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Updates on the ASEAN Economic Community

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Updates on the ASEAN Economic Community (AEC)

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Regional Economic Outlook

ASEAN is poised to experience a slightly improved GDP expansion in 2024, with a projected growth rate of 4.6%, up from the 4.1% recorded in 2023. This anticipated growth can be attributed to several factors, including policy initiatives aimed at stimulating the domestic economy, signs of improved manufacturing output, and enhancements in exports. Notably, by the third quarter of 2023, the GDP of ASEAN-6 countries, has mostly surpassed pre-pandemic levels. This achievement was propelled by pent-up demand for services following the pandemic, driving the economic recovery. The tourism sector has exhibited a positive post-COVID recovery in 2023. As service demand normalises across ASEAN, pivotal drivers such as domestic consumption, government fiscal spending, and the revival of the manufacturing sector are expected to fuel the region's GDP growth in 2024.¹

The strong rebound in consumer spending following the post-COVID pent-up demand in 2022 propelled a robust GDP growth of 5.5%. Nevertheless, ASEAN's GDP growth moderated to 4.1% in 2023 as global economy return to normalcy following post-pandemic recovery. Economic indicators in 2023 generally exhibited a decline from the previous year. ASEAN's merchandise trade witnessed a decline of -7.4%, totalling US\$3,560 billion in 2023, compared to US\$3,846 billion in 2022. This decline was primarily influenced by a -5.4% drop in the ASEAN manufacturing sectors, which accounted for 74.9% of the aggregate merchandise trade in the region. Intra-ASEAN trade, comprising 21.6% of the region's total trade, contracted by -10.1%, whereas extra-ASEAN trade saw a decline of -6.7%. Meanwhile, FDI inflows into the region remained relatively stable, totalling US\$228.9 billion in 2023, displaying a modest 1.4% annual growth from US\$225.8 billion in 2022. However, intra-ASEAN FDI recorded a decline of -19.3% during the same period.

This decrease could also be attributed to the delayed impact of monetary policy tightening across most AMS in response to the global inflation shockwave observed in 2022. Looking ahead to 2024, the economic outlook is expected to show marginal improvement, reflecting the normalization of growth in the region. The outlook for 2024 suggests a slight improvement for both merchandise trade and inflow of FDI as inflation eases and borrowing costs stabilize, indicating a more favourable financing environment. Nonetheless, significant risks persist due to ongoing geopolitical tensions, high levels of national debt, and the potential for further fragmentation of the global economy.

The tourism sector in ASEAN has shown encouraging signs in fuelling the economic growth of the region, with consistent growth observed in every quarter throughout 2023. Despite the number of tourist arrivals in ASEAN for 2023 being still 30% below the pre-COVID volume in 2019², the year saw an impressive year-on-year growth rate of 136.2% with 101.9 million visitors in 2023 compared to 43.2 million visitors in 2022. The remarkable surge in tourist arrivals was primarily spurred by visa waivers for Chinese travellers by Malaysia, Singapore,

¹ Soh, C.K. (2024). 2024 ASEAN Market Outlook. Lion Global Investors.
<https://www.lionglobalinvestors.com/en/insights/2024-asean-market-outlook.html#:~:text=BETTER%20ECONOMIC%20GROWTH%20However%2C%20ASEAN%20is%20expected,of%20turnaround%20in%20manufacturing%20output%20and%20exports.>

² UN Tourism (2024, April 18) *The UNWTO Tourism Recovery Tracker*.
<https://www.unwto.org/tourism-data/unwto-tourism-recovery-tracker>

and Thailand³ as well intra-ASEAN arrivals which recorded an increase of 93.7% in 2023. Despite the sharp increase, intra-ASEAN arrivals accounted for only 40% of total arrivals, down from 50% in 2022. This decrease in the proportion of intra-ASEAN arrivals alongside a significant overall increase indicates a positive trend, reflecting increased interest from foreign tourists in the region.

In 2023, ASEAN adeptly navigated through a myriad of challenges, including the delayed effects of increasing interest rates, a fractured global market due to ongoing US-China geopolitical tensions, prolonged conflict in Ukraine, and escalating tensions in the Middle East. Furthermore, the year signified the onset of a recovery phase for most regions from the preceding year, marked by uncertainty and fluctuations in financial markets driven by persistent inflationary pressures and subsequent monetary policy tightening measures. Across ASEAN, monetary policy responses exhibited some divergence in the second half of 2023. Indonesia, the Philippines, and Thailand implemented further interest rate hikes, driven by various factors such as currency depreciation due to U.S. dollar strength, inflationary pressures, and, in Thailand's case, policy normalization following a period of low interest rates. Meanwhile, Malaysia and Vietnam opted to maintain their interest rates unchanged during this period.⁴

Economic improvements in ASEAN Member States in 2023 were evident on multiple fronts, such as the tapering off of inflation, the stabilization in policy rates, and largely subdued volatilities in the stock markets and Foreign exchange rates. The prevailing expectation is that ASEAN's GDP growth will increase from the levels seen in 2023 to 2024, driven by enhanced tourism activity, reduced inflation and interest rates, and the recovery of the global technology sector.⁵ Indonesia is expected to maintain a growth rate of 5.0% over the next two years, driven by strong private consumption, public infrastructure investment, and a gradual uptick in investment activity. Alongside robust domestic demand, a resurgence in merchandise exports from mid-2024 onward is anticipated to bolster growth in Thailand (2.6% in 2024 and 3.0% in 2025), Vietnam (6.0% in 2024 and 6.2% in 2025), the Philippines (6.0% in 2024 and 6.2% in 2025), and Malaysia (4.5% in 2024 and 4.6% in 2025). The services sector is expected to benefit from tourism, while industrial output will align with the recovery in exports and the easing of monetary policy.⁶

In general, resilient growth is expected in Asia in 2024, despite prevailing external uncertainties. The conclusion of interest rate hikes across most economies, coupled with the sustained recovery in goods exports fuelled by the increasing demand for semiconductors, are bolstering the region's overall positive outlook. However, it is crucial to monitor several risks. Escalating conflicts and geopolitical tensions have the potential to disrupt supply chains and exacerbate commodity price volatility. Uncertainty surrounding United States (US) monetary policy, stress in China's property market, and the impacts of adverse weather pose additional challenges for the region. Efforts should be intensified to bolster resilience by further enhancing trade, cross-border investment, and commodity supply networks.⁷

³ Sarmiento, P. & Yang, W. (2024, Feb 17). *Visa-free travel opens 'big door' to region*. China Daily.

<https://www.chinadaily.com.cn/a/202402/17/WS65cfed91a31041d387d6e00d.html>

⁴ World Bank Group. (2024, January). *Global Economic Prospect*.

<https://thedocs.worldbank.org/en/doc/661f109500bf58fa36a4a46eeace6786-0050012024/original/GEP-Jan-2024.pdf>

⁵ FocusEconomics (n.d.). *ASEAN Economic Forecast*.

<https://www.focus-economics.com/regions/asean/>

⁶ Asian Development Bank. (2024, April). *Asian Development Outlook*.

<https://www.adb.org/outlook/editions/april-2024#southeast-asia>

⁷ Asian Development Bank. (Ibid.)

Updates on AEC

ASEAN achieved significant milestones in 2023 following the steady progress in the implementation of the AEC Blueprint 2025. Carrying on the positive momentum of its post-economic recovery efforts, ASEAN intensified the Blueprint's implementation to fulfill the region's economic integration goals and strengthen the region's long-term resilience as it faces and deals with emerging challenges, uncertainties and disruptions while continuing to address outstanding issues.

With the theme ASEAN Matters: Epicentrum of Growth" the ASEAN Chairmanship in 2023 under Indonesia's leadership championed ASEAN to be the locus of growth through strengthened cooperation and collaboration among the ten Member States as it aimed to sustain its growth momentum and prepare for the next phase of its community building process beyond 2025.

ASEAN continues to deepen economic integration and support the advancement of the region as a global hub for trade and investment. It continued and has built upon the work that have been initiated and completed in the previous years. Thus, in line with its single market and production base objective ASEAN carried out several action lines that foster the establishment of a seamless and integrated regional economy, to wit:

- Following the 2022 launch of the negotiation for the upgrade of the ASEAN Trade in Goods Agreement (ATIGA) ASEAN embarked in intensive negotiations to transform the current ATIGA into a comprehensive, modern and forward-looking agreement that is responsive to regional and global developments. The upgraded ATIGA is aimed to be completed in 2025.
- To advance services integration of the region and increase trade and investment in the services sectors, ASEAN developed and completed the ASEAN Services Facilitation Framework (ASFF) in 2023 as a complementary instrument to ASEAN's work on trade in service liberalisation. The ASFF sets out principles and actions for ASEAN Member States to improve the services sector regulatory environment in the region by reducing domestic barriers and establishing favourable and predictable business environment for international trade and investment in the services sector. The ASFF is planned to be adopted in 2024.
- In furthering investment liberalisation in the region, ASEAN negotiated and completed the protocol to amend the ASEAN Comprehensive Investment Agreement, which will put into legal effect the parameters for the implementation of the two-annex approach. The Protocol will put in motion the transition of the investment reservations list from one annex to two-annex list. This Protocol is targeted to be signed in 2024.

Making ASEAN global is one of the goals of the AEC Blueprint 2025. Through on-going works that amplify its engagement with external partners, ASEAN is creating a robust ASEAN regional economy; expanding and generating new market opportunities for ASEAN and individual AMS; and supporting resilience in the supply chain. Considering the changing global landscape and new/emerging challenges, ASEAN's on-going external economic cooperation work ventures to the enhancement and upgrading of enforced ASEAN FTAs, i.e., to make these more responsive, forward looking and future ready.

- ASEAN together with Australia and New Zealand completed the negotiations and signing of the protocol that upgrades the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) into a high-quality agreement. The protocol introduced new

elements that aim to strengthen supply chain resilience, facilitate digital technology adoption, promote cooperation on trade and sustainable development, inclusive trade, and transparency are incorporated in the new Protocol. The upgraded AANZFTA is targeted to enter into-force in 2024.

- While ASEAN continues the negotiations for an FTA with Canada, ASEAN is also in negotiations to upgrade the ASEAN-China Free Trade Agreement and the ASEAN-India Trade in Goods Agreement, and together with Korea (ROK) it is completing the review of the ASEAN-Korea Free Trade Agreement. All these with the objective to upgrade and sustain commercially meaningful agreements for ASEAN and the ten ASEAN Member States.
- With the entry into force of the Regional Comprehensive Economic Agreement (RCEP) to all Parties, ASEAN through its Member States is promoting the agreement to the business community to harness the trade and investment opportunities and thereby, boost ASEAN's participation in the global value chain with RCEP as the "world largest FTA".

ASEAN has achieved greater connectivity across sectors, as a complementary thrust enhanced connectivity has elevated the region's economic community building. As showcased through various ASEAN initiatives AMS are more interlinked to each other than before in the area of trade and transport facilitation, energy cooperation, transport cooperation and financial cooperation.

- Nine AMS have already joined the live operation of the multipurpose electronic ASEAN Customs Documents Declaration (ACDD). This year, all AMS are expected to have fully joined the ACDD live operation.
- The nine protocols of the ASEAN Framework Agreement on Goods in Transit (AFAFGIT) are now enforced in all AMS. These paved the way for the operationalisation of the ASEAN Customs Transit System in the region, with six AMS namely Cambodia, Lao PDR, Malaysia, Singapore, Thailand, and Viet Nam have been participating in the programme.
- As of end 2022, four AMS have joined the pilot implementation of the ASEAN Framework Agreement on Multimodal Transport (AFAMT). Thailand and Viet Nam which started the pilot in 2020 were joined by Indonesia and Singapore in 2022.
- Following the ASEAN Leaders' Declaration on Advancing Regional Payment Connectivity and Promoting Local Currency Transaction, and the endorsement of the High-Level Principles on ASEAN Local Currency Transaction Framework, ASEAN has established the ASEAN Local Currency Transaction (LCT) Framework which will guide AMS in enhancing accessibility and efficiency in local currency transactions and promoting its wider adoption by market participants in the region.
- In June 2022 Lao PDR, Thailand, Malaysia and Singapore (LTMS) commenced the Multilateral Power Trade involving cross-border power trade of up to 100 megawatt of hydropower using existing interconnections.
- In air transport, ASEAN signed the first bloc-to-bloc air transport agreement - the ASEAN-EU Comprehensive Air Transport Agreement (AE CATA) was signed on 22 November 2022. Apart from restoring connectivity (post pandemic), the Agreement is aimed to facilitate increased trade, investment, tourism, business, and people-to-people ties as well as pave the way for wider aviation cooperation to continue promoting higher standards on aviation safety, aviation security, air traffic management, consumer protection, and environmental and social issues.

ASEAN continues to follow-through and intensify work to accelerate the region's digital transformation to a single ASEAN digital economy. Aligned with this, ASEAN launched the negotiations of the ASEAN Digital Economy Framework Agreement (DEFA) in 2023 and alongside endorsed the framework for negotiations or negotiating principles for DEFA. ASEAN targets to conclude the DEFA negotiations in 2025 and in achieving this, ASEAN has mapped the negotiations rounds until 2025, and has tapped technical assistance for capacity-building on the agreed focused areas from development and other external partners to support the development of a robust agreement for ASEAN, and to later on support individual ASEAN Member States in its implementation.

Outside of DEFA, ASEAN intensively implements the other priority measures for digital transformation under the Bandar Seri Begawan Roadmap: ASEAN Digital Transformation Agenda to Accelerate ASEAN's Economic Recovery and Digital Economy Integration. Digitalisation is being mainstreamed in various ASEAN works across sectors, to wit:

- ASEAN has achieved full implementation of the electronic-form D (certificate of origin) for ATIGA on 1 January 2024 via the ASEAN Single Window. For optimal use of the ASW, ASEAN is (i) embarking on the electronic exchange of other ASEAN customs declaration documents among AMS (through pilots); and (ii) undertaking technical assessments for the ASW to connect with ASEAN's Dialogue Partners' Single Window Systems and exchange additional electronic documents them.
- In 2023 ASEAN undertook foundational work on the usage of digital business/corporate identities to streamline business registration and licensing procedures and promote cross-border trade, and completed the "Benchmarking Guidelines on Unique Business Identification Numbers in ASEAN". As a follow-up, ASEAN is now undertaking the development of an implementation roadmap to establish a regionally comparable UBIN. The roadmap will encompass key components on governance and funding mechanisms, technological solutions, and a comprehensive regulatory assessment and coordination.
- ASEAN continuous to progress implementation of the bilateral payment linkages based on the ASEAN Policy Framework for Cross-Border Real-Time Retail Payment System (RT-RPS). In the recent years ASEAN has launched several cross-border QR payment in ASEAN with the launching of Cambodia-Lao PDR, Cambodia-Viet Nam, Singapore-Indonesia, Singapore-Malaysia, and Lao PDR-Thailand linkages.

Moreover, ASEAN continues to deepen and broaden its action to promote and advance its sustainability development agenda. Acknowledging the need to address the challenge of climate change by taking climate action, ASEAN has furthered its work, thus to complement the Framework on Circular Economy for AEC in 2023 ASEAN adopted the ASEAN Strategy on Carbon Neutrality and ASEAN Blue Economy Framework.

- The ASEAN Strategy on Carbon Neutrality aims to generate significant economic value-add for the region while helping Member States to meet their national decarbonization goals. ASEAN's credible commitment to carbon neutrality can attract investments from major global blocs and support job creation in the green economy.
- The ASEAN Blue Economy Framework aims to steer ASEAN's blue economy initiatives, fostering regional integration and cooperation, and enhancing AMS capacity to optimize the sustainable use of aquatic areas. The framework is guided by the vision

of value creation by advancing sustainable practices that promote sustainable and inclusive economic and social development related to marine and freshwater activities and livelihoods.

This year (2024) is a pivotal year as ASEAN enters the final stages of implementation of the current AEC Blueprint, which will end in 2025, and prepares for AEC post 2025. ASEAN is redoubling efforts as it continues to boost the momentum moving forward. Under the Lao PDR Chairmanship this year and with the theme “Enhancing Connectivity and Resilience” ASEAN is further advancing the AEC work to (i) achieve its target/objectives under the AEC Blueprint 2025; and (ii) prepare the AEC post-2025 agenda under the successor strategic plan. ASEAN through the Lao PDR Chairmanship will therefore pursue and implement 14 Priority Economic Deliverables in 2024 in line with the three strategic thrusts of (i) integrating and connecting economies; (ii) forging an inclusive and sustainable future; and (iii) transforming for the digital future. Leveraging on the earlier foundational work and building on the achievements ASEAN aims to deliver in 2024 the following PEDs:

- (i) ASEAN Leaders' Declaration on Enhancing Supply Chain Connectivity
- (ii) Substantial Conclusion of the ASEAN-China FTA Upgrade 3.0
- (iii) Entry-into-Force of the Second Protocol on the Agreement Establishing the ASEAN-Australia-New Zealand FTA
- (iv) A comprehensive report on the ASEAN Framework Agreement on Intellectual Property Cooperation (AFAIPC) and set of recommendations on the possible upgrade of AFAOPC
- (v) Reframed ASEAN Narrowing the Development Gap Strategies
- (vi) ASEAN Guidelines on Crop Burning Reduction
- (vii) The ASEAN Action Plan on Sustainable Agriculture
- (viii) Final draft of the successor agreement on the ASEAN Power Grid and multilateral power trade in the region
- (ix) ASEAN Ecotourism Standard for Activities, Facilities and Services
- (x) Roundtable dialogue and a policy note covering the outcome and takeaways from the roundtable discussion to addressing financing Gaps Among MSMEs
- (xi) The Study on the New Generation of ASEAN Single Window
- (xii) Roadmap on Digital Trade Standards in ASEAN
- (xiii) ASEAN Online Education Platform for Industry 4.0

Charting ASEAN's Economic Course for 2045

ASEAN is at a pivotal juncture, transitioning from the implementation of AEC Blueprint 2025 to the development of the economic components of the *ASEAN Community Vision 2045* (hereinafter referred to as 'Vision') and its Strategic Plan(s). Last September 2023, ASEAN Leaders noted the finalised draft of the Vision at 43rd ASEAN Summit, which among others, envision a prosperous region by 2045, aiming to achieve a single market, driven by highly-skilled and inclusive workforce, productivity and innovation-driven growth, as well as mainstreaming sustainability across the value chain.

With the Vision being finalised, efforts are now focused on the development of the Strategic Plan(s), including that under the economic pillar. The High-Level Task Force on ASEAN Economic Integration (HLTF-EI), a body entrusted by the ASEAN Economic Ministers (AEM) to provide economic inputs to the Vision and Strategic Plan(s), has actively engaged wide-range stakeholders since September 2023. Businesses, academics, civil society

organisations, international organisations, and ASEAN's external partners have participated in HLTF-EI's consultations. Additionally, a region-wide public opinion survey gauging perception on the AEC Blueprint 2025 and post-2025 priorities ran from November 2023 to March 2024.

In addition, to ensure a smooth transition from the Blueprint 2025 to the development of the AEC Strategic Plan, a two-pronged approach is underway. First, the conduct of End-Term Review of the AEC Blueprint 2025 will provide valuable insights into lessons learned and best practices for the development of the economic components of the Vision and Strategic Plan(s). Second, an ongoing AEC Post-2025 Study is identifying potential priorities for the future to ensure the new Strategic Plan(s) address emerging challenges and opportunities, building upon the strong foundation laid by the AEC Blueprint 2025.

Through the HLTF-EI's leadership, ASEAN sectoral bodies' coordination, and extensive stakeholder engagement, the AEC Strategic Plan is on track for ASEAN Leaders' adoption by the second quarter of 2025. This collaborative approach reflects ASEAN's commitment to realising an action-oriented, sustainable, enterprising, adaptable, nimble and inclusive economy by 2045.
