

AEC BLUEPRINT 2025 ANALYSIS

AN ANALYSIS OF THE ASEAN PRIORITIES ON IMPROVING GOOD GOVERNANCE

Foreword

The following report is part of a series which attempts to provide a detailed analysis on the ASEAN Economic Community (AEC) Blueprint 2025. Each report will cover a single element of the blueprint, providing a comprehensive look at past achievements, present problems, and the future plans of the AEC. Special attention will be placed upon the strategic measures outlined in the AEC Blueprint 2025. This report aims to provide insight into the viability surrounding regional economic integration under the AEC.

Good Governance

Good governance has now become an important area included in the pillar of a competitive, innovative and dynamic ASEAN of the AEC. The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) defines “governance” as the process of decision-making and the process by which decisions are implemented (or not implemented). Governance can be used in different contexts such as corporate governance, international governance, national governance and local governance¹. Absence of good governance has been considered one of the most important, if not the most important, reasons that many developing countries are not able to advance to the next stages of economic status, and some have even descended to becoming poor nations. This report aims at providing some useful information on ASEAN’s strategy to promote good governance and some ideas on how to make it even better.

A. Targets under the AEC 2015 Blueprint

Good governance was not included in the previous blueprint. This is a new priority that will enhance foreign investors’ sentiment towards ASEAN and improve ASEAN’s competitiveness globally.

B. Significant Achievements To Date

- Given that the AEC Blueprint 2015 did not specifically include good governance as an ASEAN priority, there were not any measured targets to be achieved by end of 2015.
- However, some efforts have been made in this area to measure how well the governance in each ASEAN member state has fared in improving the government’s performance and business climate. For example, the World Bank initiative on Worldwide Governance Indicators (WGI) has attempted to evaluate each country on their governance quality in by looking at five criteria: (i) voice and accountability, (ii) political stability and absence of violence, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, and (vi) control of corruption. The results are based on the perceptions of governance of a large number of survey respondents and expert assessments worldwide. The table below describes how ASEAN member states have performed (2015). The figures explain the percentile ranks among all country being surveyed (229 countries), ranging from 0 (lowest) to 100 (highest).

¹UNESCAP, What is good governance, available at [United Nations Escap](#)

Economies	Voice and Accountability	Political Stability and Absence of Violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Brunei	26.11	92.38	82.21	76.92	67.31	73.08
Cambodia	18.72	43.81	25.48	35.10	17.31	12.50
Indonesia	52.22	24.76	46.15	47.12	39.90	38.46
Lao PDR	4.43	60.48	36.54	23.56	25.48	19.71
Malaysia	36.45	54.29	76.92	74.52	71.63	65.87
Myanmar	13.30	10.48	10.10	7.21	7.69	16.83
Philippines	51.72	20.95	57.69	52.88	42.31	41.83
Singapore	42.85	93.33	100.00	100.00	96.63	97.12
Thailand	23.65	15.71	65.87	63.46	53.85	43.75
Vietnam	10.84	48.57	55.29	33.65	46.15	39.41

Source: Worldwide Governance Indicators 2015 (World Bank)

- As the table indicates, Singapore performed well in all aspects except in voice and accountability. Under this dimension Indonesia and the Philippines scored higher, which may indicate that citizens of those two countries have higher degree of freedom of expression and participation in selecting their governments. On the other hand, Indonesia and the Philippines did not do well in terms of political stability and domestic security, which may have resulted in relatively more frequent violence. The governments of Singapore, Brunei Darussalam and Malaysia were the most effective in formulating and implementing their policies, and in promoting private sector development. Those three countries also topped the list in terms of enforcement of rules and regulations to support the development of the society. Singapore, as expected, has proved to have the cleanest government, meaning that the abuse of power for personal gain is virtually non-existent.
- The ASEAN Capital Market Forum (ACMF), who is responsible for developing and integrating the equity markets in ASEAN, has been working with the Asian Development Bank (ADB) to produce the ASEAN Corporate Governance (CG) Scorecard for the ASEAN publicly listed companies (PLCs). The objectives of the scorecard and the ranking exercise are to: (i) raise corporate governance standards and practices of ASEAN PLCs, (ii) showcase and enhance the visibility as well as investability of well-governed ASEAN PLCs internationally, and (iii) complement the other ACMF initiatives and promote ASEAN as an asset class.
- There are two levels of scoring in the scorecard. The first level is based on the OECD Principles of CG, which consist of the following five areas:

- The second level covers (i) bonus items reflecting other emerging good practices, and (ii) penalty items reflecting actions and events which are indicative of poor governance.
- The evaluation is done by the appointed domestic ranking bodies (DRBs) that conduct their survey through examination of publicly available information (annual report, websites, etc.) and peer review on PLCs in each ASEAN member state. The scorecard can be applied as a diagnostic tool by PLCs to identify gaps in their corporate governance practices and assist in achieving sustainable long-term growth and value creation².

Area		Weight
I	Rights of shareholders	10%
II	Equitable treatment of shareholders	15%
III	Role of stakeholders	10%
IV	Disclosure and transparency	25%
V	Responsibilities of board	40%

² ASEAN Corporate Governance Scorecard, Country Reports and Assessment 2013-2014, ACMF and ADB

C. Current Issues and Challenges

- ASEAN needs to expedite the process of formulating their own criteria for assessing good governance for both public and private sectors so that the relevant stakeholders can identify gaps in their own governance structure. Singapore is a clear example of how high quality governance can lead to stronger economy and growth.

D. Plans under the AEC 2025 Blueprint

- The AEC Blueprint 2025 states the need to continue to engage various stakeholders to build a more dynamic economic community. The proposed strategic measures include:
 1. Promoting a more responsive ASEAN by strengthening governance through greater transparency in the public sector and in engaging with the private sector
 2. Enhancing engagement with the private sector as well as improving the transparency and synergies of government policies and business actions across industries and sectors in the ASEAN region

E. AEC 2025 Blueprint Analysis

Strategic Measure	Current Status and Development
1 Greater transparency in the public sector <ul style="list-style-type: none">• Promote a more responsive ASEAN by strengthening governance through greater transparency in the public sector and in engaging with the private sector	<ul style="list-style-type: none">• With the exception of Singapore, other ASEAN member states still need to significantly improve their transparency. Some ASEAN countries are considered among the most corrupt countries in the world, but those countries have been showing domestic public sector reforms to fight corruption and the results should be seen in a few years' time.
2 Enhanced synergies between government policies and business actions <ul style="list-style-type: none">• Enhance engagement with the private sector as well as improving the transparency and synergies of government policies and business actions across industries and sectors in the ASEAN region	<ul style="list-style-type: none">• The ASEAN Business Advisory Council (BAC) has been advocating for greater involvement of the private sector in the decision makings under the AEC process. However, only in some sectors such as insurance, where the insurance regulators annually meet with the insurance industry group, have regular consultations really take place. The ASEAN Insurance Forum (AIFo) will be launched in November 2016 as a platform where the relevant sectoral bodies and the industry group will work more closely to develop and integrate the ASEAN insurance sector.

F. Conclusion: Moving Forward with the AEC 2025 Plans

- Good governance is a must if ASEAN wishes to attract larger flow of trade and investment into the region. The pressure may be larger on the public sector (government) to improve transparency and fight corruption to show that doing business in the ASEAN region is efficient and profitable. Currently there is a large gap between Singapore, the rest of ASEAN 5 and Vietnam, and newer members of ASEAN in terms of quality of governance, especially in the public sector. ASEAN needs to develop their set of criteria for corporate governance so that member states can identify the areas they need to improve and address the relevant issues quickly.
- With regard to creating greater synergy between the government and private sector, the ASEAN BAC have had opportunities to meet with the ASEAN Leader during the annual summit, but perhaps more intensive consultations at the lower levels (Ministers, Senior Officers) would translate more into more intensive participation and involvement of the industry in decision makings of sectors under the AEC, and therefore, more successful implementation of the strategic measures.

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