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## **Advancing the ASEAN Economic Community: More Trade, Digitalisation and Sustainability**

*By Barry Desker*

### **SYNOPSIS**

*This week's ASEAN Summit in Phnom Penh will likely highlight three initiatives to push the regional economic agenda forward. The thrust will focus on consolidating gains from facilitating trade, harnessing digitalisation, and embedding sustainability in ASEAN's economic integration.*

### **COMMENTARY**

The International Monetary Fund (IMF) noted in its October 2022 report that global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The IMF forecasts global growth to slow from 6 per cent in 2021 to 3.2 per cent in 2022 and 2.7 per cent in 2023.

The Asian Development Bank (ADB) has also lowered its forecast for economic growth in the developing countries of Asia and the Pacific to 4.3 per cent in 2022 (down from an earlier projection of 5.2 per cent) and 4.9 per cent in 2023 (compared to 5.3 per cent previously).

The economic headwinds confronting ASEAN, the Southeast Asian grouping of ten member states, could provide the impetus for significant decisions to sharpen its capacity to compete globally and improve the living standards of its peoples.

With the signing of the ASEAN Economic Community (AEC) blueprint 2025, ASEAN governments envisaged deeper economic integration and the creation of a more cohesive and competitive economy. They set the goal of a single market and production base by promoting the free flow of goods, services, capital, and skilled labour among member states.

ASEAN leaders are meeting in Phnom Penh, the capital of Cambodia, on 10 to 13 November 2022 for their annual summit. Their deliberations are wide-ranging, given the whole gamut of ASEAN issues and challenges but they will likely highlight three initiatives to push the regional economic agenda forward. These initiatives will form the core economic integration programme to be followed up by Indonesia, which will succeed Cambodia as ASEAN chair in 2023.

The challenge will be to reach high-quality agreements. The tendency of the hosts of ASEAN meetings to push for the conclusion of agreements as a deliverable of their chairmanships has often led to the adoption of draft agreements which did not meet the high standards initially conceived when negotiations began. This is the difficulty facing the negotiators of the three initiatives.

### **ATIGA Upgrading**

First, ASEAN will upgrade a comprehensive agreement – the ASEAN Trade in Goods Agreement (ATIGA) signed in 2010 – under which member states pledged to remove both tariff barriers (especially for goods on the sensitive and highly sensitive list) and non-tariff barriers (NTBs) by 2015. Restrictions and impediments to investment were also eliminated under the ASEAN Comprehensive Investment Agreement (ACIA). Both were among the building blocks for the AEC.

ATIGA has been the most utilised agreement by the business community in the ASEAN member states. Its success led to the decision to launch negotiations to upgrade the agreement to ensure that it remains relevant, modern, and forward-looking.

The challenge is to ensure that the agreements are fit-for-purpose, considering the lessons from the COVID-19 pandemic such as the need to strengthen supply chain resilience, the impact of economic stimulus policies and the need to reduce NTBs. There has been limited success in removing NTBs. ATIGA's upgrading should position ASEAN to deal with the emerging impact of issues such as sustainability and digitalisation, and their implications for supply chains.

### **Digitalisation**

A second initiative will be in harnessing the potential of digitalisation to drive economic growth in the region. ASEAN adopted the Bandar Seri Begawan Roadmap on Digital Transformation in 2021, which locks in the political mandate for key digital initiatives, including a scoping study for an ASEAN Digital Economy Framework Agreement (DEFA) by 2023 and its adoption by 2025.

The recent 54<sup>th</sup> ASEAN Economic Ministers (AEM) Meeting in September agreed to accelerate this timeline by tasking ASEAN member states to complete the study next year and commence DEFA negotiations as soon as possible. The DEFA should position ASEAN as a leading digital economy and pacemaker in the utilisation of digitalisation in economic growth.

The challenge for negotiators is that the DEFA's substance needs to be meaningful, tangible, interoperable and reflect the reality of doing business in the digital world. Its

structure needs to be agile and flexible so that the agreement can keep pace with the rapidly evolving world of digital-related developments.

ASEAN has also been advancing modular-based digitalisation initiatives in areas such as e-payments, standards, trade facilitation, intellectual property, digital inclusion, and skills. These initiatives should be welcomed as they enable the grouping to adapt to the fast pace of technological innovation in an increasingly digitalised global environment.

## **Sustainability**

Third, sustainability as a theme has recently emerged on ASEAN's economic agenda through overarching initiatives such as the ASEAN Comprehensive Recovery Framework (ACRF), the AEC Blueprint 2025, and the ASEAN Framework on Circular Economy. Significantly, ASEAN is developing an implementation plan for its framework on the circular economy.

One important development is the effort to develop an agreed approach to carbon neutrality in the region which is expected to look at several issues. They include:

- (i) Establishing an emissions inventory to provide better awareness on emission reduction opportunities and monitoring the progress of the region's transition towards a low carbon economy;
- (ii) Developing nature-based solutions and an ecosystem-based approach. The abundance of natural resources in the region provides significant opportunities in generating carbon removals (or offsets) that can be sold into regional and global carbon markets;
- (iii) Developing market-based solutions to stimulate economically efficient emission reductions, manage carbon pricing risks, and maximise the potential for the region to export mitigation outcomes to other countries;
- (iv) Investing in emission reduction technologies as well as transition and energy storage technologies, which will be essential in supporting the region's transition; and
- (v) Ensuring inclusive and sustainable infrastructure so as to not overlook other important socio-economic considerations that fuel economic growth, such as women's empowerment and gender equality, among others.

The ASEAN Summit in Phnom Penh will overlap with the UN Climate Change Conference (COP27) in Egypt's resort town of Sharm El-Sheikh from 6-18 November; so, expect media attention on ASEAN's commitment to reducing carbon emissions. This week, the ASEAN leaders could take the lead by recognising the need for a decarbonised future.

While ASEAN economies have grown by more than 5 per cent over the past decade, electricity demand has increased by 6 per cent, primarily generated by fossil fuels. As they continue to grow over the next decade, standards of living will rise in member states, the pace of urbanisation and industrialisation will increase and the consumption

of fossil fuels for electricity will expand rapidly. According to the climate risk index, Germanwatch, three ASEAN member states – Myanmar, the Philippines and Thailand – were among the top 10 countries in the world affected by climate risks between 2000 and 2019.

## **Opportunities**

ASEAN leaders could commit to faster reduction in carbon emissions through sharply increased investment in renewable resources, greater use of gas for electricity and the cutting down of coal usage. With the war in Ukraine and the decision of OPEC+ to support deep oil production cuts, a decline in the currently high fuel prices is unlikely in the immediate future. The leaders could show the way by supporting measures aimed at transitioning to alternative technologies such as solar panels, wind turbines, hydrogen, and electric vehicles.

The development of the region as a manufacturing hub for these alternative technologies could be enhanced by individual ASEAN member states, specialising in the manufacture of specialised parts and components of these alternative technologies, taking advantage of ASEAN's economic integration arrangements. It is worth remembering that the East Asian region became a global hub for electronics manufacturing through the development of distributed manufacturing, with Singapore, Penang, Bangkok, Taipei, and Shanghai specialising in the manufacture of different components, with final assembly often taking place in China.

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