreement was overwritten by the signing of the ASEAN Trade in Goods Agreement (ATIGA) in 2008, which includes a number of policy measures such as trade facilitation, customs modernization, harmonization of standard and conformance, elimination of non-tariff barriers, provision of national treatment, and so on. ATIGA entered into force in May 2010.

According to ERIA (2012), “CEPT-rates are virtually zero in ASEAN-6. The average CEPT rate for CLMV was 2.6% in 2010”, indicating successful implementation of trade liberalization in terms of tariff reduction. As a result, “(i)ntra-ASEAN trade

share increased for around of top 25 traded commodities” in ASEAN.

However, Myanmar has not been part of this favorable development, despite its implementation of tariff reductions, mainly because of the economic sanction imposed by the United States and other Western countries, socio-economic uncertainty under the military government, the lack of adequate transport infrastructure, and so on. As we will discuss later, these bottlenecks are becoming less restrictive as a result of the significant political and economic reforms undertaken by the administration of President Thein Sein since March 2011, which has led to the gradual lifting of economic sanctions. Development partners have started to resume official development assistance, which in turn is expected to pave the way to increasingly attract foreign direct investment to Myanmar.

In terms of free flow of goods, the main challenges for Myanmar remain in the field of trade facilitation. For example, the establishment of an ASEAN Single Window is one of the most important goals of the AEC, and all AMS are required to establish National Single Windows (NSW) as the first step. According to ERIA (2012), five original AMS already have live implementation of NSW with clear plans to expand the service to all major ports and airports by 2015. Brunei Darussalam and Vietnam follow these five AMS and are on track toward live implementation of NSW by 2015. Myanmar, as well as Cambodia and Lao PDR, is still in the early stage of NSW implementation. As an NSW requires well-integrated computer systems connecting a number of authorities in charge of trade in goods, it is highly challenging for Myanmar because it needs to start almost from scratch. Customs modernization, i.e. computerization, needs to come first, and the subsequent coordination among various authorities would be another difficult challenge.

### **3.3 Free Flow of Services**

Services liberalization is another core element to achieve a single market and production base as envisaged in the AEC Blueprint. As economies grow, the proportion of value added and employment generated from the services sector tends to increase<sup>3</sup>. Therefore, the development of the services sector itself is highly important to the

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<sup>3</sup> This stylized fact of economic development is well known as Petty Clark's law.

economic development of a country. In addition, the services sector has been gaining in importance as a provider of indispensable inputs for the manufacturing sector and others. Telecommunication, finance and logistics services are typical examples of such contributions. As many services sectors involve high fixed costs, it is practical for lagging behind economies, including Myanmar, to utilize services available in the world market. For this purpose, services liberalization is a crucial step, as is the case with trade liberalization serving to promote industrial development.

Services liberalization in ASEAN has been implemented in accordance with the ASEAN Framework Agreement on Services (AFAS), which was signed by ASEAN Economic Ministers in 2005. Most of the sub-sectors are overseen by the Coordinating Committee on Services (CCS) under the AEM, while financial services and air transport services are under the purview of ASEAN Finance Ministers' Meeting (AFMM) and ASEAN Transport Ministers' Meeting (ATM), respectively. Since the signing of AFAS, ASEAN has concluded eight packages of commitments, expanding the scope of sub-sectors.

In the AEC Blueprint, for four services sectors in the Priority Integration Sectors (PIS), namely air transport, e-ASEAN, healthcare and tourism, all restrictions were agreed to be removed by 2010. Regarding logistic services, the fifth priority service sector, the target year of liberalization is set to 2013. For all other services sectors, "substantially" all restrictions are to be removed by 2015. That is, the coverage of AFAS is all services sub-sectors, with explicit emphasis on five priority services sectors: air transport, e-ASEAN, healthcare, tourism, and logistic services. In addition, financial services, which is under the purview of ASEAN Finance Ministers is regarded as another of the key services sectors.

As the mechanism for services liberalization, consecutive rounds of negotiation were scheduled for 2008, 2010, 2012, 2014, and 2015. In addition, the AEC Blueprint set the minimum number of new sub-sectors to be included for each round; 10 in 2008, 15 in 2010, 20 in 2012, 20 in 2014 and 7 in 2015, respectively, based on the classification of GATS (General Agreement on Trade in Services). Outcomes of every round of negotiation are the packages of commitments that, (1) eliminate all restrictions

for modes 1 and 2<sup>4</sup>, except for bona fide regulatory reasons (such as public safety), (2) allow for other AMS' equity participation of not less than 51% by 2008, and 70% by 2010 for the four priority services sectors; not less than 49% by 2008, 51% by 2010, and 70% by 2013 for logistics services; and not less than 49% by 2008, 51% by 2010, and 70% by 2015 for other services sectors, and (3) progressively remove other mode 3 market access limitations by 2015.

Although these are highly ambitious goals, ASEAN agreed to allow various forms of flexibility, including the use of the ASEAN-X formula, where countries that are ready to liberalize can proceed first and be joined by others later. As for financial services sector liberalization, ASEAN agreed in the AEC Blueprint that the process of liberalization should take place with due respect for national policy objectives and the level of economic and financial sector development of the individual members.

Ishido (2011) is an original mapping exercise to measure AFAS commitments of all AMS by calculating an index developed by Hoekman (1995) for 155 sub-sectors. The higher the Hoekman indexes, the more liberal the country's commitments for AFAS. Figure 3 below shows the summary, result for AFAS 5<sup>th</sup> and 7<sup>th</sup> packages, aggregated by taking simple average over 155 sub-sectors,. Several interesting observations can be made. First, ASEAN has made significant progress in achieving its AFAS commitments as demonstrated by the increase in the average index from 0.24 in AFAS(5) to 0.36 in AFAS(7). Second, Cambodia is a leading country in services liberalization, reflecting its policy to take advantage of services trade to complement its weak domestic services sector. Third, Myanmar is an average performer, having the largest degree of commitments in computer and related services, courier services, social services, hotels and restaurants (Ishido, 2011).

=== Figure 3 ===

Figure 4 provides further implications. First, ASEAN made significant progress in AFAS(7) from their GATS commitments, indicating that AFAS has been working as an effective impetus to induce services liberalization in ASEAN. Second, the degree of

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<sup>4</sup> Trade in services is conducted in four modes, namely cross-border supply of service (mode 1), consumption abroad (mode 2), commercial presence (mode 3), and presence of a natural person (mode 4).

commitments differs by country and by sub-sector. For example, Brunei Darussalam is reluctant to make commitments in distribution services and environment services, as evidenced by a Hoekman Indexes of zero, in clear contrast with Cambodia, which has the highest (0.75) indexes for both sub-sectors. Myanmar made higher commitments in construction (0.63), tourism (0.52), and health (0.50); whereas commitments were lower in finance (0.09), transport (0.13), and business services (0.25).

=== Figure 4 ===

As discussed above, the progress of services liberalization in ASEAN under AFAS is significant in terms of commitments. However, it should be stressed that commitments need to be implemented by reviewing domestic regulations and amending domestic laws where necessary. As stressed by Ishido and Fukunaga (2012), services liberalization “will give much larger impacts if associated with appropriate domestic regulatory reforms, by inviting new entrants both from domestic and foreign to the markets and thus dramatically improving efficiency.”

Let us take an example from financial services. An efficient financial market has long been regarded as an important factor in facilitating economic growth<sup>5</sup>. In order to establish an efficient financial market, financial regulations need to be minimized, except for prudential regulations. Unlike Cambodia, most developing countries have fears about opening their financial market. The concern is that, given the huge difference in competitiveness, backed by the size and efficiency, between underdeveloped domestic financial institutions and foreign mega financial institutions competing in the global market, liberalization may lead to the collapse of domestic financial institutions. Although such a fear is understandable to some extent, policymakers need to consider the possible opportunity loss that might be caused by their closed financial market. A number of foreign companies are now looking for investment opportunities in Myanmar. For potential investors, the existence of an efficient and credible financial market is one of the key determinants in their investment decision. Despite the difficulties, it is worthwhile for Myanmar to develop a roadmap

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<sup>5</sup> For example, King and Levine (1993) claim that efficient financial intermediation promote economic growth.

for the liberalization of trade in financial services, including the liberalization of investment in the sector.

### **3.4 Free Flow of Investment**

Foreign direct investment (FDI) is one of the key elements that has enabled and sustained the remarkable economic development of advanced AMS. Although there are a number of issues to be considered, investment liberalization is an indispensable element of the development of the AEC as a single market and production base. As the AEC Blueprint claims, “sustained inflows of new investments and reinvestments will promote and ensure dynamic development of ASEAN economies”.

Investment cooperation in ASEAN has been formulated in accordance with the Framework Agreement on the ASEAN Investment Area (AIA) signed in 1998 and the ASEAN Investment Guarantee Agreement (IGA) in 1987. AIA mandates AMS open all industries to ASEAN investors and to grant national treatment to investors from other AMS, except for sectors listed in the Temporary Exclusion Lists (TEL) and Sensitive Lists (SL). While TEL are to be phased out, based on agreed-upon timelines, SL do not have such a timeline.

To enhance regional integration as well as to maintain a competitive investment area, both the Framework Agreement on the AIA and the ASEAN IGA will be reviewed.

With the objective of realizing a more comprehensive investment agreement, the ASEAN Comprehensive Investment Agreement (ACIA) was signed in 2009 and entered into force in 2012, replacing AIA and IGA with significant revisions and expansions. ACIA is an international-standard investment agreement, with pillars of investment protection, liberalization, and facilitation, and dispute settlement mechanisms. However, as is the case in services liberalization, agreement and implementation are different. In order to implement ACIA, AMS need to review related laws and regulations, and to revise existing ones in accordance with the provisions set forth in ACIA. Again, it is not an easy task for AMS.

On November 2, 2012, after heated debates in the Myanmar parliament, President Thein Sein signed and promulgated the new (revised) Foreign Investment Law. Although some of the details are yet to be decided, the Myanmar government needs to

comply with the provisions in ACIA, with allowed exceptions for newer AMS.

### **3.5 Transport Connectivity<sup>6</sup>**

The remarkable economic growth in many of AMS has been a success story of economic development. During this growth, AMS have successfully been attracting foreign direct investment (FDI), upgrading industrial structures, and integrating themselves more into the global economy through participation in regional production and distribution networks. All these developments have been supported by continuous improvements of transport networks in the region. The endeavor is still ongoing. Indeed, a more efficient, secure and integrated transport network in ASEAN is still necessary to establish the ASEAN Economic Community (AEC), which is envisaged in the AEC Blueprint to be characterized by (1) single market and production base, (2) competitive economic region, (3) equitable economic development, and (4) enhanced participation in global supply networks.

Transport cooperation in ASEAN has been carried out according to consecutive five year plans since the 1980s, and the key transport initiatives in the ASEAN Transport Action Plan (ATAP), such as the ASEAN Highway Network (AHN), the Singapore-Kunming Rail Link (SKRL), the Roadmap for Integration of Air Travel Sector (RIATS), the Roadmap towards an Integrated and Competitive Maritime Transport in ASEAN (RICMTA), and three framework agreements on transport facilitation, was incorporated in the AEC Blueprint. The Brunei Action Plan (BAP), adopted in November 2010, updated the information and timelines of these transport initiatives based on a comprehensive assessment of the ATAP and other related issues (ERIA Study Team, 2010). Furthermore, these transport initiatives were incorporated in the Master Plan on ASEAN Connectivity (MPAC) as key strategies to enhance physical and institutional connectivity within ASEAN and with other parts of the world.

#### **3.5.1 The ASEAN Highway Network**

The ASEAN Highway Network (AHN) has been one of the flagship projects in ASEAN transport cooperation since the adoption of the Ministerial Understanding on

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<sup>6</sup> This sub-section is based on Umezaki and Isono (2013).

the Development of the ASEAN Highway Network Project in September 1999. Building upon the routes and technical standards of the Asian Highway project under the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), this Ministerial Understanding added several new routes in ASEAN, defined ASEAN's own technical standards, and set timelines for implementation. To date, 23 routes have been designated as part of the AHN, and the total stretch is 38,400 km. The end goal of the AHN is to upgrade all sections to be Class 1 or above by 2020.

In February 2007, AMS came to an agreement to designate 21,206 km of the AHN as Transit Transport Routes (TTRs) in Protocol 1 of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT). Since then, the designated TTRs have been regarded as priority routes to develop or improve in the AHN. In the AEC Blueprint, ASEAN committed to implement the AHN projects, with an explicit emphasis on the upgrading of below Class III sections on TTRs, which was to be completed by 2009. Reflecting the delay in implementation, BAP revised the timeline with the priority on the below Class III sections on TTRs and missing link sections, and this was adopted as one of the prioritized projects in the MPAC. Table 2 shows the prioritized sections identified in the MPAC.

==== Table 2 ====

According to the official report of Lao PDR submitted to the ASEAN Secretariat in February 2012, the AH12 section between Vientiane and Luang Prabang (393 km) and the AH15 section between Ban Lao and Namphao (98 km) were both classified as Class III. That is, there are no longer any sections of TTRs in Lao PDR below Class III.

Combining the information from the official report of Myanmar submitted to the ASEAN Secretariat in March 2012, and the Asian Highway Database, developed and maintained by UNESCAP, we identified remaining below Class III sections on AH1 in Myanmar as a 195 km section between Thaton and Myawaddy and a 379 km section Chaung-U and Kalemyo. The below Class III section between Kawkaik and Myawaddy has been under upgrading work since January 2012, with official assistance from Thailand. The length is identified as 46 km. Although the expected date of

completion, April 2014, is behind the timeline agreed to in BAP (by 2012), such visible progress in the implementation is obviously an important step.

According to the said Myanmar report, 90 km of the 276 km section between Meiktila and Loilem on AH2 consists of Class II, Class III, and below Class III sections, and a 367 km section between Loilem and Kyaingtong falls below Class III, whereas a 164 km section between Kyaingtong and Tachileik is Class III. Although the entire 93 km section between Kyaingtong and Mongla on AH3 in Myanmar is classified as below Class III in the BAP/ASTP and the MPAC, the section has been upgraded to Class III level, according to the latest information from Myanmar government.

The remaining missing link sections on the AHN are both in Myanmar. One of them, AH123 between Dawei and Maesamee Pass (141 km) has been constructed by Italian–Thai Development (ITD) Public Company Limited and Max Myanmar Company Limited, as a part of a comprehensive development project in Dawei and surrounding areas. The other missing link section, a 60 km section Lehnya to Khongloy, has seen no progress.

As clearly prioritized in the AEC Blueprint, the MPAC, and BAP, all missing link sections and below Class III section on TTRs need to be constructed or upgraded. All remaining prioritized sections are located in Myanmar, and they have been isolating Myanmar physically from neighboring countries with the exception of China. Other below Class III sections are also found in less-developed regions in AMS. In this regard, the current priority is of particular importance to pursue equitable economic development, as those less-developed regions could gain from enhanced access to large markets in ASEAN and beyond.

Out of the remaining prioritized sections, only the missing link section between Dawei and Maesamee Pass (AH123) and below Class III section between Myawaddy and Kawkaleik (46km) are under construction. Despite the importance of improving other prioritized sections, given the limitation of financial resources, ASEAN may need to consider further prioritization among them, by comparing the feasibility of raising funds and the expected economic impacts of each section.

The Joint Ministerial Statement of the 17th ATM Meeting, held in Phnom Penh on 16 December 2011, mentioned that, prior to the meeting, India proposed support for the

development of (1) the trilateral highway connecting India, Myanmar, and Thailand, (2) its extension to Lao PDR and Cambodia, and (3) a new highway connecting India, Myanmar, Lao PDR, Vietnam, and Cambodia. As the trilateral highway is designed to go through AH1 sections in Myanmar, this Indian proposal is expected to facilitate the upgrading work of the remaining below Class III sections on AH1 in Myanmar, such as the 379 km section between Kalemryo and Chaung-U, and the 133 km section between Thaton and Kawkaleik. In particular, the latter has been a bottleneck to enhanced connectivity between Yangon, the center of economic activity in Myanmar, and Thailand. Indeed, this is one of the reasons Thailand has been supporting the upgrading work of the 46 km section between Myawaddy and Kawkaleik. It is recommended to Myanmar and ASEAN to accelerate the talks with India and, at the same time, to look for other donors from potential beneficiaries, including Japan and Thailand.

In addition, in view of the expected impacts on the regional economy, as demonstrated in ERIA (2010), it is worthwhile designating AH123 and the 376 km section between Dawei and Thaton on AH112 as TTRs. The AH123 section is an integral part of the Mekong–India Economic Corridor (MIEC), which itself is also agreed to in the BAP and the MPAC as one of the key projects. The section between Dawei and Thaton is expected to be a source of additional synergy by enhancing the connectivity between Yangon and Dawei.

### **3.5.2 Singapore-Kunming Rail Link**

The Singapore–Kunming Rail Link (SKRL) has two lines connecting Bangkok to Kunming, an eastern line through Cambodia and Vietnam, with a spur line between Lao PDR and Vietnam, and a western line through Myanmar (Figure 5).

Although ASEAN agreed in the AEC Blueprint to “complete the development of all the missing links in the Singapore-Kunming Rail Link,” only the section between Poipet and Sosphon in Cambodia, which is a part of the missing link between Thailand and Cambodia, was listed on the strategic schedule attached to the AEC Blueprint to have been completed by 2009. As it turned out, even this target year was not met due to a delay in implementation. Reflecting the delay, ASEAN revised the implementation timeline in the BAP, giving an explicit priority to the eastern line of the SKRL in view

of limited financial resources and the greater challenges in constructing the western line. Based on the BAP, the MPAC listed the construction of the missing link sections between Thailand and Cambodia, and between Cambodia and Vietnam as one of the prioritized projects. Out of the missing links between Thailand and Cambodia, a 6 km section between Aranyaprathet and Klongluk in Thailand is targeted to be completed by 2014, whereas a 48 km section between Poipet and Sisophon in Cambodia is to be completed by 2013. Out of the missing links between Cambodia and Vietnam, a 257.35km section in Cambodia between Bat Doeung in Phnom Penh and the Vietnam border, and a 129 km section in Vietnam between Loc Ninh and Ho Chi Minh City are agreed to be completed by 2015 and 2020, respectively, in the BAP.

=== Figure 5 ===

The latest status of implementation was reported by concerned AMS and China to the 13th Special Working Group on the Singapore–Kunming Rail Link (SWG-SKRL) Meeting held on 18 October 2011, in Myanmar. The following information is based on the final report of the meeting.

In Thailand, the State Railway of Thailand (SRT) planned to upgrade its 6 km track from Aranyaprathet to Klongluk to prepare for international traffic. However, the budget for this upgrading was suspended due to domestic procedures. To speed up the project, the SRT already resubmitted the requisite budget request to the government for reconsideration, aiming to finish this project, together with its counterpart project in Cambodia, by 2013, a year earlier than indicated in the BAP and the MPAC. In Cambodia, the missing link from Sisophon to Poipet has been under construction since the end of December 2010 and is expected to be completed in 2012, a year earlier than agreed in the BAP/ASTP and the MPAC.

A feasibility study on the missing link section in Cambodia was completed in March 2011 with the assistance of China. However, the report is still under review and has not been released. To facilitate implementation, Cambodia planned to seek assistance both from development partners and investment from the private sector. The missing link between Loc Ninh and Ho Chi Minh City is targeted to be completed by

2020, five years after the targeted year of completion of the corresponding missing link in Cambodia. After the adoption of the BAP/ASTP and the MPAC, however, Vietnam has upgraded this project to be one of its priority projects. Indeed, a feasibility study for this project was already carried out.

Overall, the prioritized projects of the SKRL are ongoing, although the degree of progress differs by sections. Toward 2015, Thailand, Cambodia, and Vietnam are expected to maintain and accelerate, if necessary, the process of constructing the physical infrastructure to connect the missing links. As the SKRL is a flagship project of ASEAN, the ASEAN Secretariat is expected to provide support for AMS looking for financial resources, for example, by utilizing the ASEAN Infrastructure Fund (AIF).

Another important aspect of the SKRL is the actual operation of the railway. Recognizing this, ASEAN Transport Ministers already agreed in the BAP to formulate a strategy for the seamless operation of the SKRL by 2013, before the completion of the missing link sections. In order to maximize the economic benefits of the SKRL, physical infrastructure needs to be complemented by an appropriate institutional arrangement to ensure efficient cross-border transportation. For example, Protocol 6 of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT) regarding “railway borders and interchange stations,” one of such necessary institutional arrangements, was already signed on 16 December 2011, just in time for the original timeline set forth in the AEC Blueprint. Including the operationalization of this protocol, ASEAN is expected to expedite the formulation of the strategy for a seamless operation of the SKRL.

Looking beyond 2015, there still remain two missing links between Thailand and Myanmar, and between Lao PDR and Vietnam. The missing link between Thailand and Myanmar consists of a 153 km section between Nam Tok and Three Pagoda Pass in Thailand and a 111 km section between Three Pagoda Pass and Thanbyuzayat in Myanmar. According to a feasibility study that was conducted under the assistance of the Korea International Cooperation Agency (KOICA) and completed in 2007, the estimated costs to construct the two sections in Myanmar and Thailand are USD 246 million and USD 491 million, respectively. It was also concluded that the construction of this missing link would provide a low return on investment and the consultants were

of the opinion that the railway construction should be put off. Therefore, during the 5th Session of the Joint Trade Commission between Thailand and Myanmar that was held in April 2010 in Bangkok, Myanmar proposed a new alternative route to connect Thailand and Myanmar – from Ban Khao (Kanchanaburi) in Thailand to Dawei in Myanmar. Thailand is of the view that another feasibility study and preliminary design should be conducted under cooperation, either by the private sectors of the two countries or by the SRT and Myanmar Railways, and, therefore, would need further domestic consultation on Myanmar’s new proposed railway line<sup>7</sup>.

### 3.5.3 Transport Facilitation

Although it is necessary to enhance physical connectivity by road or railway networks, it is not sufficient to achieve the goals of the AEC, such as creating an ASEAN single market and production base and narrowing the development gaps. For example, as cross-border transportation by trucks is usually not allowed, unloading and reloading processes are required at national borders. Land transportation sometimes requires transit transport in a third country between the country of origin and the country of destination. In the absence of an agreement on transit transport, logistic service providers need to go through customs procedures twice, when they enters the third country and when they enters the country of destination from the third country. As illustrated in Figure 6, the cost and time required for such border-crossing are found to be significant, indicating that the expected impacts of transport facilitation are significant as well.

=== Figure 6 ===

In addition, international transport services often involve multiple modes of transportation, such as trucks, railways, ships and airplanes. In order to facilitate international trade, therefore, it is important to have a common understanding on the legal liability of multimodal logistic service providers who provide integrated logistic

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<sup>7</sup> According to a recent report, Myanmar government revealed a plan to construct the missing link section in the original design on SKRL, that is, between Nam Tok in Thailand and Thanbyuzayat in Myanmar, as a part of regional economic development initiatives in the border area which has been highlighted during the process of peace talks with small ethnic armed insurgents (*Yomiuri Online*, 1 January 2013).

services using multiple modes of transportation. Based on these premises, AMS have signed three framework agreements on transport facilitation, in an effort to fully operationalize those agreements by 2015.

The ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT) was signed in December 1998, with the objective to mutually allow transit transport among AMS. As stipulated in Article 4 (4) of the AFAFGIT, “(g)oods carried in sealed road vehicles, combination of vehicles or container shall not be subjected to examination at Customs offices en route” except for the exceptional cases “to prevent abuses such as smuggling and fraud” or “when irregularity is suspected.” Therefore, a significant reduction in time and costs is expected. The AFAFGIT consists of the main text and nine protocols; (1) designation of Transit Transport Routes and facilities, (2) designation of frontier posts, (3) types and quantity of road vehicles, (4) technical requirements of vehicles, (5) ASEAN scheme for compulsory motor vehicle third-party liability insurance, (6) railways border and interchange stations, (7) customs transit systems, (8) sanitary and phytosanitary measures, and (9) dangerous goods.

The ASEAN Framework Agreement on Multimodal Transport (AFAMT) was signed in November 2005, to determine the legal liability of multimodal transport operators and consigners, and to agree on the standard format of multimodal transport contracts. The AFAMT applies for international multimodal transport services from or to AMS provided by multimodal transport operators officially registered in an ASEAN Member State. Therefore, AMS are effectively required to enact domestic legislation on multimodal transport as stipulated in the strategic schedule of the AEC Blueprint.

The ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST) was signed in December 2009, with the objective to allow transport operators registered in an ASEAN Member State to provide transport services in other AMS when the goods are transported from or to the country of registration. Together with the AFAFGIT, the AFAFIST is expected to significantly increase the efficiency of transit transport, as there would be no need to unload and reload the goods at national borders. The AFAFIST shares the nine protocols with the AFAFGIT. Although the number of vehicles allowed to operate in other AMS was limited to 60 in the original text of the Protocol 3, it was increased to 500 to reflect the high and growing

expectations for this agreement.

The AEC Blueprint followed the ATAP, then working five-year plan of transport cooperation prior to the BAP/ASTP, in setting the timelines for the implementation of these transport facilitation agreements. The AFAFGIT was planned to be implemented by 2009, contingent on the speedy conclusion of Protocol 2 (designation of frontier posts) and Protocol 7 (customs transit system). Protocol 6 (railways border and interchange stations) was planned to be concluded by 2011. As for the AFAMT, AMS mandated themselves to have enacted necessary domestic legislations by 2009, as a prerequisite to implement the agreement. The AFAMT was planned to be implemented in at least two AMS by 2011, and ASEAN-wide by 2013. As for the AFAFIST, the main text was planned to be finalized and adopted by 2009 and implementation was to be started by 2011 with ASEAN-wide implementation by 2015.

Out of the nine protocols of the AFAFGIT, Protocols 2 and 7 have yet to be finalized, and Protocol 1 (designation of Transit Transport Routes and facilities), Protocol 6, and Protocol 9 (dangerous goods) are still awaiting ratification by the AMS.

While the AFAMT was originally planned to be implemented by 2010 in the ATAP and the AEC Blueprint, only three AMSs, namely, Cambodia, the Philippines, and Thailand, ratified the agreement by the deadline. Six AMS are still in the process of ratification, with only the above-referenced three AMS and Vietnam, which ratified the AFAMT in November 2011.

#### **4. Conclusion**

Despite being a member in ASEAN since 1997, the Myanmar economy has been effectively isolated from the global economy, with the significant exception of China, mainly because of the economic sanction imposed by the United States and European countries. The high degree of uncertainty under the military government has kept even other AMS from enhancing their engagement with Myanmar in terms of economic activities. The recent democratization has completely changed the landscape relating to

Myanmar. The United States and European countries started to lift sanctions on a step-by-step basis. Japan's decision to write-off outstanding debts and resume official development assistance is another major step and induced unprecedented interest from Japanese companies about Myanmar. Thailand started to provide official assistance to upgrade the road infrastructure between Kawkaik and Mawlamyine, a critical section to physically connect Myanmar and Thailand, and beyond. India proposed to assist Myanmar in improving road infrastructure along ASEAN Highway No. 1 to enhance the physical connectivity between the two countries, which is also one of the key initiatives under the AEC Blueprint. All these developments were triggered by the dramatic political and economic reforms in Myanmar since the inauguration of the Thein Sein administration and will surely help Myanmar to implement the initiatives under the AEC Blueprint and enhance its connectivity with neighboring countries and the global economy.

In order to realize the potential opportunities of the AEC, however, Myanmar needs to overcome a number of challenges.

First of all, Myanmar needs to squarely face the fact that the impacts of economic integration will be unevenly spread across economic sectors and across regions. The benefits of economic integration in general are not just added on to existing economic activities. In reality, the process of economic integration requires a member country to experience major structural adjustment through the relocation of production factors such as labor and capital to maximize the profits in the new environment. The AEC, an envisioned form of a more integrated ASEAN, is expected and designed to allow the private sector, regardless of nationality, to relocate operations to a more profitable place in ASEAN without being confined in a specific country, in terms of factor intensity, adjacent to the market, and convenience to supply chains. Therefore, it is natural to expect that some existing economic activities in a country might lose out while others gain in the new environment of a more integrated economic space. Of crucial importance during the process of structural adjustment is to not excessively protect incumbent economic activities that operate from a disadvantageous position, but to pay necessary adjustment costs (1) by facilitating intersectoral or interregional mobility of production factors and (2) by designing and implementing effective redistribution

policies from those who gain to those who are losing out.

A typical example of this challenge can be found in Myanmar's struggle to revise the Foreign Investment Law. The vision and initiatives of the AEC, including the ASEAN Comprehensive Investment Agreement (ACIA), require Myanmar to implement more liberal measures. However, it would have major conflicts with Myanmar's domestic interests, particularly with groups that have vested interests to protect. By introducing democratic decision making, Myanmar has been becoming more prone to the status quo. In addition, as state owned enterprises have a large share in the Myanmar economy; it is more difficult for the Myanmar government to undertake liberalization measures that might harm the state owned enterprises. Such pains of structural adjustment need to be mitigated by facilitation and redistribution policies.

Another major challenge in implementing the AEC Blueprint to take advantage of the potential opportunities the AEC presents is the limitation in capacity in terms of infrastructure, institutions, human resources, technology, and finance. Without adequate infrastructure, such as roads, ports, airports, power plants, industrial estates, and so on, it is difficult for Myanmar to make the best use of its comparative advantages such as abundant labor, natural resources, strategic location as the connecting node between China, India, and Thailand, and so on<sup>8</sup>. The hurdle to implement the AEC Blueprint is much higher for Myanmar than Singapore for example, not only because the scope of necessary reforms are larger but also because of lower capacity of available institutions and human resources. The limited institutional capacity also results in the lack of reliable information, including official statistics, and this causes difficulties in designing effective policy measures to cope with the rapidly-changing environment toward the establishment of the AEC.

However, as the reward for its own efforts in undertaking such remarkable political and economic reforms, Myanmar now has tremendous opportunities to take advantage of external resources in the form of official financial, technical assistance and foreign investments to help fill in its gaps. In order to fully leverage such external resources, Myanmar needs to have a strategic vision to generate win-win situations on a variety of fronts with various development partners. Of crucial importance for this

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<sup>8</sup> The strategic location of Myanmar is fully discussed in Kimura, Kudo and Umezaki (2011).

purpose is the steady implementation of the AEC initiatives. Myanmar is endowed with abundant low cost labor and a strategic location, a combination that is very attractive to foreign investors. However, these factors alone are not enough to attract foreign investors. These endowments need to be accompanied by adequate infrastructure, including physical infrastructure such as roads, ports, airports, power plants, and water, and institutional infrastructure such as efficient customs, a capable and reliable financial system, and a credible protection for investors. Efficient logistic services providers and prudent financial institutions are also indispensable for Myanmar to participate in regional production networks. All the AEC initiatives covered in this chapter are the core elements, among others, that are necessary for Myanmar to “seize the moment”. The steady implementation of the AEC initiatives is expected to result in modernized customs, effectively connected to the ASW, an improved investment climate that is friendly to both domestic and foreign investors, a reliable services sector (logistics, finance, and distribution, in particular) in support of agriculture and manufacturing, and improved and expanded transport networks. These are what foreign investors, and their governments, expect from Myanmar, and the source of generating a win-win situation. As illustrated in Figure 2, the deeper the degree of economic integration, the larger the expected gains from the establishment of the AEC.

The agreed timeline for the establishment of the AEC is less than three years away. Despite the original intention to ensure the implementation of the AEC Blueprint, available information suggests that there still remains a lot to do. Although ASEAN has been putting more efforts to fulfill the commitments, the progress is not clearly visible, mainly because of the insufficient disclosure of information and the comprehensive and ambitious nature of the AEC Blueprint.

Opportunities are wide open in front of Myanmar, particularly as a result of its own efforts for political and economic reforms most of which have been observed as consistent with the visions of the AEC. The challenges in front of Myanmar could be overcome by taking advantage of external resources, as development partners and the private sectors are interested to invest. For this to happen, Myanmar needs to keep demonstrating its strong commitment to implementing the AEC initiatives.

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**Table 1: Selected Macroeconomic Indicators**

Indicators	Year	BRU	CAM	IDN	LAO	MAL	MYM	PHL	SGP	THL	VNM
Population (millions)	2011	0.4	14.5	241.6	6.4	29.0	60.4	94.2	5.2	67.6	87.8
GDP per capita (international \$ PPP)	2000	43,303	918	2,412	1,190	9,028	na	2,410	33,767	5,086	1,426
	2010	48,620	2,159	4,352	2,424	15,122	na	3,980	57,902	9,353	3,191
Agriculture/GDP (%)	1990	1.0	56.5	19.4	61.2	15.0	57.3	21.9	0.3	10.0	38.7
	2010	0.8	36.0	15.3	30.0	10.5	36.4	12.3	0.0	10.9	20.6
Industry/GDP (%)	1990	61.6	11.3	39.1	14.5	41.5	10.5	34.5	31.9	37.2	22.7
	2010	66.8	23.3	47.0	27.7	41.5	26.0	32.6	27.9	40.1	41.1
Services/GDP (%)	1990	37.5	32.2	41.5	24.3	43.5	32.2	43.6	67.8	52.8	38.6
	2010	32.5	40.7	37.6	42.0	48.0	37.6	55.1	72.1	49.0	38.3
Exports/GDP (%)	2000	61.8	2.4	25.3	na	74.5	1.9	27.5	177.4	33.1	26.4
	2010	81.4	54.1	24.6	na	93.7	0.1	34.8	207.2	66.7	77.5
Imports/GDP (%)	2000	37.3	8.4	23.7	na	72.4	3.6	33.3	167.4	40.6	35.7
	2010	32.9	59.5	23.0	na	76.6	0.1	36.6	178.7	60.4	87.8

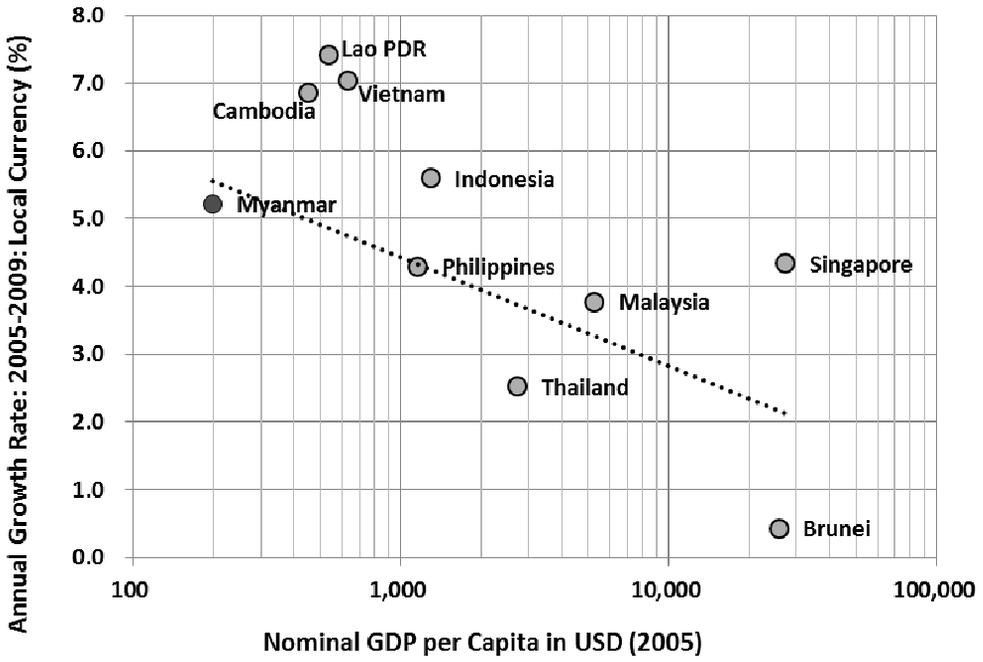
Source: ADB (2012).

**Table 2: Below Class III Sections on TTRs and Missing Link Section of the AHN**

AH No.	Country	Section	Length	Status
AH12	Lao PDR	Vientiane – Luang Prabang	393 km	Below Class III
AH15	Lao PDR	Ban Lao – Namphao	98 km	Below Class III
AH1	Myanmar	Tamu – Mandalay – Bago – Myawaddy	781 km	Below Class III
AH2	Myanmar	Meikthila – Loilem – Kyaington – Tachileik	593 km	Below Class III
AH3	Myanmar	Kyainton – Mongla	93 km	Below Class III
AH112	Myanmar	Lehnya – Khongloy	60km	Missing Link
AH123	Myanmar	Dawei – Maesamee Pass	141 km	Missing Link

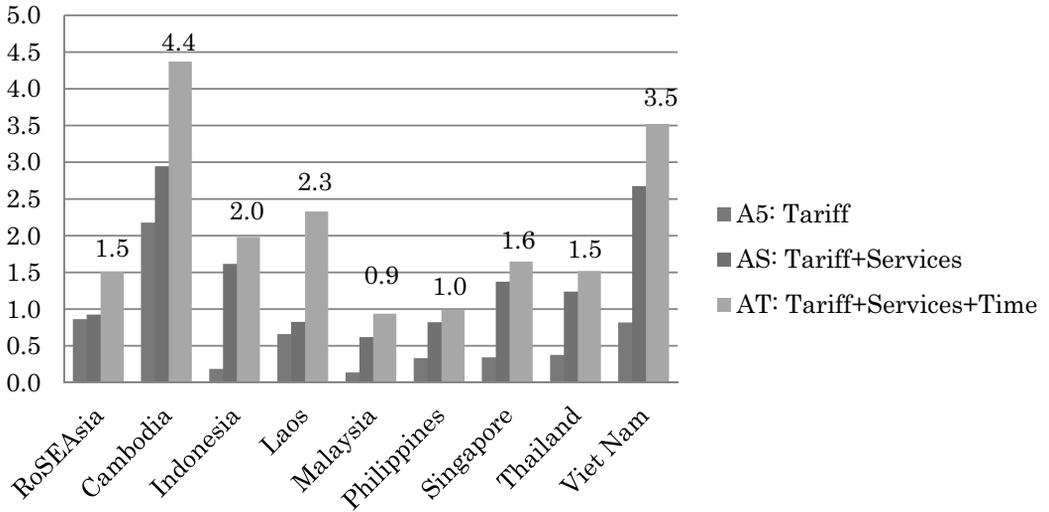
Source: Master Plan on ASEAN Connectivity.

**Figure 1: Converging ASEAN**



Source: ASEAN website, <http://www.aseansec.org/18135.htm>.

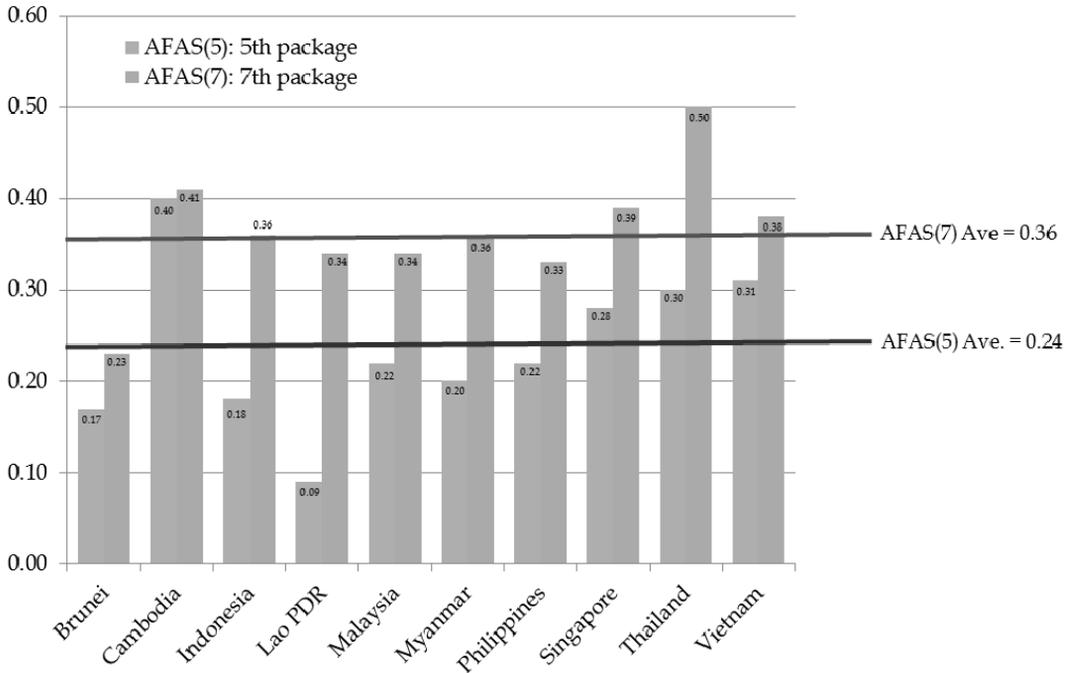
**Figure 2: Impact of AEC on GDP**



Source: Itakura (2012) as referred in ERIA (2012).

Notes: The impacts are expressed in terms of cumulative percentage increase over baseline 2011-2015 in 2015. Brunei Darussalam is proxied by RoSEAsia (Rest of Southeast Asia) in the simulation, and Myanmar is not included in the analysis because of Global Trade Analysis Project (GTAP) modeling constraints.

**Figure 3: AFAS Commitments: Hoekman Index**



Source: Based on Ishido and Fukunaga (2012).

**Figure 4: Level of Commitments and Additional Gains by AFAS(7) from GATS**

**Commitments**

AFAS(7)	01 Business	02 Communication	03 Construction	04 Distribution	05 Education	06 Environment	07 Finance	08 Health	09 Tourism	10 Recreation	11 Transport
Brunei	0.38	0.10	0.33	0.00	0.45	0.00	0.33	0.31	0.28	0.11	0.21
Cambodia	0.30	0.30	0.51	0.75	0.45	0.75	0.44	0.19	0.53	0.30	0.20
Indonesia	0.27	0.16	0.53	0.21	0.48	0.42	0.25	0.66	0.61	0.24	0.30
Laos	0.35	0.28	0.75	0.34	0.56	0.56	0.24	0.27	0.42	0.00	0.14
Malaysia	0.50	0.19	0.50	0.43	0.39	0.34	0.28	0.33	0.56	0.23	0.14
Myanmar	0.25	0.35	0.63	0.38	0.48	0.47	0.09	0.50	0.52	0.30	0.13
Philippines	0.42	0.52	0.35	0.28	0.00	0.27	0.45	0.14	0.47	0.30	0.38
Singapore	0.52	0.38	0.75	0.60	0.15	0.25	0.34	0.38	0.66	0.30	0.14
Thailand	0.66	0.20	0.64	0.60	0.58	0.75	0.39	0.31	0.64	0.64	0.24
Vietnam	0.39	0.33	0.56	0.25	0.43	0.50	0.49	0.63	0.52	0.18	0.19
ASEAN Average	0.41	0.28	0.55	0.38	0.40	0.43	0.33	0.37	0.52	0.26	0.21

**Additional Gains of AFAS (7) from GATS Commitments**

Brunei	0.26	0.06	0.33	0.00	0.45	0.00	0.20	0.31	0.28	0.11	0.20
Cambodia	0.01	0.02	0.01	0.05	0.00	0.00	0.09	0.00	0.08	0.15	0.03
Indonesia	0.23	0.06	0.30	0.21	0.48	0.42	0.04	0.66	0.44	0.24	0.28
Laos	NA										
Malaysia	0.20	0.14	0.41	0.43	0.39	0.34	0.07	0.17	0.34	0.05	0.12
Myanmar	0.25	0.35	0.63	0.38	0.48	0.47	0.09	0.50	0.17	0.30	0.12
Philippines	0.39	0.30	0.35	0.28	0.00	0.27	0.11	0.14	0.11	0.30	0.22
Singapore	0.31	0.23	0.60	0.60	0.15	0.25	0.02	0.38	0.38	0.15	0.10
Thailand	0.44	0.10	0.23	0.50	0.28	0.06	0.19	0.31	0.13	0.50	0.13
Vietnam	0.05	0.06	0.06	0.00	0.23	0.06	0.08	0.38	0.16	0.09	0.08
ASEAN Average	0.24	0.15	0.32	0.27	0.27	0.21	0.10	0.32	0.23	0.21	0.14

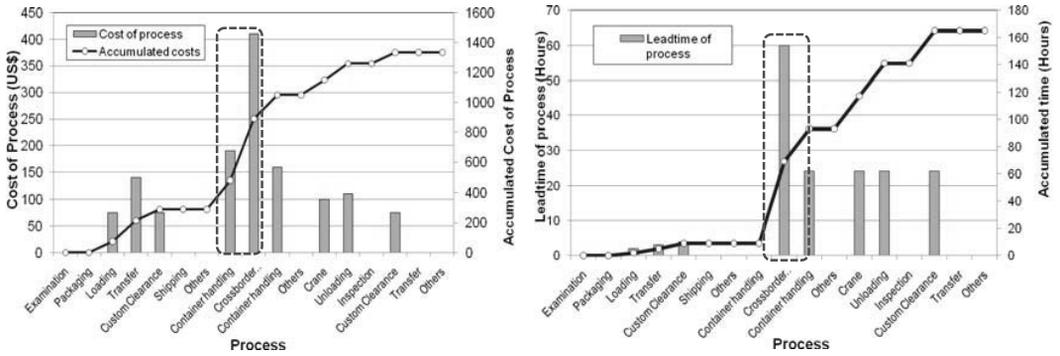
Source: Ishido and Fukunaga (2012).

**Figure 5: The Singapore Kunming Rail Link (SKRL)**



Source: SKRL Factsheet, ASEAN Website

**Figure 6: Cost and Time for Cross Border Transportation by Trucks**



Source: JETRO, ASEAN Logistic Network Map 2008.

Under the Asean Economic Community (AEC), a single regional common market of Asean countries will be created by 2015. The regional integration's objective is to create a competitive market of over 600 million people in Asean countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Many businesses have begun preparing themselves three years ahead of time to meet the challenges and opportunities of the Asean Economic Community (AEC). Even though, according to the Bangkok Post newspaper in Thailand, the AEC Scorecard at the moment shows the region behind schedule, having achieved only 73.6% of Phase 1 goals, it still offers a big opportunity in Asia as it will be viewed as a single large market. ASEAN leaders proclaimed to create an ASEAN Economic Community by 2015. But achieving the target requires cooperation and coordination both within and among the ten ASEAN economies. Currently, with countries having varying considerations towards complete liberalization, protectionism still persists in certain sectors of the economies. Lot of work needs to be done in addressing the domestic reforms, the gaps in infrastructure, the lack of human resources and adequate institutions. Moreover, it is the businesses whose decisions and actions will help the region to achieve an effective integration As ASEAN continues to strive towards greater integration through the political, economic, social and cultural goals of the ASEAN Community, global and regional changes will create new pressures and strains for ASEAN and its ability to achieve those goals. Global power plays both within and outside the region will inevitably play out on the ASEAN stage. The challenge is whether ASEAN is willing, capable and ready to play a larger role. What must ASEAN do so that it can face these challenges and survive the competition? First and foremost, it must deliver on the commitments it has agreed among its member countries.