

ASEAN INTEGRATION REPORT 2019



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one identity
one community



ASEAN INTEGRATION REPORT 2019

**The ASEAN Secretariat
Jakarta**

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

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Table of Contents

List of Figures, Tables and Boxes	iii
Abbreviations and Acronyms	vi
Foreword	xii
Executive Summary	xiii
Chapter 1 Introduction	1
1.1. About the AIR 2019	3
1.2. Structure of the AIR 2019	3
1.3. Conclusion	4
Chapter 2 Macroeconomic Environment	5
2.1. Global and Regional Economy	6
2.2. Trade and Investment in ASEAN	12
2.3. Conclusion	14
Chapter 3. The ASEAN Economic Community: Progress and Achievements	15
3.1. A Highly Integrated and Cohesive Economy	16
3.1.1. Trade in Goods	16
3.1.2. Trade in Services	29
3.1.3. Investment Environment	37
3.1.4. Financial Integration, Financial Inclusion, and Financial Stability (and Taxation Cooperation)	48
3.1.5. Enhancing Participation in Global Value Chains	58
3.2. A Competitive, Innovative, and Dynamic ASEAN	63
3.2.1. Effective Competition Policy	63
3.2.2. Consumer Protection	66
3.2.3. Strengthening Intellectual Property Rights Cooperation	69
3.2.4. Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice	73
3.3. Enhanced Connectivity and Sectoral Cooperation	77
3.3.1. Transport	78
3.3.2. Information and Communications Technology	88
3.3.3. Electronic Commerce	91
3.3.4. Energy	94
3.3.5. Food, Agriculture, and Forestry	98
3.3.6. Tourism	103
3.3.7. Minerals	107
3.3.8. Science and Technology	109

3.4. A Resilient, Inclusive, People-Oriented, and People-Centred ASEAN	113
3.4.1. Strengthening the Role of Micro, Small, and Medium Enterprises	113
3.4.2. Strengthening the Role of the Private Sector	119
3.4.3. Narrowing the Development Gap	124
3.5. Global ASEAN	127
3.5.1. Overview of ASEAN's Trade Partners	128
3.5.2. Overview of ASEAN's Investment Partners	130
3.5.3. Advancing the Global ASEAN Agenda	131
3.5.4. Potential FTAs	142
3.5.5. Beyond FTAs and CEPs	142
3.5.6. Conclusion	144
Chapter 4. Fourth Industrial Revolution	145
4.1. ASEAN in the Fourth Industrial Revolution	146
4.2. Conclusion	155
Chapter 5. Conclusion and Way Forward	157
5.1. Towards the AEC 2025: Progress and Achievements	158
5.1.1. On Achieving a Highly Integrated and Cohesive Economy	158
5.1.2. On a Competitive, Innovative, and Dynamic ASEAN	161
5.1.3. On Enhancing Connectivity and Sectoral Cooperation	162
5.1.4. On a Resilient, Inclusive, People-Oriented, People-Centred ASEAN	164
5.1.5. On Enhancing External Economic Relations	165
5.1.6. ASEAN in the Fourth Industrial Revolution	166
5.2. AEC 2025: The way forward	166
References	169

List of Figures, Tables and Boxes

Figures

2.1	Real GDP Growth Rate, 2010-2018	6
2.2	ASEAN GDP by Sector	8
2.3	Exchange Rate, by AMS	10
2.4	ASEAN Trade and Investments, 2010-2018	12
2.5	Shares in Total Trade and Investment Shares by AMS, 2010 vs Present	13
3.1	ASEAN's International Trade in Goods, 2010-2018	17
3.2	Shares of ASEAN's Sources and Destinations of Goods Exports and Imports, 2010 and 2018	18
3.3	Share of Tariff Lines at 0% in the ATIGA Tariff Schedule	20
3.4	Weighted Average Effective Applied Tariff of ASEAN	20
3.5	ASEAN's Trade in Services, 2010-2018	31
3.6	Intra-ASEAN Services Trade, 2010-2018	32
3.7	Intra-ASEAN FDI inflows, 2010-2018 (USD Billions)	38
3.8	ASEAN FDI Outflows by Country source, 2010-2018	40
3.9	2016-2025 Investment Work Programme – Strategies	41
3.10	OECD FDI Regulatory Restrictiveness Index for selected countries, 2010 and 2018	43
3.11	Number of IP Filings in ASEAN, 2011-2017	72
3.12	International Air Passenger Traffic (in Million Persons)	80
3.13	International Air Cargo Loaded (in Thousand Tonnes)	81
3.14	Total Road Length (in Kilometre)	82
3.15	Total Length of Expressways (in Kilometres)	83
3.16	Total number of Rail Passengers (in Million Persons)	83
3.17	Liner Shipping Connectivity Index	85
3.18	Overall Logistics Performance Index Score	87
3.19	Mobile, Broadband, and Fixed Line Subscriptions (in Millions)	89
3.20	ICT Services Exports (BOP, Current, in USD million)	89
3.21	Energy Indicators	95
3.22	Trade and FDI Inflows of Agriculture in ASEAN, 2010-2018	99

3.23	Food Security in ASEAN, 2010-2018	101
3.24	Impact of Tourism on the ASEAN Economy	104
3.25	Trade and Investments in the Minerals Sector	107
3.26	Number of Patent Applications in ASEAN	110
3.27	Number of Scientific and Technical Journal Articles Published in ASEAN	110
3.28	GDP per Capita ASEAN-6 and CLMV in USD (current prices)	125
3.29	ASEAN's Merchandise Trade with FTA and Dialogue Partners	128
3.30	Dialogue Partners' Shares in ASEAN's Total Trade	129
3.31	Intra- and Extra-ASEAN FDI Flows, 2010-2018	130
3.32	Shares of Dialogue Partners in Total ASEAN FDI Inflows	131
3.33	ASEAN Partners	143
4.1	Archetypes of AMS by Country Readiness for the Fourth Industrial Revolution	150

Tables

2.1	ASEAN Ranking in the Global Economy, Trade, and FDI	7
2.2	GDP of ASEAN Economies	7
2.3	GDP Growth and Inflation in ASEAN, by AMS	9
2.4	Current Account Balance and Fiscal Balance, by AMS	11
2.5	External Debt and Reserves, by AMS	11
3.1	Intra-ASEAN Trade Intensity, 2010–2018	18
3.2	NTMs Based on Official Regulations in AMS, in Force as of 24 May 2019	22
3.3	ASEAN Services Sector Compared to Other Sectors	30
3.4	ASEAN Services Sector: Selected indicators	33
3.5	ASEAN FDI Inflows 2010-2018 (USD billions)	38
3.6	ASEAN FDI Inflows by sector (USD million), 2010–2018	39
3.7	2016-2025 Investment Work Programme – Action Lines	42
3.8	AMS' Enforcing Contract Measurement, 2010 and 2019	44
3.9	AMS Starting a Business Indicators, 2010 and 2019	45
3.10	Cross-Cutting KPIs on Investment	46
3.11	Insurance Penetration Rate and Density in ASEAN	49
3.12	Intra-ASEAN Shares to Total FDI and Portfolio Flows in the Region	51
3.13	Status of ISO20022 Adoption Among the AMS, 2018	53

3.14	Indicators of Financial Inclusion	55
3.15	Status of Bilateral Avoidance of Double Taxation Agreements, 2018	57
3.16	Key GVC Indicators for all Sectors	59
3.17	Key GVC Indicators for Primary Sector	60
3.18	Key GVC Indicators for the Manufacturing Sector	61
3.19	Key GVC Indicators for the Services Sector	62
3.20	Number of Completed Competition Initiatives, 2018	65
3.21	ASEAN High-Level Principles on Consumer Protection	67
3.22	Strategic Measures of Elements B6 and B7 of the AEC Blueprint 2025	74
3.23	Key Milestones of GRP-related Initiatives in ASEAN	75
3.24	ASEAN GRP Core Principles	76
3.25	Projections of Energy Supply and Consumption in ASEAN, in Mtoe	95
3.26	Key Strategies in APAEC 2016-2025 Phase I	96
3.27	Tourism Targets	104
3.28	ASEAN SME Policy Index 2018 Scores	118
3.29	Private Sector Engagement on the AEC, 2016-2018	121
3.30	Key Economic Figures of ASEAN and Its FTA Partners, 2018	127
3.31	Summary of the Progress on ASEAN's FTAs/CEPA	132
3.32	Trade and FDI Indicators of ASEAN and China, 2010-2018*	133
3.33	Trade and FDI Indicators of ASEAN and ROK	135
3.34	Trade and FDI Indicators of ASEAN and Japan	136
3.35	Trade and FDI Indicators of ASEAN and India	137
3.36	Trade and FDI Indicators of ASEAN and Australia and New Zealand	138
3.37	Trade and FDI Indicators of ASEAN and Hong Kong, China	140
3.38	Trade and FDI Indicators for ASEAN and Other RCEP Countries	141
4.1	Summary of Selective 4IR-related Studies	148
4.2	Various Cross-Pillar/Sectoral 4IR-Related Initiatives in ASEAN	151

Boxes

3.1	Cybersecurity	94
4.1	Assessment of ASEAN Readiness for the 4IR	148

Abbreviations and Acronyms

4IR	Fourth Industrial Revolution
AANZFTA	ASEAN Australia and New Zealand Free Trade Area
ABIF	ASEAN Banking Integration Framework
ABMI	ASEAN Bond Markets Initiative
ACAP	ASEAN Competition Action Plan
ACCEC	ASEAN Coordinating Committee on Electronic Commerce
ACCMSME	ASEAN Coordinating Committee on MSMEs
ACCSQ	ASEAN Consultative Committee for Standards and Quality
ACDIS	ASEAN Coal Database and Information System
ACFTA	ASEAN-China Free Trade Area
ACIA	ASEAN Comprehensive Investment Agreement
ACMF	ASEAN Capital Market Forum
ACTS	ASEAN Customs Transit System
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AECSP	AANZFTA Economic Cooperation Support Programme
AEGC	ASEAN Experts Group on Competition
AEM	ASEAN Economic Ministers
AEM-CER	ASEAN Economic Ministers and Economic Ministers from Australia and New Zealand (Closer Economic Relations – CER) Meeting
AEO	Authorised Economic Operator
AFAFGIT	ASEAN Framework Agreement on Facilitation of Goods in Transit
AFAFIST	Agreement on the Facilitation of Inter-State Transport
AFAMT	ASEAN Framework Agreement on Multimodal Transport
AFAS	ASEAN Framework Agreement on Services
AFSIS	ASEAN Plus Three Food Security Information System
AFTA	ASEAN Free Trade Area
AGEP	ASEAN-Germany Energy Programme
AHKFTA	ASEAN-Hong Kong, China Free Trade Area
AHKIA	ASEAN-Hong Kong, China Investment Agreement
AHTN	ASEAN Harmonised Tariff Nomenclature

AIA	ASEAN Investment Area
AICHR	ASEAN Intergovernmental Commission on Human Rights
AIF	ASEAN Infrastructure Fund
AIM	ASEAN ICT Masterplan 2020
AIMD	ASEAN Integration Monitoring Directorate, of the ASEAN Secretariat
AIR	ASEAN Integration Report
AITIGA	ASEAN-India Trade in Goods Agreement
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
AKFTA	ASEAN-Korea Free Trade Area
AIMD	ASEAN Integration Monitoring Directorate
AMAF	ASEAN Ministers Meeting on Agriculture and Forestry
AMCAP	ASEAN Mineral Cooperation Action Plan
AMEM	ASEAN Ministers on Energy Meeting
AIM 2020	ASEAN ICT Masterplan 2020
AMDIS	ASEAN Minerals Database Information System
AMMin	ASEAN Ministerial Meeting on Minerals
AMMST/AMMSTI	ASEAN Ministerial Meeting on Science and Technology/ASEAN Ministerial Meeting on Science, Technology, and Innovation
AMRO	ASEAN+3 Macroeconomic Research Office
AMS	ASEAN Member States
ANZ	Australia & New Zealand
APAEC	ASEAN Plan of Action on Energy Cooperation
APASTI	ASEAN Plan of Action on Science, Technology and Innovation
APEC	Asia-Pacific Economic Cooperation
APG	ASEAN Power Grid
APT	ASEAN Plus Three
AQRF	ASEAN Qualifications Reference Framework
ARISE Plus	ASEAN Regional Integration Support from the EU Plus
ASAM	ASEAN Single Aviation Market
ASCC	ASEAN Socio-Cultural Community
ASCOPE	ASEAN Council on Petroleum
ASEAN	Association of Southeast Asian Nations
ASEAN-BAC	ASEAN Business Advisory Council

ASEAN Plus Six	ASEAN-10 Plus Australia, China, India, Japan, ROK, and New Zealand
ASEAN Plus Three	ASEAN-10 Plus China, Japan, and ROK
ASEAN-6	Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand
ASEM	Asia-Europe Meeting
ASOMM	ASEAN Senior Officials Meeting on Minerals
ASPEC	ASEAN Patent Examination Co-operation
ASSIST	ASEAN Solutions for Investments, Services, and Trade
ASSM	ASEAN Single Shipping Market
ASTIF	ASEAN Science Technology and Innovation Fund
ASTFI	ASEAN Seamless Trade Facilitation Indicators
ASW	ASEAN Single Window
ATIGA	ASEAN Trade in Goods Agreement
ATISA	ASEAN Trade in Services Agreement
ATFF	ASEAN Trade Facilitation Framework
ATF-JCC	ASEAN Trade Facilitation Joint Consultative Committee
ATF-SAP	ASEAN Trade Facilitation Strategic Action Plan
ATM	ASEAN Transport Ministers/ASEAN Tourism Ministers
ATPRS	ASEAN Tourism Professionals Registration System
ATR	ASEAN Trade Repository
ATSP	ASEAN Tourism Strategic Plan
AWSC	ASEAN-Wide Self-Certification Scheme
BEPS	Base Erosion and Profit Shifting
BN	Brunei Darussalam
BOP	Balance of Payment
CA	Canada
CEPAs	Comprehensive Economic Partnership Agreements
CER	Closer Economic Relations, Australia and New Zealand
CCI	Coordinating Committee on Investment
CLMV	Cambodia, Lao PDR, Myanmar, and Viet Nam
CMIM	Chiang Mai Initiative Multilateralisation
CN	China, People's Republic of
COST/COSTI	Committee on Science and Technology/Committee on Science, Technology, and Innovation
CoW	Committee of the Whole for the ASEAN Economic Community

CPL	Competition Policy And Law
CSAP	Consolidated Strategic Action Plan
CSR	Corporate Social Responsibility
DPs	Dialogue Partners
DSM	Dispute Settlement Mechanism
DVA	Domestic Value Added
ECOTECH	Economic and Technical Co-operation
E-Commerce	Electronic Commerce
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FAF	Food, Agriculture and Forestry
FDI	Foreign Direct Investment
FLEG	Forest Law Enforcement and Governance
FSL	Financial Services Liberalisation
FTA	Free Trade Agreement
FVA	Foreign Value Added
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit/ German Development Agency
GMP	Good Manufacturing Practice
GRP	Good Regulatory Practices
GVCs	Global Value Chains
HK/HKC	Hong Kong, China
HLTF-EI	High-Level Task Force for ASEAN Economic Integration
HOA	Heads of Agreement
HS	(international) Harmonised System Code
IAI	Initiative for ASEAN Integration
ICT	Information and Communications Technology
ID	Indonesia
IDR	Indonesian rupiah
IN	India
IP/IPR	Intellectual Property/Intellectual Property Rights
IUU	Illegal, Unreported And Unregulated

IWP	Investment Work Programme
JP	Japan
KH	Cambodia
KPIs	Key Performance Indicators
KR	Korea, Republic of (see also ROK)
LA	Lao PDR
LNG	Liquefied Natural Gas
MAAS	Multilateral Agreement on Air Services
MAFLAFS	Multilateral Agreement on the Full Liberalisation of Air Freight Services
MAFLPAS	Multilateral Agreement on the Full Liberalisation of Passenger Air Services
MAT	Marine, Aviation and Goods in International Transit
MFN	Most-Favoured Nation
MICE	Meeting, Incentive, Convention, and Exhibition
MM	Myanmar
MMK	Myanmar kyat
MNP	Movement of Natural Persons
MoU	Memorandum of Understanding
MRA	Mutual Recognition Arrangement
MRA-TP	Mutual Recognition Arrangement on Tourism Professionals
M/SMEs	Micro-,/Small-, and Medium Enterprises
Mtoe	Million tonnes of oil equivalent
MY	Malaysia
NDG	Narrowing the Development Gap
NTBs	Non-Tariff Barriers
NTMs	Non-Tariff Measures
NTRs	National Trade Repositories
OECD	Organisation for Economic Co-operation and Development
PDC	Pure Double-Counted
PH	Philippines
PPP	Purchasing Power Parity
Ppts	Percentage points
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership

RMS	Regulatory Management Systems
ROK	Republic of Korea (see also KR)
ROO	Rules of Origin
RoP	Rules of Procedures
RU	Russia
S&T	Science and Technology
SAP	Strategic Action Plan
SAPSMED	Strategic Action Plan on SME Development
SG	Singapore
SKRL	Singapore-Kunming Rail Link
SPS	Sanitary and Phytosanitary
SEOM	Senior Economic Officials Meeting
STI	Science, Technology, and Innovation
STRACAP	Standards, Technical Regulations, And Conformity Assessment Procedures
TBT	Technical Barriers to Trade
TELSOM	ASEAN Telecommunications and ICT Senior Officials Meeting
TELMIN	ASEAN Telecommunications and ICT Ministers
TH	Thailand
TIG	Trade in Goods (Agreement)
TIS	Trade in Services (Agreement)
TiVA	Trade in Value Added
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
US-ACTI	United States-ASEAN Connectivity through Trade and Investment
USAID	United States Agency for International Development
USD	United States dollar
VN	Viet Nam
WC-CAL	Working Committee on Capital Account Liberalisation
WC-CMD	Working Committee on Capital Market Development
WC-PSS	Working Committee on the Payment and Settlement Systems
WEF	World Economic Forum
WIPO	World Intellectual Property Organisation
WTO	World Trade Organization

Foreword

Fifty-two years into the establishment of the Association of South East Asian Nations (ASEAN), and four years into the launch of the ASEAN Community, ASEAN is confident in its standing as the fifth largest economy in the world, a trade powerhouse, and a compelling investment destination. Such achievements are not to be taken for granted, as they are the outcomes of decades of trust-building, cooperation, and mutual market opening.

The launch of the ASEAN Economic Community (AEC) as a pillar of the ASEAN Community in 2015 was a milestone in the region's economic integration. It marked the start of the collective journey of the ten ASEAN Member States as an economic community, guided by the AEC Blueprint 2025. The progress of the AEC is of interest to a broad audience. The ASEAN Integration Report (AIR) 2019 presents a comprehensive assessment of ASEAN economic integration efforts in the four years since its inaugural issue in 2015.

The AIR 2019 covers both progress in the implementation of AEC commitments as well as the outcomes of the AEC as measured by key performance indicators. The Report builds on the AEC internal monitoring effort as guided by the AEC 2025 Monitoring and Evaluation Framework, and complemented by regional integration statistical indicators, as well as findings from relevant studies.

The AIR 2019 is released at a time of global economic uncertainties. While the region's economic performance has remained robust, there is threat of moderation in its outlook, given widespread protectionism, growing pressure on multilateralism, and the risk of an upcoming recession. The Report shows that ASEAN economic integration has borne results in a number of areas, but in others it remains a work in progress. It highlights the need for ASEAN to deepen and broaden integration within its internal market, while at the same time keeping markets open to strengthen partnerships with economies around the world. It also indicates the need for ASEAN to be a more proactive global player to uphold and shape the very system that it has benefited from. Last but not least, it underscores the need for ASEAN to prepare itself for the future, including in the context of the Fourth Industrial Revolution (4IR) and sustainability considerations.

The ASEAN Secretariat will continue to publish the AIR periodically. A flagship product of the ASEAN Integration Monitoring Directorate of the AEC Department at the Secretariat, the AIR contributes to our outreach and communication efforts on the AEC for a more informed policy discourse.



DATO LIM JOCK HOI

Secretary-General of ASEAN

Executive Summary

1. The Association of Southeast Asian Nations (ASEAN) established the ASEAN Community in 2015; comprising the ASEAN Political Security Community, the ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community. Complementing the establishment of the ASEAN Community was the adoption of the ASEAN Community Vision 2025 and the three successor Community Blueprints to chart ASEAN's integration trajectory towards 2025.
2. The AEC, on which the ASEAN Integration Report (AIR) focuses, was established building on the achievements under the implementation of the first AEC Blueprint (2007-2015) as reported in the inaugural ASEAN Integration Report 2015. Towards 2025, the region's economic integration agenda is guided by the AEC Blueprint 2025. The AEC Blueprint 2025 envisions five interrelated and mutually reinforcing characteristics, namely: (1) a highly integrated and cohesive economy; (2) a competitive, innovative, and dynamic ASEAN; (3) enhanced connectivity and sectoral cooperation; (4) a resilient, inclusive, people-oriented, and people-centred ASEAN; and (5) a global ASEAN. Most notable under the AEC Blueprint 2025 is a greater focus on developing a policy environment that is supportive of innovation that improves productivity in the region, strengthens ASEAN's participation in global value chains, enhances sectoral cooperation, promotes inclusivity and sustainability – including through support to micro, small, and medium enterprises (MSMEs) – and encourages a more proactive role in the global economy.
3. Through the implementation of the AEC Blueprint 2025, ASEAN will further its economic integration by deepening and broadening the existing areas of cooperation as well as by taking up new focus areas relevant to the region. In particular, ASEAN shall take into consideration the changing contexts of its economic integration efforts, the most relevant of which are the geostrategic shifts towards a multipolar global governance, the Fourth Industrial Revolution (4IR) and the digital transformation that it entails, the pressures facing multilateralism, particularly from rising protectionism and unilateralism, as well as rising sustainability concerns. Internally, ASEAN itself is also changing. With growing economic prowess, ASEAN is now a significant global player in its own right. As growth outlook the world over comes under pressure, the region has become one of the few bright spots in the global economy. The progress of ASEAN economic integration is, therefore, of interest to a broad audience, and the periodic publication of the AIR is intended to meet that purpose.
4. The AIR is the flagship publication of the ASEAN Integration Monitoring Directorate (AIMD) of the ASEAN Secretariat. It presents the current state of ASEAN economic integration in a comprehensive and analytical manner, and communicates to the public the ASEAN Secretariat's regular monitoring and reporting on the progress of AEC implementation

Towards the AEC 2025: Progress and Achievements

5. Notwithstanding growing uncertainties in the global economy, ASEAN's overall economic performance remains robust. With a combined GDP of USD 3.0 trillion in 2018, as compared to USD 2.5 trillion in 2015, ASEAN is currently the fifth largest economy in the world. As a global trade powerhouse, the region's total trade reached USD 2.8 trillion in 2018, an increase of 23.9% from the 2015 figure of USD 2.3 trillion. The region also attracted USD 154.7 billion worth of investment in 2018 – the highest in history – and a 30.4% increase from total FDI inflows of USD 118.7 billion in 2015. ASEAN economic integration continues to contribute towards the region's emerging position as a global growth driver, with intra-ASEAN accounting for the largest share of ASEAN's total trade and FDI inflows in 2018 at 23.0% and 15.9%, respectively. Beyond these statistics, the success of the AEC also comes from the many regional initiatives and measures undertaken by ASEAN and its Member States. The following sub-sections highlight progress and achievements under different characteristics of the AEC Blueprint 2025.

On Achieving a Highly Integrated and Cohesive Economy

6. In terms of **trade in goods**, with intra-ASEAN tariffs virtually eliminated (98.6% of tariff lines have zero tariff), efforts are now being intensified to enhance **trade facilitation** and address the barrier effects of non-tariff measures in the region. Originally targeted under the AEC Blueprint 2015, the full operationalisation of the ASEAN Single Window (ASW), an overdue trade facilitation initiative, has gathered pace. Starting with the electronic exchange of the ASEAN Trade in Goods Agreement (ATIGA) e-Form D to process the granting of tariff preferences under the ATIGA through the ASW platform, to date, seven AMS have joined the live operation, with the rest expected to come on board within 2019. Meanwhile, work towards the operationalisation of the ASEAN-wide Self Certification, which would allow certified exporters to self-certify the origin of their exports to enjoy preferential tariffs under the ATIGA, is now at its final stage, with expected operationalisation in 2020. All AMS have also linked their National Trade Repositories with the ASEAN Trade Repository, which is an ASEAN-level web-based interface that provides and maintains national-level trade- and customs-related information, and work is underway to enhance the availability and quality of information provided through the links.
7. Other initiatives on trade facilitation include the ASEAN Seamless Trade Facilitation Indicators (ASTFI), which were adopted in 2017 and designed to measure and monitor the implementation of trade facilitation measures across the region. Practical trade facilitation tools were also developed, such as the ASEAN Tariff Finder, a no-cost free online search engine to obtain up-to-date information on tariff-related information under various ASEAN Plus One FTAs, and the ASEAN Solutions for Investments, Services, and Trade (ASSIST), a non-binding and consultative mechanism for expedited and effective solution of operational problems encountered by ASEAN-based enterprises on the implementation of ASEAN economic agreements.

8. ASEAN's **customs cooperation** agenda, which aims to simplify customs procedures so as to significantly reduce trade transaction costs in the region, also continues to advance. Among the key developments are the signing of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT) Protocol 2 (Designation of Frontier Posts), and the ratification by all AMS of Protocol 7 (Customs Transit System) to support the implementation of the AFAFGIT. The ASEAN Customs Transit System (ACTS) aims to enable free movement of trucked goods between participating countries without the need for customs declarations at each border or a change of vehicle. Implementation of ACTS is piloted in two corridors i.e. North-South and East-West, with expected 'full live operation' in 2020. Furthermore, the ASEAN Customs Administrations are also committed to developing a cooperation mechanism to promote the Authorised Economic Operator (AEO) status and its mutual recognition.

9. ASEAN's work on **standards and conformance** is continuously enhanced through the harmonisation of standards, development and implementation of Mutual Recognition Arrangements (MRAs), and the harmonisation of regulatory regimes. ASEAN has, over the years, harmonised hundreds of standards and technical requirements on various products, ranging from electrical and electronic equipment, rubber-based products, medical devices, cosmetics, traditional medicines and health supplements, to automotive products, among others. The region has also seen the development and implementation of MRAs on electrical and electrical equipment, medicinal products, and food hygiene, and the negotiations of MRAs in the areas of automotive products and building and construction materials. These MRAs facilitate the acceptance of the testing, inspection, and certification of the products between AMS, removing duplication and reducing costs. At the most advanced level of the standards and conformance work is the harmonisation of AMS' regulatory regimes, thereby having a single ASEAN regime governing a particular sector. This is currently implemented for cosmetics, and will be implemented for electrical and electronic equipment, and medical devices. Moreover, preparations are underway for the implementation of the ASEAN Food Safety Regulatory Framework, while the negotiation of the ASEAN Agreements on Regulatory Framework for Traditional Medicines and Health Supplements is ongoing.

10. Given the increasing servicification of the economy, due among other factors to digitalisation and the advance of new technologies, the deepening of services integration is key to the success of ASEAN economic integration. In relation to **trade in services**, ASEAN has built on the success of the gradual removal of formal restrictions under the ASEAN Framework Agreement in Services (AFAS) towards deeper services integration through the ASEAN Trade in Services Agreement (ATISA), which provides for a transition to an eventual negative list approach in services liberalisation as well as greater regulatory cooperation. Progress in other areas of services is also visible, notably to enable skills mobility through: (1) the entry into force of the ASEAN Agreement on Movement of Natural Persons in 2016, which facilitates temporary entry and stay of natural persons of one AMS into another AMS; (2) the implementation of MRAs for the eight professional services; and (3) the implementation of the ASEAN Qualification Reference Framework, which is a common reference framework that enables comparisons of education qualification across the AMS.

11. On **investment**, ASEAN continues to advance its four-pronged agenda on liberalisation, promotion, facilitation, and protection. Since the launching of the AEC Blueprint 2025, the Second, Third, and Fourth Protocols to Amend the ASEAN Comprehensive Investment Agreement (ACIA) were signed. They are expected to improve investment cooperation through the incorporation of the built-in agenda items in ACIA (in the case of the Second and Third Protocols) and the incorporation of the WTO Trade-Related Investment Measures-plus Prohibition Performance Requirements obligations into the Agreement (in the case of the Fourth Protocol). The improved investment environment in the region has also been supported by consistent reforms throughout the AMS, such as through continuous reduction of restrictions on investment rules and regulations, increase investment protection, and improved investment facilitation. Moreover, due to increased sustainability concerns across ASEAN, there is also a growing interest in sustainable investment in the region.
12. **Financial integration** in the region is pursued through three strategic objectives, namely financial integration, financial inclusion, and financial stability. This three-pronged approach aims to achieve a holistic integration of the financial sector by balancing liberalisation initiatives with financial inclusiveness and stability. Key achievements in the sector include: the completion of the eight packages of commitments on financial services liberalisation under the AFAS; the commencement of negotiations on the Ninth Package of Commitments; and the signing of the Financial Services Annex in the ATISA. Progress has also been made in various areas of financial cooperation such as banking integration, financial inclusion, insurance integration, capital market development, and capital account liberalisation. In banking integration, the ASEAN Banking Integration Framework provides opportunities for deeper market access and broader operational flexibilities to Qualified ASEAN Banks. In capital account liberalisation, there are ongoing efforts to promote local currency settlement. Meanwhile, to encourage sustainable investments and financing, sustainability standards for capital markets have also been launched. Some initiatives go beyond the reach of the sector, such as Disaster Risk Financing and Insurance and the subsequent Southeast Asia Disaster Resilience Insurance Facility, which were set up to provide protection for the disaster-prone ASEAN region.
13. With regard to ASEAN's efforts to enhance its **participation in global value chains** (GVCs), recent data shows that AMS' share of domestic value added (DVA) in gross exports, which measures the forward linkages of an economy's participation in the GVC that is common in a commodity-dominant economy, has been relatively high since 2010, and this has remained so until recently. Some AMS observed declining DVA shares in recent years, but this is more likely a result of these countries' declining reliance on unprocessed primary products exports, and transition to become exporters of more manufactured or processed products, which typically require more intermediate imports. Meanwhile, the share of foreign value added, which indicates the extent to which an economy uses imported intermediates to produce exports, tends to be higher in AMS that are involved more in manufacturing value chains and those with relatively high back-and-forth trading activities.

On Competitive, Innovative, and Dynamic ASEAN

14. For ASEAN to be a competitive region with well-functioning markets, rules on **competition** need to be operational and effective. Currently, nine out of ten AMS have competition laws in place, with Cambodia expected to enact its competition law in the near term. All nine competition laws have been translated into English and compiled as the ASEAN Compendium of English Translations of National Competition Laws, which was annexed to the ASEAN Handbook on Competition Policy and Law for Business 2017. Other major initiatives on competition policy and law include the ASEAN Regional Cooperation framework on Competition, the implementation of which forms the pathway to an ASEAN Regional Cooperation Agreement, as well as the ASEAN Self-Assessment Toolkit on Competition Enforcement and Advocacy, the ASEAN Regional Capacity Building Roadmap 2017-2020, the Virtual ASEAN Competition Research Centre, and the ASEAN Competition Enforcers Network.
15. Playing a key role in the market are consumers. **Consumer protection** is key to a modern, efficient, effective, and fair market. ASEAN's cooperation in the area of consumer protection has deepened over the years. As of now, nine AMS have enacted their Consumer Protection Act, while Cambodia's consumer protection legislation is expected to be enacted in 2020. At the regional level, the ASEAN High-Level Principles for Consumer Protection provide a common baseline for cooperation and exchange of experiences and best practices. Other recent milestones in ASEAN's cooperation in this area include the development of the ASEAN Self-Assessment Toolkit, the launch of the Handbook on Consumer Protection Laws in ASEAN, and the linking of the ASEAN Product Recalls Portal with the Product Recalls Portal of the Organisation for Economic Co-operation and Development (OECD).
16. **Intellectual property** (IP) promotion and protection supports innovation, creativity, and value creation in the market. Several noteworthy IP-related initiatives in the region since 2016 include the ASEAN Common Guidelines for the Substantive Examination of Trademarks and of Industrial Designs in 2017 and 2018 respectively; work under the ASEAN Patent Examination Cooperation, which allows patent applications to be processed faster and more efficiently; enhancements to the databases on registered trademarks and design registrations, namely the ASEAN TMView and DesignView platforms and the development of the ASEAN Geographical Indications Database; and the establishment of the ASEAN Network of Enforcement Experts. Continued efforts to strengthen IPR cooperation in ASEAN are critical for innovation and long-term competitiveness.
17. A competitive, dynamic, and innovative ASEAN requires regulations that are non-discriminatory, pro-competition, effective, coherent, and responsive. **Good regulatory practices** (GRP) are key to the successful delivery of AMS' development agenda as well as the overall implementation of regional commitments. GRP are newly embraced in the AEC agenda, appearing as a new focus area in the AEC Blueprint 2025. Key achievements in this area are the adoption of the non-binding ASEAN GRP Core Principles in 2018 to assist AMS in improving their regulatory practice and to foster ASEAN-wide regulatory cooperation, and the conducting of a Baseline Study on Regulatory Management Systems in ASEAN, which is being finalised. In addition, there are also GRP-related initiatives in specific sectors, such as the adoption of the NTM Guidelines, and the updating in 2018 of the 2009 ASEAN Guidelines on GRP.

On Enhancing Connectivity and Sectoral Cooperation

18. Sectoral cooperation has been strengthened across different areas, while ASEAN connectivity has also been enhanced. In the **transport** sector, ASEAN's cooperation covers land transport, air transport, maritime transport, and sustainable transport. ASEAN's air transport cooperation achieved a significant milestone with the full ratification of the ASEAN open skies agreements in April 2016, establishing the ASEAN open sky. Continued progress has also been made in the upgrading of the ASEAN Highway Network road networks as well as efforts to complete the missing links of the Singapore-Kunming Rail Link, two key land transport initiatives in the region. In 2017, the region also saw the signing of the ASEAN Framework Agreement on the Facilitation of Cross-Border Transport of Passengers by Road Vehicles, along with the adoption of key documents on sustainable transport. Maritime transport cooperation also continued to advance with the launching of the ASEAN Roll-on Roll-off Sea Linkage Route between Davao–General Santos, the Philippines, and Bitung, Indonesia, in 2017. The full implementation of the main transport facilitation agreements will significantly enhance connectivity in the region, and to this end, AMS should expedite the completion of ratification processes.
19. In today's world, digital connectivity is at least as important as physical connectivity. ASEAN's cooperation in the **information and communications technology (ICT)** sector is therefore of critical importance. The region has enjoyed rising internet access and a meteoric rise in mobile cellular subscriptions, but there has been a much slower increase in broadband subscription, access to which is fundamental to thrive in the digital age. Naturally, the region is also experiencing a move from older forms of telecommunications, such as fixed landline telephone subscriptions. Among the major milestones in ASEAN's ICT cooperation are the adoption of the ASEAN Framework on Personal Data Protection in 2016, the ASEAN International Mobile Roaming Framework in 2017, and the ASEAN Framework on Digital Data Governance in 2018. In order to reflect the changing sectoral landscape and signal a more comprehensive approach to digital transformation, the ASEAN Telecommunications and IT Ministers also decided to rename themselves as 'ASEAN Digital Ministers'.
20. Digitalisation affects not only the way we connect, but also how we work, live, and trade. Underscoring the importance of **electronic commerce** (e-commerce), the ASEAN Coordinating Committee on Electronic Commerce was established in 2017, followed by the adoption of the ASEAN Work Programme on Electronic Commerce in the same year. A key milestone in ASEAN's e-commerce work was the signing of the ASEAN Agreement on Electronic Commerce in 2018 to, among others, contribute to creating an environment of trust and confidence in the use of e-commerce in the region. A closely related, but broader, initiative was the ASEAN Digital Integration Framework, which was adopted in 2018, and for which an Action Plan is being finalised. In recent years, ASEAN's approach towards e-commerce has evolved to cover not only its technological aspects, but also other cross-cutting implications, such as cybersecurity and the empowerment of consumers and MSMEs.

21. In the **energy** sector, ASEAN continues to achieve milestones in clean energy and the reduction of energy intensity of consumption. The region achieved a 21.9% reduction in energy intensity in 2016, surpassing the 2020 target of 20.0%. Efforts are underway to further improve energy efficiency in cooling given the expected growth in demand, including through minimum energy performance standards for air conditioning. The region has also set an aspirational target of 23.0% share of renewable energy in the ASEAN energy mix by 2025, and is working on accelerating the deployment of renewable energy, which, as of 2016, stood at 12.4% of ASEAN's total energy mix. ASEAN also actively promotes the use of clean coal technologies. The vast richness of mineral resources in the region heightens the importance of ASEAN's cooperation in **minerals**. Aside from strengthening trade and investment in the mineral sector, ASEAN's current focus in mineral cooperation is on the promotion of sustainable mineral sector development through better monitoring, sharing of best practices, and promotion of sustainable standards adoption.
22. **Food, agriculture, and forestry (FAF)** continues to play a strategic role in ASEAN's sectoral cooperation given its contribution to rural livelihood and links to food security and resource sustainability. Various initiatives have been put in place to further enhance the sustainability and competitiveness of the region's FAF sector. They include: in the case of agricultural sector, the ASEAN Public-Private Partnership Regional Framework for Technology in FAF Sectors and the ASEAN Roadmap for Enhancing the Role of Agricultural Cooperatives in Global Agricultural Chains, launched in 2017 and 2018 respectively; and the Work Plan for Forest Law Enforcement and Governance, adopted in 2016, in the case of forestry sector. The advancement of food security in the region is another priority in the FAF sector. The ASEAN Plus Three Food Security Information System, for example, has been further strengthened since 2016 to allow data collection and dissemination among the participating countries, while cooperation in agricultural research and development has been sustained, especially with regard to increasing the region's resilience and adaptation to climate change, natural disasters, and other shocks.
23. The **tourism** sector continues to demonstrate high potential in ASEAN, making a total contribution of 12.6% to the region's GDP in 2018 (WTTC, 2019). Beyond generating income, the sector also promotes local development and employment. On the other hand, the sector is also affected by sustainability concerns as well as the disruption brought about by new technologies. Part of the efforts to enhance ASEAN's competitiveness as a single tourist destination is the development and promotion of tourism standards, the latter through avenues such as the annual ASEAN Tourism Standard Awards. Mobility of tourism professionals is another area of cooperation that ASEAN is pursuing, with the signing of the ASEAN MRA on Tourism Professionals in 2012, and the launch of the ASEAN Tourism Professional System, a platform that facilitates the matching of tourism professionals and potential employers. A number of initiatives were also pursued to meet ASEAN's objective to become a sustainable tourism destination, namely the Pakse Declaration on ASEAN Roadmap for Strategic Development of Ecotourism Clusters and Tourism Corridors (2016) and the ASEAN Sustainable Tourism Award (2016). Moreover, ASEAN is also cultivating high-potential tourism market segments such as gastronomy tourism and cruise tourism.
24. Finally, ASEAN's cooperation in the area of **science and technology** (S&T) is fundamental to the region's drive to become a globally competitive, innovative community. Moving the S&T agenda from the ASEAN Socio-Cultural Community to the AEC is an acknowledgement of the sector's significance to productivity and competitiveness. While early cooperation was focused on projects and activities supported by the

ASEAN Science, Technology and Innovation Fund, recently the sector has been taking a more holistic and programmatic approach. This started with the adoption of the ASEAN Declaration on Innovation by ASEAN Leaders in 2018, followed by the development of the ASEAN Innovation Roadmap in 2019. In 2018, the sectoral ministerial and senior official bodies overseeing S&T matters also saw the inclusion of the term 'innovation' into their name, reflecting the long-term commitment of the S&T agenda towards productivity-driven growth and innovation.

On A Resilient, Inclusive, People-Oriented, and People-Centred ASEAN

25. Efforts to make the AEC resilient, inclusive, people-oriented, and people-centred are key to ensuring that ASEAN economic integration leaves no one behind. Work continues to progress on the development of MSMEs and the improvement of business environments and practices that are conducive to smallholders, especially with the adoption of the ASEAN Regional Principles on Good Business Registration Practices and the setting up of various platforms to assist **MSMEs**, such as the ASEAN Online Academy, ASEAN Business Incubator Network and the ASEAN Mentorship for Entrepreneurs. ASEAN, furthermore, has also recognised the role of inclusive business in fostering MSME development, including through the launch of the ASEAN Inclusive Business Framework in 2017.
26. A more coherent and structured approach to private sector engagement is also being pursued in recognition of the private sector's contribution to the AEC. The ASEAN Business Advisory Council was appointed as the apex **private sector** body in ASEAN, and is responsible for coordinating inputs from established business councils and entities in their interactions with various ASEAN sectoral bodies. Likewise, relevant ASEAN sectoral bodies are also encouraged to institutionalise a consultative process with representative private sector entities (e.g. business associations and/or business councils) to support the implementation of relevant initiatives under the sectoral work plans. To this end, the revised Rules of Procedures for Private Sector Engagement were endorsed in 2017 to ensure more effective public-private engagement. Contributing to the same objective, the ASEAN Secretariat has also initiated the AEC Dialogue as a regular interface with the private sector to discuss emerging issues facing the region's economy, and facilitate one-on-one consultations with individual business councils on specific topics of interest.
27. Building on the notable improvements in **narrowing the development gap** among AMS over the past few years, ASEAN continues to intensify work in this area. The Initiative for ASEAN Integration (IAI) Work Plan III (2016-2020), which consists of the five strategic areas of food and agriculture, trade facilitation, MSMEs, education, and health and well-being, was designed to assist Cambodia, Lao PDR, Myanmar, and Viet Nam to meet ASEAN-wide targets and commitments towards realising the goals of the ASEAN Community. Apart from the implementation of the IAI Work Plan III, specific efforts on MSME development and improving access to finance – as well as the work on various sub-regional cooperation platforms in the region – are contributing towards achieving equitable economic development. However, critical challenges in narrowing the development divide still need to be addressed, including by enhancing coordination between ASEAN and external parties, particularly in capacity building and knowledge sharing across all AMS, as well as by continuing individual AMS' efforts towards domestic reforms to enhance economic development.

On Enhancing External Economic Relations

28. With its consistent commitment to open regionalism, ASEAN continues to pursue active external economic relations with countries and regional groupings around the world in parallel to its internal integration efforts. Contributing towards its objective towards becoming **a global ASEAN**, some of the key highlights in this area include the signing of the ASEAN-Hong Kong Free Trade Agreement and the ASEAN-Hong Kong Investment Agreement, as well as the conducting of upgrading or review of existing ASEAN Plus One agreements, such as the ongoing implementation of the ASEAN-China Free Trade Agreement upgrading protocol, the completion of the general review of the ASEAN-Australia-New Zealand Free Trade Agreement and the endorsement of a Work Plan for AANZFTA Upgrade Negotiations, as well as the signing of the first protocol to amend the ASEAN-Japan Comprehensive Economic Partnership by all AMS in April 2019 to incorporate the chapters on services, investment and Movement of Natural Persons.
29. The conclusion of the Regional Comprehensive Economic Partnership (RCEP) remains top of ASEAN's external economic relations agenda. Negotiations are being intensified towards the target for conclusion this year to ensure the credibility of the RCEP process as well as in light of the urgency introduced by rising protectionism and global uncertainties. Once successfully concluded, RCEP will not only have immense economic potential through market and job opportunities, but also by providing a transparent, certain, rules-based framework for trade and investment among the 16 participating countries, hence safeguarding the stability of key production networks and value chains in the region and signifying ASEAN's central role in the region's economic architecture.

ASEAN in the Fourth Industrial Revolution

30. The **Fourth Industrial Revolution** (4IR) has been high on ASEAN's agenda ever since the issue was given political recognition in 2017, when ASEAN Leaders underscored the need for the region to be 'well-prepared and able to maximise the opportunities from the 4IR, so as to foster the region's economic growth, and promote inclusive and equitable economic development'. Since then, ASEAN has seen a proliferation of various 4IR-related initiatives. In 2018 alone, the region saw the completion of the 'Assessment of ASEAN's Readiness for the 4IR', along with the signing of the ASEAN Agreement on Electronic Commerce, as well as the endorsement of the ASEAN Digital Integration Framework and the ASEAN Framework on Digital Data Governance. The 4IR has also featured prominently in Thailand's 2019 ASEAN Chairmanship, where five out of 13 priority economic deliverables this year are focused on this emerging issue.
31. Acknowledging that the 4IR is an expansive and transformative phenomenon that goes beyond the remit of the AEC, ASEAN has also been intensifying cross-sectoral/pillar dialogues on the 4IR throughout 2019. Most recently, a Special Meeting on the 4IR was organised to facilitate dialogue among representatives of relevant sectoral bodies across the three pillars of the ASEAN Community. As a next step, ASEAN will develop a consolidated strategy on the 4IR, which will articulate clearly and holistically ASEAN's 4IR agenda and directions.

AEC 2025: The Way Forward

32. Despite progress and achievements to date, ASEAN shall not be complacent in its efforts to attain the AEC 2025 vision. Internally, there is urgency to ensuring that AEC commitments are met and implemented effectively and in a timely manner in each AMS for the benefits to be realised. The absence of a strong enforcement mechanism or a functioning dispute settlement mechanism means that the implementation of AEC commitments depends on national efforts – including internal coordination and monitoring efforts – and peer-to-peer commitment to regional goals. Externally, ASEAN's economic integration agenda is set in the context of a rapidly changing environment, which should be taken into consideration in working towards the implementation of those strategic measures in the Blueprint. This final section highlights recommendations for the way forward towards AEC 2025.
33. AMS need to **translate regional commitments into national-level commitments, milestones, and targets** that can be readily enforced, observed, and measured. This requires incorporating ASEAN's economic integration agenda into the realm of national policy making and implementation, such as in the formulation of national development plans and strategies. The same also requires regional coordination to be complemented **with strong coordination at the national level** to oversee the implementation of ASEAN commitments. While there is no one-size-fits-all mechanism, effective national mechanisms should facilitate inter-agency coordination, sharing of information, monitoring of implementation, and stakeholder consultation and feedback. Such a mechanism could also help identify technical and policy issues faced in meeting regional commitments and ways to address them. Given the increasing cross-pillar/sectoral challenges that ASEAN and AMS need to tackle, this mechanism must also be able to facilitate cross-pillar dialogue and coordination beyond those agencies dealing with the AEC.
34. In terms of ASEAN's effort to create **a highly integrated and cohesive economy**, greater focus should be given to initiatives beyond market opening, with specific efforts on improving trade facilitation, transparency, and regulatory cooperation as well as providing efficient financial services. In today's uncertain world, the intra-ASEAN market has provided a meaningful buffer to external shocks. Extra efforts are still needed for ASEAN to improve its intra-ASEAN trade and investment linkages, increasing the urgency for ASEAN to accelerate the full operation of its various trade facilitation initiatives. Similarly, reform efforts in the area of investment must be continuously maintained, especially given the fact that other competing markets are vigorously pursuing their own reform efforts. Equally important is the deepening of financial integration, which is key to economic stability as well as economic connectivity. While the level of financial integration in ASEAN is rising, there is still ample room for further progress. ASEAN needs to make long-term investments in financial infrastructure and become supported by sound institutional and legislative frameworks. Given the right balance of policy mix and the availability of digital infrastructure, financial integration in ASEAN could accelerate in the years ahead.
35. Building on the progress made towards achieving **a competitive, innovative, and dynamic ASEAN**, efforts are needed to further modernise rules and regulations in the area of competition, consumer protection, and IP. Apart from contributing towards the development of a conducive business and investment environment, they are also key for ASEAN to remain competitive globally. Amidst the advancement of new technologies brought about by the 4IR, regional platforms should also be leveraged by AMS to further strengthen and improve the relevance of the region's competition policy and laws, consumer protection regime, and IP

cooperation. Overall, ASEAN should also continue with the mainstreaming of the ASEAN Good Regulatory Practice Core Principles across its areas of work.

36. **Connectivity and sectoral cooperation** are key to ensuring the success of regional economic integration. Apart from being an integral part of ASEAN's connectivity agenda, this is also where concrete cooperation activities are undertaken, regional public goods are shared, and regional coordination among regulators takes place. Work in this area applies to sectors of horizontal strategic importance to the ASEAN economy, such as transport, energy and minerals, ICT, and S&T, as well as those of specific strategic consideration given their importance to the economy and employment, such as agriculture and tourism. While cooperation in each particular sector should continuously be enhanced, closer attention should also be given to improving coordination and collaboration among the sectors on cross-sectoral/pillar issues. All these require AEC sectoral bodies to be more open in identifying strategic thematic intersections, and more proactive in pursuing appropriate cross-sectoral/pillar collaborations. This calls for more effective engagement and sharing of information at both the national and regional levels among the relevant sectors, beginning with the leveraging of existing platforms such as the coordinating committees or the Joint Consultative Meeting.
37. To build **a resilient, inclusive, people-oriented, and people-centred ASEAN**, the AEC must deliver concrete benefits to the peoples of ASEAN. To do so, it shall be participatory and inclusive, and the further strengthening of ASEAN's engagement with the public is imperative. The consultation mechanism between ASEAN and the private sector – including through the institutionalisation of feedback and consultation mechanism between sectoral bodies and the private sector, as well as efforts to track progress in addressing legitimate issues raised by the private sector – can be further strengthened. Cross-pillar/sectoral engagements with the broader AEC stakeholders should also be encouraged. Equally important is the effort to improve the socialisation and utilisation of ASEAN's initiatives. In addition to regular review and upgrading, socialisation and engagement with the private sector and the broader stakeholders will help ensure the relevance of these initiatives vis-à-vis their intended users.
38. ASEAN continues to work towards the attainment of **a global ASEAN**. With its growing economic prowess, ASEAN is becoming a significant global player in its own right. ASEAN's enhanced role in the global economic community is more important today than ever, given increased global uncertainties. ASEAN should continue to leverage existing and future ASEAN-led or centred mechanisms. The timely conclusion of the RCEP is one such mechanism. Once concluded, RCEP will not only represent the largest free trade area in the world, but also serve as an ASEAN-led framework for regional trade architecture. Furthermore, as multilateral trade (and multilateralism in general) comes under pressure, there is a need for ASEAN to play a more active role in upholding the open and rules-based multilateral trading system under the World Trade Organization (WTO). ASEAN's priority should be ensuring that the WTO remains effective, including in its dispute settlement function, and also relevant by taking into consideration changing trade realities.
39. Lastly, ASEAN needs to be agile and flexible in addressing various emerging trends and issues that constantly arise in an increasingly uncertain global environment. Growing inequality, the emergence of disruptive technologies, climate change, unsustainable production and consumption, the shift in geostrategic balance, and demographic shifts, to name a few, continue to pose challenges to the region's political and economic landscapes. ASEAN will need to address these issues from a whole-of-community perspective that is inclusive and sustainable, taking into consideration various existing initiatives that are already in place, the diversity in its membership, and its collective standing in the global economy.

Chapter 1

Introduction



1. The Association of Southeast Asian Nations (ASEAN) established the ASEAN Community in 2015; it comprises the ASEAN Political Security Community, the ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community. Complementing the establishment of the ASEAN Community was the adoption of the ASEAN Community Vision 2025 and the three successor Community Blueprints to chart ASEAN's integration trajectory towards 2025.
2. The AEC, on which the ASEAN Integration Report (AIR) focuses, was established building on the achievements under the implementation of the first AEC Blueprint (2007-2015) as reported in the inaugural ASEAN Integration Report 2015. Towards 2025, the region's economic integration agenda is guided by the AEC Blueprint 2025. The AEC Blueprint 2025 envisions five interrelated and mutually reinforcing characteristics, namely: (1) a highly integrated and cohesive economy; (2) a competitive, innovative, and dynamic ASEAN; (3) enhanced connectivity and sectoral cooperation; (4) a resilient, inclusive, people-oriented, and people-centred ASEAN; and (5) a global ASEAN. Most notable under the AEC Blueprint 2025 is a greater focus on developing a policy environment that is supportive of innovation that improves productivity in the region, strengthens ASEAN's participation in the global value chains, enhances sectoral cooperation, promotes inclusivity and sustainability – including through support to micro, small, and medium enterprises (MSMEs) – and encourages a more proactive role in the global economy.
3. Through the implementation of the AEC Blueprint 2025, ASEAN will further its economic integration, by deepening and broadening the existing areas of cooperation as well as by taking up new focus areas relevant to the region. In particular, ASEAN shall take into consideration the changing contexts of its economic integration efforts, the most relevant of which are the geostrategic shifts towards a multipolar global governance, the Fourth Industrial Revolution (4IR) and the digital transformation that it entails, the pressures facing multilateralism, particularly from rising protectionism and unilateralism, as well as rising sustainability concerns. Internally, ASEAN itself is also changing. With growing economic prowess, ASEAN is now a significant global player in its own right. As growth outlook the world over comes under pressure, the region has become one of the few bright spots in the global economy. The progress of ASEAN economic integration is, therefore, of interest to a broad audience, and the periodic publication of the AIR is intended to meet that purpose.
4. The AIR is the flagship publication of the ASEAN Integration Monitoring Directorate (AIMD) of the ASEAN Secretariat.¹ It presents the current state of ASEAN economic integration in a comprehensive and analytical manner, and communicates to the public the ASEAN Secretariat's regular monitoring and reporting on the AEC implementation progress.

¹The AIMD is one of the three directorates under the AEC Department of the ASEAN Secretariat. It is responsible for, among others: (1) spearheading the implementation of regional surveillance and economic integration in ASEAN; (2) providing high-level policy and technical advice and recommendations to support ASEAN economic integration initiatives; (3) shaping the economic research and policy analysis programme of the ASEAN Secretariat; (4) ensuring effective information dissemination, communication, and reporting on ASEAN economic integration; and (5) providing in-house capacity development for economic integration monitoring, analysis, and research. The AIMD consists of four divisions, namely: (1) Monitoring, Surveillance, and Coordination Division; (2) Analysis and Monitoring on Trade, Industries, and Emerging Issues Division; (3) Analysis and Monitoring on Finance and Socio-Economic Issues Division; and (4) Statistics Division, also known as the 'ASEANStats'. Further information concerning the AIMD is available on its official website at <http://aecmonitoring.asean.org/>.

1.1. About the AIR 2019

5. The inaugural issue of the AIR was released in November 2015, ahead of the official launching of the AEC. Building on the structure and analysis of the first issue, the AIR 2019 provides an analysis of ASEAN's macroeconomic landscape in recent years, and provides a comprehensive assessment of progress and achievements of ASEAN economic integration since 2016 in the context of the AEC Blueprint 2025.² It also presents a thematic chapter on the 4IR, which has been identified as one of the most important megatrends in ASEAN, as well as a section containing conclusions and policy recommendations.
6. More specifically, the objectives of the AIR 2019 are as follows:
 - 1) Contextualise recent developments related to ASEAN economic integration amidst overall global macroeconomic developments;
 - 2) Provide a comprehensive assessment of progress and achievements of ASEAN economic integration, both in terms of compliance and outcomes, in the context of characteristics of the AEC Blueprint 2025;
 - 3) Provide focused analysis of the selected theme of ASEAN economic integration (e.g. on the 4IR); and
 - 4) Present policy recommendations to facilitate greater economic integration in the region.

1.2. Structure of the AIR 2019

7. The AIR 2019 comprises five chapters. After the first introductory chapter, **Chapter 2** discusses the macroeconomic landscape and highlights developments that are most consequential to the ASEAN economic integration process. The Chapter analyses economic trends in the region, in view of the key events and policies implemented over the period. The first part of Chapter 2 discusses real sector output and financial sector developments on ASEAN economic integration. The remainder of the Chapter focuses on developments in trade and investment.
8. In **Chapter 3**, the progress and achievements of the different elements under the five characteristics of the Blueprint are discussed at great length, in terms of both compliance and outcomes. In the case of compliance, the focus is on implementation progress as informed by (and analysed through) the 23 sectoral work plans and related reference documents, as well as input from relevant desks within the ASEAN Secretariat. The AIR also examines the outcomes of the implementation of the Blueprint through an analysis of the Key Performance Indicators (KPIs) that are set against the strategic measures/objectives/goals in the AEC Blueprint 2025 and the sectoral work plans. The sources of information and data include various agreements and official publications, input from desks of the ASEAN Secretariat and the ASEANStats, as well as other credible international and national organisations
9. The discussion in **Chapter 4**, the thematic chapter, focuses on ASEAN's readiness for the 4IR, in due recognition of the significant implications of this megatrend for the region. The Chapter's analysis draws insights from the 'ASEAN Readiness for the Fourth Industrial Revolution' study, an internal ASEAN Secretariat Assessment completed in 2018. It also provides updates on ASEAN's work related to the 4IR.

² In terms of data/trends, the period covered will be from 2010 onwards, to the extent of data availability.

10. Finally, **Chapter 5** concludes the AIR 2019 by highlighting, among others, challenges and opportunities that the region should address and tap into in order to attain the vision of the AEC Blueprint 2025 successfully.

1.3. Conclusion

11. ASEAN's economic integration is a dynamic process, where long-term objectives are pursued in the context of a changing environment. Despite persistent challenges in the global economy, ASEAN continues to make progress towards attaining its AEC 2025 visions and objectives. The ongoing global economic uncertainties, in fact, warrant ASEAN to do its utmost to ensure that its economic integration agenda is met so that the region's competitiveness and productivity can be sustained. While some of the targets to achieving the AEC vision and objectives have been met, others are ongoing to ensure that outstanding AEC commitments remain on track for completion. The AIR 2019, which reports on the progress of implementation of the AEC Blueprint 2025, presents an opportunity for the region to reflect on its achievements so far – as well as on the challenges and opportunities it faces – so as to realise the AEC 2025 as envisioned in the Blueprint.

Chapter 2

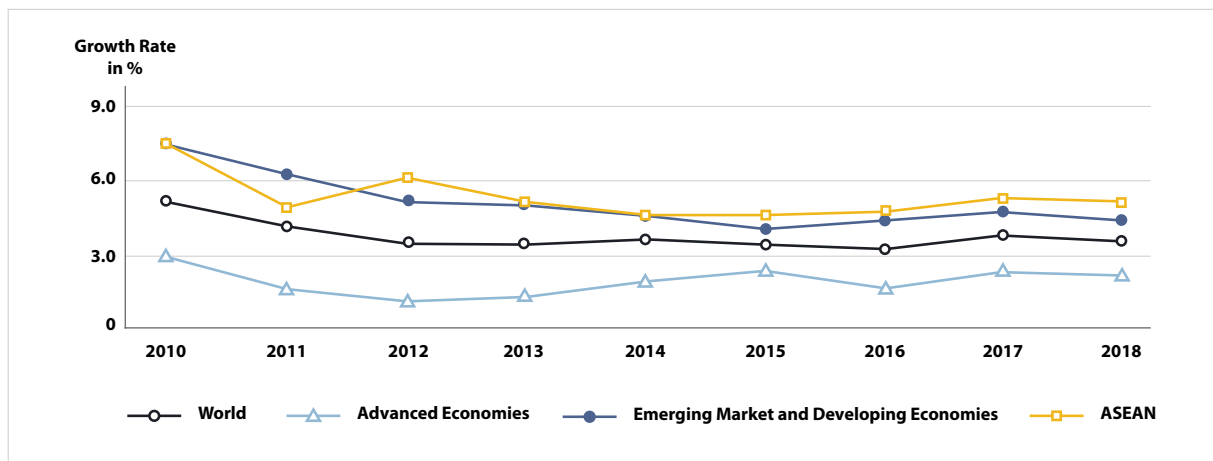
Macroeconomic Environment



2.1. Global and Regional Economy

1. The global economy entered a period of recovery after the crisis in 2008, and the global gross domestic product (GDP) expanded by 5.4% in 2010 before moderating within the 3.4%-3.8% range from 2012 to 2018 (see Figure 2.1). The decade saw advanced and emerging economies implementing stimulus measures and adopting quantitative easing, followed by policy tightening and escalating trade tensions, amidst ongoing geopolitical tensions. From 3.8% in 2017, global GDP growth moderated to 3.6% as growth momentum was dampened by the trade tensions. Growth in advanced economies slowed to 2.3% in 2018 following the softening of industrial production, political uncertainties, and natural disasters; while growth in emerging economies eased to 4.5% in 2018 from 4.8% in 2017 given the financial tightening and uncertain economic conditions. (IMF 2019a)
2. The ASEAN economy has consistently outperformed the global economy. The region's GDP growth has remained close to 5.0% since 2011, while global GDP stayed below 4.0% over the same period.

Figure 2.1. Real GDP Growth Rate, 2010-2018



Note: p = preliminary.

Sources: ASEAN Secretariat (as of September 2019) and IMF (2019b; 2019c).

3. By 2018, ASEAN's share of the global economy had expanded, in nominal terms, to 3.5% (up from 2.9% in 2010). ASEAN has risen to fifth place among the largest economies in the world, with nominal GDP estimated at USD 3.0 trillion, an increase of more than 50% from its 2010 level (see Table 2.1). ASEAN trailed the US (24.2%), the EU (22.1%), China (15.8%), and Japan (5.9%).³
4. Well embedded in global value chains, the region is also one of the largest globally in terms of trade in goods. ASEAN has a 7.2% share in global trade in goods (ranked fourth after the EU, China, and the US) and a 6.8% share in global trade in services, and ranked fourth after the EU, the US and China. With strong economic fundamentals and a fast-growing market, ASEAN is also an attractive investment destination. In 2018, ASEAN received USD 154.7 billion, or 11.9% of total global FDI inflows, the highest in its history, ranking third after the EU and the US. The region is also among the largest global investors, with outward investments amounting to USD 69.6 billion – 6.9% of the world total.

³ In PPP terms, the share of ASEAN's economy expanded from 5.5% of the global economy in 2010 to 6.5% in 2018, and is also ranked fifth in the world.

Table 2.1. ASEAN Ranking in the Global Economy, Trade, and FDI

Indicator	Rank			Value (USD billion)			Global Share (%)		
	2010	2015	2018	2010	2015	2018	2010	2015	2018
Nominal GDP	6	5	5	1,931.2	2,455.6	2,986.4	2.9	3.3	3.5
Trade in Goods	4	4	4	2,001.4	2,272.9	2,817.4	6.5	6.8	7.2
Exports	4	4	4	1,049.0	1,171.7	1,432.6	6.9	7.1	7.3
Imports	4	4	4	952.4	1,101.1	1,384.8	6.2	6.6	6.9
Trade in Services	3	4	4	439.2	640.2	778.6	5.7	6.5	6.8
Exports	3	3	3	213.8	317.9	404.9	5.5	6.4	6.9
Imports	3	4	4	225.4	322.3	373.8	5.9	6.6	6.7
FDI Inflows	4	5	3	108.2	118.7	154.7	7.9	5.8	11.9
Outflows	5	8	6	63.3	69.0	69.6	4.6	4.1	6.9

Sources: ASEAN figures are from ASEAN Secretariat (as of September 2019); Global GDP is from IMF (2019b; 2019c); Global Trades, Global FDI and ASEAN FDI Outflow are from UNCTAD (2019a).

5. Among the ASEAN Member States (AMS), Indonesia's economy is the largest, with nominal GDP of USD 1.0 trillion, equivalent to 34.9% of total ASEAN GDP in 2018, followed by Thailand with 16.9%, or a GDP of USD 505.1 billion (see Table 2.2). However, these shares have declined slightly since 2010, as other economies in the region slowly catch up. In particular, Viet Nam's share has increased by 2.1 percentage points (ppts), from 6.0% of regional GDP in 2010 to 8.1% in 2018; and the Philippines, from 10.4% in 2010 to 11.5% in 2018. Similarly, the smaller economies of Cambodia, Lao PDR, and Myanmar are also gaining market shares of 0.2 to 0.5 ppts.

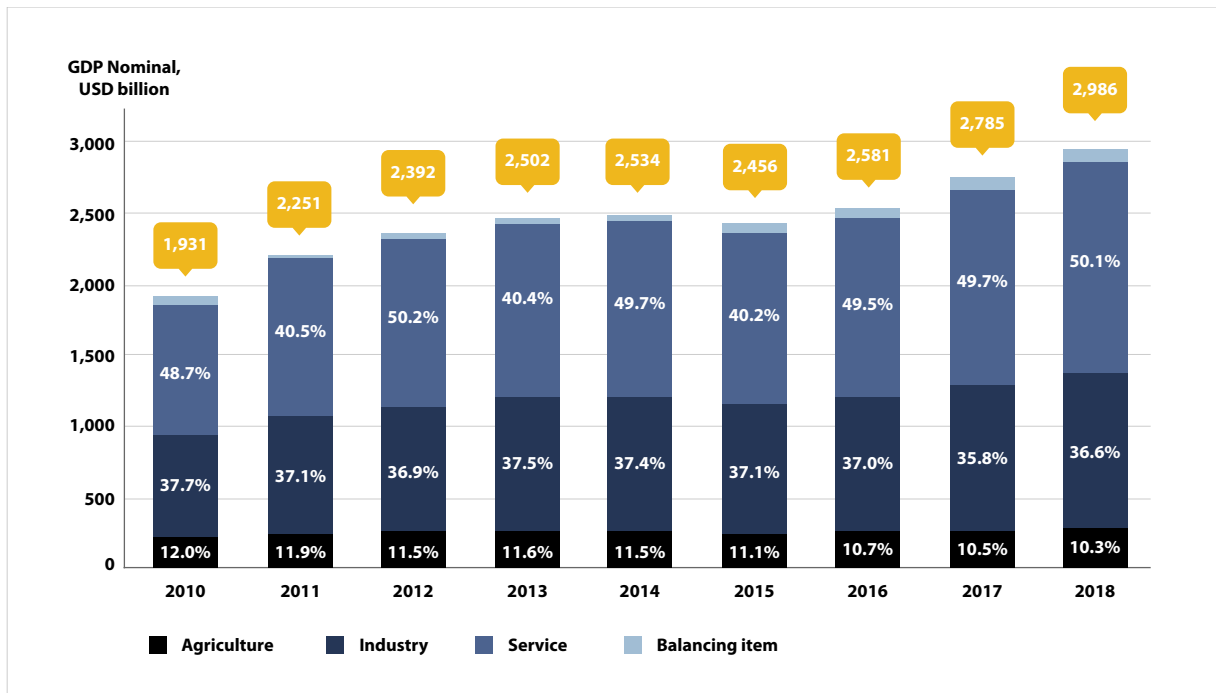
Table 2.2. GDP of ASEAN Economies

Country	Nominal GDP			Share to ASEAN		
	USD billion			%		
	2010	2015	2018	2010	2015	2018
Brunei Darussalam	13.7	12.9	13.6	0.7	0.5	0.5
Cambodia	11.2	18.1	24.6	0.6	0.7	0.8
Indonesia	710.1	855.0	1,041.6	36.8	34.8	34.9
Lao PDR	6.8	14.4	18.1	0.3	0.6	0.6
Malaysia	250.8	299.5	358.4	13.0	12.2	12.0
Myanmar	41.0	59.8	77.3	2.1	2.4	2.6
Philippines	200.0	292.5	342.7	10.4	11.9	11.5
Singapore	239.8	308.0	364.1	12.4	12.5	12.2
Thailand	341.5	401.7	505.1	17.7	16.4	16.9
Viet Nam	116.3	193.6	241.0	6.0	7.9	8.1
ASEAN	1,931.2	2,455.6	2,986.4	100.0%	100.0%	100.0%

Source: ASEAN Secretariat (as of September 2019).

6. Among the three sectors of the economy, services is both the fastest growing and the largest contributor to ASEAN GDP (see Figure 2.2). From 2010 to 2018, the services sector grew at an average annual rate of 6.0% (vis-à-vis 5.6% of nominal GDP growth⁴), compared with the industry sector's 5.2% and agriculture's 3.5%. As a result, the share of services in total economic production increased from 48.7% in 2010 to 50.1% in 2018, while that of agriculture declined from 12.0% to 10.3%. The share of the industry sector has remained stable at around 37.1%. In terms of value, services generated USD 1.5 trillion worth of production in 2018, while the industry sector contributed USD 1.1 trillion.

Figure 2.2. ASEAN GDP by Sector



Source: ASEAN Secretariat (as of September 2019).

7. On the other hand, the region's aggregate real GDP growth improved to 5.2% in 2018 from 4.8% in 2015, although it remained below the 2010-2018 average of 5.4% per year. The highest expansions came from Cambodia, Lao PDR, Myanmar, and Viet Nam, which have enjoyed more than 6.0% GDP growth every year since 2010. As economies stabilised following the drawn out recovery from the global crisis in the early part of the decade, most AMS also saw lower growth. Hence, for most AMS, growth in 2018 was lower compared to 2010.

⁴ In real terms, the average growth rate of GDP over 2010-2018 is 5.4%.

Table 2.3. GDP Growth and Inflation in ASEAN, by AMS

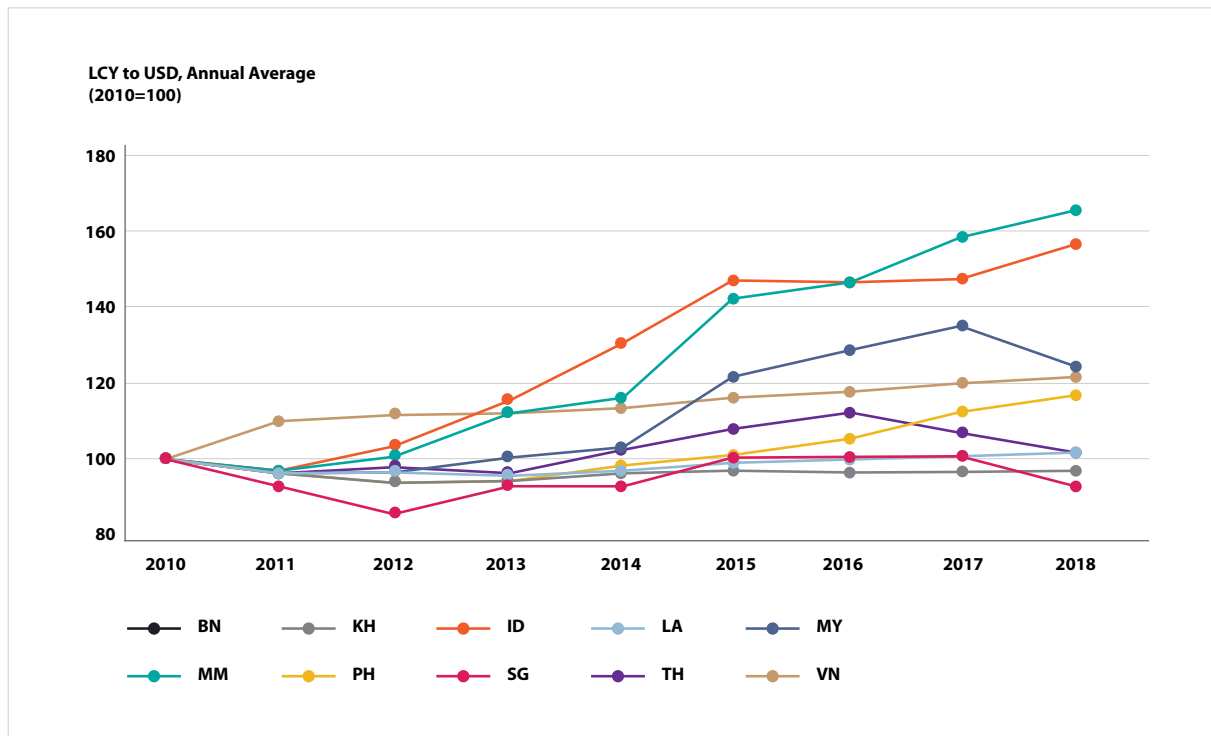
Country	Real GDP Growth (%)				Inflation Rate, Year-on-Year (%)			
	2010-2018	2010	2015	2018p	2010-2018	2010	2015	2018p
Brunei Darussalam	0.1	2.6	-0.4	0.1	-0.6	0.4	-0.4	0.2
Cambodia	7.0	6.0	7.0	7.5	3.1	4.0	1.3	2.5
Indonesia	5.5	6.2	4.9	5.2	5.2	5.1	6.4	3.2
Lao PDR	7.5	8.1	7.3	6.3	3.8	6.0	1.3	2.0
Malaysia	5.4	7.4	5.0	4.7	2.3	1.7	2.1	0.9
Myanmar	7.3	9.6	7.0	6.8	6.1	8.2	11.5	6.9
Philippines	6.3	7.6	6.1	6.2	3.4	3.8	1.4	5.3
Singapore	5.1	15.2	2.2	3.1	1.8	2.8	-0.5	0.4
Thailand	3.7	7.5	3.1	4.1	1.7	3.3	-0.9	1.1
Viet Nam	6.2	6.4	6.7	7.1	6.3	9.2	0.6	3.5
ASEAN	5.4	7.5	4.8	5.2				

Note: Average Inflation is calculated by arithmetic mean.

Source: ASEAN Secretariat (as of September 2019).

8. The region experienced moderate inflation within the range of -0.5% to 6.4% from 2010 to 2018. Inflation pressures in the AMS have eased since 2010, most notably in Viet Nam (from 9.2% in 2010 to 3.5% in 2018) and Lao PDR (from 6.0% in 2010 to 2.0% in 2018) with the winding down of the impact of fiscal stimulus measures and loose monetary policies meant to invigorate economies and avoid a slump following the global crisis, and partly as central banks monitored inflation more closely. Among the AMS, Myanmar's inflation rate was the highest, especially in 2015 when it peaked at 11.5% due mainly to expansionary macroeconomic policies that led to rapid credit growth. Meanwhile, the Philippines is the only AMS that registered higher inflation in 2018 compared to 2010. The Philippines implemented the Tax Reform for Acceleration and Inclusion in 2018, which expanded value-added taxes and raised excise taxes, increasing consumer prices and fuelling inflation.
9. Except for the Singaporean dollar and the Laotian kip, all currencies in the region have depreciated since 2010, with the Indonesian rupiah depreciating by more than 50% since 2010 (see Figure 2.3). In 2010, USD 1.0 was equivalent to IDR 9,086.9; by 2018, this was IDR 14,238.0. The Myanmar kyat, meanwhile, depreciated by more than 60%, to MMK 1,412.9 to the US dollar in 2018, from MMK 856.9 to the US dollar in 2012. Note that when Myanmar changed to the managed float arrangement from a soft peg in April 2012, the value of its currency plunged to MMK 856.9 to the US dollar from MMK 5.4 in 2011.⁵ The depreciation of the kyat contributed towards the exchange rate convergence with its longer-term fundamentals. Nevertheless, as beneficiaries of large inward capital flows and an attractive foreign investment destination, the AMS continue to be exposed to exchange rate fluctuations.

⁵ See, for example, IMF (2015).

Figure 2.3. Exchange Rate, by AMS

Note: An increase means depreciation, while a decrease means appreciation compared to the US dollar. Above 100 means the local currency has depreciated against the US dollar since 2010, while below 100 means the local currency has appreciated against the US dollar. The base year is 2010 (2010=100), except for MM, which is 2012.

Sources: ASEAN Secretariat calculations using data from the ADB (various issues).

10. The current account balance shows a broadly deteriorating external position among the AMS (see Table 2.4). The current account balance as a share of GDP is declining, mainly as a result of a weaker trade sector. A recovery in the trade sector was observed in 2016 and 2017, but this was cut short by the trade tensions in 2018. While the deteriorating trade balances spill over to the overall current account positions, current account balances in most AMS remain in surplus. Brunei, Malaysia, Singapore, Thailand and Viet Nam continue to run current account surpluses. On the other hand, the Philippines had been running a current account surplus but since 2016 has dipped into negative territory.
11. On the other hand, most of the AMS' fiscal balances had broadly improved since 2010, with Singapore even posting a surplus in 2018. Many of the AMS have sought to reduce their fiscal deficits through better revenue collection and/or tax reforms. Some have also contained expenditures to meet fiscal deficit targets. Nevertheless, government spending on infrastructure projects and social services remain top priority areas to support economic growth. Brunei, however, was an exception, with its large surplus in 2010 turning into a huge deficit in 2015 due to a decrease in oil and gas revenues and royalties, although the deficit was considerably narrowed by 2018.

Table 2.4. Current Account Balance and Fiscal Balance, by AMS

Country	Current Account Balance, % of GDP			Fiscal Balance, % of GDP		
	2010	2015	2018	2010	2015	2018
Brunei Darussalam	43.8	16.7	15.5	16.5	-15.4	-8.6
Cambodia	-11.6	-11.6	-13.6	-8.1	-2.6	-5.1
Indonesia	0.7	-2.0	-3.0	-0.7	-2.6	-1.7
Lao PDR	-18.3	-18.0	-8.6	-8.9	-4.5	-4.6
Malaysia	10.9	3.0	2.3	-5.4	-3.2	-3.7
Myanmar	-1.2	-5.2	-2.0	-5.5	-4.3	-4.5
Philippines	3.6	2.5	-2.4	-3.5	-0.9	-3.2
Singapore	26.6	17.0	17.7	0.3	-1.0	0.4
Thailand	3.1	8.0	7.5	-2.6	-2.5	-2.5
Viet Nam	-3.7	0.5	3.0	0.5	-4.4	-3.7

Sources: ARIC (2019) and ADB (various issues).

12. External debt to GDP ratios, both total and short-term, increased (see Table 2.5). Excluding Singapore, which is an outlier, the average ratio of total external debt to GDP among the AMS is around 50% of GDP, while short-term debt is around 10% of GDP. While debt as a means of financing investments is largely unavoidable, it brings financial risks that may arise from movements in exchange rates or interest rates, or from economic shocks that affect the business environment. In 2018, the foreign reserves of Thailand, the Philippines, and Cambodia compensated for their levels of external debt, with the ratios close to or above a 100%. On the other hand, Lao PDR had only around 8.8% of external debt covered by reserves, while those of Indonesia, Malaysia, Singapore, and Viet Nam were below 50%.

Table 2.5. External Debt and Reserves, by AMS

Country	Short-Term External Debt, % of GDP			Total External Debt, % of GDP			Reserves, % of External Debt ^a		
	2010	2015	2018	2010	2015	2018	2010	2015	2018
Brunei Darussalam	-	-	-	-	-	-	-	-	-
Cambodia	3.4	7.3	8.0	34.0	53.7	53.7	84.2	90.2	144.4
Indonesia	4.4	4.5	4.8	26.8	36.1	36.2	47.5	34.1	32.0
Lao PDR	0.8	5.0	3.5	91.9	81.1	86.0	25.9	9.1	8.8 ^b
Malaysia	24.2	27.1	27.3	55.1	64.5	62.3	75.7	48.9	46.5
Myanmar	-	-	-	-	-	-	5.9	50.1	57.3
Philippines	5.3	5.2	4.9	36.8	26.5	23.9	103.9	104.1	100.3
Singapore	359.3	314.1	308.0	442.5	417.3	411.7	16.8	18.7	19.6
Thailand	14.8	13.1	12.3	29.4	32.6	31.9	171.2	119.4	130.0
Viet Nam	6.5	6.2	9.8	42.3	40.3	46.5	37.8	-	47.2 ^b

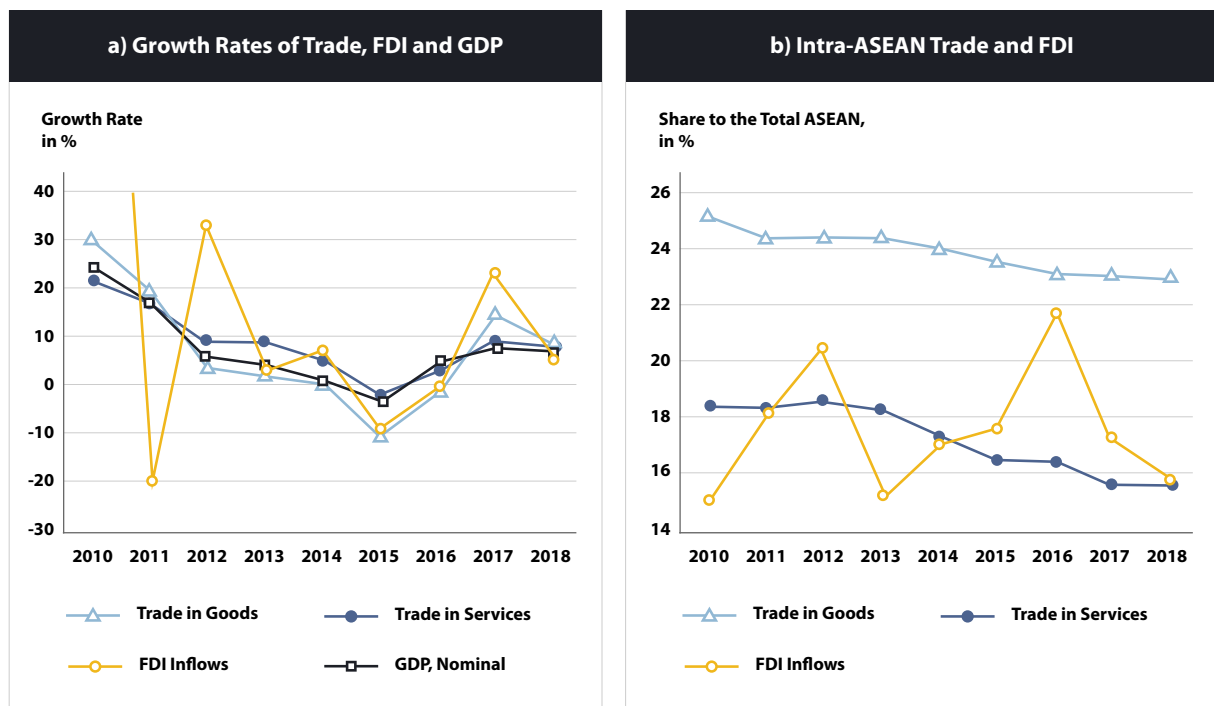
Note: Total external debt includes all bank loans, debt securities issued abroad, non-bank trade credits, multilateral claims, and official bilateral loans, for both the private and public sector. Short-term external debt includes only responsibilities due within one year. Data on debt for Brunei Darussalam and Myanmar is not available.

Sources: ARIC (2019); and a calculations by the ASEAN Secretariat using ADB data, except for b 2017 where data was taken from the World Bank (n.d.a.).

2.2. Trade and Investment in ASEAN

13. ASEAN's trade and investments have fluctuated since 2010 (e.g. the post-recession recovery, see Figure 2.4). This was a result of a general cyclical downturn in trade and an overall moderation in the global economy. Trade picked up in 2017 as advanced economies started to recover and instabilities in the markets subsided with expectations of gradual policy normalisation. However, in 2018 trade tensions aggravated global uncertainties and stifled the economic expansion. Growth rates of nominal GDP, trade in goods, trade in services, and FDI normally move together, with slight variations for FDI. Hence, along with the downturn in economic activities following the rising trade and investment protectionism among major economies, trade in goods and services (as well as investments) also dipped in 2018.

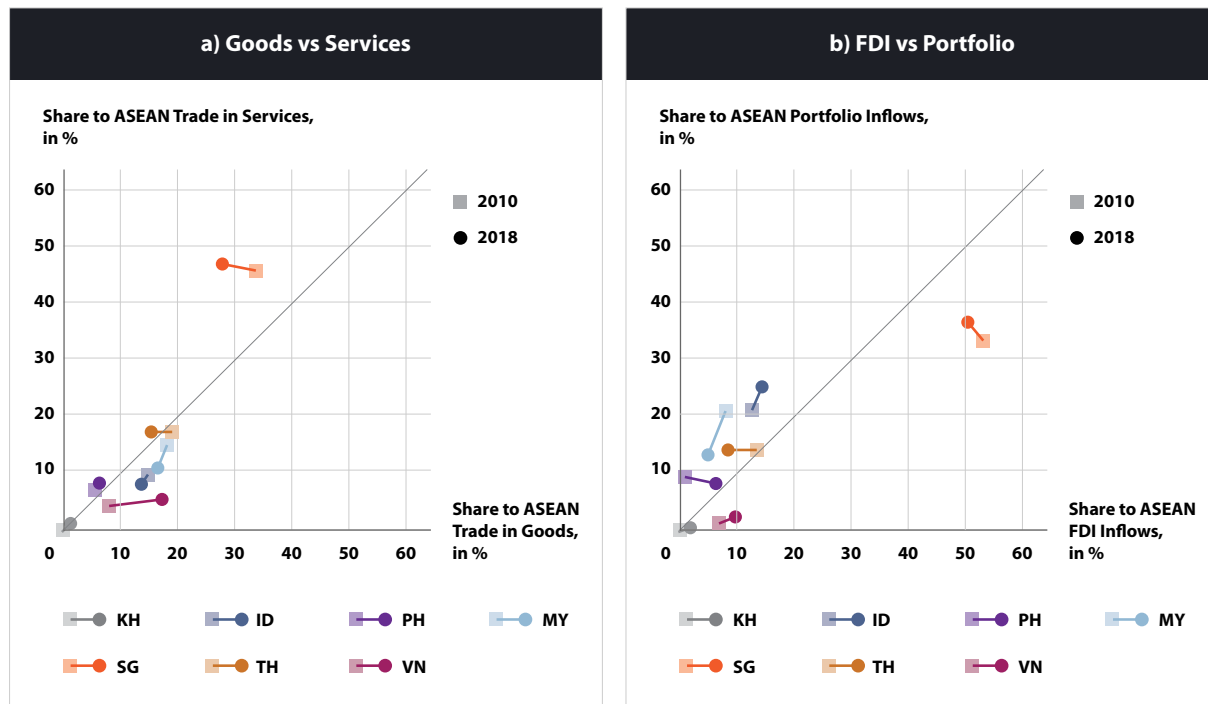
Figure 2.4. ASEAN Trade and Investments, 2010-2018



Note: GDP growth is in nominal terms for better comparison with increases in FDI, trade in goods, and trade in services.

Source: ASEAN Secretariat (as of September 2019).

14. At the same time, the share of intra-ASEAN trade in goods and services stayed relatively stable between 2010 and 2018, declining only slightly in the second half of the decade. The intra-regional share of trade in goods fell slightly to 23.0% in 2018 from 25.1% in 2010, while the intra-regional share of trade in services was down from 18.4% in 2010 to 15.7% in 2018. For FDI, the intra-ASEAN share stayed within 15%-22% from 2010 to 2018, with the share in 2018 (15.9%) slightly higher than 2010's 15.1%.

Figure 2.5. Shares in Total Trade and Investment Shares by AMS, 2010 vs Present

Source: ASEAN Secretariat (as of September 2019); Data on the portfolio investment derives from the IMF (2019d).

15. The shares of each AMS' trade in goods and in services to total ASEAN trade are broadly similar (close to the 45-degree line in the chart) (see Figure 2.5.a). In other words, AMS with higher shares in goods trade also have higher shares in services relative to other AMS, except for Singapore and Viet Nam. Singapore has a much higher share of trade in services (47.1% versus 27.8% for trade in goods), while Viet Nam's trade leans towards goods (17.1% versus 5.4% for trade in services). The AMS with higher shares in trade in goods are mainly large commodities exporters or manufacturing hubs, such as Indonesia and Viet Nam. On the other hand, those with relatively higher shares in the services trade have strong financial sectors like Singapore or the Philippines, which has an established business process outsourcing industry.
16. Shares of ASEAN FDI and portfolio inflows are also broadly steady across AMS – AMS whose shares in the region's portfolio inflows are higher compared to their shares in FDI inflows are the same for 2010 and 2018 (see Figure 2.5.b, above the 45 degree line), and AMS whose shares in FDI are higher (below the 45 degree line) are also the same. For some AMS, however, there are significant changes in the magnitude of shares (e.g. the Philippines, whose share in ASEAN FDI inflows increased from 1.2% in 2010 to 6.3% in 2018; Thailand, whose share in ASEAN FDI inflows dropped from 13.6% to 8.6%; or Malaysia's share in ASEAN portfolio inflows, which dropped from 20.6% in 2010 to 13.3% in the first half of 2018). Likewise, Singapore's share in the region's total portfolio inflows dropped, although the country remains an outlier in the region with more than 50% of the region's FDI inflows and close to 40% of the region's portfolio inflows. Meanwhile, for Cambodia, Lao PDR, Myanmar, and Viet Nam, shares of FDI inflows to the ASEAN total are much higher compared to their respective shares in the region's portfolio inflows. A major reason is that capital markets in these countries are still at a nascent stage, and hence FDI remains dominant as a source of investment financing.

2.3. Conclusion

17. ASEAN's growth has consistently outperformed the global economy. ASEAN has sustained its growth momentum despite the substantial challenges posed by uncertainties in the global economy, although the outlook for the near term is overshadowed by ongoing trade and geopolitical tensions. Most AMS are well positioned to meet these risks and challenges, provided that the fundamentals remain strong and reform efforts continue. The strong economic performance in past years reflected solid export demand, both from advanced and emerging economies and from within the region, but the external sector will likely continue to be uncertain for a few years. The AMS should therefore build on this decade of economic gains, even as growth tapers in the coming years, leveraging regional integration efforts to foster resilience against external shocks.
18. The share of intra-regional trade, while maintaining its significance in ASEAN's total trade, has moderated in recent years, as the AMS' growth orientation drives trade with external partners. The share of intra-regional investments, however, has marginally improved. In both cases, the intra-regional market represented the largest share in ASEAN's total. Substantial improvements in regional institutions and mechanisms have eased cross-border processes and will contribute to the strengthening of intra-regional trade and investments. In part, regional trade and investment have been supported through the maintaining of an open-market policy, enhancements in infrastructure, and advancements in technology. Trade tensions between the US and China in 2018 have not discernibly dented trade flows to and from ASEAN, although a few AMS have been more affected. Moving forward, however, further escalation of trade tensions and retaliation could undermine trade flows as well as business and consumer optimism, with repercussions on regional integration and real economic activity.
19. Contained inflation and fiscal deficits suggest better macroeconomic management among the AMS, although the current account balance and external debt position show increased vulnerability to external factors. Nevertheless, the stronger fiscal and financial position of many AMS should allow them to manage these risks. The build-up of private debt in some AMS in recent years needs close monitoring. Given the heightened uncertainties in the global environment, the AMS should observe prudence to minimise economic risks. Sensible and supportive macroeconomic management will foster a more enabling environment for regional growth and development as ASEAN continues its work towards regional economic integration.



Chapter 3.

The ASEAN Economic Community: Progress and Achievements

1. Since the official launching of the AEC at the end of 2015, the ASEAN economic integration process continues to progress, guided by the AEC Blueprint 2025. Work is ongoing to achieve an AEC that, by 2025: is highly integrated and cohesive; is competitive, innovative, and dynamic; is resilient, inclusive, people-oriented, and people-centred; and is global, playing an active role in regional and global economic architectures.⁶
2. The strategic measures under the elements of the five characteristics in the AEC Blueprint 2025 are operationalised through the implementation of the 23 sectoral work plans across different economic cooperation areas and are aimed towards the achievements as reflected in the key performance indicators (KPIs) of each sector. This chapter provides an in-depth analysis of progress and achievements to date of the AEC Blueprint 2025, both in the context of compliance, i.e. implementation, and in terms of outcomes, i.e. achievement of KPIs. The structure of this chapter follows closely that of the AEC Blueprint 2025.⁷

3.1. A Highly Integrated and Cohesive Economy

3. The first characteristic of the AEC Blueprint 2025 is a highly integrated and cohesive economy. The main objective of this characteristic is to facilitate the seamless movement of goods, services, investment, capital, and skilled labour within ASEAN in order to enhance ASEAN's trade and production networks, as well as to establish a more unified market for its firms and consumers. This characteristic covers the following elements: (1) trade in goods; (2) trade in services; (3) investment environment; (4) financial integration, financial inclusion, and financial stability; (4) facilitating movement of skilled labour and business visitors; and (6) enhancing participation in global value chains.

3.1.1. Trade in Goods

4. The free flow of goods has long been an important aim of ASEAN economic integration. In fact, the creation of an ASEAN Free Trade Area (AFTA) in 1992 predated the launch of the AEC Blueprint 2015 in 2007. ASEAN and its individual Member States have increasingly become stronger players in global trade. The region's trade in goods has markedly increased from USD 2 trillion in 2010 to USD 2.8 trillion in 2018, or 7.2% of global trade, placing ASEAN – collectively – as the fourth largest trading economy in the world.⁸ Except for 2015 and 2016, exports of goods consistently rose during this period, reaching USD 1.4 trillion in 2018. At the same time, imports of goods showed a similar trajectory and reached USD 1.4 trillion by 2018. Imports have been consistently lower than exports, which made ASEAN's trade balance positive throughout the observed period (see Figure 3.1).

⁶ Further information concerning the AEC Blueprint 2025 is available on the official website of the ASEAN Secretariat at https://www.asean.org/storage/2016/03/AECBP_2025r_FINAL.pdf.

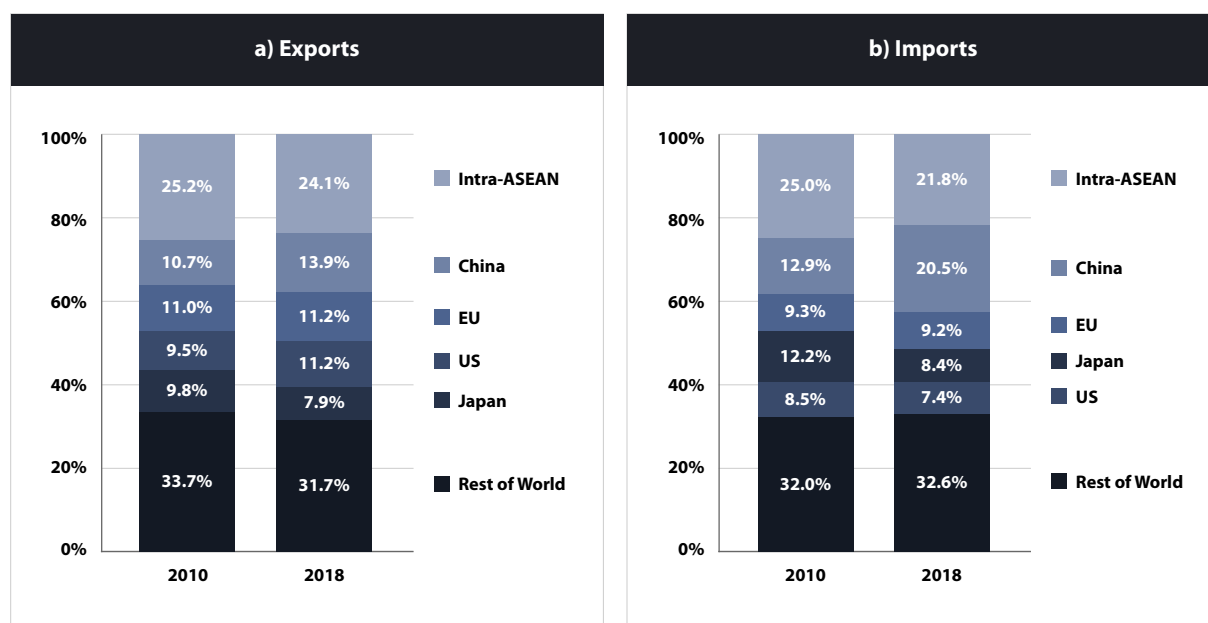
⁷ Although following closely the structure of the AEC Blueprint 2025, discussions on progress and achievements of some elements of the Blueprint are combined with other elements. Examples of this include the discussion on 'Taxation Cooperation' (Element B5), which is covered under the discussion of 'Financial Integration, Financial Inclusion, and Financial Stability' (Element A4, or sub-section 3.1.4.10. of this chapter). Another example is the discussion on 'Facilitating Movement of Skilled Labour and Business Visitors' (Element A.5), which is covered under the discussion of 'Trade in Services' (Element A2, or sub-sections 3.1.2.1. (on Mutual Recognition Arrangements), 3.1.2.2. (on Movement on Natural Persons), and 3.1.2.3. (on ASEAN Qualification Reference Framework)).

⁸ Collectively, ASEAN is the fourth largest trading economy in the world after China, the US, and Germany.

Figure 3.1. ASEAN's Trade in Goods, 2010-2018

Source: ASEAN Secretariat (as of September 2019).

5. Collectively, ASEAN internally is the largest market for its total trade, at 23.0% in 2018; followed by China (17.2%), the EU (10.2%), and the US (9.3%). The shares of intra-ASEAN merchandise exports and imports in 2018 was 24.2% and 21.7% of ASEAN's total exports and imports, respectively. Other significant markets for ASEAN exports in 2018 were China (13.9% of ASEAN's total exports), followed by EU-28 (11.2%), the US (11.2%), and Japan (7.9%). For ASEAN imports, the largest sources after intra-ASEAN were China (20.5%), EU-28 (9.2%), Japan (8.4%), and the US (7.4%). Figure 3.2 shows how the composition of ASEAN's exports market and import sources changed between 2010 and 2018.
6. While the intra-ASEAN shares in total exports and imports did not change much between 2010 and 2018 (from 25.2% to 24.1% and from 25.0% to 21.8%, respectively) in absolute terms, intra-ASEAN exports increased by 30.6% over this period to reach USD 345.2 billion in 2018, and intra-ASEAN imports by 26.8% to reach USD 302.3 billion.

Figure 3.2. Shares of ASEAN's Sources and Destinations of Goods Exports and Imports, 2010 and 2018

Source: ASEAN Secretariat (as of September 2019).

7. As a consequence of declining intra-ASEAN shares in ASEAN's total exports and imports, intra-ASEAN trade intensity declined from 3.9 in 2010 to 3.2 in 2018 (see Table 3.1). Although in absolute terms intra-ASEAN trade is increasing, ASEAN trade with its external partners increased more than its trade within the region. Figure 3.2 shows the evolution of intra-ASEAN trade in the last decade.

Table 3.1. Intra-ASEAN Trade Intensity, 2010-2018

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018
Intra-ASEAN Total Trade (USD billion)	502.9	582.9	605.6	617.8	608.1	535.4	516.6	591.5	647.5
ASEAN Total Trade (USD billion)	2,001.4	2,398.3	2,480.6	2,533.1	2,535.2	2,272.9	2,238.6	2,576.8	2,816.7
World Total Trade (USD billion)	30,723.0	36,778.1	37,168.2	37,914.7	38,022.5	33,244.7	32,247.5	35,706.2	39,266.6
Intra-ASEAN (% of ASEAN Trade)	25.1%	24.3%	24.4%	24.4%	24.0%	23.6%	23.1%	23.0%	23.0%
ASEAN Trade (% of the World)	6.5%	6.5%	6.7%	6.7%	6.7%	6.8%	6.9%	7.2%	7.2%
Intra-ASEAN Trade Intensity	3.9	3.7	3.7	3.7	3.6	3.4	3.3	3.2	3.2

Source: United Nations Conference on Trade and Development (UNCTAD) (n.d.a) for World Trade Data; ASEAN Secretariat (as of September 2019) for all others.

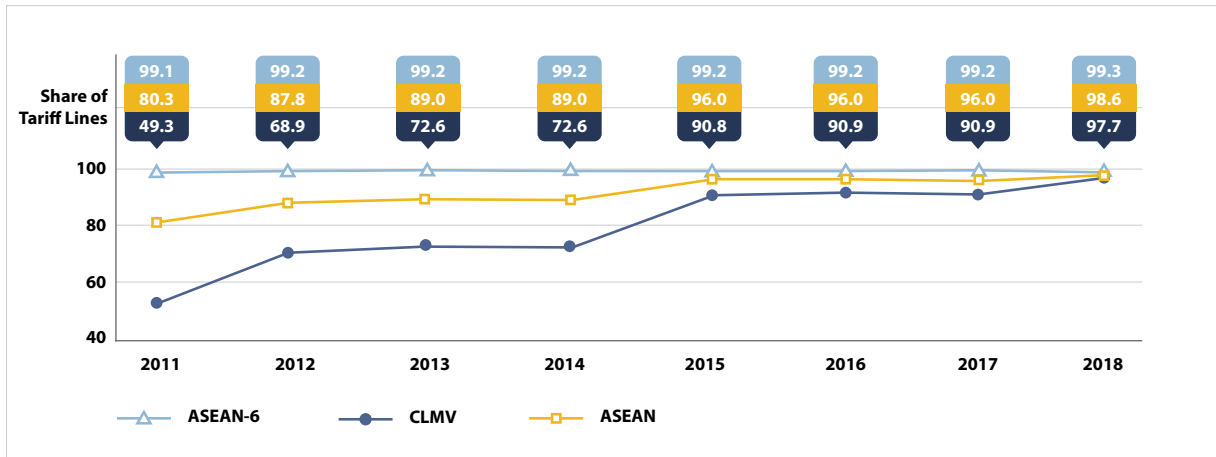
8. ASEAN has been a strong supporter of an open trading system. Measured by the share of trade in nominal output, the region's trade size reached 94.3% of GDP in 2018, with Singapore being the most open at 215.0%, followed by Viet Nam at 199.1%, Malaysia 129.7%, and Cambodia at 122.6%. This compares well with other regions or economies, including the more developed ones, such as Australia's at 34.7%, China's 34.5%, Japan's 29.9%, ROK's 70.4%, EU-28's 68.7%, and the US's 20.9%.
9. The establishment of the AEC has laid a foundation for a functioning single market and production base. Under the AEC Blueprint 2015, ASEAN has made strides in significantly eliminating intra-ASEAN tariffs. In addition, efforts are ongoing in implementing other commitments under the ASEAN Trade in Goods Agreement (ATIGA), which came into force in 2010, including trade facilitation measures. These have contributed to the freer flow of goods in the region.
10. Under Characteristic 1 (Highly Integrated and Cohesive Economy) of the AEC Blueprint 2025, Element A1 (Trade in Goods) lays out a plan to make ASEAN more competitive, efficient, and able to facilitate the seamless movement of goods in the region by reducing and eliminating border and behind-the-border regulatory barriers that impede trade. Strategic measures to attain these goals include: (1) further strengthening of ATIGA; (2) simplifying and strengthening implementation of the Rules of Origin (ROO); and (3) accelerating and deepening implementation of trade facilitation measures. In 2017, ASEAN also set the twin targets of doubling intra-ASEAN trade between 2017 and 2025 while reducing trade transaction costs by 10% by 2020.
11. The Strategic Action Plan (SAP) 2016-2025 for Trade in Goods was endorsed at the 30th AFTA Council and the 48th ASEAN Economic Ministers (AEM) Meeting in August 2016. The SAP 2016-2025 for Trade in Goods aims to guide ASEAN to achieve more integrated trade regimes, eliminate the remaining obstacles to regional trade, and promote a rules-based system to enable businesses to benefit the most from the ATIGA.
12. To fulfil this goal, the SAP continues to deepen the initiatives begun under the AEC Blueprint 2015. Articulating further the strategic measures laid out in the AEC Blueprint 2025, the SAP's strategic measures are classified into five categories as follows: (1) strengthen ATIGA further; (2) effective mechanisms to minimise trade protection impacts and compliance costs of non-tariff measures (NTMs); (3) simplify and strengthen the implementation of the rules of origin; (4) accelerate and deepen implementation of trade facilitation measures; and (5) strengthen public and private sector engagement.

3.1.1.1. ASEAN Trade in Goods Agreement

- 13 The first strategic measure in the SAP 2016-2025 for Trade in Goods is to further strengthen the ATIGA. ASEAN has made significant progress in liberalising tariffs under the ATIGA. As of May 2019, 99.3% of all tariffs have been eliminated by the ASEAN-6 (e.g. Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand), while the corresponding figure for Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) is 97.7%. Collectively, ASEAN has eliminated 98.6% of the total number of tariff lines in 2019 (see Figure 3.3).

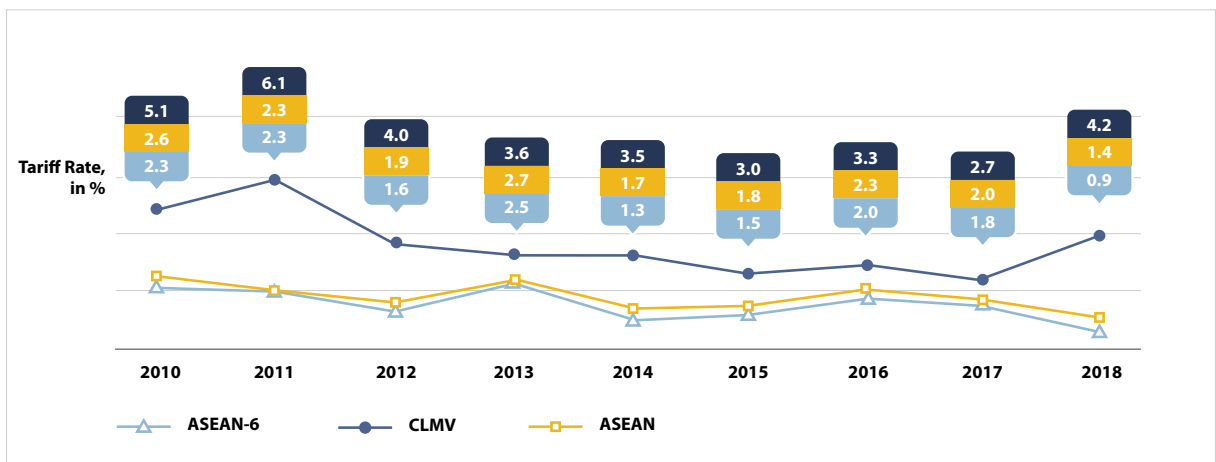
⁹ Trade openness in 2018 for other AMS were 79.1% for Brunei Darussalam, 33.8% for Indonesia, 62.9% for Lao PDR, 46.6% for Myanmar, 53.3% for the Philippines, and 85.7% for Thailand.

¹⁰ Data for AMS is available from the ASEAN Secretariat (as of September 2019), while data for other countries is calculated from UNCTAD (n.d.a.) for trade data and IMF (2019b) for GDP data.

Figure 3.3. Share of Tariff Lines at 0% in the ATIGA Tariff Schedule

Source: ASEAN Secretariat (as of September 2019).

14. Efforts to liberalise tariffs under the ATIGA have effectively lowered the level of applied tariff rates in the region. In 2017, ASEAN's weighted average effective applied tariff rates reached 2.0%, with average tariff rates of 1.8% for the ASEAN-6, and 2.7% for the CLMV countries. The CLMV countries, in particular, have significantly reduced their applied tariff from an average of 5.1% in 2010 to 2.7% in 2017 (see Figure 3.4).

Figure 3.4. Weighted Average Effective Applied Tariff of ASEAN

Source: ASEAN Secretariat's calculation based on UNCTAD's TRAINS database, retrieved via WITS of the World Bank (n.d.b.).

15. To ease the utilisation of the ATIGA, ASEAN has also introduced the ASEAN Harmonised Tariff Nomenclature (AHTN) in 2017, which allows all AMS to use the same tariff nomenclature up to eight-digit level, two-digit beyond the international Harmonised System (HS) Code. The ATIGA Tariff Reduction Schedules (TRSs) in AHTN 2017 have been endorsed for all AMS, except Viet Nam, by the AFTA Council. Currently, Viet Nam is working closely with AMS to expeditiously address the outstanding issue.

16. ASEAN has also completed the transposition of the ATIGA Product-Specific Rules and Textile Single List in HS 2017, and is working towards the completion of transposition of the Information Technology Agreement List in AHTN 2017. Furthermore, to ensure the timely implementation of the AHTN 2022 version by all AMS, preparation on the review of AHTN 2017 began in November 2018, and proposal solicitation from relevant ministries and stakeholders is underway in the development of AHTN 2022.

3.1.1.1.1. Non-Tariff Measures

17. A country's participation in regional and international trade is affected by both tariffs and non-tariff measures (NTMs), which can be defined as policy measures other than tariffs that can affect cross-border trade. The term covers a number of policy interventions, such as ROO, licensing, price-control measures, etc. (UNCTAD, 2015a). However, it is important to note that not all NTMs are undesirable. Some of them are put in place for justified public policy objectives, and stem from non-trade policy objectives, such as for food or consumer safety, or environmental protection.
18. While many countries have made significant progress in reducing tariffs, there is a general trend of rising NTMs globally, along with the risks of these NTMs being used as protectionist regulations. In ASEAN, whereas the average tariff rates decreased from 8.9% in 2000 to 4.5% in 2015, the number of NTMs had increased from 1,634 measures to 5,975 measures over the same period (Ing, et al., 2016). As of 24 May 2019, ASEAN countries have a total of 5,886 NTMs based on official regulations (see Table 3.2). Of these NTMs, 132 were in the form of Contingent Trade Protective Measures, 759 Export-related Measures, 150 in Pre-Shipment Inspection, 32 Other Measures, 194 Price-Control Measures, 157 Quantity Control measures, 1,938 Sanitary and Phytosanitary (SPS), and 2,524 Technical Barriers to Trade (TBT) (UNCTAD, n.d.b.).

Table 3.2. NTMs Based on Official Regulations in AMS, in Force as of 24 May 2019

Country	Contingent Trade Protective Measures	Export-related Measures	Pre-Shipments Inspection	Other Measures	Price-Control Measures	Quantity Control Measures	SPS	TBT
ASEAN Countries								
Brunei Darussalam	-	46	1	-	18	2	161	288
Cambodia	-	70	1	-	12	3	36	120
Indonesia	48	74	52	4	5	8	125	318
Lao People's Democratic Republic		82	14	1	48	26	38	82
Malaysia	34	72	5	-	12	9	260	331
Myanmar	-	35	2	1	13	5	75	41
Philippines	1	146	24	12	23	56	233	360
Singapore	-	49	2	-	35	1	127	300
Thailand	45	128	44	3	21	40	762	562
Viet Nam	4	57	5	11	7	7	121	122
Plus Six Countries								
Australia	75	424	4	1	69	13	279	943
China	101	1,025	113	58	51	57	1,643	4,309
India	347	37	2	7	11	30	72	46
Japan	6	193	32	5	43	16	264	722
ROK	-	307	27	1	71	8	706	809
New Zealand	9	61	29	3	5	-	1,569	1,422

Source: UNCTAD (n.d.b).

19. The prevalence of NTMs is not necessarily bad. Well-developed markets tend to have more complex and developed regulations, and hence a higher number of NTMs, while less-developed markets may simply not yet have the necessary regulations in place, and, hence, a lower number of NTMs. The Plus Six countries (Australia, China, India, Japan, ROK, and New Zealand), for instance, had a total of 16,025 NTMs based on official regulations that were in force as of 24 May 2019. In addition, a higher number of recorded NTMs may also signal more effective or compliant notification processes. Thus, what we seek to reduce, if not eliminate, is the restrictive or distortionary effects of NTMs on international trade.
20. Under the Strategic Action Plan of Trade in Goods 2016-2025, one of the key action lines for ASEAN to minimise trade protection impacts and compliance costs of NTMs is to develop procedures and/or guidelines to effectively address NTMs. The ASEAN Guidelines for the Implementation of ASEAN Commitments on Non-Tariff Measures on Goods (hereafter referred to as the 'NTM Guidelines') was endorsed by the 32nd AFTA Council, which was convened on 29 August 2018 in Singapore.¹¹

¹¹ Further information on the NTM Guidelines is available on the official website of the ASEAN Secretariat at https://asean.org/storage/2018/12/Guidelines_for_the_Implementation_of_ASEAN_Commitments_on_NTMs-July_2018-AEM-AFTAC_32.pdf.

21. When NTMs are applied by AMS, the NTM Guidelines encourage AMS to conform to the following five guiding principles: (1) necessity and proportionality; (2) consultations and engagement; (3) transparency; (4) non-discrimination and impartiality; and (5) periodic review. To ensure the implementation of NTM Guidelines, AMS agreed to strengthen their National Trade Facilitation Committees (or similar organisations) by including regulatory oversight functions in reviewing newly introduced and existing NTMs, as well as undertaking coordination on NTM notifications and private sector engagement.
22. The implementation of the NTM Guidelines is expected to assist ASEAN and AMS in identifying trade-distorting effects of measures that constitute non-tariff barriers (NTBs), and for such NTBs to be subjected to removal by the concerned AMS. The efficient implementation of the NTM Guidelines will require national-level and regional-level coordination by AMS, especially in improving their trade facilitation committees to include regulatory oversight functions. All AMS have now established their National Trade Facilitation Committee or similar organisations, and agreed to strengthen the regulatory oversight functions of the Committee.

3.1.1.2. Rules of Origin and ASEAN-Wide Self-Certification Scheme

23. Rules of Origin (ROO) refers to the criteria used to determine the national source of a product for the purpose of eligibility in granting preferential tariffs. The AEC Blueprint 2025 stipulates that ROO implemented by AMS should be 'simple, business-friendly and trade-facilitative' so as to benefit the region's trade, in particular the participation of MSMEs to encourage them to expand, upgrade, and deepen their linkages within the region.
24. To further facilitate intra-ASEAN trade, a 'self-certification' scheme is also being initiated. This mechanism allows certified exporters to self-certify the origin of their exports to enjoy preferential tariffs under the ATIGA. The operationalisation of the ASEAN-Wide Self-Certification Scheme (AWSC), which was first mooted in 2009, will minimise burdens associated with administrative compliance and decrease transaction costs. While 2012 was set as the initial timeline for the operationalisation of the scheme, this schedule had to be deferred several times due to the differences in the certification requirements of the AMS. In order to address these differences, and for AMS to become a region-wide self-certification scheme, two Self-Certification Pilot Projects were initiated and implemented in parallel with the authorised Certificate of Origin Form D regime. In 2017, the key differences between these two pilot projects were resolved. The signing of the Protocol to Amend the ATIGA to allow for the AWSC Scheme by all AMS in January 2019, followed by the endorsement by the economic Ministers at the 33rd AEM-AFTA Council Meeting of the amended ATIGA Operational Certification Procedure in September 2019, as well as ongoing efforts by AMS to ratify the Protocol to Amend the ATIGA to allow for the AWSC Scheme, are paving the way for the operationalisation of the AWSC Scheme by March 2020.

3.1.1.3. Trade Facilitation

25. Reducing trade costs is essential for countries to use trade effectively as an engine for growth and sustainable development. Over the past decade, many of the reductions in trade costs in ASEAN were achieved through the reduction of tariffs. In order to further reduce trade costs in the region, ASEAN has recently made strengthening of trade facilitation one of its key economic integration goals.

26. A number of governance and planning instruments were adopted by ASEAN to further strengthen its trade facilitation agenda: (1) the ASEAN Trade Facilitation Framework (ATFF); (2) the Terms of Reference of the ASEAN Trade Facilitation Joint Consultative Committee (ATF-JCC); and (3) the ASEAN Trade Facilitation Strategic Action Plan (ATF-SAP).
27. The ATFF provides a basis upon which AMS can further engage and foster greater trade facilitation regionally and within the relevant ASEAN sectoral bodies. Adopted by the 48th AEM Meeting in August 2016, the ATFF focuses on effective implementation of existing ASEAN obligations, commitments, and instruments relating to trade facilitation. The added value of the ATFF rests in the desire of AMS to provide a coordinated and renewed impetus towards trade facilitation within the ASEAN region.¹²
28. Following the introduction of the ATFF, the ATF-JCC, through the endorsement of its Terms of Reference by the 1st Senior Economic Officials Meeting (SEOM) for the 48th AEM Meeting (SEOM 1/48) in February 2017, was reactivated. The Committee, comprising representatives of various sectoral bodies relevant to trade facilitation, as well as the private sector, has the objective of ensuring the competitive, efficient, and seamless movement of goods by implementing international trade facilitation measures, improving monitoring mechanisms, minimising impact of NTMs, engaging with the private sector, addressing implementation gaps, and enhancing institutional coordination.
29. To ensure effective and efficient implementation of the ATFF, the 49th AEM-31st AFTA Council Meeting in 2017 also adopted the ATF-SAP. The ATF-SAP is guided by the following principles: transparency, communication and consultations; simplification and efficiency; non-discrimination; harmonisation and mutual recognition; modernisation and use of new technology; due process; cooperation, and; private sector orientation. It aims to effectively and efficiently implement the ATFF to achieve the competitive, efficient, and seamless movement of goods within the region. This will ultimately enhance ASEAN's trade and production networks, enabling it to better participate in global value chains.
30. The measurable targets under the ATF-SAP include: (1) reduction in trade transaction costs in the AEC by 10% by 2020, (2) doubling of intra-ASEAN trade between 2017 and 2025; and (3) improved performance in global rankings/surveys (e.g. the World Economic Forum's Global Competitiveness Report and the World Bank's Ease of Doing Business).
31. The ATF-SAP includes strategic measures and action lines with specific outputs and outcomes, as well as measurable outcome indicators and timeline. Strategic actions in ATF-SAP include, among others: the alignment of customs procedures with the Kyoto convention; the full operationalisation of the ASEAN Single Window, ASEAN Trade Repository, ASEAN Customs Transit System, and ASEAN Solutions for Services, Investment, and Trade; the updating of existing ASEAN NTMs database; the strengthening of private sector engagement, especially MSMEs; the operationalisation of guidelines on institutional coordination on trade

¹² Further information on ATFF is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2016/08/ASEAN-Trade-Facilitation-Framework.pdf>.

facilitation among relevant sectoral bodies; the exploration and facilitation of the delivery of projects to support AMS, in particular the CLMV; and the conducting of a biennial survey on trade facilitation using the ASEAN Seamless Trade Facilitation Indicators.¹³

3.1.1.3.1. ASEAN Trade Repository

32. The ASEAN Trade Repository (ATR) is one of the key initiatives in ASEAN's trade facilitation agenda, and is a commitment under the ATIGA.¹⁴ Launched in 2016, the facility provides a single point of access to all trade-related information of AMS. The ATR is an ASEAN-level IT interface linked to National Trade Repositories (NTRs), where national-level trade-related information is maintained by their respective governments.
33. The trade-related information accessible through the ATR is organised on the basis of nine 'topics' in line with Article 13 of the ATIGA. The nine 'topics' are: (1) tariff nomenclature; (2) most-favoured nation (MFN) tariffs, preferential tariffs offered under the ATIGA, and other Agreements of ASEAN with its Dialogue Partners; (3) rules of origin; (4) NTMs; (5) national trade and customs laws and rules; (6) procedures and documentary requirements; (7) administrative rulings; (8) best practices in trade facilitation applied by each AMS; and (9) list of authorised traders of AMS. While all AMS have now set up their NTRs linked to the ATR work is ongoing to ensure that these NTRs contain the required information on the nine aforementioned areas.

3.1.1.3.2. ASEAN Seamless Trade Facilitation Indicators

34. Another major trade facilitation initiative being undertaken is the ASEAN Seamless Trade Facilitation Indicators (ASTFI), which were adopted at the 49th AEM Meeting in September 2017. The ASTFI were designed to measure and monitor the extent to which trade facilitation measures are implemented in the region through various ASEAN agreements, such as the ATIGA, the ASEAN Framework Agreement on Facilitation of Goods in Transit (AFAFGIT), as well as various sectoral work plans relevant to trade facilitation. Following the completion of the ASTFI Baseline Study in 2018, the measurement of trade transaction cost based on a Time Release Study is already underway – it will help ASEAN determine the potential contribution of its trade facilitation initiatives to achieving the target of a 10% reduction in trade transaction costs by 2020.

3.1.1.3.3. ASEAN Tariff Finder

35. Efforts to facilitate trade do not only involve major initiatives or measurement indicators. Simple and practical tools that deliver pragmatic benefits to businesses can make significant contributions to facilitating trade. The ASEAN Tariff Finder, launched in August 2016, is a free online search engine to obtain up-to-date information on tariff-related information applied by AMS and their Free Trade Agreement (FTA) Partners under the various ASEAN Plus One FTAs.¹⁵ Such a tool benefits businesses, particularly MSMEs for whom information costs are often higher.

¹³ Further information on the ATF-SAP is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2012/05/AEC-2025-Trade-Facilitation-SAP-FINAL-rev.pdf>.

¹⁴ Further information on the ATR is available on its official website at <https://atr.asean.org/index.php/read/about-us/22>

¹⁵ Further information concerning the ASEAN Tariff Finder is available on its official website at <http://tariff-finder.asean.org/>.

3.1.1.3.4. ASEAN Solutions for Investment, Services, and Trade

36. Another practical trade facilitation tool initiated by ASEAN is the ASEAN Solutions for Investments, Services, and Trade (ASSIST), which is a non-binding and consultative mechanism for the expedited and effective solution of operational problems encountered by ASEAN-based enterprises on cross-border issues related to the implementation of ASEAN economic agreements, and, especially within the framework of the AEC.¹⁶ ASSIST aims at delivering practical solutions to specific trade problems within 40 to 60 working days, and allows the business sector to interact directly with AMS governments.
37. Utilisation of ASSIST was slow when it was first launched in 2016. The ASSIST platform has now been enhanced to include a feature that enables complainants to file complaints anonymously. ASSIST has been expanded to cover trade in services, starting 1 May 2019,¹⁷ and is expected to also eventually cover investment.

3.1.1.3.5. Customs

38. ASEAN Customs plays an important role in facilitating the seamless movements of goods in the region. The customs integration agenda aims to simplify customs procedures in the region, a move that is expected to reduce trade transaction costs significantly. ASEAN's efforts on customs integration are guided by the Strategic Plans of Customs Development (SPCDs), which were endorsed by the 24th Meeting of ASEAN Customs Directors-General in May 2015.
39. One of ASEAN's key achievements in this area is the ASEAN Customs Transit System (ACTS). A joint effort between Customs and Land Transport Authorities, ACTS enables free movement of trucked goods between participating countries without the need for a customs declaration at each border or a change of vehicle. Under this system, duties and taxes can be covered by a single guarantee, and this applies for all countries involved in the transit operation. AMS are currently intensifying efforts to have the legal framework in force, while participating AMS, with support from the ASEAN-EU's ASEAN Regional Integration Support from the EU Plus (ARISE Plus), are preparing to link and implement the pilot in both the North-South Corridor (Malaysia, Singapore, and Thailand) and the East-West Corridor (Cambodia, Lao PDR, and Viet Nam) by the second quarter of 2020.
40. The ASEAN Customs Administrations are also committed to developing a cooperation mechanism to promote the Authorised Economic Operator (AEO) status and its mutual recognition. The commitment is also expressed in Article 35 of the ASEAN Agreement on Customs 2012, which states that AMS shall establish national AEO programmes and develop a mechanism of cooperation with a view to promoting mutual recognition of AEO status and customs controls.¹⁸ National AEO programmes are currently active in six AMS (Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand, and Viet Nam) while the remaining AMS are expected to develop and implement their AEO programmes by 2020. The completion of the feasibility study

¹⁶ Further information concerning ASSIST is available on its official website at <https://assist.asean.org/>.

¹⁷ Further discussion of the ASSIST facility for trade in services is available in sub-section 3.1.2. (Trade in Services) of this Report.

¹⁸ The full text of the 2012 ASEAN Customs Agreement is available on the official website of the ASEAN Secretariat at <http://agreement.asean.org/media/download/20140117163238.pdf>.

of an ASEAN AEO Mutual Recognition Arrangement (MRA)¹⁹ in March 2019 and the subsequent endorsement by the ASEAN Directors-General of Customs on 12 June 2019 to establish a Sub-Working Group to begin work on the proposed ASEAN AEO MRA on a pathfinder basis by 2020 will allow for the recognition of the national AEO programmes of AMS, facilitate the secure movement of goods, and reduce transaction costs in the region.

3.1.1.3.6. ASEAN Single Window

41. The ASEAN Single Window (ASW) enables electronic processing and exchange of data and information to accelerate customs clearance processes in the region.²⁰ Apart from reducing unnecessary manual procedures, the ASW allows customs and relevant regulatory agencies to facilitate efficient and secure trade by: (1) eliminating human intervention both for endorsement and document validation; (2) expediting the process of document validation/verification by enabling the usage of electronic information; and (3) reducing time of document submission.
42. Originally targeted under the AEC Blueprint 2015, the overdue initiative has recently gathered pace, starting with the electronic exchange of ATIGA e-Form D to process the granting of tariff preferences under the ATIGA, contributing to the simplification and strengthening of ROO implementation. On 1 January 2018, five AMS (Indonesia, Malaysia, Singapore, Thailand and Viet Nam) came on board the 'Live Operation' of the ASW for the electronic exchange of ATIGA e-Form D. Brunei Darussalam and Cambodia joined Live Operation on 1 April and 1 July 2019 respectively, while the remaining AMS are expected to come on board within the year.

3.1.1.4. Standards and Conformance

43. The ability to comply with relevant standards, technical regulations, and conformity assessment procedures (STRACAP) is imperative to securing access to international markets. Poorly designed rules and regulations can act as potential barriers to trade, and can represent an unnecessary regulatory burden for businesses. Recognising the importance of this issue, ASEAN's work in this area involves the harmonisation of standards and technical regulations, improving quality and capability of conformity assessment, and enhancing information exchange on laws, rules, and regulatory regimes on standards and conformity assessment procedures.
44. Established in October 1992, the ASEAN Consultative Committee for Standards and Quality (ACCSQ) is the lead ASEAN sectoral body in this area. The immediate priority for the ACCSQ is to complete its continuing commitments of eliminating technical barriers to trade. To achieve its mandate, the ACCSQ has formed various working groups/product working groups²¹ in order to eliminate technical barriers and facilitate trade among AMS through harmonisation of standards, technical regulations, and conformity assessment procedures.

¹⁹ An MRA is an agreement made between two or more parties to mutually recognise or accept some or all aspects of each other's conformity assessment result. Discussion concerning MRA in trade in services is covered under the Services sub-section (3.1.2.) of this report.

²⁰ Further information concerning the ASW is available on its official website at <http://asw.asean.org/>.

²¹ These working groups include those on standards, conformity assessment and legal metrology, as well as product working groups on the automotive sector, building and construction, electrical and electronic equipment, rubber-based products, prepared foodstuffs, cosmetics, medical devices, pharmaceuticals, traditional medicines and health supplements, and a task force on wood-based products.

45. To guide the work of the ACCSQ, the ASEAN Standards and Conformance Strategic Plan 2016-2025 was adopted at the 48th AEM in August 2016, and was expected to enhance the contribution of the ACCSQ in ensuring quality and building confidence for ASEAN products and services. The Strategic Plan 2016-2025 adopted six focal points: (1) enhance the standards and conformance infrastructure through development of policies and initiatives to meet the present and future needs of ASEAN; (2) achieve a highly integrated and cohesive ASEAN economy through a comprehensive and progressive reduction of technical barriers to trade related to STRACAP; (3) strengthen joint ASEAN approaches on issues related to STRACAP for effective representation and participation in international and Asia-Pacific bodies and associated recognition arrangements; (4) strengthen private sector participation in standards and conformity assessment to accelerate development and enhance availability of services to industry and businesses; (5) enhance the effectiveness of the ACCSQ, its working groups and its collaboration with other relevant ASEAN sectoral bodies; and (6) support the capacity building and human capital development of Member States for the implementation of ASEAN initiatives and policies related to STRACAP.
46. Meanwhile, ASEAN's work on MRAs, which are agreements between two or more parties to mutually recognise or accept some or all aspects of one another's conformity assessment results (e.g. test reports and certificates of compliance),²² is continuously being enhanced. To date, there are four standards and conformance MRAs, including the ASEAN Sectoral MRA on Electrical and Electronic Equipment, ASEAN Sectoral MRA for Good Manufacturing Practice Inspection of Manufacturers for Medicinal Products, ASEAN MRA on Bio-Equivalence Study Report, and MRA on Inspection and Certification on Food Hygiene. A number of MRAs are currently in various stages of negotiation, finalisation, and implementation. The implementation of the MRA on electrical and electronic equipment has a current listing of 22 testing laboratories and eight certification bodies. The MRA on Good Manufacturing Practice inspection on manufacturers for medicinal products has four inspection services accepted in the list of inspection services from Indonesia, Malaysia, Thailand, and Singapore. Meanwhile, the MRA on the bio-equivalence study report for generic medicinal products is still in the early stages of implementation. Negotiations on the MRA on Type Approval for Automotive Products have been concluded and will be finalised for signing in 2019, while negotiations on the MRA on building and construction materials are ongoing.
47. Harmonised regulatory regimes have also been established with the ASEAN Harmonised Electrical and Electronic Equipment Regulatory Regime, ASEAN Harmonised Cosmetic Regulatory Regime, and ASEAN Medical Device Directive. Negotiations are also in progress for the ASEAN Agreement on Regulatory Framework for Traditional Medicines and ASEAN Agreement on Regulatory Framework for Health Supplements.
48. Furthermore, adopted at the 26th ACCSQ Meeting in Manila, the Philippines, in August 2005, the ASEAN Policy Guideline on Standards and Conformance provides guidance on ASEAN policies with regard to the harmonisation of standards, metrology, conformity assessment, as well as the implementation of technical regulations, post-market surveillance, MRAs, and ASEAN harmonised regulatory regime. This Policy Guideline

²² MRA facilitates trade between countries as products that are tested and certified before export can enter the importing country directly without having to undergo similar conformity assessment procedures in the importing country.

was updated and renamed as the ASEAN Guideline on STRACAP in 2014.²³ Subsequently, in 2009, the ASEAN Good Regulatory Practice (GRP) Guide was developed to facilitate a similar approach to regulatory management among AMS in the preparation of, compliance with, and review of technical regulations stages. Drawing upon the ASEAN GRP Core Principles, which were adopted at the 50th AEM Meeting in August 2018 and endorsed by the AEC Council in November 2018, the ASEAN GRP Guide was further updated and renamed as the ASEAN Guidelines on GRP, and was endorsed at the 50th ACCSQ Meeting in December 2018.

3.1.1.5. Conclusion

49. ASEAN has made significant progress in advancing its work on trade in goods. While intra-ASEAN tariffs have been virtually eliminated, the focus now is on trade facilitation and addressing NTMs, as well as enhancing its customs cooperation and work on STRACAP. Increasingly, the non-tariff components of ASEAN's work on trade in goods will be the determining factor for ASEAN's competitiveness in global value chains. There remain a few outstanding key initiatives on trade in goods (e.g. the ASEAN-Wide Self Certification Scheme, the full population of the ASEAN Trade Repository/National Trade Repositories, and the full participation of AMS in ASEAN Single Window), and efforts must be redoubled to ensure their implementation. Furthermore, trade facilitation efforts must be intensified to achieve the twin targets of doubling intra-ASEAN trade 2017-2025 and reducing trade costs by 10% by 2020. This should also be combined with effective ways to address NTMs, including through improved notification, the use of technology, and stronger discipline in simplifying and harmonising rules and regulations impacting trade in line with the NTM Guidelines.

3.1.2. Trade in Services

50. Considered a new engine for growth in ASEAN, services continues to be an important and growing economic sector in the region. The sector contributed 50.1% of the region's total GDP of USD 3.0 trillion in 2018, which made it the largest component of ASEAN GDP. For many AMS, the services sector accounts for almost half of their real output, with some countries, such as Singapore, Thailand, the Philippines, and Malaysia recording even higher shares (see Table 3.3). At 60.7%, services also received the largest share of FDI flows into ASEAN in 2018, with the highest share contributed by financial and insurance activities. The services sector also provides good employment opportunity for women given that, in some AMS, such as Brunei Darussalam, Singapore, the Philippines, and Malaysia, this workforce makes up more than half of employment in these countries

²³ Apart from updating the previous ASEAN Policy Guideline on Standards and Conformance, the AG-STRACAP incorporates relevant decisions and agreements concluded by the Economic Ministers, ASEAN Leaders, and AMS. The ASEAN Guideline on-STRACAP, which was endorsed by the ACCSQ at its 42nd Meeting in Yangon, Myanmar on 22-24 September 2014, is subject to review every five years or as deemed necessary by the ACCSQ. The official electronic version of the ASEAN Guideline on STRACAP is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2017/09/ASEAN-Guidelines-on-Standards-Technical-Regulations-and-Conformity-Assessment-Procedures.pdf>.

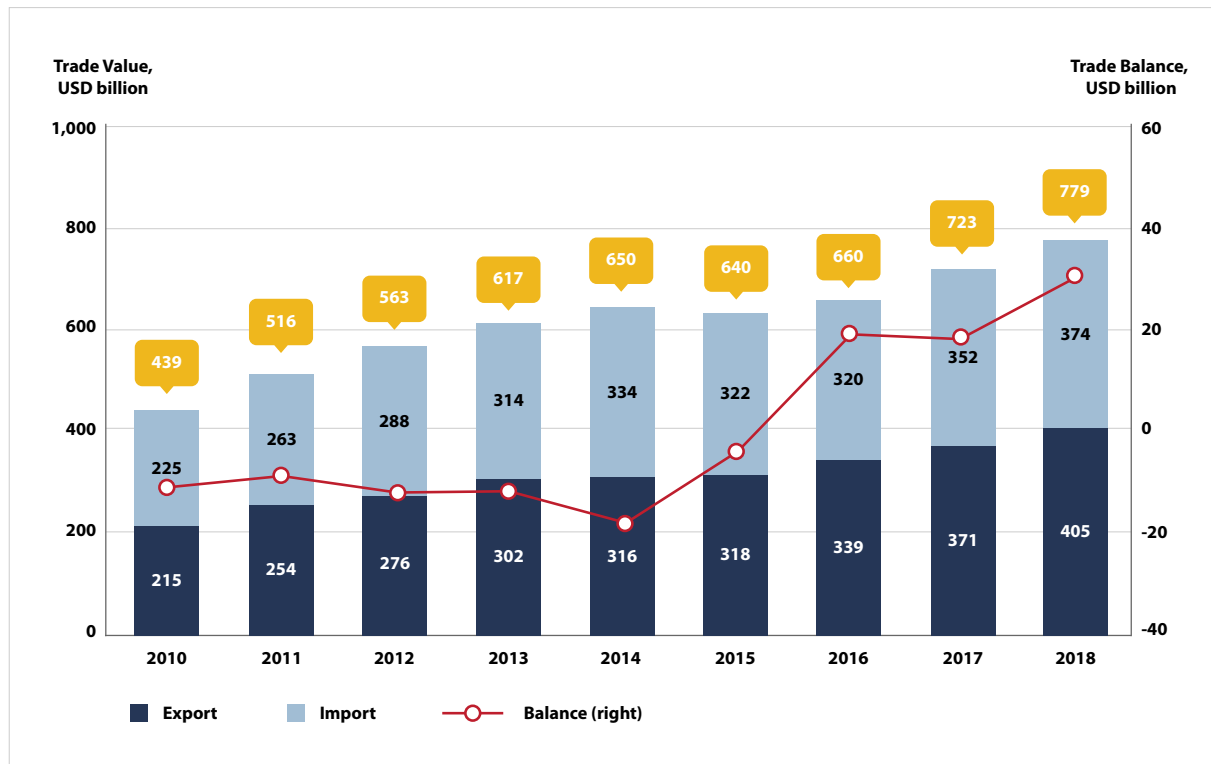
Table 3.3. ASEAN Services Sector Compared to Other Sectors

Country	Output:			Trade:		Employment:	
	% of Real GDP (2018)			% of Nominal GDP (2018)		% of Female Employment (2018)	
	Agriculture	Industry	Services	Merchandise	Services	Industry	Services
Brunei Darussalam	0.8	62.9	38.0	79.1	15.9	9.0*	90.5*
Cambodia	16.3	32.1	43.1	122.6	34.5	24.7*	44.9*
Indonesia	12.5	39.8	43.6	37.0	6.1	17.0	55.5
Lao PDR	15.4	37.9	42.1	62.9	11.5	6.5*	23.7*
Malaysia	7.3	37.5	54.0	129.7	23.6	19.6*	73.8*
Myanmar	24.6	32.1	43.2	46.6	10.5	15.3*	39.8*
Philippines	8.1	34.1	57.8	53.3	18.8	9.8	75.9
Singapore	0.0	25.1	68.9	215.0	100.7	11.8*	88.0*
Thailand	6.2	35.4	59.9	85.7	27.0	20.0	50.9
Viet Nam	14.3	35.6	38.8	199.1	17.6	21.7*	37.2*

Notes: The sum of the GDP shares of Agriculture, Industry and Services may not be equal to 100% in some ASEAN countries, due mainly to the separate treatment of GDP-associated balancing items from the total GDP, including items on taxes, subsidies on particular products and services; * = ILO modelled estimates, November 2018.

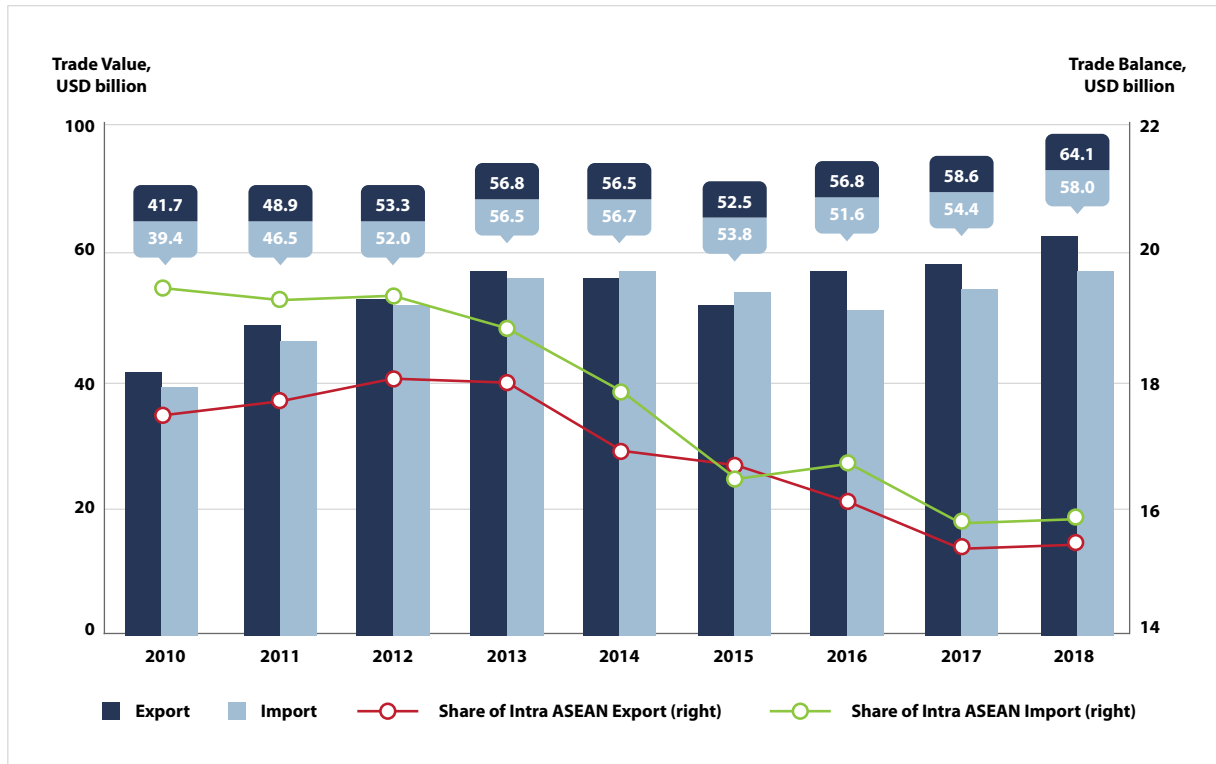
Source: ASEAN Secretariat (as of September 2019); ILO (n.d.).

51. ASEAN's trade in services consistently increased from 2010 to 2018, growing by 7.4% annually on average, or faster than trade in goods at 4.4%. Over the same period, ASEAN services exports have been growing faster than goods exports, the former growing by 8.3% annually on average and the latter by 4.0%. In 2018, the region's services trade reached USD 778.6 billion – an increase of 77.3% from USD 439.2 billion in 2010 (see Figure 3.5). Meanwhile, intra-ASEAN services trade increased 50.7% from USD 81.0 billion in 2010 to USD 122.1 billion in 2018. Intra-ASEAN services exports grew at an average of 5.5% annually over the period, compared to 5.0% for services imports. In terms of share in total services exports and total services imports (see Figure 3.6), however, the share of intra-ASEAN in total ASEAN services exports fell from 19.5% in 2010 to 15.8% in 2018, whereas intra-ASEAN share in total ASEAN services imports decreased from 17.5% in 2010 to 15.5% in 2018.

Figure 3.5. ASEAN's Trade in Services, 2010-2018

Source: ASEAN Secretariat (as of September 2019).

52. ASEAN's services exports were valued at USD 404.9 billion in 2018, an increase of 89.4% from USD 213.8 billion in 2010, whereas its services imports reached USD 373.8 billion in 2018, an increase of 65.8% from USD 225.4 billion in 2010. Although ASEAN had been recording a deficit in its services trade since 2010, significant growth in services trade has narrowed ASEAN's trade deficit. Since 2016, ASEAN has been recording trade surpluses in its services trade, with its services exports growing higher than imports at an average of 8.3% per annum between 2010 and 2018, compared to 6.5% for imports. In 2018, ASEAN's top three services exports were travel services (34.3%), other business services (22.1%), and transportation services (18.6%). As for the top three service imports, these included transportation services (30.7%), other business services (24.1%), and travel services (21.1%). Travel services, other business services, and transportation services have constantly dominated both ASEAN services exports and imports in the past decade (see Table 3.4).

Figure 3.6. Intra-ASEAN Services Trade, 2010-2018

Source: ASEAN Secretariat (as of September 2019).

53. In terms of sub-sectors of the services trade, Travel and Transport consistently recorded the highest share over the 2010-2018 period. At 28.0%, Travel recorded the highest share in 2018, which was an increase from 26.1% in 2010, and this was followed by Transport at 24.4% in 2018, or a decrease from 30.6% in 2010. Another sub-sector that recorded a high share of total ASEAN trade in services over the same period was Other Business Services. The share of this sub-sector rose from 20.9% in 2010 to 23.0% in 2018. The three sub-sectors also accounted for the highest share in intra-ASEAN services trade in 2018, with Travel stood at 44.5% (from 49.2% in 2010), Transport at 17.0% (from 20.7% in 2010), and Other Business Services at 19.6% (from 15.9% in 2010). In terms of sub-sectors with the highest shares of intra-ASEAN to total ASEAN services trade are: Construction at 26.0%, Travel at 25.0%, Personal, cultural, and recreational services at 24.1%, and Insurance and pension services at 20.7%.

Table 3.4. ASEAN services sector: Selected indicators

Sector	ASEAN Service Trade				Intra-ASEAN Service Trade				Share of Intra-ASEAN to Total ASEAN, in %	
	Value, USD billion		Sub-sector Share to Total ASEAN, in %		Value, USD billion		Sub-sector Share to Intra-ASEAN, in %		2010	2018
	2010	2018	2010	2018	2010	2018	2010	2018		
Manufacturing services on physical inputs owned by others	5.8	24.3	1.3	3.1	0.8	3.3	1.0	2.7	14.3	13.4
Maintenance and repair services not included elsewhere	7.8	9.9	1.8	1.3	1.0	1.1	1.3	0.9	13.1	11.0
Transport	134.5	190.1	30.6	24.4	16.7	20.8	20.7	17.0	12.4	10.9
Travel	114.7	217.9	26.1	28.0	39.8	54.4	49.2	44.5	34.7	25.0
Construction	7.0	8.2	1.6	1.1	1.3	2.1	1.6	1.7	18.9	26.0
Insurance and pension services	12.0	18.5	2.7	2.4	1.8	3.8	2.3	3.1	15.3	20.7
Financial services	17.8	40.0	4.1	5.1	1.7	2.9	2.1	2.4	9.7	7.3
Charges for the use of intellectual property not included elsewhere	25.7	34.8	5.9	4.5	0.9	1.8	1.1	1.4	3.6	5.1
Telecommunications, computer, and information services	17.0	48.5	3.9	6.2	3.4	6.8	4.2	5.6	19.9	14.1
Other business services	92.0	179.3	20.9	23.0	12.8	23.9	15.9	19.6	14.0	13.3
Personal, cultural, and recreational services	1.6	3.4	0.4	0.4	0.3	0.8	0.3	0.7	16.7	24.1
Government goods and services not included elsewhere	3.2	3.8	0.7	0.5	0.3	0.4	0.4	0.3	9.2	10.4
Total	439.2	778.6	100.0	100.0	81.0	122.1	100.0	100.0	18.4	15.7

54. Efforts towards the deepening of services integration in the region began with the ASEAN Framework Agreement on Services (AFAS), which was signed on 15 December 1995 by the ASEAN Economic Ministers (AEM) in Bangkok, and entered into force on 12 August 1998. Following the signing of AFAS, the Coordinating Committee on Services was established in 1996 and tasked with negotiating the liberalisation of seven priority sectors: air transport, business services, construction, financial services, maritime transport, telecommunication, and tourism services. Services liberalisation has progressed significantly since then. Following the decision of the Informal AEM Meeting in June 1999, the liberalisation of air transport and financial services has since been led by the Transport and Finance tracks respectively, with the AEM continued to oversee the liberalisation of all other sectors. Meanwhile, the liberalisation of services incidental to manufacturing, agriculture, fishery, forestry, and mining and quarrying was subsequently subsumed under the purview of the ASEAN Investment Area (AIA) Council pursuant to the Protocol to Amend the Framework Agreement on the AIA signed in 2001. Several rounds of negotiations were conducted, the results of which were formalised as packages of commitments under the AFAS that list the services sectors and sub-sectors that each individual AMS is committed to open.

55. The Protocol to Implement the Tenth Package of Commitments under the AFAS was signed on the sidelines of the 50th AEM Meeting on 29 August 2018, which serves as the final package of AFAS commitments²⁴ under the AEM. To date, three AMS are still in the process of finalising their Tenth Package of Commitments, but these are expected to be completed in the near future. Under the Tenth Package, AMS' commitments have been further enhanced in terms of coverage of sub-sectors committed for liberalisation. While AFAS has been instrumental in advancing the gradual removal of formal restrictions in the services market in the region, the liberalisation effect might be limited by the extent of AMS' applied services regimes. AFAS, however, has provided greater policy certainty in the services market integration. Moving forward, ASEAN's services integration should continue to be further deepened and broadened to fully contribute to building a competitive services sector.
56. Currently, ASEAN's trade in services integration is guided by Characteristic A, Element 2 of the AEC Blueprint 2025. This element has the twin objectives of integrating ASEAN into global supply chains in both goods and services, as well as enhancing AMS' competitiveness in the services sector. The AEC Blueprint 2025 also identifies the next goal of services sector integration in the region, which is to facilitate the negotiation and implementation of the ASEAN Trade in Services Agreement (ATISA). Building upon the achievement of AFAS, ATISA will serve as the legal instrument for (and significantly elevate) further integration of the services sectors in the region. The ATISA consolidates all achievements and agreements that ASEAN has made under the AFAS, and provides specific timelines for transition to an eventual negative list approach in liberalising services. The agreement will eventually supersede the AFAS. In addition to various enhanced core obligations covering market access, national treatment, and MFN treatment, it also includes obligations on Senior Management and Board of Directors and Local Presence, as well as enhanced transparency and domestic regulation obligations. It further covers specific annexes on financial, telecommunication, and air transport services. The ATISA negotiations were concluded in November 2018, and to date the agreement has been signed by seven AMS at the 25th AEM Retreat in April 2019 and subsequently by Myanmar (on 3 August 2019) and Viet Nam (at the sidelines of the 51st AEM Meeting in September 2019), while the one remaining AMS will sign the agreement upon the completion of its domestic process.
57. The ASEAN Solutions for Investments, Services and Trade (ASSIST) system has been expanded to cover trade in services starting 1 May 2019, in addition to trade in goods that was in operation earlier, with continuing support from the ARISE Plus project.²⁵ To recall, ASSIST is a web-based facility that provides ASEAN-based enterprises a non-binding and consultative mechanism to lodge complaints on cross-border issues related to the implementation of ASEAN agreements in the area of trade in goods, which now also cover trade in services.²⁶ As is the case with its trade in goods counterpart, the ASSIST platform for trade in services also enables complainants to file complaints anonymously.

²⁴ The compilation of services commitments under AFAS is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=member-countries-horizontal-commitments-schedules-of-specific-commitments-and-the-list-of-most-favoured-nation-exemptions.

²⁵ An extension of the ASEAN Regional Integration Support from the European Union (ARISE) extended by the EU to ASEAN during the 2013-2016 period, the ARISE Plus, which lasts from 2017 until 2022, provides technical support for ASEAN economic integration. Built on the success of the earlier ARISE project, the primary foci of ARISE Plus are: (1) trade facilitation and transparency; (2) standards and conformity assessment, particularly on health care and agro-based products; (3) customs, transport, and the ASEAN Customs Transit System; and (4) ASEAN economic integration monitoring and statistics. Further information of ARISE Plus is available on its official website at <https://ariseplus.asean.org/>.

²⁶ Further information concerning the ASSIST facility for trade in goods is available in the Trade in Goods sub-section (3.1.1.3.4) of this chapter.

58. ASEAN has also undertaken a number of initiatives to promote cross-border skills mobility, such as the Mutual Recognition Arrangements, ASEAN Agreement on Movement of Natural Persons, and ASEAN Qualifications Reference Framework, as elaborated below.

3.1.2.1. Mutual Recognition Arrangements

59. ASEAN Mutual Recognition Arrangements (MRAs) promote cross-border mobility of foreign professionals through mutual recognition of authorisation, licensing, or certification of qualifications of professional service suppliers obtained in one country by another country participating in the arrangement. There are currently MRAs in force for eight professional services in ASEAN: (1) engineering services; (2) nursing services; (3) architectural services; (4) surveyors; (5) medical practitioners; (6) dental practitioners; (7) tourism professionals; and (8) accountancy services.
60. These MRAs have different approaches. MRAs for engineering, architecture, and accountancy services provide ASEAN-wide certification for qualified professionals, which enables them to work as registered ASEAN professionals in another AMS in collaboration with recognised local professionals. As of June 2019, there were 3,733 engineers on the ASEAN Chartered Professional Engineers Register, 545 architects registered as ASEAN Architects, and 3,205 accountants registered as ASEAN Chartered Professional Accountant. Meanwhile, the Framework for MRA of Surveying provides a framework for an AMS to enter into negotiations for bilateral or plurilateral MRAs, although work is currently ongoing towards a possible common Assessment Statement for surveying professionals in ASEAN. The health care-related MRAs (e.g. nursing, medical, and dental practitioners), meanwhile, are focused more on the exchange of information on the practice and registration or licensing procedures of these three practices across AMS and have these published at a common website (<http://aseanhealthcare.org/>), while exploring a possible mechanism to promote mobility in some specific activities.
61. The MRA on Tourism Professionals (MRA-TP), furthermore, provides mutual recognition of tourism certification procedures and qualifications across ASEAN. To be recognised by other AMS and eligible to work in a host country, tourism professionals are required to possess a valid tourism competency certificate in a specific tourism job title as specified in the ASEAN Common Competency Standards for Tourism Professionals,²⁷ issued by the Tourism Professional Certification Board of each AMS. To further support the implementation of MRA-TP, the ASEAN MRA-TP Work Plan 2019-2023 was adopted in January 2019 in Viet Nam at the 22nd Meeting of ASEAN Tourism Ministers. The document envisions that tourism professionals in the region be certified to deliver quality tourism services through initiatives such as improving existing tools and infrastructure, operationalising the Regional Secretariat for the Implementation of the MRA-TP, and developing regional infrastructure and capacity.

²⁷ General information concerning the ASEAN Common Competency Standards for Tourism Professionals is available in The Handbook on ASEAN MRA-TP, which is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2012/05/ASEAN-MRA-TP-Handbook-2nd-Edition-2018.pdf>.

3.1.2.2. Movement of Natural Persons

62. Element A5 (Facilitating Movement of Skilled Labour and Business Visitors) of AEC Blueprint 2025 provides guidance on ASEAN's work to facilitate the temporary cross-border movement of natural persons (MNP) and business visitors engaged in the conduct of trade in goods, trade in services, and investment. ASEAN's Mode 4 commitments were initially an integral part of the Package of Commitments under the AFAS.²⁸ In 2012, the AEM signed a standalone ASEAN Agreement on MNP that covers measures affecting temporary entry and temporary stay of natural persons of AMS into another AMS, which include Mode 4 commitments. The ASEAN Agreement on MNP covers business visitors, contractual service suppliers, intra-corporate transferees, as well as other categories as specified in the Schedules of Commitments of AMS. It does not, however, apply for the purpose of permanent employment, permanent residency, or citizenship.
63. The MNP Agreement entered into force on 14 June 2016. Pursuant to Article 7 of the Agreement, initial discussions to review the schedules of commitments under this agreement commenced in May 2017. At the time of writing, the review of the schedules of commitments under the MNP Agreement is still underway with consideration of a common format for scheduling commitments under the agreement.

3.1.2.3. ASEAN Qualifications Reference Framework

64. An essential part of facilitating the movement of skills is ensuring the comparability of educational qualifications. The ASEAN Qualifications Reference Framework (AQRF) is a common reference framework that enables comparisons of educational qualifications across participating AMS, which promotes and encourages education and learner mobility in all education and training sectors.²⁹ The AQRF aims to have a neutral influence on national qualifications frameworks of participating AMS, while the participation of AMS in the AQRF is voluntary. The AQRF complements and supports the MRA process in facilitating the mobility of professionals by enabling a broad comparison of qualifications across AMS.
65. The AQRF was developed in 2014 by the Task Force on the AQRF, which consists of officials and experts from ASEAN ministries of trade, labour and manpower development, education, as well as other relevant qualifications agencies. The AQRF was subsequently endorsed by the AEM and the ASEAN Education Ministers in 2014, and, thereafter, by the ASEAN Labour Ministers ad referendum in 2015. Following this endorsement, the AQRF Committee was established to oversee the implementation of the AQRF, as well as responsible for considering the AQRF Referencing Reports submitted by participating AMS. The referencing activities of the AQRF Committee, which include processes of education and training systems among the AMS, have contributed to enhanced trust and confidence among the AMS in each other's qualification systems. Since its first meeting in February 2017, the AQRF Committee has met six times, with two AMS successfully completing and having their AQRF referencing reports endorsed by the committee, while other AMS are in various stages in preparing and completing their referencing reports.

²⁸ Mode 1 (Cross-border supply) is supply of service to a consumer by a supplier from another country, without the presence of the supplier in the country of the consumer. Mode 2 (Consumption abroad) is supply of service to a consumer in the country of the supplier, outside the country of the consumer. Mode 3 (Commercial Presence) is supply of service within the country of the consumer through commercial presence (establishment) of the supplier from another country. Mode 4 (Movement of Natural Persons) is supply of service within the country of the consumer, with the supplier from another country being present in person.

²⁹ Further information on the AQRF is available on the official website of the ASEAN Secretariat at <https://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/services/asean-qualifications-reference-framework/>.

3.1.2.4. Conclusion

66. The importance of the services sector to the region's economy is evident in its status as the sector attracting the highest FDI in the region and accounting for the largest component of ASEAN GDP. Work continues towards greater integration of the services market in ASEAN, with increasing focus on regulatory cooperation. The ATISA is expected to contribute to ASEAN's desire to deepen its services integration, which has become more urgent given the digitalisation push that has significantly expanded the frontier of possibilities in services trade. Furthermore, a number of initiatives have been undertaken to facilitate the mobility of skills and professionals. The ASEAN MRA, MNP, and AQRf could help address skills gaps and shortages. Given the increased importance of human capital in determining economic competitiveness, effective implementation of such initiatives will be key to the realisation of ASEAN's goal for free movement of skills.

3.1.3. Investment Environment

67. The importance of FDI for a country's economic growth and long-term competitiveness is widely acknowledged. As investment increases, the capacity of an economy to produce more goods and services also increases, driving economic growth. In ASEAN, investment has played a critical role in the formation of supply chains and production networks (Kawai and Naknoi, 2015), with AMS pursuing policies that allow FDI inflows as part of their industrialisation strategies and drive the region to become a major production base in the global economy.

68. Building upon the investment agenda of the previous AEC Blueprint 2015, which underscores the importance of a free and open investment regime as the key to enhancing ASEAN's competitiveness and intra-ASEAN investment, Element A3 (Investment Environment) under Characteristic 1 (A Highly Integrated and Cohesive Economy) of the AEC Blueprint 2025 outlines ASEAN's aims to further enhance its attractiveness as an investment destination globally through the establishment of an open, transparent, and predictable investment regime in the region.

69. Notwithstanding global economic uncertainties in recent years, the success of ASEAN's continuous efforts to establish a free and open investment regime is visible through steady investment inflows performance (see Table 3.5). With total foreign investment worth USD 154.7 billion in 2018 from USD 108.2 billion in 2010, (representing annual growth averaging of 4.6%),³⁰ ASEAN's total FDI inflows exceeded those of other emerging economies, such as China (USD 139.0 billion), ROK (USD 14.5 billion), and India (USD 42.3 billion). With the exception of the EU and the US, each with total FDI inflows of USD 277.6 billion and USD 251.8 billion respectively, ASEAN's FDI inflows were also higher than some other developed economies, such as Canada (USD 39.6 billion), Australia (USD 60.4 billion), Japan (USD 9.9 billion), and New Zealand (USD 1.4 billion) (UNCTAD, 2019b). Among the AMS, notwithstanding the fluctuation in investment flows from 2010 to 2017, Singapore remained the largest FDI recipient in the region with a 50.2% share of total inflows to the region in 2018 (USD 77.6 billion), followed by Indonesia (14.2%), Vietnam (10.0%), and Thailand (8.6%).

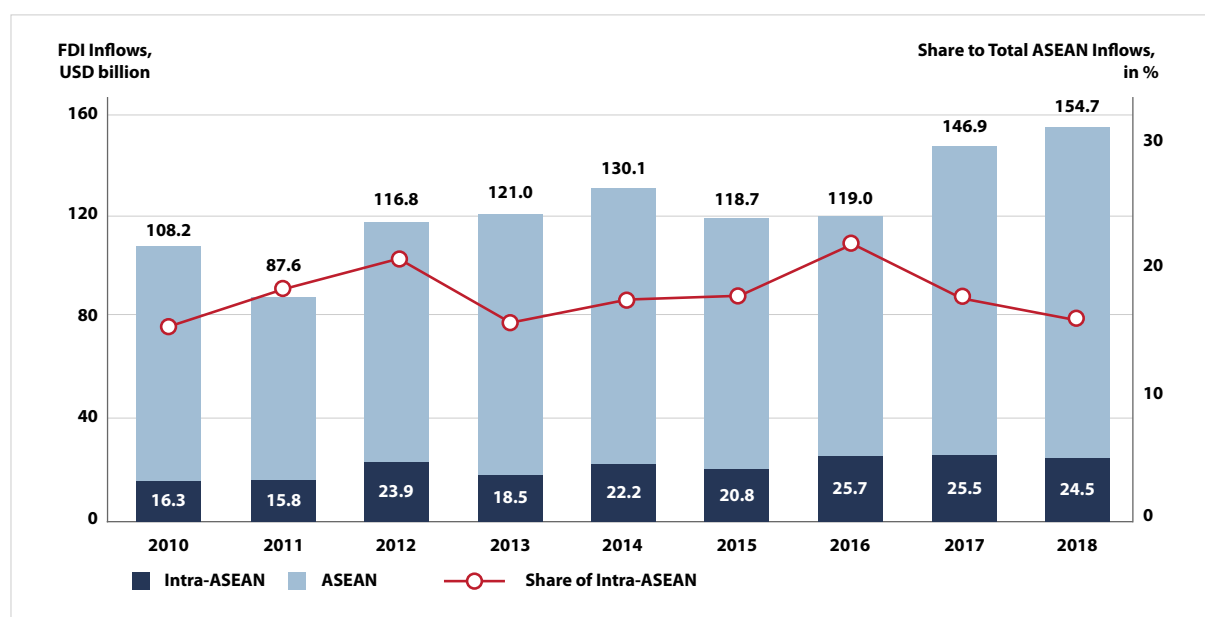
³⁰ Calculated using compound annual growth rate (CAGR).

Table 3.5. ASEAN FDI Inflows 2010-2018 (USD billion)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018
Brunei Darussalam	0.6	1.2	0.9	0.7	0.6	0.2	-0.2	0.5	0.5
Cambodia	0.8	0.9	1.6	1.3	1.7	1.7	2.3	2.7	3.1
Indonesia	13.8	19.2	19.1	18.4	21.8	16.6	3.9	20.6	22.0
Lao PDR	0.3	0.5	0.3	0.4	0.9	1.1	1.1	1.7	1.3
Malaysia	9.2	12.0	9.4	12.1	10.9	10.2	11.3	9.3	8.1
Myanmar	2.2	2.1	1.4	2.6	0.9	2.8	3.0	4.0	3.6
Philippines	1.3	1.8	2.8	3.9	5.8	5.6	8.3	10.3	9.8
Singapore	57.2	39.9	60.1	56.7	73.3	59.7	73.9	75.7	77.6
Thailand	14.7	2.5	12.9	15.9	5.0	8.9	2.8	8.0	13.2
Viet Nam	8.0	7.5	8.4	8.9	9.2	11.8	12.6	14.1	15.5
ASEAN	108.2	87.6	116.8	121.0	130.1	118.7	119.0	146.9	154.7

Source: ASEAN Secretariat (as of September 2019).

70. Intra-ASEAN FDI inflows, which amounted to USD 24.5 billion, took up the largest share at 15.9%, of total FDI inflows into the region in 2018 (see Figure 3.7). This figure was higher than the EU's USD 22.0 billion (14.2%), Japan's USD 21.2 billion (13.7%), and China's USD 10.2 billion (6.6%). Intra-ASEAN FDI inflows have grown at an annual average of 5.2% from USD 16.3 billion in 2010,³¹ slightly higher than the 4.6% average growth of total ASEAN FDI inflows over the same period. At 21.6%, 2016 saw the highest share of intra-ASEAN FDI inflows as part of the region's total FDI. The share of intra-ASEAN FDI, however, dipped slightly to 17.3% in 2017, and declined further to 15.9% in 2018 as a result of a significant increase of FDI inflows from external sources.

Figure 3.7. Intra-ASEAN FDI inflows, 2010-2018 (USD billion)

Source: ASEAN Secretariat (as of September 2019).

³¹ Calculated using CAGR.

71. With USD 154.7 billion worth of investment, the services sector received the highest FDI flows, or 60.7%, of total FDI inflows into ASEAN in 2018, and this was followed by the manufacturing sector with USD 55.1 billion (35.6%) and the primary sector with -USD 1.9 billion (-1.2%). FDI inflows to the services sector has grown on average by 3.4% annually since 2011, with major contributions made by the following sub-sectors: financial intermediation (27.4%), trade and commerce (13.5%), and professional social and other services (9.9%) of total inflows in 2018 (see Table 3.6).

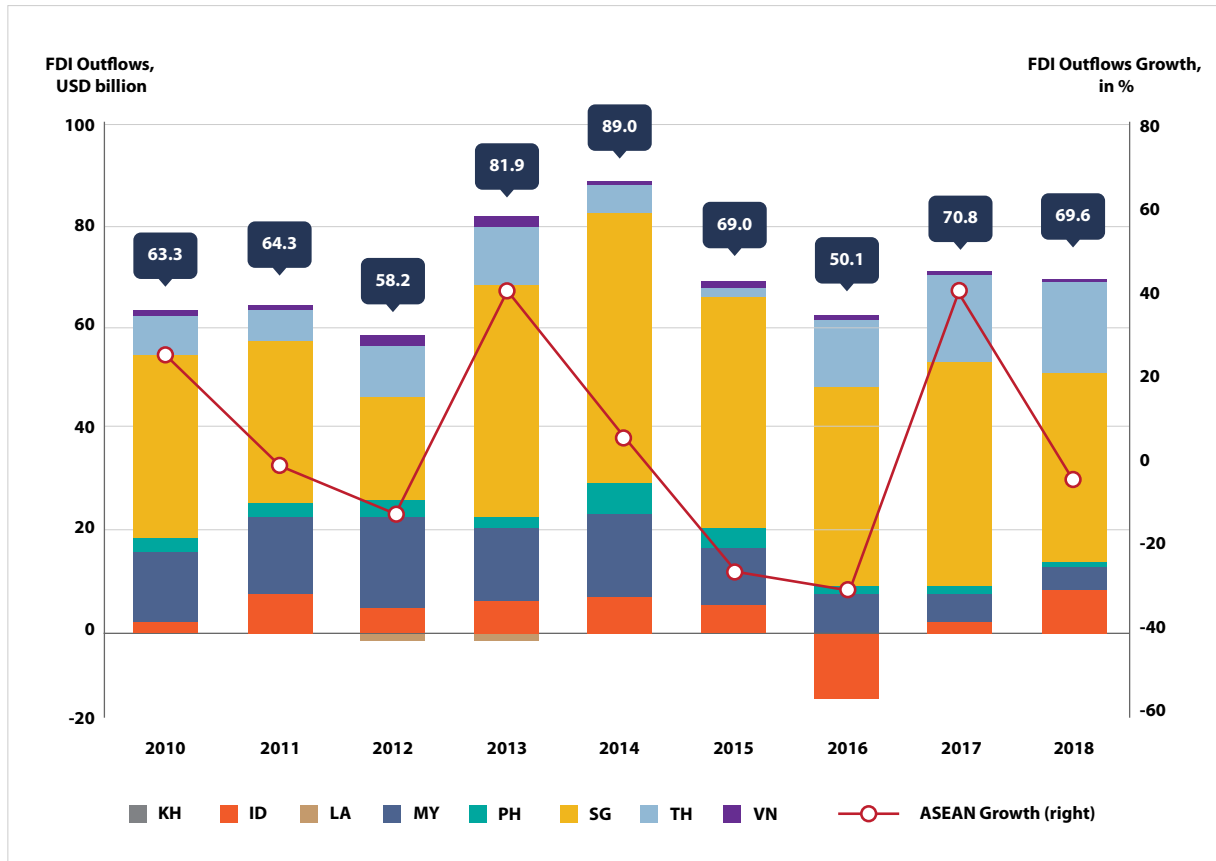
Table 3.6. ASEAN FDI Inflows by Sector (USD billion), 2010-2018

Sector	2010	2011	2012	2013	2014	2015	2016	2017	2018
Primary	5.1	9.4	8.2	10.4	12.2	11.9	6.6	6.5	-1.9
<i>Primary</i>	<i>4.8%</i>	<i>10.8%</i>	<i>7.0%</i>	<i>8.6%</i>	<i>9.4%</i>	<i>10.1%</i>	<i>5.6%</i>	<i>4.4%</i>	<i>-1.2%</i>
Manufacturing	29.3	20.2	-8.2	39.9	26.9	28.5	22.1	30.4	55.1
<i>Manufacturing</i>	<i>27.1%</i>	<i>23.0%</i>	<i>-7.0%</i>	<i>33.0%</i>	<i>20.7%</i>	<i>24.0%</i>	<i>18.6%</i>	<i>20.7%</i>	<i>35.6%</i>
Services	72.1	56.7	115.0	67.0	86.8	74.3	84.5	103.0	93.9
<i>Services</i>	<i>66.6%</i>	<i>64.8%</i>	<i>98.5%</i>	<i>55.4%</i>	<i>66.7%</i>	<i>62.6%</i>	<i>71.0%</i>	<i>70.1%</i>	<i>60.7%</i>
Unspecified	1.7	1.3	1.8	3.7	4.2	4.0	5.7	6.9	7.6
<i>Unspecified</i>	<i>1.6%</i>	<i>1.4%</i>	<i>1.5%</i>	<i>3.0%</i>	<i>3.2%</i>	<i>3.3%</i>	<i>4.8%</i>	<i>4.7%</i>	<i>4.9%</i>
Total	108.2	87.6	116.8	121.0	130.1	118.7	119.0	146.9	154.7

Note: Italicised numbers are shares.

Source: ASEAN Secretariat (as of September 2019)

72. Although fluctuating since 2010, FDI outflows from the region rose from USD 63.3 billion in 2010 to USD 69.6 billion in 2018. The increase of FDI outflows from the region signals the growing role of ASEAN as a source of outward investment globally. With USD 37.1 billion, or 53.4% of the region's total FDI outflows, Singapore remained the largest source of outward investment from the region in 2018; this was followed by Thailand at USD 17.7 billion (25.5%), and Malaysia at USD 5.3 billion (7.6%) (see Figure 3.8).

Figure 3.8. ASEAN FDI Outflows by Country Source, 2010-2018

Note: The figure excludes Brunei Darussalam and Myanmar due to data unavailability.

Source: ASEAN Secretariat's calculation based on UNCTAD (2019a).

3.1.3.1. ASEAN's Policy Agenda on Investment

73. As discussed earlier, ASEAN's present policy agenda on investment is guided by Element A3 (Investment Environment) of the AEC Blueprint 2025. Under this characteristic, ASEAN aims to further enhance its attractiveness as a global investment destination through the establishment of an open, transparent, and predictable investment regime in the region. ASEAN's primary tool to achieve this objective is the ASEAN Comprehensive Investment Agreement (ACIA), which has been in force since 29 March 2012. Replacing its precursor agreements (the ASEAN Investment Area [AIA] and the ASEAN Investment Guarantee), the ACIA and its subsequent amending protocols³² are ASEAN's response to enhancing its competitiveness amid increased global competition.

³² Further details concerning the ACIA is available on the official website of the ASEAN Secretariat at [https://www.asean.org/wp-content/uploads/images/2013/resources/publication/2012%20-%20ACIA%20An%20Introduction%20\(Apr\).pdf](https://www.asean.org/wp-content/uploads/images/2013/resources/publication/2012%20-%20ACIA%20An%20Introduction%20(Apr).pdf).

74. The ACIA has been continuously improved since its entry into force in 2012. Its first amendment (in 2014) provided a mechanism to facilitate the modification of reservations in the ACIA schedule, including a step-by-step process with prescribed timelines. The Second and Third Protocols to Amend the ACIA, signed in September and December 2017 respectively, put in place the decisions of the Ministers on the built-in agenda items in the agreement.³³ These two protocols have been ratified by Brunei Darussalam, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. The Fourth Protocol to Amend the ACIA, which incorporates World Trade Organization (WTO) Trade-Related Investment Measures-plus Prohibition of Performance Requirements obligations into the agreement, has been signed by nine AMS, namely Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Singapore, the Philippines, and Thailand, at the sidelines of the AEM Retreat in Phuket, Thailand on 23 April 2019. The remaining AMS are expected to sign the Protocol upon completion of their domestic processes.
75. Using the ACIA as a basis, the strategic measures of the AEC Blueprint 2025 are transposed into four strategies in the 2016-2025 Investment Work Programme (IWP), which was adopted at the ASEAN Economic Ministers (AEM) Meeting-18th ASEAN Investment Area (AIA) Council Meeting in August 2015.³⁴ Operationalised by the Coordinating Committee on Investment (CCI), ASEAN’s sectoral body on investment, the Work Programme adopts five strategies (four of which form the core pillars of the ACIA). These include: (1) investment liberalisation; (2) investment protection; (3) investment facilitation; and (4) investment promotion. In addition to these four strategies, the Work Programme also includes a fifth strategy, capacity building, which serves as a cross-cutting strategy (see Figure 3.9).

Figure 3.9. 2016-2025 Investment Work Programme – Strategies



Source: ASEAN Secretariat.

³³ Further details concerning the Second and Third Protocol to Amend the ACIA are available on the official website of the ASEAN Secretariat at <http://agreement.asean.org/media/download/20171013162050.pdf> and <http://agreement.asean.org/media/download/20180110151856.pdf> respectively.

³⁴ The 2016-2025 IWP is also accessible in the AEC 2025 Consolidated Strategic Action Plan (CSAP), which was endorsed by the AEM and the AEC Council Ministers, and subsequently published and updated in 2017 and 2018 respectively. The document serves as a single reference document to inform stakeholders of the key action lines, drawn from the sectoral work plans, which will be implemented in pursuit of the ASEAN Economic integration agenda from 2016 to 2025. Further details concerning the AEC 2025 CSAP are available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2012/05/Updated-AEC-2025-CSAP-14-Aug-2018-final.pdf>.

76. The five identified strategies under the Work Programme further branch out into specific action lines, as summarised in Table 3.7. Some of the action lines identified under the Work Programme are improvements of initiatives already begun under the AEC Blueprint 2015. Building upon its predecessor (the 2011-2015 IWP), the 2016-2025 IWP provides a more focused approach on the identified action lines, such as the sector-specific approach under investment promotion and issue-specific design for policy dialogues. Furthermore, identifying capacity building as a cross-cutting strategy ensures a more coherent, rather than piecemeal, approach to addressing the needs and gaps in regional and national investment policymaking.

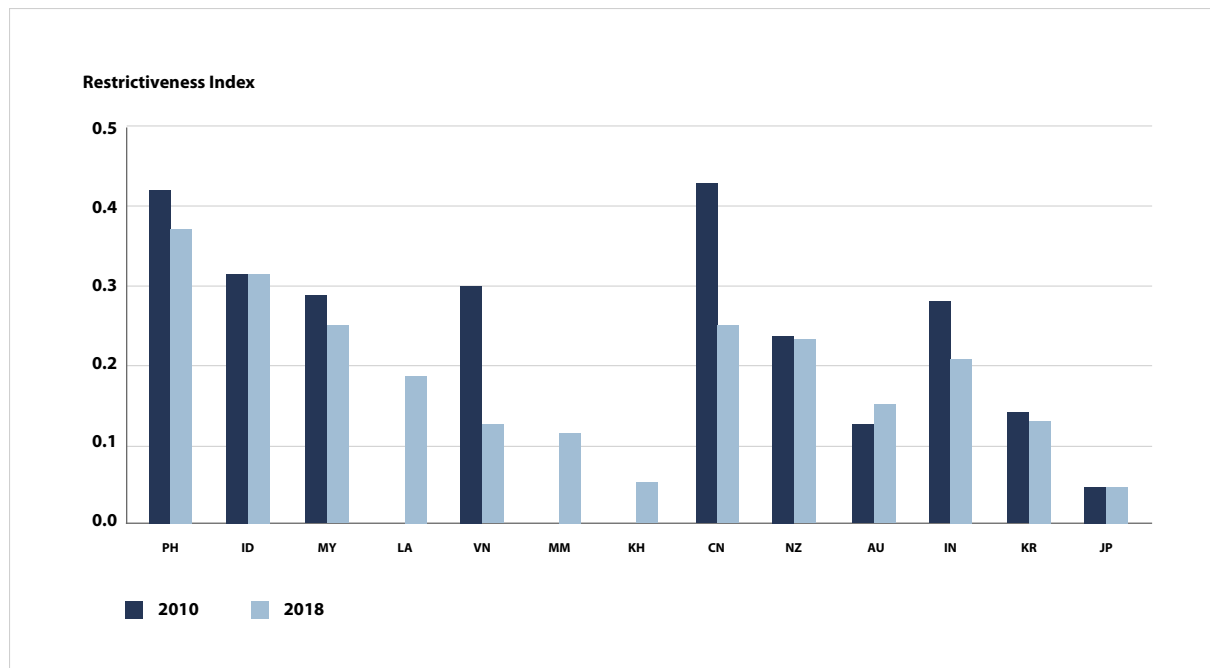
Table 3.7. 2016-2025 Investment Work Programme – Action Lines

Strategies	Action Lines
A. Investment liberalisation	<ul style="list-style-type: none"> • Continue and enhance investment peer review process in the area of monitoring AMS' adherence to eliminate/improve investment impediments and restrictions; and • Review and assess state of play on investment liberalisation in ASEAN.
B. Investment protection	<ul style="list-style-type: none"> • Policy dialogues on Investor-State Dispute Settlement and other dispute-prevention methods, including sharing of knowledge and best practice; • Analysis of ASEAN investment agreements.
C. Investment facilitation	<ul style="list-style-type: none"> • Continue and enhance investment peer review process in the area of improving transparency in investment-related policies and regulations; • Database-supported network of qualified entities providing professional services to foreign investors; • Policy dialogues on investment facilitation, including sharing of knowledge and best practice; and • Develop and update knowledge resources on investment facilitation.
D. Investment promotion	<ul style="list-style-type: none"> • Continue ACIA socialisation; • Focused sector-approach on investment promotion; • Conduct regular investment missions; • Maintain and enhance online regional information gateways (particularly InvestASEAN website); • Develop and update knowledge resources on investment promotion; and • Database-supported business and professional group networks.
E. Capacity Building related Investment Policymaking	<ul style="list-style-type: none"> • Enhance AMS capacity in scheduling investment reservation lists in investment agreements; and • Policy dialogues, including sharing of knowledge and best practice, on new areas and emerging issues in investment rulemaking, such as responsible business conduct and sustainable development.

Source: ASEAN Secretariat.

77. The relative success of ASEAN’s investment liberalisation strategy is visible through the significant progress made by the AMS in reducing restrictions in their investment rules and regulations. According to the Organisation for Economic Co-operation and Development (OECD) FDI Regulatory Restrictiveness Index, between 2010 and 2018, Viet Nam experienced the highest reduction in regulatory restrictions (the index went from 0.302 in 2010 to 0.130 in 2018).³⁵ The relaxation of FDI regulations was also seen in Malaysia and the Philippines. The FDI regulatory index of Malaysia was reduced from 0.290 in 2010 to 0.252 in 2018, while the FDI regulatory index of the Philippines declined from 0.417 to 0.374 over the same period. Indonesia also recorded a slight increase in FDI regulatory index during the observed period, from 0.312 in 2010 to 0.313 in 2018. This experience, however, was not exclusive to Indonesia – for example, Australia also experienced a slight increase in its FDI regulatory restrictiveness index from 0.128 in 2010 to 0.149 in 2018. As of 2018, Cambodia was observed to have the lowest FDI regulatory restrictiveness index among AMS with 0.054 (see Figure 3.10), although it should be noted that the low index may indicate either an open regime or the level of regulatory development.

Figure 3.10. OECD FDI Regulatory Restrictiveness Index for Selected Countries, 2010 and 2018.



Note: 2010 data for Cambodia, Lao PDR, Myanmar is not available; Data for Brunei Darussalam, Singapore, and Thailand is not available.

Source: OECD (n.d.a.).

³⁵ The OECD FDI Regulatory Restrictiveness Index uses a score between 0 and 1, with 1 being the most restrictive. As of 2018, the Index covered seven AMS, including Cambodia, Lao PDR, Indonesia, Malaysia, Myanmar, the Philippines, and Viet Nam. The Index did not include Cambodia, Lao PDR, or Myanmar in 2010. Further details concerning the Index are available on the official website of the OECD at <https://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#>.

78. The success of ASEAN in implementing its investment protection strategy can be assessed through the ease of enforcing contracts for doing business in AMS. The World Bank's Doing Business project provides historical data on contract enforcement by countries, including the AMS.³⁶ The time required for contract enforcement is measured in calendar days and records the duration of the three different stages of dispute resolution: (1) the completion of service of process (time to file and serve the case); (2) the issuance of judgement (time for trial and to obtain the judgement) and the recovery of the claim value through a public sale (time for enforcement of the judgement). A lower number of days indicates a lower protection, thus a more predictable environment to attract FDI.
79. Table 3.8 shows the enforcing contract data for AMS for 2010-2019 period. Despite an increase of the time required for contract enforcement from 2010 to 2019, Singapore ranks first globally with 164 days and a score of 84.53 in 2019. While Cambodia also recorded an increase in the time required to enforce a contract, a number of other AMS, including Indonesia (from 498 days in 2010 to 403.2 days in 2019), Malaysia (from 585 days in 2010 to 425 days in 2019), and Thailand (from 479 days in 2010 to 420 in 2019), have been able to reduce the time required for contract enforcement. Although requiring the same number of days to enforce a contract, Brunei Darussalam, Lao PDR, the Philippines and Viet Nam score better in 2019 compared to 2010: this is due to the different methodologies and variables used to assess these two sets of countries.

Table 3.8. AMS' Enforcing Contract Measurement, 2010 and 2019

Country	2010		2019		
	Number of Days	Score	Number of Days	Score	Rank
Brunei Darussalam	540	47.76	540	60.95	67
Cambodia	420	34.51	483	31.75	182
Indonesia	498	36.55	403.2	47.23	146
Lao PDR	828	45.93	828	41.99	162
Malaysia	585	67.65	425	68.23	33
Myanmar	n.a.	n.a.	1,160	24.53	188
Philippines	962	50.62	962	45.96	151
Singapore	150	89.54	164	84.53	1
Thailand	479	69.95	420	67.91	35
Viet Nam	400	66.08	400	62.07	62

Note: (1) data for Indonesia in 2010 refers to Indonesia-Jakarta; (2) rank cannot be compared over years due to different number of participating countries, thus available only for 2019.

Source: World Bank (n.d.c.).

80. Meanwhile, one of the indicators to measure investment facilitation is the Starting a Business measurement of the World Bank's Ease of Doing Business Index.³⁷ Measured in calendar days, the data captures the median duration necessary in practice to complete the procedure to start a business. A lower number of days required to start a business indicates a conducive environment to attract FDI.

³⁶ Further details concerning the World Bank's Doing Business are available from the World Bank's official website at <http://www.doingbusiness.org/en/data>.

³⁷ Further details concerning the World Bank's Starting a Business project are also available on the official website of the World Bank at <http://www.doingbusiness.org/en/data>.

81. A comparison for the Starting a Business measurement for AMS in 2010 and 2019 is presented in Table 3.9, with differentiated times required for men and women. Between 2010 and 2019, all AMS, except Lao PDR, have seen improvement in the time required to start a business.³⁸ The most significant reduction can be seen in the case of Brunei Darussalam, which has reduced the required time from 121 days in 2010 to five days in 2019 for men, and 122 days to six days for women. With a score of 98.23 in 2019, Singapore ranks the highest among AMS, or the third globally. The city-state also records an equal number of days (1.5) required by men and women to start a business.

Table 3.9. AMS Starting a Business Indicators, 2010 and 2019

Country	2010			2019			
	Number of Days - Men	Number of Days - Women	Score	Number of Days - Men	Number of Days - Women	Score	Rank
Brunei Darussalam	121	122	48.77	5	6	94.93	16
Cambodia	102	102	33.98	99	99	52.80	185
Indonesia	62	62	62.98	19.6	19.6	81.22	134
Lao PDR	86	86	62.00	174	174	60.93	180
Malaysia	18	19	79.55	13	14	82.79	122
Myanmar	n.a.	n.a.	n.a.	14	14	77.33	152
Philippines	42	42	61.53	31	31	71.97	166
Singapore	2.5	2.5	96.46	1.5	1.5	98.23	3
Thailand	34	34	77.68	4.5	4.5	92.72	39
Viet Nam	37	37	75.93	17	17	84.82	104

Note: (1) data for Indonesia in 2010 refers to Indonesia-Jakarta; (2) rank cannot be compared over years due to different number of participating countries, thus available only for 2019.

Source: World Bank (n.d.c.).

82. Recognising the importance of an implementation mechanism and a review process that will provide the requisite signposts and a feedback system on whether ASEAN is on track in its economic integration agenda, one important component of modality under the ACIA is the adoption of the ASEAN Peer Review Mechanism. This enhances the operation of the transparency provisions of the agreement. The mechanism requires regular reporting of any changes to laws, rules and regulations, policies and administrative guidelines that may significantly affect investments or commitments of AMS under the agreement. It also requires the reporting of any international agreement that AMS have entered into and grants preferential treatment. Each AMS is required to submit a written report using an agreed template. These individual country reports also include information on AMS' investment climate, policy situation, ACIA implementation, and other information relevant to investment. The country reports are discussed within the CCI, and a consolidated report is submitted for deliberation and endorsement by the AEM-AIA Council.

³⁸ 2010 exclude Myanmar due to data availability.

83. Further, as a tool to monitor the implementation of the 2016-2025 IWP and in line with the requirements of the AEC 2025 Monitoring and Evaluation Framework, the 19th AEM-AIA Council Meeting, held on 3 August 2016, adopted six cross-cutting KPIs, namely: (1) total ASEAN FDI inflows as a share of nominal output; (2) total ASEAN FDI inflows as percentage of gross fixed capital formation (GFCF); (3) total ASEAN outflows as a share of nominal output; (4) intra-regional FDI as a share of nominal output; (5) shares of economic sectors in intra-regional FDI; and (6) ratio of greenfield investment to total FDI inflows.
84. Trends in cross-cutting KPIs since 2010 are shown in Table 3.10. Total ASEAN FDI inflows declined in 2016, which resulted in lower shares in both nominal GDP and GFCF at 4.8% and 17.1% respectively. The contraction in FDI inflows to ASEAN's large economies (including Indonesia, Thailand, Malaysia, and Singapore) contributed to the downturn. These shares rose again in 2017, with a 4.9% increase in nominal GDP and 17.8% in GFCF. The positive trend of total FDI outflows also signals the growing role of ASEAN as a source of outward investment. In 2016, however, the share of total ASEAN FDI outflows to nominal output softened to 1.6%, but recovered in 2017 to 2.0%. The greenfield investment–total FDI ratio also trended upward from 2010, though it declined from 106.4 in 2016 to 51.5 in 2017.

Table 3.10. Cross-cutting KPIs on Investment

KPI	2010	2011	2012	2013	2014	2015	2016	2017	2018
1 Total ASEAN FDI Inflows (% of GDP)	5.6	3.9	4.9	4.8	5.1	4.8	4.6	5.3	5.2
2 Total ASEAN FDI Inflows (% of GFCF)	20.3	14.2	17.1	17.3	18.5	17.3	16.6	19.2	19.7
3 Total ASEAN FDI Outflows (% of GDP)	3.3	2.9	2.4	3.3	3.5	2.8	1.9	2.5	2.3
4 Intra-ASEAN FDI Inflows (% of Total FDI)	15.1	18.1	20.5	15.3	17.0	17.5	21.6	17.3	15.9
5 Intra-ASEAN FDI inflows shares, by economic activity (% of intra-ASEAN FDI inflows)									
5.1. Primary Sector	4.7	7.2	7.7	10.5	24.3	25.5	15.4	17.6	10.5
5.2. Manufacturing Sector	24.7	34.2	22.6	34.0	26.7	21.2	25.7	28.8	32.5
5.3. Services Sector	70.1	57.8	67.8	48.6	45.6	43.1	51.0	53.6	48.4
5.4 Unspecified	0.5	0.7	1.9	7.0	3.3	10.2	7.9	0.0	8.6
6 ASEAN FDI inflows, by mode of entry									
6.1. Greenfield Investment–FDI Ratio	74.5	96.4	50.2	74.5	74.7	99.0	104.5	46.3	89.9

Notes: Data no. 3 exclude Brunei Darussalam and Myanmar due data unavailability.

Source: Data no. 1, 3, 4, 5 were collected from the ASEAN Secretariat (as of September 2019); Data No. 2 was collected from the World Bank (n.d.); Data no. 6 was collected from UNCTAD (2019a).

3.1.3.2. ASEAN's Sustainable Investment

85. Although not explicitly mentioned in any of ASEAN's investment initiatives, there is a growing realisation within the region of the importance of sustainable development as an objective of economic integration, including in the area of investment. An example of this has been ASEAN's work in promoting responsible investment in food, agriculture, and forestry, which is aimed at contributing to regional economic development, food and nutrition security, food safety and equitable wealth, and sustainable use of natural resources.³⁹ Another example is the ASEAN Green Bonds Standards under the ASEAN Capital Market Forum that facilitate ASEAN capital markets in tapping green finance to support sustainable regional growth and meet investors' interest in green investment.⁴⁰
86. ASEAN's interest in sustainable investment has also been visible in its work in the area of responsible business conduct and/or corporate social responsibility (CSR). Under the CCI Investment Work Programme, the Committee plans to organise a forum in November 2019 to facilitate the exchange of information on various responsible business conduct/CSR initiatives that governments and companies have been undertaking, along with their impact on investment and the community in general.
87. Furthermore, spearheaded by ASEAN-related institutions, such as the ASEAN Intergovernmental Commission on Human Rights and the ASEAN Foundation, as well as entities associated with ASEAN, such as the ASEAN CSR Network, the region has seen various activities aimed at promoting public awareness on business and human rights.⁴¹ Moving forward, the so-called 'new generation' of investment policies, which seeks to balance sustainable development considerations and the maintenance of a favourable investment climate (UNCTAD, 2015b: 6), can be a potential area that ASEAN could look deeper into for its investment cooperation agenda.

3.1.3.3. Conclusion

88. ASEAN's strong investment performance can be attributed to the region's openness to overseas investment, as well as strong intra-ASEAN investment flows. The latter, in particular, have provided the region a buffer from external shocks. In order to maintain investment growth momentum, however, ASEAN needs to continue implementing its investment agenda across the four pillars of investment liberalisation, protection, facilitation, and promotion, which will also be critical amidst global economic uncertainty.
89. Given the region's deep connection to global value chains, ASEAN should not take the positive momentum for granted. At year-on-year growth of 5.2% in 2018 – much lower than the decade-long average growth – growth of FDI flows to the region is already moderating. Such trends are closely correlated with the uncertainties in the global economy, where the impacts of trade tensions and rising protectionism may also spill over to investment. There have been some indications of increasing inward and outward investment restrictions, including in some of ASEAN's key investment partners. ASEAN should therefore remain steadfast in enhancing its investment environment.

³⁹ The ASEAN Guidelines on Promoting Responsible Investment was adopted at the 40th ASEAN Ministers Meeting on Agriculture and Forestry in October 2018. Further details concerning the Guidelines is available in sub-section 3.3.5 of this report.

⁴⁰ Further details concerning the ASEAN Green Bonds Standards in sub-section 3.1.4.4 of this report.

⁴¹ Examples of these include the conducting of the following activities: 'AICHR Seminar on Promoting CSR and Human Rights in ASEAN' (2016); 'AICHR Training Programme on Business and Human Rights' (2017); 'AICHR Interregional Dialogue: Sharing Good Practices on Business and Human Rights' (2018); and the '2019 AICHR Interregional Dialogue: Sharing Good Practices on Business and Human Rights'.

90. Moving forward, ASEAN needs to leverage the potential contribution of investment to the region's overall productivity, including through the transfer of skills, technology, and capacity relating to digitalisation. In addition, ASEAN's investment policies must also be geared towards addressing emerging investment trends, particularly in addressing the sustainability dimension of investment.

3.1.4. Financial Integration, Financial Inclusion, and Financial Stability (and Taxation Cooperation)

91. Integration in the financial sector is envisaged under the first characteristic of the AEC Blueprint 2025 – a highly integrated and cohesive economy. Under Element A4, financial integration will be pursued through three strategic objectives, namely financial integration, financial inclusion, and financial stability, and three cross-cutting areas – capital account liberalisation, payment and settlement systems, and capacity building.
92. To achieve these objectives, several areas of cooperation have been pursued in the areas of Financial Services Liberalisation, Banking Integration, Capital Account Liberalisation, Capital Market Development, Insurance Cooperation, Payment and Settlement System, and Financial Inclusion. Work under these areas is guided by the SAPs for ASEAN Financial Integration 2016-2025, which were adopted at the 2nd ASEAN Finance Ministers' and Central Bank Governors' Meeting in April 2016.
93. At the same time, another important area of financial cooperation – taxation – is guided by the Strategic Action Plan 2016-2025 for ASEAN Taxation Cooperation, adopted by ASEAN Finance Ministers in April 2017. The document outlines the broad strategies for enhancing tax cooperation on, among others, bilateral agreements on the avoidance of double taxation and withholding tax structures among AMS.

3.1.4.1. Financial Services Liberalisation

94. The region's work on financial services liberalisation (FSL) aims to gradually remove restrictions on the delivery of financial services within ASEAN, covering banking, insurance, and capital markets, based on each AMS's state of readiness. The Working Committee on FSL was established in 2003 to carry out the process of FSL in the region. In addition to the Working Committee on FSL, FSL initiatives in the banking sector in ASEAN are guided by the Working Committee for the ASEAN Banking Integration Framework (ABIF). Progress on the liberalisation of the banking sector is discussed in the sub-section on ABIF (3.1.4.2.).
95. In the case of the insurance sector, the liberalisation process is guided by the ASEAN Insurance Integration Framework, which was adopted by the ASEAN Central Bank Governors and endorsed by the ASEAN Finance Ministers in 2011. Progress has been made in the liberalisation and integration of the insurance sector, starting with Marine, Aviation and Goods in International Transit (MAT) insurance as a non-sensitive sub-sector. In 2016, the ASEAN Insurance Forum was established to facilitate collaboration between the Working Committee on FSL and the ASEAN Insurance Regulators' Meeting, and work with the private sector to advance ASEAN insurance integration. The ASEAN Insurance Forum completed the Guiding Principles for the implementation of insurance liberalisation in 2018 and is currently developing a Roadmap for the ASEAN Insurance Integration Framework. In 2019, the ASEAN Insurance Forum finalised the Handbook for ASEAN Insurers Offering Cross-Border MAT Insurance, which provides greater clarity on MAT definition, its regulatory framework, and consumer protection mechanisms among AMS.

96. The progressive commitments of the AMS in the liberalisation of their respective financial services sectors are made under the ASEAN Framework Agreement on Services (AFAS). As of April 2019, eight packages of commitments on FSL have been completed. Nine AMS have completed ratification of the Seventh Package of Commitments, while all AMS have ratified the Sixth Package. The Protocol to Implement the Eighth Package of Commitments on Financial Services was signed at the 23rd ASEAN Finance Ministers Meeting on 5 April 2019. The Eighth Protocol includes two new bilateral arrangements⁴² under the ABIF, which came into effect with the signing of the Eighth Protocol (see sub-section 3.1.4.2. on the ABIF below).
97. Negotiations on the Ninth Package of Commitments have begun, and the Working Committee on FSL started exchanging the request list for Market Access at the 61st Working Committee on FSL Meeting in November 2018. The recently signed ATISA also has a Financial Services Annex, which is expected to enhance AFAS, thus giving ASEAN the opportunity to deepen services integration, including in financial services. The objective of the ATISA Financial Services Annex is to strengthen the platform and legal framework to realise the free flow of financial services. The Annex on Financial Services covers the following: (1) cross-border supply; (2) consumption abroad; (3) commercial presence; (4) presence of natural persons, and excludes 'services supplied in the exercise of governmental authority'.
98. A visual indicator tool, which serves as a dashboard that provides a snapshot of the status of ASEAN financial services liberalisation, has been developed for internal (to the finance sector) monitoring of the progress of AFAS commitments across all sub-sectors, including insurance, banking, and capital markets. The monitoring tools for the insurance sector and for other sectors were endorsed at the 4th and 5th ASEAN Finance Ministers and Central Bank Governors' Meeting in 2018 and 2019, respectively.
99. As of 2017, the insurance penetration rate in ASEAN is 3.4% (up from 3.1% in 2015), while insurance density stood at USD 157.9 per capita (up from USD 131.5 in 2015) (see Table 3.11). The market for insurance products has expanded with the larger share of income earners to the total population. Total assets of the insurance sector (life and non-life) increased by 21.4% in 2017, driven by the notable increase in life insurance assets, particularly in Singapore and Thailand.

Table 3.11. Insurance Penetration Rate and Density in ASEAN

Indicator	2015	2016	2017
Insurance Penetration Rate (% of GDP)	3.1%	3.1%	3.4%
Insurance Density (USD per capita)	131.5	136.1	157.9
Total Assets (USD billion)*	388.1	404.6	491.2

Note: Data for Myanmar is not available.

Source: ASEAN Secretariat.

⁴² These are between Malaysia and Thailand, as well as the Philippines and Malaysia.

3.1.4.2. ASEAN Banking Integration Framework

100. In December 2014, the ASEAN Central Bank Governors endorsed ASEAN Banking Integration Framework (ABIF) and its attendant guidelines. The provision enabling the implementation of ABIF is in the Protocol to Implement the 6th Package of Commitments on Financial Services under the AFAS, which was signed by the ASEAN Finance Ministers in March 2015.
101. The main objective of the ABIF is to establish a more integrated regional banking sector composed of a network of Qualified ASEAN Banks, which will be provided with greater market access and operational flexibility comparable to that of domestic banks in the respective host countries. With the ABIF, any two or more AMS may enter into reciprocal bilateral agreements to provide Qualified ASEAN Banks with greater market access and operational flexibilities in host countries.
102. Malaysia and Indonesia signed a Heads of Agreement (HOA) in December 2014, which serves as a precursor to the conclusion of the ABIF.⁴³ As a follow up, a bilateral agreement outlining the areas that would be implemented between Malaysia and Indonesia under the ABIF was signed on 1 August 2016. Similarly, an HOA was signed between Malaysia and the Philippines in March 2016, followed by a Declaration of Conclusion of Negotiations. Work on prudential regulations, capacity-building initiatives under the ASEAN Senior Level Committee-approved ABIF Learning Roadmap, the ASEAN Crisis Management, Recovery and Resolution framework, as well as on surveillance and metrics on KPIs, is ongoing. A number of other bilateral negotiations on the provisions for the entry of Qualified ASEAN Banks are also ongoing.

3.1.4.3. Capital Account Liberalisation

103. Financial integration in ASEAN also involves liberalising the capital account to allow freer movement of investments and other flows. In 2015, the Working Committee on Capital Account Liberalisation (WC-CAL) agreed to improve the CAL Heat Map, which is a tool for assessing the level of openness of the capital account regimes among the AMS, using a more objective scoring methodology. The CAL Heat Map provides detailed information on the ongoing measures, and reflects the actual levels of development of the AMS' capital account regime. The revised CAL Heat Map methodology was finalised in 2016 and improved in 2017 and 2018. All AMS have begun its implementation.
104. WC-CAL also continues to conduct policy dialogues on capital flows and safeguard mechanisms for capital account liberalisation. These dialogues provide a platform for the AMS to monitor capital flow trends and to exchange experiences on capital flow management. The objective is to assist AMS in the formulation of relevant policies on safeguard measures during their respective CAL processes.

⁴³ The HOA outlines the areas that would be bilaterally implemented between two AMS under ABIF. It represents the first step on the path to a full legally binding agreement or contract, and serves as a guideline for the roles and responsibilities of the parties involved in a potential partnership before any binding documents are drawn up. In this case, the Agreement sets out the definition of Qualified ASEAN Banks, which entails the presence of AMS banks in each other's jurisdiction. The Agreement also identifies the market access and operational flexibilities that will be accorded to the banking institutions once conferred and established as Qualified ASEAN Banks in their respective jurisdiction.

105. WC-CAL also monitors and promotes local currency usage for trade and investment. As of 2018, Indonesia, Malaysia, and Thailand have launched a Local Currency Settlement framework using Appointed Cross Currency Dealer banks. For 2019, one of the 13 priority economic deliverables under the Thailand ASEAN Chairmanship is the Guideline on Local Currency Settlement Cooperation Framework, which aims to provide a non-binding reference guide to those interested in engaging in this initiative on a bilateral basis.
106. Capital account openness in the region has improved, and intra-regional flows of investments have increased along with it. From 15.1% in 2010, the share of intra-ASEAN FDI flows increased to 21.6% in 2016, although they declined to 15.9% in 2018 (see Table 3.12). Meanwhile, intra-ASEAN portfolio investment declined from 12.2% in 2010 to 11.9% in 2018.

Table 3.12. Intra-ASEAN Shares to Total FDI and Portfolio Flows in the Region

Indicator	2010	2015	2016	2017	2018
Total FDI Inflow to ASEAN (in USD billion)	108.2	118.7	119.0	146.9	154.7
Share of Intra-ASEAN	15.1%	17.5%	21.6%	17.3%	15.9%
Total Portfolio Investment to ASEAN	507.0	697.5	772.5	1,007.0	858.3
Share of Intra-ASEAN	12.2%	11.4%	11.5%	9.9%	11.4%

Source: Portfolio Inflows based on IMF (2019e); FDI inflows from ASEAN Secretariat (as of September 2019).

3.1.4.4. Capital Market Development

107. The integration of ASEAN capital markets involves the harmonisation of standards and the development of infrastructure and connectivity among capital markets in the region. Two working committees are in charge of the work on capital market development, namely, the Working Committee on Capital Market Development (WC-CMD) and the ASEAN Capital Market Forum (ACMF).
108. WC-CMD was established in 2003 to build the capacity and lay the infrastructure of the ASEAN capital market, with the long-term goal of achieving cross-border collaboration among the various capital markets in the region. The WC-CMD consists of representatives from finance ministries, securities exchange commissions and central banks.
109. To monitor the development, openness and liquidity in ASEAN bond markets, the WC-CMD has developed the Bond Market Development Scorecard in consultation with members and private sector partners. The scorecard is continuously and progressively enhanced in order to improve the monitoring of developments in the bond markets and provide greater clarity and guidance. Recognising the link between green finance and infrastructure finance, and also the potential of Islamic finance (*Sukuk*) to support infrastructure financing,⁴⁴ the WC-CMD established the following working groups in 2018 to advance work in these areas: (1) Working Group on Sustainable Finance; and (2) Working Group on Infrastructure Financing. In addition, a policy action, namely 'to promote sustainable financing, including adoption of ASEAN sustainable financing standards, through collaboration with the ACMF', has been added under the WC-CMD's Strategic Action Plan end goal 'to improve access to capital markets'.

⁴⁴ *Sukuk* is an Islamic financial certificate that provides an investor with ownership in an underlying asset.

110. The ACMF, comprising capital market regulatory authorities from the AMS, was established in 2004 to develop a deep, liquid and integrated regional capital market. Its primary responsibility is the development and implementation of initiatives to achieve greater regional capital market connectivity.
111. To enhance Stock Exchange Connectivity in the region, the ASEAN Trading Link was launched in 2012, connecting stock exchanges in Malaysia, Singapore, and Thailand. A study commissioned by the ADB at the ACMF's request identified key challenges facing the ASEAN Trading Link (Phase 1 in 2016), and recommended that the initiative be replaced with an entirely new connectivity solution (Phase 2 in 2017). In April 2017, the ASEAN Finance Ministers acknowledged the sunset of the ASEAN Trading Link and accepted the recommendation to replace it with a revamped ASEAN Stock Exchange Connectivity strategy. Towards this, Malaysia and Singapore established a bilateral stock market trading link in 2018, with a view to expanding it to other ASEAN exchanges in the future.
112. In an effort to raise corporate governance standards and practices among publicly listed companies in ASEAN and to give greater international visibility to well-governed ASEAN companies, the ACMF launched the ASEAN Corporate Governance Scorecard in 2011. The ASEAN Corporate Governance Scorecard went through a comprehensive review in 2016. Currently, six AMS (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam) are participating in this initiative.
113. To drive sustainable investments in the region, the ASEAN Green Bond Standards – a set of voluntary standards for green bond markets aligned with the International Capital Market Association's Green Bond Principles – were launched in November 2017. Building on the ASEAN Green Bond Standards, the ACMF launched the ASEAN Social Bonds Standards and ASEAN Sustainability Bonds Standards in October 2018. Together, the three standards are referred to as the ASEAN standards on sustainable financing. To date, eight issuances from the Philippines, Thailand, Singapore, and Malaysia have adopted the ASEAN Green and Sustainability Bonds Standards.
114. Another initiative of the ACMF pertains to the greater mobility of capital market professionals in the region. The ASEAN Professional Mobility Framework was endorsed in 2018, to fast-track approval for licensed/registered professionals from signatory AMS and carry out activities in the host countries. Part of the mobility framework is the ACMF Pass launched in 2018 to facilitate cross-border movement of investment advisers. The ACMF Pass is effective as of 1 January 2019.
115. To provide investor access to cross-border funds offered through a streamlined authorisation process, the ASEAN Collective Investment Scheme Framework was established in 2014 by Malaysia, Singapore, and Thailand. Fifteen funds have been recognised to date, with six successfully launched in signatory countries. Work is being done to facilitate the admission of the Philippine Securities and Exchange Commission as a signatory to the Memorandum of Understanding for the Collective Investment Scheme Framework. Work is also ongoing to enhance the Framework to promote more cross-border offerings of ASEAN funds and allow fund managers to offer a broader range of fund products to investors in the region.

116. In March 2018, the ACMF endorsed the extension of the ASEAN Debt Securities Disclosure Standards⁴⁵ to cover issuances of plain debt securities under a debt issuance programme. The standards will allow issuers seeking to make multi-jurisdictional offerings of plain debt securities under a debt issuance programme to produce a set of standardised documents complying with one set of disclosure standards.

3.1.4.5. Payment and Settlement Systems

117. Cross-border trade and capital flows require payment and settlement systems. The Working Committee on the Payment and Settlement Systems (WC-PSS), established in 2010, aims to improve the region's domestic payment infrastructure, promote more efficient cross-border payment and settlement services than existing arrangements, and, ultimately, the regional linkages of systems in the region. More specifically, the objective is to improve the payment and settlement systems of the AMS in the key areas of trade settlement, remittances, retail payments, and capital markets.
118. Towards the harmonisation of standards across the region in terms of cross-border transactions, the AMS are adopting ISO 20022, which is the international standard for data interchange among financial institutions. As of 2018, only one AMS had adopted ISO 20022 for Large Value Payment Systems/Real-Time Gross Settlements, while four AMS adopted ISO 20022 for the Real-Time Retail Payment Systems (see Table 3.13).

Table 3.13. Status of ISO 20022 Adoption Among the AMS, 2018

AMS	Retail Payment Systems	Large Value Payment Systems
Brunei Darussalam	Adopted	Adopted
Cambodia	Adopted	2019
Indonesia	Under Study	Under Study
Lao PDR	2019	2019
Malaysia	2019	Under Study
Myanmar	2020	2020
Philippines	Adopted	2020
Singapore	Adopted	Under Study
Thailand	2019	Under Study
Viet Nam	2019-2020	2021-2022

Source: ASEAN Secretariat.

119. A survey of cross-border Real-Time Retail Payment Systems aimed at providing a reference on the characteristics and state of readiness of the AMS was completed and presented to the WC-PSS meeting in February 2019. In addition, an ASEAN Payments Policy Framework has been drafted to serve as a reference for bilateral cross-border linkage for faster payment systems among the AMS, with a corresponding roadmap of activities and timelines. The Framework is currently under evaluation by the WC-PSS and is expected to be finalised in 2019.

⁴⁵ The ASEAN Disclosure Standards were first implemented by Malaysia, Singapore and Thailand in April 2013. Further information concerning the ASEAN Disclosure Standards is available on the official website of the ACMF at <https://www.theacmf.org/publications/asean-disclosure-standards#>.

120. Another area that WC-PSS is working on is the promotion of remittances through formal channels. A survey has been conducted to collect information on remittance services and the country's readiness against the World Bank's General Principles for International Remittance Services.
121. To promote consumer protection and achieve low fraud levels compared to other regional blocks, a set of measures to reduce fraud has been completed based on a survey of the best practices of the AMS in mitigating and lowering payment fraud. The WC-PSS will also conduct a more comprehensive survey on payment fraud definitions and trends, and best practices in mitigating payment fraud.

3.1.4.6. Financial Inclusion

122. Under the AEC Blueprint 2025, the new area of financial inclusion has been given emphasis to enhance the accessibility of financial products and services to a wider community, including SMEs. In this regard, the Working Committee on Financial Inclusion was established in 2016 as a platform for sharing experiences, expertise, and information to support AMS' policies on financial inclusion, and also to assess policy options and coordinate initiatives on financial inclusion in the region.
123. In 2016, the Working Committee on Financial Inclusion adopted the ASEAN Financial Inclusion Framework to guide AMS initiatives on financial inclusion and promote awareness of financial inclusion and consumer protection, including via digital platforms. The framework is being operationalised with the publication of the Guidance Notes on National Financial Inclusion Strategy for ASEAN, Guidance Note on Digital Financial Services, and Guidance Note on Financial Education and Consumer Protection. Capacity-building programmes focusing on new financial inclusion strategies, and the adoption of innovative solutions for financial inclusion, among others, have also been organised since 2016. Moreover, the ASEAN financial education portal (www.aseanwcfinc.com) was established in 2017 to facilitate peer learning. Several capacity-building programmes have also been organised since 2016 covering various topics, including financial technology, financial education, financing ecosystem development, and anti-money laundering/countering the financing of terrorism standards for financial inclusion.
124. To measure the progress of financial inclusion in the region, two KPIs with specific targets have been identified, namely, the average financial exclusion level for the ASEAN region (target = 30.0% by 2025) and the percentage of enhanced readiness of financial inclusion infrastructure for ASEAN region (target = 85.0% by 2025). As of 2018, both indicators point to an improvement in financial inclusion in the region, with the level of financial exclusion declining from 44.0% in 2016 to 36.7%, and the readiness of financial inclusion infrastructure increasing from 70.0% in 2016 to 74.0% in 2018 (see Table 3.14). The substantial increase in the use of digital payment systems, spread of digital technology, and innovations in digital financial services, are major factors driving financial inclusion and are likely to further improve financial inclusion in the region in the near future.

Table 3.14. Indicators of Financial Inclusion

Indicator	2016	2018	2025 (Target)
Average financial exclusion level for ASEAN region	44.0%	36.7%	30.0%
Percentage of enhanced readiness of financial inclusion infrastructure for ASEAN region	70.0%	74.0%	85.0%

Source: ASEAN Secretariat.

3.1.4.7. Insurance Cooperation

125. The ASEAN region is disaster-prone, and the costs of reconstruction and rehabilitation of disaster-hit areas put a burden on resources. To cushion the impact of these disasters, the Disaster Risk Financing and Insurance project, funded by the Japan-ASEAN Integration Fund, was established in 2016 and completed in 2017. Among the outputs of the project are a database on damage and loss, policy reviews and case studies, and a high-level course on Disaster Risk Financing and Insurance. The second phase of the project has been approved, with funding from the German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit, or GIZ). Phase 2 continues the activities of Phase 1, except for the work on public policy development, which is replaced by a regional risk transfer scheme and insurance risk pooling. Moreover, the Southeast Asia Disaster Resilience Insurance Facility was established in 2017 as a regional insurance facility that provides analytical, convening, and financial services to AMS to increase financial protection.

3.1.4.8. ASEAN Infrastructure Fund

126. ASEAN is promoting the mobilisation of ASEAN savings to finance infrastructure development in the region. Together with the Asian Development Bank (ADB), the AMS established the ASEAN Infrastructure Fund (AIF) through the signing of the AIF Shareholder Agreement in September 2011. The AIF became operational in 2013, with an initial equity contribution of USD 485.2 million, of which USD 335.2 million is from the AMS and USD 150 million from the ADB. The ADB administers the AIF, including all aspects of day-to-day operations, and all projects financed by the AIF follow ADB's policies and procedures. As of September 2018, nine road, energy, and other infrastructure projects have been approved for AIF financing. In 2018, the AIF Board also approved the creation of a 'Green and Inclusive Infrastructure Window', that will offer two separate lending facilities: (1) an 'Inclusive Finance Facility' to offer concessional loans to CLM countries; and (2) an 'ASEAN Catalytic Green Finance Facility' to bridge the viability gap for green infrastructure projects and attract private and public capital. These two lending facilities, which form part of the priority economic deliverables for Thailand's ASEAN Chairmanship, namely on ASEAN Infrastructure Financing Mechanisms, were launched by the AIF and ADB on 4 April 2019 in Chiang Rai, Thailand.

3.1.4.9. ASEAN Plus Three Finance Cooperation

127. In November 1999, the AMS, together with Japan, the ROK, and China (or APT, short for ASEAN Plus Three), issued the Joint Statement on East Asia Cooperation, expressing their commitment to strengthen collaboration by building on existing consultative processes in key areas, including monetary and financial cooperation. The Chiang Mai Initiative Multilateralisation (CMIM), a USD 240 billion multilateral currency swap arrangement among APT countries, is part of this APT cooperation.⁴⁶ The CMIM, established in 2009 and enhanced in 2014,

⁴⁶ Originally known as the Chiang Mai Initiative, which was a network of bilateral swap arrangements set up in 2000 as a response to the Asian Financial Crisis, the Initiative became a multilateral swap arrangement under a single contractual agreement known as the CMIM in 2009. Further information concerning the Chiang Mai Initiative and the CMIM is available on the official website of the ASEAN Plus Three Macroeconomic Research Office at <https://www.amro-asia.org/wp-content/uploads/2017/02/For-website-updating-Overview-of-CMIM.pdf>.

aims to address short-term liquidity problems and supplement existing international financial arrangements. In support of the CMIM, the APT Countries instated the ASEAN Plus Three Macroeconomic Research Office (AMRO) as an international organisation in February 2016,⁴⁷ enabling AMRO to function more effectively as the region's independent surveillance unit and contribute to ensuring macroeconomic and financial stability.

128. Another initiative under the APT process is the ASEAN Bond Markets Initiative (ABMI). The ABMI was established in 2002 and continues to facilitate the development of local currency bond markets in the region as alternative sources of funding. Following the ABMI Medium-Term Roadmap 2016-2018, the current roadmap for 2019-2020 is expected to continue work on the development of local currency bond markets to promote financial stability and meet the long-term investment needs of the region. For the medium term, the ABMI hopes to promote the issuance of – and demand for – local currency bonds, improve the regulatory framework (particularly the standardisation and harmonisation of technical standards and bond market regulations), and improve the infrastructure for bond markets.⁴⁸

3.1.4.10. Taxation

129. The SAP 2016-2025 for ASEAN Taxation Cooperation outlines six strategic areas, namely, bilateral taxation agreements, withholding tax structure, exchange of information, base erosion and profit sharing, global taxpayers' identification number (Global TIN), and excise taxation and information sharing.⁴⁹ In the area of bilateral taxation agreements, as of end of 2018, 68 Avoidance of Double Taxation Agreements among the AMS have been signed and ratified (see Table 3.15). The Agreements aim to address double taxation and tax avoidance, and also reduce tax rates to enhance cross-border investment. Two AMS (Singapore and Viet Nam) have completed Double Taxation Agreements with the other nine AMS. In addition, seven AMS have joined as members of OECD's Global Forum on Transparency on Exchange of Information for Tax Purposes, which represent international best practices for purposes of transparency and accountability. Meanwhile, six AMS⁵⁰ have joined as members of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS).⁵¹ All AMS have endorsed the Terms of Reference of the ASEAN Sub-Forum on Excise Taxation, which aims to strengthen collaboration in excise tax policy and administration.

⁴⁷ AMRO was originally set up in 2011 as a company in Singapore. In 2014, the APT signed the AMRO Agreement, which instates AMRO as an international organisation. The AMRO Agreement went into force in 2016. Further information concerning AMRO is available from its official website at <https://amro-asia.org/>.

⁴⁸ Further information concerning the APT Asian Bond Markets Initiative Medium-Term Road Map 2019-2022 is available on the official website of the Asian Development Bank at https://asianbondsonline.adb.org/documents/abmi_medium_term_road_map.pdf

⁴⁹ The six strategies under the SAP are: (1) concerted efforts to support the completion and improvement of a network of bilateral tax agreements to address the issue of double taxation; (2) work towards the enhancement of withholding tax structure, where possible, to promote the broadening of the investor base in ASEAN debt issuance; (3) improve the implementation of exchange of information in accordance with international standards; (4) discuss measures to address the issue of base erosion and profit shifting to ensure fiscal health; (5) explore the possibility of a Global TIN to improve tax collection and enhance monitoring of transactions; and (6) explore the possibility of collaboration in excise taxation and information sharing among AMS on common excisable products.

⁵⁰ These are Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand, and Viet Nam.

⁵¹ BEPS refers to tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax. Developing countries' higher reliance on corporate income tax means that they suffer from BEPS disproportionately. BEPS practices cost countries USD 100-240 billion in lost revenues annually. Working together within OECD/G20 Inclusive Framework on BEPS, over 130 countries and jurisdictions are collaborating on the implementation of 15 measures to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment. Further information concerning the Inclusive Framework on BEPS is available on the official website of the OECD at <http://www.oecd.org/tax/beps/about/>.

Table 3.15. Status of Bilateral Avoidance of Double Taxation Agreements, 2018

Country	BN	KH	ID	LA	MY	MM	PH	SG	TH	VN
Brunei Darussalam		✓	✓	✓	✓	2	3	✓	2	✓
Cambodia	✓		4	1	2	1	2	✓	✓	✓
Indonesia	✓	4		✓	✓	2	✓	✓	✓	✓
Lao PDR	✓	1	✓		✓	✓	1	✓	✓	✓
Malaysia	2	2	✓	✓		✓	✓	✓	✓	✓
Myanmar	3	1	2	✓	✓		2	✓	✓	✓
Philippines	✓	2	✓	1	✓	2		✓	✓	✓
Singapore	2	✓	✓	✓	✓	✓	✓		✓	✓
Thailand	✓	✓	✓	✓	✓	✓	✓	✓		✓
Viet Nam	✓	✓	✓	✓	✓	✓	✓	✓	✓	

Note: 1: Proposal; 2: Negotiation process; 3: Concluded, but pending signing; 4: Ratification process; ✓: Completed.

130. A study on the enhancement of the withholding tax structure in ASEAN was released in March 2019 and submitted to the ASEAN Forum on Taxation. The Withholding Tax Study focuses on estimating the impacts of the withholding tax structure in ASEAN and how it could improve the investor base. One of the key recommendations was the improvement in withholding tax refund procedures, which would have a positive impact on the region's revenue goals. On this recommendation, the ASEAN Forum on Taxation has initiated a new proposal to come up with a Standardised Certificate of Residence to further facilitate the tax treaty benefits claims among the AMS.

3.1.4.11. Conclusion

131. A more integrated financial system could provide efficiency of capital allocation, reduce the impact of country-specific shocks and contribute to macroeconomic stability. The achievements in the various areas of cooperation in the financial sector bring the region closer to the objective of an integrated and cohesive economy by 2025. Progress has been made in the liberalisation of financial services, financial infrastructure and connectivity, as well as in the establishment and harmonisation of regulations across the AMS.

132. On the other hand, key indicators show that there is still a lot of room for progress, especially in facilitating cross-border capital flows within the region, increasing insurance penetration, deepening capital markets, and promoting financial inclusion. In addition, new technologies are disrupting the finance sector, and necessitating a rethinking of financial surveillance and regulatory frameworks. These challenges call for a more responsive and innovative ASEAN, and are predicted to steer ASEAN's cooperation efforts in the coming years.

3.1.5. Enhancing Participation in Global Value Chains

133. In the current global economic landscape, production processes are increasingly fragmented and distributed across firms and economies. In a world of global value chains (GVCs), firms, including MSMEs, have more opportunities to participate in international production sharing by specialising in specific tasks rather than undertaking the complete production process. Regional and broader economic integration efforts allow firms to source from and export their products to partner countries at lower costs, contributing to their participation in regional or global value chains. Nevertheless, market access and economic integration alone are insufficient to successfully participate in GVCs. The fast-changing technological advancements, multiple policy domains affecting firms' GVCs participation – as well as global competition – demand continuous improvement of firm and industry competitiveness, through the updating of skills, know-how, business environment, and technological capabilities.
134. Promoting participation in GVCs commonly features in many economies' development plans given its potential for generating employment, stimulating and facilitating innovation, and, hence, spurring long-term competitiveness. Enhancing participation in GVCs has been identified as one of the elements, or Element A6 (Enhancing Participation in Global Value Chains), under the Characteristic 1 (Highly Integrated and Cohesive Economy) of the AEC Blueprint 2025. The ASEAN Work Plan for Enhancing the GVC Agenda (2016-2015), adopted at the 48th ASEAN Economic Ministers' Meeting in 2016, operationalises this element and other GVC-related strategic measures.
135. The extent of an economy's GVC participation is measured by its backward linkages or forward linkages. The former refers to the sourcing side of the GVCs where an economy uses imported intermediates to produce exports, and is commonly measured by foreign value added content of exports, whereas the latter refers to the supply side of the GVCs where an economy produces value added inputs to be sent to third economies, and is usually measured by domestic value added contained in inputs sent to third economies for further processing and export through the value chain (Ignatenko et al., 2019; OECD, 2017).
136. The trade in value added (TiVA) indicators can be used to analyse GVC participation of an economy by looking at the value add in its cross-border trading activities. The TiVA database of the Asian Development Bank (ADB) is one of the world's most comprehensive, and currently covers all AMS except Myanmar. Using the ADB TiVA database, this sub-section analyses AMS participation in GVCs, using foreign value added (FVA), to represent backward linkages, and domestic value added (DVA) to proxy for forward linkages of an economy's participation in GVCs. The more specific measurement for forward linkages would further disaggregate DVA into DVA absorbed abroad (VAX_G) and DVA first exported then returned home (RDV_B). A component of DVA absorbed abroad (VAX_G),⁵² i.e., intermediates sent first to an importer and then re-exported to a third country (DVA_INTrex), measures forward linkages. However, due to data limitations, this report will use aggregated DVA to proxy for forward linkages. In order to analyse the export structure of an economy in terms of double-counted components due to back-and-forth trade activities, this report also uses Pure Double-Counted terms (PDC).

⁵² VAX G can be further disaggregated into: (1) final goods and services (DVA_FIN); (2) intermediate exports absorbed by direct importer (DVA_INT); and (3) intermediates sent to first importer and then re-exported to a third country (DVA_INTrex).

137. The data shows that the DVA in the value added decomposition of exports of AMS has been relatively high since 2010, and not so much different from that in the recent years. In 2017, the shares of DVA in total export of AMS range from 47.0% (Singapore) to 90.3% (Brunei Darussalam), and vice versa for the shares of FVA in total exports, for which Brunei Darussalam has the lowest ratio with 6.7%, and Singapore the highest with 39.1%. The high share of DVA for Brunei is not surprising as it is typical of a commodity-dominant economy, while the high share of FVA for Singapore is also not unusual for a trade-based economy. Further, the highest share of PDC of Singapore (13.9%) confirms that, among AMS, the country has the highest back-and-forth trading activities in line with its status as a trading hub (see Table 3.16).

Table 3.16. Key GVC Indicators for all Sectors

Value Added Decomposition of Exports for All Sectors										
		BN	KH	ID	LA	MY	PH	SG	TH	VN
		% of Total Export								
FVA	2010	5.4	24.0	11.1	11.3	20.8	13.9	37.2	25.0	29.4
	2017	6.7	24.7	11.2	8.0	20.5	15.7	39.1	21.0	31.7
DVA	2010	92.3	72.7	85.0	84.5	70.9	79.0	46.8	66.5	63.8
	2017	90.3	72.3	85.0	89.6	70.5	76.7	47.0	72.1	59.9
PDC	2010	2.4	3.2	4.0	4.2	8.3	7.1	16.0	8.4	6.8
	2017	3.1	3.0	3.9	2.5	9.0	7.6	13.9	6.9	8.4

Note: FVA = Foreign Value Added, DVA = Domestic Value Added; PDC = Pure Double-Counted Terms.

Source: ADB TiVA database (as of June 2019).

138. The declining DVA shares in some AMS' gross exports occurred between 2010 and 2017, especially in Brunei Darussalam, the Philippines, and Viet Nam, with a slight decline in Cambodia and Malaysia. This declining trend does not necessarily mean that these economies are losing their competitiveness; instead, it may result from these countries' declining reliance on unprocessed primary products exports, and moves to become exporters of manufactured/processed products, which typically require more intermediate imports.
139. Sector specificities may also influence the GVC participation of economies. With regard to the primary sector (see Table 3.17), high shares of DVA experienced by most AMS, except for Singapore (47.0%) and Viet Nam (59.9%), which reflects the characteristics of the primary sector exporters that commonly rely heavily on domestically sourced commodities. Among commodity-based exporting countries, Indonesia has the highest share of DVA in total exports with 94.2%, followed by Lao PDR (91.9%), and Brunei Darussalam (91.6%). Meanwhile, the FVA shares in total exports were relatively high for Singapore (39.1%) and Viet Nam (31.7%), indicating their reliance on foreign inputs for primary sector exports. Furthermore, the low shares of PDC across AMS confirm that there are no significant back-and-forth trading activities in this sector.

Table 3.17. Key GVC Indicators for Primary Sector

		Value Added Decomposition of Exports for All Sectors								
		BN	KH	ID	LA	MY	PH	SG	TH	VN
		% of Total Export								
FVA	2010	4.7	7.0	3.7	10.9	5.6	6.2	25.0	9.8	25.4
	2017	5.4	7.3	3.2	6.2	7.3	6.5	26.4	8.9	27.4
DVA	2010	93.0	90.1	93.3	84.2	91.7	91.8	67.4	86.9	66.2
	2017	91.6	89.1	94.2	91.9	89.8	91.3	66.9	88.5	64.0
PDC	2010	2.2	2.9	2.9	4.9	2.7	2.0	7.6	3.3	8.4
	2017	3.0	3.6	2.6	2.0	2.9	2.2	6.8	2.6	8.6

Note: FVA = Foreign Value Added, DVA = Domestic Value Added; PDC = Pure Double-Counted Terms.

Source: ADB TIVA database (as of June 2019).

140. For exports in the low-technology manufacturing sector, the shares of FVA in exports decreased in Brunei Darussalam between 2010 and 2017 (from 35.6% to 30.8%), Singapore (from 40.5% to 36.7%) and Thailand (from 21.4% to 17.2%); only Viet Nam experienced a significant increase of FVA in 2017 (from 31.1% to 34.3%) (see Table 3.18). This growing trend in using domestic intermediates in the low-technology manufacturing products in AMS may reflect the deepening of domestic production capacity in this sector. Furthermore, the shares of PDC in Brunei Darussalam, the Philippines, and Viet Nam increased between 2010 and 2017, which indicates the growing participation of these economies in more distributed production processes.
141. As for the medium- and high-tech manufacturing sector, except for Brunei Darussalam (92.9%), Indonesia (78.9%), and Lao PDR (75.2%), AMS have relatively low to moderate shares of DVA, signifying higher reliance on imported intermediates in this sector (see Table 3.18). The decreasing trend of DVA shares and increasing FVA shares experienced by Brunei Darussalam, the Philippines, and Viet Nam shows that more foreign inputs are needed in these countries for this sector, indicating that the region's production capacity in this sector is still relatively limited. An increasing trend of PDC in almost all AMS suggests intensive trading activities in this sector.

Table 3.18. Key GVC Indicators for the Manufacturing Sector

Value Added Decomposition of Exports – Low-Technology Manufacturing Sector										
		BN	KH	ID	LA	MY	PH	SG	TH	VN
		% of Total Export								
FVA	2010	35.6	33.3	13.0	9.6	22.2	12.1	40.5	21.4	31.1
	2017	30.8	33.2	12.9	8.9	23.2	12.4	36.7	17.2	34.3
DVA	2010	61.0	64.0	84.0	88.0	71.4	86.0	50.3	74.0	64.9
	2017	62.5	64.7	84.1	88.6	70.5	85.4	55.5	78.4	60.6
PDC	2010	3.4	2.7	3.0	2.4	6.4	2.0	9.2	4.6	3.9
	2017	6.7	2.1	3.0	2.5	6.3	2.1	7.8	4.4	5.2
Value Added Decomposition of Exports – Medium- and High-Technology Manufacturing Sector										
		BN	KH	ID	LA	MY	PH	SG	TH	VN
		% of Total Export								
FVA	2010	3.9	32.7	15.8	48.6	26.9	22.3	45.1	31.9	35.4
	2017	4.8	25.4	15.0	16.4	24.3	29.8	46.6	32.0	36.5
DVA	2010	94.1	63.8	77.9	46.1	60.5	63.0	34.5	55.7	49.1
	2017	92.9	68.9	78.9	75.2	61.7	52.1	35.7	55.8	44.5
PDC	2010	1.9	3.5	6.2	5.3	12.7	14.6	20.4	12.4	15.5
	2017	2.3	5.7	6.2	8.3	14.1	18.1	17.7	12.2	19.1

Note: FVA = Foreign Value Added, DVA = Domestic Value Added; PDC = Pure Double-Counted Terms.

Source: ADB TiVA database (as of June 2019).

142. While the primary and manufacturing sectors play crucial roles in ASEAN's economy, the services sector is becoming increasingly important. ASEAN recorded a services trade surplus since 2016, with the growth of services exports higher than imports: 7.9% per annum on average between 2010 and 2017, compared to 6.3% for imports. Total ASEAN exports of services reached USD 360.5 billion in 2017, or an increase of 51.6% from 2010. Meanwhile, at 66.9%, services also received the largest share of FDI flows into ASEAN in 2017. Increased participation in services GVCs contributes to new growth and employment opportunities, as well as overall economic competitiveness more broadly.
143. In the business services sector, DVA shares are found to be relatively high in almost all AMS, with increased shares occurring in Indonesia (from 88.9% in 2010 to 91.4% in 2017), Lao PDR (from 80.7% to 85.8%), Thailand (from 80.4% to 85.5%), and Viet Nam (from 73.7% to 74.3%), reflecting the less tradable nature of the services sector. Increased PDC shares for Brunei Darussalam (from 5.6% in 2010 to 6.9% in 2017), Cambodia (from 3.9% to 4.2%), Malaysia (from 3.9% to 4.9%), the Philippines (from 1.7% to 2.1%), and Viet Nam (from 4.2% to 4.6%) also indicate an increasing fragmentation and cross-economy specialisation in their service production processes.

144. High DVA shares are also found in the personal services sector for all AMS, again reflecting the less tradable nature of the services sector. In 2017, the shares of DVA in AMS were within the range of 76.4% (Viet Nam) to 93.1% (Indonesia). However, increasing FVA shares in gross exports were found in some AMS, including Brunei Darussalam (from 13.8% in 2010 to 15.1% in 2017), Cambodia (from 14.6% to 15.7%), the Philippines (from 7.0% to 8.0%), and Viet Nam (from 21.0% to 22.5%), reflecting an increasing reliance of these countries on imported intermediates. A relatively low PDC in almost all AMS shows the low level of back-and-forth movements of intermediates across the borders for this sector (see Table 3.19).

Table 3.19. Key GVC Indicators for the Services Sector

Value Added Decomposition of Exports for the Business Services Sector										
		BN	KH	ID	LA	MY	PH	SG	TH	VN
		% of Total Export								
FVA	2010	16.4	14.3	8.3	13.8	13.2	6.0	29.0	15.4	22.1
	2017	18.5	15.6	6.6	10.5	14.4	6.8	33.2	11.8	21.1
DVA	2010	77.9	81.8	88.9	80.7	82.9	92.3	58.9	80.4	73.7
	2017	74.6	80.3	91.4	85.8	80.7	91.1	55.6	85.5	74.3
PDC	2010	5.6	3.9	2.8	5.5	3.9	1.7	12.0	4.2	4.2
	2017	6.9	4.2	2.0	3.7	4.9	2.1	11.2	2.8	4.6
Value Added Decomposition of Exports for the Personal Services Sector										
		BN	KH	ID	LA	MY	PH	SG	TH	VN
		% of Total Export								
FVA	2010	13.8	14.6	8.1	13.8	14.7	7.0	13.6	13.9	21.0
	2017	15.1	15.7	6.1	7.5	13.5	8.0	13.5	10.6	22.5
DVA	2010	82.0	80.1	90.4	85.9	83.2	90.9	80.0	84.5	78.1
	2017	83.9	80.3	93.1	90.9	84.8	89.2	80.7	88.2	76.4
PDC	2010	4.1	5.2	1.4	0.4	2.1	2.1	6.4	1.6	0.9
	2017	1.0	4.0	0.9	1.6	1.8	2.8	5.8	1.1	1.1

Note: FVA = Foreign Value Added, DVA = Domestic Value Added; PDC = Pure Double-Counted Terms.

Source: ADB TiVA database (as of June 2019).

3.1.4.1. Conclusion

145. The extent and nature of ASEAN's GVC participation vary across AMS depending on their economic structures and levels of development. However, countries' GVC participation evolves over time, driven by technological progress alongside improved efficiency and stronger economic linkages. A country's successful participation in GVCs is largely determined by its ability to adjust and respond to these changes and continuously build its competitiveness through innovation. There are opportunities to increasingly leverage regional platforms and activities to enhance GVC participation, which ultimately require active participation from the private sector, entrepreneurs, and workforce alike.

3.2. A Competitive, Innovative, and Dynamic ASEAN

146. The second characteristic of the AEC Blueprint 2025 is a competitive, innovative, and dynamic ASEAN. The objective of this characteristic is to focus on elements that contribute to increasing the region's competitiveness and productivity by: (1) engendering a level playing field for all firms through an effective competition policy; (2) fostering the creation and protection of knowledge; (3) deepening ASEAN participation in GVCs; and (4) strengthening related regulatory frameworks and overall regulatory practice and coherence at the region level. This characteristic covers the following elements: (1) effective competition policy; (2) consumer protection; (3) strengthening intellectual property rights cooperation; (4) productivity-driven growth, innovation, research and development, and technology commercialisation; (5) taxation cooperation;⁵³ (6) good governance; (7) effective, efficient, coherent, responsive regulations, and good regulatory practice; (8) sustainable economic development; and (9) global megatrends and emerging trade-related issues.

3.2.1. Effective Competition Policy

147. Regional cooperation on competition policy and law (CPL) in ASEAN began in 2007 when the ASEAN Experts Group on Competition (AEGC) was established as a regional platform to exchange experiences and cooperate on CPL.⁵⁴ Given that CPL was relatively new in ASEAN in 2007, the AEC Blueprint 2015 focused mainly on: (1) introducing competition policy in all ASEAN Member States (AMS) by 2015; (2) establishing a network of authorities or agencies responsible for competition policy to serve as a forum for discussing and coordinating competition policies; (3) encouraging capacity-building programmes/activities for AMS in developing national competition policy; and (5) developing a regional guideline on competition policy by 2010 based on country experiences and international best practices.

148. Under the AEC Blueprint 2025, regional cooperation in CPL is guided under Element B1 (Effective Competition Policy), which covers five strategic measures that support ASEAN to be a competitive region with well-functioning markets and effective rules on competition. Enforceable competition rules that proscribe anti-competitive activities are also expected to facilitate liberalisation and a unified market and production base, as well as support the formation of a more competitive and innovative region.

149. To further operationalise the strategic measures in competition policy, the ASEAN Competition Action Plan 2016-2025 (ACAP) was put in place to support the overarching vision of a competitive, innovative, and dynamic ASEAN with an effective and progressive competition policy.⁵⁵ Five strategic goals were identified, which are aligned with the strategic measures in the Blueprint, namely: (1) effective competition regimes are established in all AMS; (2) the capacities of competition-related agencies in AMS are strengthened to effectively implement CPL; (3) regional cooperation arrangements on CPL are in place; (4) fostering a competition-aware ASEAN region; and (5) moving towards greater harmonisation of competition policy and law in ASEAN.

⁵³ Discussion on taxation cooperation is covered under sub-section 3.1.4.10 of this report.

⁵⁴ Further information concerning the AEGC is available on its official website at <https://asean-competition.org/>.

⁵⁵ The electronic version of the ACAP 2016-2025 is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2012/05/ACAP-Website-23-December-2016.pdf>.

- 150.** Under Strategic Goal 1 of the ACAP 2016-2025, nine out of the ten AMS have competition laws in place: Indonesia (1999), Thailand (1999), Singapore (2004), Viet Nam (2004), Malaysia (2010), Myanmar (2015), Brunei Darussalam (2015), the Philippines (2015), and Lao PDR (2015). Cambodia is expected to enact its draft competition law in the near term, pending approval from the Assembly, with the Department of Competition also formed to speed up the process to work closely with the Assembly. The competition laws of the nine AMS have been translated into English and are compiled in the ASEAN Compendium of English Translations of National Competition Laws, which provides a single point of reference for AMS competition laws. The Compendium was annexed to the ASEAN Handbook on CPL for Business 2017.⁵⁶ The ASEAN Self-Assessment Toolkit on Competition Enforcement and Advocacy was also completed in March 2017;⁵⁷ it will help AMS to measure and evaluate agency effectiveness with the view to further strengthening their competition regimes. The self-assessment is expected to be undertaken by all AMS every two years – the results will serve as inputs to an eventual regional peer review mechanism. The self-assessment covers four areas: (1) legal framework and enforcement; (2) institutional and cooperative arrangements; (3) advocacy; and (4) resources and capacity development. The ASEAN Peer Review Guidance Document is currently being developed with a view to conducting the first pilot peer review in 2020.
- 151.** To strengthen the capacities of competition-related agencies as guided by Strategic Goal 2 of the ACAP 2016-2025, the ASEAN Regional Capacity Building Roadmap 2017-2020 was completed in 2017.⁵⁸ The Roadmap identifies five Key Result Areas that serve as the key components of capacity building on competition law.⁵⁹ Four Competition Primers have also been developed to provide an informative guide for ASEAN judges in the course of making and reviewing decisions under competition laws in AMS.⁶⁰ In addition, four online e-learning courses have been developed to further strengthen the capacity of competition officials. These courses cover the following topics: introduction to competition law; economics for competition law; introduction to enforcement; investigation planning, and; evidence handling and management.
- 152.** In 2018, 31 capacity-building activities were undertaken at the regional, sub-regional, and national levels on various topics. Data was also collected to measure the number of completed competition initiatives; the latest data for 2018 is shown in Table 3.20.

⁵⁶ The electronic version of the ASEAN Handbook on CPL for Business 2017 is available from the official website of the ASEAN Secretariat at <https://asean-competition.org/read-publication-the-handbook-on-competition-policy-and-law-in-asean-for-business-2017>.

⁵⁷ The electronic version of the ASEAN Self-Assessment Toolkit on Competition Enforcement and Advocacy is available from the official website of the AEGC at https://asean-competition.org/file/post_image/ASEAN%20Self%20Assessment%20Toolkit%20ver%20Uplod_3May17.pdf.

⁵⁸ The electronic version of the ASEAN Regional Capacity Building Roadmap 2017-2020 is available on the official website of the AEGC at [https://www.asean-competition.org/file/post_image/ASEAN%20Regional%20Capacity%20Building%20Roadmap%20Competition%20%20FINAL%20\(7%20Jul%202017\).pdf](https://www.asean-competition.org/file/post_image/ASEAN%20Regional%20Capacity%20Building%20Roadmap%20Competition%20%20FINAL%20(7%20Jul%202017).pdf).

⁵⁹ The Key Result Areas are as follows: (1) support the introduction and amendment of competition law in AMS; (2) develop effective competition enforcement institutions; (3) enhance Competition Agency capacity to undertake economic analysis and market studies; (4) create capability development plans for effective enforcement and staff retention; and (5) enhance Competition Agency's capacity to advocate and engage in support of competition.

⁶⁰ The electronic version of the four Competition Primers for ASEAN Judges is available on the official website of the AEGC at <https://www.asean-competition.org/read-publication-competition-primers-for-asean-judges>

Table 3.20. Number of Completed Competition Initiatives, 2018

	BN	KH	ID	LA	MY	MM	PH	SG	TH	VN	ASEAN
Advocacy and Outreach Events	9	8	24	3	31	12	18	24	67	16	212
Competition Advisories	1	4	12	-	3	1	13	23	9	5	71
Market Studies	-	3	38	1	-	1	5	2	-	3	53
Complaints Resolved	-	-	94	-	63	-	2	258	1	-	418
Preliminary Enquiries	1	-	75	-	138	1	6	7	3	4	235
In-depth Investigations	-	1	67	-	58	-	5	5	6	1	143
Notification of Guidance	1	-	14	-	1	-	-	2	13	-	31
Completed Merger Notifications	-	-	72	-	-	-	42	11	-	4	129
Completed Appeals	-	-	11	-	1	-	-	-	-	-	12

Source: ASEAN Secretariat (to be published).

153. A Virtual ASEAN Competition Research Centre was established to promote greater research on competition issues in ASEAN.⁶¹ The Virtual Centre maintains a repository of research articles on competition issues in ASEAN, profiles of researchers with an interest on competition policy and law in the region, as well as possible collaboration opportunities for researchers.
154. On developing the regional cooperation arrangements on CPL under Strategic Goal 3 of the ACAP 2016-2025, ASEAN is to identify common elements of a regional cooperation agreement on competition by 2018, with a view to developing a regional cooperation agreement by 2020. To this end, the ASEAN Regional Cooperation Framework on Competition was developed, which outlines possible areas for cooperation among competition agencies in ASEAN, and serves as a non-binding reference for AMS to cooperate on cross-border competition cases.
155. In addition, the ASEAN Competition Enforcers' Network was established in 2018 to enable competition enforcers to better understand each other's enforcement goals and objectives, as well as the procedural aspects of competition law, including investigation techniques and other enforcement actions.
156. On fostering a competition-aware ASEAN region under Strategic Goal 4 of the ACAP 2016-2025, the ASEAN Competition Conference, or the eighth since 2011, will be held in November 2019 in Cambodia. The ASEAN Handbook on Competition Policy and Law was previously updated in 2017 and is in the process of being further updated.⁶² This Handbook covers the institutional and legal provisions of competition laws, the scope of prohibited practices, other restrictive business practices, as well as procedural issues across AMS. The ASEAN Competition Business Perception Index is also being developed, and aims to gauge business awareness and confidence across competition regimes in ASEAN.

⁶¹ Further information on the Virtual ASEAN Competition Research Centre is available on its official website at <https://asean-competition.org/research/>.

⁶² The 2017 version of the ASEAN Handbook on Competition Policy and Law in ASEAN for Business is available on the official website of the ASEAN Secretariat at https://asean.org/storage/2016/12/Handbook-on-Competition-Policy-and-Law-in-ASEAN-for-Business-2017_Full.pdf.

157. On Strategic Goal 5 of moving towards greater harmonisation of competition policy and law in ASEAN, a comparison of key provisions of competition laws of AMS was annexed to the ASEAN Handbook on CPL 2017,⁶³ which provides a basis for a more in-depth study on the commonalities and differences of competition legislation. A feasibility study to assess the commonalities and differences of national competition laws is currently being undertaken. The study will include a strategy paper on areas for regional convergence.

3.2.1.1. Conclusion

158. Given that CPL is relatively new in ASEAN, more work needs to be done for ASEAN to be a competitive region with well-functioning markets. To do so, rules on competition will need to be operational and effective. The enactment and enforcement of CPL in the region are fundamental to setting a level playing field for all firms. Some areas for further consideration in CPL cooperation in the region include building institutional capacity through close cooperation with various multilateral organisations and strengthening engagement with the judiciary, as it also plays an important role in the development of CPL in many jurisdictions.

3.2.2. Consumer Protection

159. AEC stakeholders are consumers as well as businesses. The purchasing power and consumption behaviour of consumers in the region drive economic activities more broadly, generating income and jobs while stimulating innovation and productivity. Cooperation on consumer protection in ASEAN started with a more general focus on establishing platforms, information sharing, and exchange and capacity building under the AEC Blueprint 2015.⁶⁴ It has since evolved into deeper engagement in the AEC Blueprint 2025, touching upon more pressing issues. These include the strengthening of the institutional framework to effectively enforce consumer protection laws, promote consumer and business awareness, strengthen regional cooperation to address cross-border consumer issues, and integrate consumer protection provisions into the work plans of other ASEAN sectoral bodies.
160. Under the AEC Blueprint 2025, regional cooperation in consumer protection is guided under Element B2 (Consumer Protection) that addresses consumers' demand for proper access to adequate information to enable them to make informed choices, effective redress, and products and services that meet standard and safety requirements. To do so, comprehensive and well-functioning national and regional consumer protection systems need to be enforced through effective legislation, redress mechanisms, and public awareness.

⁶³ The electronic version of the Comparative Table on Competition Law Frameworks in ASEAN is available on the official website of the AEGC at https://asean-competition.org/file/Handbook/2017/ANNEX%20II_Comparative%20Table%20on%20Competition%20Law%20Frameworks%20in%20ASEAN.pdf.

⁶⁴ Key action lines on consumer protection under the AEC Blueprint 2015 include: (1) the establishment of the ASEAN Coordinating Committee on Consumer Protection; (2) establish a network of consumer protection agencies to facilitate information sharing and exchange; and (3) organise regional training courses for consumer protection officials and consumer leaders in preparation for an integrated ASEAN market.

161. To further operationalise the strategic measures on consumer protection in the AEC Blueprint 2025, the ASEAN Strategic Action Plan for Consumer Protection 2016-2025 was endorsed with four strategic goals, namely: (1) a common ASEAN consumer protection framework is established; (2) a high common level of consumer empowerment and protection is ensured; (3) high consumer confidence in the AEC and cross-border commercial transactions is instituted; and (4) consumer concerns in all ASEAN policies are integrated.⁶⁵
162. Under Strategic Goal 1 of the ASEAN Strategic Action Plan for Consumer Protection, nine AMS have enacted a Consumer Protection Act, while Cambodia's consumer protection legislation is expected to be enacted in early 2020. At the regional level, the ASEAN High-Level Principles for Consumer Protection was endorsed by the 49th AEM Meeting in 2017. Apart from serving as guidelines for ASEAN's consumer protection work, the Principles also provide a consistent context for ASEAN laws and arrangements, while at the same time promoting a common base level of cooperation and exchange of experiences and best practices.

Table 3.21. ASEAN High-Level Principles on Consumer Protection

Principle Number	
Principle 1	Enforcement of consumer protection laws is fair, consistent, effective and proportionate
Principle 2	Consumers are equipped with the skills, knowledge, information, and confidence to exercise their rights
Principle 3	Consumers are protected from harmful goods and services
Principle 4	Consumers have access to appropriate and convenient sources of advice and redress including alternative dispute resolution
Principle 5	Consumers understand the impact of consumption decisions on the shared environment
Principle 6	Strong consumer advocacy is promoted
Principle 7	High levels of cooperation between different levels of government and with business and other stakeholders
Principle 8	Strong consumer advocacy is promoted

163. In addition, the ASEAN Self-Assessment Toolkit has been developed to review the consumer protection regimes of AMS, and serves as an intermediary step for the ASEAN Peer Review process. The toolkit assesses, among others, the country's consumer protection policy and legal framework, institutions mandated to protect consumer rights and interests, activities related to consumer education, research and advocacy, as well as available resources for strategic planning, human resource development, and knowledge management.

⁶⁵ The official electronic version of ASEAN Strategic Action Plan on Consumer Protection is available from the official website of the ASEAN Secretariat at <https://asean.org/storage/2012/05/ASAPCP-UPLOADING-11Nov16-Final.pdf>.

164. With regard to Strategic Goal 2 on ensuring a high common level of consumer empowerment and protection, the Handbook on Consumer Protection Laws in ASEAN was launched in 2018 to provide consumers with relevant information on AMS' laws and regulations on consumer protection, the agencies in charge of consumer protection, and references to the complaints mechanisms for redress, as well as national consumer associations. Various capacity-building and advocacy activities were also conducted, in particular through the development of public awareness and advocacy models and guidelines, along with the publication of 24 policy digests and four case studies.⁶⁶ The ASEAN Consumer Protection Conferences was convened twice to discuss different aspects of and trends in consumer protection, such as consumer product safety legislation, the use of warranties and guarantees, enforcement and remedies, recalls and redress, institutional design, effectiveness of consumer and competition agencies, as well as future trends, such as sustainable consumption and modern ASEAN consumers. Meanwhile, the ASEAN Consumer website (<https://aseanconsumer.org/>) has been revamped to serve as the main reference point for matters pertaining to consumer protection issues.
165. Moreover, the ASEAN Product Recalls Portal⁶⁷ has recently been linked with the Product Recalls Portal of the OECD,⁶⁸ allowing a direct and automated upload where notifications could be 'pushed' onto the OECD Product Recall Portal. The Training Tools to Apply Good Consumer Protection Practices in Six Priority Sectors were also developed in 2018, and are already available on the ASEAN Consumer website.⁶⁹ Finally, the ASEAN Capacity Building Roadmap for Consumer Protection 2019-2025 is currently being developed to outline the various capacity-building needs of consumer protection officials and relevant stakeholders, both at the national and regional levels.
166. To boost consumer confidence in cross-border commercial transactions as guided by Strategic Goal 3, work is ongoing to establish an alternative dispute resolution mechanism, including online dispute resolution systems, which would facilitate the resolution of claims over e-commerce transactions that gives special attention to low-value or cross-border transactions based on the best practice for fair, easy-to-use, transparent, and effective alternative dispute resolution mechanisms. This issue is also being addressed under the ASEAN Work Programme on E-Commerce.⁷⁰ A feasibility study with supporting recommendations to develop the criteria and guidelines for the operationalisation of the alternative dispute resolution is being developed.
167. The promotion of sustainable consumption is high on the agenda of AMS, and, to substantiate this objective, a Forum on Sustainable Consumption was convened in August 2019 in Manila, the Philippines, followed by the development of information materials and a toolkit on sustainable consumption.

⁶⁶ The policy digests cover key issues relevant to consumer protection such as consumer credit and debt, product safety regulation, online purchasing, telecommunication services and unfair sales practices, while the case studies provide in-depth investigations into online consumer market and the regulation of unfair contract terms in ASEAN. The documents are published in two volumes, available on the official website of the ASEAN Secretariat at https://www.asean.org/wp-content/uploads/images/pdf/2014_upload/Consumer%20Protection%20Digests%20and%20Case%20Studies%20-%20A%20Policy%20Guide%20Volume%201.pdf and [https://www.asean.org/storage/2015/12/key_document/Consumer_Protection_Digests_and_Case_Studies-Volume_II_\(07122015\).pdf](https://www.asean.org/storage/2015/12/key_document/Consumer_Protection_Digests_and_Case_Studies-Volume_II_(07122015).pdf).

⁶⁷ The ASEAN Product Recalls Portal is available at <https://aseanconsumer.org/product-alert>.

⁶⁸ The Global Product Recalls Portal of the OECD is available at <https://globalrecalls.oecd.org/>

⁶⁹ The six key areas covered under the teaching tools are: (1) consumer credit and banking; (2) healthcare services; (3) product safety and labelling; (4) e-commerce; (5) professional services; and (6) environment.

⁷⁰ The official electronic version of ASEAN E-Commerce Work Programme is available from the official website of the ASEAN Secretariat at <https://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/e-commerce/>.

168. Lastly, regarding efforts to integrate all ASEAN consumer protection policies under Strategic Goal 4, work will be focused on developing an impact assessment of consumer policies, developing the ASEAN Consumer Empowerment Index, and exploring the interface between consumer protection and competition. Supportive measures also complement the four strategic goals by focusing work on new and emerging consumer issues (including competition, e-commerce, financial services and air transport) and strengthening the capacity of consumer officials.

3.2.2.1. Conclusion

169. Despite being relatively new, regional cooperation in consumer protection has increased over the past few years in recognition of the important role played by consumers in driving economic growth, given the growing middle class in the region. However, the advancement of new technology (notably the 4IR and the sustained growth of e-commerce in the region) has brought about new challenges and opportunities that require a renewed approach to ensure consumers' interests remain protected in this new and rapidly changing environment. As such, regional platforms can be leveraged to strengthen the consumer protection regime in the region through, among others, closer cooperation and continuous sharing of best practices among consumer protection agencies, as well as enhanced capacity-building programmes. In addition, from the consumer point of view, further work is required to improve consumer information and education as well as the efficacy of consumer redress.

3.2.3. Strengthening Intellectual Property Rights Cooperation

170. ASEAN's cooperation in the field of intellectual property rights (IPR) began in December 1995 through the signing of the ASEAN Framework Agreement on Intellectual Property (IP) Cooperation. The agreement aimed to explore appropriate intra-ASEAN cooperation arrangements to promote cooperation in the field of intellectual property. It was also expected to provide a firm basis for economic progress and the expeditious realisation of the ASEAN Free Trade Area among the AMS. The cooperation was subsequently strengthened through the establishment of the ASEAN Working Group on Intellectual Property Cooperation in 1996.
171. Previously, in the AEC Blueprint 2015 ASEAN's IP cooperation work was focused on developing a balanced IP system in AMS, promoting IP creation, awareness and utilisation, enhancing regional participation in the international IP community, and intensifying cooperation and an increased level of collaboration among AMS. Some of the key achievements included the launch of ASEAN Patent Examination Co-operation (ASPEC), a reduced turnaround time for processing of IP applications, accession to the World Intellectual Property Organisation (WIPO), the adoption of the Common Guidelines for the Substantive Examination of Trademarks (Common Guidelines), and the launch of the ASEAN TMView and the ASEAN DesignView which provide a common online platform for searching trademarks and industrial designs in ASEAN.⁷¹

⁷¹ Further information concerning the ASEAN TMView and ASEAN DesignView is available from their official websites at <http://www.asean-tmview.org> and www.asean-designview.org respectively.

- 172.** Under the AEC Blueprint 2025, regional cooperation in IPR is guided under Characteristic 2 (A Competitive, Innovative, and Dynamic ASEAN)—or more specifically Element B3 (Strengthening Intellectual Property Rights Cooperation), which underscores the importance of IPR protection as a way for AMS to move higher in the technology ladder, encouraging transfer of technology, as well as stimulating innovation and creativity. Strengthened IPR cooperation will potentially help establish a policy environment that supports innovation and thus improves productivity growth in the region.
- 173.** To further operationalise IPR-related strategic measures set out in the AEC Blueprint 2025, the ASEAN IPR Action Plan 2016-2025⁷² was adopted by at the 50th ASEAN Working Group on Intellectual Property Cooperation Meeting in Bali in July 2018. The Action Plan sets out four strategic goals:
- 1) Strategic Goal 1: A more robust ASEAN IP System is developed by strengthening IP offices and building IP infrastructures in the region;
 - 2) Strategic Goal 2: Regional IP platforms and infrastructures are developed to contribute to enhancing the ASEAN Economic Community;
 - 3) Strategic Goal 3: An expanded and inclusive ASEAN IP Ecosystem is developed; and
 - 4) Strategic Goal 4: Regional mechanisms to promote asset creation and commercialisation, particularly geographical indications and traditional knowledge are enhanced.
- 174.** With regard to the development of a robust ASEAN IP System in Strategic Goal 1, work is ongoing on seven key initiatives ranging from strengthening IP offices to building more IP infrastructure in the region.⁷³ In strengthening the national IP offices, diagnostic studies of AMS IP systems have been conducted to identify issues (including the backlog situation) so that appropriate measures may be taken to improve the delivery of IP services. In ensuring consistency and quality of output across the IP offices, the ASEAN Common Guidelines for the Substantive Examination of Trademarks and of Industrial Designs were launched in 2017 and 2018 respectively. The ASEAN IP Training Platform (<http://asean.iptraining.org/>) was implemented to assist MSMEs in learning about the protection and commercialisation of their IP. Last but not least, efforts are being made for AMS to accede to international treaties such as the Madrid Protocol⁷⁴, Hague Agreement⁷⁵ and the Patent Cooperation Treaty⁷⁶.

⁷² The official electronic version of the ASEAN Intellectual Property Rights Action Plan 2016-2025 is available from the official website of the ASEAN Intellectual Property portal at [https://www.aseanip.org/Portals/0/ASEAN%20IPR%20ACTION%20PLAN%202016-2025%20\(for%20public%20use\).pdf?ver=2017-12-05-095916-273](https://www.aseanip.org/Portals/0/ASEAN%20IPR%20ACTION%20PLAN%202016-2025%20(for%20public%20use).pdf?ver=2017-12-05-095916-273).

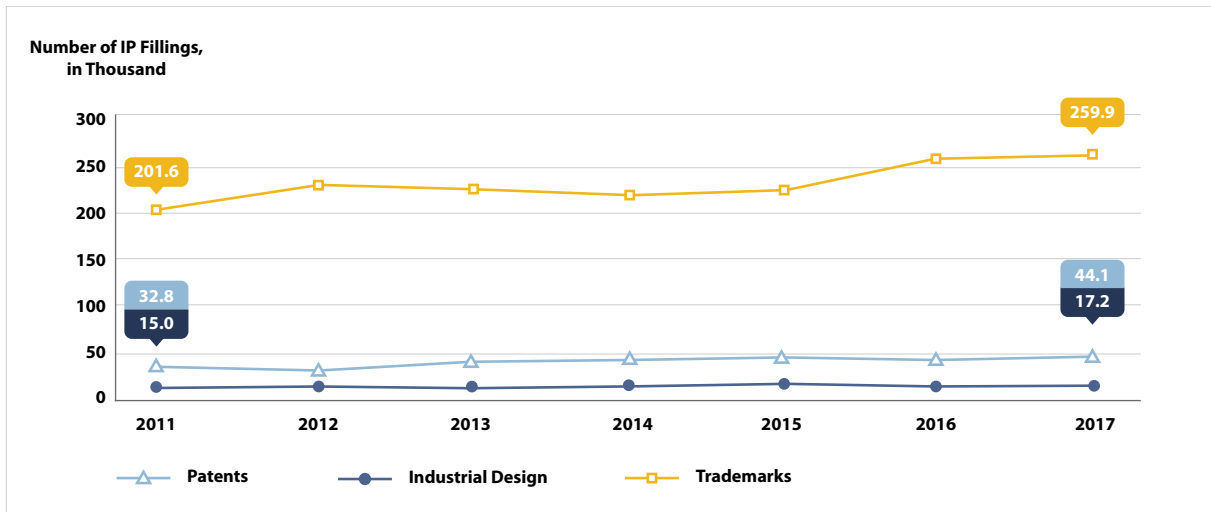
⁷³ The seven key initiatives under Strategic Goal 1 include: (1) improved patent, trademark, and industrial design services; (2) promote improvement of IP services in terms of timeliness and quality of output; (3) promote excellence of collective management organisations in transparency, accountability and governance; (4) explore the feasibility of harmonising formality requirements for trademarks and industrial designs across the region; (5) accession to international treaties; (6) endeavour to accede to other WIPO-administered international treaties; and (7) develop targeted and sustainable capacity building and office-initiated client-assistance programs linked to levels of development, with special focus on Cambodia, Lao PDR and Myanmar.

⁷⁴ The Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (or 'Madrid Protocol' for short) is one of two treaties comprising the Madrid System for international registration of trademarks. Further information concerning the Protocol is available from the official website of the WIPO at https://www.wipo.int/treaties/en/registration/madrid_protocol/.

⁷⁵ The Hague Agreement concerning the International Registration of Industrial Designs (or 'Hague Agreement' for short) governs the international registration of industrial designs. First adopted in 1925, the Agreement effectively establish the so-called the 'Hague System' that allows industrial designs to be protected in multiple countries or regions with minimal formalities. Further information concerning the Hague Agreement is available from the official website of the WIPO at <https://www.wipo.int/treaties/en/registration/hague/>.

⁷⁶ The Patent Cooperation Treaty assists applicants in seeking patent protection internationally for their inventions, helps patent Offices with their patent granting decision, and facilitates public access to a wealth of technical information relating to those inventions. Further information concerning the Patent Cooperation Treaty is available from the official website of the WIPO at <https://www.wipo.int/pct/en/>.

175. On building up the IP infrastructure in the region, the ASPEC, which is the first and only regional patent work-sharing programme among AMS, has grown in importance since its launch in 2009. This is clearly reflected by the rising number of requests, including higher uptake for intra-ASEAN requests. As of September 2018, there have been 405 ASPEC requests submitted. Applicants who utilise the ASPEC can expect their patent applications to be processed faster and more efficiently due to the sharing of search and examination results between participating AMS. In accordance with the 4IR theme, the ASPEC Task Force has also recently identified several relevant technologies that are to take precedence in the ASPEC request queue.
176. Progress is also being made to continuously update and enhance the ASEAN TMView and DesignView. To date, information on more than 3 million registered trademarks and more than 1 million designs registrations are made available through these portals. This makes searching for ASEAN trademark and designs data easily accessible to all interested stakeholders.
177. Guided by Strategic Goal 2, as of March 2019, a total of 157 patent libraries within institutes and universities have been established in Cambodia, Indonesia, Malaysia, Philippines, Thailand, and Viet Nam with the aim of increasing access to global scientific and technology information for research and development. These patent libraries provide innovators with access to locally based, high-quality technology information and related services, helping them exploit their potential, and to create, protect, and manage their IP. Efforts to promote and commercialise IP is also done through regional IP fairs, such as the ASEAN Furniture Design Competition, which was organised by the Department of IP (Thailand) in 2018, under the theme of 'Creative ASEAN', which saw many innovative submissions from aspiring furniture designers in this region.
178. The ASEAN IP website is also regularly updated with information on the various intellectual property rights. Online IP marketplaces, such as those managed by the Intellectual Property Corporation of Malaysia and the Department of Intellectual Property Thailand, are now linked to the ASEAN IP website, serving as a platform to buy, sell, or license IPs in this region. Furthermore, various information has also been added to the website, including the ASEAN IP Utilisation Case Studies, aiming to raise awareness on how companies in various industries develop their IP and contribute to economic growth in the region. There is also the ASEAN Case Law Database, which is meant to enhance the transparency and accessibility of IP-related jurisprudence in the ASEAN region. Statistics on IP filings and ASPEC are also included on the website. Figure 3.11 shows the number of IP Filings in ASEAN from 2011-2017.

Figure 3.11. Number of IP Filings in ASEAN, 2011-2017

Source: ASEAN Intellectual Property Portal (n.d.).

179. Under Strategic Goal 3, efforts are also being made to implement the Regional Action Plan on IPR Enforcement. The ASEAN Network of Enforcement Experts was set up in 2017 and consists of representatives from the AMS involved in IPR enforcement. The Network is tasked with the implementation of the IPR enforcement initiatives under the ASEAN IPR Action Plan 2016-2025. The pilot version of the Handbook on IP Enforcement Rules and Regulations is in the pipeline and due to be completed by end of 2019. Discussions on making enforcement and counterfeiting statistics available through the development of an ASEAN template are also ongoing.
180. Lastly on Strategic Goal 4, there is a focus on enhancing regional mechanisms to promote asset creation and commercialisation, particularly in the area of geographical indications and traditional knowledge. To this extent, the ASEAN Geographical Indications Database⁷⁷ has been developed to provide information on geographical indications in ASEAN. Trainings and workshops to increase the capacity and knowledge of geographical indications producers and stakeholders as well as to share best practices have also been conducted with the assistance of the ARISE+ IPR team from the European Union IP Office.

3.2.2.1. Conclusion

181. The strengthening of IPR cooperation is critical to supporting economic development in the region through effective use of IP and creativity. National IP regimes are strongly encouraged to achieve technical and procedural convergence, and IP offices are expected to adopt modern business models and practices that will enable provision of efficient and effective services to stakeholders at the national and regional levels. Through enhanced IPR cooperation in this region, the future landscape for ASEAN will be more dynamic, competitive and productive, as IP has been shown to significantly contribute towards increased trade and investment as well as improved global competitiveness rankings.

⁷⁷ Further information concerning the ASEAN GI Database is available from its official website at <http://www.asean-gidatabase.org/gidatabase/>.

3.2.4. Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice

182. Generally referred to as 'processes, systems, tools and methods for improving the quality of regulations' (OECD, n.d.b.), good regulatory practices (GRP) addresses many of today's pressing policy challenges that transcend national borders. The ever-expanding flows of goods, services, finance, and people across borders have dramatically tested the effectiveness and capacity of domestic regulatory frameworks (OECD, 2018: 1), and this calls for countries to give greater attention to international cooperation in the area of GRP.
183. The importance of GRP is well-recognised by ASEAN and its Member States. GRP, after all, is key not only to the successful delivery of the development agenda of each AMS, but also to the overall implementation of regional commitments, as well as the region's long-term competitiveness in the global economy. Through the application of GRP, including the use of regulatory impact evaluation, stakeholder engagement, and ex-post evaluation, policy-makers can help maintain a stable and enabling regulatory environment that promotes economic openness and entrepreneurship, while, at the same time, limiting – or even eliminating – unnecessary administrative burden for businesses of all sizes.
184. GRP is one of the new focus areas in the AEC Blueprint 2025. While there were a few GRP-related initiatives that predated the AEC Blueprint 2025, there was no dedicated element dealing with GRP in the first Blueprint. ASEAN's current work on GRP focuses on operationalising Elements B6 (Good Governance) and B7 (Effective, Efficient, Coherent and Responsive Regulations and Good Regulatory Practice) in the AEC Blueprint 2025. Table 3.22 shows the strategic measures for Elements B6 and B7 of the AEC Blueprint 2025. In addition, there are other elements closely linked to GRP issues, namely Elements D2 (Strengthening the Role of the Private Sector) and D5 (Contribution of Stakeholders on Regional Integration Efforts).

Table 3.22. Strategic Measures of Elements B6 and B7 of the AEC Blueprint 2025

<p>Strategic measures of Element B6 (good governance)</p>	<ul style="list-style-type: none"> • Promote a more responsive ASEAN by strengthening governance through greater transparency in the public sector and in engaging with the private sector; and • Enhance engagement with the private sector as well as other stakeholders to improve the transparency and synergies of government policies and business actions across industries and sectors in the ASEAN region.
<p>Strategic measures of Element B7 (effective, efficient, coherent and responsive regulations, and Good Regulatory Practice)</p>	<ul style="list-style-type: none"> • Ensure that regulations are pro-competitive, commensurate with objectives, and non-discriminatory; • Undertake regular concerted regional programmes of review of existing regulatory implementation processes and procedures for further streamlining and, where necessary, recommendations for amendments and other appropriate measures, which may include termination; • Institutionalise GRP consultations and informed regulatory conversations with various stakeholders in order to identify problems, come up with technical solutions, and help build consensus for reform. Enhancing engagement with the private sector as well as other stakeholders contributes to regulatory coherence, increased transparency and greater synergies of government policies and business actions across industries and sectors in the ASEAN region; • The regulatory agenda may include the setting of both targets and milestones in order to facilitate a regular assessment of the regulatory landscape, and periodic review of progress and impacts in the region; and • Undertake targeted capacity-building programmes with knowledge partners such as the OECD and the Economic Research Institute for ASEAN and East Asia (ERIA) to assist AMS in the regulatory reform initiatives, which takes into account the different development levels, development needs and regulatory policy space of each AMS.

Source: ASEAN Secretariat (2015a: 18-19).

185. The ASEAN Work Plan on GRP 2016-2025 was adopted at the 23rd AEM Retreat in March 2017, and endorsed intersessionally by the AEC Council Ministers in April 2017. The Work Plan focuses on four priority areas, namely: (1) securing commitments to GRP at the political level; (2) strengthening strategic efforts to implement GRP (including through a baseline study); (3) piloting of GRP in strategic sectors at the regional level; and (4) developing awareness and capacity building on GRP.

Table 3.23. Key Milestones of GRP-related Initiatives in ASEAN

Dates	GRP-related Initiatives
August 2005	ASEAN Policy Guideline on Standards and Conformance (adopted at the 26 th ASEAN Consultative Committee on Standards and Quality (ACCSQ), in Manila, the Philippines).
February 2009	ASEAN Good Regulatory Practice Guide (endorsed at the 40 th SEOM, in Bangkok, Thailand).
September 2014	ASEAN Guideline on Standards, Technical Regulations, and Conformity Assessment Procedures (adopted at the 42 nd ACCSQ, in Yangon, Myanmar).
November 2015	Launching of the AEC 2025 Blueprint (adopted by ASEAN Leaders at the 27 th ASEAN Summit, in Kuala Lumpur, Malaysia).
March 2017	ASEAN Work Plan on Good Regulatory Practices (2016-2025) (adopted at the 23 rd AEM Retreat, in Manila, the Philippines, and endorsed intersessionally by the AEC Council in April 2017).
August 2017	ASEAN Regional Principles for Good Business Registration Practices (adopted at the 49 th AEM Meeting, in Manila, the Philippines).
June 2018	Terms of Reference for Baseline Study on Regional Management System (endorsed at the 34 th High-Level Task Force on Economic Integration (HLTF-EI) Meeting, in Singapore).
August 2018	ASEAN Good Regulatory Practice Core Principles (adopted at the 50 th AEM Meeting, in Singapore, and endorsed intersessionally by the AEC Council in November 2018).
	Guidelines for the Implementation of ASEAN Commitments on Non-Tariff Measures on Goods (endorsed at the 50 th AEM-32 nd ASEAN Free Trade Area (AFTA) Council Meeting, in Singapore).
December 2018	ASEAN Guideline on GRP (endorsed at 50 th ACCSQ and Related Meetings in Vientiane, Lao PDR).

186. To ensure that strategic efforts to implement GRP will be followed through, there is a need for a body in ASEAN to champion and oversee the work on GRP. Regarding this, in September 2017, the AEM agreed for the High-Level Task Force for ASEAN Economic Integration (HLTF-EI) to maintain oversight of the GRP work in ASEAN, following through on their previous oversight over regulatory reform-related initiatives pre-2015, and for SEOM to oversee the implementation of the ASEAN Work Plan on GRP 2016-2025.

187. Among the first deliverables under the ASEAN Work Plan on GRP is the development of **ASEAN GRP Core Principles** to meet the first priority area of securing commitments to GRP at the political level.⁷⁸ The Principles were adopted at the 50th AEM Meeting in August 2018 and endorsed by the AEC Council in November 2018. The Core Principles are non-binding, and are to be implemented on a best-endeavour basis by each relevant AEC sectoral body or AMS national regulatory system. Along with the endorsement by the AEC Council, the Council also tasked AEC sectoral bodies with mainstreaming the Core Principles into their work. The six ASEAN GRP Core Principles are highlighted in Table 3.24.

⁷⁸ Further information concerning the ASEAN GRP Core Principles is available from the official website of the ASEAN Secretariat at <https://asean.org/storage/2017/11/ASEAN-GRP-Core-Principles-FINAL-ENDORSED.pdf>.

Table 3.24. ASEAN GRP Core Principles

Principle Number	GRP Core Principles
Principle 1	Clarity in policy rationale, objectives, and institutional frameworks
Principle 2	Produce benefits that justify the costs and be least distortive to the markets
Principle 3	Be consistent, transparent, and practical
Principle 4	Support regional regulatory cooperation
Principle 5	Promote stakeholder engagement and participation
Principle 6	Be subject to regular review for continued relevance, efficiency, and effectiveness

188. The second deliverable is the conducting of a Baseline Study on Regulatory Management Systems in ASEAN, which is in line with the second priority area in the Work Plan on the strengthening of strategic efforts to implement GRP. The effectiveness of implementation of the GRP Core Principles can be affected by the quality of the overall Regulatory Management System (RMS), in which the Core Principles are being applied. A closer look at individual AMS' RMS provides better understanding of the diversity in regulatory frameworks across AMS, which may affect the implementation of the Core Principles.
189. The Terms of Reference for the Baseline Study were endorsed at the 34th HLTF-EI Meeting in June 2018. The Baseline Study is currently being undertaken by the ASEAN Secretariat in partnership with the Economic Research Institute for ASEAN and East Asia (ERIA), and is expected to be completed within the year. The Baseline Study on RMS will map developments in RMS in the region, along with ASEAN and AMS' initiatives to inventory and streamline regulations and administrative processes/practices. It will also identify implementation challenges facing the GRP Core Principles, and serve as the basis for monitoring the progress of implementation of the Core Principles. A handbook will also be developed after the Baseline Study on RMS to serve as a guide to operationalising the ASEAN GRP Core Principles.
190. As for the third priority area, 'conduct piloting of GRP in strategic sectors at the regional level', while there has not been any specific deliberate effort to pilot the Core Principles in specific sectors, some efforts that draw references from, are relevant to, or are practical applications of, GRP have taken place in the past few years. These include the adoption of Guidelines for the Implementation of ASEAN Commitments on Non-Tariff Measures on Goods (NTM Guidelines) in September 2018, which aim to improve the transparency and management of NTMs in ASEAN and which draw references from the ASEAN GRP Core Principles;⁷⁹ the updating in 2018 of the 2009 ASEAN Guidelines on GRP (on technical regulation) under the ASEAN Consultative Committee for Standards and Conformance to add references to the ASEAN GRP Core Principles; and the creation of the ASEAN Solutions for Investments, Services, and Trade (ASSIST) platform, which is a non-binding and consultative mechanism for the expedited and effective solution of operational problems encountered by ASEAN-based enterprises.⁸⁰

⁷⁹ Further information concerning the NTM Guidelines is available from the official website of the ASEAN Secretariat at https://asean.org/storage/2018/12/Guidelines_for_the_Implementation_of_ASEAN_Commitments_on_NTMs-July_2018-AEM-AFTAC_32.pdf.

⁸⁰ Further discussion on the ASSIST initiative is provided under the Trade in Goods sub-section (3.1.1.3.4.) of this Chapter.

191. With regard to developing awareness and capacity building on GRP, or the fourth priority area, there have been initiatives in the region that complement ASEAN's efforts in this area. Although not fully ASEAN-led initiatives, they help further ASEAN's GRP agenda in the region. An example of such initiatives was the organisation of a Dialogue on Parliamentarians Supporting the 'Quiet Revolution' for Better Regulatory Governance, which was organised by ERIA and the ASEAN Inter-Parliamentary Assembly⁸¹ in Jakarta on 19-20 April 2018. Aside from increasing awareness among parliamentarians about GRP, non-tariff measures, and non-tariff barriers, the Dialogue also provided the region's parliamentarians the opportunity to discuss their roles in the implementation and supervision of GRP and NTM-related issues in their respective countries. Another relevant GRP-related initiative is the ASEAN-OECD GRP Network. Launched in 2015, the Network assists AMS in building and strengthening their capacity to implement GRP so as to assure high-quality regulation and regulatory coherence. This is done by fostering the exchange of good practice and mutual learning among policy-makers in AMS and the member countries of the OECD. Since 2015, there have been four GRP Network meetings, with the most recent one concluded in July 2019.⁸²

3.2.4.1. Conclusion

192. Given its importance to ASEAN's overall development agenda and regional integration objectives, GRP is starting to gain traction among policy-makers and stakeholders in the region. In order to ensure the effectiveness of ASEAN's GRP-related work, AMS will need to keep in mind both the ASEAN GRP Core Principles and the broader economic integration agenda in considering new or reviewing existing national, regional, and sectoral regulations, measures, or initiatives. Aside from taking into account views from broad stakeholders, AMS will also need to facilitate domestic processes properly so as to ensure timely ratification of regional agreements or regulations to allow effective implementation of AEC commitments and the realisation of the ASEAN Community Vision 2025.

3.3. Enhanced Connectivity and Sectoral Cooperation

193. The third characteristic of the AEC Blueprint 2025 is enhanced connectivity and sectoral cooperation. The main objectives of this characteristic are to enhance economic connectivity involving various sectors, namely transport, telecommunications, and energy, in line with and in support of the vision and goals of the Master Plan on ASEAN Connectivity and its successor document, as well as to further integrate (and cooperate in) key sectors that complement existing efforts towards creating an integrated and sustainable economic region, with the aim to maximise their contribution in improving the overall competitiveness of ASEAN and strengthening soft and hard networks in the region. This characteristic covers the following elements: (1) transport; (2) information and communications technology; (3) electronic commerce (e-commerce); (4) energy; (5) food, agriculture, and forestry; (6) tourism; (7) healthcare; (8) minerals; and (9) science and technology.

⁸¹ Established in 1977, the ASEAN Inter-Parliamentary Assembly serves as the centre of communication and information among Members of Parliaments of AMS. Further information concerning the organisation is available from the official website of its Secretariat at <http://www.aipasecretariat.org/>.

⁸² Further information concerning the ASEAN-OECD GRP Network is available in the official website of the OECD at <https://www.oecd.org/gov/regulatory-policy/grpn.htm>.

3.3.1. Transport

194. Given its significant role in ASEAN connectivity and economic integration by supporting domestic and cross-border trade – as well as the movement of people within and across borders – regional cooperation in transport continues to be given strong emphasis in the AEC Blueprint 2025 (Element C.1 of the BP). Following the ASEAN Strategic Transport Plan/Brunei Action Plan in 2015, ASEAN cooperation in transport is now guided by the ASEAN Transport Strategic Plan, or Kuala Lumpur Transport Strategic Plan 2016-2025. It is noteworthy that, in addition to air, land, and maritime transport as well as transport facilitation, the Transport Strategic Plan has also identified sustainable transport as an area of cooperation to be pursued. The importance of the transport sector for regional integration in ASEAN is also encapsulated in the Master Plan on ASEAN Connectivity 2025 in which the development of seamless logistics has been identified as one of the five strategic areas.⁸³

3.3.1.1. Air Transport

195. The strategic goal for air transport cooperation in the region is to strengthen the ASEAN Single Aviation Market (ASAM) for a more competitive and resilient ASEAN.⁸⁴ Towards this objective, several initiatives have been put in place to advance safer and more secure skies in ASEAN, enhance air traffic management efficiency and capacity through a Seamless ASEAN Sky, and foster greater connectivity within and outside of the region. There are two major components of ASAM – economic and technical components.

3.3.1.1.1. The Economic Component of ASAM

196. An important milestone in the ASEAN air transport cooperation is the realisation of open skies for the ASEAN market in April 2016 with the full ratification of the ASEAN open skies agreements, which are critical for the establishment of the ASAM. The ASEAN open skies agreements consist of three multilateral agreements: Multilateral Agreement on Air Services (MAAS); Multilateral Agreement on the Full Liberalisation of Passenger Air Services (MAFLPAS), and; Multilateral Agreement on the Full Liberalisation of Air Freight Services (MAFLAFS).

⁸³ There are two initiatives under the rubric of the Strategic Area of Seamless Logistics. The first is to develop a database on trade routes that involves a stocktaking and scoping study to identify and prioritise key trade routes and key commodities along prioritised routes. The second initiative is to develop a framework to enhance supply chain efficiency that will support the analysis of supply-chain performance and address bottlenecks for the specific trade routes identified, which will in turn help enhance the regulatory environment for the logistics sector.

⁸⁴ Recognising that a well-integrated and sustainable air transportation network is imperative for the acceleration of ASEAN's economic development and market integration, the 13th ASEAN Summit in Singapore in November 2007 endorsed the initiative of establishing an ASAM by 2015. Subsequently, the 17th ATM held in December 2011 in Phnom Penh, Cambodia adopted the Implementation Framework of ASAM and its Roadmap, which would guide the key work of ASEAN in the aviation sector until 2015 and beyond.

197. MAAS and MAFLPAS aim to enhance air connectivity by bring people closer together through the facilitation of efficient, safe, and secure movement of people and goods, while at the same time ensuring improved services and the highest degree of aviation safety and security. The MAAS concerns the liberalisation of the third, fourth, and fifth freedom rights within ASEAN, between capital cities.⁸⁵ The MAFLPAS concerns the liberalisation of the third, fourth, and fifth freedom rights among all cities, including capital cities. In the case of MAFLPAS, its main objective is to facilitate and enhance air freight services in the region by removing restrictions to achieve greater flexibility and capacity in the operation of air freight services.
198. Two additional protocols (Protocols 3 and 4) were signed under the MAFLPAS. Protocol 3 on Domestic Code Share Rights between points within the territory of any other AMS was signed at the 23rd ASEAN Transport Ministers (ATM) Meeting in October 2017,⁸⁶ while Protocol 4 on Co-Terminal Rights between Points within the Territory of Any Other AMS was signed at the 24th ATM in November 2018.⁸⁷
199. On the liberalisation of air transport ancillary services under the ASEAN Framework Agreement on Services (AFAS), the Tenth Package was signed in October 2017 at the 23rd ATM to facilitate further liberalisation of air transport ancillary services in the region.⁸⁸

3.3.1.1.2. The Technical Component of ASAM

200. In an effort to enhance the safety of air travel within ASEAN, the Terms of Reference for ASEAN Foreign Operator Safety Assessment was adopted at the 23rd ATM in October 2017. The Assessment programme will ensure that air operators working within ASEAN comply with international aviation safety standards. The Mutual Recognition Arrangement on Flight Crew Licensing was also signed at the 23rd ATM in October 2017, which, when fully implemented, will facilitate the conversion of flight crew licences issued by AMS, and promote the development and growth of the aviation industry within ASEAN.
201. ASEAN also strives to achieve a seamless air traffic management environment to meet future air traffic requirements with the adoption of the ASEAN Air Traffic Management Master Plan at the 23rd ATM in October 2017. The implementation of the ASEAN ATM Master Plan, which will enhance air traffic management safety, efficiency, and capacity in the region, is ongoing and will advance the Seamless ASEAN Sky in support of the ASAM.

⁸⁵ The International Civil Aviation Organization defines the Third, Fourth and Sixth Freedom of the Air as follows:

- Third Freedom: the right or privilege, in respect of scheduled international air services, granted by one State to another State to put down, in the territory of the first State, traffic coming from the home State of the carrier (also known as a Third Freedom Right);
- Fourth Freedom: the right or privilege, in respect of scheduled international air services, granted by one State to another State to take on, in the territory of the first State, traffic destined for the home State of the carrier (also known as a Fourth Freedom Right);
- Fifth Freedom: the right or privilege, in respect of scheduled international air services, granted by one State to another State to put down and to take on, in the territory of the first State, traffic coming from or destined to a third State (also known as Fifth Freedom Right).

⁸⁶ This Protocol allows code-sharing arrangements where a marketing airline applies its own flight code on a domestic airline for a domestic leg that the domestic airline is operating as part of an international journey.

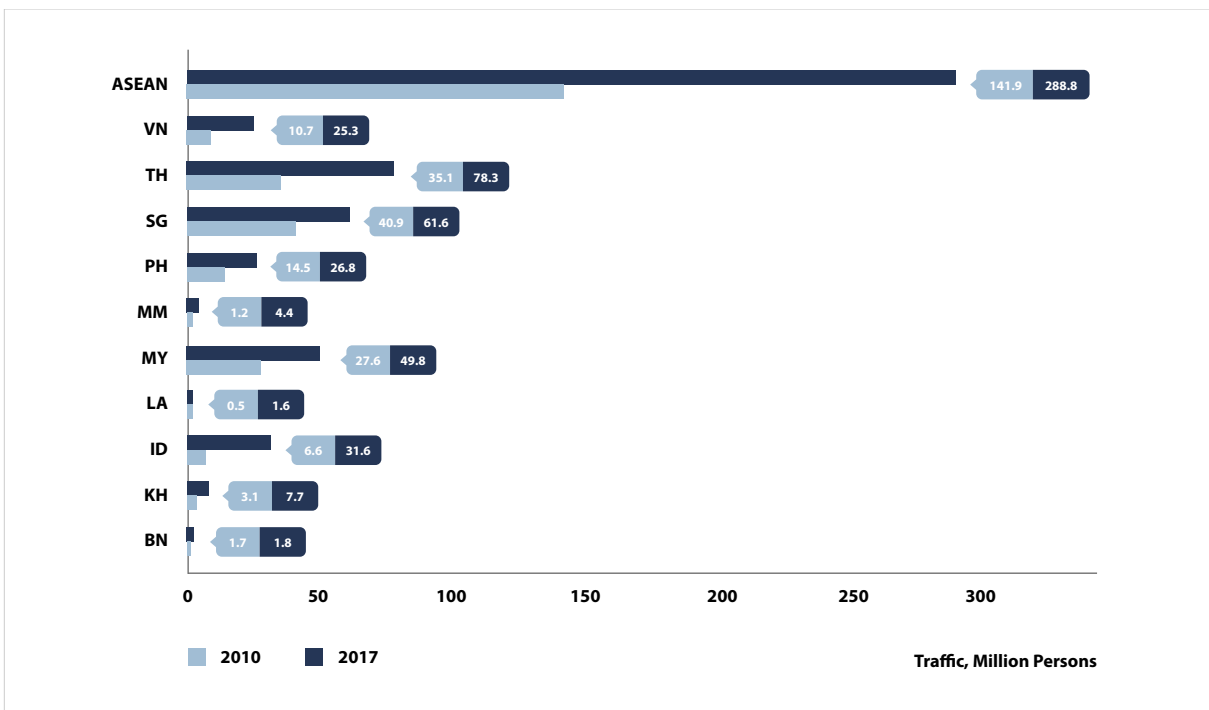
⁸⁷ This Protocol allows an airline to serve two or more points in another AMS on the same flight routing as part of an international journey.

⁸⁸ Aircraft Repair and Maintenance Services, Selling and Marketing of Air Transport Services, Computer Reservation System Services, Aircraft Leasing without Crew, Aircraft Leasing with Crew, Airfreight Forwarding Services, Cargo Handling, Aircraft Catering Services, Refuelling Services, Aircraft Line Maintenance, Ramp Handling, Baggage Handling, and Passenger Handling.

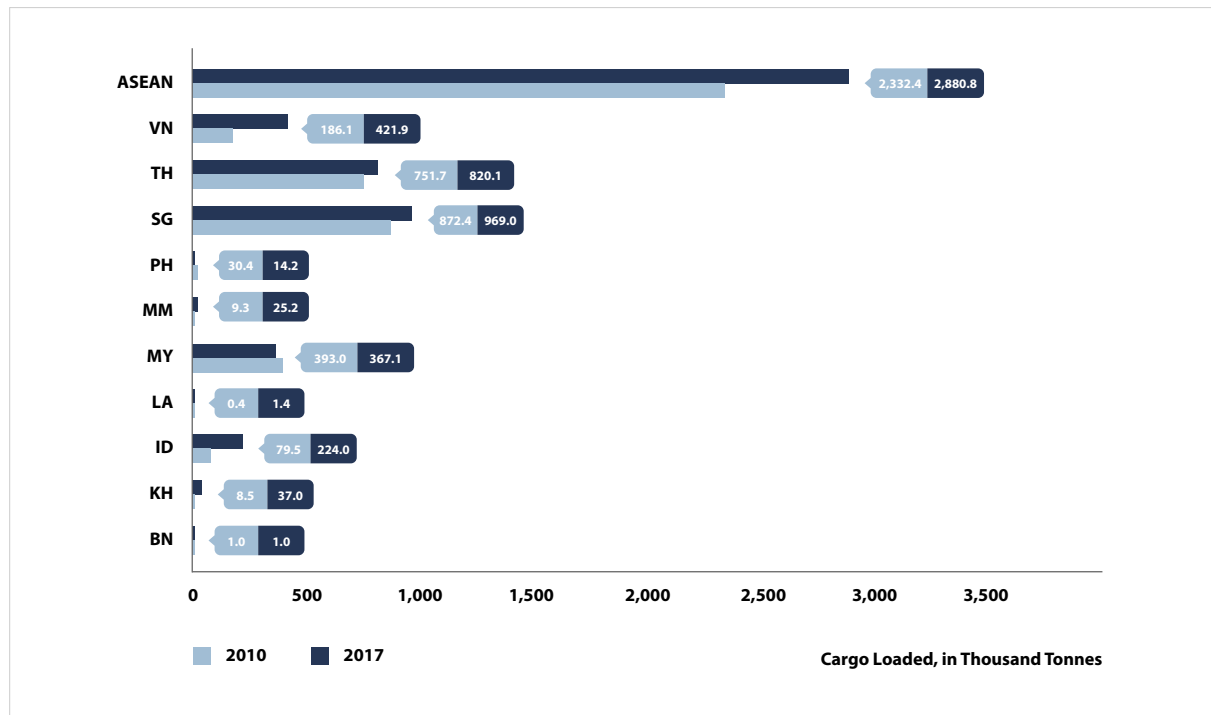
3.3.1.1.3. Air Transport Cooperation with Dialogue Partners

202. ASEAN also continues to forge partnership with its Dialogue Partners. Protocols 1 and 2 of the ASEAN-China Air Transport Agreement have entered into force in August 2011 and September 2015, respectively. Another significant milestone is the full ratification of Protocol 2 of the Agreement by all AMS and China on 2 January 2019. The ASEAN-China Air Transport Agreement provides more opportunities for ASEAN and China airlines to fly to more cities to further enhance business and leisure travel connectivity. For other air transport areas, ASEAN and China have also signed the Memorandum of Understanding on Cooperation relating to Aircraft Accident and Incident Investigation, which will further strengthen cooperation in the safety investigation of aircraft accidents and incidents, investigation training, and sharing of safety information between ASEAN and China.
203. Air services negotiations involving other ASEAN Dialogue Partners, such as the EU, Japan, and the Republic of Korea (ROK), are also underway, with the ASEAN-EU Comprehensive Air Transport Agreement expected to be concluded soon. ASEAN also enjoys a close working relationship with the US Department of Transportation and the Federal Aviation Administration on various aviation technical and security initiatives.
204. The various measures undertaken partly account for the strong growth in the number of international air passengers in the region, which increased by almost 103.6% – from 141.9 million people in 2010 to 288.8 million in 2017. Growth is particularly significant in Indonesia at 377.1%, followed by Myanmar (261.1%), Lao PDR (243.2%), and Cambodia (151.2%) (see Figure 3.12). The region also witnessed growth in the air cargo industry, with total cargo loaded increasing by 23.5% from 2.3 tonnes in 2010 to 2.9 tonnes in 2017. However, growth during this period varied among the AMS, with Cambodia experiencing the highest growth at 335.3%, followed by Lao PDR (250.0%), Indonesia (181.6%), and Myanmar (170.4%) (see Figure 3.13).

Figure 3.12. International Air Passenger Traffic (in Million Persons)



Source: ASEAN Secretariat.

Figure 3.13. International Air Cargo Loaded (in Thousand Tonnes)

Source: ASEAN Secretariat.

3.3.1.2. Land Transport

205. Continued progress is being made in the development and integration of land transport infrastructure for both roads and railways, as well as in enhancing intermodal interconnectivity, with principal airports, ports, and inland waterway and ferry links.
206. The ASEAN Highway Network⁸⁹ and the Singapore-Kunming Rail Link (SKRL)⁹⁰ are two key land transport initiatives in the region. With all 23 designated routes under the ASEAN Highway Network Project (total length 38,400 km) now connected, current work focuses on the upgrading of 'Below Class III'⁹¹ roads on the designated Transit Transport Routes in Indonesia, Lao PDR, and Myanmar. Based on the stocktake conducted in 2014 and completed in 2017, 69% of 'below Class III' roads and 20% of 'Class III' roads have been upgraded to higher standards.

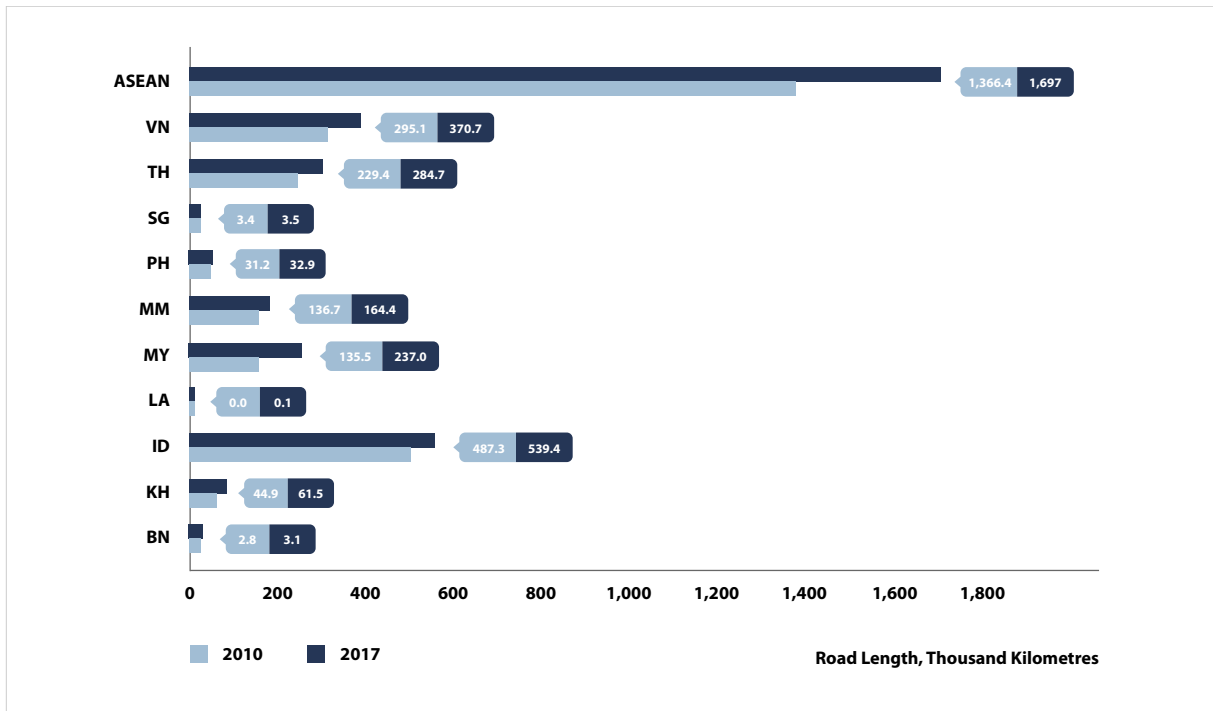
⁸⁹ A Memorandum of Understanding on the Development of the ASEAN Highway Network Project was signed by AMS in 1999, aiming to connect 23 designated routes with a total length of 38,400 km.

⁹⁰ The SKRL project was initiated at the 5th ASEAN Summit in December 1995. The project includes a total length of 7,000 km railway line that will link major cities in eight countries, namely Singapore, Malaysia, Thailand, Cambodia, Viet Nam, Lao PDR, Myanmar, and China. The SKRL has two lines, the Eastern Line through Thailand, Cambodia and Viet Nam, with a spur line between Lao PDR and Viet Nam, and the Western Line through Thailand and Myanmar.

⁹¹ Primary roads are access-controlled motorways; Class I roads are highways with four or more lanes; Class II roads are two-lane roads (which are cement or concrete); Class III roads are narrow two-lane roads with double bituminous treatment.

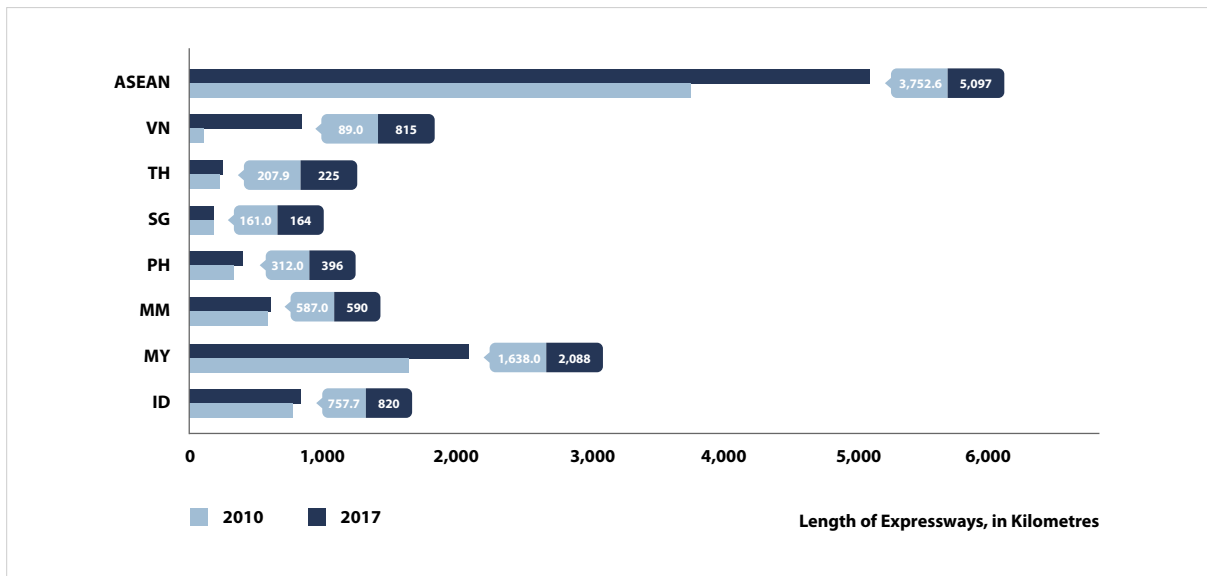
207. As for the SKRL project, efforts are now being made to connect the missing links. The rail link between Poi Pet (Cambodia) and Aranyaprathet (Thailand) has been completed, and both Cambodia and Thailand are working on the cross-border arrangement for railway operation between the two countries. The rail link on Poi Pet–Battambang section has also been completed, and rail operation on this section is now on trial operation. At the same time, supplementary upgrading work in Cambodia, Malaysia, Thailand, and Viet Nam to support SKRL continues.
208. In addition to these two flagship initiatives, ASEAN has also adopted the ASEAN Regional Strategy on Road Safety in 2015 and the Intelligent Transport System Policy Framework 2.0 in 2016 in order to further strengthen land transport cooperation in the region. The ASEAN Regional Strategy on Road Safety underlines the road safety strategies most relevant at the regional level and where a regional approach will support and facilitate actions taken by individual countries. The Intelligent Transport System Policy Framework 2.0 provides guiding principles for AMS in planning, evaluating, and prioritising Intelligent Transport System projects in their respective countries according to their needs.
209. The land transport infrastructure in the region has seen significant improvement over the last few years. Road lengths in the region reached almost 1,757,007 km in 2017, an increase of 25.0% from 2010, with notable growth recorded in Malaysia (75.0%), Lao PDR (51.2%), and Cambodia (36.9%) (see Figure 3.14.). Similarly, total expressway length in the region increased by 35.8% to reach 5,097 km in 2017 from 3,753 km in 2010, with Viet Nam recording an increase of more than 800% during the same period (see Figure 3.15.). On the other hand, Figure 3.16 shows that the number of rail passengers declined for all AMS except Indonesia and Lao PDR over the same period.

Figure 3.14. Total Road Length (in Kilometres)



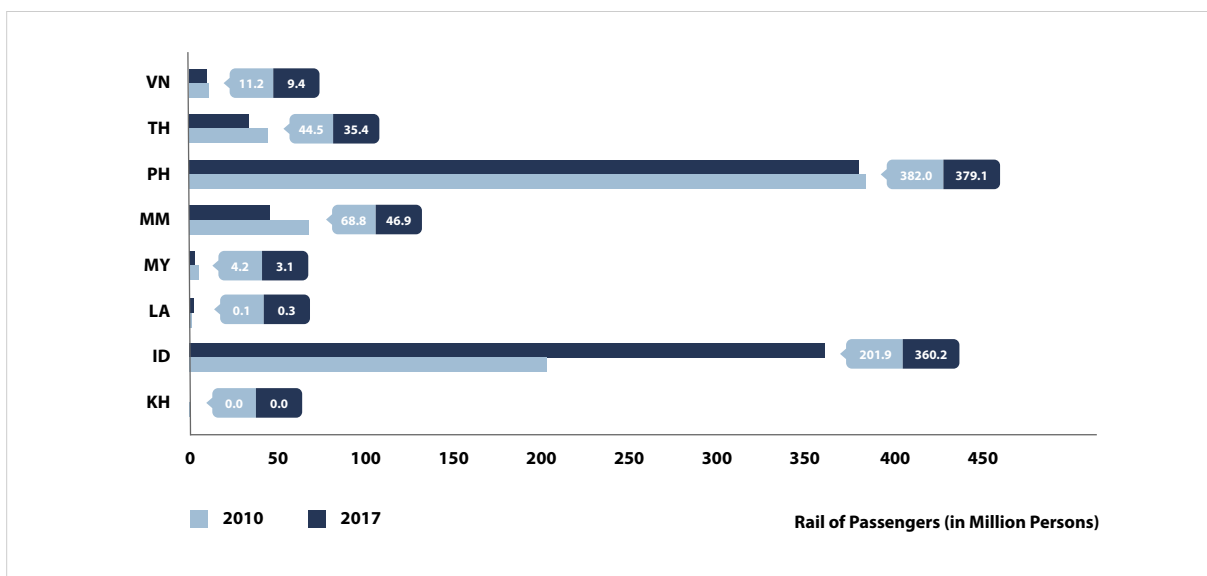
Source: ASEAN Secretariat.

Figure 3.15. Total Length of Expressways (in Kilometres)



Source: ASEAN Secretariat.

Figure 3.16. Total number of Rail Passengers (in Million Persons)



Source: ASEAN Secretariat.

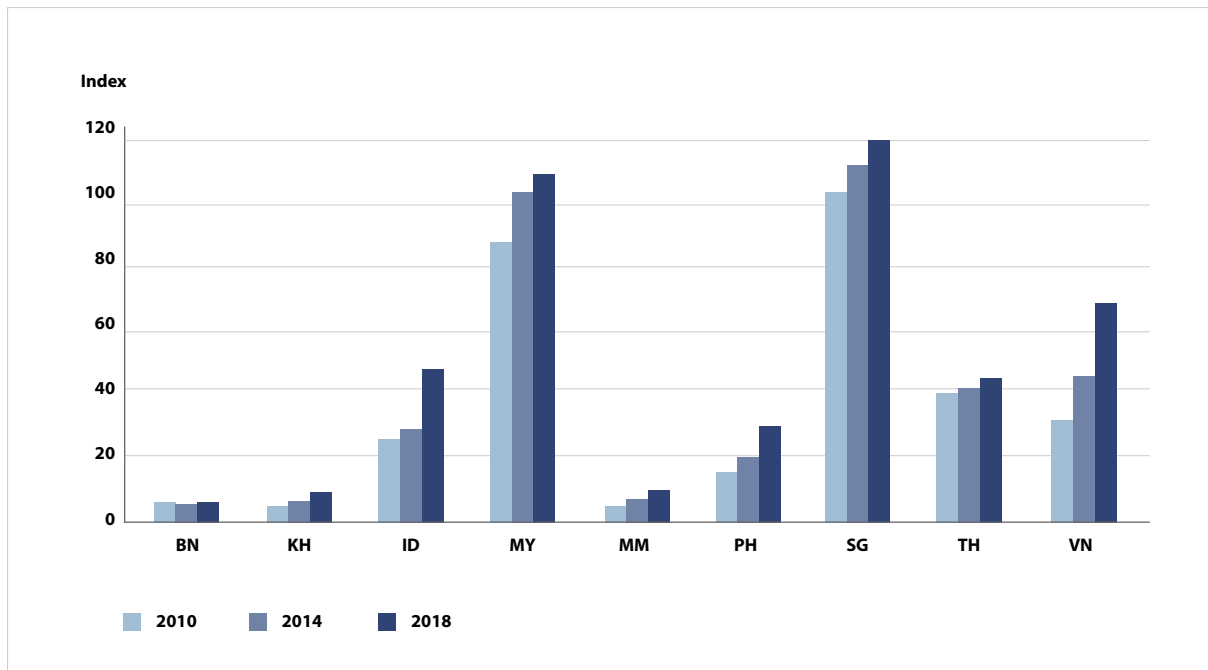
3.3.1.3. Maritime Transport

210. Recognising that more than 80% of global trade by volume and 70% of its value is carried on board ships and handled by seaports worldwide, ASEAN continues to strengthen its cooperation in maritime transport. This is achieved through, among others, the establishment of the ASEAN Single Shipping Market (ASSM), regional maritime transport cooperation, and effective implementation of the International Maritime Organisation conventions with the objective of realising an integrated, efficient, and competitive maritime transport, as well as fostering a culture of maritime safety within the region.

211. The ASSM is a strategy to create an efficient ocean shipping network to facilitate the free flow of intra-ASEAN shipping services, where there will be substantially no restriction to ASEAN shipping service suppliers in providing services and in establishing companies across national borders within the region. The ASSM will contribute towards the objective of creating an ASEAN single market and production base. One of the key measures under the Implementation Framework of the ASSM is to conduct a pilot project on the operationalisation of ASSM, including in-depth cost–benefit studies.⁹² The ROK will provide technical assistance for implementation of the pilot project.
212. ASEAN has continuously worked on upgrading the efficiency and performance of ASEAN network ports. The KPI on Port Efficiency is expected to be completed by 2019 to ensure that ASEAN-designated ports meet the acceptable performance and capacity levels. Efforts are also focused on enhancing the implementation of Electronic Data Interchange, as well as improving the reliability of technical standards of ASEAN ports.
213. The conclusion of a Memorandum of Understanding on the Improvement of Safety Standards and Inspection for Non-Convention Ships within ASEAN Member States and the adoption of the Guidelines for Safety Standards for Non-Convention Ships in 2018 should provide a safety reference for small-sized ships not governed by international conventions. Further, in an effort to address disparities in trading area and seafarer certification for ships engaged in near-coastal voyages, ASEAN has also adopted the Framework of Cooperation on certification of competency for near-coastal voyage certificates issued by AMS in November 2016, which focuses on capacity-building efforts and sharing of information among AMS.
214. Another major achievement by ASEAN in enhancing maritime connectivity in the region is the ASEAN Roll-on Roll-off Sea Linkage Route between Davao–General Santos (the Philippines)–Bitung (Indonesia), which was launched by Philippine President Rodrigo Duterte and Indonesian President Joko Widodo on 30 April 2017 in Davao City, the Philippines. The route is expected to spur trade between Mindanao and Sulawesi. It is also expected to provide greater access for local businessmen to engage in international trade, as well as stimulate other areas of development such as joint tourism promotion, establishment of direct linkages, and increase in investment inflows, among others.
215. The progress made by the region in terms of maritime transport is reflected in the Liner Shipping Connectivity Index Statistics of the UNCTAD.⁹³ The index shows that the region's connectivity to global liner shipping networks, thus to global trade, continued to improve from 2010 to 2018, with Singapore and Malaysia leading the scores at 113.92 and 109.86 respectively, followed by Viet Nam (68.82), Thailand (47.95) and Indonesia (47.76) in 2018 (see Figure 3.17).

⁹² The Operationalisation Framework of the ASSM was endorsed by the ATM in 2014.

⁹³ The Liner Shipping Connectivity Index captures how well countries are connected to global shipping networks. It is computed by UNCTAD based on five components of the maritime transport sector: number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in a country's ports.

Figure 3.17. Liner Shipping Connectivity Index

Source: UNCTAD (n.d.c.).

3.3.1.4. Sustainable Transport

216. The inclusion of sustainable transport in the Kuala Lumpur Strategic Plan is a demonstration of alignment between ASEAN regional cooperation and current global developments whereby the transport sector is recognised as a crucial component of sustainable development. In this regard, in 2018, ASEAN adopted the ASEAN Fuel Economy Roadmap for Transport Sector, the Sustainable Land Transport Indicators on Energy Efficiency and Greenhouse Gas Emissions in ASEAN, and the ASEAN Regional Strategy on Sustainable Land Transport.

217. Several other initiatives have also been introduced to support sustainable transport, such as the promotion of green logistics measures through the adoption of the Green Logistics Vision and Action Plan in 2015⁹⁴ and adoption of Best Practices on Green Logistics in 2018.⁹⁵

⁹⁴ This initiative aims to develop and implement a common ASEAN green logistics vision and measures in order to achieve sustainable and environmentally friendly logistics in AMS. The Action Plans are to: (1) develop and implement green logistics measures that would encourage private sectors and individual consumers to promote green logistics; (2) share and create the best practices summary report on green logistics of AMS; (3) create a Checklist Guide on green logistics to provide guidance and instruction towards the private sector initiatives and operations to promote green logistics. These Action Plans are aligned with the actions and output-based milestones of the ASEAN Transport Strategic Plan 2016-2025 related to green logistics measures.

⁹⁵ A compilation of best practices on green logistics projects/initiatives in AMS and Japan to reduce CO₂ and other air pollutant emissions across supply chain processes.

3.3.1.5. Transport Facilitation

218. ASEAN has also made good progress in operationalising the three transport facilitation agreements to facilitate movement of goods in the region, thus contributing towards enhanced intra-regional trade, namely the ASEAN Framework Agreement on Facilitation of Goods in Transit (AFAFGIT),⁹⁶ the ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST),⁹⁷ and the ASEAN Framework Agreement on Multimodal Transport (AFAMT).⁹⁸
219. The AFAFGIT contains nine protocols: (1) designation of Transit Transport Routes and facilities; (2) designation of frontier posts; (3) types and quantity of road vehicles; (4) technical requirements of vehicles; (5) ASEAN scheme of compulsory motor vehicle insurance; (6) railways border and interchange stations, (7) a customs transit system; (8) sanitary and phytosanitary measures; and (9) dangerous goods.⁹⁹ These have been signed and ratified by all AMS except for Protocol 2 – which has been ratified by Malaysia, Myanmar, Singapore, Thailand, and Viet Nam – and Protocol 6, which is pending ratification from Brunei Darussalam and Indonesia.¹⁰⁰
220. The AFAFIST, which shares seven of the nine protocols with the AFAFGIT (as Protocols 6 and 7 are not applicable under the AFAFIST), has been ratified by Cambodia, Lao PDR, Myanmar, the Philippines, Thailand, and Viet Nam. The AFAFIST is currently in force among the AMS who have ratified or accepted it.
221. In the case of AFAMT, three AMS – Brunei Darussalam, Malaysia, and Singapore – have yet to ratify the Framework Agreement. The AFAMT is currently in force among the AMS who have ratified or accepted it.
222. To support the implementation of AFAFGIT, the ASEAN Customs Transit System (ACTS) has been developed. It provides full end-to-end computerisation of transit operations with a single electronic customs transit declaration. The system and parallel test runs of the Phase 1 pilot project of the ACTS were tested in Malaysia, Singapore, and Thailand in 2017. The live movement of goods using the ACTS system will be carried out in a later phase, once the legal environment is in place, namely the ratification of Protocol 2 of the AFAFGIT. Once the pilot phase is concluded, it is envisaged that the ACTS will be rolled out fully among participating pilot countries in the North-South Corridor (Malaysia, Singapore, Thailand) and the East-West Corridor (Cambodia, Lao PDR, Malaysia, Viet Nam, and Thailand), with the objective of including other AMS later, depending on their readiness.

⁹⁶ AFAFGIT was concluded in 1998 to simplify and harmonise transport and customs procedures for goods in transit.

⁹⁷ AFAFIST was concluded in 2009 to simplify and harmonise transport and customs procedures for inter-state transport of goods.

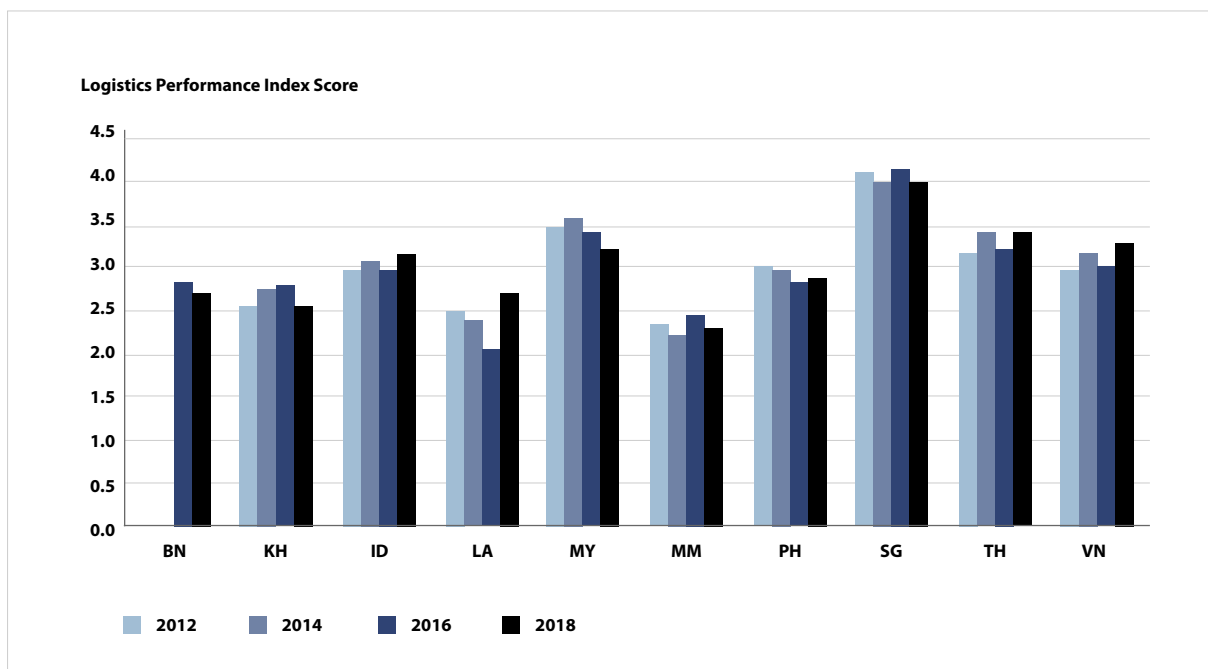
⁹⁸ AFAMT was concluded in 2005 to facilitate the development and operationalisation of efficient multimodal transport services adequate to the requirements of international trade.

⁹⁹ Protocols 2 and 7 are under purview of Customs, while Protocol 5 is under the purview of Insurance/Finance and Protocol 8 is under the purview of Agriculture.

¹⁰⁰ This Agreement shall enter into force upon the deposit of Instruments of Ratification or acceptance by all AMS with the Secretary General of ASEAN.

223. To facilitate cross-border movement of passengers by road, the ASEAN Framework Agreement on Facilitation of Cross-Border Transport of Passengers by Road Vehicles, which would enable movement of scheduled and non-scheduled buses among AMS, was signed in October 2017.¹⁰¹ The Framework Agreement would simplify the requirements for cross-border bus transport services within ASEAN, and thus make it easier for ASEAN citizens to travel by bus within the region for business or leisure.
224. A common measure of ease of transport facilitation – and hence logistical performance – is the Logistics Performance Index.¹⁰² The index, which indicates the degree of logistical friendliness of a country, shows that performance varies across AMS and over time (see Figure 3.18). For some AMS, such as Lao PDR and the Philippines, the index improved in 2018 after declining for a number of years. On the other hand, other AMS such as Malaysia and Singapore have seen a steady decline in their overall index. Maintaining logistical performance is key to a country and region’s overall competitiveness. To this end, this indicates the need to accelerate the full implementation of the transport facilitation agreements in the region as well as broader regional cooperation in the transport sector.

Figure 3.18. Overall Logistics Performance Index Score



Source: World Bank (n.d.e.).

¹⁰¹ With the Framework Agreement, each AMS would have a quota of 500 non-scheduled buses that would enjoy facilitated entry to or transit through other AMS. However, it should be noted that scheduled cross-border bus services covered under the agreement would still be subject to mutual agreement between adjacent countries on the routes, stopping points, number of buses, technical requirements, and fares.

¹⁰² The Logistics Performance Index is based on a worldwide survey of operators on the ground (global freight forwarders and express carriers), providing feedback on the logistics ‘friendliness’ of the countries in which they operate and those with which they trade. They combine in-depth knowledge of the countries in which they operate with informed qualitative assessments of other countries where they trade and experience of the global logistics environment. Feedback from operators is supplemented with quantitative data on the performance of key components of the logistics chain in the country of work.

3.3.1.6. Conclusion

225. ASEAN regional cooperation in the transport sectors has been deepened and broadened, with various tangible outcomes. However, to ensure connectivity in the region, ASEAN must go beyond physical infrastructure to also address the soft infrastructure aspect of connectivity. To this end, efforts need to be redoubled in ensuring timely ratification of transportation facilitation agreements by the relevant AMS so these can enter into force. AMS also need to ensure effective implementation of regional commitments at the national level in order for them to achieve the intended objectives. Priority should also be given to initiatives that contribute significantly towards improving physical connectivity in the region, such as the completion of the missing links of the SKRL and the upgrading of the ASEAN Highway Network road networks. This, in turn, highlights the issue of resource mobilisation for infrastructure financing, which requires closer collaboration with other sectoral bodies, notably the finance integration track. Cooperation in maritime transport is another area in which enhanced cooperation may need to be forged given its important role for international trade, as well as the archipelagic nature of a large part of the region. While still in the initial stages, the inclusion of sustainable transport in ASEAN's cooperation in the sector is commendable. Moving forward, its effective implementation will require close cross-sectoral coordination, such as with the energy sector.

3.3.2. Information and Communications Technology

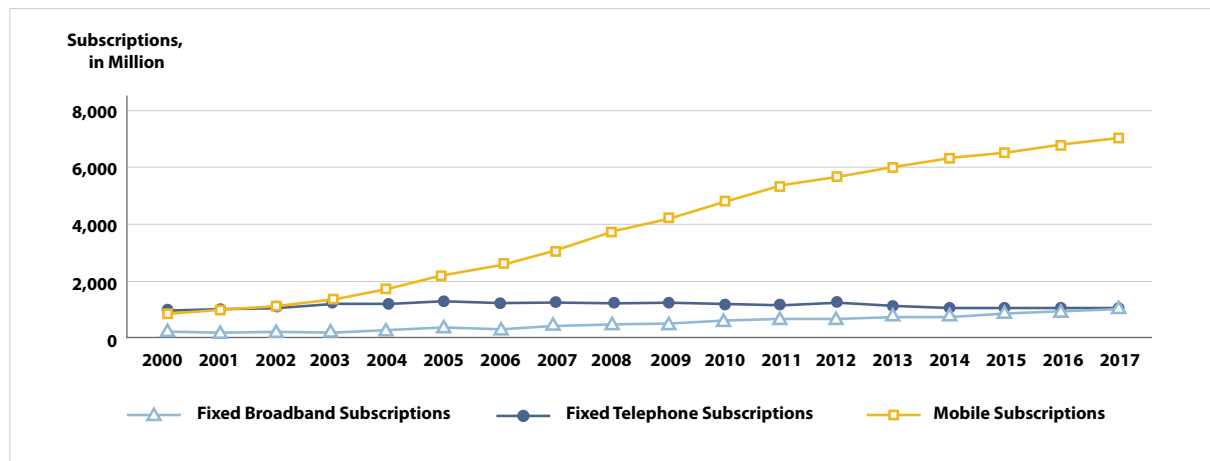
226. The ASEAN ICT Masterplan 2020 (AIM 2020) highlights the growing role of information and communications technology (ICT) as a 'horizontal enabler of all sectors' in ASEAN, as opposed to being a standalone sector, underscoring the strategic importance of ICT in the digital age. Recognising the fast pace at which technologies are changing, the ASEAN Telecommunications and ICT senior officials and Ministers (TELSOM and TELMIN) have agreed on a two-phased approach to developing an implementation/work plan to carry out the strategic measures on ICT under Element C2 of the AEC Blueprint 2025 (Information and Communications Technology); the first five-year term starts with the AIM 2020, as compared to other AEC sectors' ten-year plans. Work on the development of the next masterplan (2021-2025) is ongoing, while, in 2019, the TELMIN and TELSOM have been officially renamed the ASEAN Digital Ministers Meeting and ASEAN Digital Senior Officials' Meeting, respectively.

227. The rapid change of technologies means that what were then ground-breaking and modern technologies cited in the predecessor of the AIM 2020, the AIM 2015 (2009-2015), are now part of our daily lives. These include 3G mobile technology and the use of internet protocol version 4 (whereas AIM 2020 now talks about internet protocol version 6 roll-out). Similarly, AIM 2020, drafted in 2015-2016, is becoming more and more reflective of certain present and emerging technologies that were not as ubiquitous pre-2015. These include technologies such as over-the-top technology in the advent of internet-based media streaming platforms, the Internet of Things¹⁰³ that has paved the way for wearable technologies such as smart watches and smart home appliances, cloud computing that has become a more prevalent method of storing and accessing data in the past few years, as well as emerging horizontal and cross-cutting issues such as cybersecurity.

¹⁰³ Though coined in 1999, its use has gained massive traction in ASEAN, especially in the context of the 4IR technologies.

228. The vision for the AIM 2020 is to propel ASEAN towards a digitally enabled economy that is secure, sustainable, and transformative; and to enable an innovative, inclusive, and integrated ASEAN Community. The AIM 2020 encompasses eight strategic thrusts that work together to support the advancement of the ASEAN Community namely: (1) economic development and transformation; (2) people integration and empowerment through ICT; (3) innovation; (4) ICT infrastructure development; (5) human capital development; (6) ICT in the single market; (7) new media and content; and (8) information security and assurance – the three latter topics are newer focus areas compared to the previous masterplan.
229. The outcome-level KPIs for ICT show the sector’s rapid rise in the region. In terms of infrastructure availability and access, the KPIs show the region’s rising internet access, meteoric rise in mobile cellular subscriptions (exceeding 100% of the region’s population), a much slower increase in broadband subscription, and the shift away from older forms of telecommunication, such as fixed telephone line subscriptions. The penetration rates shown in absolute number of subscriptions provide an even clearer picture of such trends as shown in Figure 3.19.

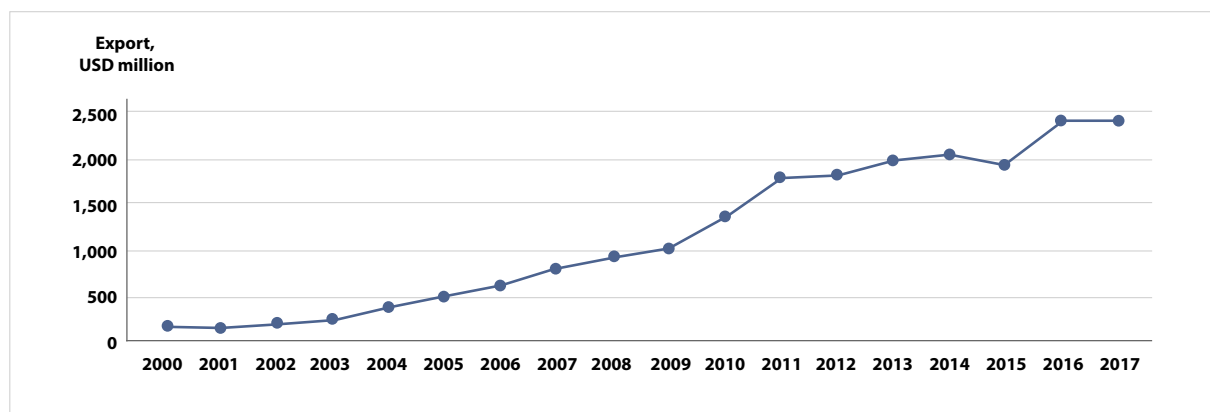
Figure 3.19. Mobile, Broadband, and Fixed Line Subscriptions (in Million)



Source: International Telecommunication Union (n.d.).

230. While the region’s average share of ICT services exports as a percentage of total services exports has been hovering around 5-6% for the past couple of decades, total ICT services exports (Balance of Payment, current USD) in the region have been increasing rapidly, as seen in Figure 3.20.

Figure 3.20. ICT Services Exports (Balance of Payment, Current, in USD million)



Source: World Bank (n.d.f.).

- 231.** To date, there have been three major developments from the implementation of the AIM 2020:
- The ASEAN Framework on Personal Data Protection was adopted at the 16th TELMIN on 25 November 2016. While the framework is non-binding, it aims to record the AMS' intention to cooperate, promote, and implement the Principles of Personal Data Protection in their domestic laws and regulations. These cover the following issues: (1) consent, notification and purpose; (2) accuracy of personal data; (3) security safeguards; (4) transfers to another country or territory; (5) retention (of data); and (6) accountability.
 - The ASEAN International Mobile Roaming Framework was adopted at the 17th TELMIN in November 2017. The framework serves to promote transparent and affordable international mobile data roaming services in ASEAN, with a view to further enhancing regional integration and benefiting consumers in the region. It seeks to encourage all telecommunications operators operating in ASEAN to provide transparent and affordable international mobile data roaming service on a daily flat-rate basis.
 - The ASEAN Framework on Digital Data Governance¹⁰⁵ was endorsed by the 18th TELMIN in December 2018. The framework aims to engender trust in the collection of data and its use by businesses and to encourage the innovation and adoption of digital solutions. The framework identifies four strategic priorities of digital data governance that support the ASEAN digital economy, namely: (1) data life cycle and ecosystem; (2) cross-border data flows; (3) digitalisation and emerging technologies; and (4) the legal, regulatory and policy environments. The framework also identifies four initiatives that can be undertaken in support of the four aforementioned strategic priorities under the governance principles of interoperability and capacity building, which are: (1) ASEAN data classification framework; (2) ASEAN cross-border data flows mechanism; (3) ASEAN digital innovation forum; and (4) ASEAN data protection and privacy forum.
- 232.** To implement the AIM 2020, TELSOM has also implemented several other initiatives in the form of studies and workshops, most of which are supported through the ASEAN ICT Fund.¹⁰⁶ These include the following workshops and studies: workshop on promoting internet protocol version 6 adoption within ASEAN government agencies (2016); workshop on mobile communication Quality of Service benchmarking in the developing countries of ASEAN (January 2017); survey on Quality of Service assessment models (March 2017) and a follow-up workshop (June 2017); workshop on promoting Information Technology applications to enhance energy saving and environmental protection (July 2017); survey on Mobile Number Portability in ASEAN (July 2017) and a follow-up workshop (October 2017); 2017 ASEAN Maker Hackathon and IoT Information Sharing Workshop (September 2017); Startup@ASEAN event (September 2017); workshop on sharing experiences towards building Smart Cities in ASEAN (January 2018); ASEAN Dialogue on Over-the-Top-Technology (June 2018); ASEAN Guidelines on Open and Big Data Application Development workshop (August 2018); and ASEAN Guidelines on Strengthening Resilience and Repair of Submarine Cables (Phase 1) workshop (September 2018).

¹⁰⁵The official electronic version of the ASEAN Framework on Digital Data Governance is available on the official website of the ASEAN Secretariat at https://asean.org/storage/2012/05/6B-ASEAN-Framework-on-Digital-Data-Governance_Endorsed.pdf.

¹⁰⁶The announcement of the establishment of the ASEAN ICT Fund was made by TELMIN in 2004. The Fund aims to accelerate the implementation of regional ICT projects. AMS started contributing to the ASEAN ICT Fund in 2006 and have been making additional contributions since. Contributions from AMS to the ICT Fund have been funding activities under the ASEAN ICT Focus 2005-2010, ASEAN ICT Masterplan 2015, and the ASEAN ICT Masterplan 2020. Further information concerning TELMIN's Joint Statement to establish the ASEAN ICT Fund is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/images/2012/Economic/TELMIN/presrelease/Joint%20Media%20Statement%20of%20the%20Fourth%20ASEAN%20Telecommunications%20&%20IT%20Ministers.pdf>.

3.3.2.1. Conclusion

233. In the face of the looming new industrial revolution (i.e. 4IR), the time is right for TELMIN and TELSOM to consider how existing regional ICT platforms could best anticipate, accommodate, and address the evolving ICT needs of the region – specifically how these platforms could reinforce or assist relevant regional initiatives and in turn national policies in the most impactful and sustainable way. It is also important for the ICT agenda to consider cross-cutting issues, with the succeeding topic (electronic commerce) being among the most critical. Given the enabling role of ICT for all sectors, it is important for cooperation on ICT in ASEAN to be planned and implemented in sync with the work and priorities of other sectors. More thought must therefore be given to avail an effective coordination platform involving other sectors as well as a consultative interface with the broader stakeholders. The recent agreement to rename TELMIN to ASEAN Digital Ministers provides some momentum. More will be needed to follow this change in name with an effective and sustainable coordination mechanism to address ASEAN's transition to the digital economy. The development of the next masterplan will be key to this effort.

3.3.3. Electronic Commerce

234. Electronic commerce (e-commerce), which by the simplest of definitions pertains to the buying and selling of products or services over the internet, has indeed transformed the global and regional business landscape, and has shaped people's lives in the past few years (the last two decades especially). The earliest explicit recognition of the importance of e-commerce in ASEAN can be found in the e-ASEAN Framework Agreement signed by ASEAN Leaders at the ASEAN Informal Summit in Singapore in 2000.¹⁰⁷ Article 5 of the agreement specifically makes reference to the 'Facilitation of the Growth of Electronic Commerce', which identifies six actionable areas to facilitate growth in the sector: (1) putting in place national laws and policies; (2) mutual recognition of digital signature frameworks; (3) facilitating secure transactions; (4) adopting measures to protect intellectual property rights; (5) promote personal data protection and consumer privacy; and (6) encouraging the use of alternative dispute resolution mechanisms.

235. Further underscoring the importance of the sector to the ASEAN economy, the AEC Blueprint 2015 includes a dedicated element (B6) on e-commerce, and envisions laying the policy and legal infrastructure for e-commerce within ASEAN through the implementation of the e-ASEAN Framework Agreement and common reference frameworks. For the stated period, there was no standalone and cross-sectoral plan specifically on e-commerce matters. Activities related to e-commerce were mainly – and almost exclusively – implemented under the ASEAN Information and Communications Technology (ICT) Masterplan 2015, which was under the purview of the ASEAN Telecommunications and ICT Senior Officials Meeting/Ministers (TELSOM/TELMIN).¹⁰⁸ Many of these activities were in the form of studies and workshops.

¹⁰⁷ Full text of the e-ASEAN Framework Agreement is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=e-asean-framework-agreement.

¹⁰⁸ Under the AEC Scorecard 2015, a number of priorities related to e-commerce were implemented:

1. Completion of Study the Adoption of ASEAN Technical Architecture Framework for e-Commerce Interoperability: The study's recommendations were presented to and endorsed by the 11th TELSOM;
2. Review of the Harmonisation of E-Commerce Laws in ASEAN: A 'Workshop on the Review of E-Commerce in Laws Harmonization of ASEAN' was held in Cebu, Philippines, on 10-11 November 2012. The outcomes of the workshop were presented and reviewed by the United Nations Conference on Trade and Development at the ASEAN Telecommunication Regulators Council Joint Working Groups/ Working Groups in April 2013;

- 236.** The pace at which e-commerce activity has grown in the ASEAN region has been astounding. ASEAN's internet economy in 2018 was estimated to be valued at USD 72 billion (Google and Temasek, 2018: 4), where the growth of the gross merchandise value of e-commerce, in particular between 2015 and 2018, was estimated at 62%. Apart from e-commerce, other components of the internet economy include ride-hailing, online travel, and online media. In fact, earlier estimates by Google and Temasek in 2016 that the internet economy would grow to USD 200 billion by 2025 have been revised upwards to USD 240 billion by 2025 in their 2018 report. Other estimates suggest that ASEAN's digital economy still stood at 7% of GDP, which, if fully tapped, could contribute an additional USD 1 trillion to the economy by 2025 (Bain & Company, 2018: 2).
- 237.** ASEAN's young population and expanding middle class have contributed to e-commerce growth in the region. The total number of internet subscribers in all AMS reached 48.5 per 100 people in 2017, compared to only 18.7 in 2010, with the top three countries having an average of about 85 users per 100 people (ASEAN Secretariat, 2018a: 48-49). Other estimates show that there are more than 350 million internet users across Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam as of mid-2018; this is 90 million more users compared to 2015 – the year the ASEAN Community was officially announced (Google and Temasek, 2018: 4).
- 238.** AMS have also made progress in establishing the legal infrastructure for e-commerce, with nine AMS having legislation related to e-commerce. Progress has also been made in terms of updating existing laws in some AMS. Cambodia is in the later stages of developing its first e-commerce law. Furthermore, as of 2017, six AMS have e-commerce laws that encompass online consumer protection, while Brunei and Indonesia have only partial laws: Lao PDR has begun to address the issue. In terms of data protection, only Malaysia, the Philippines, Singapore and Viet Nam have enacted full privacy legislation.
- 239.** E-commerce also has a dedicated section (Element C3) in the AEC Blueprint 2025, with more specific strategic measures and clearly specified areas where e-commerce cooperation needs to be intensified, building upon the e-ASEAN Framework Agreement's Article 5. Taking on a more strategic view of tackling e-commerce cooperation in the region, ASEAN agreed to further institutionalise e-commerce work in ASEAN by establishing the ASEAN Coordinating Committee on Electronic Commerce (ACCEC) in 2017. In addition, e-commerce also has a dedicated sectoral work plan – the ASEAN Work Programme on Electronic Commerce 2016-2025 to map out the work to 2025.¹⁰⁹ As a coordinating committee, the ACCEC works with – and tracks the activities of – other relevant sectoral bodies, which are covered under the said Work Programme.

3. Intra-ASEAN Secure Transactions Framework: At the Preparatory Meeting for the 14th TELSOM on 11 November 2013, in Singapore, the meeting noted that the objectives of the project – (1) to propose e-authentication recommendation for Intra-ASEAN secure electronic transactions; and (2) to update the status of Laws, Polices, Regulations related to e-signature, certification – have been achieved;

4. Policy and Regulatory Dialogue on the Strategic Action Plan to Address the Challenges of Connected ASEAN: Held on 19 November 2014 in Hanoi, Viet Nam, this activity was organised in conjunction with the development of the ASEAN ICT Masterplan 2020.

240. The ASEAN Work Programme on Electronic Commerce 2016-2025 covers cross-sectoral initiatives related to e-commerce including infrastructure, education and technology competency, consumer protection, modernisation of the legal framework, security of electronic transactions, payment systems, trade facilitation, competition, logistics, and putting together an ASEAN Agreement on e-commerce.
241. The signing of the ASEAN Agreement on Electronic Commerce on 12 November 2018 is a key milestone in ASEAN's work on e-commerce. The agreement promotes and encourages cooperation among AMS in the areas of: (1) ICT infrastructure; (2) education and technology competency; (3) online consumer protection; (4) e-commerce legal and regulatory frameworks; (5) electronic transaction security, including protection of online personal information; (6) electronic payment and settlement; (7) trade facilitation; (8) intellectual property rights; (9) competition; (10) cybersecurity; and (11) logistics to facilitate e-commerce.
242. A closely related – but broader – initiative is the ASEAN Digital Integration Framework,¹¹⁰ which was adopted by the ASEAN Economic Ministers in September 2018, and was among the priority economic deliverables under Singapore's ASEAN Chairmanship. The framework identifies six priority areas to be implemented over the 'immediate term' that would have significant effects on digital integration, namely: facilitating seamless trade; protecting data while supporting digital trade and innovation; enabling seamless digital payments; broadening the digital talent base; fostering entrepreneurship, and; coordinating actions. As a follow up to this, a Digital Integration Framework Action Plan is currently being developed for completion in 2019 as a priority economic deliverable under Thailand's ASEAN Chairmanship.
243. Among the key implemented and ongoing action lines under the ASEAN Work Programme on Electronic Commerce 2016-2025 are the development of ASEAN guidelines on accountability and responsibilities of online intermediaries (platform providers) to create a conducive environment for the growth of the e-marketplace and e-commerce (Initiative 2.1), uploading of AMS' e-commerce-related laws and regulations on their respective National Trade Repository (Initiative 10),¹¹¹ conducting an Assessment of the Legal and Regulatory Frameworks on Electronic Commerce in Cambodia, Lao PDR, Myanmar, and Viet Nam, which is targeted for completion this year, as well as various ongoing initiatives related to the digitalisation of MSMEs.

¹⁰⁹ The official electronic version of the ASEAN Work Programme on Electronic Commerce 2016-2025 is available on the official website of the ASEAN Secretariat at <https://asean.org/asean-economic-community/sectoral-bodies-under-the-purview-of-aem/e-commerce/>.

¹¹⁰ The official electronic version of the Digital Integration Framework is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2019/01/ASEAN-Digital-Integration-Framework.pdf>.

¹¹¹ As of May 2019, Thailand and Singapore have uploaded their e-commerce laws to their respective NTRs: www.thailandntr.com and www.fta.gov.sg.

Box 3.1. Cybersecurity

Cybersecurity is necessary for creating a secure environment for critical digitally enabled economic and social activities, particularly e-commerce. At the 32nd ASEAN Summit in April 2018, ASEAN issued the ASEAN Leaders' Statement on Cybersecurity Cooperation¹¹² and called for greater cooperation and coordination among AMS on cybersecurity policy development and capacity-building initiatives. Ongoing initiatives on cybersecurity are being implemented under the ASEAN Network Security Action Council¹¹³ and fora under the ASEAN Political Security Community pillar, which include capacity-building efforts.¹¹⁴ The ASEAN Ministerial Conference on Cybersecurity has been convened annually since 2016 as an informal and interim forum for cross-pillar discussions on cybersecurity.¹¹⁵

3.3.3.1. Conclusion

244. In recent years, ASEAN's approach towards e-commerce has evolved to cover not only the technological aspects, but also other cross-cutting social and economic areas included in the new ASEAN Agreement on Electronic Commerce. Now that frameworks and implementation mechanisms for coordinating on e-commerce have been put in place, it is time for ASEAN to utilise the regional platform to deliver benefits for AMS, starting with expediting the domestic processes to allow for the early entry into force of the agreement, as well as concrete cooperation initiatives on the most pressing e-commerce issues, such as cybersecurity and empowerment of MSMEs in e-commerce, among others.

3.3.4. Energy

245. ASEAN continues to achieve milestones in promoting clean energy and reducing energy intensity of consumption. The region aspires to a lower-carbon future, setting the target for the reduction of energy intensity by 20.0% by 2020 and 30.0% by 2025 based on 2005 levels (see Figure 3.21).¹¹⁶ Based on the latest data available,¹¹⁷ the region achieved a 21.9% reduction of energy intensity in 2016, surpassing the 2020 target of 20.0%. An aspirational target of 23.0% share of renewable energy to the ASEAN energy mix by 2025 has also been set. The regional target highlights the need to increase efforts to address the gaps and challenges in accelerating the deployment of renewables in the region, which as of 2016 stood at 12.4%.

¹¹² The official electronic version of the ASEAN Leaders' Statement on Cybersecurity Cooperation is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2018/04/ASEAN-Leaders-Statement-on-Cybersecurity-Cooperation.pdf>.

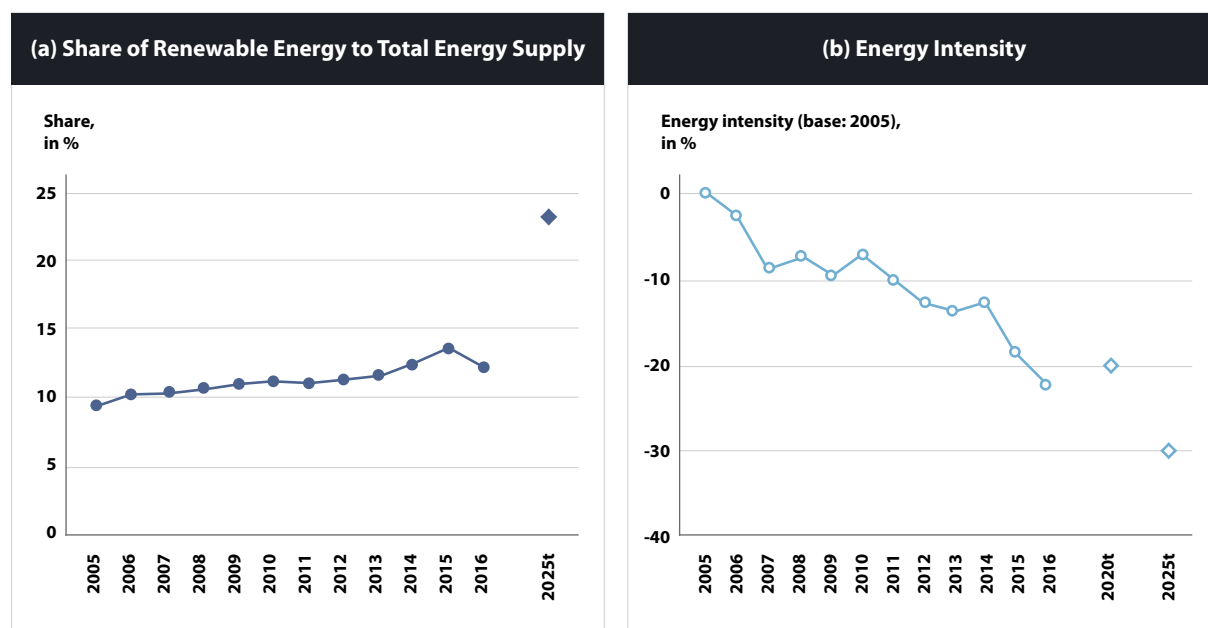
¹¹³ The ASEAN Network Security Action Council was formed in 2013 to establish a common framework for network security, which includes capacity-building and training programmes for national computer emergency response teams.

¹¹⁴ These include the ASEAN Defence Ministers' Meeting-Plus Experts' Working Group on Cyber Security, Singapore's ASEAN Cyber Capacity Programme, and the ASEAN-Japan Cybersecurity Capacity Building Centre in Bangkok.

¹¹⁵ The meeting includes Ministers and senior officials responsible for ICT and Cybersecurity.

¹¹⁶ Further information concerning these targets is available in the Joint Ministerial Statement of the 36th ASEAN Ministers on Energy Meeting, which took place on 29 October 2018 in Singapore. The document is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2018/10/JMS-of-the-36th-AMEM-Final.pdf>.

¹¹⁷ Data for renewable energy and energy intensity accounting has a two-year lag. Data for 2017 will be available at the end of 2019.

Figure 3.21. Energy Indicators

Note: t = target.

Source: ASEAN Secretariat.

246. Energy supply in the region steadily grew from 455 million tonnes of oil equivalent (Mtoe) in 2005 to 627 Mtoe in 2015 (ASEAN Centre for Energy, 2017: 55). The share of renewable energy to the total energy-mix supply increased from 9.5% in 2005 to 13.6% in 2015, although it dropped by 1.2 percentage points to 12.4% in 2016. Under a business-as-usual scenario, energy consumption may increase from 427 Mtoe in 2015, by as much as 1.5 times to 653 Mtoe in 2025, and by 2.4 times to 1,046 Mtoe in 2040 (ASEAN Centre for Energy, 2017: 17). The increase in energy consumption is fuelled mainly by industry, transport, and residential sectors. On the other hand, if AMS national energy targets are achieved (AMS Targets Scenario), consumption by 2025 may be lower by 11.6% compared to business-as-usual; while if the AMS strive to reach the regional targets (ASEAN Progressive Scenario), then this may even be lower by 13.5% compared to business-as-usual by 2025 (see Table 3.25).

Table 3.25. Projections of Energy Supply and Consumption in ASEAN, in Mtoe

	2015	2020	2025	2030	2040
Total Primary Energy Supply					
Business-as-Usual	627	744	916	1,086	1,450
AMS Target Scenario		720	839	970	1,249
ASEAN Progressive Scenario		706	804	905	1,123
Total Final Energy Consumption					
Business-as-Usual	427	526	653	780	1,046
AMS Target Scenario		495	577	667	856
ASEAN Progressive Scenario		490	565	639	771

Note: BAU – Business-As-Usual Scenario; ATS – AMS Target Scenario; APS – ASEAN Progressive Scenario.

Source: ACE (2017: 127-131).

247. In the AEC Blueprint 2025, the energy sector comes under Element 4 (Energy) of Characteristic C (Enhanced Connectivity and Sectoral Cooperation). Correspondingly, the 2025 Blueprint makes reference to the ASEAN Plan of Action on Energy Cooperation (APAEC) 2016-2025, which has the theme of 'Enhancing Energy Connectivity and Market Integration in ASEAN to Achieve Energy Security, Accessibility, Affordability, and Sustainability for all' with seven strategic measures (see Table 3.26). The APAEC 2016-2025 guides the implementation of regional energy cooperation up to 2025. Phase I (2016-2020), which focuses on short- to medium-term strategies, was adopted at the 33rd ASEAN Ministers on Energy Meeting (AMEM) in October 2015, and is aimed at guiding the implementation of regional energy cooperation up to 2020.¹¹⁸

Table 3.26. Key Strategies in APAEC 2016-2025 Phase I**Key Strategies**

Programme Area*	Key Strategy*
ASEAN Power Grid	To initiate multilateral electricity trade in at least one sub-region by 2018
Trans-ASEAN Gas Pipeline	To enhance connectivity for energy security and accessibility via pipelines and regasification terminals
Coal and Clean Coal Technology	To enhance the image of coal through promotion of clean coal technologies;
Energy Efficiency and Conservation	To reduce energy intensity by 20% in 2020 based on 2005 level
Renewable Energy	Aspirational target to increase the share of renewable energy to 23% by 2025 in ASEAN Energy Mix
Regional Energy Policy and Planning	To better profile the energy sector internationally
Civilian Nuclear Energy	To build capabilities in policy, technology and regulatory aspects of nuclear energy

Note: * Defined as strategic measures in Element C4 (Energy) of the AEC Blueprint 2025.

248. A core area of energy cooperation is the promotion of multilateral electricity trade through the ASEAN Power Grid (APG), with a target to initiate multilateral electricity trade in at least one sub-region in ASEAN by 2018. One of the two APG priority projects supporting the Master Plan on ASEAN Connectivity 2025 – the Sarawak-West Kalimantan power interconnection project – was completed as planned in 2015. As of September 2018, the APG had achieved eight out of 16 interconnections,¹¹⁹ with equivalent power exchange of 5,502 megawatts. Moreover, a feasibility study on cross-border electricity trading from Lao PDR to Singapore through existing interconnections was also conducted to complement existing efforts towards realising the APG. In October 2015, an MOU on the Lao PDR-Thailand-Malaysia-Singapore Power Integration Project was signed at the 33rd AMEM in Kuala Lumpur to kickstart the project, which resulted in an Energy Purchase and Wheeling Agreement among Lao PDR, Thailand, and Malaysia in 2017. Multi-country electricity trade – the first of its kind in ASEAN – commenced in January 2018, with 16 GWh of electricity traded thus far. Initiatives are ongoing to expand participation to more AMS and to explore commercial arrangements that would enable transactions for firm power. Ongoing projects to advance multilateral electricity trade in the APG include: (1) a feasibility study on the market mechanisms for multilateral trade; (2) a study on regional institutions for generation and transmission planning and systems operation; and (3) updating the master plan for the transmission interconnection infrastructure.

¹¹⁸ The official electronic version of the APAEC 2016-2025 (Phase I 2016-2020) is available on the official website of the ASEAN Centre of Energy at <http://www.aseanenergy.org/resources/publications/asean-plan-of-action-for-energy-cooperation-apaec-2016-2025/>.

¹¹⁹ The complete list is found in the APAEC 2016-2025 (Phase I 2016-2020).

249. In the case of the Trans-ASEAN Gas Pipeline, the goal is to enhance connectivity within ASEAN for energy security and accessibility via pipelines and regasification terminals. As of 2018, six liquefied natural gas (LNG) regasification terminals have been established with a combined total capacity of 36.5 metric tonnes per annum, and six AMS are interconnected through 13 gas pipelines with a total length of 3,673 km. The initiative to establish a standard clause for cargo diversion and destination flexibility for ASEAN LNG destination contracts has been completed, and the ASEAN Council on Petroleum (ASCOPE) is in discussions with its members to initiate the appropriate instrument to accommodate LNG diversion in the region. ASCOPE also completed a standard LNG Master Sales and Purchase Agreement, which serves as a reference for AMS to provide greater flexibility in destination clauses and minimise associated LNG contract costs. Moreover, ASCOPE presented a Gas Advocacy White Paper at the 36th AMEM in October 2018, in Singapore, addressing key opportunities and challenges in advancing the role of natural gas. ASCOPE is now focusing on preparing a gas advocacy roadmap and a study on small-scale LNG deployment in ASEAN.
250. For coal, ASEAN's objective is to enhance its image through the promotion of clean coal technologies. One of the key action plans for 2017-2018 under the ASEAN Forum on Coal is the strengthening of the coal database, which is being done with the activation of the ASEAN Coal Database and Information System (ACDIS). A workshop on ACDIS was held in September 2018 as part of the efforts to establish a fully functional ACDIS. Moreover, a High-Level Policy Dialogue on Coal in ASEAN was held in April 2018, to discuss intra-ASEAN coal trade, coal security, and promotion of cleaner coal technologies.
251. Energy efficiency and conservation, and promoting renewable energy are also key objectives in ASEAN's energy cooperation to achieve the aforementioned targets. Contributing to improving energy efficiency, the Minimum Energy Performance Standards for Air Conditioning were endorsed by the AMEM in September 2016. As of 2017, seven AMS have successfully adopted their national policy roadmaps to implement the regional roadmap for Minimum Energy Performance Standards for Air Conditioners. Efforts to expand the existing ASEAN MRA for Electrical and Electronic Equipment to include energy performance testing for home appliances, with initial focus on air conditioners, is underway. Efforts are also underway to develop recommendations to improve energy efficiency in cooling in ASEAN to address the specific impact of cooling on energy demand growth.
252. The three-year ASEAN-Germany Energy Programme (AGEP), a jointly implemented project of the GIZ and the ASEAN Centre for Energy that also contributes to the promotion of renewable energy and energy efficiency in the region, commenced in 2017. AGEP supported a series of studies in 2017 and 2018 that analysed the levelised cost of electricity from various renewable energy technologies (including solar photovoltaic, biomass, hydropower, wind, and geothermal) in several AMS and advised on policies necessary to enhance the competitiveness of these technologies with traditional sources, and support the development of renewable energy in the region. In October 2018, AGEP finalised a study on the development of green building codes for ASEAN, with a focus on energy efficiency & conservation measures to help address the significant growth in energy demand expected from the buildings sector over the next decade. Under AGEP's precursor (the ASEAN Renewable Energy Support Programme) a portal on renewable energy activities in ASEAN was developed to provide access to information on renewable energy in ASEAN.

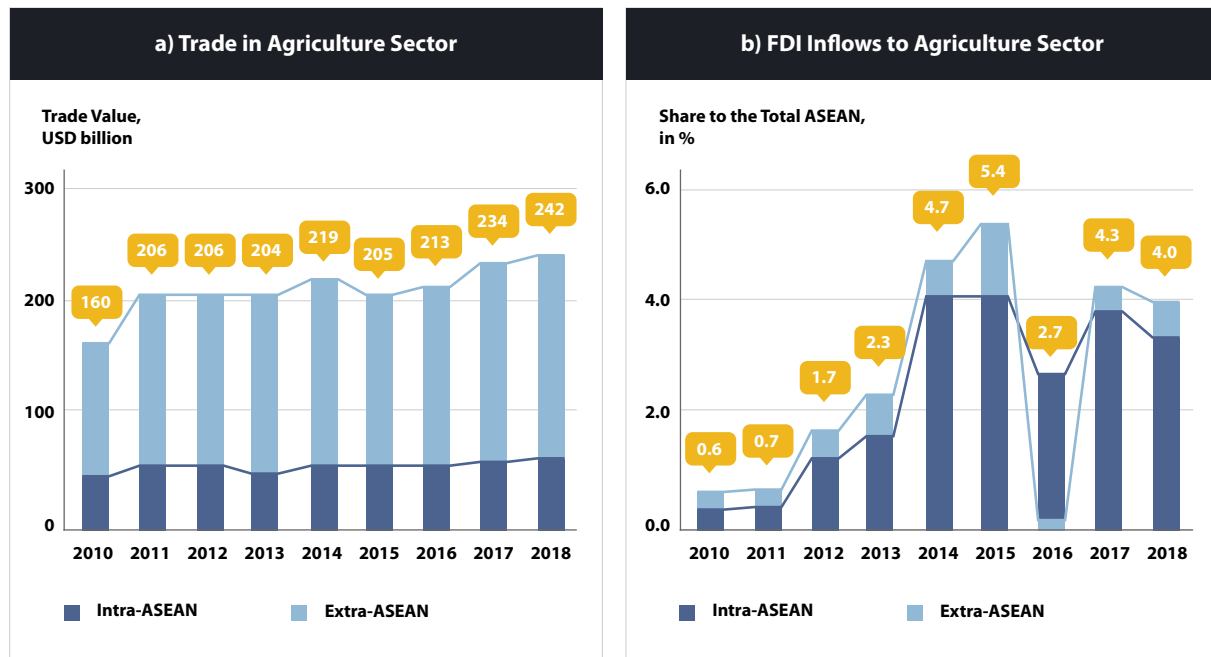
253. In 2017, several major publications on energy were published, starting with the 1st ASEAN Renewable Energy Outlook, developed in partnership with the International Renewable Energy Agency. The Outlook explores the use of renewable energy in the region to achieve the aspirational target of a 23% renewable energy mix by 2025. Next was the 5th ASEAN Energy Outlook (2015-2024), which was intended to enhance the visibility of ASEAN in the international community. The 5th ASEAN Energy Outlook analyses mid- and long-term energy and environment-related challenges, including projections of future supply of and demand for energy in the region. Lastly, the inaugural ASEAN Energy Cooperation Report, which highlights the key achievements and the strategic directions of the ASEAN energy sector, was also published in 2017.

3.3.4.1. Conclusion

254. Overall progress in the implementation of the APAEC Phase 1, covering the first five years of the AEC Blueprint 2025, is largely on track, although actions to help meet the aspirational target of increasing the share of the 23% target for renewable energy in the ASEAN energy mix by 2025 may need to be revisited in light of the second phase of the APAEC. The Phase 2 of the APAEC covering 2021-2025 as well as the 6th ASEAN Energy Outlook are currently being developed and targeted for release by the end of 2020. Through these major policy documents, the ASEAN energy sector cooperation is looking to achieve its collective targets towards a secure, accessible, affordable energy future in the context of the global clean energy transition.

3.3.5. Food, Agriculture, and Forestry

255. The development of the food, agriculture and forestry sector is vital to ensuring equitable and inclusive growth in ASEAN. Although agriculture contributes only around a tenth of total ASEAN GDP, it is the main sector for employment in most AMS, with approximately a third of total ASEAN employment. Agriculture's share of nominal GDP has declined since 2010 despite the increase in absolute terms, from 12.0% (USD 232.6 billion) to 10.3% (USD 306.6 billion) in 2018. On the other hand, its share of total trade in goods has increased, from 8.0% (USD 160.2 billion) in 2010 to 8.6% (USD 242.5 billion) in 2018.
256. Nevertheless, investment in the agriculture sector has markedly increased since 2010. FDI inflows then were at USD 0.6 billion, a 0.6% share of total FDI inflows. In 2018, agriculture's share of total FDI inflows was almost five times higher at 2.6%, equivalent to USD 4.0 billion. ASEAN remains the primary source of investments in the sector, growing from USD 0.4 billion in 2010 to reach USD 3.4 billion in 2018, despite divestments from Dialogue Partners (see Figure 3.22).

Figure 3.22. Trade and FDI Inflows of Agriculture in ASEAN, 2010-2018

Source: ASEAN Secretariat.

257. Following the AEC Blueprint 2015, the Food, Agriculture and Forestry (FAF) sector also has a dedicated element in the AEC Blueprint 2025 – Element C5. To guide ASEAN cooperation in this sector up to 2025, the Vision and Strategic Plan for ASEAN Cooperation in FAF (2016-2025) was adopted by the ASEAN Ministers Meeting on Agriculture and Forestry (AMAF) in September 2015.¹²⁰ Under the Strategic Plan, the goals for ASEAN cooperation in FAF were set out, namely, (1) ensuring equitable, sustainable, and inclusive growth; (2) alleviating poverty and eradicating hunger; (3) deepening regional integration; (4) enhancing access to global markets; (5) enhancing sustainable forest management; and (6) ensuring food security, food safety, and better nutrition. The goals are aligned with the strategic measures under the AEC Blueprint 2025 for the FAF sector.

258. Working within the Vision and Strategic Plan for ASEAN Cooperation in FAF 2016-2025, the ASEAN Strategic Plans of Action on crops, livestock, fisheries, and forestry were subsequently developed to promote cooperation in ensuring the quality and quantity of agricultural and forestry products, sustainability of resources, as well as to enhance trade facilitation, economic integration, and market access. The sectoral strategic plans of action were adopted by the 38th AMAF in 2016 as part of the annual priorities, together with the Key Outcomes and Performance Indicators for the Strategic Plan.

¹²⁰ The official electronic version of the Vision and Strategic Plan for ASEAN Cooperation on FAF is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=strategic-plan-of-action-on-asean-cooperation-in-food-agriculture-and-forestry.

3.3.5.1. Food and Agriculture

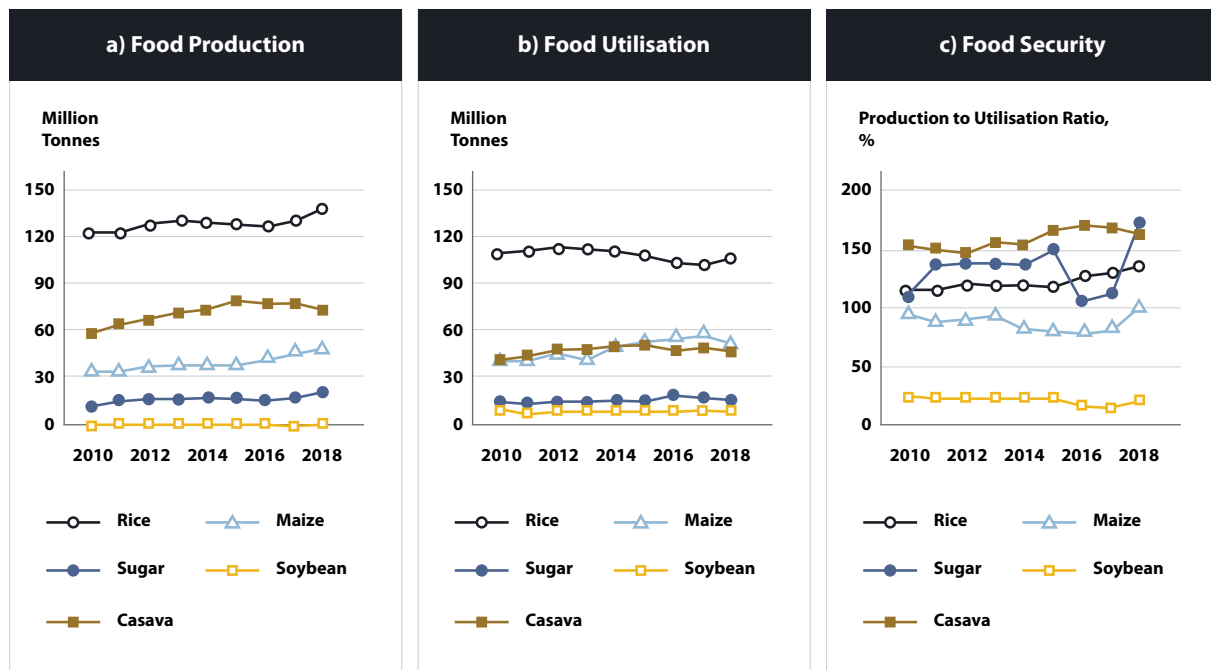
259. Part of the activities for deepening regional integration is the harmonisation of standards across the AMS, with several ASEAN standards and guidelines for the food and agriculture sector adopted at the 37th and 38th AMAF in 2015 and 2016.¹²¹ The 'Study on Mutual Recognition Models for the ASEAN Agricultural Best Practices' to explore appropriate mechanisms to better implement Good Agricultural Practices, Good Animal Husbandry Practices, and Good Aquaculture Practices standards in the region, was also finalised in 2017. The study recommended the establishment of a Multilateral Arrangement for the Mutual Recognition of Agri-food Standards and Conformity Assessment. The Senior Officials Meeting-AMAF agreed to this at the Special SOM-38th AMAF held in August 2017, and approved the creation of a Task Force that will review, steer, and administer the preparation of the mutual recognition arrangement.
260. On enhancing access to global markets, achieving this key objective requires large and small market actors to be able to compete globally. The ASEAN Roadmap for Enhancing the Role of Agricultural Cooperatives in the Global Agricultural Value Chains 2018-2025 was adopted at the 40th AMAF Meeting in 2018 with the aim of ensuring that agricultural cooperatives are able to compete with agribusiness companies for markets, financing, and technology. This will be achieved through capacity building to support small farmers in improving productivity and product quality, developing institutional mechanisms for agricultural cooperatives, and facilitating access to financing and markets.
261. Another study was conducted in 2018, the 'Review of the Implementation of the SPS (Sanitary and Phytosanitary) Agreement and International Standards in ASEAN Member States', which evaluated the degree of implementation of the SPS Agreement and international standards among the AMS. The review further recommended the development of the ASEAN Regional Guidelines for the Implementation of International Standards related to SPS measures to address these challenges, particularly with regards to the development of regulations and procedures, improving capacity to trade in accordance with the SPS, and the use and analysis of evidence to support claims.
262. Meanwhile, food security,¹²² food safety and better nutrition remain priority concerns for ASEAN and are included among the goals of ASEAN's agricultural cooperation. Also included is the harmonisation of standards on Maximum Residue Levels, which are trading standards that set the thresholds for pesticide residue in food. To date, a total of 650 Maximum Residue Levels have been established.

¹²¹ Among them in 2015 were: (1) the Intra-ASEAN Phytosanitary Guidelines for the importation of durian fruit and coffee bean for consumption; (2) the ASEAN standards for dragon fruit, green mustard, spinach, water convolvulus, Chinese cabbage and fresh shiitake mushrooms; and (3) the Standard Operating Procedure for Responsible Movement of Live Aquatic Animals in ASEAN; and in 2016: (1) the ASEAN Harmonised Standards for Broccoli, Cauliflower, Head Lettuce, Bitter melon, and Loofah; (2) the Intra-ASEAN Guidelines for Fresh Mango *Mangifera Indica* Fruit (for consumption); and (3) the Intra-ASEAN Guidelines for Zea mays seed (for planting).

¹²² Based on the accepted definition provided by the World Food Summit in 1996, 'Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life'. For further details concerning the concept and measurement of food security see, among others, FAO (2003).

263. Based on the production-to-consumption ratio of the five key crops of rice, cassava, maize, sugarcane, and soybeans, the state of food security in the region varies (see Figure 3.23). While food security in rice and cassava have improved in the past eight years, food security in sugar, maize and soybean has declined or remained flat. The production-to-consumption ratio of rice stood at 134.8% in 2018, a steady rise from 116.1% in 2010. The regional supply of cassava likewise remains abundant, with the production-to-consumption ratio at 166.2% in 2018 from 154.8% in 2010. Furthermore, in 2018, sugar surged to 176.5% and maize stood at 100.6%, which led to them recording the highest ratios since 2010. However, soybean remains flat below 25.0%.

Figure 3.23. Food Security in ASEAN, 2010-2018



Source: AFSIS (various years).

264. Frequent disasters in the region threaten food security. To address this, the ASEAN Plus Three (APT) countries established the APT Emergency Rice Reserve in 2011,¹²³ a regional cooperation scheme wherein members contribute financial and other resources (particularly earmarked and stockpiled rice reserves) to strengthen food security in times of disasters or calamities that result in food shortages or a sudden spike in food prices. The ASEAN Plus Three Food Security Information System (AFSIS) was also established to strengthen regional food security by providing necessary information for analysis and dissemination.¹²⁴ AFSIS started as a project in 2003 and was approved as a self-sustaining mechanism by the 15th AMAF Plus Three in 2016, with a three-year preparatory stage up to 2018. Within this period, the AFSIS Structure, Financial Modality, Products and Services, and Regulations and Procedures were finalised (AFSIS, 2015: 1).

¹²³ Further information concerning the ASEAN Plus Three Emergency Rice Reserve is available on its official website at <https://www.apterr.org/index.php>.

¹²⁴ Further information concerning the AFSIS is available on its official website at <http://www.aptsis.org/>.

265. Several initiatives in the agriculture sector have been geared towards equitable, sustainable and inclusive growth, in accordance with the Strategic Plan. Part of this broader initiative is sustainable investments. In particular, at the 40th AMAF in October 2018, the ASEAN Guidelines on Promoting Responsible Investment in FAF were adopted. The Guidelines are voluntary and focus on: (1) the sustainable use of natural resources; (2) establishing clear regulatory frameworks; (3) taking a balanced approach towards the different stakeholders in the sector; and (4) creating a guiding framework and reference for the AMS, investors, and other stakeholders.
266. The utilisation of appropriate technology can contribute to productivity – and hence competitiveness – as well as sustainability. In 2017, the ASEAN Public-Private Partnership Regional Framework for Technology Development in the Food, Agriculture and Forestry Sectors was adopted by the 39th AMAF. The Public-Private Partnership Framework aims ‘to increase collaborative investments in sustainable technology development, adoption and dissemination throughout the whole value chain of the FAF sector in ASEAN’, through the creation of a predictable and efficient public-private partnership environment.¹²⁵
267. Cooperation in agricultural research and development has been sustained, particularly with regards to increasing resilience and adaptation to climate change, natural disasters and other shocks. One of these is the promotion of climate resilience through climate-smart agriculture practices. The Second Volume of ASEAN Regional Guidelines for Promoting Climate-Smart Agriculture Practices, which introduces the technical aspects of prioritised practices in climate-smart agriculture, as well as practice specific regional collaboration agreements, was also adopted by the 39th AMAF in 2017.¹²⁶

3.3.5.2. Livestock and Fisheries

268. In the ASEAN Strategic Plan of Action for Cooperation on Livestock (2016-2020), the strategic thrusts of the livestock sector are divided into four areas: (1) intra- and extra-ASEAN trade; (2) disease control and food safety; (3) sustainable productivity; and (4) support for smallholder livestock. One of the major initiatives is the Agreement on the Establishment of the ASEAN Coordinating Centre for Animal Health and Zoonoses, which all AMS and relevant stakeholders in the prevention, control and eradication of transboundary animal and zoonotic diseases in ASEAN, including Dialogue Partners and Development Partners, signed during the 38th AMAF in October 2016. The agreement aims to facilitate and provide a framework for cooperation and coordination among AMS and other stakeholders. Other notable guidelines or standards for livestock that have been adopted are: (1) the Mechanism for the ASEAN Registration of Animal Vaccines; (2) the ASEAN Animal Identification and Traceability Systems, both at the 39th AMAF in 2017; (3) the Revised ASEAN Standards on Animal Vaccines; and (4) ASEAN Good Animal Husbandry Practices.

¹²⁵ The official electronic version of ASEAN Public-Private Partnership Regional Framework for Technology Development in Food, Agriculture, and Forestry Sectors is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2012/05/18.-ASEAN-PPP-Framework-FAF.pdf>.

¹²⁶ The official electronic version of the Second Volume of ASEAN Regional Guidelines for Promoting Climate Smart Agriculture is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2012/05/19.-CSA-Guidelines-Vol-2-for-ASEAN-Website.pdf>.

269. On fisheries, illegal, unreported and unregulated (IUU) fishing continues to pose a serious threat to the sustainability of the region's fisheries resources and economic viability. Recognising this, the ASEAN Catch Documentation Scheme for Marine Capture Fisheries and the Regional Plan of Action for the Management of Fisheries Capacity were adopted to combat IUU fishing and to enhance the competitiveness of fish and fisheries products. A feasibility study also began in 2019 to examine the necessity of an ASEAN General Fisheries Policy, and to provide recommendations on potential areas of policy should the feasibility study show the need for a regional policy.

3.3.5.3. Forestry

270. On enhancing sustainable forest management and improving forest governance, the 38th AMAF Meeting in 2016 adopted the Work Plan for Forest Law Enforcement and Governance (FLEG) in ASEAN, which aims to achieve sustainable forest management to enhance the international competitiveness of ASEAN's forestry products. Further, ASEAN has reviewed and subsequently revised the ASEAN Criteria and Indicators for Sustainable Management of Tropical Forests that was adopted by the 39th AMAF Meeting in 2017.

271. Forests are also important for food security and contribute to the social aspect of sustainable forest management. In line with this, the ASEAN Guidelines for Agroforestry Development was adopted by the 40th AMAF Meeting in 2018. The guidelines aim to promote the role of agroforestry in achieving economic, environmental and social outcomes at farm, household and landscape levels. It helps guide the formulation of agroforestry policies, strategies and programmes of the AMS and private sector investments. The 40th AMAF also adopted the Manual for Assessing FLEG Implementation in AMS, which provides a practical guide on reporting and compiling data on FLEG implementation for monitoring purposes.

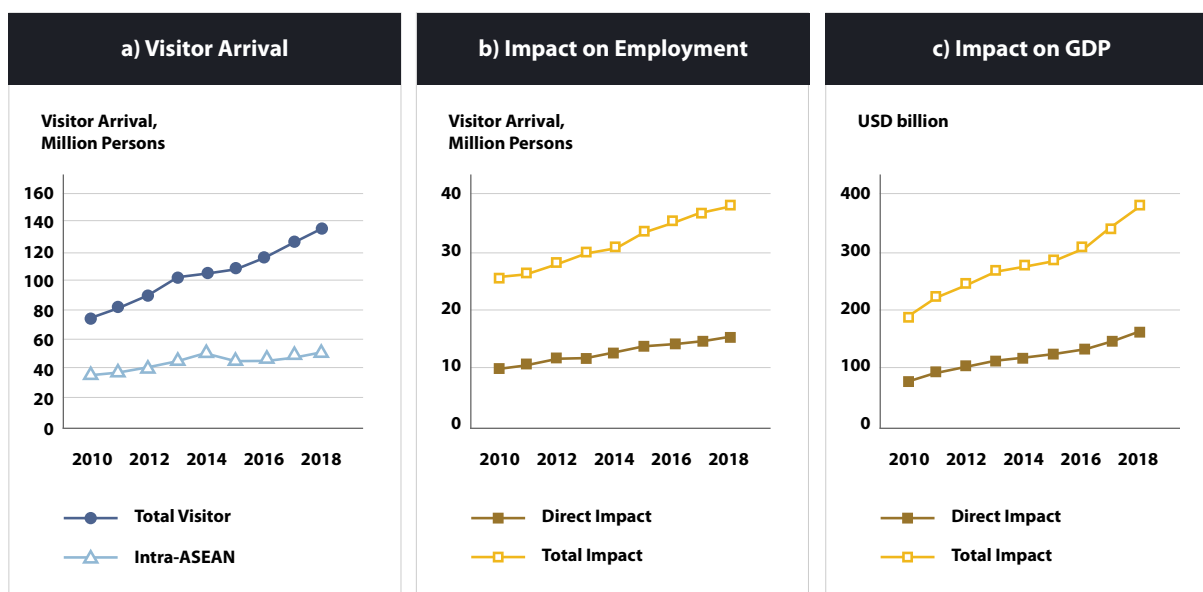
3.3.5.4. Conclusion

272. The FAF sector in ASEAN has shown significant progress, brought about by sustained growth in food production along with increased agricultural trade and investments. However, several risks – ranging from trade tensions, tightening of global financial conditions, and climate change – may pose a significant challenge to growth prospects in the sector. It is imperative for ASEAN to continue working on regional initiatives that promote the resilience and sustainability of the food system, enhance trade and market access, and ensure food and nutrition security. Achieving these shared goals will require sustained international cooperation, leveraging enhanced regional economic integration.

3.3.6. Tourism

273. As a culturally diverse and fascinating tourist destination, ASEAN continues to see an increase in visitor arrivals, from 73.8 million persons in 2010 to 135.3 million in 2018. The majority of visitor arrivals are from within the region, with intra-ASEAN tourists representing 36.7% of the total (49.7 million persons) in 2018. The growth in tourism is making a positive economic impact to the region. In 2018, the sector is estimated to have directly contributed USD 161.5 billion to the ASEAN economy (5.4% of GDP)¹²⁷ and created 15.5 million jobs, up from USD 79.3 billion and 10.9 million jobs in 2010 (see Figure 3.24).

¹²⁷ Calculated as a ratio of direct impact of tourism to nominal GDP, in %.

Figure 3.24. Impact of Tourism on the ASEAN Economy

Note: Direct Impact measures total spending on travel and tourism by residents and non-residents for business and leisure purposes. Total impact includes government collective expenditure, investments, and other economic activities related to tourism.

Sources: WTTC (2019); ASEAN Secretariat.

274. Tourism was included under Freer Flow of Services (Element A2) in the AEC Blueprint 2015, which targeted the removal of restrictions on trade in services. Under the AEC Blueprint 2025, tourism is a separate element (Element C5) that focuses on two strategic measures: (1) enhance competitiveness of ASEAN as a single tourism destination; and (2) achieve a more sustainable and inclusive pattern of ASEAN tourism. In line with this – as stipulated in the ASEAN Tourism Strategic Plan (ATSP) 2016-2025 – the vision for ASEAN tourism is to be ‘a quality tourism destination offering a unique, diverse ASEAN experience, and will be committed to responsible, sustainable, inclusive and balanced tourism development, so as to contribute significantly to the socioeconomic well-being of ASEAN people’. The ATSP 2016-2025, which built on the ATSP 2011-2015, was adopted by the ASEAN Tourism Ministers (ATM) at the 35th ASEAN Tourism Forum in January 2016. It guides the next phase of regional integration in the tourism sector based on the same strategic measures outline in the 2025 Blueprint, and also sets the targets for the sector by 2025 (see Table 3.27).

Table 3.27. Tourism Targets

Indicator	Baseline (2015)	Target by 2025
GDP contribution of ASEAN tourism	12%	15%
Share to total employment	3%	7%
Per capita spending by international tourists	USD 877	USD 1,500
Average length of stay of international tourist arrivals	6.3 nights	8 nights
Number of accommodation units	0.51 units per 100 head of population in ASEAN	0.60 units
Number of awardees for the ASEAN tourism standards	86	300
Number of community-based tourism value chain project interventions	43	300

Source: ASEAN Secretariat (2015b: ix).

- 275.** It is important for ASEAN to enhance its competitiveness as a single tourist destination through the development and adoption of tourism standards. The ATM have adopted the ASEAN tourism standards and their certification process for green hotels, homestays, spa services, public toilets, clean tourist cities, community-based tourism in 2015, as well as for meeting, incentive, convention, and exhibition (MICE) venues in 2017. Following the adoption of these standards, the ASEAN Tourism Standard Awards Ceremony has been held every year to honour relevant establishments in the region that have fulfilled the requirements of the tourism standards. In January 2018, 47 hotels, 47 MICE venues, and 23 cities received the awards, while 30 homestay establishments, 26 communities-based tourism, 44 spas, and 42 public toilets received the awards in January 2019.
- 276.** The ASEAN Mutual Recognition Arrangement on Tourism Professionals (MRA-TP)¹²⁸ was signed by the ATM in 2012 to facilitate the movement of certified tourism professionals among the AMS. There are 32 job titles covered under this MRA, classified into six divisions, ranging from housekeeping, front office, food and beverages services, and food production (which are further grouped under hotel services), to travel agencies and tour operation (grouped under travel services). By end 2017, 242 training toolboxes for all six divisions under the MRA-TP, and the trainings for Master Trainers and Master Assessors for respective divisions, have been completed. The ASEAN Tourism Professionals Registration System (www.atprs.com) – a platform to facilitate the registration of tourism professionals and MRA-TP-related stakeholders and to match tourism professionals with potential employers across the AMS – was launched in August 2016. As of 2017, over 4,000 tourism professionals were registered in the system. The system is currently being revamped for full functionality, easier and proper maintenance, as well as flexibility and options for future updates and improvements.
- 277.** In strengthening efforts to support the implementation of MRA-TP, the ASEAN MRA-TP Work Plan 2019-2023 was adopted in January 2019. The Work Plan envisions that tourism professionals in the region are certified to deliver quality tourism services, through the completion and continuation of existing initiatives and achievements, such as: improving existing tools and infrastructure, operationalising the Regional Secretariat for the Implementation of the MRA-TP, and developing regional infrastructure and capacity.
- 278.** ASEAN's tourism sector has also leveraged the key milestones in the Community's journey. The 'Visit ASEAN@50: Golden Celebration Campaign' was launched in 2017 to commemorate the 50th anniversary of ASEAN. The campaign showcased the region's diversity and promoted ASEAN as a single tourism destination. A target of 121 million international tourist arrivals was set for the campaign. With over 125 million arrivals in 2017, the actual number of visitors exceeded the target, 37.2% of which are from within the region. These amounted to tourism revenues of USD 137 billion and an average 7.98 days of stay of international tourists, also surpassing set targets (ASEAN Secretariat, 2018b: 1).

¹²⁸ Further information concerning the MRA-TP is available in the Handbook on ASEAN Mutual Recognition Arrangement for Tourism Professionals, which can be accessed from the official website of the ASEAN Secretariat at https://asean.org/storage/images/2013/economic/handbook%20mra%20tourism_opt.pdf.

279. Riding on the momentum of the Visit ASEAN@50 Campaign, the ASEAN Tourism Marketing Strategy 2017-2020 was adopted by the ASEAN National Tourism Organisations in August 2017 as an instrument to translate the ATSP into a detailed plan of tourism marketing activities for ASEAN. The ASEAN Tourism Marketing Strategy 2017-2020 explores innovative and creative approaches that provide the most value and showcases the region's story. In 2018, an ASEAN Tourism Marketing Agency was appointed to support the implementation of the aforementioned Strategy through an integrated marketing plan for social voices and themes, blogging, social media marketing, branding and website, and partnerships.
280. A big part of ASEAN's tourism vision is to ensure that the sector's development benefits the local community and environment. In 2016, the Pakse Declaration on ASEAN Roadmap for Strategic Development of Ecotourism Clusters and Tourism Corridors¹²⁹ was adopted by the ASEAN Tourism Ministers at the ASEAN Ecotourism Forum in June 2016. The Pakse Declaration aspires to coordinate efforts in developing ecotourism sites across the region by establishing ecotourism clusters and tourism corridors, and building partnerships with relevant stakeholders. Follow-ups from this declaration are currently being translated into activities under the ATSP 2016-2025.
281. ASEAN is also promoting sustainable tourism practices and products in urban and rural areas. The Guideline for ASEAN Sustainable Tourism Award was adopted in 2018, to endorse little-known destinations that fulfil ASEAN sustainability standards, thereby supporting non-traditional tourism and mitigating seasonal tourist flows. The Award also aims to instil a sense of pride in local communities, to inspire support from the local level, and to invite investments in the tourism areas. The first ASEAN Sustainable Tourism Award awarding ceremony was held in January 2018 with the theme 'nature-based tourism', with 17 institutions receiving the awards.
282. Last but not least, for continued appeal to the region, ASEAN's tourism sector has closely followed tourism trends. Recognising the growing cruise tourism industry in the region, the ASEAN Declaration on Cruise Tourism, a priority deliverable under the 2018 Singapore Chairmanship, was adopted at the 21st ASEAN Tourism Ministers Meeting on January 2018. Cruise tourism is envisioned to encourage collaboration among the AMS and cruise industry stakeholders, as well as stimulate cruise port destination-related development. At the same meeting, the Ministers also adopted the Joint Declaration on Gastronomy Tourism to develop and strengthen sustainable gastronomic tourism in the region, and an ASEAN Gastronomy Tourism Master Plan is currently being developed. Gastronomy tourism showcases local culture, heritage and food, and preserves local traditions: it is seen as integral to building destination brands. It also fosters intergenerational cultural exchange, and transforms communities into vibrant and engaging places to live, work, and visit.

¹²⁹ The official text of the Pakse Declaration on ASEAN Roadmap for Strategic Development of Ecotourism Clusters and Tourism Corridors is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2016/08/Pakse-Declaration-on-Ecotourism.pdf>.

3.3.6.1. Conclusion

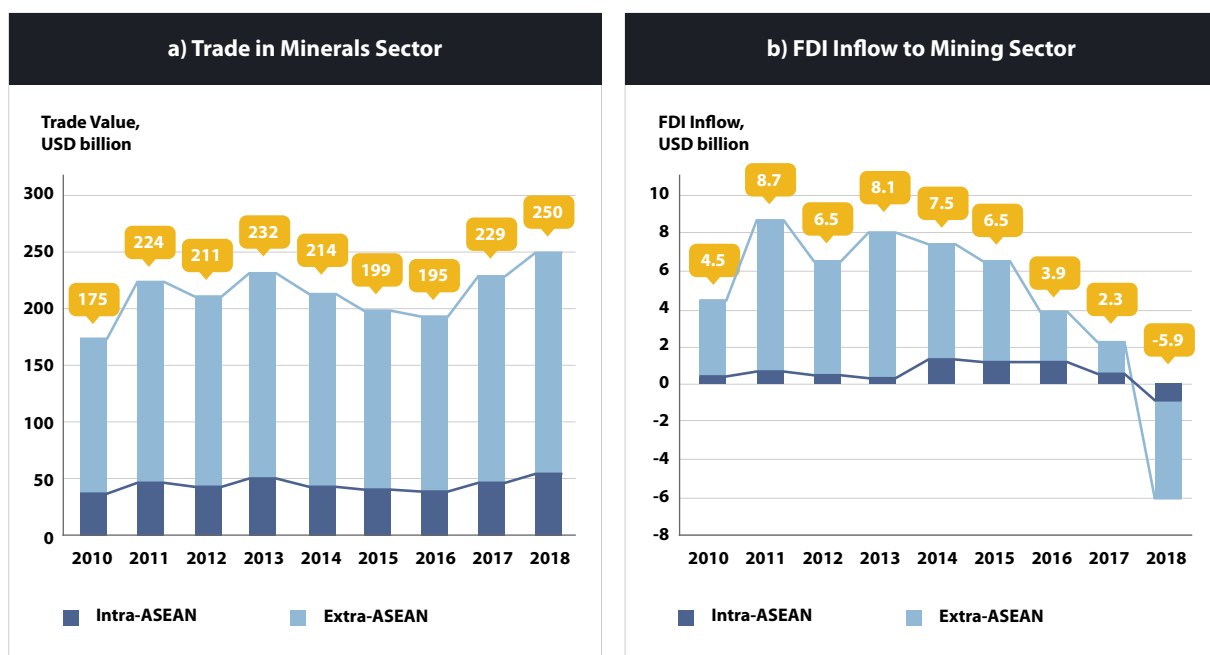
283. The tourism sector continues to demonstrate high potential in the region. ASEAN's continued focus on sustainability and community involvement will contribute to the long-term potential of the sector. The sector, however, must remain agile and responsive to emerging trends, challenges and opportunities, such as how the digital age is affecting the tourism sector, growing sustainability concerns, and non-traditional security concerns. At the same time, it is worth noting that the sector cannot grow in isolation but requires the support of other sectors, such as good connectivity – including digital connectivity – and infrastructure, and a competitive services market.

3.3.7. Minerals

284. The ASEAN region is rich in mineral resources and has vast potential for new discoveries. The minerals sector has social and economic impacts, and is a stimulant for infrastructure development. In 2018, ASEAN trade in minerals stood at 8.9% of ASEAN's total trade. However, FDI outflows from the mining sector stood at 3.8% of the ASEAN total in 2018. The vision to enhance cooperation and capacity in the minerals sector has been acknowledged by the Leaders under the ASEAN Mineral Cooperation Action Plan (AMCAP), which includes strategic measures on facilitating trade and investment, while promoting environmentally and socially sustainable development.

285. Following a prolonged sluggish period from 2013, ASEAN's trade in minerals picked up in 2017 and maintain the momentum by 9.0% growth to stand at USD 249.8 in 2018. Of this, intra-ASEAN trade constituted 20.9% of ASEAN's total trade in minerals at USD 52.3 billion. Investments in mining and quarrying also continued to decline from USD 8.1 billion in 2013, falling to a net outflow of USD 5.9 billion in 2018. On the other hand, from a low of USD 0.3 billion in 2013, intra-ASEAN inflows went up to around USD 1.3 billion in 2014-2016 before dropping to USD 0.8 billion outflow in 2018. The share of intra-ASEAN flows, while minor at 4.1% in 2013, reached 24.8% in 2017 (see Figure 3.25).

Figure 3.25. Trade and Investments in the Minerals Sector



Note: Mining refers to the mining and quarrying sector. Similarly, minerals include both mining and quarrying.

Source: Calculations by the ASEAN Secretariat.

286. AMCAP III 2016-2025 (Phase I 2016-2020)¹³⁰ was endorsed by the 5th ASEAN Ministerial Meeting on Minerals (AMMin) in September 2015. It is the third series of the AMCAP and serves as a blueprint for minerals cooperation in ASEAN until 2025. In AMCAP III, the vision is to 'create a vibrant and competitive ASEAN mineral sector for the well-being of the ASEAN people through enhancing trade and investment and strengthening cooperation and capacity for sustainable mineral development in the region'. It covers four strategic areas, namely: (1) facilitating and enhancing trade and investment in minerals; (2) promoting environmentally and socially sustainable mineral development; (3) strengthening institutional and human capacities in the ASEAN minerals sector; and (4) maintaining an efficient and up-to-date ASEAN minerals database. The Mid-Term Review of AMCAP III Phase 1 is ongoing. The results are expected to feed into the development of AMCAP III Phase 2 (2021-2025).
287. Cooperation initiatives within and beyond the region are being pursued to facilitate and enhance trade in the minerals sector and strengthen cooperation more broadly. The ASEAN Minerals Trust Fund was established in 2008 to support initiatives under AMCAP, specifically the implementation of minerals projects and activities including policy studies, feasibility studies, strategic plans, and capacity-building initiatives. The rules and procedures of the Fund were adopted in October 2015. In 2016, the five-year period for AMS contributions to the ASEAN Minerals Trust Fund initial endowment was completed and drawdowns from the it began in 2017.
288. Beyond intra-ASEAN cooperation on minerals, cooperation is also expanded to the ASEAN Plus Three (APT) partners of China, Japan and ROK. The ASEAN Senior Officials Meeting on Minerals (ASOMM Plus Three) adopted the Minerals Cooperation Work Plan 2016-2020 in November 2016. The work plan supports AMCAP III and aims to enhance trade and investment – and strengthen cooperation and capacity building – for sustainable minerals development in the APT.
289. The strengthening of the focus on sustainable mineral sector development is evident in ASEAN's recent work in the sector. The ASEAN Senior Officials Meeting on Minerals (ASOMM) agreed to establish the ASEAN Reporting Mechanism to Monitor the Adoption of Sustainability Assessment Frameworks and Tools for the Minerals Sector in 2017, to evaluate the sustainability performance and monitor the long-term progress of the minerals sector in the region, in support of sustainable mining development in ASEAN.¹³¹ The Reporting Mechanism was released in November 2017 and commenced in 2018. The first Reporting Mechanism report is expected by the next ASOMM/AMMin, which is tentatively scheduled for the end of 2019. The information gathered from the Reporting Mechanism is expected to support ASEAN's efforts to '(1) advance the regional agenda for sustainable development in the minerals sector; (2) share AMS experience and converge towards best practice on framing, realising, and assessing sustainability in minerals development; and (3) help improve the image of mining as a responsible stakeholder in the larger ASEAN Economic Community'.

¹³⁰ The official electronic version of the AMCAP III 2016-2025 (Phase I 2016-2020) is available from the official website of the ASEAN Secretariat at https://asean.org/?static_post=asean-minerals-cooperation-actin-plan-2016-2025-amcap-iii-phase-1-2016-2020.

¹³¹ The official electronic version of the ASEAN Reporting Mechanism to Monitor the Adoption of Sustainability Assessment Frameworks and Tools for the Minerals Sector is available on the official website of the ASEAN Secretariat at https://asean.org/storage/2017/12/ASEAN-Reporting-Mechanism-RM_Final1.pdf.

290. Meanwhile, the 1st ASEAN Mineral Awards were launched in November 2017, covering best practice in three categories (minerals mining, minerals processing, and minerals distribution) and a range of mineral products and processes, such as gold mining and ore processing, limestone quarrying, and copper concentrates distribution. The biennial awards aim to promote best practices and encourage higher standards in the mining industry. Eight mining companies operating in the ASEAN region were recognised, and the finalists were featured in the publication 'Sustainable Mineral Development: Best Practices in ASEAN', which documents the best practices on minerals development in the region.¹³²
291. On the ASEAN minerals database, the collection and uploading of available AMS data to the ASEAN Minerals Database Information System (AMDIS) is underway.¹³³ Subsequently, an initiative to restructure/enhance AMDIS was proposed, and the improvement of the collection of minerals-specific statistics, including coordination with the relevant sectoral bodies, is ongoing.
292. Meanwhile, the development of the repository of capacity-building materials within the existing AMDIS, to improve the effectiveness and replicability of capacity-building activities implemented under the AMCAP, has been completed, and the initial uploading of capacity-building materials was completed in 2018. Initiated in 2017, the cooperation between ASEAN and the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development has also been progressing well, while the development of a rolling ASOMM-Intergovernmental Forum Cooperation Work Plan began in 2018, with initial activities underway to assess the priorities, strengths, and gaps of the ASEAN minerals sector.

3.3.7.1. Conclusion

293. The initial phase of AMCAP has strengthened trade and investment in the minerals sector, and promoted sustainability in mineral sector development. The succeeding phase of the ASEAN cooperation in the minerals sector is directed towards capacity building and creating a more conducive environment for investment. Development of Phase 2 (2021-2025) of the AMCAP will see a move towards a more programmatic and strategic capacity building for ASEAN minerals cooperation, as well as a review of the development prospects of ASEAN minerals cooperation in the context of enhancing trade and investments in minerals. ASOMM has embarked on the preparation of a regional capacity-building programme that will be submitted to AMMin tentatively at the end of 2019. The AMCAP Phase 2 will not only seek to strengthen sustainable resource development (including on optimising added value and the use of green mining technologies) but will also aim to improve opportunities to enhance the environment for minerals trade and investment in the region.

3.3.8. Science and Technology

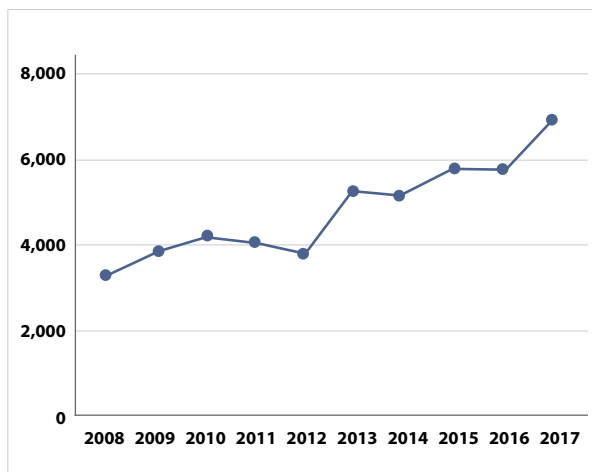
294. In terms of regional cooperation in science and technology (S&T), there are two key developments in the post-2015 ASEAN Community that are worth highlighting. The first key development is ASEAN's decision to move S&T from the ASEAN Socio-Cultural Community (ASCC) pillar to the AEC pillar, while the second is the renaming of the main S&T sectoral bodies to include the term 'innovation'.

¹³² The official electronic version of the publication is available on the official website of the ASEAN Secretariat at https://asean.org/storage/2017/12/Best-Practices-on-Sustainable-Mineral-Development-in-ASEAN_Final.pdf.

¹³³ The ASEAN minerals database is hosted by the Ministry of Energy and Mineral Resources of Republic of Indonesia, and is available online at <http://asomm.psdg.bgl.esdm.go.id/asomm/index.php>.

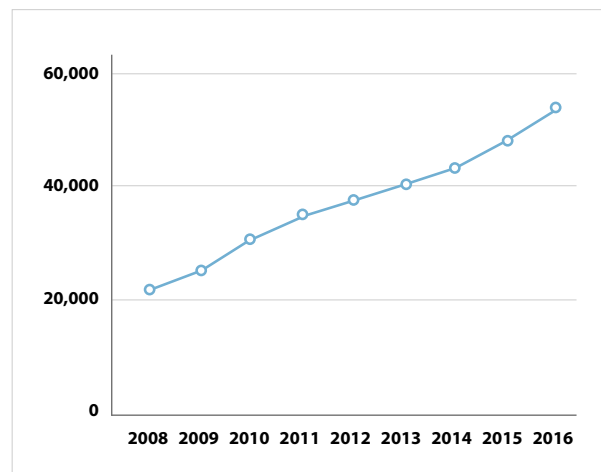
295. With regard to the first development, ASEAN's decision to move the S&T agenda from the ASCC to the AEC pillar was first made in 2009 and was accordingly reflected in the ASEAN Charter. However, as the S&T agenda still appeared under the ASCC Blueprint 2015 (2009-2015) and not in the AEC Blueprint 2015, it was agreed that progress on S&T be reported under both the AEC and ASCC pillars until 2015. The sector's full transition to the AEC pillar happened in 2015 when 'Science and Technology' was included in the AEC Blueprint 2025 as Element C9.
296. Regional cooperation activities on S&T under the ASEAN Socio-Cultural Community Blueprint 2015¹³⁴ included supporting active cooperation in research, science and technology development, and technology transfers and commercialisation along with the establishment of strong networks of scientific and technological institutions with the active participation of private sector and other relevant organisations. In short, the activities were largely focused on capacity building and networking.
297. Unfortunately, data is not sufficient to draw robust observations on human resource development trends in S&T in the region. KPIs for S&T on human resources in research and development (R&D) are not widely and regularly available for all AMS, such as the number of R&D personnel and scientists, engineers, and researchers. However, where information is available, the number of people engaged in R&D as a percentage of the total population has been growing for all AMS.
298. KPIs on S&T outputs in the form of patent applications and scientific and technical journal publications, meanwhile, show promise. The graphs below show the growing number of patent applications by residents and of scientific and technical publications, particularly in the course of the last decade.

Figure 3.26. Number of Patent Applications in ASEAN



Source: World Bank (n.d.f).

Figure 3.27. Number of Scientific and Technical Journal Articles Published in ASEAN



¹³⁴ Further information concerning the ASEAN Socio-Cultural Community Blueprint 2015 is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/archive/5187-19.pdf>.

299. On R&D expenditures, while data is incomplete, where data is available, it can be noted that AMS tend to spend less than 1% of their GDP on R&D, except for Singapore, which for the past 20 years has been spending over 1%, or even more than 2%, of its GDP for some years (World Bank, n.d.f.). When it comes to allocating more economic resources and putting in place policies to support R&D, S&T, and innovation, indeed, there is much more that can be done.
300. Since its inclusion under the AEC pillar, S&T cooperation, which is guided by the AEC Blueprint 2025 and the ASEAN Plan of Action on Science, Technology and Innovation (APASTI) 2016-2025 and its implementation plan,¹³⁵ is now nuanced by the recognition of S&T and innovation's importance in sustaining economic growth and global competitiveness. The APASTI 2016-2025 consists of four strategic components and thrusts, 15 action lines, and 43 expected outputs. The four strategic components and their thrusts (in parentheses) are as follows:
- 1) Public-private collaboration (strengthen strategic collaboration among academia, research institutions, networks of centres of excellence, and the private sector to create an effective ecosystem for capability development, technology transfer and commercialisation);
 - 2) Talent mobility, people-to-people connectivity, and Inclusiveness (enhance mobility of scientists and researchers, people-to-people connectivity and strengthen engagement of women and youth in science, technology, and innovation (STI));
 - 3) Enterprises support (establish innovative system and smart partnership with dialogue and other partners to nurture STI enterprises to support MSMEs, nurture knowledge creation and STI applications to raise competitiveness); and
 - 4) Public awareness and STI enculturation (raise public awareness and strengthen STI enculturation to enhance ASEAN science and technology cooperation).
301. While a number of action lines and outputs stated in the implementation plan of the APASTI 2016-2025 remain focused on capacity building and networking (under strategic components 2 and 4), quite a considerable part of the work plan (e.g. six out of 15, or 40% of action lines, and 26 out of 43, or 40% of expected outputs) are geared towards the two other strategic components that take on a more economic slant (strategic components 1 and 3).
302. In 2017 and 2018, the ASEAN Committee on Science and Technology (COST) approved USD 1 million worth of project proposals under the ASEAN Science, Technology, and Innovation Fund,¹³⁶ through their 2017 inaugural Call for Proposals and second call in 2018. The Call for Proposals welcomed proposals addressing the challenges and development gaps in the following six areas: (1) energy and water; (2) food

¹³⁵The official versions of the APASTI and APASTI Implementation Plan are available on the ASEAN website at <https://asean.org/storage/2017/10/01-APASTI-2016-2025-FINAL.pdf> and <https://asean.org/wp-content/uploads/2017/10/02-APASTI-2016-2025-Implementation-Plan-FINAL.pdf>.

¹³⁶The predecessor of the ASEAN Science Technology and Innovation Fund – the ASEAN Trust Fund for Science and Technology to promote Regional Cooperation in Science and Technology, later renamed into the ASEAN Science Fund – was established by the ASEAN Ministers for Science and Technology in January 1989 with initial contributions from each AMS and the New Zealand government. In 2000, AMS agreed to augment the ASEAN Science Fund to reach a target contribution of USD 1 million each, completing their contributions to the Fund in annual payments over a period of ten years. In 2014, the Ministers adopted amendments to the ASF guidelines that further expanded its coverage to include innovation-driven initiatives and agreed for the ASF to be rebranded as the ASEAN Science Technology and Innovation Fund. According to the APASTI 2016-2025 Implementation Plan, the new ASEAN Science Technology and Innovation Guidelines and the completion of the augmentation of the fund in June 2015 is deemed sufficient at the time to support APASTI initiatives that require substantial funding, but a new round of contributions may be called once the Fund's balance falls to a certain level.

and biotechnology; (3) biomedical and healthcare; (4) climate change adaptation and mitigation; (5) ICT applications; (6) and relevant enabling innovation for science and technology. In line with the thrusts of the APASTI, the call also encouraged proposals involving the engagement of young and would-be entrepreneurs, and of the private sector and third parties as an added advantage.

- 303.** Moreover, four new ASEAN S&T networks, namely the ASEAN Foresight Alliance (led by Malaysia), ASEAN Young Scientists Network (led by Malaysia), ASEAN Network on Metallurgy and Metallic Materials (led by Singapore), and ASEAN Network on Sustainable and Environmental Materials (led by Thailand)¹³⁷ have been established to date during the implementation of the APASTI 2016-2025. The APASTI also hopes to 'enhance and sustain the utilisation' of existing S&T Networks, such as the ASEAN Science and Technology Network.¹³⁸
- 304.** Meanwhile, cooperation in STI within ASEAN and with various other ASEAN sectors, dialogue, and other partners continues to be strengthened through various initiatives and programmes. One such initiative is the Rising STI Networking for Innovative ASEAN, also known as the 'ASEAN-NEXT', which has already been held thrice between 2017 and 2019 (once a year). ASEAN-NEXT is a platform to promote collaboration with Dialogue Partners and provide opportunities to develop/improve STI usage in the region.¹³⁹
- 305.** The second key development for the sector post-2015 is the decision in 2018 to rename the four-decade-old ministerial and senior official bodies overseeing S&T matters to include the term 'innovation' – the Committee on Science, Technology, and Innovation (COSTI, formerly called COST), and the ASEAN Ministerial Meeting on Science, Technology, and Innovation (AMMSTI, formerly called AMMST). These changes have been officially reflected in the revised Annex 1 of the ASEAN Charter as of early 2019. More than just a change in name, the inclusion of 'innovation' in these ASEAN bodies' names embodies the reinvigoration of the S&T agenda towards productivity-driven growth and innovation.
- 306.** Demonstrating this stronger focus on innovation, the ASEAN Declaration on Innovation was endorsed at the 17th AMMST and intersessionally by the AEC Council, and adopted by ASEAN Leaders at the 31st ASEAN Summit in 2017. The Declaration aims to promote and reward innovative firms and businesses that generate employment opportunities; enhance MSMEs' policy and regulatory environment; foster a hospitable intra-ASEAN policy environment for technology transfer, adaptation and innovative research, as well as innovation ecosystem; and harness STI for sustainable development, among others. Work is also ongoing on the development of an ASEAN Innovation Roadmap, which is expected to be completed in 2019 and is a priority economic deliverable under Thailand's Chairmanship. Likewise, initiatives demonstrating cross-sectoral applications of STI, such as the setting up of the ASEAN High Performance Computing Facilities, the ASEAN Diagnostic Development Initiative and the ASEAN Centre on Microbial Utilisation are also underway.

¹³⁷ The official electronic version of the ASEAN Reporting Mechanism to Monitor the Adoption of Sustainability Assessment Frameworks and Tools for the Minerals Sector is available on the official website of the ASEAN Secretariat at https://asean.org/storage/2017/12/ASEAN-Reporting-Mechanism-RM_Final1.pdf.

¹³⁸ Further information concerning the ASEAN Science and Technology Network is available on its official website at <http://astnet.asean.org>.

¹³⁹ Further information concerning the ASEAN-NEXT is available on its official website at <https://aseannext.net/>.

¹⁴⁰ Annex 1 of the ASEAN Charter lists ASEAN Sectoral Ministerial Bodies. The official electronic version of the ASEAN Charter is available in the official website of the ASEAN Secretariat at <https://asean.org/storage/images/archive/publications/ASEAN-Charter.pdf>

3.3.7.1. Conclusion

307. The two major developments for ASEAN's S&T agenda under ASEAN's post-2015 vision, namely shifting S&T from the ASCC to the AEC pillar and being more explicit in the S&T agenda's focus on innovation, were timely, if not prescient, in the midst of the current emerging and expanding work of ASEAN – particularly of the AEC – related to the digital economy and the 4th Industrial Revolution.
308. The challenge for ASEAN's S&T agenda and its actors is how to translate the two above-mentioned major developments for the sector into concrete outcomes that put economic growth and global competitiveness as their main objectives, supplementing or complementing the already existing and long-running human resource development-related flagship initiatives of the sector. Another challenge is how these developments should also translate into the roles that officials and other regional stakeholders play in the regional discourse on STI and the future trajectories of industrial revolution. To address such challenges, COSTI held a retreat in 2019 to discuss topics related to the 4IR and to brainstorm on potential areas of interventions or work which they could support.

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

309. The AEC Blueprint 2025 seeks to significantly enhance the third characteristic of the AEC Blueprint 2015 on 'Equitable Economic Development' by deepening existing elements and incorporating other key elements. The fourth characteristic of the AEC Blueprint 2025 is, therefore, focused on promoting a resilient, inclusive, people-oriented, and people-centred ASEAN. The characteristics covers the following elements: (1) strengthening the role of micro, small, and medium enterprises; (2) strengthening the role of the private sector; (3) public-private partnership; (4) narrowing the development gap; and (5) contribution of stakeholders to regional integration efforts.

3.4.1. Strengthening the Role of Micro, Small, and Medium Enterprises

310. Micro, small and medium enterprises (MSMEs) play a significant role in the region, as they form the backbone of AMS economies and contribute significantly to job creation, economic growth, value creation, and innovation. While the total number of MSMEs may vary from one AMS to another, they make up more than 95% of the total enterprises in all of the AMS with the exception of Myanmar (87.4%). MSMEs are also the largest source of domestic employment across all economic sectors ranging from 46.8% to 97.0%. The contribution of these economic actors to exports ranges from around 9% to 37% (ASEAN Secretariat, 2017: 4-10).

- 311.** Element D1 of the AEC Blueprint 2025 makes specific reference in its economic integration agenda to the importance of strengthening MSME in an effort to create a community that is resilient, inclusive, people-oriented, and people-centred. This is in continuation of the various efforts undertaken under the previous AEC Blueprint 2015, which saw the implementation of several measures such as the ASEAN Market Place,¹⁴¹ ASEAN SME Credit Rating Methodology,¹⁴² ASEAN SME Service Centre,¹⁴³ and ASEAN Common Curriculum for Entrepreneurship.¹⁴⁴
- 312.** With the launch of the new AEC Blueprint 2025, the MSME agenda will be driven by the Strategic Action Plan on SME Development (SAPSMED) 2016-2025. The objective is to create globally competitive, resilient and innovative SMEs, seamlessly integrated to the ASEAN community and regional value chains, by 2025. To that end, five strategic measures have been identified in the SAPSMED 2016-2025: (1) promote productivity, technology, and innovation; (2) increase access to finance; (3) enhance market access and internationalisation; (4) enhance the policy and regulatory environment; and (5) promote entrepreneurship and human capital development. Several activities have been planned and implemented under the different strategic measures.
- 313.** With regard to the promotion of productivity, technology and innovation, the ‘Study on MSME Participation in the Digital Economy in ASEAN: Nurturing ASEAN MSMEs to Embrace Digital Adoption’ was conducted, in collaboration with the Master Plan on ASEAN Connectivity 2025 and ERIA, in 2018 to review the level of MSME participation in the digital economy ERIA. The study consisted of – among others – a survey among the SME agencies of respective AMS (through the focal points of the ASEAN Coordinating Committee on MSMEs, or ACCMSME) as a first step to assessing the current status of digital adoption and capabilities of MSMEs in ASEAN. The study identifies five main challenges faced by MSMEs in their digitalisation journey: (1) limited knowledge of digitalisation; (2) reluctance to change business processes; (3) shortage of human resources familiar with digital technology; (4) collaboration between governments and digital platforms; and (5) difficulty of communicating with MSMEs in need of support.¹⁴⁵
- 314.** Access to finance remains a major challenge facing MSMEs in the region, a critical issue that affects both their growth and sustainability. Statistics show that the share of SME loans to total business loans across AMS is mostly below 25% (ASEAN Secretariat, 2017: 10). In an effort to increase access to finance for MSMEs through non-traditional financing, a report on Facilitating Equity Crowdfunding in the ASEAN region was published in August 2017, with support from the United States Agency for International Development (USAID). The report studied Malaysia and Thailand as reference frameworks, alongside Australia and the United Kingdom. With additional support from USAID, and in partnership with the ASEAN Business Advisory Council (ASEAN-BAC), the Handbook for MSME Access to Alternative Sources of Finance was developed in 2017 and disseminated to the MSMEs for their reference.

¹⁴¹ For further information concerning the ASEAN Market Place, see, among others, ASEAN Secretariat (2015c: 86-87).

¹⁴² For further information concerning the ASEAN SME Credit Rating Methodology, see, among others, ASEAN Secretariat (2015c: 86).

¹⁴³ Further information concerning the ASEAN SME Service Center is available on its official website at <http://www.aseansme.org/home>.

¹⁴⁴ For further information concerning the ASEAN Common Curriculum for Entrepreneurship see, among others, ASEAN Secretariat (2015c: 87).

¹⁴⁵ The official electronic version of the Study is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2012/05/Study-on-MSME-Participation-in-the-Digital-Economy-in-ASEAN.pdf>.

- 315.** In an effort to enhance the policy and regulatory environment, in 2016, as part of the Lao PDR Chairmanship deliverables, the AEM adopted the Report and Work Programme on Starting a Business in ASEAN (2016-2025). According to the World Bank's 'Doing Business 2019',¹⁴⁶ the time required to start a business in the region ranges from as little as 1.5 days to as long as 174 days. The Report on Starting a Business in ASEAN identifies three main obstacles to the smooth starting of a business, namely restrictive regulations, complex processes, and third-party involvement. The objective of the Work Programme on Starting a Business in ASEAN is, therefore, to encourage MSMEs to register their business by enhancing the policy and regulatory environment through streamlining of processes involved in obtaining business registration, as well as licences and permits. The Work Programme covers four components: (1) enhance transparency and improve orientation on administrative procedures; (2) develop effective coordination among government agencies involved in the business start-up processes including one-stop agencies/single agency; (3) promote simplification and rationalisation of business registration procedures and upgrading of national company registers; and (4) strengthen ASEAN regional cooperation, including development of ASEAN principles, registries, common company registration procedures, and benchmarks.
- 316.** As a follow up, the ASEAN Regional Principles for Good Business Registration Practices have been developed and endorsed by the 49th AEM Meeting in 2017. By providing common reference and accompanying targets for each of the seven principles, the Principles serve to guide the implementation of the Work Programme of Starting a Business in ASEAN.
- 317.** A few initiatives were also introduced to promote market access and internationalisation as well as entrepreneurship and human capital development. To facilitate the scaling up of MSMEs through mentorship, the ASEAN-BAC launched the ASEAN Mentorship for Entrepreneurs Network in November 2017 as a legacy project. The initiative aims to promote the integration and acceleration of MSME access to mentorship, money, and markets, which will empower them to scale up offline and online. ASEAN-BAC has also launched ASEAN Mentorship Entrepreneurs Network in Australia in partnership with the Australia-ASEAN Business Council to facilitate the movement of start-ups between AMS and Australia. A similar initiative was also launched in ROK in the same year to strengthen mentorship to MSMEs, particularly in priority sectors such as the digital economy, trade and industry, and agripreneurship.
- 318.** A policy report on strengthening women's entrepreneurship in ASEAN ('ASEAN 2018 Boosting Competitiveness and Inclusive Growth') was published in September 2017.¹⁴⁷ A joint initiative of the OECD and the ACCMSME, with input from the ASEAN Committee on Women, the ASEAN Women Entrepreneurs' Network, and funded by the Government of Canada, the report indicates the need for ASEAN to improve labour market outcomes for women and to drive further progress on women's entrepreneurship at national and regional levels. This can be achieved, among others, by closing remaining gender gaps in education, enhancing gender mainstreaming of public procurement policies, export promotion activities, and supply-chain initiatives, as well as creating greater gender-responsiveness of financing programmes and providers.

¹⁴⁶ The Doing Business project by the World Bank provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level. Economies are ranked on their ease of doing business, from 1–190. The rankings are determined by sorting the aggregate scores (formerly called distance to frontier) on 10 topics, each consisting of several indicators, giving equal weight to each topic.

¹⁴⁷ The official electronic version of the report is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2018/08/Report-ASEAN-SME-Policy-Index-2018.pdf>.

- 319.** In 2017, the ACCMSME, in partnership with Japan through AEM-Ministry of Economy, Trade, and Industry of Japan's Economic and Industrial Cooperation Committee, produced a book entitled 'Future of ASEAN: 50 Success Stories of Internationalisation of ASEAN MSME', which profiles 50 MSMEs that have successfully accessed international markets, either through export of goods or services, having foreign affiliates or branches, or having consignees for production or outsourcing of services overseas.¹⁴⁸ The objective is to share best practice among AMS in developing and promoting MSMEs with a global business outlook.
- 320.** ASEAN has also recognised the role of inclusive business in fostering MSME development. In this regard, the ASEAN Inclusive Business Framework was endorsed by the Ministers at the 49th AEM Meeting in 2017 to contribute towards promoting inclusive growth of MSMEs in the region. It would achieve this by creating an enabling environment for inclusive business in AMS via conducive rules and regulations, enhanced access to financial resources, awareness raising and education, and capacity building for both businessmen and women, as well as poor communities.¹⁴⁹ The Inclusive Business initiative is based on the G20 framework that promotes the adoption of business models that provide goods, services and livelihoods on a commercially viable basis to people at the 'bottom of the pyramid'.
- 321.** Since then, the ACCMSME has collaborated with the Inclusive Business Action Network¹⁵⁰ in developing a capacity-building programme on inclusive business policy, notably on determining how inclusive business can contribute towards the objectives of the SAPSMED 2016-2025. The 18-month Programme entails several activities such as workshops called the Inclusive Business Policy Forum, webinars, an online peer community, company visits, public-private policy dialogues, and national consultancies to develop capacity in formulating national and regional Inclusive Business strategies and policy recommendations. In addition, the ASEAN Inclusive Business Awards were launched in 2017 to recognise innovative business models that create significant social and economic impact in the region.¹⁵¹ In 2018, the award was renamed the SME Excellence in Corporate Social Responsibility.¹⁵²

¹⁴⁸ The official electronic version of the publication is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2017/11/Future-of-ASEAN-50-Success-Stories-of-Internationalization-of-ASEAN-MSMEs-FINAL-LowRes.pdf>.

¹⁴⁹ The official electronic version of the ASEAN Inclusive Business Framework is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2012/05/ASEAN-Inclusive-Business-Framework.pdf>.

¹⁵⁰ The Inclusive Business Action Network is a global initiative supporting the scaling and replication of inclusive business models. It is funded by the German Federal Ministry for Economic Cooperation and Development and the European Union. It is implemented by the German Development Agency (GIZ).

¹⁵¹ Erikagen Inc., a company that owns and operates a chain of drugstores in the Philippines, was declared the winner of the first ASEAN Inclusive Business Awards in recognition of its exemplary Inclusive Business model that provides low-cost generic medicines and health services. Further information concerning the ASEAN Inclusive Business Awards is available on the official website of Inclusive Action Business Network at <https://www.inclusivebusiness.net/ib-voices/asean-inclusive-business-awards>.

¹⁵² In 2018, the award was won by Coffee for Peace, a company that promotes peace through coffee.

- 322.** Regional cooperation in MSMEs has also significantly contributed towards enhancing and building the capacity of MSMEs in the region. Launched on 31 May 2016, the ASEAN SME Academy is one of the initiatives through which these capacity-building programmes are being provided.¹⁵³ The Academy provides online access to business training and resources specially developed and tailored to meet the needs of the MSMEs operating in ASEAN. It has attracted an increasing number of visitors and users, which attests to the relevance and attractiveness of the platform. As of April 2019, the number of registered users stood at 5,160, with 4,696 of them actively using the Academy, a significant increase from December 2016 which saw just 1,873 registered users and only 520 active users. The number of active users who have completed at least one course from the Academy has also increased significantly during the same period, from 135 in December 2016 to 1,413 in April 2019. This achievement is attributed, among others, to promotional activities on social media, web seminars, and face-to-face interaction in the form of trainings and workshops.
- 323.** In recognising the role of effective SME policies in supporting SME development and competitiveness, an important milestone has been achieved through the publication of the 'ASEAN SME Policy Index 2018: Boosting Competitiveness and Inclusive Growth', which was pursued in collaboration between the ACCMSME, OECD, and ERIA.¹⁵⁴ Aside from mapping the depth and nature of SME policies across ASEAN, the report provides a framework for assessing and benchmarking progress in the design and implementation of SME policies across eight policy areas (or 'dimensions'), developed in reference to the SAPSMED 2016-2025, as well as the more generic SME Policy Index framework developed by the OECD.¹⁵⁵ The index will be published every three and four years and will, therefore, be monitored closely to complement the outcome monitoring of the SAPSMED 2016-2025, subject, however, to the consistency of the methodology being used.
- 324.** The 2018 ASEAN SME Policy Index finds that MSMEs in ASEAN are mostly involved in labour-intensive and low value-added sectors of the economy, particularly retail, trade, and agricultural activities. As a result, while they account for a high share of employment, their share of gross value added is relatively low in most countries. The report also highlights that proactive MSME development policies are being pursued in the region, with seven AMS having adopted multi-year SME strategies. It is also noteworthy that the goals of the SAPSMED 2016-2025, though with different level of prioritisation, are reflected in these strategies, indicating alignment between national and regional-level policies.

¹⁵³ The ASEAN SME Academy was established by the US-ASEAN Business Alliance for Competitive SMEs and ACCMSME under the ASEAN Connectivity through Trade and Investment (US-ACTI) project. At the completion/end of the US-ACTI project, management of the Academy was transferred to the Bureau of Small and Medium Enterprise Development, Department of Trade and Industry of the Philippines, to serve as its administrator on behalf of ACCMSME, with additional support provided by the Philippine Trade Training Centre Global MSME Academy and the US-ASEAN Business Council Institute. Further information concerning the ASEAN SME Academy is available on its official website at <https://www.asean-sme-academy.org/>.

¹⁵⁴ The official electronic version of the ASEAN SME Policy Index 2018 is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2018/08/Report-ASEAN-SME-Policy-Index-2018.pdf>.

¹⁵⁵ The 2018 ASEAN SME Policy Index assessment framework adopts a significantly different approach from the one used for the pilot Index 2014. The latter, while also comprising eight dimensions, examines different policy areas and covers fewer and different indicators.

325. The scores of each AMS for each of the eight dimensions are presented in Table 3.28. The region has done best on measures to enhance access to markets and internationalisation (4.55), promotion of entrepreneurial education and skills (4.27), and institutional framework (4.20). On the other hand, one dimension in which the region has scored the lowest are measures to promote social enterprises and inclusive SMEs (2.77). The scores vary considerably across AMS, with Singapore and Malaysia registering the highest scores in most dimensions. This indicates the strong correlation between MSME policy development and the overall level of economic development.

Table 3.28. ASEAN SME Policy Index 2018 Scores

	BN	KH	IN	LA	MY	MM	PH	SG	TH	VN	Median
1. Productivity, Technology and Innovation	3.37	2.62	4.14	2.76	5.06	2.38	4.08	5.84	4.97	3.48	3.78
2. Environmental Policies and SMEs	2.04	1.88	3.28	1.94	5.08	1.72	3.75	5.3	4.29	3.63	3.45
3. Access to Finance	4.38	2.89	4.58	2.36	5.35	1.83	3.93	5.69	4.87	3.81	4.15
4. Access to Market and Internationalisation	3.41	2.69	5.21	2.45	5.43	2.46	4.95	5.94	5.41	4.15	4.55
5. Institutional Framework	4.01	2.55	4.35	2.89	5.86	2.17	4.44	5.85	4.88	4.05	4.20
6. Legislation, Regulation and Tax	3.69	2.31	3.49	2.4	4.71	2.23	3.36	5.52	3.74	3.32	3.43
7. Entrepreneurial Education and Skills	4.06	2.54	4.52	2.29	4.58	2.38	4.5	5.36	4.5	2.87	4.27
8. Social Enterprises and Inclusive Entrepreneurship	2.33	2.35	3.22	2.05	4.00	1.71	3.65	3.96	3.1	2.43	2.77

Note: The 2018 ASEAN SME Policy Index assessment covers eight dimensions and 25 sub-dimensions. The sub-dimensions are further divided into thematic blocks, each with its own set of indicators. The thematic blocks are typically broken down into three components, representing different stages of the policy cycle: Planning and Design, Implementation and Monitoring and Evaluation.

Source: OECD and ERIA (2018: 39-44).

Conclusion

326. The strategic measures of the SAPSMED 2016-2025 indicate the ambitious vision of MSME cooperation in the region. However, as indicated by the ASEAN SME Policy Index 2018, AMS still vary in terms of the level of development of MSMEs and the types of existing policies and enabling environment supporting them. To this end, the sharing of best practices and other capacity-building initiatives remain important to close the gaps across AMS; for the purpose of efficiency, the use of existing platforms should be optimised. There is also room for expanded regional cooperation that goes beyond studies/reports or adoption of guidelines and frameworks to really focus on implementation of concrete initiatives under the five strategic measures identified in the SAPSMED 2016-2025. At the same time, the advent of the Fourth Industrial Revolution may necessitate ASEAN to readjust some approaches in its MSMEs regional cooperation so as to allow the region to take advantage of the opportunities presented by – and help MSMEs adapt to – new technologies. Beyond MSME-specific initiatives and strategies, there is also a need to better mainstream MSME interests and concerns across other areas of cooperation in ASEAN such as in e-commerce, trade facilitation, and movement of natural persons, among others.

3.4.2. Strengthening the Role of the Private Sector

327. The AEC Blueprint 2025 underscores the need for a more inclusive ASEAN with greater involvement by its stakeholders (including the private sector) and their contributions to ASEAN's economic integration efforts. Characteristic D (A Resilient, Inclusive, People-Oriented and People-Centred ASEAN) of the Blueprint seeks to enhance the third characteristic of the AEC Blueprint 2015 on 'Equitable Economic Development' by deepening existing elements and other considerations. This sub-section looks at whether the engagement of private sector in the AEC has deepened over time.

3.4.2.1. Public-Private Engagement

328. The role of the private sector in ASEAN economic integration is captured under Element D2 (Strengthening the Role of the Private Sector) of the AEC Blueprint 2025, which emphasises that 'greater involvement of the private sector and more structure participation will be beneficial to the achievement of ASEAN goals'. Element D2 identifies two key strategic measures, namely: (1) the implementation of a more inclusive and consultative process involving the private sector; and (2) the enhancement of the role of the ASEAN Business Advisory Council (ASEAN-BAC), the apex private sector body of ASEAN.

329. Since the implementation of the AEC Blueprint, ASEAN's engagements with the private sector have not only increased in number, but also improved in structure. Commitment to the improvement of ASEAN's engagement with the private sector and other stakeholders over the last few years is evident in the institutionalisation of a dedicated division at the ASEAN Secretariat dealing with these stakeholders. The Enterprise and Stakeholders Engagement Division under the Market Integration Directorate of the ASEAN Secretariat was established as part of the effort to strengthen the ASEAN Secretariat in support of the ASEAN Community Vision 2025. The Division has been playing a pivotal role in coordinating and facilitating private sector engagement with different AEC sectoral bodies.

330. ASEAN's overall priority in engaging the private sector is highlighted in the Rules of Procedures for Private Sector Engagement under the AEC (hereafter referred to the 'RoP'). The document specifies the objectives of ASEAN's public-private sector engagement as follows: (1) to reduce the gap of understanding of the private sector and the general public on what ASEAN as a collective regional body and the respective AMS are doing towards the realisation of the AEC Blueprint 2025; (2) to promote intra-ASEAN and global trade and investment; (3) to substantively reduce current and future trade impediments faced by business enterprises; and (4) to encourage better coordination and complementation among relevant private business sector entities in engendering concrete and priority policy recommendations and projects in support of the AEC.¹⁵⁶

331. From 2016 to 2018, there were a total of 144 ASEAN's official engagements with the private sector on the AEC. Of these, three involved ASEAN-BAC's direct interface with the ASEAN Leaders,¹⁵⁷ which is a regular, annual, meeting between the two, 23 involved the AEM and various business councils and/or entities, including those as part of the AEM and Dialogue Partner Consultations, and a total of 118 engagements between private sector entities and other ASEAN sectoral bodies at ministerial and official levels (see Table 3.29).

¹⁵⁶ Further discussion on the RoP is provided in paragraphs 333-334 of this sub-section.

¹⁵⁷ In addition to these, there was also one direct interface between ASEAN-BAC and the ASEAN Plus Three Leaders in 2017.

- 332.** Over these three years, the total number of ASEAN's official engagements with the private sector increased from 38 in 2016 to 50 in 2017, and then hit 56 in 2018. The AEM took up the largest number of AEC-related ministerial and sectoral bodies' engagements with the private sector, followed by the ASEAN Senior Officials Meeting on Minerals (including ASOMM Plus 3), the ASEAN Cosmetics Committee, the Automotive Product Working Group, the Traditional Medicine and Health Supplement Product Working Group, Air Transport Working Group, Maritime Transport Working Group, Transport Facilitation Working Group, and the ASEAN Working Group on Intellectual Property Cooperation. In addition to regular consultation with ASEAN's own business council (ASEAN-BAC), the AEM also held regular dialogues with official business councils of its Dialogue Partners, such as Canada-ASEAN Business Council, US-ASEAN Business Council, and the East Asia Business Council.

Table 3.29. Private Sector Engagement on the AEC, 2016-2018

No	ASEAN Bodies	Number of Engagements			
		2016	2017	2018	Total
1.	ASEAN Leaders	1	1	1	3
2.	ASEAN Plus Three Leaders	0	1	0	1
3.	AEM, including AEM – Dialogue Partner Consultations	6	8	9	23
4.	SEOM	0	0	1	1
5.	ASEAN Trade Facilitation Joint Consultative Committee	0	0	1	1
6.	Coordinating Committee on Customs	1	2	2	5
7.	ASEAN Directors-General of Customs	0	1	0	1
8.	Customs Procedures and Trade Facilitation Working Group	1	0	0	1
9.	ASEAN Customs Enforcement and Compliance Working Group	0	1	0	1
10.	ASEAN Consultative Committee for Standards and Quality	0	0	1	1
11.	Automotive Product Working Group	2	2	2	6
12.	Prepared Food Product Working Group	0	0	1	1
13.	ASEAN Experts Group on Competition	0	1	0	1
14.	Pharmaceutical Product Working Group	2	2	1	5
15.	ASEAN Cosmetic Committee	2	2	2	6
16.	Joint Sectoral Committee for Electrical and Electronic Equipment	0	0	2	2
17.	Traditional Medicine and Health Supplement Product Working Group	2	2	2	6
18.	ASEAN Working Group on Intellectual Property Cooperation	2	2	1	5
19.	ASEAN Coordinating Committee on Micro, Small, and Medium Enterprises	0	1	2	3
20.	ASEAN MSME Advisory Board	1	1	1	3
21.	ASEAN Transport Ministers	1	1	1	3
22.	Senior Transport Officials Meeting	0	0	1	1
23.	Maritime Transport Working Group	2	2	2	6
24.	Air Transport Working Group	2	2	2	6
25.	Transport Facilitation Working Group	2	2	2	6
26.	ASEAN Telecommunication and IT Ministers Meeting	0	0	1	1
27.	ASEAN Telecommunications and Information Technology Senior Officials Meeting	2	1	1	4
28.	ASEAN Telecommunication Regulators Council	1	1	1	3
29.	ASEAN Coordinating Committee on E-Commerce	0	1	0	1
30.	ASEAN Tourism Ministers Meeting	0	1	1	2
31.	National Tourism Organisations	1	2	1	4
32.	ASEAN Ministers on Energy Meeting	1	0	1	2
33.	Senior Officials Meeting on Energy	1	0	0	1
34.	ASEAN Ministerial Meeting on Agriculture and Forestry	0	0	1	1
35.	Senior Officials Meeting – ASEAN Ministerial Meeting on Agriculture and Forestry	0	0	1	1
36.	Expert Working Group on Maximum Residue Limits	0	1	0	1
37.	ASEAN Working Group – Halal Food	0	0	1	1
38.	ASEAN Senior Officials Meeting on Minerals, including Plus Three	0	4	3	7
39.	Working Group on Trade and Investment on Minerals	0	1	1	2
40.	ASEAN Secretariat	1	1	3	5
Total		38	50	56	144

Source: ASEAN Secretariat.

- 333.** ASEAN has continued to work on improving the quality of stakeholder engagement. Efforts to improve the quality of AEC-related ministerial and sectoral bodies' engagement with the private sector are evident in two broad initiatives: (1) the development of the RoP for Private Sector Engagement under the AEC; and (2) the organisation of the AEC Dialogue.
- 334.** Initially endorsed at the 43rd AEM Meeting that took place in Manado, Indonesia, on 10-11 August 2011, and later revised in 2017, the RoP were developed in order to ensure that engagement between the public and the private sector is done in a transparent and effective manner.¹⁵⁸ It provides comprehensive information on four key aspects of engagement, namely: (1) criteria of engagement; (2) levels of engagement; (3) types of engagement; and (4) rules of procedure for engagement (e.g. administrative procedure, private sector mechanisms, and response mechanism to the issues raised by the private sector). Use of the revised RoP has been observed in the consultation between the ASEAN Trade Facilitation Joint Consultative Committee (ATF-JCC) and members of the ASEAN-BAC's Joint Business Councils,¹⁵⁹ which took place at the 12th ATF-JCC Meeting in Singapore, on 5 July 2018.
- 335.** The AEC Dialogue was initiated by the ASEAN Secretariat to establish more proactive, two-way communication with the private sector. The first such dialogue took place on 8 October 2018, in Jakarta, Indonesia, with the following four key programmes: (1) debrief on the key outcomes of the 50th AEM Meeting and Related Meetings; (2) panel discussion on digital economy and the Fourth Industrial Revolution; (3) discussion clinics to discuss common issues that were raised by various business councils during their AEM consultations; and (4) one-on-one business council consultations with desk officers of the ASEAN Secretariat on specific key issues. The Second AEC Dialogue was held on 15-16 April 2019 at the ASEAN Secretariat in Jakarta, Indonesia. Among the topics discussed were key priorities for finance cooperation of ASEAN in 2019 and on enhancing financial technology adoption for financial inclusion in ASEAN. The Third AEC Dialogue was held on 3 October 2019, also at the ASEAN Secretariat, and it tackled the issue of facilitating digital trade in ASEAN.

3.4.2.2. Enhanced Role of the ASEAN-BAC

- 336.** Launched in April 2003, the ASEAN-BAC was set up with a mandate to provide private sector feedback and guidance to boost ASEAN's efforts towards economic integration.¹⁶⁰ The AEC 2025 Blueprint refers to it as the 'apex private sector body' of ASEAN. Under Element D2 (Strengthening the Role of the Private Sector), Strategic Measure (ii) underscores the importance of: (1) composition of ASEAN-BAC's membership to reflect strong linkages with business stakeholders; (2) build in a more structured engagement with business councils/entities, establish own structure to monitor progress of key initiatives or priority integration sectors of interest to the private sector so as to support the implementation and provide feedback; and (3) enhance coordination between ASEAN-BAC and the ASEAN Secretariat so that recommendations from the former can be fed into the consultative process with sectoral bodies.

¹⁵⁸ The official electronic version of the RoP is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2012/05/PPE-Rules-of-Procedures.pdf>.

¹⁵⁹ Members of the ASEAN-BAC-led Joint Business Councils involved in this consultation were the EU-ASEAN Business Council, US-ASEAN Business Council, the Food Industry Asia, and the ASEAN Food and Beverage Alliance.

¹⁶⁰ Further information concerning the ASEAN-BAC is available on its official website at <https://www.asean-bac.org/>.

337. ASEAN-BAC's input and partnership have been essential not only in helping ASEAN design appropriate regional economic integration strategies and initiatives, but also in identifying impediments to realising deeper regional economic integration. The Council submits its annual reports to the AEM and ASEAN leaders. With its Secretariat located within the premises of the ASEAN Secretariat in Jakarta, the two Secretariats pursue engagement on a regular basis.
338. Greater involvement and more structured participation of the private sector have also been made possible through the establishment of ASEAN-BAC's Joint Business Councils. Initiated during the chairmanship of Brunei Darussalam in 2013, there are currently 12 such Joint Business Councils.¹⁶¹ With their meetings taking place biannually, Joint Business Councils' recommendations make up part of ASEAN-BAC's annual reports to the AEM and ASEAN leaders.¹⁶²
339. Apart from engaging with the highest decision-making platform in ASEAN, ASEAN-BAC and its Joint Business Councils have also endeavoured to play active roles in institutionalising private sector participation in various consultative working groups within the structure of various ASEAN sectoral bodies, such as the ATF-JCC, CCC and the Customs Directors-General Meeting, ACCMSME, etc. In addition, they also pursue active engagement with various entities associated with ASEAN, such as the ASEAN Tourism Association, as well as ASEAN-related networks such as the ASEAN Women Entrepreneurs Network and the ASEAN Young Entrepreneurs Council. Internally, ASEAN-BAC and its Joint Business Council (JBC) partners have also formed various working groups (e.g. on trade facilitation, innovation, health care, financial services integration, digital economy, etc.) to further their engagement with emerging trends and specific issues. Over the past few years, ASEAN-BAC has been broadening its consultation base by identifying national-level champions who can actively participate and enrich discussion in providing meaningful inputs to specific reforms areas, such as trade facilitation.

3.4.2.3. Conclusion

340. Guided by key ASEAN documents such as the ASEAN Charter, the AEC Blueprint 2025, and, more recently, the revised RoP for Private Sector Engagement under the AEC, ASEAN's engagement with various economic-related stakeholders has been advancing rather positively over the years under review in this report. Aside from the increase in frequency, there has also been a relative improvement in the substance and mechanism of ASEAN's engagements with these stakeholders. In addition to its traditional stakeholders, engagement under the economic pillar of ASEAN cooperation continues to be widely open to other stakeholders. Initiatives such as the AEC Dialogue and the Forum on Entities Associated with ASEAN have made ASEAN's engagement with its stakeholders more consistent, effective, and substantive.

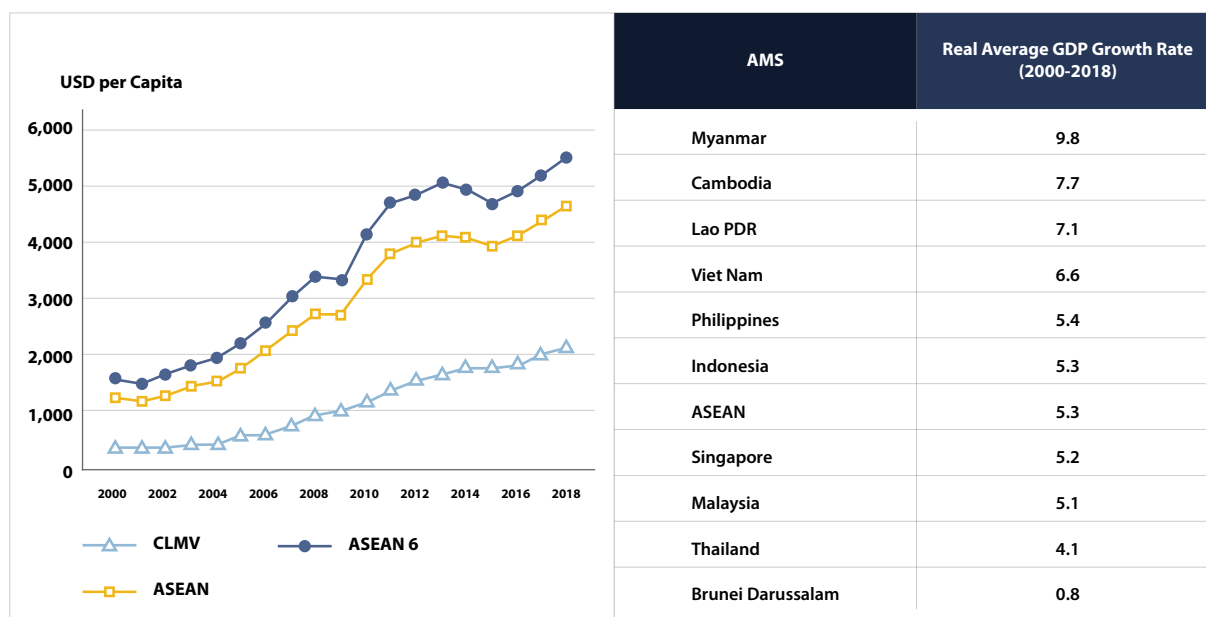
¹⁶¹ These include Australia-ASEAN Business Council, Australia-ASEAN Chamber of Commerce, Canada-ASEAN Business Council, China-ASEAN Business Council, East Asia Business Council, EU-ASEAN Business Council, ASEAN-India Business Council, ASEAN-Japan Business Council, ASEAN-New Zealand Business Council, Russia-ASEAN Business Council, UK-ASEAN Business Council, and US-ASEAN Business Council.

¹⁶² With support and guidance from the ASEAN Secretariat, a matrix of these inputs and recommendations is regularly consolidated by the ASEAN-BAC. The matrix allows the instrument to update the status of submitted recommendations, and serves as the basis for deeper collaboration among Joint Business Councils on specific issues.

341. Notwithstanding this progress, there remains space for the economic pillar of ASEAN cooperation to engage its stakeholders more frequently and effectively. This would include engagement with wider, cross-sectoral/pillar stakeholders on issues that are increasingly diverse and cross-cutting in nature, a more institutionalised mechanism to solicit feedback effectively from the stakeholders, and tracking progress in addressing legitimate issues raised.

3.4.3. Narrowing the Development Gap

342. ASEAN's work on 'Narrowing the Development Gap' appears as Element D4 in the AEC Blueprint 2025. The blueprint highlights the Initiative for ASEAN Integration (IAI) as 'a key initiative to address narrowing the development gap (NDG) by providing support to Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) to augment their capacity to implement regional agreements and accelerate the regional integration process as a whole'. It outlines the following seven strategic objectives for IAI and NDG post-2015:
- 1) Sustain the pace of economic growth among AMS;
 - 2) Strengthen the capacity building in newer AMS to implement regional commitments towards ASEAN economic integration;
 - 3) Reduce the burden placed by business regulations on the creation and successful operation of formal enterprises;
 - 4) Build business opportunities for growth and employment, and increasing access to financial services;
 - 5) Enhance productivity and competitiveness of rural economies, especially in the newer AMS;
 - 6) Emphasise the development of micro, small, and medium enterprises (MSMEs) of AMS; and
 - 7) Identify development donors to provide technical and financial assistance for the MSMEs to focus on potential sectors which allow them to effectively participate in regional and global value chain activities.
343. Annual economic growth in ASEAN averaged 5.3% during 2000-2018, with smaller economies such as the CLMV growing at a faster pace compared to the larger economies or ASEAN-6 (see Figure 3.28). With the graduation of Cambodia in 2015 from lower-income status, all four CLMV countries have now crossed over from lower-income countries to lower middle-income countries, joining the ranks of Indonesia and the Philippines. GDP per capita, which is used to measure income gap among countries, rose faster for the CLMV countries compared with ASEAN-6, at an annual average growth rate of between 6% and 10% between 2000-2018. The CLMV countries also experienced a more robust trade and investment growth, compared to ASEAN-6 during the period of review.

Figure 3.28. GDP per Capita ASEAN-6 and CLMV in USD (Current Prices)

Source: ASEAN Secretariat (as of September 2019).

344. The IAI Work Plan III (2016-2020) was adopted by Leaders at the 28th ASEAN Summit in September 2016 as an integral part of the ‘ASEAN 2025: Forging Ahead Together’ to support the implementation of the three 2025 Community Blueprints. The overarching objective of the Work Plan is to assist CLMV countries to meet ASEAN-wide targets and commitments towards realising the goals of the ASEAN Community. The Work Plan consists of five strategic areas, namely: (1) food and agriculture; (2) trade facilitation; (3) micro, small and medium enterprises (MSMEs); (4) education; and (5) health and well-being, as well as enabling actions that cuts across all sectors.
345. Specific projects under the AEC-related strategic areas of the IAI Work Plan III address the NDG strategic objectives (3)–(5) listed in paragraph 342. Among others, a diagnostic on simplifying business registration in Cambodia, Lao PDR and Myanmar was completed in March 2019. Based on the recommendations of the diagnostic report, a project proposal is being developed to enhance the capacity and technical knowledge of the least developed AMS to operationalise electronic business registration. A project on ‘Development of Financial Literacy Programmes for Growing Micro Enterprises’ aimed at designing a financial literacy strengthening programme for targeted micro enterprises in CLMV countries is being implemented, while a project proposal on ‘Training on Two-Step Loan, Credit Guarantee System, and Venture Capital for CLMV Officials’ is undergoing the appraisal and approval process.
346. CLMV countries remain largely rural economies, with 60-79% of their population residing in rural areas. Agriculture accounts for a significant share of total private sector employment in these countries (OECD and ERIA, 2018: 21). To enhance productivity and competitiveness of the rural economies, an assessment of post-harvest losses for seasonal fruit of high export value, seminar and trainings on post-harvest technologies, management, and practices, as well as a workshop on ‘Sharing Best-Practice Organisation and Coordination of Water-User Groups in Cambodia, Lao PDR, Myanmar and Viet Nam’ were conducted.

- 347.** ASEAN recognises the important role of MSMEs as engines of growth and providers of employment. MSMEs represent around 97-99% of the enterprise population in most AMS (OECD and ERIA, 2018: 24). The ASEAN Strategic Action Plan for MSMEs (SAPSMED) 2015-2025 reflects ASEAN's commitment to promoting globally competitive and innovative MSMEs (ASEAN Secretariat, 2015d). Its strategic goals, namely to promote productivity, technology and innovation, enhance market access and internationalisation, enhance policy and regulatory environment, as well as to promote entrepreneurship and human capital development, resonate with NDG strategic objectives (6) and (7).
- 348.** Several factors were identified as contributing towards AMS' progress and the narrowing of the development to a certain extent between CLMV countries and the ASEAN-6 (ASEAN Secretariat, 2015d). These factors include unilateral economic policy reforms, multilateral and preferential trade liberalisation, and increased access to development funding. ASEAN's contribution towards development outcomes in the region is mostly indirect, but it has a number of significant roles – such as an agenda setter, resource mobiliser, capacity builder, and knowledge provider – that have a catalytic effect on bridging the development divide.

3.4.3.1. Conclusion

- 349.** The contribution of sub-regional cooperation platforms in achieving equitable economic development is acknowledged. There has been a marked increase of sub-regional frameworks, particularly in the Mekong region since early 2000. Although the motivations for establishing these sub-regional frameworks vary, the common underpinning rationale of these initiatives is to enhance socioeconomic development of member countries, particularly their rural areas. Regular engagement between the sub-regional frameworks and ASEAN sectoral bodies as well as the ASEAN Secretariat has translated several sub-regional activities as pilot projects and lessons learnt for region-wide implementation.
- 350.** Despite the commendable improvements in bridging the development divide, critical challenges remain. They include the gap in quality of human and physical capital as well as slow progress in meeting regional commitments in some areas. The least developed AMS also lag far behind the ASEAN-6 in terms of quality of infrastructure. These challenges could be addressed by speeding up and deepening the process of integration within ASEAN as well as strengthening cooperation with ASEAN Partners and external parties, particularly in capacity building and knowledge sharing. Progress must also be driven by AMS themselves through sustained pursuit of domestic reforms.

3.5. Global ASEAN

351. ASEAN's progress for closer regional economic integration comes hand in hand with its goal to be a Global ASEAN, the fifth characteristic of the AEC 2025. The breadth and depth of the strategic measures under this characteristic show more ambition over the fourth characteristic of the previous AEC 2015 Blueprint, i.e. 'Integration into the Global Economy', as these measures are now more pronounced towards the objective of ASEAN becoming a more active global player.
352. Since the establishment of the AEC on 31 December 2015, ASEAN has made strides in its external economic relations. ASEAN's pre-existing five Plus One FTAs namely with China, India, Japan, the ROK, and Australia and New Zealand have been/are being reviewed or upgraded. ASEAN has since then also entered into an FTA with Hong Kong, China, and is now in the final stage of negotiating for the Regional Comprehensive Economic Partnership (RCEP) with its six FTA partners.¹⁶³
353. ASEAN's economic growth and development outlook cannot be delinked from its external engagements given the fact that ASEAN's FTA partners account for a significant share of ASEAN's total trade and investment as shown in Table 3.30. While the goal of creating a single market and production base remains fundamental, ASEAN still subscribes to the underlying principle of open regionalism, which means that ASEAN will do both simultaneously in pursuing its external economic relations agenda.

Table 3.30. Key Economic Figures of ASEAN and Its FTA Partners, 2018

Country	GDP (% of World)	Population (% of World)	Trade (% of World)	% of ASEAN's Total Trade	% of ASEAN's Total FDI Inflows
ASEAN	3.5%	8.5%	7.2%	23.0%	15.9%
China	15.8%	18.3%	11.8%	17.2%	6.6%
India	3.2%	17.8%	2.1%	2.9%	1.1%
Japan	5.9%	1.7%	3.8%	8.2%	13.7%
ROK	1.9%	0.7%	2.9%	5.7%	4.2%
Australia and New Zealand	1.9%	0.4%	1.5%	2.7%	0.6%
Hong Kong, China	0.4%	0.1%	3.0%	4.2%	6.6%
RCEP	32.2%	47.4%	29.2%	59.6%	42.1%

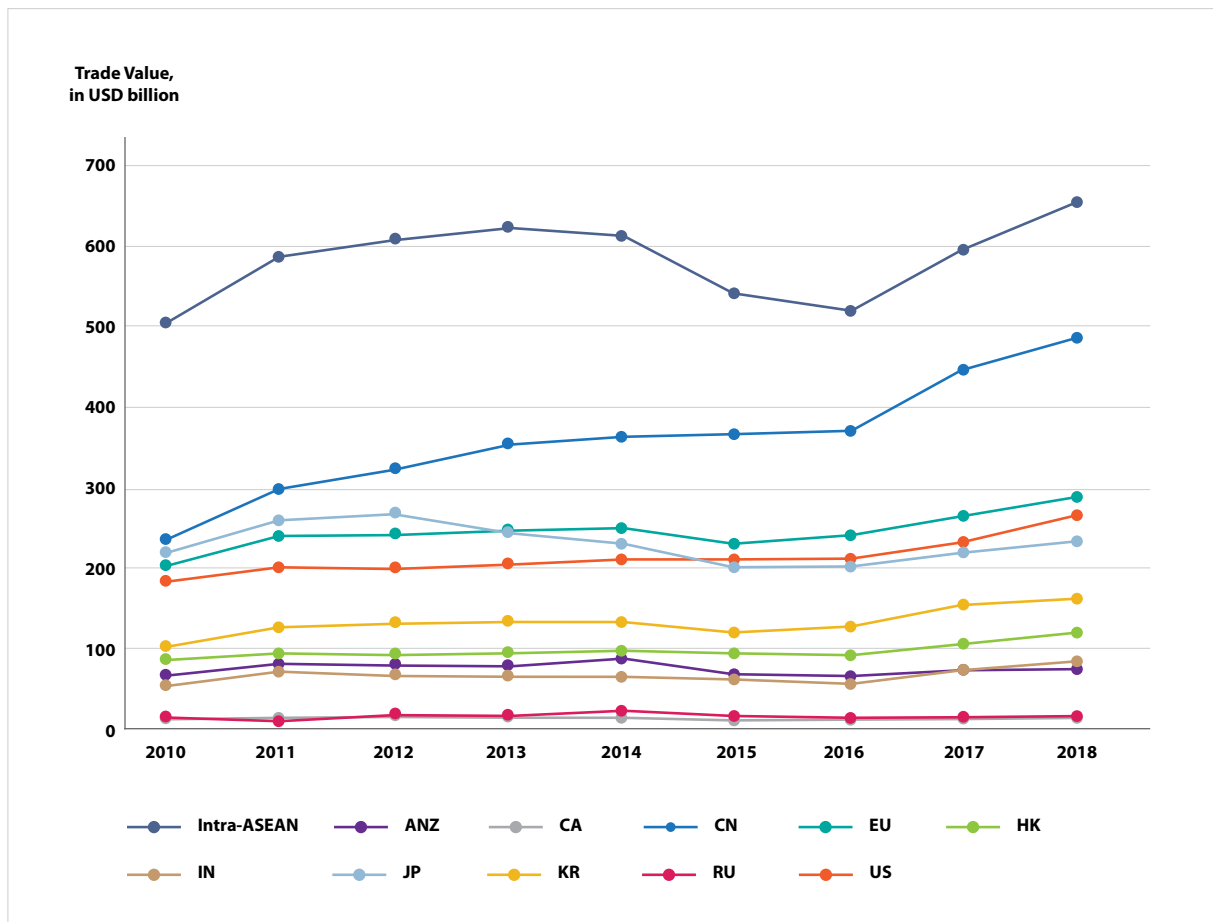
Source: IMF (April 2019b); World Bank (n.d.d.); UNCTAD (n.d.a.); ASEAN Secretariat (as of September 2019).

¹⁶³ RCEP is being negotiated by ASEAN, Australia, China, India, Japan, the ROK, and New Zealand.

3.5.1. Overview of ASEAN's Trade Partners

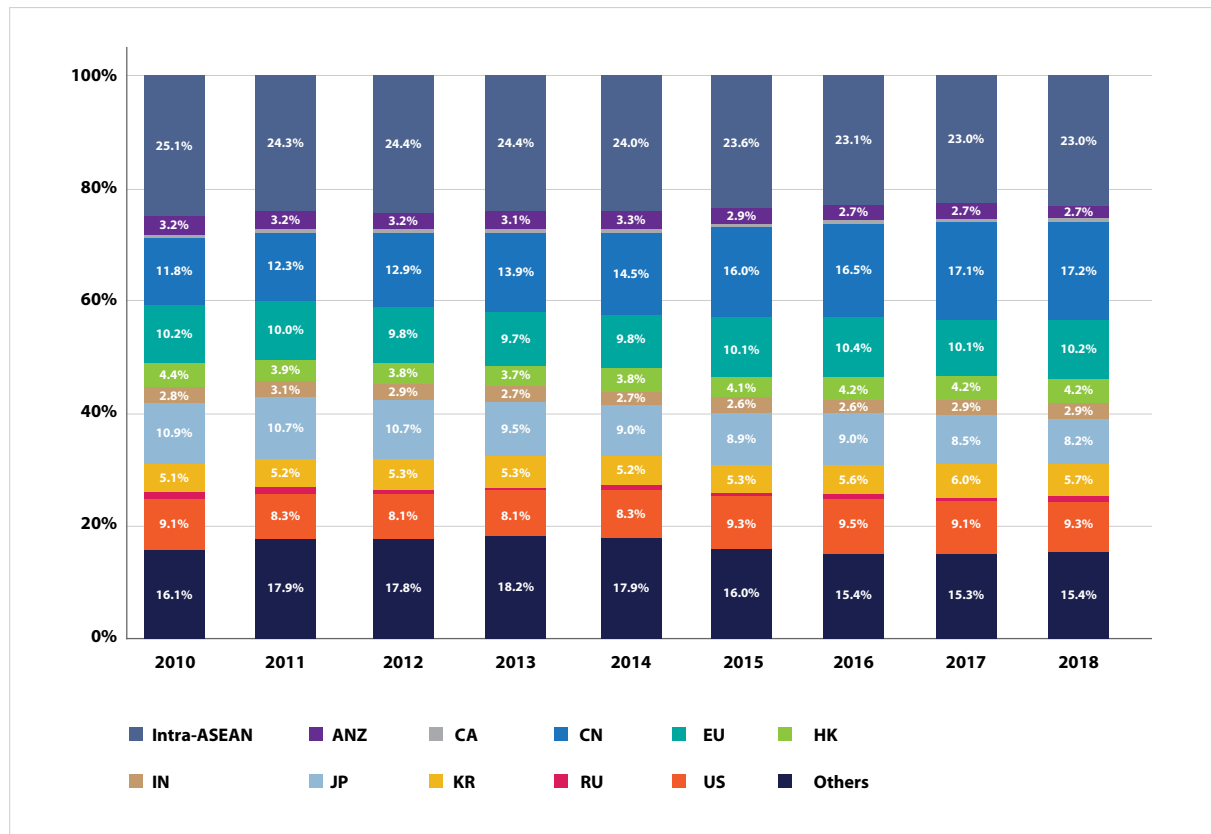
354. On merchandise trade, ASEAN's FTA and Dialogue Partners (DPs)¹⁶⁴ continue to dominate ASEAN's trade landscape as shown in Figure 3.29. While intra-ASEAN trade accounted for the biggest share of ASEAN's total trade, China has retained its dominance as ASEAN's largest external trading partner since 2009 (replacing Japan and the US), with bilateral trade (based on preliminary statistics) reaching USD 483.1 billion in 2018, or 17.2% of ASEAN's total trade. This was followed by the EU (10.2%), the US (9.3%), Japan (8.2%), and the ROK (5.7%). Among ASEAN's other FTA partners, Hong Kong, China (4.2%), India (2.9%), and Australia and New Zealand (2.7%) were ranked sixth, seventh and eighth among ASEAN's FTA and DPs, respectively. The remaining ASEAN's DPs, i.e. Canada and Russia, accounted for 1.3% of the total. Since the establishment of the AEC in 2015, the shares of China, especially in 2017 and 2018, have continued to increase, while decline was observed for Australia and Russia in 2016. Russia did, however, see an increase in the following years (see Figure 3.30). In general, however, ASEAN's merchandise trade growth has moderated in recent years, from 15.1% in 2017 to 9.3% in 2018, which could be attributed to a combination of global trends and the effects of current trade tensions.

Figure 3.29. ASEAN's Merchandise Trade with FTA and Dialogue Partners



Source: ASEAN Secretariat (as of September 2019).

¹⁶⁴ All ASEAN's FTA Partners are also among the ten Dialogue Partners, with the exception of Hong Kong, China.

Figure 3.30. Dialogue Partners' Shares in ASEAN's Total Trade

Note: P = Figures are preliminary.

Source: ASEAN Secretariat (as of September 2019).

355. As a region, ASEAN and its AMS have been actively participating in FTAs. To date, in addition to the six ASEAN Plus One FTAs and the RCEP negotiations, there are 81 bilateral FTAs (between one ASEAN country and one non-ASEAN country), 23 plurilateral agreements (between one AMS and two or more non-ASEAN countries), and 11 multilateral agreements (between one or more AMS and one or more non-ASEAN countries).¹⁶⁵ Of the 81 bilateral FTAs, 34 are signed and active, 18 are under negotiation, 27 are under study or being proposed, and 2 have been signed and are waiting for entry into force.¹⁶⁶ This sub-section will focus on ASEAN FTAs/ Comprehensive Economic Partnership Agreements (CEPAs) only.

356. AMS' active FTA engagements positively signal commitment to keeping their markets open and remaining engaged with the rest of the world. This message is particularly important as the global trade environment increasingly comes under threat from rising protectionism and unilateral actions that put the multilateral trading system under pressure.

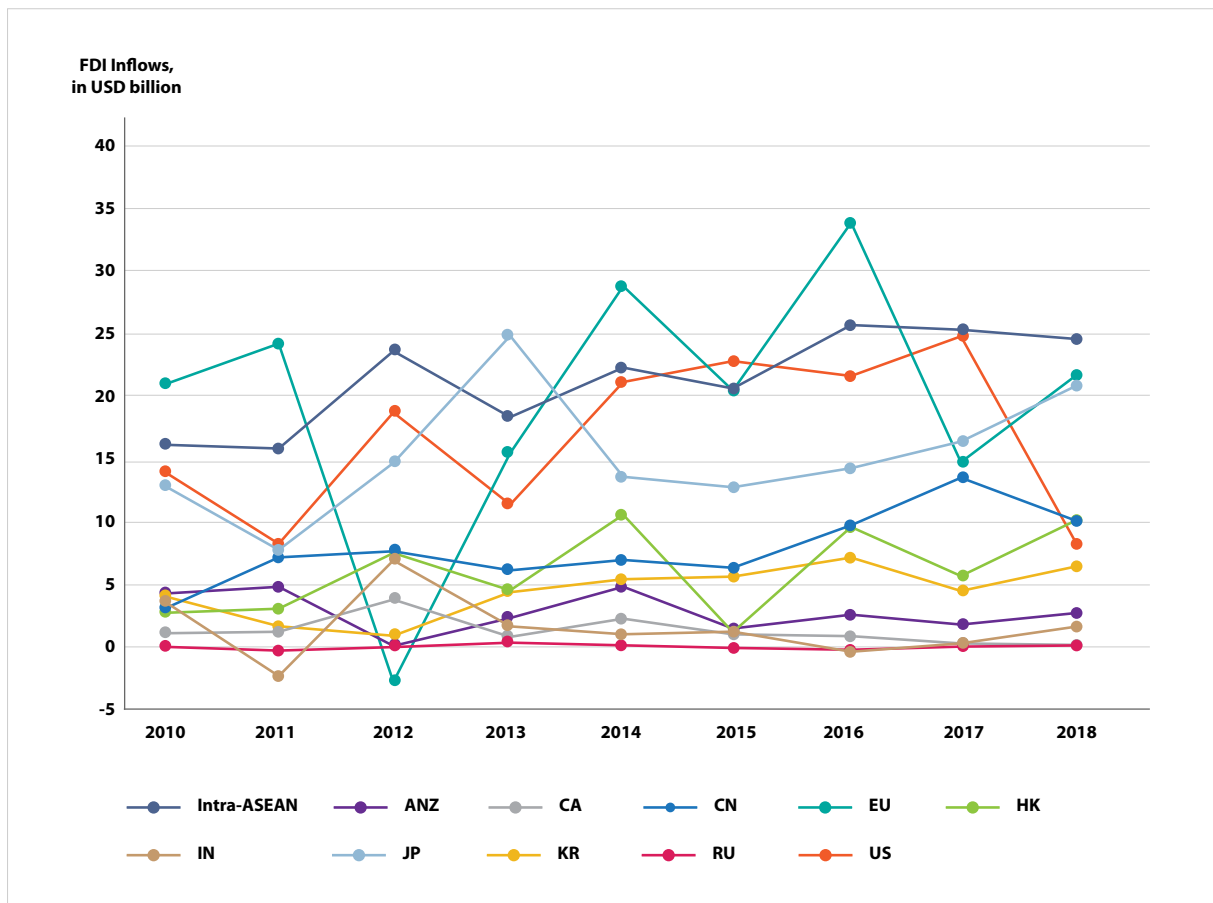
¹⁶⁵ These include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

¹⁶⁶ Further information concerning AMS' bilateral FTAs is available on the official website of the Asia Regional Integration Centre of the ADB at <https://aric.adb.org/fta-country>.

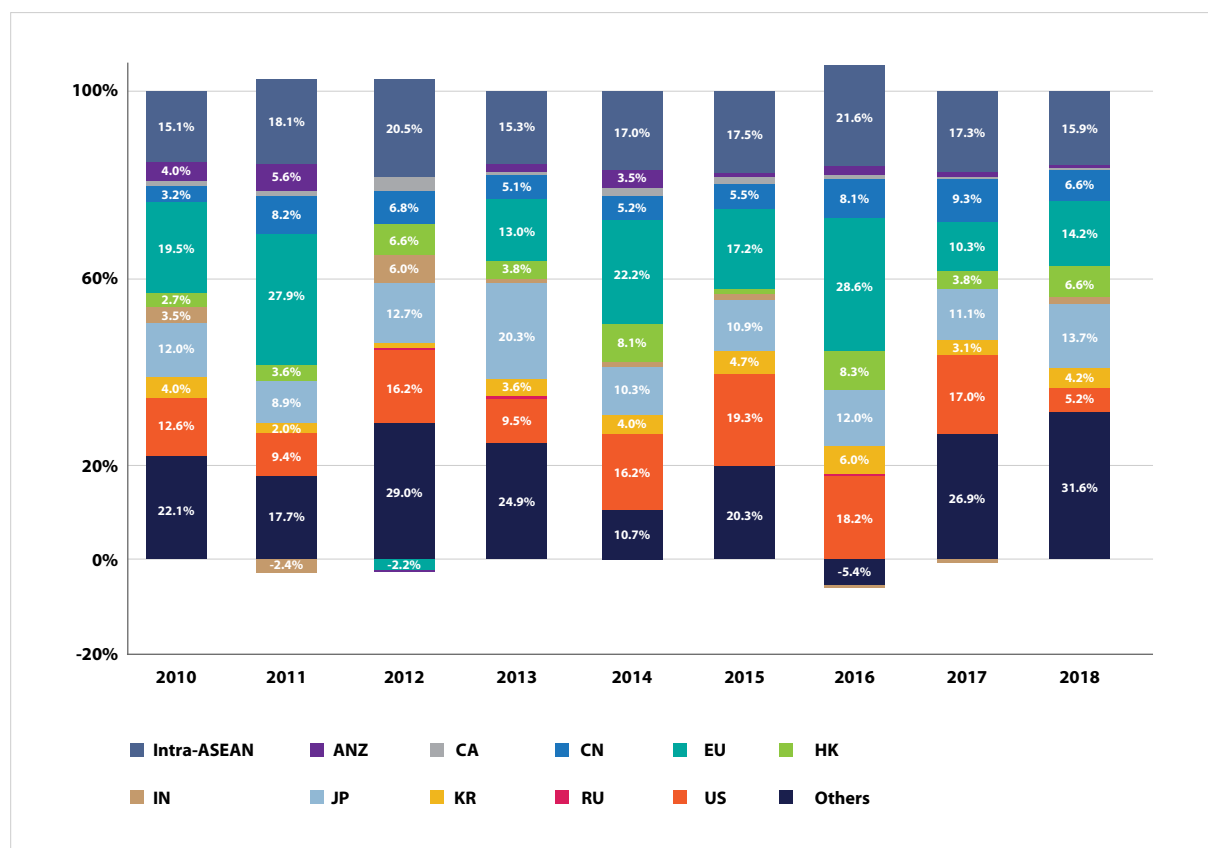
3.5.2. Overview of ASEAN's Investment Partners

357. ASEAN's position as a preferred investment destination also continued to strengthen. Based on preliminary statistics, total FDI inflows to ASEAN peaked at USD 154.7 billion in 2018, (a 5.3% increase year-on-year) amid a 13.4% decline in global FDI flows (UNCTAD, 2019b). This also means that, collectively, ASEAN has again taken over third place from China as the largest investment destination, behind only the EU and the US. As is the case with its trade pattern, intra-ASEAN – which stood at USD 2.5 billion, or 15.9% of ASEAN's total – was also the largest source of investment in the region in 2018. This figure, however, was slightly lower than the USD 25.5 billion in intra-ASEAN flows recorded for 2017. Among ASEAN's external partners, the EU retained its dominance as the largest source of FDI in 2018, at USD 22.0 billion, or 14.2% of total FDI inflows in ASEAN. This was followed by – among the DPs and FTA partners – Japan (13.7%), China (6.6%) and Hong Kong, China (6.6%). As for other ASEAN FTA partners, the US, ROK, and India took up 5.2%, 4.2%, and 1.1% share of total FDI inflows into ASEAN respectively (see Figure 3.31 and Figure 3.32).

Figure 3.31. Intra- and Extra-ASEAN FDI Flows, 2010-2018



Source: ASEAN Secretariat (as of September 2019).

Figure 3.32. Shares of Dialogue Partners in Total ASEAN FDI Inflows

Source: ASEAN Secretariat (as of September 2019).

3.5.3. Advancing the Global ASEAN Agenda

358. ASEAN's global agenda is guided by Characteristic E (A Global ASEAN) of the AEC Blueprint 2025. This characteristic identifies a number of strategic measures to facilitate the realisation of ASEAN's global economic agenda, namely:

- Develop a more strategic and coherent approach towards external economic relations with a view to adopting a common position in regional and global economic fora;
- Continue to review and improve ASEAN FTAs and comprehensive economic partnerships (CEPs) to ensure that they remain modern, comprehensive, of high-quality, and more responsive to the needs of businesses operating the production networks in ASEAN;
- Enhance economic partnerships with non-FTA DPs by upgrading and strengthening trade and investment work programmes/plans;
- Engage with regional and global partners to explore strategic engagement to pursue economic partnerships with emerging economies and/or regional groupings that share the same values and principles on improving the lives of their people through economic integration;
- Continue strongly supporting the multilateral trading system and actively participating in regional fora; and
- Continue to promote engagement with global and regional institutions.

359. This sub-section looks at how ASEAN's FTAs/CEPAs have evolved, on a partner-to-partner basis, and takes into consideration the review and upgrading work that has been conducted

Table 3.31. Summary of the Progress on ASEAN's FTAs/CEPA

FTAs/CEPs	Entry into force	Coverage (key areas)	Remarks
ACFTA	Framework Agreement (2003), Trade in Goods (TIG) (2005), Dispute Settlement Mechanism (DSM) Agreement (2005) Trade in Services (TIS) (2007), Investment (2010)	Goods, Services, Investment, DSM, and Economic Cooperation	Amended a number of times to improve trade in goods, services and investment. The revised Rules of Origin under the ACFTA Upgrading Protocol was fully implemented in August 2019. Discussions are under way on other elements under the Future Work Program of the Protocol.
AKFTA	Framework Agreement (2005), DSM Agreement (2006), TIG (2007), TIS (2009), Investment (2009)	Goods, Services, Investment, Economic Cooperation, DSM	TIG Agreement has been amended three times Discussions are under way on further liberalisation of sensitive track products.
AJCEP	Framework Agreement (2003), AJCEP, and Investment (2008)	Goods, Services, Investment, Economic Cooperation, DSM	The AJCEP in 2008 includes trade in services and investment chapters as the built-in agenda, where parties are required to continue negotiations and discussions on these two areas, to make the Agreement more robust and comprehensive. The First Protocol to Amend the AJCEP, which was signed in May 2019, incorporated provisions on trade in services, movement of natural persons, and investment. The Protocol is expected to enter into force soon, as parties are in the process of completing their domestic procedures to ratify the Protocol.
AIFTA	Framework Agreement (2004), DSM (2010), TIG (2010), TIS (2015), Investment (2015)	Goods, Services, Investment, Economic Cooperation	Parties agreed to initiate the review of the ASEAN-India Trade in Goods Agreement (AITIGA) with a view to make the Agreement more user-friendly, simple, and trade-facilitative.
AANZFTA	2010	Goods, Services, Investment, E-commerce, Competition, IPR, Economic Cooperation	In 2016, parties agreed to undertake the AANZFTA General Review in two stages. In September 2019, the Ministers endorsed the Work Plan for the AANZFTA Upgrade Negotiations with an aim to concluding the Second Protocol to Amend the AANZFTA Agreement within an expeditious timeframe.
AHKFTA	TIG and TIS (June 2019), Investment (June 2019)	Goods, Services, Investment, IPR, Economic and Technical Cooperation	Both Agreements are expected to be ratified by all parties by end of 2019.
RCEP	Negotiation is ongoing.	Goods, Services, Investment, IPR, Competition, Small and Medium Enterprises, E-Commerce, DSM, Government Procurement, and Economic Cooperation	Negotiation is targeted for conclusion in 2019.

3.5.3.1. ASEAN-China Free Trade Area

Table 3.32. Trade and FDI Indicators of ASEAN and China, 2010-2018

	Size		Share (% to ASEAN)		Average Growth* (%)
	Value in 2018 (in USD billion)	2018 Index (2010 = 100)	2010	2018	2010-2018
ASEAN Exports to China	198.7	176.5	10.7	13.9	7.4
ASEAN Imports from China	284.5	231.4	12.9	20.5	11.1
Total Trade with China	483.1	205.1	11.8	17.2	9.4
Trade Balance with China	-85.8	-	-	-	-
FDI Inflows from China	10.2	292.0	3.2	6.6	14.3

Note: * CAGR.

Source: ASEAN Secretariat (as of September 2019).

360. China has retained its position as ASEAN's largest trading partner since 2009. Trade between ASEAN and China has more than doubled since 2010, from USD 235.5 billion to USD 483.1 billion in 2018 (17.2% of ASEAN's total) and almost quadrupled since the entry into force of the ASEAN-China Trade in Goods Agreement in 2005. ASEAN's exports to China grew at an average annual rate of 7.4% from 2010 to 2018 as compared to 11.1% for ASEAN's import from China during the same period. ASEAN's trade deficit with China increased from USD 10.4 billion in 2010 to USD 85.8 billion in 2018.
361. Based on preliminary statistics, FDI flows from China to ASEAN reached USD 10.2 billion in 2018, accounting for 6.6% of total FDI flows to the region. China's share in ASEAN's total FDI inflows has recently grown, as reflected in the improvement of China's rank among ASEAN's DPs and FTA partners, from seventh in 2010 to third in 2018, after the EU and Japan.
362. The ASEAN-China Free Trade Area (ACFTA) was initiated with the signing of the Framework Agreement on Comprehensive Economic Cooperation in 2002,¹⁶⁷ followed by the ASEAN-China Trade in Goods Agreement in 2004,¹⁶⁸ ASEAN-China Agreement on Trade in Services in 2007,¹⁶⁹ and ASEAN-China Investment Agreement in 2009.¹⁷⁰ The Framework Agreement entered into force on 1 July 2003 and subsequently amended in 2003, 2006, 2012, and 2015.¹⁷¹

¹⁶⁷ Full text of the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=framework-agreement-on-comprehensive-economic-co-operation-between-asean-and-the-people-s-republic-of-china-phnom-penh-4-november-2002-4.

¹⁶⁸ Full text of the ASEAN-China Trade in Goods Agreement is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=agreement-on-trade-in-goods-of-the-framework-agreement-on-comprehensive-economic-co-operation-between-the-association-of-southeast-asian-nations-and-the-people-s-republic-of-china-4.

¹⁶⁹ Full text of ASEAN-China Trade in Services Agreement is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=agreement-on-trade-in-services-of-the-framework-agreement-on-comprehensive-economic-co-operation-between-the-association-of-southeast-asian-nations-and-the-people-s-republic-of-china-2.

¹⁷⁰ Full text of ASEAN-China Investment Agreement is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/images/archive/22974.pdf>.

¹⁷¹ Various Protocols to Amend the Framework Agreement are available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=asean-china-free-trade-area-2.

- 363.** The ASEAN-China Framework Agreement featured an Early Harvest Programme. Implemented on 1 January 2004, the Programme saw the elimination of tariff lines for some agricultural products for all the parties to the FTA. The ASEAN-China Trade in Goods Agreement has since its 2005 entry into force been revised to include, among others, provisions on TBT and SPS Measures. In terms of market access, tariff elimination has now been completed for more than 91.9% of total tariff lines for the ASEAN-6 and China. As for the remaining AMS, tariff elimination is currently being implemented in accordance with the timelines provided for in the agreement.
- 364.** The ASEAN-China Agreement on Trade in Services was signed in 2007, with the subsequent Protocol to Implement the Second Package of Specific Commitments under the Trade in Services signed in 2011. ASEAN and China also signed the Agreement on Investment in 2009.
- 365.** Ten years after the entry into force of the Framework Agreement, the decision to upgrade the ACFTA was formalised in 2013, where Leaders welcomed the initiative to enhance the ACFTA through, among others, improving market conditions and trade balance between both sides, as well as expanding the scope and coverage of the Framework Agreement. The 'Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation and Certain Agreements thereunder between ASEAN and the People's Republic of China' (ACFTA Upgrading Protocol) was signed on 21 November 2015 in Kuala Lumpur on the sidelines of the 27th ASEAN Summit and Related Summits.
- 366.** The ACFTA Upgrading Protocol entered into force on 1 July 2016. The Protocol provides amendments to the text of the Rules of origin (ROO) Chapter, incorporates a section on Customs Procedures and Trade Facilitation to the ASEAN-China Trade in Goods Agreement, includes a third package of specific commitments under the Agreement on Trade in Services, adds provisions on the promotion and facilitation of investment in the Investment Agreement, and introduces additional rules and areas of coverage for Economic and Technical Cooperation under the Framework Agreement. It also provides a future work programme for unfinished elements, namely on the further liberalisation of trade in goods, review of product-specific rules, and the promotion and protection of investment.
- 367.** Among the unfinished elements, the review of product-specific rules was completed in 2018, while the implementation of the new ROO began on 1 August 2019. Work continues on the remaining unfinished elements.
- 368.** Economic cooperation was embedded in various provisions under the ACFTA Framework Agreement. Subsequently, as part of the upgrading, parties agreed to have a standalone Chapter on Economic and Technical Cooperation under the Protocol to amend the ACFTA Framework Agreement and related agreements (2015). China is providing an ASEAN-China Grant to support the implementation of the ASEAN-China Free Trade Area.

3.5.3.2. ASEAN-Korea Free Trade Area

Table 3.33. Trade and FDI Indicators of ASEAN and ROK

	Size		Share (% to ASEAN)		Average Growth* (%)
	Value in 2018 (in USD billion)	2018 Index (2010 = 100)	2010	2018	2010-2018
ASEAN Exports to ROK	60.3	133.8	4.3	4.2	3.7
ASEAN Imports from ROK	100.6	177.6	6.0	7.3	7.4
Total Trade with the ROK	160.8	157.7	5.1	5.7	5.9
Trade Balance with the ROK	-40.3	-	-	-	-
FDI Inflows from the ROK	6.6	151.9	4.0	4.2	5.4

Note: * CAGR.

Source: ASEAN Secretariat (as of September 2019).

- 369.** In 2018, the ROK ranked as the fifth largest trading partner of ASEAN among the Dialogue and FTA Partners, with bilateral trade between the two reaching USD 160.8 billion in 2018, a significant 162.6% increase from 2007 when the ASEAN-Korea Free Trade Area (AKFTA) first entered into force. Between 2010 and 2018, ASEAN's exports to and imports from the ROK increased on average by 3.7% and 7.4% respectively. Consequently, ASEAN's trade deficit with the ROK increased during the same period, from USD 11.9 billion in 2010 to USD 40.3 billion in 2018.
- 370.** Meanwhile, FDI inflows from the ROK to ASEAN have increased by 51.9% since 2010, standing at USD 6.6 billion in 2018, making it ASEAN's sixth largest source of FDI among ASEAN's Dialogue and FTA Partners.
- 371.** In 2004, the ASEAN-ROK Joint Declaration on Comprehensive Cooperation Partnership Agreement was signed,¹⁷² followed by the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the ROK in 2005;¹⁷³ the latter came into force on 1 July 2006. The Agreement on Trade in Goods within the Framework Agreement entered into force in June 2007.¹⁷⁴ At the 12th AEM-ROK Consultations in August 2015, the Ministers endorsed the modality for further liberalisation of sensitive products under the ASEAN-Korea Trade in Goods Agreement. Work is now ongoing on the further liberalisation of sensitive products under the aforementioned Agreement, where negotiations are targeted for conclusion by end of 2019.

¹⁷² Full text of the ASEAN-ROK Joint Declaration on Comprehensive Co-operation Partnership Agreement is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=joint-declaration-on-comprehensive-cooperation-partnership-between-the-association-of-southeast-asian-nations-and-the-republic-of-korea.

¹⁷³ Full text of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the ROK is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=framework-agreement-on-comprehensive-economic-cooperation-among-the-governments-of-the-member-countries-of-the-association-of-southeast-asian-nations-and-the-republic-of-korea-kuala-lumpur-13-december.

¹⁷⁴ Full text of the Agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the ROK is available on the official website of the ASEAN Secretariat at <https://www.asean.org/wp-content/uploads/2012/06/AK-TIG-Agreement-August-2006.pdf>.

372. The Framework Agreement also provides that the FTA for Trade in Services and Investment is to be implemented within the timeframes to be mutually agreed between ASEAN and the ROK. The ASEAN-Korea Trade in Services Agreement was signed on 21 November 2007 and entered into force on 1 May 2009 for all parties,¹⁷⁵ while the AKFTA Investment Agreement was signed on 2 June 2009 and entered into force on 1 September 2009.¹⁷⁶ The Joint Impact Assessment of the ASEAN-Korea Trade in Services Agreement, which was endorsed in September 2013, meanwhile, provides recommendations on the scope for possible enhancement of the Agreement, including additional sectors for further liberalisation and other possible areas of economic cooperation.

373. The AKFTA also includes an Economic Cooperation chapter that covers 19 sectors of cooperation.¹⁷⁷ In 2008, the ASEAN-Korea Economic Cooperation Fund was established to support the implementation of cooperation projects under the purview of ASEAN-Korea Working Group on Economic Cooperation.

3.5.3.3. ASEAN-Japan Comprehensive Economic Partnership

Table 3.34. Trade and FDI Indicators of ASEAN and Japan

	Size		Share (% to ASEAN)		Average Growth* (%)
	Value in 2018 (in USD billion)	2018 Index (2010 = 100)	2010	2018	2010-2018
ASEAN Exports to Japan	113.7	110.4	9.8	7.9	1.2
ASEAN Imports from Japan	116.5	100.5	12.2	8.4	0.1
Total Trade with Japan	230.2	105.1	10.9	8.2	0.6
Trade Balance with Japan	-2.8	-	-	-	-
FDI Inflows from Japan	21.2	163.2	12.0	13.7	6.3

Note: * CAGR.

Source: ASEAN Secretariat (as of September 2019).

374. Japan is a major trading and investment partner of ASEAN. With total trade amounting to USD 230.2 billion in 2018, Japan ranked as ASEAN's fourth largest trading partner among Dialogue and FTA Partners (see Table 3.34). Between 2010 and 2018, bilateral trade increased by 5.1%. During this period, exports grew at an average annual rate of 1.2%, higher than imports of 0.1%. ASEAN recorded a growing trade deficit with Japan that reached USD 2.8 billion in 2018. In terms of investment, Japan is the second largest external source of FDI for ASEAN in 2018, contributing almost 13.7% of total FDI inflows into ASEAN. Between 2010 and 2018, Japan's FDI to the AMS increased by 63.2%, from USD 13.0 billion to USD 21.2 billion.

¹⁷⁵ Full text of the ASEAN-Korea Trade in Services Agreement is available on the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/images/archive/21111.pdf>.

¹⁷⁶ Full text of the AKFTA Investment Agreement is available on the official website of the ASEAN Secretariat at <https://www.asean.org/storage/images/archive/22973.pdf>.

¹⁷⁷ These include: (1) customs procedures; (2) trade and investment promotion; (3) SMEs; (4) human resource management and development; (5) tourism; (6) science and technology; (7) financial services; (8) information and communication technology; (9) agriculture, fisheries, livestock, plantation commodities and forestry; (10) intellectual property; (11) the environmental industry; (12) broadcasting; (13) construction technology; (14) standards and conformity assessment and sanitary and phytosanitary measures; (15) mining; (16) energy; (17) natural resources; (18) shipbuilding and maritime transport; and (19) film.

375. The ASEAN-Japan Framework for Comprehensive Economic Partnership,¹⁷⁸ signed in 2003, provided the basis for the AJCEP Agreement,¹⁷⁹ which was signed in April 2008 and entered into force on 1 December 2008.¹⁸⁰ ASEAN-6 has completed its tariff elimination for normal track products, while for the remaining AMS this will be done based on their tariff reduction schedules.
376. The AJCEP included enabling clauses for negotiations on trade in services and investment by respective sub-committee. The First Protocol to Amend the AJCEP Agreement was signed on 27 February 2019 in Tokyo, 2 March 2019 in Siem Reap, and 24 April 2019 in Hanoi. The First Protocol to Amend the AJCEP incorporates new provisions or Chapters on Trade in Services, Movement of Natural Persons, and Investment into the AJCEP Agreement. The Protocol will enter into force following ratification by Japan and one AMS.
377. The AJCEP Agreement also has an Economic Cooperation chapter, which provides provisions on economic cooperation that cover 12 areas¹⁸¹ and other fields as may be mutually agreed upon among the parties. The economic cooperation activities under the AJCEP are supported by the Japan-ASEAN Integration Fund.

3.5.3.4. ASEAN-India Free Trade Area

Table 3.35. Trade and FDI Indicators of ASEAN and India

	Size		Share (% to ASEAN)		Average Growth* (%)
	Value in 2018 (in USD billion)	2018 Index (2010 = 100)	2010	2018	2010-2018
ASEAN Exports to India	50.7	136.8	3.5	3.5	4.0
ASEAN Imports from India	30.2	153.9	2.1	2.2	5.5
Total Trade with India	81.0	142.7	2.8	2.9	4.5
Trade Balance with India	20.5	-	-	-	-
FDI Inflows from India	1.7	45.6	3.5	1.1	-9.3

Note: * CAGR.

Source: ASEAN Secretariat (as of September 2019).

378. There has been continued improvement in trade and investment relations between ASEAN and India. Total bilateral trade increased from USD 56.7 billion in 2010 – when the FTA between the two parties came into effect – to USD 81.0 billion in 2018. The average annual growth rate of ASEAN's exports to India and its imports from India were comparable, at 4.0% and 5.5%, respectively, between 2010 and 2018. ASEAN recorded a trade surplus of USD 20.5 billion in 2018, up from USD 17.4 billion in 2010. Both sides are targeting

¹⁷⁸ Full text of the ASEAN-Japan Framework for Comprehensive Economic Partnership is available on the official website of the ASEAN Secretariat at <https://www.asean.org/storage/images/2013/economic/afta/AJFTA/1-%202003%20-%20Framework%20for%20CEP%20between%20ASEAN%20and%20Japan.pdf>.

¹⁷⁹ In addition to AJCEP, Japan also has bilateral Economic Partnership Agreements with seven AMS, namely Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam.

¹⁸⁰ Full text of the Agreement on Comprehensive Economic Partnership Among Member States of ASEAN and Japan is available on the official website of the ASEAN Secretariat at <https://www.asean.org/storage/images/archive/agreements/AJCEP/Agreement.pdf>.

¹⁸¹ The 12 areas include: (1) trade-related procedures; (2) business environment; (3) intellectual property; (4) energy; (5) information and communications technology; (6) human resource development; (7) SMEs; (8) tourism and hospitality; (9) transportation and logistics; (10) agriculture, fisheries, and forestry; (11) environment; (12) competition policy.

bilateral trade to reach USD 200 billion by 2022. Meanwhile, FDI inflows from India to ASEAN have been decreasing, albeit still from a low base, from USD 3.8 billion in 2010 to USD 1.7 billion in 2018 or from 3.5% to 1.1% of ASEAN's total FDI inflows.

379. The ASEAN-India Framework Agreement on Comprehensive Economic Cooperation was signed at the 2nd ASEAN-India Summit in 2003.¹⁸² The Framework Agreement laid the basis for the eventual establishment of an ASEAN-India Regional Trade and Investment Area, which includes agreements on trade in goods, trade in services, and investment.
380. The ASEAN-India Trade in Goods Agreement (AITIGA) was signed in 2009 and came into effect on 1 January 2010.¹⁸³ The Agreements on Investment and Trade in Services under the Framework Agreement on Comprehensive Economic Cooperation were formally signed ad referendum in 2014, and both entered into force on 1 July 2015.¹⁸⁴ Since 2015, parties have been looking at the review of the AITIGA based on the following scope: (1) implementation issues; (2) facilitation measures; (3) taking into account other negotiations on further liberalisation of trade in goods; (4) sharing and exchanging of trade data; and (5) promoting AITIGA to the stakeholders. At the 16th AEM-India Consultations in September 2019, parties agreed to review the AITIGA after the conclusion of the RCEP negotiations, with a view to making the Agreement more user-friendly, simple, and trade-facilitative.

3.5.3.5. ASEAN Australia and New Zealand Free Trade Area

Table 3.36. Trade and FDI Indicators of ASEAN and Australia and New Zealand

	Size		Share (% to ASEAN)		Average Growth* (%)
	Value in 2018 (in USD billion)	2018 Index (2010 = 100)	2010	2018	2010-2018
ASEAN Exports to Australia & New Zealand	45.3	106.9	4.0	3.2	0.8
ASEAN Imports from Australia & New Zealand	30.9	136.2	2.4	2.2	3.9
Total Trade with Australia & New Zealand	76.2	117.1	3.2	2.7	2.0
Trade Balance with Australia & New Zealand	14.4	-	-	-	-
FDI Inflows from Australia & New Zealand	1.0	22.9	4.0	0.6	-16.8

Note: * CAGR.

Source: ASEAN Secretariat (as of September 2019).

¹⁸² Full text of the Framework Agreement on Comprehensive Economic Cooperation between the Republic of India and ASEAN is available on the official website of the ASEAN Secretariat at https://asean.org/?static_post=framework-agreement-on-comprehensive-economic-cooperation-between-the-republic-of-india-and-the-association-of-southeast-asian-nations-2.

¹⁸³ Full text of the Agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the Republic of India is available on the official website of the ASEAN Secretariat at [https://www.asean.org/wp-content/uploads/images/2013/economic/afta/ASEAN%20India%20TIG%20-%20CTC%20scan%20\(complete\).pdf](https://www.asean.org/wp-content/uploads/images/2013/economic/afta/ASEAN%20India%20TIG%20-%20CTC%20scan%20(complete).pdf).

¹⁸⁴ Full texts of the two Agreements are available on the official website of the ASEAN Secretariat at <https://www.asean.org/wp-content/uploads/2016/04/AI-TISA-Agreement-ASEAN-FINAL.pdf> for services and <https://www.asean.org/wp-content/uploads/2016/04/ASEAN-India-Investment-Agreement-ASEAN-version.pdf> for investment.

- 381.** Trade between ASEAN and Australia and New Zealand reached USD 76.2 billion in 2018, an increase from USD 65.0 billion in 2010. On average, imports grew faster than exports, at 3.9% as compared with 0.8% between 2010 and 2018. As a result, ASEAN's trade surplus with Australia and New Zealand decreased from USD 19.7 billion in 2010 to USD 14.4 billion in 2018. The shares of Australia and New Zealand FDI inflows to ASEAN decreased from 4.0% in 2010 to 0.6% in 2018 over the same period. FDI inflows from Australia and New Zealand to ASEAN reached USD 982.3 million in 2018.
- 382.** The Agreement Establishing the AANZFTA entered into force in 1 January 2010 for nine parties,¹⁸⁵ followed by the three remaining AMS: Lao PDR on 1 January 2011, Cambodia on 4 January 2011, and Thailand on 10 January 2012.¹⁸⁶
- 383.** On 26 August 2014, Economic Ministers from ASEAN and Australia and New Zealand signed the First Protocol to Amend the Agreement Establishing the AANZFTA, which entered into force on 1 October 2015, and was fully implemented by all parties on 1 April 2019.¹⁸⁷ The Protocol introduces new procedures to ensure that administrative revisions are expedited efficiently, removes some unnecessary information requirements, and streamlines the presentation of the product-specific ROO to make the Agreement more user-friendly for businesses.
- 384.** In terms of services and investment, the AANZFTA provides a framework to strengthen services and investment outcomes over time, including through provisions to ensure greater certainty and transparency for service suppliers doing business in the region. In addition to investment promotion and facilitation, the AANZFTA also provides better certainty to investors, including through provisions relating to compensation for losses, transfers relating to profit and capital, and transfer of rights or claims to investments.
- 385.** According to Article 9 of Chapter 18 of the AANZFTA, parties are required to undertake a General Review of this Agreement with a view to furthering its objectives in 2016, and every five years thereafter, unless otherwise agreed by the parties. In 2017, parties agreed to commence the AANZFTA General Review to ensure the Agreement stayed relevant and trade-facilitative. The General Review was conducted in two stages, where Stage One was a backward-looking exercise to review the implementation of the agreement. The Stage One Joint Report was endorsed by the Ministers at the 22nd AEM-Closer Economic Relations (CER) Consultations in September 2017.¹⁸⁸ Stage Two was conducted to provide analysis and recommendations to improve existing rules and incorporate new elements into the agreement.

¹⁸⁵ The AANZFTA was the first plurilateral agreement for both ASEAN and Australia (New Zealand has a plurilateral agreement with Brunei, Singapore and Chile). It is also the first region-to-region engagement for ASEAN and the first agreement that Australia and New Zealand have jointly negotiated.

¹⁸⁶ Full text of Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area is available on the official website of the ASEAN Secretariat at <https://www.asean.org/uploads/2012/10/Agreement%20Establishing%20the%20AANZFTA.pdf>.

¹⁸⁷ Full text of the First Protocol to Amend the Agreement Establishing the AANZFTA is available on the official website of the AANZFTA at <https://www.asean.org/wp-content/uploads/2012/10/A.4-2014.08.26-AANZFTA-First-Protocol-body-signed-1.pdf>.

¹⁸⁸ The public version of the Report is available on the official website of the AANZFTA at https://aanzfta.asean.org/uploads/2016/04/AANZFTA-General-Review-Stage-One-report_FINAL-public.pdf.

386. The recommendations arising from Stage Two of the AANZFTA General Review were endorsed by the Ministers at the 23rd AEM-CER Consultations on 1 September 2018. The recommendations cover rules of origin, customs procedures, services, investment, e-commerce, competition, government procurement, and cooperation on trade and sustainable development.¹⁸⁹ Subsequently, the Work Plan for AANZFTA Upgrade Negotiations was endorsed by the Ministers at the 24th AEM-CER Consultations in September 2019. Work is also ongoing with regard to the 'built-in agenda' under the AANZFTA covering the following areas: non-tariff measures, cumulation rules, investment, and trade in services.¹⁹⁰
387. The AANZFTA Agreement has a Chapter on Economic Cooperation. To implement commitments under the Economic Cooperation chapter, the AANZFTA Economic Cooperation Support Programme (AECSP) was established in 2010, with funding from Australia and New Zealand, to support: (1) the AANZFTA Support Unit activities; and (2) a five-year Economic Cooperation Work Programme. The AECSP aims to support the ASEAN Secretariat in servicing the AANZFTA Joint Committee and its subsidiary bodies, and in implementing Economic Cooperation Work Programme projects across eight components: (1) ROO; (2) SPS measures; (3) Standards, Technical Regulations and Conformity Assessment Procedures; (4) Services; (5) Investment; (6) Intellectual Property; (7) Customs; and (8) Competition.
388. The AANZFTA Economic Cooperation Support Programme has been one of the highlights of the AANZFTA Agreement. The programme has significantly supported the implementation of the FTA, as well as improved the capacity of AMS in FTA negotiations. Australia and New Zealand are committed to continued economic cooperation under the AANZFTA and expressed commitment to extend their financial support for economic cooperation by end of 2021, while working on a subsequent programme.

3.5.3.6. ASEAN-Hong Kong, China Free Trade Area

Table 3.37. Trade and FDI Indicators of ASEAN and Hong Kong, China

	Size		Share (% to ASEAN)		Average Growth* (%)
	Value in 2018 (in USD billion)	2018 Index (2010 = 100)	2010	2018	2010-2018
ASEAN Exports to Hong Kong	100.2	138	6.9	7.0	4.1
ASEAN Imports from Hong Kong	18.1	113.1	1.7	1.3	1.6
Total Trade with Hong Kong	118.2	133.5	4.4	4.2	3.7
Trade Balance with Hong Kong	82.1	-	-	-	-
FDI Inflows from Hong Kong	10.2	352.3	2.7	6.6	17.0

Note: * CAGR.

Source: ASEAN Secretariat.

¹⁸⁹ The public version of the Recommendations is available on the official website of the AANZFTA at <https://aanzfta.asean.org/uploads/2017/12/AANZFTA-GR-Stage-2-Rec-PUBLIC.pdf>.

¹⁹⁰ The term 'built-in agenda' in FTAs generally refers to the way in which such agreements are made to be 'living agreements' so as to keep them attuned with the emerging economic environment. Such 'built-in agenda' may typically covers provisions for review that would FTA partners to explore ways to build on results and to maximise FTA benefits (Ramizo, 2018).

389. ASEAN-Hong Kong, China (HKC) trade value reached USD 118.2 billion in 2018, accounting for 4.2% of ASEAN's total trade, or a 33.5% increase from 2010. Exports have been increasing significantly more than imports, growing annually at an average of 4.1%, as compared to 1.6% between 2010 and 2018. This led to a trade surplus of USD 82.1 billion in 2018 in favour of ASEAN. The HKC accounted for 4.2% of ASEAN's total trade in 2018. Meanwhile, FDI inflows from the HKC to ASEAN amounted to USD 10.2 billion in 2018, or a significant increase of 252.3% compared to 2010, accounting for 6.6% of total FDI inflows to ASEAN from just 2.7% in 2010, growing on average by 17.0% annually during this period.
390. In 2013, ASEAN agreed to engage in a separate FTA with the HKC, (e.g. the ASEAN-Hong Kong, China Free Trade Area (AHKFTA)), and a separate investment agreement (e.g. the ASEAN-Hong Kong, China Investment Agreement (AHKIA)). Both agreements were negotiated in parallel with each other, and were concluded and announced on 9 September 2017. The two agreements were signed on 12 November 2017 on the sidelines of the 31st ASEAN Summit in Manila, the Philippines. By March and May 2018, the signing of the AHKFTA and the AHKIA was completed. The AHKFTA and the AHKIA entered into force on 11 June and 17 June 2019 respectively, after ratification by Hong Kong, China and five AMS.¹⁹¹
391. The AHKFTA will significantly eliminate and reduce customs duties for trade between ASEAN and Hong Kong and will further enhance trade flows between them. This is also reflective of ASEAN and Hong Kong's support for a rules-based international trade system. As the sixth ASEAN trade agreement with external partners, AHKFTA will allow ASEAN to better participate in the global value chain and will ultimately strengthen ASEAN's position in the region.
392. The Chapter on Economic and Technical Cooperation (ECOTECH) under the AHKFTA will be implemented through an ECOTECH Work Programme, which was finalised in September 2017. The HKC's total contribution for the implementation of the ECOTECH Work Programme is HKD 25 million (approximately USD 3.2 million) for a period of five years starting from 1 January 2020.

3.5.3.7. Regional Comprehensive Economic Partnership

Table 3.38. Trade and FDI Indicators for ASEAN and Other RCEP Countries

	Size		Share (% to ASEAN)		Average Growth* (%)
	Value in 2018 (in USD billion)	2018 Index (2010 = 100)	2010	2018	2010-2018
ASEAN Exports to ASEAN Plus Six	468.6	137.8	32.4	32.7	4.1
ASEAN Imports from ASEAN Plus Six	562.7	166.4	35.5	40.6	6.6
Total Trade with ASEAN Plus Six	1,031.3	152.1	33.9	36.6	5.4
Trade Balance with ASEAN Plus Six	-94.1	-	-	-	-
FDI Inflows from ASEAN Plus Six	40.7	140.7	26.7	26.3	4.4

Note: * CAGR.

Source: ASEAN Secretariat (as of September 2019).

¹⁹¹ Full texts of both Agreements are available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2012/05/AHKFTA-compressed.pdf> for the AHKFTA and <https://asean.org/storage/2012/05/AHKIA.pdf> for the AHKIA. The requirement for entry into force is ratification by Hong Kong, China and four AMS.

- 393.** In addition to the existing FTAs and CEPs, ASEAN is currently negotiating for the RCEP with its six FTA partners, namely Australia, China, India, Japan, the ROK, and New Zealand. The opportunities that arise from RCEP are immense. Collectively, RCEP represented 47.4% of global population, 29.2% of global trade, and 32.2% of global output in 2018.¹⁹²
- 394.** Negotiations are being conducted in line with the Guiding Principles and Objectives for Negotiating the RCEP,¹⁹³ which was endorsed during the launch in 2012. The first round of negotiations was held in May 2013, and, to date, 28 rounds of negotiations have been held. RCEP Ministers also meet annually at their regular meeting. The 1st RCEP Summit was held in November 2017, and the 2nd RCEP Summit in November 2018. At the 2nd RCEP Summit, Leaders welcomed the progress of negotiations to date, noted that negotiations have entered the final stage, and committed to conclude negotiations in 2019. Negotiations are being intensified towards their expected conclusion in 2019.
- 395.** Upon its successful conclusion, RCEP will serve as the centrepiece of ASEAN's external economic relations strategy by bringing together ASEAN and its FTA partners under a single framework that would maximise the benefit of trade and investment, as well as the regional supply chain.

3.5.4. Potential FTAs

- 396.** In addition to existing FTAs, work has been also conducted to explore potential new trade agreements. ASEAN-Canada Exploratory Discussions for a Possible ASEAN-Canada FTA have been fully completed as of September 2019, and parties agreed to exchange views on the next steps in the first half of 2020, with a view of presenting recommendations to the Ministers at the next AEM-Canada Consultations. Discussions are under way on the possible Expert Dialogue and scheduled meeting to consider follow-ups to development of a framework setting out the parameters for a future ASEAN-European Union FTA.

3.5.5. Beyond FTAs and CEPs

- 397.** Beyond FTAs and CEPs, ASEAN also continues to enhance its engagement with Dialogue Partners, Sectoral Dialogue Partners, and Development Partners. Plans of action are in place for each partner, which provide a mechanism to plan and track various cooperation activities and initiatives with the respective partners. For all but five partners (e.g. Germany, Turkey, Norway, Pakistan, and Switzerland) (see Figure 3.34), trade and investment work programmes were also derived from the plans of action to better focus effort on activities or initiatives that can contribute to the strengthening of trade and investment relations with the respective partners.

¹⁹² Population data (World Bank, n.d.d.), global trade data (ASEAN Secretariat, as of September 2019; UNCTAD (2019a); global output (ASEAN Secretariat; IMF, 2019b).

¹⁹³ Full text of the Guiding Principles and Objectives for Negotiating the RCEP is available from the official website of the ASEAN Secretariat at <https://asean.org/wp-content/uploads/2012/05/RCEP-Guiding-Principles-public-copy.pdf>.

398. More recently, ASEAN and the Eurasian Economic Commission signed an MOU on 14 November 2018 to facilitate economic cooperation between AMS and Eurasian Economic Union.¹⁹⁴ The MOU aims to enhance economic cooperation in the following areas: customs procedures and trade facilitation; SPS; technical regulations; e-commerce; trade in services and investment; business development, primarily for MSMEs; and other areas to be mutually agreed by the parties.

Figure 3.33. ASEAN Partners

Dialogue Partners	Sectoral Dialogue Partners	Development Partners
Australia	Pakistan	Germany
Canada	Norway	Chile
China	Switzerland	
European Union	Turkey	
India		
Japan		
Republic of Korea		
New Zealand		
Russia		
United State		

399. While ASEAN is primarily a government-to-government institution, there is also a strong recognition of the important role played by the private sector. To this end, ASEAN also engaged with the private sector represented in the joint business councils of various Dialogue Partners. To date, there are nine such joint business councils, namely: Canada-ASEAN Business Council, ASEAN-India Business Council, ASEAN-Japan Business Council, ASEAN-Korea Business Council, Australia-ASEAN Business Council, ASEAN-New Zealand Business Council, US-ASEAN Business Council, EU-ASEAN Business Council, and the East Asia Business Council, with broad objectives of trade, investment, and business advising. Engagements with representatives of these councils take place regularly at both the official and ministerial levels.¹⁹⁵

400. ASEAN has been a consistent supporter and a key beneficiary of the multilateral trading system. As an open region, ASEAN benefits from an open, inclusive, non-discriminatory and rules-based multilateral trading system. All ten AMS are members of the World Trade Organization (WTO) and have ratified the WTO Trade Facilitation Agreement.¹⁹⁶ ASEAN's FTAs, including the RCEP that is currently being negotiated, were all founded based on the WTO. Without a strong multilateral trading system under the WTO, it would be difficult for ASEAN to pursue its Global ASEAN agenda. ASEAN is therefore following closely the discussions and developments on WTO reform. Of priority to ASEAN is the ensuring of the WTO's continued effectiveness, including its dispute settlement function, and that WTO reforms would be done in a way that is responsive to today's trade realities to ensure its continued relevance. It is also important to ensure that moving forward the system be made more inclusive, taking into consideration the WTO's diverse membership.

¹⁹⁴ The full text of the MoU between ASEAN and the Eurasian Economic Commission is available on the official website of the ASEAN Secretariat at https://asean.org/storage/2018/11/MOU-between-ASEAN-and-the-EEC_Signed-English.pdf.

¹⁹⁵ Further discussion on ASEAN's engagements with the Joint Business Councils is available under the 'Strengthening the Role of the Private Sector' section, or sub-section 3.4.2., of this Report.

¹⁹⁶ Further details concerning the WTO Trade Facilitation Agreement are available on the official website of the WTO at https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm.

401. In addition to its engagement with formal partners, ASEAN also continues to strengthen relations with like-minded regional and global institutions. ASEAN is one of the three official observers of the Asia Pacific Economic Cooperation (APEC), and regularly participates in the APEC Senior Official Meetings as well as Meetings of APEC Ministers Responsible for Trade and the APEC Ministerial Meetings. In 2017, as part of the recommendations of the High-Level Task Force (HLTF) on Strengthening the ASEAN Secretariat and Reviewing the ASEAN Organs, ASEAN adopted Guidelines on the ASEAN Secretariat's Participation in the APEC Process that would allow for close collaboration on potential areas of synergy between the two fora.
402. Likewise, ASEAN also participates in the Asia-Europe Meeting (ASEM), which is aimed at strengthening links and relations between Asia and Europe. All ASEAN Member States and the ASEAN Secretariat are partners of ASEM. In 2016, ASEAN adopted Guidelines on the ASEAN Secretariat's Participation in the ASEM Process aimed at enhancing the conduct of ASEAN's external relations, including maintaining ASEAN centrality and seizing opportunities to deepen ASEAN's external linkages.
403. ASEAN is also represented in the G20. Founded in 1999, the G20 is a forum for the world's top 20 economies to discuss and coordinate policies to promote international economic and financial stability while responding to emerging challenges. Indonesia has been a member of the G20 since 2008, while the Chair of ASEAN is invited to G20 meetings as guest of the Chair of the G20. Singapore has also been invited to G20 meetings by the Chair of the G20 as a representative of the Global Governance Group.
404. ASEAN's step towards more a proactive global engagement was most evident in the adoption of the 'ASEAN Outlook on the Indo-Pacific' by the Leaders at the 34th ASEAN Summit in June 2019.¹⁹⁷ Through the Outlook, ASEAN is determined to take a central role in bringing the region together, moving away from the global narrative of rivalry into one of cooperation. The Outlook reinforces ASEAN's spirit of openness, inclusiveness, and connectivity as the basis for cooperation towards shared prosperity and identifies four priority areas of cooperation, namely: (1) maritime cooperation; (2) connectivity; (3) United Nations' Sustainable Development Goals 2030; and (4) economic and other areas of cooperation.

3.5.6. Conclusion

405. ASEAN continues to work towards a Global ASEAN. Under the AEC Blueprint 2025, efforts have been focused on concluding the RCEP negotiations, reviewing and upgrading the existing ASEAN FTAs/CEPs, enhancing relations with Dialogue Partners, Sectoral Dialogue Partners, and Development Partners, and elevating ASEAN's role in the global arena through engagement with regional and global institutions.
406. Moving forward, the successful conclusion of the RCEP will be central to ASEAN's external economic relations strategy by putting in place an ASEAN-driven mechanism in the new regional economic architecture. RCEP would not only provide new market and employment opportunities, but also offer a stable, rules-based regional trade architecture that would be valuable in uncertain times given the prolonged trade tensions among the world's major trading partners. Beyond this, ASEAN must also continue to support and uphold an open, inclusive, and rules-based multilateral trading system while at the same time keeping track of further developments and proactively contribute, as appropriate, to discussions on WTO reform and other emerging trade-related issues.

¹⁹⁷ The full text of the ASEAN Outlook on the Indo-Pacific is available on the official website of the ASEAN Secretariat at https://asean.org/storage/2019/06/ASEAN-Outlook-on-the-Indo-Pacific_FINAL_22062019.pdf

Chapter 4.

Fourth Industrial Revolution



1. The Fourth Industrial Revolution (4IR) has brought about rapid, unprecedented, transformative, and irreversible changes to the way we produce, work, live, and interact. New technologies – such as big data analytics, artificial intelligence, advanced manufacturing, augmented reality, and the Internet of Things – are driving the 4IR, presenting new opportunities and challenges. ASEAN is no exception, and for the region to thrive in the 4IR there needs to be a paradigm shift in how ASEAN responds, governs, and regulates.
2. Although there exist several possible conceptualisations, there remains no single definition of the 4IR. It has been described as ‘digitisation’ or ‘full-scale automation’ (UNIDO, 2017); ‘digitisation of the manufacturing sector’ (McKinsey, 2015); ‘smart, connected manufacturing’ (Deloitte, 2016); or ‘smart manufacturing or factory of the future’ focusing on the transformation of the production or manufacturing base (ASM, 2017). These various terms do not necessarily have a one-to-one correspondence, and are often defined or used in different contexts in various studies. Many also describe the 4IR in terms of a range of new technologies that combine the physical, digital, and biological worlds (WEF and ADB, 2017: 7). Other commonly used terms that refer to similar phenomena include industrial internet, connected enterprise, SMART manufacturing, Manufacturing 4.0, Internet of Everything, and Internet of Things for Manufacturing.
3. As a working definition, we refer to the definition of the 4IR provided by the WEF and ADB (2017: 7) i.e. ‘a range of new technologies that combine the physical, digital, and biological worlds’. This working definition covers the broader scope of the phenomenon, beyond its implications to the manufacturing sector, to also capture its implications for the wider economy and society as a whole.

4.1. ASEAN in the Fourth Industrial Revolution

4. ASEAN recognises that the 4IR is real and continuously shaping its future. Economically, there is no question of its significance. The internet economy in the six largest markets in ASEAN – Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam – is predicted to reach USD 200 billion by 2025, a four-fold increase from USD 50 billion in 2017 (Google-Temasek, 2017). ASEAN has the potential to be among the top five digital economies in the world by 2025 (AT Kearney, 2016).
5. Despite these positive trends, ASEAN Member States (AMS) still have significant untapped potential. The digital economy represents only 7% of ASEAN’s GDP, compared to 16% in China, 27% in EU5,¹⁹⁸ and 35% in the US. Similarly, of the micro, small, and medium enterprises (MSMEs) making up the majority of ASEAN’s businesses, 75% see digital integration as an opportunity, but only 16% of them truly utilise digital tools. The potential of the digital economy, once tapped, could uplift the region’s economy by USD 1 trillion by 2025 (Bain & Company, 2018: 4). The 4IR, however, is not all about potential gains; it also poses new and unique challenges. Various studies have estimated that AMS, such as Cambodia, Indonesia, Malaysia, Philippines, Thailand, and Vietnam, would have to renounce about half (54%-56%) of their jobs to automation (ILO, 2016), though other studies have also argued that more jobs will be created than those lost (Oxford Economics and Cisco, 2018). ASEAN must, therefore, tap into these potentials as well as address challenges posed by the 4IR.

¹⁹⁸ EU5 comprises France, Germany, Italy, Spain, and United Kingdom.

6. The 4IR is deemed as one of the most prominent global megatrends stipulated in the Element B9 (Global Megatrends and Emerging Trade-Related Issues) of the ASEAN Economic Community (AEC) Blueprint 2025, which envisages the formulation of appropriate strategies in global megatrends and emerging trade-related issues. The element calls for, among others: investing in workers and firms as learning centres for industrial upgrading; managing labour adjustments in the integrating ASEAN, and; enhancing synergy among firms, workers and the government to ensure greater competitiveness, dynamism, and inclusiveness. It also recognises the value of capitalising on the expanding interconnected global cross-border flows and accelerating technology digital advancement that increasingly define international production, trade, services, and investment. More specifically, all sectoral working groups will need to proactively consider the impact of these trends and integrate it into their future work programmes. Consultations with relevant stakeholders in such undertakings would also be imperative, as they are often at the forefront of these trends.
7. Beyond Element B9, the Blueprint also encompasses other elements that are key to ASEAN's competitiveness amidst the 4IR, such as intellectual property (Element B3), technology commercialisation (Element B4), consumer protection (Element B2), science and technology (Element C9), and e-commerce (Element C3). In addition, there is also relevant work in the other two community pillars, such as on cybersecurity under the ASEAN Political Security Community, as well as education and labour under the ASEAN Socio-Cultural Community.
8. The 4IR received the highest political recognition at the 30th ASEAN Summit, in Manila, Philippines, in April 2017, where ASEAN Leaders recognised 'the need for ASEAN to be well prepared and able to maximise the opportunities from the Fourth Industrial Revolution, so as to foster the region's economic growth, and promote inclusive and equitable economic development'. This is the first time that ASEAN, as a regional grouping, embraces the 4IR as a phenomenon and recognises the need to tailor appropriate policy responses. It is notable that the Leaders see the 4IR beyond its potential contribution to economic growth, but also to a more normative contribution to inclusivity and equity in society.
9. To follow through on this political recognition, the 49th ASEAN Economic Ministers (AEM) Meeting in September 2017 endorsed the recommendation made by the 32nd High-Level Task Force on ASEAN Economic Integration (HLTF-EI), and tasked the ASEAN Secretariat to undertake an assessment of the level of readiness or preparedness of ASEAN and AMS for the 4IR. The 'Assessment of ASEAN Readiness for the Fourth Industrial Revolution' (hereinafter the 4IR Readiness Assessment, or, simply, the 'Assessment'), conducted by the ASEAN Secretariat and finalised by the HLTF-EI, was presented to the 50th AEM Meeting on 29 August 2018 in Singapore. This chapter, among others, synthesises the key findings from that Assessment.
10. There have been a number of 4IR-related studies, some of which are highlighted in Table 4.1. However, the 4IR Readiness Assessment is deemed necessary given that: (1) none of the existing assessments cover all ten AMS; and (2) the need to customise methodology to fit with the work under ASEAN. That said, these existing assessments provide useful reference points for the work undertaken by the ASEAN Secretariat.

Table 4.1. Summary of Selective 4IR-related Studies

4IR-related studies	Coverage		Key aspects/dimensions/pillars
	Sample	ASEAN	
WEF Readiness for the Future of Production 2018	100 Countries	Seven AMS, excluding Brunei Darussalam, Lao PDR, Myanmar	Structure of production, and drivers of production.
KPMG Change Readiness Index 2017	136 Countries	Nine AMS, excluding Brunei Darussalam	Enterprise capability, government capability, people, and civil society capability.
DII Global Industry 4.0 Readiness Index 2017	120 Countries	Seven AMS, excluding Brunei Darussalam, Lao PDR, Myanmar	Innovation aptitude, demand factors, driving forces, enterprise excellence, basic enablers, technological sophistication, and industry 4.0 specific enablers.
Dell Future Ready Economies 2016	50 global cities	Singapore and Jakarta (Indonesia)	Human capital, infrastructure, and commerce.

11. Aimed at measuring the readiness of ASEAN for 4IR by leveraging existing work/methodology to measure country readiness while ensuring ASEAN-wide coverage, the Assessment was complemented with qualitative research on specific AMS- and ASEAN-relevant initiatives. It also discusses the potential value add that can be derived from a regional platform to help individual AMS prepare for 4IR and vice versa.
12. The 4IR Readiness Assessment highlighted the following: (1) there is diversity in the level of readiness among AMS; (2) despite growing awareness and initiatives on 4IR among AMS, these are at varying levels of comprehensiveness and advancement; (3) many relevant initiatives are already in place or planned in different streams of ASEAN's work, but a holistic approach to address the challenges and tap into the potential of 4IR is needed given the expansive and transformative changes the phenomenon brings about; and (4) steps need to be taken to strengthen cross-pillar and cross-sectoral coordination, and translate various frameworks and guidelines into implementation. More information on the 4IR Readiness Assessment can be seen in Box 4.1.

Box 4.1. Assessment of ASEAN Readiness for the 4IR

The Assessment used methodology adapted from WEF's 'Readiness for Future of Production' Report 2018, and covered all ten AMS. It looks at both the current structure of production (e.g. economic complexity and scale), and the future of production through the drivers of production/five dimensions of readiness. Each of the five dimensions of readiness is elaborated below.

Innovation and technology. This dimension assesses the extent to which a country has a conducive innovation ecosystem to foster innovations in the future using eight indicators capturing the aspects of access to ICT infrastructure, including: (1) mobile cellular telephone subscriptions; (2) fixed broadband subscriptions; (3) mobile broadband subscriptions; (4) 4G mobile network coverage; (5) internet users; (6) cybersecurity commitment; as well as a country's ability to innovate, as indicated by (7) the number of scientific and technical publications; and (8) the number of patent applications.

Human capital. This dimension measures a country's ability to respond to the changing demands placed on the workforce driven by increased automation and use of advanced technologies brought by the 4IR. Five indicators are used in this assessment to capture 'traditional' indicators on human capital, namely (1) adult literacy rate; (2) years of schooling, as well as aspects related to future labour force, such as (3) migration (as a possible way to attract talent from overseas); (4) enrolment in secondary education to project future workforce size; and (5) the quality of universities.

Regulatory frameworks. Recognising the potential role of regulatory frameworks in creating an enabling environment for innovation and further enhancements in technological advancement, this dimension assesses five indicators: (1) government effectiveness; (2) regulatory quality; (3) the adoption of e-commerce legislation, which includes the four areas of e-transaction laws, data protection privacy laws, cybercrime laws, and consumer protection laws; (4) e-government; and (5) e-participation to reflect how a country is using information technologies (such as online services and telecommunication connectivity) to promote access and inclusion of its people.

Infrastructure and connectivity. Robust connectivity and infrastructure is fundamental to facilitating technological advancements and adoption. This dimension focuses on broader aspects of connectivity beyond logistics, particularly with regard to digital connectivity. This Assessment, therefore, uses three indicators: (1) logistics performance index; (2) mobile connectivity index; and (3) international internet bandwidth.

Inclusive and sustainable growth. Given the likely impacts of production on environments, this dimension assesses a country's use of natural resources and environmental consequences of production including on the intensity level of several key indicators, such as carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), as well as resource constraints, namely baseline water stress and wastewater treatment.

The ten AMS are classified into four archetypes based on these five dimensions, highlighting different levels of readiness for the 4IR among these countries (see Figure 4.1):

1. **Leading** (strong current economic base and strong readiness for the future): Singapore, ranked first in the region, followed by Malaysia and Thailand;
2. **Legacy** (strong economic base but facing risks in the future): Indonesia;
3. **High Potential** (limited current economic base, but well positioned for the future): Brunei Darussalam and Philippines. It is worth noting, however, that some of the indicators are on a per capita basis, which may give an upward bias for a small-population economy such as Brunei Darussalam;
4. **Nascent** (limited current economic base and facing risks in the future): Viet Nam, Cambodia, Lao PDR, and Myanmar. It is worth noting that Viet Nam is located much closer to the intersection point than the CLM, indicating the country's stronger potential and positive trajectory in terms of dimensions of readiness.

Figure 4.1. Archetypes of AMS by Country Readiness for the Fourth Industrial Revolution



Source: ASEAN Secretariat.

The 4IR Readiness Assessment highlights variations in AMS's levels of readiness. Uneven progress has been made in different areas of innovation and technology enablers, such as fixed broadband, 4G, research and development, patents, and cybersecurity. Meanwhile, a significant gap in human capital between and within AMS persists. On regulatory frameworks, improvements can be pursued by putting in place and strengthening the necessary regulations on key areas such as e-commerce, further enhancement of e-government initiatives, while continuing improvement in the overall quality of the regulatory frameworks. Furthermore, in terms of connectivity and infrastructure, while areas for further improvements are country-specific or vary between AMS, there is a strong need to expand the region's internet bandwidth – it serves as a foundation for further development of next-generation technologies. On inclusive and sustainable growth, the assessment reinforces the importance of taking into consideration implications of technological advancements for environmental and social well-being, as well as highlights the potential of technologies to serve as effective means to address environmental and social issues.

13. Even in the absence of explicit reference to the 4IR, relevant initiatives and measures have been in place or planned under various areas of cooperation in ASEAN (see Table 4.2), and have proliferated in the last few years. Some general trends include: a growing focus on capacity building to ensure that the intended target groups (e.g. teachers, MSMEs, vocational training students) develop the necessary skills to adapt to and thrive in the digital era; recognition of the need to look into regulations and other governance-related aspects to address new challenges and seize opportunities brought about by the 4IR; aspirations to leverage technologies to spur productivity and innovation, and; addressing of conventional/developmental challenges such as food and energy security, growing concern over cybersecurity-related challenges, and recognition of the value of regional cooperation in this area. While these initiatives on their own are commendable, there are deep interlinkages across some areas that require the cultivation of synergies and collaboration that goes beyond the current sector-specific approach. Cross-sectoral/pillar coordination and collaboration is currently a work in progress, albeit with good momentum.

Table 4.2. Various Cross-Pillar/Sectoral 4IR-Related Initiatives in ASEAN

ASEAN Economic Community			
Sector/issue	Relevant Element in the ASEAN Blueprint (BP) 2025 Across Three Pillars	Initiatives	Remarks
e-Commerce	e-Commerce (Element C3; AEC BP 2025)	ASEAN Agreement on e-Commerce	The Agreement will contribute to a conducive environment for the growth of e-commerce through, among others, advancing relevant trade rules and enhancing digital connectivity within the region (endorsed at the 50 th AEM, and signing by all AMS completed in January 2019).
		ASEAN Digital Integration Framework (DIF)	The DIF identifies six priorities areas for ASEAN to focus on in the immediate term, namely: (1) facilitation of seamless trade; (2) protection of data while supporting digital trade and innovation; (3) seamless digital payments; (4) the broadening of digital talent base; (5) fostering entrepreneurship; and (6) coordination actions. An Action Plan has been adopted at the 51 st AEM Meeting in September 2019 for endorsement by the AEC Council.
ICT	Information and communication technology (Element C2; AEC BP 2025)	ASEAN Framework on Digital Data Governance	The Framework has the following objectives: (1) the adoption of governance measures throughout the digital data lifecycle; (2) enabling cross-border data flow; (3) promoting digitalisation and leveraging emerging technology; and (4) regional harmonisation of legal and regulatory framework of data (endorsed at the 18 th ASEAN Telecommunications and IT Ministers Meeting (TELMIN)).
		ASEAN-Japan Cybersecurity Capacity Building Centre	Established in September 2018, the centre aims to enhance the capacity of cybersecurity experts and specialists in AMS for protecting own government systems and critical information infrastructure against the cyber-attacks.
		Renaming of TELMIN to ASEAN Digital Ministers	In March 2019, the ICT Ministers agreed to rename ASEAN Telecommunications and Information Technology Ministers' Meeting (TELMIN) and ASEAN Telecommunications and Information Technology Senior Officials' Meeting (TELSOM) as ASEAN Digital Ministers Meeting (ADGMIN) and ASEAN Digital Senior Officials' Meeting (ADGSOM), respectively. The ICT Ministers also adopted the new Terms of Reference for both Meetings.
Science & Technology	<ul style="list-style-type: none"> Productivity-driven growth, innovation, research and development and technology commercialisation (Element B4; AEC BP 2025) Science and technology (Element C9; AEC BP 2025) 	ASEAN Innovation Roadmap	Currently being developed, the roadmap is targeted for ad-referendum adoption by the ASEAN Ministerial Meeting on Science, Technology, and Innovation in November 2019 and further endorsement by the AEC within 2019.
		ASEAN Foresight Alliance	Established by the ASEAN Committee on Science, Technology and Innovation (COSTI) in May 2018, the Foresight Alliance aims to make ASEAN more agile in facing future challenges, and hence will help in shaping forward-looking planning and coordination to prepare for the future.

ASEAN Economic Community			
Sector/issue	Relevant Element in the ASEAN Blueprint (BP) 2025 Across Three Pillars	Initiatives	Remarks
MSMEs	<ul style="list-style-type: none"> Strengthening the Role of Micro, Small, and Medium Enterprises (Element D1; AEC BP 2025) Information and communication technology (Element C2; AEC BP 2025) 	ASEAN SME Online Academy	One-stop, open-access gateway that provides business information and training resources to support MSMEs development and internationalisation (http://www.asean-sme-academy.org/).
		SME Service Centre	A web portal to facilitate linking MSMEs with traders, enterprises, suppliers, manufacturers, and consumers – allowing MSMEs to take advantage of economic integration (http://aseansme.org/home).
		Digitalisation of ASEAN Micro Enterprises	One of the Priority Economic Deliverables of Thailand's 2019 ASEAN Chairmanship. A workshop on the 'Global Digitalisation Models for Micro Enterprises' was held in May 2019, and another policy dialogue on the 'Formalisation of Micro Enterprises' was held at the end of June 2019. These initiatives provide input towards the development of a policy guideline on the digitalisation of ASEAN micro enterprises. The Policy Guideline on Digitalisation of ASEAN Micro Enterprises was adopted at the 51 st AEM in September 2019.
Intellectual property	Strengthening intellectual property partnership (Element B3; AEC BP 2025)	Technology Innovation Support Centres	Networking the Technology Innovation Support Centres across ASEAN (126 universities in ASEAN have such centres).
		ASEAN IP Training Platform for MSMEs	Operationalisation of the ASEAN IP Training Platform for MSMEs.
Consumer protection	Consumer protection (Element B2; AEC BP 2025)	Guidelines on Cross-Border B2C Complaints and Code of Conduct for Online Businesses	The guidelines as well as code of conduct are currently being developed and targeted to be completed within 2019.
Energy	Energy (Element C4; AEC BP 2025)	ASEAN Renewable Energy Roadmap	The development of an ASEAN Renewable Energy roadmap (to be adopted by 2025).
		Renewable Energy hub / information-sharing mechanism	Ongoing activities related to a Renewable Energy hub/information-sharing mechanism to among AMS.
Food, agriculture, and forestry	<ul style="list-style-type: none"> Food, agriculture and forestry (Element C5; AEC BP 2025) Sustainable economic development (Element B8; AEC BP 2025) 	Climate Smart Agriculture	An integrated approach to address interlinked challenges of food security and climate change, which aims to: (1) sustainably increase agriculture productivity to support equitable growth in farm incomes, food security and development; (2) adapt and build resilience of the agricultural and food security system to climate change; and (3) reduce greenhouse gas emissions from agricultural production.
<i>Complementary initiatives in other pillars of ASEAN cooperation</i>			
ASEAN Political-Security Community			
Cybersecurity	Strengthen cooperation in combating cybercrimes (Element B.3.6; APSC BP 2025)	ASEAN Declaration to Prevent and Combat Cybercrime	The Declaration was made to strengthen AMS's commitments to prevent and combat cybercrime (adopted at the 31 st ASEAN Summit).
		ASEAN Cyber Centre and Hub	Ongoing efforts to develop the centre to further enhance cooperation in addressing cybercrimes in the future.
		ASEAN Leaders' Statement on Cybersecurity Cooperation.	In view of growing urgency and sophistication of transboundary cyber threats, ASEAN adopted the Leaders' Statement at the 32 nd ASEAN Summit.

ASEAN Socio-Cultural Community			
Sector/issue	Relevant Element in the ASEAN Blueprint (BP) 2025 Across Three Pillars	Initiatives	Remarks
Education	<ul style="list-style-type: none"> • Equitable access for all (Element B2; ASCC BP 2025) • Towards a creative, innovative, and responsive ASEAN (Element E2; ASCC BP 2025) 	ICT in education sector	Establishment of ASEAN Cyber University, improvement in online learning for higher education, and preparing ICT-ready teachers through competency enhancement.
		ASEAN Technical and Vocational Education and Training 4.0	It is currently underway to strengthen regional harmonisation for the advancement of Technical and Vocational Education and Training.
Labour	Equitable access for all (Element B.2; ASCC BP 2025)	ICT impact on employment	A study on the impact of ICT and outsourcing on employment relationships and on the adequacy of employment relations legislations is being conducted.
Civil Service	Towards an open and adaptive ASEAN (Element E1; ASCC BP 2025)	ASEAN Statement on Promotion of Good Governance and Acceleration of an Agile Civil Service in a Digital Economy	The statement calls for actions to accelerate the enhancement of capacities of ASEAN civil service to be agile and responsive amidst global digital transformation (Adopted at the 3 rd ASEAN Heads of Civil Service Retreat on 23 August 2019).
ASEAN's Cross-Pillar Initiative			
Smart City	Enhanced connectivity and sectoral cooperation (under Characteristic C of AEC BP 2025)	ASEAN Smart Cities Network	Established at the 32 nd ASEAN Summit, the initiative aims to promote cooperation on smart city development, develop commercially viable projects, and facilitate partnership with external partners. Currently, the initiative involves 26 pilot cities in 10 AMS. The ASEAN Smart Cities Network Framework covers six focus areas: (1) civil and social; (2) health and well-being; (3) safety and security; (4) quality environment; (5) built infrastructure; and (6) industry and innovation, and was adopted at the 33 rd ASEAN Summit. ¹⁹⁹

Source: ASEAN Secretariat.

- ASEAN has since been gearing up for its cross-pillar dialogue and consultations on the 4IR. Following on from the 4IR Readiness Assessment, there is a greater appreciation that the 4IR is a phenomenon that would affect not only the economic pillar of ASEAN, but has Community-wide impacts. Feedback from sectoral bodies across the three community pillars was therefore sought on how the 4IR has affected their work. All bodies that responded indicated that the 4IR is becoming increasingly relevant to their sectors. Most sectoral bodies asserted that the adoption and utilisation of new technologies can serve as a catalyst for more effective and efficient economic activities through more seamless cross-border trade; minimisation of time and errors through improvement of data quality, consistency, and efficiency; improvement of connectivity which, in turn, lowers market-entry barriers for MSMEs and leads to higher-speed transmission of information and multi-channel delivery, enhancing ASEAN's outreach in the region.
- Notwithstanding the aforementioned opportunities, sectoral bodies also recognised that the 4IR also brings about potential risks and challenges to the region as follow: through the technology, infrastructure, connectivity, and human capacity gaps that exist among and within AMS; potential loss of jobs, skills mismatches, and the rise of informal employment; cybersecurity issues; lack – and reduced relevance – of existing regulatory frameworks; and ensuring equal distribution of benefits reaped, and to harness the 4IR to advance gender equality and citizens' empowerment.

¹⁹⁹ Full information concerning the ASEAN Smart Cities Framework is available on the official website of the ASEAN Secretariat at <https://asean.org/storage/2019/02/ASCN-ASEAN-Smart-Cities-Framework.pdf>

16. Generally, most sectoral bodies recognise that the 4IR, while presenting a host of challenges, brings about greater opportunities for the work carried out under their sectors and the intended beneficiaries. The feedback also showed that, under various national and regional initiatives, steps have been taken to seize the opportunities and to address challenges coming from the 4IR given the differences in the level of readiness among – and, indeed, within – AMS. Further, while most existing approaches adopted by sectoral bodies have been very sector-specific, there are emerging cross-sectoral and cross-pillar dialogues and initiatives. The feedback received also noted an increased desire by sectoral bodies to pursue greater cross-sectoral/pillar collaboration in the area of the 4IR.

17. Momentum on the 4IR work is evident in the fact that five out of 13 priority economic deliverables under the 2019 ASEAN Chairmanship are related to the 4IR.²⁰⁰ Further, a number of dedicated dialogues on the 4IR have also been held recently. The first was the ‘Special Session on the 4IR in ASEAN’, which was held in Bangkok, Thailand, on 14 January 2019. Co-organised by the ASEAN Secretariat and the Ministry of Commerce of Thailand, the Special Session was attended by key ASEAN officials from relevant sectoral bodies, private sector and dialogue partner representatives, as well as other relevant stakeholders. More recently, the ‘Special Meeting of the Committee of the Whole (CoW) for the AEC on the 4IR’ was also organised in Bangkok, Thailand, on 13 July 2019. Chaired by the ASEAN Secretariat and supported by the ASEAN-USAID Inclusive Growth in ASEAN through Innovation, Trade and E-Commerce, the Special Meeting of the CoW brought together chairs/representatives from relevant sectoral bodies across the three community pillars to discuss the region’s next steps on the 4IR.

18. At the 51st ASEAN Economic Ministers Meeting on 6 September 2019, the Ministers adopted four of the five 4IR-related priority economic deliverables: the ASEAN Digital Integration Framework Action Plan 2019-2025; Guideline on Skilled Labour/Professional Services Development in Response to the 4IR; ASEAN Declaration on Industrial Transformation to Industry 4.0, and; Policy Guideline on Digitalisation of ASEAN Micro Enterprises. The ASEAN Declaration on Industrial Transformation to Industry 4.0 is expected to be issued by the ASEAN Leaders at the 35th ASEAN Summit in November 2019, while the Digital Integration Framework Action Plan 2019-2025 and ASEAN Innovation Roadmap 2019-2025 are expected to be endorsed by the AEC Council this year prior to the Summit.

²⁰⁰ Under Thailand’s Chairmanship theme of ‘Advancing Partnership for Sustainability’, five out of 13 priority economic deliverables for 2019 are related to the 4IR, namely the ASEAN Digital Integration Framework Action Plan, ASEAN Innovation Roadmap 2019-2025, Guideline on Skilled Labour/Professional Services Development in Response to 4IR, ASEAN Declaration on Industrial Transformation to Industry 4.0, and Digitalisation of ASEAN Micro Enterprises. These deliverables can serve as quick wins in advancing the region’s work on the 4IR.

19. To this end, there is a general shared understanding on the need for ASEAN to develop a holistic vision/direction, if not a strategy, on the 4IR, which will clearly and holistically articulate ASEAN's 4IR agenda and directions. Such a strategy will be owned at the community-wide level (e.g. not just tied to the economic pillar), and will take into account existing initiatives, while prioritising areas where the regional platform can be leveraged. The strategy is envisioned to also serve as a reference and communication tool to ASEAN stakeholders and external partners alike. Such work will be inclusive, with an emphasis on leaving no one behind in the digital transformation journey, while, at the same time, being able to leverage technologies to address sustainable development concerns. In addition, mechanisms for information sharing and coordination that are effective, sustainable, and receive community-wide buy-in will be explored and developed. With many existing initiatives in place at both national and regional levels, there is a need to avoid duplication of efforts and to prioritise areas where the regional platform can best deliver.

4.2. Conclusion

20. The 4IR has been gaining significant traction in ASEAN's Community Building agenda. Not only has there been recognition at the highest political level – and a proliferation of related initiatives or activities at the sectoral level, – dialogues and conversation on this topic have intensified in an increasingly cross-sectoral and cross-pillar manner. The next challenge regards the development of a holistic strategy for the region in the face of the 4IR. Timing will be of the essence, and ASEAN will need to have this strategy in place in a timely fashion to guide its work and collaboration in a way that boosts the region's overall preparedness for the 4IR. In doing so, it is important for the region to be pragmatic, by prioritising those works where the regional platform can best be leveraged and by ensuring that there is an effective institutional mechanism/work process to support its work on the 4IR. Most importantly such work will need to be ASEAN-led, cognisant of the unique diversity of ASEAN, inclusive and participatory, and be aimed at delivering benefits to all the peoples of ASEAN.



Chapter 5.

Conclusion and Way Forward

1. Four years into the implementation of the AEC Blueprint 2025, ASEAN continues to make progress towards achieving its vision for AEC 2025, one that is highly integrated and cohesive; competitive, innovative and dynamic; with enhanced connectivity and sectoral cooperation; and a more resilient, inclusive, and people-oriented, people-centred community, integrated with the global economy²⁰¹. While some AEC 2025 targets have been achieved, others are still works in progress. As ASEAN deepens and broadens its economic integration, it needs to do so in a way that takes into consideration emerging and future challenges that are increasingly cross-sectoral/pillar in nature. This chapter summarises the key findings of the ASEAN Integration Report 2019, and identifies potential ways forward for ASEAN to attain its vision for AEC 2025.

5.1. Towards the AEC 2025: Progress and Achievements

2. Notwithstanding growing uncertainties in the global economy, ASEAN's overall economic performance remains robust. With a combined GDP of USD 3.0 trillion in 2018, as compared to USD 2.5 trillion in 2015, ASEAN is currently the fifth largest economy in the world. As a global trade powerhouse, the region's total ASEAN trade reached USD 2.8 trillion in 2018, an increase of 23.9% from the 2015 figure of USD 2.3 trillion. The region also attracted USD 154.7 billion worth of investment in 2018, the highest in history and a 30.4% increase from total FDI inflows of USD 118.7 billion in 2015. ASEAN economic integration continues to contribute towards the region's emerging position as a global growth driver, with intra-ASEAN accounting for the largest share of ASEAN's total trade and FDI inflows in 2018 at 23.0% and 15.9%, respectively. Beyond these statistics, the success of the AEC also comes from the many regional initiatives and measures undertaken by ASEAN and its Member States. The following sub-sections highlight progress and achievements under different characteristics of the AEC Blueprint 2025.

5.1.1. On Achieving a Highly Integrated and Cohesive Economy

3. In terms of trade in goods, with intra-ASEAN tariffs virtually eliminated (98.6% of tariff lines have zero tariff), efforts are now being intensified to enhance trade facilitation and address the barrier effects of non-tariff measures in the region. Originally targeted under the AEC Blueprint 2015, the full operationalisation of the ASEAN Single Window (ASW), an overdue trade facilitation initiative, has gathered pace. Starting with the electronic exchange of the ASEAN Trade in Goods Agreement (ATIGA) e-Form D to process the granting of tariff preferences under the ATIGA through the ASW platform, to date, seven AMS have joined the live operation, with the rest expected to come on board within 2019. Meanwhile, work towards the operationalisation of the ASEAN-wide Self Certification, which would allow certified exporters to self-certify the origin of their exports to enjoy preferential tariffs under the ATIGA, is now at its final stage, with expected operationalisation in 2020. All AMS have also linked their National Trade Repositories with the ASEAN Trade Repository, which is an ASEAN-level web-based interface that provides and maintains national-level trade- and customs-related information, and work is underway to enhance the availability and quality of information provided through the links.

²⁰¹ Paragraph 9 of the AEC Blueprint 2025.

4. Other initiatives on trade facilitation include the ASEAN Seamless Trade Facilitation Indicators (ASTFI), which were adopted in 2017 and designed to measure and monitor the implementation of trade facilitation measures in the region. Practical trade facilitation tools were also developed, such as the ASEAN Tariff Finder, a no-cost free online search engine to obtain up-to-date information on tariff-related information under various ASEAN Plus One FTAs, and the ASEAN Solutions for Investments, Services, and Trade (ASSIST), a non-binding and consultative mechanism for expedited and effective solution of operational problems encountered by ASEAN-based enterprises on the implementation of ASEAN economic agreements.
5. ASEAN's **customs cooperation** agenda, which aims to simplify customs procedures so as to significantly reduce trade transaction costs in the region, also continues to advance. Among the key developments are the signing of the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT) Protocol 2 (Designation of Frontier Posts), and the ratification by all AMS of Protocol 7 (Customs Transit System) to support the implementation of the AFAFGIT. The ASEAN Customs Transit System (ACTS) aims to enable free movement of trucked goods between participating countries without the need for customs declarations at each border or a change of vehicle. Implementation of ACTS is being piloted in two corridors i.e. North-South and East-West, with expected 'full live operation' in 2020. Furthermore, the ASEAN Customs Administrations are also committed to developing a cooperation mechanism to promote the Authorised Economic Operator (AEO) status and its mutual recognition.
6. ASEAN's work on **standards and conformance** is continuously enhanced through the harmonisation of standards, development and implementation of Mutual Recognition Arrangements (MRAs), and the harmonisation of regulatory regimes. ASEAN has, over the years, harmonised hundreds of standards and technical requirements on various products, ranging from electrical and electronic equipment, rubber-based products, medical devices, cosmetics, traditional medicines and health supplements, to automotive products, among others. The region has also seen the development and implementation of MRAs on electrical and electrical equipment, medicinal products, and food hygiene, and the negotiations of MRAs in the areas of automotive products and building and construction materials. These MRAs facilitate the acceptance of the testing, inspection, and certification of the products between AMS, removing duplication and reducing costs. At the most advanced level of the standards and conformance work is the harmonisation of AMS' regulatory regimes, with the goal of having a single ASEAN regime governing a particular sector. This is currently implemented for cosmetics, and will be implemented for electrical and electronic equipment, and medical devices. Moreover, preparations are underway for the implementation of the ASEAN Food Safety Regulatory Framework, while the negotiation of the ASEAN Agreements on Regulatory Framework for Traditional Medicines and Health Supplements is ongoing.

7. Given the increasing servicification of the economy, due among other factors to digitalisation and the advance of new technologies, the deepening of services integration is key to the success of ASEAN economic integration. In relation to **trade in services**, ASEAN has built on the success of the gradual removal of formal restrictions under the ASEAN Framework Agreement in Services (AFAS) towards deeper services integration through the ASEAN Trade in Services Agreement (ATISA), which provides for a transition to an eventual negative list approach in services liberalisation as well as greater regulatory cooperation. Progress in other areas of services is also visible, notably to enable skills mobility through: (1) the entry into force of the ASEAN Agreement on Movement of Natural Persons in 2016, which facilitates temporary entry and stay of natural persons of one AMS into another AMS; (2) the implementation of MRAs for the eight professional services; and (3) the implementation of the ASEAN Qualification Reference Framework, which is a common reference framework that enables comparisons of education qualification across the AMS.

8. On **investment**, ASEAN continues to advance its four-pronged agenda on liberalisation, promotion, facilitation, and protection. Since the launching of the AEC Blueprint 2025, the Second, Third, and Fourth Protocols to Amend the ASEAN Comprehensive Investment Agreement (ACIA) were signed. They are expected to improve investment cooperation through the incorporation of the built-in agenda items in ACIA (in the case of the Second and Third Protocols) and the incorporation of the World Trade Organization (WTO) Trade-Related Investment Measures-plus Prohibition Performance Requirements obligations into the Agreement (in the case of the Fourth Protocol). The improved investment environment in the region has also been supported by consistent reforms throughout the AMS, such as through continuous reduction of restrictions on investment rules and regulations, increase investment protection, and improved investment facilitation. Moreover, due to increased sustainability concerns across ASEAN, there is also a growing interest in sustainable investment in the region.

9. **Financial integration** in the region is pursued through three strategic objectives, namely financial integration, financial inclusion, and financial stability. This three-pronged approach aims to achieve a holistic integration of the financial sector by balancing liberalisation initiatives with financial inclusiveness and stability. Key achievements in the sector include: the completion of the eight packages of commitments on financial services liberalisation under the AFAS; the commencement of negotiations on the Ninth Package of Commitments; and the signing of the Financial Services Annex in the ATISA. Progress has also been made in various areas of financial cooperation such as banking integration, financial inclusion, insurance integration, capital market development, and capital account liberalisation. In banking integration, the ASEAN Banking Integration Framework provides opportunities for deeper market access and broader operational flexibilities to Qualified ASEAN Banks. In capital account liberalisation, there are ongoing efforts to promote local currency settlement. Meanwhile, to encourage sustainable investments and financing, sustainability standards for capital markets have also been launched. Some initiatives go beyond the reach of the sector, such as Disaster Risk Financing and Insurance and the subsequent Southeast Asia Disaster Resilience Insurance Facility, which were set up to provide protection for the disaster-prone ASEAN region.

10. With regard to ASEAN's efforts to enhance its **participation in global value chains** (GVCs), recent data shows that AMS' share of domestic value added (DVA) in gross exports, which measures the forward linkages of an economy's participation in the GVC that is common in a commodity-dominant economy, has been relatively high since 2010, and this has remained so up to recently. Some AMS observed declining DVA shares in recent years, but this is more likely a result of these countries' declining reliance on unprocessed primary products exports, and transition to becoming exporters of more manufactured or processed products, which typically require more intermediate imports. Meanwhile, the share of foreign value added, which indicates the extent to which an economy uses imported intermediates to produce exports, tends to be higher in AMS that are involved more in manufacturing value chains and those with relatively high back-and-forth trading activities.

5.1.2. On a Competitive, Innovative, and Dynamic ASEAN

11. For ASEAN to be a competitive region with well-functioning markets, rules on **competition** need to be operational and effective. Currently, nine out of ten AMS have competition laws in place, with Cambodia expected to enact its competition law in the near term. All nine competition laws have been translated into English and compiled as the ASEAN Compendium of English Translations of National Competition Laws, which was annexed to the ASEAN Handbook on Competition Policy and Law for Business 2017. Other major initiatives on the competition policy and law include the ASEAN Regional Cooperation Framework on Competition, the implementation of which forms the pathway to an ASEAN Regional Cooperation Agreement, as well as the ASEAN Self-Assessment Toolkit on Competition Enforcement and Advocacy, the ASEAN Regional Capacity Building Roadmap 2017-2020, the Virtual ASEAN Competition Research Centre, and the ASEAN Competition Enforcers Network.
12. Playing a key role in the market are consumers. **Consumer protection** is key to a modern, efficient, effective, and fair market. ASEAN's cooperation in the area of consumer protection has deepened over the years. As of now, nine AMS have enacted their Consumer Protection Act, while Cambodia's consumer protection legislation is expected to be enacted in 2020. At the regional level, the ASEAN High Level Principles for Consumer Protection provides a common baseline for cooperation and exchange of experiences and best practices. Other recent milestones in ASEAN's cooperation in this area include the development of the ASEAN Self-Assessment Toolkit, the launch of the Handbook on Consumer Protection Laws in ASEAN, and the linking between the ASEAN Product Recalls Portal with the Product Recalls Portal of the Organisation for Economic Co-operation and Development (OECD).
13. **Intellectual property** (IP) promotion and protection supports innovation, creativity, and value creation in the market. Several noteworthy IP-related initiatives in the region since 2016 include the ASEAN Common Guidelines for the Substantive Examination of Trademarks and of Industrial Designs in 2017 and 2018 respectively; work under the ASEAN Patent Examination Cooperation, which allows patent applications to be processed faster and more efficiently; enhancements to the databases on registered trademarks and design registrations, namely the ASEAN TMView and DesignView platforms and the development of the ASEAN Geographical Indications Database; and the establishment of the ASEAN Network of Enforcement Experts. Continued efforts to strengthen IPR cooperation in ASEAN is critical for innovation and long-term competitiveness.

14. A competitive, dynamic, and innovative ASEAN requires regulations that are non-discriminatory, pro-competition, effective, coherent, and responsive. **Good regulatory practices** (GRP) are key to the successful delivery of AMS' development agenda as well as the overall implementation of regional commitments. GRP are newly embraced in the AEC agenda, appearing as a new focus area in the AEC Blueprint 2025. Key achievements in this area are the adoption of the non-binding ASEAN GRP Core Principles in 2018 to assist AMS in improving their regulatory practice and to foster ASEAN-wide regulatory cooperation, and the conducting of a Baseline Study on Regulatory Management Systems in ASEAN, which is being finalised. In addition, there are also GRP-related initiatives in specific sectors, such as the adoption of the NTM Guidelines, and the updating in 2018 of the 2009 ASEAN Guidelines on GRP.

5.1.3. On Enhancing Connectivity and Sectoral Cooperation

15. Sectoral cooperation has been strengthened across different areas, while ASEAN connectivity has also been enhanced. In the **transport** sector, ASEAN's cooperation covers land transport, air transport, maritime transport, and sustainable transport. ASEAN's air transport cooperation achieved a significant milestone with the full ratification of the ASEAN open skies agreements in April 2016, establishing the ASEAN open sky. Continued progress has also been made in the upgrading of the ASEAN Highway Network road networks, as well as efforts to complete the missing links of the Singapore-Kunming Rail Link, two key land transport initiatives in the region. In 2017, the region also saw the signing of the ASEAN Framework Agreement on the Facilitation of Cross-Border Transport of Passengers by Road Vehicles, along with the adoption of key documents on sustainable transport. Maritime transport cooperation also continued to advance with the launching of the ASEAN Roll-on Roll-off Sea Linkage Route between Davao–General Santos, the Philippines and Bitung, Indonesia in 2017. The full implementation of the main transport facilitation agreements will significantly enhance connectivity in the region, and to this end, AMS should expedite the completion of ratification processes.
16. In today's world, digital connectivity is at least as important as physical connectivity. ASEAN's cooperation in the **information and communications technology (ICT)** sector is therefore of critical importance. The region has enjoyed rising internet access and a meteoric rise in mobile cellular subscriptions, but there has been a much slower increase in broadband subscription, access to which is fundamental to thrive in the digital age. Naturally, the region is also experiencing a move from older forms of telecommunications, such as fixed landline telephone subscriptions. Among the major milestones in ASEAN's ICT cooperation are the adoption of the ASEAN Framework on Personal Data Protection in 2016, the ASEAN International Mobile Roaming Framework in 2017, and the ASEAN Framework on Digital Data Governance in 2018. In order to reflect the changing sectoral landscape and signal a more comprehensive approach to digital transformation, the ASEAN Telecommunications and IT Ministers also decided to rename themselves as 'ASEAN Digital Ministers'.

17. Digitalisation affects not only the way we connect, but also how we work, live, and trade. Underscoring the importance of **electronic commerce** (e-commerce), the ASEAN Coordinating Committee on Electronic Commerce was established in 2017, followed by the adoption of the ASEAN Work Programme on Electronic Commerce in the same year. A key milestone in ASEAN's e-commerce work was the signing of the ASEAN Agreement on Electronic Commerce in 2018 to, among others, contribute to creating an environment of trust and confidence in the use of e-commerce in the region. A closely related, but broader, initiative was the ASEAN Digital Integration Framework, which was adopted in 2018, and for which an Action Plan is being finalised. In recent years, ASEAN's approach towards e-commerce has evolved to cover not only its technological aspects, but also other cross-cutting implications, such as cybersecurity and the empowerment of consumers and MSMEs.

18. In the **energy** sector, ASEAN continues to achieve milestones in clean energy and the reduction of energy intensity of consumption. The region has achieved a 21.9% reduction in energy intensity in 2016, surpassing the 2020 target of 20.0%. Efforts are underway to further improve energy efficiency in cooling given the expected growth in demand, including through minimum energy performance standards for air conditioning. The region has also set an aspirational target of 23.0% share of renewable energy in the ASEAN energy mix by 2025, and is working on accelerating the deployment of renewable energy, which, as of 2016, stood at 12.4% of ASEAN's total energy mix. ASEAN also actively promotes the use of clean coal technologies. The vast richness of mineral resources in the region heightens the importance of ASEAN's cooperation in **minerals**. Aside from strengthening trade and investment in the mineral sector, ASEAN's current focus in mineral cooperation is on the promotion of sustainable mineral sector development through better monitoring, sharing of best practices, and promotion of sustainable standards adoption.

19. **Food, agriculture, and forestry (FAF)** continues to play a strategic role in ASEAN's sectoral cooperation given its contribution to rural livelihood and links to food security and resource sustainability. Various initiatives have been put in place to further enhance the sustainability and competitiveness of the region's FAF sector. They include: in the case of agricultural sector, the ASEAN Public-Private Partnership Regional Framework for Technology in FAF Sectors and the ASEAN Roadmap for Enhancing the Role of Agricultural Cooperation in Global Agricultural Chains, launched in 2017 and 2018 respectively; and the Work Plan for Forest Law Enforcement and Governance, adopted in 2016, in the case of the forestry sector. The advancement of food security in the region is another priority in the FAF sector. The ASEAN Plus Three Food Security Information System, for example, has been further strengthened since 2016 to allow data collection and dissemination among the participating countries, while cooperation in agricultural research and development has been sustained, especially with regard to increasing the region's resilience and adaptation to climate change, natural disasters, and other shocks.

20. The **tourism** sector continues to demonstrate high potential in ASEAN, making a total contribution of 12.6% to the region's GDP in 2018 (WTTC, 2019). Beyond generating income, the sector also promotes local development and employment. On the other hand, the sector is also affected by sustainability concerns as well as the disruption brought about by new technologies. Part of the efforts to enhance ASEAN's competitiveness as a single tourist destination is the development and promotion of tourism standards, the latter through avenues such as the annual ASEAN Tourism Standard Awards. Mobility of tourism professionals is another area of cooperation that ASEAN is pursuing, with the signing of the ASEAN MRA on Tourism Professionals in 2012, and the launch of the ASEAN Tourism Professional System, a platform that facilitates the matching of tourism professionals and potential employers. A number of initiatives were also pursued to meet ASEAN's objective to become a sustainable tourism destination, namely the Pakse Declaration on ASEAN Roadmap for Strategic Development of Ecotourism Clusters and Tourism Corridors (2016) and the ASEAN Sustainable Tourism Award (2016). Moreover, ASEAN is also cultivating high-potential tourism market segments such as gastronomy tourism and cruise tourism.
21. Finally, ASEAN's cooperation in the area of **science and technology** (S&T) is fundamental to the region's drive to become a globally competitive, innovative community. Moving the S&T agenda from the ASEAN Socio-Cultural Community to the AEC is an acknowledgement of the sector's significance to productivity and competitiveness. While early cooperation was focused on projects and activities supported by the ASEAN Science, Technology and Innovation Fund, recently the sector has been taking a more holistic and programmatic approach. This started with the adoption of the ASEAN Declaration on Innovation by ASEAN Leaders in 2018, followed by the development of the ASEAN Innovation Roadmap in 2019. In 2018, the sectoral ministerial and senior official bodies overseeing S&T matters also saw the inclusion of the term 'innovation' into their name, reflecting the long-term commitment of the S&T agenda towards productivity-driven growth and innovation.

5.1.4. On a Resilient, Inclusive, People-Oriented, People-Centred ASEAN

22. Efforts to make the AEC resilient, inclusive, people-oriented, and people-centred are key to ensuring that ASEAN economic integration leaves no one behind. Work continues to progress on the development of **MSMEs** and the improvement of a business environment and practices that are conducive to smallholders, especially with the adoption of the ASEAN Regional Principles on Good Business Registration Practices and the setting up of various platforms to assist MSMEs, such as the ASEAN Online Academy, ASEAN Business Incubator Network and the ASEAN Mentorship for Entrepreneurs. ASEAN, furthermore, has also recognised the role of inclusive business in fostering MSME development, including through the launch of the ASEAN Inclusive Business Framework in 2017.

23. A more coherent and structured approach to private sector engagement is also being pursued in recognition of the private sector's contribution to the AEC. The ASEAN Business Advisory Council was appointed as the apex **private sector** body in ASEAN, and is responsible for coordinating inputs from established business councils and entities in their interactions with various ASEAN sectoral bodies. Likewise, relevant ASEAN sectoral bodies are also encouraged to institutionalise a consultative process with representative private sector entities (e.g. business associations and/or business councils) to support the implementation of relevant initiatives under the sectoral work plans. To this end, the revised Rules of Procedures for Private Sector Engagement was endorsed in 2017 to ensure more effective public-private engagement. Contributing to the same objective, the ASEAN Secretariat has also initiated the AEC Dialogue as a regular interface with the private sector to discuss emerging issues facing the region's economy, and facilitate one-on-one consultations with individual business councils on specific topics of interest.
24. Building on the notable improvements in **narrowing the development gap** among AMS over the past few years, ASEAN continues to intensify work in this area. The Initiative for ASEAN Integration (IAI) Work Plan III (2016-2020), which consists of five strategic areas of food and agriculture, trade facilitation, MSMEs, education, and health and well-being, was designed to assist Cambodia, Lao PDR, Myanmar, and Viet Nam to meet ASEAN-wide targets and commitments towards realising the goals of the ASEAN Community. Apart from the implementation of the IAI Work Plan III, specific efforts on MSME development and improving access to finance – as well as the work on various sub-regional cooperation platforms in the region – are contributing towards achieving equitable economic development. However, critical challenges in narrowing the development divide still need to be addressed, including by enhancing coordination between ASEAN and external parties, particularly in capacity building and knowledge sharing across all AMS, as well as by continuing individual AMS' efforts towards domestic reforms to enhance economic development.

5.1.5. On Enhancing External Economic Relations

25. With its consistent commitment to open regionalism, ASEAN continues to pursue active external economic relations with countries and regional groupings around the world in parallel to its internal integration efforts. Contributing towards its objective towards becoming **a global ASEAN**, some of the key highlights in this area include the signing of the ASEAN-Hong Kong Free Trade Agreement and the ASEAN-Hong Kong Investment Agreement, as well as the conducting of upgrading or review of existing ASEAN Plus One agreements, such as the ongoing implementation of the ASEAN-China Free Trade Agreement upgrading protocol, the completion of the general review of the ASEAN-Australia-New Zealand Free Trade Agreement and the endorsement of a Work Plan for AANZFTA Upgrade Negotiations, as well as the signing of the first protocol to amend the ASEAN-Japan Comprehensive Economic Partnership by all AMS in April 2019 to incorporate the chapters on services, investment and movement of natural persons.

26. The conclusion of the Regional Comprehensive Economic Partnership (RCEP) remains top of ASEAN's external economic relations agenda. Negotiations are being intensified towards the target for conclusion this year to ensure the credibility of the RCEP process as well as in light of the urgency introduced by rising protectionism and global uncertainties. Once successfully concluded, RCEP will not only have immense economic potential through market and job opportunities, but also by providing a transparent, certain, rules-based framework for trade and investment among the 16 participating countries, hence safeguarding the stability of key production networks and value chains in the region and signifying ASEAN's central role in the region's economic architecture.

5.1.6. ASEAN in the Fourth Industrial Revolution

27. The **Fourth Industrial Revolution** (4IR) has been high on ASEAN's agenda ever since the issue was given political recognition in 2017, where ASEAN Leaders underscored the need for the region to be 'well-prepared and able to maximise the opportunities from the 4IR, so as to foster the region's economic growth, and promote inclusive and equitable economic development'. Since then, ASEAN has seen a proliferation of various 4IR-related initiatives. In 2018 alone, the region saw the completion of the 'Assessment of ASEAN's Readiness for the 4IR', along with the signing of the ASEAN Agreement on Electronic Commerce, as well as the endorsement of the ASEAN Digital Integration Framework and the ASEAN Framework on Digital Data Governance. The 4IR has also featured prominently in Thailand's 2019 ASEAN Chairmanship, where five out of 13 priority economic deliverables this year are focused on this emerging issue.
28. Acknowledging that the 4IR is an expansive and transformative phenomenon that goes beyond the remit of the AEC, ASEAN has also been intensifying cross-sectoral/pillar dialogues on the 4IR throughout 2019. Most recently, a Special Meeting on the 4IR was organised to facilitate dialogue among representatives of relevant sectoral bodies across the three pillars of the ASEAN Community. As a next step, ASEAN will develop a consolidated strategy on the 4IR, which will articulate clearly and holistically ASEAN's 4IR agenda and directions.

5.2. AEC 2025: The way forward

29. Despite progress and achievements to date, ASEAN shall not be complacent in its efforts to attain the AEC 2025 vision. Internally, there is an urgency to ensuring that AEC commitments are met and implemented effectively and in a timely manner in each AMS for the benefits to be realised. The absence of a strong enforcement mechanism or a functioning dispute mechanism means that the implementation of AEC commitments depends on national efforts – including internal coordination and monitoring efforts – and peer-to-peer commitment to regional goals. Externally, ASEAN's economic integration agenda is set in the context of a rapidly changing environment, which should be taken into consideration in working towards the implementation of those strategic measures in the Blueprint. This final sub-section highlights recommendations for the way forward towards AEC 2025.

30. AMS need to **translate regional commitments into national-level commitments, milestones, and targets** that can be readily enforced, observed, and measured. This requires incorporating ASEAN's economic integration agenda into the realm of national policy making and implementation, such as in the formulation of national development plans and strategies. The same also requires regional coordination to be complemented with **strong coordination at the national level** to oversee the implementation of ASEAN commitments. While there is no one-size-fits-all mechanism, effective national mechanisms should facilitate inter-agency coordination, sharing of information, monitoring of implementation, and stakeholder consultation and feedback. Such a mechanism could also help identify technical and policy issues faced in meeting regional commitments and ways to address them. Given the increasing cross-sectoral/pillar challenges that ASEAN and AMS need to tackle, such a mechanism must also be able to facilitate cross-pillar dialogue and coordination beyond those agencies dealing with the AEC.
31. In terms of ASEAN's effort to create **a highly integrated and cohesive economy**, greater focus should be given to initiatives beyond market opening, with specific efforts on improving trade facilitation, transparency, and regulatory cooperation as well as providing efficient financial services. In today's uncertain world, the intra-ASEAN market has provided a meaningful buffer to external shocks. Extra efforts are still needed for ASEAN to improve its intra-ASEAN trade and investment linkages, placing urgency for ASEAN to accelerate the full operation of its various trade facilitation initiatives. Similarly, reform efforts in the area of investment must be continuously maintained, especially given the fact that other competing markets are vigorously pursuing their own reform efforts. Equally important is the deepening of financial integration, which is key to economic stability as well as economic connectivity. While the level of financial integration in ASEAN is rising, there is still ample room for further progress. ASEAN needs to make long-term investments in financial infrastructure and become supported by sound institutional and legislative frameworks. Given the right balance of policy mix and the availability of digital infrastructure, financial integration in ASEAN could accelerate in the years ahead.
32. Building on the progress made towards achieving **a competitive, innovative, and dynamic ASEAN**, efforts are needed to further modernise rules and regulations in the areas of competition, consumer protection, and IP. Apart from contributing towards the development of a conducive business and investment environment, they are also key for ASEAN to remain competitive globally. Amidst the advancement of new technologies brought about by the 4IR, regional platforms should also be leveraged by AMS to further strengthen and improve the relevance of the region's competition policy and laws, consumer protection regime, and IP cooperation. Overall, ASEAN should also continue with the mainstreaming of the ASEAN Good Regulatory Practice Core Principles across its areas of work.

33. **Connectivity and sectoral cooperation** are key to ensuring the success of regional economic integration. Apart from being an integral part of ASEAN's connectivity agenda, this is also where concrete cooperation activities are undertaken, regional public goods are shared, and regional coordination among regulators takes place. Work in this area applies to sectors of horizontal strategic importance to the ASEAN economy, such as transport, energy and minerals, ICT, and S&T, as well as those of specific strategic consideration given their importance to the economy and employment, such as agriculture and tourism. While cooperation in each particular sector should continuously be enhanced, closer attention should also be given to improving coordination and collaboration among the sectors on cross-sectoral/pillar issues. All these require AEC sectoral bodies to be more open in identifying strategic thematic intersections, and more proactive in pursuing appropriate cross-sectoral/pillar collaborations. This calls for more effective engagement and sharing of information at both the national and regional levels among the relevant sectors, beginning with the leveraging of existing platforms such as the coordinating committees or the Joint Consultative Meeting.
34. To build **a resilient, inclusive, people-oriented, and people-centred ASEAN**, the AEC must deliver concrete benefits to the peoples of ASEAN. To do so, it shall be participatory and inclusive, and the further strengthening of ASEAN's engagement with the public is imperative. The consultation mechanism between ASEAN and the private sector – including through the institutionalisation of a feedback and consultation mechanism between sectoral bodies and the private sector, as well as efforts to track progress in addressing legitimate issues raised by the private sector – can be further strengthened. Cross-sectoral/pillar engagements with the broader AEC stakeholders should also be encouraged. Equally important is the effort to improve the socialisation and utilisation of ASEAN's initiatives. In addition to regular review and upgrading, socialisation and engagement with the private sector and the broader stakeholders will help ensure the relevance of these initiatives vis-à-vis their intended users.
35. ASEAN continues to work towards the attainment of **a global ASEAN**. With its growing economic prowess, ASEAN is becoming a significant global player in its own right. ASEAN's enhanced role in the global economic community is more important today than ever, given increased global uncertainties. ASEAN should continue to leverage existing and future ASEAN-led or centred mechanisms. The timely conclusion of the RCEP is one such mechanism. Once concluded, RCEP will not only represent the largest free trade area in the world, but also serve as an ASEAN-led framework for regional trade architecture. Furthermore, as multilateral trade (and multilateralism in general) comes under pressure, there is a need for ASEAN to play a more active role in upholding the open and rules-based multilateral trading system under the WTO. ASEAN's priority should be ensuring that the WTO remains effective, including in its dispute settlement function, and also relevant by taking into consideration changing trade realities.
36. Lastly, ASEAN needs to be agile and flexible in addressing various emerging trends and issues that constantly arise in an increasingly uncertain global environment. Growing inequality, the emergence of disruptive technologies, climate change, unsustainable production and consumption, the shift in geostrategic balance, and demographic shifts, to name a few, continue to pose challenges to the region's political and economic landscapes. ASEAN will need to address these issues from a whole-of-community perspective that is inclusive and sustainable, taking into consideration various existing initiatives that are already in place, the diversity in its membership, and its collective standing in the global economy.

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