



TRENDS IN SOUTHEAST ASIA

ASEAN POST-2025

Reimagining the ASEAN Economic Community

Julia Tijaja, Simon Tay and
Sanchita Basu Das

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FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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ASEAN Post-2025: Reimagining the ASEAN Economic Community

By Julia Tijaja, Simon Tay and Sanchita Basu Das

EXECUTIVE SUMMARY

- ASEAN Economic Community (AEC) building is a long journey. For continued relevance and impact, the AEC must remain dynamic while taking into consideration evolving contexts and emerging opportunities and challenges.
- Notable progress has been made under the two AEC Blueprints (2015 and 2025), particularly in laying down the frameworks for regional economic integration and community building. Nonetheless, gaps remain in implementation, calling for a more streamlined but result-oriented agenda and stronger institutional coordination.
- Today, the AEC is faced with a markedly different context and unprecedented challenges resulting from a poly-crisis, involving geo-economic fragmentation, supply chain restructuring, and climactic changes. Without adjustment, ASEAN's pillar and sector-centric approach can be expected to fall short in effectively responding to these challenges.
- As AEC 2025 enters its final quarter, ASEAN needs to recalibrate its priorities. It also increasingly needs to take a whole-of-community approach to integration, as issues and their solutions are spread across multiple sectors. Furthermore, as it develops the AEC Post-2025 agenda, it needs to strike a balance between ambition and pragmatism, and to support substance with institutions and processes.

ASEAN Post-2025: Reimagining the ASEAN Economic Community

By Julia Tijaja, Simon Tay and Sanchita Basu Das¹

INTRODUCTION

After two and a half decades in the making, since the Asian Financial Crisis, ASEAN has achieved significant progress in its economic cooperation efforts under the ASEAN Economic Community (AEC). The region is now collectively the fifth largest economy and the second largest foreign direct investment (FDI) recipient globally, after the US. At 8 per cent of global exports, it is also a trade powerhouse.

While critics have pointed out stagnating growth in the share of intra-ASEAN trade of around 20 per cent compared to corresponding values for the North American Free Trade Agreement (NAFTA) and the EU which stand at 60 per cent, many ASEAN economies have been successful in integrating into the Northeast Asia value chains. This underlines the fact that any form of regional cooperation among a small number of countries such as ASEAN can facilitate greater trade and investment activities with the global economy. Others have pointed out AEC's perpetual status of "work in progress", which in itself can be considered a positive sign that

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it remains effective and relevant despite the ever-changing context of the global economy.

Since the 1970s, ASEAN Economic Community building has been a dynamic undertaking. It started with industrial cooperation and preferential trade cooperation in its early days; the former did not yield significant results while the latter soon called for a more holistic approach to regional economic integration. This led to the establishment of the ASEAN Free Trade Area in 1992.

However, the first consolidated efforts towards the AEC came only as the region emerged from the Asian financial crisis, in the face of competition in attracting FDI from big economic neighbours such as India and China. Coming together was now essential for ASEAN to offer economies of scale and to be globally competitive.

The commitment to establish the AEC by 2020 was reflected in the 2003 Declaration of ASEAN Concord II. The first AEC blueprint was adopted in 2007,² aimed at establishing the AEC by 2015.³ It had four key characteristics: (i) a single market and production base, (ii) a highly competitive economic region, (iii) a region of equitable development, and (iv) a region fully integrated into the global economy.⁴ After eight years of implementation of the AEC Blueprint 2015, the AEC was formally established in 2015 as part of the ASEAN Community. But that was not the end of the journey. Some of the work was not finished, and new issues must be taken on board.

Accordingly, the AEC Blueprint 2025⁵ was adopted in 2015 to guide AEC's work from 2016 to 2025. Its coverage has been expanded to cover five characteristics:

² With ASEAN Political Security Community and ASEAN Socio-Cultural Community following suit in 2009.

³ ASEAN, "Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015", <https://asean.org/cebu-declaration-on-the-acceleration-of-the-establishment-of-an-asean-community-by-2015/>

⁴ ASEAN, "ASEAN Economic Community Blueprint", <https://www.asean.org/wp-content/uploads/images/archive/5187-10.pdf>

⁵ ASEAN, "ASEAN Economic Community Blueprint 2025", <https://asean.org/book/asean-economic-community-blueprint-2025/>

- (i) A Highly Integrated and Cohesive Economy;
- (ii) A Competitive, Innovative, and Dynamic ASEAN;
- (iii) Enhanced Connectivity and Sectoral Cooperation;
- (iv) A Resilient, Inclusive, People-Oriented, and People-Centred ASEAN; and
- (v) A Global ASEAN.

AEC 2025 is now in its final quarter. The global context it is facing has changed considerably, way beyond the COVID-19 pandemic and its aftereffects. Wars and conflicts, deepening major power rivalry, climate crisis, and supply chain disruption resulting in persistent inflation have led to a poly-crisis. The most evident effect is inward-looking policies and geostrategic considerations thwarting efficiency. This raises questions about AEC's relevance and its future directions.

This *Trends in Southeast Asia* seeks to reimagine the AEC beyond 2025. It starts with a quick survey of AEC 2025, highlighting selected achievements and ongoing key initiatives, and then elaborates on the global poly-crisis and its impact on the AEC. The paper also provides recommendations for immediate focus under the AEC 2025 and reimagines the AEC Post-2025 agenda, both in terms of strategic directions as well as institutions and processes.

AEC 2025: PROGRESS AND ACHIEVEMENTS⁶

The five characteristics outlined in AEC Blueprint 2025 built on the first blueprint and included new issues such as sustainable development, e-commerce, good governance, innovation, and a greater role for the private sector, in line with the emerging demand of digital transformation and more people-centric regional cooperation.⁷

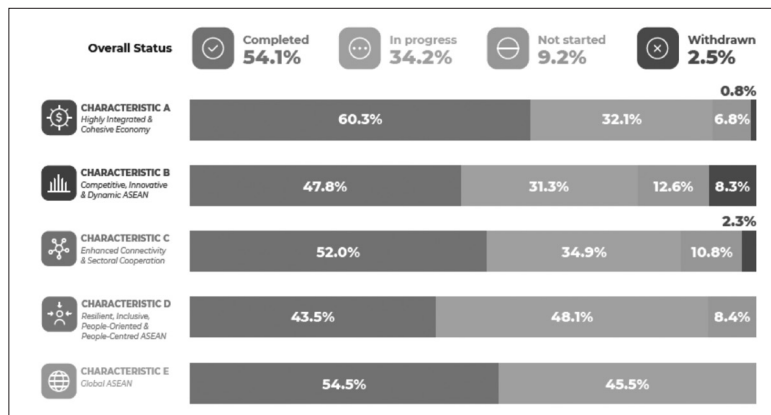
⁶ The discussion on the progress made is based on public sources.

⁷ Sanchita Basu Das, *The ASEAN Economic Community: Myths and Reality* (Singapore: ISEAS – Yusof Ishak Institute, 2016).

According to the Mid-Term Review (MTR) of AEC Blueprint 2025,⁸ covering the period of 2016 to 2020, out of over 1,700 action lines across 23 AEC sectoral work plans, 54 per cent had been completed, 34 per cent were ongoing, 9.2 per cent had not started, and 2.5 per cent had been withdrawn (Figure 1). Completion rates across the five characteristics varied. More updated data, as recently as from December 2023, showed that out of 2,408 action lines, 1,300 have been completed (54.0 per cent), 905 are in progress (37.6 per cent), and 203 are expected to be implemented in 2023–25 (8.4 per cent).

Further details on the broad progress made and outcomes under the five characteristics are presented below.

Figure 1: Mid-Term Implementation Status Across Five AEC Blueprint Characteristics (as of end 2020)



Source: ASEAN Secretariat, “Mid Term Review ASEAN Economic Community Blueprint 2025”, <https://asean.org/wp-content/uploads/2021/04/mid-term-review-report.pdf>

⁸ ASEAN Secretariat, “Mid Term Review ASEAN Economic Community Blueprint 2025”, <https://asean.org/wp-content/uploads/2021/04/mid-term-review-report.pdf>

A. Highly Integrated and Cohesive Economy

This characteristic focuses on enhancing the region's trade and investment and overall competitiveness by liberalizing and facilitating the movement of goods, services, investment, capital, and skilled labour within the region.

Progress

Table 1 shows the key actions completed under this characteristic. A notable achievement is the completion of several trade facilitation measures, including the ASEAN Single Window that connects the National Single Windows (NSW) of the ten ASEAN economies to allow for the electronic exchange of trade-related data and information between them. Besides, the pillar also facilitated services sector development, investment and financing, as well as harmonization of national frameworks and guidelines for movement of people across borders.

Selected Outcomes

In absolute terms, intra-ASEAN trade more than doubled from US\$353 billion in 2007 to US\$856.6 billion in 2022, showing a compound annual growth rate (CAGR) of 6.1 per cent. To ASEAN's credit, this is higher than the global average of around 4 per cent. The total merchandise trade globally went up from US\$14 trillion to US\$25 trillion over the same period. However, ASEAN has long been criticized for achieving a low percentage of intra-regional trade. Over the last decade, this has stood at around 21–25 per cent, comparatively lower than that for the EU, which is at around 60 per cent.

The comparison is not as stark as expected. Looking at ASEAN's intra-regional trade intensity index, the ASEAN figure of 2.7 in 2021, though lower than 3.2 in 2015 is still much higher than 1, implying that the region's intra-regional trade is relatively more important than trade flows with the rest of the world, though with a declining trend (Figure 2). The drop over this period is commensurate with ASEAN's greater integration with the key non-ASEAN partners with whom the grouping has concluded a Free Trade Agreement (FTA), and with the rest of the

Table 1: Selected Initiatives under *Characteristic A*, 2016–22

Policy Area	Initiative/Measure
Goods trade	<p>Guidelines for the Implementation of ASEAN’s Commitments on Non-tariff Measures (NTMs)^a adopted, and the NTM Toolkit,^b endorsed.</p> <p>Signing of and subsequent expansion of essential goods list, done.</p> <p>Simplification of documentary processing, e.g., origin certification and verification procedures, completed.</p> <p>Implementation of the ASEAN-Wide Self-certification (AWSC); launching of the ASEAN Single Window^c (ASW) live electronic exchange of various documents; the ASEAN Customs Transit System (ACTS) live operations; and operationalization of the ASEAN Trade Repository (ATR) as a single information access point and the electronic ASEAN Solutions for Investments, Services, and Trade (ASSIST) platform. Revamping of ASEAN Tariff Finder.^d</p>
Services trade	<p>Negotiations to upgrade the ASEAN Trade in Goods Agreement (ATIGA) are ongoing.</p> <p>Improvement in the guaranteed level of market access and national treatment commitments for trade in services through the negotiated ASEAN Framework Agreement on Services (AFAS) packages.</p> <p>Entry into force of the ASEAN Trade in Services Agreement (ATISA).</p> <p>Conclusion of negotiations for the ASEAN Services Facilitation Framework in 2023.</p>
Investment Environment	<p>Signing of four protocols to amend the ASEAN Comprehensive Investment Agreement (ACIA) and provide clarity on the modification and improvement of investment commitments.</p>
Financial Integration, Inclusion, and Stability	<p>Implementation of the ASEAN Banking Integration Framework (ABIF) under the 9th package of AFAS.</p>

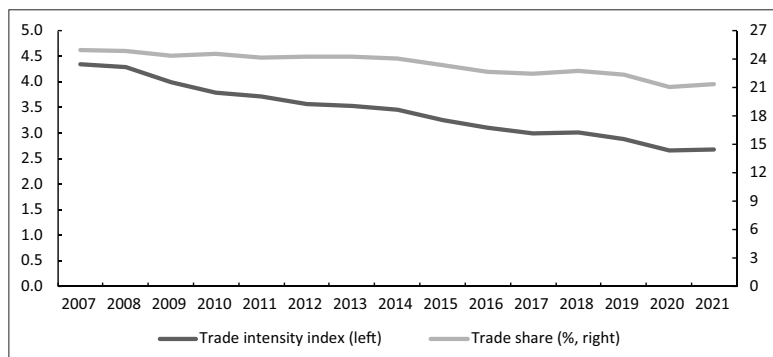
	<p>Inclusion of Annex on Financial Services under the ASEAN Trade in Services Agreement</p> <p>Entry into force of the amended Chiang Mai Initiative Multilateralization (CMIM) Agreement that increases the IMF-delinked portion from 30 per cent to 40 per cent, institutionalizes the use of members' local currencies, and lays the foundation of the new CMIM reference interest rate to replace the London Interbank Offer Rate (LIBOR).</p> <p>Finalization of the ASEAN Payments Policy Framework for Cross-Border Real Time Retail Payment Systems and its Implementing Guidelines and the endorsement of the Guidelines on ASEAN Local Currency Settlement Framework.</p> <p>Adoption of the ASEAN Green, Social and Sustainability Bond Standards, the Roadmap for Sustainable Capital Markets, and the ASEAN Taxonomy for Sustainable Finance (versions 1^e and 2^f).</p>
<p>Mobility of Skilled Workers</p>	<p>Establishment of the ASEAN Qualification Reference Framework (AQRF) Committee that is responsible for assessing referencing reports submitted by participating member states; and launching of the second revision of the Referencing Guideline to the AQRF.</p>

Notes:

- a. ASEAN, “Guidelines for the Implementation of ASEAN Commitments on Non-Tariff Measures on Goods”, <https://asean.org/wp-content/uploads/2022/03/Guidelines-for-the-Implementation-of-ASEAN-Commitments-on-Non-Tariff-Measures-on-Goods.pdf>
- b. ASEAN, “Non-Tariff Measures Cost Effectiveness Toolkit: Handbook for ASEAN”, [https://asean.org/book/non-tariff-measures-cost-effectiveness-toolkit/](https://asean.org/book/non-tariff-measures-cost-effectiveness-toolkit-handbook-for-asean-adapted-from-unctads-non-tariff-measures-cost-effectiveness-toolkit/)
- c. ASEAN, “ASEAN Single Window”, <https://asw.asean.org/>
- d. ASEAN, “Online Platform on ASEAN Tariff Finder for Traders is launched”, 19 August 2023, <https://asean.org/online-platform-for-traders-asean-tariff-finder-is-launched/>
- e. ASEAN, “ASEAN Taxonomy for Sustainable Finance”, <https://asean.org/book/asean-taxonomy-for-sustainable-finance/>
- f. ASEAN, “ASEAN Taxonomy for Sustainable Finance Version 2”, <https://asean.org/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf>

Sources: Authors' compilation from multiple sources.

Figure 2: Intra-ASEAN Trade



Notes: Trade intensity index is the ratio of trade share of a country/region to the share of world trade with a partner. An index of more than one indicates that the trade flow between countries/regions is larger than expected given their importance in world trade. Trade share is the percentage of trade with a partner to total trade of a country/region. A higher share indicates a higher degree of integration between partner countries/regions.

Source: ADB Asia Regional Integration Center database.

world. Additionally, the persistently low share of intra-ASEAN trade may also partly be explained by the region’s multilateral liberalization efforts, which have propelled overall trade. Moving forward, what matters more when promoting intra-ASEAN trade are through factors other than preferences, such as non-discriminatory reduction of non-tariff barriers, as well as more coherent and interoperable rules and regulations.⁹

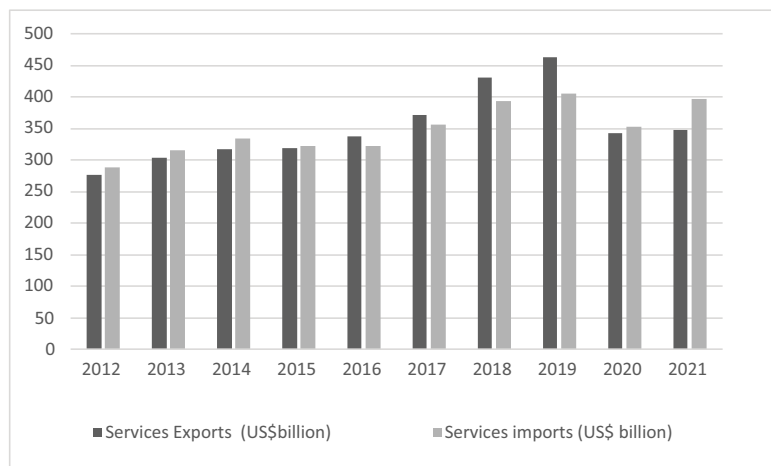
ASEAN trade in services is on a positive trajectory, growing at an average rate of 3.2 per cent year on year in 2022, albeit with some disruption observed during the COVID-19 pandemic years due to

⁹ Jayant Menon, “Using Regionalism for Globalisation: The ASEAN Way”, ISEAS Economics Working Paper No. 2021-2, February 2021, <https://www.iseas.edu.sg/wp-content/uploads/2021/01/ISEASEWP2021-2Menon.pdf>

restrictions on cross-border mobility. Services exports went up from US\$276 billion to US\$348 billion between 2012 and 2021, while services imports grew from US\$288 billion to US\$397 billion over the same period (Figure 3). While starting from a low base, the services trade has been growing robustly compared to trade in goods, and—for now—is less affected by supply chain disruptions. Much of this growth has been driven by digitally enabled services.

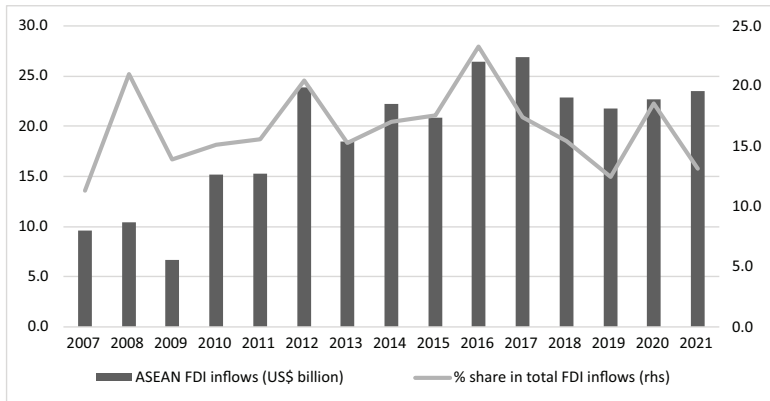
Intra-ASEAN FDI shows another trend. On an absolute basis, ASEAN saw an increase in total FDI inflows from US\$84 billion to US\$225 billion during the 2007–22 period, which also witnessed the share of intra-regional FDI increasing from 11 per cent to 13 per cent (Figure 4). The high intra-ASEAN share of 19 per cent in total ASEAN FDI inflows in 2020 during the COVID-19 pandemic reflects the importance of regional integration since it can act as an offsetting factor in economic downturns.

Figure 3: ASEAN Services Trade



Source: ASEAN Secretariat, *ASEAN Statistical Year Book 2022*, <https://www.aseanstats.org/publication/asyb2022/>

Figure 4: ASEAN Inward FDI Investment



Source: ASEAN Yearbook of Statistics, various issues.

B. A Competitive, Innovative, and Dynamic ASEAN

This characteristic focuses on improving ASEAN’s productivity through domestic reforms in competition policy; consumer protection; innovation and intellectual property laws; and the strengthening of regulatory practices. The objective is to have more coherent policies across member countries to enhance the region’s overall competitiveness and deepen participation in global value chains (GVC).

Progress

Since 2016, ASEAN members have established several cooperation platforms for information exchange and for securing consensus on standards and regulatory practices (Table 2).

Selected Outcomes

ASEAN has progressed well in some aspects of this characteristic, though differences in depth and scope exist across countries. On competition policy, the commitment for economies to be more market-based and

Table 2: Selected Initiatives under Characteristic B, 2016–22

Policy Area	Initiative/Measure
Competition policy	<p>Adoption of competition policy in all ASEAN member states.</p> <p>Establishment of the ASEAN Competition Enforcers' Network, which is a platform for cooperation on cross-border issues.</p> <p>Updating of the ASEAN Regional Capacity Building Roadmap 2021–25; Development of the ASEAN Investigation Manual on Competition Policy and Law (CPL) for the Digital Economy.</p> <p>Launch of negotiations for ASEAN Framework Agreement on Competition in 2022.</p>
Intellectual property	<p>Establishment of the ASEAN Network of Intellectual Property (IP) Enforcement Experts to strengthen enforcement and coordination.</p> <p>Expansion of the ASEAN Patent Examination Cooperation (ASPEC) programme to include the ASPEC Acceleration for Industry 4.0 Infrastructure and Manufacturing (ASPEC AIM) and the Patent Cooperation Treaty-ASPEC (PCT-ASPEC) for swifter patent protection process.</p> <p>Establishment of the ASEAN IP Academy virtual platform and the ongoing development of the ASEAN Common Guidelines on Patent Examination.</p>
Consumer protection	<p>Completion of the ASEAN High-Level Principles on Consumer Protection and institutionalization of the ASEAN Consumer Association Network (ACAN) to build trust in ASEAN products.</p> <p>Development of the Sustainable Consumption Toolkit, ASEAN Online Dispute Resolution (ODR) Guidelines,^a Guidelines on Consumer Protection in E-commerce, and ASEAN Consumer Impact Assessment (CIA) Guidelines.</p>
Taxation	<p>Identification of priority areas of cooperation relating to the issue of base erosion and profit shifting.</p> <p>Discussion on dual taxation agreement is ongoing.</p>

continued on next page

Table 2 — cont'd

Policy Area	Initiative/Measure
Good Regulatory practices	Endorsement of the ASEAN Core Principles of Good Regulatory Practices (GRP) ^b and adoption of ASEAN Handbook on GRP. ^c
Innovation and Technology Commercialization	Adoption of the Consolidated Strategy on the Fourth Industrial Revolution (4IR). ^d
Sustainable economic development	Adoption of the Framework of Circular Economy for the AEC ^e and development of its implementation plan. Endorsement of ASEAN Strategy on Carbon Neutrality. ^f

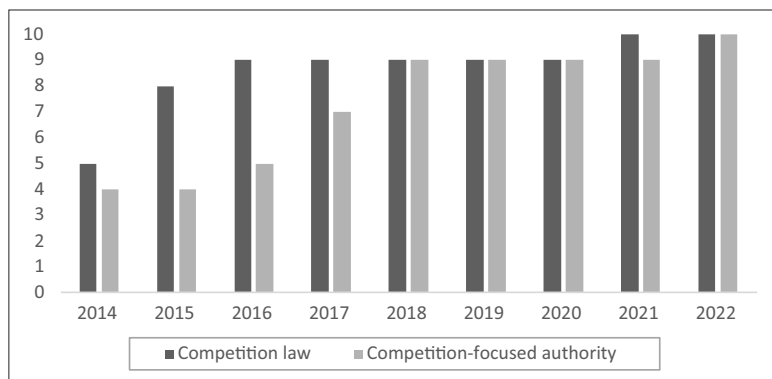
Notes:

- a. ASEAN, “ASEAN Guidelines on Online Dispute Resolution”, <https://asean.org/wp-content/uploads/2022/04/ASEAN-ODR-Guidelines-FINAL.pdf>
 - b. ASEAN, “ASEAN Good Regulatory Practice Core Principles”, <https://asean.org/wp-content/uploads/2020/12/Adopted-ASEAN-Good-Regulatory-Practice-GRP-Core-Principles.pdf>
 - c. ASEAN, “ASEAN Handbook on Good Regulatory Practice”, <https://asean.org/book/asean-handbook-on-good-regulatory-practice/>
 - d. ASEAN, “Consolidated Strategy on the Fourth Industrial Revolution for ASEAN”, <https://asean.org/wp-content/uploads/2021/10/6.-Consolidated-Strategy-on-the-4IR-for-ASEAN.pdf>
 - e. ASEAN, “Framework for Circular Economy for the ASEAN Economic Community”, <https://asean.org/wp-content/uploads/2021/10/Brochure-Circular-Economy-Final.pdf>
 - f. ASEAN, “ASEAN Strategy for Carbon Neutrality”, <https://asean.org/wp-content/uploads/2023/08/Brochure-ASEAN-Strategy-for-Carbon-Neutrality-Public-Summary-1.pdf>
- Source:* Authors’ compilation from multiple sources.

competition-driven has deepened in recent years. The number of ASEAN economies with competition laws has risen from five to ten between 2014 and 2022. Similarly, the number of economies with a competition-focused authority rose from four to ten, albeit the extent of mandates and degree of independence can vary (Figure 5). ASEAN is also advancing its work on consumer protection in e-commerce space as the importance of digitalization in commerce grows.

On innovation, the World Intellectual Property Organization Global Innovation Index (GII) in 2021 indicated that some ASEAN economies like Singapore and Malaysia can be competitive with the rest of the world, but other ASEAN economies continue to play catch up.¹⁰ ASEAN

Figure 5: Number of ASEAN Economies with Competition Laws and Competition-Focused Authorities



Source: Authors based on ASEAN Secretariat Competition Policy in ASEAN database, <https://www.asean-competition.org/>, and national sources.

¹⁰ World Intellectual Property Organization (WIPO), *Global Innovation Index 2022: What Is the Future of Innovation-Driven Growth?* (Geneva: WIPO, 2022), wipo.int/edocs/pubdocs/en/wipo-pub-2000-2022-en-main-report-global-innovation-index-2022-15th-edition.pdf

economies like Thailand, the Philippines, and Vietnam are deemed to be over-performers for their level of economic development (Figure 6).

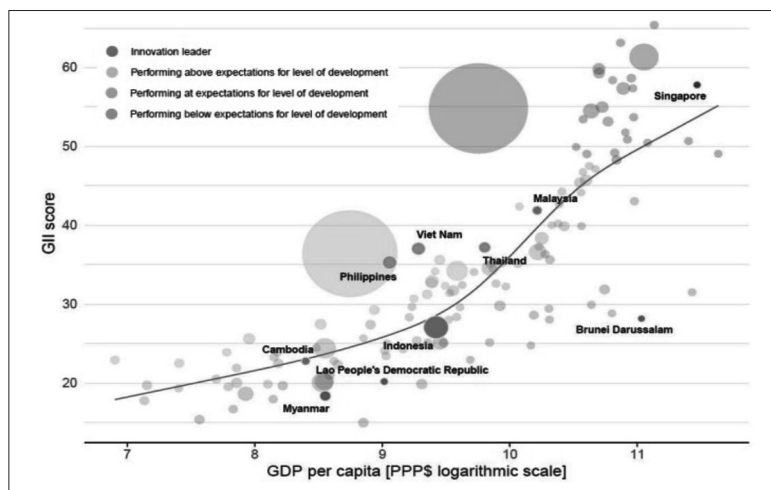
C. Enhanced Connectivity and Sectoral Cooperation

This characteristic focuses on enhancing cooperation and connectivity in various sectors, and in its most recent phase, also gives due consideration to digital cooperation.

Progress

AEC has made progress in both deepening and expanding its sectoral cooperation. In recent years, there has been a growing focus on improving

Figure 6: Global Innovation Index and GDP per capita



Notes: GDP = gross domestic product. GII = global innovation index. PPP = purchasing power parity.

Source: Authors' illustration using World Intellectual Property Organization (WIPO), *Global Innovation Index 2022: What Is the Future of Innovation-Driven Growth?* (Geneva: WIPO, 2022), wipo.int/edocs/pubdocs/en/wipo-pub-2000-2022-en-main-report-global-innovation-index-2022-15th-edition.pdf

connectivity, both hard and soft, and accelerating digital transformation and sustainability mainstreaming. Table 3 provides details of the selected initiatives pursuant to the objectives of enhanced connectivity.

Selected Outcomes

On digital connectivity, access to digital tools and services has considerably broadened in the last decade in ASEAN (Figure 7). However, the digital divide remains, within and across ASEAN member states. The cost of fixed broadband data has also not declined as significantly as for mobile data.

The rise of digital marketplaces, supported by digital infrastructure and patronage, helps facilitate the flow of goods and services within and across borders. However, they also carry a host of issues posing risks to areas such as cybersecurity, data privacy and protection, and market competition. Not all ASEAN economies are equipped to address these issues. Regulatory frameworks for data safeguards across ASEAN economies are likewise uneven.¹¹

ASEAN has progressed well in promoting international tourism. During 2007–19, international travellers to ASEAN increased at an average rate of 5.7 per cent per annum from 62 million visitors to 142 million, of which, intra-ASEAN flows constituted around 40 per cent of the total. In 2020, however, this was significantly affected by the pandemic and has not fully recovered.

In addition, across different areas of cooperation from food, agriculture and forestry, transportation, energy, minerals, to tourism, there are increasing activities and initiatives that mainstream sustainability

¹¹ Sithanoxay Suvannaphakdy, “Enabling Domestic Data Flows for E-Commerce in ASEAN Countries”, *ISEAS Perspective*, no. 2022/32, 4 April 2022, <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2022-32-enabling-domestic-data-flows-for-e-commerce-in-asean-countries-by-sithanoxay-suvannaphakdy/>

Table 3: Selected Initiatives under Characteristic C, 2016–22

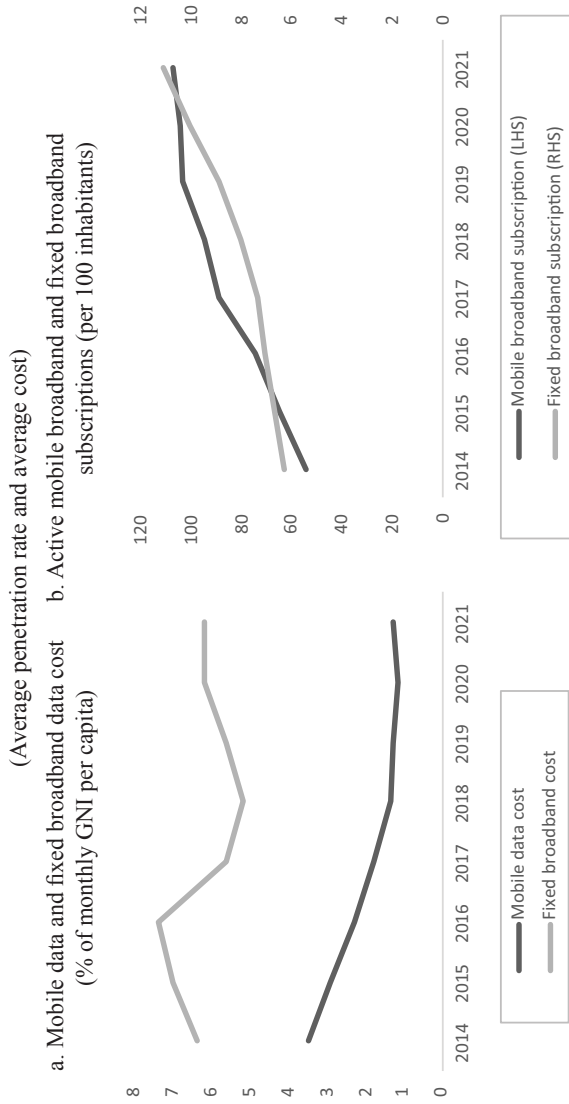
Policy Area	Initiative/Measure
ICT and broader digital connectivity	Transformation of ASEAN Telecommunications and Information Technology Senior Officials Meeting (TELSOM) and ASEAN Telecommunications and Information Technology Ministers Meeting (TELMIN) into ASEAN Digital Senior Officials Meeting (ADGSOM) and ASEAN Digital Ministers Meeting (ADGMIN). Launching of ASEAN Digital Masterplan 2025.
Data cooperation	Adoption of ASEAN Framework on Digital Data Governance, ^a ASEAN Model Contractual Clauses for Cross Border Data Flows. ^b
E-commerce and broader digital economy	ASEAN Agreement on E-Commerce ^c and its work plan for implementation. ^d Adoption of the ASEAN Digital Integration Framework ^e in 2018 and its action plan in 2019. Adoption of the Bandar Seri Begawan Roadmap: An ASEAN Digital Transformation Agenda to Accelerate ASEAN’s Economic Recovery and Digital Economy Integration in 2021, when the idea of ASEAN Digital Economy Framework Agreement (DEFA) was first introduced. Though more for the broader digital economy than just e-commerce, a key outcome in 2023 was the accelerated commencement of ASEAN DEFA negotiations ^f and endorsement of its framework for negotiations. ^g
Transport	Establishment of ASEAN Open Skies. Completion of the ASEAN-EU Comprehensive Air Transport Agreement (AE CATA), the world’s first bloc-to-bloc air transport agreement. Adoption of ASEAN Sustainable Aviation Action Plan (ASAAP) and its Work Plan 2023–2024.

Food Agriculture and Forestry	Five-Year Regional Plan of Action on Combating Antimicrobial Resistance (AMR) in Aquaculture. ASEAN Guidelines on the Utilization of Digital Technologies for ASEAN Food and Agricultural Sector.
Energy	Completion of the ASEAN Joint Declaration on Energy Transitions and Energy Security Early achievement of the target to reduce energy intensity by 20 per cent in 2020 (21 per cent by 2018) and now work towards a new target of 32 per cent by 2025, and for 23 per cent of renewable energy in its energy mix by 2025.
Minerals	ASEAN Minerals Database and Information System.
Tourism	ASEAN Tourism Investment Program Portfolio, ASEAN Tourism Marketing Strategy, and ASEAN Declaration on Digital Tourism. Launch of ASEAN Framework for Sustainable Tourism Development in the Post COVID-19 Era. ^h

Notes:

- a. ASEAN, “ASEAN Framework on Digital Data Governance”, https://asean.org/wp-content/uploads/2012/05/6B-ASEAN-Framework-on-Digital-Data-Governance_Endorsedv1.pdf
 - b. ASEAN, “ASEAN Model Contractual Clauses for Cross Border Data Flows”, https://asean.org/wp-content/uploads/3--ASEAN-Model-Contractual-Clauses-for-Cross-Border-Data-Flows_Final.pdf
 - c. ASEAN, “ASEAN Agreement on Electronic Commerce officially enters into force”, 3 December 2021, <https://asean.org/asean-agreement-on-electronic-commerce-officially-enters-into-force/>
 - d. ASEAN, “Work Plan on the Implementation of ASEAN Agreement on Electronic Commerce”, <https://asean.org/book/work-plan-on-the-implementation-of-asean-agreement-on-electronic-commerce/>
 - e. ASEAN, “ASEAN Digital Integration Framework”, <https://asean.org/wp-content/uploads/2020/12/Adopted-ASEAN-Digital-Integration-Framework.pdf>
 - f. ASEAN, “Leaders’ Declaration on the Development of ASEAN Digital Economy Framework Agreement”, https://asean.org/wp-content/uploads/2023/09/Leaders-Statement-DIGITAL-ECONOMY-FRAMEWORK-AGREEMENT_tv.pdf
 - g. ASEAN, “Framework for Negotiating ASEAN DEFA”, https://asean.org/wp-content/uploads/2023/09/Framework-for-Negotiating-DEFA-ENDORSED_23rd-AECC-for-uploading.pdf
 - h. ASEAN, “ASEAN Launches Framework on Sustainable Tourism Development Post-COVID-19”, 23 January 2023, <https://asean.org/asean-launches-framework-on-sustainable-tourism-development-post-covid-19/>
- Sources:* Authors’ compilation from multiple sources.

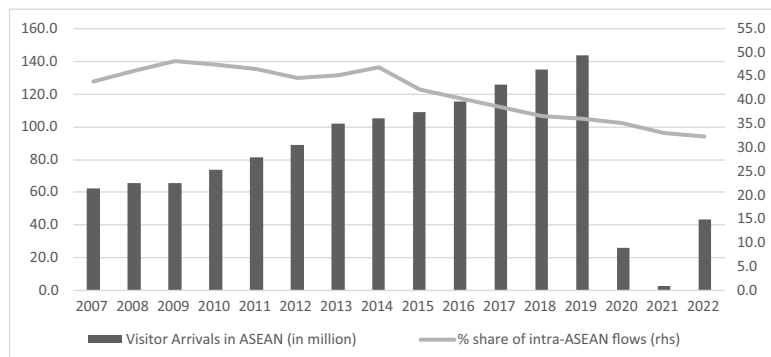
Figure 7: Mobile Data and Fixed Broadband Data in ASEAN



Notes: LHS = left-hand scale; RHS = right-hand scale.

The values refer to the unweighted averages of country ratios. Mobile data cost refers to data-only mobile-broadband basket 2GB (percentage of monthly GNI per capita). Fixed broadband cost refers to fixed-broadband basket 5GB (percentage of monthly GNI per capita). The Philippines is excluded from the calculation of the average mobile broadband subscription per 100 inhabitants given that the available time series data have gaps. For Myanmar, the fixed broadband subscriptions per 100 inhabitants in 2014 are assumed to be the same as 2015.

Figure 8: ASEAN Tourist Arrival and Intra-ASEAN Flows



Source: ASEAN Yearbook of Statistics (various issues).

considerations. All these will contribute to ASEAN’s vision of a carbon-neutral economy, as alluded to in the previous characteristic.

D. A Resilient, Inclusive, People-Oriented, and People-Centred ASEAN

This penultimate characteristic addresses the core objective of ASEAN to lower inequality and narrow development gaps within and across member countries, while achieving equitable economic development.

Progress

ASEAN economies have rolled out several initiatives focusing on MSME development, including those in the agriculture sector (Table 4).

Selected Outcomes

ADB (2023)¹² highlights that there are many areas—such as human development and education—where ASEAN has observed improvement, narrowing the gap among ASEAN members. There is also upward income convergence until the emergence of COVID-19, as the ratio of

¹² Asian Development Bank, *Narrowing the Development Gap: Follow up Monitor of the ASEAN Framework for Equitable Economic Development* (Manila: ADB, 2023), <https://www.adb.org/sites/default/files/publication/884656/narrowing-development-gap-asean-framework.pdf>

Table 4: Selected Initiatives under Characteristic D, 2016–22

Policy Area	Initiative/Measure
MSMEs	Launching of the ASEAN Mentorship for Entrepreneurs Network (AMEN) Launch of ASEAN SME academy. Launch of ASEAN Access, ^a a one-stop business information gateway for international-oriented businesses to expand their market outreach within the ASEAN and beyond.
	Framework for MSME Financial Accessibility and Inclusivity, ASEAN Business Framework and Guidelines, Policy Toolkit on Integrating Provisions Focused on Women Entrepreneurship in ASEAN.
	Adoption of the ASEAN Framework Support Food, Agriculture and Forestry Small Producers, Cooperatives and Micro, Small, and Medium-Sized Enterprises (MSMEs) to Improve Product Quality to Meet Regional/International Standards and Ensure Competitiveness.

Note: The information is as of June 2022.

a. ASEAN, “[LAUNCHED] One-Stop SME Information Portal Connecting ASEAN Businesses and Beyond”, 16 June 2021, <https://asean.org/launched-one-stop-sme-information-portal-connecting-asean-businesses-and-beyond/>

Sources: Authors’ compilation from multiple sources.

the gross domestic product per capita of ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) to the four other members (Cambodia, Laos, Myanmar, and Vietnam, i.e., CLMV), declined from 3.4 in 2000 to 2.1 in 2019, and further to 2.0 in 2020. However, areas of concern remain. For example, while access to finance has improved, the share of individuals with an account in a financial institution remains less than half, e.g., Cambodia (33 per cent), and Laos (37 per cent). Unemployment rates remain a concern, particularly for the youth aged 15 to 24.

E. A Global ASEAN

This last characteristic reiterates that ASEAN's engagement with external economies contributes to its community-building agenda, with most of the deeper engagements still pursued through FTAs.

Progress

There are currently six ASEAN+1 FTAs in force as well as the Regional Comprehensive Economic Partnership (Table 5). A potential agreement with Canada is presently being negotiated, while the one with the EU remains in the pipeline.

The signing and the entry into force of the Regional Comprehensive Economic Partnership (RCEP) Agreement in 2020 and 2022, respectively, is perhaps ASEAN's flagship achievement in its external engagement strategy. As the world's biggest trade agreement, involving ten ASEAN economies and five FTA partners—Australia, New Zealand, PRC, Japan and South Korea—it is estimated that by 2030, RCEP will increase the income of member economies by 0.6 per cent while adding US\$245 billion and 2.8 million jobs to the regional economy.¹³ RCEP helps to entrench ASEAN centrality and position the region as a production hub. It also helps provide certainty, include new issues and offer a platform for future discussions and improvements.

ASEAN's external economic relations strategy has so far been focused on FTAs, which are periodically reviewed and upgraded. In addition, ASEAN also has trade and investment or similar work programmes with its partners, including non-FTA partners. However, it has not managed to secure FTA arrangements with some key markets, notably the US and the EU.

¹³ Cyn-Young Park, Peter A. Petri, and Michael G. Plummer, "Economic Implications of the Regional Comprehensive Economic Partnership for Asia and the Pacific", ADB Economics Working Paper Series, no. 639, October 2021, <https://www.adb.org/sites/default/files/publication/740991/ewp-639-regional-comprehensive-economic-partnership.pdf>

Table 5: ASEAN Plus 1 FTAs

ASEAN FTA	AFTA 1992 – ATIGA 2010. ATIGA is being upgraded for substantial conclusion by end 2024. AFAS 1996 – ATISA 2021. ACIA 2012 – amended for improvements, 4th protocol in 2020, 5th protocol underway. AMNP 2016 – amended for adoption of common format, signing underway since 2022.
ASEAN-China FTA	Framework agreement implemented since 2003. ACFTA since 2005. Upgrading underway, substantial conclusion by 2024. Expected to include new areas such as digital economy, green economy, supply chain connectivity, competition, consumer protection, and MSMEs. ^a
ASEAN-India FTA	Entered into Force (EIF) in 2004. “Review” is underway for ATIGA. Need mutual understanding of review. To substantially conclude by 2025.
ASEAN+ROK FTA	EIF in 2006 (framework, followed by TIG TIS INV). Ongoing discussions for an upgrade.
AJCEP	EIF in 2008. Has been upgraded (services, movement of natural persons, and rules of origin) and EIF in 2020.
AANZFTA	EIF in 2010. Substantial conclusion in 2022. Upgrading now concluded and signing is underway. The upgraded AANZFTA addresses supply chain resilience through amendments to trade in goods and services chapters and includes new chapters: government procurement, MSMEs, and trade and sustainable development.
ASEAN-Hong Kong FTA	EIF in 2019.
RCEP	EIF in 2022. RCEP Support Unit being established as part of ASEAN Secretariat and as an interim arrangement.
ASEAN+Canada FTA	Negotiations ongoing, substantial conclusion targeted by 2025.

Note:

a. ASEAN, “ASEAN, China Announce ACFTA Upgrade”, 13 November 2022, <https://asean.org/asean-china-announce-acfia-upgrade/>

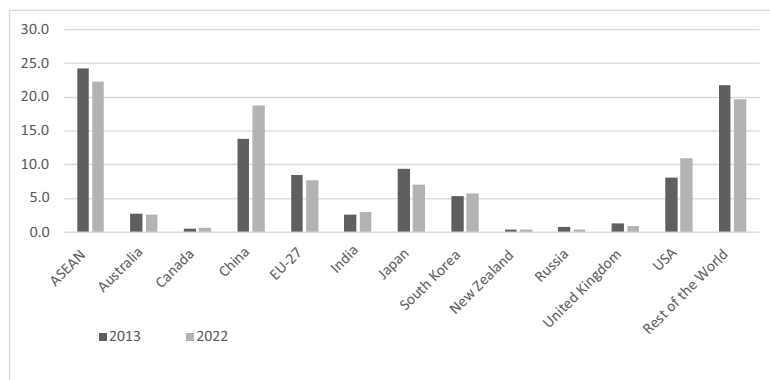
Source: Authors’ compilation.

Outcome

The impact of these FTAs and trade and investment work programmes has been mixed. While in terms of value, ASEAN has significantly increased its trade over the past decade, including with various FTA partners, Figure 9 shows no clear pattern of increase in the share of ASEAN's Trade with each other or with all FTA partners, with the exception of China, and a slight increase for South Korea. The share of trade with the US has also increased, although US is not an FTA partner of ASEAN and only has bilateral FTA with Singapore among ASEAN economies. It is challenging to conclude further without data on FTA utilization. Moving forward, ASEAN may also need to consider other innovative instruments for deepening its external economic relations beyond FTAs, including through sectoral and other thematic cooperation.

ASEAN's economic cooperation remains a work-in-progress. While there are noticeable achievements, much has yet to be accomplished in terms of impact. ASEAN's main success is to get all ten economies at different levels of development and economic structures to work together towards collective regional growth and resilience, and to respond to issues of globalization while managing their domestic interests. As the

Figure 9: Share of ASEAN's Trade with Its FTA Partners and the Rest of the World



Source: ASEAN Yearbook of Statistics, 2023.

context of globalization changes and new opportunities and challenges emerge, the nature of regional cooperation also needs to evolve.

This leads to the second part of the paper exploring current issues in the global economy that will define the next phase in ASEAN's regional cooperation.

ADDRESSING THE GLOBAL POLY-CRISIS

The world is currently confronting a “poly-crisis”, a situation of multiple and overlapping crises and rising complexity. We can frame this in terms of three major shifts: First, geo-economic fragmentation; second, the end of the primacy of efficiency in international production networks; and lastly, the urgent call for green transition and sustainability. These changes come amidst underlying trends of digitalization and automation, concerns over rising inequality, and renewed emphasis on inward-looking policies.

This section provides an overview of how these shifts have caused structural changes in certain key dependencies and argues for a consolidated ASEAN response to the poly-crisis, specifically, through understanding how the poly-crisis results in greater impetus for ASEAN's integration, now and in the future.

Geo-economic Fragmentation

The role of the US as a security guarantor and proponent of markets and rules-based globalization is changing. This relates not only to the rise of China as a global competitor, but to shifts within the US itself. The juncture can be marked by the tariffs imposed on China in 2018 by then President Trump. This has continued under President Biden and has become more complex with restrictions on critical goods and technology, investment, and discriminatory subsidies. What was termed “decoupling” has shifted to “de-risking”, but semantics aside, the intention is clearly different from the previous emphasis on globalization. This is mirrored in other countries too as these pursue their own strategic interests more openly and assertively, citing “security” concerns.

The trends of decoupling and fragmentation in economics interplay with shifts in geopolitical, economic and security dynamics in the region.

Among others, this has led to novel approaches to economic and strategic issues, for example, Biden’s initiative for an Indo-Pacific Economic Framework that aims to bring together countries in the Indo-Pacific region on issues such as green transition, clean economy and supply chains, without typically offering market access.

Supply Chain Resilience and Restructuring

Underlying this is a shift of focus from supply chain efficiency to resilience. This is driven by a range of concerns that have disrupted global supply chains on an unforeseen and unprecedented scale, ranging from COVID-related restrictions, to an increase in wars and conflicts, and climate-related disruptions. Rather than “just-in-time”, “just-in-case” is the dictum that companies now apply, especially for essential and strategic products. This sees the growing adoption of digital technologies to anticipate and mitigate risks and improve supply chain resilience.

This also amplifies the effort led by the US and other countries to restructure their supply chains to reduce dependency on or overconcentration in China and move production to preferred countries through near- or friend-shoring. Some will stand to capture benefits, but overall, the openness and efficiency of global production have been compromised. Additionally, there is a forceful re-emergence of industrial policies in the US and EU to use incentives, subsidies and trade and investment restrictions to re-orchestrate supply chains—often in the name of national security or promoting “green” practices and production. The latter brings us to the third shift.

Imperative of Green Transition

To be clear, the fact that the global community addresses sustainability and climate change with both adaptation and mitigation strategies¹⁴ is a

¹⁴ Adaptation is about focusing on strategies that allow systems to survive based on climate change that is already expected to happen, while mitigation is about reducing emissions and stabilizing the levels of heat trapping greenhouse gases (GHGs) in the atmosphere.

positive and necessary approach. Adverse impacts of climate change are now clear and for countries and companies, sustainability is now a “must do”. There is an urgent and energized agenda that creates both challenges and opportunities for those with finance and technology. Greening and decarbonizing the global economy will require extensive efforts: from technology in renewable energy and carbon capture, to economic and financial initiatives in green finance and investment, carbon pricing, and carbon markets.

Conversely, these can create competitive advantages for some, and set new standards that impact production, trade and consumer preferences. An emerging example is for carbon taxes (or pricing) to incentivize businesses to decarbonize their operations and prevent “carbon leakage” by imposing carbon border adjustment measures on imports that do not have an equivalent carbon price. The EU has already started this, and others are considering similar steps, given that there is no globally agreed policy on carbon price. But without adequate transparency and consultations, such policies may be deemed disproportionately costly, and discriminatory to developing countries in design and in implementation.

IMPLICATIONS FOR ASEAN

These global trends and shifts have many and diverse impacts on ASEAN and its prospects for economic growth, integration, and community building. This is both for ASEAN member states *inter se*, and the group’s collective effort to integrate into, and play a bigger role in, the global economy.

Major powers showing less support for the multilateral, rules-based trading system can impact the ability of ASEAN—consisting of largely open and trading economies—to move away from a rules-based trading order. The use of security justifications to renege from multilateral commitments or open trade principles, while not directed at ASEAN, has created uncertainties that similar treatment could in the future impact ASEAN. Indeed, some ASEAN member states might themselves be tempted to take similar approaches to their economic and trade policies, rather than committing to deeper economic integration.

Lastly, the emergence of alternative regional frameworks—both political and economic—can compete with and potentially diminish ASEAN’s relevance and centrality.

This is not to say that there are only risks for the group. Opportunities are also possible. The restructuring of global supply chains may present ASEAN with considerable opportunities as the US and others look to “de-risk” from China. At the same time, if ASEAN can retain a balanced approach, it can also doubly gain as China also shifts its own supply chains.

These possibilities will not present themselves automatically. ASEAN will need to actively pursue a competitive and viable alternative production hub to China by improving manufacturing productivity and moving up the value chain. We also cannot underestimate the impacts of technological decoupling and of increased subsidies by the US and other Western economies to push for home-, near-, and friend-shoring. Suboptimal resource allocation as well as a lack of scale can reduce long-term growth potential. Ultimately, global fragmentation comes at a cost, and disproportionately so to developing countries.

Given this, ASEAN must continue to champion a rules-based system which prioritizes openness and inclusivity. This means having the liberty to engage other major powers on its own terms, and in doing so, set the spirit and parameters for collaboration. Its commitment to an open, inclusive, and mutually beneficial multilateralism undergirds the ASEAN Outlook on the Indo-Pacific (AOIP) and is likewise reflected in its success in securing great power participation in the Regional Comprehensive Economic Partnership (RCEP) Agreement. It is worth noting that both the AOIP and RCEP were initiated by Indonesia, the 2023 ASEAN Chair, whose Chairmanship theme of “ASEAN Matters: Epicentrum of Growth” was evident in its model of collective leadership.

ASEAN also recognizes the need for a more holistic response to the poly-crisis. While efforts to improve cross-sectoral coordination have been undertaken, the COVID-19 pandemic also served as a much-needed catalyst for the region. Started as a health crisis, it quickly became clear that the pandemic had a much broader implication. The ASEAN

Comprehensive Recovery Framework¹⁵ (ACRF) and its implementation plan¹⁶ was an unprecedented response by the institution to the poly-crisis. While the implementation covers largely ongoing and planned sector-centric initiatives, the consistent reference to the document(s) across various pillars of ASEAN at the highest political level to shape future cooperation efforts and garner support from development partners, is proof of some success.

EMERGING CROSS-CUTTING CHALLENGES AND THE NEED FOR A COHESIVE AEC RESPONSE

Among the emerging challenges, particular attention must be given to issues that cut across economic, social-cultural and political-security realms. Three aspects are especially relevant to the AEC: sustainability (green transition and equitable economic growth), digitalization and automation, and human capital development.

To date, the AEC has seen greater commitment in two areas, namely digitalization and green transition, and perhaps less so in the area of equitable economic growth and human capital development.

ASEAN must make a transition to greener production and supply chains. Different AEC sectors have stepped up their initiatives relating to sustainability, ranging from agriculture, energy, minerals, transportation, to finance. Most notable was the adoption of the ASEAN Taxonomy for Sustainable Finance. The first version was released in conjunction with the COP26 meeting in Glasgow to provide a new framework for green

¹⁵ ASEAN, “ASEAN Comprehensive Recovery Framework”, <https://asean.org/book/asean-comprehensive-recovery-framework/>

¹⁶ ASEAN, “ASEAN Comprehensive Recovery Framework Implementation Plan”, <https://asean.org/book/asean-comprehensive-recovery-framework-implementation-plan/>

financing in the region, providing a reference point for capital funding.¹⁷ The second version was released in 2023.

Another specific area of concern is the commodities sector, where ASEAN is a major player globally, ranging from its production of plantation resources such as palm oil and rubber, to the extraction and refining of oil and minerals. These sectors have come under increasing criticism and will face pressure from buyers and consumers to become greener. Yet that transition will not be easy or costless.

The greening of the manufacturing sector will not be easy either. This is considering how ASEAN generates much of its energy, and the fact that green production technologies have not matured to scale. On the former, the region is still primarily reliant on fossil fuels. This is notwithstanding the growing potential in renewable energy in ASEAN as demonstrated in the rise of biomass and renewables.¹⁸

Furthermore, many of the coal-power facilities in ASEAN are relatively new. As such, the early retirement of their coal power plants and their shifting to renewables, is a heavy financial commitment.¹⁹ The situation is compounded by ASEAN countries' fiscal position being further weakened by the COVID-19 pandemic.²⁰

These obstacles are now recognized and key ASEAN economies including Indonesia and Vietnam are making efforts to secure financing

¹⁷ Sharon Seah, "ASEAN Taxonomy for Sustainable Finance: Putting Money Where the Mouth Is", *Fulcrum*, 8 April 2022, <https://fulcrum.sg/asean-taxonomy-for-sustainable-finance-putting-money-where-the-mouth-is/>

¹⁸ International Energy Agency, "Southeast Asia Energy Outlook 2022: Key findings", <https://www.iea.org/reports/southeast-asia-energy-outlook-2022/key-findings>

¹⁹ As an example, Tenaga Nasional Berhad plans to shutter its 1,400 megawatt coal plant a year earlier, i.e., in 2028.

²⁰ OECD, "Economic Outlook for Southeast Asia, China and India 2022: Financing Sustainable Recovery from COVID-19", <https://www.oecd-ilibrary.org/sites/f4fab965-en/index.html?itemId=/content/component/f4fab965-en#sect-23>

for transition to renewables. Singapore, which is already utilizing less carbon-intensive natural gas, is also emphasizing the importance of renewables, including cross-border transmission of green energy.

ASEAN has historically not been a large source of greenhouse gases but, given its sheer size, Indonesia's emissions are already considerable and emissions from the region as a whole will increase with economic and demographic growth. ASEAN has plans for an energy grid and greening the planned infrastructure is now both an imperative as well as an opportunity to unlock capital through green finance and global efforts to support a just energy transition.

Moreover, a move towards sustainable supply chains and a more circular economy provides opportunities for ASEAN companies at the forefront of change to forge ahead. This will in turn support most ASEAN countries to meet their net-zero targets and nationally-determined contributions.

Success in this aspect strongly relies on ASEAN's future willingness and capability to work as a group to synergize the national plans of member states towards a unified goal via shared efforts and key infrastructure. It will also depend on working across the three pillars of the ASEAN Community, rather than approaching climate change as a silo environmental issue under the socio-cultural pillar. The AEC's leadership in a number of cross-cutting initiatives including the Framework on Circular Economy and the ASEAN Strategy on Carbon Neutrality has been encouraging. However, this is only a start, and more must be done to follow up with implementation and ensure continued regional cohesion and synergy.

On digitalization, AEC consolidation is also emerging. Numerous ASEAN documents, plans, and frameworks have been put in place, in particular, the ASEAN Agreement on Electronic Commerce, ASEAN Digital Integration Framework and ASEAN Digital Masterplan 2025. Institutionally, ASEAN has likewise upgraded its telecommunications and information technology bodies at senior official and ministerial levels, with the new ASEAN Digital Senior Officials' Meeting (ADGSOM) and the ASEAN Digital Ministers' Meeting (ADGMIN), while the remit of the ASEAN Coordinating Committee on Electronic Commerce (ACCEC) has been expanded to the ASEAN Coordinating Committee on

Electronic Commerce and Digital Economy (ACCED). These changes reflect the institution's recognition of the broader scope of digitalization beyond telecommunications and IT and electronic commerce.

Indonesia, as the 2023 ASEAN Chair, has also managed to push for the accelerated commencement of ASEAN Digital Economy Framework Agreement (DEFA) negotiations two years earlier than envisioned in the Bandar Seri Begawan Roadmap.²¹ While some member states like Singapore have already begun exploring more comprehensive digital economy agreements²² with enforceable rules in these areas with external partners, these are usually conducted with like-minded partners with a similar level of economic development. DEFA on the other hand will be a key lever to involve all ASEAN members in developing rules-based mechanisms, standards, and guardrails for the digital economy to cater to the group's diversity.

Beyond digital connectivity, ASEAN needs to make progress on equity issues in its economic development. This should cover broader dimensions such as gender economic empowerment, digital divides or climate and environmental impact. The poly-crisis has disproportionately affected the vulnerable segments of the population.

The ASEAN Framework on Equitable Economic Development reported limited and uneven progress while the Initiative for ASEAN Integration may need a reassessment in terms of the effectiveness of its approach and theory of change. Moving towards the Post-2025 agenda, a meaningful conversation in addressing equitable economic development is needed. Similarly, conversations around human capital development must be elevated and connected to the AEC. Currently, sectors most relevant to human capital such as health, education and labour are addressed under the realm of the ASEAN

²¹ ASEAN, "The Bandar Seri Begawan Roadmap: An ASEAN Digital Transformation Agenda to Accelerate ASEAN's Economic Recover and Digital Economy Integration", https://asean.org/wp-content/uploads/2021/10/Bandar-Seri-Begawan-Roadmap-on-ASEAN-Digital-Transformation-Agenda_Endorsed.pdf

²² Singapore has Digital Economic Agreements (DEAs) with Australia, Chile and New Zealand, the UK, and South Korea.

Socio-Cultural Community; yet human capital is a key determinant of economic competitiveness. As the global economy undergoes digital transformation, green transition, and other shocks and uncertainties, the AEC needs to be supported by future-ready human capital. Economic integration and community building cannot be pursued in isolation from human capital development.

Overall, discussions of the AEC may need to consider the evolving geopolitics, and provide greater attention to sustainability, equitable economic development, and human capital. Cross-pillar deliberation between the AEC and the other pillars of the ASEAN Community building project will be critical for unity, synergy and progress.

TOWARDS A MEANINGFUL AEC 2025

ASEAN enthusiasts and stakeholders will scrutinize what the AEC has achieved in its first decade. There will be some leniency given the tough global conditions; however, AEC must still justify its impact and relevance moving forward. This section suggests priorities towards a meaningful AEC 2025 and towards setting a strong foundation for the work beyond.

Deeper Market Integration

ASEAN should further its market integration, going beyond tariffs—now virtually eliminated—or share of intra-ASEAN trade, by improving commitments and actions to minimize cross-border trade costs, enhancing regulatory coherence, and addressing emerging issues.

By 2025, the upgrading of the ASEAN Trade in Goods Agreement (ATIGA) should be concluded. It should include meaningful improvements in trade facilitation, non-tariff measures, customs procedures, rules of origin, standards, harmonization, and incorporation of emerging issues such as digital trade (in coordination with ASEAN DEFA negotiations), green trade including circular economy, and supply chain resilience. Commitments to initiatives such as ASEAN Single Window, ASEAN Customs Transit System, and ASEAN Trade Repositories should be strengthened, and their effectiveness monitored.

Services as Priority

The full entry into force of the ASEAN Trade in Services Agreement and addressing its built-in agenda including sectoral annexes should be a priority. The services sector has been hit hard by the COVID-19 pandemic, but digital technologies have opened new opportunities.

Unlike APEC, ASEAN has yet to fully embrace the potential of services as a source of competitiveness, and unlike in some sectors, there does not seem to be a championing voice on services in ASEAN. Services cooperation in ASEAN is pursued with limited interaction with others e.g., goods, investment, digital; this needs to change. *Servicification*, i.e., increasing transformation or encapsulation of services into existing processes and systems demands the existence of a competitive services sector if other sectors such as manufacturing and agriculture are to remain competitive.

ASEAN also needs to boost its skills mobility. Productivity relies on technology, and optimal use of technology requires technological capabilities, which depend on human capital. Until all ASEAN economies have in place the full human capital requirements to do so on their own, skills mobility is key to attracting investments and improving productivity, while recognizing the sensitivities attached to cross-border movement of people.

Quality Investment

The ASEAN Comprehensive Investment Agreement has made good progress in investment liberalization and protection, but there is room for improvement in investment facilitation and promotion. ASEAN adopted its non-binding Investment Facilitation Framework²³ in 2021. While this Framework covers all key components, little is said about the timeline and implementation.

²³ ASEAN, “ASEAN Investment Facilitation Framework”, <https://asean.org/wp-content/uploads/2021/11/ASEAN-Investment-Facilitation-Framework-AIFF-Final-Text.pdf>

ASEAN can strengthen the exchange of best practices in investment facilitation and promotion, as well as collaboration among its investment promotion agencies, taking account of the global trajectories towards higher-value and quality investment. Involvement of the business sector is key, and thematic initiatives focusing on green or tech investment are worth exploring. The identification of ASEAN Sustainable Investment Guidelines as a deliverable for 2024 is welcomed.

Green, Digital and Innovative

The mainstreaming of digitalization, sustainability, and innovation has taken place in some sectors, but progress is uneven and often conducted with limited coordination with other sectors.

The conclusion of a bold and ambitious ASEAN DEFA will be the main target. ASEAN should also remain open to conversations around the more holistic digital transformation of the Community beyond the AEC. On green transition, the AEC should demonstrate effective implementation of the circular economy framework and the ASEAN Carbon Neutrality Strategy, with meaningful stakeholder involvement, particularly from the industries.

More strategic guidance is needed in the ASEAN science, technology, and innovation (STI) work. Many initiatives have been launched, mostly among STI sectoral bodies or on project basis. Mainstreaming STI applications in key sectors and involvement of the private sector should be prioritized for productivity improvement.

FTAs and Beyond

Full implementation of RCEP, establishment of the RCEP Secretariat, and agreement on RCEP accession procedures as well as the entry into force of the upgraded AANZFTA should be the focus. On the ASEAN-Canada FTA negotiations, flexibilities on both sides are needed to move closer. The ACFTA upgrade²⁴ negotiations will be closely followed and

²⁴ ASEAN, “ASEAN, China Announce ACFTA Upgrade”, 13 November 2022, <https://asean.org/asean-china-announce-acfta-upgrade/>

are expected to cover forward-looking areas such as the digital economy, green economy, and supply chain connectivity.

The review of the ASEAN-India Trade in Goods Agreement (AITIGA) needs to be accelerated to make it more user-friendly, simple, trade-facilitative, and supportive of resilient supply chains, especially since India is not a part of RCEP, and given its economic rise.

ASEAN needs to reinvigorate engagement with the US and EU, and also other potential partners such as the Gulf Cooperation Council. The US has chosen the Indo-Pacific Economic Framework (IPEF) as its main economic engagement platform with the region. While IPEF includes only seven ASEAN member states and excludes market access, it may set new rules and standards; this requires some extent of coordination. Recent developments prove that participating ASEAN countries cannot simply rely on IPEF for its engagement with the US. Likewise, the EU needs a closer engagement with ASEAN for risk-diversification; it has its own challenges though, in its domestic economy and the war in Ukraine. As such, opportunities need to be better articulated for greater buy-in.

ASEAN should present a coordinated front in relevant multilateral fora, such as the WTO and the COP. ASEAN member states must likewise consider broader ASEAN interests in its bilateral engagements. ASEAN should be proactive in engaging new or emerging issues and in exploring new forms of cooperation beyond FTAs, such as through thematic or sectoral engagement and operationalization of the ASEAN Outlook on the Indo-Pacific (AOIP).

Holistic Post-Pandemic Resilience

The ASEAN Comprehensive Recovery Framework (ACRF)²⁵ was the region's exit strategy from the COVID-19 pandemic, yet it has proven to be sufficiently comprehensive to also address broader ongoing risks.

²⁵ The ACRF comprises five broad strategies: enhancing health system, strengthening human security, maximizing the potential of intra-ASEAN market and broader economic integration, accelerating inclusive digital transformation, and advancing towards a more sustainable and resilient future.

Beyond health, ACRF measures highlight the need to improve resilience in areas such as cross-border trade, movement of people, and social protection to allow governments to assist the vulnerable more effectively. The ACRF agenda is relevant beyond its mandate for COVID-19 recovery, and as such, it should be incorporated appropriately into the Post-2025 work.

BEYOND 2025: CLARIFYING STRATEGIC DIRECTIONS, STRENGTHENING INSTITUTIONS AND PROCESSES

Beyond 2025, AEC's long-term trajectories must address the opportunities and risks presented by global megatrends. Enhanced processes and strengthened institutions will be required. This last section considers how ASEAN should position itself moving forward.

Rising geopolitical rivalry and global fragmentation will continue to shift the global economy's centre to Asia. In the short term, the region may face slower growth and higher costs from a less efficient world. There may be opportunities to seize, but they should be pursued in parallel with—not at the expense of—open, inclusive, and rules-based multilateralism.

Growing security considerations in traditional economic areas such as trade, investment, and standards as well as newer areas such as technologies and data governance, require ASEAN to recalibrate its pillar-based approach. Climate change also poses challenges to economic activities while presenting new opportunities in green transition. The blurring of disciplinary lines strengthens the need for cross-pillar coordination and response.

Challenges and opportunities emerge from the waning of multilateralism. On the one hand, regionalism recreates the inefficacy of multilateralism, while on the other hand, it may be viewed as a viable alternative and a stepping stone to a re-globalization where emerging and middle-power countries have a bigger role to play. To prevail, ASEAN needs to demonstrate the value add of the ASEAN Community building project, i.e., how it complements national priorities and development and yet contributes to global citizenry, rather than as an end in itself.

Greater collective competitiveness provides the argument for the AEC. Digitalization and innovation are key tools to boost productivity. Digitalization is now high on the ASEAN agenda, and ASEAN must keep the momentum while taking account of emerging concerns around the carbon intensity of digitalization and the risk of a new front for global rivalry.

Both digitalization and innovation should be mainstreamed across sectors and pillars to achieve holistic transformation of the ASEAN Community. Some experts have started exploring the idea of an ASEAN Digital Community²⁶ that will build on and go beyond ASEAN's DEFA. Similarly, STI cooperation should be pursued with clear objectives to advance public goods, improve well-being, and strengthen competitiveness and resilience.

Human capital is a key source of productivity, hence competitiveness. Education and training systems, the corresponding skilling, reskilling and upskilling efforts, and workforce mobility cannot be addressed in isolation from AEC's pursuit of competitiveness and growth. Closer coordination between AEC and ASCC, and with industry is imperative.

Lastly, ASEAN should internalize resilience, sustainability and inclusivity in its economic development strategy. Environment and disaster management currently falls under ASCC, while greenhouse gas (GHG) emitters (energy, transportation, agriculture) fall under the AEC. Within the AEC, the conversation around decarbonization needs better bridging between the emitting sectors and sectors that can offer solutions including finance, trade, and STI. Additionally, the voice and role of the private sector need accommodating.

The above are just a few issues that AEC needs to address beyond 2025. The rest of this section touches on initial ideas to transform AEC's ways of working and to strengthen its institutions.

ASEAN has been following a ten-year plan, using pillar-based blueprints to guide its work. However, it has now been decided that its

²⁶ <https://www.eria.org/research/asean-digital-community-adc-2045/>

Post-2025 Vision will cover a twenty-year timeframe.²⁷ Due to the rapidly evolving context, the AEC will need a more dynamic successor blueprint or strategic plan that can be more regularly reviewed and updated, with mechanisms in place to facilitate and promote collaboration. In deliberating their work plans, sectoral bodies will require clear guidance and some standardization for effective monitoring and evaluation.

Meaningful stakeholder engagement should be initiated at an early stage and continued throughout the entire process. The directions and details of Post-2025 AEC must be based on the input of experts and reflect stakeholders' views. The process must be inclusive and engage a broader range of stakeholders rather than institutions that are already familiar with ASEAN terminologies. It should focus on specific issues and their impact.

While we refrain from advocating new frameworks, strategies or sectoral bodies, we recognize the need for coordinated and coherent responses from different sectors on crosscutting issues. The Charter already provides for the Community councils to convene inter-sectoral meetings, but this is rarely done. When such meetings are held, follow-ups at the working level are usually limited. Therefore, a space should be created, and mechanisms explored for meaningful exchange and collaboration among different sectors.

AEC also needs to regularly monitor and review the relevance and effectiveness of its existing bodies. Although such an exercise has been conducted before, a more institutionalized and empowered process is needed. The main sectoral body should hold accountability for monitoring and reporting on the effectiveness of its subsidiary bodies, which should in turn be accountable for delivering progress and impact. Many of these bodies date back to the early days of ASEAN economic cooperation and are less dynamic or open to the required changes in a rapidly changing environment.

²⁷ Para 13 of the Chairman's Statement of the 42nd ASEAN Summit in May 2023, <https://asean.org/chairmans-statement-of-the-42nd-asean-summit/>

Regular exchange with experts, knowledge partners and peer regions, and engagement with beneficiaries can help ASEAN avoid complacency and irrelevance. This can be complemented by the ASEAN Secretariat and other relevant entities through the monitoring of relevant emerging issues and the providing of inputs to the sectoral bodies.

In addition, a more effective Post-2025 AEC needs a stronger ASEAN Secretariat. While the Secretariat's role is often nuanced, it can be more proactive in some sectors or pillars, acting as an incubator of emerging issues that may not have a ready sectoral body, facilitator, or even resource person. The addition of monitoring and analysis functions in the last restructuring of the Secretariat reflects this expectation. However, to perform effectively, the Secretariat must be adequately empowered and encouraged to update its knowledge and learning. Numerous development programmes can complement and empower the ASEAN Secretariat, providing additional resources for external experts of studies, but these should not be taken as fully substituting the Secretariat's own analytical and internal strategic advisory role. Ultimately, the ASEAN Secretariat should play the key role in supporting member states to translate these inputs into actionable ASEAN products and to ensure the necessary follow-up.

CONCLUSION

The AEC is a journey. The region has made good progress under the first two AEC Blueprints, notably in laying down frameworks for closer regional economic integration. Nonetheless, notable gaps remain in implementation and impact. As the AEC's portfolio widens, it needs to avoid being spread too thinly. Quantity comes at the expense of quality; this has led to the call for a more streamlined but results-oriented agenda and for better ways of working.

Moreover, the AEC journey is taking place in a markedly different context today and amid a poly-crisis. The premise of open trade and economic globalization that underlies much of AEC's earlier success can no longer be taken for granted as geo-economic fragmentation gains pace. There is a need for a resilience-focused supply chain restructuring, and a green transition. For ASEAN's continued relevance and impact,

the AEC must remain dynamic, taking into consideration emerging opportunities and challenges. ASEAN may need to look beyond its pillar and sector-centric approach which may fail to effectively respond to these challenges.

By 2025, the AEC will come under scrutiny. The region needs to urgently recalibrate its priorities and focus its work towards aiding the must-haves in the next two years. The AEC Post-2025 agenda needs to strike a balance between ambition and pragmatism, and identify new challenges and opportunities while supporting this with fit-for-purpose institutions and work processes.

Despite these challenges, we are confident that the AEC will remain relevant. The region has a history of emerging stronger from the crisis. Its economic standing and potential cannot be overlooked. Its voice offers optimism for the future of an open, inclusive, and rules-based multilateralism, one that gives more influence to developing and middle-power economies.

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