

# An Overview of the ASEAN Economic Community (AEC)

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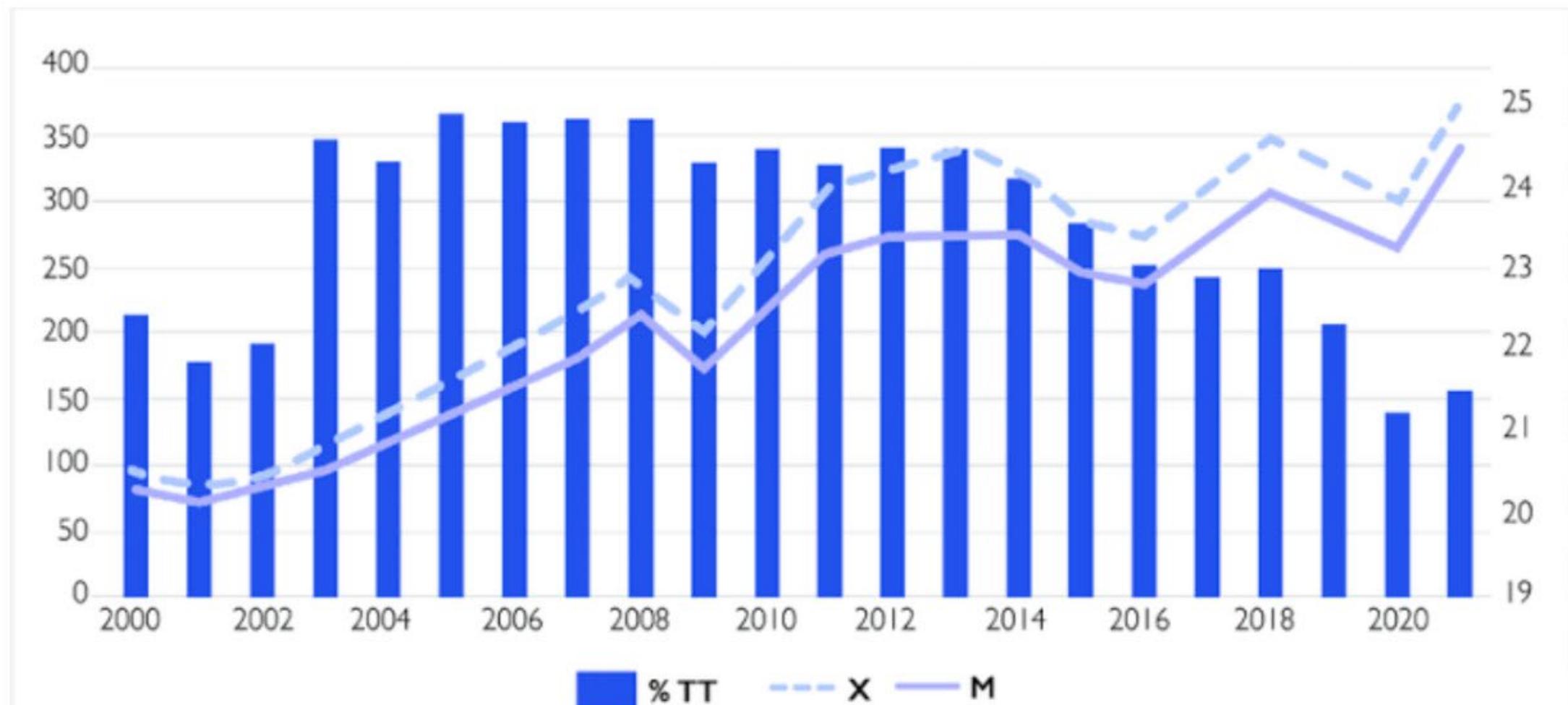
# Outline

- Intro: ASEAN/AEC is different
- AEC 2025 Blueprint
- Assessing AEC Implementation
- AEC and Global Supply Chains
- Short Term Risks and Longer Term Megatrends
- Conclusions

# ASEAN/AEC is different

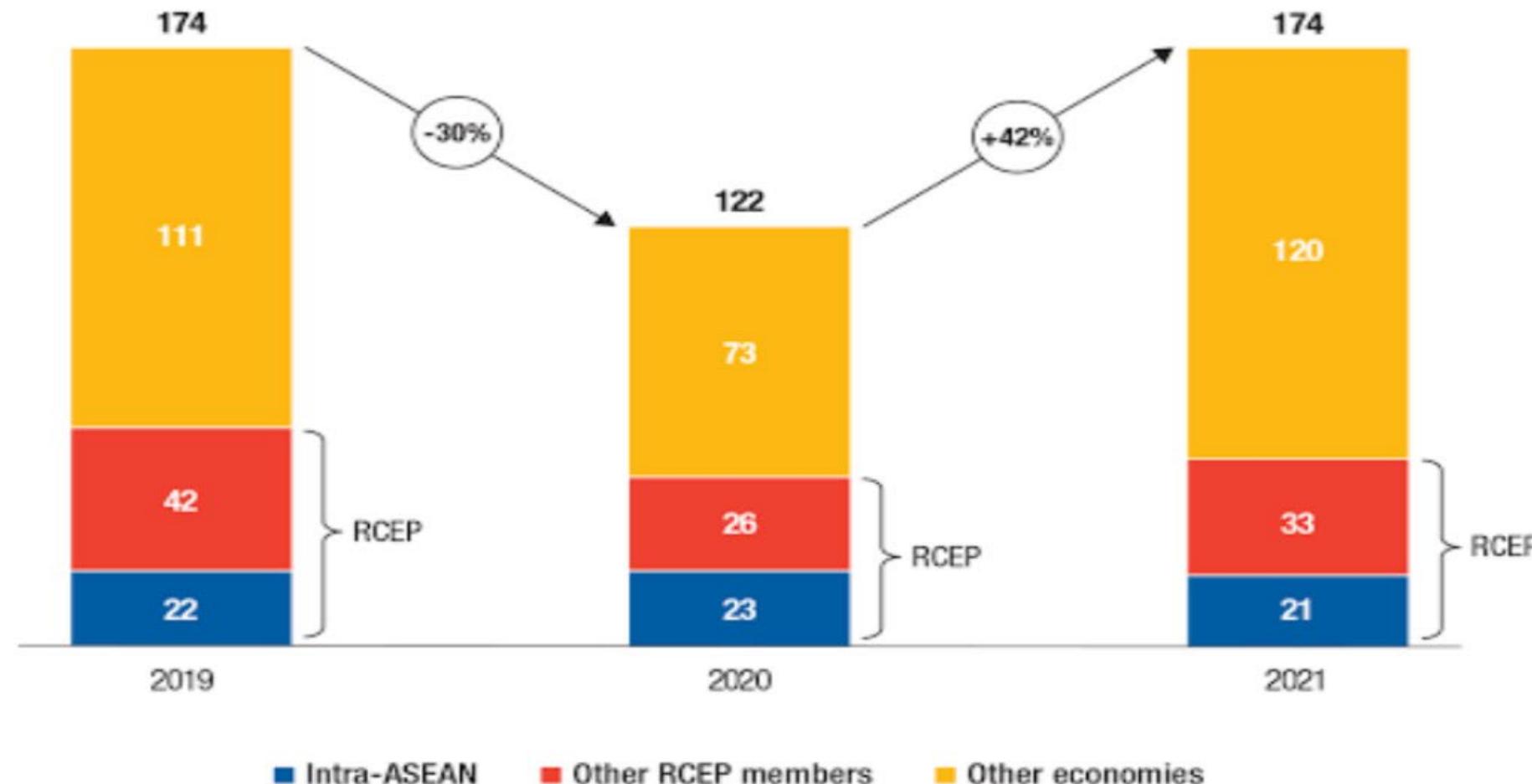
- As a regionalism project, ASEAN/AEC is different.
- Compared to Europe, it is outward- rather than inward-looking, market rather than government driven, and institution light rather than heavy.
- These differences reflect ground realities – diversity, trust, ambition.
- They also reflect the varied motivations of the two regional programs.
- ASEAN's success lies in its achievement of using regionalism for globalization – means versus ends
- The metrics that we use to assess regionalism must reflect true objectives, even if they lie below the surface.

## Intra-ASEAN Trade, 2000-2021 (USD bn; %)



**Notes:** X – intra-ASEAN exports; M – intra-ASEAN imports; % TT = share of intra-ASEAN total trade to global trade. Trade flows (in USD billion) are shown on the left axis, while the share of intra-regional trade in global trade (%) is represented by the right axis.

# Intra-ASEAN Investment, 2019-2021 (USD bn)



<sup>a</sup> ASEAN Secretariat and UNCTAD, FDI/MNE database (<https://unctad.org/fdistatistics>).

RCEP = All ASEAN Member States plus Australia, China, Japan, the Republic of Korea and New Zealand.

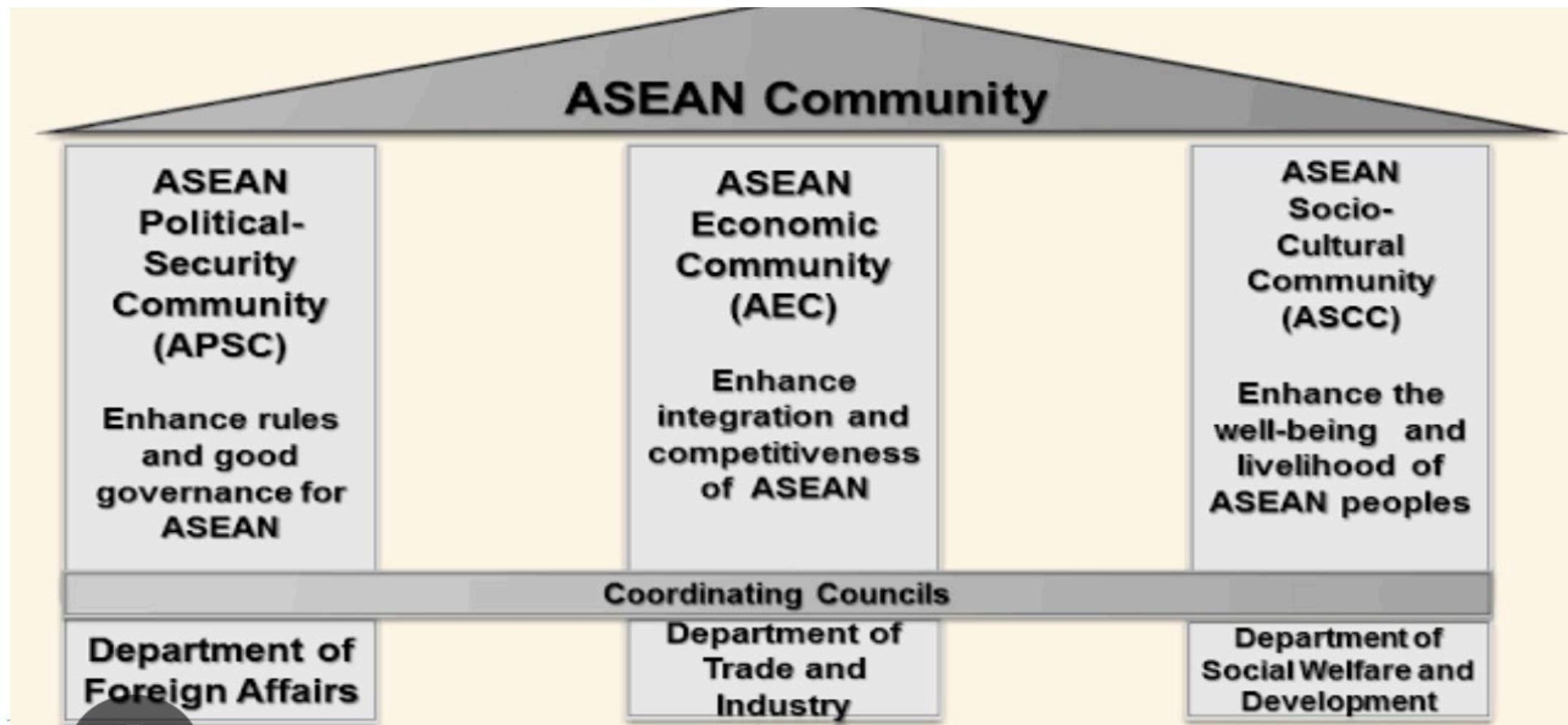
# Where does the AEC fit?

- **Free Trade Area (FTA)**
  - reciprocal trade liberalization
- **Customs Union (CU)**
  - FTA plus common external tariff
- **Common Market (CM)**
  - CU plus capital and labor mobility
- **Economic Union (EU)**
  - CM plus monetary and financial cooperation; usually involves single currency but not necessarily fiscal union.

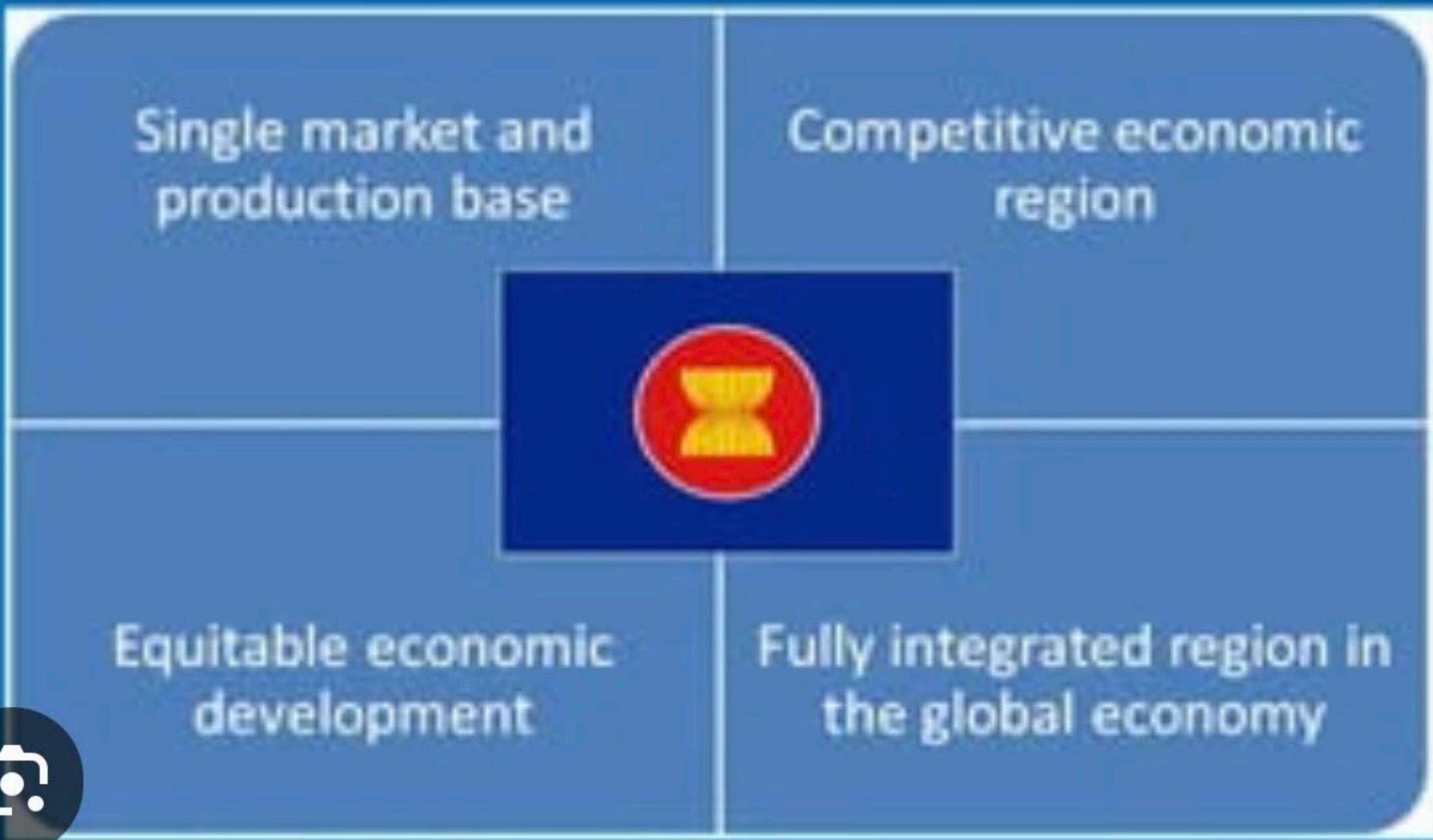
# ASEAN/AEC and Trade Openness

- ASEAN's "open regionalism" has served as a springboard for wider multilateral liberalization.
- Original members have multilateralized their preferences under AFTA and AEC, i.e., offered their preferential tariffs to non-members on an MFN basis.
- More than 90 percent of tariff lines have a margin of preference of zero.
- More than 70 percent of intra-ASEAN trade is conducted at MFN zero.
- Persistently low shares of intra-ASEAN trade and investment may simply reflect this approach and not necessarily a sign of failure to integrate.(Fs)
- Will ASEAN's long-standing commitment to open regionalism be able to withstand rising short- and medium-term risks, and long-term challenges?

# AC: Three Pillars



## AEC 2015: Four Pillars



# AEC 2025: Five Pillars

A Highly Integrated and Cohesive Economy	A Competitive, Innovative, and Dynamic ASEAN	Enhanced Connectivity and Sectoral Cooperation	A Resilient, Inclusive and People-oriented, People-centered ASEAN	A Global ASEAN
<b>Trade in goods</b>	Effective competition policy	Transport	Strengthening the role of micro, small, and medium-sized enterprises	A more strategic and coherent approach towards external economic relations
<b>Trade in services</b>	Consumer protection	Information and communications technology		
<b>Investment environment</b>	Strengthening intellectual property rights cooperation	E-commerce	Strengthening the role of the private sector	Review of existing free trade agreements
<b>Financial integration, inclusion, and stability</b>	Productivity-driven growth, innovation, research and development, and technology commercialization	Energy	Public–private partnerships	Enhance economic partnerships with non-free trade agreement dialogue partners
<b>Facilitating the movement of skilled labor and business visitors</b>	Taxation cooperation	Food, agriculture, and forestry	Narrowing the development gap	
<b>Enhancing participation in global value chains</b>	Good governance	Tourism	Contribution of stakeholders on regional integration efforts	Engage with regional and global partners
	Effective regulations and good regulatory practices	Healthcare		Support the multilateral trading system and regional fora
	Sustainable economic development	Minerals		
		Science and technology		



# AEC Blueprint 2025

- Although ASEAN signed the 2015 KL Declaration announcing the establishment of the AEC on 31 December 2015, it also recognized that it would only be realized by 2025.

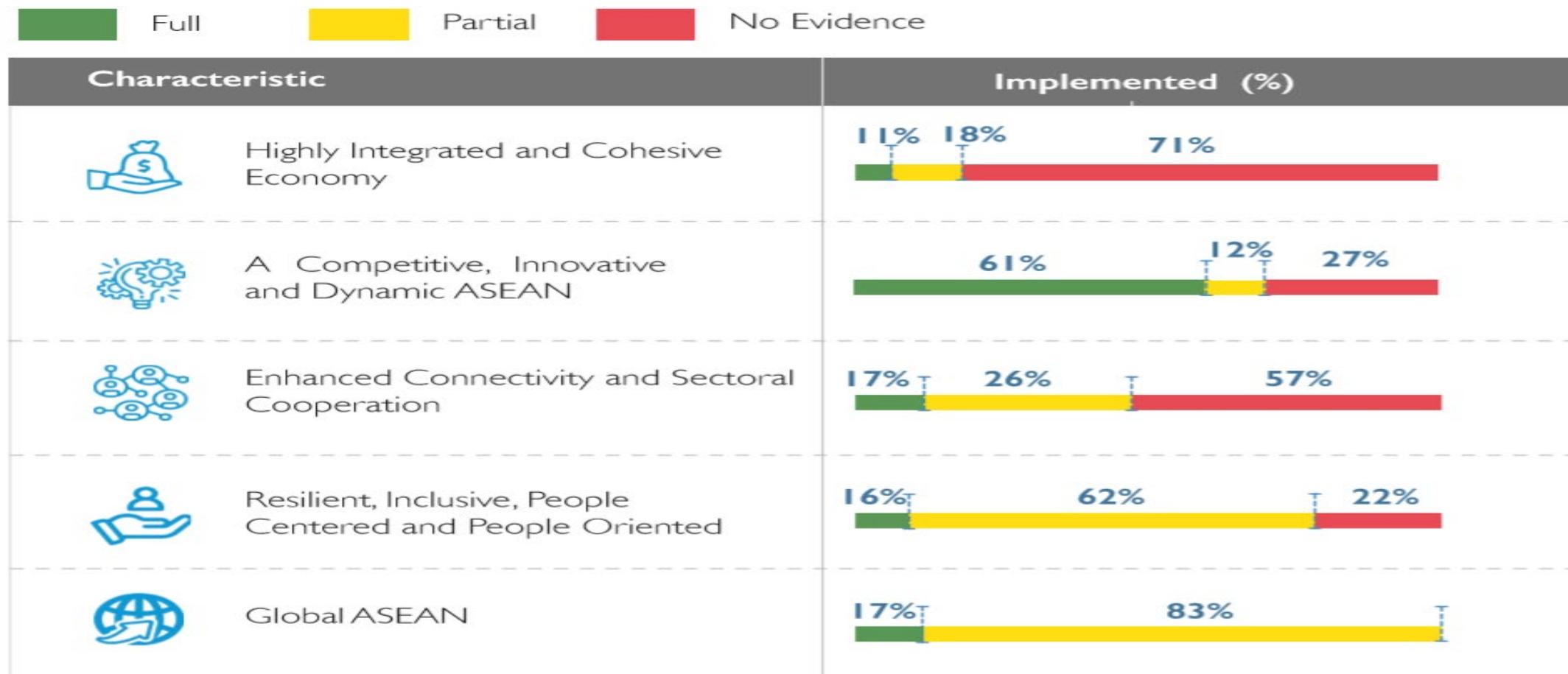
AEC 2025 successor blueprint addresses many of the remaining gaps and introduces new elements

- Addresses more difficult areas of reform, including reducing NTBs, simplifying RoO, and accelerating the implementation of trade facilitation measures.
- Implement the ASEAN Trade in Services Agreement, replacing the ASEAN Framework Agreement on Services and include a review of existing flexibilities, limitations, thresholds and carve-outs.

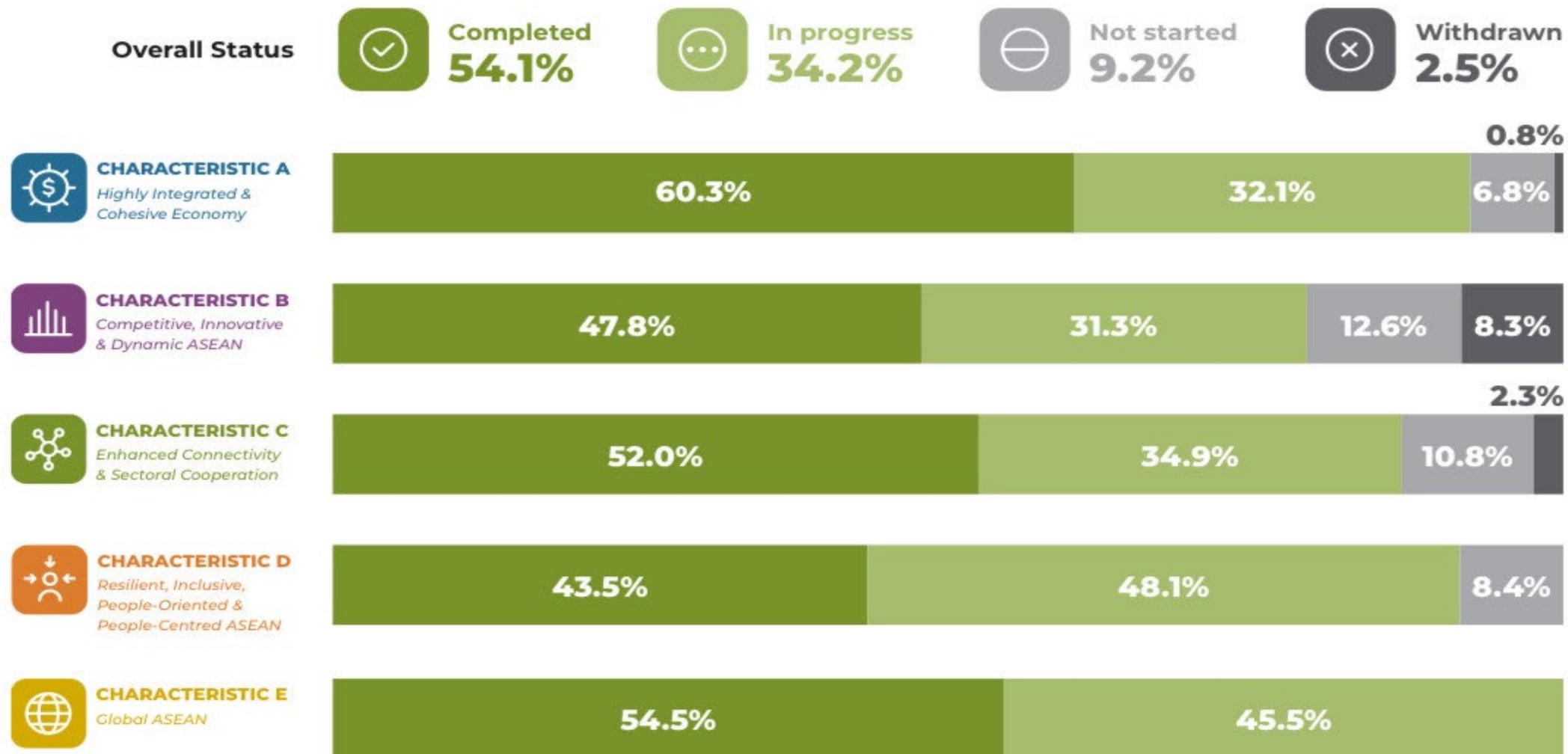
# AEC Blueprint 2025

- Greater emphasis on achieving harmonization and regulatory convergence
- Includes measures to support micro, small, and medium enterprises and entrepreneurs and enhance participation in global value chains
- Defines mechanisms to ensure that ASEAN member states comply with their commitments, a perennial concern with ASEAN being all carrot and no stick!
  - The ASEAN Economic Community Council (AECC) is accountable for enforcing compliance with the Blueprint's strategic measures and is tasked with the establishment of special task forces/committees to assist in facilitating resolution of non-compliance.

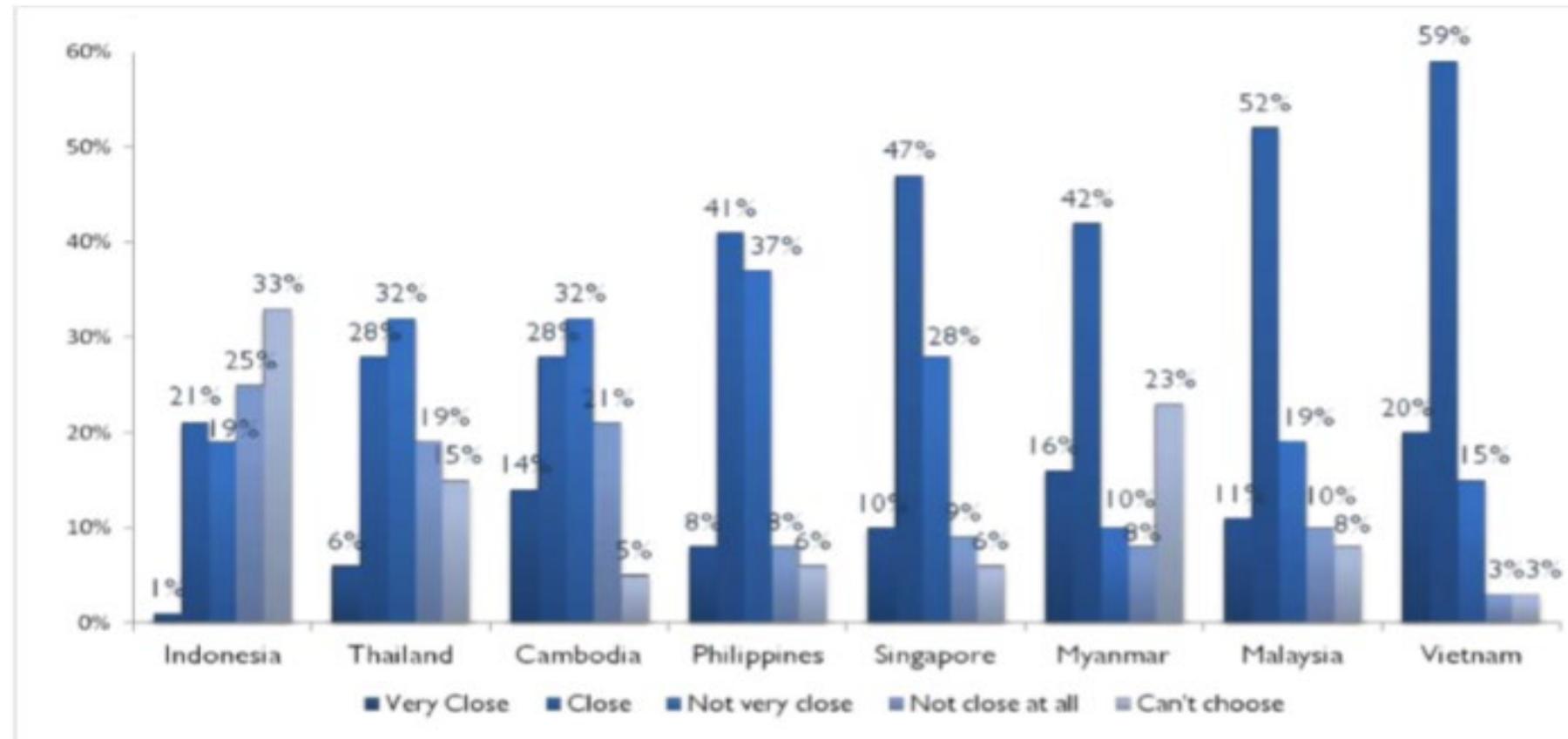
# Assessing AEC Blueprint 2025 Implementation (IDEAS, 2019)



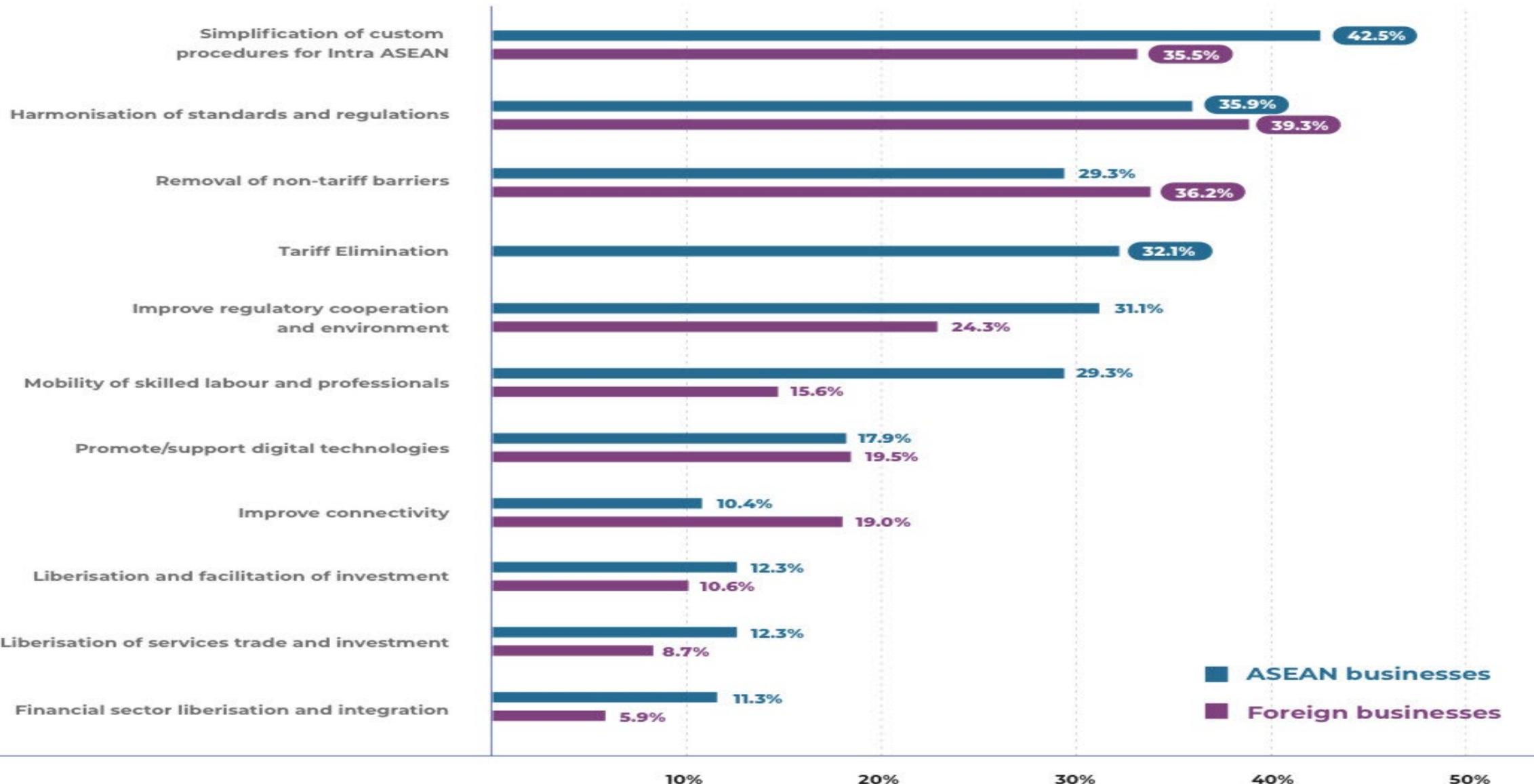
# Assessing AEC Blueprint 2025 Implementation (ASC-MTR, 2021)



# Perceptions of AEC Blueprint 2025 Implementation (2019)



# Perceptions of AEC Blueprint 2025 Implementation (2021)



# AEC and Global Supply Chains (GSCs)

- Trade in ASEAN is dominated by global supply chains (GSCs).
- A key focus of AFTA, and now the AEC, is to support to growth of GSCs
- Can FTAs support GSCs?
- Although it is clear that FTAs are not necessary for GSCs because growth in product fragmentation trade in Asia preceded FTAs- can they support its further growth or its spread?
- product fragmentation trade involves limited processing or value added at each destination, they may not meet RoO requirements – either change in tariff heading or value-added criterion- to avail of preferential rates

# AEC and Global Supply Chains (GSCs)

- Also, most component trade already travels duty-free or at low tariffs, either because of the ITA agreement, duty-drawback schemes, or because most multinationals operate out of duty-free, export processing zones.
- This is also why most studies point to low utilization rates of Asian FTAs – usually around 25% - directly contradicting the assertion that they directly promote this or any other type of trade.
- So, if FTAs or the AEC is going to promote GSCs, then it will not be through preferential tariff reductions but other behind-the-border reforms and reducing NTBs.

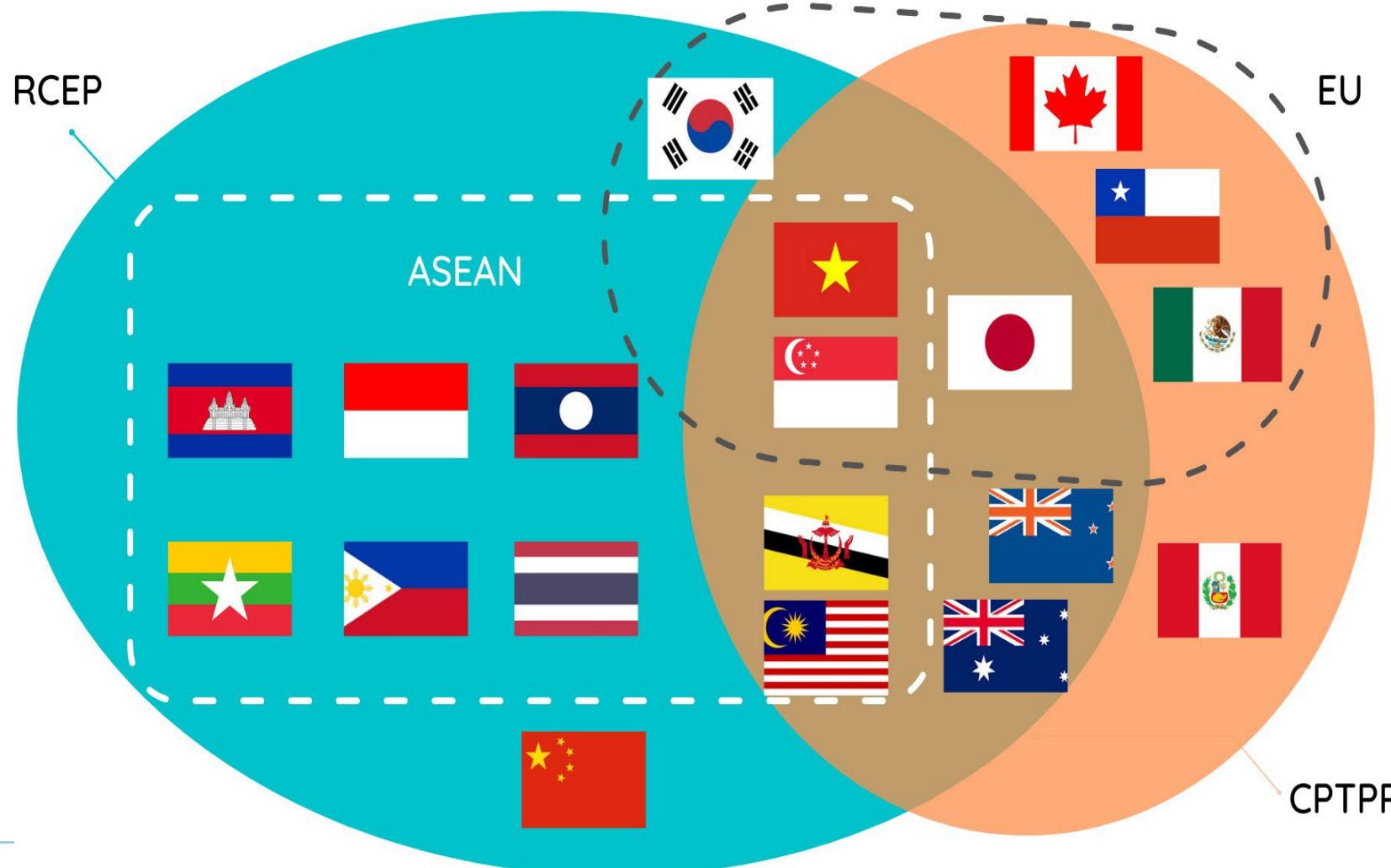
# AEC and Global Supply Chains (GSCs)

- ***Removing behind-the-border constraints*** related to logistics, transport, infrastructure problems, and weak institutions.
- ***Trade Facilitation*** measures with live implementation of National Single Windows
- ***Adopting harmonized standards*** on competition policy and intellectual property rights.
- Like other 21st century trade agreements, the AEC builds on a baseline of WTO membership with low MFN tariffs: strengthen WTO commitments (eg. on TBTs or SPS) = WTO+
- cover areas beyond WTO (e.g. digital trade, investment) = WTO-X
- Agreements on rules & regulations are generally non-discriminatory and hence compliant with WTO commitments.

# AEC and Global Supply Chains (GSCs)

- Effects of these behind-the-border and NTB reforms (also in bilateral and regional agreements like the CPTPP, DEPAs and RCEP) are naturally multilateral – difficult or costly to exclude non-members from free-riding once agreed.
- By harmonising rules and promoting regulatory convergence, FTAs based on an outward-looking approach can maximise benefits and support growth of global supply chains (GSCs).
- It can also fill in the gaps left behind by WTO, dealing with both WTO+ and WTO-X issues through the smaller numbers advantage.

## ASEAN's Regional Free Trade Agreements



## Short to Medium Term Risks

- **Trade and Technology War** – US-China Great Competition.  
Region caught in the middle, trying not to take sides.  
Further disruption to China-centred regional supply chains
- **Real Wars!** Geopolitical risks – flight to safety (USD);  
commodity prices fuelling inflation; Debt crisis (SL, Laos)
- **Rising Protectionism and the Return of Industrial Policy** –  
Driving and being driven by the various wars, and  
accelerated by the pandemic

# The Return of Protectionism – Old and New

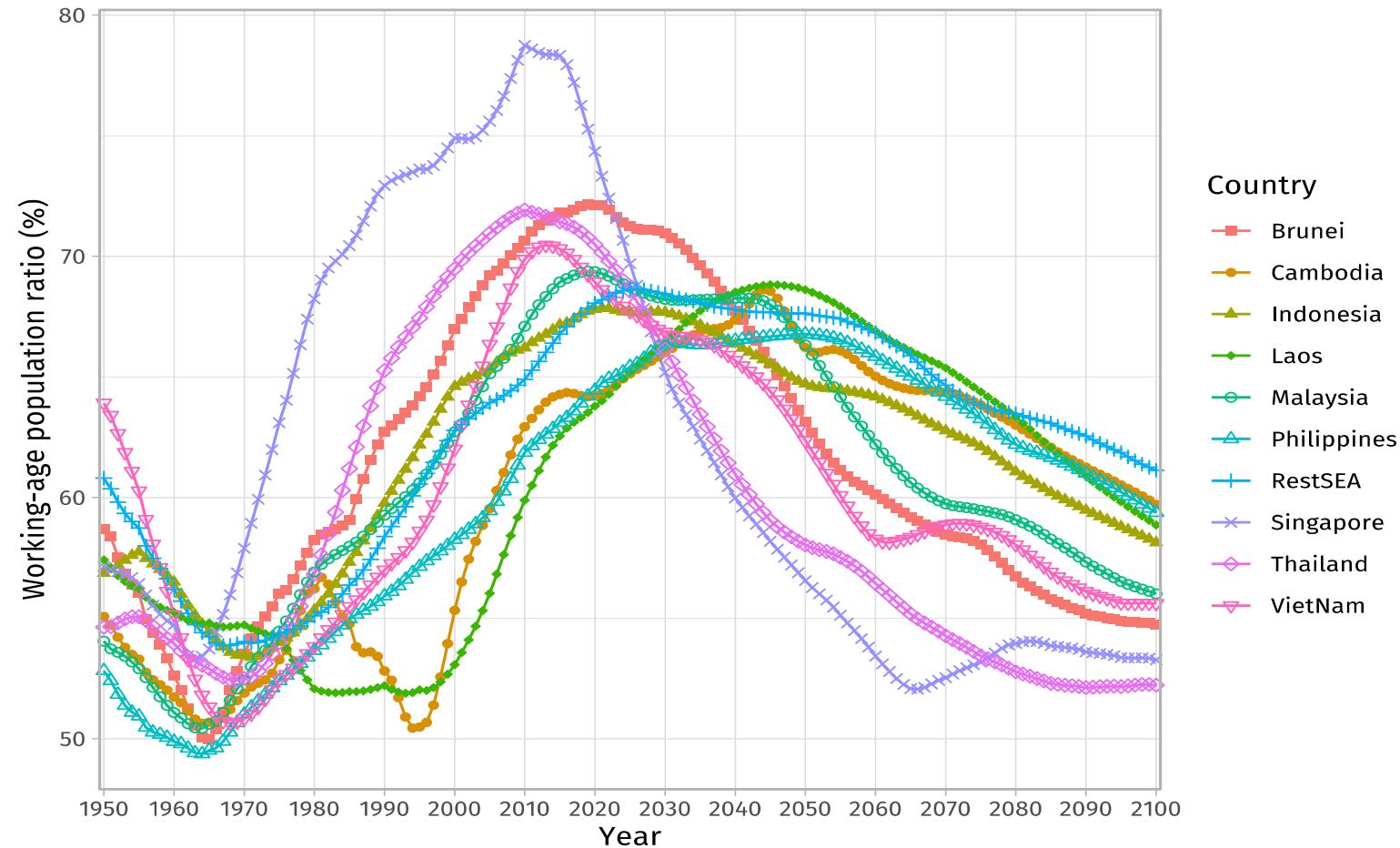
- Shift from restricting outputs to inputs (K, L, T)
- Shift from taxes to subsidies
- Shift from tariffs to NTBs (esp. US-China trade war)
- Shift from restricting imports to exports
- Shift from policies to values

# Long Term Megatrends

- **Technological Disruption** - Digital economy increasing need for labour mobility amid rising anti-globalisation sentiment
- **Divergent Demographics** - ASEAN is aging but at different speeds; CLM young (F)
- **Climate Change** - existential challenge of our time, threatening the lives and livelihoods of billions. Increasing health & disaster risk. Energy transition
- **Persistent or Rising Inequality** - Due to other megatrends, threatening social and political order

# Ratio of Working-Age to Total Population, 1950 – 2100, Southeast Asia

(Source: Itakura, 2022)



# Other challenges facing the AEC

- Although the AEC is a government-led agenda, the AEC cannot succeed without engaging the private sector and the public at large.
- ASEAN needs to encourage greater and more regular private sector and stakeholder feedback, through initiatives involving the ASEAN-BAC (e.g. surveys etc.) to assess the impact and effectiveness of AEC measures.
- ASEAN could invite businesses to contribute to regular reviews of ASEAN achievements on integration, such as the AEC Scorecard, which is currently a government-led evaluation.

# Other challenges facing the AEC

- Innovative financing and public-private partnerships will be necessary to achieve broader reforms like investing in both hard and social infrastructure, like education and health
- Reducing spillovers and trade-offs from greater integration creates a need for stronger regional policy cooperation and regional safety nets
- These areas being pursued under the auspices of ASEAN+3 but progress limited thus far.
- CMIM never been used (not useable?) and surveillance more of a beauty contest due to limited trust.

# Conclusions

- The AEC, like other agreements, work best when they spur national reforms.
- Implementation is key, and despite progress in many key areas, we are rapidly running out of time as 2025 looms.
- Despite AECC, the inherent flexibility that characterizes ASEAN cooperation and institutional arrangements could give member states a pretext for non-compliance, especially with rising nationalism and protectionism.
- AEC is not the only game in town and needs to complement and be consistent with the proliferation of bilateral and regional agreements.
- A host of short and long run challenges will affect progress towards and impacts of AEC.
- These need to be managed, and geo-political issues need to be addressed to ensure ASEAN's usefulness and integrity, and for peace and stability, which are prerequisites for successful economic integration.

# Thank you for listening!

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