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**Keynote Address**

**The ASEAN Roundtable 2016: AEC – Towards 2025**

**ISEAS Singapore**

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**AEC 2025: BUILDING A COMMUNITY THROUGH ECONOMIC INTEGRATION**

*Ladies and Gentlemen,*

As we are well into the inaugural year of the ASEAN Community following its formal establishment at the end of last year as well as the adoption of ASEAN Community Vision 2025 and three Community pillars' Blueprints, including the new ASEAN Economic Community (AEC) Blueprint, which has been a subject of discussion beyond our regional space, this year's ASEAN Roundtable organized by ISEAS focused on the AEC and its journey towards 2025 gathering many of the region's thought leaders and foremost advocates is auspicious. I thank ISEAS for inviting me to be part of this important event.

*Ladies and Gentlemen*

When ASEAN was established five decades ago, its mission was to accelerate economic growth, social progress and cultural development in the region and strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations through joint endeavours in the spirit of equality and partnership. One year short of its 50<sup>th</sup> anniversary, ASEAN is today collectively the world's 6<sup>th</sup> largest economy, just overtaking France, and the 3<sup>rd</sup> largest in Asia and is one of the world's fastest growth centres. Badly hit by the financial crisis in the late 1990s, the region has picked itself up and enjoyed years of relatively high and robust growth made possible, among others, by sound macroeconomic policy and management as well as structural reforms and open regionalism. With demographic dividends-half of its population below thirty years old,

and a rising middle class, this growth momentum is set to continue in ASEAN making it the world's 4<sup>th</sup> largest economy by 2050.

Given its economic dynamism, ASEAN has become an attractive investment destination for multinationals and increasingly regional businesses alike. Most businesses including SMEs surveyed recently have positive outlooks and many already have or are developing strategies for operations in ASEAN. Though ASEAN was not fully immune to the recent global economic slowdown, FDI inflows remained robust at US\$120 billion in 2015, 18.5% or the largest share of which was intra-ASEAN.

ASEAN is also rapidly becoming a dominant player in global trade, attributed to its strategic location, as well as the collective and comparative advantages from the diverse economic structures and production capabilities of its Member States. With its diversified and expanding linkages, the region has also emerged as a main participant in the global value chains.

ASEAN has achieved such significant progress and accomplishment through concrete initiatives undertaken towards establishing a single market and production base pursued under the ASEAN Economic Community Blueprints.

One area in which significant progress has been made is tariff liberalization with intra-ASEAN tariffs now virtually eliminated. ASEAN Member States, in pursuant of the commitments made in the ASEAN Free Trade Agreement in 1992, and later in the ASEAN Trade in Goods Agreement in 2010, have eliminated tariffs on more than 96% of goods traded among them. Among the ASEAN-6, the share of duty-free tariff lines now stands at 99.2%. As for the four newer member – Cambodia, Laos, Myanmar and Viet Nam (the CLMV), the share of duty-free tariff lines has also increased significantly from 46.7% in 2007 to 90.9% at present.

To ensure optimal utilisation of these intra-regional trade preferences, ASEAN has continuously simplified the Rules of Origin to make them more trade facilitative and business friendly, thus reducing trade costs. ASEAN has also introduced a self-certification project, which will enable traders and manufacturers to self-declare the origin of their goods to benefit from the tariff preferences, significantly reducing border

trade costs. Currently, two pilot projects on self-certification are underway with increasing numbers of certified exporters, and ASEAN is working to resolve differences between them to facilitate the timely and full operationalization of the ASEAN-wide Self-Certification Scheme.

*Ladies and Gentlemen,*

Tariff preferences are only part of the market access equation. ASEAN has placed increasing emphasis on trade facilitation, particularly on addressing non-tariff barriers and the barrier effects of non-tariff measures, which continue to adversely impact cross-border trade, hampering regional integration. Towards that end, several trade facilitation initiatives at the regional level have been identified and implemented.

ASEAN has reactivated the ASEAN Trade Facilitation-Joint Consultative Committee, comprising representatives from both the public and private sectors. The committee will contribute to more proactive identification of specific issues and expediting the reduction and elimination of non-tariff barriers in the region.

The ASEAN Single Window will create a single point of entry for seamless exchange of electronically transmitted trade-related documents amongst Member States, streamline business processes and paper-based documentary requirements, thus significantly reducing the time and costs for import and export. Good progress has been made towards its full establishment. The ASEAN Member States are also currently in the process of ratifying the protocol on the legal framework to implement the ASEAN Single Window. Successful tests in the exchange of the electronic ASEAN Trade in Goods Agreement Form D have been conducted among exchange-ready Member States. Some Member States have also started the exchange of this form in the ASEAN Single Window production environment using live data.

The establishment of the ASEAN Trade Repository as envisaged in the ASEAN Trade in Goods Agreement will contribute to lower business costs, greater regulatory transparency and business certainty. Soft launched in November 2015, the ASEAN Trade Repository will link the ten national trade repositories and will contain trade-related information such as Most Favoured Nation tariffs, preferential tariffs offered

under the ASEAN Trade in Goods Agreement and other ASEAN free trade agreements, rules of origin, non-tariff measures, national trade and customs laws and regulations. To date, all ASEAN Member States have established their national trade repositories and are in the process of linking more information to the ASEAN Trade Repository for its full operationalization.

On standards and conformance, compliance capacity is increasingly becoming a prerequisite in global value chain participation. Similarly, in tackling the issues relating to technical barriers to trade, ASEAN has undertaken several initiatives in the form of standard harmonization, development of conformity assessment results, and harmonization of regulatory regimes. Among the mutual recognition arrangements concluded are those for electrical and electronic equipment, cosmetics and medicinal products.

Beyond trade in goods, the services sector is another key pillar of regional economic integration. Not only that the sector contributed more than half of regional output, it is also the largest destination of investment at 62.5% in 2015. In a world of global value chains, a competitive services sector is imperative as it serves not only as the glue that enables production activities to take place in multiple locations but also as a source of innovation and value.

The recognition of the importance of the services sector has led ASEAN to place services integration at the forefront of the AEC agenda. Under the ASEAN Framework Agreement on Services (AFAS), Member States have committed to liberalizing a significant and growing number of subsectors through the removal of formal restrictions. The ASEAN Member States have completed the signing of the Protocol to Implement the 9th AFAS Package and are currently working towards meeting the required threshold for the 10<sup>th</sup>, or final, package.

If tariff elimination in itself is not sufficient for trade in goods, market liberalization is also not sufficient for trade in services. To further enhance services integration in the region, ASEAN is currently developing the ASEAN Trade in Services Agreement (ATISA) which will be better aligned to ASEAN's existing service regimes and

commitments, including in its free trade agreements with the Dialogue Partners. At the same time, ASEAN will also complement its market liberalization approach with regulatory cooperation.

*Ladies and Gentlemen,*

To become the world's preferred investment destination, ASEAN has worked towards the creation of requisite frameworks to improve its investment regimes and business environment. The ASEAN Comprehensive Investment Agreement (ACIA) which entered into force on 29 March 2012 serves as the main framework for the liberalization, facilitation, promotion, and protection of cross-border investment in ASEAN to build a more open, transparent and safe investment environment.

As investors always want to be sure they will be locating resources in a business-friendly and innovation-supporting environment, a special focus has been placed on ensuring and further cultivating a culture of fair competition while promoting the protection of consumers as well as that of intellectual property rights in the region. At present, nine ASEAN Member States already have in place competition and consumer protection laws, while the intellectual property ecosystem has been further improved with the implementation of regional initiatives such as the ASEAN Patent Examination Cooperation, the Common Guidelines for the Substantive Examination of Trademarks and the ASEAN TMview.

In addition to these soft architectures, ASEAN has also made great strides in improving its transport and other infrastructure networks to facilitate cross-border transportation and reduce the overall costs of doing business in the region. Significant progress has been made in the ASEAN Highway Network and the Singapore-Kunming Link, the two flagships ASEAN infrastructure projects. The ASEAN Open Skies agreement, a major component of the ASEAN Single Aviation Market, has recently been ratified by all Member States allowing carriers to operate freely across the region. Together, all these projects contribute to a better connected ASEAN, facilitating the growth of the transport industry, the tourism and trade sectors and the regional economy as a whole.

*Ladies and Gentlemen,*

Composed of members with varied economic structures and levels of development, ASEAN is one of the most diverse regions in the world. For regional integration and Community building to be effective and sustainable, it is crucial for the benefits of integration to be shared across and within all Member States. The Initiative for ASEAN Integration (IAI) was formulated and introduced with these objectives in focus. Launched in 2000, the IAI provides targeted support and technical assistance to the four new Member States - CLMV - in order to enhance their capacity in implementing their regional commitments so they can be true participants and beneficiaries of the regional integration agenda.

A distinct and important feature of ASEAN integration process is its open regionalism approach. ASEAN's pursuit of closer relations with Dialogue Partners and other external parties is complementary to and supportive of its regional integration agenda. ASEAN has actively forged free trade agreements and comprehensive economic partnerships with its major trading partners namely Australia, New Zealand, China, Japan, the Republic of Korea and India. To elevate trade and economic relations, ASEAN is currently negotiating with these partners a Regional Comprehensive Economic Partnership (RCEP) by significantly improving on the existing free trade agreements to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership among the 16 participating countries. Upon its successful conclusion, the RCEP will provide ASEAN businesses with more opportunities to expand their markets and to strengthen their role in regional and global value chains. In addition to the RCEP, ASEAN is also negotiating an ASEAN-Hongkong FTA, working with the EU on the resumption of the negotiations of an ASEAN-EU FTA and will study the possibility of an ASEAN-Eurasian Economic Union FTA.

*Ladies and Gentlemen,*

The implementation of AEC Blueprint 2015 has culminated in the establishment of the AEC at the end of last year. As part of the ASEAN Community building process,

this is a big milestone, but not the end goal. ASEAN integration remains a work-in-progress. AEC Blueprint 2025 was adopted to chart the directions of ASEAN economic integration for the next 10 years. Building upon the achievements made under the 2015 Blueprint, AEC Blueprint 2025 is a forward-looking, bolder and more ambitious document aimed at strengthening the AEC by building a Community (i) highly integrated and cohesive; (ii) competitive, innovative and dynamic; (iii) with enhanced connectivity and sectoral cooperation; (iv) more resilient, inclusive, people-oriented and people-centred, and (v) being a Global ASEAN.

In addition to the deepening of existing areas of cooperation, the AEC Blueprint 2025 highlights new areas of cooperation such as global value chains, e-commerce, science and technology, good regulatory practice including good governance, as well as public private partnership. The new Blueprint also highlights the importance of the transformative forces of global megatrends which have been irreversibly revolutionizing the environment in which regional integration is taking place.

In order for the AEC to achieve the objectives in the 2025 Blueprint, AEC sectoral work plans have been adopted detailing regional integration and cooperation goals and activities in the next decade. The endorsement of the AEC 2025 Monitoring and Evaluation Framework and the on-going development of the Consolidated Strategic Action Plan have also been the focus of this first year of its implementation. Better monitoring will lead to more effective implementation and will help ensure that regional commitments as underlined in the new Blueprint are implemented timely and effectively.

In pursuit of an integrated economy, the new Blueprint focuses on implementing trade facilitative measures and addressing non-tariff measures as well as enhancing regulatory cooperation, in addition to keeping the regional market open and transparent. The ASEAN Trade Facilitation Framework adopted earlier this month will provide a momentum to the various trade facilitation commitments and initiatives. A very important facility - the “ASEAN Solutions for Investments, Services and Trade” or ASSIST - , an internet-based, business-friendly consultation mechanism for receiving and responding to complaints submitted by ASEAN-based businesses, launched earlier this month, is now open providing a no-cost mechanism to effectively resolve operational problems

encountered by ASEAN's business community on cross-border issues related to the implementation of ASEAN agreements in a time-bound manner. ASSIST is initially open to business feedback in the area of trade in goods, but will be subsequently extended to trade in services and investment.

The "Tariff Finder", another no-cost online-based facility, launched together with ASSIST, is a useful tool for businesses, especially micro, small and medium enterprises to obtain up-to-date information on the preferential tariffs applied by ASEAN Member States under the ASEAN Trade in Goods Agreement; or by ASEAN Member States and their trading partners under the various ASEAN+1 FTA's.

ASEAN is also seeking to enhance and expand participation in the global value chains, moving beyond static competitiveness by fostering productivity through improved connectivity and investment in technology and innovation as well as in human resource development. A new cross-cutting work plan on enhancing the global value chain agenda in ASEAN has been adopted this year.

Given their importance as the backbone of the region's economy, the micro, small and medium enterprises remain high on the ASEAN's economic integration agenda. Noting the criticality of access to finance in the development of the micro, small and medium enterprises, the ASEAN Institutional Framework on Access to Finance for the Micro, Small and Medium Enterprises (MSME) was adopted earlier this month, also as one of the priority deliverables.

Considering the myriad sectors covered and initiatives undertaken in the AEC, the new Blueprint places renewed focus on enhancing sectoral cooperation, focusing on those sectors most relevant to economic connectivity as well as those that are deemed strategic to the region's growth and development. The recently signed Pakse Declaration on the ASEAN Roadmap for Strategic Development of Ecotourism Clusters and Economic Corridors stands at the intersection of various issues as it aims to create more economic opportunities, empower the rural communities and contribute to the protection of natural resources and biodiversity, all whilst promoting tourism.



Under the new Blueprint, ASEAN will remain steadfast in its open regionalism approach and global engagement. The new Blueprint envisions an ASEAN that upholds its centrality while playing a more proactive and strategic regional and global roles. Continued efforts have been undertaken to ensure the effective implementation or upgrading of the existing ASEAN+1 FTAs and Closer Economic Partnerships (CEPs). As ASEAN is committed to maintaining and improving its position as the centre as well as the facilitator of economic integration in the East Asian region, successful conclusion of the RCEP will be an important milestone in this regard.

*Ladies and Gentlemen,*

The success in this inaugural year following the establishment of the AEC has been critical. Implementation of the new Blueprint, however, has started in a period of an uncertain global economic and political environment. Economic outlook is expected to remain mired in subpar growth in both the developed and developing worlds, an outlook which is echoed in the declining trends in international trade. Adding to this is the threat of rising latent protectionism observed across the globe as politicians succumb to populist pressure against the perceived threat of free trade. The next coming years will be a challenging period. The success of the AEC will require timely and effective implementation of the various frameworks, action lines, integration initiatives and plans, as well as effective cross-pillar and cross-sectoral consultation and coordination mechanisms. Coordination with and leveraging upon other relevant and appropriate platforms will become increasingly important for better resilience and dynamism.

ASEAN is now entering a new phase of Community consolidation where the success of regional integration must be shared with the population at large to instill their ownership of the process and encourage greater participation. Moving forward, the human dimension of ASEAN cooperation aimed at bringing the ASEAN processes closer to the people to ensure they will benefit from a really people-oriented, people-centred ASEAN Community is even more critical.

Enhancing ASEAN awareness and promoting an ASEAN identity is inextricably linked to the success of the integration process. Several socio-cultural initiatives ranging from culture, education, environment, and youth could also be strategic approaches to bring ASEAN closer to the people.

While ASEAN continues to enjoy relative peace and stability, in the context of the increasingly complex regional geo-strategic landscape, especially with tension arising from territorial and maritime sovereignty disputes which is a test to the credibility of ASEAN norms and ASEAN-led mechanisms, more than ever ASEAN must continue to play its central and leading role in the evolving regional architecture. ASEAN needs to demonstrate and assert its centrality in both internal and external dimensions to maintain its credibility, unity, and cohesiveness. With a most diverse membership, ASEAN's relevance and perpetuity can only be ensured if it is able to project common positions on critical regional and international issues that directly impact the region and its collective long-term interests. The 1960s notion of the Southeast Asian region as "the Balkans of Asia" may have become a distant memory. To maintain and strengthen people-centred ASEAN as a centre of growth for the success of the AEC require more than sound economic policies, which in turn must fit into the overall regional and global context, and their effective implementation.

In the new challenging wider-regional and global economic, political and security situations, ASEAN Vision 2025 does point to the need to ensure balanced, concerted and sustained progress in all the three pillars of the ASEAN Community. Peace, stability and security based on close political ties, friendship and unity among the Member States and their peoples, as well as the maintenance of ASEAN centrality will be important factors ensuring an environment conducive to the promotion of shared prosperity of the ASEAN region, and only with that the AEC will flourish.

Thank you!