



ASEAN Integration Report

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Foreword

For almost half a century, ASEAN's proactive and visionary regional agenda has contributed to the attainment of peace, stability, and prosperity in Southeast Asia. A major milestone in this ever-evolving agenda was reached in December 2015, when ASEAN Member States formally launched the ASEAN Economic Community (AEC).

The actions, measures, and timelines leading up to the AEC's launch were defined in the AEC Blueprint 2015 that was adopted in 2007. Following the AEC's formal establishment, and cognizant of the work that still lay ahead, ASEAN adopted a successor Blueprint called the AEC Blueprint 2025. The current Blueprint lays out the work for ASEAN in the next 10 years and demonstrates ASEAN's commitment to forge ahead with economic integration.

Having picked many of the low-hanging fruit, the AEC Blueprint 2025 addresses more difficult areas of reform, including reducing non-tariff measures, simplifying rules of origin, deepening trade facilitation measures, and harmonizing standards and regulations. As ASEAN pursues deeper integration, it must try and retain its outward-orientation, and maintain the open regionalism that has served it so well thus far. As ASEAN becomes more regionally integrated as it moves towards realizing its 2025 objectives, it must ensure that it remains globally connected.

With the AEC Blueprint 2025 now nearing its third year of implementation, it is timely to take stock of the extent to which this ambitious agenda is being implemented on the ground. This report represents the ASEAN Prosperity Initiative's contribution to monitoring progress under the Blueprint in a manner that is objective, transparent, and wide-reaching. This is but one of many research initiatives being undertaken by the API in a bid to improve our understanding of the major challenges facing ASEAN economic integration.

One of the biggest changes introduced under the 2025 Blueprint involved efforts to make the AEC integration process more transparent and inclusive. This is a welcome development and marks an important break from the 'Scorecard' system associated with the original Blueprint, which was not only based on a self-assessment system, but the results of the assessment were not very widely disseminated and was later discontinued altogether. The 2025 Blueprint calls for stronger community engagement and greater partnership arrangements with the private sector and industry associations. This is certainly a welcome development, one that signals a growing recognition that AEC cannot truly succeed without fully engaging businesses and the broader community.

We hope that this report will contribute to ASEAN's efforts to engage a wider set of stakeholders. We also hope that it will encourage ASEAN to seek more private sector feedback in assessing the impact and effectiveness of AEC measures.

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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 material 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.

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**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.*

Introduction

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 transition to a fully integrated and competitive region, enabling the free flow of goods, services, capital and skilled workers and investment. 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 that required further work. ASEAN Leaders therefore agreed on 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 to 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 next 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 hopefully accurate 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 the engagement and 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. The scope of the AEC Blueprint is very broad, and our resources are modest in comparison – as a result this report is intended to serve as a foundation which we will build on in future reports. We welcome any and all feedback on the approach we have taken here.

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 action which have been implemented; and
- Commentary on the broad messages of these assessments; and
- A sector "deep dive" for aviation, to consider issues relating to air transport integration.

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 are reflected here. We are extremely grateful for the contributions of those who have participated in this project. We hope that this report can serve as a helpful and constructive contribution about the progress of ASEAN integration.

Outcomes of ASEAN economic integration

As noted in the ASEAN Monitoring and Evaluation Framework, it is important to monitor outcomes, not just compliance, when it comes to evaluating the overall success of the AEC Blueprint 2025. Accordingly, the ASEAN Secretariat is currently working with different sectoral bodies to identify a range of Key Performance Indicators (KPIs) to assess the outcomes of implementing the AEC Blueprint 2025. Given the breadth and detail of the CSAP, we understand that these KPIs will be highly targeted to specific aspects of integration. However, these KPIs remain under discussion and are not available to the public.





The ASEAN Secretariat also uses a number of high-level macroeconomic indicators to measure the broad performance of the AEC, including inflation and GDP per capita in different Member States. The ASEAN Secretariat has also used a number of indicators to measure performance of the AEC, in previous monitoring reports, including the discontinued AEC Scorecards. We have taken inspiration from these methods to define our own set of ASEAN integration outcome indicators. It is important to note a few points relating to our approach:

- 1 First, we recognise that these indicators are very broad, and it is not possible to attribute changes in these indicators to developments of AEC alone, as they will be subject to a range of other factors. We intend to further refine and develop these indicators in future reports, but we believe they represent a good starting point to consider the overall trends in ASEAN economic integration.
- 2 Second, we have focused on indicators that we believe capture the “cross-border” components of ASEAN integration, such as trade and FDI. We recognise that the AEC includes a vast number of other initiatives, such as improving R&D and the environment for Small and Medium Sized Enterprises (SMEs). Given that these areas will be highly influenced by other factors, we have decided to focus on indicators that measures the degree of cross-border economic activity, which is the primary focus of ASEAN integration. We hope to expand this focus in future versions of this report.
- 3 Third, we have considered both the global values as well as the intra-ASEAN components where possible. We believe this reflects the fact that the AEC is designed both to deepen economic relations between Member States as well as integrate ASEAN as a whole into the global economy, as explicitly recognised in pillar 5 of AEC Blueprint 2025.
- 4 Fourth, we have selected three timepoints to measure progress. We have taken 2010 as a baseline year, prior to the completion of AEC 2015. We then compare this year to 2015, when the AEC was first realised, and 2017 as the most recent year for which data is available. When data for these years are not available, the closest available year is used in its place.

With these considerations in mind, we have identified the following outcome indicators:

- 1 For Trade, we measure both the total trade in goods and services and the intra-ASEAN component, to assess the growth in trade. In addition, we measure the share of total trade in goods which is intermediate goods, as a measure of ASEAN's integration into global value chains.
- 2 For Investment, we measure the total value of FDI and the intra ASEAN component, to assess the growth in cross-border investment.
- 3 For People, we measure both total stock of foreign-born nationals and the number of visitors, including the intra-ASEAN shares, to assess both the growth in the number of foreign workers and tourism.
- 4 Finally, we consider the ratio of trade and FDI to GDP, to assess the growth of cross-border economic activity, relative to the economy as a whole.

ASEAN Integration: Outcome Indicators

Indicator	2010		2015		2017
 Trade					
Global Trade in Goods (US\$, m)	2,001,442	↑	2,272,861	↑	2,574,785
Intra ASEAN Trade in Goods (US\$, m)	502,863	↑	535,380	↑	590,419
% intra ASEAN	25.13%	↓	23.56%	↓	22.93%
Global Trade in Services (US\$, m)	440,273	↑	651,060	↑	703,233
Intra ASEAN Trade in Services (US\$, m)	80,904	↑	108,181	↑	116,008
% intra ASEAN	18.38%	↓	16.62%	↓	16.50%
 Investment					
Global FDI (US\$, m)	116,508 ¹	↑	121,711	↑	137,006
Intra ASEAN FDI (US\$, m)	23,385	↓	20,810	↑	26,561
% intra ASEAN	20.07%	↓	17.10%	↑	19.39%
 People					
Global Migrant Stock	17,879,881	↑	20,152,239	↑	21,046,043
Intra ASEAN Migration Stock	5,982,932	↑	6,628,071	↑	6,810,500
% intra ASEAN	33.46%	↓	32.89%	↓	32.36%
Global visitors	73,752,643	↑	108,903,756	↑	115,566,365
Intra ASEAN Visitors	35,042,797	↑	48,519,496	↓	47,375,166
% intra ASEAN	47.51%	↓	44.55%	↓	40.99%
 Macroeconomic					
GDP (US\$, m)	1,927,784	↑	2,446,722	↑	2,765,679
Total Trade as % of GDP	103.82%	↓	92.89%	↑	93.09%
Intra ASEAN Trade as % of GDP	26.09%	↓	21.88%	↓	21.34%
FDI as % of GDP	6.04% ²	↓	4.97%	↓	4.95%

Source: ASEAN Statistics for all values except Migrant Stock from UN Population Division. All prices are nominal US\$. % calculations are author's own.

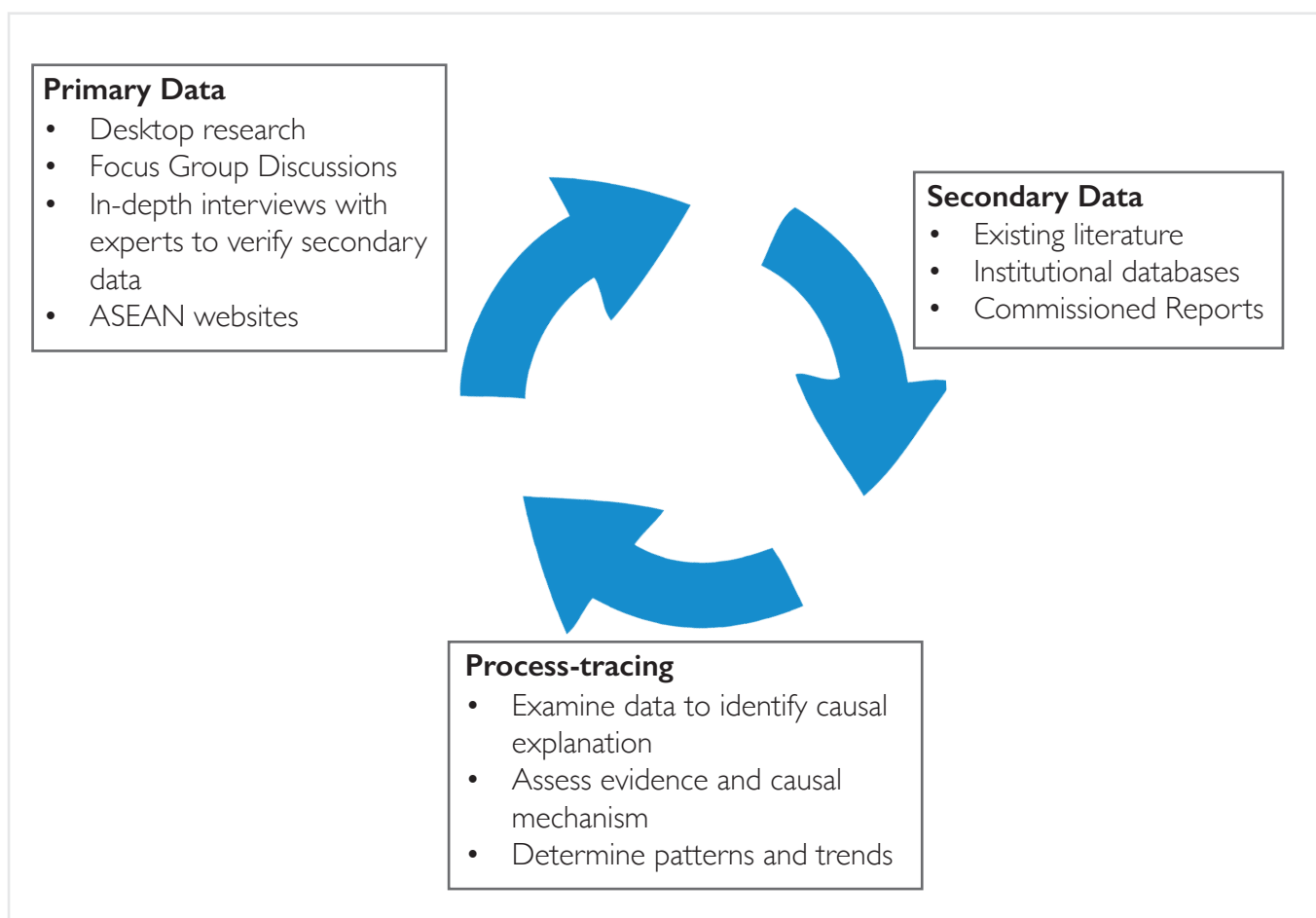
¹Figure is for 2012, ²based on figure for 2012

AEC Implementation

In addition to measuring the outcomes on the 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 fully or partially implemented.

In order to do this, we have identified those measures and corresponding action lines in the CSAP due for completion by or in 2018. We have then investigated publicly available sources¹ to identify which measures and corresponding action lines have been completed distinguishing between "full" and "partial" implementation. We have also corresponded with the ASEAN Implementation and Monitoring Office, who have assisted with the assessment where possible. We developed the assessment through expert interviews and Focus Group Discussions.

Figure I. CSAP Assessment Methodology



¹ Sources include ASEAN official website, ASEAN publications, Asia Development Bank (ADB) Reports, Economic Research Institute for ASEAN and East Asia (ERIA) reports, ASEAN universities research reports/publications. All source are provided at api.ideas.org.my

This approach is subject to a number of significant limitations:

1. 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 saying that other measures have not been achieved, we can only say that we have no evidence that they have been achieved.
2. 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.
3. 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 which 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.
4. Fourth, although we have sought to depict whether a measure is “fully” or “partially” implemented, this involves a degree of subjective judgement. This is further complicated by the fact that some of the measures include discrete, “one-off” actions – such as reaching a specific agreement, whereas others are open-ended and “ongoing” – such as capacity building. We intend to continue monitoring this in future reports, while looking for better ways to represent progress.


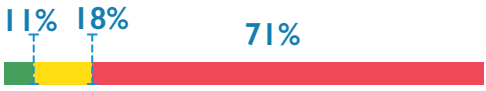





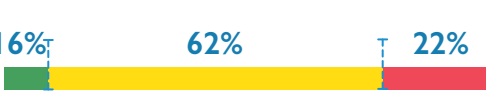


We believe that despite these limitations, this assessment provides a useful reference point for assessing the overall progress in implementation of the AEC Blueprint 2025. It also represents a starting point for further work.

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 api.ideas.org.my

Implementation by Characteristic

Note:


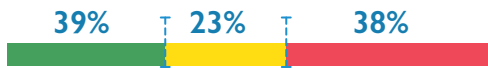





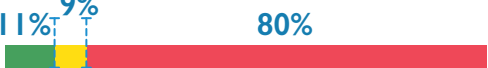


Full
 Partial
 No Evidence











Characteristic	Implemented (%)
 Highly Integrated and Cohesive Economy	 <p>11% 18% 71%</p>
 A Competitive, Innovative and Dynamic ASEAN	 <p>61% 12% 27%</p>
 Enhanced Connectivity and Sectoral Cooperation	 <p>17% 26% 57%</p>
 Resilient, Inclusive, People Centered and People Oriented	 <p>16% 62% 22%</p>
 Global ASEAN	 <p>17% 83%</p>








Implementation by Pillar




Note:


Full
 Partial
 No Evidence

Pillar	Element	Implementation (%)
A1.	 Trade in Goods	 <p>39% 23% 38%</p>
A2.	 Trade in Services	 <p>50% 50%</p>
A3.	 Investment Environment	 <p>11% 33% 56%</p>
A4.	 Financial Integration, Financial Inclusion and Financial Stability	 <p>11% 9% 80%</p>
A6.	 Enhancing Participation in Global Value Chains	 <p>100%</p>

Pillar	Element	Implementation (%)
B1.	 Effective Competition Policy	 <p>69% 23% 8%</p>
B2.	 Consumer Protection	 <p>50% 50%</p>
B7.	 Effective, Efficient, Coherent and Responsive Regulations and Global Regulatory Practice	 <p>25% 75%</p>
B8.	 Sustainable Economic Development	 <p>67% 33%</p>
B9.	 Global Megatrends and Emerging Trade-Related Issues	 <p>100%</p>

Pillar	Element	Implementation (%)
C1.	 Enhanced Transport	10% 34% 56%
C2.	 ICT	29% 81%
C3.	 E-Commerce	100%
C5.	 Food, Agriculture and Forestry	67% 17% 17%
C6.	 Tourism	17% 8% 75%
C7.	 Healthcare	19% 10% 81%
C8.	 Minerals	100%

Pillar	Element	Implementation (%)
D1.	 Strengthening Role of MSMS's	16% 60% 24%
D2.	 Strengthening Role of Private Sector	50% 50%
D5.	 Contribution of Stakeholders on Regional Intergration Efforts	67% 33%

Pillar	Element	Implementation (%)
E.	 Global ASEAN	17% 83%

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 Manila, Jakarta, Phnom Penh and Kuala Lumpur, alongside interviews with experts in the field of ASEAN integration.

ASEAN Integration: Outcome Indicators

It is important to recognise that these indicators provide only a partial assessment of ASEAN integration. As we noted above, the CSAP is very broad and detailed, and these indicators provide only a high-level assessment of the progress of ASEAN economic integration. Furthermore, there are many other factors that will influence the performance of these factors besides ASEAN integration as implemented via the CSAP. However, despite these limitations, the indicators do provide some useful insights.

Almost all indicators are improving in absolute terms. Trade in goods, trade in services, FDI, migration and tourism have all increased since 2010. This includes increases in both the global values, and intra ASEAN values, suggesting that ASEAN is engaged in more cross-border economic activity both internally and with the rest of the global economy.

However, both trade and investment have declined as a share of GDP. It is noticeable that trade and investment fell as a share of GDP between 2010 and 2015, and between 2015 and 2017, although the latter change was very modest. Given that trade has continued to grow in absolute terms, this suggests that domestic economic activity in ASEAN has been growing faster than cross-border trade and investment. However, it is too simplistic to say that this represents a failure in ASEAN economic integration, as the change is not large and also because ASEAN integration would also be expected to stimulate domestic economic activity.

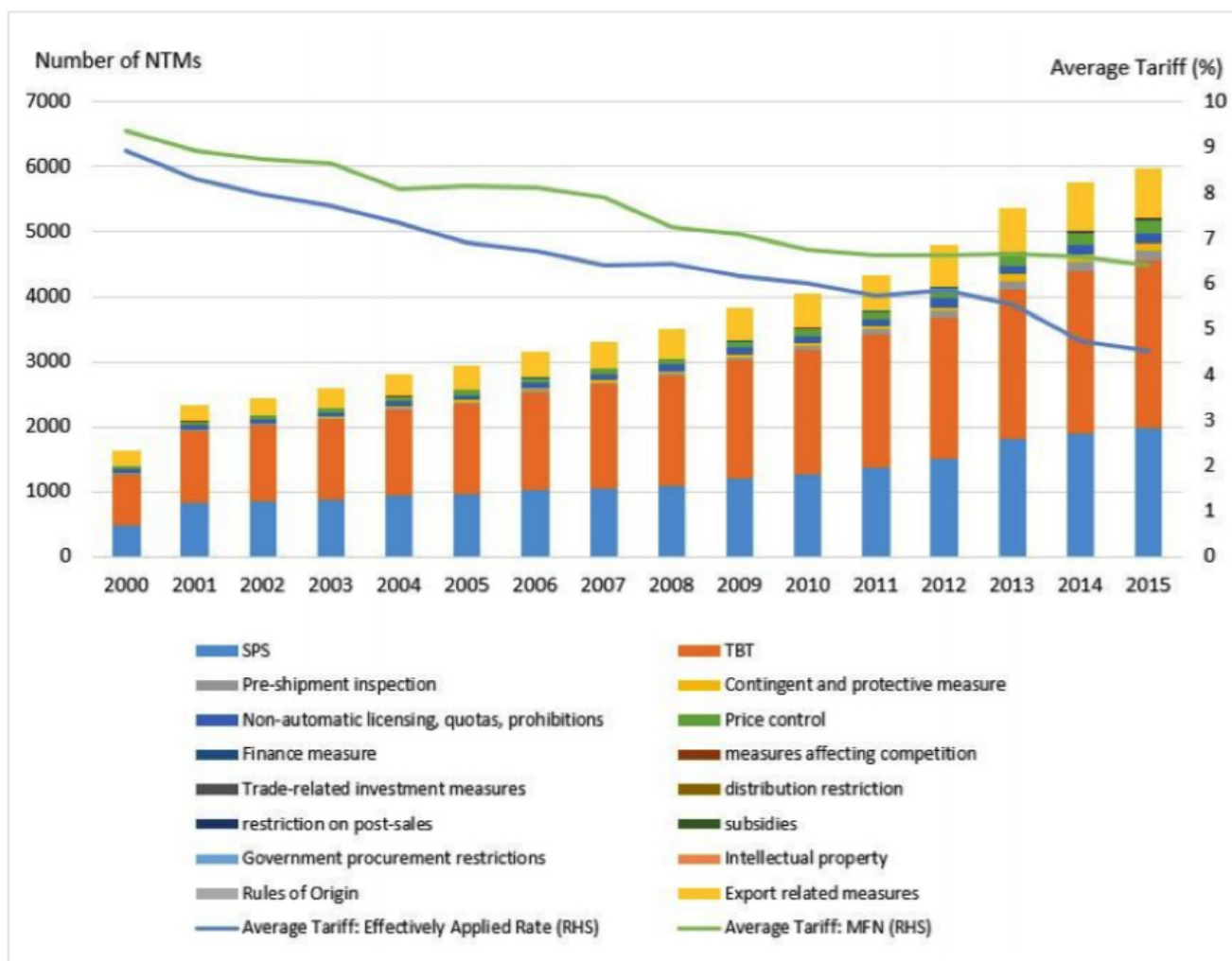
For almost all indicators the intra-ASEAN share is either stagnant or declining slightly. Across trade, investment, migration and tourism the intra-ASEAN share of cross border economic activity is either flat or falling. Indeed, in the case of trade, the intra-ASEAN share has been little changed between the 20-25% range for many years. This is perhaps surprising given the significant efforts being made under the AEC to enhance the trading relationships between ASEAN Member States. This finding of stubbornly low share suggests that intra-ASEAN trade is growing no faster than extra-ASEAN trade. The fact that the intra-ASEAN shares of cross-border economic activity are not increasing might suggest that ASEAN integration is progressing slower than many would hope. However, there are other possible explanations for this outcome, which we need to consider.

Limited change in intra-ASEAN shares of cross border economic activity may reflect equal priority being given to trade and investment links outside of ASEAN. Unlike the European Union (EU), ASEAN's institutional framework does not preclude its Member States from pursuing independent trade policies. Since ASEAN is not a Customs Union, there is no Common External Tariff for its members, nor are they compelled to follow common commercial policies with third countries. As a result, ASEAN Member States have divergent trade relationships, for example Singapore and Vietnam have signed Free Trade Agreements (FTA) with the EU, whilst Malaysia and Indonesia have not. In the case of investment, ASEAN has historically received the bulk of its FDI from outside the region. China, a non-ASEAN country, has played an increasingly significant role in the region in recent years, providing a large source of FDI in several different Member States. The slower growth in intra-ASEAN shares of cross-border economic activity, relative to the global totals, suggests that deepening these external trade and investment links has progressed in tandem with the efforts being pursued through ASEAN economic integration initiatives.

Equally fast trade growth outside ASEAN might simply reflect the focus within ASEAN on multilateral trade openness. Another explanation to consider is the role that ASEAN plays in promoting free and open (non-discriminatory) trade. This is exemplified by the fact that ASEAN's original members used the AFTA as a stepping-stone to broader liberalization, by offering preferential tariffs to non-members on a most favoured nation (MFN) basis, meaning that to be part of ASEAN means to be open to trade not just with other members – but with all countries (Menon, 2018). More than 90% of ASEAN countries' tariff lines have a preference margin of zero, where preferential tariffs are no lower than the MFN rate. Over 70% of intra-ASEAN trade is also conducted at MFN rates at zero. ASEAN rarely uses preferences because there are hardly any preferences to use. This multilateralization of preferences has minimized trade diversion effects, and in part accounts for the persistently low intra-ASEAN trade shares. Most intra-ASEAN trade is supply chain-related trade in parts and components and therefore the decision to multilateralize ASEAN tariff reductions has encouraged value chain-driven trade. In other words, ASEAN through its focus on multilateralization has played an important role in increasing overall trade. Under these circumstances, slow or stagnant growth in intra-ASEAN trade shares suggest that intra-ASEAN trade is growing as rapidly as extra-ASEAN trade, and this should be interpreted as a success for ASEAN, not a failure. This is not to deny the importance of trying to increase the share of intra-ASEAN trade. If the intra-ASEAN trade share is to increase in the future, it should not be induced by artificial preferences but by improvements in competitiveness.

In the case of trade in goods, the performance reflects ongoing challenges with Non-Tariff Measures and Rules of Origin. Improving the level of intra-(and extra) ASEAN trade will require sustained efforts to address the proliferation of Non-Tariff Measures (NTMs), which restrict trade. Cadot et al. (2017) argue that the “‘inappropriate use’ of NTMs is a possible channel for a country to become protectionist.” The Economic Research Institute for ASEAN and East Asia (ERIA) has compiled data on NTMs in ASEAN. Based on these, Ing et al. (2016) highlight that as tariffs have fallen across ASEAN, the number of NTMs has increased dramatically, as shown in figure 2. Ing et al. (2016) propose two hypotheses for this: first, that as tariffs have fallen countries have used NTMs as alternative tools for trade protection; and second, that increased NTMs reflect changing consumer preferences, increasing the need for safety assurances. Promoting trade, both within and beyond ASEAN, will require sustained efforts to move beyond tariff reductions and address the proliferation of NTMs across ASEAN.

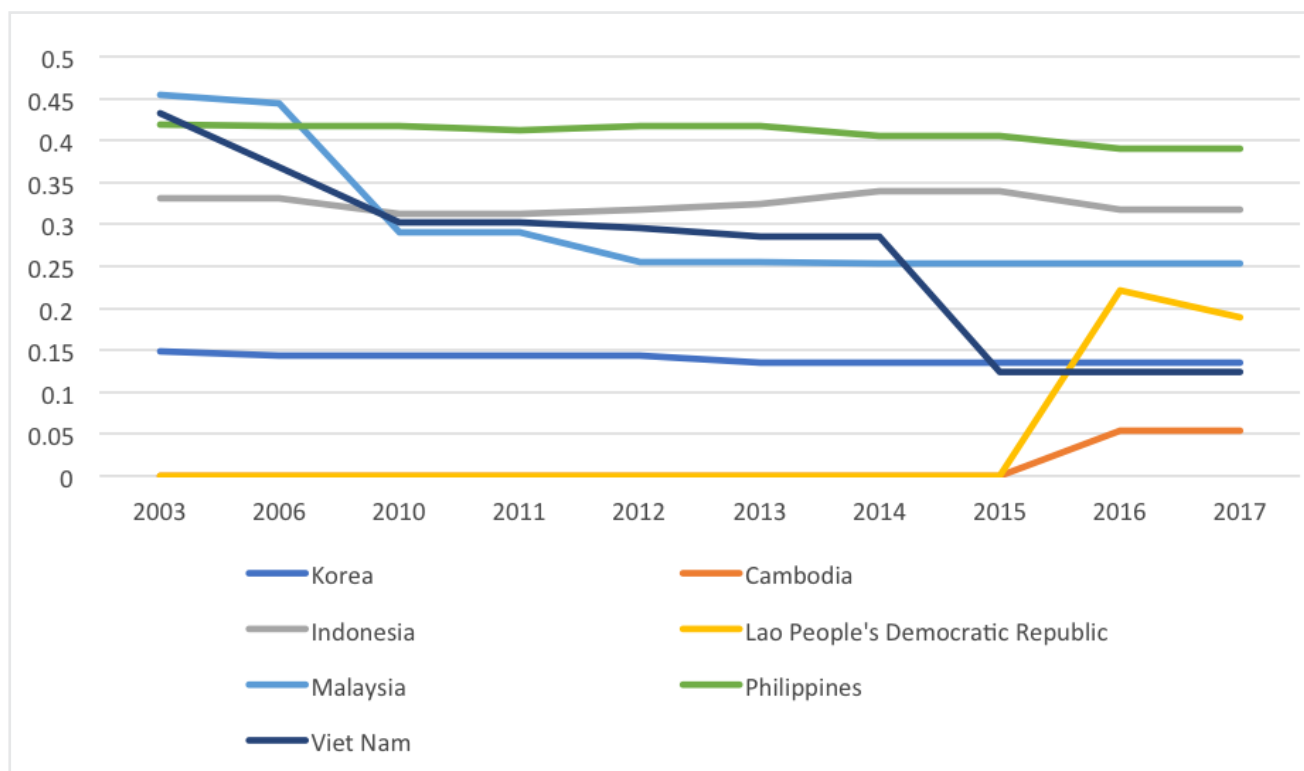
Chart I. Trends of Tariff and Non-tariff Measures in ASEAN, 2000–2015



Source: Ing et al (2016), using ERIA NTM database

In the case of investment, similar trends apply. As with trade in goods, the stagnant share of intra-ASEAN FDI partly reflects a decision to multilateralise openness and can therefore be considered as a success from ASEAN’s perspective. It should also be noted that, apart from Singapore and Malaysia, the other ASEAN Member States are net importers of capital rather than exporters. The OECD’s FDI Restrictiveness Index reports that ASEAN countries have become gradually more open to investment (Figure 3) and therefore the slower growth of intra-ASEAN FDI relative to total FDI partly reflects a decision not to open on a preferential basis to other members. However, some Member States still lag behind non-ASEAN partners in the region, such as Korea, demonstrating that further liberalisation is possible to maximise the potential for FDI, both from within ASEAN and outside.

Chart 2. FDI Restrictiveness in selected ASEAN Countries and Korea, 2003-17



Source: OECD Investment Restrictiveness Index

Increasing trade in services will require sustained efforts to harmonise regulations and facilitate movement of professionals. Growth in the volume of services traded within ASEAN will also require complex reforms, including regulatory alignment. This is, by its nature, challenging given the variety of restrictions that have developed over time in different Member States. When it comes to services trade, ASEAN is, on average, one of the more restrictive regions in the world (Gootiiz and Mattoo, 2017). The average Services Trade Restrictiveness Index (STRI) for the region is 60% higher than the global average. An important area of services integration is the negotiation of Mutual Recognition Agreements (MRAs) for qualified personnel, to enable them to work in different jurisdictions. Significant progress has been made in this regard, Table 1 below details the number of ASEAN qualified engineers, certified under the MRA for engineering services. However, in other areas, progress has been slow – the proposed MRA for air transport professionals is over 5 years behind schedule.

Table I. ASEAN Certified Engineers 2012-2018

Country	2012	2015	2016	2018
Brunei Darussalam	0	2	6	22
Cambodia	0	0	30	67
Indonesia	99	486	746	1,069
Lao PDR	0	0	11	12
Malaysia	149	207	261	589
Myanmar	0	101	200	514
Philippines	0	77	174	378
Singapore	183	229	235	278
Thailand	0	24	123	217
Vietnam	9	134	196	204
Total Engineers	440	1,260	1,982	3,350

Source: 2012, 2015 and 2016 figures from Hamanaka and Jusoh (2016), 2018 figures from ACPECC (available online at: <http://acpecc.net/v2/>, accessed on 1 November 2018)

Overall, these challenges underline the importance of continued commitment to implementation of AEC 2025. Different interpretations can be offered for the performance of the economic indicators we have selected. What is clear, is that further growth in cross-border economic activity both within ASEAN and beyond its borders will require tackling the more complex barriers to integration, including NTMs and regulatory alignment.

AEC Implementation

This report provides only a partial assessment of implementation of AEC 2025, based on what information is publicly available. As noted in the comments on methodology, there are a number of limitations with the approach taken in this report. However, we believe that this provides a useful foundation for monitoring implementation of the AEC Blueprint 2025 and highlights some important issues.

The assessment suggests that in many areas, implementation of AEC 2025 is behind schedule. Across all characteristics, there remain at least some actions scheduled for completion in 2018 for which there is no publicly available evidence of significant progress. Perhaps unsurprisingly, the most complicated Characteristic with the highest number of associated measures, Characteristic A “Highly Integrated and Cohesive Economy”, is the most behind schedule with less than 30% of measures on schedule according to publicly available information.

This does not detract from the fact that significant achievements have been made. The scope of the AEC Blueprint 2025 is very ambitious and therefore it is to be applauded that significant progress has been made in a range of different areas.

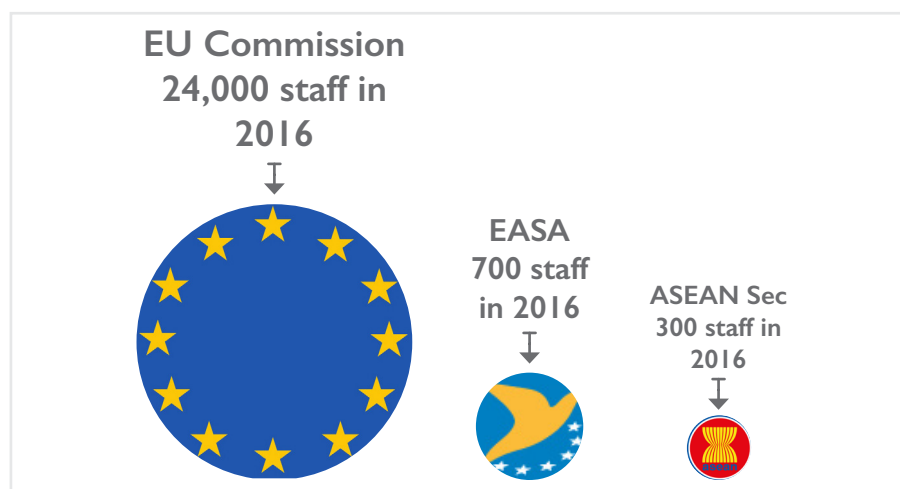
Providing an in-depth assessment of progress is not possible within the scope of this report. Given the breadth and scope of the CSAP, it is not possible within the scope of this report to provide an in-depth assessment of the implementation challenges that have led to these scores. We provide a more in-depth analysis of the aviation sector, and in future reports we will focus on other sectors.

However, it is clear that ASEAN integration faces significant institutional, economic and political challenges. What we can discern from this assessment is that timely implementation of the CSAP remains challenging. Based on our Focus Group Discussions, we have identified three linked sets of issues which contribute to slow progress in achieving ASEAN integration: institutional, economic and political.

Institutional Challenges

The ASEAN Secretariat, by design, is constrained in its ability to drive implementation. The ASEAN Secretariat is designed to perform the functions of a secretariat, not drive a complex agenda of policy implementation across 10 countries. As a result, the ASEAN Secretariat lacks options to compel enforcement across Member States. This is also reflected in the resources made available to the ASEAN Secretariat – with only 300 staff in 2016, it is vastly smaller than the 24,000 strong European Commission and less than half the size of the European Aviation Safety Agency (EASA), which is responsible for only aviation issues within the EU. Ultimately, these limited resources constrain the extent to which the ASEAN Secretariat can drive the process of implementation.

Figure 2. Relative size of permanent staff at EU Commission, EASA and ASEAN Secretariat in 2016



The mechanisms to manage implementation at a national level vary in effectiveness. Given the capacity limitations and institutional structure of the ASEAN Secretariat, implementation must be managed at Member State level by the responsible authorities. As a result, the effectiveness of implementation varies. In part, this can arise from the variation in capacity in the implementing authorities at the Member State level, but it can also arise from national agendas re-emerging once an issue has been agreed at a political level and is then transferred to national agencies to implement. These issues are further compounded by the fact that the level of cooperation between the ASEAN Secretariat and national implementing authorities varies across different areas. In some cases, sector-specific platforms have been established, serviced by the ASEAN Secretariat to convene national regulators across ASEAN. However, these mechanisms are not replicated across all sectors, partly due to the need to prioritise across limited resources.

The consensus-based approach to decision making in ASEAN inevitably results in slower progress. The famous “ASEAN way”, which ensures that all decisions are made on the basis of consensus and the sovereignty of any one Member State cannot be compromised is the defining feature of ASEAN. This approach has arguably avoided the risks of ASEAN moving “too fast” and has resulted therefore in broad support for ASEAN. However, this approach inevitably slows the progress of ASEAN integration

Ultimately, these institutional limitations are a feature of ASEAN’s design and there is little appetite to change. These institutional limitations in ASEAN resources and capacity are deliberate features of its design and are ultimately rooted in the Association’s conception as a grouping of sovereign nations, not a supranational body. There is little appetite at the political level to alter the status quo in this regard.

Economic Challenges

Different levels of economic development present challenges for ASEAN integration. ASEAN encompasses 10 Member States at significantly different levels of economic development. ASEAN may well be the most diverse region in the world, and the differences have been widely documented (Menon 2014). Addressing these disparities was recognized in the third pillar of the original AEC Blueprint (Equitable Economic Development), and the fourth pillar of the current Blueprint (a resilient, inclusive and people-oriented and people-centred ASEAN) and aims to “address the development divide and accelerate integration of Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV) through the Initiative for ASEAN Integration (IAI) and other regional initiatives.” While the IAI and other bilateral and regional initiatives can help address the development divide, the biggest effort must come from within the countries themselves. This will involve the adoption of policies that promote rapid economic development and economic convergence, including the implementation of AEC 2025. There is evidence to suggest that the process of convergence has started taking place within ASEAN as the newer members begin to catch-up to the economic conditions prevailing in the original member countries. Strong rates of economic growth since the 1990s, driven initially by unilateral trade, investment, and other market reforms, and followed by regional initiatives such as the AEC, have reduced differences in per capita incomes. This needs to continue and perhaps hasten as we move closer to 2025 because the creation of a community cannot genuinely occur unless the huge development gaps are substantially narrowed.

This diversity can also motivate protectionist policies in some Member States. Apart from reducing disparities to increase cohesion as we move towards the creation of a community, diversity needs to be reduced to ensure that policies converge over time. Some of the newer, and poorer, Member States have not embraced the liberalisation programs as actively as the original members and have resorted to protectionist policies during downturns or periods of uncertainty (as have some original members). The new Member States have also resisted emulating their predecessors by multilateralizing the ATIGA tariff preferences and have preferred to stick with the minimum required changes mandated by the formal agreement. As economic diversity is reduced, it is expected that there will be convergence not only in incomes but also in terms of policies and approaches relating to trade, investment and other reforms.

Political Challenges

Progress with ASEAN integration depends on the willing participation of all Member States and is therefore subject to political factors in each Member State. As noted under “Institutional Challenges”, ASEAN decision making remains consensus-based by design, and implementation is necessarily the responsibility of national authorities rather than the ASEAN Secretariat. As a result, progress with integration is inevitably subject to political concerns within individual Member States. ASEAN’s approach to compliance is more “carrot” rather than “stick”, with countries encouraged rather than compelled to implement agreements and accords. The fact that ASEAN’s Dispute Settlement mechanism has never been employed is a testimony to the approach taken by all parties concerned. Although AEC Blueprint 2025 does try and improve on compliance through better monitoring and enforcement, implementation remain by-and-large goodwill driven.

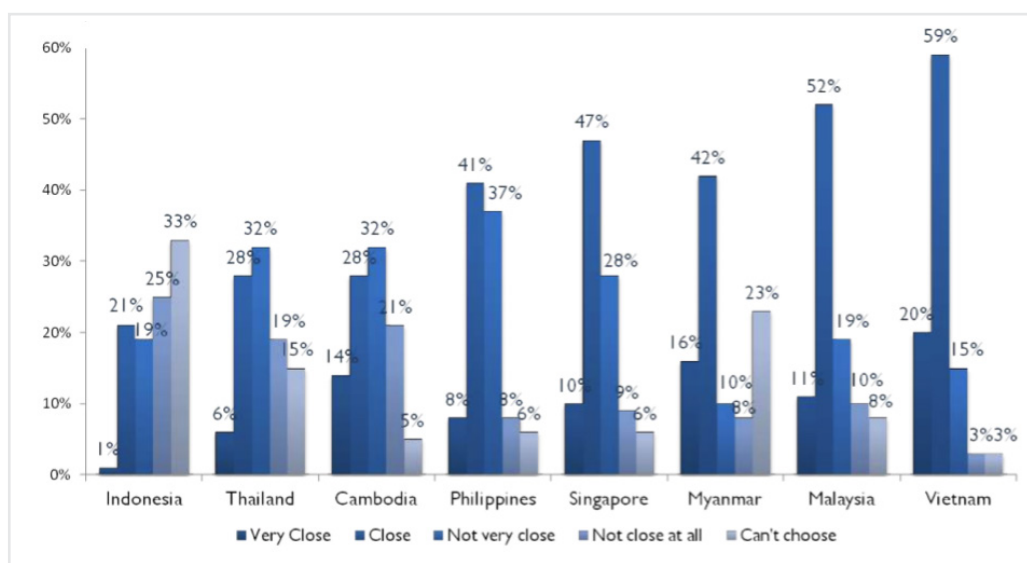
Global concerns over free trade and globalisation are being reflected in ASEAN to some extent. In the wake of the Global Financial Crisis of 2008 there have been growing concerns about the negative consequences of globalisation. This in turn has led to concerns over free trade and its potential impacts,

especially in terms of how its costs and benefits are distributed. This has led to disruptions to the established process of gradual global integration in the West, including Brexit and President Trump's trade measures against China. There is a risk that the sentiments and the global uncertainty these developments are creating will motivate protectionist tendencies among ASEAN Member States. On the other hand, some argue that global trade tensions should serve as a greater justification for ASEAN integration, to ensure greater resilience in the face of uncertainty in other markets. Reflecting the complexity of these arguments, Prime Minister Mahathir of Malaysia voiced concern over "unfair" trade deals, which disadvantage developing nations, at the same time as urging fellow ASEAN Member States not to adopt protectionist measures and to prioritise economic integration (Free Malaysia Today, 2018). If ASEAN can reduce tariffs unilaterally, or multilateralise its tariff preferences without reciprocity, on the basis that it is in its interests to do so, then it should apply the same principle in succumbing to protectionist pressures or engaging in tit-for-tat tariff increases initiated by trading partners.

Perceptions about ASEAN and its role vary across Member States. The importance of ASEAN varies across Member States, as do the different aspects of it. In Malaysia, our conversations on ASEAN largely focussed on economic issues and the role of ASEAN within Malaysia's wider trade policy. In Cambodia, there was greater emphasis placed on ASEAN's role in supporting peace and stability in the region. This is perhaps not surprising given these two countries' respective histories, but it demonstrates how ASEAN's role can be perceived differently. These different perceptions may influence the priorities given to different initiatives within ASEAN by Member States. Interestingly, a survey by Blackbox found that most South East Asians are more likely to think of ASEAN in terms of providing peace and security and see its most important role as being to provide peace and security across the region.

ASEAN can be a "distant" concept for many citizens across Member States. Research by the Habibe Centre found significant variation in how "close" citizens feel to ASEAN across Member States. The country with citizens feeling the closest to ASEAN was Vietnam, with 20% saying they felt "very close". This compares to Indonesia, where only 1% felt "very close" and 25% felt "not close at all". This survey did not relate to ASEAN economic integration specifically, but it does suggest that the gains of ASEAN economic integration are not fully realised at the level of the citizen. This argument was made recently by former Indonesia Finance Minister Cathib Basrie (2017), who has argued for clear tangible benefits to build public support for ASEAN integration.

Chart 3. Perceptions of "closeness" to ASEAN, Cross-country comparison, 2016



Source: Habibe Centre (2016)

Issues pertaining to ASEAN and ASEAN economic integration do not feature heavily in national politics. Partly, as a result of the relatively low levels of public interest, ASEAN does not typically feature as a major political issue. For example, ASEAN barely featured during 2018's Malaysian General Election and is also absent from Indonesia's forthcoming Presidential Elections in 2019. To some extent this may be viewed as positive from the perspective on progressing ASEAN integration – as it may reflect the fact that ASEAN integration has not caused a political backlash, unlike the EU in Europe. Others might argue this is due to the fact that the public case for ASEAN integration has not been made sufficiently strong, or in terms which engage public attention.

Sector Deep Dive: Aviation

In this section we provide a more in-depth assessment of progress of the integration of ASEAN's Air Transport Market, which falls under Pillar CI of the CSAP. In each future version of this report we will include a more in-depth analysis of a different sector or aspect of the AEC.

AEC and Aviation

Since 1995 air connectivity has been a fundamental component to the AEC as part of what is now called the ASEAN Single Aviation Market (ASAM). Improving air transport links is crucial to maximising the potential for trade, particularly with the growth of e-commerce predicted in the future. Beyond trade, strengthening of the internal market through stronger air transport links also makes ASEAN a more attractive destination for foreign investment. Furthering ASAM will also maximise the potential for tourism and travel which has significant economic as well as cultural and social benefits.

There are three objectives of ASAM which are: (1) to develop a unified and single aviation market among ASEAN members in Southeast Asia; (2) to become a vital component of the roadmap for the establishment of the AEC; and (3) to replace existing unilateral, bilateral and multilateral air services agreements among member states which are inconsistent with its provisions.

This expansion of ASAM has been underpinned by a series of agreements that have provided the foundation for liberalisation of the aviation sector in ASEAN. The three agreements are the 2009 Multilateral Agreement on Air Services (2009 MAAS), the 2009 Multilateral Agreement for the Full Liberalization of Air Freight Services (2009 MAFLAFS), and the 2010 Multilateral Agreement for the Full Liberalization of Passenger Air Services (2010 MAFLPAS). The first phase of the ASEAN Single Aviation Market (ASAM) was completed when the 2010 MAFLPAS was ratified by the 10th state, Indonesia, in April 2016.

The detailed steps to further develop ASAM were agreed by ASEAN Ministers in the Kuala Lumpur Transport Strategic Plan (KLTSP) in 2016, which nests within Pillar CI of the CSAP

Economic Outcomes of Aviation Integration

Integration of air transport in ASEAN has brought significant economic benefits. The number of passengers carried in ASEAN countries has tripled, from 98 million in 2004 to 329 million in 2016 (The World Bank, 2018).

The liberalisation of the aviation market has also provided increased competition, particularly as a result of the emergence of Low-Cost Carriers (LCCs) in the region, which has reduced passenger air fares and facilitated greater choice. A total of 1,009 nonstop services were served in 2004 from ASEAN countries, which increased to 1,683 non-stop services in 2014 – an increase of 674 routes (or 67%) since (InterVISTAS, 2015) 2004. Considering just the case of Malaysia and Thailand, in 2003 there were just five nonstop routes, with a total seat capacity of 723,300 and of these five nonstop routes, only two were offered by more than one carrier. By 2014, this had grown to 17 nonstop routes, with a seat capacity of 2,685,600 (a total increase of 271% compared to 2003), greatly increasing passenger benefits not only by offering more destination choices and higher frequencies, but also by decreasing travel times (InterVISTAS, 2015).

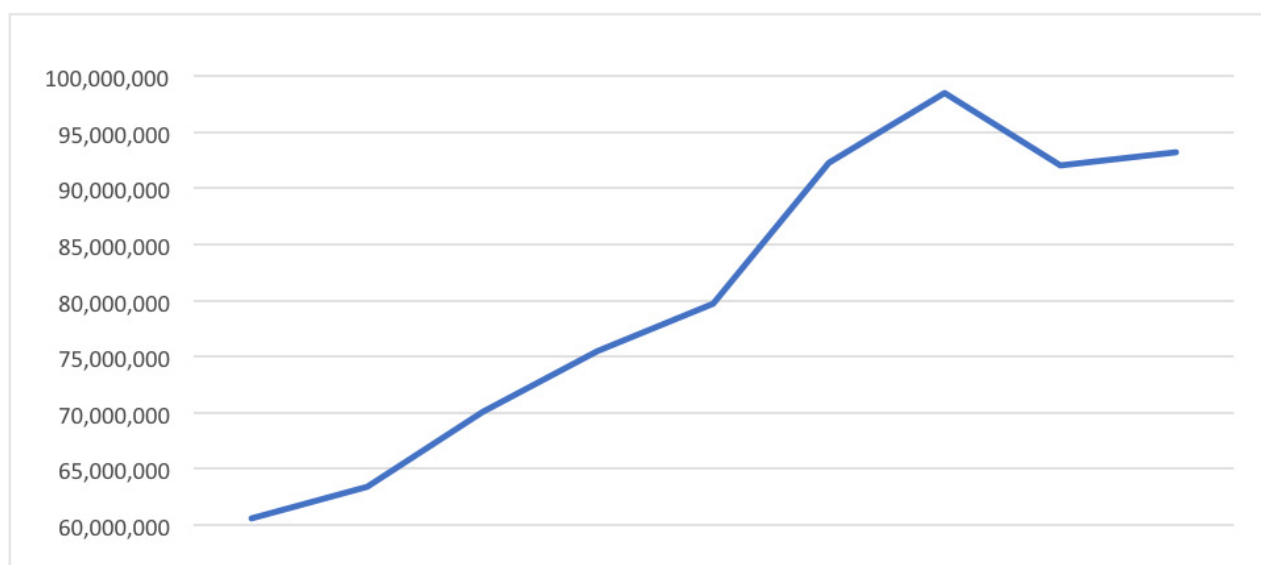
Another example is the Kuala Lumpur–Singapore route, which was tightly controlled before 2008 and only operated by Malaysian Airlines and Singapore Airlines. In February 2008, this policy was partially relaxed, allowing LCCs to operate on the route. This was followed in December 2008 by a complete relaxation in line with Protocol 5 of MAAS, and there is now unlimited capacity between Singapore and Kuala Lumpur for all designated carriers from the two countries. As a result of this competition, ticket prices dropped from around \$180 on average to \$30 in the third quarter of 2008 (Zhang et al., 200;).

This is one example of a wider trend. The greater level of competition as a result of market liberalisation has exerted a downward pressure on air fares across ASEAN. Analysis by PwC shows that passenger yields for Full Service Carriers (FSCs) fell consistently from 2012 to 2016, reflecting increasing pressure on prices in the region as a result of market liberalisation (Wijeratne, Tripathi, & Sircar, 2018).

This reduction in the cost of air transport alongside an increased capacity has directly benefited ASEAN citizens and has also supported the growth of the tourism sector, which is a vital component of the economy in ASEAN. According to Dimitriou and Sartzetaki (2018), most tourists travel using air transportation. This is particularly true in the ASEAN region, where member states do not share the same landmass as in the European Union (EU). For example, a tourist may not necessarily travel from Germany to France using air transport but may instead opt for other alternatives such as high-speed train, buses, and cars. However, in the case of ASEAN, it is impossible for a tourist to travel from Malaysia to the Philippines using land transportation alone. Therefore, air transportation is essential for tourism ASEAN, and it is a part of the engine of growth in the region.

As we have already noted, between 2009 and 2010, ASEAN member states have signed three multilateral agreements: i) the ASEAN Multilateral Agreement on the Full Liberalisation of Air Freight Services and its Protocol (MAFLAFS); ii) the ASEAN Multilateral Agreement on Air Services and its Protocol (MAAS), signed on 20 May 2009 (The ASEAN Secretariat, 2015); and iii) the ASEAN Multilateral Agreement on Full Liberalisation of Passenger Air Services and its Protocol (MAFLPAS) signed on 12 November 2010 (The ASEAN Secretariat, 2015). These three multilateral agreements are the foundation for ASEAN Single Aviation Market and the best cutoff point to observe whether there is an impact on the volume of international tourist arrivals in ASEAN. According to ASEAN Statistics Division (ASEANstats), the number of international tourist arrival within ASEAN has increased by 53.6% from 60.6 million tourists in 2008 to 93.1 million tourists in 2016.

Chart 4. Tourist Arrivals in ASEAN 2008-2017, (persons)



Source: ASEAN Statistics Division (ASEANstats)

Beyond tourism, increased integration of air transport in ASEAN also bring benefits in terms of trade, investment and productivity. Bannò and Redondi (2014) proved that there is a correlation between air connectivity and Foreign Direct Investment (FDI). With new air routes, firms will be able to reduce their transport cost and thus increase the probability of FDI exchange between connected regions. Once a new route is opened, Bannò and Redondi (2014) estimated that FDI would increase by 33.7% in two years time. The aviation industry can also attract businesses to expand their operations by setting up headquarters in the host region (Bel & Fageda, 2008). Bel and Fageda (2008) argued that a 10% increase in the supply of intercontinental flights would raise the number of headquarters of large firms located in the corresponding host country to around 4%. As we noted earlier, FDI has risen consistently in ASEAN – it is not possible to isolate the precise amount which can be attributed to greater integration of air transport, but it is likely to have played a significant role.

Air transport in ASEAN is also a critical component for trade. Research by Oum, Zhang and Fu (2010) showed that lower air transport costs increased trade volumes. Furthermore, Oum et al. (2010) indicated that as a result of a relative decrease in air travel cost, air cargo is growing more important in cargo logistics which now makes up 40% of international trade by value. Air transport is set to play an increasingly important role as e-commerce develops. According to Euromonitor (2017), internet sales are projected to remain the fastest growing channel for retail sales globally. The International Post Corporation (IPC)

reported in its annual survey that between 2013 and 2015, e-commerce from Asia Pacific to Europe grew by 66% (IATA, 2017). In their White Paper on e-commerce logistics, IATA identifies that “E-commerce is a future growth driver for the air cargo industry, as online shopping boosts demand for parcel delivery services worldwide” (IATA, 2017).

Crucially, the consumer expectation for speed when it comes to e-commerce, regardless of whether the transaction is cross-border, means air transport is often best placed to service the needs of this growing demand. International Civil Aviation Organisation (ICAO) Secretary General, Dr Fang Liu said that almost 90% of business-to-consumer (B2C) global e-commerce transactions are delivered by air. She went on to emphasise the importance of countries ensuring the right infrastructure and regulation is in place to ensure aviation industries can meet this growing demand.

We have noted the important role that liberalisation of air transport under ASAM has had in attracting FDI and facilitating trade in ASEAN and both these functions serve an additional benefit: increase productivity. As ASEAN’s exporters gain access to new markets their products and services face new competition internationally which spurs growth in productivity. Oxford Economics (2011a) noted that trading through global value chain makes modern economies highly dependent on air transport.

Likewise, FDI brings new technologies and practices which enhance productivity in the local economy. Demonstrating this point, Oxford Economics (2011a) argued that there is a positive correlation between air connectivity and long-term economic growth, as it was estimated that connectivity could lead to better long-run productivity and hence GDP. Research by Oxford Economics (2011a) claimed that there would be an increase of RM 434 million per annum in the long-run GDP from a 10% improvement in Malaysia’s air connectivity (relative to GDP).

Implementation of Air Transport Integration

These benefits underline the importance of achieving integration of air transport markets. The significant progress that has been made, in particular since 2008, is due to political commitment and sustained effort of all stakeholders. However, there remain significant elements of ASAM which are behind schedule.

On December 2011 in conjunction with the 17th ASEAN Transport Minister Meeting, an implementation framework was published with detailed goals to advance ASAM. However, as of writing there are significant gaps between the expected outputs with a specific timeline and today’s actual outputs. For instance, the framework document targeted the development of a mutual recognition instrument such as the Mutual Recognition of Aviation Related Certification Agreement by 2012. Unfortunately, this development can only be seen during the 23rd ASEAN Transport Meeting in October 2017 when member states agreed to pursue the Mutual Recognition Agreement (MRA) on Flight Crew Licenses. According to our own analysis, out of the 45 measures outlined in the framework, at least 16 measures have no evidence of having been updated.

Considering individual areas which have been subject to delay, we can identify specific instances of the general trends identified above, in terms of challenges to achieving ASEAN integration.

Market access beyond fifth freedom

The Implementation Plan for ASAM included an action to review the implementation of MAAS, MAFLAFS and MAFLPAS and commence discussion on the possibility of further liberalisation of market access. This refers to the freedoms of the skies, specifically moving beyond the 3rd, 4th and 5th freedoms. However, there is no evidence that this review has taken place, or that further liberalization is being considered. This has likely occurred due to a combination of two factors. First, full implementation of the 5th freedom is still ongoing, with supporting freedoms still being ratified. At the Air Transport Ministers (ATM) meeting in November 2018, ministers signed the protocol on Co-Termination Rights, which is necessary to fully implement the 5th freedom. This underlines the complexity of liberalization and the slow pace with which full implementation can take place.

The other factor delaying discussion of further liberalization is the protectionist concerns of Member States. Pursuing liberalization of the 7th freedom for example would allow airlines of a Member State to operate routes between two other Member States – opening a significant new portion of routes to greater competition. This would be a positive development for the consumer, but some Member States are concerned about exposing their domestic air transport industry to this level of competition. As a result of these concerns we understand that further liberalization is not currently being discussed.

Liberalisation of ownership and control and the Community Carrier

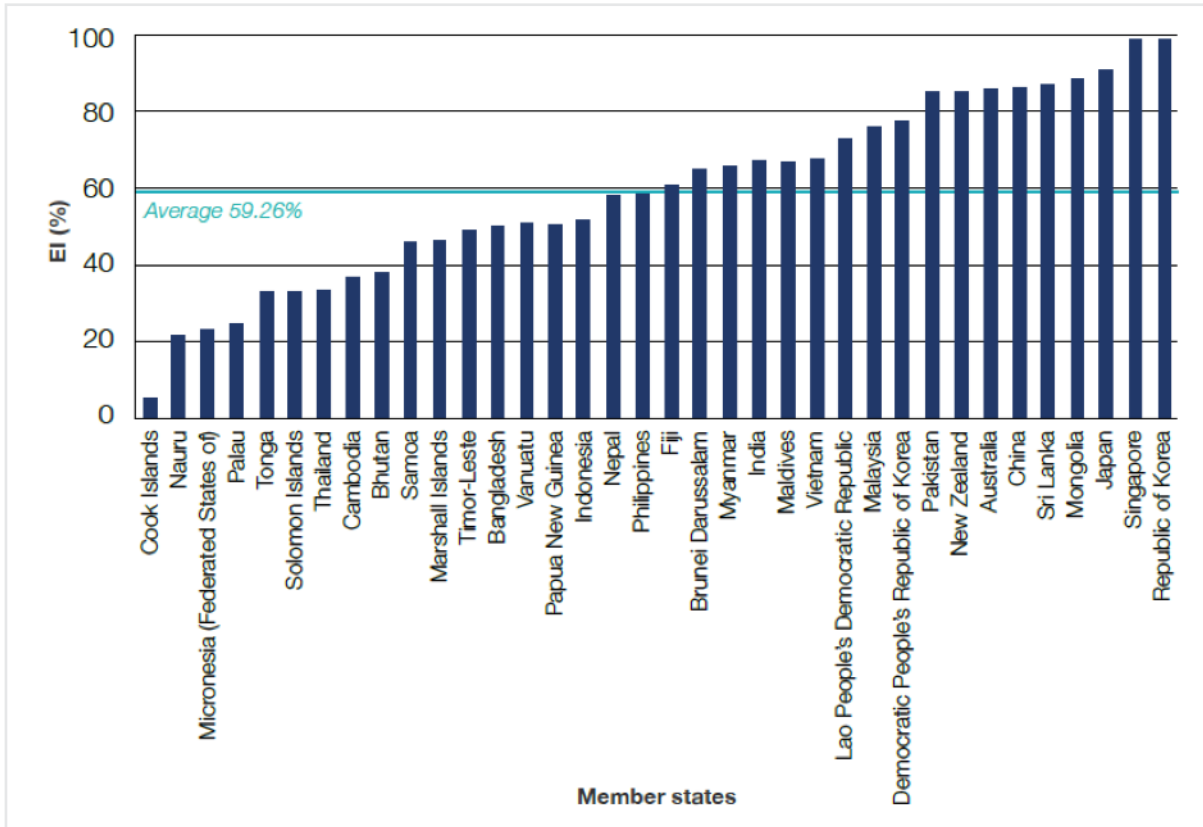
The Implementation Plan for ASAM included an action to Commence discussion on further liberalisation of ownership and control of airlines of ASEAN Member States. This would include establishing the framework for an ASEAN “Community Carrier”, whereby an airline can be substantially owned and effectively controlled by ASEAN interests. Borrowed from the European Union’s own “Community Carrier” model, this would allow ASEAN carriers to attract capital investment and management expertise from across ASEAN. It would provide greater incentives for ASEAN investors to establish new airlines or recapitalize existing ones across the region, particularly in the less developed Member States, and would therefore help to develop the air transport industry across ASEAN, incurring the various benefits we noted above (Tan, 2017). However, there is no evidence that this issue has been substantially progressed. Indeed, we understand that the concept of the Community Carrier has been de-prioritised within ASEAN. Again, this decision has occurred as a result of concerns in some Member States over protection for their domestic air transport industry, and not wishing to expose it to foreign investment and ownership, despite the potential benefits of such a move.

Align Safety Standards

The Implementation Plan for ASAM includes an action to align regulatory capability and safety standards with ICAO Standard and Recommend Practices. In this case, the lack of clear progress is due to the differing levels of capacity across Member States. The Universal Safety Oversight Audit Program (USOAP) assesses a nation's aviation safety. USOAP audits focus on a state's capability to provide safety oversight by assessing whether it has effectively and consistently implemented SARPs (ICAO Annual Safety Report, 2017). The eight critical elements that are evaluated are 1. primary aviation legislation; 2. specific operating regulations; 3. state civil aviation system and safety oversight functions; 4. technical personnel qualifications and training; 5. technical guidance, tools, and the provision of safety-critical information; 6. licensing, certification, authorisation, and approval obligations; 7. surveillance obligations; and 8. resolution of safety concerns (Lee, 2018).

According to ICAO, the overall USOAP effective implementation score around the world in 2017 was 64.44% while the average score for Asia-Pacific countries was 59.26%. Unfortunately, some ASEAN member states are ranked below average.

Chart 5: Overall Effective Implementation for Asia-Pacific States



Source: ICAO Annual Safety Report, 2017

There are disagreements over how to address these significant gaps. At IDEAS, we have previously proposed a formal body for national regulators to be established and act as a precursor to ASEAN Regional Safety and Oversight Office (RSOO), following a similar development path to the European Union (Amirullah, 2018). However, this proposal is not currently being adopted by ASEAN, and others have argued that moving towards a regional safety body of this kind in foreseeable future is not possible given the lack of willingness within ASEAN to share responsibility for regulatory issues.

Mutual Recognition Agreements

The Implementation Plan for ASAM included an action to develop a mutual recognition instrument, i.e. Mutual Recognition of Aviation Related Certification Agreement. A Mutual Recognition Agreement (MRA) is an agreement among ASEAN member states to facilitate trade in services through recognition for professionals who are authorised, licensed or certified by respective authorities within the frameworks of MRAs. MRAs aims to facilitate the mobility of skilled or professional labour in ASEAN and offset surpluses and shortages of professionals between different countries. Despite the ambition to agree MRAs for aviation personnel by 2012, it was only in 2017 that the ATM agreed to pursue the MRA on Flight Crew Licenses and started to develop the Implementing Protocols (IPs) which will contain the detailed procedures and scope for implementation of the MRA. There are now four IPs that need to be developed and implemented in order for the MRA to take effect:

- IP1: Qualification of Flight Simulation Training Devices (FSTD);
- IP2: Aviation Training Organisations (ATO);
- IP3: Oversight Capability; and
- IP4: Licences and ratings.

At the ATM in November 2018, Transport Ministers endorsed a timeline set by the Senior Transport Officials Meeting (STOM), to conclude IP1 by the time of the ATM in November 2019. This prolonged timeline underlines the complexity of concluding regulatory agreements of this nature and suggests it will be some years before the MRA is fully implemented.

Future Prospects for Air Transport Integration

The progress with Air Transport reflects many of the trends across ASEAN integration: significant achievements coupled with economic benefits, but ongoing challenges to achieve timely implementation of further integration due to a combination of political reluctance, complexity of reforms and varying levels of capacity across Member States. Further progress will require sustained efforts to address these issues.

Conclusions

This report is designed to provide an external mechanism to monitor implementation of the AEC Blueprint 2025, based on interviews with various stakeholders and publicly available information. The key conclusions that can be drawn from our analysis are as follows.



Economic indicators show that cross-border economic activity, including trade, investment and movement of people, is increasing both within ASEAN and between ASEAN and the rest of the world.



Intra-ASEAN shares of cross-border economic activity remain static despite efforts to deepen integration. However, there are multiple possible explanations for this, including that ASEAN supports and encourages trade with the rest of the world through its embrace of open regionalism.



Further increasing both intra-ASEAN and extra-ASEAN trade will require tackling complex issues including reducing non-tariff barriers, simplifying rules of origin, deepening trade facilitation measures, and harmonizing standards and regulations.



The AEC Blueprint 2025, which aims to address these more complex areas, has delivered significant achievements but remains behind schedule in many areas.



There are a number of challenges with progressing implementation. At the institutional level, ASEAN remains constrained by design with limited resources and authority to compel compliance. Furthermore, consensus-based decision-making contributes to slow progress with the weakest member setting the pace, and drawn-out decision-making.



From an economic perspective, there remains significant variation among Member States resulting in different priorities and capacities to implement initiatives. In some cases, this economic diversity can motivate protectionist tendencies.



The design of ASEAN is such that progress with economic integration is inevitably subject to political factors in Member States. There are varying perceptions about the role and importance of ASEAN across Member States; in part this reflects the fact that ASEAN and ASEAN economic integration are not high-priority political issues domestically.



In the case of air transport integration, we can see specific examples of these general trends. The ASEAN Single Aviation Market has delivered significant benefits in terms of higher capacity at lower prices which has boosted tourism, trade and investment. Further progress is hindered by protectionist concerns, for example over liberalising ownership and control, and the complexity of reforms needed, for example concluding Mutual Recognition Agreements.



Ultimately, there is little appetite to fundamentally change the underlying political and institutional dynamics of ASEAN, so further progress will continue to depend on continued commitment to achieving consensus on the importance of openness and resisting protectionist instincts. But, highlighting the real-world benefits of ASEAN economic integration in terms that are accessible to the general public can help to build momentum for progress and ASEAN should therefore continue with a spirit of openness and transparency.

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