

ASEAN Cooperation on Industrial Project-Based Initiatives

Scoping Paper

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1 Introduction

ASEAN's industrial sector is a key pillar of Southeast Asia's economy, with the sector contributing to 36% of the region's GDP (2020). The region has undergone significant transformation over the years, shifting from traditional industries such as agriculture and textiles to higher value-added industries such as electronics and pharmaceuticals.

As the region continues to grow, the industrial sector is expected to play an increasingly critical role in supporting sustainable economic growth and development. Industries within the sector, such as manufacturing, has created opportunities for both skilled and unskilled workers, with 14.5% of employed segment under this sector (2020).

ASEAN, recognizing that its long-term economic resilience depends on achieving sustainable and inclusive growth, also recognizes the importance of economic integration to continue to fuel this growth. It has worked to achieve it through the ASEAN Economic Community (AEC), established in 2015, with the objectives to drive economic integration, foster regional growth and develop resilient supply chains. The body's blueprint, AEC 2025, desires to establish a single market and production base within the region, with free movement of goods, services, investment, and skilled labor. Under this, the organization has implemented various initiatives to achieve these goals, such as the ASEAN Trade in Goods Agreement (ATIGA), Priority Integration Sectors (PIS) and ASEAN Investment Facilitation Framework (AIFF).

However, significant challenges remain to achieve seamless economic cooperation for industrial sectors. There has been long-term ongoing efforts to harmonize member states, with each country having varying levels of development and priorities. This context makes it challenging for ASEAN to achieve a level playing field in terms of regulations, standards and trade policies, hindering the ability of businesses to operate seamlessly across borders. Moreover, this makes it difficult for ASEAN create a competitive advantage to attract foreign investment in industries where cross-border activities are the norm.

Changes in the regional and global landscape are giving rise to new opportunities for ASEAN to concretize its industrial cooperation. Shifting global supply chains brought about by the COVID-19 pandemic and changing global trade dynamics are pushing players across industries to reorganize their value chains and operations. This is creating a stage of opportunity for ASEAN to establish itself as a strategic region of choice. Other macro-trends such as rapid advancements in technology and innovation, as well as the push for sustainability and climate change mitigation are further pronouncing the need for ASEAN to strategically capture a large share of these shifts. By capitalizing on these macro shifts, **ASEAN has the opportunity to create next generation of regional champions**, with the potential of becoming global champions of the world in their respective fields. Such economic integration has immense potential to **unlock and accelerate economic growth**, as high as 15% over base projections, and create more than 6M new jobs till 2030.



To ensure that ASEAN is in the position to take advantage of these shifts, it is imperative that ASEAN member states (AMS) establish clear framework to cooperate on industrial projects. Cooperation among member countries is crucial for the region to gain huge economic benefits, create jobs, and improve living standards equitably across the region. With this unique high impact framework, member states have the opportunity to create regional champions who can become global industrial champion, Moreover, the faster recover from pandemic are estimated to uplift the sector GDP size growing at 3-15% on top of current growth until 2030 with potential new jobs created in resilient and high impact value chains. With this framework, ASEAN can also develop the infrastructure for a single market economy.

This framework will require taking from past learnings on regional industrial cooperation. At its core, it will require a public-private cooperation mechanism, recognizing the private sector's critical role in helping unlock the full potential of ASEAN economies. To further concretize areas of mutual benefit and collaboration, ASEAN will also need to define a clear project qualification framework for shared consensus across AMS, incentives and privileges that will move the needle for stakeholders and supporting mechanisms to ensure sustained cooperation and integration in industrial innovation.

The **Framework for ASEAN Cooperation on Industrial Project-Based Initiatives** (hereafter 'the Framework'), therefore, provides a **structured pathway for AMS to voluntarily participate in the implementation of regional industrial project-based initiatives** to deepen economic integration and move towards long-term sustainable development. The Framework builds on learnings from past industrial cooperation initiatives and sets out a practical approach to engaging private sector participation to accelerate success.

2 Rationale and Objective

The objective of this initiative is to define a **Framework that enables AMS to voluntarily commence discussions and explore industrial project-based initiatives**, while taking into account economic complementarity of individual member states. The current scoping paper is a detailed document to explain **key considerations and associated recommendations** in developing the Framework.

The Framework aims to encapsulate the following:

- (i) **A core Framework to enhance industrial cooperation & integration** amongst AMS including:
 - a. A **cross-country collaboration mechanism** that enables effective cooperation among relevant agencies of participating AMS and private sector companies to participate in the conception and implementation of industrial projects
 - b. A **project selection mechanism** that enables strategic selection, qualification and approval of priority ASEAN industrial project based-initiatives to be adopted by all AMS;
 - c. Archetypes for **incentives and support** such as financial & fiscal incentives and other support levers that can be granted by participating AMS to involve private sectors of participating AMS in conformity with the laws and regulations of each participating AMS, and is granted voluntarily
- (ii) **Various enablers for implementation to ensure framework enables sustained cooperation and integration** in industrial cooperation, including a monitoring & evaluation mechanism, operationalization of an ad-hoc task force and processes for framework implementation

A new Framework to guide regional cooperation on industrial projects can pave the way for a new age of economic integration for the industrial sector. Existing frameworks such as the ASEAN Industrial Project (AIP) and ASEAN Industrial Complementation Scheme (AIC) were developed to respond to specific needs at the time, resulting in multiple agreements that can be difficult to navigate. A new framework can provide a more comprehensive and integrated approach to industrial cooperation. In addition, the changing regional and global landscape necessitate a new framework that can better respond to emerging challenges and opportunities. Ultimately, this Framework aims to strengthen ASEAN's institutional capacity, increasing its attractiveness as a regional hub for industrial development.

3 Learnings from Prior ASEAN Industrial Cooperation Initiatives

ASEAN has undertaken **three distinct phases of initiatives** over decades to foster and promote economic and industrial integration across member states.

In the **first phase** in mid 1970s, ASEAN launched **ASEAN Industrial Projects (AIP) Program** to promote economic cooperation and collaboration across the then member states of Indonesia, Malaysia, the Philippines, Singapore, and Thailand to ensure sufficient supply of essential goods and reduce dependence on foreign imports. Under AIP, each member state was allotted one large-scale, government-owned project post alignment to serve the ASEAN market. Each AIP had 5 shareholder entities with 60% ownership by the host country and 40% by other members. Five industrial projects including urea fertilizer plants for Indonesia and Malaysia, copper fabrication for the Philippines, potash mining for Thailand; and vaccine project for Singapore were launched under the program.

The **second phase** of industrial cooperation initiated in 1980s with the launch of **ASEAN Industrial Cooperation (AIC)** and **ASEAN Industrial Joint Ventures (AIJV)** programs to involve the private sectors across ASEAN countries. The AIC scheme aimed to develop regional level value chains for increased production, where each country was allocated a specific part of value chain based on available resources. Automotive sector was prioritized under the AIC package with Mitsubishi as the first private sector partner. AIJV was focused on facilitating joint ventures between private businesses in ASEAN countries, with a focus on promoting technology transfer and increasing competitiveness of ASEAN's industrial sector. The launch of AIC and AIJV was followed by introduction of **Brand-to-brand Complementation (BBC) scheme** in 1988 to overcome tariff restrictions for intra-company trade across countries. The BBC scheme allowed reduction of tariffs by 50% for intra-company trade on automotive industry and local content accreditation on component of participating countries.

The **third phase** of economic integration was aimed at provision of **broader economic enablers**, to **liberalize and promote intra-regional trade** and foster collaboration. In addition to the ASEAN Preferential Trading Arrangement (PTA) that was launched in 1977 to provide reduction or elimination of tariffs on goods, **Priority Integration Sectors** was launched in 2004. Under the PIS scheme, 15 types of measures were introduced to simplify trade and provisions relating to 12 priority sectors and act as a catalyst to overall ASEAN integration.

While these initiatives have resulted in some progress in economic integration over the past decades, it is important to learn from the shortcomings of these programs, while being cognizant of ASEAN's context and considerations.

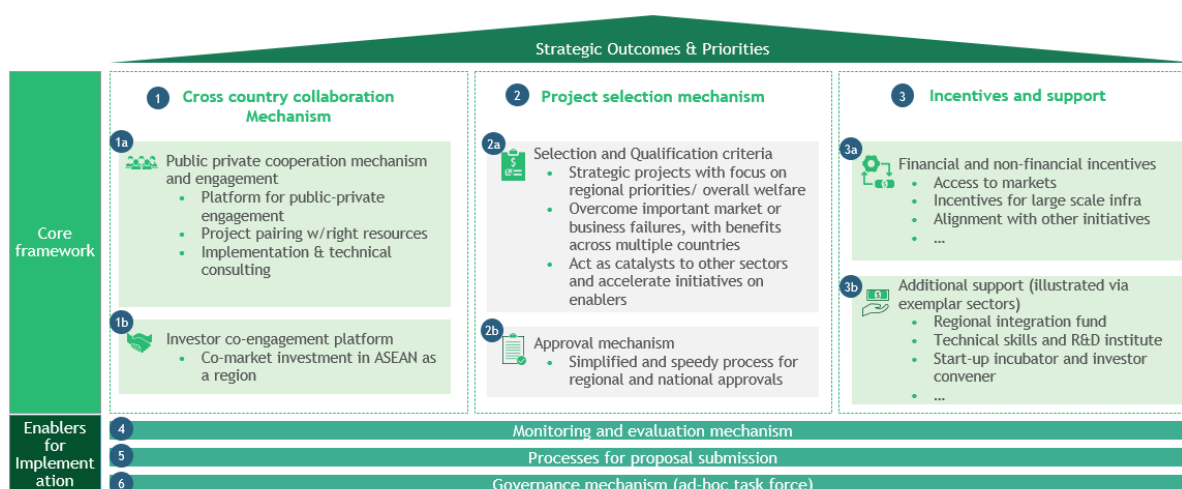
- (i) Firstly, past initiatives **did not harness individual member states' natural interests to foster a collaborative win-win approach**, wherein regional interests were additive to national interests that member states naturally used as a lens to propose projects. Hence, it is critical to design a mechanism that encourages individual states to undertake projects which not only benefit the state but also the region.
- (ii) Secondly, conventional **project selection processes have been more government led** with limited and delayed inputs from private sector. Hence, the new mechanism needs to be able to facilitate engagement with private sector early to get real market insights and to attract interest, while ensuring government control is not compromised.

- (iii) Thirdly, since individual states have autonomy over incentives offered and retain decision making at national level, there is a **need for ASEAN level coordination of incentives**. Hence, new mechanism needs to focus on incentive levers which can be coordinated/ influenced by ASEAN, especially promoting easier access to markets, while balancing domestic industry concerns about competition.
- (iv) Lastly, some projects implemented under earlier mechanisms witnessed **limited success due to operational inefficiencies, challenges in intra-ASEAN trade, financial infeasibility** and need for stronger innovation and technology. Hence, the new mechanism needs to carefully evaluate and select projects which can address such challenges, by ensuring more robust project planning, work scoping as well as continued monitoring and evaluation to create a performance driven culture and ensure program success.

4 Framework for ASEAN Industrial Project-Based Initiatives (AIPBI)

ASEAN aims to **propel economic integration and leverage industrial development as a catalyst** to strong, inclusive, and sustainable growth in the region. The new framework for AIPBI will enable the following outcomes:

- (i) Promote the development and growth of new production networks and resilient supply chains
- (ii) Strengthen long-term sustainable development
- (iii) Accelerate and sustain post-COVID19 economic rebuilding
- (iv) Enhance intra-ASEAN trade and investment; and
- (v) Enhance connectivity, sectoral cooperation, and broadening and deepening economic integration



To support this vision and incorporate learnings from past initiatives, the AIPBI framework will aim to revive the industrial projects pipeline & drive effective implementation of the initiatives through private-sector involvement. The framework will include:

- (i) **A core Framework to enhance industrial cooperation & integration** amongst AMS including:
 1. A **cross-country public private collaboration mechanism** that enables effective cooperation among relevant agencies of participating AMSs and private sector companies to participate in the conception and implementation of industrial projects
 2. A **project selection mechanism** that enables strategic selection, qualification and approval of priority ASEAN industrial project based-initiatives

3. Archetypes for **incentives and support** such as financial & non-financial incentives and other support levers that can be coordinated by ASEAN as a region or granted by participating AMS to involved private sectors
- (ii) **Various enablers for implementation** to ensure framework enables sustained cooperation and integration in industrial cooperation, including:
 4. A **robust monitoring and evaluation mechanism** for ASEAN industrial project-based initiatives to effectively track progress and drive success
 5. Mechanism to allow the private sector and/or state-owned enterprise to **submit the proposals**
 6. A **governance model** such as ad-hoc task force that will coordinate and conduct consultation and planning, monitoring, evaluation and other coordination activities.

4.1 Strategic Outcomes & Priorities

In moving towards successful industrial cooperation, ASEAN strives to achieve three interdependent goals:

Strategic Goal 1: Acceleration of regional economic integration to create regional and global champions by developing resilient supply chains

Increased industrial cooperation can unlock areas of complementarity and competitiveness among member states, creating an opportunity to develop regional champions, who can become global champions of the world in their respective fields. This makes it possible to bring together knowledge, expertise, financial resources and economic actors from across ASEAN to address important market or systemic failures that could not otherwise be addressed. By working together, ASEAN member states can leverage each other's strengths and achieve greater economies of scale, leading to the development of new and more efficient and effective industries. Based on historical evidence within ASEAN and globally, accelerated industrial and economic integration across member states can boost ASEAN GDP by 3-15%¹ over base projections and create more than 6M new jobs till 2030.

Strategic Goal 2: Long-term sustainable development across ASEAN

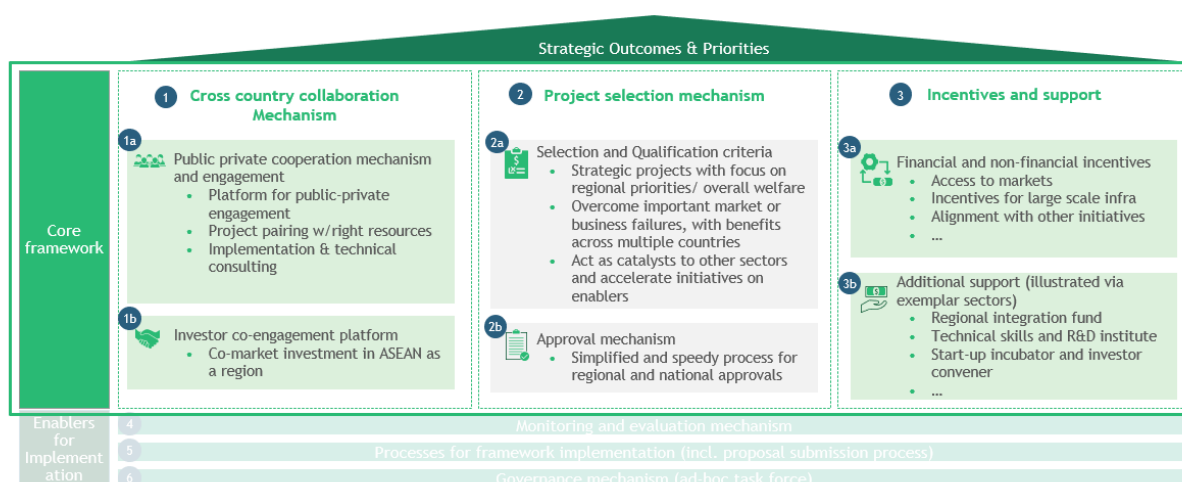
Increased industrial cooperation ensures that ASEAN can achieve inclusive growth among member countries. As economies recover from COVID-19, regional cooperation can help ensure that new opportunities provide decent work and economic opportunities for all, including SMEs and vulnerable groups. The industrial cooperation efforts that did not optimally yield the desired results, among others, given inconsistency between regional and national interests, calls for a renewed approach to industrial cooperation in ASEAN. Through tight coordination, AMS can ensure that the benefits of industrial development are more widely distributed.

¹ Source: "Trade, Investment and Financial Integration in East Asia", ILO "Trade and regional integration in Asia and the Pacific and the Arab States", Review of World Economics "Growth Effects of Economic Integration: Evidence from EU Member States", Baldwin vs. Cecchini revisited: the growth impact of the European Single Market

Strategic Goal 3: Enhanced connectivity and sectoral cooperation across ASEAN member states

Increased industrial cooperation necessitates for AMS to invest in better physical and digital connectivity to support key projects that have high potential for growth and competitiveness in the region. Development of key infrastructure projects, such as transportation networks, logistics hubs, and digital connectivity is critical to reduce trade barriers and transaction costs. Improving connectivity also includes the use of digital technologies and improved cross-border regulations and procedures, providing smaller buyers with support for better supply security. As a result, cooperation on industrial projects will improve the efficiency and reliability of supply chains, making intra-ASEAN trade and investment more attractive overall.

4.2 Core Framework

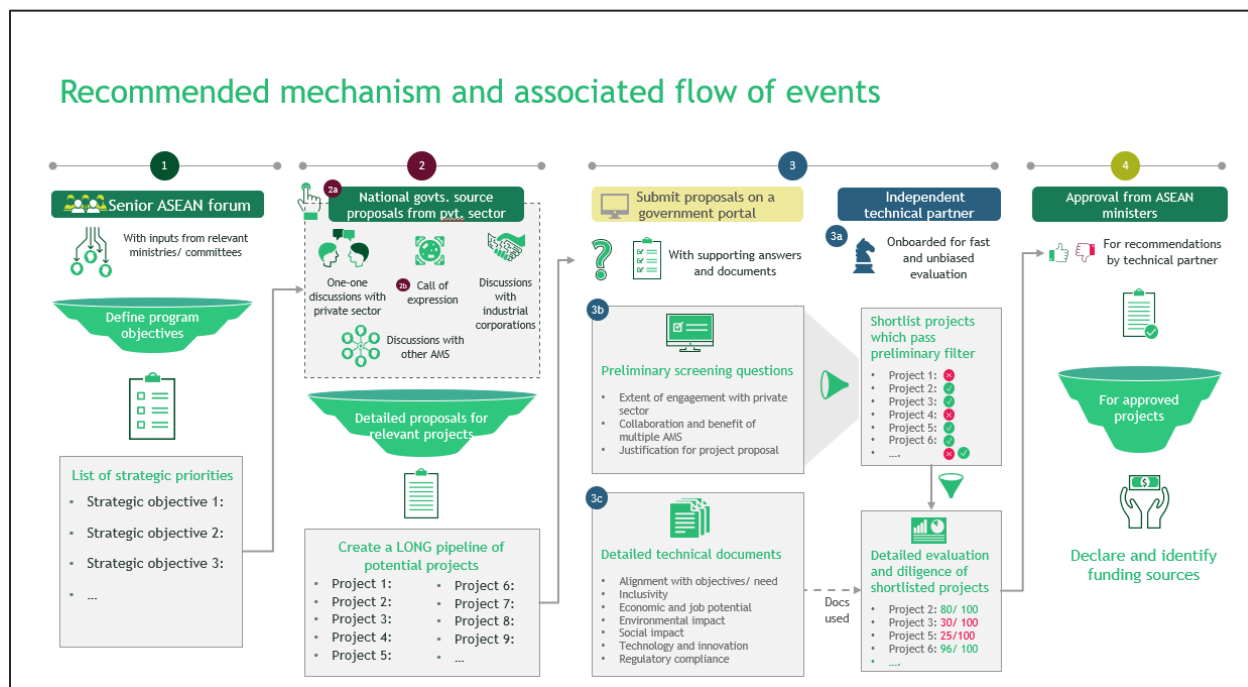


The current section focuses on the **core framework** of the AIPBI mechanism consisting of:

- 1. Cross country collaboration mechanism** including **public-private cooperation mechanism** to enable effective cooperation between relevant agencies and involve private sector early as well **investor co-engagement platform** to market ASEAN as one region to source funding
- 2. A project selection mechanism** with **common selection and qualification criteria**, as well as include measures to **simplify and expedite** selection and approval processes
- Recommended **financial and non-financial incentives at 2 levels**, including those that can be coordinated/ influenced by ASEAN region, focusing more on improving access to markets and any **additional support** that can be provided to participating players.

The various components of the core framework are **intricately interlinked, and their interdependence results in a multi-step process** for the submission and selection of projects under the new mechanism. The cross-country collaboration mechanism is crucial to the

development of a strong pipeline of bankable projects that align with program's vision and objectives. Subsequently, this pipeline of projects undergoes a careful evaluation under the project selection mechanism and is ultimately approved. Relevant incentives and support need to be offered by governments to attract interest and ensure effective implementation of the selected projects.



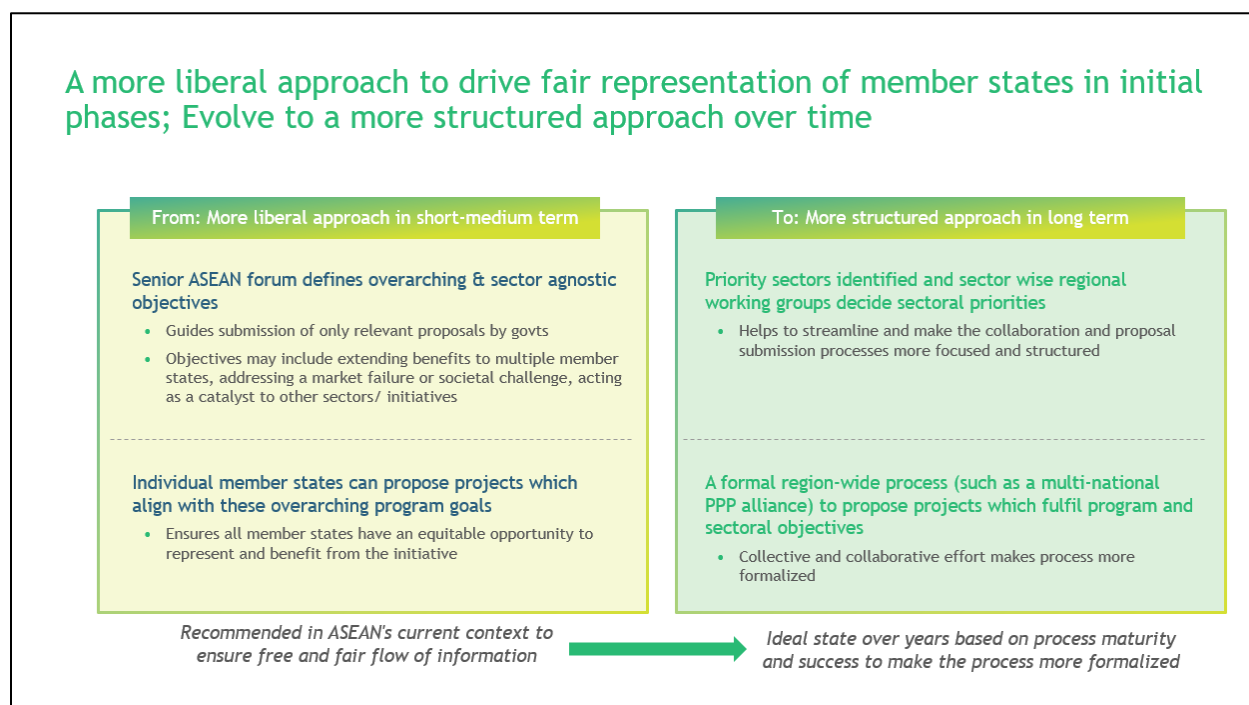
4.2.1 Cross Country Collaboration Mechanism

Key design considerations:

- (i) **Need for Government-to-government and public-to-private systematic communication channels:** In order to achieve industrial integration and foster regional growth, it is essential for ASEAN member states to establish regular coordination and cooperation mechanism with each other as well as with the private sector. Large scale industrial projects that promote connectivity and develop resilient and inclusive supply chains need to be collectively identified to achieve this vision. The AIPBI framework holds the potential to deliver substantial impact for ASEAN and create opportunities to develop regional and global leaders, provided that the right projects are proposed and selected.
- (ii) **Need to define a clear and commonly shared program vision across AMS:** To ensure the success of the AIPBI program, a primary and crucial step is to precisely articulate the strategic goals which explain program objectives and true intention of the program. This is important to guide the nature and scope of proposals submitted by national governments and the private sector.
- (iii) **Ensuring fair and equal opportunity to all member states to participate and benefit from the initiative:** The mechanism needs to be inclusive and ensure that all member states, irrespective of economic or political background, have an equitable opportunity to represent and benefit from the AIPBI.

- (iv) **Transition to a more private sector led approach:** Conventional processes in ASEAN have been more government led, with limited inputs from private sector early in project proposal process. This often leads to diluted interest and support from the private sector in proposed projects. Hence, mechanism needs to be able to engage private sector early in a secure and regulated manner.
- (v) **Consider feasibility in ASEAN's context:** The proposed mechanism should be customized to ASEAN's unique current context to ensure implementation and success of the program.

Recommendations:



- (i) **A more liberal approach initially in ASEAN's context to ensure fair representation, evolving to a structured approach over time:** A more liberal cross country collaboration mechanism is devised to address the above-mentioned considerations, ensuring free flow of information and should aim to evolve over time as the process matures. Hence, distinct short-medium term and ideal state mechanisms devised.
- (ii) **An overarching, sector agnostic and commonly shared vision defined initially, evolving to a more sector specific vision in long run**
 - a. **In initial phase, senior ASEAN forum defines overall program objectives to guide submission of proposals by governments across sectors:** The shared vision and strategic goals for the program can be sector-agnostic in the initial phase and focused on key objectives such as extending benefits to multiple member states

or ASEAN as whole as well as addressing a market failure or societal challenge which would not be addressed otherwise or should act as a catalyst to other sectors/initiatives. These overarching program goals can be defined by senior ASEAN forums.

- b. **Over time, sector specific priorities defined for prioritized sectors by regional working groups to make the process more focused:** As the process matures, it becomes essential for ASEAN to prioritize specific sectors which will be supported under AIPBI program, to streamline and make the collaboration and proposal submission processes more focused and structured. In this regard, sector-wise working groups can play a critical role in defining sector-wise objectives as they have optimal balance of government representation to promote regional agenda and policy objectives as well as technical expertise to understand sectoral gaps and goals for cross-national development.

(iii) National governments may propose projects across sectors initially, while moving to a more structured approach over time

- a. **Initially, a liberal approach where each member state can propose projects in line with program objectives to ensure equal representation:** Once the strategic objectives have been established and comprehended by member states and the private sector, it is recommended to adopt a liberal and flexible approach to propose projects wherein each member state can propose projects that align with these objectives, after due consultations with the private sector and other member states. This is needed to ensure that all member states have an equitable opportunity to represent and benefit from the initiative.
- b. **A more structured, formal and collaborative approach to develop project pipeline in long run:** As the program advances over time, potential projects in prioritized sectors for the program may be identified in a more structured and formalized manner, wherein various national governments and the

- (iv) **Governments to engage private sector upfront for proposal submission to ensure commitment and leverage technical expertise:** Across initial and steady states, national governments may initiate a formal call of expression via an open RFI or create a Public Private partnership Alliance to invite the private sector to submit project proposals that are relevant to the program's scope, work plans, and detailed technical requirements. By involving the private sector early in the process, commitments to implement projects can be secured if the proposal project is approved and technical expertise can be leveraged to ensure accurate project specifications and budgets. After the submission of project proposals by the private sector, individual national governments can evaluate the submissions at national level and recommend only the most relevant projects for formal project selection process at the ASEAN level. This approach will ensure that the projects recommended align with the strategic goals and objectives of the AIPBI program.

4.2.2 Project Selection Mechanism

The cross-country collaboration mechanism is poised to yield a **considerable pipeline of bankable projects** proposed by member states, which must undergo a meticulous evaluation process to ensure selection of projects supported under AIPBI.

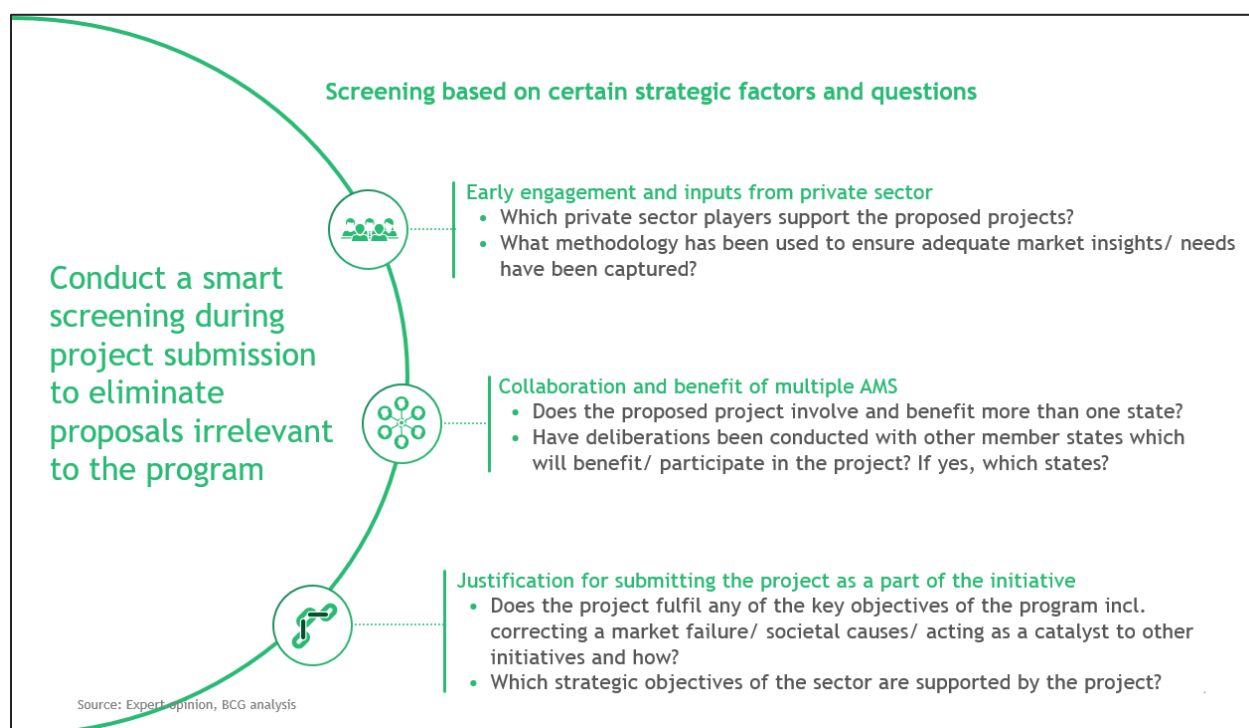
In this regard, a **two-factor selection mechanism** is recommended to assess the proposed projects, consisting of smart screening and a comprehensive qualification assessment:

1. Smart screening:

Key design consideration

- (i) **Given a more liberal approach to proposal submission, a preliminary screening is needed to filter proposals upfront which do not align with program objectives:** The goal is to encourage national governments to submit only those projects which align with the program's strategic objectives. Any project proposals which fail to align with the overarching goals including early and adequate engagement with the private sector, benefit to multiple member states, and addressing market failures or societal needs will be filtered upfront during proposal submission process.

Recommendations



- (i) **A “smart screening” criteria introduced where governments have to answer three strategic questions upfront during proposal submission, to filter only those projects relevant to AIPBI:** The smart screening process will involve a preliminary

evaluation of every proposal submitted by member states against three strategic dimensions. Only the proposals which pass through the smart screening questions which be evaluated further in detail. The proposals will be filtered based on the following:









- a. **Adequate private sector engagement to ensure interest:** this criteria aims to ensure that the proposal has been developed in consultation with private players who will actively support and participate in the project's implementation. Proposals led by the private sector are expected to capture interest early and addresses a prominent shortcoming of AIP program where private sector was engaged only after project approval, therefore restricting participation.
- b. **Collaboration and benefit of multiple AMS:** This criterion seeks to ensure that other member states have been appropriately consulted, and that the proposed project has the potential to deliver a mutually beneficial outcome for all states involved. By aligning national interests with broader regional priorities, the program can support projects which can maximize the impact and benefits of the initiative.
- c. **Strong need and rationale of project proposal:** This criterion assesses the extent to which the proposed project fulfils the overarching objective of the program and can effectively address a significant market failure, promote societal causes, or catalyze other initiatives/ sectors. The aim is to identify proposals that possess the greatest potential to drive industrial integration, generate collaborative impact, and foster sustainable development.

2. Comprehensive Qualification framework and due diligence:

Key design considerations

- (i) **Detailed assessment for selection of only the most promising and impactful projects:** The projects shortlisted under the smart screening criteria need to undergo a further detailed assessment to ensure the selection of only those projects which align with the vision and objectives of the program and have the highest chances of economic success.
- (ii) **Fair representation of interests of under-represented countries/ segments of the society which need assistance:** The qualification mechanism needs to consider certain strategic parameters which promote inclusivity and consider projects which advocate for interests of under-represented countries / emerging markets as well as MSMEs/ other segments which need to be uplifted.
- (iii) **Validation of authenticity of claims in proposals submitted:** The mechanism needs to be able to filter out projects with unrealistic claims, to increases chances of success upon implementation.

Recommendations

Qualification framework will consider multiple qualitative, strategic and quantitative parameters		
Parameter	Description	Type
 Alignment with regional goals	<ul style="list-style-type: none"> Participation of at least two AMS Alignment with policy and sectoral objectives 	Qualitative <i>KPIs that are not directly quantifiable and need judgment</i>
 Economic/ welfare need	<ul style="list-style-type: none"> Addresses societal challenges, which would not otherwise be adequately remedied Addresses business failures, preventing the project from being carried out otherwise Acts as a catalyst to other sectors or improving other enabler initiatives 	
 Inclusivity	<ul style="list-style-type: none"> Advocates for interest of underdeveloped countries / emerging markets Advances growth of MSMEs/ other segments which need assistance 	Strategic <i>KPIs with excessive importance and need subjective decision making</i>
 Economic and job potential	<ul style="list-style-type: none"> Project's potential for generating economic growth and job creation in the region 	
 Environmental impact	<ul style="list-style-type: none"> Impact on the environment, including air and water quality, and carbon emissions 	Quantitative <i>KPIs which can be measured numerically/ objectified using statistical/ other analysis</i>
 Social impact	<ul style="list-style-type: none"> Potential impact on the local community, including the potential for displacement, gentrification, and social disruption 	
 Technology and innovation	<ul style="list-style-type: none"> Degree of innovation and introduction of new technologies in the region 	
 Regulatory compliance	<ul style="list-style-type: none"> Compliance with local and national regulations, including environmental, labor, and safety regulations 	

Source: Expert opinion, BCG analysis

- (i) **A multi-parameter scoring mechanism to evaluate projects holistically across three dimensions, with special emphasis on inclusivity:** Proposed projects will be evaluated on three different types of parameters, including qualitative, strategic, and quantitative parameters, which will assist in a comprehensive assessment of the shortlisted projects for final recommendation to senior ASEAN forums.
- Qualitative parameters to assess alignment with overall program objectives:** The qualitative parameters, while not directly quantifiable, are critical in assessing the degree to which a proposed project aligns with program objectives and addresses genuine market or societal needs. These include:
 - Participation of at least two ASEAN Member States
 - Extent of alignment with overall policy objectives such as addressing a societal challenge, which would not otherwise be adequately remedied or addressing a market failure, preventing the project from being carried out otherwise or acting as a catalyst to other sectors or improving other enabler initiatives
 - Strategic parameters to encourage projects which promote interests of under-represented countries/ MSMEs:** Beyond qualitative parameters, strategic parameters give additional weightage to projects that promote inclusivity by advocating interests of countries from weaker economic or political background or advance growth of MSMEs/ other segments which need assistance.
 - Quantitative parameters to assess projects on economic and other objective dimensions:** These parameters can be measured numerically/ objectified using statistical/ other analysis and include:
 - Economic and job potential of the project
 - Environmental impact (including air and water quality, and carbon emissions)

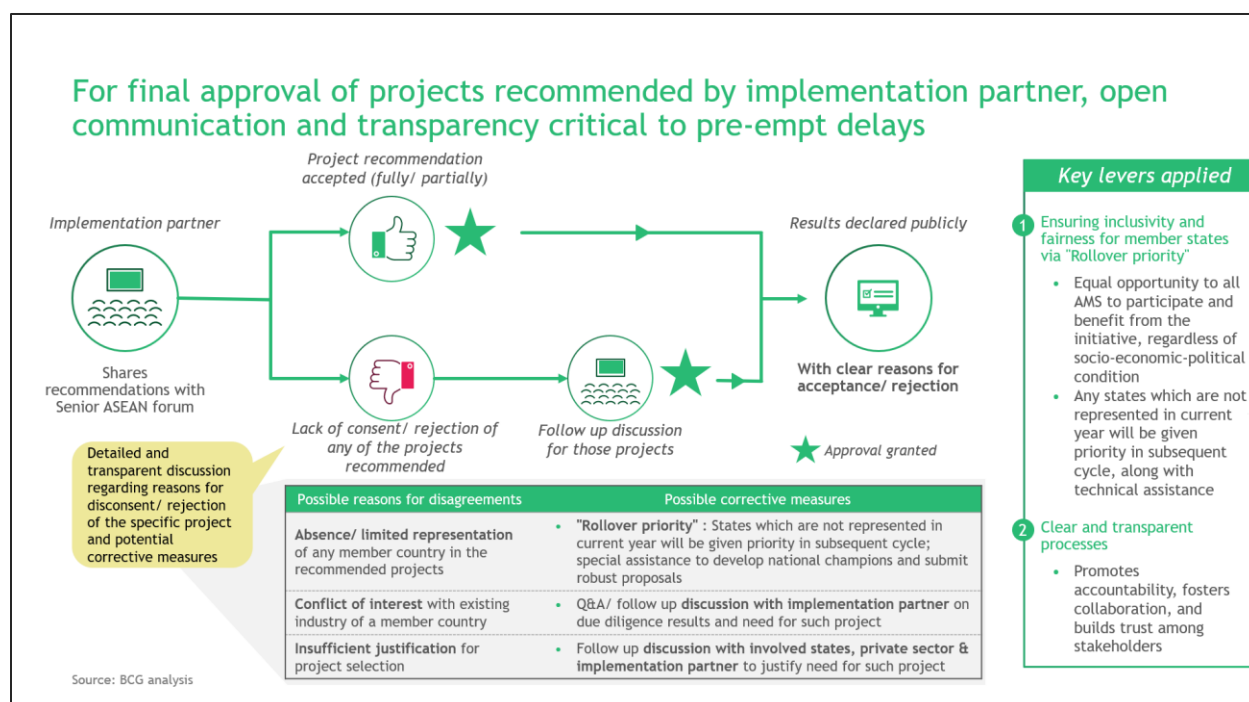
- iii. Social impact (including the potential for displacement, gentrification, and social disruption)
 - iv. Technology and innovation: Degree of R&D, innovation and introduction of new technologies in the region
 - v. Regulatory compliance to ensure proposed project is compliant with local and national regulations.
- (ii) **Rigorous due diligence to ensure authenticity of claims:** Upon successful evaluation based on the multi-parameter scoring mechanism, the shortlisted projects will be subjected to a rigorous due diligence process to validate the claims made in the project proposal. Once the due diligence is completed and the projects are found to be authentic and feasible, a final list of recommended projects will be presented to the senior ASEAN forums for approval.
- (iii) **Onboarding an independent third-party technical partner for project evaluation to ensure unbiased and quick decision making:** Due to the technical complexity and extensive manual work required for the evaluation process, it is advisable to engage an independent third party (technical partner, consultant or research agency) for project evaluation. Such an external entity can expedite the decision-making process and provide objective and unbiased recommendations, unlike a government entity which may have a conflict of interest and may not be able to ensure an impartial selection process. This approach can also help reduce administrative workload and enhance the overall quality and efficiency of the selection mechanism.

4.2.3 Approval Mechanism

Key design considerations

- (i) **Pre-empt delays and expedite the final decision making:** The mechanism needs to ensure fast and unbiased approval process by the senior ASEAN forum for projects recommended by the independent third party and pre-empt bureaucratic delays in decision making.
- (ii) **Avoid disagreement due to limited/ no participation from any member state:** The mechanism should be able to address the concerns of any member state which has been partially/ not represented in the current project selection phase.

Recommendations:



- (i) **Establish clear and transparent processes to expedite decision making process and drive accountability for results:** The results regarding approval/ rejection/ delays of the projects with associated reasons may be discussed or declared publicly to drive transparency and accountability. Transparency helps to pre-empt delays due to bureaucracy and expedite the decision-making process.
- (ii) **Introduce "Rollover priority" wherein under-represented states will be given priority in subsequent cycle to mitigate disagreements:** The concept of "rollover priority" will be introduced to give equal opportunity to all AMS to participate and benefit from the initiative, wherein any states which are not represented in current year will be given priority in subsequent cycle, along with any technical assistance if needed.

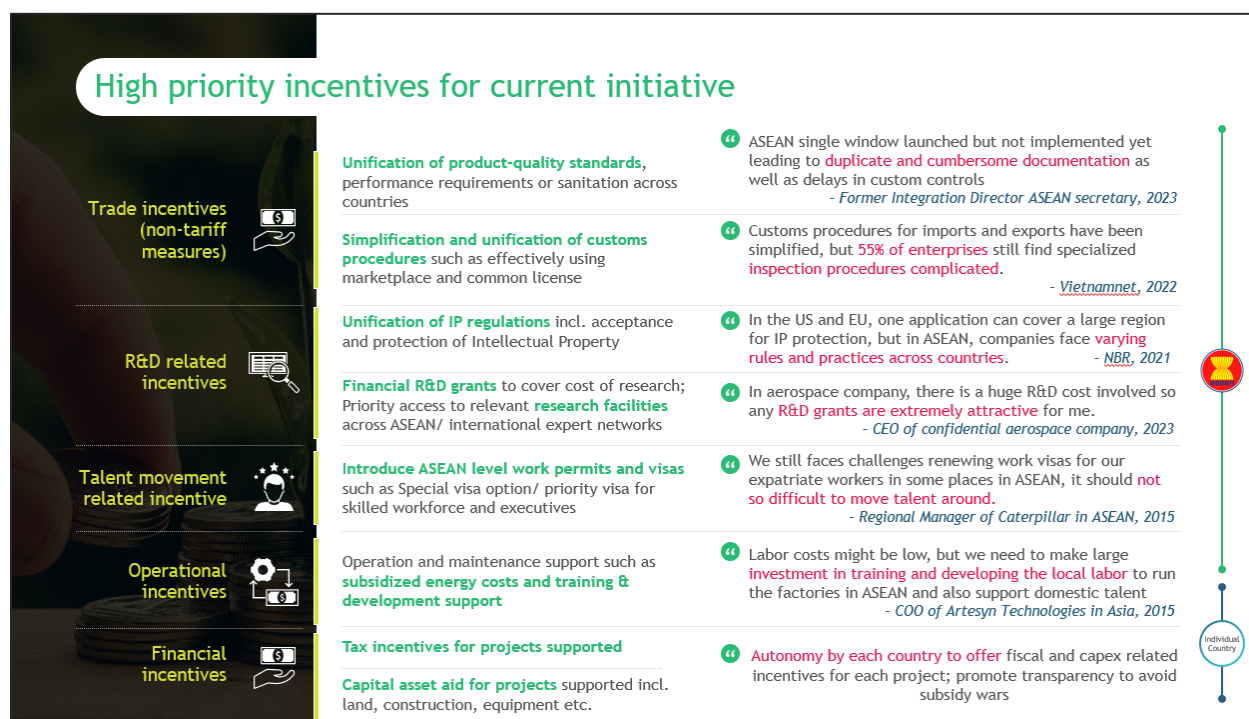
4.2.4 Incentives and Support

Key design considerations:

- (i) **Offer incentives that are critical and attractive to private sector:** ASEAN member states must provide incentives to attract interest and participation of private sector in the approved projects. Without these incentives, the project may not be feasible or successful.
- (ii) **Promotion of incentives that can be influenced/ coordinated at an ASEAN level, especially increasing access to markets while protecting domestic industries:** Although individual countries offer incentives and subsidies for such projects, the mechanism needs to promote incentives that can be coordinated/ influenced at an ASEAN level, especially improving access to markets for smoother project operations

and addressing the challenges faced in earlier industrial projects, while balancing domestic industry concerns about competition.

Recommendations



(i) **Incentives influenced/ coordinated at an ASEAN level:** Three types of incentives have been identified as particularly attractive and can be managed at an ASEAN level.

a) **Trade related incentives (non-tariff measures) that enable trade and promote access to markets:** These trade-related incentives can be very attractive for private sector players and can be managed at an ASEAN level.

- **Unification of product quality standards:** The first incentive involves addressing the issue of variations in product quality standards and requirements across different countries. Such variations can lead to duplication and cumbersome documentation in multinational projects. Incentives aimed at unifying product quality standards can help establish large-scale projects involving multiple member states.
- **Simplified customs procedures or the introduction of a priority or common trade license:** The second incentive pertains to addressing the complexities and delays in customs procedures. While the single ASEAN platform has been launched, it has not been completely operationalized, leading to notable delays in custom clearances for products. Simplified customs procedures/ priority or common trade license for such projects can significantly impact the intra-ASEAN movement of goods-related businesses.

- b) **Promotion of Research and development to drive innovation:** Offering research and development related incentives is of paramount importance to promote domestic innovation and attract private investor globally.
 - **Financial R&D grants and related incentives** can serve as a catalyst for innovation and technology development., especially in nascent or high R&D sectors such as green energy, aerospace, others.
 - **Unification of IP regulations:** Companies have faced challenges in obtaining recognition and protection for their intellectual properties (IP) across different ASEAN countries. Encouraging more Mutual Recognition Agreements (MRAs) and unifying IP regulations using a single IP application for different AMS, can significantly enhance investor confidence.
- c) **Talent related incentives such as common ASEAN-level work permits or priority visa lanes for smooth movement of skilled workforce:** Private companies often face obstacles in the movement of talent across member states, particularly skilled workforce and senior executives in the absence of a common work permit and complicated work visa procedures. To address this issue, the introduction of common ASEAN-level work permits and visas or priority visa lanes at airports for skilled workers of the projects can facilitate smooth movement of talent across the region.
- (ii) **Incentives and subsidies offered by individual states:** Such incentives may comprise of, but are not limited to, the following:
 - a) **Fiscal incentives, including tax benefits,** which are commonly offered by national governments for industrial projects and are critical for private players.
 - b) **Other financial incentives,** such as state aid for the cost of constructing R&D labs, equipment, and capital expenditures, can be supported by state governments for a shared funding model between the public and private sectors, as agreed upon in discussions with private sector stakeholders.
 - c) **Financial support for training the local workforce,** which can be supported by upskilling/unemployment-related national funds, has been identified as attractive by multiple private sector entities.
 - d) **Operational incentives,** similar to those offered in Special Economic Zones, such as subsidized electricity and lower costs of land and loan, can be offered by individual national governments.
 - e) Other incentives can also be offered by individual governments based on discussions with private sector players, as appropriate.

However, to ensure fair competition and prevent **unnecessary subsidy wars** among member states, it is recommended that the incentives offered by each country are **transparent and consistent** across all projects in the same sector. The efforts can be coordinated by ASEAN to avoid such subsidy wars. This will help to avoid distortion of market forces and ensure a level playing field for private players.

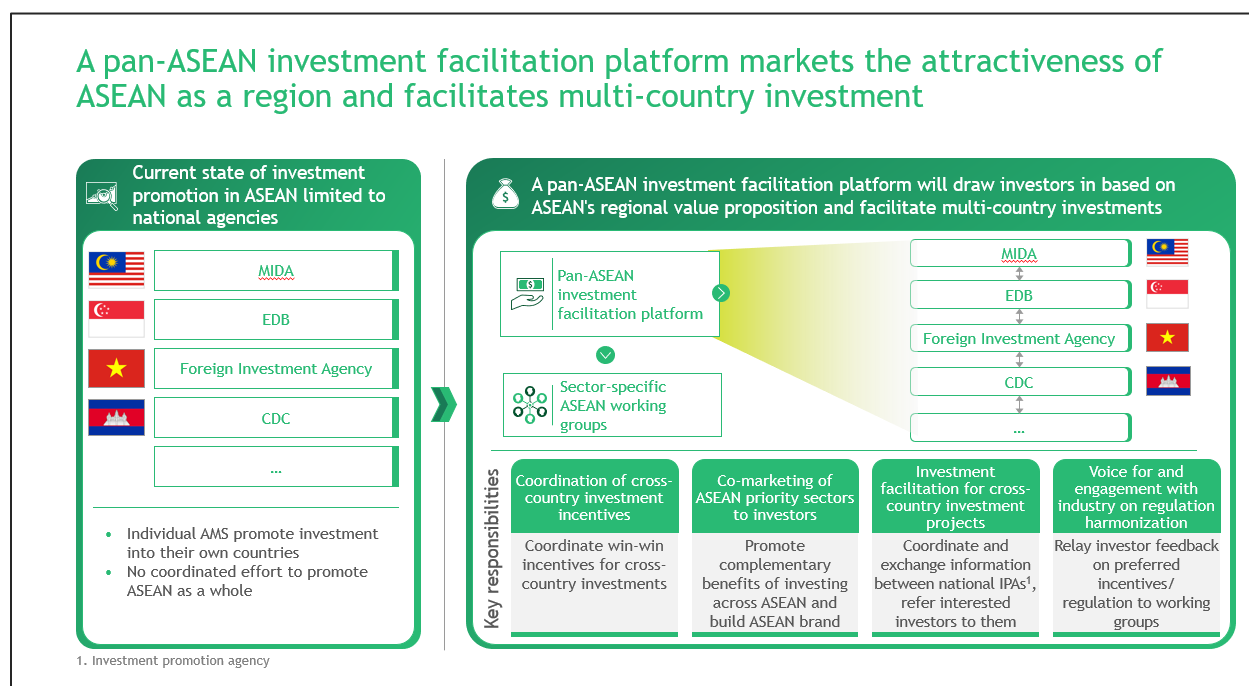
Moreover, the incentives should be aligned with the overall objectives of the ASEAN community, such as promoting sustainable development, reducing carbon emissions, and enhancing regional connectivity. This will ensure that the projects are in line with the broader goals of the ASEAN integration and contribute to the growth and development of the region as a whole.

4.2.5 Investor co-engagement platform

Key design consideration

- (i) **Need for coordination of efforts by national investment agencies:** Cross-country investment in ASEAN as a region is seen as a driver of growth for business and government leaders globally. Currently, investment promotion in ASEAN is limited to individual national agencies from each country such as INA, EDB, MIDA, Foreign Investment Agency, CDC amongst others., undermining the potential to promote ASEAN as a region for economic investment. While certain functions are retained at the national level, collaboration on other functions such as coordination to identify win-win investment incentives, co-marketing of ASEAN to highlight complementarity benefits, information sharing about interested investors and highlighting voice of investor can unlock synergies and promote multi-country investments.

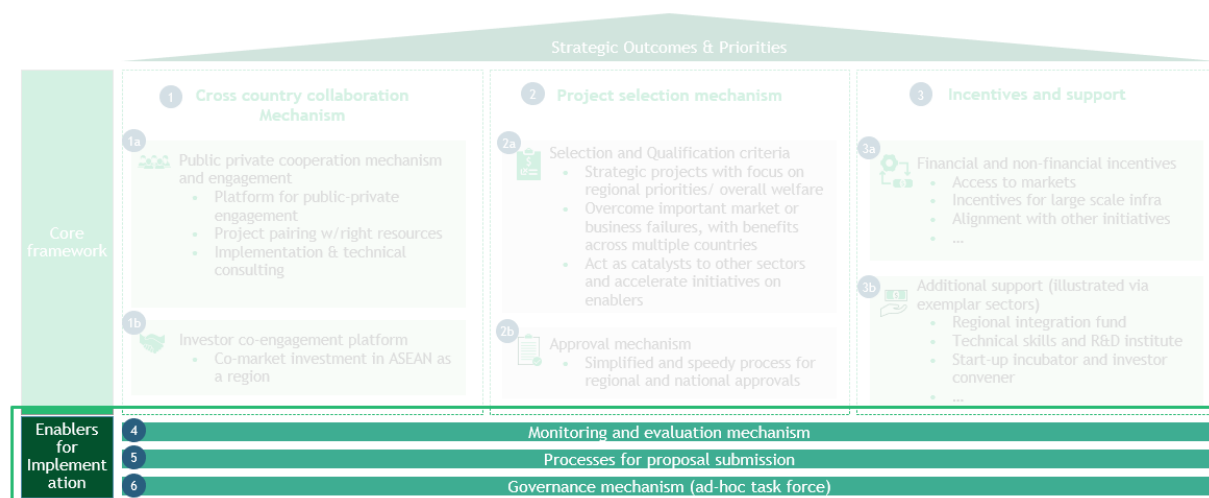
Recommendation



- (i) **Establishment of a pan-ASEAN investment facilitation platform to market ASEAN as a whole:** Developing a pan-ASEAN investment facilitation platform to complement the role of national investment promotion agencies by promoting investment into the ASEAN region as a whole, and facilitating multi-country investments through co-

marketing and incentive coordination, can draw investors in based on ASEAN's regional value proposition and facilitate multi-country investments.

4.3 Enablers for Implementation



The current section focuses on enablers for implementation of ASEAN Industrial Project Based Initiatives including:

1. **Monitoring and evaluation mechanism** with trackable KPIs to track progress of the program/ project as well as measures to further drive success and impact.
2. A **proposal submission mechanism** which allows private sector and/or state-owned enterprises to submit proposals
3. A **governance mechanism** to drive program excellence as well as conduct monitoring, evaluation, and other coordination activities.

4.3.1 Monitoring and Evaluation Mechanism

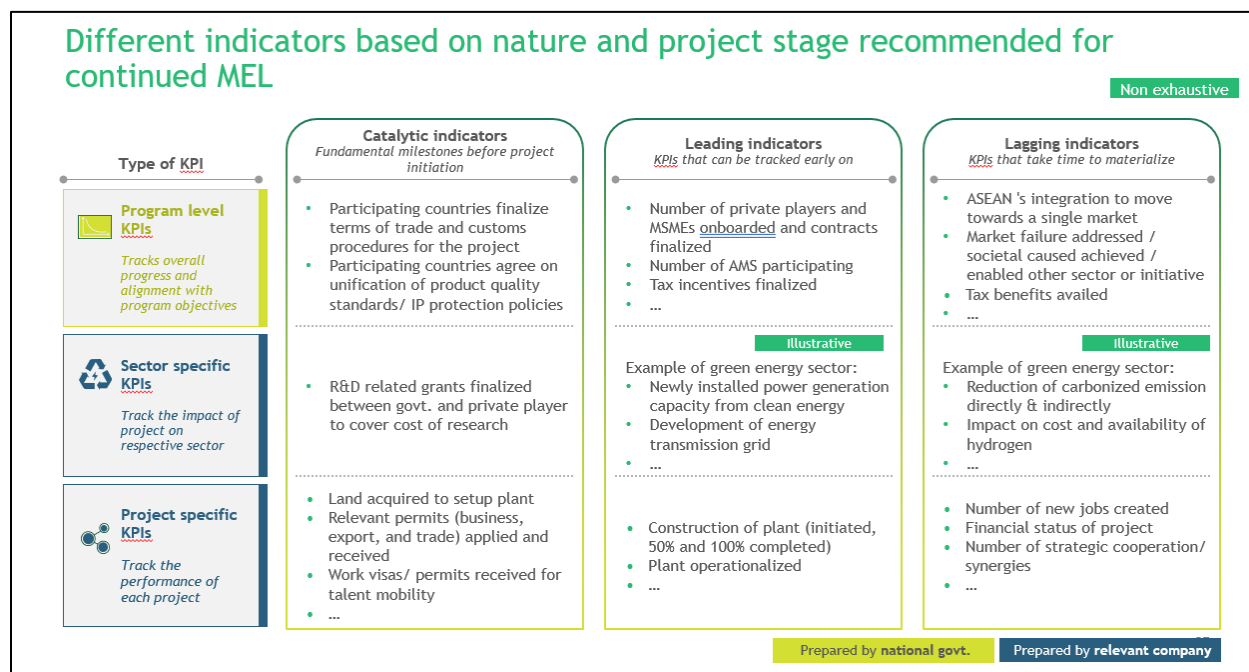
A robust monitoring and evaluation mechanism is one of the key enablers to track and drive success of projects under AIPBI.

Key design considerations:

- (i) **Need to identify pivotal KPIs that can indicate success/ failure early:** Not all KPIs are equally critical throughout the lifecycle of a project. Outcome indicators may take years to materialize, making it crucial to identify KPIs that can be monitored early on and provide an indication of potential success.
- (ii) **Need for accompanying processes that can promote transparency and drive performance:** In addition to identification of pivotal KPIs, it is critical to establish parallel checks and balances that can encourage governments and private sector participants to

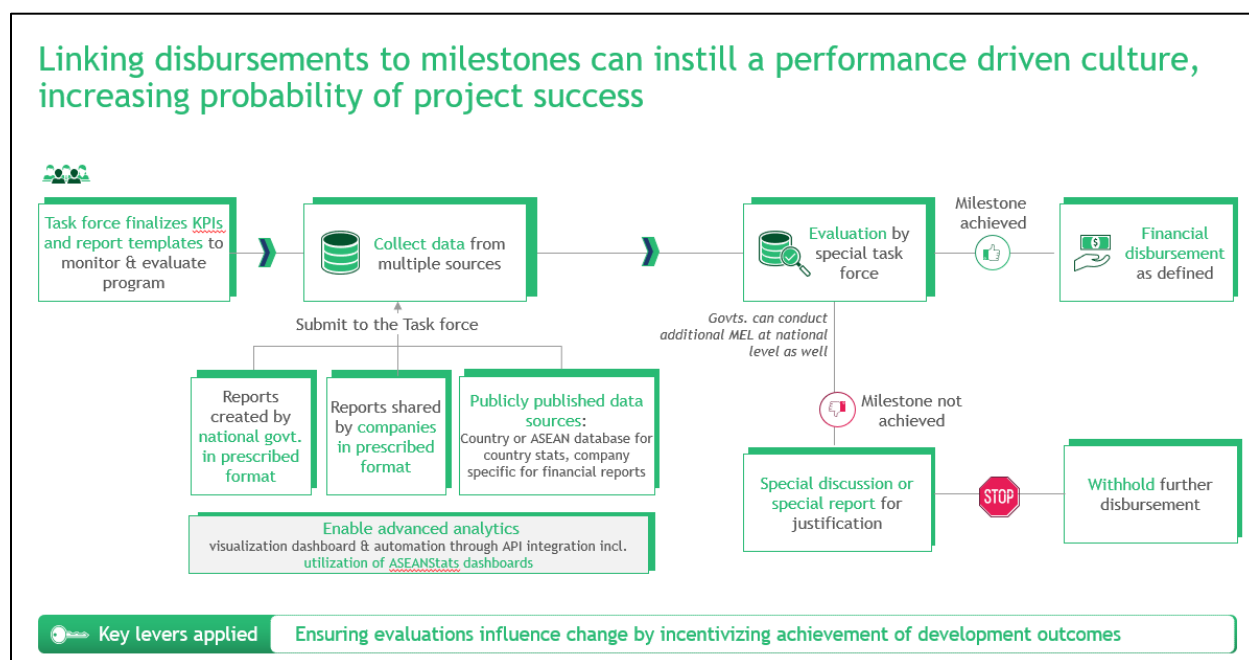
drive and ensure positive performance of the projects, while leveraging any best practices from other member states.

Recommendations



- (i) **Three different types of KPIs tracked, with special emphasis on “catalytic” and “leading” indicators that indicate success early:** “Catalytic”, “leading” and “lagging” indicators tailored to the stage of the project implementation identified for continued progress tracking and monitoring. Some of these indicators may be tracked at a program level where national governments have better visibility, while others may be more sector or project specific and reported by relevant private sector players.
- a. **Catalytic indicators to track progress on key incentives that enable project implementation:** These indicators are fundamental milestones to be achieved before project starts and may include progress on key ASEAN level incentives such as contractual agreements between member states for trade facilitation, IP protection, unification of standards, land acquisition, work permits amongst others.
 - b. **Leading indicators to track executional progress since project initiation:** These indicators can be tracked early to monitor if project execution (such as construction, private sector contracting, others) is in line with original workplan and timelines, as well as the if the project is headed in the right direction.
 - c. **Lagging indicators to measure outcome and impact of the projects, but take time to materialize:** These indicators track final outcomes of the program/ project including impact on economic and regional integration, extent to which the market failure has been addressed, economic achievement and job creation amongst others.

- d. **Different KPIs may be reported by the national government or private players based on involvement and visibility:** Program level KPIs which track overall impact of the AIPBI program will be reported by national governments while sector and project specific KPIs will be reported by participating industrial players.



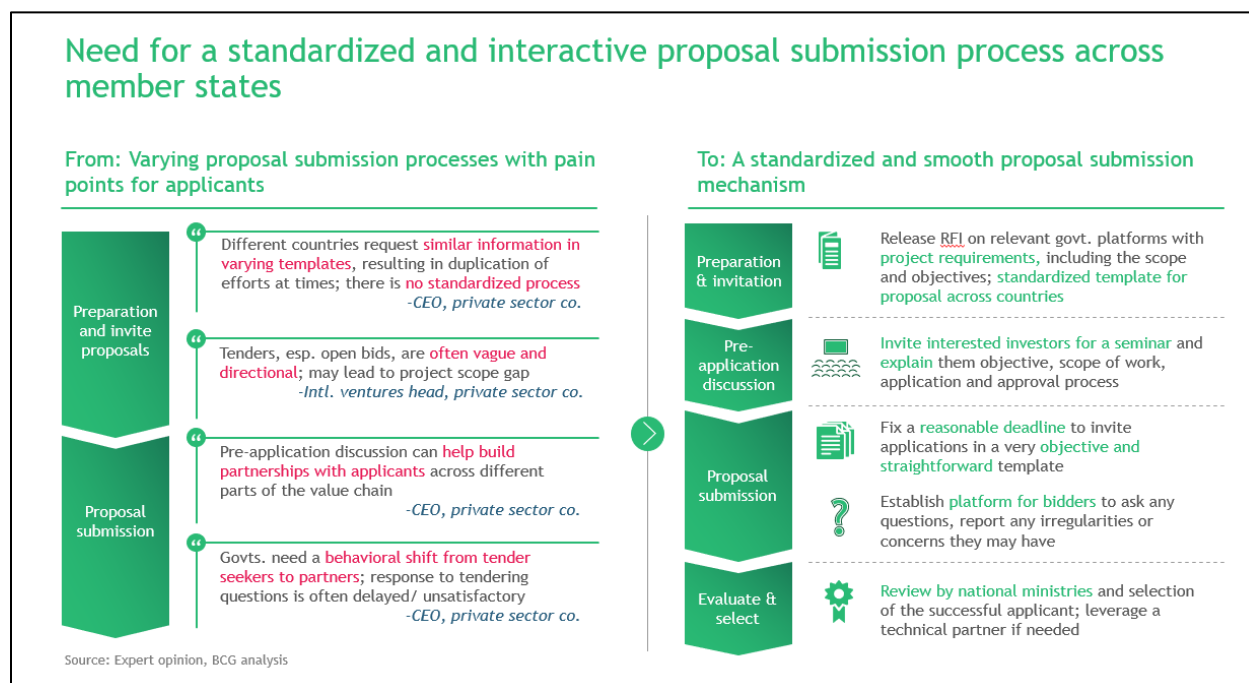
- (ii) **Link incentive disbursal to achievement of milestones to drive performance and success:** Instilling a performance linked culture and linking achievement of pre-agreed milestones to disbursement of incentives helps in acknowledging success achieved/ pushing private sector to move towards better performance. A task force will collect and evaluate data on the agreed KPIs to suggest member states to disburse or withhold the incentives.
- (iii) **Track relative performance and publish performance reports for information and insight sharing:** A relative report on achievements and findings across projects may be made publicly available on discussion forums or other online portals. The purpose of this is to acknowledge successful projects and create a learning opportunity for those who have not met their milestones. By providing transparency in the reporting process, projects that have fallen behind will be encouraged to learn from their peers and improve to achieve success.
- (iv) **Other supporting enablers can help improve efficiency of the MEL process:** Multiple enablers such as triangulating wide range of data sources, enabling advanced analytics through user- friendly dashboards for decision making and establish a task force with clear roles and accountability, supported by structured processes can help in further improving the efficacy of monitoring and evaluation mechanism.

4.3.2 Proposal Submission process

Key design considerations

- (i) **Need to establish a standardized proposal submission process across member states:** Given participation of multiple member states in the same project and current variations in tendering process across countries, a standardized proposal submission process is needed to seek proposals from private sector.
- (ii) **Opportunity to create a more interactive proposal submission process:** Traditional tendering processes have limited engagement with the private sector, which may result in project scope gaps and delays in addressing any concerns and question they may have in the process. The new mechanism can create additional opportunities to devise a more interactive proposal submission process under AIPBI.

Recommendations



- (i) **A codified proposal submission process with uniform templates across member states for standardization:** Standardizing proposal submission templates across member states can help in seeking detailed, uniform and complete information from the private sector. The information in the tender template may include, but not be limited to company information, project description and need for the project, infrastructure investment, work plan, investment details and projected impact.
- (ii) **Pre-application discussion for a more interactive and collaborative proposal submission process:** To ensure that interested parties fully understand the objectives, scope of work, and application and approval processes, it is recommended that the interested participants are invited to a seminar or discussion before the application process. This approach helps address common issues where tender requirements are

unclear as well as creates an opportunity for complementary applicants to collaborate for proposal submission.

- (ii) **Establishing a tech-enabled communication platform for query redressal:** During the submission process, it is still essential to provide a robust support system, including a communication platform that can address any questions or concerns that may arise from private sector. This platform can incorporate technologies such as chatbots to offer continuous support and guidance to applicants.

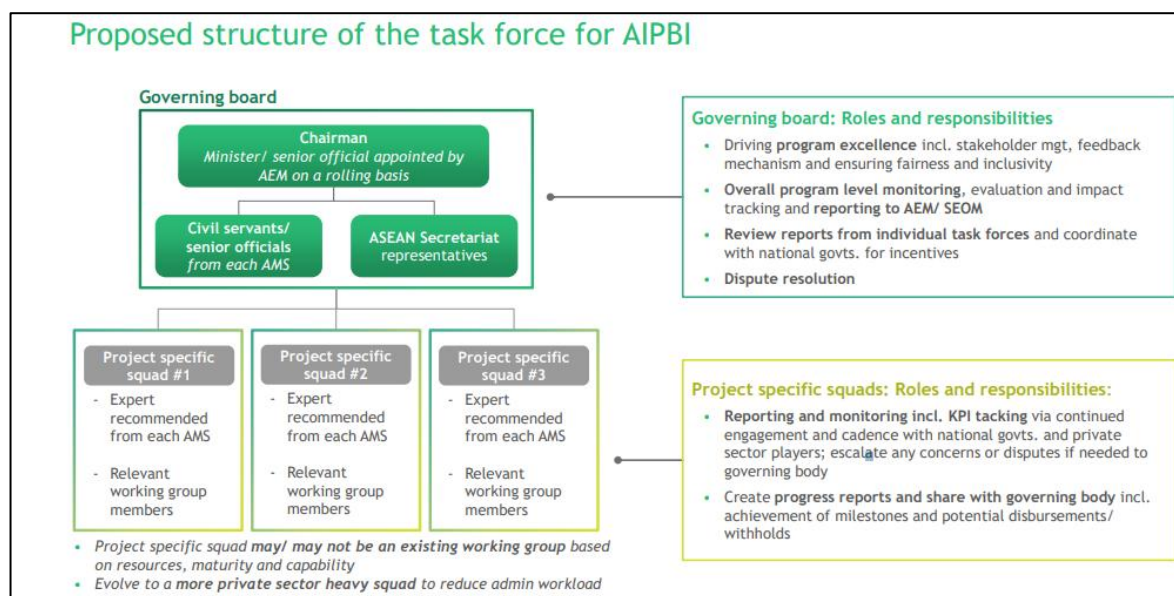
4.3.3 Governance mechanism

Key design considerations

- (i) **A governing entity needed to drive program excellence and conduct reporting & monitoring, incentives coordination and dispute resolution:** A program specific governing entity is needed to achieve four objectives including:
 - a. **Entity will have to drive program excellence:** This includes coordinating across key stakeholders throughout program lifecycle, ensuring "rollover priority" is maintained, facilitating sector selection process in ideal state and onboarding and overseeing activities of independent third parties during the process.
 - b. **The entity will have to conduct regular reporting and monitoring to track progress:** These include overseeing and measuring progress of projects by finalizing targets/ KPIs, setting a fixed reporting cadence and highlighting any concerns/ corrective actions if needed. The entity will be responsible for consolidating findings and publishing relevant reports.
 - c. **Governance entity will have to coordinate performance linked disbursements:** The entity will have to coordinate activities linked to performance linked incentive disbursement including agreeing on milestones, tracking progress and coordinating with national governments to disburse/ withhold incentives.
 - d. **The entity will have to resolve disputes:** Disagreements and miscommunications might happen in the project. The governance entity will need to identify the dispute, investigate to understand the root cause, conduct discussion, and implement the resolution. Situation will be monitored to ensure the dispute is fully resolved to avoid any blockers to project success.
- (ii) **The governing body should fulfil the 4 key objectives in an objective, timely, unbiased and inclusive manner:** The governing entity should hold accountability for the four key functions and report any shortcoming/ challenges at the earliest for corrective action. Additionally, the governance mechanism needs to ensure fairness and inclusivity across member states for an unbiased and timely decision making.
- (iii) **The governing entity needs to have adequate availability of resources, technical experts and bandwidth:** The governing body needs to consist of sufficient technical experts, who can bring specialized knowledge and skills that are crucial for ensuring accurate monitoring and effective decision-making in implementing corrective measures

during project implementation. The experts need to have enough bandwidth for continued correspondence with governments and private sector for regular reporting and monitoring and other groundwork.

Recommendations



- (i) **A two-tier governance mechanism recommended with an advisory program level and technical project level governing bodies:** The governing body will consist of an overall governing board and project specific squads. A two-tier mechanism helps to hold accountability from the governing board for overall success of the initiative, while ensuring sufficient technical and sectoral expertise for regular monitoring and reporting.
 - a. **The governing board will be representative of all member states and responsible for overall program success and monitoring:** The Governing board will consist of a Chairman, elected by the ASEAN Economic Ministers on a rolling basis, one senior official/ minister each appointed by every AMS and representatives from ASEAN Secretariat. This will ensure that the governing board has a fair representative from each AMS. The Governing board will be responsible for driving overall program excellence, overseeing program level impact, reporting to AEM and SEOM as well as conducting dispute resolution.
- (ii) **Project specific squads may consist of technical experts to conduct groundwork and project specific reporting:** Dedicated project specific squads may be established for projects from different sectors, consisting of sector specific technical experts and will be responsible for reporting to the governing board with project updates. The squad may consist of relevant working groups, if available with sufficient technical expertise, representation and resource availability or have one expert recommended from each AMS. As the dedicated squad, they will be actively engaging with relevant project stakeholders, executing the reporting and monitoring functions, and escalating any concerns and disputes to the governing board. As the process

matures, governments may aim to actively involve private sector experts to reduce administrative workload on government resources.

5 Way Forward

5.1 Implementation of the Framework

Subject to alignment of the proposed mechanism in SEOM 2, further considerations on timeline and prioritization of implementation activities will be provided.

5.2 Closing Thoughts

The application of this framework will propel economic integration in ASEAN and leverage industrial development as a catalyst to strong, inclusive, and sustainable growth in the region. AIPBI framework has significant potential to drive faster recovery from pandemic and create a more resilient future with the opportunity to create regional and global champions. The application of this Framework shall exempt matters relating to national sovereignty, national security, public safety, and all government activities deemed suitable for exemption by an AMS. The Framework may be adjusted as necessary with the consent of all AMS.