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ASEAN Integration Report 2019

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ASEAN Prosperity Initiative

IDEAS
INSTITUTE FOR DEMOCRACY AND ECONOMIC AFFAIRS



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Foreword

The Association of Southeast Asian Nations (ASEAN) is the most successful regional grouping in the developing world. Born as a politico-security pact in the aftermath of the Viet Nam War in 1967, it has evolved to embrace an ambitious economic agenda. Its latest and most significant project is to establish an ASEAN Economic Community (AEC). When ASEAN missed its original deadline of completing the AEC by 31 December, 2015, there was growing concern that the rhetoric had finally caught up to the reality of trying to push the economic integration agenda too far and too fast. But ASEAN soon came up not just with a new deadline, but with a new approach that emphasized greater transparency and inclusivity, especially through increased engagement with business and the broader community. ASEAN adopted a successor Blueprint called the AEC Blueprint 2025, which laid out the work for ASEAN up to the new deadline of 2025.

In the API's inaugural report last year, we presented the first assessment of progress with implementation of the AEC Blueprint 2025. This was partly in response to the call for greater transparency and inclusivity, and was designed to provide an independent third-party assessment of progress with implementation. In that report, we found that while ASEAN was making progress with realizing the targets set within the new Blueprint, it was falling slightly behind its self-imposed milestones. We revisit the issue in this report to see if ASEAN has been able to make up lost ground, or if it has continued to slip further behind.

We should note, however, that there have been some dramatic changes in the region, and the world, since we published the last report. At that time, the US-China trade dispute was in its relative infancy, and there was still some hope that it would be resolved soon. We now know that this view was far too optimistic. The trade war has escalated significantly, and there is no end in sight. Once it became clear that the dispute was more than transitory, investment started being diverted away from China and mainly into Southeast Asia.

Vietnam has already seen benefits from the redirection of trade and investment, and other countries like Malaysia and Thailand hope to share in the spoils. The ADB forecasts that Bangladesh will be the fastest growing country in Asia this year mainly as a result of the huge boost the trade war has provided to its garments sector. The spillovers from the trade war, both positive and negative, are already being felt in the region. Even if the trade war were to end anytime soon, it may have lasted long enough to have permanently changed trade and investment relationships in the region, particularly as they relate to the supply chain. The dynamics of global value chains and how they relate to and interact with ASEAN's integration process, especially as it strives to present itself as ASEAN as a single production base, is considered in some detail in this report.

The duration of the dispute is one reason why we can expect that the impacts could continue beyond its resolution. The second reason could relate to how the current dispute is being viewed. If it is seen as a symptom of larger, underlying factors at play such as a geopolitical struggle for global economic dominance, then it will not end here. Chinese multinational corporations and foreign firms operating in China that judge that the tensions will persist and find new forms of expression will continue restructuring their production in order to diversify long-term risk. Both these factors combine to suggest that the fallout from the trade war could continue for a long time yet, even if the dispute were to end anytime soon.

Partly related to this is the increased talk of slowdowns and possible recessions around the world. This is certainly true of both countries directly involved in the dispute, as well as in Europe and in some other parts of the world. To use the parlance of economic forecasters, risks are very much skewed towards the downside, regionally and globally.

What does all this mean for economic integration in general, and AEC implementation in particular? In short, it is, as one might expect, bad news for both. It is widely accepted that pursuing reform is always made more difficult when risk and uncertainty is high or rising. It is also harder to persuade policy makers to pursue changes involving short-term pain in order to secure long-term gains during periods of current or impending economic slowdown. Therefore, the confluence of factors operating at the regional and global level currently work against pressing ahead with the implementation of the more demanding reform items within the AEC Blueprint. The low hanging fruit have already been plucked, and what remains to be done involves difficulty and complexity, and therefore requires greater resolve and commitment.

But ASEAN cannot get distracted by these short-term or cyclical factors, and needs to focus on long-term targets and trends. These are challenging times, and we hope that ASEAN can meet these challenges head-on, and continue to press ahead with the implementation of the AEC Blueprint 2025 as planned.

Jayant Menon

Lead Economist, Asian Development Bank and Senior Fellow, IDEAS

The ASEAN Prosperity Initiative

The ASEAN Prosperity Initiative (API) is designed to highlight issues and raise questions over the development of ASEAN and its role in supporting the prosperity of its Member States and their citizens. The API will include the production of reports and materials which aim to improve the understanding about the main developments and challenges relating to prosperity in ASEAN. The API is intended to engage a broader set of stakeholders in the debate on the future of ASEAN, including business, academia and the general public.

The Institute for Democracy and Economic Affairs (IDEAS) is an independent research institute based in Malaysia. We are dedicated to researching and promoting solutions to public policy challenges. We believe that economic freedom – through free markets, open trade and individual liberty – are essential to sustained prosperity and we believe that ASEAN plays an important role in enhancing and protecting the economic freedom of its citizens. We therefore make no secret about the fact that we strongly support an ambitious agenda of economic integration in ASEAN and through the API we hope to support this agenda.

Dr Jayant Menon holds adjunct appointments with the Australian National University, University of Nottingham, Institute for Democracy and Economic Affairs (IDEAS) and Cambodian Institute for Cooperation and Peace. He has served as a Board Director of the Cambodia Development Resource Institute and on the Advisory Board of the University of Nottingham Campus in Malaysia. He also serves on the editorial board of several academic journals. He has authored or co-authored more than one hundred academic publications, mostly on trade and development, and particularly as they relate to Asia. Dr Jayant is Adviser to the API.

Laurence Todd is the Director of Research at IDEAS. Laurence is a public policy professional with a wide range of experience in economic policy, business regulation and international trade. Prior to joining IDEAS, Laurence served in a number of different roles in the UK Government, including in Her Majesty's Treasury and the Ministry of Defence.

Azam Wan Hashim is an Executive in the IDEAS Research and Publications division. He received his B.A. in Interdisciplinary Studies from the University of British Columbia with a specialization in Economics, Political Science and Asian Studies. Throughout his experience at IDEAS, Azam has undertaken projects in the areas of agricultural subsidies, healthcare policy, Chinese investments, and ASEAN economic integration.

Aiman Wan Alias is a junior associate at IDEAS. He graduated from the University of Malaya, majoring in Development Studies. Through his previous internship with IDEAS, Aiman confirmed his research interest in Economics, Politics, Social Issues, International relations, and International trade, and hope to continue exploring the topic in his future endeavors.

**The views expressed in this report are those of the author(s) and do not necessarily reflect the views and policies of the Asian Development Bank, or its Board of Governors or the governments they represent.*

The ASEAN Economic Community

Economic integration in ASEAN is delivered through the ASEAN Economic Community (AEC). The predecessor to the ASEAN Economic Community was the ASEAN Free Trade Area (AFTA), mandated in 1992. Following the success of the AFTA, ASEAN leaders agreed in 2003 to broaden and deepen regional cooperation, with the creation of the AEC as one of the three pillars of the ASEAN Community, alongside the Political-Security Community and Socio-Cultural Community. ASEAN has signed several agreements to support AEC realisation. The building blocks are the ASEAN Trade in Goods Agreement (ATIGA), which replaces the Common Effective Preferential Tariff (CEPT) Scheme; the ASEAN Framework Agreement on Services (AFAS); and the ASEAN Comprehensive Investment Agreement (ACIA), which replaces the ASEAN Investment Agreement (AIA). In support of these agreements are facilitation measures which include the ASEAN Agreement on Movement of Natural Persons (AAMNP) and Mutual Recognition Arrangements on Services (MRAs).

In 2007, ASEAN leaders established the AEC Blueprint, which provided the guiding principles for ASEAN to transition to a fully integrated and competitive region, enabling the free flow of goods, services, capital and skilled workers. The Blueprint was originally set for completion in 2020, however the leaders decided to accelerate the timeline to 2015.

By 2015, much progress had been made but there remained a number of areas requiring further work. ASEAN Leaders therefore agreed the creation of AEC Blueprint 2025, which aims to complete the outstanding elements of the original Blueprint and further deepen economic integration. The new Blueprint consists of five pillars:

1. a highly integrated and cohesive economy;
2. competitive, innovative and dynamic ASEAN;
3. an ASEAN with enhanced economic connectivity and deeper sectoral cooperation;
4. a resilient, inclusive and people-oriented and people-centred ASEAN; and
5. a global ASEAN.

In order to support the implementation of AEC Blueprint 2025, ASEAN leaders subsequently agreed on the Consolidated Strategic Action Plan (CSAP), which details over 100 measures with over 500 lines of supporting actions required to realise the AEC Blueprint 2025.

Monitoring Implementation of the AEC

Under the previous AEC Blueprint 2015, the ASEAN Secretariat produced “scorecards” to track the implementation of the measures required to implement the AEC Blueprint 2015, and comment on the compliance in different Member States. Under the current AEC Blueprint 2025, the ASEAN Secretariat is not planning to produce these “scorecards”; instead, the ASEAN Integration Monitoring Office (AIMO) has prepared a Monitoring and Evaluation Framework to assess progress. This Framework explains that the ASEAN Secretariat will work with different sectoral bodies to develop detailed Key Performance Indicators (KPIs), which are intended to measure the outcomes of integration, alongside measuring compliance with the measures detailed in the CSAP. The ASEAN Secretariat is not currently publishing detailed evaluations of integration outcomes or compliance but are proposing to publish a report on the overall progress of integration later this year. In the meantime, they are publishing quarterly ASEAN Integration Briefs, which highlight key developments.

The Purpose of this Report

We welcome the efforts of the AIMO to develop more sophisticated and reliable tools to measure the implementation of AEC Blueprint 2025. However, we also believe that transparency is an important component for effective monitoring, in particular for engaging the wider public on the issues relating to implementation of the AEC. We furthermore believe that it is important that third parties are involved in the process of monitoring and evaluation, to widen engagement and the debate on ASEAN’s development. The previous Scorecards released by the ASEAN Secretariat were based on “self-assessment” by the Member States and are therefore subject to concerns relating to the independence and objectivity of the process.

In this report, therefore, we aim to provide an external assessment of implementation of AEC Blueprint 2025. This report is our second annual publication assessing the progress of economic integration within ASEAN. The first report can be accessed here <http://www.ideas.org.my/publications/reports/>

To prepare this report, we have sought to follow the approach set out in the Monitoring and Evaluation Framework prepared by the AIMO of measuring both outcomes and compliance. The report is therefore structured as follows:

- Assessment of the outcomes of ASEAN integration using a set of economic indicators;
- Assessment of the implementation of the CSAP using publicly available information on measures and actions which have been implemented; and
- Commentary on the broad messages that come out of these assessments.

To help us consider the messages that arise from these assessments, we have presented our emerging findings at a series of Focus Group Discussions (FGDs) across ASEAN, with experts from government, business and academia. The insights from these discussions were extremely valuable, and provided much of the inputs in preparing this report.

We hope that this report can serve as a helpful and constructive contribution to understanding, assessing and improving the process of ASEAN economic integration.

ASEAN Economic Integration

Chart 1: Intra-ASEAN Trade in Good

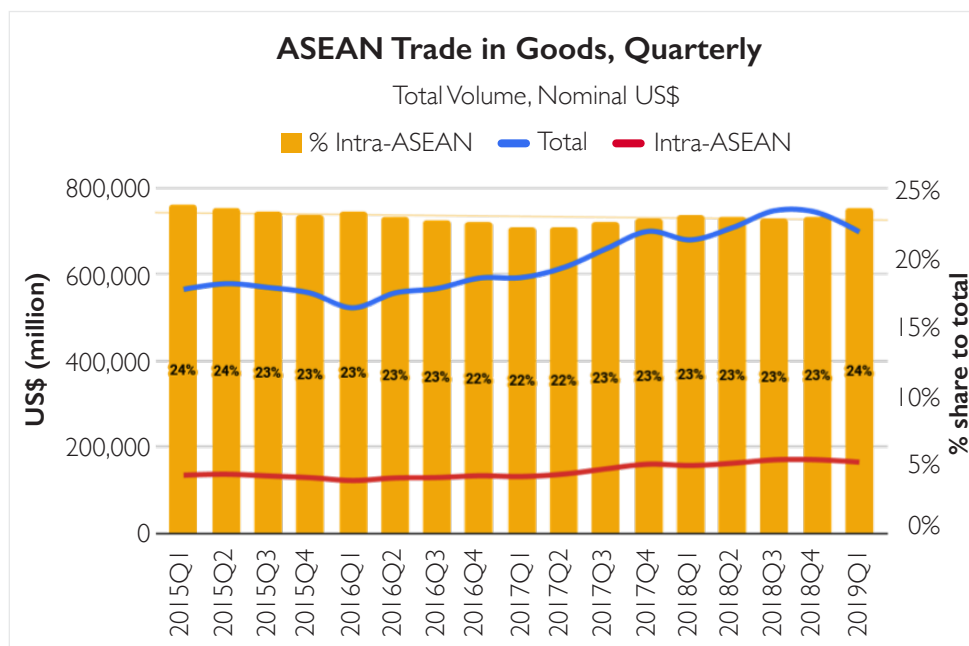
Total trade in goods with the world has increased over time, but intra-ASEAN trade has remained stagnant, with the proportion of intra-ASEAN trade remaining between 22-24%

US\$ 697b

Value of total ASEAN trade in goods in first quarter of 2019

23.5%

Proportion of total trade in goods that are intra ASEAN.



The share of intra-ASEAN trade showed a slight recovery in Q1 of 2019, possibly as a result of the global trade slowdown led by US-China trade tensions. However, the rate has not fully recovered to the 23.7% share of trade in Q1 2015.

Source: ADB calculations using data from International Monetary Fund Direction of Trade Statistics.

Chart 2: Intra-ASEAN Trade in Service

Intra-ASEAN trade in services shows a similar situation to the intra-ASEAN trade in goods, with total trade in services increasing alongside stagnating intra-ASEAN trade in services.

US\$ 703b

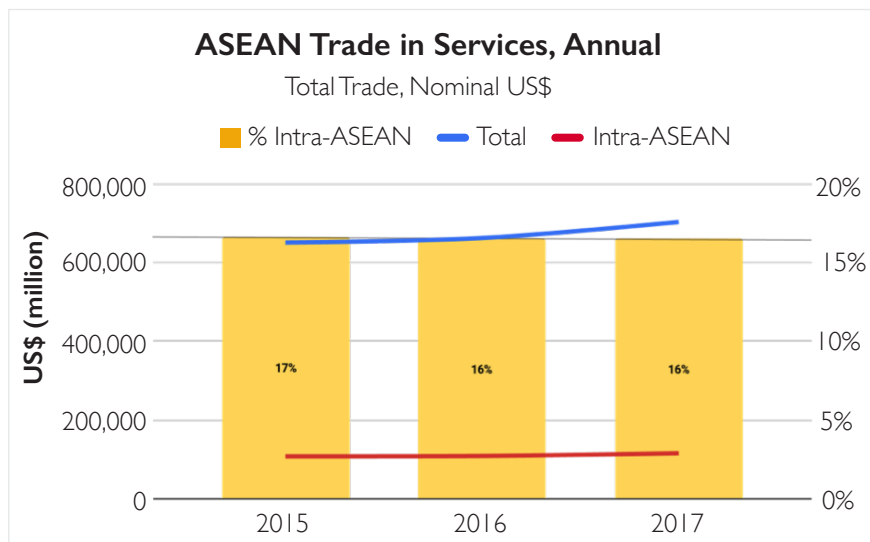
Value of Total ASEAN trade in services in 2017.

An Increase by over 8% from 2015.

16.5%

Proportion of trade in services that are intra-ASEAN in 2017.

Which have been decreasing slightly since 2015.



Source: ASEAN Secretariat

Chart 3: Intra-ASEAN Foreign Direct Investment by Source Country

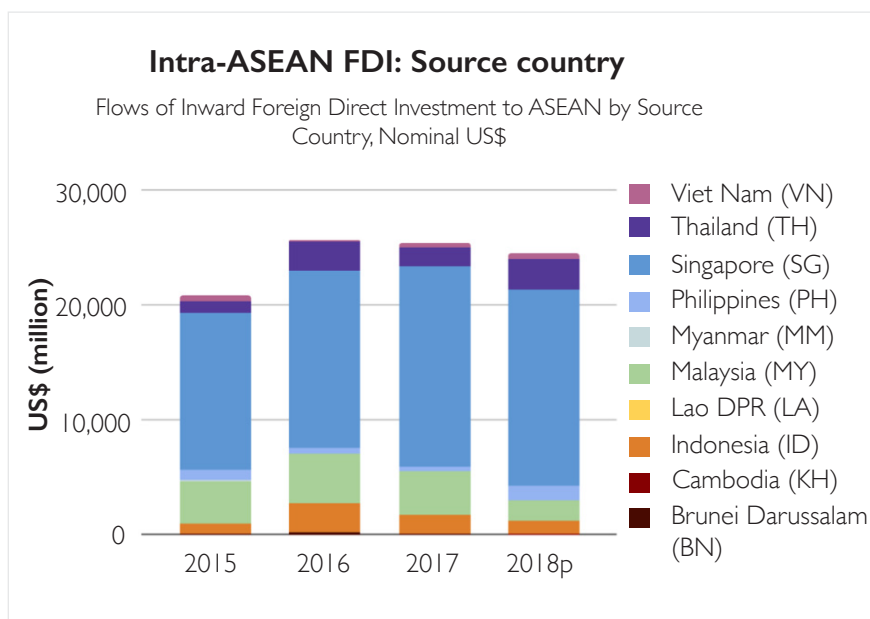
Flows of inward FDI between ASEAN members continue to be sourced from the same six countries, mainly from Singapore, Malaysia, Thailand, Indonesia, Philippines, and Vietnam.

US\$ 24.5b

Value of total intra-ASEAN FDI in 2018.

Which has improved from \$20.8b in 2015, but has shown a decreasing trend since 2016, mainly due to Indonesia and Malaysia's decreasing outward intra-ASEAN FDI.

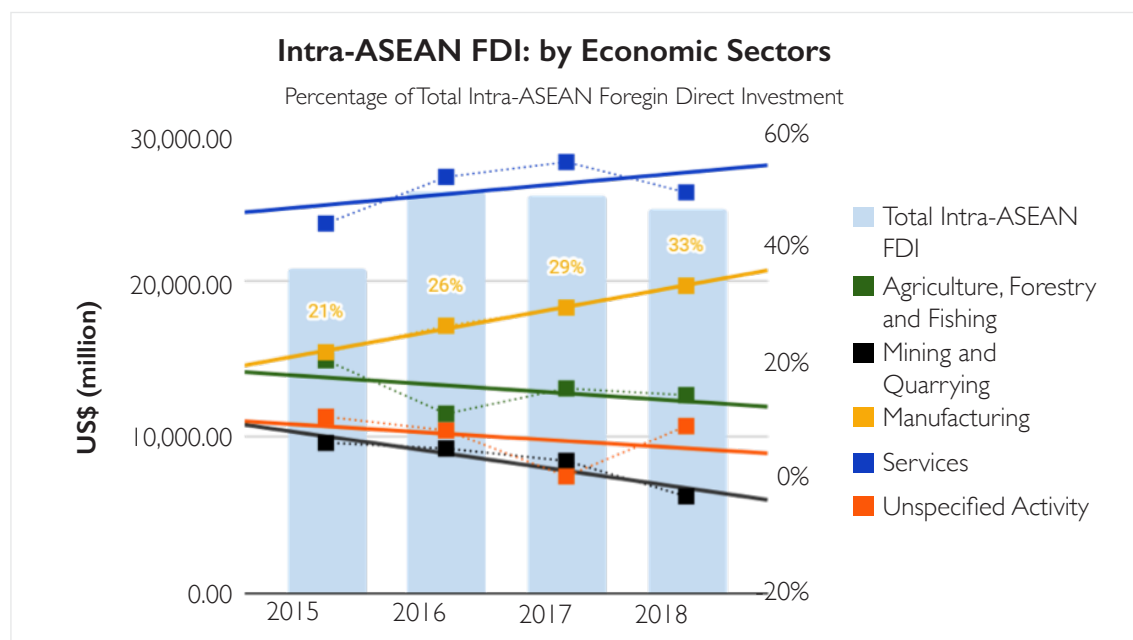
Singapore continues to be the primary source of intra-ASEAN FDI, contributing over 70% of the total intra-ASEAN FDI in 2018.



Source: ASEAN Secretariat

Chart 4: Intra-ASEAN Foreign Direct Investment by Economic Sector

FDI among ASEAN members have increasingly flowed towards the manufacturing and service sectors, substituting away from primary and other sectors.



33%

In 2018, one-third of Intra-ASEAN FDI went into the manufacturing sector.

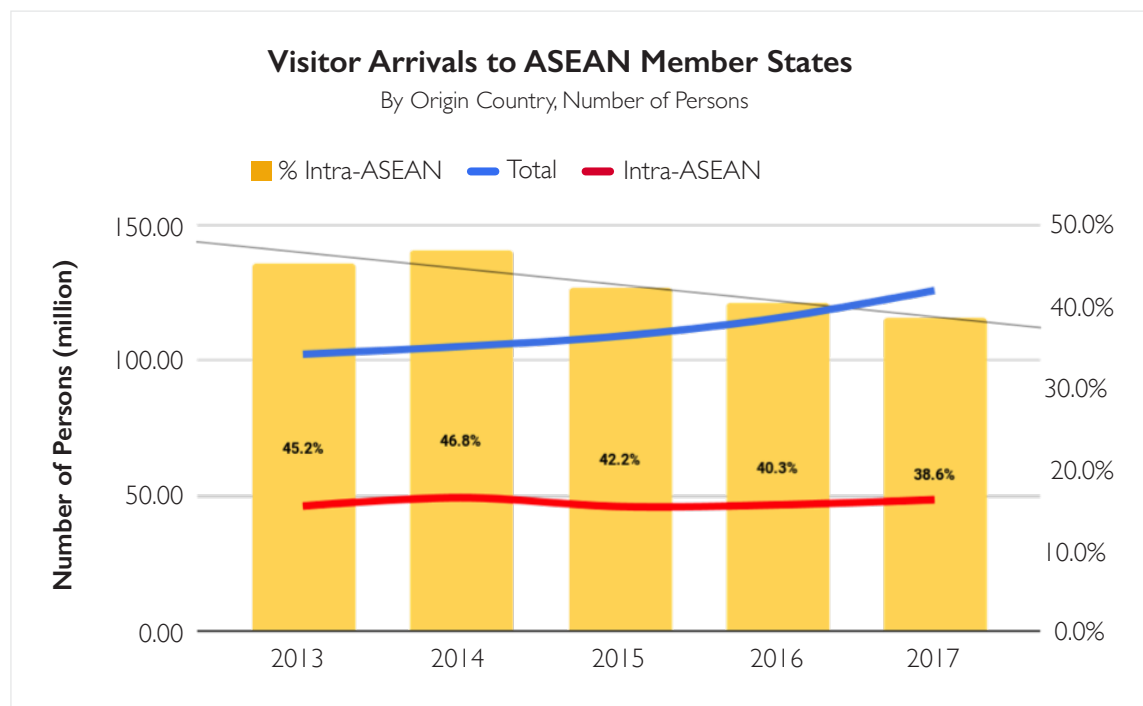
Showing the most rapid and consistent growth in the proportion of total intra-ASEAN FDI.

Service sector continue to capture most of the intra-ASEAN FDI. **Mining & quarrying** sector experienced FDI divestment (\$ 835 million) in 2018.

Source: ASEAN Secretariat

Chart 5: Intra-ASEAN Tourism

ASEAN tourism continues to grow but with a decreasing proportion of its arrivals originating from other member states.



125.7 million

Total number of tourists arriving in ASEAN in 2017.

Which has grown by over 15% since 2015. Meanwhile, tourists originating from ASEAN States have grown only 5% since 2015.

38.6%

Proportion of ASEAN visitors that originated from other member states.

The proportion of Intra-ASEAN tourism has been decreasing since 2015, when it had previously been on an increasing trend.

Source: ASEAN Secretariat

AEC Blueprint Implementation Methodology

In addition to measuring the outcomes of ASEAN integration, we also want to consider the progress in implementing the AEC Blueprint 2025. In order to do this, we have made an assessment of the implementation of the CSAP. We have adopted a similar method to the discontinued AEC Scorecards of identifying the number of measures which have been successfully implemented. In the 2018 report, we considered only those action lines due for completion by 2018. In this report, we consider all action lines in the CSAP.

- For each action we assign a score of Complete (if there is publicly available evidence that the action has been fully implemented); Partial (if there is publicly available evidence that the action is partially implemented or ongoing); Overdue (if there is publicly available evidence that the action has not been completed against the specified timetable); or No Evidence (if there is insufficient public evidence to reach any of the other conclusions).
- For each action line our assessment is based on publicly available information, including:
 - ASEAN Legal Instruments
 - ASEAN Publications
 - ASEAN Website (i.e. ASW, ATR)
 - Relevant ASEAN news or documents (i.e. statements, communiqués)

We acknowledge that this approach is subject to limitations, of which some of the more significant are as follows:

- First, we only have access to publicly available information. Progress is likely to have been achieved against a number of measures which has not been made public. This is further compounded by lack of agreement among experts about which measures have been fully implemented. Our assessment therefore may represent a lower bound of what has been achieved and rather than say that other measures have not been achieved, we can say only that we have no evidence that they have been achieved.
- Second, it is not always possible to match the specific language used in statements from the ASEAN Secretariat with the wording in the CSAP, making an assessment of whether or not a measure has been progressed difficult. We will continue to address this in future versions of the report.
- Third, we have not “weighted” the relative importance of different measures in the CSAP. For example, it may be that one measure which has been completed, will have a vastly greater impact on ASEAN integration than another set of measures that have not been – but this is not reflected in the overall progress score. We will seek to address this in future versions of the report.

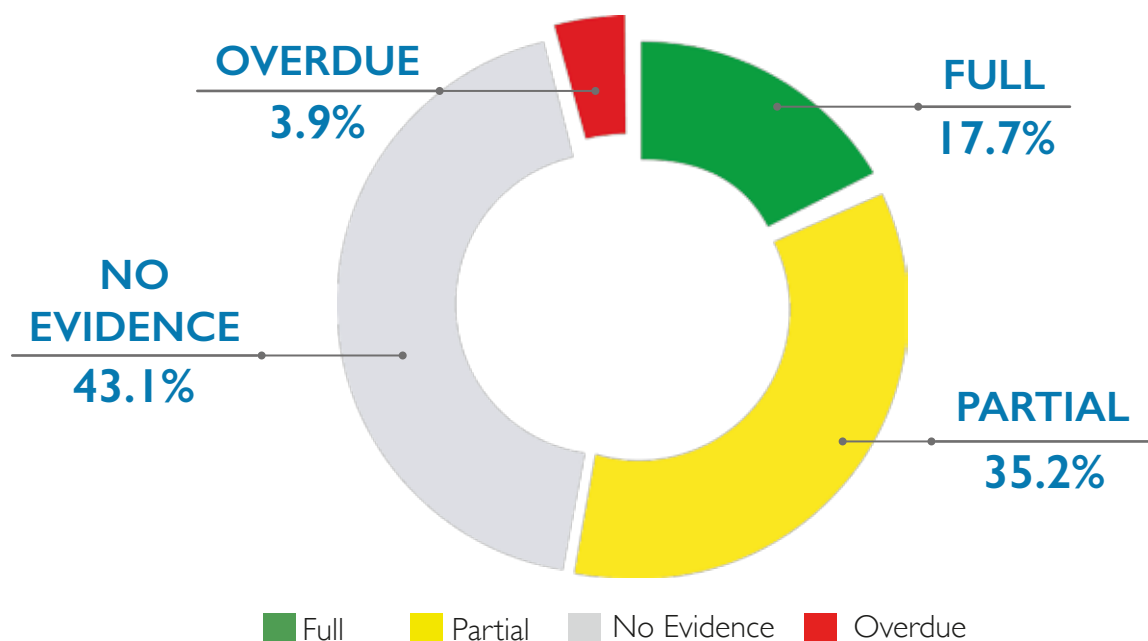
We believe that despite these limitations, this assessment provides a useful reference point for assessing the overall progress in implementation of the AEC Blueprint 2025. It also represents a starting point for further work.

In this report, we have provided summary tables which assess progress for each pillar and characteristic within the CSAP. The full breakdown of each measure and corresponding action line can be accessed online at www.aseanprosperity.com.

AEC Blueprint Implementation

AEC 2025 Consolidated Strategic Action Plan (CSAP)






Distribution of CSAP Implementation, 647 total actions



Implementation by Characteristic

Note:

■ Full
 ■ Partial
 ■ Overdue
 ■ No Evidence

Characteristic	Implemented (%)			
 Highly Integrated and Cohesive Economy	14%	36%	7%	44%
 A Competitive, Innovative and Dynamic ASEAN	13%	28%	5%	54%
 Enhanced Connectivity and Sectoral Cooperation	22%	35%	4%	38%
 Resilient, Inclusive, People Centered and People Oriented	16%	40%	1%	43%
 Global ASEAN	7%	73%		20%




Implementation by Pillar


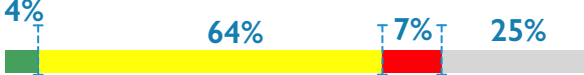


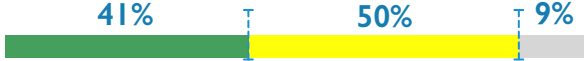

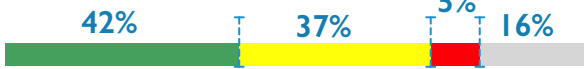


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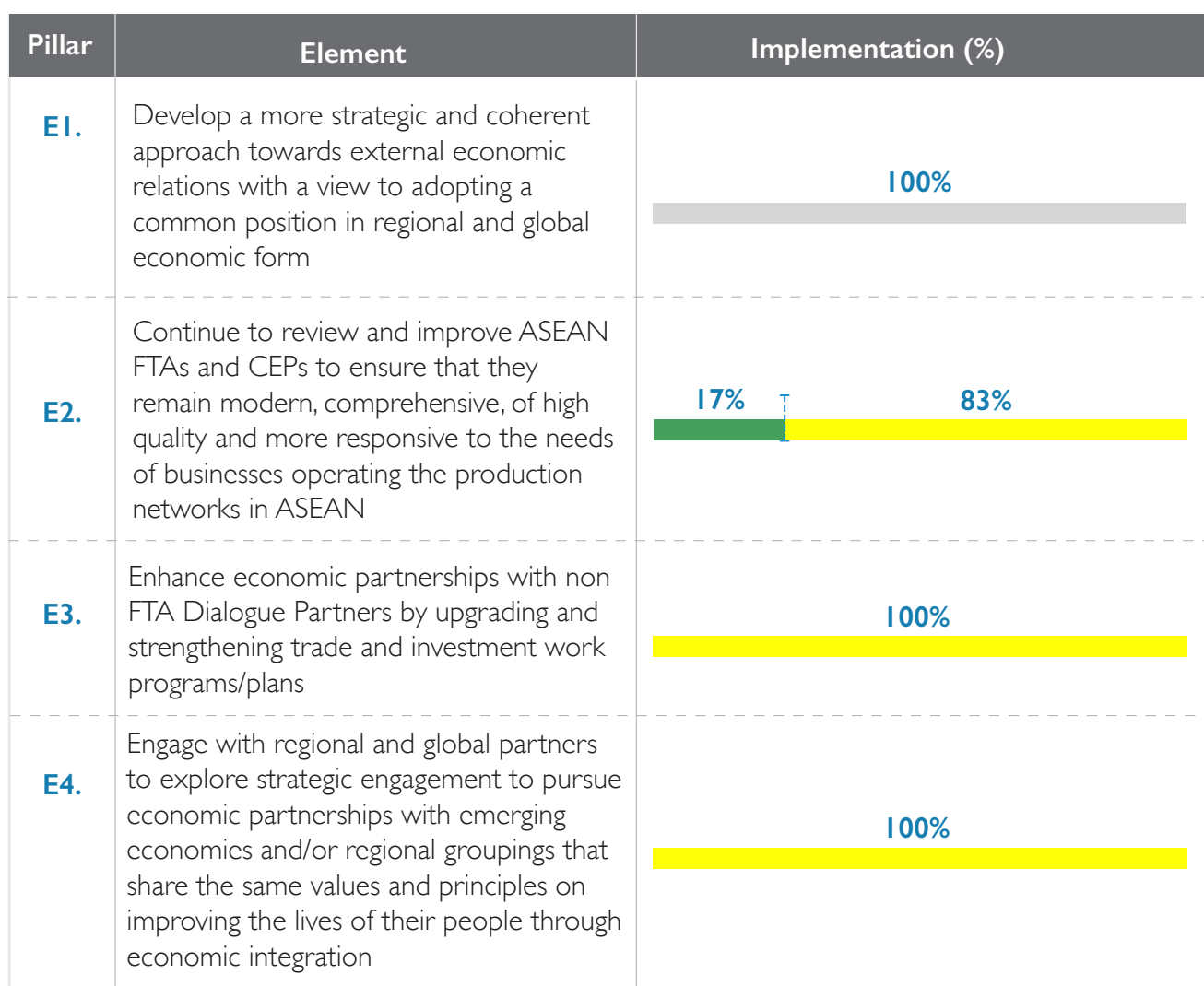
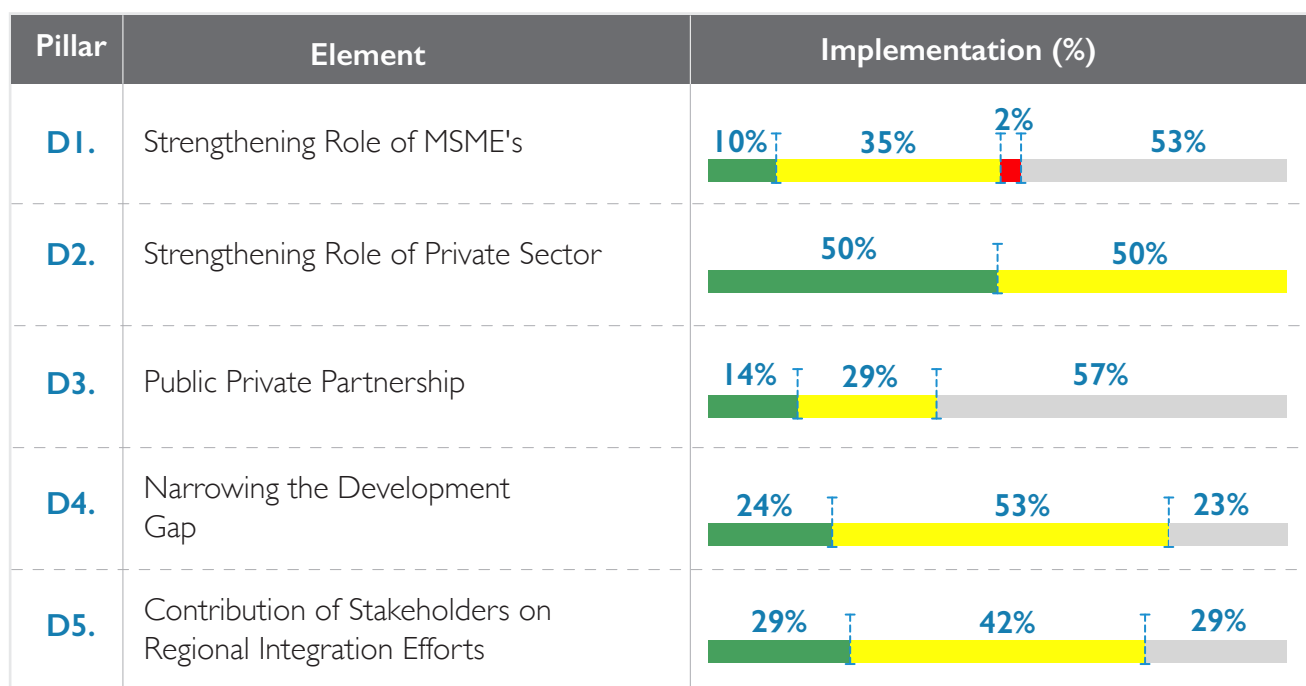
■ Full
 ■ Partial
 ■ Overdue
 ■ No Evidence



Pillar	Element	Implementation (%)
A1.	Trade in Goods	
A2.	Trade in Services	
A3.	Investment Environment	
A4.	Financial Integration, Financial Inclusion and Financial Stability	
A5.	Facilitating Movement of Skilled Labour and Business Visitors	
A6.	Enhancing Participation in Global Value Chains	

Pillar	Element	Implementation (%)
B1.	Effective Competition Policy	
B2.	Consumer Protection	
B3.	Strengthening Intellectual Property Rights Cooperation	
B4.	Productivity Driven Growth, Innovation, Research and Development and Technology Commercialization	
B5.	Taxation	No action lines were included in the CSAP
B6.	Good Governance	

Pillar	Element	Implementation (%)
B7.	Effective, Efficient, Coherent and Responsive Regulations and Global Regulatory Practice	
B8.	Sustainable Economic Development	
B9.	Global Megatrends and Emerging Trade-Related Issues	

Pillar	Element	Implementation (%)
C1.	Enhanced Transport	
C2.	ICT	
C3.	E-Commerce	
C4.	Energy	
C5.	Food, Agriculture and Forestry	
C6.	Tourism	
C7.	Healthcare	
C8.	Minerals	
C9.	Science and Technology	



Pillar	Element	Implementation (%)
E5.	Continue strongly supporting the multilateral trading system and actively participating in regional form	100% 
E6.	Continue strongly supporting the multilateral trading system and actively participating in regional form	100% 

Commentary on the Findings

In this section, we consider the broad implications of the assessment of ASEAN integration outcomes and implementation of the AEC Blueprint 2025. To develop these observations, we have presented our emerging findings at Focus Group Discussions (FGDs) in Singapore, Hanoi and Jakarta, alongside interviews with experts in the field of ASEAN integration.

Progress of ASEAN Integration

The broad trend of previous years continues – absolute growth in trade and investment, but intra-ASEAN shares remain stable. Trade, investment and movement of people continues to grow in absolute terms but as in previous years the share which is intra-ASEAN remains broadly unchanged.

Whether or not this can be interpreted as a success depends on the perceived goals of ASEAN and the AEC. In our previous report, we noted that limited change in intra-ASEAN shares of cross border economic activity may reflect equal priority being given to trade and investment links outside ASEAN. Indeed, this is exemplified by the fact that ASEAN's original members used AFTA as a stepping-stone to broader liberalisation by offering preferential tariffs to non-ASEAN members on a most favoured nation (MFN) basis – as a result, membership of ASEAN implied openness to trade globally, not just within ASEAN.

The success of the AEC must therefore be judged in light of this underlying goal of ASEAN to promote multilateralisation of trade openness among its members. Indeed, the AEC also sets the explicit goal of developing ASEAN as both a single market and a single production base, and its success should be judged accordingly.

ASEAN as a Production Base

Invest ASEAN (2019) defines achieving the goal of a single Production Base as enabling:

“businesses to tap on product and services complementation in the region, establish a network of industries across ASEAN, and participate in the global supply chain. ASEAN-based companies can access raw materials, production inputs, services, labour, and capital wherever in ASEAN they choose to set-up their operations. Companies can save on production costs, focus on their specialization, and/or maximize economies of scale without necessarily leaving high potential market areas within the region.”

Therefore, when considering the goal of developing a single production base, the success of the AEC should expressly not be measured in terms of growth of intra-ASEAN trade, but rather through greater participation of ASEAN Member States individually and collectively in the global economy, such as through integration into Global Value Chains (GVCs) as described above.

Participation in GVCs is an attractive goal for emerging economies as it can be an avenue for economic development, particularly as developing countries can take advantage of its geographical or cost advantages to participate in already existing value chains of trade. Participation in the global supply chain process can also help to quicken the pace of industrialisation and economic modernisation. Higher participation in GVCs has been associated with growing productivity, upgrading of export product sophistication, and a more diversified export portfolio (Kowalski et al., 2015). Employment in the production of intermediate goods traded within value chains also grows at a faster pace than overall employment (López González, 2017). In the early stages of industrialization within developing economies, such as the CLM countries, it can also assist in the diversification and structural transformation of the economy as it reduces the share of agriculture in its GDP and increases the share of manufacturing. The rural-urban migration associated with this transition, facilitated by increased participation in GVCs, is generally associated with increases in household income and welfare.

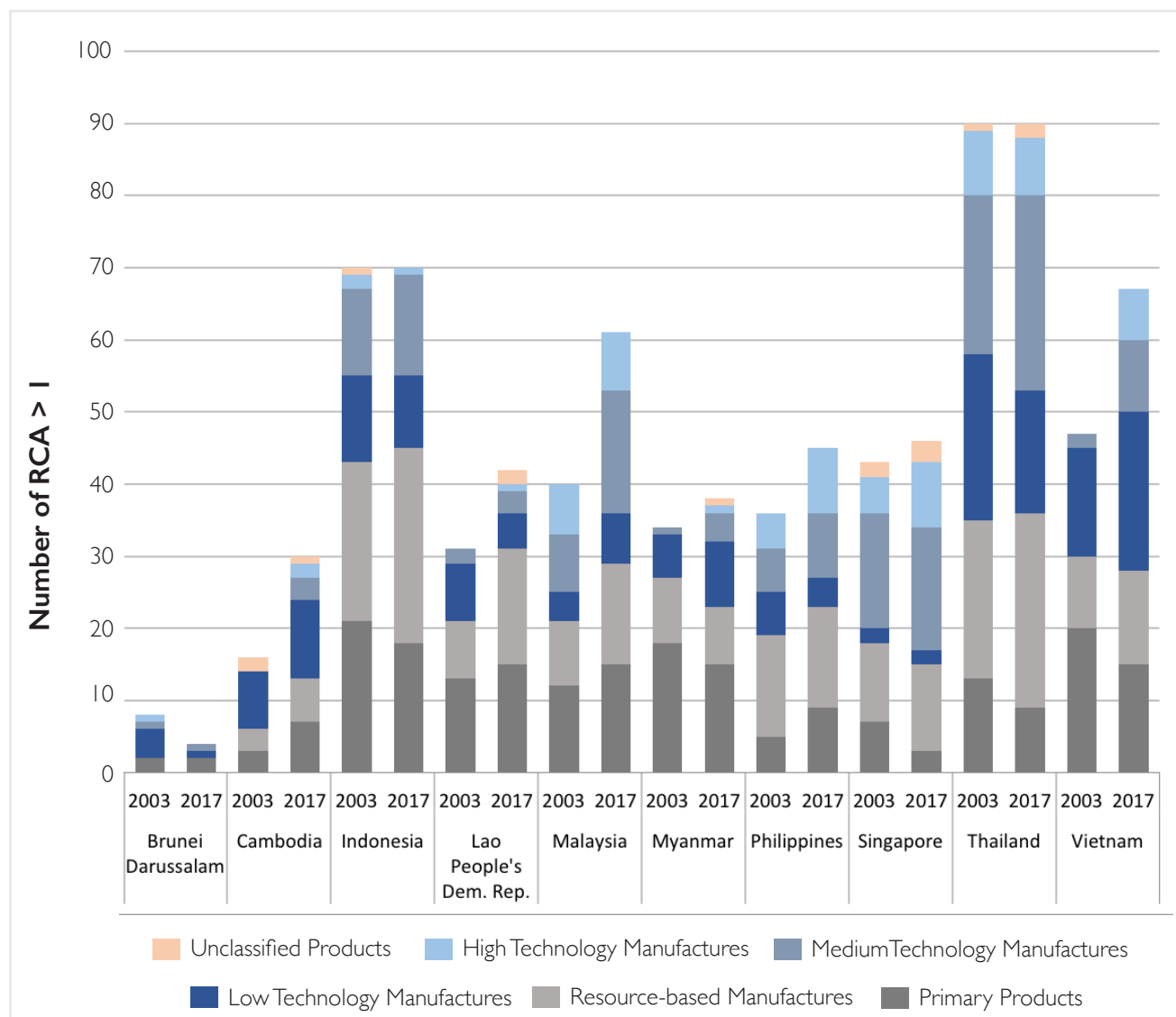
ASEAN in Global Value Chains

ASEAN countries have increasingly embraced participation into GVCs. Their competitive advantages in supplying natural resources for agriculture, minerals and fuels, as well as labour and skills for goods manufacturing have facilitated their integration into GVCs. ASEAN Member States have participated as both importers of foreign goods used to produce and export final products (backward participation), and as producers and exporters of intermediate goods incorporated into the production of other countries (forward participation).

Since 2003 (the year the AEC was introduced) ASEAN Member States have increased the number of exports classified as “competitive” based on Revealed Comparative Advantage (RCA) index measurement. Chart 6, below shows the number of export products for each member state which are considered to be globally competitive, defined as having an RCA index value of higher than 1. The chart suggests that there has been a near universal diversification in export strengths given the increased number of competitive products for all ASEAN Member States with the exception of Brunei Darussalam. There is also evidence of industrial upgrading, given the increased number of competitive products in higher-technology sectors. The figures for Brunei suggest more concentration of export strength in primary products, and less

manufacturing strength. For Cambodia there is evidence of a growth in diversification, with positive signs of industrial upgrading from the new RCAs in higher technology manufactures. In the case of Indonesia, there is evidence of reduced dependence on primary products, but much more in resource-based manufactures, slightly less low-tech, slightly more mid-tech; suggesting greater specialisation in resource-based manufactures coupled with industrial upgrading, but at a slow pace.

Chart 6: Revealed competitive advantages (RCA) by technological category, 2003 - 2017



Source: Author's calculations based on UNCTAD Revealed Comparative Advantage Index. Retrieved from <https://unctadstat.unctad.org/EN/RcaRadar.html>

The role of ASEAN Member States in GVCs has also been changing over time. The following table shows the value of eight ASEAN Member States' forward and backward participation indices, which are expressed as the ratio between the foreign value-added and domestic value-added, respectively, in a country's total exports.

Table 1. Backward and Forward Participation of ASEAN Member States

	Backward Participation Index				Forward Participation Index			
	1995	2000	2005	2009	1995	2000	2005	2009
Brunei Darussalam	18.4	10.4	6.7	11.6	19.3	29.9	38.6	32.2
Cambodia	26.0	34.6	37.9	34.1	17.7	8.7	4.8	6.3
Indonesia	14.7	19.3	17.8	14.4	18.8	23.7	31.4	29.3
Malaysia	40.3	43.0	41.5	37.9	15.2	19.6	27.2	27.7
Philippines	30.9	45.9	45.6	38.4	16.6	17.3	28.7	28.3
Singapore	46.7	50.7	52.3	49.9	13.8	18.6	22.4	20.7
Thailand	29.8	34.8	38.5	34.5	12.0	14.3	17.4	18.3
Viet Nam	24.4	29.6	35.0	36.6	12.6	18.1	17.8	14.7

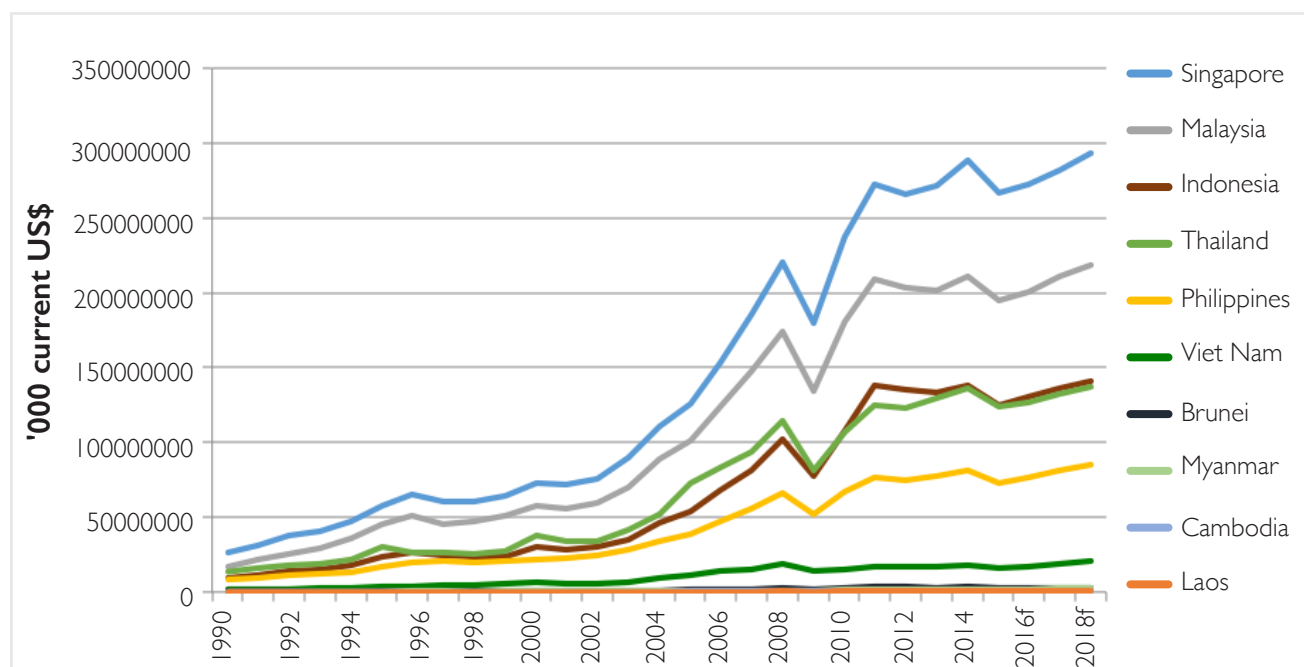
Source: OECD Global Value Chains Indicators, retrieved from: stats.oecd.org/Index.aspx?DataSetCode=GVC_INDICATORS#

From 1995 to 2009, backwards participation has increased for all countries with the exception of Brunei and Indonesia. For Malaysia, Philippines, Singapore and Thailand, their rising forward participation reflects their position in GVCs, which is primarily in the production of intermediates for other countries using imported goods and components. The low backward participation and high forward participation in Brunei and Indonesia reflects the increasing dominance of resource and agriculture exports of the two countries. Likewise, the high backwards participation and low forward participation indices of Cambodia and Vietnam reveals their dependence on imported parts for their exports.

Exploring the UNCTAD-Eora GVC Database, which uses Input-Output tables to estimate the import content ratio in export products and value-added trade, we can map the changes in ASEAN Member States' participation in GVCs. The UNCTAD-Eora GVC Database includes a projection of value-added trade from 2016 up to the current year based on the IMF World Economic Outlook as well as providing an estimation of 'indirect value added in exports' to deliver a more comprehensive description of GVC participation. The data decomposes the value added share of exports into foreign value added (FVA), which indicates the proportion of a country's export that consists of inputs produced in their countries, i.e. backwards participation or upstream link. The data also calculates the 'indirect value-added exports' (DVX), which is the share of a country's value-added exports embodied as an intermediate input in other countries' exports, thus showing a country's value-added contributions within downstream activities.

Through summing the value of backwards participation (FVA) and indirect domestic value added (DVX), i.e. the value of domestic value added within the exports of other countries, we can see the growth trend in total GVC participation of ASEAN countries since 1990 in Chart 7.

Chart 7: GVC Participation (FVA+DVX), 1990 - 2018f



Source: UNCTAD-Eora GVC Database. <https://worldmrio.com/unctadgvc/>

The emergence of the ASEAN economic community in 2003 has coincided with an observable acceleration of overall GVC participation of ASEAN states, although there is a clear divergence between members, with BCLMV states remaining at the bottom end of the intensity of participation in the global value chain. Vietnam has been an exception to the BCLMV states as it pushes towards greater foreign value added within their exports. Vietnam's diversification of exports has also been significant in their position in GVCs as it moves away from specialising in exports of raw materials towards manufactured goods, machinery and transport equipment, and chemical products.

These fast-evolving patterns of specialisation have arisen in the context of an evolving process of deepened economic integration within the AEC and enhanced connectivity through the country investments in hard and soft infrastructure. ASEAN's continued efforts to multilaterally liberalise beyond the region have boosted the benefits that the countries can derive from GVCs through access to competitive inputs. In other words, it can be argued that the success of the AEC has been evident in the growth of GVC participation – at least amongst the 'ASEAN 6'. However, the increasing divergence of ASEAN countries' participation in GVCs highlights how some ASEAN states, particularly the BCLM countries, are not integrating as rapidly or extensively into GVCs.

ASEAN as a Single Market

In addition to the goal of developing ASEAN as a single production base is the objective to develop ASEAN as a single market. Perhaps this goal more than the push for a single production base can be justifiably measured in terms of intra-ASEAN cross border economic activity, as a single market should be characterised by businesses of one ASEAN Member State exporting goods and services seamlessly to the market of another. Indeed, ASEAN leaders have set the ambitious target of doubling the share of intra-ASEAN trade by 2025, a goal which clearly reflects the ambition to develop a single market. As we noted above, however, the growth of intra-ASEAN trade is on par or slower with the growth in trade between ASEAN and the rest of the world.

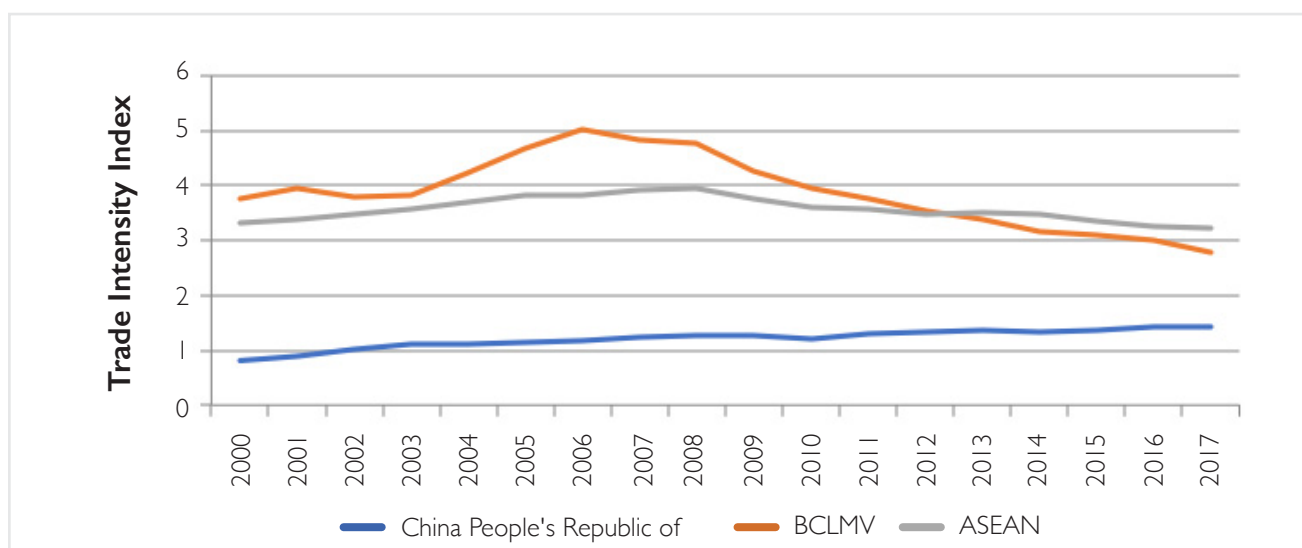
A number of studies, including those by the Economic Research Institute for ASEAN and East Asia (ERIA) and more recently by the Singapore-based Asian Trade Centre, have shown that while tariffs have fallen sharply, all kinds of non-tariff barriers (NTBs) have increased very rapidly in ASEAN countries. The impact of NTBs are more difficult to assess, as they are opaque, but they can have a very restrictive impact on trade flows. It is also unclear if NTBs tend to affect regional trade more than they do overall trade of the ASEAN countries. Therefore, it is difficult to assess the impact of their growing presence on intra-regional trade shares, except to say that they do constrain trade in general.

In assessing progress with achieving this outcome of creating a single market in ASEAN, due consideration needs to be given to underlying structural characteristics, such as the competitive versus complementary nature of ASEAN economies, which would determine the extent to which countries have a basis for trade even after all barriers are removed.

Divergence in intra-ASEAN trade

Further analysis of the levels of intra-ASEAN trade reveals the divergence between ASEAN Member States in realising a single market characterised by growth in intra-regional trade. Although ASEAN 4 countries (Indonesia, Malaysia, Philippines, and Thailand) have maintained trade intensity with the ASEAN region, since 2008 there has been a significant decline in trade intensity between ASEAN 4 countries and BCLMV nations. This shift away from trade with other ASEAN partners could be a substitution with China as a partner as shown by the gradual increase in trade intensity with China over the same period, as seen in Chart 8. How this evolves in the future is likely to be affected by the fallout from the US-China trade war; while this is likely to reduce the extent of the trade relationship with China, it is not certain that it will be replaced by growing relations with an internal (ASEAN) rather than an external partner. So far, however, there are already signs that the main beneficiary of trade and investment redirection is Vietnam, followed by Malaysia and possibly Thailand. Therefore, the trade war may end up consolidating intra-ASEAN trade relations as the supply chain adjusts following investment diversion. There may also be an opportunity for the other newest ASEAN Member States to play a greater role in cementing and expanding regional supply chains going forward.

Chart 8: ASEAN-4 trade intensity with partner countries



Source: ADB calculations based on IMF Direction of Trade Statistics. Retrieved from <https://aric.adb.org/integrationindicators>

Lack of Trade Complementarity within ASEAN

The relative failure to grow the share of intra-ASEAN trade, in particular between ASEAN 4 and BCLMV countries suggests an underlying lack of complementarity. Trade complementarity is an indicator of the bilateral trade opportunities between countries, as high complementarity means there is an opportunity for growth if partners intensify trade relationships. The table below shows the trade complementary index between ASEAN countries in 2013, which measures the extent of complementarity in the exports of a reporter country with the imports of the partner country.

Table 2. Trade Complementary Index by ASEAN Trade Partner, 2013

Reporter	Partner									
	BRU	CAM	INO	LAO	MAL	MYA	PHI	SIN	THA	VIE
BRU		0.02	0.09	0.02	0.06	0.04	0.12	0.13	0.20	0.02
CAM	0.13		0.10	0.09	0.11	0.09	0.10	0.08	0.08	0.10
INO	0.28	0.28		0.24	0.36	0.32	0.36	0.31	0.37	0.31
LAO	0.08	0.11	0.09		0.14	0.06	0.10	0.06	0.10	0.09
MAL	0.40	0.33	0.48	0.41		0.38	0.59	0.64	0.49	0.50
MYA	0.09	0.05	0.08	0.04	0.11		0.07	0.07	0.11	0.09
PHI	0.31	0.24	0.34	0.32	0.53	0.26		0.48	0.41	0.36
SIN	0.39	0.41	0.53	0.48	0.63	0.43	0.56		0.43	0.48
THA	0.47	0.42	0.51	0.49	0.53	0.40	0.47	0.44		0.51
VIE	0.33	0.29	0.38	0.26	0.36	0.28	0.37	0.43	0.38	

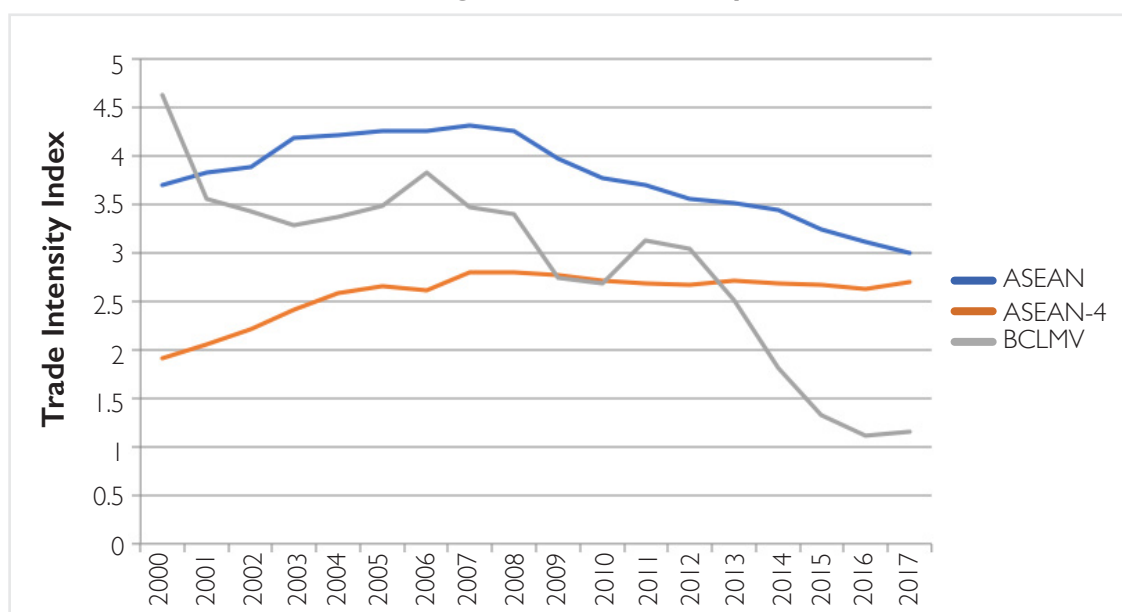
Source: ADB (2018) using data from UNCTAD.

The trade complementarity between ASEAN nations reinforces the larger trend of divergence between BCLM countries and Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam (ASEAN 6). While the 'ASEAN 6' have maintained moderately strong trade complementarity, BCLM countries have lagged behind due to their lagging export diversification.

The effect of having a high trade complementarity can result in greater intra-regional trade intensity between country groups. ASEAN 4 countries, with moderately strong trade complementarity indices, have continued to maintain their trade intensity with one another even during external economic shocks like the 2008 Global Financial Crisis (Chart 9). In contrast, BCLMV countries, which all have low trade complementarity apart from Vietnam, have shown a significant decreasing trend in intra-regional trade intensity, which was caused by import and export substitution with other trade partners. These countries, which continually turn to extra-regional partners, are especially vulnerable to external shocks that disrupt global trade flows. Brunei Darussalam, Cambodia, the Lao PDR, and Myanmar continue to find it challenging to build trade complementarity with other ASEAN economies due to their domestic productive and technological capacities as well as their continued specialisation in exports of raw materials and low-skill production

Chart 9 below highlights the gap between ASEAN 4 countries and BCLMV in driving the relatively poor growth in intra-ASEAN trade.

Chart 9: Intra-regional trade intensity, 2000 - 2017



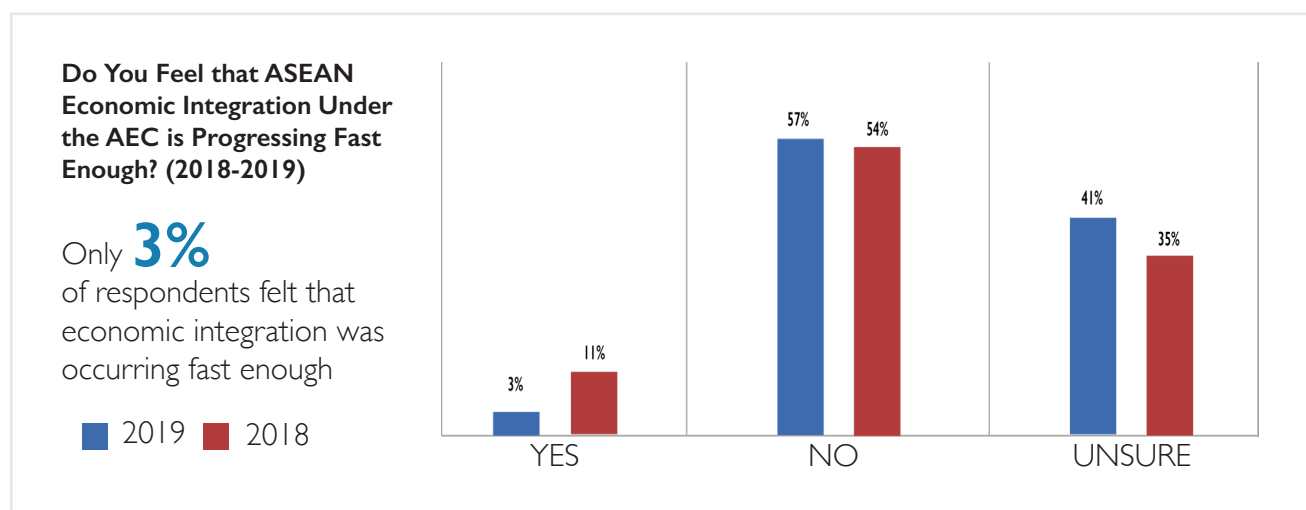
Source: ADB calculations based on IMF Direction of Trade Statistics. Retrieved from <https://aric.adb.org/integrationindicators>

The divergence of trade complementarity within ASEAN is stark when compared with the world's other major trading bloc – the European Union (EU). The EU is often referred to in comparison with ASEAN's progress towards a single market. Although the EU has a significantly higher share of intra-regional trade at over 60%, this figure can be misleading given the overall size of the EU's market. The Trade Intensity Index (TII) seeks to control for this, and as result the EU actually has a lower TII than ASEAN. However, the trade complementarity within the EU sheds some light on the success of integrating Europe's markets. From 1990 - 1994, the four Central and Eastern European countries (Bulgaria, Hungary, Poland, Czech Republic, and Slovakia, which subsequently joined the EU) had an average export complementarity of 0.50 with EU imports. Over the same period, they had an import complementarity of 0.71 with EU exports (Piazolo, 1997). This is significantly higher than the trade complementarity between ASEAN 4 and the BLCMV countries, and higher even than within the ASEAN 4, which suggests that the underlying economic logic in Europe was more in favour of integration.

Therefore, we can perhaps say that the AEC is achieving the goal of a single production base more effectively than the goal of a single market, but that this is largely extent driven by the underlying historical structural characteristics as well as ongoing economic dynamics within and between the Member States.

Implementation and Impact of AEC Blueprint

Given this assessment of the success or not of achieving the objectives of the AEC, what role has the AEC Blueprint played in achieving this success? We judge that in the two years since the CSAP was agreed, more than half of the total 647 actions lines have been fully or partially implemented. However, of these we judge that only 17.7% have been fully implemented. For the private sector, it is often the fully implemented measures that feature in their assessment of usefulness and progress. This may be because while a partly implemented measure could indicate progress with implementation, it may not be usable until fully implemented, and therefore users may not see any difference between no progress and partial progress. Therefore, it is perhaps not surprising that perception of progress of the AEC by the business community is strikingly negative according to a survey by the EU-ASEAN Business Council.

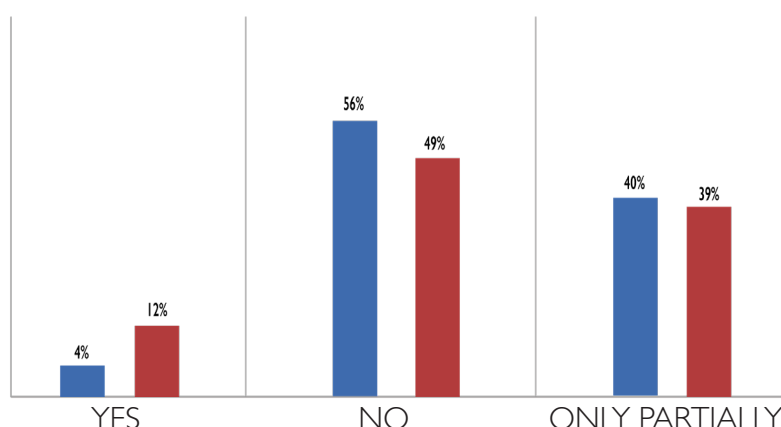


Has ASEAN achieved its aim of creating a “Single Market & Production base”?
(2018-2019)

Most

think that ASEAN has not achieved a single market and production base

■ 2019 ■ 2018

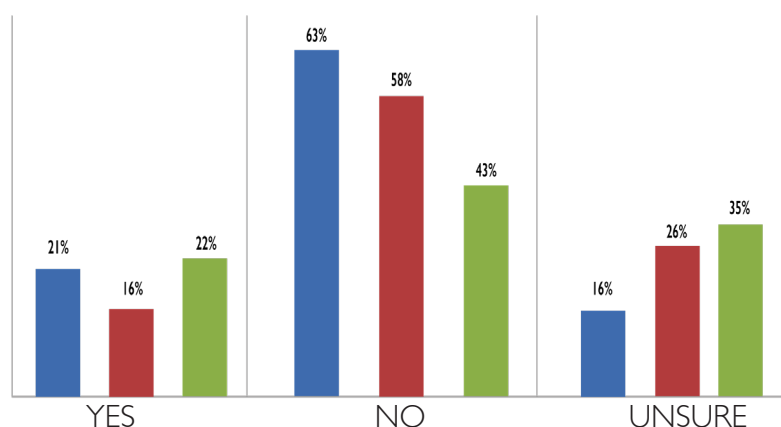


Presence of ASEAN Regional Strategy in Business Bases on AEC Blueprint 2025
(2017-2019)

Only **21%**

of respondents have a dedicated strategy based on the AEC Blueprint

■ 2019 ■ 2018 ■ 2017



Source: EU-ASEAN Business Council (2019)

The 2019 survey reflects 301 responses from multinational companies, only 3% of the respondents believed the pace of ASEAN economic integration is fast enough, citing the slow progress in simplifying customs procedures for intra-ASEAN trade in goods, in the removal of non-tariff trade barriers, and the harmonisation of standards and regulations. Only 4% of respondents felt that ASEAN had been successful in delivering the AEC pillar to create a “single market and production base”. Finally, the survey found that the significance of the AEC Blueprint also remains limited to the business community, as only one out of five companies have a dedicated strategy based on the AEC Blueprint.

These stark findings might suggest that the areas in which the AEC is making slow progress are in the areas most important to businesses. Indeed, in terms of the actions relating to Customs, Trade Facilitation, Standards, Technical Regulations and Conformity Assessment Procedures (STRACAP) only one action line has been Fully implemented (“Optimising ATR in facilitating intra ASEAN trade including hyper-linking to ASW Web Portal”). A number of other important areas often cited by MNCs are also progressing more slowly. For example, for actions relating to Intellectual Property, we judge that only 22.2% of the measures are even Partially implemented, with none Fully implemented.

The other possible explanation for the poor assessment of the AEC by the business community is that the level of ambition of the actions fall short of what is required to achieve meaningful progress in economic integration. A number of the measures included in the AEC Blueprint are framed in such a way as to allow for different interpretations or do not specify significant changes in policy. Table 3 below assess how commonly different words are used in the CSAP document, specifically which verbs are associated with action lines.

Table 3 Numbers of uses of different verbs in AEC

Action	Uses in CSAP
Develop	294
Implement	145
Establish	107
Support	106
Enhance	98
Promote	83
Strengthen	69
Assess	51
Review	42
Adopt	39

Source: Author's calculations

Arguably, “Implement”, “Establish” and “Adopt” represent actions that are specific, while the other most commonly used verbs would be associated with less impactful actions, which could be interpreted more broadly. As a result, a relatively strong performance in the implementation of weaker action lines might not result in policy impact on the ground, given the relative weakness of the action lines themselves. This is one possible explanation of the relatively poor assessment of the impact of AEC implementation by the business community.

To assess the underlying causes for poor perceptions of the AEC, we created a scoring method to further analyse the relative importance and institutional significance of the different measures in the CSAP in implementing the AEC 2025 Blueprint. The scoring criteria were expanded below:

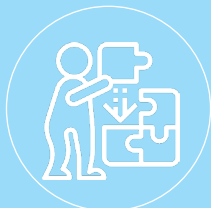
Expanded Score Definitions	
Score	Definition
0	Overdue
1	No Evidence
2	An action considered “Partially implemented” that only entails the conduct of meetings to discuss the action lines.
3	An action considered “Partially implemented” and accompanied by a framework or guideline for the specific action, but lacks a monitoring entity for the action.
4	An action considered “Partially implemented” and accompanied by both a framework or guideline to implement the actions, and a monitoring entity.
5	Fully Implemented

The main purpose of this scoring is to provide further differentiation of partially implemented actions. Based on this methodology, we found that 51.3% of the total partially implemented actions had the score of 3, which indicates that the majority of partially implemented actions have frameworks and guidelines, but lack an entity to monitor the implementation of such frameworks and guidelines. One quarter (25%) of partially implemented actions scored 2, which signifies the existence of only meetings to discuss the action lines.

Less than a quarter (23.7%) of the total partially implemented actions had a score of 4, having both a framework or guideline and a monitoring entity. This analysis might help to explain why - despite evidence of action being taken - perceptions of the impact of the AEC are less positive, as the actions being taken are not necessarily moving towards concrete policy changes.

Moving forward, it is important for ASEAN Member States and the ASEAN Secretariat to focus on delivering progress on the most impactful aspects of the AEC Blueprint 2025. Not only is this important in of itself, but it will also help to promote broader support for the AEC among stakeholders, including the business community which will increase support for further progress.

Conclusions



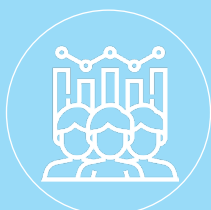
Intra-ASEAN trade and investment has continued to grow in absolute terms, but the intensity of regional trade and investment remains broadly stable as a share of total trade and investment. Intra-ASEAN trade in goods remains between 22-24% through the years, varying largely as a result of the changes in extra-regional trade volumes. Both intra-ASEAN trade in services and tourism continues to stagnate amidst increasing flows with the world.



Two years since the Consolidated Strategic Action Plan to implement the ASEAN Economic Community Blueprint was agreed, more than half of the total 647 actions lines have been fully or partially implemented. However, of these, we judge that only 17.7% have been fully implemented.



Since 2003, the majority of ASEAN Member States have become significantly more integrated into Global Value Chains (GVCs) suggesting the ASEAN Economic Community has been successful in developing ASEAN as a single production base.



Due to the relatively slower growth of intra-ASEAN trade and investment, it is unlikely that ASEAN will meet its target of doubling the share of intra-regional trade by 2025. This is largely driven by structural factors and the underlying dynamics of ASEAN economies, including the lack of trade complementarity and divergent development paths.



The perception of the ASEAN Economic Community remains quite negative, despite some evidence of success. This may reflect the failure to achieve progress in the most important areas, the relative weakness of the actions or a lack of ambition in the overall level of integration.

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