FUNDACIÓN CHILENA DEL PACÍFICO

2021

Trade Potential ASEAN-Chile

Jane Drake-Brockman

Research on the Trade Potential ASEAN-Chile

About this research

The Chile Pacific Foundation is proud to present this research, which aims to provide highly valuable information, analysis and forward-looking views on the trade potential with Chile of the Association of Southeast Asian Nations (ASEAN). The idea of beginning a line of work entirely dedicated to ASEAN, including the commissioning of this research, came up in mid-2020, after thoroughly discussing Chile's international trade and foreign investment priorities with the Undersecretariat of Economic International Relations headed by the Vice Minister of Trade, Rodrigo Yáñez, and senior members of his team.

The Foundation immediately began the process of searching for a world-class expert in different countries to conduct the study, who was able to carry it out in record time and in close editorial coordination with the Foundation's staff. This way, the Foundation wants to contribute to feeding the policymaking process regarding the country's most relevant next steps in terms of its international trade and efforts to open up new markets in the Asia Pacific region.

At the Chile Pacific Foundation, we firmly believe international trade, foreign investment flows and economic integration have been at the core of the country's successful development strategy over the last three decades. This is why we strive to help trade and economic authorities make the most of potential new opportunities for the country by carrying out a diverse work agenda. We believe this is even more important in light of the tectonic changes to the world economy triggered by the ongoing pandemic, which have significantly changed many aspects of international trade as we used to understand it.

This research provides a comprehensive, high-level analysis on the trade potential of the ASEAN nations and the arising trade opportunities for Chile from moving closer to this region. It breaks down the different categories of goods and services with growth potential and provides a dedicated section to delve into a group of relatively less known ASEAN countries.

Loreto Leyton
Executive Director
Chile Pacific Foundation

Acerca de esta investigación

Para la Fundación Chilena del Pacífico es un orgullo presentar esta investigación, cuyo objetivo es entregar información, análisis y proyección altamente valiosos con respecto al potencial comercial para Chile de la Asociación de Naciones del Sudeste Asiático (ASEAN). La idea de comenzar una línea de trabajo dedicada a ASEAN, incluido el encargo de la presente investigación, surgió luego de un encuentro, a mediados del 2020, con la Subsecretaría de Relaciones Económicas Internacionales (SUBREI), encabezada por el Subsecretario Rodrigo Yáñez, e integrantes senior de su equipo, para conversar sobre las prioridades del país en materia de comercio e inversiones internacionales.

La Fundación comenzó de inmediato el proceso de búsqueda, en varios países, de un experto de clase mundial, quien fue capaz de llevarla adelante en un tiempo récord y en estrecha coordinación editorial con nuestro equipo. De esta forma, la Fundación quiere contribuir a alimentar el proceso de toma de decisiones en relación a los próximos pasos del país en materia de comercio internacional y sus esfuerzos por abrir nuevos mercados en la región del Asia Pacífico.

En la Fundación Chilena del Pacífico creemos firmemente que el comercio internacional, los flujos de inversión extranjera y la integración económica han estado en el centro de la exitosa estrategia de desarrollo del país durante las últimas tres décadas. Es por esto que nos esforzamos en ayudar a las autoridades de comercio y económicas del país mediante la implementación de una agenda de trabajo diversa. Creemos que esto es incluso más importante a la luz de los cambios tectónicos en la economía mundial gatillados por la pandemia en curso, la cual ha cambiado significativamente muchos aspectos del comercio internacional tal como lo entendíamos.

Esta investigación entrega un completo análisis, de muy alto nivel, sobre el potencial comercial de ASEAN y las oportunidades que surgen para Chile a medida que el país se acerca a esa región. También desgrana las diferentes categorías de bienes y servicios con alto potencial e incluye una sección para profundizar en algunas de las naciones menos conocidas de ASEAN.

Loreto Leyton
Directora Ejecutiva
Fundación Chilena del Pacífico

About the Chile Pacific Foundation

The Chile Pacific Foundation is a unique public-private organization devoted to promoting and encouraging the overall insertion of Chile in the Asia Pacific region. The Foundation encourages the general knowledge of the Asia Pacific region and carries out its activities in close collaboration with government agencies, most notably the Undersecretariat of Economic International Relations (SUBREI), as well as the business community, universities and study centers, among other national and international stakeholders. The Chile Pacific Foundation also works as the Chilean Chapter of both the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC).

Acerca de la Fundación Chilena del Pacífico

La Fundación Chilena del Pacífico en una organización público-privada única en su tipo en Chile dedicada de lleno a fomentar y promover la integración de Chile en la región del Asia Pacífico. La Fundación alienta el comienzo general del Asia Pacífico y lleva adelante sus actividades en estrecha colaboración con entidades de gobierno, muy en especial con la Subsecretaría de Relaciones Económicas Internacionales (SUBREI), así como el sector privado, universidades y centros de estudio, entre otros grupos de interés nacionales e internacionales. La Fundación Chilena del Pacífico también cumple la función de Secretaría Nacional tanto del Consejo Asesor Empresarial de APEC (ABAC) como del Consejo de Cooperación Económica del Pacífico (PECC).

Acerca de la Investigadora

Jane Drake-Brockman
Institute for International Trade
The University of Adelaide, Australia

Jane Drake-Brockman is an internationally recognized expert on international trade, global value chains, regional integration and development. She is Australia's foremost expert on trade and investment in services. She brings a unique mix of experience formed across business, academia, government and international government in multiple international fora. During 2015-2017, she ran the EU Centre for Global Affairs at The University of Adelaide. She has written extensively on Australia-EU trade policy issues including co-edited a forthcoming 16-chapter research volume on the EU-Australia Free Trade Agreement.

Jane Drake-Brockman is a former senior Australian diplomat and trade negotiator. She served as Chief Economist in Australia's Department of Foreign Affairs & Trade, as Chief of Staff to the Shadow Minister for Foreign Affairs, Trade and Development Cooperation and as Minister and Charge d'Affaires at the Australian Delegation to the EU in Brussels. She has been closely associated with APEC activities since its inception and in 2015 she was a central architect of the APEC Services Competitiveness Roadmap and Implementation Plan 2016-2025. She has extensive practical background in regional economic integration in Asia Pacific as well as Africa and the Middle East. Jane Drake-Brockman also has extensive experience on the staff of international governmental organizations, including the Commonwealth Secretariat in London, the OECD Secretariat in Paris and the International Trade Centre in Geneva.

She is Founder and Chair of the Australian Services Roundtable, the peak business body for the services industries in Australia since 2000. She is also Chair of the Asia Pacific Services Coalition, the world's largest coalition of services industries, which she was instrumental in forming in 2015 and in which the European Services Forum has full observer status.

Jane Drake-Brockman has served on the Board of the International Chamber of Commerce in Australia, on the Executive Committee of the Hong Kong Coalition of Services Industries and as Convenor of the Pacific Economic Cooperation Council (PECC) Taskforce on Services. She has worked closely over an extended period with the APEC Business Advisory Council (ABAC) including in the role of Secretariat for ABAC Australia.

She has taught Macroeconomics for Business Executives in the MBA Programme at the Chinese University of Hong Kong and Trade in Services in the Masters in International Trade and Development at the University of Adelaide. She has published widely on trade and regional integration, undertaken innumerable trade-related consultancies for both government and corporate clients and participated in World Economic Forum Expert Groups on Services, Global Value Chains, and Trade, Finance and Development. Her current research focus is digital trade and the trade impact of technological disruption. She is also working on women in trade in services.

CHILE-ASEAN TRADE POTENTIAL

Research Report prepared for the Chile Pacific Foundation

February 2021

This report assesses the potential for future growth in Chile’s trade relations and global value chain participation with the ASEAN region. The research identifies key economic sectors, industries and products with the most potential taking into account Chile’s current trade performance globally as well as policy considerations.

The second part of the report provides an elaboration of the identified opportunities with, and the regulatory and business landscape in, the relatively less well-known ASEAN Member States; Cambodia, Laos and Myanmar.

TABLE OF CONTENTS

ACRONYMS

ADB: Asian Development Bank
AMS: ASEAN Member State
APEC: Asia Pacific Economic Cooperation
ASEAN: Association of Southeast Asian Nations
AUD: Australian Dollar
BOP: Balance-of-Payments
BATIS: Bilateral International Trade in Services Data Set
CEPA: Comprehensive Economic Partnership Agreement
CLMV: Cambodia, Laos, Myanmar, Vietnam
CLM: Cambodia, Laos, Myanmar
COVID-19: Novel Coronavirus
CPC: Common Product Category
ERIA: Economic Research Institute for ASEAN and East Asia
FDI: Foreign Direct Investment
FTA: Free Trade Agreement
HS: Harmonized System of Customs Nomenclature
TiVA: Trade in Value-Added Data Set
GVC: Global Value Chain
IP: Intellectual Property
IT: Information Technology
MNE: Multinational Enterprise
NTM: Non-Tariff Measure
OECD: Organization for Economic Cooperation and Development
P4: Trans-Pacific Strategic Economic Partnership
RCA: Revealed Comparative Advantage
SME: Small and Medium-Sized Enterprise
STRI: Services Trade Restrictiveness Index
TRAINS: UNCTAD Non-Tariff Measures Data Base
USD: United States Dollar
UN: United Nations
WIOD: World Input-Output Data
WTO: World Trade Organization
BOP: Balance of Payments
AFAS: ASEAN Framework Agreement on Services
ATISA: ASEAN Trade in Services Agreement
DVA: Domestic Value-Added
FVA: Foreign Value Added
FTI; Federation of Thai Industries
LDC: Least Developed Economy
GATS: General Agreement on Trade in Services
GMS: Greater Mekong Subregion
VCCI: Vietnam Chamber of Commerce and Industry
SOFOFA: Federation of Chilean Industries

KEY FINDINGS

1. Despite ASEAN increasingly taking over from China the role of “Factory Asia”, Chile’s trade with ASEAN is more final goods intensive than Chile’s trade with China. Chile’s veteran export industries are all present in ASEAN, but in a less Global Value Chain (GVC) focused manner.

2. There is a clear case for trade growth potential with ASEAN. If only Chile’s largest established export industries were able to win the same market share in ASEAN they currently have in China these export flows would grow by an order of magnitude, of somewhere in the region of USD6.5 billion, or 2.3% of Chile’s GDP. There are also opportunities for smaller Chilean export industries, including from the services sector, which would allow Chile to “upgrade” its position in GVCs.

3. Agriculture, Wholesale and Retail Trade and Wood and Paper, Hospitality, Metals and Transportation all show large growth potential with basic trade facilitation support. Chemicals and Food and Tobacco also show significant potential but may need to focus on GVC integration as opposed to the export of final goods going forward. Publishing and Transport Equipment should be but currently are not exporting significant quantities to ASEAN. Chile’s Finance and Other Services industries are on the verge of displaying global revealed comparative advantage, and may be helped over the line by integrating with ASEAN GVCs. Computers and Electronics is a nascent export industry in Chile, but is growing extremely fast in ASEAN markets.

4. Within these industry trade flows there is potential for Chilean goods exporters to find new product markets in ASEAN. This is especially the case for Agriculture, Food and Tobacco, Metals and Transport Equipment. There are also signs of export potential for specific products from industries which show less potential overall, chiefly Rubber and Plastic products. Chilean service exporters have not so far been able to exploit the opportunities listed above, indeed they have actually lost some ground especially in Indonesia, Malaysia and Vietnam. None-the-less contemporary market trends show that they are still there for the taking.

5. Chilean exporters are best served entering the CLM group via their commercial presence and business network associations in Thailand and Vietnam. All three countries are moving into a phase of development where they are looking to follow Vietnam’s GVC integration example, but all remain more protectionist and Chilean exporters need to be aware of the complications that arise serving these promising markets.

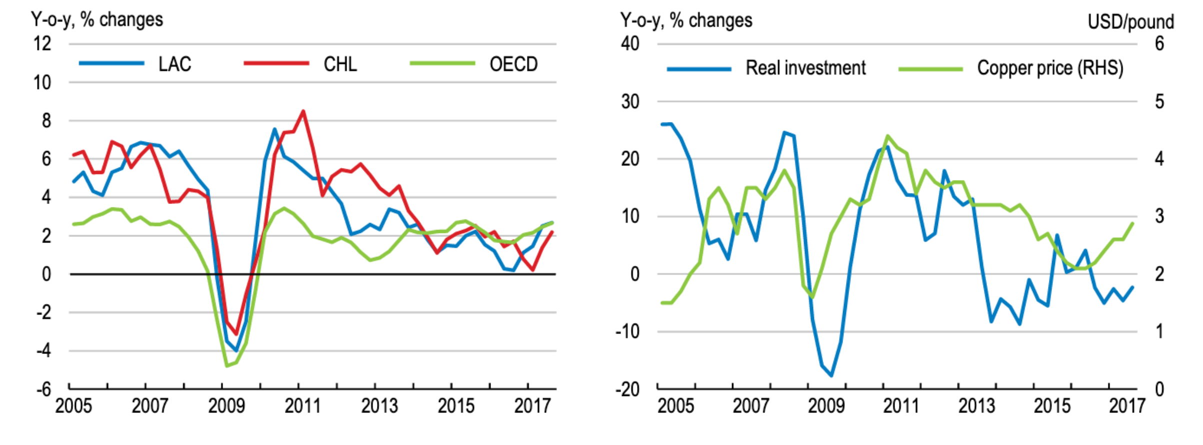
MOTIVATING OVERVIEW

Since before the turn of the millennium, international commentary on Chile's development has stressed both the crucial role that trade has played in driving growth and improving living standards and the challenges Chile faces in ensuring trade continues to do so. As the World Bank outlines in its "Country Partnership Strategy", Chile has long been one of Latin Americans fastest-growing economies with sound macroeconomic fundamentals and a liberal trade and investment posture.[1] Growing by 5% annually between 1990 and 2014, Chile managed to reduce the share of its population living below USD5.5 a day from 30% in 2000 to approximately 3% today.

Trade has played a crucial role in driving growth and improving living standards.

While a remarkable achievement, a reliance on natural resource extraction, pointed to by the WTO's "Trade Policy Review", made Chile vulnerable to external shocks, and meant that the gains from trade were not always widely distributed.[2] Indeed Figure 1 shows that as the commodity super-cycle faded (and major trade partner China's growth cooled) Chile's annual growth slowed to closer to 2%, exacerbating social discontent with increasing unemployment and levels of income inequality which had become among the highest in its region with a Gini coefficient of 0.44.

Figure 1: GDP, Real Investment and Copper Price Growth Rates, Chile



Source: "OECD Economic Survey: Chile"; OECD, 2018

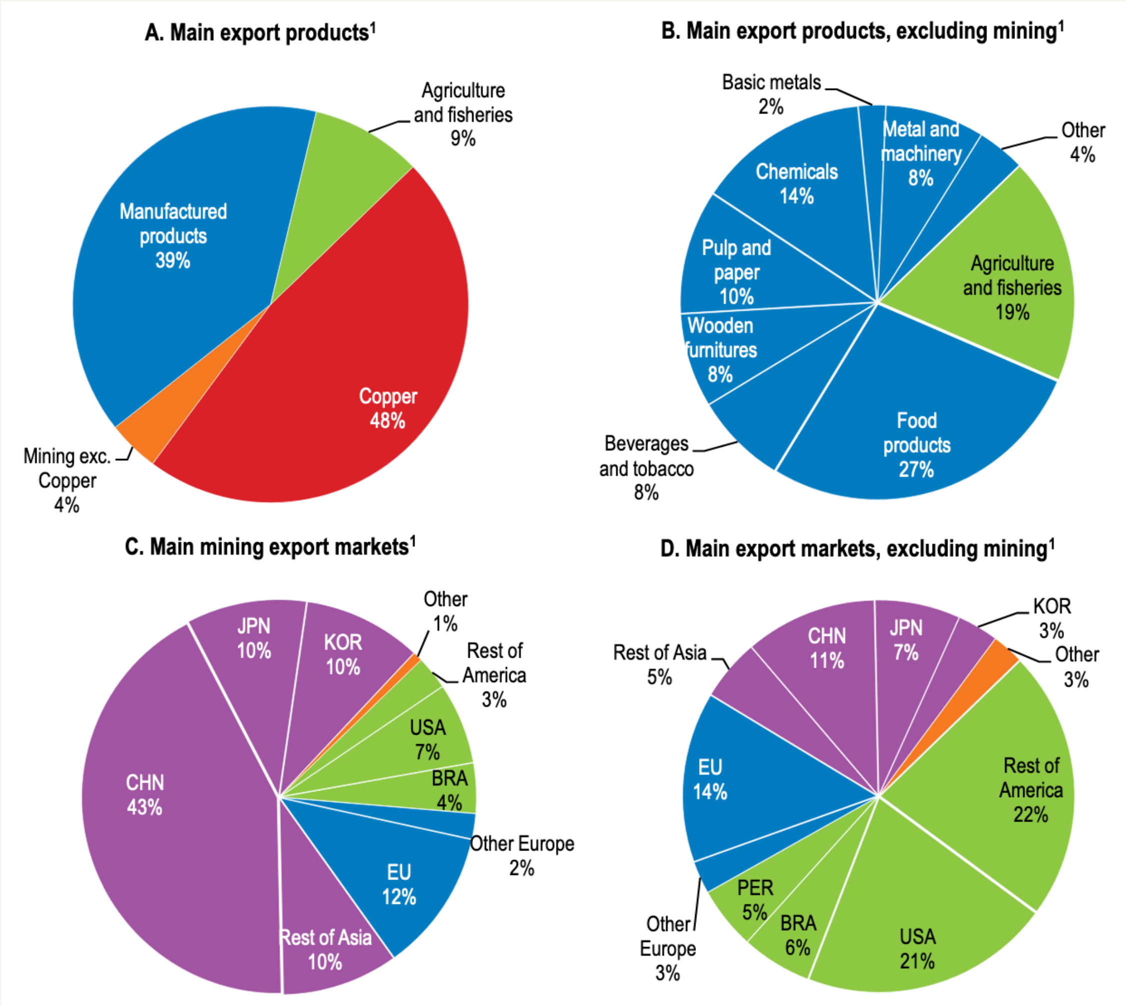
Attempts to increase productivity and make growth more inclusive have been hampered by the relatively low skill levels of Chile's labour force, mismatches between the skills they do possess and those demanded by growth industries, regulatory difficulties faced by young firms and a much deflated confidence and investment environment. While commodity prices have recently recovered somewhat, the verdict is out on whether this is a brief respite induced by the exceptional circumstances surrounding the COVID-19 pandemic or whether they might provide ongoing relief, though consensus leans toward the former.

[1] World Bank (2020)
[2] WTO (2015)

It is in Chile's best interest to diversify its trade portfolio both in terms of industries and partner countries.

Either way, as the OECD's "Economic Survey: Chile" makes clear, it is in Chile's best interest to diversify its trade portfolio both in terms of industries and partner countries.[3] Figure 2 shows that currently the portfolio is heavily dominated by copper exports, especially to China. Diversifying away from this position would make Chile's growth path less exposed to external shocks and ensure that a wider section of its workforce is able to benefit from globalisation.

Figure 2: Industry and Partner Market Shares, nominal values



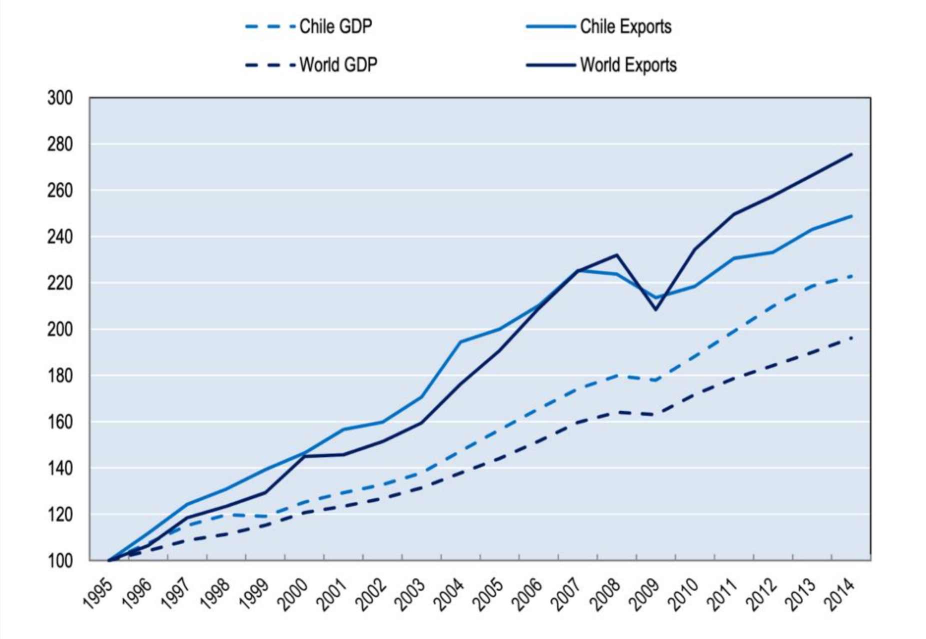
Source: "OECD Economic Survey: Chile"; OECD, 2018

The dominance of copper in Chile's export portfolio also has undesirable indirect effects on its economy, and indeed even on its overall export performance, which lags below the global trend despite Chile's liberal trade and investment regimes. This is at least partly because of the "resource curse", which is where other sectors are both crowded out of access to capital, face increasing real prices but not wages, and suffer from diminished competitiveness due to an appreciated currency. Figure 3 shows that even as Chile's GDP has grown more rapidly than the world at large, its export growth has lagged behind.

---

[3] OECD (2018)

Figure 3: Indexed Growth Rates



Source: "OECD Economic Outlook 96"; OECD, 2016

Today diversified trade is synonymous with being involved in Global Value Chains (GVCs). The internationalization of supply chains has ensured that a given product, be it a good or a service, is imbued with expertise from around the globe, rather than being limited to what is available in a single country. This facilitates knowledge transfer, allows for greater specialization, larger economies of scale and ultimately cheaper and higher quality products for consumers to choose from. Countries no longer have to develop an entire supply chain, but can harness existing competencies by plugging them into a global one, meaning GVCs also provide development opportunities. Firms participating in trade tend to be more productive and thus provide higher wages than those serving only the domestic market, and GVCs enable a greater range of firms to do so.

In Chile's case this is of course most obviously exemplified by the fact that it is able to export its copper to a myriad of different industries around the world, rather than having to use the copper itself when it does not possess the full range of capabilities the rest of the world does. Skills developed over the course of developing Chile's mining industry can then also be used to serve other markets, be it through mining related services such as mining engineering, transportation or other inputs. Importantly, being involved in GVCs also means making the most of the opportunity to use foreign expertise to make Chile's domestic industries more productive and hence more competitive.

As stated by the OECD's "Diagnostic of Chile's Engagement in Global Value Chains", Chile's record of trade and investment liberalisation means that the basic pre-conditions for a richer engagement with GVCs are already in place.[4] Domestic policy settings affecting the availability

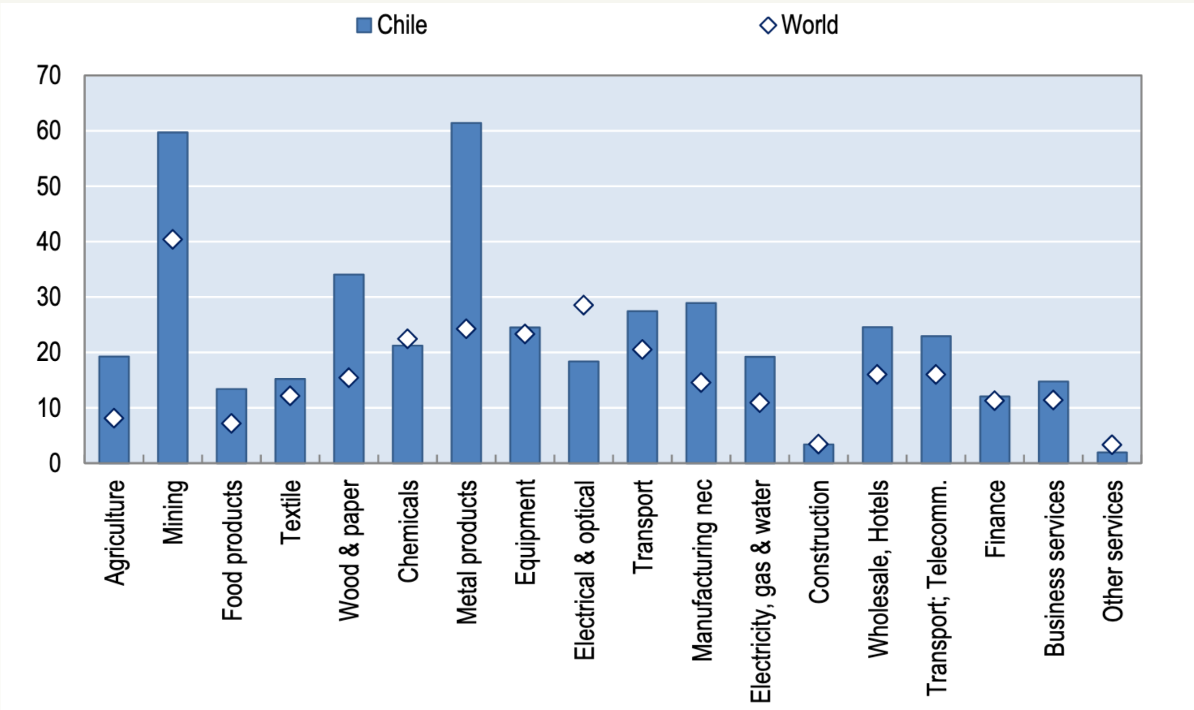
---

[4] OECD (2016)

of capital, ease of doing business, human capital accumulation, protection of intellectual property rights, support for innovation and increasingly the regulation of the digital economy will continue to require consideration to ensure regulatory efficiency and best practice however.

When searching for concrete opportunities for GVC integration, it is important to keep in mind that this is being done for the sake of diversification as well as growth, both in terms of industries and partner countries, to mitigate Chile's exposure to external shocks and to make its GVC engagement more inclusive. In terms of industries this means that copper, or really mining products in general, are not the focus of this report. The OECD's report, using 2011 data, revealed that the alternative industries in which Chile possessed significant Revealed Comparative Advantage (RCA) consisted of Agriculture, Food, Wood and Paper, Metals, Transportation, Other Manufacturing, Wholesale and Retail and Hospitality; see Figure 4.

Figure 4: Chile's Revealed Comparative Advantage



Source: "Diagnostic of Chile's Engagement in Global Value Chains"; OECD, 2015

In terms of countries, Figure 2, above, implied that Chile should be diversifying away from China as well as away from copper, for adverse circumstances in the Chinese market will already impact Chile via copper exports. Further integration with China in other industries would only magnify this exposure. However, many of Chile's other established partners are either slow growing themselves, relatively protectionist, or in the middle of a COVID-19 induced debate about the level of their engagement with GVCs moving forward. Largely unrecognised in the commentary this topic has received from international organisations is the fact that, as a block, ASEAN is already Chile's 14th largest trading partner in value added terms, roughly as important to Chile's trade portfolio as Peru is in Figure 2, but growing more quickly. "Rest of Asia" in Figure 2 is effectively ASEAN.

Integrating with fast growing, heterogeneous and highly GVC integrated ASEAN economies not only presents an opportunity for Chile's established export industries to secure new market share via partner diversification, but also allows Chile to leverage its way into some higher value-added activities and achieve industry diversification. To quote Andrés Rebolledo Smitmans as Director General for International Economics Relations at Chile's Ministry of Foreign Affairs:

> *"If our efforts are successful, Chile could participate in GVCs in a more sophisticated manner not only as a producer of natural resources, but also as supplier of higher value-added activities, both in manufacturing and services, in which a more extensive application of specialised know-how and knowledge is required."*

Chile's relationship with ASEAN presents an avenue along which such efforts have every chance of success.

The rest of this report explores exactly why and how this is the case. Part 1 does this for all the ASEAN countries while Part 2 focuses further on ASEAN's least developed members; Myanmar, Laos and Cambodia. Chapter 1.1 looks at ASEAN relative to China to quantify the case for its potential as a trade partner for Chile and outlines some key findings at the aggregate level. Chapter 1.2 continues the form of analysis deployed in Chapter 1.1 but looks at how the findings play out at the level of Chile's trade with individual ASEAN member states, as well as unearthing new findings not visible at the aggregate level. The dataset employed in the first two chapter, while providing the best way to empirically assess GVCs, unfortunately only reaches until 2015, so the analysis is followed in Chapter 1.3 by analysis using more traditional data sets which allow us to ensure that the previous findings have not become obsolete, while in the case of goods specifically also allow us to zoom in from the industry level to the product level. Chapter 1.4 highlights the ways in which policy issues complicate the findings and looks for related forms of trade facilitation which would be helpful in seizing the opportunities.

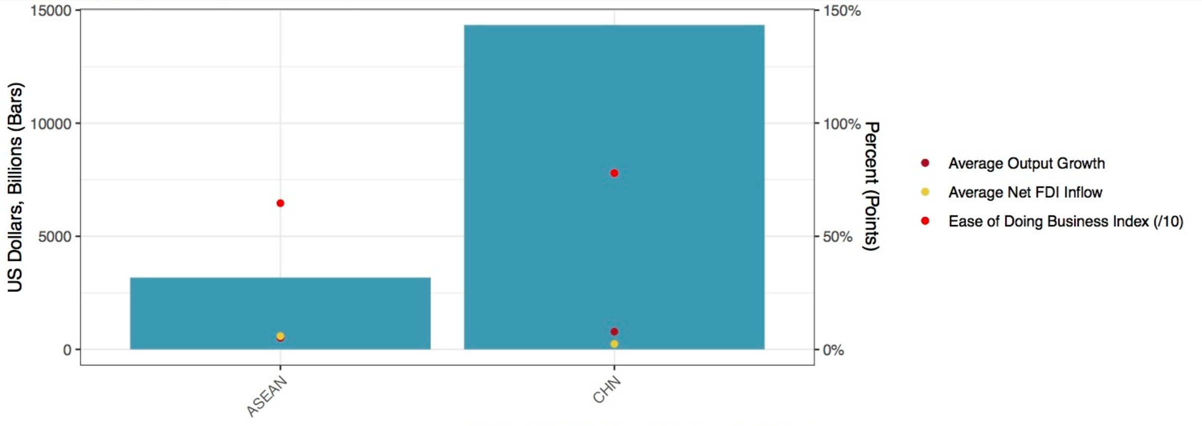
PART 1: POTENTIAL AREAS OF TRADE INTEGRATION

1.1: AGGREGATE GLOBAL VALUE CHAIN ANALYSIS

Overview and Comparison Between ASEAN, China and the Rest of the World

Understanding why ASEAN presents such promise to Chile, some understanding of how it compares to China is helpful, as Chilean exporters have had great success over the past two decades in securing Chinese market share. As shown in Figure 1.1, by 2019 ASEAN was attracting more new FDI inflows than China as many countries and Multi-National Enterprises (MNEs) also sought to diversify in the face of China's slowdown and its trade war with the USA. ASEAN scores similarly on the World Bank's Ease of Doing Business Index to China, and it has been growing nearly as quickly. ASEAN also does not face the demographic, excess capacity and indebtedness issues which are now acting as breaks on Chinese growth, nor is its engagement with GVCs coming under question, and Chile already has FTAs with ASEAN Member States.

Figure 1.1: Output and Related Variables; ASEAN and China, 2019

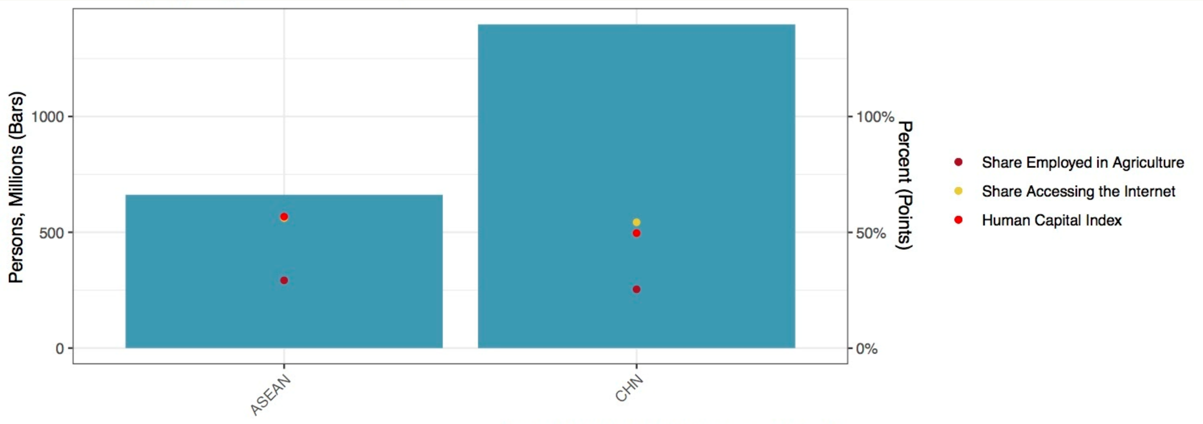


Source: Own calculations based on the World Bank's World Development Indicators
Growth rates are averages over the proceeding 10 years

Similarities between the markets allows expertise developed serving China to be employed serving ASEAN also. Though ASEAN is smaller than China, they have very similar populations in terms of the share employed in agriculture, a general indicator of their level of development, the share with access to the internet, a general indicator of the potential for services and digital trade, and their human capital index scores, a general indicator of health and education levels; see Figure 1.2. Both these similarities and differences make ASEAN a sensible target for Chile's diversification drive.

Since the publication of the OECD's "Diagnostic of Chile's Engagement in Global Value Chains" report, some important developments have occurred. In particular, Chile's Forward GVC Participation, i.e. the share of its exports which are inputs for further processing in more downstream markets, has fallen from 34.2% to 28.9%, but this is still far above the OECD average of 18% placing Chile firmly as an upstream participant in GVCs.[5] ASEAN's is nearly identical to China's, as they went from 18.5% to 17% and 16.6% to 17.5% respectively, making them both downstream participants, but showing that ASEAN has moved further downstream while China has moved slightly upstream.

Figure 1.2: Population and Related Variables: 2019



Source: Own calculations based on the World Bank's World Development Indicators
Growth rates are averages over the proceeding 10 years

Chile's Backward GVC Participation, i.e. the share of its imports which it uses for further domestic processing, has also fallen, from 15.8% to 15.1%. China's has fallen from 21.7% to 17.3%, while ASEAN's has remained constant at 28.9%. This reflects China's import portfolio moving away from parts used in its manufacturing hubs, and its export portfolio moving away from products it assembled using imports and toward products containing more domestic value added. ASEAN meanwhile is increasingly fulfilling the "Factory Asia" role; its exports are increasingly final products made using imported value added, and its import portfolio is now substantially more intermediate intensive than China's. As an upstream participant in GVCs, this structural transition has left Chile in the same relation to ASEAN it used to be in with China.

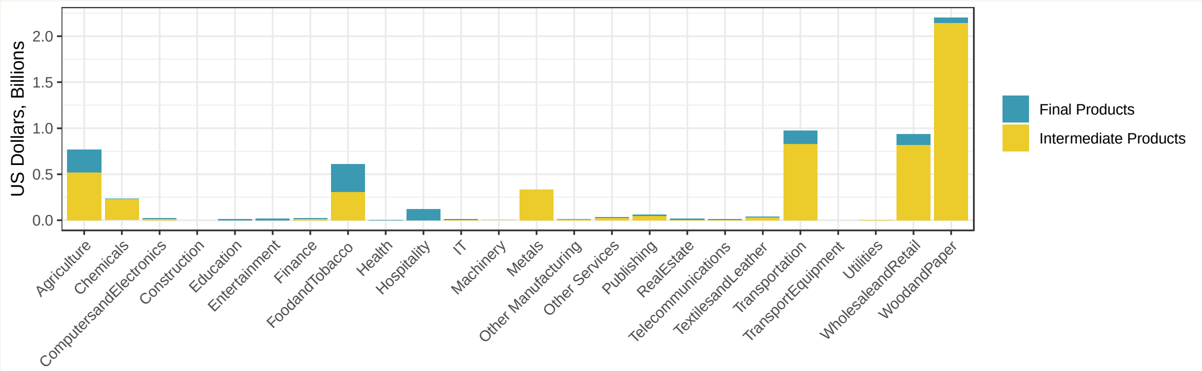
Box 1.1: Trade in Value Added (TiVA) Data

The analysis here draws on the latest OECD/WTO Trade in Value-Added (TiVA database) to develop a snapshot of the production and export structure underlying bilateral Chile-ASEAN trade. This relatively new input/output-based dataset covers both merchandise and services trade for key industry sectors and provides a Global Value Chain perspective by identifying flows of both final products and intermediate products and by assigning the source of value added to the origin industry/country. This data underlies all of the results in this and the next chapter, which are all reported in current USD prices. This data will not necessarily be consistent with nominal Balance of Payments (BoP) data. In the BoP services trade flows will systematically appear smaller, because much of services value added crosses the border embedded in a good. The TiVA data reassigns the relevant portion of goods' value added to the services industry it originates from.

[5] TiVA Data (2021)

The situation is reflected in the composition of both China's and ASEAN's imports from Chile, which, as shown in Figures 1.3 and 1.4, are remarkably similar but also display some key differences.

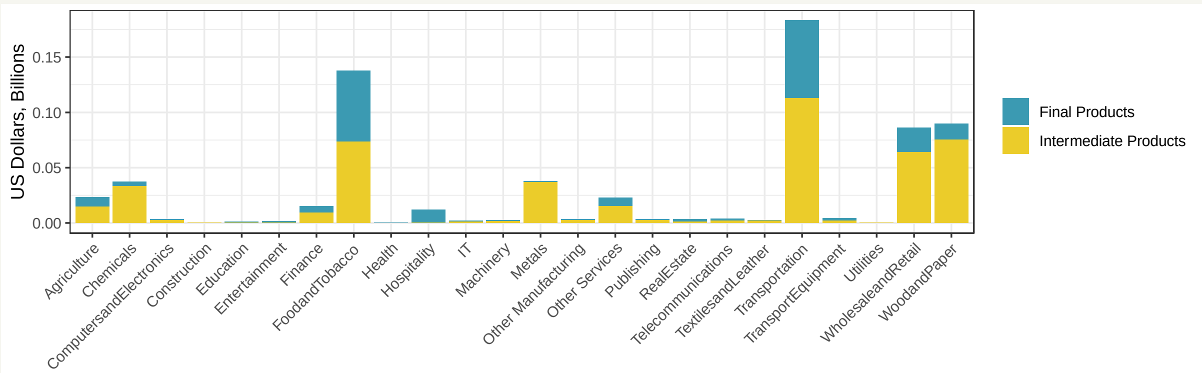
Figure 1.3: Composition of Gross Chilean Exports to China: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

Two salient general difference emerge immediately. The first is that despite ASEAN's increasing role as "Factory Asia", Chile's trade with ASEAN is more final goods intensive than Chile's trade with China. Chile's veteran export industries are all present in ASEAN, but in a less GVC integrated manner. To get the most out of productivity effects they must integrate more into its GVCs rather than selling final goods. Second, the scale of the trade flows with China remained an order of magnitude larger as things stood in 2015.

Figure 1.4: Composition of Gross Chilean Exports to ASEAN: 2015



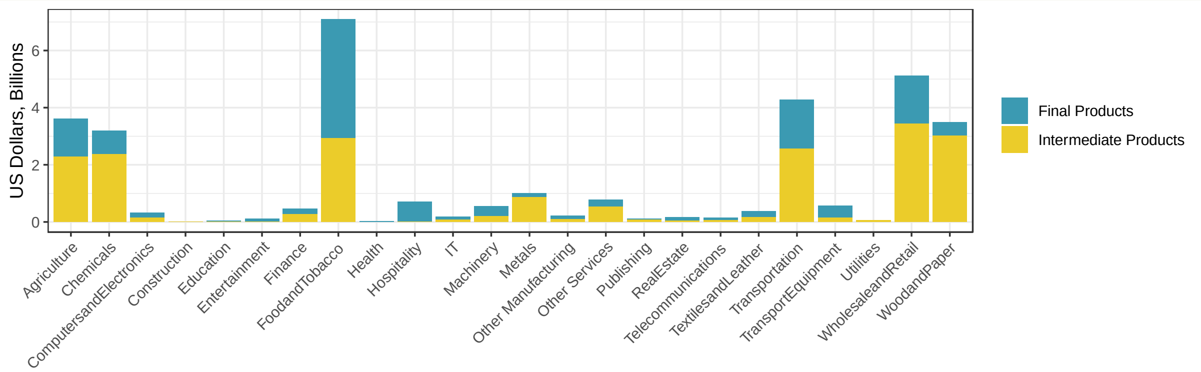
Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

The initial case for growth potential with ASEAN is clear then; if Chile's established export industries won the same market share in ASEAN they currently have in China, which is structurally plausible given Chile's role as an upstream GVC participant and ASEAN's role, like

China's, as a downstream participant, then these export flows would grow by an order of magnitude, or somewhere in the region of USD6.5 billion. This is 2.3% of Chile's GDP (to say nothing of other industries growing as well). These established industries are those which the OECD had identified as having RCA in 2011 and indeed they also dominate Chile's export portfolio with the rest of the world, displayed in Figure 1.5.

Export flows would grow by an order of magnitude, or somewhere in the region of USD6.5 billion. This is 2.3% of Chile's GDP.

Figure 1.5: Composition of Gross Chilean Exports to Rest of World: 2015



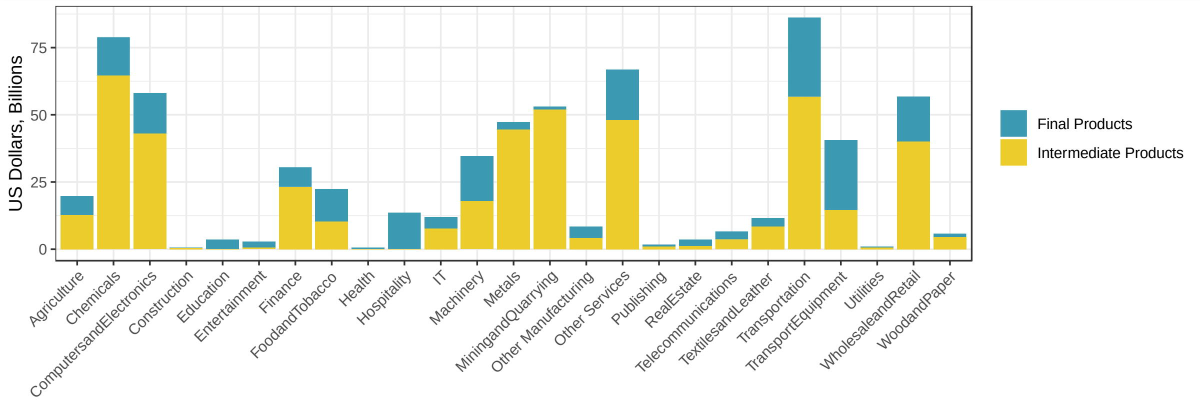
Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

Comparing Chile's exports to ASEAN with Chile's exports to the rest of the world reveals some specific bilateral characteristics as well. ASEAN imports a disproportionately large amount of Transportation, Metals and Wholesale and Retail, but a disproportionately small amount of Food and Tobacco, Transport Equipment, Textiles and Leather and Machinery.

Figure 1.6 shows that ASEAN is in general a large importer of Metals, Transportation and Wholesale and Retail, so its disproportionate imports of these items from Chile is consistent with its overall trade balance. It also shows that because ASEAN in general does not import particularly large amounts of Food and Tobacco or Textiles and Leather (itself being an efficient exporter of these things), it is hardly surprising that these make up disproportionately smaller shares of its imports from Chile. ASEAN does import considerable quantities of Machinery and Transport Equipment, implying as yet untapped markets for Chilean exporters.

In general ASEAN's total imports in the relevant industries are two orders of magnitude greater than its imports from Chile, yet these are RCA industries for Chile, so there should be considerable growth potential across the board just by bringing market share to equilibrium values. This applies to some smaller industries such as Hospitality as well.

Figure 1.6: Composition of Gross ASEAN Imports from Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

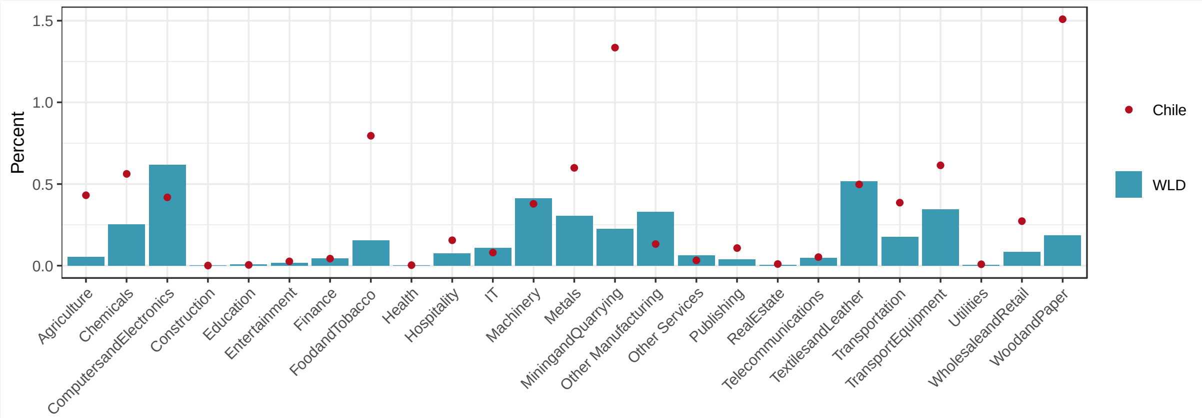
Comparison of Chile's and ASEAN's Revealed Comparative Advantage

Additional export growth opportunities are available which are not evident in Chile's current export profile with China. ASEAN imports significant quantities of some services which China does not, but which Chile does export to the rest of the world, namely Finance and Other Business and Repair and Installation Services (Other Services). ASEAN also imports some manufactured goods which China does not, but which the rest of the world does, primarily Transport Equipment. These trade flows cannot be explained by the OECD's 2011 RCA analysis.

Figure 1.7 shows an updated and broadened calculation of Chile's industries' RCA; whenever Chile's value added export intensity is higher than the world's, Chile holds RCA. In the more up-to-date calculations, Chile does indeed hold RCA in Transport Equipment, though globally speaking still not in Finance or Other Services. It does not in Textiles and Leather, supporting the conclusion above that this industry is unlikely to be competitive in ASEAN, but its RCA in Food and Tobacco is so powerful that despite ASEAN itself being an efficient exporter, there is likely room for Chile's exporters to integrate into that GVC.

Opportunities for export diversification abound.

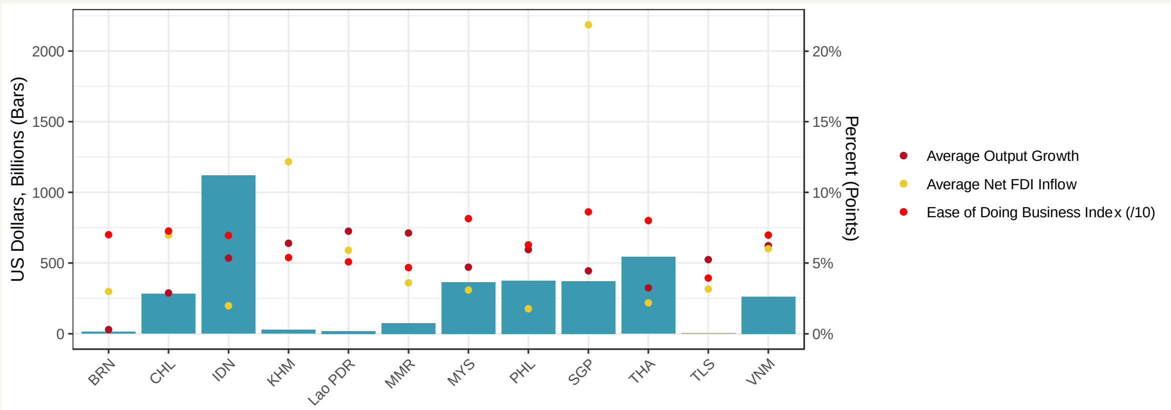
Figure 1.7: Exported Value Added Relative to Total Value Added: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

One reason Chile is none-the-less able to export Finance and Other Services to ASEAN lies in the heterogenous nature of ASEAN. While, as demonstrated above, ASEAN overall is similar to China in many ways, some of its members are considerably less developed and less integrated into GVCs than China, while some are among the most open and developed economies in the world, such as Singapore. The four fastest growing ASEAN member states are the CLMV group (Cambodia, Laos, Myanmar and Vietnam), all of which score lower than Chile for ease of doing business, all of which attract less FDI than Chile, and all of which are more agrarian, less connected to the internet and have less human capital than Chile; see Figures 1.8 and 1.9. Chile is in a unique position relative to these nations. Chile is comparatively highly skilled and able to deliver higher value-added services as inputs in their GVCs, yet globally is cost efficient compared to the G20 countries which generally dominate these activities. Chile's comparative advantage, and access point to high value added services, lies uniquely in servicing CLMV type economies, and in plugging into the well-developed services value chains that Singapore operates in (which is complimentary to servicing CLMV). Opportunities for export diversification abound.

Figure 1.8: Detailed Output and Related Variables: 2019



Source: Own calculations based on the World Bank's World Development Indicators
Growth rates are averages over the proceeding 10 years

Box 1.2: Intra-ASEAN Trade

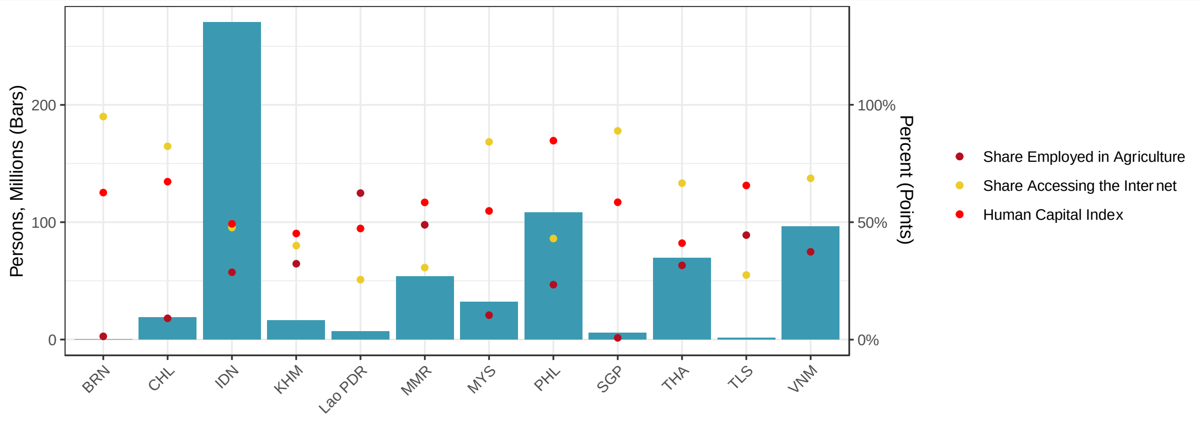
It is important to note the extent to which ASEAN members trade among themselves and how intensifying economic integration initiatives impact on trends in intra-ASEAN trade.

The ASEAN Secretariat estimated intra-ASEAN trade at 23% of ASEAN's total two-way merchandise trade for 2019. China accounted for 17.2%, EU for 10.2%, and the US for 9.3%.

For trade in services, only 15.7% of total ASEAN trade was intra-regional, leaving a larger share to external partners.

A comparison of Chile's RCA to ASEAN's own RCA, shown in Figure 1.10, is able to shed light on the nature that such integration is likely to take in different industries. In Agriculture, for example, ASEAN is not a competitive exporter, and so Chile's exports to it are likely to remain relatively final good intensive, though it can also feed ASEAN supply chains which serve the members' own domestic markets through exporting intermediates. In Chemicals however, ASEAN itself has RCA, and Chile would be better off looking to integrate in ASEAN's GVCs rather than selling it final products, meaning the share of intermediates in Chile's exports of Chemicals to ASEAN is likely to grow (as it has in China). The latter case is the general rule across the other relevant industries discussed thus far, meaning larger trade flows between ASEAN and Chile ultimately do imply GVC integration rather than traditional trade in final goods.

Figure 1.9: Detailed Population and Related Variables: 2019

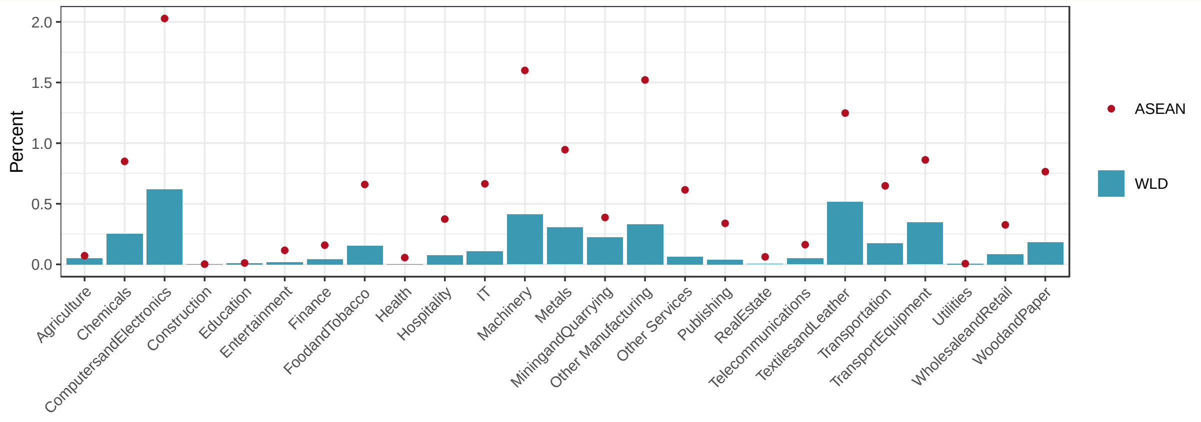


Source: Own calculations based on the World Bank's World Development Indicators
Growth rates are averages over the proceeding 10 years

Chile's Imports and ASEAN's Exports

As mentioned above, another important part of integrating with ASEAN will be on Chile's import side. ASEAN's exports to Chile - Figure 1.11 - are very consistent with its exports to the rest of the word - Figure 1.12 – with the only real differences being that while in general ASEAN does export significant quantities of Mining and Quarrying, Transportation and Wholesale and Retail, it does not export them to Chile for the obvious reason that Chile is itself very competitive in these industries, and itself exports all of them to ASEAN.

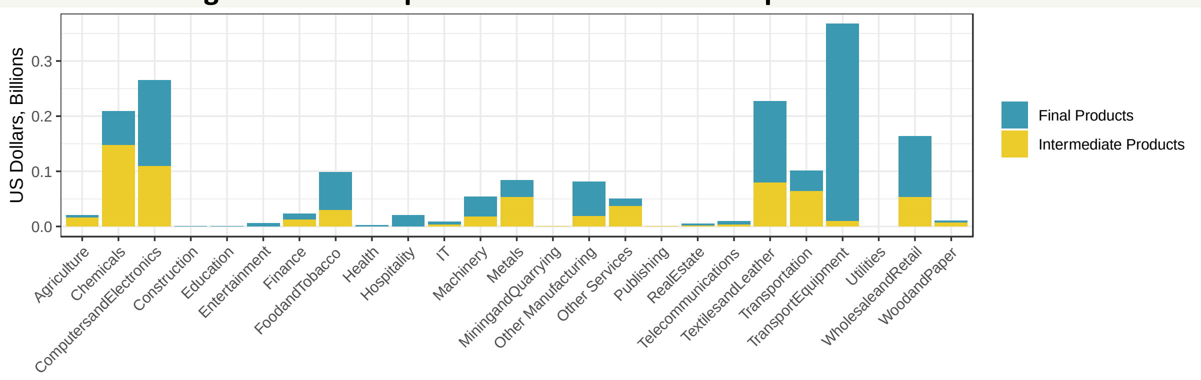
Figure 1.10: Exported Value Added relative to Total Value Added: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

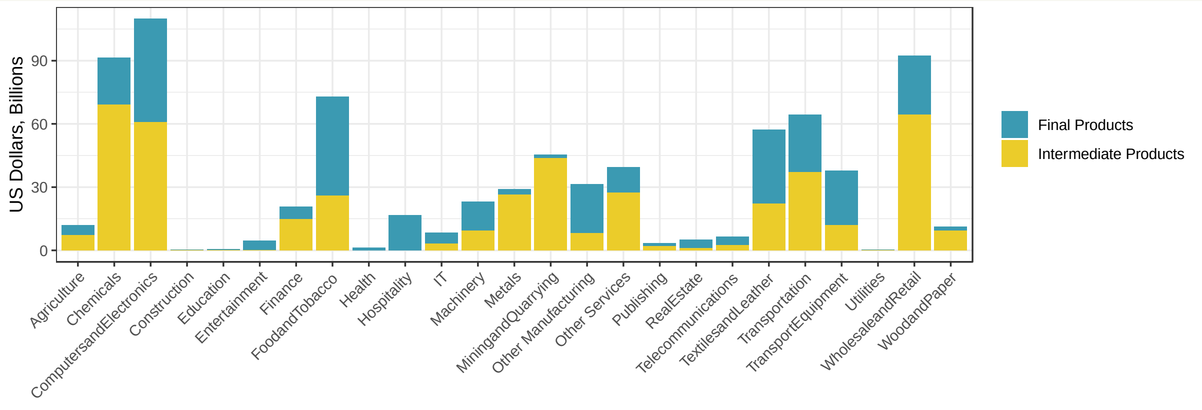
There is thus much less obvious room for nuanced integration on this side of the equation. It is nevertheless still true that ASEAN has the RCA necessary to win market share from other world players and considerably improve the performance of its established export industries, given the overall scale of Chile's imports shown in Figure 1.13. The major insight is that there are industries in which both partners hold RCA, and yet are selling each other final goods. Food and Tobacco, Machinery, Other Manufacturing, Textiles and Leather and most extremely of all, Transport Equipment, should be focusing on GVC integration. Given the relative lack of industry diversification opportunities (though there may be substantial product diversification opportunities within industries), this report will primarily focus on Chile's exports to ASEAN.

Figure 1.11: Composition of Gross ASEAN Exports to Chile: 2015



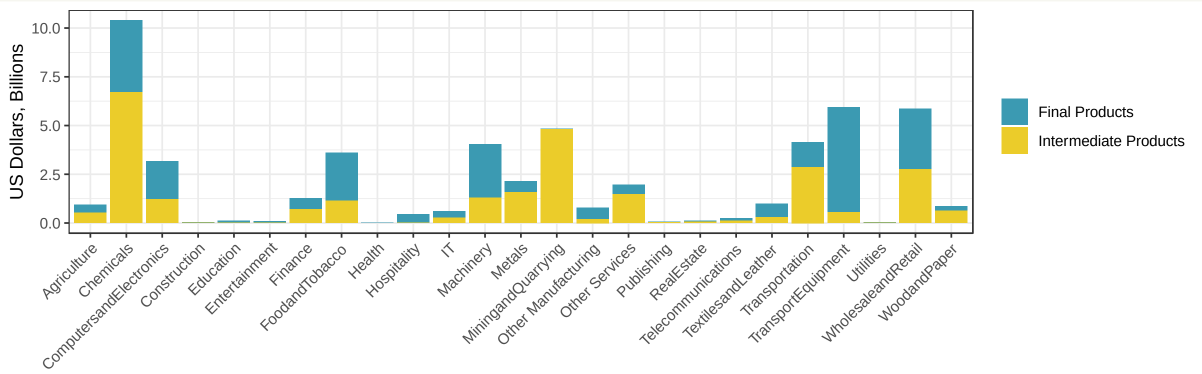
Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

Figure 1.12: Composition of Gross ASEAN Exports to Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

Figure 1.13: Composition of Gross Chilean Imports from Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

Box 1.3: FDI Inflows to ASEAN

The ASEAN Secretariat estimated for 2018 that total FDI inflows were 16% sourced internally as intra-ASEAN flows, with the EU and Japan both providing a 14% share each and China 6.6%. Services industries were the dominant recipients, with a 61% share, manufacturing was the destination for another 35.6% and the primary sector received 12%. For 2019, the UNCTAD Investment Report 2020 shows FDI inflows to ASEAN growing 5% to a record level of USD156 billion, propelled by strong investment in Indonesia, Singapore and Vietnam in particular.

Singapore was the third highest FDI host economy in the world, after the United States and China, and attracted USD92 billion (up 15.5% on 2018). Indonesia ranked as the 5th highest destination of FDI in Developing Asia (USD23.4 billion and up 14% on 2018). Of the top global sources of FDI, Singapore ranks 10th, after Japan, the US, Netherlands, China and Germany.

For Developing Asia, cross-border M&A purchases in 2019 were predominantly in services industries which accounted for USD41 billion of the total purchases of USD43 billion. Net purchases are made up nearly entirely by Financial services and Insurance (USD47 billion) and Information and Communication services (USD4 billion). For new greenfield FDI projects in Developing Asia, Indonesia attracted USD0.8 billion and Vietnam USD0.5 billion.

1.2: BILATERAL GLOBAL VALUE CHAIN ANALYSIS

Overview

Chile's overall trade position with ASEAN is not distributed equally between ASEAN's members. Gross figures reveal Indonesia and Malaysia to be Chile's largest export markets, however this is true only because they import approximately USD120 million each from Chile's Mining and Quarrying Industry. When this industry is excluded, it is in fact Vietnam's and Thailand's GVCs into which Chile is currently most integrated, each importing over USD10 million in five other industries.

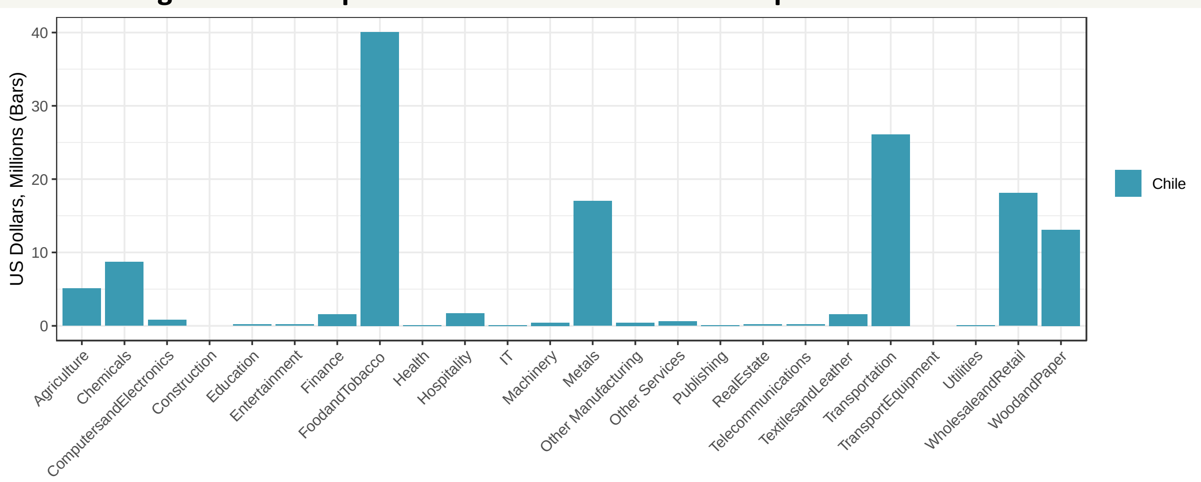
Once focused on GVCs though, the picture is relatively consistent across the ASEAN Member States except for its most and least developed members. Only four other industries in Indonesia import more than USD10 million, and three do in Malaysia. Of the ASEAN countries covered by the TiVA dataset, further behind is Singapore, where it is the case for only two industries, the Philippines where it is the case for only one, and Cambodia and Brunei where it is not currently the case for any industries.

Importantly, the size of Chile's exports of Transportation to each ASEAN member is not correlated to the size of its Mining and Quarrying exports, implying that these exports are not dependent on mining value chains but are an independent service export success story.

Vietnam, Thailand and the Philippines

Figure 2.1 shows that the five Chilean exporting industries currently sending more then USD10 million of value added to Vietnam are Food and Tobacco, Metals, Transportation, Wholesale and Retail and Wood and Paper, none of which should be a surprise given the discussion of Chile's RCA in the previous chapter. Also present, though further behind, are Agriculture, Chemicals, Finance and Hospitality and Publishing.

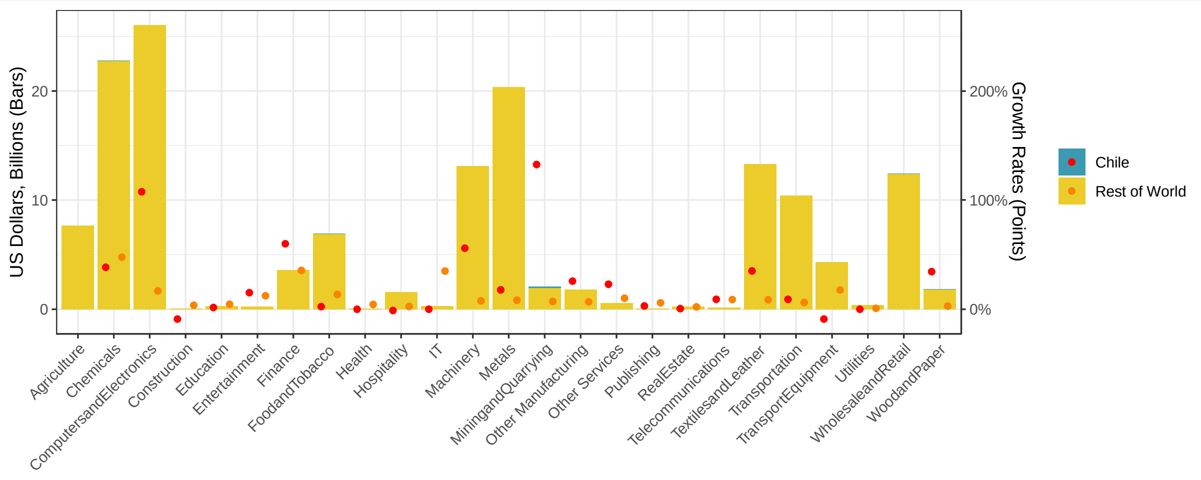
Figure 2.1: Composition of Gross Vietnamese Imports from Chile: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

The presence of these services industries in which Chile holds more marginal RCA making sense given Vietnam's relatively less developed status. Missing completely from Figure 2.1 is Transport Equipment, though Vietnam does import nearly USD5 billion from the rest of the world in this industry. Given that Chile is a competitive producer, this seems to be a missed opportunity.

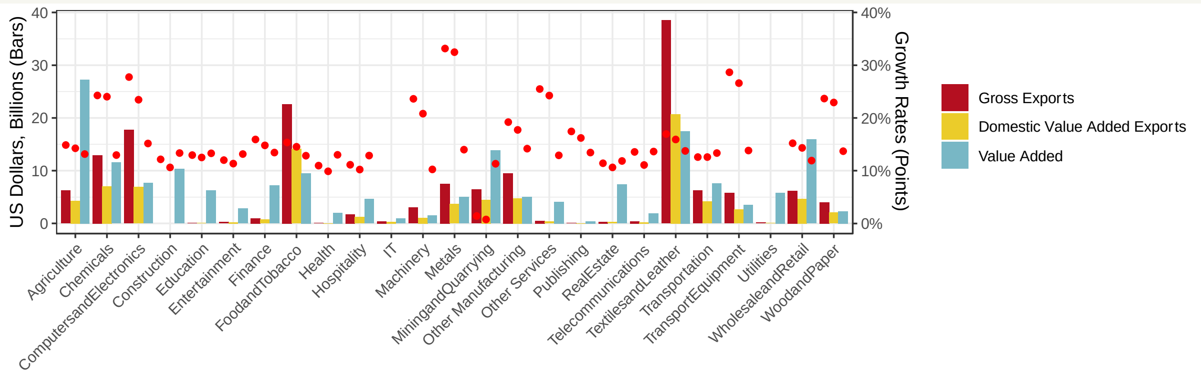
Figure 2.2: Composition of Gross Vietnamese Imports from Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
Growth rates are averages over the proceeding 10 years
"Other includes Repair and Installation"
Excluded as Outliers: Agriculture and Wholesale and Retail growth rates >500%

Vietnam's imports from the rest of the world dwarf those from Chile for all these industries, meaning there is plenty of market share to be won, and indeed Figure 2.2 demonstrates that in eight out of the ten industries mentioned above Chilean exports have been growing more quickly than Vietnam's imports from the rest of the world. This is particularly true of Agriculture and Wholesale and Retail, where Chilean exports have been growing by hundreds of percent a year since 2005.

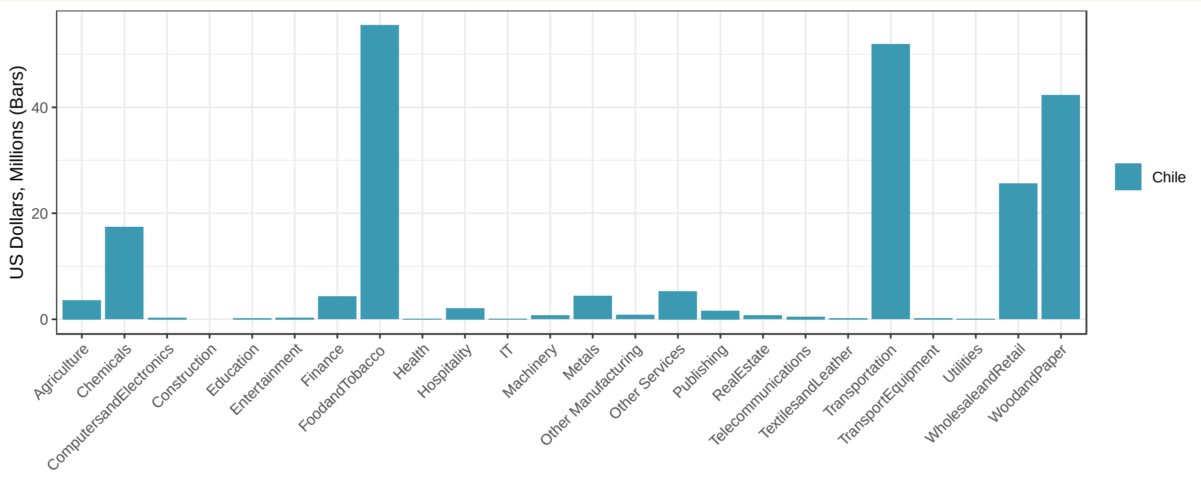
Figure 2.3: Industrial Structure of Vietnam: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

To understand what causes such dynamics when we identify similar situations, refer to Figure 2.3. This shows that both Agriculture and Wholesale and Retail are large sectors in Vietnam in terms of value added but are not large export sectors. As we already know ASEAN in general isn't competitive in them. Large and rapidly growing sectors which are not meeting export, but rather domestic, demand, can produce astonishing growth rates for Chilean exporters. Also visible is the fact that a "Factory Asia" country like Vietnam can in fact export a much larger gross value in an industry than that industry's entire domestic value added. This is the case for Textiles and Leather, where Chile's low RCA means it probably can't compete, but also Food and Tobacco, where Chile's high RCA means it can benefit from Vietnam's export power. However, Chile's exports of Food and Tobacco, and Chemicals, to Vietnam have been growing more slowly than Vietnam's imports from elsewhere; this is because Chile's portfolio is too final food intensive.

Figure 2.4: Composition of Gross Thai Imports from Chile: 2015

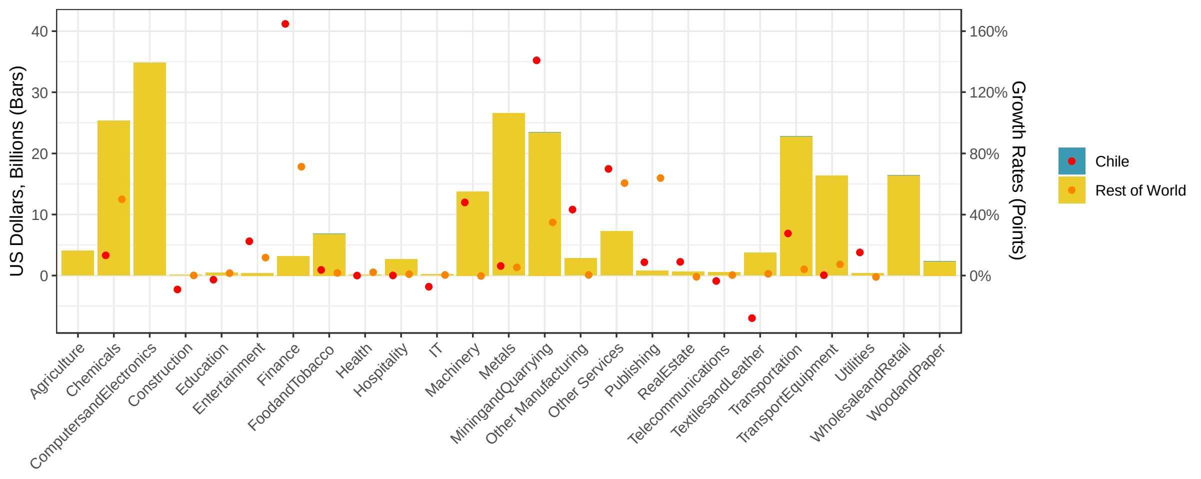


Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

The story is not dissimilar when it comes to Thailand, but as shown by Figure 2.4, the Chemicals industry replaces Metals as one of those exporting more than USD10 million. Both in the aggregate and in each other member state, Chemicals and Metals are of roughly similar significance, so the difference between Thailand and Vietnam here is what balances the ASEAN wide result. Figure 2.5 shows that the growth rates of imports from Chile relative to those from the rest of the world are also similar to the Vietnamese case, and once again Chilean exporters of Transport Equipment mysteriously seem to have not yet entered the market at all.

Growth rates are important because they can reveal future sources of export competitiveness in a way which measurement of revealed comparative advantage does not. Chile's exports of Computers and Electronics to both Vietnam and Thailand are still very small in absolute value, but have been growing at an incredibly rapid pace, more than doubling each year between 2005 and 2015. In terms of its exports to the rest of the world, Chile does have an established export capacity here, though it exports less than USD1 billion.

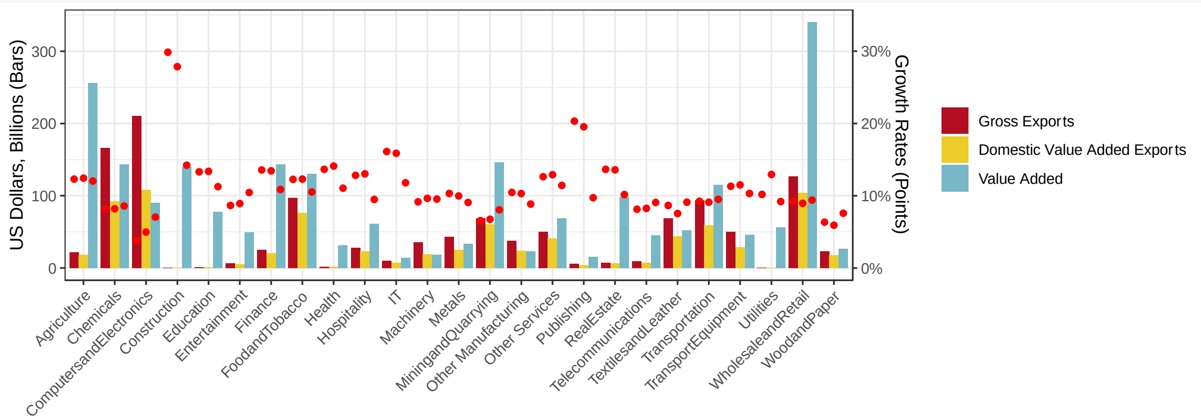
Figure 2.5: Composition of Gross Thai Imports from Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
Growth rates are averages over the proceeding 10 years
"Other includes Repair and Installation"
Excluded as Outliers: Agriculture, Wholesale and Retail, Wood and Paper and Computers and Electronics growth rates >500%

For ASEAN however, this is an enormous market, exporting over USD200 billion in gross terms and having a very large RCA in the industry. See Figure 2.6. The rapid growth in Chilean involvement reveals a pathway through which increased integration with ASEAN could turn a currently humble Chilean export industry into a much more significant player.

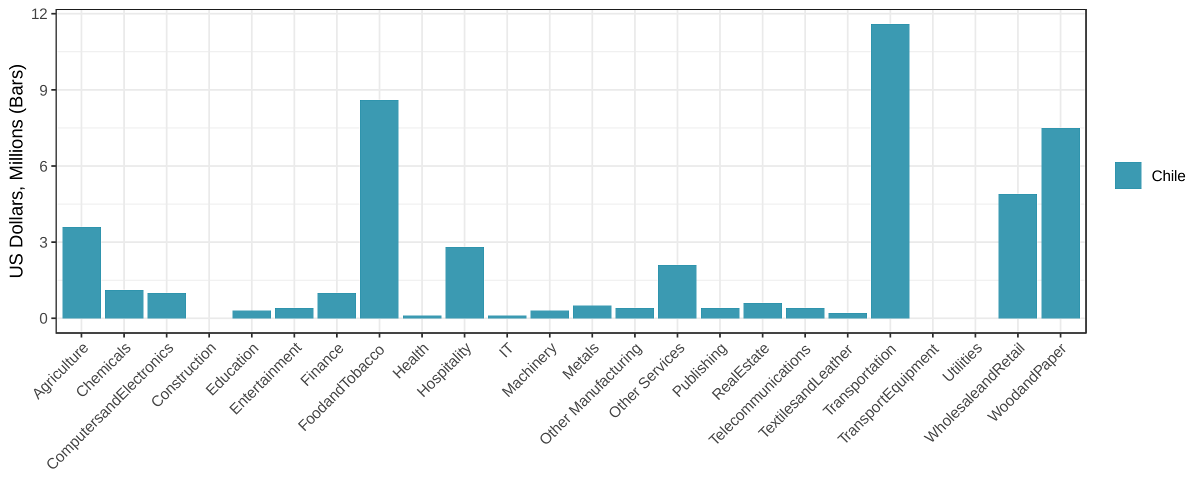
Figure 2.6: Industrial Structure of ASEAN: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

The same is true of Machinery and Other Services, while Vietnam and Thailand are themselves not such large players in these GVCs, and Chilean exports have not been growing quite as quickly (roughly 50% a year), meaning the ultimate potential here is more limited, this is still access to and growth in industries which Chile does not currently hold RCA in and hence represents totally new sources of diversification as well as growth.

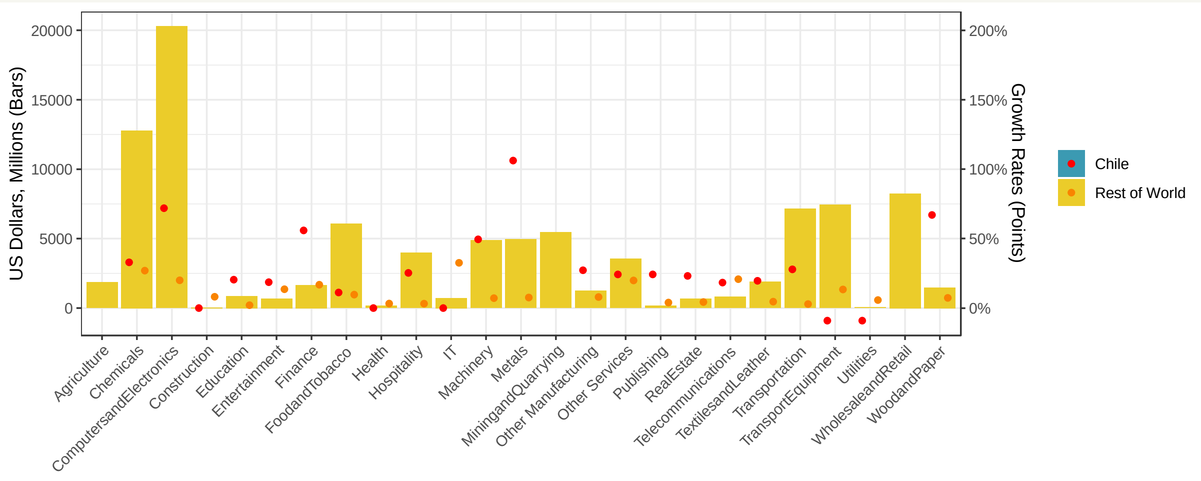
Figure 2.7: Composition of Gross Filipino Imports from Chile: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

Figure 2.7 shows that Chilean exports to the Philippines are a virtual clone of the situation in Vietnam and Thailand, though this is a smaller market. Figure 2.8 shows it is rapidly growing, however. One noteworthy unique feature is that Chilean Hospitality exports are particularly strong and growing strongly (nearly 25% a year). Publishing appears much more promising in the Philippines as well. This is likely due to the lower language barrier between Chile and the Philippines than other ASEAN countries.

Figure 2.8: Composition of Gross Filipino Imports from Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
Growth rates are averages over the proceeding 10 years
"Other includes Repair and Installation"
Excluded as Outliers: Agriculture, Mining and Quarrying and Wholesale and Retail growth rates >500%

Indonesia and Malaysia

Box 2.1: Trade Restrictiveness affecting Indonesia' Goods Imports

Tariff reforms saw Indonesia's Most Favored Nation (MFN) tariffs decrease sharply (on average by two-thirds) over 1989 to 2007 to 7.4% (1 percentage point lower than the developing country average). The average applied tariff dropped to 6.2% while the preferential tariff applying to ASEAN Members decreased (to 0 by 2017). Trade policy discussion subsequently became increasingly dominated by concerns over the impact of import competition, including under bilateral Free Trade Agreements (FTAs), and import substitution became a national policy priority, reflected in Indonesia's first-ever Trade Bill. Use of Non-Tariff-Measures (NTMs) started to take off, impacting both imports and exports.

2012 to 2014 saw a dedicated attempt to boost downstream industry by restricting exports of raw materials, supporting the establishment of processing industries that could produce intermediate goods for higher value-added export, restricting imports and imposing local content requirements. By 2018, there were 192 regulations in place and 977 NTMs implemented, affecting 7,759 tariff lines or about 62% of imports.

Animal, Food, and Vegetable products are the most highly regulated product groups. They are the most affected by import NTMs, with almost 100% of tariff lines subject to at least one NTM. They are also significantly impacted by NTMs constraining exports. NTMs constraining exports are fewer than for imports, but are highly significant for Wood. NTMs affecting Wood skyrocketed to affect 80% of imports in 2018, chiefly because of export regulations introduced in 2017 affecting Forestry Industrial Products. NTMs on Metals doubled in prevalence over 2015 to 2018 and affect 48% of imports, with the main impact on iron and steel. NTMs affect 22% of Mineral imports and 8% of Plastic and Rubber.

Nearly 50% of the measures are Technical Barriers to Trade (TBT), chiefly labelling requirements, product quality standards, certification and testing requirements. But Sanitary and PhytoSanitary (SPS) measures have been on the rise and account for another 25%. Most of these stem from the Indonesian National Standards for Food Products, issued by the Ministries of Industry (e.g., regarding tuna, sardines and mackerel in cans), Marine and Fisheries, and Environment (e.g., on mandatory fish quarantine). Pre-shipment inspection and other formalities as well as quotas, prohibitions, quantity-control measures and requirements to pass through a specified port of customs, are also all prevalent. The import approval process is complex, requiring technical recommendation and duplication of documentation. Some price control measures are in place, including additional taxes and charges.

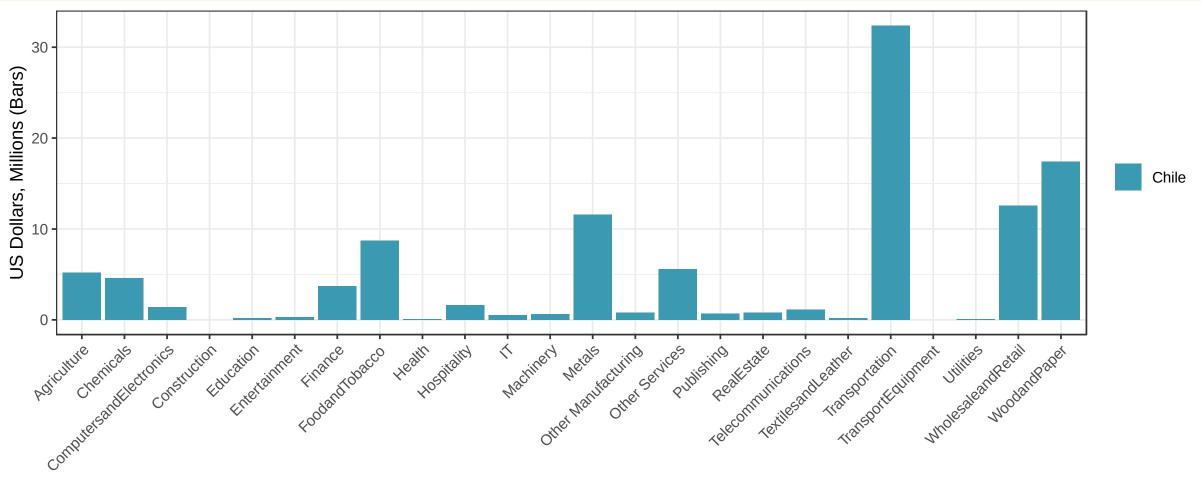
In February 2021, the latest data shows a small positive improvement, leaving 960 NTMs currently in force. 17 of them apply only to specific trading partners, some of which also affect Chile.

Most measures are administered by the Ministries of Trade, Industry and Agriculture but another 10 agencies are also involved: the Ministries of Finance, Marine and Fisheries, Health, Environment and Forestry, Energy and Mineral Resources, Communication and Information, the State Secretariat, National Police and Agency for Food and Drug Control.

Source: Munadi (2019)
Author calculations for 2021 from TRAINS Database
https://trains.unctad.org/Forms/TableView.aspx

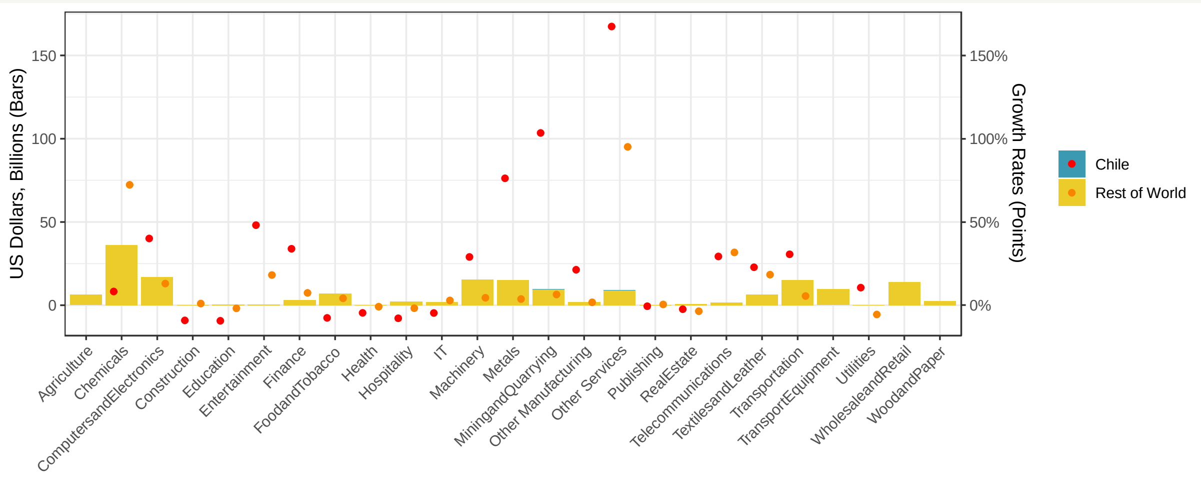
The situation is consistent across the other large ASEAN countries Chile has established exports to, Indonesia and Malaysia. Figure 2.9 shows that for its size Indonesia imports somewhat less Agriculture or Wood and Paper than one might expect, though Figure 2.10 shows that this is the case in general not only for Chile. It is in large part the result of widespread prevalence of non-tariff measures (NTMs) affecting these industries in particular, though Indonesia is much less GVC integrated overall than the other comparable ASEAN members.[6] The three emerging sectors, Computers and Electronics, Metals and Other Services are also growing well in Indonesia, especially Other Services.

Figure 2.9: Composition of Gross Indonesian Imports from Chile: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

Figure 2.10: Composition of Gross Indonesian Imports from Rest of World: 2015

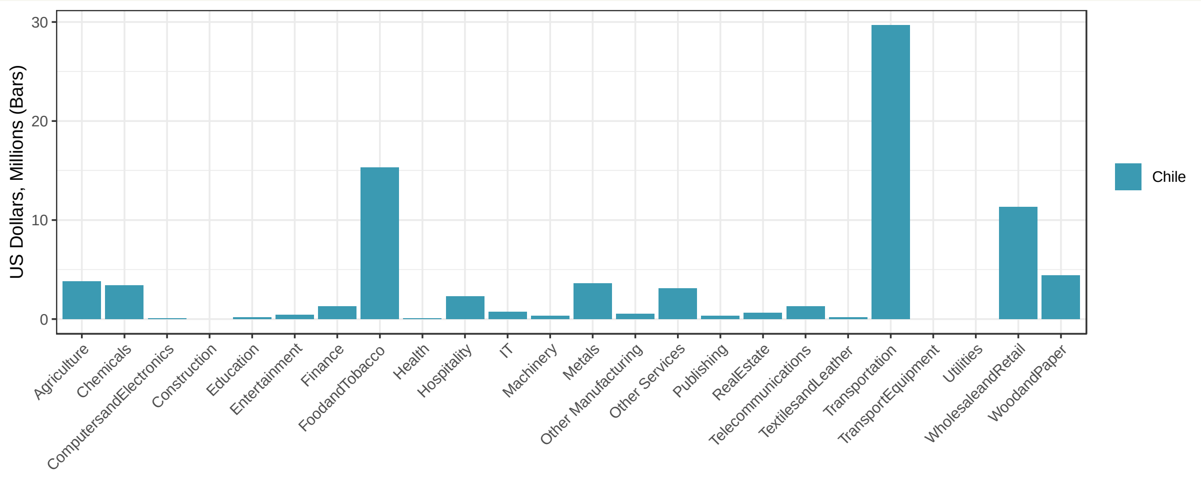


Source: Own calculations based on the OECD/WTO TiVA Data
Growth rates are averages over the proceeding 10 years
"Other includes Repair and Installation"
Excluded as Outliers: Agriculture, Wholesale and Retail, Wood and Paper and Transport Equipment growth rates >500%

[6] World Bank (2020)

Figure 2.11 shows that Chilean exports to Malaysia buck some of the trends. Promisingly, imports of Chilean Chemicals are growing much faster than those from the rest of the world, unlike in the previous three economies, see Figure 2.12. However, the service industries strong elsewhere are not performing as well in Malaysia, including Finance and Hospitality. The same goods sectors are growing rapidly though. Of the emerging industries, only Machinery is displaying growth in Malaysia the way it is elsewhere, again the services are suffering. Chilean Transport Equipment exporters appear to have recently found the foothold in Malaysia that they have not in the countries discussed thus far however, with an average annual growth rate over 100% from a very low starting point.

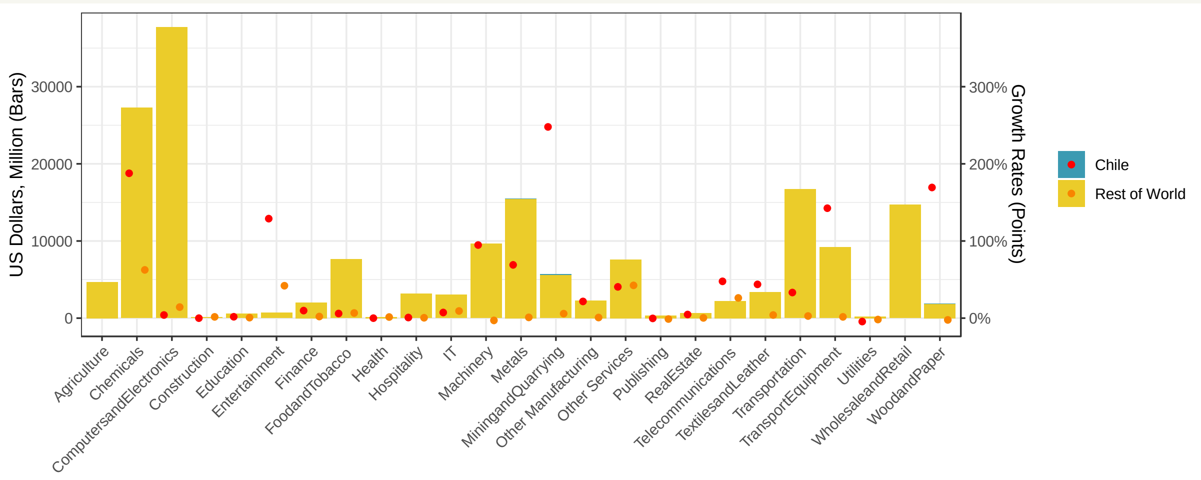
Figure 2.11: Composition of Gross Malaysian Imports from Chile: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"
Excluded as Outliers: Mining and Quarrying

The rapid growth in Chilean involvement in ASEAN trade in computers and electronics reveals a pathway through which increased integration with ASEAN could turn a currently humble Chilean export industry into a much more significant player.

Figure 2.12: Composition of Gross Malaysian Imports from Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data

Growth rates are averages over the proceeding 10 years
"Other includes Repair and Installation"
Excluded as Outliers: Agriculture and Wholesale and Retail growth rates >500%

Box 3.2: Trade Restrictiveness affecting Malaysia's Services Imports

Though well above global average restrictiveness and considerably more restrictive than Chilean exporters are familiar with from experience in their relatively open home market, as measured by the OECD Services Trade Restrictiveness Index (STRI), Malaysia is a less restrictive services market than Thailand or Indonesia. So why might the Malaysian services market prove a particular challenge for Chile, compared with other ASEAN Members?

The answer lies partly in the fact that many of Malaysia's restrictive regulations apply horizontally across all services sectors, i.e. they lie chiefly "at-the-border" in blunt investment and immigration regimes rather than "behind-the-border" in specific services sector regulations, which firms are better at finding "ways around" and which in any case tend to impact also on domestic services providers.

Foreign services providers, in all sectors, are required to have commercial presence in Malaysia in order to provide services, i.e. they must be incorporated in Malaysia. This is a very big impediment for all online suppliers, impacting emerging sectors such as IT and Other Business Services. Foreign investment is subject to government approval in strategic sectors, including Telecommunications, Transport, and Wholesale and Retail. In all sectors, at least two Board Directors must be resident. Labour market tests apply for all intra-corporate transferees and duration of stay is limited to 24 months. Foreigners cannot acquire certain types of land and real estate, including properties valued at less than RM1 million (about USD240,000) and large acquisitions (above RM20 million) are subject to approval. Sector specific restrictions also have an impact in emerging sectors, for example both Other Business have above average restrictiveness scores.

Recent years have seen improvements in the regulatory environment. Foreign investment conditions have eased somewhat for Transportation, Telecommunications, Other Business services and Wholesale and Retail distribution, several of these being of direct relevance to Chile. Procedures for business visas were simplified in 2020.

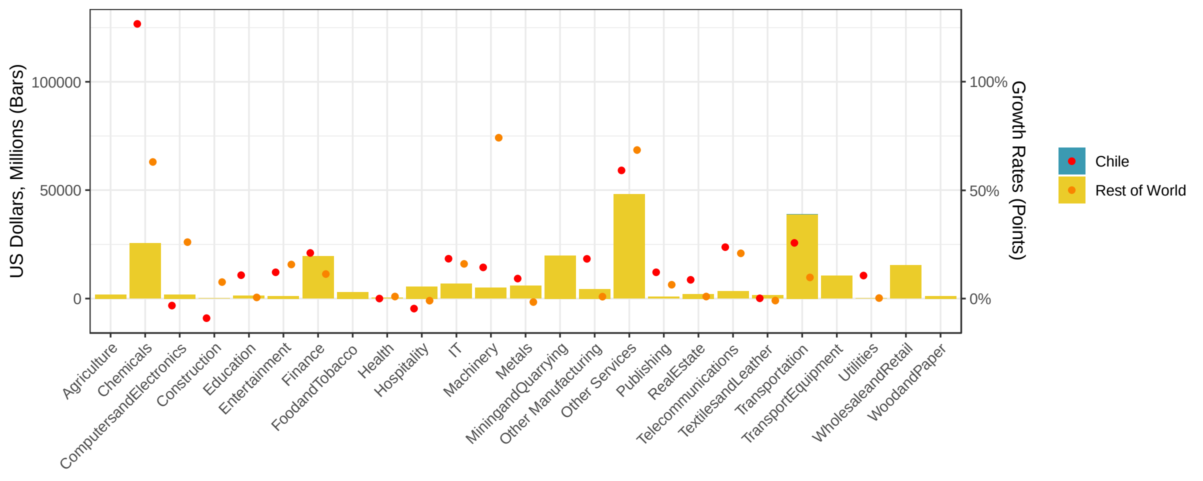
Importantly, Malaysia performs well, indeed much better than Chile, on the Digital STRI, which tracks digital infrastructure, intellectual property, electronic transactions and payments systems. Malaysia is below the global average for restrictiveness; Indonesia is meanwhile becoming much more restrictive, with implications for future digital trade.

Source: OECD Services Trade Restrictiveness Index, Country Note Malaysia (2021)

Singapore and Cambodia

The consistency we find across ASEAN breaks down when we look at the most and least developed Member States. As one of the most open, developed and business friendly economies in the world, Singapore's overall import portfolio is much more heavily tilted toward services than ASEAN's is at large, and demonstrated in Figure 2.13.

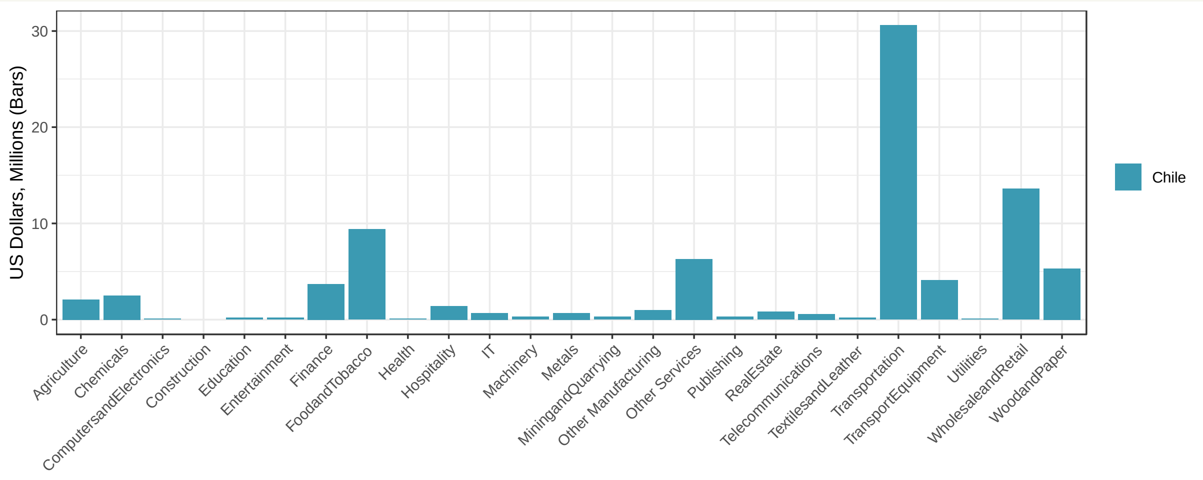
Figure 2.13: Composition of Gross Singaporean Imports from Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
Growth rates are averages over the proceeding 10 years
"Other includes Repair and Installation"
Excluded as Outliers: Agriculture, Mining and Quarrying, Food and Tobacco, Wood and Paper, Transport Equipment and Wholesale and Retail growth rates >500%

This is true also of Singapore's imports from Chile specifically, Figure 2.14 showing that its main service sector imports from Chile - Finance, Hospitality, Transportation and Wholesale and Retail - are relatively much more significant than in the other ASEAN markets. Remarkably Other Services is already exporting more than USD5 billion to Singapore, and while not quite keeping up with Singapore's imports from the rest of the world this export flow has still been growing very quickly at more than 50% a year. Like Malaysia, this is also a market in which Chilean exporters of Transport Equipment have established a foothold and are now increasing their market share quickly, as has Finance. As Singapore plays the services hub role in ASEAN's GVCs, these trends are likely to persist or even increase as Chilean exporters integrate into CLMV markets.

Figure 2.14: Composition of Gross Singaporean Imports from Chile: 2015

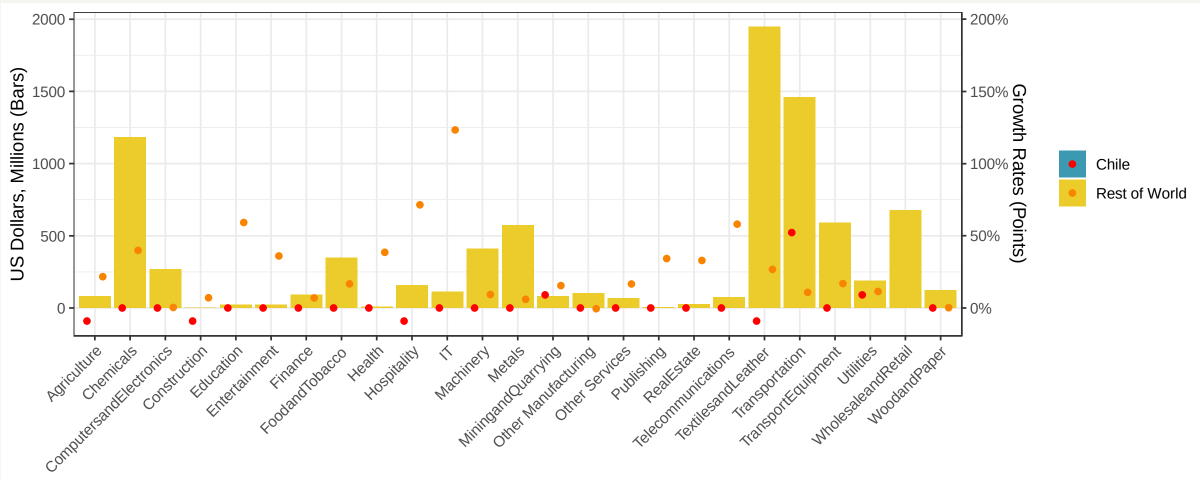


Source: Own calculations based on the OECD/WTO TiVA Data

“Other includes Repair and Installation”
Excluded as Outliers: Mining and Quarrying

The only of ASEAN’s least developed members represented in the TiVA data is Cambodia, where Chilean exports aside from its Transportation industry were yet to meaningfully establish themselves by 2015. Looking at Cambodia’s imports from the rest of the world - Figure 2.15 - there is significant potential in this market for Chile. Cambodia imports enough in many of Chile’s RCA industries that winning market share here would not be trivial for Chile’s growth by any means. Chemicals, Food and Tobacco, Hospitality, Transportation, Wholesale and Retail and Wood and Paper are all growing import industries in Cambodia. Less promising is the potential for the diversification into Electronics and Computers or Machinery. Services imports however are growing extremely quickly, and this means opportunities for Chile’s Other Services industry as well as Hospitality and Finance.

Figure 2.15: Composition of Gross Cambodian Imports from Rest of World: 2015



Source: Own calculations based on the OECD/WTO TiVA Data
Growth rates are averages over the proceeding 10 years
“Other includes Repair and Installation”
Excluded as Outliers: Wholesale and Retail growth rates >500%

Schematic of Findings

After this tour through the ASEAN member states, we are now in a position to systematise the findings for each industry. This may be seen displayed visually in Figure 2.16. The three industries which present the most unambiguously favourable opportunity for Chile to integrate more deeply with ASEAN are Agriculture, Wholesale and Retail Trade and Wood and Paper. Chile holds RCA in all of these industries, already exports significant quantities of each to ASEAN, and these exports are growing extremely quickly in most ASEAN members as Chilean companies leverage their RCA to capture market share. Also sitting in a comfortable position, but currently not seeing quite such explosive growth are Hospitality, Metals and Transportation.

Chemicals and Food and Tobacco are both significant in size, but in many places have actually been losing market share despite Chile holding RCA. In the case of Chemicals this is reflective of Chilean exports increasingly being concentrated in only Singapore and Malaysia, while for Food and Tobacco it is the result of ASEAN at large increasingly switching its imports toward intermediates and away from final products.

Publishing and Transport Equipment are industries in which Chile holds RCA but has not so far been particularly successful in integrating with ASEAN GVCs. There are promising signs for Transport Equipment in Singapore and Malaysia though, and for Publishing in the Philippines.

Finance and Other Services are curious in that Chile does not have RCA in these industries, and yet does have established if small export flows of them both to the world at large and to most ASEAN member states. As they are also growing quickly across a number of ASEAN members Chile clearly holds comparative advantage relative to ASEAN in these industries, and it is likely that it will break into holding RCA over coming years particularly by leveraging its relative advantage into the CLMV markets.

Finally, in Computers and Electronics and Machinery, Chile appears not globally competitive and yet Chilean exporters are experiencing extreme growth rates in the GVC powerhouse ASEAN member like Vietnam and Thailand, for whom these are growth industries in general. They thus represent opportunities largely unique to Chile's integration in ASEAN, but the growth potential appears to be considerable.

Figure 2.16: Advantages Held by Chilean Export Industries

Industry	**Agriculture**	**Chemicals**	**Computers and Electronics**	**Finance**	**Food and Tobacco**	**Hospitality**	**Machinery**	**Metals**	**Other Services**
Holds Global RCA	X	X			X	X		X	
Established ASEAN Import Market	X	X		X	X	X		X	X
Signs of Local CA				X			X		X
High Growth of Exports to ASEAN	X		X				X		

Industry	**Publishing**	**Transportation**	**Transport Equipment**	**Wholesale and Retail**	**Wood and Paper**
Holds Global RCA	X	X	X	X	X
Established ASEAN Import Market		X		X	X
Signs of Local CA					
High Growth of Exports to ASEAN			X	X	X

1.3: UP-TO-DATE GROSS TRADE ANALYSIS

Motivation

While the analysis in Chapters 1.1 and 1.2 revealed which Chilean industries had the underlying advantages when it comes to trading with ASEAN, and in which member state each of them was best positioned, markets can evolve quickly and it is important to ensure that major changes have not taken place since 2015 which might undermine these findings. Further, especially in the case of goods trade, increasing an industry level export flow is often most easily achieved by diversifying the range of products the industry is exporting rather than by increasing the volumes of those it already does. With these two issues in mind, we turn now to an analysis of gross trade flows since 2015.

Box 2.1: Balance of Payments (BoP) Data

Analysis in this chapter is based on traditional Balance-of-Payments (BOP) data. For the case of goods this is drawn for the UN Comtrade Data Set for the period following the latest available TiVA data - 2015-2019 – and is at the Harmonized System 2-digit (HS2) level of disaggregation, that is it covers 96 commodities.

For the case of services we look specifically at Commercial Services excluding Government Services and draw from on the new WTO/OECD Balanced International Trade in Services (BATIS) data set released in December 2020, which provides somewhat more disaggregated information on bilateral trade in services than previously available. Trade in Services data drawn from the Balance-of-Payments (BOP) is notoriously incomplete leading to much under assessment of actual and prospective trade flows across the four modes of services supply: online cross-border supply over the internet (mode 1); consumption abroad (mode 2); commercial presence via establishment abroad (mode 3) and temporary movement of natural persons (mode 4). The BATIS data alleviates but does not resolve this issue.

Partner Diversification Opportunities for Goods Exporters

To make sure we capture emerging possibilities not visible up until 2015 we look at all the non-mineral categories available in the data and not only the industries highlighted thus far. We found that Chile is globally competitive, defined as making up at least 1% of total exports, in 27 out of the 96 internationally traded commodities. We focus our attention on these commodities as Chile is sure to have sufficient capacity to take advantage of untapped market openings in ASEAN. From there we identified whether Chilean exports constituted at least 1% of ASEAN’s, China’s and each ASEAN members’ imports.

There is potential for Chilean exporters to find new product markets in ASEAN for a variety of identified Food Products, Metals, Transport Equipment and Miscellaneous Manufactures.

Figure 3.1 provides an overview of major Chilean non-mineral exports to the World, China and ASEAN as well as to the individual ASEAN member states, cumulated over the time frame of 2015-19. The table indicates commodities at the HS2 digit level to which Chile exports at least 1% of the total exports to the specific destination. A clear pattern of strong region wide HS2-digit commodity exports is identified for commodities 3 (Fish and Crustaceans etc.), 8 (Edible Fruit and Nuts) and 22 (Beverages). Other commodities are well established but still haven't entered all ASEAN markets, such as 15 (Animal or Vegetable Fats), 16 (Meats), 23 (Food Industries), 31 (Fertilizers), 44 (Wood) and 47 (Pulp) show a less clear pattern indicating possibilities for entry into some of the member states remain. This reinforces the message from the previous chapter that Agriculture and Food and Tobacco, Chemicals and Wood and Paper remain the largest goods exporting industries and retain ample room to grow through partner and product diversification.

Similarly, a pattern of stronger exports to certain ASEAN members is identified. Trade flows to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam are stronger and more diverse than those to Brunei, Cambodia, Lao, or Myanmar. Figure 3.2 provides a detailed description of the commodities numbered in Figure 3.1.

Figure 3.1: Major Chilean (Non-Mineral) Goods Exports to ASEAN: 2015-19.

Export Destination	**2**	**3**	**8**	**11**	**12**	**13**	**14**	**15**	**16**	**20**	**21**	**22**	**23**	**30**	**31**	**38**	**39**	**40**	**44**	**47**	**48**	**49**	**71**	**84**	**85**	**87**	**89**
World	X	X	X		X				X	X	X	X	X		X		X	X	X	X	X		X	X	X	X	
China	X	X	X		X							X	X						X	X							
ASEAN		X	X					X	X			X	X		X				X	X	X						
Brunei		X	X				X					X															
Cambodia			X						X			X			X												
Indonesia		X	X					X			X	X	X		X				X	X						X	
Lao		X							X			X												X			
Malaysia		X	X	X		X		X	X			X							X	X	X	X		X			
Myanmar		X						X				X		X	X												
Philippines		X	X		X							X			X					X	X						
Singapore		X	X						X		X	X				X				X							X
Thailand		X	X				X	X	X	X		X			X				X	X							
Viet Nam		X	X					X				X	X	X					X	X							

Source: Own calculations, UN Comtrade Data Set 2021

NOTE: All minerals are excluded, e.g., ore, slag and steel as well as copper.

Figure 3.2: Description of HS2-digit commodities

2	Meat and edible meat offal
3	Fish and crustaceans, molluscs and other aquatic invertebrates
8	Fruit and nuts, edible; peel of citrus fruit or melons
11	Products of the milling industry; malt, starches, inulin, wheat gluten
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit, industrial or medicinal plants; straw and fodder gluten
13	Lac; gums, resins and other vegetable saps and extracts
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included extracts
15	Animal or vegetable fats and oils and their cleavage products; prepared animal fats; animal or vegetable waxes

16	Meat, fish or crustaceans, molluscs or other aquatic invertebrates; preparations thereof
20	Preparations of vegetables, fruit, nuts or other parts of plants
21	Miscellaneous edible preparations
22	Beverages, spirits and vinegar
23	Food industries, residues and wastes thereof; prepared animal fodder
30	Pharmaceutical products
31	Fertilizers
38	Chemical products n.e.c.
39	Plastics and articles thereof
40	Rubber and articles thereof
44	Wood and articles of wood; wood charcoal
47	Pulp of wood or other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard
48	Paper and paperboard; articles of paper pulp, of paper or paperboard
49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans
71	Natural, cultured pearls; precious, semi-precious stones; precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles
87	Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof
89	Ships, boats and floating structures

Product Diversification Opportunities for Goods Exporters

To look not only for market entry opportunities but also identify which industries are underrepresented in terms of volume, we calculated Chilean exports of each commodity as a percentage of total Chilean exports to the partner in question. See Figure 3.3. The data indicates that 34% of ASEAN's total non-mineral imports from Chile are of commodity 3 (Fish and crustaceans). In comparison, commodity 8 (Fruit and nuts), is the major non-mineral commodity imported by China with 30% of total Chilean exports. However, this commodity makes up only 9% of ASEAN total imports from Chile, indicating a clear export gap and a market opportunity.

Figure 3.4 shows all the market opportunities resulting from this form of analysis in more detail. The yellow highlighted areas indicate commodities that Chile exports in significant amounts to the World but in more limited amounts to ASEAN. For example, in 2019, Chile exported more than USD1.1 billion of commodity 2 (Meat and edible offal) to the World and more than USD440 million of it to China. However, it barely exported USD400 thousand to ASEAN, indicating a clear market opportunity. This becomes even clearer when the relatively strict import requirements of China are considered, compared to the relatively less stringent requirements of ASEAN member states. Table 4.5 summarizes the major market opportunities identified. They are concentrated in the industries identified in the previous chapter, indicating that the overall picture as far as trade in goods is concerned has not changed meaningfully since 2015.

Figure 3.3: Major Chilean (Non-Mineral) Goods Exports as a Percentage of Chilean Total Exports to the Partner Destination: 2015-2019

Export Destination	2	3	8	11	12	13	14	15	16	20	21	22	23	30	31	38	39	40	44	47	48	49	71	84	85	87	89	∑
World	3	17	20		1				1	2	1	7	1		2		1.5	1	8	9.5	2		3	2	1	2.5		88
China	5	7	30		2							7	3						7	35								96
ASEAN		34	9					4	4			7	3		3				13	12	2							92
Brunei		95	3				1					1																100
Cambodia			14						5			78			2													100
Indonesia		9.5	19					13			2	3	9		5				5	25						3		94
Lao		2							1			64												32				99
Malaysia		29	14	2		2.5		3	9			12							3	16		2.5		1				95
Myanmar		9						2				60		18	11													100
Philippine		36	16		1							9.5			1					5	23							93
Singapore		35	9						19		1	17				2				8							3	94
Thailand		47	8				1	2	3	2		3			6				3	20								95
Viet Nam		28	5					7				8	7	1					36	2								95

Source: Own calculations, UN Comtrade Data Set 2021
NOTE: All minerals are excluded, e.g., ore, slag and steel as well as copper.

Figure 3.4: Gaps in Major Chilean (Non-Mineral) Goods Exports: 2015-2019

Partner	2	3	8	11	12	13	14	15	16	20	21	22	23	30	31	38	39	40	44	47	48	49	71	84	85	87	89
World	X	X	X		X				X	X	X	X	X		X		X	X	X	X	X		X	X	X	X	
China	X	X	X		X							X	X						X	X							
ASEAN		X	X					X	X			X	X		X				X	X	X						
Brunei		X	X				X					X															
Cambodia			X						X			X			X												
Indonesia		X	X					X			X	X	X		X				X	X						X	
Lao		X							X			X												X			
Malaysia		X	X	X		X		X	X			X							X	X	X	X		X			
Myanmar		X						X				X		X	X												
Philippines		X	X		X							X			X					X	X						
Singapore		X	X						X		X	X				X				X							X
Thailand		X	X				X	X	X	X		X			X				X	X							
Viet Nam		X	X					X				X	X	X					X	X							

Source: Own calculations, UN Comtrade Data Set 2021
NOTE: All minerals are excluded, e.g., ore, slag and steel as well as copper.

Partner Diversification Opportunities for Services Exporters

Standing at USD10.6 billion in 2019, Chile's total global exports of commercial services over the 6-year period 2014 to 2019 have been effectively static, growing only 1% or USD107 million over the period. All the net export growth has been with the APEC region. The bulk is accounted for by USD89 million increase in exports to China (8% growth over the period), bringing bilateral exports to USD1.2 billion. The rest is largely accounted for by a USD15 million increase in exports to ASEAN (4.5% growth) bringing exports to ASEAN to USD0.3 billion. Figures 3.5 summarizes the overview.

Figure 3.5: **Chile's Commercial Services Exports; 2014-2019, USD Millions**

Export Destination	2014	2019	Δ
World Total	10,474.6	10,581.3	106.7
China PRC	1,099.2	1,188.3	89.1
ASEAN 10	**322.1**	**336.7**	**14.6**
Singapore	95.8	105.3	9.5
Thailand	66.6	81.7	15.0
Indonesia	51.5	40.9	-10.5
Malaysia	44.6	41.8	-2.8
Viet Nam	35.5	32.0	-3.6
Philippines	19.5	27.0	7.5
Brunei Darussalam	5.9	5.2	-0.7
Myanmar	1.3	1.1	-0.2
Cambodia	0.9	1.1	0.2
Lao PDR	0.4	0.6	0.2

Source: WTO/OECD BATIS Dataset

ASEAN 10 markets still accounted in 2019 for a tiny share of Chile's total commercial services export market – just over 3% (same as in 2014) compared with China with just over 11% share (up from 7% share in 2014). Within ASEAN, Singapore is the largest market, taking one third of Chile's commercial services exports to ASEAN in 2019 (up from just under one third in 2014), with exports growing at 10% over the period to 2019. Chile's commercial services exports to Thailand grew even more rapidly, at 23%, to reach USD82 million. Exports to the Philippines also grew rapidly at 38% but from a lower base. Chile's commercial services exports have actually declined over the period for Indonesia (a 20% drop), Malaysia, Vietnam and Brunei.

ASEAN markets for Chilean services, including business services, are growing but at half the speed of the Chinese market.

Chile exports a small amount of commercial services (about USD1 m each) to Myanmar and Cambodia and a bit over half that amount to Laos with exports to Laos growing most rapidly but inconsistently. Cambodia shows slow but steady growth and Myanmar has experienced a slight decline. Clearly Chile is far from dependent on the Chinese market for services, but that is the fastest recent relative growth story. ASEAN markets for Chilean services are also growing but at just over half the speed; the opportunities apparent in the TiVA 2015 data have not been fully seized upon over the years since, but still exist. This is consistent with the implications of the earlier analysis, whereby Chile's service exporters were found to have the most opportunity in serving the less developed nations and more GVC oriented members via

Singapore rather than competing in the relatively protectionist markets like Indonesia and Malaysia.

Industry Diversification Opportunities for Services Exporters

There is very little granularity in services trade data. While trade in merchandise is captured in more than 6,000 categories, even in the latest bilateral data sets services are captured in only 17 broad categories. Traditionally the largest components of trade in services, and the only two to be adequately captured in the BoP are Transport Services and Travel Services (the latter often used as a proxy for Tourism). A few other key services sectors such as Telecommunications and Financial Services are also captured relatively precisely. But many other services exports are collected generically under much broader headings. This makes it impossible to look for within-industry product diversification potential as we did for goods, instead we take a more detailed look at each service Industry.

In general the shares of both Transport and Travel Services have been in decline globally, if at a somewhat slower pace for the non-OECD countries. High value-added, knowledge-intensive business services have everywhere become the fastest growing component of not only trade in services but of world trade overall. These trends are largely true for Chile's overall world exports also. Travel services are still growing, but Transport services, Chile's traditional strength, while still large, display a significant long term relative decline trend. Chile's fastest recent services export growth story, though from a low base, undoubtedly lies in Personal, Cultural and Recreational Services. Other major growth stories are Telecommunications, Computer and IT Services, Financial Services and Charges for Intellectual Property, followed by Other Business Services and Other Commercial Services.

There is scope to further diversify the export base among the ASEAN member states and to pick back up some recently lost export markets, especially in Vietnam.

Some trends in bilateral Chile-ASEAN trade are running counter to the global trends though. Despite the growth in exports in this category, there is a decline in the share ASEAN is taking of total Chilean exports of Other Business Services. Exports in this category should be on a more rapid long term trend growth path, as are Chilean exports globally and to China. Nor, for bilateral services trade with ASEAN, does the growth lie in Personal, Cultural and Recreational Services. Growth has continued and remains prospective, however, in Travel, Transport, Other Commercial Services, Finance and Insurance, Goods-related Services and Repair and Maintenance. Essentially the more recent data shows that by continuing to capture market share Chile's RCA service industries are able buck overall trends in terms of the bilateral position with ASEAN. In these industries, there is scope to further diversify the export base within the ASEAN market and to pick back up lost export markets, especially in Vietnam though also in Indonesia, Malaysia.

At USD4.4 billion, Transport services still bulk very large with a 41% share of Chile's total global exports of services, though this is down from 51% in 2014. The fact is Chiles's Transport exports are in long term decline, not just in relative terms but in absolute volume terms, experiencing a decline of 20% over the six years to 2019. Exports to China have dropped as much as 50%. At USD163 million in 2019, exports to ASEAN have stabilized somewhat, due to 10% growth over the period in Singapore and Thailand and strong 30% growth in the Philippines. ASEAN's overall share in Chilean exports has increased from 3.2% in 2014 to 3.7% in 2019. Chile traditionally exports about USD1 m of Transport Services to Myanmar (on a par with Brunei), about USD0.1 m to Cambodia but not to Laos. Because Chile holds strong RCA in Transportation it ought to be able to find much more growth by capturing market share in ASEAN despite the global Transportation market being in decline.

Figure 3.6: **Chile's Transport Services Exports; 2014-2019, USD Millions**

Export Destination	**2014**	**2019**	**Δ**
World Total	5,365.2	4,372.0	-993.23
China PRC	607.0	321.8	-285.27
ASEAN 10	**170.5**	**163.1**	**-7.38**
Singapore	52.7	55.8	3.10
Thailand	39.2	41.6	2.39
Indonesia	26.2	18.3	-7.98
Malaysia	20.8	18.2	-2.61
Viet Nam	20.0	15.5	-4.45
Philippines	9.1	11.6	2.51
Brunei Darussalam	1.2	1.1	-0.15
Myanmar	1.2	1.0	-0.22
Cambodia	0.1	0.1	0.01
Lao PDR	0.0	0.0	0.03

Source: WTO/OECD BATIS Dataset

Chile's global exports of Travel Services, often used as a proxy for inflows of international tourism, saw growth of 10% over the six preceding years to stand in 2019 at USD2.6 billion. China and ASEAN together account for 81% of this growth – China alone accounts for 78%. Exports to China grew 60% to stand in 2019 at USD0.5 billion and account for 19% of Chile's exports of Travel services. Exports to ASEAN grew by 10% and standing at USD58.6 million, account for only 2% of Chile's global exports of Travel services.

Figure 3.7: **Chile's Travel Services Exports; 2014-2019, USD Millions**

Export Destination	**2014**	**2019**	**Δ**
World Total	2,380.0	2,615.7	235.66
China PRC	323.2	506.8	183.56
ASEAN 10	**52.0**	**58.6**	**6.65**
Indonesia	9.1	8.4	-0.05
Malaysia	8.5	8.4	5.27
Thailand	8.3	13.6	0.46
Singapore	8.2	8.7	0.06
Viet Nam	8.0	8.1	1.71
Philippines	6.0	7.7	-0.44
Brunei Darussalam	2.6	2.2	0.20
Cambodia	0.8	1.0	0.19

Lao PDR	0.4	0.5	0.00
Myanmar	0.0	0.0	0.00

Source: WTO/OECD BATIS Dataset

The poorly defined residual catch-all category of Other Commercial Services has grown 30% over the period and in 2019 amounts to USD3.5 billion or 33% of Chile's global Commercial Services exports. Exports to China have more than doubled and account for 10% of total Chilean exports in this category. By comparison, the ASEAN market has also grown, but more slowly at 20% over the period, bringing the ASEAN market share down to 3.2% from 3.7% in 2014. Of the USD109 million sold to ASEAN, USD 40 million goes to Singapore and USD24 million to Thailand, with the Thai market having grown at 40% over the period, twice as fast as the Singaporean market. Exports to Indonesia, Malaysia (USD14 million each) and Brunei have dropped back a bit over the period, in Indonesia's case by 10%. Chile's exports have increased 10% to Vietnam and 70% to the Philippines (a bit over and a bit under USD8 million respectively).

Figure 3.8: **Chile's Other Commercial Services Exports; 2014-2019, USD Millions**

Export Destination	2014	2019	Δ
World Total	2,579.6	3,451.9	872.25
China PRC	149.5	347.1	197.59
ASEAN 10	**94.7**	**109.3**	**14.54**
Singapore	33.5	39.5	6.73
Thailand	16.9	23.6	-1.75
Indonesia	15.8	**14.1**	-0.40
Malaysia	14.8	**14.4**	0.83
Viet Nam	7.3	8.2	3.14
Philippines	4.3	7.5	-0.08
Brunei Darussalam	1.9	**1.8**	-0.01
Myanmar	0.1	0.1	0.06
Cambodia	0.1	0.1	0.01
Lao PDR	0.0	0.0	0.00

Source: WTO/OECD BATIS Dataset

Growing by 20% over the period to stand at over USD2 billion in 2019, Other Business Services account for nearly 20% of Chile's Commercial Services exports. The ASEAN market, showing 10% growth over the period, at over USD84 million, represents a larger than average share of 4.3% (compared with 3.2% of Chile's total Commercial Services). But this share has dropped from 4.7% in 2014. Meanwhile Chile's exports to China have grown much faster, more than doubling, to now account for 14% share or Chile's exports (up from 7%).

Figure 3.9: **Chile's Other Business Services Exports; 2014-2019, USD Millions**

Export Destination	2014	2019	Δ
World Total	1,635.6	2,015.5	379.84

China PRC	119.1	272.3	153.13
ASEAN 10	**76.2**	**87.4**	**11.22**
Singapore	28.0	39.5	32.5
Thailand	14.1	23.6	19.4
Indonesia	12.7	14.1	11.2
Malaysia	10.6	14.4	10.4
Viet Nam	5.6	8.2	6.6
Philippines	3.4	7.5	5.6
Brunei Darussalam	1.7	1.8	1.5
Cambodia	0.0	0.1	0.0
Myanmar	0.0	0.1	0.1
Lao PDR	0.0	0.0	0.0

Source: WTO/OECD BATIS Dataset

Within ASEAN, exports to Myanmar are tiny at only USD1 million, but they have grown from a small base even more rapidly than those to China. The largest markets for Chile are Singapore (USD32.5 million) and Thailand (USD19.4 million). Exports have declined over the last six years to Indonesia (USD11 million) and dropped somewhat to Malaysia (USD10 million) and Brunei (USD1.5 million). Exports to the Philippines (USD5.6 million) and Vietnam (USD6.6 million) are both on a growth path, more strongly so in the Philippines.

While they still only account for 4% of total services exports, Chile's exports of Personal, Cultural and Recreational Services (USD435 million for 2019) have grown far more rapidly (170%) than any other component of Commercial Services over the last six years. Despite this global success, Chilean exports have seen no overall growth in the ASEAN market; on the contrary, despite some minor fluctuation, they have experienced an overall small decline to stand at USD1.8 million for 2019. Half of these exports go to Malaysia. Indeed, this is the only component of Chile's services exports for which Malaysia, rather than Singapore, is and indeed has always been the single largest individual market. Another quarter go to Singapore, and the rest goes to Indonesia, The Philippines and Thailand. Exports to Indonesia are well down over the recent years, a 50% drop to USD2 million.

Figure 3.10: **Chile's Personal, Cultural and Recreational Services Exports; 2014-2019, USD Millions**

Export Destination	**2014**	**2019**	**Δ**
World Total	158.7	435.1	276.43
China PRC	1.8	8.1	6.31
ASEAN 10	**1.9**	**1.8**	**-0.03**
Malaysia	0.8	0.9	0.02
Indonesia	0.4	0.2	-0.28
Singapore	0.4	0.4	-0.02
Thailand	0.1	0.1	0.06
Philippines	0.1	0.2	0.18
Viet Nam	0.0	0.0	0.00
Brunei Darussalam	0.0	0.0	0.00
Myanmar	0.0	0.0	0.01

Cambodia	0.0	0.0	0.00
Lao PDR	0.0	0.0	0.00

Source: WTO/OECD BATIS Dataset

Having increased by 40% over the previous 6 years, Telecommunications, Computer and IT Services exports stood at USD371 million in 2019 and accounted for 3.5% of Chile's services exports. During this period, exports to ASEAN grew by 30% to reach USD7 m while exports to China nearly trebled to reach USD27 million. Of the ASEAN markets, the Philippines stands out, more than doubling over the period to USD0.8 m, followed by Thailand with 80% growth taking exports to USD1.1 million. The total market value is still small but for the reasons set out previously, this must be considered an export growth prospect.

Figure 3.11: **Chile's Telecommunications, Computer and IT Services Exports, 2014-2019, USD Millions**

Export Destination	**2014**	**2019**	**Δ**
World Total	266.1	371.1	104.97
China PRC	9.4	27.4	17.94
ASEAN 10	**5.4**	**7.0**	**1.62**
Singapore	2.2	2.4	0.19
Indonesia	0.9	1.1	0.21
Malaysia	0.8	1.0	0.24
Thailand	0.6	1.1	0.50
Philippines	0.4	0.8	0.39
Viet Nam	0.4	0.4	0.08
Brunei Darussalam	0.1	0.1	0.01
Cambodia	0.0	0.0	0.00
Lao PDR	0.0	0.0	0.00
Myanmar	0.0	0.0	0.00

Source: WTO/OECD BATIS Dataset

Over the period to 2019, Chile's global exports of Financial Services grew by 40%, to reach USD279 million. This is less than 3% of Chile's total Commercial Services exports (an increase from less than 2% in 2014). A total of USD5 million was destined for ASEAN in 2019, half of which went to Singapore. Thailand takes USD1 million and Indonesia USD0.5 million, followed by Malaysia, Philippines and Vietnam.

Figure 3.12: **Chile's Financial Services Exports; 2014-2019, USD Millions**

Export Destination	**2014**	**2019**	**Δ**
World Total	193.0	278.5	85.50
China PRC	2.8	9.9	7.03
ASEAN 10	**2.9**	**5.0**	**2.13**
Singapore	1.4	2.5	1.08
Thailand	0.5	1.0	0.53

Indonesia	0.4	0.5	0.14
Viet Nam	0.2	0.2	-0.01
Malaysia	0.2	0.4	0.19
Philippines	0.1	0.3	0.19
Brunei Darussalam	0.0	0.1	0.01
Myanmar	0.0	0.0	0.00
Cambodia	0.0	0.0	0.00
Lao PDR	0.0	0.0	0.00

Source: WTO/OECD BATIS Dataset

Financial Services are under-represented in bilateral trade with ASEAN, accounting for only 1.5% of Chile's Commercial Services exports to ASEAN. They have been growing fast though, at 70% over the period to 2019; exports doubled to Thailand and more than doubled to the Philippines. In 2014, Chile's exports of Financial Services to ASEAN slightly exceeded exports to China but over the period to 2019 exports to China grew by 2.5 times, reaching a share of twice the size of ASEAN's. Chile does not currently export financial services to Cambodia, Laos or Myanmar and exports to Vietnam have been static if not declining slightly over the last 5 years.

Chile's global exports of Insurance and Pension Services grew 10% over the period to reach USD244 million in 2019. Exports to China grew much faster, at 50%, and exports to ASEAN grew at 20%, both from a low base, but with exports to China being twice the size of the ASEAN market at the beginning of the period and closer to three times the size by 2019 (USD15 million for China compared with USD5 million for ASEAN). ASEAN accounts for just over 2% of Chile's exports of these services, a higher share than for Financial Services. The Singapore and Thai markets each now account for nearly USD1.5 million, with the Thai market growing by 40% over the period and Singapore by 30%. The Philippine market has grown very rapidly at 80% over the period but still accounts for only USD0.5 million. Malaysia has grown as a destination for Chile, but exports to Vietnam have been declining.

Figure 3.13: **Chile's Insurance and Pension Services Exports; 2014-2019, USD Millions**

Export Destination	2014	2019	Δ
World Total	216.1	243.7	27.61
China PRC	9.8	14.5	4.73
ASEAN 10	**4.5**	**5.2**	**0.72**
Singapore	1.1	1.4	0.30
Malaysia	1.0	1.1	0.06
Thailand	1.0	1.4	0.37
Indonesia	0.9	0.7	-0.16
Viet Nam	0.3	0.2	-0.06
Philippines	0.3	0.5	0.21
Myanmar	0.0	0.0	0.00
Brunei Darussalam	0.0	0.0	0.00
Cambodia	0.0	0.0	0.00
Lao PDR	0.0	0.0	0.00

Source: WTO/OECD BATIS Dataset

Figure 3.14: **Chile's Goods-Related Services Exports; 2014-2019, USD Millions**

Export Destination	2014	2019	Δ
World Total	149.8	141.8	-7.99
China PRC	19.4	12.6	-6.80
ASEAN 10	**4.9**	**5.7**	**0.81**
Thailand	2.2	2.8	0.65
Singapore	1.3	1.3	-0.05
Malaysia	0.5	0.8	0.25
Indonesia	0.3	0.2	-0.03
Viet Nam	0.2	0.2	-0.03
Brunei Darussalam	0.1	0.1	-0.06
Philippines	0.1	0.2	0.11
Myanmar	0.1	0.0	-0.02
Cambodia	0.0	0.0	0.00
Lao PDR	0.0	0.0	0.01

Source: WTO/OECD BATIS Dataset

In global terms, Chile's Goods-Related Services exports declined by 10% over the previous 6 years to total USD142 million. Of this amount, a bit under USD13 million is exported to China and a bit under USD6 million to ASEAN. In this case, the ASEAN market represents a unique relative growth story, with Chilean exports to ASEAN up 20% and Chilean exports to China dropping over the period by 40%. ASEAN's market share has grown from 3 % to 4% as it has increasingly taken over the "Factory Asia" role. Thailand is and always has been the largest ASEAN market (up 30% over the period to stand at USD2.8 million); the Singapore market has witnessed no growth but is still the second largest (USD1.3 million); exports to Malaysia have grown 50% but remain under USD1 million: exports to the Philippines have doubled to reach USD0.2 million. Chile does not export goods-related services to Vietnam, Cambodia, Laos or Myanmar, a major opportunity exists here.

Figure 3.15: Chile's Repair and Maintenance Services Exports; USD Millions

Export Destination	2014	2019	Δ
World Total	110.14	121.68	11.54
China PRC	19.36	12.45	-6.91
ASEAN 10	**3.87**	**5.00**	**1.12**
Thailand	2.19	2.84	0.65
Malaysia	0.53	0.77	0.24
Singapore	0.35	0.63	0.28
Indonesia	0.27	0.24	-0.03
Viet Nam	0.23	0.18	-0.05
Brunei Darussalam	0.14	0.08	-0.06
Philippines	0.08	0.19	0.11
Myanmar	0.05	0.03	-0.02
Cambodia	0.02	0.02	0.00

Lao PDR	0.01	0.02	0.01

Source: WTO/OECD BATIS Dataset

The story for Repair and Maintenance is rather different. First, while Chile's global exports, at USD122 million account for only 1% of total Commercial Services exports, they have experienced 10% growth over the last six years. More interestingly, exports to ASEAN, while small (USD5 million), have seen 30% growth over the period while exports to China have dropped by 36% to USD12.5 million. The ASEAN market has increased its share of Chilean exports from 3.5% to 4%. The top market has always been Thailand which buys four times more than any other ASEAN member. There has been recent growth, from a small base, in both Singapore and the Philippines. There has been a decline however in sales (in ascending order) to Indonesia, Vietnam, Myanmar and Brunei. It is worth noting that Chile exports these services to Myanmar (USD3 million), Cambodia and Laos (each USD 2 million)

Chile's global exports of Construction Services have experienced a 20% drop in absolute value over the period under review. In 2019 they accounted for USD71 million, of which USD10 million were destined for China (increase of 130% since 2014) and USD2 billion to ASEAN (drop of 40%). In 2019, Vietnam overtook Malaysia to become the biggest market for Chile within ASEAN (USD6 million), but all ASEAN markets, including Vietnam have declined in absolute value, with the rate of decline highest at 60% in Malaysia.

Figure 3.16: **Chile's Construction Services Exports; 2014-2019, USD Millions**

Export Destination	2014	2019	Δ
World Total	84.4	71.3	-13.15
China PRC	4.5	10.3	5.87
ASEAN 10	**3.0**	**1.8**	**-1.14**
Malaysia	1.3	0.5	-0.78
Viet Nam	0.7	0.6	-0.17
Thailand	0.4	0.2	-0.16
Indonesia	0.3	0.2	-0.18
Singapore	0.1	0.1	0.01
Brunei Darussalam	0.0	0.2	0.13
Philippines	0.0	0.0	0.00
Cambodia	0.0	0.0	-0.01
Myanmar	0.0	0.0	0.01
Lao PDR	0.0	0.0	0.00

Source: WTO/OECD BATIS Dataset

With a 40% growth rate over the period under review, Charges for Intellectual Property amounted to USD37 million in 2019. Nearly USD5 million of export revenue comes from China (which has more than doubled in market size) and under USD1 million from ASEAN (which has displayed no growth). Thailand is the growth story, and has moved from Chile's second highest ASEAN market for IP charges in 2014 to lead over Singapore by 2019. But between those markets, there is no net export gain for Chile, both adding to a static USD7 million over the period. The Philippines market has grown slightly while both Indonesia and Malaysia are static. Chile does not earn export revenue from IP royalties in Vietnam, Cambodia, Laos or Myanmar.

Figure 3.17: **Chile's Charges for Intellectual Property Exports; USD Millions**

Export Destination	2014	2019	Δ
World Total	25.6	36.7	11.06
China PRC	2.0	4.6	2.57
ASEAN 10	**0.9**	**0.9**	**0.02**
Singapore	0.4	0.3	-0.07
Thailand	0.3	0.4	0.10
Indonesia	0.1	0.1	-0.03
Malaysia	0.1	0.1	0.02
Viet Nam	0.0	0.0	-0.01
Philippines	0.0	0.1	0.02
Brunei Darussalam	0.0	0.0	0.00
Cambodia	0.0	0.0	0.00
Lao PDR	0.0	0.0	0.00
Myanmar	0.0	0.0	0.00

Source: WTO/OECD BATIS Dataset

Chile's global exports of Manufacturing Services on physical inputs owned by others dropped 50% over the six years to stand at USD20 million. This is not surprising for a resource-oriented economy. Chile's only ASEAN market for these services is Singapore, exports to which dropped 30% to USD0.7 million in 2019. Interestingly, despite its consistent ongoing decline, Singapore is a larger market for Chile than China is. Chinese demand for Chilean Manufacturing services has more than doubled over the period but still stands in 2019 at only USD2 million.

Figure 3.18: **Chile's Manufacturing Services Exports; USD Millions**

Export Destination	2014	2019	Δ
World Total	39.7	20.2	-19.53
China PRC	0.1	0.2	0.12
ASEAN 10	**1.0**	**0.7**	**-0.30**
Singapore	1.0	0.7	-0.33
Malaysia	0.0	0.0	0.01
Myanmar	0.0	0.0	0.00
Brunei Darussalam	0.0	0.0	0.00
Cambodia	0.0	0.0	0.00
Indonesia	0.0	0.0	0.00
Lao PDR	0.0	0.0	0.00
Philippines	0.0	0.0	0.00
Thailand	0.0	0.0	0.00
Viet Nam	0.0	0.0	0.02

Source: WTO/OECD BATIS Dataset

This somewhat more granular and up-to-date picture shows that while Chile’s service exporters have struggled to find all that much growth overall in the period since 2015, there have not been any developments which undermine the findings of the GVC analysis. The service industries identified there as growth opportunities were Finance, Hospitality, Other Services, Publishing, Transportation and Wholesale and Retail. Indeed, these correlate precisely with the BoP industries which have been displaying growth both overall and with ASEAN specifically more recently. However, the BoP analysis also reveals that the opportunities within these sectors are still a long way from being fully exploited by Chilean exporters.

Chile’s Services Imports from ASEAN

Building a trading relationship and participating in regional value chains centered on the ASEAN hub requires attention also to the import side. Rather than simply mapping likely well-known trends in Chile's own imports from ASEAN, we look at the recent growth in China's services imports from ASEAN. The results provide an interesting set of comparisons and help put Chile's own two-way trade relationship with both China and with ASEAN into greater perspective.

Figure 3.19 shows that all ASEAN members except Brunei have experienced faster growth rates in their Commercial Services exports to China, than has Chile. Only Laos, Myanmar and Cambodia export less to China than Chile does. Services imports into China from Vietnam, Cambodia, Singapore and Thailand have all experienced faster rates of growth than China's global imports of services. China's imports of services from Singapore have more than doubled over the six years to 2019. China's imports of services from Vietnam have doubled. Chile’s services imports from ASEAN are presented for comparison, in Figure 3.20.

Figure 3.19: **China’s Commercial Services Imports; USD Millions**

Exporter	**2014**	**2019**	**Δ**	**Δ%**
World	323,091.7	404,974.1	81,882.4	0.3
Singapore	11,462.5	17,880.9	6,418.3	0.6
Thailand	4,799.5	6,638.2	1,838.7	0.4
Malaysia	2,840.3	3,751.2	910.8	0.3
Philippines	2,394.2	3,061.0	666.8	0.3
Indonesia	2,010.2	2,609.1	598.9	0.3
Viet Nam	1,649.7	3,212.6	1,562.9	0.9
Chile	1,099.2	1,188.3	89.1	0.1
Myanmar	693.1	873.4	180.2	0.3
Lao PDR	216.9	257.2	40.4	0.2
Brunei Darussalam	142.3	158.6	16.3	0.1
Cambodia	134.2	226.4	92.2	0.7

Source: WTO/OECD BATIS Dataset

Figure 3.20: Chile's Commercial Services Imports; USD Millions

Exporter	2014	2019	Δ	Δ%
World	14,372.84	16,498.42	2125.6	0.1
China	777.54	934.61	157.1	0.2
ASEAN 10	**496.25**	**567.02**	**70.8**	**0.1**
Thailand	137.11	184.28	47.2	0.3
Singapore	194.41	156.65	-37.8	-0.2
Viet Nam	33.66	72.88	39.2	1.2
Malaysia	48.57	49.27	0.7	0.0
Indonesia	41.97	48.18	6.2	0.1
Philippines	31.82	40.03	8.2	0.3
Cambodia	4.79	7.85	3.1	0.6
Myanmar	2.57	6.28	3.7	1.4
Brunei Darussalam	1.24	1.31	0.1	0.1
Lao PDR	0.10	0.29	0.2	1.9

Source: WTO/OECD BATIS Dataset

Figure 3.20 shows, unsurprisingly, that Chile imports more Commercial Services from China than from ASEAN. However, China's market share of Chilean exports, 5.7%, is actually smaller given relative GDPs than ASEAN's of 3.4%. Nevertheless, Chile's total imports of Commercial Services from ASEAN as a group, USD567 million, is significantly less than China imports from Myanmar alone, USD873 million. Chile nevertheless runs a bilateral services trade deficit with ASEAN; the deficit has increased over the six years to 2019.

1.4: POLICY CONSIDERATIONS

Critical to the success of any export venture is a clear understanding of the regulatory environment for doing international business in the destination market. The individual ASEAN markets all have their specific trade policy and regulatory characteristics, and we explore them in this chapter. They also all have something in common, a governance framework known as ASEAN that binds them together and brings them slowly closer, an objective to which they are all committed.

ASEAN Economic Integration – State of Play

ASEAN is very much more than a mere collection of individual countries. It needs to be understood as a dedicated regional economic integration movement, designed to build a regional hub of GVC activity and the 5th largest economy in the world. It is not a single market but rather a free trade area so each individual member retains its right to its own individual barriers to the rest of the world. ASEAN has borne significant results in a number of areas, but in others it remains very much a work in progress, and relatively slow progress at that. Fifty years since its formation, a major milestone was achieved with the launch of the ASEAN Economic Community in 2015, and adoption of a new ten year Blueprint to 2025 which has seen some intensification of collaborative activity.

In terms of trade in goods, intra-ASEAN tariffs have essentially been eliminated (98.6% of tariff lines are zero) under the ASEAN Trade in Goods Agreement (ATIGA). Efforts focus now on trade facilitation and addressing non-tariff measures (NTMs). A solid effort is underway on mutual recognition of standards and conformance.

For trade in services, there were eight rounds of negotiations under the ASEAN Framework Agreement on Services (AFAS) but these delivered relatively meagre results. A big step forward was taken in 2020 with the finalization of the new ASEAN Trade in Services Agreement (ATISA) which, to improve transparency, shifts commitments over time to a negative listing of services commitments and includes a Financial Services Annex. Some limited progress has also been achieved over the last decade on skills mobility through the 2016 ASEAN Agreement on Movement of Natural Persons, the implementation of MRAs for eight categories of professional services and the establishment of the ASEAN Qualification Reference Framework to compare education qualifications across the member states.

Improving the regional investment environment is another big part of the ASEAN agenda. The ASEAN Comprehensive Investment Agreement has seen four rounds of negotiation of protocols to amend its provisions, including importantly to incorporate prohibitions on investment performance requirements and attract investors in GVC-intensive sectors.

Regional connectivity, both in physical (transport lanes) and digital terms is an ongoing priority. An ASEAN Digital Integration Framework was adopted in 2018, and an action plan is being developed.

Competition policy is also an area of regional attention. Nine member states now have competition laws in place, with Cambodia soon expected to follow. Collaborative work takes place on Intellectual Property and on Good Regulatory Practices, with the non-binding Good Regulatory Practices Core Principles signed in 2018. Sectoral cooperation takes place in the energy sector, in food, agriculture and forestry, in tourism and in science and technology.

ASEAN has a strong external network of ASEAN+1 FTAs and hosts an East Asia Summit around its +1 trading partners. ASEAN is proud of the recent achievement in RCEP, now the largest free trade area in the world, and as ASEAN sees it, an ASEAN-led model for regional trade architecture.

ASEAN membership is an important aspect of the individual economic identity of each ASEAN member state.

Trade in Goods

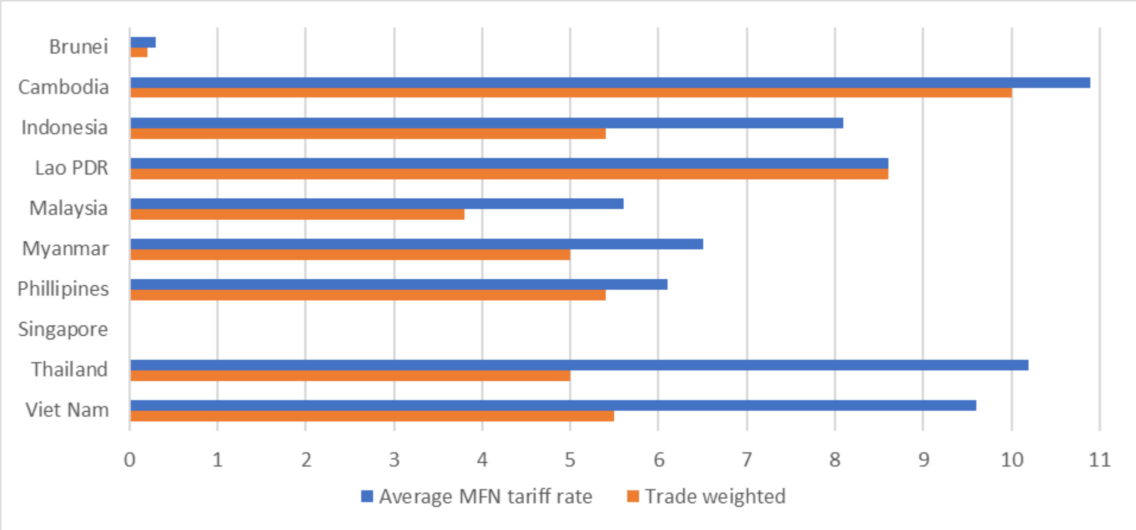
According to the WTO Tariff Analysis Online (2021) average MFN and applied tariff rates vary significantly across the ASEAN members. Singapore remains the most open member state with only very few products facing any applied tariff rates (less than 0.1% of total imported products) resulting in an average applied MFN tariff rate and trade weighted tariff rate of less than 0.01%. Brunei is the second most open member state with an average MFN applied tariff rate of 0.3% and a trade weighted tariff rate of 0.2%.

For the remaining eight ASEAN member states, the average MFN tariff rates range between 5.6% in Malaysia and 10.2% and 10.9% in Thailand and Cambodia, respectively. Indonesia had a simple average applied MFN tariff rate of 8.1% in 2019.

Agricultural products are found to have higher applied MFN tariff rates than non-agricultural products. Thailand with 29% and Vietnam with 17.2% have the highest MFN applied tariff rates for agricultural products. From a trade weighted perspective this translates into a tariff rate of 16.5% and 10.1% for Thai and Vietnamese agricultural imports, respectively.

Among Cambodia, Laos, Myanmar and Vietnam, Cambodia has the highest applied MFN tariff rates of about 10.9%. Lao's average MFN tariff rate was 8.6%, Myanmar was 6.5% and Vietnam was 9.6%. Lao PDR had the highest trade weighted applied tariff rate (8.6 per cent). Own estimates put Cambodia’s trade weighted applied tariff rate at 8.1% for 2018.

Figure 4.1: Average MFN Tariff Rates: 2019

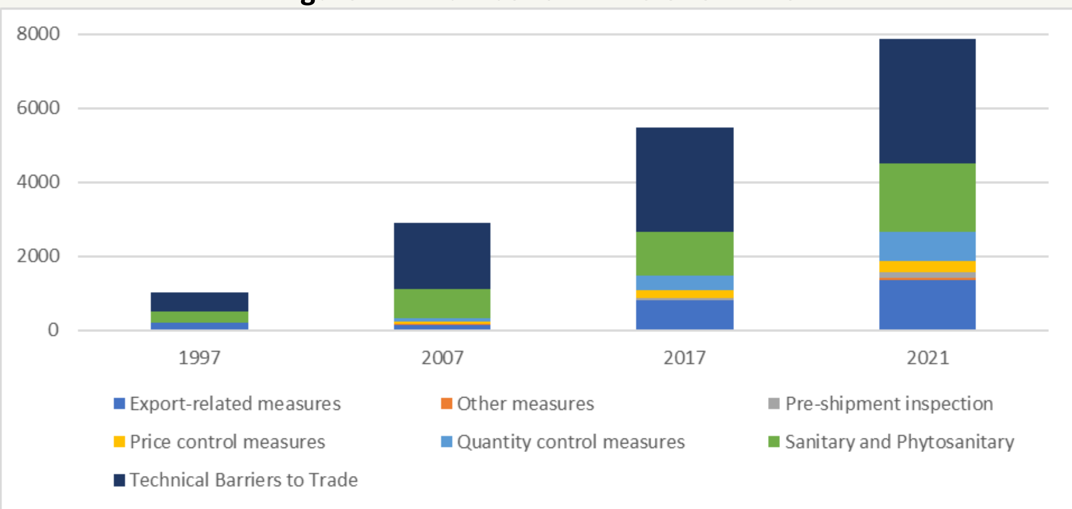


Source: Own calculations based on UN Comtrade (2021)

On balance, the picture is generally protectionist. Export sectors are also more likely to be subject to higher than average MFN tariff rates, especially for final products. In the case of Vietnam, for example, both emerging and growing export sectors *and* relatively inefficient domestic industries have higher average MFN tariff rates than larger established sectors. Vegetables (14.9%), foodstuffs (28%), textiles (12%) and footwear and headgear (25%) have relatively higher MFN tariff rates than the much larger and more established machinery and electronics sector (4.9%) which heavily relies on intermediary inputs.

NTMs, meanwhile, are very much on the rise throughout ASEAN. In 1997, there were only a few more than 1,000 NTMs in place, in 2021 we find almost 8,000 measures in force. The prevalence of measures varies substantially however across the individual member states. 2018 data shows Thailand with the most NTMs, accounting by itself for as much as one-third of all NTMs in ASEAN. The Philippines comes second but nothing like Thailand, while Cambodia and Myanmar have the least.

Figure 4.2: Number of NTMs Over Time



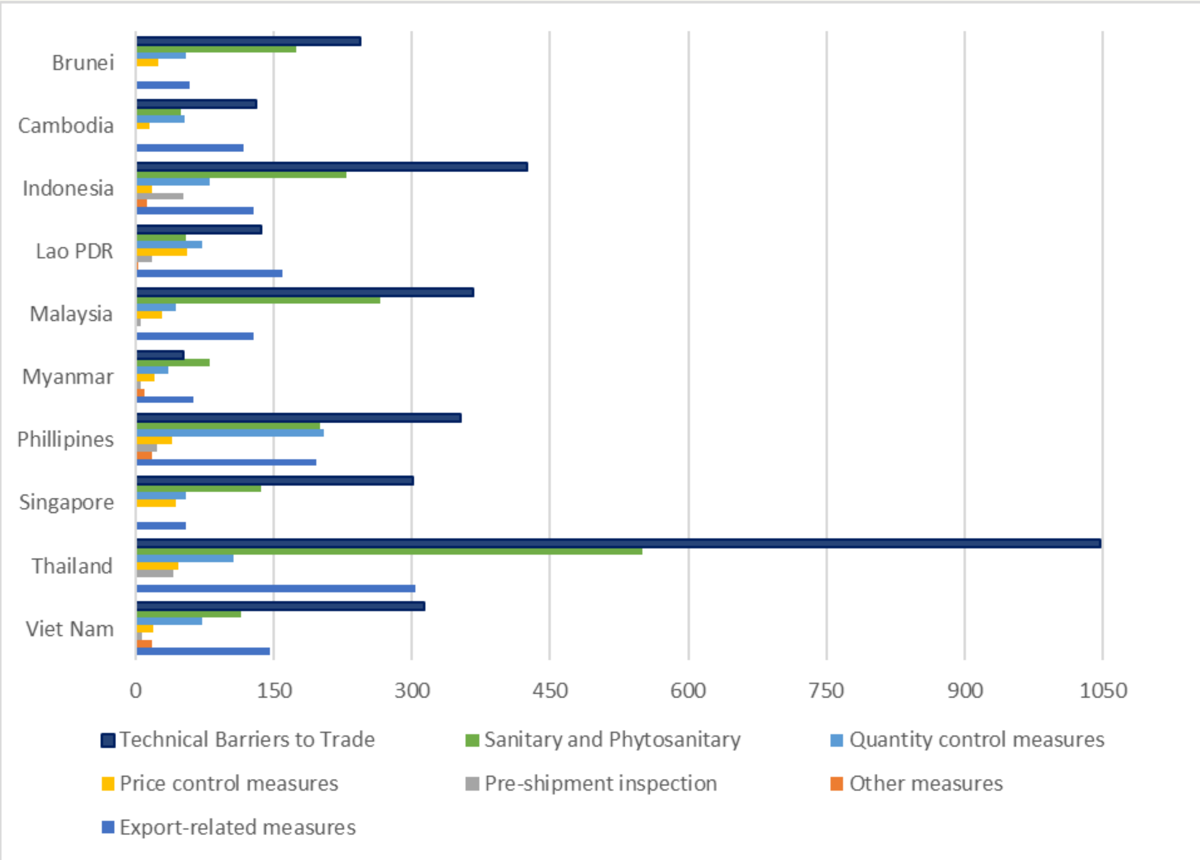
Source: Oxford Economics/UNCTAD (2018), ERIA /UNCTAD (2021)

Sanitary and Phyto Sanitary (SPS) measures are commonly used in Thailand, Malaysia, Brunei and in Myanmar, where over 30% of NTMs are SPS measures. Technical Barriers to Trade (TBT) are more common than SPS measures in Cambodia, Indonesia, Laos, Singapore and Vietnam. Price and quantity restrictions, and export constraints are also widely used, notably in Cambodia, in Laos (where they constitute 60% of all NTMs), in Myanmar and in Vietnam (where they are 40% of total NTMs).

For Cambodia, Laos, Myanmar, Vietnam and the Philippines, 2018 data shows NTMs impacting on more than 80% of imports measured by numbers of products and import value. There has been a major upsurge of NTM use in Myanmar since 2015.

For ASEAN as a group, animal, vegetable, and food products are the most regulated sectors, with NTMs affecting more than 80% of imports and exports. The average number of health and safety NTMs per product in these sectors is substantially higher than average, exceeding ten measures per product on the import side and three measures per product on the export side.

Figure 4.3: Number of NTMs: 2019



Source: Author's derivation based on data from TRAINS UNCTAD (2021)

Trade-intensive manufacturing sectors, including those with deeper participation in GVCs, such as machinery and electrical machinery, and transportation, are also heavily regulated. As the impact of NTMs is compounded when a semi-finished intermediate product moves back and forth across borders, the high incidence of NTMs in these sectors could raise trade costs for both exporters and importers at different stages along the supply chain. NTMs in Singapore, Brunei and Malaysia are concentrated in trade-intensive products.

Across ASEAN, NTMs are significantly less prevalent in resource-based sectors such as stone and glass, minerals, and metals, which are relatively homogeneous and require fewer specific standards.

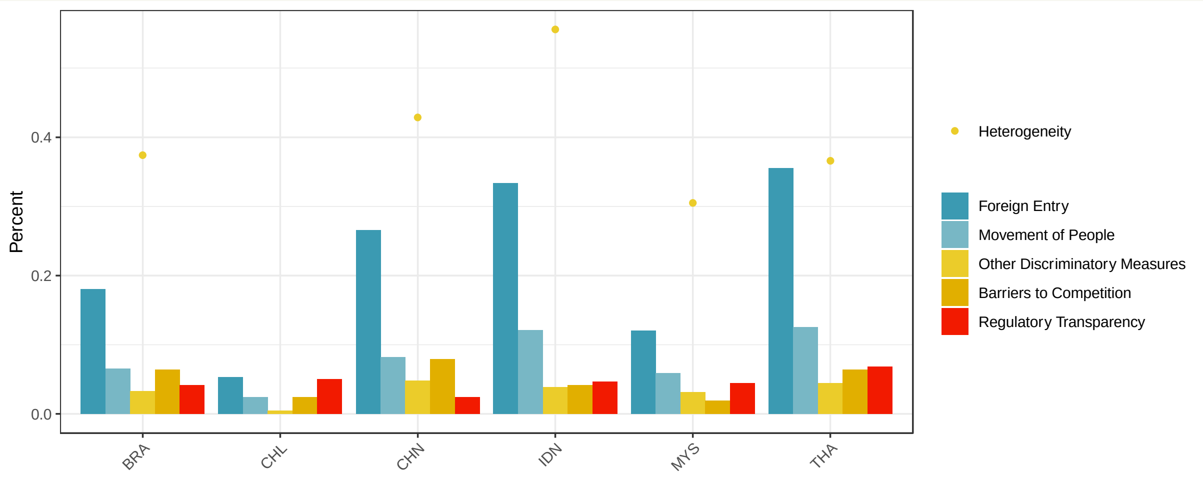
Trade in Services

An update of the OECD Services Trade Restrictiveness Index (STRI) was released in February 2021.[7] Chile was in the top seven economies with the best regulatory performance on average. More than half of the forty eight economies covered however have an STRI above the OECD average. The three ASEAN members in the data set (Malaysia, Thailand and Indonesia) were all in the worst performing, most restrictive, group of eight economies, with Thailand and Indonesia being judged better only than India. All three ASEAN members have regulatory environments for trade in services which is assessed as roughly twice as restrictive as Chile's.

Figures 4.4-4.9 provide a detailed breakdown of the nature of the restrictions across Chile, China, the ASEAN members and Brazil for reference in each of the service industries previously identified as promising for Chilean exporters. Restrictions on foreign entry are the largest obstacle for all industries over all the ASEAN members, Malaysia consistently being the most liberal. Other categories present much less restrictiveness, though movement of people could be a secondary problem for Other Business Services in all the markets, barriers to competition for Transportation and Regulatory Transparency for Wholesale and Retail. Also included is the OECD's measurement of the heterogeneity between Chile's regulatory regime and those in the partner countries; for services having similar and compatible systems is often as important as the generic level of openness. Promisingly despite the relatively high levels of restrictions, Malaysia and Thailand display a fair degree of compatibility with Chile, often more so than China, as on occasion does Indonesia.

[7] OECD (2021)

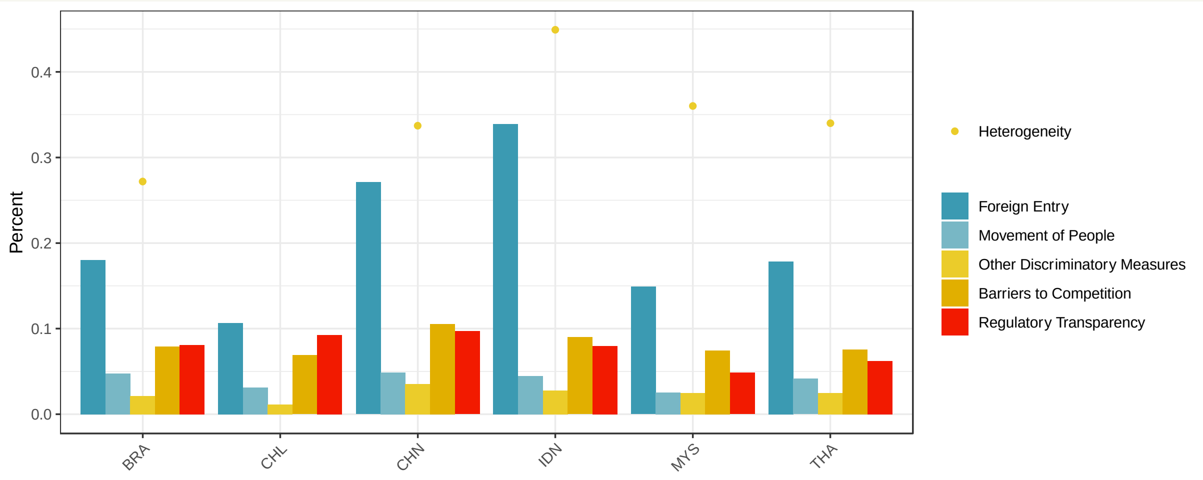
Figure 4.4: Finance Services Trade Restrictiveness



Source: OECD STRI Data

For the ASEAN economies, what often matters most is the direction of overall trends as this can signal difficulties ahead for exporters and help identify not only the bilateral trade policy and regulatory agenda for trading partners but also the scope for concerted action in regional and multilateral fora.

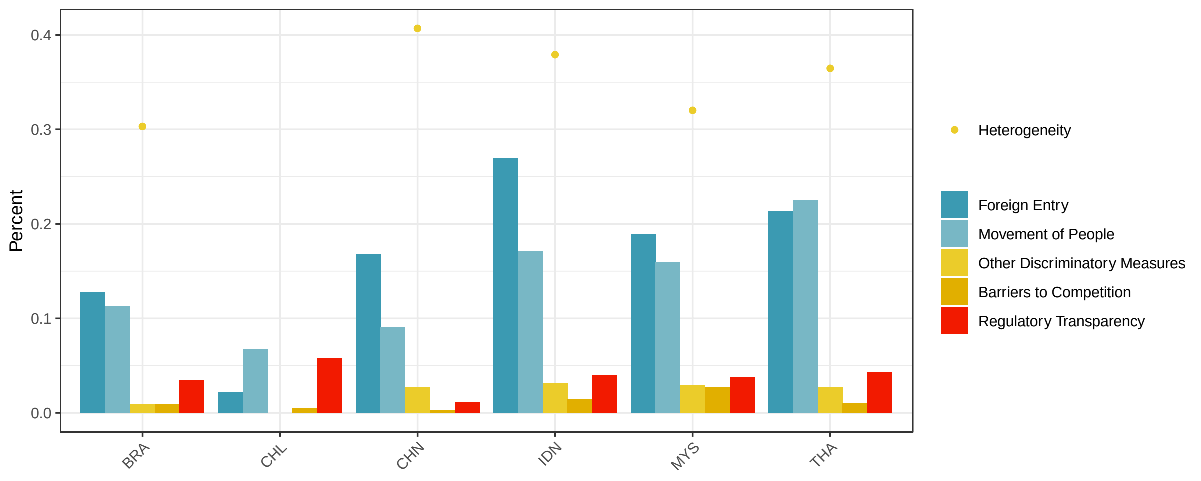
Figure 4.5: Hospitality Services Trade Restrictiveness



Source: OECD STRI Data

Recent developments in the regulatory environment in Indonesia are a mixed story at best. Indonesia has fully or partially opened several sectors to foreign investment under the 2016 Negative Investment List. These include airfreight transport, logistics services, telecommunications, audio-visual services, and architecture and engineering services. Minimum capital requirements in these sectors were also removed in 2016. In 2017, more favourable conditions were introduced for the release of imported goods before determination and payment of duties benefitted distribution, courier and logistic services. In the same year, Indonesia revoked minimum capital requirements for maritime transport services.

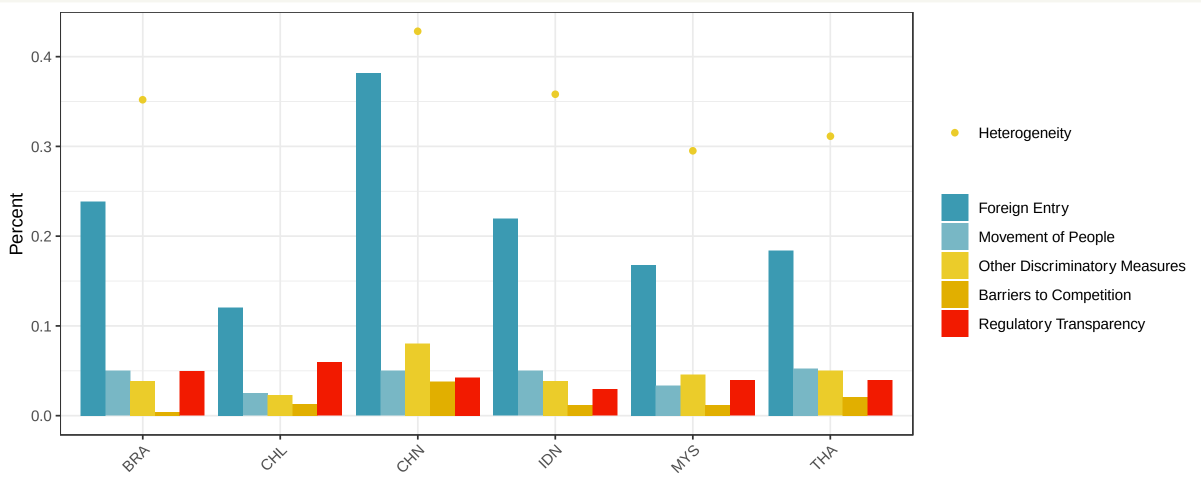
Figure 4.6: Other Business Services Trade Restrictiveness



Source: OECD STRI Data

But the Construction Act of 2017 imposed nationality requirements on the management of construction and architecture companies. And in 2018, the foreign equity limit in accounting firms was lowered to 20%, from 49% previously. The law also requires one half of all partners to be licensed accountants. And in 2020, restrictions on foreign entry were increased in logistics, insurance and air transport. In the construction sector, technical specifications now require use of local products and adoption of national standards subject to availability in the construction sector, which affects the conditions of competition in public procurement in favour of local providers.

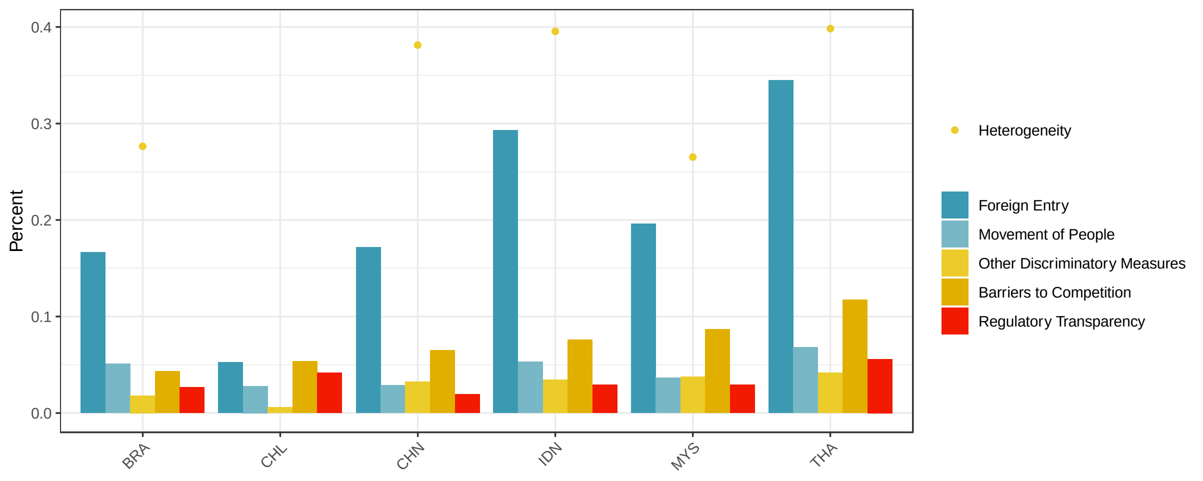
Figure 4.7: Publishing Services Trade Restrictiveness



Source: OECD STRI Data

Thailand also remains highly restrictive, but from 2017 at least, publicly controlled firms ceased to be exempted from the general competition law.

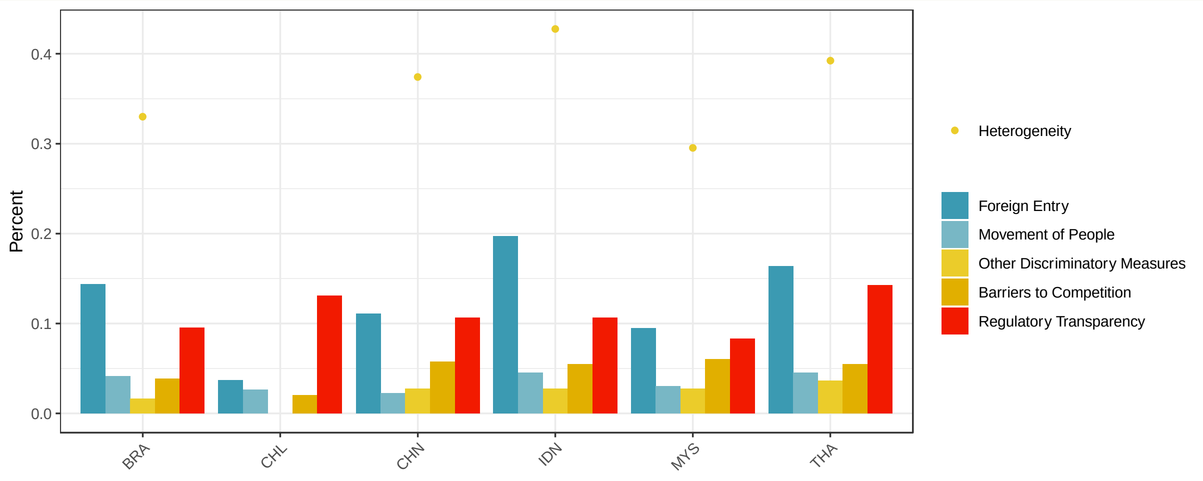
Figure 4.8: Transportation Services Trade Restrictiveness



Source: OECD STRI Data

Malaysia is a more positive story, with easing of some foreign investment conditions in services, including in telecommunications, professional, distribution and courier services. In 2015, the Registration of Engineers (Amendment) Regulations entered into force, allowing full foreign ownership in engineering firms.

Figure 4.9: Wholesale and Retail Services Trade Restrictiveness



Source: OECD STRI Data

Financial Services

To provide some insights as to the importance of the internal shift from AFAS to ATIGA, with its inclusion of an Annex on Financial Services and the obligation to shift to a negative list approach, we offer some brief political economy as well as technical comments on the intra-ASEAN progress underway on financial services.

First, internal ASEAN-driven technical assistance and capacity building on negative listing of services commitments has been underway for a full decade for all ASEAN members. Singapore of course did not need such assistance, and chose to step back from taking on any direct visible role in "training" the others. Once Vietnam joined the CPTPP and became the only participant in the CLMV to have experience of drafting a negative list, technical assistance and capacity building for the CLM has been driven by Vietnam, especially in critical areas such as financial services, chiefly with ASEAN Secretariat and/or ADB funding via development cooperation partners. Vietnam is the trusted partner for the CLM, because it has most in common with them both economically and politically but also, like the others, shares a land border with China. This reality does not imply any special closeness on the part of the CLMV to China, indeed the contrary is more accurate. They are all more wary, and all keen to deepen their integration with ASEAN including precisely for this reason. Without Vietnam's critical input on financial services negative listing, even if its own position is highly imperfect from, for example, Singapore's perspective, ATISA might not have made it over the line in 2020. These recent political economy developments help illustrate how important the internal ASEAN integration process is including from a wider regional and multilateral perspective.

The reality is that the CLM are all under regulated with respect to financial services and typically this means that blunter, more protectionist, instruments are chosen to handle the gaps. Cambodia has the largest and most sophisticated financial sector of the CLM, with a strong focus on microfinance. The figures below provide a quick snapshot view on the size and shape of the sector.

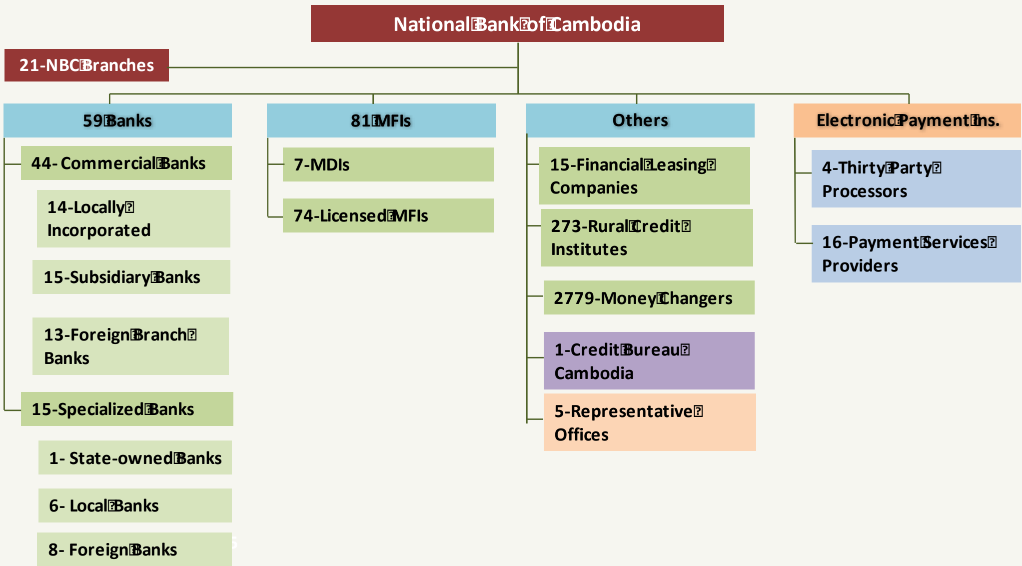
Figure 4.10: Cambodia's Financial System

	Supervisory Authority	Asset Size (millions of US Dollars)	Number of Institutions	Share in Total Assets of Sub-Sector (in percent)	Share in Total Financial Sector Assets (In percent)
Deposit-Taking Institutions					
Commercial Banks[1]	NBC	34416.6	43.0	85.5	81.7
Deposit-Taking Microfinance Institutions	NBC	5827.0	7.0	14.5	13.8
Total Deposit-Taking Institutions		**40243.6**	**50.0**	**100.0**	**95.5**
Other Financial Institutions					
Insurance Companies[2]	MEF	200.0	61.0	10.5	0.5
Microfinance Institutions (Non-deposit taking)	NBC	898.2	73.0	47.3	2.1
Rural Credit Institutions	NBC	...	273.0	...	...
Specialized Banks	NBC	652.0	14.0	34.3	1.5
Leasing Companies[3]	NBC	150.0	15.0	7.9	0.4
Money Changers	NBC	...	2,681.0	...	...
Payment Service Providers	NBC	...	12.0	...	...
Real Estate Developers	MEF	...	188.0	...	...
Pawn Shops[4]	MEF	...	495.0	...	...
Total Other Financial Institutions[5]		**1900.1**	**3,812.0**	**100.0**	**4.5**
Total Financial Sector		**42143.7**	**3,862.0**	**...**	**100.0**

Source: National Bank of Cambodia

Turning to Cambodia's latest schedule of commitments under AFAS, we see, for example with respect to Banking and Other Financial Services, that Mode 3 on "Guarantees and Commitments" remains *"Unbound until related laws and regulations are established"*. The reality under AFAS to date is that Cambodia has not actually budged on its GATS schedule. The list of under regulated financial services is long. The shift to negative listing in ATIGA now puts a critical timeline around requiring Cambodia to legislate and list it – or lose it. Laos similarly has made no commitments yet in any fora on Money Broking and on Provision and Transfer of Financial Information and is similarly now on notice from ASEAN that action is required.

Figure 4.11: Cambodia's Banking System



Source: National Bank of Cambodia, March 2019

Digital Trade

Developments in the regulatory environment for digital trade are worth a specific mention. On the one hand, there are some bright spots in the ASEAN region. The CPTPP, to which Brunei, Singapore, Malaysia and Vietnam are all parties, contains strong disciplines on cross border data flows and RCEP, which includes all ASEAN, at least contains some fledgling provisions. Singapore meanwhile continues to develop its bilateral and plurilateral network of gold standard Digital Economy Agreements, the first of which was the Digital Economy Partnership Agreement (DEPA) with Chile and New Zealand and the most recent of which is with Australia, both in 2020. And as measured by the OECD Digital Services Trade Restrictiveness Index (DSTRI), Malaysia actually performs better on this front, including better than Chile, chiefly due to strengths in its digital infrastructure. In Thailand, a Personal Data Protection Act was adopted in May 2019, establishing a comprehensive framework for data protection and establishes rules and safeguards for cross-border data flows.

Other developments in digital trade are generally not encouraging. In particular there is much international and domestic business concern over new directions being taken by Indonesia. The Indonesian Services Dialogue, which has a direct relationship with the Federation of Chilean Industries (SOFOFA) via the participation of both organizations in the Asia Pacific Services Coalition, is currently preoccupied in advocacy to counter recent developments in Indonesian governance of digital trade. After much international and domestic criticism, the Government of Indonesia removed its relatively new data localization requirement in 2020, but is instead now imposing a government right to access data and information systems for supervision and law enforcement purposes, which are considered to have similar negative implications for cybersecurity.

The Government has also imposed in 2020 a new requirement for commercial presence for foreign digital tech companies with a threshold minimum of 1000 transactions per annum. This threshold level is considered likely to capture many small foreign digital tech players or app and international game developers.

The Government is also proposing an electronic transaction tax (on top of VAT for digital goods consumption) based on transactions and income. All foreign digital players which do not have local presence would be subject to the new tax based on their number of transactions in Indonesia. For the time being, implementation of the tax is postponed pending a study by the OECD. None of this good news for Chilean digital start-ups.

The OECD STRI does not cover Vietnam but we also note here the tabling of a new draft personal data protection law, under which cross-border transfer of data and the processing of sensitive personal data would both require the approval of the Personal Data Protection Committee, with the application for the latter including a form and an impact assessment report with contents similar to those for a data cross-border transfer.[8] Many commentators point out inconsistencies with Vietnam's obligations under CPTPP. An additional draft Act has also recently been tabled on personal data protection in the insurance sector.

Avoiding the worst potential impact of these various pieces of draft legislation requires concerted commercial diplomacy and business advocacy, including through the Asia Pacific Services Coalition and the Global Services Coalition, to which SOFOFA also belongs. It also requires individual and concerted policy and regulatory dialogue in APEC and the WTO.

Commercial Diplomacy, Regional Policy Dialogue and Economic Cooperation

Making the most of the export opportunities available in the growth markets of ASEAN requires finding "ways around" the kind of barriers to trade identified above, many of which would be outside the experience of a first time Chilean exporter. Businesses achieve a great deal on their own, but there is much that home governments can do to help. One "way around" a multitude of obstacles is a Preferential Trade Agreement (PTA) such as Chile already has in place with Singapore and Brunei, Thailand, Vietnam and Malaysia and has long pursued with the Philippines. Chile is also a member of the CPTPP along with Singapore, Malaysia and Vietnam. The challenge is to ensure these agreements are implemented, by all parties, and to find mechanisms to keep such agreements "living" so they offer a regular means to consider new trade challenges as they arise or are identified.

Other "ways around" can be found in concert with broader coalitions of like-minded economies, for example in APEC where the focus is not so much negotiated trade and investment liberalization but economic cooperation and trade and investment facilitation.

---

[8] Part 2 includes a brief description, based on the World Bank STRI, of the regulatory environment for services in Vietnam.

APEC has sometimes been accused of being “all talk” but its power lies precisely in the huge array of options for experts in specific policy areas to meet to share their experiences and learn from each other. APEC is one of the few international fora in which regulators can come together to discuss the regulatory heterogeneity across the region and consider options to reduce it. It is also a forum in which uniquely the business community has full observer status and a direct link to leaders. ASEAN is the heart and core of APEC and the networking opportunities APEC provides every year, but especially in 2022 under the Thai chairmanship, is an opportunity not to be missed. The Chilean export promotion agency needs to plan for it now, as does the Chilean Chamber of Commerce and the Federation of Chilean Industries. Chilean industry also needs to be galvanized to work hand in hand with government; if it takes place face-to-face in 2022, the APEC CEO Summit might be the opportunity for a next Chilean Trade mission to Thailand.

PART 2: DEEP DIVE ON ASEAN'S LEAST DEVELOPED MEMBERS

2.1: INTRODUCTION

Cambodia, Laos and Myanmar are all Least Developed Countries (LDCs), i.e., among the world's poorest. GDP per capita for 2019 was USD 2,630 for Laos, USD 1,625 for Cambodia and USD 1,468 for Myanmar.

The three countries are also amongst the harder countries in which to do international business. For 2020, the World Bank scores for Ease of Doing Business are 53.8 for Cambodia, 50.8 for Laos (a slight deterioration from 2019) and 46.8 (a more significant deterioration from 2019) for Myanmar, compared for example with 69.8 for Vietnam or 72.3 for Chile, the higher the score, the more conducive being the regulatory environment for doing business. While Singapore ranks global number 2 on the list of 190 countries, and Vietnam ranks 70th, Cambodia comes in at 144th, Laos at 154th and Myanmar way down at 165th on the list.

For these countries, development cooperation is inevitably an embedded essential aspect of any close economic relationship, with a focus on institutional governance capacity building, technical assistance and policy dialogue.

In addition to the economic and developmental fundamentals, taken as a whole, these three ASEAN member states have certain historical, political, cultural, language and religious characteristics in common, which also tend to distinguish them from the original ASEAN 7. In particular, their history of making efforts to open up to the rest of the world is significantly more recent. It is a very high priority, and also an ongoing challenge for ASEAN, to ensure deeper participation of these economies in the ASEAN economic integration agenda. None of the CLM group are members of APEC.

It is relevant to recall that geographically, Cambodia, Laos and Myanmar are part of *Mainland* Southeast Asia, i.e., the continental portion of ASEAN, as distinct from *Maritime* Southeast Asia. *Mainland* Southeast Asia lies east of the Indian subcontinent and south of China, and is sometimes known as the Indochinese Peninsula, between the Indian Ocean to the west and Pacific Ocean to the east. This geographic area also includes Vietnam, Thailand and Peninsular Malaysia.

The term Indo-China, which was coined in the early 19th Century, emphasizes the cultural influence on the area of both Indian and Chinese civilization. Most historical commentators consider the term to over-emphasize the Chinese influence. Some cultures, such as those of Cambodia, Laos, Thailand and Malaysia are more deeply influenced by India while others, such as Vietnam, are more heavily influenced by Chinese culture, largely via the Champa civilization. Overall, *Mainland* Southeast Asia is predominantly Buddhist.

For Cambodia and Laos, intra-regional economic and commercial ties also date from the French colonial period 1887 to 1954. French Indochina was formed from the Kingdom of Cambodia plus Annam, Tonkin, Cochinchina and Champa (central and coastal Annam) which together form Vietnam today. Laos was added after the Franco-Siamese War in 1893, separating Laos from Thailand.

Figure 1.1: Map of Indo-China

Given that economically the CLM group depart significantly from the average ASEAN aggregate data, it is often more appropriate to make comparisons with other ASEAN members located in *Mainland* Southeast Asia as well as specifically Indo-China.

In Part 1, we identified both Thailand and Vietnam as prospective GVC-oriented growth markets for Chile. Both Thailand and Vietnam are also important potential gateways to the CLM. Thailand shares land borders with all three of Cambodia, Laos and Myanmar (but not with China) and Vietnam shares land borders with Cambodia, Laos and China. Vietnam, moreover, is only in very recent years considered to have "graduated" from the so-called less developed "CLMV" group within ASEAN, and it shares with Cambodia and Laos some key political economy characteristics of Communist Party rule. A comparison with Vietnam is of particular relevance, as Cambodia and Laos are on similar growth trajectories to that taken by Vietnam and both are likely to be of more immediate interest to Chilean business stakeholders, given the instability associated with the 1st of February 2021 military coup in

Myanmar. We therefore include Vietnam in this study as a specific point of reference when assessing CLM trends in international trade.

Thailand and Vietnam are prospective GVC-oriented growth markets for Chile. Both Thailand and Vietnam are also important potential gateways to the CLM.

It is important to be aware that Cambodia, Laos and Myanmar along with Thailand and Vietnam are joined with China as part of the Greater Mekong Subregion (GMS) that in 1992 entered into a major program of sub-regional economic cooperation, assisted by the Asian Development Bank (ADB). The program focusses on regional infrastructure building, including transport and in some cases telecommunications corridors.

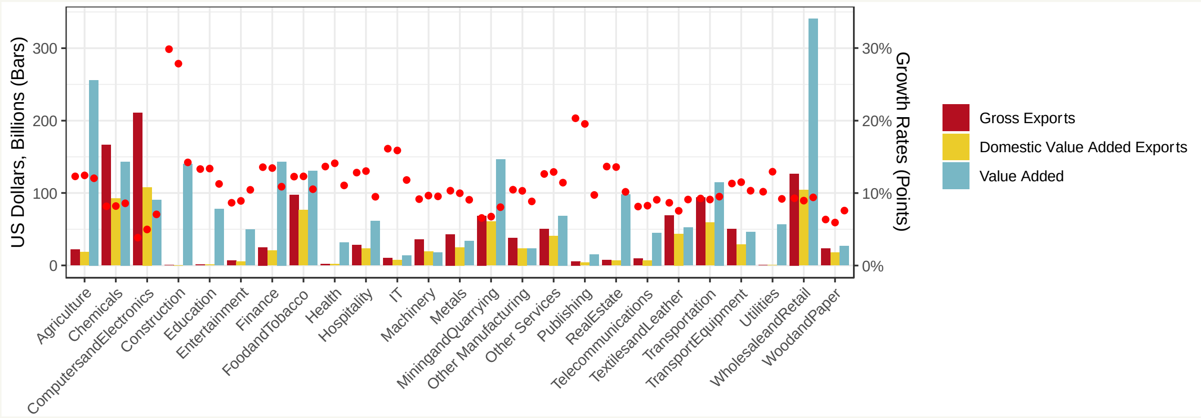
Figure 1.2: The Greater Mekong Subregion

As highlighted in Figure 1.2, the Mekong River is the subregion's defining common feature. Of the CLM, only Laos is landlocked, with the Mekong River forming the bulk of its border with Myanmar and with Thailand, and an economically vital water transport access routes to the sea via Cambodia and Vietnam.

2.2: STRUCTURE OF NATIONAL OUTPUT

Figure 2.1 provides a structural snapshot for ASEAN as a group - and Figure 2.2 does so for China - of the overall significance of individual industry to national output and exports using the TiVA data.

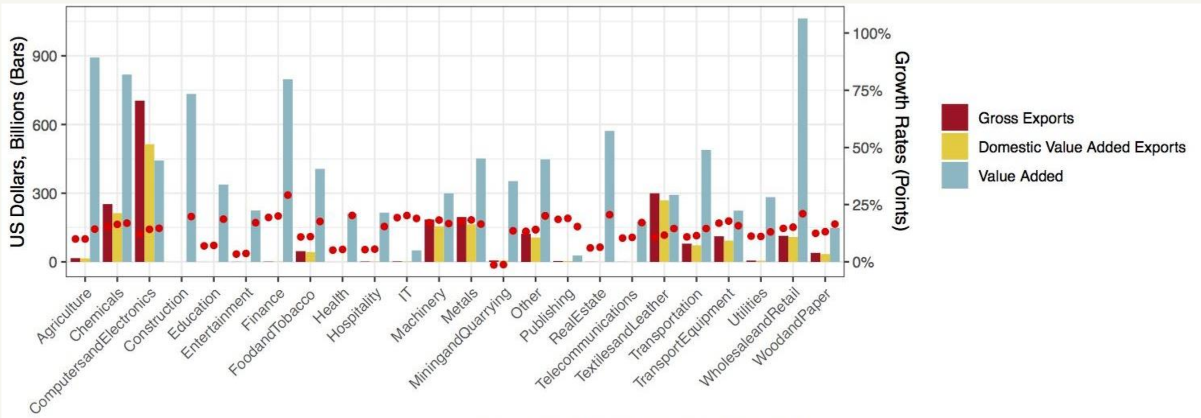
Figure 2.1: Industry Value-Added: ASEAN 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

For ASEAN as a group, the largest industry in the economy is Wholesale and Retail, followed by Agriculture, Chemicals, the fast growing Construction industry, Finance, Mining, Food and Tobacco and Transportation. While the pattern is similar for China, Agriculture, Chemicals, Construction and Finance all account for a relatively higher share of output than is the case for ASEAN.

Figure 2.2: Industry Value-Added: China 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

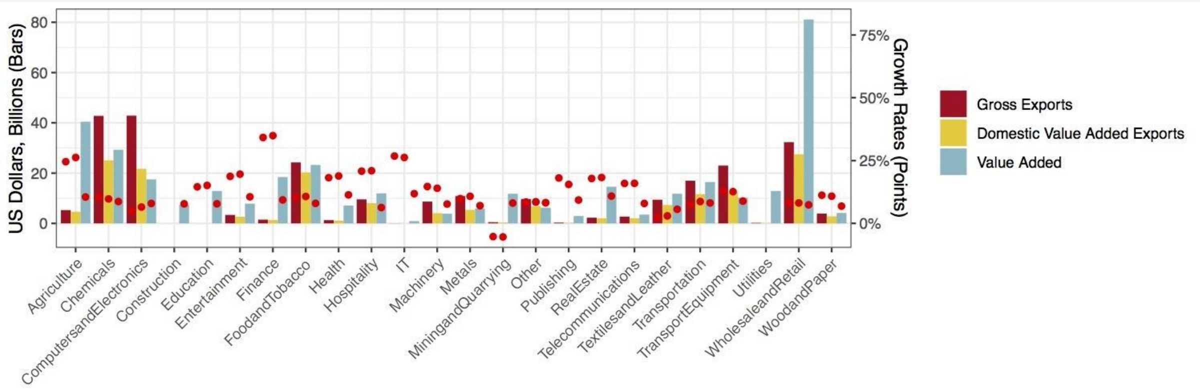
ASEAN's top gross export performer is Computers and Electronics, as is also the case for China, followed in ASEAN's case by Chemicals, Wholesale and Retail, Food and Tobacco and Transportation, the highest export growth rates occurring in Construction and Publishing. In

China's case, Textiles and Leather comes second, followed by Chemicals. It is evident that ASEAN has a much more diversified export base than China as well as generally higher shares of foreign value-added (FVA) in gross exports, i.e., is more plugged in to GVCS as explained in Part 1. Computers and Electronics is ASEAN's top performer for domestic value-added (DVA) share in exports. This sector is also among the most dependent on imported FVA inputs. High rates of growth are recorded for DVA share in Construction and Publishing exports.

Achieving a foothold in Cambodia is probably, for Chilean exporters, a first step to unlocking subsequent markets in the even less familiar markets of Laos and Myanmar.

We take a similar snapshot for Thailand, Vietnam and Cambodia, which is the only of the CLM for which TiVA data is available. It is evident from Figure 2.5 that the structure of Cambodia's economy has much in common with Vietnam's, and that both Vietnam and Cambodia look rather more like China – while Thailand is more reflective of the aggregate picture for ASEAN, see Figure 2.3.

Figure 2.3: Industry Value-Added: Thailand 2015

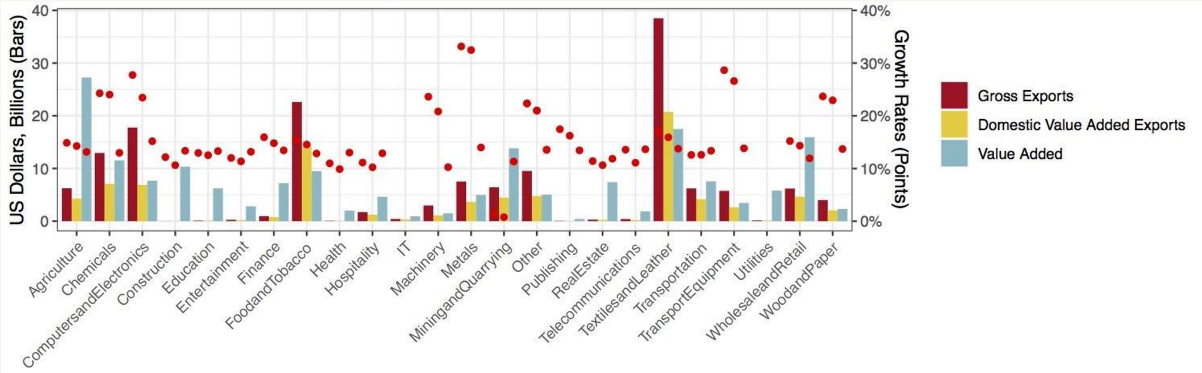


Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

The global tourist market in Cambodia for hotel food and beverages is a potential entry point for Chilean exporters.

Vietnam, see Figure 2.4, is still an agrarian economy, with Wholesale and Retail services highly underdeveloped and contributing less to national output than Textiles and Leather which is the biggest export sector, followed by Food, though Computers and Electronics are growing much faster.

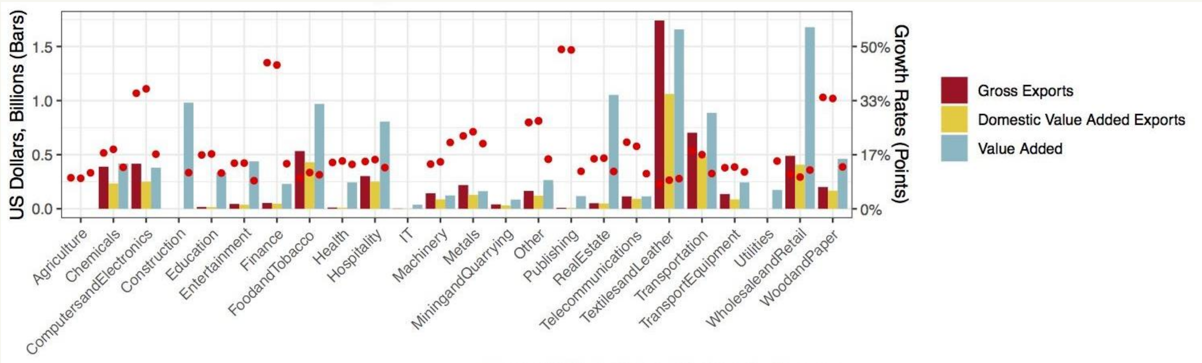
Figure 2.4: Industry Value-Added: Vietnam 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

Like China and Vietnam, but unlike modern ASEAN as a whole, Textiles and Leather are also vital to the Cambodian economy, for example cotton tee-shirts for the US market and embroidered silk for the Japanese market. Also like Vietnam Cambodia is highly agrarian, with USD8 billion on value added in this industry leading it to be excluded from the figure as an outlier (of which USD5.3 billion is exported). Unlike Vietnam however, but like Laos, agriculture is still largely subsistence oriented with insufficient local capacity to guarantee reliable supply of non-staple products to the 5 Star tourist hotels. Tourism is fundamental, supporting development of the Wholesale and Retail sector, as well as Construction, the rest of Hospitality, Transportation, Entertainment and Publishing.

Figure 2.5: Industry Value-Added: Cambodia 2015



Source: Own calculations based on the OECD/WTO TiVA Data
"Other includes Repair and Installation"

This quick snapshot highlights the developmental transition underway in the poorer communist ASEAN economies, both moving to greater market orientation, from a relatively low level of development, Vietnam being considerably further along the trajectory. Despite their growth path, and the perceived importance to global exporters of getting in early, Laos and Myanmar are at very much lower levels of development than even Cambodia and the statistical base for close analysis of recent trends is still lacking. Nor are they yet important destinations for global tourism, whereas Cambodia's attraction reaches well beyond the backpacker and local regional tourist market and is firmly linked into long haul Golden Triangle marketing covering Thailand, Vietnam and Cambodia (because of Angkor Wat). Achieving a foothold in Cambodia is probably, for Chilean exporters, a first step to unlocking subsequent markets in the even less familiar areas of Laos and Myanmar. The tourist market in Cambodia for hotel food and beverages is likely to be a first port of entry, though also related GVCs such as Transportation, Wholesale and Retail, and in Chile's case, also Finance.

The structure of Cambodia's economy has much in common with Vietnam's; both Vietnam and Cambodia look rather more like China than like the rest of ASEAN. The structure of Thailand's economy is more reflective of the aggregate picture for ASEAN.

2.3 STRUCTURE OF INTERNATIONAL TRADE

Overview

TiVA data is available only for Cambodia, but the Asian Development Bank (ADB) Input-Output Tables provide some relevant data for both Cambodia and Laos (no data is available for Myanmar).[9] While ASEAN members such as Singapore and Malaysia display very high upstreamness, i.e., they are very involved in the intermediates supply chains, the ADB data confirms very low upstreamness for both Cambodia and Laos with no more than a marginal increase over the last 2 decades to 2018. This means a significant portion of gross output is still used in these economies to satisfy final demand.

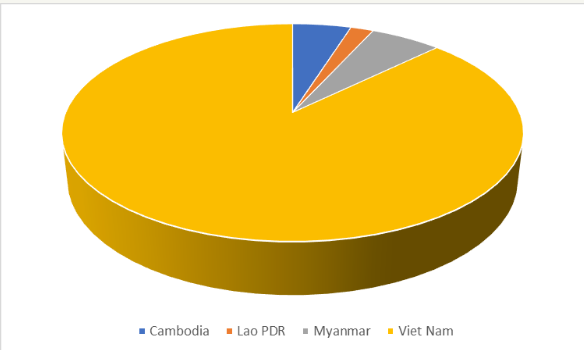
The ADB data also shows, however, there has been a significant increase over the last two decades in Cambodia's vertical specialisation, i.e., the extent to which imports are used as inputs to produce exports. Vertical specialisation has increased from about 22% of gross exports in 2000 to 27% by 2018. Both the Textile industry and the Tourism-related industries have relatively higher dependence on imported foreign value added, including silk imports from China. Vietnam witnessed a similar increase in vertical specialisation, from 26% to 30%. There is no evidence of any significant shift on the part of Laos, which is stationary at 13%.

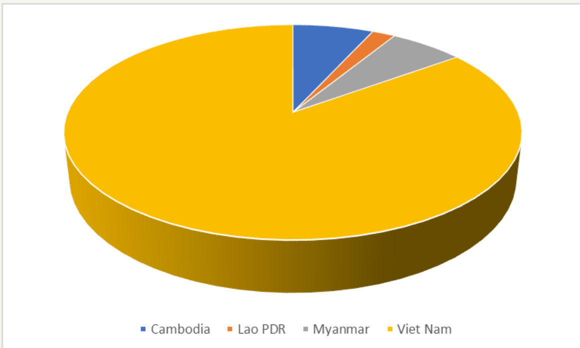
Cambodia is a confirmed growth market in the CLM in sectors of interest for Chile.

Trade in Goods

Figures 3.1 and 3.2 show that Myanmar dominates the CLM merchandise export story. Cambodia dominates the import story; about 40% of aggregate CLM merchandise imports are destined for Cambodia, followed by Myanmar with about 35%. All the CLM are dwarfed by any trade comparison with Vietnam, more so with respect to imports than exports. Vietnam accounts for 85% of CLMV imports and 87% of CLMV exports.

Figure 3.1: Total Global Merchandise Import and Export CLMV Shares: 2019

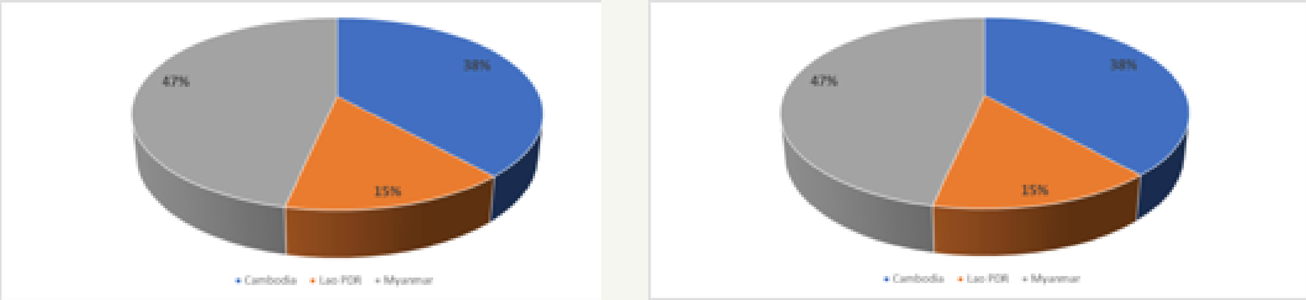




Source: Own calculations based on UN Comtrade (2021)

[9] ADB (2020)

Figure 3.2: Total Global Merchandise Import and Export CLMV Shares: 2019

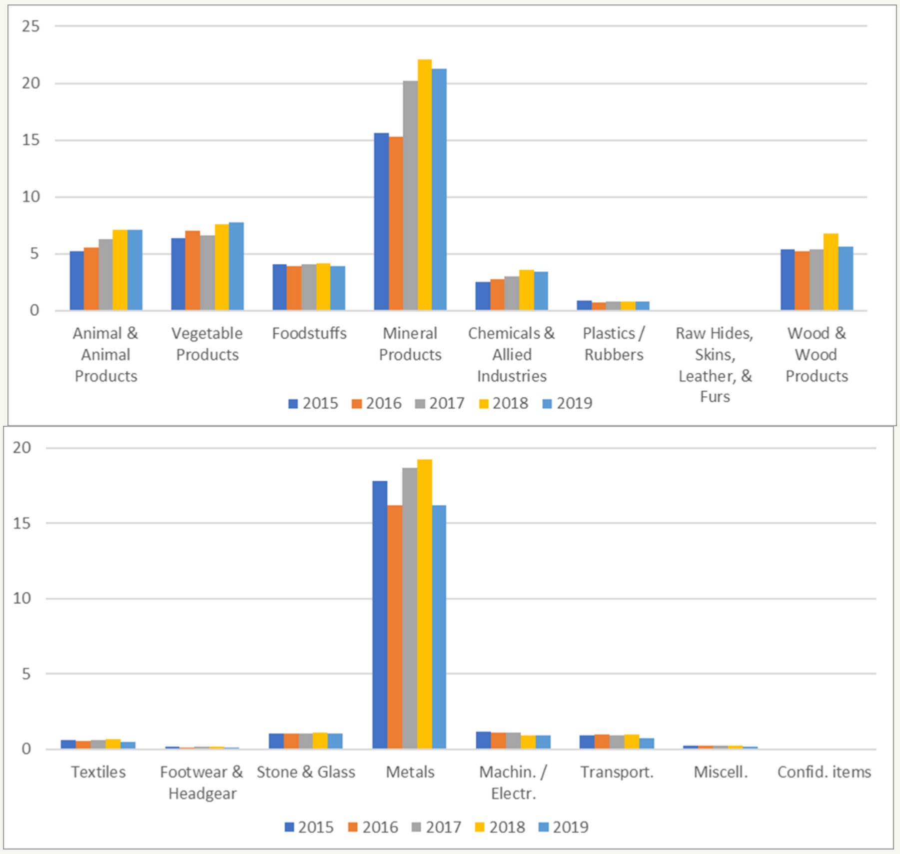


Source: Own calculations based on UN Comtrade (2021)

Cambodia is the biggest merchandise import market in the CLM but dwarfed by comparisons with Vietnam.

For comparison purposes, we note that mineral products and metals are the dominating export sectors in Chile. In 2019, more than USD20 billion worth of mineral and related products were exported. This was followed by exports of more than USD15 billion of metals. Other significant exporting products were found in the agricultural area. Animal, animal products and vegetable products recorded more than USD7 billion in exports in 2019, followed by wood and wood products with USD5.5 billion and prepared foodstuff of slightly below USD4 billion. Chemicals were recorded with USD3.5 billion.

Figure 3.3: Chile's Total Global Merchandise Export Trends: USD Billion

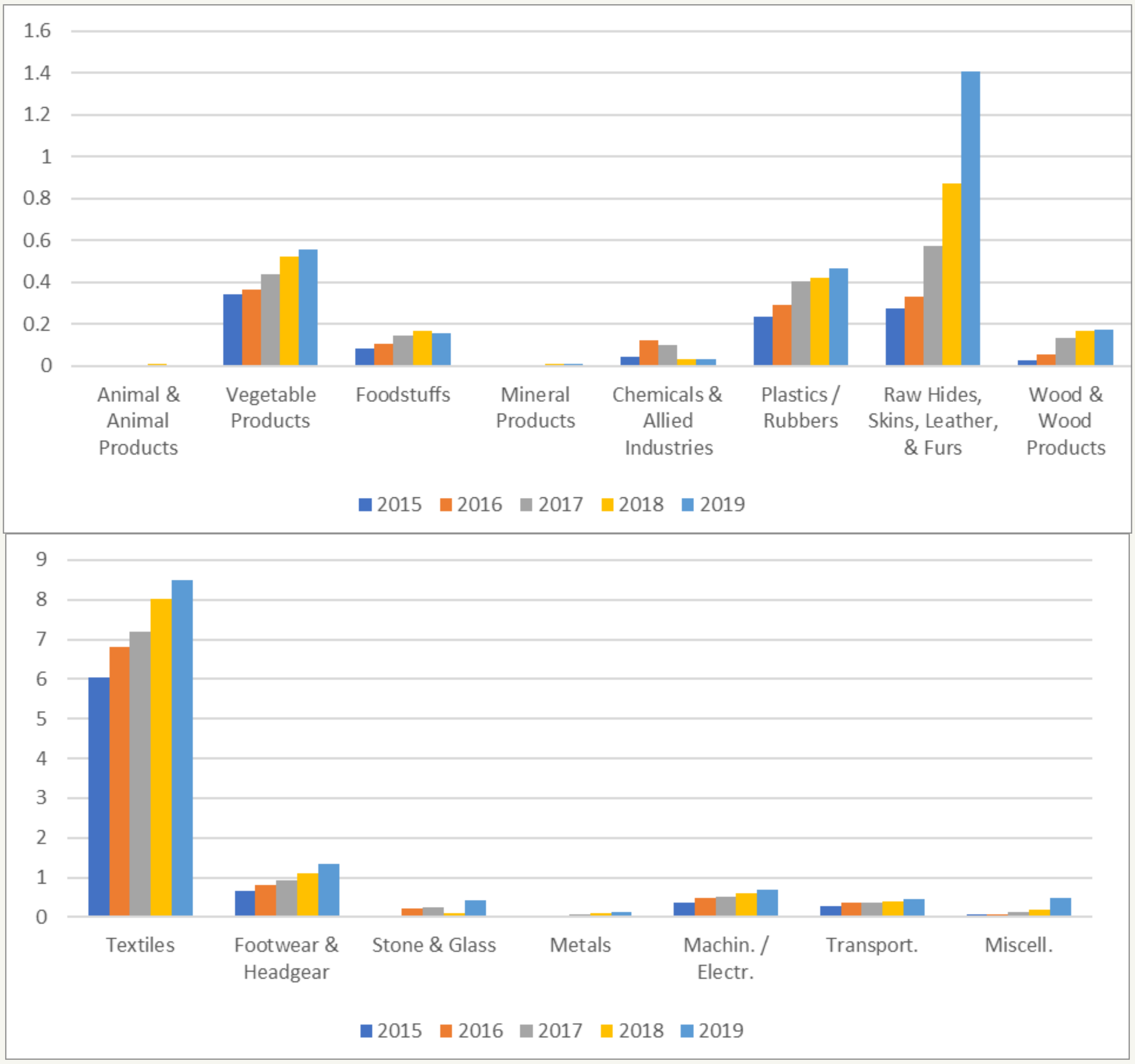


Source: Own calculations based on UN Comtrade (2021)

Cambodian import demand over the time frame of 2015-2019 shows that textiles are the main contributing import sectors. In 2019, Cambodia imported more than USD5 billion worth of textile related products, many of them intermediates or inputs for the Cambodian textile industry. Imports of mineral products have seen the strongest growth over the time frame of 2015 to 2019. In 2015, mineral imports recorded some USD250 million. In comparison, in 2019 more than USD2.5 billion worth of mineral products were imported. Metals, machinery and electrical imports, transportation, plastics and chemical imports all showed strong growth in 2019, indicating increasing demand.

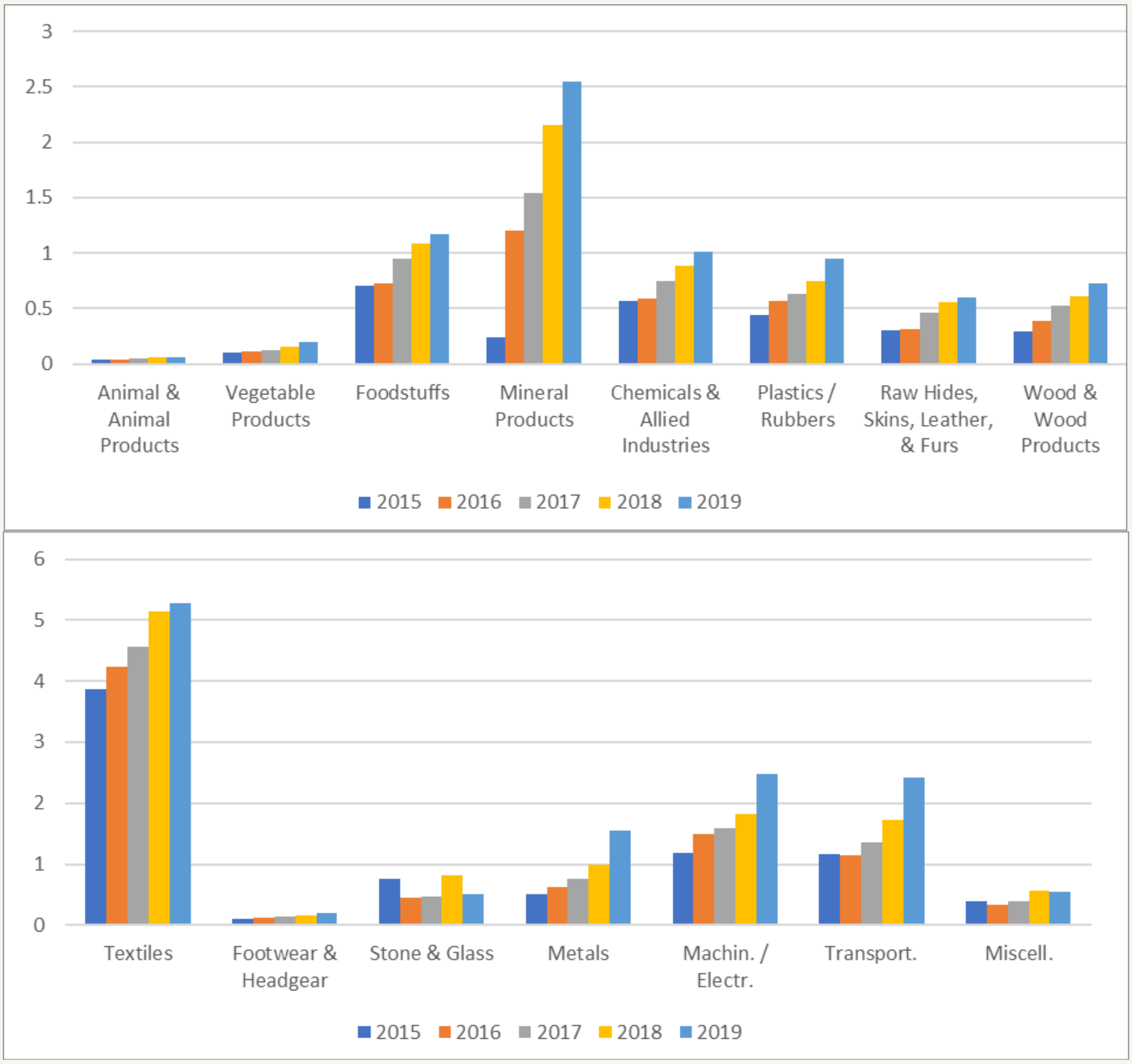
Textile exports are by far the strongest export contributing group in Cambodia. In 2019, USD8.5 billion of textiles were exported, up from USD6 billion in 2015. Related industries of Footwear and Headgear with USD1.2 billion of exports in 2019 and raw hides, skins, leathers and furs with USD1.4 billion round up the top three exporting sectors. All remaining sectors are well below the USD1 billion mark.

Figure 3.4: Cambodia's Total Global Merchandise Export Trends: USD Billion



Source: Own calculations based on UN Comtrade (2021)

Figure 3.5: Cambodia's Total Global Merchandise Import Trends: USD Billion

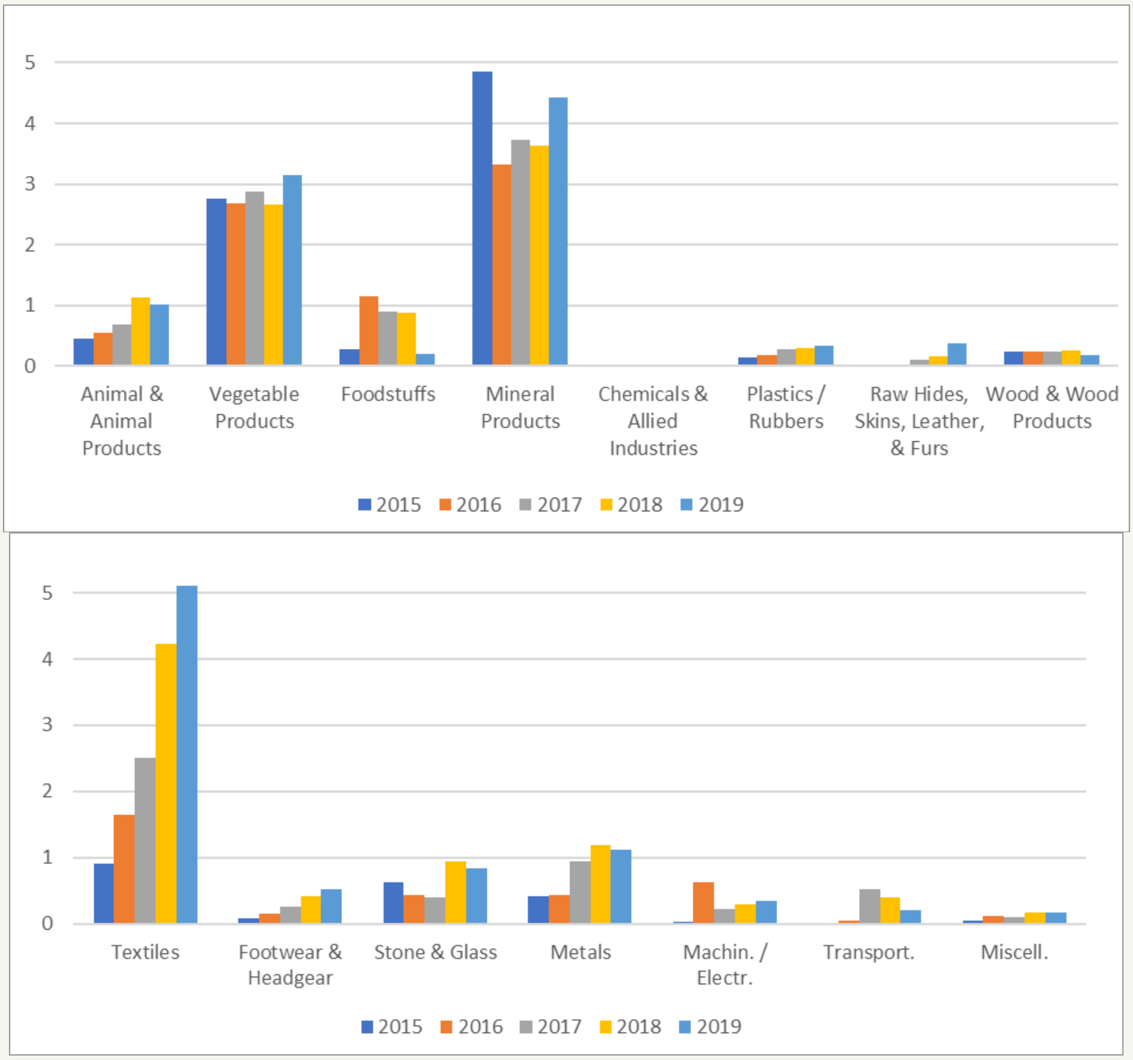


Source: Own calculations based on UN Comtrade (2021)

In 2019, Myanmar's imports were dominated by mineral products with some USD3.75 billion worth being imported into the country. This is followed by machinery products (USD3 billion), textiles (USD2 billion), transportation (USD1.75 billion), chemicals (USD1.6 billion) and metals (USD1.6 billion).

On the one hand, import demand for transportation products has declined sharply over the time frame of 2015 to 2019. In 2015 USD4 billion worth of transportation products were imported. In 2019 that figure dropped to US$1.75 billion. On the other hand, import demand for textiles and for mineral products has increased significantly. In 2015, slightly less than USD500 million of textiles were imported. In 2019, import demand for textile related products increased to more than USD2 billion. Similarly, imports of minerals recorded about USD2.5 billion in 2015, increasing to USD3.75 billion in 2019.

Figure 3.6: Myanmar's Total Global Merchandise Export Trends: USD Billion

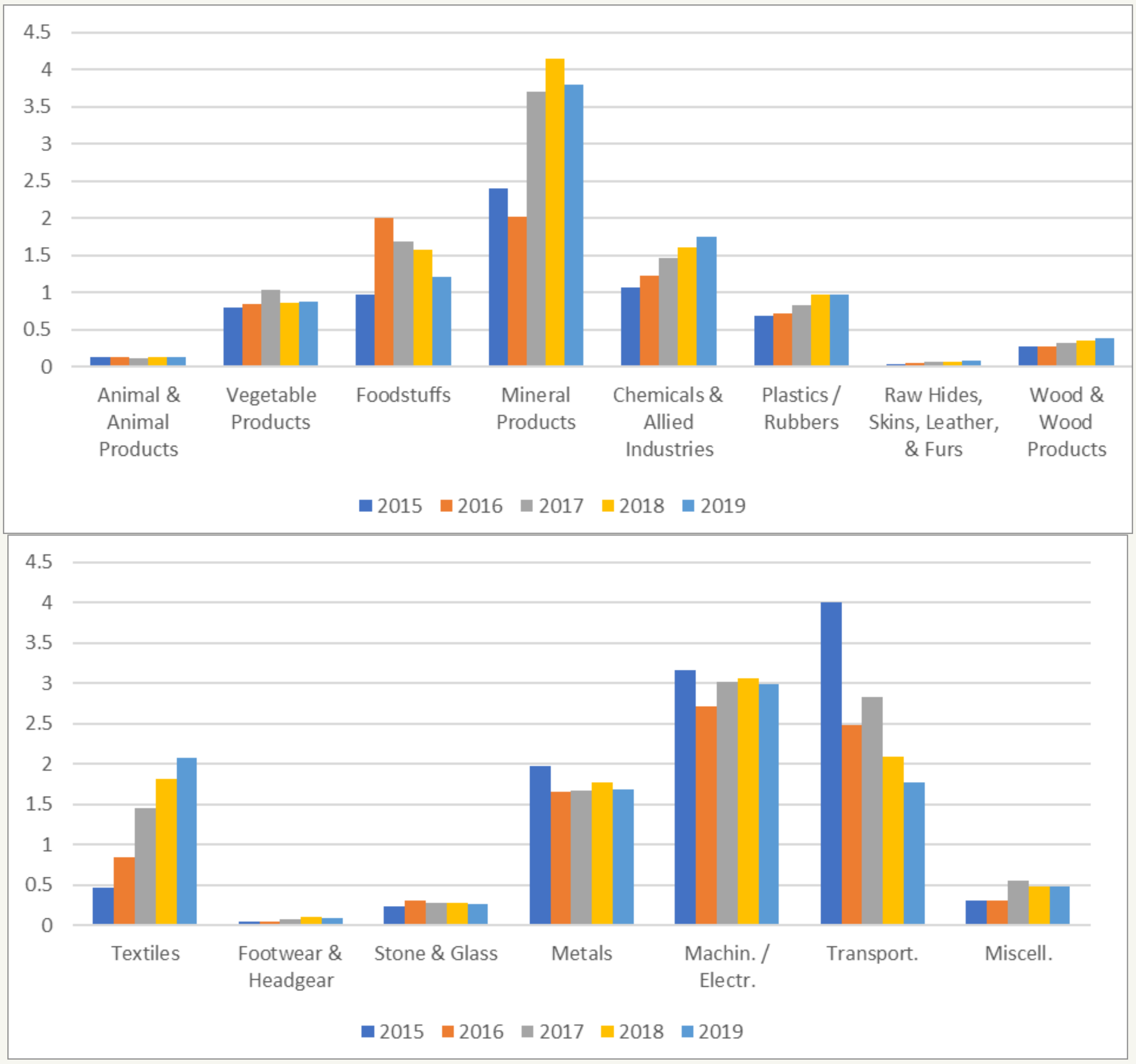


Source: Own calculations based on UN Comtrade (2021)

Exports of textile and textile related products have shown a significant increase over the time frame of 2015 to 2019. Textile exports grew from less than USD1 billion to more than USD5 billion, respectively. Mineral products recorded exports of USD4.5 billion in 2019, slowly recovering from its peak in 2015 of almost USD5 billion. Exports of vegetable products have been stable at around USD2.75 billion annually between 2015 and 2018, topping the USD3 billion mark for the first time in 2019.

Machinery and electrical products with USD1.3 billion and mineral products with USD1 billion were the leading import groups in 2019. This is followed by metals and transportation products with USD700 million and USD550 million, respectively. An interesting observation is that Myanmar's import demand is less consistent than that in other AMS countries like Cambodia. Several sectors show volatile or declining import demand (e.g. machinery and electrical products, metals, transportation).

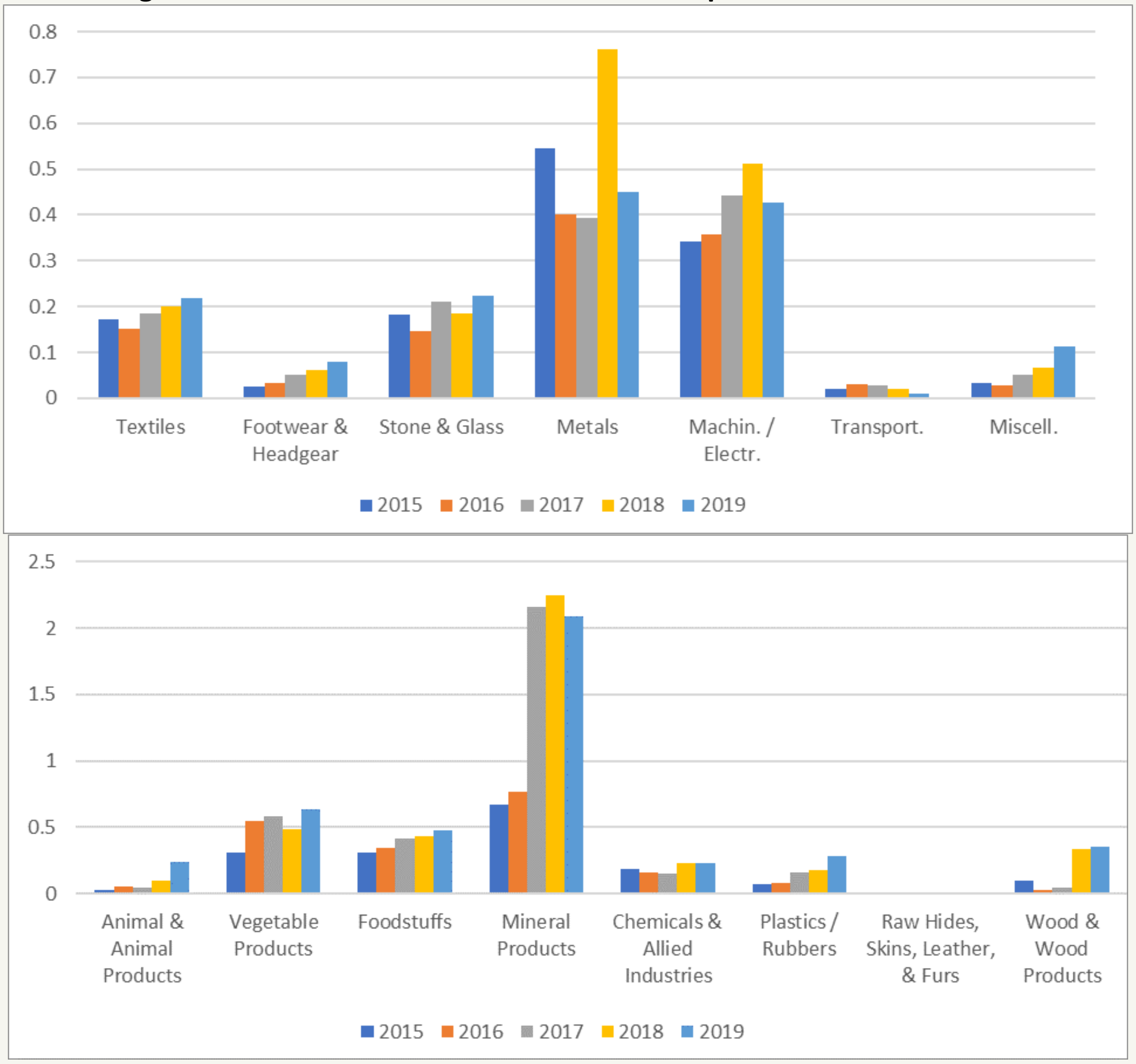
Figure 3.7: Myanmar's Total Global Merchandise Import Trends: USD Billion



Source: Own calculations based on UN Comtrade (2021)

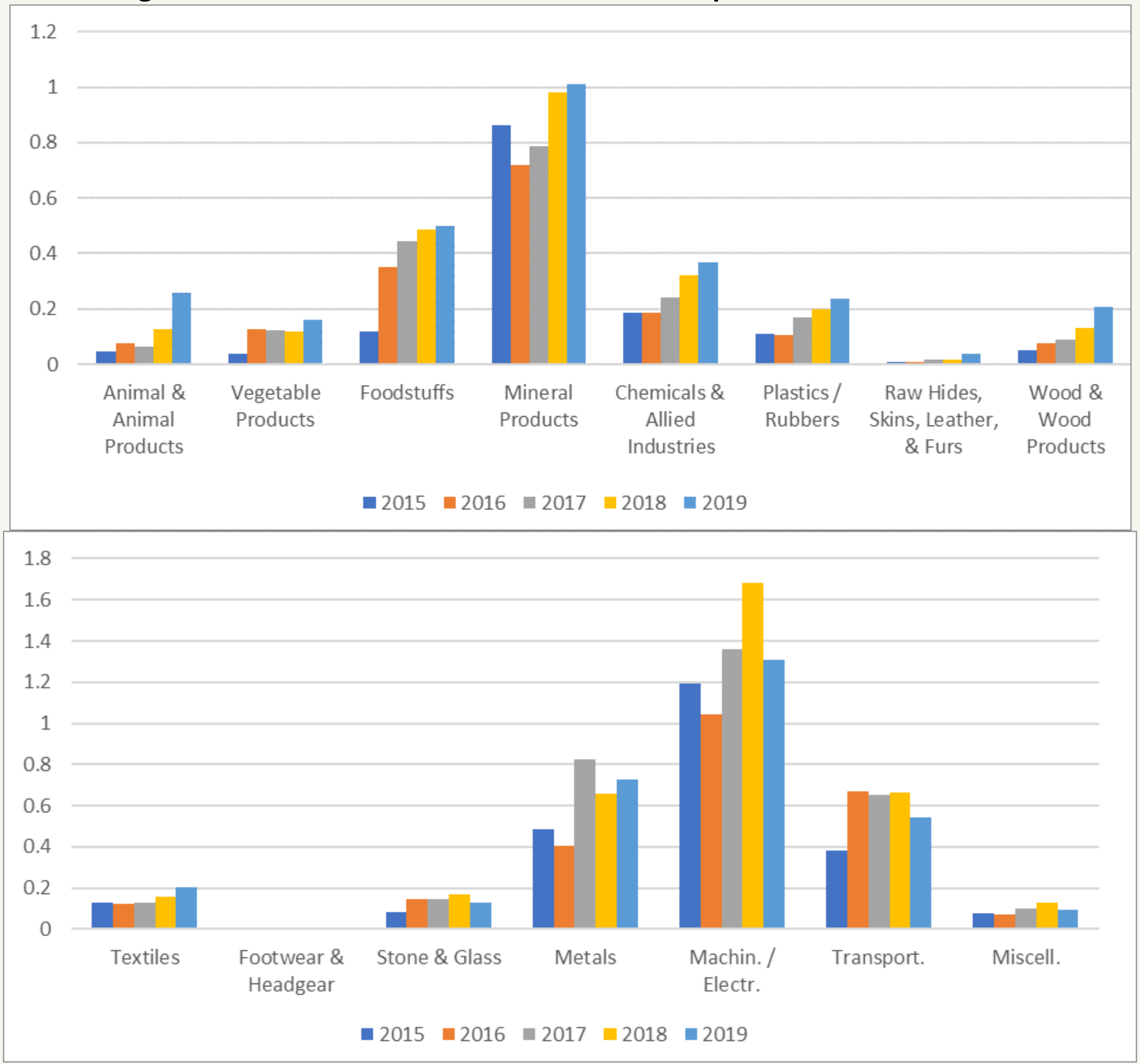
In Laos mineral exports recorded strong growth over the time frame of 2015 to 2019, growing from about US$600 million to more than US$2 billion in 2019. The mineral sector is the only sector that recorded exports of more than US$1 billion in 2019. Minerals are also Laos second largest import, though they are not as large as machinery and electrical equipment, imports of which are partly used to fuel a growing export industry.

Figure 3.8: Laos' Total Global Merchandise Export Trends: USD Billion



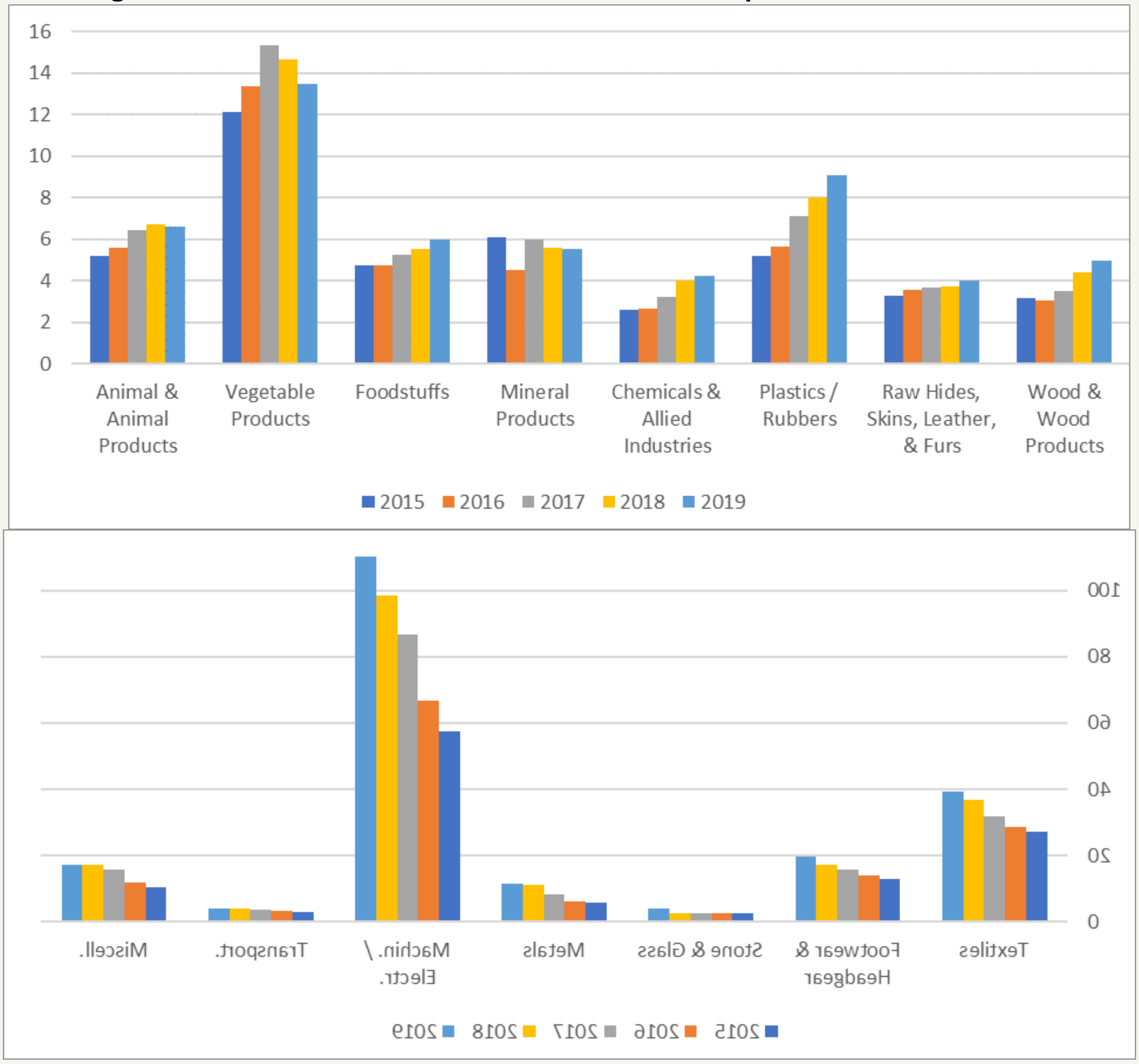
Source: Own calculations based on UN Comtrade (2021)

Figure 3.9: Laos' Total Global Merchandise Import Trends: USD Billion



Source: Own calculations based on UN Comtrade (2021)

Figure 3.10: Vietnam's Total Global Merchandise Export Trends: USD Billion

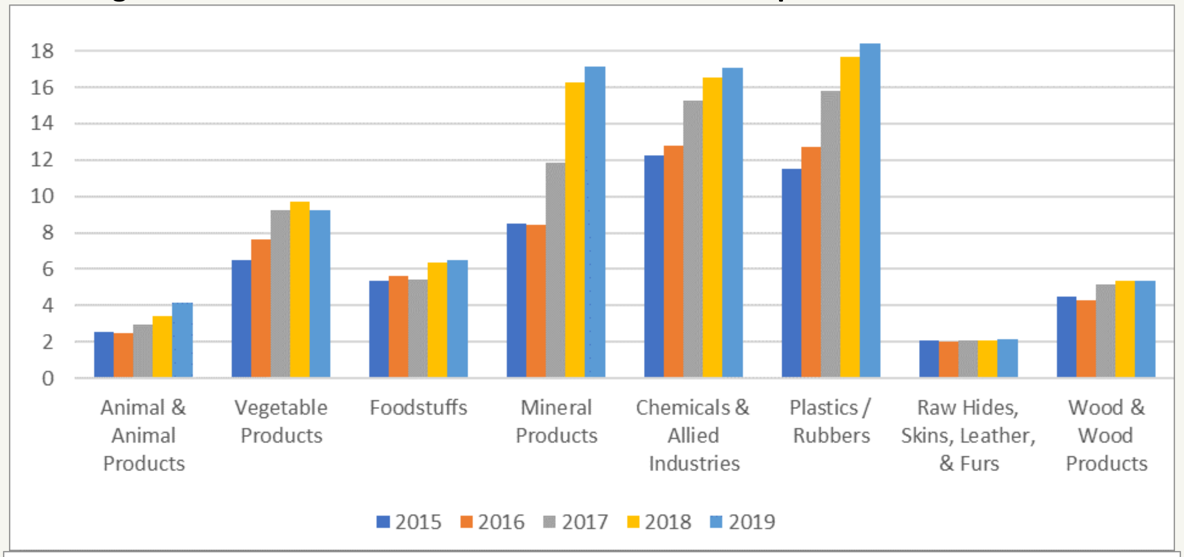


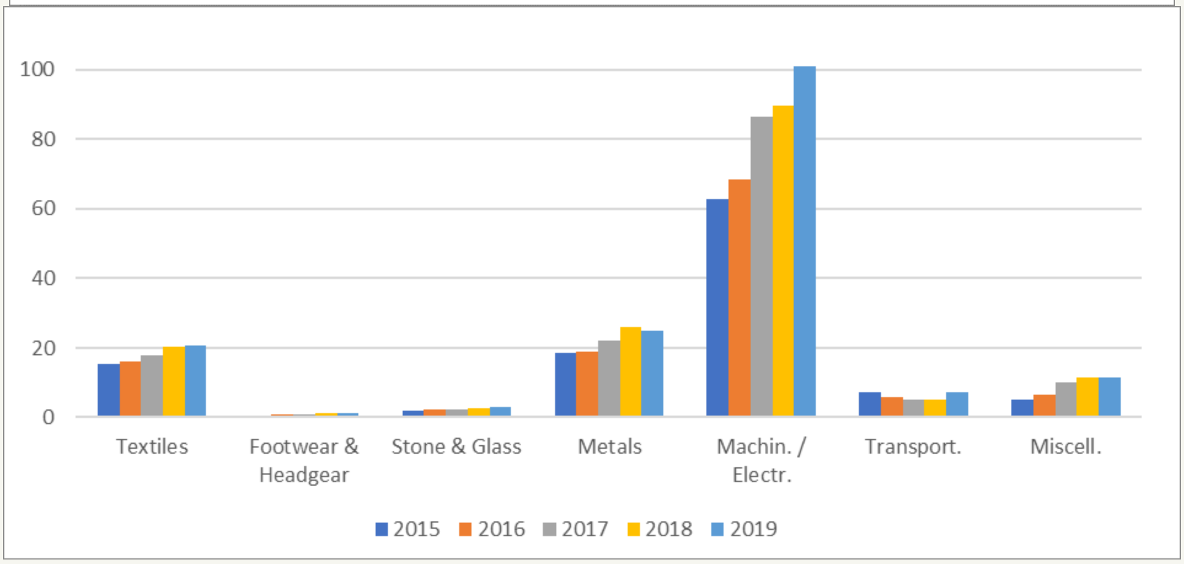
Source: Own calculations based on UN Comtrade (2021)

Showing it to be further ahead in the development of GVCs, Vietnam's imports are already dominated by machinery and electrical products and the country has recorded strong growth in import demand in that sector. In 2015 about USD60 billion in machinery and electrical related products (mostly inputs and intermediates) were imported. In 2019 imports of these products increased to more than USD100 billion.

In 2019, textiles and metals recorded about USD20 billion worth of import demand, followed by plastics and rubbers with USD18 billion, and mineral products and chemicals with about USD17 billion. Vegetable products have seen an increase in import demand from USD6 billion in 2015 to more than USD9 billion in 2019.

Figure 3.11: Vietnam's Total Global Merchandise Import Trends: USD Billion





Source: Own calculations based on UN Comtrade (2021)

Similar to their imports, Vietnam's exports are dominated by machinery and electronics related products. In 2015, less than USD60 billion worth of these products were exported. In 2019, this figure has grown to more than USD110 billion indicating the strong growth in that sector in Vietnam. The textile industry also recorded strong growth over that time frame, growing from USD25 billion to almost USD40 billion. Exports of vegetable products have declined slightly and recorded less than USD14 billion in 2019, down from its peak of more than USD15.75 billion in 2017. The plastics and rubber industry has increased from about USD5.75 billion in 2015 to more than USD9 billion in 2019.

Figure 3.12: CLM Top Merchandise Export Destinations: 2019

Cambodia	Laos	Myanmar
1.United States	1.Thailand	1. China
2.Singapore	2.China	2. Thailand
3.Thailand	3.Vietnam	3. Japan
4.Japan	4. Japan	4. United States
5.Germany	5.United States	5. Germany

Source: UNCTAD Country Profiles

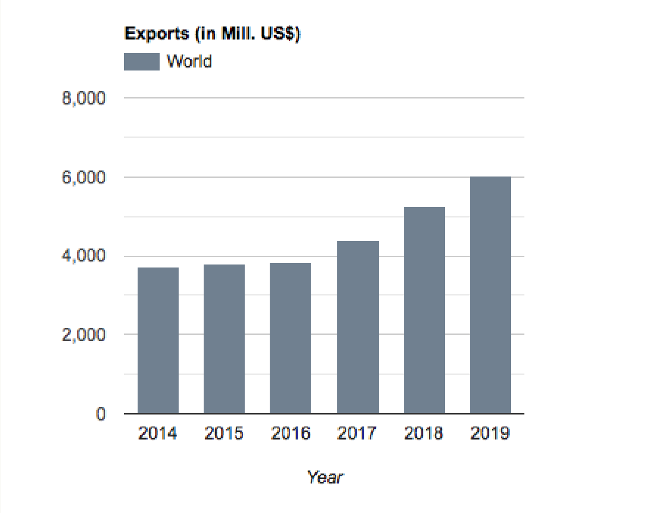
Trade in Services

We noted earlier that the total value of Vietnam's merchandise trade totally dwarfs the CLM as a group and this is true on both the import and the export side, but more so for imports. The picture is a bit different for services. It remains true that the total value of CLM trade in services is dwarfed by Vietnam, but to a very much smaller extent, and especially on the export side, where both Myanmar and Cambodia perform relatively well by global standards, especially for LDCs.

Cambodia is a dynamic services exporter and, along with Myanmar, is one of the relatively few LDCs which is a net services exporter. Cambodia runs a strong and consistent services trade surplus (Figure 3.13), due to the global tourist attraction of Angkor Wat. Cambodia is the LDC group's top tourism exporter, witnessing 20% annual growth in 2018. The country has a modern regional airport at Siem Reap, with direct international linkages and immigration facilities, as well as cross border road and Mekong river transport for regional visitors. Vietnam has invested in Air Cambodia, and China in hotels and infrastructure.

Services account for 29% of total Cambodian exports. This is, as for Myanmar, above the global average and a standout performance for an LDC. It may not seem to standout in ASEAN when for the Philippines, with its strong services outsourcing industry, the services share is 37%, nor against Singapore, where services represent 34% of exports. Nor does it really bear comparison with Thailand, which is the world's fourth largest Travel services exporter. But given that for Vietnam, despite strong growth in its own tourism sector, the overall share of services in total exports is only 9% and for Lao it is only 16%, Cambodia does stand out in the CLMV. And after all, the services share of total exports for Thailand is no more than 25%, right on the global average.

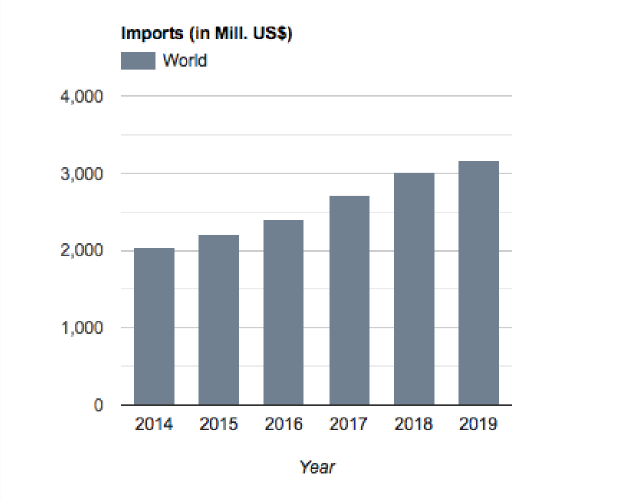
Figure 3.13: Cambodia's Commercial Services Exports



Source: WTO i-tip Database, 2021

The top Commercial Services exported by Cambodia are Personal Travel, Trade-Related Services, Business Travel and Air Transport. The top imports are Maritime Transport, Personal Travel, Air Transport, Construction, and Business, Professional, and Technical services.[10]

Figure 3.14: Cambodia's Commercial Services Imports



Source: WTO i-tip Database, 2021

Cambodia is the top tourism exporter in the LDC group of countries.

Top export and import partners are shown in Figure 3.15, the United States export destination being worth roughly double that of China. ASEAN partners are more prominently import partners than export ones and Vietnam, with a less well developed services sector and less participation in regional tourism, is not in the top list.

Figure 3.15: Cambodia's Top Services Trading Partners, 2019

Exports	Imports
1.United States	1.United States
2.China	2.Hong Kong
3.Germany	3.Thailand
4.Japan	4.Singapore
5.UK	5.China
6. Singapore	6.Japan
7. Hong Kong	7.Malaysia

Source: WTO i-tip Database

As much as 82% of Cambodia's services exports are Travel services (a proxy for international tourism) and more than 50% of imports are Transport services. Based on UN World Tourism Organization (UNWTO) estimates, Cambodia is expected to face a massive GDP decline of 12.3% for 2020, solely due to reduced revenue from exports of travel and tourism services.[11] These estimates assumed a gradual reopening of borders by September 2020, so are now expected to prove underestimates.

[10] UN Comtrade Database
[11] UNESCAP (2020)

Despite pent up demand, the 2020 halt to international travel and tourism will not necessarily see a quick or straightforward recovery. Supply chains for imported foods and beverages for the tourist market have been disrupted and may not prove to be resilient through the long period of disruption. Chilean exporters, especially those which already have footholds in Thailand or Vietnam, may find new opportunities open in Cambodia as the rebound kicks off.

Services trade data is still scarce in the CLM, whereas international development cooperation capacity building efforts have focused in the last decade on building a services trade series in Vietnam. For anyone unfamiliar with the Cambodian economy Figure 3.16 sets out some basic services trade indicators which help give a picture of the fledgling nature of the services eco-system, compared with the larger wealthier ASEAN members. Even for indicators as basic as these, the data series is patchy and incomplete – and does not show strong consistent growth.

Figure 3.16: Cambodia's Services Trade Sector Indicators: 2019

	Value			Average growth		
Sector	**2016**	**2017**	**2018**	**2005 - 2018**	**2017**	**2018**
Total number of all feature films exhibited (no.)	228	178	...	...	-22	...
All feature national films exhibited (% of tot.)	17.0	19.0	...	...	15	...
Total number of national feature films produced	38	34	...	-2	-11	...
Percentage of feature films that are 100% nationally produced (%)	97.0	97.0	...	0	0	...
Total number of distribution companies (no.)	17	17	...	6	0	...
Total number of permanent post offices	83	35	...	-7	-58	...
Number of letter-post items, international service - dispatch (no.)	549 946	507 484	452 492	-13	-8	-11
Number of ordinary parcels, international service - dispatch	3 961	18 069	18 441	12	356	2
Outbound mobile students (no.)	5 510	5 928	...	8	8	...
Outbound mobility ratio (%)	...	3.0	...	-3	...	...

Source: WTO i-tip Database

Services trade data is even less well developed for Laos. Total two-way trade in services is estimated at only USD2 billion, with a persistent but small services trade deficit. Accurate information on the top services import and export partners is unavailable.

Laos exports hydroelectric power to Thailand, which is measured as Utilities in the National Accounts but is of course a services export. Travel services make up 80% of both exports (a proxy for tourism) and of imports. Tourists are chiefly from Thailand and also Vietnam. In the case of Laos, which is a smaller economy but equally as dependent on export revenue from travel services as Cambodia, the expected decline in GDP for 2020 is only 3.4%.[12] Overall, the services share of total exports is 16%, which is lower than the global average.

Figure 3.17: Laos' Global Commercial Services Exports and Imports

	Value (Mil.US$)			Average growth %		
Flow	**2017**	**2018**	**2019**	**2005 - 2019**	**2018**	**2019**
Exports	774.44	914.42	1 100.73	14	18	20
Imports	1 110.78	1 147.54	1 273.85	31	3	11

Source: WTO i-tip Database

[12] UNWTO (2020)

The Indicators set out in Figure 3.18 provide insights into the difficulties of collecting consistent series of services trade-relevant statistics.

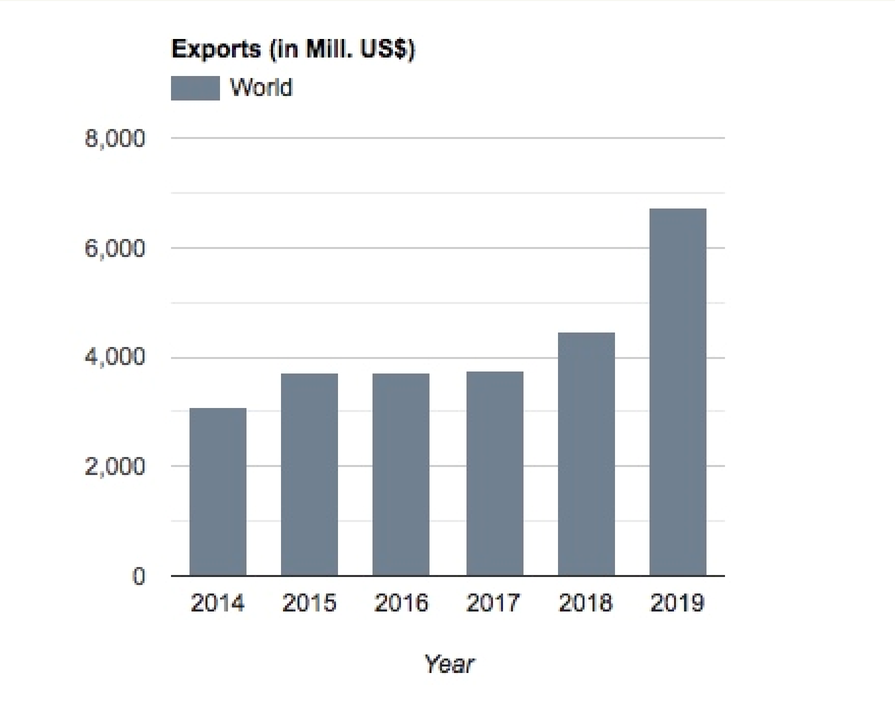
Figure 3.18: Laos' Services Trade Sector Indicators: 2019

	Value			average growth	
Sector	**2016**	**2017**	**2018**	**2005 - 2018**	**2017**
Total number of all feature films exhibited (no.)	185	200	...	...	8
All feature national films exhibited (% of tot.)	3.0	3.0	...	...	-7
Total number of national feature films produced	5	6	...	...	20
Percentage of feature films that are 100% nationally produced (%)	80.0	83.0	...	...	4
Percentage of feature films that are internationally coproduced (%)	20.0	17.0	...	...	-17
Total number of distribution companies (no.)	2	2	...	6	0
Foreign distribution companies (% of tot. distribution companies)	100.0	100.0	...	...	0
Outbound mobile students (no.)	6 274	5 064	...	6	-19
Outbound mobility ratio (%)	5.0	5.0	...	-1	-11
Inbound mobile students (no.)	451	472	495	8	5
Inbound mobility rate (%)	0.0	0.0	1.0	2	15

Source: WTO I-tip portal

Myanmar runs a strong services trade surplus and services exports account for a 27% share of Myanmar's total exports. This is above the global average of 25% and partly explained by Travel services (a proxy for tourism) as the largest services export. Dramatic growth in Travel services over the first decade of the millennium was such that in 2013 Myanmar recorded it first services trade surplus since 2002.

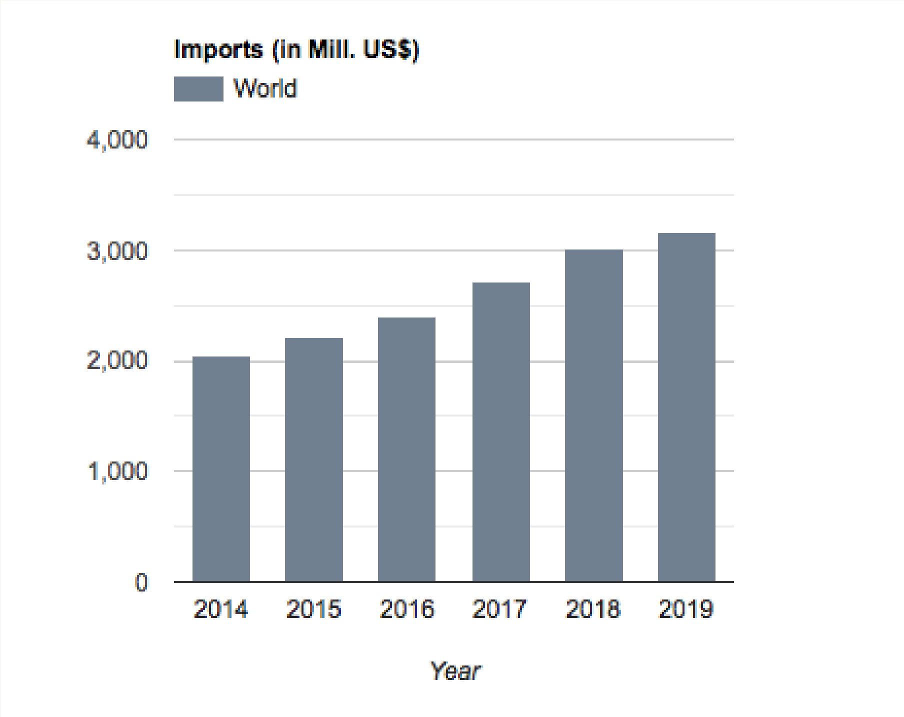
Figure 3.19: Myanmar's Commercial Services Exports



Source: WTO i-tip Database, 2021

The tourism sector has continued to grow at a very fast pace. But the government still only allows free and unrestricted access to certain approved areas and the tight centralized planning, the relatively closed economy plus ongoing political instability remain major barriers to tourist arrivals. Visitors mostly come from Asia, in particular Thailand and China, followed by Europe. The overall services export composition for Myanmar is also much less dominated by travel services than is the case for Cambodia and Laos. Like those countries, Transportation figures importantly on the import side, but in Myanmar's case, transportation is hugely dominant also for exports

Figure 3.20: Myanmar's Commercial Services Imports



Source: WTO i-tip Database, 2021

China is by far the largest services export market for Myanmar, with exports roughly double those to Singapore. On the import side, Singapore and China top the list, with similar shares.

Figure 3.21: Myanmar's Top 5 Services Trading Partners: 2019

Exports	Imports
1. China	Singapore
2. Singapore	China
3. Japan	United States
4. United States	Thailand
5. Thailand	India
6. India	Japan
7. United Kingdom	United Kingdom

Source: WTO i-tip Database, 2021

Myanmar and Cambodia are both net services exporters and both have significant services import markets of a similar size. For Myanmar, imports are focussed on transport services. Cambodia has a more diverse services import portfolio. Laos runs a small services trade deficit; travel services dominate both imports and exports.

The patchiness of trade-related services sector data and the fledgling nature of basic services infrastructure is evident from Figure 3.22.

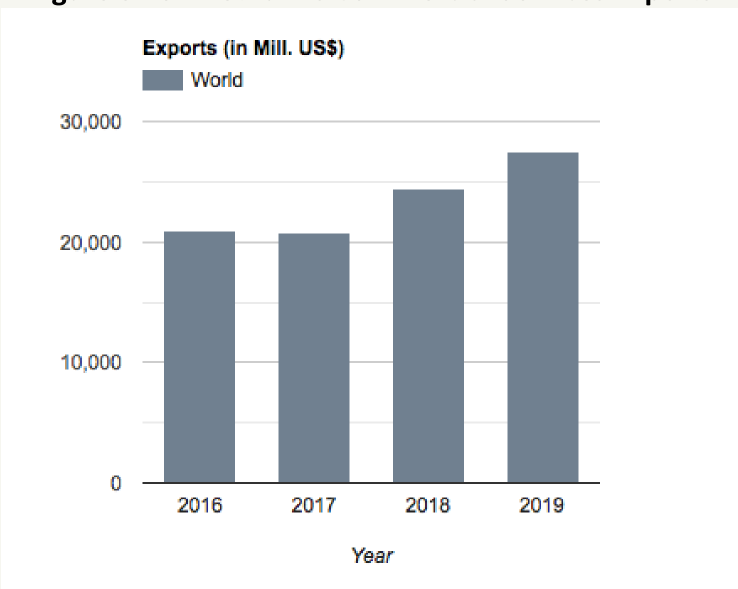
Figure 3.22: Myanmar's Services Trade Sector Indicators: 2017

	Value			average growth
Sector	2015	2016	2017	2005 - 2017
Gross domestic expenditure on R&D as a percentage of GDP	...	...	0.0	...
Gross domestic expenditure on R&D - financed by government (%)	...	...	77.0	...
Gross domestic expenditure on R&D - financed by private non-profit (%)	...	...	0.0	...
Gross domestic expenditure on R&D - financed by abroad (%)	...	...	23.0	...
Total number of national feature films produced	32	...	...	...
Total number of distribution companies (no.)	50	...	...	...
Total telephone subscriptions (per 100 inhab.)	78	...	...	51
Mobile-cellular telephone subscriptions (% in total)	99.0	...	...	17
Internet users (per 100 inhab.)	22.0	...	...	79
Fixed (wired-) broadband subscriptions (per 100 inhab.)	0.0	...	...	93
Secure internet servers (no.)	38	...	...	44
Outbound mobile students (no.)	7 669	8 438	8 965	10
Outbound mobility ratio (%)	...	...	1.0	...
Domestic credit by the banking sector (% of GDP)	32.0	...	...	...
Interest rate spread (%)	5.0	...	...	-1
Passengers by air (mill. P-Km)	1 058	...	...	...

Source: WTO I-tip portal

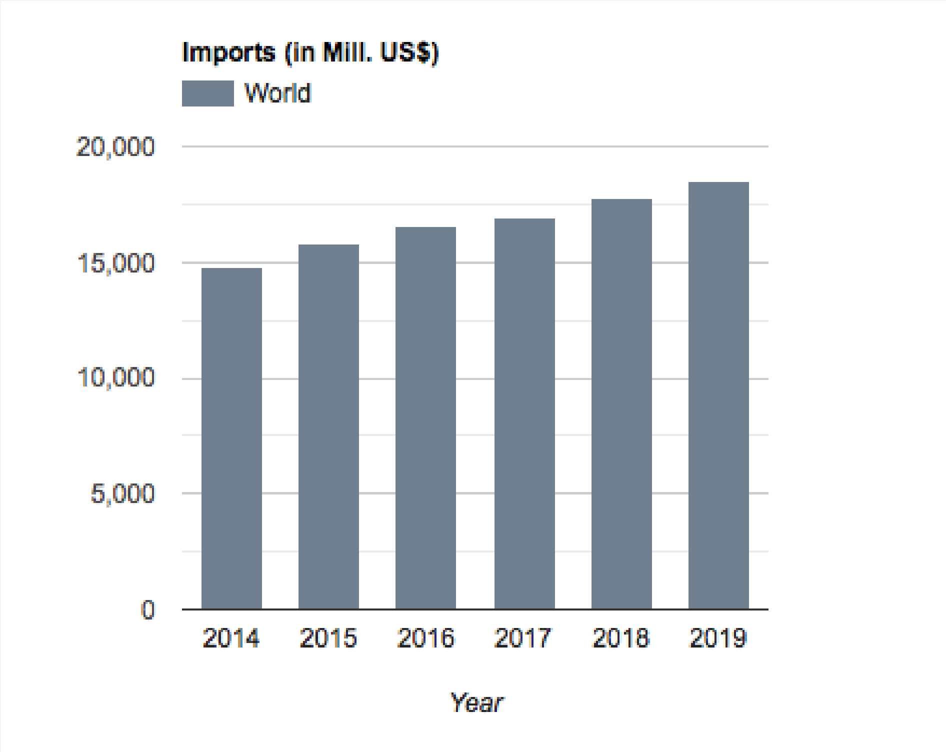
A brief comparison with Vietnam is warranted. The total value of services trade is about four times greater than for either Myanmar or Cambodia and 30% larger than the CLM combined. Vietnam's import market alone, at USD18.5 billion in 2019, is more than double the size of the CLM combined with USD7.9 billion. Like Cambodia and Myanmar, Vietnam typically runs a net surplus on trade in services. Prior to 2020, exports had been experiencing strong growth, at 12% per annum for 2019, chiefly Travel services (a proxy for tourism) and goods-related services. Exports of Travel services have been growing considerably faster than the global average at 17% p.a. to 2019, while goods-related services exports grew at 12% p.a. The biggest import has been Transport (mainly maritime transport), which grew at 6% p.a. in 2019.

Figure 3.23: Vietnam's Commercial Services Exports



Source: WTO i-tip Database, 2021

Figure 3.24: Vietnam; Commercial Services Imports



Source: WTO i-tip Database, 2021

Vietnam's import market is more than double the size of the CLM combined. The biggest import is transportation, growing at 6% p.a. in 2019

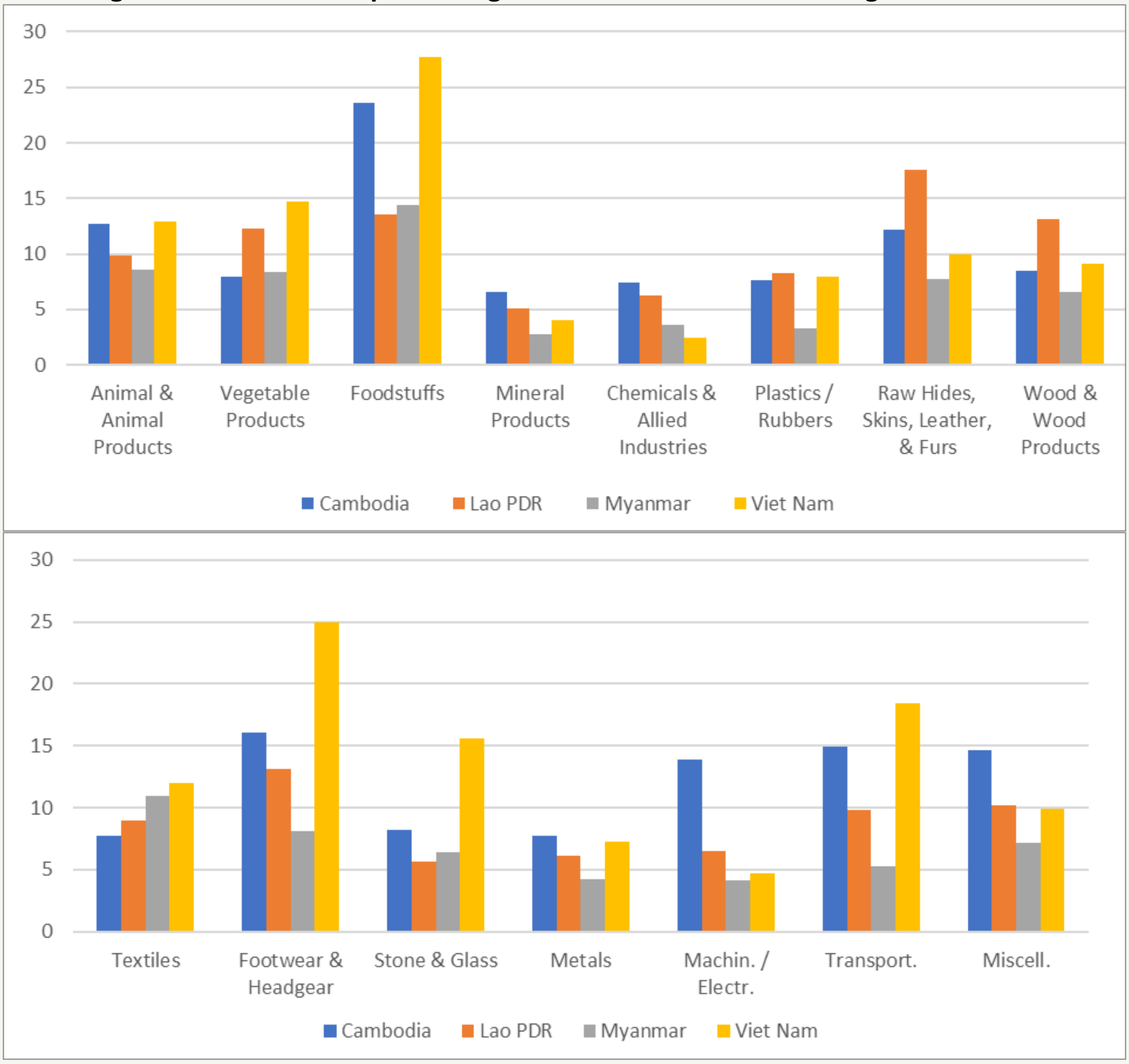
2.4 POTENTIAL BARRIERS TO TRADE

On balance, the CLM group is less highly regulated than its immediate ASEAN neighbours; indeed there are many pockets of under regulation, typical of LDCs.

Trade in Goods

Consistent with that general trend, Cambodia and Myanmar have the lowest number of total NTMs. In the case of Laos, the smallest and least developed economy, a much higher relative percentage of NTMs consist of blunt quantity and price controls, rather than TBT or SPS related standards.

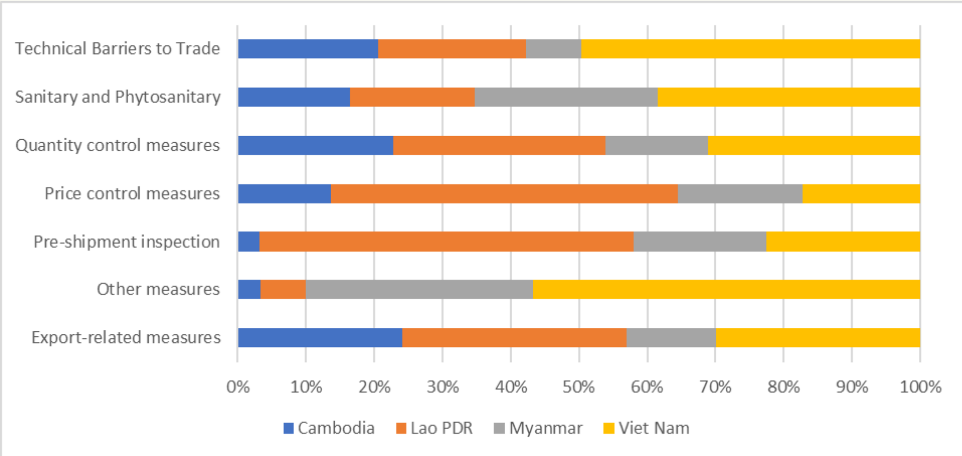
Figure 4.1: CLMV's Simple Average MFN Tariff Rates for HS6-Digit Tariff Lines



Source: Own Calculations based on WTO Tariff Analysis Online 2021

Figures 4.1 and 4.2 provide a comparison across the CLM group and also with Vietnam. Looking just at numbers of measures, and at the CLMV as group, TBT measures affecting imports would appear by far the most common, followed by export controls, though Vietnam dominates that story. For the CLM alone, export controls are the most prevalent, followed by TBT measures, though for Myanmar uniquely, SPS measures are somewhat more significant than TBT. Quantity and price restrictions and pre-shipment inspections are also widely used throughout the CLMV, with Laos being the chief offender in these areas, especially with respect to pre-shipment inspection. The relative prevalence of a variety of “other measures” perhaps contributes in making Myanmar a somewhat more opaque, less predictable market than the others. Across all the CLMV, NTMs impact on more than 80% of import product groups and animal, vegetable, and food imports are the most highly regulated.

Figure 4.2: Distribution of NTM Categories among CLMV



Source: Own calculation based on data from TRAINS UNCTAD (2021)

Watch out for NTMs! They impact more than 80% of merchandise product groups and animal, vegetable, and food imports are the most highly regulated.

Trade in Services

We consider, very briefly, from a services perspective, how the CLM is participating in the WTO GATS and E Commerce negotiating processes, ASEAN’s plurilateral outreach as most recently illustrated by the Regional Comprehensive Economic Partnership Agreement (RCEP), and the intra-ASEAN integration processes as most recently highlighted by the signing in October 2020 of the ASEAN Trade in Services Agreement (ATISA), replacing the precursor ASEAN Free Trade Agreement on Services (AFAS).

Cambodia and Laos have committed to relatively open regulatory environments in their GATS schedules of commitments on accession to the WTO. Indeed, they are among the most liberal GATS schedules of the ASEAN members and globally recognized as “best practice”. Essentially prepared by foreign (European-French speaking) consultants, these schedules are beginning to prove problematic as the CLM transition to higher levels of development, with greater capacity to take on more sophisticated regulatory endeavors.

None of the CLM are participating in the WTO Joint Statement Initiative (JSI) on Domestic regulation in services and none of them are participating in the JSI on e-commerce. This is also the case for other ASEAN members.[13]

None of the CLM have entered into a bilateral trade deal that covers trade in services. It would add little value to this report, moreover, to document in detail the services commitments which have and have not been made by the CLM at a regional or plurilateral level. Suffice it to express an informed judgement that the fact that Chile does not have an FTA with any of the CLM does *not* mean that Chilean services exporters are missing out. This is true for the internal preferences given to date to other ASEAN members and it is true for the (largely non-existent) preferences given by the CLM to ASEAN+1 FTA partners and to the participants in the most recently concluded Regional Comprehensive Economic Partnership Agreement (RCEP).

At the risk of over-simplification, given the ultimate purpose of informing scarce Chilean commercial diplomacy resources, the reality is the CLM have currently committed no more than their GATS schedules of commitments to any other trading partners, except other ASEAN members, where the additional commitments over 8 iterations of AFAS relate chiefly to freeing up maritime transport-related services along the Mekong River.[14] It is true that within specified timelines, essentially 10 years, the CLM must move, within both ATISA and RCEP, to a negative list approach to their services schedules, so this bears watching, but not yet.

The OECD STRI covers only Indonesia, Malaysia and Thailand. But for some ASEAN member states not included in the OECD STRI dataset, the World Bank STRI (available on the WTO i-tip Data base) provides some incomplete but relevant information, which we examine here. Unfortunately there is no information for Cambodia or Laos but data is available for Myanmar and Vietnam.

The World Bank STRI ranges from 0 to 100, where 0 indicates no restrictions apply and 100 means that the subsector/mode is completely closed to foreign participation.[15] An individual restrictiveness index is provided for each services sector. Detailed granular information is also provided by Mode of Services Supply on regulations affecting conditions on market entry, conditions on operations, administrative procedures and regulatory transparency. The

---

[13] Singapore is a co-convenor and major player in the JSI on e-commerce. Thailand is also participating.

[14] The details of these intra-ASEAN commitments might impact on foreign services providers seeking to provide specific maritime transport services-related offerings, so the 3 CLM schedules of commitments from the latest 8th update to the ASEAN Free Trade Agreement on Services (AFAS – precursor to ATISA) are included in the Statistical Annex. Under ATISA, the ASEAN member states are required to transition their existing Schedules of Commitments under AFAS (which is based on a positive list approach), into Schedules of Non-Conforming Measures based on a negative list approach within specific timelines.

[15] As defined by the WTO General Agreement on Trade in Services (GATS) there are 4 modes of supply: Cross-border trade (Mode 1), consumption abroad (Mode 2), commercial presence (Mode 3), and temporary movement of natural persons (Mode 4).

regulatory information is provided for horizontal measures affecting all services sectors, and also provided on a sector-specific basis.

For 2016, Myanmar's overall STRI was 59.3. Some sectors are completely closed to foreign participation, in all Modes of Supply, i.e., they have a score of 100. These include accountancy services, insurance services, air passenger services (except in Mode 4), air freight services and rail freight services. The overall restrictiveness score for professional services is 74; for example, host country legal advisory services have a score of 88 for Mode 3, meaning commercial establishment of a foreign law firm would not strictly be impossible, but clearly extremely difficult and involving a highly constrained scope of business. Wholesale and retail trade are also highly restrictive in Mode 1 (both with a score of 75). Maritime transport also tends to above the national average level of restrictiveness. From a policy perspective, the high restrictiveness scores in transport services bear further attention, given Myanmar's dependence on imports in this sector.

The World Bank STRI database is a useful resource for budding services exporters to Myanmar. To take an example, the database allows us to look at horizontal restrictions on Mode 4 and looking for example for restrictions on repatriation of profits, the database explains that under the Foreign Investment Law of 2012, once Myanmar taxes are paid, there are no restrictions on profit repatriation. Exploring the same matter, but for Mode 3, the database reconfirms there are no restrictions. The data is up to date for Myanmar to 2016.

By comparison with Myanmar, Vietnam ranks as considerably less restrictive with an overall score more than 10 points lower at 48.5. The sensitive sectors, with higher-than-average scores, tend to mirror those of Myanmar, but to apply to narrower sub-sectors or to fewer Modes of Supply. Sectors with prohibitively high scores include host country legal services, life insurance (Mode 1), commercial banking (Mode 1), maritime intermediate auxiliary services (Mode 1) and freight transportation (Mode 1). Other sectors, for which the average score exceeds the national average are air passenger transport (Mode 1 which scores 60) and commercial banking (55.6). Wholesale and retail is just under the national average with 48 - compared with 75 for Myanmar - and the score for professional services is 42.9 - compared with 74 for Myanmar.

Expect a constrained and discriminatory regulatory environment both at the border and behind the border for trade in services, especially in Myanmar. The regulatory environment is more open in Cambodia and Laos but there has been a perceived shift over the last decade to GATS-minus outcomes in their PTA commitments even internally in the AFAS. The negative listing approach in the 2020 ASEAN Trade in Services Agreement should help address this.

Commercial Diplomacy

Chile has an embassy in Hanoi, Vietnam. But Chile's diplomatic accreditation to Laos, Cambodia and Myanmar, like many other countries, is via its embassy in Bangkok, Thailand, which is therefore the key port of call for Chilean businesses seeking on the ground support and information in the CLM. It is relevant to the pursuit of Chile’s commercial diplomacy objectives, to have some awareness of what competing countries might be doing and how.

The Laos capital Vientiane hosts 28 foreign embassies. Apart from other ASEAN members, plus China and India, other APEC members are strongly represented (Australia, Canada, Japan, Russia, Republic of Korea and the United States). The European Representation includes France, Germany, United Kingdom, Luxembourg, and the Holy See. Others represented are Kuwait, Mongolia, North Korea, Turkey and Cuba. Vietnam and Thailand also have Consulates-General in regional centres.

Cambodia’s capital Phnom Penh hosts 25 embassies. In addition to ASEAN members, India, China and the above group of APEC Members, countries with representation include France, Germany, Denmark, Poland, Greenland, Pakistan, Bulgaria and Cuba.

For Myanmar, the city of Yangon hosts 41 embassies. In addition to most of the countries listed for Laos and Cambodia, diplomatic representation includes Bangladesh, Sri Lanka, Brazil, Egypt, Israel, Nepal, Italy, Netherlands, Serbia, Norway, Switzerland, New Zealand, Qatar and Saudi Arabia. The EU and the Taipei Economic and Cultural Office both have a presence. Consulates includes China, India and Bangladesh.

It can be expected of course that all of these missions have commercial diplomacy and bilateral trade development as an explicit part of their mission, in addition to political, strategic, humanitarian and development cooperation objectives as well in some cases cultural, ethnic and religious ties.

Business Networking and Export Promotion

Pro-Chile, Chile’s Export Promotion Bureau under the Foreign Ministry's Directorate General for International Economic Relations, opened an office in Ho Chi Minh City in 2007 and in the same year the Federation of Chilean Industry (SOFOFA) entered into a Cooperation Agreement with the Vietnam Chamber of Commerce (VCCI) in Hanoi. Chile’s FTA with Vietnam came into force in January 2014 and Chile and Vietnam are both parties to the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) which entered into force in 2019.

The VCCI appears to be active in its engagement with its Chilean partners. Its website carries recent news stories promoting for example the launching ceremony in February 2021 of the first entry of Chilean cherries into the Vietnamese market, the first entry of Chilean apples in August 2020 and reports online bilateral discussions in August 2020 between Deputy Minister of Industry and Trade Do Thang Hai and Rodrigo Yáñez Benitez, Under-Secretary for International Economic Relations at the Chilean Ministry of Foreign Affairs, with a view to enhancing economic and trade co-operation between the two nations. This is strong visibility and evidence of close ongoing cooperation at the level of the business community. It helps that the VCCI accepts appropriate bilateral news items for free that can be submitted to them online, including direct from foreign businesses.

The Chile-Thailand FTA came into force in November 2015, the Thai-Chilean Business Council got up and running in Bangkok and a Pro-Chile office was opened. The Thai-Chilean Business Council was established by the Joint Standing Committee on Commerce, Industry and Banking composed of The Board of Trade of Thailand, The Federation of Thai Industries (FTI) and the Thai Bankers' Association. The Facebook page for the Thai-Chilean Business Council itself has 110 followers and it appears not to have met (at least not face-to-face) since April 2019. Nor does the page report any trade mission from Chile since May 2017 when His Excellency Former President, Mr. Eduardo Frei Ruiz Tagle, visited Thailand with a business delegation.[16] A quick look, however, at the most recent news on the website for the key Thai business partner, the FTI, shows that Chile participated in the Thai-Latin America Business Council luncheon in December 2020 and that in the same month the Thai Board of Trade hosted a seminar which the FTI attended on "Chile and Latin America". The FTI's approach to business updates is more formal and ceremonial than that of the VCCI, and perhaps likely to be less useful as a cooperative promotional instrument. Nevertheless, Chile is up there, with other key trading partners, on the FTI homepage.

Importantly, Thailand will host APEC in 2022 and clearly the FTI is already preparing to take on a major support role during that year. As an APEC member, this is a very good time for Chile to intensify its engagement with the FTI and its members, including through the members of the APEC Business Advisory Council and their staffers.

Given that a key objective for Chile is to enter the CLM markets via the more established gateways of Vietnam and Thailand, we note that both the VCCI and the FTI do offer networking opportunities with CLM businesses and official representatives. It is the Chilean Embassy in Thailand which has diplomatic representation in the CLM, but the Pro-Chile office in Ho Chi Minh City nevertheless needs to be engaged also in taking advantages of opportunities to network with CLM businesses visiting Vietnam. For the same reason, it could also be useful to advise those Chilean businesses on the ground in either Vietnam or Thailand to join both the VCCI and the Thai-Chilean Business Council rather than only one or the other.

Bottom line, the question is whether the level of Chilean export promotion activity and online presence and visibility is sufficient to meet the Chilean government's objectives of expanding the trade relationship with ASEAN. The evidence above, and an online comparison with recent export promotion efforts in these same markets on the part of other trading partners,[17] suggests that more not only needs to be done but can be done, especially on line and even with the limited resources already at hand, even short-term during the currently difficult Covid-19 conditions.

---

[16] The Chile-ASEAN Chamber of Commerce website explains there was a second trade mission to ASEAN in May 2018, but does not explain which ASEAN members were involved.

[17] We looked at recent online export promotion, nation branding, webinars, market updates and online tools used by a small sample of APEC members including Australia, Hong Kong, Malaysia, New Zealand and Chile and the International Trade Centre in Geneva. Some have managed to gravitate Buyer/Seller Fairs and Conferences 100% online, others are using hybrid formats and some are continuing in physical format, while some but not all exhibitions at overseas locations are being delayed.

There can never be enough export promotion. More always needs to be done.

In the longer run, as commercial presence in Thailand and Vietnam develops, it will be necessary for the business community to form a bilateral chamber that has greater independence from the FTI and VCCI. It is worth considering the model followed by USCham or on a much smaller scale, AusCham. AusCham has an independent presence in Vietnam and Thailand, but also in all of the CLM. In addition to their websites, AusCham in Cambodia has a very informal Facebook page with 3,000 followers and AusCham Myanmar has as many as 54,000 followers. All of them, in Cambodia, Laos and Myanmar have upcoming both online and face-to-face networking events and business seminars. Austrade, Australia's counterpart to Pro-Chile sometimes sits on the local AusCham Board but not always.

We conclude with the observation that the key data presented on the home page of the Pro-Chile websites for both Ho Chi Minh City and Bangkok should probably be more frequently updated and probably expanded, to be more immediately business-friendly and we hope this report might prove useful in that regard. In the absence of a more active local Chilean business grouping, the Pro-Chile websites might perhaps also include, without first requiring log-ins, additional relevant information such as how to navigate links to the VCCI and FTI and where to find relevant sector-level market intelligence.

In a constructive step forward, the Chile-ASEAN Chamber of Commerce Association was established in Chile in April 2018. Its website provides a useful business-friendly backgrounder and other documents and reports including for Laos, Cambodia and Myanmar. We hope this report might usefully supplement that information base.

The current challenge is to take advantage of the current travel restrictions and reap the ultimate productivity gains of conducting more activities online. For a small economy looking at distant and unfamiliar potential markets, it's the perfect time to try.

CONCLUSIONS

This report establishes that there is a significant opportunity for Chile to both grow and diversify its trade portfolio by deepening its economic ties with ASEAN. Chilean exports to ASEAN in the industries for which Chile holds Revealed Comparative Advantage are an order of magnitude smaller than Chile's exports globally or to China alone as well as relative to ASEAN's imports. This implies that if firms in these established export industries simply focused on capturing equilibrium market share in ASEAN, these export flows could increase by an order of magnitude. Assuming that this extra trade was created rather than diverted from traditional export markets, then this could contribute 2-5% GDP growth for Chile over the long term. It would also make Chile's economy less vulnerable to shocks in the international minerals market or to business cycle dynamics in already large trading partners such as China. Further, as the industries in question are all non-mining, it would help to spread the gains from trade across a wider segment of the Chilean workforce and help it to escape the "resource curse".

ASEAN is a heterogenous market as its members individually display a wide range of structural characteristics and policy stances. This means that Chile's trade with ASEAN can itself be more diversified than with a single homogenous block. The ASEAN member states which are structurally the most like Chile, Brunei, Indonesia and Malaysia, are relatively protectionist but still present significant import demand for Chile's established export industries. Meanwhile ASEANS "Factory Asia" economies - Vietnam, Thailand and the Philippines - have also displayed extreme growth rates for imports from Chilean industries which have not traditionally held Revealed Comparative Advantage, providing opportunities for diversification into new export areas. This is also true of ASEAN's least developed members - Cambodia, Myanmar, Laos and Timor-Leste - though here Chile may uniquely be able to leverage relative advantages in high skills services industries which may not be as competitive globally but are able to serve the needs of these highly idiosyncratic members.

Overall, this report finds that traditional strengths in Agriculture, Chemicals, Food and Tobacco, Hospitality, Metals, Publishing, Transportation, Transport Equipment, Wholesale and Retail and Wood and Paper make increasing exports across all ASEAN members feasible for Chile. This is especially the case for Transport Equipment which thus far has barely gained traction in ASEAN markets at all. In some cases such as Chemicals and Food and Tobacco, achieving growth will require that Chilean firms plug themselves into ASEAN GVCs more and look to sell final products less; this is also a way around numerous protectionist policy constraints especially in the member states in which NTMs have been proliferating such as Thailand and Indonesia. This orientation towards GVC integration is already paying dividends for other emerging export strengths such as Computers and Electronics and Machinery in Vietnam and Thailand. Emerging strengths in the services sector which are best positioned to take advantage of Chile's relative rather than global strengths include Finance and Other Services, which are already taking off in Singapore, Vietnam and Thailand, the perfect gateways to Cambodia, Myanmar and Laos.

Entering those less developed markets, however, requires an understanding of their unique conditions and needs which often in turn requires policy and trade facilitation engagement as trade is inherently linked to development and institutional capacity building in such places. That is not to say that policy constraints do not also bind in the more developed members of ASEAN however, which have shown a tendency toward rather than away from protectionism, mostly through the use of NTMs. Understanding the nature of the restrictions in each member state will inevitably enhance or reduce the viability of a given business model from any of the industries mentioned in a given member state relative to the others, though overall policy considerations steer the bulk of immediate growth opportunities toward the most GVC integrated markets such as Singapore, Vietnam and the Philippines, not least because these are also the gateways to Cambodia and Laos.

REFERENCES

Part 1

Asia Infrastructure Investment Bank (2016). "Latin America and Asia Trade: A future beyond commodities and manufactures", AIIB. 2016. https://www.aiib.org/en/news-events/asian-infrastructure-finance/articles/a02-latin-america-and-asia-trade.html

ASEAN Secretariat. (2015). ASEAN Services Integration Report; A joint Report by the ASEAN Secretariat and the World Bank 100637. 2015 ASEAN Secretariat, Manila.

AUSTRADE. (2020). "ASEAN Update on Novel Coronavirus (COVID_19) for Exporters – Australia", Australian Government, 21 January 2021. https://www.austrade.gov.au/news/covid-19/updates/asean

Baldwin, R.E and Evenett, S. J (eds). (2020). Covid-19 and Trade Policy: Why Turning Inward Won't Work, A VoxEU.org Book, CEPR Press., 2020

Buckley, P and Enderwick. (2020). "Rising regionalization: will the post-COVID-19 world see a retreat from globalization?", Transnational Corporations, Volume 27, Number 2, 2020.

Findlay, C., Kimura, F., Narjoko, D. and Thangavelu, S.M. (2020). "Pandemic (COVID-19) Policy, Regional Cooperation and the Emerging Global Production Network", Asian Economic Journal, Vol 34, Issue 1, 9 June 2020. https://doi.org/10.1111/asej.12198

Miradout, S. "Resilience versus robustness in Global Value Chains: Some policy implications", Chapter 9 in Baldwin, R.E and Evenett, S. J (eds). (2020). Covid-19 and Trade Policy: Why Turning Inward Won't Work, A VoxEU.org Book, CEPR Press. 2020

Munadi, E. (2019). 'Indonesian Non-Tariff Measures: Updates and Insights', in Ha Thi Thanh Doan and S. Rosenow (eds.), *Non-Tariff Measures in ASEAN,* ERIA, Jakarta.

OECD. (2015). Diagnostic of Chile's Engagement in Global Value Chains", OECD, Paris. https://www.oecd.org/chile/diagnostic-chile-gvc-2015.pdf

OECD. (2021). Services Trade restrictiveness Index Update, Country Notes; Malaysia, OECD, Paris. http://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-country-note-mys.pdf

Oxford Economics. (2015). "Non-tariff measures on the automobile industry: Quantifying the impact on the ASEAN economy."

UN COMTRADE Data Set. https://comtrade.un.org

UNCTAD. (2020) TRAINS Database. https://trains.unctad.org

UNCTAD. (2021) World Investment Report 2020 *International Production Beyond in Pandemic*, Geneva 2021.

United States Trade Representative. (2019). "ASEAN 2019". https://ustr.gov/countries-regions/southeast-asia-pacific/association-southeast-asian-nations-asean

World Bank. (2016). Country Partnership Strategy (and associated web updates) https://www.worldbank.org/en/country/chile/overview

WTO/OECD BATIS Data Set. https://stats.oecd.org/Index.aspx?DataSetCode=BATIS_EBOPS2010

WTO/OECD TiVA Data Set. https://www.oecd.org/sti/ind/measuring-trade-in-value-added.htm#access

WTO. (2015). Trade Policy Review: Chile https://www.wto.org/english/tratop_e/tpr_e/tp415_e.htm

Part 2

Asian Development Bank. (2020). Economic Indicators for Southeast Asia and the Pacific: Input-Output Tables, Manila, December 2020. http://dx.doi.org/10.22617/TCS200242-2

Borchert, Gootiiz, Magdeleine, Marchetti, Mattoo, Rubio and Shannon. (2019). "Applied Services Trade Policy: A Guide to the Services Trade Policy Database and Services Trade Restrictions Index", WTO Staff Working Paper (ERSD-2019-14).

International Trade Centre (ITC). 2012. “Services Snapshot; Myanmar”, ITC, Geneva. https://www.intracen.org/uploadedFiles/intracenorg/Content/Redesign/Sector/Global_Services_Network_blog/Myanmar.pdf

OECD. (2021). “The OECD Services Trade Restrictiveness Index: Policy Trends up to 2021”, OECD publishing, Paris.

UNESCAP. (2020). “Asia Pacific Trade and Investment Trends 2020/2021; *Trade in Commercial Services Outlook in Asia and the Pacific”,* United Nations, Bangkok, Dec 2020. https://www.unescap.org/sites/default/d8files/knowledge-products/APTIT%20Commercial%20services_21Dec.pdf

United States Department of Agriculture. (2019) “Food and Agricultural Import Regulations and Standards Report; Indonesia”. Global Agricultural Information Network (GAIN) Report 1841,18 March 2019.

WTO. (2020) *Trade Profiles 2020,* WTO Secretariat, Geneva https://www.wto.org/english/res_e/booksp_e/trade_profiles20_e.pdf

WTO. (2020). “Trade Profiles: Cambodia”, WTO, Geneva https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/KH_e.pdf

WTO. (2020). “Trade Profiles: Myanmar”, WTO, Geneva https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/MM_e.pdf

WTO. (2020). “Trade Profiles: Lao PDF”, WTO, Geneva https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/LA_e.pdf

WTO. (2021). Integrated Trade Intelligence Portal (i-tip) database. http://i-tip.wto.org/services/SearchResultApplied.aspx

WTO. (2021). Tariff Analysis Online (TAO) database.
https://tao.wto.org/welcome.aspx?ReturnUrl=%2f

WTO. (2021). *Services Trade Policy Database and STRI at* https://i-tip.wto.org/services/SearchApplied.aspx

APPENDIX A: COVID-19 IMPACT ON TRADE, INVESTMENT AND GVCS

This report bases its business and policy recommendations on trends in data up until 2019. National collections of trade data for 2020 are not yet reliable; many statistical collection agencies have been obliged to temporarily discontinue some of their trade trends series. It is important, nevertheless, to take into account the impact of Covid-19 on Chile's bilateral trade potential vis-a-vis ASEAN. The best current trade data source is the WTO Secretariat estimates using the WTO/UNCTAD/ITC Data Set.

Merchandise Trade

The WTO is currently projecting a 9.2% fall in the volume of world merchandise trade for 2020, followed by a 7.2% rise in 2021, leaving trade well below its pre-pandemic trend[18]. This is a less prolonged decline in trade than initially forecast. The most recent figures suggest that the rebound that started in the second half of 2020 picked up strength in October and November. The value of global merchandise trade in October 2020 was 3% higher than in October 2019, with a 6% increase year-on-year for the month of November.

Considerable uncertainty nevertheless remains about the strength of the recovery going forward. A resurgence of COVID-19 requiring new lockdowns could shave up to 4 percentage points off the projected trade growth for 2021; similarly if effective vaccines or other medical treatments are made available rapidly, this could add up to 3 percentage points to the pace of trade expansion.

The trade impact of the crisis has differed dramatically across regions. Asia has seen relatively modest declines in merchandise trade volumes; stronger contractions have taken place in Europe and North America.

The latest data for November shows exports increasing for Asia and Europe by 10% and 6% respectively. However, exports were still down 5% in North America and 2% in Latin America and the Caribbean. The recovery remains incomplete: the total value of global merchandise trade between January and November 2020 was 8% below the same period in 2019.

[18] WTO (2021)

Services Trade

WTO estimates[19] suggest that the volume of services trade fell around 27% during the pandemic, with travel and transport-related sectors hit hardest. The latest estimates (released 26 January 2021) show that for the third quarter of 2020 services trade was still down 24% compared to the same period in 2019.

This is a negligible improvement from the 30% year-on-year decline registered in the second quarter and stands in marked contrast to the much stronger rebound in goods trade. Preliminary data suggest that by November 2020, goods trade was only down 5% but services trade was still 16% below 2019 levels. Services exports in November were down 24% in the US, 15% in the UK and more than 20% in many European countries. China's services exports slowed only slightly in N0ovember, as in October.

The WTO considers that prospects for services trade recovery remain poor given the extension of restrictions on travel and related services into the first quarter of 2021.
Unlike goods, services cannot be stockpiled, which means that despite pent-up demand, many of the revenue losses from cancelled flights, holidays abroad, restaurant meals, and cultural/recreational activities could turn out to be permanent. Travel remains the most affected sector, down 68% globally compared with the same period of 2019. In the third quarter of 2020, spending by international travellers was down 88% in Latin America and the Caribbean, 80% in Asia and Africa, 78% in North America and 55% in Europe.

Trade in other services, such as construction, recreational, legal, and financial services, continue to show uneven performance: most sub-sectors have contracted, with computer services a notable exception. With building projects delayed or postponed, global construction exports are down 16% over the year. Audio-visual, artistic and recreational services have also seen double-digit declines (-14%), with US exports down 24% and UK exports cut nearly in half. Legal, management, accounting, and advertising services have seen a slight year-on-year rebound of 1%. Financial services increased 2% globally; in particular the EU’s financial services exports were up 4% year-on-year. Computer services has been the most dynamic sector in the third quarter of 2020, up 9% due to increasing global demand for cloud computing, platforms and virtual workplaces.

Investment Flows

UNCTAD estimates[20] global flows of FDI to have dropped 40% in 2020, from their 2019 to USD1.54 trillion in 2019 to below USD1 trillion for the first time since 2005. FDI is projected to drop a further 5-10% in 2021 and initiate only a slow recovery in 2022.

Despite record FDI inflows in 2019, ASEAN has not been spared the impact of the pandemic. On the contrary, the impact of the pandemic has tended to be intensified in parts of the world with dense interconnections of global and regional value chains and production hubs. Work

---

[19] WTO (2021)
[20] UNCTAD Investment Report (2020)

stoppages in China disrupted the supply chain of many factories in ASEAN: UNCTAD's Investment Report for 2020 expects FDI flows to Developing Asia, normally the growth engine of FDI worldwide, to decline in 2020 by 30-45%.

Automotive manufacturers in Thailand (Mazda, Mitsubishi, Nissan) temporarily halted production. Ford temporarily suspended production in Thailand and Vietnam, Toyota closed plants in Indonesia and Thailand and Nissan is closing a plant in Indonesia.

Electronics factories in Indonesia, Thailand and Vietnam source between 40-60% of parts and components from China and were impacted by supply chain disruptions. The story is similar for apparel, where more than 55% of inputs to factories in Cambodia, Myanmar and Vietnam come from China and temporary closures were triggered by drops in orders from distributors and retailers in Europe and the US.

Greenfield investment in automotive production fell in the first quarter of 2020 by 67% and in computers and electronics by 36%. Greenfield investment projects in Singapore fell by 20%; investment commitments in Indonesia and Vietnam declined 10%. These 3 countries were ASEANs largest FDI recipients, together receiving more than 80% of inflows in 2019. Merger and Acquisition (M&A) sales also dropped, by 87%. Weak corporate earnings of Southeast Asian multinationals and foreign affiliates will further dampen investment. Construction, real estate, hospitality and other services are also significantly affected.

Early indicators for Developing Asia suggest that unlike the rest of the world, the region has actually already initiated an investment recovery. But UNCTAD considers the dependence on GVC-related investment leaves FDI in ASEAN relatively highly exposed given the overall directional trend in international production points to shorter value chains, higher concentration of value-added and declining international investment in physical productive assets.

UNCTAD warns of huge challenges for developing countries where for decades their development and industrialization strategies have depended on attracting FDI, increasing participation and value capture in GVCs, and gradual technological upgrading in international production networks.

On balance, therefore, UNCTAD expects the investment slowdown in ASEAN to be sustained through 2021. Though longer term, UNCTAD considers that countries with low labour cost advantages such as Indonesia and Vietnam are likely to fare relatively better as corporate operations pick back up and geographical diversification of supply chain risks takes place. Relocation of production facilities from East Asia to ASEAN is expected to continue.

UNESCAP notes that one exception to the general downturn in 2020 is the Philippines, where the ICT market is expected to have continued to grow for 2020, driven by the digital transformation initiatives taken by domestic enterprises. UNESCAP[21] finds that 84% of Philippine enterprises increased their ICT budgets in 2020, compared with 66% in the previous

[21] UNESCAP (2020)

year. Cloud-based communication and collaboration services were found to be a key technology area of interest, with 80% of enterprises planning to invest in these platforms during the next 2 years. Philippine enterprises also increased their share in total ICT spending for digital transformation, from 44% to 50% for 2020. This is driven by the need for flexibility and scalability to meet increasing operational efficiency and customer satisfaction This trend of increasing investment in ICT in the Philippines is not limited to the private sector; the government is planning to invest USD941 million to accelerate digital transformation during the pandemic, with nearly half of this being allocated to improving digital connectivity and access. In Thailand, for example, one telecommunications service provider (DTAC), reported an 828% and 215% rise in data traffic used for Zoom and Skype, respectively, between 1 January 2020 and 19 March 2020 alone.

Sustainability of GVCs

We set out above the UNCTAD view that countries heavily engaged in GVCs are the most impacted by the pandemic-generated slowdown. Our literature review reveals, however, some differences of view among the academic experts and the global institutions on the likely impact of the pandemic on countries (such as the ASEAN members) which participate heavily in GVCs.

Recent business surveys[22] show, for example, that many multinational enterprises (MNEs) remain committed to China and GVC diversification is tending to involve a China-plus-ASEAN strategy. For example, Japanese automotive producers are favoring Thailand and Indonesia, machinery MNEs are targeting Vietnam, semiconductor manufacturing is looking to The Philippines and specialist contract assemblers such as Foxconn and Pegatron increasingly commit to Vietnam and Indonesia. This kind of strategy reflects the fact that China's own trade with ASEAN now exceeds its trade with the US or Europe. China's share of ASEAN exports is now about 14% and ASEAN imports just over 20% of total imports from China[23].

Other commentators also debate the UNCTAD view that complex global value chains are necessarily more impacted by the pandemic, due to additional risks and costs related to international trade[24]. Miradout explains in his chapter of the recent book by Baldwin and Evenett that the available evidence – while limited at this stage – does not support such a view. Drawing on the latest WTO/OECD TiVA data base, Miradout claims there is no correlation between the level of fragmentation of production and the severity of the economic impact of COVID-19. WTO and OECD analysis shows the most impacted industries are those relying on the movement of people, such as hotels and restaurants, or passenger transport. UNESCAP estimates[25], for example, that given the intensity of tourism in Cambodia's export profile, GDP will fall as much as 12.3% for 2020. But generally for countries under a lockdown, economic consensus is that the bulk of the impact is through the fall in domestic demand and not international tourism.

[22] Buckley & Enderwick (2020)
[23] Findlay et al (2020)
[24] Miradout (2020)
[25] UNESCAP (2020)

Miradout provides, as an example, the World Bank estimates of the economic impact of COVID-19 on Thailand, an economy deeply integrated in manufacturing GVCs as well as tourism activities. These estimates suggest that for each industry sector, the decrease in output is the consequence of more than one factor; some level of under-utilisation of capital and labor, some increase in international trade costs, and a significant decrease in any activities that involve proximity among people. The level of fragmentation of production is not the only explanatory factor.

Market Intelligence Update: January 2021.

The sample material presented here is drawn from the Australian Trade Commission (AUSTRADE) reporting[26] for **January 2021**. It provides an informative example of the kind of business intelligence/news update provided by regional governments as part of their export promotion toolkit, on a regular basis, free of charge, on-line, to exporters and potential exporters to the ASEAN region. The information is indicative, but alerts businesses to key information which companies can then follow-up.

ASEAN – 6 ASEAN countries have signed onto the ASEAN Customs Transit System (ACTS) to facilitate cross-border transit movement of goods within the ASEAN region. The ACTS links Cambodia, Laos, Malaysia, Singapore, Thailand and Vietnam. The ACTS represents a deeper integration of ASEAN economies and will facilitate greater intra-ASEAN trade and promote the free flow of goods.

Malaysia – Malaysia's worsening COVID-19 infection rates have resulted in reinstatement of lockdowns in 5 states. A new lockdown (Movement Control Order, MCO) imposes a 2-week restriction on mobility and social gatherings while only businesses in essential services are permitted to operate. Restrictions extend to the education industry with teaching online until at least March 2021. Malaysian health officials are signaling a possible extension of the MCO into February and perhaps beyond.

Myanmar – Trade in the first 2 months of FY20/21 was 26% lower compared to the same period the year before, according to World Bank data. The trade deficit widened to USD400 million (compared to USD63 million surplus) in this period, as exports fell at almost twice the rate of imports. Land border trade was particularly hard hit due to the restrictions triggered by the COVID-19 pandemic, with exports decreasing by 41% and imports by 13%.
NB: MILITARY COUP JANUARY 2021.

Philippines – Traditionally a cash society, COVID-19 has fast-tracked the take-up of digital payments in the Philippines. Globe, the country's leading telecommunications company, reported a 150% year-on-year increase in registered users for its GCash mobile money service, and an 8-fold jump in payments. The Philippine central bank is aiming for 50% of all payments to be digital by 2023.

[26] AUSTRADE (2021)

Singapore – Construction contracted 28.5% and services shrank 6.8% in the fourth quarter, while the manufacturing sector grew 9.5%. The growth of the manufacturing sector was supported primarily by output expansions in the electronics, biomedical manufacturing and precision engineering clusters. Foreign companies employing Singaporeans are able to tap into the Jobs Support Scheme that was disbursed from October 2020 with support scheduled to end in March 2021.

Thailand – An ongoing shortage of shipping cargo containers continues to cause delay in the export of goods from Thailand and higher freight costs for business. A COVID-19 resurgence in December 2020 saw lockdowns and restrictions applied across much of Thailand. These include the closure of all schools and lockdown of some provinces. Community transmission has been reported in 58 of Thailand's 77 provinces including Bangkok.

Thailand – Revenue in the tourism industry is forecast to fall by 110 billion Baht in 2021 and consumer spending by 167 billion Baht. This assumes the current outbreak is contained. Unemployment caused by the current COVID-19 outbreak is forecast to be worse than last year, which peaked at 8 million unemployed. The service sector remains the hardest hit, while the auto, food and manufacturing sectors have been somewhat affected.

Vietnam – Vietnam's projected annual economic growth rate is set to rise from 3% in 2020 to 7.8% in 2021, according to Standard Chartered Bank. Growth will be driven by increasing consumption, improving sentiment and accelerating manufacturing. International flights have resumed to Guangzhou, Tokyo, South Korea, Taipei, Phnom Penh and Vientiane. All passengers are required to present virus-free certificates before departure.

Health Services

ASEAN – Online healthcare services have flourished during 2020 lockdowns. This trend is creating opportunities for companies that can provide scalable digital solutions that promote telemedicine.

Indonesia – There is growing demand for skincare products, especially those with natural ingredients. Digital channels have proved popular.

Myanmar – Myanmar has received several major healthcare spending injections to upgrade hospital and healthcare services. Funds include: a USD250 million Asian Development Bank (ADB) loan to help Myanmar respond to COVID-19 by mitigating the impacts on health and livelihoods; an ADB loan of USD30 million for the development of pandemic healthcare services; and an International Development Association loan of USD50 million.

Thailand – The pandemic has fast-tracked solutions that deliver health services through telemedicine. In Thailand, the Samitjev Virtual Hospital created a smartphone app which enables remote patient examinations, diagnoses and treatments through its 380 physicians around the clock. The service is expected to be rolled out to other Asia-Pacific countries.

Thailand – Demand for immunity-boosting supplements is on the rise. However, the Thai Food and Drug Administration categorises most nutraceutical and vitamin supplement products as 'drugs', which means they can only be distributed via registered pharmacies. This limits the capacity for foreign vitamin and supplements companies to take advantage of online channels, and also restricts the sale of such goods via traditional retail.
Infrastructure

Philippines – Roughly 56% of the Philippines' ambitious 'Build' infrastructure program (USD170 billion for 100 road, port and airport projects) is now expected to be completed by 2022 owing to budget re-prioritization. Greater emphasis is being placed on health and digital infrastructure.

Thailand – Multiple infrastructure projects are likely to commence within the next 4 years creating opportunities for foreign companies. These include: a high-speed rail network linking 3 airports, worth AUD10 billion; the Eastern Airport City project at U-Tapao, Rayong, worth AUD13 billion; and phase three of the Map Ta Phut deep seaport development, worth AUD2.5 billion. Of specific interest to potential investors are additional incentives on offer within the special economic zones in the 3 provinces of the Eastern Economic Corridor (EEC). These include corporate income tax exemptions and reductions.

Thailand – Thailand's Transport Ministry will accelerate USD7.4 billion of spending on major road and rail projects. Projects include the expansion of Bangkok's mass transit network, and expressways linking important industrial provinces along the nation's eastern seaboard, highways.

Thailand – A major contract associated with the Thai-Chinese high speed railway from Bangkok to northern Thailand's Nakhon Ratchasima has been signed. The joint venture partners include the State Railway of Thailand, China Railway International Co., and China Railway Design Corporation. The contract covers the rail system, train carriage procurement, the electrical, signaling and communication systems, personnel training, and operations and maintenance works for the proposed 253km rail route.

Agriculture and Food & Beverage

ASEAN – The acceleration of e-commerce continues. A survey by Facebook and Bain & Company reveals that consumers in Southeast Asia bought groceries online almost three times more often this year as compared to 2019. At 40%, Myanmar has the highest percentage of survey respondents in Southeast Asia who say they buy groceries online.

Malaysia – Under current lockdown restrictions, dining-in at restaurants or eateries is not allowed in most of the country with customers only permitted to order takeaway or food delivery. This has a strong impact on food service which impacts importers of foreign products, as food service is the main channel for entry into the market.

Myanmar – Large retailers such as Metro-Wholesale, Makroclick and Citymall have created e-commerce channels. Also there is an increasing number of international food-delivery platforms such as Food Panda and Grab Food, as well as local door-to-door services such as Food2U. This means there are opportunities for basic groceries, horticulture, meat and dairy products. While e-commerce has grown significantly, transactions are still mostly in cash, with payment made upon delivery. This is due to limited digital payments infrastructure.

Singapore – There are reports that sales of imported meat products through e-commerce channels have improved during the COVID-19 period, with a shift in consumer habits towards higher and more frequent purchases online. Wine sellers report extremely robust sales through retail-only channels – even during the circuit breaker period.

Thailand – Importers and food service companies report a rise in beef consumption, in particular among younger demographics. Traditionally, beef is consumed in hospitality venues. Now, more people are buying beef at supermarkets to cook at home. Industry reports say consumers are also experimenting with different meat cuts and types of preparation.

Vietnam – In the first 9 months of 2020, imports of pork topped 90,400 tons, worth AUD292 million. This was largely driven by domestic supply shortages due to African Swine Fever. This represents an increase of 357% in terms of quantity and 460% in terms of value, year-on-year.

Fast moving consumer goods

Vietnam – Consumer spending on fast moving consumer goods (FMCG) has picked up. In the first half of the year, most FMCG categories – except beverages – recorded positive growth. Hygiene, health-boosting products, snacks, and convenient foods experienced robust growth during COVID-19 with hypermarket and supermarkets driving channel growth.

Resources and Energy

Philippines – Energy demand is rising and the only operational gas field in the Philippines will likely be depleted by 2024. The Philippines Government and industry are pursuing options for liquefied natural gas (LNG) imports and the development of associated facilities.

Technology

ASEAN – Demand for innovative agricultural technology (ag-tech) is growing across the region. Australian company FluroSat recently won the Future Food Asia 2020 Award. The company is a full crop- cycle analytics provider delivering reports and alerts on all aspects of crop performance and health. There are opportunities for foreign ag-tech companies across the ASEAN region.

ASEAN – Internet usage across the region has grown by 40 million in 2020, according to the just-released e-Conomy SEA Report by Google, Temasek and Bain & Co. The coronavirus pandemic has accelerated digital adoption particularly in e-commerce, online media and food delivery. E-commerce has risen 63.2% in just 1 year, according to the report. There are growth opportunities in health-tech, fin-tech and ed-tech.

Malaysia – The southern state of Johor will develop a 'digital enclave' in Iskandar Puteri. This will include a comprehensive digital centre. Johor will bolster broadband coverage and re-evaluate its investment policy to cut bureaucratic red tape. Post will identify specific market opportunities once details emerge.

Malaysia – According to local reports, there are opportunities for foreign cyber security companies to assist in tackling newer sophisticated threats such as Advanced Persistent Threats (APTs), which have proliferated over the past few months.

Myanmar – An online export/import registration platform, Tradenet 2.0, went live in November 2020. The Government's aim is to reduce red-tape and facilitate international trade.

Singapore – The corporate venture unit of ST Engineering continues to express keen interest in promising cybersecurity technologies that complement its existing businesses. ST Engineering Ventures will invest in US-based CloudSphere, a cloud management and governance provider.

Philippines – The Philippine's Government is seeking international partnerships to support its shift to distance learning, including in teacher training and curriculum content. The government is also prioritizing digitalization programs across the economy. This may create opportunities for Australian education-technology (ed-tech) companies that specialise in innovation, leadership, entrepreneurship and data management.

Thailand – The country is ramping up promotion of its Bio, Circular and Green Economy plans, which are intended to drive growth from 2021–2026. The new 5-year strategic plan identifies 4 target sectors: farm and food; healthcare and medical services; energy and biochemicals; and tourism and creative economy. The Board of Investment is set to adjust privileges to attract foreign investment.

Thailand – Huawei Thailand is investing AUD21 million to establish a 5G ecosystem innovation center at the headquarters of Thailand's Digital Economy Promotion Agency. The partnership is an important milestone for Thailand as the country positions itself as an ASEAN digital business hub. The center will serve as a sandbox to research 5G innovations and an incubator for 100 Thai SMEs and start-ups over the next 3 years.

Vietnam – Over the past 12 months, Vietnam has remained a top investment destination for technology firms, surpassing Indonesia and Singapore. Factors encouraging continued investment include a robust economy and advantageous shifts in consumer behaviour. Also, since COVID-19, companies have fast-tracked the digitalization of their operations.

Finance and Financial Technology (fin-tech)

Malaysia – According to local reports, there are opportunities for foreign cyber security companies to assist in tackling newer sophisticated threats such as APTs, which have proliferated over the past few months.

Myanmar – The Insurance Business Regulatory Board is further opening the reinsurance sector to overseas participation. This is the latest in a series of Government measures to promote technical know-how and financial capacity, and to improve insurance coverage.

Myanmar – The pandemic is driving Myanmar's cash society toward a digital payment world, allowing everyone to use fin-tech services, regardless of whether they have a bank account. Financial inclusion in the country is projected to increase from the current 45% to 60% by 2023.

Thailand – Thailand's Commerce Ministry intends to remove 3 types of services from 'List 3' of the Foreign Business Act: telecommunications, finance and software development. This means businesses in these sectors will not be required to seek permission from the Foreign Business Commission to operate in Thailand.

Education Technology (Ed tech)

Malaysia – The Ministry of Higher Education Ministry in Malaysia has outlined 6 areas of strategic focus for 2021: Empowering the Education Digitalization Agenda, Enhancing Strategic Collaboration Network, Strengthening Graduates Marketability, Driving Community Well-being, Promoting Institutional Excellence and Enlivening the Spirit of #KPTPrihatin. Capacity building of lecturers in teaching online and hybrid models will continue be an area of opportunity for foreign universities and trainers.

Thailand – Thailand's Eastern Economic Corridor Office will work with government agencies and the private sector to sharpen the skills of more than 8,500 workers in 2021. The EEC Office estimates that more than 475,000 workers will be needed in the next 5 years, including people with the skills required by foreign companies. The government is looking at ways to improve skills to better serve targeted industries, particularly in sectors such as next-generation cars, robotics, medical technology and aviation.

Singapore – Ngee Ann Polytechnic wants new technologies to enable students to ideate and develop prototypes via 3D printing technologies. The polytechnic seeks a partner to move their program to an online space and allow students to 3D print products virtually. This presents an opportunity for Foreign edtech companies to bridge this gap in Science, Technology, Engineering and Mathematics (STEM) education.

Manufacturing and Defence

Thailand – Thailand's Industrial Promotion Department is partnering with universities and the private sector on programs to help small and medium-sized enterprises (SMEs) modernise their manufacturing operations. The aim is to help SMEs develop 'smart factories' in line with the country's Thailand 4.0 policies, and to increase competitiveness.

Thailand – Thailand's government has set a target for electric vehicles to make up 30% (or 750,000 vehicles) of all auto production by 2030. Sales of EVs are expected to double from

2017 to 2019. Companies that invest in Thailand to support the growth and development of electric vehicles are eligible for corporate tax exemptions of up to 8 years.

Thailand – Mitsubishi Motors Thailand will invest AUD575 million in a production facility that will produce 3,000 electric vehicles and AUD310 million on a car spray-painting facility. Thailand's automotive sector is implementing new technologies, including Artificial Intelligence; this is impacting the sector's 2,000 auto-parts makers, which employ half a million workers.

Thailand – The country's electronics and electricals industries boasts a supply chain of more than 2,500 companies. This makes Thailand a regional hub for inputs into sectors such as robotics, medical products and electric vehicles. Investments by domestic and foreign firms has increased since 2019.

Vietnam – There appears to be a trend for global electronics manufacturers to move production to Vietnam. For example, Samsung Electronics will stop producing personal computers in China and shift production to an existing factory in Vietnam to minimize costs. The moves comes as the Japanese Government has begun helping companies to diversify their supply chains**.**

Vietnam – Foxconn has recently opened a factory in Quang Ninh Province to produce displays. With an investment of AUD35 million, the factory will make 20,000 screens each year. Foxconn also plans to expand the project to manufacture a million display screens.

Travel and Tourism

Myanmar – The Directorate of Investment and Company Administration announced temporary relief for companies from resident director requirements. This positive move will assist those foreign companies whose directors have been absent from Myanmar as a result of COVID-19.

Singapore – Singapore has established Safe Travel Lanes with Australia, Brunei, Mainland China, New Zealand and Vietnam for all travellers and all purposes. Singapore also has Reciprocal Green Lanes for business and official travel with Brunei, Mainland China (Chongqing, Guangdong, Jiangsu, Shanghai, Tianjin and Zhejiang), Indonesia, Japan, Malaysia and South Korea. A Reciprocal Green Lane with Germany is expected to be announced soon. Plans to launch a travel bubble between Singapore and Hong Kong have been postponed to 2021 following a spike in Covid-19 cases in Hong Kong.

Thailand – Thailand's Ministry of Tourism and Sports is continuing to explore travel bubble options with low-risk countries. With tourism hard hit, Thailand is looking for options to reopen the country to tourists with some operators reporting they will not survive beyond the end of this year.