



AEC BLUEPRINT 2025 ANALYSIS

AN ANALYSIS OF ENHANCING PARTICIPATION IN GLOBAL VALUE CHAINS

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 Value Chains (GVCs)

A production value chain describes the labor, materials, and processes which go into a product to convert it from conception to consumption ready. In present day economies, value chains are dispersed geographically amongst a myriad of nations in order to capitalise upon the varying technological strengths, resource riches, and human expertise.

Participation in this Global Value Chain (GVC) of fragmented production and consumption is of the utmost importance as it determines the impact the global economy has on a country's economic resilience, income distribution, knowledge creation, and other non-economic factors such as social and environmental impact.

A. Targets under the AEC 2015 Blueprint

Whilst enhancing global supply participation in the GVC was the second component of pillar 4, the AEC Blueprint developed in 2007 detailed no explicit measures towards this goal. Instead, it can be said that all initiatives undertaken in the standards harmonisation, the enhancement of regulatory regimes, and trade and investment facilitation have all fed into aiding ASEAN's position in the GVC.

Furthermore, the development of regional and ASEAN+1 Free Trade Agreements (FTAs) and Comprehensive Economic Partnerships (CEP) have helped to improve ASEAN participation in the GVC by the same measures mentioned above. Currently, the largest planned economic partnership being negotiated is the Regional Comprehensive Economic Partnership (RCEP).

• RCEP

Negotiations began in 2012 towards the development of an FTA which would untangle overlapping bi/multilateral agreements between stakeholders in existing ASEAN+1 FTAs. (DFAT, 2015) Furthermore, the RCEP would help to deepen commitments in the following areas:

- Trade in Goods
- Trade in Services
- Investment
- Economic and Technical Cooperation
- Intellectual Property
- Competition
- Dispute Settlement
- Other emerging issues

RCEP Coverage

1. ASEAN Member States
2. Australia
3. China
4. India
5. Japan
6. South Korea
7. New Zealand

B. Significant Achievements To Date

- It has been observed that ASEAN exports have a high reliance on imported parts on imported parts and components. (AIS, 2015)
- This balance in forwards and backwards linkages establish ASEAN as a highly integrated regional bloc in the GVC; this reflects a healthy balance of not only commodity but value added production which is sourced from the region.

| ASEAN FTAs/CEPAs | | | | | | |
|--------------------------------|---|---|---|---|---|---|
| | AFTA | ACFTA | AKFTA | AJCEP | AIFTA | AANZFTA |
| Countries covered | ASEAN | ASEAN China | ASEAN Korea | ASEAN Japan | ASEAN India | ASEAN Australia New Zealand |
| Approach to Negotiations | Sequential | Sequential | Sequential | Single Undertaking | Sequential | Single Undertaking |
| Entry Into Force | 1993 | 2005 | 2007 | 2008 | 2010 | 2010 |
| Market Size (USD, Millions) | \$622 | \$1,989 | \$1,989 | \$1,989 | \$1,989 | \$1,989 |
| Economic Size (USD, Trillions) | \$3 | \$13 | \$4 | \$7 | \$5 | \$4 |
| Coverage | <ul style="list-style-type: none"> • Goods • Services • Investment • Dispute Settlement Mechanism | <ul style="list-style-type: none"> • Goods • Services • Investment • Dispute Settlement Mechanism | <ul style="list-style-type: none"> • Goods • Services • Investment • Dispute Settlement Mechanism | <ul style="list-style-type: none"> • Goods • Services • Investment • Dispute Settlement Mechanism | <ul style="list-style-type: none"> • Goods • Services • Investment • Dispute Settlement Mechanism | <ul style="list-style-type: none"> • Goods • Services • Investment • E-Commerce • Intellectual Property Rights • Economic Cooperation • Dispute Settlement mechanism |
| Duty Phase Out | 2010 | 2012 | 2012 | 2026 | 2019 | 2020 |
| Rules of Origin | 40% or Product Specific Rules | 40% or Product Specific Rules | 40% or Product Specific Rules | 40% or Product Specific Rules | 35% or Product Specific Rules | 40% or Product Specific Rules |

- As demonstrated in the table above, six overarching FTAs and CEPs currently apply to ASEAN member states, five of which apply to ASEAN+1 members. These pacts feature the following key characteristics:
 - A single undertaking or sequential approach to negotiations; the former requires for all parties to a negotiation to reach a consensus on all topics before a resolution is passed, whilst the latter allows for a partial resolution to be passed with selective, flexible commitments from each party. (WTO, 2016)
 - Duty Phase Out dates which specify when all measures adopted would need to be implemented.
 - Defined ROOs which specify how much of a good needs to have been sourced from a nation in order for it to be qualified as originating from said nation.

- Another important shift in ASEAN's interaction with the GVC would be the passing of the Trans-Pacific Partnership (TPP). Currently, only four ASEAN countries are signatories to the TPP as of 4 February 2016: (BBC, 2016)
 - Brunei
 - Malaysia
 - Singapore
 - Vietnam
- ASEAN member states have also taken to signing bilateral and multilateral agreements and Memorandums of Understanding (MoUs) too numerous to cover in a meaningful manner; agreements such as the ACIA, ATIGA, and the AFAS also directly impact ASEAN's regional value chain, as well as its value proposition in the GVC and have been discussed in previous reports.

C. Current Issues and Challenges

- Currently, the RCEP has adopted a single undertaking approach towards its negotiations which has significantly impeded its finalisation; furthermore, the approach eschews ASEAN's recognition that different member states have differing institutional capacities for liberalisation.
- The fractured participation of ASEAN member states in the TPP has further divided the bloc's engagement within the GVC. Member states which are currently signatories are expected to enhance their participation whilst detracting from non signatories. (Shira, 2015)
- The increasing overlap and interlocking of bilateral trade deals between ASEAN states and external nations has resulted in increasingly uneven tariffs which distort trade; whilst the liberalisation of these policies has been viewed as positive, inefficiency may be created due to discrimination against cheaper producers in nations not privy to such deals. (The Economist, 2003)

D. Plans under the AEC 2025 Blueprint

- The AEC 2025 blueprint recognises the need for explicitly listed ancillary actions to be adopted in furthering ASEAN's participation in the GVC.
- Whilst no groundbreaking measures have been affirmed, the blueprint calls for the enhancement of existing regional strategies so that they may be expanded towards a more global perspective.

E. AEC 2025 Blueprint Analysis

| Strategic Measure | Current Status and Development |
|---|--|
| 1 Enhance Global Value Chain Participation | |
| <ul style="list-style-type: none"> • Regional Branding, roadshows, and other joint marketing strategy | <ul style="list-style-type: none"> • Harmonising regulations and standards across the region will continue to help solidify the reputation and branding of ASEAN products; this in essence will help grow opportunities in the GVC for member states. • Specific industry roadshows for both individual nations and the collective ASEAN bloc have occurred in the past in various forms and to different destinations. Capitalising on existing successes such as these in further industries and perhaps even offering centralised support for these initiatives could grow regional branding and enhance GVC participation. |
| <ul style="list-style-type: none"> • Trade facilitation initiatives focusing on both imports and exports | <ul style="list-style-type: none"> • Existing trade facilitation initiatives such as the FTAs and CEPs enumerated above are to be improved, with additional coverage of nations to be expected. • Increased interest in participating in the TPP and the finalisation of the RCEP will work towards achieving this measure. • The signing of MoUs on a collective ASEAN basis has also seen success in recent times as emphasised during the 2015 ASEAN Summit (ASEAN Secretariat, 2015) |

1 Enhance Global Value Chain Participation (continued)

- Harmonisation with international standards and support for standards compliance and capacity building
- Greater focus on connectivity, lessening trade restrictive effects and costs of NTMs, and domestic regulatory reform
- The ACIA, AFAS, ATIGA, ASEAN Connectivity, ASEAN Single Window, and other such initiatives have helped to work towards this point by unifying standards regionally.
- Gaining international recognition for these standards will be the next step to capitalising on these existing achievements.
- This could occur through the more conventional route of ISO certification, or the establishment of Mutual Recognition (MRAs) with ASEAN+1 nations/non ASEAN nations.
- This clause speaks to the lack of follow through on the part of ASEAN member states when it comes to implementing regional commitments within domestic regulatory reform.
- Greater understanding into the institutional goals and capacities of member states as well as enforcing sequential goals will be necessary for the effective implementation of all ASEAN undertakings in relation to the GVC.

F. Conclusion: Moving Forward with the AEC 2025 Plans

- The AEC 2025 Blueprint showcases ASEAN's desire to look further afield in terms of capitalising on its regional successes and existing ASEAN+1 agreements; however, this has also been tempered with recognition that further action is required in solidifying and enhancing existing GVC facilitating measures.
- Key to the enhancement of ASEAN's participation in the GVC would be the achievement of the finalisation of the RCEP. This common platform agreement would allow ASEAN to apply a "one size fits all" agreement to future interested parties not currently included in negotiations. This is reflected by the bloc's adoption of a "single undertaking approach".
- Lastly, the blueprint requires much needed specificity in relation to its shift in goals, as whilst recognising that a focus on participation in the GVC may be an important and ultimate goal for ASEAN, actual actionable points have yet to be explored and defined. Given the importance of ASEAN in the global economy, feedbacks from multinational corporations based in the region will be useful in mapping out the strategic measures for ASEAN.

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