

AIA | Topic 1

DHAP 2021

List of Common Abbreviations Used:

AIA	ASEAN Investment Area
ASEAN	Association of Southeast Asian Nations
ASEAN+1	ASEAN Plus One
AMS	ASEAN Member States
ACIA	ASEAN Comprehensive Investment Agreement
AEC	ASEAN Economic Community
EU	European Union
GVC	Global Value Chain
CBI	Cross-border Infrastructure

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1. Dais' Letter

Dear Delegates,

On behalf of the Dunman High ASEAN Plus Summit 2021, the Dais of the ASEAN Investment Area Council, also known as AIA, extends a warm welcome to you.

The AIA is responsible for the diversification and improvement of the trading environment within ASEAN, with the aims of realising a free and open investment regime. With a focus on fulfilling the ASEAN Economic Community Blueprint, ASEAN aims to achieve a single market and production base characterized by free flow of goods, services, and investments, as well as freer flow of capital and skills.

This year, the topics are economic integration in ASEAN and the development of a blue economy. Despite being in the midst of a global pandemic, these topics are still increasingly relevant in our globalised and intricately intertwined world. Delegates will be required to understand the economic complexities brought by the developments in the modern world, as well as the role of collaboration amongst ASEAN members and regional stakeholders outside of ASEAN. Cooperation with one another is key to increase the investment prospects of ASEAN as a whole. The chairs hope that DHAP 2021 will bring fruitful debate on furthering the economic aims of ASEAN as one community.

Regards,

DHAP 2021 ASEAN Investment Area Council (AIA) Dais

2. Dais' Biography

Head Chair - Tan Shian Pei

Shian Pei is a struggling J2 student, she spends what little free time she has playing Genshin Impact (she is a Hutao main). One year ago, she wondered why she saw "sleep deprived" and "overcommitted" on every MUN self-intro; one year later, she knows both of those sentiments all too well. She hopes that delegates will enjoy the academic rigour of debate in AIA, and looks forward to seeing delegates online!

Deputy Chair - Ming Ee Hsuan

Ee Hsuan is a struggling Arts student, whose current catchphrase is "I hate it here". She constantly finds herself overwhelmed by her workload and tries her best to cope via retail therapy. Despite DHAP being moved online, she hopes that delegates will still be able to enjoy themselves, and looks forward to meeting them!

Deputy Chair - Henry Lim Zhu Heng

Henry regrets taking up H2 Art as he is constantly dying over balancing his time allocated for his artworks and those for his other subjects. But for some reason, he finds validation and joy in struggling in life and over-committing. He is excited to be part of this conference and is looking forward to exercising his rights to suffer even more in life.

3. Introduction to the ASEAN Investment Area Council (AIA)

Having held its inaugural meeting on 8th October 1998 in Manila, the Philippines, the ASEAN Investment Area (AIA) Council was created to cover investment liberalisation, promotion, protection, and facilitation between ASEAN international peers.

The AIA is responsible for enhancing ASEAN's economic position globally by making it more attractive to foreign investors, as well as monitoring the overall progress of the ASEAN Comprehensive Investment Agreement's (ACIA) implementation. The ACIA aims to "create a liberal, facilitative, transparent and competitive investment environment in ASEAN"¹ in order to achieve the end goal of economic integration under the ASEAN Economic Community (AEC) in accordance with the AEC Blueprint.

The AEC Blueprint 2025 builds upon the first AEC Blueprint, by continuing to broaden and deepen economic integration in ASEAN. One of the 5 goals of the AEC Blueprint 2025 is to "Create a deeply integrated and highly cohesive ASEAN economy that would support sustained high economic growth and resilience even in the face of global economic shocks and volatilities"². This will be a key theme in council, given the economic impact of the COVID-19 pandemic on ASEAN, on top of the dynamic global market.

¹ ASEAN. (2009, February 29). ASEAN Comprehensive Investment Agreement. Retrieved from <https://www.asean.org/wp-content/uploads/images/archive/documents/FINAL-SIGNED-ACIA.pdf>

² ASEAN. (2008, January). ASEAN Economic Community Blueprint. Retrieved from <https://asean.org/wp-content/uploads/archive/5187-10.pdf>

4. Economic Integration in ASEAN

4.1 Topic Introduction

Economic integration refers to countries or economic regions that coordinate fiscal policies to reduce or eliminate trade barriers in the region, thus facilitating free trade. There are seven stages of economic integration: preferential trading area, free trade area, customs union, common market, economic union, economic and monetary union, and complete economic integration. The final stage represents a total harmonization of fiscal policy and a complete monetary union³.

Within the region, the AEC envisions ASEAN as a single market and production base characterized by free flow of goods, services, and investments, as well as freer flow of capital and skills⁴. Economic integration of this scale would require nations to not only reduce the tariffs between them, but also unanimously establish common standards and procedures within the region. This has been part of ASEAN's efforts thus far - such as the implementation of the Common Effective Preferential Tariff (CEPT) scheme as well as the ASEAN Trade in Goods Agreement (ATIGA)⁵. The collaboration of ASEAN is integral in promoting ASEAN's relevance in the global economy as an integrated investment area, rather than simply as a geographic bloc. Coordinated economic integration would not only establish ASEAN as a valued market for economic activity, but also opens ASEAN Member States (AMS) up to a greater pool of resources.

Beyond ASEAN, integration of the ASEAN community allows for the ease of trade of ASEAN as a market with other countries, which not only makes ASEAN more attractive in the global market, but also increases ASEAN's investment potential.

³ Kenton, W. (2020, September 16). What is economic integration? Retrieved February 17, 2021, from <https://www.investopedia.com/terms/e/economic-integration.asp>

⁴ ASEAN. (n.d.). Single market and production base: Asean economic community: Asean investment. Retrieved March 10, 2021, from <http://investasean.asean.org/index.php/page/view/asean-economic-community/view/670/newsid/758/single-market-and-production-base.html>

⁵ CEPT and ATIGA are further elaborated on in the existing frameworks section.

Free Trade Agreements (FTAs) are one of the most common forms of achieving this. The agreements reduce trade barriers between involved parties through lowering or removing tariffs. While it may seem counterintuitive to remove tariffs - a measure that aims to protect domestic industries - FTAs allow companies to expand their customer base beyond the domestic market as well as serve to increase trade volume of the country. In addition, increased competitiveness in the local market allows consumers to have access to a wider range of products and lowered prices⁶. Most notably, the negotiations for the Regional Comprehensive Economic Partnership (RCEP), the largest Free Trade Zone in the world, were concluded recently. Signed by 15 countries and initiated by ASEAN, it consists of AMS as well as regional dialogue partners. Economic regionalism of ASEAN and the greater Asia is important in remaining relevant, lest the two large and powerful trading blocs of Europe and North America control the rules of the global trading system, marginalising Asia⁷.

Economic integration enhances the connectivity of ASEAN and the world, not only through trade but also by drawing in foreign firms as stakeholders to invest in the economies of ASEAN. In discussing the question of economic integration, delegates should employ a two-pronged approach of improving intra-regional trade while also inviting regional trade partners on board as investors. Delegates will have to consider and come up with relevant solutions involving the key areas of ASEAN leveraging on the global value chain, digital trade and enhancing cross-border infrastructure.

⁶ Grimson, M. (2014, April 07). What is a free trade agreement? Retrieved February 17, 2021, from <https://www.abc.net.au/news/2014-04-07/free-trade-agreement-explained-bilateral-fta-tpp/5371314>

⁷ Kawai, M., Wignaraja, G., Asian Development Bank. (2010, October). Asian FTAs: Trends, Prospects, and Challenges. Retrieved from https://www.un.org/esa/ffd/wp-content/uploads/2010/11/20101115_ADB_WPs.pdf

4.2 Key Terms and Definitions

1. Single market

A single market refers to an economic region across multiple countries, whereby the production and sale of goods and services are subjected to common standards and governed by harmonised policies, thus allowing the free movement of resources and labour.

2. Foreign direct investment (FDI)

FDI a category of cross-border investment in which an investor resident in one country establishes a lasting interest in and significant degree of influence over (ownership of 10 % or more of the voting power) a business resident in another country. FDI is a driver of competitiveness and economic development.

3. Regional trade agreements

Agreements between countries in a specific region, such as ASEAN. The countries involved usually share a similar history, culture, and economic goals. One factor that hinders the effectiveness of regional trade agreements is the diverse nature of different countries' social, economic and political circumstances.

4. Trade

Trade refers the exchange of capital, goods, and services across international borders or territories⁸.

5. Competitiveness

⁸ Edumaritime. (n.d.). International chamber of COMMERCE (icc) Academy - certifications in Int'l trade & finance. Retrieved February 17, 2021, from <https://www.edumaritime.net/icc-academy>

Competitiveness is defined by the World Economic Forum as “the set of institutions, policies and factors that determine the level of productivity of a country”.⁹

6. Global Value Chains (GVCs)

GVCs refer to international production sharing, a phenomenon where production is broken into activities and tasks which are carried out in different countries.¹⁰

7. Infrastructure

In economic terms, infrastructure can be seen as a structure which allows for the production and exchange of goods and services. Broadly defined, the concept of infrastructure is not limited to public utilities, but may also refer to information technology, informal and formal channels of communication, software development tools, and political and social networks which support the economic system¹¹.

8. Cross-border Infrastructure

Cross-border or regional infrastructure may be defined as infrastructure that connects two or more countries, as well as national infrastructure that has significant cross-border impact. This includes but is not limited to transportation, energy and information and communications infrastructure¹².

⁹ Klaus Schwab, World Economic Forum. (n.d.). The Global Competitiveness Report 2017–2018. Retrieved from <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>

¹⁰ Seric, A., & Yee, S. (2019, August). What are global value chains and why do they matter? Retrieved February 17, 2021, from [https://iap.unido.org/articles/what-are-global-value-chains-and-why-do-they-matter#:~:text=Countries%20can%20participate%20in%20GVCs,either%20backward%20or%20forward%20linkages.&text=Producing%20and%20supplying%20inputs%20for,however%20simple\)%20for%20export%20markets.](https://iap.unido.org/articles/what-are-global-value-chains-and-why-do-they-matter#:~:text=Countries%20can%20participate%20in%20GVCs,either%20backward%20or%20forward%20linkages.&text=Producing%20and%20supplying%20inputs%20for,however%20simple)%20for%20export%20markets.)

¹¹ Bhattacharyay, B. N. 2009. Infrastructure Development for ASEAN Economic Integration. ADBI Working Paper 138. Tokyo: Asian Development Bank Institute. Available at: <https://www.adb.org/sites/default/files/publication/155993/adbi-wp138.pdf>

¹² *ibid.*

4.3 Existing Framework(s)

4.3.1 Liberalisation of Trade Policies: Common Effective Preferential Tariff (CEPT) Scheme

The Common Effective Preferential Tariff, signed by the original ASEAN members in 1992, is an agreed effective tariff applied to specified goods originating from AMS. Identification of goods operates on the HS 6-digit level, which is used by most countries worldwide¹³. This not only allows ASEAN to harmonise standards for intra-ASEAN trade, but also gives ASEAN a platform to facilitate trade within the wider region. Reduction or removal of tariffs are the foundational blocks to establishing an integrated economic area. Allowing for the free flow of goods between ASEAN helps to attract investments from other ASEAN countries due to the ease of trade. As such, delegates should note the importance of eliminating tariffs in promoting regional economic activities, making efforts to update the tariff schemes especially due to the influx of technology and new products in the market.

¹³ UN Trade Statistics. (n.d.). Harmonized commodity description and coding Systems (HS) (Classifications, commodity CODES, commodity Description, HS, HS code SEARCH, WCO). Retrieved February 17, 2021, from <https://unstats.un.org/unsd/tradekb/Knowledgebase/50018/Harmonized-Commodity-Description-and-Coding-Systems-HS#:~:text=At%20the%20international%20level%2C%20the.broken%20down%20into%20three%20parts>

4.4 Developments Involving ASEAN and External Partners

4.4.1 ASEAN Plus One (ASEAN+1)

ASEAN+1 refers to the FTAs signed by ASEAN as a bloc with other countries, namely China, Japan, Republic of Korea, India, and Australia and New Zealand. ASEAN's rule of "all for one and one for all" in forging economic relations aligns with its vision of a single market - with a few exceptions such as the major FTAs in the region. These exceptions include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Free Trade Area of the Asia Pacific (FTAAP) of the Asia-Pacific Economic Cooperation (APEC)¹⁴. During the creation of RCEP, ASEAN chose to combine ASEAN+1 agreements into an ASEAN++¹⁵ structure. This approach increases confidence of potential RCEP members regarding the terms of a larger regional FTA involving more parties; the foundations have already been established in prior ASEAN+1 agreements, the RCEP agreement merely builds on these terms.

While a larger regional agreement allows for wider integration and deeper scope, it requires increased commitments to integration. This may pose as a challenge due to the need to accommodate varied national interests¹⁶. The end goal is to have efficient global economic operations and pursue higher growth as a region, beyond a single regional trading bloc. While ASEAN might not yet have enough economic prowess to have a significant say on the global stage, its slow but steady growth and extensive diplomatic relations helps it establish itself as a noteworthy bloc worldwide. The strengths of ASEAN+1 agreements lie in prioritising large regional

¹⁴ Basu Des, S. (2016). ASEAN economic community and beyond. Retrieved February 17, 2021, from <https://books.google.com.vn/books?id=WB1qDwAAQBAJ&pg=PT102&lpg=PT102&dq=asean%2B%2B%2B&source=bl&ots=-TuWRiOXgu&sig=ACfU3U0GXyk0SpxYWgc1DDPbk4hVRxLWXQ&hl=en&sa=X&ved=2ahUKEwiW-J-jucvtAhVbWH0KHRXRCPcQ6AEwBHoECAYQAg#v=onepage&q=asean%20%2B%2B&f=false>

¹⁵ ASEAN++ refers to an extension of the ASEAN+1 agreements.

¹⁶ Findlay, C. (2011, November). ASEAN+1 FTAs and Global Value Chains. Retrieved from <https://www.eria.org/uploads/media/Research-Project-Report/RPR-2010-29.pdf>

trade partners, that are close to but beyond Southeast Asia. Economic cooperation with larger economies both within and beyond ASEAN can benefit smaller economies of ASEAN. However, because their large economic prowess can easily overshadow ASEAN, caution should be taken in dealings with large economic trade deals such as to not end up on the losing side of these deals. As such, using ASEAN's combined economy under the AEC not only boosts intra-ASEAN economic activities, but it also serves as a powerful bargaining tool in the larger region. Thus, delegates should think of how they can continue to leverage on ASEAN as a stepping stone to achieve greater economic growth for their country and the region as a whole.

4.4.2 Regional Comprehensive Economic Partnership (RCEP) Agreement

The landmark occasion of the conclusion and signing of the Regional Comprehensive Economic Partnership Agreement (RCEP) by ASEAN, Australia, China, Japan, Korea, and New Zealand took place in November 2020, despite being in the midst of a pandemic. The RCEP, with membership of 15 countries, is now the largest trading bloc in the world. Built on existing ASEAN+1 agreements, it not only symbolises ASEAN's leadership in upholding multilateralism and centrality in the new regional economic architecture, but also facilitates the development of regional supply chains.

RCEP focuses on the progressive elimination of tariffs and non-tariff barriers for goods and services, as well as the simplification of customs procedures and rules of origin (ROO). Specifically, RCEP's goal is to reduce tariffs by approximately 90% over a period of 20 years, in accordance with each signatory's schedule of tariff commitments.¹⁷ ROOs also sets out how much of a product must be produced within the region for it to enjoy lower tariffs. Standardized ROOs, requiring only a single document to cover all member states, could make it much easier for them to

¹⁷ Nishimura and Asahi. (2020, December 28). Regional Comprehensive Economic Partnership (RCEP) - what you need to know: A general introduction (Part I). Retrieved from nishimura.com/sites/default/files/newsletter_pdf/en/en_newsletter_201228_corporate.pdf

establish supply chains spanning multiple countries. This is expected to help attract greater foreign investment and further bolster Asia-centric supply chains. According to Euler Hermes, a leading trade insurance company, the uniform rules of origin could expand regional trade by around US\$90 billion annually¹⁸. While the policies of the newly signed trade deal such as reduced tariffs might not kick in immediately, the common set of ROO established to facilitate ease of movement between the 15 member countries will benefit businesses based in ASEAN as they already have existing trade deals with RCEP partners.

In addition, it aims to establish common rules on investment, financial and professional services, telecommunications, e-commerce, and intellectual property among other areas in the region. Currently, conflicting terms of multiple FTAs make it difficult for countries to keep track of which rules to follow and increases the likelihood of businesses making economic losses¹⁹. With RCEP being built up from previous ASEAN+1 agreements with multiple countries, the streamlining of these existing trading arrangements would help to cut costs for businesses, as it reduces such conflicting terms.

RCEP members were originally already a major destination for foreign direct investment (FDI); Despite being signed in the midst of global economic downturn, James Zhan, UNCTAD's investment and enterprise director says that "(RCEP) could help revive post-pandemic economic growth, boost global foreign investment and provide a framework for further regional cooperation at a time of global trade

¹⁸ Cooper, B. (2020, December 17). Reimagining the future of trade in Asia. Retrieved February 17, 2021, from <https://www.hkstrategies.com/en/reimagining-the-future-of-trade-in-asia/#:~:text=By%202030%2C%20the%2015%20RCEP,and%20three%20other%20member%20states>

¹⁹ Jong Woo Kang. (2015, August). The Noodle Bowl Effect: Stumbling or Building Block? Retrieved from <https://www.adb.org/sites/default/files/publication/172902/ewp-446.pdf>

tensions,” UNCTAD expects FDI in the region to fall by only about 15% in 2020, which is optimistic compared to the estimated 30-40% fall in global FDI²⁰.

By mitigating the economic impact of the pandemic, ASEAN is on a good footing to continue reaping the rewards of the negotiations for this trade deal that has been in the works for the last 8 years. ASEAN has been receiving an increasing amount of FDI from its prior ASEAN+1 partners, Japan, South Korea and Taiwan. The amount of FDI received from these countries by ASEAN is greater than what these economies have invested in China, in response to the higher labour costs in China as well as an attempt to diversify away from an excessively China-centric value chain²¹.

In the short run, RCEP acts as a stimulus for business and investments through intra-regional and extra-regional trade. In the long run, once the full benefits of the trade deal are made available, large amounts of trade will be able to flow within members of RCEP with minimal barriers, thus facilitating high volumes of trade and movement of assets, as well as increased FDI inflow from members of the trade deal.

Delegates should look into strengthening and investing in regional trade and operations within RCEP, taking action on unlocking the potential of the newly formed trade deal to form deeper economic partnerships with members of the RCEP. Currently, the investment among the 15 countries lies at 30% of total FDI. Investing in countries within the bloc will not only demonstrate member countries' confidence in the trade deals, but also facilitate trade and increase capital flow in the region. In particular, RCEP benefits the least developed nations of ASEAN,

²⁰ UNCTAD. (2020, November 18). New Asian trade bloc could help Boost post-pandemic investment. Retrieved February 17, 2021, from <https://unctad.org/news/new-asian-trade-bloc-could-help-boost-post-pandemic-investment>

²¹ García-Herrero, A. (2020, November 17). RCEP might not stop reshuffling of Asian value chains. Retrieved February 17, 2021, from <https://www.bruegel.org/2020/11/rcep-might-not-stop-reshuffling-of-asian-value-chains/>

including Cambodia, Myanmar and Lao People's Democratic Republic, through investment in growth industries prioritised by respective governments from countries outside of ASEAN. Currently, 70% of its current FDI comes from within ASEAN, which suggests that there is greater potential in attracting more extra-ASEAN trade and investment. As RCEP consists of ASEAN's largest trading partners, delegates should thus tap on RCEP as a platform to collaborate with regional partners in order to strengthen ASEAN's economy.

4.5 Case Studies

4.5.1 The European Union (EU)

Established in 1993 through the European Union Association Agreement, the EU is a treaty of cooperation between countries in the European region. Due to the success of the region as well as the long history and comprehensive coverage of the EU agreement, the EU is perceived as the epitome of regional integration. In fact, the EU promotes itself as a model for regional integration - former British foreign secretary David Miliband suggested in 2007 that the EU should be a 'model power' rather than a 'superpower'²². Currently, many regional integration programs in Africa and Latin America - such as the African Union and the Mercosur - are closely modeled after the EU.

The extensiveness of economic integration within the EU can be highlighted in a few key aspects. Firstly, its economic and monetary union removes the hassle of conversion of currencies and eliminates disruptive surges in demand arising from changes in exchange rates. Additionally, the free movement of workers and the absence of tariffs in the EU allows for the free flow of goods and services amongst EU countries.

When adopting practices from the EU, ASEAN actively and judiciously chooses to accept, reject or adapt aspects of EU integration that suit its own context. In addition, ASEAN considers and implements best practices from a wide array of sources to protect its normative integrity²³. Delegates are reminded not to be hyper fixated on "modelling after" existing solutions without taking into consideration the differences in the nature of the different economic structures.

²² Allison-Reumann, L., & Murray, P. (2017, August 06). Should the EU be considered a model for ASEAN? Retrieved February 17, 2021, from <https://www.eastasiaforum.org/2017/08/06/should-the-eu-be-considered-a-model-for-asean/>

²³ *ibid.*

4.5.2 Economic Community of West African States (ECOWAS) and the EU

The ECOWAS was established on 28th May 1975, through the treaty of Lagos. It is a 15-member regional group in West Africa with a mandate of promoting economic integration in all fields of activity of the constituting countries.

Under the Economic Partnership Agreement (EPA) of the ECOWAS and the EU, the members of ECOWAS are required to liberalise 75% of its imports from the European bloc. The other 25% consists of local products that are excluded from the lifted tariffs to avoid competition with the EU imports, as well as to support current and future sector policies.

In 2014, Côte d'Ivoire sought to protect local chicken production by listing poultry as an excluded product in the EPA with the EU. Its intention was to cut off the supply of cheap imports of chicken parts from the EU to ECOWAS members, thus allowing it to take over as the main producer of poultry in the region. However, after signing the updated agreement, seven neighbouring ECOWAS countries started developing their poultry industries. Ghana, for instance, launched a programme only six days after the signing. The replication of Côte d'Ivoire's poultry industry strategy among ECOWAS nations caused it to backfire on Côte d'Ivoire, as it was not able to reap any harvest from its initial plans to provide poultry to the regional market of ECOWAS nations. This problem of lackluster coordination is not unique to poultry production or to ECOWAS. A study of Botswana noted that when an industrial policy succeeds there, it is usually copied by South Africa. To avoid this, the authors of the study called for the integration of Botswana's industrial policy with that of South Africa.²⁴

Evidently, the inability to negotiate terms agreeable to the entire bloc, results in unhealthy intra-regional competition which pushes prices down, making business unprofitable or less profitable for industries which are competing for dominance over the same region - a lose-lose situation for all parties. Harmful competition

²⁴ Vickers, B. (2008, October). Industrial Policy in the South African Customs Union. Retrieved from http://igd.org.za/downloads/IGD%20Reports/sacu_industrial_policy_in_southern_africa.pdf

hinders the growth of the region as a whole, undermining the effectiveness of the regional economic blocs as it pushes countries to adopt protectionist policies, which in turn traps the bloc in a vicious cycle of low returns. Thus the importance of investment in the region is highlighted, as the inflow of capital will attract business which will bring about economic growth.²⁵ In addition to paying attention to avoiding harmful competition in the region, delegates should make use of investments as a lubricant for smoother economic growth both within respective countries and also of the bloc as a whole.

²⁵ Odijie, M. E. (2021, February 05). How West Africa economic partnership deals put the cart before the horse. Retrieved February 17, 2021, from <https://theconversation.com/how-west-africa-economic-partnership-deals-put-the-cart-before-the-horse-149300>

4.6 Key Issues of Discussion

4.6.1 Leveraging Global Value Chains (GVCs)

The flow of goods and services in GVCs, as well as related global supply chains, are initiated and dictated by key players on the firm level. These firms are referred to as “lead firms” and operate in two ways to engage the GVCs in manufacturing hubs such as ASEAN. The first way is by acting as a Multinational Enterprise (MNE), directly investing in production plants - for example, Ford and Samsung. The second way is for companies to outsource manufacturing to independent third party companies, usually through commissioning local manufacturers to manufacture their goods - for example, Apple, Nike and Walmart²⁶. GVC operations not only bring about a flow of unfinished goods, final products and people globally, but they also allow for an exchange of know-how between different links in the GVC located in different regions of the world, allowing economies to standardise manufacturing standards and methods internationally within individual GVCs. However, this also highlights the need to harmonise manufacturing policies, including publishing best practices to ease the processes needed to operate GVCs across borders.

In the past few decades, developing countries in ASEAN have been able to capitalise on GVCs through the specialization of industries, allowing them to experience a surge of economic growth through job creation. Most notably Vietnam, one of the world's most promising emerging markets of today, managed to transform its economy through investment in technological infrastructure and liberal trade policies, which has allowed Vietnam's firms to participate more actively in GVCs, especially in the manufacture of electronic components and textiles for export. This trend of specialisation is likely to become more prominent in the near future, as the rise in Chinese labour costs resulting from the shift towards high-tech manufacturing in China has prompted global industries to switch to alternative production bases in other countries. Moreover, the US-China trade war has also

²⁶ ASEAN. (2017). A Historic Milestone for FDI and MNEs in ASEAN. Retrieved from https://asean.org/wp-content/uploads/2017/11/ASEAN_50_Milestone.pdf

accelerated the withdrawal of US-based companies from manufacture in China by imposing high trade tariffs on Chinese goods. Given ASEAN's proximity to China, this could prove to be a valuable opportunity to attract more companies to ASEAN, which already manufactures a notable portion of the world's goods.

However, ASEAN faces issues in attracting business in GVC operations due to its size, which pales in comparison to its larger competitors, China and India, who have population sizes numbering in the billions. As a result, ASEAN should continue to bank on the benefits brought by economic integration to stay competitive in order to increase trade volumes. Within ASEAN, manufacturing capacities and productivity can be increased by applying and utilising available technologies in their operations as well as through establishing and utilising industrial zones with proper infrastructure, which will attract more trade and investments.

The creation of an integrated economic market is a vital move for ASEAN to capitalise on this opportunity, as it would aid in directing more of the world's manufacturing needs to ASEAN and thus solidify its role as the "second manufacturing hub" of the world. Increased ease of goods flowing within ASEAN countries due to economic integration will eliminate redundant processes, increasing the productive capacity of AMS. One example is lowered inventory costs, where convenient access to overseas warehouses will reduce the need for specialized products to be kept in stock by domestic companies. This also minimizes losses made due to obsolescence, where goods arrive after customers need them²⁷. Thus, delegates should consider the opportunities presented by the GVCs, strengthened through consolidated efforts as a single market.

In addition, AMS can bank on the strengths of one another in order diversify the market as well as to draw investments to ASEAN. AMS should focus on developing

²⁷ McKinsey Productivity Sciences Center. (2014, October). Understanding ASEAN: The manufacturing opportunity. Retrieved from https://www.mckinsey.com/~media/mckinsey/our%20people/matteo%20mancini/understanding_asean_the_manufacturing_opportunity.pdf

GVC related infrastructure and increasing the productivity in these sectors, establishing economic relations both within and outside of ASEAN.

4.6.2 Digital Trade

Digital trade involves the four dimensions of digital goods and services, e-commerce, digital transactions and digital technology. It is increasingly intertwined with our everyday lives, from e-payments to online shopping or just the act of using mobile phones. Enhancing digital trade can boost both intra- and extra-ASEAN trade, provided the necessary infrastructure and policies are already in place.

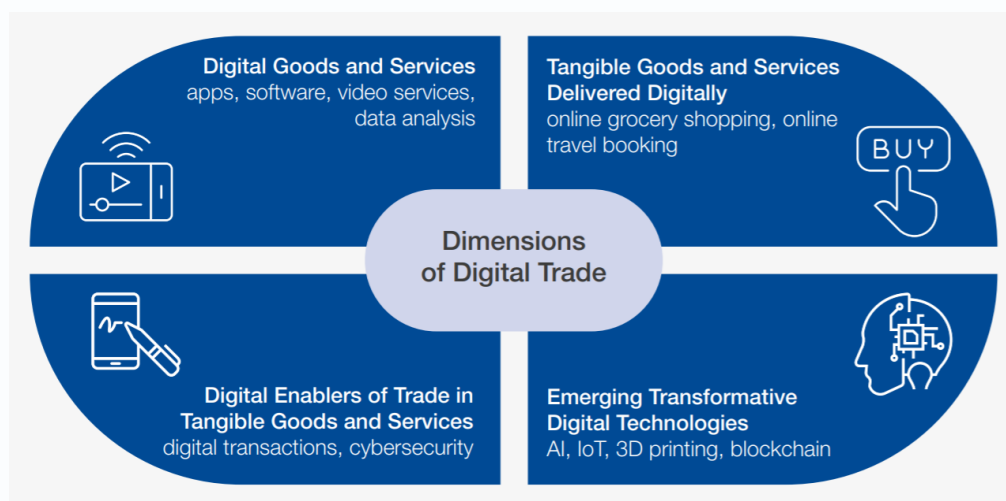


Fig 1. Aspects of digital trade²⁸

While the data might freely flow across borders through the Internet, many restrictions plague companies offering their products to consumers from another country through digital commerce. One example is the implementation of strict requirements on digital services and technologies for foreign companies, including licensing or certification requirements, mandatory cybersecurity and privacy standards²⁹. Thus, delegates should minimise the barriers to digital trade between countries to facilitate this new age medium of trade by focusing on harmonising standards for the aforementioned regulations to enhance the ease of digital trade between AMS and the world, but especially among ASEAN nations.

²⁸ World Economic Forum. (2020). Advancing Digital Trade in Asia 2020. Retrieved from http://www3.weforum.org/docs/WEF_GFC_Advancing_Digital_Trade_in_Asia_2020.pdf

²⁹ Andrew D. Mitchell and Neha Mishra (2020), "Digital Trade Integration in Preferential Trade Agreements", ARTNeT Working Paper Series, No. 191, May 2020, Bangkok, ESCAP. Retrieved from unescap.org/sites/default/d8files/knowledge-products/AWP%20191%2B.pdf

Another example is data localisation, which refers to laws and regulations restricting data flows outside one's borders by requiring data to be stored and/or processed locally. While data infrastructure is important in keeping sensitive data, such as that of a country's defence, secure, at the firm level, data localization measures raise the cost of hosting data by 30-60%³⁰. This contradicts the borderless nature of the Internet, restricting opportunities for Small and Medium Enterprises (SMEs) to export to foreign markets through e-commerce. In addition, with the development of technologies such as Internet of Things (IoT), more data will need to be collected and stored. Data localisation measures are important in protecting the security of user's personal information, however it harms efforts towards a more liberalised and integrated digital economy³¹. At the same time, e-commerce and other digital services still deal with sensitive data such as bank card information and addresses. As such, delegates should make a clear distinction between national data and business data, allowing for freer flow of information and data across borders to conduct business, with the proper protective measures in place to allow sensitive data to flow safely.

An overarching theme in the betterment of digital trade is enhancement of ICT infrastructure. This infrastructure promotes economic growth, enhancing productivity in the region by enabling companies to have better communications with business partners and customers, be more innovative and have access to more information. In addition, consumers will gain access to e-commerce. This promotes cross-border trade activity, and creates demand for the commerce industry. According to the Masterplan for ASEAN Connectivity 2025, Internet Exchange providers in the private sector should "be encouraged to establish more peer-to-peer connections with their ASEAN counterparts across the borders"³². In addition, it raises the possibility of an ASEAN Single Telecommunications Market.

³⁰ TechWonk blog - the costs of data localization. (2016, August 16). Retrieved March 10, 2021, from <https://www.itic.org/news-events/techwonk-blog/the-costs-of-data-localization>

³¹ See footnote 29

³² ASEAN. (2016). Master Plan on ASEAN Connectivity. Retrieved from <https://asean.org/storage/2016/09/Master-Plan-on-ASEAN-Connectivity-20251.pdf>

However, as each country's ICT needs differ, it will be difficult to set up a network between all ASEAN countries that will be able to benefit all. At the same time, a strict rigidity and standardisation of ICT needs might be harmful to the rapidly evolving and growing technology sector, stifling innovation and limiting the range of technologies available to consumers. On the other hand, cross-border sharing information about ICT will benefit ASEAN countries, and sharing common infrastructure such as broadband infrastructure between countries might save costs in the region. Drawing investments into the area of ICT infrastructure will help develop the state of connectivity through technology, at the same time, it can also promote the sharing of information across borders to improve existing infrastructure.

As a whole, delegates should look into drawing investments from foreign countries as well as AMS to further develop digital trade and its relevant industries, using economic integration to ASEAN's advantage, which has been made easy through the borderless nature of the Internet.

4.6.3 Transport and Energy Cross-border Infrastructure (CBI) Development

In order to facilitate economic activity — and by extension, economic integration — transport CBI in ASEAN is essential as it allows for greater interconnectivity between AMS and the efficient movement of goods. In addition, ease of sharing of natural resources will be highly beneficial in increasing the productivity of ASEAN economies; to do so, energy CBI can be developed among ASEAN countries.

Transport CBI requires sufficient capacities of land, air and sea ports to enable large amounts of trade to be conducted smoothly and efficiently between AMS. With plans to increase economic activity through attracting foreign companies and trade via economic integration, countries should also anticipate the expansion of transport networks to better facilitate this trade expansion, as appropriate expansion of infrastructure will increase the productive capacity of their economies. However, overcapacity, where there are excessive unutilised resources, is a

pressing concern. Governments have to run the fine line between being ready for increased trade volumes and facing overcapacity. Delegates must thus consider how to maintain balance between increasing productive capacity for expected growth and deriving utility from invested resources, as well as how to position themselves such that they are prepared to maximise their business opportunities based on anticipated global trends.

Through the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline, ASEAN aims to secure a cross-border energy network. The CBI will allow for energy trading between ASEAN countries which could provide a more reliable energy source for all AMS. Interconnected electricity networks allow countries with abundant natural resources to generate income from their surplus power, while countries with power shortages can import from neighboring countries at reasonable prices. However, with the rise of technology, electricity demands in ASEAN are rising, which would result in lesser amounts of surplus power available for export to other countries. These infrastructure includes building an interconnected energy network through supplementary gas pipelines and other infrastructure to transport the energy.

Currently, the development of various CBI - not limited to energy and transport CBI - occurs through nation's individual efforts, or sub-regional infrastructure cooperation programs, such as the Greater Mekong Subregion (GMS), the Mekong River Commission (MRC), the Brunei-Indonesia-Malaysia-Philippine East Asia Growth Area (BIMP-EAGA) and the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). In addition, there are initiatives involving the greater Asian region, like the Asian Highway (AH) and the Trans-Asian railway (TAR) network³³. Beyond ASEAN, China's ambitious infrastructure development project, the Belt and Road Initiative (BRI) involves AMS in its projects. Several investment vehicles, including Asian Infrastructure Investment Bank (AIIB), New Development Bank (NDB), Silk Road Fund (SRF) have been set up to facilitate investments to upgrade infrastructure in

³³ See footnote 11

the region. Chinese policy banks, namely China Development Bank and The Export-Import Bank of China, have also been active³⁴. These plans, both within and beyond ASEAN, involve different stakeholders, focusing on the development of a mixture of CBI in order to achieve different aims. Given how these existing efforts only focus on specific subregions to achieve specific goals, there is potential for further expansion of such programmes to close the development gap and to achieve a higher level of connectivity.

In fact, through the aforementioned regional projects as well as existing projects within ASEAN, ASEAN nations can attract more investments from other countries to improve their infrastructure. This will help to grow interconnectivity within individual ASEAN countries which will increase the productivity of their economies. At the same time, if intra-ASEAN connectivity is improved, increased flow of goods and people will increase the interconnectivity of ASEAN, stimulating economic growth of the region as a whole. Delegates should consider how investments can be directed towards improving the overall state of infrastructure, thereby preventing unbalanced growth due to inflow of investment from partnerships in specific areas.

³⁴ LSE IDEAS, & CIMB ASEAN Research Institute. (2018, October). China's Belt and Road Initiative (BRI) and Southeast Asia. Retrieved from <https://www.lse.ac.uk/ideas/Assets/Documents/reports/LSE-IDEAS-China-SEA-BRI.pdf>

4.7 Key Stakeholders

4.7.1 CMLV Countries

Cambodia, Myanmar, Laos and Vietnam (CMLV) are the poorest countries in the Southeast Asian region. As they continue to transition away from being centrally planned economies, foreign investment is important in catalysing their growth. ASEAN is the main investor in these countries³⁵ as 70% of their FDI comes from within ASEAN³⁶. As such, on top of maintaining positive relations with fellow AMS, they should aim to diversify their pool of investors through attracting and involving the stakeholders in ASEAN+1 or ASEAN++ agreements for greater economic growth and stability. In addition, the shift in China's economic plans away from production and manufacture is a golden opportunity for CMLV countries to establish themselves in missing links of GVCs.

4.7.2 Brunei

Brunei has the lowest net inflow of FDI in ASEAN, due to its small domestic market. Its FDI as a share of GDP is lower than the ASEAN average (51 per cent versus 73 per cent in 2016, according to UNCTAD)³⁷. However it continues to prosper due to its abundance of oil and gas resources. While GVCs focus on the production of a wide range of products, (semiconductors, consumer electronics, garments, automobiles manufacturing for export), there are almost no such industries in Brunei Darussalam. The absence of these industries and special economic zones undermine the Bruneian government's efforts to diversify its economy. As such, the Bruneian government would have to start from almost ground zero in building up interconnectivity with the global economy to attract more FDI and diversify their economy.

³⁵ Mathai, K., Gottlieb, G., Hong, G., Jung, S., Schmittmann, J., & Yu, J. (2016, September 01). China's changing trade and the implications for the CLMV. Retrieved February 17, 2021, from https://asean.elibrary.imf.org/view/IMF087/23178-9781513544991/23178-9781513544991/23178-9781513544991_A001.xml?redirect=true

³⁶ See footnote 20

³⁷ See footnote 26

4.7.3 Developed Countries

These countries might already have many advanced infrastructure as well as economic relations developed and established. Due to the development gap between the developed bloc and the less developed countries in terms of infrastructure, this requires some work on the end of developed countries to assist or invest in neighbouring countries for the sake of greater economic growth in the region which will benefit the whole region.

5. Questions a Resolution Must Answer (QARMA)

1. To what extent should economic integration be promoted in ASEAN?
2. How can ASEAN benefit from GVCs? What can be done to improve the productivity of these GVC operations?
3. What other measures can be taken to improve the competitiveness of ASEAN?
4. How can ASEAN attract investments through digital trade as well as cooperate to facilitate digital trade in ASEAN?
5. How can CBI be better implemented within ASEAN to aid economic integration of the region? Who are the key stakeholders in the region, and is it possible for ASEAN to develop shared or integrated infrastructure with these countries to facilitate economic activity?

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