

Chapter 1

Overview: Reimagining the ASEAN Economic Community (AEC)

Aladdin D. Rillo and Ben Shepherd

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1.

Overview: Reimagining the ASEAN Economic Community (AEC)

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1. Background

Economic integration of the Association of Southeast Asian Nations (ASEAN) is at a crossroads. Since the ASEAN Economic Community (AEC) was established in 2015, significant progress has been made in integrating the markets. Various initiatives under the AEC Blueprint 2025 have been implemented to achieve trade and financial integration in the region, resulting in some of the most successful outcomes to date, such as the ASEAN Single Window, the Chiang Mai Initiative Multilateralisation, and the Regional Comprehensive Economic Partnership. Unfortunately, the last 10 years also saw the region grappling with more uncertainties and challenges, including critical changes that have taken place since the formulation of the Blueprint, which affected the region's integration efforts. Internally, issues were related to slow implementation of economic agreements, the persistence of regulatory and policy barriers that undermined market contestability, and lack of effective enforcement to follow up on regional commitments. At the same time, the region was challenged by continued global trade and geopolitical tensions, the emergence of global megatrends such as digitalisation, growing expectations of sustainability, and most recently, the adverse impacts of the coronavirus disease (COVID-19) pandemic crisis.

Taken together, these changes have exposed gaps or weaknesses in the ability of the AEC to address some of its goals, such as participation in global value chains, the enhancement of macro-financial coordination, and narrowing the development gap. They have also put into question whether the current ASEAN model of economic integration remains effective in dealing with these challenges, or whether a new paradigm is needed to ensure that the goals of the AEC are met and remain relevant to the changing global and regional landscape.

Given the multitude of critical changes that have impacted the underpinnings of the AEC, the post-2025 AEC agenda should never be business as usual. Instead, it should adopt a different approach to market integration, i.e. one that is more dynamic and capable of implementing measures in response

to changing market and economic conditions. A good example is the use of digital technologies in promoting supply chain resilience in ASEAN, which was not previously considered in the AEC agenda. But as the COVID-19 pandemic crisis has shown, digitalisation should be incorporated as part of the overall AEC strategy, not simply as an enabling factor to support integration. Similarly, there must be new ways of looking at the 'traditional' issues of the AEC – from enhancing trade in goods to streamlining non-tariff barriers, advancing the services and investment agenda, and achieving meaningful convergence in competition, connectivity, and sectoral cooperation – by elevating the discussion of these issues to achieve a higher level of market integration. Simply put, the post-2025 agenda for ASEAN is about reimagining the AEC by identifying and implementing the levers of market integration to position ASEAN economies well in the years to come.

2. From the ASEAN Free Trade Area to the AEC: Historical Context

The history of the AEC can be traced back as far as 1992 when the ASEAN Leaders mandated the creation of the ASEAN Free Trade Area. Since then, efforts have been intensified to broaden the region's economic potential. The adoption of the ASEAN Vision 2020 by the Leaders in 1997 envisaged ASEAN as a highly competitive region with free flow of goods, services, and investment; freer flow of capital; equitable economic development; and reduced poverty and socio-economic disparities. In 1998, the Leaders adopted the Hanoi Plan of Action, which charted a set of initiatives for economic integration to realise the ASEAN Vision 2020. Recognising the need for an integrated region, the Leaders issued the Declaration of ASEAN Concord II in 2003, which set out the establishment of the ASEAN Community (initially targeted by 2020 but later accelerated to 2015), comprising three pillars: the AEC, the ASEAN Political Security Community, and the ASEAN Socio-Cultural Community.¹

The AEC Blueprint 2015 was adopted in 2007 and served as a coherent master plan for guiding the establishment of the AEC in 2015. But even before the 2015 goal was achieved, the ASEAN Leaders had committed as early as 2011 to intensify community building efforts beyond 2015.² Immediately afterwards, work on the new AEC Blueprint 2025 was started by the Working Group on AEC Post-2015 under the High-Level Task Force on ASEAN Economic Integration, which subsequently drafted the AEC Blueprint 2025 in April 2014. In drafting the AEC Blueprint 2025, the working group built on existing work under the AEC Blueprint 2015 and started focusing on cross-cutting issues that had impacted on the region's economic integration in the post-2015 framework.³

¹ The ASEAN integration agenda was officially stipulated in the Roadmap for an ASEAN Community, 2009–2015, adopted by the ASEAN Leaders at the 14th ASEAN Summit in March 2009 (Cha-am Hua Hin Declaration on the Roadmap for the ASEAN Community, 2009–2015). The roadmap recognized the ASEAN Political Security Community Blueprint, the AEC Blueprint, the ASEAN Socio-Cultural Community Blueprint, and the Initiative for ASEAN Integration Strategic Framework and Work Plan 2.

² For example, at the 23rd ASEAN Summit in 2013, the Leaders committed to developing the ASEAN Community post-2015 vision through the Bandar Seri Begawan Declaration on the ASEAN Community's Post-2015 Vision, building on the achievements of the Roadmap for an ASEAN Community, 2009–2015. This commitment was reaffirmed in the Leaders' Nay Pyi Taw Declaration on the ASEAN Community's Post-2015 Vision (24th ASEAN Summit, 2014), where the central elements of the vision were endorsed.

³ The development of the AEC Blueprint 2025 also benefited from the 'Vision Paper on the AEC Beyond 2015' by the Institute of Southeast Asian Studies (now ISEAS – Yusof Ishak Institute) and the Economic Research Institute for ASEAN and East Asia (ERIA) study titled 'ASEAN Rising: Vision, Framework and Recommendations on Moving ASEAN and AEC Forward Beyond 2015'.

Thus, the AEC Blueprint 2025 was envisaged to deepen economic integration and achieve a more integrated economic community with the following five characteristics: (i) a highly integrated and cohesive economy; (ii) a competitive, innovative, and dynamic ASEAN; (iii) enhanced connectivity and sectoral cooperation; (iv) a resilient, inclusive, people-oriented, and people-centred ASEAN; and (v) a global ASEAN. These characteristics support the vision for the AEC under the ASEAN Community Vision 2025. Since then, economic integration in ASEAN has evolved from a mere cooperation platform in early 2000 to the more strategic model of a single market that it is today.

The AEC may not be a perfect model of economic integration, but it has positioned ASEAN well as a dynamic and credible economic bloc. Two things are critical in defining the AEC.

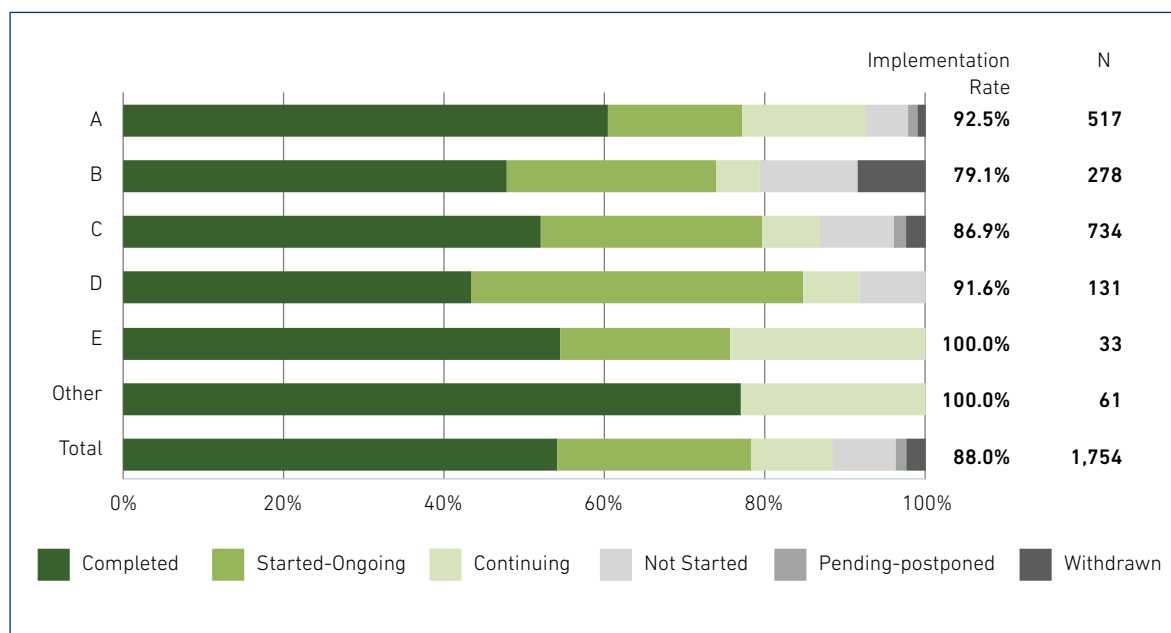
First, the AEC is about having greater competition and market contestability amongst ASEAN Member States (AMS). For a market to be perfectly contestable, significant barriers to entry and exit by market players are eliminated and opportunities are readily available to all potential entrants. Under the AEC, this was achieved by eliminating tariffs on almost 98% of goods and creating the conditions for markets to flourish through significant improvement in standards, trade facilitation, and the competition network. For example, one major initiative is the ASEAN Single Window, a platform for the exchange of trade documents amongst businesses, which is the best concrete evidence of how far market integration has gone. Through this initiative, ASEAN has made it easier to do business across borders by reducing trade costs and improving ways of doing business.

Second, the AEC has strengthened market efficiency and transparency in the region. Under the AEC, various agreements have been implemented that enhance the region's rules-based integration process across various sectors of the economy – trade; finance; agriculture; energy; transport; and micro, small, and medium-sized enterprises. For example, sound regulatory practice has been put in place in the region, where countries are encouraged to address regulatory barriers and ensure that national policies are aligned with regional priorities to facilitate trade and investment.

3. Assessing the AEC – What it Has Delivered and Some Shortcomings

Since the AEC was implemented in 2007, substantial progress has been made across the 153 strategic measures under the AEC Blueprint 2025.⁴ According to the Mid-Term Review (MTR) of the AEC Blueprint 2025 conducted by the ASEAN Secretariat, between 2016 and 2020, around 88% of the measures had been fully implemented or were under various stages of implementation. As seen in Table 1.1, the highest implementation rate was for actions related to a global ASEAN and a competitive, innovative, and dynamic ASEAN.

⁴ The AEC Blueprint 2025 has 5 characteristics, 29 elements, and 153 strategic measures. The measures were assessed using the AEC 2025 Monitoring and Evaluation (M&E) Framework as a reference, covering compliance, outcomes, and impact monitoring.

Table 1.1. Implementation Rate of the AEC Blueprint 2025 During 2016–2020

AEC = ASEAN Economic Community, ASEAN = Association of Southeast Asian Nations.

Notes: Characteristics of the AEC: A = a highly integrated and cohesive economy; B = a competitive, innovative, and dynamic ASEAN; C = enhanced connectivity and sectoral cooperation; D = a resilient, inclusive, people-oriented, and people-centred ASEAN; and E = global ASEAN.

Source: ASEAN (2021), *Mid-Term Review: ASEAN Economic Community Blueprint 2025*, Jakarta: ASEAN Secretariat.

Despite progress in compliance, however, the MTR noted areas where implementation lagged, including enhancing tariff reductions under the ASEAN Trade in Goods Agreement; streamlining non-tariff measures; deepening the services and investment agenda; and addressing gaps in connectivity, regulations, standards, competition, consumer protection, and overall development goals. Key findings from the MTR also pointed to limited outcomes and impacts of AEC initiatives. The MTR also suggested that the links between the AEC and the markets were insufficient, and the benefits were not evenly enjoyed. Based on various studies, surveys, and reviews of key performance indicators, the MTR highlighted insufficient work on trade facilitation, the persistence of regulatory barriers in investment and services, and other implementation problems that affected the overall quality of ASEAN economic integration. To address these problems, the MTR made 12 key recommendations for the AEC to succeed, including strategies to (i) address cross-cutting issues in the AEC; (ii) strengthen ASEAN centrality and institutions; and (iii) make the AEC sustainable and inclusive.⁵

⁵ ASEAN completed the End-Term Review of the AEC Blueprint 2025 in January 2025, which is a full assessment of the AEC's implementation and performance from 2015 to 2023. This complements an unpublished report on the impact of the AEC (ASEAN Economic Strategic Plan Review on Impact Realization). Both documents serve as strategic inputs to the AEC Strategic Plan 2026–2030, a successor document to the AEC Blueprint 2025, to implement the new ASEAN Community Vision 2045.

4. Structure of the Study

To contribute to the regional discussions on the future of ASEAN economic integration beyond 2025, the Economic Research Institute for ASEAN and East Asia (ERIA) proposed this study titled 'Where Next? Priorities for the ASEAN Economic Community Post-2025' (henceforth, the study). Recognising the need for fresh perspectives on the AEC, the study (i) provides a critical assessment of the achievements and challenges of the AEC, particularly the implementation of the AEC Blueprint 2025; (ii) identifies key issues that hinder the goals of the AEC across different AEC pillars and sectors; and (iii) provides new approaches and insights into the analysis of AEC issues, and recommendations to address them. Since the main objective of the study is to imagine the future of the AEC, a key consideration is critical elements of the post-2025 AEC agenda, supported by new data, analysis, and ways of thinking.

The study is based on the premise that beyond 2025, market integration in ASEAN will be deeper and driven by innovation, inclusivity, and sustainability. Using this as a framework for analysis, the research comprises chapters discussing the key elements of the post-2025 AEC, including mapping out the transition path from the current period to the post-2025 vision, which would then contribute to developing the new AEC blueprint.

To set the scene, Ken Itakura's chapter offers a perspective on AEC integration beyond 2025 using a model of the world economy. His analysis provides indicative directions for ways in which greater integration could be linked to important economic outcomes and serves to frame the discussion in the remainder of the book. The key takeaway is that the gains from greater integration are significant in the ASEAN context.

In the post-2025 economic context, however, a key consideration for ASEAN is to move beyond the purely economic in framing its integration strategies. **Sustainability** is a key concept for ASEAN economies in the context of the 2030 United Nations Sustainable Development Goals. The paper by Venkatachalam Anbumozhi, Ayu Pratiwi Muyasyaroh, and Citra Endah Nur Setyawati develops this concept in the regional context and discusses ways in which it could accompany and complement economic integration. Mia Mikic's paper discusses gender equality in the regional context, which is an aspect of sustainability in the Sustainable Development Goals context. Finally, Simon Feeny's paper looks at the concept of the development gap in ASEAN and discusses various metrics by which this gap can be understood and quantified, as well as the mechanisms that determine it, and, importantly, ways in which the region can work together to help narrow it.

Resilience is also a touchstone for economies all around the world following the crises of the early 21st century. In their chapter, Julia Tijaja and Albert Park develop the concept and operationalise it in the ASEAN context. Kensuke Molnar-Tanaka talks about the related concept of disaster risk, which is of particular importance in the Asia-Pacific and specifically in ASEAN.

In terms of frontier issues on the integration agenda, **digitalisation** looms large. The chapters by Lili Yan Ing, Yessi Vadila, Ivana Markus, and Livia Nazara, and by Mirra Burri and María Vásquez Callo-Müller, respectively, examine difference scopes and contexts for the use of digital technologies within the regional integration context in ASEAN. Then Lurong Chen's chapter moves those concepts towards a digitally empowered 'Factory Asia.'

These chapters all highlight emerging issues on the ASEAN integration agenda. Digital technologies, sustainability, and resilience need to be cornerstones of AEC development in the post-2025 period.

In making this shift, it is important not to lose sight of more traditional issues of market access, and trade and investment integration. It is these subjects that the remaining chapters deal with, emphasising both the progress that has been made on these issues, and the various ways in which future work could deepen and broaden integration in the region. Fukunari Kimura and Dionisius Narjoko discuss the foundational issue of production networks, where AMS have enjoyed substantial historical success. But they also address ways in which the agenda can be expanded to continue this progress over time. Ruth Banomyong discusses connectivity, focusing on soft as well as hard infrastructure, whilst Ben Shepherd takes on the related issue of trade facilitation. In terms of 'trade and' issues, the book covers energy security (Youngho Chan), competition (Susan Stone), investment (Hafiz Mirza), and service trade (Martin Roy and Pierre Sauve). Finally, Soo Yeo Kim deals with Free Trade Agreement (FTA) strategy.

AMS have made substantial progress on all these issues over the years. But the degree of progress is variable, so correspondingly, the agenda items carried over from past integration episodes are longer or shorter depending on the issue. Whilst there is much experience with production networks, for example, joint work on competition is less well developed. At the same time, as regional integration deepens in an increasingly interdependent global economy, implementing the post-2025 AEC agenda continues to remain relevant. Bernard Hoekman revisits the role of ASEAN institutions and governance, including the old issues of heavy (European Union model) or light (ASEAN model) institutions in terms of good regulatory practice and regulatory cooperation. Meanwhile, Aladdin D. Rillo, Philippe De Lombarde, and Tomy Waskitho explore the most appropriate monitoring mechanism for the AEC.

Taking all the chapters together, the book's contributions show that ASEAN has enjoyed real successes in its economic integration programme. But much remains to be done, so it is important to have both a deep and broad list of 'to do' items on the integration agenda post-2025. The diagnoses and policy proposals contained in the chapters can feed into policy processes at national and ASEAN levels and can make an important contribution to helping the region double down on its commitment to greater mutually profitable economic integration.