INTEGRATION CHALLENGES IN EMERGING ASIA

KIEP-OECD-MOFA Joint Seminar, Session 2

Prasiwi Ibrahim and Kensuke Tanaka

Asia Desk, OECD Development Centre

15 February 2016, Seoul

OECD dev
DEVELOPMENT CENTRE

Outline

- Assessment of progress of regional integration
- 5 Regional integration challenges

OECD DEVELOPMENT CENTRE

Key challenges for further integration, 2016-20

- **Overall, pace of progress is slow.** Progress has been varied in achieving integration targets (through the ASEAN, ASEAN+3 and ASEAN+6 frameworks) in key policy areas.
- Deeper integration can be facilitated through:
  - **Better harmonization** of regional, sub-regional and national planning
  - **Improved monitoring** of progress
  - Co-operatively addressing a broader set of policy areas, in particular, issues related to **green/energy** and **private sector development.**

OECD dev
DEVELOPMENT CENTRE

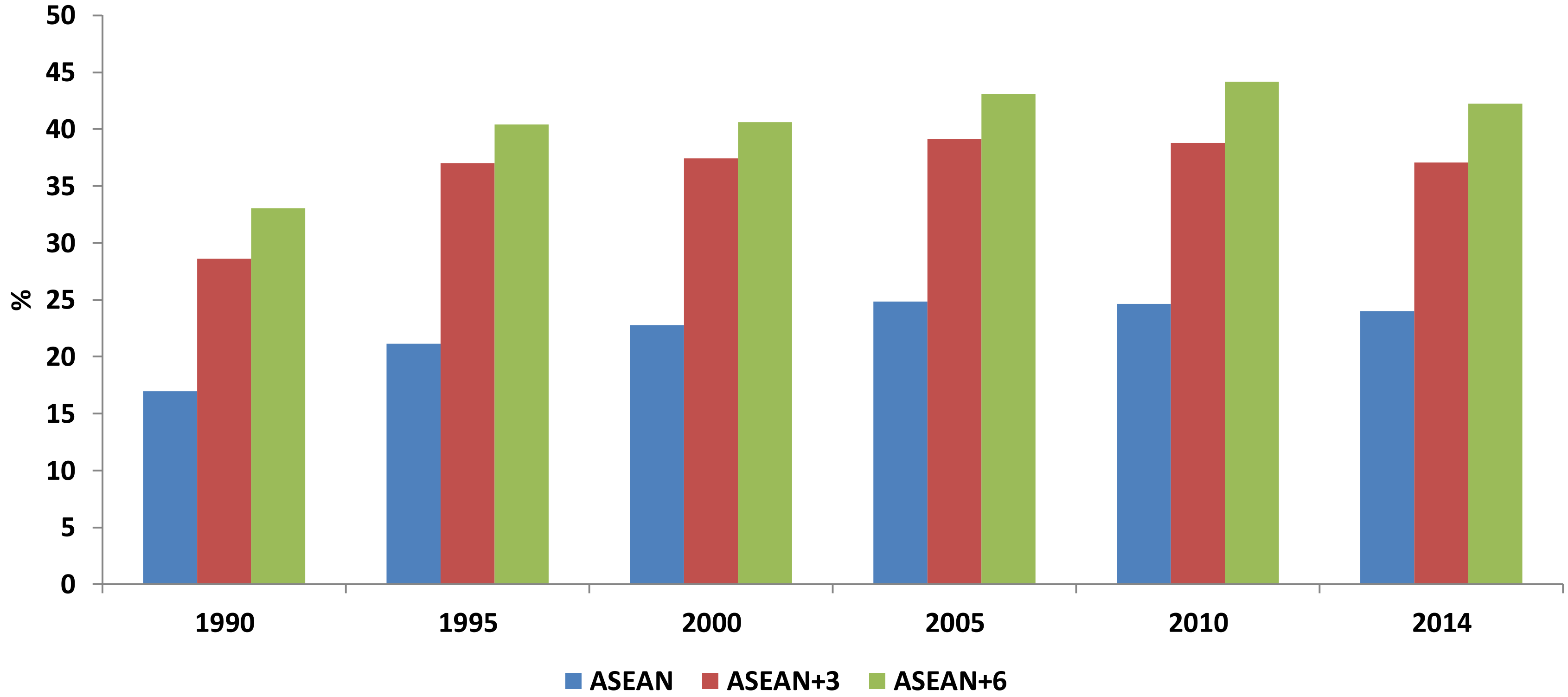
Integration is progressing gradually

Policy area	Assessment of progress
Trade in goods	Intra-regional tariffs are falling and intra-regional trade is increasing, trade agreements are being made, and trade facilitation is improving, but non-tariff measures remain a challenge.
Trade in services	Progress in facilitating services trade has been uneven, and deeper reforms are needed in some countries.
Investment and capital market liberalisation	Liberalisation has been uneven by country and sector, and investors remain concerned by high costs of doing business, weak intra-ASEAN banking facilities, though the Chiang Mai Initiative Multilateralisation and Asian Bond Market Initiative are promoting regional stability and financial integration.
Competition and consumer protection	ASEAN members are sharing best practices, but work remains to be done on policy harmonisation and the establishment of regional-level initiatives.
Intellectual property (IP)	Co-operation between IP offices has improved and work is being done to further develop local capacities.
Infrastructure and connectivity	Further progress will be needed on road, rail and maritime connectivity, and institutional barriers are being addressed gradually.
Small- and medium-sized enterprises (SMEs)	Several major programmes offer support to SMEs in operating domestically or internationally, but access to finance and technology is a challenge for these firms in some countries.
Food, agriculture and forestry	Regional frameworks are improving food security, but more could be done to protect fisheries, forestry and wildlife.
Tourism	Co-operation is progressing on tourism promotion, the establishment of common standards and visa facilitation.
Human and social development	Education system harmonisation and collaborative research initiatives have been established, and co-operation through broader regional frameworks is progressing.
Initiative for ASEAN Integration (IAI)	A large number of projects are planned under the IAI, though implementation rates are low.

Intra-regional trade has grown in within ASEAN and its neighbouring countries

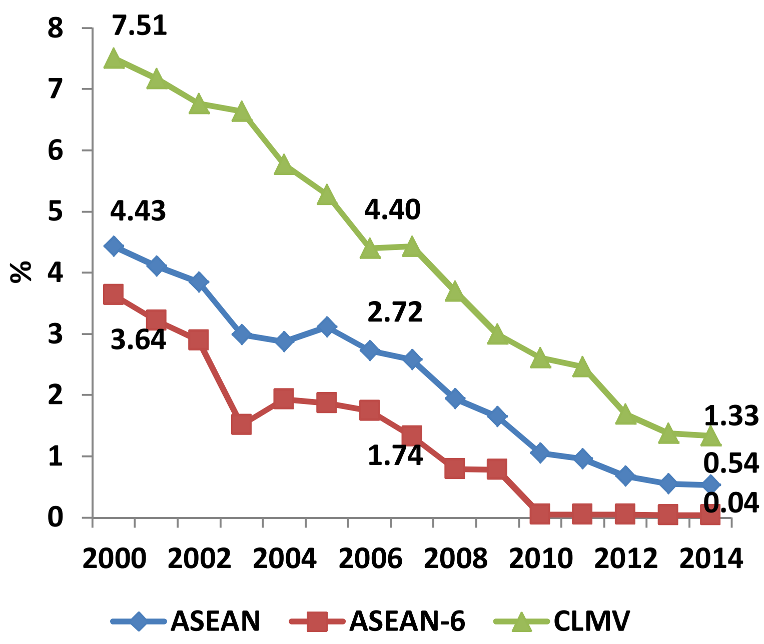
Intra-regional trade in ASEAN, ASEAN+3 and ASEAN+6, by country group, 1990-2014

Total within-group trade as a share of groups' total world trade

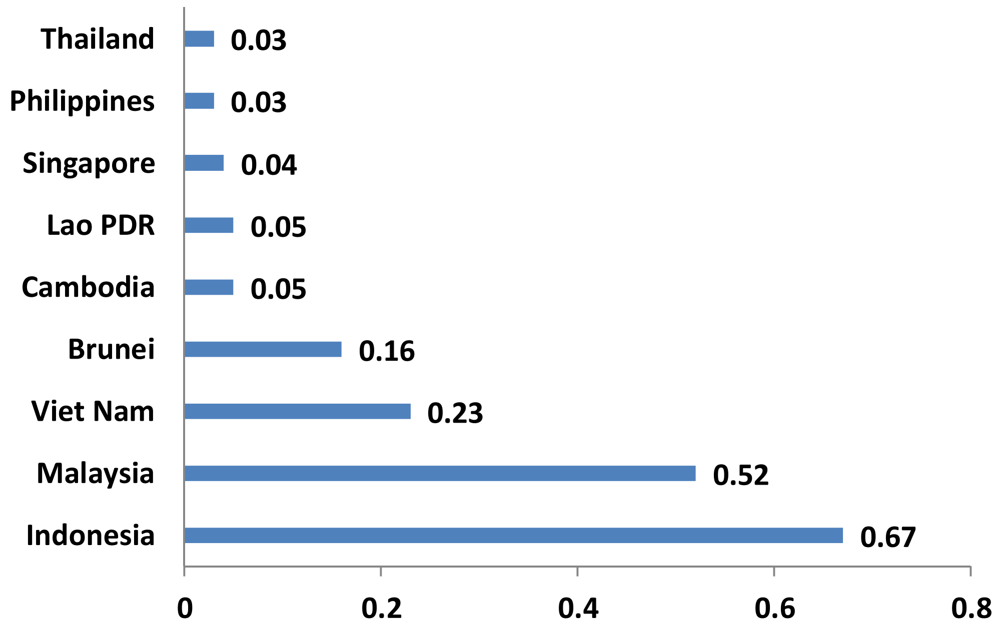


Note: ASEAN+3 includes ASEAN 10 countries plus China, Japan and Korea. ASEAN+6 includes ASEAN+3 plus Australia, India and New Zealand.
Source: OECD Development Centre's calculation based on data from IMF-DOTS

Intra-regional tariffs have fallen, though NTMs continues to impose costs



Note: ASEAN-6 includes Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand; CLMV includes Cambodia, Lao PDR, Myanmar and Viet Nam.
Source: ASEAN Secretariat.

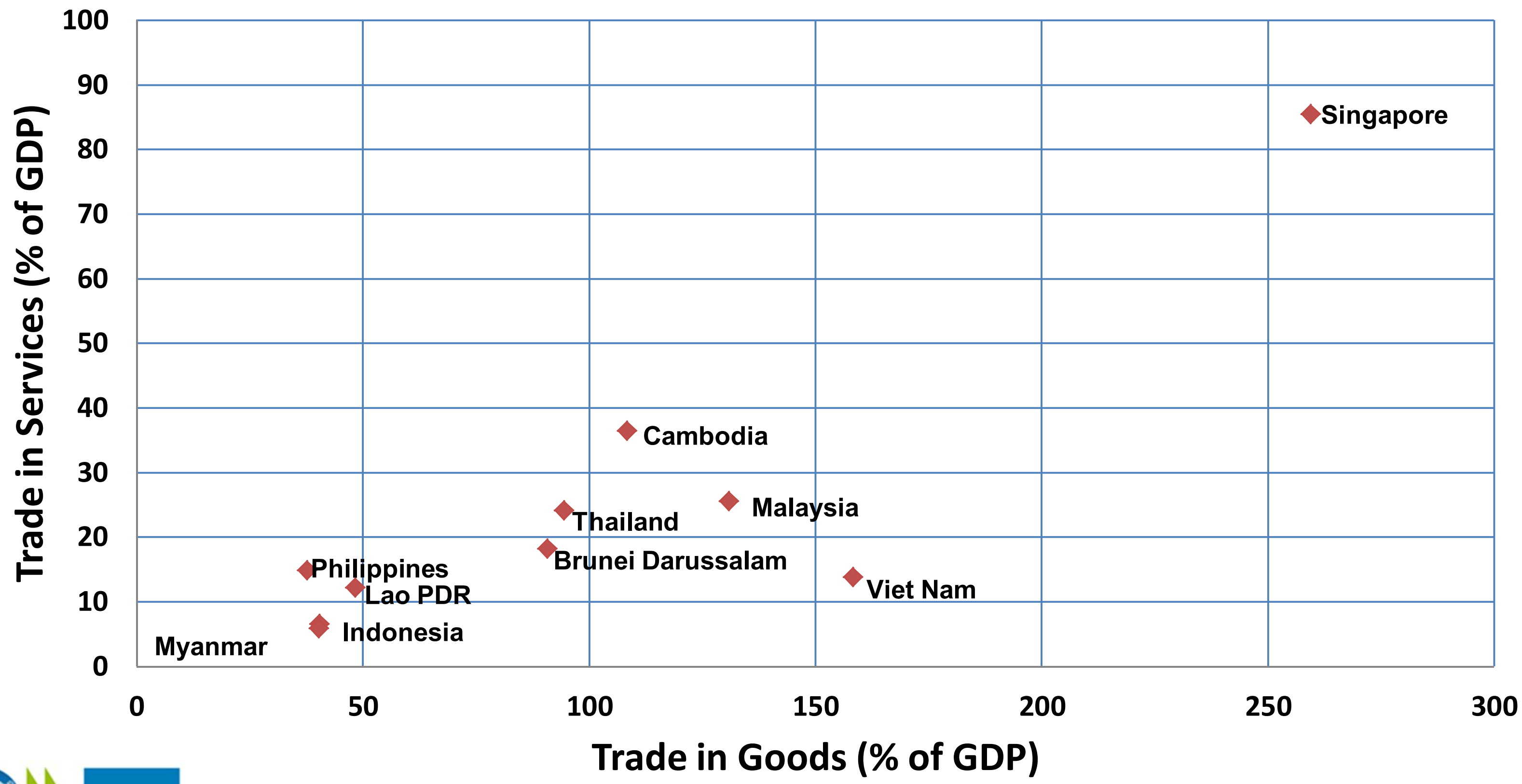


Source: ERIA (2012), “Mid-term review of the implementation of AEC Blueprint”.

OECD dev
DEVELOPMENT CENTRE

Trade in services remains an untapped source of growth in ASEAN countries

Trade in services share of GDP versus trade in goods share of GDP, 2014



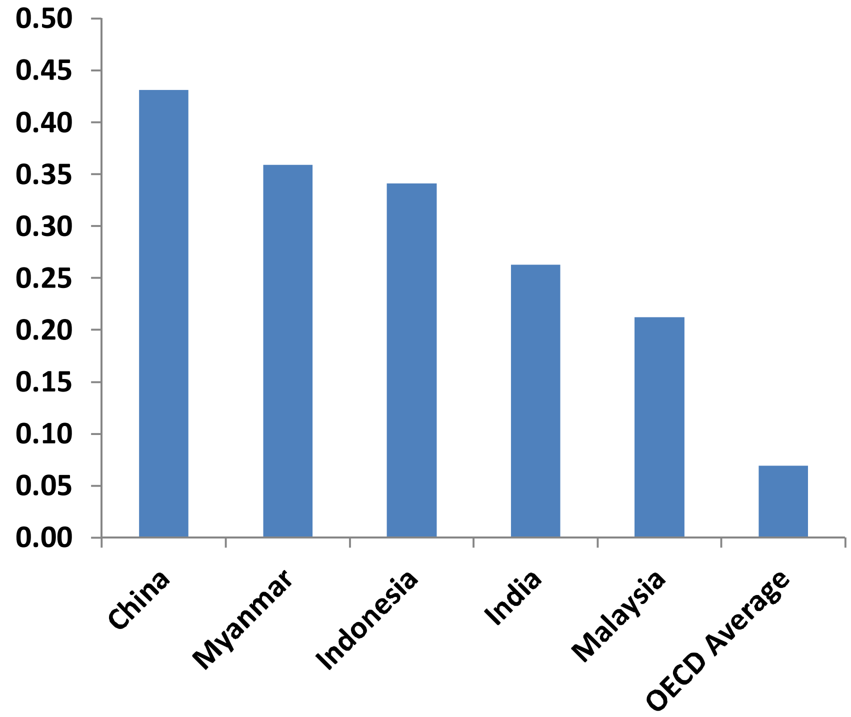
Sources: UNCTAD (2015) UNCTADSTAT (database) http://unctadstat.unctad.org, UNSTATS (2014); National Accounts
Main Aggregates Database, http://unstats.un.org/unsd/snaama/dnllist.asp.

Reforms of FDI regulation and business environment need to be strengthen

- **ACIA- the progress of liberalization varies between countries and sectors**
- **Providing a good business environment will be key.**

FDI restrictiveness in selected economies in Emerging Asia, 2014

Index, higher values indicate greater restrictions



Source: OECD (2015a), OECD FDI Regulatory Restrictiveness Index (database), http://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#.

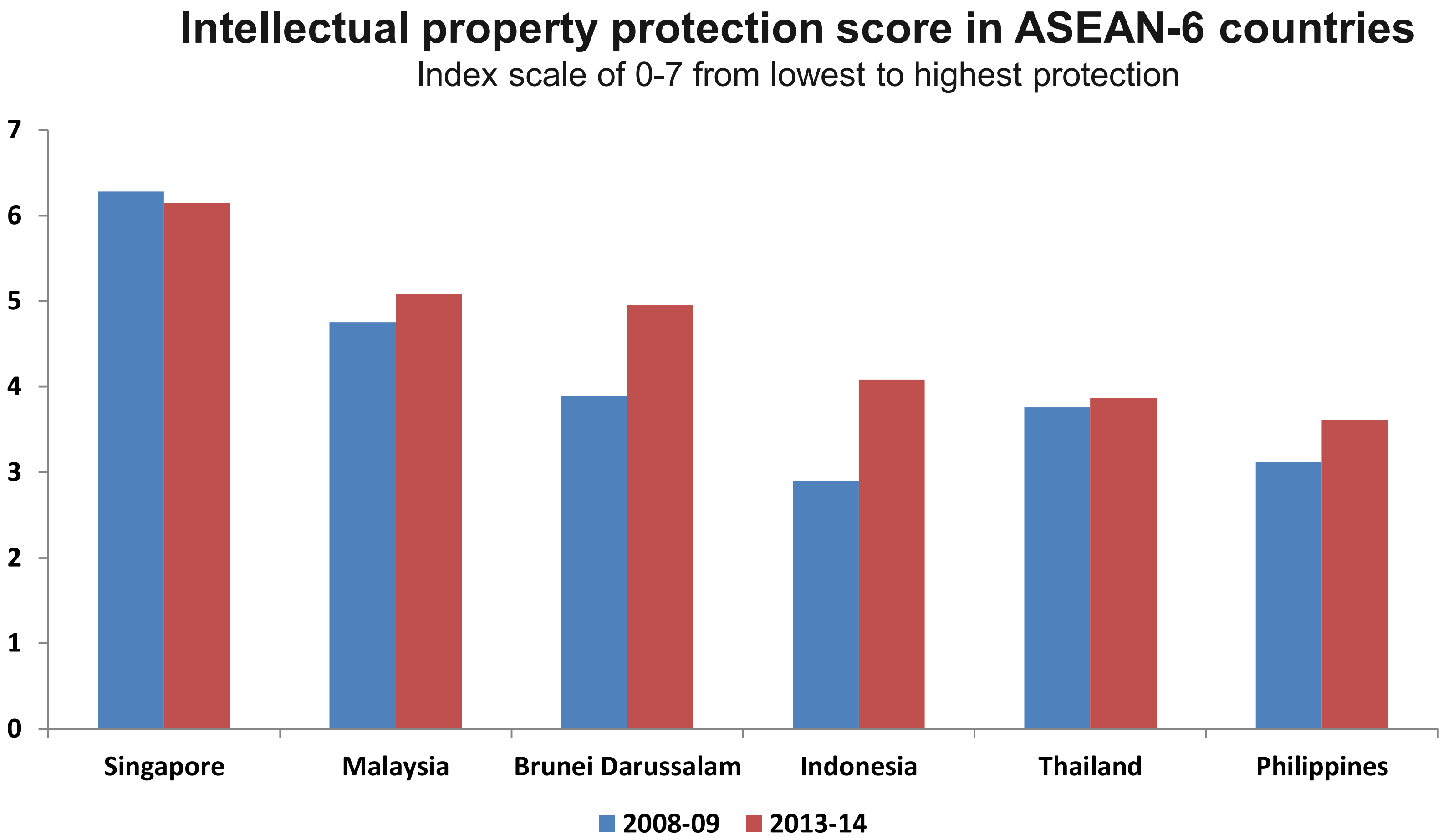
OECD dev DEVELOPMENT CENTRE

Intra-banking facilities remain weak

- Reforms are under way through the **ASEAN Banking Integration Framework**.
- The **Chiang Mai Initiative Multilateralisation** and **Asian Bond Market Initiative**, established by the ASEAN+3 framework, are promoting regional stability and financial integration.

OECD dev DEVELOPMENT CENTRE

Co-operation between IP offices has been improved



Note: The score is based on the view of firm executives interviewed in WEF's Executive Opinion Survey 2013-14.
Source: OECD (2014b), Perspectives on Global Development 2014: Boosting Productivity to Meet the Middle-Income Challenge,

Road transport connectivity has improved but the pace is slow

Status of the ASEAN Highway Network

	Primary	Class I	Class II	Class III	Below Class III	Other	Total	Status
Country	km	km	km	km	km	km	km	Year
Cambodia	0	0	610.00	1 347.70	0	0	1 957.70	2013
Indonesia	409.00	603.00	3 045.00	0	0	34.00	4 091.00	2010
Lao PDR	0	0	244.00	2 307.00	306.00	0	2 857.00	2010
Malaysia	795.00	61.00	817.00	0	0.00	0	1 673.00	2010
Myanmar	0	320.26	574.74	1 702.08	1 927.91	0	4 524.99	2015
Philippines	0	379.92	2 310.36	691.07	0.00	0	3 381.35	2015
Singapore	13.00	6.00	0	0	0.00	0	19.00	2015
Thailand	616.80	4 122.84	598.40	202.09	0.00	0	5 540.13	2014
Viet Nam	0	343.00	1 829.00	337.00	76.00	0	2 585.00	2013

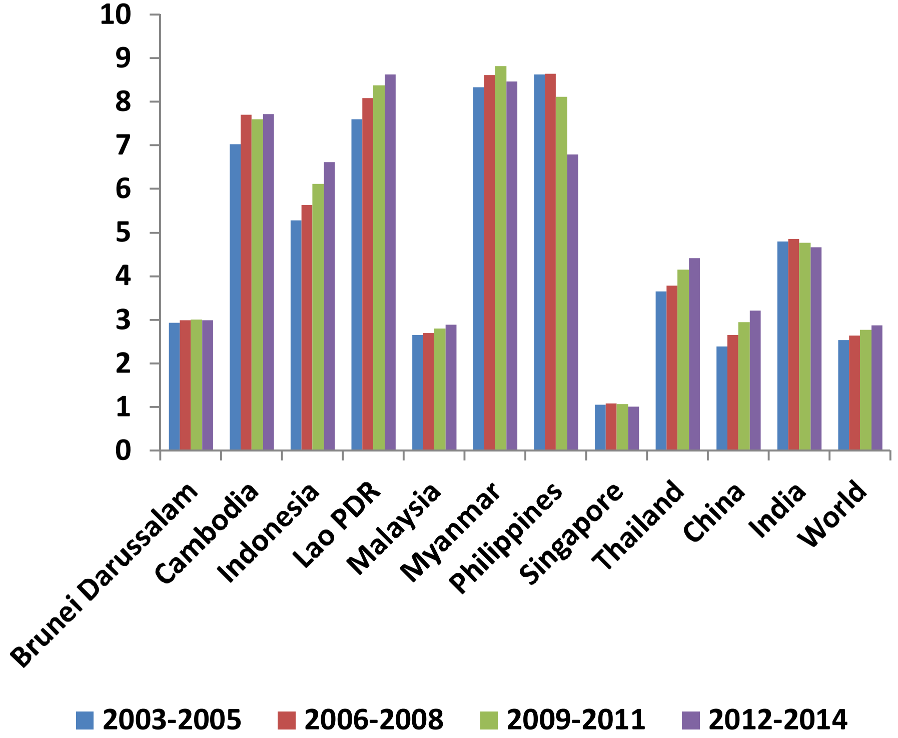
OECD dev DEVELOPMENT CENTRE

Source: ESCAP (2015), "Status of the Asia Highway in Member Countries", www.unescap.org/resources/statusasian-highway-member-countries.

Food security remains an important concern in the region

- **Regional frameworks for co-operation on food security, including the ASEAN +3 Emergency Rice Reserve, are helping to reduce risks in periods of crisis and improve food supply.**
- **More could be done to protect fisheries, forestry and wildlife**

Average Food Price Index in Emerging Asia



Note: The Food Price Index is calculated as the ratio of food and non-alcoholic beverage expenditure to actual individual consumption relative to the United States purchasing power parity terms.
Source: FAO (2015), Food Security Indicators, http://bit.ly/14FRxGV.

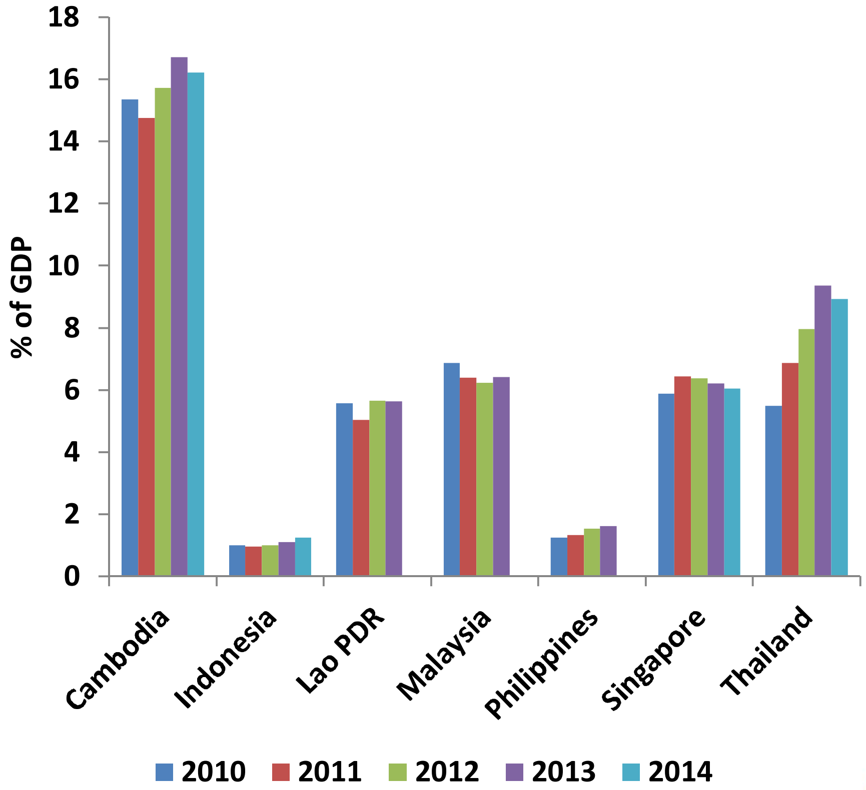
OECD DEVELOPMENT CENTRE

Co-operation is progressing on tourism

- Regional tourism promotion and agreements are helping to upgrade the tourism sector in ASEAN and facilitate travel.

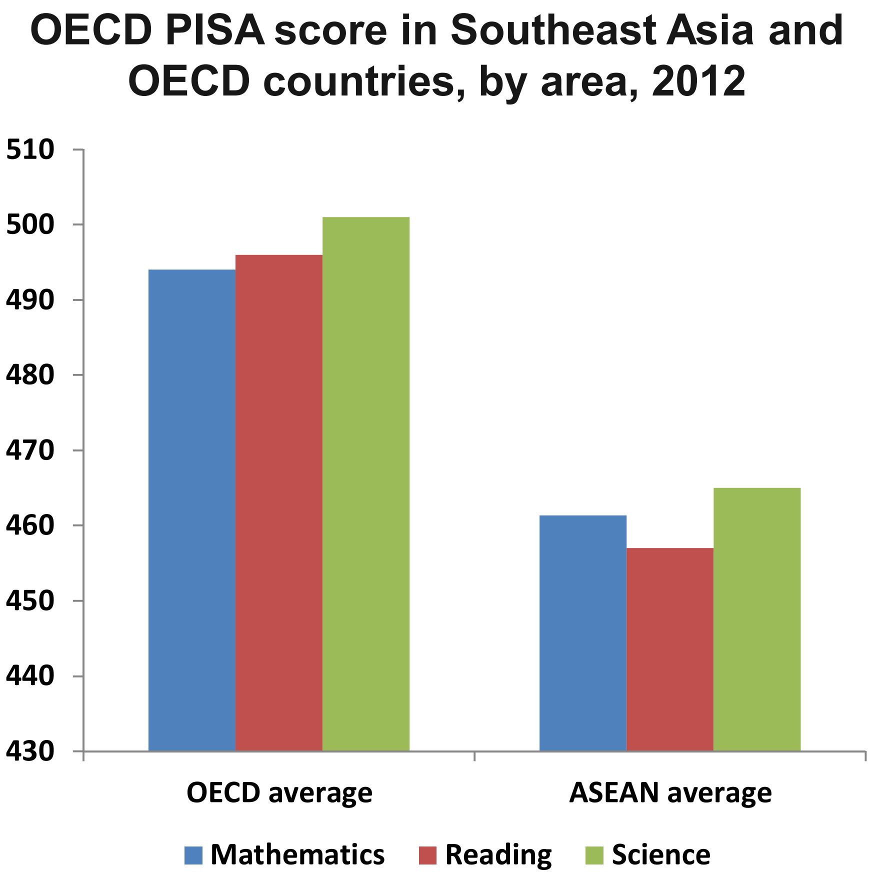
- **Ecotourism** is being developed in the region and remains promising.

Tourism revenues in selected ASEAN countries



Source: CEIC.

Quality of education needs to be addressed



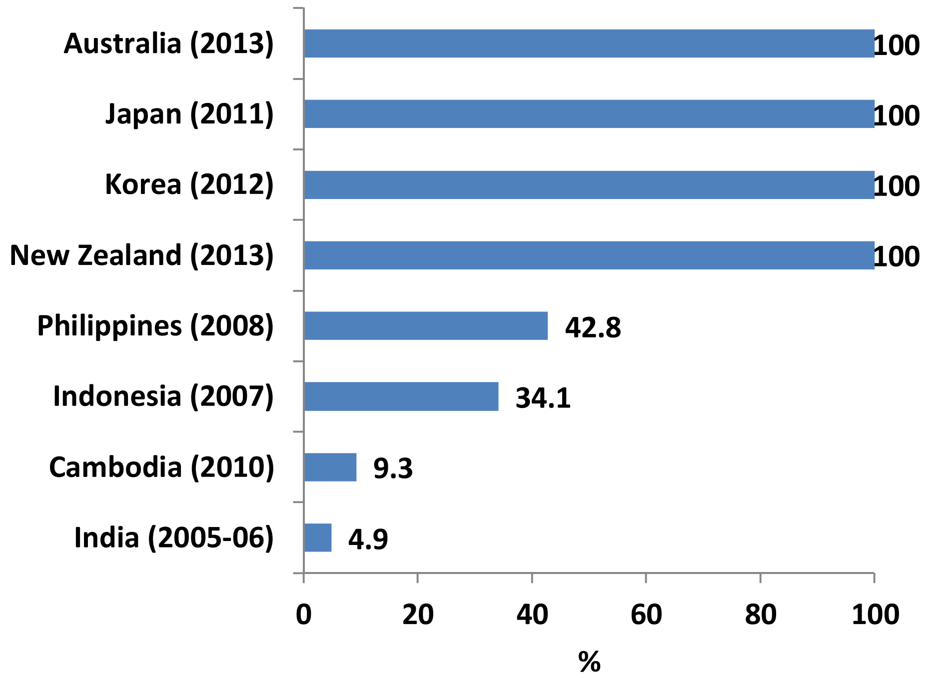
- **Regional initiatives are being pursued to integrate and harmonise education systems and promote collaborative research.**
- **"Quality of education" needs to be improved.**

Note: ASEAN average includes Indonesia, Malaysia, Singapore, Thailand and Viet Nam. The PISA scale was set
such that approximately two-thirds of students across OECD countries score between 400 and 600 points.
Source: OECD (2012a), PISA database, www.oecd.org/pisa/.

Social protection systems are underdeveloped in many countries

- **ASEAN+3 and +6 provide additional platforms for addressing regional concerns in education and poverty management.**
- **Shared plans for responding to public health issues and natural disasters have been developed.**

Health-care insurance coverage in selected Asia-Pacific countries, latest year available



Sources: OECD/WHO (2014) Health at a Glance: Asia/Pacific 2014: Measuring Progress towards Universal Health Coverage, http://dx.doi.org/10.1787/health_glance_ap-2014-en.

OECD DEVELOPMENT CENTRE

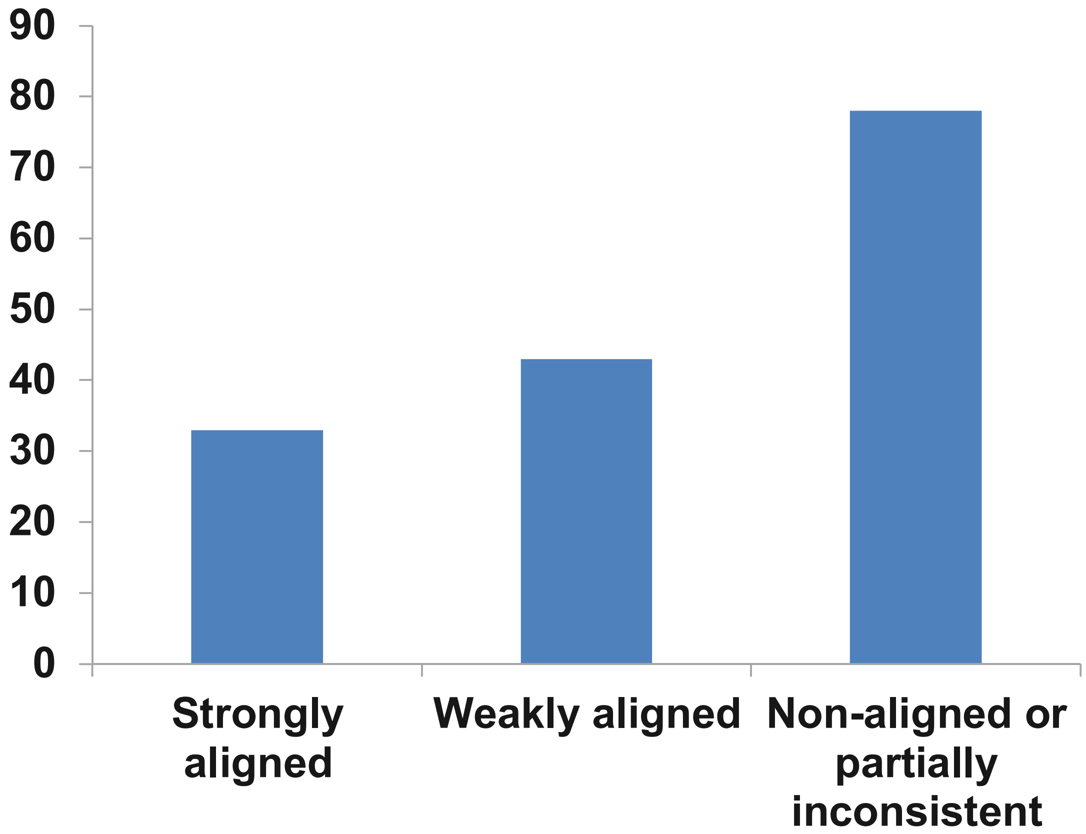
Other areas

- SME
- Competition and consumer protection
- Social development aspects
- Narrowing development gap, etc.

OECD DEVELOPMENT CENTRE

Key challenge 1: Improved co-ordination

Alignment of national and regional targets in ASEAN (Number of policy areas)



Source: OECD Development Centre.

- **Little overlap between AEC targets and national plans.**
- **The technical and country-specific expertise of national officials could be used to a greater extent.**

Table. Alignment of national plans and AEC targets

	Cambodia (2014-18)	Lao PDR (2011-15)	Myanmar (2012-15)	Indonesia (2015-19)	Malaysia (2016-20)	Philippines (2011-16)*	Thailand (2012-16)	Viet Nam (2011-15)
Free flow of goods	Overlapping targets	Overlapping targets	Overlapping targets		Potentially inconsistent	Similar coverage	Similar coverage	Potentially inconsistent
Free flow of services	Similar coverage	Similar coverage	Similar coverage			Similar coverage	Similar coverage	Similar coverage
Free flow of investment	Similar coverage	Similar coverage	Overlapping targets				Similar coverage	Similar coverage
Free flow of capital								
Free flow of skilled labour			Similar coverage				Overlapping targets	
Priority Integration Sectors	Overlapping targets	Overlapping targets	Overlapping targets	Overlapping targets	Similar coverage	Overlapping targets	Overlapping targets	
Food, agriculture and forestry	Overlapping targets	Overlapping targets	Overlapping targets	Similar coverage	Similar coverage	Overlapping targets; Potentially inconsistent	Overlapping targets	Overlapping targets
Competition policy		Similar coverage	Similar coverage					Similar coverage
Consumer protection			Similar coverage					
Intellectual property rights							Similar coverage	
Transport	Overlapping targets	Overlapping targets	Similar coverage	Similar coverage	Similar coverage	Similar coverage	Overlapping targets	Similar coverage
Energy	Similar coverage	Overlapping targets	Similar coverage	Overlapping targets	Similar coverage	Similar coverage; Potentially inconsistent	Overlapping targets	Similar coverage
Mineral	Similar coverage	Similar coverage	Overlapping targets					
ICT	Overlapping targets	Similar coverage	Similar coverage		Similar coverage	Similar coverage		
Taxation	Similar coverage	Similar coverage	Similar coverage			Similar coverage		Similar coverage
E-commerce								
SME development	Overlapping targets	Overlapping targets	Overlapping targets		Overlapping targets		Overlapping targets	
Initiative for ASEAN Integration		Overlapping targets						

Key challenge 2: Improved monitoring

Examples of ASEAN regional integration indicators

ASEAN Economic Community Scorecard	• Uses self-reported results • Not regularly updated (for public)
ASEAN Community Progress Monitoring System (ACPMS)	• Detailed data not available • Not updated

- More detailed, transparent and regularly updated monitoring indicators will be needed in the region
- Existing indicators are a start, but of limited use

OECD dev
DEVELOPMENT CENTRE

Key message 3: Tackling regional disparities and "Global ASEAN"

- **The Initiative for ASEAN Integration (IAI) was launched in 2000 to narrow the development gaps, guided by IAI Work plan II (2009-15).**

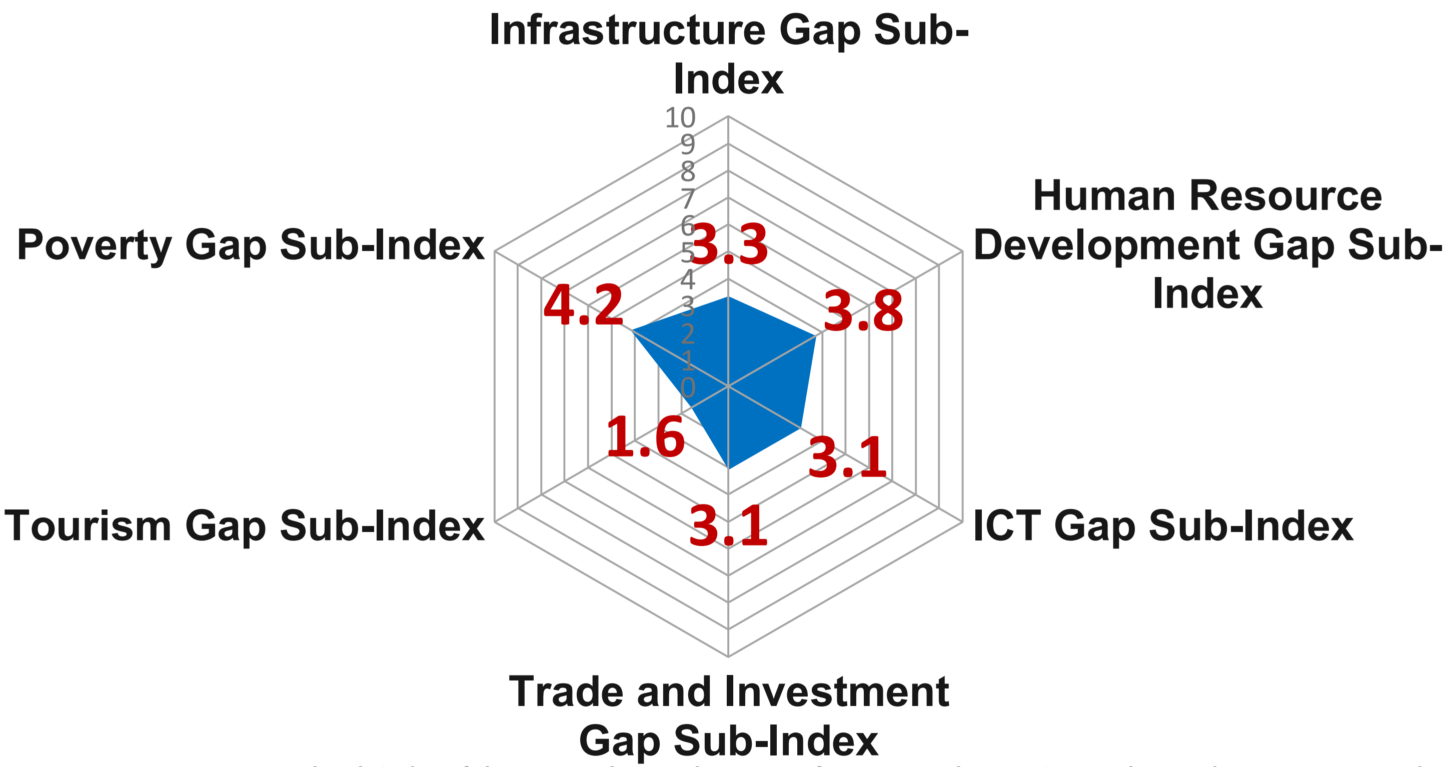
- **Overall, the progress and level of implementation is very low – issues of planning and finance.**

- **"Global ASEAN" - ASEAN+3 and ASEAN+6 framework**

OECD DEVELOPMENT CENTRE

While development gaps have narrowed slowly, they remain

Narrowing Development Gap Indicators (NDGIs): Disparities between CLMV and ASEAN-6, 2012



Note: Each sub-index of the NDGI, whose value ranges from 0 to 10 base points – where 0 denotes no gap and 10 the widest gap – is built from multiple variables within six key policy areas shown above.

Source: OECD Development Centre, Economic Outlook for Southeast Asia, China and India 2014

Key challenge 4: Greater attention to green growth

For example, hydropower and geothermal resources are relatively well exploited but other sources are almost untouched in the region

Renewable electricity generation in ASEAN-6 countries (TWh) in 2013

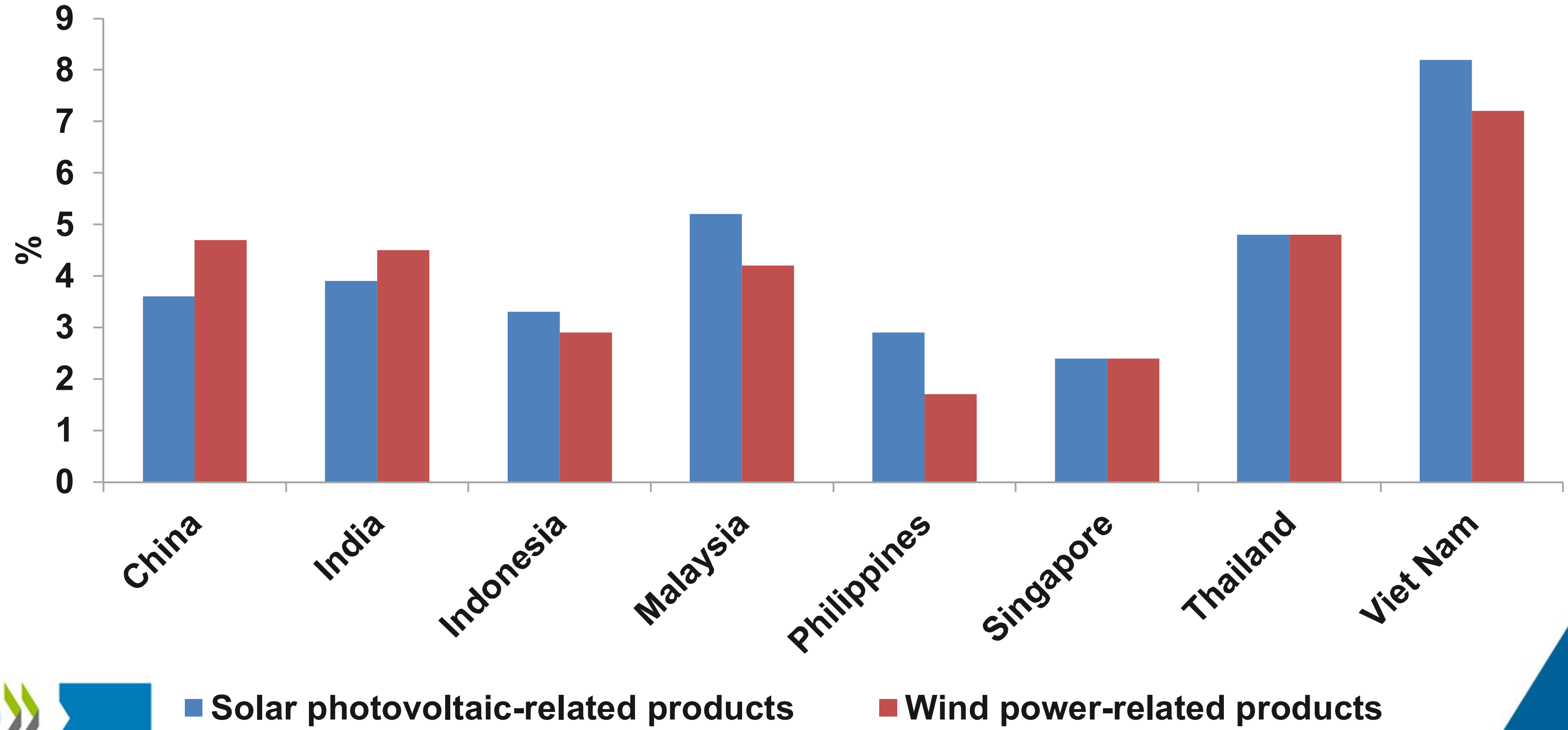
Type of renewable	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam
Hydropower	16.9	10.6	10.0	-	5.7	57.1
Geothermal	9.4	-	9.6	-	0.0	-
Solar	0.0	0.1	0.0	0.0	1.1	-
Wind	0.0	-	0.1	-	0.3	0.1
Biogas/biomass/waste	0.3	1.1	0.2	1.4	7.0	0.1
Total generation from renewables	26.6	11.9	19.9	1.4	14.1	57.3

Source: IEA.

Regional integration can play a key role in promoting renewable energy

Total impact of regional integration/cooperation on exports of renewable energy products in ASEAN-6, China and India

Percentage change from the scenario with no regional integration or cooperation



Source: OECD Development Centre estimate based on Moinuddin and Bhattacharya (2013)

Key challenge 5: Expanding private sector cross-border opportunities

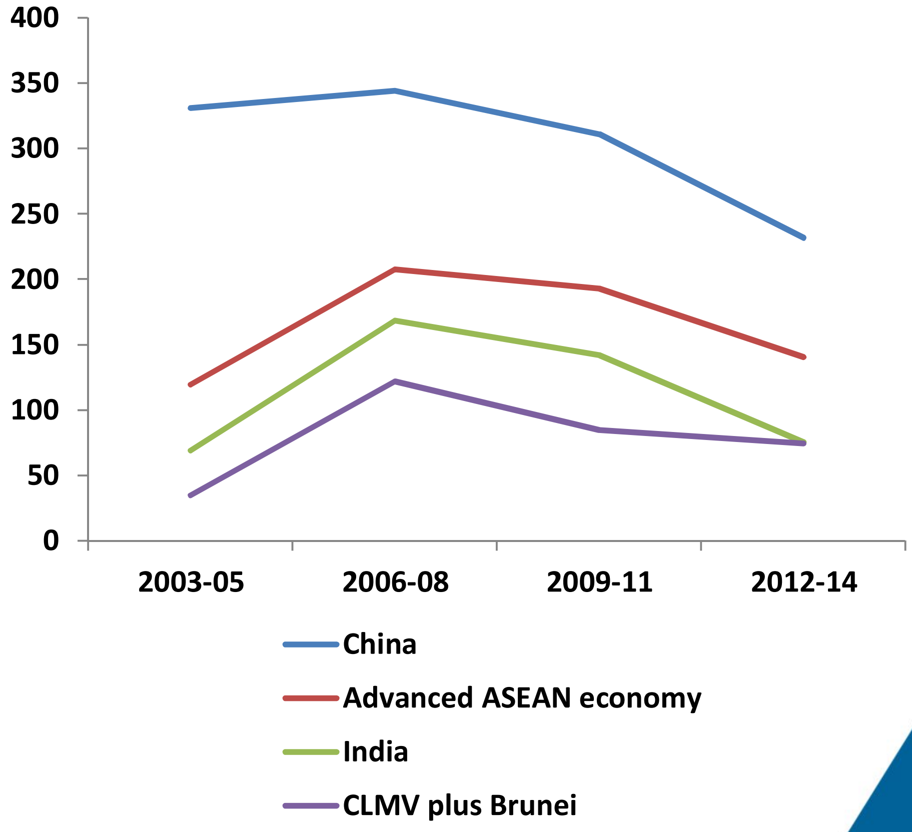
Largest intra-ASEAN M&A investments in manufacturing, 2004-13

	Year	Home country	Host country	Industry	Acquirer	Target
1	2012	Thailand	Singapore	Food and beverage	Thai Beverage PCL	Fraser & Neave Ltd
2	2007	Singapore	Malaysia	Food and beverage	Wilmar International Ltd	PPB Oil Palms Bhd
3	2013	Singapore	Indonesia	Automobiles and components	Gallant Venture Ltd	Indomobil Sukses Internasional
4	2012	Thailand	Singapore	Metals and mining	PTT Mining Ltd	Sakari Resources Ltd
5	2013	Singapore	Indonesia	Automobiles and components	Gallant Venture Ltd	Indomobil Sukses Internasional
6	2007	Singapore	Indonesia	Paper and forest products	Investor Group	LonSum
7	2011	Thailand	Indonesia	Chemicals	SCG Chemicals Co Ltd	Chandra Asri Petrochemical
8	2007	Singapore	Malaysia	Food and beverage	Wilmar International Ltd	PGEO Group Sdn Bhd
9	2012	Singapore	Malaysia	Chemicals	Reliance Global Holdings Pte	BP Chemicals(Malaysia)Sdn Bhd
10	2010	Thailand	Malaysia	Containers and packaging	Investor Group	Malaya Glass Products Sdn Bhd

- **Firms are engaging with the rest of the region, though these activities will need to be diversified beyond a limited range of countries and sectors**
- **Greater regionalisation and internationalisation will be needed to develop *ASEAN enterprises***

Recent trends of FDI and greenfield investment

- FDI inflows to the region increased over the last decade.
- While FDI flows are increasing, green field investment declines in the region



Note: Advanced ASEAN economy includes Indonesia, Malaysia, Philippines, Singapore and Thailand. CLMV countries are Cambodia, Lao PDR, Myanmar and Viet Nam.
Source: Authors' calculations based on the dataset of the fDi Markets (2015), www.fdimarkets.com/.

OECD DEVELOPMENT CENTRE