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INTRODUCTION

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INTRODUCTION

In the last two decades, the services sector has gained increasing importance in terms of its contribution to a country's Gross Domestic Product (GDP) and employment. Its share in total GDP for the Organisation for Economic Co-operation and Development (OECD) countries has grown from 70 per cent in mid-1990s to 75 per cent more recently, while its share for the countries in East Asia and Pacific has moved up from 37 per cent to 48 per cent over the same period. It further accounts for about 70 and 47 per cent respectively of total employment in the OECD countries and East Asia and Pacific region respectively (World Bank 2016).

The increasing importance of the services sector is driven by production fragmentation or outsourcing activities. While production fragmentation entails goods to be produced in multiple countries, outsourcing happens when multinational corporations (MNCs) focus on functions that they have comparative advantage while other functions are subcontracted to other firms. The resulting spatial or functional fragmentation is connected through service links such as transportation, ICT, distribution services, financial intermediation services and others (Jones and Kierzkowski 2005). Consequently, the competitiveness of manufacturing firms in an increasingly globalized world is determined to a large extent by the cost effectiveness and reliability of these service links.

In turn, the changing nature of manufacturing production has led to an increasing importance of trade in services as opposed to the earlier significance of trade in goods (Grossman and Rossi-Hansberg 2008). Trade in services now accounts for more than a fifth of global trade volumes (Saez et al. 2015). For the past two decades, trade in services has grown faster than merchandise trade, reaching over US$9 trillion for the first time in 2013 and constituting 11.9 per cent of the world GDP (UNESCAP 2015). It has also increased in recent years *vis-à-vis* trade in goods as the latter has been affected by the slowdown in growth in the developed world after the global financial crisis while economic recovery is retarded by the crash in commodity and oil prices in 2015.

In the case of countries of Southeast Asia (or ASEAN countries), inflows of foreign direct investment (FDI) have enabled some to participate in the fragmentation of production and the emergence of regional networks (Athukorala 2013). The services sector assumes increasing importance as it enables these ASEAN countries to plug into the production networks more efficiently. The sector accounts for more than 40 per cent and 50 per cent, respectively, of total value added and total employment in ASEAN (ASEAN Secretariat and the World Bank 2015). Although trade in services has grown over the years, it is still less significant than the world average. The sector, however, draws a significant share of FDI inflows in the region (ASEAN Secretariat 2015*a*).

The growth performance of the services sector varies across the member countries in ASEAN due to differences in policies and institutions, extent of commitment at regional or multilateral levels and willingness to comply with services sector liberalization commitments. For example, although the ASEAN countries aspire to deepen services sector integration within the region to enhance the contribution of services to economic development and growth (ASEAN Secretariat 2015*a*), services liberalization has progressed much more slowly compared to goods liberalization. Limited liberalization ambition and the pervasiveness of regulatory barriers have contributed to the slow progress in the liberalization of services in ASEAN (ASEAN Secretariat and the World Bank 2015).

Therefore, there is a need to examine the development of the services sector, including the liberalization efforts for this sector in ASEAN. This book will focus on FDI in the services sector, as of the four main modes of trade in services, commercial presence is the most important, constituting an estimated 55–60 per cent of total trade in services (Saez et al. 2015). Moreover, the shift from trade in goods to trade in tasks (or services) has led to increasing interest in the "trade-investment-services" nexus as regional production networks has taken over as the driver of international trade (Baldwin 2011). Liberalization commitments in the General Agreement on Trade in Services (GATS) commitments under the World Trade Organisation (WTO) and the ASEAN Framework Agreement on Services (AFAS) under the ASEAN Economic Community (AEC) will be discussed since all ten ASEAN member countries are also WTO members. However, while liberalization measures can contribute to FDI inflows, empirical evidence also indicates that economic fundamentals such as market size, macroeconomic stability, and fiscal incentives also play a significant role (Banga 2003). A holistic assessment of the impact of liberalization measures will therefore need to take into consideration domestic policies, covering institutions and regulations, which are necessary for improving the enabling environment for FDI.

The main objective of this book is to compare international and domestic policy measures, including institutional and regulatory reforms for attracting FDI and its impact on inflows of FDI in the services sector in the ten ASEAN countries. Specifically, each country study will:

1. Compare the liberalization of FDI in services at the regional and multilateral levels with domestic policies, including the promotion of FDI through incentives, institutional and regulatory reforms;
2. Examine its impact on inflows of FDI;
3. Identify challenges in the liberalization and promotion of FDI and provide suggestions for policy changes based on these challenges.

Given the heterogeneous nature of the services sector, this book will focus on the logistics industry as a case study as the industry plays a key role in the movement of goods, services and people across the ASEAN region. Logistics was also one of the twelve priority integration sectors in ASEAN.[1]

Following the introductory remark, this chapter is organized as follows. It provides a literature review on the determinants of FDI, including in the services sector in Section 2. The analytical framework is presented in Section 3 while the importance of FDI in services liberalization with reference to WTO and ASEAN are discussed in Section 4. Section 5 discusses the logistics sector in ASEAN. Subsequently, the chapter highlights the key findings of the study and also the individual country experience (Section 6). It concludes by giving policy recommendations, both for ASEAN as a region, and its member countries, with respect to their respective services sector liberalization and development of their logistics sector (Section 7).

LITERATURE REVIEW ON DETERMINANTS OF FDI

Theoretically, numerous models have been postulated to explain the determinants of FDI.[2] These can range from the standard movement of capital in neoclassical models to Dunning's eclectic model as well as other models that seek to explain capital mobility in terms of the types of capital. In this volume, we choose to adopt Dunning's eclectic paradigm, based on ownership, location and internalization (OLI) advantages as it is by far the most influential framework for empirical investigation on the determinants of FDI, despite its limitations some of which were accepted by Dunning (2001) himself. To overcome these limitations, the framework has been extended to accommodate for example, institutional theory, as proposed by Dunning (2006), in the choice of variables to represent locational advantages. In particular, it is the locational advantages that are of interest to host economies in ASEAN, as it includes country specific advantages such as the availability of factor endowments (for example, natural resources and geographical factors) as well as public intervention in the allocation of resources (Dunning 1977). In particular, the incorporation of policy variables which is also suggested by UNCTAD (2009), is of special interest based on the third objective of this book. The Dunning framework thus provides us with the flexibility to analyse the policy issues that are explored in this book.

There is a voluminous empirical literature on the determinants of FDI flows, with different results due in part to the different methodologies used. According to Singh and Jun (1995), these empirical studies can be divided into three approaches: micro-oriented econometric study, survey data analysis, and aggregate econometric analysis. Since our book deals with country studies based on aggregate data, we focus specifically on the empirical evidence at the aggregate level, which can be cross country studies or country specific in nature. Singh and Jun's (1995) summary and Blonigen's review of the empirical literature a decade later in 2005, indicates that there is no broad consensus on the major determinants of FDI as the overall empirical evidence is mixed in terms of causal direction as well as the magnitudes of estimates obtained in the regression studies that have proliferated to examine this issue. This in turn can be attributed, in part, to data problems as reliable and accurate data on FDI flows and its determinants, especially for developing countries, are difficult to come by. For example, Blonigen (2005) acknowledges while the quality of institutions is likely to be an important determinant, especially for developing countries, it is difficult to obtain accurate measurements of institutions so that the magnitude of this variable's impact on the determinants of FDI is difficult to capture in econometric studies. This is further compounded by comparability issues since cross country studies essentially pool together data from countries that are structurally diverse and at different stages of economic development. Moreover, although theoretically there are many variables that can affect inflows of FDI based on Dunning's locational advantages, they may not all be simultaneously relevant since the relevance of each depends on home and host country characteristics as well as the type of FDI being analyzed. This is clearly shown in Asiedu (2002)'s study, where some standard variables tested for driving foreign capital to developing countries, such as infrastructure development and openness to trade, did not have the same impact for sub-Saharan Africa. It would appear that context is important in examining the impact of different variables as determinants of FDI in a particular host economy.

In the case of the services industry, can the same FDI theories and their determinants be applied given services' unique characteristics such as invisibility, intangibility, perishability and the need for geographical proximity or the simultaneity of production and consumption?[3] Dunning (1989) argues that the distinction between goods and services is a false one. This is because most goods purchased are supposed to offer certain services (like the food we eat) and, in general, all goods embody non-factor services and services may also require physical goods. The two main differences are found in services' direct association of production and consumption as opposed to separate activities for goods and the issue of ownership i.e. transaction of goods imply change of ownership, whereas for services, only part of the price is for ownership (like airplane and air tickets). Thus, Dunning's eclectic theory is also currently used to explain FDI in services whilst generally most of the determinants in manufacturing also apply for services so that no special FDI theory for international service firms is deemed necessary (Yin et al. 2014).

ANALYTICAL FRAMEWORK

The analytical framework used in this book is based on the locational advantages of host economies which encompasses the natural and created resources of a country. The latter refers specifically to the FDI enabling environment that can be provided by a judicious use of appropriate government policies. It includes political and macroeconomic stabilities as fundamental conditions for drawing in both foreign and domestic investors; institutions; and physical, ICT as well as social infrastructure (Sun 2002; Australian Department of Foreign Affairs and Trade 2016).

In particular, institutions or "rules of the game" have become increasingly important as good governance increases the productivity prospects of a country, which in turn benefits foreign investors while poor institutions can increase costs as in the case of corruption (Bénassy-Quéré et al. 2005). Moreover, FDI represents sunk costs and poor institutions heighten the risks of policy reversals while weak enforcement of laws increases uncertainty for investors. In the case of services, regulations play an important role as shown by Dee (2009) as these may intentionally or unintentionally deter the entry of foreign and domestic suppliers. Regulatory restrictions and uncertainty can thus serve as FDI barriers while clear, transparent, consistent policies, which are timely, implemented and enforced, reduces regulatory ambiguity thereby reducing investment costs.

Investments in physical, ICT and social infrastructure mitigate the limitations of natural resource endowments, especially the lack of it and facilitates the movement of goods, services and people. This volume is especially interested in investments in infrastructure that can facilitate trade and reduce the trade costs of a country. ICT investment expedites the movement of goods and services, particularly exports from small and medium enterprises (SMEs) by providing an avenue for a direct link with customers, including from outside the country, thereby reducing the need for establishing a physical presence (Kotnik and Hagsten 2012). Human capital is one of the most important investments in social infrastructure, especially for moving up the global value chain (GVC) when the quality of education and talents play a critical role in industrial upgrading as well as in the shift to a service-oriented economy as aspired by some of the ASEAN member countries.

Using the above framework, we now provide a brief overview of the FDI enabling environment in ASEAN member countries.

Institutions

Institutions are defined as the rules of the game in a society or more formally as humanly devised constraints that shape human interactions (North 1990). The quality of institutions in a country at the macro level is usually proxied by the four main indicators shown in Table 1.1, namely political stability, corruption, rule of law and the ease of doing business. Singapore is the best performer in all the proxies used for measuring institutional quality, while Cambodia, Laos and Myanmar are ranked the worst. This leads to significant differences in each member country's approach to logistics integration as both liberalization and facilitation measures may require changes in the rules and regulations of a country.

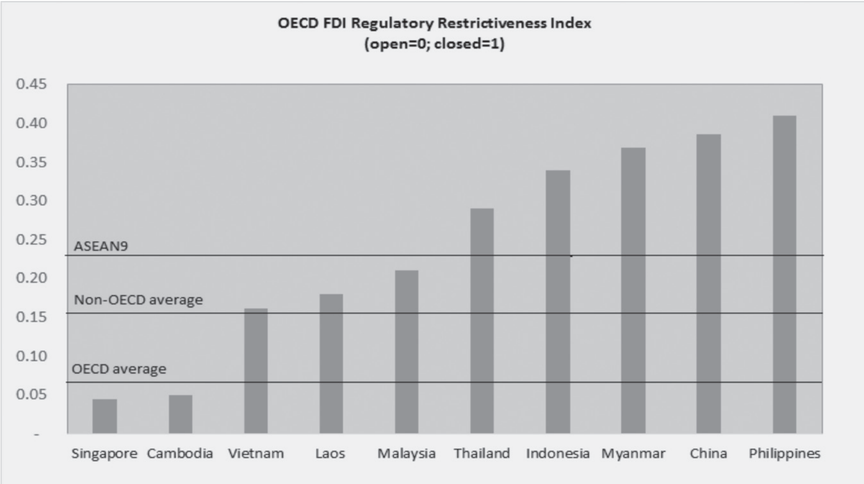
TABLE 1.1
Ranking of ASEAN Countries for Political Stability, Perceived Level of Corruption, and Rule of Law, 2014 or 2015

	Political Stability and Absence of Violence/ Terrorism: Percentile Rank (2014)	Transparency International Corruption Perceptions Rank (2015)	Rule of Law: Percentile Rank (2014)	World Bank's Ease of Doing Business Rank (2015)
Brunei	95.1	n.a.	70.2	84
Cambodia	44.7	150	17.3	127
Indonesia	31.1	88	41.8	109
Laos	61.2	139	26.9	134
Malaysia	58.7	54	75.0	18
Myanmar	11.7	147	8.7	167
Philippines	22.8	95	43.3	103
Singapore	92.2	8	95.2	1
Thailand	16.5	76	51.4	49
Vietnam	46.1	112	44.7	90

Source: World Governance Indicators, World Bank (for data on Political Stability and Rule of Law); World Bank, Doing Business; Transparency International (for the Corruption Perception Index).

Since this book is concerned about FDI, we use the OECD FDI Regulatory Restrictiveness Index[4] to ascertain the restrictiveness of FDI rules in each ASEAN member country, in terms of equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners as key personnel and operational restrictions such as on branching, capital repatriation or on land ownership. Figure 1.1 shows only two ASEAN member countries are below the OECD average for the year 2015 while the rest are above the same average, implying there is considerable room for further FDI liberalization and improvement in the FDI enabling environment in most ASEAN member countries.

FIGURE 1.1
OECD Regulatory Restrictiveness Index, 2015



Note: ASEAN 9 refers to the average scores of the nine ASEAN member states covered. It excludes Brunei Darussalam which is not covered. Data for Lao PDR, Vietnam, Cambodia, Singapore and Thailand are preliminary.
Source: OECD FDI Regulatory Restrictiveness Index, OECD. Stat as of end 2015.

Infrastructure

Table 1.2 presents a comprehensive summary of the infrastructure competitiveness of ASEAN member countries, published by the World Economic Forum. Apart from Singapore, Malaysia and Thailand, most ASEAN member countries suffer from poor infrastructure quality. Poor infrastructure leads to high transportation costs, which is a key component of logistics expenses.

TABLE 1.2
Infrastructure Competitiveness by Sector, 2015

Country	Quality of Roads	Quality of Railroad Infrastructure	Quality of Port Infrastructure	Quality of Air Transport Infrastructure	Quality of Electricity Supply	Mobile Subscriptions
Brunei	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cambodia	3.3	1.6	3.7	3.7	3.1	155.1
Indonesia	3.7	3.6	3.8	4.4	4.1	126.2
Laos	3.6	n.a	2.2	3.8	4.7	67
Malaysia	5.7	5.1	5.6	5.7	5.8	148.8
Myanmar	2.3	1.8	2.6	2.6	2.7	49.5
Philippines	3.3	2.2	3.2	3.7	4.0	111.2
Singapore	6.2	5.7	6.7	6.8	6.7	158.1
Thailand	4.4	2.4	4.5	5.1	5.2	144.4
Vietnam	3.3	3.2	3.9	4.2	4.1	147.1

Notes: Index 1 (extremely underdeveloped) to 7 (extensive and efficient) for the Quality of Roads, Railroad, Port and Air Transport Infrastructures. Index 1 (extremely unreliable) to 7 (extremely reliable) for the Quality of Electricity; Number of mobile-cellular telephone subscriptions per 100 population for Mobile Subscriptions.
Source: *The Global Competitiveness Report 2015–2016*, World Economic Forum.

Human Capital

The differences in human capital across ASEAN countries have been pointed out as another impediment in ASEAN's efforts to integrate its logistics sector (see Table 1.3) (Tongzon 2011). In Indonesia, Cambodia, Laos, Myanmar and Vietnam, a shortage of trained professionals and the lack of on-the-job training in SMEs reduce the competitiveness of the logistics industry, resulting in the stalling of liberalization in some of these countries.

TABLE 1.3
Human Capital Index, 2015 Ranking, ASEAN

Country	Rank	Score
Singapore	24	78.15
Philippines	46	71.24
Malaysia	52	70.24
Thailand	57	68.78
Vietnam	59	68.48
Indonesia	69	66.99
Cambodia	97	58.55
Lao PDR	105	56.16
Myanmar	112	52.97
Brunei	n.a.	n.a.

Notes: The Human Capital Index is a proxy tool to gauge the extent of knowledge and skills embodied in individuals that enable them to create economic value in a country. It captures the complexity of education, employment and workforce dynamics. The ranking is among 130 countries. The Index assesses Learning and Employment outcomes on a scale of 0 (worst) to 100 (best).
Source: Human Capital Report, World Economic Forum

ASEAN COMMITMENTS IN SERVICES LIBERALIZATION IN GATS AND AFAS

WTO Commitments in Services

Under WTO, ASEAN countries liberalized their services trade through the General Agreement of Trade in Services (GATS) that came into effect as part of the Uruguay Round in January 1995. The GATS rules provided a comprehensive legal framework covering 161 services activities across twelve sectors — telecom, maritime, finance, energy, business, education, environment and distribution services.[5] The main aim was to establish a legal framework to cover rules and practices of services trade. As many services in a country are subject to domestic regulations, the agenda for liberalization under GATS was not too ambitious. Much flexibility was provided to countries in choosing the services sector that they wish to liberalize or to maintain limitations in specific subsectors (Chanda 2002). Moreover, GATS' "request and offer" approach of negotiation, i.e. WTO members choose the sectors that they wish to offer binding commitments in response to requests from other WTO members, lack clear liberalization targets. This, in turn, has not been successful in encouraging "offers" to liberalize the sectors that the member countries wish to protect from the foreign competition in WTO (Nikomborirak and Jitdumrong 2013).

In particular, GATS is built on three main elements — provisions, commitments and sectoral annexes. The main GATS provisions include Most-Favoured Nation Treatment, i.e. countries cannot discriminate among the WTO members in terms of their treatment of foreign services and services suppliers,[6] and transparency.[7] Commitments under GATS are undertaken in a mode-wise approach — mode 1 (cross-border supply), mode 2 (consumption abroad), mode 3 (commercial presence) and mode 4 (movement of natural persons). Sectoral or issue-wise annexes spell out the sectoral commitments and procedural and implementation issues in various areas as well as a timeframe for future discussion.

Table 1.4 summarizes the country-wise structure of commitments for ASEAN member countries. Of the 161 service activities, two countries in ASEAN have committed forty sectors or less, another three countries have committed sixty-one to 100 and the rest of the five countries have committed 101 and more. There is also substantial variation in the commitments across sectors. While business services and tourism cover multiple subsectors and have several scheduled commitments, public services such as health, communication (telecom), transport and education, are either not scheduled by many ASEAN member countries or, if scheduled, have partial commitments and are subject to domestic regulations. This implies that public goods type of sectors where there are social and economic considerations and where there is regulatory mediation and government undertakings tend to have relatively fewer commitments.

TABLE 1.4
Structure of Commitments by ASEAN Members in GATS

Sectors Committed	ASEAN Country	Sectors Committed	ASEAN Country
20 or less	Myanmar	81–100	Indonesia, Laos
21–40	Brunei	101–120	Cambodia, Philippines, Thailand
41–60		121 and more	Malaysia, Vietnam
61–80	Singapore		

Note: The GATS commitments of individual ASEAN member countries are counted at their year of accession.
Source: Authors' compilation from <https://www.wto.org/english/tratop_e/serv_e/serv_commitments_e.htm>.

Nevertheless, the depth of the commitments is relatively low with limitations on market access and national treatment. There are two indices developed by the World Bank to observe the extent of services trade liberalization among ASEAN member countries. First is the GATS Commitment Index, where 0 implies least liberal and 100 the most. Cambodia and Vietnam have the highest scores as these are the countries that are late entrants to the WTO and had to undertake far-reaching commitments as part of their accession to the WTO. Brunei and Myanmar have made least concession in the GATS, reflecting their highly protected services sector. The rest of the countries fall between the two extremes, with Indonesia at the lowest at 9.52 and Malaysia at the highest at 25.4. Second, is the Services Trade Restrictiveness Index (STRI), where 0 implies completely open, 25 relates to virtually open with minor restrictions, 50 implies major restrictions, 75 means virtually closed with limited opportunity to enter and operate and 100 depicts completely closed. Under STRI, Myanmar is highly protective of its services sector, whilst Cambodia and Vietnam, are more liberal for the same reason as mentioned above (see Table 1.5).

Key reasons for modest liberalization lie in the political economy of the ASEAN countries, regulatory restrictions in individual services as well as financial and human-resource capacity of individual countries to undertake domestic reforms. For most of the public utility and financial services in ASEAN member countries, entry is subject to certain limits on new licenses and the licensing procedure is not very

TABLE 1.5
Extent of Liberalization under GATS Commitment

Countries	Bru	Cam	Indon	Laos	Mal	Mya	Php	Sgp	Tha	Viet
GATS Commitment Index	4.35	40.08	9.52	n.a	25.4	4.94	14.08	22.66	19.73	30.15
STRI of GATS Commitment	89.3	24.1	78.2	76.0	76.0	100.0	78.7	60.4	80.4	38.3

Note: Bru: Brunei; Cam: Cambodia; Indon: Indonesia; Mal: Malaysia; Mya: Myanmar; Php: Philippines; Sgp: Singapore; Tha: Thailand; Viet: Vietnam.
Source: Nikomborirak and Jitdumrong (2013) and the ASEAN Secretariat and the World Bank (2015).

transparent. According to the ASEAN Services Integration Report (ASEAN Secretariat and the World Bank 2015, p. 53),

> in several ASEAN countries, licenses and foreign equity ownership are decided on a case-by-case basis, subject to requirements or approvals that involve several regulators and ministries. Some countries in certain sectors have no regulation at all, especially the lower-income countries in the region and pertaining to the supply of services through the cross-border and consumption abroad modes. In general, the high level of discretion and the absence of regulation create a less predictable policy environment and makes it difficult to accurately define and assess the policy regime.

Following the Uruguay Round, several new rounds of service sector negotiations were undertaken in end-2001, under the Doha Development Agenda (DDA). Two key objectives were stated under the Doha Round: (a) to update and undertake reform in the current GATS rules and principles and (b) to open up more of the services sectors to foreign competition. The WTO services negotiations for DDA have been going on for more than ten years now and it is unlikely to be concluded. Negotiating format, Mode-4 commitments on Movement of Natural Persons and rules and regulations were cited as common causes for the prolonged negotiations (Cooper 2011). Given the stalemate in DDA, a subset of WTO members, undertook a plurilateral arrangement, namely the Trade in Services Agreement (TISA). The objective is to "improve on the GATS and negotiate a higher-standard agreement on services among like-minded WTO members" (Stephenson 2015). TISA negotiations, that have started in early 2013, involve twenty-five participants (including the EU twenty-eight nations in total), though there are no ASEAN members.

ASEAN Framework Agreement on Services

ASEAN's desire to liberalize services trade was institutionalized by the signing of AFAS in 1995. Thereafter, in the 2007 AEC Blueprint, a free flow of services is mentioned under the first pillar of "single market and production base". Broadly, the aim under services liberalization is

(a) to eliminate "substantially all existing discriminatory measures and market access limitations amongst member States"; and (b) to prohibit "new or more discriminatory measures and market access limitations" (ASEAN Framework Agreement on Services 1995). This may be achieved through greater certainty in ASEAN member countries' services regime, Mutual Recognition Agreements (MRAs) of specific professions and negotiation of trade in services agreements with FTA partners (ASEAN Secretariat 2015*a*).

Specifically, services sector liberalization in ASEAN stipulates the following: removing restrictions on trade in services by 2010 for four priority services sector (air transport, e-ASEAN, healthcare and tourism); by 2013 for logistics and by 2015 for all other services sector (such as construction, distribution, maritime transport, education, environmental services). In 2004, the ASEAN-X formula was also adopted, where negotiations can be undertaken if there are at least three members involved. Since the fifth package, signed in 2006, it was decided that an AFAS package would include all commitments made by ASEAN countries under WTO, earlier AFAS packages commitments and new commitments for each new round of negotiations.

Studies have shown that AFAS commitments have improved considerably over the years (Dee 2015). The ninth package shows the most number of sectors covered in the commitments to date (see Table 1.6). The commitments included: no restrictions for cross-border supply (mode 1) and consumption abroad (mode 2), except for certain regulatory reasons; foreign equity participation should not be less than 51 per cent by 2008 and 70 per cent by 2010 for the four priority services sector; 49 per cent by 2008, 51 per cent by 2010 and 70 per cent by 2013 for logistics services; and 49 per cent by 2008, 51 per cent by 2010 and 70 per cent by 2015 for other services sectors (mode 3) and to progressively remove other market access restrictions by 2015. ASEAN member states have also committed themselves to MRAs for certain professionals (mode 4): the countries committed to complete negotiation of MRA for architectural, accountancy, surveyor and medical professionals by 2008, dental professional by 2009 and others by 2015. This enables the qualification of a service provider recognized by a regulatory authority in their home country to be mutually recognized by other ASEAN countries.

TABLE 1.6.
Number of Services Subsectors Covered in AFAS Packages of Commitments

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

Source: CIMB ASEAN Research Institute (CARI) (2016).

Nevertheless, liberalization commitments under AFAS remained limited and modest compared to countries' applied policies (see Table 1.7). The STRI, where 0 implies completely open and 100 depicts completely closed, shows that Indonesia and Vietnam have domestic policies that are at par with AFAS commitments, whereas for countries like Cambodia, Myanmar and Singapore, their unilateral liberalization policies are more open than their respective AFAS commitments.

With regard to implementation, ASEAN member countries have met most of the mode 1 and mode 2 commitments. For mode 3, all ASEAN member countries, except Singapore, have fallen behind the liberalization targets for foreign equity participation. Restrictions in national economies in terms of equity and land holdings and licensing requirements continue to act as a barrier to services sector trade. As AFAS commitments do not touch on domestic regulation that is pervasive in services, these are likely to continue to restrict trade in this sector (Chia and Plummer 2015).

For MRAs (mode 4), they have been signed for eight professionals – engineering (2005), nursing (2006), architectural (2007), surveying qualification (2007), accountancy (2009), medical and dental practitioners (2009), tourism professional (2009). There are different ways of cooperation under these MRAs: the ones under engineering and architecture provide

TABLE 1.7
Restrictiveness of AFAS Commitments and Applied Policies

Countries	Bru	Cam	Indon	Laos	Mal	Mya	Php	Sgp	Tha	Viet
STRI of AFAS Commitment	65.2	18.5	49.5	55.3	54.2	42.8	55.0	30.5	58.5	36.4
Restrictiveness of Applied Policies	n.a.	10.0	48.3	44.6	42.3	26.4	48.6	10.8	43.8	36.0

Notes: Bru: Brunei; Cam: Cambodia; Indon: Indonesia; Mal: Malaysia; Mya: Myanmar; Php: Philippines; Sgp: Singapore; Tha: Thailand; Viet: Vietnam.
Source: ASEAN Secretariat and the World Bank (2015).

recognition of qualifications for registered ASEAN professionals, MRAs for nursing, medical and dental practitioners aim to exchange information and best practices on the licensing of healthcare practitioners, MRAs on accountancy and surveying services provide a framework of broad principles to advance bilateral and multilateral negotiations among the ASEAN members states and MRA on tourism professionals facilitates mobility of skilled workforce by exchanging information and providing capacity building exercises (ASEAN Secretariat 2015*a*).

In general, MRAs do not contain any liberalization commitments but try to facilitate mobility of professionals between member states on a voluntary basis, thereby generating flexibilities. As MRAs are not supposed to override local laws and are applicable only in accordance with the host countries' prevailing regulations, behind-the-border barriers to trade may emerge from local laws and regulations. For example, in Thailand, the Alien Employment Act remains in force and this requires a work permit for all foreigners working in the country. The country has yet to align its domestic legislation to regional agreements on MRAs. Hence, MRAs cannot be equated with market access and effective intra-ASEAN mobility of skilled labour (Nikomborirak and Jitdumrong 2013).

In summary, services sector liberalization under the AEC 2015 blueprint does not support the development of a free flow of services as aspired. This is because liberalization in mode 3 envisions only 70 per cent of ASEAN equity shares, while liberalization of mode 4 is confined to the movement of some professionals but there are still many flexibilities and exceptions.

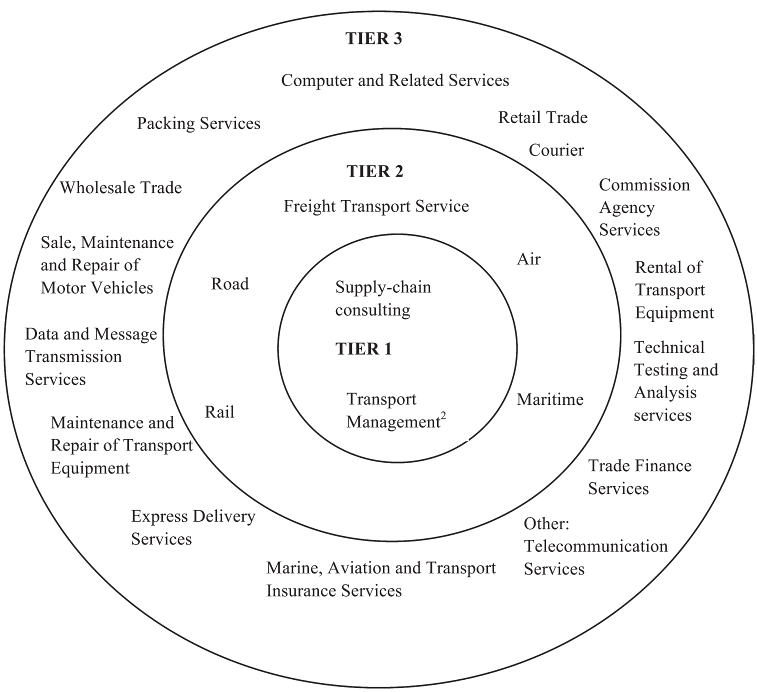
CASE OF LOGISTICS SERVICES IN ASEAN

Defining Logistics Services

Logistics services facilitate the movement of goods and services within and across borders from producers to producers/consumers. A seamless logistics sector enhances efficiencies in supply-chain movements, reduces trade costs and facilitates trade across countries. The US Coalition of Services Industries defines logistics services sector as "the process of planning, implementing, managing and controlling the flow and storage of goods, services and related information from the point of origin to the point of consumption" (Sugie et al. 2015, p. 8). In the WTO Services Sectoral Classification List,[8] logistics services mostly appear under "Transport Services" and covers auxiliary services attached to all modes of transport (such as cargo handling services, storage and warehouse services and freight transport agency services). This WTO classification is based on the United Nations Provisional Central Products Classification (CPC Prov.), and it is used by countries to schedule commitments under the GATS and other trade agreements, following the GATS approach.

However, the definition of logistics services has moved beyond the narrow description of handling and transport/distribution of goods. It has evolved, depending on a country's development stage, and can encompass activities that facilitate economic transactions in connection with production and trade such as warehousing, storage, communication, and infrastructure. Figure 1.2 describes the full range of logistics services activities, divided over stages of development. To increase efficiency, each of these components has to be further supported by the appropriate institutions.

FIGURE 1.2
Logistics Service Activities[1]



Notes: [1] These activities are based on USTR's definition of logistic services. Where applicable, the figure lists activities using the WTO's services Sectoral Classification List as a guide.
[2] Transport management services include storage and warehousing, cargo handling, transport agency services and customs brokerage.

Source: United States International Trade Commission (2005).

Case of Logistics Integration in ASEAN

In view of its importance, the logistics sector was declared a priority sector in 2004 and the ASEAN Secretariat subsequently commissioned a study to develop a roadmap for its development in 2006 (Banomyong, Cook and Kent 2008). The study used survey findings to identify the core strengths and weaknesses in this sector. The survey findings and stakeholder consultations were then used to formulate the roadmap for logistics integration, which was later endorsed in 2008.

The objectives of the Roadmap for the Integration of Logistics (RILS) are two-fold: (i) it aims to create an ASEAN single market by 2015 by strengthening ASEAN economic integration through liberalization and facilitation measures in the area of logistics services; and (ii) to support the establishment and enhance the competitiveness of an ASEAN production base through the creation of an integrated ASEAN logistics environment.[9] The liberalization and facilitation measures in the Roadmap and their respective implementation mechanisms are summarized in Table 1.8. While liberalization is to be implemented in AFAS commitments, facilitation measures are to be implemented through the ASEAN Strategic Transport Plan since transportation is a major component in this sector.

TABLE 1.8
Roadmap for the Integration of Logistics (RILS)

	Components	Implementation Mechanism
1.	Liberalization of nine logistics services subsectors	ASEAN Framework Agreement on Services (AFAS)
2.	Four key facilitation measures: • Enhancing competitiveness of ASEAN logistics service providers through trade (including documentation simplification; • Expanding capability of ASEAN logistics service providers; • Human resource development; • Enhancing multimodal transport infrastructure and investment	• Measures are implemented and monitored through the action plans of ASEAN sectoral bodies in Services, Transport and Trade/Customs; • Measures have been aligned with the ASEAN Strategic Transport Plan (2011–2015).[10]

Source: Tham (2016).

The aim in the liberalization measures is aligned with services liberalization in AFAS that targeted the completion of negotiations for ten packages by 2015, with stipulated targets over the different modes of delivery, as shown in Table 1.9.

TABLE 1.9
Liberalization Targets in Logistics

Modes	Description	Targets for Logistics by AFAS 10 in 2015
1	Cross border supply	None
2	Consumption abroad	None
3	Commercial presence	To allow foreign equity of up to 70 per cent; with no limitations on national treatment
4	Movement of natural persons	Superseded by ASEAN Agreement on the Movement of Natural Persons, 2011

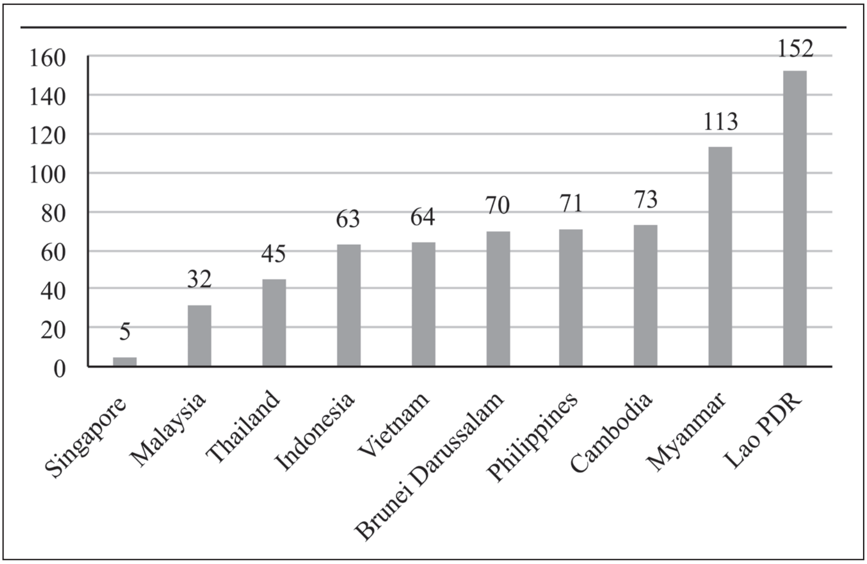
Source: Tham (2016).

Unlike the liberalization measures, facilitation measures are numerous (thirty-three in total), wide ranging with open-ended timelines for twenty-six of them.[11] The plan thus envisages liberalization to move ahead of the facilitation measures which are deemed to be more long-term in nature.

Logistics Performance in ASEAN Member Countries

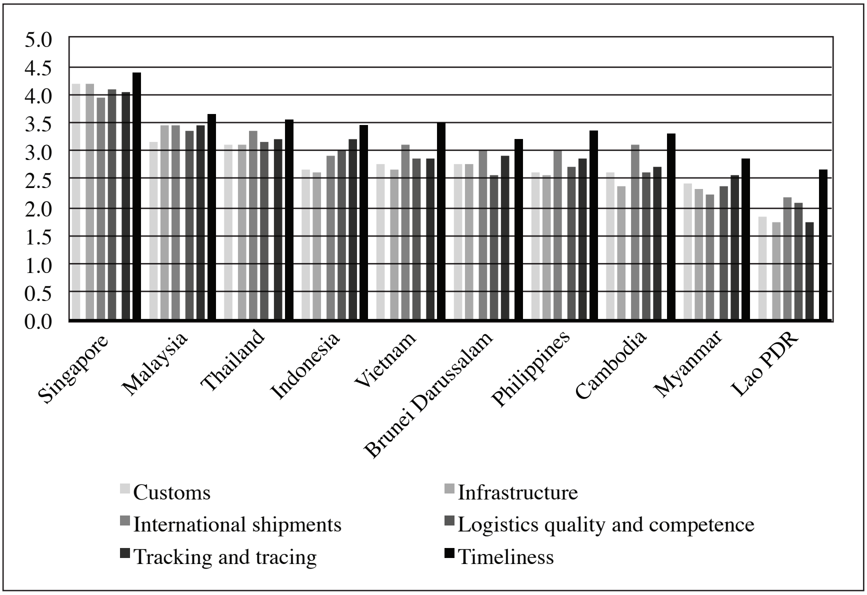
There are challenges in the liberalization and facilitation goals in logistics integration in ASEAN as reflected in the disparate performance in logistics in the ten ASEAN member countries in Figure 1.3, based on the World Bank's Logistics Performance Index (LPI).[12] In the figure, Singapore is ranked fifth among 160 countries in terms of its logistics performance and this is followed by Malaysia, Thailand and Vietnam. At the other end of the spectrum, Lao PDR is ranked 152. This disparate performance can be traced to great disparities in all six components of the LPI, namely infrastructure; customs; international shipments; tracking and tracing; logistics quality; and timeliness (see Figure 1.4). This disparity implies that logistics integration in ASEAN is not going to be easy task as explained in each of the country chapters that provides details on the challenges encountered in the integration process.

FIGURE 1.3
Ranking in Logistics Performance of ASEAN Member States, 2016



Source: World Bank, Logistics Performance Index 2016.

FIGURE 1.4
Logistics Performance in ASEAN Member States, 2016



Source: World Bank, Logistics Performance Index 2016.

KEY FINDINGS AND OVERVIEW OF COUNTRY CHAPTERS

Using transportation and storage to represent the logistics sector, the contribution of logistics to the ASEAN member state's GDP in 2015, ranged from 3–7 per cent for the older ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) and Vietnam (see Table 1.10). Data for the Cambodia, Lao PDR and Myanmar (CLM countries) appear to be bigger because of definitional differences as communication is included in their industry classification. More importantly, the contribution of logistics to GDP from 2010 to 2015 for most of the ASEAN countries has remained more or less the same or fallen slightly, with the exception of Indonesia. Brunei's contraction is exceptional as it is due to the negative impact of the fall in oil prices on its economic growth. The country's logistics sector, which serves primarily the main output produced and exported, namely oil and gas, also contracted accordingly and with it, the contribution of this sector to the country's GDP.

TABLE 1.10
Contribution of Logistics Sector to National GDP of ASEAN Countries

(in US$ million)	Brunei[a]		Cambodia[b]		Indonesia	
	2010	**2015**	**2010**	**2015**	**2010**	**2015**
GDP	13,707	12,930	11,242	18,050	755,094	861,934
Transport and Storage	218	165	469	686	26,993	43,240
Share to GDP (%)	1.59	1.27	4.17	3.80	3.57	5.02
	Laos[b]		**Malaysia**		**Myanmar[b]**	
	2010	**2015**	**2010**	**2015**	**2012[c]**	**2015**
GDP	7,128	12,369	255,017	296,283	59,731	62,601
Transport and Storage	312	432	9,003	10,211	9,230	7,508
Share to GDP (%)	4.38	3.49	3.53	3.44	15.45	11.99
	Philippines[d]		**Singapore**		**Thailand**	
	2010	**2015**	**2010**	**2015**	**2010**	**2015**
GDP	199,591	292,451	236,422	292,739	340,924	395,168
Transport and Storage	12,995	18,813	18,645	20,311	19,162	22,773
Share to GDP (%)	6.51	6.43	7.89	6.94	5.62	5.76
	Vietnam					
	2010	**2015**				
GDP	115,932	193,599				
Transport & Storage	3,334	5,280				
Share to GDP (%)	2.88	2.73				

Notes: a – the Brunei figures of transport and storage is only for transport;
b – the Cambodia, Myanmar and Laos figures for transport and storage pertain to transport and communication;
c – 2010 figures are not available for Myanmar; and
d – Philippines transport and storage data is for transport, storage and communication.
Source: Authors' compilation from CEIC Database.

Each country chapter examines the research questions raised in this book, with the logistics sector as a case study for identifying the challenges in liberalizing and facilitating an FDI-enabling environment for this sector. However, since all ten countries are at different stages of development in their service sector, including logistics, the emphasis in each country chapter differs accordingly. The chapters are organized as ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand), Vietnam, followed by Brunei, Cambodia, Laos and Myanmar.

Chapter 2 by Titik Anas and Nur Afni Panjaitan shows that Indonesia's services sector, including logistics, is relatively small. It has been estimated that Indonesia suffers from relatively high logistics costs at 27 per cent of GDP, compared to 8 per cent in the case of Singapore, 13 per cent for Malaysia and 20 per cent for Thailand. The largest part of the logistics costs is transportation costs. The government has, however, shifted from state dominance to increasingly more participation from the private sector in the development of the logistics sector. A number of necessary institutions are established to develop the sector. In 2012, Indonesia launched the Blueprint for the Development of the National Logistics System to provide an integrated framework and action plans to develop the country's logistics system. Concurrently, a number of laws were amended in the late 2000s.

But, Indonesia's logistics sector continues to be restrictive and its performance remains poor. The changes in laws in the reform process are important but are insufficient. According to the OECD Services Trade Restrictiveness Index (STRI 2015), almost all subsectors of the logistics remain less open to trade *vis-à-vis* the OECD average. Besides a restricted foreign investment policy, Indonesia's logistics sector continues to face constraints from domestic regulations in freight forwarding, warehousing, cargo handling in sea and air-ports. An improvement in the performance of the sector will require follow-up, including reforming the laws to be more investment friendly, implementing regulations and improving the existing infrastructure. Pursuing reforms will take time and it has to be consistent until there is an improvement in the performance of the logistics sector. For infrastructure, although the government is undertaking many initiatives to address the challenges, such as building maritime highways and an integrated freight sea transport, the huge investment required (estimated at US$55.4 billion between 2015 and 2019) can make this a daunting task.

Tham Siew Yean in Chapter 3 on Malaysia finds that the country has not met all the AFAS targets for the logistics sector. Continuous efforts are being made to improve the FDI enabling environment by improving the ease of doing business and by establishing good regulatory practices (GRP), based on international best practices. In 2015, the National Logistics and Facilitation Master Plan was launched with the goal of improving the performance of this sector by addressing its main current challenges, such as regulatory as well as infrastructural bottlenecks. The Ministry of Transport is placed in charge of the implementation, with a clear governance structure and a council to monitor its implementation in order to address the inherent fragmentation in this sector. These new initiatives hold great promise in terms of enhancing the future FDI environment. Nonetheless, FDI in this sector is relatively small, though growing. It is unlikely that the current liberalization commitments have contributed to these inflows as these commitments are limited and licenses are still needed for the regulated sectors.

There are still several outstanding challenges for Malaysia. First, there is a need to rationalize some subsectors where there are a large number of firms, mainly SMEs, as this implies the use of a price strategy rather than strategies that promote exports through service differentiation, innovation and standards compliance. Second, regulatory reviews have to lead towards regulatory de-bottling in terms of actual legal and regulatory amendments that will improve the governance of this sector. Adopting good regulatory practices alone, without effective changes in regulations is not enough to lower the cost of compliance for both domestic and foreign investors. Third, identifying existing barriers to entry to foreign participation will ensure that liberalization commitments will not be offset by domestic regulations or practices that deter entry.

The logistics services comprise an important part of the service economy, which has been a major growth driver of the Philippine economy (Chapter 4). According to the author, Gilberto M. Llanto, the Philippines stands to gain if it can successfully attract FDI that will bring in capital, technology, innovations, and management expertise to improve the logistics sector. The Philippine Development Plan 2011–2016 proposed the development of a National Logistics Master Plan (NLMP) that can integrate seamlessly multimodel transport system and logistics in the country. A single bureau, called the Bureau of Multimodal Transport and Logistics, is established for the registration and accreditation processes for land, air, and maritime transportation. Under regulatory reform, there is an enactment of the Anti-Red Tape Act so as to promote transparency in government transactions. The government has also created a National Competitiveness Council (NCC) that is tasked with overseeing efforts to reduce the cost of doing business in the country. With regard to liberalization, the Philippines is currently implementing the ninth package of commitments under the AFAS. In general, 100 per cent of foreign equity participation is allowed for repair of vessels, domestic and international freight forwarding, and others such as packaging and crating. However, the subsectors that are considered to be public utilities are limited by the Philippines Constitution to a maximum foreign equity participation of 40 per cent.

The author has listed several outstanding challenges to attract FDI flows into the Philippines logistics sector. These are mainly, removing constitutional and legal restrictions to FDI inflows; complementing liberalization with the establishment of market-enhancing domestic policies and regulations and making significant investments in hard infrastructure, with emphasis on transport and logistics.

In Chapter 5, Sanchita Basu Das and Evelyn Widjaja observe that Singapore is a staunch follower of multilateral (WTO GATS) and regional trade (AFAS) liberalism. Its services sector is regarded as more open to inward FDI, when compared to the manufacturing sector or to the other economies in ASEAN. Importantly, Singapore's applied policies are more liberal than its AFAS and WTO commitments. Efforts are made to provide an enabling environment, in terms of institution, infrastructure and human capital, to attract FDI. However, the country suffers from its small size and an equally small educated workforce.

In the case of the logistics sector, there are many plans to increase the competitiveness of this sector, including a roadmap to increase the long-term productivity of the logistics and transportation industry. The city-state is looking at increased automation in the sector with initiatives like the "Mobileye" and "Software-as-a-System (SaaS) Total Logistics Information System". Some of the more recent initiatives include developing a Logistics Skills Framework and revamping the goods delivery system. Singapore has made significant liberalizations commitments both at the WTO and the ASEAN levels. It has no investment restrictions in most of the subsectors. As a result of various measures, FDI stocks in Singapore's transport and storage sector has gone up from S$17.6 billion to S$37.4 billion during 2005–14. Of the components, while FDI stock in water transport and supporting services grew by 7 per cent per annum, the same grew by 14 per cent for warehousing, post and courier services. Nonetheless, the authors list several challenges in the development of the logistics services sector. Businesses are facing rising operating costs due to high rental and manpower costs. The city-state's port faces strong competition from neighbouring countries, particularly from Malaysia, Indonesia and Sri Lanka. A major challenge for Singapore also originates from other ASEAN countries' reluctance to deepen cooperation in the logistics sector, particularly with regard to the smooth cross-border movement of goods. This is especially because Singapore considers itself a headquarter economy, while the rest of ASEAN is its immediate hinterland.

Thailand in Chapter 6 by Ruth Banomyong, also has not been able to meet its liberalization commitments under AFAS for the logistics sector. The author identifies the Foreign Business Act (FBA), 1999 to be the main stumbling block in the liberalization of the foreign equity share. Although operationally, the use of Thai nominee partners imply that the Act does not pose a problem for a foreign logistics provider to establish a commercial presence in the country, it is better to amend the Act in the interest of transparency. However, changing the law will take time as there is a general lack of political will to change its content. There is also a lack of a unified perspective from the different domestic institutions handling the logistics sector due to the complex scope of activities offered by logistics service providers (LSPs). Thus, there can be conflicts in terms of priorities for the development of this sector as for example between investment promotion and the development of local LSPs. Thai LSPs are by nature opposed to liberalization as they consider themselves at a disadvantage while investment promotion favours liberalization in the interest of foreign investors.

The competitiveness of local LSPs is considered important by the Thai Government in their national logistics development plan. However, the implementation of the plan has mostly focused on achieving quantitative targets such as the number of Thai LSPs going abroad (even if it is just for an event) rather than on the establishment of a successful commercial presence in a foreign country. However, if the perspective of the cargo owners and users of logistics services is taken into account, liberalization will further enhance competition in the logistics services market and enable users of logistics services to have access to efficient and effective logistics services. The Thai government should therefore choose between supporting local LSPs or local traders, manufacturers, or importers and exporters. The benefit of supporting local LSPs is minimal on the country.

According to Nguyen Anh Thu, Vu Thanh Huong and Nguyen Thi Minh Phuong, Vietnam (Chapter 7) has made great efforts to improve its services liberalization in terms of both the number of subsectors and the depth of commitments. The regulatory framework related to the services sector is increasingly more transparent and open to ASEAN service suppliers, enabling them to have better access to Vietnam's service market. Investment liberalization can be seen in the revisions of investment laws, making these changes the most important policy changes in the country. The main motivation is to create a more liberal, transparent and non-discriminatory investment environment for all investors. Significantly, the liberalization commitments in WTO and AFAS are embedded in the new investment laws. However, the main constraint lies in the cumbersome bureaucratic measures for establishing foreign presence.

Vietnam's logistics services sector is still relatively under-developed. A major drawback in developing the sector arises from the country's state of infrastructure and related issues such as road safety, road and bridge quality. It is difficult to develop a multimodal transportation system if there is poor connection between infrastructure and production centres. Another issue is a lack of qualified human resource in the sector as it is only the professional level that is evaluated above average according to the logistics providers. Soft skills, foreign language skills and information technology qualifications remain inadequate. Additionally, the regulations and procedures relating to the entry and operation in logistics sector are still quite complicated. The institutions involve many ministries and state agencies. As a result, both domestic and foreign investors in logistics sector bear high cost and low competitiveness. The legal framework on logistics operation also lack transparency and consistency. Thus, the legal framework relating to logistics needs to be reviewed and updated to ensure transparency, consistency and compliance with new commitments.

Tham Siew Yean, in Chapter 8, highlights the importance of diversification strategies and enhancing the role of the private sector in the wake of the drop in oil prices in oil-dependent Brunei. Attracting FDI is an important part of its diversification strategy as evidenced by the on-going efforts to improve the ease of doing business, FDI promotion and regulatory changes such as the enactment of the Competition Order in 2015. But since the country is competing against other countries in the region for FDI, its liberalization efforts and reforms may be inadequate to overcome its inherent domestic disadvantages in terms of domestic market size and the size of its workforce. Therefore, despite the regulatory changes, inflows in FDI fell sharply after 2012 and it is still concentrated in the mining sector. Liberalization in terms of commitments has been improving but it is still far short of the bold liberalization efforts in some of its neighbouring countries. Improvements in bureaucracy and transparency continue to be needed.

Since the size of Brunei's domestic economy cannot provide adequate economies of scale, FDI cannot be focused on the domestic economy alone and needs to be outward-oriented. Using FDI to join GVCs especially in the non-oil and gas sector, will help to alleviate the broader issue of scale that is needed for the diversification of Brunei's economy. Improving the private sector's role will require appropriate policies for assisting local SMEs to attain scale through internationalization strategies. Finally, improving connectivity with its immediate neighbours and the region is another way of addressing the scale problem.

In Chapter 9, Vannarith Chheang observes that Cambodia, similar to other ASEAN countries, is largely committed to all modes of liberalization (except for mode 4) under the GATS process. Currently, it is implementing and enacting several domestic policies to facilitate the development of its service sector (such as Special Economic Zones and e-commerce laws). Specific to the logistics sector, the country lacks a reliable network of transportation, telecommunications, and warehousing, pushing up the export costs 33 per cent higher than that of Thailand and 30 per cent higher than that of Vietnam. Its LSPs mainly offer domestic services, with limited service range and low quality, except for one or two that offer a wide range of services in transport, brokerage, and warehousing. The final users of logistics services, i.e. traders and manufacturers, are not aware of the benefits of efficient logistics services. While Cambodia is engaging multilateral agencies and countries like China and Japan to develop its transport infrastructure, it is also working on institutional and legal frameworks to support infrastructure development. Given the logistics sector commitments under GATS and AFAS, FDI in the sector is in high demand, accounting for 41 per cent of total accumulated FDI between 2011 and 2015.

However, there are many challenges in Cambodia's services sector, in general, and the logistics sector, in particular. Some of these are overlapping institutional arrangements, lack of coordination among government agencies, lack of government officials with the expertise on logistics, lack of data and operation standards. Corruption among government officials is also a dominant factor stalling the development of the sector. The private sector is not yet interested to invest in the sector due to high risks and low return. The sector also suffers from a shortage of working professionals with an understanding of the logistics sector.

In case of Laos (Chapter 10), Phanhpakit Onphanhdala and Vanvisa Philavong highlight the importance of the logistics sector as it can connect a landlocked Laos to the rest of the region. Under AFAS, there is no limitation on market access and national treatment in modes 1, 2 and 3 on maritime, inland waterway and rail transport services. For road transportation, Laos allows 100 per cent foreign equity participation in domestic freight transportation, while restrictions prevail on cross-border services.

However, several challenges exist in Laos' logistics sector. Based on feedback from key informants, the authors identify three main issues such as the lack of a comprehensive logistics system, too many procedures and documentation, and high costs. From a survey of joint-venture freight companies, the challenges observed are — insufficient and old trucks, lack of qualified professionals in freight forwarding business, absence of necessary equipment for loading and unloading in logistics business and inadequate skills in private sector to market their services. There are other concerns too, like trucks returning with empty load, road conditions and changes in fuel price, that plague the industry from further development. The chapter also gives an example of the development of a dry port and the country's plans to improve its logistics system in the future. There are two crucial components for dry port operations that Laos is exploring: providing management of a logistics hub (including cross dock warehousing) and establishing a single custom declaration. The development of dry ports will facilitate the country's aspired shift from being a landlocked to a landlinked country.

Min Ye Paing Hein and Ruth Banomyong, in Chapter 11, find that there are two interlocking layers of challenges — governance of FDI and governance of the services and logistic sector — in Myanmar's development strategy. There are various issues of agency in the governance of the services sector and it is manifested as an issue of coordination given the vast differences in information and incentives amongst multiple principals (focal agencies) and agents (implementing agencies) in terms of negotiation and implementation of agreements. However, at the local level, "thinness" of the presence of government agencies in regulating and monitoring economic activities at the border leads to a limited agency of the state in the governance of the services and logistics sectors.

The collective action problem due to the presence of multiple principals and agents in a fragmented policy space created by the first challenge will require extra efforts at coordination. The government has launched a National Transport Masterplan and it is also in the process of developing a National Logistics Masterplan, with the Ministry of Transport and Communication as the lead agency. But these Masterplans need to be coordinated and linked with the overall national strategic priorities. The government's role is to provide LSPs with an institutional, regulatory, and operational environment that can stimulate and guarantee the level of service needed for the efficient movement and storage of goods, services, and information. It also points to the need for a broader reform of public administrative issues as well as a conflict-sensitive development agenda. Therefore, the authors argue that the reform of governance and policy environment in FDI and general investment climate is the first priority in promoting the role of logistics and infrastructure in the national development agenda. It is also important to put facilitating FDI in logistics within the context of broader regulatory and policy reforms that can create an enabling ecosystem for logistics sector.

Three common issues have emerged from the ten countries in terms of the main challenges encountered for the development of the logistics sector at the country and ASEAN level. These are: (i) definition of the sector and its comparability across countries; (ii) the inherent complexities in governance, planning and coordination within this sector due to the many subsectors involved; and (iii) overcoming domestic constraints in the liberalization commitments of a country.

First, in terms of definition, the country-level studies show that most of them do not have a precise definition for this sector despite prioritizing its development (see Table 1.11). Data-wise, there is no such sector in the International Standard Industrial Classification of All Economic Activities (ISIC) industry codes commonly used for industrial classification. This implies there is no common definition for this sector in ASEAN. Operationally, transportation and storage is usually taken as a proxy of this sector in most countries.

TABLE 1.11
Definition/Understanding of Logistics Services in ASEAN Member Countries

Countries	Logistics Definition/Understanding
Brunei	No official definition. Transport and storage can be used as a proxy.
Cambodia	No official definition. Logistics, is generally understood as a combination of four main subsectors namely transportation infrastructure (land, rail, maritime, air), logistics service providers (such as trucking, warehousing, freight forwarding, shipping, materials handling, inventory, packaging, courier and postal services), institutional framework relating to logistics (such as custom clearances and border reforms), and logistics users (such as traders and manufacturers).
Indonesia	It is defined as parts of the supply chain activity that involves handling of goods, information and money through procurement, warehousing, transportation, distribution and delivery services from point of origin to point of destination. It comprises of business activities ranging from transport and storage, post and couriers, and distribution.
Laos	Defines as a system management chain that plans, controls, stores, packs, loads, transports and provides efficient and effective service and information of moving goods between origin to destination in order to meet customers' requirement. Since there are no ports, maritime transportation is not relevant.
Malaysia	A broad conceptual definition but there is no operational definition in terms of specific subsectors in the main policy documents in Malaysia. Data used for this sector usually covers land and water transport, warehousing and support activities and postal and courier activities (or Malaysian Standard Industrial Classification 2008 (MSIC 2008)).
Myanmar	There is no widely accepted official definition of logistics in Myanmar.
Philippines	No official definition. The Annual Survey of Philippine Business and Industry (ASPBI) divides the logistics industry in the Philippines in three subgroups – Storage and Warehousing, Sea and Coastal Water Transport and Inland Water Transport, since there is no logistics industry in the ASPBI.
Singapore	No official definition. Authors use activities as described under the SSIC 2015 industry classification – transporting, freight forwarding, warehousing, and some supporting activities.
Thailand	No common definition within the country. Domestic definition used can vary from one ministry to another.
Vietnam	Logistics services is defined as a commercial activity that is broadly classified into three main subsectors: principal logistics services; transport-related logistics services and other related logistics services.

Source: Authors' compilation from the country studies.

Second, the governance structure in this sector is inherently complex. Almost all the country studies indicate this as a critical challenge encountered in the development of the logistics sector as there are multiple institutions and agencies involved. Each of these institutions and agencies has different regulations and procedures, leading to regulatory bottlenecks. As in the case of most services, information asymmetries require consumer protection through licensing requirements that may intentionally or unintentionally restrict the entry of domestic and foreign investors.

Likewise, policy planning and implementation is organized according to the terms of reference of the specific institutions and agencies that are involved. For example, the Ministry of Transportation merely focuses on the four main modes of transport such as air, maritime, roads and rails while the Customs Department has to handle cross-border issues. Organizationally, there is a tendency to work in silos, rather than across institutions and agencies, leading to the fragmentation observed in this industry for almost all the countries in this study. Moving towards integrating all the different activities requires coordination efforts across all ministries and agencies involved in the development of logistics, where a small city-state like Singapore may be better placed to do so.

Third, liberalization is an on-going process in all the ten countries as the targeted 70 per cent equity cap has yet to be met for all the targeted subsectors in the Roadmap. Similarly, domestic reforms in terms of changes in regulations is also very much work-in-progress, with some countries encountering more challenges in the reform process, compared to others as it may require changes in laws such as in the case of Thailand and the Philippines. Even a small-country like Singapore is constantly exploring ways to keep its industry abreast with global changes, including increasing use of technology to raise productivity and hence its competitiveness.

POLICY RECOMMENDATIONS

We summarize here the recommendations made by the ten country chapters in this book. The policy recommendations are provided at two-levels — country and ASEAN level.

Country-level

a. *Continuing and Sustaining Domestic Regulatory Reform*: The two necessary domestic changes suggested in all country papers, with the exception of Singapore, are continuing with domestic regulatory reforms and better coordination. Country papers acknowledge that while domestic regulatory reforms have started, there are still outdated, overlapping laws as well as many regulations governing the logistics industry. However, national level regulatory reforms so far tend to use a piecemeal approach for most of the countries, and the suggestions imply a continuation of this piecemeal approach. Malaysia has started implementing regulatory reform for the whole government by adopting GRP while Singapore has always emphasized functional policy changes that are cross-cutting rather than sectoral in their focus. The Philippines is also making a shift towards the adoption of GRP.

b. *Improving Coordination*: Better coordination also includes the need for a more holistic and comprehensive understanding of the logistics sector. Some of the country papers have suggested the need for a cross-cutting advisory body or council as an implementation mechanism for overseeing the development of the sector as an integrated whole, with the use of Master Plan.

c. *Enhancing Competitiveness of Local SMEs*: Local SMEs tend to concentrate in segments of the logistics industry that are non-asset based, such as freight forwarding, while bigger players, including state-owned enterprises (SOEs), are found in the asset-based segments that require high fixed costs, such as transportation infrastructure or warehousing. Competition is stiff in the SME dominated segments as they provide a limited range of logistics services and frequently serve as outsourced providers for the multinational logistics providers in some of the countries. Intense competitive pressures and less capability on the part of local logistics suppliers compared to foreign logistics suppliers have led to SMEs pressing for less liberalization as they fear even more competitive pressures will emerge with further liberalization. Policy measures recommended include assisting these domestic providers to grow bigger and to expand their range of services so that they can compete with the foreign providers. The Thai country paper made an exceptional call for more liberalization despite facing the same domestic challenges as the government needs to consider the perspective of logistics users who need to have lower logistics costs in order to compete.

d. *Investing in Infrastructure Development*: More investment needed in infrastructure is highlighted especially for Indonesia, the Philippines, and the Cambodia, Lao PDR, Myanmar and Vietnam (CLMV) countries. In particular, Cambodia and Lao PDR are focussing on the development of dry ports and logistics parks. These countries also recognize the need to use public–private partnerships (PPPs) and FDI to complement government expenditure in infrastructure development in view of fiscal constraints.

e. *Improving Customs Clearance:* Since customs clearance is also a concern, some country papers suggest the need to improve their national single windows by making it more functional and more connected to more government agencies. The use of single windows will not only reduce delays at ports but will also assist in reducing corruption encountered in some of these countries.

f. *Improving Data Collection*: All the country papers show that data are scarce for the services sector, and especially for logistics. Collecting better data at each country level will enhance policy formulation for the country and the region.

ASEAN-wide

a. *Agree on a Common Working Definition for Logistics*: As indicated, it is not possible to compare and monitor the development of logistics without a common definition of the subsectors to be included in logistics.

b. *Continue to Improve Liberalization Commitments in the ASEAN Trade in Services Agreement (ATISA)*: It is important to implement the ASEAN Economic Community 2025 Consolidated Strategic Action Plan, endorsed in February 2017, for ATISA (ASEAN Secretariat 2015*b*).

c. *Facilitating Domestic Regulatory Reform*: The important role of domestic regulations in creating a more attractive environment for FDI is also recognized in the AEC 2025 Consolidated Strategic Action Plan in ATISA and under Good Governance (ASEAN Secretariat 2015*b*). However, domestic regulatory reform is not just about adopting best practices alone. Rules and regulations related to investment in the services sector must be made readily available in English language for ASEAN investors. Changes undertaken must be made readily available in a timely fashion.

d. *Accelerate the Activation and Operation of the ASEAN Single Window*: The ASEAN Connectivity Master Plan for 2025 has already listed this as a priority initiative. Again, implementation is vital.

e. *Capacity Building*: ASEAN countries suffer from uneven implementation of liberalization and facilitation measures under the AEC Blueprint and regional connectivity plans. A key reason for this is lack of human resources in government agencies, especially in the less developed countries. ASEAN, under its Initiative of ASEAN Integration (IAI) scheme, can develop a capacity building programme where the advanced ASEAN members can impart logistics training and skills to less developed economies.

f. *Harmonizing Data Collection*: The basic data needed for understanding the services sector, including its FDI data and definitions used for subsectors like logistics can be harmonized so that each country will collect the same set of basic data. This includes basic data like a common price deflator for this sector to make meaningful analysis over time.

g. Finally, to conclude, in the case of logistics, enhancing cooperation and coordination across different Implementing Bodies and Working Groups in ASEAN is important as the sector is spread across several bodies at the regional-level. These include Coordinating Committee in Services, Customs Coordinating Committee, Senior Transport Officials Meeting, Customs Procedures and Trade Facilitation Working Group, Telecommunication Senior Officials Meeting, ASEAN Single Window Steering Committee, ASEAN Freight Forwarders Association, Coordinating Committee on Investment and others. Although the Senior Economic Officials Meeting (SEOM) is the overall coordinating and monitoring body for integration of logistics services in ASEAN, it is neither responsible for the extent of information flow across these agencies nor is it accountable for coordination at the national level. In general, efficient coordination at the regional level is a reflection of better coordination at national-level and vice-versa. It is quite possible that there is a disconnect between national- and regional-level in logistics planning and implementation. It is also possible that the people responsible for national and regional plans are different and hence there is a lack of coherence and consistency, thereby affecting coordination. Going forward, efficient coordination between regional bodies that takes into account better coordination of national agencies is necessary for ASEAN logistics cooperation. This will not only help to link together all the many and different initiatives across services development, transportation, governance and connectivity plans but it can also accelerate logistics integration in ASEAN.

Notes

1. "2007 ASEAN Sectoral Integration Protocol for the Logistics Services Sector", Signed by Economic Ministers in Makati City, the Philippines on 24 August 2007, available at <http://cil.nus.edu.sg/rp/pdf/2007%20ASEAN%20Sectoral%20Integration%20Protocol%20for%20the%20Logistics%20Services%20Sector-pdf.pdf>).
2. See Faeth (2009) for a detailed explanation of the different models.
3. But there are some exceptions too such as consultants' reports (tangible), movies (visible) and many services require physical assets (that can be classified as goods) and vice versa (UNCTAD 2004).
4. The OECD FDI Regulatory Restrictiveness Index covers only statutory measures discriminating against foreign investors (e.g. foreign equity limits, screening & approval procedures, restriction on key foreign personnel, and other operational measures). Other important aspects of an investment climate (e.g. the implementation of regulations and state monopolies among other) are not considered. All 34 OECD countries and 25 non-OECD countries are covered, including all G20 members. Larger values imply more restrictive FDI rules in a country.
5. GATS cover both horizontal and sectoral commitments.
6. Note that Most Favoured Nation (MFN) exemption can be accorded to a country for ten years if they can fulfil certain rules for such exemption.
7. The other GATS provisions are domestic regulations, monopolies and exclusive service supplier, emergency safeguard measures, balance of payment safeguard, government procurement, general exceptions and subsidies.
8. World Trade Organisation, Services Sectoral Classification List (MTN. GNS/W/120).
9. The Roadmap can be downloaded from <http://www.asean.org/storage/images/archive/20883.pdf> (accessed 1 September 2016).
10. See <http://asean.org/wp-content/uploads/images/archive/documents/BAP%202011-2015.pdf> (accessed 1 September 2016. The Brunei Action Plan charts the course for transportation development in ASEAN in land, rail, air and sea. Since transportation is a big component in logistics, the facilitation measures in RILS aligned with the facilitation measures in the Brunei Action Plan.
11. For example, the timeline for strengthening intra-ASEAN maritime and shipping transport services has "on-going" in its timeline with no binding deadline, while the timeline for the transportation facilitation agreements merely states that it is to begin in 2008 and there are no binding deadlines as well.
12. The LPI is a multi-dimensional assessment of logistics performance and an international benchmarking tool focusing specifically on measuring the trade

and transport facilitation friendliness of a country. The LPI summarizes the performance of countries through six dimensions that capture the most important aspects of the logistics environment, namely, customs (efficiency of the customs clearance process); infrastructure (quality of trade and transport-related infrastructure); international shipments (ease of arranging competitively priced shipments); logistics quality (competence and quality of logistics services); tracking and tracing (or the ability to track and trace consignments); as well as timeliness (or the frequency with which shipments reach the consignee within the scheduled or expected time) (Arvis et al. 2014).

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