

ASEAN 2030

Toward a Borderless
Economic Community

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Study Objectives

- Analyze the long-term development trajectory of ASEAN economies and their regional integration perspectives
Importance of the 2030 timeframe—beyond short-term economic analysis but within the realm of foreseeable growth assumptions
- Contribute to the definition of ASEAN's post-2015 agenda in the area of economic integration
Identifying the next steps for ASEAN regionalism
- Provide policy recommendations to ASEAN economies, individually and as a group
Importance for ASEAN to strengthen its internal cohesion and to maintain centrality in Asia's architecture for regional cooperation

Study's Key Messages—I

1. The ASEAN Economic Community (AEC)—to be launched in 2015—is a milestone promoting economic integration and development, but more needs to be done to retain competitiveness due to the emergence of the People's Republic of China, India, and other developing economies
2. ASEAN's **aspirations** are to become resilient, inclusive, competitive and harmonious (RICH) by 2030. To achieve these aspirations, ASEAN needs an ambitious economic integration plan beyond the AEC
3. ASEAN's 2030 major **challenges** are:
 - (i) enhancing macroeconomic and financial stability;
 - (ii) supporting equitable and inclusive growth;
 - (iii) promoting competitiveness and innovation; and
 - (iv) protecting the environment

Study's Key Messages—II

4. Overcoming these challenges implies introducing an appropriate mix of **domestic structural reforms** and **initiatives to deepen regional integration**—transforming the AEC into a truly borderless economic community
5. Such policy mix will allow ASEAN economies enter a high-growth path, leading to a **3-fold increase in real per-capita GDP** between 2010 and 2030 and reaching quality of life to levels enjoyed today by OECD member countries
6. However, without domestic structural reforms and initiatives for closer regional integration, ASEAN could become mired in a low-growth scenario, as countries fall into the **middle income trap** and are unable to manage natural disasters and climate change, or resolve political tensions

Study's Key Messages—III

7. ASEAN needs **institutional reform** to enhance efficiency. However, it should not merely copy the European Union—it must retain flexibility and pragmatism (ASEAN Way), and avoid creating a bloated regional bureaucracy. It should be somewhere closer to the EU but not too much
8. Reforms are needed to ensure the efficiency and timeliness required by a widening economic agenda: **qualified-majority decisions** for non-fundamental issues; **diversified budget contributions** based on members' capacity and willingness to pay
9. The **ASEAN Secretariat** also needs a larger allocation of human and financial resources. And more functional institutions should be created

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3. Key Challenges

Key 2030 Challenges—by Country; Distribution of Challenges by Income Level; Enhancing Macroeconomic and Financial Stability; Supporting Equitable Growth; Promoting Competitiveness and Innovation; Protecting the Environment

4. Enabling Factors

Developing Financial Markets; Harnessing Human Capital; Building Seamless Connectivity; Strengthening Governance

5. Institutional Architecture

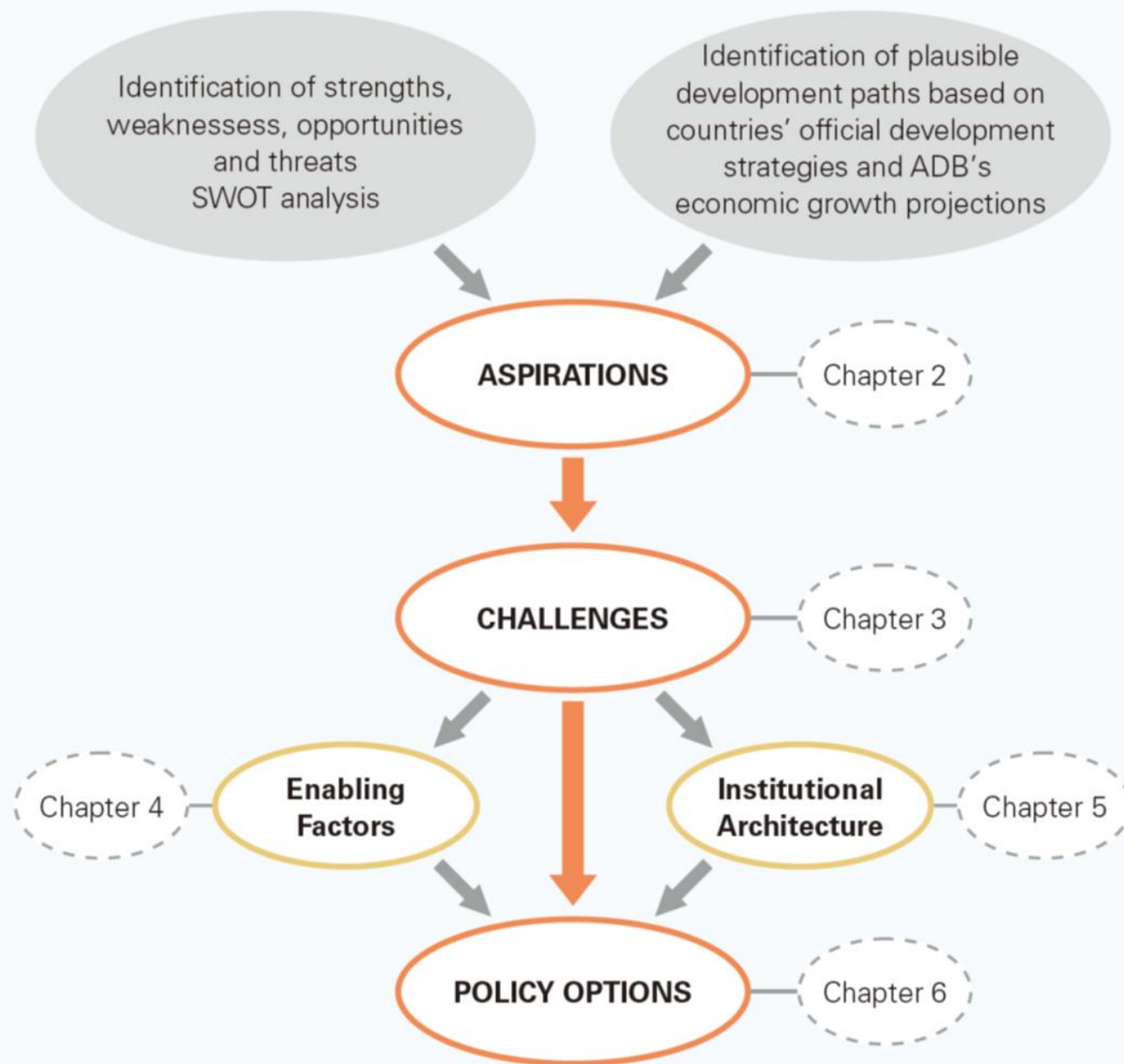
ASEAN Global and Regional Role; ASEAN Centrality—Major Groups Focused on ASEAN, and Major Transregional Groups Involving ASEAN Countries

6. Policy Options

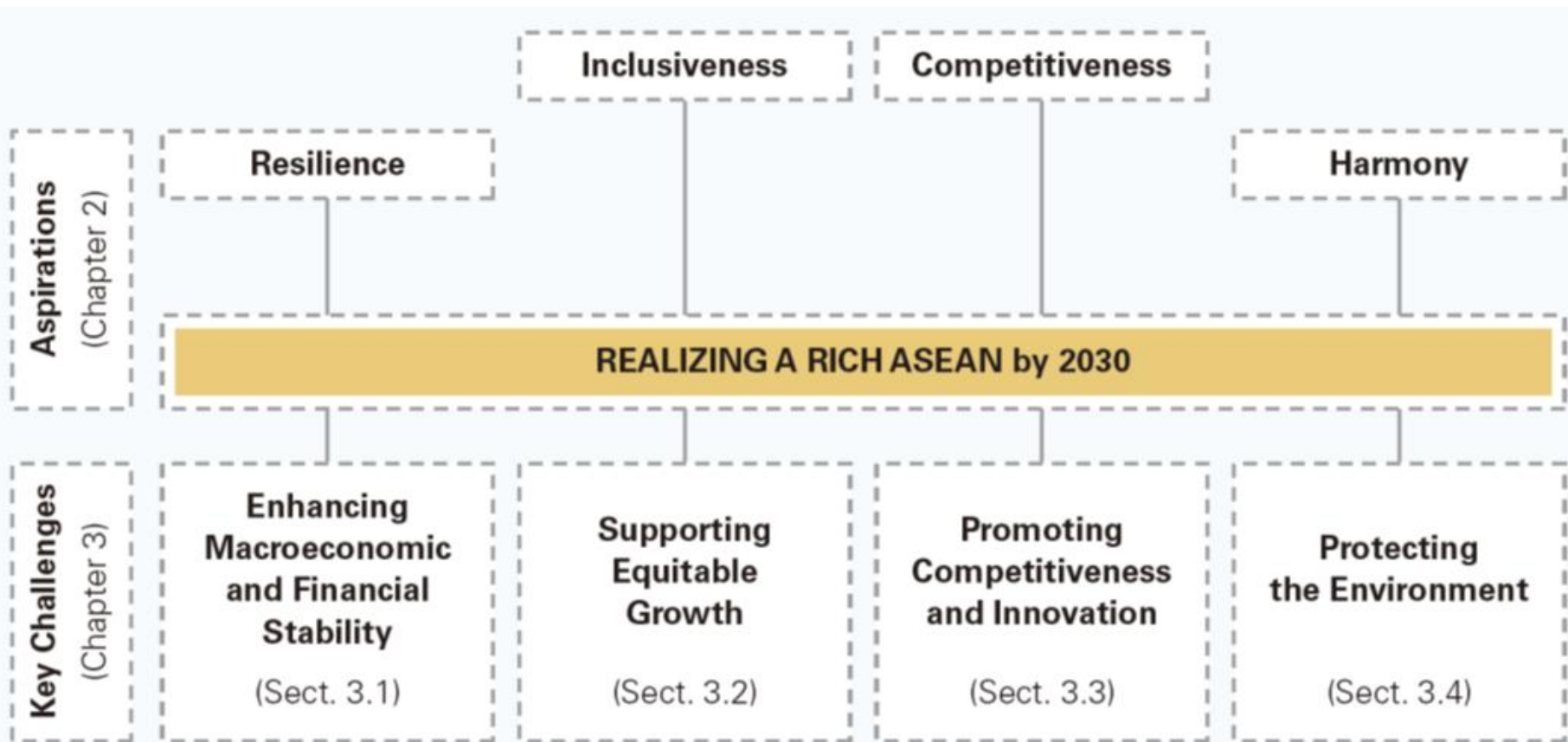
National Policies and Regional Initiatives addressing Challenges and Enabling Factors; Enhancing the Institutional Architecture

1. Organization and Structure

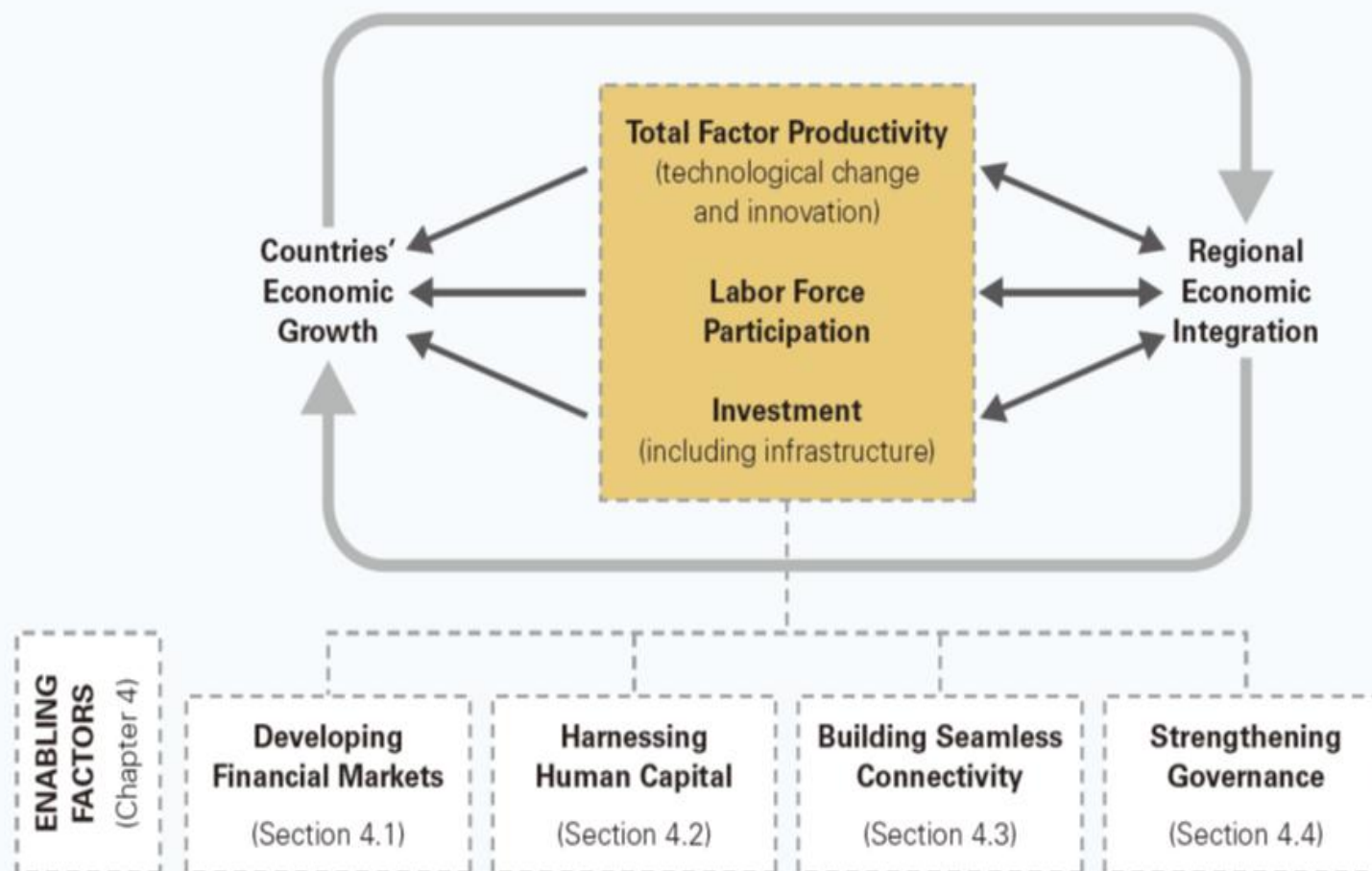
1.1 Analytical Framework



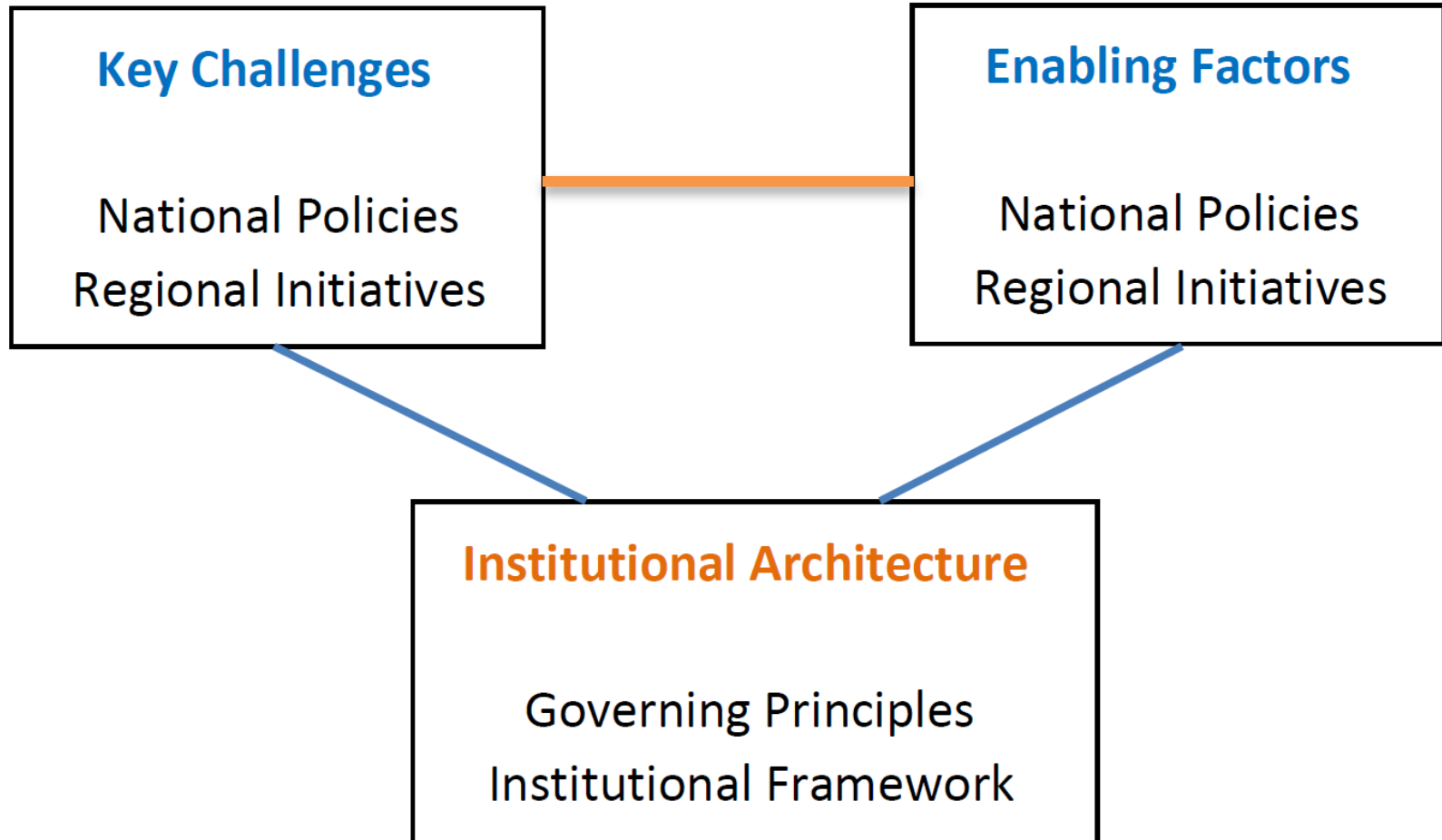
1.2 Aspirations and Challenges



1.3 Enabling Factors



1.4 Policy Options



2. 2030 Aspirations

2.1 SWOT Analysis—I

Strengths

- ✓ Strong macroeconomic fundamentals
- ✓ Young, growing population and expanding middle class
- ✓ Abundant natural resources, biodiversity
- ✓ Open, flexible economies with diversified export structures
- ✓ Large FDI inflows and regional production networks
- ✓ Growing dynamic SMEs
- ✓ Ability to manage great diversity
- ✓ Solidifying ASEAN institutionalization

Weaknesses

- ✓ Huge development gaps and pronounced disparity in governance and rule of law
- ✓ Absence of an effective regional fund for resource redistribution
- ✓ Increasing risk of falling into the middle income trap
- ✓ Low education attainments and large unskilled workforce
- ✓ Lack of harmonized policies to manage labor mobility
- ✓ Absence of regional R&D strategy
- ✓ Weak Secretariat and obsolete governance principles
- ✓ Lack of post-2015 Vision

2.1 SWOT Analysis—II

Opportunities

- ✓ Strategic location in expanding Asia with huge market potential
- ✓ Strong cultural links with Asia
- ✓ Deep manufacturing and technology links with NE Asia
- ✓ Potential to increase energy, water, and food production (security)
- ✓ Potential to develop regional hubs in various new areas (education, health, logistics, tourism, finance)
- ✓ Strong record of macroeconomic & financial cooperation initiatives
- ✓ Central role in Asian cooperation
- ✓ Recognized role as honest broker between Japan, PRC, and India

Threats

- ✓ Vulnerability to external shocks due to high degree of openness
- ✓ Erosion of advantages in export-driven growth model
- ✓ Lack on internal cohesion on long-term development strategy
- ✓ Loss of regional centrality due to competition with PRC and India
- ✓ Unresolved territorial disputes
- ✓ Lack of unified representation in global forums
- ✓ Inability to collectively manage DRM, climate change, energy security
- ✓ Weak links between ASEAN and subregional cooperation initiatives

2.2 ASEAN Economic Community

PILLARS	CORE ELEMENTS		
I. SINGLE MARKET AND PRODUCTION BASE	Free Flow of Goods	Free Flow of Skilled Labor	Priority Integration Sectors <i>Agro-based products; air travel; automotive; e-ASEAN; electronics; fisheries; healthcare; logistics; rubber-based products; textiles and apparel; tourism; wood-based products</i>
	Free Flow of Services	Free Flow of Investment	
	Freer Flow of Capital	Food, Agriculture, and Forestry	
II. COMPETITIVE ECONOMIC REGION	Competition Policy	Consumer Protection	Infrastructure Development <i>Transport; ICT Energy; mining Infrastructure financing</i>
	Taxation		
	E-commerce	Intellectual Property Rights	
III. EQUITABLE ECONOMIC DEVELOPMENT	Development of Small and Medium-Sized Enterprises		
	Initiative for ASEAN Integration		
IV. INTEGRATION INTO THE GLOBAL ECONOMY	Coherent Approach toward External Economic Relations <i>(includes FTAs and CEPs)</i>		
	Enhanced Participation in Global Supply Networks		

2.3 Beyond the AEC

The AEC may not be achieved by 2015 as planned due to:

- policy implementation delays (i.e. ratification of signed agreements and their alignment with national domestic laws)
- non-alignment of domestic and regional interests
- still wide development gap between member countries
- Some countries still lack the technical, regulatory, financial capability to fully implement some of the measures needed to complete the AEC

By 2015, 75% of AEC Blueprint will be realized. It may take up to 2020/25 to complete the AEC (ADB Study). What's needed:

- Eliminate non-tariff barriers (also anti-dumping and sanitary regulations)
- Strengthen food security and cooperation in agriculture and forestry
- Adopt trade facilitation measures that reduce costs
- Strengthen investment policies, the business climate and capital mobility of member states so money can flow freely across borders

2.4 2030 PROJECTIONS

	2010			2030			2010-2030	
	Population (million people)	Nominal GDP (billion USD)	Per-capita GDP (USD)	Population (million people)	Nominal GDP (billion USD)	Per-capita GDP (USD)	Yearly avg. GDP growth (%)	No. times increase per- capita GDP
BRU	0.414	12.371	29,882	0.542	25.768	47,561	3.7	1.6
CAM	14.953	11.255	753	18.363	54.797	2,984	7.9	4.0
INO	237.641	708.352	2,981	277.059	2,121.335	7,657	5.5	2.6
LAO	6.437	6.461	1,004	8.049	30.114	3,741	7.7	3.7
MAL	28.251	237.803	8,418	37.069	694.737	18,742	5.4	2.2
MYA	61.187	45.380	742	69.310	225.259	3,250	8.0	4.4
PHI	94.010	199.591	2,123	127.336	663.418	5,210	6.0	2.5
SIN	5.184	227.382	43,862	6.093	397.842	65,293	2.8	1.5
THA	63.878	318.908	4,992	67.759	823.663	12,156	4.7	2.4
VIE	88.257	103.575	1,174	101.955	439.449	4,310	7.2	3.7
ASEAN	600.212	1,871.078	3,117	713.535	5,476.382	7,675	5.4	2.5
ASEAN-6	429.378	1,704.407	3,969	515.857	4,726.762	9,163	5.1	2.3
CLMV	170.834	166.671	976	197.678	749.620	3,792	7.5	3.9

Sources: 2010 data are from IMF. 2030 projections are from the ADB.

2.5 2030 ASPIRATIONS

	2010			2030			2010-2030	
	Population (million people)	Nominal GDP (billion USD)	Per-capita GDP (USD)	Population (million people)	Nominal GDP (billion USD)	Per-capita GDP (USD)	Yearly avg. GDP growth (%)	No. times increase per- capita GDP
BRU	0.414	12.371	29,882	0.542	32.378	59,763.285	4.8	2.0
CAM	14.953	11.255	753	18.363	61.627	3,356.000	8.5	4.5
INO	237.641	708.352	2,981	277.059	2,890.468	10,432.678	7.0	3.5
LAO	6.437	6.461	1,004	8.049	32.315	4,014.914	8.0	4.0
MAL	28.251	237.803	8,418	37.069	780.067	21,043.768	5.9	2.5
MYA	61.187	45.380	742	69.310	231.322	3,337.474	8.1	4.5
PHI	94.010	199.591	2,123	127.336	675.859	5,307.707	6.1	2.5
SIN	5.184	227.382	43,862	6.093	427.615	70,179.630	3.0	1.6
THA	63.878	318.908	4,992	67.759	1,014.845	14,977.363	5.8	3.0
VIE	88.257	103.575	1,174	101.955	478.602	4,694.245	7.7	4.0
ASEAN	600.212	1,871.078	3,117	713.535	6,625.100	9,284.903	6.4	3.0
ASEAN-6	429.378	1,704.407	3,969	515.857	5,821.233	11,284.589	6.2	2.8
CLMV	170.834	166.671	976	197.678	803.867	4,066.552	7.9	4.2

Sources: 2010 data are from IMF. 2030 aspirations are from background papers prepared for the ASEAN 2030 study.

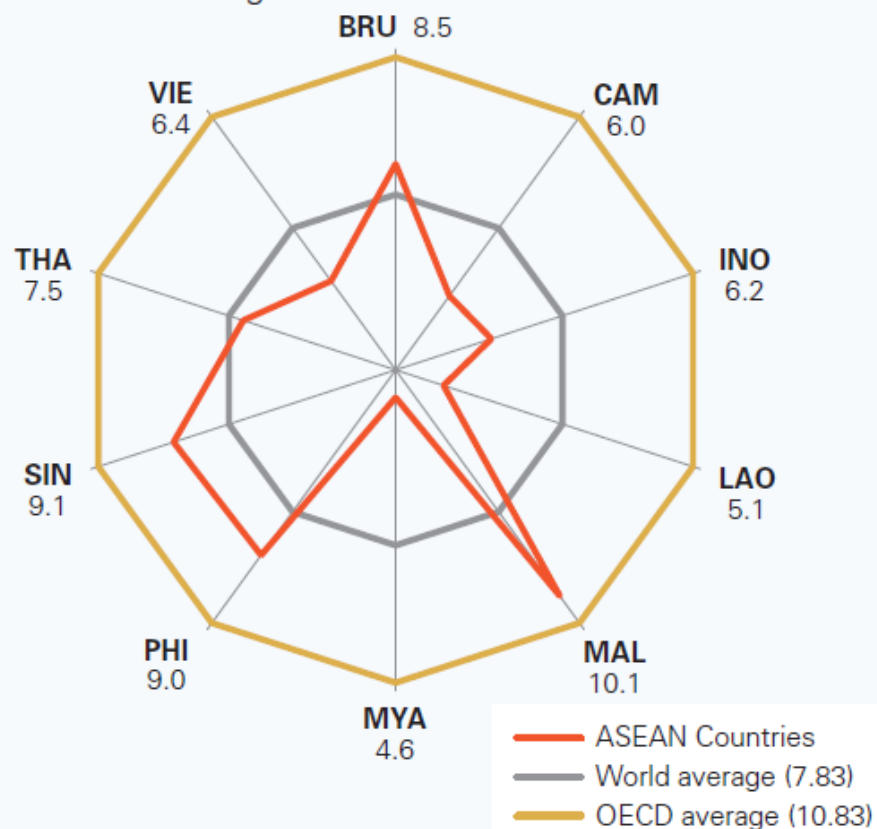
2.6 Quality of Life

Dimensions	Indicators
(i) Material well-being	1. GDP per capita (2005 PPP\$) 2. Satisfaction with financial situation of household (subjective)
(ii) Job opportunity and working conditions	3. Labor force participation rate (% of total population aged 15+) 4. Unemployment rate (%) 5. Share of informal to total employment (%)
(iii) Health	6. Life expectancy at birth (years) 7. Infant mortality rate (per 1,000 live births) 8. Undernourished population (%) 9. State of health (subjective)
(iv) Education	10. Net primary school enrollment rate (%) 11. Average years of schooling (years)
(v) Social inclusion or equity	12. Poverty rate (% of population below \$2 (PPP) a day) 13. Gini coefficient 14. Ratio of female to male primary school enrollment (%) 15. Sense of belonging to local community (subjective)
(vi) Economic and physical insecurity	16. Perception of safety (subjective, %) 17. Homicide rate (per 100,000 people) 18. Social protection index
(vii) Environment and living conditions	19. NOx emissions (metric tons of CO ₂ equivalent per capita) 20. Access to improved water source (%) 21. Access to improved sanitation facilities (%) 22. Slum population (% of urban population)
(viii) Governance	23. Rule of law index 24. Government effectiveness index

2.7 Benchmarking with OECD

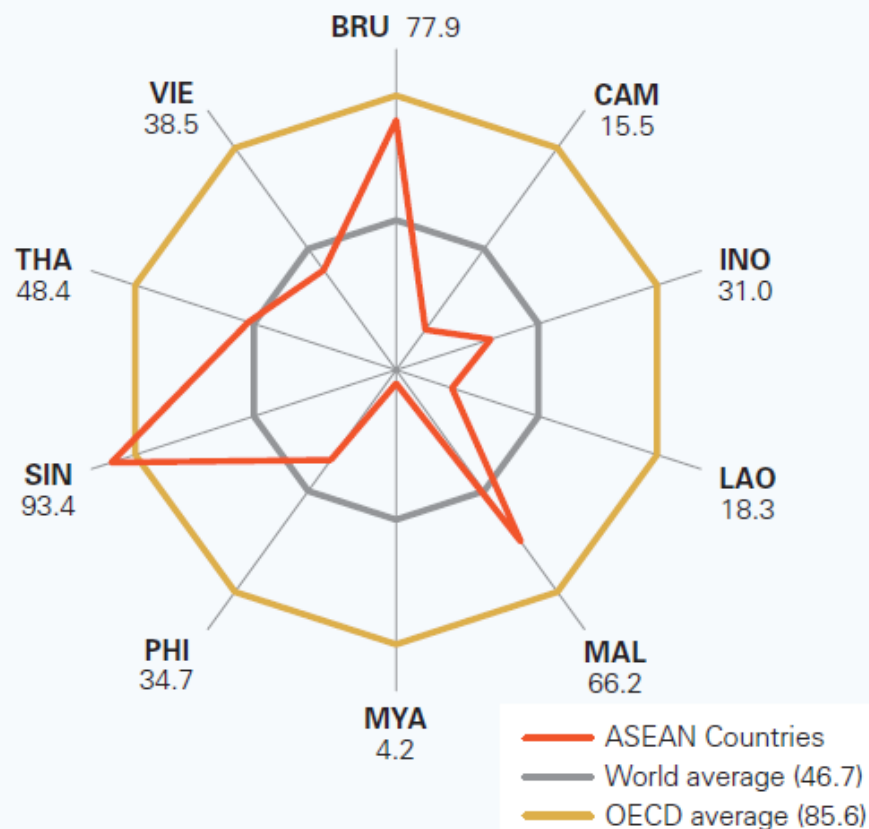
EDUCATION

Years of Schooling



GOVERNANCE

Rule of Law



3. Key Challenges

3.1 Major ASEAN Challenges

Enhancing Macroeconomic and Financial Stability

- ✓ Maintain macroeconomic and financial stability
- ✓ Maintain fiscal soundness
- ✓ Avoid future crises and contagion

Supporting Equitable Growth

- ✓ Narrow development gaps within and across countries
- ✓ Reduce inequalities, social tensions, and discrimination

Promoting Competitiveness and Innovation

- ✓ Reduce cost of doing business across ASEAN countries
- ✓ Accelerate technological diffusion and absorption and better capture synergies between science and industry
- ✓ Exploit comparative advantage in tropical agriculture
- ✓ Capitalize on the increasing inflow of tourists to ASEAN

Protecting the Environment

- ✓ Protect the environment and manage climate change
- ✓ Ensure energy supply and security
- ✓ Manage natural resources and avoid their depletion

4. Enabling Factors

4.1 Major Growth-Enabling Factors

Developing Financial Markets

- ✓ Develop efficient markets in support of the real sector
- ✓ Increase effectiveness of financial intermediation
- ✓ Improve recycling of regional savings into regional investment

Harnessing Human Capital

- ✓ Aging population and slowing work force growth
- ✓ Improve the overall quality of education systems
- ✓ Deal with unregistered, unprotected intra-ASEAN labor movements

Building Seamless Connectivity

- ✓ Foster the region-wide ability to trade, travel, and transit
- ✓ Strengthen regional infrastructure in transport and communication
- ✓ Enhance people-to-people connectivity

Strengthening Governance

- ✓ Promote rule of law, contract enforcement, and transparent rules
- ✓ Manage national and regional institutions effectively
- ✓ Strengthen national civil services

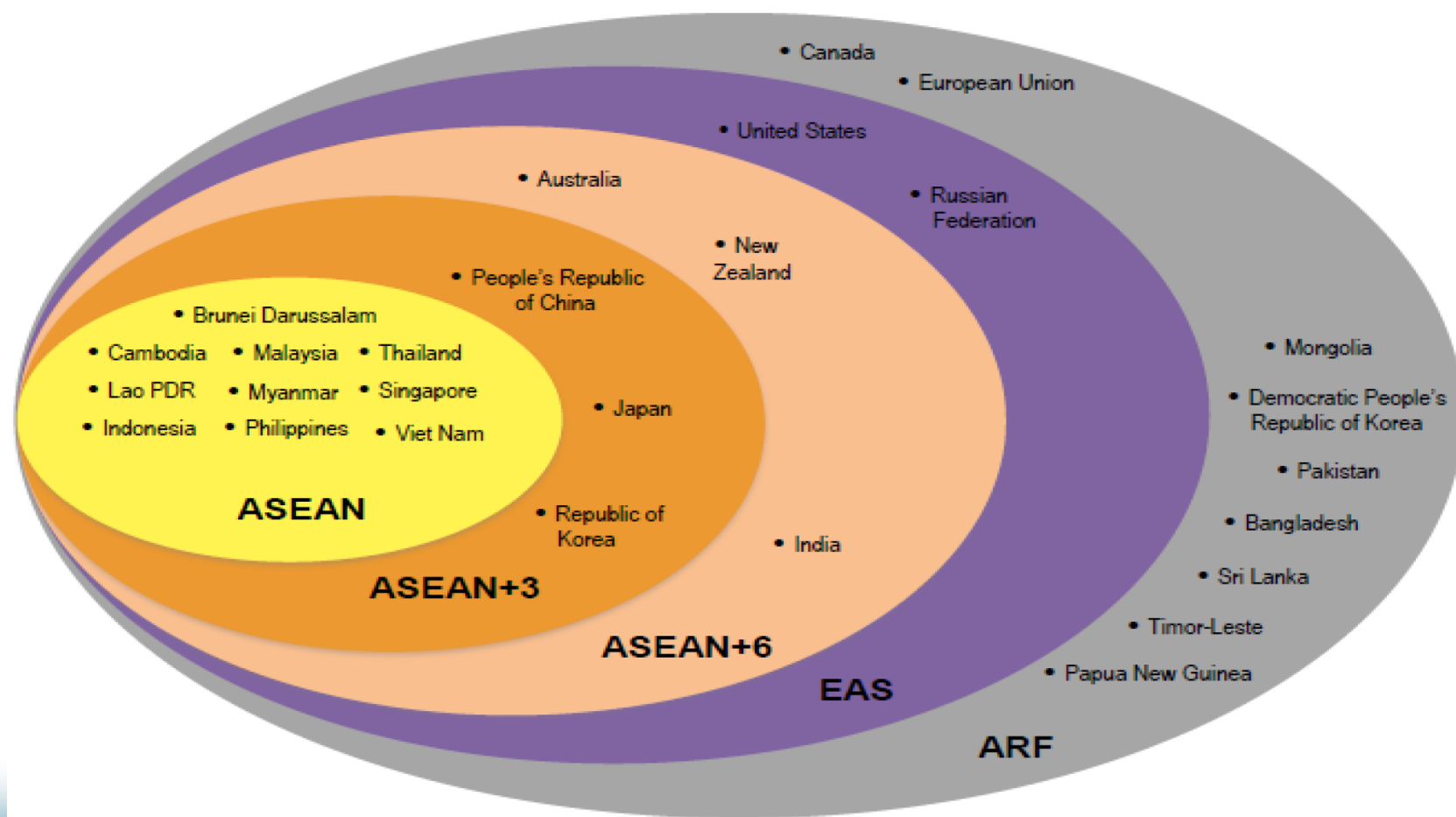
5.

Institutional Architecture

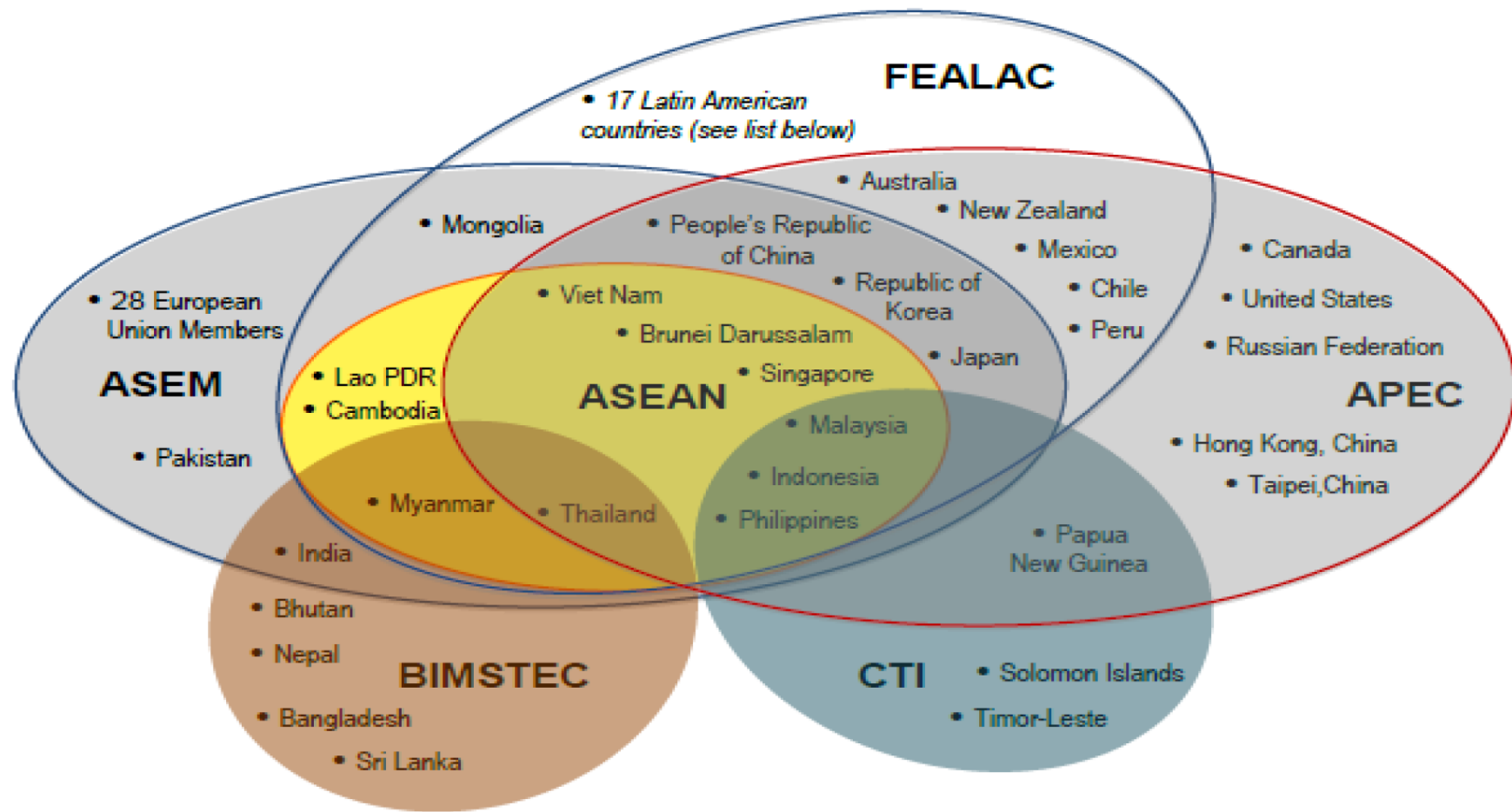
5.1 ASEAN Global and Regional Role

- ✓ The *ASEAN-Way* (consensus, openness, pragmatism) has served the region well but it now needs efficiency updates to reflect the increasing importance of the economic agenda
- ✓ The amount of powers delegated by member countries to common institutions is still too limited to fully capture the benefits of increasing economic integration
- ✓ A strong institutional architecture, where the ASEAN Chair and Secretary-General can articulate common interests and their regional agenda is important for ASEAN to maintain centrality—remaining relevant to its members and external partners, and ensuring that regional initiatives are fully compatible with global processes

5.2 ASEAN Centrality: Major Groups Focused on ASEAN



5.3 ASEAN Centrality: Major Transregional Groups Involving ASEAN Countries



APEC = Asia-Pacific Economic Cooperation (21 members); ASEAN = Association of Southeast Asian Nations (10 members); ASEM = Asia-Europe Meeting (44 members); BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (7 members); CTI = Coral Triangle Initiative (6 members); FEALAC = Forum for East Asia-Latin America Cooperation (36 members).

Note: The list of additional 17 Latin American members of FEALAC includes: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Suriname, Uruguay, and Venezuela.

6. Policy Options

6.1 Enhancing Macroeconomic and Financial Stability

SELECTED NATIONAL POLICIES

- ✓ **INDONESIA:** Introduce an early warning system and establish a crisis management protocol to monitor macroeconomic and financial stability
- ✓ **MYANMAR:** Start fiscal reforms—raise spending on education and health; decentralize tax collection and administration; expand social safety nets; eliminate (or reduce) subsidies, including on oil and gas

KEY REGIONAL INITIATIVES

- ✓ Adopt regional guidelines on effective capital control measures
- ✓ Introduce an informal coordination mechanism to maintain intraregional exchange rate stability
- ✓ Introduce regional guidelines on fiscal sustainability
- ✓ Create an ***ASEAN Financial Stability Dialogue***

6.2 Supporting Equitable Growth

SELECTED NATIONAL POLICIES

- ✓ **MALAYSIA:** Provide affordable public housing to the poor and lower income group, especially in urban areas
- ✓ **VIET NAM:** Develop a comprehensive social protection system, including national target programs, social insurance, and contingent support

KEY REGIONAL INITIATIVES

- ✓ Strengthen the ASEAN Secretariat's technical and financial capacity to bridge development gaps
- ✓ Improve coordination to channel external assistance to CLMV countries through *Initiative for ASEAN Integration* and the *ASEAN Framework for Equitable Economic Development*
- ✓ Create an **ASEAN Convergence Fund** (expanding the existing ASEAN Development Fund) to mitigate the possible negative impact of regional economic integration initiatives, entrusting professionals for its administration

6.3 Promoting Competitiveness and Innovation

SELECTED NATIONAL POLICIES

- ✓ **SINGAPORE:** Increase spending on R&D, promote design-driven innovation and institutions, and recruit more researchers in public agencies
- ✓ **PHILIPPINES:** Streamline regulations, reduce time needed for opening and closing businesses, introduce one-stop investment clearing shops, computerize processing

KEY REGIONAL INITIATIVES

- ✓ Create an ***ASEAN Competitiveness Institute*** to promote R&D strategies and innovation policies
- ✓ Establish an ***agency for the certification and standardization of Made-in-ASEAN*** products
- ✓ Create an ***ASEAN Rice Authority*** to promote food security
- ✓ Form an ***ASEAN Tourism Council*** to help coordinate national strategies and adopt a single ASEAN Visa for qualified tourists

6.4 Protecting the Environment

SELECTED NATIONAL POLICIES

- ✓ **INDONESIA:** Avoid energy subsidies and largely increase research funding in alternative energy sources such as biofuels
- ✓ **LAO PDR:** Conduct strict environmental assessments of development projects, especially those exploiting natural resources

KEY REGIONAL INITIATIVES

- ✓ Adopt national policies to tax environmental “*public bads*” and eliminate harmful subsidies that encourage the inefficient use of natural, especially fossil-based, resources
- ✓ Adopt long-term development strategies that mainstream “green” growth, introducing environmental standards that define “green” products and production techniques
- ✓ Harmonize countries’ environmental laws and standards

6.5 Developing Financial Markets

SELECTED NATIONAL POLICIES

- ✓ **THAILAND:** Widen the issuer and investor base to attain critical mass in equity markets; expand the number of qualified issuers and potential buyers in bond markets
- ✓ **BRUNEI DARUSSALAM:** Establish a modern payment system to facilitate local companies in high-tech sectors conduct business in global internet markets

KEY REGIONAL INITIATIVES

- ✓ Create an ASEAN-wide market for all locally-issued securities
- ✓ Introduce a regional payment and settlement system
- ✓ Introduce an ASEAN-wide credit rating system
- ✓ Introduce an ASEAN-wide deposit insurance system
- ✓ Establish an ***ASEAN College of Financial Supervisors*** as a permanent, yet flexible institution for regional cooperation

6.6 Harnessing Human Capital

SELECTED NATIONAL POLICIES

- ✓ **MALAYSIA:** Increase public facilities to reduce disparities in the quality of education among states, and between rural and urban areas
- ✓ **CAMBODIA:** Increase supply of technical and vocational schools to match demand for skilled labor

KEY REGIONAL INITIATIVES

- ✓ Raise ASEAN overall scientific and technical skills
- ✓ Expand scholarships and student exchanges and strengthen the ASEAN credit transfer system introduced as part of the ASEAN University Network
- ✓ Introduce a region-wide system for freer but managed movement of unskilled labor

6.7 Building Seamless Connectivity

SELECTED NATIONAL POLICIES

- ✓ **INDONESIA:** Open port systems to private sector operators and introduce privately-run roll-on/roll-off ferries
- ✓ **MYANMAR:** Improve telecommunication infrastructure such as internet and telephone lines to facilitate technology leapfrogging in ICT

KEY REGIONAL INITIATIVES

- ✓ Expedite the implementation of the Master Plan on ASEAN Connectivity
- ✓ Remove policy barriers to cross-border air travel
- ✓ Expand the scope and increase the size of the ASEAN Infrastructure Fund and make it fully operational
- ✓ Strengthen private sector links and public-private partnership

6.8 Strengthening Governance

SELECTED NATIONAL POLICIES

- ✓ **PHILIPPINES:** Adopt an effective competition law and create an agency to discipline markets, curb monopolies and level the playing field
- ✓ **VIET NAM:** Continue judiciary reforms to increase protection of people's rights and ensure enforcement of the rule of law

KEY REGIONAL INITIATIVES

- ✓ Introduce governance and regulatory reforms to limit corruption
- ✓ Adopt international best practices, following principles of transparency, accountability, and equity
- ✓ Adopt a region-wide competition policy and legal framework
- ✓ Create an **ASEAN Competition Authority** to monitor compliance with and implementation of governance principles
- ✓ Harmonize ASEAN governance standards and practices

6.9 Enhancing the Institutional Architecture-I

UPDATING GOVERNING PRINCIPLES

- ✓ **Increase flexibility in decision-making**—using qualified majority systems for non-fundamental issues and day-to-day operations, while keeping consensus for fundamental issues
- ✓ **Diversify financial contributions**—transforming the equal budget contribution principle to more diversified schemes reflecting members' capacity and willingness to pay
- ✓ **Introduce sanctions and a feedback system**—to support the existing Dispute Settlement Mechanism and to complement the “ASEAN Way” with a philosophy of adherence to the rule of law
- ✓ **Introduce compensating mechanisms**—for those groups and individuals losing out of regional economic integration

6.9 Enhancing the Institutional Architecture-II

STRENGTHENING THE INSTITUTIONAL FRAMEWORK

- ✓ **Create new regional agencies**—based on emerging needs and considering members' interest to host them and contribute to their budget (regional decentralization)
- ✓ **Create an *ASEAN Academy***—to foster the ASEAN civil service
- ✓ **Build a stronger ASEAN Secretariat**—expanding its human and financial resources (to match the operational costs expected to rise to \$200M by 2030)
- ✓ **Strengthen regional coordination**—making the Committee of Representatives more powerful and effective as interface with members' national agencies in countries, and allowing the ASEAN Secretariat to play a deeper coordinating role with other regional (and subregional) institutions and development partners

Thank you!