dbc FORUM 2015

+ LIFTING-THE-BARRIERS REPORTS

- AIR TRANSPORTATION
- HEALTHCARE
- INFRASTRUCTURE
- FINANCIAL SERVICES & CAPITAL MARKETS
- RETAIL
- TOURISM

Lifting-The-Barriers Initiative Roundtables 2015

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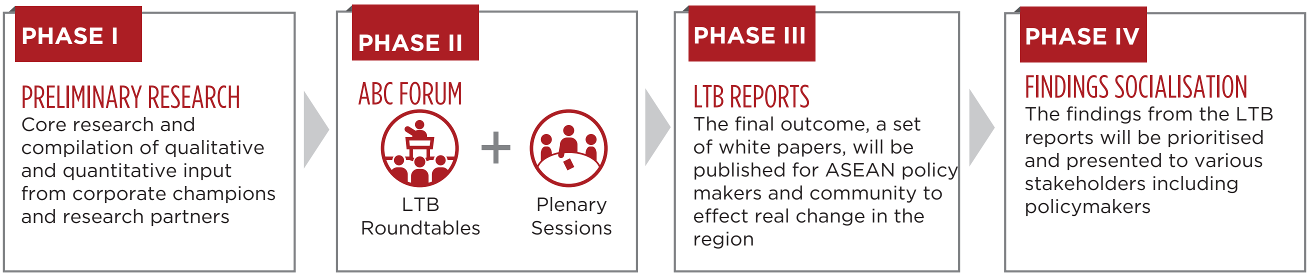
CONTENT

The Lifting-The-Barriers Initiative (LTBI) is a year-long research exercise designed in conjunction with the ASEAN Business Club (ABC) Forum. The LTBI in 2013 and 2014 have yielded 13 reports for 11 sectors. The output has been widely referred to by ASEAN policy makers and stakeholders. The overall objective is to conduct sector based research with the purpose of identifying bottlenecks and barriers to trade and integration in six targeted sectors within ASEAN member nations and to help realise the goal of the ASEAN Economic Community (AEC) later this year.

The ASEAN Chair of 2015, the Right Honourable Prime Minister Dato' Sri Najib Razak, publicly cited the LTB reports to be a useful guide for Malaysia's stocktake exercise to identify the gaps between ASEAN aspirations and reality in the business sector.

The LTBI has four phases, each playing a unique role in helping achieve the wider objective.



Phase I:
Phase I of the LTBI involves core research and seeks to identify the existing barriers in each sector to assist in understanding the challenges faced by different segments of the industry. We also study the AEC provisions and impacts on businesses and the industry as a whole.

Phase II:
Phase II convenes around the sector based "Lifting-The-Barriers Roundtables" at the ABC Forum. The roundtables serve as a platform for different stakeholders to deliberate on the future of their sector and of ASEAN as a region.

Phase III:
Phase III consist of the production of the final outcome of this exercise, the Lifting-The-Barriers Reports, white papers delivered to the relevant regulatory bodies to effect real change and accelerate ASEAN integration efforts. This phase will consolidate materials from Phase I and Phase II. The Reports summarise the industrial insights and ideas discussed at the Roundtables.

Phase IV:
Phase IV is the socialisation of key findings from the LTBI. This phase involves the distribution and presentation of the key findings to the relevant regulatory bodies as well as to other industry stakeholders. The 2014 LTB Reports were distributed to over 1000 companies and corporate entities as well as presented to various ASEAN government bodies and institutions.

This is the third in the series of Lift-The-Barriers Reports (LTBRs) produced by the Asean Business Club (ABC) following robust discussion, at its annual forum in Singapore, among industry leaders of their practical experience in the regional economy. The exchanges were facilitated by indicative sectoral studies prepared by its research partners and CIMB Asean Research Institute.

I would like particularly to thank participants at the ABC Forum 2015 last May and our esteemed research partners who are leaders in their fields. Without them these reports would not have come out, and the focused proposals to address non-tariff barriers in the various sectors could not have been made.

These proposals are constructive, even if a number in some sectors, have become repetitive - reflecting slow progress in the process of lifting the barriers as we approach that bewitching hour of the pronouncement of the Asean Economic Community (AEC) at the end of the year. The AEC will come about, because the pronouncement will be made and much progress has been achieved especially in tariff reduction in trade in goods.

The ABC seeks optimality as well as strategic progress in the establishment of the AEC. Thus these reports and the effort to put our case. Some of the sectors covered in these reports - such as capital and financial markets - are critical to real economic integration. Finance is the lifeblood of the economy. It is the enabler. Therefore there is some concentration on this sector because it will drive all the other sectors as well in the integration of the Asean economy - making it that single economy with those great prospects of size and growth.

The ABC will take up the proposals of the LTBRs with Asean officials and decision-makers. As we move into the post-2015 AEC Southeast Asia, the ABC will also seek to secure a more meaningful place for the private sector in the Asean economic integration process.

Tan Sri Dr. Munir Majid
President of ASEAN Business Club

The Lifting-The-Barriers Initiative (LTBI) 2015 marks the third cycle of the sectorial gap analysis since it was launched in 2013. With the publication of the latest series of LTB reports, the LTB Initiative has yielded 19 reports covering 12 sectors. The inputs generated in 2013 and 2014 have already been presented to various stakeholders of ASEAN, including ASEAN policy makers. For three years, we have gained invaluable support from various partners.

The ASEAN Business Club (ABC) and the CIMB ASEAN Research Institute (CARI) would like to appreciate the esteemed Research Partners for supporting the Lifting-The-Barriers (LTB) initiative for 2015 in all six targeted sectors. They are (1) Centre for International Law, National University of Singapore for Air Transportation Sector, (2) Accenture for Financial Services and Capital Markets Sector, (3) Economic Research Institute for ASEAN and East Asia (ERIA) for Infrastructure Sector, (4) Frost & Sullivan sector for Healthcare Sector, (5) AT Kearney for Retail Sector, and (6) ASEAN Tourism Association (ASEANTA) for Tourism Sector.

The Research Partners have been instrumental in providing technical input and research expertise throughout the year. We are also grateful to the sector chairs and sector speakers who contributed their insights at the Lifting-the-barriers roundtables held at the ASEAN Business Forum 2015 in May.

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- **Author: Dr. Alan Khee-Jin Tan**, Professor of National University of Singapore Law School
- **Barathan Pasupathi**, Chief Executive Officer of Jetstar Asia
- **Brendan Sobie**, Chief Analyst of Centre for Aviation (CAPA)
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- **Ludwig Rieder**, Consultant of ASEAN Strategic Tourism Plan (ATSP)

Acknowledgements also go to the CARI team, namely Soley Omarsdottir, Cahaya Amalina, Christina Chin and Amirah Aminuddin who have contributed to this report.

Last but not least, we would like to recognize Tan Sri Dr. Munir Majid, Chairman of CARI, and the ASEAN Business Club Advisory Council for their leadership, guidance and undivided support in making this project possible.

Jukhee Hong
Director of Operations, CARI
Project Director

ASEAN
BUSINESS
CLUB

About ASEAN Business Club

The ASEAN Business Club (ABC) is a fully private sector driven initiative of ASEAN's leading businesses, coming together to support economic integration while providing a platform for networking. The ABC creates an avenue for ASEAN's businesses to engage with global regional leaders. The club's vision is ASEAN: Open for Business.

CARI

CIMB
ASEAN
RESEARCH
INSTITUTE

About CARI

The CIMB ASEAN Research Institute (CARI) was established in 2011 as a member of CIMB Group. CARI prides itself on being the first independent, transnational research institute dedicated solely to the advancement and acceleration of the ASEAN integration agenda. CARI was designed to pursue research and to promote thought leadership in support of an integrated ASEAN Community. CARI seeks pragmatic solutions and policy recommendations to address challenges in ASEAN integration and connectivity. CARI's headquarters is located in Kuala Lumpur but the institute has a regional presence.

AIR TRANSPORTATION

+ LIFTING-THE-BARRIERS REPORT

Sector Chair
Aireen Omar, Chief Executive Officer, AirAsia Bhd

Sector Speakers
- Barathan Pasupathi, Chief Executive Officer, Jetstar Asia
- Brendan Sobie, Chief Analyst, Centre for Aviation (CAPA)
- Vinoop Goel, Asia-Pacific Regional Director of Airport, Passenger, Cargo & Security, International Air Transport Association (IATA)

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CIL
Centre for International Law
National University of Singapore

About The Centre for International Law (CIL)

The Centre for International Law (CIL) is a university-level research institute at the National University of Singapore (NUS). It was established in 2009 in response to the growing need for thought leadership and capacity building in international law in the Asia-Pacific region. The present areas of focus are ASEAN law and policy, ocean law and policy, trade and investment law and policy, air law and policy, and international dispute settlement in these areas. CIL engages in research, training, counsel and consultancy on key international law and policy developments. It also organises conferences, workshops and seminars on international legal issues that have an impact on Southeast Asia and the Asia-Pacific region. CIL also collaborates closely with a network of partner and stakeholder organisations in Singapore and overseas to further the development of international law research and training in the region.

TABLE OF CONTENTS

OVERVIEW – THE ASEAN SINGLE AVIATION MARKET (ASAM) AS 'WORK IN PROGRESS'

The Association of Southeast Asian Nations (ASEAN) has laid down an ambitious 2015 deadline by which to establish an ASEAN Single Aviation Market (ASAM) among its 10 member states. ASAM's goal is to liberalise air transport services in the region and to create a single integrated market for the airline industry. This is in line with the broader aim to create the ASEAN Economic Community (AEC) by the same 2015 deadline.

With the end of 2015 fast approaching, the reality is that ASAM is unlikely to be fully achieved in time (nor will the AEC, for that matter). For ASAM, much remains to be done for the ***economic/market integration*** of the aviation sector, while the work on ***technical/regulatory integration*** is still at its early stages. It is thus likely that ASAM will have to be extended, or to have a second stage declared for the post-2015 period to tackle both unfinished and new matters. In other words, ASAM remains very much a ***work in progress***. This Report highlights the critical items that government and industry players must address as ASAM is further developed beyond 2015. In particular, the focus here is on the nascent state of technical/regulatory integration and the need to accelerate its development.

THE BIG PICTURE: THE CHANGING FACE OF ASEAN AVIATION

Infrastructure and Human Capital Constraints

1. The dynamics of ASEAN aviation has changed significantly in the last decade and continues to evolve rapidly. According to calculations by the Centre for Aviation (CAPA), low-cost carrier (LCC) operations now account for more than half of all airline seat capacity (international plus domestic) in Indonesia (55%), the Philippines (51%) and Malaysia (51%). The next highest LCC penetrations rates are 38% in Thailand, 34% in Vietnam, 30% in Singapore and 20% in Myanmar.

2. Region-wide, the market share of LCCs on intra-ASEAN routes alone rose to 58.8% of all seats offered in 2014, up significantly from 3.3% in 2001 and 30.7% in 2010. The LCC share of capacity is expected to increase even more dramatically in the next decade, particularly for the short-haul intra-ASEAN routes. As at early 2015, six of the world's ten busiest international LCC routes are already found within ASEAN, with Singapore-Kuala Lumpur and Singapore-Jakarta being the top two routes.

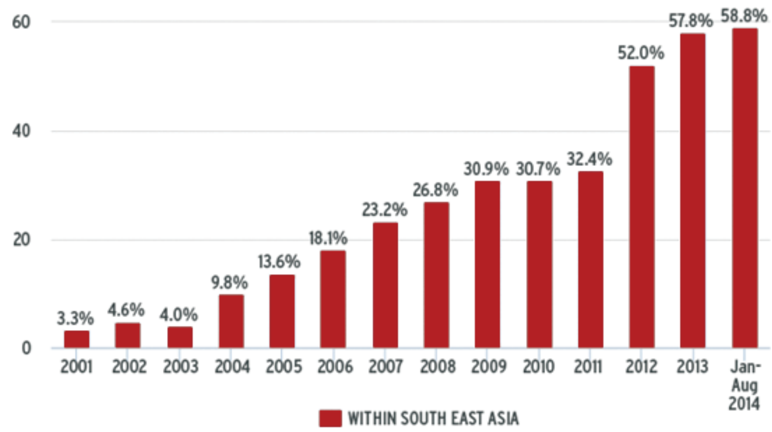
3. In terms of actual seats offered, LCC capacity in ASEAN (for both intra- and extra-ASEAN flights) has increased eight-fold (800%) over the last 10 years, from about 25 million seats in 2004 to nearly 200 million in 2014. Over the same period, the full service carriers' capacity grew by only 45%, or less than 5% per annum, from about 180 million seats in 2004 to 260 million seats in 2014. Tables 1 and 2 below show the top LCCs in ASEAN and their market penetration.

Table 1. Southeast Asia's top 10 LCCs ranked by seat capacity: 19-Jan-2015 to 25-Jan-2015

Rank		Airline	Total Seats
1	JT	Lion Air*	1,083,194
2	AK	AirAsia	550,260
3	5J	Cebu Pacific Air	366,997
4	FD	Thai AirAsia	338,040
5	QG	Citilink	230,760
6	DD	Nok Air	218,204
7	QZ	Indonesia AirAsia	198,360
8	VJ	VietJet Air	156,060
9	D7	AirAsia X	122,148
10	TR	Tigerair	120,240

Note: Lion Air capacity data includes flights operated by regional subsidiary Wings Air
Source: CAPA – Centre for Aviation & OAG

Table 2. Low-Cost Carrier (LCC) Penetration (by % of seats) within ASEAN: 2001 to 2014



4. With such huge growth rates, ASEAN aviation now faces real concerns over congestion. These concerns affect facilities ranging from terminal and runway capacity to airspace management. From the human capital angle, the challenge relates specifically to the supply of pilots, maintenance crew, air traffic controllers and other technical experts. The aircraft manufacturer, Boeing, projected in 2014 that the Asia-Pacific region alone will require 216,000 new pilots and 224,000 new maintenance personnel for the next 20 years. In ASEAN, such pressures on infrastructure and human capital have largely been caused by the huge spike in new flights made possible by the increasing economic liberalisation of the region's skies.

5. Recent huge aircraft orders by LCCs illustrate the problem. The ASEAN LCCs alone have more than 1,000 aircraft on order between them. New joint venture airlines like Malindo, Thai Lion Air, Thai VietJet Air and NokScoot have also ordered aircraft and started operations. As ASEAN airlines order more planes, the infrastructure and human capital constraints can only get more acute.

6. At the same time, the regulatory landscape remains highly fragmented. ASEAN member states continue to apply their own national rules over airlines and flights in their airspace. These rules and the way they are enforced typically differ from state to state, resulting in airlines having to adhere to multiple technical standards, certifications and inspections. Regional co-operation in customs, immigration and quarantine (CIQ) procedures is also lacking, resulting in uneven rules and enforcement. For the airlines, such fragmentation increases the costs of complying with the relevant rules.

7. In sum, investments in infrastructure and human capital have not kept up with the economic liberalisation that has fuelled the aviation boom in ASEAN. Neither has there been convergence in national laws and standards to create a more integrated and cost-efficient regulatory regime. There must thus be ***greater investments in infrastructure and human capital*** to keep up with the additional planes entering the ASEAN market in the coming years. At the same time, ***technical/regulatory integration must take place*** in the subsequent phase of ASAM to complement economic liberalisation. Only then can there be true regional integration for the airline industry.

TECHNICAL INTEGRATION: TOWARD AN ASEAN REGULATOR?

8. Harmonised technical standards and a single regulator have the advantages of increasing the reliability of regional monitoring and compliance, reducing duplication and costs, and enhancing the overall effectiveness of aviation regulation. In this regard, the ASAM project should eventually steer the region toward creating a common ASEAN regulator to oversee technical matters. Obviously, the challenges are significant given the ASEAN member states' concerns over loss of sovereignty as well as the disparity in economic and technical capacities among them. However, progress can be achieved in a phased, gradual manner if there is political will among governments and strong industry-government co-operation. This Report highlights the important issues that need to be addressed at the regional level in order to achieve greater technical integration.

9. The initial step could be to form a body or committee comprising the civil aviation authorities of the member states (with the Directors-General of Civil Aviation presiding over several sub-committees). This would be similar to the Joint Aviation Authorities (JAA) arrangement adopted in the European Union (E.U.) in the early stages of E.U. air transport integration before the JAA evolved to become today's European Aviation Safety Agency (EASA). A responsive JAA-type arrangement that directly involves the civil aviation authorities can complement and improve upon the current ASEAN institutional procedure that negotiates through numerous bodies, including the ASEAN Transport Working Group (ATWG), the Senior Transport Officers' Meetings (STOM) and the ASEAN Transport Ministers' Meeting (ATM).

10. In this early stage, the guiding philosophy would be that of ***"mutual recognition of equivalent standards"***. This means that the member states would continue to enact and apply their own national standards, but the JAA body would start working to harmonise these standards and to reduce their differences or variances so that they can be broadly equivalent (though not yet similar) across member states. The assumption here is that the member states would begin to align their standards accordingly. There could then be progressive mutual recognition of these standards across the region. This does not mean that the JAA would begin enacting common standards for all states to follow. Indeed, not being a regulator, the JAA would not have such a mandate (at least not in the initial stages). The standards would still be national standards, but they would be broadly equivalent and aligned so as to allow for mutual recognition.

11. The above approach raises several critical questions as to how the effort could best be structured and pursued. These questions are fundamental and will form the basis of discussion on how the approach can be started, and more importantly, how the system will eventually end up looking like. These questions are:

    i. Should ASEAN aim for a unified U.S. Federal Aviation Administration (FAA)-style of regulation or a model that is more flexible akin to the E.U.'s European Aviation Safety Agency (EASA)? The fact that ASEAN comprises several countries with different regulatory systems suggests that the E.U. model might be more relevant.

    ii. Should the initial JAA-style effort begin with a small core group of more advanced countries (e.g. Brunei, Malaysia, Singapore) seeking equivalence before extending it to the other member states? If yes, this pre-supposes a broad E.U.-style approach of harmonising standards first among a core group of countries, and then allowing and expecting the other states to come on board later (with sufficient technical assistance provided to the less developed states). The alternative is for the JAA body to develop equivalent standards at the outset for all member states to adhere to. This would be more complex and there would have to be "lowest common denominator" base levels to accommodate the differing capacities across the region.

    iii. Beyond the structural question above, what "base" or "comparator" levels are we expecting the member states to peg their national standards to? Put another way, if we expect the certificates, licenses, permits and procedures of one member state to be recognised by the other member states, these would all have to comply with minimum "base" standards developed by the JAA. Otherwise, we cannot ensure "mutual recognition", which can work only when there is "mutual confidence" in each other's standards. Here, we would expect the JAA body to develop procedures for the following related areas:

        a. Setting out the ***"base" standards or harmonised regulations*** against which the national standards would be compared for equivalence; (again, these "base" standards could either be developed for a core group of member states first or for simultaneous application region-wide);

        b. The ***implementation*** of the national standards by individual member states in a manner that is consistent with the "base" standards or harmonised regulations;

        c. The constant ***monitoring*** of this implementation to ensure consistency with the "base" standards or harmonised regulations; and

d. The provision for the JAA to recommend ***corrective measures*** and for the member states to adopt these measures in the event of non-compliance with the “base” standards or harmonised regulations.

12. The next issue is to identify the specific areas or disciplines of technical regulation that the mutual recognition process can cover. Here, the issues would range from relatively straightforward matters like air crew licensing to complex ones like air traffic control and airspace management. In the initial stages, the JAA body could target the following areas:

a. ***Crew/personnel licensing and training organisations.*** For instance, if member states are in compliance with “base” standards on pilot training schools and certification, a pilot’s licence issued by one member state can be recognised as valid for the relevant duration by authorities in other member states. This would greatly facilitate the training and hiring of pilots across the region as well as elevate training quality. Practically, it would avoid the need for pilots to be certified by multiple states. It would also greatly facilitate hiring mobility across the region. The same approach could apply to cabin crew as well as aircraft engineers and maintenance crew.

   Overall, the demand for aviation professionals could then be managed and met on a regional, rather than national basis. This way, manpower can be positioned anywhere in the region as market demand dictates, with commonly-agreed certification standards recognised by all ASEAN member states. This reduces costs for airlines, governments and the individuals concerned (e.g. trainee pilots) and increases efficiencies all around.

b. ***Safety and maintenance programmes.*** Similarly, if member states can enact and implement “base” standards on aircraft safety and maintenance, an inspection conducted by one member state authority would be accepted by the other member states’ authorities to be adequate and valid. To begin with, a harmonised checklist of “ramp inspection” items and procedures could be developed for all state authorities when inspecting aircraft from fellow member states arriving at their respective airports. A centralised information system could be set up to record and disseminate the results of such inspections. This information should be made accessible to all member states’ authorities so that there is immediacy and transparency in the system. Confidence in the process would then avert the need for subsequent multiple inspections on the same aircraft by other member states.

c. ***Flight operations.*** “Base standards” on operations could also be developed. These would include standards on the rules of the air (e.g. general rules, visual flight rules, instrument flight rules, flight plans, right-of-way rules and communications with air traffic control), procedures on pilots receiving meteorological information, flight crew duty times, communications and navigation equipment, maintenance programmes, flight documents, responsibilities of flight personnel and the security of the aircraft against unlawful acts.

d. ***Air Traffic Management.*** This is a more complex issue that even the E.U. states have not yet managed to integrate fully into a single sky with a common regulator. However, initial steps can be taken to harmonise protocols relating to flight information regions (FIRs), better coordination in “handing over” control from one FIR to another, and emergency back-up air traffic control by neighbouring states when a member state’s system fails.

13. The above areas are not exhaustive and have only been set out in broad terms. Obviously, the specific procedures for each regulatory category or sub-category have to be set out and agreed upon by the member states in great detail. The next question is the precise mode for agreement. Whether the JAA approach is adopted among a core group of states first or region-wide at the outset, ***a formalised legal agreement*** would be needed to set out the mutual recognition procedure. This agreement can contain technical annexes that lay out the specific "base"-level standards for each category of regulation. It is thus recommended that ASEAN member states discuss and adopt an agreement for the mutual recognition procedure in relation to certifications, licenses, permits, approvals and other forms of documentations.

14. It should be noted that many of the relevant standards have already been laid out by the International Civil Aviation Organization (ICAO) in the form of Standards and Recommended Practices (SARPs) contained in the Annexes to the Chicago Convention on International Civil Aviation (to which all ASEAN member states are party). It is the ***implementation*** of these standards that typically vary across states. Of course, ICAO also allows states to deviate from the SARPs as long as these are notified to ICAO. The reality is that some states do not notify ICAO of their deviations, and disparities become common and entrenched. A regional effort such as that described above would be useful in ensuring consistent implementation across member states.

15. The role of industry is critical to such discussions. To begin with, the body that represents most major airlines, the International Air Transport Association (IATA), already possesses expertise on technical and regulatory issues. In fact, IATA recently established a voluntary safety audit programme - the IATA Standard Safety Assessment (ISSA) - for carriers such as LCCs which are typically not IATA members. While the ASEAN LCCs are not yet members of IATA, there are prospects for both sides to work together and with governments on relevant technical issues.

16. This Report recommends convening an initial high-level industry meeting to bring together all ASEAN airline CEOs and IATA to discuss concrete steps for advancing the region's technical integration agenda. If the various ASEAN airlines lead the way and find consensus on what is meaningful and practicable for their own regulation, they can then convince their respective governments to give priority to the issue. After all, technical integration benefits all airlines, be they full-service or low-cost carriers. Such agreement among the industry players can provide huge momentum for the governments to act. In other words, if the airlines can agree that they all desire technical integration, their governments will have to help them achieve this at the ASEAN level.

17. In sum, for technical integration to be realised in the ASAM, it is recommended that:

    a. A high-level industry players' meeting be convened to bring together all ASEAN airline CEOs and IATA to discuss advancing the region's technical integration agenda in the manner described above. If the airlines can agree on what is beneficial for all of them, they should then convince their respective governments to help them secure this at the regional level.

    b. A wide-ranging "scoping" study should then be conducted to compile the various national standards that exist, to determine which are currently implemented in the member states, and to identify the material disparities.

    c. A Joint Aviation Authorities (JAA)-type body be established to begin the process of establishing "base" standards against which the national standards can be compared and re-enacted for equivalence.

    d. A legal agreement be adopted to lay out the formal procedures for mutual recognition of certifications, licences, permits, approvals and other documentations that are aligned with the relevant "base" standards. Annexes to the agreement can lay out the specific categories of regulation such as crew/personnel licensing and training organizations, safety checks, maintenance programmes, flight operations and air traffic management.

e. Procedures be established to ensure consistent implementation, monitoring of such implementation and the taking of corrective measures by member states in the event of non-compliance.

ECONOMIC INTEGRATION: SETTLING UNFINISHED BUSINESS

Market Access

18. The ASAM process of liberalising market access for ASEAN member states' carriers into each other's market is currently limited to the so-called third, fourth and fifth freedom rights. The table below explains the relevant existing agreements that set out these rights and the member states that have and have not accepted them.

Table 3. ASEAN Multilateral Agreements on Liberalisation of Air Services

Multilateral Agreement	Scope	State Parties
2009 Multilateral Agreement on Air Services (MAAS)		
Protocol 5	Allows unlimited third & fourth freedom between capital cities (A's carriers between A's capital and another capital) *E.g. Thai Airways' (TG) Bangkok-Hanoi & vice versa*	All except Philippines
Protocol 6	Allows unlimited fifth freedom between capital cities (A's carriers from A's capital to C's capital via B's capital) *E.g. TG's Bangkok-Kuala Lumpur-Singapore & vice versa)*	All except Philippines
Protocols 1 to 4	Limited impact: allows unlimited third, fourth and fifth freedom between and among secondary cities in "sub-regions" (growth areas) straddling borders of neighbouring states. *E.g. the Cambodia, Laos, Myanmar and Vietnam (CLMV) Agreement and the Brunei, Indonesia, Malaysia and Philippines East ASEAN Growth Area (BIMP-EAGA)*	All 10 member states
2010 Multilateral Agreement for the Full Liberalisation of Passenger Air Services (MAFLPAS)		
Protocol 1	Allows unlimited third & fourth freedom between all cities (A's carriers from A's non-capital to B's capital, A's capital to B's non-capital & A's non-capital to B's non-capital) *E.g. TG Phuket-Manila, Bangkok-Cebu, Phuket-Cebu*	All except Indonesia and Lao PDR
Protocol 2	Allows unlimited fifth freedom between all cities (except capital-capital-capital) *E.g. TG Phuket-Ho Chi Minh-Cebu, Phuket-Ho Chi Minh-Manila, Phuket-Hanoi-Cebu, Phuket-Hanoi-Manila, Bangkok-Hanoi-Cebu, Bangkok-Ho Chi Minh-Manila, Bangkok-Ho Chi Minh-Cebu*	All except Indonesia and Lao PDR
2009 Multilateral Agreement for the Full Liberalisation of Air Freight Services (MAFLAFS)		
Protocol 1	Allows unlimited third, fourth and fifth freedom between designated points *E.g. THAI Cargo's Bangkok-Clark, Bangkok-Vientiane-Hanoi routes*	All except Indonesia
Protocol 2	Allows unlimited third, fourth and fifth freedom between all points with international airports *E.g. THAI Cargo's Bangkok-Singapore, Bangkok-Singapore-Manila routes*	All except Indonesia

19. As highlighted in the previous Lifting-the-Barriers Report for Aviation in 2013, it is absolutely critical that all ASEAN member states accept all the above agreements in full. At present, ASEAN airlines face capacity limits when operating passenger flights to the Philippine capital, Manila, from their own respective capitals. Similarly, flights to non-capital cities in Indonesia and Lao PDR also face capacity constraints. As for all-cargo operations, flights into Indonesian points remain restricted.

20. Even if all ASEAN member states were to accept all the above agreements to accord each other's airlines fully unlimited third, fourth and fifth freedom rights, ***slot constraints at congested airports*** (principally Jakarta Soekarno-Hatta Airport and Manila Ninoy Aquino Airport) remain a huge problem. In other words, the above ASEAN agreements do not cure the slot problem. This is an infrastructural constraint that member states must resolve separately.

21. In addition, even if all ASEAN member states were to accept all the above agreements, their airlines will still have to begin and end their flights in the home state's points. For instance, a Thai carrier will not be able to station planes in Indonesia to connect Jakarta and Manila (i.e. the "seventh freedom"). At best, it can only connect Jakarta and Manila with operations beginning and ending in Bangkok, its home point. As such, it can operate a Bangkok – Jakarta – Manila – Jakarta – Bangkok route, which is a fifth freedom operation that starts and ends in Bangkok, but that enjoys traffic pick-up rights in Jakarta in both directions.

22. Even then, such fifth freedom operations are controversial in ASEAN because the Thai carrier in this example would be servicing a "V"-shaped geographical route, as opposed to a linear or straight line route. The practical effect of a V-shaped route is that most or all the passengers getting on board in Bangkok will likely be bound for Jakarta (and will disembark there). In Jakarta, a full new load of passengers will be taken on for Manila. This effectively turns the operation into a seventh freedom operation, i.e. a carrier carrying traffic between two international points outside its home base. Yet, such operations are permitted by the ASEAN agreements which explicitly state that there are no directionality or capacity conditions on fifth freedom flights. Since they are wholly consistent with ASAM's liberalising spirit, all member states should give approval when any ASEAN airline requests authorization for such fifth freedom operations.

23. The seventh freedom must thus be addressed explicitly in the post-2015 period and allowed to flourish. To begin with, all fifth freedom routes, as illustrated above, must be permitted without restriction and regardless of their route "shape". In time, pure seventh freedom routes should also be allowed – this would allow the Thai carrier to station planes in Jakarta to operate stand-alone flights between Jakarta and Manila. Just as in the E.U. common market, it is essential for a single aviation market project like ASAM to include the seventh freedom (although for now, domestic "cabotage" flights for foreign airlines remain controversial in ASEAN and should best be left for future discussion). In other words, the ASAM cannot stop at third, fourth and fifth freedom rights only. If it does, the ASAM will remain restricted and become "single" only in name.

Ownership and Control

24. There are still significant barriers to ownership and control of airlines in ASEAN. Typically, all ASEAN carriers must be "substantially owned and effectively controlled" by their own nationals. This means that stakes owned by foreigners must remain in the minority (i.e. less than 50%). To address this, the ASEAN agreements have introduced the "community carrier" concept, which allows any member state to designate an airline as long as it is substantially owned and effectively controlled by one or more ASEAN member state. For instance, this means that Cambodia can designate an airline that is 40% owned by Thai interests, 40% by Vietnamese interests and only 20% by Cambodian interests. Since substantial ownership and effective control lie within the family of ASEAN interests, it would not matter that there is minority (or even zero) Cambodian interests. Of course, Cambodia, as the designating state, will still have to exercise effective ***regulatory*** control over that airline (e.g. safety and security oversight).

25. The above community carrier concept currently exists only on paper. New joint venture airlines in ASEAN like Thai Lion Air, Thai Vietjet Air, Malindo and NokScoot have all employed the traditional 51:49 ownership rule, following the model of the more established AirAsia and Jetstar joint ventures. This is because the ASEAN agreements provide that the community carrier, once designated, ***must still obtain the consent*** of each member state to which it wishes to fly. In the post-2015 period, this protectionist barrier must be removed so that community carriers can be freely established to exercise all rights available to them within ASEAN.

26. One way to lift this barrier is for member states to apply the traditional "substantial ownership and effective control" rule to their own carriers ***only***, if they so wish to retain this rule. For carriers from fellow ASEAN states, the community model should be fully allowed with no risk of any member state denying operating consent. This will reassure airline investors of the community carrier's long-term sustainability. In sum, community carriers must enjoy the confidence that they can freely and fully exercise the relevant third, fourth and fifth freedom rights within ASEAN. At the same time, the member states must ensure that their domestic laws are aligned so as to allow the establishment and designation of community carriers in which ASEAN nationals hold a majority share. Eventually, all restrictions on ownership and control by ASEAN nationals, even for member states' own airlines, should be phased out. This is only logical if a true "single" aviation market is to emerge.

27. Even if this matter is resolved, an ASEAN community carrier will only be able to fly within ASEAN. The moment it wishes to fly to another country outside ASEAN, e.g. Australia, India and Japan, it would have to satisfy the substantial ownership and effective control requirements contained in its designating state's bilateral air services agreements with those countries. As such, another post-2015 priority is to get ASEAN member states to come together and adopt new air services agreements with third countries that recognise the designation of ASEAN community carriers. The ASEAN-China agreement already does this, and further expected agreements with other countries should contain the same feature.

28. It also bears re-stating that in ASEAN's negotiations with third countries, a limited third, fourth and fifth freedom exchange will have long-term disadvantages for ASEAN carriers. As shown by the ASEAN-China agreement, Chinese carriers can now operate from any point in China (it being one market) to any point in ASEAN. In contrast, ASEAN carriers can only operate from ***their own national home points*** (and not the whole of ASEAN) to any point in China. This is simply because ASEAN is not a true single market yet, and ASEAN member states still do not allow each other's carriers seventh freedom rights to China (e.g. a Thai carrier being permitted to operate between Singapore and Beijing). This is another item to be tackled post-2015 in tandem with intra-ASEAN seventh freedom rights.

CONCLUSION

29. The post-2015 ASAM agenda must pursue the following items to ensure the creation of a truly single aviation market in ASEAN:

On infrastructural and human capacity

- Facilitating cost reduction and efficiencies for all airline operations, be these full-service or low-cost;
- Committing to overcome infrastructural (airport terminal, runway and slots) constraints as well as the shortage in skilled human capacity.

On technical integration

- Establishing a Joint Aviation Authorities (JAA)-type body to drive the adoption of "base" standards against which national standards can be compared for equivalence;
- Adopting a formal legal agreement on mutual recognition for certifications, licenses, permits, approvals and other forms of documentations that are aligned with the relevant "base" standards. The specific categories of regulation will include crew/personnel licensing and training organizations, safety and maintenance programmes, flight operations and air traffic management;
- Establishing procedures to ensure consistent implementation, monitoring of such implementation and the taking of corrective measures in the event of non-compliance;
- To kick-start discussions on the above items, a high-level industry meeting among ASEAN airline CEOs and IATA should be convened to identify what the airlines need by way of technical integration that would benefit all of them. These needs can then be formally communicated to their own member states and the ASEAN Secretariat so that rapid action can be taken at the ASEAN level to achieve them.

On economic integration

- Pursuing market access liberalisation beyond third, fourth and fifth freedom operations to include seventh freedom rights that take in both: (i) "V"-shaped fifth freedom operations; and (ii) stand-alone or pure seventh freedom operations;
- Lifting restrictions on "community carriers" so that these can operate unimpeded without having to secure the consent of each destination state; at the same time, the member states must align their domestic laws to allow the establishment and designation of such airlines in which ASEAN nationals hold a majority share;
- ASEAN member states need to negotiate with third countries as a unified bloc and to ensure that ASEAN community carriers are recognised for operations to those countries;
- ASEAN member states need to begin recognising seventh freedom rights for fellow member states' carriers to operate externally (i.e. extra-ASEAN) to third countries.

FINANCIAL SERVICES & CAPITAL MARKETS

+ LIFTING-THE-BARRIERS REPORT

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TABLE OF CONTENTS

1. INTRODUCTION

Financial and capital markets play a crucial role in facilitating trade and investment growth, and ultimately in catalysing and driving economic progress. Recognising this, one of the fundamental objectives of the ASEAN Economic Community (AEC) 2015 Blueprint is to develop an efficient and integrated regional financial system through liberalisation of financial services and capital account, harmonisation of the payments and settlements systems, and a host of other initiatives such as capacity building, regional financing arrangements, regional surveillance and policy dialogues.

In the years since AEC inception leading up to this milestone year 2015, steady albeit slow progress has been made towards a more integrated ASEAN financial system.

- In 2011 the ASEAN Financial Integration Framework (AFIF), which provides an approach to liberalisation and semi-integrated financial region by 2020, was adopted by the ASEAN Central Bank Governors.
- In 2012 the ASEAN Trading Link (ATL) was established, connecting the Malaysia, Singapore and Thailand stock exchanges to enable cross border trading.
- In 2013 the "ASEAN Disclosure Standards", a set of fully harmonised prospectus disclosure requirements for issuers based on IOSCO standards, was adopted by Thailand, Malaysia and Singapore, with plans for "A Streamlined Review Framework" to be implemented in 2015 to further enhance efficiency of multi-jurisdictional approvals.
- In 2013 "The Road to ASEAN Financial Integration", a study on the financial landscape and formulating milestones on ASEAN monetary and financial integration, was endorsed by the ASEAN Central Bank Governors and approved by the Finance Ministers.
- The ASEAN Insurance Integration Framework was agreed to guide progress towards more competitive insurance markets and greater choice for consumers, and enabling insurance companies to offer Marine, Aviation and Goods in International Transit (MAT) insurance across ASEAN's borders when the seventh package of financial sector commitments of the ASEAN Framework Agreement on Services (AFAS) will be signed and ratified in 2016.
- The ASEAN Collective Investment Scheme (CIS) Framework was launched in 2014 in Malaysia, Thailand and Singapore, enabling fund managers authorised to manage a fund in one market to also market that fund in other ASEAN countries.
- Most recently in March 2015, the ASEAN Banking Integration Framework (ABIF) was established, providing a platform for Qualified ASEAN Banks to enjoy greater market access and operational flexibility and paving the way to develop of a group of strong pan-ASEAN regional banks on par with the global banks.

While there has been progress, consensus is that much remains to be done beyond 2015 to achieve the ASEAN financial integration objectives. The wide disparity in the financial development of member states and the resulting conscious adoption of a flexible, pragmatic approach to integration implementation based on each member states' readiness means that parts of the ASEAN path to financial integration would need to continue at a measured pace.

However, this should not preclude ASEAN as a collective from exploring other alternatives to further enhance efficiency and strengthen integration of the regional financial system. In last year's (2014) Lifting the Barriers (LTB) Report and ABC Forum, we explored various policy and industry led initiatives, leading to a recommendation for a Financial Services and Capital Markets Expert Group submitted to ASEAN leaders.

In this year's paper, we intend to focus on exploring the industry led theme further by examining capital markets infrastructure, alternative financing such as peer to peer models to meet underserved ASEAN SME financing needs and the possibilities for more efficient regional payments arising from the new age digital technology developments.

2. RECAP: WHY IS AN EFFICIENT AND INTEGRATED FINANCIAL AND CAPITAL MARKET IMPORTANT?

Financial and capital markets integration brings clear benefits to all market participants.

- **Businesses** benefit from access to larger pool of financing at lower costs and a broader investor base through foreign investors and retail participation, reduced transaction costs from harmonised regulations and common infrastructure, facilitating ease of regional expansion.

- **Investors** enjoy the benefits of enhanced competition in the form of wider choice of products and services, better innovation and lower prices from competing businesses.

- **Financial institutions** can reap the benefits of economies of scale from access to a larger customer base, greater access to diverse cross border investment choices and tap on a larger pool of investors.

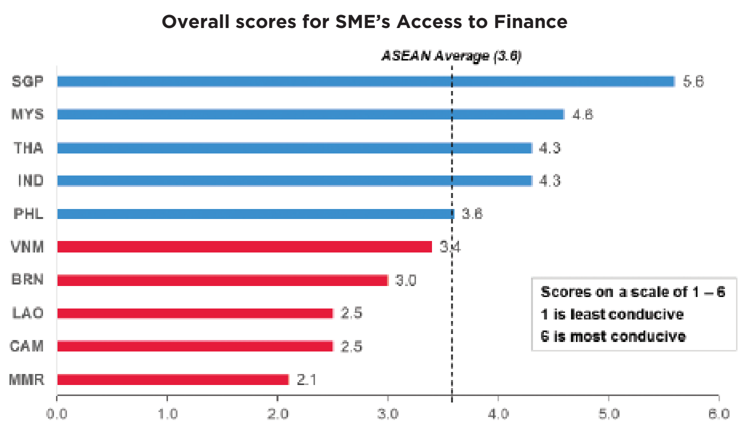
- **Governments and regulators** can ensure more economically efficient deployment and allocation of scarce capital and surplus savings, improvement of regulatory standards through adoption of best practices, offer better protection of investors, create a more resilient financial sector through the development of regionally competitive banks and enhanced ability to respond to external shocks through improved financial infrastructure, deeper and broader capital markets.

Beyond the benefits that it brings, an integrated and efficient financial and capital market is also essential to effectively foster and grow a vibrant SME segment – a crucial engine of growth in emerging economies.

According to the ASEAN SME Policy Index 2014, SMEs account for between 88% to 99% of all enterprises and 52% to 97% of domestic employment. The contribution of SMEs to GDP is between 23% and 58% and the contribution to exports is between 10% and 30%.

Despite being an important driver for job creation and economic growth, large swathes of ASEAN SME businesses still struggle to access adequate funding. As shown in Figure 1, conditions for SME access to financing in the majority of ASEAN countries is still less than ideal and in many cases lacking.

Figure 1: Overall score for 'Access to Finance' – ASEAN SME Policy Index 2014

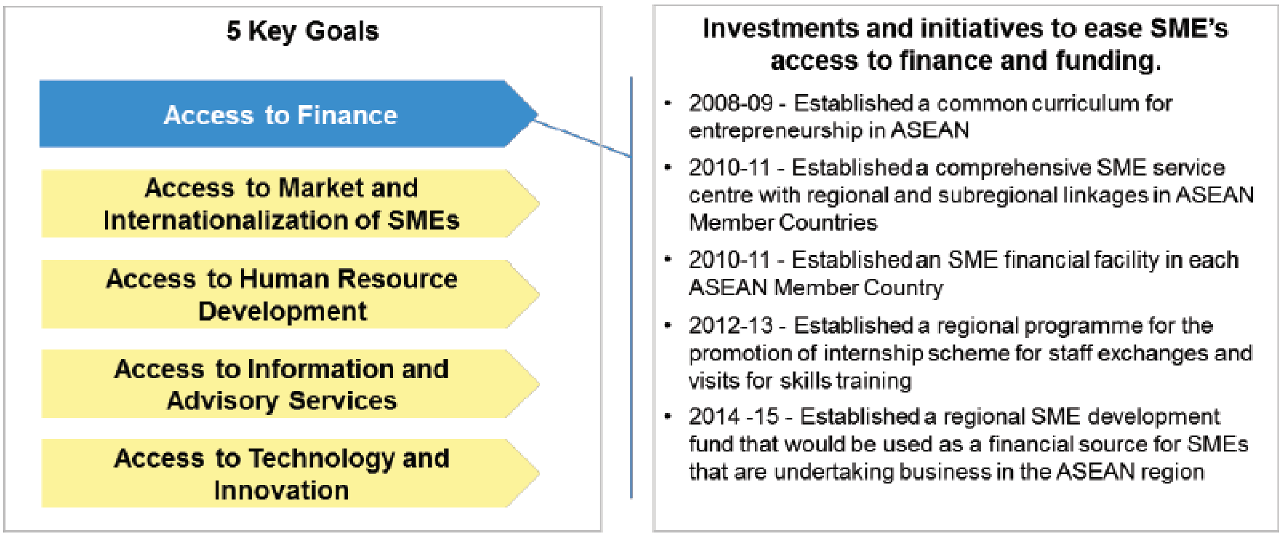


Source: ASEAN SME Policy Index 2014, ERIA SME Research Working Group

In addition to the lack of financial statements, limited collaterals and credit ratings constraining SME access to financing, the ASEAN SME Policy Index 2014 cites poor functioning cadaster system, stringent collateral requirements imposed by financiers, inadequate protection of creditor's rights and lack of credit risk guarantee schemes and central bureaus for credit information as exacerbating factors contributing to the low scores observed.

The AEC recognises the development of SMEs, including access to finance, as fundamental to achieving the ASEAN community's goals and is in the midst of implementing a strategic plan to develop a thriving SME segment.

Figure 2: ASEAN Strategic Plan for SME Development (2010-2015) – Access to Finance



However beyond addressing the fundamental framework, legal, institutional, capability and infrastructure issues affecting SME access to finance, there is growing recognition that alternative sources of financing could go a long way towards furthering the goals of SME development, for example the ASEAN SME Policy Index 2014 recommends *"promotion of innovative and alternative finances such as channeling through domestic and regional networks of equity fund, venture capital finance, angel capitalists, and Crowdfunding platforms for SMEs"* as a means to address the SME financing gap.

3. PROGRESSING EFFICIENCY AND INTEGRATION GOALS WITH INDUSTRY LED INITIATIVES

In last year's (2014) LTB Report, we examined a two-pronged approach to address the efficiency and integration of ASEAN financial and capital markets – involving policy makers on the one hand and the financial services business community on the other. Several ideas were examined in detail including industry utilities, setting up of a Pan-ASEAN "growth" bank and internet financial services.

Figure 3: 2014 Lifting the Barriers Report on Financial & Capital Markets - Opportunities to foster the integration of ASEAN financial and capital markets

Financial Services Industry

Establish regional industry utilities to foster an integrated financial and capital market

- Leverage exchange infrastructure (e.g. ASEAN trading link)
- Participant-led utilities driven by a consortium of banks
- Lead with industry practices especially in new domain, laying the foundation for policy and regulation

Leverage new phenomena such as internet financial services platforms to provide alternative funding options that mitigate constraints

- Peer-to-peer financing
- Crowdfunding

Policy Makers

Build trust through enhanced regulatory alignment

- Move towards a common regulatory framework (e.g. alignment and coordination of policies)
- Standardised rule making body
- Capital flow liberalisation

Creation of an ASEAN "growth" bank to support economic development

- Foster greater financial and development cooperation among ASEAN member states
- Provide financing for infrastructure projects

Support industry-driven initiatives

Focus on talent development and mobility

Source: Accenture

Unlike policy initiatives, industry-led initiatives have the potential to drive change at a nimbler pace, incorporate latest leading practices, market developments and technology. In this year's LTB paper, we will explore the industry-led theme further and expand on some of last year's ideas.

i. Push forward the ASEAN Trading Link (ATL) initiative – regional depository and clearing links to drive further integration and efficiency in regional capital markets.

ii. Explore Peer-to-Peer (P2P) models – start with crowdfunding, explore alternative financing models to fulfill the needs of the underserved SME segment.

iii. Enhance efficiency of regional payments leveraging new age digital technology developments.

I. Push forward the ASEAN Trading Link (ATL) initiative – regional depository and clearing links to drive further integration and efficiency in regional capital markets

The ATL is a B2B arrangement where participating exchanges are interconnected through an electronic network for cross border trading and order routing. ATL is an initiative driven by the ASEAN Exchanges – a collaboration of 7 stock exchanges within ASEAN – with the objective of promoting ASEAN financial market growth through freer flow of capital. With the ATL, brokers of participating stock exchanges have access to trading infrastructure to deal in shares listed on other participating stock exchanges, even if they do not have a trading license to operate in that particular jurisdiction. In effect, investors in each participating country now had easier and more seamless access into other ASEAN markets from a single access point.

The ATL was operationalised in September 2012 with three participants, namely the Singapore Exchange, Bursa Malaysia and the Stock Exchange of Thailand. Collectively, these three stock exchanges offered nearly 2,300 listed companies with a market capitalisation of US$1.4 trillion, i.e. 70% of the total ASEAN market capitalisation at the time of launch[1]. Other ASEAN stock exchanges were anticipated to join in subsequent stages, although the timing is a function of the varying capital markets maturity in each country.

Establishment of the ATL was an important first step in establishing an integrated regional capital market. To further strengthen the linkages between the region's capital markets, it is recommended to embark upon the Phase 2 and Phase 3 activities involving the ASEAN depository link and ASEAN clearing link[2] – at a minimum involving Malaysia, Singapore and Thailand as pioneers, to deepen regional post-trade linkages and in doing so, drive further market integration, better risk management and boosting market growth.

There are currently no infrastructure linkages between the central securities depositories (CSDs) and central clearing counterparties (CCPs) across ASEAN. Post-trade processing is fully within national boundaries, with clearing and settlement processes for cross border trade executed in the security's country of issuance.

Figure 4: Current clearing and settlement structures in ASEAN markets

<table>
<tr><th></th><th>Indonesia</th><th>Malaysia</th><th>Philippines</th><th>Singapore</th><th>Thailand</th><th>Vietnam (HNX)</th><th>Vietnam (HOSE)</th></tr>
<tr><td>Trading</td><td>Indonesia Stock Exchange (IDX)</td><td>Bursa Malaysia (BM)</td><td>Philippine Stock Exchange (PSE)</td><td>Singapore Exchange (SGX)</td><td rowspan="2">Stock Exchange of Thailand (SET)</td><td>Hanoi Stock Exchange (HNX)</td><td>Ho Chi Minh Stock Exchange (HOSE)</td></tr>
<tr><td>Matching</td><td>Kustodian Sentral Efek Indonesia (KSEI)</td><td rowspan="2">Bursa Malaysia Securities Clearing (BMSC)</td><td>Philippine Depository & Trust Corporation (PDTC)</td><td rowspan="3">Central Depository (CDP)</td><td rowspan="3">Vietnam Securities Depository (VSD)</td><td rowspan="3">Vietnam Securities Depository (VSD)</td></tr>
<tr><td>Clearing</td><td>Kliring Penjaminan Efek Indonesia (KPEI)</td><td>Securities Clearing Corporation of the Philippines (SCCP)</td><td rowspan="2">Thailand Clearing House(TCH)</td></tr>
<tr><td>Securities Settlement</td><td>Kustodian Sentral Efek Indonesia (KSEI)</td><td>Bursa Malaysia Depository (BMD)</td><td>Philippine Depository & Trust Corporation (PDTC)</td></tr>
<tr><td>Cash Settlement</td><td>Approved Commercial Banks</td><td>Bank Negara Malaysia (BNM)</td><td>Approved Commercial Banks</td><td>Approved Commercial Banks</td><td>Approved Commercial Banks</td><td>Bank for Investment & Development of Vietnam (BIDV)</td><td>Bank for Investment & Development of Vietnam (BIDV)</td></tr>
</table>

Source: Deutsche Bank Direct Securities Services, ASEAN Countries

Regional clearing links would enable a broker to manage a single account for margin and collateral across all markets from a single clearing membership, resulting in greater efficiency and reduced costs to trade regionally. Linkages between CCPs can take the form of either a single Pan-ASEAN entity across the different markets, CCPs with interoperability across markets or cross-CCP memberships where each CCP acts as a clearing member for each other. While a single Pan-ASEAN CCP would have the clearest benefits in terms of efficiency, costs and regional risk management, it would also have the most legal, regulatory and technological barriers to contend with. With the divergent regulations and practices in the different ASEAN markets, CCP interoperability would have similarly difficult challenges to overcome. The third option of cross-CCP memberships is likely to be the most feasible option to achieve clearing linkages.

Regional depository links would enable investors in one country to purchase and settle shares in the other markets through their domestic broker and hold them in their domestic account, thereby reducing transaction time, lowering overall costs and settlement risks. Similar to CCPs, regional depository linkages could take the form of a single Pan-ASEAN CSD entity which would likewise face the same legal, regulatory and technological barriers to implement. A more feasible alternative could be for a CSD to CSD correspondent account relationship, where CSDs would open securities settlement accounts with each other, and each CSD acts as an agent for the others by maintaining records for tracking of investors' foreign assets. The success of such a depository linkage model would rest on having the appropriate integration technology in place.

In implementing more integrated regional post-trade processing, ASEAN can look to the European Union (EU) for insights. Beyond the ATL, the ASEAN clearing and depository link would be the strategic stepping stones towards an integrated ASEAN capital market.

II. Explore Peer-to-Peer (P2P) models – start with crowdfunding, and explore alternative financing models to fulfill the needs of the underserved SME segment

Peer to Peer (P2P) financing models have been around for more than a decade. Beginning from its roots in the retail segment, in the US, Europe and certain parts of Asia these alternative sources of financing have matured considerably and are increasingly gaining acceptance as a viable source of funding for smaller or less established firms. In addition to meeting the financing needs of SMEs at lower costs, these web-based models also leverage the inherent 'anytime, anywhere' nature of the internet to efficiently match surplus savings with capital needs by offering alternative investment options to a wide pool of investors.

P2P platforms have shown success in helping to meet the financing needs of SMEs in the US, Europe and Asia. Figure 5 provides some examples. Across these geographies, regulators are either in the process or have issued rules on P2P financing. For example, as at March 2015 China Banking Regulatory Commission (CBRC) is in the process of reviewing draft P2P rules, while the UK implemented P2P regulations in 2014.

Figure 5: P2P financing for micro, small and medium enterprises[3]

Examples	Target SME segments	Highlights
LendingClub	Micro, Small and Medium Enterprises in the US	• World's largest P2P lending platform with US$7.6 billion loans funded by end-2014 • Recent partnerships with Google and Alibaba to provide loans to their partners and merchants
陆金所 Lfex 金融资产交易市场	Micro, Small and Medium Enterprises in China	• Total transaction value of over USD$ 6.4 billion in 2014 • Highest Alexa ranked Internet Banking type website in China
Funding Circle	Small and Medium Enterprises in the UK and US	• Since its launch in 2010, over GBP 603 mil lent to British businesses, originated over 10K loans, with more than 39K investors. • Referral partnerships with RBS and Santander UK for smaller businesses the bank is unable to lend to • Has worked with the Government and Local Councils to provide funding directly to SMEs in the UK
zidisha	Micro Companies in Developing Countries	• Provides affordable micro-financing to entrepreneurs in emerging markets through its online-only P2P platform • It is a non-profit, cross border P2P platform connecting borrowers and lenders in 9 countries • US$ 3 million raised to fund ~13,000 projects • Only charges a 5% fee on each loan compared to microfinance loans which charge 40 – 50% interest

Source: Accenture

Crowdfunding, being one form of P2P funding, generally falls into two categories – rewards based or equity based. The rewards based model entails non-monetary payback (examples include Kickstarter and Indiegogo) whereas investors in an equity based model receive unlisted shares. While still small relative to size of traditional financial and capital markets, use of equity crowdfunding to raise capital for businesses is gaining traction with successful platforms such as Crowdcube and Seedrs in the UK, both of which are regulated by the UK Financial Conduct Authority.

Figure 6: Equity crowdfunding to raise capital for businesses[3]

crowdcube

- Founded in 2010 with the goal of helping businesses raise equity funding in the UK.
- Has helped fund 258 businesses in the technology, food and beverage, professional and business services, internet and retail sectors.
- Average time to fund a business of just 43 days.
- Total capital raised as at mid 2015 of GBP 85.7 mil from over 185,000 investors with an average investment of GBP 1,917 per investor.
- Funded businesses across the spectrum of start-ups, early stage and growth phases:
  - 59 startups totaling GBP 12.6 mil
  - 98 early stage businesses totaling GBP 15.5 mil
  - 53 growth stage businesses totaling GBP 14.3 mil
- Investors are given equity in the businesses they fund, proportionate to the investment amount.
- Has also helped raised mini-bonds worth GBP 7.8 mil at an average return p.a. of 7.3% for businesses in the education and food and beverage sectors.
- Is regulated by the UK Financial Conduct Authority

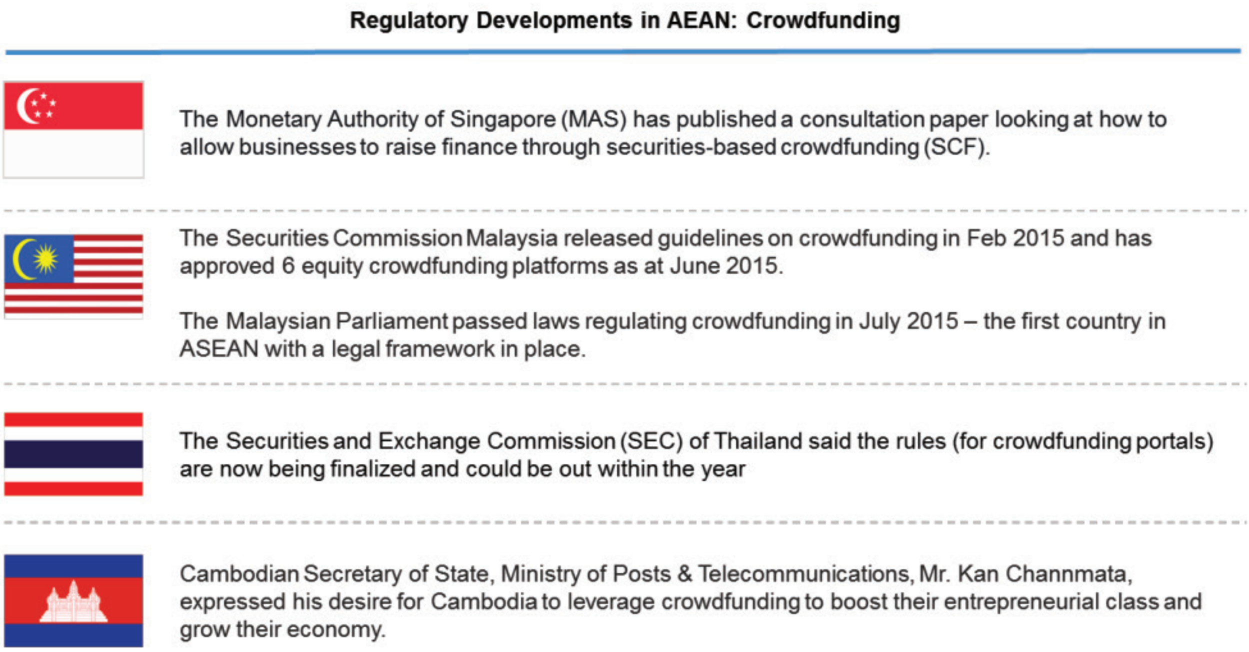
SEEDRS

- An equity crowdfunding platform based in the UK and launched in 2012.
- Provides businesses access to an investor base from 31 countries.
- Invests an average of GBP 1.6 mil into 10 businesses per month
- Average time to fund a business of just 27 days
- Average investment per investor of GBP 3,174.
- Seedrs operates with a nominee structure arrangement in place, where it holds and manages the shares of startups on behalf of the underlying investors after an investment is completed.
  - Full economic interests vests with the investors
  - Seedrs acts on behalf these investors to monitor and protect shareholder rights
- Investors have a choice of investing in equity, funds or convertibles.
- Is regulated by the UK Financial Conduct Authority

Source: Accenture

Reflecting the growing recognition of these alternative financing models, various ASEAN regulators are also taking steps to regulate crowdfunding and P2P financing. Progress on the ASEAN regulatory front is an encouraging development and is an important step in establishing a conducive environment for alternative financing models to flourish. Already, six crowdfunding platforms – Alix Global, Ata Plus, Crowdonomic, Eureeca, PitchIN and Propellar Crowd+ – have secured approval to operate in Malaysia where regulations have been finalised and a number of P2P financing platforms such as CapitalMatch and FundedHere have announced their launch in Singapore in anticipation of the finalisation of regulations.

Figure 7: Regulatory developments in ASEAN for crowdfunding



Source: Accenture

While it is early days for crowdfunding and P2P financing in ASEAN, regulators and industry participants alike should keep a close watch on developments in these alternative models, given its vast potential leveraging the internet's reach to efficiently connect investors and enterprises in need of financing. Crowdfunding may be more viable in ASEAN in the medium term based on regulatory developments to-date, with other P2P financing models a longer term consideration.

III. Enhance efficiency of regional payments leveraging new age digital technology developments

In tandem with creating an ASEAN-wide capital market infrastructure, there is also tremendous benefits in forging region-wide payment infrastructure, specifically in addressing the currently rather inefficient cross-border currency exchange and remittance network. One potential solution could be to leverage nascent distributed cryptographic transaction capability, increasingly commonly deployed on the Internet, for instance blockchain-based payment infrastructure or Ripple system.

Ripple is a payment system, currency exchange and remittance network by Ripple Labs where users make cryptographically signed transactions. It is an Internet Protocol (IP) based technology for financial institutions to clear and settle transactions in real-time via a distributed network. Ripple is built around a distributed public ledger that records transactions and account balances. Financial institutions can use Ripple as a common ledger to clear and settle transactions in real-time at the lowest possible cost. Ripple structurally alters the payment process by enabling:

- Bilateral settlement: eliminates intermediaries, midpoint failure and delays
- Real-time funding: minimises exchange spreads, credit risk and collateral costs

A number of US banks have already signed on to adopt Ripple’s open-source distributed transaction infrastructure, while global and regional banks such as RBS, Commonwealth Bank, Westpac and ANZ have started testing the technology.

No doubt this technology is still in its infancy and would require more years to develop and mature. But it is worthwhile for the ASEAN community to keep abreast as its application has the potential to transform the payments landscape for the benefit all market participants, especially SMEs, and further tighten the integration and efficiency of ASEAN financial and capital markets.

4. FINAL THOUGHTS

Much progress has been made leading up to this milestone year 2015 but the challenges of pulling along diverse ASEAN markets on the path to integration will remain for some time. The more developed markets have a key role to play in forging the way ahead by laying the foundation for a more integrated and efficient ASEAN financial and capital market. Faced with differing local regulations, environment and operating contexts, policy led integration initiatives are likely to continue slow progress, even between the more developed markets but industry-led initiatives have the potential to accelerate evolution towards an integrated ASEAN market. This paper explored 3 such initiatives:

- **Push forward with ASEAN clearing and depository linkages.**
  Consensus from the 2015 LTB Roundtable is that there is a growing call for the national clearing and settlement bodies, especially in Malaysia, Singapore and Thailand, to give serious consideration to building out cross-border linkages or establishing a regional utility,

- **P2P models to meet the needs of the underserved SME segment.**
  While the LTB Roundtable came away with a perceived threat of disintermediation to banks, it is worthwhile for the financial community in ASEAN to take a leaf from the playbook of banks in the US and Europe such as Santander, Citigroup and RBS. These banks have found innovative and constructive roles to play in P2P ecosystems, and in doing so help to foster growth of alternative financing and build a win-win proposition for all participants.

- **Regional payments based on new digital era technology.**
  An opportunity exists for ASEAN banks to be pioneers spearheading the next generation in regional payments technology. In particular, the largest ASEAN banks could invest their significant financial resources and current positions as stalwarts of domestic financial markets to not only bring about potential revolutionary changes to regional payments but also to establish a leg up on the competition from non-banks payments provider.

In conclusion, while policy initiatives provide the foundation and framework, truly advancing ASEAN financial and capital markets integration and forging a robust, dynamic regional market would ultimately hinge on all industry participants heeding the call to action.

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TOURISM

+ LIFTING-THE-BARRIERS REPORT

ASEANTA
ASEAN TOURISM ASSOCIATION

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ASEANTA
ASEAN TOURISM ASSOCIATION

About ASEANTA

ASEANTA is a non-profit tourism association comprising both public and private tourism sector organizations from ASEAN. Through our humble beginnings, ASEANTA has grown to become a tourism association of influence within the ASEAN tourism landscape, playing an integral role in shaping tourism development growth and policies in the ASEAN region. We exist because we want to:

- Unite our members in common purpose, working in a close bond of cooperation, fellowship and assistance in furthering and protecting the interest of our members.
- Strive towards the attainment of the highest standards of service and facilities for travellers and tourists.
- Uphold the dignity and ethics of the tourism business and to strive towards its professionalism. Foster and maintain the best of relationships among the ASEAN countries and their people.
- Encourage, support and help develop tourism into and within the ASEAN region.
- Act as negotiating body for members of the Association and to make recommendations to government departments or Agencies or other bodies in relations to any measure which may be taken involving members and/or the travel industry in ASEAN countries.
- Serve on or offer assistance to any government, statutory or International body in connection with tourism matters.

TABLE OF CONTENTS

1. TOURISM IN THE GLOBAL AND ASEAN LANDSCAPE

Oftentimes when we say “tourism”, it’s linked to vacations, plane rides, hotel stays, recreational activities, and the like. What most do not realise is that it is an ecosystem that encompasses a broad spectrum of different industries. We are all too familiar with client facing entities such as tourist transportation services – air, land, and sea transport, accommodation facilities, natural, cultural, and man-made tourist attractions, meeting-incentive-conventions-event facilities, tourist merchandising, entertainment and recreation, travel and tour operators, among others. What we often overlook are support service providers like financial services (credit card companies, banks, and investment organizations), souvenir shop suppliers, water, energy and waste management system operators, in rural areas – fishermen, boatmen, local tour guides, local communities supplying food products, materials and other services, etc. that contribute to the overall success of the industry’s operations. This is what makes tourism an avenue to channel inclusive growth.

It is well recognised that the tourism sector is a valuable contributor to global economic growth. The industry is becoming one of the fastest-growing economic sectors in the world (UNWTO Tourism Highlights, 2014). The number of international tourists have grown from 25 million in 1950 to 1,087 million in 2013 – more than a 4,200% increase – accounting for 9% of global GDP, 10.1% of global employment, and 29% of global services exports.

Source: UNWTO Tourism Highlights 2014

Tourism has the potential to bring socio-economic growth opportunities to less developed areas and their people. In ASEAN for example, a significant proportion of total tourism activity occurs in destinations outside the capital cities making it one of the few economic sectors able to bring income opportunities to less economically advantaged local communities in these destinations. Thus, the combined impacts of tourist activity makes a significant contribution towards strengthening local economies.

According to the World Travel and Tourism Council (WTTC) 2014 Travel and Tourism Economic Impact Report, in 2013, the ASEAN tourism sector contributed USD 121.2 billion to ASEAN GDP, employed around 28.7 million people, and generated USD 112.6 billion in visitor exports.

Travel and Tourism Economic Impact in ASEAN

	2013	2024 Forecast
Direct Contribution Gross Domestic Product	USD 121.2 billion	USD 215.8 billion
Employment	28,661,500 jobs	37,785,000 jobs
Visitor Exports	USD 112.6 billion	USD 204.6 billion
International Tourist Arrivals	96,031,000 *2014 Forecast	172,814,000

Chart 1. Direct Contribution of Travel and Tourism to GDP in Southeast Asia

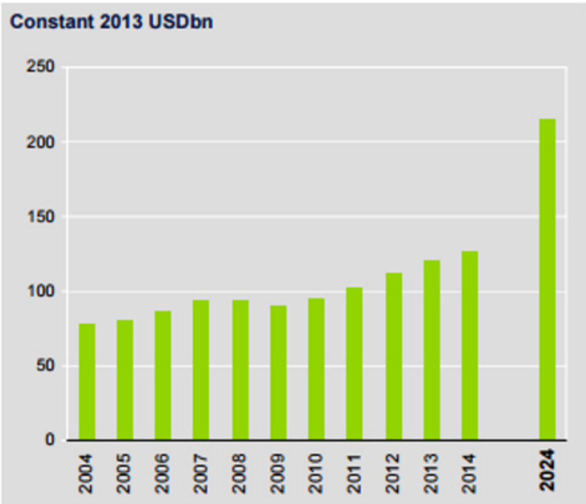


Chart 2. Total Contribution of Travel and Tourism to Employment in Southeast Asia

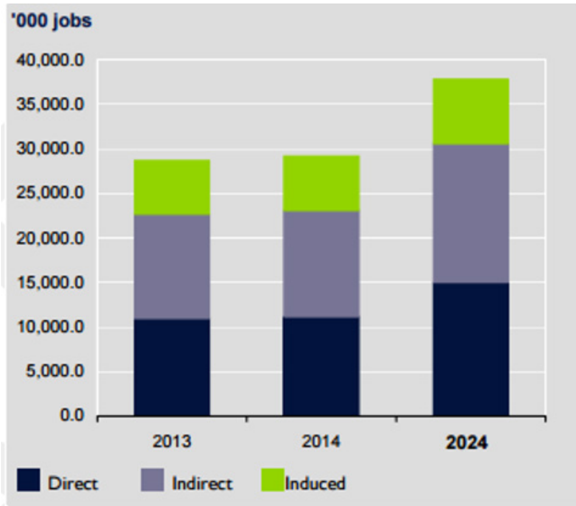
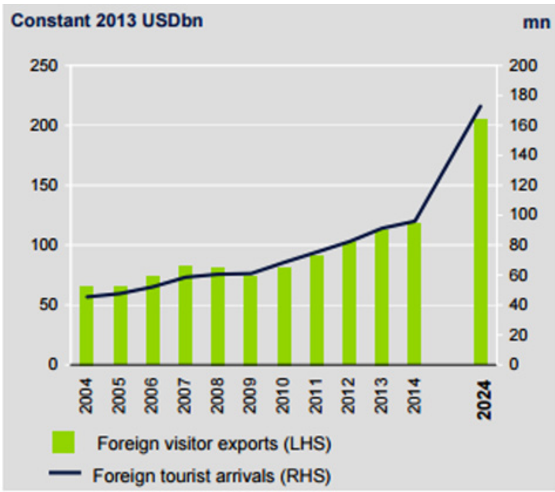


Chart 3. Foreign Visitor Exports and Foreign tourist Arrivals

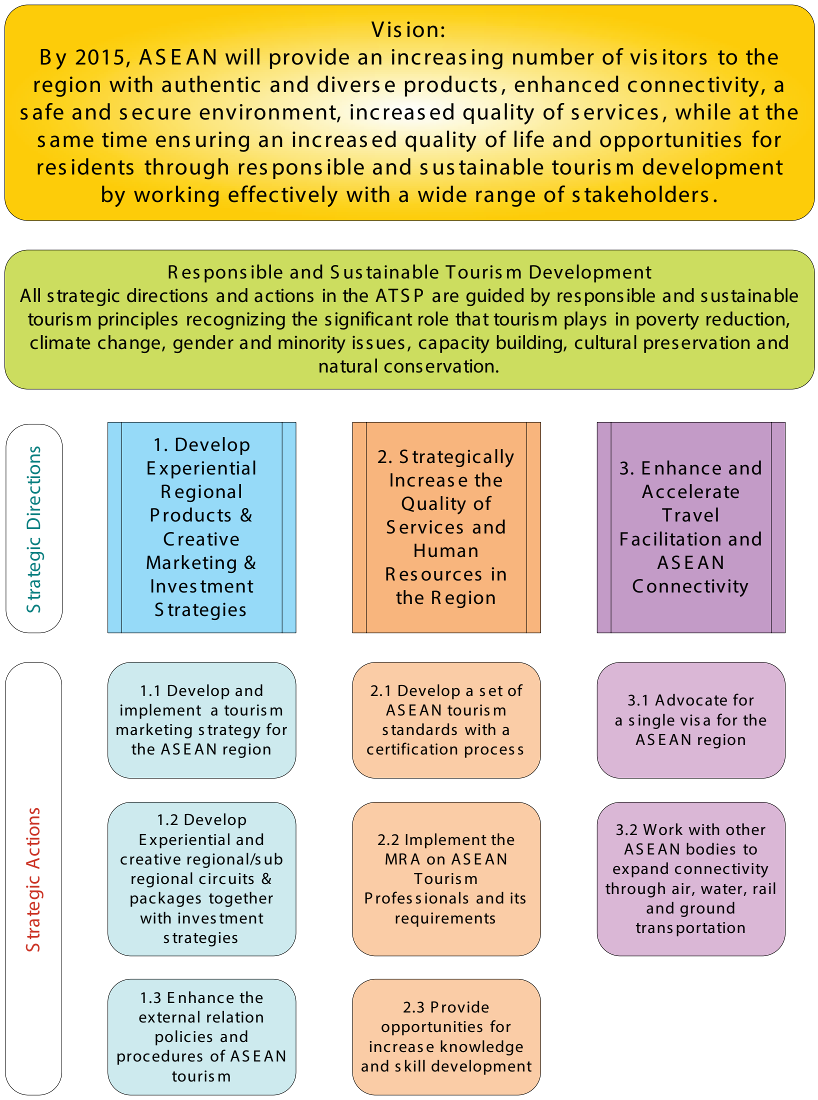


As noted by the WTTC's report, by 2024, the sector is forecast to increase its GDP contribution by 78% to USD 215.8 billion, employment by 31% to 27.8 million and visitor exports by 82% to USD 204.6 billion. Over this period, total international arrivals within ASEAN are forecast to increase from around 96.03 million in 2013 to 172.8 million by 2024. Visitors from East Asia alone comprises roughly 25% of the total arrivals in the region. Based on 2013 ASEAN data, Japan accounts for 4.72 million arrivals, China for 12.64 million, South Korea for 4.87 million and India for 2.92 million.

The composition, size and scale, and importance of the tourism sector in ASEAN has been recognised by the ASEAN member states which have prioritised the tourism sector as a catalyst for contributing towards the goal of building the ASEAN Economic Community. A key cross cutting concern of regional plans for the development of the tourism sector in ASEAN is how to create more sustainable and inclusive outcomes for the more than 200 million ASEAN residents living below USD 2 per day.

2. MILESTONES ACHIEVED THROUGH THE ASEAN TOURISM STRATEGIC PLAN (ATSP) 2011 – 2015

The ATSP 2011 – 2015, directed towards optimising the quality of ASEAN's tourism industry through sustainable, responsible, and inclusive development, was formulated to address existing constraints in the tourism sector. The figure below illustrates how the plan laid out directions and actions in achieving its vision:



Source: ATSP 2011 – 2015

In the scorecard prepared by the ASEAN Tourism Integration and Budget Committee in 2015, it was noted that 82% of all activities under the ATSP had been completed or are still ongoing. Some of the notable milestones are in the aspects of regional marketing, product development of experiential regional products, and standards development and certification procedures for key tourist facilities, destinations, and for climate change adaptation and mitigation, and for hospitality services under the Mutual Recognition Agreements (MRA) as shown below:

	COMPLETED	ONGOING	PENDING
Tourism Marketing and Communication	• Marketing strategy and implementation of distribution and web-based capabilities • Design of campaigns directed at key market segments including India, China, as well as experiential and creative markets, ASEAN for ASEAN markets, business travel markets, adventure travel markets, and senior and long stay market segments • Completion of a joint marketing cooperation work plan with the dialogue partners to 2014 • Efforts to encourage Member States to include the ASEAN tourism logo on their promotional collaterals • Moving to assess the effectiveness of the brand (Southeast Asia Feel the Warmth) • Putting in place a structured communications system that engages the private sector—notably ASEANTA and a PR system based on the use of PR organizations		• Carrying out of analysis of marketing trends, situation and future prospects • Complete and consolidate the activities of the working group giving more attention to promoting ASEAN subregional destinations and circuits targeting more inclusive tourism outcomes
Tourism Product Development			• Outstanding product development, statistical data, and investment initiatives as well as to ramp up networks with organizations such as UNESCO, UNEP, UNWTO, among others to enable nature, culture and community-based tourism product development • Support the development of ASEAN subregional destinations and circuits targeting more inclusive tourism outcomes

	COMPLETED	ONGOING	PENDING
Quality Tourism	• The development of standards and certification processes for Green Hotels, Home-stay, Toilets, spas, security and safety, clean tourist cities, community based tourism and MICE venues • Enhancing the ability of ASEAN tourism to address climate change including the development of baseline data, and a work plan of activities to contribute to climate change mitigation • Development of an ASEAN tourism human resources plan	• The certification process for spas, security and safety, and MICE venues • Establishment of the certification organizations (proposed in each country although a single ASEAN organization is also being discussed) • Pilot testing and training for assessors and auditors, and commissioning of all the standards • Development of a monitoring and evaluation framework based on indicators and development of a future work plan based on monitoring inputs on the climate change initiative • Implementation of the ASEAN Tourism Human Resource Management Program (ATRMP) involving trainings and workshops dealing with specialist cruise training, cultural heritage workshops, hospitality, and ecotourism	• Development of standards for climate change adaptation and resilience • Mainstreaming the standards into the policy and regulatory and tourism HRD frameworks of the member states, • Addressing the unwieldy nature of a country based certification system as well as the cost of delivering an effective certification system
Tourism Professional Monitoring	• Development of 144 toolboxes for hotel divisions (front office, food and beverage services, food production and housekeeping) • Undertaken a gap analysis for the implementation of MRA on ASEAN Tourism Professionals among ASEAN Member States • Prepared the ASEAN Tourism Qualifications Equivalent Matrix • Undertook a feasibility study on the establishment of the Regional Secretariat for implementation of MRA on Tourism Professionals	• Preparation of toolboxes for travel agencies and tour operations • Training of ASEAN master trainers and master assessor for front office, food and beverage services and food production divisions • Development of ASEAN Tourism Professional Registration System initiating pilot projects for the housekeeping division under the MRA • Working on the establishment of the Regional Secretariat ready for operation in 2015 • Continuing to work with the NTO led ASEAN Tourism Resource Management and Development Networks capacity building initiatives in the cruise, heritage, hospitality, and ecotourism areas	• Generate widespread adoption of the ASEAN occupational benchmarks • Expand the tool boxes to the travel agency and tour operations area and possibly into tourist site operations • Provide technical support and handholding for capacity building and maintaining annual tourism human resources development plans and statistics

	COMPLETED	ONGOING	PENDING
Tourism Integration and Budget Committee	• Undertaken continuing consultations with the ASEAN NTOs to collect data on existing transportation infrastructure and facilities, and identify obstacles and opportunities on transportation linkages • Worked closely with the ASEAN NTOs and ASEAN Senior Transport Officials Meeting to advocate adoption and implementation of measures to enhance connectivity • Completed a study on an alternative workable funding model and facilitated in conjunction with the related working groups, cooperation initiatives with the Plus Three dialogue partners as well as with India and the Russian Federation on marketing, and collaborations with international organizations on product development such as the UNWTO supported river–based cruising product development initiative • Development of a profit sharing mechanism for the ATF, the proceeds of which are to be remitted to the ASEAN NTOs Fund	• Monitor and report on the development of a single visa initiative for the ASEAN region in the member states through member states reports	

Source: Review of ATSP 2011 – 2015 Status

While significant improvements have been made in the abovementioned areas, the absence of quantitative links and measures between these improvements and the expected outcomes anticipated in the vision for 2015 makes it difficult to assess whether these were the result of the strategy or some other factors unrelated to it. Nevertheless, granted that a substantial impact has been made, a number of major barriers remain to be dealt with that have a profound impact on the capacity of the private sector to be an effective partner in achieving a borderless ASEAN and to contribute towards ASEAN economic integration. The impact of these barriers is further discussed below.

3. KEY BARRIERS IMPACTING THE INTEGRATION OF TOURISM INTO THE ASEAN ECONOMY

The future integration and growth and of the ASEAN tourism sector is contingent upon developments in a number of key policy areas controlled by the member states that act either as barriers or facilitators to the integration of tourism in the ASEAN economy. Of these, the most important are: (a) removing residual barriers to trade in tourism services, investment and consumer protection; (b) removing barriers to cross border transportation services, (c) adopting a more effective approach to regional destination and product development and marketing; (d) further developing and implementing the harmonisation of standards for tourist facilities and services, tourism human resources and approach to environmental protection; (e) removing unnecessary restrictions on the movement of tourists across ASEAN borders and strengthening and harmonising approaches to tourist safety and security. The salient features of each are reviewed below.

A. Trade in Tourism Services, Investment, and Consumer Protection

Although much progress has been achieved to remove restrictions on trade in tourism services between the member states, key areas remain on the negative list including establishment of competing tourism businesses, tour guiding services, business set up and regulatory procedures, and other procedural requirements that in effect reduce barriers to entry of tourism enterprises between ASEAN countries. Investment regulations and support policies differ significantly between ASEAN countries making it time consuming and expensive to deploy an ASEAN-wide tourism business strategy. If ASEAN is to be marketed as a single destination like Europe for example, then existing consumer protection regulation of the member states will need to be strengthened and harmonised.

B. Developments in Transportation Infrastructure and Connectivity

The intricacies of the topic on transportation infrastructure is already picked up by the other sector discussions. On that note, we would like to support the view of the aviation sector pertaining to creating a single aviation authority and regulatory body for ASEAN. This will also be beneficial to the tourism industry as it will facilitate the movement of tourists within the region.

What we want to further emphasise is how vital transportation is to the growth and development of the tourism sector. Several pillars of the Travel and Tourism Competitiveness Index Report by the World Economic Forum (WEF) are dedicated solely to infrastructure. The development of convenient, safe, secure and affordable intra-ASEAN travel either by air, sea, or land will make it easier to attract higher spending international visitors and distribute the benefits as widely as possible to promote more inclusive socio-economic development in the region.

Transportation infrastructure is not just limited to airports and seaports. It also involves the quality of thoroughfares leading to the airport, available modes of transportation to places of interests, road signages, and all the other accessories in making travel seamless, convenient, and easy to undertake. Except in cities such as Singapore and Kuala Lumpur, a comprehensive transportation system continues to be a need in the region. Most cities do not yet have a transportation hub. Nor do they have mass transportation systems that allow tourists to conveniently transfer between ports of entry, such as the airport, and the city center. Improvements in soft infrastructure are also equally important.

The development of a more convenient, safe, secure and affordable intra-ASEAN multi-modal travel system will make it easier to create multi-country packages. One example is how easily tourists can go from Singapore to Malaysia and vice versa. A 5 hour bus ride can already get you to the heart of Kuala Lumpur. Flight options are also available. Hence, creating twin city tours featuring these two destinations is a breeze. Ideally, this arrangement should be replicated for the rest of the region.

C. Harmonisation of Cross Border Formalities – Customs, Immigration, and Quarantine and Security

Under the current visa policies, some nationalities require visas to enter the ASEAN region. It is estimated by WTTC studies that the ASEAN region stands to gain 6 to 10 million international tourist arrivals by 2016 if appropriate improvements are made[1]. Based on 2013 data, this would provide between USD 7 billion and USD 11.7 billion in additional visitor exports within ASEAN at 2013 prices. Similarly, improvements to ease customs, immigration and security processes and procedures would further boost market demand and induce further investment on the supply side.

While in principle, ASEAN residents can travel to any other ASEAN country without visa requirements, much has yet to be done to fully implement this long standing agreement. In practice, some countries continue to require additional formalities similar for visa requirements for ASEAN residents moving across their borders. Moreover, as the largest potential high-yield markets for ASEAN comprises non-ASEAN residents – East Asians, Europeans, Middle Easterners, North Americans, and South Asians (e.g. India) – that generate at least two to three country arrivals per visit. The confusing mix of visa requirements and visa prices, notwithstanding visa exemptions applied to some countries by some member states, is a major barrier to expanding these high-yield markets. In this context, it is noted that the concept of a Single ASEAN visa has been promoted within the ASEAN economic cooperation framework. This would be similar to the Schengen visa wherein a visitor would only need to secure an entry visa from one of the 10 member states which in turn grants him/her access to the entire region. This would substantially ease mobility of intra-ASEAN travel as well as inter-regional travel by high-yield non-ASEAN residents and make significant contributions to ASEAN's integration and socio-economic development – particularly inclusive economic development. However, because of security, procedural, and financial concerns, in spite of the enormous benefit relative to the cost, there has been little enthusiasm on the part of the member states to forward this initiative.

The challenge now is to formulate and implement policies designed to move ASEAN towards becoming a border-free region. It goes without saying that needing to acquire a visa will limit the goals of the development of tourism which is to ensure the increase of tourist arrivals and tourist spending for it to be a major industry in ASEAN especially in promoting inclusive growth. In this context, there is a need to hold a high level summit to address cross border barriers in tourism and to develop new strategies and programs to facilitating the movement of high-value non-ASEAN tourists to and within the region.

D. Alignment of Standards and Mutual Recognition of Certification for Tourism Products and Human Resources

A key component of the AEC is for mutual recognition of the certification of product and human resource standards across ASEAN. In this context, there is a need to introduce mutual recognition of certification for tourism product standards, and to implement and expand the coverage of the existing MRAs to include qualified manpower and other new occupations within the ASEAN region.

In effect, facilities in all ASEAN destinations – restrooms, hotels, attractions, etc. should be at par with each other. The same approach should apply to manpower. A front office operator in Myanmar who has acquired certification can work the same job elsewhere within ASEAN. Having skilled employees across the board subsequently aids in achieving the AEC goals of the free flow of skilled labor and help raise the competitiveness of ASEAN as an economic region.

E. Approach to Destination and Product Development and Marketing of ASEAN As A Single Destination

As indicated earlier, through the ATSP, product development and promotion plans and programs designed to promote ASEAN as a single destination among ASEAN residents and non-ASEAN markets are being implemented. The objective is to tie destination and product development, investment and promotion together and to equally market and sell all the destinations and products in the region. It is considered best to bundle multi-country tour products/destinations based on themes (i.e. nature based, culture, heritage, cruise, adventure, meetings and events, etc.). However, existing subregional destinations such as the Mekong subregion have not been integrated into the ASEAN tourism framework and only a handful of tour operators are involved in developing, marketing and operating multi-country destinations and products even as a large volume of medium and long haul tourists

[1] *WTTC Impact of Visa Facilitation in ASEAN Member States Report, 2014*

organise their own multi-country tour programs. Ideally, given the size of this business opportunity, much greater paticipation and cooperation needs to be given to developing, marketing and operating multi-country destinations and products.

Moreover, as what transpired from the roundtable discussion, there is little or no awareness about the campaign “Feel The Warmth” for Southeast Asia”. It has been identified that there is a lack of marketing, per se, in both online and offline platforms. The identity of each country is more profound compared to the region as a whole even though most international visitors – especially those from medium and long haul markets are visitong two or more countries in the region.

These are some of the key barriers that need to be removed or reduced in order to realise the goal of the economic integration of tourism in the ASEAN economy. As indicated in the WTTC study, the impact of reducing these barriers could be substantial in terms of visitor exports and employment generation, especially in the less economically developed destinations of the region such as the Mekong Subregion and the Brunei-Indonesia-Malaysia-Philippine subregion in East ASEAN that together account for most of ASEAN’s poorer population.

4. RECOMMENDATIONS FOR ACCELERATING REDUCTION OF KEY BARRIERS

It was noted during the Roundtable Discussion that the participants had little, if any knowledge about the ATSP 2011-2015 or its successor currently being crafted for the period 2016 – 2015. It was noted that in the formulation of the first ATSP 2011 – 2015, the private sector’s participation was only partial and the inputs were only taken into account midway through the formulation process rather than at the beginning of the process. In other words, the private sector is regarded as an actor in the tourism sector and not a key driver of its development.

This situation has been repeated in the case of the formulation of the ATSP 2016 – 2025 and reflects the weakness of tourism private sector to organise and deal with regional issues. As a result, the public sector organised under the ASEAN Secretariat has taken the lead. Strengthening the private sector’s capacity to organise, advocate, and finance its stance to removing key barriers to the integration of tourism within the ASEAN economy and full participation as a driver of tourism economic integration in the ATSP 2016 – 2025 formulation and implementation process is thus a primary recommendation of this report.

Private sector involvement in the formulation and implementation of strategies, programs and projects to address key barriers and to help fast track implementation is discussed below.

(i) Research and advocacy on the need for further reductions in barriers affecting transportation, cross border, and mutual recognition of certification standards

It is within the private sector’s purview to introduce concepts, programs, and ways to improve the status of tourism related undertakings. With all the barriers in mind, there is a need to mobilise the full range of private sector organizations operating in ASEAN including all major carrier groups, major hotel chains, travel operations firms, shopping, entertainment and leisure facility operators, financial institutions, and tourism real estate developers to come together as one to resolve the pertinent issues.

(ii) Strengthening the Capability of the Industry in ASEAN Regional Affairs

In order to echo a stronger voice, there is also a need to strengthen the representation and role of existing regional private sector organizations like the ASEAN Tourism Association (ASEANTA) in the affairs of the region. ASEANTA is a non-profit tourism association comprising both public and private tourism sector organizations from within ASEAN. This was formed more than 40 years ago with the goal of helping shape tourism development growth and policies. However, despite its decades of presence, the association is not yet where it hoped to be. Its representation remains narrow and ideally should be expanded to include more transportation providers in the air, sea and ground arena including new online service providers, major theme attractions, parks and entertainment, MICE and gaming operators, financial institutions such as the major banks, investment houses with large tourism portfolios and credit card firms, real estate developers and tourism management companies, online travel agencies and booking firms, etc.

The private sector is potentially a strong partner to the public sector tourism organizations in ASEAN to help develop strategies and implement breakthrough projects through its representation and lobbying capabilities. The strengthening of private sector representation and regional presence and capability will propel the industry to that of a viable partner with the public sector in developing and implementing strategies to reduce the barriers to the integration and growth of ASEAN tourism.

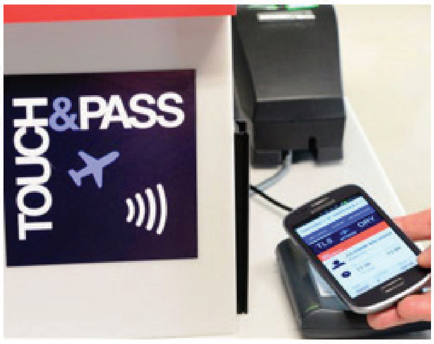
(iii) Inter and Intra-regional Transportation

One of the key barriers is transportation. Much greater attention needs to be given to the harmonisation of safety and security policies and regulations and moving to a single international transportation market. The private sector, as the main provider of transportation services in the region, given its ability to lobby the political process, can play a crucial role in working to remove barriers in this area. In fact, the "Pathfinder Initiative" to bring about specific policy changes at the member state level in line with regional priorities for integration is a good example of how the private sector can work to help reduce barriers.

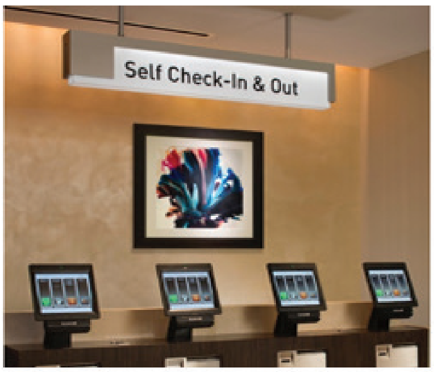
As indicated below, there have been numerous technological advancements pioneered by the private sector that are already in use in the different parts of the world to make it easier and more convenient for tourist to move travel and move across borders.

Self Service Bag Drop, Schiphol Airport, Amsterdam

Self-boarding using Near Field Communication Technology



Self Check In and Out, Hyatt Regency New Orleans



Airport E-Gates for Immigration Clearance, Taiwan

Ideally, an ASEAN Single Visa must be made available for tourists, starting with the nationals of ASEAN Dialogue Partners China, Japan, South Korea, and India. As previously mentioned, 25% of arrivals in ASEAN comes from these countries. In 2014, the four countries had 157 million outbound travelers combined with China now ranking as the biggest international tourism spender in the world. With this, the region stands to gain tremendously from an influx of tourists from these neighboring markets.

Moreover, if the Single ASEAN visa cannot come into fruition just yet, countries are moving into visa-free access. As an example, Indonesia has just recently waived visa requirements for tourists from 30 more countries including United States, Germany, New Zealand, United Kingdom, among others, allowing them to stay in the country for up to 30 days. It is with the objective of welcoming more tourist traffic and activity that is beneficial to its economy. This is one approach that the private sector can lobby to their respective government agencies to achieve border-free travel. By improving international openness, the rankings of the member countries will fare better in the WEF Competitiveness Index.

In line with this, the private sector can also lobby for the introduction of technological advancements such as the Advance Passenger Information System (APIS).

Source: IATA and ICAO

This should help to resolve the area of security as it allows the border control to pre-process arrival and departure manifest data on all passengers and crew members. The information can then be checked against warning lists and used for immigration processing, security, and customs processes. It also inadvertently fast tracks passenger processing upon arrival.

(iv) Quality Standards

As it is, there is a great disparity in terms of the standards of goods and services in the region especially in less developed member states. The MRAs need to be fully implemented to ensure supply of a quality pool of manpower in the region. The qualifications and skill set required can be best identified by the private sector. Later on, training and monitoring of the level of accomplishment can be undertaken by the same body.

(v) Marketing ASEAN as a Single Destination

As mentioned, there is a greater need to involve the private sector in the formulation and implementation of plans and programs for ASEAN tourism. Thus, there is a need for the private sector to take a stronger position going forward. This can be effected through creation of public private sector working groups at the national and ASEAN level and private sector participation in rapid assessment task forces, working group meetings, surveys, and facilitation of required focused group discussions, among others.

In terms of travel services, the private sector is best placed to contribute as it is at the front line of product packaging, pricing, promotion, distribution, and operation. The private sector knows what is happening on the ground as it comes face to face with the tourist at all points of the tourism supply chain. The value that the private sector can add will be important in setting realistic long term strategic directions, action plans and programs.

ASEAN brand awareness is a prerequisite to the successful marketing of ASEAN as a single tourism destination. The tourism players in the region – both public and private – need to work together for an aggressive and sustainable branding campaign, including clear brand messaging and the aid of publicity tools such as TV, radio, print, and social media. Given that the “Southeast Asia: Feel the Warmth” is not well-known, there is a need to boost marketing efforts in all areas. Ideally, there should be an easily accessible market orientated website that will be a database of all the regional destinations and places to visit, possible activities, basic information, and the like on all the 10 member states of ASEAN. All the multi-country itineraries and packages should also be available there. In principle, it should like the European Union's counterpart, be a "one-stop-shop" for everything there is to know about ASEAN tourism for potential visitors. The content will be derived from consolidated inputs of both public and private sectors in the region, linked to booking search engines and social networking platforms and managed by a professional website manager. This way, all destinations – even from the lesser known countries, have an equal chance of being promoted. The web site should also be easily accessible to the market by keying in familiar phrases such as "visit Southeast Asia", "travel in Southeast Asia", "vacations in Southeast Asia", "exploring Southeast Asia", etc. At present, however, the market would need to know about "ASEAN" in order to key "visit ASEAN" or "explore ASEAN", knowledge that most of the market does not have and that would require changing the world's perception of 'Southeast Asia' to 'ASEAN' – a very costly and needless exercise. Europe promotes itself on a website called "visiteurope.com" not "visitEU.com" or as in the case of ASEAN.

Based on 2013 data from UNWTO, the combined number of international tourist arrivals from the ten countries will put the region on the top and will be the most visited destination in the world. At the same time, ASEAN will fare second next to the United States in terms of generated international tourism receipts should this be the case. This recognition will only be possible if the region will be marketed as a single destination.

As private sector, we should be at the forefront of tourism planning initiative. There should be a level of trust between the public and private sector to make this work.

One feasible scheme to get this done is to create a Public-Private Sector ASEAN Tourism Working Group to discuss, agree, jointly implement where appropriate and monitor and evaluate strategies, plans and, programs designed to reduce barriers and promote ASEAN as a single destination.

(vi) Further Identify What Is Needed From the Public Sector To Raise the Competitiveness of ASEAN as a Global Destination

We have already highlighted the importance of public and private partnerships in policy making and implementation. Again, the private sector being in the forefront of the tourism industry, there are some concerns and issues that can only be dealt with in cooperation with the public sector. Regulations, taxation, and infrastructure are just some of the matters that are mainly under the government's purview. If the direction of both sectors are in coordinated, it will be easier to actualise plans that would benefit the economic integration of the ASEAN tourism industry. Through effective collaboration in the formulation of the ATSP, this is possible.

These are just some of the recommendations on how barriers in the tourism industry can be lifted and its integration within the ASEAN economy enhanced. In the dawn of the ASEAN Integration, it is but timely to address these hindrances and fully realise what it means to have a united region.

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RETAIL

+ LIFTING-THE-BARRIERS REPORT

ATKearney

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Innovation in retail has been accelerating for the past couple of decades across the globe and can be grouped into 3 buckets:

Offering - includes all the new products and services which are launched by retailers.

Shopping experience - captures innovation in the consumer interaction space such as e-commerce and emerging technologies like “virtual reality” or ‘beacon technology’.

Enablers - regroups innovation occurring on the back-end and more operational side of the value chain, enabling retailers to improve services, optimise processes and be more cost efficient.

Although most ASEAN countries have engaged in the path towards “retail modernity” over the last years, retail innovation in ASEAN is today still in the early stages of development. The penetration of new products, services and platforms such as private labels and e-commerce are indeed still low compared to more developed markets.

Driving innovation in ASEAN represents a unique opportunity to take the retail industry to the next level, improving the retail experience for consumers, facilitating the emergence of regional players, homogenising the retail space across countries and helping drive ASEAN markets integration.

However, there are barriers to the development of retail innovation in ASEAN, including market readiness, cumbersome regulations, integration of talent, insufficient infrastructure capabilities and lack of access to financing for innovators. The Lifting-The-Barriers Roundtable at the ASEAN Business Club forum, recently held in Singapore, highlighted four specific actions that ASEAN countries should consider to overcome those barriers and fully unleash the potential of retail innovation.

Reduce non-tariff barriers for new products – harmonising labelling & testing requirements and increasing the capacity and influence of the ASEAN secretariat.

Improve access to talent able to drive innovation – encouraging the inclusion of the retail sector into the design and delivery of vocational training and harmonising the recognition of certificates across ASEAN.

Improve trade efficiency to ease the flow of new products and services across countries – further driving the implementation of the ASEAN Single Window and harmonising the payment eco-system.

Drive integration of ‘Retail Innovators’ – establishing a regional network of government agencies promoting innovation and fostering collaboration between innovation incubators and retailers.

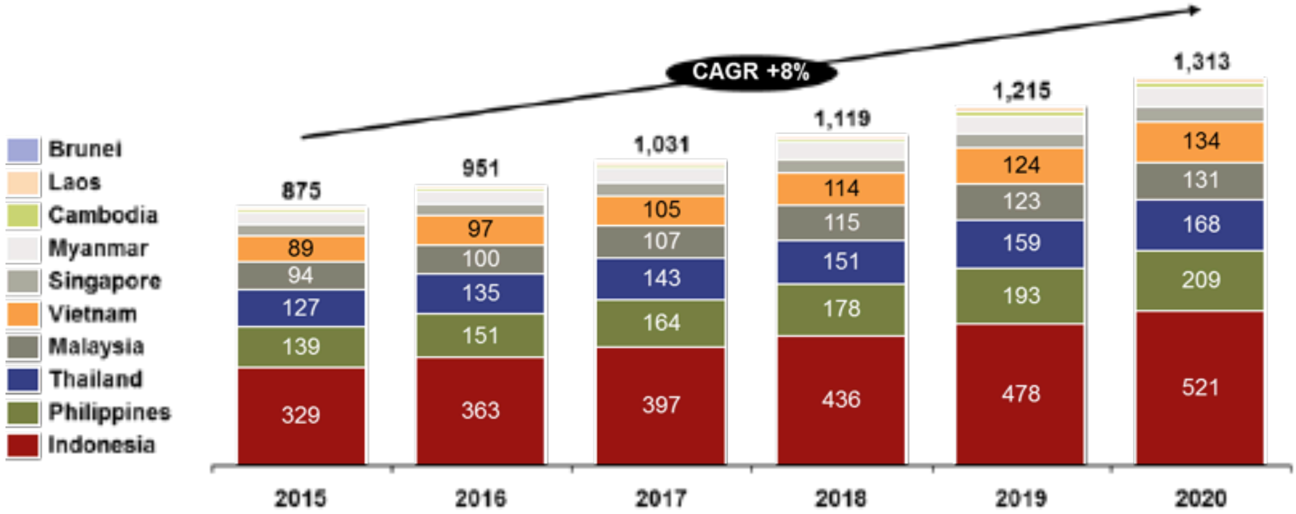
This paper provides an understanding of the landscape of retail innovation opportunities and assesses the current status of retail innovation in the region. It specifically highlights potential barriers and the role of key stakeholders in overcoming those, leveraging inputs from the Lifting-The-Barriers Roundtable recently held in Singapore during the last ABC forum.

1. RETAIL INNOVATION LANDSCAPE

ASEAN is lagging behind on innovation

With over 600 million consumers in 10 countries whose collective GDP amounts to about US$2.4 trillion, ASEAN is today the seventh largest market in the world and is expected to be the fifth largest by 2020. The ASEAN retail market is currently worth an estimated US$875 billion driven by Indonesia (38%), the Philippines (16%) and Thailand (15%).

Figure 1: ASEAN Retail Market Growth Forecast (USD billion, CAGR %)



Note: ASEAN market size includes Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. Market size figures are rounded.
Sources: Planet Retail, Economist Intelligence Unit

However, the level of retail development significantly varies from one country / region to another, often driven by the ability of key players to innovate. But what does innovation mean for the retail sector?

The different types of innovation in the retail space can be grouped into 3 buckets: Offering, Shopping Experience and Enablers.

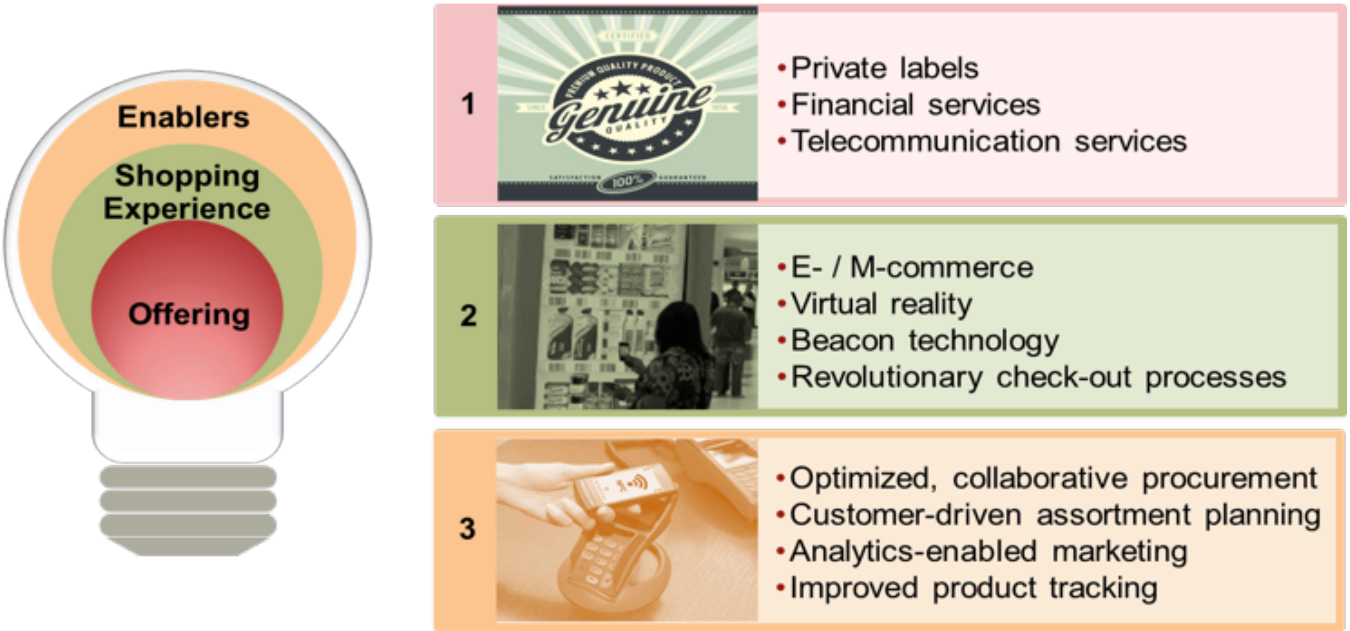
Offering

Some of the most visible innovations in the retail space are down to the new products and services which have been progressively launched over the years by retailers across the globe.

Product Innovation. Retailers have first looked at creating their own store-label brands, directly competing with the branded products that they were distributing. Those own-store-branded goods also known as private label goods really started taking off in the 1990s. In what started as a retailer's low-cost & low-quality substitute for known brands, private labels now have significantly increased in quality, delivering against consumer needs across wider price points. They have even become a key differentiator for some retailers in terms of a good quality offering with lower prices, positively affecting the retailer's image.

Service Innovation. Retailers have also looked at expanding their offering to become more competitive and drive consumer loyalty, getting into new product categories and expanding into new services. For example, major retailers such as Tesco have expanded their businesses into financial services (Tesco Bank) and telecommunications (Tesco Mobile).

Figure 2: Retail Innovation Landscape



Source: A.T. Kearney

Shopping Experience

E-commerce growth. One of the key innovations in the consumer interaction space has certainly been the growth of e-commerce, which has been revolutionising not only the retail business but also how FMCG companies develop, market and distribute their products. E-commerce gained scale in the 1990s as an alternative way of engaging customers from the traditional brick-and-mortar store format and to provide more convenience. Over the past two decades, it has grown steadily, making up 6% of the global retail industry in 2014, or around US$ 1.3 trillion.[1] The global e-commerce market is expected to grow between 13 and 20% per year to reach US$ 2.2 trillion by 2017 and more than US$ 7 trillion by 2025. Growth in the developed markets will be driven by the increase in share of wallet and basket size while growth in the developing regions is expected to be fueled by digital adoption and the increased penetration of shoppers.

Emergence of virtual reality. More recently, the retail space has also seen the emergence of "Virtual Reality" (VR) innovations providing consumers with an augmented in-store experience. VR could be the next frontier for retail, most of the VR applications currently still being under development. Different retailers ranging from fashion apparel companies or furniture providers to automotive and grocery retailers have launched several initiatives into the virtual reality space, in an effort to merge the physical and digital world. These initiatives also serve as a differentiating factor for the retailers, helping create a buzz that further showcases their brand image. Several applications implemented by retailers include VR stores recreating the in-store experience; VR fitting rooms used by apparel retailers allowing quick and hassle-free fittings; VR mirrors enabling shoppers to e.g. try the look of different eyeshadows and lipsticks without applying them to the skin.

Beacon technology. Some retailers are also increasingly using the 'beacon technology' which enables them to directly interact with the mobile phones of consumers in store. Beacons are short-range (Bluetooth-based) communication devices that interact with smartphone apps and enable retailers to offer consumers live offers (incl. real-time, situational, dynamic pricing), live couponing, loyalty programs, mobile payment, and data collection (which in turn again can be used for e.g. live offers and coupons) as consumers visit the store.

[1] *Source: eMarketer, Dec 2014*

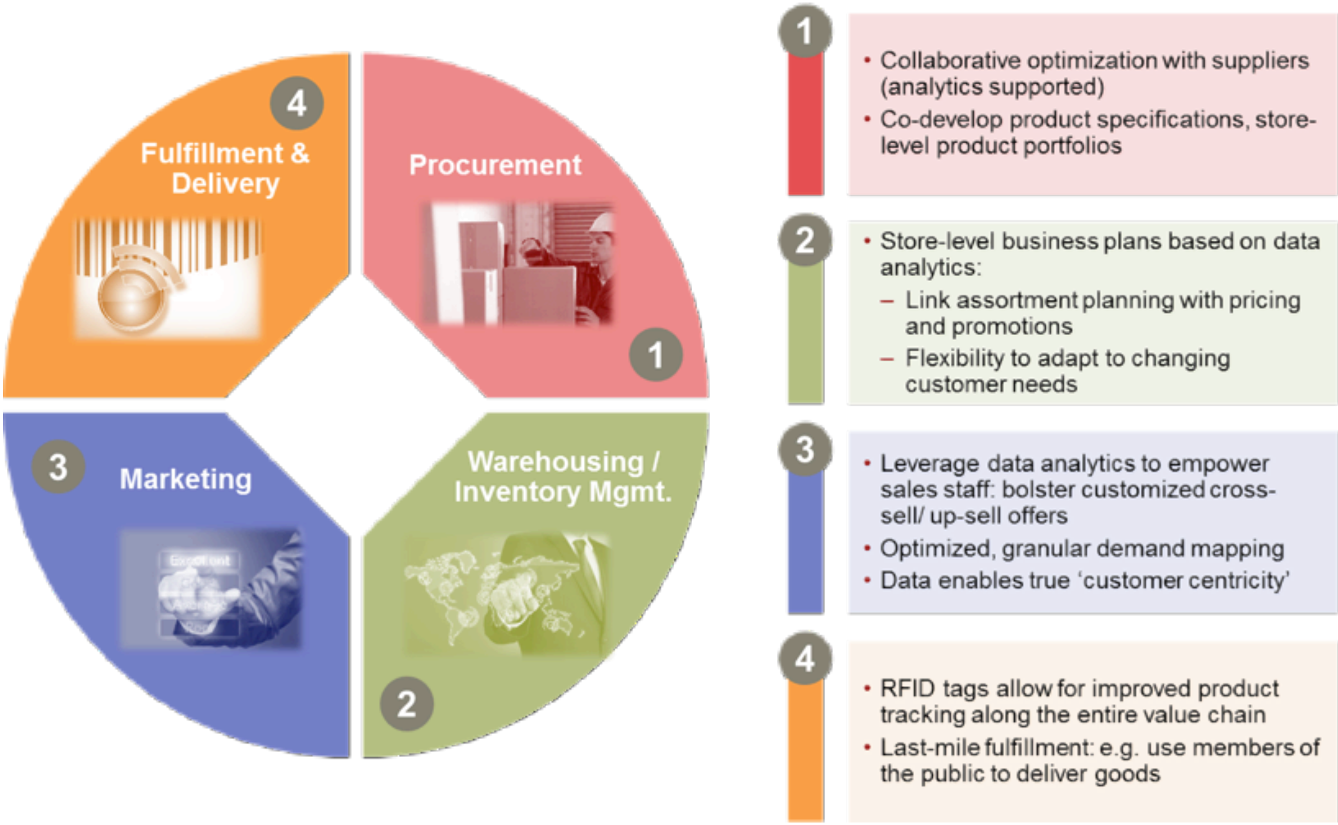
Revolutionary payment / check-out process. The payment process is a critical element in the sales chain as a bad experience can erode any relationship built with the consumer while in-store. Speed is one of the most important performance criteria and retailers have spent much effort on reducing queuing & check-out times. In that context, self-scanning stations are being increasingly deployed by food retailers and drugstores. Other innovative applications that speed up the check-out process, increase consumer interaction, and collect sales intelligence for the retailer during the check-out process are e.g. facial recognition / digital signage or “Pay-by-Selfie” (Alibaba).

Other shopping experience innovations. Finally, other innovations include i.) storefront extensions / infinity aisles that display related products, which are not available in-store but can be ordered online and delivered home (portfolio / reach extension) or ii.) the embedment of social media into a physical store environment such as the display of the number of Facebook likes on clothes hangers in real time.

Enablers

Significant innovation has also occurred over the past years on the back-end and more operational side of the value chain. Innovations have specifically enabled retailers to optimise processes and be more cost efficient whilst improving service levels.

Figure 3: Innovative Enablers across the Retail Value Chain



Source: A.T. Kearney

Optimised, collaborative procurement. Retailers increasingly co-create value with their suppliers. This starts right at the beginning of the value chain and leverages capabilities which are unique and inherent to the supplier as well as to the retailer. As an example, retailers use during the sourcing process, an RFP structure that enables ‘collaborative’ or ’expressive’ proposals. This encourages supplier innovation and creativity and enables suppliers to align capabilities and interests with requirements. Combinatorial optimisation (‘analytics engines’) accelerates analysis and evaluates complex, interdependent proposals based on specified business constraints. This approach allows retailers to develop targeted, store-level product portfolios, alternate specifications, and targeted incentive / discount / rebate structures.

Customer-driven inventory / warehouse management and assortment planning. To maximise sales, inventory and assortment planning must be integrated into a store-level business plan that is based on customer data analytics. Leading retailers link the planning process with pricing and promotions, such as increased promotion activity in select categories; they incorporate assortment and placement decisions, such as assortment extensions into their planning and reflect on competitive actions. They further model economic and demographic conditions, also weather conditions, such as low temperatures which would increase sales of winter clothes. This together with shorter planning cycles builds an agile organization that knows its customer needs and can flexibly cater to them.

Analytics-enabled marketing & offering customisation. The rise of the internet and concurrent investment in IT infrastructure has made data available like never before. Data analytics drives relevant insights out of the data and applies the insights to strategies that help organizations create and extract value. Analytics provides detailed information on customer needs to salespeople, for example, bolstering customised cross-sell and upsell offers and scripts. Analytics can also optimise supply levels, distribution and logistics with granular demand mapping and forecasting. It can also help optimise production processes with more sophisticated assessments of bottlenecks and waste, or product design, leading to smarter investment in product elements that are most valued by customers while reducing cost and delivery for those elements that customers do not value much.

Improved product tracking. With the rise of "The Internet of Things", radio-frequency identification (RFID) technology is gaining increasing importance: the next frontier is end-to-end RFID tagging along the entire value chain from the manufacturer to the consumer. Integrating RFID technology with the above described collaborative procurement strategy and advanced data analytics provides a powerful end-to-end solution. Other applications include mobile RFID readers that constantly and automatically maintain inventory counts and monitor asset location.

Especially in e-commerce, real-time end-to-end tracking is becoming ever more critical as innovations to fulfil 'the last mile' are deployed: crowd sourcing, i.e. paying members of the public to deliver items on their way home has been explored as one option. Deutsche Post DHL has e.g. started the "MyWay" program in Sweden: the company pays members of the public to deliver online goods. Also Walmart in the US has expressed interest in using shoppers to deliver products on their way home from its stores in return for a discount.

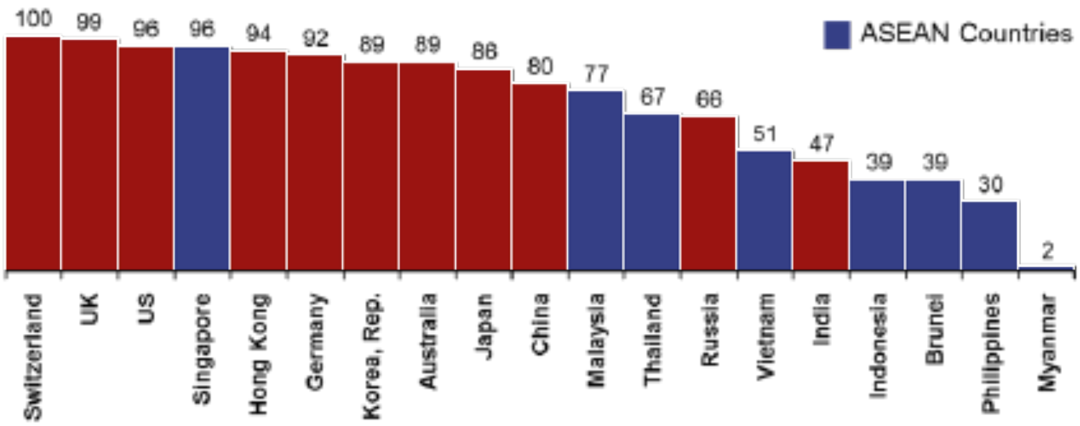
All of the above new technologies / enablers are reshaping the retail environment at an unprecedented pace. Retailers must therefore stay at the forefront of technological innovations, not only to be competitive in terms of store profitability, but also to deliver a state-of-the-art customer experience.

2. WHERE IS ASEAN TODAY?

2.1 ASEAN is lagging behind on Innovation

According to the latest Global Innovation Index (GII), ASEAN (except Singapore) appears to overall lag behind when it comes to innovation in general. The GII measures 81 innovation drivers across a nation's institutional quality (political / regulatory / business environment), human capital and research (education / R&D), infrastructure quality (including digital infrastructure), market sophistication (access to capital / investment), business sophistication (innovation linkages and absorption). On the output side, the GII measures knowledge creation, knowledge linkages / diffusion as well as creative outputs (intangible assets, creative goods and services, online creativity).

Figure 4: Global Innovation Index Score Results – ASEAN vs. Regional / Global Competitors



Source: S. Dutta, B. Lanvin, and S. Wunsch-Vincent (eds.): Global Innovation Index 2014. WIPO, Cornell University, INSEAD

As we zoom into innovation in the retail space, the overall picture is no different. Although most ASEAN countries have engaged in the path towards "retail modernity" over the last years, retail innovation in most of ASEAN today is indeed still in the early stages of development. The penetration of new products, services, supply chain enablers, and analytics applications described in chapter 1 are indeed not at the level observed in more developed markets.

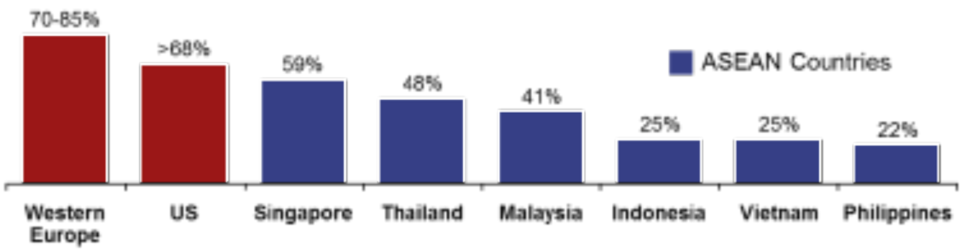
2.2 ASEAN's modern retail is underdeveloped

A key indicator of Innovation in the retail space is the penetration level of modern trade. Across ASEAN, that indicator remains largely underdeveloped, with modern trade representing 50% or less of total retail in all countries but Singapore (currently at ~60%) vs. 70-80% in developed markets.

Modern retail naturally congregates in the more developed parts of ASEAN and is a direct reflection of the heterogeneity of the region. Markets in Singapore as well as the city centers of the major metropolitan areas (e.g. Bangkok, Jakarta, and Kuala Lumpur) are mature and saturated and the retail environment is highly competitive. The outskirts of the major metropolitan areas can be defined as 'semi-mature' with still many white spots remaining, retailers having over the past years first and foremost focused on site acquisition rather than driving innovation. Finally, rural areas as well as emerging nations such as Cambodia and Laos constitute a low margin, low cost environment and pose significant logistics challenges to retail operations.

Figure 5: Low Share of Modern Retail

(% of total retail sales, 2014)



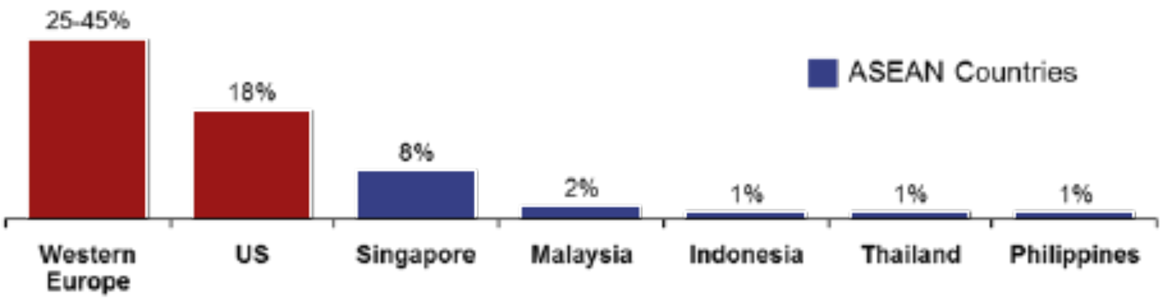
Source: Trend Macro, Frost & Sullivan, A.T. Kearney

2.3 ASEAN retailer driven product innovation is low

Retailer driven product innovation remains relatively low in the region, with private label penetration in ASEAN accounting for 2% or less (except Singapore) vs. 20% to 45% in more developed countries.

Figure 6: Penetration of Private Label Products in Retail

(% of total retail sales, 2014)



Source: Nielsen

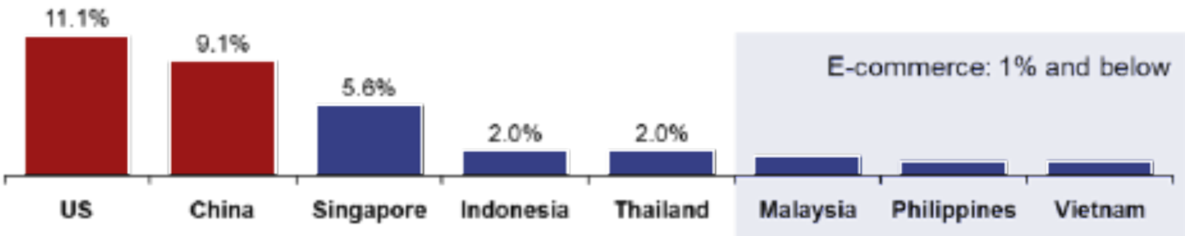
As modern retail markets in the region mature, private label penetration has not accelerated at the same pace as expected by retailers. A recent study from Nielsen confirmed the strong brand loyalty of South-East Asian shoppers: especially the lower income segments believe that it is worth to pay a premium for brand names as they fear losing money if they try a new brand (6 out of 10 respondents in Indonesia, the Philippines and Thailand see this risk of losing money associated with private labels). Moving forward it will be up to the retailers to build trust in their own brands to stimulate private label sales in the region.

2.4 ASEAN's E- /M-Commerce is growing fast but is still underdeveloped

As highlighted in last year's report "Lifting the Barriers to E-Commerce in ASEAN", e-commerce remains underdeveloped in the region, representing 2% or less of total retail sales in 2014 (excluding Singapore at 5.6%).

Figure 7: E-Commerce Sales as % of Total Retail Sales

(2014)



Source: A.T. Kearney

However, the recent growth over the past year confirms that ASEAN will be one of the world's fastest growing markets for e-commerce in the next few years – we estimated an annual growth of ~25 percent across the region in last year's report. Developments since have allowed for an even more optimistic outlook driven by favorable demographics, improved digital infrastructure, increased adoption of social media, and improving offerings.

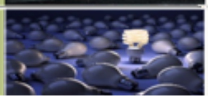
Importantly, cross-channel integration has started to develop, with ASEAN e-commerce players entering the offline world: Zalora for example has been opening pop-up stores next to established offline retailers (e.g. Zara) in Singapore, as well as in Malaysia and Vietnam to give customers the opportunity to 'touch and feel' the actual products. This model is currently being further rolled out in the Philippines and Thailand. Zalora also partners with 7-Eleven in a unique way, 7-Eleven stores serving as pick-up points for Zalora. Bricks-and-mortar stores are likewise investing in multi-channel offering in order to stay competitive – this trend is relatively developed in Indonesia, Thailand and the Philippines, where the growing number of online shoppers have prompted retail brands to offer innovative services such as online gift registries or in-store pickup or delivery services.

Net, ASEAN is overall lagging behind in terms of retail innovation but the potential is there, should some key barriers be lifted.

3. LIFTING THE BARRIERS

The Lifting-The-Barriers Retail Roundtable at the recent 2015 ASEAN Business Club Forum highlighted four specific barriers to innovation in retail in the region: (1) Significant non-tariff barriers persist that impede trade flows and dampen innovation – divergent national labeling and food safety regulations are most critical. (2) Increasing talent shortage stifles innovation and drives up labor cost. (3) As highlighted in last year's report on e-commerce in ASEAN, trade efficiency remains low with an underdeveloped transport infrastructure. (4) Finally an immature networking culture and a focus on the short-term has hampered the development of an innovation-based ecosystem.

Figure 8: Key Barriers to Innovation in Retail

1	Prevalence of Non-Tariff Barriers		• Different domestic regulations co-exist • Public-private sector cooperation is limited
2	Talent Shortage / Skills Mismatch		• Mobility of skilled people and talent sometimes restricted • Limited innovation culture: traditional curricula do not focus on entrepreneurialism • Regulations for setting up and operating retail organization are often inconsistent
3	Low Trade Efficiency		• Transport infrastructure remains underdeveloped • Cross-border payment eco-system remains weak
4	Limited Integration of Retail Innovators		• Retail culture tends to be hierarchical dampening bottom-up idea generation • Margin pressure being addressed by focusing on short-term promotions • Networking culture is relatively immature

Source: A.T. Kearney

The following sections examine each barrier in detail, elaborate on how current local or regional initiatives help address these barriers, and offer pragmatic recommendations for future action to be considered by the ASEAN community.

3.1 Reduce non-tariff barriers for new products

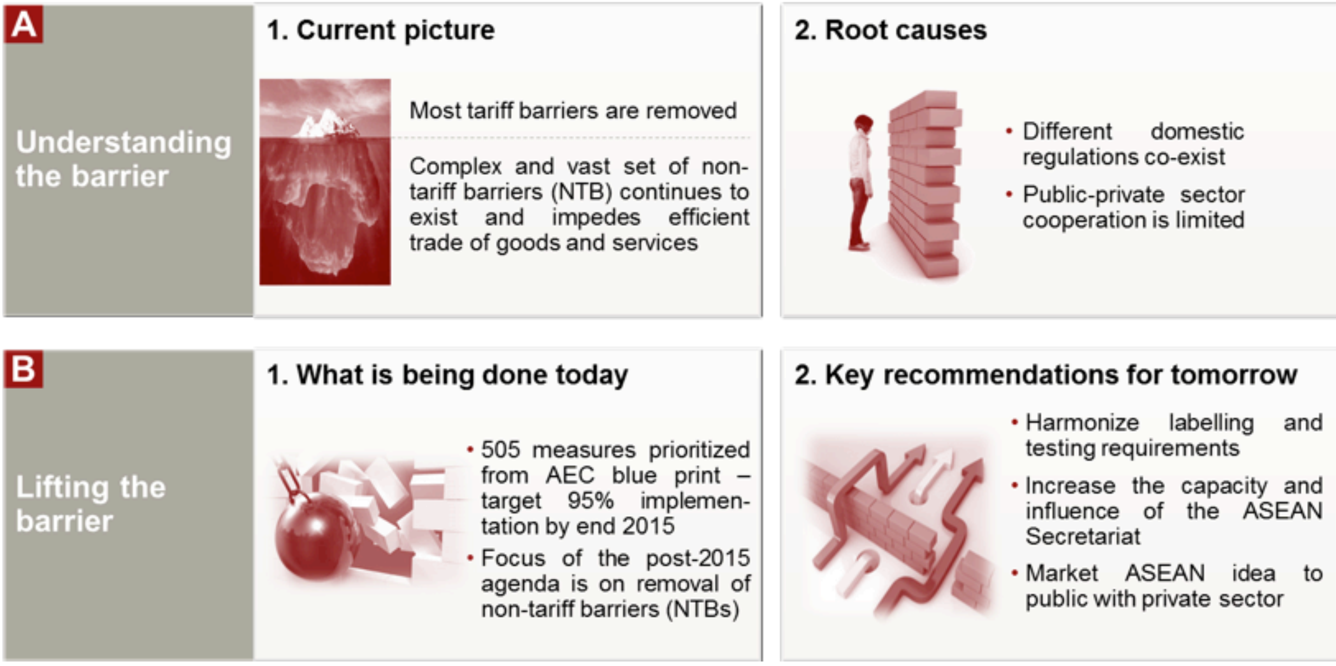
Understanding the Barrier

Current picture

In 1992 ASEAN member countries committed to reduce tariffs under the CEPT [2] scheme. Most tariff barriers have since been successfully reduced, but tariffs are only 'the tip of the iceberg' – attention has now shifted to non-tariff barriers (NTBs). Reducing NTBs could really help step-up product innovation and can be considered as the next frontier in ASEAN integration. The task is not easy as NTBs originate from local legislation and touch the very core of a country's sovereignty. Non-tariff measures (NTMs) are therefore unlikely to disappear completely in the near-term, but the ASEAN business club retail roundtable argues that minimising and harmonising NTMs across the region is the key to unlock innovation and growth in the retail sector and beyond. Domestic regulations governing e.g. testing and food safety are key barriers to innovation in retail in ASEAN. Other NTBs that affect the retail sector include inconsistent labelling requirements across member states (e.g. language / nutritional information for food products), or inconsistent regulations on obtaining a license to operate. These NTBs significantly increase product development cost and create an environment of elevated risk that deters both manufacturers and retailers from launching new products across ASEAN or from investing in technology / new business models as scale economies are likely not to materialise (numerous national plays instead of a concerted, integrated, regional ASEAN play). This regulatory complexity as well as issues of transparency, predictability and consistency in interpretation of these regulations impede growth across the region.

[2] *CEPT = Agreement on the Common Effective Preferential Tariff signed on January 28th 1992 by the governments of Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand*

Figure 9: Lifting-The-Barrier 1 – Reduce Non-Tariff Barriers for New Products



Source: A.T. Kearney

ASEAN leaders are certainly cognizant of the importance of addressing NTBs in the process of driving the AEC, and many programs are well underway. Below we take stock of what is being done today, how the actions have impacted the retail sector and what should be done additionally or differently moving forward.

Root causes

Domestic regulations. Complex regulations lead to inefficiencies and issues of transparency, predictability as well as consistency in interpretation of rules and regulations remain. There are many manifestations of these issues – one is acceptance of certificates of origin: with testing requirements not harmonised across ASEAN, certificates of origin are often not accepted by the importing country and further inspection is triggered. This causes a delay in goods forwarding as cargo is being held in customs. Another example is the varying labelling requirements across the region – some countries will only accept labels in local language which makes SKU portfolio management very complex for both manufacturers and retailers. Even within a country, legislation often varies state by state. Licenses to operate a business must be obtained in every member state, business registration times varying significantly across the region.

Limited public-private cooperation. Legislation can have a direct and positive impact on the business environment. However, there are hardly any regional private sector feedback loops institutionalised that would feed into the legislative process. Most policies are conceived by civil servants without inclusion of private sector know-how and are therefore not always optimum.

Lifting the Barrier

What is being done today?

Prioritised measures for AEC implementation. 505 high-impact measures from the AEC blueprint have been prioritised for fast-tracking and in March 2015 about 90% (457) had been implemented. These measures address matters related to tariffs, investments, services, air transport, financial services, customs procedures and standards. Measures not yet implemented are more complex in nature and include the 10th services package, single self-certification scheme, as well as the *ASEAN Single Window*[3]. End-of-year target is to complete 95% of integration measures in the run up of the AEC launch.

These measures have significantly improved the ASEAN business environment by substantially removing tariffs for intra-ASEAN trade. Barriers to trade in services and investment have been further reduced and the trade facilitation environment improved. However, a significant layer of barriers, especially non-tariff, remains.

Focus of post-2015 agenda on non-tariff barriers. A key focus of the post-2015 agenda therefore will be on addressing non-tariff barriers. The ASEAN Secretariat has for example launched a program for direct filing of non-tariff barrier cases. By May 2015, however, only 69 cases had been reported and 45 were subsequently resolved. This shows both a lack of trust in the authority and capacity of the Secretariat in the region and limited visibility the business community has in the work of the Secretariat.

To operationalise the reduction of NTBs and track progress, the ASEAN Trade Facilitation Joint Consultative Committee that started work in 2008 has been re-instated after a period of inactivity. National Trade Repositories (NTRs) have been put in place to strengthen the institutional arrangements and management of the regional economic integration process. Further, the "NTM Work Program" has been launched – the program collects data on non-tariff measures and links with the WTO[4]. As part of this program, ASEAN member countries have agreed to eliminate some NTBs, but a majority of measures that have been identified as potential trade barriers, are defended by individual members as legitimate and not as a barrier. To eliminate NTBs, concerted regional decision making is required, reliance on self-notification and voluntary removal by member countries having proven to be ineffective.

Malaysia is currently leading the way and has institutionalised private sector feedback loops with industry representatives participating in joint legislative workshops. On the ASEAN-level, 'Project Pathfinder' has been launched to roll out this model across the region.

Key recommendations for tomorrow

Harmonise labelling and testing requirements. For the further development of the retail sector in ASEAN, two priority NTBs stand out: complex and nontransparent labelling requirements as well as repetitive testing of products in each member state impact speed to market and increase cost for manufacturers and retailers. This cost is eventually passed on to the consumer. Harmonising testing requirements would certainly be most welcome, driving efficiency and accelerating new product development and launch. With regards to language requirements, specifying which components need to be in local language (e.g. nutritional facts) and harmonising requirements across ASEAN would greatly reduce SKU complexity and cost, speed and cost at the manufacturer and retailer level.

Scale up leadership capacity of the ASEAN Secretariat. Strong regional leadership is required to drive integration. Hence the ASEAN Business Club Retail Roundtable argued that the leadership capacity of the ASEAN Secretariat had to be further scaled up. To strengthen the institutional capacity of the Secretariat, we would recommend to set up special divisions that deal with sector specific issues such as retail or financial services or transportation. These sector-specific sub-divisions will not only contribute to policy making but more importantly enforce implementation by regularly reviewing and tracking sector commitments ASEAN-wide. These groups will also complement, upgrade and centralise the current dispute settlement process to

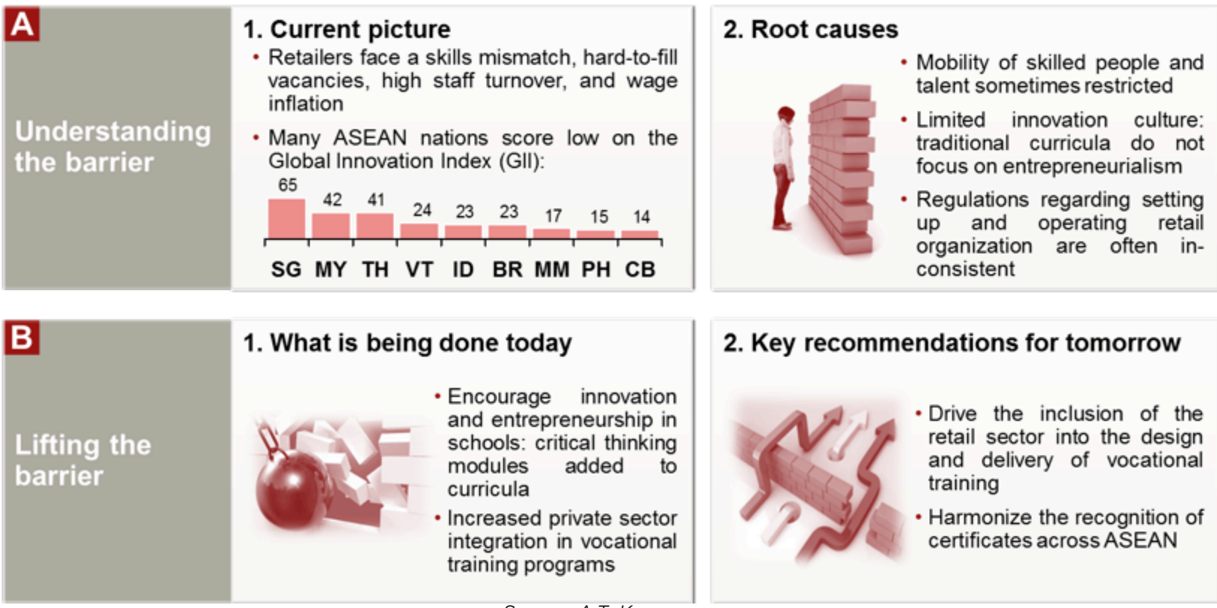
[3] The ASEAN Single Window (ASW) is a regional initiative that aims to expedite cargo clearance within the context of increased economic integration in ASEAN
[4] WTO = World Trade Organization

drive resolution speed and if necessary make recommendations for policy amendments.
The sector-specific special divisions must consist of both civil servants as well as private sector representatives. This set-up will allow for the most pressing issues a sector is facing as well as possible solutions to be brought to attention to policy makers in a timely manner.

Step up marketing of the ASEAN idea to the wider public. For the ASEAN community to move forward, the people of the region need to feel a sense of common ASEAN citizenship and be more connected to one another. Only this type of mindset will drive more people (other than the political and business elites) to engage in shaping ASEAN and thereby highlighting to a greater degree the issues and pain points. Non-tariff barriers would then become more visible more quickly and public pressure to address these issues will increase. Ultimately this “public push” will lead to faster reduction of NTBs and harmonisation of regulations across the region. Today’s ASEAN, however, is still to some extent a concept that only the elite is familiar with – in a move toward truly realising the ASEAN Economic Community by 2015, campaigns for ASEAN awareness must be stepped up. We also suggest engaging the private sector to a greater degree to bring to life the ASEAN idea. The retail sector is uniquely positioned as retail reaches literally every person in ASEAN.

3.2 Improve access to talent

Figure 10: Lifting-The-Barrier 2 – Improve Access to Talent



Source: A.T. Kearney

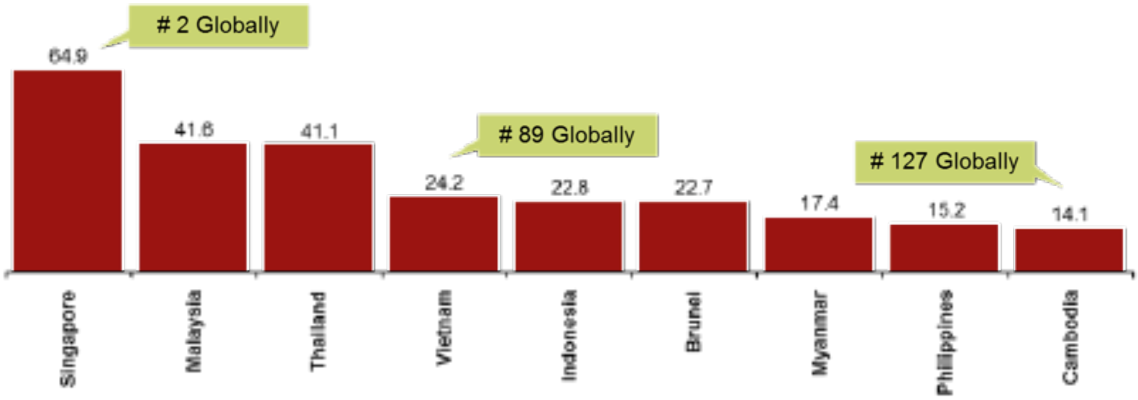
Understanding the Barrier

Current picture

One of the key drivers of innovation is the quality of a nation’s human capital – creative and critical thinking, appetite for risk taking and thinking entrepreneurially are the constituting parameters. While we recognise that there is no short-term program that will elevate an entire nation’s human capital, we specifically argue for closer cooperation on vocational training between retailers and the public sector. More broadly, we argue for policies to be implemented that foster an innovation ecosystem.

The Global Innovation Index (GII) that we referenced earlier has made the ‘Human Factor in Innovation’ the guiding theme of its latest 2014 report. Also economic literature demonstrates that human capital formation is a central element of technical and innovative progress and therefore of economic growth - as the Oslo Manual puts it: “Innovation capabilities, as well as technological capabilities, are the result of learning processes, which are conscious and purposeful, costly and time-consuming, non-linear and path-dependent, and cumulative”. Zooming into human capital parameters measured by the GII (cf. figure 10), many ASEAN nations score low on education and R&D.

Figure 11: Human Capital Performance by ASEAN Country – Global Innovation Index (GII)



Source: Cornell University, INSEAD, and WIPO (2014): The Global Innovation Index 2014: The Human Factor in Innovation

The International Labor Organization (ILO) finds that skills mismatches and labor shortages are an overarching issue in ASEAN. Gaps highlighted most often are around soft skills: time management, problem solving, creative thinking and interpersonal communication. A lack of English language proficiency and computer / technical skills are also pointed out. Some of the consequences are hard-to-fill vacancies, high staff turnover and wage inflation. Skill constraints can therefore be just as detrimental to growth as weak infrastructure. Out-migration, ageing populations and declining birth rates could even exacerbate this shortage – skills development is therefore a key priority.

Root causes

Restrictions on mobility of skilled people and talent. Availability of talent in ASEAN is a topic across sectors and retail is no exception. Part of the low availability is attributable to limited flexibility in labor markets in the region. The free movement of skilled professionals under the AEC is partly driven by the requirements of the 1995 ASEAN Framework Agreement on Services, which includes provisions for the movement of natural persons. Progress on labor mobility through the ASEAN Framework Agreement on Services has, however, been fairly slow. One example of limited flexibility is the "full time employment " rule in the retail space in select countries; opening up the possibility of part-time employment would allow the sector to more flexibly cater to consumer needs and thereby create more value.

Limited innovation culture (education system). Most ASEAN economies are merit-based societies, where creative thinking based classes have traditionally not been part of school curricula. Education systems across the region mostly focus on test-based academic performance and favor science and technology subjects. In particular an environment that focuses on the acquisition of academic knowledge often dampens creativity and entrepreneurialism. Academic excellence is important but is no longer a guarantee for success in today's interconnected business environment. Students must indeed be readily able to apply their knowledge in a variety of (changing) contexts.

Inconsistent regulations regarding set-up and operations of retail organisations. Another barrier is around the inconsistency of requirements with regards to setting up retail organisations across ASEAN. According to the World Bank Services Trade Restrictions Database, Malaysia e.g. limits foreign ownership to 70 percent. In Thailand on the other hand there is no restriction on foreign ownership – however, the applicant must have a total capital over THB100 million (USD $3 million) and total capital per store over THB20 million. A license is required for commercial presence while a retail specific license is not required, and if the minimum capital requirement is not met, a special license is necessary. A coherent approach to eliminate these non-tariff barriers would be beneficial to the AEC.

Lifting the Barrier

What is being done today?

Encourage innovation and entrepreneurship in schools. Many programs have already been put in place to encourage innovation at schools. As part of the country's 10-year infocomm master plan, Singapore has for example launched the FutureSchools@Singapore program which strives to develop schools into peaks of excellence following an ability-driven education paradigm and encourages innovation and enterprise at school. It is jointly run by the Ministry of Education and iDA[5]. Industry partners also use FutureSchools to experiment and commercialize the most promising new ideas.

Public-private sector cooperation on vocational training. ASEAN recognises the need of vocational training and has together with the Regional Cooperation Platform (RCP) launched programs to address vocational education reform. The group appreciates the disconnect between what traditional public education institutions offer and what today's increasingly knowledge-based and interconnected job market requires. As an example, Singapore has set up the "Singapore Institute of Retail Studies" (SIRS), which is a Continuing Education & Training (CET) institute of Nanyang Polytechnic. The primary mission of SIRS is to provide market driven holistic training solutions through the national Workforce Skills Qualifications programs in Retail, Service Excellence, Productivity and Business Management to enhance the skills and employability of the Retail and Service workforce in Singapore. The SIRS example serves as a best-in-class case, but further collaboration between public education institutions and the private sector is still required to bridge the skills gap across ASEAN.

Key recommendations for tomorrow

Drive integrated approach to vocational training[6]. The levels of development and education systems in each ASEAN member state are very different – however, vocational training is a common theme across the region. It would be therefore wise that workforce development (or human capital development) is pursued using a holistic approach that encompasses education systems, economic development policies & programs, and the private sector to drive effective outcomes. Best practice demonstrates indeed that skill sets required in today's work environment can be achieved if employers are actively involved in a dialogue with educators. Trainings, however, that are delivered stand-alone by companies in isolation of a country's education system are not as effective as their reach is limited. We would therefore recommend to further foster collaboration between the retail sector and educators through a structured framework that supervises curriculum development as well as training delivery.

We have highlighted the importance of curricula to incorporate employability skills including entrepreneurship and high order thinking skills for innovation. One lever – as discussed – is to scale up vocational training. Other levers are to institutionalise critical thinking elements early on in school curricula by placing greater emphasis on creativity, innovation and the role of R&D throughout the education and training system.

Improve recognition of professional qualifications across ASEAN. There have been several attempts by various organizations to develop an ASEAN Regional Qualification Framework. However, until today, national qualification frameworks mostly prevail. To move forward, there is a need to identify major obstacles including reaching a mutual understanding between the "sending" and the "receiving" countries and identifying key players for setting up a taskforce. Also here, we recommend strong integration of the private sector and collaboration within and across ministries, and educators.

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[5] iDA = Infocomm Development Authority of Singapore
[6] Vocational Training: training that emphasizes skills and knowledge required for a specific job or trade.

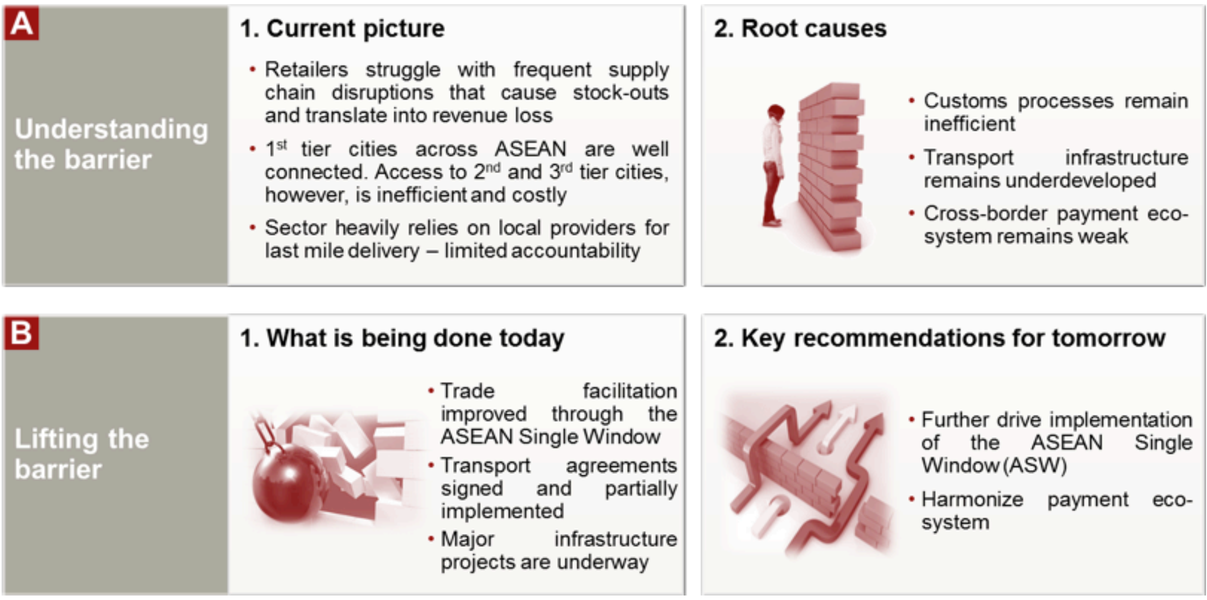
3.3 Improve trade efficiency

Understanding the Barrier

Current picture

The retail sector today faces significant trade efficiency challenges: a key area of concern is down to the burdensome and slow intra-ASEAN customs procedures. Cross-border trade flows are often slowed down due to goods being held long time in queue for inspection. Weak land transportation infrastructure is the second most important issue impacting trade efficiency, especially outside the main urban areas.

Figure 12: Lifting-The-Barrier 3 – Improve Trade Efficiency



Source: A.T. Kearney

This not only drives up delivery costs and cycle times, but often leads to supply chain disruptions, which in turn directly translate into revenue loss for retailers. Minimising stock-outs has therefore become a key focus area for retailers in ASEAN – having to deal with these issues means that less resources (management time / capital) are available to drive an innovation agenda.

Root causes

Inefficient customs. One reason for stock-outs / supply chain disruptions is goods being held in customs for a much longer time than budgeted by the trade partners. Time consuming documentation and inspection requirements and different classifications of goods in different countries lead to inefficient inbound clearance processes. Multiple uncoordinated customs offices and sometimes arbitrary independent rulings by local customs offices leads to low confidence and dampens the efficient exchange of goods and services across the region and therefore significantly reduces the ability to innovate across the region.

Underdeveloped transport infrastructure. Transport infrastructure still remains underdeveloped in the region, but several projects are well underway to enhance the network. Upgrading the roads network and reducing bottlenecks in the region are the highest priorities to improve logistics in ASEAN. The lack of efficient and cost effective transportation links and associated infrastructure means it is only profitable for retailers to invest in first or second tier cities – significantly reducing market reach and dampening economic growth.

Weak cross-border payment ecosystem. As highlighted in last year's report, a major barrier to e-commerce in ASEAN is the underdeveloped payment eco-system, especially when it comes to cross-border transactions. With many innovations linked to the concept of omni-channel retailing, an inefficient payment system precludes retailers from implementing some innovative solutions. Harmonizing existing legislative frameworks is a first step, the creation of a regional online dispute resolution facility another. These areas, however, remain work-in-progress and continue to impact retail development and innovation (especially e-commerce).

Lifting the Barrier

What is being done today?

Trade facilitation: the ASEAN Single Window. The AEC aims to create "simple, harmonised and standardised trade and customs, processes, procedures and related information flows [...] to reduce transaction costs in ASEAN" (AEC Blueprint 2008). Against this backdrop, the ASEAN Single Window (ASW) has been created to address customs and administrative procedures that act as obstacles to the free flow of goods across borders.

Transport agreements signed. Intra-ASEAN connectivity has been enhanced through the implementation of transport-related agreements. Goals of the Brunei Action Plan (ASEAN Strategic Transport Plan) 2011 – 2015 include the completion of the ASEAN highway network, establishment of efficient and integrated inland waterways, implementation of the Singapore-Kunming (SKRL) rail-link. The final objective is to establish a sustainable, energy efficient, and environmentally friendly intelligent transport system.

Infrastructure upgrading projects. Many projects are underway that address the logistics bottlenecks across the region. Indonesia has e.g. increased its spend on infrastructure investments by 63% and launched several initiatives aimed at reducing overall logistics cost as a percentage of GDP from 23% to 18% by 2020. 60 new airports are for example planned across Indonesia by 2030, a move that is expected to significantly reduce delivery times to Tier 2 and 3 cities.

Key recommendations for tomorrow

Prioritise implementation of ASEAN Single Window. The ASEAN Single Window is expected to solve logistics challenges, especially difficulties with customs clearances. The ASW is a network of "National Single Windows" (NSW) – the level of readiness of the individual NSWs is therefore crucial for the full implementation of the ASEAN Single Window. The ASW as of today (2015) is still work in progress: ASEAN member countries are for example still experimenting with self-certification schemes - a legal framework agreement is being drafted. The ASW implementation has been slowed down by different priorities of each member state and the progress made on developing the NSWs. We should therefore contemplate the idea of complementing the current structure of NSWs with a strong supra-national supervisory body that tracks implementation and can overrule domestic protectionist agendas.

Harmonise payment eco-system. Developing common financial instruments, standards, procedures, and payment infrastructure enables economies of scale and would reduce the overall cost to the ASEAN economy of moving capital around the region. Improved cross-border payments will support trade flows and dissemination of innovative solutions and directly contribute to supply chains becoming more efficient. Complementary institutions / policy measures can dock to this frame like the creation of a regional cyber security or dispute resolution facility. The latter will directly contribute to the development of the e-commerce sector in ASEAN.

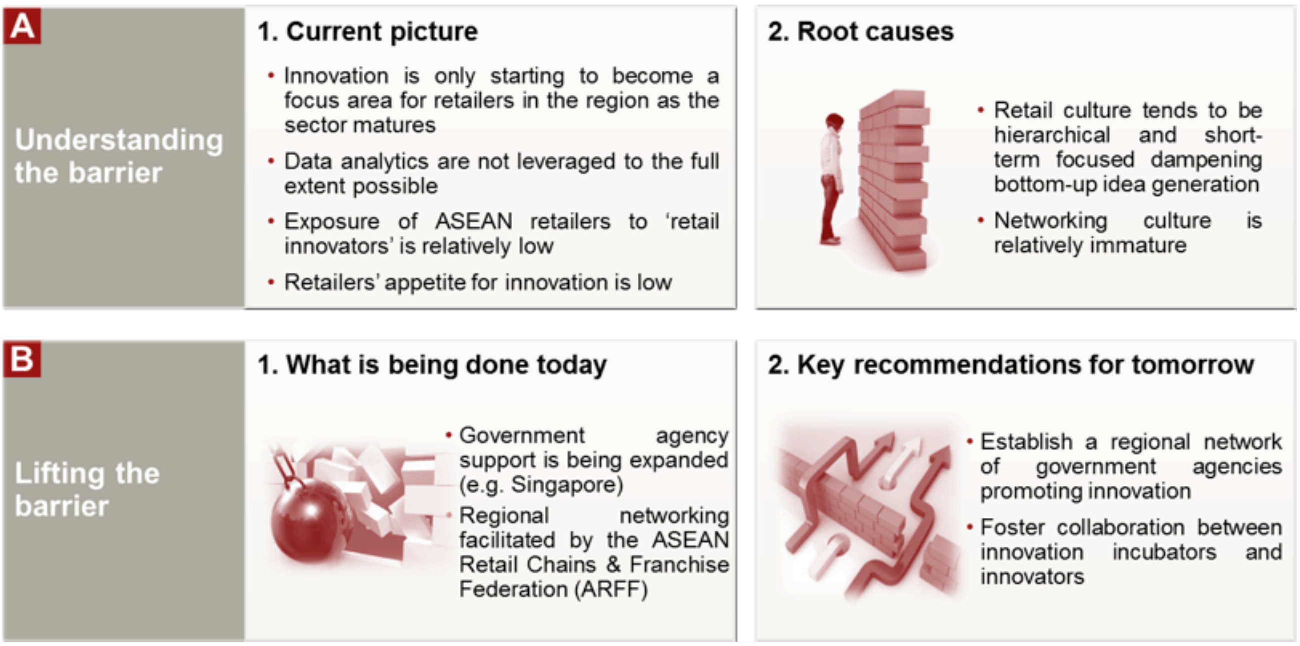
3.4 Promote integration of 'Retailer Innovators'

Understanding the Barrier

Current picture

Innovation is only starting to represent a focus area for retailers in the region as the sector matures. The traditional owner-driven culture, coupled with a focus on short-term gains in a low margin environment, has indeed led to low technology adoption so far. This manifests itself e.g. in the low exploitation of data analytics and deployment of sophisticated targeted marketing.

Figure 13: Lifting-The-Barrier 4 – Promote Integration of 'Retail Innovators'



Source: A.T. Kearney

As the Omni-channel concept is becoming more prominent, it is now critical for retailers in ASEAN to design and implement a comprehensive Omni-channel strategy of which technology and innovation are crucial components. However, exposure of ASEAN retailers to retail innovators is relatively low due to a combination of lack of support and resources and avenues to interact with "innovators". To accelerate the development of the sector, developing incubators for retail innovation and stepping up efforts to create networking platforms is instrumental. At the same time, more can be done to further drive retailers' appetite for innovation through coordinating innovation development efforts amongst smaller retailers, and building partnerships with international retailers that can bring retail innovations into the region. To illustrate, Singapore has developed the Retail Innovation Centre for Enterprises (RICE) in 2014. The institution aims to educate retailers by providing information as "one-stop service" on the latest technological solutions (mobile apps, management software, payment solutions, etc.). This initiative is the first of its kind in ASEAN and paves the way for further promising retail innovation developments in the region (more details below).

Root causes

Retail culture in ASEAN / short-term mindset. Retailers' organizational structures in ASEAN tend to be rather hierarchical and often dampen bottom-up idea generation. Also, margin pressure has largely been addressed by focusing on short-term promotions at the expense of building long-term and innovation-based plans. Furthermore, retailers have often prioritised the expansion into new sites and countries to deliver against growth targets. The trend is still ongoing with retailers increasingly setting up shops in Vietnam and now also Myanmar. However, such a short term approach is not sustainable in the long-run and a shift in mind-set towards a long-term, knowledge and innovation-based model is required.

Immature networking culture. Many retail associations and networking platforms exist at the national level and increasingly at the ASEAN level, but we observe low participation from the sector. A key reason lies into the immature networking culture. The competitive environment has been characterised by taking and gaining market share (short-term top-line growth) rather than differentiation and development of unique selling positions. With the market moving Omni-channel, supply and distribution chain partnerships are expected to become the new norm and government institutions can act as trade-facilitators in this regard.

Lifting the Barrier

What is being done today?

Government agency support. As highlighted above, the Singapore Institute of Retail Studies (SIRS) has established the "Retail Innovation Centre for Enterprise" (RICE). It was set up to seed innovation and technology adoption to help retailers increase their productivity through automation and technology and overcome the manpower crunch. RICE is not an academic research institute but an innovation centre focused on showcasing the latest innovation to the retail sector and on helping the sector with applying technology to increase productivity. The centre's main objectives are to showcase technology solutions through a one-stop approach to create greater awareness and educate retailers on the various technologies that can enhance their business productivity. It further aims to facilitate the adoption of technology through its partnership with the Singapore Productivity Centre that provides consultancy services and promotes technology adoption. Lastly, RICE offers training programs and workshops on technology through SIRS to assist retailers in the implementation of the solutions. The programs vary in level and depth depending on the sector's requirements and are geared towards both frontline as well as management staff.

ASEAN Retail Chains & Franchise Federation (ARFF). The ASEAN Retail Chains & Franchise Federation was established in 2008 to champion the promotion and development of trade particularly in the retail chains, franchise & tourism and shopping industries within the 10 ASEAN countries + 6 countries (China, Japan, Korea, India, Australia, New Zealand). The vision is to "make ASEAN the world class tourism & shopping paradise." The federation specifically aims to make ASEAN a hotspot for business opportunities by harnessing the collective strength of all countries in ASEAN. It falls under the auspices of ASEAN Business Advisory Council which is mandated by the leaders in the region as the official ASEAN linkage. Its objectives are to provide private sector feedback and guidance to boost efforts towards economic integration, and to identify priority areas for consideration by the ASEAN leaders. As ARFF is designated under the tourism category, it has to submit its report card of activities to the 10 leaders of ASEAN countries at the yearly summit.

Key recommendations for tomorrow

Establish a regional network of government agencies promoting innovation. Following the RICE example, similar centres should be set up across the region to create greater awareness and educate retailers on the various technologies that can enhance their business productivity. Especially SMEs would benefit from this as they are most resource-constrained. This coupled with a grants scheme will allow retailers to access consultancy services and deploy innovative technology solutions more quickly. Singapore again stands out in this area: The Info-communications Development Authority (iDA) has set up the "iSPRINT" program that provides funding for a list of packaged ICT solutions and pay-per-use applications. Another government initiative is called "Spring – Enabling Enterprise". The program issues "Innovation & Capability Vouchers" to encourage SMEs to take their first step towards capability development. SMEs can use the voucher to upgrade and strengthen their core business operations through consultancy in the areas of innovation, productivity, human resources and financial management. Apart from consultancy, ICV also supports SMEs in the adoption and implementation of simple solutions to improve business efficiency and productivity.

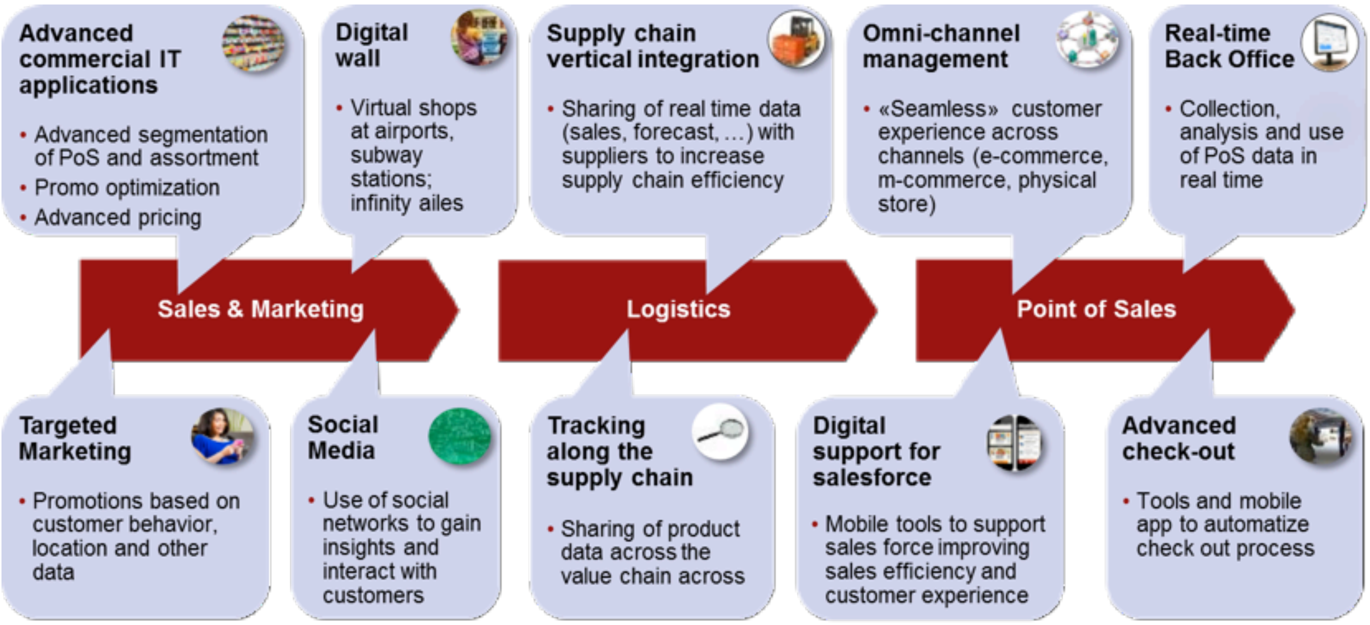
At the ASEAN level, we recommend a concerted effort to establish a network of incubators / trade facilitation agencies that increase awareness and ease access to technology. Further, grant schemes targeted particularly at SMEs will accelerate the diffusion of innovative technology and solutions across the region.

Foster collaboration between innovation incubators and innovators. Creative and extensive relationships are a cornerstone of business practice. Differences in culture, market dynamics, history and relationships can translate into massive variations in the way a company should market, distribute, price and, in general, function in different markets. Although the objective of ASEAN 2015 is to create an enhanced economic and trading region, ASEAN will remain a collection of vastly different cultures, histories, politics, markets, tastes, products and people. Developing new relationships or leveraging existing ones will be key to accessing local knowledge quickly in order to understand threats and opportunities. Promoting regional retail associations and facilitating networking will directly build capabilities and foster the diffusion of innovation in the sector.

4. A GREAT OPPORTUNITY FOR ASEAN

We have seen that retail is quickly moving towards an omni-channel structure and that sustainable growth for the sector in the region is dependent on strategies that market new products & services. Additionally, creating a seamless and unique shopping experience both offline & online whilst smartly leveraging innovative enablers across the value chain (cf. figure 14) will be critical moving forward. This requires innovative capabilities not only at the retailers' top management level but across the organization, running a successful retail operation being all about people and their know-how. Deploying e.g. advanced IT applications to optimise assortments based on incremental demand or to optimise promotion activities based on scenario analysis requires sophisticated skill sets. Tracking products along the supply chain not only requires the implementation of RFID technology but a new collaborative way of working between suppliers and retailers.

Figure 14: Summary – Top Innovations Transforming the Retail Sector



Source: A.T. Kearney

This new wealth of technologies and the available amount of 'big data' is a great advantage, but it requires intelligent uses to address familiar challenges such as managing shrink and out-of-stocks. Innovation is not only important but has become an imperative for all the players in the sector who want to remain competitive.

Finally, lifting the barriers that we have identified constitutes a great opportunity not only for the retail sector but for ASEAN as a whole. It will indeed contribute to GDP growth, foster AEC integration beyond the pure economic aspect and boost employment of a large workforce.

Table of Figures

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HEALTHCARE

+ LIFTING-THE-BARRIERS REPORT

FROST & SULLIVAN

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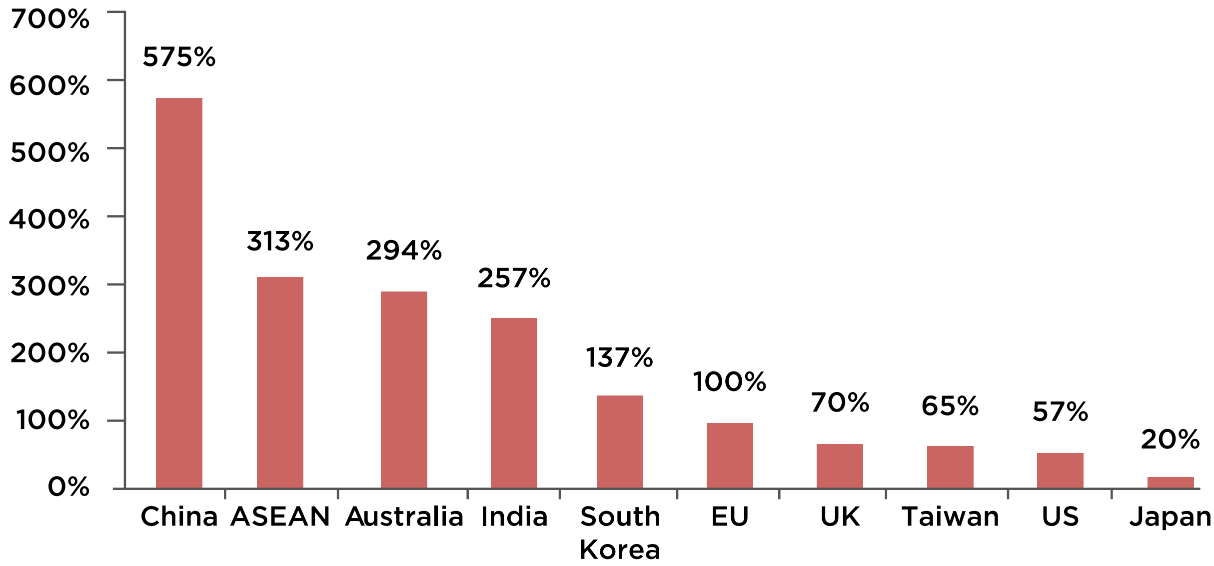
TABLE OF CONTENTS

1. ASEAN – THE GROWTH STORY

ASEAN has the second highest GDP growth rate in the world (See Figure 1.1). The size of the economy of ASEAN has more than quadrupled since 2001.

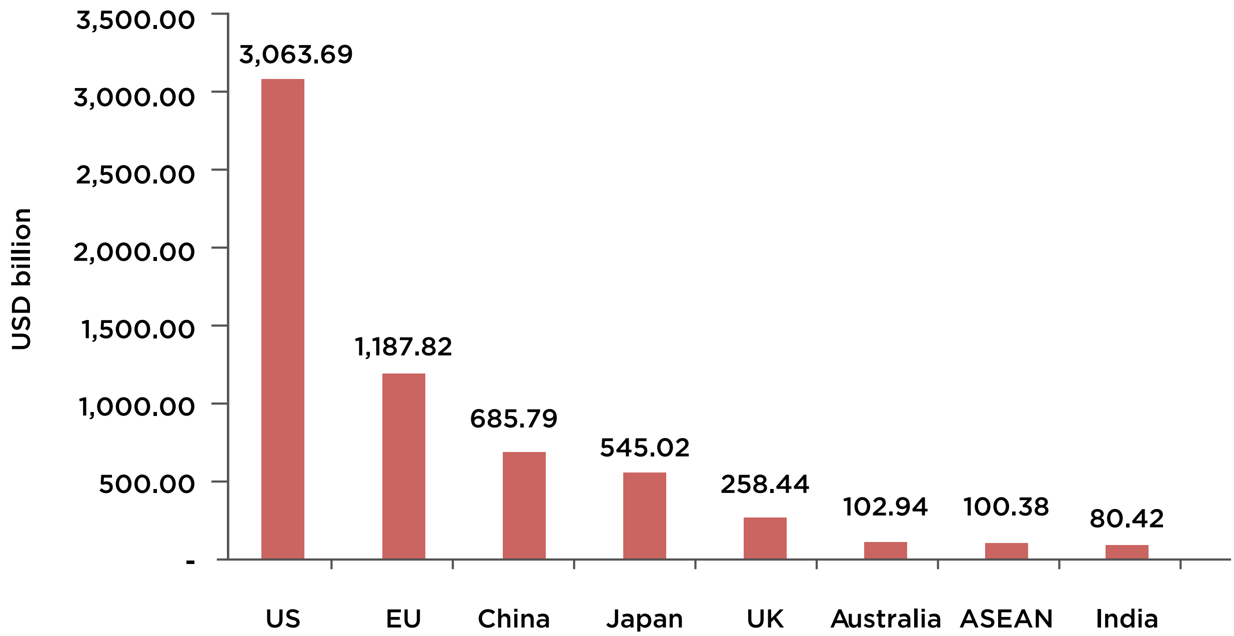
Figure 1.1: GDP growth rate of selected economies, from 2001 to 2013



Source: Asia Matters for America, World Bank)

ASEAN's healthcare expenditure is estimated to be slightly below Australia, but ahead of India.

Figure 1.2: Forecasted Healthcare expenditure by major economies 2015



Source: IMF, World Bank

The growth opportunities of the healthcare sector are huge as the ASEAN nations consist primarily of emerging markets, with over 600 million people.

ASEAN is slowly evolving into a manufacturing base for low cost manufacturing of generic drugs and medical devices. ASEAN's natural resources and diversity in flora and fauna provides a unique environment that encourages production and research.

Other than natural market growth, government policy will be a major driver for the ASEAN market to develop further. Majority of the ASEAN Technical Submission Common Dossier has already been agreed and conformed to, for both pharmaceuticals and medical devices. The ASEAN Economic Community (AEC) launching on 31 December 2015 will see gradual impacts on the manufacturing and distribution markets, with significant impact on trade of services.

2. AEC – QUEST FOR ONE MARKET REPRESENTING ALL OF ASEAN

2.1 The AEC aims to initiate a single market with reducing barriers to trade through a non-binding agreements framework. The comprehensive framework works in sync with open skies as well as Mutual Recognition Agreements (MRAs) for standardised qualifications. With this, ASEAN will be able to tap into the potential of liberalising trade of pharmaceutical and medical products and services, as well as the flow of skilled labour such as physicians, medical technicians and nurses. This can change purchasing patterns to regional transactions, as well as remove barriers for services from other countries to help support lacking domestic services in a particular ASEAN country.

In healthcare, AEC will impact ASEAN by fostering understanding for member nations' trade perspectives. It addresses the regulations to assist in the accessibility into new or existing markets, enable more competitive manufacturing and allowing ASEAN to tap into its large demographics.

The AEC will impact the healthcare sector of ASEAN through three main channels:

i. Increasing Intra-ASEAN Trade And Investment

- Tariff elimination
- Decrease of non-Tariff measures
- Standards and conformance
- Logistic service improvement
- Investment and financial infrastructure

ii. Technological Capabilities

- A standardised health services in technology and understanding
- Interconnected health database across nations
- E-Learning and Training

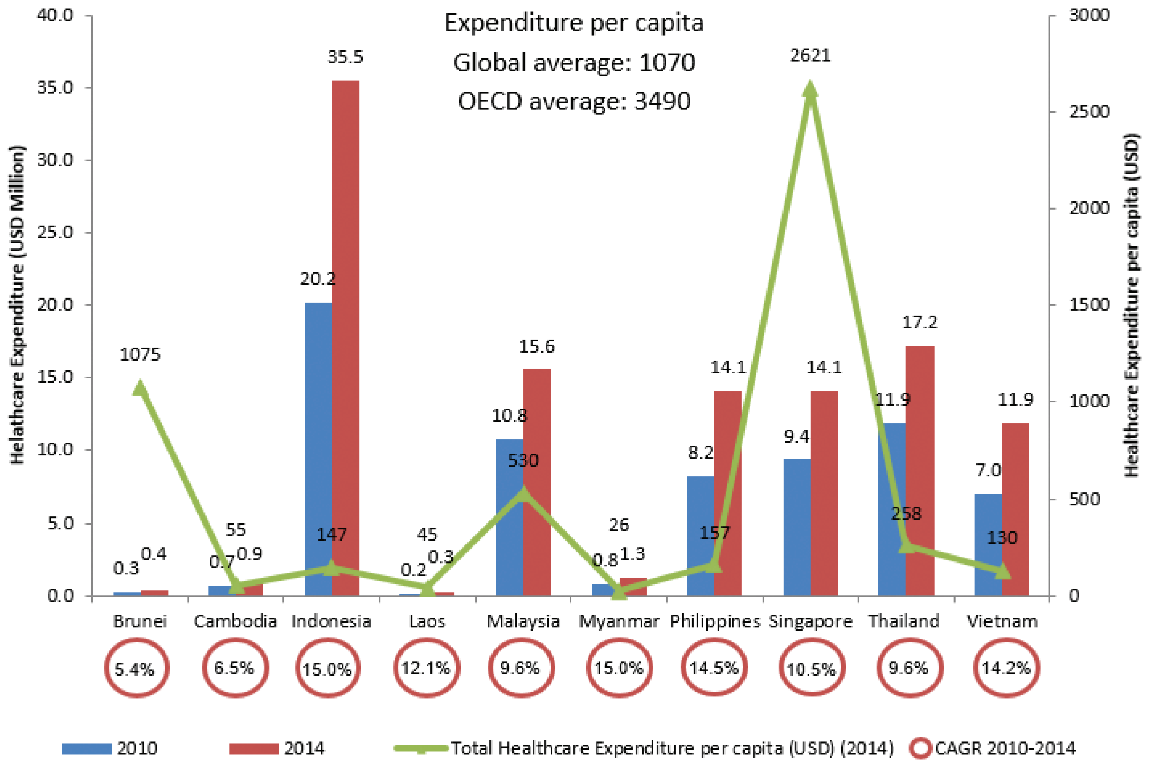
iii. Improving Human Resources Capability + Licensing

- Trade in services of medical technologists
- Trade in nursing services
- Trade in doctoring services
- Training and skills certification
- Language barrier and certification
- Licensing harmonisation

3. CHALLENGES ALONG THE WAY

As a region with varying cultures, economic development, languages, political systems, the harmonisation of standards and mutual recognition of certification will allow for procedure and practice streamlining. Healthcare expenditure per capita remains far below the global average in most countries despite the double digit growth in total healthcare expenditure.

Figure 1.3: Total healthcare expenditure and ASEAN health expenditure per capita



Source: Frost & Sullivan

3.1 Harmonisation of Qualifications and Standards

The Pharmaceutical Product Working Group and Medical Device Product Working Group have been contributing to the development of the ASEAN Common Technical Dossier. The Product Working Group for Traditional Medicines and Health Supplements contributes towards the traditional medicine market. While the processes in each country include compliance to the Technical Dossier, it does not address the protectionism of one's own market. Although governments are ready to test their domestic products against international standards, not many are ready to remove all barriers to trade.

The flow of medical staff will be limited due to regional qualifications which are bound by language boundaries. The risk of misunderstandings during treatment limits services that can be shared.

Varying education standards will result in a varying skill base, which the divide will limit trade of services.

3.2 Tax And Law Structure

Each country still has its own tax structure that it imposes on manufacturers, distributors and the medical professionals. Intra-ASEAN national disputes will provide additional concerns for the legal sector for standardising a highly regulated market such as healthcare. To add to this, national sociocultural protection imposing limited share ownership by non-local industry stakeholders exist in ASEAN.

3.3 Economic Issues

Wide disparities exist between member countries especially in terms of quality, accessibility and affordability. This reflects in differing environment which impose higher risk for certain business investments. Local industry will be impacted due to increased competition for local players as the market becomes more open.

4. LIFTING THE BARRIERS – PAVING THE WAY FORWARD

Despite the challenges in the healthcare industry, the outlook still presents opportunities to move forward. The integration of ASEAN involves both the policy makers and the healthcare business community. Benefits and shared capabilities spur economic activity within the region, where markets are similarly developed. The next step will be to enable the less developed nations to participate accordingly.

Figure 1.4: Shared benefits across some ASEAN nations

Country	Benefits
Country A	• Increase in Technology and trained talent • Increase in FDI from countries B and C • Talent exchange to boost own healthcare industry
Country B	• Increase man power and access to country A market share • Potential investment in country A • Quality health tourism for high value customers
Country C	• Increase man power and access to country A market share • Potential investment in country A • Quality health tourism for value-priced customers

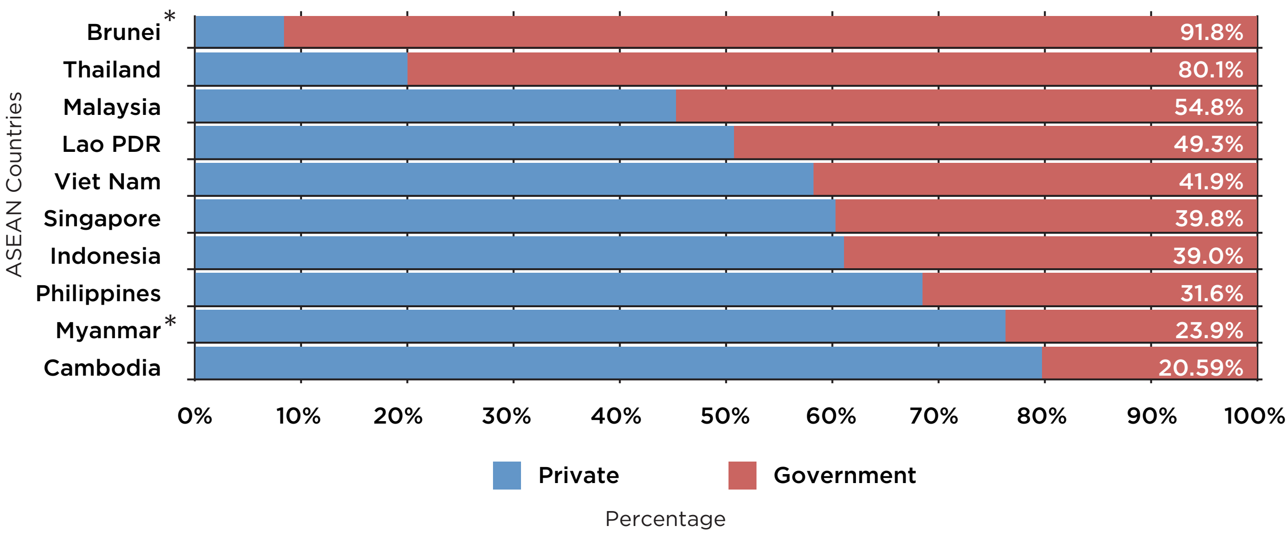
Some of the ASEAN nations have multiple shared sectors or established relations to each other. Human resource sharing includes employment of other ASEAN nationalities in another country. A full integration of the AEC will see total integration of the above figure 1.4 inclusive of insurance in all the ASEAN member nations.

4.1 Health Tourism

Travel and tourism will enable more exchange and business opportunities to thrive. Private healthcare spending is higher among the ASEAN nations with the exception of Brunei, Thailand and Malaysia, with the latter of marginal difference. Further opportunities arise for:

- Increasing market coverage across ASEAN.
- Branding specialisation across border.
- Partnership with the travel and hospitality industries.

Figure 1.5: Private and public healthcare funding by percentage



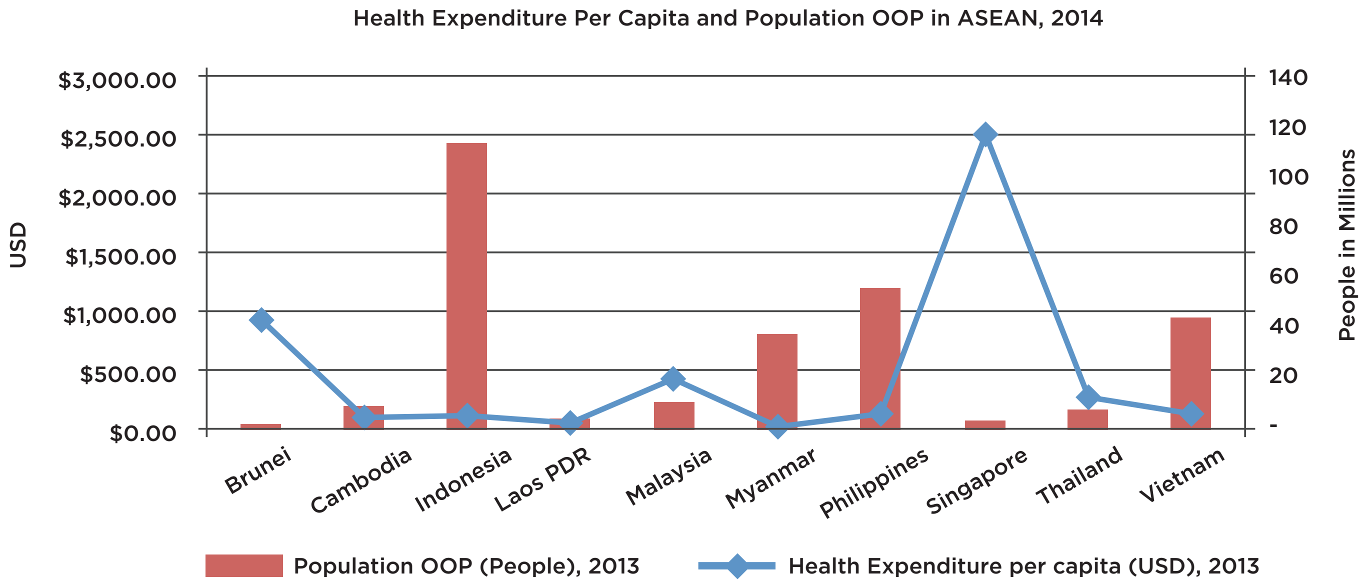
Source: World Bank
**2012 data based on latest information available.*

Differences in the level of healthcare delivery in the ASEAN countries provide opportunities in health tourism for those countries with better healthcare facilities and talents.

4.2 ASEAN Insurance

Insurance companies can extend their policies to cover healthcare fees across the ASEAN region as another step towards ASEAN integration. As in figure 1.4, insurance shared claims are possible in between certain countries, but are no possible in others. By combining the ASEAN countries, an ASEAN wide insurance coverage will have a market of over 615.7 million people.

Figure 1.6: Differences in population paying by out-of-pocket (OOP), and healthcare expenditure per capita



Source: Worldbank; Frost & Sullivan

Additional health and wealth opportunities for insurance across ASEAN will provide better outlook for policy holders. Investment-linked health insurance may also provide regional development investment opportunities from selected emerging economies. The roundtable participants view ASEAN integration of insurance is important to fuel health tourism, as well as support talent mobility.

4.3 Human Resource

4.3.1 Talent Development

The healthcare industry in ASEAN faces talent shortages. However these shortages are unique to each country. The workforce in ASEAN healthcare requires:

- More effective talent distribution among the member nations is required in ASEAN healthcare.
- Recognised ASEAN education accreditation standards across ASEAN government that meets the expectations of both private and public practice.
- Adaptable talent to the different ASEAN countries' language and culture.

4.3.2 Mobility

Talent exchange among the ASEAN nations will help solve the lack of talent in certain countries. Although language barrier still limits certain countries such as Thailand, many hospital groups in ASEAN share little roles apart from management and purchasing across borders.

Figure 1.7: Example of centralised human resource capabilities in a private hospital operating in two different ASEAN countries showing two centralised roles. Support staff includes medical technologist, nurses and other medical supporting roles

Exchange of support services, with centralisation of laboratories among the healthcare providers in specific countries may save on cost and provide learning benefits.

Exchange by supply of manpower, such general practitioners in Indonesia from Malaysia, while helping solve the shortage of specialists in Malaysia by facilitating specialist services from the Philippines.

4.4 Technology Development

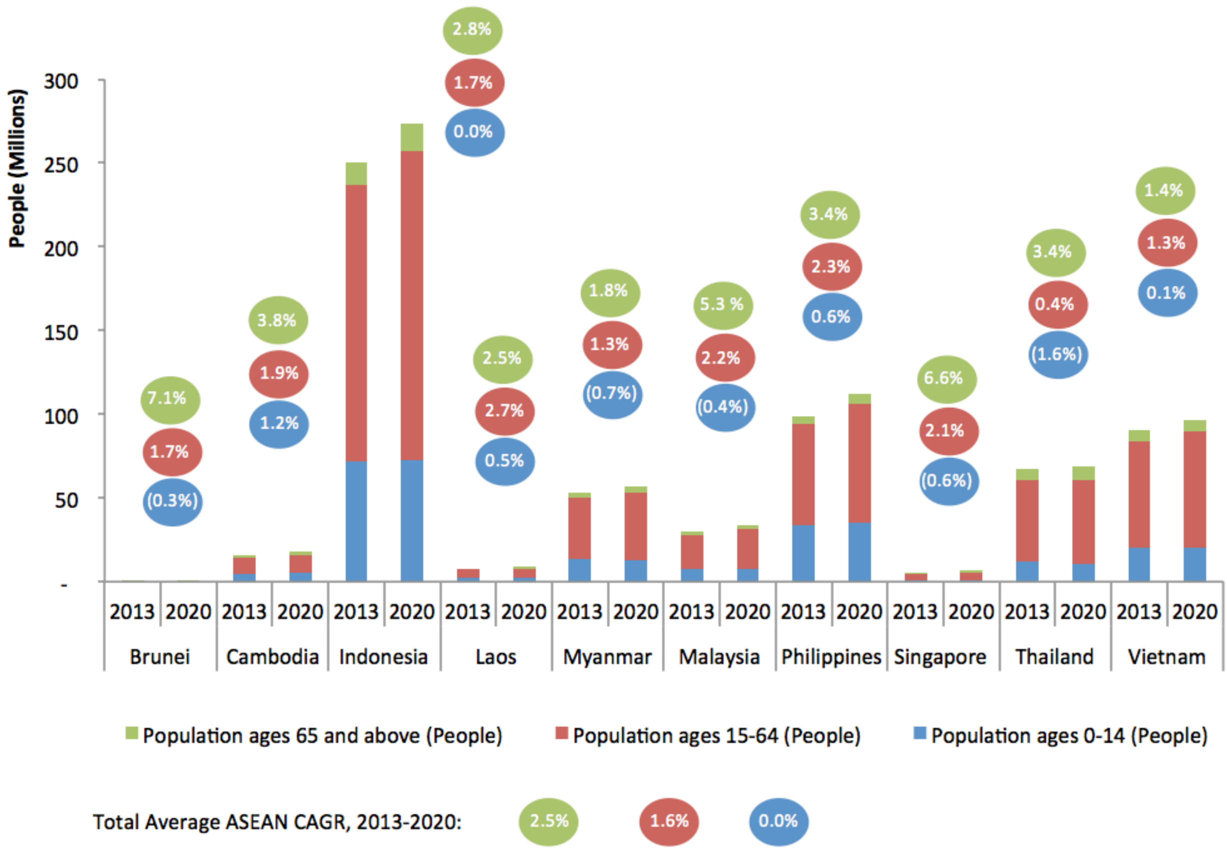
ASEAN countries are open towards new technology, reflected in the policies for technology, healthcare, robotics and IT. Basic health coverage on the other hand still requires development, partly due to the geography, manpower and rural development rate.

The industrial policies governing technology in ASEAN allows access to robotics and Healthcare-IT, allowing a more holistic healthcare development and entry. However, in the emerging economy of varying levels of development in ASEAN, expansion of basic healthcare is still the priority.

4.5 Aging Society

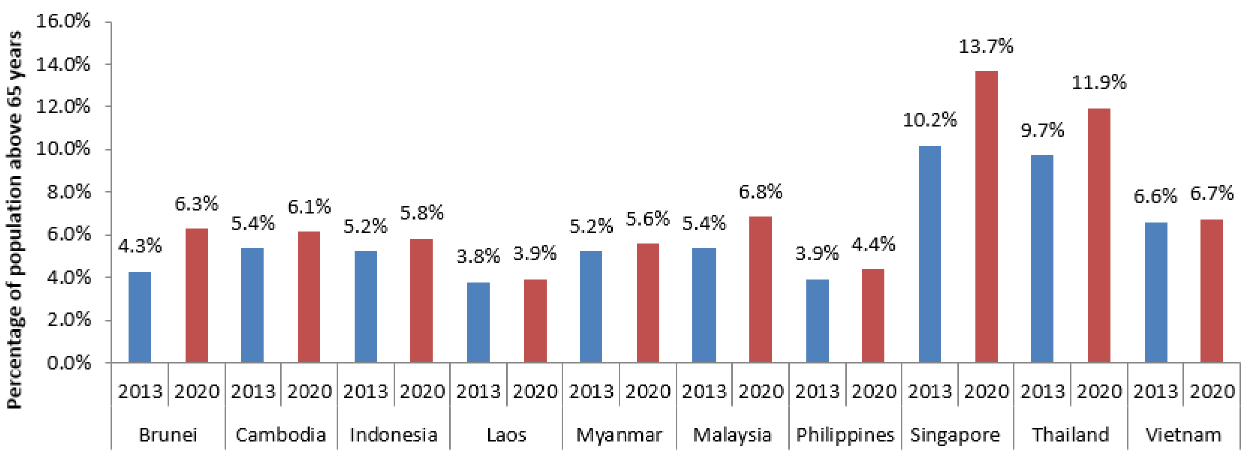
The aging society in ASEAN will place new demands on the healthcare systems with the CAGR trend of the above 65 year ago group being higher than other age groups.

Figure 1.8: ASEAN Population Growth Forecast by Age Group, 2013-2020



Source: World Bank

Figure 1.9: ASEAN Proportion of Population Aged 65 Years and Over 2013-2020



Source: World Bank

As population aging trends show, six out of ten countries will have more than 6% of the population above 65 years of age by 2020, and Singapore and Thailand are especially affected. Healthcare services for the elderly is an issue that needs to be taken into consideration from home healthcare to adaptable senior living care consistent with Asian values.

4.6 The ASEAN Brand

Companies can pull their resources together to facilitate activities as an ASEAN company or initiative. Companies can segment themselves using an ASEAN branding instead of belonging to an individual country or Southeast Asian group. This will increase regional awareness as well as to view of the entire ASEAN market as a whole. This could be carried by companies operating in a few of the ASEAN nations. The government can create pioneering benefit policies to encourage private and public partnerships in the rebranding effort. The eHealth system in Vietnam if implemented with adaptability to communicate with the rest of ASEAN health networks be it private or public will see a united synchronised health management system.

5. POST LIFTING-THE-BARRIERS (LTB) ROUND TABLE CONSIDERATIONS

In the roundtable meeting on 14th May 2015, the future of ASEAN healthcare and steps towards its integration were discussed. Five suggestions were proposed:

1. Mutual Recognition Agreement for human resource exchange.
2. ASEAN Innovative Healthcare Council to address public and private healthcare development.
3. More public and private partnerships to increase and promote healthy lifestyle.
4. Healthcare companies to balance societal needs and needed profits by government assistance.
5. Certification of insurance companies to set a level of healthcare quality across ASEAN.

1. Mutual Recognition Agreement for human resource exchange

For the Mutual Recognition Agreements for talents, lack of skilled labour is hindering economic growth, in hospital services as well as research and development. The roundtable participants believe the situation can be improved with talent exchange among countries such as the Philippines who are scarce with general practitioners but strong in specialists, can exchange with Malaysia which has many general practitioners, but lacking in specialists.

Talent exchange backed by the medical council was suggested to expedite the flow of talent as opposed to individuals seeking opportunities in the other ASEAN nations. This also will help contribute to a people-centred AEC.

2. ASEAN Innovative Healthcare Council to address public and private healthcare development

The roundtable discussed on non-competitive innovations, and an ASEAN trademark that will strengthen public awareness and sense of ownership to ASEAN. Both public and private healthcare will need to innovate in terms of language barriers, as well as putting in funding and management as a collective. Quick opportunities exist in relabelling by-pass fundamental differences within ASEAN member states, focusing on conformed regulations established by the various product working groups. Learning lessons from neighbouring countries such as causes for inflationary healthcare costs can help other member countries to avoid following the same steps.

3. **Public and Private Partnerships to increase and promote healthy lifestyle**
The discussions focused on the promotion of healthy lifestyles, and shifting from treatment and reduction of government healthcare costs. The key components to increased accessibility and the betterment of functional health were attributed to four main components:-

Governance	: Government needs to push preventive healthcare. Sin tax for unhealthy products such as tobacco and alcohol and promotion for healthy lifestyle.
Health Financing	: Taxes from sin tax to aid in funding for non-communicable disease prevention and cure.
Health information system, medical technology and service delivery	: To aid in database synchronising patient information to aid administration of health across ASEAN.

4. **Healthcare companies to balance societal needs and needed profits by government assistance.**
The comparison between costs of seeking treatment in one country to the other differs by a huge margin. Many private hospitals groups in ASEAN are listed companies. Thus society and investors are expecting profits to deliver earnings to the shareholders. This will in turn affect the patient and costs for healthcare in the whole country. In the gist to raise the standards of healthcare, costs for healthcare subsequently increases. A right balance will need to be sought between standards and costs claimable by insurance to ensure the population are able to get appropriate treatment via affordable insurance policies. This is important as majority of the population with developed healthcare rely on insurance to fund their health expenditure.

5. **Certification of insurance companies to set a level of healthcare quality across ASEAN.**As the year
The insurance companies can certify hospitals, or groups of hospitals within ASEAN that achieve a set of credibility of quality of service. Currently there is an initiative to get insurance to have coverage over different regions under the health travel council. Having the ability for insurance policies to claim across ASEAN will allow patients to seek more affordable care, as well as take opportunity in countries where healthcare fees are regulated or capped.

Concluding Remarks

As the year end dateline of 2015 approaches, the ambitious ASEAN vision faces obstacles to reach its full potential. The development of policies in the healthcare sector has successfully made medical devices, pharmaceuticals and soon to be traditional medicines conformity goals throughout ASEAN.

In view of the broad scope of collaboration required by each country, a coordinated approach using the first three LTB considerations as propel the ASEAN Innovative Healthcare Council in pushing the development of the ASEAN healthcare industry, which will provide the basis to achieve the vision of the ASEAN Economic Community Blueprint.

INFRASTRUCTURE

+ LIFTING-THE-BARRIERS REPORT

ERIA

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About The Economic Research Institute for ASEAN and East Asia ERIA

The Economic Research Institute for ASEAN and East Asia (ERIA) is an international organization established by a formal agreement among 16 heads of government at the 3rd East Asia Summit in Singapore on 21 November 2007. ERIA works closely with the ASEAN Secretariat, researchers and research institutes from East Asia to provide intellectual and analytical research and policy recommendations. ERIA's objectives are: to facilitate ASEAN Economic Community Building, to support ASEAN's role as the driver of region-wide economic integration, to contribute to narrowing the development gaps in East Asia and to nurture a greater sense of community in East Asia. Another key ERIA objective is capacity building aimed at strengthening policy research capacities in less developed countries.

ERIA research covers a wide range of policy areas, such as trade and investment, globalisation, SME development, human resource and infrastructure development, as and energy issues.

TABLE OF CONTENTS

1. LANDSCAPE OF INFRASTRUCTURE AND FINANCING SOURCES IN ASEAN

1. A. Infrastructure and Connectivity in ASEAN

There is common understanding that infrastructure is important in economic development and to improve welfare. Infrastructure is at the least needed to: (i) provide basic needs (electricity, clean water, transportation, etc.), (ii) facilitate the access, network, and mobility for people and products, and (iii) support and improve productivity. Infrastructure is the key for connectivity, where it connects people, goods, and services through various means.

This implies that connectivity is vital to support productivity and trade. One important example is logistics cost that determines the cost of production and thus influences the competitiveness level of location or country. The World Bank released the score card on Logistic Performance Index (LPI) that demonstrate comparative performance—the dimensions show on a scale (lowest score to highest score) from 1 to 5 relevant to the possible comparison groups—of all countries (world), region and income groups[1]. Out of the 2014 top 20 LPI rank, only Singapore (rank 5), Japan (rank 10), Hong Kong (rank 15), and Taiwan (rank 19) represented Asia.

Further, according to estimations by Armstrong & Associates, in 2013, the logistics cost contributed to GDPs of Indonesia, Malaysia, Philippines, Thailand, and Vietnam as much as 10.7%, while in Singapore is 8.5% of GDP[2]. The numbers show the significance of logistics sector to the economy and imply that infrastructure is equally important.

With expanding population and economy, the demand for quality infrastructure also increases. However, infrastructure is typically expensive and the general public usually view it as government's responsibility, leading to the demand for free access. While it is not always wrong, it is also the fact that public funds are limited and public programs are competing for these funds. In developing economies it is usual that public spending for infrastructure is lower than the actual need. Bhattacharyay (2010) estimated the demand for infrastructure in majority of ASEAN state members (AMS) as shown in Table 1.

Table 1: Infrastructure Investment Needs as % of GDP (est.), 2010-2020

Country	Transport	Electricity	ICT	Water and Sanitation	Total
Cambodia	4.43	0.95	2.97	0.36	8.71
Indonesia	3.88	0.98	0.97	0.35	6.18
Lao PDR	10.62	0	2.4	0.6	13.61
Malaysia	1.94	4.42	0.27	0.04	6.68
Myanmar	2.7	0	1.46	1.88	6.04
Philippines	2.3	1.87	1.22	0.65	6.04
Thailand	0.58	3.69	0.45	0.19	4.91
Viet Nam	2.07	3.12	2.38	0.54	8.12

Source: Bhattacharyay (2010) [3]

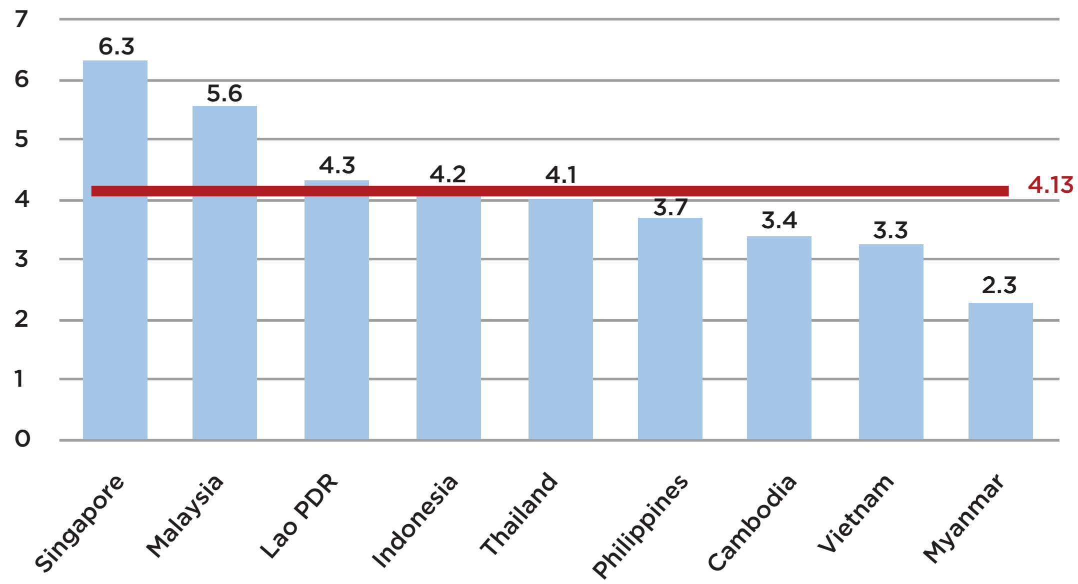
[1]The logistics performance (LPI) is the weighted average of the country scores on the six key dimensions:
1. Efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including customs;
2. Quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology);
3. Ease of arranging competitively priced shipments;
4. Competence and quality of logistics services (e.g., transport operators, customs brokers);
5. Ability to track and trace consignments;
6. Timeliness of shipments in reaching destination within the scheduled or expected delivery time.
http://lpi.worldbank.org/international/global accessed 15 July 2015

[2]Amstrong & Associates (2015): https://www.3plogistics.com/3PLmarketGlobal.htm Accessed 17 July, 2015.

[3]Bhattacharyay, Biswa N., 2010. "Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020," ADBI Working Papers 248, Asian Development Bank Institute.

Current level of ASEAN infrastructure spending is at 3%-4% of GDP. However, World Economic Forum reported that in terms of overall quality of infrastructure, ASEAN faces high diversity (see Figure 1). For example, Singapore score is higher than those in Japan, US, South Korea, or Australia; while Myanmar is among the lowest scores in the world.

Figure 1: Overall quality of infrastructure in ASEAN Member States (AMSs)



Source: World Economic Forum Report 2014-2015
(http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/) accessed on July 23, 2015

Thus, the main issues of regional infrastructure development can be categorised into two groups. The first one is dealing with domestic connectivity and sufficiency of infrastructure in each country[4]. This is no longer the homework for countries with the level of development of Singapore, Malaysia and Brunei; but it is a serious matter for the rest of AMSs. The second issue is the connectivity and sufficiency of infrastructure at the level of the region—where as a resilient region, ASEAN should be well integrated, including its physical terms. This report will deal with the first issues, namely infrastructure development to fulfil domestic demand.

1. B. Existing and future demand for infra projects in ASEAN countries

Indonesia estimates that during the period of the current administration (2015-2019) it needs approximately US$500 billion to build the necessary infrastructure in the country. Some estimates and compilation made by KPMG (2014) indicate that Myanmar needs US$320 billion by 2030, Thailand needs US$105 billion between 2013-2020, Malaysia needs US$100 billion between 2013-2020, Vietnam needs US$170 billion between 2013-2020, Cambodia needs US$12-16 billion between 2013-2022, and the Philippines need US$110 billion[5].

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[4] JICA-Bappenas (2013, unpublished)

[5] An overview of infrastructure opportunities in ASEAN

Table 2: Types of infrastructure projects demand in ASEAN

Infrastructure	Countries	Remarks
Power, Roads, Railway, Telecom, Water and sanitation	All	• Lack of supply in Cambodia, Indonesia, Laos, Philippines, Myanmar, Vietnam. • Response to Growth in Brunei, Malaysia, Singapore and Thailand. • Cross-border projects: SKRL[6] , APG[7] , AHN[8] , TAGP[9]
Urban Transportation	All	Types of facilities/projects and size depend on the development stage of the urban areas.
Seaport	High demand in archipelagic and maritime-hub countries: Indonesia, Philippines, Thailand, Malaysia, Vietnam.	Potential demand from Myanmar (esp. Dawei Port).
Airport	All except Singapore (on-going The Jewel project) and Brunei (just completed)	

Source: Compiled from Zen and Regan (Financing ASEAN Connectivity, 2014)

The project list is not exhaustive, due to dynamism of human behaviour. Migration – especially urbanization-, changes in socio-economic status, natural challenges, technology changes, etc. will influence the quantity, types, and quality of infrastructure in demand. Infrastructure will be increasingly demanded in the future.

2. FINANCING

2. A. Sources of Financing

The demand for quality infrastructure is huge in the ASEAN region where economic growth has been robust. It is projected that ASEAN economies need to invest over US$60 billion a year in infrastructure until 2020 to support and maintain the region's high economic growth[10]. However, infrastructure supply in ASEAN economies remains low relative to the needs. Except Singapore that ranks in the third position in the world, the majority of states in the region are struggling with low quality infrastructure. Infrastructure investment has mainly been funded by sovereign resources with some variations of mix financing such as subsidised semi private facilities, backed up by user fees, or supplemented by foreign aid. These traditional sources still cannot fulfil the whole demand for infrastructure investment.

Particularly after the severe Asian crisis in 1998 and later in times of global crisis in 2008, many governments' fiscal space has narrowed due to expansionary stimulus packages to offset the impact of the crisis. With current development of strong US economy, appreciation of US Dollar against all other currencies, and anticipated higher interest rates in the US, many emerging countries including those in Asia are struggling to cope with capital flight and maintain monetary stabilization. This condition puts pressure on public fiscal space.

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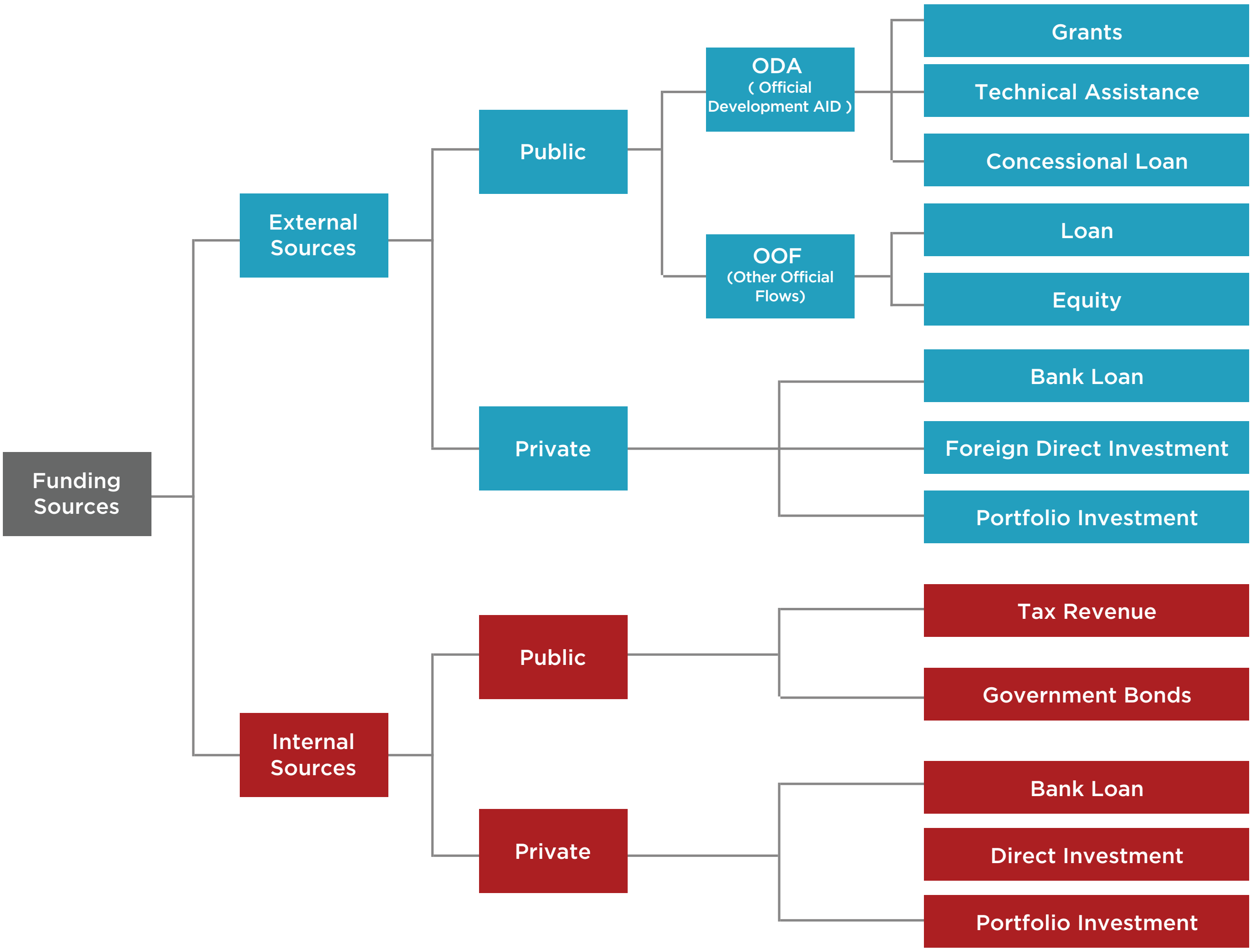
[6] Singapore Kunming Rail Link
[7] ASEAN Power Grid
[8] ASEAN Highway Network
[9] Trans-ASEAN Gas Pipeline
[10] In 2009 dollar. Asian Development Bank 2009.

Figure 2: Types of Financial Sources



Source: Isono and Sugiyama (ERIA, 2013)

In addition, Official Development Assistance (ODA) will likely decline for many countries that have achieved medium income status. Infrastructure projects are also competing for donor's funds with social sectors and projects with direct poverty alleviation impact. Therefore, with the rapidly rising demand the infrastructure deficit is expected to widen in most of the member countries. The majority of ASEAN member states, except Singapore and Malaysia, could only feed less than half of estimated demand.

With inadequate financial sources from government and ODA, the governments try to find new financing ways by inviting the private sector to participate. Private financing participation is expected to increase through Public Private Partnership (PPP) scheme, equity participation, and privatisation.

The terms of privatisation, private participation, and Public-Private Partnership (PPP) become hot issues despite the complexities to implement the programs. However, there are also success stories in improving the economy through these schemes. PPP and privatisation essentially do not only deal with lack of financial sources but enhances efficiency and improves the quality of infrastructure.

One of the market instruments to channel funds into the business is through utilisation of capital markets. ASEAN's bond markets vary in size and have developed at different rates but are mostly dominated by government bonds. There is no specific information on the size of the portion of this fund that goes into infrastructure.

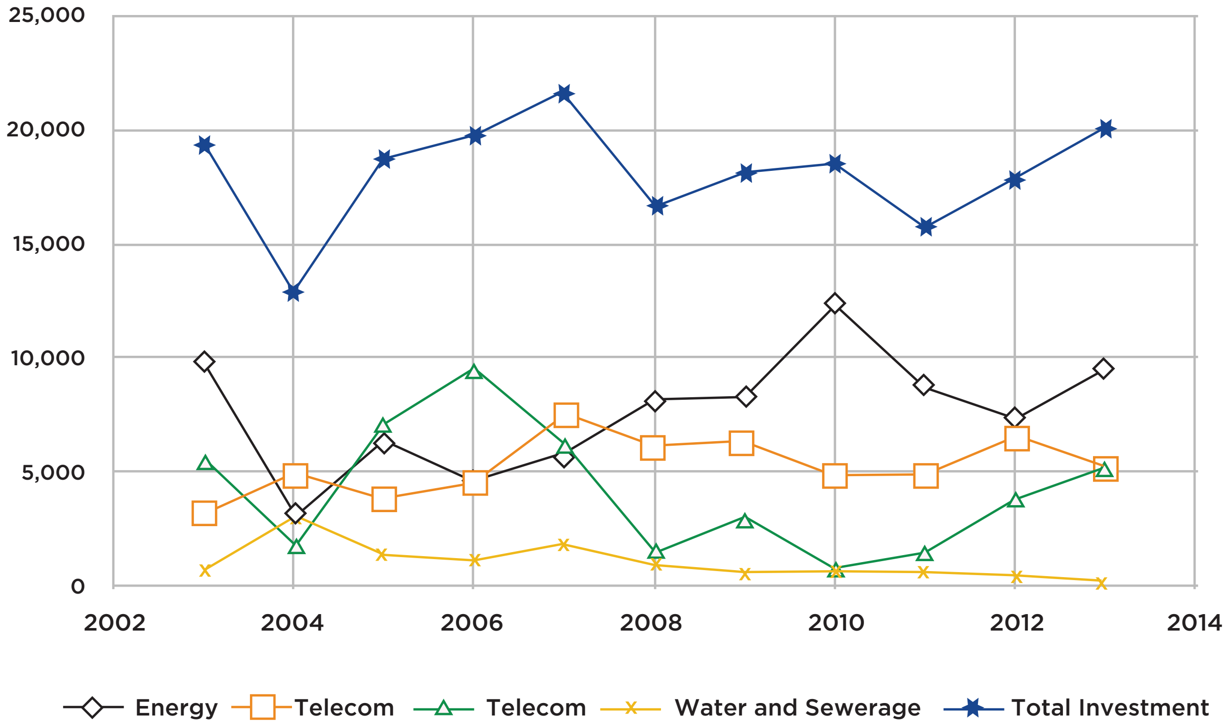
Table 3: ASEAN's Bond Market Size

Description	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Q4 2014 Market Size (US$ Billion)	Total = 123 Gov= 106 Corp= 18	Total = 316 Gov= 185 Corp= 131	Total = 104 Gov= 87 Corp= 17	Total = 241 Gov= 147 Corp= 95	Total = 282 Gov= 211 Corp= 70	Total = 41 Gov= 40 Corp= 0.6
YoY Growth (%)	Total = 14.8 Gov= 17.7 Corp= 0.3	Total = 1.1 Gov= 1.4 Corp= 0.7	Total = 4.8 Gov= 1.2 Corp= 27.6	Total = (1.1) Gov= (2.1) Corp= 0.5	Total = 2.3 Gov= (1.1) Corp= 14.1	Total = 41.2 Gov= 42.5 Corp= (10.9)

Source: http://asianbondsonline.adb.org/documents/abm_mar_2015.pdf

Private financing participation is also expected to increase through Public Private Partnership (PPP) schemes, equity participation, and privatisation. However, since the majority of infrastructure projects falls into the category of noncommercial business, they attract limited private financing.

Figure 3: Private Participation Investment in East Asia and Pacific (US$ million)



Source: PPIAF and The World Bank PPP (http://ppi.worldbank.org/data) accessed on July 1, 2015

The rate of PPP implementation remains slow in Asia and, in particular, in ASEAN countries. The dollar amount of PPP infrastructure projects that came to financial close, in fact, declined significantly after the Asian crisis and has not recovered. In 1997, private participation in infrastructure in the East Asia and Pacific Region amounted to US$36 billion[11]. After the crisis, the amount fell to a little over US$10 billion in 1998. Although it recovered to US$20 billion by 2000, the amount has since been fluctuating between US$10-20 billion. A large part of this are investments in China and Thailand.

[11]Data are from the World Bank and PPIAF, and uses figures for East Asia and Pacific countries.

2. B. Regional Sources of Financing

In light of enhancing regional cooperation and regional resilience, several initiatives have been developed in the region including those related to financial supply and channelling. Among those are Asia Bond Fund (ABF), Asian Bond Market Initiative (ABMI), ASEAN Infrastructure Fund (AIF, subsidiary of ADB), and the latest one: China-led Asia Infrastructure Investment Bank (AIIB).

The ABF was created in 2003 as an initiative of the Bank for International Settlements (BIS) to foster regional cooperation, promote intra-regional investment and capital market development. The ABF has achieved its early objectives including withholding tax reforms, the liberalisation of foreign exchange rules and reduction in cross-border settlement risk. Nevertheless, challenges remain including improvement in both debt and liquidity with the development of repo markets, the adoption of derivatives trading and opening the market to non-resident investors (Bank for International Settlements, 2011).

The ABMI was established to prevent resurgence of financial crisis and to promote growth. It would reduce the risks of dual mismatch in the term structure and currency in financing activities through harmonisation and integration in Asia Bond Market, aiming at strengthening regional capital market and channelling savings into the East Asia region. The ABMI was introduced in 2005 by ASEAN+3 with the support of the Asian Development Bank.

The ABMI in its early years adopted a supply side perspective with the objective of improving depth and diversification of offers. The market doubled in size between 2007 and 2013. The future development of the ABMI market includes a strategy to increase the volume of infrastructure which will offer several advantages unavailable with foreign-sourced project finance, including better diversification of project risk and investor liquidity.

The AIF is a part of the ADB that focus on financing infrastructure projects. The fund was established by contribution from ASEAN member countries and the Asian Development Bank (ADB) in 2011 agreement and became fully operational in 2013. The AIF is administered by the ADB. The initial fund size is about US$500 million (with ADB contributing US$150 million), and it is expected that the total lending from the Fund will amount to US$4 billion by 2020. Coupled with ADB cofinancing, the scheme could generate funding of up to US$13 billion.

Asian Infrastructure Investment Bank (AIIB) is a soon to be established financial institution that will focus on financing infrastructure in Asia. It was led by China's initiative in 2013, and till the date, almost 60 countries are committed to be founder of the bank. The AIIB is expected to operate by the end of 2015 with estimated capital of US$100 billion. It is expected to significantly increase the financial supply for infrastructure investment in the region.

3. BARRIERS

The gap between infrastructure demand and supply is usually attributed to the lack of financing. It is indeed true, but the problems lie beyond the adequate financial supply. The data of global savings show there is larger potential supply than the estimated demand for infrastructure investment. The question of what is going wrong has led to the identification of critical points of the bottleneck. Of course the first thing to match is the need for long-term investment portfolio vis-à-vis the attractive projects offered. There are problems of finding good projects in the pipeline, the channelling barriers, as well as refinancing the project's subsequent terms or expansion.

Infrastructure Financing Paradox[12]

- The World Bank estimates that approximately US$800 billion is being invested annually in infrastructure in developing countries (of which 40 percent goes to East Asia and Pacific), with about US $600 billion financed from government budgets; the remainder comes from the multilateral development banks (MDBs) (about US$40 billion/year) and from private sector investments (about US $160 billion/year).
- To maintain annual economic growth at 5 percent, the current annual infrastructure investment will need to double over the next 10 years.
- The Bank estimates a 'gap' of roughly US$1 trillion/year by year until 2020. This is the gap that cannot be met by government budgets or by the MDBs.
- At the same time, there are massive supplies of surplus capital -- global savings currently amount to US$17 trillion -- with investors looking for long-term stable returns. This is the 'infrastructure paradox'. A similar paradox exists in ASEAN countries, too, where both savings rates and foreign reserves are high.

Thus the main question should not only be directed to where the money is to fund the projects, but also how can we channel the idle money to investments in real projects. Channelling is another issue that has its own complexities. Another important thing is the way to realise the investment in developing economies.

Channelling

Channelling potential financial supply is determined by hard and soft infrastructure, namely: the market and regulation. Markets work as an intermediary between lenders and borrowers. A well-functioning market exists only if it is based on good regulatory framework and run by credible regulators. Complexities in capital markets pose high risks that are typically avoided by bureaucrats; thus operating a capital market requires both knowledge and wisdom in markets and regulations. A responsive regulator is important to fix the problems and bring the policy development to the next level of maturity.

Attracting Investment

The report focuses on PPP schemes to attract investment, but goes beyond the technical issues on implementation. The potential key of success and failure of a PPP project is determined at the very beginning of the process, namely: investment planning. Before the government decides that a project would be offered as PPP project, the objectives and expectation of the project should be very clear. Thus, the first question should be: "Why do we want to buy this project?" to provide the rationale of the project.

What is the impact on the economy if we build this project? The answer from governments will provide the analysis of current situation and future forecast of relevant socio economic indicators. It also provides the expectation and targets, as well as the contradictive scenario, i.e. what if the project is not developed. This rationale will lead to the level of project's significance. It also help the governments to have the list of projects' priority.

The next step in investment planning is doing some exercises on different project schemes; they could be financed by public funds, fully private resources, private sector participation, or PPP scheme. All of these scenarios will provide the policy makers with the economic cost and benefit analyses to see how different schemes will have different impact. The decision to choose PPP –if PPP is the best scheme-- after going through this step will enhance the project's attractiveness and eliminate unnecessary criticisms from public. The solid arguments of the project's scheme will also increase credibility of the government, which is very important because in PPP the government should take the leading role. Among the identified barriers, the following three issues (regulatory, market, and operational) are typically found in emerging economies:

- Poor regulatory system causes lack of private confidence, inefficiencies, delayed project implementation, weak government support, and public challenges. Common problems in regulatory issues are: conflicting regulations, poor investment planning, unclear investment procedures, changing tax regime, barriers for foreign investors, repatriation issues, barriers for foreign workers, irrelevant objectives in investment

[12] Moving MPAC Forward: Strengthening Public-Private Partnership, Improving Project Portfolio and in Search of Practical Financing schemes (Shishido, Sugiyama & Zen, 2013)

regulation, and expensive dispute settlement.

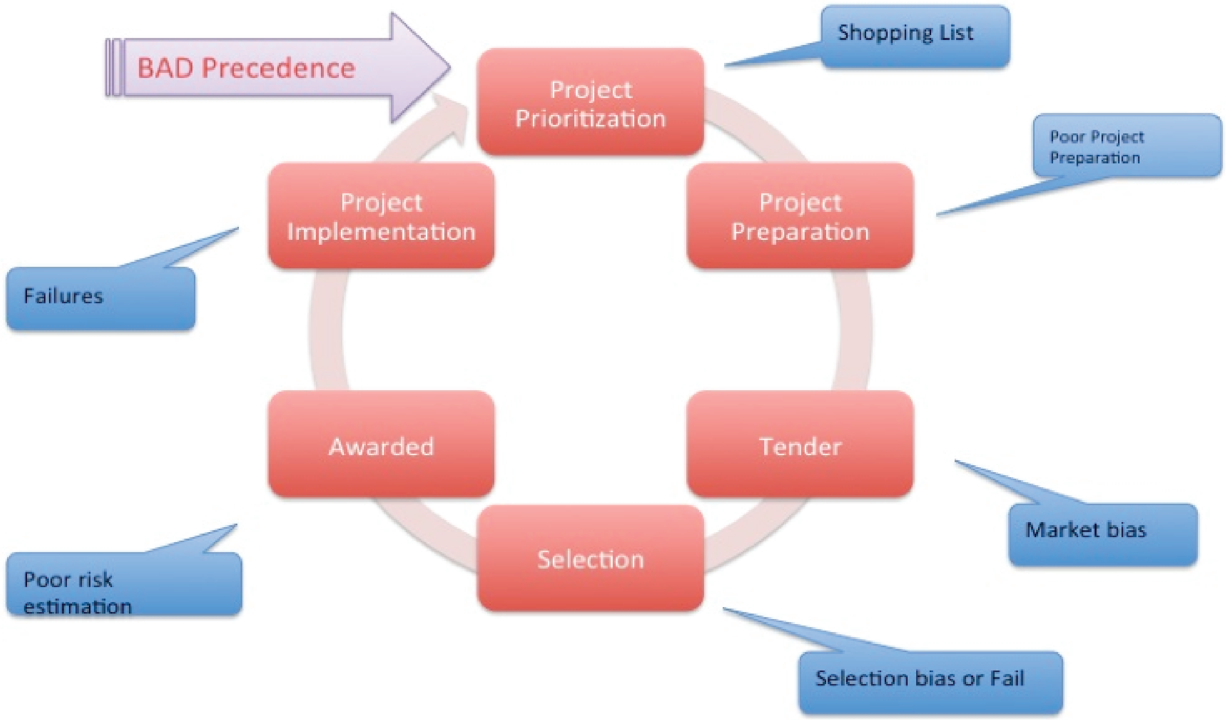
- The following issues are related with the market for PPP: underdeveloped capital market, lack of viable attractive projects, costly transaction, lack of market instruments to manage portfolio risk, and barriers for entry and exit of funding flows. Some of these issues are shaped by regulation; however, having good regulation is necessary but not sufficient. Implementing good regulation by credible and capable regulators is much more important.
- Operational issues: inadequate local partners, unarranged flows of deal, lack of capability, high cost economies (high cost of logistic, labour, and input), the absence of arbitration facility, and weak contract enforcement.

In short, the crucial issues in PPP implementation are very much related with the host country's regulatory framework and the capacity of the government to manage and lead the project execution. ERIA's studies in ASEAN implementation of PPP have confirmed the following key points:

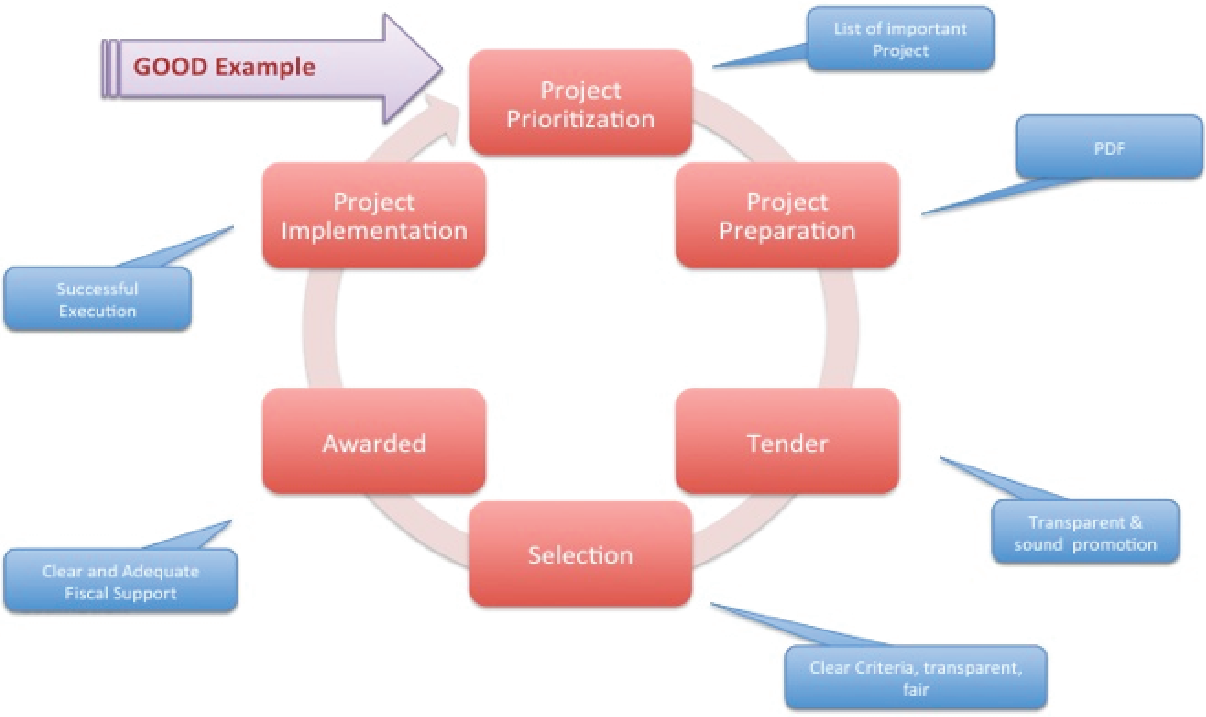
a. Sufficient and coherent regulatory to provide investors with adequate confidence level and proper access to respond accordingly. Low risk perception will bring lower costs offered by private entities, thus will benefit the host country.
b. A strong and capable public sector, to lead the whole process and ensure fair risks sharing and competition.
c. A sufficient mechanism to provide inexpensive ways to channel the funds, access to financial sources, dispute settlements, and refinance the project. If the country's capital market is not mature enough to provide the above financial functions, the access to regional/foreign capital markets and good mechanism to utilise relevant products will also work. An efficient and inexpensive dispute settlement is equally important.

Some countries may need to do reform and enforce a new way to provide conducive environment to implement PPP. It is important to note that regulatory reform does not mean to make additional regulations; in many cases, deregulation can be success key to rid the overburden caused by existing regulations. In short, the government should understand the nature of the private sector, i.e. profit-oriented institutions; and the government should be able to find the balance between public and private interests.

Figure 4: PPP Challenges: Causal Nexus



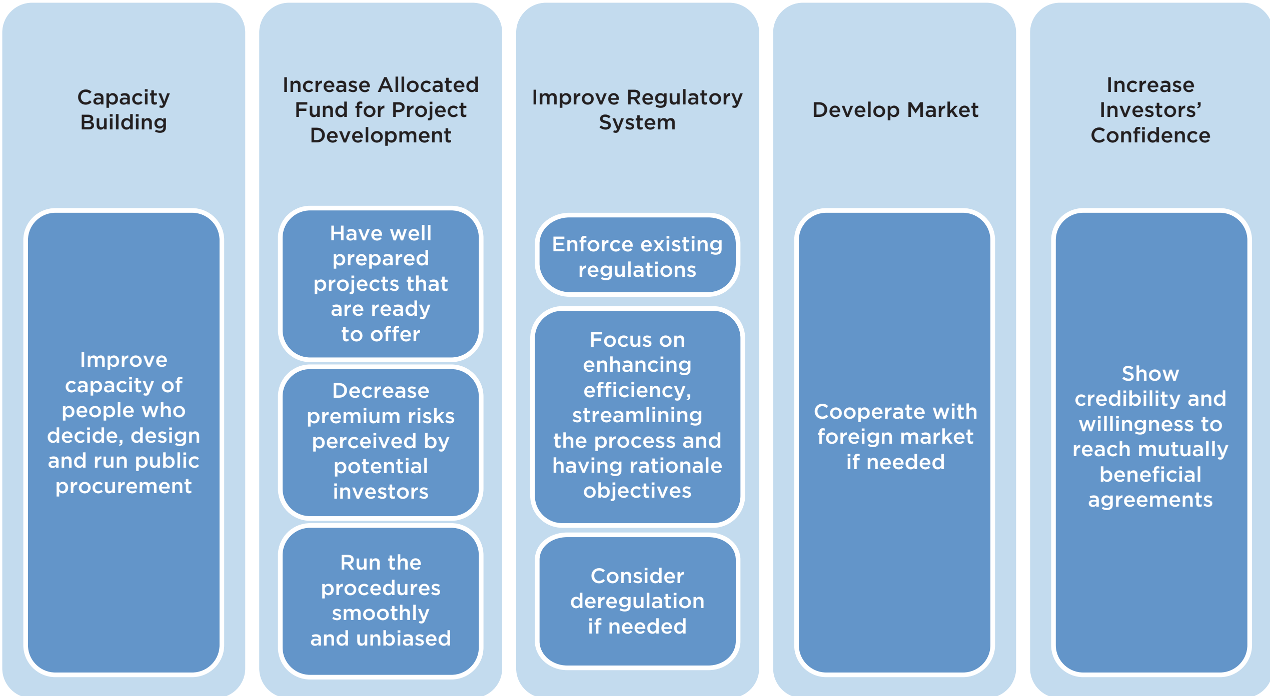
Source: Zen (Thailand PPP, 2012)



Note: PDF: Project Development Facility
Source: Compiled from Zen and Regan (Financing ASEAN Connectivity, 2014)

4. RECOMMENDATIONS

For Public Sector:



Source: Compiled from Zen and Regan (Financing ASEAN Connectivity, 2014)

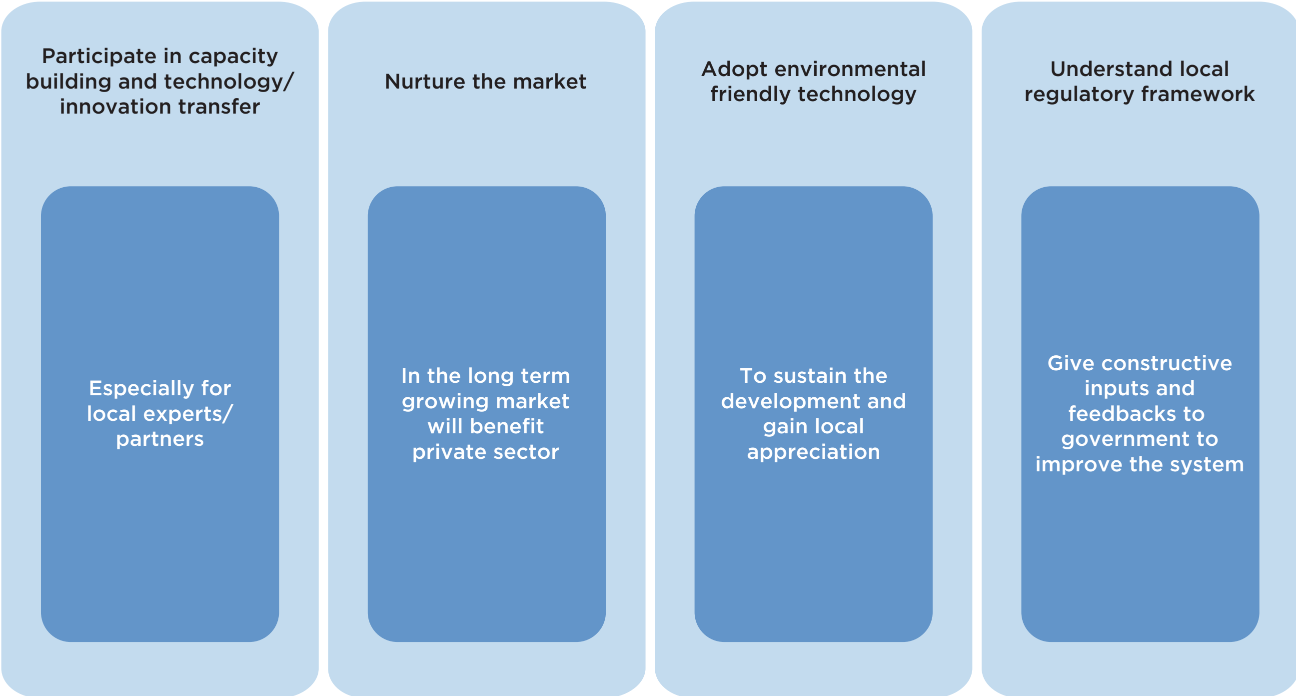
Further, some efforts could be devoted to address the following issues:

a. Provide or expand the market for long-term credit. Government should check the regulatory framework within which the capital market is regulated. Some regulations may need to be revised, adjusted, created, or eased/deregulated to facilitate funds channelling from the financial institutions into infrastructure projects. An example of typical barriers is regulations that treat insurance funds similar as bank savings, which in nature they are very different.

b. Widen the access for cross border financial flows especially for infrastructure financing. The infrastructure projects are safer in terms of vulnerability and uncertain capital mobility that many governments fear.

c. Establish a dedicated unit (especially for the case of PPP) that functions to speed up and streamline the process, communicate with potential investors professionally, and address the underlying problems such as how to offer good projects. To be well functioned, the unit should be equipped with competent experts and authorised officers, sufficient access and power to make appropriate decisions, and legal framework to secure and allow progressive movement.

For Private Sector:



In other words, the private sector has to actively participate in nurturing the market and supporting the public sector accordingly. Among crucial things are maintaining good communication with the host country's government, willingness to involve local partners (even though there is no obligation), recruiting and transferring knowledge to local experts, and valuing the environment (with or without regulation). In the long run, if the local market is well developed, there will be higher opportunities and costs reduction to do the business in the host country.

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