

AEC BLUEPRINT 2025 ANALYSIS

AN ANALYSIS OF THE ASEAN PRIORITIES ON GLOBAL MEGATRENDS AND EMERGING TRADE-RELATED ISSUES

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.

Global Megatrends and Emerging Trade-Related Issues

The rapid changes in world trade has encouraged ASEAN to include this new initiative in the AEC Blueprint 2025. The nature of global trade in both goods and services, as well as in foreign direct investments (FDIs), are now very different than it was a decades ago, prompting ASEAN to seriously take these into consideration when formulating their external economic strategies. The first pillar of the AEC Blueprint 2015, which is to establish the ASEAN region as a single market and production base, strongly remains in spirit in the new blueprint, under the first pillar of “a highly integrated and cohesive economy.” The components of a single market and production base, which include further and continuous liberalization of trade in goods, trade in services, investment, greater cooperation in the financial sector, and facilitation of skilled labour movement across the region, are still very important components of the new blueprint. Therefore, emerging trade-related issues, has rightfully been included in the new blueprint as they will surely become important factors in shaping ASEAN’s future trade and regional economic policies.

This report has been prepared to provide some analysis on the aims at analyzing how this particular analysis can be beneficial for the AEC in the next period of implementation.

A. Targets under the AEC 2015 Blueprint

Global megatrends and emerging trade issues are a new initiative that was not yet a priority in the previous AEC Blueprint. Inclusion of this new priority in the new blueprint is expected to help ASEAN strengthen its trade policies and negotiations by taking into account new global trends that may significantly affect ASEAN’s way forward.

B. Significant Achievements To Date

- Given that the AEC Blueprint 2015 did not specifically include global megatrends and emerging trade-related issues, there were not any measured targets to be achieved by end of 2015.
- Nevertheless, we can look at how ASEAN has progressed in terms of moving goods along international supply chains. The three indicators used here are the International Supply Chain Connectivity Index (ISCCI) from the United Nations Economic and Social Commission for Asia and Pacific (UNESCAP). The ISCCI is made up of the trade across border (TAB) indicators of the World Bank Doing Business Report and the Liner Shipping Connectivity Index (LSCI) of the United Nations Conference on Trade and Development (UNCTAD). The following table shows how ASEAN member states have participated in the global supply chains (listed by their global ranks 2015)¹:

Country	ISCCI Rank	TAB Rank	LSCI Rank
Singapore	1	1	3
Malaysia	4	11	6
Thailand	31	36	44
Viet Nam	39	75	38
Philippines	74	65	98
Myanmar	94	103	144
Lao PDR	100	156	45
Cambodia	130	124	141

Note: Brunei Darussalam and Indonesia are not ranked in the survey.

Source: Asia-Pacific Trade and Investment Report 2015: Supporting Participation in Value Chains, p.63, UNESCAP

- According to the UNESCAP report, Singapore is the global leader in international supply chain connectivity to support trading across borders (efficiency of import and export procedures). Malaysia is not too far behind, with Thailand and Viet Nam in the top 50 globally.
- In terms of being part of international trade, it is very clear that the gap is still large among ASEAN member states. More work needs to be done just to ensure that the other member states are ready to participate in the global trade network. Attention to the global developments in trade and economic issues has become very important in shaping ASEAN future policies.

C. Current Issues and Challenges

- Closing the development gaps among member states, particularly in terms of capability in participating in global trade and value chains, should be a priority of ASEAN so that each member state can be an active player to take advantage in the global market and strengthen their external sector.
- The Initiative for ASEAN Integration (IAI), which is aimed at narrowing the development gaps between ASEAN6 and the CLMV countries, has been working on support, technical assistance and capacity building activities for the newer members of ASEAN. The IAI can be a strong avenue to expedite the process of narrowing the gaps.

D. Plans under the AEC 2025 Blueprint

- The AEC Blueprint 2025 does not formulate any strategic measure for this initiative. The blueprint simply outlines the general rationale and objectives of taking into account global megatrends and emerging trade-related issues to shape ASEAN's economic policies. Further more detailed strategies may be needed along the course of 2016-2025 and those will be discussed later.
- Basically, the general information on this initiative in the new blueprint encourages ASEAN member states to look into some new potentially relevant issues such as industrial relations and technological advancement, which may require closer cross-sectoral cooperation among the sectoral working groups or working committees under the AEC.

¹The table is taken from the Asia-Pacific Trade and Investment Report 2015: Supporting Participation in Value Chains, UNESCAP

E. AEC 2025 Blueprint Analysis

- As mentioned above, there is no specific measure for this initiative. The analysis below refers to some developments under the two possible issues mentioned in the blueprint.

Strategic Measure	Current Status and Development
1 Industrial relations <ul style="list-style-type: none">• Maintaining a healthy industrial relations environment to facilitate investing in workers and firms as learning centres for industrial upgrading and to manage labour adjustments in the integrating ASEAN	<ul style="list-style-type: none">• In 2012, ASEAN launched the ASEAN Guidelines on Good Industrial Relations Practices, which outlines important aspects of healthy tripartite relationship between the government, firms and workers, covering issues such as rights of the stakeholders, mutual trust and respect, and good faith behavior.• An analysis by Amante discovered that social dialogue on industrial relations in ASEAN has had some positives and negatives. The positives include achievement of common understanding of industrial relations and labour issues, and existing practice of sharing best practices and experience. However, the downsides are that there is no continuity of such discussions, the agenda depends on the host/organizer of the talks, and there have been very little follow ups from what has been discussed.
2 Interconnected global cross-border flows and accelerated technology-digital advancement <ul style="list-style-type: none">• Capitalizing on global mega trends, such as the expanding interconnected global cross-border flows and accelerating technology-digital advancement that are increasingly defining international production, trade, services and investment	<ul style="list-style-type: none">• A report by McKinsey early this year conveyed some interesting developments regarding influence of digital technology on globalization and global flows of trade and finance. These include (i) very low growth recently of the traditional flows of goods, services and finance, with accelerated flows of data and information changing the landscape of globalisation, (ii) by end of 2015, 12% of global goods trade is e-commerce; (iii) while global flows raised world growth by 10 % (USD7.8 trillion) in 2014 alone, they remain concentrated among a small group of leading countries.• Perhaps with the exception of Singapore, ASEAN is still in the very early stages of participation in the increasing global flows of goods, services and finance. However, it is important to be on the lookout of the trends in the next ten years of AEC implementation.

F. Conclusion: Moving Forward with the AEC 2025 Plans

- ASEAN needs to be closely monitoring the global changes and trends in trade and finance to be able to participate and take advantage of the opportunities offered. In this regard, improving market intelligence will be very beneficial to get the most immediate feedbacks on what is happening on the global scale and business arena. Closer public-private partnership (PPP) will significantly improve ASEAN's ability to cope with and possibly participate in the increasing global flows as both sides will have resources that can complement each other substantially. One possible example of this is the development of the much needed infrastructure to allow the region to participate in global value chain activities. An Economist Intelligence Unit (EIU) report² states that in developed countries, the governments are faced with the challenges of improving their infrastructure and through the PPP scheme, they invite the private sector to support financing and contribute their expertise and incentivized management to promote efficiency, better designs and innovative construction techniques. The government's role then is to develop conducive regulatory framework and effective institutions, which in turn gives the tax-payers best value in the government infrastructure expenditure.
- Within the ten-year period of the new AEC Blueprint, short-term plans can be formulated to provide quick guidance to the stakeholders on how to move forward. The public-private partnership mentioned above is a very important avenue in development of short-term, flexible and dynamic plans.
- Cross-sectoral dialogues must be significantly enhanced to be able to capture the new trends and how to deal with them. Given that ASEAN is still very sectoral in its implementation of measures, some form of semi-structured for a (for different areas of cooperation), endorsed by the highest authority, could be established to promote this kind of dialogues.

² The 2014 Infrascope: Evaluating the Environment of Public-Private Partnerships in Asia Pacific, EIU, 2014

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