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What to expect: ASEAN 2025: Forging Ahead Together

The ASEAN Economic Community ("AEC") Blueprint 2025, adopted by 10 ASEAN Member States namely Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, at the 27th ASEAN Summit on 22 November 2015 in Kuala Lumpur, Malaysia, provides broad direction through strategic measures for the AEC from 2016 to 2025. Along with the ASEAN Political-Security Community Blueprint 2025 and the ASEAN Socio-Cultural Community Blueprint 2025, the AEC Blueprint 2025 forms part of ASEAN 2025: Forging Ahead Together. It succeeds the AEC Blueprint 2015, which was adopted in 2007. The AEC Blueprint 2025 builds on the AEC Blueprint 2015 and aims to enhance the following five interrelated and mutually reinforcing characteristics in the ASEAN region:

- (i) a highly integrated and cohesive economy;
- (ii) a competitive, innovative, and dynamic ASEAN;
- (iii) enhanced connectivity and sectoral cooperation;
- (iv) a resilient, inclusive, people-oriented, and people-centred ASEAN; and
- (v) a global ASEAN.

Where we are now

In November 2007, the Member States signed the ASEAN Economic Community Blueprint 2015 which aimed to transform ASEAN into a stable, prosperous and highly-competitive region with equitable economic development and reduced poverty and socio-economic disparities.

The AEC was built on four key pillars set out in the AEC Blueprint 2015. An evaluation of the progress made towards implementation of these measures has recently been conducted. In the table below we have outlined these four pillars and the outstanding number of high priority measures yet to be implemented as at 31 October 2015 according to the latest AEC scorecard.

| Pillar | % of measures implemented | Number of measures outstanding |
|--|---------------------------|--------------------------------|
| (i) a single market and production base | 92.4% | 21 |
| (ii) a competitive economic region | 90.5% | 16 |
| (iii) equitable economic development | 100% | 0 |
| (iv) ASEAN's integration into the global economy | 100% | 0 |

This table indicates that while the objectives under the AEC Blueprint 2015 are broad and multidimensional in nature, implementation has been substantially achieved. Specific achievements include the elimination of tariffs and increased facilitation of trade; further liberalisation of trade in services; and the liberalisation and further facilitation of investment in the region. Overall, the latest AEC Scorecard stood at 79.5% or 486 out of 611 measures while the implementation rate of the high-priority AEC scorecard measures stood at 92.7% or 469 out of 506 measures.

Examples of some of the key achievements under the AEC Blueprint 2015 have been summarised in the table below:

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Single Goods Market

Elimination of Tariffs:

- Significant progress has been made on tariff elimination. Under the ASEAN Trade In Goods Agreement ("**ATIGA**"), the ASEAN-6 have reduced their average tariff rates to 0.04% and the CLMV¹ has reduced theirs to 1.33% (or average of 0.54% for all Member States) for trade in goods among the Member States. This is substantially lower than the average tariff rates in 2007 of 1.32% and 4.44%, respectively (or an average of 2.58% for all Member States).

Rules of Origin

- Two Self-Certification Pilot Projects were established to shift the responsibility to produce origin certification from the authorities to manufacturers and exporters by allowing certified exporters to declare their products as having satisfied the ASEAN origin criteria.
 - The First Pilot Project involved Brunei Darussalam, Malaysia, Thailand, Singapore and Cambodia.
 - The Second Pilot Project involved Indonesia, Lao PDR, the Philippines, Thailand, Vietnam and Myanmar.
- Further steps taken to increase the application of the rules of origin across ASEAN include the introduction of advance rulings and the simplification of the Operational Certification Procedures for the rules of origin under the ATIGA, and other trade facilitation processes such as harmonisation or alignment of national procedures.

ASEAN Single Window

- There has been significant progress in the development of the ASEAN Single Window ("**ASW**") which aims to enhance trade facilitation through an integrated platform of partnerships among government agencies and end-users, such as economic, transport and logistics operators, in the movement of goods. The Protocol on the Legal Framework to Implement the ASEAN Single Window was signed in September 2015.
- Following the appointment of contractors to work on the development of the ASW, the full-fledged ASW Pilot Project Component 2 which provides for the exchange of the ATIGA Form D across the Member States is expected to be ready by the end of 2016.

ASEAN Trade Repository

- There has been significant development in the establishment of the ASEAN Trade Repository, which is envisaged to document trade and customs laws and procedures accessible to the public. To date, four Member States (Indonesia, Lao PDR, Malaysia and Thailand) have completed their National Trade Repository ("**NTR**") web portals², while the others are working towards completing their respective NTR web portals.

¹ "**CLMV**" means Cambodia, Lao PDR, Myanmar and Viet Nam.

² Indonesian NTR: <http://eservice.insw.go.id/>

Lao PDR NTR: <http://www.laotradeportal.gov.la/index.php?r=site/display&id=698>

Malaysian NTR: <http://mytraderepository.customs.gov.my/en/Pages/default.aspx>

Thailand NTR: <http://www.thailandntr.com/>

Customs Harmonisation

- Nine Member States have implemented the WTO Customs Valuation Agreement (formally known as the Agreement on Implementation of Article VII of the GATT).
- Pursuant to the Protocol Governing the Implementation of the ASEAN Harmonised Tariff Nomenclature ("**AHTN**"), ASEAN member states now use the 8-digit nomenclature, based on the 6-digit HS code adopted at the World Customs Organization level, for intra-regional trade to facilitate trade negotiations, calculation of tariffs on trade transactions as well as the collection of trade statistics.
- In 2012, ASEAN Finance Ministers signed the ASEAN Agreement on Customs, which operationalises Chapter 6 of the ATIGA, dealing with many aspects of customs procedures, as well as explicitly adopting the WTO Customs Valuation Agreement. The Agreement entered into force on 4 November 2014 following ratification by all Member States.

Standards and Conformance

- The signing of Mutual Recognition Agreements ("**MRAs**") to harmonise standards, develop and implement harmonised regulatory schemes for electrical equipment and electronics (the Sectoral MRA on electronic equipment and electronics), cosmetics (the ASEAN Cosmetics Directive) and medicinal products (the ASEAN Medical Device Directive).
- Another key achievement in relation to standards and conformance is the development of the ASEAN Guideline on Conformity Assessment to explain the mutual recognition of conformity assessment results among the Member States.

Summary

The implementation of the AEC Blueprint 2015 has strengthened trade links and has significantly increased trade within the region. ASEAN GDP has almost doubled from USD 1.33 trillion in 2007 to USD 2.57 in 2014 and trade amongst Member States has increased from USD 1.6 trillion to USD 2.5 trillion between 2007 to 2014. The measures taken under the AEC have reduced the time taken and the number of documents required for import and export.

Among the Member States, the CLMV has played an increasingly important role in intra-regional trade and trade outside the region. In 2014, the CLMV accounted for 10.4% of total intra-ASEAN trade, an increase from 7.6% in 2007. Likewise for extra-ASEAN trade, the CLMV accounted for 15.2% in 2014, up from just 8.0% in 2007.

Enhancing Trade In Services

Liberalisation of Trade in Services: by eliminating restrictions on ASEAN service suppliers in providing services and in establishing companies across national borders for 128 service sectors allowing up to 70% foreign equity under ASEAN Framework Services Agreement ("**AFAS**") focusing on:

- (i) Limitations on market access
- (ii) Limitations on national treatment

To date, Eight Packages of Commitments under AFAS have been released by Member States. The 9th Package of Commitments has been signed by all Member States although it has not yet entered into force. Details of the 9th Package has recently been released and is accessible at: <http://agreement.asean.org/media/download/20160112214407.pdf>.

Separately, in line with Article V of AFAS which provides that Member States may recognize the education experience obtained, requirements met, and licences or certifications granted in other ASEAN Member States for the purpose of licensing or certification of service suppliers, 8 Mutual Recognition

Agreements have been concluded, namely on (i) engineering services, (ii) nursing services, (iii) architectural services, (iv) surveying qualifications, (v) medical practitioners, (vi) dental practitioners, (vii) accounting services, and (viii) tourism professionals.

Increasing Investment

Promoting the free flow of investment: The ASEAN Comprehensive Investment Agreement ("**ACIA**"), focuses on promoting the free flow of investment in the following sectors:

- (i) Manufacturing
- (ii) Agriculture
- (iii) Fishery
- (iv) Forestry
- (v) Mining & Quarrying
- (vi) Services incidental to the main sectors

Since the ACIA took effect, four Member States, namely Brunei Darussalam, Lao PDR, Indonesia and Myanmar, have amended their reservation lists.

For example:

- Brunei Darussalam has narrowed the scope of the sectors to which national treatment restrictions apply (now only agriculture, fisheries and services incidental to these sectors). Previously, manufacturing and forestry were included.
- Lao PDR has removed the manufacturing sector from its reservation list.
- Myanmar has removed restrictions in foreign investment for certain products (e.g. wine, corrugated galvanized iron sheets, pharmaceutical drugs with the exception of traditional medicines).

More generally, despite the ongoing effort to promote free flow of investment into ASEAN, ASEAN as a group has more restrictive foreign direct investment ("FDI") regulatory policies compared to its FTA partners. According to an OECD FDI Regulatory Restrictiveness Index, Singapore has a index of 0.047, the Philippines has an index of 0.425, whilst ASEAN as a whole has an average index of 0.243. This is compared to the group of ASEAN FTA partners which have an average index of 0.206.

AEC Blueprint 2025 Key Measures

As mentioned above, the new AEC Blueprint 2025 aims to build on the previous AEC Blueprint 2015. The AEC Blueprint 2025 emphasises the continued relevance of the goals envisioned under the AEC Blueprint 2015 and one of the immediate priorities is to complete the implementation of any outstanding measures.

Generally, the broad goals of the AEC Blueprint 2025 are to:

- (i) create a deeply integrated and highly cohesive ASEAN economy that would support sustained high economic growth and resilience even in the face of global economic shocks and volatilities;
- (ii) foster robust productivity growth through innovation, technology and human resource development, and intensified regional research and development that is designed for commercial application, to increase ASEAN's competitive edge in moving the region up the global value chains into higher technology and knowledge-intensive manufacturing and services industries;
- (iii) promote the principles of good governance, transparency, and responsive regulatory regimes through active engagement with the private sector, community-based organisations, and other stakeholders of ASEAN;

- (iv) reinforce ASEAN centrality in the emerging regional economic architecture by maintaining ASEAN's role as the centre and facilitator of economic integration in the East Asian region; and
- (v) work towards a common position and enhance ASEAN's role and voice in global economic forum.

We have summarised in the table below the key broad measures under each of the five pillars of the AEC as detailed in the ASEAN Blueprint 2025:

| Pillar | Key Measures |
|---|--|
| A. A Highly Integrated and Cohesive Economy | <ul style="list-style-type: none"> • Further facilitate trade in goods to achieve competitive, efficient and seamless movement of goods within the region; • Further broaden and deepen services integration within ASEAN; • Further enhance the investment environment in ASEAN to improve its attractiveness as an investment destination globally; • Ensure that the financial sector is inclusive and stable by improving financial integration, financial inclusion and financial stability in the region; • Facilitate movement of skilled labour and business visitors by allowing practitioners in selected professions to practice in other Member States through mutual recognition of their qualifications; and • Enhance participation in global value chains to benefit from better realisation of economies of scale, collective efficiency and the organic formation of regional innovation systems. |
| B. A Competitive, Innovative and Dynamic ASEAN | <ul style="list-style-type: none"> • Provide a level playing field for all firms, regardless of ownership, in order for ASEAN to become a competitive region with well-functioning markets; • Provide a comprehensive and well-functioning national and regional consumer protection systems enforced through effective legislation, redress mechanism and public awareness; • Strengthen intellectual property rights cooperation to enhance the volume and value of exports, flows of domestic and foreign direct investment and improve global competitiveness; • Improve Member States' labour productivity and productivity performance through innovation and technological capability; • Achieve tax cooperation within the region through tax agreements and improved exchange of information amongst Member States to reduce fiscal barriers; • Strengthen governance through greater transparency in the public sector by engaging with the private sector to improve synergies in government policies and business actions; • Ensure effective, efficient, coherent and responsive regulations and good regulatory practice to achieve non-discriminatory and pro-competitive regulations; • Promote green development by developing a sustainable growth agenda that promotes clean energy and related technologies as well as sustainable consumption and production; and • Formulate appropriate strategies on global megatrends and emerging trade-related issues to ensure industrial relations environment that facilitates investment in workers and firms as learning centres for industrial |

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|--|--|
| | upgrading, and managing labour adjustments in integrating ASEAN. |
| C. Enhanced Connectivity and Sectoral Cooperation | <ul style="list-style-type: none"> The main objectives are to enhance economic connectivity within the following sectors, with the aim to maximize their contribution in improving the overall competitiveness of ASEAN and strengthening soft and hard networks within the region: <ol style="list-style-type: none"> Transport Information and Communications Technology E-Commerce Energy Food, Agriculture and Forestry Tourism Healthcare Minerals Science and Technology |
| D. A Resilient, Inclusive, People-Oriented and People-Centred ASEAN | <ul style="list-style-type: none"> Strengthen the role of micro, small, and medium enterprises through the enhancement of networking, information flows and capacity building for government agencies working on issues and capability building in the following dimensions: access to finance, technology and innovation, markets, human resource development and enabling policy and regulatory environment; Strengthen the role of the private sector by engaging the business sector and community-based organisations more effectively, both to provide easier access to official information on implementation, and to obtain timely feedback on policies; Drive the Public-Private Partnership agenda further, particularly for infrastructure initiatives under the AEC and under the Master Plan on ASEAN Connectivity and its successor document; Narrow the development gap by providing support to CLMV to augment their capacity to implement regional agreements and accelerate the regional integration process as a whole. |
| E. A Global ASEAN | <ul style="list-style-type: none"> 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 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 Dialogue Partners 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 regional groupings that share the same values and principles on improving the lives of their people through economic integration; Continue to strongly support the multilateral trading system and actively participating in regional fora; and Continue to promote engagement with global and regional institutions. |

Conclusion

With the signing of the AEC Blueprint 2025, Member States have solidified their commitment and efforts to creating and enhancing the AEC which has all the characteristics envisioned in the AEC Blueprint 2025.

Unlike the AEC Blueprint 2015 in which the action plan for achieving the objectives was set out in specific detail, the AEC Blueprint 2025 only sets out the broad objectives to be achieved. It remains to be seen what specific action items would be adopted by Member States moving forward to achieve the objectives envisioned under the AEC Blueprint 2025 and we expect that further details will be released in due course.

For further and more specific information on the AEC, please do not hesitate to get in touch with us.

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