

# AEC BLUEPRINT 2025 ANALYSIS

# LIBERALISATION OF THE TRADE IN SERVICES

## Foreward

The following report is part of a series which attempts to provide a detailed analysis on the ASEAN Economic Community (AEC) Blueprint 2025. Each report will cover a single element of the blueprint, providing a comprehensive look at past achievements, present problems, and the future plans of the AEC. Special attention will be placed upon the strategic measures outlined in the AEC Blueprint 2025. This report aims to provide insight into the viability surrounding regional economic integration under the AEC.

## A. Past Plans

What were the targets in the AEC 2015 Blueprint?

The goal of free flow of goods was a key element in achieving the AEC's first pillar within the 2015 blueprint, which detailed the creation of a single market and production base. As the World Trade Organisation's (WTO) General Agreement on Trade in Services (GATS) covers a significant portion of liberalising the trade in services, ASEAN's focus has primarily been centred on addressing issues not covered by the treaty; this is known as the GATS-Plus principle. (Secretariat, 2015) Since the formation of ASEAN in 1967, several agreements and plans have been put in motion:

### 1. General Agreement on Trade in Services (GATS)

GATS defined the four main modes of supply for the delivery of services so as to simplify discussions regarding the subject. It should be noted that services liberalisation will be discussed in terms of the GATS classification of service delivery modes:

- *Mode 1: Cross-border supply*  
Service deliveries between entities in different states (e.g. sale of data).
- *Mode 2: Consumption abroad*  
Service deliveries to a service consumer in another territory (e.g. tourism).
- *Mode 3: Commercial Presence*  
Services provided in a member state by a foreign owned supplier (e.g. FDI).
- *Mode 4: Presence of a natural person*  
Services provided by a natural person in the territory of another country (e.g. foreign consultants).

### 2. ASEAN Framework Agreement on Services (AFAS)

Signed in 1995, the AFAS detailed broad guidelines concerning improving market access and standardising national treatment for services suppliers amongst member states.

- In 2003, the *Protocol to Amend the AFAS* was signed, introducing the "ASEAN Minus X" implementation method. This meant that countries not ready to partake in certain economic schemes were able to opt out without halting the progress of services liberalisation for other member states.
- The AFAS can be viewed as a modular agreement, with consecutive packages of commitments signed into agreement following rounds of negotiation by the ASEAN Economic Ministers (AEM); whilst the 9th package of the AFAS is the latest package in effect, the 10th AFAS package has been finalised and will be ratified in the short term future.

### 3. The AEC Blueprint 2015

Adopted in 2007, the blueprint defined the commitments and priority sectors which would be the focus of negotiations.

- A timeline was adopted, with commitment packages to be finalised every two years.
- The blueprint also called for ancillary actions to be taken in support of services liberalisation, such as the completion of MRAs.

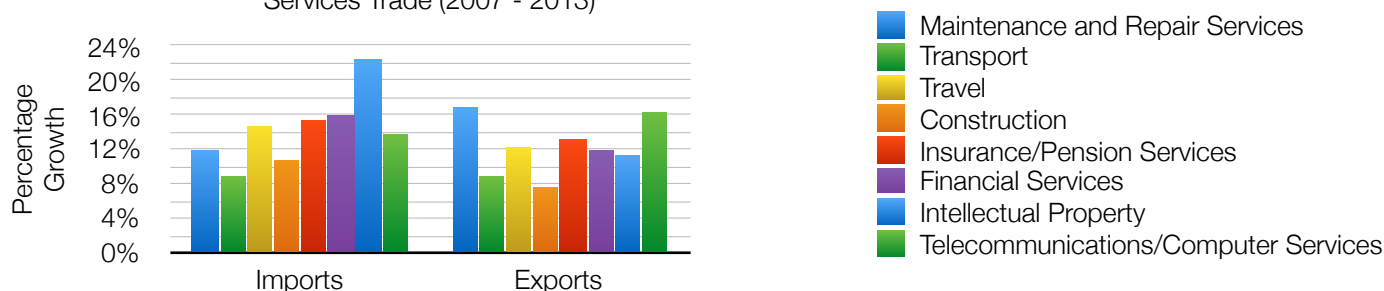
#### AEC 2015 Blueprint Strategic Measures

- Removal of trade in services restrictions in priority and non-priority measures according to timeline
- Package commitments to address GATS Mode 1 to 4 restrictions every two years
- Allow for “flexible commitments” which allow for each member state to liberalise what it can in each given round
- Complete Mutual Recognition Agreements (MRAs)

## B. Past Achievements

What has been achieved?

Average Annual Growth of ASEAN's Total Services Trade (2007 - 2013)



Source: ASEANstats Services trade data (February 2015)

As illustrated by the graph above, the average annual growth of total services trade of ASEAN member states over the period 2007-2013 has been strong. In particular, the growth in intellectual property imports and exports in maintenance and repair services is apparent. Growth in the trade of services has been encouraged by the increasing scope and coverage of AFAS' package commitments, as illustrated in the figures below:

- The number of service subsectors targeted by the 9th and latest AFAS package has been increased to 104.
- The removal of foreign ownership restrictions and lowering of trade barriers has increased in scope as illustrated by the rise in minimum ASEAN equity participation and liberalisation measures.

#### Number of Services Subsectors Covered in AFAS Packages of Commitments

	AFAS Package:		
	7th	8th	9th
<b>AFAS Target</b>	<b>80</b>	<b>80</b>	<b>104</b>
Brunei	5	79	92
Cambodia	74	87	94
Indonesia	83	86	97
Lao PDR	74	89	92
Malaysia	81	96	101
Myanmar	66	79	90
Philippines	95	98	99
Singapore	78	84	101
Thailand	93	104	108
Vietnam	84	88	99

#### AFAS Liberalisation Commitments

- Remove all restrictions classified under Mode 1 and 2 of the GATS
- Increase minimum ASEAN Equity Participation to:
  - Priority Services  
7th Package: 51%  
8th Package: 70%
  - Logistics Services  
7th Package: 49%  
8th Package: 51%  
9th Package: 70%
  - Other Services  
7th Package: 49%  
8th Package: 51%  
Proposed 10th Package: 70%
- Address Mode 3 limitations
- Address Mode 4 limitations
- Complete MRAs:
  - Architectural, accountancy, surveyor, medical MRAs to be completed by the 2009

According to GATS classification, the AFAS has been primarily successful in addressing service liberalisation in Modes 1 and 2, as illustrated by the AFAS’ complete removal commitment. Mode 4 has seen moderate progress with the finalisation of certain MRAs, whilst Mode 3 has improved under increasing minimum ASEAN equity participation requirements. Under the AFAS and AEC Blueprint 2015, ASEAN has concluded:

- Nine packages of general commitments.
- Two additional packages of commitments concerning Financial Services.
- Three further packages of commitments pertaining to Air-Transport Services.
- Seven MRAs have been finalised covering various sectors for both trade in goods and services.

ASEAN commitments have increased with time in terms of both number and depth, with policy change occurring across the development spectrum. (Dee 2015)

### C. Present Challenges

What are the current issues?

- A comparison between services trade commitments with actual domestic policies in each of the ASEAN member states done by the ERIA found that there was a significant lag between AFAS commitments and the implementation of domestic policy change. (Dee, 2015)
- This is reflected in the table to the right, where sectors with negative correlation indicate rising scorecard liberalisation and falling trade barriers in those sectors; on the other hand, positive correlations showcase sectors where whilst scorecard liberalisation rates are increasing, the barriers to trade are also increasing.
- Although an increase in country scorecard liberalisation rates should directly result in the national decrease of trade barriers, this is apparently not the case. Instead, correlations between scorecard liberalisation rates and trade barriers in most sectors are either weak or even positive. This means that commitments are not being translated into policy change.
- AFAS initiated liberalisation is currently relatively marginal compared to GATS commitments. (Deunden, 2012)
- Mode 3 liberalisation only increases the minimum foreign ownership threshold to a 70% ASEAN equity share.
- Mode 4 liberalisation is confined to the movement of professionals only.

#### Correlation Between Scorecard Liberalisation Rates and Trade Barriers across ASEAN States

Sector	Correlation
Medical	-0.69
Health	-0.33
Tourism	-0.05
Maritime	+0.03
Telecommunications	-0.66
Banking	+0.92
Insurance	+0.08

### D. Future Plans

What new measures are included in the AEC 2025 Blueprint?

- The AEC 2025 Blueprint seeks to replace an aging AFAS with the ASEAN Trade in Services Agreement. (ATISA)
- Several new supplementary initiatives have been brought to the table, in particular, the call for a common definitions with regards to sensitive lists and sectors.
- A key component of focus will be the ongoing review of the “ASEAN minus x” commitment system, with the majority of ASEAN states hoping to lower the level of flexibility offered so as to advance a unified free trade agenda.

#### AEC 2025 Blueprint Strategic Measures

- i. Finalise ATISA
- ii. Continue Alternative Efforts
  - a. Review existing flexibilities
  - b. Enhance and support Global Value Chain activities
  - c. Establish liberalisation disciplines
  - d. Consider sectoral annexes
  - e. Enhance technical cooperation

## E. AEC 2025 Blueprint Analysis

What do the measures entail?

Strategic Measure	Analysis
<b>1</b> <b>Finalise ATISA</b>	
<ul style="list-style-type: none"> <li>Facilitate negotiations and implementation of ATISA</li> <li>Make ATISA the legal instrument for further service integration in the region.</li> </ul>	<ul style="list-style-type: none"> <li>Discussions to enhance the AFAS through a new legal instrument began in the last quarter of 2013.</li> <li>ATISA will deepen and broaden ASEAN services integration, with a particular focus on the changing global value chain landscape.</li> <li>A key focus of ATISA will be the granting of equal and increasingly liberal commitments for financial services as present within existing ASEAN Plus FTAs.</li> <li>It is expected that the review of existing flexibilities, as well as the consideration of sectoral annexes and GVC activities discussed below will be enshrined within ATISA.</li> </ul>
<b>2</b> <b>Continuing Alternative Efforts</b>	
<ul style="list-style-type: none"> <li>Review existing flexibilities, limitations, thresholds and carve-outs, as appropriate;</li> </ul>	<ul style="list-style-type: none"> <li><b>Flexibilities</b> The 15% flexibility allowance granted by the AEC Blueprint 2015 for trade barriers under modes 1 and 2 may be reduced as a future goal. (The flexibility allowance indicates the allowed percentage of commitments that member states are allowed to not adhere to).</li> <li>Furthermore, the “ASEAN Minus x” commitment system may be revised in favour of a more unified front.</li> <li><b>Limitations &amp; Thresholds</b> New targets will be set for the foreign ownership/presence thresholds in order to reflect changing times.</li> <li><b>Carve-Outs</b> These are negative lists which identify particular sectors or policies not covered under the AFAS/AEC Blueprint due to the sensitive nature of certain sectors and/or genuine public policy concerns.</li> <li>Currently, Mode 4 commitments have seen the most exclusions, which has translated to impeding the progress of Mode 3 related liberalisation. This is likely to be revised. (Dee, 2015)</li> <li>Legitimate public policy concerns and sensitive sectors will be revisited in hopes to update this list in a changing landscape. (Dinh, 2013)</li> </ul>
<ul style="list-style-type: none"> <li>Enhance mechanisms to attract foreign direct investment (FDI) in the services sectors, including but not limited to foreign equity participation to support Global Value Chain (GVC) activities;</li> </ul>	<ul style="list-style-type: none"> <li>A prime focus highlighted here would be the issue of foreign equity participation <ul style="list-style-type: none"> <li>Currently, foreign equity participation restrictions are largely determined unilaterally by legislation on the national level.</li> <li>Whilst the AFAS has defined minimum requirements for the allowance of foreign equity participation, commitments in this case did not necessarily translate to legislation.</li> <li>ASEAN will need to revisit the minimum requirements, as well as improve its follow through in this area.</li> </ul> </li> <li>Enhancing mechanisms to attract FDI is an extremely broad goal which will spill across many of the blueprint's other elements; from the freedom of investment to the free flow of labour. As such it will be examined in future papers.</li> </ul>

Strategic Measure	Analysis
<ul style="list-style-type: none"> <li>Establish possible disciplines on domestic regulations</li> <li>Consider other non-economic or developmental regulatory objectives</li> </ul>	<ul style="list-style-type: none"> <li>As discussed earlier, this will involve defining common public policy concerns and sensitive sectors which need to be excluded from services liberalisation.</li> <li>This goal would manifest in information sharing initiatives with regards to services trade regulations, and the creation of a common framework defining legitimate areas of policy concern.</li> </ul>
<ul style="list-style-type: none"> <li>Consider the development of sectoral annexes;</li> </ul>	<ul style="list-style-type: none"> <li>Sectoral annexes indicate MRAs, which will continue to be a priority in addressing liberalisation under Mode 4.</li> <li>Whilst eight MRAs have been completed, further sectoral coverage will need to be explored. Current MRA's completed address the following professions and their standards: <ul style="list-style-type: none"> <li>Engineering Services</li> <li>Nursing Services</li> <li>Architectural Services</li> <li>Framework for Surveying Qualifications</li> <li>Medical Practitioners</li> <li>Dental Practitioners</li> <li>Framework for Accounting Services</li> <li>Tourism Professionals</li> </ul> </li> </ul>

## F. Conclusions

What does the AEC 2025 Blueprint mean in terms of Trade in Services?

- It is unclear at this point what the ATISA will bring to the table in concrete terms, however, the significant issue of domestic legislation change lagging behind commitments is unlikely to be directly addressed by the new legal instrument.
- Instead, the development of initiatives fostering economic growth will continue to push the liberalisation of services. This is evidenced by the positive correlation between trade in services liberalisation and economic growth, which is best seen in the case of Vietnam and its rush of foreign ownership liberalisation and simultaneous economic boom, where FDI attracted by more liberal laws has spurred growth.
- The most significant change indicated by the AEC Blueprint 2025 would be the fact that it hints that several key mechanisms under the AFAS will be reviewed, such as but not limited to:
  - The ASEAN Minus x commitment system.
  - Defining sensitive sectors and legitimate public policy concerns.

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