

Chapter 21

Making the Post-2025 AEC Agenda Work: Conclusion and Policy Implications

Aladdin D. Rillo and Ben Shepherd

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1. Introduction

Since its establishment in 1967, the Association for Southeast Asian Nations (ASEAN) has worked towards the goal of bringing about a more integrated region, both in terms of intraregional connections and extraregional linkages. Its economic policy is framed by the ASEAN Economic Community (AEC), which envisions ASEAN as a single market and production base, a highly competitive region, with equitable economic development, and fully integrated into the global economy. It has been striving for this vision guided by the AEC Blueprint 2025, but its time frame is rapidly ending. It is now time for a broader agenda of economic, environmental, and social factors to be considered for future ASEAN integration.

The chapters assembled here have asked two primary questions about the AEC. First, what does the present show about ASEAN success in promoting a more integrated region, and where has such progress lagged? Second, how can a post-2025 AEC policy agenda complete the outstanding work of the AEC Blueprint 2025?

This conclusion aims to tie together the chapters' findings; four threads have emerged from the findings and proposals. First, the development gap amongst ASEAN Member States (AMS) is a cross-cutting issue that remains both crucial and relevant; it must be narrowed. Second, economic integration must be deepened. Third, various key issues are emerging – including sustainability, inclusion, and digital integration – that must be acknowledged and addressed. Lastly, it is important to consider the types of enabling structures required to support a deeper, broader, and stronger AEC post-2025.

2. Narrowing the Development Gap

In his chapter, David Feeny showed that the development gap between the CLMV countries (i.e. Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam) and the other AMS will remain a defining issue for the region – although evidence does show that the gap is narrowing in some areas. From a policy standpoint, movement forwards for the region must be ensured whilst enabling lagging AMS to catch up to their peers. This ability will largely be a function of their national policies, but experience in the European Union (EU) and United States, for example, suggests that a persistent development gap needs a broader strategy to close it within a reasonable time frame.

Towards this objective, structures are already in place within ASEAN to facilitate financial transfers to help narrow the development gap, although the scope is limited. The chapter on trade facilitation by Ben Shepherd discusses one such mechanism centred on the Asian Development Bank (ADB). Leveraging support from such external partners is crucial, as the highest-income AMS – Singapore – has a small population and therefore cannot be expected to shoulder this significant transfer burden on its own. Indeed, ASEAN has a solid history of working with regional partners to mobilise financing for development, and the need is arguably becoming more acute as the agendas of regional integration and development are broadening and increasing in complexity.

In addition to financial transfers, capacity building and knowledge transfer are needed for lagging AMS. Again, the involvement of external partners like ADB will be key to mobilising the necessary substantive expertise. Putting in place additional structures to facilitate learning from within and outside of the region – as well as developing skills, knowledge, and capacity in both the public and private sectors – will help ASEAN ensure a more equitable distribution of the gains from increased integration both within the region itself and with external partners.

The development gap is prominently featured in many of this book's chapters. Whether focussed on trade facilitation, digital trade, or trade in services, there is often a clear demarcation between leading and lagging AMS. As such, the approach to closing the development gap needs to be holistic, with the aim of moving forwards – together – across a wide range of issues. Promoting faster growth in lagging AMS is crucial, but a truly regional approach also needs to be cognizant of the wide range of social and environmental concerns throughout ASEAN.

3. Deepening and Strengthening the Economic Integration

Traditional economic issues for a region looking to promote integration include trade in goods, trade in services, movement of capital (i.e. foreign direct investment [FDI]), and movement of people (e.g. visa rules, temporary service provisions, and migration). In terms of trade in goods, non-tariff measures often become the focus. Economists conceptualise trade costs as the set of frictions that hold back bilateral trade (i.e. any measure – policy-related or otherwise – that drives a wedge between producer prices in an exporting country and consumer prices in an importing country). The chapters by Ruth Banomyong and Ben Shepherd showed that whilst ASEAN has made major progress in integrating its trade in goods markets, it still must consider issues like infrastructure connectivity and trade facilitation. As suggested by the development gap discussion above, there are very different experiences in these areas within ASEAN, ranging from AMS that are at or near global best practices to those where considerable performance deficits remain.

Trade in goods provides an interesting nuance of the development gap as well. Many analyses of the development gap split ASEAN into two groups, the CLMV countries and the other AMS. However, regarding trade in goods, Viet Nam – a CLMV country – has stood out over recent years. In the chapter by Kimura and Narjoko, they noted how Viet Nam has become a key player in the new global value chain development model. Its trade–gross domestic product ratio has rapidly increased, it is an active participant in various trade agreements, and it has taken important steps forwards on trade facilitation and connectivity. The other CLMV countries should take note of Viet Nam’s progress in this arena, especially its work on non-tariff trade costs that has enabled it to become more integrated into global and regional economies.

ASEAN recognises the importance of trade in goods – especially manufacturing – and this is reflected in the development strategies of individual AMS. The chapter by Martin Roy and Pierre Sauvé demonstrated that whilst trade in services integration has been growing in ASEAN, its volume and success still do not reach those of its trade in goods. Yet services are a vital part of the regional economy, both in their own terms and as inputs into the production of other goods, particularly manufacturing. It is impossible to envisage growth in global value chain trade, for example, without access to high-quality, reasonably priced services inputs in sectors like business services, transport, and information and communications technology. ASEAN needs to rebalance the economic dimensions of the AEC to take greater account of the central role of services in today’s economy; whilst the sector’s size differs across AMS, its importance will undoubtedly increase over time. The AEC must anticipate this change, with a renewed focus on facilitating services trade integration both intraregionally and within the global economy.

Roy and Sauvé also noted that the leading services traders in ASEAN tend to be relatively reliant on external – rather than regional – markets. From a policy perspective, this finding has two implications. First, the ASEAN Secretariat should commission research on applied services trade policies that affect intra-ASEAN trade. Existing data are based on most-favoured nation policy settings and thus do not capture the extent of intraregional liberalisation. Such research has been undertaken by the Organisation for Economic Co-operation and Development (OECD) for the EU, however, demonstrating that the

difference between most-favoured nation and preferential policies can be substantial. Undertaking this work for ASEAN would not be a one-off exercise; it will be important to repeat it at intervals, perhaps every 2 years, as an exercise in policy monitoring and transparency. There is a clear need to learn about intraregional trade policy settings in services as the first step towards identifying policies and regulations that continue to hold back trade integration.

Second, ASEAN's free trade agreement (FTA) strategy needs to focus more on trade in services, beyond the tariffs and traditional non-tariff measures that it now tends to encompass. Soo Yeon Kim's chapter highlighted the limitations of ASEAN's existing FTA strategy, which is readily apparent regarding services, where trade with external partners is relatively important. Existing agreements of each AMS should be examined with the potential of transposing them to the regional arena; doing so should pay particular attention to services. In addition, as Kim suggested, emerging issues like digital trade – in large part, a services issue – need emphasis within ASEAN's FTA strategy. From a policy perspective, the directive is clear – deeper trade agreements with significant trading partners, both in services and in goods, can be beneficial for the region.

Deepening integration with external partners is not straightforward in the ASEAN context. Given that ASEAN is not a customs union, individual AMS retain the right to form their own agreements with third parties. ASEAN's strategy as a region has been to identify certain key partners with whom to conclude trade agreements, and the Regional Comprehensive Economic Partnership agreement (RCEP) is bringing a degree of harmonisation to that process. It remains to be seen whether the depth of the RCEP is sufficient for all AMS, and if India's decision to remain outside of the agreement will have substantial negative impacts for ASEAN.

FDI has also been crucial to deepening integration. Hafiz Mirza noted that ASEAN accounts for a significant share of global inwards FDI; thus, intra-ASEAN flows are important. As with trade in services, there is a case to better align the ASEAN FTA strategy with AEC economic imperatives and to deepen them so that they are more detailed regarding investment-related issues. Although FDI is often acknowledged in deep FTAs, it is important for ASEAN to develop a consolidated approach to dealing with FDI from both policy and regulatory perspectives. FDI is particularly important in the services sector, as it is often a way to contest markets. Sales by foreign affiliates are covered by the General Agreement on Trade in Services Mode 3, as noted in the chapter by Roy and Sauvé. There is a rationale for considering services and investment together, both in terms of broadening and deepening the AEC and developing an AEC-based FTA strategy.

Services and investment are hardly new issues in the trade policy agenda. They have been discussed internationally in the context of trade agreements and trade law for decades. ASEAN has made important progress on integrating trade in goods but less so regarding trade in services and FDI. Moving forwards, it is critical for both the ASEAN Secretariat and individual AMS to focus on these issues by assessing progress under the AEC and identifying remaining barriers to integration.

4. Emerging Issues

In addition to the well-established trade policy areas discussed, international integration efforts have increasingly turned to a range of newer areas. These issues are being incorporated into trade agreements and are also receiving consideration at the multilateral level. ASEAN needs to develop its own approach to them, and, if appropriate, integrate them fully into the regional regulatory and institutional infrastructure. Emerging issues addressed in this book include resilience (the chapter by Tijaja and Park), gender (Mia Mikic), energy (Youngho Chang), data (Lili Yan Ing et al.; Burri and Vásquez Callo-Müller), sustainability (Venkatachalam Anbumozhi, et al.), and competition (Susan Stone). Globally, there is no single template on how to address these issues, as many of them depend on preferences. Yet emerging practices in trade agreements can be identified – including some involving ASEAN's key partners. Moreover, individual AMS have been leaders in some areas (e.g. Singapore in the digital economy), so there is scope for ASEAN as a region to exchange experience.

One difficulty for ASEAN in terms of moving forwards on emerging trade policy issues is, again, the persistence of the development gap. In this context, the issue centres on capacity – both the extent and depth of technical knowledge as well as governmental resources and technical staff. Furthermore, heterogeneity must be addressed in dealing with this expanded trade policy agenda. The region has demonstrated its capacity to manage heterogeneity, but tension is constant between the desirability of minimum standards or agreed frameworks and the recognition that individual AMS can have very different regulatory preferences. This tension intensifies in the context of ASEAN's integration with key partners, where the mechanics of region-wide FTAs mean that agreed baselines for the region as a whole are needed. The alternative to agreeing to baselines at the regional level is moving forwards only with relatively shallow FTAs, which may have costs in terms of the pace and extent of economic integration and the capacity for rapid outwards-oriented growth.

The Sustainable Development Goals have created an ambitious range of development-related goals and challenges for 2030. Their combination of economic and non-economic objectives is reflected in the emerging trade policy issues now confronting ASEAN. As such, the region needs to have a broad consultative process whereby policymakers can obtain the information necessary to make informed decisions on the trade-offs that can exist across these issue areas. Some, like gender equity, are both economically and socially positive, whilst others, such as energy transition or conservation of natural resources, can have more mixed outcomes from an economic perspective. AMS may not have the same views regarding the balance amongst these competing objectives, yet a process should be in place so that the region can identify those areas in which concerted action is necessary or desirable and those in which individual AMS can pursue their own preferences.

It is also important to identify which emerging issues should be included in plans for the AEC as well as in FTA negotiations with key partners. There is a strong economic rationale for prioritising digital trade and competition policy, as they present the fewest trade-offs between economic and social effects and are most frequently included in actionable language in FTAs outside of the region. From the remaining issues, there is a stronger rationale for including them within the ambit of AEC discussions rather than immediately in FTAs. Some FTAs include chapters on gender, for example, but their actionability is questionable. Thus, it is recommended that environmental sustainability, energy security, resilience, and social inclusion (including gender) be discussed at the ASEAN level, and there may be instances in which concerted action is appealing.

The transition into emerging policy areas – particularly those that touch on environmental and social issues – highlights the evolving discourse outside of the region in which policymakers and analysts are looking for synergies between different aspects of integration. Even at the multilateral level, environmental and social considerations are becoming more of a focus relative to the purely economic objectives of the 1990s and early 2000s. ASEAN cannot stand apart from this process, although decision making will differ from issue to issue and from region to region. It must craft a position on these issues – not least because some key partners are examining the use of unilateral policy measures to help promote global minimum standards in some areas (e.g. the EU's Carbon Border Adjustment Mechanism). It is preferable to agree on an ASEAN-wide approach and to work in a concerted way for all AMS rather than be subject to unilateral tariffs or other active trade policy measures from key partners.

ASEAN has held discussions on many of the issues identified above. The impetus, however, is to deepen them; examine ways of making the discussions more inclusive of AMS at all income levels; and identify options for actionable, incremental change. ASEAN's heterogeneity is both a challenge and a strength in this regard. Individual AMS have different levels of experience with each of these issue areas, so there is substantial scope for experience sharing and learning within the region. There is no guarantee that preferences will always coincide – or even overlap – which makes it challenging to develop actionable policy measures that can be monitored for their effectiveness over time and across countries. Nonetheless, whilst the rationale for devoting resources to individual questions differs, there is a case for broadening the scope of the AEC to enable economic integration discussions to cover a wider range of issues, both those that are primarily economic in scope and those that go beyond the economic to environmental and social aspects of regional integration and development.

5. Enabling Structures for a Post-2025 AEC

There is no single institutional template for deep economic integration that covers the wide range of policy areas discussed above. The EU is one approach, but it is more focussed on institutions and political integration than most in ASEAN would consider appropriate. Yet learning from this experience can help design institutions and mechanisms that can facilitate deep and broad regional integration in ASEAN.

A key priority for AMS should be to develop monitoring and evaluation mechanisms (Rillo, De Lombaerde, and Waskitho). Policymakers need to know which approaches actually work to foster deeper integration. In addition, they need to know the relative costs and benefits of different regulatory approaches in their own contexts. Thus, identifying cases for detailed monitoring and rigorous impact evaluation should be a priority for ASEAN.

Moving in that direction entails data collection ranging from economic (e.g. applied services trade policies) to social (e.g. gender-disaggregated statistics). There is a capacity element as well as real resource costs. Whilst it may not be necessary to have an EU-like institutional structure, there is no doubt that the ASEAN Secretariat should be better resourced, both in terms of its finances and access to skilled technical staff.

A key touchstone for ASEAN as it moves towards deeper and broader integration should be good regulatory practices (GRPs). The objective of GRPs is to facilitate regulation that is both effective (i.e. achieves its objective) and efficient (i.e. does so at minimum economic costs). Most AMS are familiar with GRPs in part due to overlapping membership with the Asia-Pacific Economic Cooperation (APEC), which has been active in this area. GRPs are well-suited to the ASEAN context as they do not require uniformity – or even homogeneity – but rather a similar process of learning and policy development. They provide a natural framework for thinking through the consequences of regulatory differences and smoothing them over in cases that have a clear economic payoff, usually through cross-border spillover effects.

Only part of the integration agenda can be rightly understood as a region-level set of initiatives, however. An important design feature of the AEC is that it defines broad, overall goals but leaves room for individual AMS to design implementation modalities. Whilst regional policy processes should sometimes be bolstered, the key objective is national in scope; individual AMS must develop regulatory capacity in the full range of traditional and emerging policy areas. Yet the development gap is a key constraint in terms of capacity in lower-income AMS; thus, experience sharing and capacity development must be fostered based on the accumulated knowledge in higher-income AMS. Regional examples can play a facilitating role in this process, even if they are not directly involved in the mechanics.

In addition, GRPs involve developing the ability to weigh the external consequences of domestic policy changes. This dimension is key within the scope of the AEC, because individual AMS need to take account of their actions on other AMS through trade and investment linkages – as well as on external partners. Historically, ASEAN has struck a productive balance between intra- and inter-regional integration initiatives, albeit with the latter focussed on its broader geographical neighbourhood. As the policy agenda of the AEC expands, this balancing act will become more difficult to maintain, however. Similarly, the expanding agenda for FTAs with key partners will create more tension between internal and external trade and investment facilitation efforts. Developing regional mechanisms to analyse and to contend with these tensions will be an important part of the post-2025 agenda.

Another important part of the mechanism design for the AEC will be to facilitate information flow from the private sector to policymakers. Businesses and consumers are knowledgeable about the trade and investment barriers that affect them, covering both traditional policy areas and emerging issue areas. Developing information and consultation mechanisms is part of GRPs, which are particularly fruitful in terms of identifying trade and investment barriers in a context where much work has already been done to eliminate them. ASEAN policymakers have been effective in identifying and dealing with many of the most prominent impediments to closer economic integration, but to move further requires information that may not be at their disposal. Reporting mechanisms, coupled with the capacity to investigate claims of impediments or barriers, can help power a process of continual improvement in the regional trade and investment environment. In the context of new trade policy areas, trade frictions tend to be related to regulatory measures that may not constitute intentional trade barriers. There is scope for win-win outcomes in this kind of monitoring framework – businesses or consumers report measures that pose problems, policymakers learn that their regulatory approach is unintentionally suboptimal, and then actions are taken to improve the situation.

Regional institutions do not have to be heavy in political terms or even have independent investigation or enforcement capacity. Part of the post-2025 agenda should be to design light, nimble institutional mechanisms, based on GRPs and with the aim of facilitating information exchange. Doing so could help AMS at all income levels better tailor their economic and non-economic policies to support the objective of deeper and broader regional integration.

6. Conclusion

Regional integration is a constantly evolving process. ASEAN policymakers, businesses, and citizens have made great progress towards creating a more integrated region and regional economy. Yet as this book demonstrates, much remains to be done. In part, there is a built-in agenda post-2025 in terms of existing initiatives that are either incomplete or have been imperfectly implemented. There is also an ever-broadening range of emerging issues being added to the agenda in light of economic integration, development, and political objectives globally.

Given progress towards the AEC over recent years, ASEAN is well placed to move into the next period. Each chapter of this book has made detailed, actionable policy proposals; policymakers and analysts can use them as a resource to track performance in broadening and deepening the regional integration agenda from an AEC perspective.

ASEAN stands at a crossroads. It has performed relatively well in dealing with a range of traditional economic policy areas, focussed on trade in goods. At the same time, it faces a persistent development gap and an ever-widening range of policy demands in a complex global environment. Revamping the AEC Blueprint for the post-2025 period should therefore be an imperative both for regional institutions and individual AMS.