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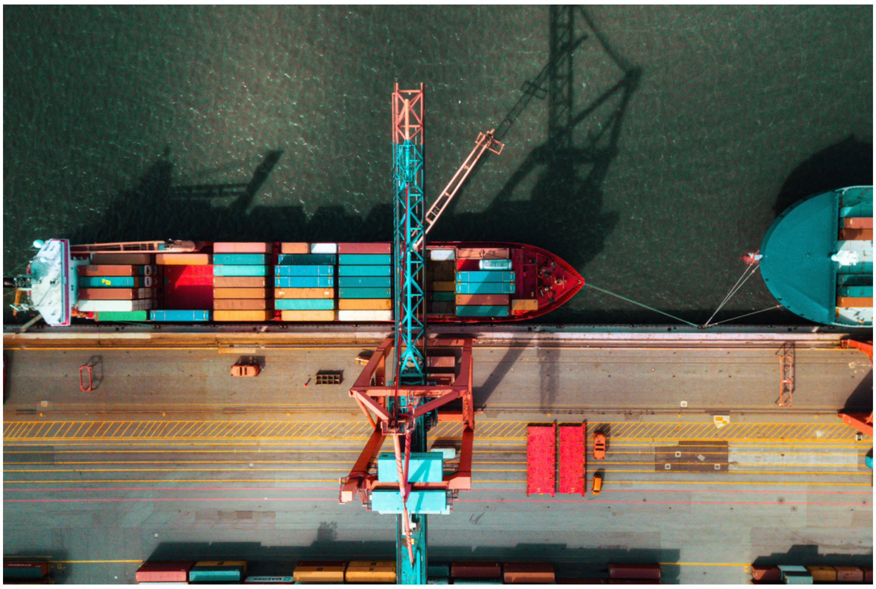

Is Time Running Out to Realise the ASEAN Economic Community by 2025?

By Denis Hew

The ASEAN Economic Community (AEC), was first launched two decades ago by ASEAN leaders during their 2003 Summit in Bali. The AEC is envisioned to be a highly integrated, inclusive and resilient regional economy by 2025. To realise this vision, the AEC Blueprint 2025—which is a ten-year implementation plan (2016-2025)—was adopted in 2015.

There are building blocks to support the AEC including major economic agreements such as the ASEAN Trade in Goods Agreement (ATIGA), ASEAN Comprehensive Investment Agreement (ACIA) and ASEAN Trade in Services Agreement (ATISA). There are also numerous

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free trade agreements with ASEAN's major dialogue partners. More recently, the ASEAN-led free trade agreement called the Regional Comprehensive and Economic Partnership (RCEP) came into force on January 1, 2022. Aside from these trade agreements, there is the Master Plan on ASEAN Connectivity 2025 that complements the goals of the AEC 2025 in fostering deeper economic integration through enhancing regional connectivity.

Implementation seems to be progressing well midway through the AEC 2025 blueprint. The Mid-Term Review (MTR) of the AEC 2025 Blueprint from 2016 to 2020 found a little over half of sectoral workplans implemented over the period under review. However, the COVID-19 pandemic which started in early 2020, had plunged the global economy into deep economic recession. Governments around the world had to impose border controls, movement restrictions and quarantine measures to contain the pandemic. These policies brought economic activities almost to a standstill for most of 2020. ASEAN was severely affected by these COVID-19 measures with many member states falling into economic recession during this difficult period.

Most countries around the world have since relaxed restrictions as the number of COVID-19 cases subsided and vaccinations become more widespread. However, uncertainties remain. The global economic landscape has recently become more hostile due to the prolonged war in Ukraine, persistently high inflation, rising public debt and financial market volatility. According to the International Monetary Fund (IMF), the global GDP growth is projected to slow down significantly to 2.9 percent in 2023 from 3.4 percent in 2022. Against the backdrop of a global economic downturn which may have an impact on the implementation of the AEC 2025 blueprint, is time running out to realise the AEC by 2025?

The Centre on Asia and Globalisation (CAG) invited three analysts from Southeast Asia to address this important question. They presented their arguments in a webinar on March 21, 2022 (view the video **here**).

Julia Tijaja, ASEAN trade and global value chain specialist and former Director at the ASEAN Secretariat, argues that if realising the AEC is measured by the implementation of the AEC blueprint, then ASEAN will likely do a reasonable job in implementing most of its initiatives by 2025. However, the realisation of AEC 2025 will be more meaningful if it is assessed by high impact initiatives that effectively respond to current and future challenges, many of which are not captured in the current blueprint. This would mean that ASEAN needs to address a high impact and often sensitive agenda on regional market integration and sectoral cooperation. It is also important that the RCEP is fully implemented by all its members and that an operational RCEP Secretariat should be set up. Furthermore, institutional efforts such as empowering the ASEAN Secretariat and strengthening its monitoring and reporting mechanism would be crucial in realising the AEC by 2025.

Jean Clarisse T. Carlos, Project Development Officer at the Philippines Institute for Development Studies (PIDS), notes that the AEC 2025 Blueprint is not the first blueprint for the AEC and that there was an earlier version which was not fully realised by 2015. Furthermore, the present AEC blueprint was not only extended by ten years to 2025 but its goals were expanded to cover challenging new concepts such as sustainability, good governance, connectivity and innovation. She argues that most ASEAN member states are too preoccupied with international and domestic issues to focus on regional integration. More worrying, she also finds rising trade protectionism among ASEAN member states as having an impact on regional economic integration. Given all these challenges and the different levels of economic development among member states, Jean believes that the AEC will not be realised by 2025 and calls for a reassessment of its goals.

Aekapol Chongvilaivan, Senior Economist at the Asian Development Bank (ADB), argues that the successful realisation of the AEC by 2025 will depend on the ability of ASEAN member states to better mobilise domestic resources and collect taxes, i.e., improve domestic resource mobilisation (DRM). High public debt and low capacity to raise tax revenue in the region would mean that there is limited fiscal policy space to address emerging economic challenges. He recommends that ASEAN member states come together to rethink and redesign DRM strategies, which includes adopting emerging technologies to enable new approaches to tax administration.

While Julia and Jean have opposing views on whether the AEC can be realised by 2025, both agree that there is a need to include emerging trends and challenges into the AEC framework. Meanwhile, Aekapol focussed on measures to strengthen domestic resource mobilisation which is an important part of the AEC 2025 goals of creating a more competitive, innovative and dynamic ASEAN region.

What seems clear is that the AEC is not a final destination but an evolving economic integration process. There will certainly be unfinished areas of work that needs to be done post-2025 and a new AEC blueprint will likely be expected to cover the next 10 years. Given the dynamic regional environment, it may be necessary to have more frequent reviews of the AEC blueprint to assess its progress and fine-tune its goals.

Denis Hew is a Senior Research Fellow at the Centre on Asia and Globalisation, Lee Kuan Yew of Public Policy, National University of Singapore. He tweets at @denishew.

Guest Column

Aiming for an impactful AEC by 2025

By Julia Tijaja

Image Credit: ASEAN Twitter

ASEAN needs to deliver on high impact initiatives and address emerging issues and other pressing challenges.

Time is not running out to realise the ASEAN Economic Community (AEC) by 2025 but much will depend on what ASEAN aims to achieve by this deadline.

The AEC was formally established as a pillar of the ASEAN Community in 2015. However, economic community building is an ongoing and non-linear process, hence the end point is not static. While a clear vision guides strategic planning and implementation, the process does not take place in a vacuum. So, the AEC must continue to evolve in order to remain impactful and relevant.

The most common interpretation of realising AEC is the full implementation the AEC Blueprint. The current version (i.e., AEC Blueprint 2025) was adopted in 2015 and guides AEC work from 2016 to 2025. Measuring its implementation however, is not a straightforward exercise.

The Blueprint provides broad directions and a cursory view of the breadth and depth of work to be undertaken by the various AEC sectoral bodies. The details are elaborated in more than twenty-three sectoral work plans, as well as additional derivative and cross-cutting action plans.

A mapping exercise by the ASEAN Secretariat identified more than 1,700 AEC action lines under these plans. The mid-term review of the AEC Blueprint reported that by end 2020 (i.e., the AEC 2025's mid-point), 54 percent of these action lines had been completed and another 34 percent were in progress. By 2025, ASEAN will likely do a reasonable job in implementing most, but not all, of the action lines.

Without undermining the importance of these action lines, realising the AEC 2025 would be more meaningful if they are assessed from the lens of delivering high impact initiatives, effectively responding to current and future challenges, and positioning the ASEAN Community to seize emerging opportunities.

In recent years, the world has been drastically transformed by rapid digital transformation, the COVID-19 pandemic, the Ukraine war, high inflation, climate change, as well as great power rivalry. The AEC Blueprint did not foresee most of these challenges when it was adopted in 2015.

While the AEC's strength lies in having sectoral bodies whose work are clearly guided by the AEC Blueprint and their respective sectoral plans, it can also be a weakness. Clearly defined structure and processes may affect its ability to respond quickly to issues that are unforeseen, complex, and interconnected. This calls for strong leadership, the right mindset, and institutional agility while staying focused towards achieving the vision of the AEC. In other words, this calls for resilience.

For the AEC to effectively deliver its agenda by 2025, it needs to address a high impact and often sensitive agenda in regional market integration and sectoral cooperation, strengthen external relations in an increasingly fragmented global context (through FTAs and beyond), and be well-positioned in responding to emerging issues and opportunities.

On market integration, the AEC should deliver an upgraded ASEAN Trade in Goods Agreement that effectively addresses non-tariff measures and embraces modern trade realities. It should ensure the full implementation of the ASEAN Trade in Services Agreement, strengthen ASEAN services competitiveness, and promote sustainable investment. Further, given growing financial risk, ASEAN should strengthen mechanisms to safeguard macro-financial stability while ensuring that the ASEAN financial sector supports a just green transition. Lastly, ASEAN needs to address the region's skills gap.

In terms of external relations, the AEC should see through the full implementation of the Regional Comprehensive Economic Partnership (RCEP) and establish an operational RCEP Secretariat. It should complete the upgrading or review of its free trade agreements (FTAs) with Australia and New Zealand, China and India. Completion of the ASEAN-Canada FTA negotiations would also be a good achievement. Just as urgent is clarifying the trajectories of ASEAN's economic cooperation with the two major trade and investment partners that it has no FTA with—the United States (US) and the European Union (EU). Moreover, ASEAN needs to deliberate on its response to a fragmenting global economic architecture and weakening rules-based multilateral trading system and its potential greater role in the emerging regional economic architecture, beyond just through FTAs.

On emerging issues, ASEAN has made commendable progress in its digital agenda, in terms of substance and institutions. Ongoing discussions on the ASEAN Digital Economy Framework Agreement targets a comprehensive and coherent digital agenda. On sustainability, while there is clear momentum across sectors, particularly in finance, energy, and agriculture, progress is uneven. Significant progress on sustainability will depend on whether ASEAN can deliver and implement a unified and coherent strategy on decarbonisation.

There are also areas that are not adequately addressed in the Blueprint but are critical to the vision of AEC. These include building competitiveness through productivity, innovation, and regional value chain development, addressing future skills needs, mainstreaming inclusion and equitable economic development, and addressing the impact of prolonged geopolitical fragmentation and weakening multilateralism on the AEC. ASEAN needs to start deliberating on how to address these issues in the AEC and the broader ASEAN Community post-2025 agenda.

The ASEAN Comprehensive Recovery Framework, the region's exit strategy from the COVID-19 pandemic adopted in 2020, demonstrated ASEAN's capacity to coordinate and respond swiftly to a crisis. This agility and spirit of cross-pillar and cross-sectoral collaboration need to be institutionalised.

Lastly, ASEAN should strengthen its monitoring and reporting mechanisms in order to swiftly identify pain points and implement debottleneck solutions. This should be part of its institutional strengthening efforts, including empowering the ASEAN Secretariat.

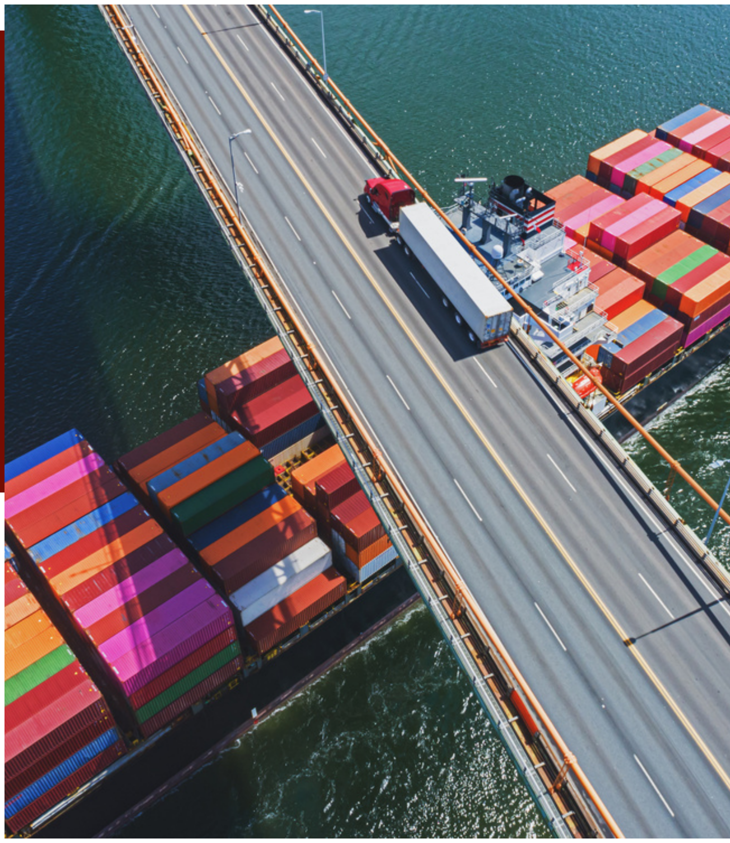
There will be more challenges and uncertainties leading up to 2025, but few are better placed than ASEAN to be a global growth engine and a beacon of hope for an open, inclusive, and rules-based global economic architecture.

Julia Tijaja, Ph.D., is an ASEAN, trade, and global value chain specialist. She was formerly Director of ASEAN Integration Monitoring at the ASEAN Secretariat from 2015 to 2021.

Guest Column

ASEAN Needs to Reassess AEC 2025 Goals

By Jean Clarisse Carlos



Member states are too distracted by COVID-19 recovery and domestic challenges to focus on regional economic integration.

The AEC Blueprint 2025 (AEC 2025), which was adopted on November 25, 2015, is a ten-year implementation plan (2016 to 2025) that hopes to bring economies of the ASEAN region to greater heights. By 2025, the AEC is envisioned to be a single market economy that will make way for rapid economic development and inclusive growth. Eight years after its adoption and three years before its deadline, the conversation about the AEC is now centered on whether or not its goals will be achieved by the target deadline. Given its ambitious goal, the current global and regional challenges, and complex domestic issues of individual ASEAN member states, it can be predicted that the remaining two-and-a-half-year period will not be enough to accomplish the AEC.

It is important to note that AEC 2025 is not the first blueprint to be crafted by ASEAN policymakers geared toward creating a more cohesive and integrated regional economy. Its predecessor, the AEC Blueprint 2015 and its four pillars, were not fully realized by the end of 2015. With this, it gave birth to the AEC 2025 which not only extended the deadline for ASEAN economic integration but also expanded the goals for the AEC, making it more ambitious.

The two blueprints, though highly similar, have glaring differences. While both blueprints recommended economic liberalisation policies, AEC 2025 focused on new concepts such as sustainability, good governance, connectivity, and innovation. Enhanced connectivity and sectoral cooperation were added as the third pillar of the AEC 2025, giving weight to connectivity infrastructures and the role of sectoral collaboration. The fourth pillar of the new blueprint placed emphasis on “people” highlighting the importance of inclusive growth in a truly progressive economy. While the changes recognised the contemporary developments of the global economy, these new concepts have given ASEAN a greater challenge compared to the previous AEC blueprint.

Furthermore, the greater challenge posed by the new AEC blueprint was further exacerbated by the effects of the COVID-19 pandemic. The pandemic has been a major detriment, not only to the economies of the ASEAN member states, but the entire globe. Supply chains were interrupted, slowing intra-ASEAN and extra-ASEAN trade. These disruptions caused shortages of supplies and higher prices of necessities. These also affected key ASEAN industries such as tourism, manufacturing, and other service sectors. In addition, the emergence of security issues such as war and conflict within and outside the region further impacted economic and trade activities.

Vulnerable economic sectors such as small, and medium enterprises (SMEs) is one of the major casualties of the said phenomena, forcing them to stop their operations, especially those who either have limited access, or lack the know-how to adopt digital solutions. Digitalisation may be perceived as one of the enablers for achieving the AEC; however, we need to acknowledge that there is still a huge digital divide among ASEAN member states. Challenges in the ICT infrastructure, technology education, access to technology and financing are just some examples.

The economic recovery from the effects of the COVID-19 pandemic has been happening thanks to the easing of mobility restrictions and growing popularity of revenge tourism and spending. But the region still needs to recuperate and its recovery process will likely continue over the next few years. This would veer away governments' priorities away from the goals of the AEC 2025.

Lastly, there has been an increasing shift towards protectionism among ASEAN governments. Just last year, Indonesia temporarily banned palm oil exports and Malaysia also temporarily prohibited the export of chicken. Policies aimed at restricting potential foreign influence on regional economies have become a trend rather than an anomaly. Such measures are seen as a means to protect local economies from shortages and supply disruptions. However, this can also have an immense impact on ASEAN’s effort to integrate the regional economy. ASEAN member states also have to split their attention among the many regional and international issues such as climate change, border disputes, and other global geopolitical and security issues.

Not to mention, ASEAN member states also have to address their own pressing domestic issues such as ageing society, overpopulation, high food and energy prices, income inequality, corruption, among other key issues. These domestic challenges coupled with the different levels of economic development among ASEAN member states, affect their commitment to achieving the AEC by 2025.

To conclude, at the rate things are currently going, it is clear that the goals of the AEC will not be realised by 2025. This is not to discredit the efforts of ASEAN before the COVID-19 pandemic. ASEAN had, in fact, made substantial progress from 2016 to 2020 according to the Report of the Mid-Term Review of the AEC 2025. However, in the coming years leading up to the 2025 deadline, the establishment of the AEC will continue to be confronted by new challenges.

ASEAN member states are too distracted by post-COVID-19 recovery efforts, and other international and domestic issues to focus on economic integration. Various sectors of the economy and society that were affected by the new challenges may not be able to deliver their expected outcomes. The extensive impact of COVID-19 on the economy should prompt ASEAN to reassess the goals of AEC 2025. Hence, ASEAN must integrate solutions to these new economic challenges for the AEC to remain relevant.

Jean Clarisse T. Carlos is a Project Development Officer IV at the Philippine Institute for Development Studies (PIDS).
The author would like to thank Prince Philip Nagpala II for his research assistance on this essay.

Guest Column

Domestic Resource Mobilisation Matters to AEC by 2025

By Aekapol Chongvilaivan

Image Credit: ASEAN website

ASEAN needs to boost its capacity to raise tax revenue and enable new approaches to tax administration.

Macroeconomic and fiscal stability underpins the economic pillars of ASEAN and the realisation of the AEC by 2025. The backdrop of the COVID-19 pandemic witnessed large fiscal deficits and rising public debts across the region. Concurrently, the emerging challenges from supply chain disruptions, spikes in fuel and commodity prices, and global interest rate hikes call for coordinated fiscal responses. Therefore, it is an unprecedented time for the ASEAN member states to come together to rethink and redesign domestic resource mobilisation (DRM) strategies. DRM is the ability of a government to mobilise its own resources and collect taxes.

DRM has posed fiscal challenges even before the pandemic. It is not uncommon for most ASEAN member states to consistently experience a declining trend of the tax-to-GDP ratio hovering below 15 percent—the minimum level of tax revenues widely considered to be imperative for increasing GDP per capita. The generally low tax-to-GDP ratio in the region signifies not only the low capacity to raise tax revenues, but also limited public service delivery.

There are many underlying factors that contribute to low DRM in ASEAN. First and foremost, the informal sector—economic activities which operate outside a tax system—in most ASEAN member states is estimated to be over 20 percent of GDP, with only Singapore and Viet Nam having lower estimates. Informal segments of an economy suppress various tax revenue streams, particularly Value-Added Tax (VAT), and pose major tax compliance risks.

Second, complex tax rules and requirements for registration, filing, payment, and return impose high compliance costs which discourage taxpayers from entering the tax system, narrow the tax base and, ultimately, constrain overall DRM potential. Low

Corporate Income Tax (CIT) productivity is observed in the region due to the prevalent use of CIT exemptions, international tax avoidance, aggressive tax planning, and transfer pricing. It also points to weaknesses in tax administration such as complex tax compliance, poor risk management, and ineffective enforcement.

Third, subnational taxation remains largely untapped in ASEAN. Real property taxes make up a significant proportion of subnational revenues. Taxes on real properties are widely regarded as the most efficient and equitable means of raising revenues. However, real property taxes account for only 0.1–0.9 percent of GDP in ASEAN with the Philippines and Singapore as the best performers; all others are below the OECD average.

Fourth, the growing digital economy raises concerns about fairness and efficiency of the tax systems. The digital economy in ASEAN grew exponentially from US$117 billion in 2020 to US$174 billion in 2021, and is expected to reach US$1 trillion by 2030. Under current international tax rules, firms generally pay CIT where production occurs, rather than where consumers or users are located. In a digital economy, businesses can derive income from users/consumers anywhere in the world, without a physical presence in the country concerned, and this has raised issues about a misalignment between value creation and payment of taxation.

Emerging technologies enable new approaches to tax administration. New capabilities such as access to big data on financial and business transactions, and cloud-based platform for data management may provide cost effective monitoring and control over the informal sector. Digital transformation of tax bodies will help improve tax compliance for both taxpayers and tax bodies.

Modernisation of real property tax administration such as updated database for real property values and transactions can offer the impetus for boosting real property tax revenues. ASEAN potentially taps on digital technology platforms and IT tools to modernise business processes of real property taxation, ranging from a transaction database and valuation functions. These real property tax measures are progressive in nature as they generate tax revenues from wealthy property owners and are likely to yield significant gains in the short term.

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and the Global Forum on Transparency and Exchange of Information for Tax Purposes offer an exceptional opportunity for ASEAN to take part in the global efforts and address this issue collectively at the multilateral level. Enacting a sound domestic legal framework and participating in international forums to enhance consistency, cooperation, and information exchange, are important in supporting jurisdictions in their efforts to protect the domestic tax base from erosion.

The Asian Development Bank's (ADB)

engagement in DRM reforms in ASEAN and in Asia and the Pacific underlines the fact that strengthening DRM requires not only raising revenue, but also designing a revenue system that fosters inclusiveness, encourages good governance, promotes investments and job creation, reduces inequality, and tackles climate change. ADB's Asia Pacific Tax Hub (APTH) stand to help develop multilateral, consensus-based solutions to support DRM and foster international tax cooperation. The APTH can also help ASEAN formulate consistent policies, thereby preventing unilateral tax measures, which could lead to double or triple taxation, threatening cross-border trade and investment.

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