

# Prosperity



We commit ourselves to moving towards closer cohesion and economic integration, narrowing the gap in the level of development among Member Countries, ensuring that the multilateral trading system remains fair and open, and achieving global competitiveness.

ASEAN VISION 2020



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**ASEAN  
Economic  
Community**

The ASEAN Economic Community (AEC) embodies the realisation of ASEAN's aspirations of a stable, prosperous and highly competitive region, functioning as a single market and production base by 2020, in which there is a free flow of goods, services and skilled labour, and a freer flow of capital, along with equitable economic development and reduced poverty and socio-economic disparities within and across its Member Countries.



Bustling economic activity in Manila

As laid out in the Vientiane Action Programme (VAP), ASEAN's activities to realise the AEC focus on: (i) intensifying current economic initiatives and accelerating the integration of eleven identified priority sectors within ASEAN; (ii) removing, to the extent feasible and agreeable to all Member Countries, barriers to the free flow of goods, services, skilled labour, and a freer flow of capital by 2010; (iii) developing essential elements or conditions for ASEAN to function as a single market and production base through measures that enhance the attractiveness of ASEAN as an investment destination, accelerate the liberalisation of trade in goods, improve trade and business facilitation, reduce trade transaction cost, upgrade the competitiveness of ASEAN Small and Medium-sized Enterprises (SMEs), strengthen the ASEAN Dispute Settlement System, and promote regional trade in services, among others; and (iv) pursuing

strong external economic relations and terms of trade with Dialogue Partners through the establishment of free trade areas (FTAs) and Closer Economic Partnerships (CEPs).

## DEVELOPMENTS AND ACHIEVEMENTS

### The Eleven Priority Sectors for Integration

ASEAN reached a new milestone in ASEAN economic cooperation in November 2004 with the signing of the Framework Agreement for the Integration of Priority Sectors and its Protocols. Member Countries demonstrated their resolve to move closer to the realisation of the AEC as these are the main instruments that will catalyse the creation of a single market and production base.

Under this Framework Agreement, integration in eleven sectors, namely, agro-based products, air travel, automotive products, e-ASEAN, electronics, fisheries, health care, rubber-based products, textiles and apparels, tourism, and wood-based products, is to be achieved by 2010. These cost competitive sectors, wherein Member Countries have comparative advantage, account for 52.7% of intra-ASEAN trade.

Each of the eleven Sectoral Protocols comprises a roadmap that details measures for the economic integration of the respective priority sector. The basic objectives of these roadmaps are to enhance the competitiveness of Member Countries, both individually and collectively; strengthen regional integration through liberalisation, facilitation and promotion measures; and promote greater private sector participation in ASEAN economic integration. The roadmaps were prepared with the active involvement of the private sector and include sector-specific measures as well as common (or horizontal) measures that cut across all the priority sectors.

More specifically, Member Countries agreed to advance the elimination of tariffs on 85% of the products in the priority sectors by three years to 2007 for ASEAN-6 and 2012 for the CLMV. These

**“The only way to improve competitiveness for an Association of small and medium-sized economies is to accelerate regional economic integration and speed up the establishment of a single market.”**

PRIME MINISTER PHAN VAN KHAI, 8 AUGUST 2004

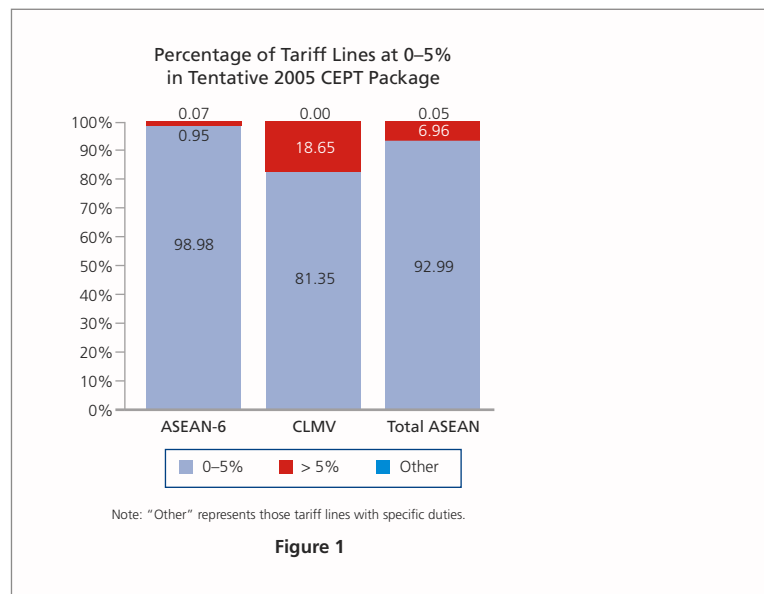
deadlines are three years earlier than the deadlines of 2010 (for the ASEAN-6) and 2015 (for the CLMV) under the ASEAN Free Trade Area (AFTA). Barriers to trade will also be eliminated. To facilitate trade and investment, the transaction cost of doing business in ASEAN will be reduced through the development of an ASEAN Single Window, which would include electronic processing of trade documents, and through the harmonisation of product standards and technical regulations, and mutual recognition of test reports and certification. The roadmaps also include measures to facilitate intra-ASEAN travel for ASEAN nationals and the movement of business people, experts, professionals and talents.

## Trade

### Trade in Goods

The AFTA has been effectively realised. As of 1 January 2005, tariffs on 98.98% of the products in the Common Effective Preferential Tariff (CEPT) Inclusion List (IL) of the ASEAN-6 have been reduced to the 0-5% tariff range. Products in the IL which continue to have CEPT tariffs of above 5% are those which have been transferred from the Temporary Exclusion List (TEL), Sensitive Lists (SL) and General Exception Lists (GE) after 2003.

For the CLMV, 86.91% of the products traded in the region have been moved into the IL, up from 80% in 2003/04. Tariffs on 81.35% of these items have been brought down to within the 0-5% band. As the CLMV acceded to ASEAN and the CEPT Agreement at a later stage, they were given longer deadlines to phase down tariffs of products in their respective



ILs to the 0-5 percent level: Viet Nam in 2006; Lao PDR and Myanmar in 2008; and Cambodia in 2010. Overall, 92.99% of all products in the IL of the ten Member Countries have tariffs between 0-5%.

Pursuant to the Protocol to Amend the Common Effective Preferential Tariff scheme for the AFTA Agreement for the Elimination of Import Duties, the ASEAN-6 has committed to eliminate tariffs on 60% of their products in the IL by the year 2003. Currently, 64.12% of products in the IL of the ASEAN-6 have zero tariffs. The average tariff for ASEAN-6 under the CEPT Scheme is now down to 1.93% from 12.76% in 1993.

The Coordinating Committee on the Implementation of the CEPT-AFTA Scheme (CCCA) continued to

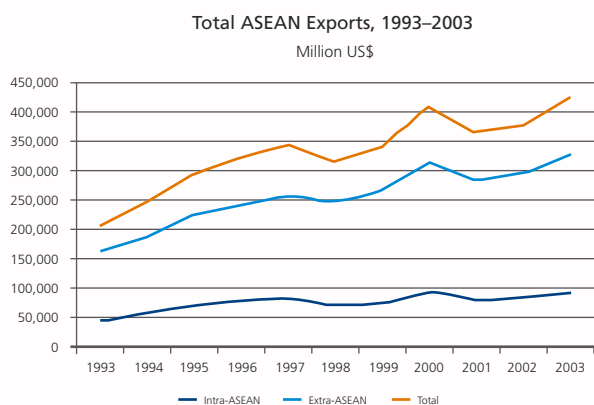


Figure 2

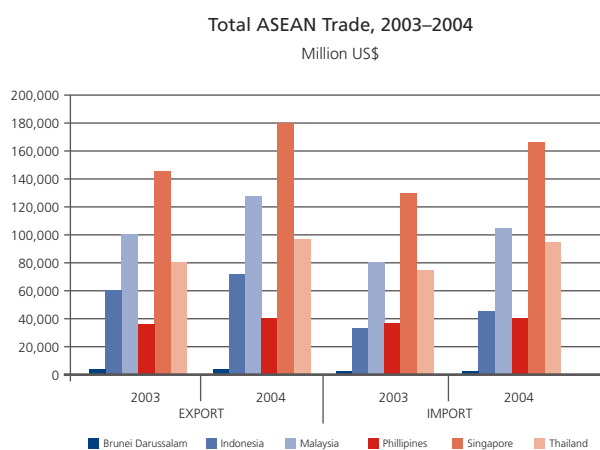


Figure 3

review the GEL of Member Countries with the aim of instituting further improvements and ensuring that only products which comply with Article 9(b)<sup>1</sup> of the CEPT Agreement are maintained in the lists.

The CCCA also continued to work on the elimination of Non Tariff Barriers (NTBs), driven by the recommendations of the High-Level Task Force (HLTF) on ASEAN Economic Integration as inscribed in the Bali Concord II. A major accomplishment over the past year was the establishment of the ASEAN Database on Non-Tariff Measures (NTMs) that has been posted on the ASEAN Secretariat website since 31 August 2004. A work programme is currently being drawn up for the elimination of NTBs, which includes the process of verification and cross-

notification, updating the working definition of NTMs/NTBs in ASEAN, and the eventual elimination of unnecessary and unjustifiable NTMs.

The current CEPT Rules of Origin implemented since 1 January 2004 incorporated some revisions from the original Rules of Origin adopted in 1992. These changes reflect ASEAN's firm resolve to be receptive to the needs of the industries in the region and adapt, as necessary, to promote economic integration. In the past year, Member Countries, through the ASEAN Task Force on the Rules of Origin, continued to review the current CEPT Rules of Origin and its Operational Certification Procedures with the view to instituting further changes that would strengthen the Rules and make them more attuned to the ever-changing business environment.

Recognising the limitations on the current rules on cumulation under the CEPT Rules of Origin (ROO), ASEAN agreed to revise the said cumulation rules to allow partial qualifying ASEAN national content. Under the new rule, if the material does not meet the 40% local/ASEAN content, the qualifying ASEAN national content shall be in direct proportion to the actual domestic content provided that it is equal or more than the 20% threshold. The adoption of partial cumulation is expected to: (i) encourage substantial investments and promote outsourcing into ASEAN; (ii) make compliance with the 40% rule easier; (iii) facilitate the movement of goods within the region and promote market access of ASEAN goods to the global market; and (iv) make ASEAN more competitive vis-à-vis Dialogue Partners with whom bilateral free trade agreements are currently being negotiated. The implementing guidelines for partial cumulation have been endorsed by the ASEAN Economic Ministers (AEM) in April 2005 in Ha Long, Viet Nam.

#### Direction of Trade

There are signs of export recovery following a weak performance in 2001 brought about by the economic slowdown in the United States and Europe, and the recession in Japan. From 2001, ASEAN exports grew by 3.59% and 12.40% for 2002 and 2003, respectively.

<sup>1</sup> Article 9(b) provides that Member Countries can exclude products from the CEPT Scheme for reasons of protecting its national security, protecting public morals, the protecting human, animal or plant life and health, and protecting articles of artistic, historic and archaeological value.

Figure 2 shows that ASEAN's exports in 2003 reached US\$ 431.03 billion, topping the US\$ 408 billion peak in 2000. The upward trend continued in 2004 as total exports of the ASEAN-6 for 2004 was up 21.8% compared to 2003. Figure 3 shows a comparison of the ASEAN-6's trade performance for 2003 and 2004.

ASEAN's robust performance over the past year was driven primarily by ASEAN's trade with traditional industrial partners. Intra-ASEAN trade remained stagnant. In 2004, the share of intra-ASEAN exports vis-à-vis total ASEAN exports was 21.70%, compared to 21.14% in 1993 when the CEPT-AFTA Scheme was launched. Intra-ASEAN exports in 2004 grew by 19.50%. The performance of intra-ASEAN trade for 2003 and 2004 is shown in Figure 4.

#### ASEAN Trade with Selected Trading Partners

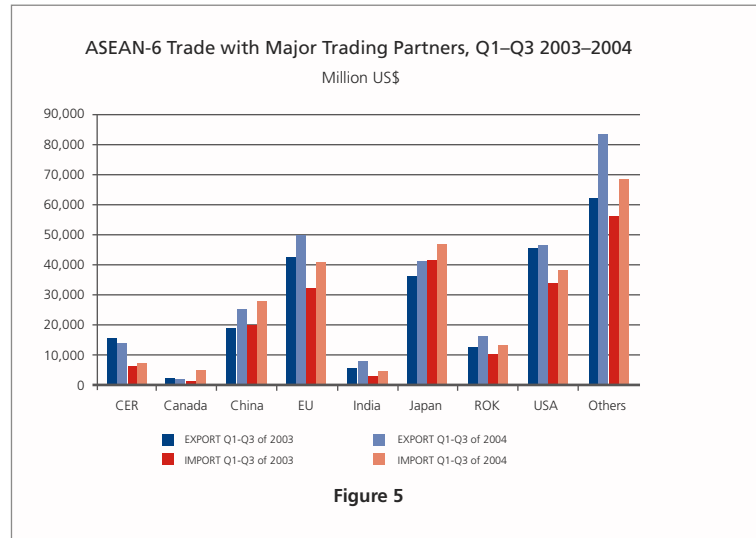
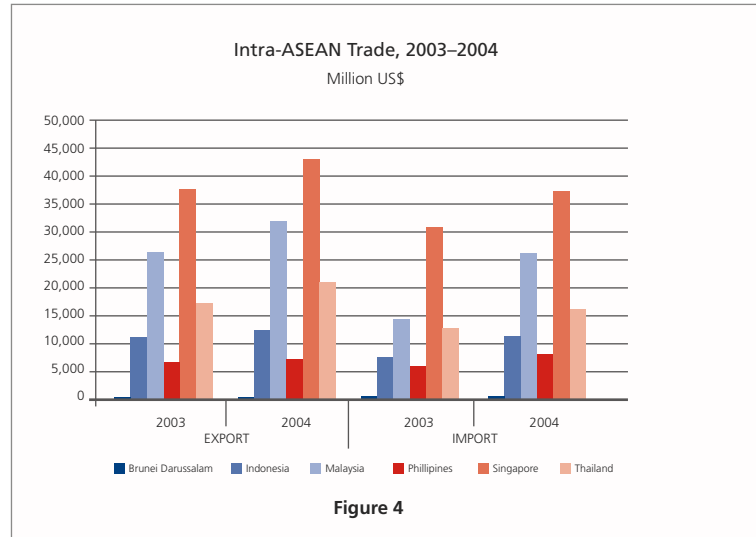
The European Union (EU), the United States (US), Japan, China (including Hong Kong) and Republic of Korea (ROK) continued to be ASEAN's largest exports markets. These five countries are also ASEAN's biggest source of imports. The share of ASEAN's total trade with these five countries is as follows: 14.08% (US); 13.72% (Japan); 11.50% (EU); 7.00% (China); and 4.06% (Korea).

Figure 5 shows that, comparing the first three quarters of 2003 and 2004, ASEAN's trade with non-ASEAN partners – both exports and imports – recorded significant increases, particularly with China and the EU.

#### Trade in Services

ASEAN Member Countries have concluded the 3<sup>rd</sup> round of services negotiations under the ASEAN Framework Agreement on Services (AFAS) and at the 10<sup>th</sup> ASEAN Summit in November 2004, signed the protocol to implement the 4<sup>th</sup> Package of commitments under AFAS. The 4<sup>th</sup> Package increased the number of sub-sectors included in the schedule of commitments and improved the level of commitments of Member Countries compared to the previous rounds of negotiations.

With the conclusion of the 4<sup>th</sup> Package, Member Countries have started preparations for the 4<sup>th</sup> round



of services negotiations which will be concluded within two years (2005-2006).

Over the last year, Member Countries have started negotiations on Mutual Recognition Arrangements (MRA) to facilitate the movement of experts, professional and skilled workers in ASEAN in engineering, architectural and accounting services, as well as nursing and medical practitioners.

In order to ensure the competitiveness of the service sector in the region, efforts are being made to accelerate services in ASEAN both in depth and coverage. The possible end date of 2015 for services liberalisation is being considered.



### Free Trade Agreements with Dialogue Partners

While focused on intra-ASEAN economic integration, ASEAN also continued to pursue deeper economic integration and linkages with its Dialogue Partners. These linkages will help ASEAN rejuvenate its attractiveness as a global FDI destination.



**China.** The Agreement on Trade in Goods and the Agreement on Dispute Settle Mechanism of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China was signed on 29 November 2004 in Vientiane. The Agreement provides for the modality and the disciplines for tariff reduction and elimination to realise the ASEAN-China Free Trade Area (ACFTA) by 2010 for the ASEAN-6 and China. The target for the CLMV is 2015. The Agreement will be implemented as of 1 July 2005. Negotiations for trade in services and investment will be pursued in 2005. As part of the Agreement, ASEAN Leaders agreed to recognise China as a full market economy and were committed not to apply Section 15 and 16 of the Protocol of Accession of the People's Republic of China to the WTO and Paragraph 242 of the Report of the Working Party on the Accession of China to WTO in relation to the trade between each of the ten ASEAN Member Countries and China.

**Japan.** The past year did not see much progress on the Framework on ASEAN-Japan Comprehensive Economic Partnership (CEP) that was signed by the Leaders on 8 October 2003. However, consultations

were held in 2004 to lay the groundwork for formal negotiations on the CEP Agreement to start in 2005. The CEP aims to strengthen economic integration between ASEAN and Japan, progressively liberalise and facilitate trade in goods and services, as well as create a transparent and liberal investment regime. The ASEAN-Japan CEP, including a possible FTA, is targeted for completion before 2012 for the ASEAN-6 and Japan, and before 2017 for the CLMV. Pursuant to the decision of the 8<sup>th</sup> ASEAN-Japan Summit in November 2004 in Vientiane, negotiations were launched in April 2005. ASEAN and Japan aim to complete the negotiations within two years.

**ROK.** The ASEAN-Korea Experts Group (AKEG), established by the ASEAN and the ROK Leaders in 2003, presented a Joint Study Report on the feasibility of an ASEAN-ROK Free Trade Area (AKFTA) at the 8<sup>th</sup> ASEAN-ROK Summit on 30 November 2004. The Leaders welcomed the AKEG's recommendations on measures to expand two-way trade and investment through the establishment of the AKFTA. The negotiations for AKFTA began in February 2005. The goal is to have at least 80% of products with zero tariffs by 2009, with consideration for special and differential treatment, and additional flexibility for the new ASEAN Member Countries.

**India.** The Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India was signed on 8 October 2003 to establish an ASEAN-India Regional Trade and Investment Area (RTIA), which includes an FTA in goods, services and investment. Establishing the FTA in goods is targeted for completion by 31 December 2011 for Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand, and India. For the Philippines and the CLMV, the target is 31 December 2016. FTA negotiations are on-going, with both parties reassessing their respective positions on the fundamental issue of ROO.

**Australia and New Zealand.** At the ASEAN-Australia-New Zealand Commemorative Summit held on 30 November 2004 in Vientiane, the Leaders agreed to further enhance the ASEAN-Australia and New Zealand economic partnerships by

launching negotiations for a free trade agreement. The negotiations on an ASEAN-Australia-New Zealand FTA were started in February 2005, to be completed within two years, on the basis of the time frames and the guiding principles agreed to by the Economic Ministers of ASEAN, Australia and New Zealand. A second negotiation was held in March 2005.

#### Trade Facilitation

**Customs.** 2004 was another successful year for ASEAN Customs cooperation, particularly towards the integration and modernisation of the customs processes and procedures of Member Countries. It also marked the final year of the first cycle of regional customs cooperation – the Policy Implementation and Working Programme (PIWP).

The overall performance of customs activities improved significantly with a further reduction of time required for customs release and clearance. Relevant international standards and provisions in trade facilitation were adopted in national customs legislations. Post-clearance audit (PCA) is currently operational in seven Customs Administrations, which assist efforts of expediting customs release and clearance.

In 2004, the ASEAN customs community established the new agenda of the 2<sup>nd</sup> cycle of customs partnership, the 2005-2010 Strategic Plan of Customs Development (SPCD). It targets the progressive integration of customs services of ASEAN as well as its modernisation in the light of new developments in customs techniques and management. Strengthening the partnership with government agencies and businesses are major components of the new strategy. It comprises fifteen areas of customs integration and harmonisation which serve to provide better service to the public, in particular to businesses and industries.

ASEAN customs officials made important progress on several initiatives in the past year: (i) the ASEAN Customs Valuation Implementation Guide was published to provide uniform understanding and interpretation of the WTO Agreement on Customs Valuation for operational application by frontline

customs officers; (ii) the ASEAN Harmonised Tariff Nomenclature (AHTN) was implemented and eight Member Countries applied the AHTN to classify goods and commodities for both intra and extra-ASEAN trade; (iii) ASEAN began efforts to establish a single ASEAN Customs Declaration Document aligned to international standards and practices; (iv) progress was recorded in the establishment of ASEAN e-Customs with all ASEAN customs administrations accelerating the introduction of ICT applications into customs activities to enhance customs control and management; (v) the ASEAN Single Window model and the National Single Window were developed to expedite customs clearance by a single submission of information, documents and formalities, a single processing, and a single decision-making.



Customs cooperation aims to reduce customs release and clearance time

In the area of good governance, six Member Countries completed the development of their Customs Service Charters. The Charters specified the commitment of the customs administrations to work for benefit of ASEAN constituencies.

**Standards.** With the effective realisation of AFTA, ASEAN Member Countries are now placing more emphasis on the elimination of NTBs to trade, particularly with regard to those that are associated with standards, technical regulations, and conformity assessment procedures.



In 2004, 82 standards on safety and electromagnetic compatibility (EMC) were completed with another 24 standards for electrical and electronic equipment set for harmonisation before 2007. Currently, a survey is being conducted to identify more standards for harmonisation to support the integration of the eleven priority sectors.

Member Countries have indicated their acceptance of test reports and/or product certifications under the ASEAN Sectoral Mutual Recognition Arrangement for Electrical and Electronic Equipment (ASEAN EE MRA). As such, a regulated product that has been tested by a designated testing laboratory or certified by a designated certification body can enter and be marketed in the importing Member Country without being subject to further testing and certification. Four testing laboratories and one certification body have been designated to provide testing and certification services under the ASEAN EE MRA. Another five testing laboratories are undergoing verification processes for technical competence. ASEAN Member Countries have also agreed to work towards the harmonisation of regulatory regimes in the electrical and electronics sector by 2010.

ASEAN Member Countries made considerable progress in implementing the Agreement on the ASEAN Harmonised Cosmetic Regulatory Scheme. This agreement includes an MRA and the ASEAN Cosmetic Directive, which lays down the requirements for cosmetic products marketed in ASEAN. Seven Member Countries have indicated their readiness to implement the Directive on or before 2008. To support Member Countries to implement the Scheme, a series of technical documents, guidelines and training modules have been developed, especially in the areas of good manufacturing practice and post marketing surveillance.

ASEAN continued efforts to harmonise regulations in order to facilitate trade in pharmaceuticals. All Member Countries have indicated their readiness to implement the ASEAN Common Technical Dossiers (ACTD) and the ASEAN Common Technical Requirements (ACTR) on or before 31 December 2008. The ACTD is part of the marketing authorisation application dossier that is common to all ASEAN Member Countries while the ACTR is the set of written materials intended to guide applicants to prepare application dossiers in a way that is consistent with the expectations of all ASEAN Drug Regulatory Authorities. In addition, a series of guidelines for the implementation of the ACTR has been developed. ASEAN is also pursuing the harmonisation of labelling requirements for pharmaceuticals and is considering an MRA on Good Manufacturing Practice Inspection.

Concerning prepared foodstuffs, four areas were identified for the harmonisation of technical requirements. These are food labelling; the import-export certification and registration procedure; food fortification and GMO; and Hazard Analysis and Critical Control Point (HACCP) and Good Manufacturing Practices (GMP) Inspection and Certification. This harmonisation of technical requirements will pave the way for future MRAs.

An ASEAN Common Requirements for Prepared-Packaged Products was developed with the objective of eliminating technical barriers to trade associated with legal metrology regulations. A majority of Member Countries have indicated their readiness to implement the harmonised requirements by December 2008.

Overall, substantive work was taken to facilitate the integration of the eleven priority sectors. This includes the adoption of action plans on standards, technical regulations and conformity assessments for medical devices, automotives, wood-based and rubber-based products, and traditional medicines and health supplements. A number of areas have been identified for the harmonisation of technical requirements and regulations in these sectors.

Commercial activity in Bandar Seri Begawan



**“The ten countries contain a wide range of natural and human resources, and possess complementary strengths which allow MNCs to spread their operations across different countries to reap their respective advantages.”**

PRIME MINISTER LEE HSIEN LOONG, 25 MAY 2005

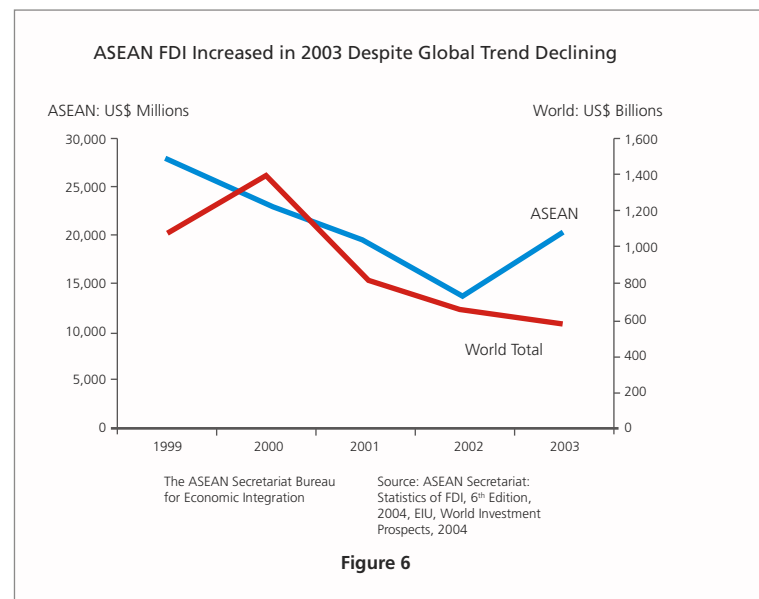
### The ASEAN Investment Area

After a number of years of consecutive decline in foreign direct investment (FDI), ASEAN witnessed a rebound in 2003, with US\$ 20 billion FDI inflow, an increase of 43% from the previous year. This rebound is the largest rate of increase since the financial crisis. This growth was one of the highest in global terms. This achievement was significant in the context of concerns arising from SARS, avian influenza, increasing international competition and a global FDI downturn. This suggests a welcomed return of investor confidence in the region.

The top five FDI sources were, in order, the United Kingdom, the Netherlands, the United States, intra-ASEAN FDI and Japan. Intra-ASEAN FDI remained a significant source of investments for the region at over US\$ 2 billion, accounting for approximately 10% of total FDI flows to the region. The pattern and sources of FDI to ASEAN remained largely unchanged. However, newer sources, such as China, are also increasing their share.

Factors at the regional level that contributed to the turnaround in FDI flows included: (i) the continued success of schemes that promote industrial cooperation such as the ASEAN Industrial Cooperation (AICO) Scheme (discussed further in the section on “Industrial Cooperation”) and the increasing number of regional production networks within the region; and (ii) the region as a whole being increasingly seen as attractive and competitive for business and investment as ASEAN progressively moves towards a single common market.

A key factor that also contributed to the regional performance in attracting FDI was the improved policy environment at the national level. A number of bilateral investment treaties were signed, more double taxation agreements were concluded, further sectors were opened to FDI, institutional arrangements were strengthened to facilitate FDI, foreign ownership equity was further relaxed, investments procedures were streamlined and



incentives continued to be provided in 2003-2004. All ASEAN Member Countries have made policy changes or introduced measures that were favourable for FDI in 2003-2004. At the regional level, implementation of AFTA and the AIA arrangement for the manufacturing sector was completed on 1 January 2003 of which many of



Automotives - an identified priority sector

the benefits are taking effect in 2004. A detailed list of unilateral investment policy changes by the respective Member Countries is articulated in the “Guide Book for Investing in ASEAN: Update 2004” published by the ASEAN Secretariat.

The increase in total FDI to ASEAN was also uniformly distributed among major sectors and components of FDI. Cumulative sectoral distribution of FDI flows in 2003 were 52% for tertiary (services), 30% for secondary sectors, 12% for primary and 6% for other sectors.

Approvals of FDI in the manufacturing sector experienced a rebound in 2003, rising to US\$ 18.5 billion from US\$ 13.9 billion in 2002. The increase was spread between refined petroleum products, communications equipment and apparatus, basic metals, and transportation equipment.

Reinvestment earnings accounted for more than 50% of FDI in a number of Member Countries, and have been as high as 60% in recent years. On an ASEAN wide cumulative basis, the total reinvested earnings from 1999-2003 was US\$ 31.96 billion while the total cumulative FDI was US\$ 104.64 billion. Thus, the reinvested earnings contributed 31% of the total FDI from 1999-2003

The services sector is a growth area for FDI and in the past year, the ASEAN Coordinating Committee on Investments (CCI) continued to work closely with the ASEAN Coordinating Committee on Services (CCS) to move forward on liberalisation in the services sector, particularly with regard to the priority services sectors of e-ASEAN, healthcare, and tourism.

FDI in services accounted for an annual average of a 52% share of total investment in 1999-2003. The gradual opening up of services industries (e.g., finance, telecommunications, transportation and logistics, and retail and business services) for FDI have been instrumental.

Cross-border Merger and Acquisitions (M&A) sales in the region increased by 10%, up to 185 in 2003 from the 168 cases in 2002. The increase was due to a rise in firm acquisitions in Indonesia, Malaysia, Myanmar, the Philippines and Viet Nam, mainly in the areas of finance, manufacturing, telecommunications and business services.

Work on the harmonisation of FDI statistics continued under the Working Group on Foreign Direct Investment Statistics (WGFDIS). The WGFDIS has refined the collection of Balance of Payment (BOP) FDI data classification based on the 1-digit level International Standard Industrial Classifications (ISIC) code which is harmonised regionally. With contributions from respective statistical agencies and central banks that collectively constitute WGFDIS, the ASEAN Secretariat produced the “Statistics of Foreign Direct Investments in ASEAN: 6<sup>th</sup> Edition, 2004”.

## **Industrial Cooperation and Enterprise Development**

### **Industrial Cooperation**

Regional industrial cooperation and integration continued to be the main focus for ASEAN and the continued success of schemes that promote industrial cooperation such as the ASEAN Industrial

Cooperation (AICO) Scheme allowed for the increase in regional production networks and quality FDI flows.

Introduced in 1996, the AICO Scheme has been established to promote greater industrialisation, expand trade and investment, and promote resource-sharing among ASEAN Member Countries in order to foster closer ASEAN economic integration. The privileges under the AICO scheme include preferential tariff rates of 0-5%, and subsequently, additional tariff and non-tariff incentives. As of 1 January 2005, the AICO preferential tariff rate for Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia and Singapore is 0%, while for the Philippines is 0-1%, Thailand is 0-3% and for Myanmar and Viet Nam, 0-5%. Based on the Protocol to Amend the Basic Agreement on the ASEAN Industrial Cooperation (AICO) Scheme, which was signed during the AEM Retreat in Singapore in April 2004, ASEAN Member Countries that are temporarily not ready to implement the Preferential Tariff Rate of 0%, shall work towards reducing the Preferential Tariff Rate to 0% for AICO arrangements by 1 January 2005, whereas Viet Nam shall do so by 1 January 2006.

Despite the Asian Financial Crisis as well as the recent concerns over SARS, Avian Flu, increasing international competition and global FDI downturn, the AICO scheme continued to be much sought after by the private sector, necessitating the extension of the waiver of the 30% minimum national equity requirement criteria. As of 21 April 2005, based on the data provided at the point of application, the approved AICO arrangements are expected to generate US\$ 1,560 million of trade transactions per year.

The Working Group for Industrial Cooperation (WGIC) continues to hold private sector dialogues with the participation of industry players and senior officials from ASEAN to facilitate better cooperation between the private sector and industrial policy makers. Such dialogues have become to be of additional significant following the signing of the ASEAN Framework Agreement for the Integration of Priority Sectors in November 2004 that spells

out measures to be taken by Member Countries in eleven priority sectors. WGIC has also been recognised as an implementing body in several measures under some priority sectors, namely, automotive, electronics, and textiles and apparel products.



SMEs will benefit from ASEAN cooperation on entrepreneurship development

### Small and Medium Enterprise Development

The ASEAN Policy Blueprint for Small and Medium Enterprise Development (APBSD) 2004-2014, was approved by the ASEAN Economic Ministers in September 2004 in Jakarta. Under this Blueprint, the ASEAN Small and Medium Enterprise Agencies Working Group (SMEWG) prioritised several cooperative activities for implementation in the next two years. These focus of these activities included, among others, entrepreneurship development, SME-sector skills in management and organisation, benchmarking SME capabilities, technology upgrading, intellectual property, and regulatory framework for SME development.



**“In the rapidly-changing world, regional cooperation is the only thing that can promise economic growth, attract foreign investment and create job opportunities.”**

PRIME MINISTER SOE WIN, 3 NOVEMBER 2004

In the past year, the research project “SME Access to Finance: Addressing the Supply Side of SME Financing” addressed issues concerning improved access of SMEs to institutional finance. Another project on basic and standardised terminologies for SME training courses, financial and business planning, and business project preparation and evaluation is being finalised by the Philippines and the ASEAN Secretariat for dissemination to all stakeholders.

A series of meetings under the annual ASEAN-Japan Policy Conference on SME Development were organised in Thailand and Indonesia. Capacity-building programmes by the ASEAN-6 for CLMV were also carried out in Thailand and Singapore in collaboration with donor countries and agencies, including Japan. Business-matching activities and entrepreneurs exchange fora were promoted among ASEAN SMEs and their counterpart enterprises in China, India, Japan, Korea and the United States.

### **Dispute Settlement**

Progress was made in strengthening institutional mechanisms, particularly with regard to dispute settlement. In line with the provisions of the Bali Concord II, a legal unit was established in the ASEAN Secretariat to provide legal advice on trade disputes.

The ASEAN Economic Ministers signed the ASEAN Protocol on Enhanced Dispute Settlement Mechanism (DSM) in November 2004 in Vientiane. This enhanced DSM will issue binding rulings based solely on facts and provisions in the relevant ASEAN agreements.

The Protocol is an important step in establishing an effective system to ensure proper implementation of all economic agreements and expeditious resolution of any disputes. The new system will provide for advisory, consultative, and adjudicatory mechanisms. The Protocol sets out the rules and procedures to be applied to disputes arising from the implementation of the ASEAN economic agreements and covers about 50 such agreements that are subject to this Protocol.

According to the Protocol, a panel shall be established within 45 days upon receipt of a request, to make an objective assessment of the dispute before it and give its findings and recommendations in relation to the case. The Protocol also provides for prompt compliance with the findings and recommendations of the panel and appellate body reports. As a general rule, parties to the dispute shall comply with the findings and recommendations of panel reports within 60 days of adoption.

A special ASEAN DSM Fund has been established to finance the convening of the panel and appellate body under the DSM. The Fund shall be established with an initial sum of US\$ 333,000 to be equally shared by ASEAN Member Countries. Subsequent replenishment of the fund shall be on the “user pays” principle.

The ASEAN Consultation to Solve Trade and Investment Issues (ACT) is one of the components of the new dispute settlement system. It is envisaged to be a network of government focal points (in each of the Member Countries) where private sector complaints and operational problems encountered in the implementation of economic agreements can

be channelled for speedy resolution. The ACT is a non-legal and non-binding internet-based problem-solving network to resolve complaints within 30 days. The ASEAN Secretariat is in the process of operationalising the ACT with funding and technical support from the ASEAN-EU Programme for Regional Integration Support (APRIS). The design, development and implementation of the ACT web-based application are expected to be completed by end-2005.

The ASEAN Compliance Body (ACB) continues to perform a quasi-judicial function by issuing findings and opinions on non-compliance in respect of subject matter before it. These are not legally binding. With the ACB, ASEAN Member Countries can make use of peer pressure in dispute resolution.

## Cooperation in Specific Economic Sectors/Areas

### Energy

ASEAN took significant steps in accelerating regional energy cooperation during the 22<sup>nd</sup> Meeting of the ASEAN Ministers on Energy (AMEM) held in June 2004 in Makati City, the Philippines, where the ASEAN Plan of Action for Energy Cooperation (APAEC) 2004-2009 was adopted. APAEC 2004-2009 calls for: sustainable energy development; enhancing the integration of the regional energy infrastructure; promoting energy security; creating progressive policies for market reforms and liberalisation; and addressing environmental concerns. Intensified cooperation, including that with Dialogue Partners, will be on regional activities addressing the ASEAN Power Grid (APG) and Trans-ASEAN Gas Pipeline (TAGP) projects, coal, energy efficiency and conservation, renewable energy, and regional energy policy and planning.

The ASEAN MOU on the TAGP project signed in Bali in July 2002 entered into force in May 2004 and progress has been made in the past year, for instance: (i) in January 2005, natural gas from an offshore joint development area shared by Malaysia and Thailand, flowed ashore to Chana, Southern

Thailand, through the Trans Thai-Malaysia Gas Pipeline, and to Malaysia, through the Changlun Tie-in Point, in February 2005; (ii) the ASEAN Council on Petroleum (ASCOPE) Gas Centre, hosted by PETRONAS Malaysia, opened in Kuala Lumpur in September 2004; and (iii) the ASEAN Gas Consultative Council reviewed studies on issues relating to taxation/tariff matters and abandonment of pipelines and related structures.

ASEAN cooperation in the electricity sector was reorganised to improve coordination and efficiency. The Forum of Heads of ASEAN Power Utilities/Authorities (HAPUA) was made into a HAPUA Council reporting to AMEM and eight HAPUA working groups were formed (Generation, Transmission, Distribution, Renewable Energy and



ASEAN adopted a new energy cooperation plan of action

Environment, Electric Supply Industry, Resource Development, Power Reliability, and Quality and Human Resources). A permanent HAPUA Secretariat was established on a three-year rotation basis, with PT PLN (Persero) of Indonesia hosting the first HAPUA Secretariat from 2004-2007.

Two studies on cooperation in the electricity sector were completed. The Trans-Borneo Grid Development Concept and Energy Trading Study which aimed to design a conceptual high voltage interconnection network in the island of Borneo,



was completed in October 2004 with support from the EC-ASEAN Energy Facility (EAEF). The ASEAN Secretariat-initiated study on Preparing for Electricity Trading in ASEAN with support from the ASEAN-Australia Development Cooperation Programme (AADCP) was completed in February 2005.

**Relations with Dialogue Partners and External Agencies.** For the year under review, ASEAN received continued technical assistance and support from the Australia, the European Union, Germany, Japan and Switzerland, as well as various international organisations in the implementation of ASEAN energy cooperation projects and activities in 2004-2005.

ASEAN and China have identified priority areas for implementation in energy cooperation, especially alternative clean energy, bio-fuels, and hydroelectric power. ASEAN and India will carry out the joint energy agenda as provided for under the ASEAN-India Partnership for Peace, Progress and Shared Prosperity and its Plan of Action adopted at the 3<sup>rd</sup> ASEAN-India Summit in November 2004.

ASEAN Plus Three cooperation was strengthened with the 1<sup>st</sup> ASEAN Plus Three Energy Ministers Meeting held in June 2004 in Makati City, the Philippines. The Ministers agreed to focus on a common goal of greater energy security and sustainability and adopted work programmes for cooperation in the areas of the oil market, oil stockpiling, natural gas, energy security, and

renewable energy. To-date, cooperation under the ASEAN Plus Three framework has seen the completion of feasibility studies for oil stockpiling in the Philippines and Thailand with METI-Japan's technical assistance. Similar studies will also be conducted for Myanmar and Viet Nam.

**ASEAN Centre for Energy.** In June 2004, a new Executive Director from Thailand assumed office at the ASEAN Centre for Energy (ACE). ACE has adopted a new business orientation and will focus on four areas, namely, information technology services, training services, policy update and analysis, and Dialogue and private sector partnerships.

#### Finance

The 10<sup>th</sup> ASEAN Surveillance Report prepared by the ASEAN Secretariat highlighted a higher average annual growth of 6.0% (compared to 5.4% in 2003) that was contributed by robust private consumption and investment. Growth was also supported by stronger exports. Most capital markets were active, with regional stock markets performing strongly. While monetary conditions remained generally accommodative, some countries had started to raise their policy rates towards the end of last year in response to greater risk of inflation. Fiscal consolidation advanced as Member Countries implemented measures to enhance revenue collection and tighten spending. Successful resolution of the non-performing assets also contributed to the strengthening of the corporate and banking sectors.

ASEAN+3 energy cooperation is focussed on energy security and sustainability



Economic growth however is expected to moderate in 2005 in line with the anticipated slowdown in global demand and against the potential build-up in inflationary pressures, higher global oil prices and growing global imbalances. Private consumption should remain strong while growth in exports is expected to slow down and investment remains steady. In some countries, investment could accelerate due to large infrastructure projects. Continued efforts will be made to further improve business and investment climate and sustain fiscal consolidation.

**Roadmap for Financial and Monetary Integration of ASEAN.** ASEAN Finance cooperation has made significant progress over the past year, particularly in advancing its integration efforts under the Roadmap for Financial and Monetary Integration of ASEAN (the RIA-Finance). Based on the RIA-Finance, milestones and measures have been developed in four areas, namely, capital market development, capital account liberalisation, liberalisation of financial services and currency cooperation.

To create an inter-linked ASEAN securities market place by 2010, a Task Force has been set up and is in the process of exploring various models of alliances and linkages, including cross-listing, cross-trading access, or cross-exchange products. Priority areas have been identified to enhance exchange linkages, such as narrowing gaps in areas of technology, platforms and market practices, strengthening standards of investor protection and surveillance and harmonisation in areas such as disclosure, and mitigating limitations posed by capital controls.

A Task Force has been working on the criteria for selecting 100 publicly-listed companies from the five major exchanges in the region. A supplementary list of unlisted companies from countries with small or no stock exchanges, namely Brunei, Cambodia, Lao PDR, Myanmar and Viet Nam, will also be compiled under another category called "Selected BCLMVs". To benchmark the performance of "ASEAN 100" and to further promote ASEAN as a viable asset class, the task force is also developing an ASEAN Index in collaboration with ASEAN exchanges and an index provider. The ASEAN 100 and its Index are

targeted to be launched at the 2<sup>nd</sup> ASEAN Finance Ministers' Investors Seminar in September 2005.

The ASEAN Capital Market Forum, a recently established body comprising representatives of ASEAN securities regulators, has identified and will cooperate on a number of initiatives on the harmonization of standards that would facilitate the integration of regional capital markets, including disclosure standards, distribution rules, accounting and auditing standards, and cross-recognition of qualifications on education and experience of capital market professionals.

Stocktaking exercises on capital account regimes have been completed and a website that serves as a one-stop web-link for information on capital account regimes of all ASEAN Member Countries is being developed. To provide further details on capital account regimes in ASEAN, a "Book on ASEAN Capital Account Regimes" is being prepared for launching at the IMF/WB Annual Meetings in Singapore in 2006.

The Third Round of Negotiations on financial liberalisation was successfully concluded in December 2004, and the Protocol to Implement the Third Package of Commitments was signed by the ASEAN Finance Ministers on 6 April 2005. The Ministers also launched the Fourth Round of Negotiations under the new positive list approach modality, beginning 2005 and ending 2007.

A new ASEAN Central Bank Forum (ACBF) Task Force on ASEAN Exchange Rate Arrangements has been established to explore regional exchange rate arrangements that would further facilitate trade integration as well as promote greater financial stability.

**ASEAN Surveillance Process (ASP).** As part of the technical assistance on training and capacity building in support of ASEAN Surveillance Process (ASP), a training programme on "Regional Economic and Financial Monitoring" was implemented by the Asian Development Bank (ADB) on 14 February-11 March 2005. Fifteen finance and central bank officials from eight ASEAN countries and China

participated. In addition, two studies on “Enhancing the Effectiveness of the Chiang Mai Initiative in the Medium Run” and “Economic Dialogue and Surveillance in East Asia” were commissioned by the ADB for the ASEAN Plus Three Research Group.

On the Early Warning System (EWS), a Windows-based EWS software has been developed by the ADB. A workshop on Quantitative Methods for Regional Economic and Financial Monitoring was held in April 2005 to demonstrate the software and discuss other quantitative methods for economic and financial monitoring.

**Cooperation in Insurance.** Progress has been made in compiling selected insurance statistics, harmonising standards and practices through compliance with International Association of Insurance Supervisors (IAIS) core principles and conducting training and research programs through the ASEAN Insurance Training and Research Institute (AITRI). The preparation of the Blue Card system in support

of the Protocol 5 on ASEAN Scheme of Compulsory Motor Vehicles Insurance is also on-going.

**Cooperation in Customs.** The ASEAN Customs Directors-General formulated the Strategic Plan of Customs Development (SPCD) to deepen customs integration and harmonisation in the region over the next five years (2005-2010). The SPCD aims to carry out programmes and projects in fifteen core areas of customs integration and harmonisation such as, among others, tariff classification, valuation, post clearance audit, enforcement and mutual assistance, and reform and modernisation. The Strategic Plan was endorsed by the ASEAN Finance Ministers in April 2005.

**Anti-Money Laundering and Combating the Financing of Terrorism.** Member Countries continued to make progress in implementing measures designed to combat terrorism financing and money laundering. Measures taken include, among others, the enactment of laws, implementation of international standards, exchange of information and capacity building. As a result, Indonesia and the Philippines have been removed from the list of Non-Cooperative Countries and Territories (NCCT).

#### Food, Agriculture and Forestry

##### Food

ASEAN Member Countries continued to exchange information on the national supply and demand situation of major food commodities (rice, sugar, maize and soybean) which provided an estimate of the regional food situation. In 2004, the total supply of rice and sugar was still sufficient to cover the regional demand. For maize and soybean, the region had to rely on imports from the world market.

To strengthen food security and address poverty alleviation in the East Asian region, a three-year pilot project to establish the East Asia Emergency Rice Reserve (EAERR) is being implemented under the ASEAN Plus Three collaborative framework. The Guidelines for Release of EAERR stock have been developed. In brief, the ASEAN Plus Three countries will contribute on a voluntary basis to the earmarked and stockpiled rice reserves.

ASEAN Member Countries are among the highest per capita consumers of rice in the world





ASEAN continued to make progress in developing the ASEAN Food Security Information System (AFSIS) that would analyse and disseminate data and information of food security of the ASEAN Plus Three countries. AFSIS will support the implementation of the EAERR project. In addition, an ASEAN Food Security Information and Training (AFSIT) Centre was established in the Office of Agricultural Economies of the Ministry of Agriculture and Cooperatives of Thailand in Bangkok as the designated prime venue for training activities under the AFSIS project.

Concerning cooperation on halal food, the 3<sup>rd</sup> Meeting of the ASEAN Working Group on Halal Food was held in January 2005 in Bangkok. Member Countries are working on the draft ASEAN Scheme for the Accreditation of Halal Food Establishments and the draft Registration and Compilation of Halal Food Additives Used in Manufacturing Food in ASEAN Member Countries. To promote the use of the ASEAN Halal Food Guidelines, trainings for halal food auditors and food inspectors will be organised in the region.

#### Agriculture

- **Crops.** In the effort to harmonise phytosanitary measures, ASEAN has established the Endemic Pest List for milled rice, citrus fruit, mango fruit, potato tuber, and dendrobium orchids cut-flowers. Further harmonisation of phytosanitary measures for milled rice and potato tuber is being pursued, particularly for cross-border management procedures. To promote food safety and regional food safety standards, the 26<sup>th</sup> Meeting of the ASEAN Ministers on Agriculture and Forestry (AMAF) on 7 October 2004 endorsed an additional 86 maximum residue limits (MRLs) of eight pesticides for various vegetables, fruits, and cash crops which are being traded widely among the Member Countries. To-date, 455 MRLs have been endorsed, involving a total of 36 pesticides, 50 vegetables, 22 fruit and 9 crop types.
- **Livestock.** ASEAN cooperation in livestock made satisfactory progress through several programmes, namely, the Regularisation of Production and Utilisation of Animal Vaccines,

Promotion of International Trade in Livestock and Livestock Products, Strengthening of Animal Diseases Control Programme, and Animal Health and Production Information System for ASEAN (AHPISA). To regularise the production and utilisation of animal vaccines, the 26<sup>th</sup> AMAF in October 2004 endorsed the ASEAN Standard Requirements for Canine Parvovirus



ASEAN MRLs for pesticides promote food safety

Vaccine, ASEAN Criteria for Accreditation of Livestock Establishment for Pig for Slaughter and that for Chicken for Slaughter to promote international trade in livestock and livestock products. To counter the threat of outbreaks of Highly Pathogenic Avian Influenza (HPAI) in the region, an ASEAN HPAI Task Force was established to coordinate cooperation for the control and eradication of the disease in ASEAN. The HPAI Task Force has identified eight areas for cooperation: disease surveillance; effective containment measures; stamping out and vaccination policy; diagnostic capabilities; establishment of disease-free zones; information sharing; emergency preparedness plans; and public awareness. ASEAN has also agreed to establish an ASEAN Animal Health Trust Fund to facilitate the implementation of unified and harmonised animal health programmes within the region. Besides providing support to the implementation of the Southeast Asia Foot

and Mouth Disease Campaign (SEAFMD), the Fund would also be used to address other animal diseases of economic or public health importance, such as HPAI and Classic Swine Fever.

- **Fisheries.** A proposal to develop the “ASEAN Operationalised Guidelines on Responsible Movement of Live Food Fin Fish” has been finalised for implementation, with funding support from the AADCP. In addition, cooperation between ASEAN and the Southeast Asia Fisheries Development Centres (SEAFDEC) under the ASEAN-SEAFDEC Collaboration in Sustainable Management of Fisheries Resources in the Southeast Asia Region has progressed satisfactorily. The collaboration between the ASEAN Network of Fisheries Post-Harvest Technology Centres and the Marine Fisheries Research Department (MFRD) of the SEAFDEC continued on the Hazard Analysis and Critical Control Point (HAACP) Training Programmes, the Regional Code of Conduct on Post-Harvest Practices and Trade, and the AADCP project on Quality Assurance and Safety of ASEAN Fish and Fishery Products. ASEAN and SEAFDEC also agreed to jointly implement two new initiatives: (i) Seafood Safety Information Network; and (ii) Chloramphenicol and Nitrofurans Residues in Aquaculture Fish and Fish Products.
- **Agricultural Training and Extension.** Satisfactory progress was made on the implementation of the Integrated Pest Management (IPM) programmes on various crops. Significant achievements in 2004 include the finalisation of training modules on rice, pomelo and soybean, and the conduct of a regional IPM training programme on pomelo.
- **Agricultural Cooperatives.** Efforts in pursuing activities of the various Strategic Alliances projects among agricultural cooperatives in ASEAN have made some progress. Exchange visits among Member Countries of cooperative personnel and leaders have been and will continue to be organised.

- **Agricultural Research and Development.** An ASEAN Technical Working Group on Agriculture Research and Development has been established and met for the first time in December 2004. The ASEAN-AVRDC (Asian Vegetable Research & Development Centre) Regional Network on Vegetable Research (AARNET) held its 4<sup>th</sup> Coordinators’ Meeting from 4 to 5 May 2005 in Bangkok and agreed to the following: (i) establish a framework to implement AARNET; (ii) consolidate existing AARNET into three projects, namely, indigenous vegetables, variety selection, and pre- and post-harvest handling of safe and quality vegetables; and (iii) approval for AVRDC to seek formalisation of its relationship with ASEAN through a MOU with the ASEAN Secretariat.
- **Promotion of Trade in Agricultural Products.** The MOU on ASEAN Cooperation in Agriculture and Forest Products Promotion Scheme was extended for another five years, from 2004 to 2009. The MOU continues to serve as the basis to pursue cooperation with the private sector and coordinate joint positions on issues related to trade in ASEAN agriculture and forest products.
- **Biotechnology.** ASEAN continued to collaborate with the International Life Sciences Institute of Southeast Asia (ILSI-SEA) in the field of biotechnology. The 4<sup>th</sup> Training Workshop on Safety and Risk Assessment of Agriculture-related GMOs (genetically-modified organisms) was conducted in August-September 2004. The Genetically Modified Food Testing Network has also been established to help Member Countries better utilise the expertise and available resources in the region, as well as gain better access to information on developing capabilities for GM food testing.

#### **Forestry**

The move towards using internationally recognised criteria will ensure the acceptability of ASEAN-certified timber products in the world market. The regional initiative on Pan-ASEAN Timber Certification has been progressing well.

The ASEAN-German Regional Forest Programme's (ReFOP) two-year project completed its first phase in March 2005. The project helped enhance effective communication and dialogue among Member Countries to forge common positions and develop a regional forest policy framework by linking the national and regional level programmes while involving relevant stake-holders. ASEAN and Germany have agreed to extend the project until 2006. ASEAN has also established an ASEAN Ad-Hoc Experts Working Group on International Forest Policy Processes (AEG-IFPP) for an initial time-frame of two years (2005-2007). This will support the collective effort for ASEAN joint positions and approaches on regional and international forest issues. ASEAN has also received support from Australia for a Project on Eco-labels and Certification in Forestry on Developing a Common Approach Towards Use in ASEAN and Towards Global Standards.

An ASEAN Statement on CITES was presented to the 13<sup>th</sup> Conference of the Parties (COP13) to CITES held in Bangkok in October 2004. This Statement stressed the need for ASEAN to strengthen its cooperative efforts in regard to the implementation of CITES on six points: (i) enhance awareness and ensure further cooperation and coordination among national agencies; (ii) promote regional cooperation through establishment of bilateral and multilateral arrangements; (iii) strengthen enforcement efforts; (iv) review respective national legislation; (v) encourage scientific research, populations assessment and trade monitoring; and (vi) urge relevant bodies to provide sufficient financial and technical support to ASEAN countries. An ASEAN Regional Action Plan on Trade in Wild Fauna and Flora to implement the above commitments and actions is under development and was discussed at the Special Meeting of the ASEAN Experts Group (AEG) on CITES on 1-4 May 2005 in Jakarta.

To promote ASEAN's interest in the work of Codex, the ASEAN Task Force on Codex provides a forum and opportunity to discuss Codex issues of common interest to ASEAN Member Countries for the purpose of formulating ASEAN positions, to be raised at Codex meetings. Respective ASEAN Member Countries



ASEAN is developing a regional forestry framework

have been assigned as ASEAN Focal Points for various Codex Committees for this purpose. ASEAN has also developed the ASEAN Food Safety Network website ([www.aseanfoodsafetynetwork.net](http://www.aseanfoodsafetynetwork.net)).

#### Intellectual Property

The ASEAN Intellectual Property Rights (IPR) Action Plan 2004-2010, developed by the ASEAN Working Group on Intellectual Property Cooperation (WGIPC) was incorporated into the VAP. The plan covers intellectual property (IP) matters related to protection and enforcement, as well as to economic development in the region. Steps have also been taken to draw up the Work Plan for ASEAN Cooperation on Copyright.

The ASEAN Filing Form for Trademarks and the Notes for the Completion of the Application were completed in March 2004 to serve as a reference tool for business people, inventors and innovators. Since then, a large number of procedures and regulations concerning trademarks and design filing requirements in ASEAN have also been identified for harmonisation by the Expert Groups on Trademark and on Patents.

Member Countries' laws and regulations continue to be progressively adjusted and broadened to better conform to the Trade-Related Aspects of



Intellectual Property Rights (TRIPS) agreement, even in non-WTO members like Lao PDR and Viet Nam. Accession to international IP Treaties has been another area of policy focus in ASEAN, and many Member Countries have joined or are considering membership of several treaties.

In the past year, a number of seminars, conferences and workshops were organised to disseminate information and to foster greater IP awareness and capacity building in Member Countries. The annual National IP day is a notable event in this regard. Capacity-building activities, organised in collaboration with ASEAN Dialogue Partners and donor agencies, involved more than 300 participants. These included parliamentarians, prosecutors, lawyers, judges, policy-makers, regulators, and IP and enforcement officers and business persons from all Member Countries.



IP cooperation is featured in the Vientiane Action Programme

Active interaction is maintained by ASEAN with Dialogue Partners, donor countries and agencies, and private sector organisations. These include the ASEAN Intellectual Property Association, Australia, China, the EU, the International Trademark Association, the Japan Patent Office, the Officer for Harmonisation in the Internal Market (OHIM), the United States Patent and Trademark Office, and the World Intellectual Property Organisation. Notably, cooperative dialogue with China was held for the first time in 2004.

## Minerals

Member Countries are currently finalising the ASEAN Minerals Cooperation Action Plan (AMCAP) 2005-2010 which aims to attract investment in the minerals sector for greater economic growth while promoting environmentally and socially sustainable mining practices. Member Countries are considering the establishment of the ASEAN Minerals Trust Fund to support implementation of priority cooperative projects and activities in the ASEAN minerals sector.

In the past twelve months, various activities in ASEAN minerals cooperation were implemented: (i) the ASEAN Minerals Database was finalised; (ii) training in Groundwater Resource Development for the CLMV, funded by the ASEAN Foundation, was held in February-April 2005 at the Minerals and Geoscience Department in Malaysia; (iii) the first Forum for ASEAN Private Sector Cooperation in Minerals hosted by the Lao Mining Association was convened during the 6<sup>th</sup> ASEAN Senior Officials Meeting on Minerals (ASOMM) in Vientiane in July 2004; and (iv) the launch in May 2005 of the six-month study on Enhancing ASEAN Minerals Trade and Investment supported by the ADDCP.

## Statistics

The priorities for ASEAN cooperation in statistics include the harmonisation of international merchandise trade (IMT), international trade in services (ITS) and FDI statistics, as well as the harmonisation of statistical classifications and the ASEAN Statistical Indicators (ASI).

Progress was made in the past year on several fronts. The Task Force on Harmonisation of Statistical Classifications, with support from the EU-ASEAN Programme for Regional Integration Support (APRIS), has drawn up a detailed work plan for 2005-2007 aimed at producing a guide for harmonised ASEAN industrial classification by 2007. A draft ASEAN Position on International Standard Industrial Classifications (ISIC) Revision 4 has also been finalised, as inputs to the UN Statistical Division (UNSD) in relation to the ISIC revision process. Member Countries have also completed a draft guide for the compilation of the ASI and are

working to review the comprehensiveness of the ASI in representing the region's development. The effort to harmonise indicators on ICT, another important component of ASI, has also been progressing.

A project on harmonisation of IMT and ITS statistics will begin in July 2005, with funding support from the AADCP, targeted for completion by 2007. Preparation is also underway for a wider-scope of statistical activities under EC-ASEAN cooperation, in particular on capacity building related to basic statistics on IMT, ITS, FDI, health, education, and non-observed economy. A programme design is being developed and is expected to be ready by end of 2005.

The ASEAN Statistical Yearbook 2004 and ASEAN Pocket Book 2004 were published to facilitate a wider dissemination of data and information.

**Telecommunications and Information Technology**  
ASEAN Member Countries continued to conceptualise, implement and monitor their respective policies, programmes and strategies for the Telecommunications and Information Technology sector. For 2004, a series of projects aimed at bridging digital divide, facilitating ICT trade and investment, securing the information infrastructure, nurturing communities and building capacities for the information society were initiated and endorsed at the 4<sup>th</sup> Meeting of the ASEAN Telecommunications and IT Ministers (TELMIN) held in August 2004. Focussing on the theme "Building e-Learning Culture towards Knowledge ASEAN", the meeting set important directions in the

ICT programme areas aimed at bridging the digital divide and ensuring that the benefits of ICT are made available to ASEAN to spur development and growth. The Ministers also initiated the ASEAN ICT funds and the e-ASEAN Business Council (e-ABC) to further support ASEAN's ICT work beyond 2004.



ASEAN ICT projects help bridge the digital divide

In the past year, cyber security cooperation was strengthened especially in the area of cyber responses to combat malicious cyber threats and attack, email spam and online fraud. Cooperative measures will ensure a coordinated ASEAN response to cyber-threats. Steps were taken to fortify information infrastructures in ASEAN. Each Member Country has committed to establishing a National Computer Emergency Response Team (CERT).

**"Information and knowledge are unlike other finite resources. The more you share it and the more you give it away, the more valuable it becomes and the more you may get in return."**

PRIME MINISTER THAKSIN SHINAWATRA, 4 AUGUST 2004

Good progress has been made to facilitate ICT Trade and Investment in ASEAN, in particular on the implementation of the ASEAN Telecommunications Regulators Council (ATRC) Sectoral Mutual Recognition Arrangement (MRA) on Conformity Assessment for Telecommunications Equipment. Over the last year, Member Countries have commenced the implementation of bilateral MRAs, for example, the Brunei-Singapore, Indonesia-Singapore and Malaysia-Singapore MRAs. These arrangements will serve as important pathfinders towards establishing a network of MRAs within ASEAN. End-users will benefit as telecommunications equipment become more affordable and accessible.

ASEAN continued to focus on capacity building in the information society. Member Countries initiated projects with comprehensive coverage in the areas of e-learning, ASEAN Teacher Capacity Development (focusing on ICT-pedagogy), universal access study and a rural knowledge management system.

Significant progress was made in broadening and deepening relations with ASEAN's Dialogue Partners. In 2004, inaugural ministerial consultations with China, Japan, ROK, as well as India, further contributed to better mutual understanding and closer partnerships. Possible areas of collaboration such as broadband deployment, cyber security, capacity building, adoption of ICT use for the disabled and elderly, Radio Frequency Identification (RFID), and a virtual network of software multi-lingualisation were considered.

#### Tourism

ASEAN tourism posted a strong recovery in 2004 despite the tsunami and earthquake disasters of end-2004 and early-2005. There was a 32% increase in tourist arrivals (46,384,905) compared to 2003.

As one of the priority integration sectors, the ASEAN tourism sector will be fully integrated in ASEAN by 2010. All the measures specified in the Roadmap for Integration of the Tourism Sector are being implemented. In addition, a special working group was established to further facilitate tourism integration.

Efforts are also being made to address the challenges for the region's tourism development. Specifically, Member Countries agreed to focus on a number of areas such as strengthening cooperation with the stakeholders; enhancing air linkages, ground and water-way transportation; and removing all impediments to travel and tourism and enhancing the safety and security of travellers.

A common set of regional standards and certification systems is being developed to guide the tourism industry. Tourism standards for accommodation (hotels), destination (tourism heritage), home stay, food and beverage services, eco-tourism sites, and public restrooms are being considered.

The third phase of the Visit ASEAN Campaign (VAC) which included promoting intra-ASEAN travel through the ASEAN Hip-Hop Pass (AHHP) was completed in 2004.

Bangkok's floating markets continue to attract tourists





In the past year, ASEAN Member Countries have also shared their expertise by holding workshops or trainings. In 2004, Indonesia hosted a Workshop on Sustainable Tourism Development for ASEAN while Malaysia hosted a Seminar on Home Stay Programmes. The project on Developing Common Competency Standards for ASEAN Tourism Professionals is being implemented.



ASEAN standards for eco-tourism are being considered

The ASEAN Tourism Forum (ATF) 2005 was held in Langkawi, Malaysia, with the theme, "Shifting Paradigm – Prospering the Region". ATF brought together more than 400 buyers and about 940 sellers to explore business opportunities in tourism in ASEAN.

### Transport

ASEAN Transport Ministers (ATM) adopted the ASEAN Transport Action Plan 2005-2010 at their 10<sup>th</sup> Meeting in November 2004 in Phnom Penh. This new plan consists of 48 strategic actions and builds on the major strides made from the previous Plan of Action to strengthen the transport infrastructure and logistics systems in support of a single market and production base under the AEC.

Concerning transport facilitation, Protocol 1 (Designation of Transit Transport Routes and Facilities) of the ASEAN Framework Agreement on the Facilitation of Goods in Transit has reached the last stage of finalisation at the 19<sup>th</sup> Senior Transport Officials Meeting in May 2005 in Vientiane and is ready for consideration at the 11<sup>th</sup> ATM in November 2005. The ASEAN Framework Agreement on Multimodal Transport is in an advanced stage of finalisation. All ten Member Countries have already established their respective National Transit Transport Coordinating Committees.

**Air Transport.** Air Travel is one of the designated eleven priority sectors for economic integration by 2010. In line with the ASEAN Framework Agreement for the Integration of Priority Sectors, the ASEAN Economic Ministers formalised the ATM-endorsed Roadmap for Integration of Air Travel Sector which sets specific actions and milestones for greater integration and liberalisation of air freight and scheduled passenger services in the region.

The Action Plan for ASEAN Air Transport Integration and Liberalisation 2005-2015 was adopted at the 10<sup>th</sup> ATM in November 2004. The plan sets strategic actions to further liberalise air services and promote an enabling environment for a single and unified air transport market in the region. The Protocol to Implement the Fourth Package of Commitments on Air Transport Services under the AFAS was also signed at the 10<sup>th</sup> ATM.

For implementation of the measures specified in the Roadmap for Integration of the Air Travel Sector, amendments to the ASEAN MOU on Air Freight Services will be made to provide increased tonnage and additional designated points/gateways for further liberalisation of air freight services. The existing Multilateral Agreement on the Full Liberalisation of All Cargo Air Services to which Brunei Darussalam, Cambodia, Singapore and Thailand are Contracting Parties will be used as a model to implement the full liberalisation process for air freight services. An appropriate implementation instrument will be formulated to address the liberalisation of scheduled passenger services.

The AADCP-supported Study on Strategic Directions for ASEAN Airlines in a Globalising World is in progress, focusing on ownership rules and investment issues, code of conduct on competition and consumer policy, subsidies and state aids, and low cost carriers as a new business model.

**Land Transport.** The ASEAN Road Safety Strategy and Action Plan 2005-2010 was adopted at the 10<sup>th</sup> ATM. A multi-sector working group will be set up to coordinate and manage the implementation of the national and regional road safety action plans. The ADB which provided technical support in the



Air travel is a designated priority sector for economic integration

preparation of the ASEAN road safety action plans will continue its institutional and advisory support to the follow up projects and activities under the ADB-ASEAN Road Safety Project Phase II.

During the period under review, ASEAN implemented various transport cooperative programmes and activities with a view to further enhance interconnectivity and interoperability among existing and planned transport infrastructure, modes and logistics systems. The ASEAN-ROK Preparation Studies for the ASEAN Highway Network Development Project was successfully completed in February 2005 and included the Feasibility Study on the Mawlamyine-Thanyuzayat Road Project in Myanmar, ASEAN Highway Fact Book, ASEAN Highway Road Inventory and Technical Manual for Highway Feasibility Studies.

The Singapore to Kunming Rail-Link (SKRL) Secretariat was established in Malaysia to coordinate the overall implementation of the SKRL project. Priority has been given to the completion of the missing links of the SKRL, namely, the Poipet-Sisophon (Cambodia) and Ho Chi Minh City – Loc Ninh (Viet Nam) lines. To broaden network coverage, ASEAN will also facilitate the realisation of the spur lines between the Three Pagoda Pass and Thanyuzayat (Myanmar) as well as the Vientiane-Mu Gia-Tan Ap-Vung Ang (Lao PDR/Viet Nam) line.

**Maritime Transport.** Steady progress was made in the area of maritime transport. Phase 2 of the IMO-ASEAN Project on Drafting and Updating of Maritime

Legislation to Support Adoption and Accession by ASEAN Member Countries to IMO Conventions was concluded, resulting in the creation of the ASEAN Forum on IMO Conventions. The AADCP study on Promoting Efficient and Competitive Intra-ASEAN Shipping Services completed in March 2005 provided the basis for the formulation of the proposed Roadmap Towards an Integrated and Competitive Maritime Transport in ASEAN.

#### **Cooperation on Transport with Dialogue Partners.**

The ASEAN-China MOU on Transport Cooperation was signed by the ASEAN Secretary-General and the Minister of Communications of China in November 2004 in Vientiane. Under the MOU, ASEAN and China will implement joint projects in transport infrastructure construction, transport facilitation, maritime safety and security, air transport, human resources development, and information exchange.

ASEAN and India agreed to cooperate on transport and infrastructure, covering highways, road and railway transport, ports and shipping, and air transport under the ASEAN-India Partnership for Peace, Progress and Shared Prosperity which was signed in November 2004.

ASEAN and Japan agreed to enhance national transport security, including aviation security, maritime security and container security under the ASEAN-Japan Joint Declaration for Cooperation on the Fight Against International Terrorism adopted in November 2004.

#### **Initiative for ASEAN Integration**

ASEAN continued to implement the six-year Initiative for ASEAN Integration (IAI) Work Plan, which was endorsed by the ASEAN Leaders at their summit in November 2002. The IAI Work Plan aims to expedite greater regional economic integration, promote equitable economic development and help alleviate poverty in the CLMV.

Under the IAI, ASEAN will focus on narrowing the development gap by reducing the large disparities in terms of per capita GDP as well as other human development dimensions between the ASEAN-6 and the CLMV. The work plan focuses on Infrastructure

Development (Transport and Energy), Human Resource Development (Public Sector Capacity Building, Labour & Employment, and Higher Education), Information and Communications Technology, and Promoting Regional Economic Integration (Trade in Goods and Services, Customs, Standards and Investments) in the CLMV.

Most of the programmes, activities, and projects in the Work Plan are efforts to build up the “soft” rather than the hard, physical infrastructure. This includes human resource development. In this context, the six-month Attachment Programme for CLMV Junior Diplomats at the ASEAN Secretariat has yielded positive results. The 28 officers who underwent the programme improved their analytical, leadership, language and writing skills. The programme will continue due to positive feedback from the CLMV countries.

As at 15 May 2005, there were 100 projects in the IAI Work Plan at various stages of implementation. Funding has been secured for 80 projects, of which 44 projects have been completed, 21 projects are being implemented, and 15 projects are in the planning stage. In addition, 4 projects have secured partial funding and are also in the planning stage. About US\$ 15.5 million worth of funding for projects is in the form of grants. The top five donors are the ROK, Japan, India, Norway, and Australia, accounting for about US\$ 13.7 million.

ASEAN-6 Country Contribution  
(as at 15 May 2005)

ASEAN-6 Countries	Funding Secured (US\$)	Projects
1. Brunei Darussalam	1,500,000	5
2. Indonesia	599,000	5
3. Malaysia	1,565,540	31
4. Philippines	30,932	3
5. Singapore	474,263	4
6. Thailand	419,881	10
<b>TOTAL</b>	<b>4,589,616</b>	<b>58</b>

So far ASEAN-6 countries have been involved in implementing 58 projects with a contribution of US\$ 4.59 million.

In addition, ASEAN-6 countries, on a bilateral basis, have contributed about US\$ 159.4 million to the CLMV to implement 209 projects since 1996.

A mid term review of the IAI Work Plan will be carried out in mid-2005 to take stock of the progress of implementation of the Work Plan projects.

