

ASEAN-Japan Strategic Partnership in Southeast Asia: Economic Pillar

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AN ASEAN COMMUNITY, structured on the three pillars of economic integration, political and security cooperation, and socio-cultural cohesion, was envisioned in 2003. Subsequently, the blueprint for an ASEAN Economic Community (AEC) was adopted in 2007, and a deadline of 2015 was set for building that community. The AEC Blueprint is aimed at transforming ASEAN into a single market and production base, which is at the same time highly competitive, with equitable economic development, and fully integrated into the global economy. These ambitious goals are to be attained through the free flow of goods, services, foreign direct investment (FDI), and skilled labor and a freer flow of capital. In order to achieve these goals, the AEC Blueprint sets out milestones that are to be achieved over four sub-periods of the plan, namely 2008–2009, 2010–2011, 2012–2013, and 2014–2015.

Many believe that Japan can play an important role in helping ASEAN achieve those milestones. The strong economic ties between ASEAN and Japan are often viewed in terms of the robust trade and investment links that exist, especially between the original six ASEAN members (ASEAN-6) and Japan. Japanese direct investments in the region have contributed to linking ASEAN economies with the production networks that span the region. Technology transfers to ASEAN member states have been facilitated through technology spillovers from Japanese multinational corporations (MNCs) operating in ASEAN. Moreover, the drive to attract these MNCs to ASEAN has led to greater efforts to improve the business environment and infrastructure of the host economies in the region. All these in turn have contributed to the economic growth of the ASEAN member countries.

However, the economic ties between ASEAN and Japan extend far beyond these private sector–led initiatives that are commercially driven. As the first dialogue partner for ASEAN, Japan has been and continues to be an important partner in the development of ASEAN. For example, more than 20 sectoral bodies have been established under the economic pillar of the ASEAN-Japan strategic partnership, overseeing a broad range of cooperation and support.¹ Apart from this, Japan’s official development assistance (ODA) program has also contributed to community building in ASEAN through its support for the newer members, Cambodia, Laos, Myanmar, and Vietnam (CLMV). In addition, “Japan’s Vision for Supporting ASEAN Connectivity,” announced in 2011, included two subsidiary visions, the “Formation of the Vital Artery for East-West and Southern Economic Corridor” and the “Maritime Economic Corridor,” through which Japan has been helping enhance the connectivity of ASEAN by developing ports, infrastructure, and transportation networks. The unwavering support of Japan for ASEAN, even when Japan was faced with the devastating effects of the tsunami in 2011, indicates the strength of the existing ties between Japan and ASEAN.

It seems appropriate, as the deadline for the AEC draws close, to examine the achievements of the AEC to date and the state of ASEAN-Japan economic cooperation in order to shift gears and move the existing relationship to a deeper level that would at the same time facilitate greater economic integration in ASEAN, enhanced ASEAN-Japan cooperation, and the expansion of ASEAN’s economic ties with other countries in Asia Pacific. In particular, this chapter seeks to suggest new directions in ASEAN-Japan economic relations based on an examination of ASEAN’s achievements in economic integration thus far and its challenges moving forward.

ASEAN ECONOMIC COMMUNITY

Several reviews of the progress of the AEC have been conducted as the deadline for this achievement looms ahead. An ASEAN scorecard system was developed to ascertain ASEAN member states’ compliance with the AEC Blueprint.² But the scorecard only indicates whether or not a country has initiated policies to implement the AEC Blueprint measures. Hence, while an absence of policies initiated can be taken to imply little progress, the converse may not hold as the scorecard does not examine the actual status of implementation of each measure. A midterm review (MTR) of the implementation of the AEC Blueprint was also conducted by the Economic Research Institute for ASEAN and East Asia (ERIA). The section below

draws extensively on the comprehensive assessment by ERIA in its MTR to summarize the achievements of the AEC thus far and the challenges it faces in meeting the 2015 deadline and moving beyond 2015.³

Key Achievements of the AEC

The reduction in tariffs scheduled under the ASEAN Free Trade Area (AFTA) has led to almost zero average Common Effective Preferential Tariff (CEPT) rates in ASEAN-6, while the CLMV countries had achieved an average CEPT rate of 2.6 percent by 2010. This in turn has increased the margin of preference for ASEAN imports among member states, and the share of intra-ASEAN trade increased from around 20 percent in 1993 to 25 percent in 2011.

Given the important role played by trade facilitation, the installation of national single windows (NSWs) in five ASEAN member states (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) has helped facilitate a freer flow of goods in ASEAN. Brunei and Vietnam are also moving toward live implementation of their NSWs by 2015. According to the MTR, feedback from the private sector indicates an improvement in the customs performance of several ASEAN member states in 2009–2011. A contributory factor to the improved performance is the evolution of more liberal and business-friendly rules of origin (ROO) in ASEAN that has improved the ease of getting certificates of origin, which are needed to access the AFTA rates.

In terms of investment liberalization and facilitation, three ASEAN member states have liberalized rates of at least 90 percent, five have achieved around 85 percent to 89 percent, while the remaining two have investment liberalization rates of around 80 percent. This, however, pertains only to the goods sector,⁴ as this was the focus of the ASEAN investment agreements.

Investment facilitation and promotion in the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand, and Singapore) are near international best practices, while the other member states need to improve on this measure. The MTR's survey on the private sector's views also indicates an improvement in the investment facilitation and climate for the CLMV countries and Malaysia.

Air liberalization in ASEAN has facilitated greater air travel. The two main agreements enabling air liberalization are the Multilateral Agreement on the Full Liberalization of Air Freight Services (MAFLAFS) and the Multilateral Agreement on Air Services (MAAS). The former has already entered into force in nine ASEAN member states, while the latter has been ratified by

eight. The Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS) was concluded in 2010 and has been ratified and entered into force by five member states.

ASEAN's integration with East Asia has further deepened with the conclusion of five ASEAN+1 FTAs, covering all original 16 members of the East Asia Summit.⁵ Although all these agreements have different coverage and depth of commitments, they nevertheless lead to an extended coverage of ASEAN's commitments with East Asia. The Regional Comprehensive Economic Partnership (RCEP) currently under negotiation will also serve to unify ASEAN's approach and centrality in its integration with East Asia.

Finally, there are other achievements that also signify increasing cooperation efforts within ASEAN and with its East Asian partners in some of the FTAs. For example, efforts to facilitate mutual recognition agreements (MRAs) on engineers and architects will facilitate the movement of skilled workers. Other noteworthy cooperation efforts within ASEAN include information and communications technology (ICT) and energy. In East Asia, the Chiang Mai Initiative (CMI) is a significant example of cooperation with ASEAN's Plus Three partners (Japan, China, and South Korea).

Remaining Challenges

The remaining challenges can be divided into two types, the first being outstanding measures in the AEC Blueprint that need to be fully or nearly fully implemented by the AEC deadline of 2015. These have been termed priority measures for 2015. The second are the AEC measures that are meant to be fully implemented after 2015.

Several priority policy measures have been identified for 2015. These are tariffs and non-tariff measures (NTMs), trade facilitation, services liberalization, investment liberalization, investment facilitation, transport facilitation, small and medium enterprise (SME) development, the Initiative for ASEAN Integration (IAI), and the RCEP.

The rationales for these priority policy measures are as follows. A prevalence of NTMs will negate a free flow of goods, and it is therefore imperative to accelerate efforts to reduce these NTMs. Closing the gap in progress toward the installation of the NSWs and enhancing the effectiveness in the implementation of NSWs in Brunei, Cambodia, Laos, Vietnam, and Myanmar is essential for ASEAN to exploit the complementarities and synergies between liberalization and facilitation.⁶ Similarly, services

liberalization and domestic reforms are necessary due to its lax implementation despite its relatively unambitious liberalization goals.⁷ Investment liberalization and facilitation need to minimize temporary exclusion and sensitive lists as well as provide better research and disclosure of investment impediments.⁸ Likewise, accelerating connectivity and transport facilitation will need improved funding as well as better coordination.⁹ Apart from the above measures that are the central and foundational elements of the AEC, enhancing the IAI and SME development are initiatives that can promote more equitable growth, which is necessary for a more cohesive ASEAN. Concluding the RCEP will enable ASEAN to benefit more from its links with the rest of East Asia.

The MTR therefore recommended several policy actions as the way forward toward 2015. These are to (1) address the non-tariff barrier effects of NTMs more effectively; (2) deliver better on trade, investment, and transport facilitation; (3) forge ahead on services and investment liberalization; (4) enhance the AEC Blueprint's third pillar on more equitable development; (5) finish RCEP negotiations; (6) develop "success stories" in other AEC measures; and (7) address institutional issues and manage regulatory reform in ASEAN.

Moving beyond 2015, several priority policy actions were recommended by the MTR. These include actions dealing with standards and conformance, capital market development and financial market integration, MRAs on professional services and labor mobility, ICT, energy, intellectual property rights (IPRs), competition policy, agriculture, and others such as consumer protection and taxation. The promotion of a freer flow of goods and services through common standardization and certification policies as well as a freer flow of capital and labor require ASEAN member states to address many technical, macroprudential (dealing with systemic risks), and regulatory challenges. In addition, adequate infrastructure has to be in place to facilitate deeper connectivity through ICT and energy policy actions. Furthermore, second-generation reforms are required for IPRs, competition policy, and consumer protection, while agriculture policy actions have to address climate change, sanitary and phytosanitary conditions, and other areas of cooperation. Addressing the above challenges will enable ASEAN to achieve the 2030 vision of a rich, resilient, competitive, and harmonious ASEAN by 2030, as suggested in the ASEAN 2030 document published by the Asian Development Bank Institute (ADBI).¹⁰

ASEAN-JAPAN ECONOMIC COOPERATION

As indicated above, there are many forms of cooperation between ASEAN and Japan. This section focuses only on key government-to-government initiatives thus far.

Goals and Status

In 2003, the Tokyo Declaration for the Dynamic and Enduring Japan-ASEAN Partnership in the New Millennium (Tokyo Declaration) was signed at the Japan-ASEAN Commemorative Summit to mark 30 years of this relationship and its contributions to peace, stability, and prosperity in the region. In this declaration, seven common strategies for action were highlighted: (1) reinforcing comprehensive economic partnership and monetary and financial cooperation; (2) consolidating the foundation for economic development and prosperity; (3) strengthening political and security cooperation and partnership; (4) facilitating and promoting exchange of people and human resource development; (5) enhancing cooperation in culture and public relations; (6) deepening East Asian cooperation for an East Asian community; and (7) cooperating to address global issues. The goal of these strategies is to continue deepening and broadening cooperation within the Japan-ASEAN strategic partnership, in order to ensure peace, stability, and prosperity in the region.

Two plans of action were adopted as guides for strengthening ASEAN-Japan relations. These are the Japan-ASEAN Plan of Action (2003) for 2004–2011 and the ASEAN-Japan Plan of Action 2011–2015. In the case of the former, three key areas of cooperation were identified, namely cooperation to reinforce integration of ASEAN; cooperation to enhance economic competitiveness of ASEAN member states, including investment promotion; and cooperation to address terrorism, piracy, and other transnational issues. Numerous initiatives were proposed for each of the seven strategies for actions as identified in the Tokyo Declaration. In particular, the 2003 Plan of Action highlighted the importance of human resource development as a prerequisite for making progress in the three key areas of cooperation. In this regard, technical cooperation through four institutions—the Japan International Cooperation Agency (JICA), the Association for Overseas Technical Scholarship (AOTS), the Japan Overseas Development Corporation (JODC), and the Japan Bank for International Cooperation (JBIC)—as well as through scholarship programs, is to be harnessed to support human resource development in the seven Tokyo Declaration strategies.

The subsequent Plan of Action in 2011 narrowed the key strategies down to five, in view of the changing environment in the region: (1) strengthening political-security cooperation in the region; (2) intensifying cooperation on ASEAN Community building; (3) enhancing ASEAN-Japan connectivity for consolidation of ties between ASEAN and Japan; (4) creating a more disaster-resilient society together; and (5) addressing common regional and global challenges. As in the case of the previous plan of action, numerous initiatives were proposed under these five strategies. In the case of economic cooperation alone, 21 wide-ranging initiatives were put forth, indicating the multipronged approach used to enhance the depth of economic cooperation between ASEAN and Japan. Within this multipronged approach, Japan has also extended its economic cooperation from the traditional country-country basis to a regionwide approach as exemplified in the New Concept of Mekong Region Development.¹¹

Key Challenges

There is limited published information in English on assessments of ASEAN-Japan cooperation. The only published public document on the subject by the Ministry of Foreign Affairs of Japan, in 2007, highlighted various projects that have been implemented for the different strategies proposed in the 2003 Plan of Action.¹² It would appear that more assessment and monitoring of the initiatives and projects implemented under the 2011 Plan of Action are needed to strengthen ASEAN-Japan ties based on current plans that are scheduled to take place by 2015.

However, there is a need to conceive of a new approach for moving economic cooperation to new heights beyond 2015. This is needed in view of global trends and the current economic position of ASEAN as well as the four interdependent pathways identified for deepening ASEAN integration in the Jakarta Framework. In the first pathway, a dynamic and competitive regional economy is envisioned, premised on helping ASEAN member states in the middle income group to become fully developed economies; advancing the frontiers of production networks operating in the region; harnessing industrial agglomeration for innovation and human resource development; fostering the free flow of goods, services, capital, and people; and enhancing physical and institutional connectivity. The second pathway addresses inclusiveness in geographic, industrial, and social dimensions, while the third focuses on sustainability in terms of resilience and green development. The final pathway emphasizes the centrality of ASEAN in its relationships with its partners. This new approach is outlined below.

NEXT STAGE OF COOPERATION

Global Trends and the Current Economic Positioning of ASEAN

The first decade of the 21st century was an unprecedented era in which developing countries all over the world could enjoy rapid economic growth. The basis of the economic growth, however, differed widely across countries and regions. The world experienced a drastic price hike for energy and other natural resources, which pushed up the income level of resource-exporting developing countries, including Sub-Saharan African countries, with increased resource-related investment as well as local currency appreciation. As a side effect of the income growth, a number of developing countries fell into a sort of Dutch disease,¹³ in which the initiation of industrialization became even more difficult. On the other hand, ASEAN and other East Asian developing countries grew with steady expansion of their productive sectors such as manufacturing and expanded employment opportunities, which accelerated labor movements from the rural, agricultural, informal sector to the urban, industrial, formal sector, resulting in substantial poverty alleviation. Moderate aggravation of the terms of trade between manufactured goods and energy and natural resources pulled down the welfare level to some extent in most ASEAN and East Asian economies while it actually strengthened location-related advantages for manufacturing activities. Current levels of wages in most of the ASEAN member states are still competitive vis-à-vis those in other parts of the developing world even after taking into account recent wage hikes.

East Asia, including ASEAN, is known to be the region with the most advanced international production networks and international division of labor in terms of production processes and tasks (the second unbundling) while its dependence on external markets, such as on markets in the United States and the EU, is regarded as a factor contributing to its fragility. The slowdown of the US and EU economies due to the global financial crisis seriously hurts ASEAN and other East Asian economies. However, ASEAN and East Asia have been actively extending and intensifying international production networks within the region, particularly since the start of the global financial crisis. Although external markets continue to be important, ASEAN and other parts of East Asia have started growing not only as a factory of the world but also as a notable market with rapidly expanding middle-income populations. Enhancing economic integration in ASEAN and East Asia will surely deepen regional economic ties in both production and consumption, while keeping links with external markets.

Although the dominance of East Asia in manufacturing activities seems on track to continue in the coming years, some of the ASEAN member states face various challenges. As for the latecomers, it still seems important to remove bottlenecks in order to jump-start industrialization. Some of the forerunners are experiencing a slowdown of economic growth and finding it difficult to promote industrial upgrading and productivity growth. At the same time, inclusiveness and sustainability have become essential elements to evaluate the outcome of economic growth. The creation of a new East Asian development model seems to be needed.

New Approaches and Strategies

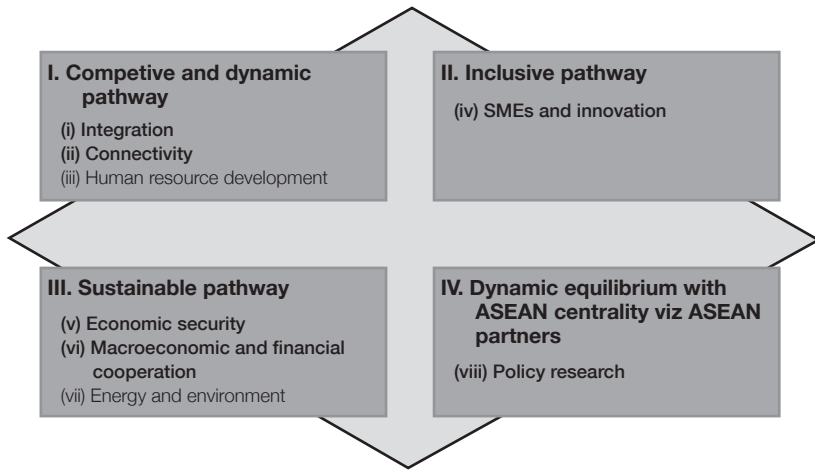
The Jakarta Framework was prepared by ERIA in cooperation with the government of Indonesia and the ASEAN Secretariat. This document is a starting point for ASEAN to draw the overall picture of ASEAN economic integration beyond 2015 and has thus also become a basis for long-term ASEAN-Japan cooperation.

The Jakarta Framework reviews the strengths of ASEAN in the following six aspects: steady economic growth with robust industrialization since the mid-1980s; the second unbundling or international division of labor in terms of production processes and tasks in manufacturing and related services, which is the most advanced in the world; substantial poverty reduction and the formation of middle-income populations; formation of industrial agglomeration as a core pillar of innovation; development of connectivity, both institutional and physical; and presentation of a novel strategy for development in which the mechanics of production networks and industrial agglomerations are aggressively explored.

On the other hand, issues and challenges on the economic front going forward include stepping up from middle-income to fully developed economies; achieving geographic, industrial, and societal inclusiveness; enhancing resilience and maintaining sustainability; and engaging in the global setting in its economic diplomacy. These form the background of the four pathways.

In the competitive and dynamic pathway, integration, connectivity, and human resource development are priority areas for ASEAN-Japan economic cooperation (see figure 1). As for integration, ASEAN is actually leading deeper integration in East Asia as a whole. Although the creation of a true single market may be a long way off, an integrated production base is steadily being realized in order to take advantage of the strengths of ASEAN. Integration requires continuing effort beyond 2015. Japan should cooperate

Figure 1. Four pathways and ASEAN-Japan cooperation



Note: (i), (ii), (iv), (v), (vi), and (viii) are priority areas in which action is needed immediately. (iii) and (vii) are areas with a mid- to long-term focus.

with ASEAN to set up a good basis for East Asian economic integration in the RCEP initiative and beyond.

Connectivity to extend production networks is the key to sustained economic development as well as geographic inclusiveness in ASEAN. We have to find the bottlenecks that are preventing countries and regions from coming into production networks, including network set-up costs, service link costs, and production costs. Japan can cooperate with ASEAN member states, particularly the CLMV, to accelerate industrialization through its ODA and other forms of financial and technical cooperation. Infrastructure for urban amenities and industrial agglomeration is also important, particularly after countries reach middle-income levels. ASEAN-Japan cooperation can be effective in developing logistics and economic infrastructure through various channels, including the promotion of public-private partnerships (PPPs).

The ultimate key for countries to step up from middle-income to fully developed status is human resource development. Although it is an area that requires a medium- to long-term perspective, cooperation on this front should gradually be expanded. The transformation of industrial structure requires specific human resource supplies. Mismatches between the supply of and the demand for human capital should be avoided. Human capital development takes time. Most of the ASEAN member countries need to properly design their formal and informal education systems. Access and equity issues in education also need to be addressed.

In the inclusive pathway, SMEs and innovation should be a major topic for ASEAN-Japan cooperation. The development of SMEs and local firms in general is the key to industrial inclusiveness. It is also an essential part of the latter half of our new development strategy. Japan can cooperate continuously with ASEAN to enhance the internal capability of SMEs, designing SMEs' access to financing, technology, and managerial knowhow and helping SMEs to set up vertical linkages with Japanese and other MNCs. Local firms must have better access to research institutions and testing facilities created by central and local governments. This is also an area of possible cooperation with Japan. Ratios of research and development (R&D) expenditure to GDP are still extremely small in most of the ASEAN member states. Japan can cooperate with ASEAN in designing and implementing effective and efficient plans for building up R&D stocks in ASEAN.

In the sustainable pathway, economic security, macroeconomic and financial cooperation, and energy and the environment are areas that have been identified as requiring work. As for economic security, ASEAN member countries have diverse profiles on supplies of and demands for food, energy, and other resources and thus have good potential for international cooperation. Disaster management is also an important aspect of economic security because East Asia has historically been the area in the world most affected by natural disasters, sometimes combined with man-made disasters. By adding Japan into these initiatives, ASEAN can get access to advanced technologies and policymaking knowhow.

Macroeconomic and financial cooperation require continuing efforts. The Chiang Mai Initiative Multilateralization is a good starting point for macroeconomic and financial cooperation in ASEAN and East Asia. The ASEAN+3 Macroeconomic Research Office is expected to take the initiative on macroeconomic surveillance and further financial integration. Although financial integration is a long-term goal, there is a lot of room for financial market integration and other efforts. ASEAN and Japan have to steadily promote deeper integration in East Asia and gain resilience against internal and external macroeconomic shocks.

Energy saving can take care of about half of ASEAN's efforts to return to a sustainable path. The remaining half of CO₂ emissions must be taken care of by technological progress. Economic development tends to come with various kinds of environmental problems such as NO_x and SO_x emissions, pollution, and garbage disposal. ASEAN should take the initiative in international forums on the environment. Japan has the most advanced technology and policy knowhow for energy saving and environmental conservation. As such, ASEAN-Japan cooperation in this area should be promoted in the medium to long term.

Although policy research contributes to all of the pathways, it is placed in the fourth pathway here—dynamic equilibrium with ASEAN centrality vis-à-vis ASEAN partners. ASEAN member countries have various common policy issues that require serious policy studies. ASEAN and Japan must share their experience and expertise on policy research. ERIA and its Research Institutes Network, together with the Asian Development Bank, UN Economic and Social Commission for Asia and the Pacific, and others, will cooperate with ASEAN member states in conducting high-quality policy research and formulating good policies. Japan can also share various policy lessons and support ASEAN's research capacity.

Multifaceted Approach

ASEAN and Japan have already developed deep and wide-ranging economic relationships and have shared abundant resources on both sides. And thus ASEAN-Japan cooperation must adopt a multifaceted approach.

One dimension is participating countries. Participants on the ASEAN side of ASEAN-Japan cooperation may be a single country; subregional groupings such as the CLMV, the Mekong area, or others; or ASEAN as a whole. Another dimension is participating players. They may be central or local governments, governmental financial institutions, private financial sectors, private non-financial sectors, civil society organizations, or others. Still another dimension is cooperation channels or modes. They may be trade negotiations; macroeconomic and financial integration and cooperation; financial and technical cooperation, such as ODA, other official flows, or others; foreign direct investment; private initiatives; capital market integration; or others. ASEAN-Japan cooperation has already expanded its scope in various dimensions and as such has nurtured mutual trust and comfort in international relations.

ASEAN and Japan have been and should continue to be pioneers of exploring a multifaceted approach in economic cooperation. In addition to simply extending ASEAN-Japan cooperation in various directions, effective combinations of participating players and cooperation channels or modes must be explored. For example, links between trade negotiations and cooperation on development agendas may be effective in obtaining desirable outcomes from our economic integration. There is ample room for developing PPPs, sometimes combined with ODA and other official flows. ASEAN has adopted the "ASEAN way," in which various policy modes and participating players can be catered to in its integration effort. ASEAN and Japan can also try to design and implement creative multifaceted forms of cooperation.

RECOMMENDATIONS¹⁴

We propose the following eight directions for ASEAN-Japan cooperation going forward:

(i) Integration

- ASEAN integration is approaching a critical juncture. The AEC is to be realized by the end of 2015. Five ASEAN+1 FTAs have been concluded, and negotiations on the RCEP have just begun. ASEAN is attempting to drive economic integration in East Asia and to remain at the center of these efforts. Japan can cooperate with ASEAN on a number of aspects of their economic integration efforts. In particular, the two sides should work together to achieve the timely conclusion of the RCEP negotiations with respectable levels of liberalization and ample facilitation and cooperation that suit the region's novel development model.
- To focus on narrowing the development gaps within and among countries, ASEAN has worked extensively on various regional and subregional development initiatives. ASEAN-Japan cooperation that promotes linkages and coordination between existing and new regional and subregional initiatives will optimize the use of scarce resources by streamlining approaches taken at the regional and subregional levels and at the same time harnessing synergies between regional and subregional initiatives.
- Advanced institutional aspects of deeper economic integration, such as intellectual property rights protection, competition policy, consumer protection, and standards will become crucial issues in the lead-up to 2015 and beyond. In this regard, technical assistance in the dissemination of information on international standards, as well as the establishment of a testing center for standards compliance through PPPs, would be appropriate immediate-term measures for ASEAN-Japan cooperation.

(ii) Connectivity

- Enhancing connectivity within and beyond ASEAN is a key to further stimulating industrial activities with the second unbundling, as well as achieving geographic inclusiveness by pushing out the frontier of production networks. CLMV countries still require primary infrastructure networks, while countries already at the middle-income level need to upgrade their infrastructure to make industrial agglomeration efficient and innovative. ASEAN-Japan cooperation should continue to work toward enhancing connectivity through various channels, including ODA, other official flows, and PPPs.

- In particular, a more effective PPP scheme needs to be introduced in ASEAN in the medium term. Based on a thorough assessment of the impact of existing initiatives on infrastructure development, ASEAN-Japan cooperation can help extend PPP schemes in ASEAN through financial, technical, and managerial channels.
- To supplement ASEAN's efforts at narrowing development gaps, ASEAN-Japan cooperation may work with the IAI to further improve inclusiveness.

(iii) Human resource development

- Human resource development is the ultimate source of economic development. Particularly as countries develop from middle-income to fully developed economies, human resource enhancement in ASEAN has to catch up with the rapid pace of industrialization and economic growth. Mismatches between the demand for and the supply of human capital would cause various difficulties in economic, social, and political contexts and thus is to be avoided. Science and engineering are important focuses in ASEAN-Japan cooperation to enhance R&D capabilities in ASEAN.
- As for the CLMV countries, in the short term, ASEAN-Japan cooperation should focus on assisting ASEAN countries to develop basic infrastructure that is important to their efforts to upgrade their human resource and innovation capabilities. These include, among others, ICT development, training, and improvements in their respective educational systems. Longer-term measures need to address educational reforms and knowledge management in the CLMV countries as well as labor market reforms that would facilitate greater mobility of workers in the region.

(iv) SMEs and innovation

- The development of SMEs in ASEAN is critical to efforts to enhance the region's inclusivity and competitiveness. In this regard, capability building and upgrading are needed to facilitate the development of ASEAN's SMEs. ASEAN-Japan cooperation needs to draw on Japan's wealth of experience in developing its SMEs and also to leverage their need to expand their overseas operations and networks to build up ASEAN's SMEs.
- A key area of focus for ASEAN-Japan cooperation is the use of Japan's competencies in industrial technology and technological education to foster human resource development in technology and management in the ASEAN member states. In particular, ASEAN can learn from the Japanese certification system for SME support officers, as certifying

them will enhance their professionalism and improve the management of these SMEs. Similarly, Japan's credit facilitating systems can be adopted to improve access to financing for ASEAN SMEs.

- ASEAN-Japan cooperation to create a credibility index for SMEs will help ease the entry of SMEs into international production networks. This index should be a composite index of firm-level capabilities and can help to reduce information and search costs in business matching. ASEAN-Japan cooperation to create space for business matching in actual exhibitions or virtually can help to promote SMEs' participation in regional production networks and exports. Cooperation measures to develop both physical and soft infrastructure conducive to SME development are needed in the medium and long run.
- Given that Japan has the most comprehensive country statistics on SMEs in Asia, ASEAN can tap Japan's know-how to construct an ASEAN SME databank that can be used to facilitate research for policy purposes.
- Upgrading innovation particularly by local firms is crucial in order for ASEAN to swerve away from the so-called middle-income trap. FDI promotion is an important measure for technology transfer and learning in order to spur innovation in ASEAN.
- Japan's assistance in the form of technical and financial support for the development of economic zones can help to create local employment opportunities for these countries, with the participation of Japanese enterprises in these zones.

(v) Economic security

- ASEAN member countries are diverse in terms of food, energy, and other areas of nonconventional security, providing ample room for ASEAN-Japan cooperation to take multiple approaches.
- Disaster management is another subject suitable for ASEAN-Japan cooperation, which could take the form of sharing advanced technology and developing innovative managerial abilities.
- Other forms of assistance include Japanese research expertise to examine food insecurity, malnutrition, and vulnerability among social groups in ASEAN countries; joint mechanisms to address macroeconomic instability; the development of a community-based monitoring system at the regional level; and the continued support of Japanese investment in the region.
- Further efforts to close the development gap include a special focus on social safety nets and food security programs for the CLMV countries. Japanese expertise in managing funds for elderly people can be used to formulate

mechanisms and build capacity for developing contingency support in these countries, particularly during times of crisis. Institutional capacity for the development of a consistent overall framework for poverty reduction that incorporates food safety and social security programs in these countries should also be enhanced using technical expertise from Japan.

(vi) Macroeconomic and financial cooperation

- ASEAN-Japan cooperation should focus on enhancing the effectiveness of the Chiang Mai Initiative Multilateralization (CMIM) and ASEAN+3 Macroeconomic Research Office (AMRO). In the short run, Japan needs to ensure that the CMIM has sufficient funds to prevent and resolve crises, while AMRO has to focus on providing transparent assessments of the economic and financial health of members' economies.
- Medium-term measures for fostering greater financial integration require Japanese assistance to focus on building the soft infrastructure needed for financial integration. Japan can also encourage its financial institutions to increase their purchase of local ASEAN currency bonds. Finally, ASEAN-Japan cooperation needs to promote and strengthen financial literacy to reduce asymmetric information and to increase knowledge of the capital markets in the region, as this will encourage greater investment in these markets.

(vii) Energy and the environment

- Rapid economic growth in ASEAN, together with industrialization and urbanization, will inevitably enhance energy use in the short and medium term. In order for ASEAN to come back to a sustainable path, substantial energy conservation as well as drastic advancements in energy-related technologies are needed. ASEAN-Japan cooperation should nurture various channels, both governmental and private, to address long-run sustainability.
- People's awareness of environmental issues in ASEAN will surely be enhanced in the coming years. ASEAN-Japan cooperation is essential to ensure that all countries have access to advanced technologies and governance know-how.

(viii) Policy research

- Enhancing indigenous capabilities for conducting policy research aimed at achieving better policy formulation and improving ASEAN's status in international forums is crucial. Through the five-year experience of ERIA, which was established using seed money from Japan, both policymakers and academics have recognized the importance of

high-quality policy studies in international cooperation. ASEAN and Japan must cooperate to strengthen efforts to establish an ASEAN or East Asian version of the Organisation of Economic Co-operation and Development (OECD).



The economic relationship between ASEAN and Japan, manifest in cooperation through various channels, is already tight and robust in many arenas. The two areas have established a new development model in which a new type of international division of labor achieves sustained economic growth and a rapid reduction in poverty. And now, ASEAN and Japan are coming into a new era of *de facto* and *de jure* economic integration. ASEAN-Japan economic cooperation should also evolve accordingly.

NOTES

1. Pushpanathan Sundram, “ASEAN Economic Community and Japan’s Contributions” (outline of discussions at the 9th Japan-ASEAN Dialogue, Tokyo, Japan, March 13–15, 2012).
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12. Ministry of Foreign Affairs of Japan, “Executive Report: Progress of Implementation of the ASEAN-Japan Plan of Action,” undated.
13. The term “Dutch disease” refers to a boom in the natural resource exporting sector that may shift productive factors such as labor out of the manufacturing sector due to the resource movement effect (shifting productive factors from the manufacturing to the natural resource exporting sector) and the spending effect (shifting production factors from the manufacturing to the services sector), resulting in a long-term shrinkage of the manufacturing sector. This is one of the economic phenomena used to explain the so-called “resource curse.”
14. This section is based on the Study Group on ASEAN Economic Community background papers included in this volume.