



# ASEAN

## BUSINESS SENTIMENT SURVEY 2020/2021

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# ASEAN

## BUSINESS SENTIMENT

### SURVEY 2020/2021



Ipsos Strategy3



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The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967. The Member States are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

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## ABBREVIATIONS AND ACRONYMS

<b>AEC</b>	ASEAN Economic Community
<b>AFAS</b>	ASEAN Framework Agreement on Services
<b>AFTA</b>	ASEAN Free Trade Area
<b>AMS</b>	ASEAN Member States
<b>ASCC</b>	ASEAN Socio-Cultural Community
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ASEAN-BAC</b>	ASEAN Business Advisory Council
<b>ASW</b>	ASEAN Single Window
<b>ATIGA</b>	ASEAN Trade in Goods Agreement
<b>ATISA</b>	ASEAN Trade in Services Agreement
<b>ATMS</b>	ASEAN Tourism Marketing Strategy
<b>ATR</b>	ASEAN Trade Repository
<b>CLMV</b>	Cambodia, Laos, Vietnam, and Myanmar
<b>DTA</b>	Double Taxation Agreement
<b>E-commerce</b>	Electronic Commerce
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FGD</b>	Focus group discussion
<b>GDP</b>	Gross Domestic Product
<b>GRP</b>	Good Regulatory Practices
<b>MSMEs</b>	Micro, Small, and Medium Enterprises
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>SMEs</b>	Small and medium enterprises
<b>WTO</b>	World Trade Organization



# Executive Summary

ASEAN BUSINESS SENTIMENT SURVEY 2020/2021



The establishment of the ASEAN Economic Community (AEC) in 2015 has opened up numerous business opportunities for the regional community with its vision of ASEAN as a single market and production hub characterised by the free flow of goods, services, and investments, as well as a more liberal movement of capital and skills. The AEC Blueprint 2025 characterised by its objectives to create a highly integrated and cohesive economy and nurture a dynamic ASEAN through enhanced connectivity and sectoral cooperation. The blueprint envisaged greater participation of the business community especially the private sector and the community at large that will lead to a resilient and people-oriented ASEAN. ASEAN has been successful in broadening coverage and reducing limitations on market access through AEC. It is working towards establishment of ASEAN wide attractive investment regime and has been successful in paving the way through various agreements such as CEPT, ATIGA, AFAS and ATISA.

Regular pulse checks on the integration efforts are crucial to ensure that the targeted objectives are met on timely fashion as well as identifying challenges that may be a hindrance to achieving the objectives. It is imperative to regularly solicit feedback from all the stakeholders especially the business communities which is the key beneficiary of the AEC efforts.



The ASEAN Secretariat commissioned a study to gather insights on the AEC implementation from the viewpoints of the ASEAN indigenous enterprises, which forms the backbone of the business ASEAN community. Indigenous enterprises feedback on AEC implementation was gathered through the following key activities:

- A survey across **1,115** indigenous enterprises.
- Key Informant Interview (KII) sessions held with senior leaders of **106** indigenous enterprises; and
- **29** workshops with **248 representatives** from indigenous enterprises, focusing on financial, distribution, and tourism sector across AMS.

This report includes secondary research findings that complements the objectives of this study which is expected to give a macro level industry perspective as well as the services trade sector liberalisation specifically zooming into 3 services sector components primarily the financial services, distribution, and tourism. The insights consist of feedbacks from the indigenous enterprise which relates to the overall sentiment on the AEC programmes, its implementation, and shortcomings if any, challenges, feedback, and recommendations for considerations by the ASEAN Secretariat which is presented in the following sections.



### Key Message 1

Indigenous enterprises in general have a **positive outlook** on AEC. They acknowledged the positive impact created through various AEC trade liberalisation initiatives which supported their business growth and performance

Indigenous enterprises have a fair level of awareness on AEC and its objective. They are appreciative of the AEC integration agenda. They acknowledged realising the benefits of specific interventions via AEC for the expansion of their businesses, which include tariff elimination, simplification of customs procedures, and harmonization (standards and regulation) across AMS.

The indigenous enterprises believe that AEC policies has played a catalytic role in supporting their business growth in ASEAN. FTAs and other agreements implemented via AEC has paved the way for regional business expansion. They aspire to get better insights on the specifics of the agreements which will allow them to understand better the operational implications to support the implementation in a meaningful way.

## Key Message 2

Majority of the indigenous enterprises are pleased with the current integration level and opined that they look forward for further enhancement and expansion of the integration initiatives. Additional measures to minimise or eliminate barriers in total that affects the trade-in-services liberalization are in their wish list.

The various AEC initiatives has supported the expansion of the indigenous enterprises. However, there is still room for improvement to address some of the indigenous enterprise's pain point especially those involved in services sector. There is low participation of indigenous enterprises in trade-in-services. The following business operational aspects such as **taxation, fiscal and non-fiscal incentives, customs regulation and procedures, and harmonization of regulation are seen as areas where further improvement is desired to support their integration journey.** Trade dispute settlement is another aspect that needs attention in the current economic integration setting by the relevant authorities.

Varying level of taxes and tariffs barrier across ASEAN, coupled with differences within individual country regulations pose a challenge to the development of regional strategies.





### Key Message 3

Indigenous enterprises are desirous to have better access to the comprehensive information repository of AEC policies and programmes. They are poised to support and increase their regional investment participation if they have better comprehension of the prospects and opportunities to be derived through AEC.

Indigenous enterprises are no strangers to cross-border trade. However, the degree of involvement varies. **They indicated good awareness on AEC's broad agenda and intent, but lack knowledge on the specifics of the programmes, activities, and benefits that they can gain if they embark on the integration journey.** There is still a level of scepticism shown by the indigenous enterprises on the impact and value to be gained through the liberalisation effort and regional market expansion.

Access to the knowledge repository and convoluted information made available are some of the common issues raised. This leads to a lack of interest to pursue the integration journey by some of the indigenous enterprises in general. Indigenous enterprises from Singapore, Thailand and Vietnam however have recorded a better level of awareness.

There is a need to strengthen the communication channels and level of engagements at the respective AMS to improve the information dissemination amongst the industry players and stakeholders. **Right information and proper engagement is crucial** to get the buy-in from the enterprises and this will lead to a higher level of participation and improve the outcome of AEC integration.

#### Key Message 4

Indigenous enterprises in the services sector wish to see more improvement in the standardisation of regulations and procedures. Enterprises from developed AMS have better advantage compared to the less developed AMS.

Participation of indigenous enterprises from more developed AMS are gaining traction and benefitting from trade in services through expansion into Singapore, Malaysia, Indonesia, and Thailand. The rest of the AMS remains less attractive to ASEAN indigenous enterprise.

Majority of indigenous enterprises, especially from medium and smaller enterprises are in the view that **the present regulation frameworks and procedures are still too complex and challenging** for them to expand into another ASEAN market.

ASEAN indigenous enterprises in the services sector responded positively to the objectives achieved by ASEAN integration efforts. Majority are partially or fully agreeing that ASEAN integration has:

- Driven standardization and better access to business-related regulations;
- Reduced restrictions to trade and investment in services sectors; and
- Provide better accessibility to different ASEAN countries for companies in the services sector.

Country specific implementation of AEC framework is seen as an area where improvements are required. Holistic approach is needed to cater for areas that are deemed to pose as a barrier to drive a successful integrated implementation.

## Key Recommendations

Based on the overall input and insight acquired throughout different activities, key action plan that needed to be taken to further liberalize the trade-in-services in general across ASEAN are:

1. Improve direct engagement of ASEAN and AEC programs with indigenous enterprises
2. Develop comprehensive single portal for ASEAN businesses environment information, that is search optimized and able to provide:
  - Fast and seamless access to AEC and other ASEAN programs / framework;
  - Integration with other AMS' regulation
  - Dedicated point of contact at ASEAN Secretariat and AMS level for further consultation; and
  - Clear and precise articulation of business opportunity for the indigenous businesses in other AMS.
3. Standardization and harmonization on:
  - Financial sector regulations;
  - Certification for tourism business and seamless human resources mobility across AMS;
  - Labour / workforce regulations; and
  - Tariffs and customs procedure that postulates more benefit for intra-ASEAN trades and services instead of other regional or country level partnership.
4. Develop common law and dispute settlement framework for cross-border intra-ASEAN interaction.
5. Introduction of ASEAN wide accepted immigration procedure on cross border people mobility related to jobs across AMS

Some specific recommendations based upon the sector inputs are as follows:

1. Development of a comprehensive digital blueprint and infrastructure as an impetus for the integration in financial services sector.
2. Development of a single ASEAN tourism branding which integrates the various AMS tour destinations and offerings.
3. Introduction of an ASEAN wide recognised and accepted standard Covid-19 Vaccination Certificate that will ease the opening of cross border travel.



# ASEAN Business Environment and Indigenous Enterprise Sentiment on AEC



## 1.0 ASEAN BUSINESS ENVIRONMENT AND INDIGENOUS ENTERPIRSE SENTIMENT ON AEC – AN INTRODUCTION

ASEAN Economic Community (AEC) blueprint was conceptualised in 2007 by the 10 ASEAN nations to accelerate regional economic integration through the Cebu Declaration. AEC was formally launched on January 1, 2016. The AEC aims to create a single market and production base for the free flow of goods, services, investment, capital, and skilled labour within ASEAN. AEC offers expanded opportunities and inevitable challenges for investment in this diverse market.

As the AEC continues to mature, opportunities arise for enterprises looking to expand in or into the ASEAN market. As intra-ASEAN collaboration increases, the AEC start to realize goals of unifying the region's production base, particularly with policies such as free movement of goods and services and the elimination of cross-border tariffs. ASEAN nations individually have a diverse set of structural capabilities, natural resources, and labour skills. As cross-border trade continues to increase and tariffs continue to loosen, businesses consider the AEC as an opportunity to integrate production processes and take advantage of each country's unique resources and abilities.

In tandem with the economic development and changes in the business landscape, the AEC was reviewed and enhanced into AEC Blueprint 2025 with an extended timeline to meet the specified objectives by 2025. The ASEAN Economic Community Blueprint 2025 is characterised by its objectives to create a highly integrated and cohesive economy to nurture a dynamic ASEAN through enhanced connectivity and sectoral cooperation. The blueprint envisaged greater participation of the business community especially the private sector that will lead to a resilient and people-oriented ASEAN.

The implementation of the AEC has been progressing along the years mainly through proposal of numerous trade and economic treaties and their ratification by the ASEAN Member States (AMS). The implementation of AEC is not without its fair share of challenges as well. Some of the key challenges were in the form of delays in ratification of some of the agreements, delay in adoption and enactment of the appropriate domestic legislations in support and complementing the main agreements. Further challenges were also observed in the form of individual AMS's development prioritisation, political differences, economic developments, and efficiency gaps which pose as a threat to achieve the targeted AEC goals.



The global business environment has been impacted by the Covid-19 pandemic. ASEAN businesses are also facing the hit due to the lockdown measures imposed by the respective countries, cross border travel restrictions and extra precaution on movement of goods has overarching effect in business. The following section portrays the overall impact and the expectation of the business for support.

## 1.1 ASEAN TRADE INTEGRATION: AN OVERVIEW

Trade conducted by ASEAN states has increased considerably over the past two decades. The trade growth could be seen from two specific angles; one from intra-ASEAN businesses which is a result of the lowering of intra-ASEAN barriers to trade and secondly the extra-ASEAN trades with ASEAN dialogue partners. The ASEAN economy which expanded to 4.7% in 2019, is projected to contract by 3.4% in 2020, mainly due to the disruption in economic activities posed by the Covid-19.

ASEAN's greater economic integration was driven by the formation of an integrated platform cohesive to offset domestic challenges in most of the AMS. The growth is supported through the Trade Facilitation Strategic Action Plan which oversees the seven strategic objectives:

- i. Encourage the accelerated implementation of trade facilitation measures which have been accepted by international institutions such as the World Trade Organization (WTO) and/or the World Customs Organization (WCO), and in light of other relevant best practices.
- ii. Achieve competitive, efficient, and seamless movement of goods within the region in order to enhance ASEAN's trade and production networks, better participate in global value chains, and establish a highly integrated and cohesive economy.
- iii. Put in place an effective and responsive regional approach to efficiently address the trade distorting effect of NTMs with a view to pursuing legitimate policy objectives while reducing cost and time of doing business in ASEAN.
- iv. Actively engage the private sector, with particular emphasis on the development and promotion of micro, small and medium enterprises (MSMEs) in the process of regional economic integration.
- v. Enhance the institutional coordination among the relevant sectoral bodies of ASEAN, in order to effectively implement the trade facilitation measures under their respective purview consistently with their sectoral work-plans for 2016- 2025 and the ASEAN Blueprint 2025.
- vi. Work towards increasing the participation of all AMSs, especially least developed AMSs, in the process of implementation of ASEAN trade facilitation programmes.
- vii. Improve the monitoring mechanism for the implementation of trade facilitation measures, with a view to increasing their effectiveness and responsiveness in improving the competitiveness of ASEAN industries and businesses.

There have been multiple workstreams and initiatives in place to strengthen trade facilitation in the region. Trade in goods has been a consistent focus in ASEAN over the past decades. The original intention of deeper economic integration was driven by a desire to be part of the growing regional dominance in manufacturing and electronic goods in the 1980s and 1990s. But services have also become increasingly important to manufacturing and critical sectors in their own right. Services, which were often difficult or impossible to deliver across borders, are now much more widely available in the region. ASEAN's commitments to liberalizing trade in services was first initiated through ASEAN Framework Agreement on Services (AFAS) and subsequently through ASEAN Trade in Services Agreement (ATISA).

**The growth of trade in services, in ASEAN is imminent and rapidly becoming a key contributor to the ASEAN economy.** The volume of trade in services by the ASEAN economies nearly doubled to US\$845 billion from 2010 to 2019. In contrast, intra-ASEAN trade in services lagged in growth over the past decade, recording only 1.5 times incremental to the tune of US\$125 billion.

The services sector of ASEAN economies has been recording a steady growth for the last 10 years. It has become the main contributor of national output in ASEAN economies and has overtaken the traditional sectors such as manufacturing, mining and agriculture, and forestry. Almost all ASEAN countries recorded an incremental share of the services sector to the national output as referenced in Figure 1.1 below. The average percentage of services sector contribution to the GDP on global scale stands at world 65% as of 2019. Singapore is the only ASEAN country that has achieved the global benchmark for services sector contribution to the GDP. There are variances observed on the respective individual ASEAN member states performance when we deep dive into specific parameters like contribution to GDP and employment.



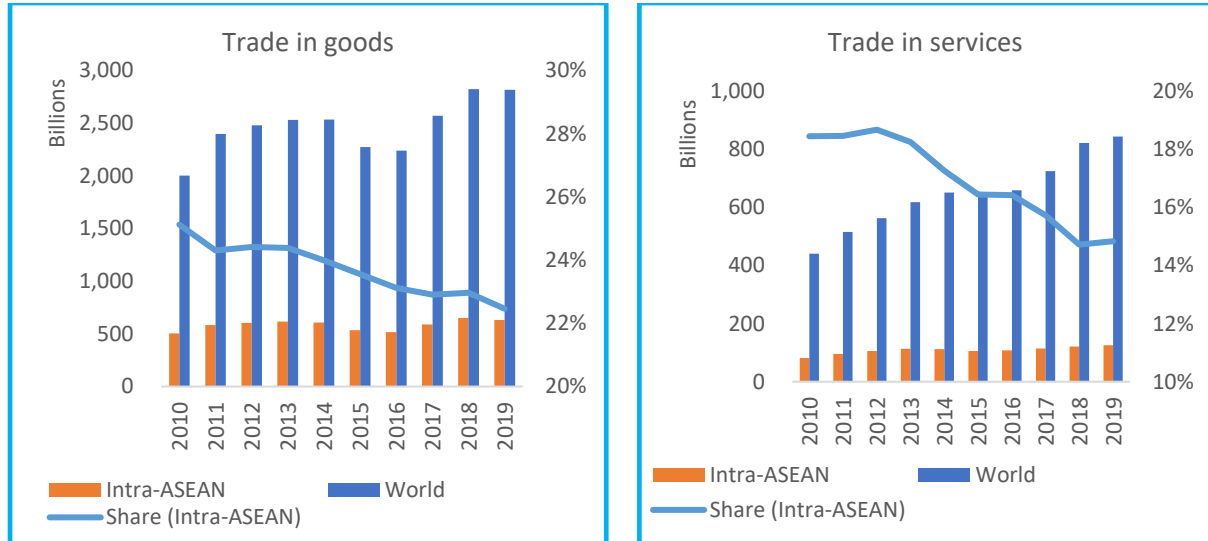
**Figure 1.1:** Growth in ASEAN trade in goods and services between 2010 and 2020 (2010 = 1)

Source: Ipsos Analysis based on ASEANSTATS

**Trade in services, both internationally and intra-ASEAN, recorded a faster pace of growth than the corresponding pace of growth in trade in goods (Figure 1.1).** The higher incremental contributions by the trade in services reflects the growth momentum by this sector to the ASEAN economy despite the bigger volume for overall trade in goods which is almost three times in comparison to trade in services. This is a positive indicator on the prospects and potential of trade in services to generate better income if further liberalisation of the services is implemented, as opposed to purely focusing on liberalising trade in goods. Trade in goods liberalisation which was pioneered through the first phase of AEC had the early mover advantage and shown good progress.

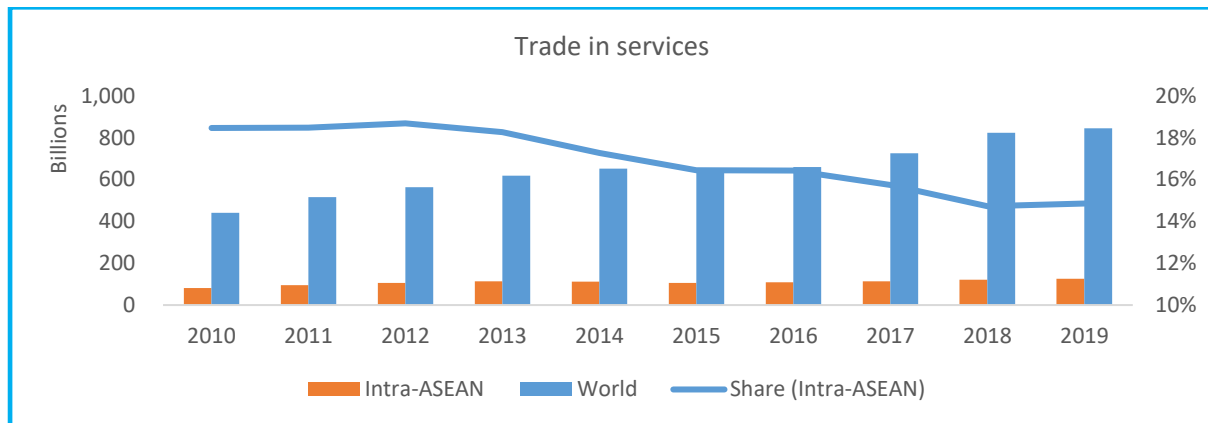
The share of intra-ASEAN trade in services has declined from a peak of 18.6% to a decade-low of 14.72% in 2018 (Figure 1.1) despite the positive indicators on the potentials and importance of trade in services for ASEAN economies.

Figure 1.2: ASEAN Trade in goods and services, in US\$ billions



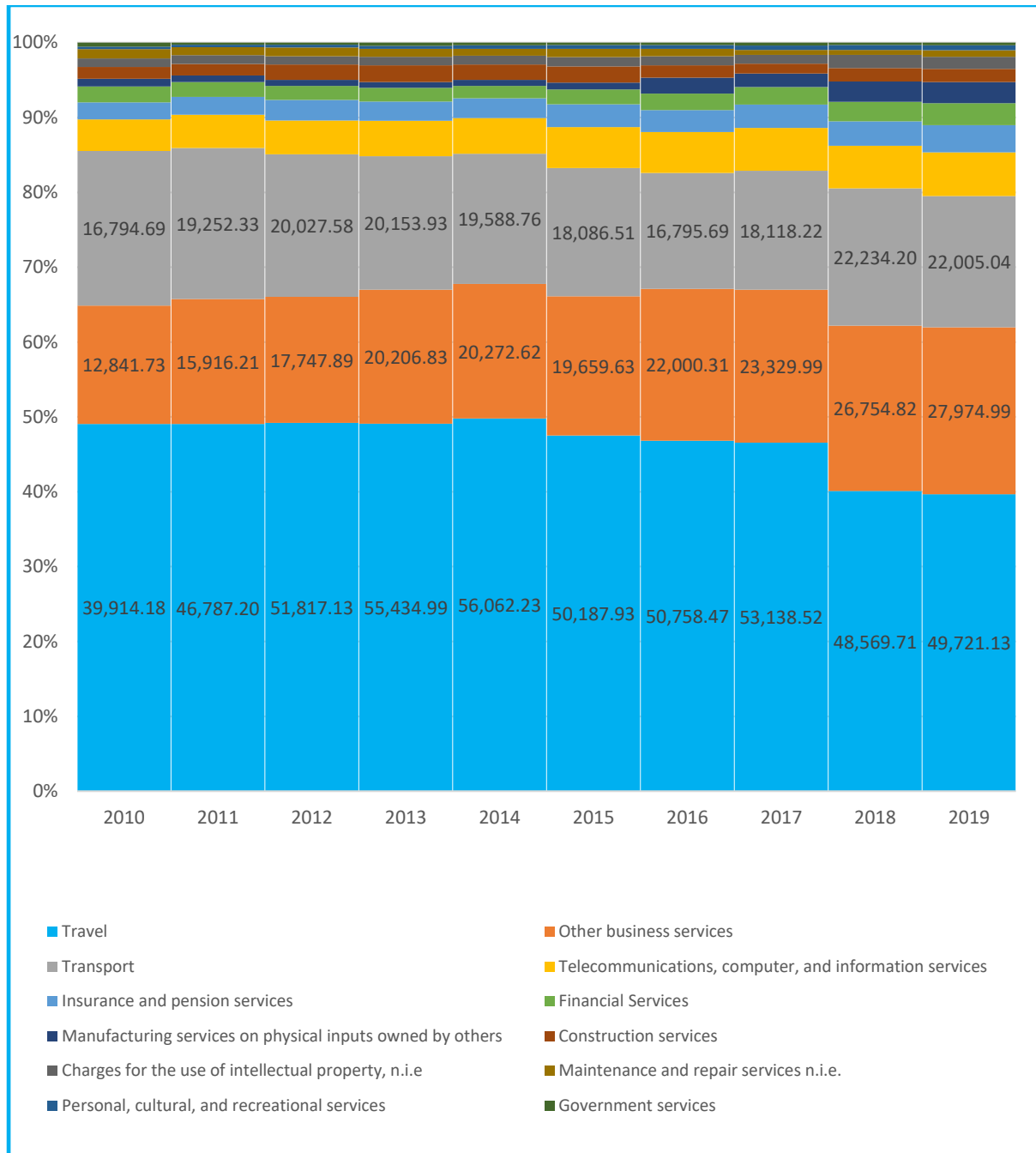
Source: Ipsos Analysis based on ASEANSTATS

Figure 1.3: Annual growth rate of intra-ASEAN trade in services, by services subsectors



Source: Ipsos Analysis based on ASEANSTATS

**Figure 1.4:** Composition of intra-ASEAN trade in services (2010-2019)



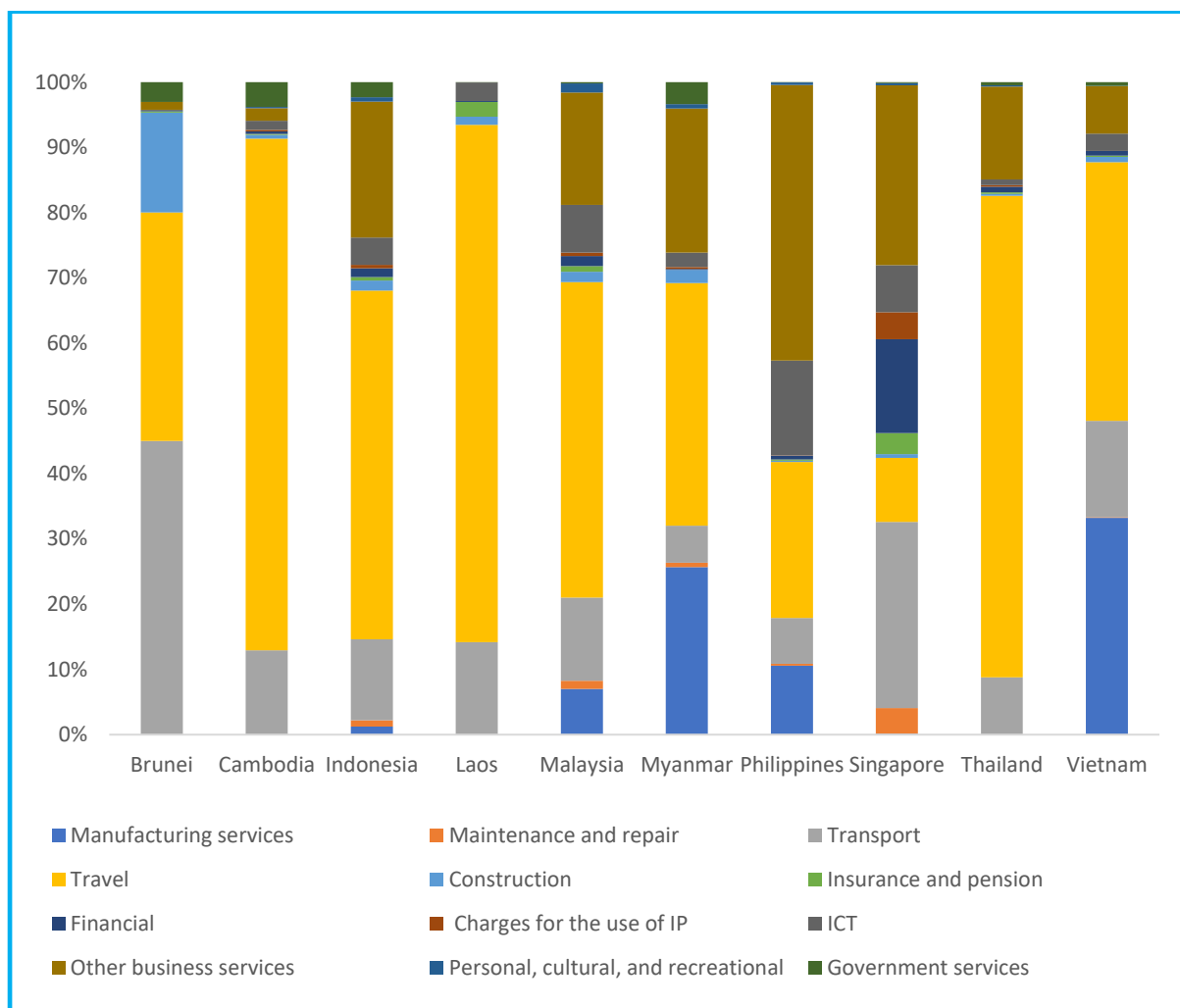
Source: Ipsos Analysis based on ASEANSTATS

Figure 1.4 gives a comprehensive perspective on the composition of intra ASEAN trade-in-services. Travel services is the biggest contributor followed by other business services and transport. Travel services overall composition dropped despite the higher transaction quantum.



Trade in modern services is an area which ASEAN **need to focus and support**. The growth of trade in modern services needs to be reckoned as another engine of growth to propel AEC. Modern services such as telecommunications, ICT, professional services, and financial services has shown significant growth in the recent years. This is reflective of the developing economies higher demand for such services as the change and progress in the economic landscape accelerated by digitalisation. Demand for traditional services sectors such as transport and tourism services has lagged. This bodes well for the overall direction in the growth of intra-ASEAN trade as more highly skilled jobs are created which contributes to the overall economy as well. Modern services accounts for a larger share of trade.

**Figure 1.5:** Share of total services export for each ASEAN economy in 2019, by major services subsectors



Source: ASEANSTATS

Modern services are essential for overall ASEAN economic growth. Service efficiency directly support growth in other sectors. For example, efficient financial services effectively channel fund and savings into investments in other sectors of the economy. Modern logistics services directly support the trade and transport of goods and commodities. Facilitating cross border trade enables local economies to benefit from efficient services offered by partner countries. This becomes an enabling component to support local economic development. Supporting the growth of trade in modern services is critical to ASEAN's overall economic growth.



**Table 1.1:** Share of total services export for each ASEAN economy in 2019, by major services subsectors (*Data table*)

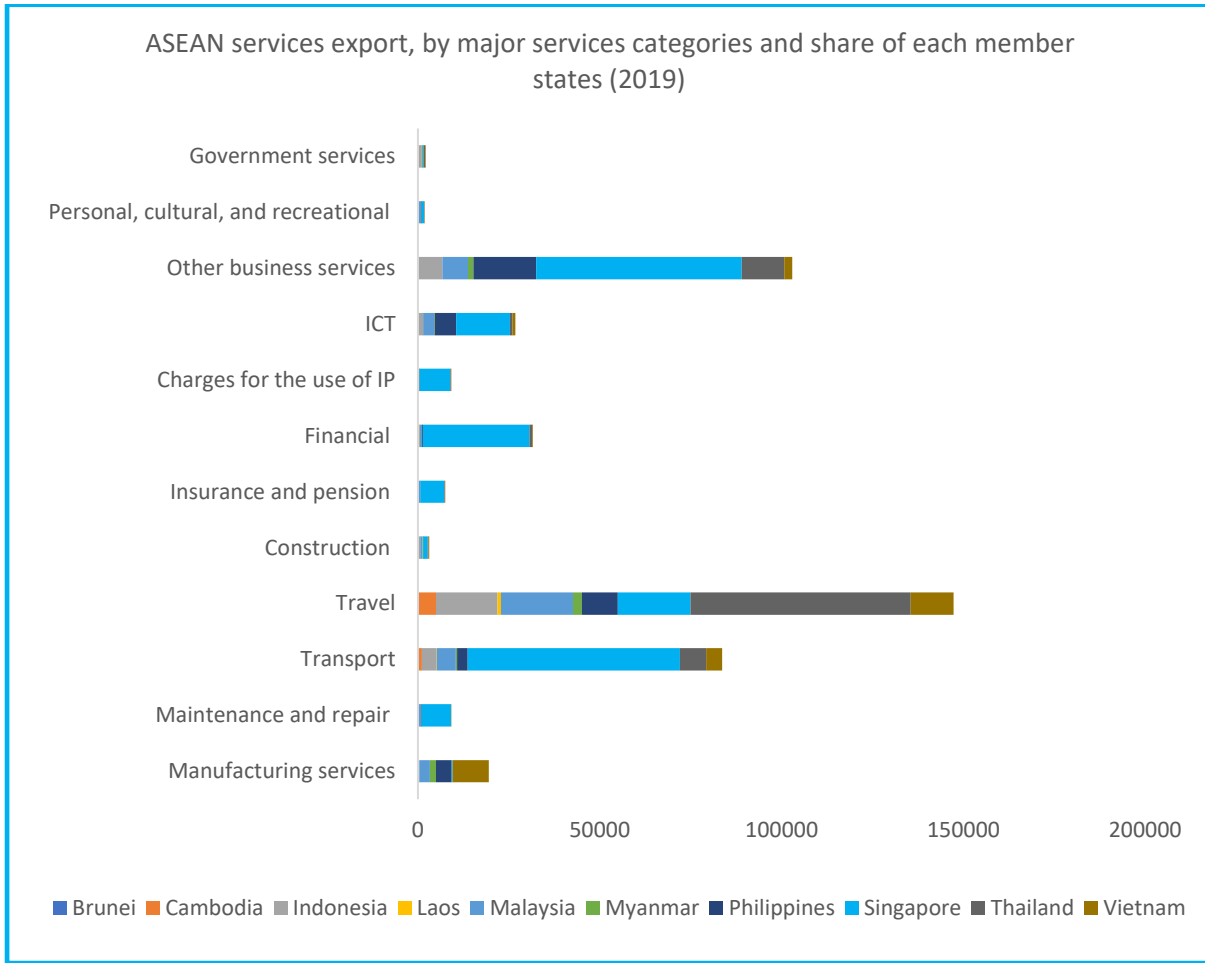
Service Category	Country									
	Indonesia	Singapore	Malaysia	Philippines	Thailand	Brunei Darussalam	Cambodia	Laos	Myanmar	Vietnam
Manufacturing Services	1.0%	4.0%	1.3%	0.3%	0.0%	0.0%	0.0%	0.0%	35.9%	33.2%
Maintenance and repair	1.2%	0.1%	7.0%	10.6%	0.0%	0.0%	0.0%	0.0%	0.9%	0.1%
Transport	12.4%	28.5%	12.8%	7.0%	8.8%	45.0%	12.9%	14.2%	7.9%	14.7%
Travel	53.4%	9.8%	48.4%	23.9%	73.8%	35.1%	78.4%	79.3%	51.9%	39.7%
Construction	1.5%	0.6%	1.6%	0.2%	0.3%	15.3%	0.6%	1.3%	2.8%	0.8%
Insurance and pension	0.5%	3.2%	0.9%	0.2%	0.2%	0.2%	0.1%	2.3%	0.0%	0.2%
Financial	1.3%	14.3%	1.5%	0.6%	0.9%	0.1%	0.4%	0.2%	0.2%	0.7%
Charges for the use of IP	0.5%	4.1%	0.5%	0.1%	0.2%	0.0%	0.2%	0.0%	0.4%	0.0%
ICT	4.2%	7.2%	7.3%	14.5%	0.8%	0.1%	1.4%	2.8%	0.0%	2.6%
Other business services	20.8%	27.6%	17.2%	42.2%	14.2%	1.2%	1.9%	0.0%	0.0%	7.3%
Personal, cultural, and recreational	0.7%	0.3%	1.4%	0.4%	0.2%	0.0%	0.2%	0.0%	0.0%	0.0%
Government services	2.3%	0.1%	0.2%	0.0%	0.5%	3.0%	3.8%	0.1%	0.0%	0.6%
<b>Total Share</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: ASEANSTATS

ASEAN economies also differ widely in the types of services exported, reflecting different comparative advantages. Less developed countries show a significant reliance on traditional export services such as tourism. In contrast, leading countries specialise in higher-value-added categories, such as financial services, telecommunications, and professional and business services. For example, countries such as the Philippines and Singapore have a much more diversified share of services exported whilst countries such as Cambodia, Laos, Brunei, and Thailand show a heavy reliance on tourism (Figure 1.5).

In terms of individual country's export share of services, there is a broad divergence of services by individual country. As an open financial hub, Singapore accounts for most of the total ASEAN exports in financial and insurance, and pension services. As a central maritime and aviation hub, Singapore also accounts for much of the transport services export.

**Figure 1.6:** Share of international trade in services export by ASEAN economies in 2019, by major services categories (US\$ million)



Source: ASEANSTATS

**Table 1.2:** Share of international trade in services export by ASEAN economies in 2019, by major services categories (US\$ million) (Data Table)

Service Category	Country										Total Value
	Indonesia	Singapore	Malaysia	Philippines	Thailand	Brunei Darussalam	Cambodia	Laos	Myanmar	Vietnam	
Manufacturing Services	305.9	8,118.3	512.8	110.2	-	-	-	-	1,711.6	9,904.0	<b>20,662.8</b>
Maintenance and repair	392.2	254.7	2,869.7	4,338.7	-	-	-	-	42.3	36.1	<b>7,933.7</b>
Transport	3,923.9	58,441.4	5,230.3	2,872.3	7,196.1	278.0	786.4	167.0	379.4	4,397.7	<b>83,672.5</b>
Travel	16,912.1	20,051.8	19,820.0	9,806.0	60,521.1	216.6	4,772.8	934.7	2,477.1	11,830.0	<b>147,342.1</b>
Construction	487.0	1,186.9	640.9	65.8	243.2	94.3	35.4	14.9	135.0	235.3	<b>3,138.8</b>
Insurance and pension	166.8	6,629.2	354.1	90.0	181.7	1.4	7.2	26.6	-	65.0	<b>7,522.0</b>
Financial	420.3	29,379.4	631.0	230.7	721.8	0.4	25.5	1.8	10.9	210.0	<b>31,631.8</b>
Charges for the use of IP	173.9	8,472.6	221.5	27.9	197.5	-	12.2	-	16.9	5.0	<b>9,127.5</b>
ICT	1,320.6	14,789.5	2,990.1	5,948.0	691.7	0.9	87.0	33.4	-	785.3	<b>26,646.5</b>
Other business services	6,593.9	56,517.7	7,060.5	17,304.4	11,682.1	7.6	117.1	-	-	2,164.4	<b>101,447.6</b>
Personal, cultural, and recreational	217.4	660.8	571.3	160.6	165.7	-	10.7	-	-	13.0	<b>1,799.5</b>
Government services	730.8	305.2	85.9	19.1	393.1	18.7	231.9	0.8	-	179.0	<b>1,964.5</b>
<b>Total Value</b>	<b>31,644.8</b>	<b>204,807.4</b>	<b>40,988.1</b>	<b>40,973.6</b>	<b>81,994.2</b>	<b>617.9</b>	<b>6,086.3</b>	<b>1,179.2</b>	<b>4,773.1</b>	<b>29,824.9</b>	<b>442,889.4</b>

Source: ASEANSTATS

**The external trade-in-services activity from all AMS must be improved** to pursue further trade in services liberalization. External Trade-in-services is currently dominated mainly by Singapore, Thailand, and the Philippines, accounting for more than 50% of ASEAN's overall trade in services. The effort must be pursued in tandem with the facilitation of cross-border investments in the services economy, to bridge the disparity between the more developed and less developed economies of ASEAN states, prioritizing the transfer of knowledge between ASEAN economies and growing cross-border linkages in services trade. Yet, the number of cross-border investments amongst ASEAN Indigenous enterprises is lower than the number of FDI from non-ASEAN countries (Figure 1.6).

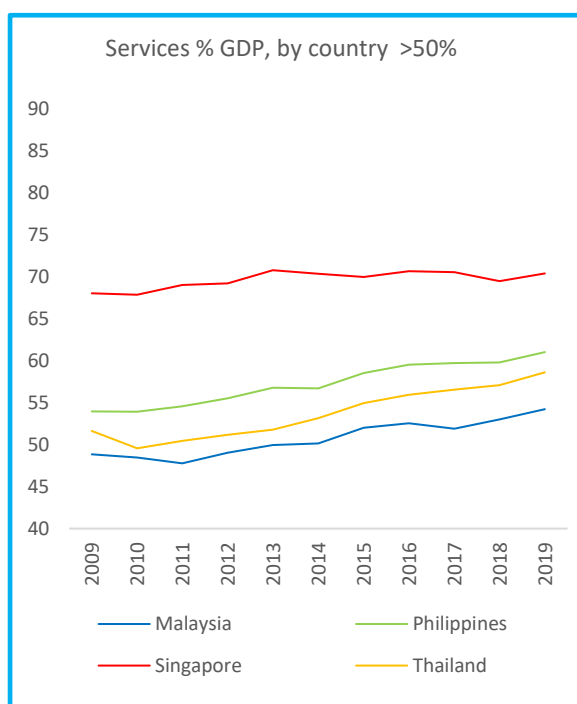


## 1.2 SERVICES SECTOR CONTRIBUTION TO GDP

Economic sectors contribution to GDP is one of the common parameters used to measure sectoral economic performance. GDP is regarded as the most accurate indicator of the size of an economy and the nations growth trajectory. An analysis on the existing GDP data for the ASEAN economy especially the contribution of services sector shows a myriad of variances. This is a result of the diverse economic activities and focus by the respective ASEAN member countries. In general, almost all the countries recorded positive growth on the contribution of service sector to GDP for their respective economies.

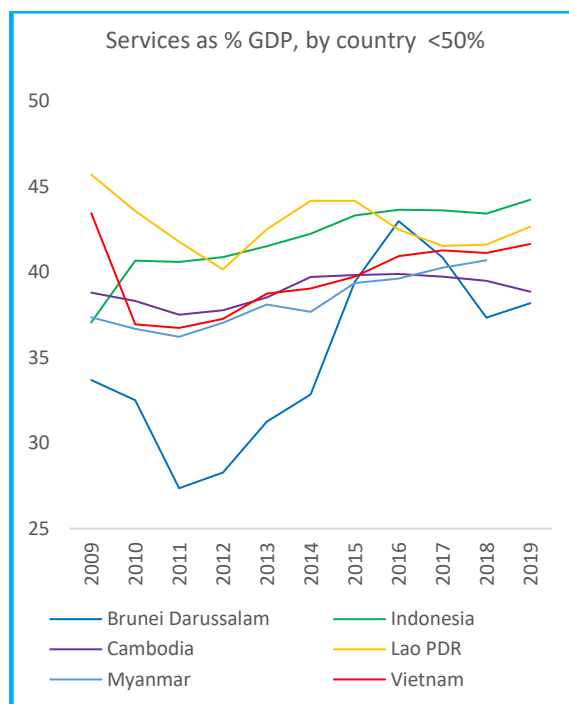
**Figure 1.7:**

AMS Services, >50% of GDP (%)



**Figure 1.8:**

AMS Services, <50% of GDP (%)



Source: World Development Indicators (WDI), World Bank; \*Myanmar's 2018 data is missing

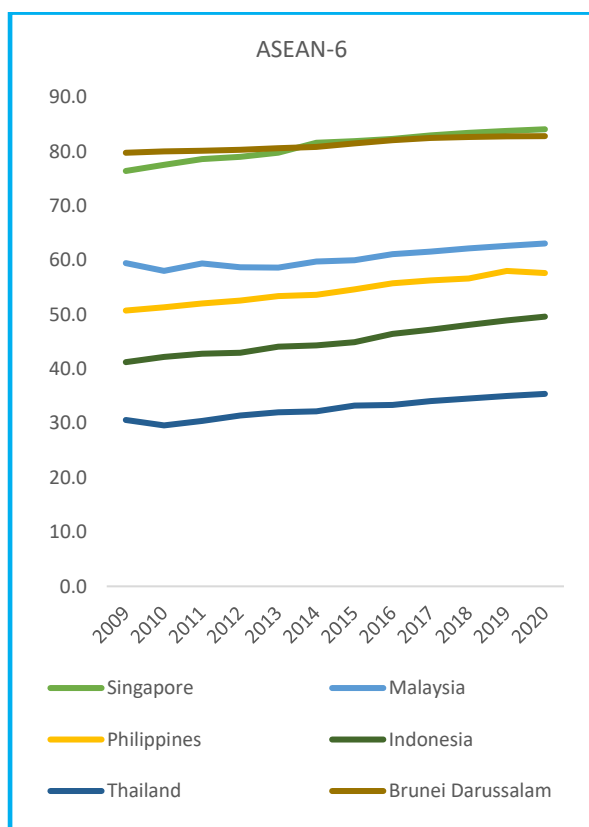
Specific anomalies in performance are observed for Lao PDR and Brunei Darussalam respectively. Lao PDR recorded a sharp decline in the services contribution to GDP. The decline for Lao PDR is mainly attributed to the shortfall from the tourism sector, which is one of its main economic contributors. The decline for tourism sector was however compensated by growth in the industrial sector. Positioning of Lao PDR as the transit hub between China, Vietnam and Thailand propelled the growth in transportation services. Lao PDR need to put in additional efforts to promote its services sector to catch up with the growth of the rest of the AMS.

Services sector of Brunei Darussalam recorded a sharp growth from 2009 – 2016. However, the contribution of services sector of Brunei Darussalam to GDP rate started to decline post 2016. The sharp decline was compensated by the growth in production sector contribution to GDP. The spike in global oil prices in 2016 was an advantage for Brunei, being one of the major exporters of petroleum globally.

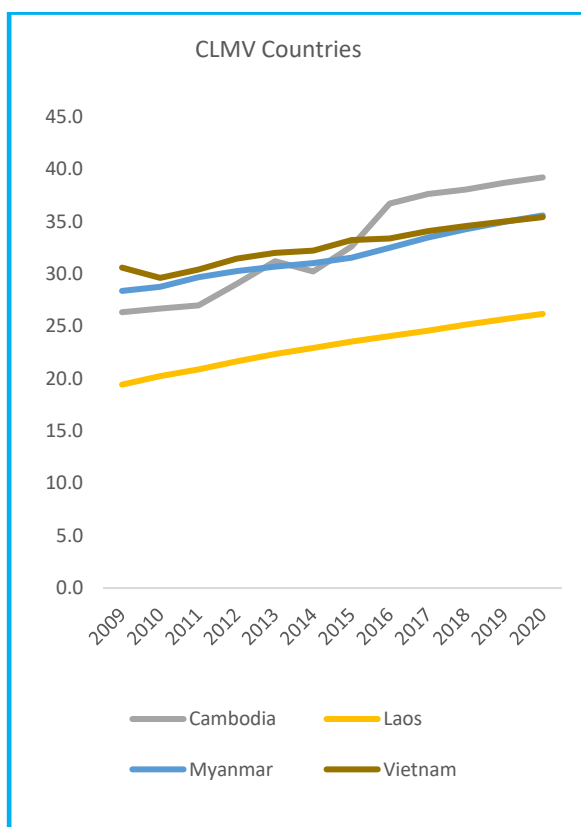
### 1.3 EMPLOYMENT PARTICIPATION IN SERVICES SECTOR

The ASEAN economy also recorded a healthy growth in the employment participation within the services sector over the years. **Services sector is the biggest employer in all of ASEAN economies today. There is a steady increase in employment in the services sector as a percentage of total jobs created (Figure 1.9 and 1.10).** There are significant differences in the services sector employment numbers between the more developed and less developed economies in ASEAN. Employment in the services sector has accounted for more than 40% of total employment consistently for the last 11 years in the original ASEAN-6 economies except for Thailand. The CLMV economies are just beginning to reach closer towards the 40-percent group.

**Figure 1.9:**  
Employment in services as a % of total employment in ASEAN-6 economies



**Figure 1.10:**  
Employment in services as a % of total employment in CLMV economies



Source: World Development Indicators (WDI), World Bank

Employment growth in the services sector has outpaced employment growth in the other industry sectors in the ASEAN-6 economies (Table 1.3). The opposite trend is witnessed for some CLMV countries, mainly Cambodia and Vietnam whereby the growth of employment in the industrial sectors is higher services sector (Table 1.3).

The employment growth of services sector in the developing economies of ASEAN may be attributed to the relatively young and economically active population. Services sector policies reform is expected to further enhance the employment opportunities.

**Table 1.3:** Change in the employment share of sectors in ASEAN economies (2010 – 2020)

Country	MY	SG	TH	PH	ID	BN	KH	LA	MM	VN
Services	5.03	6.57	5.21	6.01	7.41	2.81	12.51	5.96	6.80	5.80
Industry*	-0.90	-6.36	1.87	4.31	4.00	-3.46	13.6	3.84	-1.39	6.68

Source: World Development Indicators, World Bank

Industry corresponds to ISIC divisions 10-45 and includes manufacturing (ISIC divisions 15-37). It comprises value added in mining, manufacturing, construction, electricity, water, and gas.



## 1.4 INDIGENOUS BUSINESS (IE) AND AEC

Indigenous enterprises (IE) play a significant role in supporting economic growth in both developed and developing countries. This is largely because they generate most employment opportunities locally, contribute to innovation, gross domestic product (GDP) and export activity. IE development is integral to achieve long term sustainable economic growth. At present, more than 90% of the IE have indicated satisfactory results from their participation in the AEC initiative but there is room for improving the volume of cross border trade. Increasing the IEs cross-border activity would boost economic growth and development in ASEAN, while also helping to increase the competitiveness.



However, IEs from the less-developed ASEAN economies; Cambodia, Lao PDR, Myanmar and Vietnam (CLMV) face the biggest challenge from deeper economic integration and regulatory burdens. They face several challenges such as access to finance, technological deficiency, difficulties of compliance with standards, and lack of marketing and management skills. Strengthening of ASEAN enterprises especially the indigenous enterprises require improvement in human resources, better provision of access to finance, technology and innovation, and markets as well as internationalisation through policy support measures, supplementary activities, and appropriate communication.



## A. Indigenous Businesses (IE) General Perception on AEC

The AEC has significant impact on business across the region. The degree of impact varies in accordance to the nature of industry, type of establishments, dynamism of the regional and global economic trend. The recent Covid-19 pandemic is another unexpected scenario which warranted significant focus on business survival amidst global uncertainties. Call for businesses to pivot fast and embark on the digital transformation journey is the mantra of the day. Acceleration of digital adoption is no longer an option. These are new key scenarios that influence the perception of Indigenous enterprises on how well the AEC agenda has been diligently executed and whether it really benefits them and further entice them to be part of the AEC transformation journey key beneficiary.

There has been a string of formal and informal analysis and studies on the AEC implementation, progress, and outcome throughout the years. This is since AEC is regarded as a strategic economic enhancement initiative. Hence, this study dovetails to the indigenous enterprises' perception on AEC, which forms the backbone of ASEAN economy.

This study also corresponds to some of the findings from previous research. It provides a fresh perspective on the indigenous enterprises' expectation, challenges, and perception of the AEC implementation to-date and how it has impacted their business.

An ILO study in 2014 on the impact of AEC economic integration in general by all sector highlighted poor awareness of the AEC integration programmes, limited understanding on how AEC will contribute to build their competitiveness and resilience to

be regional players. The same study also indicated that despite the low levels of understanding of AEC, businesses generally have expressed optimism about the value and impact of the AEC. Similar sentiments were observed from this study which targeted primarily the indigenous enterprises.

There is a high optimism that AEC will benefit their businesses in ensuing increase in workforce mobility, lesser trade barriers and liberalised investment flows. More than 90% of the survey respondents shown the optimism on AEC initiatives. Reduced trade barriers were expected to have greatest potential impact on ASEAN companies in general, because this would reduce the cost of imported goods. Larger indigenous enterprises were expected to be the top gainers, leveraging on regional supply chains in comparison to SMEs/MSMEs.

Majority of the businesses saw ASEAN economic integration as an opportunity that they should leverage upon for growth. More than 60% of the respondents from the indigenous enterprises are hopeful that there will be more effort put in place to improve trade in services across ASEAN. The focus areas recommended are such as transparency of regulation, discrimination against foreign(intra-ASEAN) services and favouring local business, clear and simplified procedures on new business establishments in general.

## B. ASEAN Trade-In Services from the perspective of indigenous business

There is still a continued dominance of trade in goods and merchandises by the export-reliant individual economies in ASEAN. There is hesitancy amongst the indigenous enterprises from the services sector to **participate within the broader market of ASEAN to expand their businesses**. They are reluctant to make cross-border investment moves. The services trade in the ASEAN economy is still perceived to be non-attractive, highly localised to individual nation and limited cross border linkages to spur growth. This is one of the contributing factors for the stagnation observed in the services share contribution to GDP.

**Diversifying the trade composition** with a renewed focus on services export will rejuvenate the overall competitiveness of the services sector. It will contribute significantly to spur the economic growth of the export-reliant economies. Greater involvement from the government and relevant agencies, both in the local and target AMS in promoting the opportunities and improving the ease of market entry are some of the expectations voiced by the respondents.






## Key Message 1

There is a wide range of economic activities that contribute to the GDP of AMS. The contribution level has been dynamic along the years and significant changes are observed. Share of services in national output has increased in all AMS and it becomes one of the major contributors to their economy. For some AMS, the contribution of services sector is higher than the manufacturing, mining, agriculture, and forestry sectors. However, the value of trade in goods is still almost three times higher than the trade in services. Trade in services, both internationally and intra-ASEAN, has grown faster than the corresponding trade in goods. However, the share of intra-ASEAN trade in services has declined from a peak of 18.6% to a decade-low of 14.72% in 2018.



### Key Message 2

There is a strong business case to revisit the liberalisation policies and its implementation to get to the crux of the matter. An in-depth analysis will pave the way to address the impending implementation challenges, provide a better understanding to the enterprises and get their buy in to make the best use of the support and ride on the growth path charted through the liberalization in trade-in-services. The indigenous enterprises raised a concern on their lack of involvement and representation in trade liberalisation discussions and policy formulations.



### Key Message 3

There is clear diversification in the composition of trade in services along the years. Some sub-sectors such as tourism has gained momentum, and some has declined. Value-added services, such as professional services, telecommunications, insurance, pension services and financial services have made considerable gains. The general global economic trend as well as the recent covid-19 pandemic has a significant impact on the economic activities. ASEAN economy is also impacted.

For example, tourism and its related ecosystem have faced the biggest impact of Covid-19 pandemic. Movement controls within the countries as well closure of international travels has dampened the tourism industry. The tourism sector also saw a huge dip in employment. Industry players has vented their frustration on not getting the right and timely support from the local government and authorities to keep them afloat. Their huge ecosystem makes the sector vulnerable, and they are unable to pivot as fast as other sectors. Investment in digital technology to support their operations is ongoing but ultimately it is still dependent on the loosening of travel restriction travel. Hence the negative impact and anticipated longer period for recovery post pandemic.

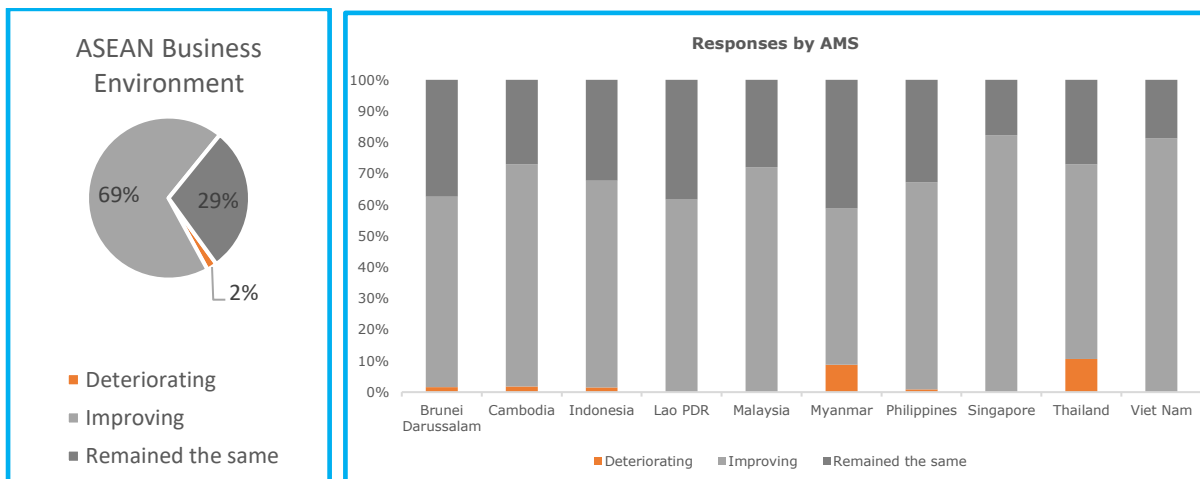
The pandemic also increased the dependency on technology by the industry. This directly accelerated the growth of telecommunication and ICT services in AMS. More technology driven solutions came into play in various industry sector. Digitalisation and transformation became the key activities that drive the sustainability of the industry.

### C. Improvement in AEC Integration Through the Lenses of Indigenous Enterprises.

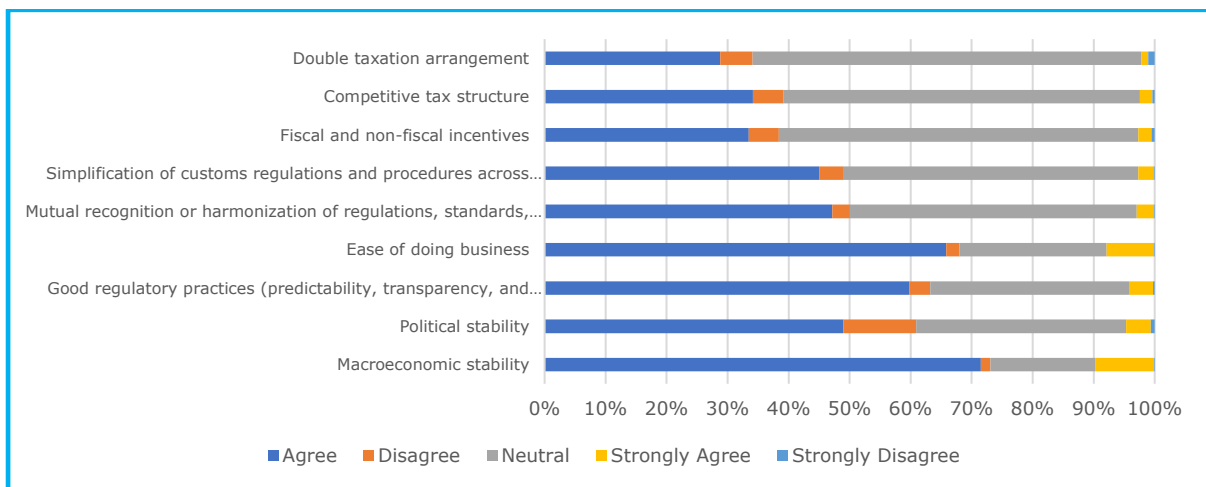
Various improvement has been made across ASEAN through AEC frameworks. Aside from partnership with external region and countries, reduction in trade cost between AMS, supports on free flow of goods and services as well as facilitation on cross border investment. While all the achievements and progress has been tracked and documented well, it is also important to see how it is being implemented and perceived from the perspectives of business players within the region.

Figure (1.9) showcases that most indigenous enterprises in ASEAN view that the general investment and business environment has shown improvement in the 2015 – 2019 period. Less than a third of the respondents thinks that it has remained the same and only a small portion (2%) of the view that it has deteriorated. Majority of respondents who believe that the business environment has worsened in the past five years are from Myanmar and Thailand.

**Figure 1.11:** General view on business and investment environment in ASEAN ('15 – '19)

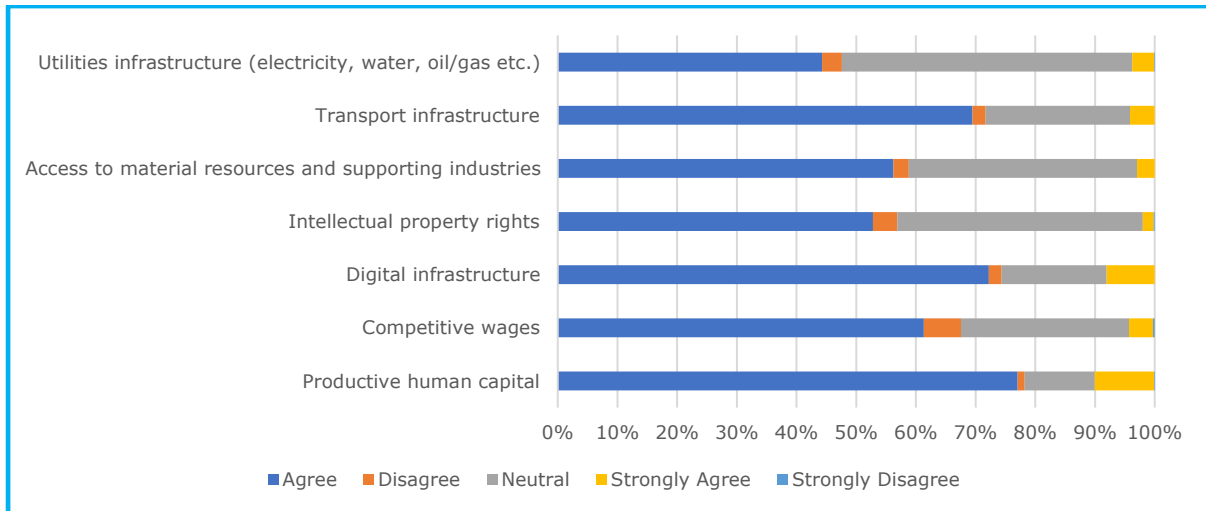


C1. How would you characterize the general business and investment environment in ASEAN markets over the past five years (2015-2019)?



C2. Between the years 2015-2019, have ASEAN markets been more competitive in terms of the following factors relating to business environment and regulations? (Please rate these factors based on your experience)

**Figure 1.11:** General view on business and investment environment in ASEAN ('15 – '19) (cont'd)

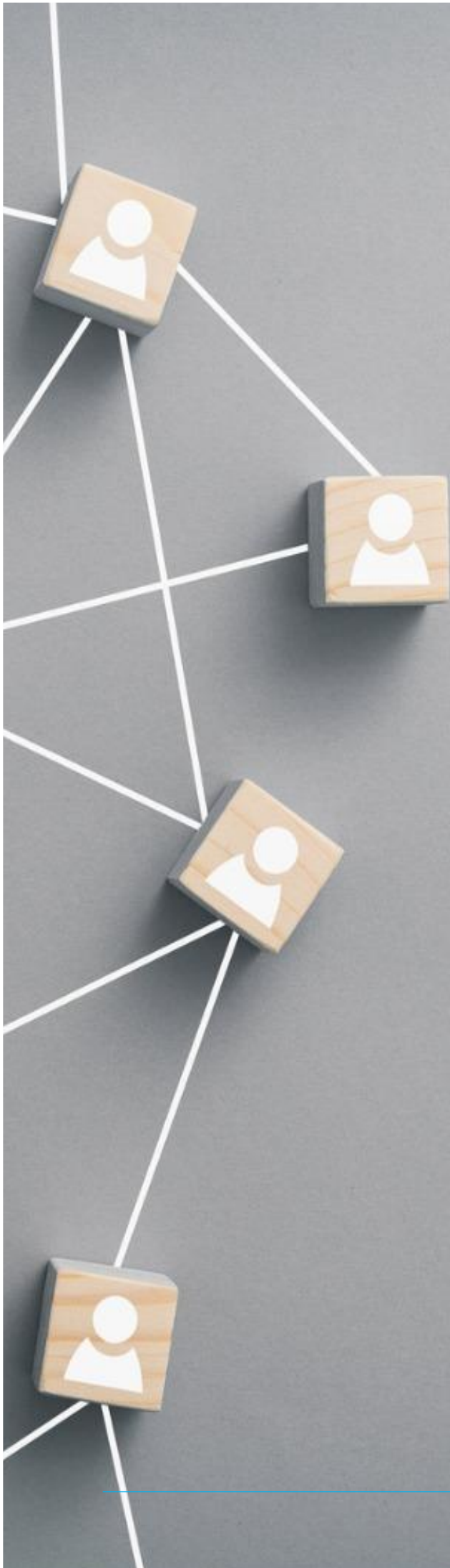


C3. Between the years 2015-2019, have ASEAN markets been more competitive in terms of the following general factors? (Please rate these factors based on your experience)

In general, the business players have experienced improvement in the specified business environment areas highlighted in Figure 1.11. Majority of the respondents concurs experiencing improvements in the areas such as ease of doing business, good regulatory practices, political stability, and macroeconomic stability in the past five years. However, neutral response we observed for attributes such as taxation, fiscal and non-fiscal incentives, customs regulation, and standards harmonization.

The high negative responses recorded for “political stability” and “competitive wage” factors are areas of concern. Nevertheless, more than half of the respondents agree that they have observed improvements in their business environment in the past five years. One area which needed attention though is for utility infrastructure.

Around two-third of indigenous enterprises surveyed perceived that the ASEAN initiatives contributed to the improvements in the regional business environment. However, the respondents do exhibited lack of comprehensive knowledge and understanding on the working mechanism of ASEAN programmes upon in-depth questions were posed to them. On a positive note, **ASEAN efforts in improving the business environment has been prolific to the business players which attributed to the improvements made.**



### Key Message

Improvement in the ASEAN business environment can be attributed to continuous ASEAN promotional and supporting efforts. Most indigenous enterprises are challenged by poor understanding and lack in depth of knowledge of the programmes which resulted in them having limited view on the programme attributes and impact.

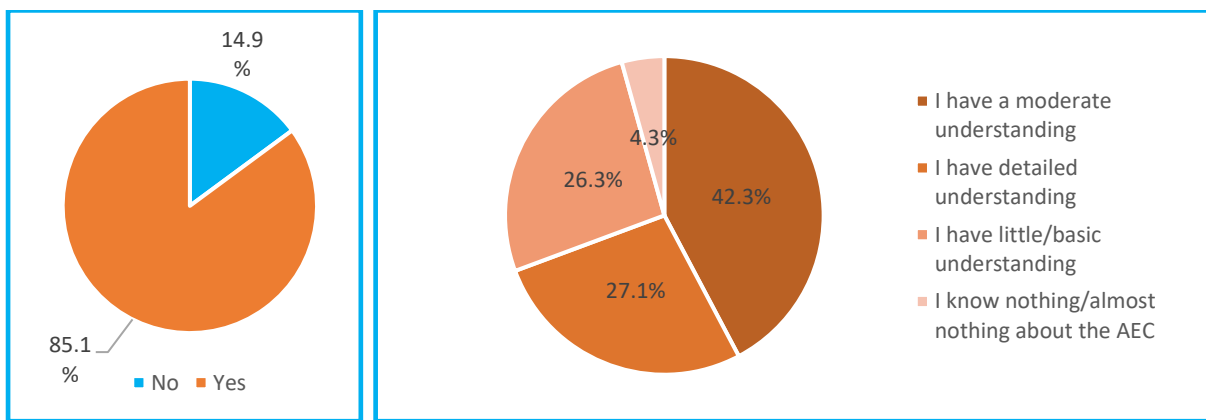
ASEAN indigenous enterprises mostly acknowledge experiencing improvements in the ASEAN business environment such as “ease of doing business”, “regulatory practices”, and “political and macroeconomic stability”. The same observation is perceived in the more tangible aspects such as wages and digitalization. Areas of contention and needing improvements are in trade taxation, fiscal and non-fiscal incentives as well as the simplification and harmonization of regulation. One of the reasons for the negative perception on these areas are due to complexity of the subject matter and the indigenous enterprises lack of knowledge and understanding of the programmes in place catering for these areas of contention.



### D. Awareness and Engagement of ASEAN Indigenous Enterprise towards AEC

In the previous segment we deliberated on the low awareness and understanding on ASEAN AEC and its programmes amongst the indigenous enterprises which lead to a perception issue on improvement observed the in ASEAN business environment. Figure 1.12 shows that 85% of the respondents have heard about AEC and only 27.1% indicated “detailed” understanding whilst another 42.3% stated having “moderate” understanding on AEC. The analysis also signified that a total combined share of respondents with “basic” or “almost no knowledge” of AEC stands at 30.6%. This signifies that there is a need for better information dissemination on AEC to the targeted audiences and stakeholders especially the business community.

**Figure 1.12:** General Understanding of AEC (Overall)

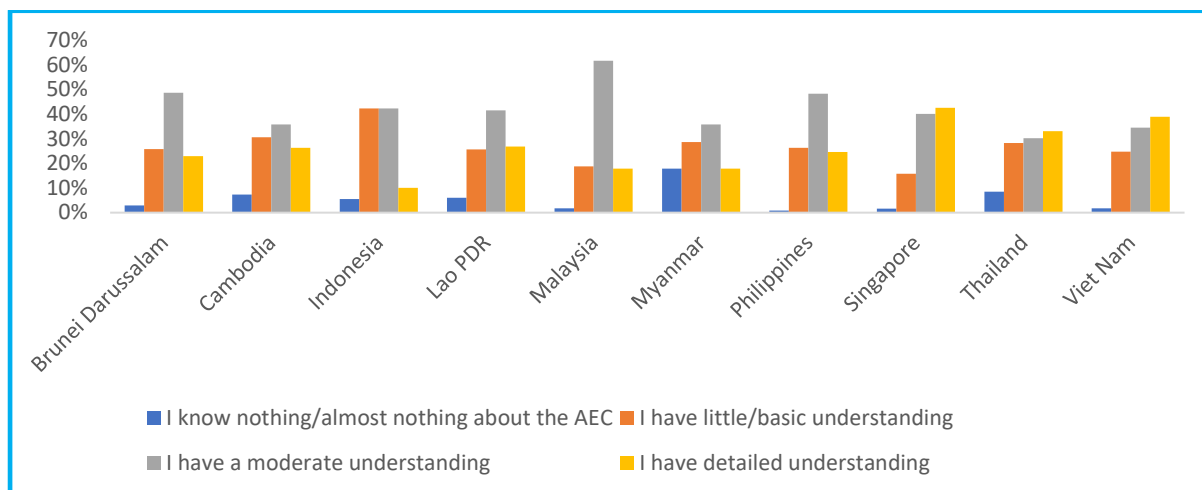


Left (D1). (SA) Have you heard about the ASEAN Economic Community?

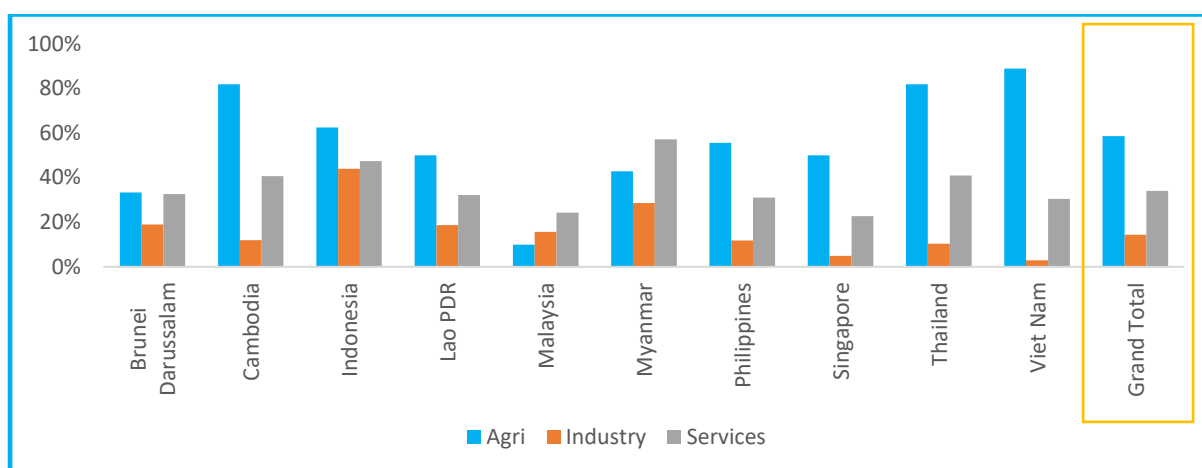
Right (D2). (SA) How would you rate your level of understanding of the ASEAN Economic Community? [If answered ‘Yes’ in D1]

The level of knowledge on AEC also varies by country based on respondents’ representation. Singapore, Thailand, and Vietnam were the top three AMS with a higher percentage of respondents claiming to have a “detailed “understanding of the AEC, as shown in figure 1.13. Conversely, the deep dive sessions through KIIs and workshops with the respondents reveals that they only have basic and moderate understanding on AEC and its programmes. Respondents from larger enterprises seems to have a better grasp of the subject matter.

**Figure 1.13: Understanding of AEC Among Respondents That Have Heard about AEC (by Country)**



**Figure 1.14: Share of Respondent that have little / no understanding on AEC, relative to their Sector**

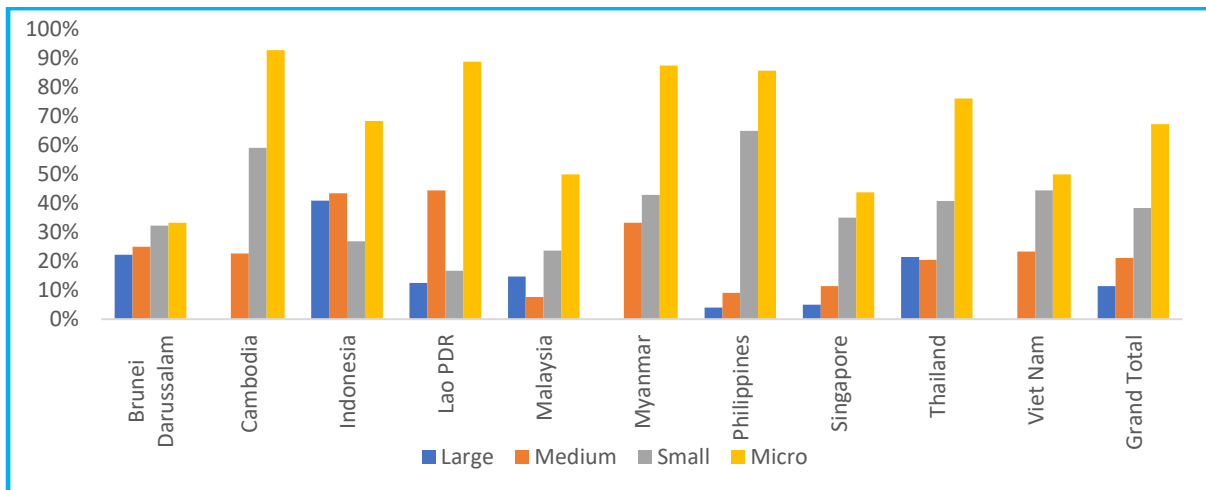


A deep dive analysis by the industry sector representations across ASEAN shows some interesting results as well. The industrial sector representatives indicated to have the highest level of understanding in comparison to agriculture and services sector. The data shows that the agriculture sector representatives indicated the lowest level of understanding on AEC.

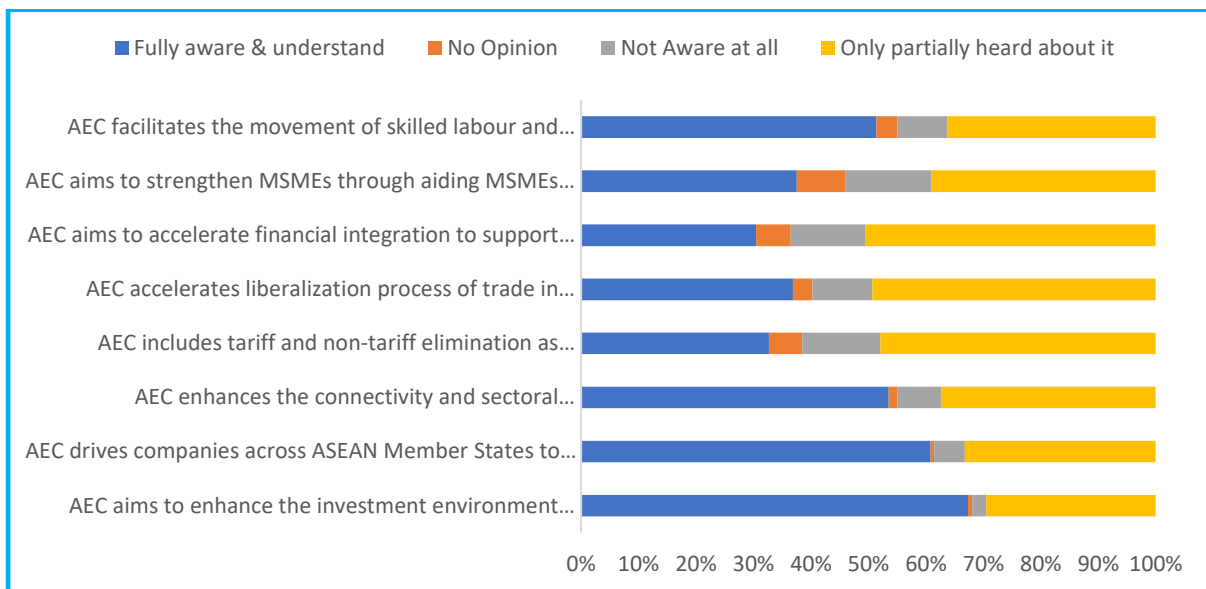
The industrial sector players command greater exposure in regional trade as showcased by the high volume of intra-ASEAN trade in goods, while agriculture sector on the contrary, rarely engage in cross-border trade. Probably due to low understanding on AEC. The lower level of understanding by the services sector may be the inhibiting factor to drive trade expand and lowering their motivation to make cross-border investment across ASEAN.

Deep diving into industry segment by size shows that larger corporations across sectors have better knowledge on AEC. MSMEs generally are in the least knowledgeable category especially those from Cambodia, Myanmar, Brunei, Indonesia, Thailand and Lao PDR.

**Figure 1.15:** Share of Respondent that has little / no understanding on AEC, relative to their Size



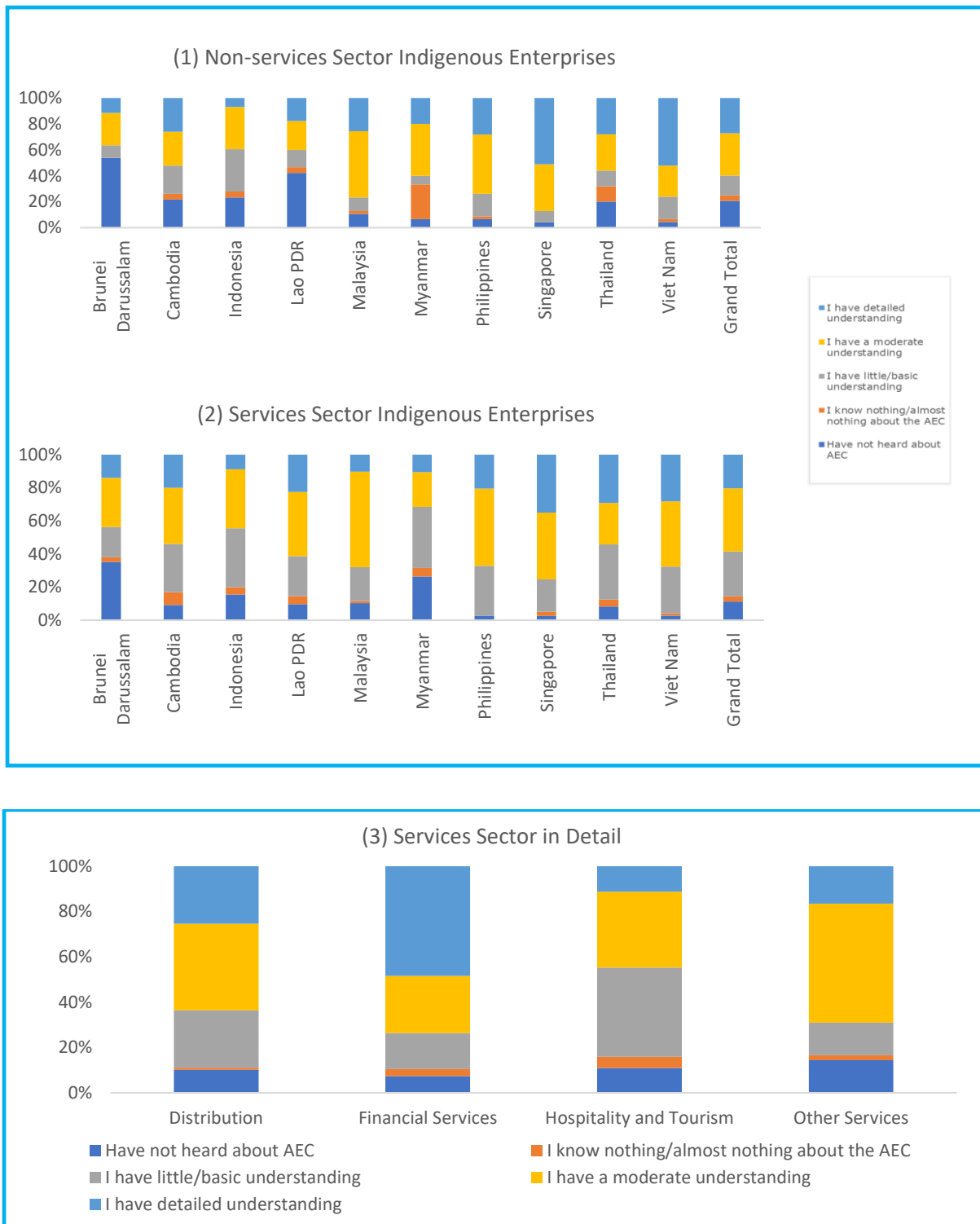
**Figure 1.16:** Detailed Awareness and Understanding Level on AEC



D3. From the following information about ASEAN Economic Community (AEC), please choose the most appropriate response that describes your awareness and understanding level of AEC’s program and initiatives related to it.

A deep dive analysis on the indigenous enterprises’ awareness level of the various activity pillars of AEC was also performed. The findings are depicted in Figure 1.16 above. It detailed varying levels of awareness on each activity pillars of AEC among the respondents. The full awareness and detailed understanding level on the AEC activity pillars hovers in the range of 30% to 70%. This is a positive indicator. A small percentage, ranging from 2% to 15% of respondents indicated zero awareness on the programs and initiatives implemented through AEC. Activity pillars which recorded lowest awareness level such as financial integration, tariff, and non-tariff elimination and trade liberalisation needs better focus and coordination in the near future. The specific activity pillar that focuses on strengthening MSMEs needs attention as well. In general, we can conclude that the **AEC activity pillars have good traction and awareness amongst the indigenous enterprises. Efforts need to be focused on further enhancing the knowledge for greater adoption and improving the ASEAN business environment.**

**Figure 1.17:** Profile of Respondents on the Detailed Awareness and Understanding Level on AEC





### Key Message 1

Most indigenous enterprises in ASEAN view that the general investment and business environment has been improving in the last 5-6 years ago (with an exception of 2020)

Less favourable opinion is indicated on the topics of tax, fiscal and non-fiscal incentives, customs - regulation, and standards harmonization which might require further improvement in the areas on business environment, as well ensuring that the indigenous enterprises understand the progress made and able to benefit from it.

## Key Message 2

It is imperative that activities relating to creating awareness and understanding on AEC and inclusivity on cross-border activities (trade, investment, and operation) within ASEAN are implemented in parallel through a co-ordinated manner.

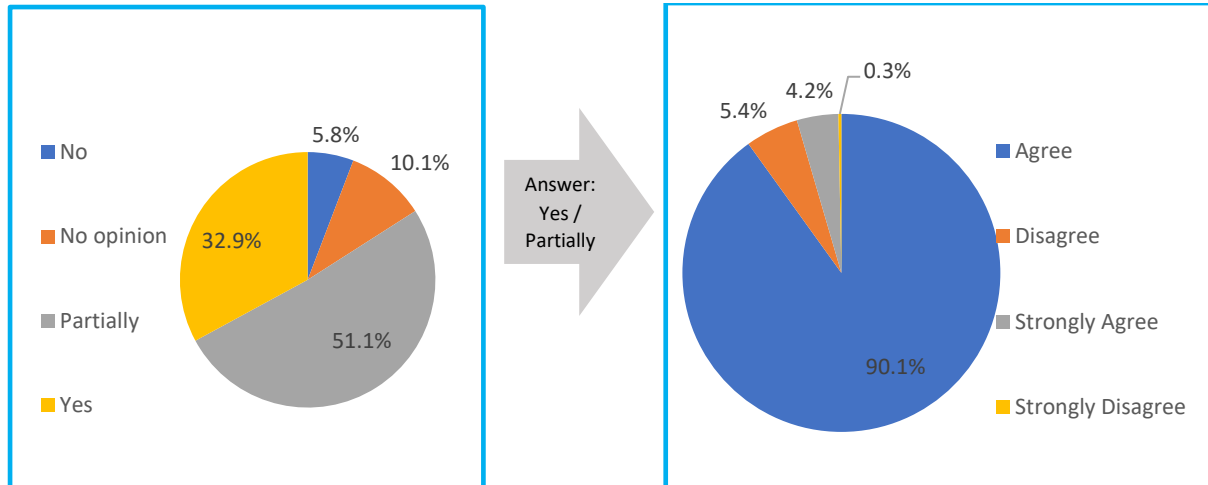
Cross-border activities drives indigenous enterprises to improve their understanding on AEC. A better understanding on AEC stimulates cross-border activities by both enterprises that have and haven't resorted to do so.



### E. Opinion on ASEAN Economic Integration

The majority of ASEAN indigenous enterprise’s opined that they experienced positive result from the ASEAN economic integration policies and programmes. More than 90% of the respondents are able to with the ASEAN economic agreements and policies as a positive impact initiator.

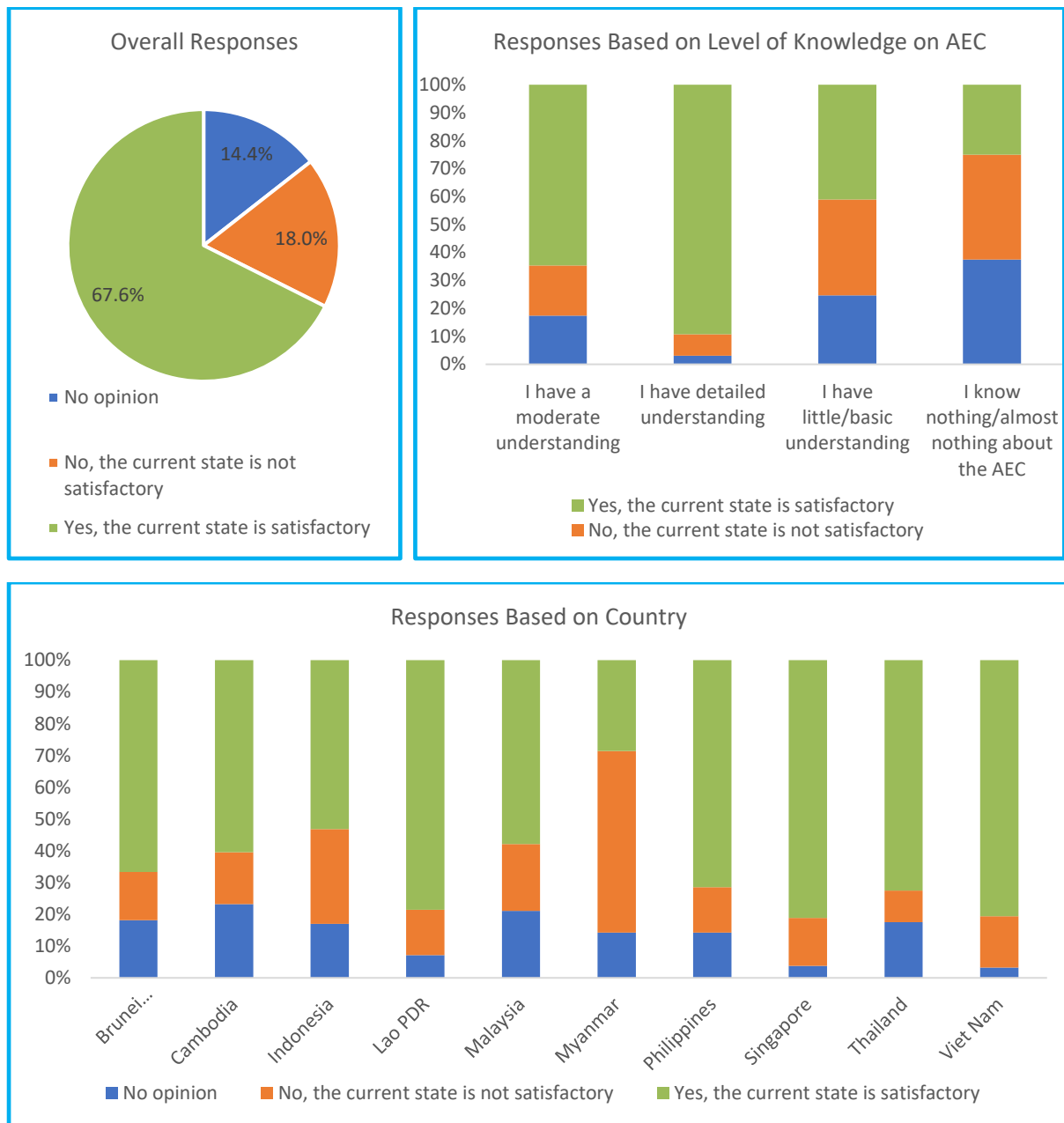
**Figure 1.18:** Results of ASEAN Economic Integration to Indigenous Enterprises



Left (D7): Overall, has ASEAN economic integration brought satisfying results to your business in the past 5 years (2015-2019)?  
 Right (D8): [If answered 'Yes' or "Partially" in D7] From your understanding, do the satisfying results from ASEAN economic integration are driven by ASEAN Economic Agreements and Policies?

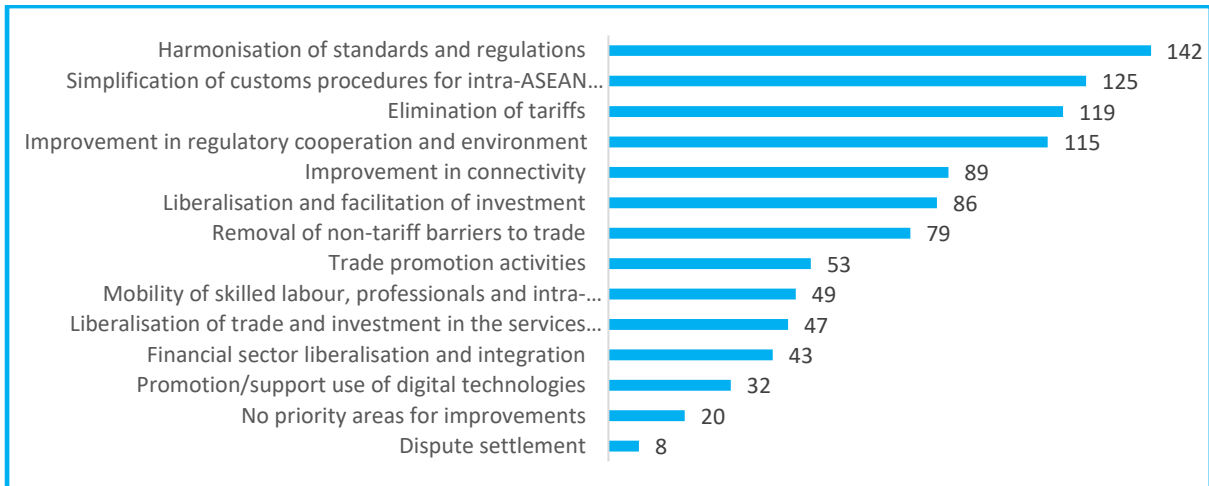
There is a positive correlation between the level of satisfaction on AEC and the level of understanding on AEC. Countries with better understanding on AEC indicated higher satisfaction level. Therefore, it is important to improve the **knowledge about AEC and its programmes amongst the business community** to drive their **intent and interest to utilize the framework and assistance that they can leverage upon for their business growth.**

**Figure 1.19:** Satisfaction Level on the Current State of Economic Integration



The business community indicated positive opinion towards the improvements made through ASEAN Economic Integration. More than two-thirds of ASEAN indigenous enterprises feel that **the current level of integration is already satisfactory**. However, there are some negative feedbacks as well. **Myanmar business communities for example are of the view that AEC aggravates foreign entity domination in their country's economy**. Similar sentiment is seen in a few other developing AMS.



**Figure 1.20:** Priority area for ASEAN Economic Integration

D9: What are the priority areas in ASEAN economic integration where progress needs to be made or accelerated the most? You may select up to 3 options

Figure 1.20 representing top recommended areas of improvements shows **that standards harmonization, simplification of customs procedures, tariffs removal, and improved regulatory environment** are the top in demand. Liberalization of trade and investment in the services (including financials) sector faces the most challenges in the areas stated earlier. Further integration will be beneficial to the enterprises to have a greater access to a larger ASEAN market for their services offerings. However, there is still a concern on the integration implementation due to self-protectionisms of the local economy amongst the AMS. This is the biggest hurdle that needed focus and ratification by AEC.



## 1.5 COVID 19 AND ITS IMPACT ON INDIGENOUS BUSINESSES ACROSS ASEAN

The world economy was impacted by the devastation created by the Coronavirus pandemic in early March 2020. All countries including ASEAN implemented lockdown measures which shuttered most of the economic activities, leaving only essential services to operate. Travel restrictions were imposed, and supply chains are disrupted, jobs are lost, demand is suppressed, leading to a vicious cycle of economic recession.

Although ASEAN is not amongst the worst Covid-19 hotspots in the world, there is a sharp slowdown and worsening economic outlook in all member state countries. A large number of ASEAN businesses in or relating to tourism and travel, which include but are not limited to accommodation, restaurant, food, and entertainment businesses, have been hit severely.

The business sentiment study did capture concerns of the indigenous enterprises in managing their survival during this pandemic. There is no clear indication as well on when the pandemic will be over and what will be the new norm for businesses post pandemic.

The following section highlights some of the immediate concern and expectations raised by the enterprise to manage their survival through the pandemic. The key challenges faced are as follows:

- Operational difficulties due to supply chain disruptions (raw material supply, transport and logistic disruptions, border control, and customs clearance).
- Low financial liquidity due to the impact of the crisis, especially when the lockdowns imposed longer than expected
- Job loss and temporary shortages of manpower in some businesses due to lockdown as people cannot return to work
- Cash flow issues and difficulties to seek financial support
- Operational shutdown results in completely no revenue or extremely reduced turnover
- Forced layoff of employees

Based on the above, the indigenous enterprises have to resort to the government support through urgent policy responses on social protection and business survival support . The following are some of the business enterprises immediate support expectations:

- **Short-term support** should be provided to help MSME to stay afloat, recover, and keep workers,
- **Direct financial support** such as direct cash transfers for MSMEs especially and providing low-interest loans to keep the businesses functional.
- **Deferring tax payment**, reducing income tax, tax exemptions or rebates, or deferring import/export taxes.

- **Employment support** such as providing direct income support for retrenched workers, low-interest loans to provide income for employees, and deferring payment of social/unemployment insurance.
- **Rebate/deferment of rent** and property taxes and fees.

The situation is rather fluid. Not all countries have the required resources to support all the request by the business. Resources are limited as governments' budget collections decreased due to business slowdown, while the spending needed for Covid-19 control, social protection, and economic stimulus continue to escalate. In some cases, the support cannot reach businesses and people in need, especially those from informal sectors.

Stimulus measures might keep business surviving and help many of them to recover if the pandemic could be controlled in the next few months. This should still be prioritized by ASEAN governments. However, it will not help if the pandemic and associated lockdown persist in the long run.

In the immediate term, the enterprises wish that governments could prioritize containing the pandemic and ensuring public health, so businesses could reopen/safely resume their operations as soon as possible.



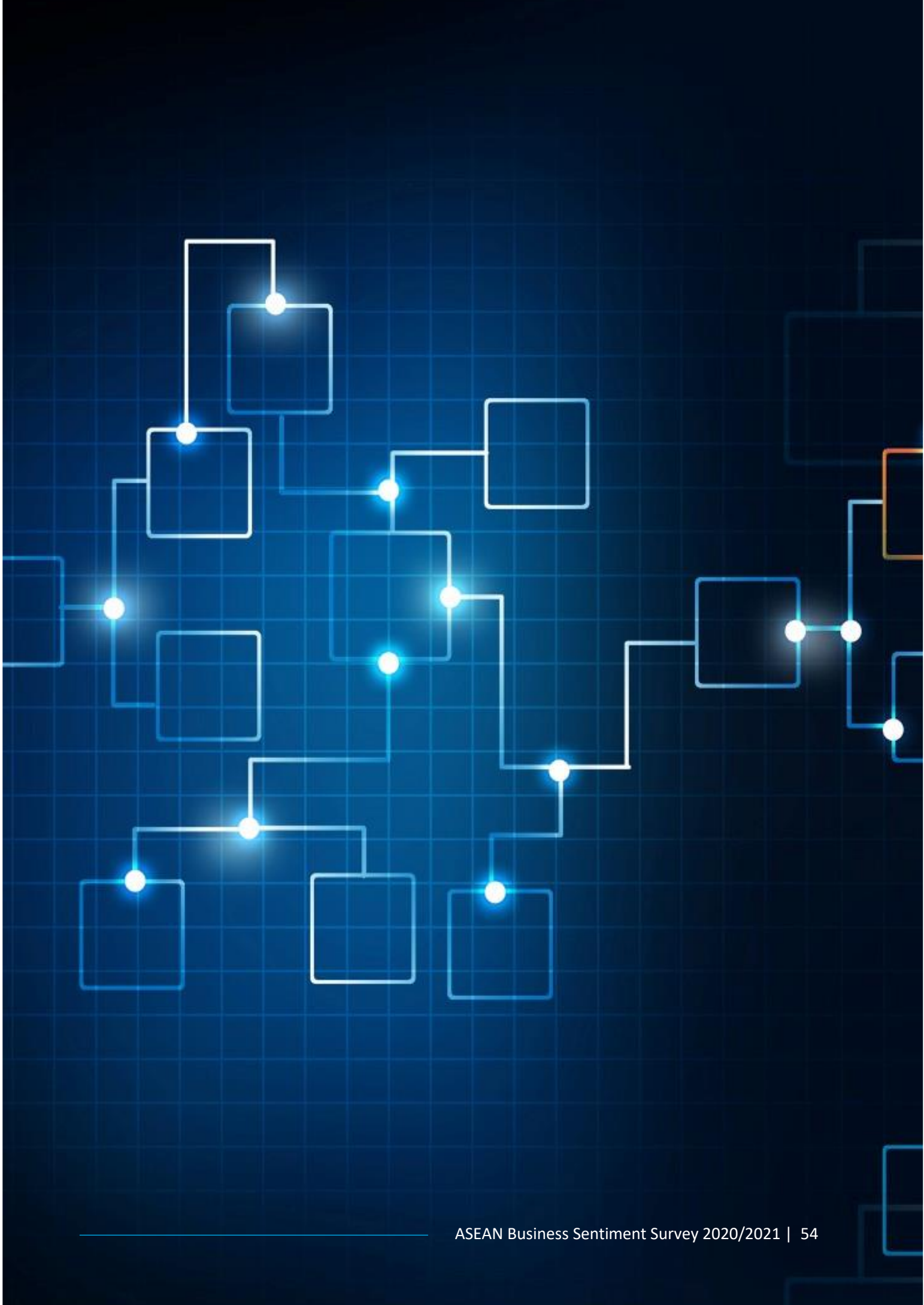
## 1.6 DIGITALISATION AS AN ENABLER FOR BUSINESS TRANSFORMATION

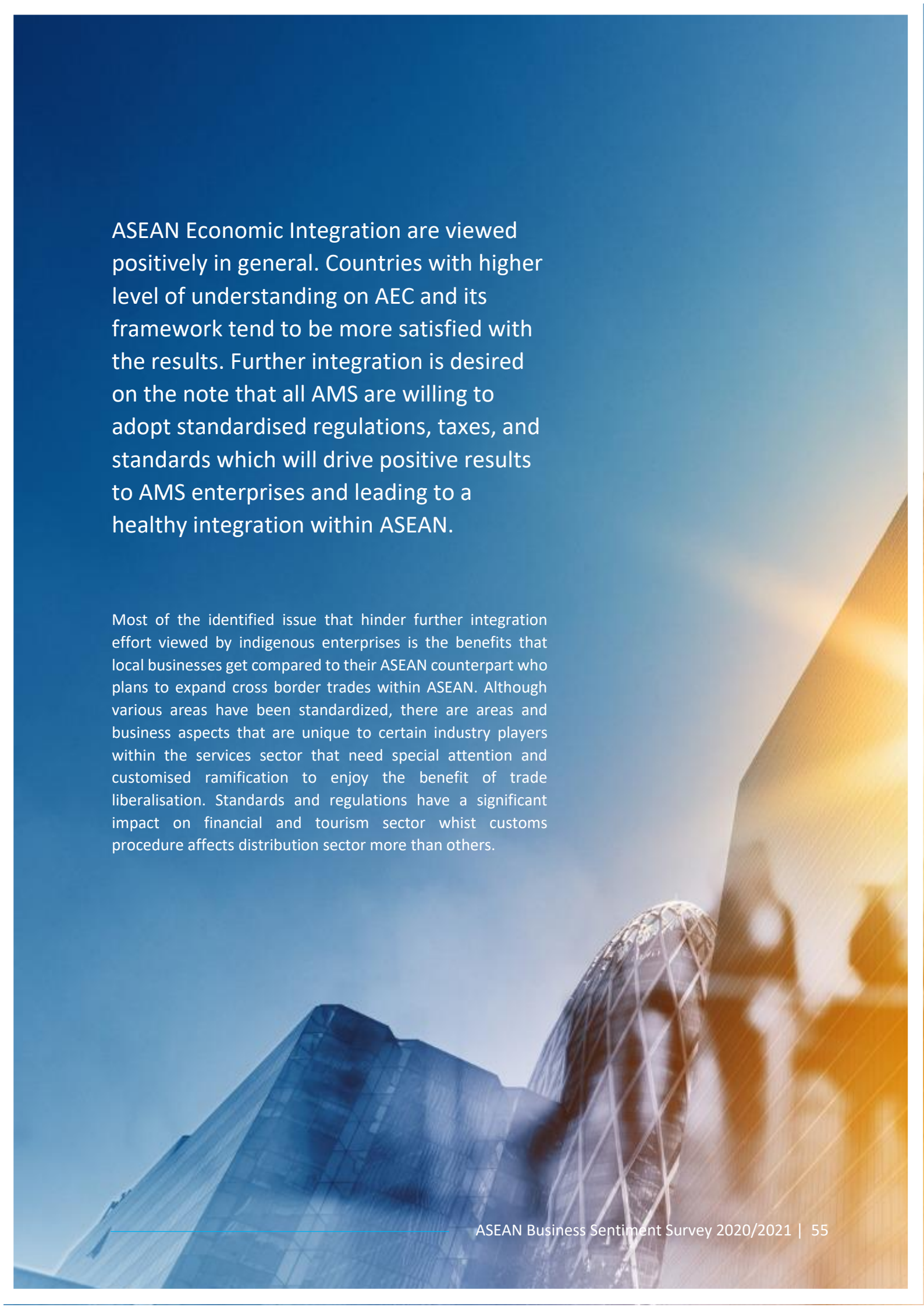
With the development of digital economy, and current Covid-19 crisis, digitalisation plays a significant role in the economy and business operations. The 4<sup>th</sup> Industrial Revolution driven by cutting-edge technologies such as blockchain, IoT, 5G, cloud computing, robots, AI, data science, along with the emergence of new digitalized business models are changing the economic landscape how the business can reap better outcome by adopting these new technologies.

In the midst of the pandemic, businesses especially MSMEs should embrace digital technologies and promote digitalization. There are numerous success stories from the adoption of technologies driving e-commerce, sharing economy, IoT, next generation innovation and other new business models. They are opportunities to increase their own added value in the wave of digitalization. Cross border trade are being accelerated through digitalisation especially through remote access of a wider market.

Technological adoption of digital tools is especially beneficial for MSMEs. However, there is still gap in digital tools adoption between large businesses and MSMEs, especially in E-commerce and cloud computing. MSMEs need to rethink and redesign their business with a focus on how to leverage social media, mobile connectivity, data analytics, cloud computing and incorporate these tools in their business model. The digital transformation of MSMEs must be integrated into all areas of the business in order to deliver value to customers and to ensure business continuity.

Digitalization will not only improve their competitiveness; it will also benefit society as well. As the main driver of regional economic growth and innovations, digitalization also plays a crucial part in developing an inclusive and sustainable economy. Recently, digitalization solutions have contributed greatly to the sustainable development goals and reduced wealth gaps, improved gender equality and responded to climate change, giving people access to the resources necessary to their survival.





ASEAN Economic Integration are viewed positively in general. Countries with higher level of understanding on AEC and its framework tend to be more satisfied with the results. Further integration is desired on the note that all AMS are willing to adopt standardised regulations, taxes, and standards which will drive positive results to AMS enterprises and leading to a healthy integration within ASEAN.

Most of the identified issue that hinder further integration effort viewed by indigenous enterprises is the benefits that local businesses get compared to their ASEAN counterpart who plans to expand cross border trades within ASEAN. Although various areas have been standardized, there are areas and business aspects that are unique to certain industry players within the services sector that need special attention and customised ramification to enjoy the benefit of trade liberalisation. Standards and regulations have a significant impact on financial and tourism sector whilst customs procedure affects distribution sector more than others.



# Key Services Sector Deep Dive – Financial, Distribution, and Tourism



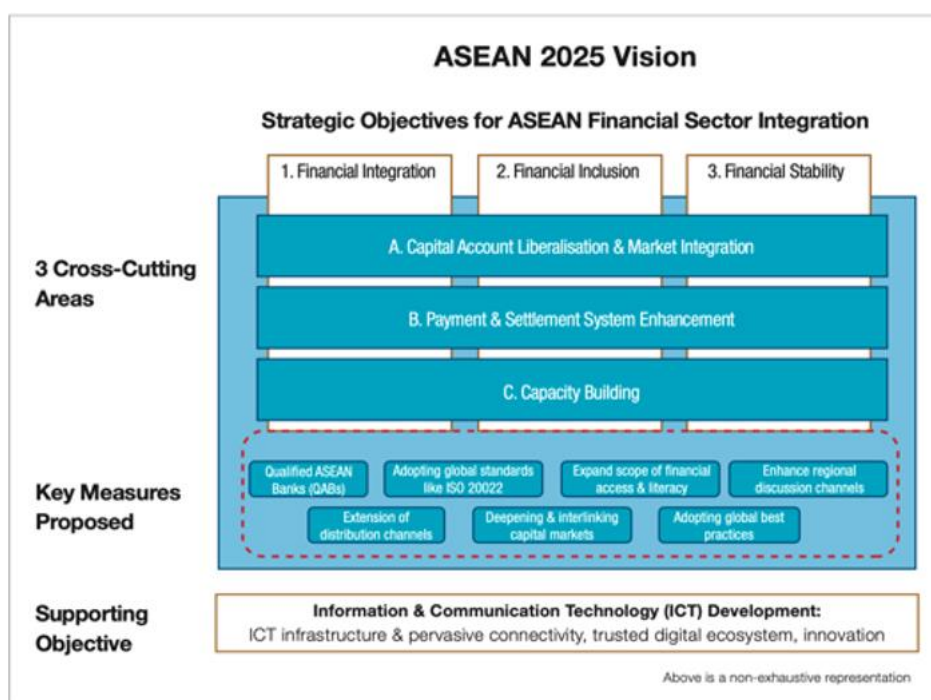
## 2.0 DEEP DIVE INTO KEY SERVICES SECTOR – FINANCIAL, DISTRIBUTION AND TOURISM

### 2.1 FINANCIAL SERVICES – OVERVIEW AND CHARACTERISTICS OF THE FINANCIAL SERVICES SECTOR WITHIN ASEAN

The financial crisis of 1997 that also swept Asia has affected most of Southeast Asian countries in its own way. Indonesia and Thailand are among the worst hit by the crisis. 24 years later, the financial services ecosystem in the region has flourished. For example, financial services now contribute 4.5% to Indonesia's GDP and more than 7% for Thailand as of 2019.

Financial services can be categorized further into various type of services, ranging from Banking, Wealth Management, Insurance, Brokerage, Micro Finance and Accounting or Auditing services. This study has focused on representation from Banking, Insurance, Private Loan, and Money Transfer Services, including their online operation which flourished in the last 5 years.

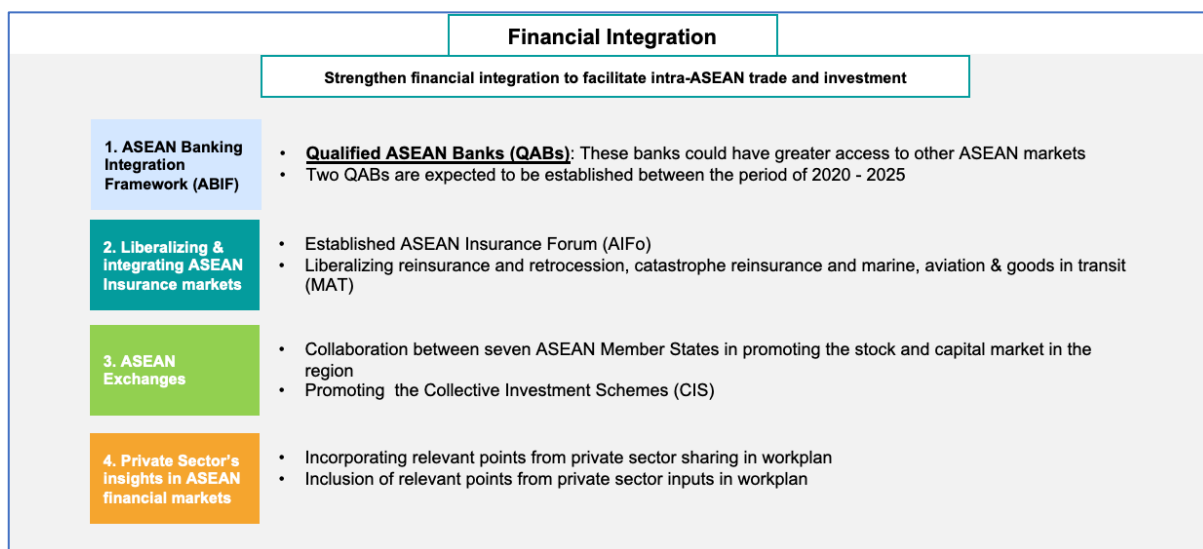
Financial services integration is one of the flagship agenda within the ASEAN 2025 vision. The diagram below depicts the specific objectives and the focus areas to drive the integration within AMS.



ASEAN financial services integration has progressed well and accelerated by the following activities:

1. Increase in the utilisation of banking services
2. Opening up of the financial services market; signing of Protocols 7, 8 has paved the market access and expected to progress with signing of Protocol 9 in the near future.
3. Advancement of fintech
4. Continued integration of ASEAN banks.

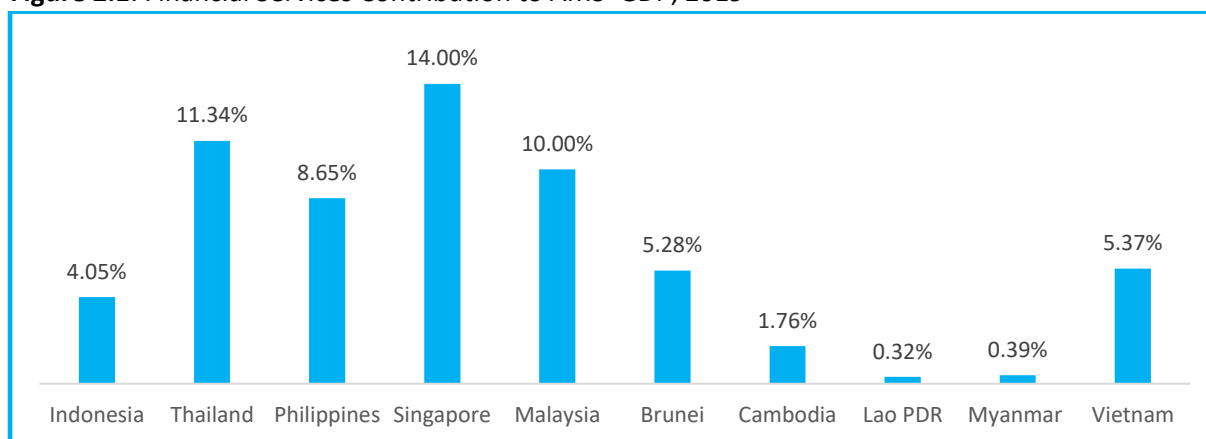
ASEAN has embarked on financial services integration on a staggered approach through the implementation of various programmes as indicated below.



The integration progress however also reliant on the individual AMS financial sector situation. Each AMS within ASEAN in general have quite a developed financial services sector and they contribute to significant number of employments. Figure 2.1 showcase the significance of financial services contribution to GDP within AMS economies in general. Some AMS such as Myanmar, Cambodia and Lao PDR are still in the process of developing their financial services sector. Although there are no recent data available for both Cambodia and Lao PDR, it can be safely deduced that that the level of contribution from financial sector is in the similar range as Myanmar.

**Countries with immature financial sector normally do have a large ecosystem of informal financial services.** The informal ecosystem poses a challenge on data detection and consolidation by the authorities. This typically results in depicting a lower contribution rate to GDP. The informal sector will normally evolve into a formal sector along with the pace of economic development of a country. Proper planning for the formation of a formal financial ecosystem is a necessity that can't be ignored, especially when the sector is growing.

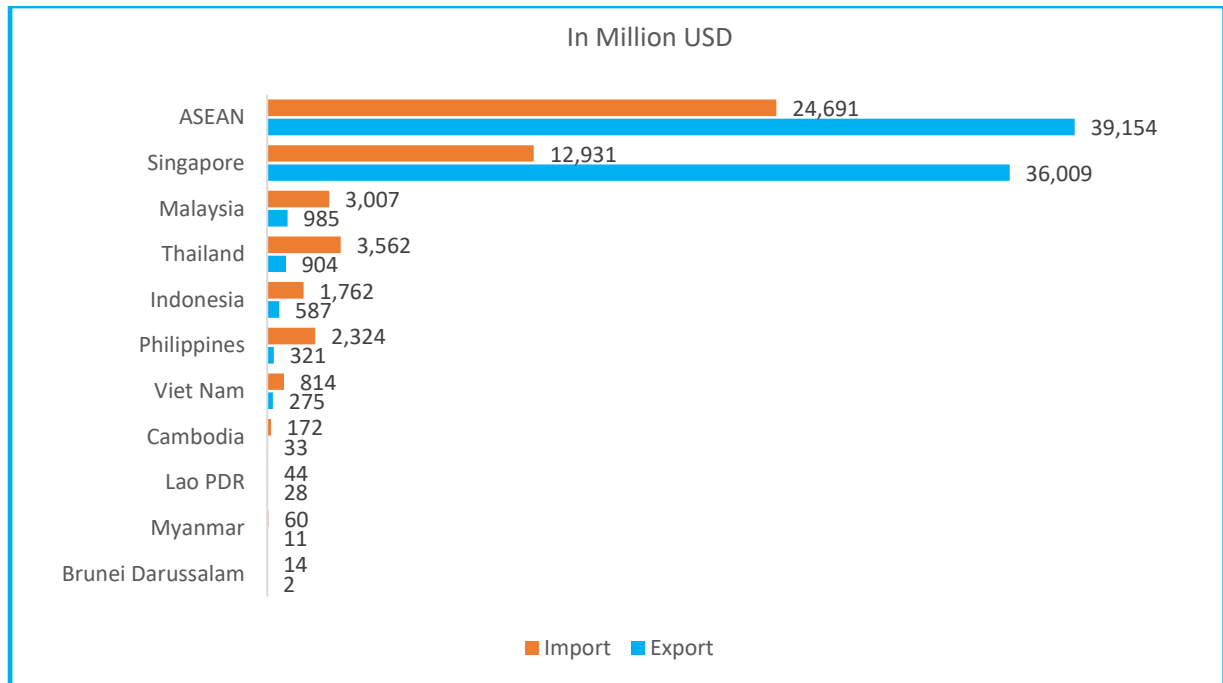
**Figure 2.1:** Financial Services Contribution to AMS' GDP, 2019



Source: AMS' statistical bureau, World Bank, OECD

Singapore dominates the financial services trade with external entities in supporting ASEAN export activities. More than 90% of financial services export originated from ASEAN can be traced back to Singapore as shown in figure 2.2

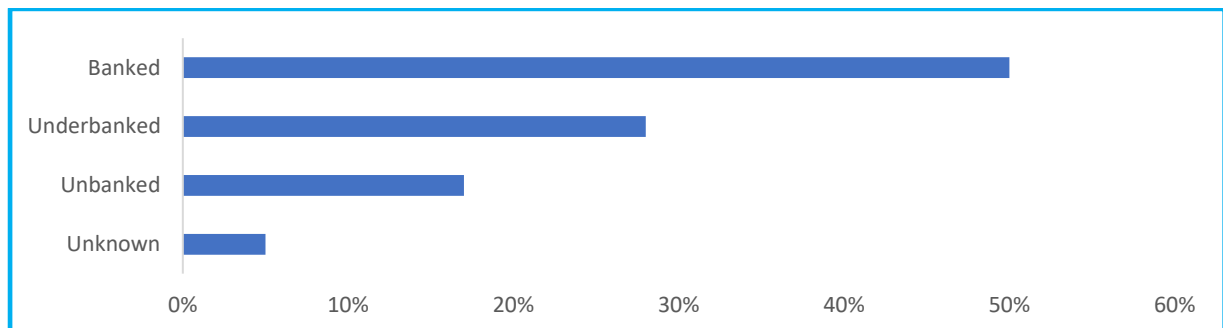
**Figure 2.2:** ASEAN Total Trade in Financial Services, 2019



Source: ASEANSTAT

The financial sector development is driven by the level of economic development of the country. Economically matured countries tend to have a developed financial services sector naturally. It has been widely recognized that financial inclusion can generate significant benefits and drive higher economic activity. In the ASEAN region, only 51% of adults have access to a formal financial product or services according to the World Bank’s Global Findex Survey.

**Figure 2.3:** Average % of Customers Served



Source: CCAF

**Figure 2.4: Financial Service Utilization in ASEAN****Financial Account Penetration (% of total adult population)**

Singapore	Malaysia	Thailand	Indonesia	Philippines	Vietnam	Lao PDR	Myanmar	Cambodia	Brunei
98%	85%	82%	49%	34%	31%	29%	26%	22%	NA

**Adult with debit card and credit card (% of total adult population)**

Card	Singapore		Malaysia		Thailand		Indonesia		Philippines		Vietnam		Lao PDR		Myanmar		Cambodia	
	Own	Used	Own	Used	Own	Used	Own	Used	Own	Used	Own	Used	Own	Used	Own	Used	Own	Used
Debit	89	78	41	19	58	7.9	26	8.5	21	12	27	3.1	6	2	1.7	0.4	5.4	0.7
Credit	35	31	20	17	5.7	3.7	1.6	1.1	3.2	2.2	1.9	1.2	3	2	NA	Na	2.9	2.3

Source: The Global Findex Database (2017), World Bank, Lao PDR 2011 data, data not available for Brunei

The above table highlights that financial account penetration rates are lowest amongst the citizens of Lao PDR, Myanmar and Cambodia while Singapore, Malaysia and Thailand leads the pack in ASEAN.

Recent development in Fintech proliferates the growth in digital banking services and better outreach to the those unbanked in the past. Fintech supports multiple services ranging from payment, banking, financing, and even in the investment, leading to better inclusion of the society in financial services. It is imperative that to liberalize the trade in service in financial sector, there must be a unified development across AMS for better financial inclusion across AMS.



### A. Sentiments to AEC by the Financial Sector

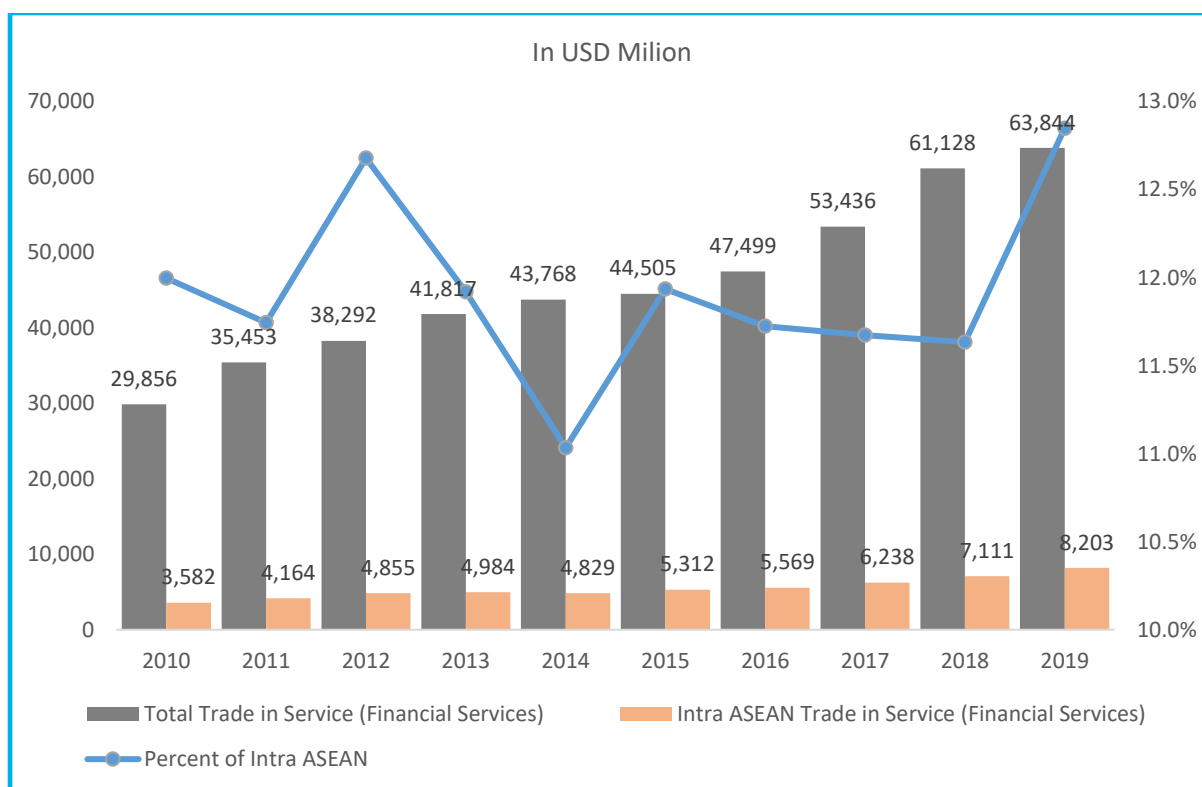
The financial services industry players are generally positive towards AEC and the initiatives and programmes that is being implemented. The industry players especially the indigenous enterprises are leveraging on the AEC initiatives to penetrate other AMS. However, the progress is rather slow due to the regulatory constraints that persist. ASEAN regional financial integration has been inhibited by a set of challenges that need to be addressed better by strategic plans, public policy and coordination of private sector activities.

### B. Impact of Financial Services Trade Liberalization on Indigenous Enterprises

Service trade liberalization have differing impacts on the financial sector across AMS. The nature of the operations as well as the size of the business determines the level of impact. Indigenous enterprises offering financial services who responded to the study highlighted the need for improvement in regulatory governance and more transparency, freedom of labour movement and ease of collaboration. They also shared the need to strengthen the firm’s competitiveness.

Figure 2.5 highlights the progress of trade in service within financial services sector over the past decade. The share of intra ASEAN trade in financial services remains stable at 11 – 13% despite the total service trade volume expanded significantly. This can be inferred to our earlier deliberation on the fact that financial services cross-border trade is mainly originated from Singapore.

**Figure 2.5:** Trade in Service in ASEAN Financial Sector



Source: ASEAN STAT

Assessment from the perspective of indigenous enterprise shows that the current level of integration is not fully beneficial to them. There is concern amongst the **financial services enterprises from less developed countries are concerned that further economic integration and liberalisation may increase the market competition. They believe that industry players from the more developed AMS will pose a threat for their survival.**

### C. Concerns and expectations from the financial services liberalisation

The indigenous enterprise opined that liberalisation of the financial services sector may not create a level playing field for their expansion as well as survival. They believe that they will be inequality in achievements whereby those from the matured AMS have the better likelihoods of survival. They prefer to avoid this scenario at this juncture since there is a high level of inequality in the maturity level of this sector. There is a need for a balancing act. Thus, ASEAN and AEC should first ensure that the targeted industry players can assisted to reach a level of maturity within the AMS prior to proceeding for further integration initiatives. On a separate note, enterprises from the distribution and tourism sector feels that the current flow of integration in their sector is moving in the right direction. Regulation transparency in terms of accessibility and language capability is still a critical issue across ASEAN.

Singapore's indigenous enterprises which are well versed in cross-border financial trade have differing views and expectation. They wish to have better access to information on local regulatory frameworks from other AMS to assist and improve their offerings. This is a foreseen area for resistance and contention which may be a challenging area for AEC alignment and become a barrier for further integration.

### D. Digitalisation and Its Impact on Financial Services

Financial technology (Fintech) is a pivotal game-changer for the digitalisation of SMEs. It impacts i.e. how the businesses are operated and funded, especially in the context of the current Covid-19 crisis and beyond. Fintech is simply the evolving dynamic intersection and strategic overlap between financial services and technology. Presently, SMEs are having to grapple with cash flow problems as indicated in the focus group discussion. The businesses are saddled with growing unsettled and accumulating liabilities in their balance sheet while expecting to shoulder much of the burden to remain afloat, including employment retention as well as settling their obligations for tax and other liabilities in the form of operating and overhead costs. Emerging financial technology and innovations in traditional business models can take advantage of the rapidly digitizing economy to expand SMEs' access to credit.

#### ***Process automation***

- The traditional lending process may benefit from the use of online applications and the automation of underwriting, due diligence, loan servicing, and regulatory compliance tasks. Financial institutions will enhance their productivity and lower their operating costs. The use of technology (such as cloud-based accounting, digital payments, and the automation of invoicing and settlement processes) could enable them to substantiate their business activities and become eligible for finance.

**Encourage innovative use of technology and data sharing**

- Data on SMEs could be integrated, generalized, and shared among financial institutions and other players, such as fintech firms. The accuracy of credit risk models tends to increase as the data pool becomes larger. Such data has been utilized for loan reviews, interest rate setting, and portfolio management. They have also contributed to the advancement of credit risk analyses by banks.
- Several innovative banks and nonbanks are leveraging alternative data (including data on bank account information, e-commerce transactions, invoice data, and customer surveys) generated by the growing social and economic activities taking place online to support credit scoring. **These initiative helps the businesses to reach out the financial institutions and increases their chances of getting loans and funding from the authorities.**

**E. Effectiveness of Local AMS policy for the financial sector**

Indigenous enterprises perceives local policies are a hindrance for integration seen to be not on level playing field across ASEAN. **Some AMS adopt the AEC framework and implement it unequivocally, while others have reservation.** These inconsistencies pose a challenge for the enterprises from other AMS to be more proactively involved in cross-border activities. Countries such as Singapore as an example have a healthy business environment supported by sound local policies that governs and guarantees flexibility and openness. This is not the case for many of the other AMS. Many are still deemed to be observing self-protectionism which directly hinders openness and stifle the integration agenda specifically impacting investment inflow which is much needed by the market.

Most indigenous enterprises in financial sector are aware of the relevant AEC framework but lacking the depth of knowledge. The smaller industry players sighted lack of engagement and forums or platforms to share the relevant AEC information. This is not the case for medium and larger enterprises. They are well prepared and equipped with the right knowledge on AEC and the programmes.

**Enterprises also feel that the engagement of ASEAN and AEC (agencies, or ASEAN bodies) with indigenous enterprises is not enough and hope for more direct interaction.**

## F. Recommendations for improvement

The followings are the various suggestions obtained from the indigenous enterprise to improve the AEC economic integration plans in the future.

- i. Improve **communication infrastructure and data sharing platform** for financial sector of ASEAN through further digitalization and collaboration of AMS.
- ii. **Harmonization or relaxation of financial services related regulation** across ASEAN.
- iii. Incentivise cross border financial service trade intra-ASEAN through attractive **tax structures and removal of barriers**.
- iv. **Improve awareness on AEC, AFAS, and ATISA** and communicate how it complements and supports the local and other AMS regulation in a simplified format for enterprises.
- v. Creation of **dispute settlement framework** (and common law for transaction) for financial sector players to facilitate cross-border trade in financial service.
- vi. Improve the **procedure for cross border labour mobility** to make it easier and cheaper
- vii. Address the inconsistencies on **withholdings tax practises** amongst AMS which needs resolution.

Most indigenous enterprises are aware that the goal of economic integration is to provide them with more opportunities, and they believe remedial action on the key recommendations above will pave the way for seamless integration. The enterprises feel that addressing the above concerns will boost the AEC integration intent



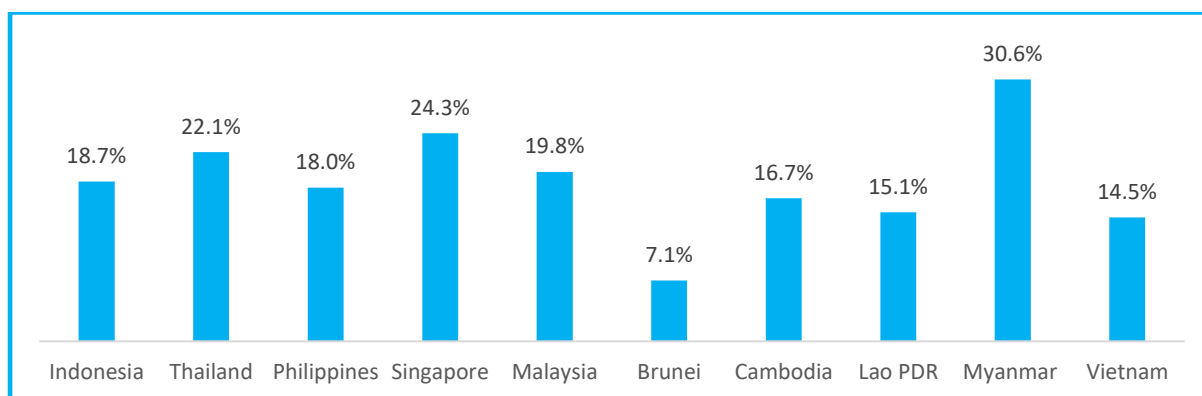


## 2.2 DISTRIBUTION SERVICES – OVERVIEW AND CHARACTERISTICS OF THE DISTRIBUTION SERVICES SECTOR WITHIN ASEAN

Nearly half of the world's sea trade passes through ASEAN each year. Improving ASEAN distribution services competitiveness is crucial to support and complement the growth of the manufacturing sector. Distribution sector comprising primarily retail and logistic activities is an essential part of ASEAN business ecosystem. The distribution services plays the last mile service provider that essentially ensures the goods are delivered to its end users or customers. This encompasses logistic, warehousing, and retail sector across ASEAN countries. The distribution sector has been enjoying a health growth driven by increasing trade volume of goods, both intra and extra ASEAN in the past decade.

The distribution sector contribution to GDP in general is relatively uniform across AMS. Anomalies are observed in Brunei Darussalam in which the energy sector contribution overshadowed the other sector's contribution. The Myanmar distribution sector gained momentum in the recent years and saw a significant increase of its contribution to GDP due to its transition to be the production base for raw material as well as transit hub supporting Southeast Asia trade with China.

**Figure 2.6:** Distribution Services Contribution to AMS' GDP, 2019

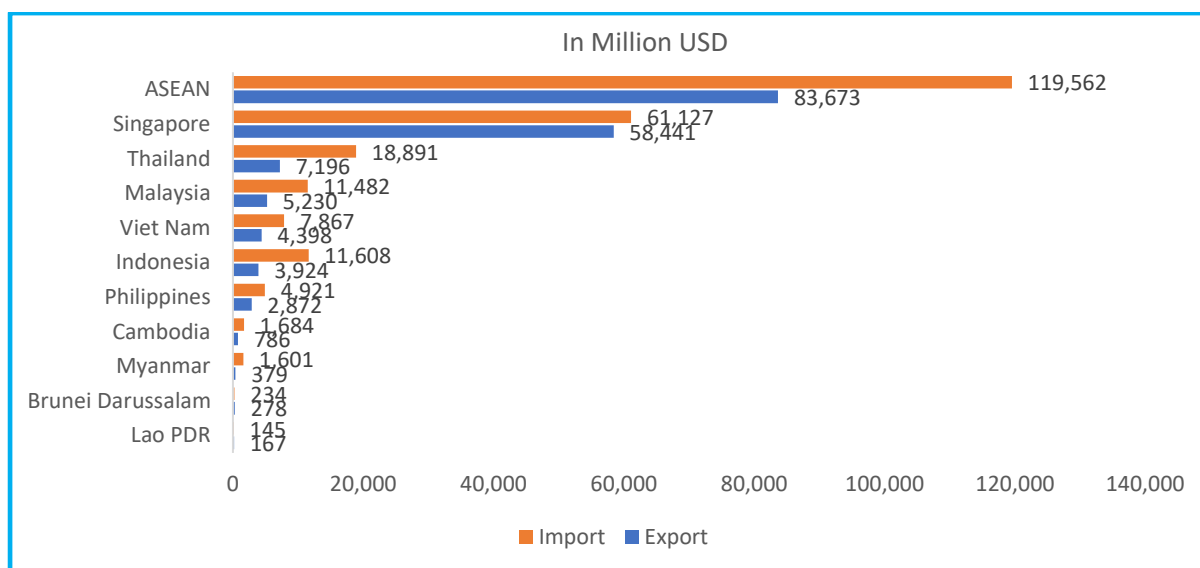


Source: AMS' statistical bureau, World Bank, Cambodia Data are estimates from 2010 figures

The analysis above supports the facts on the even contribution of the distribution services to GDP amongst the AMS. External trade data is indicating similar scenario to the financial service sector whereby Singapore have the largest volume of trade for distribution services as seen in figure 2.8. Singapore manages around 58.8% of all trade volume in distribution services for all ASEAN countries as opposed to the 90% in financial services.

Singapore has been the de-facto hub for trade and distribution for Southeast Asia. The World Bank's acknowledgement of Singapore as the best global logistic hub. There is a need to probe further on the shortfalls or challenges encountered by the other AMS in the distribution sector

All ASEAN countries are net importer of distribution services apart from Myanmar and Brunei. Significant gap is observed for other AMS. Thailand and Indonesia for example recorded an import volume of almost three times their export volume. This signifies the need for ASEAN countries to step up their distribution services offerings to be competitive with world class capabilities.

**Figure 2.7:** ASEAN Total Trade in Distribution Services, 2019

Source: ASEANSTAT

ASEAN is also among the busiest region in the world in terms of transshipments. Singapore handles 1/7 of the world's shipment throughput and handled a total of 31.2 million TEUs of containers in 2012. Six other ports in ASEAN made it to the World Shipping Council's list of top 40 container ports globally. The ports are Port Kelang and Tanjung Pelepas in Malaysia, Laem Chabang in Thailand, Tanjung Priok in Indonesia, Ho Chi Minh in Viet Nam, and Manila in the Philippines. An analysis on the level of activities performed at other ports in the rest of the AMS indicates a clear need for development of the port better facilities and infrastructure ecosystems to enhance and improve their trade in distribution services offerings.

Retail a key sub-sector within the distribution services is one of the key sectors that have been growing its consumer base in ASEAN countries. Retail sector in ASEAN has been resilience despite a backdrop of sluggish performance in many developed economies and a slowing Chinese economy. Four key powerhouses of retail sector in Southeast Asia are Singapore, Malaysia, Indonesia, and Thailand which collectively raked in more than USD 1 Trillion of retail sales.

Indigenous enterprises play a pivotal role both on the logistic and the retail sector with many are categorised as key players in both sectors in the region. The retail sector is disrupted by technology infusion and undergoing rapid transformation through digital adoption today. The retail industry digitalisation is further accelerated due to the need to manage the challenges posed by the Covid-10 pandemic.

Two key programs have been formulated to assist enterprises in steering easier trade between ASEAN countries for the distribution sector. The programs are namely ASEAN Customs Transit System (ACTS) and ASEAN Single Window (ASW). Both programs are admittedly have assisted indigenous enterprises in their cross-border trade within ASEAN. There is still room for greater participation and involvement from the indigenous enterprises for their growth beyond borders.

## A. Overall sentiments towards AEC

General sentiment from distribution sector players is positive towards AEC. Most of the logistic companies that have experienced cross-border trading perceive that intra-ASEAN distribution services providers are well-integrated at present. Their awareness level of AEC is at moderate level and their level of understanding on the details of AEC initiatives and programmes are generally low.

**The indigenous enterprises within the distribution sector benefitted through the integration of the National Single Window with ASEAN Single Window despite low awareness on the programme itself.** They are appreciative of the ongoing integration efforts, nevertheless. The industry players also indicated low awareness on AFAS and ATIGA. The indigenous enterprises deemed that current business environment is not conducive especially with the complexity observed in policies and procedures. They tend to rely more on their partner in other countries for assistance on deciphering trading policies (which differs from country to country) as well as managing the paperwork and procedures.

**The impetus for digitalisation of the distribution and retail sector poses a challenge and the need for the sector to embark on technology enhanced processes and services.** The growth of e-commerce further complicates the scenarios despite its positive impact on greater outreach to cross border clientele. There is a dire need for the existing frameworks to incorporate the changes warranted through digitalisation that supports the indigenous enterprises in ASEAN.



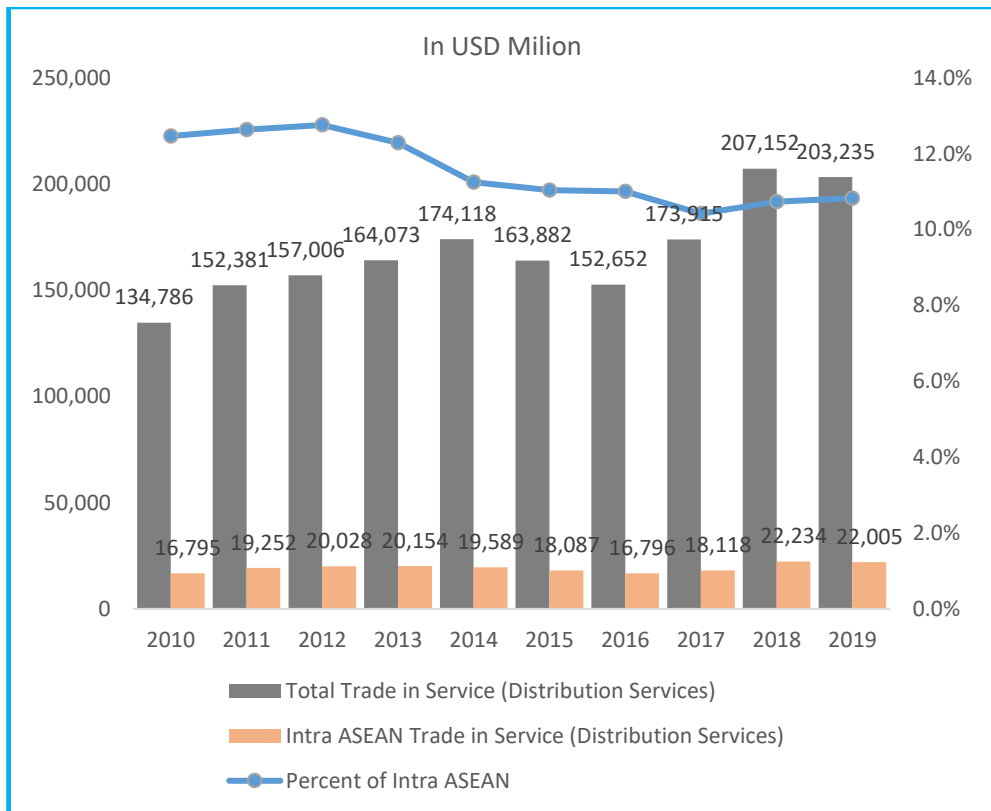
### B. Impact of service trade liberalisation on distribution indigenous enterprises

Service trade liberalization impact is felt more by the larger companies within the distribution sectors. Small and medium size companies don't feel the impact since most of them are still focusing on their domestic market. Their low cross border trade activities coupled with smaller transaction volume is the reason for the almost negligible impact.

Most indigenous enterprises in distribution sector understand that AEC's vision would enlarge their market outreach. However, the differing trade policies within AMS which is yet to be harmonised pose as a challenge to achieve the integration as envisioned at present.

There is a need for cohesiveness in approach and collaboration by all local government for the framework's successful implementation. Industry maturity level is another aspect that impact the framework adoption and appreciation. Figure 2.8 showcases the progress of trade in service within distribution services sector over the past decade. The share of intra ASEAN trade in distribution services decline to below 11% level from above 12% in the previous decade despite having the total service trade volume expanded by almost 50%.

**Figure 2.8:** Trade in Service in ASEAN, Distribution Sector



Source: ASEAN STAT

The indigenous enterprises surveyed agree that they are seeing improvements and benefiting from them despite lack of information the development at the regional level. They don't have visibility on the forthcoming policies and processes slated as part of the economic integration which may affect their business operations.

However, the enterprises in distribution sector acknowledges the importance and necessity of further integration to open their market access and show willingness to explore. MSMEs in distribution services sector also have similar view on the integration and are receptive to the competition that may arise.

The indigenous enterprises from distribution services sector views that the regional competitive environment and development through AEC needs more coordinated implementation and action to ensure that enterprises have equal access and opportunities, especially for SMEs which have less interaction and involvement in the regional business environment.

### C. Concern and expectations of the distribution services indigenous enterprises

The indigenous enterprises within the distribution sector have an ambitious outlook and are positive towards market expansion to other AMS in general. However, this is hampered by the lack of market transparency and access to investment which increases their business risk. Some AMS chose to ignore the distributions sector business opportunities and maintain status quo since it's challenging to overcome the restrictions and barriers. Larger countries such as Indonesia, Thailand, and the Philippines are perceived as potential for future growth and they are deemed to be the priority countries to focus by the distribution services players.

Indigenous enterprises are also concerned on the lack of incentives and clear opportunities for market expansion in the ASEAN region. They would either choose to focus on their domestic market or focus more on extra-ASEAN trade. This may result in intra-ASEAN trade to be outgrown by trade with other part of the world.

The indigenous enterprises key expectation resonates around policies that are fully synchronized and transparent, complemented by harmonize custom procedures, single labelling and preferably the use of a single common language across ASEAN to ensure further integration effort in the future.

#### D. Effectiveness of Local Policy

**Inconsistencies between the existing local policies in each AMS is seen to be a barrier for ASEAN integration effort.** The enterprises stated encountering greater restrictions post integration. Ownership restrictions through the mandated appointment of a local partner as well the as the need for a license to establish an operation in other AMS are some of the examples shared by the enterprises.

**Indigenous enterprises feel that several AMS are practising protectionism for their local enterprises by deploying additional regulatory measures which basically impedes the integration effort.** These short-sighted measures are counterproductive for business expansion and integration. This has an adverse impact on the competitiveness of the local indigenous enterprises.

Additionally, **there is a perceived lack of communication between the Government and indigenous enterprises.** AEC is seen as a G2G agenda. This results in lack of interest in pursuing market expansion by the indigenous enterprises.

#### E. Digitalisation and Its Impact on Distribution Sector

The distribution sector has been one of the early adopters of technology. The degree of adoption varies by the nature of operations, size, and the outreach. The distribution sector can further enhance their operation by leveraging on the following aspects of their operations through digitalisation.

- Digitally enabled information services which allows them to manage the distribution network information through analytics reducing operating costs while improving efficiency of operations.
- Creation of digitally enhanced cross-border platforms that allows the organisations logistics to expand their market outreach which efficient delivery system.
- Potentially expanding delivery capabilities by harnessing technologies such as autonomous trucks and drones to find more efficient ways to deliver shipments, while 3D printing and crowdsourcing offer new ways to think of logistics processes.
- Logistics capabilities can be optimised through shared warehouse and shared transport capabilities and to increase asset utilization leveraging on data collation and analysis.
- The e-commerce wave is catapulted by the pandemic situation where the consumer purchase rate through platforms has become the primary mode purchase. This has a significant impact on the distribution players in term of storage and distribution. The B2C mode also warrants investment in the payment systems and channels which the businesses have to invest to remain relevant in this era of transformation


The time and complexity required for these initiatives to reach scale across the market vary significantly. There are certain underlying requirements that are the building blocks for the digital transformation of the distribution sector. Two of the most important capabilities are:

- Improvement in the collection of data from all along the distribution value chain.
- Enterprises have the capability to analyse big data streams to derive insights that improve operational efficiency and enable the launch of new services, such as last-mile delivery.

## F. Recommendations for improvement

Most of the suggestion from distribution services enterprises revolves around harmonization of various policies, procedures and regulations that affect cross-border trade and activities. Harmonized regulation and procedures will simplify the integration, reduce the cost of the distribution services, ensuring competitiveness and boost the intra-ASEAN trade in services volume. The distribution services enterprises have identified the following ten focus areas to be addressed:

- i. Harmonization and transparency of **regulation and standards**;
- ii. Data integration of goods produced by AMS that ensures ASEAN is used as the first point of sourcing for key supplies;
- iii. Synchronous reduction or elimination of tariff for the same sector across AMS;
- iv. Simplification and relaxation of customs procedures for movement of goods;
- v. Removal of non-tariff barrier that hinder investment or cross-border operation;
- vi. **Dispute settlements framework** for trade disputes within ASEAN that provide more assurance and leverage for risk management beyond their local country border;
- vii. Equalize transportation and logistics infrastructure development across ASEAN; and
- viii. Transparency on controlled items distribution policies and procedures to avoid monetary losses.



In general, distribution services enterprises suggested for the creation of a currency stabilization framework to manage the currency volatility; similar to the sentiment raised by the finance services providers. This recommendation is derived from their inept experience in dealing with intra-ASEAN trade with currency fluctuations.

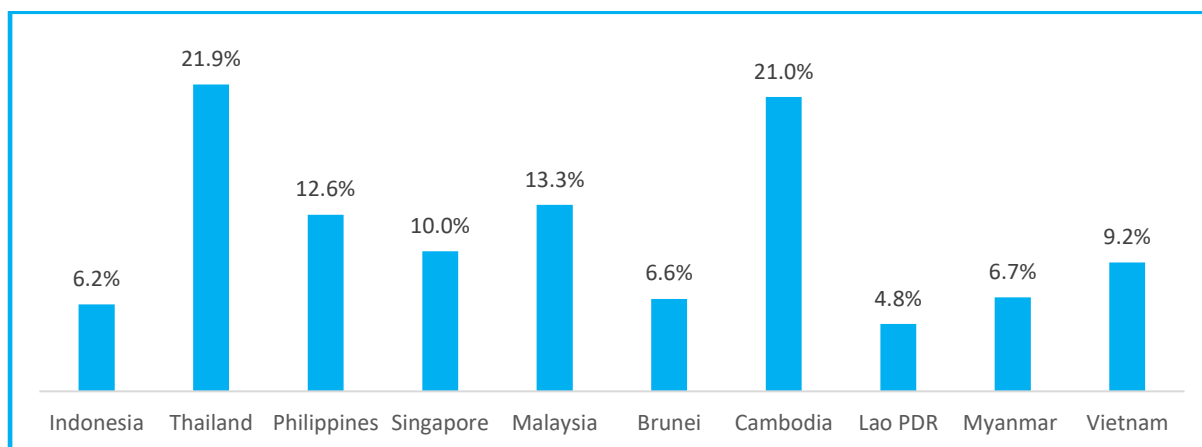


## 2.3 TOURISM SERVICES – OVERVIEW AND CHARACTERISTICS OF THE TOURISM SERVICES SECTOR WITHIN ASEAN

**Tourism has been one of the key growth sectors in ASEAN.** The wide array of tourist attractions across the region has drawn more than 133 million tourists to ASEAN in 2019. This is two times higher than the number of visitors received back in 2007. Tourism sector is regarded as an important economic sector by a few of AMS especially where the tourism sector recorded a contribution of more than 10% towards the GDP.

Thailand, which traditionally has been the key tourist destination in ASEAN is now on par with Cambodia in their share of GDP contribution from tourism. Cambodia has seen a surge in its tourism sector in the recent years. Tourism sector contribution to GDP in Singapore, Malaysia and the Philippines are maintaining at 10% or more as well. However, the Covid-19 pandemic which hit the world in March 2020 and forced travel restrictions crippled the tourism sector and its entire ecosystem. The industry is expected to reopen gradually but uncertainties loom on whether it will recover to the same level prior to the Covid-19 pandemic period.

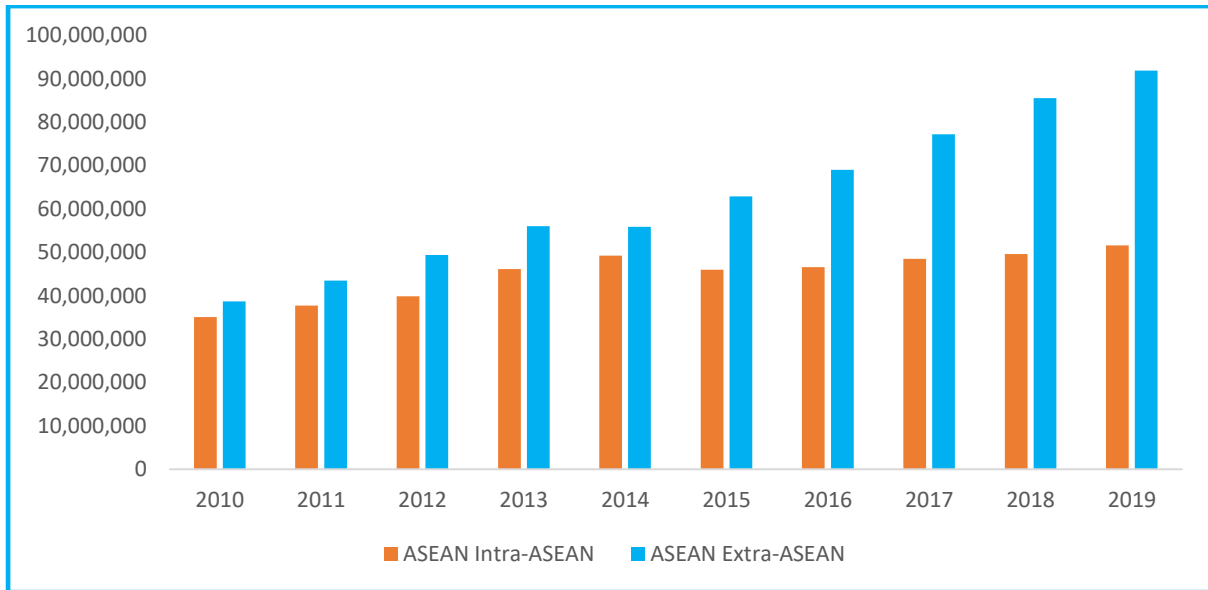
**Figure 2.9:** Tourism Services Contribution to AMS' GDP, 2019



Source: AMS' statistical bureau, World Bank

**Tourism sector of AMS in general have their own characteristics** such as modern entertainments and shopping experiences, beauty of nature, beaches, and even religious pilgrimages. Each country in general promotes their own country's tourism both regionally in ASEAN as well as internationally based on their respective focus. Intra ASEAN visitors used to comprise almost half of the overall visitor arrival in ASEAN countries in 2010. Data indicates that visitor arrival from extra-ASEAN countries have outgrown the visitor arrivals from intra-ASEAN countries during the last 9 years. In 2019, total visitors from extra ASEAN countries almost doubled of the intra-ASEAN visitors.

**Figure 2.10** Visitor Arrival Intra vs Extra ASEAN origin

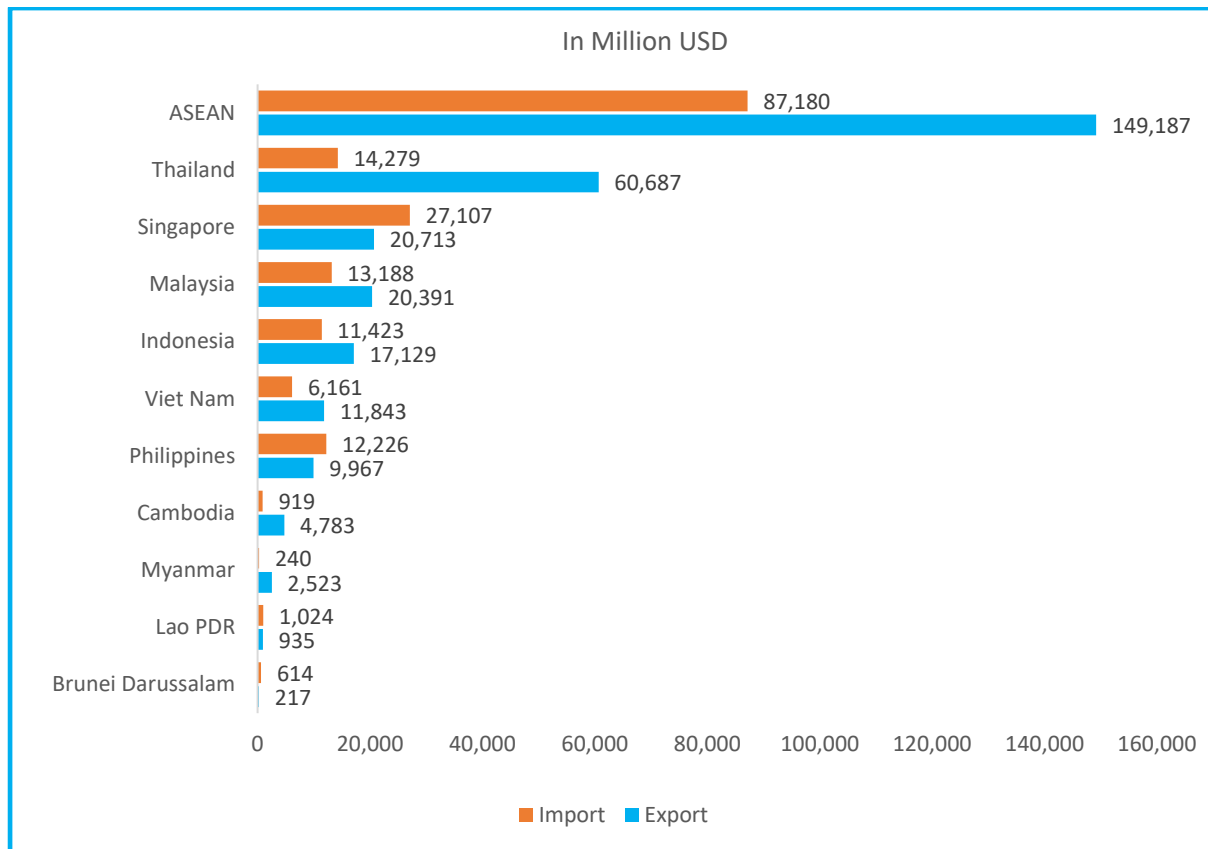


Source: ASEAN STAT

Departure data that are available from ASEAN countries shows that in general, annual tourist departure from ASEAN countries grew with a 6.5% CAGR in 2010 – 2019 period. However, figure 2.11 shows that the intra-ASEAN tourist arrival only grow at 4.4% CAGR in 2010 – 2019 for the same period. Tourist originating from ASEAN have preference ASEAN tourist destinations. The higher growth of extra-ASEAN tourist arrival is mainly contributed by the heavy tourism promotional campaigns embarked upon by the ASEAN countries targeting extra-ASEAN countries.



**Figure 2.11:** ASEAN Total Trade in Tourism Services, 2019



Source: ASEAN STAT

ASEAN total trade in tourism denotes that it is a net exporter of tourism services. Thailand is the key services exporter through inbound tourism. Most of the other AMS are also net exporter of tourism and they recorded significant contribution value captured to the overall trade in service. In general, the ASEAN tourism sector has paved a level playing fields amongst the AMS. The respective AMS have the opportunity to further develop their tourism sector; unlike financial and distribution services which tend to be monopolised and lead by a select number of AMS as a component of the trade in services.

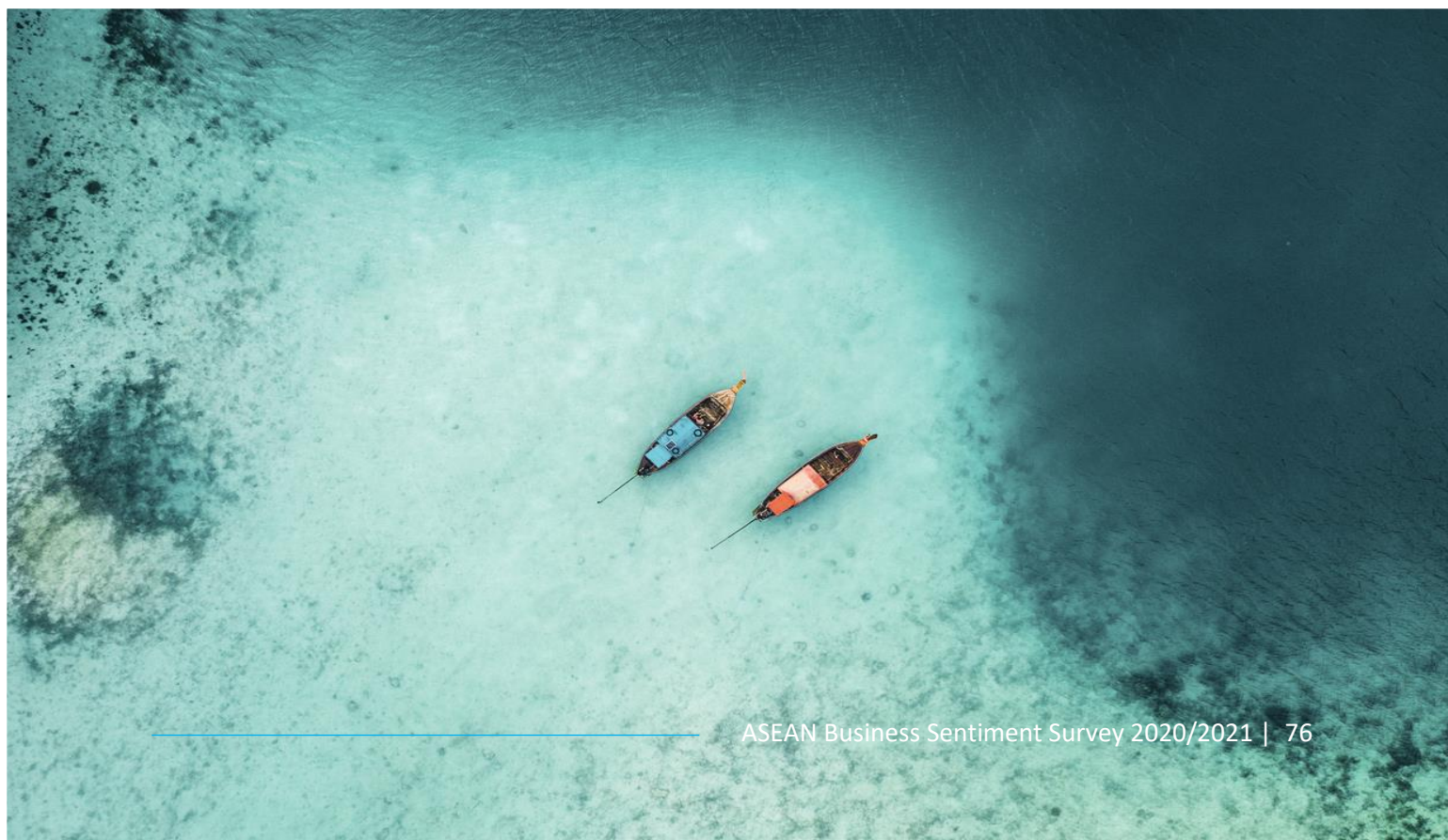
The higher growth rate in the extra ASEAN tourist numbers is a healthy indicator that the ASEAN integrations efforts are already producing the right results. The intense promotional efforts by the respective AMS tourism sector players are paying off. Ultimately the industry collectively benefits due to the cross-nation tourist movements since each country has its own unique offerings and value propositions.

## A. Overall tourism indigenous enterprises sentiments towards AEC

Indigenous enterprises from tourism sector in general have a moderate to high level awareness of AEC and a moderate to low understanding of the AEC programmes specified to this sector as well. Tourism indigenous enterprises do keep track of the ASEAN tourism related news published and broadcasted through various media channels. They seem to have good exposure on ASEAN and AEC related news as well. This exposure does not reflect the depth of knowledge and understanding simply because the information shared are predominantly highlights of ASEAN and AEC. Most tourism services enterprises are familiar with a few programmes related to service liberalization in tourism such as QAB or ABIF, but they are unable to relate it to overall AEC agenda.

ASEAN is deemed as an important market to indigenous enterprises in tourism sector. The enterprises realise that intra-ASEAN visitors make up a sizable volume of inbound tourist. Most of the enterprises comprehend that the current integration effort is focused in the right places and would provide more business opportunities for them to capitalise upon the wider ASEAN market.

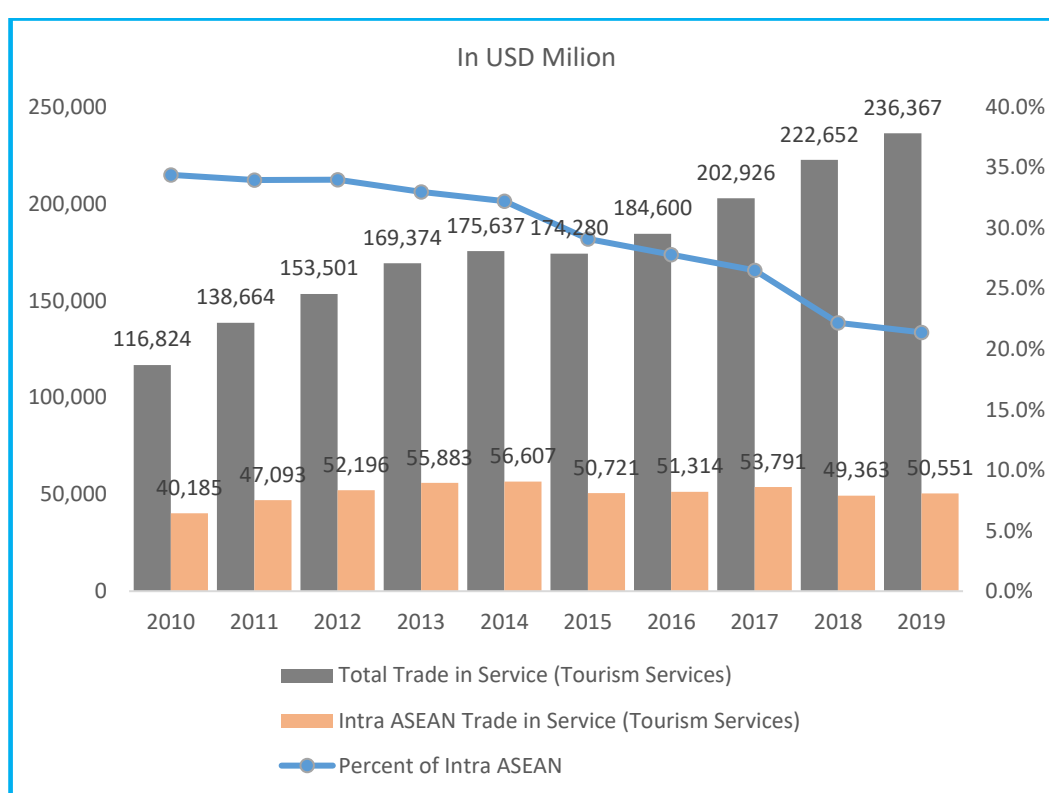
Indigenous enterprises also acknowledge that ASEAN tourism landscape is an arena where each country competes amongst each other instead of working together. This hinders further the integration despite the opportunity to scale up the sector. Based on this, **majority of enterprises sees that AEC's role should be to unify the tourism sector of ASEAN countries with a consolidated offering that can appeal to both the world and ASEAN tourist.**



## B. Impact of service trade liberalization on indigenous enterprises

ASEAN trade in tourism service is showing a downward trend in the share of Intra-ASEAN. Previous analysis shows that the key reason is the combination of more ASEAN tourist choosing extra-ASEAN destination for their trip as well as increasing influx of extra-ASEAN tourist in the recent year. The high influx of extra-ASEAN tourists is the strongest driver of the downward trend. However, it also needs to be noted that the intra ASEAN trade in services were also experiencing sluggish growth in value. The trade volume in 2019 are pretty much the same as back in 2015, while the extra-ASEAN counterpart grew almost 50% in the same period.

**Figure 2.12:** Trade in Service in ASEAN, Tourism Sector



Source: ASEAN STAT

With reference to the trades volume data, the tourism indigenous enterprises has a significant role to play to further improve and develop the ASEAN tourism sector through regional framework and programs. The tourism indigenous enterprises reckon and agrees that there is “stagnation” of intra-ASEAN tourism and have been relying on extra-ASEAN tourist more in the recent years. Tourism enterprises are in the view that the stagnation of intra-ASEAN can only be addressed through easing of travel restrictions within ASEAN.

The enterprises acknowledge that there are already experiencing some benefits brought about by the economic integration. One specific area where they reckon improvement is observed is the ease of movement of skilled workforce required by the industry. However, some enterprises raise the concern of non-conformity of the ease of movement regulations by some AMS countries. There are caveats such as different requirements on the licenses and limitation on the number of foreign workers for a specific sector.

The tourism indigenous enterprises have identified a few key areas that requires improvement to boost the integration of ASEAN tourism sector. **The indigenous enterprises from tourism services sector sees that a single identity and joint promotion is necessary to further promote ASEAN tourism on top of improvement in competitiveness and infrastructure development.**

Indigenous enterprises also sees that the government and ASEAN should not dictate and regulate between focus towards intra and extra ASEAN tourist as both have their own merits. Creation of dedicated programs and approaches to cater for both type of tourist is crucial to further grow the tourism sector.

### C. Concern and expectations

ASEAN market has always been a primary and important market for the tourism sector. Hence, easier access and movement of people within ASEAN will benefit tourism sector in general. General expectation is that the level of AEC implementation in each AMS can be equalised through harmonisation of regulations in each AMS to assist the enterprises to forge alliances strategically across ASEAN.

**Although AEC is perceived to have the potential to drive improvement for indigenous enterprises in tourism sector, the program's influence has poor visibility.** Some beneficial visible areas observed by the indigenous enterprises about the AEC are such as movement of people and labour, as well as some improvement in tax reduction and customs procedure simplification. However, there are lack of understanding on the bigger picture for tourism sector within AEC blueprints and its programs.

Indigenous enterprises have also seen the ASEAN tourism market landscape as an arena where each country competes instead of working together to achieve further integration and increase the sector's scale. AEC framework in tourism is expected to ensure that ASEAN at large is appealing to the world and as the contribution of tourism from intra-ASEAN is less appealing than from another area. The industry players sentiment on the ground also relays a perception that there is “over-policing” by ASEAN through regulatory means which is seen as counterproductive. The industry players welcome more dedicated policies and programmes supports the growth of both Intra/Extra ASEAN tourism which benefits the industry.

## D. Effectiveness of local policy

Indigenous enterprises perceive that the current local policies in ASEAN tourism sector were already aligned with the goals of ASEAN economic integration. The key problem however lies in the local policy implementation that are often varies and lack transparency.

Most enterprises reported that they are having difficulties expanding their operation to other AMS. They envisage lower potential for tourism from ASEAN compared to other region such as Australia and China. Enterprises also generally aware of some standards on tourism that are implemented across ASEAN. However, most admitted that it is not fully implemented and often differ in practice.

## E. Digitalisation and Its Impact on Tourism Sector

Tourism SMEs lagged behind large enterprises on digital adoption. Advanced technologies such as data analytics, cloud computing and geotagging had received only limited uptake. With consumers increasingly using digital technologies to search, plan and book travel, it becomes increasingly important for tourism businesses to incorporate digital technologies and leverage advanced capabilities. The digital economy is transforming the process of communicating with tourists and marketing tourism services and opening up new and highly creative ways of delivering tourism services and enhancing the visitor experience. It is changing the way work is organised and services delivered, and also presents opportunities to take advantage of digital advancements to handle transactions, capture and process information and data on tourism supply and demand, and improve and connect operations along tourism value chains and ecosystems.

The tourism sector which is highly fragmented and heterogeneous and covers a wide range of services ranging from accommodation and food services, travel agencies and tour operators. The industry players have challenges to vertically integrate and to reach potential customers due their fragmented nature. MSMEs in the tourism sector at this juncture are focused on business survival, and being risk averse with limited appetite for innovation, technology pervades through most aspects of modern tourism businesses.

Technological developments and adoption are progressively changing tourism value chains and, enabling business models to evolve, and offering new ways for the players to collaborate and network They can leverage on technology to improve access to market intelligence, enable businesses to achieve scale without mass, and facilitate access to regional markets and knowledge networks at relatively low cost.

Some of the enabling technologies that can benefit the tourism sector players are as follows:

- **Mobile technology/cloud computing.** Cloud technologies, Wi-Fi and mobile plans make mobile devices increasingly pervasive and important travel aids, including for accessing destination information in real time, online booking, mobile payment. Cloud technologies allow SMEs to manage their business from anywhere high-speed internet is available.
- **Data analytics.** In the digital era, consumers and businesses alike are in perpetual generation of new data. The capacity of businesses to use data drives new business models and productivity. Data analytics can predict customer preferences and channel consumer purchasing behaviour. It is also used for revenue management and to employ dynamic pricing. The industry players need to develop their employee skills to be part of this data driven ecosystem
- **Artificial Intelligence (AI).** Artificial intelligence, chatbots, and voice technology enable customers to undertake internet searches, digital check-in, access digital concierge services, voice assistants and smart rooms. This technology offers personalised, customised, on-demand service that facilitate seamless travel.
- **Internet of Things (IoT).** IoT can fuel a data rich tourism sector and support smart tourism. The interoperability of sensors, data, and automation produces real time insights and information for marketing and managing tourism, for improving visitor experiences, increasing operational and resource efficiencies while also reducing environmental impacts.
- **Augmented reality/Virtual Reality (AR/VR).** Augmented reality systems show virtual objects in the real world. Uses in tourism can include replacing paper-based marketing and advertising materials, gamification and augmented visitor experiences in the destination, and travel assistants that guide users through complex public transport systems in real time.

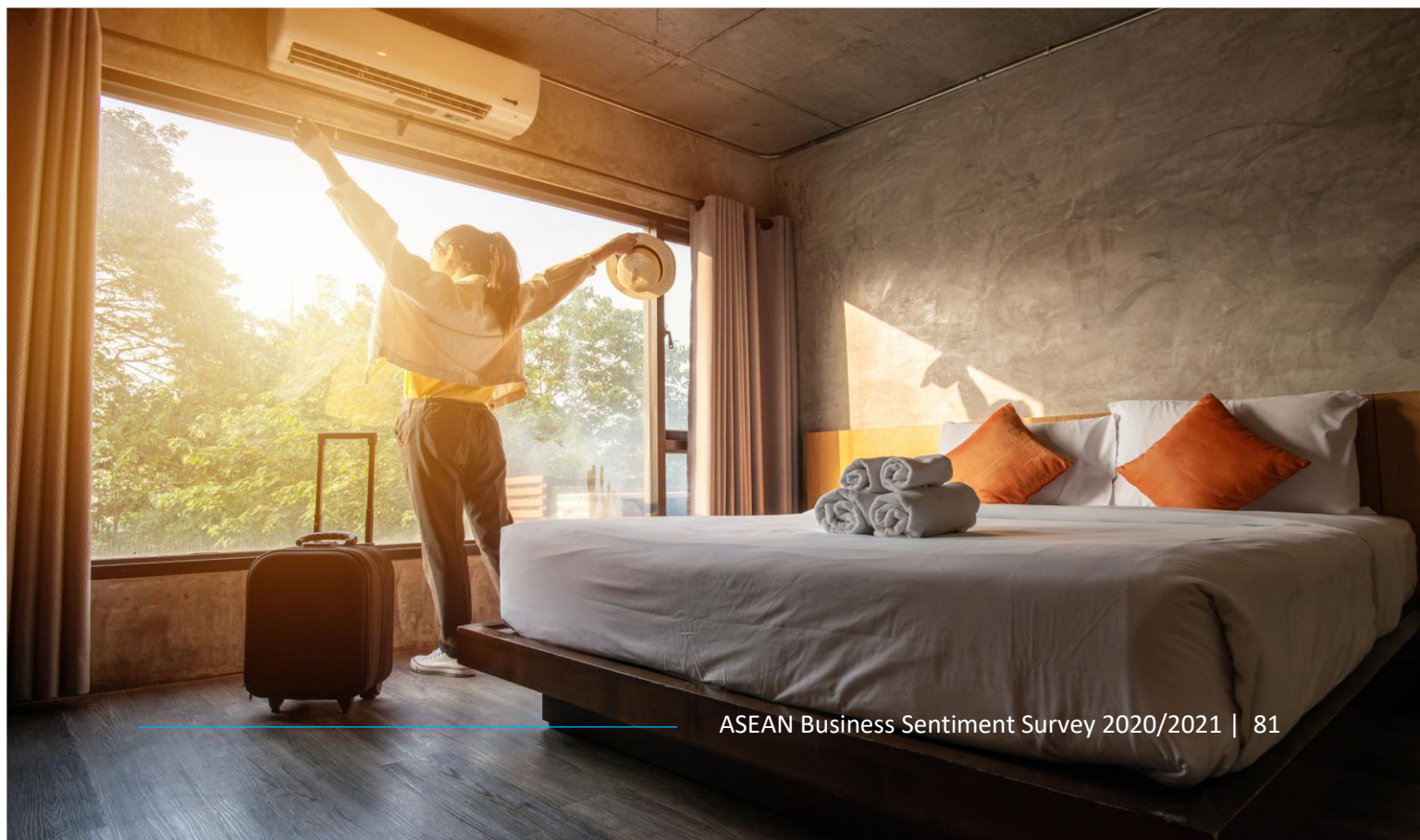
The industry players in the sector are aware of the technologies and the impact it can bring to their business especially to tap on the AEC agenda. However, as indicated earlier, their focus today is to keep their business afloat due the complications and challenges implicated by the pandemic. However, it is good to disseminate the technological advancement knowledgebase amongst the players to prepare them for the future.



## F. Recommendations for improvement

The tourism indigenous enterprises have articulated several suggestions that will complement the AEC integration agenda of this sector specifically. Their recommendations are as follows:

- i. Policy **transparency & harmonization** of standards & regulation of tourism sector.
- ii. Simplify / free **mobility of skilled human resources (i.e. tour guides)** and easier access to human capital resources across ASEAN through standardization of skills and capabilities especially the language capabilities;
- iii. Increase the **involvement of tourism players** in developing ASEAN tourism policies;
- iv. **Tourism cross promotion** among AMS and **single brand ASEAN tourism / ASEAN** single destination. Introduction of an ASEAN single visa for tourism will allow better management of tourist travel across ASEAN seamlessly;
- v. **Acknowledging the intellectual property involved in preparation of promotional collaterals and advocating through IP law regionally;** and
- vi. Improvement in transportation infrastructure across ASEAN to better manage inbound tours and garner better confidence on safety and security level amongst the tourists.
- vii. **Digitalisation of the tourism industry** across AMS for integrated data and promotional drives; a focus on acknowledging the intellectual property in preparation of promotional materials and collaterals and advocating through IP law regionally. This is critical to substantiate for the preparation work and production costs.





# Analysis and Conclusion on ASEAN Business Sentiment

## 3.0 ANALYSIS AND CONCLUSION ON ASEAN BUSINESS SENTIMENT

### 3.1 GENERAL CONCLUSION AND RECOMMENDATIONS

The liberalisation of the trade through AEC in ASEAN is meant to create a competitive environment that supports the businesses expansion and become more profitable. The modern economy relies on rapid and efficient services delivery network to function and to facilitate the development in other sectors of the economy. Based on the data analysed for this research, the services sector makes up at least 40~50% of the Gross Domestic Product in many ASEAN Member States and the figure is projected to grow further in the years to come. It is also the fastest growing sector in the region in comparison to trade and manufacturing sector. With the progressive liberalisation in ASEAN, local services providers are expected to take advantage of the market openings as well as to benefit from new ideas and processes arising out of the opening of the services sector.

The benefits to ASEAN from services liberalisation are potentially very high. Data indicates that with liberalisation, investment in services, which is vital for economic development, is expected to increase. Increasing investment in the services sector in ASEAN will promote the development of a sound and modern financial, distribution and tourism sectors for economies in the region.

The respective AMS will also benefit from technology flows, know-how and management skills from the free flow of services in the region. In addition, trade in services is expected to keep pace with the economic growth of the region. The key will be that well-managed and progressive liberalisation of services by ASEAN will lead to expansion of productive capacity and economic development. Needles to mention that progress and achievement of this goal requires collective commitment and determination from all AMS.



## A. Challenges of varying rules and regulations amongst ASEAN Member States

The liberalisation of the services sector is innately governed by a framework of myriad rules and regulations. There are varying modes applied to promote cross border trade in services. The challenge is also due to the diverse and large number of sectors and subsectors within the services cluster as well.

The services sectors are at different levels of development and maturity. The trades volume and significance of trade in services vary significantly between ASEAN Member States. Hence, the liberalisation and integration of services in ASEAN do present some significant execution challenges. Operationalising the cross-border trade services are also challenged by the involvement of numerous local government agencies and ministries and the respective regulations that exist within the authorities.

In achieving this goal, cooperation between all stakeholders which includes business communities and governments play a critical role in the endeavour to assist in the way forward and to ensure the realisation of ASEAN integration in services. **There is a need to focus on the following areas to attain the goals of the AEC and trade liberalisation.**

**ASEAN countries frequently lack key domestic policy factors for successful services liberalization.**

Under regional economic cooperation, economic conflict originates from the interaction between international and domestic levels. At the international level, given the interaction of states through trade and investment and their understanding of global strategic context, it is generally assumed that states have a good understanding of their interests and the outcomes they desire from a foreign economic policy such as regional economic cooperation.

However, when the international policy decisions needs integration at the domestic level, it gets highly influenced by local economic and political interventions. Economic conflict arises as economic cooperation, which largely involves trade liberalisation, adversely affects the owners of relatively small business. Liberalisation tend to benefit larger enterprises. Export-oriented industries tend to gain from trade liberalisation, whereas the import-competing industries tend to lose.

These kinds of economic conflicts at domestic level determine whether a participating country favours a regional liberal economic cooperation or a relatively protectionist one. In the case of ASEAN trade in services liberalisation, the AMS do face the protectionisms challenges.

**ASEAN economic integration policy makers needs to do the balancing act**

**ASEAN economic integration policy makers needs to do the balancing act between maximising a member country's economic welfare**, given the international developments, and consider domestic interests which is key for future sustainability of the integration project. This leads to formulation of regional policies that are broad in nature or offer in-built flexibilities, accommodating interests of all participating members. But the broad regional policies could be difficult to implement especially when it is left to national government agencies to understand and interpret the policy measures.

**The implementation strategies primarily constitute schedules of commitments.**

The schedules of commitment are not legally binding until it goes through the national legislation process at the local AMS level. In the case of ASEAN integration, we do see that the respective AMS non-conforming to the schedules since it needs to go through a lengthy process at country level. In the end, the schedules merely become a first point of information and portraying an idealistic scenario *per se* minus execution. The business community wishes to see fast implementation and delays will demotivate and result in non-supportive to future development plans.

Drafting and negotiating schedules of commitments requires sound economic analysis between own economy and negotiating partners. It warrants a thorough negotiation and the political will to implement commitments. The result of our empirical analysis shows that services trade could be discouraged by the restrictive regulations of importing and exporting countries, and the extent of negative effects of restrictive regulations.

**There is also a need to beef up the administration capacity and capabilities of the ASEAN secretariat in general.**

This is to attend to the complexities that need to be addressed through the ASEAN economic liberalisation covering multiple countries, multiple government agencies and business entities warrants for a robust administrative team.


The operational structure cannot be dependence on the typical governmental administrative capabilities anymore. The nature of operations support for economic integration is no longer functionally uniform and hierarchical. It must be lean, flexible in nature and to infuse technology driven approaches. Cross country ministerial, agency and industry knowledge are critical. Beyond what has been stated above, the following aspects also need to be revisited to progress on the trade in services liberalisation and integration efforts.

The followings are specific recommendations that can assist in supporting the integration agenda in the near term.

- A clear liberalization strategy, backed with economic analysis on when and how to open which sectors for maximum development impact. It is an issue of prioritisation. The survey indicated data gaps in determining the priority sector for integration in a sequential manner.
- Correct sequencing of liberalisation, regulatory reform, and re-regulation. In-depth analysis is essential to decide the sequencing of implementation, identification of which relevant regulations needs to be reformed as well tightening some of the regulations based on negative information that have been gathered throughout the implementation.
- Formulation of an adequate and effective legal framework in the respective sector. As the implementation progresses, more trade disputes are captured. The disputes need to be addressed on a timely fashion in order to smoothen the integration execution. The existing legal framework is not sufficient to address the growing disputes along with more integration in execution. Hence the need to create a robust legal framework that is impartial in addressing the disputes in a timely and efficient fashion.
- Building regulatory capacity to oversee increased numbers of players in a certain sector. Some sectors are progressing fast as opposed to others. The regulatory capacity management should be in tandem with the growth of trade volumes in the respective sector. ASEAN need to ensure that the regulatory capacity are feasible to manage all aspects of the regulations for a particular sector as escalation or vulnerabilities sighted or arises with the growth in integration.
- Formulating a negotiation strategy to be administered amongst the AMS. A comprehensive negotiation framework that is championed by the relevant stakeholders and authorities is key. Tendencies for negotiations to hit the wall is always there if it is not deliberated with the right parties. A clear articulation on who should be represent trade negotiations is key for successfully negotiating and paving the way forward.
- Strengthening the implementation capacity specifically in the communication component since the analysis shows that there is knowledge gap of the commitments made at the regional level between the business enterprises and the regulators.
- Adequate supply side capacity building to supporting the enterprises to gain competitiveness and make use of opportunities).

Coordination is essential especially in developing countries. Negotiators and drafters are generally focused only on sectoral issues, which issues are administered exclusively in respective institutions. They are potentially fragmented in sectoral issues and trapped in exclusivity. At times they are not aware of the existence of overlapping issues, those which need relevant and coordinated measures.

Therefore, the measures should be incorporated in the provisions under the agreement in an integrated and comprehensive approach. In so doing, in preparing agreements we cannot neglect the negotiating team structure. The structure needs to be represented by parties who are competent and able to see from the helicopter view, then coordinate all stakeholders and their related agreement chapters.

A hand is shown placing a light-colored wooden puzzle piece into a larger assembly of similar pieces on a solid orange background. The hand is wearing a blue and white striped sweater. The puzzle pieces are arranged in a row, with the hand's fingers carefully fitting the piece into the gap between two others.

In general, the ASEAN Economic Community 2025 Consolidated Strategic Action Plan which was updated in 2018 has stipulated various measures as a follow up of the AEC 2025 agenda. However, based on our engagement with the indigenous businesses and stakeholders within the 3 services sectors covered, the follow through is **yet to materialise fully as anticipated.**

## B. Immediate action plans

Clear actions are needed by all of the stakeholders to achieve further liberalization of trade-in-service, most notably, indigenous enterprises need to be clearly informed on the bilateral level decisions and deals that have been made so that they can action upon it. Based on previous section, there are three action plan that can be followed up upon by both ASEAN secretariat and each AMS government which are:

- Strengthening the communication and information flow
- Streamlining an adequate and effective legal framework
- Digital facilitation and infrastructure improvement

## C. Strengthening the communication and information flow

One of the key problems identified during the study is that indigenous enterprises do not have enough access to information and even when they do, it is mostly scattered and confusing for them. To address this, a central repository of information regarding AEC and its integration effort needs to be established by ASEAN Secretariate supported by AMS.

The repository needs to be freely accessible and contain related regulation, practices, and interpretation of various regulation and framework existed within AEC. The repository needs to also:

- Curate all integration plans from all channels (forums, dialogues, meetings, media)
- Standardise, digitise, and provide seamless access through a single digital window
- Dedicated communication team that manages these activities, ensure information are up to date

The repository needs to also serve another purpose, in which it is updating enterprises on various trade facilitation measures. This “single portal” of information and event updates should provide information on rules and recommendations, including trade facilitation measures proposed/implemented at central (ASEAN) and local governments level, that are much needed by the indigenous enterprises.

## D. Streamlining and adequate and effective legal framework

Legal framework is one of the key topics that arise often during the study, which is understandable as most enterprises perceives that there is no proper legal framework to settle dispute within ASEAN on cross-border activities. While this is not an easy feat to achieve, both ASEAN Secretariate and AMS regulators need to formulate legal framework as soon as possible to support ASEAN cross-border activities.

Through discussion on detailed information on regulations in practise, policies and implementation processes, as well as bottlenecks and potential ramification action sectoral legal frameworks need to be established in order to support more trade-in services within ASEAN. As for the sectors, financial sectors which is highly regulated need



to be prioritized, and other framework involving general dispute settlement, IP protection, and movement of people can follow through.

#### E. Digital facilitation and infrastructure improvement

While the world moves quickly to adopt digitalization, many functions that should be able to be moved digitally are not done so in these days, most of these are function and activities that are related to authorities which often held back enterprises in doing business.

Speeding up the trade-in-services requires more leverage on information technology to facilitate exchange of information between businesses & relevant authorities. Digital platforms to facilitate remote operations that are thriving nowadays need to be supported by adequate infrastructure and regulation that allows it.

**ASEAN Secretariate along with local stakeholders need to hold more digital trade facilitation and actively improve digital capability of indigenous enterprises through both capacity and capability support.**



A blurred photograph of a crowd of people walking through a modern, brightly lit interior space, possibly a shopping mall or office lobby. The people are out of focus, creating a sense of movement and activity. The background shows architectural details like ceiling lights and structural columns.

# ASEAN Business Sentiment – The Survey

ASEAN BUSINESS SENTIMENT SURVEY 2020/2021

## RESEARCH BACKGROUND

The success of the AEC is highly reliant on the overall intra-ASEAN investment environment for the ASEAN indigenous enterprises. The participation and involvement of the private sector are crucial to creating a solid foundation for the successful implementation of the ASEAN Economic Community (AEC).

Greater involvement and more structured participation of the private sector can contribute to the success of ASEAN in designing regional strategies and initiatives and identifying impediments to deepen regional economic integration.

The AEC, in turn, will also benefit the private sector, both large enterprises and small and medium enterprises (SMEs). The expected result aligns with the goals of an integrated economic region with greater liberalization and more accessible movements of goods, services, investment, and skilled labour as envisioned in the AEC.

The AEC Blueprint 2025 stressed that greater involvement and more structured participation of the private sector would benefit the implementation of AEC. Furthermore, it is imperative to regularly solicit feedback from the private sector as one of the key stakeholders in implementing AEC and the key actors who understand the ground level's progress.

With this in mind, the ASEAN Secretariat and the Australian Government, through AADCP II, has commissioned the AEC Business Sentiment Study 2020/2021 to help with some of the following key research objectives:

- To gauge the ongoing sentiment of the ASEAN indigenous enterprises towards the AEC, particularly the implementation of the AEC Blueprint 2025, thereby creating a necessary feedback loop and a better understanding of the expectations of the private sector.
- To delve deeper into the sentiment on services trade liberalization and remove barriers in services trade as facilitated through initiatives such as the ASEAN Framework Agreement on Services (AFAS), focusing on three key sectors: financial services, tourism services, and tourism and distribution services.

The project is conducted through the collaboration of Ipsos and the ASEAN Secretariat (ASEC) team. ASEC team includes the Enterprise and Stakeholder Engagement Division (ESED), Services and Investment Division (SID), Financial Integration Division (FID), ICT and Tourism Division, Transport Division, and ASEAN Integration Monitoring Directorate (AIMD). Whereas for Ipsos, Ipsos Indonesia (PT Ipsos Market Research) acts as the leading office in carrying out all of the activity on all AMS through Ipsos' respective office in each AMS.

## Objectives of the study

The ASEAN Business Sentiment Study 2020/2021 covers all ten (10) member states in ASEAN. The study's detailed objectives are as follows:

- i. To provide valuable insights to the ASEAN policymakers on the ASEAN indigenous enterprises' general sentiment on the perceived impacts of ASEAN economic integration under the AEC on their businesses and industries and their views and recommendations on how ASEAN can further develop and improve AEC.
  - Assessing the business sentiment of ASEAN indigenous enterprises (ranging from large to small ones) towards the AEC will likewise provide insights into strengthening public-private engagement.
  - With private sector input and feedback, the concerns of businesses, especially the SMEs, will be put forward. As such, policymakers will be able to make better, more informed policy choices and develop initiatives to respond to the business community's needs better.
  - The project will contribute towards a more supportive policy environment enabling the successful implementation of AEC initiatives in the long run.
  
- ii. Specifically, in terms of the focus area of trade in services, ASEAN Member States (AMS) are expected to benefit from further liberalization and elimination of barriers to trade through the implementation of AFAS.
  - Understand ASEAN enterprises' view on further regional economic integration, especially concerning the relevant sectors.
  - Acquire feedback from indigenous enterprises, whether they perceive and enjoy the direct benefits of ASEAN integration in the services sector.
  - Acquire feedback on specific areas that need to be addressed to achieve a true ASEAN economic integration of the services sector, concerning the relevant sectors covered in this study.
  - Acquire overall regional measures that are expected to contribute towards greater ASEAN economic integration in the services sector, especially in trade and investment facilitation of businesses operating in the services sectors.

The result of the study will be reported to the AEM and Leaders for their consideration and ultimately feed into ASEAN policymaking processes. This is to ensure that the policies developed in ASEAN will be beneficial for the private sector operating in ASEAN.

## Scope of the study

Aside from secondary data that signal various metrics across the 10 AMS on the condition of the services sector, the survey also utilized three critical activities. The primary activities were aimed to collect primary data from Indigenous enterprises across ASEAN.

### i. Quantitative Survey

Ipsos conducted this online activity, filled by leaders or owners of indigenous enterprises, in March – April 2021 with more than 1,000 respondents across ASEAN

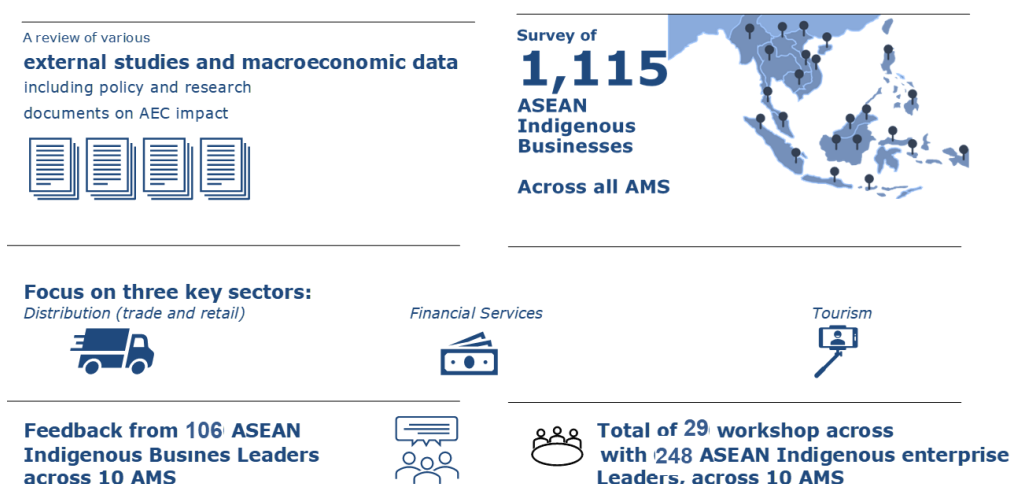
### ii. Key Informant In-Depth Interview (IDI)

Qualitative interviews with leaders and owners of ASEAN Indigenous enterprise aimed to acquire a deeper insight into their general sentiment to ASEAN economic Integration and specific sector issues which were conducted in May – July 2021.

### iii. Indigenous enterprise Stakeholder Workshop (Focus Group Discussion / FGD)

Group discussion consists of 5 - 15 people per group, each for three primary target sectors (distribution, financial services, and tourism sector) on each AMS. These were conducted in July – August 2021

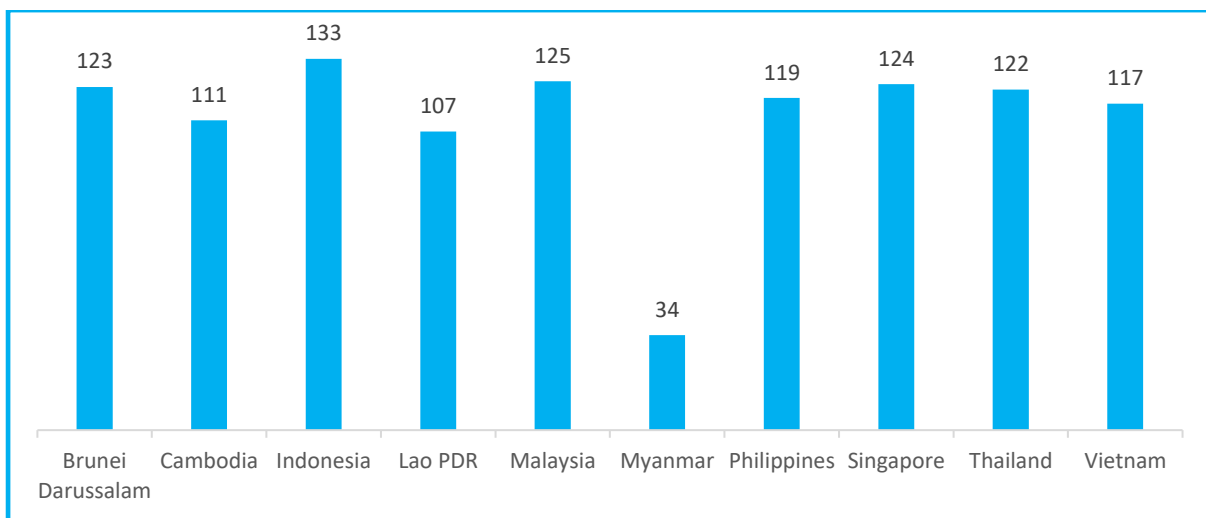
**Figure 4.1** Scope of ASEAN Business Sentiment 2020/2021



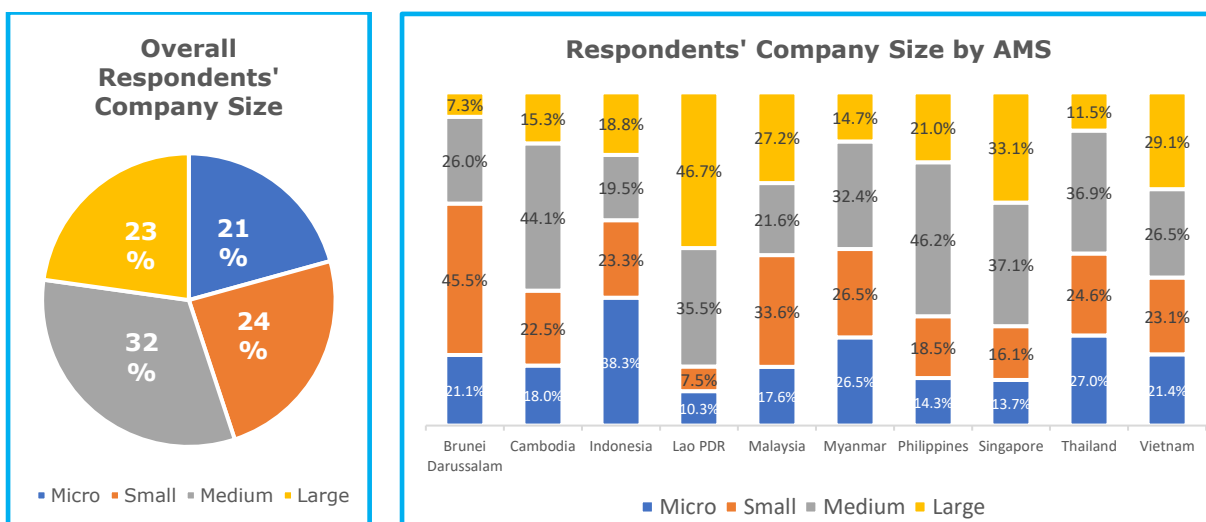
## Quantitative Survey

The number of responses from the survey is finalized at 1,115 respondents across AMS. Before diving deeper into the survey results, various background information on the respondents is presented in this section. The following figures show the overall composition in which the number of respondents from the SME category is higher than the initial design of 60%, the reason for placing higher quota for SME category is due to SME outnumber large companies in all AMS, both for indigenous and non-indigenous enterprises exponentially. However, large companies in general plays more active role in cross-border activities and thus, final SME quota is set at 60%. The final SME respondents achieved are 77%.

**Figure 4.2** Total Quantitative Survey Accomplishment (country location of respondents)



**Figure 4.3** Composition of Survey Respondents' Company Size

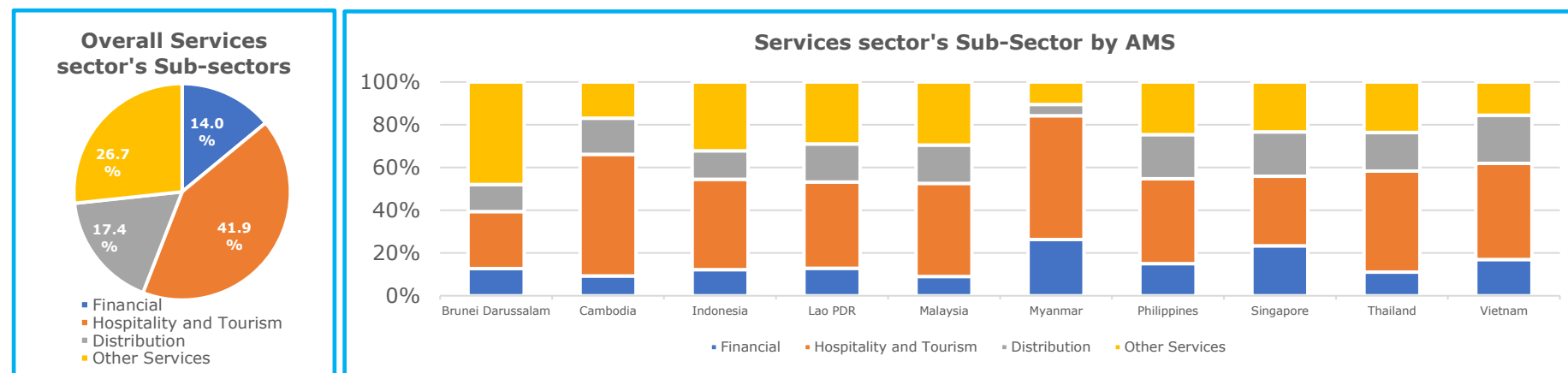


Among the respondents, there are many whose businesses consist of various sectors. However, to pinpoint the respondents' activity, their primary business sector is used as the key attribute, which the spread is explained further in the following figure.

**Table 4.1: Target Primary Sector of Survey Respondents Design vs. Achievement**

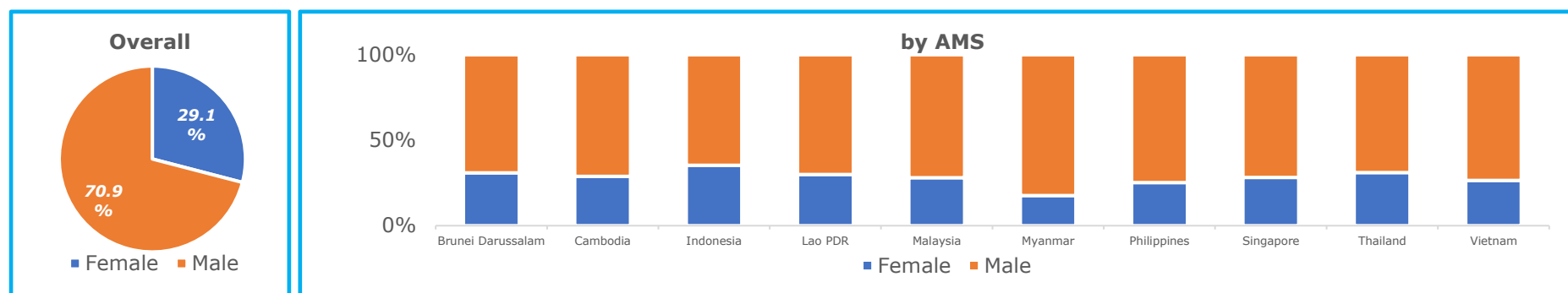
TARGET SECTOR (Design)	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Agriculture	0%	10%	10%	10%	10%	20%	10%	0%	10%	10%
Industry	40%	30%	30%	30%	30%	20%	30%	40%	30%	30%
Service	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
ACHIEVEMENT	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Agriculture	10%	12%	8%	11%	9%	21%	10%	3%	14%	9%
Industry	33%	30%	24%	31%	29%	24%	29%	35%	27%	30%
Service	58%	59%	68%	58%	62%	56%	61%	62%	59%	61%

**Figure 4.4 Survey Respondents' Primary Business Sector, Overall and by AMS**



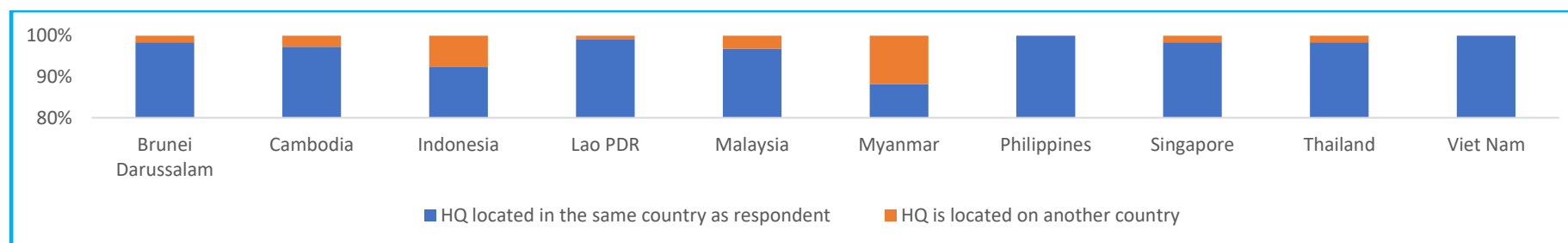
The quota for service sector is set to 60% as the study is focusing more on services sector, particularly on finance, distribution and tourism. While there is slight variation across AMS, the overall respondent quota achieves the targeted 60% quota that comes from the services sector. Looking at the services sector deeper, ~74% of the respondents from the services sector come from three key sectors (financial services, hospitality and tourism, and distribution services) with varying achievements from each AMS. The most significant non-key sector respondents come from Brunei Darussalam.

**Figure 4.5** Survey Respondents' Primary Business Sector, Overall and by AMS



The overall company representatives participating as respondents were identified for their gender to ensure that the survey covered women empowerment topics. Based on the study, 29% of the respondents are female-led companies. When looked specifically towards the services sector, the figure is slightly higher at 29.5%. This figure shows that there is a significant amount of ASEAN Indigenous enterprise that woman leads. There are no significant differences in the women-led companies in terms of business size compared to men-led companies. Both show a similar distribution across different company sizes.

**Figure 4.6** Respondents' Company Headquarters Location



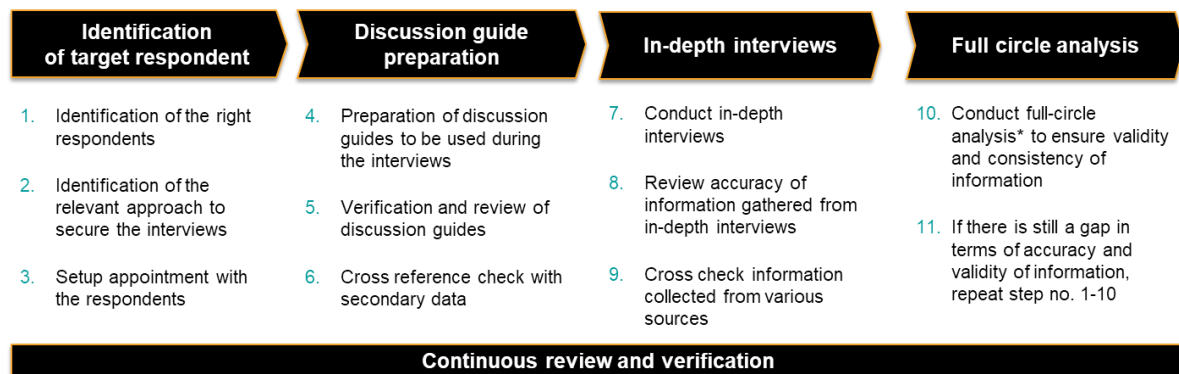
The majority of the respondents were from the HQ of their business network. Only 2.5% of the respondents have their HQ located outside the "local country" (a country the respondents are in). AMS with the most respondents' HQ outside of the local country is Myanmar. However, this result needs to be considered further, as Myanmar only have 34 respondents in total due to the current internal situation. most of the respondents with HQ outside of the respondent's country have their HQ located in Malaysia and Singapore, showing that there is higher involvement in cross-country investment within ASEAN from these two countries.



## Key Informant Interview

The following step conducted after the quantitative survey obtained qualitative insights and views in semi-structured interviews with selected respondents from the services sector. Four (4) respondents are interviewed per services subsector per AMS, evenly split between large enterprises and SMEs, for a total of **106** interviews.

The interview preparation and execution are as follows:



*\*A full circle analysis will be conducted to ensure 90-95% accuracy of quantitative & qualitative information*

Ipsos develop the discussion guide for the KII with the feedback of ASEAN Secretariate on some elements. The DG contains the following topics as key discussion topics:

- General Understanding of ASEAN Economic Community (AEC) and the presence of regional business strategies stated in the AEC Blueprint 2025
- Degree of awareness of AEC and opportunities created in the AEC Blueprint 2025
- Sentiment towards AEC, particularly the implementation of the initiatives under AEC, more specifically the ASEAN Framework Agreement on Services
- General Perception and Effects / Impact of services trade liberalization via
- Impact / perceived impact (challenges and benefits) of services trade liberalization on their businesses and sectors – foster or inhibit the performance of local players
- Concerns, current challenges faced, and expectations/support required for further regional economic integration and liberalization – current and future, notably on the key priorities to prepare for the implementations of the vision for each sector
- Feedback on how ASEAN/AEC efforts can further facilitate intra-regional trade
- Government / local policies effectiveness
- Effectiveness of local policies for services trade liberalization and economic integration within the three sectors
- Effectiveness of public-private engagements programs, benefits to the local economy, private sectors, opportunities, challenges of implementation, enablers to foster better engagement, etc.
- Suggestions for improvement needed for services trade liberalization, and possible roles of policymaking in facilitating further integration

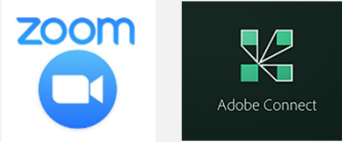


Interviews were conducted by the local team with guidance from the Ipsos project management team in Indonesia and Malaysia.

## Focus Group Discussion / Workshop

After the KII, the study continued by organizing **29** virtual workshops across all AMS. Each workshop catered to 5 -15 participants from a single AMS. The participants were engaged in an open discussion within two sessions, open session for all participants, and a group session where participants are segmented based on their company size. Participants for the workshop are sourced from respondents of the quantitative survey and KII, with additional fresh new participants added.

The virtual workshops conducted were based on several different online tools to ensure a good experience for participants. These workshops have been conducted separately for different sectors (i.e., 1 for Financial, 1 for Tourism, and 1 for Distribution services sector) in the local language except for Singapore, Malaysia, and Philippines where English or mix of English and local languages were used.

**Ipsos Approach: Online workshops/ focus groups**

<p>1) Conferencing software with the ability to run sub-groups</p>  <p>Use to run calls, where you can move participants into sub groups for exercises. Example platforms include Adobe Connect.</p>	<p>2) Shared whiteboarding software</p>  <p>Run exercises in shared whiteboarding software, which a representative from each group can edit.</p>	<p>3) Use familiar tools such as email, PPT, and file hosting to share materials</p>  <p>Use tools to share material with participants which they may need to read for exercises. Leveraging systems they are already using can help get past the inevitable IT challenges that may otherwise exist.</p>
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The workshops aimed to provide an open platform for stakeholders to discuss and validate findings and recommendations obtained from the IDIs and quantitative survey, the agenda of the workshop was as follows:

1. Presentation of key findings from IDIs and survey
2. Participants to be grouped by subsector / size for a discussion based on key issues raised during IDIs and survey
3. Summarize the feedback and to acquire final input and agreement on the session's result from participants

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# ASEAN

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