

Industry Insight

AEC: BOLSTERING LOGISTICS

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AEC- BOLSTERING LOGICSTICS

The Logistics industry is significant to a country's economic growth. It contributes to national income, facilitates job creation and allows for the inflow of foreign investment. Recognising this, the governments of ASEAN consider it the twelfth Priority Sector that helps accelerate economic integration.

This report looks at the strategies included in the ASEAN Economic Community (AEC) 2015 Blueprint for the logistics industry. It is not an in-depth exploration but a general overview, which includes a section on Malaysia's logistics hub.

BACKGROUND ON ASEAN

On the 8th of August 1967, Indonesia, Malaysia, Philippines, Singapore, and Thailand founded the Association of the Southeast Asian Nations (ASEAN) in Bangkok, Thailand. It aims to transform the region into a more stable, prosperous and highly competitive one with equitable economic development and reduce

poverty and socio-economic disparities. Over the years, the association grew, with other nations in the region joining. The ten member states are Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.



Source: (ASEAN Macro-economic Database, 2020^[29]) <https://data.aseanstats.org/>.

Chart 1: ASEAN Demographics

OVERVIEW OF ASEAN

ASEAN believes in the importance of regional economic integration to become a stable and prosperous region. At a summit in Bali in October 2003, ASEAN leaders declared the establishment of the ASEAN Economic Community (AEC). At the ASEAN Economic Ministers meeting held in Kuala Lumpur in 2006, the ministers agreed upon developing a single and coherent blueprint as guidance to advance the AEC by 2015. The year after, the AEC blueprint was published.

The goal of the AEC (ASEAN 2017) is to establish ASEAN as a single market and production base, making it "more dynamic and competitive with new mechanisms and measures to strengthen the implementation of its existing economic initiatives; accelerating regional integration in the priority sectors; facilitating movement of business persons, skilled labour and talents; and strengthening the institutional mechanisms of ASEAN."

The key pillars envisaged by the AEC are as follows:

- A single market and production base
- A highly competitive economic region
- A region of equitable economic development
- A region fully integrated into the world economy

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With the establishment of the AEC, the region, comprised of more than 600 million population and with a market size of USD\$2.3 trillion, will see a freer flow of goods, investments, capital, and skilled labour

LOGISTICS IN THE AEC BLUEPRINT

The logistics industry will benefit from the strategies proposed under the blueprint's 'single market and production base' and 'highly competitive economic region pillars'. The first pillar's two most relevant sections would be the free flow of goods and services. As for the second pillar, the section on infrastructure development would be significant, specifically transport cooperation, maritime and air transport, and information infrastructure.

Under the free flow of goods section, ASEAN aims to remove all restrictions on trade, such as eliminating tariffs and non-tariff barriers and implementing trade facilitation measures. The measures include integrating custom procedures, establishing the ASEAN single window, and harmonising standards and conformance procedures. Besides removing trade restrictions, the blueprint targets at least 70% of foreign equity (ASEAN) participation by 2013. By establishing the ASEAN single window, the National Single Window (NSW) of the region's member states will be connected and integrated. This connection and integration will accelerate cargo clearances and reduce transaction time and costs.

MALAYSIA, A LOGISTICS GATEWAY

Malaysia has the right factors to become a regional logistics gateway due to its strategic location, steady economic growth, regional linkages and solid transportation infrastructure. The Malaysian government deemed the logistics industry a priority because of its potential and has set up government initiatives to support this. These government initiatives are manifested in Malaysia's Economic Planning Unit's (EPU) 'Logistics and Trade Facilitation Masterplan' (2015) and the 'National Transport Policy' (2019-2030) under the Ministry of Transportation.

With the AEC, countries will see higher demand for door-to-door multimodal transport and integrated logistics services to cater to higher volumes, and more extensive market and consumer demand. To tap into

MITIGATING EXPECTATIONS

Operating as a single economic entity will bring significant benefits because it increases competitiveness, narrows development gaps and improves resilience against external shocks. However, integrating the market of ten diverse nations would not be an easy task. Challenges will arise considering each ASEAN member's income, human capital, institutions, and infrastructure development gaps.

Other factors include the disparities in good governance and the rule of law. ASEAN governments must find massive funding to build and strengthen infrastructure. In terms of removing trade restrictions, academics/analysts predict difficulties in eliminating non-tariff barriers, primarily due to the lack of standard definitions and approaches in identifying non-tariff barriers from non-tariff measures.

services. A report published by the International Labour Organization (ILO) and the Asian Development Bank (ADB) found that AEC can generate 14 million additional jobs and create new opportunities for the people.

In terms of infrastructure development, transport cooperation is essential. The blueprint plans to strengthen it by enhancing transport facilitation and logistic services, promoting multimodal transport linkages and connectivity, and liberalising air and maritime sectors. Suggestions include implementing the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT), the ASEAN Framework Agreement on Multimodal Transport (AFAMT) and the finalisation of the ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST).

In the sub-section on maritime and air transport, the blueprint pushes for the adoption of a framework for an ASEAN single shipping market. Actions include implementing relevant International Maritime Organisation (IMO) Conventions and a roadmap towards integrated and competitive maritime transport in the region. Meanwhile, a secure and connected information infrastructure is necessary to sustain the region's economic growth and competitiveness. Therefore, ASEAN aims to develop a high-speed interconnection among all information infrastructure. One key action is to support sectoral ICT logistics applications to increase effectiveness and productivity.

the enormous regional trade, logistics players would likely need to merge, collaborate or coordinate their activities. The EPU's Masterplan aims to capitalise on this regional integration by creating conditions to ensure local logistics service players are ready and promote them once they are.

Under the National Transport Policy paper, the ministry sets out five policy thrusts and 23 strategies, some of which focus on the logistics industry. The strategies include improving the efficiency of the clearance process by agencies, modernising integrated logistics to reduce the cost of doing business, enhancing the competitiveness of air cargo, increasing the utilisation of rail services for goods, and upgrading hinterland connectivity to gateways and connecting corridors for improved economic distribution.

Nevertheless, assuming that ASEAN members successfully implement the strategies put forth in the AEC blueprint, logistics players could see the potential for their businesses to grow due to the enormous market of over 600 million consumers. Businesses could save cost and time due to improved infrastructure, physical and information, and greater regional connectivity.

In 2015, ASEAN adopted the AEC Blueprint 2025 at the 27th ASEAN Summit on the 22nd of November 2015 in Kuala Lumpur, Malaysia. It builds from the 2015 blueprint but focuses on setting the strategic directions for the next phase of ASEAN's economic integration agenda (2016 to 2025).



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