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ASEAN Prosperity Initiative

ASEAN Integration Report 2020

To Compete or Co-operate?:
A Call for ASEAN Convergence in Policy in the
Wake of COVID-19



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Foreword

Southeast Asia, like the rest of the world, was hit by the COVID-19 pandemic in 2020 that has resulted in one of the most uncertain periods in our contemporary history, where countries have had to grapple with the triple economic, social and public health concerns. The global economy has proven to be ill-equipped in dealing with the current pandemic. Rather, the blind spots of global governance have been laid bare, creating unprecedented challenges in the region and beyond. In these times of uncertainty, it is important to resist relying on old orthodoxies but to find new innovative solutions to these challenges. In a Southeast Asian context, the decades since the founding of ASEAN have seen numerous attempts to address challenges facing the region. The pandemic has and will continue to test these efforts as ASEAN cooperation becomes increasingly important towards the road to recovery.

This report therefore very aptly covers broad policy areas written by several authors with differing specialties, a culmination of our work over the last year within the ASEAN Prosperity Initiative (API) as led by IDEAS. One unsurprising but ever-relevant conclusion from the report is that collaboration rather than competition is crucial in the COVID-19 recovery strategies ranging from travel, global supply chains, aviation, digitalization and migration. It builds upon the previous efforts in trying to face challenges in the region by engaging and improving with these efforts. The foundations of ASEAN regional integration have already been set by recent efforts such as the launch of the ASEAN Economic Community (AEC) in 2015 and the AEC Blueprint 2025. The chapters in this final report build on these existing foundations to find optimal policy solutions to our current unprecedented problems.

The ASEAN Prosperity Initiative is also in itself a product of collaboration. IDEAS has been involved in this project with the goal of bringing together stakeholders from multiple platforms including the private sector, public sector, academics and civil society organisations in order to draw from their unique perspectives. Each one of the chapters in this report represents those unique perspectives that make up a small part of a larger whole. In the spirit of collaboration and multi-stakeholder relationship building, we are excited to bring you this report as part of our ongoing work on ASEAN – which itself is a representation of collaboration – and we look forward to deepening our research and activities within the region in the coming years.

Tricia Yeoh
CEO of IDEAS

Introduction

This report incorporates the research from the ASEAN Prosperity Initiative conducted in 2020. The theme for the research is to explore if there is a convergence or divergence in policy orientations in response to the COVID-19 pandemic by ASEAN member states (AMS) and to discuss the implications on the region's integration efforts. The findings of this final report suggest that in contrast to the policies adopted by AMS, further regional integration and cooperation is essential in order to recover from COVID-19 pandemic. Our 5 chapters will cover different areas of policies that reflect this need for regional cooperation namely: (1) ASEAN recovery outlook 2021 (2) global and regional value chains, (3) ASEAN open skies policy, (4) digitalization in the logistics sector and (5) migration.

The first chapter covers the regional outlook from the COVID-19 pandemic and how regional cooperation can supplement national efforts in recovering from the pandemic. Chapter 2 covers the restructuring of global value chains and how it will particularly effect ASEAN as a region and thus emphasising how the initial response will affect the structure of these global value chains in the foreseeable future. Chapter 3 deals with the 'existential crisis' being faced by the aviation sector in ASEAN regionally and the current weaknesses to its response. The conventional national rather than regional response will prove to be largely ineffective in this crisis. Chapter 4 argues for higher digital integration in the logistics sector in view of a need for efficiency in the recovery phase of the region from COVID-19. Emerging digitalisation efforts could be accelerated with regional collaboration that efficiently uses the expertise of each AMS. Chapter 5 discusses intra-ASEAN migration in which the acceleration of an artificial supply of labour has led to its vulnerability during the COVID-19 pandemic. Rather than exacerbate labour conditions, this chapter will show how policy should instead pursue a pro-labour approach in order to maximise the welfare of the region through regional cooperation.

Chapter I:

ASEAN Recovery Outlook 2021: Cooperation to Reopen Borders

Jayant Menon

I. Introduction

As we approach the first anniversary of the COVID-19 pandemic, we remind ourselves that it is first and foremost a human tragedy. As of mid-November, 2020, about 54 million infections and 1.32 million deaths have been reported worldwide (Table 1). Infections are currently increasing at about six hundred thousand daily, and deaths at ten thousand. Due to limited testing, the World Health Organisation (WHO) recently suggested that the true infection rate could be closer to 1 in 10 people worldwide, which suggests that actual infections could be 15 times higher than the reported numbers. In ASEAN, there are about 1 million infections and 25 thousand deaths. There is great variation in both infection and mortality rates, and response measures across ASEAN. Indonesia and the Philippines have the highest number of reported infections and deaths from the virus, and continue to struggle to contain community transmission. Myanmar and Malaysia have been hit with new waves of infection that have required reintroduction of containment measures.

Table 1: COVID-19 Indicators in ASEAN and the World, as of 15 November 2020.

Countries	Total Cases (TC)	TC Per Mil Population	Total Deaths (TD)	TD Per Mil Population	Total Tests (TT)	TT Per Mil Population	Total Population
Brunei	148	337	3	3	72,550	165,248	439,037
Cambodia	302	18	0	0	208,154	12,387	16,804,609
Indonesia	467,113	1,701	15,211	55	5,055,488	18,410	274,598,140
Laos	24	3	0	0	71,020	9,709	7,314,608
Malaysia	47,417	1,458	309	10	2,401,043	73,834	32,519,671
Myanmar	68,994	1,265	1,577	29	897,352	16,451	54,545,885
Philippines	407,838	3,704	7,832	71	5,268,410	47,842	110,121,256
Singapore	58,119	9,905	28	5	4,066,897	693,124	5,867,486
Thailand	3,874	55	60	1	977,854	13,996	69,865,614
Vietnam	1,281	13	35	<0	1,339,465	13,715	97,664,518
ASEAN	1,055,110	1,575	25,055	37	20,358,233	30,397	669,740,824
World	54,481,609	6,989	1,320,622	169.4	-	-	-

Source: Worldometer (2020).

The measures introduced to deal with the pandemic could save lives but are having wide-ranging economic effects and inducing economic contagion. In their most recent projections, IMF (2020) has world output contracting by 4.4 percent this year, and growth in most ASEAN countries being negative (see Table 1). The Philippines is expected to be the worst hit, contracting by 8.3 percent, followed by Thailand at 7.1 percent, and then Singapore and Malaysia, both expected to contract by 6 percent. Indonesia is only expected to contract by 1.5 percent because it did not institute a general lockdown. Of the countries that implemented a general lockdown, Vietnam was the first to lift curbs, and the IMF projects that the economy will grow by 1.6 percent this year.

Like the IMF, the ADB has also had to revise its forecasts three times this year, reflecting the uncertainty underlying both the evolution of the pandemic and how governments are responding to it. The ADB is generally less pessimistic than the IMF in its forecasts for growth in 2020 (Table 2). Both IMF (2020) and ADB (2020) expect that the ASEAN economy will contract by about 4 percent this year, but will rebound strongly in 2021 with a growth of around 6 percent. These projections imply a V-shaped recovery for most countries.

Table 2: IMF and ADB Forecasts of GDP Growth for ASEAN, 2020 and 2021.

	Actual	IMF Oct 2020		ADB Sept 2020	
		Forecast		Forecast	
	2019	2020	2021	2020	2021
Brunei	3.9	0.1	3.2	1.4	5.0
Cambodia	7.1	-2.8	6.8	-4.0	5.9
Indonesia	5.0	-1.5	6.1	-1.0	5.3
Lao PDR	5.0	0.2	4.8	-2.5	4.5
Malaysia	4.3	-6.0	7.8	-5.0	6.5
Myanmar	6.8	2.0	5.7	1.8	6.0
Philippines	5.9	-8.3	7.4	-7.3	6.5
Singapore	0.7	-6.0	5.0	-6.2	4.5
Thailand	2.4	-7.1	4.0	-8.0	4.5
Vietnam	7.0	1.6	6.7	1.8	6.3
ASEAN (a)	4.4	-3.4	6.2	-3.8	5.5

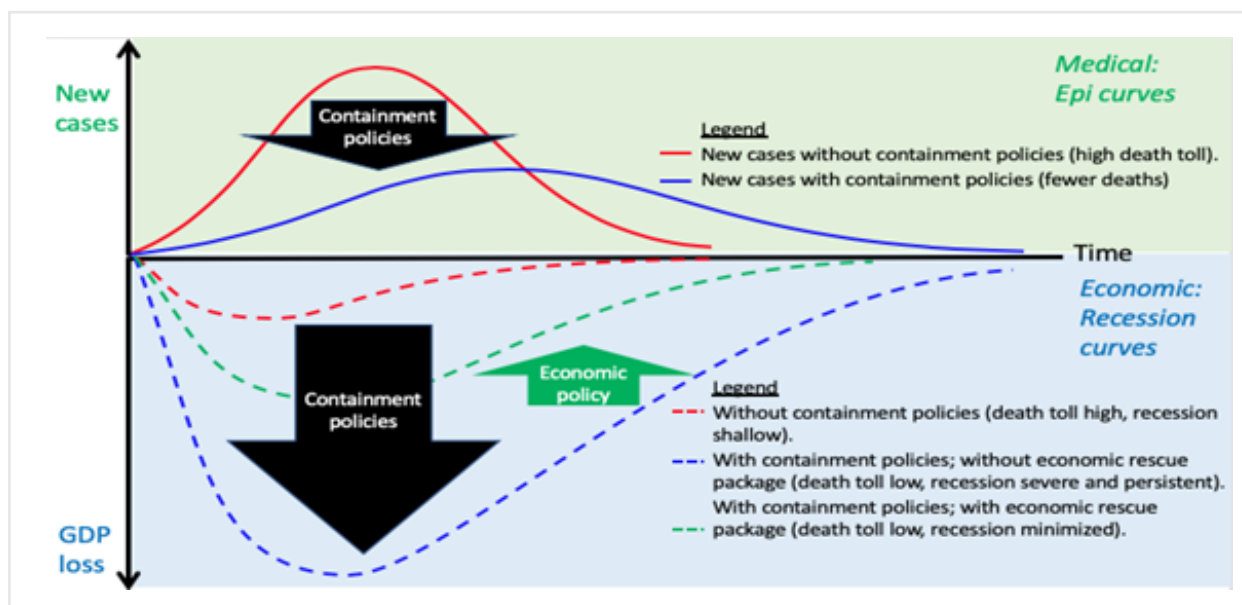
Notes: (a) The IMF definition of ASEAN reported here includes Indonesia, Malaysia, Philippines, Thailand and Vietnam, whereas the ADB definition includes all 10 members plus Timor-Leste.

Sources: IMF (2020); ADB (2020).

These forecasts take into account the stimulus measures that governments have introduced to mitigate the economic impacts of the pandemic and measures introduced to contain its spread. The difference between the gross and net effects of the pandemic are depicted in Figure 1, and depends on the type and size of stimulus measures used. The size of the stimulus varies greatly across countries, and tends to be highest in the richer countries, as Figure 2 demonstrates (see also Lee et al., 2020). In Singapore and Malaysia, it amounts to around a quarter of GDP, while it is almost non-existent in poorer countries like Laos and Myanmar. When these amounts are normalised for population size (Figure 3), the cross-country differences are more pronounced, with Singapore clearly standing out at almost UD\$9000 per capita. Brunei comes in second at around US\$700, while the difference between Malaysia and Thailand narrows significantly, with both now around US\$650.

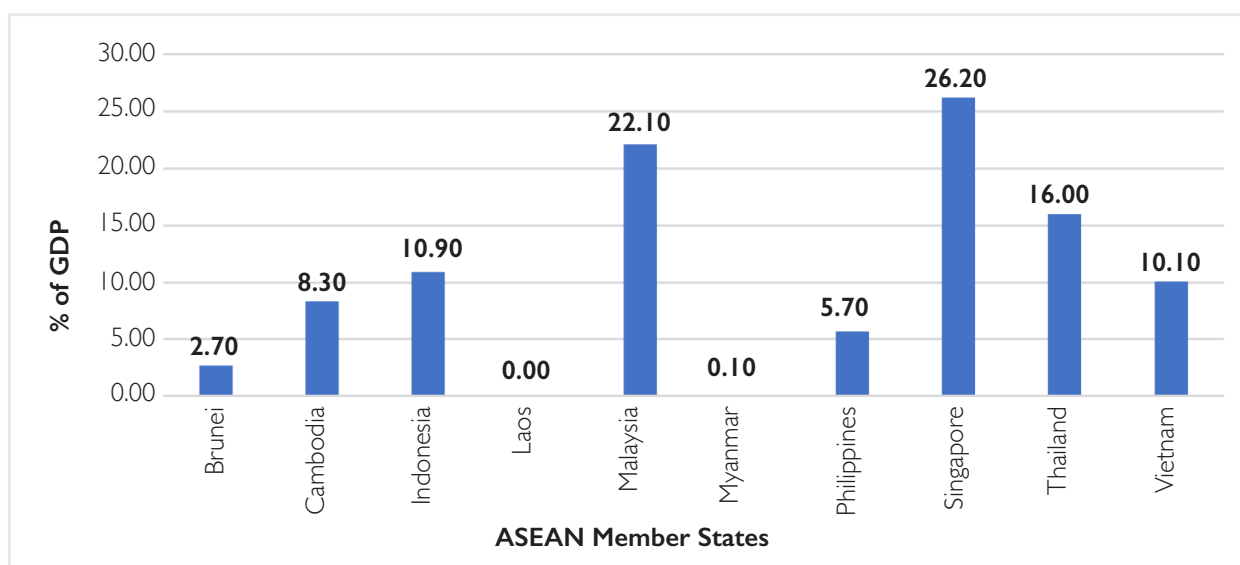
Apart from the forecasts, actual GDP growth figures are available for the first three quarters of 2020 for the original five ASEAN member countries, Brunei and Vietnam (Figure 4). These numbers allow us to map the trajectory of intra-year economic performance, and to assess whether countries have bottomed-out in terms of the fall in their GDP. The current expectation is that most countries may have turned the corner after the second quarter of 2020 and have started their recovery in the third quarter.

Figure 1. COVID-19 Infection and Recession Curves: Impact of Containment and Stimulus Policies.



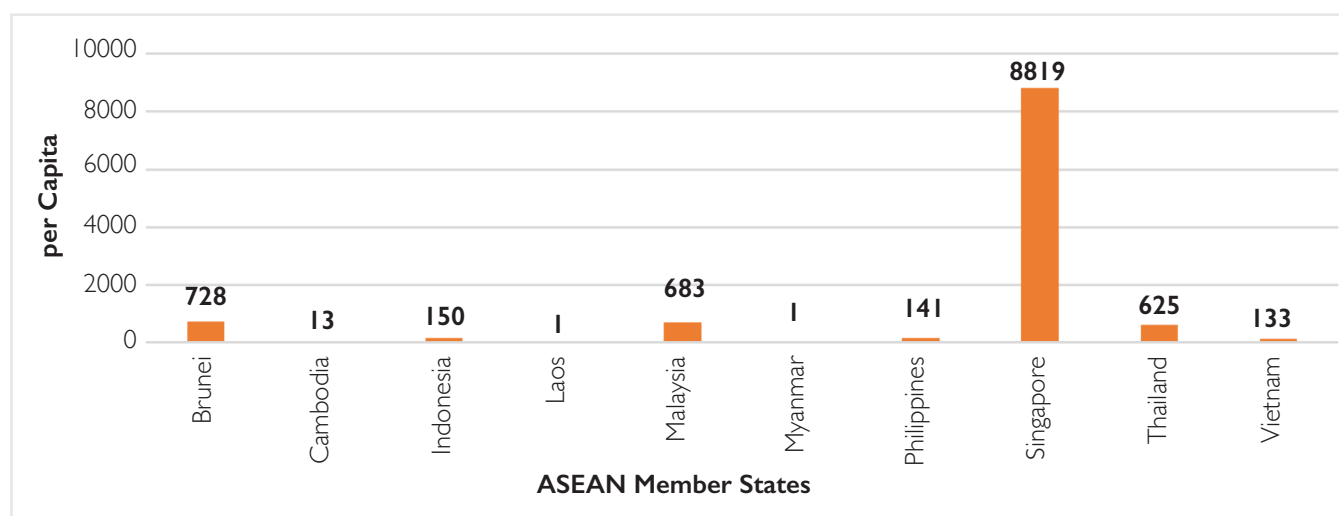
Source: Baldwin (2020).

Figure 2. Size of Stimulus Programs in ASEAN (percentage of GDP)



Source: Lee et al. (2020).

Figure 3. Size of Economic Stimulus Programmes – Per Capita

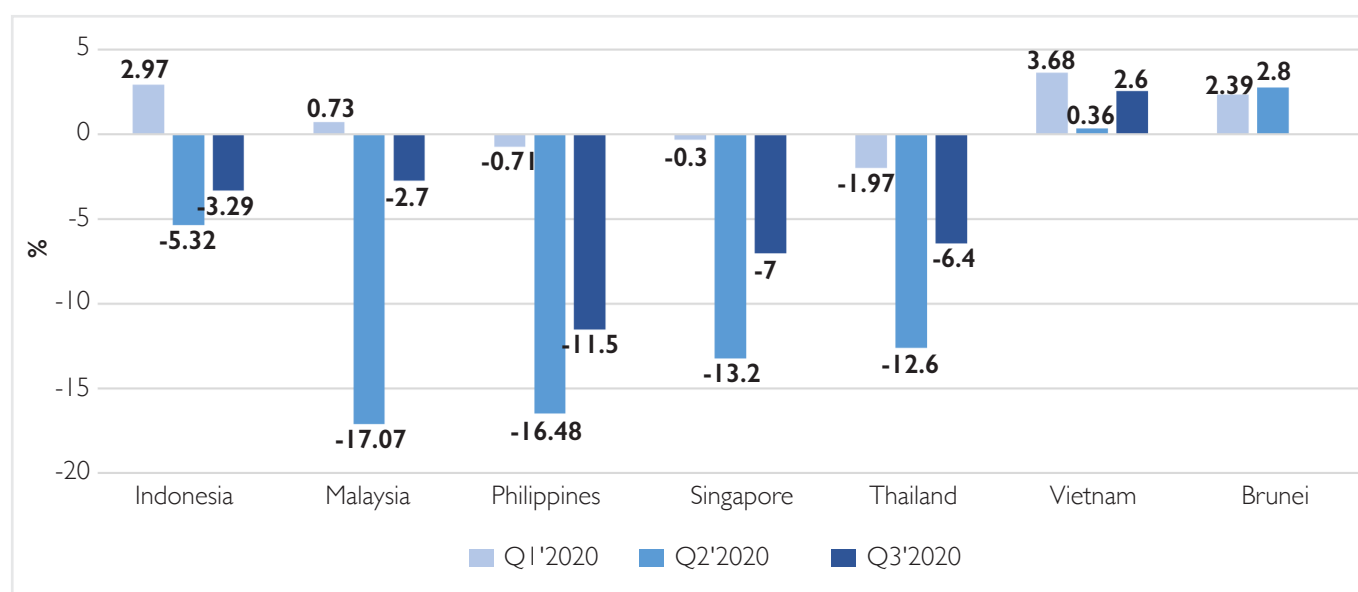


Source: Lee et al. (2020).

2. Tracing the trajectory of recovery

Economic growth for most of the ASEAN countries appears to have bottomed out during the second quarter of 2020, and recovery appears to be underway in the third quarter. This is true for both the countries that could not avoid a technical recession (the original ASEAN five members) or with forecast negative annual growth (Cambodia) or the ones with positive quarterly growth so far (Brunei and Vietnam) or forecast positive annual growth (Laos and Myanmar). More high frequency data such as trade flows, which are available on a monthly basis, suggest that the bottom may have been reached in or around May 2020 for most countries (see ADB, 2020).

Figure 4. Quarterly Real GDP Growth, ASEAN-5, Vietnam, Brunei (% , year on year), 2020



Source: National statistical bureaus and agencies of respective ASEAN countries.

For countries that have controlled local transmission of the virus, a V-shaped recovery with the trough bottoming out in the second quarter with a strong rebound after, currently appears to be the most likely outcome. For countries still struggling to contain community spread, the shape of any recovery is more difficult to predict, as it depends on how long the containment measures are in place. The possibility of a delayed or W-shaped recovery is gaining in likelihood the longer the reintroduced containment measures are in place.

In the remainder of this section, we try to map the trajectory of growth during the year and assess the outlook going forward for each ASEAN country. We begin with the countries that could not avoid a recession, and then consider those that have.

2.1 Recovery from recession

Given the huge size of its stimulus, combined with relaxation of social distancing measures after controlling community transmission, Singapore reported a slower year-on-year decline of 7 percent in the third quarter, compared to the 13.3 percent decline in the previous quarter. This corresponds to a 7.9 percent quarter-on-quarter increase in seasonally adjusted terms. Singapore is also leading the way in relaxing border restrictions and is aggressively pursuing travel bubbles with countries within and beyond the region (see Section 3).

Indonesia is the least badly affected of all the countries that have gone through a recession this year. The economy contracted by 3.49 percent in the third quarter, even lower than its second quarter contraction of 5.32 percent, which was the lowest among the original five ASEAN members. This is despite the tightening of some social distancing measures to try to control ongoing community transmission, but still staying clear of a general lockdown. This latest number further consolidates its position as the least economically affected of the original five ASEAN members. Nevertheless, the recovery remains fragile for as long as controlling community transmission remains a problem.

After reporting positive year on year growth of 0.73 percent in the first quarter, Malaysia's second quarter contraction of 17.07 percent was the highest amongst the ASEAN countries. The third quarter contraction was much lower at 2.7 percent, however, following strong quarter-on-quarter growth of 18.2 percent. This strong rebound from the depths of the second quarter contraction suggests that Malaysia was recovering strongly, although the reintroduction of containment measures following a new wave of infections may dampen, but not overturn, the recovery. But a lot will depend on how long the containment measures remain in place to control the new wave of infections, and whether rising political uncertainty can be resolved expeditiously.

There are no quarterly estimates of GDP available for Cambodia (or Laos and Myanmar) to assist in mapping the pattern of growth during the year. The IMF expects that Cambodia's GDP will contract by 2.8 percent this year, while the ADB expects an even larger contraction of 4 percent. Both expect the economy to rebound strongly next year, with the IMF projecting 6.8 percent growth, the third highest in ASEAN.

Thailand's year-on-year contraction of 1.97 percent in the first quarter was the largest in ASEAN, and this contraction continued in the second quarter with a 12.16 drop. Third quarter growth fell by 6.4 percent, much lower than market expectations, suggesting that Thailand is also on a recovery path. Thailand is the most heavily reliant on travel and tourism in ASEAN, and as long as borders remain closed, its recovery is likely to be weaker than it needs to be (see Menon, 2020a). Thailand is also dealing with social unrest that may affect political stability, which would further dampen confidence and therefore investment.

The Philippines contracted by 11.5 percent in the third quarter, lower than the 16.9 percent contraction in the second quarter, as a result of 8 percent quarter-on-quarter growth. Although the decline may have bottomed out in the second quarter, the contraction in double-digits was higher than market expectations. Continuing difficulties with managing the pandemic, including problems with expanding testing (see Menon, 2020b) suggests that the recovery may be drawn-out and fragile.

2.2 Recovery from slowdown

Vietnam has not only avoided a recession, but it has not experienced a single quarter of negative growth so far this year. While the second quarter saw year-on-year growth slow from 3.68 percent in the first quarter to 0.39 percent, third quarter growth rebounded strongly to reach 2.6 percent, indicating that it may surpass the IMF's annual growth forecast of 1.6 percent. Apart from having controlled a second wave of infections successfully, Vietnam's positive growth is aided by significant inflows of foreign direct investment as a result of restructuring of global supply chains following the US-China trade war.

Like Vietnam, Brunei has avoided negative growth so far, after posting year-on-year growth of 2.4 percent in the first quarter, and 2.8 percent in the second. Although third quarter estimates have yet to be released, the government expects that growth should remain positive and may even have increased. If this transpires, then the IMF forecast of 0.1 percent growth for 2020 may be too pessimistic, and the ADB forecast of 1.4 percent or the ASEAN+3 Macroeconomic Research Office (AMRO, 2020) projection of 1.6 percent may be closer to the mark.

Laos and Myanmar do not report quarterly GDP estimates, and therefore tracking the trajectory of recovery is made more difficult, but both countries are expected to avoid a recession this year based on annual forecasts.

The IMF expects Myanmar to be the fastest growing economy in ASEAN this year, with 2 percent growth. This forecast may not fully reflect the new wave of infections that Myanmar is currently struggling to control, however. Nevertheless, the available data suggests that on average, Myanmar has been the least negatively affected and so the prospects for growth going forward remain favourable, assuming it can overcome the current surge in infections expeditiously.

Laos is expected to post positive growth of 0.2 percent this year, according to the IMF's latest projections. The ADB, however, is projecting a contraction of 2.5 percent. Its debt position, made more precarious by the pandemic, raising concerns over the resilience of its recovery, going forward.

3. ASEAN's role in the recovery: Multilateralising bilateral travel bubbles

Although the primary response to the pandemic will occur at the national level, a regional response from ASEAN can play a complementary role. Since a global effort in responding to a global pandemic has been wanting, a regional response is more important than ever to complement national actions. Furthermore, while variation in infection rates across countries underscores the primacy of national responses, it also increases the potential benefits from regional coordination.

Like the global response, ASEAN's response so far has been also been rather limited. Having missed the opportunity to coordinate responses to containing the virus, or stimulus packages being implemented to mitigate its economic impacts, it can still play an important role in the recovery process.

Going forward, ASEAN could help coordinate the gradual opening of borders. This is an area highlighted at the recent ASEAN Summit, conducted this year via hologram.

When the pandemic first broke out, ASEAN countries rushed to close their borders to international travel before introducing domestic restrictions. This made sense during the early phase of the pandemic because they were trying to insulate themselves from a rapidly spreading virus. Since then, countries that have controlled community transmission have eased domestic restrictions at a faster rate than international ones. Even in countries that continue to struggle to contain community spread, restrictions on domestic movements are nowhere near as stringent as those on international movements. This policy asymmetry in the treatment of national and international movement is no longer justifiable, and narrowing it could deliver economic benefits without significantly raising health risks.

As noted earlier, Singapore has been pursuing travel bubbles which involve testing but not quarantine for non-essential travel with countries that have managed to control local transmission of the virus. The travel bubbles are being pursued bilaterally, but there may be room to expand them to other countries within ASEAN with similar rates of infection through the adoption of a common set of protocols. For instance, once details relating to the Singapore-Vietnam travel bubble are finalised, the arrangement could be multilateralised to include other countries with similar or lower infection rates, such as Brunei, Cambodia, Laos and Thailand. A bigger travel bubble, or a travel balloon, involving these six ASEAN countries could magnify the economic benefits without significantly raising health risks. ASEAN could play a coordinating role and assist in monitoring its implementation; for instance, ASEAN could certify that the testing procedures meet a minimum set of standards so that participating countries feel comfortable in recognising them.

When fully implemented, the multilateralised travel bubble should provide for travel between all six ASEAN countries employing a common set of protocols. The protocols need to be harmonised in order to reap the maximum benefits and to preserve the integrity of the risk mitigation controls in place. Harmonisation should prevent distortions similar to trade deflection in a free trade agreement—where integrity of the system is compromised through entry via the country with the least stringent set of controls or requirements.

Protocols also need to be mutually recognised in all of the participating countries. For instance, any quarantine exemption or reduction in quarantine period should be mutually recognised across all six countries to avoid duplication and to encourage movement between them. It should also increase the amount of travel from countries outside the bubble, if the quarantine observed at the point of entry into the bubble is recognised by

others in the bubble. For example, a European tourist who has to undergo a two-week quarantine period in Thailand is more likely to also visit Cambodia, Laos or Vietnam if the quarantine does not have to be repeated in any of these countries.

An ASEAN-wide travel bubble is unlikely at this stage because of significant differences in infection rates. It is unlikely that countries that have controlled community transmission will recognise quarantine periods undertaken in countries that have not, as the likelihood of being exposed to the virus post-quarantine remains high. The ASEAN countries that have higher infection rates could, however, choose to recognise the quarantine observed within the 6-country travel bubble, even if reciprocity is denied to them. Even without reciprocity, these countries could still benefit economically because they could receive a larger number of travellers on a relatively safe basis through the one-way arrangement. This type of non-reciprocal arrangement currently operates between Australia and New Zealand, where Australia waives the quarantine requirement for travellers from New Zealand but not vice versa. While travellers from New Zealand benefit by avoiding the quarantine, the travel bubble removes travellers from Australia from its list of banned countries.

The conditions in existing and potential members of the bubble should be reviewed regularly. The agreement should include an open accession clause, which would allow new members to apply to join it if health conditions in the country change in a way that meets the health conditions specified in the agreement. Similarly, the agreement should enable the suspension or exclusion of existing members should health conditions deteriorate to an extent deemed unsafe for quarantine-free travel. ASEAN, as an independent body and honest broker, could be charged with monitoring the agreement and providing this kind of supervision and oversight.

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Chapter 2:

Post-COVID Supply Chain Reconfigurations: Convergence or Divergence in ASEAN Economic Integration?

Lau Zheng Zhou | Natasha Tan

I. Introduction

Global value chains (GVCs) have become the dominant system of production in the East and Southeast Asian region, for both goods and services alike. Countries involved in GVCs tend to be associated with greater rates of innovation, job creation and overall growth.¹

However, the COVID-19 pandemic has exposed a systemic risk within the complex web of GVCs.

The closure of factories in certain parts of the world has resulted in shortages of intermediate parts, along with suspensions of logistics systems, transport networks and in-person work from lockdown measures. The interconnectedness of supply chains has meant that these losses have cumulative effects on industries worldwide, resulting in a collapse in global production. Many firms, particularly those reliant on manufacturing supply chains, have incurred significant losses, some of which could be permanent.

Over the past decade, China has become the epicenter of GVCs, with Chinese factories assuming key production processes in industries including electricals, automotive, textiles and pharmaceuticals. As such, the initial outbreak of the virus in China disrupted many supply chains, severely affecting manufacturing output in regions including ASEAN. This has drawn attention to the systemic risk within the current configuration of GVCs, with many multinational corporations (MNCs) taking a more decisive stance on reducing reliance on the Chinese supply chain ecosystem. As a result, both international and Chinese firms are considering relocating away from China, diversifying their supply chains to protect against future shocks.³

This is not the first wave of relocations away from China. Previous stages were sparked by rising Chinese manufacturing wages and costs, followed by the US-China trade war. However, rather than being driven by cost-efficiency, this wave of relocations is motivated by the revelation of underlying systemic issues impacting the resilience of the value chain ecosystem. The effect of these relocations could be much larger, particularly for recipient countries, as many firms are seeking to complement their core China operations by establishing an alternative manufacturing hub – adopting the so-called China Plus One strategy.

Due to increased involvement in GVCs, particularly with extra-ASEAN trading partners, many ASEAN member states (AMS) have depended on a healthy global economy for growth.⁴ Yet global growth is projected to fall by 4.9% in 2020 alone, with global foreign direct investment (FDI) flows to developing Asia to plunge by up to 45%, presenting a grim economic recovery outlook for ASEAN.⁵ As such, the relocation of MNCs to ASEAN is a prospect for recovery and is expected to create jobs and boost global trade participation.

However, it is not clear that the gains from the relocation of MNCs will be distributed equally across all member states. Some AMS are expected to benefit more than others. This raises the concern of whether the relocations will spark intra-regional competition for scarce FDI, creating a divergence in trade and investment policies between individual member states – hampering the region's economic integration efforts.

¹ According to estimates by the World Bank, a 1% increase in GVC participation will raise income per capita by more than 1% (World Development Report 2020).

² OECD (2020), *COVID-19 and Global Value Chains: Policy Options to Build More Resilient Production Networks*.

³ According to a survey by Gartner, 33% of supply chain leaders have or are planning to move out of China by 2023.

⁴ See PwC (2018), *The Future of ASEAN – Time to Act*.

⁵ See IMF World Economic Outlook Update, June 2020 and UNCTAD World Investment Report 2020: *International Production Beyond the Pandemic*

Box 1: Why relocate to ASEAN?

The ASEAN regional appears to be an attractive relocation destination for five main reasons:

1. **Low manufacturing wages** in most AMS provide an advantage in terms of labour cost competitiveness;
2. ASEAN's relative **geographic proximity to China**, where many supply chain processes will still remain;
3. **Strong trading ties between ASEAN and China**, with ASEAN emerging as China's largest trading partner;
4. ASEAN's commitment towards establishing a **single market and production base**, providing greater market access to MNCs;
5. The **Regional Comprehensive Economic Partnership (RCEP)**, a free trade agreement between ASEAN and Australia, China, Japan, New Zealand and South Korea, is expected to be signed in late 2020, and will account for approximately 40% of world trade – the world's largest trade agreement.



2. Which of the ASEAN member states stand to gain?

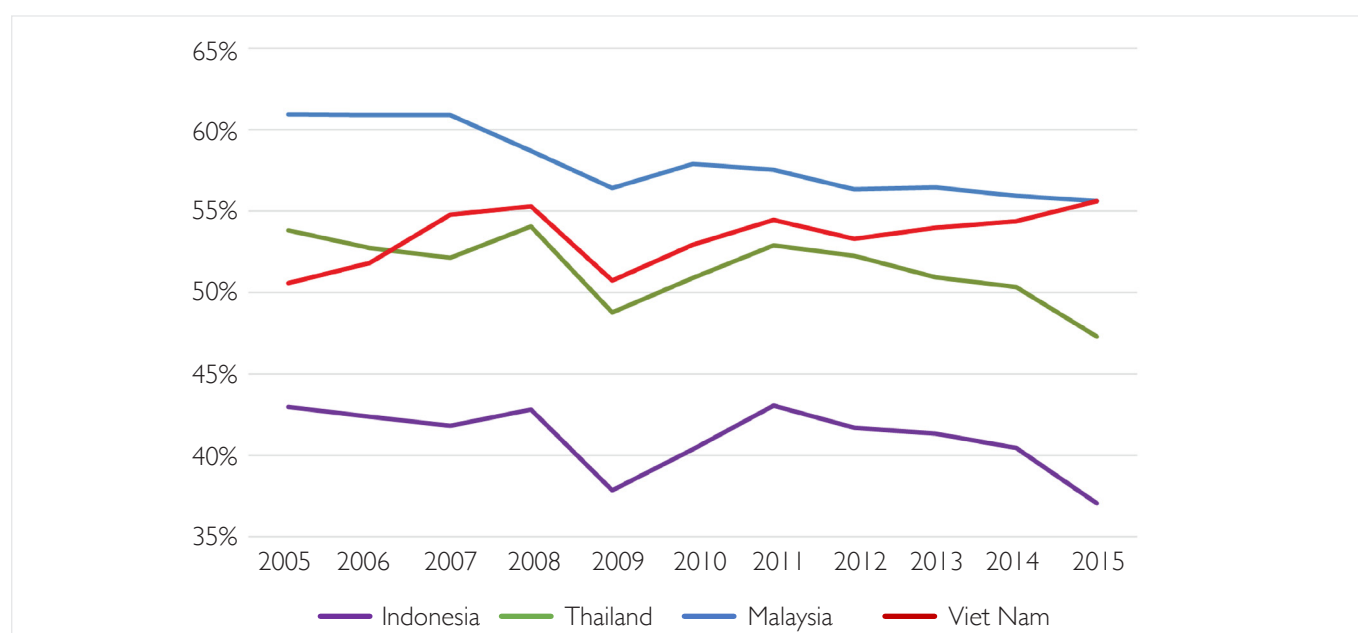
The ASEAN nations at the receiving end of the China Plus One strategy are largely contingent on the relocation objective of the firm, whether looking to establish an alternative manufacturing hub or seeking cheaper costs.

MNCs establishing a regional manufacturing hub will likely integrate into ASEAN's supply chain ecosystem – the regional value chain (RVC) – using an individual member state as a launchpad for the region. These firms will have to take the country's existing involvement in RVCs into consideration, in order to facilitate seamless integration into the ASEAN supply chain network. Liberal FDI and trade policies are also key, allowing firms to enter the region without incurring the costs of navigating complex bureaucratic issues, while maintaining a high degree of GVC participation and preserving links with China.

On the other hand, firms departing due to rising Chinese manufacturing wages are predominantly in labour-intensive, low-technology manufacturing industries, seeking to relocate to AMS with lower wage levels. The degree of RVC participation is not as important a consideration as these industries do not rely as heavily on extensive supply chain networks – firms are seeking a low-cost location to undertake labour-intensive production processes, rather than establishing a regional hub.

3. Integration into regional and global value chains – a diverging narrative

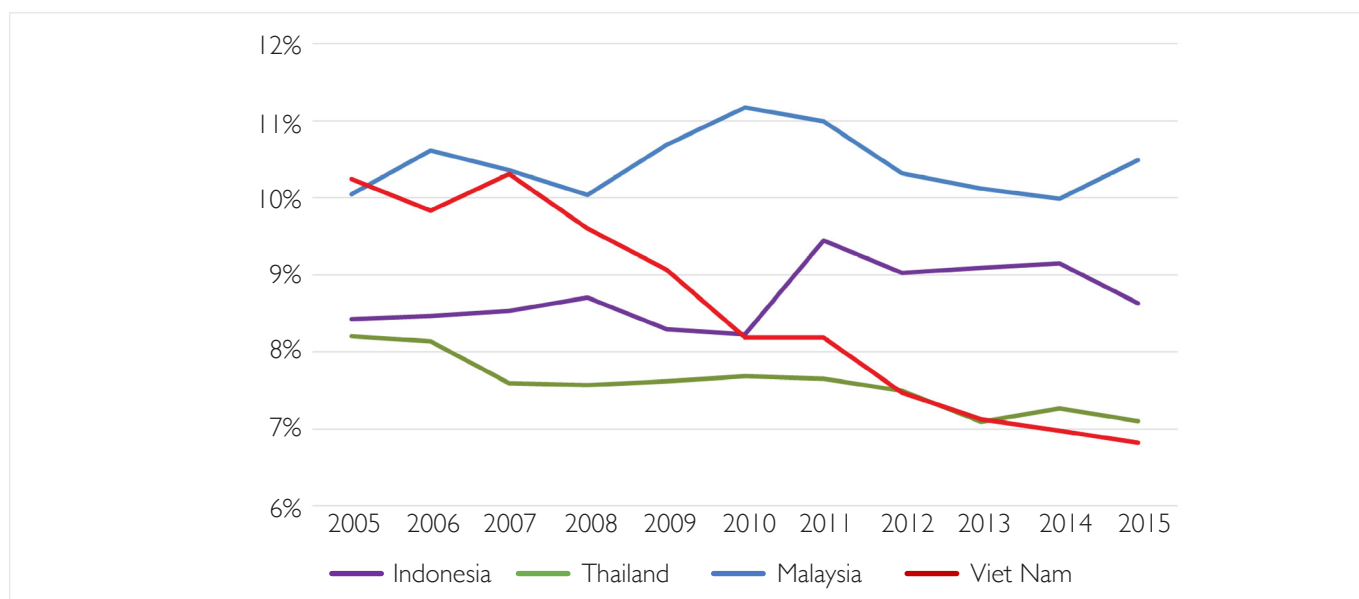
Chart I: GVC Participation, 2005 - 2015



Source: OECD TiVA database

Note: GVC participation is calculated as the total value of forward and backward linkages to the world as a percentage of total value of exports – the proportion of exports linked to GVC participation (as opposed to the export of final goods).

Chart 2: RVC Participation, 2005 - 2015



Source: OECD TiVA database

Note: RVC participation is calculated as the total value of forward and backward linkages to other ASEAN countries as a percentage of total value of exports. RVC participation represents a subset of GVC participation

The degree and trend of GVC and RVC participation varies greatly across ASEAN (Charts 1 and 2). For instance, Viet Nam exhibits a rising trend in terms of GVC participation, in contrast to the stable or declining RVC participation. This highlights how Viet Nam's increasing prioritisation of extra-ASEAN value chain participation comes at the expense of regional economic integration. On the other hand, Indonesia's participation in GVCs remains particularly low and continues to decline, with both GVC and RVC participation falling from 2011.

Malaysia continues to register both high RVC and GVC participations. As such, on this front, Malaysia appears to be an attractive relocation destination for a regional manufacturing hub base, enabling MNCs to maintain strong links with both intra- and extra-ASEAN supply chain partners.

4. A balancing act between backward and forward linkages

Box 2: Explaining domestic value added (DVA) and foreign value added (FVA)

- Domestic value added (DVA): the value of a country's gross exports created by the exporting country itself, contributing to a country's GDP. DVA is a measure of forward linkages. A high DVA share implies that a country has the domestic capacity to take on a greater share of production processes, contributing to current economic growth. Forward linkages also facilitate the diffusion of technological and managerial know-how from export partners.
- Foreign value added (FVA): the value of a country's gross exports which consists of inputs produced in other countries. The FVA share does not contribute to a country's GDP and is a measure of backward linkages. Higher FVA shares have been found to increase long-run productivity and competitiveness through adopting high-technology foreign intermediate goods, facilitating greater domestic production capacity and a higher DVA share in the long-run.⁶
- Gross exports are the sum of a country's FVA and DVA.
- It should be noted that the DVA share could be inflated by Pure Double-Counted terms (PDC), arising from the back-and-forth trade of intermediate goods. This term is generally small, thus the DVA shares used in this paper do not account for possible shares of PDC.⁷ Nevertheless, the presence of PDC does indicate cross-border movements in intermediate goods, which highlights the intensity of trade and value chain collaboration between countries.⁸

⁶ See ERIA Discussion Paper Series (301).

⁷ The OECD TiVA database does not publish data on PDC. However, the ASEAN Integration Report 2019 utilises the ADB TiVA database for similar trade indicators (including PDC), which indicate relatively low PDC in most AMS.

⁸ PDC is also relevant for consistency between DVA and GDP, when considering the effect of DVA values and exports on the domestic economy.

Chart 3: DVA in “Low” R&D Intensity Manufacturing Exports, 2005 & 2015

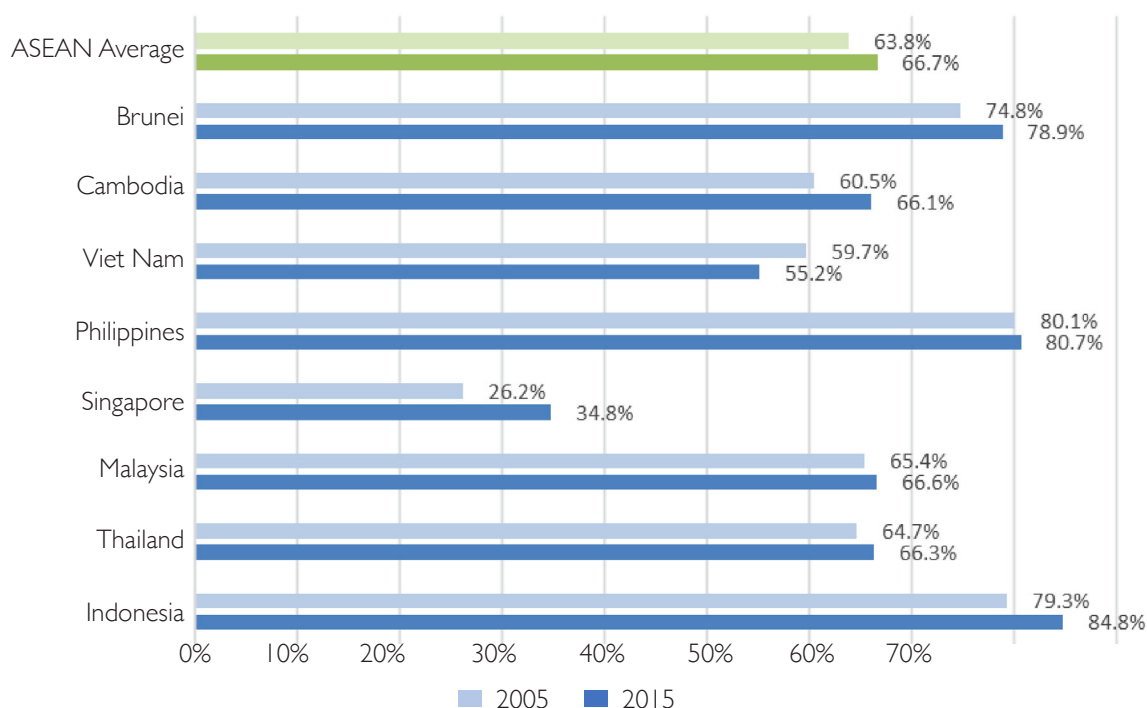
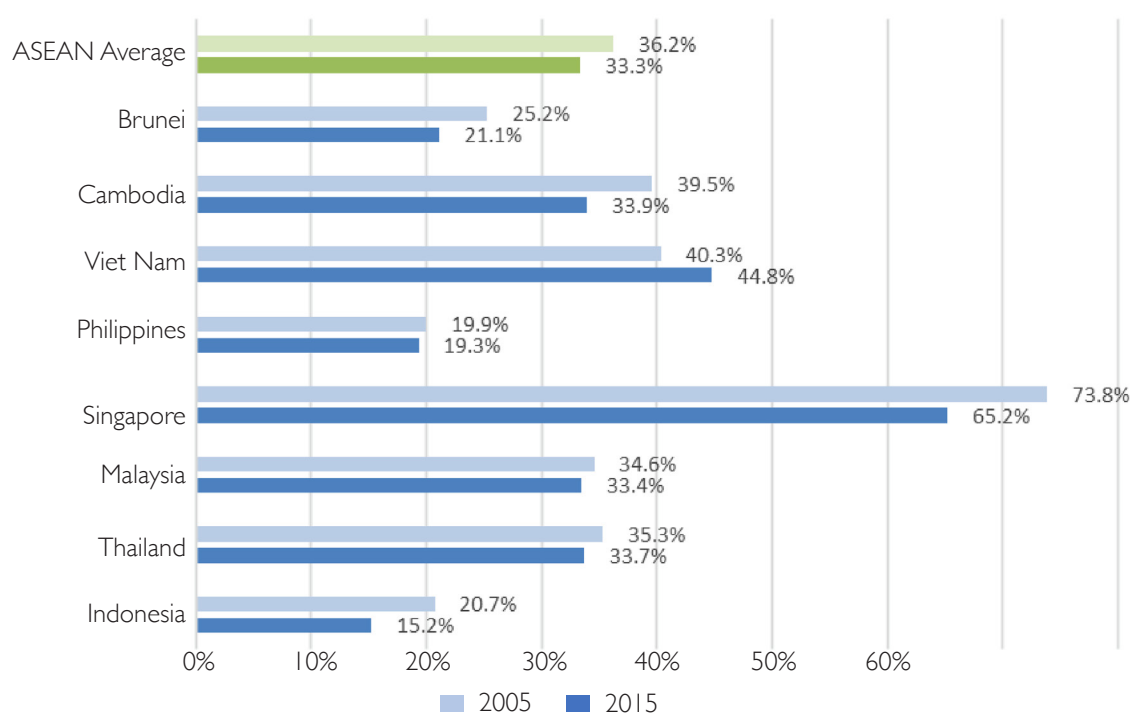


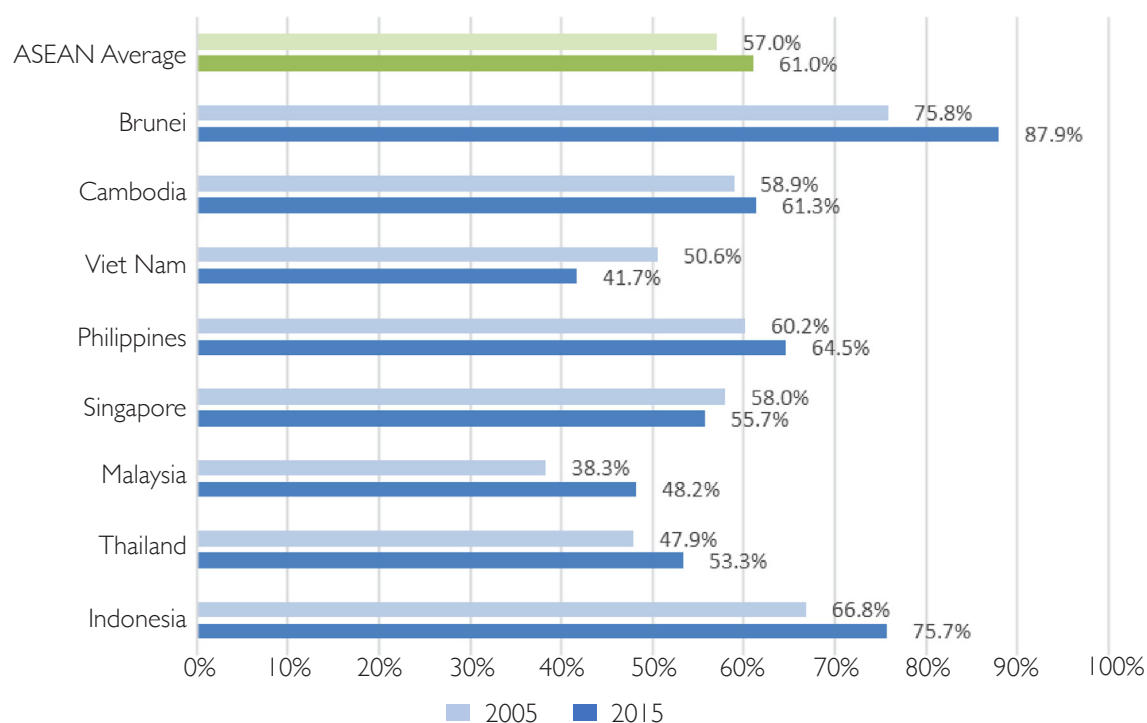
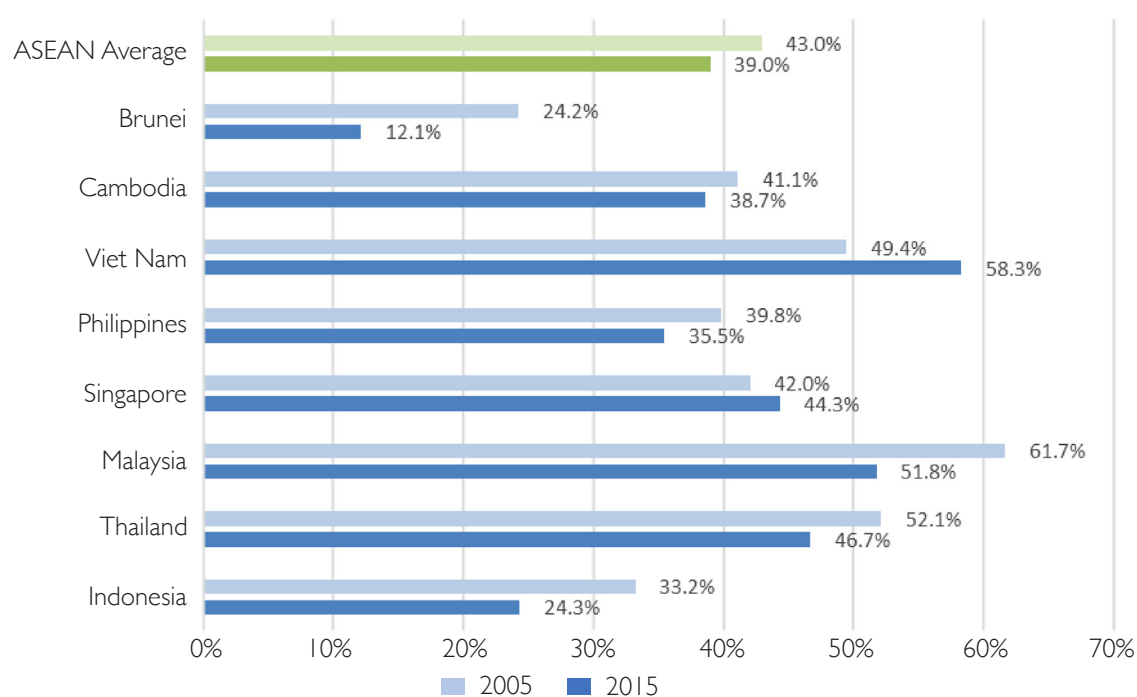
Chart 4: FVA in “Low” R&D Intensity Manufacturing Exports, 2005 & 2015



Source: OECD TiVA database

Note: DVA and FVA given as a share of Gross Exports. DVA share + FVA share = 100%.

Sectors classified based on OECD Taxonomy of Economic Activities.

Chart 5: DVA in “High” R&D Intensity Manufacturing Exports, 2005 & 2015**Chart 6: FVA in “High” R&D Intensity Manufacturing Exports, 2005 & 2015**

Source: OECD TiVA database

Note: DVA and FVA given as a share of Gross Exports. DVA share + FVA share = 100%.

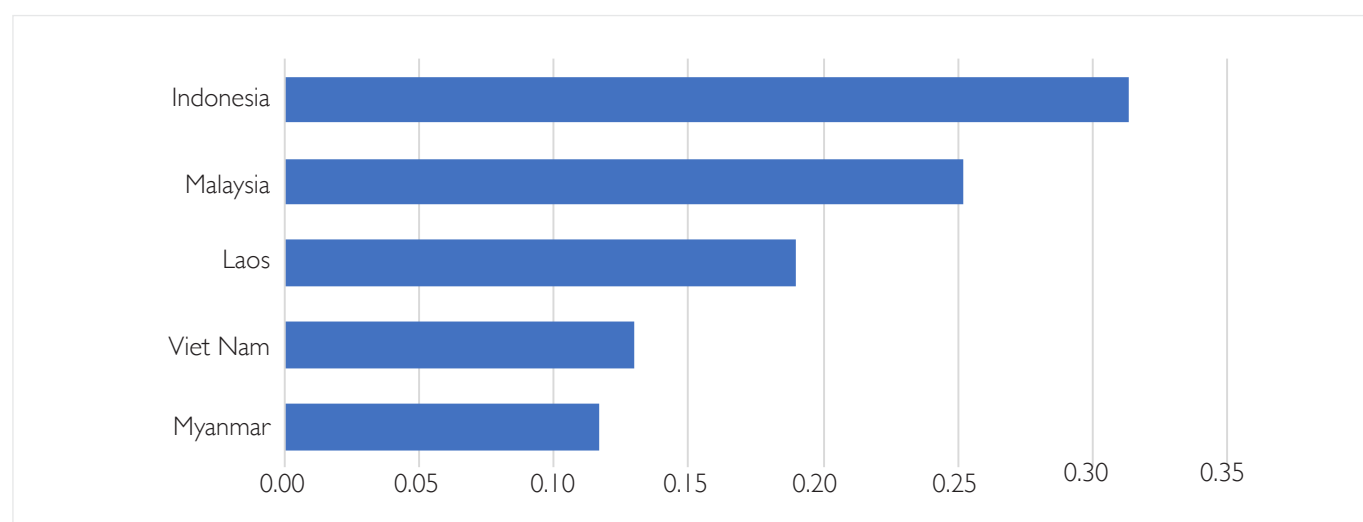
Sectors classified based on OECD Taxonomy of Economic Activities.

Overall, ASEAN has been experiencing a rise in the DVA share (or a fall in FVA share) of manufacturing exports – member states are undertaking a greater share of production processes domestically, as opposed to relying on foreign inputs (Charts 3 and 5). This strongly suggests that ASEAN has reaped the benefits of undertaking the production of high-technology intermediate goods – previous policy decisions to rely on externally-sourced inputs have helped increase domestic production capacity, and subsequently long-run growth. Likewise, this reaffirms the attractiveness and ability of ASEAN to adopt the role of a regional manufacturing hub.

However, Indonesia's exceptionally high DVA share, especially in 2015, might be cause for concern. When considered alongside a high degree of FDI regulatory restrictiveness, as well as falling GVC and RVC participation, it implies that the economy is undertaking a large share of supply chain production processes to service the domestic market, rather than for global export (Chart 7). MNCs are deterred from investing in Indonesia due to policy constraints surrounding FDI, hindering Indonesia's GVC participation. Overall, the current regulatory policies are largely targeted at protecting domestic industries, rather than prioritising global and regional integration.

Yet this wave of relocations might prompt Indonesia to leverage its advantage as the largest ASEAN economy, easing its policies to attract FDI. With the intention of establishing a regional, rather than domestic, manufacturing hub, MNC relocation into Indonesia would encourage greater RVC and GVC participation. Greater reliance on regional networks would ease demand for domestic inputs, to levels more comparable to other AMS.

Chart 7: FDI Regulatory Restrictiveness Index, 2018



Source: OECD FDI Regulatory Restrictiveness Index

Note: Evaluated on a 0 (open) to 1 (closed) scale. Higher scores indicate more restrictive FDI regulations.

Viet Nam remains the exception to the rising DVA trend in the region. Instead, Viet Nam has seen a significant rise in FVA share over the corresponding period, consistent for both low- and high-technology manufacturing exports.⁹ Coupled with rising GVC and falling RVC trends, this indicates that Viet Nam has been increasingly relying on extra-ASEAN intermediate goods. On the one hand, it is plausible that Viet Nam's competitiveness in the manufacturing sector is due to its reliance on high-technology foreign intermediate goods, with the country actively enhancing domestic manufacturing production capacity in pursuit of long-term productivity gains. However, it could also reflect domestic constraints in production compared to other AMS, especially given that Viet Nam had one of the lowest DVA shares in 2015 for both types of manufacturing exports.¹⁰

Yet even if Viet Nam were to reap the long-term productivity gains, short-term costs are inevitable, especially if the nation is seeking to take on the role of a regional manufacturing hub. One of the major forces behind regional trade integration is the ASEAN zero-to-low tariff policy, enabling intra-ASEAN exports to benefit from preferential trade tariffs if a minimum 40% of the value added originates from ASEAN (the ASEAN Rules of Origin criteria). It is possible that Viet Namese exports might no longer qualify under the Rules of Origin (ROO) eligibility criteria particularly in the "high" R&D intensity manufacturing sector,¹¹ if it continues rely on extra-ASEAN inputs.

However, although the low DVA shares are a consideration for firms, procuring intermediate goods from other AMS will aid in overcoming the ROO issues, providing access to the ASEAN preferential trade tariffs. This will simultaneously promote further RVC participation and regional convergence. Yet structural reforms will likely be needed to expand Viet Nam's domestic production capacity, to better function as a regional manufacturing hub.

5. ASEAN economic integration as the way forward

As it stands, it is unlikely that all AMS will benefit equally from this wave of relocation. With many economies vying for the role as the primary regional manufacturing base and each having unique structural issues, it is tempting for member states to see each other as rivals, putting up walls to compete for the scarce FDI. However, ASEAN integration remains at the core of the ASEAN Economic Community (AEC) Blueprint 2025, and in the long run, it is not in the best interest of ASEAN leaders to proceed down the route of competing policies. AMS should continue to strive towards the goal of economic integration, deepening their participation in RVCs.

ASEAN should start by addressing non-tariff barriers (NTBs). NTBs are likely to continue to remain a challenge, in both a political and economic sense, distorting each economy's comparative advantage and placing restrictions on intra-ASEAN trade. Despite measures outlined in the AEC Blueprint 2025 to liberalise the trade in goods, IDEAS' assessment on the progress of its implementation finds that only 15% of trade liberalisation measures have been fully implemented, with NTBs increasing rapidly within ASEAN.¹² These include quantitative export restrictions, strict domestic quality standards and inspection procedures, customs rules, among others, and remain a major barrier to increasing overall intra-ASEAN trade and RVC participation.

⁹ FVA shares for "low" and "high" R&D intensity manufacturing exports increased from 40.3% to 44.8% and 49.4% to 58.3% respectively, over the period 2005–2015.

¹⁰ Vietnam's DVA share in 2015 was only higher than Singapore, which is constrained both geographically and demographically.

¹¹ The DVA share for this sector had fallen to 41.7% in 2015, close to the minimum regional value added criteria.

¹² See IDEAS API Report No. 3: ASEAN Integration Report 2019.

Although the 2020 Hanoi Plan of Action adopted by ASEAN encourages member states to “refrain from imposing unnecessary non-tariff measures during the COVID-19 pandemic”, active efforts need to be made to streamline the NTBs in place. For instance, recent export bans on food and medical supplies will likely have adverse socio-economic effects on domestic and international communities if sustained over time. These measures should be temporary and not be extended to other goods. Although the recent COVID-19 crisis has created the temptation to promote protectionist policies, the issue of tackling NTBs cannot be placed on the back burner. It is crucial in ensuring that ASEAN is presented as an attractive, cohesive regional hub to MNCs looking to diversify supply chains.

ASEAN should also focus on the standardisation, liberalisation and stability of investment policies.

As it stands, investment policies between the AMS are not standardised, with different member states having varying degrees of investment liberalisation. Having common, transparent, open FDI policies would facilitate MNCs establishing a regional manufacturing hub, as opposed to a single-country manufacturing hub. Standardisation and liberalisation of investment policies across ASEAN will promote diversification and fragmentation of supply-chains across different member states with much lower costs, better enabling other member states to benefit from FDI inflows.

A concrete, comprehensive implementation timeline has to be formulated and carried out. **Achieving this goal will require changes in domestic policy, particularly for member states with high degrees of FDI restrictiveness.** As such, mutual understanding of domestic challenges across member states is crucial to ensure a realistic timeline and goal. Coordination among ASEAN leaders is also necessary, so that appropriate changes in domestic policy are made to avoid conflict between domestic and ASEAN commitments. In addition, ASEAN could consider adopting a regional minimum FDI screening standard. The framework should not necessarily replace individual member states’ FDI screening approaches, but should foster cooperation, information exchange and transparency between AMS. **Adopting a regional standard will also strengthen ASEAN’s hand in extra-ASEAN negotiations, particularly when forming agreements and building links with other trading partners.**

It is inevitable that this wave of supply chain relocations will create short term inequalities between member states. However, there can be absolute benefits for the region as a whole, and it is crucial that ASEAN makes an active attempt to capture these gains. Presenting a more integrated front will increase the overall attractiveness of ASEAN as an alternative regional manufacturing hub to China, maximising FDI inflow into the region. Deepening RVC participation will also result in much larger spillover benefits for other AMS, facilitating the diversification and fragmentation of supply chains across the region.

In the short term, these spillover benefits will emerge in the form of increased demand for intermediate goods, creating jobs and increasing income in the manufacturing sector. However, in the long-run, the fragmentation of supply chains and MNC investment will help facilitate the diffusion of technological and managerial know-how, contributing to the development of certain sectors and increasing overall productivity.

ASEAN economic integration is key to long-term recovery from the COVID-19 crisis, allowing the region to take on the role as a manufacturing hub for the world. Instigating a vicious cycle of competition between member states will devastate the progress of ASEAN convergence, creating a need to better align domestic policy with the overarching goal of integration. As such, coordination and cooperation should remain at the forefront of regional dialogue, to ensure that we do not waste this window of opportunity to bring our economies closer together.

Conclusions



High GVC and RVC participation are important considerations for MNCs seeking to establish a regional manufacturing hub, yet there have been diverging trends across AMS in terms of value chain integration,



In general, the DVA share of manufacturing exports have been rising across ASEAN, highlighting a rise in the domestic production capacities,



FDI from relocating firms are unlikely to be distributed equitably across ASEAN, however member states should refrain from enacting competing policies as greater economic integration will increase spillover benefits to the rest of the region,



Active efforts should be made to streamline the NTBs in place, as it remains a long-standing issue hampering regional integration,



There needs to be greater focus on the standardisation, liberalisation and stability of investment policies across ASEAN, such as adopting a regional minimum FDI screening standard, which will likely require adjustments in domestic policies. As such, mutual understanding and coordination between member states is necessary to ensure the success of these commitments.

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Chapter 3:

ASEAN Integration Through the Skies: The Current Progress in Preparation for 2025

Ridha Aditya Nugraha

I. Introduction

The International Air Transport Association (IATA) projected that the Asia Pacific region will provide more than half of the new passenger traffic until 2035 with a market size of 3.1 billion people.¹ IATA also projected that two of the five fastest-growing global markets in terms of additional passengers per-annum are from Association of South East Asian Nations (ASEAN), namely Indonesia (ranked 4th - 135 million new passengers for a total of 242 million) and Vietnam (ranked 5th - 112 million new passengers for a total of 150 million).²

In that context, further integration of aviation within ASEAN has a significant potential to integrate the people and economy of a region of 650 million people. To achieve this goal, the ASEAN Economic Blueprint 2025³ encourages regional economic growth through air connectivity. However further steps to achieve this vision have yet to be taken. Specifically, the establishment of an ASEAN Community Carrier, together with a brand new ASEAN aviation guideline, could kickstart further integration efforts. A consolidation effort will also strengthen ASEAN Member States airlines in competing with other bigger and competitive airlines, such as Chinese carriers in a world where an ASEAN-China aviation agreement⁴ has taken place. At the same time, these policies could improve competition within the regional market, thus benefitting ASEAN passengers.

In the midst of the Covid-19 pandemic, aviation services face an existential crisis. In that context, consolidation through liberalisation can play a role in ensuring the survival and the sustainability of the aviation industry in ASEAN.

This paper will analyse ASEAN integration through seamless air connectivity including a brief analysis on the impact of the Covid-19 pandemic. The plausibility of ASEAN Community Carrier establishment shall be compared with the European Union (EU) aviation policy and the lessons learned from the latter. Finally, this paper ends with policy recommendations amidst the ASEAN Way, as well as the current liberalisation stage in ASEAN.

2. ASEAN Single Aviation Market: The State of Play

The month of October 2020 marks almost five years since the full enactment of the ASEAN Single Aviation Market. Also known as ASEAN Open Skies, this policy consists of three multilateral agreements, namely i.) ASEAN Multilateral Agreement on the Full Liberalisation of Air Freight Services; ii.) ASEAN Multilateral Agreement on Air Services; and iii.) ASEAN Multilateral Agreement on the Full Liberalisation of Passenger Air Services. These agreements aim to strengthen ASEAN integration through increasing intra-ASEAN connectivity.

¹ The forecast was issued prior to Covid-19 pandemic. https://www.iata.org/en/about/worldwide/asia_pacific/Asia-Pacific-20-Year-Forecast/ accessed on 15 September 2020.

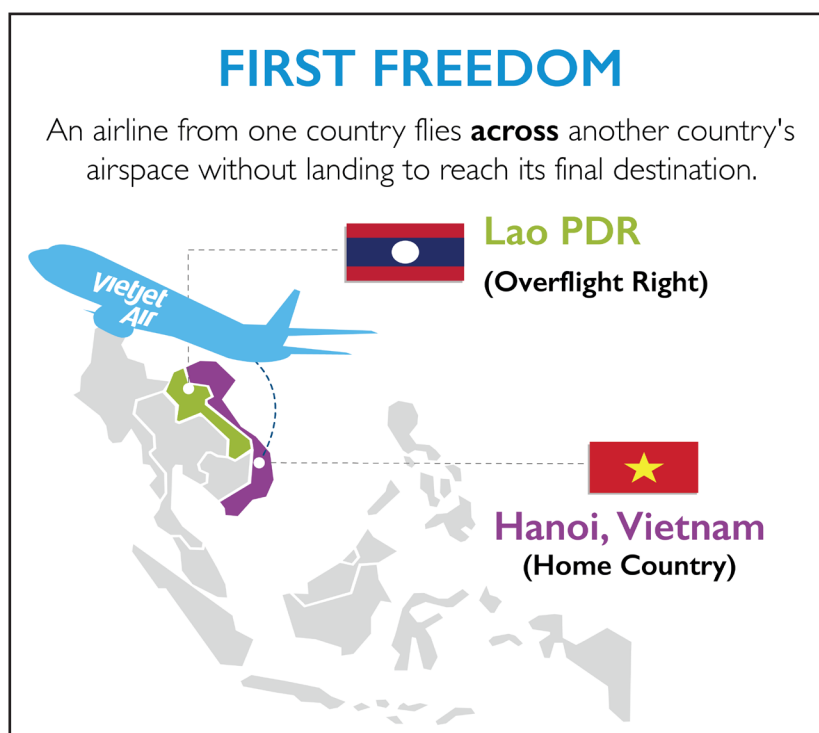
² Ibid.

³ The ASEAN Economic Community Blueprint 2025 was adopted by ASEAN Leaders at the 27th ASEAN Summit on 22 November 2015 in Kuala Lumpur, Malaysia.

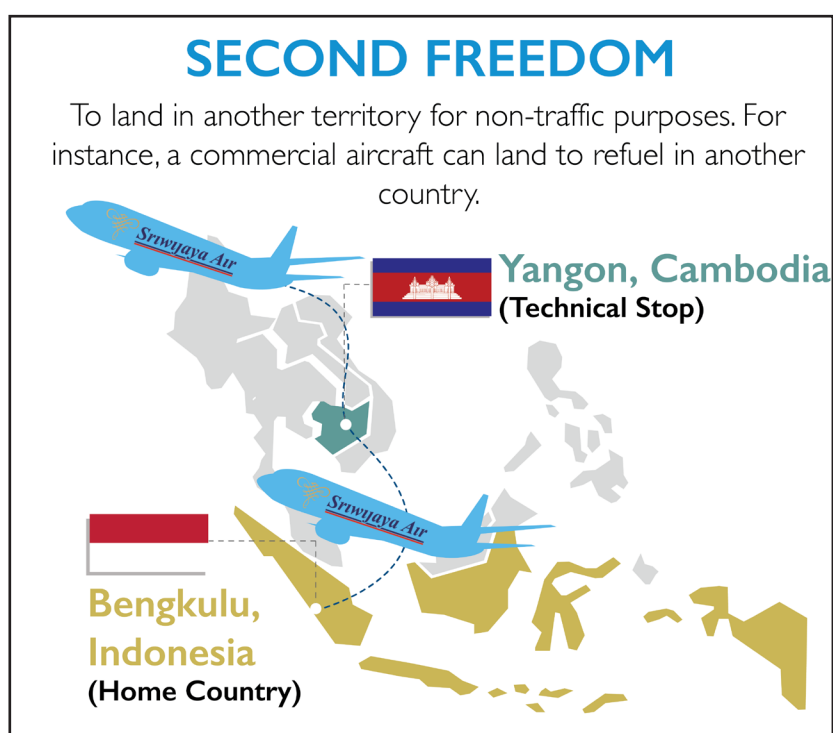
⁴ Air Transport Agreement between the Governments of the Member States of the Association of Southeast Asian Nations and the Government of the People's Republic of China. Fifth Freedom traffic rights between China and all ASEAN Member States have taken place since 2019.

In April 2016, Indonesia and Lao PDR became the latest ASEAN Member States to ratify the ASEAN Multilateral Agreement on the Full Liberalisation of Passenger Air Services which further consists of two protocols. This step means unlimited 3rd, 4th, and 5th Freedom of the Air may take place between any ASEAN cities. Both the 1st and 2nd Freedom of the Air are also included.

Box 1 – First Freedom of the Air



Box 2 – Second Freedom of the Air



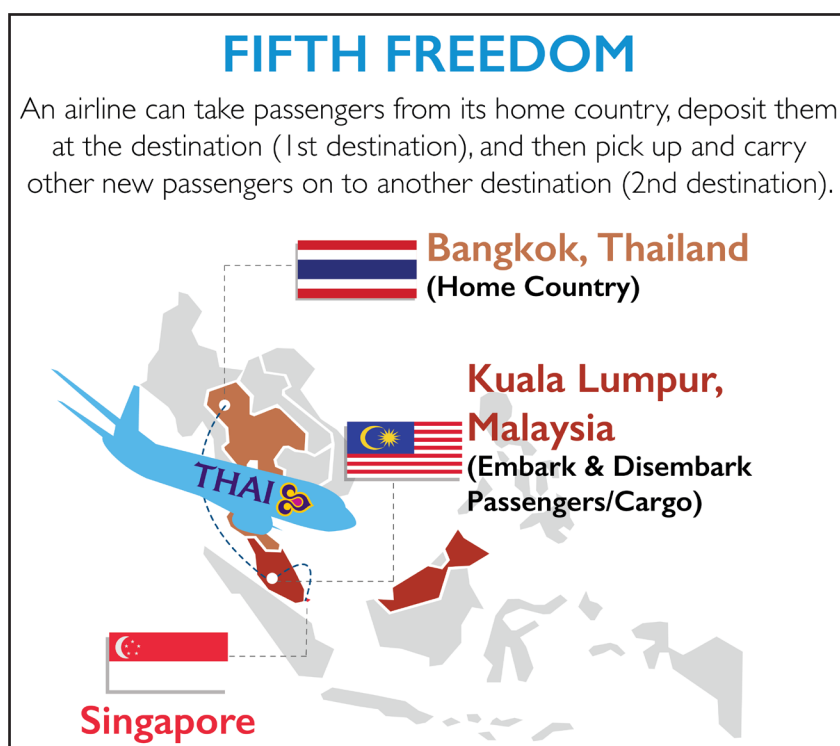
Box 3 – Third Freedom of the Air



Box 4 – Fourth Freedom of the Air



Box 5 – Fifth Freedom of the Air



An open skies concept means freedom of air traffic rights as well as more freedom to business practices which are normally restricted namely i.) flight frequency and capacity; ii.) fare or tariff; iii.) aircraft type; iv.) designated airline(s); and v.) route(s).⁵ As further liberalisation takes place, according to open skies concept, such points are being relaxed and airlines are let alone to determine based on their own business model.⁶ The concept of open skies was introduced for the first time in the United States to stretch the negotiation framework of Chicago Convention of 1944⁷ to its point of maximum tolerance.⁸

⁵ Barry R. Diamond, "The Bermuda Agreement Revisited: A Look at the Past, Present and Future of Bilateral Air Transport Agreement", 41 (3) *Journal of Air Law and Commerce* (1975). See also Brian F. Havel, *Beyond Open Skies: A New Regime for International Aviation*, (Alphen aan den Rijn: Kluwer Law International, 2009).

⁶ Henri Wassenbergh, *External Aviation Relations of the European Community*, (Deventer: Kluwer Law and Taxation Publishers, 1992), p. 34.

⁷ The Convention on International Civil Aviation, also known as the Chicago Convention of 1944, is the magna carta of international civil aviation. However, it remains silent on commercial issues in regards to the respective national airline(s) operations. In practice, such issues are regulated through bilateral and multilateral air service agreements.

⁸ The Bermuda I framework for bilateral air service agreements was introduced by the United Kingdom and United States in 1946. Its modification gave birth to the Bermuda II framework in 1977. Afterwards, Open Skies concept is introduced to challenge both frameworks from liberalisation perspective. The Netherlands became the first European country to reach a landmark open skies agreement with the United States in 1992. See Pablo Mendes de Leon, "Before and After the Tenth Anniversary of the Open Skies Agreement Netherlands-US of 1992", 27(4/5) *Air & Space Law* (2002). See also <https://www.washingtonpost.com/archive/business/1992/09/05/us-netherlands-agree-to-open-skies/2e2b26d9-c156-4ebe-9517-ea327f654062/> accessed on 5 October 2020.

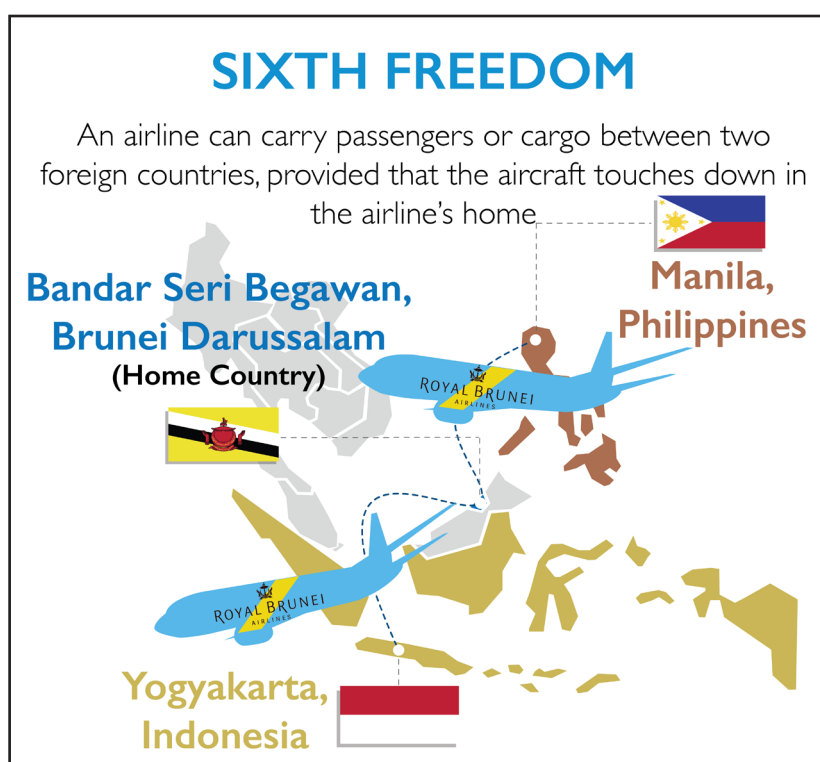
⁹ Ridha Aditya Nugraha, 'AIP Policy Paper No. 2/2019 – Reviewing Ownership and Control of the Indonesian Airlines' (2019) IKMAS Universiti Kebangsaan Malaysia.

ASEAN Member States' Reluctance to Further Liberalisation

The implementation of the ASEAN Single Aviation Market does not amount to truly “open skies”. In regards to liberalisation of air traffic rights, ASEAN Open Skies allows only up to 5th Freedom of the Air. ASEAN Member States with significant domestic market such as Indonesia, Malaysia, Philippines, Thailand, and rapidly growing Vietnam are reluctant to allow further liberalisation. At this stage, protecting their own national airlines is one of the main concerns. For example, Indonesia — with around 90 million domestic passengers per-annum during the last few years— shall see such number as an asset for maximizing national aviation industry growth.⁹

On the other hand, ASEAN Member States with only one international airport, namely Brunei Darussalam and Singapore, have strong grounds in favour of further air traffic rights liberalisation. They are in an advantageous situation because there is not any domestic market issue to consider. Their respective airlines will be able to maximize its sole airport as transit points in case further air traffic liberalisation - namely the 6th Freedom of the Air – is implemented.

Box 6 – Sixth Freedom of the Air



The success of this model can be seen in the middle east hubs. Within this decade, three well known middle east carriers, namely Emirates (Dubai-based), Etihad Airways (Abu Dhabi-based), and Qatar Airways (Doha-based), operate by maximizing the opportunity given by 6th Freedom of the Air. This is made possible by each respective States succeeding in their air diplomacy within their bilateral or multilateral air service agreements. The airports also enjoy abundant transit passengers to strengthen their global-hub status and economic growth.

However, as a result of the competing interests of ASEAN Member States, any further attempt on ASEAN Open Skies liberalisation further than 5th Freedom of the Air has not gained any room nor progress. This reflects a priority of safeguarding one ASEAN Member States airline(s) from being overrun by direct competition with other ASEAN Member States' bigger and competitive airline(s) is alive. Status quo remains, and regional growth in the aviation sector relies on this stage.

3. Non-Uniformity of Foreign Direct Investment Policy in the Member States' Airlines

Beyond freedoms of the air, the other major driver of aviation integration is the terms of ownership and control. National restrictions on ownership prevent airlines within ASEAN from owning subsidiaries in other member states – an alternative to providing services directly via air freedoms. In regards to airline business, Foreign Direct Investment (FDI) scheme exists in all ASEAN Member States and, as of today, there is no uniformity within each national legislation when it comes to foreign ownership limitation.

Box 7 – Table 1:

Foreign Direct Investment Restrictions in Airlines within ASEAN Member States¹⁰

ASEAN Member States	Foreign Ownership Limitation
Brunei Darussalam	49% foreign ownership is allowed.
Cambodia	100% foreign ownership is allowed.
Indonesia	49% foreign ownership is allowed. Indonesian shareholders should be a single majority.
Lao PDR	100% foreign ownership is allowed. In a joint venture scheme, foreign investors shall contribute at least 10% of the total capital.
Malaysia	45% foreign ownership is allowed for Malaysian Airlines. Maximum ownership for a single foreign entity is limited to 20%. 49% foreign ownership for other airlines.
Myanmar	49% foreign ownership is allowed.
Philippines	40% foreign ownership is allowed.
Singapore	49% foreign ownership is allowed.
Thailand	49% foreign ownership is allowed.
Vietnam	One single foreign individual or legal entity's shares shall not exceed more than 34% of the airline's charter capital. In case a Vietnamese legal entity has foreign capital investment, its investment shall not exceed 49% of the airline's charter capital. One Vietnamese individual or legal entity must hold the largest portion of the airline's charter capital.

¹⁰ Compilation of ASEAN Member States national legislations on aviation and investment. See Sufian Jusoh, 'AIP Policy Paper No. 1/2018 - Integrating ASEAN Economy through Liberalisation of Investment in the Aviation Sector' (2018) IKMAS Universiti Kebangsaan Malaysia.

Beyond ownership restrictions, each ASEAN Member States' aviation law also plays a role through determining further conditions in establishing a national airline. For example, six ASEAN Member States have set minimum aircraft in operation requirements within their respective aviation law as elaborated in Table 2.

Box 8 – Table 2:
Conditions for Airline regarding Minimum Aircraft in Operation¹¹

ASEAN Member States	Minimum Aircraft in Operation
Cambodia	Airline operates minimum one aircraft. No further detail on the number of aircraft owned or in possession (leasing).
Indonesia	<p>The enactment of Omnibus Law on 5 October 2020 changes the minimum aircraft requirements. A new government regulation shall be enacted to determine the new number in the (near) future.</p> <p>Previously, a scheduled airline must operate a minimum of ten aircraft; with a minimum of five aircraft owned and another five aircraft in possession, for example through leasing.</p>
Malaysia	Airline operates minimum one aircraft. No further detail on the number of aircraft owned or in possession.
Singapore	Airline operates a minimum of three aircraft. No further detail on the number of aircraft owned or in possession.
Thailand	Airline operates a minimum of two aircraft without further detail on the number of aircraft owned or in possession.
Vietnam	<p>No further detail on the number of aircraft owned or in possession.</p> <p>The total aircraft in operation determine the minimum amount of capital (including equity and loan capital), as follow:</p> <p>up to 10 aircraft: 300 billion VND; between 11 to 30 aircraft: 600 billion VND; and more than 30 aircraft: 700 billion VND.</p>

Such differences on foreign ownership limitation and minimum aircraft requirements set up a barrier for investment, including among ASEAN investors themselves. Airlines need to invest in each ASEAN Member States to set-up seamless connectivity within the region. Currently, AirAsia, Lion, and VietJet are the three airline groups that have taken action in seizing the intra-ASEAN market.

These airlines notice the prospect of multiple ASEAN Member States domestic markets. At the same time, they need to establish networks among their subsidiaries to ensure maximum connectivity with only up to the 5th Freedom of the Air being allowed. As such these three airlines are the closest to achieving the status of 'pan-ASEAN airlines'. However, they need huge capital to invest in each ASEAN Member State, so clearly not all airlines can follow this kind of costly business model.

¹¹ Compilation of ASEAN Member States national legislations on aviation and investment.

Box 9 – Table 3: The Current ‘pan-ASEAN Airlines’

Airline Group	Nationality	Subsidiaries in ASEAN Member States
AirAsia	Malaysia	The group has invested in four ASEAN Member States. AirAsia and AirAsia X (Malaysia); Indonesia AirAsia and Indonesia AirAsia X (Indonesia); Philippines AirAsia (Philippines); Thai AirAsia and Thai AirAsia X (Thailand).
Lion	Indonesia	The group has invested in three ASEAN Member States. Batik Air; Lion Air; and Wings Air (Indonesia); Lion Bizjet and Malindo Air (Malaysia); Thai Lion Air (Thailand).
VietJet	Vietnam	The group has invested in two ASEAN Member States. Thai VietJet Air (Thailand); VietJet Air (Vietnam).

Comparison with the European Union

The status quo in ASEAN results in significant costs for airlines trying to scale up within the region, which is at odds compared to the situation in the European Union (EU) where all Freedoms of the Air, including the 7th as well as both ultimate 8th and 9th Freedoms of the Air (or cabotage rights), is allowed. As a result, all EU airlines only need to put one foot in one of the EU Member States to have access the whole intra-EU market. This situation has established a level playing field among EU airlines. Furthermore, it also encourages low-fare airlines or low-cost carriers' growth, such as EasyJet¹² and Ryanair¹³, with its point-to-point market business model.

The EU situation looks more efficient, but seems too far for ASEAN due to its nature - consisting of ten jurisdictions which means ten discretions on FDI in airline business. Furthermore, both the ultimate 8th and 9th Freedom of the Air are still deemed too disruptive for numerous ASEAN Member States, either from economic sovereignty or national security perspective.

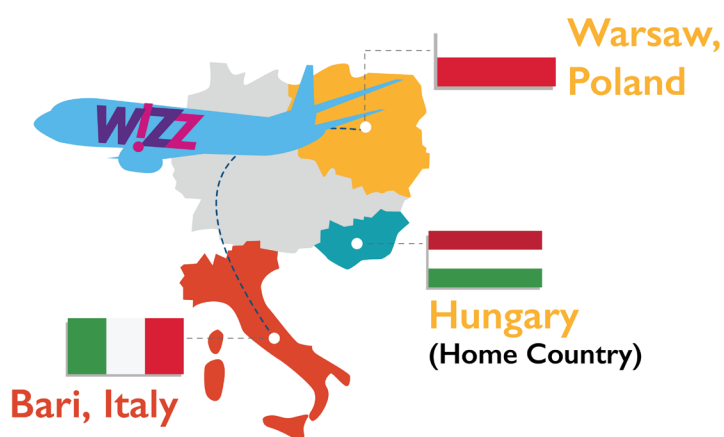
¹² EasyJet Airline Company Limited is a British low-cost carrier headquartered in the Luton Airport, London. It operates an estimation of 330 fleets of aircraft. See EasyJet Public Limited Company Page <<http://corporate.easyjet.com>> accessed 26 September 2020.

¹³ RyanAir Group, with RyanAir Holdings Public Limited Company as the parent company, is an Irish low-cost airline headquartered in Dublin, Ireland, with its primary operational bases at Dublin and London Stansted airports. It forms the largest part of the Ryanair Holdings family of airlines, and has Ryanair UK, Ryanair DAC, Buzz, Malta Air, and Lauda as subsidiaries, and an estimated 470 aircraft in total. See the RyanAir Corporate Page <<https://corporate.ryanair.com/ryanair-facts-and-figures>> accessed 26 September 2020.

Box 10 – Seventh Freedom of the Air

SEVENTH FREEDOM

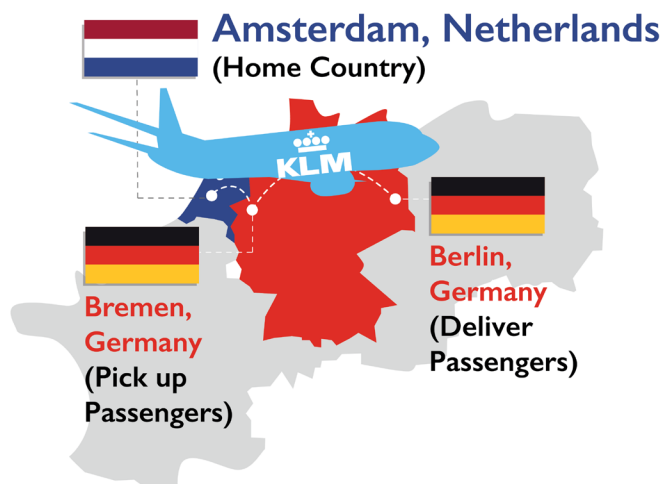
An airline can carry on flights that originate in a foreign country, bypass its home country, and deposit the passengers at another international destination.



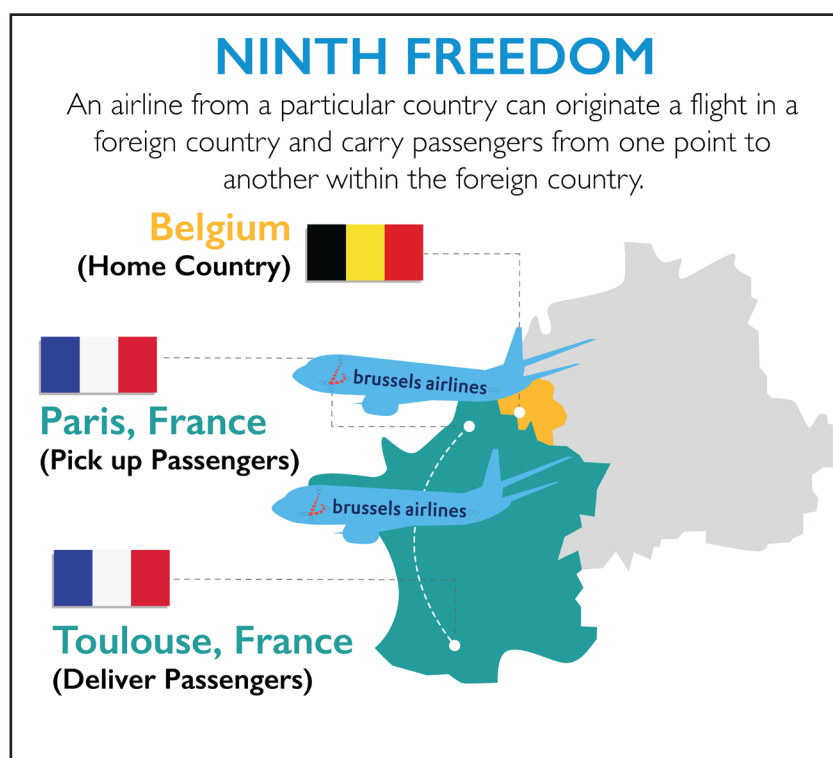
Box 11 – Eight Freedom of the Air

EIGHT FREEDOM

An airline can carry passengers from one point in a country to another point within the same country on a flight that originates in the airline's home country. This is known as cabotage and is not widely used outside of EU.



Box 12 – Ninth Freedom of the Air



4. In Search of the ASEAN Community Carrier: At Odds with Fair Competition?

As provisions regarding FDI on airlines vary among the ASEAN Member States, such non-uniformity has discouraged the establishment of a “community carrier” (i.e. an airline licensed to operate across ASEAN as a whole, in the same terms in each Member State), since substantial ownership by its own nationals is still deemed vital. As a result, it is not surprising that FDI regarding airline ownership has not changed much in the past few years.¹⁴ The status quo puts the idea of establishing an ASEAN Community Carrier as a non-priority topic for the ASEAN Transport Ministers Meeting.

In comparison, the EU Regulation No. 1008/2008¹⁵ sets up clear conditions for establishing a community carrier: EU Member States and/or its nationals must own more than 50 % of the undertaking and effectively control the airline to be recognised as an EU community carrier. The regulations only require the ownership of one aircraft through ownership or a lease agreement.¹⁶ By fulfilling these conditions, the carrier is entitled to take advantage of the EU aviation market liberalisation.

¹⁴ See Alan Khee-Jin Tan, ‘IDEAS Policy Brief No. 8 - Ownership and Control of Airlines in Southeast Asia: Prospects for an ASEAN Community Carrier’, (2017) Institute for Democracy and Economic Affairs.

¹⁵ Regulation (EC) No. 1008/2008 of 24 September 2008 on common rules for the operation of air services in the Community.

¹⁶ Brussels, 8.6.2017 C(2017) 3711 Final Commission Notice of 8.6.2017 Interpretative Guidelines on Regulation (EC) 1008/2008 - Rules on Ownership and Control of EU Air Carriers.

Further advantage for airlines in obtaining EU Community Carrier status is the ability to receive state aid (subsidy) for starting or expanding networks. Such state aid is granted by the EU Member States. The route itself must be a regional one which links EU regional airports with less than five million passengers per annum, especially those that are located in disadvantaged regions or outermost regions in the EU. This means the European Commission assures that any state aid granted is aimed to strengthen only EU airlines and routes.¹⁷

Within the competitive legal regime, logically, state aid from EU Member States is at odds with fair competition. However, the aid is justified as long it passes the Market Economy Investor Principle test to ensure the legality of granting each state aid.¹⁸ The Court of Justice of the European Union (CJEU) shall settle any dispute on this issue, thus becoming the guardian for ensuring fair competition. When it concerns regional development, Public Service Obligation (PSO) flights serving remote and underdeveloped regions are exempted to ensure equal economic development in EU.

The establishment of an ASEAN Community Carrier represents a significant step for air connectivity. However, regulating subsidy or state aid across ASEAN Member States airlines through a regional legal framework will be challenging, and therefore not likely to be achieved for some time. Partly, this is because many ASEAN Member States subsidise only their flag carriers, leaving the other national airline(s) struggling to compete in their respective domestic market. This aviation policy is accepted and has become the status quo in the region.

Furthermore, ASEAN has its own method of operation where a non-interference principle is upheld and respected among the Member States. This unique characteristic has led to a situation where not a single Member State can judge another's policy as wrong nor intervene, either directly or via the ASEAN institutions. Unlike in the EU, there is no ASEAN Court to guard fair competition in the aviation sector, especially related to intra-ASEAN flights. As a result, more ambitious policies, such as coordinating state aid, remain a distant prospect for ASEAN.

ASEAN Challenges to Realising Community Carrier

In this context, the main challenge is determining a realistic ASEAN Community Carrier concept. In light of the current challenges, establishing slot priority scheme for ASEAN Community Carrier, for this stage, is realistic. Under this proposal, ASEAN Member States airlines, both flag and non-flag carriers, which become community carriers would enjoy certain advantages in all airports across the region. These airlines would have the priority to obtain airport slots with the best schedule, either for business or leisure travel depending on its purpose. This scheme would also benefit ASEAN airports. This situation could foster regional economic growth through connectivity, namely faster people and goods mobility, with reference to ASEAN Economic Community Blueprint 2025.

There are two issues that need to be resolved to implement this proposal. First, how to determine the foreign ownership restrictions to define an ASEAN Community Carrier. For national defense and security – as well as pride (nostalgic reason), each ASEAN Member States could designate one of its national airlines to become the flag carrier. Noticing how this issue is sensitive for some ASEAN

¹⁷ Magnus Schmauch, *EU Law on State Aid to Airlines: Law, Economics, and Policy*, (Berlin: Lexxion Publisher, 2012), p. 295.

¹⁸ Market Economy Investor Principle is to determine whether a public investment is a selective measure or if it would have been made by a private shareholder according to normal market economy situations.

Member States, these *de jure* flag carriers shall not be affected by any ownership liberalisation; but at the same time they shall enjoy the proposed advantage of becoming an ASEAN Community Carrier – namely owning slot priority across all ASEAN airports. However, other ASEAN Member States airlines that are not flag carriers are subject to this liberalisation scheme. It must be highlighted that as of today, there is still no definition on fair competition pertaining to intra-ASEAN flights.

Second, ASEAN needs to enact its own guideline in the aviation sector. Further details related to the ASEAN Community Carrier concept, such as i.) airport criteria for slot priority; ii.) PSO flights serving intra-ASEAN remote and underdeveloped regions or cities; and iii.) uniformity of minimum aircraft requirements for airline establishment, shall be further regulated in the future. Hopefully, the new ASEAN aviation sector guideline could become a stepping stone in establishing fair competition definition - starting from intra-ASEAN flights.

5. The Introduction of ASEAN Open Skies Protocol 4

As for the most recent legislation on ASEAN Multilateral Agreement for the Full Liberalisation of Passenger Air Services, the Fourth Protocol¹⁹ was introduced in November 2018. This protocol, which has been in force since August 2019, aims to increase connectivity through the introduction of co-terminal rights.

Article 2 of the ASEAN Open Skies Fourth Protocol

“[t]he designated airline(s) of each Contracting Party shall be allowed to exercise co-terminal rights, provided that there shall be no exercise of cabotage rights.”²⁰

In addition to the 5th Freedom of the Air which already takes place in ASEAN, the Fourth Protocol allows ASEAN Member States airlines to carry out international traffic from their home base in a Member State (A) to more than one airport in another Member State (B1, B2); without the right to sell tickets or transport passengers solely from B1 to B2. The Fourth Protocol does not really constitute the 8th or 9th Freedom Traffic Rights (or cabotage rights), but allows domestic connections for international traffic in another ASEAN Member States.

The notion of “...shall be no exercise of cabotage rights...” means any carrier is prohibited to embark passenger within the domestic transit right. Physically the aircraft could fly between two points within one foreign country (another ASEAN Member States), but without any economic right. Thus, this legal framework breakthrough has no intention on breaking the ASEAN cabotage fortress.

¹⁹ ASEAN Open Skies Protocol 4 on Co-Terminal Rights Between Points Within the Territory of Any Other ASEAN Member States. Done at Bangkok on 9 November 2018. As of April 2020, six states have ratified this protocol, namely Singapore (May 2019), Thailand (June 2019), Malaysia (August 2019), Myanmar (September 2019), Viet Nam (October 2019), and lastly the Philippines (December 2019). See ‘ASEAN Transport Instruments and Status of Ratification (as of 28 August 2020)’ (Association of South East Asian Nations).

²⁰ The term “cabotage rights” includes the holding out of air services for sale on purely domestic routes by the designated airlines(s) of that Contracting Party. For further reading on cabotage, see Pablo Mendes de Leon, *Cabotage in Air Transport Regulation*, (Dordrecht: Martinus Nijhoff, 1992).

Box 13 – ASEAN Open Skies Protocol 4



ASEAN Member States with huge domestic market share may be reluctant in opening up their airports. As a fact, Indonesia has been quite reserved on this matter— only opening five points for the co-terminal rights.²¹ This is not unexpected, since Indonesia has always been protective of their national airlines noticing its huge domestic market share.

The Covid-19 pandemic has brought an opportunity to test the Fourth Protocol in a scenario where some ASEAN Member States' airlines might go bankrupt. This protocol could serve as an option to save the affected ASEAN Member States' air connectivity for a certain period. Furthermore, it could also stimulate tourism recovery through rapid turnover of foreign tourist visits. From this perspective, ASEAN Open Skies Protocol 4 could serve to strengthen air connectivity within the region.

²¹ ASEAN Open Skies Protocol 4, art. 2(3). The co-terminal rights shall be exercised between five Indonesian cities, namely Denpasar, Jakarta, Makassar, Medan, and Surabaya.

6. The Way Forward and Policy Recommendations

There are two realistic steps that could be taken for the integration of the ASEAN region through the skies.



First, there is an urgency for the ASEAN Transport Working Group to restart the discussion on ASEAN Community Carrier. Such concept shall not only focus on ownership and control restriction, which is deemed sensitive for some ASEAN Member States at the current liberalisation stage. There are other benefits from a community carrier that can be addressed without raising ASEAN Member States' reluctance, such as slot priority scheme across specific ASEAN airports.



Second, in parallel, the ASEAN Transport Working Group should also review the minimum aircraft requirements in regards to airline establishment within the region. This issue will touch all ASEAN Member States aviation law. Investment-friendly provisions among the ASEAN Member States shall lead to new airlines establishment, which means a more seamless air connectivity. Ideally, this situation could encourage a better intra-ASEAN connectivity, especially flights serving remote and underdeveloped regions or cities.

In conclusion, there is indeed an urgency to establish a new ASEAN aviation sector guideline for accommodating such policy recommendations.

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Chapter 4:

Keeping freights moving: Why ASEAN needs a Digital Integration Forum for the logistics sector

Suraj Nair

Executive Summary

Despite its trade intensity, ASEAN is still not achieving the full potential of digitalisation in logistics the way the EU has done. There are gains to be captured that are missing due to a lack of coordination from ASEAN Member States (AMS) which could be improved through the creation of better forums and channels of information exchange.

Covid-19 has highlighted this vulnerability and serves as an opportunity to improve coordination. The pandemic, including efforts to minimise social contacts for transport and logistics personnel, and the increased strain on global supply chains have highlighted the importance of strengthening resilience in the logistics sector by using digital solutions.

At a regional level, there needs to be more significant leadership through collaboration among member states, including state agencies and commercial stakeholders directly involved in external trade.

A relevant model that is currently operational for the EU is the Digital Transport and Logistics Forum (DTLF). Their framework is useful to utilise as a structure to create an ASEAN committee and forum for Digitalisation in Logistics. This would not require an excessive resource commitment beyond the facilitation of a coordination mechanism that enables focused discussion and collaboration on an ASEAN-wide level. The successes and lessons of the DTLF do not rely heavily on the legal infrastructure of the EU and is more collaborative, with clear policy goals that could be adopted by ASEAN.

To achieve such outcomes, it requires the promotion of the already emerging work with the ASEAN Digital Integration Framework by the creation of a collaborative task force within the ASEAN framework as a forum. The direct institutional capacity for this already exists in AMS Ministries for international trade. Such ministries can engage with relevant business forums to push towards the creation of such platforms and to lead the advocacy to strengthen capacities at an ASEAN level.

I. Introduction

Digitalisation processes are driving profound changes in the production, exchange, and consumption of goods and services on a global scale¹. This materialises itself prominently in the ASEAN region through its geographically important position in major international trade channels. Thus, the relevance of logistics and its influence on the digitalisation of processes needs to be investigated further to understand the importance of capturing gains from trade to the ASEAN region. Here, digitalisation refers to the technological embeddedness concerning global trade and commerce in platforms that go beyond physical interfacing.

These digitalisation opportunities in the ASEAN region relate to evolving collaboration among nations in the region.² This would reflect particularly on both the historical evolution of ASEAN Member States (AMS) and the potential to widen this within the framework of developments in digitalisation in global economies. As such, this brief will focus on digitalisation issues surrounding logistics and supply chains.

The current relevance of this is highlighted through the lens of Covid-19 via the reconfigurations of global economic activities. A Deloitte research advocated for paperless logistics as a vital element to safeguard productivity during such disastrous events. They also advocate for using this unique social and economic event as a catalyst to reform digitalisation strategies to support business resilience.^{3 4}

The dynamism of interstate collaboration in digitalisation and the approaches within ASEAN are compared to the framework of the European Union (EU). In the case of ASEAN, the approach will be on intergovernmentalism and thus retaining the fundamental divergence of the basis of collaboration, in contrast to the EU that is formalised by legal Treaty⁵.

The briefing paper will firstly explore the prominence of digitalisation in AMS and its impact on SMEs in the region when gains are effectively captured by better coordination. The institutional challenges facing ASEAN logistics digitalisation will be discussed before exploring the dynamics of the debate between national and regional digitalisation policies. The current institutional environment to facilitate AMS digitalisation in logistics will then be outlined before evaluating this against the model adopted by the European Union as a useful case study, before concluding with policy lessons.



¹. Azmeh, S., Foster, C.G., & J. Echavari. 2019. 'The International Trade Regime and the Quest for Free Digital Trade'; Maiti, D., Castellacci, F., and A. Melchior. 2019. 'Digitalisation and Development: Issues for India and Beyond'; Guillén, M.E., Moliner, M.A., and D. Monferrer. 2019. 'The Digitalisation of Logistics'

². IDEAS. 2019. 'ASEAN Integration Report' API Report No. 1

³. Deloitte. 2020. 'Increase resilience through digitisation. A global COVID-19 response for legal leaders'

⁴. Mishra, B. 2020. 'COVID-19 Crisis Boosts Ocean Freight Digitalisation'

⁵. European Economic Community. 1957 'Treaty of Rome'

2. The current state of ASEAN Digitalisation

A recent report, by Deutsche Bank, has suggested that "digitalisation must be positioned as a pillar central to the ASEAN Economic Community (AEC) vision of a single economic market."⁶ This would help to reap the benefits of digitalisation in a manner supportive of inclusive growth and sustainability as a catalyst for moving beyond AEC 2025, which provides clarity around how each ASEAN nation's digitalisation strategies link into AEC 2025. The reference to the Master Plan on ASEAN Connectivity 2025 (MPAC 2025), which pushes for ASEAN integration to enable institutional, physical, and peer-to-peer communication linkages and channels as the proposed approach.

In reflecting on crucial strategies, there are already findings from several expert groups that have explored the scope in collaboration within the region. A study, coordinated by the Asia Foundation linked to the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME), addressed challenges to MSME adoption of digital technology.⁷ They referred to limited knowledge of digitalisation and difficulties of engaging with MSMEs through online and offline platforms.

ACCMSME customises training programmes to suit the local context of AMS and engages local teams of technology professionals and volunteers to deliver the training.⁸ The data refers to the current state of ASEAN and opportunities that can be realised with better usage of digitalisation to match the other aspects of ASEAN's economic strength. ASEAN ranks third in the world by population, sixth in GDP terms and fourth in trade value; however, ASEAN's digital economy is only 7% of its GDP compared to 16% of China, 27% of EU and 35% of the US, highlighting the missed opportunities that must be capitalised.

In this regard, AMS should accelerate progress on seamless logistics to facilitate trade across borders, including digital-enabled trade within and across AMS. Surveys conducted by Bain and Company highlight the evident gap; even though 75% of SMEs recognise that digital integration presents economic opportunities, fewer than 1 in 5 use digital tools as part of the core business model.⁹ Another study reported a shortage of skills and knowledge as a critical barrier impeding digitalisation.¹⁰

The findings that are emerging point to limited knowledge about digital technologies, and a reluctance to change business processes. This highlights the need for collaboration between governments and digital platformers, and thus in engaging MSMEs to build technological capabilities to promote greater utilisation of digitalisation¹¹. These studies have proposed the need to develop a collaborative framework in digital platforms that will engage more with industry and businesses to enhance digital linkages for international trade.¹² These approaches argue for a reduced time taken within customs clearance and trade facilitation, by using digitalisation with E-documents in international trade and logistics.

⁶ Deutsche Bank. 2017. 'Reimagining ASEAN: The digital journey to 2025'

⁷ ASEAN. 2020. 'Go Digital ASEAN, Digital skills to address the economic impact of COVID-19'

⁸ Ibid.

⁹ Bain and Company. 2018. 'Advancing Towards ASEAN Digital Integration: Empowering SMEs to Build ASEAN's Digital Future'

¹⁰ ERIA. 2019. 'Study on MSMEs Participation in the Digital Economy in ASEAN: Nurturing ASEAN MSMEs to Embrace Digital Adoption'

¹¹ Lall, S. 1992. 'Technological capabilities and industrialisation'

¹² Fu, X. 2015. 'China's Path to Innovation'; OECD. 1997. 'National Innovation Systems'

The Bain and Company 2018 report on ASEAN highlights the barriers preventing SMEs from engaging more within logistics as formed by the uncertainty surrounding a lack of understanding of digital technology.¹³ There are also questions on the affordability of technology, such as high upfront investments required for systems. Further, there are concerns for these SMEs about a lack of support from governments in their adoption of technologies. If such SMEs can utilise digital integration for their logistics, this will allow them to overcome such barriers and lead to asset maximisation and digital integration.

ASEAN, in late 2019, set the foundations for the facilitation of digital integration in place with the Digital Integration framework.^{14 15} The action plan for the framework includes the following five priorities: i) Facilitating seamless trade, ii) Protecting data while supporting digital trade, iii) Enabling seamless digital payments, iv) Developing a digital workforce, and v) Fostering entrepreneurship. There is an additional reference in the framework to prioritise coordination of action with a body to move across the priorities mentioned before. However, such an approach can be refined in light of emphasising useful, targeted forums, including specialised committees, to accelerate information exchange in specific areas, such as the digitalisation of logistics. Further, such action can help to focus the activities proposed by the action plan to integrate private sector expertise into the forums to facilitate more significant technology transfers in a better manner.

3. Institutional Challenges for Logistics in ASEAN

Logistics, as a service, is especially crucial for export-dependent countries whose economic growth and sustainability rely on international trade¹⁶. The sector can be supported by policies to develop and improve its contribution to the competitiveness of ASEAN in international trade. Logistics is considered a pillar of the ASEAN Economic Community (AEC), which facilitates trade and services flows and movements across the ASEAN region.¹⁷ ASEAN logistics comprises of linkages with infrastructure which encourages the participation of service providers. Their combined efforts reflect and influence the general quality contributing to the international competitiveness of ASEAN logistics services.¹⁸

In comparison to the EU and the USA, the ASEAN logistics sector is more fragmented and less developed. Further, the sector is dominated by large foreign logistics providers. Additionally, to improve the connectivity of E-commerce within the ASEAN region requires the coordination of local transport and forwarding companies. However, such local companies face a resource constraint and thus will not be able to progress with integration without regional support from AMS governments and the ASEAN as a whole.

In ASEAN, policy formulation and implementation are regarded as problematic, mainly reflecting the variations in transport modes, including governance by state bodies and agencies within member states. This is seen in Myanmar and Cambodia with multi-agency engagement involved in policy for the sector such as those involved

¹³. Bain and Company. 2018. 'Advancing Towards Asean Digital Integration: Empowering SMEs to Build ASEAN's Digital Future'

¹⁴. ASEAN. 2019. 'Digital Integration Framework'

¹⁵. The ASEAN Digital Integration Framework Action Plan 2019-2025 was ratified at the 18th ASEAN Economic Community meeting on the 31st of October 2019.

¹⁶. Tongzon, J., and I. Cheong, 2014. 'The challenges of developing a competitive logistics industry in ASEAN countries'

¹⁷. Ibid.

¹⁸. ERTICO. 2020. 'Digital Logistics: Essential in Mitigating the Spread of Covid-19 and for our Sustainable Future'

in policy for the sector such as those involved in trade, foreign investments as well as customs authorities.¹⁹ Further, the data on ASEAN logistics are mostly weak and does not provide in-depth statistics on the stakeholders, including their business outcomes, as well as their socio-economic performance such as market structure, costs, and employment.²⁰ The data which is captured is mostly decentralised, and there are no standard formats to enable cross country comparisons within ASEAN.²¹

4. National versus Regional Digitalisation Policy

There is a need for ASEAN to overcome their coordination problems since this would lead to gains from trade as advocated in the literature on "South-South" cooperation between developing nations²². Such South-South Cooperation for progressing on Digital Single Market (DSM) has integration processes on regional markets that make them easily accessible to all stakeholders in the countries within the region.²³ However, in the digitalised world, regional markets can only be genuinely integrated if they progress towards a digital single market in the region. A regional digital single market (RDSM) would lead to richer online access across the region and will stimulate the benefits through positive network externalities.

The EU's initiative on 'Digital Single Market strategy' (DSM), which was adopted in 2015, can provide rich learnings for ASEAN, although may not be immediately replicable given the lack of digital capacities in ASEAN. It is estimated that DSM can contribute EUR 415 billion per annum to Europe's economy and create jobs and transform public services.²⁴ The progress made by advanced countries on digitalisation and regional digital integration implies that the Global North-South digital divide may widen in the future if developing countries do not make extensive efforts at both national and regional level to progress on digitalisation.

There is a lesson on the need to reinforce ASEAN integration with a more interventionist approach that can be vital in countering these challenges. For small open economies of relatively high technological capacities, such as in ASEAN member states, a digitally open approach can allow for the integration of leading digital firms into the economy. Regional digital policies can also be utilised, such as the EU Digital Single Market, to support smaller nations using integrated markets.²⁵

Foster and Azmeh, in a study on African Digitalisation harmonisation, argue that it is likely that successful e-commerce firms in Africa will begin to grow when integrated into regional markets.²⁶ With the digitalisation of global and regional value chains, there is also likely to be increasing demands for cross-border business-to-business e-commerce within regionally integrated multinationals in the future. However, infrastructure and logistics issues remain essential barriers to e-commerce, as logistics networks in these countries are underdeveloped. The approach on a detailed level of collaboration among business and commercial stakeholder facilitated by regional states in AMS would be useful to consider.

¹⁹ Yean, T.S., and S. Basu-Das, 2016. 'Moving the AEC Beyond 2015: Managing Domestic Consensus for Community Building'

²⁰ Ibid.

²¹ Kawa, A. 2020. 'Improving Logistics Connectivity of E-commerce in the ASEAN Region'

²² Use of "South" here refers to the Global South from development studies literature.

²³ UNCTAD. 2020. 'South-South Digital Cooperation for Industrialisation: A Regional Integration Agenda'

²⁴ European Commission. 2015. 'A Digital Single Market Strategy for Europe'

²⁵ Azmeh, S., Foster, C.G., and J. Echavarri. 2019. 'The International Trade Regime and the Quest for Free Digital Trade'; Foster, C.G., and S. Azmeh. 2019. 'Latecomer Economies and National Digital Policy: An Industrial Policy Perspective'

²⁶ Foster, C.G., and S. Azmeh. 2019. 'Latecomer Economies and National Digital Policy: An Industrial Policy Perspective'

5. ASEAN Digital Master Plan

To enhance ASEAN connectivity, the Master Plan on ASEAN Connectivity 2025 (MPAC 2025) was created on the assumption that there is already a robust logistics structure in place. In reality, the efficiency in this sector has not improved since the 2010 Master Plan (MPAC 2010) based on indicators of transportation costs and delays slowing trade flows. Arising from this, there is a need for greater coordination between state agencies, in addition to an improved platform for sharing best practices. To achieve these aims requires collaboration between the service providers, academic institutions, and ASEAN member states within an innovation systems framework²⁷. Such alliances would enable the identification of bottlenecks within the supply chain and policy hurdles that may emerge.²⁸ An institutional instrument that could be explored by AMS to encourage further collaboration and integration relates to the EU Digital Transport and Logistics Forum (DTLF).

6. European Union Perspective Digital Transport and Logistics Forum (DTLF)

The DTLF provides a platform among EU Member states to exchange knowledge and coordinate policies in transport and logistics digitalisation. This approach refers to digital corridors and information system and is structured on collaboration among sovereign states in Europe within the European Union. Importantly, its function is not grounded in legal Treaty, but in a collaborative arrangement that is mutual for EU member states.

The DTLF highlights how new technologies and big data from digitalisation can be utilised to innovate on methods of organising and managing cargo and traffic flows. Such approaches can revolutionise the sector by creating channels of innovation, new opportunities for business, and the generation of different business models and services.

The institutional importance of such a forum supported by member states is that it enables cooperation between supply chain actors regardless of their base country, better supply chain visibility, real-time management of traffic and cargo flows with the improved shared data. This reflects in the business case for firms to desire such a useful forum with simplification and the reduction of administrative burden, better use of infrastructures and resources, thereby increases efficiency and lowers costs with the removed uncertainty that arises from standardisation.²⁹

²⁷ Fu, X. 2015. 'China's Path to Innovation'; OECD. 1997. 'National Innovation Systems'

²⁸ IDEAS. 2020. 'Post-COVID Supply Chain Reconfigurations: Convergence or Divergence in ASEAN Economic Integration?'

²⁹ DTLF. 2020. 'Digitalisation of Freight Transport Information: Council Adopts New Rules'

BOX: Digital Transport and Logistics Forum (DTLF)

"The DTLF is a collaborative platform, where the Member States, public entities and organisations exchange knowledge and coordinate policy and technical recommendations for the European Commission, in the fields of transport and logistics digitalisation across all modes of transport."³⁰

The DTLF have been able to work on refining rules relevant to electronic freight transport information. Additionally, the DTLF have developed the notion of a digital corridor to facilitate information systems between different stakeholders in various supply chains. This is designed to enable more significant linkages within the framework of existing cross border IT platforms.

The forum supports EU efforts in the field of seamless digital information exchange, including the preparatory work for Commission Proposals on electronic freight transport information, and the development of a concept for corridor freight information systems. The DTLF comprises public sector agencies involved in transport as well as private stakeholder organisation with expertise in logistics. This has been a catalyst towards more engaging access to generate information in the field of transportation.³¹

ASEAN-DTLF Lessons

Although there are institutional differences between the EU and ASEAN, ASEAN may want to adopt a modified version of the DTLF. ASEAN should push to form an ASEAN-wide committee, supported by the member state governments, to facilitate a more significant forum for information exchange. This is likely to be a role supported by Ministries with portfolios of international trade to leverage their existing platforms and networks. For example, the Malaysian Ministry of International Trade and Industry (MITI) currently support digitalisation initiatives in the form of SME Business Digitalisation Grants as blanket support. However, the DTLF and its success show how such benefits require coordination on an international level. The AMS governments must provide a platform for such coordination and shared lessons to drive digitalisation in logistics forward, recognising their export-heavy economies.

Deliberations of the DTLF point towards logistics stakeholders' current and continued use of paper documents instead of digital documents and procedures. Within the EU, there is an exact single market and coordination of cargo destined to different countries that could be discharged to any member states. Further, there are also institutional provisions which include dispute resolutions and operational scenarios.³² These approaches show the framework for initiatives within the DTLF and how they could be modified within a collaborative dimension in ASEAN, by building on the ASEAN Digital Integration Framework.

³⁰. European Commission. 2018. 'Setting up the group of experts on digital freight transport and logistics: the Digital Transport and Logistics Forum'

³¹. Ibid.

³². European Commission. 2018. 'Setting up the group of experts on digital freight transport and logistics: the Digital Transport and Logistics Forum'

7. Policy Recommendations



- To move towards a more competitive ASEAN economy, regional integration to support digital logistics infrastructure is essential. It will be a missed opportunity to not capitalise on the scale benefits of the ASEAN region if there is no push towards digital integration that is supported in action and intent of member states. This is significantly highlighted by the global transition toward digitalisation to enforce economic resilience from Covid-19 related economic shocks. Furthermore, there is broad consensus as to the benefits to the rest of the economy and society in terms of inclusive and sustainable growth as we transition further into the global digital economy.



- Promotion of greater AMS collaboration in digitalisation and furthering the role of ASEAN Digital Integration Framework to strengthen institutional hubs and digitalisation ecosystems would ease the flows of information and expertise, as is the case with the EU Digital Transport and Logistics Forum (DTLF).



- Set up a collaborative task force within the ASEAN framework to include, firstly, business and commercial stakeholders, secondly, the state institutions engaged in international trade and commerce, and thirdly, supporting a forum to allow for information exchange between AMS.

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Chapter 5:

Intra-ASEAN migration: Risks and opportunities

Armand Azra

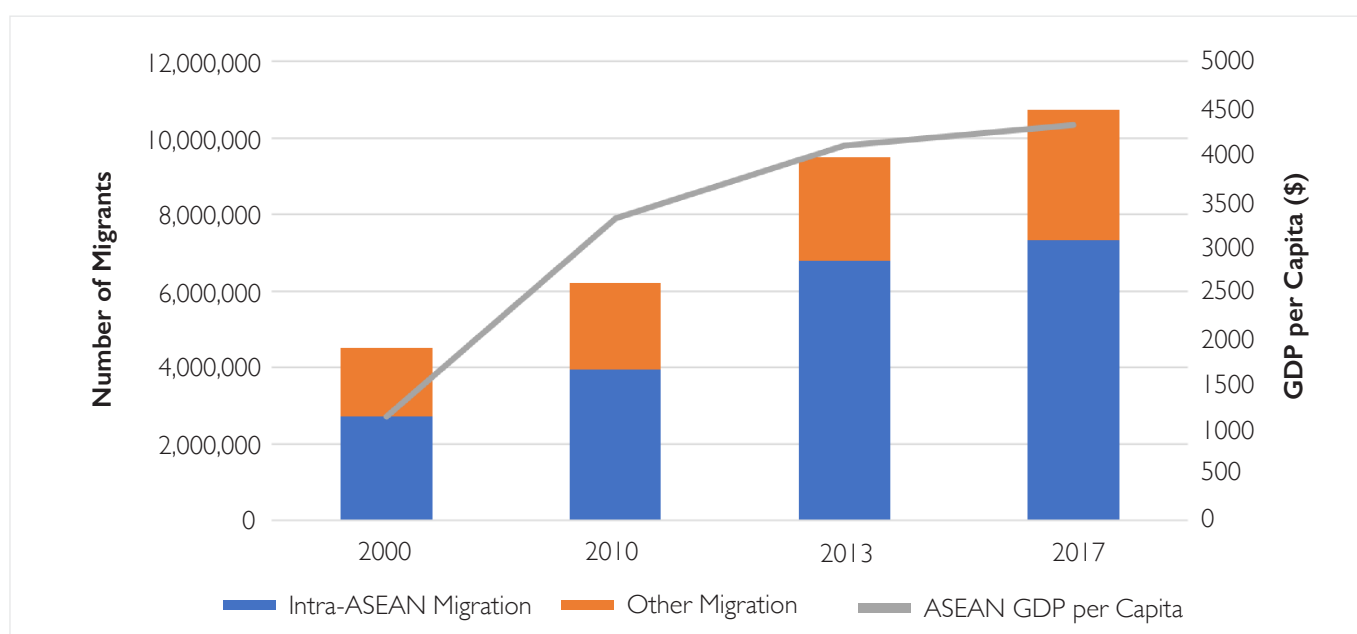
Executive Summary

- Intra-ASEAN Migration has been increasing with economic determinants such as wage differentials being the main factors.
- This migration creates economic opportunities and supports regional integration, but also presents challenges given the divergent levels of economic development of Member States.
- At the regional level, ASEAN policy has focussed on facilitating high-waged labour mobility rather than improving governance of low-waged labour, which represents the vast majority of labour flows.
- The pandemic has put a strain on migration flows, highlighting these challenges. Moving forward ASEAN Member States should pursue a human capital approach to regional integration, through ensuring basic labour protections and strengthening regional governance of migration.

I. Intra ASEAN Migration

Intra-ASEAN migration has been growing exponentially since the 1990s. Although total migration has been similarly growing in ASEAN, which includes migration from outside of ASEAN, the proportion of those travelling within the region has been steadily increasing along with economic growth (Figure I).

Figure I Composition of ASEAN Migration vs GDP per capita



Source: Raymer, J., Guan, Q. and Ha, J.T. 2019. 'Overcoming Data Limitations to Obtain Migration Flows for ASEAN countries', *Asian Pacific Migration* 28(4), 385-414; ASEANStats. 2020. Gross domestic product (GDP) per capita in ASEAN, at current prices (nominal), in US dollars (annually).

¹ ILO. 2016. 'Review of Labour Migration Policy in Malaysia'.

Geographical proximity added with economic considerations are the two most important factors in the decision to migrate. Geographical proximity significantly lowers the cost of migration and allows a certain security to migrants, as moving from their country of origin to their destination and vice versa is made easier. For example, the highest amounts of migration from Cambodia, Laos, Myanmar and Vietnam (CLMV) are to Thailand because of their proximity and because Thailand is economically more advanced than the CLMV countries.

The Indonesia to Malaysia corridor has witnessed one of the largest and most consistent flows of migrants. In the late 2000s for example, around 20-30% of Malaysia's workforce consisted of Indonesian migrants in construction, manufacturing, services and domestic work.¹ Similarly, although Malaysia is generally considered a More Economically Developed Country (MEDC) in ASEAN, a large outflow of migrants still go to Singapore because of its relatively higher income than Malaysia. Table 1 gives a glimpse of the size of migration through employed migrants.

Table 1 Employed Migrants by Country of Origin in 2017

Migrant Origin	Malaysia	Indonesia	Thailand	Vietnam	Cambodia	Myanmar	Philippines	Laos
Malaysia	-	720,464	16,177	53,473*	35,286*	114,507	55,184	51*
Indonesia	24,417	-	166	148	0	283	1,433	0
Thailand	3,002	1,339	-	1,004	355,933	1,347,718	15,195	154,711
Cambodia (2008)	295	102	16,593	33,459	-	90	423	407
Brunei (2014)	8,404	19,398	834	71	0	80	12,386	0
Laos	-	-	4,889	2,259	-	-	-	-

Note (1): Other years than 2017 are used if data is unavailable

(2): *denotes data from 2011

Source: ILO. 2018. 'International Labour Migration Statistics Database in ASEAN'.

The most obvious motivation for migrating has been differences in income levels between member states. **Wage differentials and remittances are the primary factor driving large cross-border and intra-ASEAN labour migration.** This is driven by uneven levels of economic development across the region.

The average monthly wage in Thailand for example, is three times both Cambodia and the Lao PDR with a similar picture being drawn between Malaysia and Indonesia. Singapore is the exception in the region as its GDP per capita as well as average wages far exceed the regional average and thus attracts all types of migrants even extra-regionally.²

Intra-regional migrant remittances in ASEAN was estimated to be USD7.8 billion in 2016. The share of intra-regional remittances are high in Cambodia, Lao PDR, Myanmar, and Malaysia, ranging from 56.7% to 68% of GDP but as a whole, Less Economically Developed Countries (LEDC) tend to rely more on remittances with the exception of Indonesia as seen in Table 2.³ Besides that, Figure 2 shows that nine out of the top ten intra-ASEAN migration corridors have all been to a country with at least double the GDP per capita of the migrant's origin country.

² ADB. 2018, 'Skilled Labor Mobility and Migration'.

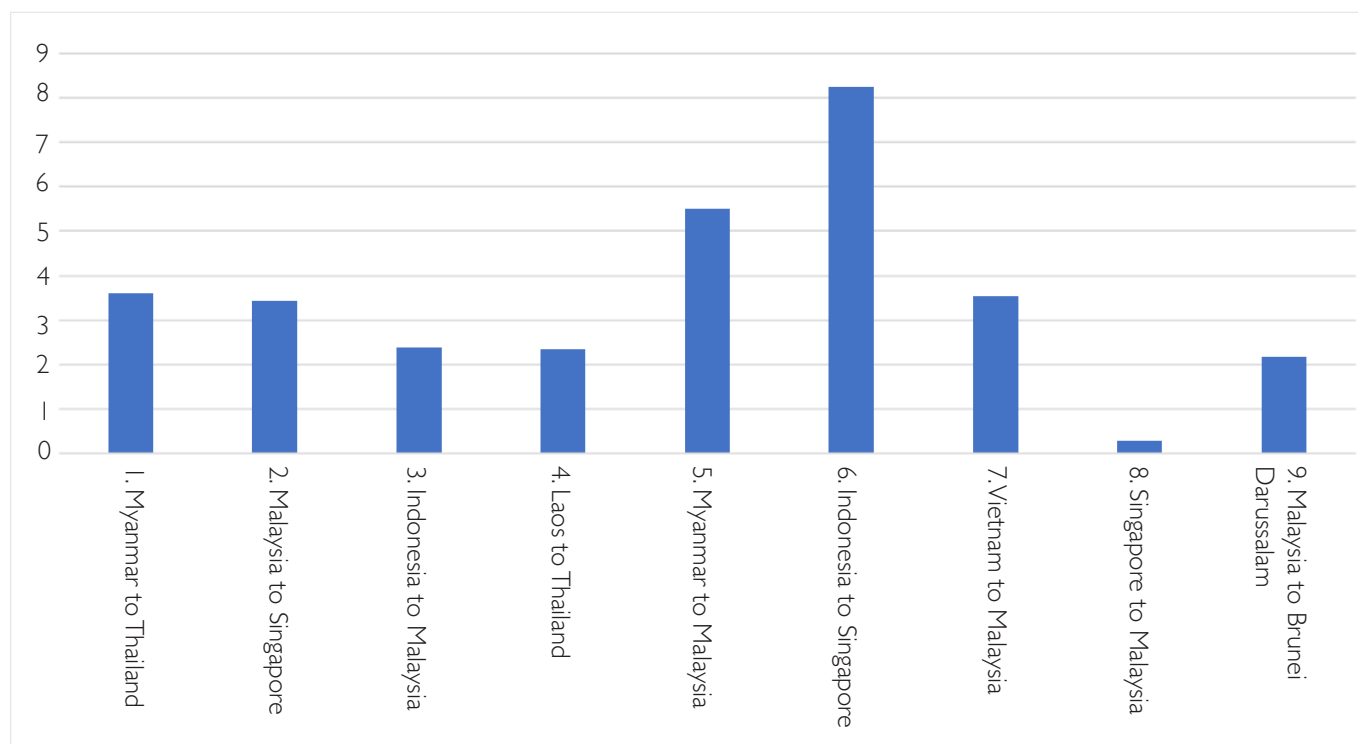
³ Ibid.

Table 2 Remittances as a share of GDP in 2019

Country	Remittances as a share of GDP in 2019 (%)
Laos	29.20
Philippines	9.90
Viet Nam	6.50
Cambodia	5.90
Thailand	1.30
Indonesia	1.00
Malaysia	0.50

Source: The World Bank. 2020. 'Annual Remittances Data'.

Figure 2 Ratio of destination- to origin-country GDP per capita in ASEAN's 10 largest migration corridors, 2020



Source: World Economic Outlook Database, IMF, 2020; Modified from World Bank. 2017. 'Migrating to Opportunity: Overcoming Barriers to Labour Mobility in Southeast Asia'.

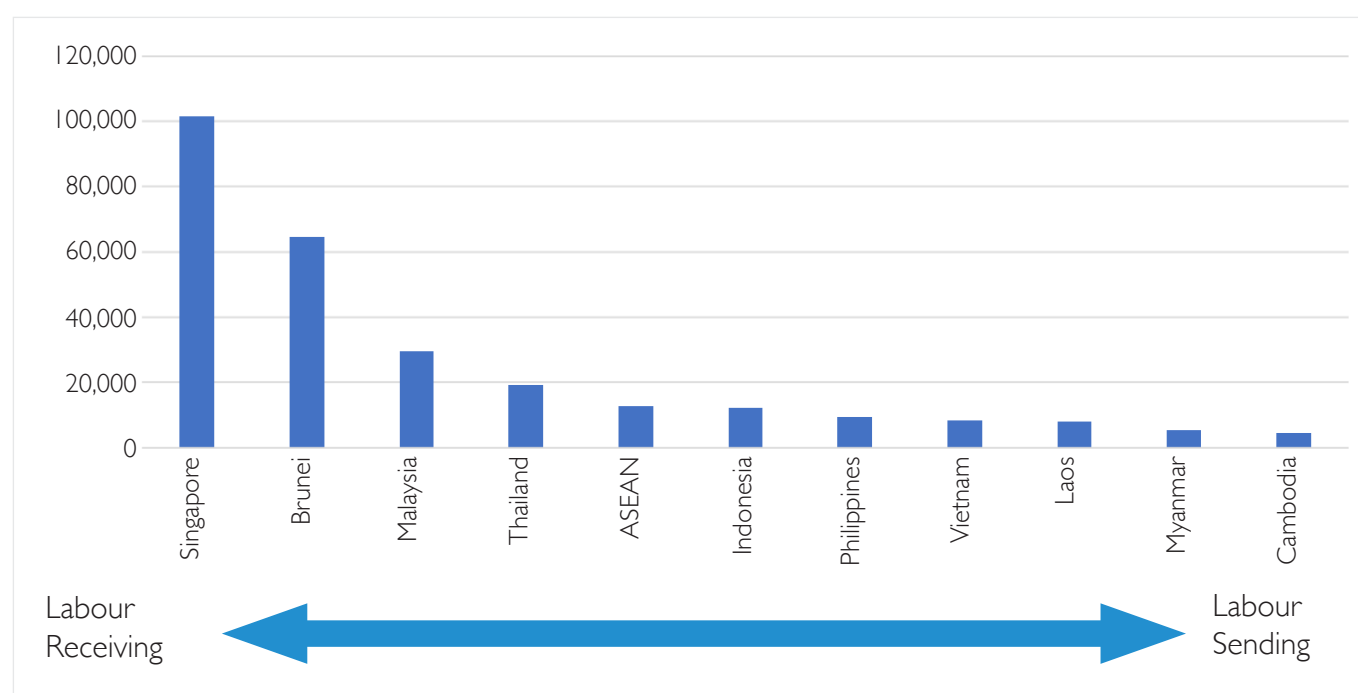
An added factor in the economic considerations is the development level of the ASEAN member states. MEDCs in ASEAN tend to have a larger net migration inflow from LEDCs as evident from Table 1. The reverse is also true where LEDCs tend to have larger net migration outflows. Thus, it is clear that, in general terms, the level of economic development is strongly related to the nature of migration (Table 3).

Table 3 Categorisation of ASEAN member states

Category	Labour-sending (LEDC)	Labour Receiving (MEDC)
Countries	Cambodia, Indonesia, Laos, Myanmar, the Philippines, Viet Nam	Brunei Darussalam, Singapore, Malaysia, Thailand
Economic Characteristics	<ul style="list-style-type: none"> • High population growth rates • Low proportion of aged population (60 years) • Low rates of urbanization • Low per capita GDP • Fertility rates higher than other countries in the region 	<ul style="list-style-type: none"> • Very low or negative population growth • High proportion of aged population (60 years) • High rates of urbanization • High per capita GDP • Fertility rates below replacement rates
Migration Characteristics	Managing Outflows <ul style="list-style-type: none"> • Protection of nationals abroad • Remittances 	Managing Inflows <ul style="list-style-type: none"> • High levels of irregular inflows • Enforcement of migration laws

Source: Modified from Allison-Reumann, L. 2017. 'Integrating ASEAN in Labor Migration Policy: From Disjointed to Complementary'. *Asian Politics & Policy* 9(3). 427-441

The threshold between a labour receiving country and a labour sending country can conveniently be measured by its GDP per capita as seen in Figure 3. A higher than the ASEAN average GDP per capita will place a country in the labour receiving category while a lower than ASEAN average GDP per capita often means that it is a labour-sending country.

Figure 3 ASEAN GDP (PPP) per Capita (\$) and Labour Categorisation Spectrum

Source: IMF. 2020. 'World Economic Outlook Database'.

This data however still does not capture the full picture of intra-regional migration especially considering irregular migration make up an estimated 40% of total intra-ASEAN migration.⁴ This is especially the case with countries that share a border such as Malaysia and Indonesia or Thailand and Myanmar; as local companies benefit from cheap, unregulated labour.⁵ The increasing relevance of regional migration has led to many bilateral agreements in the form of Memorandums of Understanding (MoU) that are non-legally binding documents that acknowledge and govern migration. MoUs have been common practice in ASEAN as seen in Table 4.

Table 4 Memorandum of Understandings Between ASEAN Member States

Country of Origin	Destination Country
Cambodia	Thailand (2003, 2015); Vietnam (on trafficking [2005]); Malaysia (2015) Thailand, and Vietnam
Greater Mekong Subregion	MoU on cooperation against trafficking (2004), with Cambodia, China, Laos, Myanmar;
Indonesia	Malaysia (2006, amended 2011)
Laos	Thailand (2002); Vietnam (on trafficking [2010])
Myanmar	Thailand (2003, 2009 on trafficking)
Philippines	Indonesia (2003); Laos (2005)

Source: Modified from Allison-Reumann, L. 2017. 'Integrating ASEAN in Labor Migration Policy: From Disjointed to Complementary'. *Asian Politics & Policy* 9(3). 427-441

There also a number of ASEAN-level instruments designed to facilitate the movement of people between ASEAN Member States (AMS). These include Mutual Recognition Agreements (MRAs) for professional qualifications, to allow certified professionals to practice across ASEAN.

⁴. International Labour Organisation. 2018. 'Social protection for migrant workers in ASEAN: Developments, challenges, and prospects'

⁵. Raymer, J, Guan, Q and Ha, J.T. 2019. 'Overcoming Data Limitations to Obtain Migration Flows for ASEAN countries', *Asian Pacific Migration* 28(4), 385-414.

2. Challenges with ASEAN migration

The growth in intra-ASEAN migration is, on one level, a driver of integration. However, it also raises a number of challenges which may undermine efforts to achieve sustainable development across all AMS through regional integration.

Firstly, despite growth in intra-ASEAN migration many of ASEAN's higher-waged migrants choose to leave the region. Despite the exponential growth in ASEAN migration, about 60-70% of migration tend to be extra regional. 5.5 million migrants, which is about 40% live in other ASEAN countries while another 5 million are living in North America and about 13% of total migrants are in Europe. Between the years 2000 to 2010, the outflow of high-waged migrants in OECD countries increased by 66% with Thailand more than doubling the amount of outflows suggesting a continuing brain drain from ASEAN.⁶

To promote the migration of high-waged workers within ASEAN, a number of policy instruments have been introduced. However, despite the policy focus on developing high-waged migration, the impact of ASEAN-wide policies to date has been limited. Agreements such as the Movement of Natural Persons (MNP), ASEAN Comprehensive Investment Agreement (ACIA) and Mutual Recognition Agreements (MRA) are targeted at intra-regional professional migrants but are oftentimes too restrictive or secondary to individual policies in the AMS.⁷

Whilst policy to promote high-waged migration is progressing slowly, low-waged migration is subject to relatively low policy attention at the regional level. Low-waged labour makes up an estimated 87% of total intra-regional migration but ASEAN policy so far primarily focuses on facilitating high-waged labour through various regional agreements rather than enhancing the governance of low-waged labour.⁸

The absence of regional governance and the nature of low-waged migration generates risks of exploitation and abuse of migrant workers. Recruitment agencies are controversial in the labour sending countries for shifting the cost of migration to the migrants themselves who often take loans to pay the fees. In Indonesia, the National Board on the Placement and Protection of Indonesian Overseas Workers (BNP2TKI) has been widely criticised for being unable to regulate the officially recognised recruitment agencies.⁹

Abuse within the migration "industry" is often met with backlash from individual national governments as well as the wider public. Figure 4 shows the effect of this as despite signing an MoU in 2006, Indonesian migration to Malaysia had decreased following mass movements against the abuse cases of Indonesian domestic workers culminating in a ban in 2009. In 2011, the ban was lifted, and the MoU between Malaysia and Indonesia was amended to mitigate the widespread problem of migrant abuse but besides a temporary increase in 2013, Indonesian migration to Malaysia continued its decline.

⁶ ADB. 2018, 'Skilled Labor Mobility and Migration'.

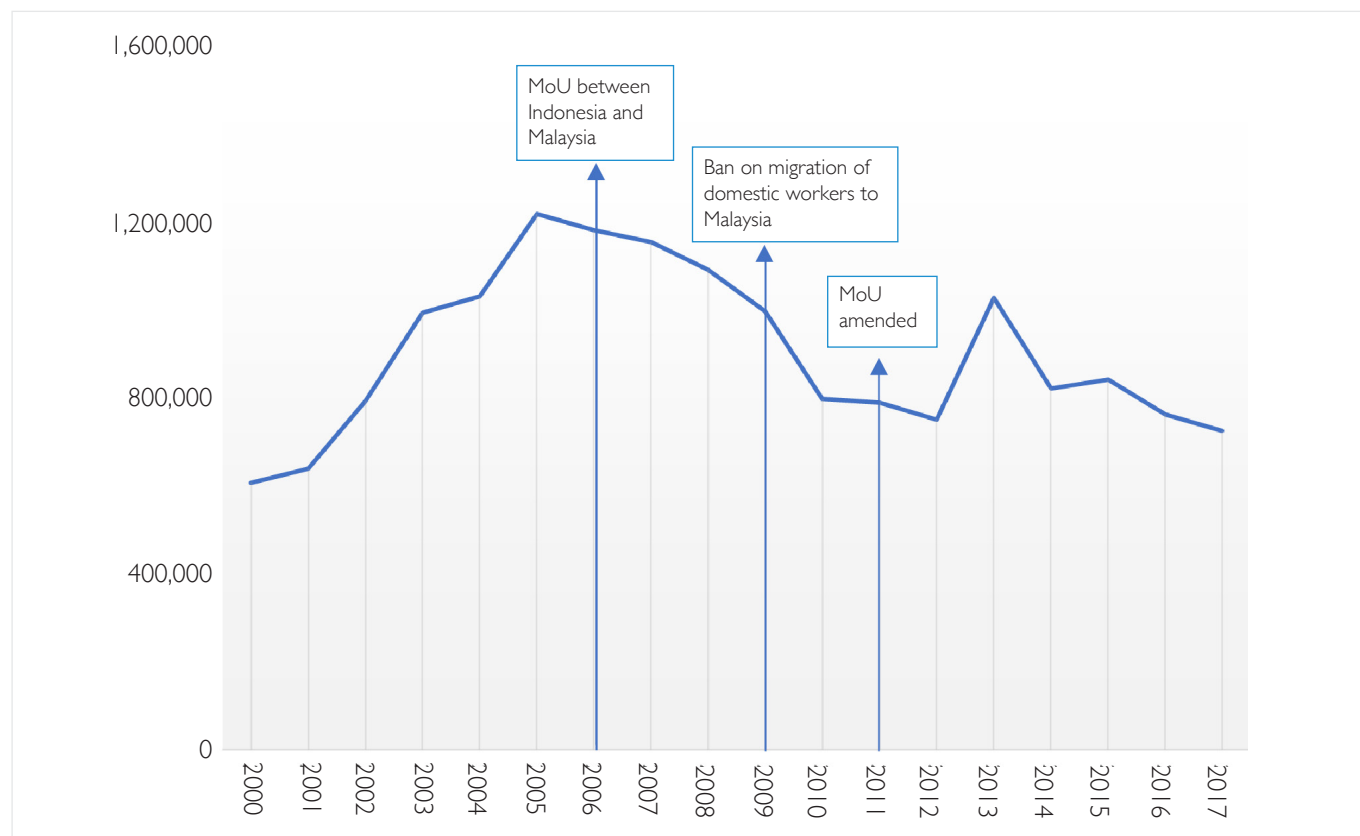
⁷ Sugiyarto, G and Agunias, D.R. 2014. 'A "Freer" Flow of Skilled Labour within ASEAN: Aspirations, Opportunities and Challenges in 2015 and Beyond', Issue in Brief 11.

⁸ Ibid

⁹ Elias, J. 2018. 'Governing Domestic Worker Migration in Southeast Asia: Public-Private Partnerships, Regulatory Grey Zones and the Household'. *Journal of Contemporary Asia* 48(2). 278-300.

Malaysia faced a similar situation when Malaysian employers attempted to use Cambodian domestic workers as substitutes during the Indonesian ban which led to a Cambodian ban of migration to Malaysia not only because of the abuse cases in the migrant industry in Malaysia but also the recruitment agencies in Cambodia themselves. Recruitment agencies themselves in the Philippines had banned immigration to Singapore because of the common practice of working off the payment levy debt, a practice banned by the Philippines government.¹⁰

Figure 4 Employed Indonesian Migrants In Malaysia



Source: International Labour Migration Statistics Database in ASEAN, International Labour Organisation, 2018

Beyond the risks to individual migrants of abuse and exploitation, the current dynamics of intra-ASEAN migration may in fact have some negative implications for economic development.

MEDCs have benefited significantly from access to low-cost labour from LEDCs. The ASEAN economy is comprised overwhelmingly of SMEs with up to 98% of businesses in ASEAN being SMEs. SMEs are reliant, not only on the cheap forms of labour from migration but the temporary nature of migration. Therefore, it is not surprising that most of the intra-ASEAN migrants tend to work in SMEs in the informal economy such as construction, agriculture and fisheries. Additionally, many are employed in households and services, such as Foreign Domestic Workers (FDW) which are often completely excluded from labour and social protection. FDWs have been essential in allowing woman in developed economies to leave the domestic sphere and contribute to the economy through high-waged labour which effectively creates double income families in many MEDCs.

¹⁰ Ibid.

Policy choices have served to keep the cost of low-waged foreign labour down, including through exclusion from social and labour protection, such as the minimum wage. In many cases enforcement activities have focussed on migrants themselves, rather than employers. In Thailand, policies have often been characterised as 'pro-employers' as SMEs are rarely sanctioned for recruiting irregular immigrants or exploiting labour.¹¹

However, there is a risk that this high use of low-cost foreign labour undermines economic development in MEDCs. For example, Malaysia's productivity growth has slowed in recent years, as manufacturing activities have continued to rely on low cost foreign labour rather than capital upgrading, leading to increasing efforts by successive governments in Malaysia to reduce reliance on foreign labour.¹²

The challenge for MEDCs will become more acute as investors increase their focus on sustainability – including for labour. More than half of private equity in ASEAN have engaged in sustainable investment deals to generate social benefits through the Environmental, Social and corporate governance (ESG) guidelines. In the first half of 2019, 56% of all private equity deals in Southeast Asia met Bain & Company's sustainability criteria showing an increase interest in sustainable investments. In addition, 41% of private equity assets in 2018 were in sustainability assets compared to 1% in 2010. The consequences of the excesses of the migration industry have recently been subject to scrutiny from a sustainability perspective. Forced and child labour as well as other labour concerns in the palm oil industry, has led to sanctions to firms engaging in these practices.¹³ Thus the shift to a more sustainable future threatens the model of low-cost labour driven production, if it does not adopt sustainable growth policies.

From the LEDC perspective, intra-ASEAN migration of low-waged labour also presents a double edged sword. On the one hand, the availability of economic opportunities overseas provides an important route out of poverty when there are limited domestic opportunities. Remittances also provide a vital source of income for those left behind. However, besides the risk of abuse for the migrants themselves the reliance of intra-ASEAN migration may have some negative impacts on economic development for the LEDCs. Excessive emigration has been found to increase unemployment rates of the origin country causing further mismatches to supply and demand.¹⁴ Furthermore, remittances though an important driver of economic growth, is unreliable as a long-term development plan.¹⁵

This highlights a further divergence in the perception towards emigration in LEDCs. LEDC national policy portrays exportation of labour as a net positive to their countries. The policy in the Philippines of labour exportation, was seen as a matter of 'national interest' as a solution to rampant unemployment and balance of payment deficit.¹⁶ However, as remittances rose, the contribution it had to the Philippine economy became indispensable despite initially being a temporary measure. This is in contrast to the benefits of migration to the migrants themselves. Widespread abuse is now institutional in the migration industry of ASEAN and the backlash from the migrants and the citizens from LEDCs has been substantial. The aforementioned national

¹¹. Charanpal S. Bal and Kelly Gerard, 'ASEAN's Governance of Migrant Worker Rights', *Third World Quarterly* 39(4), 2017, 799-819.

¹². The Star. 2020. 'US bans imports from Malaysian palm oil company FGV'. Available at: <https://www.thestar.com.my/business/business-news/2020/10/01/us-bans-imports-from-malaysian-palm-oil-company-fgv>

¹³. Skuflic, L and Vuckovic, V. 2018. 'The Effect of Emigration on Unemployment Rates: The Case of EU Emigrant Countries'. *Economic Research-Ekonomska Istraživanja* 31(1).

¹⁴. Amuedo-Dorantes, C. 2014. 'The Good and Bad in Remittance Flows'. IZA: *World of Labor*.

¹⁵. Cheah, Pheng. 2007. *Biopower and the New International Division of Reproductive Labour*, *Boundary 2* 34(1), 79-113.

¹⁶. Elias, J. 2018. 'Governing Domestic Worker Migration in Southeast Asia: Public-Private Partnerships, Regulatory Grey Zones and the Household'. *Journal of Contemporary Asia* 48(2). 278-300.

responses from LEDC states have often been a result of public backlash which have put substantial pressure on governments to protect the rights of migrants.¹⁷ In addition to Indonesia, Philippines and Cambodia, significant efforts have been pushed by Vietnam to expose the poor conditions migrants face. Vietnam's state media has adopted a more pro-labour stance by highlighting the shady practices of local recruitment agencies and the migration industry as a whole.¹⁸

3. The impact of Covid-19

The Covid-19 pandemic has placed a significant strain on intra-ASEAN migration, and exposed many of the challenges. Globally the Covid-19 pandemic has resulted in more restrictive borders which have put a virtual halt on migration flows. This is especially true for the ASEAN member states who have generally taken drastic measures to prevent the spread of the pandemic with nearly all states closing borders entirely.

The flattening of the pandemic curve in most ASEAN countries has led to a gradual reversal of those policies. However, complications arise from the heterogeneity of the development of the pandemic. Two of the largest labour sending countries, Indonesia and Philippines have had the most trouble in containing the pandemic which has led to a slower easing of travel and in some cases outright bans as is the case of Cambodia. Thailand as well has increased border security in light of an outbreak in the Rakhine state which have led to tighter border controls to Myanmar.

The pandemic has exposed the important role that many low-waged workers play within the more developed states. In Singapore, migrant work has still been seen as essential to the economy and efforts have been taken to put migrants in labour-intensive industries back to work. Thailand announced in July that it would allow migrant workers from CLMV to come back and work. More than 3,000 foreign teachers have been cleared for entry in Thailand, highlighting its increasing reliance on foreign workers. However, it has also exposed the health and social risks facing many migrants: low quality living conditions and inadequate access to health services have increased the risk of infection among the migrant population and exclusion from social protection has intensified economic hardship for those falling out of work.

The pandemic has also highlighted the vulnerability of the high dependence on foreign labour, as border restrictions reduce the available labour supply and social distance requirements limit the scope of labour-intensive production processes. As a result, the pandemic intensified efforts among some ASEAN governments – such as in Malaysia – to encourage firms to invest in digitalisation and reduce dependence.

¹⁷ Lian, K.F, Rahman, M.M and Alas, Yabit. 2016. *International Migration in Southeast Asia: Continuities and Discontinuities*.

¹⁸ IDEAS. 2019. 'ASEAN Integration Report 2019'.

4. Recommendation: Towards a human capital approach



- Intra-ASEAN migration can be a driver of economic development and regional integration. But weaknesses in the current system – highlighted by the Covid-19 pandemic – demonstrate the need for reform. ASEAN Member States collectively and individually should work towards a human capital approach that promotes sustainable labour mobility.



- At the national level, AMS should strengthen the institutional governance of low-waged labour migration. Ratification of international conventions meant to protect workers and migrants such as the ILO conventions is an important step in fostering human capital. AMS should also extend equal social and labour market protections to migrants, particularly during the acute crises such as the Covid-19 pandemic.



- AMS should also take steps to reduce the abuses of the migration “industry” by strengthening the agency of individual migrants and improving legal accountability of recruitment agencies. This could include allowing for visa applications on arrival, to reduce the power of recruitment agencies. Documentation regarding immigration should be made personal to the migrants in contrast to the current practices of it being held by the recruitment agencies or employers which essentially restricts their choices.¹⁹ Lastly, sanctions and punitive measures should be redirected from migrants to the recruitment agencies and employers to discourage exploitative and abusive practices. At the regional level, ASEAN should continue to promote the movement of high-waged labour, but also support co-ordination of policies for low-waged migration.

¹⁹ These recommendations are modified from UN Women. 2013. ‘Managing Labour Migration in ASEAN: Concerns for Women Migrant Labour’.

Box 1: International Labour Organisation Conventions

The International Labour Organisation conventions aim to protect labour rights and promote decent work. Ratification of some of the conventions may prove useful in providing a standard to the region that will be a catalyst to regional integration on the organisation of labour and migrants. This is especially relevant as state policies in ASEAN that clash on labour and migrants issues continue to prove to be a major impediment to ASEAN integration. Some of the conventions relevant to this paper are:

- ILO Con. 29 Forced Labour Convention, 1930
- ILO Con. 87 Freedom of Association and Protection of Right to Organise Convention
- ILO Con. 97 Convention on migration for employment convention
- ILO Con. 98 Right to Organise and Collective Bargaining Convention, 1949
- ILO Con. 143 Convention on migrant workers (supplementary provisions) convention, 1975
- ILO Con. 157 Convention on maintenance of social security rights convention, 1982
- ILO Con. 181 Convention on private employment agencies convention, 1997
- ILO Con. 189 Convention on domestic workers convention, 2011

	C029	C087	C097	C098	C100	C105	C111	C138	C143	C157	C181	C182	C189
Brunei								2011				2008	
Cambodia	1999	1999	1999	1969	1999	1999	1999	1999				2006	
Indonesia	1950	1998		1957	1958	1999	1999	1999				2000	
Laos	1964				2008		2008	2005				2005	
Malaysia	1957		Sabah, 1964	1961	1997	1958; den (1990)	-	1997				2000	
Myanmar	1955	1955						2021				2013	
Singapore	1965			1965	2002	1965; den (1979)		2005				2001	
Thailand	1969				1999	1969	2017	2004				2001	
The Philippines			2009						2006	1994			2012
Vietnam	2007			2019	1997	2020	1997	2003				2000	

Note (1): den denotes that it was later denounced
Source: ILO. 2020. 'Conventions and Recommendations'

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ACIA	ASEAN Comprehensive Investment Agreement
ASEAN	Association of Southeast Asia Nations
GDP	Gross Domestic Product
IDEAS	Institute for Democracy and Economic Affairs
ILO	International Labour Organisation
IMF	International Monetary Fund
LEDC	Less Economically Developed
MEDC	More Economically Developed
MNP	Movement of Natural Persons
MoU	Memorandum of Understanding
MRA	Mutual Recognition Agreement
SCMP	South China Morning Post

Conclusion

Recovery from the pandemic will require even more regional integration built upon the regional foundations that already exist. In fact, as our chapters show, the pandemic has increased opportunities for further regional integration as the pandemic continues to disrupt national and international structures that were feasible before. Below is a summary of the recommendations made in the chapters of this final report:



Chapter 1

ASEAN Recovery Outlook, and Cooperating to Open Borders

- ASEAN countries appear to be on the path to recovery, with economic growth having bottomed out in the second quarter of 2020. The pace and resilience of the recovery remains unclear, however, and will depend on how the pandemic is managed going forward.
- The easing of restrictions on cross-border movement has lagged behind domestic movement. Reducing this asymmetry between domestic and international restrictions could support economic recovery without significantly raising health risks.
- ASEAN could help coordinate the gradual opening of borders. This could be done by multilateralising bilateral 'travel bubbles' to become 'travel balloons'. This could boost travel by employing a common set of protocols between ASEAN countries that have controlled community spread.



Chapter 2 -

Post-COVID Supply Chain Reconfigurations: Convergence or Divergence in ASEAN Economic Integration?

- Active efforts should be made to streamline the NTBs as it remains a long-standing issue hampering regional integration
- Greater focus on the standardisation, liberalisation and stability of investment policies across ASEAN, such as adopting a regional minimum FDI screening standard
- Mutual understanding and coordination between member states is necessary to ensure the success of these commitments.



Chapter 3 -

ASEAN Integration Through the Skies: The Current Progress in Preparation for 2025

- ASEAN Transport Working Group to restart discussion on ASEAN Community Carrier.
- ASEAN Transport Working Group to review the minimum aircraft requirements in regard to airline establishment within the region



Chapter 4 -

Keeping freights moving: Why ASEAN needs a Digital Integration Forum for the logistics sector

- Increase regional digital integration to build economic resilience and facilitate the transition into global digital economy.
- Furthering the role of ASEAN Digital Integration Framework to strengthen institutional hubs and digitalization ecosystems in order to ease the flow of information.
-
- Set up a collaborative regional taskforce within the ASEAN framework as a platform similarly to the EU Digital Transport and Logistics Forum (DTLF) in order to exchange information between AMS.



Chapter 5 -

Intra-ASEAN migration: Risks and opportunities

- National ratification of international conventions to protect migrants and labourers, particularly the ILO conventions.
- Streamline and personalise the documentation for migrants to improve transparency and accountability of recruitment agencies.

Infographics



How should ASEAN do it?

Set up a collaborative task force within the ASEAN framework to include:

- ▶ Business stakeholders
- ▶ State institutions engaged in international trade and commerce and,
- ▶ Creating a forum that allows for information exchange between member states



ASEAN's Current Labour Regulations

- Intra-ASEAN migration has surged since the 1990's but there is no converging migration policy among member states
- Current policies are more focused on facilitating high-income labour through agreements such as:
 - Movement of Natural Persons (MNP)
 - ASEAN Comprehensive Investment Agreement (ACIA)
 - Mutual Recognition Agreements (MRA)
- The unbalanced focus has ramifications that could deter integration such as the abuse and exploitation of low-waged migrants



Lessons Learnt from COVID-19

- The pandemic has highlighted the **precarious status and poor living conditions of low-waged migrants** around ASEAN
- The **lack of labour organisations and precarious legal conditions** of low-waged migrants made it difficult to understand the issues from their perspective
- As the curve flattens in some countries, ASEAN member states (AMS) have slowly **open up borders to mainly the ASEAN+3 group**
- This accentuates the interdependence between AMS and shows strong support for efforts to improve ASEAN labour regulations



Key Recommendations

- AMS should also take steps to reduce the abuses of the migration “industry” by strengthening the agency of individual migrants and improving legal accountability of recruitment agencies.
- Encourage regional efforts to invest in institutions that foster industrial relations to cultivate human capital development in ASEAN
- More collaborations between ASEAN business associations to create a coherent labour plan for greater regional economic integration

Authors



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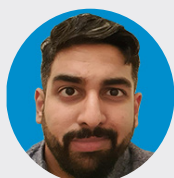
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Notes

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