

Southeast Asia Development: A Japanese Perspective

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**Past is Prologue for Southeast Asia
Development: Japan and U.S. Perspectives**

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Four pillars of ASEAN Economic Community

Pillars	Core Elements		
I. Singe Market and Production Base	(1) Free flow goods	(2) Free flow of services	(6) Priority integration sectors (Agro-based products; air travel; automotive; e-ASEAN; electronics; fisheries; healthcare; logistics; rubber- based products; textiles and apparel; tourism; wood- based products
	(3) Free flow of investment	(4) Freer flow of capital	
	(5) Free flow of skilled labor	(7) Food, agriculture and forestry	
II. Competitive Economic Region	(1) Competition policy	(2) Consumer protection	(3) Intellectual property protection
	4) Infrastructure development (Transport; ICT; energy; mining; infrastructure financing)		
	(5) Taxation		(6) E-commerce
III. Equitable Economic Development	(1) Development of small and medium enterprises		
	(2) Initiative for ASEAN integration		
IV. Integration into the Global Economy	(1) Coherent approach towards external economic relations (including FTAs and CEPs)		
	(2) Enhanced participation in global supply networks		

Source: ASEAN Secretariat, *ASEAN Economic Community Blueprint* (2008)

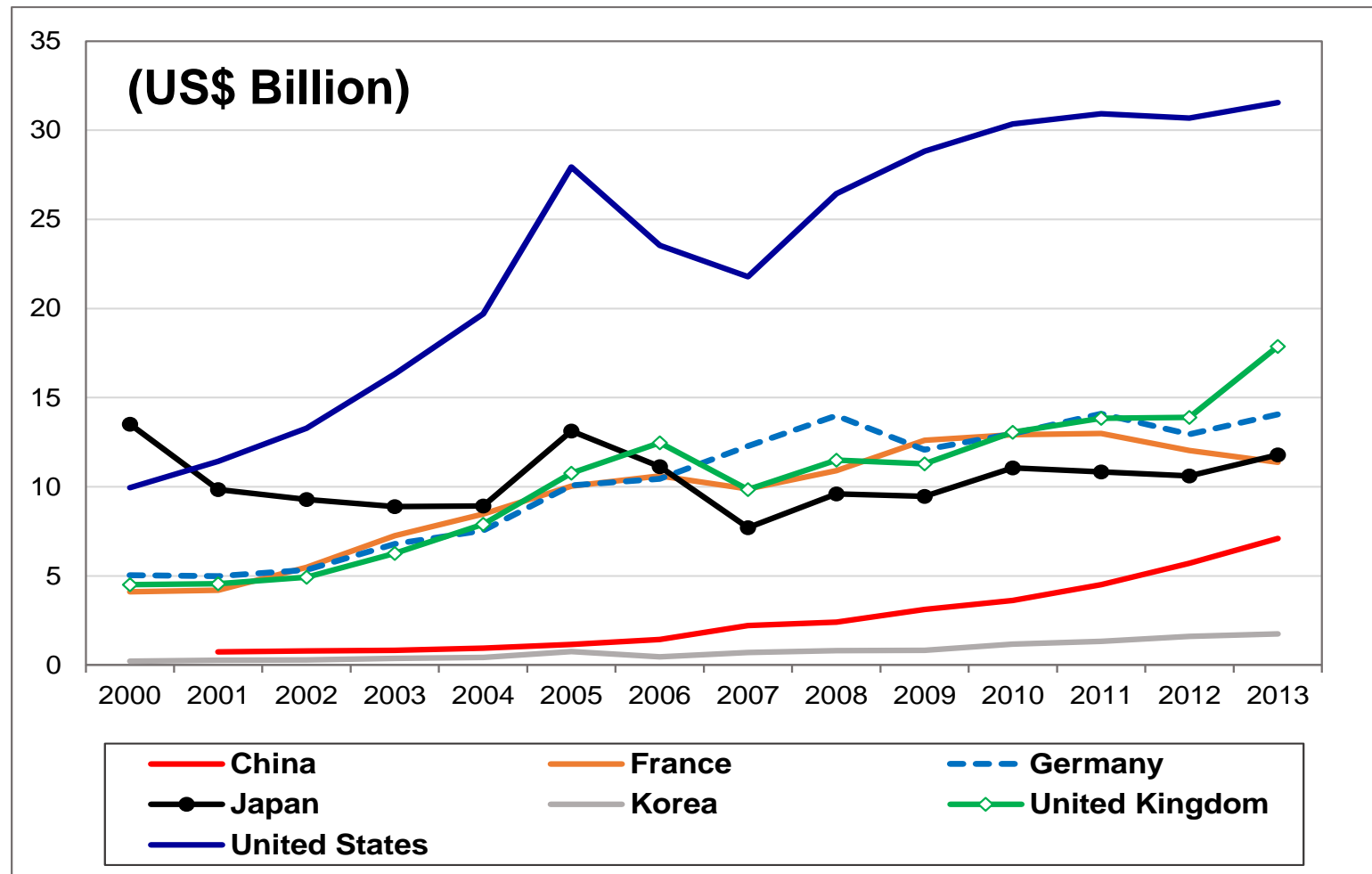
Challenges for the ASEAN economies

- Achieving macroeconomic and financial stability
- Forging a competitive and innovative region
- Promoting economic convergence and equitable growth
- Developing natural resources while sustaining the environment
- Developing human capital and improving labor market conditions
- Improving governance, accountability, and institutional effectiveness

ASEAN national challenges

Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Diversify the economy	Develop human capital	Enhance macro-economic management	Diversify the economy	Make the economy more competitive	Strengthen governance and institutions	Improve business and investment climate	Manage limited resources	Develop human capital	Strengthen governance and institution
Improve the business and investment climate	Diversify the economy	Develop economic infrastructure	Develop human capital	Develop human capital	Enhance macro-economic management	Develop economic infrastructure	Address demographic and labor constraints	Reduce inequality and improve social cohesion	Develop economic infrastructure
Develop human capital	Reduce poverty	Improve environmental protection and natural resource management	Improve environmental protection and natural resource management	Cultivate technology and innovation capabilities	Strengthen agriculture	Strengthen governance and institutions	Cultivate technology and innovation capabilities	Enhance macro-economic management	Develop human capital
Improve environmental protection and natural resource management	Improve environmental protection and natural resource management	Reduce inequality and improve social cohesion	Develop economic infrastructure	Increase labor productivity	Develop human capital	Strengthen the industrial base	Identify new drivers of growth	Identify new drivers of growth	Improve urbanization management
Promote financial deepening	Strengthen governance and institutions	Strengthen governance and institutions	Enhance macro-economic management	Reduce inequality and improve social cohesion	Strengthen the industrial base	Reduce inequality and improve social cohesion	Reduce inequality and improve social cohesion	Strengthen governance and institutions	Improve environmental protection and natural resource management
Improve quality of life	Enhance macro-economic management	Diversify the economy	Develop sustainable social safety nets	Improve environmental protection and natural resource management	Develop economic infrastructure	Improve fiscal management	Manage urbanization and the environment	Ensure energy security	Develop sustainable social safety nets

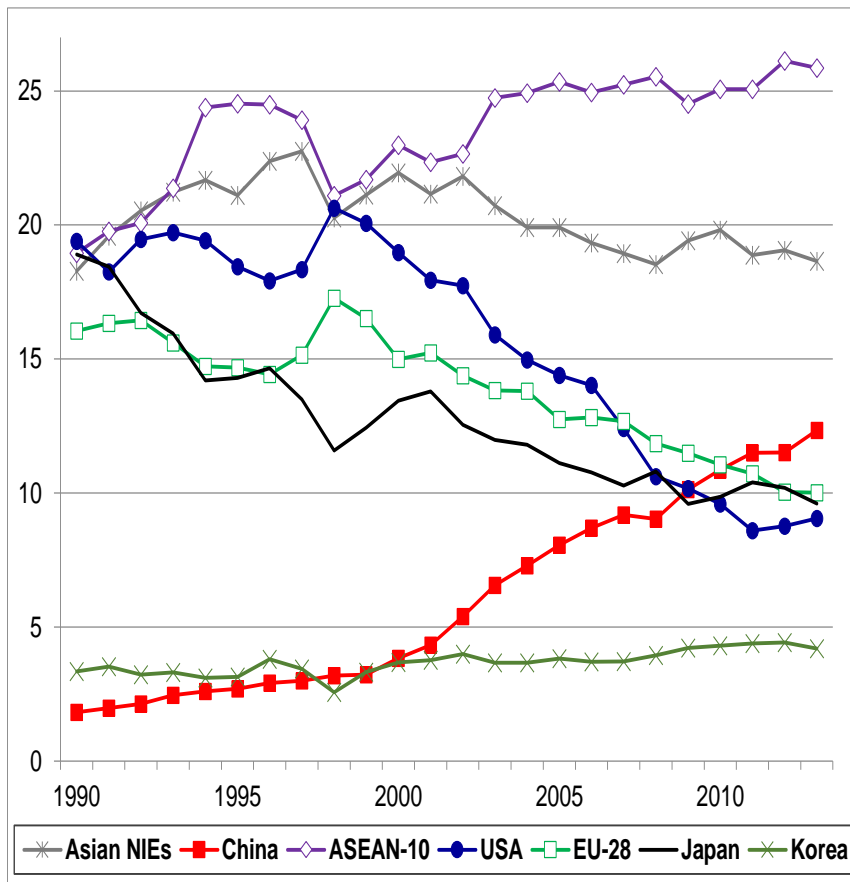
Major DAC members' net ODA (and China's net foreign aid)



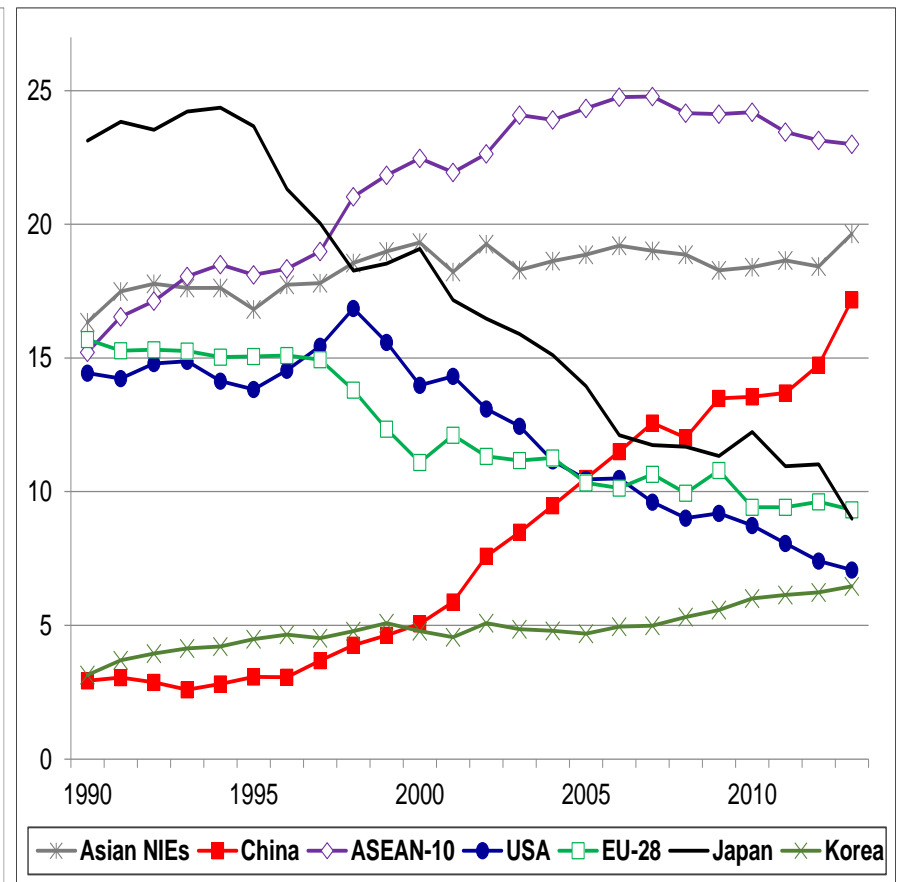
Source: OECD, *International Development Statistics*; and Kitano and Harada (2014)

ASEAN's trade with its trading partners (% composition)

ASEAN's Export (%)

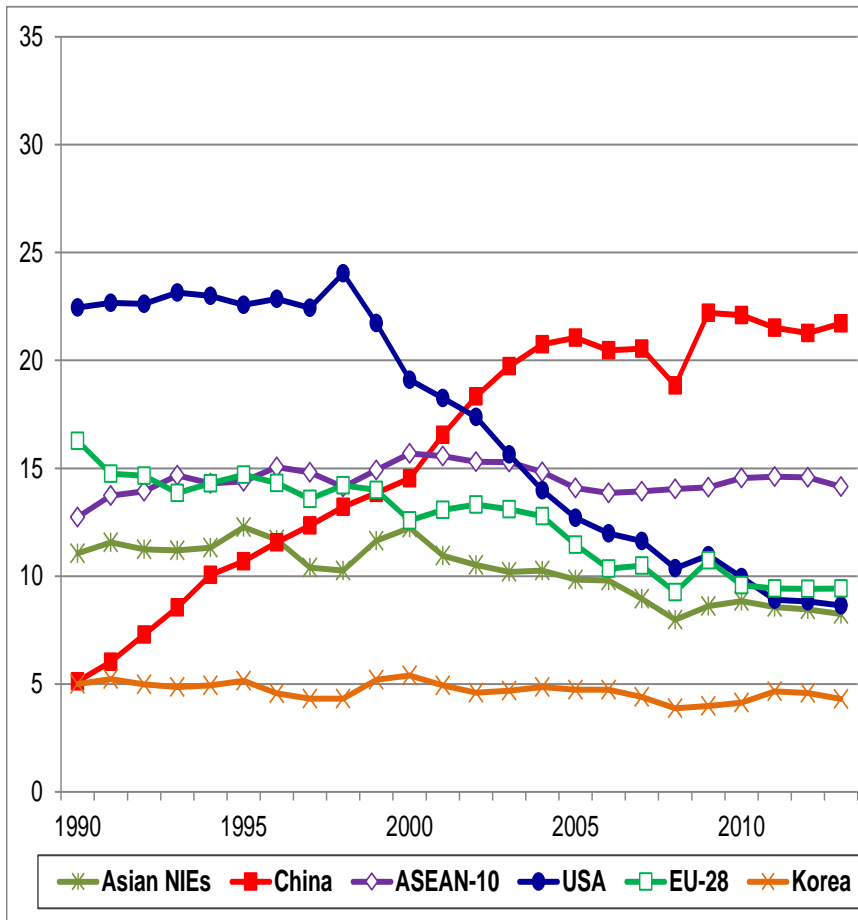


ASEAN's Import (%)

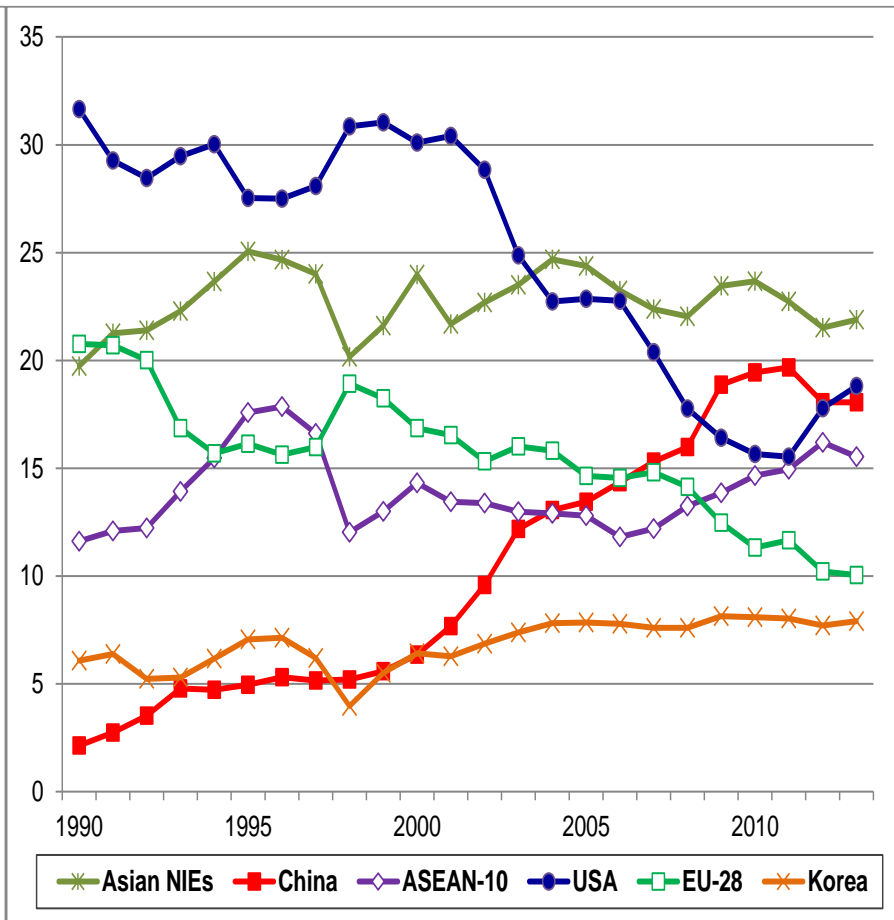


Japan's trade with its trading partners (% composition)

Japan's Export (%)

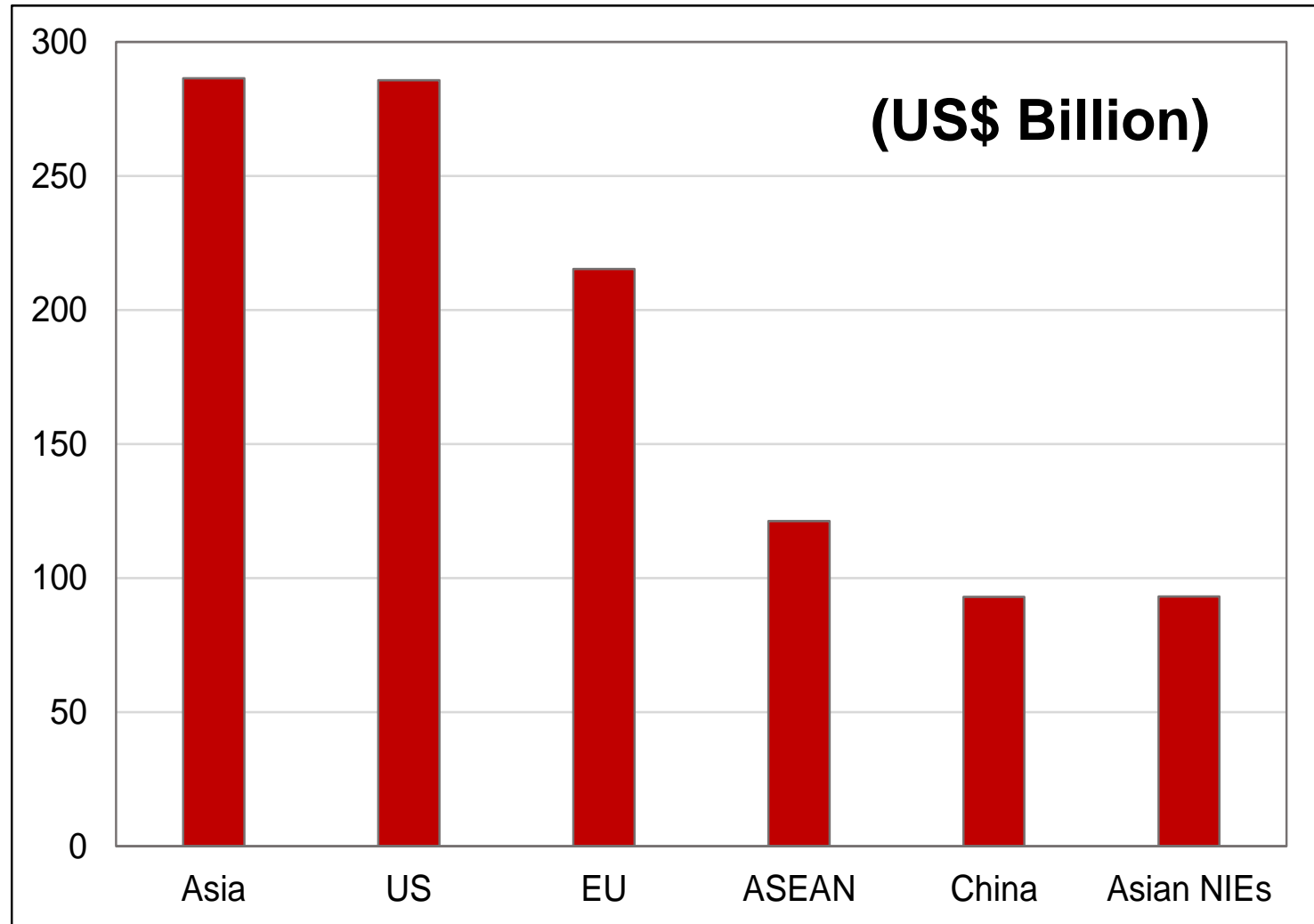


Japan's Import (%)



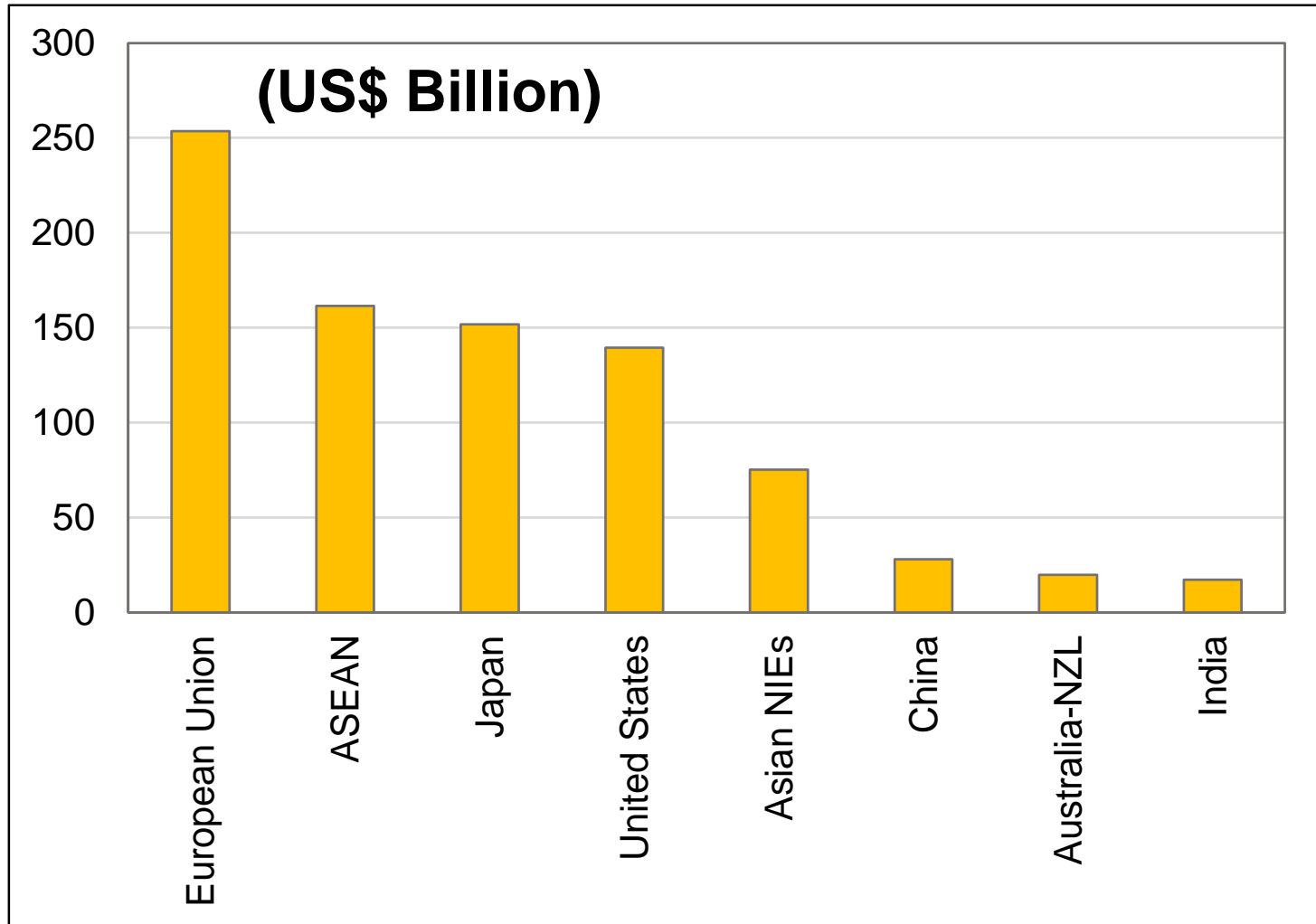
Source: International Monetary Fund, *Direction of Trade Statistics*

Japan's outward FDI stock (2012)



Source: UNCTAD, World Investment Report 2014

Inward FDI inflows in ASEAN (cumulative, 1995-2012)

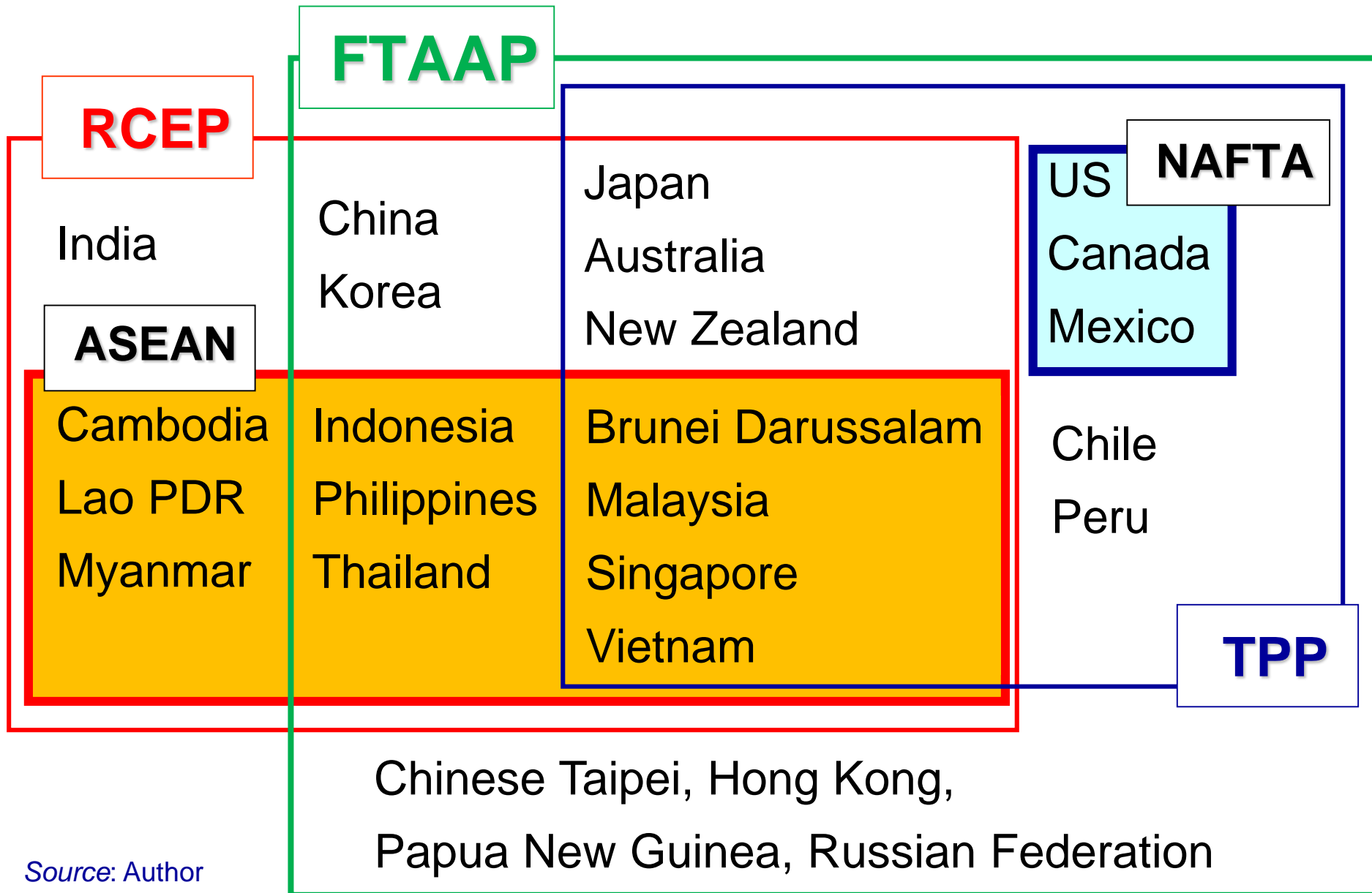


Source: ASEAN Secretariat

The roles of Japan, China, and ASEAN in East Asian supply chains

- Japan: Provider of FDI, managerial and production technologies, high-value-added parts & components and capital goods, and a market for final consumption goods
- China: Provider of low-tech capital goods and final consumer goods (i.e., provider of assembling services with cheap labor)
- **ASEAN:** Production base for Japanese and other MNC manufacturing firms, and a resource base for China

Negotiating membership of RCEP, TPP



Tariff elimination coverage under the ASEAN+1 FTAs (%)

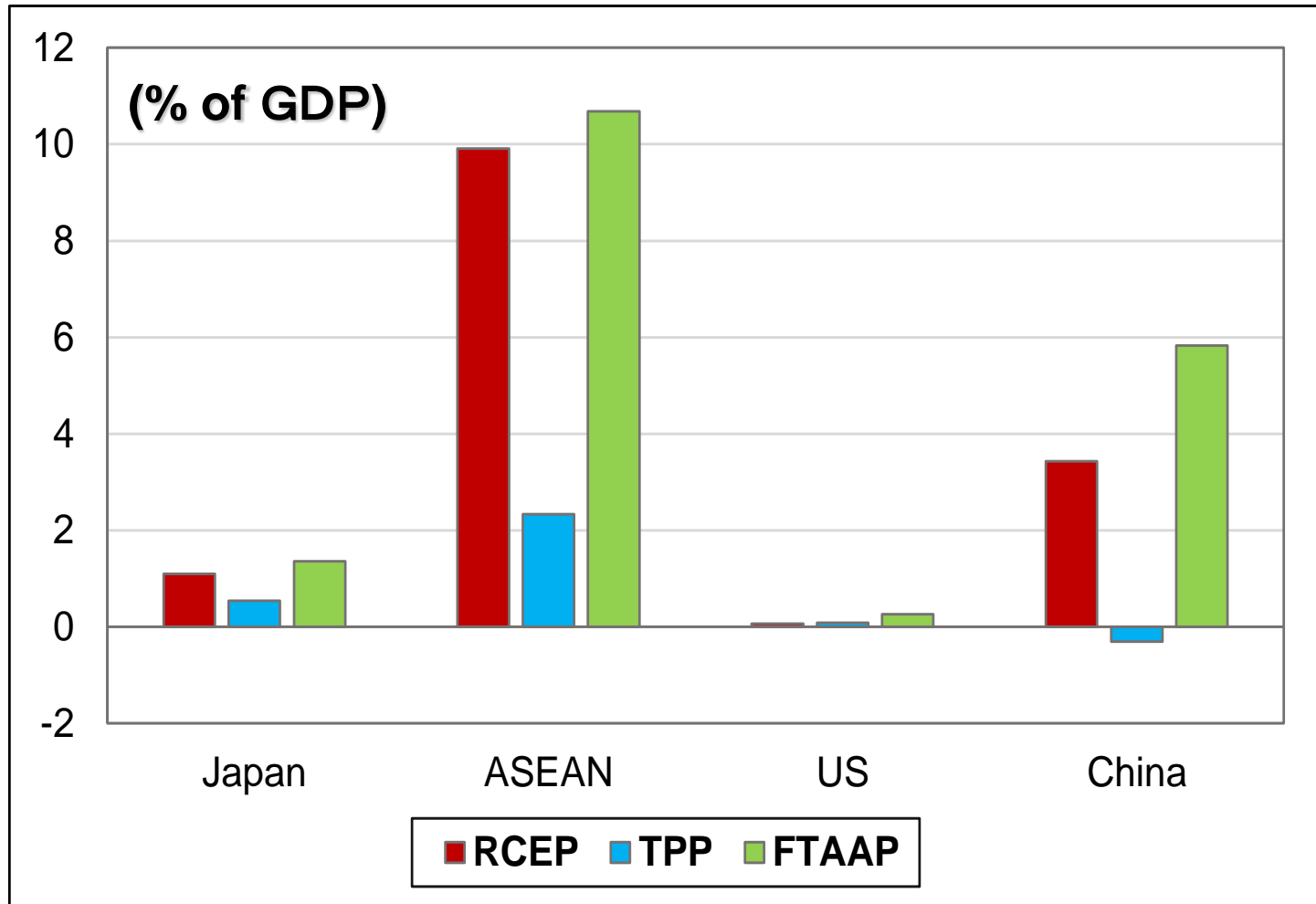
	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA	Average
Brunei Darussalam	99.2	98.3	85.3	97.7	99.2	95.9
Cambodia	89.1	89.9	88.4	85.7	97.1	90.0
Indonesia	93.7	92.3	48.7	91.2	91.2	83.4
Lao PDR	91.9	97.6	80.1	86.9	90.0	89.3
Malaysia	97.4	93.4	79.8	94.1	95.5	92.0
Myanmar	88.1	94.5	76.6	85.2	92.2	87.3
Philippines	95.1	93.0	80.9	97.4	99.0	93.1
Singapore	100.0	100.0	100.0	100.0	100.0	100.0
Thailand	98.9	93.5	78.1	96.8	95.6	92.6
Viet Nam	94.8	n.a.	79.5	94.4	89.4	89.5
ASEAN6	97.4	95.1	78.8	96.2	96.8	92.8
CLMV	91.0	94.0	81.2	88.1	92.2	89.0
ASEAN	94.8	94.7	79.7	96.2	94.9	91.3
Australia–New Zealand	100.0	–	–	–	–	100.0
PRC	–	94.1	–	–	–	94.1
India	–	–	78.8	–	–	78.8
Japan	–	–	–	91.9	–	91.9
Korea, Rep. of	–	–	–	–	90.5	90.5
Average	95.7	94.7	79.6	92.8	94.5	91.3

Source: Authors' compilation from Fukunaga and Isono (2013).

Policy suggestions for ASEAN

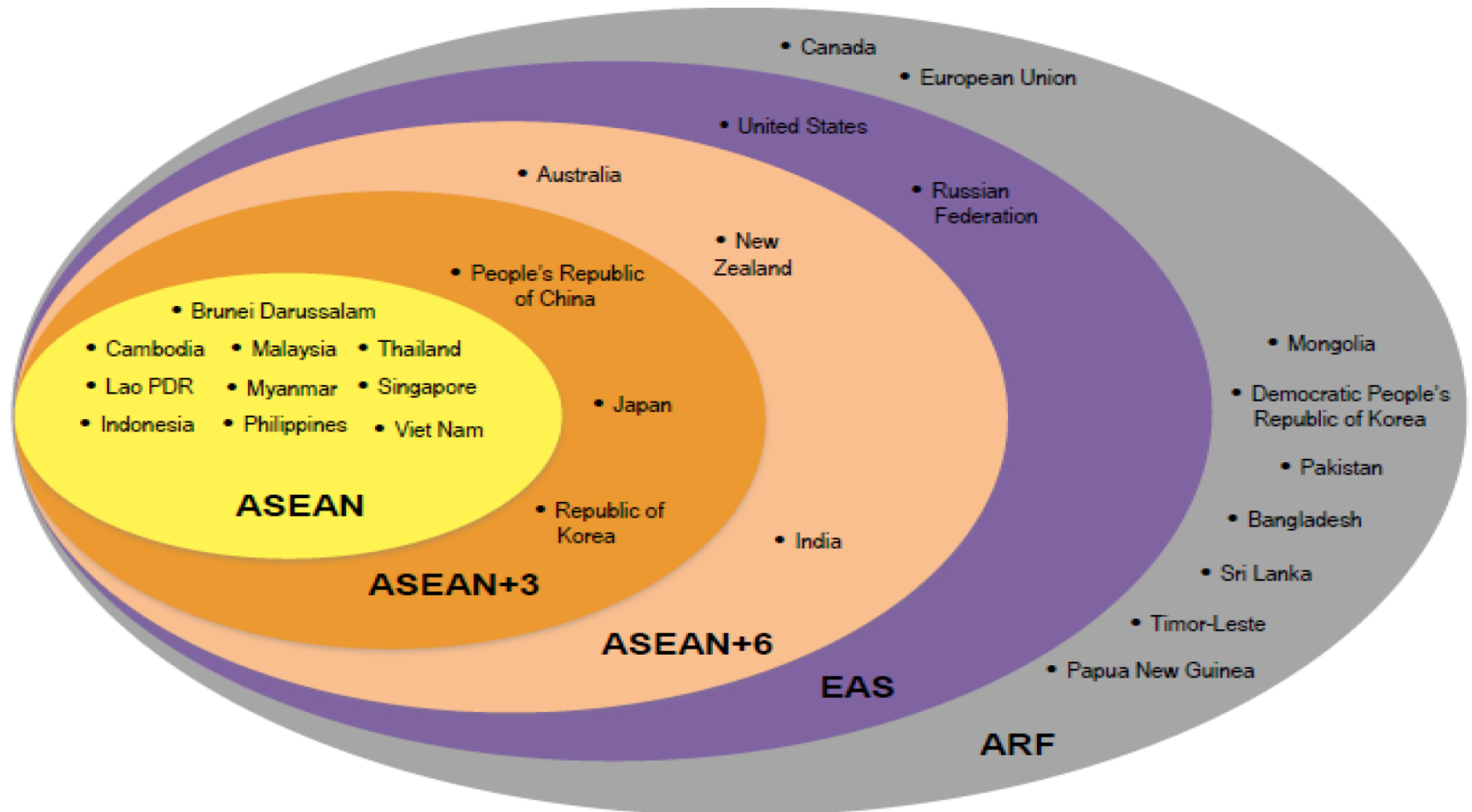
- The creation of a single market and production base by transforming ASEAN into a large, integrated economy would further expand trade and inward FDI
- To further expand trade and FDI, ASEAN member states need to continue to liberalize their respective domestic economies through reduction of tariffs, behind-the-border NTBs, and business-stifling regulations on services trade & FDI inflows
- Forging more FTAs with its dialogue partners and the rest of the world would be key to further boosting ASEAN's trade and FDI. The completion of RCEP negotiations, and the participation in the TPP would be critical
- ASEAN members need to continue to improve the quality of institutions; invest more in infrastructure; and address domestic regulations and practices that hinder private business activities

Benefits of various FTAs/EPAs

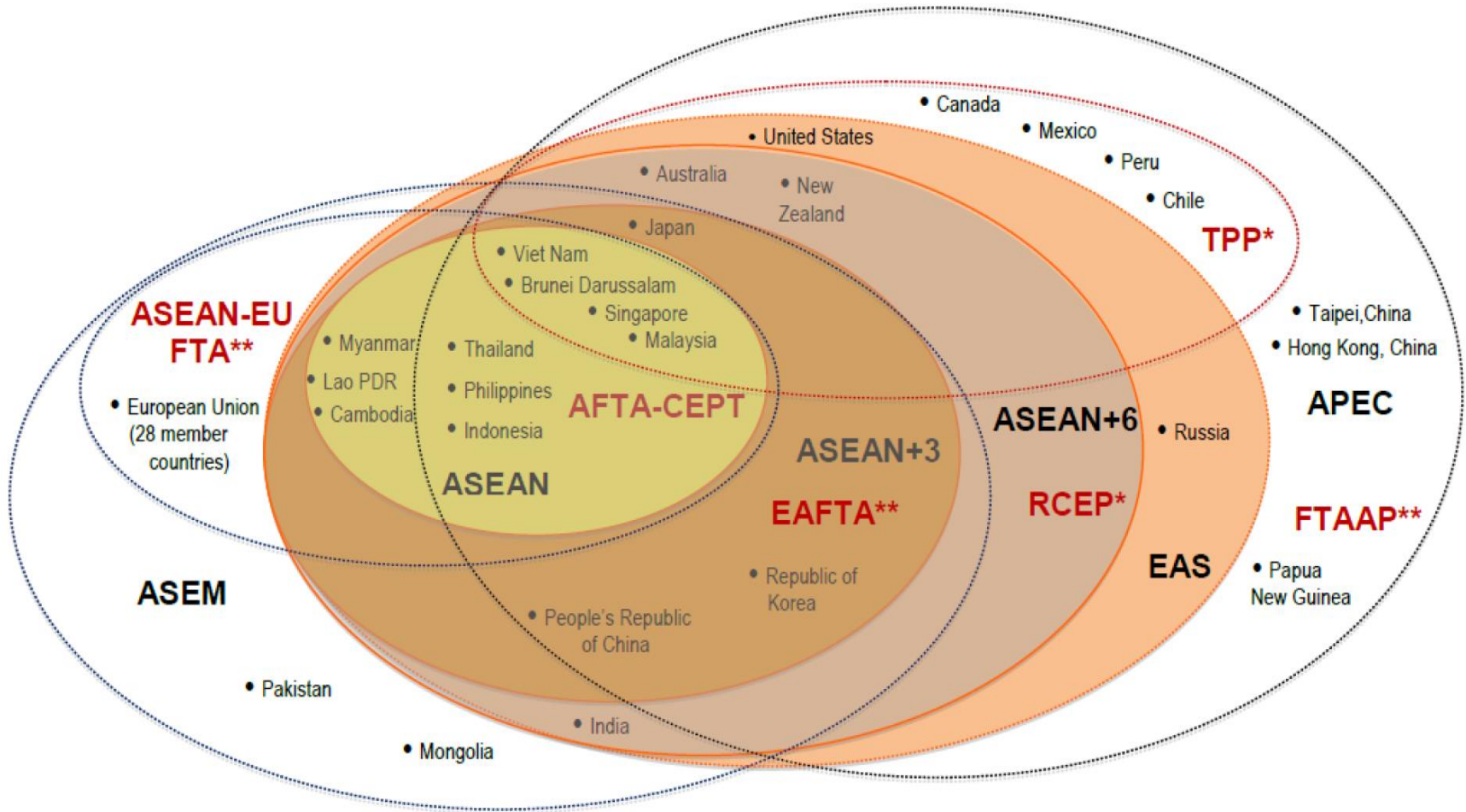


Source: Kawasaki, Ken'ichi (2011)

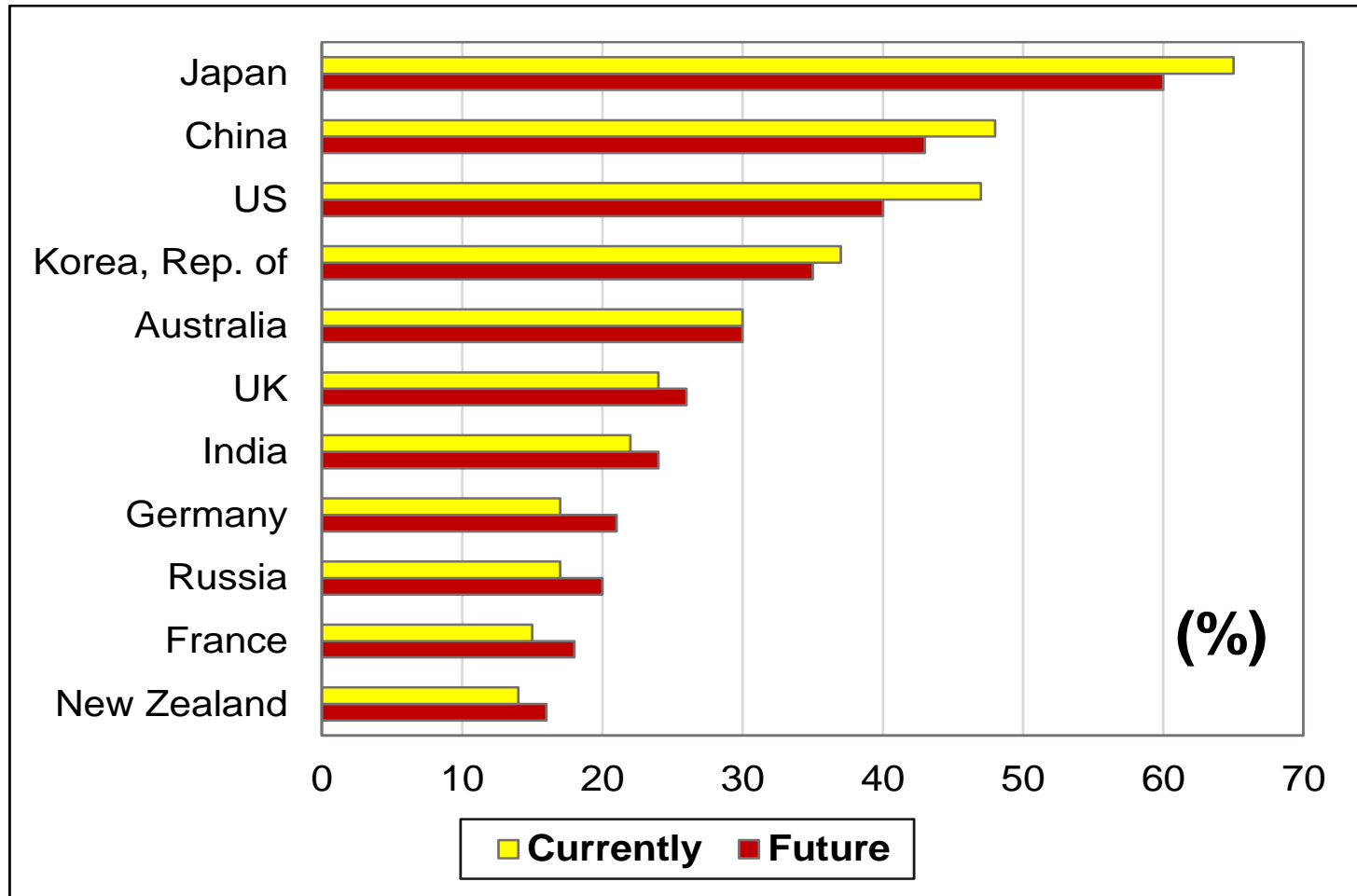
ASEAN centrality: Major groups focused on ASEAN



Regional trade agreements (RCEP, TPP...)

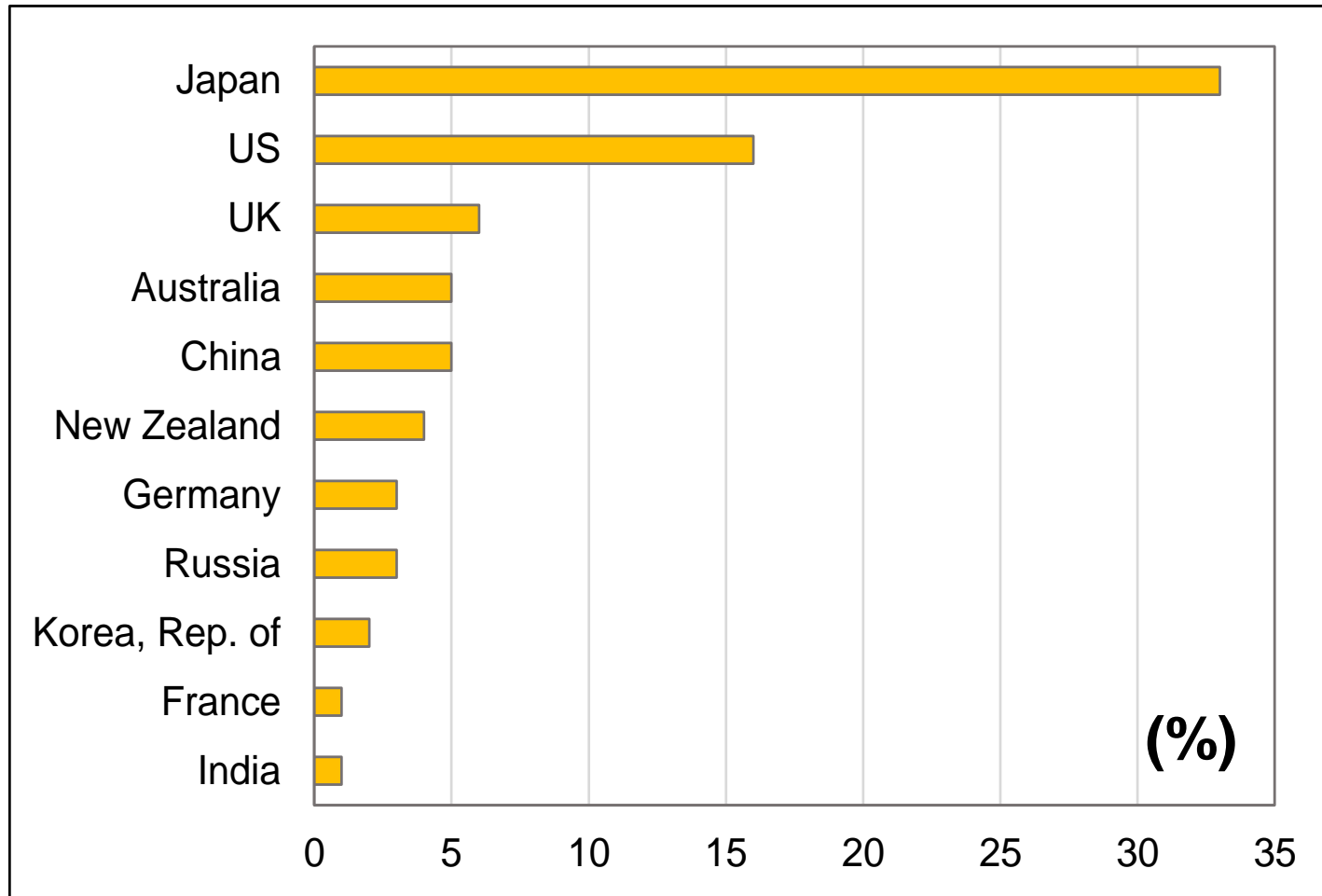


Which countries are important partners for ASEAN currently and in the future?



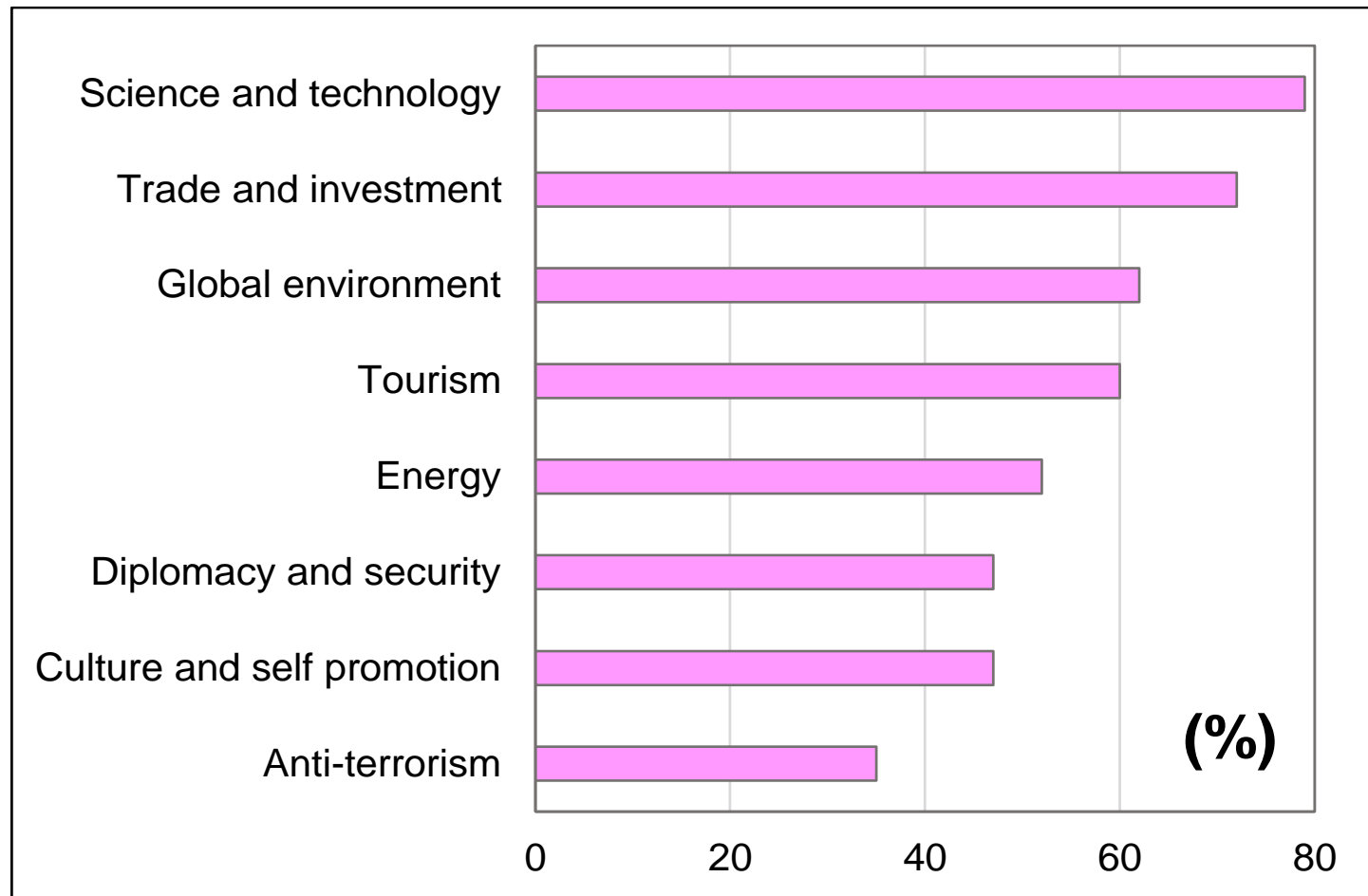
Source: Foreign Affairs Ministry, Government of Japan, *Opinion Poll on Japan in Seven ASEAN Countries*, April 18, 2014.

Which country is the most trusted partner for ASEAN?



Source: Foreign Affairs Ministry, Government of Japan, *Opinion Poll on Japan in Seven ASEAN Countries*, April 18, 2014.

In what areas should Japan and ASEAN strengthen their cooperation?



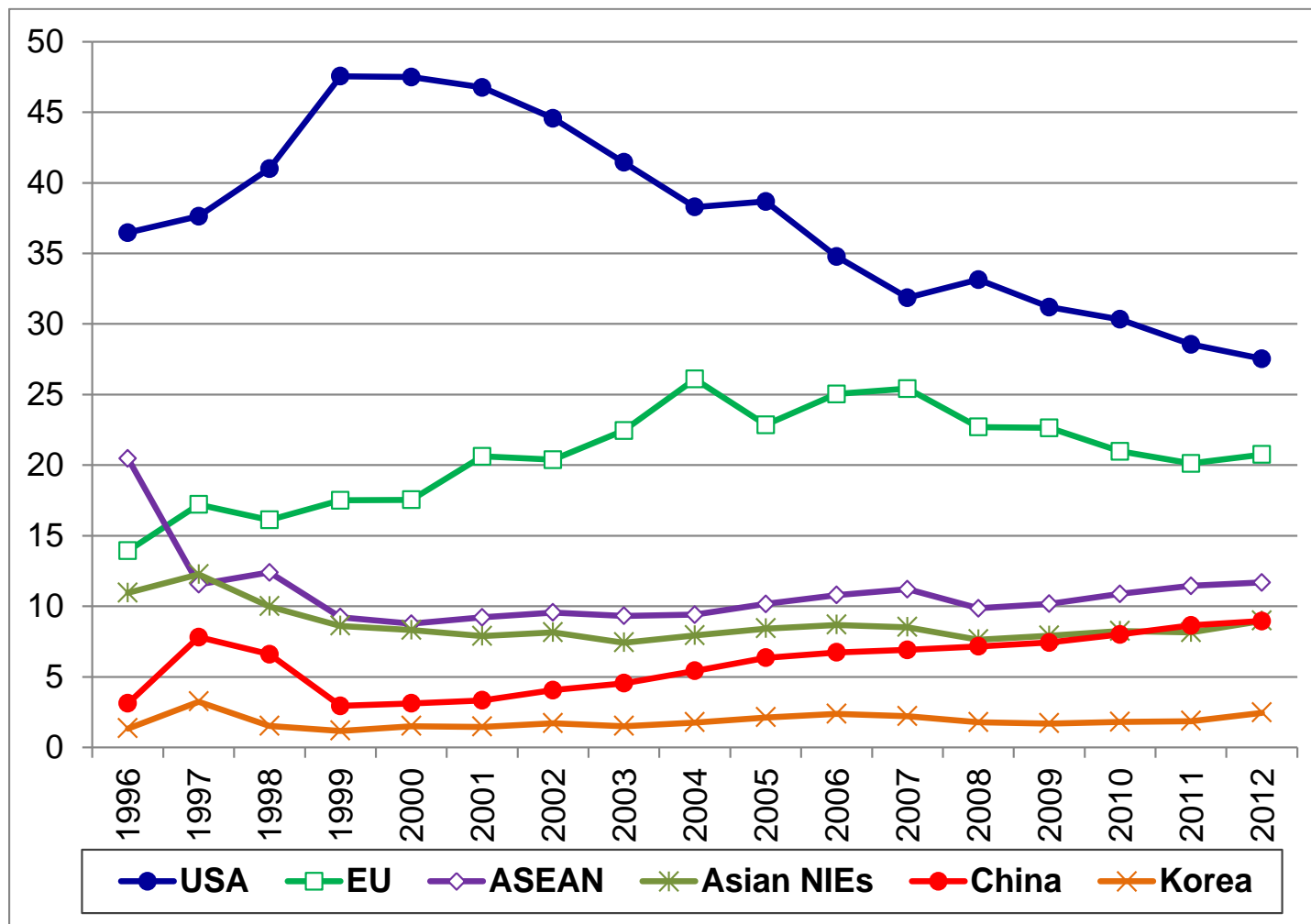
Source: Foreign Affairs Ministry, Government of Japan, *Opinion Poll on Japan in Seven ASEAN Countries*, April 18, 2014.

Conclusion

- Japan has long supported ASEAN in its outward-oriented industrialization through ODA, trade and FDI, thereby integrating ASEAN into regional supply chains
- ASEAN has pursued market-driven economic integration among its members and with other East Asian economies through trade and FDI
- In the medium term, it is in the best interest of all ASEAN members to join TPP following the formation of AEC and RCEP
- Deepening the AEC, including its transformation into a customs union, is essential
- Japan will continue to support ASEAN

APPENDIX

Japan's outward FDI stock: Geographical distribution (%)

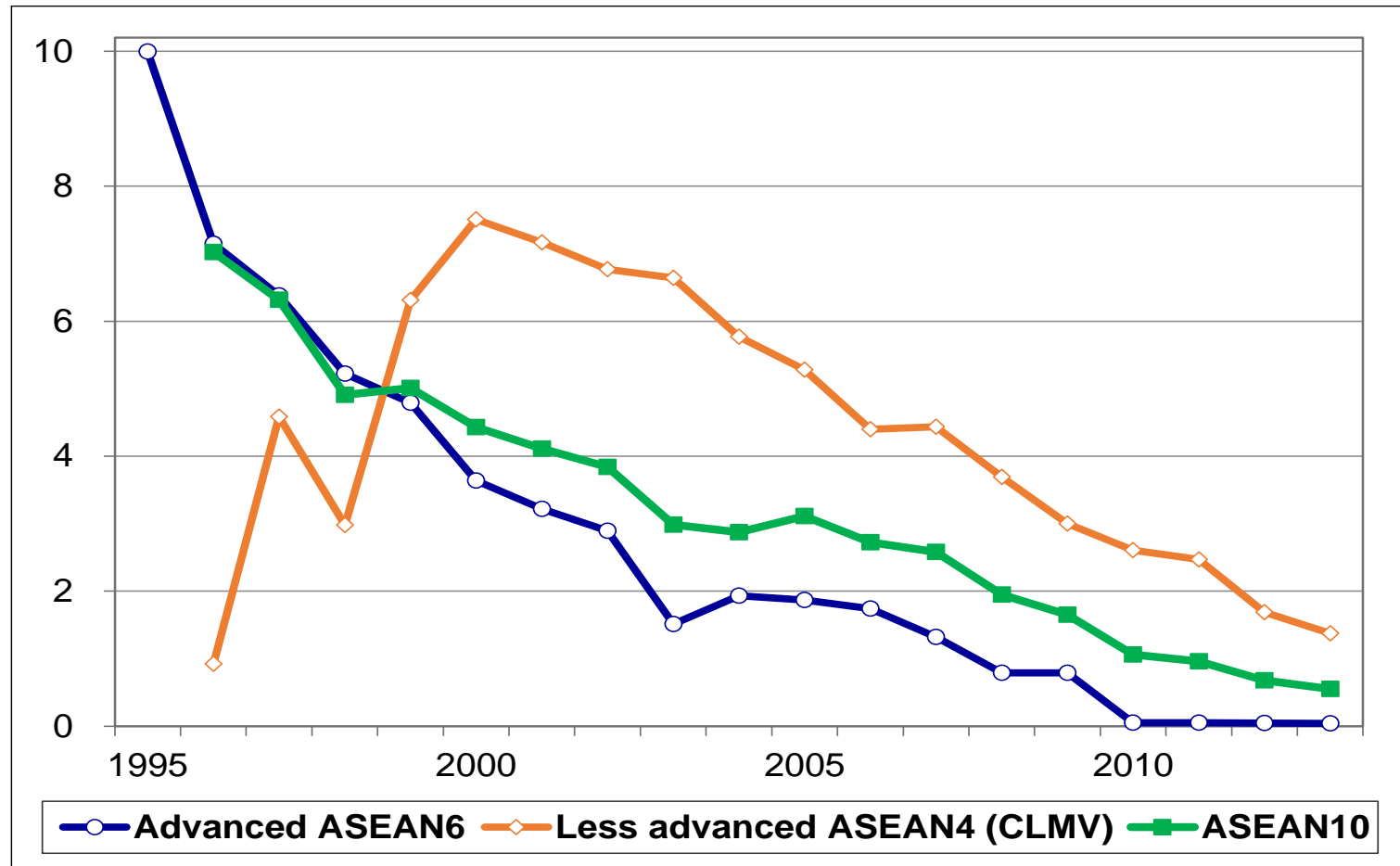


Source: OECD

ASEAN economic integration process 1993–2015

Year	ASEAN Economic Integration
1993	ASEAN Free Trade Area (AFTA) launched AFTA's Common Effective Preferential Tariff (CEPT) Scheme implemented
1995	ASEAN Framework Agreement on Services (AFAS) signed and implemented
1996	ASEAN Industrial Cooperation (AICO) scheme adopted
1998	Framework Agreement on ASEAN Investment Area (AIA) signed and implemented
2003	The vision of an ASEAN Community endorsed, including the ASEAN Economic Community (AEC)
2007	ASEAN Charter signed Roadmap for the ASEAN Community approved, including the AEC Blueprint, the Initiative for ASEAN Integration (IAI) Strategic Framework, and IAI Work Plan (2009–2015)
2010	ASEAN Trade in Goods Agreement (ATIGA) signed to replace CEPT Master Plan on ASEAN Connectivity adopted
2012	ASEAN Comprehensive Investment Agreement (ACIA) implemented
2015	ASEAN Community, including the AEC, to be launched

Intra-ASEAN tariff rates under CEPT and ATIGA, 1995–2013 (%)



Source: ASEAN Secretariat.

ODA Charter 2003

Objectives of Japan's ODA

- To contribute to the peace and development of the international community, and thereby to help ensure Japan's own security and prosperity

Basic Policies

- (1) Supporting self-help efforts of developing countries
- (2) Perspective of “Human Security”
- (3) Assurance of fairness
- (4) Utilization of Japan's experience and expertise
- (5) Partnership and collaboration with the international community

Priority Issues

- (1) Poverty reduction
- (2) Sustainable growth
- (3) Addressing global issues
- (4) Peace-building

Principle of ODA Implementation

- (1) Pursuit of environmental conservation and development
- (2) Avoidance of use of ODA for military purposes or for aggravation of international conflicts
- (3) Attention to recipient countries' military expenditures, development & production of weapons of mass destruction and missiles, and export & import of arms
- (4) Attention to efforts for promoting democratization & the introduction of a market-oriented economy, and the protection of basic human rights and freedoms in the recipient country

Revised ODA Charter, 2014

Objectives of Japan's ODA

- To positively contribute to the peace, stability and prosperity of the international community, and thereby to help ensure Japan's own security and prosperity

Basic Policies

- (1) Pursuit of peace through non-military means
- (2) Supporting self-help efforts of developing countries and dialogue and collaboration
- (3) Human-centered approach through human security and basic human rights
- (4) Utilization of Japan's experience and expertise

Priority Issues

- (1) High-quality growth (inclusive, sustainable and resilient) and poverty reduction
- (2) Good governance, rule of law and peace, stability & security as preconditions for development
- (3) Building a sustainable, resilient international community through addressing global issues

Principle of ODA Implementation

- (1) Being strategic
- (2) Strengthening partnership

Thank you

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