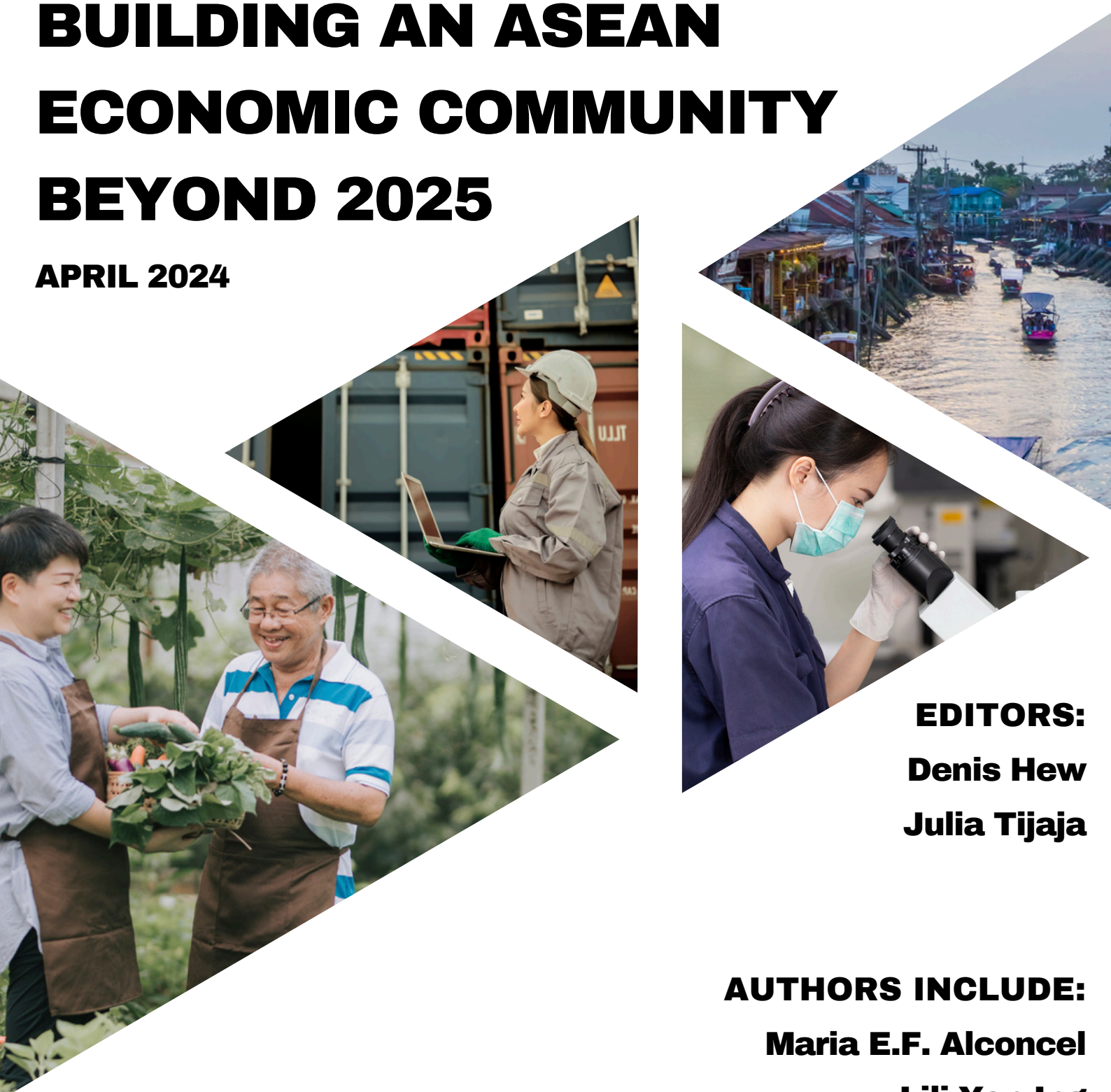
BUILDING AN ASEAN ECONOMIC COMMUNITY BEYOND 2025

APRIL 2024



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Building an ASEAN Economic Community Beyond 2025

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About the Centre on Asia and Globalisation

The Centre on Asia and Globalisation (CAG) was established at the Lee Kuan Yew School of Public Policy, National University of Singapore, in 2006. The Centre is dedicated to conducting in-depth research on developments in the Asia – Pacific and beyond. CAG's mission is to provide accurate, independent, and high-quality analysis on issues of regional and global significance for academia, decision-makers, commentators, and the general public.

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Introduction

Julia Tijaja and Denis Hew

The ASEAN Economic Community (AEC) is at the tail end of implementation of its second Blueprint, the AEC Blueprint 2025, amid times of growing uncertainties and complexities. The open, inclusive, rules-based multilateralism that lay the ground for the previous phases of ASEAN economic integration has been under threat by geostrategic competition and rising protectionism. Furthermore, broader and deeper fragmentation of the global economy poses a real risk to the region's growth prospects and its citizens' economic well-being. Against a backdrop of global supply chain reorganisation and pressures from global megatrends such as climate change and digital transformation, the AEC needs to reposition itself more strategically in terms of its role and relevance.

The post-2025 ASEAN visioning process is ongoing. A vision document spanning two decades has been drafted for adoption in 2025. The development of successors to the ASEAN Community Blueprints, including the one for the AEC, is underway. For the AEC, the next strategic plan –likely be named as such – will have a shorter time span of five years, aiming for greater agility in responding to the rapidly changing context.

Supporting this effort, the ASEAN Secretariat has commissioned the end-term review of the AEC Blueprint 2025 and a study on the post-2025 AEC, both slated for completion in 2024 and likely for an internal audience. Consultations on the post-2025 AEC have been conducted with business representatives and think tanks/research institutions. A public survey was also rolled out. All these are notable improvements in both form and scope compared to the stakeholder engagement for the previous round of blueprint development.

However, many of these conversations are still taking place within the internal AEC circle. Additionally, they are often focused on the destination for a post-2025 AEC, rather than addressing the fundamental question of how to get there. Given that the AEC is not short of commitments, strategies, and frameworks, the more urgent challenge is in addressing the issues of prioritisation and the gap in implementation.

Against this backdrop, the Centre on Asia and Globalisation (CAG) initiated a research project in October 2023 to examine the gaps and challenges of the AEC post-2025. The project brings together experts from around the region to initiate and enrich conversations, as well as to generate new ideas on the post-2025 AEC. This edited volume, which is a key deliverable from this project, is intentionally concise and non-exhaustive. It does not aim to offer a comprehensive assessment of AEC 2025 achievements to date. Instead, it seeks to complement the ongoing official work by focusing on a few key themes that a post-2025

AEC should address. This includes a quick assessment of the current situation, the broader challenges faced by the AEC, and – most importantly - concrete recommendations.

This edited volume comprises five chapters that cover pertinent issues related to digital transformation; institutional readiness to achieve carbon neutrality; narrowing the development gap; expectations of businesses on the AEC; and addressing AEC's enforcement mechanism. Aimed at ASEAN policymakers and ASEAN stakeholders more broadly, the chapters have gone through reality checks from the perspective of practitioners on what can feasibly be considered for action, rather than merely making up a wish list.

All the main contributors, along with the editors, are familiar names within the ASEAN circle, comprising of ASEAN and regional experts, researchers, practitioners, and former staff members of the ASEAN Secretariat. With support from CAG, this post-2025 AEC Project is the collective labour of our love for ASEAN. As ASEAN optimists, we would like to offer our insights and recommendations on how a post-2025 AEC can better benefit its people and businesses, secure its relevance, and assume a more strategic global position in the emerging architecture. Ultimately, our goal is to see an AEC that is "fit for purpose", equipped to face the global megatrends and challenges in the coming decades.

1 ASEAN Digital Community 2045

Lili Yan Ing, Yessi Vadila, Ivana Markus, and Livia Nazara[1]

Current State of ASEAN's Digital Landscape

Digital transformation has changed not only the way we work but also the way we live. It has shifted the focus of goods and services trade, emphasising not only what is produced and traded, but also how it is traded, customised, and delivered (Ing et al. 2022). The global digital economy will record $23 trillion by 2025 (Huawei and Oxford Economics 2017). Figure 1 depicts global digital trade is estimated to reach $6.3 trillion in 2023 and is projected to surpass $10 trillion by 2030.

ASEAN[2] is projected to contribute $360 billion to global digital trade by 2025 and is expected to grow to $1 trillion or about 10 percent of global digital trade by 2030 (Statista 2022). In addition, the recent study by Boston Consulting Group on the ASEAN Digital Economy Framework Agreement (DEFA) determined that an innovative and ambitious DEFA could expand the digital economy to $2 trillion by 2030 (ASEAN 2023c). ASEAN has an immense opportunity to grow its digital landscape further and develop its leading role in the era of digital transformation.

One of the key drivers behind ASEAN's expanding digital trade is its young digital-savvy population. In 2020, ASEANSTAT recorded ASEAN's youth population to be at 224.2 million, where 53 percent were aged between 15 and 25 years old (Gen Z), and 47 percent were aged between 26 and 35 years old (Millennials) (ASEAN 2022). ASEAN's demographic advantage appears promising due to its youthful population. As shown in Figure 2, internet users in ASEAN reached 460 million in 2022 or about 80 percent of its population, up from 360 million in 2019 – an increase of 100 million users in just 3 years of digital transformation (Google et al. 2022). E-commerce (75 percent) and related sectors such as food delivery (71 percent), online transportation (64 percent), and online groceries (64

[1] The authors are indebted to Catherine Safitri and Michelle Chandra Kasih for sharing their insights on laws and regulations related to digital issues in ASEAN, particularly private data and competition. We thank Enggartiasto Lukita, Iman Pambagyo, Sidharto Suryodipuro, Edi Pambudhi, Kasan Muhri, Megawati, Dina Kurniasari, Netty Muharni, Maria Monica Wihardja, Denis Hew, Julia Tijaja, Fukunari Kimura, and officials of ASEAN Member States and the ASEAN Secretariat for sharing their insights on the development agenda of digital transformation in ASEAN. Lili Yan Ing is Secretary General of the International Economic Association (IEA) and Lead Advisor of the Southeast Asia Region at the Economic Research Institute for ASEAN and East Asia (ERIA); Yessi Vadila is Trade Specialist at ERIA; and Ivana Markus and Livia Nazara are Research Associates at ERIA. Author correspondence: yessi.vadilla@eria.org

[2] The ten ASEAN Member States are Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic (Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

percent) dominated the digital adoption trends amongst ASEAN's internet users. In 2020, about 24 percent of firms received orders online, while more than 40 percent placed orders online (UNCTAD 2022). The region has massive potentials as a player in the global digital economy landscape.

The other key driver in ASEAN digital trade lies in the growth and effectiveness of digital payments. The rise of cross-border trade over the past decade has played a significant role in the increased utilisation of digital payments. Traditionally, cross-border trade has been associated with long processing times and excessive costs. Digital payments offer a solution to these challenges by providing users with convenience and efficiency. In ASEAN, the total transaction value of digital payments is projected to reach $226.6 billion in 2023, with the largest market being digital commerce, estimated to have total transactions of $193.8 billion (Statista 2023).

Figure 1: Global Retail E-Commerce Sales, 2014–2026*

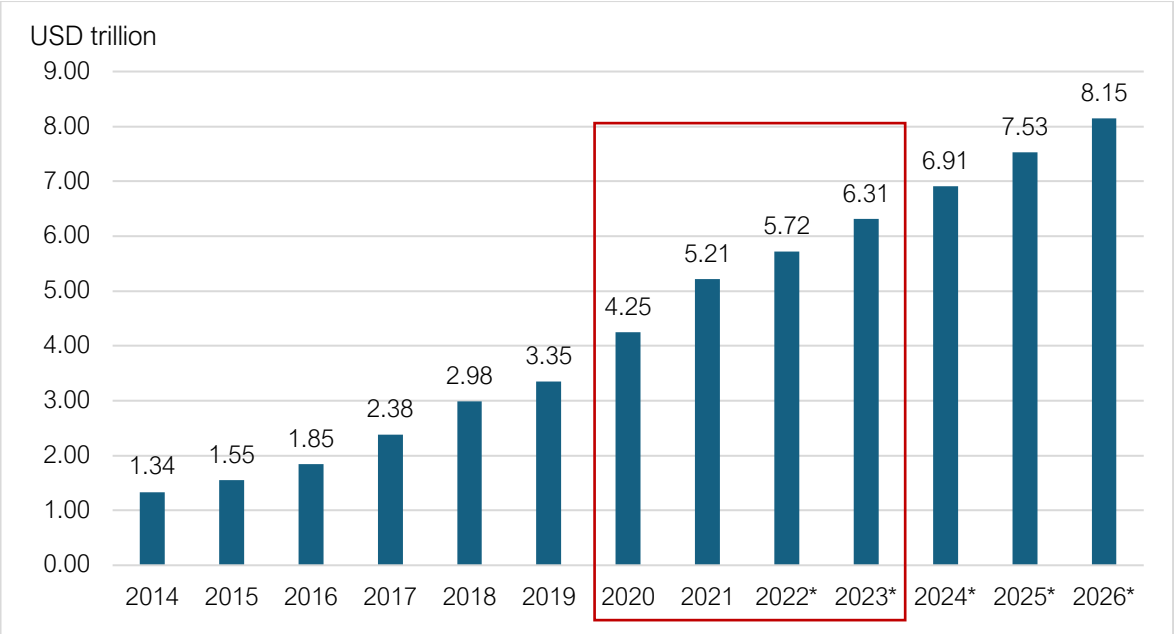
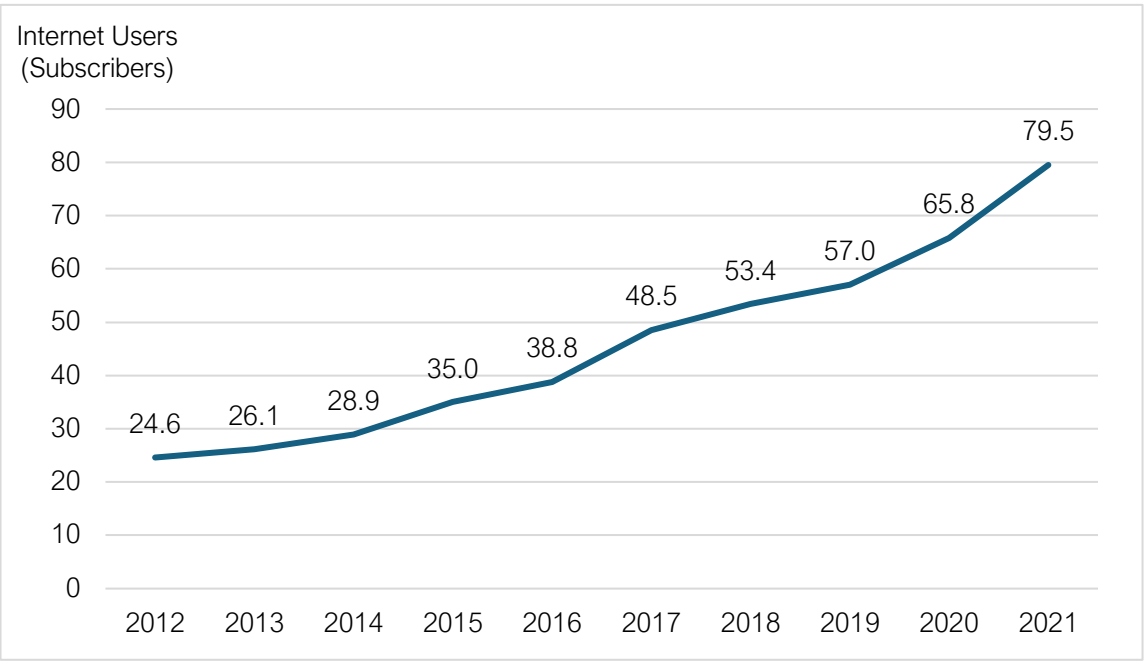


Figure 2: Access to Internet Services in ASEAN, 2012–2021



Notes:

1. Internet users: number of internet users per 100 persons.
2. The ASEAN figures for 2020–2021 are estimated, as data for some ASEAN Member States are not available. For 2021, the figure is based on the latest available data, and data for Brunei Darussalam and Myanmar are calculated based on the number of subscriptions to internet provider companies. Consequently, there is a possibility of one person being counted multiple times if they subscribed to more than one provider.

Source: ASEAN (2022), *ASEAN Statistical Yearbook 2022.* Jakarta: ASEAN Secretariat.

Review of Current Frameworks on Digital in ASEAN

ASEAN has proactively established a range of frameworks and strategic plans designed to address challenges and seize opportunities arising from the digital era. Between 2016 and 2023, ASEAN introduced nine digital-related frameworks, including the ASEAN Framework on Personal Data Protection (2016), ASEAN Digital Data Governance Framework (2018), ASEAN Digital Integration Framework Action Plan 2019-2025 (2019), ASEAN Comprehensive Recovery Framework (2020b), Work Plan on the Implementation of ASEAN Agreement on Electronic Commerce (2021d), which include accelerated inclusive digital transformation as one of its five broad strategies, ASEAN Digital Masterplan 2025 (2021a), ASEAN Data Management Framework (2021b), ASEAN Model Contractual Clauses for Cross Border Data Flows (2021c), Bandar Seri Begawan Roadmap: an ASEAN Digital Transformation Agenda to Accelerate ASEAN's Economic Recovery and Digital Economy Integration (2021e), and Boracay Digital Declaration (2023b). Recently, at the Leader Summit in September 2023, Leaders agreed to the accelerated commencement of the ASEAN Digital Economic Framework Agreement (DEFA) negotiations, earlier than the initial target year of 2025. Further, Leaders also acknowledged the endorsed Framework for Negotiating ASEAN DEFA. While the 2024 opens with the adoption of the ASEAN Guide on AI Governance and Ethics.

However, the limitations of the existing frameworks on ASEAN's digital economy are rooted in a range of hurdles that hinder their effectiveness in implementation. One such hurdle is the absence of a clear enforcement mechanism given the non-binding nature of many of these frameworks and the lack of established legal obligations. The lack of a designated source for real-time reporting on the progress of the framework's desired outcomes raises further questions about accountability and transparency in implementation. After their endorsement or adoption, related stakeholders and the interested public have limited access to observe actual progress on the frameworks' desired outcomes and objectives. Additionally, many of these ASEAN roadmaps, frameworks, workplans, and action plans are limited to economic issues, with limited or no coverage of other key aspects such as political security and socio-cultural despite the wide implications of digital transformation. Digital transformation is a key issue in ASEAN. But these frameworks, in themselves, do not serve as a comprehensive long-term vision for a digital ASEAN.

Key Challenges in ASEAN's Digital Transformation

Despite the efforts ASEAN has put to advance digitalisation in ASEAN, the rapid pace of global digital transformation presents considerable challenges for ASEAN, much like other developing regions. The swift digital evolution in ASEAN has brought forth a spectrum of risks and challenges, broadly falling into five main clusters: (1) data security, cybersecurity,

and competition, (2) productivity, (3) connectivity, (4) digital divide, and (5) environmental sustainability.

First, rapid digitalisation and the use of data come with increased threats – against data, against systems, and people. In the case of ASEAN, the existing regulatory policies and frameworks may not adequately address emerging digital concerns, such as data protection and cybersecurity. These policies were not specifically designed to keep up with rapid advancements in the digital landscape, which could hinder the progress of ASEAN's digital economy. Discrepancies in data protection laws and enforcement mechanisms can raise concerns about data breaches, unauthorised access, and misuse of personal information, preventing digital economy, society, and government from developing to their full potential.

Second, ASEAN exhibits a notably diverse range of development levels, with Singapore often leading in various economic, social, and human development indicators, in contrast to countries like the Lao People's Democratic Republic (Lao PDR) and Myanmar. The diversity of ASEAN's level of economic development and digitalisation has resulted in diverse progress in digitalisation and technology ecosystems in the region. It is also happening in various sectors; some sectors have been utilising digital technologies more than others. For instance, sectors like agriculture and informal businesses (SMEs) may operate in a more traditional way, while retail and payment have seen rapid adoption of digital tools. Different levels of the use of digital technology may affect the level of productivity for each sector and will further increase productivity gaps amongst AMSs.

Third, a pivotal challenge in realising ASEAN's digital transformation lies in the deficiency of both digital and physical enablers, encompassing digital infrastructure and connectivity. The capacity and capability in deploying technology emerges as a pivotal concern in digital transformation, evident in the unequal distribution of technologies due to limited capacities. An examination of the primary indicators contributing to the digital divide – internet speed, usage, and technology production – reveals a significant disparity amongst AMS. For example, as of 2021, Indonesia's broadband internet speed measured 28.28 megabits per second (Mbps), Singapore's reached 264.15 Mbps, while Myanmar lagged at 20.05 Mbps (Ookla, as cited in World Population Review n.d.).

Fourth, digital divides across firms and individuals, across and within countries, are visible in this region. Countries, governments, firms, and individuals vary greatly in their digital readiness depending on literacy, skills, and infrastructure access, quality, and affordability. Differences in digital uptake emerge amongst AMS with robust digital infrastructure and capabilities, and those with limited resources in these areas. As an illustration, Lao has grappled to improve digital literacy and digital take-up, while Singapore recorded mobile penetration rate of 170 percent in 2022 (Ministry of Communications and Information of Singapore 2023). Digital divides, marked by inequalities in access to and utilisation of digital

technologies, are a considerable impediment to narrowing the disparities between regions, nations, and socio-economic strata (Lazovic and Durickovic 2014).

Finally, sustainability. The adoption of today's digital technologies carries implications for our environmental sustainability. Data centres, which powers digital infrastructure, requires high energy consumption to operate and contributes significant carbon footprint. According to Fatima and Ehsan (2023), data centres represent 1-3 percent of worldwide electronic supply and contribute to 2 percent of global carbon emissions. The use of digital technologies has also boosted demand for semiconductors, which entails more mining for critical minerals, amplifying environmental pressures in the production process. Moreover, the surge in online food e-commerce and e-commerce more generally, triggered by restrictions on movement during the pandemic, has produced significant volumes of plastic packaging and waste (EU-ASEAN Business Council 2021).

In addition to its internal challenges, the rising geopolitical tensions and anti-globalisation sentiments, notably since 2018, have had significant implications for the ASEAN region. These factors have prompted countries to adopt tit-for-tat policies and protectionist measures, exacerbating trade restrictions and hindering economic cooperation. Between 2018 and 2022, the number of trade restrictive measures increased by more than 150 percent, totalling over 2,800 measures across various sectors, including trade in goods and services and investment (Bolhuis et al. 2023). This rise in protectionist measures has intensified geo-economic fragmentation, which has spill over effects including to the digital economy as countries compete for technological leadership and due to growing concern over cybersecurity.

The US-China technological rivalry has directly impacted microchip supply chains in Southeast Asia, affecting countries like Malaysia and Singapore, which have developed semiconductor supply chains. According to the IMF's Regional Economic Outlook for Asia and the Pacific, October 2022, Southeast Asia is highly vulnerable to supply chain disruptions in the event of worsening geo-political tensions between China and the US. Specifically, the ASEAN region's semiconductor supply chains face challenges due to restrictions on exports of semiconductor manufacturing equipment by countries like Japan. For instance, in 2022, the US implemented export controls on advanced computing and semiconductor manufacturing through the Inflation Reduction Act (IRA) and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act. Similarly, Japan restricted exports of 23 types of semiconductor manufacturing equipment in 2023 (Kelly and Uranaka 2023). These protectionist actions not only impact the ASEAN region's semiconductor industry but also contribute to the broader challenges of geo-economic fragmentation and digital economy disruptions.

Way Forward: ASEAN Digital Community 2045

Acknowledging the extensive potential and simultaneous challenges linked to digitalisation, ASEAN needs oversee a comprehensive vision of digital transformation across multiple domains. This endeavour should extend beyond economic domains to encompass security, political, and socio-cultural aspects. The ASEAN Digital Community 2045 stands as a foundational long-term vision to shape and propel ASEAN's digital economy agenda across all sectors. It serves as a framework to anchor a variety of initiatives aimed at fostering secure, sustainable and inclusive growth from ASEAN digital transformation. It is proposed to cover the main three pillars of ASEAN community: ASEAN Political-Security Community, ASEAN Economic Community, and ASEAN Socio-Cultural Community, without necessarily calling for the creation of new strategy or bodies. Instead, it calls for a new way of thinking and working, with the three ASEAN Community Pillars coming together under an appropriate platform to update on relevant developments, conduct joint exercise to identify risks as well as opportunities for joint actions and collaboration, and communicate a uniform message on ASEAN digital transformation vision. It has the potential to lead the piloting of a new agile way of work in ASEAN necessary to respond to increasingly complex and rapidly changing environment.

The ASEAN Digital Community 2045 should encompass at least five key elements across its three pillars:

(i) Digital Data Governance

ASEAN should undertake regulatory transformation to modernise its outdated policies and regulations to keep pace with the rapidly evolving digital era. While there is progress in regulating the digital economy in recent years, albeit at differentiated pace at the national level, significant work remains to regulate the digital ecosystem effectively and in an interoperable way. The challenge is in striking the right balance between promoting innovation, investment, inclusion, and scale with mitigating security risks and ensuring fair competition. Despite the emergence of noteworthy digital frameworks in ASEAN as earlier mentioned, additional efforts are required to regulate the digital landscape in a more comprehensive manner, including in the areas of competition, consumer protection, data privacy and protection, cybersecurity, and intellectual property. Regional initiatives can only deliver to an extent, and ultimately follow up regulatory efforts are needed at the national level. Through the ADC 2045, ASEAN Member States could share its best practices related to the digital issues, advance collective and targeted capacity building efforts, and promote national-level implementation.

(ii) Digital Productivity

The optimal utilisation of digital technology in ASEAN should not only enhance value added and revolutionise business models but also facilitate productivity growth across sectors, including finance, trade, investment, agriculture, manufacturing, and services. To achieve this, ASEAN must promote activities to advance the application of digital technologies and innovation in productive sectors – including traditional ones. This requires the mainstreaming of digital technology and innovation across ASEAN sectoral cooperation work, rather than treating the digital sector and science, technology, and innovation as siloed sectors in themselves. Cross-sectoral conversations and the involvement of industry experts and digital technology users will be key to greater adoption of digital technology to boost productivity.

(iii) Digital Connectivity

It is crucial to establish robust digital and physical infrastructure to unlock ASEAN's full economic potential. Physical infrastructure includes the construction of reliable roads, ports, railways, airports, power infrastructure, and logistics hubs. Digital infrastructure encompasses the development of broadband access, hardware, software, data centres, and modern networks. By integrating digital payment systems and digitalisation of trade documents and business procedures, ASEAN can facilitate seamless trade and doing business throughout the region.

At the national level, countries need to increase investment and foster collaborations between the public and private sectors to deliver digital connectivity. This involves securing investment in resilient telecommunications networks, quality data centres, and interconnected digital systems. Furthermore, cooperation within ASEAN is essential in this area, focusing on promoting interoperability of digital and physical infrastructure to enable more seamless participation in the digital economy and society. Additionally, regional ASEAN-level initiatives could involve leveraging multilateral development banks and public and private investors to support digital connectivity infrastructure.

(iv) Digital Inclusivity

At its core, digital transformation revolves around people. As technology evolves, ensuring inclusivity across dimensions such as access, affordability, literacy, and gender equality becomes paramount to prevent anyone from being left behind. Bridging the digital divide across groups of population and empowering MSMEs are crucial, as digital tools have the potential to enhance productivity, trade, and job creation in ASEAN. Failing to do so will lead to widening development gap. Prioritising quality education and training initiatives is essential to improve human capital and encourage greater and gainful participation in digital

sectors, particularly in nations with lower digital literacy rates. Skilling, reskilling, and upskilling efforts require national-level interventions that can also be supported by regional initiatives. Meanwhile, digital talent mobility can serve as a stepping stone to building a more digitally-skilled workforce. By emphasising inclusivity, supporting MSMEs and digital skills and talent development, ASEAN can drive equitable growth and foster an inclusive digital economy.

(v) Digital Sustainability

The pervasive integration of digital technology across diverse economic sectors highlights the pressing need to address sustainability challenges within the region. It is imperative to recognise the environmental repercussions of digital transformation, such as the energy consumption of data centres, the escalating demand for semiconductors and hence critical minerals, and exponential growth of e-commerce activities. To pave the way forward, ASEAN must prioritise the promotion of environmentally friendly practices and decarbonisation in the utilisation of digital products, services, and data centres. This necessitates the implementation of initiatives aimed at developing regional standards, providing capacity building, attracting investment and financing for the right technologies and business models, and offering interoperable guidelines for green digital transformation. In turn, digital technologies can also be harnessed to promote sustainability and a circular economy through practices such as smart waste management, blockchain technology, renewable energy management, resource monitoring and optimisation, among others.

Recognising the interplay between digitalisation and its foundational three community pillars, ASEAN has opportunities to leverage the potential of digital technology to drive economic growth, elevate social well-being, and strengthen regional integration. Such an endeavour demands strategic investments and resource allocation, resilient and enforced regulatory frameworks, and collaborative efforts.

Follow Up Actions

The ASEAN Digital Community 2045 stands as a comprehensive long-term vision for ASEAN digital transformation by optimising the use of digital technologies for its people, ensuring sustainable and inclusive growth for the entire region and aligning with the three pillars of ASEAN. The endorsement of an ASEAN Digital Economic Community 2045 by the ASEAN Member States in the ASEAN Leaders' Declaration (ALD) on ASEAN as an Epicentre of Growth during the 43rd ASEAN Summit on 5th September 2023 signifies a crucial milestone towards this vision (ASEAN, 2023a). To actualise this vision, ASEAN must now undertake follow-up actions.

First, ASEAN should embark on a facilitated community-wide conversation on the kind of digital transformation that the region wants. Translating aspirations into tangible outcomes requires the formulation of a comprehensive ASEAN framework with clear targets, which can then be taken up by the respective sectoral bodies and their sectoral work plans, as well as joint actions and collaboration where appropriate. What is urgent is for ASEAN to recognise the far-reaching impact of digital technologies beyond any specific sector and pillar, to have a holistic vision for an ADC 2045, and to keep the community aware and updated of the ADC-supporting activities and work plans, any emerging risks, and opportunities, and hence promote and enable cross-pillar and cross-stakeholder cooperation. It is important for such conversation to also provide room for experts, industries, and users representation to participate and ensure relevance.

This regional endeavour is insufficient to stand on its own and should be complemented by individual national efforts that are aligned with regional goals. Progress in national efforts shall be updated to the regional platform to facilitate experience sharing, identification of common priorities and potential collaboration, and attract support and resources from partners and investors alike.

Second, the regional framework and national efforts should be appropriately monitored against the targets. This critical step ensures an assessment of the effectiveness of policies and their implementation, helps avoid simple work propagation and identify synergies while keeping efforts on track towards the set targets. Specific strategies to address resource mobilisation for both physical and digital connectivity may be of value, involving regional guidelines and investment facilitation and promotion, although ultimately investment requires efforts and should be realised at the national level.

Third, governments across ASEAN should prioritise developing human capital for successful digital transformation at both regional and national levels. This involves (i) enhancing workforce digital skill sets including through vocational training; (ii) improving technological adoption and digital literacy rates by integrating digitalisation into the education curriculum and community programmes and providing business incentives for utilising digital technologies and providing digital upskilling to workers; (iii) supporting entrepreneurs to create new businesses and foster innovation; and (iv) raising awareness of sustainable digital practices and amplifying research on environmentally friendly technologies.

ASEAN faces a significant journey in shaping its digital transformation outcomes. The imperative lies in detailed and transparent coordination among member states, complemented by the right institutional mechanism to ensure clear measures, indicators, and traceability of each ASEAN country's digital transformation status. The envisioned realisation of the ASEAN Digital Community 2045 aims to empower the region in mounting more adept responses to disruptions and uncertainties in a more digitalised world.

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2 The ASEAN Strategy for Carbon Neutrality: How to Move It Forward?

Melinda Martinus

Introduction

The endorsement of the ASEAN Strategy for Carbon Neutrality by ASEAN Economic Ministers in August 2023 marked a significant commitment to addressing climate change within the region (ASEAN Secretariat 2023). All ten ASEAN Member States have signed the Paris Agreement, obligating them to collaborate in limiting the global temperature increase to well below two degrees Celsius above pre-industrial levels. Considering that each Member State regularly submits its Nationally Determined Contributions (NDCs) detailing specific climate action plans, emission reduction targets, and adaptation strategies, ASEAN could synergise a collective effort to add value to individual commitments.

Various studies have underscored ASEAN's critical role in addressing climate change. Firstly, the regular convening of policymakers and experts from Member States across ASEAN's senior official meetings on relevant thematic cooperation like environment; disaster; agriculture, and forestry; energy, transport, and finance provide building blocks for ASEAN to work on cross-cutting issues, the challenge is in facilitating meaningful cross sectoral collaboration. Secondly, ASEAN's influential mechanism in engaging with dialogue partners and international organisations can facilitate collaborative research, innovation, and investments, leveraging the expertise and resources necessary to strengthen global climate action beyond national borders. Thirdly, ASEAN institutions and networks can play a crucial role in advancing climate policies, such as the ASEAN Climate Resilience Network, the ASEAN Centre for Energy, the ASEAN Smart Cities Network, the ASEAN Centre for Biodiversity, and the ASEAN Centre for Sustainable Development Studies and Dialogues, including mobilisation to provide member states and relevant stakeholders with knowledge and insights in the latest developments of climate issues. Lastly, ASEAN can envision a joint commitment. One excellent example is in energy cooperation, where member states successfully attained a 21 percent energy intensity level in 2018, surpassing the aspirational target set for 2020. The commitment was further advanced by a target to raise the proportion of renewable energy in the regional energy mix to 23 percent by 2025 (ASEAN Centre for Energy 2023). Despite all of these potentials, to date ASEAN has yet to be able to strategise the positioning of its regional body to value-add member states' individual efforts.

The ASEAN Strategy for Carbon Neutrality therefore presents a pivotal opportunity for future climate governance in ASEAN. It is fundamentally cross-sectoral and cross-pillar as it integrates environmental protection and economic growth, aligning with global green

transition trends and leveraging ASEAN's strategic economic position. It emphasises foresight and planning, reflecting a proactive, future-oriented commitment to long-term sustainability. This article outlines the strategic benefits of the ASEAN Strategy for Carbon Neutrality and proposes methods for operationalising it within existing ASEAN sectoral bodies.

Why Does ASEAN Need A Carbon-Neutral Pathway?

Since 2013, ASEAN has issued an annual joint statement to the Parties to the United Nations Framework Convention on Climate Change (ASEAN Joint Statement on Climate Change 2014, 2014). To date, eight out of the ten ASEAN Member States have declared their national objectives to reach net-zero greenhouse gas (GHG) emissions, aligning with the 1.5°C target outlined by the IPCC. Meanwhile, Myanmar and the Philippines stand as the sole ASEAN countries that have not made a commitment to an economy-wide net-zero target or carbon neutrality so far.

Table 1: ASEAN Countries Long-term Low Greenhouse Gas Emission Development Strategies

Brunei	Net-Zero by 2050
Cambodia	Carbon Neutrality by 2050
Indonesia	Net-Zero by 2060 or sooner
Laos	Net-Zero by 2050
Malaysia	Carbon Neutrality by 2050
Myanmar	No economy-wide Net-zero but a conditional target to achieve net-zero in the Forestry and Other Land Use (FOLU) sector by 2040
Philippines	no net-zero or carbon neutrality target
Singapore	Net-Zero by 2050
Thailand	Carbon neutrality by 2050, net zero emissions by 2065
Vietnam	Net -Zero by 2050

Source: *UNFCC Long-term Strategies Portal and various pledges made by ASEAN Member States*

In general, carbon neutrality means that countries can calculate their carbon dioxide (CO2) emissions and compensate for them by funding projects that reduce emissions elsewhere without necessarily decreasing their own emissions. Net zero entails countries lowering their

total emissions, including other greenhouse gases like methane, throughout their entire supply chain – which is much more ambitious. Due to the practical reasons and a wide range of deadlines articulated by each member state, the carbon neutrality pathway seems more feasible for ASEAN Member States in the current circumstances.

In addition, there are at least three strategic reasons behind the formulation of the ASEAN Strategy for Carbon Neutrality.

ASEAN needs to respond to global climate pressure and pursue strategic climate objectives

ASEAN faces increasing pressure to align its climate policies with global standards, as many of its key trading partners are integrating climate considerations into their trade policies. Notably, initiatives like the European Union Carbon Border Adjustment Mechanism (EU CBAM) and the United States Inflation Reduction Act (US IRA) underscore this shift.

The EU CBAM, set to be fully implemented in 2026, aims to level the playing field between domestic industries subject to stringent emission regulations and international trade partners (European Comission 2023). By preventing carbon leakage—where domestic companies relocate production to jurisdictions with lower emission standards to evade carbon pricing—the EU intends to ensure fair competition. Under this mechanism, importers of certain goods into the EU will be required to purchase carbon permits equivalent to the emissions generated during production outside the EU. Consequently, companies in ASEAN must enhance their carbon emission reporting and anticipate increased production costs.

Similarly, the US IRA emphasises carbon reduction efforts by providing grants and tax credits, largely for renewables and electric vehicles; and in the case of the letter eligibility for such incentives is conditional upon the critical minerals used in the production to be extracted or processed in the US or countries that have free trade agreements (FTA) with the US (EPA 2023). The IRA emphasises promoting carbon labelling and assisting manufacturers in reducing embodied carbon emissions throughout the production process. Consequently, US manufacturers and importers will demand stricter adherence to carbon emission standards from exporters in ASEAN (US Department of Commerce 2024). The same emphasis on carbon reduction is reflected in the Indo-Pacific Economic Framework Agreement, initiated by the US and in which seven ASEAN Member States are participating, where a clean economy accounts for one of its four main pillars.

In response to these external pressures, it is crucial for ASEAN to craft its own narrative of carbon neutrality. The ASEAN Strategy for Carbon Neutrality could serve as an initial step for ASEAN to align with the growing expectations of trade partners, who are increasingly demanding compliance with more stringent environmental standards. ASEAN has consistently articulated the narrative of climate transformation as leverage for its growth opportunities. Past initiatives, such as the Framework for Circular Economy for the ASEAN Economic Community, envision ASEAN as more resource-efficient, considering the threats

of resource depletion, unsustainable patterns of raw material consumption, and inefficiencies throughout the product value chain. (ASEAN 2021). Additionally, the ASEAN Taxonomy for Sustainable Finance, now in its third version, was launched to serve as a common language across different jurisdictions for communicating and coordinating labelling for economic activities and financial instruments (ASEAN Taxonomy Board, 2021, 2023, 2024).

ASEAN's per capita emissions are expected to rise with economic and population growth, and there is increasing momentum for mobilising capital for green investment

Compared to major economies in Asia and the Pacific, such as China, Japan, South Korea, and Australia, ASEAN's average emissions per capita are relatively low, at only 4.8 metric tons per capita (Table 2). Individual ASEAN Member States, with the exception of Brunei, have emissions under eight metric tons per capita. However, ASEAN must exercise caution; as the region's population and industrial activities progress, per capita emissions are expected to continue rising. According to a study, between 1990 and 2010, carbon dioxide emissions increased more rapidly in Southeast Asia than anywhere else.

Table 2: Carbon Dioxide (CO2) Emissions per Capita in ASEAN Member States and Major Economies in Asia and the Pacific

Countries	**Co2 Emissions (metric tons per capita)**
Brunei	21.71
Singapore	7.69
Malaysia	7.38
Thailand	3.71
Vietnam	3.68
Laos	2.62
Indonesia	2.07
India	1.58
Philippines	1.19
Cambodia	1.14
Myanmar	0.63
ASEAN	**4.80**
China	**7.76**
South Korea	**10.99**
Japan	**8.03**

Countries	Co2 Emissions (metric tons per capita)
Australia	**14.78**

Source: The World Bank Data and Climate Watch Historical GHG Emission, 2020

The imperative for ASEAN to rethink sustainable growth is evident. ASEAN Member States have been mobilising efforts to increase capital investment for green transformation in various sectors, such as energy, transport, manufacturing, and others. For instance, Indonesia, as the most significant and biggest contributor of carbon emissions in the region, has actively mobilised international assistance to invest in renewable energy transition for the country. Together with Vietnam, Indonesia signed a deal to receive the Just Energy Transition Partnership funding from the G7 countries. This financial package, totalling US$ 35.5 billion (US$ 20 billion for Indonesia and US$ 15.5 billion for Vietnam), is targeted to retire coal-fired power plants, accelerate renewable energy uptake, and provide social protections to those affected by the transition. The challenge is in realising these committed funds.

Another country, such as Singapore, has effectively implemented a robust carbon tax policy to collect revenue for reinvestment into green transformation. The carbon tax level was initially set at S$5 per tonne of CO2 equivalent from 2019 to 2023, providing a transitional period for emitters to adjust. Subsequent increases to S$25 in 2024 and 2025, and S$45 in 2026 and 2027, with a view to reaching S$50-80 by 2030, will strengthen the price signal, compelling businesses and individuals to align with national climate goals by reducing their carbon footprint.

Overall, private capital mobilisation for ASEAN is also advancing. According to Southeast Asia's Green Economy Report, the region saw a total of US$5.6 billion in private capital for green investments in 2021. Even though there was a 7 percent slight decline in 2022 (US$5.5 billion), the momentum for green transition remains high (Global Sustainability Innovation Center 2023).

Adopting a carbon-neutral pathway could yield complementary benefits

The ASEAN Strategy for Carbon Neutrality outlines a pathway for member states to explore complementarity. Some Member States benefit from advantageous conditions for carbon reduction, including abundant renewable energy resources, extensive forest cover suitable for nature-based solutions, and potential carbon capture and storage capabilities in depleted oil fields. Conversely, other Member States face challenges in carbon reduction due to geographic limitations, heavy reliance on fossil fuels for energy, significant presence of industries like cement and steel with high emissions, and limited financial capacity to facilitate the transition.

Some potential areas of complementarity include (ASEAN Secretariat 2023):

(1) Laos' hydropower potential can serve Singapore, which has limited capacity to scale up renewable energy resources.
(2) Indonesia, Myanmar, and the Philippines' critical mineral resources (nickel, copper, etc.) can support battery manufacturing and the broader EV ecosystem in the region.
(3) Indonesia, Malaysia, Brunei, Myanmar, and Cambodia's forestry resources can generate nature-based carbon credits, which can be sold to industries across the region that emit significant amounts of CO2 emissions.
(4) Thailand's feedstock potential, notably biofuel generated from agricultural waste, can support Singapore in expanding its refinery capacity for sustainable aviation fuel. Indonesia is also looking to strengthen its biofuel and bioethanol supply from domestic feedstock.

About the ASEAN Strategy for Carbon Neutrality

The ASEAN Strategy for Carbon Neutrality stands out due to its well-defined and time-sensitive nature. The strategy revolves around three key goals. Firstly, the pursuit of carbon neutrality is envisioned to set ASEAN on a trajectory to unlock growth in the form of an additional GDP value ranging from US$ 3.00 to 5.30 trillion by 2050 (Marko Lackovic & Aparna Bharadwaj 2024). This projection represents a significant increase, potentially doubling or even more than doubling the 2022 estimate of the total GDP of all ASEAN Member States, which stood at US$ 3.63 trillion. Secondly, the strategy anticipates injecting a substantial US$ 3.70 to US$ 6.7 trillion in green investments across the region by 2050. As a benchmark, ASEAN generated US$ 224 billion of foreign direct investment (FDI) in 2023. Lastly, it is expected to generate between 49 and 66 million additional jobs by 2050. Currently, ASEAN has a labour force of 338 million. The additional jobs created will provide significant quality job pipelines for the future labour force.

To realise these ambitious goals, the ASEAN Carbon Neutrality Strategy focuses on achieving four concrete outcomes and will adopt eight specific strategies., outlined as follows:

Four Key Outcomes of the Carbon Neutrality Strategy

(1) **Developed green industries**: capturing the full value of regional green value chains to unlock ASEAN manufacturing and export potential.
(2) **Interoperability within ASEAN**: enabling the exchange of green electricity, products, and feedstocks to accelerate the roll-out of green technologies.
(3) **Globally credible standards**: ensuring ASEAN remains a top destination for international capital to increase liquidity in regional markets.
(4) **Green capabilities**: developing the necessary green talent and expertise within ASEAN to drive the climate transition.

Source: ASEAN Strategy for Carbon Neutrality (ASEAN, 2023)

Eight Strategies to Achieve Carbon Neutrality

(1) **Accelerate green value chain integration**: establish cooperation frameworks & remove barriers to bring green products to market faster.
(2) **Regional circular economy supply chains**: incorporate definitions & facilitate trade deals to support circular economy via regional trade.
(3) Connect green infrastructure & market: Build interconnectivity for green technologies & decarbonisation solutions to underpin regional deployment.
(4) **Interoperable Carbon Markets**: develop credible carbon markets that are interoperable with each other & global markets.
(5) **Credible & common standards**: develop taxonomies & definitions on GHG reporting, carbon credits & energy efficiency that align with the requirements of key markets.
(6) **Attracting & deploying green capital**: build effective pathways to attract necessary capital to the region and between member states.
(7) **Green talent development & mobility**: classify and ensure regional access to skills needed for carbon neutrality journey.
(8) **Green best practice sharing**: share best practices in R&D, technology & green transition from within ASEAN and borrowing from the best of the world.

Source: Source: ASEAN Strategy for Carbon Neutrality (ASEAN, 2023)

How Should ASEAN Operationalise the Strategy?

Given the cutting-edge nature of the ASEAN Strategy for Carbon Neutrality and the alignment of its pathways with existing ASEAN institutional capacity and mandate, ASEAN must ensure the strategy can be operationalised. Although the Strategy offers a new pathway for exploring growth and sustainable opportunities, for effectiveness and efficiency the operationalisation of the Strategy must leverage existing institutional frameworks. There are four considerations to move the ASEAN strategy for Carbon Neutrality forward.

Prioritising the strategies that can yield impactful results

Strategies that directly contribute to achieving carbon neutrality targets should be prioritised. According to the Sixth ASEAN State of the Environment Report, the energy sector and land use sector are two major GHG sources of the ASEAN region. Thus, these two sectors must be prioritised (ASEAN Secretariat 2023).

Given the emphasis on unlocking economic growth and generating additional jobs, strategies that contribute to GDP growth and employment opportunities should be given priority. This includes initiatives that support the development of green industries, attract green investments, and foster the growth of green talent within the region.

Furthermore, strategies that promote interoperability within ASEAN and facilitate collaboration among member states should be prioritised. This involves initiatives that enhance regional cooperation, facilitate trade and investment flows, and promote the exchange of green technologies (and investment therein) and best practices. This can include standardising circular products under regional trade agreements and enabling renewable energy trading through the existing and enhanced ASEAN Power Grid.

Finally, the neutrality pathway must allow ASEAN to build global credibility and attractiveness to international investors. This includes initiatives that establish globally credible standards for carbon reporting, carbon markets, and green finance, as well as efforts to align ASEAN's regulatory frameworks with international standards.

Establishing measurable monitoring and evaluation frameworks

Establishing a measurable monitoring and evaluation framework is essential for assessing the effectiveness of the ASEAN Strategy for Carbon Neutrality. This process involves several key steps:

First, clear metrics and targets must be established. This includes defining specific, measurable, and time-bound indicators such as greenhouse gas emissions reductions, renewable energy adoption rates, investment flows into green technologies, and job creation in the green sector. The ASEAN Ministers on Energy Meeting (AMEM) and its working group have demonstrated success in establishing common and measurable collective targets for ASEAN, such as reducing energy intensity and increasing the proportion of renewable energy in regional electricity generation by a definite timeframe. These practices can serve as examples for relevant bodies supporting the operationalisation of the ASEAN Strategy for Carbon Neutrality.

Second, a baseline assessment should be conducted to understand the current status of carbon emissions, energy consumption, and other relevant factors within ASEAN Member States. This will provide a benchmark against which progress can be measured. Such an assessment can leverage existing ones such as the ASEAN State of Climate Change Report, managed by the ASEAN Working Group on Climate Change (AWGCC) and the ASEAN Senior Officials on Environment, which reports on current and projected greenhouse gas emissions, while also give baseline information needed by the ASEAN Finance Ministers Meeting (AFMM) to build up the ASEAN Taxonomy for Sustainable Finance and harmonise carbon tax policies across member states.

Third, a system for regular monitoring and reporting of progress towards carbon neutrality goals should be implemented. This may involve collecting data from Member States, tracking

key indicators, and producing periodic reports to assess progress and identify areas for improvement.

Setting up a coordinating body to coordinate implementation

While recognising the current reluctance to create another new body in the AEC, having a coordinating body would be crucial for successfully implementing the ASEAN Strategy for Carbon Neutrality given its cross-sectoral and cross-pillar nature. Such a body would serve as a central hub for coordinating and overseeing the various initiatives outlined in the strategy, ensuring effective communication, collaboration, and alignment among ASEAN Member States and relevant stakeholders.

A coordinating body could help streamline efforts, facilitate resource allocation and mobilisation, monitor progress, and address any challenges or barriers that may arise during implementation. It could also enhance transparency and accountability in the implementation process, fostering trust and confidence among stakeholders. It can also afford visibility and cross-sectoral support to the ongoing and planned work by relevant sectoral bodies that can contribute to the objectives of the strategy.

Most importantly, the coordinating body will help create some visibility in the operationalisation of the strategy and potentially crowdsource resources from dialogue partners, the private sector, and development institutions.

Leveraging ASEAN's existing sectoral bodies to drive tangible implementation

While the ASEAN Strategy for Carbon Neutrality necessitates a coordinating body to enhance visibility, equally crucial is how ASEAN ensures follow up to the concrete programs stemming from the Strategy. ASEAN currently boasts a robust governance framework through its sectoral bodies, which engage extensively with technical officials across member states. To effectively implement the Strategy, ASEAN must secure commitments from these sectoral bodies, with their political buy-in being paramount. Buy-in can be better secured if the operationalisation of the Strategy is taken not as additional work but as supportive to the relevant sectoral bodies' work plan.

Table 3 outlines the identified sectoral bodies within the ASEAN Economic Community and the ASEAN Socio-Cultural Community that could play significant roles in aiding the development of programs to bolster the implementation of the eight strategies articulated by the ASEAN Strategy for Carbon Neutrality. The momentum is particularly crucial as ASEAN sectoral bodies are in the process of developing their post-2025 work agenda.

Table 3: Identified Sectoral Bodies and Cross-Cutting Programmes under the ASEAN Strategy for Carbon Neutrality

Strategy	Sectoral Bodies under ASEAN Economic Community							Sectoral Bodies under ASEAN Socio-Cultural Community		
	Economic Ministers Meeting	Investment Area Council	Ministers on Energy Meeting	Finance Ministers Meeting	Ministers Meeting on Agriculture and Forestry	Ministerial Meetings on Mineral	Transport Ministers Meeting	Labour Ministers Meeting	Education Ministers Meeting	Ministerial Meetings on the Environment
(1) Accelerate green value chain integration: establish cooperation frameworks & remove barriers to bring green products to market faster.										
(2) Regional circular economy supply chains: incorporate definitions & facilitate trade deals to support circular economy via regional trade.										
(3) Connect green infrastructure & market: Build interconnectivity for green technologies & decarbonisation solutions to underpin regional deployment.										
(4) Interoperable Carbon Markets: develop credible carbon markets that are interoperable with each other & global markets.										
(5) Credible & common standards: develop taxonomies & definitions on GHG reporting, carbon credits & energy efficiency that align with the requirements of key markets.										
(6) Attracting & deploying green capital: build effective pathways to attract necessary capital to the region and between member states.										

Strategy	Sectoral Bodies under ASEAN Economic Community							Sectoral Bodies under ASEAN Socio-Cultural Community		
	Economic Ministers Meeting	**Investment Area Council**	**Ministers on Energy Meeting**	**Finance Ministers Meeting**	**Ministers Meeting on Agriculture and Forestry**	**Ministerial Meetings on Mineral**	**Transport Ministers Meeting**	**Labour Ministers Meeting**	**Education Ministers Meeting**	**Ministerial Meetings on the Environment**
(7) Green talent development & mobility: classify and ensure regional access to skills needed for carbon neutrality journey.										
(8) Green best practice sharing: share best practices in R&D, technology & green transition from within ASEAN and borrowing from the best of the world										

Conclusion

The ASEAN Strategy for Carbon Neutrality represents a significant commitment by ASEAN Member States to address climate change. With all ten ASEAN Member States signing the Paris Agreement and pledging to limit global temperature increases, albeit with differentiated targets, ASEAN has an opportunity to synergise individual efforts into a cohesive regional strategy and conversely leverage regional initiatives to contribute to meeting individual targets. Prioritising impactful strategies, establishing measurable monitoring frameworks and setting up a coordinating body are crucial steps in moving the strategy forward. However, for implementation, leveraging existing institutional mechanisms and sectoral bodies and getting their buy-in are necessary for ASEAN to operationalise the strategy more effectively and efficiently. By embracing a carbon-neutral pathway, ASEAN can not only mitigate climate change but also unlock economic growth, attract green investments, and create millions of new jobs, ensuring a sustainable future for the region.

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3 Narrowing the Development Gap for and Inclusive Economic Community Post-2025

Rashesh Shrestha[*]*, Aladdin D. Rillo, and Salvador Buban*

Introduction

Development gaps in ASEAN

ASEAN aspires to become a highly integrated economic region in the world, perhaps second only to the European Union (EU) in its stated vision of a unified market and production base with seamless flow of goods and services (ASEAN Secretariat 2015). This process has progressed at a steady pace in both traditional (e.g. tariff elimination) and a few modern (e.g. electronic exchange of trade documents) domains of trade policy. More complex and politically sensitive issues such as management of non-tariff measures and movement of workers remain to be worked out. ASEAN has also deepened integration with its external trade partners, most recently concluding the Regional Comprehensive Partnership (RCEP) Agreement, one of the largest trade agreements involving Australia, China, Japan, Korea, and New Zealand (Kimura et al. 2022). However, whether these policy achievements create sustained improvement of living standards of ASEAN people requires the economic opportunities to spread widely. Generally, access to factors necessary to benefit from economic integration, namely infrastructure, institution, capital, finance, and skills, varies across different groups within all countries, thus making some groups better positioned to benefit from economic integration. Thus, the distributional consequence of trade integration for developing countries is still debated (Goldberg and Pavnick 2007).

Since ASEAN reached its present form in the late 1990s, its members have experienced rapid economic growth. Table 1 demonstrates this in terms of income per capita by showing each ASEAN country's real per capita income as a percentage of the top-ranked economy's per capita income as well as each country's global ranking in various years. All ASEAN Member States, except for Brunei, have moved closer to the top global economy and risen in global rankings. Improvements in poverty and other metrics of human development have also been recorded in absolute terms for each ASEAN Member State (Asian Development Bank 2023). But the remaining gap between ASEAN Member States is also quite clear – Singapore is the 3rd richest country in the world by real GDP per capita, while Myanmar's rank is 148; in 2023, Singapore was 26 times richer than Myanmar. Commensurate gaps to a greater or lesser degree exist in various dimensions of development as well as determinants of future

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development such as human capital, some of which were worsened by the COVID-19 pandemic (Asian Development Bank 2023). Notwithstanding the significant progress made in the past two decades, addressing the persistent gap is one of the key challenges for ASEAN in its post-2025 agenda.

Table 1: ASEAN Member States' global economic position as measured by real GDP per capita

	percent of top ranked economy					Global ranking			
	1999	2009	2019	2022		1999	2009	2019	2022
Brunei Darussalam	71.45	58.59	50.12	49.83		5	8	12	13
Cambodia	1.44	2.31	3.64	3.85		165	164	153	147
Indonesia	5.68	6.98	9.68	10.54		109	117	112	105
Lao PDR	2.82	3.99	6.40	6.75		148	141	131	128
Malaysia	15.85	17.03	22.58	24.11		57	67	59	58
Myanmar	1.01	2.53	4.25	3.61		173	160	146	148
Philippines	4.56	4.97	7.13	7.29		121	131	126	124
Singapore	54.57	61.93	80.34	91.75		9	7	3	3
Thailand	9.89	11.82	14.69	14.87		84	86	80	80
Viet Nam	3.65	5.35	8.37	9.68		133	130	120	110

Source: Authors' analysis of World Development Indicators data.

In its post-2025 agenda, ASEAN must ensure it puts in place an effective approach to narrowing development gap by incorporating a forward-looking strategy which have clear and updated objectives, builds on ASEAN's progress, and addresses emerging challenges such as supply chain reorganisation, technology advancement, climate change, and demographic transition. Integration and innovation continue to be important pillars of economic growth, but inclusivity and sustainability have grown in prominence (Kimura and Oikawa, 2022). Without concerted action, the confluence of existing gaps and emerging challenges could potentially widen development gaps. For example, gaps in the quality of education system can translate into gaps in availability of skilled workforce needed to attract investment and employment opportunities in the modern technology-driven global economy.

While narrowing the development gap is a desirable goal in itself, it is also an enabler of continued ASEAN integration, which requires solving more complex problems spanning multiple areas, for example technology adoption, climate change, etc. Persistent development gaps across ASEAN Member States can constraint ASEAN's ambition as lagging ASEAN Member States may not see the benefits of deeper integration. Even with shared ambition,

development gaps can constraint ASEAN Member States' capacity in meeting their regional commitments. Moreover, development gaps within ASEAN Member States may create political backlash against economic integration and make them more inwardly focused and protectionist, which has been observed in several major economies (Walter 2021). To the extent that ASEAN policymakers see value in moving closer to ASEAN's integration vision, it is necessary for them to push ASEAN to demonstrate credible commitment and contribution to narrowing the development gaps between ASEAN Member States as well as within each country.

Current approach to NDG in ASEAN

Although the goal of narrowing the development gaps features prominently in several ASEAN documents, its conceptualisation and implementation has for the most part focused on the objective of enabling the four newest ASEAN Member States to implement ASEAN commitments to support ASEAN's integration agenda. The Initiative for ASEAN Integration (IAI) framework, which was put in place in the early 2000 upon the accession of Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) to support their integration into ASEAN (ASEAN, n.d.), continues to be the sole institutional mechanism exclusively focused on projects and initiatives aimed at narrowing the development gaps. As a result, the majority of current ASEAN's NDG activity still focuses on CLMV countries as reflected in the IAI Workplans.[1]

The IAI Workplans, developed at intervals of five or six years, comprise of a set of projects and activities to be implemented in CLMV and funded by ASEAN-6 and external donors. Four IAI Workplans have been developed so far, each of which has borne numerous projects to deliver outputs in a handful of strategic areas, as summarised in Table 2. The projects which are implemented under the IAI framework may be proposed by the IAI&NDG division of the ASEAN Secretariat, beneficiary countries (CLMV), or external partners, and must align with relevant ASEAN sectoral working group's priorities. In practice, given administrative and financial constraints, the IAI Workplans are limited in scope and engage only a limited number of sectoral working groups. Even then, the sectoral working groups under the economic pillar tend to be more heavily represented than those under the socio-cultural pillar, although arguably the latter, which deal with issues like health, education, labor, etc., are more relevant for development gaps. Although priority areas and planned outcomes are determined through consultations with sectoral working groups and CLMV countries, the projects that are implemented tend to be ad-hoc, loosely connected to the workplan's desired outcome, and highly dependent on available funding opportunities.

[1] This has been explicitly acknowledged, for example, in the 2nd IAI Workplan: "In operational terms, NDG efforts shall assist the CLMV countries to meet ASEAN-wide targets and commitments towards realising the ASEAN Community" (p. 1).

Table 2: Summary of IAI Workplans

Workplan	Implementation period	Strategic priority areas	Number of projects
Workplan I	2002-2008	Infrastructure (transport and energy); Human resource development (public sector capacity building, labour and employment, and higher education); Information and communication technologies (ICT); and Regional economic integration (trade in goods and services, customs, standards, and investments)	232
Workplan II	2009-2015	The 2nd IAI Workplan listed actions in each area of the ASEAN Community Blueprints.[2]	280
Workplan III	2015-2020	Food and agriculture; Trade facilitation; Micro, small, and medium-sized enterprises (MSMEs); Education; and Health and well-being.	133
Workplan IV	2021-2025	Same as IAI Workplan III. Additional crosscutting issues included: Industry 4.0, gender and social inclusion, environmental sustainability, and the impact of the coronavirus disease (COVID-19) pandemic	75

Source: Compiled from various documents in ASEAN (n.d.).

Implementation of the IAI Workplan is complicated by a need to coordinate among multiple bodies and agencies comprising of the IAI Task Force; National Coordinators in each CLMV countries; and Focal Points for each strategic area within CLMV. While overall implementation is overseen by the IAI Task Force, comprising of the Permanent Representatives to ASEAN in Jakarta, Indonesia, the national coordinators, drawn from the ministries of foreign affairs, and the Focal Points, drawn from relevant line ministries, support project development and implementation in their respective countries. The IAI&NDG division of the ASEAN Secretariat manages the activities under these frameworks and reports to the IAI Task Force. Under the current framework, the ASEAN sectoral bodies are tasked with helping to develop and approve project proposals, review progress, and support implementation. The present structure was formulated during Workplan III to ensure buy-in, but requires tremendous amount of coordination, which are not always found to be

[2] ASEAN (2012) *'Initiative for ASEAN Integration (IAI) Strategic Framework and IAI Work Plan 2 (2009-2015)'.* Jakarta: ASEAN Secretariat. Available at: https://asean.org/wp-content/uploads/images/2012/Economic/AIA/IAI percent20Work percent20Plan percent202 percent20(2009-2015).pdf

effective. Furthermore, within country coordination is hampered by frequent changes in focal points or national coordinators.

Other than the IAI, NDG has been articulated as an important goal for the ASEAN community in many documents such as the ASEAN Framework for Equitable Economic Development (AFEED), the ASEAN Economic Community Blueprint 2025, and Masterplan on ASEAN Connectivity (MPAC) 2025. The AFEED, adopted in 2011, identifies a set of Guiding Principles for Inclusive and Sustainable Growth in ASEAN. Going beyond the Ha Noi Declaration, the AFEED has emphasised the need to consider gaps not only between ASEAN Member States, but also within each ASEAN Member State. Specifically, it articulates a notion of inclusive and sustainable growth as being broad-based across sectors and equality of opportunity irrespective of income, gender, and size of enterprise. It outlines strategies such as enhancing connectivity, targeting bottlenecks and promoting investment in less developed regions, supporting SMEs, and improving the quality of social protection. Thus, AFEED is more comprehensive in its conceptualisation of the development gap issue, but it has not led to any established mechanisms to implement this vision. AFEED gave rise to two monitoring reports: World Bank (2014) and Asian Development Bank (2023), but these reports still emphasised the gap between the original six ASEAN countries and the four newer members, following the precedence set by the IAI. Thus, the conceptualisation of development gap as the difference between the original six ASEAN members ("ASEAN-6") and CLMV remains the dominant way of thinking, while no mechanism exists to support lagging subnational regions in ASEAN-6 or systematically address other dimensions of development across ASEAN Member States.

In 2015, the AEC Blueprint 2025 was adopted, which included narrowing development gap as part of the fourth characteristic of the ASEAN Economic Community (ASEAN Secretariat 2015). This document reiterates the notion that the main objective of the IAI and NDG implementation plan is to "strengthen the capacity building in newer ASEAN Member States to implement regional commitments towards ASEAN economic integration." It does make some reference to some other aspects of NDG such as rural economies and MSMEs, however, within the AEC there is no specific sector or mechanism for dealing with rural economies although there is a sectoral body in charge of MSMEs along with its working mechanisms. So, in terms of implementation, beyond MSME issues, the AEC has also relied on the existing IAI mechanism to address NDG issues, thus continuing to exclusively focus on the "ASEAN-6 vs CLMV" dichotomy.

The Masterplan on ASEAN Connectivity (MPAC) 2025, also adopted in 2015, emphasises narrowing of development gaps as a key strategic goal of ASEAN connectivity initiatives aimed to strengthen physical, institutional, and people-to-people linkages in ASEAN. Its stated aims were to "add value by complementing and synergising the ASEAN Community Blueprints 2025, ASEAN sectoral work plans, and the Initiative for ASEAN integration (IAI)

Work Plan III" (ASEAN 2017). MPAC has some parallel with the IAI as a dedicated institutional mechanism established to oversee a cross-cutting ASEAN priority, and the ASEAN Coordinating Committee on Connectivity in face has the same membership as the IAI Task Force, comprising of AMS permanent representatives to ASEAN. But given that none of the IAI projects have featured connectivity initiatives, MPAC has not been able to contribute much to NDG. The publicly available mid-term review of MPAC 2025 (ASEAN Secretariat 2021) does not have any mention of NDG.

Recommendations for ASEAN NDG post-2025

To give practical prominence to the NDG as a central ASEAN post-2025 agenda, ASEAN needs to take up the issue in all relevant sectoral body activities, rather than a separate initiative under the purview of the IAI&NDG division. This is to ensure a deeper and more comprehensive engagement of sectoral bodies in recognising and addressing development gaps related to activities in their sectors, compared to an arms-length involvement of a handful of sectoral bodies in current IAI Workplans. Relatedly, a broadening of the current conceptualisation as "ASEAN-6 vs CLMV" is needed to allow for within ASEAN Member States NDG issues to be addressed through the ASEAN mechanism. This is not to say that such gaps are to be deprioritised; in many metrics the newest ASEAN Member States are still lagging. But a broader perspective on development gap will enable to ASEAN to find ways to address development gaps that might arise in all ASEAN Member States. Since the relative positions of ASEAN Member States have evolved, with Viet Nam overtaking Philippines and catching up to Indonesia in some metrics; Lao PDR catching up with the Philippines;, it is suitable to adjust ASEAN's approach to NDG accordingly.

To complement and support the sectoral working groups in tackling NDGs, a stronger institutional mechanism is needed to translate the NDG goals to practical projects and initiatives, for which it would be necessary to establish a dedicated coordinating committee to oversee and manage NDG projects and initiatives. The current mechanism, borne out of the IAI, is limited to handling projects in CLMV countries only. The IAI Task Force does not have the technical capacity to identify and tackle development challenges synergistically, and hence the technical undertaking has been relying largely on a few people at the IAI desk at the ASEAN Secretariat or on external consultants. Thus, the current mechanism is insufficient and ineffective to handle complex development challenges that AMS will face going forward.

A coordinating body, comprising of technical officers overseeing implementation of Sustainable Development Goals in respective ASEAN Member States, would be better positioned for this. The body will be responsible for working with sectoral bodies to identify development gaps and develop cross-cutting projects and programs to address the

gaps.[3]Another added value of this mechanism would be better alignment between ASEAN initiatives and national SDG goals, as well as opportunity for enhanced coordination with other subregional cooperation platforms operating in the region.[4] Furthermore, the proposed organisation would allow the IAI Task Force to better focus on smooth coordination with external development partners to mobilise resources and technical cooperation for ASEAN's NDG initiatives.

The post-2025 NDG agenda should cover a lot more areas than what have been done so far. It is necessary to have a consistent set of high-level strategic areas, aligned with the broader ASEAN Community Vision and their respective pillars, that guide project choice and implementation for the 2025-2045 period. These strategic areas should be comprehensive enough to incorporate multiple development challenges in the post-2025 period. One possible set of strategic areas could be: eeconomic integration and market access; human resource development and productivity enhancement; digitalisation and technology adoption; Institutional reform and capacity building; environment, climate adaptation and resilience; and social welfare and inclusion. However, there are many other ways in which the framework for NDG could be constructed, but it must touch upon all issues that are likely to impact ASEAN's future development.

[3] Establishment of a dedicated body is a sign that the issue is highly prioritised by ASEAN. To be sure, one aspect of development gap that has been tackled through a dedicated coordinating committee is support for Micro, Small, and Medium Enterprises.

[4] Besides ASEAN, other platforms for regional cooperation and integration exist in the region with different combinations of ASEAN and non-ASEAN countries, such as the Greater Mekong Subregion Economic Cooperation Framework between 5 ASEAN countries and two provinces of the People's Republic of China (Asian Development Bank 2015). Given the overlap in goals and initiatives, it is necessary to find ways to create synergies between ASEAN and other subregional initiatives.

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4 What Do Businesses Want from the ASEAN Economic Community?

Maria Esperanza Frio Alconcel

Introduction

The ASEAN Economic Community (AEC) has been prolific in producing numerous declarations, frameworks, strategies, and action plans. Based on the list of ASEAN legal instruments from the ASEAN website, there are currently 52 main legal instruments (excluding those that were terminated) under the AEC Pillar (ASEAN 2024a). When it comes to impact, however, whether or not the AEC has delivered real benefits to the business sector remains a big debate.

For the past decade, ASEAN businesses have consistently raised concerns on the implementation of AEC commitments by ASEAN Member States – they are either not implemented or they are implemented in such a way that falls short of their original purpose of closer regional economic integration and connectivity.

Commitments alone cannot substitute the need for the political will to resolve underlying governance issues. Businesses want practical solutions and practices that lead to tangible outcomes; not additional ambitious and ambiguous commitments that are difficult to enforce. They want the AEC commitments to be translated into real and practical terms.

As ASEAN governments discuss the AEC agenda beyond 2025 and embark on the development of the next strategic plan to succeed the AEC Blueprint 2025, the focus should be on strengthening the design and implementation of AEC commitments in a business-friendly manner and effectively address long-standing issues on cross-border trade and investments, as well as newer challenges such as digital trade and connectivity, supply chain resilience, climate change mitigation and sustainable development.

To achieve this, ASEAN Member States must recognise and adopt trade facilitation as a systematic principle of ASEAN economic integration, applying its disciplines (transparency, simplification, harmonisation, and digitalisation) for the effective facilitation of trade (goods and services) and investment in the region, as stated in the ASEAN Trade Facilitation Framework (ATFF). Moreover, in line with the ATFF objectives, there is a need to strengthen the involvement of businesses in the AEC-building process through a broader, more inclusive and sustainable private sector engagement (i.e. continuous communication,

consultation, and cooperation) both at the regional and national levels, including by tapping on the resources, networks and expertise of the private sector and business support organisations (BSOs).

Understanding Long-Standing Issues on Cross-Border Trade Compliance

International trade offers significant growth opportunities for businesses, but it also comes with a multitude of regulatory and administrative compliance challenges. All firms, no matter their size, are required to comply with various trade regulations and administrative procedures before they can successfully export/import their products/services or invest in overseas markets. Moreover, each country has its own rules and regulations, including the associated procedures and documentary requirements, which vary depending on the nature of goods, services, or sectors.

The complexity of trade compliance, particularly regulatory and procedural requirements, entails substantial costs and can create risks such as costly delays and legal liabilities. Small businesses are most heavily affected by complex trade regulations and cumbersome procedures and are vulnerable to sudden changes and supply chain disruptions. This hinders their ability to develop new export markets as they do not have the time, capability, and resources to navigate the trade regulatory environment.

While tariff liberalisation commitments under the AEC have been significantly achieved, long-standing issues such as lack of transparency and legal certainty, diverging regulations and standards, and bureaucratic obstacles (proliferating “red tape”) continue to ramp up the time and costs of doing business in ASEAN. These practical challenges in the administration and governance create uncertainty and unnecessary barriers to trade, denying micro, small and medium enterprises (MSMEs) the benefits of international trade. In ASEAN, this requires utmost consideration by governments as MSMEs are considered integral to the economic development of ASEAN members, accounting for between 97.2 percent-99.9 percent of businesses in the region, and contributing 85 percent to employment, 44.8 percent to the GDP and 18 percent to national exports (ASEAN 2024b).

Understanding the challenges and needs of ASEAN businesses as they go along the entire trade compliance process of importing/exporting products and services within and outside ASEAN is a crucial step that must be undertaken for ASEAN governments and businesses to be on the same page on what the AEC should look like in the next five, ten, and 20 years.

Lack of regulatory transparency/predictability and access to relevant information.

Lack of awareness on trade opportunities and clarity over applicable rules and regulations remains to be the main problem in conducting cross-border trade and investment in ASEAN. Companies need to piece together all information on regulations, including documentary requirements and applied procedures, from different sources. Gathering all this information constitutes a hidden cost to trade (i.e. information costs), in addition to the cost of compliance with these requirements. For instance, based on the author's own experience as an international trade expert, it requires about five to ten days to obtain and process information in relation to exporting a single product to a specific country. The more complex the system is, the higher the information cost. This acts as a disincentive for expanding a business and exports especially for MSMEs that lack the necessary skills, resources, and connections to obtain and process information.

Regulatory barriers to trade

Import/export permits are often difficult to obtain due to time delays and uncertainty in complying with pre-requisite requirements such as obtaining certificate of analysis from product testing facilities. Moreover, significant variations in the national technical regulations and requirements (e.g. labelling, product standards) applied by each country affect the competitiveness of small firms due to the incurred substantial additional costs associated with adjusting products and services to different requirements, including extra labour and inputs (i.e. specification costs). Additionally, testing facilities to certify that a product adheres to the prescribed quality standards are not available in many ASEAN Member States. Companies, therefore, need to ship the products first to another country to undergo product testing and secure the necessary certification before they can be exported to the final market destination. The multiplicity of incompatible regulatory systems adds significant costs to businesses.

Procedural/administrative obstacles.

In most instances, the problem is not the measures per se, but how these measures are enforced. Implementation of some trade measures, including trade facilitation mechanisms (e.g. authorised economic operators) can be overly stringent and stricter than what is actually necessary. Also, many countries have yet to fully automate/digitalise application processes, requiring companies to both apply online and submit physical documents to relevant government agencies, which is time-consuming and entails additional costs (i.e. hard copies, transport). In addition, there is no definite timeframe for the completion of the application process and issuance of necessary permits and certifications. Lastly, further delays can occur because of contradictory advice received from government agencies due to different interpretations of regulations by authorities.

Weak private sector engagement.

With direct experience and first-hand knowledge, businesses are in the best position to provide meaningful inputs on supply chain bottlenecks and inefficiencies in the region as well as practical solutions and best practices to address them. Private sector engagement (e.g. information dissemination, capacity-building, consultation, public-private dialogue), therefore, is an important step in the decision-making and implementation process and the key to increasing the participation of MSMEs in international trade within and outside ASEAN. However, there remains to be an apparent poor communication, consultation, and cooperation between the public and the private sector in the region as businesses continuously outcry on the slow progress in the AEC-building process and how some initiatives are not aligned with the needs and capability of small enterprises.

"Complexity is the enemy of implementation"

The AEC – as contained in both 2015 and 2025 Blueprints – offers mechanisms to reduce unnecessary trade burdens and facilitate participation specially of small businesses in regional supply chains. However, enterprises continue to face trade compliance bottlenecks amidst the efforts of ASEAN governments in addressing the hurdles. What have gone wrong?

Increasing trade transparency, legal uncertainty, and predictability

ASEAN has developed the ASEAN Trade Repository (ASEAN n.d.), which is an online trade portal (i.e. "one-stop shop" for trade-related information) to increase regulatory transparency in the region. The ATR contains accurate and up-to-date information that have been verified by ASEAN trade regulators. However, the current ATR design is difficult to navigate as it is not searchable by product description or HS code. Instead, it follows UNCTAD's international classification of non-tariff measures (NTMs), which – while academically or technically useful – uses governments' technical terms that is hard to understand by businesses. This fails to achieve the main purpose of developing the ATR to make it easier for businesses to gather trade-related information in the exportation and importation of goods within the ASEAN region. Furthermore, the challenge is how to make it sustainable as regulators do not have the time and capacity to update the information regularly.

The ASEAN Tariff Finder (ATF) is another online platform designed to support traders maximise benefits under various ASEAN free trade agreements (FTAs) and provide accurate and constantly updated information on customs and trade regulations and market access requirements. It aims to help ASEAN businesses reduce information costs associated with long searches and processing information on regulatory requirements. While the ATF has a user-friendly design, the information was provided by a third-party, without proper

verification by regulators. Some ASEAN governments and businesses, therefore, raised concerns on the accuracy of the ATF contents.

Another important initiative in ASEAN is the notification by parties of newly imposed actions/measures or any changes made on existing measures, which should be made publicly available online. Further, Parties are expected to exchange relevant verification information through designated focal points. However, in practice, this commitment is not adhered to by ASEAN Member States due to poor inter-agency coordination, and relevant regional trade developments are not conveyed to businesses in a timely and effective manner due to weak private sector engagement.

Based on the above examples, the objective of enhancing transparency and predictability of the regulatory environment in the region is only marginally achieved due to the poor design of existing mechanisms and weak/non-implementation by Parties of their commitments (e.g. notification). In addition, the focus is only on merchandise trade, while other areas such as trade in services, investments, e-commerce are not covered.

Reducing unnecessary trade burdens through regulatory cooperation – harmonisation, standardisation, and mutual recognition

The AEC Blueprint 2025 promotes regulatory cooperation through harmonisation, standardisation, and mutual recognition. Moreover, some FTAs included strong WTO disciplines on the application of NTMs through greater regulatory cooperation such as equivalence, technical consultations, good regulatory practice as well as the use of international standards, guides, and best practices. However, little has been achieved in this area and ASEAN companies continue to face a number of challenges, incurring approximately 10-20 percent additional NTM compliance costs when exporting/importing their products in the region. Again, the problem lies in the inadequate design and weak implementation of these principles and commitments. To date, only few mutual recognition arrangements (MRAs) have been signed and fully implemented by ASEAN Member States.[1]

[1] Based on the list of AEC legal instruments, MRAs in relation to products include Electrical and Electronic Equipment (2002), Good Manufacturing Practice (GMP) Inspection of Manufacturers of Medicinal Products (2009), Bioequivalence Study Reports of Generic Medicinal Products (2017), Inspection and Certification Systems on Food Hygiene for Prepared Foodstuff Products (2018), Type Approval for Automotive Products (2022); while MRAs in relation to services include Engineering Services (2005), Nursing Services (2006), Surveying Qualifications (2008), Architectural Services (2007), Medical Practitioners (2009), Accountancy Services (2009), Dental Practitioners (2009), Tourism Professionals, Accountancy Services, Flight Crew Licensing (not in force).

Streamlining and digitalising trade compliance documentation and procedures

ASEAN has initiated a number of trade facilitation mechanisms to simplify trade compliance documentation and procedures. For instance, ASEAN has implemented the ASEAN Single Window (ASW) which is a platform that enables ASEAN governments to exchange trade documents (e.g. e-CO Form D) electronically. However, to date, only a few documents (e.g. ACDD, ATIGA CO Form D) are allowed in the platform, with different degrees of success in the actual exchange.

Another valuable tool for companies is the "authori[se]d economic operators" scheme and the ASEAN Customs Transit System (ACTS), which can significantly cut down time and costs associated with customs clearance. However, many companies are either not aware of these mechanisms or even if they are aware, the criteria and requirements to avail these tools tend to be complicated and stringent for MSMEs to satisfy.

Institutionalising private sector engagement

The role of the private sector as a key stakeholder in the ASEAN economic integration process is recognised in the AEC Blueprint 2025. Business inputs and partnerships are crucial in identifying impediments to realising deeper regional economic integration and in designing regional strategies and initiatives. Thus, private sector engagement is a means to provide easier access to information and to obtain timely feedback on policies from businesses.

For example, the ASEAN Solutions for Investments, Services and Trade (ASSIST) is an online consultative mechanism that aims to provide expedited and effective solution of cross-border trade operational issues faced by ASEAN businesses. However, a key concern of the private sector is that despite its feature to ensure timeliness of response from the relevant authorities, ASEAN Member States do not necessarily address the core issues raised by the private sector in their response. This makes this platform ineffective in providing practical solutions especially to long-standing issues confronting businesses operating in the region, discouraging businesses from using it.

ASEAN should also increase private sector engagement at the sectoral committees/bodies level where initiatives are shaped and implemented, to discuss about regulatory cooperation initiatives, as well as gather feedback on new and emerging issues such as trade and environmental sustainability. However, consultations rarely lead to concrete follow up actions and tangible results, discouraging businesses from participating in said consultations or from expecting real outcomes out of them. Businesses are also not informed on the outcomes of the consultations. As such, businesses are disappointed with the continuing

disconnect between the needs of businesses and the policies and initiatives of governments in the region.

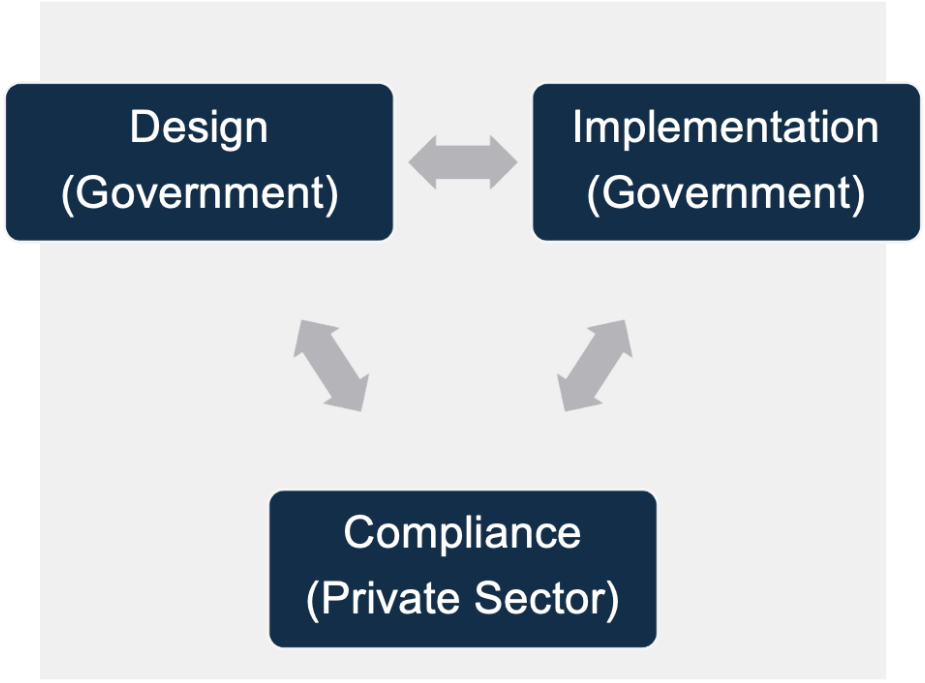
New trade developments are also not sufficiently cascaded to the private sector, especially to businesses operating outside of ASEAN capital cities. Hence, many companies are not aware and therefore not utilising the various initiatives undertaken by ASEAN governments to facilitate cross-border trade.

All of these issues contribute to the limited participation of MSMEs in regional supply chains, as well as low utilisation of FTAs and trade facilitation mechanisms by businesses in the region.

Post-2025 AEC Blueprint should focus on the effective implementation of regional economic integration commitments through strengthening trade facilitation and enhancing private sector engagement in the ASEAN economic integration process.

The AEC, including ASEAN FTAs, provides noteworthy initiatives that aim to address long-standing trade compliance bottlenecks in the region. However, these existing initiatives will only yield to desirable outcomes and utilised by businesses if they are suitably designed and adequately implemented in a more business-friendly manner, translating AEC commitments into real and practical terms.

Figure 1: Key Pillars of Trade Regulatory Review



The post-2025 AEC Blueprint should therefore focus on finding practical yet meaningful ways to strengthen the implementation of existing AEC commitments that are aligned with the needs of ASEAN enterprises, as follows:

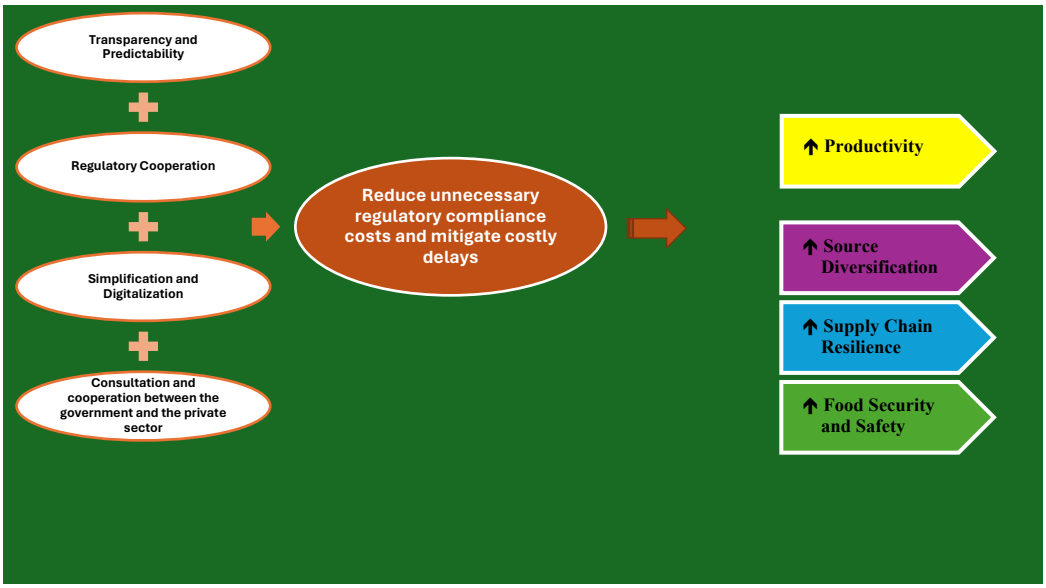
- Firstly, it is important for ASEAN governments to recognise that trade facilitation is a systematic principle of ASEAN economic integration that must be applied in re-designing existing initiatives and in designing new mechanisms to ensure that costs and delays are kept to a minimum (Figure 1). It is also worth noting that the concept of trade facilitation, which aims at reducing transaction costs through improvements in governance, institutions, processes, and transparency, has increasingly gained importance, not only on trade in goods, but also in the areas of trade in services (World Bank Group, n.d.) and investments (ASEAN, 2021) (Figure 2).

Figure 2: Key Trade Facilitation Disciplines

Source: ASEAN Trade Facilitation Framework (ATFF)

In fact, the ASEAN Trade Facilitation Framework (ATFF) recognised facilitation of trade and investment as the driver of ASEAN economic development and regional economic integration. ASEAN has also adopted the ASEAN Investment Facilitation Framework and has recently concluded the ASEAN Services Facilitation Framework, though again the issue is in the implementation of the strategies contained in the said agreements (Figure 3).

Figure 3: Key Trade Facilitation Principles



EFFECTIVE FACILITATION OF TRADE AND INVESTMENT TO REDUCE UNNECESSARY REGULATORY COMPLIANCE COSTS

- Most importantly, in line with the ATFF, the future of ASEAN's regional economic integration lies greatly in strengthening the involvement of the private sector in the process through a broader, more inclusive and sustainable private sector engagement (i.e. continuous communication, consultation, and cooperation) both at the regional and national levels. Businesses can provide meaningful inputs on trade compliance bottlenecks and regional supply chain inefficiencies as well as international best practices. Their involvement should go beyond the soliciting of feedback to AEC implementation but rather start earlier in the process of designing a realistic and measurable strategy to implement the AEC agenda, priorities, and initiatives.

  Moreover, cross border trade and investment are heavily dependent on communication and cooperation between government agencies and business organisations. They need to invest more time in each other to create that sense of awareness and establish a certain level of understanding and trust between all parties involved and between the control mechanisms of the various governments, which naturally solidifies over time. This way, much can be achieved in ensuring more resilient regional supply chains and achieving trade-driven inclusive and sustainable economic development.

  Below are some practical ways to enhance private sector engagement in ASEAN:

  - Conduct regular information dissemination in layman's terms to raise awareness and understanding of AEC mechanisms, commitments and initiatives through outreach

events, government websites and social media platforms, both at the regional and national level.

- The ASEAN Tariff Finder (ATF) provides an important tool in achieving regulatory transparency in the region, but its contents must be verified by ASEAN Member States and ASEAN's FTA partners to ensure that they are accurate and useful for businesses.

    - The ATF can also include an early-warning or real-time notification alert system, similar to the WTO's ePing, to notify users of new regulations or any changes in the regulations of ASEAN and its FTA partners.

    - Additionally, similar platform should also be established for other areas such as trade in services, investments and e-commerce.

- Leverage digital technologies (e.g. websites, social media platforms) for wider and more inclusive private sector communication and consultations.

    - For instance, ASEAN recently embarked on using social media platforms (e.g. Facebook, Instagram, LinkedIn) to gather inputs for the post-2025 AEC Blueprint.
    - Increase the use of the bespoke "*e-Platform*" for ASEAN Consultations with the private sector.

- Identify and partner with business support organisations (BSOs), such as national business chambers and trade promotion agencies, both at the regional and national levels, especially those that have satellite offices outside of ASEAN capital cities. BSOs can serve as the linkage between governments and businesses.

- In addition to the ASEAN Business Advisory Council (ASEAN-BAC) and Joint Business Councils, it is very important to also involve key industry/sectoral associations in the ASEAN economic integration process that may strengthen the representation of small businesses and other industries.

- Nominate business champions in key topics/themes such as digitalisation, sustainability, trade in services, investments who will serve as shepherds to coordinate with relevant ASEAN sectoral bodies and work very closely with other ASEAN business leaders in identifying key sub-sectors under each topic/theme that are relevant to ASEAN businesses, including sector-specific issues and innovative solutions to address them.

- A public-private partnership (PPP) approach in achieving the AEC vision, with emphasis on trade facilitation (more predictable, streamlined and modernised trade procedures and processes) as a recognised driver of trade-led economic growth in the region, would signal to the private sector and other key stakeholders that they are part of the system, promoting a sense of ownership and shared responsibilities in the ASEAN economic integration process. This would also promote relationship-building that is based on trust, mutual respect and understanding, which is crucial in advancing the regional economic integration process in a way that is meaningful to the beneficiaries.

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5 Staying the Course in ASEAN's Rules-based Order: Realising the AEC's Vision Amid Global Turbulence

Tan Hsien-Li

Introduction

As the Eminent Persons Group (EPG) on the ASEAN Charter, hereinafter the EPG, originally noted in 2006: "ASEAN's problem is not one of lack of vision, ideas, and action plans. The real problem is one of ensuring compliance and effective implementation of decisions." It pressed ASEAN to implement its commitments in a timely fashion as "delays and non-compliance [would] be counter-productive, undermine ASEAN's credibility, and disrupt ASEAN's efforts in building the ASEAN Community" (ASEAN, 2006 pp. 4, 21).

While the ASEAN free trade area now exists and the ASEAN Economic Community (AEC) will reach its tenth year of establishment in 2025, what the member states envisioned for the AEC – particularly a "single market and production base" attracting foreign investment and possessing seamless supply chains exporting ASEAN products to the rest of the world – still struggles with implementation and the realisation of its full potential. This is further exacerbated by the challenges posed by the COVID-19 pandemic, escalating geopolitical and geo-economic tensions between the United States and China, increasing re-globalisation of the world economy, and weakening support for multilateral institutions.

Even as ASEAN Member States pragmatically seek new bilateral and multilateral arrangements to hedge against such turbulence, this should not be at the expense of ASEAN economic integration. Instead, such arrangements should complement the primary goal of realising the AEC. Furthermore, as ASEAN seeks to look beyond 2025 to address the new headwinds caused by climate change, and digital and technological transformation, it is critical to not get side-tracked or spread too thin on "trending" priorities when deep-rooted economic integration problems persist. A flourishing and integrated AEC remains inarguably vital to the prosperity and security of every ASEAN Member State. More importantly, realising the AEC, challenging as it may be, is not a pipedream beyond the resources, capacity, and capability of ASEAN and its member states. In fact, the ASEAN rules-based order that has evolved since the adoption of the region's constituent treaty, the ASEAN Charter, holds the key to realising the fundamental vision of ASEAN economic integration and community building.

This chapter endeavours to systematically discuss how member states can, notwithstanding global turbulence, persevere on the course in ASEAN's rules-based order so that a robust AEC will develop and enable ASEAN and its member states to prosper far beyond 2025. The essay will thus briefly explain the ASEAN rules-based order and its relationship to the ASEAN Way, how ASEAN laws work in this rules-based order, and how implementing and monitoring the economic laws (defined in the next section) of ASEAN's rules-based order in good faith will enable the AEC to flourish.

The New ASEAN Way: The Post-Charter Rules-based Order

The EPG's exhortation for ASEAN to implement and comply with its laws so that it can integrate effectively in fact heralded a new ASEAN Way after the adoption of the ASEAN Charter (2007). This new ASEAN Way is no longer staunchly non-legalistic but rules-based – the embracement of legalisation and institutionalisation in ASEAN's regional architecture has led to the incumbent era of the ASEAN rules-based order (Tan 2021, p.1).

The advent of ASEAN's rules-based order began with the Charter's constitutional breakthrough where ASEAN members undertook legalised integration across the political-security, economic, and socio-cultural pillars. The landmark Charter gave legal status to ASEAN, codified ASEAN norms and rules to compel compliance, and is the institutional framework for tri-pillar community-building. In ASEAN's rules-based order, law does not undermine sovereignty but upholds state and collective interests (Tan 2022, pp. 356–357). The Charter has guided (and continues to guide) ASEAN in rules-based integration to cooperate on regional goals such as the establishment of the ASEAN Community in 2015 as well as tackling the challenges caused by the COVID-19 pandemic and South China Sea tensions. As support for multilateral institutions wanes but engagement in the "rules-based order" heightens in the global arena, it becomes even more critical that ASEAN Member States redouble efforts and persist on ASEAN's Charter-based rules-based pathway to realise the AEC.

How ASEAN's rules-based order works in the economic pillar is via four broad steps. First, the Charter – entrenches an intergovernmental framework of legalised integration, and the centralised ASEAN Secretariat has clear delegated competences. The Summit, comprising the Heads of State or Government, is the "supreme policy-making body" instructing the various Councils and Sectoral Ministerial Bodies on community-building. Though possessing the rank and status of minister, the Secretary-General serves at the Summit's pleasure under the ASEAN Foreign Ministers' direction (articles 7-11). Substantively, the Charter spells out long-term integration goals, coaxing members to persevere in political-security, economic, and socio-cultural community community-building (articles 1-2) rather than renege in the name of sovereignty. Notably, ASEAN's regimes of hard law (binding obligations that are litigable – for example, treaties) and soft law (non-binding commitments – for example,

declarations, blueprints, frameworks and strategies) must be upheld and domestic legislation enacted where necessary to fulfil the aims of the Charter (article 5).

Second, to facilitate community-building, ASEAN's rules-based order has developed a system of primary and secondary legal instruments, of both hard and soft legal natures, to set its economic, security, and socio-cultural community agendas. Notably, ASEAN law-making practice does not require primary and secondary laws to be legally-binding – both hard and soft laws are acceptable, and compliance is expected of both types. Generally, hard legal instruments in ASEAN often bear the nomenclature of "treaty" or "agreement" and hold legally binding obligations that are subject to dispute settlement proceedings. Simply put, breaches are litigable. In contrast, soft legal instruments in ASEAN are non-binding, thus are non-litigable. However, adherence to soft law commitments is nonetheless strongly expected. ASEAN soft laws may come in the form of "declaration" and "concord". Very often, serious soft legal commitments come in time-limited instruments such as "masterplans", "roadmaps", "blueprints", and "workplans" (Tan 2022, pp. 358–360).

This system of primary and secondary hard and soft laws works in two main ways in ASEAN's rules-based order. First, primary hard law instruments are often used in setting major overarching economic agendas such as the ASEAN Trade in Goods Agreement (ATIGA). The primary law is usually followed by secondary laws that elaborate commitments in greater detail. In this instance, the ASEAN Trade Facilitation Framework and the AEC 2025 Trade Facilitation Strategic Action Plan are the accompanying secondary soft laws. Another instance is that both the primary law and the secondary ones are of a hard-legal nature. A good example of this is how the ASEAN Framework Agreement for Services is accompanied by supplementary protocols detailing successive phases of integration.

The second way of usage is that ASEAN members use primary soft law instruments to articulate more sensitive, complex, or resource-intensive ambitions that tend to arise from the security, socio-economic, and developmental arenas. These are then elaborated by secondary soft laws that have more open-ended wording because some default is foreseeable due to the long-term attainment of these aims. A prominent example is seen in the Initiative for ASEAN Integration (IAI 2009) Strategic Framework that focuses on supporting the newer ASEAN members – Cambodia, Laos, Myanmar, and Vietnam – in economic development and regional integration, and the IAI's secondary soft laws, the IAI Work Plans.

It is important to emphasise that although soft law is classically deemed "weaker" than hard law in the international legal order, ASEAN (and other developing states in the Global South) takes soft law seriously and has a marked preference for it in regionalisation (Tan 2019, pp. 37–38). Used prudently and executed in good faith, soft law has been – and continues to be – a genuine vector of integration. Furthermore, ASEAN's treaty usage is not for window-dressing even if judicial enforceability is rare. Rather, the adoption of economic treaties

signals that such obligations demand the greatest respect and responsibility. If breaches occur, negotiated solutions are available and members need not worry too much about triggering costly arbitral processes which take decision-making powers out of their hands. While dispute settlement is more substantively discussed below, it is important at this juncture to highlight that as ASEAN values inter-member amicability, none of the intraregional dispute settlement mechanisms have yet been used (Tan 2022).

Third, to implement ASEAN's rules-based order, there is a complex hierarchy of intergovernmental and centralised administrative institutions comprising officials from member states' governments and the ASEAN Secretariat. The modus operandi for compliance is these officials to meet frequently to discuss initiatives and reach consensus in intergovernmental decision-making and ensure that common interests remain upheld, and – ideally – monitor that all Member States are implementing regional laws domestically. Such implicit mutual surveillance maintains the interests of every Member State and guards against members reneging on commitments. Furthermore, institutions within the hierarchy implement laws, execute programmes, and carry out the day-to-day administration to actualise outcomes. For the AEC, the Summit makes the key economic decisions. General oversight is vested in the ASEAN Economic Community Council ministers (and subsidiarity in the sectoral ministerial bodies with economic-related portfolios) which in turn are supported by the senior civil servants and their staff from the national agencies responsible for implementing cross-sectoral economic integration. Hence for the AEC to be properly realised, it is vital that all the ASEAN economic primary and secondary laws are translated into national laws or policies of every member state and that these rules are *carried out in good faith and respectful of economic integration timelines* by responsible officials in the domestic order. It is worth restating that mere enactment of law or policy is insufficient for a fully-functioning AEC (Tan 2022, pp. 370–372).

Fourth, ASEAN Member States' desire for intergovernmentalism, consensus, and regional amicability leads to "unorthodox" ways of ensuring compliance. Naturally, the heavy reliance on soft laws precludes recourse to litigation to deter or redress violations. Member states prefer less intrusive and punitive modalities to encourage implementation and compliance. In such circumstances, unlike other international or regional economic regimes where courts are the main enforcement mechanisms, regular institutional monitoring has become AEC's primary mode of accountability, because increasing transparency generates peer pressure to comply. Monitoring mechanisms such as the oversight by the ASEAN Economic Community Council ministers can help to deter complacency on economic integration.

Moreover, the ASEAN Secretary-General and the ASEAN Secretariat as the centralised regional institution also have competences to monitor the implementation of AEC laws. As articulated in Article 11(2)(b) of the Charter, the Secretary-General has a general monitoring competence, including facilitating and monitoring progress in the implementation of ASEAN

agreements and decisions and submission of an annual report to the ASEAN Summit. One outcome of such monitoring oversight is the Mid-Term Review of the AEC Blueprint 2025 by the ASEAN Secretariat.

More broadly, following the use of AEC Scorecard under AEC Blueprint 2015, the ASEAN Integration Monitoring Directorate of the ASEAN Secretariat is now administering the AEC 2025 Monitoring and Evaluation Framework (M&E Framework) in three important ways. First, there is compliance monitoring where quantitative and qualitative data are collected from member states and sectoral bodies. Additionally, country visits are proposed part of the oversight protocol although these do not seem to be regularly conducted nor publicly updated. Second, there is outcomes monitoring to ensure that AEC instruments produce the expected practical results of prosperity and development, economic indicators of national and regional development arising from integration are measured, such as growth, trade, and investment. Lastly, impact evaluation is measured — positive and negative integration effects and equitable development in ASEAN societies are examined to see how individuals and communities have benefited from the integration measures (Tan 2022, pp. 373–378).

In monitoring ASEAN economic integration, not only progresses but its rules-based order gradually evolves towards globally recognised standards. ASEAN Statistical cooperation (ASEANStats), also serviced by a division under the AIMD, has adopted the United Nations Fundamental Principles of Official Statistics to supply reliable data, with the online database including indicators on trade in goods and services, investment, and population. In addition to integration monitoring and statistical cooperation, the AIMD also plays an important role of monitoring emerging issues relevant to the AEC and providing confidential high-level policy and technical advice on economic integration to ASEAN institutions and disseminating more general information to the public. It is vital that such comprehensive monitoring protocols be practised and become entrenched in ASEAN's rules-based order so that shortfalls and challenges in the AEC's progress may be addressed in a timely and effective manner. To this end and for impartiality and sustainability reason, it is important to ensure that the analytical capacity of the ASEAN Secretariat, particularly the AIMD, does not get eroded or replaced by the ease of sourcing external expertise.

A small but important point regarding implicit and informal monitoring through ASEAN meetings must also be raised. As ASEAN holds more than 1,500 meetings annually to discuss work-in-progress, the mutual accountability demanded at these meetings inevitably pressures members to keep to economic integration commitments as increased transparency generates peer pressure to comply and deters member complacency.

Even as the ASEAN rules-based order is largely operates using soft laws, formal mechanisms are available to resolve treaty disputes. Article 24(3) of the Charter provides that the ASEAN Protocol on Enhanced Dispute Settlement Mechanism (EDSM, 2019) is a general dispute

settlement treaty that may be used for all disputes arising out of ASEAN economic treaties. While sovereignty-centric ASEAN Member States have erstwhile been reluctant to use these regional arbitral panels – common reasons could be because they perceive diminished control in adjudicatory outcomes, the escalation of intra-regional tensions from adversarial litigation, or a reluctance to expend technical and financial resources on legal proceedings –these dispute settlement mechanisms nonetheless still hold potential usage. Dispute settlement proceedings could arise foreseeably through the evolution of a more legalistic and litigious ASEAN rules-based order. Litigation could also possibly arise through a breach of an ASEAN intraregional economic treaty that in turns causes a violation of ASEAN's obligation to its dialogue partner in an ASEAN external economic treaty, wherein the dialogue partner may pressure a swift and legalistic resolution and restitution of the breach.

Conclusion

Even as the AEC Blueprint 2025 looks to be largely fulfilled by the 2025 deadline and its unmet targets rolled over to the subsequent strategic plan (like what had occurred with the 2015 Blueprint), such practices may only fulfil compliance in form rather than function. Genuine implementation must be evidenced – merely enacting national legislation or policy to "comply" with ASEAN economic instruments without taking follow-up action is insufficient. However, this maybe where the current AEC compliance monitoring is challenged.

For a truly effective AEC, with enhanced trade and investment benefits for all ASEAN members, businesses, and people, more effective implementation through national laws and policies must be carried out by civil servants in the domestic arena and close monitoring done by the ASEAN economic and sectoral ministers, sectoral bodies, and the ASEAN Secretariat. Stakeholder feedback will be critical, and having in place effective tools that allow for more regular and inclusive inputs and submissions from stakeholders is key. If these inputs are acted upon, this will then help to debottleneck implementation and translate to lower costs of doing business, smoother supply chains, easier movement of goods and services, and job creation.

Given the lag between ASEAN as an economic area vis-à-vis not only China but India and other fast-emerging Global South competitors, it cannot be assumed that ASEAN will attract capital diversifying from China, at least not evenly across the member states. There must be concrete actions and difficult reforms – nationally and regionally - if ASEAN is to achieve its original goal and be globally relevant and competitive. With the RCEP Agreement in force, the trade and investment opportunities of RCEP for the AEC and the concomitant pressures by external partners must not be overlooked. Furthermore, it is vital not to lose sight of the AEC's core goal of economic integration even as globalisation rifts, a stymied World Trade Organization, and intensifying bilateral and mini-lateral arrangements occupy ASEAN

Member States' attention. ASEAN and its member states have worked hard to create and finetune ASEAN's rules-based economic order. They should not veer from this trajectory as it can not only successfully enforce ASEAN's existing integration ambitions but also propel progress on newer agendas.

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Conclusion

Denis Hew and Julia Tijaja

As ASEAN policymakers prepare the next post-2025 AEC strategic plan, the region faces a landscape that is increasingly uncertain, due to rising geo-political tensions and global fragmentation. Meanwhile, global megatrends like advancements in digital technology/the AI revolution, sustainability challenges (climate change and resource scarcity), rapid urbanisation, and demographic changes will have a transformative impact on ASEAN economies in the years to come. Therefore, it can no longer be business as usual for ASEAN as regional economic integration efforts have now become more difficult compared to the past. Hence, it would be crucial to ensure inputs into the post-2025 AEC strategic plan is not only bold and forward-looking but also practicable to meaningfully address many of these challenges.

In this context, five pertinent issues relevant to post-2025 AEC were covered in this edited volume (Chapters 1 to 5) with key findings and policy recommendations summarised below.

Digital Transformation

In Chapter 1, Ing et al. recognised the significant progress in ASEAN's works on digital economy but found several limitations in the existing frameworks, including a lack of clear enforcement mechanisms and an overemphasis on economic/AEC issues with inadequate coverage of security and political and socio-cultural aspects. Given the far-reaching impact of digital transformation, they called for the formulation of a more comprehensive community-wide vision to shape and drive ASEAN's longer-term digital transformation agenda i.e. the ASEAN Digital Community (ADC) by 2045. They opined that the ADC would offer a fresh approach to digital transformation that cuts across all three ASEAN Community pillars (AEC, APSC and ASCC).

ADC will have 5 elemental pillars covering governance; productivity; connectivity; inclusivity; and sustainability. More importantly, going beyond another strategy, agreement, or framework, these pillars will need to be translated into concrete actions through existing relevant sectoral bodies and working mechanisms. While the AEC will continue to take the lead on digital economy initiatives, this multifaceted approach of addressing ASEAN's digital transformation can offer a cross-pillar platform to update relevant developments, conduct joint/collaborative work to identify risks and opportunities as well as to engage relevant stakeholders, especially industry experts and the private sector – both for relevance and resource mobilisation.

Ing et al. underscored the importance of concerted follow-up actions to successfully realise the ADC over the next two decades including: cross-pillar and cross-sectoral cooperation; alignment of regional and national goals and initiatives; monitoring of actions against targets (to better assess effectiveness of policies and implementation); and the prioritisation of human capital development to support digital transformation (e.g. digital literacy and skills or talent development).

Institutional Readiness to Achieve Carbon Neutrality

In Chapter 2, Martinus observed that ASEAN faced increasing external pressures from its major trading partners to align its climate policies with global standards. At the same time, she argued that it was important for ASEAN to craft its own narrative on carbon neutrality to take advantage of potential growth opportunities in green transition. Currently, the carbon neutrality pathway is seen as a more feasible option for ASEAN Member States given their different timelines and capacity to achieve the more ambitious goal of net-zero greenhouse gas emissions. In this context, the endorsement of the ASEAN Strategy for Carbon Neutrality signifies a key milestone in ASEAN Member States' collective commitment to address climate change, aligning with global efforts such as the Paris Agreement and setting ambitious targets for their own net-zero goals. The strategy outlined clear outcomes and strategies to achieve carbon neutrality, focusing on developing green industries, enhancing regional interoperability, establishing credible standards, and fostering green talent development. The added advantage of taking the carbon-neutrality pathway for ASEAN is the potential complementarities among its member states.

While the strategy is a commendable milestone, its success will ultimately depend on effective operationalisation. ASEAN's pillar and sector-based institutional structure often limit the region's ability to effectively respond to multidimensional challenges to date. To successfully operationalise this strategy, Martinus proposed several key recommendations including prioritising impactful initiatives; establishing measurable monitoring and evaluation frameworks; setting-up a coordinating body (to monitor progress, facilitate resource allocation and foster confidence among stakeholders); and leverage existing sectoral bodies to drive tangible implementation. Embracing a carbon-neutral pathway not only mitigates climate change but also unlocks economic growth, attracts green investments, and creates millions of new jobs, ensuring a more sustainable future for the region.

Narrowing the Development Gap

In Chapter 3, Shrestha et al. called for the need to re-frame ASEAN's approach to narrowing the development gap (NDG) among its member states. After reviewing existing NDG frameworks notably the Initiative for ASEAN Integration (IAI) and the ASEAN Framework

for Equitable Economic Development (AFEED), they argued that the post-2025 AEC agenda should transcend conceptualising NDG between the six original ASEAN Member States and the CLMV (Cambodia, Lao PDR, Myanmar, and Viet Nam). Instead, a more holistic and updated view of NDG as a challenging issue facing different regions and socio-economic groups within each ASEAN Member State should be taken.

Shrestha et al. proposed an updated NDG framework that will take a broader perspective on development gaps to address multiple challenges in the post-2025 period, covering areas such economic integration and market access; human resource development and productivity enhancement; digitalisation and technology adoption; institutional reform and capacity building; climate adaptation and resilience; and social welfare and inclusion. This new approach would also ensure a deeper and more comprehensive engagement of sectoral bodies in addressing development gaps compared to an arms-length involvement of only a few of them in current IAI work plans.

Given the limitations of existing frameworks to address complex development challenges ahead, the authors recommended that a dedicated coordinating committee should be established to oversee and manage NDG projects and initiatives. The new committee will work closely with sectoral bodies to develop cross-cutting NDG projects and programmes as well as enhance coordination with other subregional cooperation platforms operating in the region. Furthermore, this institutional reorganisation would allow the IAI Task Force to better focus on coordination with external development partners to mobilise resources and technical cooperation for NDG initiatives.

Expectations from ASEAN Businesses on the AEC

In Chapter 4, Alconcel addressed the issue of what businesses in the region really want from the AEC. She found that ASEAN businesses have consistently raised concerns about the poor implementation of AEC commitments and that they want these commitments to be translated into more practical solutions and practices that lead to tangible outcomes. From the private sector perspective, the focus of the post-2025 AEC strategic plan should be on strengthening the design and implementation of AEC commitments in a business-friendly manner and effectively deal with long-standing issues on cross-border trade and investments while addressing newer challenges such as digital trade and connectivity, supply chain resilience, climate change mitigation and sustainable development.

Alconcel encouraged ASEAN governments to adopt trade facilitation as a systematic principle of ASEAN economic integration. The application of its disciplines of transparency, simplification, harmonisation, and digitalisation, as stated in the ASEAN Trade Facilitation Framework (ATFF), would enable the effective facilitation of not only trade in goods

commitments but also those in services as well as investment. She further made a number of key recommendations to strengthen private sector engagement in the AEC including building closer linkages with the ASEAN business councils and business support organisations, and engaging them earlier including in the prioritisation and design stage of AEC initiatives; nominating business champions that will work closely with ASEAN sectoral bodies on priority themes; establishing public-private partnerships that would bring together relevant stakeholders from both the private and public sectors; ensuring the user-friendliness, effectiveness and sustainability of tools like the ASEAN Trade Repository and ASEAN Tariff Finder (ATF) as well as setting-up similar business-friendly platforms for trade in services, investments and e-commerce.

Addressing AEC's Enforcement Mechanism

In Chapter 5, Tan examined ASEAN's existing rules-based order particularly its economic laws and how effectively implementing and monitoring these laws will enable the AEC to flourish. ASEAN has over the years developed a system of hard and soft primary and secondary laws to implement its economic integration agenda. She found that ASEAN generally prefers soft laws in regionalisation. Although soft laws are legally weaker than hard laws, compliance is expected for both in ASEAN's rules-based order. Given this preference and to ensure compliance with regional commitments, it is important for government officials to meet frequently to discuss initiatives and to use monitoring mechanisms to ensure that all Member States are implementing regional laws domestically.

Tan underscored the importance of ASEAN economic primary and secondary laws being translated into the national laws of every Member State and that these rules are carried out in good faith and meet economic integration timelines. She pointed out that the mere enactment of a law or policy is insufficient for a fully functioning AEC. There needs to be effective implementation through national laws and policies to be carried out by civil servants domestically with close monitoring done by the ASEAN Secretariat and sectoral bodies. Having effective tools for stakeholder feedback would also be crucial. In this context, Tan highlighted the importance of the AEC 2025 Monitoring and Evaluation (M&E) Framework for the effective monitoring and evaluation of the implementation of AEC commitments. But she stressed that more work needs to be done on tracking the progress of national level implementation.

ASEAN does have formal mechanisms to resolve economic treaty (i.e. hard law) disputes such as the ASEAN Protocol on Enhanced Dispute Settlement Mechanism (EDSM), but member states are reluctant to use it, perhaps due to a reluctance to expend technical or financial resources on legal proceedings. Nonetheless, these mechanisms remain potentially useful when member states have exhausted negotiatory avenues and seek a legally decisive outcome to prevent an escalation of intra-regional tensions.

Common themes

There are some common themes that could be drawn out from the five post-2025 AEC issues examined in this edited volume. These commonalities are as follows:

i) Need for an effective coordination platform for cross-cutting issues

In some emerging issues like digitalisation and sustainability, ASEAN already has in place well-crafted strategies and work plans. However, the embedded cross-cutting nature of these issues makes implementation quite challenging. As discussed in this edited volume, there will be a need for an effective thematic coordination platform that could be cross-sectoral, cross-pillar with possible participation of multiple stakeholders both at the regional and national levels. This would require the engagement and inputs from industries and experts (in the prioritisation and design of initiatives), private sector participation to mobilise resources, and leveraging existing sectoral bodies and their working mechanisms for implementation. Strong ownership by sectoral bodies of new emerging issues and their strategies supporting the AEC would be crucial for more effective implementation. To achieve this, policy partnerships forums and policy dialogues are good examples of effective multi-stakeholder platforms that have worked well in other international organisations and should be more widely adopted in ASEAN.

ii) Addressing the implementation gap

There should be a renewed focus to support the implementation of AEC commitments at the national level. Monitoring and reporting have to go beyond the adoption of regional initiatives and enactment of national policies and regulations, which have long been the focus of AEC M&E. The monitoring process has to be updated with national implementation efforts that contribute to the regional objectives. Given the limited resources available to the ASEAN Secretariat, monitoring and coordination efforts need to be supported at the national level. Having a good regular feedback mechanism will help to fine-tune existing regional initiatives and ensure more effective implementation and compliance from member states. Moreover, a greater focus on developing practical tools like the ATF will not only improve transparency but assist businesses to tap into regional markets (by reducing information and trade facilitation costs). Clear lines of communication between ASEAN senior officials and business leaders through regular high-level dialogues would ensure that the objectives of the public and private sectors are better aligned on regional economic integration. In this context, there is a role for ASEAN business councils and private sector champions/shepherds to facilitate more open channels of communication on specific priority themes.

iii) Changing mindsets, open to change and new approaches

In issues such as NDG, there is a need to change existing mindsets as long running initiatives, despite the best intentions, have not really worked. To be effective and remain relevant, ASEAN policymakers should embrace change and at times "think out of the box" and accept the need to re-evaluate and update existing approaches such as reframing NDG to make the initiative more inclusive and relevant to address development gaps in the current and emerging environment. ASEAN needs to move away from its traditional "top-down" approach in formulating and designing AEC initiatives by paying closer attention to the views of its beneficiaries as well as its impact on them.

Although ASEAN policymakers are reluctant to create new institutions, in special cases, there may be a need to establish a new coordinating committee, if long standing challenges continue to be unresolved or it may be the most effective approach to operationalise cutting-edge new strategies. But the creation of new bodies just as a way of handling new issues that go beyond the remit of any existing one is also no solution, and any coordinating committee will still need to link effectively with the existing bodies and their working mechanisms for ownership and to ensure follow up implementation. Alternatively, a temporary "Friends of the Chair" coordinating committee could be set-up - with a clear sunset clause in its Terms of Reference - to help in the development of new strategies and initiatives and support their implementation during the transition period and facilitate their mainstreaming into relevant sectoral bodies for subsequent follow-up implementation.

Scope for Future Work

As mentioned in the introduction chapter, issues covered in this edited volume are not exhaustive. There is definitely scope for future research on other key issues relevant to post-2025 AEC including: economic governance, food security, productivity and innovation, regional supply chains, human capital, infrastructure, and connectivity. The discussions are important not only because of the relevance of these issues in ASEAN's post-2025 agenda but also given the rising importance of the regional policy space both for shaping global trajectories and complementing national priorities.

For now, we hope that the policy recommendations proposed in this edited volume will help stimulate and inform conversations and serve as useful inputs for the new AEC strategic plan.

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Other CAG Publications

- *How Realist Is India's National Security Policy?* edited by Kanti Bajpai (Routledge, 2023)
- *Republic of Korea-Singapore Security Forum: Shared Concerns, Common Goals* edited by Yongwook Ryu (Centre on Asia and Globalisation, 2023)
- *Deterring Conflict and Preserving Peace in Asia* edited by Drew Thompson and Byron Chong (Centre on Asia and Globalisation, 2022)
- *What Can the United States Learn from China about Infrastructure?* by Selina Ho in *The China Questions 2* (Harvard University Press, 2022)
- *Failure to launch? Indonesia against China's Grey Zone Tactics* by Evan Laksmana (IDSS Paper No.37, July 2022)
- *Remodelling Indonesia's Maritime Law Enforcement Architecture: Theoretical and Policy Considerations* by Evan Laksmana (Contemporary Southeast Asia 44(1), 2022)
- *India-Australia-Indonesia Maritime Partnership: Shared Challenges, Compelling Opportunities* by Premesha Saha, Natalie Sambhi, and Evan Laksmana (ORF, 2022)
- *A Fragile Fulcrum: Indonesia-U.S. Military Relations in the Age of Great-Power Competition* by Evan Laksmana (Asia Policy 16(4), October 2021)
- *Winning the Fight Taiwan Cannot Afford to Lose* by Drew Thompson (Strategic Forum, 2021)
- *Built for Trust, Not for Conflict: ASEAN Faces the Future* by Drew Thompson and Byron Chong (USIP Special Report 477, August 2020)
- *The Rise of Xi Jinping and China's New Era: Implications for the United States and Taiwan* by Drew Thompson (Issues & Studies: A Social Science Quarterly on China, Taiwan, and East Asian Affairs 56(1), March 2020)

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