



# Global Megatrends

**Implications for the ASEAN Economic Community**

Edited by  
Simon S.C. Tay  
Julia Puspadewi Tijaja

 SINGAPORE INSTITUTE  
OF INTERNATIONAL AFFAIRS







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The ASEAN Secretariat  
Jakarta

The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967. The Member States are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam. The ASEAN Secretariat is based in Jakarta, Indonesia.

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## FOREWORD

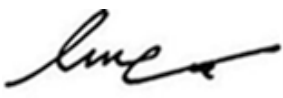
The dynamism of the modern world often comes with wide and far-reaching consequences, underscoring the merit of initiating dialogues to inform policy processes in response to these transformative changes. The case of global megatrends demonstrates the necessity for such dialogues. The discourse on global megatrends is nothing new however, with a rich literature clarifying their characteristics and identifying current, as well as emerging developments. Across different definitions, characterisations and taxonomies of global megatrends, there lies a shared understanding that the profound and transformative changes borne out of these megatrends are broad and varied, shaping the future.

The importance of being responsive to these changes, leveraging from the opportunities as well as managing the risks borne out of these global megatrends, is recognised. Such recognition finds even more resonance in the regional context, where the need to have collective policy responses becomes apparent with the scale of impacts of these megatrends cutting across demographics, policy areas, and national boundaries.

As ASEAN integrates into the global economy, the region is not insulated from the significant impacts from global megatrends in the decades ahead. ASEAN fully recognises this and the ASEAN Economic Community (AEC) Blueprint 2025 is envisioned to create a more dynamic and resilient ASEAN, capable of responding and adjusting to emerging challenges, including from global megatrends.

The work undertaken by the ASEAN Secretariat in collaboration with the Singapore Institute of International Affairs (SIIA), and with the support of the ASEAN-Australia Development Cooperation Program (AADCP) Phase II, to publish the Global Megatrends: Implications for the ASEAN Economic Community comes at an opportune time. Despite a growing body of literature addressing global megatrends, there is little reference made to the ASEAN-specific context, highlighting the contribution of this book not only to the literature, but also the policy sphere. Topics were carefully selected to provide a balanced, though not exhaustive, coverage in order to capture the depth and breadth of global megatrends. Furthermore, the contextualisation of the analysis within the ASEAN experience and the discussions on policy tools provide practical policy applications in the context of the ASEAN integration agenda.

To this end, I would like to thank the editors and authors for their work and insights. The publication aims not only to further increase awareness of key issues and drivers of global megatrends but more importantly draw out their relevance and implications for the ASEAN integration agenda. I hope this publication will serve as an important resource for policymakers and a wider audience of readers in the ASEAN region and beyond.



**LE LUONG MINH**  
Secretary-General of ASEAN



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## Introduction

*Julia Puspawati Tijaja and Simon S.C. Tay*

### **ASEAN in the Spotlight**

The Association of South East Asian Nations (ASEAN) has been subject to considerable study and commentary, and deservedly so. The regional group is back in the spotlight in 2017 while marking its 50<sup>th</sup> anniversary. Yet it is not only for historical reasons that ASEAN is in the spotlight. After it inaugurated the ASEAN Community at the end of 2015, with its political-security, economic integration, and socio-cultural pillars, steps to further develop this Community are already planned for the coming years; both deepening and broadening the existing ASEAN agenda up to 2025.

These are considerable achievements for the regional group. When it began in 1967, with just the original five members,<sup>1</sup> many doubted its sustainability and effectiveness. When the Asian Financial Crisis started in 1997, triggered by the sharp devaluation of the Thai Baht, ASEAN was badly affected. The crisis led many ASEAN members to face abrupt changes in their political and economic systems.

The group has not only survived, but arguably, gained a great deal from meeting these challenges. In the Cold War, the original ASEAN members learnt lessons of cooperation and deepened their relationships. There has been a resulting “peace dividend” on which it has been possible to build economic prosperity. In the aftermath of the Asian Financial Crisis, economic and financial discipline have become the norm. So, when the global financial crisis broke in 2008 in the USA, the region maintained stable. In the decade since, it has continued to grow at rates that outpace the global norm. In the last few decades, ASEAN has also expanded to include Brunei Darussalam and the remaining mainland Southeast Asian countries so that its membership has doubled.<sup>2</sup> These countries too have participated in the development of the ASEAN Community and have achieved, albeit from a relatively lower base, high growth rates.

These achievements, the subject of many studies about ASEAN, set the broad context for this book. However, this book focuses on the ASEAN Economic Community (AEC) and,

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<sup>1</sup> Indonesia, Malaysia, Philippines, Singapore and Thailand

<sup>2</sup> Brunei Darussalam joined ASEAN in 1984, followed by Viet Nam in 1995, Lao People's Democratic Republic and Myanmar in 1997, and Cambodia in 1999.

more specifically, how the AEC may be impacted by and can respond to megatrends. In this brief introduction, the editors begin by introducing the AEC. We then discuss what we mean by “megatrends” and those we have selected for discussion, and then offer brief synopses of the chapters contributed by the different authors.

### **The ASEAN Economic Community: Starting and Moving Ahead**

The AEC was formally established as part of the ASEAN Community on 31 December 2015. While the AEC itself is recent, its antecedents go back to the origins of the group, when hopes for economic cooperation figured prominently in the first and originating ASEAN Declaration<sup>3</sup> signed in 1967. The Declaration stipulates the aim and purpose “...to accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations.” After a number of early attempts, economic integration in the region intensified in the early 1990s following the adoption of the ASEAN Framework Agreement on Economic Cooperation and the ASEAN Free Trade Area, agreed in 1992.

The AEC was first envisioned as the goal of economic integration by leaders in the 2003 Bali Concord II, with 2020 set out as the original completion date. In 2007, ASEAN leaders agreed to accelerate the establishment of the AEC by five years, moving the deadline forward to 2015. In that same year, a concrete roadmap was adopted to chart the path towards the establishment of the AEC, in the form of the first AEC Blueprint (2008-2015).

Two other Blueprints -- for ASEAN Political-Security Community (APSC) and for ASEAN Socio-Cultural Community (ASCC) – followed, and together the three form the Roadmap towards an ASEAN Community (2009-2015). But while the ASEAN Community has these three different pillars, for many the AEC has been the most visible and measurable marker of regional integration. It has been scrutinised accordingly, with a mix of criticism and appreciation.

There is agreement, however, that the AEC goes further than the group has ever ventured, not only in the pledges made by members but also and most importantly, in real change and implementation. This is visible across a range of economic policies -- from the virtual elimination of intra-regional tariffs, gradual removal of formal restrictions in the services sector, continued improvement of the investment regime, reduction in trade costs

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<sup>3</sup> The ASEAN Declaration, Bangkok, 8 August 1967.

through the streamlining of cross-border trade processes, enhancement of business-friendly regulatory framework and connectivity. Just as importantly, targeted efforts have been made at narrowing the development gap as well as integrating the region to the global economy.

Further work remains to be done. To follow up the AEC Blueprint (2008-2015) and the establishment of the AEC at the end of 2015, ASEAN Leaders have adopted the AEC Blueprint 2025.<sup>4</sup> There is increasing attention being paid to ASEAN as a collective economic unit, rather than just its individual members.

With a combined GDP of almost US\$2.6 trillion, ASEAN is the world's sixth largest economy and the third largest in Asia.<sup>5</sup> In terms of population, at 635 million people, ASEAN is the world's third largest market, signaling its potential in terms of both market size and work force. ASEAN collectively is also a trade powerhouse, ranked as the world's fourth largest exporting economy. The region has also gained prominence as a preferred investment destination; investments into ASEAN were as high as 11% of global FDI flows in 2015, and remain considerable for 2016, at just under 6%.<sup>6</sup>

### **The AEC in a Global Context**

While the AEC is an indigenous regional undertaking for economic integration by its members, efforts have been made in the context of global trends and forces. These can either help drive integration or hinder efforts.

In the early years of ASEAN, economic cooperation was hampered by the then prevailing policies among members (and most developing economies generally) that emphasised import substitution strategies to jump start domestic manufacturers through preferential policies and high tariffs. In contrast, when ASEAN economic integration intensified in the 1990s with the ASEAN Free Trade Area (AFTA), there was a growing consensus at the end of the Cold War on the potential benefits from economic liberalisation and a more open trade and investment regime. In that period, it was common to speak of the "East Asian Miracle" and the newly industrialised economies, and to see the possibility of the majority of ASEAN members making progress along similar paths.

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<sup>4</sup> The AEC Blueprint 2025 was adopted as part of the integral document ASEAN 2025: Forging Ahead Together, along with the Kuala Lumpur Declaration on ASEAN 2025: Forging Ahead Together, the ASEAN Community Vision 2025, the APSC Blueprint 2025 and the ASCC Blueprint 2025.

<sup>5</sup> The ASEAN Secretariat (2017), ASEAN Economic Integration Brief, No. 01, June 2017, p.5.

<sup>6</sup> UNCTAD (2017), World Investment Report 2017: Investment and the Digital Economy. New York and Geneva: United Nations.

In the wake of the Asian Financial Crisis, ASEAN decided to intensify existing cooperation to be better able to respond to global and regional shocks. The cooperation amongst ASEAN and its Northeast Asian partners – China, Japan and Korea – through the Chiang Mai initiative to provide safeguards for financial stability, has been expanded and multi-lateralised in subsequent years.

When the AEC was first envisioned in 2003, the group had come to see how China's growth had surpassed its own – in contrast to the early 1990s. In part, the AEC can be seen as an effort to bring the 10 ASEAN members together to scale up and sharpen competitiveness vis a vis emerging major economies, particularly China and also India. Following the global financial crisis, the group has continued with its agenda of deepening integration. Underscoring this is the rationale that the 10 economies, working together, could provide more stability and also increase growth prospects than any member could acting alone.

There is a clear understanding among ASEAN members that the AEC has to be set in the context of global developments and megatrends – whether in the field of security and politics or in economic patterns and other phenomena. A question, however, remains on whether the AEC could be more proactive in responding to global megatrends, going beyond addressing the challenges that arise to cultivate the opportunities that arise.

## **Understanding Megatrends**

Seeing how ASEAN and the AEC have responded to changes in the wider region and at the global level, brings us to key questions for the AEC, and also the focus of this book. What are global megatrends? What are the upcoming megatrends that ASEAN needs to consider and respond to?

There seems to not be a single agreed definition of global megatrends (see Table 1). However, common themes include that they are phenomena that are already unfolding, whose implications are broad, cross-cutting, profound and transformative, and would change the way individuals, businesses and societies live and do business for many years to come. Given the lasting impact of global megatrends, it is important for any community, including the AEC, to learn to adapt to, address and — to the extent possible — capitalise on them.



**Table 1 Definition of Global Megatrends: Select Literature**

Source	Title of Literature	Definition of Global Megatrend
Yoost, Dean A. and D.J. Peterson (2015)	Embracing Global Megatrends	Megatrends are not predictions, but certainties—events with ramifications that are significant, already unfolding, and affecting businesses. Many megatrends are global in scale in that they impact business in multiple geographies and in various ways.
Singh, et al (2009)	Global Megatrends and the Web: Convergence of Globalization, Networks and Innovation	Global megatrends are overarching global forces that stem from the past, are shaped in present and will transform the future. These forces impact developments in various areas i.e. geo-political, social, cultural, economic and technological environment.
Choudhury, 2010	Global Megatrends and the Community	A megatrend is identified with a prominent feature of global politic-economic change brought about by or against the recent thrust of capitalist globalization.  It is also a pattern of thinking and action that is entrenched in a certain perception of historical change and ownership relationships.
Hajkowicz, 2013	The Future of Tourism in Queensland, Global megatrends creating opportunities and challenges over the coming twenty years	Megatrend occurs at the intersection of multiple trends of social, economic, environmental, political, and technological activity playing out over the next twenty years.
KPMG, 2014	Future State 2030, The global megatrends shaping governments	Megatrends are larger forces shaping the policy choices available to governments to deal with emerging issues. They are projected to have relevance for at least 20 years and relevant worldwide to nations of different sizes, regions, and levels of prosperity.
Meharg, et al., 2015	Australia-Indonesia Centre Megatrends: Infrastructure	Megatrends are significant shifts in social, environmental, economic, technological, or geopolitical conditions that have the potential to reshape the way a company, industry or society operates over several decades into the future.

Tinnila, 2012	Impact of Future Trends on Banking Services	Global megatrends are predominant global forces that have their foundations in the past, are shaped by present actions, and will transform the future (Singh, et al., 2009). The impact area of megatrends is wide, including geopolitical and social development, cultural issues, economic trends, and technology environment.
Turkington, et al., 2004	High-rise housing in Europe, Current trends and future prospects	Megatrends are structural movements which go beyond local developments and operate in the technological, economic, political, demographic, social-cultural and environmental domains.
PricewaterhouseCoopers, 2016	Five Megatrends and Their Implications for Global defense & Security	Megatrends are macroeconomic and geostrategic forces that are shaping our world and our collective futures in profound ways. The implications of these forces are broad and varied, and they will present us with both tremendous opportunities to seize as well as extremely dangerous risks to mitigate.
Ernst & Young, 2015	Megatrends 2015: Making Sense of a World in Motion.	Megatrends are large, transformative global forces that have a far-reaching impact on business, society, culture, economies, and individuals.
Menon, 2011 (Frost & Sullivan)	Mega Trends: Asia Pacific Market Insights	Megatrends are global, sustained and macroeconomic forces of development that impact business, economy, society, cultures and personal lives, thereby defining our future world and its increasing pace of change.

Sources: Authors' compilation from various sources.

To an extent, ASEAN has already anticipated a number of megatrends. The new AEC Blueprint 2025 is forward-looking in that it goes beyond the deepening of existing cooperation areas to also cover new focus areas, many of which are global megatrends or are indirectly relevant to them (see Box 1). Most importantly the Blueprint includes a dedicated element on global megatrends and emerging trade related issues. This is a step that recognises the value of a social dialogue process to ensure greater competitiveness, dynamism and inclusiveness of ASEAN, and also stipulates how ASEAN can further maximise the benefits of regional integration and cooperation by capitalising on global megatrends. It envisages practical steps, with sectoral working groups making efforts

to proactively consider the impact of these trends and integrate it into their future work programmes, and undertaking consultations with relevant stakeholders.

**Box 1: Global Megatrends in the ASEAN Economic Community (AEC) Blueprint 2025**

**Megatrends:** The Blueprint has a dedicated “element” on Global Megatrends and Emerging Trade-Related Issues (B9) that envisages the formulation of appropriate strategies to address them.

**Interconnectedness:** The elements of Trade in Goods (Element A1), Trade in Services (A2), Investment Opportunities (A3), Financial Integration, Financial Inclusion and Financial Stability (A4), Facilitating Movement of Skilled Labour and Business Visitors (A6) as well as Enhancing Participation in Global Value Chains (A6) define various strategic measures to enhance ASEAN’s participation in global markets and value chains, leveraging on increased interconnectedness of the economies. The broader ambition is set in the fifth main characteristic of the Blueprint of a “Global ASEAN.”

**Innovation:** Productivity-Driven growth, innovation, research and development and technology commercialisation (Element B4), strengthening intellectual property partnership (Element B3) and science, technology and innovation (STI) application (Element C9) address long-term competitiveness.

**Digital economy:** E-commerce (Element C3) and Information, Communication and Technology (ICT) (Element C2), and Consumer Protection (Element B2), among others, look at enhancing ASEAN’s digital readiness.

**Sustainable economic development:** Through promotion of renewable energy, low-carbon technologies, biofuels for transportation as well as developing best practices in agriculture and forestry (Element B8).

**Stakeholder engagement:** To ensure an inclusive and participatory process of regional economic integration, ASEAN seeks to strengthen the role of the private sector (Element D2) and enhance contribution of stakeholders to regional integration efforts (Element D5).

*Source:* AEC Blueprint 2025.

Notwithstanding the inclusion of those elements in the new Blueprint, the conversation on global megatrends in ASEAN is still at an early stage. This is at least partly contributed by the institutional structure of ASEAN. Each pillar or sectoral body is focused on the agenda and measures under its purview, whereas global megatrends, by nature, are often cross-cutting and hence do not easily fit into the current taxonomy of sectors or any single pillar of the ASEAN Community.

## Overview of the Arguments

This publication aims to contribute to the conversation concerning global megatrends in the context of the AEC. In doing so, we have selected a broad range of megatrends — from politics, technology and the digital economy, human rights, the environment, to urbanisation. We recognise that many of these do not conventionally fall under the economic sphere. However, given the impact and complexity of megatrends, they can

influence or even determine economic policy and outcomes. While each chapter will speak for itself, we, as the editors, wish to offer a brief summary of each as follows, so that readers might more easily grasp the megatrends, the analyses within, and the arguments that are offered by our chapter-authors.

Political megatrends are discussed in the first chapter by Simon S.C. Tay, Cheryl Tan, and Shangari Kiruppallini, with a focus on (i) geopolitics and security, (ii) geo-economics and the international liberal order, and (iii) national politics and the resurgence of populism. These observations are offered in light of recent and still uncertain political changes across the world, with phenomena such as the rise of nationalist-protectionist sentiments in the developed economies of the west and the sense of rising major power competition.

After outlining these three global megatrends, the authors consider how they are affecting ASEAN and the AEC, both as a region and within individual member states. The chapter considers the assumption of the two-way relationship between national and regional-level effects of megatrends, and a one-way influence from global to regional level. Suggestions are offered on how best ASEAN should prepare and respond to these trends. Finally, the chapter concludes by taking ASEAN beyond just a unit of analysis but as a unit of response, highlighting how ASEAN needs to prepare for its future role in the world.

The second chapter by Sarah Box and Javier Lopez-Gonzalez discusses technologies in the digital economy – a megatrend that can most clearly re-shape global economic patterns (and societies) and impact the AEC. Economic activities have been facilitated by these technologies, contributing to productivity and economic growth. However, these developments raise some challenges in terms of infrastructural and skill readiness, digital risk management and privacy protection, and the slow pace of structural change. These challenges are amplified in a region with varying levels of development, such as ASEAN. Awareness of the opportunities and challenges that these technologies brought about could help inform the ASEAN integration agenda.

The chapter starts by discussing several digital technology trends emerging in the digital arena namely, the Internet of Things, big data analytics, artificial intelligence, additive manufacturing, and blockchain, and how these trends will change the trade environment for ASEAN economies and the way we trade. It then discusses the key enabling factors that will determine whether these trends can be seized upon as a driving force for economic and social advancement by ASEAN economies. The chapter concludes with suggestions on potential policy directions for ASEAN economies as they pursue their regional integration agenda in the digital world.

Next, the third chapter by Seree Nonthasoot considers a basic tenet at the core of ASEAN integration agenda – that development must benefit the peoples of the region. The interlinkages between social and economic issues are explored, in particular between human rights and the AEC as well as the relevance between the AEC Blueprint 2025 and the 2030 Agenda for Sustainable Development. Looking at AEC from the perspective of human rights, the chapter offers a candid assessment and refreshing recommendations on how the AEC can be better “humanised” to stay true to ASEAN’s people-centered and people-oriented vision.

The chapter starts by looking at economic integration and its impacts on development, as well as human rights as a concept and the human rights agenda and related mechanisms within ASEAN. The second section looks in detail at the links between AEC and human rights, from the structure of the ASEAN Community to the scope of AEC commitments and implementation. The chapter then assesses the opportunity of mainstreaming human rights in the context of the ASEAN Community Vision 2025, and in light of the 2030 Agenda on Sustainable Development. In the fourth section, the chapter makes key recommendations to enhance the humane aspect of the AEC, including the use of new tools address potential adverse impacts of integration.

Adding to the preceding chapter, the fourth chapter by Simon S.C. Tay, Chen Chen Lee, and Lau Xin Yi focuses on sustainable development issues, particularly on environmentally-related social concerns that are linked to economic integration. Using the transboundary regional haze pollution as an example, the chapter highlights the cross-cutting nature of the phenomenon, where environmental implications are linked directly with production activities under the economic sphere. By highlighting the different actors involved in the production and consumption chains, the authors highlight the cross-cutting nature of this issue, and the need for a new approach to work across pillars in the ASEAN Community, and also at the other levels including at the strategic level, the national level and the global level.

The chapter starts by looking at ASEAN’s existing environmental agenda, and the implication this may have on environmental concerns that are linked to economic integration. It then assesses in details the transboundary regional haze pollution issue in ASEAN to consider the roles of non-state actors from the small small-scale farmers and large companies, non-governmental organisations and consumers, and financial institutions, to better understand how sustainability challenges government- and state-centric policies. Policy recommendations offered include suggestions to incorporate environmental and sustainability issues with economic strategies, and to link ASEAN’s environmental issues to international level efforts, such as UN’s Sustainable Development Goals and Paris Agreement on Climate Change.

The fifth chapter of this book, by Yap Kioe Sheng, brings to the fore urbanisation as a phenomenon felt across the region, albeit at different stages. Driven by connectivity, both physical and digital, urbanisation is changing the face of cities around the region. This phenomenon is worth the attention given cities are centres of economic activities and attract investment. Urbanisation has its implications both for the host and home areas, and require due consideration by policymakers at different levels, local, national, and to an extent also regional.

The chapter starts by providing an overview of urbanisation trends in ASEAN, and the impacts of enhanced connectivity, from the expansion of primate cities, the creation of mega-urban regions, the development of smaller cities and towns as well as booming border towns – the latter particularly relevant in the context of ASEAN. These trends give rise to the need for infrastructure and institutions that could respond to the demand of different stakeholders. The chapter then looks at the issues that policy-makers must consider – such as resource management, inter agency coordination, inequality, as well as the varying needs of the diverse range of stakeholders. The chapter closes by highlighting how ASEAN should leverage its regional agenda of Community and integration to address the challenges brought about by urbanisation.

Having covered different megatrends, the sixth chapter provides a different contribution. The authors, Risti Permani, Ma Fideles Sadicon, and Ruth Karlina Mahyassari, develop a conceptual policy approach and suggest practical steps to help strategise policy responses. There is a need to go beyond existing policy assessments that are often set in narrower contexts specific with certain approaches or methodologies. The authors point out there is room to recalibrate the commonly used policy process cycle to make policy making more responsive to global megatrends. This can be assisted by fresh approaches – such as emphasising innovation and participatory processes as well as scenario building.

The chapter starts by presenting a review of relevant frameworks and approaches of the policymaking process relevant to megatrend analyses. It then proposes practical steps to respond to global megatrends using the recalibrated four-stage public policy cycle approach -- agenda setting, policy formulation, policy pilots and full implementation, and evaluation. The chapter also reviews both existing ASEAN-wide as well as country-specific initiatives on addressing megatrends. The chapter concludes by exploring possible efforts at the regional level to better respond to megatrends that set within the parameter of ASEAN existing practices and in line with the AEC Blueprint 2025.

## **Moving Ahead in an Uncertain World**

From its beginning, ASEAN has aimed to be an outward-looking group. This outlook has continued even as integration efforts for the ASEAN Community have increased the focus on what needs to be done amongst members. As briefly outlined in this introduction, ASEAN and its AEC have gained from, or else been stressed by, different changes at the global level and in a regional context, over time.

ASEAN has always sought to be responsive. However, sometimes this has been in a reactive manner. For example, in the aftermath of the Asian Financial Crisis, ASEAN worked with other Asian countries to develop an extensive and unprecedented system to provide emergency financial stability. At other times, the response is more protracted and long term. The very essence of the AEC is to provide all its members with greater scale and increased competitiveness to try to match the largest countries within it. The AEC is also anticipatory in providing members with more assurance and a ballast as part of a larger and relatively cohesive group in an uncertain world.

But despite this, ASEAN is facing challenges from the different megatrends that this book has surveyed. This is not only in the specific subject of each megatrend; the challenges relate to the processes and institutions that ASEAN currently uses to anticipate issues, analyse emerging situations, and reach decisions in a timely manner.

These are not insurmountable. Moreover, as earlier noted, ASEAN has already anticipated a number of megatrends. With the new AEC Blueprint 2025, several global megatrends are identified so that ASEAN-wide, collective responses can be considered. This must require further analysis and discussion, given the diversity among ASEAN members and the complexity of the megatrends.

It is the hope of the editors that this book, timed for ASEAN's 50th anniversary, can be a contribution to that discussion. For this reason, we have sought not only to observe the megatrends but to consider how policies -- and also the policy-making processes -- can be further developed. For this reason, the book has drawn on the insight offered by contributing experts and practitioners who have an in-depth understanding and familiarity of ASEAN and its institutions and processes. In fact, the last chapter in particular, offers suggestions on how practical steps for policymaking can be taken in the context of global megatrends.

There is a need for further dialogues, analyses and writings on this subject of global megatrends in relation to ASEAN. It is our hope that this effort may prompt more conversations among policymakers, researchers, experts and other interested stakeholders to inform policy-making which can take ASEAN and the AEC forward in an uncertain and changing world.

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## Chapter 1

### **Global Megatrends and the ASEAN Economic Community: Regional Integration in Context**

*Simon S.C. Tay, Cheryl Tan, and Shangari Kiruppali*

#### **1.1. Introduction**

When ASEAN integration is discussed, focus is often directed towards economic and trade policies and on its institutions which encourage rule-based behaviour and adjudication. Relations amongst the ten members of the group and its key partners also feature more generally vis-à-vis the formation of the ASEAN Economic Community (AEC). This chapter will differ in its approach, however.

Effort will be made here to set the ongoing project of ASEAN's broader regional integration within the context of global megatrends – with all the challenges and also the opportunities that these present. We see ASEAN in this regard functioning within three levels – positioned between national and global levels, at the regional level (See Figure 1.1).

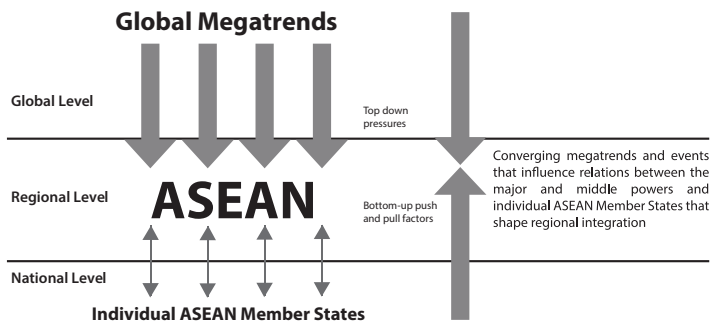
ASEAN is an important unit of analysis and action, but not the only one. There are global megatrends that are beyond the control or even influence of ASEAN as a group of medium-sized and small countries. These megatrends can arise in politics or in economic relations, or indeed in other fields like technology, environmental and social trends. In this globalised, inter-connected and inter-related world, ASEAN is but one active participant in multiple, global networks.

From the past, we can see that geoeconomic trends have influenced the AEC. ASEAN began with the ASEAN Free Trade Agreement (AFTA) in 1992 at the end of the Cold War, when negotiations were active and optimistic in the World Trade Organization on how to move forward with an international liberal economic order. The 1997 Asian Financial Crisis and the rise of China are other examples of how global megatrends provided a strong impetus for the formation of the AEC, starting with the 2003 Bali Concord and then the adoption of the AEC Blueprint in 2007 and its subsequent implementation. The slowdown of the American and European economies during that period shifted demand to Asian economies, which were still growing, and re-emphasised the logic of further integrating the region.

Megatrends impact not only ASEAN as a group, but can affect one or more of its member states directly and differently. Such differentiated impacts can lessen (or increase)

the unity of the group. This can happen for example, when one member experiences a political change from autocracy to democracy, as did Indonesia after the events in 1997 to 1998, triggered by the wider Asian Financial Crisis. Two decades on, Indonesia has been transformed into a vibrant democracy with strong and popular calls to end years of corruption, collusion and nepotism (labelled “KKN” by Indonesian reformers). Indonesia has taken considerable steps forward to attract investors who can develop and manufacture quality, global products and provide better jobs for Indonesians. Such trends, led by the region’s largest economy, can provide a large, positive boost for ASEAN economic integration. Conversely, there can be negative effects on integration efforts if Indonesia veers towards protectionist policies.

**Figure 1.1 ASEAN and Regional Intergration**



Source: SIIA.

ASEAN is an intermediate unit that exists between the global/wider Asia Pacific and national levels. The region is however by no means autonomous, and remains susceptible to both direct and indirect effects of world events. ASEAN regional integration can, as such, be analysed as an interaction between the global, regional and national levels, as suggested in Figure 1.1. While ASEAN integration has progressed, its ten members still remain diverse and exist as sovereign states. Thus, the group remains dependent on the interests and priorities set by each of its members at a national level. Concerns at the national level mirror and amplify regional and global trends such as anti-globalisation and anger over rising income inequality. As such, bottom-up, and top-down factors converge to influence the dynamics and speed of ASEAN integration even as a more integrated ASEAN seeks to coordinate these factors and maintain progress to the agreed aims of the group.

At present, ASEAN has limited ability to collectively shield its member states from the impact of global megatrends. Its potential to strongly promote the interests of its member states globally has yet to be fully tapped. While not without some significance, ASEAN does not yet have that weight in the world. It is also unable to fully restrain a

member state if and when national politics in that member states shifts. The group continues to heed the principle of non-intervention in the domestic affairs of a member and while principles and practices of cooperation are deepening, member states are also not likely to pool sovereignty.

Despite institutional limitations, there is much to be optimistic about ASEAN as a region, and with good reason. Today's ASEAN represents a combined market of over 630 million people, behind only China and India in terms of population, with a combined gross domestic product (GDP) of more than US\$2.5 trillion, making it the sixth largest economy in the world and third largest in Asia. Growth figures are also robust. ASEAN economies grew at 4.7% in 2016, almost double of global growth rates of 2.3%.<sup>1</sup> The region is one of the top destinations of global foreign direct investment (FDI), receiving around 16% of the world's FDI among developing economies.<sup>2</sup> Looking forward, businesses and investors are increasingly looking to ASEAN as a key destination, market, and production base.

The trends for regional integration are largely positive. Politically, the push to form an ASEAN community continues to gain ground. Institutionally, the ASEAN Charter adopted in 2008 and other changes under the AEC, political-security, and the socio-cultural pillars, are moving the group towards a more rules-based community of shared values and norms.<sup>3</sup> Economically, the turbulence of the last decade and the relatively high rates of growth within ASEAN has encouraged the group to look more to one another and other Asian partners, instead of only to the west.

The implementation of the ASEAN Community in 2015 signalled a new era where ASEAN would grow increasingly interdependent not only economically, but also in terms of security and social issues. The adoption of the ASEAN Community Vision 2025 aptly-themed "Forging Ahead Together" in Kuala Lumpur in November 2015, reaffirmed the region's commitment towards integration, recognising that ASEAN needed to respond collectively as a group to the rapidly changing geostrategic landscape.<sup>4</sup>

Many challenges remain and while progress will be made, this will take time. ASEAN's

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<sup>1</sup> Focus Economics, Economic Snapshot for ASEAN, 25 January 2017, Available: <http://www.focus-economics.com/regions/asean>, Retrieved: 3 February 2017.

<sup>2</sup> ASEAN and the United Nations Conference on Trade and Development (2016) ASEAN Investment Report: Foreign Direct Investment and MSME Linkages, Available: <http://asean.org/storage/2016/09/ASEAN-Investment-Report-2016.pdf>, Retrieved: 3 February 2017.

<sup>3</sup> ASEAN Secretariat (2016) ASEAN Political-Security Community, Available: <http://asean.org/asean-political-security-community/> Retrieved: 28 March 2017.

<sup>4</sup> ASEAN (2015) Kuala Lumpur Declaration on ASEAN 2025: Forging Ahead Together, Available: <http://www.asean.org/storage/2015/12/ASEAN-2025-Forging-Ahead-Together-final.pdf> Retrieved: 13 April 2017.

publication of the AEC 2025 Consolidated Strategic Action Plan,<sup>5</sup> details key actionables to strengthen the regional economic grouping and marks a significant effort by ASEAN to close gaps. More important however, is that ASEAN members recognise and understand that they progress more effectively together, rather than not. During the ASEAN Foreign Ministers' Retreat in February in Boracay in 2016, the ministers discussed the importance of building ASEAN's resiliency and to make the region a "model of regionalism" and a "global player" as one of ASEAN's top six priorities for 2017.<sup>6</sup>

This understanding that the regional group is significant and can matter even more, is not merely an affirmation made diplomatically at the start of ASEAN's 50<sup>th</sup> anniversary. In fact, ASEAN comes into focus at a strategic time when the world faces serious and complex challenges that are quite unprecedented and each ASEAN Member must respond and find ways to work collectively with other members.

Against this background, this chapter considers three broad global megatrends that specifically concern the broad direction and overall progress for ASEAN economic integration. These are in geopolitics and security; geoeconomics and the international liberal order; and national politics and the resurgence of populism. Within these broad global megatrends, we focus on political megatrends that are likely to impact the AEC. For considerations of length, the equally important changes regarding the disruptive and creative trends of technology, will not be covered.

In the first section of this chapter, we broadly outline the global changes and challenges that ASEAN should expect. In the second part, we will consider how best ASEAN should prepare and respond to these trends, and outline specific policy recommendations to consider. Finally, we conclude with how ASEAN needs to prepare for its future role in the world.

## 1.2. Political Megatrends and ASEAN

In this section, we consider three broad global political megatrends in the realms of (1) geopolitics and security; (2) geoeconomics and the international liberal order; and (3) the national politics and the resurgence of populism. These are large and transformative trends that can disrupt ASEAN's current regional integration trajectory with impacts on

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<sup>5</sup> ASEAN Secretariat (2017) ASEAN Economic Community 2025 Consolidated Strategic Action Plan, Available: <http://asean.org/storage/2017/02/Consolidated-Strategic-Action-Plan.pdf> Retrieved: 28 March 2017.

<sup>6</sup> ASEAN (2017) Press release by the chairman of the ASEAN Foreign Ministers' Retreat (AMM Retreat), Association of Southeast Asian Nations, 21 February 2017, Available: <http://asean.org/press-release-by-the-chairman-of-the-asean-foreign-ministers-retreat-amm-retreat/> Retrieved: 4 March 2017.

not only regional politics and economic policy, but also societies and individuals. Four preliminary points should be noted.

First, megatrends can impact ASEAN in ways that can be negative, or, if policies are adjusted and action taken, positively reinforce the commitment and momentum towards regional integration. Such impacts are part of the globalisation effect and are to be expected. Adjustments and actions to be made by ASEAN Member States must not only take place collectively as a region, but also within each member state. The three-level analysis we suggest in Figure 1.1 can be a relevant and useful way to consider the impact and reactions required at the different levels.

Second, each of these megatrends is complex in itself and interacts with one another. While we treat the megatrends within the three clusters of issues set out, we recognise that complexities go beyond the bounds of any one cluster. Indeed, they cut across the boundaries of politics/economics, national/international, and the government/private sector. One example, as mentioned, is that key trends in technology will be important influences, but are beyond the scope of this chapter.

Third, these megatrends point to the emerging fact that the global order will no longer be solely determined by governments. Informal networks of individuals and private organisations -- ranging from corporations and non-governmental organisations to terrorists and social movements -- are increasingly empowered, and jostle with traditional governments for power.<sup>7</sup> Governments will continue to play a central role and have considerable power and resources, but will increasingly find it hard to govern in the traditional sense.

Finally, this section offers preliminary observations about ASEAN. Analyses and recommendations for policy responses are set out in the next section.

### (1) Geopolitics and World (Dis)Order

The world is experiencing severe security concerns, including a return of geopolitical power-plays among major world powers. Security concerns range from global terrorism emerging from Islamist extremist groups in the Middle East, to cyber terrorism. In geopolitics, there is a strong sense of competition and a growing sense of tension between the US and China. A resurgent Japan and the presence of Russia and India as

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<sup>7</sup> Nye, Jr, Joseph S. (2017) Will the liberal order survive? The History of an Idea, Foreign Affairs, January/February 2017, Vol. 96, Number 1, pp10-16.

other major or further emerging powers, complicates the region's politics. The result is that we face increasingly complex, security issues at a time when traditional order and leadership is uncertain and contested.

A number of scholarly theories and arguments discuss the decline (or relative decline) of a US leadership and the emergence of a new world order. Predictions of a shift in power forecast the decline of the west and the rise of Asia as an economic powerhouse.<sup>8</sup> Others note the decay of the current international order and an emergence of a new world order that is still evolving. Some of these changes are structural, as geoeconomic weight shifts.<sup>9</sup>

The rise of new powers and old ones reasserting themselves have led to observations that a multipolar world is imminent, or else there will be a collapse into world disorder. There are signs that the current international liberal order that was set and created by the USA, post WWII and post-Cold War periods, is facing uncertainty.<sup>10</sup> This is especially so given the broad concern among the American electorate about the negative impacts of globalisation and statements coming from the White House such as 'putting America(ns) first'. However, we recognise it is early on in the first term of the current US administration, and that it remains to be seen what specific policies will come to be.

There are also trends emerging in the longer term which show us that the future form of the world's new order is still yet to be determined. These trends point to a shift from an American-dominated unipolar order to a more multipolar world. Rival world orders, through the development of unique sets of norms, shared values and institutions, would also arise as each major power seeks to carve out its own sphere of influence, distinct from others.<sup>11</sup> Alternatively, rather than spheres of influence brought about by great powers, some point to a "multiplex world" where a de-centred architecture of order prevents any single power or power cluster from dominating, allowing instead greater space for governance by different regions, and with more space and autonomy for medium-sized and small states.<sup>12</sup>

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<sup>8</sup> Emmott, Bill (2017) 'Globalisation', the decline of the west and a new liberal lexicon, *The Financial Times*, 14 March 2017, Available: <https://www.ft.com/content/f9c2f130-08ad-11e7-ac5a-903b21361b43> Retrieved: 3 April 2017.

<sup>9</sup> Wolf, Martin (2017) Martin Wolf: The long and painful journey to world disorder, *The Financial Times*, 5 January 2017, Available: <https://www.ft.com/content/ef13e61a-ccec-11e6-b8ce-b9c03770f8b1> Retrieved: 3 April 2017.

<sup>10</sup> US Department of Defense (2015) *The national military strategy of the United States of America 2015: The United States military's contribution to national security*, June 2015, Available: [http://www.jcs.mil/Portals/36/Documents/Publications/2015\\_National\\_Military\\_Strategy.pdf](http://www.jcs.mil/Portals/36/Documents/Publications/2015_National_Military_Strategy.pdf) Retrieved: 3 April 2017.

<sup>11</sup> Flockhart, Trine (2016) *The coming multi-order world*, *Contemporary Security Policy*, Vol. 37, No. 1, pp. 3-30.

<sup>12</sup> Archarya, Amitav (2014) *The End of American World Order*, Cambridge: Polity Press.

These different possible futures hold out many implications for Asia and ASEAN. In the past, the major guarantor for stability has been the US, both globally and in the Asia-

Pacific. However, policy decisions made by the new American administration may be the newest and perhaps biggest catalytic change in global and regional dynamics, including for example the USA's decision to pull out of the Trans-Pacific Partnership (TPP).

The rise of China is the other key factor shaping regional order. For many decades, Beijing promised a peaceful rise, and still continues to do so in public statements by senior Leaders.<sup>13</sup> Nevertheless, concerns about an ASEAN divided by US-China rivalries have been emerging for some time and if there are rising US-China tensions, this can increase anxieties that ASEAN Member States will be made to choose sides.

The nature of relations between the major powers in the region is also an important factor in the crafting of the new world order. Besides key Sino-American ties, there are concerns about the role of others in the region. Japan has resurged under Prime Minister Shinzo Abe, who has plans to increase his country's security engagement in the region. India, under Prime Minister Narendra Modi has said it will not only "look east" as did its past administrations, but begin to "act east". Russia, under President Vladimir Putin, has also declared a wish to engage more with the Asia Pacific region.

Signs of a power play are already visible between China and Japan, even beyond the economic realm. Already, Sino-Japanese economic participation and influence can be felt across most ASEAN economies, special economic zones, and even at the subregional levels such as in the Greater Mekong Subregion. Major railways, ports and roads are being built in countries, and many see these projects as being part of a larger, strategic intent.

Where is ASEAN's place in this new world (dis)order? Power plays within a multipolar world have the potential to create uncertainty, anxiety and rising tension in the region. At present, ASEAN plays a considerable role in the global and Asia Pacific order. It hosts the East Asia Summit (EAS) an annual event in which Leaders of key countries across the Asia Pacific gather informally to discuss strategic issues.

The ASEAN Regional Forum (ARF), an ASEAN-led meeting also attended by the region's major powers, was formed to help stabilise the region and manage security issues.<sup>14</sup>

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<sup>13</sup> China Daily (2014) Xi: There is no gene for invasion in our blood, 16 May 2014, Available: [http://usa.chinadaily.com.china/2014-05/16/content\\_17511170\\_2.htm](http://usa.chinadaily.com.china/2014-05/16/content_17511170_2.htm) Retrieved: 10 August 2017

<sup>14</sup> ASEAN Regional Forum, Association of Southeast Asian Nations, <http://asean.org/asean-political-security-community/asean-regional-forum-arf/>

Members must be able to leverage on their roles in these fora to cogently and effectively respond to geopolitical changes to preserve member's autonomy, maintain centrality and preserve unity.

## (2) Geoeconomic shifts

A rebalancing in the global economy has been unfolding in recent decades, with the rise of China and Asia and other emerging markets closing the gap with the US and Europe. The change was felt most particularly after the 2008 Global Financial Crisis, which slowed western economies. While a global recession was averted, stagnation in the west was the immediate consequence. Asia however, continued to grow, and both Asia and ASEAN started to look more to one another for trade and investment growth than they had in the past.<sup>15</sup>

During this time, China emerged as a central economic player, not only in quantitative terms but in a qualitative shift. Previously, Chinese imports from ASEAN and other Asian countries were mainly in raw materials and intermediate goods that were processed, manufactured and/ or assembled in the region before final export to western consumer markets. This supply chain continues but other dimensions of economic ties have markedly grown. Today, China is both a consumer and final market for finished products from Asia, as well as an exporter of made-in-China products to other Asian markets. It is also an investor, with an expanding footprint across the region and into many economic sectors beyond the resources sector. For example, China's outward FDI in the energy sector has reportedly decreased by approximately 40% since 2010, with Chinese investors opting to diversify their portfolios by investing in technology and consumption-oriented sectors instead.<sup>16</sup>

Intra-Asian and intra-ASEAN trade and investment has grown with China at the centre of the action. In 2016, China's two-way trade in ASEAN grew to US\$355 billion, retaining its place as ASEAN's largest trading partner, from just US\$171 billion in 2007 when the AEC Blueprint was first adopted. FDI flow from China to ASEAN stood at US\$9 billion in 2016 making China ASEAN's fourth largest external investment source, after the European Union, Japan and the United States.

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<sup>15</sup> There are also more trade and economic ties between ASEAN and Asia with other emerging economies. The authors do however assess that the intra-Asian and intra-ASEAN focus has grown more strongly than ties with emerging economies that are further away.

<sup>16</sup> Ernst & Young (2015) Riding the Silk Road: China sees outbound investment boom Outlook for China's outward foreign direct investment, March 2015, Available: [http://www.ey.com/Publication/vwLUAssets/ey-china-outbound-investment-report-en/\\$FILE/ey-china-outbound-investment-report-en.pdf](http://www.ey.com/Publication/vwLUAssets/ey-china-outbound-investment-report-en/$FILE/ey-china-outbound-investment-report-en.pdf) Retrieved: 28 March 2017



These changes in regional economic patterns are significant even as Chinese growth slows and the US economy finally starts to recover. A return to growth in the USA would normally lead ASEAN and other Asian exporters to look westwards again, which would help balance economic ties with China. This, however, would depend on the trade policies of the new US administration, including in terms of openness to partner with Asia. The US withdrawal from the TPP appears to contrast China's qualitative shift in economic relations, with implications to further opening and creating interlinkages with others in the region.

There are other areas of increased interaction between ASEAN and China but, given constraints of length in this chapter, two recent initiatives from China – the One Belt One Road (OBOR) vision of its Leader, President Xi Jinping, and the recently launched Asian Infrastructure Investment Bank (AIIB) which illustrate the growing role and influence of Beijing, warrant further consideration in this context. The two are new and potential key instruments for China to deepen its regional engagement given the enormous infrastructure needs in Asia and ASEAN, both within and between countries. Besides plugging basic and obvious infrastructure gaps, there is potential for China to play a major role in ASEAN's ambitions to develop and market the region as a highly competitive and integrated market as well.

Yet even as China's initiatives of OBOR and AIIB reach out to ASEAN, it is by no means predetermined that China will dominate ASEAN through investment and assistance in infrastructure alone. The World Bank and the Asian Development Bank (ADB), led by the US and Japan respectively, continue their work. ADB plans to scale up its operations by 50% from US\$14 billion in 2014 to more than US\$20 billion in 2020, with 70% allocated towards infrastructure investment.<sup>17</sup> Japan, a keen supporter of ASEAN's development and integration, promises to pump US\$110 million worth of funds towards boosting Asia's infrastructure.<sup>18</sup> At the bilateral level, infrastructure funds are also readily available.

The World Bank also announced that it would pump in an additional US\$200 million in financing to support infrastructure investment in Indonesia.<sup>19</sup> For a number of ASEAN members, it will be possible to raise a combination of funds from such sources and also by developing new, market-based funding sources, such as infrastructure investment bonds. As such, while China offers new sources, there will still be others to both compete in, and complement each other, in the large scale development of the region. This indicates that while China may take the initiative and make offers of assistance to ASEAN

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<sup>17,18,19,20</sup> Haas, Richard (2017) *A world in disarray: American foreign policy and the crisis of the old order*, New York: Penguin Press.

members, ASEAN Member States will seek the best possible terms of the offers – not only economically but also with regard to retaining a measure of political autonomy.

ASEAN-China relations, while multi-fold and strong, will be challenged in this new phase where a second and deeper phase of integration with China is emerging. Such relations are important to ASEAN not only because China is an immediate and close neighbour, but also due to its own needs to become a more integrated economy with the necessary infrastructure and connectivity. However, there are many reasons, both political and economic, that ASEAN cannot and should not allow any of its external partners to dominate. Even as ties with China will grow, ASEAN should seek other ways and means to meet its infrastructure and other needs, both internally, and by reaching out to other partners beyond China.

On the broader issue of global economic shifts, how should ASEAN best respond? One clear trend is to shift away from growth strategies that excessively rely on exports to the west. With slow growth, the EU appetite remains weak and while the US is growing, there may be a shift in political winds there. Doubts on the benefits of megaregionals and multilateralisms have been sown and need some rethought. Britain's vote to exit the EU illustrated how "pacts of sovereign obligation"<sup>20</sup> can become a drag on domestic policies. Multilateral trade agreements such as the World Trade Organisation, a rules-based global institution for free trade, is also under threat as economic power shifts and the new US administration indicates its preferred bilateral approach to trade.

In dealing with these different geoeconomic shifts, self-confidence among ASEAN members will be critical and the AEC must be a central policy. For decades, ASEAN has seen itself as a grouping of smaller and medium sized economies. While its stature has risen, there remain concerns about the group's ability to respond effectively to wider regional and global trends and events. ASEAN economies' recommitment to become an even more highly integrated and cohesive economic region under the AEC Blueprint 2025 is another step forward. Leveraging off one another's strengths through intra-ASEAN trade and investment, the group can become globally competitive and resilient in the face of global economic shocks and volatilities.<sup>21</sup> For this to be a reality, reform at the national level among ASEAN Member States must be given priority.

### (3) National politics and the resurgence of populism

The shock of Brexit and the outcomes of the US election was not only seen in the results. A deeper sense of shock stemmed from the fact that these victories represented a

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<sup>21</sup> ASEAN Economic Community Blueprint 2025, Available: <http://astnet.asean.org/docs/AEC-Blueprint-2025-FINAL.pdf> Retrieved: 17 March 2017.

growing sense among large segments of the population in the west - of protest against globalisation, being part of an integrated region, and a more open, liberal economic order. With leadership elections due in a number of key European countries, most importantly Germany and France, these populist and protectionist sentiments may grow further.

ASEAN stands to be impacted and not only through trade and investment ties with the west. ASEAN itself is not immune to similar sentiments of populism and protectionism. Similar sentiments are rooted in the political roots of most if not all, ASEAN states, which have grown through a period of nation-building as post-colonial and often multi-ethnic states. Identity politics – not only between different races and religions, but also between regions, and even between capital elites and provincials – are key features across many ASEAN countries. These are now interacting with global political trends. Furthermore, pressures from a rising middle class with rapidly increasing demands for equity, higher incomes and quality of life, have raised overall expectations of how governments perform. Many traditional elites who have dominated governments and state power are struggling to deal with such demands. Failure to close gaps in public expectations have also fostered anti-elite sentiments.

In Indonesia, public distrust and dissatisfaction with rampant corruption and concentration of wealth among the Jakarta elite propelled the rise of President Joko Widodo, a political outsider and former furniture salesman from Solo.<sup>22</sup> In the Philippines, similar public frustration over corruption and rampant drug problems helped push President Rodrigo Duterte from outside the established elite into the country's highest political office.<sup>23</sup>

Bottom-up factors fueling a rise in populism are catalysing change at the national level, influencing policy processes and political dynamics. These factors have the power to impact what ASEAN collectively can and will do, in the AEC. Concern over the growing wealth disparity in ASEAN has been one factor leading to the increase of populist pressures across a number of countries, which may threaten closer integration within the regional and global economies.

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<sup>22</sup> South China Morning Post (2014) Joko Widodo completes rise from slum to Indonesia's presidential palace, South China Morning Post, 21 October 2014, Available: [www.scmp.com/news/asia/article/1620817/joko-widodo-completes-rise-slum-indonesias-presidential-palace](http://www.scmp.com/news/asia/article/1620817/joko-widodo-completes-rise-slum-indonesias-presidential-palace) Retrieved: 30 March 2017.

<sup>23</sup> Paddock, Richard (2017) Becoming Duterte: The making of a Philippine Strongman, The New York Times, 21 March 2017, Available: [https://www.nytimes.com/2017/03/21/world/asia/rodrigo-duterte-philippines-president-strongman.html?\\_r=0](https://www.nytimes.com/2017/03/21/world/asia/rodrigo-duterte-philippines-president-strongman.html?_r=0) Retrieved: 30 March 2017

Yet, Leaders in ASEAN can leverage on populist forces to bring about positive change. By appealing to a wider, popular base outside the established political and economic elites, policymakers could push for reform and good regulatory practices, market-opening and greater competition, especially where privileges and protectionist measures have benefited established elites and prevented deeper regional integration. Such reforms, undertaken by respective ASEAN Member States to varying degrees, could indirectly see the region start to harmonise, which benefits and reinforces the AEC. This is especially so in terms of trade, economy and corporate governance, as countries choose to adopt international standards in order to remain competitive.

Therefore, the combination of increased competition from other countries and a demanding electorate incentivises governments to relook traditional methods of governance and the domestic economy. The need to ensure growth and that national policies are effective and benefit the masses, whether in the form of job creation or otherwise, puts pressure on governments to adopt a reform agenda that is not only focused on domestic policies, but also benefits the region. In the creation of an inclusive, people-oriented and people-centred ASEAN, economic integration must help not just overall growth but also be seen to deliver more and better jobs and benefits broadly across society. At the business level, micro, small and medium enterprises (MSMEs) must be provided assistance and avenues to prosper alongside large multinationals and elite-owned companies.

### **1.3. Responding to the Global Megatrends**

Having outlined megatrends in three key areas that concern the AEC, we will now outline how ASEAN can, and should respond, both collectively and as individual member states. In so doing, overarching questions on the degree to which ASEAN will be able to respond and perhaps moderate global megatrends within its region and for its members, or whether it can actually influence the trends at the global level, need to be addressed.

In the three-level analysis we introduced in Figure 1.1, the links between the regional and national levels can be seen as two-way arrows. This indicates how events and trends at one level can impact the other. These contrast with the links between the regional and global levels, which run only in one direction - downwards from the global level to, and through, ASEAN.

This is our view of ASEAN, and where it stands at present. While not without some presence at the global level, ASEAN is currently yet to be a significant participant and influencer of global megatrends. This can and should change in the future. Indeed, if

as predicted, ASEAN grows economically to become the third or fourth largest global economy, its role as a rising global influence, will increase. We will touch on such possibilities in the concluding section and suggest ways in which ASEAN can prepare for such a role. In this section, however, we look more into the near and middle term, and focus on strategies that ASEAN and its member states might wish to consider in response to global megatrends.

#### (1) Geopolitics: ASEAN and Global (Dis)Order

Changes in the global order, as stated earlier, will be primarily determined by the US, China and other major powers. ASEAN however, is not merely, nor permanently, a bystander. ASEAN has the potential to be a significant influence in the emerging new world order, indeed, some could argue it already plays such a role.

For example, ASEAN annually hosts the EAS and the ARF, where Leaders of key countries including the major powers gather to discuss strategic and security issues respectively. On issues that relate to defence, maritime security, and humanitarian assistance in the region, ASEAN takes the lead in the ASEAN Defence Ministers' Meeting (ADMM-Plus), which counts China, the US and Japan, among its dialogue partners.<sup>24</sup>

Where does ASEAN go from here? Further efforts must be made to ensure that competing interests do not spiral into a power play where alliances and exclusive forums are allowed to form. To develop ASEAN relationships with the US, China and other major powers, ASEAN must take the initiative to move beyond diplomatic trust-building and create synergies to ensure that ASEAN-led meetings such as the EAS remain effective and relevant.<sup>25</sup> It must also develop an ASEAN common voice on strategic global issues.

ASEAN can and should convene meetings not only to discuss issues amongst members inter se but to set an agenda for ASEAN members to discuss trends in the wider Asia Pacific and global arenas that impact them. This, to an extent, has already been done. ASEAN as a unit of response, can play a helpful and key role in offering ways in which ASEAN Member States can respond to these global trends.

Many things can and should be done, and a range of suggestions have been given by think tanks, including our own, and independent experts. Some of the more elaborate

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<sup>24</sup> ASEAN Defence Ministers' Meeting, Association of Southeast Asian Nations, Available: <https://admm.asean.org/index.php/about-admm/about-admm-plus.html> Retrieved: 3 April 2017.

<sup>25</sup> SIIA (2015) Rethinking the East Asia Summit: Purpose, processes and agenda, Singapore Institute of International Affairs Policy Brief, September 2014, pp.1-12.

proposals are deemed as being politically unrealistic, while others seem to be mere tinkering. We outline some of the steps that are important and where we hope there may exist, the political will to advance.

**1. Develop active leadership to provide timely response to global issues and challenges.**

In response to emerging issues, relevant ASEAN ministerial bodies should be empowered to convene necessary meetings and act swiftly and decisively. The relevant ASEAN ministerial body should be able to hold emergency meetings and not have to wait until the next scheduled meeting to come up with a collective response.<sup>26</sup>

**2. Position the EAS to serve as the region's premier strategic dialogue.**

In order to develop the EAS as a premier strategic dialogue, there is a need to focus and sharpen the agenda of the EAS Leaders' discussions during the plenary session. Distilling key ideas and insights from other regional processes, such as other ASEAN-led meetings or initiatives such as the ARF and ADMM can help ensure that discussions are targeted and effective, drawing from key elements of the agendas of other forums in the Asia Pacific such as APEC. EAS Leaders can steer the EAS dialogue towards a more constructive and actionable outcome. Discussions should be kept candid and informal to ensure the open sharing of ideas and solutions, and to encourage confidence building efforts.<sup>27</sup>

**3. Focus the Support and Resource the EAS.**

To assist in developing an agenda for on the key strategic issues, a "Sherpa" system, comprising highly qualified individuals who enjoy the trust of the different Leaders and report to them, whether directly or otherwise, should be considered.<sup>28</sup> Such a system is used in the long established G7/G8 and the newer G20, which allows the G20 to function efficiently with annually rotating organisers, despite the absences of a permanent secretariat. Under a similar system, EAS Sherpas, which could be facilitated by the ASEAN Secretariat, will be responsible for preparing substantive discussion notes including for the inter-sessional EAS meetings to ensure that only key elements of these discussions will be discussed at the EAS. The presence of 'EAS Sherpas' can help to develop the EAS into a year-long engagement that is proximate to Leaders, rather than just an annual Summit, and serve to ensure that the Summit is focused on key strategic issues. Consideration will

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<sup>26</sup> A Memorandum by the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) (2017), *The Future Of ASEAN: Meeting The Challenges Of A Changing Global And Regional Landscape*, Distributed at the ASEAN-ISIS Retreat: ASEAN at 50 Indonesia, January 19-22, 2017.

<sup>27</sup> A Memorandum by the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) (2017), *The Future Of ASEAN: Meeting The Challenges Of A Changing Global And Regional Landscape*, Distributed at the ASEAN-ISIS Retreat: ASEAN at 50 Indonesia, January 19-22, 2017.

<sup>28</sup> SIIA (2015) *Rethinking the East Asia Summit: Purpose, processes and agenda*, Singapore Institute of International Affairs Policy Brief, September 2014, pp.1-12.

need to be given, however, on the need to ensure ASEAN centrality in such “Sherpa” system, and the appropriate form of such system given that ideas and inputs may need to be sought by Leaders on a wide range of issues.

The shifts in geopolitics show that many things are beyond the control of ASEAN. This is especially in managing the growing power rivalry and competition among major and middle powers. Inculcating intra-ASEAN practices and a regional perspective vis-à-vis ASEAN’s relationship to the major powers will grow increasingly important. Member states must realise the potential gains from ASEAN unity and use this for leverage when managing the major powers. ASEAN must strengthen its internal leadership to ensure that the current open and inclusive regional architecture remains, and where disputes are settled through peaceful and principled means via rules-based institutions instead of power-based mechanisms.

## (2) Geoeconomics and Intra-Asian Integration

There are key geoeconomic trends emerging from the west that ASEAN must prepare and respond to so that growth in and of, the AEC can continue and gain momentum. First, with improvements to growth, interest rates in the west are likely to rise, attracting investments and funds to return to the west. A second factor comes from the strident voices from within the US and the west in general, that question and criticise globalisation and the existing international liberal order, as discussed above.

The danger of sharp financial outflows from Asia back to the west cannot be ruled out. Back in May 2013, as the US Federal Reserve made preparations to raise rates, emerging markets in Asia, especially those with larger external financing needs and macroeconomic imbalances, acutely felt the effects of what was called “the Taper Tantrum”.<sup>29</sup> However, the risks of this repeating today seem to have lessened.

Financial assurance in case of crisis is entrenched by the Chiang Mai Initiative Multilateralisation (CMIM) and its surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO). The safeguard agreement among ASEAN members and China, Japan and South Korea has been built up progressively since the 1997-98 crisis and stands ready to respond in case of sharp falls in currency values and if capital flows sharply shift.<sup>30</sup> Still, the longer term financial stability of ASEAN members depends more

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<sup>29</sup> Sahay, Ratna, Arora, Vivek et. al. (2014) Emerging market volatility: Lessons from the taper tantrum, IMF Staff Discussion Note, September 2014, Available: <https://www.imf.org/external/pubs/ft/sdn/2014/sdn1409.pdf> Retrieved: 31 March 2017.

<sup>30</sup> Pitakdumrongkit, Kaewkamol (2015) Where to now for the Chiang Mai Initiative Multilateralisation, East Asia Forum, 28 August 2015, Available: <http://www.eastasiaforum.org/2015/08/28/where-to-now-for-the-chiang-mai-initiative-multilateralisation/> Retrieved: 3 April 2017.

on efforts to further strengthen economic fundamentals that must be undertaken at the national level. Central banks and governments need to ensure that financial systems are prudently managed and both internal and external financial flows are balanced. Dialogue and coordination regarding policies among central banks in ASEAN – many of which are autonomous also need to be further strengthened.

This is an area that ASEAN can and should develop in coming years. As economic integration deepens, financial aspects will become increasingly important to address. The prospect of increased intra-ASEAN and intra-Asian investment – for infrastructure and other needs – will also be an opportunity and provide fresh impetus to move ahead with financial cooperation in the region.

The second geoeconomic megatrend concerns the rise in protectionist sentiments in the west. In response, ASEAN can move forward with regional economic agreements with its major partners as well as on the AEC. Indeed, such momentums have already started.

There have been long running negotiations involving ASEAN to build on the existing ASEAN+1 free trade agreements (FTAs) with all its key partners in Asia towards a collective Regional Comprehensive Economic Partnership (RCEP).<sup>31</sup> There is broad consensus that moving ahead with RCEP would bring about greater economic benefits to the region, and promote freer trade and closer economic cooperation. Many hope that the RCEP negotiations can be brought to a successful conclusion at the end of this year, particularly in light of developments in the TPP which left RCEP to be “the only game in town” today.

However, the level of ambition in the RCEP remains contentious. This is largely due to the wide disparities within the group, not only in terms of levels of development but also current trading arrangements among the participating countries, in which not all ASEAN FTA partners have agreements with one other. ASEAN chairs the process for RCEP and will need the wisdom to push for the best possible agreement to be achieved at an opportune time. It will also need to keep up the momentum for future rounds of improvement under the eventual trade agreement.<sup>32</sup>

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<sup>31</sup> The 5 ASEAN+1 FTAs are with China, Japan, South Korea, Australia, New Zealand, and India

<sup>32</sup> Some ASEAN FTA partners seem to wish to move further in a number of areas, akin to the TPP negotiations.



It is imperative that ASEAN should take the lead in RCEP negotiations and aim to arrive at a substantive conclusion by the end of 2017 to give credibility to meet the Leaders' mandate for a swift conclusion to the negotiations.<sup>33</sup> This is not easy given the diverse nature of the economies involved and the dynamics of negotiations, which as of early 2017 were in their 17th round. To push ahead, ASEAN must consider what – by its usual operating procedures – may be extraordinary.<sup>34</sup>

ASEAN can and must also move ahead further with its own AEC. Stiffer competition as a result of globalisation and the changing winds of geopolitics have accentuated the importance for ASEAN to band together, leveraging off one another's strengths to become self-reliant. The launch of the AEC Blueprint 2025 and the AEC 2025 Consolidated Strategic Action Plan, which sets many if not all of the right goals, underscores ASEAN's commitment to deepen its integration efforts further from its initial 2008-2015 AEC Blueprint. Most significant is also the articulation of its goal to build a global ASEAN instead of merely "fully integrated into the global economy".<sup>35</sup> But in order to attain that common goal, all ten of ASEAN Member States will have to accept the need to embark on the necessary reforms.

The pace of progress must be watched and for this, an impartial and regional perspective with commitment and capacity to monitor is needed immediately. To this end, we – and many others – believe that the ASEAN Secretariat will need to be strengthened. This is not an end in itself, but to meet the functional needs and better support the ASEAN members move forward.

A key area where the ASEAN Secretariat's role can be enhanced is in terms of its ability to identify and monitor both tariffs in practice, and non-tariff measures (NTMs). While tariff rates are agreed in policy, ASEAN will need to effectively address NTMs, and see through the harmonisation of standards and meaningful services integration if it wants to achieve its goal of a high-quality and competitive economic entity that promotes the seamless movement of goods within the region. The ASEAN Secretariat can more effectively and sustainably serve as a supporting body that will help to establish a review process and encourage discussion of these issues among members. It can also be in

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<sup>33</sup> Some have suggested one such idea to apply if any negotiating partner proves to be a stumbling block to negotiations. In such a case, these commentators suggest ASEAN should be open to the option of moving ahead with RCEP on the basis of a "Minus X" format.

<sup>34</sup> A Memorandum by the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) (2017), *The Future Of ASEAN: Meeting The Challenges Of A Changing Global And Regional Landscape*, Distributed at the ASEAN-ISIS Retreat: ASEAN at 50 Indonesia, January 19-22, 2017 ASEAN Economic Community Blueprint, Available: <http://www.asean.org/wp-content/uploads/images/archive/5187-10.pdf> Retrieved: 17 March 2017.

<sup>35</sup> ASEAN Economic Community Blueprint, Available: <http://www.asean.org/wp-content/uploads/images/archive/5187-10.pdf> Retrieved: 17 March 2017.

charge of a feedback channel that encourages the private sector and other stakeholders to identify and provide feedback on tariffs in practice and on NTMs that impact their businesses.

More generally, the ASEAN Secretariat should be tasked to research and publish reports on the progress of ASEAN initiatives and the extent to which each ASEAN Member State has complied with their commitments. The recent establishment of the analysis and monitoring divisions/directorates across the three pillars of the ASEAN Community as part of the exercise of strengthening the ASEAN secretariat is a good step towards that objective.

To meet these and many other needs, the current budget is insufficient for the ASEAN Secretariat to operate effectively. An effective Secretariat is crucial in strengthening ASEAN's internal centrality<sup>36</sup> and clearly needed in order to meet increasing demands by members. According to the ASEAN Secretariat, manpower costs are likely to increase by 54% by 2025 and member states should commit to increasing capacity and resources over time. The current budget process allows for a year-by-year consideration of the budget proposal, with no a priori agreed budget increase. While this allows for flexibility, it also poses some uncertainties. Alternative such as multi-year commitment to a minimum sum increase of the budget may be considered.<sup>37</sup>

These ASEAN-centred responses can be supplemental to what an individual ASEAN member state will do on its own – given the sovereignty of the state and the nature of ASEAN, individual state policy remains legitimate and often primary. But there will be other instances – and perhaps increasingly so – that members will realise that the collective ASEAN response can be even more important than what any one member state can do.

ASEAN, with the formation of the AEC and working together with its partners in RCEP, can make a difference not only for itself but seek to mitigate the effects of protectionist behaviour in the west on Asia. Power, in the new world order, need not be defined as the ability to have a hold over another but more of the ability to solve problems by working with others. The ability to connect with others, therefore, becomes a major source of power.<sup>38</sup>

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<sup>36</sup> A Memorandum by the ASEAN Institutes of Strategic and International Studies (ASEAN-ISIS) (2017), *The Future Of ASEAN: Meeting The Challenges Of A Changing Global And Regional Landscape*, Distributed at the ASEAN-ISIS Retreat: ASEAN at 50 Indonesia, January 19-22, 2017.

<sup>37</sup> *ibid.*

<sup>38</sup> Nye, Jr, Joseph S. (2017) *Will the liberal order survive? The History of an Idea*, *Foreign Affairs*, January/February 2017, Vol. 96, Number 1, pp10-16.

### (3) National Politics and Reform

Much of what ASEAN can do for its own AEC and the wider RCEP depends not only on the global megatrends but on the national agenda. As observed earlier, recent years have seen a swell in nationalism and protectionism. ASEAN members are not immune to this phenomenon. Yet in the face of this trend, we also observe that ASEAN members continue to remain open to investment and trade, with a number embarking on reforms and further economic opening as part of their long-term national agenda.

Some of these reforms deal with sensitive areas, such as opening previously restricted sectors of the economy, and reforming state-owned enterprises (SOEs) to become more competitive. While national-level efforts in ASEAN differ, the broader outlook may be more positive than some fear.

In Indonesia, the Jokowi administration embarked on a roadmap to diversify its commodities-driven economy towards manufacturing and services. In 2015, President Jokowi rolled out a series of economic reform packages aimed at stimulating economic growth and attracting fresh investment into Indonesia. This was followed by an announcement of a “Big Bang” plan in 2016 to reduce restrictions on foreign investment in 49 sectors – ranging from fishery, healthcare, transport and retail, representing the country’s largest opening to international investment in 10 years.<sup>39</sup>

In Vietnam, new impetus drives domestic reforms. Despite the US withdrawing from the TPP and uncertainty surrounding the trade deal, Vietnam announced that it would continue to push ahead and comply with more than 30 pieces of legislation initially proposed by the trade deal to further open up its economy.<sup>40</sup> This includes reforms on its standards on labour, foreign investment, trade and the SME sector.<sup>41</sup>

Similarly, Thailand wants to move its economy up the value chain. It wants to develop expertise in its research and development sector and embark on innovation-led growth. Under Prime Minister Prayut Chan-o-cha, Thailand introduced Thailand 4.0, a new

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<sup>39</sup> The Straits Times (2016) Indonesia Plans ‘Big Bang’ to Woo Foreign Investments, The Straits Times, 11 February 2016, Available: <http://www.straitstimes.com/asia/seasia/indonesia-plans-big-bang-to-woo-foreigninvestments>, Retrieved: 15 August 2016.

<sup>40</sup> South China Morning Post (2016) Vietnam vows full speed ahead with economic reforms, with or without the TPP, Available: <http://www.scmp.com/news/asia/southeast-asia/article/2050035/vietnam-vows-full-speed-ahead-economic-reforms-or-without> Retrieved: 31 January 2017.

<sup>41</sup> South China Morning Post (2016) Vietnam vows full speed ahead with economic reforms, with or without the TPP, Available: <http://www.scmp.com/news/asia/southeast-asia/article/2050035/vietnam-vows-full-speed-ahead-economic-reforms-or-without> Retrieved: 31 January 2017.

economic model for that prioritises greater research and development, and innovation-led growth with the primary aim of moving the country out from the middle-income trap. A key focus of Thailand 4.0 also aims to reform the country's vast agricultural sector by embarking on "smart farming" and empowering farmers to be "entrepreneurs".<sup>42</sup>

These are painful reforms in the short term and will likely meet considerable resistance, but in the long run, will move Thailand's agricultural sector up the global value chain.

The need for inclusive growth also features highly on government economic agendas across the region. Besides promoting e-commerce, youth and women entrepreneurship, the Philippines is taking the lead to help MSMEs innovate and develop. MSMEs, which make up 99% of all registered businesses in the Philippines, are expected to see improvements to trade promotion, agri-industry development, and production innovation programmes by 2018.<sup>43</sup>

ASEAN's commitments towards closer economic integration are not without caution over public sentiments and potential populist backlash. Its vision to build a "People-Oriented" and "People-Centred" ASEAN is targeted at ensuring that the region adopts inclusive policies that prioritises the people's interests. The concept is to achieve a level of community where what ASEAN does is relevant to people, and where the peoples of the region understand how ASEAN impacts and can benefit them. Raising people's knowledge and demonstrating the relevance of ASEAN to their betterment will help build internal ASEAN centrality and build popular support for reform, both nationally and regionally.<sup>44</sup> This helps to ensure that populism in the region does not push back against integration efforts.

It is hard to control the rise of populist sentiments. Adopting conscious efforts to help mitigate conditions that serve as breeding grounds for discontent will be key. Governments must also adopt an effective public campaign that communicates the importance of the need for economies to stay open, inclusive, and well-connected to both regional and global trade and investment networks. Otherwise, they risk being faced with a misinformed electorate that is less receptive to the idea of a more integrated ASEAN.

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<sup>42</sup> SIIA and Actagon (2016) Emerging Trends And Investment In ASEAN, 4 September 2016, Available: [www.siaonline.org/wp-content/uploads/2017/03/siia-actagon-trends-investment-asean.pdf](http://www.siaonline.org/wp-content/uploads/2017/03/siia-actagon-trends-investment-asean.pdf) Retrieved: 28 March 2017

<sup>43</sup> Mercurio, Richmond (2016) DTI lauds Duterte's push for MSME development in ASEAN, The Philippine Star, 9 September 2016, Available: <http://www.philstar.com/business/2016/09/09/1621740/dti-lauds-dutertes-push-msme-development-asean> Retrieved: 15 April 2017.

<sup>44</sup> SIIA (2015) ASEAN centrality in the regional architecture, January 2015, Singapore Institute of International Affairs, Available: <http://www.siaonline.org/wp-content/uploads/2016/10/2015-05-Policy-Brief-ASEAN-Centrality-in-the-Regional-Architecture.pdf> Retrieved: 3 April 2017.

In the developed countries of the west, populism has pushed back against globalisation and the liberal economic order. This is largely because workers feel that their jobs have been “exported” and their wages cut in order to compete with workers abroad. This sentiment is felt in ASEAN and it is not inevitable that they gain sway. The case can and should be made that ASEAN, collectively and for members nationally, stand to gain from being more open. This is in terms of greater investment, long-term competitiveness that will generate jobs and broadly distributed benefits. In this, ASEAN can not only continue with trade and investment liberalisation against the current of the west but serve as an example of how economic integration can be linked with social and other concerns. This is so that the AEC has more of a “human face”, with “People-Oriented and People-Centred” policies. Governments can then harness the momentum derived from global megatrends such as populism and accountability demands, to move ASEAN economic integration forward.

#### **1.4. Conclusion: Who and What Else**

This chapter has considered ASEAN in the context of global megatrends that impact the group, whether as a whole or at the national level of different ASEAN members. We focused on three megatrends that, while political, have an impact on economic integration.<sup>45</sup> The chapter has also opted to look primarily at megatrends that filter down from the global level and influence ASEAN and its members at the national level. We have also considered that, while ASEAN is a useful unit of analysis, these trends often set the context to which ASEAN can and must respond. In this sense, we see ASEAN not only as a unit of analysis but, perhaps even more importantly, a unit of response.

We have also surveyed the economic and financial turbulence and opportunities in the world. Even if directions are negative, we argue that ASEAN economies will do better to move ahead with their economic integration inter se than if they were to either turn more protectionist or seek to adhere to another non-ASEAN power on its own. Similarly, in the emerging competition among major powers of the Asia-Pacific, there is a logic that ASEAN can do more collectively than any one of its member states can do independently. Despite its limitations, if the region had no ASEAN, it would still need something much like ASEAN, which has an accepted and non-threatening centrality.

Specific policy recommendations have followed from this, including that ASEAN must now prepare to take up global issues and a role in the global fora. ASEAN must also seek to strengthen the ASEAN common voice, which should aim to include the creation and

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<sup>45</sup> For reasons of length, other megatrends such as those in technology are not covered in this chapter.

reiteration of norms so that the grouping develops the clout to reinforce its normative power in the region. Calls for ASEAN to step up its leadership role to better respond to national, regional and global needs, have also grown louder and more urgent.

Through its first 50 years, ASEAN has already felt and sought to respond to wider and global trends, such as the Cold War and the rise of China. In many of these situations, ASEAN has been able to play mostly a reactionary role, rather than seeing the possibilities of influencing trends more proactively. Looking forward, if ASEAN can remain united, the group as a whole can offer a form of leadership in the Asia Pacific that is based not on power but on certain norms, institutions and regional and international practices. ASEAN marks its 50<sup>th</sup> anniversary at a time of change in the world, and this is not only a time to look at its history but to prepare with both realism and hope for the future.

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## Chapter 2

### The Future of Technology: Opportunities for ASEAN in the Digital Economy

*Sarah Box and Javier Lopez-Gonzalez<sup>1</sup>*

#### 2.1. Introduction

The digital age is now a reality in many economies. Governments, businesses and individuals are migrating their activities to the Internet at an increasing pace and the uptake of digital technologies is reaching new levels. More households in developing countries own mobile phones than have access to electricity or clean water, and nearly 70% of the bottom fifth of the population in developing countries own a mobile phone (World Bank, 2016).<sup>2</sup> In this environment, data and digital technologies are becoming increasingly essential for participation in the global economy.

Digital technologies including the Internet, cloud computing, data analytics and the Internet of Things (IoT), have facilitated commerce by making it easier for suppliers to connect with customers and improve logistics control. Technology is now making it possible to complete transactions, deliver products and services, and make payments faster, more efficiently and at lower prices. For example, new Information and Communications Technology (ICT) tools can facilitate cross-border e-commerce and participation in global markets for smaller and newer firms (e.g. Skype, WhatsApp or Viber for communications, Google and Dropbox for file sharing, LinkedIn for finding talent, PayPal for transactions and eBay, Tokopedia, Amazon and increasingly Facebook, for sales). They have boosted the abilities of firms of all sizes and origin to find a niche in global value chains (GVCs) and gain access to new markets. The Internet provides a platform on which entrepreneurs can construct new businesses and commercialise their ideas, lowering entry barriers and freeing up resources for innovative activity.

At the macroeconomic level, these trends hold the potential for new sources of productivity and economic growth. Evidence continues to show the positive returns on investment in digital technologies, especially when combined with investment in complementary assets such as human capital and organisational change (for a recent overview, see OECD 2017). These gains are not automatic however, with country-level

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<sup>1</sup> Respectively, OECD Directorate for Science, Technology and Innovation (STI) and OECD Trade and Agriculture Directorate (TAD). The authors would like to acknowledge colleagues in STI who contributed to the OECD's Science, Technology and Innovation Outlook 2016, on which some elements of this chapter are based. Valuable comments were also received from Janos Ferencz, Marie-Agnès Jouanjean, Michael Keenan, Molly Leshner, Hildegunn Nordås and Dirk Pilat. This chapter does not represent the official views of the OECD or of its member countries. The opinions expressed and arguments employed are those of the authors.

<sup>2</sup> Although the extent to which these mobile phones have data plans (Internet access) might vary considerably.

differences pointing to the importance of infrastructure and institutions, and the need for attentive policy-making, especially to ensure that the gains are inclusive.

ASEAN economies are embracing digital technologies to varying degrees and leveraging them for economic and social advancement. The uptake and use of the Internet for example, as a basic digital technology, significantly increased between 2000 and 2015 (Figure 2.1). From essentially zero uptake in the early 2000's, fixed broadband subscriptions are now heading towards 10% penetration in Malaysia, Thailand and Viet Nam. More than 80% of individuals use the Internet in Singapore, and over 70% in Malaysia and Brunei, although the figure is still below 20% in Lao People's Democratic Republic and Cambodia. Digital technology continues to spread rapidly, due in large part to the important role of mobile technologies, i.e. smartphones. However, as Figure 2.1 also shows, there are wide gaps, both between ASEAN members and with regional Asian neighbours. There is also typically a gap between small and large firms in the use of the Internet, with a larger share of large firms operating websites, selling online and accessing broadband technologies than for small firms, regardless of a country's level of income (World Bank, 2016).

There is a clear challenge for ASEAN economies to harness the promise of digital technologies as they pursue growth and prosperity, including via their regional integration agenda. In doing so, they will face many of the same challenges faced by other developed and developing economies - boosting uptake of technologies across all firms and individuals, ensuring people have the skills to make the best use of them, and putting in place the right infrastructure, macroeconomic and regulatory conditions to enable their economies to adapt to and benefit from the new digital reality.

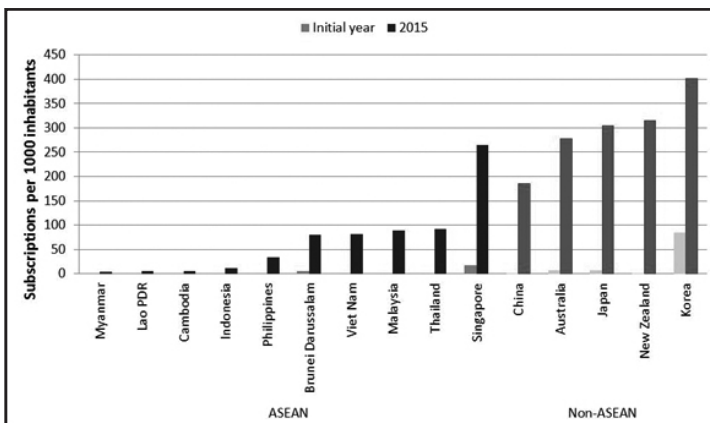
Recent ASEAN strategy documents clearly recognise these challenges and are seeking to position ASEAN to transition towards a digital economy. The AEC Blueprint 2025 (ASEAN, 2015a), which charts the direction of ASEAN's economic integration from 2016 to 2025, has an element on electronic commerce under the main characteristic of Enhanced Connectivity and Sectoral Cooperation, which makes reference to the following strategic measures: harmonised consumer rights and protection laws; harmonised legal framework for online dispute resolution, taking into account available international standards; inter-operable, mutually recognised, secure, reliable and user friendly e-identification and authorisation (electronic signature) schemes; and coherent and comprehensive framework for personal data protection. To operationalise these strategic measures, at the time of writing, the ASEAN Work Programme on Electronic Commerce is now at the finalisation stage, following the establishment of the ASEAN Coordinating Committee on Electronic Commerce. The ASEAN ICT Masterplan 2020

(ASEAN, 2015b), which is the sectoral e-commerce work plan, points to the role of ICT in supporting regional integration and connectivity, as well as the increasing centrality of the Internet in socio-economic growth and development, and sets out actions to achieve a digitally-enabled economy that is secure and sustainable. The Masterplan on ASEAN Connectivity 2025 (ASEAN, 2016a) identifies digital innovation as one of five strategic areas to achieve a seamlessly connected ASEAN, as well as a significant potential source of economic activity, and points to the need for backbone infrastructure, regulatory frameworks for new digital services, support for sharing best practice on open data, and equipping micro-, small- and medium-sized enterprises with capabilities to access new technologies.

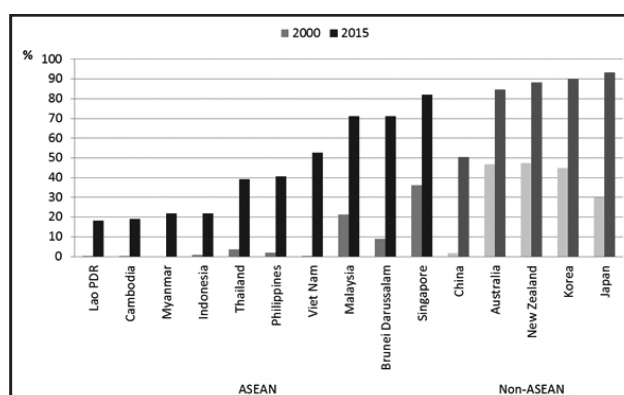
This chapter looks at some of the key technological trends emerging in the digital arena and takes a close look at how these trends will change the trade environment for ASEAN economies, with a particular focus on the rise of new forms of trade. It then discusses the key enabling factors that will determine whether these trends can be seized as a driving force for economic and social advancement by ASEAN economies. The chapter concludes with potential policy directions for ASEAN economies as they pursue their regional integration agenda in the digital world.

**Figure 2.1**

**Panel A: Fixed Internet Broadband Subscriptions, per 1000 Inhabitants, 2015**



**Panel B: Percentage of Individuals Using the Internet, 2000 and 2015**



*Note:* Initial year in Panel A is 2000, except for Australia (2001), Brunei Darussalam (2001), Cambodia (2002), Lao PDR (2003), Malaysia (2001), Myanmar (2005), Philippines (2001), Thailand (2001) and Viet Nam (2002).

*Sources:* Panel A: Asian Development Bank (2016); Panel B: ITU, World Telecommunication/ICT Indicators Database.

## 2.2. Paradigm-changing Developments

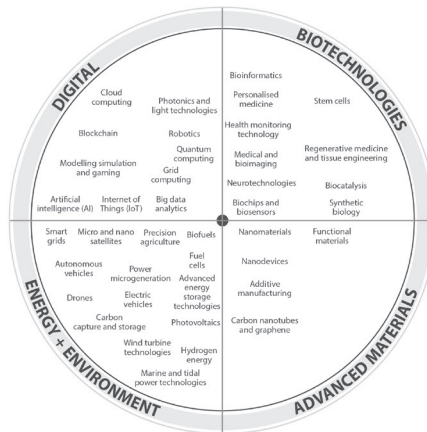
Technological change can be regarded as a significant megatrend in its own right and its direction is a subject of intense interest to governments and the business sector. The impact of technology change on economies and societies is complex - its scope is broad and the applications of technology are wide and often hard to predict. So as to better understand the possible trajectories of technological change, governments, research bodies and businesses sometimes turn to methods of technology forecasting and technology foresight. The foresight approach often uses scenarios to capture the inherent uncertainty of technology change, and offers a way of identifying key technologies worthy of further investment and policy attention.<sup>3</sup>

The results of technology foresight exercises carried out between 2012-2015 in Canada, Finland, Germany, the Russian Federation, and the United Kingdom, and by the European Commission, identified well over 100 key or emerging technologies between them, with a large chunk of these being digital technologies (OECD, 2016a) (Figure 2.2). These exercises provide insights into the potential technological drivers of economic and social change over the next 10-15 years, and are relevant for all policy makers seeking to build resilient and forward-looking policies. Individually, none of the innovations

<sup>3</sup> See Chapter 6 for more discussion of foresight exercises.

is revolutionary, but taken collectively they indicate the world is entering a period of technologically-induced structural change, just as it once traversed the agrarian and industrial revolutions. The digital transformation is however, at an early stage, and handling the changes adeptly will be essential for harnessing the benefits for ASEAN firms, individuals and governments.

**Figure 2.2: Forty Key and Emerging Technologies for the Future**



*Note:* This diagram depicts some of the most commonly-identified technologies from the foresight exercises examined for the OECD’s Science, Technology and Innovation Outlook 2016. For ease of analysis, they have been mapped into quadrants that represent broad (and complementary) technological areas.

*Source:* OECD (2016a).

As a backdrop to the remainder of the chapter, below is an overview of five interconnected digital technology trends that are likely to impact on ASEAN economies, in particular through their effects on production and subsequent industrial structure and trade patterns. These five trends are the Internet of Things, big data analytics, artificial intelligence, additive manufacturing, and blockchain. They are described below and discussed at greater length in sections 2.4 and 2.5.

As ASEAN countries prepare for the digital age, albeit from different starting points and with different degrees of progression, different policies will need to be prioritised to manage change. However, in all cases, promoting digital readiness, through greater investment in digital infrastructure, hard and soft, and the uptake of digital solutions, both by firms and consumers, will be a precondition for access to the benefits offered by new technologies.

*Internet of Things:* In broad terms, the IoT comprises devices and objects whose state can be altered via the Internet, with or without the active involvement of individuals

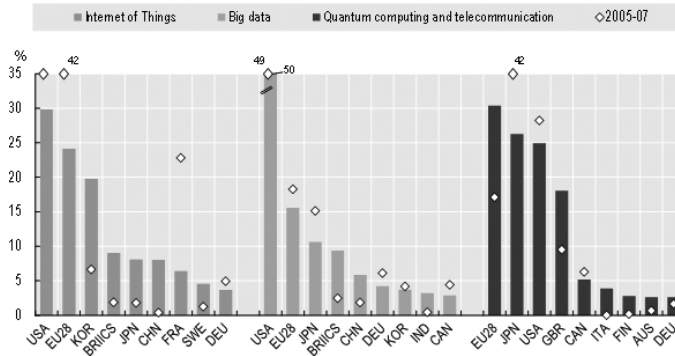
(OECD, 2015a). It encompasses not only familiar devices connected to the Internet, such as laptop computers and smartphones, but also a myriad of sensors and objects that sit in workplaces, public spaces and homes. These objects collect data and take action based on specific rules; for instance, a sensor in a parking space might assess whether a car is parked there, providing information not only for real-time traffic management, but also for longer-term road infrastructure decisions.

The IoT's evolution will be underpinned by advances in big data analytics (see below), as well as cloud computing (essentially, remote data storage and processing), machine-to-machine (M2M) communication and sensor technology. By 2030, it is estimated that 8 billion people and perhaps 25 billion active "smart" devices will be interconnected and interwoven in one huge information network (OECD, 2015b). This offers incredible opportunities in health care, manufacturing, energy and transport, as well as in the delivery of public services. In manufacturing for example, the IoT could radically improve factory operations and logistics, boost supply chain intelligence and reduce waste and loss. The IoT can also help improve the delivery of public services from transportation (using GPS tracking devices to manage public transport), to health (using sensors for real-time monitoring and more tailored care packages) and administration (using biometrics to prevent identity theft) (see Deloitte, 2015; OECD 2016b). Data-driven innovations based on the IoT hold great promise also for increasing the efficiency of urban systems and urban governance (OECD, 2015b).

*Big data analytics:* These are the techniques and tools used to process and interpret large volumes of data that are generated by the increasing digitisation of content, the greater monitoring of human activities, and the spread of the IoT (OECD, 2015b). Data alone have limited value - it is by putting them into context, examining their structure and finding patterns that data become a source of competitive advantage, productivity and innovation. Making sense of data enables firms, governments and individuals to monitor and optimise their operations, and to inform real-time decision-making. It also allows entities to refine products and services to better serve the needs of their customers. Coupled with artificial intelligence, big data analytics has already transformed the finance industry, with algorithms now conducting more trades autonomously than humans in the United States (see OECD 2015b, p. 156). The wealth of potential market applications is reflected in the growing investment in big data analytics, as well as the IoT and quantum computing and telecommunication (Figure 2.3).

**Figure 2.3: Top Players in IoT, Big Data and Quantum Computing Technologies, 2005-07 and 2010-2012**

Economies' share of IP5 patent families filed at USPTO and EPO, selected ICT technologies



Note: Quantum technologies harness quantum physics to acquire functionalities or improve the performance of existing technologies (e.g. microprocessors). Quantum computation technologies are information-processing methods that promote more effective computation. Quantum telecommunications technologies offer secure communication channels and lead to patents related to encryption, as well as transmission systems and components.

Source: OECD calculations based on IPO (2014), Eight Great Technologies: the Patent Landscapes, United Kingdom and STI Micro-data Lab: Intellectual Property Database, <http://oe.cd/ipstats>, June 2015. See OECD 2015c, <http://dx.doi.org/10.1787/888933273495>.

*Artificial intelligence:* Artificial intelligence (AI) is defined as the ability of machines and systems to acquire and apply knowledge and to carry out intelligent behaviour (OECD, 2016a). This means performing cognitive tasks such as sensing, reasoning, learning and making decisions, as well as moving and manipulating objects. It relies heavily on data analysis, with machine learning allowing machines to make decisions based on past experience as well as an underlying set of information and rules. Coupled with advances in engineering, AI is revolutionising the role of robots, so that they can adapt to working environments and learn autonomously (OECD 2016c). The number of robots being utilised is increasing rapidly (Figure 2.4), and with IoT technology also in play, fully automated production processes may be close at hand. On the factory floor, AI may not only lead to better inventory management and resource optimisation, but also to improved safety and enhanced decision-making in hazardous environments. The service sector will also be reshaped by AI - for instance, recommendation-engines used to power Amazon, Netflix and Spotify are all based on machine learning technologies.

**Figure 2.4: Rise in Annual Supply of Industrial Robots (thousand)**

Source: International Federation of Robotics (2015), reproduced for OECD (2016a).

*Additive manufacturing:* In contrast to traditional manufacturing processes where products are built by taking materials and removing pieces or reshaping them to form the ultimate item, additive manufacturing makes products by building up material in layers (OECD, 2016a). This technique, more popularly known as 3D printing, typically uses computer-aided design software and can create items made of plastic, metal, ceramic and glass, as well as an increasing number of composite materials. Originally, additive manufacturing was primarily used to create prototypes, but with improvements to materials and manufacturing machinery, the technique is now allowing firms and individuals to create highly complex and customised products (such as hearing aids or crowns for dentistry to name but a few examples). While additive manufacturing is unlikely to replace mass manufacturing methods in the near term, it does offer new opportunities for firms to speed up design processes, potentially reduce the number of steps in production, and explore new market niches and levels of customisation that were previously not financially viable. Manufacturing could also become possible in geographically dispersed areas, as micro-scale manufacturing becomes a viable economic proposition.

*Blockchain:* Blockchain is a distributed (decentralised) database that acts as an open, shared and trusted public ledger that is tamper-proof and able to be inspected by everyone (OECD, 2016a).<sup>4</sup> It allows value to be transferred within computer networks, and the protocols underlying how the ledger is maintained and updated provide the conditions for trust in the transactions taking place, without the need for a central institution. The technology offers the potential for lower transaction costs and while the initial application has been in digital currencies, there is a large scope for blockchain technology in financial transactions more broadly, as well as record and

<sup>4</sup> The information held in the database is distributed across multiple (physical or digital) locations or nodes; since there is no central repository, all nodes carry an updated copy of the entirety of the database making it more resilient and less prone to tampering.



verification systems and smart contracts. For example, cross-border remittances could be revolutionised, cutting the typically high transaction costs relative to the remittance amount. Registration of land and proof of ownership of assets could become more transparent and accessible via blockchain technology, and it could also further ensure the integrity of other government records and services, including tax collection.

The technologies described above will clearly have far-reaching consequences for productivity and growth, not to mention skills, income distribution, well-being and the environment. Numerous studies point to the productivity gains from the “next production revolution” (also known as Industrie 4.0), in which digital technologies are integrated in industrial production to enable new and more efficient processes, and in some cases, create new goods and services. The IoT, for instance, reduces costs among industrial adopters by 18% on average, and the OECD’s work suggests that the technologies in question, from ICTs and robots to new materials, have more to contribute to productivity than they currently do (OECD, 2016c). Often, their use is predominantly in larger firms. And even in larger firms, many potential applications are underused. Unexploited opportunities exist throughout manufacturing. In addition to their immediate impacts on production processes and underlying systems, these emerging digital technology trends are also changing the way we trade.

### **2.3. Trade in the Digital Era**

The 21<sup>st</sup> century has ushered in the information era of bundled goods, services and ideas delivered across borders by businesses and consumers through physical devices connected to digital platforms. These digital infrastructures were conceived to be global, and while they offer new opportunities for scale, particularly for small- and medium-sized enterprises (SMEs), and preference matching for consumers, they also raise key challenges for domestic and trade policy making in a world where borders between countries remain. This section puts digital trade in the context of different waves of globalisation and discusses how the digital transformation changes how, and what, we trade.

#### ***1) A New Era of Globalisation***

Much like the reduction in transport and coordination costs enabled the fragmentation of production along GVCs, falling costs of sharing information have powered the digital trade revolution. Services can now more easily be fragmented, bundled and delivered via digital platforms through physical devices. At the same time, falling informational barriers, arising from growing digital connectivity, are enabling more physical, or traditional, trade to take place.

Globalisation's "first unbundling" (Baldwin, 2011) mainly concerned trade in final goods and the "second unbundling" trade in intermediate products; trade in the 21st century is increasingly about cross-border transit of smaller packages; bundled goods and services; and flows of information (or data) all of which are enabled through digital means.

**Table 2.1 Characteristics, Drivers and Trade Policy Issues Across the Different Waves of Globalisation**

Type	Characteristics	Driver	Trade policy issues
"Traditional" trade	<ul style="list-style-type: none"> <li>- Separation of production and consumption across international borders</li> <li>- Trade in final goods</li> </ul>	<ul style="list-style-type: none"> <li>- Reductions in transportation costs</li> </ul>	<ul style="list-style-type: none"> <li>- Market Access</li> </ul>
GVC trade	<ul style="list-style-type: none"> <li>- Unpacking of factories across international borders</li> <li>- Trade in intermediate goods</li> </ul>	<ul style="list-style-type: none"> <li>- Reductions in transport and coordination costs</li> </ul>	<ul style="list-style-type: none"> <li>- Trade-investment-service-knowledge nexus</li> <li>- Trade facilitation, domestic, behind-the-border NTMs</li> </ul>
Digital trade	<ul style="list-style-type: none"> <li>- Unpacking of production, logistics and consumption: age of hyperconnectivity</li> <li>- Trade in smaller quantities of physical goods and digital services</li> <li>- Changing tradable nature of services.</li> <li>- Bundling of goods and services</li> </ul>	<ul style="list-style-type: none"> <li>- Reductions in transport, coordination and mainly costs of sharing information</li> <li>- Digitalisation</li> </ul>	<ul style="list-style-type: none"> <li>- Data flows</li> <li>- Digital connectivity</li> <li>- Interoperability</li> </ul>

Source: OECD (2016d)

At its most basic, 21<sup>st</sup> century trade is underpinned by the transfer of bits and bytes across borders. Online platforms and networks deliver information facilitating, or enabling, the production and sale of goods and services across borders. Data connects businesses (e.g. through service links), machines (e.g. the IoT) and individuals (i.e. peer-2-peer or social networking) to each other.

With this changing environment, new trade policy priorities arise. Market access, trade facilitation and behind-the-border measures (such as non-tariff measures) remain important, but new technologies raise new issues such as digital connectivity, data flows and interoperability (Table 2.1).<sup>5</sup>

## **2) Changing How We Trade (but not why we trade)**

Digitalisation and new technologies change what and how we trade, but not the economic fundamentals of why we trade. That is, trade is still subject to comparative advantage, informational asymmetries and barriers to trade both at-the-border and behind-the-border.<sup>6</sup> However, new technologies which are reducing the cost of sharing ideas across borders and connecting different actors along the value chain, help overcome some of the constraints associated with engaging with international markets and may shift sources of comparative advantage.

Digital platforms are increasingly replacing intermediaries to connect supply with demand.<sup>7</sup> They can help reduce informational asymmetries and search costs, helping firms, and particularly SMEs, upscale production and meet the costs associated with exporting, and also allowing individuals to more directly engage in international trade, both as buyers and sellers, and find better matches to their preferences.

E-tail activities—retail business conducted online via platforms such as eBay, Alibaba or Tokopedia, are growing fast and resulting in a rising number of small packages crossing international borders. Small value products are particularly sensitive to trade costs, from shipping costs to at-the-border and to-the-border costs, because they represent a larger share of the value of the shipped product. The trade policy environment they face depends on the *de minimis* provisions of the receiving country, which indicate the minimum value of goods below which no tariffs or taxes are collected at the border.

In ASEAN, *de minimis* provisions range between US\$28 in Viet Nam to US\$296 in Singapore (Table 2.2). Too low a threshold can unnecessarily raise the cost borne by importers and exporters; increase delivery times; and overburden customs authorities having to clear more packages. However, too high a threshold might in turn result in

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<sup>5</sup> For example, cross-country technical interoperability of systems such as e-payments may condition digitally enabled trade in goods via digital marketplaces. Data flow regulation may affect the way global value chains are coordinated, and restrictions on the cross-border supply of telecoms services which reduce competition may condition access to digital infrastructures which underpin digital trade.

<sup>6</sup> Many of these economic constraints have been well established for many years: i.e. informational asymmetries (Akerlof, 1970) or hold-ups in trade (Grossman and Hart, 1986).

<sup>7</sup> Intermediaries arose to solve issues related to search frictions (Bernard et al. 2011); digital platforms provide a more efficient way of reducing these.

lost tariff revenue. While an optimal *de minimis* level is hard to define, differences in *de minimis* provisions within an integrated region can unnecessarily impede regional e-tail trade affecting regional SME internationalisation.

**Table 2.2 De Minimis Provisions in ASEAN Countries in April 2016**

Member State	Amount	Types of Taxes Exempted	Commodity	Modes of Transport
Brunei Darussalam	BND 400 (US\$295)	Import duty	All dutiable goods	Air (courier service)
Cambodia	US\$50	Duty and tax	All	All
Indonesia	US\$50	Import duty and taxes	All	Air express and postal
Lao PDR	US\$50 (of goods value)	Import duty and tax	All	All
Malaysia	RM 500 (USD\$128)	Import duty	Except tobacco, cigarette and liquor	Air (courier service) and postal
Myanmar	US\$500	Duty and tax	All	All
The Philippines	PHP 10,000 (US\$200)	Duty and tax	Except tobacco goods, wines and spirits	All
Singapore	SGD 400 (US\$296)	Goods and services tax	Exclude liquor and tobacco	Air and Post
Thailand	THB 1,500 (US\$40)	Import duty and VAT	Except prohibited and restricted goods	All
Viet Nam	VND 1,000,000 (US\$28)	Import duty and taxes	All	All

*Note:* Myanmar Customs implemented the US\$50 de minimis on 1 April 2017. However, this is only applicable to express consignment cargo. Goods valued at US\$ 500 and below (except restricted goods) are not subject to import licensing.

*Source:* ASEAN Secretariat (figures from April 2016)

Other technologies, such as distributed ledgers, or Blockchain, have the potential to further reduce transaction costs by making contracts more transparent and enforceable, reducing hold-ups in trade. In turn, AI and big data can be useful in managing the coordination of global value chains and to deploy innovative service solutions to consumers and other businesses.

As firms adopt new technologies, they are likely to move towards more knowledge-intensive processes of production, giving rise to new sources of comparative advantage. Intangible assets and access to knowledge-based capital (KBC), will impact the allocation of factors of production both within the firm and across GVCs. For example, automation has the potential to reduce the role of labour abundance or skills in determining

comparative advantage for traditional goods from agriculture to manufacturing. But changing sources of comparative advantage will also lead to greater trade in new products.

### **3) And What We Trade**

It is not just how we trade that is changing, 21<sup>st</sup> century trade increasingly involves: new 'information industries'; bundled goods and services; and trade in data.

#### *New information industries*

New technologies and digitalisation are giving rise to new 'information industries' such as 'big data' analytics, cybersecurity solutions or at-a-distance computing services increasingly being traded across borders. At the same time, digitalisation is changing the tradability of already established service industries. For instance, transport services have traditionally not been tradable across borders and have required domestic presence, but digitalisation is changing the nature and delivery of such services. This is not only a potential source of disruption in the domestic economy and a challenge for regulators, as has been seen in the case of growing accommodation-sharing or ride-sharing services, it also has implications for current and future liberalisation schedules, since many commitments were negotiated before these disruptive players entered the marketplace.

#### *Trade in bundled goods*

Digitalisation and new technologies are also enabling a greater bundling of goods and services (and further blurring the lines between manufacturing and service activities). This matters because international trade commitments, be it at the multilateral or at the regional level, are negotiated with a relatively clear distinction between goods and services. Bundled products can complicate identifying the rules and provisions that apply in cross-border transactions.

Bundling can occur at the product level, when physical devices are used as conduits for the delivery of bespoke services, such as in the IoT, or at the production level, where goods embody service inputs sourced from abroad such as design, research and development and marketing within a GVC.

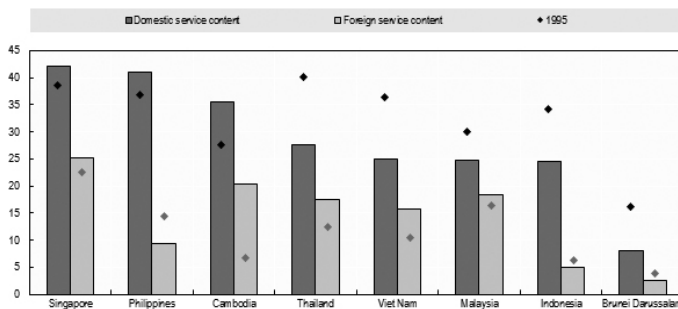
Although hard to separate, the OECD-WTO Trade in Value-Added database offers preliminary insights into this phenomenon. Services represent around 20 to 25% of gross exports, but in value added terms (taking into account the service value added content embodied in products), the figure is close to 50%. Nearly half of all service exports are

‘delivered’ through goods.<sup>8</sup>

The uptake of new technologies is partly responsible and has led to an increase in the domestic and foreign service content of exports in many OECD countries. However, in ASEAN, the evidence is mixed (Figure 2.5). While Singapore has seen its service value added content of gross exports rise, other ASEAN countries have seen overall reductions. The driving factors are uncertain, and in some countries might reflect changes in commodity prices or different levels of development. Nevertheless, reductions might also be symptomatic of the policy environment and will require further consideration as governments and businesses look to modernise economic structures for 21st century trade.

In the case of additive manufacturing, the lines separating traded goods and services are even more blurred. When a computer-aided design (CAD) file is sent across the border this is a digital design service, but when it reaches the consumer it becomes a good, raising challenges for regulators and trade rules alike.

**Figure 2.5: Service Content of Exports in ASEAN in 2011 (%)**



*Note:* 1995 figures identify the values of the domestic and foreign service content of exports in 1995. Data not available for Lao PDR and Myanmar.

*Source:* Adapted from Lopez-Gonzalez (2016).

<sup>8</sup> The service content of exports captures only part of the story; goods that are sold can subsequently enable further sales of services. For example, digital devices can facilitate the delivery of further audiovisual services which are not embodied in the digital device itself.

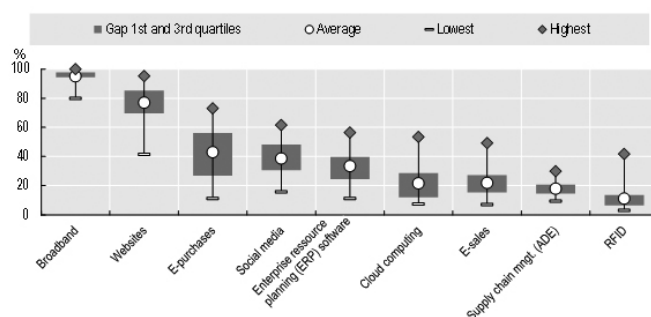
### *Data transfers*

The movement of data across borders is an essential component of new and rapidly growing ways of supplying services such as cloud computing, the IoT and additive manufacturing. Data is also used as an input into production across all business activities within the firm, facilitating the allocation of resources and increasing competitiveness. Data connects firms and consumers across countries and enables management of global production networks. Enhanced connectivity, through data flows, also increases the efficiency of moving goods across borders: paperless trading, on-line registration of information, e-certification and on-line payment of customs duties contribute to further reducing trade costs and speeding-up clearance at the border.

The ubiquitous exchange of data across borders however, has led to concerns about digital security, audit and protection of individual privacy, particularly in the context of different regulatory approaches across countries. This has given rise to increased data-flow regulation. Two types of measures are emerging: restrictions on cross-border transfers of data, mainly to protect privacy; and local storage requirements, either to protect privacy or for audit reach. Both aim to tackle genuine policy concerns but may have important economic consequences, now and particularly in the future, for the diffusion of new technologies and adoption of new business models. Ongoing OECD analysis reveals that in ASEAN Member States the use of such measures is growing (see also ITIF, 2017). Affording the right level of protection and security to citizens while maintaining Internet openness will be important to make the most out of globalisation while, at the same time, mitigating some of the negative effects associated with rising interconnectedness.

## **2.4. New Policy Challenges**

There are some common challenges to the development of the technologies described in this chapter and the ability of economies to take advantage of their benefits for trade, jobs and growth. A fundamental challenge is access to, uptake, and use of technology. Broadband networks can be viewed as essential infrastructure, providing the backbone of the digital economy, but access to broadband is only the first step to effective use of digital technologies by firms, individuals and governments. Even in more developed economies, the diffusion of selected ICT tools and activities in enterprises varies widely, both across countries and across different technologies (Figure 2.6), and within countries, large firms typically use digital technologies more intensively. Small enterprises lag in their adoption of even basic digital technologies - with the costs of ICT adoption, a lack of adequate financing, a reluctance to change, and an inability to change due to skills deficiencies being some of the potential hurdles. Engaging more SMEs in the digital economy would likely yield significant benefits in terms of productivity, not to mention opportunities for new firms and employment to emerge.

**Figure 2.6: Diffusion of Selected ICT Tools and Activities in Enterprises, 2015****As a percentage of enterprises with ten or more persons employed**

Note: The data used to construct this figure includes 31 OECD economies and the EU28.

Source: OECD, ICT Database; Eurostat, Information Society Statistics Database and national sources, April 2016.

The growing use of AI and digitisation more generally may raise concerns over job replacement through automation, which may go beyond even the lower-skilled jobs. These new opportunities also present new challenges for those failing to catch up, both in the public and private sectors. Addressing the skills needs of the digital economy is therefore key in boosting uptake and use of digital technologies. Economies will increasingly need ICT specialist skills to drive innovation and support ICT infrastructure. However, they will also need workers with both foundation ICT skills and complementary skills that will help them continuously adapt to new standards and technologies (OECD, 2016e).

Estimates from the OECD's Survey of Adult Skills (PIAAC) suggest that more than 50% of the adult population on average in 28 OECD countries have no ICT skills or have only the skills necessary to fulfil the simplest set of tasks in a technology-rich environment (OECD, 2013a). Only around a third of workers have the more advanced ICT and cognitive skills that enable them to evaluate problems and solutions. As such, many workers use ICTs regularly without having the skills to use them effectively (OECD, 2016e). The ASEAN ICT Masterplan (ASEAN, 2015b) rightly includes human capital development as one of its eight strategic thrusts, aiming to equip ASEAN citizens to be digital-literate participants in the digital economy. Likewise, the forthcoming ASEAN Work programme on Electronic Commerce is expected to feature education and technology competency element.

Another common issue is that economies are not all equally well equipped to deal with the privacy and security challenges that digital technologies can pose, resulting in lower adoption of these technologies, especially amongst SMEs. Firms are not always aware of the security risks around the use of digital technology, yet as digital technology becomes



more important for a firm, security becomes not just a technical issue, but a core strategic and economic issue. Furthermore, firms that collect and use data from individuals will increasingly be confronted with questions of privacy and how they manage and ensure that privacy. Creating trust in digital activities is a key challenge for both firms and policy makers. Again, the ASEAN ICT Masterplan (ASEAN, 2015) rightly places emphasis on building a trusted digital ecosystem, so that transactions and information exchanges will be safe, secure and trustworthy. The forthcoming ASEAN Work Programme on Electronic Commerce is also expected to feature elements on consumer protection, security of electronic transactions and payment systems.

The overall use of digital technologies can also be affected by a slow pace of structural change, especially if there are impediments to efficient reallocation of resources from firms that use little ICT to more ICT-intensive firms. For new job opportunities to emerge, new markets have to be developed, assets and resources transferred across sectors, business know-how built up and new skills developed. Enabling structural adjustment is essential, both in terms of ensuring that business dynamics can operate and in allowing the subsequent labour market adjustment to occur. Nevertheless, greater labour market churn and potential job-losses in some industries naturally creates tensions between so-called “winners” and “losers” from globalisation or technological change, as has been seen in some countries. This underscores the need for a whole-of-government policy approach (Box 2.1) that takes into consideration the distributional aspects of technology change.

This issue may be particularly pertinent for some ASEAN economies, where the transition from agriculture to manufacturing to services that was followed by many countries in the past, including Japan, Korea and China, may be altered by the rise of digital technologies. Digitalisation and new production technologies may radically change the landscape of the manufacturing industry, which has typically provided mass employment opportunities for workers shifting from lower-productivity agricultural activities in developing countries. If the manufacturing sector becomes less of a job-creation machine for developing countries (what has been referred to as “premature deindustrialisation” by some commentators<sup>9</sup>), then this may necessitate a greater role for the services sector. Adjustment can be disruptive, and it is not easy to predict the specific types of work brought by new technology or how new technologies might transform existing jobs (see OECD, forthcoming). Policy-makers must be prepared to proactively address the structural and labour market shifts that this disruption implies.

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<sup>9</sup> See, for instance, Rodrik (2015)

### **Box 2.1: Whole-of-government Approaches to Digital Economy Policy Making**

Many countries are seeking ways to best formulate a whole-of-government approach to digital economy policy-making. With technology moving much faster than typical policy cycles, and the breadth of issues raised by digital transformation spanning almost the entirety of government policy responsibilities, this challenge has never been more critical.

A recent effort by the OECD and Inter-American Development Bank sought to provide guidelines - a "Toolkit" - for a whole-of-government approach to broadband policy, to help countries in the Latin American and Caribbean region enhance their digital prospects (OECD and IDB, 2016). Successful broadband policies, designed to improve social inclusion, productivity and governance, can be a catalyst for expanding the "digital dividends" which stem from broadband access and use. As outlined in that report, policymakers and regulators have a variety of instruments at their disposal to stimulate and encourage investment, competition and network deployment. They can also assist in making services more affordable, relevant, usable and safer for individuals and businesses.

The Toolkit spans regulatory frameworks and digital strategies, spectrum policy, competition and infrastructure, affordability and digital inclusion, convergence, skills and jobs, business uptake, e-health, digital government, consumer protection, digital security risk management, and privacy protection. The aim is to tackle supply-side and demand-side issues that hamper the uptake and usage of broadband. It highlights that a holistic and multi-stakeholder approach is necessary for success, and also highlights the importance of regional co-operation agreements that can allow experience-sharing as well as more efficient deployment of infrastructure and better services for consumers.

*Source:* OECD and IDB (2016).

## **2.5. Preparing to Seize the Opportunities - Policy Directions**

ASEAN economies are at different stages of readiness for the digital age (as suggested by differences in broadband uptake and Internet users across member states - Figure 2.1). They therefore face different policy challenges and priorities, at least in the short term. Those lagging behind may need to prioritise ensuring basic access but they should not neglect beginning to adapt regulatory frameworks to help face forthcoming challenges. Different levels of development are an opportunity to leapfrog or to move ahead in policies less constrained by legacy systems. Below are some considerations for ASEAN economies when trying to make the most out of the new opportunities while mitigating possible challenges.

Improving access to digital technologies in ASEAN economies requires sound regulatory frameworks, comprehensive digital strategies, strong competition in the provision of digital infrastructure,<sup>10</sup> and – where necessary – national broadband strategies to ensure

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<sup>10</sup> The importance of competition in telecommunications markets cannot be underestimated. A 2012 review of telecommunication policy and regulation in Mexico concluded that a lack of competition had led to inefficient telecommunications markets that imposed significant costs on the Mexican economy and burdened the welfare of its population (OECD, 2012). The sector at that time was characterised by high prices and a lack of competition, resulting in poor market penetration rates and low infrastructure development. The Mexican government has since passed several reforms, and the telecommunication market has experienced significant changes in foreign investment, as well as prices and consumer access.

that all parts of the country and all firms, even in remote areas, are connected. In addition, policy makers can take specific actions to encourage firms to use ICTs and integrate them in their business processes. Taking e-commerce as an example, it is important to have sound frameworks for electronic payments and settlements when more firms are starting to use e-commerce (see Asian Trade centre, 2016) as well as sound consumer protection frameworks. Governments might also play a role in awareness-raising, test beds and demonstration facilities, which are especially important for SMEs and start-ups with good ideas but no experience of production with new digital technologies.

From a trade perspective, at the national level, access to and benefits from, regional integration and the new wave of globalisation will require a greater focus on cross-country digital connectivity (connecting citizens and firms to the global community) and interoperability. Continued support for leveraging new technologies in support of traditional trade enhancing instruments should not be neglected. For example, recent OECD work suggests that full implementation of the WTO Trade Facilitation Agreement could reduce trade costs by an average of 16.9% in ASEAN countries (OECD, 2015e). Continued progress in implementation, through a greater adoption of digital technologies for information sharing or automation of customs procedures, should help further reduce trade costs, increasing goods trade and promoting cross-border e-commerce. Likewise the adoption of the ASEAN Trade Facilitation Framework in 2016 (ASEAN, 2016b), which will address broader trade facilitation issues beyond customs and transit, is an important step forward, and should be followed through with effective implementation. Private sector participation in the revamped ASEAN Trade Facilitation Joint Consultative Committee, the working body that plays a key role in coordinating implementation of the Framework, should further contribute to ensuring responsiveness to changing business concerns.

While much focus will need to be placed at the national level, a shared regional understanding on the policy responses needed to make the most out of digital will be important in moving towards “a highly integrated and cohesive economy”, “competitive, innovative and dynamic ASEAN” and “enhanced connectivity and sectoral cooperation” as set out in the ASEAN Economic Community Blueprint 2025. For example, regional cooperation through a common understanding on the degree and importance of intellectual property protection and approaches to consumer protection, connectivity and e-payments as well as a common e-commerce framework would go a long way in increasing regional digital trade. Effective implementation of the forthcoming ASEAN Work Programme on Electronic Commerce, will be critical to achieve this objective.

Greater focus is also needed at the multilateral level. The current rules that govern international trade were devised to govern physical trade in the context of simpler trade

relations. And while these were designed to be technologically neutral, the breakneck speed of technological change may increase the need for greater clarifications to adapt to changing realities.

ASEAN economies also need to ensure their populations have the appropriate skills to implement and use digital technologies. This is a large challenge in all countries and requires comprehensive education and skills strategies that encompass both technological competencies and the broader skill set required by digital economies. Initial education can equip students with solid literacy, numeracy and problem-solving skills as well as some ICT and complementary skills. However, education and training systems also need to evolve to foster resilience, flexibility and adaptability to help people adjust in a rapidly changing world. Training systems need to help up-skill and re-skill workers as needed, all along their working lives. A challenge for developing countries is that new production technologies stemming from digital advances could erode low wage advantages, leading to shifts in competitiveness along GVCs. Rapidly declining costs of many technologies and improved knowledge diffusion may mitigate this, but ASEAN governments must also ensure their service sectors can strengthen and expand, to add value and jobs to production.

This underscores the important role of ASEAN governments in promoting competition, reducing labour market rigidities, supporting up-skilling and removing barriers to growth for firms. New firms are often those which adopt or introduce new technologies and the basic framework settings within countries need to embrace business dynamism. At the same time, governments must provide adequate transition assistance for workers and regions that find themselves on the losing side of technological change.

Finally, attention needs to go to digital security and privacy, as core strategic and economic issues. Data is becoming a key source of innovation and competitive advantage, but at the same time, all stakeholders have a role to play in ensuring its appropriate use. Governments should look to promote appropriate re-use and sharing of data (e.g. sensors in cars may not only provide valuable input for the ongoing development of automotive technology, but also for public transportation systems and environmental considerations) but also set up robust frameworks for digital security and privacy.

The OECD's 2015 Recommendation on Digital Security Risk Management points to the role of government in providing leadership, so that digital security is approached with a risk management approach that builds trust and takes advantage of an open digital environment (OECD, 2015d). In broad, digital security measures should be designed in a way that take into account the interests of others, are appropriate to and commensurate with the risks faced, are least trade distorting and do not undermine the economic and

social activity they aim to protect. The OECD's 2013 Privacy Guidelines take a similar stance, underscoring the importance of a focus on the practical implementation of privacy protection through an approach grounded in risk management (OECD, 2013b). The Guidelines, which address the protection of privacy and trans-border flows of personal data, can provide useful principles to help meet the challenges of increasingly data-driven economies and ensure that legitimate public policy goals can be pursued in a way that is least distortive to trade.

At the regional level, encouraging dialogue and cooperation aiming at interoperability of digital security and privacy frameworks across countries can go a long way to ensuring that national preferences are met while also benefitting from the vast opportunities brought by the digital economy. International arrangements that promote effective privacy and data protection across jurisdictions, including through the development of national privacy strategies that foster interoperability among frameworks, could help provide a whole-of-society perspective that adjudicates across competing priorities while providing the flexibility needed to take advantage of digital technologies for the benefit of all (OECD, 2017). As an example, the Asian-Pacific Economic Cooperation (APEC) has also developed some rules aimed at helping firms meet different privacy regulations across jurisdictions (see [www.cbprs.org](http://www.cbprs.org)). Greater shared understanding will help countries meet important public policy objectives, such as consumer privacy and digital security, while maintaining the benefits from free flows of data.

Pulling all these policy considerations into a whole-of-government and society approach will be essential for a successful ASEAN transition to the digital age. The digital transformation will leave no policy area untouched and without a holistic approach there is a high risk that policies in one area will have unintended, and possibly adverse, effects on another. Many OECD countries are struggling to update their "analogue" policy environment to harness the digital transformation;<sup>11</sup> ASEAN countries should aim to leapfrog this and get policy right in the first instance.

By taking a proactive approach to policy, ASEAN economies can shape the digital revolution to bring economic and social prosperity to their populations. The future is bright, and the time for action is now.

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<sup>11</sup> For this reason, the OECD is beginning a multi-disciplinary, cross-cutting project on "Going Digital" that aims to guide policy makers as they rethink their policy environments. See [www.oecd.org/going-digital](http://www.oecd.org/going-digital)

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## Chapter 3

### Humane Aspects of the People-Centred, People-Oriented ASEAN Economic Community

*Seree Nonthasoot<sup>1</sup>*

#### 3.1. Introduction

The ASEAN Economic Community (AEC) will continue to have impacts that go beyond the economic sphere. The growth of global value chains (GVCs) has given rise to changing consumer demands and the rising middle class, resulting in new demands and expectations on how products or services are produced and delivered, not only from the perspective of sustainability and the environment, but also from human perspectives that encompass implications on the workforce, local communities, consumers, and others. This chapter will look at the interlinkages between social and economic issues, in particular between human rights as the humanising component and the AEC, as well as the relevance of the AEC Blueprint 2025 and the 2030 Agenda for Sustainable Development, and will make recommendations on how the AEC and ASEAN institutions can better respond to these issues.

It is important to highlight at the outset that as implicitly suggested in the title, the underlying message of this chapter is how to render more humane, the ongoing economic integration momentum in ASEAN. It has no objective to advance a proposition that the current framework should be halted or made less impactful on human rights as a precondition of its further progress.<sup>2</sup> As will be discussed below, trade and economic integration in the ASEAN region on the whole has yielded concrete benefits to the peoples of Southeast Asia. A crucial enabling factor to deepen and broaden the regional economic integration agenda successfully is the mitigation of negative impacts that will undermine the legitimacy of the policy.

The inclusion of a chapter on humane aspects of the AEC as part of the 'mega trends' is in itself a testimony of the AEC's openness to reach out to stakeholders and interested parties. Indeed, the AEC Blueprint 2025 states that:

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<sup>1</sup> DPhil, Oxon. The Representative of Thailand to the ASEAN Intergovernmental Commission on Human Rights (terms from 2013-2015 and 2016-2018).

<sup>2</sup> For analysis of the impact on human rights from international trade in general, see Alan O Sykes, 'International Trade and Human Rights: An Economic Perspective' (2003). U Chicago Law & Economics, Olin Working Paper No. 188 <<https://ssrn.com/abstract=415802>> accessed 20 March 2017.

ASEAN can further maximise the benefits of regional integration and cooperation by capitalising on global mega trends, such as the expanding interconnected global cross-border flows and accelerating technology digital advancement that are increasingly defining international production, trade, services and investment. To enable ASEAN to seize the opportunities associated with these mega trends, all sectoral working groups will need to proactively consider the impact of these trends and integrate it into their future work programmes. Consultations with relevant stakeholders in such undertakings would be imperative as they are often at the forefront of these trends.<sup>3</sup>

While humane aspects are not specifically enumerated, it is a good sign that the AEC is more receptive to engaging with what was perceived as an unconventional topic within the economic pillar. To render more focused the scope of this chapter, it is therefore proposed that the ASEAN 2025: Forging Ahead Together,<sup>4</sup> be used as the key document and timeline for the analysis.

### **3.1.1. Economic Integration and Impacts**

This first section analyses economic integration and its impacts. Two main issues will be covered. First, economic integration as development policy and second, the impacts from economic integration.

#### **1. Economic Integration and Development**

Economic integration is founded on the concept of development. The driver for such development is the neo-liberal theory which promotes the market economy through the free flow of factors of production, deemed to lead to market efficiency that is believed to bring greater welfare to the people. Certainly, development along this line has lifted a great number of people from poverty, provided them with greater access to economic and social infrastructure, and increased their life expectancies. The other side of the coin are the impacts that development has generated. The issue of which will be discussed more fully below.

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<sup>3</sup> AEC Blueprint 2025 para 44.

<sup>4</sup> *The ASEAN 2025: Forging Ahead Together* is a integral document adopted by the ASEAN leaders at the 27th ASEAN Summit on 22 November 2015 in Kuala Lumpur, Malaysia, and comprises: the Kuala Lumpur Declaration on ASEAN 2025: Forging Ahead Together, the ASEAN Community Vision 2025, the ASEAN Political Security Community Blueprint 2025, the ASEAN Economic Community Blueprint 2025, and the ASEAN Socio-Cultural Community Blueprint 2025.

This development perspective raises a few concerns. Firstly, by focusing on the economy, success (or failure) was measured primarily by the wealth of the country's economy and not the well-being of its people. Secondly, the development of requisite large infrastructure – intended to boost industrial production – could adversely affect the environment and be prone to corruption. Thirdly, the focused pursuit of wealth may lead to violations of people's rights for the greater good of the nation. For example, communities whose land had been taken to build dams or electricity stations, or farmers whose crops had been destroyed by pollution, were considered to have made a necessary sacrifice for the benefit of the nation as a whole. Lastly, is the fallacy of the trickle-down theory, by believing that economic development in any part of society would eventually benefit everyone, and that benefits gained by the wealthy would make its way to the poor. When the trickle-down did not happen, the result was an increase in poverty as the rich got richer and the poor missed out on development.<sup>5</sup>

In other words, the sole focus on growing the economy has led to an unequal development in many ways: development that favours developed countries over poor nations; development that focuses on urban over rural areas; development that neglects and excludes women who in many cases are the majority population.<sup>6</sup>

## 2. Impacts of Integration

This section explores in further detail the impacts of economic integration, of which the AEC is a good illustration.

A study undertaken by the Asian Development Bank (ADB) provides a clear picture of economic integration and its impact. As shown in Figure 3.1, greater welfare for the population in the economic integration area can be achieved through expanded markets for goods and services that result in higher economic growth. Comparative advantage will help allocate resources more efficiently within the integrated area and increase growth in productivity.<sup>7</sup> Additionally, when countries cooperate to enhance integration through infrastructure connectivity and facilitation of cross-border flows, the positive effects further strengthen the welfare gain of integration. Integration also brings other benefits, including reduction of income inequalities between countries and a certain degree of risk-sharing.<sup>8</sup>

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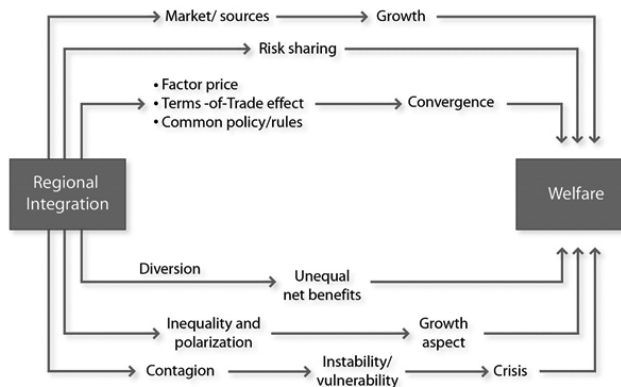
<sup>5</sup> Azmi Sharom and others (eds), *An Introduction to Human Rights in Southeast Asia*, Vol 2 (SEAHRN 2016), p 134.

<sup>6</sup> *Ibid*, p 132.

<sup>7</sup> ADB, *Regional Cooperation and Integration in a Changing World* (2013), p 4.

<sup>8</sup> *Ibid*, pp 5-7.

Figure 3.1 Impact of Economic Integration



Source: ADB, *Regional Cooperation and Integration in a Changing World* (2013), p 5.

On the other hand, integration entails costs and risks that can negatively affect welfare. In a closely integrated group of countries, contagion can spread throughout the bloc rapidly in times of crisis as illustrated by the Eurozone debacle. Trade diversion among integrated countries can also arise, especially in the case of custom union. Welfare may not be shared equally by all countries and some may stand to gain more than others. Thus, the distribution of integration benefits is a crucial matter. Inequality that occurs within countries is another risk of integration. As markets expand within the region, labour becomes increasingly competitive and the bargaining power of labour unions weakens, leading to internal inequality.<sup>9</sup>

Perhaps the risk that is most relevant to this study is environmental impact. The ADB study posits a post-crisis situation that as a result of a crisis, reduced economic activity leads to reduction in pollution and resource consumption. However, economically troubled countries also tend to reduce environmental priorities in effort to accelerate economic recovery.<sup>10</sup> Such harm, however, can also occur in non-crisis situation. The fact that regional integration augments probability of contagion, the negative impact will transcend trade finance and macroeconomics but will fall on economic development, social inclusion and environmental sustainability as well.<sup>11</sup>

Another study that focuses on the World Trade Organization and its impact on human rights affirms the general benefits of an open international trade system and advises

<sup>9</sup> Ibid, pp 8-10.

<sup>10</sup> Ibid, p 13.

<sup>11</sup> Id.

against the curtailment of the system in light of any contagion. What is pertinent is the proposal that if a negative impact arises, a tailored measure to address the issue should be adopted.<sup>12</sup>

### **3.1.2. Human Rights: The Humane and Humanising Component**

This section discusses human rights as the humane and humanising component of the AEC and the ASEAN Community in general. It will be shown that while human rights have become a basic tenet — a foundational principle — of the ASEAN Community alongside the rule of law and democracy, a number of challenges remain. The effectiveness of mainstreaming concerns for human rights into the various functions of ASEAN ranks as a priority. Another challenge is to enhance the performance and relevance of the human rights mechanism in ASEAN.

#### **1. Human Rights: Definition and Scope**

Human rights are broadly defined as: “rights inherent to all human beings, whatever our nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or any other status. We are all equally entitled to our human rights without discrimination. These rights are all interrelated, interdependent and indivisible.”<sup>13</sup> In a preamble of the seminal Vienna Declaration and Programme of Action 1993, it is maintained that: “all human rights derive from the dignity and worth inherent in the human person, and that the human person is the central subject of human rights and fundamental freedoms, and consequently should be the principal beneficiary and should participate actively in the realization of these rights and freedoms, ...”<sup>14</sup>

The concept of human rights centres on the dignity of the ‘rights holders’. As stated by the Charter of the United Nations<sup>15</sup> and the Universal Declaration of Human Rights (UDHR),<sup>16</sup> these rights are intrinsic entitlement of every individual human person. Human rights have emerged from domestic constitutional frameworks before reaching their normative status in international law.<sup>17</sup> By default, states bear duties toward the rights holders. As normative standards, human rights are invariably evolving. Certain rights are developed

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<sup>12</sup> O Sykes, n. ..., p 2.

<sup>13</sup> <<http://www.ohchr.org/EN/Issues/Pages/WhatareHumanRights.aspx>> accessed 15 March 2017.

<sup>14</sup> Vienna Declaration and Programme of Action 1993, preamble para 2

<sup>15</sup> UN Charter, preamble: “We the Peoples of the United Nations determined . . . to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small . . .” (emphasis added).

<sup>16</sup> See UDHR, eg Art 2: “Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind...” (emphasis added).

<sup>17</sup> Olivier De Schutter, *International Human Rights Law* (2nd edn, Cambridge 2014), p 13. See also the analysis of how human rights have reached the status of *jus commune* in pp 33-60.

in response to the changes in social, economic and cultural context. For example, the right to privacy, rights of persons with HIV/AIDS and environmental rights were not included when the UDHR was adopted in 1948 but were developed and subsequently incorporated in other international human rights instruments. In the purview of this chapter, the right to development is another right that was itself 'developed' through recognition of the lapse in economic development programmes.

## 2. ASEAN's Human Rights Agendas and Mechanism

Analysis in this part focuses on the issues of human rights agendas and mechanism in the ASEAN Community. A key query of this chapter in regard to human rights is: to what extent has the human rights mechanism been effective in addressing the impacts of regional integration? Some notable milestones are inclusion of human rights as a regional agenda, adoption of a new standard and a functioning mechanism. However, an overall assessment points to a qualified success.

### 1) Humane Agendas

Human rights have become a highly dynamic agenda of ASEAN since they were incorporated in the ASEAN Charter. When ASEAN was founded in 1967, the notion of human rights was absent in the ASEAN Declaration. Human rights emerged officially in the ASEAN vernacular in 1999 under the Hanoi Plan of Action that calls for exchange of information on human rights among member states.<sup>18</sup> The impetus to include a human rights policy arose from the impact of the 1997 financial crisis that engulfed the region.<sup>19</sup>

It took 40 years for human rights to be finally adopted as an integral part of the ASEAN Community. The ASEAN Charter 2007 makes explicit references to human rights in many parts.<sup>20</sup> The most significant provision is Article 14 that mandates the establishment of a human rights body of ASEAN.<sup>21</sup> The same Article entrusts the ASEAN Foreign Ministers Meeting (AMM) — a decision-making body of the APSC — to determine the Terms of

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<sup>18</sup> HPA para 4.8 "Enhance exchange of information in the field of human rights among ASEAN Countries in order to promote and protect all human rights and fundamental freedoms of all peoples in accordance with the Charter of the United Nations, the Universal Declaration of Human Rights and the Vienna Declaration and Programme of Action."

<sup>19</sup> The call for the exchange of information on human rights among member states is one of a menu of measures to 'promote social development and address the social impact of the financial and economic crisis'

<sup>20</sup> See e.g. ASEAN Charter, preamble para 8: "Adhering to the principles of democracy, the rule of law and good governance, respect for and protection of human rights and fundamental freedoms." Art 1 purposes: "The purposes of ASEAN are: ... 7. To strengthen democracy, enhance good governance and the rule of law, and to promote and protect human rights and fundamental freedoms, with due regard to the rights and responsibilities of the Member States of ASEAN. ..." Art 2 Principles: "2. ASEAN and its Member States shall act in accordance with the following principles: ... (i) respect for fundamental freedoms, the promotion and protection of human rights, and the promotion of social justice; ..."

<sup>21</sup> ASEAN Charter art 14: "1. In conformity with the purposes and principles of the ASEAN Charter relating to the promotion and protection of human rights and fundamental freedoms, ASEAN shall establish an ASEAN human rights body. ..."

Reference (TOR) that set the boundaries of the human rights body's operation.<sup>22</sup> The ASEAN human rights body, entitled the ASEAN Intergovernmental Commission on Human Rights (AICHR), was inaugurated in Thailand in October 2009.<sup>23</sup> The AICHR is designated as an intergovernmental and consultative body.<sup>24</sup> It has a reporting duty to the AMM, with whom it meets once a year and to whom it submits an annual report. The AICHR is hailed as a success story of ASEAN in its commitment to human rights and fundamental freedoms; like other regional organisations, ASEAN now has a human rights mechanism.<sup>25</sup> Despite the clearly stipulated responsibility to 'promote and protect' human rights, the AICHR work has largely been focused on promotional activities.<sup>26</sup>

**Box 3.1 ASEAN Human Rights Declaration**

**ASEAN Human Rights Declaration**

- General Principles (Articles 1-9)
- Civil and Political Rights (Articles 10-25)
- Economic, Social and Cultural Rights (Arts 26-34)
- Rights to Development (Articles 35-37)
- Right to Peace (Article 38)
- Cooperation in the Promotion and Protection of Human Rights (Articles 39-40)

**Phnom Penh Statement on the Adoption of the AHRD**

"3. REAFFIRM further our commitment to ensure that the implementation of the AHRD be in accordance with the Charter of the United Nations, the Vienna Declaration and Programme of Action, and other international human rights instruments to which ASEAN Member States are parties, as well as to relevant ASEAN declarations and instruments pertaining to human rights."

ASEAN has achieved recognisable progress in making human rights a constituent part of its policy framework. However, implementation of human rights agendas is subjected to the silo structure of the Community that has given rise to the difficulties on engagement between the AICHR and other bodies, both within the political pillar (APSC) to which the AICHR is attached and with those of the other two pillars. It is worth noting, however, that in 2017 the AICHR had its first interface with the Senior Economic Officials Meeting (SEOM),<sup>27</sup> the focal body of the AEC. This is indicative of both the gradual speed of engagement and further collaborative opportunities that are to be fostered if human rights are to be taken seriously by the economic pillar.

The TOR of the AICHR includes the development of an ASEAN Human Rights Declaration (AHRD).<sup>28</sup>

<sup>22</sup> ASEAN Charter art 14 para 2.

<sup>23</sup> For discussion of the drafting of the TOR and an overview of the AICHR, see Vitit Muntarbhorn, *Unity in Connectivity? Evolving Human Rights Mechanism in the ASEAN Region* (Martinus Nijhoff Publishers 2013), Ch 3.

<sup>24</sup> AICHR TOR 3, downloadable from: <http://aichr.org/documents/>.

<sup>25</sup> The AICHR is the most recently established regional human rights body. For an outline of human rights mechanisms of other regions, see Schutter, n. ..., pp 23-35.

<sup>26</sup> Since 2009, the AICHR has adopted two 'five-year work plans' (2010-2015 and 2016-2020), available at: <http://aichr.org/documents/>.

<sup>27</sup> The interface took place in March 2017 at a SEOM meeting in Bangkok. However, while all AICHR representatives were invited, only two attended the meeting, namely the Chair of the AICHR (Philippines) and the author as the Representative of Thailand.

<sup>28</sup> AICHR TOR 4.2.

During the drafting process (between 2010-2012),<sup>29</sup> there was a widely-held view that as a political instrument or a soft law, the AHRD will be a basic human rights document for the ASEAN Community that will help guide policies and actions of relevant bodies to be in compliant with universal human rights principles. While it endorses the Universal Declaration on Human Rights (UDHR) and incorporates a number of rights recognised by the UDHR, the AHRD adds a category of new rights, including right to development, right to peace, right of persons living HIV/AIDS and right to the environment. When the draft AHRD came to its consideration in 2012 at the ASEAN Summit in Phnom Penh, ASEAN leaders adopted a declaration on the AHRD (see text in Box 3.1), which

emphasises that implementation of the AHRD will be in conformity with relevant international standards.

**Box 3.2 Role of Regional Human Rights Mechanisms**

**Role of Regional Human Rights Mechanisms**

- Assist national governments with the implementation of their international human rights obligations; for example, assisting with the implementation of the recommendations of treaty bodies, special procedures and the Universal Periodic Review;
- Provide people with more accessible mechanisms for the protection of their human rights, once national remedies have been exhausted;
- Help to raise people's awareness of their human rights, placing them in a more localised context and reflecting their particular human rights concerns;
- Provide regional input to the development of international human rights standards and the improvement of international human rights mechanisms;
- Help national governments to better address regional human rights concerns that cross national borders; for example, human rights concerns related to migration, transnational crime and environmental disasters.

Source: UN Office of High Commissioner on Human Rights, Regional Office for South-East Asia

Following its adoption in November 2012, the AHRD has become a key reference document for the human rights function of ASEAN and has been cited in a number of soft laws such as the ASEAN Regional Plan of Action on Elimination of Violence against Women and its twin on elimination of violence against children and the first hard law or a legally binding instrument of ASEAN, the ASEAN Convention against Trafficking in Persons especially Women and Children. Most importantly, the AICHR implements its human rights programmes based on the AHRD provisions. A lingering question is to what extent the AHRD can find its way to the AEC or ideally be internalised by the different bodies of the economic pillar.

2) ASEAN Human Rights Mechanism

The second issue concerning human rights in ASEAN is ultimately about its mechanism. If the list of roles expected of a regional mechanism

<sup>29</sup> Drafting of the AHRD began in November 2010 with the creation of a Drafting Group comprising 10 members, each appointed by respective AICHR representatives. The author is a representative of Thailand to the Drafting Group. For the discussion on the AHRD, see Sriprapha Petcharamesree, 'The ASEAN Human Rights Architecture: Its Development and Challenges' (2013) 11 The Equal Rights Review 46-59.

<sup>30</sup> AICHR TOR 6.8, downloadable from: <http://aichr.org/documents/>.



indicated by the OHCHR is used as a benchmark, ASEAN human rights mechanism still has gaps to fill. There are a few points that explain the challenges to make the mechanism effective. Firstly, there is no singularity of human rights body in ASEAN. The term ‘overarching’ that is ascribed to the AICHR<sup>30</sup> in its role as the human rights institution in ASEAN implies rightly that it is not the only human rights body of ASEAN. Two human rights bodies were set up prior to AIHCR establishment in 2009. In 1976, a committee on women was established to coordinate matters pertaining to participation of women in the Community that at the time comprised only the five founding member states. The title of the committee was changed in 2002 to the ASEAN Committee on Women. In 2007, another committee was set up with a key task to develop an ASEAN instrument on the protection and promotion of the rights of migrant workers.<sup>31</sup> Less than a year after the creation of AIHCR, ASEAN created another human rights body that is specifically mandated to handle the rights of women and children, the ACWC.<sup>32</sup>

**Table 3.1 ASEAN Human Rights Bodies**

Year	Title	Key Instrument
1976	ASEAN Sub-Committee on Women (renamed ASEAN Committee on Women—ACW—in 2002)	ASEAN Declaration on the Advancement of Women 1988
2007	ASEAN Committee on the Implementation of the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers (ACMW)	ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers
2009	ASEAN Intergovernmental Commission on Human Rights (AICHR)	ASEAN Charter and TOR
2010	ASEAN Commission on the Promotion and Protection of the Rights of Women and Children (ACWC)	TOR

<sup>31</sup> The ACMW was not established by the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers that was adopted by the ASEAN leaders in January 2007. It was instead set up by the statement of the AMM in July 2007, calling for the establishment of a committee to implement the leaders’ Declaration. After nearly ten years since it was created, the ACMW has not been able to conclude the negotiation of the instrument on migrant workers. Unlike the AICHR and the ACWC, the ACMW adopted its own TOR.

<sup>32</sup> Creation of the ACWC predates the plan to set up the AICHR. In 2004, the VAP includes as an action line to ‘promote human rights’ under the then ASEAN Security Community the establishment of an ASEAN Commission on the Promotion and Protection of the Rights of Women and Children. See VAP Annex 1, 1.1.4.7. In fact, the APSC Blueprint 2009-2015 makes reference to the two bodies at the same time, expediting the establishment of the AICHR as well as the ACWC. See APSC Blueprint 2009-2015 para A.15.

Secondly, because the mandate of these bodies—on the rights of women, children and migrant workers—overlap, there is a need to coordinate and reach alignment to streamline their work.

Working relations between the human rights bodies has improved over the years as a result of frequent interactions through meetings and activities. A challenge still remains on how to institutionalise the sharing of information and regular communications. Thirdly, a root cause that has hampered such coordination stems from the different governance and administrative structures of each body. The AICHR is placed within

the political and security pillar while the ACWC and ACMW are attached to the socio-cultural. Each of these pillars has their own set of institutional arrangements, and cross pillar relations has been on an ad hoc basis.

### **3.2. AEC and Human Rights**

This part explores the relationship between the AEC and human rights. The first section will discuss the governance context of the ASEAN Community, of which the AEC is a constituent part and which provides organisational structure that directly affects the AEC. The second section will look in closer detail the coverage of commitments that have implications on human rights.

The AEC has become the most recognisable part of the ASEAN Community. Arguably for many people it is the only part of ASEAN known to them. The popularity of the AEC is paradoxical given the fact that ASEAN was originally founded on regional security concern in the late 1960s and economic integration agenda was only intensified in the early 1990s when the Community was stepping toward the turn of its third decade.

#### **3.2.1. Structure of the ASEAN Community**

The organisational structure of the ASEAN Community as shown in the table below raises a number of issues on its humane aspects. Firstly, the ASEAN Charter is noted by its brevity about the scope of the Community. Conferring legal personality on ASEAN, the Charter simply states that it is an 'inter-governmental organisation'.<sup>33</sup> By creating and dividing its mandate into the APSC, AEC and ASCC, ASEAN manifests an important aspect that it is not a human rights organisation, nor is it singularly focused on economic matters.

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<sup>33</sup> ASEAN Charter art 3

Secondly, the silos or compartmentalisation of ASEAN creates a challenge that is not uncommon in other intergovernmental organisations. In fact, such a structure also broadly reflects the governance at the domestic level of each member state where agencies are created along function or mandate line. Each sectoral body of the three community pillars, which is represented by high ranking officials from the member states and supported by relevant division of the ASEAN Secretariat, has its own agenda, resources and emphasis. The regularisation of the work rhythm and the increasing number of meetings have rendered it difficult for these bodies to address cross-cutting issues, including the concerns for human rights. It is also not unfamiliar for an issue to be transposed in different labels in order for them to be incorporated on the policy menu.

In the AEC, human rights have not become an institutional concept but are reflected in a variety of issues that will be more fully discussed later. Terms like 'inclusivity' represent opportune window through which a number of rights-based discussions can be initiated, including rights of women and persons with disabilities as business operators or entrepreneurs. One of the key priorities in streamlining ASEAN work is to prevent duplication of mandate and programme of works. However, in the context of human rights, a strict delineation may result in further alienating the very concept that the Community seeks to permeate to all of its corner. How then can common issues like human rights be addressed effectively among the ASEAN silos?

The third challenge is the main issue of mainstreaming the crosscutting issues of which human rights stand as a prominent candidate. There are two approaches that seem to be a default response among ASEAN practitioners. One is the reliance on the human rights mechanism of ASEAN and the other is the pivot of enhanced cooperation of the sectoral bodies. The mainstreaming challenge does not merely stem from the deficiency of inter pillar coordination. In fact, two additional factors are often overlooked. Firstly, the oft-cited lack of cross-silo engagement suppresses another root cause: the ineffectiveness of intra-pillar partnerships. The ASEAN organisational structure is perhaps best characterised as three boxes of beehives, each populated by various sectoral bodies clustered by their relevance. Since they are each surrounded by their mandate cell, they may be less than incentivised to interact with other cells. Secondly, the term 'mainstreaming' tends to imply imposition of values by one agency on another, which explains its resistance and inadequacy. As pointed out previously, while the human rights mechanism of ASEAN is spearheaded by the AICHR, its existence cannot be a license for complacency or inaction by other bodies. As a fundamental value of the ASEAN Community, human rights can be effectively respected, protected and fulfilled only if they are internalised by all sectoral bodies. Their policies and agendas must embrace human rights agendas. It will be further argued that a number of policy menus of the AEC can be aligned with human rights.

**Table 3.2 ASEAN Sectoral Ministerial Bodies**

List of Selected ASEAN Sectoral Ministerial Bodies (Source: ASEAN Charter) <sup>34</sup>		
ASEAN Political-Security Community	ASEAN Economic Community	ASEAN Socio-Cultural Community
ASEAN Foreign Ministers Meeting ASEAN Defence Ministers Meeting ASEAN Law Ministers Meeting <ul style="list-style-type: none"> <li>ASEAN Senior Law Officials Meeting (ASLOM)</li> </ul> ASEAN Ministerial Meeting on Transnational Crime <ul style="list-style-type: none"> <li>Senior Official Meeting on Transnational Crime (SOMTC)</li> <li>Directors-General of Immigration Departments and Heads of Consular Affairs Divisions of Ministries of Foreign Affairs Meeting (DGICM)</li> </ul>	ASEAN Economic Ministers Meeting (AEM) <ul style="list-style-type: none"> <li>High Level Task Force on ASEAN Economic Integration (HLTF-EI)</li> <li>Senior Economic Officials Meeting (SEOM)</li> <li>ASEAN Community Statistical System (ACSS) Committee</li> </ul> ASEAN Free Trade Area (AFTA) Council ASEAN Investment Area (AIA) Council ASEAN Finance Ministers Meeting (AFMM) ASEAN Ministers Meetings on Agriculture and Forestry (AMAF) ASEAN Ministers on Energy Meeting (AMEM) ASEAN Ministerial Meeting on Minerals (AMMin) ASEAN Ministerial Meeting on Science and Technology (AMMST) ASEAN Telecommunications and Information Technology Ministers Meeting (TELMIN) <ul style="list-style-type: none"> <li>Telecommunications and Information Technology Senior Officials Meeting (TELSOM)</li> </ul> ASEAN Transport Ministers Meeting (ATM) <ul style="list-style-type: none"> <li>Senior Transport Officials Meeting (STOM)</li> </ul> Meeting of the ASEAN Tourism Ministers (M-ATM) <ul style="list-style-type: none"> <li>Meeting of the ASEAN National Tourism Organisations (ASEAN NTOs)</li> </ul>	ASEAN Ministers Responsible for Information (AMRI) <ul style="list-style-type: none"> <li>Senior Officials Meeting Responsible for Information (SOMRI)</li> </ul> ASEAN Ministers Responsible for Culture and Arts (AMCA) ASEAN Education Ministers Meeting (ASED) <ul style="list-style-type: none"> <li>Senior Officials Meeting on Education (SOM-ED)</li> </ul> ASEAN Ministerial Meeting on Disaster Management <ul style="list-style-type: none"> <li>ASEAN Committee on Disaster Management (ACDM)</li> </ul> ASEAN Ministerial Meeting on the Environment (AMME) <ul style="list-style-type: none"> <li>ASEAN Senior Officials on the Environment (ASOEN)</li> </ul> ASEAN Health Ministers Meeting (AHMM) <ul style="list-style-type: none"> <li>Senior Officials Meeting on Health Development (SOMHD)</li> </ul> ASEAN Labour Ministers Meeting (ALMM) <ul style="list-style-type: none"> <li>Senior Labour Officials Meeting (SLOM)</li> </ul> ASEAN Ministers on Rural Development and Poverty Eradication (AMRDPE) <ul style="list-style-type: none"> <li>Senior Official Meeting on Rural Development and Poverty Eradication (SOMRDPE)</li> </ul> ASEAN Ministerial Meeting on Social Welfare and Development (AMMSWD) <ul style="list-style-type: none"> <li>Senior Officials Meeting on Social Welfare and Development (SOMSWD)</li> <li>ASEAN Commission on the Promotion and Protection of the Rights of Women and Children (ACWC)</li> </ul> ASEAN Ministerial Meeting on Youth (AMMY) <ul style="list-style-type: none"> <li>Senior Officials Meeting on Youth (SOMY)</li> </ul> Heads of Civil Service meeting for the ASEAN Cooperation on Civil Service Matters (ACCSM) ASEAN Coordinating Centre for Humanitarian Assistance on Disaster Management (AHA Centre) ASEAN University Network (AUN)

<sup>34</sup> The full list of the ASEAN Sectoral Ministerial Bodies is in Annex 1 of ASEAN Charter. The Charter is downloadable from: <http://asean.org/storage/2017/07/8.-July-2017-The-ASEAN-Charter-21th-Reprint-with-Updated-Annex-1.pdf>

### 3.2.2. AEC Commitments and Implementation

#### 1. Not Purely Economics

When discussing its humane aspects, two traits of the AEC that are often neglected must be considered. The first is the fact that while it is primarily concerned with economic integration objectives, the AEC is not wholly about economic and financial interests.<sup>35</sup> The AEC's single market agenda is broader than mobility of factors of production. The first Blueprint that expired in 2015 already covered a number of behind the border issues, including those clustered under the theme 'competitive economic region' and 'equitable economic development' (See Box below). The second trait of the AEC to be taken into account is the obligation that the AEC must undertake as an organ of ASEAN.

##### AEC Blueprint 2015

##### A. Single Market and Production Base

- A1. Free flow of goods (9 strategic approaches)
- A2. Free flow of services (3 strategic approaches)
- A3. Free flow of investment (5 strategic approaches)
- A4. Free flow of capital (7 strategic approaches)
- A5. Free flow of skilled labour
- A6. Priority of integration sectors
- A7. Food, agriculture and forestry

##### B. Competitive Economic Region

- B1. Competition policy
- B2. Consumer protection
- B3. Intellectual property rights
- B4. Infrastructure development (10 strategic approaches)
- B5. Taxation
- B6. E-commerce

##### C. Equitable Economic Development

- C1. SME development
- C2. Initiative for ASEAN Integration

##### D. Full Integration into the Global Economy

The ASEAN Charter has brought a fundamental shift. By enveloping the AEC and the other two pillars under one institutional roof, the ASEAN Charter not only endorses their existing obligations, but more importantly, binds them to a set of Community values, including human rights, democracy and rule of law.

#### 2. Human Rights and Implications of AEC

Two points can be raised on the issue of impacts brought about by the AEC. The first point is that impacts associated with economic integration have indeed happened with environmental implications as the most prominent example. The second point is much lesser known: the fact that ASEAN has indeed anticipated these negative impacts and already made plan for their prevention and mitigation.

<sup>35</sup> ASEAN Charter art 9 ASEAN Community Councils

"1. The ASEAN Community Councils shall comprise the ASEAN Political-Security Council, ASEAN Economic Community Council, and ASEAN Socio-Cultural Community Council."

However, the 'purposes' of ASEAN as indicated in Art 1 of the Charter already incorporate and elucidate the core rationale of the AEC: "to create a single market and production base which is stable, prosperous, highly competitive and economically integrated with effective facilitation for trade and investment in which there is free flow of goods, services and investment; facilitated movement of business persons, professionals, talents and labour; and freer flow of capital; . . ."

Analysis of the impacts, particularly adverse implications, from the AEC is rendered difficult owing to the fact that AEC is part of the globalisation trend that has seen interconnectedness of economies through increasing erosion of trade impediments. Environmental impacts are an illustrative example. The creation of a single market through free movement of goods, services, investment and professional workers has encouraged and facilitated intra-regional projects that affected the environment and livelihood of the people in the host states that are not equipped with a robust environmental protection framework to handle the massive rise in these projects, many of which are unprecedented in scale. While it can be said that these projects would have been implemented even outside the context of the AEC, the AEC framework has played a role in facilitating the establishment of local presence and investment of ASEAN investors in the receiving state.

There is evidence that ASEAN policy makers were aware of, and planned for, the potential impacts that the single market implementation would have caused. However, the remit of such impacts is limited. The Declaration of ASEAN Concord II or the Bali Concord II, the first document that stipulates the structure for the ASEAN Community, was adopted in 2003 and makes reference to such regional 'problems' as environmental degradation and transboundary pollution, although they are not cited as consequence or impacts from ASEAN integration framework.<sup>36</sup>

The first official document of ASEAN that discusses integration impact is the Vientiane Action Programme (VAP) that seeks to implement the Bali Concord II. The VAP's most pertinent parts on managing the social impact of economic integration and programme areas and measures are cited below.

### **Managing the Social Impact of Economic Integration**

Domestic policy adjustments and emerging regional production arrangements from economic integration will have a profound social impact that will be felt mostly in the labour market. Consequently, there is a need to:

- i. Enhance human resource development through the networking of skills training institutions, and the development of regional assessment and training programmes;

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<sup>36</sup> Bali Concord II para 6: "The Community shall intensify cooperation in addressing problems associated with population growth, unemployment, environmental degradation and transboundary pollution as well as disaster management in the region to enable individual members to fully realize their development potentials and to enhance the mutual ASEAN spirit."

- ii. Strengthen the capacity of governments to monitor labour markets and monitor human resource indicators; and
- iii. Promote social protection and social risk management systems.

The inclusion of health services as one of the eleven priority sectors for vertical integration will require strategies to address the impact of liberalisation in the health sector. In addition, the development of mutual recognition arrangements shall facilitate labour mobility in the region and will support the realisation of the AEC.<sup>37</sup>

**Box 3.3 Vientiane Action Programme 2004-2010 (Annex 3)**

<b>Vientiane Action Programme 2004-2010</b>	
<b>Ref. No.</b>	<b>Programme Areas and Measures</b>
3.2	<b>Managing the Social Impacts of Economic Integration</b>
3.2.1	Developing and enhancing human resources in the workforce 3.2.1.1 Establish a network of skills-training institutions and a programme on vocational skills-training methodology 3.2.1.2 Promote life-long learning as a means of personal development and integration into the working life and society 3.2.1.3 Develop a regional assessment and training programme in the informal sector to promote employment and self-employment 3.2.1.4 Enhance capacity of governments to monitor labour markets and human resource indicators, and design social impact policies 3.2.1.5 Develop a programme on overseas employment administration 3.2.1.6 Develop ASEAN human resources in applied research concentrating on micro-electronics, new materials, biotechnology, telecommunication and other high value-added industries that enhance ASEAN's global competitiveness 3.2.1.7 Develop joint certification and accreditation of science and technology in the region

<sup>37</sup> Vientiane Action Programme 2004-2010 (ASCC) para 3.2. The VAP is downloadable from <http://www.asean.org/storage/images/archive/VAP-10th%20ASEAN%20Summit.pdf>

3.2.2	<p>Strengthening systems of social protection and social risk management</p> <p>3.2.2.1 Establish an integrated social protection and social risk management system in ASEAN</p> <p>3.2.2.2 Conduct research on the impact of globalisation and regional integration on labour and unemployment</p> <p>3.2.2.3 Strengthen systems of social protection at the national level and work toward adoption of appropriate measures at the regional level to provide a minimum uniform coverage for skilled workers in the region</p>
3.2.3	<p>Addressing health development issues from liberalisation</p> <p>3.2.3.1 Develop strategies to:</p> <p>ensure coordination between policy makers, practitioners and users in rationalising health delivery</p> <p>enhance human resources for health to respond to globalisation and trade liberalisation</p> <p>3.2.3.2 Complete regional surveillance of risk factors for priority health issues identified in the Regional Action Plan on Healthy Lifestyles</p>

Two observations can be made on the VAP that limits its application. To begin with, while identification of potential impact in parallel with the implementation of the AEC agenda was certainly helpful, the detail of such impact is ostensibly limited and focuses mainly on social issues. Absent from the enumeration are environmental implications that are already recognised in the Bali Concord II. Moreover, perhaps a more serious weakness of the VAP's impact scoping is the fact that it falls under the strategic thrust of ASCC, and not the AEC that is the source of impact, and there was no explicit mechanism for linking or coordination between the two.<sup>38</sup>

Since the first AEC Blueprint came to expiry at the same time as the Millennium Development Goals in 2015, the assessment of MDG implementation in the ASEAN region is also relevant to the development agenda of ASEAN. A recent study conducted by ASEAN<sup>39</sup> on the implementation of MDGs has identified the following challenges that have emerged along with the MDG agendas that were not completely executed.

<sup>38</sup> The VAP also has strategic thrusts under the AEC with the theme "enhancing competitiveness for economic growth and development through closer economic integration."

<sup>39</sup> It must be noted, however, that the main body responsible for the report is the Senior Officials Meeting on Rural Development and Poverty Eradication (SOMRDPE) through consultation with sectoral bodies under the ASCC. Involvement of the AEC is not indicated.



- 1. Inclusive economic and social progress.** Despite decreasing overall poverty, “core poor” and inequality are emerging.
- 2. Balanced urban growth.** ASEAN urban areas will be put under strain from increase in population and demand for infrastructure. People in concentrated areas more prone to natural disasters and climate change impacts.
- 3. More productive jobs and more skills adapted to those jobs.** Limited access to secure jobs for rural populations who are in informal sectors or self-employment. Transition from tertiary to job markets requires a set of skills—technical, entrepreneurial, people and communications—that is still deficient.
- 4. New health threats.** Non-communicable diseases—cancer, cardiovascular diseases, chronic respiratory diseases, and diabetes—are on the rise, leading to premature deaths among citizens as a result of changing consumption and environmental patterns. Globalisation also increases threats of pandemics like SARS and Avian flu that require enhanced coordination and communication to handle.
- 5. Climate change.** Rising sea levels, more frequent and more powerful floods, and risks to food security are examples of climate change effects that call for reversal of negative trends in emissions and unsustainable consumption and production patterns.
- 6. Social protection systems.** A flexible social protection system can help cushion shocks that are transmitted into globally and regionally integrated economies, help cope with the effects of natural disasters, and help reach those groups of core, or chronically poor, that are not able to benefit from economic growth<sup>40</sup>

It is not clear the extent to which this report helped inform the High-Level Task Force that was tasked with the development of the new ASEAN Community Vision 2025. A challenge for the AEC is to recognise the relevance of the identified gaps and take them on board.

### 3.3. New Opportunities for a More Humane AEC

The start of the fully-fledged ASEAN Community on 31 December 2015 also marks two additional milestones and windows of humane opportunities for the AEC, the launch of the new ASEAN Community Vision 2025 and the Sustainable Development Goals (SDGs) 2030. They will be discussed in turn.

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<sup>40</sup> ASEAN, *Report of the ASEAN Regional Assessment of MDG Achievement and Post-2015 Development of Priorities (2015)* pp 5-6.

### 3.3.1. ASEAN Community Vision 2025 & Mainstreaming of Human Rights

The first point of departure is that ASEAN is not a human rights organisation,<sup>41</sup> unlike the Council of Europe, and the new Vision will not turn it into one. However, as an intergovernmental organisation, ASEAN is constructed on a canon of principles and objectives that explicitly include human rights and related concepts. Therefore, it is an undertaking of ASEAN and all organs and bodies, including the AEC, to instil and make effective the promotion and protection of human rights in their relevant policies and programmes. There are two salient aspects of the new Community Vision to be noted. One is the clear function in the ASEAN Political Security Community (APSC) Blueprint 2025 that human rights are to be mainstream across the three pillars.<sup>42</sup> The ASEAN Socio-Cultural Community (ASCC) Blueprint 2025 also explicitly includes an element on the promotion and protection of human rights. The second point pertains to the AEC, while the 2015 and 2025 Blueprints do not differ significantly in terms of the overall targets, the new version is much more detailed than its predecessor. As can be seen in the table that juxtaposes the two versions, the 2025 Blueprint provides a variety of what can be used as action points for humane activities.

**Table 3.3 Comparison of AEC Blueprints (2015 and 2025)**

AEC Blueprint 2015	AEC Blueprint 2025
<p><b>A. Single Market and Production Base</b></p> <p>A1. Free flow of goods (9 strategic approaches)</p> <p>A2. Free flow of services (3 strategic approaches)</p> <p>A3. Free flow of investment (5 strategic approaches)</p> <p>A4. Free flow of capital (7 strategic approaches)</p> <p>A5. Free flow of skilled labour</p> <p>A6. Priority of integration sectors</p>	<p><b>A. A Highly Integrated and Cohesive Economy</b></p> <p>A1. Trade in goods (3 strategic measures)</p> <p>A2. Trade in services (implementing ASEAN Trade in Services Agreement through 6 approaches)</p> <p>A3. Investment environment (4 strategic measures)</p> <p>A4. Financial Integration, Financial Inclusion, and Financial Stability (3 strategic measures)</p> <p>A5. Facilitating Movement of Skilled Labour and Business Visitors (2 strategic measures)</p> <p>A6. Enhancing Participation in Global Value Chains (5 specific initiatives)</p>

<sup>41</sup> Vitit Muntarbhorn, *Unity in Connectivity? Evolving Human Rights Mechanism in the ASEAN Region* (Martinus Nijhoff Publishers 2013), p 112.

<sup>42</sup> ASEAN Political Security Blueprint 2025, para A.2.5 (vii): "Promote the mainstreaming of human rights across all three Pillars of the ASEAN Community, through consultation among relevant ASEAN Sectoral Bodies; ..."

<p>A7. Food, agriculture and forestry</p> <p>B. Competitive Economic Region</p> <p>B1. Competition policy</p> <p>B2. Consumer protection</p> <p>B3. Intellectual property rights</p> <p>B4. Infrastructure development (10 strategic approaches)</p> <p>B5. Taxation</p> <p>B6. E-commerce</p> <p>C. Equitable Economic Development</p> <p>C1. SME development</p> <p>C2. Initiative for ASEAN Integration</p> <p>D. Full Integration into the Global Economy</p>	<p><b>B. A Competitive, Innovative and Dynamic ASEAN</b></p> <p>B1. Effective Competition Policy (7 strategic measures)</p> <p>B2. Consumer protection (5 strategic measures)</p> <p>B3. Strengthening Intellectual Property Rights Cooperation (4 strategic measures)</p> <p>B4. Productivity-Driven Growth, Innovation, Research and Development, and Technology Commercialisation (3 strategic measures on ASEAN competitiveness and 8 strategic measures to promote innovation)</p> <p>B5. Taxation Cooperation (5 strategic measures)</p> <p>B6. Good governance (2 strategic measures)</p> <p>B7. Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice (5 strategic measures)</p> <p>B8. Sustainable Economic Development (8 strategic measures)</p> <p>B9. Global Megatrends and Emerging Trade-Related Issues</p> <p><b>C. Enhanced Connectivity and Sectoral Cooperation</b></p> <p>C1. Transport (5 strategic measures)</p> <p>C2. Information and Communications Technology (7 strategic measures)</p> <p>C3. E-Commerce (4 strategic measures)</p> <p>C4. Energy (7 strategic measures)</p> <p>C5. Food, Agriculture and Forestry (8 strategic measures)</p> <p>C6. Tourism (2 strategic measures)</p> <p>C7. Healthcare (7 strategic measures)</p> <p>C8. Minerals (4 strategic measures)</p> <p>C9. Science and Technology (6 strategic measures)</p> <p><b>D. A Resilient, Inclusive, People-Oriented and People-Centred ASEAN</b></p> <p>D1. Strengthening the Role of Micro, Small, and Medium Enterprises (5 strategic measures)</p> <p>D2. Strengthening the Role of the Private Sector (2 strategic measures)</p> <p>D3. Public-Private Partnership (6 strategic measures)</p> <p>D4. Narrowing the Development Gap (7 strategic objectives)</p> <p>D5. Contribution of Stakeholders on Regional Integration Efforts (3 strategic objectives)</p> <p><b>E. A Global ASEAN (6 strategic measures)</b></p>
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In addition to consumer protection that has been pointed out as most closely related to human rights under the preceding blueprint, the 2025 version includes many more action lines that are directly linked to human rights. These include good governance (B6), good regulatory practice (B7), sustainable economic development (B8), and narrowing the development gap (D4). Adopting action lines that align with human rights principles will not convert the AEC into a human rights body but will lend support to an equally important aspect which is the implementation of these goals. Consultation and cooperation with sectoral bodies of other pillars, especially those discharging the rights-related mandate, will be a key contributing factor to the AEC's successful implementation of these goals.

### **3.3.2. Sustainable Development Goals (SDGs) & Indicators**

Succeeding the MDGs in 2015, the SDGs expand the scope to cover every country large and small, developed and developing. As evinced by the Resolution of the General Assembly, the SDGs aim at realising human rights and are to be viewed and implemented holistically.

The 17 Sustainable Development Goals and 169 targets . . . seek to realize the human rights of all and to achieve gender equality and the empowerment of all women and girls. They are integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental.<sup>43</sup>

Most pertinently for ASEAN, in the ASEAN Community Vision 2025 the Leaders "underline the complementarity of the United Nations 2030 Agenda for Sustainable Development with ASEAN community building efforts to uplift the standards of living of our peoples."<sup>44</sup> It can be seen in the table below that every goal of the 2030 Agenda corresponds with a category of human right and a related action line of the 2025 AEC Blueprint, which reaffirms their alignment. This matrix will be relevant to the ongoing endeavour of ASEAN, through the Working Group on SDG Indicators (WGSDGI) under the ASEAN Community Statistical System (ACSS), to develop indicators for SDGs at the regional level in parallel with those at the national level.

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<sup>43</sup> Transforming our world: the 2030 Agenda for Sustainable Development. A/RES/70/1, Preamble.

<sup>44</sup> ASEAN Community Vision 2025, para 6.

**Table 3.4 SDGs, Human Rights & AEC Blueprint 2025**

<b>Sustainable Development Goals</b>	<b>Related Human Right Category</b>	<b>Related AEC Blueprint</b>
Goal 1: End poverty in all its forms everywhere	Livelihood Right	D4. Narrowing the Development Gap
Goal 2: End hunger, achieve food security and improved nutrition, and promote sustainable agriculture	Right to Food	<ul style="list-style-type: none"> <li>• C5. Food, Agriculture and Forestry</li> <li>• D1. Strengthening the Role of Micro, Small, and Medium Enterprises</li> <li>• A6. Enhancing Participation in Global Value Chains</li> <li>• B2. Consumer protection</li> </ul>
Goal 3: Ensure healthy lives and promote well-being for all at all ages	Right to Health	<ul style="list-style-type: none"> <li>• C7. Healthcare</li> <li>• D2. Strengthening the Role of the Private Sector</li> <li>• D3. Public-Private Partnership</li> <li>• B9. Global Megatrends and Emerging Trade-Related Issues</li> </ul>
Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	Right to Education	<ul style="list-style-type: none"> <li>• A5. Facilitating Movement of Skilled Labour and Business Visitors</li> <li>• C2. Information and Communications Technology</li> <li>• C9. Science and Technology</li> </ul>
Goal 5: Achieve gender equality and empower all women and girls	CEDAW and CRC (Women and Children Rights)	<ul style="list-style-type: none"> <li>• A4. Financial Integration, Financial Inclusion, and Financial Stability</li> <li>• A5. Facilitating Movement of Skilled Labour and Business Visitors</li> <li>• B6. Good governance</li> <li>• B8. Sustainable Economic Development</li> </ul>

Sustainable Development Goals	Related Human Right Category	Related AEC Blueprint
Goal 6 Ensure availability and sustainable management of water and sanitation for all	Right to Water	<ul style="list-style-type: none"> <li>• B8. Sustainable Economic Development</li> <li>• C4. Energy</li> <li>• C5. Food, Agriculture and Forestry</li> <li>• C8. Minerals</li> <li>• D4. Narrowing the Development Gap</li> </ul>
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all	Right to Housing	<ul style="list-style-type: none"> <li>• B8. Sustainable Economic Development</li> <li>• D2. Strengthening the Role of the Private Sector</li> <li>• D3. Public-Private Partnership</li> <li>• D4. Narrowing the Development Gap</li> </ul>
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Right to Work	<ul style="list-style-type: none"> <li>• A2. Trade in services</li> <li>• A3. Investment environment</li> <li>• A5. Facilitating Movement of Skilled Labour and Business Visitors</li> <li>• D1. Strengthening the Role of Micro, Small, and Medium Enterprises</li> </ul>
Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation	Economic Rights, Social Rights	<ul style="list-style-type: none"> <li>• A3. Investment environment</li> <li>• B4. Productivity-Driven Growth, Innovation, Research and Development, and Technology Commercialisation</li> <li>• C1. Transport</li> <li>• C2. Information and Communications Technology</li> <li>• D3. Public-Private Partnership</li> <li>• C9. Science and Technology</li> </ul>

Sustainable Development Goals	Related Human Right Category	Related AEC Blueprint
Goal 10: Reduce inequality within and among countries	Non-discrimination	<ul style="list-style-type: none"> <li>• B6. Good governance</li> <li>• B8. Sustainable Economic Development</li> <li>• D4. Narrowing the Development Gap</li> <li>• D5. Contribution of Stakeholders on Regional Integration Efforts</li> <li>• E. A Global ASEAN</li> </ul>
Goal 11: Make cities and human settlements inclusive, safe, resilient, and sustainable	Right to Housing	<ul style="list-style-type: none"> <li>• A3. Investment environment</li> <li>• C5. Food, Agriculture and Forestry</li> <li>• B2. Consumer protection</li> <li>• B8. Sustainable Economic Development</li> </ul>
Goal 12: Ensure sustainable consumption and production patterns	Livelihood Rights	<ul style="list-style-type: none"> <li>• A1. Trade in goods</li> <li>• B1. Effective Competition Policy</li> <li>• B2. Consumer protection</li> <li>• C3. E-Commerce</li> <li>• C5. Food, Agriculture and Forestry</li> <li>• D1. Strengthening the Role of Micro, Small, and Medium Enterprises</li> </ul>
Goal 13: Take urgent action to combat climate change and its impacts	Right to a Clean Environment	<ul style="list-style-type: none"> <li>• B8. Sustainable Economic Development</li> <li>• B9. Global Megatrends and Emerging Trade-Related Issues</li> <li>• C5. Food, Agriculture and Forestry</li> <li>• C9. Science and Technology</li> </ul>

Sustainable Development Goals	Related Human Right Category	Related AEC Blueprint
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development	Rights to a Clean Environment	<ul style="list-style-type: none"> <li>• B8. Sustainable Economic Development</li> <li>• B9. Global Megatrends and Emerging Trade-Related Issues</li> <li>• C5. Food, Agriculture and Forestry</li> <li>• C9. Science and Technology</li> </ul>
Goal 15: Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation, and halt biodiversity loss	Right to a Clean Environment	<ul style="list-style-type: none"> <li>• B8. Sustainable Economic Development</li> <li>• B9. Global Megatrends and Emerging Trade-Related Issues</li> <li>• C5. Food, Agriculture and Forestry</li> <li>• C9. Science and Technology</li> </ul>
Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels	Civil Rights	<ul style="list-style-type: none"> <li>• B6. Good governance</li> <li>• B7. Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice</li> <li>• B8. Sustainable Economic Development</li> <li>• D4. Narrowing the Development Gap</li> </ul>
Goal 17: Strengthen the means of implementation, and revitalize the global partnership for sustainable development	Economic Rights, Social Rights	<ul style="list-style-type: none"> <li>• B6. Good governance</li> <li>• B7. Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice</li> <li>• B8. Sustainable Economic Development</li> <li>• D4. Narrowing the Development Gap</li> <li>• D5. Contribution of Stakeholders on Regional Integration Efforts</li> <li>• E. A Global ASEAN</li> </ul>

Source: Adapted from Azmi Sharom et al. (eds), *An Introduction to Human Rights in Southeast Asia, Vol 2* (SEAHRN 2016), p 147.



### 3.4. Way Forward

In this section, two key recommendations to enhance the humane aspect of the AEC are advanced. The first is incorporation of new tools to address potential adverse impacts of integration. The second is a call to revisit the scope of the AEC itself to incorporate some of these concerns.

#### 3.4.1. New tools

New tools which are outlined below, can be considered and applied. As they are founded on the rights-based approach and are already compatible with the SDGs, they will complement the Community-Building programmes of ASEAN and in particular the implementation of the ASEAN Community Vision 2025 and its three community Blueprints.

##### 1. Human Rights Impact Assessment

The first tool is a human rights impact assessment (HRIA) that is used to identify and measure the effects of human rights from policy, legislation project, and other intervention, with the aim to prevent or mitigate negative impacts and maximise positive ones. The HRIA is anchored on human rights obligations and thus provides accountability to states on whom those obligations are binding. The inter-sectoral approach of the HRIA also brings value added in ensuring coherence of relevant interventions with international human rights standards and laws. The HRIA has been adopted by various types of actors whose work was hitherto perceived as lacking relevance with human rights such as the World Bank and OECD.<sup>45</sup> At the United Nations, the Human Rights Council has adopted the “Guiding principles on human rights impact assessments of trade and investment agreements”<sup>46</sup> that is of direct relevance and can be used for a cyclical (ex ante and ex post) impact assessment of the deepening of the AEC and ASEAN free trade agreements (FTAs), including the ongoing negotiation of the Regional Comprehensive Economic Partnership (RCEP).

While there is no one-size fits all methodology for the HRIA, it must be empirical and evidence-based. For trade agreements, the key query that the HRIA can help respond is how the legal provisions and obligations of that particular agreement will affect the

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<sup>45</sup> See, eg OECD and the World Bank, *Integrating Human Rights into Development: Donor Approaches, Experiences and Challenges* (3rd edn, the World Bank, 2016), Nordic Trust Fund and the World Bank, *Human Rights Impact Assessments* (2013)

<sup>46</sup> See Report of the Rapporteur on the Right to Food (A/HRC/19/59/Add.5).

human rights of the people in the relevant states.<sup>47</sup> It should be noted that the HRIA has already been considered in a few issues pertaining to trade agreements.<sup>48</sup> However, there is yet HRIA on an investment chapter of an FTA<sup>49</sup>, and the ASEAN Comprehensive Investment Agreement (ACIA) may be a candidate for an assessment.

## 2. Other tools

There are a few other impact assessment tools that can be used in tandem with the HRIA. Environmental impact assessment (EIA) and Social Impact Assessment (SIA) are two examples. Human Rights Due Diligence (HRDD) is another tool that has been endorsed by the United Nations Human Rights Council. The HRDD is an integral part of the UN Guiding Principles on Business and Human Rights (UNGPs) that was endorsed in 2011. The UNGPs amalgamates existing human rights principles on the duty of states and businesses to protect and respect human rights and to provide remedy in case of violations. Businesses are recognised as bearing a duty to respect human rights, encompassing the responsibility not to infringe upon human rights directly or indirectly. An emphasis is also placed on supply chain management to ensure that their suppliers do not take part in human rights violations. The increasing global nature of supply chain has rendered necessary to ensure that the production of goods and services in the ASEAN Community does not cause or contribute to violations of human rights such as human trafficking, forced and child labour, environmental degradation and bribery.

While it is opportune that the new AEC Blueprint includes as an element on enhancing GVC participation, and that an ASEAN Work Plan on Enhancing GVC Participation has been adopted, it is worth noting that the element on sustainable consumption and production appears under the ASCC Blueprint 2025. This provides a great opportunity for cross-pillar collaboration, while at the same time raises concerns over the same challenge of issues being addressed in silos. The HRDD will not only help identify the risks of potential human rights violation but also enhance recognition of integrity of the Community that takes seriously protection and promotion of the rights of its people who are involved in the manufacturing cycle.

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<sup>47</sup> There are eight steps that should be undertaken to ascertain impacts from such an agreement. Key Steps in HRIA for Trade Agreement: Screening, Scoping, Evidence gathering, Consultation/Participation, Analysis, Conclusions and Recommendations, Publication/Reporting, and Monitoring and review.

<sup>48</sup> such as whether agricultural liberalisation commitments of an FTA have caused influxes of foreign foodstuffs and what negative and positive impacts this may have on domestic populations (Canada-Colombia FTA?, PACER-plus), whether intellectual property provisions of an FTA have had an impact on access to medicines (or seeds/food) on domestic populations (ASEAN China FTA (ACFTA) on Thailand) and whether trade agreements have been negotiated in a way that respects the participatory rights of populations affected by the agreements (ACFTA on Thailand)

<sup>49</sup> James Harrison, *Human Rights Impact Assessments of Free Trade Agreements: What is the State of the Art?* (2013).

### 3.4.2. More Inclusive Economic Agenda/Commitment? The Case of Migrant Workers and Free(r) Movement of Natural Persons

The case of migrant workers represents a tri-partite relationship among the countries of origin or the sending states, the countries of destination or the receiving states, and the migrant workers and their family members. The fair and effective flow of migrant workers will benefit all three parties but at the same time this is recognised as a sensitive issue. Migrant workers profit from their employment abroad while contributing to both the sending and receiving states through their remittances that they send home and through the work that they have delivered in the receiving states where local workers have moved up to take positions that require higher skill. Recent statistics reveal that ASEAN economies are underpinned by migrant workers. In a 2015 Report by UNESCAP,<sup>50</sup> of the estimated 231.5 million migrants in the world in 2013, over 59 million were found in countries of the Asia Pacific region, more than the population of Myanmar.

Despite their contribution<sup>51</sup> and indispensability, migrant workers have faced with paradoxical treatment in ASEAN. On the one hand, migration and migrant workers are absent from the scope of the AEC. It is noticeable that while facilitated movement of labour is espoused as a purpose of the Community,<sup>52</sup> the AEC narrows such movement to skilled labour and business visitors.<sup>53</sup> On the other hand, ASEAN is fully aware of the movement of migrant workers and has created a safety net in the form of a political instrument and a dedicated body, albeit outside of the AEC sphere. The ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers was adopted in 2007 and stipulates obligations and commitments for relevant parties, including receiving and sending states and the ASEAN Community. The ASEAN Committee on the Implementation of the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers (ACMW) was also set up to monitor the implementation of the Declaration and to develop an ASEAN instrument on migrant workers.<sup>54</sup>

The term 'migrant workers' itself is not uniformly used. The AEC adopts the commonly used trade term of 'temporary movement of natural persons' (TMNP), emphasising the temporary nature of such movement and differentiating natural persons from juridical persons, while those in human rights field refer to 'migrant workers'. The issue of migrant

<sup>50</sup> UNESCAP, *Asia-Pacific Migration Report 2015: Migrants' Contributions to Development* (2015).

<sup>51</sup> Two of the top ten countries of origin for migrants are in ASEAN (Indonesia and the Philippines). In Singapore, migrant workers constitute 35% of the number of workers in 2010. In Thailand, of the 39.4 million workers in 2012, at least two million are migrant workers from the Kingdom's neighbouring countries.

<sup>52</sup> ASEAN Charter art 1 para 5,

<sup>53</sup> AEC Blueprint 2025 A5.

<sup>54</sup> Nearing the 10th year of negotiation of such an instrument, it is still unlikely to be concluded owing in large part to the divergence of position between the sending and receiving states.

workers is overshadowed by political concern on immigration, the area that is regarded as belonging to sovereign rights of the member states. While full liberalisation of migrant workers is unlikely, a greater consideration to migrant workers beyond high-skilled professionals is warranted in the AEC, to be considered in tandem with the safety net measures already put in place. Since migration has direct contribution on remittances and skill transfer,<sup>55</sup> the absence of the AEC's reference to migrant workers can result in the loss of opportunity cost associated with migration as a development tool.

### 3.5. ASEAN in the Long Run

The last substantive part discusses other relevant issues that have direct bearings on the economic agenda of ASEAN.

#### 3.5.1. Imminent expansion of ASEAN

The discussion of humane aspects of the AEC will be incomplete without looking at a broader geographical and geopolitical context. Although ASEAN membership has remained at ten since Cambodia joined in 1999, it may be enlarged through admission of new members. The most likely candidate is Timor-Leste (which has been an observer of ASEAN since 2002).<sup>56</sup>

A more concrete expansion is in the area of trade. ASEAN is in the process of consolidating five bilateral FTAs into one mega regional FTA, the Regional Comprehensive Economic Partnership (RCEP). With Australia, China, India, Japan, New Zealand, and South Korea as well as the ten ASEAN Member States, the RCEP will be the most populous trade bloc in the world, presenting more than 3.4 billion people or 45% of the world population, and nearly a third of global trade and output. The positive momentum of RCEP, notwithstanding the missed deadline(s) for conclusion, stands in stark contrast to the Trans-Pacific Partnership (TPP) that originally comprises 12 members, four of which are member states of ASEAN. The withdrawal of the United States makes the future of the TPP much more tentative when compared with the prospects of the RCEP.

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<sup>55</sup> Pasha L Hsieh, 'Reassessing the Trade-Development Nexus: The Paradigm Shift in Asia-Pacific Regionalism' (2016) 37 *Northwestern Journal of International Law & Business* <<https://ssrn.com/abstract=2764651>> accessed 10 March 2017, p 53.

<sup>56</sup> When this expansion will materialise is anyone's conjecture and depends a number of geopolitical considerations. In terms of legal requirement, according to Art 6 of the ASEAN Charter admission of a new member is decided by consensus of the ASEAN Summit, which means all ASEAN leaders must agree and some present members have expressed reservations on Timor-Leste's membership. A more basic and fundamental criterion is the readiness of the prospective member to carry out all ASEAN obligations. A simple fact is instructive: the number of the meetings that a new member must take part or host is likely to exceed 1,200. It is an understatement to say that this will be taxing on the country the size of Timor-Leste in terms of population and GDP compared with the current members. Perhaps the contingent and implicit success of the admission lies not solely in the capacity of any new member, but also in the competence of ASEAN to make its internal process more efficient and open to increased regionalism.

The RCEP warrants further scrutiny since ASEAN is negotiating as a single entity on behalf of its ten members. There are a few observations on aspects of the RCEP that intersect with the focus of this Chapter. Firstly, in terms of its scope, the RCEP currently does not seem to include chapters on environment, labour, and transparency and anti-corruption that are specifically dealt with in the TPP.<sup>57</sup> Without such ‘built-in’ provisions that integrate human rights concerns and with no clear indications of the safety net measures, the RCEP may end up as another Free Trade Area without any accompanying means to address possible externalities—not necessarily within the RCEP framework. The signs are worrying for two reasons. On the one hand, problems associated with or resulted from intra-RCEP investment are due to arise. On the other hand, ASEAN, particularly its institutions, and the individual member states must be prepared to come to terms with those impacts. That said, due consideration shall be given to the other side of the argument against the inclusion of issues such as environment or labour standards in FTAs, which risk being used as mere bargaining chip in the negotiations, usually against developing economies. If this is done without understanding the underlying cause behind these social concerns, it may have the potential to cause even greater harm.

### **3.5.2. Trajectory of Sustainable Growth of ASEAN: The vanishing paradox of economic prosperity and growth versus human rights**

ASEAN transcends beyond a free trade area and the AEC is merely a component of the Community, albeit the most recognisable element. As shown in this chapter, at the broadest context, regional—and indeed global—economic growth and prosperity are intertwined and inseparable from sustainable development, at least when a longer time frame is taken. More specifically to ASEAN, the question that has been invariably raised but only partially answered is: what benefits has the economic integration brought to the people and not just businesses?

While different sets of numbers, economic data are proffered to show the enhancement of the livelihood of the ASEAN population, the human cost, sacrifices and environmental depletion are yet to be accounted for. Since the ultimate goal of development and economic integration is the improvement of people’s lives, it is logical and imperative that the process leading to such a goal does not cause harm to the very objective for which it is designed, or that any unintended cost shall be minimised. The SDGs are a new

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<sup>57</sup> See TPP Chapter 19 on labour, esp art 19.3 labour rights, requiring TPP members to adhere to ILO standards; Chapter 20 on environment, esp art 20.3 general commitments, prohibiting its members to, inter alia, lower environmental standards to attract investments; and Chapter 26 on transparency and anti-corruption, esp art 26.7 measures to combat corruption, mandating the criminalisation of bribery by public officials of the members. It seems puzzling that the issues pertaining to these TPP chapters are absent from the RCEP framework, considering the significant overlap of the TPP-RCEP membership. A plausible explanation is the shift of focus that occurs in the RCEP negotiations, especially from the non-TPP members.

framework that steers in that direction, espousing sustainability and human rights as both the ends as well as the means to achieve global wellbeing for the peoples.

### **3.5.3. Relevance of ASEAN and the AEC: The Litmus test of people-oriented and people-centred community**

Three findings from a recent region-wide survey merit mention here since they reinforce the premises of this chapter.<sup>58</sup> Firstly there is an increasing sense of ASEAN citizenship and respondents are concerned if their countries are to leave ASEAN. Secondly, while the respondents are mostly aware of the AEC (and many cannot identify the other two pillars), their most pressing concerns are not economic. The top two concerns on their list are corruption and climate change and natural disasters. Thirdly, nearly three-quarter of the respondents aspire for an ASEAN in 2025 that is characterised by good governance, environmental sustainability with more liveable cities, and greater equity and protection of human rights especially of the minorities. These three findings serve as a reminder that the ASEAN citizens do care about their sustainable future and the role that the ASEAN Community, particularly the AEC, must undertake. To maintain its relevance among the population whose sense of belonging and shared values is increasing, ASEAN must strive to connect the deliverables to the people. It does not have to look far, when its new motto of a people-centre and people-oriented Community already espouses that very notion. To be relevant, the Community must move in a way that responds to the changing needs and expectation of its peoples.

### **3.6. Conclusion**

This chapter analyses the scope of obligations and commitments of the AEC and ASEAN. It finds and confirms interlinkages between the regional trade and economic agenda on the one hand and sustainable development as well as other human rights mandate on the other.

Economic integration in ASEAN that is manifested and implemented through the AEC has created opportunities as well as impacts that hitherto are left to be addressed by the other two pillars of the Community, the APSC and the ASCC. Provisions of AEC agreements do not incorporate clearly and sufficiently the concerns for impact on human rights such as the rights to environment and the rights of migrant workers.

Under the first AEC Blueprint (2008-2015), in addition to market opening through the agenda to achieve free flow of factors of production, it also adopted a number of

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<sup>58</sup> Ponciano Intal, Jr and others, 'One Voices of ASEAN: What Does ASEAN Mean to ASEAN People?' (Vol 2, Forthcoming).

‘behind the borders’ action lines such as consumer protection and equitable economic development that could have been used as entry points for rights-based approaches. It could be said, however, that there was a disconnect between human rights and economic integration agenda in the design and implementation of the ASEAN 2015 Community Blueprints.

Since 2007, human rights have become an integral part of the ASEAN Community. The ASEAN Charter enshrines human rights as a foundational principle of ASEAN and has created a mechanism to promote and protect human rights and fundamental freedoms of ASEAN citizens. These rights are also endorsed and reaffirmed in various political and legal instruments, most significantly the ASEAN Human Rights Declaration 2012. The creation of the AICHR in 2009 was a huge step forward. Mainstreaming of human rights as a cross-cutting principle to all organs and sectors of ASEAN, including the AEC, has become its institutionalised programme. The key challenge remains on how to mainstream human rights effectively into the various pillars of the Community, a challenge that is perhaps disproportionately more daunting for the AEC.

The adoption of ASEAN Community Vision 2025 and the corresponding blueprints of the three Community pillars reflects policies embracing human rights and fundamental freedoms. The explicit alignment of the new Vision with the SDGs further reinforces human rights values. Despite the lack of overt human rights language in the AEC Blueprint 2025, it is already substantively more detailed than its predecessor, and provides more opportunities for the humanising aspects, not least the integration of sustainability and global megatrends conducive to the mainstreaming of human rights that are a goal already present in the other two community Blueprints. The new AEC Blueprint has also taken on board some human rights-minded frameworks under different titles, including its agendas on empowerment of women as entrepreneurs (gender equality), inclusive business (accessibility and the right to work), and promotion of micro, medium and small enterprises (economic rights). The proof, however, is in the implementation. To this end, the governance of the AEC has significant bearings on the degree to which the rights-based approaches can be integrated with the economic agenda and how they are carried out. While intra and cross-pillar coordination is imperative, law and policies as well as the capacity of the ASEAN Secretariat and national ASEAN/AEC units are equally important factors.

The Sustainable Development Goals (SDGs) represent not only an instrument that merges development and human rights but also a yardstick for sustainability that calls for a holistic and effective action by all countries at every level of development. Similar action is to be undertaken by ASEAN and the AEC to complement national programme on SDGs. The ongoing development of SDG indicators for ASEAN, particularly in the

context of the AEC, will further fortify the rights-based approach. The chapter calls for a more holistic approach comprising two measures. One is integration of human rights concerns into the AEC commitment.

The other measure is the enhancement of commitments to incorporate specific issues that have not been addressed under the AEC framework or to include new policy tools that will help identify and reduce potential adverse impacts. As ASEAN is seeking to retain economic competitiveness including through further opening and expansion of its market, it is important that the humane agendas of rights-based development is taken on board in the negotiation and implementation of any subsequent agreements as well, lest the people-centred and people-oriented Community remain mere rhetoric.



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## Chapter 4

### **ASEAN Approaches to Environmental Protection and Sustainable Development: Cooperating across Borders, Sectors, and Pillars of Regional Community**

*Simon S.C. Tay, Chen Chen Lee, and Lau Xin Yi*

#### **4.1. Introduction: Globalisation, Sustainable Development, and ASEAN**

Present trends in global cooperation can seem contradictory. On one hand, the international community has sought to coordinate in order to deal with the global financial crisis – especially through the G20, and restart growth. The United Nations convened the global community to reach agreement to guide future growth strategies towards broad and comprehensive Sustainable Development Goals (SDGs). In the Paris Agreement, reached at the end of 2015, governments across the world committed to address the global threat of climate change and shift patterns of production and consumption towards sustainable development. On the other hand, recent trends of populist, anti-globalisation sentiments in the western, ‘developed’ world are also evident as exemplified in the outcomes of the UK’s referendum on the EU and the US presidential election. These megatrends will affect ASEAN, even as its ten diverse member nations have moved forward to inaugurate the ASEAN Community and increase regional integration.

This chapter will consider the ways in which the ASEAN Community is dealing with issues relating to sustainable development, particularly with regard to environmentally-related social concerns that are linked to economic integration. The global cooperation agreed upon regarding Climate Change and the SDGs, set an important context. However, this chapter will focus more on ASEAN’s on-going agenda on sustainable development and, in particular, for the environment.

We begin with a brief review of ASEAN’s agenda and note that a broad environmental agenda has been agreed upon, with considerable efforts identified for action in diverse areas. This established environmental agenda within ASEAN is treated as an element under the socio-cultural pillar, rather than the economic or political-security pillars that together make up the ASEAN Community. The effect of this is that the environment agenda may have limited cognition within the ASEAN Economic Community (AEC) beyond specific initiatives in select sectors such as energy and food, agriculture and forestry (e.g. food security).

This is especially noticeable when we consider perhaps the most notable item on ASEAN’s environmental agenda: the transboundary regional haze air pollution that

results from land and forest fires, most often coming from the agro-forestry sector. The impact from this recurring regional tragedy goes beyond the public health concerns caused, or even the emitted carbon's impact on global climate change. The fires and haze are human-made disasters that reflect the underlying and unsustainable systems of production in this sector, and the latter is very much an economic issue. Regional and global value chains will be briefly analysed to underscore concerns of small producers and local communities, as well as the emerging responsibilities of consumers and the financial community.

Addressing the issues of the haze requires not only governments to have stricter law enforcement and increased capacity to prevent and deal with fires. There is also the challenge of working across borders and pillars/sectors in ASEAN, across sectors of the economy and the value chains of the businesses involved. Institutionally for ASEAN, we argue the issue also requires new approaches to work across the different pillars of the ASEAN community, to see the issue as cross-cutting, and one that implicates not only socio-cultural and environmental issues, but the economic integration policies of the AEC. In this way, the chapter looks closely at the fires and haze issue to offer an illustration of how ASEAN can move ahead with economic integration in tandem with addressing environmental and sustainability concerns.

The chapter concludes by considering the need to develop clearer and more complete linkages between the AEC and other pillars of the ASEAN Community. In this, we consider the need to link these issues to the wider global agenda and also to initiate new processes within ASEAN so that the cross-cutting issues can be systematically and consistently considered at a high level. Such efforts will be essential to move ahead with deeper regional integration given populist sentiments and increased scrutiny of the benefits and costs of growth in social and environmental terms. ASEAN has promised a "people-centered" community and the AEC cannot be limited to advancing economic growth in the narrowest sense of that term.

This links to global trends in climate change responses and the SDGs. We have come to recognise that economic growth and more openness must deliver benefits and lessen harms to the environment and to society, and there is recognition now that systems of production and economic patterns must shift accordingly, both globally and within ASEAN.

#### **4.2. Sustainable Development and the Environment: The Current ASEAN Agenda**

The World Commission on Environment and Development defined sustainable development as "development which meets the needs of current generations without

compromising the ability of future generations to meet their own needs”.<sup>1</sup> While the concept of sustainable development can be interpreted in many different ways, at its core is an approach to development that looks to balance different and competing needs against an awareness of the environmental, social and economic limitations we face as a society. In this chapter, while recognising the breadth of the sustainable development concept, we will – given the limits of length as well as the coverage of other chapters in this publication, emphasise more on environmental concerns.

The United Nations 2030 Agenda for Sustainable Development clearly states that “sustained, inclusive and sustainable economic growth is essential for prosperity. This will only be possible if wealth is shared and income inequality is addressed”.<sup>2</sup> Sustainable development is not just about the environment. It is also about ensuring a strong, healthy and just society that meets the diverse needs of all people in existing and future communities.

Within ASEAN, there is a growing realisation that sustainable development should be a central tenet of ASEAN’s community integration efforts. The ASEAN Community Vision 2025 recognises the complementarity of the UN 2030 Agenda for Sustainable Development with ASEAN’s community building efforts to uplift the standards of living of her peoples.<sup>3</sup>

If well managed, the AEC could boost the region’s economies by 7.1% by 2025, generate 14 million additional jobs, and increase the amount of decent jobs and workers’ skills.<sup>4</sup> However, gains from the establishment of the AEC may not automatically be evenly distributed among all ASEAN countries or among the people.<sup>5</sup> There can also be social and environmental impacts.

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<sup>1</sup> Also known as the Brundtland Commission. First introduced in 1987, sustainable development has achieved consensus among the international community, as seen in the UN SDGs agreed by the global community. There are also arguments that Sustainable Development is now an accepted tenet of customary international law.

<sup>2</sup> Transforming our world: the 2030 Agenda for Sustainable Development, Available: [http://www.un.org/ga/search/view\\_doc.asp?symbol=A/RES/70/1&Lang=E](http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E), Retrieved: 1 April 2017

<sup>3</sup> The new AEC Blueprint 2025 has a distinct focus on people, which was not the case in its predecessor, the AEC Blueprint 2015. More specifically, the new AEC Blueprint calls for “a resilient, inclusive, people-oriented and people-centred community that engenders equitable development and inclusive growth; a community with enhanced micro, small and medium enterprise development policies and cooperation to narrow the development gaps; and a community with effective business and stakeholder engagement, subregional development cooperation and projects, and greater economic opportunities that support poverty eradication.”

<sup>4</sup> Uramoto, Yoshiteru (2014), Can the Asean Economic Community deliver the jobs for the people? The Straits Times, 3 September 2014, Available: <http://www.straitstimes.com/opinion/can-the-asean-economic-community-deliver-the-jobs-for-the-people>, Retrieved: 18 March 2017

<sup>5</sup> This is especially so for micro, small and medium enterprises, small-holder farmers, labourers working in the informal sector, undocumented or irregular migrant workers, and other vulnerable groups. In order to realize a people-oriented, people-centred ASEAN community, ASEAN nations have to develop a strategy for economic growth that is socially, environmentally and economically sustainable. Questions of income distribution, impact in terms of the inclusiveness of growth and employment, regional economic integration, structural and industrial policy and strategies for economic development in resource-rich countries are important and should be factored into the context of economic policy.



The ASEAN region has a rich endowment of natural resources that are significant not only for the countries of the region, but globally in terms of biodiversity and climate change. Yet the ASEAN environment is continually being pressured by demands of population and economic growth. While it is good that the region's growth has consistently outperformed the global average, there are concerns that there has been a corresponding stress on natural resources such as clean air, water and land. Continuing growth and urbanisation in megacities such as Jakarta, Bangkok and Manila, stresses environmental resources both within countries and across borders.<sup>6</sup> We can see that the region is facing large and complex challenges in keeping environmental sustainability and economic development in balance.

Cooperation on environmental issues in ASEAN dates back to 1977. Today ASEAN aims to “work towards achieving sustainable development as well as promoting a clean and green environment by protecting the natural resource base for economic and social development including the sustainable management and conservation of soil, water, mineral, energy, biodiversity, forest, coastal and marine resources as well as the improvement in water and air quality”.<sup>7</sup> This broad agenda, moreover, is not only for the ASEAN region but is pursued as part of what it sees as “global efforts towards addressing global environmental challenges, including climate change and the ozone layer protection, as well as developing and adapting environmentally-sound technology for development needs and environmental sustainability.”<sup>8</sup> The new ASEAN Socio-Cultural Community Blueprint 2025 has a strong emphasis on promoting and ensuring one layer protection, as well as developing and adapting environmentally-sound technology at all times.<sup>9</sup> The term “sustainable” was a recurring theme throughout the 2025 Blueprint, from environmental protection, social development, consumption and production, to responding to natural disasters.

Within this, ASEAN environmental cooperation focuses on ten priority areas, which range from promoting environmentally friendly technology and harmonising policies and databases, to promoting the sustainability levels of cities and urban areas and protecting the sustainability of freshwater sources.<sup>10</sup> This creates a very broad and

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<sup>6</sup> In terms of biodiversity, the region is renowned for a rich heritage, largely from three countries, – Indonesia, Malaysia and the Philippines – that represent some 80% of global biological diversity. Forest cover in ASEAN, while under pressure, remains at about 45% and this is estimated to provide a natural habitat for up to 40 % of all species on Earth. Population density, at some 130 people per square kilometre, is one of the highest in the world. See <http://environment.asean.org/about-us-2>

<sup>7</sup> Overview of ASEAN Cooperation on Environment, Association of Southeast Asian Nations, <http://environment.asean.org/about-us-2/>

<sup>8</sup> Ibid

<sup>9</sup> See the ASEAN Socio-Cultural Community Blueprint 2025. <http://asean.org/storage/2016/01/ASCC-Blueprint-2025.pdf>

<sup>10</sup> As reflected in the Blueprint for the ASEAN Socio-Cultural Community (ASCC Blueprint) 2009-2015. See <http://environment.asean.org/about-us-2/>

indeed ambitious agenda that will in many cases go beyond the exclusive remit of the environmental ministers.

Of particular prominence is ASEAN's effort to address transboundary haze pollution arising from land and forest fires in the last two decades and these efforts will be analysed in detail in the next section.

Institutionally, amongst the three pillars of the ASEAN community, environmental concerns are assigned under the socio-cultural community pillar, rather than the economic, or political-security pillars. Take the transboundary haze pollution for instance. Despite the clear linkages to economics, it remains an issue under the ambit of the Environment Ministers, and discussed only under the socio-cultural pillar. Some have questioned the viability of such an approach. In the minds of many people today, sustainability and environmental issues are quite fundamentally economic issues.

The Paris Agreement on climate change is not "merely" environmental; there are many implications for a whole range of policies from energy and economic planning to city planning and infrastructure. Similarly, we can see that environmental issues in ASEAN will go beyond the direct remit of the environmental ministers. While the environmental ministers and agencies should remain involved, there is much need to bring in other ministries and actors from other sectors if these challenges are to be addressed fully and more fundamentally. In the following section, we offer an analysis of the haze issue that will aim to illustrate this.

### **4.3. Seeing the Haze as a Sustainable Development Issue**

Since the 1997-98 haze episode, ASEAN has sought to address the fires and resulting haze from forest and land fires in Indonesia. The recurring phenomenon is traced back to slash and burn practices and the clearing of land for plantations such as pulp wood, palm oil, and rubber. Regional initiatives have been created to promote regional collaboration, of which the most significant effort is the ASEAN Agreement on Transboundary Haze Pollution (AATHP), which seeks to prevent, monitor, and mitigate land and forest fires to control transboundary haze pollution through concerted national efforts, regional and international cooperation. It has been hailed as the world's first regional arrangement that binds a group of states to tackle transboundary pollution from land and forest fires, containing measures such as monitoring and assessment, prevention, preparedness, national and joint emergency response, and technical cooperation and scientific research.<sup>11</sup>

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<sup>11</sup> Besides the treaty, other ancillary agreements have been reached on the haze. For instance, the ASEAN Coordinating Centre for Transboundary Haze Pollution Control (ACC) was created to facilitate co-operation and co-ordination among the Parties in managing the impact of land and/or forest fires, in particular haze pollution arising from such fires. Numerous other regional initiatives were established following the creation of the AATHP, the more notable ones being the Sub-Regional Ministerial Steering Committee (MSC) on Transboundary Haze Pollution; the ASEAN Peatland Management Strategy, the ASEAN Transboundary Haze Pollution Control Fund; the ASEAN Task Force on Peatlands; and the ASEAN Guidelines on Peatland Fire Management.

Some question the effectiveness of this treaty, concluded in 2003, as Indonesia – which is the main source of the fires causing the haze problem, became the last ASEAN country to ratify the haze agreement in October 2014. However, subsequently in August 2016, ASEAN ministers responsible for the environment adopted the Roadmap on ASEAN Cooperation Towards Transboundary Haze Control Pollution with Means of Implementation, with the goal of achieving a transboundary haze-free ASEAN by 2020. The roadmap is focused on “intensifying collective actions to prevent and control forest and/or land fires”. Under the roadmap, the principles of the AATHP will be translated into concrete and collective actions.<sup>12</sup> Specifically the roadmap contains eight strategic components that are inter-related and mutually reinforcing. While the roadmap looks comprehensive and well-thought out on paper, its implementation may face challenges on meeting the timeline and on the resources, capabilities and knowledge required of the implementing agencies, particularly at the local and provincial level. Experts have also pointed out that a totally haze-free ASEAN is impossible to achieve, for reasons related to traditional, religious and cultural practices.<sup>13</sup>

ASEAN efforts center on the environmental ministers and the sub-group of countries<sup>14</sup> affected by the haze problem and this has seen some progress for example, with the ASEAN Agreement on Transboundary Haze Pollution. Yet despite this, results in recent years however have been mixed, with an especially bad haze period in the last quarter of 2015 in the southern ASEAN region.

At the height of the haze crisis in late 2015, Palangkaraya, the capital of Central Kalimantan and one of the most affected regions, saw its Pollutant Standards Index (PSI) soar above 2,000.<sup>15</sup> Some 2.6 million hectares of forest and farmland in Indonesia – or four and half times the size of Bali – were burned from June to October.<sup>16</sup> Six Indonesian provinces declared a state of emergency: Riau, Jambi, South Sumatra, West Kalimantan, Central Kalimantan and South Kalimantan. In Riau’s capital, Pekanbaru, thousands of residents fled to the nearby cities of Medan and Padang. Schools in parts of Indonesia, several states of Malaysia as well as in Singapore, were forced to close. Many flights were

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<sup>12</sup> Roadmap on ASEAN cooperation towards transboundary haze pollution control with means of implementation, Association of Southeast Asian Nations, [http://environment.asean.org/wp-content/uploads/2016/11/Roadmap-ASEAN-Haze-Free\\_adoptedbyCOP12.pdf](http://environment.asean.org/wp-content/uploads/2016/11/Roadmap-ASEAN-Haze-Free_adoptedbyCOP12.pdf)

<sup>13</sup> Letchumanan, Raman (2015) Road Map for a Transboundary Haze-Free ASEAN by 2020: Time to Implement Agreement, RSIS Commentary, No. 237 – 9 November 2015, Available: <https://www.rsis.edu.sg/wp-content/uploads/2015/11/CO15237.pdf>

<sup>14</sup> The Sub-Regional Ministerial Steering Committee (MSC) on Transboundary Haze Pollution comprises of ministers responsible for the environment from the following countries: Brunei Darussalam, Indonesia, Malaysia, Singapore, and Thailand.

<sup>15</sup> Heng, Eve Sonary (2015) Haze forces 4,778 schools to close today; 2,696,110 students affected, BorneoPost Online, 22 October 2015, Available: <http://www.theborneopost.com/2015/10/22/haze-forces-4778-schools-to-close-today-2696110-students-affected/> Retrieved: 14 January 2016

<sup>16</sup> The World Bank (2015) Reforming amid uncertainty, Indonesia Economic Quarterly, December 2015, Available: <http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/12/844171450085661051/IEQ-DEC-2015-ENG.pdf> Retrieved: 14 January 2016

either delayed or cancelled. With more than 43 million people exposed to smoke from the fires, deaths climbed to 19 in Indonesia and more than half a million cases of acute respiratory tract infections were reported.<sup>17</sup>

What is driving ASEAN efforts? Is the haze issue being framed as an environmental issue or as a concern about sustainable development – which is broader and encompasses both human and economic impacts?

The scale of the fires and haze and the long history of this recurring environmental disaster lend themselves to many different analyses. Some would emphasise the human health concerns and others the climate change impacts from the release of CO<sub>2</sub> – which are globally significant, or the threat to nature parks and endangered species.

While recognising the value of these perspectives, in our analysis, there is an emerging shift towards the second, and broader view, and this is showing potential to drive efforts forward more effectively. The human impact of the fires and haze has been more clearly recognised. We examine the haze issue to offer the argument that environmental issues have economic and human dimensions, and that to address them at their root, there must be cross-cutting efforts to work and foster cooperation not only across borders but also across different sectors of the economy and society – not only governments but also corporations and non-governmental actors. Moreover, looking at the value chain, the private sector actors are not only the companies in the agro-forestry sector but their customers — whether retail or manufacturers who process and use these resources — and the financial institutions that fund this sector and the companies. Consumers also have an increasingly important role to play.

In addition to the severe environmental and human harm, the economic costs are also striking. The Jokowi administration estimated that the 2015 haze episode cost Indonesia as much as US\$33.5 billion (475 trillion rupiah).<sup>18</sup> Similarly, the World Bank placed the cost to Indonesia at about US\$16.1 billion, or 1.9 % of predicted Gross Domestic Product (GDP) that year.<sup>19</sup> The economic cost to Singapore is about US\$515.3 million (S\$700 million).<sup>20</sup> In May 2016, the ASEAN Sub-Regional Ministerial Steering Committee (MSC) on Transboundary Haze Pollution announced a study to assess the economic, health and

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<sup>17</sup> Jakarta Globe (2015) Minister: Haze death toll climbing, The Jakarta Globe, 28 October 2015, Available: <http://jakartaglobe.beritasatu.com/news/haze-death-toll-reaches-19/> Retrieved: 16 January 2016

<sup>18</sup> Chan, Francis (2015) \$47b? Indonesia counts costs of haze, The Straits Times, 11 October 2015, Available: <http://www.straitstimes.com/asia/47b-indonesia-counts-costs-of-haze> Retrieved: 14 January 2016

<sup>19</sup> The World Bank (2015) Reforming amid uncertainty, Indonesia Economic Quarterly, December 2015, Available: <http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/12/844171450085661051/IEQ-DEC-2015-ENG.pdf> Retrieved: 14 January 2016

<sup>20</sup> Barratt, Olly (2016) Haze episode cost Singapore estimated S\$700m last year: Masagos, Channel NewsAsia, 15 March 2016, Available: <http://www.channelnewsasia.com/news/singapore/haze-episode-cost/2605406.html> Retrieved: 17 March 2016

social impact of the 2015 haze on Southeast Asia.<sup>21</sup> At the time of writing, the study is being undertaken and overseen by the Committee under the Conference of the Parties to the ASEAN Agreement on Transboundary Haze Pollution.

While the human and economic cost is of concern, we must also consider the significance of the issue with specific regard to two large and significant sectors of the economy: the pulp and paper industry and the palm oil sector. According to Indonesia's Central Statistics Agency (BPS), agriculture, forestry and fisheries contribute approximately 14.11% of the country's GDP in 2016.<sup>22</sup> As of August 2016, an estimated 31.9% of the workforce are employed in agriculture, farming, forestry, hunting and fishing, according to BPS.<sup>23</sup> In particular, the palm oil industry is a major contributor to rural income in Indonesia. Oil palm development has been associated with reducing rural poverty and improving infrastructure. The industry also directly and indirectly provides jobs for more than 1.7 million people in Indonesia and more than 0.8 million people in Malaysia.<sup>24</sup>

The haze is closely associated with certain companies in these two industries which have been practicing unsustainable production, often contrary to the laws within the places where they operate. Yet there are many companies, growers and producers, who are taking precautions against fire and shifting their practices so as to be fully compliant, fire-free, environmentally-friendly and sustainable. As such, approaches to deal with the haze cannot be blunt instruments but ones that can address the variety of actors in a supply chain that cuts across borders in trade, investment and also the financing of the sector.

This implicates not only the growers in the sector but those that buy from them and aggregate supply for scale in production and manufacturing efficiency. Similarly, financial institutions can be part of the problem if they do not investigate the environmental conditions of the businesses they fund. There is an increasing recognition that if the problem is to be addressed, the approach must be holistic and take into account the economic linkages in the production and consumption chains, and not just the environmental harms and "externalities".

In this context, this chapter will consider actions by (1) the Indonesian and other governments; (2) small-scale farmers and large companies; (3) non-governmental

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<sup>21</sup> Study to be conducted to assess impact of 2015's haze in ASEAN, Channel News Asia, 4 May 2016, Available: <http://www.channelnewsasia.com/news/singapore/study-to-be-conducted-to/2754908.html>, Retrieved: 10 March 2017

<sup>22</sup> <http://aplikasi2.pertanian.go.id/pdb/rekappdbkontri.php>

<sup>23</sup> <https://www.bps.go.id/linkTabelStatis/view/id/970>

<sup>24</sup> <http://www.sustainablepalmoil.org/impacts/economic/>

organizations and consumers; and (4) financial institutions. While only brief notes can be offered, we hope this treatment will allow the reader to better identify the linkages between these different actors and, moreover, the need to link from environmental concerns to economic actors, across borders, and across sectors.

### **1) The Indonesian and Other Governments**

The causes of transboundary haze pollution are complex and multi-dimensional. As such, governments play a critical role in setting the direction and parameters for other stakeholders to play their part. Of top priority is the institution and enforcement of laws and regulations pertaining to unsustainable practices including slash-and-burn; but governments are also looking towards the longer term by emphasising prevention measures and the importance of sustainability in the plantation sector. The loss of livelihood, particularly of the small-scale growers and their communities, should be addressed as part of the solution. Alternative methods of production and, in some cases, alternative livelihoods must therefore be part of the approach.

The fires and haze, first and foremost, impact Indonesia, its people, and its economy. In this context, we recognise that the current government under President Joko Widodo has significantly ramped up Indonesian efforts against the fires. Increased law enforcement has seen the Indonesian police arresting more than double the number of individuals in forest fire cases in 2016 as compared to the year before. Public education on alternatives to using fire for land clearing and verification that the arrested individuals understood the broader concerns, have been conducted.<sup>25</sup>

At a time when the palm oil industry is already suffering from a falling commodity price, President Jokowi also announced plans to impose a moratorium on oil palm plantations – a move that will halt further land clearing, and in turn, the use of slash-and-burn practices. However, while benefiting the environment, this approach risks economic repercussions. For instance, when Indonesia stopped issuing permits for oil palm plantation on peatlands in May 2011, the country sacrificed approximately \$10 billion in potential income from the sector.<sup>26</sup> Therefore, without viable alternatives, the moratorium on oil palm plantations will exacerbate the economic impact on Indonesia, the world's largest producer of this edible oil.

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<sup>25</sup> Jensen, Fergus and B.C. Munthe (2016) Indonesia fire arrests jump amid efforts to stop haze, TODAYOnline, 25 August 2016, Available: <http://www.todayonline.com/world/indonesia-fire-arrests-jump-amid-efforts-stop-haze> Retrieved: 12 April 2017

<sup>26</sup> Bisara, Dion & Listiyarini, Tri (2016) Indonesia to issue a moratorium on new palm oil concessions, Jakarta Globe, 15 April 2016, Available: <http://jakartaglobe.id/business/indonesia-issue-moratorium-new-palm-oil-concessions/> Retrieved: 12 April 2017

Another notable effort by the Jokowi administration was to create the Peatland Restoration Agency (BRG) in January 2016, headed by former environmental activist Nazir Foad and now a ministerial-ranked appointee. The BRG is tasked with restoring a total of 2 million ha of peatlands by 2020 as peatlands have been a major source of the fires and haze.<sup>27</sup> Just a year in existence, the BRG has already begun on the ground efforts across a number of provinces, serving to catalyse and bring together different agencies and also the non-governmental organizations and community groups in Indonesia.

The role of other governments has been supplementary but crucial. Singapore has stepped up efforts to address haze from its own jurisdiction for instance through the Transboundary Haze Pollution Act which came into effect on 25 September 2014. The Act attributes liability to entities that conduct or condone an act – originating from within or outside Singapore – which generates or contributes to haze pollution in Singapore. In 2015, the Singapore Government invoked its Transboundary Haze Pollution Act for the first time to question and to investigate six firms. Focus was placed on major agribusinesses and their culpability in causing the fires either within their own plantations or through their connection with “rogue” intermediaries and small to medium-sized companies in their supply chains.

Malaysia does not have similar legislation as Singapore’s Transboundary Haze Pollution Act and has instead expressed preference for diplomacy considering the limitation of legal enforcement.<sup>28</sup> As one of the largest producers and exporters of palm oil and related products, the Malaysian government is also promoting the sustainability of the palm oil plantation sector by implementing the Malaysian Sustainable Palm Oil (MSPO) certification scheme. As of January 2017, 221,548 ha of oil palm planted area have been certified and this figure is expected to increase as the MSPO certification becomes compulsory by December 2019.<sup>29</sup>

At the regional level, the ASEAN Agreement on Transboundary Haze Pollution is expected to strengthen Indonesia’s regulations and policies pertaining to forest and land fires and enable the Indonesian government to receive international support.<sup>30</sup> However,

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<sup>27</sup> Fogarty, David (2016) Taking the hot seat in war on haze, The Straits Times, 18 April 2016, Available: <http://www.straitstimes.com/asia/se-asia/taking-the-hot-seat-in-war-on-haze> Retrieved: 12 April 2017

<sup>28</sup> Soh, Andrea (2017) Malaysia prefers to use diplomacy to fight haze-causing fires, The Business Times, 7 April 2017, Available: <http://www.businesstimes.com.sg/government-economy/malaysia-prefers-to-use-diplomacy-to-fight-haze-causing-fires> Retrieved: 12 April 2017

<sup>29</sup> Nik Anis, Mazwin (2017) Malaysia opposes EU resolution on palm oil, The Star Online, 16 March 2017, Available: <http://www.thestar.com.my/news/nation/2017/03/16/msia-opposes-eu-resolution-on-palm-oil-mah-we-will-collaborate-with-indonesia-to-present-our-case/> Retrieved: 12 April 2017

<sup>30</sup> Soeriaatmadja, Wahyudi (2014) Indonesia’s parliament agrees to ratify ASEAN haze pact, The Straits Times, 16 September 2014, Available: <http://www.straitstimes.com/asia/se-asia/indonesias-parliament-agrees-to-ratify-asean-haze-pact> Retrieved: 12 April 2017

strong political will and commitment from each ASEAN Member State will be needed to complement and enhance the effectiveness of the Agreement to tackle the long-standing transboundary haze pollution. At the same time, the support and involvement of countries outside ASEAN will be equally important. Western donors such as Norway, the US, the European Union and Britain have committed around US\$135 million (S\$183 million) in funding pledges to the BRG.<sup>31</sup> In addition, the BRG has signed a memorandum with Kyoto University, Hokkaido University and the Research Institute for Humanity and Nature to conduct joint studies in peatland restoration.<sup>32</sup> More of such efforts will be needed to scale up and accelerate progress to address the root causes of the haze.

In some cases, governments in major consumer markets may influence the supply chain through stringent public procurement policies or regulations that demand sustainable production practices. On 4 April 2017, Members of the European Parliament (MEPs) called on the EU to introduce sustainability criteria for palm oil and its related products entering the EU market. They further urged the Commission to phase out the use of vegetable oils that are responsible for deforestation, including palm oil, as a component of biofuels, ideally by 2020, among others.<sup>33</sup> This resolution is likely to have a sizeable negative impact for palm oil producing countries such as Indonesia, Malaysia and Thailand. After all, the EU stands as the largest market for Malaysian palm oil and palm oil-based products, with exports in 2016 valued at about RM 10 billion (US\$2.25 billion).<sup>34</sup> The Chairman's Statement for the 30th ASEAN Summit urged the European Union to recognise the certification of the Sustainable Palm Oil Schemes in the countries concerned which is a manifestation of our commitment to the UN SDGs.

## 2) From Small Scale Farmers to Large Companies

The traditional supply chain model typically consists of stakeholders who are directly involved in production: plantations, millers, refiners, processors, manufacturers and retailers. On the upstream side, some companies – in the palm oil sector and pulp and paper sector – have been allocated concession lands to establish plantations and therefore can exercise close oversight of the operations on the ground. These include

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<sup>31</sup> Fogarty, David (2016) Taking the hot seat in war on haze, *The Straits Times*, 18 April 2016, Available: <http://www.straitstimes.com/asia/se-asia/taking-the-hot-seat-in-war-on-haze> Retrieved: 12 April 2017

<sup>32</sup> Suzuki, Jun (2016) Indonesia teams up with Japan experts to prevent peatland wildfires, *Nikkei Asian Review*, 31 August 2016, Available: <http://asia.nikkei.com/print/article/198532> Retrieved: 12 April 2017

<sup>33</sup> Press release, MEPs call for clampdown on imports of unsustainable palm oil and use in biofuel, *European Parliament*, 4 April 2017, Available: <http://www.europarl.europa.eu/news/en/news-room/20170329IPR69057/meps-call-for-clampdown-on-imports-of-unsustainable-palm-oil-and-use-in-biofuel> Retrieved: 22 May 2017

<sup>34</sup> Channels NewsAsia (2017) Malaysia strongly opposes proposed EU resolution on palm oil, *Channel NewsAsia*, 15 March 2017, Available: <http://www.channelnewsasia.com/news/asiapacific/malaysia-strongly-opposes-proposed-eu-resolution-on-palm-oil-8761786> Retrieved: 22 May 2017



banning deforestation, prohibiting the use of slash-and-burn practices and achieving water and energy efficiency.

At the same time, smallholders are a critical player to the supply chain, particularly in the palm oil industry. More than 3 million smallholders and small-scale farmers depend on palm oil for a living and they collectively contribute around 40% of total global palm oil production.<sup>35</sup> Smallholder farmers can be divided into two basic categories namely independent smallholder farmers and smallholder partnership farmers. The latter varies between different levels of collective organisation from one-to-one partnerships with oil palm companies (also known as the plasma scheme) to farmer cooperatives.<sup>36</sup>

Studies have shown that independent smallholders often achieve lower yields as compared to plasma farmers while facing high exposure to a wide range of legal, supply and market risks for instance.<sup>37</sup> This should come as no surprise when one considers their many constraints, particularly for independent smallholders. Many of them currently do not have the means or financial capacity to switch to land-clearing without fire. Further, they also have cost concerns when it comes to increasing their productivity. The seeds and fertilisers they need are expensive, relative to their limited income, and these small-scale farmers often have little or no access to capital and loans. Ensuring that these farmers have access to seeds and fertilisers and the knowledge to apply them correctly are crucial to bring about better yields and stable income while minimising environmental problems such as the depletion of soil quality.

Examples of concrete initiatives in Indonesia to address these concerns are as follows. First, under Indonesia's largest farm support programme, the subsidised fertiliser scheme enables small farmers with two hectares or less of land to purchase government-supported fertiliser at below-market prices. However, misallocation issues – as in the case where these fertilisers are sold to plantations instead of small farmers - must be addressed and assistance needs to be scaled up to achieve significant progress.<sup>38</sup> Second, as an alternative “no-burn” method to land clearing, researchers from the provincial University of Riau (Unri) taught farmers to convert their vegetative debris and wood waste into fertiliser for their crops. They further sold the thicker pieces of wood

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<sup>35</sup> According to the Roundtable on Sustainable Palm Oil (RSPO), smallholders are farmers who grow oil palm besides other subsistence crops. The majority of labour comes from the family, the farm generates the principal source of income, and the planted oil palm area is less than 50 hectares. See more: <https://www.rspo.org/smallholders/rspo-smallholders-definition>

<sup>36</sup> Raina, Leela (2015) Opportunities for increasing productivity & profitability of oil palm smallholder farmers in Central Kalimantan, Climate Policy Initiative, April 2015, Available: <https://climatepolicyinitiative.org/publication/oil-palm-smallholder-farmers-study/> Retrieved: 12 April 2017

<sup>37</sup> Ibid

<sup>38</sup> Fabi, Randy and Munthe, Bernadette Christina (2016) Subsidy sham: Fertilisers reach Indonesia plantations, not small farmers, Reuters, 14 February 2016, Available: <http://www.reuters.com/article/us-indonesia-fertilizers-idUSKCN0VN127> Retrieved: 22 May 2017

to furniture-makers and wove oil palm leaf stalks into baskets and other handicrafts.<sup>39</sup> While these communities must be protected from the fires and haze, they also need to find ways to continue to work for their livelihoods. These are important economic and social dimensions to be resolved in tandem with the need for better environmental protection.

In this respect, companies in the upstream operations are often looked upon to drive sustainability in the supply chain, thereby influencing their subsidiaries and third-party suppliers. A growing trend can be observed among major palm oil and pulp and paper companies that have made public commitments including the No Deforestation, No Peat and No Exploitation (NDPE) policies. Still, the complex supply chain and frequent environmental and social controversies that plague the industry mean that companies must go beyond setting sustainability policies. In fact, some major plantation companies have gone further by establishing traceability to mills and to plantations and promoting greater corporate disclosure in their sourcing of raw materials and the remedies they have undertaken to address grievances on the ground.

More importantly, there is growing recognition that companies cannot achieve progress on their own. Inclusive collaboration across different stakeholders and across different activities in the same landscape is critical to establish sustainable supply chains. A case in point is the Fire-Free Village Programme launched by pulp and paper giant Asia Pacific Resources International Holdings Ltd (APRIL) Group in July 2015 that aims to tackle the root causes of fire through close engagement at the village level. The programme involves partnership with local non-governmental organisations (NGOs) in Indonesia to identify and support alternatives to fire, empower community fire crews and increase awareness of the environmental and economic consequences of fire and haze.<sup>40</sup> Since 2016, a Fire-Free Alliance has been formed comprising of forestry and agriculture companies, NGOs and other stakeholders who will adopt similar models to prevent fires in the various concession areas where they operate. Not only do the small holders protect themselves and their crops but also their communities and families from the ill-effects of fires and haze. In a number of these schemes, monetary incentives are also offered to villages who succeed in remaining fire-free for a period; the results are monitored and funds are given by the corporations to support a project for community improvement.

These developments by companies and other stakeholders signal an important shift beyond sustainable methods of production to the protection of ecosystem services

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<sup>39</sup> Arshad, Arlina (2017) Indonesia aims to bury slash-and-burn, The Straits Times, 14 January 2017, [Online], Available: <http://www.straitstimes.com/asia/se-asia/indonesia-aims-to-bury-slash-and-burn> Retrieved: 22 May 2017

<sup>40</sup> Press release, APRIL Group launches fire free village programme, APRIL Group, 28 July 2015, Available: [http://www.aprilasia.com/images/pdf\\_files/20150728-FireFreeVilagePressReleaseFINAL.pdf](http://www.aprilasia.com/images/pdf_files/20150728-FireFreeVilagePressReleaseFINAL.pdf) Retrieved: 13 April 2017

and the conservation of natural habitats and resources. A healthy natural ecosystem ultimately ensures the survivability and sustainability of both the companies and the communities that co-exist in the landscape and should be prioritised above narrow economic interests. At the same time, these initiatives must align with and complement the government's long-term development agenda for maximum effectiveness.

On the other hand, companies involved in downstream operations, particularly those in distribution and retailing have an important role to play. These companies tend to be more visible to consumers and thus face a higher risk of reputational damage should they be linked to unsustainable practices such as deforestation, fires and haze. One possible strategy is the adoption of procurement policies that require suppliers to meet specific environmental and social standards. Regular monitoring and auditing of the supply chain can help strengthen compliance with company policies. This is especially critical since the various parts of production tend to be spread across different geographies and jurisdictions which may not hold to the same environmental and social standards. Where third-party suppliers have failed to meet the requirements, these buyers would benefit from outlining a clear corrective action plan and engaging errant suppliers to improve their practices – provided that the standards they wish to encourage are indeed better for sustainability and the smaller growers who lack capacity can be assisted to shift to new practices and meet higher standards.

### **3) Non-Governmental Organisations and Citizen Consumers**

Apart from stakeholders in the traditional supply chain model, a range of secondary stakeholders is playing a growing role to exert influence and possibly shape the sustainability of the industry. Examples are NGOs and industry associations that can influence not only the companies but also their customers. While government-led certifications for sustainable palm oil such as the MSPO and the Indonesian Sustainable Palm Oil System (ISPO) exist, the creation and role of the industry-driven Roundtable on Sustainable Palm Oil (RSPO) bears particular mention.<sup>41</sup>

Established in 2004 as a not-for-profit organisation, the RSPO convenes various stakeholders in the supply chain to develop and adopt global standards for sustainable palm oil. Application of the stipulated set of environmental and social criteria will serve to minimise the negative harm of palm oil cultivation on the environment and

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<sup>41</sup> The ISPO was introduced by the Government of Indonesia in 2011 to ensure that all Indonesian growers of palm oil adopt higher agricultural standards. Drawing upon current Indonesian legislation, it seeks to advance the Indonesian palm oil industry's sustainability and competitiveness while supporting the government's commitments to reducing greenhouse gas emissions. On the other hand, the MSPO was first launched in November 2013 and officially implemented in January 2015. The standard aims to help small and mid-range cultivators who found RSPO certification unaffordable, to operate sustainably. See more: [https://www.sustainablepalmoil.org/wp-content/uploads/sites/2/2015/09/Efeca\\_PO-Standards-Comparison.pdf](https://www.sustainablepalmoil.org/wp-content/uploads/sites/2/2015/09/Efeca_PO-Standards-Comparison.pdf)

surrounding communities. Ensuring that these standards are relevant and progressive is fundamental to the credibility of the RSPO; yet, there are also concerns whether smaller players such as smallholders are able to implement these same standards currently adopted by many large growers and producers. Compliance often entails costs that smallholders cannot afford while the lack of certification further prevents these smaller players from enjoying market access to countries in the West. Unless these concerns are addressed, the desire to better protect the environment would run in conflict with the wish to ensure livelihoods for such growers and the families and communities that depend on their output, and foster (albeit unintentionally) increased inequality.

On the other hand, consumers in Singapore have exerted their influence by boycotting the products of companies associated with business practices that cause or contribute to environmental harm. In October 2015, the Singapore Environment Council (SEC) temporarily suspended Asia Pulp & Paper Group (APP)'s exclusive distributor Universal Sovereign Trading's use of their green label while awaiting investigations by Singapore authorities into APP's possible connection to the fires in Indonesia. The Singapore Green Label is an eco-labelling scheme that distinguishes environmentally-friendly industrial and commercial products. Within two weeks, supermarket chains acted swiftly to remove APP's products from the shelves.<sup>42</sup> A consumer boycott by Singapore, as some advocate, might be of limited use considering the relatively small size of the market. Still, it constitutes an important symbol that might have a ripple effect in similar markets. This is especially as the middle class in ASEAN grows and, with the rise of millennial consumers, is predicted to place more significance on sustainability and other issues.

In the longer-term, however, more awareness is needed to help consumers understand certifications and eco-labels so that they can support and purchase products that are deemed environmentally-friendly. International standards such as the Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification (PEFC) as well as Singapore's own Green Label provide a good starting point and should be promoted by NGOs, proponent companies, and the government alike.

#### **4) Financial Institutions**

At present, many international banks already screen their loans on environmental, social and corporate governance (ESG) criteria, seeking certification or other proof that their clients' practices are internationally acceptable and independently verified. While the gap has largely been with ASEAN banks, this is gradually changing with developments such as the issuance of a roadmap on sustainable finance by Indonesia's Financial Services Authority (OJK) in December 2014. The roadmap contains guidelines and policy

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<sup>42</sup> Lim, Jessica (2015) NTUC FairPrice, Sheng Siong, Prime Supermarket remove all Asia Pulp & Paper Group products from stores, The Straits Times, 7 October 2015, [Online], Available: <http://www.straitstimes.com/singapore/environment/ntuc-fairprice-sheng-siong-prime-supermarket-remove-all-asia-pulp-paper-group> Retrieved: 13 April 2017

directives to help support Indonesia achieve its SDGs.<sup>43</sup> This was followed swiftly by the eight largest banks in Indonesia, representing 46% of national banking assets, agreeing to commit to implementing sustainable financing as part of global environment goals.<sup>44</sup> Recently, its largest lender PT Bank Mandiri announced plans not to extend new credits to finance the establishment of new oil palm plantations in peatlands.<sup>45</sup>

In Singapore, partly in response to the haze episode in 2015, the Association of Banks in Singapore issued a set of Guidelines on Responsible Financing in October 2015. The guidelines require disclosure of senior management's commitment to responsible financing and the establishment of a governing body and capacity building for staff on responsible financing. The guidelines also cover environmental, social and governance (ESG) issues.<sup>46</sup>

Apart from banks, institutional investors are a significant and growing actor in global financial markets; as of 2013, institutional investors based in the OECD countries recorded about US\$100 trillion of assets under management.<sup>47</sup> Long-term institutional investors such as insurance companies and pension funds play an important role to ensure investees address environmental and social issues and in turn contribute to better financial performance. An EY survey of 320 global institutional investors revealed that 89% of respondents are of the view that a "sharp focus" on ESG issues can lead to sustainable returns over time.<sup>48</sup> In fact, non-financial reporting is of growing importance for institutional investors in light of the recent corporate environmental and social scandals and an emphasis on longer-term value.<sup>49</sup>

Against these developments, companies that disclose their non-financial policies and performance will be in a better position to win the trust and confidence of long-term institutional investors.

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<sup>43</sup> Sustainable Finance Roadmap, Facilitating Financial Services Institutions to Innovate, OJK, 24 November 2015, Available: <http://www.ojk.go.id/en/berita-dan-kegiatan/publikasi/Pages/OJK-Sustainable-Finance-Roadmap,-Facilitating-Financial-Services-Institutions-to-Innovate.aspx>

<sup>44</sup> Amianti, Grace D. (2015) Banks pledge to support green finance, Jakarta Post, 24 November 2015, Available: <http://www.thejakartapost.com/news/2015/11/24/banks-pledge-support-green-finance.html> Retrieved: 18 April 2017

<sup>45</sup> ANTARA News (2016) Bank Mandiri stops restrict loan for oil palm plantations, ANTARA News, 23 February 2016, [Online], Available: <http://www.antaranews.com/en/news/103292/bank-mandiri-stops-restrict-loan-for-oil-palm-plantations> Retrieved: 13 April 2017

<sup>46</sup> The Association of Banks in Singapore (2015) ABS guidelines on responsible financing, 8 October 2015, [Online], Available: <https://abs.org.sg/docs/library/abs-guidelines-responsible-financing.pdf> Retrieved: 13 April 2017

<sup>47</sup> The World Bank (2015) Institutional investors: The unfulfilled \$100 trillion promise, The World Bank Group, 18 June 2015, [Online], Available: <http://www.worldbank.org/en/news/feature/2015/06/18/institutional-investors-the-unfulfilled-100-trillion-promise> Retrieved: 13 April 2017

<sup>48</sup> Soh, Andrea (2017) Institutional investors placing more emphasis on non-financial risks, disclosures: EY, The Business Times, 13 April 2017, [Online], Available: <http://www.businesstimes.com.sg/companies-markets/institutional-investors-placing-more-emphasis-on-non-financial-risks-disclosures> Retrieved: 13 April 2017

<sup>49</sup> Ibid

Some stock exchanges are already promoting sustainability reporting and providing relevant guidance for their listed companies. In 2016, for instance, the Singapore Exchange (SGX) introduced sustainability reporting on a 'comply or explain' basis and Singapore-listed companies are required to release a sustainability report at least once a year, no later than five months following the end of each financial year. The report should cover five components namely, "material ESG factors; policies, practices and performance; targets; sustainability reporting framework; and their Board statement."<sup>50</sup> Should a company exclude a primary component, it is required to account for the actions taken and its justifications for doing so. The new requirements will apply for any financial year ending on or after 31 December 2017.<sup>51</sup>

The Transboundary Haze Pollution Act further provides a compelling case for financial institutions to tighten their lending and investment practices. The Act attributes liability to entities that conduct or condone an act that causes or contributes to haze pollution in Singapore. Although it is not clear what constitutes condoning, this could possibly extend to investors and banks that fail to conduct prior screening and assessments on environmental and social factors.

Even as financial institutions tighten their ESG standards to mitigate the risks that come from financing actions associated with fires and haze, a level-playing field can only be truly established when this approach is replicated by their counterparts in other ASEAN member states. The lending decisions of large institutions of finance and trade in Jakarta, Kuala Lumpur and Singapore in particular, can act as levers to steer large companies and their suppliers to conducting more sustainable practices. This will help accelerate the shift of the economy towards a greener pathway, not only at the national level but also ASEAN-wide.

#### **4.4. Conclusion: Linking across ASEAN and the Global Community**

The ASEAN Community challenges regional integration efforts to be both broad and deep. For the AEC, there is a need to deliver concretely on promises so that benefits are felt by the individual — as citizen, consumer and worker, and the businesses, including Small and Medium Enterprises. This involves not only policy reform but changes at the working and technical levels. These challenges faced within the AEC are multiplied when we examine the linkages between the AEC and sustainable development.

The example of ASEAN efforts to stem the problem of the fires and haze in the region shows how the production- and value-chains must be addressed. To drive changes at the production level for both smaller and larger producers, it is not only the environmental

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<sup>50</sup> Tan, Nicole (2016) SGX introduces sustainability reporting on 'comply or explain' basis, Channel NewsAsia, 20 June 2016, [Online], Available: <http://www.channelnewsasia.com/news/business/sgx-introduces/2887676.html> Retrieved: 13 April 2017

<sup>51</sup> Ibid.

policies of governments and their capacity for legal enforcement that must change; the economic strategies must be reoriented so that sustainable development is in the frame, and not just short-term growth. In the longer term, the two objectives are not mutually exclusive.

For that to happen, moreover, it is not only government and the resource producers who must change. A much wider effort is needed to align the market – traders, manufacturers and consumers – as well as the financial and investment communities that enable the industry.

What we have discovered in the example of the fires and haze is singular in that the issue has garnered much attention over the almost two decades since the fires of 1997-98. To truly address this issue, the frame of thinking needs to shift from seeing the haze as an environmental issue only, to one that is inextricably linked to economic and social concerns, and therefore in the paradigm of sustainable development. Solving the haze problem will accordingly need the effort of government institutions that go beyond the environment ministers, and also collaboration between government and other sectors, as earlier detailed.

If this can be applied to the haze, such an approach would also serve to better link sustainable development and environmental concerns to the AEC. Many similar concerns arise in other areas of manufacture and production in ASEAN. This is not only in the agroforestry and resource sectors – which remain foundations for many of ASEAN economies, but especially in manufacturing. Growth and industrial development can bring many benefits such as developing export goods, and driving the creation of jobs. However, unless properly managed, this can increase water and air pollution, and be overly demanding on energy, carbon and other resources. The fires and haze that this chapter has analysed at some length shows only one example of the negative and mostly unintended consequences. ASEAN will need to consider how best to approach the other issues.

A few key policy recommendations may be suggested and briefly outlined, as follows. In many instances, our recommendations begin at the national level for ASEAN members and see ASEAN acting more as providing processes and mechanisms to coordinate and monitor progress where there are transboundary, regional impacts.

### **1) Reframing Growth and Sustainability in the AEC**

A first change, and perhaps the broadest one, is in the frame of decision-making to better reconcile economic growth with sustainability. The environmental argument for such an integration is fairly clear, as the transboundary problem of the fires and haze shows. The physical effects are clear also in the border areas, or when looking at shared rivers and water resources, like the Mekong. The economic merit is perhaps more contestable.

One important argument is that the environment represents a cluster of resources – air, water, etc – that is a factor of production and, as the AEC integrates, becomes increasingly “portable”, embedded in the goods produced. In this sense, the closer ASEAN gets together, there is a need to see that the environment must increasingly be managed across borders. The European Union consciously harmonises the environmental standards and regulations across its members not only as an environmental issue but as an economic one. The North American Free Trade Agreement (NAFTA) also has chapters on environment (and labor) issues to help assuage fears that one NAFTA member might unfairly attract investment and lower the costs of its products by deliberately lowering environmental standards or failing to enforce its stated standards. In the wider Asia-Pacific Economic Cooperation (APEC) process, there is a non-binding declaration on the issue that, amongst other things, pledges not to lower environmental standards for economic and investment advantage.

This is not to say that any one of these examples is ready-made to meet ASEAN’s needs and purposes. But they do suggest that recognising the need is warranted, especially as the AEC proceeds and deepens. To an extent, the AEC Blueprint 2025 has done that in Element B9 on Sustainable Economic Development, albeit the specific measures thereunder are of narrower focus.<sup>52</sup> With recognition, an intra-ASEAN dialogue about the issue should follow – not only among environmental agencies but with the economic ministries. This of course would have to consider the diverse economic levels and strengths of the ASEAN members as well as their differing environmental policies and priorities. Finding ways to incorporate environmental and sustainability concerns with economic strategies across ASEAN will not be easy, but it will be necessary and indeed essential.

## **2) Cross-Cutting Efforts at ASEAN and National Levels**

The need to reframe the economic growth and sustainability links to an institutional issue for the ASEAN Community. Built on three main pillars, the ASEAN Community does recognise the need for a further, “cross cutting” effort.

Despite this recognition however, there is at present little institutional development in ASEAN’s processes and institutions for this effort. In the diagrammatic representation of ASEAN, there is a Coordinating Council that links across the three pillars before reporting to the leaders. But in practice, this has not gone beyond the immediate preparation for the Summit to address the more substantive issues.

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<sup>52</sup> The new ASEAN Economic Blueprint 2025, for example, has an element (B9) on sustainable economic development which “recognises the importance of sustainable economic development as an integral part of the region’s growth strategy,” and signals ASEAN’s commitment to “actively promote green development by developing a sustainable growth agenda that promotes the use of clean energy and related technologies, including renewable energy through green technology, as well as enhances sustainable consumption and production, and including it in national development plans.”



Moreover, questions of sustainability and environmental protection would be further extenuated. In the present scheme, the environment ministers are to report to the committee of ministers for socio-cultural issues, which then reports to the Coordinating Council. Only at this stage will they receive a separate report from the economic community ministers. It is challenging to try to address cross-cutting issues at this level when these have not been integrated previously. This cross-cutting aspect of developing the ASEAN Community should be strengthened – and the case for sustainability is only one reason for the need. In short, cross-pillar coordination needs to be strengthened beyond reporting to also cover planning and implementation.

It would therefore be helpful for these issues to be better integrated at the national level in each country before the issues are raised at ASEAN level. This may seem an obvious need. Yet when we look across different sectors of the economy in the different ASEAN countries, it is not always the clear case that growth and sustainability issues are dealt with by national agencies. Instead, the environment and sustainability issues are often seen as a separate remit with few or no powers over economic agencies, and little suasion over growth policies. In effect, the same issue at the regional level is often mirrored at the national level.

One attempt to reconcile growth and sustainability issues can be seen in Singapore, which has created a National Climate Change Coordination Secretariat (NCCCS) under the Prime Minister's Office, helmed by a deputy prime minister. The NCCCS brings on board not only the environment minister but also colleagues from trade and industry, national development and other ministries.

Another effort can be seen in Indonesia's initiative to integrate financial regulations and policies with sustainability issues. Discussed earlier in specific relation to the fires and haze, this effort by Indonesia's financial supervising agency, the OJK, has wider implications on economic activity. It requires banks to screen credit and business risk that can arise from environmental and sustainability issues and this runs across many sectors. Potentially, incentives also arise for companies and projects that are "green", with the creation of green bonds and other financial instruments that can offer them better terms and preferential rates while returning investors with good results in both monetary and environmental measures.

These and other efforts being made by different governments at the national level can and should be shared with their respective counterparts across ASEAN. This can be done by the different sectors and among specific agencies. For example, the central banks of ASEAN now meet regularly and their discussions could include sharing information on how each authority sees, and is responding to, "green financing". But it would also be

useful if such growth and sustainability dialogues can also be regularised by ASEAN. The involvement of the private sector, including the financial services industry, would be useful. The example of the fires and haze shows us that on these issues, these non-governmental actors are also critical to any possible solution.

### **3) Linking to the International Level**

Beyond ASEAN, national governments are also looking at sustainability issues in international fora. These have developed strongly in the last few years with the UN effort on SDGs and the Paris Agreement on Climate Change. ASEAN member countries have participated in these processes and have obligations to report on actions taken. Given these international agreements and national obligations, ASEAN could usefully take up a role in mediating and assisting the region as a whole.

Similarly, an ASEAN dialogue on climate change would be of considerable assistance – and not only to environmental issues. Economic strategies will shift as paradigms shift in regard to carbon and other gases that drive climate change. For example, in respect of energy production, consumption and distribution. As the AEC continues to integrate, these trends will need to be identified and responded to – and there will be situations when a collective response by ASEAN can be more effective and efficient.

The search for growth across the world is no longer only an issue of economic policy. Global megatrends encompass issues such as climate change and sustainable development, as the Paris Agreement and SDGs show. Across the region, environmental concerns over clean air and water are now evident. This is not only about the fires and haze, which this chapter has used as an example. but concerns local and transboundary pollution that impacts the lives and livelihoods of many millions of city dwellers across ASEAN (and also in China and India).

Reconciling the demands for both growth and better environmental protection will not be easy and ways to do so are far from assured. But efforts can and should be made – and not only between the different ASEAN governments. The efforts must span across government authorities (the economic as much as the environmental agencies), between government and private sector corporations, up and down the production and value chains in different sectors and products, and between the levels of governance – national, regional and international. As AEC integration furthers, these efforts must grow in tandem.

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## Chapter 5

### Urbanisation Wave and ASEAN Regional Agenda

*Yap Kioe Sheng*

#### 5.1. Introduction

The world is urbanising and so is Southeast Asia. When ASEAN was formed in 1967, a large majority of the population of the region lived in the rural areas and was engaged in farming. The share of the rural population at the time ranged from 67.9% in Malaysia to 91.3% in Lao PDR (World Bank, 2016). Today, almost half of the population lives in urban areas and by 2020 it will be the majority which does so. Between 2015 and 2020, the total population of Southeast Asia is growing at an average annual rate of 1.02%, but the urban population is growing at 2.21%. Meanwhile the rural population is shrinking at -0.13% (UNPD, 2015: 206-289). The least urbanised countries—Cambodia, the Lao People's Democratic Republic (PDR), Myanmar and Viet Nam—experiencing the most rapid urban population growth (table 5.1).

ASEAN's urbanisation is occurring lock-step with its economic growth. Due to foreign direct investment and participation in global value chains, the economy has shifted from an agriculture-based to an industry-based and towards a service-based one. Its cities have acted as engines of economic growth, drawing millions of people from the countryside and lifting many of them out of poverty. Connectivity has been a major factor in this transformation, as it has enabled cities to exploit free trade, and facilitated rural-urban migration which has expanded the urban labour pool, depressed labour costs, and kept the economy competitive. As ASEAN plans to deepen economic integration, including by enhancing regional connectivity to further economic growth, it should take into account that enhanced connectivity will inevitably spur urbanisation which needs to be managed well to maximise its benefits and minimise its costs.

Official statistics paint only a partial picture of the process of urbanisation. ASEAN is more urbanised than official statistics show, as the administrative division into urban and rural areas is losing its relevance due to advances in transport and communication technology. This chapter starts with an overview of the actual urbanisation trends in ASEAN such as the emergence of mega-urban regions. The next section discusses the challenges posed by urbanisation.

**Table 5.1. Urbanisation of ASEAN Countries (%)**

Country	Level of urbanisation (2015)	Projected annual rate of change (2015-2020)	Country	Level of urbanisation (2015)	Projected annual rate of change (2015-2020)
Brunei D.	77.2	1.52	Myanmar	34.1	2.29
Cambodia	20.7	2.73	Philippines	44.4	1.57
Indonesia	53.7	2.30	Singapore	100.0	1.50
Lao PDR	38.6	4.13	Thailand	50.4	2.20
Malaysia	74.7	2.19	Viet Nam	33.6	2.59
			Southeast Asia*	47.6	2.21

Note: Southeast Asian includes Timor Leste

Source: UNPD, 2015: 206-257.

Diversity is a core characteristic of urban areas, but today's diversity is compounded by inequality and a disparity of demands, needs and the power to influence decision-making. Urban policies must reconcile the calls for a city that is, at the same time, entrepreneurial, livable, inclusive and environmentally responsible. To achieve these goals, local governments need to be strengthened with more authority to act and a capacity to manage urbanisation. The third part looks into some far-reaching consequences of urbanisation, as it transforms rural areas, affects norms and values about the family, the role of women and advances the ageing society and international labour migration.

## 5.2. Urbanisation Trends

Urbanisation refers to an increase in the share of the total population that lives in urban areas, i.e. areas that are administratively defined as urban, but the reality is far more complex. The urban population is not static, as migrants move in and out, stay for shorter or longer periods, make a single trip or return regularly. If they settle in the city, they do not always register, and this can make a significant difference. According to the Bangkok Metropolitan Administration (BMA, 2013: 5), Bangkok's population was 5.7 million in 2010, but the National Statistical Office counted 8.2 million in that year's census (NSO, 2011). A comparison of official population data and growth in building permits, employment and motorcycle registration found that the population of Ho Chi Minh City in 2007 was possibly 8.7 million rather than the official figure of 6.6 million (Dapice et al, 2010: 3, 12).



Globalisation and free trade drive ASEAN's economy and they favour coastal cities. So, economic growth and population growth have centralised in only one or two large cities ("primate cities") per country: Bangkok, Jakarta, Ho Chi Minh City, Kuala Lumpur and Manila. In 2015, ASEAN officially had two megacities with populations of over 10 million (UNPD, 2016: 80, 315): Manila (12.9 million) and Jakarta (10.3 million), but the built-up area is much larger and stretches far beyond city boundaries. Large sections of the "urban" population live outside administratively defined urban areas. Demographia (2017: 18), using "built-up area" as its criterion, estimated Jakarta's population at 31.8 million and Manila's at 24.3 million as of 2017.

Wide disparities in development between different parts of a country are socially and politically undesirable, and politicians and spatial planners often call for a more even distribution. Such calls tend to run into opposition from economists who argue that for the sake of efficiency, the market should determine where investments and labour move, even if this concentrates economic growth in one or two very large cities (World Bank, 2009: 1-32). Centralised political decision-making reinforces this trend, as businesses in Southeast Asia prefer to deal face-to-face with decision makers. Disparities may decline over time, because land and labour costs rise faster in large cities than in smaller ones and advanced transport and communication technology reduces the distance between places. In Thailand, economic development is spreading beyond Bangkok and environs, the North and the Northeast, although these are still the poorest parts of the country.

### **5.3. Urban Impacts of Enhanced Connectivity**

The ASEAN Master Plan on Connectivity 2025 proposes the development of transnational transport corridors to facilitate the movement of goods and (skilled) labour in the region. The ASEAN Highway Network (AHN) and the transport corridors in the Greater Mekong Sub-region, promoted by the Asian Development Bank, aim at linking all ASEAN Member States and neighbouring countries (ASEAN, 2016a: 19). As part of the AHN, Thailand has considered linking Bangkok to the Indian Ocean through Dawei in Myanmar. The road extending westwards from Da Nang could support the development of the South of the Lao PDR and the Northeast of Thailand (Pholsena and Banomyong, 2006: 120). Some corridors could connect landlocked parts of ASEAN, Southern China and Northeastern India with the Indian Ocean through Myanmar. Enhanced connectivity will spur economic growth and the expansion of primate cities, the creation of mega-urban regions, the development of smaller cities and towns and the rapid growth of border towns.

### **1) Expanding Primate Cities**

To be economically efficient, corridors will primarily connect cities that are already engines of economic growth (Srivastava, 2011: 11-12). Those cities will attract more investment and more labour. If managed well, their economies will expand, but so will the urban population and the urbanised area that has to house the growing population and economy. Despite calls by environmentalists to build compact cities for the sake of energy efficiency, cities in the region are spreading outwards due to push and pull factors with possible negative consequences for the environment and society. Rising land values change land uses in the city core from residential to commercial, while improved transport and communication allow households and firms to move outside the administratively defined urban area into administratively defined rural areas and small towns. The result is an even greater primacy of already very large cities. Plans to redistribute economic growth and urban populations often fail, because the selection of the cities to be developed is often made on political grounds, rather than their economic potential. Instead, investments continue to concentrate in primate cities which expand further to become mega-urban regions.

### **2) Creating Mega-urban Regions**

Economic growth expands the middle class which moves to the urban fringe in search of spacious housing in a more pleasant environment. In the urban fringe, private developers convert agricultural land to build gated communities for the middle class. In addition, the urban poor are evicted from centrally located informal settlements to make way for new infrastructure and modern buildings. High land values, environmental regulations and the need for better access to sea- and airports also result in industrial relocation. Companies disperse their activities, moving production to places with low land and labour costs and less regulations, keeping headquarters near government offices and support services, and locating research facilities at universities. Transport corridors facilitate the creation of mega-urban regions. Their key characteristics are their reach beyond the administrative boundaries of the city and their mixture of rural and urban features (Jones and Douglass, 2008: 5-8). A mega-urban region typically consists of one or more city as well as towns, villages and agricultural and industrial areas, functionally inter-connected through networks of roads, railways, telecommunication lines and transport services.

### **3) Developing Smaller Cities and Towns**

Public attention focuses on megacities, but a majority of the urban population actually lives in the numerous smaller cities and town (table 5.2) which can play a critical role in agricultural and rural development (ASEAN, 2015a: 25). While high-speed trains and

airlines connect only large cities, conventional railway lines and highways can benefit smaller cities and towns by linking them to production centres, consumer markets and transport hubs. Better connectivity reduces the cost of trading and inter-regional price gaps, and increases trade volumes and agricultural income (Donaldson, 2012: 32). However, it will not generate urban economic development on its own; it will amplify the potential of cities for development (Srivastava, 2011: 3-4). If governments want to narrow development gaps through enhanced connectivity, they must focus on cities with economic potential, and develop the planning and management capacity of their local governments to exploit the new economic opportunities created by improved connectivity. They must develop local infrastructure and upgrade the local workforce to attract private investments, but also protect vulnerable populations and safeguard the natural environment (ASEAN, 2016a: 35, 43-44).

**Table 5.2 Urban Population by Size of Urban Settlement in the ASEAN Region (2015)**

Urban settlement size	No. of urban settlements	Population ('000)	Share of urban population (%)	Share of total population (%)
>10 million	2	23,269	7.7	3.7
1-10 million	23	63,944	21.2	10.1
0.3-1.0 million	59	30,948	10.3	4.9
<0.3 million	-	183,033	60.8	29.0
Total urban	-	301,194	100.0	47.7
Total rural	-	330,664	-	52.3
Total population	-	631,858	-	100.0

Source: UNPD, 2015: F17.

#### 4) Booming Border Towns

Transnational transport corridors can boost border town economies, when companies tap the differences in land and labour costs and in regulations between two countries. The government of Thailand has designated some border areas as special economic zones to allow companies to locate factories on the Thai side of the border. Workers from Myanmar cross the border on a daily basis or live (often unregistered) in factory dormitories on the Thai side of the border (Pearson and Kusakabe, 2013: 5). On a larger scale, Malaysia is developing Iskandar Malaysia, a planned mega-urban region around the city of Johor Bahru. Besides being an economic zone in its own right, it can absorb population and economic spill-over from Singapore due to its proximity and lower operating costs (IRDA, 2015). Local economic growth is desirable, but the rapid increase in economic activity and population can be challenging for local governments of small towns. Moreover, benefits and costs of cross-border economic development are often

not distributed evenly between the two sides and this can become a source of tensions.

#### **5.4. Managing Urbanisation**

The various forms of urbanisation described above hold relevance for policy-makers, as they shape the demand for housing, infrastructure and services and the need for institutional development. In mega-urban regions, many people work (and, for most of the day, live) in one municipal area, but sleep (and own property) in another, or in a rural area without a municipal authority. This has consequences for the delivery of services, for public expenditures and for tax revenues. Booming border towns will need to deal with the influx of temporary migrants and rapid industrialisation, as living and working conditions of the labourers may not meet legal standards and the status of the workers and of their housing and employment is unclear. If a rural village adopts urban features like an increase in solid waste, it will need environmental regulations and urban services such as solid waste management to deal with the new situation. This, in turn, requires its reclassification as an urban area with a municipal authority and with additional human and financial resources and the capacity to regulate and deliver urban services.

Mega-urban regions such the Bangkok Metropolitan Region, Jabodetabek (the mega-urban region of Jakarta) and Metro Manila face many transboundary challenges such as water supply, wastewater and solid waste disposal, transport, and environmental protection. At their root, these challenges are not technical, but rather a political issue, as an overarching political-administrative authority for the mega-urban region is lacking and responsibilities are instead split between several local, provincial and national agencies that compete for power and resources. Neither central nor local government is keen on surrendering powers to an intermediate level of government for the mega-urban region. In Indonesia, coordination among local governments became more difficult after decentralisation (Rakodi and Firman, 2009). In Thailand, the absence of coordination mechanisms in the Bangkok Metropolitan Region contributed to the disastrous 2011 floods. Coordination is even more difficult, if the mega-urban region crosses national borders.

Challenges for local governments are compounded by the growing income inequality, as absolute poverty and immense wealth coexist in the same city. Globally connected, fabulously wealthy elites live next to a "nouveau rich" middle class and a smaller or larger section of the population that, for various reasons, has not benefitted from the new economic opportunities. Kuala Lumpur, Manila, Bangkok and Ho Chi Min City are some of the most unequal cities in the world (ASEAN, 2015b: 34). It forces local governments to reconcile widely diverging and often conflicting demands, and also to ensure that the interests of those without a voice are not overlooked. Although the configuration

will differ from city to city, governments must, broadly speaking, take account of the demands and needs of four sets of urban stakeholders in their decision-making:

- The business community demands physical and institutional conditions that attract and support investments for *an entrepreneurial globalising city*.
- The expanding middle class demands a comfortable life and safe environment in *a livable consumer-oriented city*.
- The urban poor need access to affordable housing, services and economic opportunities in *an open inclusive city*.
- Future generations will face the consequences of today's decisions and need *an environmentally responsible city*.

### **1) An Entrepreneurial, Globalising City**

Cities compete for investments and visitors by highlighting their low costs and ease of doing business, the size and skills of their workforce, the quality of their infrastructure, services and natural environment, their proximity to transport hubs, and the depth of their consumer market. To meet investor demands, governments adjust regulations, improve business-oriented services, offer tax incentives and develop industrial zones. Cities also compete for tourists, hospital patients, high-income retirees, airline travelers and meeting, event and conference participants. Many cities in the region have been successful in some or all these respects. Singapore is a major commercial and financial centre, the location of regional company headquarters and a prime shopping destination. FDI has made Bangkok into a global centre for the production of commercial vehicles, a tourist destination and a transport hub. Filipino cities are global centres for business process outsourcing.

As development and rising wages tend to make production and services more expensive and other cities emerge as alternative investment and travel destinations, cities can never be complacent. Cities that rely heavily on exports are vulnerable to trade restrictions and economic downturns elsewhere; cities that rely on labour-intensive manufacturing must dread automation that could result in the loss of millions of jobs, particularly for women as they tend to work in labour-intensive sectors. As a workforce with solid levels of basic education, literacy and numeracy is no longer sufficient to compete in the global economy (ASEAN, 2015b: 37), cities must promote long-term investment in education and research to attract companies that produce higher value-added and technologically advanced goods and services.

Developing human capital takes time and cities without the local expertise for such sectors must create conditions that attract expatriates such as quality housing and schools, competent, reliable support services, excellent connectivity and security. Singapore is attracting highly skilled professionals by offering a stimulating working environment and a good quality of life (Kuptsch and Pang, 2006: 5). The arrival of many highly-paid expatriates can, however, upset local professionals who feel treated unfairly because of the benefits and advantages offered to expatriate professionals. It may also lead to increases in the cost of living in a city and take house prices beyond what the local population can afford (Bloomberg, 23 September 2013). By aiming to develop a globalized city, local government risks losing sight of their responsibility to protect the wider public interests, and the middle class and the urban poor may feel that their needs and priorities are ignored.

## 2) A Livable, Consumer-oriented City

One of the most visible outcomes of the region's economic growth is the expansion of the "consuming" middle class (ASEAN, 2016a: 29). Based on per capita daily income or consumption, Huynh and Kapsos (2013: 2) distinguished four classes of workers: the extreme poor (below US\$1.25), the moderate poor (US\$1.25-2.00), the near-poor (US\$2.00-4.00) and the middle class (US\$4.00 and above). The share of the poor in the region is declining rapidly and that of the middle class is growing (table 5.3), although some shock can easily push the near-poor (back) into poverty. Middle-class workers tend to have a regular income and employment which allow them to spend more than is required for basic necessities. They can consume, invest in health care and education, be more productive and live a comfortable life. In ASEAN, some 81 million households belong to this class and its size may double over the next 15 years (ASEAN, 2016a: 29). At a time when free trade is under threat, local middle-class demand may also have to compensate for any loss of overseas demand.

**Table 5.3 Economic Class in Southeast Asia and the Pacific 1991-2015 (%)**

Economic class	1991	2000	2010	2015E
Extreme poor	47.0	33.7	13.5	8.6
Moderate poor	24.1	27.5	22.2	18.0
Near poor	16.6	22.9	34.3	33.9
Middle class	12.4	15.9	29.9	39.4
Total	100.1	100.0	99.9	99.9

*Note:* Southeast Asia and the Pacific includes ten ASEAN countries, Timor Leste and the developing Pacific Island States; income/consumption at 2005 PPP.

*Source:* Huynh and Kapsos, 2013:27.

The middle class is transforming the urban landscape with its consumerist lifestyle and its aspiration in owning a home and a car. Real estate developers respond by supplying affordable housing for middle-income households, while commercial banks extend mortgage loans to homebuyers and project financing to developers. The latter build centrally located condominiums with apartments for small households, and detached houses in gated communities in the urban periphery. Large developers operate in other ASEAN countries, transferring knowledge and skills to the local real estate sector. As the urban cost of living is high relative to income, a single job may be insufficient to maintain a middle-class lifestyle, and many people have multiple jobs or do excessive overtime work. They leave home early in the morning to avoid peak traffic and buy breakfast from street vendors. In the evening, they stay and eat near their work to avoid the evening traffic-peak, sacrificing family life to make ends meet in a city that has to stay competitive in the global economy.

Many people who live in the suburbs commute for 2-3 hours one-way to work in the city. Given the deficiencies of public transport and the status of car ownership, those who can afford it use private cars despite massive traffic congestion (table 5.4), as the cities cannot cope with the growing traffic volume. Most authorities see a mass rapid transit system as the best solution, despite its cost of construction and operation which make its use prohibitive for the poor. Singapore, Bangkok, Kuala Lumpur, Hanoi, Ho Chi Minh City, Jakarta and Manila have mass transit systems in operation or under construction. They are often built and operated through public-private partnerships, but are profitable only in the medium term (if ever). Their benefits are considerable, but it does not seem to sway middle-class households to abandon their private car, because the alternative is usually less convenient and comfortable. As the most vocal section of the population, the middle class is a key urban stakeholder, but politicians must weigh their demands against the environmental impacts of their lifestyle.

**Table 5.4 Traffic Congestion in Selected Cities (2016)**

	<b>Overall congestion level</b>	<b>Morning peak level</b>	<b>Evening peak level</b>
Bangkok	61%	91%	118%
Jakarta	58%	63%	95%
Kuala Lumpur	34%	56%	80%
Singapore	34%	53%	60%

*Note:* Congestion level: total average percentage increase in travel time over free-flow time.

*Source:* [www.tomtom.com/en\\_gb/trafficindex](http://www.tomtom.com/en_gb/trafficindex)

### 3) An Open and Inclusive City

The free flow of capital and labour supports economic growth, but governments are not keen on the migration of unskilled labour and dependents who need housing and services without contributing much to the economy. Many unskilled workers turn to the informal sector (table 5.5) for jobs, attracted by its ease of entry, but they often have to endure low wages and poor working conditions (ILO and ADB, 2014: 8). Informality was predicted to decline with development, but informal employment in the formal economy is actually rising (ASEAN, 2015b: 35). Work for hourly wages with few if any benefits or piece-rate jobs without benefits is replacing standard employment, as firms subcontract the production of goods and services to informal units and out-workers to reduce costs (Chen, 2012: 3).

While informal employment is often tolerated, authorities dislike the street-based informal sector which does not fit the image of a globalising city, but keeps the cost of living down for low- and middle-income workers. It poses a dilemma for policy-making: eliminating the informal sector is not an option, but imposing bureaucratic regulations will choke it. Creating pathways to intermediate forms of formality through micro-credit, training and incremental regulation may be the better way to maximise the benefits while limiting the downsides of the informal sector (ASEAN, 2015a: 31).

**Table 5.5 Employment in the Informal Economy in Non-agricultural Activities**

Country	Year		Informal employment
Indonesia	2009	Persons	3,157,000
		% of non-agricultural employment	72.5
Philippines	2008	Persons	15,150,000
		% of non-agricultural employment	70.1
Thailand	2010	Persons	9,642,000
		% of non-agricultural employment	42.3
Viet Nam	2009	Persons	17,172,000
		% of non-agricultural employment	68.2

Source: ILO, 2012: 4-5.

The supply of housing for the poor is one of the biggest challenges for governments. Neither the public nor the private sector has been able to supply affordable housing at a scale that meets the needs of the urban poor. Singapore is the rare exception, but this is the result of its unique circumstances: the city is small and without a rural hinterland; its economy has expanded rapidly; much of the land is publicly owned after



large acquisitions in the early years; and the government is committed to adequately house the entire population. Elsewhere, many urban poor live in under-serviced informal housing or “slums” (table 5.6). To be near income-generating opportunities, the poor tend to use inner-city land that is disaster-prone, unsuitable for development or waiting to be commercially developed. In some countries, e.g. Indonesia’s Kampung Improvement Programmes, government has upgraded selected informal settlements, but such an approach is often opposed by landowners and developers, who see it as “wasting” commercially attractive land and have been allowed to demolish and replace some upgraded settlements with commercial real estate. High land prices impede the formation of new informal settlements, leaving the poor without affordable housing. It forces them to move to the urban fringe away from income-generating opportunities, or into overcrowded, low-quality, low-rent apartments.

**Table 5.6 Urban Population Living in Slums 2014**

Country	Slum population	% of urban population	Country	Slum population	% of urban population
Cambodia	1,740,000	55.1	Philippines	17,055,000	38.3
Indonesia	29,212,000	21.8	Thailand	8,264,000	25.0
Lao PDR	813,000	31.4	Viet Nam	8,295,000	27.2
Myanmar	7,389,000	41.0	Total	62,768,000	26.2

*Note:* Population living in household that lack either improved water, improved sanitation, sufficient living area or durable housing.

*Source:* UN-Habitat, 2016: Table B3

Notable efforts to address this problem are seen in programmes like Thailand’s Baan Mankong and the Community Mortgage Programme in the Philippines. They help the urban poor establish community organisations and saving-and-loan schemes that empower them to negotiate with landowners, and buy land at a discounted rate. The property is initially owned collectively by the community, so as to prevent gentrification. The approach is effective where development pressure is low or the landowner is a public entity, but less feasible where land values are rising. Some authorities question the approach, as they believe that improving informal settlements merely draws more rural poor to the city. They forget that people come to the city to work, and that their productivity depends not only on their education, but also their health which is affected by the quality of their housing and services. They should not see informal settlements as “slums of despair” but as “slums of hope” whose population is eager to escape poverty. Urban policies should support rather than impede their efforts.

#### **4) An Environmentally Responsible City**

Unplanned and unregulated urbanisation can have serious and possibly irreversible consequences for the environment. The volume of solid waste and waste water that is produced in cities and towns is growing rapidly and is polluting soil and water. It is increasingly difficult to find space for solid waste disposal and very few cities and towns have comprehensive wastewater treatment systems. As cities expand into their rural hinterland, developers often indiscriminately fill peri-urban wetlands such as lakes, streams and swamps, thereby reducing nature's ability to treat wastewater and retain floodwater. Houses must have septic tanks and factories must have treatment plants, but they are often not built, unused or inadequate. Polluting factories may be found next to housing estates and rice fields. Many industrial and housing estates outside the municipal area are not connected to a piped water supply network and pump up groundwater, causing land subsidence in cities such as Bangkok, Manila and Jakarta. Jakarta's subsidence along the coast ranges from 9.5 to 21.5 cm annually; parts of Medan, Bandung and Semarang face subsidence of over 6 cm annually (Chaussard et al, 2013: 153, 158).

Many cities in Southeast Asia are located in low-elevation coastal areas and flood plains. They are vulnerable to the impacts of climate change: rising sea levels, more frequent floods and more powerful typhoons (ASEAN, 2015b: 39-40). Where land subsidence combines with sea level rise, flooding will worsen and seawater will intrude into a city's freshwater sources. Higher climatic variability will weaken agriculture productivity, jeopardise urban food security, and increase rural-urban migration of eco-refugees. Critical infrastructure (power plants, sea- and airports) is often situated in coastal areas and a local disaster can affect the national and global economy, if supply chains are interrupted. The 2011 Bangkok floods raised the price of desktop computer hard-disks globally by 80-190% (Haraguchi and Lall, 2013: 14). As economies become more integrated, the frequency of such problems will increase and their impact must not be underestimated. Climate change will affect particularly the urban poor who build their informal settlements in disaster-prone areas and tend to be more vulnerable than the better-off population.

CO<sub>2</sub> emissions per capita are still relatively low in cities of the region, but are increasing with economic growth (ASEAN, 2015b: 26). High-income urban households may well be responsible for as much CO<sub>2</sub> emission as households in developed countries. A significant part of the emissions is generated in rural areas for the sake of the urban population. Another significant part is the result of the production of goods that are consumed in developed countries which outsource not only manufacturing of goods, but also the generation of CO<sub>2</sub> emissions and other pollution. Cities of the region have a responsibility to contribute to the mitigation of climate change and must adapt to its

inevitable impacts, but adaptation is often piecemeal as financial resources are scarce, economic growth is the first priority and uncertainty surrounds local climate change projections. Yet, it raises the question if it would not be wise to consider investing in alternative, more inland located cities.

### 5.5. Impacts Beyond the City

Urban areas and rural areas cannot be considered in isolation; they are closely connected in many respects. Because many cities are engines of economic growth, inequality in income, wealth and political power between those cities and the rest of the country is high. The Gini Coefficient of some ASEAN countries is estimated to range between 0.356 and 0.462 (ILO and ADB, 2014: 6). This is significant and helps explain why people move to the city, even if they must live in informal housing and work in informal employment. The city offers opportunities for socio-economic mobility that the countryside simply cannot offer (Glaeser, 2011: 70). Hard-working migrants with education, skills and an entrepreneurial mindset can escape poverty and join the middle class. Others may remain poor (table 5.7), but hope that their children escape poverty and support them in future. Policies to control migration have proven to be ineffective and counter-productive, as they may lead to labour shortages.

**Table 5.7 Urban Poverty (Headcount Ratio, using national poverty line)**

Country	Urban poverty ratio	Year	Country	Urban poverty ratio	Year
Cambodia	6.4	2012	Philippines	13.0	2012
Indonesia	8.3	2014	Thailand	7.7	2013
Lao PDR	10.0	2012	Viet Nam	3.8	2014
Malaysia	0.3	2014			

Source: UN-Habitat, 2016: Table C3.

Rural-urban migration assists, rather than hinders, rural development, as it reduces pressure on rural labour markets and agricultural land. The high cost of urban living relative to income forces many migrants to leave non-working family members behind, but they remit a part of their income to those relatives, and thereby contribute to rural poverty reduction. ATMs facilitate money transfers; smartphones facilitate contacts; better transport facilitates family visits. Households become multi-local as members live and work in different places both within and outside the country, while sharing a common budget. Household heads may still claim to be farmers, but income from urban sources forms a growing part of rural household income (Rigg, 2006). Remittances by migrants in urban areas and abroad, higher household incomes, the purchase and use of a private motorcycle or car, and shopping at the supermarket of a nearby city change

the lifestyle in small towns or villages. Modern houses, higher densities and the need for urban services lead to “in-situ urbanisation.”

A city is in many respects an anonymous market place. It features a high degree of individualism and mobility, and it changes the position of women and the family. The free flow of ideas through education, the media and narratives of returning migrants spreads urban norms across the country, affecting local lifestyles. Thompson (2007: 5) noted that rural Malaysia is urban in many respects and the same can be said about other “rural” parts of ASEAN. Access to education, a desire to have a career and the high cost of living prompt women to delay marriage and join the labour force. Access to family planning and low child and infant mortality rates motivate couples to limit the number of children. Starting in cities, but spreading to rural areas, fertility rates are declining across the region (table 5.8). Low birthrates and increasing longevity result eventually in an ageing population.

Traditionally, the family looks after the elderly, and children are the main source of support for ageing parents. However, high labour force participation, fewer children, increased mobility, longevity and high costs of housing and medical care make this ever more difficult. Some countries risk growing old before growing rich enough to develop national pension schemes. Unless they find ways to combine the best of family tradition and state responsibility, the elderly risk becoming the new poor (CNA, 2017). Ageing also raise dependency ratios and can cause labour shortages.

**Table 5.8 Urban Total Fertility Rate (TFR) 2004-2014**

Country	TFR (urban)	Country	TFR (urban)
Cambodia	2.1	Philippines	2.6
Indonesia	2.4	Singapore**	1.24
Lao PDR	2.2	Thailand	1.5
Myanmar*	1.8	Viet Nam	1.6

Source: PRB, 2015: 15-18; \* DoP, 2015: 35; \*\* DoS, 2016: 29.

Unless an ageing economy increases productivity, it will have to rely on international labour migration to cover the shortfall. Regional migration, with or without documents, is an age-old phenomenon in Southeast Asia, but the sharp differences in economic development within ASEAN are intensifying international labour migration, facilitated by enhanced regional connectivity (Pholsena and Banomyong, 2006: 137). Some 1.5 million unregistered migrants from Cambodia, the Lao PDR and Myanmar lived in Thailand in 2009-2010, compared with 79,000 regular entrants (ILO and ADB, 2014: 85). Many foreign labour migrants are unskilled and tend to work in agriculture, domestic service and construction. Some come to save or remit as much as they can, before returning

home; others stay on and move to better paid positions with or without a work permit, and compete directly with the local population. This can lead to social tensions over employment, housing and conflicting lifestyles. While the economy will likely benefit, international labour migration to the city will be one of the immense new challenges that government and society face.

## 5.6. Conclusions

Governments used to discourage urbanisation out of fear that the urban economy would be unable to absorb a rapidly growing urban population. Over the past years, views on urbanisation have changed. Prime-Minister Li Keqiang declared in 2015 that “China is pushing forward the largest urbanization process in the history of mankind.” Prime-Minister Modi of India declared in 2016: “If anything has the potential to mitigate poverty, it is our cities. That is why people from poor places migrate to cities, as they find opportunities there.” The World Bank (2009: 24) noted that no country develops economically without urbanisation, without vibrant cities. The rush to the city seems chaotic, but is necessary. ASEAN does not yet have an explicit urbanisation policy or plan, but its Socio-Cultural Community Blueprint 2025 (ASEAN, 2016b) calls for more effective policies to manage the impact of rural-urban migration and urban population growth in order to achieve environmentally sustainable urbanisation. It calls for participatory and integrated urban planning and management, strategies and programmes to build livable cities, continuous efforts to eradicate poverty and a strengthening of economic, social and environmental linkages between urban, peri-urban and rural areas.

Urbanisation is primarily a national and local issue that requires a national and local policy response. ASEAN’s regional plans, and particularly its plan to enhance regional connectivity, have, however, urban consequences for which the costs and benefits will not be evenly distributed between the concerned countries, cities and towns. Examples include the border towns with its labour force on one side and factories on the other side of the border, and roads and railway lines linking a seaport in one country with a less developed, landlocked part of another country. Faced with such situations, Member States should act as a community rather than as independent countries responsible for only their own national interests.

The ASEAN Socio-Cultural Community Blueprint 2025 (2016b: 5) suggests that local and provincial governments should participate in collaborative programmes to develop human resources and build capacity to manage urbanisation; this can be arranged efficiently and effectively at the regional level. ASEAN is a diverse region with cities at different stages of development. This offers unique opportunities to learn from each other’s experiences and best practices, but urban policies, programmes and practices cannot be cloned. They must be analysed to identify the critical components that

should be replicated. A regional depository of good urban practices would benefit the cities of ASEAN and the rest of the world. Issues to be considered for mutual learning include urban planning in a free-market economy, the management of national and transnational mega-urban regions, local economic development of small cities and towns, and the mitigation of and the adaptation to climate change.

In order to make sound investment decisions, monitor the livability of a city, identify needs for urban employment, housing and services, and assess environmental trends and conditions, the government, the private sector and civil society must have accurate and up-to-date urban data, but statistical information is currently available only for the country as a whole rather than disaggregated for specific areas. If data are presented in a disaggregated manner, they tend to follow administrative rather than functional divisions. Globally, efforts are now being made to improve urban data collection and analysis in order to monitor the achievements of the Sustainable Development Goals of the United Nations (Citiscope, 2017). In order to monitor urbanisation trends in the region and formulate evidence-based urban policies, ASEAN could assist Member States in developing their statistical capacity to collect and analyse urban data and thereby contribute to global efforts to monitor the Sustainable Development Goals.

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## Chapter 6

### Identifying Opportunities in the Midst of Global Megatrends: A Tool for Policymakers

*Risti Permani, Ma Fideles Sadicon, and Ruth Karlina Mahyassari*

#### 6.1. Introduction

One of the many characterisations of global megatrends defines them as “overarching global forces that stem from the past, are shaped in the present, and will transform the future” (Singh et al. 2009). The ubiquitous nature of these megatrends implies that the policy environment cannot operate detached from them. Effective public policy and programmes should go beyond achieving the objective of improving society’s welfare and its distribution to also assist economic agents in coping with risks and turning challenges into opportunities. Moreover, a broad swathe of issues affected by global megatrends is likely to generate externalities, which can be directed and mediated through effective policymaking.

Given the magnitude of the effects of global megatrends—often depicted as pervasive, massive, transformative, structural, irreversible, and even disruptive—the traditional linear model of policymaking process of conceptualisation, implementation, evaluation, and review may no longer be adequate (Da Costa et al. 2008). The traditional policymaking process is often confined to short-term goals, bounded by short-term constraints and trade-offs. These limit the effectiveness of policy to address long-term phenomena driven by global megatrends. Given that megatrends spread out into the long-term future, policy making in this context requires advanced methods to foresee possible outcomes.

The current state of the literature on global megatrends shows a breadth of analyses. The majority of existing analyses focuses on characterising the megatrends specific to an economic sector or activity e.g. mapping out key opportunities arising and risks borne out of the megatrends and setting out strategic responses, often within the realm of business strategies. Analyses on the public policymaking aspect of global megatrends are fewer. Existing policy assessments have often been carried out through narrower contexts specific to certain approaches or methodologies (e.g. foresight method) or presented as casual empirics (e.g. “case studies” approach) limiting the generalisation of their findings to broader policy contexts. Consequently, there is an information deficit in the analytical spectrum of global megatrends which defines a broad framework and practical steps to guide public policymaking in general.

This chapter aims to contribute to the analyses on global megatrends through developing a conceptual policy approach and practical steps for strategising policy responses to the changes driven by megatrends. While the approach presented is mostly developed for policy makers, other stakeholders such as business practitioners (including micro, small and medium enterprises (MSMEs)) and researchers, may use these as resources to anticipate and, where possible, participate in possible reconfiguration of public policymaking to respond to global megatrends. A special focus will be given to the ASEAN regional context by presenting a non-exhaustive review of both existing ASEAN-wide as well as country-specific initiatives on addressing global megatrends implemented by ASEAN Member States (AMS) and identifying possible efforts at the regional level to better respond to the megatrends.

At the regional level, global megatrends have been given a new emphasis in the ASEAN Economic Community (AEC) Blueprint 2025. The Blueprint envisions ASEAN further maximising the benefits of regional integration and cooperation by capitalising on global megatrends, as defined under the second characteristic of “A Competitive, Innovative and Dynamic ASEAN”, where Element B9 explicitly refers to “Global Megatrends and Emerging Trade-Related Issues”. Despite the recognition of the importance of global megatrends in the region’s economic integration agenda, most global megatrends-related initiatives in ASEAN are still at the country-level, while the more collective responses are sector-specific (e.g. science, technology and innovation (STI)) and many are implemented as short-term projects with limited interactions with policy making processes both at regional and national levels. The cross-cutting nature of global megatrends and the increased interconnectedness of the region requires a more holistic approach to global megatrends. This chapter explores a more regional approach to address global megatrends, set within the parameters of ASEAN existing practices and in line with the AEC Blueprint 2025.

The remainder of this chapter is organised as follows: section 6.2 presents a review of relevant frameworks and approaches of the policymaking process relevant to megatrend analyses. Section 6.3 follows up with discussions of the practical steps to respond to global megatrends using the four-stage public policy cycle approach, and section 6.4 reviews select case studies of global megatrends-related initiatives in ASEAN. Finally, section 6.5 rounds up the discussion highlighting possible ways forward.

## **6.2. Global Megatrends and Public Policymaking - A Review**

Public policy is an inherently complex discipline. Attempts in the literature on policy science to arrive at a single definition of public policy have proven to be a challenge. The literature instead highlights its key attributes, from its purpose and coverage to

the actors involved (Birkland 2014; Sabatier and Weible 2014). Seen through the lens of economics, public policies are crafted as responses to economic phenomenon aimed to maximise overall societal welfare, improve the welfare distribution through the allocation of resources, and to correct market failures. The complexity of public policy is evident when it involves a set of actors who may have different motivations and interpretations of identified problems (Birkland 2014) and are faced by a set of alternative policy instruments. Such a 'policy menu' often requires prioritisation, which may in turn be subjective. There is also the consideration of the overall milieu or environment within which the policy will be implemented, consisting of institutional arrangements, stakeholder networks, regulatory frameworks, and the overall macroeconomic backdrop.

### ***The Policymaking Process***

The policymaking process illustrates the complexity of public policy from translating policy ideas and agenda into actual policies (Birkland 2014). A widely-cited policy approach is the stages-heuristic or policy cycle approach, which breaks down the policymaking process into sequential stages of agenda setting, policy formation, decision making/policy adoption, implementation, and evaluation.<sup>1</sup> The policy cycle approach draws strength from its practicality to navigate the complex process of policymaking by breaking down the complexity into manageable, sequential stages with defined actions and best practices in each stage ensuring policy success (Anderson 2014; Benoit 2013; Cairney 2015; Young and Quinn 2002).

Albeit widely accepted, the linearity of the policy cycle approach has also received some criticism. It is stated to be detached from the dynamic nature of policymaking, where stages are iterative rather than linear, and occurring in parallel rather than sequential. Several frameworks and approaches were developed as alternative orientations, such as the Advocacy Coalition framework, Institutional Analysis and Development framework, Multiple Streams approach, Policy Diffusion approach and Punctuated Equilibrium model (Nowlin 2011). These alternative frameworks attempt to mirror the multidimensional aspects and dynamism of policymaking but often fall short of practicability and comprehensiveness in the policy process (Bergeron 2016; Cairney 2015).

The relevance of the policy cycle approach remains, especially if the cycle is seen as inherently iterative and collaborative, where each stage has the potential to inform

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<sup>1</sup> The stages model of the policy process relates to *systems thinking*, defined as "a way of thinking about natural or social phenomena as a system, in which various inputs into a system are handled, processed, and interact with each other to create a set of discernible outputs" (Birkland 2014). The policy system can be modeled as an input-output model which constitutes: i) inputs include the various issues, pressures and information; ii) processes, which define and guide the policy system, normally codified in the 'rules of procedure' of the government or similar documents to specify how the government makes decisions; and iii) a policy decision as the output/product of the system.

previous and following steps along the stages (Young and Quinn 2002). Likewise, the practical aspect of the policy cycle approach—its key strong point, is further enhanced if the approach is seen as flexible, where additional stages can be introduced that would strengthen the description and analysis in addressing the problem (Anderson 2014).

### ***The Policy Dimension of Global Megatrends***

The foresight method is the prevalent framework used to synthesise futures issues like global megatrends (European Commission 2007; Hajkowicz et al. 2013; Meharg et al. 2015; UNDP 2014a). The method has been known as early as the 1940s when advanced economies such as the United States developed its military strategies and military technology deriving ideas from management science (UNDP 2014a). Technology foresight's popularity took off in the 1990s, when European economies together with other economies looked for new policy tools to deal with a broader range of issues in their science, technology and innovation systems (Miles 2010).

The foresight method consists of three dimensions: (i) collecting information or 'horizon scanning', which identifies all potential geopolitical, economic, environmental, social, and technological changes; (ii) interpreting the data and formulating versions of the futures; and (iii) developing options for actions. The method is distinguished from forecasting. While the latter is a statistical exercise to predict future trends based on historical time series data, the foresight method instead focuses on improving preparedness on future developments by mapping and analysing general trends and drivers of the phenomenon (Olsmats and Kaivo-oja 2014).

Despite its usefulness however, the foresight method has received criticism. It often fails to encourage policy makers to produce new and transformative insights given the difficulty of visualising and moving on from 'the future' to 'futures' as well as turning insights into concrete actions (UNDP 2014a, 2014b). Likewise, the selection of participants in the foresight exercise broadly influences the quality of insights and, therefore, the implementation (UNDP 2014b). A common approach implemented by several governments is to address the weakness of the approach by embedding foresight initiatives in the conventional strategic planning structure, for example, by establishing dedicated foresight teams in ministries (UNDP 2014b). Such a structure facilitates the translation of foresight perspectives into policy choices and, subsequently, actions in the government, better positioning foresight work as part of the main policy process.

### ***The Role of Policy Toolkits***

Global megatrends warrant a policy toolkit to address goals within a multi-layered and multi-actor policy arena. Policy toolkits offer a concise manual for policymakers to come

up with a policy response. Several policy toolkits have been developed to respond to economic issues, for example, non-tariff measures (Cadot et al. 2012); consumer issues (OECD 2010); competition (OECD 2007); inclusive value chain development (MP4 2008); gender issues (APEC 2015; Asian Development Bank 2013; FAO 2013); rural finance (IFAD 2010); and the broader contexts of regulatory issues (OECD 2008; Schmeer 1999; Sutcliffe 2006). A comparison among policy toolkits draws out common elements, as summarised in Box 6.1.

#### Box 6.1: Common Elements of Policy Toolkits

- **Practicality:** Practical steps presented at each of the clearly defined stages of the policymaking process.
- **Multi-stages approach:** Consists of: (i) problem identification; (ii) identification of policy options; (iii) analysis of the costs and benefits of possible policy options; (iv) stakeholder engagement; and (v) monitoring and evaluation. Many policy toolkits also include capacity building programs.
- **Supporting information:** Collected from a wide range of sources (e.g. primary research or survey, interviews with stakeholders as well as the use of secondary data).
- **Stakeholder engagement:** Conducted throughout the policymaking process, to not only ensure broad-based support of a policy proposal but also to obtain feedback on its implementation.
- **Specific objective:** In most cases, the development of a policy toolkit is tailored to a specific objective of the policy intervention. For example, the Regulatory Impact Assessment (RIA) (OECD 2008) is developed to examine and measure the likely benefits, costs, and effects of a new or existing regulation, while the Stakeholder Analysis (Schmeer 1999) and Evidence-based Policy Toolkit (Sutcliffe 2006) focus on utilising information from stakeholders and informing policy decision by robust evidence, respectively.

*Source:* Authors' compilation.

Despite its widespread use, the development of a policy toolkit in response to global megatrends has been limited, with only a few studies conducted to date (Frost and Sullivan 2013; Hajkowicz et al. 2013; KPMG International 2014; Meharg et al. 2015; OECD 2017). There is the policy-oriented foresight, which provides policymakers with long-term insights within the context of the foresight method but this too is still meager in terms of analyses and applications (Van Asselt et al. 2014). This highlights a knowledge gap to be filled.

#### ***Recalibrated Approach***

Considering the constraints of existing methods such as the foresight method, "enhanced" traditional models could serve as alternative policy approaches to better address global megatrends. There is a tendency to regard conventional or traditional approaches as irrelevant in response to global megatrends as the latter allude to something

of the future (Da Costa et al. 2008). However, the longevity of these conventional policymaking approaches, in particular the policy cycle approach, is a testimony of their relevance. Noting the difficulty of translating innovative ideas into practical steps, a hasty replacement of conventional approaches may not gain traction, especially in developing countries where there is lack of awareness on global megatrends. Therefore, using the traditional policy cycle approach nuanced to the unique characteristics of global megatrends is a more constructive starting point. The key attributes of the policymaking process, which could appropriately address global megatrends, should be given prominence. To this end, Box 6.2 provides a summary.

**Box 6.2: Key Attributes of Policymaking Process to Address Global Megatrends**

The recalibrated approach emphasises key attributes of the policymaking process, which aim to strike a balance between the practical realities of policymaking and the future orientation of global megatrends.

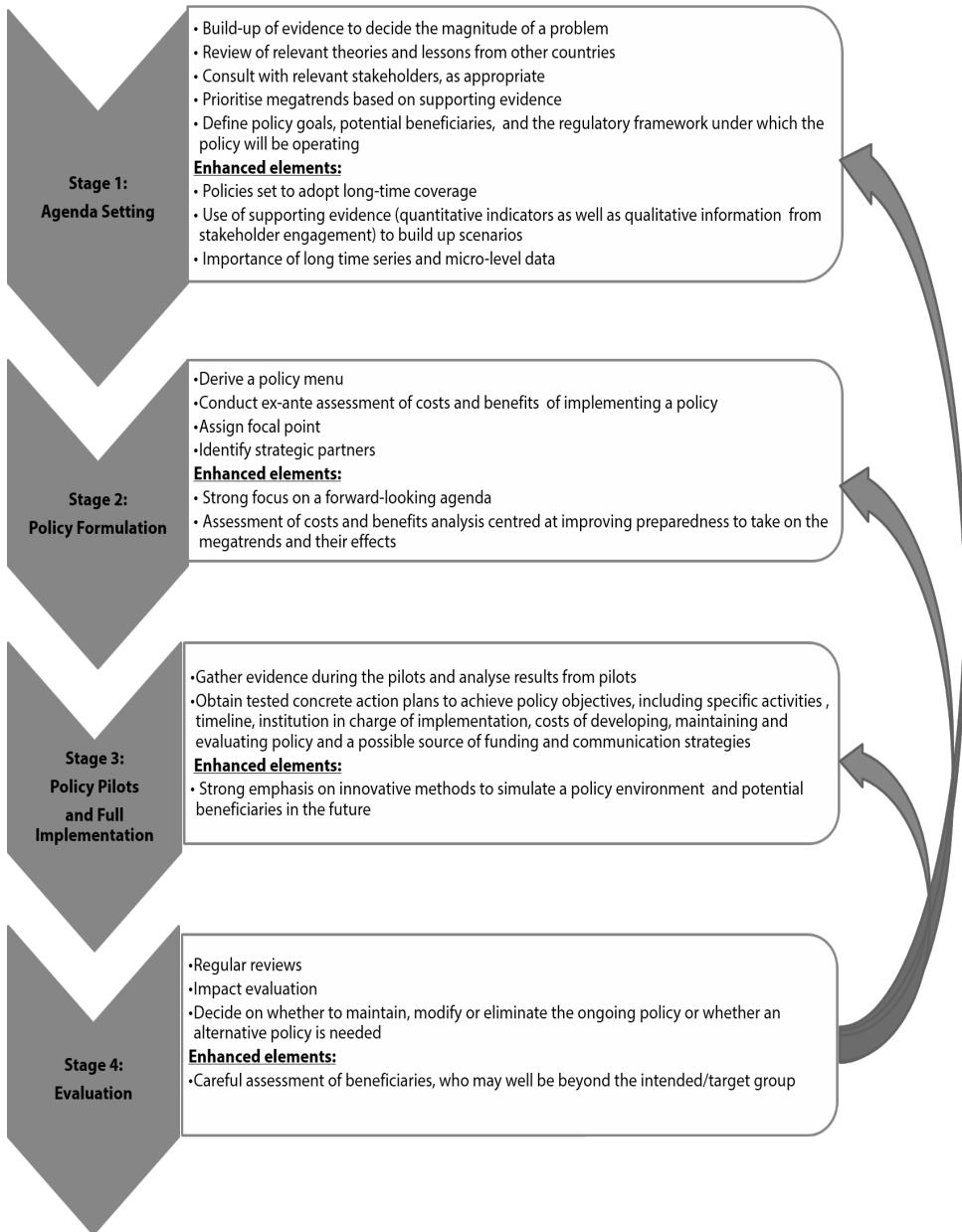
- Practical and experimental: Feasible and allows for a certain degree of experimentation (“thinking out of the box”)
- Informed and anticipative: Anchored on evidence and data analysis as well as on scenario building
- Iterative and systematic: Recycles through the processes and ensures the linkages are clear
- Flexible and collaborative: Open to prompt refinements and participatory across disciplines, levels and actors

*Source:* Authors’ compilation.

### 6.3. Practical Steps to Respond to Global Megatrends

This section presents a practical approach to respond to global megatrends by following the four-step policy cycle, as summarised in Figure 6.1. Case studies are included in each step to further illustrate ‘real-world’ applications. The policymaking process, from Stage 1 to Stage 4, should be seen as an iterative process rather than a static and sequential one, where one policymaking stage may be conducted simultaneously with one or even several stages. The process, however, should still be ‘systematic’, where changes in policy responses to a specific sector or area may create ‘spillover effects’ in other policy areas. Hence, an adequate flow of information between involved parties or relevant policy areas about any adjustments in the policy, is needed.

**Figure 6.1 – Practical Steps in the Four-Stage Policy Cycle**



Source: Authors' compilations.



## Stage 1: Agenda Setting

The complexities of issues facing public policy makers and their resource constraints place the setting of policy priorities as one of the key elements during agenda setting. In this stage, the following should be taken into account: the objective of government policy, the results from evaluation of past policies, the predicted (ex-ante) impacts of the proposed policy and the concerns of different groups. The build-up of evidence is key to assess the magnitude of a problem before deciding whether the problem should be included in the policy agenda (Sutcliffe 2006). Lessons from other countries adopting a similar policy should also be considered to understand how the policy works in differing contexts.

The evolving and dynamic nature of global megatrends implies that the agenda setting process should also be sufficiently “flexible”, adapting to changing perspectives, needs and expectations over time. Thus, the enhanced approach emphasises on the need to not only collect quality indicators as baseline information but also to build possible scenarios. Box 6.3 briefly presents examples of agenda setting process.

Table 6.1 presents the relevant information that should be considered during the agenda setting process through select global megatrends in the existing literature and a non-exhaustive list of possible indicators to measure global megatrends.<sup>2</sup> While macroeconomic data remain useful, micro-level data – both qualitative and quantitative, ideally long-time series – are needed to capture permeating changes driven by global megatrends.

### Box 6.3: Case Studies: Agenda Setting

Various methods have been developed to engage stakeholders and stimulate effective discussions during the agenda setting and policy prioritisation. One example is ‘Driving Forces Cards 2035’ introduced by Singapore-based Centre for Strategic Futures (CSF).<sup>3</sup> The method challenges policy makers and other stakeholders to visualise the key forces of change in the next 20 years and help prioritise issues for further research and policy development.

Another method widely used for agenda setting and prioritisation is utilising a Foresight exercise. One of the many foresight projects is the ‘Foresight for Transport’ project supported by the European Community under the Competitive and Sustainable Growth Programme (1998–2002) for “visioning” transport and mobility futures. The study entailed organising thematic expert panels’ consultations, a Delphi survey involving 165 experts around Europe and the establishment of a meta-database system for monitoring and evaluation. Foresight was selected to overcome limitations of the mainstream policy assessment methods, in particular transport models, which are unable to identify and evaluate non-transport factors (EC - JRC 2005). While useful for agenda setting, the study involved a considerable cost at nearly one million Euros.

Source: Authors’ compilation.

<sup>2</sup> See also European Commission (2007) for examples of foresight initiatives addressing various global megatrends.

<sup>3</sup> Driving Card Forces 2035 can be downloaded from: <http://www.csf.gov.sg/our-work/our-approach.html>

**Table 6.1 Selected Types of Global Megatrends and Possible Policy Responses**

Types of Megatrends (i)	Key Issues (ii)	Possible Indicators (iii)	Possible Policy Responses (iv)	Relevant Stakeholders (v)
<b>Cross-cutting issues</b>		<b>- State of the Future (SOFI) Index.(a)</b>		
<b>Economic aspects</b>	Interconnected economies	<ul style="list-style-type: none"> <li>- GDP,</li> <li>- FDI Inflows and Outflows,</li> <li>- Total Trade (regionally &amp; internationally),</li> <li>- Total trade as % of GDP,</li> <li>- Connectedness Index:<sup>(b)</sup></li> </ul> <p>1)McKinsey Global Institute (MGI) Connectedness Index</p> <p>2)UNIDO Connectedness Index</p>	<ul style="list-style-type: none"> <li>• Improve the national regulatory regimes to be on a par with international regulatory regimes (e.g. standards, professional qualification certification, tariff commitments, competition laws, regulations on the movement of skilled labour);</li> <li>• Human capital development and investments in research and development (R&amp;D);</li> <li>• Support for businesses including MSMEs to access global markets (e.g. trade-facilitative initiatives, infrastructure development, etc.);</li> <li>• Enhance economic partnerships with regional and global partners;</li> <li>• Enhance participation in global value chains through greater focus on connectivity and lowering trade barriers.</li> </ul>	<ul style="list-style-type: none"> <li>• Relevant ministries/ agencies including Ministry of Trade, Ministry of Commerce, Ministry of Industry, Investment promotion agency, Customs agency</li> <li>• Exporters and importers</li> <li>• Investors (domestic as well as multinational enterprises)</li> <li>• Port authority</li> <li>• Freight forwarders</li> <li>• Private sector including business associations and MSMEs.</li> <li>• Consumers</li> <li>• Researchers</li> </ul>
	Rising middle income	<ul style="list-style-type: none"> <li>- GDP per capita,</li> <li>- Income inequality measures such as Gini index.</li> </ul>	<ul style="list-style-type: none"> <li>• Re-assess income distribution to tackle income inequality (e.g. through improved tax systems);</li> <li>• Align economic and industry policy with opportunities emerging from growing middle class markets characterised by changing lifestyle and dietary preference, improved awareness of food safety and other food attributes, increased demand for professional services, increased demand for technologies and communication devices, and many others.</li> </ul>	<ul style="list-style-type: none"> <li>• Tax authority</li> <li>• Finance companies</li> <li>• Consumer goods industry</li> <li>• Leisure (including recreation, entertainment, sports and tourism) industry practitioners</li> <li>• Food safety certification bodies</li> <li>• Food producers</li> <li>• ICT sector practitioners</li> </ul>

<b>Demographics</b>	Aging population	<ul style="list-style-type: none"> <li>- Age dependency ratio, old (% working-age population)</li> <li>- Youth dependency ratio (% working-age population)</li> <li>- Life expectancy at birth</li> <li>- Crude Birth Ratio</li> <li>- Crude Death Ratio</li> </ul>	<ul style="list-style-type: none"> <li>• Forecast a 50+ year view of population growth;</li> <li>• Collaborate with multiple government agencies and the private sector to meet the needs of aging populations e.g. health and aged care;</li> <li>• Improve social security of elderly people as well as pension schemes of those still active in the labour market to address the future retirees' needs (e.g. adjustment in pension entitlement age, change the eligibility, and increase provision in pension investments);</li> <li>• Analyse a possibility of extending working years or rising the legal retirement age;</li> <li>• Collaborate with businesses to open job opportunities for older workers, including on a part-time basis taking into consideration their specific roles and schedules.</li> </ul>	<ul style="list-style-type: none"> <li>• Health care service providers</li> <li>• Pharmaceutical industry</li> <li>• Financial intermediaries which provide pension funds</li> <li>• Private sector</li> <li>• Ministry of Health and other ministries responsible for aging population</li> <li>• Ministry of Labour or Department of Employment responsible for determining retirement age and pension entitlement.</li> </ul>
	Urbanisation	<ul style="list-style-type: none"> <li>- GDP per capita</li> <li>- Population density</li> <li>- Population growth rate</li> <li>- Urban population (% total population)</li> <li>- % of population below the National poverty line</li> <li>- Migration rate</li> <li>- Proportion of population with access to safe drinking water</li> <li>- Proportion of population with access to improved sanitation</li> <li>- Land use distribution <sup>(c)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Forecast a 50+ year view of urbanisation and income growth to identify the changing needs of urban population affecting the provision of transportation, infrastructure, utilities, technology, education, health, dietary needs and preference, housing, administrative services and other goods and services through the development of a long-term blueprint;</li> <li>• Build an integrated urban planning by formulating cross-jurisdictional and cross-governmental planning forums and mechanisms.</li> </ul>	<ul style="list-style-type: none"> <li>• Urban development authority</li> <li>• Rural community</li> <li>• City planners</li> <li>• Construction companies</li> <li>• Real estate developers</li> <li>• Financial services</li> <li>• ICT, health, education, transportation and food sector practitioners</li> </ul>

<p><b>Technology</b></p>	<p>Disruptive technology</p>	<ul style="list-style-type: none"> <li>- Number of internet users</li> <li>- Internet penetration rate (% of population) <sup>(d)</sup></li> <li>- Mobile phone density per 1000 population</li> <li>- Global Innovation index <sup>(e)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Collaborate with businesses, researchers, IT experts, and other stakeholders to identify potentials from emerging technologies, their trends and relevance to governments in order to identify strategies to unleash full potentials from enabling technologies;</li> <li>• Increase awareness and optimum and safe use of new technologies and innovations through training and development programs to targeted audience including (but not limited to) government executives, small businesses, youth and school-aged children, educators, elderly people and others requiring 're-skilling training programs;</li> <li>• Improve the regulatory framework to encourage innovations and protect users through protecting Intellectual Property Rights (IPR);</li> <li>• Facilitate information sharing and networking to stimulate ideas and creativity at the universities and business-level;</li> <li>• Investment in research and development (R&amp;D);</li> <li>• Developing cybercrime legislation to protect digital users against growing challenges of cybersecurity;</li> <li>• Develop personal data protection framework;</li> <li>• Improve consumer rights and protection laws to meet growing use of e-commerce.</li> </ul>	<ul style="list-style-type: none"> <li>• Information technology companies</li> <li>• Innovators (rights holders)</li> <li>• Internet intermediaries (i.e. internet service providers, e-commerce intermediaries, web hosting, data processing, online payment system)</li> <li>• Internet users</li> <li>• Patent, trademark and IPR agencies</li> <li>• Education sector practitioners</li> <li>• Cybersecurity agency</li> </ul>
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<b>Sustainability</b>	Climate change	<ul style="list-style-type: none"> <li>- CO2 emission (metric tons) per capita</li> <li>- CO2 emissions (kg per PPP \$ of GDP)</li> <li>- Greenhouse gas emissions</li> <li>- Temperature and rainfall data</li> <li>- Consumption of ozone-depleting substances</li> <li>- Electric power consumption (kWh per capita)</li> <li>- Forest area (% of land area)</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a framework and set cross-sectoral integrated policies to address climate change impacts and reduce carbon usage in national levels;</li> <li>• Promote best practices in production and distribution systems;</li> <li>• Assess a possibility of applying market-based approach (for example carbon pricing) to achieve climate change mitigation goals;</li> <li>• Support the development and utilisation of low carbon technology;</li> <li>• Invest in renewable energies to reduce the CO2 emissions.</li> </ul>	<ul style="list-style-type: none"> <li>• International body for climate change</li> <li>• Environmental agency</li> <li>• Transport authority</li> <li>• Civil society organisations</li> <li>• Development partners</li> <li>• Private sector (e.g. manufacturers, producers of green technologies, etc).</li> <li>• Industry associations</li> <li>• Local community (particularly engaged in climate change adaptation activities)</li> </ul>
	Resource depletion	<ul style="list-style-type: none"> <li>- Energy supply per capita</li> <li>- Renewable electricity production</li> <li>- Total Renewable Water Resources per capita <sup>(4)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Create a monitoring system and database for both demand and supply sides of food, water, energy, and other mineral resources;</li> <li>• Ensure secured supplies of food, energy, water and other mineral resources through improved engagement with all value chain participants including producers, suppliers and governments;</li> <li>• Build public infrastructures that consider climate change, particularly related to water security i.e. clean water production, water storage capacity;</li> <li>• Develop regulations that encourage behavioral changes, i.e. phasing out high energy consumption technologies with the efficient ones, prohibit the use of non-biodegradable plastic bags, water conservation, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• International body dedicated toward renewable energy</li> <li>• Engineers</li> <li>• Industry engaged in renewable or alternative source of energy (i.e. wind, solar, biomass, hydroelectric, etc.)</li> <li>• Relevant ministries responsible for public sector infrastructure</li> <li>• Local communities</li> <li>• Industry associations</li> <li>• Farmers and other agriculture sector practitioners.</li> </ul>

Notes: Many indicators can be found from online databases such as World Development Indicators by the World Bank, ASEAN Statistical Yearbook (for ASEAN Member States), UNSTAT, FAOSTAT and FAO AQUASTAT. Data availability may differ between countries.

- (a) State of the Future (SOFI) Index is comprised of cross-cutting indicators that could help to illustrate the overall outlook for the future. The index can be accessed at: <http://www.millennium-project.org/millennium/SOFI.html>.
- (b) i. UNIDO Connectedness Index takes into account international, inter-organisational, and intra-organisational networks established by each country. The index can be accessed at: <https://www.unido.org/mdgf.html>.  
ii. McKinsey Global Institute (MGI) Connectedness Index looks at connectedness in five types of globalflow—goods, services, finance, people, and data and communication (available at: <http://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/digital-globalization-the-new-era-of-global-flows>).
- (c) Land Use Distribution refers to the utilisation of land, reflecting how land use is distributed for agricultural area, forest area, urban area, and others. The data is available at <http://www.fao.org/faostat/en/#data/RL>.
- (d) Internet penetration refers to the percentage of total population of a given country that uses the Internet. Available at: <http://www.internetworldstats.com/asia/index.htm>.
- (e) Global Innovation Index ranks the world economies according to their innovation capabilities and results that go beyond the traditional indicators of innovation (level of research and development). Available at: <https://www.globalinnovationindex.org/analysis-indicator>.
- (f) Total renewable water resources per capita are inland waters renewed by global water cycle, a sum of renewable surface water and groundwater divided by total population (available at: <http://www.fao.org/nr/water/aquastat/sets/index.stm#main>).

Source: Authors' compilations from various sources (Bloom et al. 2011; KPMG International 2014) and the AEC Blueprint 2025.

## Stage 2: Policy Formulation

In the following stage, the so-called *policy menu* can be built based on the list of priority issues derived in Stage 1. Given the long-term nature of global megatrends, while the above practical steps remain relevant, the policy formulation should place a stronger focus on anticipating future changes, including those that may not be apparent at present. Column (iv) of Table 6.1 illustrates the policy menu for different types of global megatrends.

The multidisciplinary nature of global megatrends strongly emphasises the importance of a whole-of-government approach, –featuring horizontal coordination and integration in policy design and implementation, by focusing on strengthening coordination between relevant agencies and facilitating stakeholders engagement with the government (OECD 2011; UN 2012). In addressing new focus areas such as megatrends, the appointment of focal points at local, regional or national level, either within an existing institutional unit or an institution newly established for the purpose, may be required. For example, policy to address issues related to the emergence of disruptive technologies including e-commerce may be managed by a new division under the existing Ministry of Information Technology, with close coordination with Competition Commission, Ministry of Commerce and Trade, and Cybersecurity Commission as well consumer representative groups. National coordinating authorities may be needed to facilitate communication among relevant agencies, highlight best practice and leverage shared solutions; Likewise, the development of an integrated information portal, may be required to enhance ‘public sector interoperability’ (UN 2012).

Of the listed priorities, the most cost-effective policy option(s) will usually be selected based on an ex-ante assessment such as a Cost and Benefit Analysis (CBA). The long-term, disruptive and ubiquitous nature of global megatrends, however, may mean that government has a limited ability to produce accurate predictions and, thus, 'create an enabling environment.' Instead, the government's role should be centred at improving 'the preparedness' of the policy system. The enhanced application of the CBA analysis can help assess policies under various future scenarios (See Box 6.4).

**Box 6.4: Case Studies: Cost and Benefit Analysis (CBA)**

The CBA helps quantify in monetary terms the costs and benefits (including externalities and intangible aspects such as social cohesion) (OECD 2008; Yan and Long 2007). However, it faces difficulties to assess the effects of global megatrends in the longer term as well as identify winners and losers from the proposed policy given the pervasive nature of megatrends.

As an example of the application of the CBA to address futures issues is the CBA of climate-resilient housing in Central Vietnam (Anh et al. 2016; Rüländ and Jetschke 2008). The present value of benefits from resilient housing is very sensitive to the expected timing of disaster events, which occur on a stochastic basis. The analysis therefore utilises a scenario-building approach to investigate the potential economic impacts of resilient housing by applying two scenarios assuming: (i) the intensity and frequency of future major events similar to that of the past 30 years; and (ii) an increased intensity of major events. A sensitivity analysis by applying a range of 2-10% discount rates is also applied. This analysis may need to continually be updated following changes in the assumptions underlying the analysis including costs, frequency of storm events, technology and other factors.

To this end, the CBA should therefore be seen as a heuristic tool applied through iterative rounds, used for the refinement of the policymaking process instead of as 'the final step' before selecting a deterministic, final, single policy response.

### **Stage 3: Policy Pilots and Full Implementation**

Within the context of a traditional policymaking process, policy pilots allow one or more proposed policies to be tested, evaluated and modified if needed, before being rolled out to full-scale (Sutcliffe 2006). The full benefits of a policy pilot could only be gained if the results from the pilot have been analysed and acted upon prior to widespread implementation of the policy (Sutcliffe 2006). Thus, the pilot test should entail the gathering of evidence to allow the analysis at the end of the pilots.

Policy pilots should meet at least four criteria: independence, scale, timeline and resources, and data collection and analysis. On independence, pilot implementers should have the freedom to report both strengths and weaknesses of the draft policy or programme. Pilots which reveal weaknesses should be viewed as a success, not a failure.

In terms of scale, pilots should be proportionate to the policy's expected utility. Timeline and resources are another key property of the pilots, particularly highlighting the need for adequate training of staff, and optimum implementation of pilots and results analysis. Pilots should also include a systematic data collection and analysis, which should be presented in easily accessible reports needed for future settings.

To address global megatrends, pilots should also explore innovative methods to situate or mimic a policy environment close to that of the future and/or an environment under which its full-implementation will be applied. This implies that participants of pilot exercises should embody both today's and tomorrow's main beneficiaries. As an example, Box 6.5 discusses sandbox piloting, which has been increasingly used to pilot a new technology.

Guided by the results from the pilot tests, during the full-implementation of the policies to address global megatrends, many governments 'package' various planned policy measures and present them as a 'Vision'. Examples include Australia's "Vision 2040" for sustainable mining industry in Australia (Prior et al. 2013) and Future Radar 2030 (Zukunftsradar 2030) to address challenges from demographic change (European Commission 2007a).

**Box 6.5: Case Studies: Sandbox Piloting**

The design of a pilot test should generally reflect the actual set-up. As an illustration, a policy pilot to test the effectiveness of a cutting-edge technology may target young technology-savvy middle and upper income users. Testing an innovation in a secure, low-risk and resourceful policy environment, before scaling out the innovation to bigger markets, is generally desirable.

The Sandbox concept refers to the approach adopted by market regulators to allow the private sector to experiment within certain bounds to learn how to regulate and supervise their industry. The approach has been adopted by many advanced economies' regulators such as the UK's Financial Conduct Authority, the Monetary Authority of Singapore and the Australian Securities and Investments Commission. It has also been adopted by 'fintech' (financial technology) entrepreneurs in Singapore, who 'sandbox' their fintech innovations before scaling out to bigger markets (The Economist 2017).



## Stage 4: Evaluation

Regular policy evaluation has been cited as one of the most important principles in regulatory practice (APEC 2008; OECD 2012, 2014). The reviews should be conducted after a policy has been put in place for a reasonable period of time, allowing policymakers as well as stakeholders, to identify the benefits and disadvantages during policy implementation using information gathered from the baseline study during Stage 1. Reviews, often undertaken through impact evaluation, provide a framework sufficient to identify whether the policy beneficiaries are truly benefiting from the policy and not from other factors (Khandker et al. 2010).

Within the context of global megatrends, key features of policy evaluation are not only to assess impacts on beneficiaries but also identify ways forward: whether the policy should be maintained, modified or eliminated; whether an alternative policy should be considered; whether enforcement should be strengthened; and whether the overall policy agenda (previously determined in Stage 1) should be re-assessed (OECD 2010). Identifying the impacts of the implemented policy on specific beneficiaries may prove challenging given the widespread, multidisciplinary nature of global megatrends. The initial target group may no longer be affected by the policy and, in contrast, externalities may impact wider communities. Box 6.6 presents an example of implementation of the M&E work.

### Box 6.6: Case Studies: Monitoring and Evaluation (M&E)

M&E work supports evidence-based policymaking. While monitoring refers to a continuous process to track inputs, activities, and outputs, and outcomes, policy evaluations are periodic, involving an objective assessment of a planned, ongoing or completed policy. There is a growing body of literature on policy impact evaluation (Gertler et al. 2011; White et al. 2006).

An example of M&E implementation is Cambodia's M&E framework for climate change. The country adopted the Climate Change Strategic Plan (CCCSP) 2014–2023 in 2013 which acknowledges the importance of developing a national M&E framework that measures and tracks how well the country is managing climate risks and meeting development targets.

Two tracks of indicators are developed covering institutional readiness and impact indicators. On institutional readiness, scorecards were developed for each indicator to establish a baseline for the current status of national and sectoral institutional readiness after which an innovative readiness 'ladder approach' is used to understand Cambodia's current position within an overall process of climate change policy and institutional development. These indicators will be scored on a regular basis to track progress towards milestones. Findings from the M&E work are then used to inform future investments.

## 6.4. Global Megatrends in ASEAN

Increased interconnectedness between economies provides opportunities for them to establish a regional collaborative 'front' to respond to the effects of the megatrends. Instrumental in their own rights, national initiatives to address global megatrends may also serve as assets to initiate more concrete regional cooperation. Within the context of ASEAN, this 'bottom-up' approach may also be accentuated by building on existing ASEAN regional initiatives as well as leveraging on the expertise and best practices of AMS with more policy experience dealing with global megatrends. This section characterises AMS initiatives at the national level and regional initiatives in dealing with global megatrends. It also draws up possible options to better operationalise a collective response to global megatrends.

### *National Initiatives on Global Megatrends*

At the national level, there is a growing number of initiatives among AMS to address global megatrends, notably those adopting the foresight method. In Singapore, foresight initiatives have started as early as the 1980s, given the challenges to effectively formulate its national strategies to cope with constraints in land use, urban design, transport needs, water and waste management, environmental and emissions policy, energy policy, and other areas (UNDP 2014a).

The *Sustainable Singapore Blueprint 2015* (Ministry of the Environment and Water Resources and Ministry of National Development 2014) presents a model of how a vision in the face of global megatrends is captured and acted upon, although methods being applied are not limited to foresight. The 2015 Blueprint builds on the 2009 Blueprint, which was developed following the establishment of the Inter-Ministerial Committee on Sustainable Development (IMCSD) in 2008 and involved intensive stakeholder engagement including public fora, interviews and surveys (Ministry of the Environment and Water Resources and Ministry of National Development 2009). Singapore also has several foresight units, one of which is the Center for Strategic Futures (CSF). Established in 2009, the CSF aims to empower government capabilities to anticipate and adapt to changes, as well as manage a complex and fast-changing environment (CSF 2016). Various tools have been produced by CSF to improve its foresight activities. Several AMS have likewise established formal government units to carry out work futures-oriented initiatives.

In Malaysia, the bulk of the work on advancing high technology industries is coordinated by the Malaysian Industry Government Group for High Technology (MIGHT), launched in 1993 as an independent, industry-driven, and non-profit organisation under the Prime

Minister's Department of Malaysia. MIGHT foresight activities in its scope of work and provides a platform for collaboration between public and private sectors (Cruz et al, 2016). In its 2015 Annual Report, MIGHT reported various industry applications from Smart Grid to Smart Mobility under the theme of Green Sustainability, Mobility and Safety and Security (MIGHT 2016).

In Brunei Darussalam, the Centre for Strategic and Policy Studies (CSPS) (established in 2006), undertakes independent and objective policy research and analysis on strategic issues. Responding to the ever-changing policy environment and increased interconnectedness between policy areas, in 2016, CSPS' Brunei Futures Initiative was set up to reflect CSPS' aspiration to be an "Internationally Recognised Foresight Think Tank".

In Indonesia, various futures-oriented initiatives have also been implemented by the government since the 1990s. In 1996, one of the first technology foresight projects was conducted by BPPT (Agency for the Assessment and Application of Technology) using the Delphi survey to review industry's technological needs (Saputra 2012). An improvement in foresight activities was achieved through partnership with external organisations such as the Ministry for Research and Technology's PERISKOP project on science and technology for development, conducted in 2000-2002 (Albrecht et al. 2002); and the CoLUPSIA (Collaborative Land Use Planning and Sustainable Arrangement) project for the period 2010-2013 to develop new institutional arrangements and environmental policies (Liswanti 2012; Shantiko 2012).

Likewise, a national agency in the form of the National Science and Technology Development Agency (NSTDA) has been at forefront in Thailand conducting several foresight projects as early as the 1990s. Thailand has also been hosting the Asia-Pacific Economic Cooperation (APEC) Centre for Technology Foresight (APEC CTF) since 1995. Between 1999 and 2000, the Science and Technology in the Year 2020 project was conducted to set a long-term vision and strategies for science and technology in Thailand for the period 2000-2020. Moreover, a study on "Global Risk Foresight and Impacts on Thailand" was conducted in 2010, from which recommendations were presented to Thailand's Office of the National Economic and Social Development Board (NESDB) as input to the formulation of the 11th National Development Plan (2012-2017) (APEC CTF 2010).

Other AMS have pursued a more project-based sector-specific approach, often in collaboration with multilateral institutions and international organisations, in their work related to global megatrends. In the Philippines, various initiatives on futures studies and foresight have been implemented with the support from international organisations such as the United Nations Educational, Scientific and Cultural Organization (UNESCO)

and its partner, the World Futures Studies Federation (WFSF). In 2015, for example, capacity building activities were conducted to promote the foresight awareness of policy makers and wider stakeholders involved in shaping disaster reduction and management programs and city development planning in highly vulnerable cities and communities to climate change in the Philippines (WFSF 2015).

In Viet Nam, much work has been done on advancing innovations and technologies in various sectors. Supported by the United Nations Industrial Development Organization (UNIDO), the Viet Nam Ministry of Science and Technology used a combination of foresight tools alongside with the traditional policymaking method to formulate its *Science and Technology Strategy 2011-2020* (Aguirre-Bastos and Weber 2012). This parallel use of foresight and the traditional method was perceived as a 'promising tool' in addressing the complexity of public policymaking in science, technology and innovation in developing countries such as Viet Nam.

Futures-oriented initiatives have also been implemented in Myanmar. Founded in 2013, the inaugural Myanmar Futures Exchange (MFE) in 2013 was the first multi-stakeholder futures event in Myanmar (Bhagat 2014). Providing an avenue for stakeholders to discuss and empower them "to create their preferred futures", the MFE engaged government representatives, businesses, civil societies, futurists, researchers, and wider stakeholders to analyse and map the risks and drivers of change to shape pathways to Myanmar's future. Building on its 2013 achievements, the 2014 MFE focused on systems change, activating leadership, and identifying key drivers likely to shape Myanmar through 2025.

In Lao PDR, a number of initiatives to address sustainable development have been implemented. One of the initiatives is the *Lao PDR - United Nation Partnership Framework for Sustainable Development 2017-2021* to support Lao PDR achieve its national development goals (UN 2016a). The Framework replaces the UN Development Assistance Framework (UNDAF) developed using the foresight method and 'crowdsourcing', where contributions from external parties as well as the usual stakeholder involvement are solicited, and utilising 'Futurescaper', a cloud-based collective intelligence platform (UN 2016b). Results from the crowdsourcing feed into the Lao PDR-UN Partnership Framework (2017-2021) by exploring alternative perceptions on Lao PDR's current key development issues, their causes and effects, and priorities for Lao PDR's future to 2021 (UN 2017).

In Cambodia, while the application of foresight and other innovative approaches in public policymaking remains limited, long-term public policy 'visioning' has been adopted in various sectors. In tourism sector, Cambodia developed *Tourism Development Strategic Plan 2012-2020* reflecting its vision towards sustainable development through cultural

and ecotourism. It also adopted Cambodia Industrial Development Policy: 2015-2025 to promote the country's industrial development that will help maintain sustainable and inclusive high economic growth. In the education sector, Cambodia launched "Policy on Higher Education Vision 2030" that will ensure equity and access to higher education.

The above national initiatives highlight that all AMS, in one way or another, have embedded practices within their individual sphere of public policymaking related to futures-oriented activities, including addressing global megatrends. A more formalised approach is present in some AMS where established government units undertake these activities, which are likely to result to certain regularity in carrying out these activities. Several AMS have undertaken futures-oriented activities which are project-based in relation to a specific sector, where international organisations and multilateral institution play a key collaborative role in carrying out these projects.

### ***Futures-Oriented Initiatives in ASEAN***

As stipulated in the AEC Blueprint 2025, global megatrends are high on ASEAN's regional economic integration agenda. Turning the Blueprint into concrete actions, various activities have been implemented to initiate futures-oriented programmes at the regional level, organised by AMS or in collaboration with Dialogue Partners and international institutions. Many of these ASEAN-wide initiatives, though they do not necessarily use the term megatrends, fall under the areas of Science, Technology and Innovation (STI) in addition to other sectors including energy and food sectors.

*The ASEAN Policy Framework on Public-Private Partnerships for Technology Development* (PFW) was initiated in 2014, and was developed under the project 'Promoting Innovation and Technology in ASEAN Countries' (the ASEAN-PIT Project). The Framework aims to strengthen public-private cooperation on technology development and innovation (ASEAN PIT Project 2015).

Likewise, in the energy sector, the ASEAN Centre for Energy (ACE) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) commissioned the 4th ASEAN Energy Outlook (AEO4) in 2016, scientifically supported by Fraunhofer Institute for Systems and Innovation Research ISI. The AEO4 presents energy trends and challenges in ASEAN up to the year 2035. The outlook supports the implementation of *the ASEAN Plan of Action for Energy Cooperation 2016-2025*, by recommending strategies to address future energy needs in the region (ASEAN Centre for Energy 2016).

In addition to project-based initiatives, multiple events have been conducted to promote public awareness of the importance of futures-oriented programmes. The ASEAN STI Forum 2016 was a forum for policy makers and practitioners to discuss STI issues and

challenges facing ASEAN. More recently, the ASEAN-EU STI Dynamic Workshop was held in month 2017 as part of the “ASEAN Next 2017: Creating Smart Community through STI Collaboration”, where the special talk on ‘STI Megatrend for the Future of ASEAN’ was held. In the food sector, the 13th ASEAN Food Conference was organised by the ASEAN Committee on Science and Technology (COST) in 2013, in collaboration with several Singapore-based agencies, with the theme of “Meeting Future Food Demands: Security and Sustainability” attracting participants from 27 countries. The Conference provided a platform to discuss trends and developments in food science and technology and the role of food science and technology in improving nutrition, health and global food safety.

Various futures-oriented programmes have also been organised by external organisations involving AMS or ASEAN. In 2013, the APEC-CTF and Thailand’s National Science Technology and Innovation Policy Office in partnership with the Rockefeller Foundation hosted the Integrated Foresight for Sustainable Economic Development and Eco-Resilience in ASEAN Countries Workshop addressing futures of energy-water-food policies, and identifying ways to use the foresight method to support sustainable development in ASEAN (APEC-CTF 2013). In the fishery sector, the updated fish model analysis of the International Model for Policy Analysis of Agriculture Commodities and Trade (IMPACT) of the International Food Policy Research Institute (IFPRI) provides an example of ASEAN-wide analysis to project ‘Fish to 2050’ taking into account the dynamics in fishery industry-specific biophysical and socioeconomic factors when predicting aquaculture and capture fisheries production as well as exports in ASEAN (Chan et al. 2017).

Despite gradual progress made in transforming policy paradigm among AMS, through the above initiatives, the project-based nature of the regional initiatives raises concern over their sustainability. Some possible ways forward are reviewed in the next section.

### ***Going Forward: Exploring an ASEAN Regional Approach on Global Megatrends***

As illustrated in the previous sections, initiatives to address global megatrends whether in the mold of formal institutions or foresight activities embedded in policy practices have largely been undertaken at a national scale and in an ad-hoc project basis in all AMS. Such initiatives, however, have yet to gain traction within a regional context. Nonetheless, the very nature of the effects of global megatrends being pervasive and massive, cutting across a broad array of activities and physical boundaries, make a strong case to pursue a regional response to global megatrends. For ASEAN, a ‘multi-track approach’, covering multiple ‘tracks’ from the formation of a Community of Practice (CoP) to a more formal track including different forms of regional policy frameworks as

defined below could be explored. This approach should be set within the parameters of ASEAN practices and processes and anchored on the AEC Blueprint 2025.

Leveraging on existing work in the region on futures-oriented activities, a Community of Practice (CoP) could be formed, which would formalise the linkages among experts and entities involved in work related to specific global megatrends. A broad representation is expected of the envisaged CoP, which should go beyond the public sector and national entities to also include policy think tanks, business groups and international institutions. AMS with experience on global megatrends could take the lead in forming the CoP. The CoP would create the appropriate forum to nurture the work on global megatrends through exchange of knowledge and best practices administered through regular policy dialogues, collaborative work, and socialisation activities, to name a few. A web-based interactive platform, for example similar to the Innovation Policy Platform (IPP), developed by the World Bank Group and the Organisation for Economic Co-operation and Development (OECD),<sup>4</sup> could be set up to provide easy access to knowledge resources and the primary gateway for exchanges among the CoPs working on different thematic areas.

ASEAN could also pursue the track of developing a more formal regional policy framework on global megatrends, which could take several forms. It could be a set of guiding principles which set out key precepts on how to calibrate policymaking to be more nuanced to respond to global megatrends.<sup>5</sup> The regional framework could also take the form of a formal work programme— whether general or on specific megatrends, which builds on existing national initiatives and takes into consideration nascent regional efforts. One could also adopt the approach used in operationalising cross-sectoral issues under the AEC Blueprint 2025. The development of the ASEAN Work Programme on Electronic Commerce for the period of 2016-2025 is a case in point.<sup>6</sup> Key to the exercise is the identification of relevant sectoral bodies whose work plans reflect action lines which are relevant to the area of global megatrends. Bringing together the right set of people to deliberate on the relevant issues towards conceptualising the Work Programme is also critical, and together with the relevant sectoral bodies, the involvement of the CoP would further enrich the process.

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<sup>4</sup> The IPP can be accessed at <https://www.innovationpolicyplatform.org/frontpage>

<sup>5</sup> The Policy Framework for Investment (OECD 2015) could be used as a reference, where core questions and principles are set out to provide guidance for policymakers about the economy, institutions and policy settings to develop an effective set of policies to improve the quality of a country's enabling environment for investment. The same exercise of identifying a core set of questions and principles could be done on global megatrends. In addition, in its G20 Innovation Action Plan (G20 Information Centre 2016), G20 also set out 'guiding principles' to enhance a dialogue and cooperation on innovation covering the principles of synergy, cooperation, openness, inclusiveness and creativity

<sup>6</sup> This 'work programme' approach has also been implemented by other international institutions including APEC's Policy Partnership on Science, Technology and Innovation Strategic Plan (2016-2025) (APEC 2016) and G20's Innovation Action Plan (G20 Information Centre 2016), as mentioned above.

The discourse related to global megatrends has resonated in various fora, often coordinated by multilateral organisations including APEC, OECD, World Bank as well as international institutions such as World Economic Forum and G20. ASEAN and individual AMS should take advantage of their participation, actively participate in these fora to broaden the region's role in shaping the discourse, and thereby, ensure that concerns on global megatrends most relevant to ASEAN are addressed. Seeking active participation in international fora is very much in line with one of the five main characteristics of the AEC Blueprint 2025, i.e. a Global ASEAN where the region builds on gains from its global engagement and continues to promote active participation in global and regional fora. ASEAN's international engagement on global megatrends is one way to carry out the AEC Blueprint 2025.

### **6.5. Concluding Remarks**

Global megatrends will profoundly shape our futures. To be ahead of the curve or at least nearer to the frontiers pushed by global megatrends, policymakers and wider stakeholders need to adapt and pursue progressive measures to leverage on megatrends. Against this backdrop, this study proposes a policy toolkit to develop global megatrends-compatible policies aimed to generate policies that harness the benefits and reduce the risks posed by global megatrends. Taking the conventional four-stage policy cycle as a basis, the enhanced approach reflects and adjusts to global megatrends by putting strong emphasis on attributes like innovativeness, participatory, forward-looking, long-term coverage and the significance of scenarios building. It also can uphold the continued importance of quality data, stakeholder engagement and rigorous policy impact evaluation as have been long stressed upon by traditional policy making.

Within the context of ASEAN, the proposed toolkit highlights directions for future policymaking process in response to megatrends. Bolder commitment can be taken through concrete and collaborative efforts to visualise and act on the ASEAN futures that they want to achieve. In such a process, selected futures-oriented initiatives in each AMS and the proposed regional initiatives presented in this Chapter can be used as a reference. The process can all be initiated with futures-oriented exercises visualising ASEAN in a few decades' time and inquiring, for example, "How can the digital economy sustain ASEAN's economic growth and competitiveness?"; "How could technological innovations help ASEAN address its social concerns and improve peoples' welfare?"; "How should ASEAN respond to accelerating urbanisation?"; and most importantly "How could ASEAN continue to be relevant to the needs and expectation of its peoples in the constantly changing world?".



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## Conclusion

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This publication has surveyed a number of key global megatrends to review them in the context of ASEAN, particularly the ASEAN Economic Community. From these observations, the authors of each chapter have also suggested the implications for ASEAN's progress and offered a number of policy recommendations. This conclusion does not summarise each of the megatrends already discussed, or collate the different recommendations. Instead, we offer here some broader observations about the nature of megatrends and how the megatrends impact on, and interact with, ASEAN. Thereafter, we offer some points from a reverse perspective: whether ASEAN can respond effectively to megatrends and even proactively influence outcomes, and if so, what steps can be taken for ASEAN to do so. In a third and final part, the editors consider the scope of recommendations in total, and what they might broadly mean for decision makers and the institution of ASEAN.

### **General Observations about Megatrends in ASEAN**

Three general observations may be offered about the nature of the megatrends discussed.

First, they are multi-dimensional. Megatrends often have a wider scope, and their varied impacts are hard to anticipate. Moreover, even when the megatrend is recognised, the many and different impacts are hard to understand and assess comprehensively. The megatrend of urbanisation, examined in chapter five, demonstrates this. The phenomenon is not only of the physical movement of people into the city or the spread of urban spaces into what was rural hinterland. There are – amongst yet more issues that arise -- impacts on social patterns and politics, economic opportunity and consumer patterns, ecological and sustainability issues, demands on hard infrastructure, energy and other resources as well as for education and training.

Second, megatrends interconnect in complex ways. The example of transboundary haze pollution was used in the second chapter to discuss how issues relating to production processes and the environment interconnect, and the different roles of various stakeholders. Megatrends often call for a holistic approach that take into account these manifold issues and perspectives, and require a change of mindset and adjustment to the current way of doing things.

Another example of the complexity in megatrends is the relationship between economic liberalisation (or alternatively, more protectionist policies) and the agenda of

democracy, human rights and development. As discussed in the third chapter, national -- and increasingly regional -- politics have been facing up to questions and criticisms about the economic benefits for the average citizen. This is part of a global trend where some politicians appeal to forms of nationalism and protectionism. Beneath the populist rhetoric, there are demands that economic policies and performance must go beyond the overall growth numbers and instead help ensure better lives for the people.

Thirdly, surprise and speed. Many might expect since megatrends are complex and multidimensional, they develop relatively slowly and can be anticipated. There are however contrary examples, where megatrends have developed and gained momentum with surprising speed. This has meant they have often defied both expert and general expectations. In politics, prime examples discussed in chapter one are the outcomes of the UK's referendum on the EU and the US presidential election. While the events surprised, anti-globalisation voices have been evident for more than a decade; for example, in protests against the World Trade Organization. Additionally, in the world of economics and business, there are many disruptions and changes in value- and supply-chains that happen overnight. The speed and surprise of these megatrends, however, is belied by underlying factors that have been historical and indeed long term factors.

Arguably the most forceful of megatrends, technology in the context of the digital economy, was discussed in detail in chapter two, focusing on the major technological trends, the challenges and opportunities, and policy recommendations for ASEAN to progress in the digital age. These and other emerging technologies are creating the conditions for a fourth industrial revolution or "Industry 4.0", with the many opportunities and also challenges that will arise. When technologies as discussed in chapter two are used to support nationalistic and protectionist policies touched upon in chapter one, patterns of trade and investment can be significantly changed. This can disrupt the supply- and value-chains that have accompanied globalisation and industrialisation in these past decades, and with broad implications to many.

### **Can ASEAN Respond and Influence?**

We do not view megatrends in purely pessimistic terms. They are factors of change, and, perhaps, a new allocation of winners and losers lies ahead. Yet change can also bring opportunity, and much depends on who can adjust best and in the timeliest manner.

How can ASEAN respond to these megatrends? How can the group increase the chances that adjustments can be made to ameliorate negative impacts, increase benefits and take up the opportunities that arise?

Each of the chapters has tried, in relation to its respective focus, to contextualise the



megatrend to the existing ASEAN agenda. In many cases, the megatrend – being wide in scope and complex – does not neatly fit into any single ASEAN action plan or institution. Consistently, therefore, our contributors have called for coordinated responses, working across the three pillars declared in the ASEAN Community – not only economic but also political-security, and socio-cultural. A cross-cutting approach is necessary for ASEAN to respond to megatrends effectively.

Yet while much needed, such an approach has not and will not be easy for the group. ASEAN bodies have tended to keep within their focused, sectoral areas – and this is to be expected, given the details of what needs to be done in each area of commitment. In comparison, the work of coordinating mechanisms that ASEAN has put in place in the ASEAN Charter has been less prominent to date. The ASEAN Community Councils of Ministers and supporting departments and directorates at the ASEAN Secretariat have been busy, but their mandates to coordinate across different sectors and pillars are limited, as are their resources. The ASEAN Coordinating Committee remains predominantly focused on the immediate preparation for the ASEAN Summit, under the coordination of the political security pillar.

There is clear authority entrusted to the ASEAN Summits, since leaders convene to discuss any and all matters they consider important. The Charter explicitly authorises the Summit to deliberate, provide policy guidance and take decisions on key issues pertaining to the realisation of the objectives of ASEAN, important matters of interest to the Member States and all matters referred to it by the ASEAN Coordinating Council, ASEAN Community Councils and ASEAN Sectoral Ministerial Bodies (ASEAN Charter, Article 7.2(b)). However, time for the Leaders at the ASEAN Summits is extremely tight and allows little scope for them to weigh the details.

Another challenge to ASEAN's effective response to megatrends is the question of speed. Existing ASEAN mechanisms for policy deliberation and decision-making have been satisfactory in meeting many challenges. Indeed, some practices and principles — such as consensus, the maintenance of national prerogatives, and the emphasis on cooperation — have been taken as *tabula rasa*. There is no need to challenge them *per se*.

But in the lens of megatrends that emerge quickly, there may be a need for additional modes — especially more forward looking and anticipatory policy formulation, and faster decision making processes. Chapter six has taken a bold step in proposing a broad framework and practical steps to enhance policymaking process in the face of global megatrends. This calls for a change in mindset, more agile institutions, better coordination mechanism, and more participatory processes. Whether ASEAN can do so,

will depend first and foremost on what its members and their governments can and want to do. If members have similar perspectives on key issues and can work to align their national goals, then a higher alignment and coordination will be possible in response to the megatrends. But even if there is the will to do so, ASEAN and its members will need to develop capacity to track and anticipate megatrends and understand potential impacts.

Even as alignment and coordinated responses to megatrends are being developed, ASEAN also can consider the reverse: the degree to which the group can collectively, and proactively, respond to and shape, megatrends. This does not seem to be a current consideration. The self-perspective is that ASEAN remains a group of small and medium-sized countries. The group holds firm to ideals of autonomy and centrality in dealing with the major powers, but there is little to suggest that ASEAN is trying to have an influence on megatrends. Yet this possibility is one that is emerging and can be considered. After all, taken together, ASEAN is already the 6<sup>th</sup> largest economy in the world in 2016 and, if the current growth momentum and dynamism is maintained, it is projected to be the fourth largest by 2050.

### **What Megatrends Could ASEAN Influence?**

Briefly, two possibilities, drawn from early discussions in this book.

One is that the “ASEAN way” and its practices in helping keep peace and encourage cooperation and development can be potentially of use and influence for other small and medium sized countries. The ASEAN Community and the AEC are an ongoing effort and commitment in integration and in open regionalism, happening when many of the major economies are moving in quite different directions and with increasing nationalism and protectionism. This is especially important when we consider that ASEAN is, to a notable degree, dependent on foreign investment and international trade.

A second possibility is that ASEAN can learn to speak with one common voice on global issues and on global platforms, such as climate change and the Doha Development Agenda. This would allow ASEAN to take up a role on these issues, together with other developing countries and regions. In the economic sphere, the Regional Comprehensive Economic Partnership (RCEP) is something of a litmus test of ASEAN’s readiness to take up a bigger role in the new economic architecture since the ongoing negotiations are led by ASEAN (despite the common yet misleading media reference to RCEP being China-led). All the key economies of the region are within RCEP, including those much larger than the group – China, Japan and India – each with their different interests. RCEP has much potential to unleash mutual economic benefit for all parties, and to set an

example when the megatrend in much of the world is against economic integration and opening. The proof, however, will be in the outcomes of the negotiation processes, which at the time of writing are still ongoing, and the quality and inclusiveness of the agreements reached.

Leaving aside the specifics of the above suggestions, with its ambition for centrality and continuing growth, it is timely for the group to prepare for the future possibility of a “Global ASEAN”. The future ASEAN will be a group that continues to be influenced by major powers and megatrends, but also be one that increasingly responds to, and even in turn influence, megatrends.

### **Preparing ASEAN**

The contributors to this book have been asked to provide, where possible, policy recommendations to ASEAN decision makers, within the scope of their respective chapters. Without repeating the recommendations here, we can in conclusion, suggest how ASEAN can respond to the megatrends reviewed.

The first general recommendation is for ASEAN to develop a stronger sense of “ASEAN-ness”. This is perhaps most clearly needed for the peoples of the region, to raise knowledge and appreciation of ASEAN among its citizens. This will help build political support for reform, both nationally and regionally. In this effort, ASEAN needs to respond more clearly — and be *seen* to respond — to issues that matter to individuals as citizens and as workers. The hopes of ASEAN peoples for training and jobs, for example, was emphasised in chapters two as well as three.

ASEAN policies must, as a whole, help members move towards policies of inclusion. This is as true in education and training, access to cities, infrastructure and information technology, and other benefits as it is about systems of governance. As the AEC in particular moves forward, it should better recognise the ways that economic development interacts with issues such as human rights and sustainability, as discussed in chapters three and four respectively, so that gaps of understanding, policy and practice can be identified and filled.

Even as they open up to each other and the global economy, ASEAN governments should provide adequate transition assistance for workers and areas of a country that find themselves on the losing side of technological change. Increasing competition, improving labour market efficiency, strengthening social protection policies, supporting up-skilling and removing barriers to growth are also ways in which ASEAN can be seen to be helpful to corporations, especially the Micro- and Small-Medium Enterprises, as well as the labour force.

Beyond citizens and corporations, that sense of “ASEAN-ness” can also be redoubled amongst the government and policy-makers. Regional integration can at times require national restructuring and adjustments that can be painful in the short term. Where nationwide structural reform is needed, a government will need to be able to see the regional long-term interests and balance that with narrow sectoral and stakeholder interests within that country, rather than just automatically prioritising the latter – especially when it is a short-term and unmitigated version of national interest.

Connected to this, another recommended measure is for ASEAN to increase dialogue among policymakers and experts, including from the industries and users, so as to better understand different perspectives of different stakeholders in respect of megatrends. In this, there are opportunities for mutual learning among ASEAN as a diverse region with different experiences on the issues.

A second general recommendation is that ASEAN needs to emphasise cross-cutting approaches to issues so that the structures of the three pillars of its Community do not become isolated silos. The role of ASEAN Community Councils and ASEAN Coordinating Council cannot be more highly emphasised, and may call for some adjustments to current daily practice. Innovative ways to address emerging, cross-cutting and cross-pillar issues should be explored.

There are also other ways that such an approach can be taken. One, often raised, is to strengthen the ASEAN Secretariat.

None of the chapters of this book recommends or requires that ASEAN members cede sovereignty to the Secretariat, as some fear, or greatly increase its powers of initiative and autonomy. Instead, most of the recommendations have centered on the Secretariat’s capacity and capability to monitor and measure the progress of ASEAN undertakings, whether in the economic or other spheres. Such steps instead ensure that the Secretariat has more capacity to do what the members wish to be done and therefore better serve ASEAN.

Besides the Secretariat, the need for cross-cutting approaches returns the focus to the ways in which ASEAN governments work – each at the national level, and also amongst themselves. A key step is to recognise that the concepts themselves are cross-cutting – as chapters in this publication argue that are the characteristics of megatrends in “sustainability,” “urbanisation,” and “humane aspects” of economic integration. Reframing these issues at the national level will be critical for each government and also for ASEAN collectively.

A third general recommendation is that even as ASEAN integrates among its own members, measures are taken to ensure that there is enhanced cooperation with others in the international community and among major powers and non-ASEAN partners. This is seen by contributors to this book as being essential on a range of matters; whether it is the politics and security of an interconnected region and world, the flows of trade and investment or the interoperability of digital frameworks. The need for references to international standards in areas of economic integration and financial stability are also made, together with recommendations that ASEAN governments adopt tools and methods for assessing the social and sustainability impacts, such as the environmental and social impact assessments, recommended in chapter three.

Such efforts, collectively, can help ASEAN more fully understand and interact with global systems. A joint learning platform for officials and others can also help develop shared understandings about the challenges ahead for the group, and move towards a more “global ASEAN”.

A fourth and final general recommendation is for ASEAN to become more proactive and better prepared to respond more quickly to megatrends. At present, ASEAN aims to be relevant and “central” to key issues facing the Asia-Pacific. This, as discussed in chapter one, is under pressure from increasing competition between major powers. All the more, the call in that chapter for specific policy changes and new practices is necessary; not only for the political and security issues but for the general standing of ASEAN.

To address megatrends, given their complex and multidimensional characteristics, ASEAN would be advised to make efforts and build capacity to anticipate, analyse and open up dialogue on responses with key stakeholders, as highlighted in chapter six. Such preparation is key to deal for the eventuality that a megatrend precipitates the need for an urgent response. Given the group’s diversity and processes, ASEAN is better placed to respond to challenges when things have been thought through and deliberated, rather than being pressed when unprepared.

### **ASEAN Beyond 50**

This book has been timed to coincide with the 50<sup>th</sup> anniversary year of ASEAN. It aims however to be more than a congratulatory message. There is little doubt in the minds of the editors and contributors that ASEAN has done well to date and that it merits attention. This is not only in respect of the ASEAN Economic Community but in the broader aims of inaugurating an ASEAN Community and continuing to deepen integration in the years ahead.

However, the book has, in reviewing megatrends, identified issues and areas that require more attention from ASEAN in future, and which may require going beyond the current work methods and practices. From this, ways have been suggested in which ASEAN can be further enhanced so as to anticipate, respond to and eventually partly influence megatrends.

These recommendations are not entirely novel, if we take a historical perspective of the region. When ASEAN began in 1967, its creation was not only because of factors among its then five members, but also because of what was happening in the wider world and among major powers. Similarly, when ASEAN expanded and was also pushed to respond to the Asian Financial Crisis of 1997-98, it took the first steps towards ASEAN economic integration when the driving factors were national, regional and global in nature, with a mix of both threats and opportunities.

Today, much of ASEAN's official work and attention has been focused on seeing through the commitments for the ASEAN Community and its Economic Community. Yet, at the same time, the megatrends surveyed in this book have emerged and their impacts are being felt by the group, requiring new and additional steps to respond. Looking ahead, the impact of megatrends and their influence and interaction with regional and national factors in the region will combine to be the key factors that push ASEAN to dynamically respond and move forward.





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