The Economist Corporate Network

ASEAN Connections

How mega-regional trade and investment initiatives in Asia will shape business strategy in ASEAN and beyond

A management brief sponsored by Baker & McKenzie

Preface

ASEAN Connections: How mega-regional trade and investment initiatives in Asia will shape business strategy in ASEAN and beyond is an Economist Corporate Network (ECN) report, sponsored by Baker & McKenzie. The ECN performed the research, conducted the interviews and wrote the report independently. The findings and views expressed in this report are those of the ECN alone and do not necessarily reflect the views of the sponsor.

Andrew Staples was the author. Pamela Qiu contributed to the research and edited the report. The design and layout of the report was done by PPP. The cover was designed by Baker & McKenzie.

This paper is informed by a survey conducted online between February and March 2016. Further insights were gained through follow-up discussions and interviews and are included in this paper. These remain anonymous unless specifically quoted. We would like to thank all participants and interviewees for their time and insights.

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Contents and Executive Summary

1. Introduction

ASEAN economies have been at the forefront of the emerging markets success story of the past two decades and, taken as a whole, ASEAN will be the world's third fastest growing large economy in 2016. But as the Chinese economy slows and restructures, ASEAN economies will need to make the next leap forward. Mega-regional initiatives will provide the push.

From globalisation to (mega)-regionalisation

Asian economies have been some of globalisation's biggest winners. From Japan's post-war miracle to Singapore's dazzling emergence as the hub city par excellence, South Korea's export-led "miracle on the Han river" to Vietnam's more recent and continuing economic success, access to global markets and capital under the US-led commercial and financial system has underpinned economic development in the region.

Yet the global order is changing. China surpassed Japan as the world's second largest economy in 2010 and is expected to overtake the US in the coming years (in nominal GDP terms), although India has now picked up the mantle of the world's fastest growing large economy. As a result, the centre of global economic gravity continues to shift back to the East where it had resided for centuries before the Industrial Revolution catapulted Western economies ahead of the rest. This fundamental "global shift" has profound implications for the global financial and commercial order.

At the same time, the multilateral trading system has stalled. The WTO has failed to progress any meaningful round of liberalisation since the completion of the Uruguay Round in 1994[1]. A patchwork of bilateral and regional free trade agreements (FTAs) have emerged instead. In Asia this network of FTAs is referred to as the "noodle bowl", a term that captures the complex web of agreements that in many cases fail to live up to expectations. The complexity and costs involved in navigating these myriad agreements are often identified as reasons why utilisation rates remain low. Although bilateral and regional FTAs may be easier to conclude than a multilateral agreement, they remain "sub-optimal".

Beyond trade, the global financial crisis of 2008 which continues to reverberate around the world, placed the very fundamentals of the global financial architecture and western style market capitalism under a critical spotlight. China, with its own "variety of capitalism" is flexing its newly found economic muscles and demanding a greater role in setting the rules of the game. The inclusion of the renminbi (RMB) in the IMF's benchmark Special Drawing Rights (SDR) currency basket, for example, demonstrates China's growing importance to global finance while the Asian Infrastructure Investment Bank (AIIB), established and led by China, stands in direct competition to the existing order of the World Bank and the Asian Development Bank. A recent report[2] from The Economist Intelligence Unit suggests that China's new

Acknowledge and understand the mega-trends shaping the global economy and consider the implications for your strategy

economic diplomacy may mark the beginning of the end of China's engagement with the existing institutions of trade and investment governance.

Against this backdrop of stalled multilateralism and shifting economic power, a new set of initiatives is emerging at the mega-regional level. Mega-regionals, as the name implies, link regions together while remaining below the global scale. The Trans-Pacific Partnership (TPP), one of the key mega-regionals examined in this paper, links economies in the Americas with those in Asia, but excludes Europe, for example. The ASEAN Economic Community (AEC), another significant mega-regional trade initiative in progress in Asia, seeks to create a single market in which products and services can flow across borders free of tariffs and non-tariff barriers, in which industry standards are harmonised, in which investments can be made without stumbling into differing foreign ownership rules, and in which skilled labour can move to wherever it is in demand (see appendix for more about the vision, progress and implementation of the AEC). Moreover, ASEAN is also working towards forging another mega-regional trade initiative with its Asia Pacific neighbours, in the form of the Regional Comprehensive Economic Partnership (RCEP), which will link the ASEAN economic bloc with Australia, China, India, Japan, South Korea and New Zealand. Last but certainly not least, China's "one belt, one road" (OBOR) strategy is also an important mega-regional effort that will play a crucial role in upgrading the region's physical infrastructure.

But what are the implications of these developments for business and strategy? How are they perceived by business leaders in the region? And how are companies preparing for the opportunities that these developments are creating?

To examine these questions we surveyed 144 senior business leaders running operations in ASEAN. They came from a broad mix of industries, and generally worked at large multinational companies: 64% had global revenues of more than US$1bn. Respondents mostly worked for non-ASEAN companies, although about one-fifth (21.6%) came from ASEAN companies (i.e., companies that had their global head office based in the ASEAN region). The majority of respondents (77.1%) worked at companies that are primarily business-to-business (B2B). These responses, and insights gleaned through interviews with business leaders in the region, inform this paper.

In the following sections we review how these mega-regional initiatives are shaping the ASEAN business environment and identify the key implications for business strategy in ASEAN and beyond.

[1] The Doha Development Round commenced in 2001 but an agreement remains elusive.
[2] At a Crossroad. What China's new economic diplomacy means for business.

2. Mega-regionals: Creating channels of connectivity

The ASEAN Economic Community (AEC) is an ambitious mega-regional initiative to bring the South-east Asian economies together as a single market and production base. In addition, China's "one belt, one road" (OBOR) and the US-led Trans-Pacific Partnership (TPP)—even if they may be cast as conflicting initiatives—offer ever-more integrated visions of a future Asia Pacific. By developing physical infrastructure and a robust, twenty-first century trade regime, all these mega-regional initiatives are in fact highly complementary in nature. Together they will promote connectivity, drive deeper economic integration and enhance the overall business environment.

2.1. Mega-regional 1: China's "one belt, one road" (OBOR) initiative

China's president, Xi Jinping, began floating the ideas of a "Silk Road Economic Belt" and a "21st Century Maritime Silk Road" in late 2013. The belt will run westward overland through Central Asia and onward to Europe, while the road will flow through the South China Sea and then westward towards Europe, with proposed stops in South-east Asia, South Asia and Africa (see chart 1). These two ideas were eventually combined as "one belt, one road" (OBOR). The belt and road will be realised through the development of physical infrastructure in over 60 countries. The numbers are as big as the ambition: OBOR will directly affect economies with a collective gross domestic product (GDP) of US$2 trillion (approximately 40% of global GDP) and over 4 billion people.

Get ready to capitalise on improved connectivity in the region

The OBOR initiative is part of a broader strategic push by China to promote connectivity and development through economic engagement and investment along the two trading routes. The potential benefits to the region are substantial; the World Bank has pointed out that OBOR could stimulate Asian and global economic growth and make it more sustainable. In particular, countries along the corridor—especially those with undeveloped infrastructure, low investment rates, and low per-capita incomes—could experience a boost in trade flows and benefit from infrastructure development.

Yet self-interest also informs OBOR as a strategy that has the added attraction of supporting China's domestic economy by boosting trade and creating new business opportunities for Chinese companies. For example, local Chinese firms are extremely well-positioned to win many of the overseas engineering projects—roads railways, ports and pipelines—that the new connectivity will demand. Meanwhile, improved transport links will benefit many Chinese exporters. Furthermore, aiding its neighbours' development will create new overseas markets. For these reasons, some foreign observers have

Chart 1
"One Belt, One Road": an economic roadmap

Source: The Economist Corporate Network

suggested that OBOR is a convenient outlet to export China's growing industrial overcapacity.

Indeed, some consider the OBOR project to be a domestic investment drive that principally benefits China's provinces and companies. The OBOR plan has been greeted with open arms by Chinese provinces struggling in straitened financial circumstances. Sensing an opportunity to access central government funds, the majority of China's 31 provinces have already issued OBOR development plans for which they hope to obtain support. These span roads, railways, airports and seaports, as well as trade and logistics centres (see appendix for a list of selected infrastructure projects tied to "one belt, one road" in China). This rush for OBOR funds has raised some concerns, including the need to clarify what role the private sector will play in these projects. As Han Willem Kotterman, COO, Telstra, notes, central government funding to subsidise infrastructure development is one thing, but subsidies for Chinese firms, for example equipment manufacturers to provide telecommunications connectivity along the routes, is a matter of concern for other market players.

The scope and nature of the OBOR initiative is still fluid and likely to evolve over time. However, from the onset, given OBOR's evident aim to expand Chinese influence throughout the region and export Chinese industrial expertise, the emerging strategy has led to comparisons with the US Marshall Plan—America's own aid programme to help Europe rebuild after the second world war and strengthen US strategic influence through trade and development assistance.

Unsurprisingly, the Chinese leadership has been quick to rebuff such comparisons. In fact, China's president, Xi Jinping, has emphasised that the policy of "Three Nos" apply to China's OBOR initiative, which are:

- Does not interfere in the internal affairs of other nations
- Does not seek to increase the so-called "sphere of influence"
- Does not strive for hegemony or dominance

Have you given sufficient thought to what opportunities OBOR related projects present for your sector?

Banking on it

OBOR, moreover, is presented as a departure from traditional aid donation programmes, such as the Marshall Plan. Instead, projects are expected to generate returns. Funding for the OBOR initiative will

Focus on risk

Look before you leap

The scale and scope of OBOR presents exciting opportunities for firms yet those looking to realise the potential would be well advised to do so cognizant of the risks and challenge this entails. OBOR's land route traverses some of the most troubled countries in the world while the maritime "road" sails through the contested waters of the South China Sea.

A recent paper[3] by The Economist Intelligence Unit examines the risks that companies will face when seeking opportunities in the OBOR economic corridor. A proper risk assessment of OBOR project opportunities is highly complex, especially given the wide range of countries and the sums of money involved. But it is necessary and critical if companies want to succeed in navigating these markets.

Initially at least, OBOR offers opportunities for financial and construction related companies. However, jumping on the investment bandwagon isn't so simple: financial firms will need a clear understanding of the range of credit risks present in OBOR countries, while construction firms will need to prepare for numerous operational risks also. These risk factors are outlined on page 9. The overall country operational risk profile for individual countries is mapped out in chart 2.

Physical infrastructure projects will in turn stimulate demand for connectivity. We expect to see more opportunities for information and telecommunications providers, and accompanying services. Companies in these sectors may face more market and regulatory risks (government effectiveness, availability of skilled labour, for example).

Membership of the TPP, and the stringent regulatory frameworks that this demands, may go some way to mitigating many of these risks. In ASEAN, membership of TPP will make Vietnam in particular and, to a lesser extent, Malaysia, more attractive as investment destinations in this way.

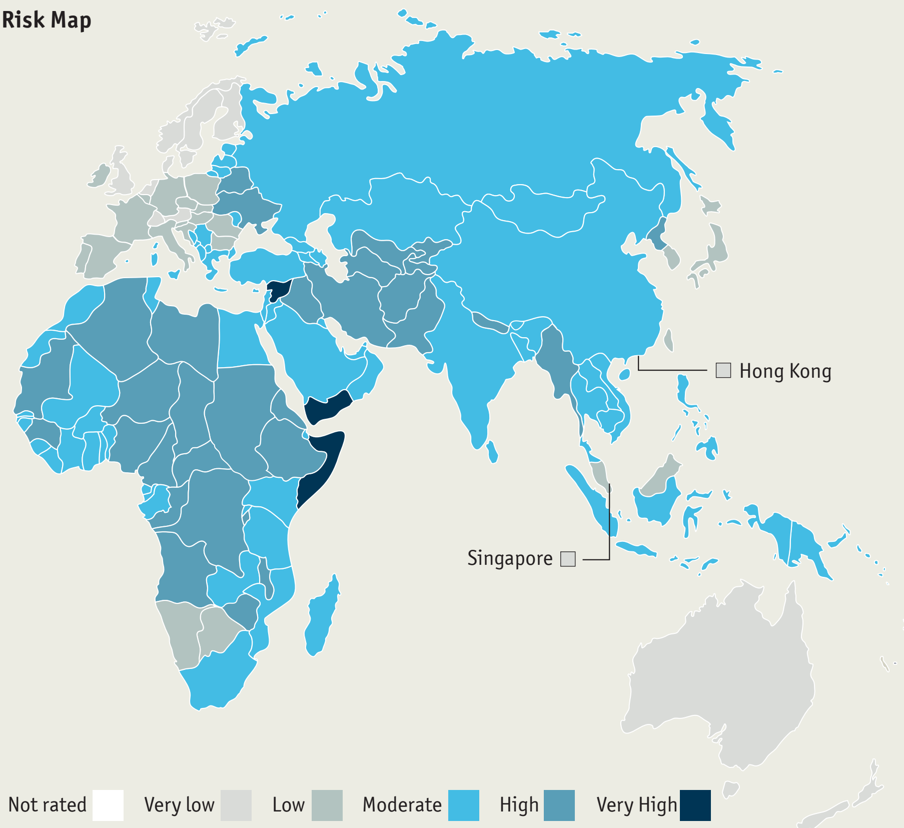
Operational risks

- Security risk (e.g., armed conflict, terrorism, organised crime)
- Political stability (e.g., social unrest, international tensions, excessive executive authority)
- Government effectiveness (e.g., corruption, vested interests, accountability of public officials)
- The legal and regulatory environment (e.g., fairness of judicial process, enforceability of contracts, protection of private property)
- Macroeconomic risk (e.g., exchange-rate volatility, price instability, crowding out)
- Foreign trade and payment issues (e.g., trade embargo risk, excessive protection, discriminatory tariffs)
- Labour markets (e.g., labour laws, skilled labour, trade unions)
- Financial risks (e.g., devaluation risk, depth of financing, access to local markets)
- Tax policy (e.g., stable regime, discriminatory taxes, retroactive taxation)
- The standard of local infrastructure (port facilities, power network, IT infrastructure)

Credit risks

- Sovereign risk (e.g., risk of default by sovereign or entity guaranteed by sovereign)
- Currency risk (e.g., devaluation)
- Banking sector risk (e.g., systemic crisis)
- Political risk (e.g., stability, effectiveness)
- Economic structure risk (e.g., non-cyclical issues)
- Overall country risk (i.e., a risk rating derived from a simple average of the above scores)

Chart 2
Operational Risk Map



Source: The Economist Intelligence Unit

be supported by two recently established institutions, the Silk Road Fund (SRF) and the Asian Infrastructure Investment Bank (AIIB). The chair of the SRF, Jin Qi, has said that the fund will work in line with "market-oriented principles" and should generate adequate returns for its shareholders.

The AIIB's stated aims are to combine China's core competencies in building infrastructure with its deep financial resources to help development in other parts of Asia. China will provide much of the US$100bn in proposed initial capital, which will be used to promote the construction in transport and communications infrastructure in poorer Asian countries. According to The Economist Corporate Network analysis, Indonesia stands to be the biggest beneficiary among the ASEAN economies, with approximately US$87.4 billion identified in OBOR related pipeline infrastructure projects, roughly double the US$42 billion each that the Philippines and Vietnam will host (see appendix for a list of selected infrastructure projects tied to "one belt, one road" in ASEAN). The AIIB is facing resistance from the US which has raised concerns regarding the lack of transparency and governance, and fears that the AIIB will compete with existing (and US-aligned) institutions such as the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB). The AIIB also faces the considerable challenge of getting up to speed. Andrew Steel, Head of Asia Pacific, Corporations Ratings Group, Fitch Ratings, points out that the new bank has not yet appointed key personnel, does not yet have its policies and procedures in place and may find it difficult to communicate its competitive advantages in an already crowded and well established field.

Asia's infrastructure needs, however, are vast—the ADB estimates that developing Asia requires over US$8 trillion in infrastructure spend this decade alone—and the AIIB has quickly gained momentum. By the end of 2015, 57 governments (20 regional and 37 non-regional) had signed up as members. But the US and Japan remain aloof at present.

OBOR is a hugely ambitious play by China in terms of scale and scope, and if successful, would have vast and deep implications for the region. Yet the challenges in implementation are great, not just operationally but politically too. Other countries may be happy to receive investment, but not at the cost of becoming overly reliant on China or upsetting traditional allies. In this context, the Trans-Pacific Partnership (TPP), a US-led comprehensive multi-lateral free trade agreement, could offer ASEAN economies a useful counterweight to OBOR.

2.2. Mega-regional 2: Free trade agreements in twenty-first century Asia

The Trans-Pacific Partnership (TPP) is an agreement to boost trade among 12 member countries in the Pacific Rim that collectively account for almost 40% of world GDP. After lengthy negotiations, an agreement was reached in October 2015 and signed by ministers from member countries in Auckland in February 2016. This is a significant deal that should provide a much needed boost for global trade. However, the full impact of this landmark deal will not be seen for a number of years yet.

This is because much needs to be done before the TPP is ratified and implemented by each of the 12 member countries. This may be more difficult in some member countries, for example in the US, where it is opposed by many members of congress and is being debated in the current US presidential election. Despite these challenges, many of the 12 countries plan to ratify in the near future if they haven't done so already. Koji Tsuruoka, Japan's former Chief Negotiator for the TPP, expects Japan to do so by the summer of 2016.

Once the TPP is ratified, member countries will also need to pass enabling legislation to facilitate the deal. This may take up to three years, although some countries have less to do than others: according to a recent survey by Baker & McKenzie, the regulatory frameworks of Australia, Chile, Singapore and the US are already TPP compliant when it comes to core provisions around intellectual property (IP) (recognition of non-traditional trademarks and length of copyright protection, for example). We hence do not expect to see a significant impact of the TPP on trade until 2021, at the earliest. In the meantime, however, we do expect the deal to have a significant impact on the member economies in other important ways, including raising the attractiveness of member countries as investment destinations.

Tools for the twenty-first century

The TPP is touted as a twenty-first century agreement that goes beyond a simple focus on "cars and calories". Indeed, the TPP signatories' vision for the agreement is to develop a "high-standard, ambitious, comprehensive, and balanced agreement that will promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in our countries; and promote transparency, good governance, and enhanced labour and environmental protections"[4]. As noted in a study by the Peterson Institute for International Economics (PIIE)[5], a US think-tank, comprehensive rules are the most distinctive aspect of the TPP. The agreement builds on the WTO rulebook, but tightens disciplines and creates new mechanisms to improve implementation. It also strengthens IP rights and prescribes greater commitments toward enforcing them, and it has more comprehensive and enforceable rules on labour and the environment than previous agreements.

Moreover, the TPP includes more comprehensive rules for trade in services and investment than were in WTO agreements, and has the potential to unleash the much-needed liberalisation of trade in services. Advances in information technology have made many service industries, including finance, telecommunications, education and healthcare, increasingly tradable. Such sectors account for a large share of GDP and employment in many countries but only a small fraction of its trade.

The biggest slices of the pie

Who stands to gain most from the TPP? Many studies, including the most comprehensive analysis to date conducted by the PIIE, strongly conclude that less-developed member countries will benefit more than developed nations. Moreover, it is the countries in Asia that look set to be the largest winners. According to the PIIE study, Vietnam's new access to previously protected foreign markets would mean a 8.1% boost to real national income by 2030. Malaysia and Japan should also see real incomes increase by the same year, by 7.6% and 2.5% respectively. The US and Australia, on the other hand, are expected to see much more modest incremental growth of around 1% of GDP.

The TPP has also given renewed impetus to the Regional Comprehensive Economic Partnership (RCEP), which is a potential trade pact between all ten ASEAN member states and the six countries with which the grouping already has free-trade agreements—Australia, China, India, Japan, South Korea and New Zealand. The RCEP could have an even bigger impact than the TPP.

According to The Economist Intelligence Unit data, the RCEP signatories account for 29% of world trade and 28% of global GDP (see our infographic on pages 12 and 13 which compares the TPP and RCEP on various economic dimensions). However, given that seven of these countries are in both the TPP and the RCEP (see chart 3), the two agreements may be more complimentary than competing in nature.

Audit your operations to ensure they are TPP compliant, and not just in TPP member countries

Trans-Pacific Partnership
Combined data for 12 member countries

GDP in 2016
US$ market exchange rates

$28,390 bn

GDP in 2016
US$ at PPP

$31,549 bn

Share of global GDP
2016, market exchange rates

32%

Share of global GDP
2016 at PPP

27%

GDP growth forecast
2016-2020

2.96

GDP per head
US$ at PPP; average

$39,441

Population in 2016
millions

825 m

Share of world goods
exports in 2016

26%

Ease of doing business[i]

33/189

Corruption perceptions index[ii]

40/167

International IP index[iii]

15/38

Global competitiveness index[iv]

27/140

[i] Average ranking of 189 countries in 2015; [ii] Average ranking of 167 countries in 2015; [iii] Ranking of 38 countries; [iv] Average ranking of 140 countries in 2015-16.

Sources: The Economist Intelligence Unit; World Bank; Transparency International: World Economic Forum; Global Intellectual Property Center.

Regional Comprehensive Economic Partnership

Combined data for 16 member countries

GDP in 2016
US$ market exchange rates

$22,979 bn

GDP in 2016
US$ at PPP

$45,399

Share of global GDP
2016, market exchange rates

28%

Share of global GDP
2016 at PPP

38%

GDP growth forecast
2016-2020

4.58

GDP per head
US$ at PPP; average

$26,566

Population in 2016
millions

3,536 m

Share of world goods
exports in 2016

32%

Ease of doing business[i]

72/189

Corruption perceptions index[ii]

73/167

International IP index[iii]

20/38

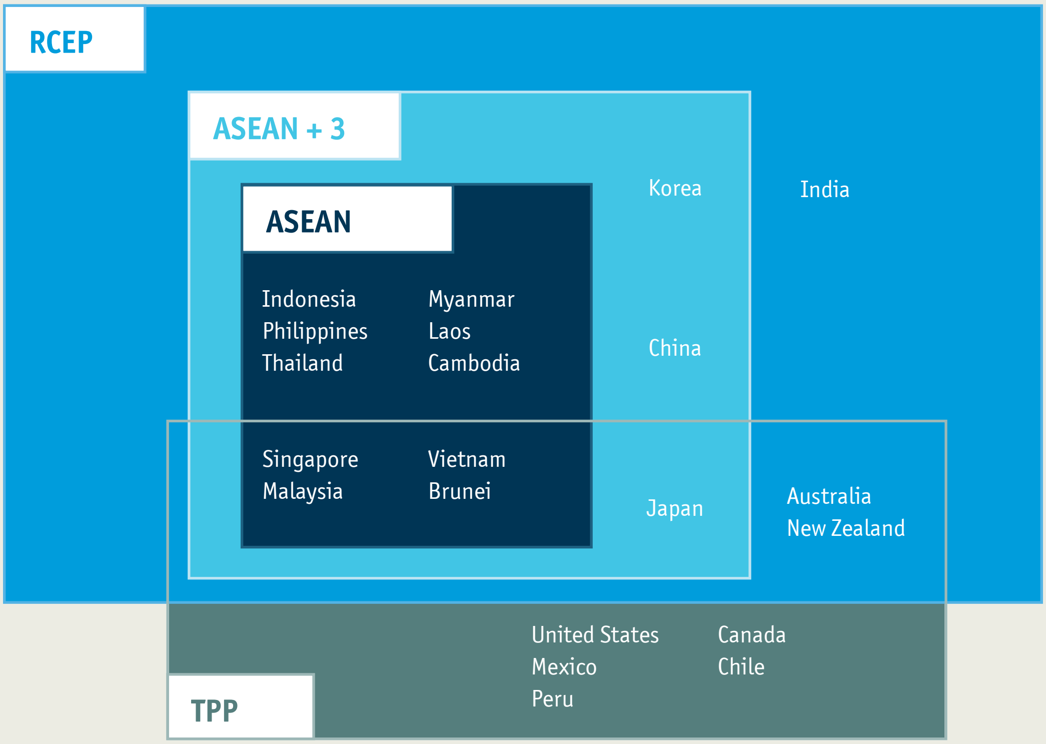
Global competitiveness index[iv]

43/140

[i] Average ranking of 189 countries in 2015; [ii] Average ranking of 167 countries in 2015; [iii] Ranking of 38 countries; [iv] Average ranking of 140 countries in 2015-16.

Sources: The Economist Intelligence Unit; World Bank; Transparency International: World Economic Forum; Global Intellectual Property Center.

Chart 3
Mega-regionals in Asia



Source: The Economist Corporate Network

In the sections below, we shift our level of analysis from the macro to the corporate sphere and examine how OBOR and the FTAs in question are perceived by business leaders in the region. We start by considering the impact of these mega-regional initiatives on the ASEAN business environment.

[3] Prospects and challenges on China's 'one belt, one road': a risk assessment report.
[4] Summary of the Trans-Pacific Partnership Agreement, Office of the United States Trade Representative.
[5] Assessing the Trans-Pacific Partnership, Peterson Institute of International Economics.

3. Reshaping the ASEAN business environment

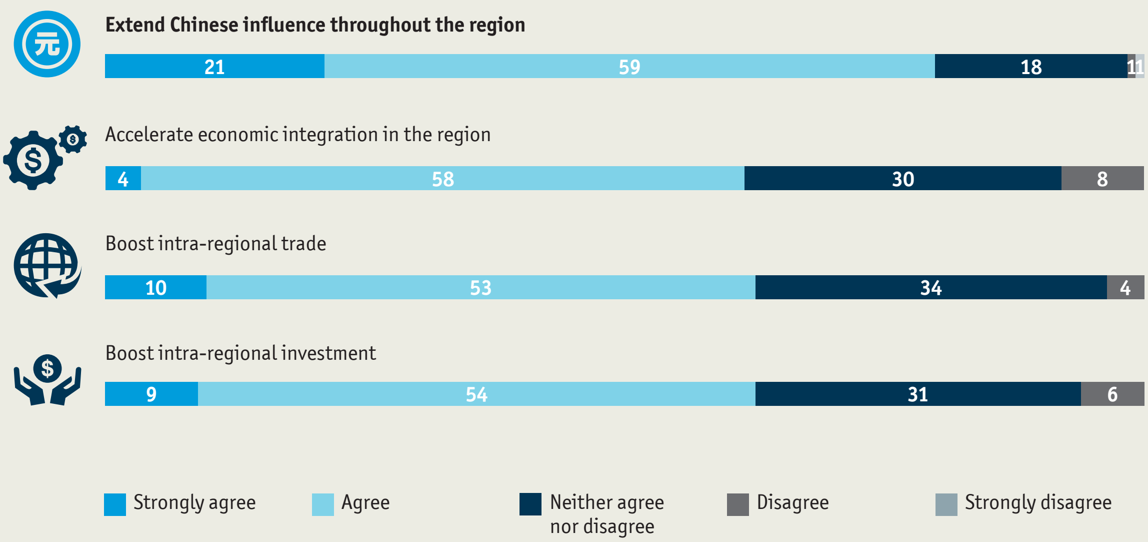
Asia's mega-regionals are reshaping the ASEAN business environment by facilitating a deeper level of integration within the region and beyond. Improved infrastructure and a more robust regulatory framework will spur business opportunities, and competition.

One of the expectations of OBOR is that it will drive economic integration and cooperation at the macro level within Asia and beyond, and as far as the Middle East, Africa, and parts of Europe. But what are the implications of deeper integration for businesses and individual companies operating in the region?

ASEAN integration is characterised by a "bottom-up" regionalisation of trade and production which has continued apace over the past two decades. Around 60% of our respondents expect OBOR to further contribute to the ASEAN integration process, and to boost intra-regional trade and investment. Indeed, OBOR related infrastructure projects will play a key role in drawing the region together and add to the capacity for future growth. Suhaimi Ilias, Chief Economist at Maybank, Malaysia's largest bank and one of the largest banks in South-east Asia, sees sizable opportunities for regional financial players to participate in project financing. Malaysian financial institutions, he suggests, are well positioned for these opportunities given their experience of large scale infrastructure projects in Malaysia and elsewhere.

OBOR related infrastructure projects should also facilitate follow-on cross-border direct investments in the manufacturing and service sectors as companies look to capitalise on locational advantages (for example, low cost labour) and local markets. To maximise these advantages, OBOR should also seek

Chart 4
In terms of the impact on ASEAN, we expect the OBOR initiative to:
(% of respondents)



Source: The Economist Corporate Network

to complement existing initiatives such as the ASEAN Master Plan for Connectivity (AMPC) which envisages the development of a system of roads, railways and ports to link South-east Asian economies together. By extension, OBOR projects in ASEAN may also be seen as an important component in the push to realise the AEC's vision of a single market for goods, services, investment and skilled labour. Indeed, although the AEC was officially established at the end of 2015, much remains to be done to realise a fully integrated ASEAN market. To this end, the ASEAN community has developed the AEC Blueprint 2025, which builds on the goals of the 2015 chapter and guides the bloc's integration efforts over the coming decade (see appendix for more on the AEC Blueprint 2025).

Despite the substantial economic impact that OBOR could potentially bring to ASEAN, strikingly, however, more respondents (80%) expect OBOR's greatest impact to lie in the extension of Chinese influence throughout the region (see chart 4).

Rising with the dragon

The economic links between China and ASEAN have been growing stronger for the past two decades and even more so since the 2008-09 global financial crisis. Take bilateral trade between China and ASEAN, for instance. ASEAN-China trade has grown steadily since the late 1990s, but it was only from the mid-2000s that it really started soaring: ASEAN-China bilateral trade accounted for 9.1% of the value of total ASEAN trade in 2003, but 19.1% in 2014. By 2009 China had taken Japan's place as ASEAN's largest trading partner.

This tighter economic relationship between the Middle Kingdom and South-east Asia is a result of a number of factors. Importantly, improving political ties and supporting policy agreements have facilitated greater economic engagement between the two. For example, the ASEAN-China free trade area (ACFTA) framework agreement, which looks to enhance not just trade but also investment co-operation, was signed by both entities in 2002. The respective agreements to promote free trade in goods, services and investment were progressively implemented, and the ASEAN-China free trade area became fully operational in 2010 with zero tariffs for 93% of the products traded between China and ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, The Philippines, Singapore and Thailand).

It is important to note that this ASEAN-China FTA was initiated by China, and the motivations were very much politically driven. In proposing the ACFTA, the Asian giant was responding to ASEAN countries' concerns over its rapid ascent, as China's swift rise had naturally caused uneasiness among its neighbours, who were uncertain about China's intentions. Indeed, on many levels (political and economic), ASEAN states perceived—and continue to perceive—China more as a threat than a potential partner. These concerns of a "China threat" were heightened with China's entry as a member of the World Trade Organisation (WTO) in 2001, as ASEAN economies feared that China would become an even stronger competitor in both their export markets and in their efforts to attract foreign direct investment.

Review your organisational structure to reflect ASEAN's emerging single market for goods, services, skilled labour and capital

ASEAN in China's embrace

Understanding all this, China proposed the ASEAN-China FTA, which was largely embraced by ASEAN leaders. With its focus on integration and cooperation, the ACFTA helped to ease ASEAN's fear of China's growing regional dominance. Moreover, as the first FTA of its kind in Asia, the ACFTA gave both parties first-mover advantages. For ASEAN, the ACFTA helped members to gain a first-mover foothold in the largest and fastest-growing emerging market in the world. For China, the first-mover advantages were more of a diplomatic nature—the deal supported its desires to build smoother political relations, earn greater trust and increase its influence and leadership among its neighbours. Soon after the ACFTA framework agreement was signed, Japan, worried that China would dominate the region, also started negotiations with ASEAN to develop a similar economic partnership.

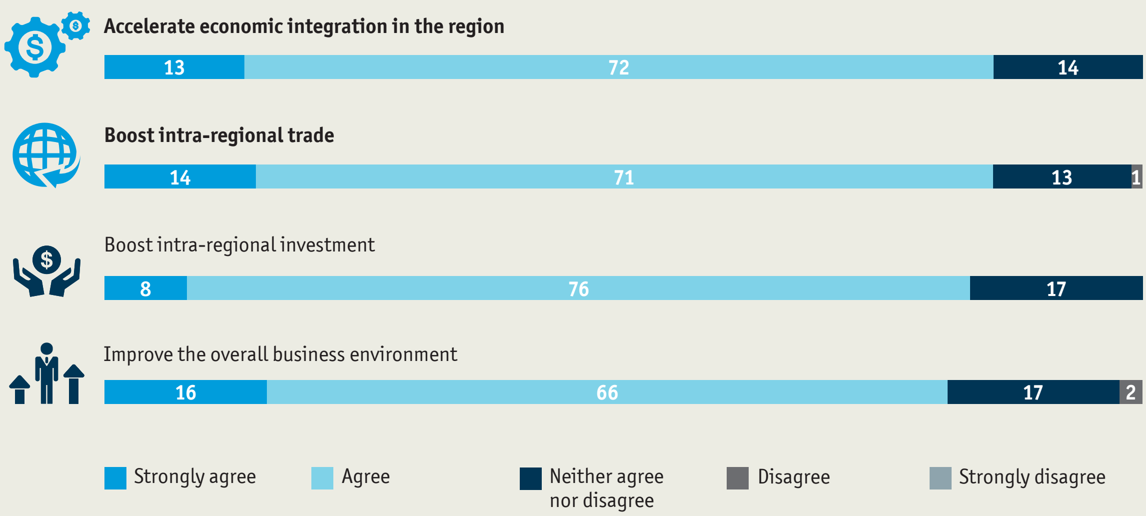
Although some ASEAN economies still view China with a degree of wariness, policies such as the ACFTA have nonetheless improved the ASEAN-China relationship. China's ambitions for the OBOR policy to improve its political standing and influence among destination countries, however, are obviously much further and wider. It remains to be seen if the expected extension of Sino-influence through OBOR will result in more friendly ASEAN-China relations, or if a perception of China's overbearing influence, coupled with the many challenges in implementing OBOR , will instead create new flashpoints and conflict between China and the ASEAN OBOR destination countries (or other OBOR destination countries, for that matter).

Meanwhile, ASEAN has, in economic terms, benefited significantly from China's growth and development. The rapid rise of outbound investments from China, encouraged from the top down under the "go out" policy has led to a surge of Chinese FDI in ASEAN economies. In the infrastructure sector, for example, Chinese firms now jockey for position with more established players from Japan and South Korea. Competition with Japan in this arena is particularly fierce: a Chinese led consortium in late 2015 won a US$5 billion rail project linking Jakarta with Bandung, in West Java, beating a rival Japanese bid that had long been favoured to secure the project. China was reported to have clinched the deal by offering to finance the project without requiring the Indonesian government to guarantee the loan.

In addition to trade and investment, China's rising influence is also observed in the growing use of the renminbi for global payments. The Society for Worldwide Interbank Financial Telecommunication (SWIFT), an organisation that facilitates payments between financial institutions, reported in March 2016 that the renminbi had overtaken the ringgit in Malaysia-China payments, for example.

However, for ASEAN states, growing interdependence with China may also be seen as something of a two-edged sword. Economies like Indonesia and Malaysia, for instance, which grew strongly on the back of the

Chart 5
In terms of the impact on ASEAN, we expect the TPP and RCEP trade agreements to:
(% of respondents)



Source: The Economist Corporate Network

commodity demand coming from China, have been hit harder than others due to the recent slowdown of the Chinese economy and the concomitant weakening of its demand. The question of whether OBOR will increase the risk of overdependence on China will be one for policy makers throughout ASEAN economies to ponder as pipeline projects become reality.

The attraction of integration

As chart 5 shows, a significant majority of survey respondents (85%) expect the TPP and RCEP to boost economic integration in the region, with similar proportions predicting growth in both intra-regional trade (85%) and intra-regional investment (84%), which are higher rates than for OBOR (63% for both intra-regional trade and investment, as shown in chart 4).

Intra-regional trade within ASEAN reflects deepening integration but growth in recent years has fluctuated significantly due to a weak economic recovery from the financial crisis in developed economies and the changing structure of the Chinese economy. In spite of this, intra-regional trade, on a value basis, was 58.9% higher than in 2007 – a slightly higher growth rate than for extra-regional trade (51.7%). The TPP and RCEP can be expected to facilitate a further deepening of intra-regional trade as companies look to reorder production networks and supply chains. As ASEAN becomes more of a single market and production base, manufacturing companies have been both consolidating operations to reap economies of scale, and, concomitantly, fragmenting value chains to locate different parts of the manufacturing process in places with the most appropriate skills, costs, resources and connectivity[5]. While this process has been ongoing for manufacturers, further progress towards the establishment of a single ASEAN market for capital, skilled labour and services will present similar organisational opportunities for companies operating in the service sectors.

According to the ASEAN secretariat[6], intra-regional FDI, almost exclusively from the ASEAN-6 (i.e., excluding CLMV[7] economies), accounted for 17% of total FDI flows on average between 2008 and 2014, compared with 12% on average in the early 2000 period (2001-2007). CLMV economies also witnessed an increase in their share of intra-regional FDI from 8.1% in early 2000 to an average of 15.1% between 2008 and 2014.

Again, the TPP and RCEP can be expected to drive this further: deeper integration within a regional group such as ASEAN reduces investment restrictions and transaction costs and thus boosts intra-regional FDI flows. Moreover, extra-regional FDI (i.e. inflows by investors from outside a region) may also increase as a result of a more attractive, and enlarged, market. This is a view echoed by Sridharan Nair, Managing Partner at PwC Malaysia, who notes that "one of the most important distinguishing features of the TPP is its focus on transparency and protection of intellectual property rights. This, and the dispute settlement mechanism, will make Malaysia a more attractive investment destination".

Suhaimi Ilias of Maybank agrees. He also highlights the opportunities for Malaysia's small and medium sized enterprises (SMEs) to graduate from the domestic market to become regional, or even global, players. He suggests that the TPP will lead to a more competitive domestic environment, spurring innovation and entrepreneurialism, as opportunities for domestic firms to service multinationals—and participate in global value chains—increase. In this sense, TPP can act as an enabler for Malaysian firms, pushing them to climb the value ladder. As such, the TPP will be an important driver of growth for Malaysia, although he suggests a bias towards exporters continues to inform policy. Indeed, primary (palm oil, rubber and wood products) and secondary sector industries including electrical and electronics (E&E), textiles, automotive components and chemicals will be the chief beneficiaries of the agreement.

In response to a follow-up question asking if membership of the TPP made countries more attractive as investment destinations over non-member countries, 69% of survey respondents agreed that it did. Indeed, this may have been one of the key motivating factors for Vietnam in joining the agreement. Yet according to Jay Bierley, CFO, Bunge Asia, a global agribusiness and food company, while the TPP is "relevant and attractive" and

Bunge "actively keeps up to date on developments", it is not currently regarded as a game changer. Bunge is anyway "actively looking to expand regardless due to huge and growing demand in Vietnam".

Regulatory reboot

In addition to boosting intra-regional trade and investment, the TPP and RCEP are expected to improve the overall business environment. In fact, this may turn out to be the area of most significance. ASEAN signatories, Singapore excepted, will face considerable challenges in upgrading their regulatory regimes to comply with TPP commitments. The Economist Intelligence Unit awards Singapore a very low risk profile[8] (8) for its regulatory and legal environment whereas Malaysia (40) and Vietnam (52) clearly have areas of concern. As previously noted, TPP's 30 chapters cover environmental and labour issues, the digital economy, commitments on intellectual property rights, rules on state owned enterprises, and investor-state dispute settlement provisions that set a high bar.

Challenging, but highly rewarding as once these commitments are met, member countries will be operating to global best practice. It is important to note, however, that ratification of the agreement does not lead to immediate implementation of all of the agreement articles. Emerging economies will enjoy certain grace periods as they revise, or indeed develop for the first time, the necessary legal and regulatory frameworks. This, points out Koji Tsuruoka, Japan's former Chief Negotiator for the TPP, is one of the strengths of the agreement and something that makes it particularly appealing to other emerging economies. Mr Tsuruoka also points out that the TPP is an open agreement in that, in theory, any country is welcome to join, even China.

Consider how ready your company is for greater interaction with Chinese players

KEY POINTS

- Mega-regional initiatives will drive economic integration and greater connectivity in ASEAN.
- For ASEAN economies membership of the TPP may offer an effective counterbalance to the expected extension of Chinese influence in the region.
- Membership of the TPP may also afford member countries in ASEAN a competitive advantage over non-signatories in terms of attracting inward investment.
- The TPP will necessitate significant upgrades to national regulatory environments and ultimately facilitate a much enhanced business environment.

[5] See our earlier report, Re-drawing the ASEAN Map: How companies are crafting new strategies in South-east Asia.
[6] ASEAN Integration Report 2015.
[7] Cambodia, Laos, Myanmar and Vietnam.
[8] 0 = no risk, 100 = very risky.

Focus on Vietnam

Vietnam is the country that is widely expected to benefit most from membership of the TPP. The Peterson Institute for International Economics, a US think-tank, found that compared to a baseline with no TPP, Vietnam's income gains in 2025 with a comprehensive TPP would be over 13% higher, while its exports in 2025 would be over 37% greater—significant gains for an emerging economy. On a sectoral basis, greater access to the developed US and Japanese markets presents considerable opportunities for garment and apparel manufacturers and the elimination of tariffs will also benefit the fishing industry.

Vietnam is a World Trade Organisation member, and its membership of TPP reflects an ambitious trade liberalisation plan, boosting access to more export markets. In addition to signing-up to the TPP, Vietnam has also finalised bilateral FTAs with South Korea and the Eurasian Economic Union in 2015, and is making progress in executing commitments under the AEC. A new EU trade deal was signed in December 2015. These efforts are partly geared towards reducing a heavy trade dependence on China, reflecting to some extent the geopolitical context of FTAs.

Although the implementation of the AEC, the TPP and bilateral FTAs will take place only gradually, these frameworks will provide policy anchors that will support Vietnam's long-term prospects. These anchors are critical, as they lock in steps to liberalise Vietnam's international trade and investment regime. In November 2014, Vietnam enacted a new Investment Law and a new Enterprise Law, both entering into force on July 15th 2015. The new investment law, among other measures, narrows down the list of "prohibited sectors" or businesses in which local and foreign investors are expressly forbidden from 51 to six, and reduces the number of "conditional sectors", from 386 to 267, where investors must satisfy certain conditions before commencing business.

Inward investment flows are also expected to increase significantly, particularly in attractive sectors that include manufacturing (textiles and footwear, but also, increasingly, hi-tech), agriculture and retail. State owned enterprise (SOE) "equitisation" in, among others, the telecommunications and beverage sectors will also present opportunities for investors in 2016. Vietnam's involvement in these trade agreements will entice foreign investors but protectionist sentiments in certain industries are still strong, and this may delay the implementation of reforms. The removal of tariff and non-tariff barriers will not be smooth. There are regulatory restrictions for capital inflows and outflows. Indeed, other regulations introduced following the 1997-98 Asian financial crisis have still not been eased. Moreover, concerns also exist over the availability and quality of labour. Finally, some of Vietnam's increased inflow of direct investments will be as a result of FDI "diversion" whereby investors will reroute capital from other countries, such as Cambodia, which could create tensions within ASEAN itself.

Vietnam risk measures	Score	ASEAN average
Overall assessment	49	44
Security risk	29	39
Political stability risk	50	48
Government effectiveness risk	68	60
Legal & regulatory risk	52	54
Macroeconomic risk	30	23
Foreign trade & payments risk	43	39
Financial risk	50	39
Tax policy risk	50	34
Labour market risk	61	52
Infrastructure risk	56	51
Note: 100=most risky		

Source: The Economist Intelligence Unit, April 2016

Black=unchanged
Green=less risky
Blue=more risky
Compared to the previous year

Population and key economic indicators	2015 estimate	2016 forecast
Population (m)	93.4	94.4
Nominal GDP (US$ bn)	191.4	206.8
Real GDP growth (%)	6.7	6.8
Nominal gross fixed investment (US$ bn)	47.5	51.8
Real gross fixed investment growth (%)	9.6	9.8
Stock of inward foreign direct investment (US$ bn)	100.7	111.3
Consumer price inflation (yearly average; %)	0.9	1.5
Current-account balance (US$ bn)	2	1.2
Total foreign debt (US$ bn)	72	76.7

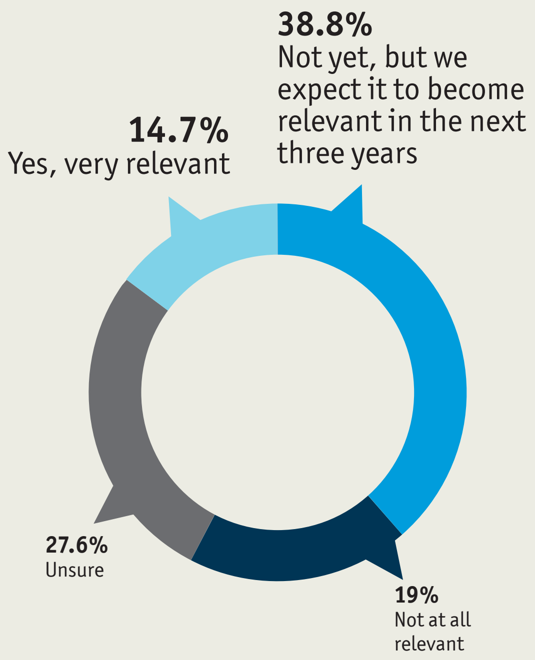
Source: The Economist Intelligence Unit

4. What does it all mean for business?

How are these initiatives perceived by business leaders in the region today? How prominently do they feature in current strategic thinking? And what does this imply in practical terms? In short, what do these developments mean for business?

The Chinese government has been promoting the OBOR initiative since 2013, and the TPP agreement was signed in February 2016, but how prominently do these developments feature in current strategic thinking at businesses in the region today? Are these issues at the top of the CEO's agenda or of only marginal interest at present? To get a sense of how these mega-regionals are perceived by business leaders in the region, we asked our respondents to indicate how relevant the initiatives are to them now and how important they expect them to become over the medium term (i.e., the next three to five years).

Chart 6
Is China's "One Belt, One Road" (OBOR) initiative relevant to your business? (% of respondents)



Source: The Economist Corporate Network

It's in the post

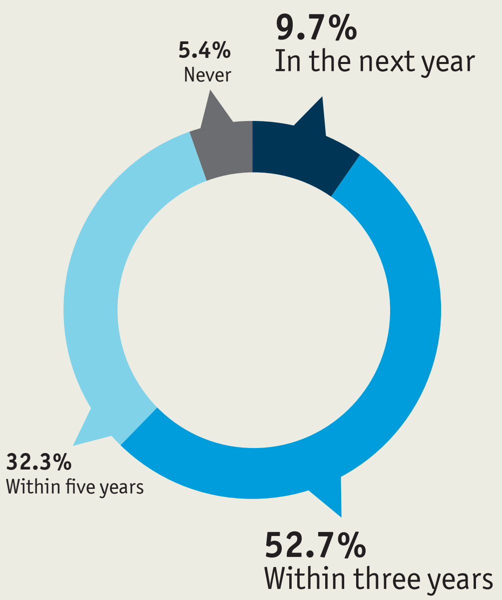
Less than 15% of respondents say that OBOR is "very relevant" to their business now (see chart 6). Importantly, however, 38% of respondents believe that while OBOR is not relevant today, it will become so within the next three years.

Given that OBOR is still a relatively new initiative—and of which details are still emerging—it is not surprising that many business leaders have adopted a "wait-and-see" approach for now. The fact that at this early stage of its development a significant number of companies are already considering OBOR to be very relevant to their business—with many others expecting it to become so in just a few years—indicates how great the impact could be when more OBOR related projects have fully broken ground.

As Satish Shankar, Managing Partner, Bain & Company, SE Asia, notes, OBOR is still largely "aspirational and in the developmental stage at present". But as more information becomes available and high-profile projects are unveiled, awareness of the policy will grow, and we expect a greater number of companies to leverage on the many opportunities that OBOR will bring. To help companies realise and capitalise on such opportunities, the Singapore Business Federation has already launched an online portal to provide OBOR news and information in an attempt to highlight opportunities for businesses[9].

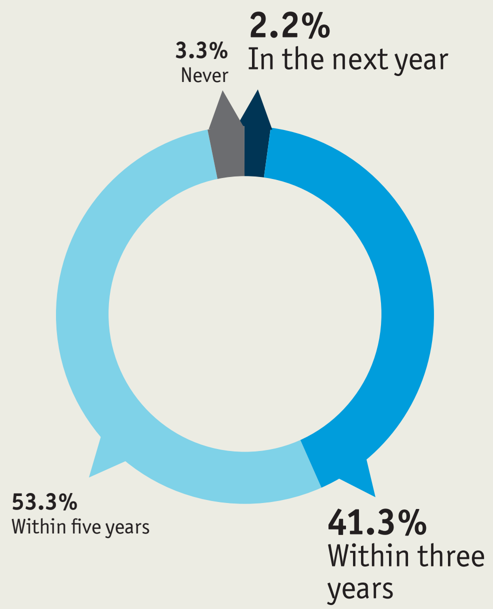
When asked about the trade agreements, just fewer than 10% of respondents expect to see the TPP ratified

Chart 7
When do you expect the Trans-Pacific Partnership (TPP) trade agreement to be ratified and operational? (% of respondents)



Source: The Economist Corporate Network

Chart 8
When do you expect the Regional Comprehensive Economic Partnership (RCEP) trade agreement to be ratified and operational? (% of respondents)



Source: The Economist Corporate Network

within 2016 while 53% look to a three year time frame, and around a third suggest a longer five year period (see chart 7). When asked about the RCEP, expectations were markedly more restrained with a majority (53%) predicting that the agreement will be ratified and operational only within a five year period (see chart 8).

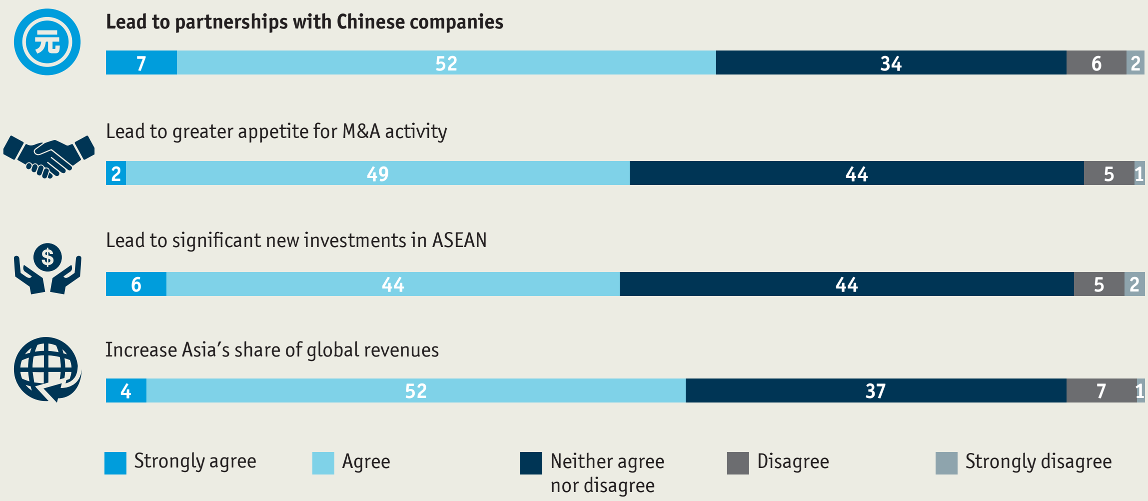
Given this time frame, can the TPP and RCEP be anything more than background noise to business leaders focused on finding growth in the currently challenging business environment? Richard Owens, Executive Vice President, Customer Solutions and Innovation, DHL Asia, notes that "we look at anything that facilitates trade" yet while he views the TPP as a significant development, he suggests that DHL would wait until ratification before building up capabilities in new countries. In Mr Owen's view, the TPP is not currently regarded as a dominant factor in regional value chains that are already well established. Expect this to change once the agreement is fully ratified and the promise of TPP starts to become reality, however.

More partnerships, more investments

The potential investment opportunities coming out of OBOR are certainly attractive. Given the significant sums of funds involved—capitalisation of around US$40bn in the Silk Road Fund, US$100bn in the AIIB and US$100bn in the New Development Bank, not to mention potential loans from China's state-owned banks—the appetite for partnerships with Chinese firms to develop OBOR-related projects is growing. In our survey, a notable 59% of respondents indicated that they expect their firm to form partnerships with Chinese companies as a result of OBOR (see chart 9). Around half of all respondents also expect to see a greater appetite for M&A activity as well as a significant increase in new investments in ASEAN.

Business leaders are not the only ones getting excited. Government agencies from around the world—in the UK, Australia, Singapore, Hong Kong and other advanced economies—have started to promote OBOR as an opportunity to be seized with both hands. Pansy Yau, Deputy Director of Research at HKTDC, the Hong Kong government's trade promotion agency, expects

Chart 9
In terms of the impact on our business, we expect the OBOR initiative to:
(% of respondents)



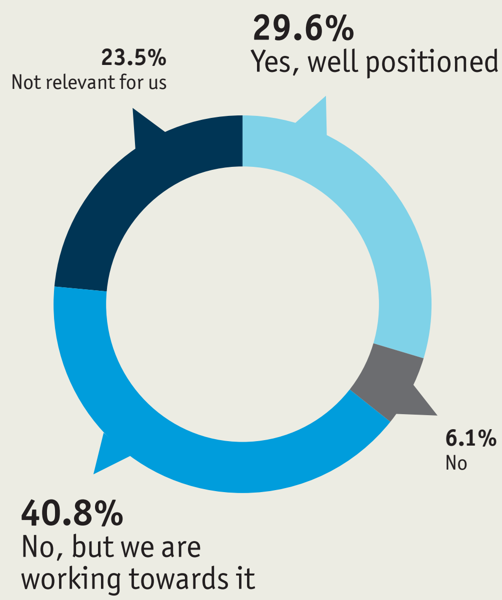
Source: The Economist Corporate Network

Hong Kong-based consultancies to play an important role in match-making mainland Chinese firms with foreign partners, as well as providing services to such partnerships. Mr Goh Chee Kiong, executive director of cleantech and cities, infrastructure & industrial solutions at Singapore's Economic Development Board (EDB), similarly harbours hopes for Singapore-based firms to facilitate OBOR-related projects in South-east and South Asia, leveraging Singapore's reputation for representing international best practices in infrastructure financing and development, as well as its firms' knowledge of the surrounding region, to attract partnership opportunities with Chinese state-owned and private firms.

The early bird catches the worm

Clearly, companies which are already well-positioned to capitalise on the opportunities that OBOR presents will no doubt have a "first-mover" advantage. At present, although only 29% of respondents believe their company is "well positioned" to seize on the opportunities of OBOR, it is important to note that a significant group of respondents (40%) reveal that they have already started "working towards it" (see chart 10).

Chart 10
Is your business well positioned to benefit from the opportunities that OBOR presents?
(% of respondents)



Source: The Economist Corporate Network

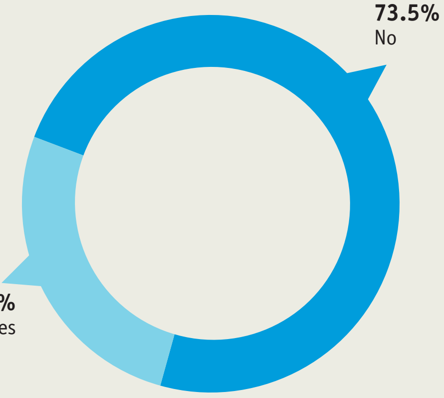
Although OBOR may not be important to a company's day-to-day operations today, it is likely to become increasingly so over the new few years. Businesses need to start thinking about how to position themselves as OBOR unfolds, especially since many of their competitors already are.

In fact, more than a quarter of our survey respondents reveal that the OBOR initiative is already influencing their strategic planning (see chart 11).

And what exactly are companies doing to improve their competitiveness in response to OBOR? From our survey, business leaders shared the top five areas they are working on. These are to:

- Build up human capital capabilities
- Source for project development opportunities
- Look for joint venture partners
- Look for potential acquisitions
- Establish new representative offices

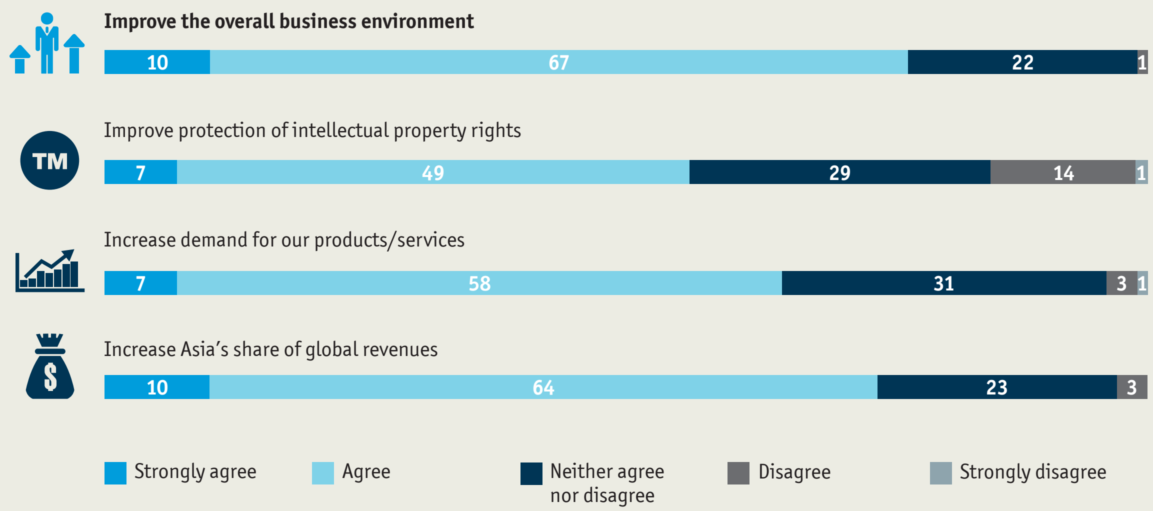
Chart 11
Is the OBOR initiative currently influencing your strategic planning? (% of respondents)



Source: The Economist Corporate Network

When asked how the TPP and RCEP are expected to impact their business, the overall improvement to the business environment is identified as the most significant factor by 77% of respondents (see chart 12). Respondents also expect an increase in Asia's share of global revenues (74%), increased demand for their products or services (65%) and improved protection of intellectual property rights (56%).

Chart 12
In terms of the impact on our business, we expect the TPP and RCEP trade agreements to:
(% of respondents)



Source: The Economist Corporate Network

We also asked respondents to identify the top three aspects of the TPP that they regard as most important to their business from the following list:

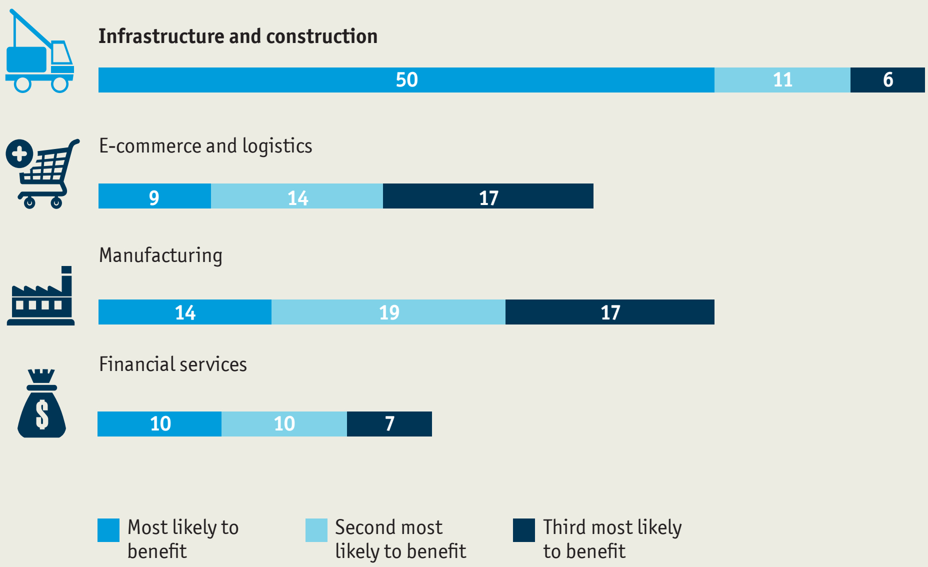
- Facilitating trade in goods
- Facilitating trade in services
- Better investment access
- Improved dispute settlement
- Improved governance
- Improved overall business environment
- Simplification of rules of origin
- Promotion of e-commerce
- More opportunities for government procurement

The TPP is regarded as most important in terms of facilitating trade in goods (46%), second in terms of improving the overall business environment (24%) and third for creating better investment access (21%). The TPP is first and foremost a free trade agreement which, according to the US administration, will facilitate the elimination of more than 18,000 taxes on Made-in-America exports. As discussed above, however, the main impact for developed economies like the US will be found in much improved access to previously protected sectors. The elimination of non-tariff barriers is one thing, but the agreement's stress on investor and IP protection should also encourage investment and growth.

KEY POINTS

- Expect OBOR and the TPP to become increasingly relevant in the next three years.
- Get serious about working with Chinese companies as joint venture partners.
- Competition for talent, especially those with Chinese language skills, networks and experience, will increase.
- Consider the implications to your business of regulatory upgrading and enhanced protection under the TPP.
- Expect Asia to account for a greater share of global revenues as TPP helps to boost growth.

Chart 13
Which sectors do you expect to benefit most from the OBOR initiative?
(number of respondents)



Source: The Economist Corporate Network

Impact on industry

OBOR will have an especially large impact on regional supply chains and logistics, as well as on project finance opportunities. Indeed, the firms that already consider OBOR relevant today are predominately in the transportation (35%) and financial services (29%) sectors. The frontrunners include Rhenus Logistics, which has a comprehensive logistics network covering the entire Asia Pacific region. Rhenus is already involved in a six times a week rail freight link that connects western China with Duisburg, Germany, which Tobias Bartz, CEO of Rhenus Asia Pacific, describes as “highly successful” and sees further opportunities to link up with ASEAN economies.

In a similar vein, our survey respondents identified the infrastructure and construction industries as the sector which will benefit most greatly from OBOR (see chart 13). The manufacturing sector, and e-commerce and logistics were also singled out as major beneficiaries.

Improved infrastructure in the least developed parts of Asia—as OBOR projects will help to achieve—is likely to lead to a reorganisation of supply chains within the region and beyond. According to Mr Goh Chee Kiong from Singapore’s Economic Development Board (EDB), OBOR will address the region’s “trade barriers” such as a lack of access to capital for major infrastructure projects—in essence, physical barriers. “Trade routes will be shorter and equipped with more efficient transport technologies, increasing trade flow and volume along the belt,” he says. In this aspect, the impact of OBOR in South-east Asia is similar to that of free trade agreements (FTA) in earlier periods, for example the ASEAN-China FTA (ACFTA) and the ASEAN FTA (AFTA).

E-, and M-commerce are booming in the region and have potential to fundamentally reshape consumption patterns among ASEAN’s emerging middle classes. In 2013, the value of e-commerce in China reached US$295bn, overtaking the US to become the world’s biggest e-commerce market. More than 8% of all retail sales in China are now conducted online and are forecast to reach 16% by 2018. Similar patterns are unfolding in the rest of Asia too. Improved infrastructure and telecommunications will serve to accelerate these trends, as will the deepening penetration of smartphones, with important implications for the retail trade and its service providers.

[9] Singapore Business Federation and Lianhe Zaobao launched the Chinese language “One Belt, One Road” portal in March 2006. See http://beltandroad.zaobao.com/

5. Conclusion

The issues discussed in this paper reflect the profound shifts occurring in the global economy as a result of the (continued) rise of China. Adopting a geopolitical perspective, OBOR may be seen as an attempt by China to assume more of a regional leadership role while the US championing of the TPP may be seen as the economic component of the American strategic "pivot" to Asia.

With the world's largest economies vying for influence, ASEAN economies could be in something of a sweet spot. The region desperately needs the added infrastructure spend that China is bringing to the table while preferential access to the developed economies of Japan, North America and Australia create welcome opportunities for exports. The deeper integration that these mega-regionals are expected to promote will also add momentum to the AEC and the vision of a single ASEAN market. These developments make for a more attractive investment destination, as economies like Vietnam are already finding out.

As Asia's mega-regional trade and investment initiatives unfold, they create and deepen channels of connectivity in ASEAN and beyond. Greater connectivity in turn creates tremendous opportunities for business, and companies need to start preparing for this enhanced yet more competitive environment now.

Appendix

Data on the 144 companies that took part in our survey

A total of 144 companies took part in our survey, conducted through February and March 2016. They represent a diverse mix of industries although 44% of respondents come from the financial services (21.5%), professional services (12.5%) and IT & software (10.4%) sectors. Respondents generally worked at large companies: 35% came from firms with over US$10bn in global revenue, with a further 29% of respondents working at firms with global revenues of between US$1bn and US$10bn.

Respondents from companies based in Europe (37.4%) and North America (27.3%) collectively accounted for 64.7% of the total, with a further 21.6% coming from ASEAN. 67.3% report that Asia Pacific operations are managed from Singapore and Hong Kong, underlining the regional hub status of those two cities. The vast majority of respondents (77.1%) are primarily B2B, with 19.1% B2C.

In which sector do you operate?

	(% of respondents)
Agriculture & food processing	3.5%
Automotive	2.1%
Chemicals	0.7%
Electronics	2.1%
Energy & power generation	2.1%
Engineering	1.4%
FMCG	0.7%
Financial services	**21.5%**
Government	0.7%
Healthcare	2.1%
Hotels & leisure	1.4%
IT & software	**10.4%**
Luxury goods & fashion	1.4%
Manufacturing	6.3%
Media & marketing	1.4%
Mining & natural resources	0.7%
Oil & gas	2.1%
Pharmaceutical	4.9%
Professional services	**12.5%**
Retail	2.8%
Real estate & construction	2.8%
Telecoms	3.5%
Transport	6.9%
Other	6.3%

What is your global HQ?

	(% of respondents)
Non-ASEAN	78.4%
ASEAN	21.6%

Where is your company's global HQ?

	(% of respondents)
Non-ASEAN	85.8
ASEAN	14.2

From where are your Asia Pacific operations managed?

	(% of respondents)
Singapore	48.2%
Hong Kong	19.1%

What is your primary customer group?

	(% of respondents)
Business customers (B2B)	77.1%
Individual consumers (B2C)	19.1%
Government	3.8%

Appendix 2

The ASEAN Economic Community (AEC): Blueprint to 2025

There are four key strands of the AEC: creating a single-market production base; forming a competitive economic region; facilitating equitable economic growth; and, eventually, deeper integration with the rest of the global economy. The AEC is implemented through the signing of various agreements and legally binding contracts between the ASEAN member states.

The AEC Blueprint 2025, adopted by the ASEAN Leaders on 22 November 2015 in Kuala Lumpur, Malaysia, provides broad directions through strategic measures for the AEC from 2016 to 2025. Along with the ASEAN Community Vision 2025, and the ASEAN Political-Security Community (APSC) Blueprint 2025 and the ASEAN Socio-Cultural Community (ASCC) Blueprint 2025, the AEC Blueprint 2025 forms part of ASEAN 2025: Forging Ahead Together. It succeeded the AEC Blueprint (2008-15), which was adopted in 2007.

The AEC Blueprint 2025 is aimed towards achieving the vision of having an AEC by 2025 that is highly integrated and cohesive; competitive, innovative and dynamic; with enhanced connectivity and sectoral cooperation; and a more resilient, inclusive, and people-oriented, people-centred community, integrated with the global economy.

Although the 2015 blueprint has officially come to a close, the immediate agenda for 2016–18 will be to implement the outstanding measures from that plan. This includes the introduction of all remaining ASEAN-wide initiatives by end-2016 and a focus on bringing Cambodia, Laos, Myanmar and Vietnam up to speed in terms of implementation in order to make the level of integration across all member states more uniform by 2018.

Other measures that remain to be implemented include those aimed at reducing the costs to transfer goods. This includes the roll-out of the single-entry windows for goods to allow for one customs check for merchandise entering and travelling within ASEAN, which would do away with the multiple national border procedures of each member state. Trade in services also requires considerable catch-up, with negotiations on the ASEAN Trade in Services Agreement still under way.

However, the greatest obstacles that need to be overcome in the next decade as part of the ASEAN Community Vision 2025 include the elimination of non-tariff trade barriers, originally scheduled to be completed by 2018. This task will be considerable for many countries given their pervasive subsidies and tax incentives for many goods, including agricultural products.

Source: The ASEAN Economic Blueprint 2025; The Economist intelligence Unit

Appendix 3

Selected infrastructure projects tied to "one belt, one road" in China

Province	Type	Details	Completion
Xinjiang	Rail	Lanxin high-speed railway, linking Urumqi and Lanzhou (Gansu)	2014
	Air	Bayangol Airport	2015
	Power	Third strand to Central Asia Gas Pipeline	2015
	Air	Expansion of Hotan Airport	2016
	Power	Gas pipeline running from Turkmenistan to Xinjiang, via Uzbekistan, Tajikistan and Kyrgyzstan	2016
	Road	Hami-Linhe (Inner Mongolia) expressway	2016
	Rail	Railway, linking Hami and Ejin (Inner Mongolia)	2016
	Rail	Geku railway, linking Korla with Golmud (Qinghai)	2018
	Air	Shache Airport	2020
	Air	Tumu Shuker Airport	2020
	Air	Ruoqiang Airport	2020
	Air	Rebuilding and expansion of Urumqi Diwopu International Airport	Undisclosed
	Air	Expansion of Aletai Airport	Undisclosed
	Air	Rebuilding and expansion of Kashgar Airport	Undisclosed
	Road	Hami-Mingshui (Gansu) expressway	Undisclosed
	Road	Jinghe-Alashankou expressway	Undisclosed
Fujian	Rail	Hefu high-speed railway, linking Fuzhou with Hefei (Anhui)	2015
	Rail	Capacity expansion of Longyan-Ganzhou (Jiangxi) railway	2015
	Air	Saming Shaxian Airport	2015
	Port	Berths 4-5, Pingtan Port Area (Port of Meizhou Bay)	2016
	Port	Two docks with loading capacity of 300,000 tonnes, Luoyuanwan Port Area (Port of Fuzhou)	2018
	Port	300,000-tonne capacity iron-ore terminal, Meizhou Bay (Port of Meizhou Bay)	2018
	Port	300,000-tonne capacity crude-oil terminal, Quanzhou (Port of Meizhou Bay)	2018
	Port	300,000-tonne capacity crude-oil terminal, Gulei Port Development Area	2018
	Port	Berths 10-22, Sanduao Port Area (Port of Fuzhou)	2018
	Port	Berths 14-19, Xiamen Haicang Free Trade Port Zone (Port of Xiamen)	2018
	Rail	High-speed railway, linking Nanping, Sanming and Longyan	2018
	Rail	Railway linking Ningde and Quzhou (Zhejiang Province)	2018
	Rail	Pumei railway, linking Pucheng and Longyan	2019
	Rail	High-speed railway, linking Fuzhou and Pingtan	2019
	Port	Berths 6-9, Jiangyin Port Area (Port of Fuzhou)	2020
	Port	Xiamen Southeast International Shipping Service Centre	2020
	Air	Xiamen Xiang'An International Airport	2020
	Rail	Jiyongquan railway, linking Ji'an (Jiangxi) with Yongan and Quanzhou	Undisclosed
	Rail	High-speed railway, linking Xiamen to Changsha (Hunan) and Chongqing	Undisclosed
	Rail	High-speed railway, linking Fuzhou and Xiamen	Undisclosed

Source: The Economist intelligence Unit

Appendix 4

Selected infrastructure projects tied to "one belt, one road" in South-east Asia's infrastructure pipeline

Country	Project	Sector	Investment (US$ m)	Stage
Indonesia	Trans-Sumatra Toll Road	Transport	27,700	Pre-Construction
Indonesia	Sunda Strait Bridge	Transport	24,000	Planning
Vietnam	Ho Chi Minh City Metro System Master Plan	Transport	23,000	Feasibility Study
Singapore	Cross Island Line	Transport	21,000	Planning
Vietnam	Long Thanh Airport	Transport	15,800	Feasibility Study
Indonesia	Bontang oil refinery	Energy	14,500	Planning
Malaysia/Singapore	Kuala Lumpur-Singapore high-speed rail (HSR)	Transport	11,000	Planning
Philippines	Manila-Makati-Pasay-Parañaque Mass Transit System	Transport	8,370	Planning
Thailand	Bangkok-Chiang Mai HSR	Transport	8,275	Planning
Malaysia	Kuala Lumpur Mass Rapid Transit (MRT), Line 2	Transport	6,500	Tendering
Laos/China	Lao-China HSR	Transport	6,000	Awarded
Indonesia	Jakarta-Bandung HSR	Transport	5,100	Awarded
Philippines	Bulacan-Laguna rail	Transport	4,500	Planning
Philippines	North-South Commuter Railway	Transport	3,720	Tendering
Philippines	North-South Commuter Railway, South Line	Transport	3,610	Tendering
Philippines	Laguna Lakeshore expressway and dike	Transport	2,620	Tendering
Myanmar	Yangon Central rail station upgrade	Transport	2,500	Tendering
Vietnam	Hon Khai island deepwater port	Transport	2,500	Planning
Thailand	Bangpa- Nakhon Rachasrima motorway	Transport	2,350	Planning
Indonesia	Central Kalimantan Coal Railway Network	Transport	2,300	Tendering
Thailand	Blue Line extension	Transport	2,290	Planning
Indonesia	West Coast Expressway	Transport	2,000	Project signed
Malaysia	Penang underground tunnel link	Transport	2,000	Project signed
Indonesia	Kertajati Airport	Transport	1,800	Tendering
Indonesia	Soekarno-Hatta Airport Train Express Line	Transport	1,800	Design
Singapore	Tuas Terminal, Phase 1	Transport	1,800	Procurement
Indonesia	Soekarno-Hatta Airport Train express line	Transport	1,797	Planning
Indonesia	East-West MRT	Transport	1,700	Planning
Thailand	Development of Bangkok's MRT Pink Line elevated train	Transport	1,584	Planning
Philippines	Redevelopment of Ninoy Aquino International Aiport	Transport	1,583	Planning
Philippines	Manila Light Rail Transit (LRT), Line 7	Transport	1,540	Financial close
Thailand	Bangyai-Kanchanaburi motorway	Transport	1,540	Planning
Thailand	Development of Bangkok's MRT Yellow Line elevated train	Transport	1,528	Planning
Myanmar	Hanthawaddy International Airport	Transport	1,500	Awarded
Singapore	Singapore Sport Hub	Social & health	1,400	Operational
Philippines	Manila LRT, Line 6	Transport	1,390	Tendering
Philippines	Manila LRT, Line 1 extension	Transport	1,365	Financial close
Philippines	Philippine airport package B	Transport	1,300	Tendering
Philippines	Cavite and Laguna Expressway	Transport	1,228	Project signed
Philippines	Mindoro-Batangas floating bridge	Transport	1,125	Unsolicited proposal
Philippines	Regional Prison Facilities	Social & health	1,073	Tendering
Philippines	Philippine airport package A	Transport	1,070	Tendering
Philippines	Light Rail Transit, Line 4	Transport	1,065	Planning
Cambodia	Phnom Penh-Sihanoukville Highway Corridor Improvements	Transport	1,000	Feasibility Study
Laos	Xe-Pian Xe-Namnoy hydropower plant	Energy	966	Financial close
Indonesia	Balikpapan-Samarinda Toll Road	Transport	875	Planning
Philippines	Davao Light Railway Transit	Transport	842	Planning
Philippines	Davao port reclamation	Transport	837	Awarded
Thailand/Myanmar	Kanchanaburi-Dawei Railway	Transport	740	Planning
Indonesia	Kulon Progo (New Yogyakarta) International Airport	Transport	700	Awarded
Philippines	NLEX-SLEX connector road	Transport	578	Planning
Myanmar	National Electrification Development Program	Energy	567	Planning
Indonesia	Sarabaya monorail	Transport	558	Planning
Singapore	Tuas waste-to-energy plant	Energy	535	Project signed

Country	Project	Sector	Investment (US$ m)	Stage
Philippines	Bulacan bulk water supply	Water & waste	509	Project signed
Philippines	Motor Vehicle Inspection System	Transport	431	Planning
Philippines	Philippines School Infrastructure Project (PSIP), Phase II	Social & health	425	Awarded
Malaysia	Senai-Desaru Expressway	Transport	423	Operational
Philippines	New Centennial Water Source Project	Water & waste	405	Tendering
Laos	North-South 500 kV Transmission Line	Energy	400	Design
Philippines	Development of Davao Sasa Port	Transport	397	Tendering
Indonesia	Kalibaru Port, first container terminal	Transport	393	Project signed
Philippines	Mactan-Cebu International Airport, new passenger terminal	Transport	367	Financial close
Philippines	NAIA Expressway	Transport	360	Project signed
Indonesia	Manado-Bitung toll road	Transport	330	Planning
Philippines	Batman1 gas pipeline project	Energy	319	Planning

Source: InfraPPP; CG/LA; The Economist Corporate Network

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