



**Asia-Pacific
Economic Cooperation**

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Agenda Item: 7c

ASEAN Economic Integration - Progress and Challenges

Purpose: Information
Submitted by: ASEAN Secretariat



**First Economic Committee Meeting
Putrajaya, Malaysia
16-17 February 2020**

ASEAN Economic Integration: Progress and Challenges

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Putrajaya, Malaysia
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PRESENTATION OUTLINE

- I. The ASEAN Context
- II. ASEAN Economic Integration
- III. ASEAN Fourth Industrial Revolution
- IV. Opportunities and Challenges



ASEAN is the 5th largest economy, 3rd largest market and one of the most dynamic region in the world....

5th largest economy in the world, 3rd in Asia with a combined GDP of US\$3.0 trillion in 2018.



CHINA
1,390M



INDIA
1,317M



ASEAN
649M



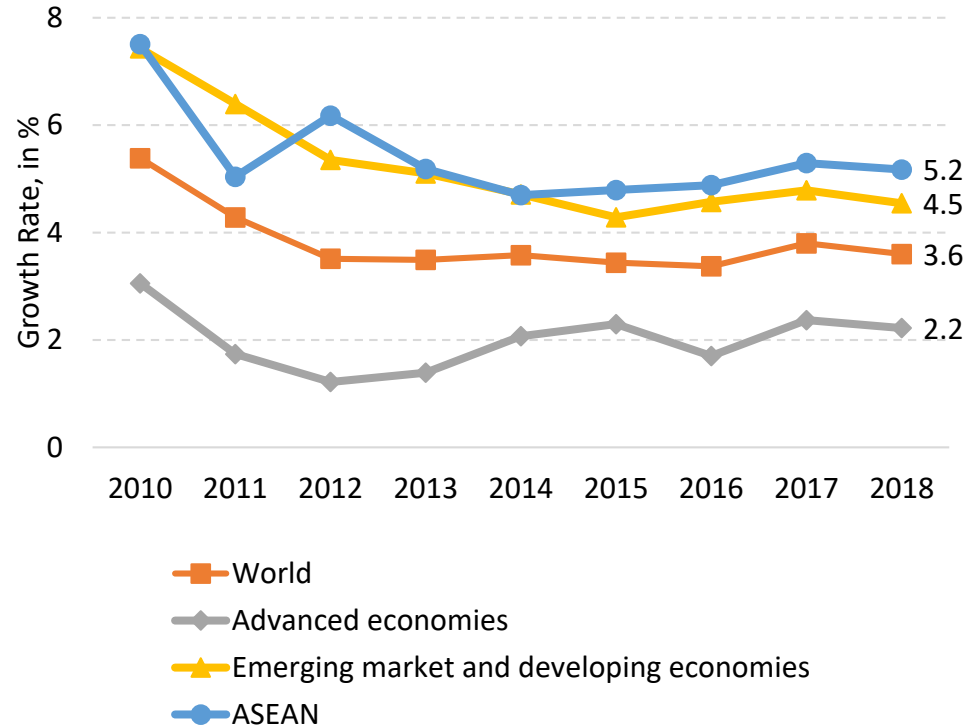
EU
510M



USA
326M

3rd largest market in the world with a total population of over 649 million, behind only China and India.

GDP Growth



Source: ASEAN Secretariat (as of November 2019)

- 4th largest trading economy and 3rd largest FDI destination
- Free trade agreements with major regional economies
- Highly connected physically, institutionally and among the Peoples

AEC Blueprint 2025 provides broad directions for ASEAN economic integration based 5 Characteristics

Highly Integrated & Cohesive Economy	Competitive, Innovative & Dynamic ASEAN	Enhanced Connectivity & Sectoral Cooperation	Resilient, Inclusive, People-Oriented & People-Centered ASEAN	Global ASEAN
<ul style="list-style-type: none"> • Trade in Goods • Trade in Services • Investment Environment • Financial Integration, <i>Financial Inclusion</i>, and Financial Stability • Facilitating Movement of Skilled Labour & Business Visitors • <i>Enhancing Participation in GVCs</i> 	<ul style="list-style-type: none"> • Effective Competition Policy • Consumer Protection • Strengthening IPR Cooperation • <i>Productivity-Driven Growth, Innovation, R&D, Technology Commercialisation</i> • Taxation Cooperation • <i>Good Governance</i> • <i>Effective, Efficient, Coherent and Responsive Regulations, and GRP</i> • <i>Sustainable Economic Development</i> • <i>Global Megatrends and Emerging Trade-related Issues</i> 	<ul style="list-style-type: none"> • Transport • ICT • E-commerce • Energy • Food, Agriculture, and Forestry • Tourism • <i>Healthcare</i> • <i>Science & Technology</i> 	<ul style="list-style-type: none"> • Strengthening the Role of MSMEs • <i>Strengthening the Role of the Private Sector</i> • <i>Public-Private Partnership</i> • Narrowing the Development Gap • <i>Contribution of Stakeholders on Regional Integration Efforts</i> 	<ul style="list-style-type: none"> • Strategic approach towards external economic relations • <i>Review and improve existing ASEAN FTAs and CEPs</i> • <i>Enhance economic partnerships with non-FTA DPs</i> • <i>Engage with regional and global partners</i> • <i>Support to the multilateral trading system</i> • <i>Engagements with regional and global institutions</i>



* New elements are italicized and in blue font

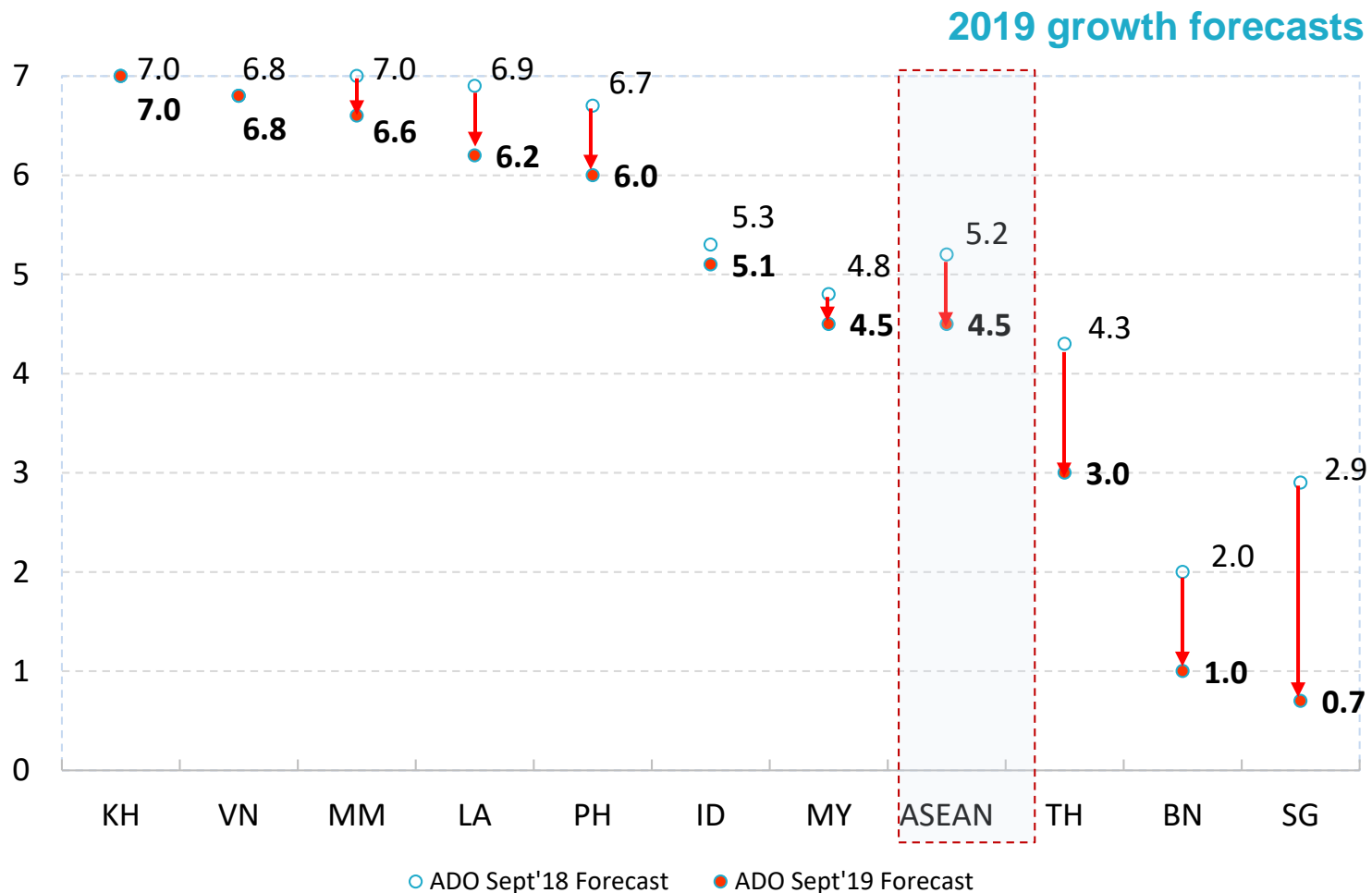
Progress and achievements of ASEAN Economic Community*

- **Trade in Goods**
 - Significant progress under the ATIGA 98.6% of the total number of tariff lines has been eliminated. Average tariff rates decreased to 4.5% in 2015, but the number of NTMs had increased to 5,975 measures
- **Trade in Services**
 - Removal restrictions under AFAS; Deeper service integration through ATISA; Mutual Recognition Arrangement; Movement of Natural Person; ASEAN Qualification Reference Framework
- **Investment**
 - ACIA: investment liberalisation, promotion, facilitation and protection, and sustainable Investment
- **Competition, Consumer Protection, and Intellectual Property**
 - Ensuring effective laws and regulation, Capacity building, Transparency, Convergence and alignment, Good Regulatory Practice
- **Financial Integration, Inclusion and Stability**
 - ASEAN Banking Integration Framework; Capital Account Liberalisation, Capital Market Development, Payment and Settlement System, Disaster risk financing, ASEAN Infrastructure Fund, ASEAN+3 Cooperation, Taxation
- **Enhanced Connectivity and Sectoral Cooperation**
 - Further integrate (and cooperate in) key sectors with the aim to maximise their contribution in improving the overall competitiveness of ASEAN and strengthening soft and hard networks
- **Advancing the Global ASEAN Agenda**
 - Review and upgrading work has been conducted: ACFTA AKFTA AJCEP AIFTA AANZFTA AHKFTA
- **Regional Comprehensive Economic Partnership**
 - Announced the conclusion of text-based negotiations of all 20 chapters of RCEP and essentially all market access issues among 15 RPCs



* For details, refer to ASEAN Integration Report 2019

Despite growth was broadly revised downward, ASEAN's average GDP was 5.4% since 2010....



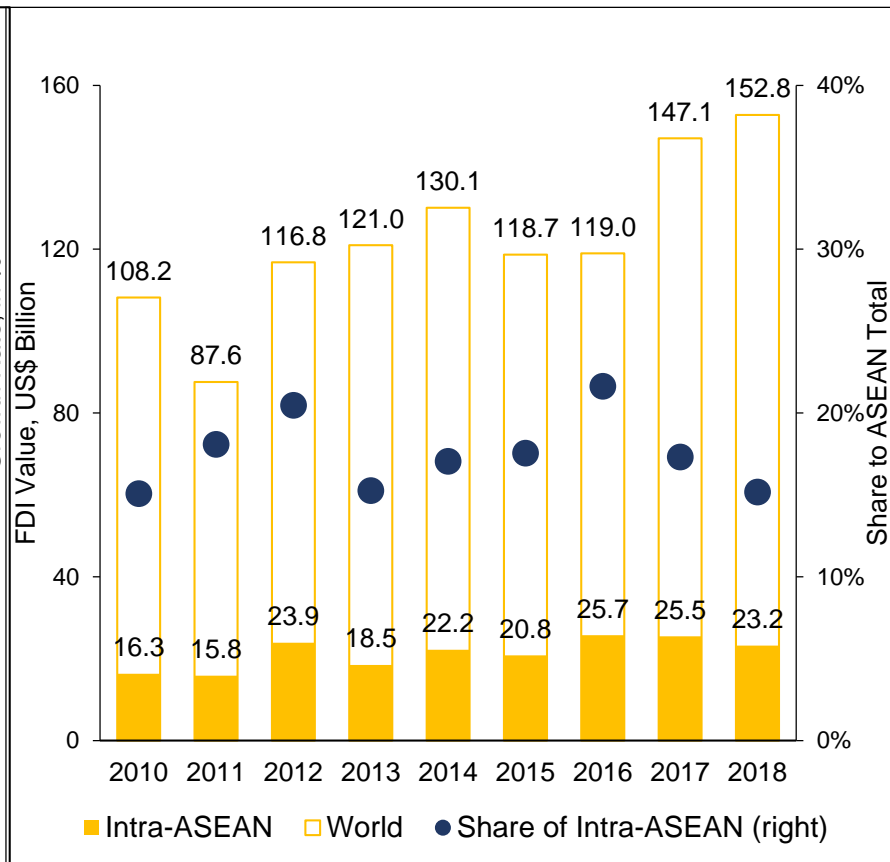
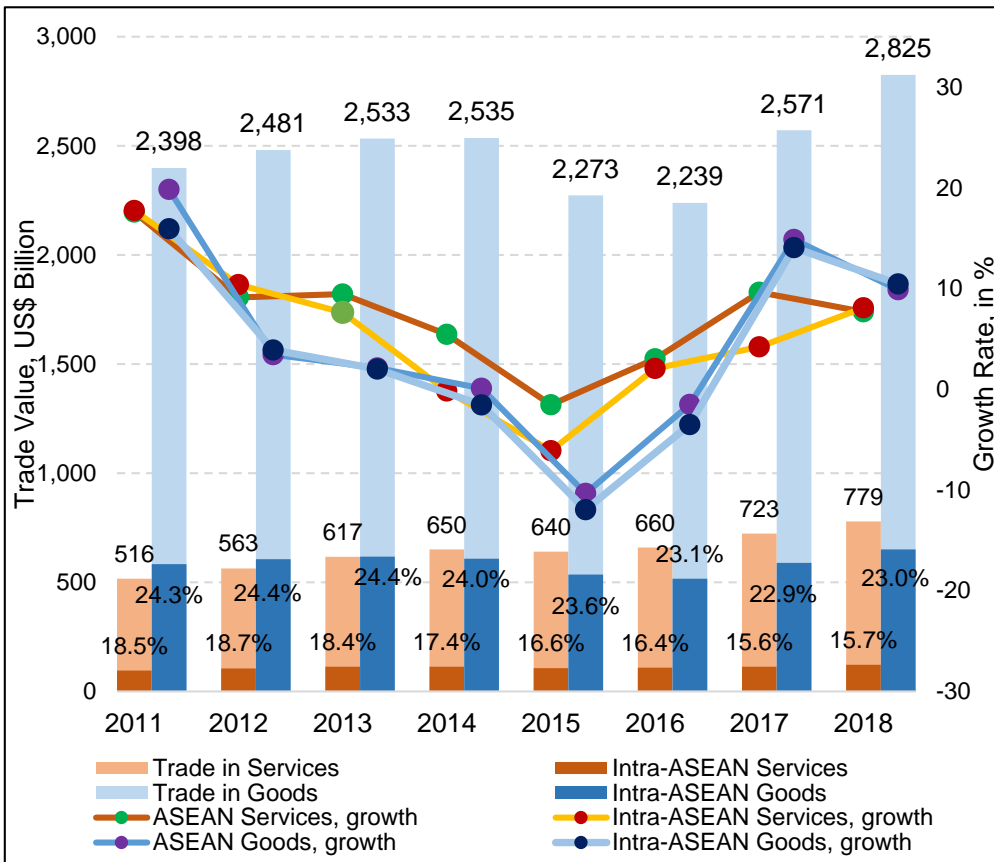
Note: Average growth rate from 2010-2018. The figure shows 2019F GDP growth (in %) from the indicated month of ADB's ADO.
 Source: ADB, ADO Update September 2019 & ADO Update September 2018



ASEAN is one of the most dynamic regions, underpinned by the region's strong external orientation

Trade in Goods and Services

FDI Inflows



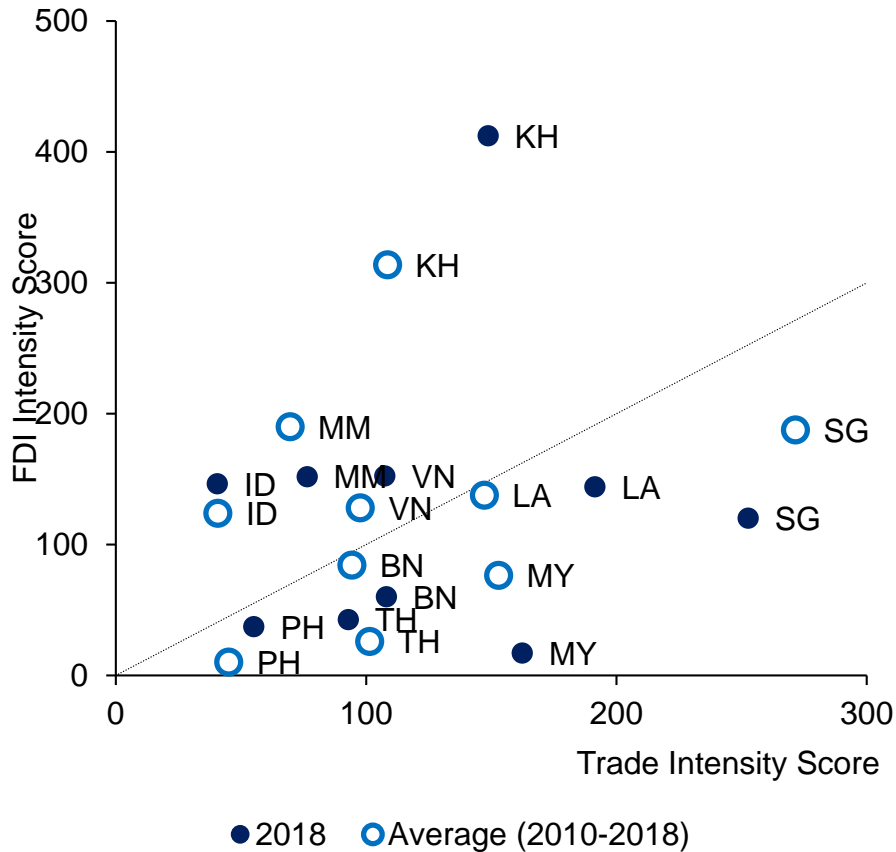
Source: ASEAN Secretariat

Three important measures to enhance Intra-ASEAN trade and investment in the regional context: i) Further focus on products with high trade potentials; ii) Enhance financial integration to support trade; and iii) Continue to support open, inclusive and rules-based trading system.

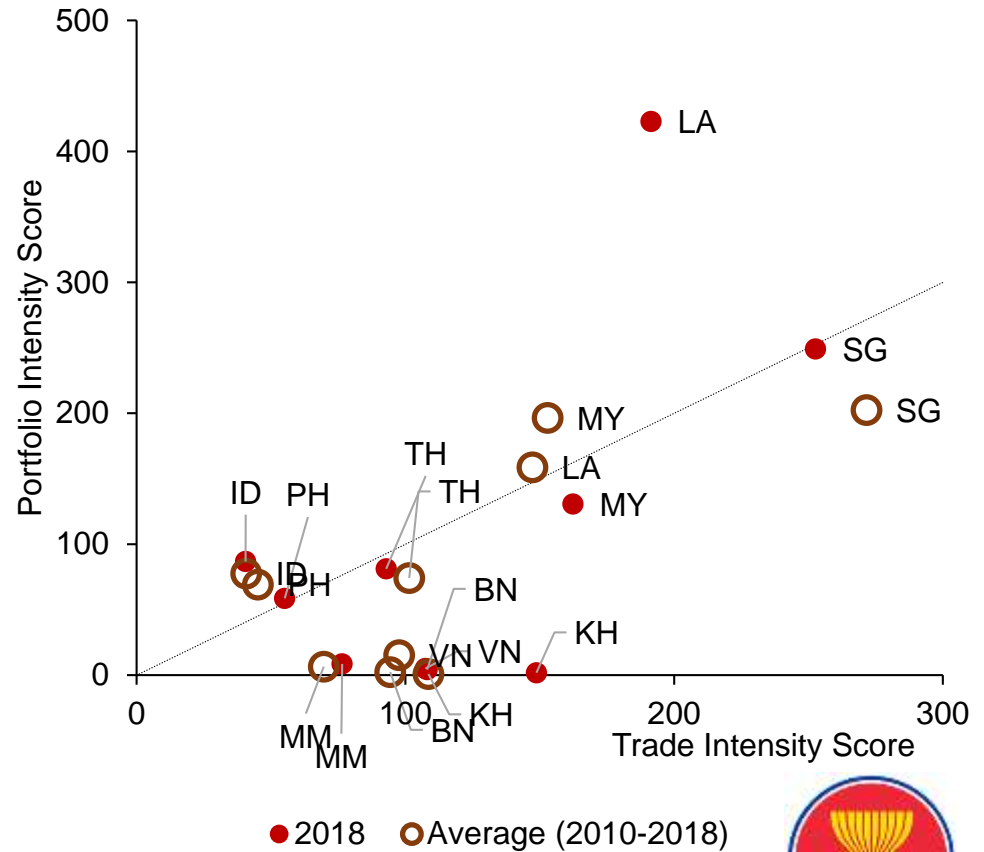


ASEAN trade with its external partners increased more than its trade within the region

Trade vs FDI Inflows (Intensity)



Trade vs Portfolio Investment (Intensity)



Source: ASEAN calculations.

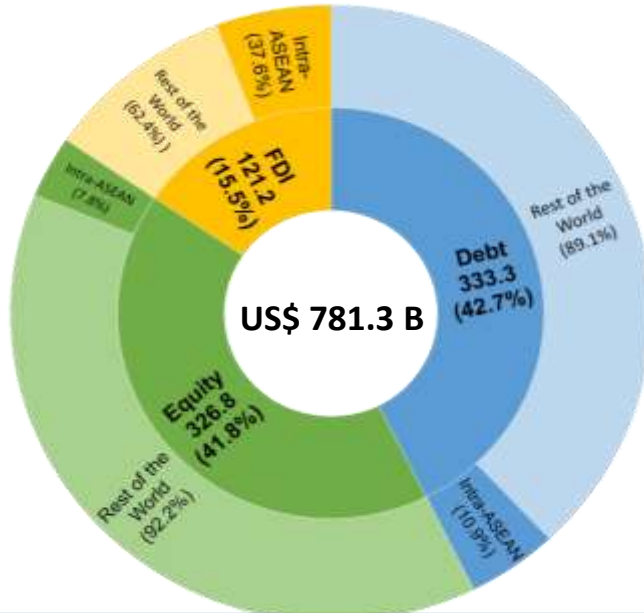
Note: Intensity Score is calculated as an economy's share in Intra-ASEAN trade as a proportion of its GDP share.



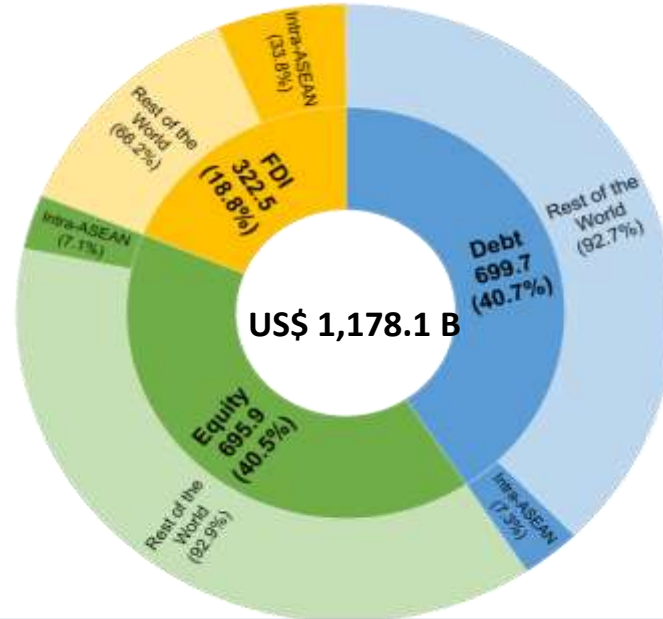
Increasing cross-border financial linkages, but intra-regional financial flows is relatively small

2010

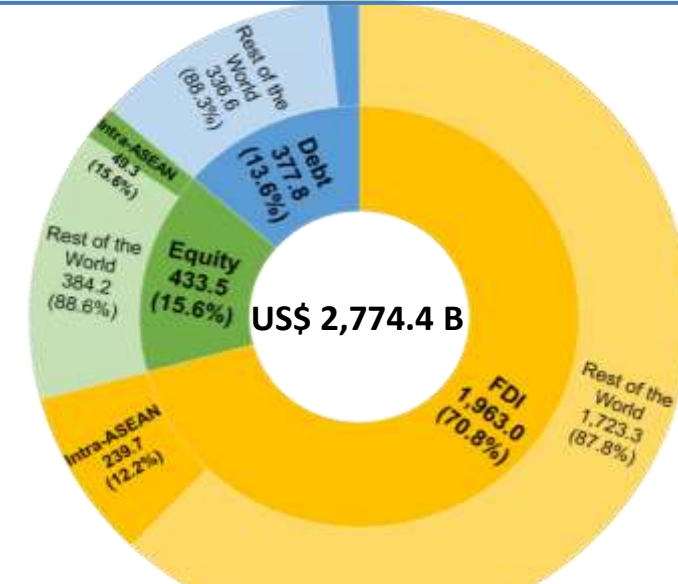
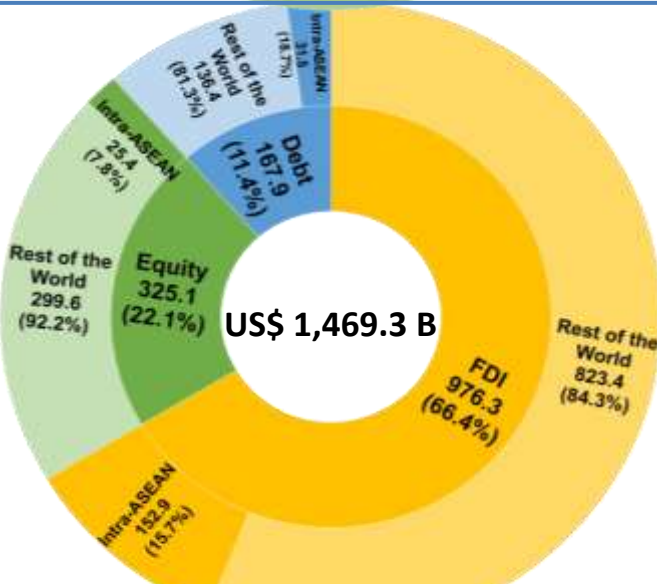
ASSET



2018



LIABILITY



Notes: Cross-border asset holdings refer to the stock of outward portfolio debt, portfolio equity, FDI. Asia's cross-border liabilities refer to the stock of inward portfolio debt, portfolio equity, FDI. Sources: ASEAN Secretariat calculations using data from IMF Coordinated Direct Investment Survey; and IMF Coordinated Portfolio Investment Survey.

ASEAN needs to strengthen the competitiveness of its financial markets to deepen financial integration

Indicator	Scores								
	BN	ID	KH	LA	MY	PH	SG	TH	VN
Global Competitiveness Index 4.0	61.4	64.9	50.2	49.3	74.4	62.1	83.5	67.5	58.1
<i>Rank</i>	62	45	110	112	25	56	2	38	77
Pillar 4: Macroeconomic stability	73.7	89.7	74.4	68.5	100.0	90.0	92.6	89.9	75.0
Inflation	97.4	100.0	100.0	100.0	100.0	100.0	98.7	99.8	100.0
Debt dynamics	50.0	79.3	48.8	37.1	100.0	80.0	86.5	80.0	50.0
Pillar 9: Financial system	51.2	63.9	53.6	51.3	84.1	67.9	89.3	84.2	62.3
9.A Depth	25.5	43.0	29.7	22.6	80.2	49.4	86.3	77.2	45.8
Domestic credit to private sector	41.7	40.3	65.6	20.1	100.0	44.1	100.0	100.0	100.0
Financing of SMEs	45.8	59.5	45.9	46.9	69.8	49.7	70.5	58.8	44.5
Venture capital availability	29.1	47.0	31.2	37.1	61.6	38.0	61.3	43.2	36.7
Market capitalization	0.0	44.7	0.4	0.0	100.0	84.1	100.0	99.9	28.0
Insurance premium	10.9	23.6	5.6	8.7	69.7	31.0	99.7	84.1	19.8
9.B Stability	83.4	89.9	83.5	87.2	89.0	91.1	93.1	93.0	83.0
Soundness of banks	65.9	64.6	57.9	55.6	75.7	80.4	90.4	78.1	45.5
Indicator	BN	ID	KH	LA	MY	PH	SG	TH	VN
Non-performing loans	91.7	95.2	96.7	94.9	97.8	97.5	98.5	95.0	96.3
Credit gap	76.1	100.0	79.3	98.2	85.7	88.3	85.4	100.0	99.5
Banks' regulatory capital ratio	100.0	100.0	100.0	100.0	96.8	98.3	98.1	98.8	90.7

Note: Green means score in 2018 increased over 2017; red means score in 2018 decreased over 2017.

The survey is done for 159 economies.

Source: World Economic Forum Global Competitiveness Index 4.0 (October, 2018)



ASEAN digital economy is projected to grow significantly over the next ten years



53.4 internet subscribers / 100 persons
3.8 mil users online/month – fastest growing




Mobile-cellular users – 128.3 / 100
persons in 2019



Fixed broadband – 8.4 / 100 persons in
2018



Automation – Singapore 2nd, others in top
50



AI – Indonesia (24.6%), followed by Thailand
(17.1%), Singapore (9.9%), Malaysia (8.1%)*



Online travel to reach US\$ 90 billion by
2025

Source: International Telecommunication Union, ASEAN Secretariat

Untapped Potential:

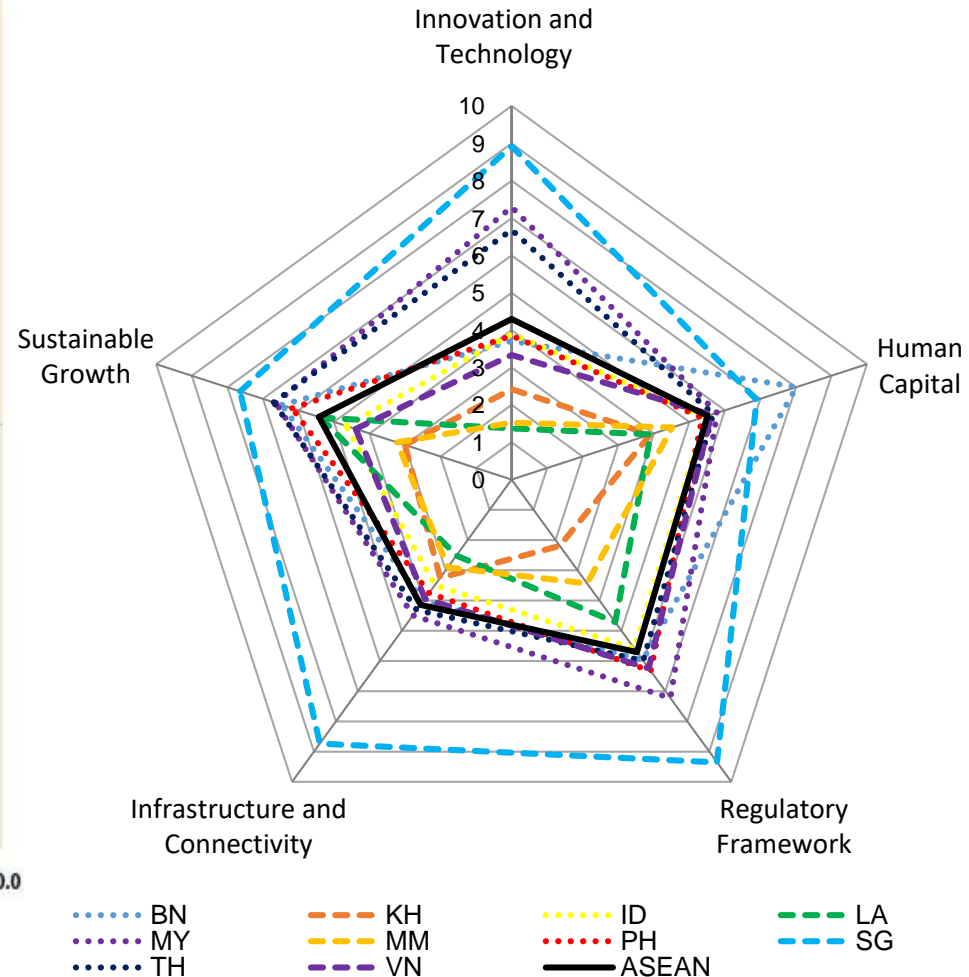
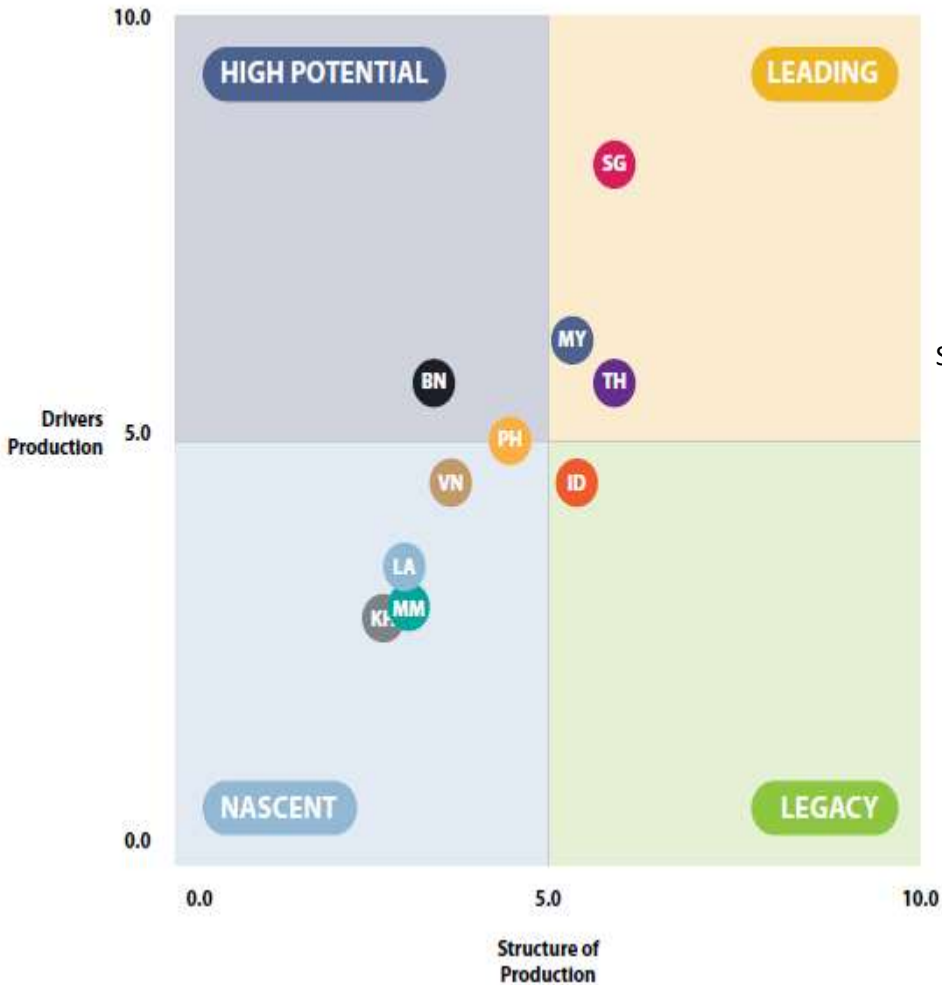
- Digital Economy 7% of GDP – uplift GDP by US\$ 1 trillion by 2025
- Only 16% of MSMEs utilise digital tools

Future of jobs:

- ❑ ILO (2016) – Cambodia, Indonesia, Malaysia, Philippines, Thailand, & Viet Nam would have to renounce 54-56% of jobs to automation
- ❑ CISCO (2018): *‘Workers will be displaced, but technology will also create new demand for workers across industries, by 2028’*

Note: *Based on a 2018 survey carried out by the IDC Asia/Pacific involving 502 executives & IT heads in the Asia-Pacific (excluding Japan).
Source: ASEAN Secretariat, 2017; 2018; International Federation of Robotics, 2016; and International Data Corporation Asia/Pacific, 2018.

Levels of 4IR readiness varies among ASEAN and differs in the level of comprehensiveness



Source: ASEAN Secretariat

ASEAN has intensified efforts to take a coordinated and holistic approach to transition towards 4IR

2017 Leaders recognised the need for ASEAN to be well prepared and to maximise the opportunities from the 4IR.



2018 Assessment of ASEAN's Readiness for the 4IR, signing of the ASEAN Agreement on Electronic Commerce, endorsement of the ASEAN Digital Integration Framework (DIF), the ASEAN Framework on Digital Governance and the ASEAN Innovation Roadmap.



2019 4IR-related Priority Economic Deliverables under Thailand's Chairmanship (including endorsement of DIF Action Plan), intensification of cross-pillar dialogues e.g. Special Committee of the Whole for the AEC (CoW) Meeting on 4IR

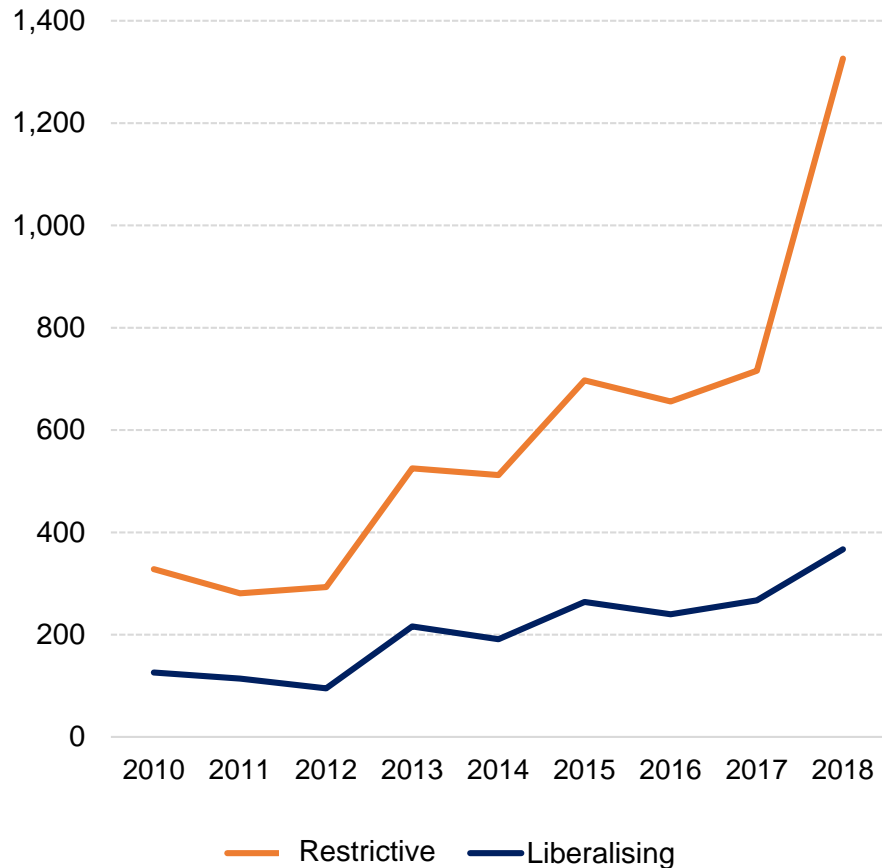
2020 4IR-related Priority Economic Deliverables under Vietnam's Chairmanship: ASEAN Digital Integration Index; Guidelines for 5G Ecosystem Development in ASEAN; Digital Transformation in Connecting ASEAN Heritages for Tourism Development; Roadmap and Action Plan to Promote Smart Manufacturing Development in ASEAN; Connecting Innovation Centres in ASEAN



Next Step develop a Consolidated Strategy on the 4IR, which would articulate clearly and holistically ASEAN's 4IR agenda and directions. ASEAN work on 4IR to continue under Viet Nam's chairmanship 2020 and beyond.

Global economy increasingly characterised by a rise in protectionist measures and possibly lower exports

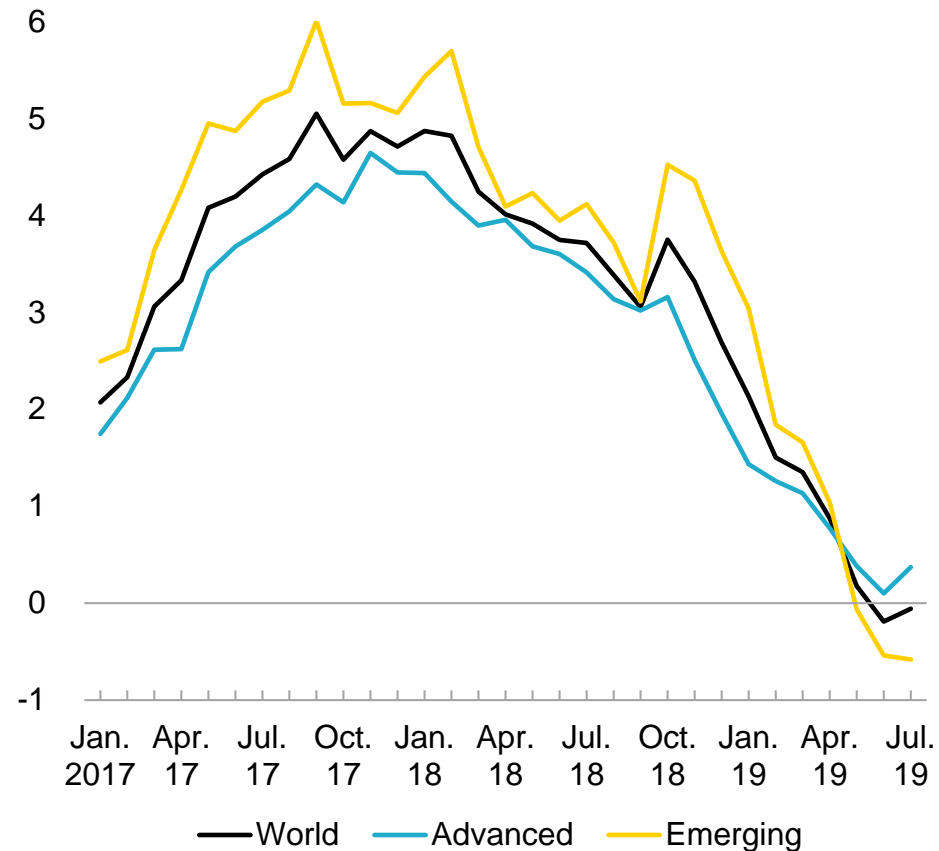
Number of New Trade Measures



Source: Global Trade Alert

Exports Growth

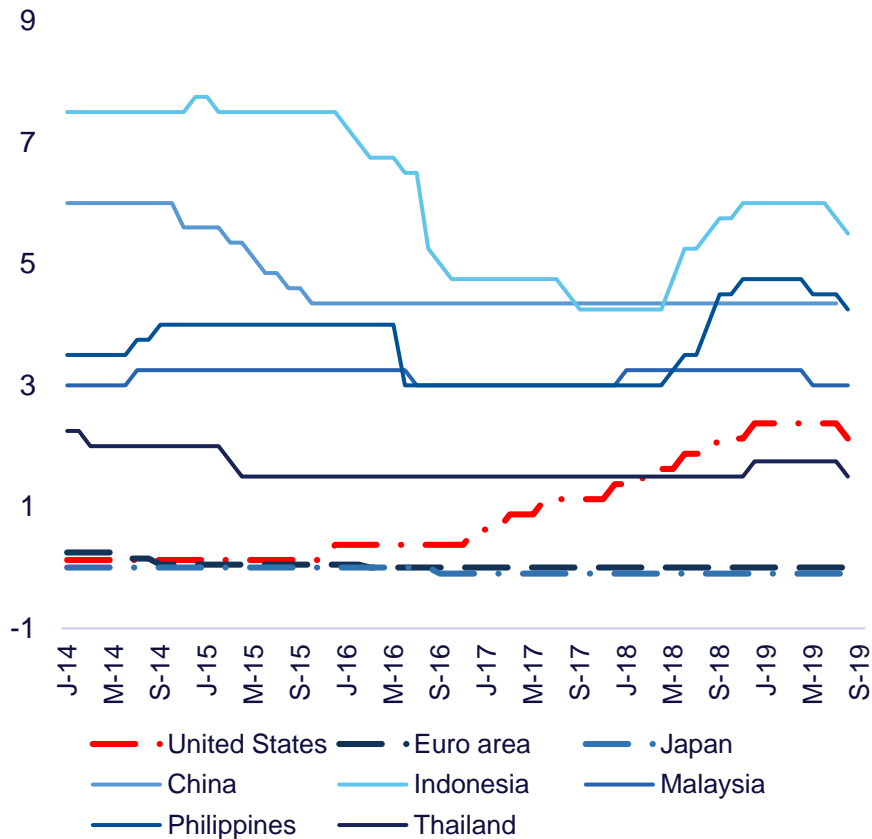
(In Percent YoY; 7 Months Average Real Value)



Source: CPB, World Trade Monitor

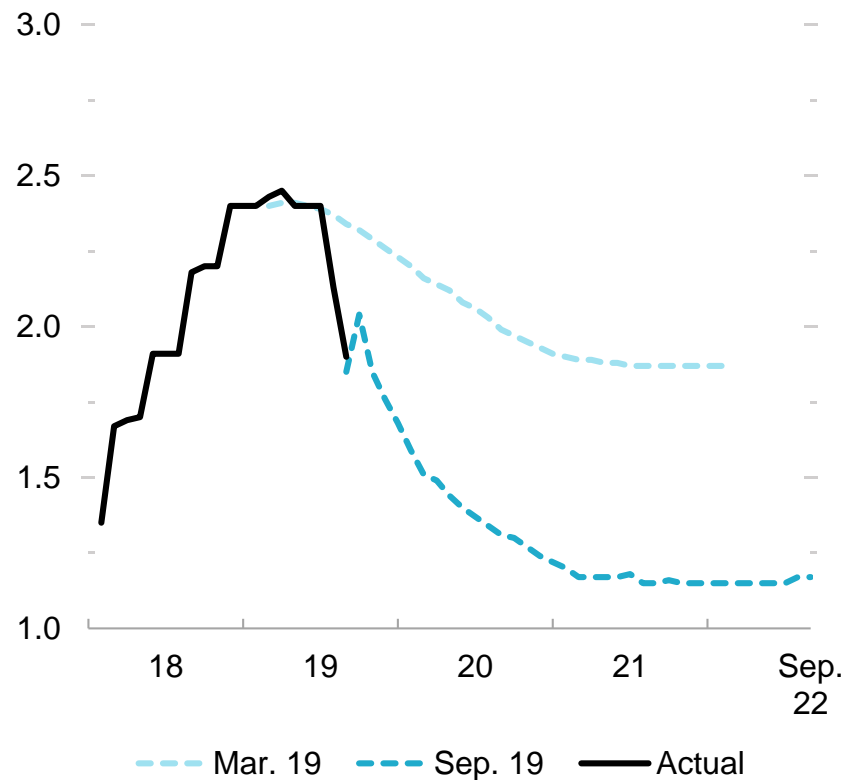
Changes in monetary policies have significant implications on global capital flows

ASEAN policy rates



Source: Bank for International Settlements

US policy rate



..... the world's view must change, old assumptions need to make way for the "New Normal"

1

Changing economic environment

- Global growth to be lower than in previous decade
- China bigger role in the global economy is the world 'new normal'
- Financial interlinkages complexity and paradigm change in MP
- The rise of GVC and production fragmentation across economies

2

Global rise of protectionism

- Protectionist economics growing in strength
- Threat to rules-based world trading system and multilateralism
- Trade policy uncertainty and spillover effects to investment
- US-China tech wars and global trade disruption / GVC

3

Rapid technological change

- The race for innovation and digital economy
- Innovation cycles have shortened in recent years
- Increase in disruptive innovation and sharing economy
- New technologies could potentially displace workers

ASEAN continues to address those challenges for inclusive growth momentum



ASEAN position in terms of trade tensions and increasing protectionism

- ❑ Deepening market integration through the AEC
- ❑ Strengthening external engagement through the FTAs
- ❑ Continue implementing four pillars of investment agenda

Responding to the emerging challenges of the digital economy and the 4th Industrial Revolution

- ❑ Signing of the **ASEAN Agreement on e-Commerce**
- ❑ Endorsement of the **ASEAN Digital Integration Framework**
- ❑ Variations in member economies' level of readiness; need for ASEAN to focus on key areas - **infrastructure, regulatory frameworks, skills upgrading, engagement with stakeholders.**



Ensuring that the work to date is translated into actions at the domestic levels: by enhancing effective regional coordination and boosting implementation capacity; intensifying outreach efforts to raise awareness of ASEAN, with engagement from parliaments, governments, business community as well as individuals.

Thank you



“ONE VISION, ONE IDENTITY, ONE COMMUNITY”

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