



Edited by Tiziano Marino

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ENGAGING ASEAN: ITALY-JAPAN COOPERATION IN SOUTHEAST ASIA

Engaging ASEAN: Italy-Japan Cooperation in Southeast Asia

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METHODOLOGICAL REMARKS

The research project 'Engaging ASEAN: Italy-Japan cooperation in Southeast Asia', developed by Ce.SI in collaboration with researchers Fusanori Iwasaki and Keita Oikawa, from the Economic Research Institute for ASEAN and East Asia (ERIA), and Nguyen Anh Duong, from the Central Institute for Economic Management (CIEM), aimed to explore how Italy and Japan can be partners in supporting the development of Southeast Asia. The decision to 'look' at how Japan engages with the region stems from two relevant aspects. First, Rome and Tokyo share fundamental values and international alignment, and as proof of this closeness, they agreed in January 2023 to elevate the relationship to the rank of strategic partnership. Secondly, Japan has been a privileged partner of ASEAN member states for many years and, for this reason, its capacity to develop economic and trade relations on the one hand, and its role in regional cooperation and development policies on the other, deserve to be analysed and, wherever possible, replicated.

To achieve the objectives described above, this paper presents an analysis of the best practices used by Japan in its cooperation with ASEAN and its member states. These practices are then related to the Italian external action in the area, in order to better define, structure and strengthen it. The final document, which gathers the partners' contributions, is divided into four sections preceded by a general introduction on Italy-ASEAN relations and the relevance of the region for Italy. Indeed, the growing global relevance of the region and Italy's willingness to explore new opportunities for economic, trade and political cooperation are at the heart of this research project.

In order to develop the project, researchers from the region were involved in the elaboration of the papers, offering a comprehensive and knowledgeable perspective of the current dynamics. In particular, ERIA

researchers proposed an analysis of Japan-ASEAN relations over the past 50 years, with a focus on the current economic environment and possible future scenarios of cooperation. Their paper, therefore, deepened the analysis of the ASEAN business environment, through the use of surveys, and addressed gaps in the economic development processes of ASEAN member states. This makes it possible to identify possible areas of future cooperation between third actors, such as Italy, and ASEAN, that are consistent with the principle of establishing win-win partnerships able to address the problems and needs of Asian countries. The report then proposes two specific case studies on relations between Japan and Vietnam and Japan and Thailand. In particular, the article by Nguyen Anh Duong provides some Vietnamese perspectives on cooperation with Japan, focusing on so-called best practices in the areas of trade pact negotiation, investment cooperation, official development assistance and skills transfer. The aim is to identify what has worked in relations between Tokyo and Hanoi and then 'reproduce', adapting them to the Italian case, the best practices which have had a real positive impact on Vietnamese society and economy. Subsequently, the second case study proposed by Ce.SI delves into the economic ties between Japan and Thailand, analysing firstly the best practices of bilateral cooperation in the negotiation of trade pacts and the consequences of such agreements in terms of the volume of trade and the development of the economic sectors involved; secondly, the paper examines investment cooperation and finally official development assistance, again with the aim of identifying what has worked in the relationship between Tokyo and Bangkok. In conclusion, a series of policy recommendations are proposed in order to provide a strategic framework to pave the way for a mutually beneficial strengthening of the Italy-ASEAN partnership.

THE GROWING RELEVANCE OF ASEAN IN THE CHANGING INTERNATIONAL ENVIRONMENT

The recent political and strategic tensions that are reshaping the system of international relations, linked to the Covid-19 health crisis, the Russian invasion of Ukraine and the progressive cooling of relations between China and the United States, have placed ASEAN increasingly at the centre of world attention. Indeed, Southeast Asia represents the heart of the new geopolitical arc of the Indo-Pacific, a region of growing interest for global security dynamics and on which the success or otherwise of the environmental, social, and even health policies launched at global level will largely depend.

In this context, Italy has strengthened its engagement with the Indo-Pacific region, which intersects the Enlarged Mediterranean in its western

sector, through the definition of a series of strategic partnerships with like-minded countries such as South Korea, Japan and, more recently, India. In line with this approach, Italy has for some time now decided to focus strongly on the development of economic, trade and political relations with ASEAN, being aware of the importance, dynamism, and exceptional potential of the region. Indeed, Southeast Asia is one of the most dynamic regions on the planet and with the greatest potential, data show. With the world's third largest population, 33 percent of which is made up of young people, ASEAN is one of the most important drivers of Asian growth in the near future. In 2020, the combined GDP of ASEAN's ten member states amounted to \$3 trillion, making ASEAN collectively the world's fifth largest economy, and the annual growth rate recorded over the past two decades has made it one of the most vibrant regions in the world.

The process of Italy's rapprochement with ASEAN, in particular, has gained new momentum since 2015, the year in which President of the Republic Sergio Mattarella made his first visit to the organisation's Secretariat and in which the Italy-ASEAN Association was created. These first steps started a process that has continued over the years and has enabled a remarkable development of bilateral relations between Italy and Southeast Asia region. Then, since 2017, the High-Level Dialogue on ASEAN Italy Economic Relations has been held, which has become a landmark event for strengthening economic relations between ASEAN countries and Italy. The Italian focus on relations with Southeast Asia has favored, according to UNCTAD data, an increase in Italian exports to ASEAN countries, which rose from \$7.14 billion to \$10.33 billion between 2009 and 2016. At the same time, imports also grew from \$5.27 billion to \$8.14 billion over the same period. Among the most exported goods from Italy, equipment, and chemicals, along with machinery, took the lion's share with 42.6 per cent of the total, while ASEAN states exported mainly computers, electronics, and food products to Italy.

In September 2020, relations between Italy and ASEAN were formalized with Rome being granted the status of ASEAN Development Partner. In 2021, according to the Italian Trade Agency, total trade between ASEAN member countries and Italy almost reached 20 billion euros. Italy's determination to increase cooperation with ASEAN, which is even stronger today as it is linked to the geostrategic relevance that Southeast Asia is acquiring internationally, also necessarily depends on EU action at the European level and coordination with the policies of partner states present in the region. The latter, in particular, can offer new prospects for regional engagement, and for this reason, Italy is looking with growing interest at their positive experience. This is the case with Japan, which represents a point of reference for ASEAN in the Asian context. Initiatives such as the "50th year of Japan-ASEAN friendship and cooperation," for example, which will be celebrated in 2023, show that the relationship between Tokyo and the Association is absolutely strategic. Over the years, Tokyo has developed several ad hoc instruments to frame cooperation with ASEAN, such as the Overseas Loan and Investment Initiative for ASEAN, the Japan-ASEAN Technical Cooperation Agreement, the ASEAN-Japan Economic Resilience Action Plan, the Dialogue for Innovative and Sustainable Growth, the Japan-ASEAN Integration Fund, bilateral Official Development Assistance (ODA) programs (grants, loans, and technical cooperation), and the ASEAN-Japan Center. In 2021, Japan provided grant cooperation with a budget of more than \$655 million, \$1.8 billion in ODA loans of financial support, and \$37 million in additional project funds. Sharing a common interest in supporting the idea of building an open and free Indo-Pacific, Japan and ASEAN are also cooperating to strengthen their partnership in relevant areas that can contribute to the sustainable growth of the area: connectivity, infrastructure, health, environment, cybersecurity, innovation, marine and maritime cooperation, security, etc. In this scenario, a synergy between Italy and Japan, along with an understanding of what have been Tokyo's best practices, can support Italy

in improving its engagement in Southeast Asia and open new opportunities for cooperation as well as joint development.

50 YEARS OF ASEAN-JAPAN RELATIONS: TOWARD A “HEART-TO-HEART” TIE

Fusanori Iwasaki and Keita Oikawa¹

Introduction

The Association of Southeast Asian Nations (ASEAN) and Japan have a half-century-long history of cooperation, over which the two sides have deepened their collaboration in various fields, from economics to social issues.

In 2023, ASEAN and Japan celebrate the 50 years anniversary of friendship and cooperation. In this context, a special summit will be held in December 2023 to define the vision and concrete common steps to elevate the level of cooperation and future Japan-ASEAN ties (Mainichi, 2023). 2023 was also a crucial year for the diplomacy of Japan, which holds the G7 Presidency. Notably, Japanese Presidency of G7 clearly states the importance of the relationship between the member states and emerging economies, so-

¹ Economic Research Institute for ASEAN and East Asia (ERIA). The views expressed in the papers are solely those of the author(s), and neither represent those of the organization(s) to which the author(s) belong(s) nor the ERIA.

called "Global South". At the summit in Hiroshima last May, Prime Minister Fumio Kishida stated the importance of engaging in partnerships and responding to the needs that Global South countries face.² Proving Japan's focus on regional partners, India and Indonesia were invited to the G7 summit and several ministerial meetings, the latter also in its capacity as ASEAN chair.

To mark the 50th anniversary of the relationship, Japan and ASEAN will deepen mutual trust and respect, and enhance the multi-layered connectivity and co-creation through the strong tie between Japan and Southeast Asia.³ Secretary General of ASEAN, Kao Kim Horn looks forward to levelling up the cooperation in the field of technological innovation, people-to-people contact and cultural collaboration, adding to the current support of humanitarian assistance, disaster relief and maritime security. Moreover, ASEAN and Japan will formally elevate their ties to "comprehensive strategic partnership" in the upcoming special summit in December.⁴

However, the relationship between ASEAN and Japan, which now appears to be a strong one, has not always been smooth over the past 50 years. For example, Prime Minister Kakuei Tanaka caused a stir when he visited Indonesia in 1974, just a year after formal relations were established. Moreover, it is also possible to point out that the political and economic environment in the region is changing dramatically since the Indo-Pacific concept was introduced due to the evolving security environment. Against this backdrop, looking ahead to the next 50 years, what kind of cooperation can be developed between ASEAN and Japan? To address this question, this paper provides an overview of current bilateral relations through a brief historical review.

² G7 Hiroshima Summit Session 4, https://www.mofa.go.jp/ms/g7hs_s/page1e_000683.html (Access 29 May 2023).

³ Based on the speech by Prime Minister Fumio Kishida at the Future of Asia Forum Dinner, 24 May 2023, https://japan.kantei.go.jp/101_kishida/statement/202305/25speech.html (Access 29 May 2023).

⁴ Kyodo News, Japan, ASEAN to upgrade ties in Dec. amid growing China, U.S. clout, 7 March 2023, <https://english.kyodonews.net/news/2023/03/7e259ed12b8b-japan-asean-to-upgrade-ties-in-dec-amid-growing-china-us-clout.html> (Access 29 May 2023).

The structure of this paper is as follows. First, the authors tried to briefly summarise the historical development of ASEAN and Japan in these 50 years. Second, we discuss the business environment in ASEAN based on ERIA's research and discuss what are the gaps of further developing economy in ASEAN member states. Third, the authors take up digitalisation and circular economy as strategic areas of cooperation between ASEAN and Japan, referring to the ASEAN-Japan Economic Co-Creation Vision, which is now underway towards the 50th anniversary.

The history of asean and japan in 50 years⁵

The formal relationship between ASEAN and Japan began with the establishment of the ASEAN-Japan Forum on Synthetic Rubber in 1973. Although Japan's economic cooperation with Southeast Asia began after the end of World War II, it was related to post-war reparations (yen loans). Earlier, Prime Minister Nobusuke Kishi proposed the Southeast Asia Development Fund Initiative in the late 1950s to show Japan's commitment to the economic development of Southeast Asia.

ASEAN was established in 1967 by the agreement of the foreign ministers of the five original member states (Bangkok Declarations). In its early stages, ASEAN was more concerned with maintaining peace and security within its member states than with cooperating for economic development in the region. After ten years, ASEAN held the first ASEAN Summit and subsequently, on the occasion of the 2nd ASEAN Summit in 1977, Prime Minister Takeo Fukuda was invited to the ASEAN-Japan Summit and delivered the speech called "Fukuda Doctrine" in Manila, which formed the basic policy towards ASEAN (Yano, 1978). Soon after, Japan was granted the status of ASEAN's first dialogue partner.

⁵ The section was relied on the authors' previous works (Iwasaki et al. 2022).

After the late 1980s, ASEAN-Japan cooperation entered a new phase with the abundant inflow of foreign direct investment (FDI) from Japan, encouraged by the appreciation of the Japanese yen under the Plaza Accord in 1985. In line with the trend, ASEAN also responded to the inflow of FDI by shifting its economic policies to export-oriented development strategies at the 3rd ASEAN Summit in 1987 (Shimizu, 1998). Japan's Ministry of International Trade and Industry (MITI, now Ministry of Economy, Trade, and Industry - METI) proposed the New Asian Industrial Development Plan (New AID Plan) in 1987 to promote manufacturing in ASEAN countries. MITI also strengthened cooperation with ASEAN by promoting industrial development in the region. One example was MITI's publication of "The Prospects and Challenges for the Upgrading of Industries in the ASEAN Region", which proposed ways to develop industrial competitiveness and value-added through industrial policy dialogues with Japan (MITI, 1994). Japan's MITI proposed the Cambodia Lao PDR Myanmar (CLM) Working Group on Economic Cooperation under the ASEAN Economic Ministers (AEM)-MITI Ministerial Meeting, established in 1992, to facilitate the market economy in CLM countries and promote division of labour in cooperation with ASEAN. This was in line with the establishment of the ASEAN Free Trade Area (AFTA) at the 4th ASEAN Summit in 1992. Although ASEAN and Asian countries experienced an economic downturn soon after the early 1990s due to the Asian financial crisis in 1997, the start of economic integration in the region and economic liberalisation enabled economic recovery from the crisis and further economic development in the 21st century. In this sense, Japan has played a key role in promoting economic integration through industrial development through both public and private sector efforts.

In the 21st century, ASEAN-Japan relations have been promoted in two aspects. One is the establishment of the development of bilateral Economic Partnership Agreements (EPAs). Since the launch of the Japan-Singapore EPA in 2002, Japan has concluded the bilateral EPAs with Malaysia,

Thailand, the Philippines, Indonesia, Brunei Darussalam, and Vietnam within 5 years. The ASEAN–Japan Comprehensive Economic Partnership (AJCEP) was also agreed in 2007. Although the 2000s was the period when free trade agreements (FTAs)/EPAs flourished in Asia as a whole for economic and political reasons (Kawai and Wignaraja, 2010; Ravenhill, 2010), we can assess that the ASEAN–Japan relationship has been steadily developing and institutionalised through the various EPAs.⁶

The other trend has been ASEAN's efforts to build the ASEAN Community, including the ASEAN Economic Community (AEC). At the 9th ASEAN Summit in 2003, ASEAN leaders issued the Bali Concord II to establish the ASEAN Community by 2020. ASEAN declared to be a "single market and single production base" to make ASEAN a more dynamic and stronger segment of global supply chains. Then, after 4 years, ASEAN leaders declared in 2007 to accelerate the establishment of the ASEAN Community by 2015 (Cebu Declaration).

These ASEAN community-building efforts have completed the institutionalisation of ASEAN itself. One of the important points was the establishment of the ASEAN Charter in 2007. The Charter explains the roles and formations of the ASEAN Secretariat and Secretary Generals, refers to the ASEAN Centrality, which forms a guidance of diplomatic relations between ASEAN and the dialogue partners and countries outside the region. The institutionalisation of ASEAN through the position of the ASEAN Secretariat and the ASEAN Centrality helps to develop the ASEAN-centred multi-layered regional architecture.

One of the successful cases of ASEAN centrality and regional architecture was the establishment of the Regional Comprehensive Economic Partnership (RCEP) in 2022. The basis of the discussion was originally the Japanese proposal for the Comprehensive Economic Partnership of East

⁶ Based on the explanation by the government of Japan, the EPAs embodies the broader cooperation including the fields of establishing investment rules and intellectual property rights (IPR) protections, rather than FTAs of decreasing the rates of customs. See the website, <https://www.meti.go.jp/main/60sec/2015/20151109001.html> (Access 29 May 2023, in Japanese).

Asia (CEPEA), which constructed by the ASEAN Plus 6 countries (Australia, China, India, Japan, New Zealand, and South Korea) in 2006. However, the Guiding Principles for RCEP Negotiations released in 2012 clearly mention the importance of ASEAN centrality in the formation of RCEP. Japan has also respected and upheld the status of ASEAN and has contributed to the development of the RCEP through the negotiations.

To sum up, in the 21st century, through institutionalisation of bilateral EPAs and the centrality of ASEAN, bilateral cooperation has also been strengthened. Notably, Japan-ASEAN cooperation has expanded to trade and investment, as well as social cooperation, such as youth cooperation, cultural exchanges, and human resource development. Based on the highly institutionalised relationship, the robust business activities of the private sector and human resource networks will really help to promote bilateral cooperation beyond the 50th anniversary.

In the next section, the authors discuss the business environment survey and possible future cooperation on socio-economic issues.

The result of the business environment survey

Trade and investment

ASEAN has been actively promoting free trade within the region, and despite COVID-19 restrictions, cross-border trade has now resumed (ERIA, 2022). The pandemic has highlighted the strength and resilience of global value chains in the East Asia region, with ASEAN and Japan acknowledging the significance of manufacturing for the regional economy (Oikawa et al., 2021). To ensure continued growth after the pandemic, it is crucial to maintain and strengthen competitive global value chains and international production networks. Given the prevailing geopolitical uncertainties, pursuing further regional integration becomes

even more important for stable and resilient regional growth. ASEAN and Japan should renew their efforts to advance the trade agenda outlined by the Regional Comprehensive Economic Partnership (RCEP) agreement (ERIA, 2022). Against this background, the 25th ASEAN-Japan Summit addressed the improvement of trade connectivity and deepening the ASEAN-Japan relationship (ASEAN, 2022).

To improve the regional trade environment and prevent customs clearances from becoming obstacles for businesses, promoting trade liberalization is key. This will enable more efficient trading and facilitate the distribution of ASEAN-Japanese products within the region. Ensuring supply chain resilience is also vital, especially in the face of disasters, pandemics, or emerging issues like carbon neutrality and human rights. Japanese companies operating abroad have already started reviewing procurement processes and diversifying sourcing after the pandemic. In fact, a survey conducted among global Japanese businesses revealed that over 60% of them are considering restructuring their supply chains in the near future (JETRO, 2022).

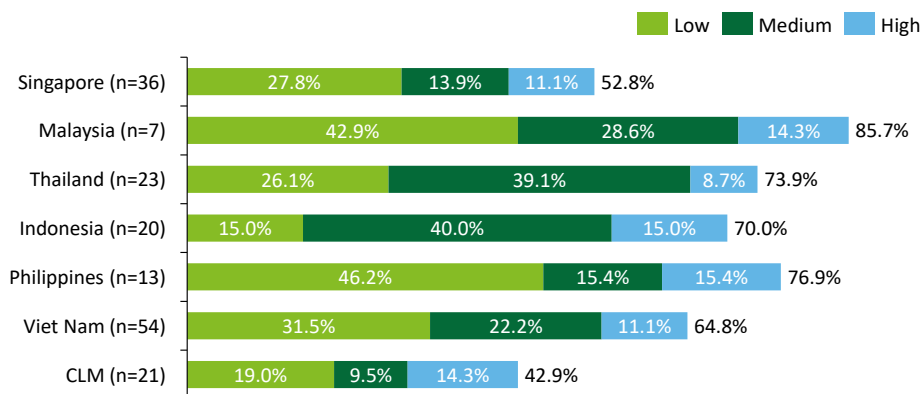
However, despite ASEAN's efforts to enhance connectivity both within and beyond the region, a recent survey conducted among firms in the ASEAN region (Oikawa and Iwasaki, forthcoming) uncovered various trade challenges, which are outlined below.

Difficulties in trading across borders

Over 40% of companies in ASEAN faced difficulty in determining the economic partnership agreements (EPAs) or free trade agreements (FTAs) that would minimize their trade costs (Figure 2.1). The existing system of EPAs and FTAs in ASEAN requires companies to identify the most suitable

agreements and declare their usage, often relying on advice from internal or external experts. However, the availability of multiple EPAs and FTAs has led to confusion among companies.

Figure 1: Applying Favourable Tariffs through Economic Partnership Agreements or Free Trade Agreements

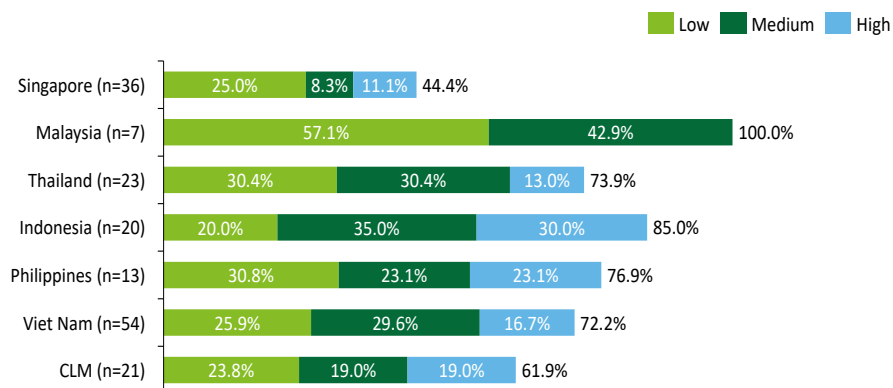


CLM = Cambodia, Lao People’s Democratic Republic, and Myanmar.

Notes: The figure shows the difficulty in trading across borders focussing on one of the answer options (i.e. ‘applying favourable tariffs with complex conditions of various EPAs and FTAs’) and its impact on respondents’ business profits at three levels – ‘low’, ‘medium’, and ‘high’ (excluding ‘never recognised as difficulties or issues’). Brunei Darussalam is excluded since no responses were obtained. The countries are in the order of gross national income per capita.

Source: Oikawa and Iwasaki (forthcoming).

Figure 2: Unexpected Costs Due to the Lack of Customs Operational Standards on Applying Harmonized System Codes



CLM = Cambodia, Lao People’s Democratic Republic, and Myanmar.

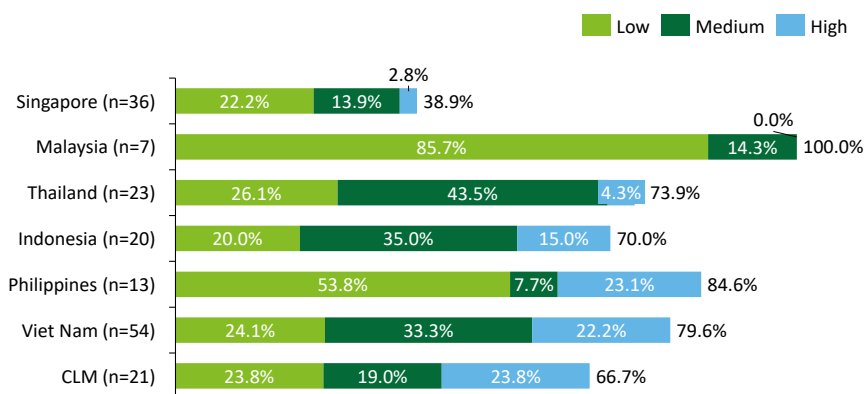
Notes: The figure shows the difficulty in trading across borders focussing on one of the answer options (i.e. ‘unexpected cost due to the lack of customs’ operational standards on apply HS codes’)

and its impact on respondents' business profits at three levels – 'low', 'medium' and 'high' (excluding 'never recognised as difficulties or issues'). Brunei Darussalam is excluded since no responses were obtained. The countries are in the order of gross national income per capita.

Source: Oikawa and Iwasaki (forthcoming)

With the exception of Singapore, the majority of the ASEAN countries acknowledged that corruption or non-compliance of customs offices with regulations are significant factors contributing to the challenge of identifying trade costs (Figure 2.3).

Figure 3: Corruption or Lack of Compliance of Customs Officers



CLM = Cambodia, Lao People's Democratic Republic, and Myanmar.

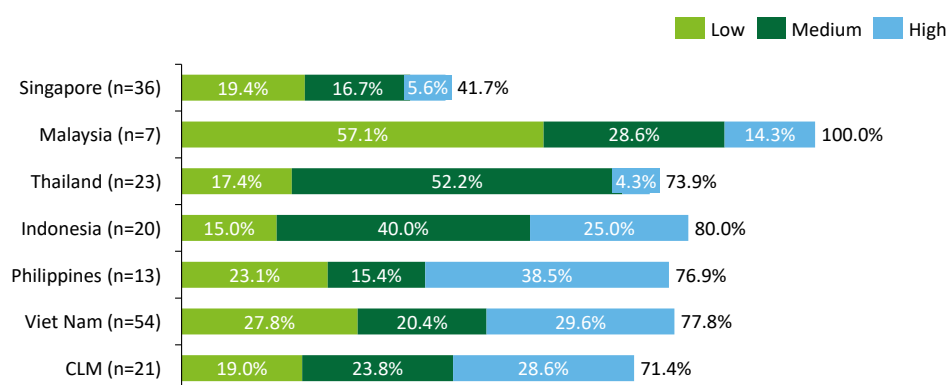
Notes: The figure shows the difficulty in trading across borders focussing on one of the answer options (i.e. 'corruption or lack of compliance of customs officers [e.g. facilitation payment]') and its impact on respondents' business profits at three levels – 'low', 'medium', and 'high' (excluding 'never recognised as difficulties or issues'). Brunei Darussalam is excluded since no responses were obtained. The countries are in the order of gross national income per capita. (Chapter 2 Q8. Do you have difficulties or issues in trading across borders? If you have those, please select the impact of each on profits of your business as follows: (1) high, (2) medium, (3) low, and (4) never recognised as difficulties or issues.)

Source: Oikawa and Iwasaki (forthcoming)

Companies in ASEAN, excluding those in Singapore, identified long lead times as a challenge for efficient goods distribution in the region (Figure

2.4). Nonetheless, ASEAN has made efforts to establish national single windows (NSWs) and their digitalisation has resulted in time savings. Moreover, these NSWs are interconnected through the ASEAN Single Window initiative, which was initiated by public agencies in the ASEAN countries with support from the United States (USAID, 2022).

Figure 4: Time-Consuming Manual or Onsite Procedures Due to Unclear or Unofficial Customs Procedures



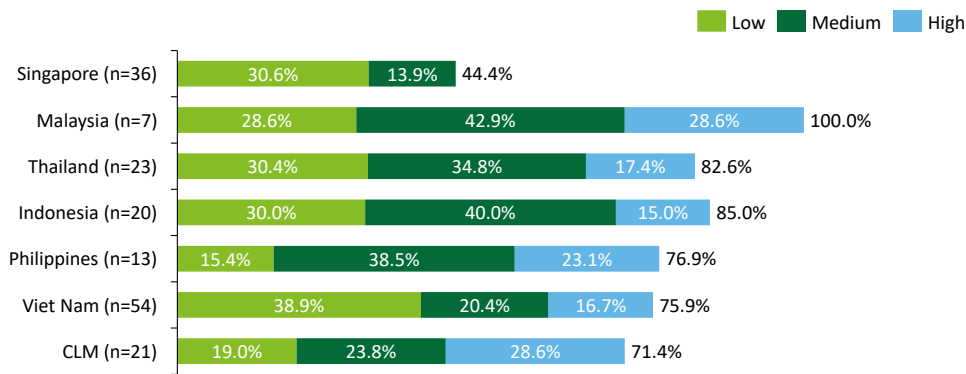
CLM = Cambodia, Lao People’s Democratic Republic, and Myanmar.

Notes: The figure shows the difficulty in trading across borders focussing on one of the answer options (i.e. ‘time-consuming manual or on-site procedures due to unclear or unofficial customs procedures’) and its impact on respondents’ business profits at three levels – ‘low’, ‘medium’, and ‘high’ (excluding ‘never recognised as difficulties or issues’). Brunei Darussalam is excluded since no responses were obtained. The countries are in the order of gross national income per capita.

Source: Oikawa and Iwasaki (forthcoming)

While NSWs and the ASEAN Single Window are interconnected, a considerable number of companies highlight the insufficient level of digitization (Figure 2.5). Manual processes, like the issuance of certificates of origin, continue to be prevalent in certain trade procedures.

Figure 5: Time-Consuming Manual or Onsite Procedures Due to Limited Scope of Electronic Services



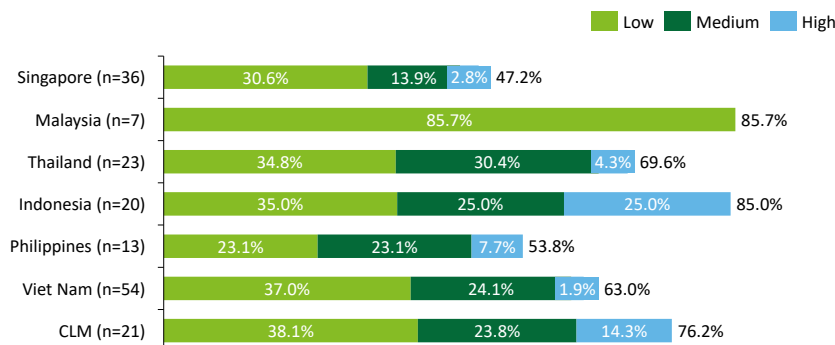
CLM = Cambodia, Lao People’s Democratic Republic, and Myanmar.

Notes: The figure shows the difficulty in trading across borders focussing on one of the answer options (i.e. ‘time-consuming manual or on-site procedures due to limited scope of electronic service [e.g. paperwork on procedures remains]’) and its impact on respondents’ business profits at three levels – ‘low’, ‘medium’, and ‘high’ (excluding ‘never recognised as difficulties or issues’). Brunei Darussalam is excluded since no responses were obtained. The countries are in the order of gross national income per capita.

Source: Oikawa and Iwasaki (forthcoming)

Despite the presence of NSWs in AMS, the electronic issuance of certificates of origin is not uniformly implemented across the region. In certain instances, individuals are required to physically visit a customs office to acquire a copy of the certificate of origin.

Figure 6: Long Lead Time in Trading Due to Unconnected Electronic Services between Countries



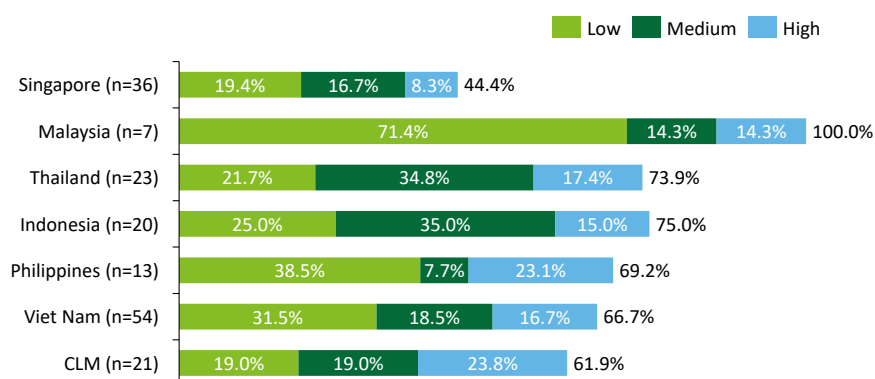
CLM = Cambodia, Lao People’s Democratic Republic, and Myanmar.

Notes: The figure shows the difficulty in trading across borders focussing on one of the answer options (i.e. ‘long lead time in trading due to unconnected electronic services between countries’) and its impact on respondents’ business profits at three levels – ‘low’, ‘medium’, and ‘high’ (excluding ‘never recognised as difficulties or issues’). The countries are in the order of gross national income per capita.

Source: Oikawa and Iwasaki (forthcoming)

According to JETRO (2020; 2022b), the COVID-19 pandemic has prompted companies to adopt multi-sourcing and diversify their supply chains. However, challenges persist regarding the risk of trade contact points abruptly closing (Figure 2.7). These closures can happen due to various reasons, such as emergencies leading to reduced personnel. The problem of closed contact points remains a prevalent issue across multiple AMS.

Figure 7: Sudden Customs Shutdown in Disaster or Pandemic



CLM = Cambodia, Lao People’s Democratic Republic, and Myanmar.

Notes: The figure shows the difficulty in trading across borders focussing on one of the answer options (i.e. 'sudden customs shutdown in disaster or pandemic') and its impact on respondents' business profits at three levels – 'low', 'medium', and 'high' (excluding 'never recognised as difficulties or issues'). Brunei Darussalam is excluded since no responses were obtained. The countries are in the order of gross national income per capita. (Chapter 2 Q8. Do you have difficulties or issues in trading across borders? If you have those, please select the impact of each on profits of your business as follows: (1) high, (2) medium, (3) low, and (4) never recognised as difficulties or issues.)

Building a professional workforce for the future

Challenges in the current workforce

The rapid advancements in technology, along with the advent of Industry 4.0, have brought about significant changes in the business landscape. To ensure the sustained growth of the ASEAN–Japan economy, it is crucial to generate and supply the necessary human resources for the Industry 4.0 era. This will help prevent bottlenecks in the availability of skilled workers that could hinder long-term business growth in the region. To achieve this, improving the mobility of advanced labour within the region and addressing skills gaps are key focus areas.

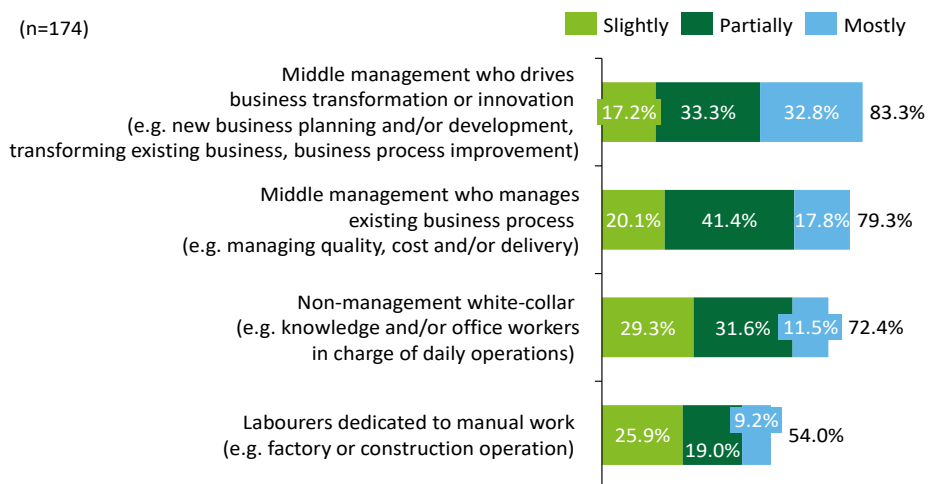
Findings from a firm-level survey conducted by Oikawa and Iwasaki (forthcoming) highlight several challenges faced by AMS in relation to human resources. These challenges include a lack of middle management competencies necessary for sustainable business expansion, a mismatch between the skills demanded by companies and the educational curriculum, limited inclusivity in education to expand the talent pool, and restricted mobility of highly skilled individuals, hindering efficient talent allocation.

According to ERIA (2019), ASEAN still has an abundance of blue-collar workers. However, the rise of Industry 4.0, with its focus on automation

and streamlining simple tasks, is expected to reduce the demand for these workers (OECD, 2021). As advanced technologies like robotics, AI, and big data are increasingly adopted in factories, this trend is expected to accelerate. Consequently, the ASEAN market, where manufacturing has traditionally played a central role, will undergo significant structural changes (ERIA, 2022). To adapt, blue-collar workers must develop unique skills that cannot be easily automated and nurture problem-solving abilities (Yue et al., 2019). Additionally, the significance of white-collar workers capable of working independently and middle managers overseeing automated processes will grow.

However, the survey highlights a shortage of highly skilled human resources within the region. Respondents expressed a greater need for white-collar workers, with middle management roles responsible for driving business transformation or innovation being particularly problematic (Figure 2.8).

Figure 8: Types of Human Resources Insufficient to Achieve Business Growth

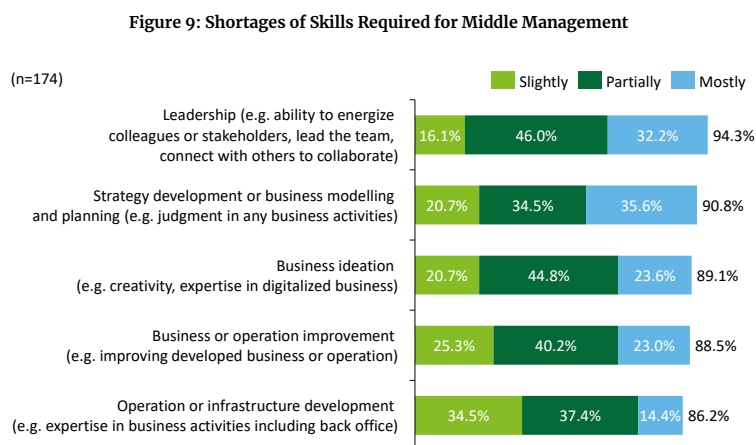


Notes: Excludes ‘never recognised the lack’.

Source: Oikawa and Iwasaki (forthcoming)

Moreover, the survey also queried specific competencies that were lacking among middle managers (Figure 9). The majority reported insufficiencies

across all skills categories. Of note, 94.3% of participants identified ‘leadership’ as the most deficient.

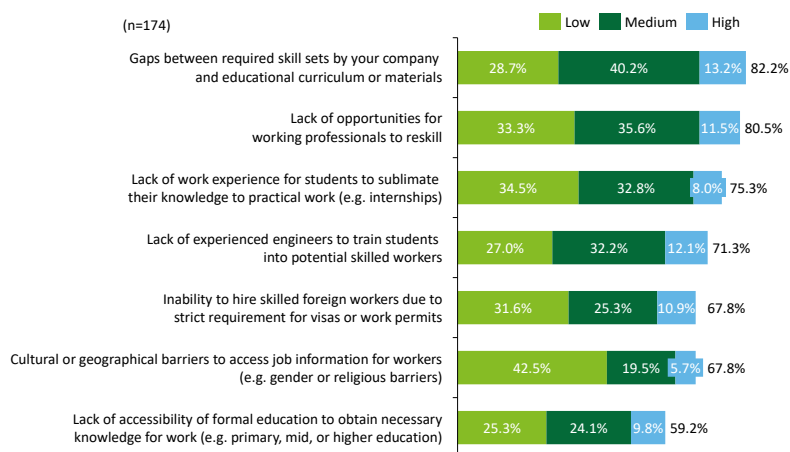


Note: Question – Please indicate the degree of shortage of the following skills required for middle management to drive business transformation or innovation: (1) mostly, (2) partially, (3) slightly), and (4) never recognised the lack.

Source: Oikawa and Iwasaki (forthcoming).

Overall, there is a skills disparity between the labour market demands and the competencies of the human resources produced by educational institutions in ASEAN. According to OECD (2021), companies in ASEAN frequently face challenges in finding suitable candidates due to a mismatch between the skills of applicants and the expectations of firms. Empirical evidence further supports the existence of a skills gap between job seekers and employers. The survey findings indicate that 82% of respondents recognize a discrepancy between the skills required by companies and the educational curriculum and materials (Figure 2.10).

Figure 2.10: Difficulties in Hiring and Training New Graduates and Professionals



Notes: Excludes ‘never recognised as difficulties or issues’.

Source: Oikawa and Iwasaki (forthcoming).

Policy implication towards 50 years and beyond

ASEAN and East Asia is one of the most dynamic and competitive regions, with many countries emerging as major regional powers. Although the rapid economic development has changed the balance of power of this region, as a fulcrum of the regional architecture, ASEAN will play a vital role in ensuring regional peace and prosperity of the region, with the close cooperation among the dialogue partners and major countries outside of the region. Japan, as one of the oldest friends of ASEAN, should cooperate the ASEAN-led regional mechanism and create the mutual benefits and prosperities. In this section, the authors suggest the various policy areas in which both ASEAN and Japan should cooperate, referring to the various initiatives under the 50th Anniversary of ASEAN-Japan Friendship and Cooperation.

Digitalization and digital transformation

Since the spread of the COVID-19 pandemic in 2020, both the public and private sectors around the world have recognised the need to digitise and digitally transform daily tasks in order to continue doing business. The pandemic has also led to significant disruptions in global trade, a decline in foreign direct investment, and a devastating impact on poverty, education, and women in many countries. The COVID-19 crisis acted as a catalyst for accelerating digitalisation, particularly in the field of information and communication technology (ICT), leading to widespread adoption of ICT, which in turn boosted economic growth. Even after the COVID-19 pandemic, the digital sector was expected to lead economic growth (Deloitte NA). Going forward, it is imperative to maintain the competitiveness of international production networks and effectively harness digitalisation to shape the region's future after COVID-19.

ASEAN has also recognised the importance of digital technologies to its economic recovery and digital economic integration, endorsing the Bandar Seri Begawan Roadmap in 2021 (ASEAN 2021). The roadmap served as a milestone for the integration of ASEAN's digital economy, structured into three distinct phases: Phase I - Recovery (2021-2022), Phase II - Acceleration (2022-2024) and Phase III - Transformation (2025) (ASEAN, 2021). These phases encompass digital interoperability in areas such as digital trade, digital payments, and the overall digital economy, with the aim of establishing the ASEAN Digital Economy Framework Agreement (DEFA). Negotiations on the DEFA will formally begin in 2023.

In order to fully digitalise ASEAN in the future, the immediate tasks are to narrow the digital technology gap and competitiveness within member states due to their economic disparities. The digitalised society needs some infrastructure on digital technologies, data governance on artificial intelligence, and management of cross-border data flows called Data Free Flow with Trust (DFFT). Although there are still some challenges to fill the

gaps and consider the diversity of differences in each country, developed countries like Japan can support capacity building on the topics of human resource development for digital technologies.⁷

In line with ASEAN's digitalisation efforts, the promotion of supply chain digitalisation in both ASEAN and Japan is also an emerging issue for supply chain resilience. Recognising the challenges posed by the global trend of increasing and diversifying supply chain risks, carbon neutrality, circular economy, and human rights issues, it is imperative for ASEAN and Japan to establish end-to-end supply chain data sharing mechanisms.

Circular economy

Another key challenge is to build a circular society in the region. To this end, ASEAN launched the Framework for the Circular Economy of the ASEAN Economic Community, which sets out a "long-term vision for the circular economy that builds on the strengths of existing ASEAN initiatives and identifies priority focus areas for action along with enablers to accelerate the realisation of a circular economy in ASEAN" (ASEAN 2021).

The transition from the linear economy to a circular economy requires changes in production, consumption, and distribution, facilitated by digitalisation. Digital technologies can be utilised to realise the sharing platforms, product-as-a-service models, recycling, materials processing, and connectivity. Digital technology in circular economy can help mobilise the resources to promote the circular regional value chains, and ASEAN-wide coordination on knowledge and technology sharing, taking into account each country's situation. It is also desirable to materialise the

⁷ It was also the main topics of the G7 Gunma Digital and Tech Ministers' meeting held in 29-30 April 2023.

better tracking and traceability system of products and effective use of waste as a resource by digital technology.

Collaboration among ASEAN member states, as well as with ASEAN and dialogue partners, is key to achieving the benefits of circular economy transformation as a region. The digital transformation required for the implementation of circular economy brings complexities in terms of energy consumption, resource demand and different regulations. The establishment of reverse logistics systems and cross-border trade of circular products face obstacles due to different definitions, classifications, and regulatory frameworks. Strengthened cooperation, knowledge sharing, and support for MSMEs are essential for successful circular and digital transformation. It should be noted that despite the complexities, the combination of circular and digital technologies holds tremendous potential for long-term development and sustainability in the EAS region, including economic growth and opportunities for digital start-ups applying low-carbon circular business models.

Asean and japan co-creation initiative

On occasion of the 50 years anniversary, METI Japan develops the “ASEAN-Japan Economic Co-creation Vision,” and the interim note was issued in January 2023⁸. The vision lists the 4 elements of action for economic co-creation, 1) Balancing diversity and inclusiveness in sustainable development, 2) Strengthening cyber-physical connectivity, 3) Promoting open innovation across borders, and 4) Building an ecosystem in co-creating dynamic human capital. As mentioned in Section 1, Japan supported the development of Southeast Asia and ASEAN in the second half of the 20th century, but the relationship between ASEAN and

⁸ See the website of METI, https://www.meti.go.jp/english/press/2023/0106_001.html (Access 29 May 2023).

Japan has changed dramatically, and the new issues of digital, resilience and circular economy are emerging as possible areas of cooperation in the next future.

The co-creation between two parties seeks to realise inclusive growth in a two-way and mutually beneficial economy, respecting the diversity of ASEAN and enjoying the benefits of various growth models and innovations that reflect the strengths of each country (METI 2023: 6). Towards a strong ASEAN-Japan partnership, business relations between the two sides will cooperate much more in the areas of business experience, skills, and exchange of younger generations to address the new social problems. Harnessing digital technologies is key to responding to the challenges of new economic and social problems, strengthening regional and global supply chains, adopting the leapfrog growth model, developing SMEs and start-ups, and developing human resources. ASEAN and Japan should also address the issue of sustainability, such as energy and climate issues, and the circular economy for financial support and technical cooperation.

To sum up, in the next 50 years of cooperation, ASEAN and Japan should seek multi-layered cooperation in the areas of government and public, private and business, civil society, as well as individual level in various issues. As we have described, digital technologies and the concept of circular economy will really be the main topics to realise economic co-creation and mutually beneficial partnership.

Figure 3.1 ASEAN – Japan Economic Co-Creation Vision: Working Draft (from METI website)

ASEAN-Japan Economic Co-Creation Vision: Working Draft
 (Overview of Interim note on the development of the ASEAN-Japan Economic Co-Creation Vision)

Introduction - Redefining ASEAN-Japan economic relationship in commemoration of the 50th Year of Friendship and Cooperation between ASEAN and Japan Due to:

1. A major transformation in ASEAN-Japan relationship.
 - The rise of ASEAN as an economic growth center and generational change in many ASEAN societies.
 - Japan's economic stagnation under the "Lost Three Decades" and an aging society.
 2. Common challenges for ASEAN and Japan such as ① COVID-19 pandemic, ② food and energy security risks caused by Russia's aggression against Ukraine, ③ economic stagnation due to increased geopolitical risks and ④ global issues highlighted in the SDGs.
 3. A shift in regional economic development from the flying geese model to global value chain (GVC)-model.
- ➔ In light of these changes, this vision aims to redefine ASEAN-Japan economic relations and share the major direction to aim together.

Vision for the next 50 years

Develop a society that is "safe, prosperous and free" through fair and mutually beneficial economic co-creation based on the trust that has been built over the past 50 years

Three fundamental concepts to support the vision

Sharing practices for development and overcoming challenges

Be grounded in diverse realities and geopolitical conditions

Circulating human resources to bring innovation together

~Four pillars of action to realize the vision~

Balancing diversity and inclusiveness in sustainable development

Promoting open innovation beyond borders

Strengthening cyber-physical connectivity

Building an ecosystem in co-creating dynamic human capital

Further utilize ERIA

Featuring ASEAN-Japan to set as a model of co-creation relationship, and to be a foundation for free, fair, and open regional economic order

Conclusions

This paper has illustrated the past, present and future prospects of ASEAN-Japan cooperation on the occasion of the 50th anniversary of the friendship and cooperation. ASEAN and Japan have been developing their relations since the end of World War II, although there were some difficulties in the post-war reconstruction period. Since the late 1980s, around the end of the Cold War, Japan has supported ASEAN's industrial development and economic integration through technical assistance from both the public and private sectors. These efforts have strengthened the

partnership between the two parties, even in the 21st century, through the development of bilateral and multilateral FTAs/EPAs with ASEAN member states and Japan. Japan's clear support for the ASEAN Community building process also enhances the institutionalisation of cooperation, business activities and friendship between two parties. As we have explained, the establishment of RCEP could be regarded as one of the achievements of ASEAN-Japan cooperation.

At present, as shown in Section 2, there are some problems to achieve the high-growth economy of ASEAN and Japan, including the shortage of high-skilled professionals, middle managers and competence to realise the sustainable business activities in the region. To fill the gap, it is quite urgent to revise the curriculum of education and improve the talented people proper allocation to meet the advanced technologies such as AI and robotics, in each manufacturing sector in ASEAN.

Finally, as discussed in Section 3, digitalisation and circular economy are the key policy concepts and areas of cooperation for the next 50 years. The ASEAN-Japan Economic Co-Creation Vision also emphasises the importance of these two areas in terms of supply chain digitalisation for resilience, cybersecurity, data governance and cross-border data flow for highly integrated ASEAN and Japan, and achieving a sustainable economy through resource circularity and carbon neutrality. Cooperation has been extended to socio-economic issues and human resource development, youth exchanges to achieve mutual cooperation. To bridge the developed countries and the countries of the global south, Japan needs to make great efforts to succeed in the ASEAN-Japan Special Summit in December to show the clear message to the world. ASEAN also needs to unite and play a pivotal role as the driving seat of the East Asian region to ensure peace and prosperity for many years to come.

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DECADES OF JAPAN-VIETNAM COOPERATION: SOME PERSPECTIVES

Nguyen Anh Duong⁹

Introduction

Since the start of Doi Moi (Renovation) in 1986, Vietnam has embarked on radical and comprehensive reforms, which could be grouped in three pillars: (i) market-oriented institutional reforms; (ii) macroeconomic stabilization; and (iii) economic cooperation and integration. The reforms worked jointly to enhance the economic opportunities for Vietnam as well as its capacity to realize the opportunities. Indeed, economic cooperation and integration efforts interacted closely with the other two reform pillars. In doing so, Vietnam established and strengthened relations with all

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partners, seeking to mobilize additional resources (finance, technology, expertise) to support its socio-economic development.

Overall, Japan has been one of the most important partners of Vietnam. In 2014, Japan and Vietnam established the extensive strategic partnership for peace and prosperity in Asia. The year 2023 marked the 50th anniversary of diplomatic relations between the two countries. For Vietnam, cooperation with Japan has increasing importance, from trade to development and, more recently, the coordination to navigate times of international volatility due to strategic rivalry between superpowers. In this regard, this paper attempts to provide some Vietnamese perspectives of cooperation with Japan. Specifically, the paper will focus on selected best practices of Japan-Vietnam cooperation in the areas of negotiation of trade pacts, investment cooperation, official development assistance (ODA), and transfer of expertise.

Best practices in Japan-Vietnam cooperation

Negotiation of trade pacts

Following decades of dialogues and cooperation, the Association of Southeast Asian Nations (ASEAN) and Japan recognised the need to deepen relations in various areas, including economic cooperation. The leaders signed the Framework for Comprehensive Economic Partnership between ASEAN and Japan at the ASEAN-Japan Summit on 8 October 2003 in Bali, Indonesia. The Framework was aimed at establishing a Comprehensive Economic Partnership agreement between ASEAN and Japan.

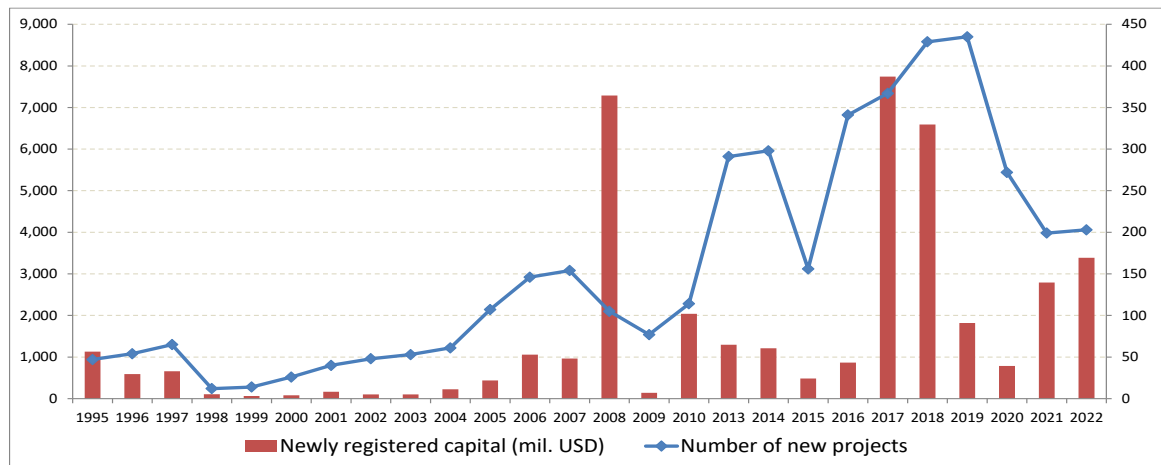
To arrive at the Comprehensive Economic Partnership (AJCEP), Japan and ASEAN had to work together for several years. While the time for AJCEP negotiation was shorter than the recent new-generation free trade agreements (FTAs) involving both Japan and Vietnam, it also requires a change in the approach of Japan. Specifically, Japan arguably wanted to negotiate directly with ASEAN. It soon found out that such direct negotiation would take a long time, as the 10 member states of ASEAN were so heterogeneous in development level, economic governance, and policy approach. Japan thus devised an approach that involved negotiation of bilateral FTA with ASEAN member states, which then provided the basis for the AJCEP. With Vietnam, thus, Japan had the bilateral agreement (i.e. Vietnam-Japan Economic Partnership Agreement) alongside the AJCEP, both of which were signed in 2008. This approach reflects the efforts of Japan in working with relatively new ASEAN member states such as Vietnam. This approach indeed was then replicated by the European Union, which also recognised that a direct negotiation of regional FTAs with all ASEAN member states would not be viable in the first place.

More recently, Japan-Vietnam cooperation in FTA negotiation has elevated to a new height. Following the US withdrawal from the Trans-Pacific Partnership (TPP) in early 2007, under the coordination of Japan, Vietnam worked with other remaining TPP members to revive the pact in a new form called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Likewise, after India withdrew from the Regional Comprehensive Economic Partnership (RCEP) in 2019, Japan worked hard with ASEAN and other partners to realize RCEP's entry into force in 2022. For Vietnam, thus, Japan has emerged not only as a trade partner, but also as a dialogue partner it can work with in the pathfinding process for new-generation and/or mega FTAs – especially when the future of these agreements were under serious challenge.

Investment cooperation

Japan was among the first investors in Vietnam. The number of new projects of foreign direct investment (FDI) trended upward during 1995–2019, despite some adjustment since 2020 in the COVID-19 context. The volume of newly registered capital was also significant, especially in 1995, 2008, and 2017–2018. The year 1995 marked Vietnam’s opening up the economy after the US lifting embargo. The year 2008 was just after the WTO accession and witnessed the signings of AJCEP and VJEPA. The years 2017–2018 reflected investment shifts in the context of TPP/CPTPP and the US-China trade war. As of the end of 2022, Japan has 4,978 projects in operations with total registered capital of USD 68.89 billion in Vietnam, ranking third in the list of top investors in Vietnam.

Figure 1: Newly registered capital and number of new FDI projects of Japan in Vietnam



Note: Newly registered capital (mil. USD) is indicated in left-hand axis. The number of new projects is indicated in right-hand axis.

Source: Author’s compilations from data of Ministry of Planning and Investment.

There are several perspectives of Japanese investment in Vietnam:

First, the investment often entails long-term approach, which targets the contribution to building up Vietnam’s production capacity. According to

the Ministry of Planning and Investment (2020), as of 20 September 2020, manufacturing sector accounted for the lion's share in Japan's FDI in Vietnam (65.9% of registered capital). This style of investment was differed from one that focused more on establishing a subsidiary just for importing goods for penetrating in Vietnamese market. Over decades of presence, the Japanese manufacturers have deepened the backward and forward linkages with Vietnamese enterprises, thus inducing development of manufacturing in particular and Vietnam's economy in general.

Second, Japanese investors and government agencies remain in close dialogues with the government of Vietnam, which helped key areas of investment environment that would need to be addressed. For instance, Japanese investors raised the issues in Vietnam Business Forum, and bilaterally with Vietnamese agencies via various mechanisms (such as Vietnam-Japan Joint Initiative). During the COVID-19 pandemic, Japanese investors also made recommendations to the Japanese government to provide support, including vaccines and medical facilities, to Vietnam. The Japan External Trade Organization (JETRO) publishes annually the survey results of Japanese enterprises operating overseas, which helps Vietnamese agencies review and compare its investment environment vis-à-vis regional countries.

Third, Japanese investment were diversified in various ASEAN member states, such as Thailand, Indonesia, Vietnam, etc. This led to the growing shares of intermediate goods in intra-ASEAN trade, which in turn fosters the development of regional production network. While this is consistent with the ASEAN economic community building process, investment cooperation with Japan helped improve the awareness and capacity of Vietnamese enterprises about participating in the global and regional value chains. As one instance, Vietnam started to refine its approach to attracting large foreign-invested enterprises since early 2010, and Canon from Japan was among the first one. This attraction then led to the policy changes in various aspects, such as the authorized economic operator

scheme as part of trade facilitation. Indeed, as argued by Haseba in 2019, “trade facilitation continues to progress in the ASEAN region through the efforts of all stakeholders, demonstrating the value of Japan’s style of engagement with ASEAN and its potential for further breakthroughs”.

Official development assistance

Japan has remained Vietnam’s top donor since ODA was resumed to the country in 1992. Japan has committed ¥1,542 billion (almost USD 17 billion) in ODA to Vietnam since 1992, making up about 30% of all ODA provided to Vietnam by the international community (Nguyen 2021). By 2015, Japan had already contributed over ¥2.6 trillion to Vietnam’s aid budget, or more than 40% of all ODA. In May 2023, Vietnam and Japan signed three agreements to fund new-generation ODA projects in Vietnam, including on post-pandemic socio-economic recovery and development; public transportation system in southern Binh Duong Province; and enhancing the infrastructure system for agricultural development in the Central Highlands province of Lam Dong. As Vietnam became middle-income country, the share of grants and concessional loans in Japanese ODA to Vietnam has gradually diminished. Still, Japan remained the largest provider of grants and technical assistance for Vietnam.

Several insights can be drawn from Japan’s ODA to Vietnam:

First, Japan’s ODA has contributed to developing important infrastructures to support socio-economic development in Vietnam. Symbols of such contribution include the construction of the main North-South expressway, deep-sea ports, airport in big cities, ring road no. 3 in Hanoi, etc. Japanese investors have also invested in power generation facilities which enhanced the domestic production capacity of electricity and thus energy security in Vietnam.

Second, Japan provided ODA in a range of areas, rather than just those of direct relevance for trade and investment. Development of human resources and institutional building, building and renovation of traffic and electricity infrastructure, improvement of agriculture and rural infrastructure, advancement of education, training, and health, and environmental protection are the five main areas of focus under Japan's ODA programs.

Third, Japan's ODA exhibited some significant degree of harmonization and coordination with other partners. The Japan International Cooperation Agency (JICA) and Japan Bank for International Cooperation (JBIC) have worked with other donors and Vietnamese agencies to harmonize and simplify the requirements and procedures related to ODA in Vietnam. Japan has dialogued with other partners, such as US and Korea, on economic infrastructure initiatives in Vietnam and potential cooperation issues among the donors.

Transfer of expertise

Japan has been the symbol of transfer of technology and expertise to the Vietnamese stakeholders. At the business level, Japan and Vietnamese enterprises have increasingly improved their linkages in the global and regional production network. Via such linkages, Vietnamese enterprises have gradually benefited from technology transfer from Japanese counterparts. Vietnam was among the first countries to receive the transfer of cell alive system by Japan, a state-of-the-art technology for preserving food which helps maintain quality of Vietnamese products

upon exports to Japan. Nguyen (2018) provides a case study to show the technology transfer from Japan's Mazda trainers to Vietnamese engineers in the local branch of Mazda based on learning by doing through many steps. Tran and Nguyen (2013) demonstrate that Japan's ODA projects in infrastructure have not only helped to endow Vietnam with a better road network but have also gradually equipped the country with much-needed skills and knowledge for developing and managing subsequent projects.

Moreover, the Japanese stakeholders also promote transfer of expertise to Vietnam in the policymaking process. A notable example is Vietnam's Industrialisation Strategy in the framework of Japan-Vietnam collaboration, which was approved by the Prime Minister in 2013. The Strategy identifies six key sub-industries for promotion in Vietnam, namely: food processing; agricultural machinery; electronics; environment and energy-saving industry; automotive; and shipbuilding. The action plans for these industries were approved by the Prime Minister of Vietnam during 2014-2015. It should be noted that developing action plans for industrial development had been no new to Vietnam. However, the cooperation with Japanese stakeholder really improved the quality of the policymaking process. For instance, the process required Vietnamese agencies to narrow down from its existing list of dozens of industries for targeted development. Besides, participants in the process include both officials, academia and business representatives from both Vietnam and Japan, which was new to the former as it had not adopted the practices of inviting academia and business representatives in the agency-to-agency meetings for industrial policymaking. In fact, since 2015, the practices of consulting stakeholders in industrial policymaking have been popularized in Vietnam.

Conclusions

This paper has demonstrated the importance of partnership with Japan to Vietnam. Such importance has been reflected by the decades of collaboration in various areas, including trade negotiation, investment cooperation, ODA, and transfer of expertise. More importantly, the collaboration between Japan and Vietnam has been developed via all channels, including government-to-government, government-to-business, business-to-business, and people-to-people. This has ensured that the collaboration has attained comprehensiveness, consistency, and relevance to Vietnam's socio-economic development. Besides, Japan-Vietnam collaboration contributes to the regional community-building process (especially in Southeast Asia) and, accordingly, regional development.

The room for deepening Japan-Vietnam collaboration remains ample. First, Japan and Vietnam should continue to discuss, share perspectives and experiences, and provide possible mutual supports in multilateral and regional economic fora. Second, Japan could extend further technical assistance for improving related institutions, regulations, and policies for green growth in Vietnam after the COVID-19 pandemic. Third, Japan and Vietnam should work harder, both bilaterally and in coordination with other donors, to strengthen sustainable infrastructures and low-carbon global value chains in Vietnam. Finally, improving people-to-people connectivity, including via cultural exchanges, tourism, and mobility of people, could be essential. Underlying these directions of cooperation should at best be the mutual confidence and win-win approach between the two countries.

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JAPAN-THAILAND RELATIONS: AN EXAMPLE OF WIN-WIN COOPERATION

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Introduction

Japan has been one of the most important partners of Thailand since the two nations signed the Declaration of Amity and Commerce between Japan and Thailand, on September 26, 1887. The long-lasting diplomatic

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relations between the two Countries, which in 2022 marked its 135th anniversary, paved the way to the possibility of an intense bilateral cooperation that has seen the light through the different economic agreements that have been signed among them. Notably, in 2007 Japan and Thailand signed the Japan-Thailand Economic Partnership Agreement (JTEPA), as a result of which trade volume increased significantly and set the stage for other economic agreements.¹¹

The paper aims to take an in-depth look at the economic ties between the two Asian states, firstly analysing the best practices of cooperation between Japan and Thailand in the negotiation of trade pacts and the consequences of such agreements in terms of trade volume and development of the economic sectors involved; secondly, examining investment cooperation (FDI) and finally, official development assistance (ODA).

Japan-thailand: negotiation of trade pacts and their impact on the bilateral trade

The Japan-Thailand Economic Partnership Agreement (JTEPA), which entered into force in 2007, is the result of protracted negotiations that began in 2003. This agreement can be seen as a perfect example of the specific and defined approach developed by Japan to negotiate bilateral

¹¹ Ministry of Foreign Affairs of Japan, *Japan-Thailand Relations*, <https://www.mofa.go.jp/region/asia-paci/thailand/data.html#:~:text=In%202012%2C%20Japan%20and%20Thailand,a%20wide%20of%20areas>.

free trade agreements (FTAs) with ASEAN members, with the clear objective of creating the basis for the implementation of broader economic and trade arrangements between Tokyo and the economies of the Southeast Asia. Chosen because of the inherent economic, political, and social differences between the ten ASEAN member countries, this approach paved the way for the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), which came into force at the end of 2008. Subsequently, on the 1st of January 2022 the Regional Comprehensive Economic Partnership (RCEP) entered into force, an important milestone not only for the Japan-Thai relations but also for all of whom are included in this partnership such as the ASEAN members, China, South Korea, Australia, and New Zealand. Nonetheless Japan's presence and its importance in the region cannot be only defined by these agreements. Indeed, from the time of the foundation of the ASEAN, specifically since 1973, Japan has shown willingness and commitment to build a peaceful and prosperous economic region and create an equal partnership among itself and the State members.

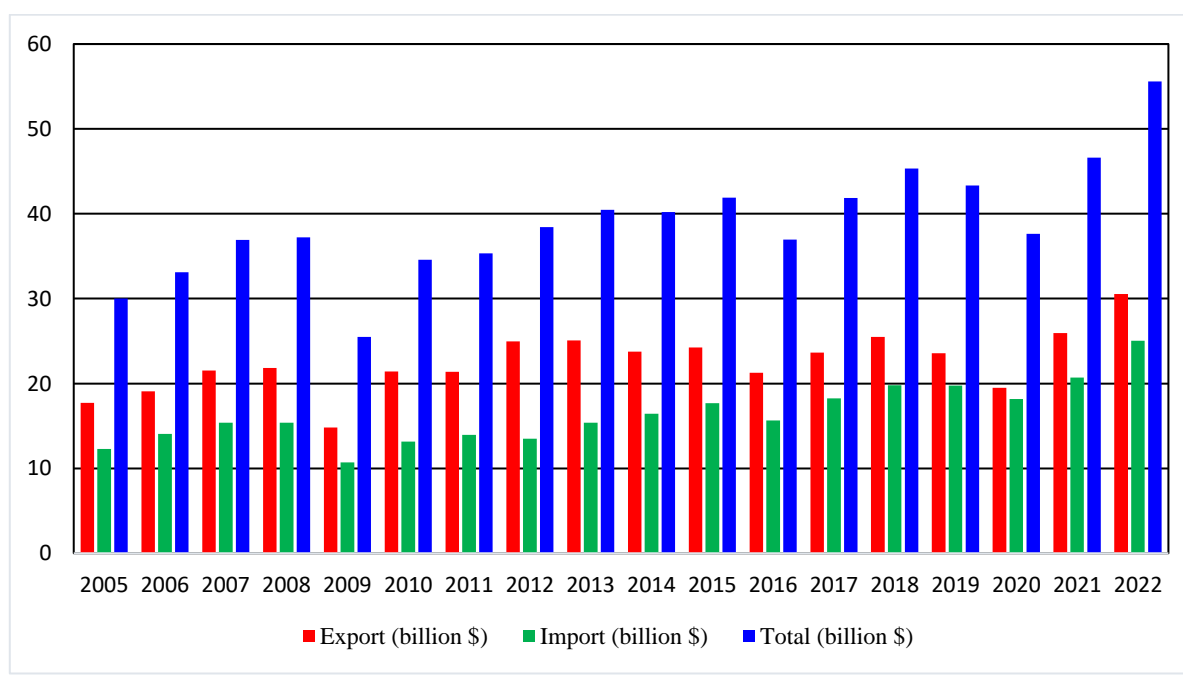
Unlike other Members of the ASEAN, Thailand is not part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a project in which Japan has put many diplomatic resources after US withdrew from the former Trans-Pacific Partnership (TPP) Agreement. However, Thailand has shown in various occasions its interest in becoming a member and internal discussions goes on even today.¹²

The economic agreements signed in recent decades can be described not only as a diplomatic success, but also as a concrete facilitation for Thailand's economy. In fact, looking at the two states, it can be noted that there has been a trend expansion in both directions as depicted in Figure 1.

¹² Department of Foreign Affairs and Trade - Australian Government, *Trans-Pacific Partnership (TPP)*, <https://www.dfat.gov.au/trade/agreements/not-yet-in-force/tpp/2016-tpp-outcomes-and-background-documents>; MIC, *Thailand applies to join CPTPP – but can it persuade its people?*, 25 November, 2021, <https://www.mic-cust.com/insights/posts/detail/ad/thailand-applies-to-join-cptpp-but-can-it-persuade-its-people/>.

Notably, the most visible evolution is the ballooning of the total volume of trades which has almost doubled last year in comparison to 18 years ago, from \$30 billion to almost \$60 billion. The progress has been steady in time but there have been a couple of major and relevant stumbles, specifically in 2009 and 2020, justified by the sub-prime financial crisis and by the Covid-19 pandemic. Moreover, it is worth noting that despite the height of the global pandemic, trading volumes have partially decreased, commercial and economic relations have proved resilient precisely because of the ties formed and nurtured during previous times. Japanese export towards Thailand can be resumed in few sectors that together account for more than half of the total and they are: machinery components (more than \$5 billion), electronic equipment (more than \$5 billion), vehicles other than railway and tramway (\$3 billion) and minerals, in particular iron and steel (\$5 billion). Japanese import from Thailand, instead, is more diversified and has diverse sector of relevance, with a major one that alone represents a fifth off all the imports and it is the electrical and electronic equipment sector (almost \$6 billion) that is composed mainly by transmission apparatus for communication such as telephones, by electronic circuits and by different types of wire.

Figure 1: The Trade Volumes between Japan and Thailand (billion \$) *



Estimates of trade volumes were calculated by the author from data provided by the Ministry of Finance of Japan, the conversion from yen to dollar was made on 30/05/2023.

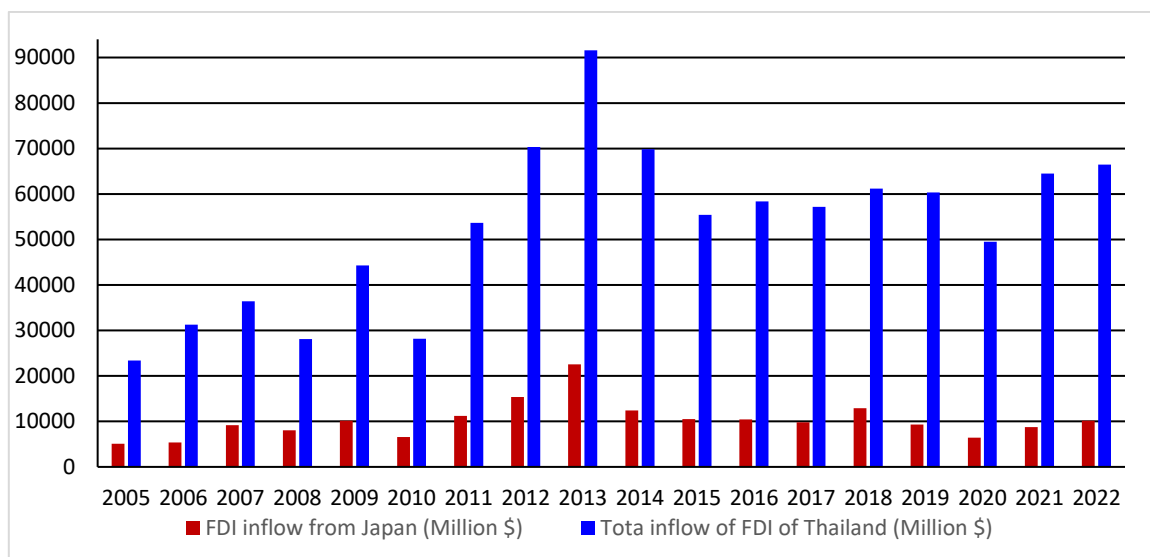
Investment and development cooperation

Relations between Thailand and Japan go beyond trade partnership and are characterised by the large flow of Japanese investment and development cooperation programmes. Indeed, Tokyo is one of the main actors when it comes to investment projects and assistance for development in Thailand, meaning Foreign Direct Investments (FDI) and Official Development Assistance (ODA). Precisely, as shown by Figure 2, Japan maintained a considerable flow of FDI toward Thailand in the last two decades. Besides, it is important to note that in the last years it is visible a slow and steady increase of financings after the pandemic of Covid-19 that are realigning with the precedent's values. Moreover, the FDI have not been constant in time but perhaps the numbers are coherent with the volatility of the total inflows of FDI. Matter of facts is that Japan has unceasingly detained a percentage near one sixth of the total inflows of FDI of Thailand.

Thailand, furthermore, has been an important hub and a stable base of operation for approximately 6000 Japanese companies in the last years. The key factors that offered such a fertile ground for several foreign Japanese companies are not only the intrinsic and extensive economic relations between Tokyo and Bangkok, but also favourable policies and development strategies created bilaterally such as the Thailand-Plus-One Strategy. The Plus-One strategy has the objective of delocalizing part of the processes of production of goods, specifically the labour-intensive parts, from Thailand to its neighbours near the border and involving the States of the Mekong region in particular Cambodia, Myanmar and Laos,

Countries that deal with minor costs of labour. This strategy of delocalization favoured all the region, and not only Japan and Thailand, by amplifying the global value chains and the actors involved that caused a lowering of the price of the products manufactured.

Figure 2: Foreign Direct Investments to Thailand (Million \$)



The estimates of FDI have been obtained thank to the data obtainable on the site of Bank of Thailand

Overall Thailand's policies related to the inflow of Foreign Direct Investment has been all the more incentivising towards investors from

abroad, thanks to the role of the Board of Investment of Thailand (BOI), that defined the sectors in which the foreign aid and financements are welcomed and requested. The sectors that The BOI designated that can be 100% foreign-owned are agriculture and agricultural products; chemicals, paper, and plastics; services and public utilities; light industry; technology and development; electronics; metal products, machinery, and transport equipment and mining, ceramics, and basic metals. Japan companies has adapted themselves to these policies of the BOI by focusing on the sectors where there were more advantages and demand and lesser barriers for the foreigners. In fact, the top five industries in which Japanese companies invest the most in Thailand are: holding companies; commercial banks; steel production; automobiles and auto parts; and electronics and electrical appliances. Japan's investments in Thailand have led to a concrete development especially in the sector of transport infrastructure, an example is the construction and ultimation of one of the metropolitan high-speed lines of Bangkok, the purple line that entered in function in 2016. Another important example are the East-West and Southern Economic Corridor implementation that brought to light new important trade corridors that connects Myanmar, Thailand, Laos, Vietnam and Cambodia and that permitted the transition of goods between the Countries at a cheaper price, due to the minor costs of transportation.

Japan plays a pivotal role in the development of Thailand through ODA since the implementation of The Grand Assistance Grassroots Humans Security Projects (GGP) in 1989. The GGP flexible quick support to comparatively small-scale development project, which aim to improve the social well-being of people of the lower classes, perfectly aligns with Japan's development plan that wants to promote an independent regional plan based on strategic partnerships with Thailand. This plan is divided in 3 priority areas:

- 1) Sustainable development of economy and coping with maturing society, involves Industrial Human Resources Development, Research capability Improvement, Quality infrastructure Development, Promotion of disaster prevention including water disasters, Environment / Climate change measures and social security.
- 2) Coping with common issues in ASEAN countries, involves Strengthening ASEAN / Mekong region connectivity and mitigating disparities.
- 3) Providing support for Third Countries in the ASEAN region by cooperating with Thailand on major projects.

Japan delineation of this plan of action has been under the responsibility of the Japan International Cooperation Agency (JICA) which has started different projects in all the different 3 areas of interest. Numerous projects have been initiated or confirmed, and they are distinguishable thanks to the different approaches that range from Technical Cooperation to Loans, or by offering the help of experts or even involving a third Country and they can be found in various areas of Thailand.

High expectations can be made on Tokyo's and Bangkok's cooperation, on 17 November 2022 a Five-Year Joint Action Plan on Japan – Thailand Strategic Economic Partnership towards a More Resilient and Sustainable Future with the scope of formulating a mid-term guideline to set direction for the economic relationship during 2022-2026. The macro-areas delineated for future cooperation vary largely and go from Human Resources Development, Regulatory Reform, Innovation to Bio-Circular-Green (BCG) Economy to Infrastructure. Specific and interesting areas of cooperation between Tokyo and Bangkok are Space, Science, Technology, and Innovation Development or Digital Infrastructure (Communication) or Environment and Energy for Carbon Neutrality.

Conclusions

This paper has shown the importance of the long-lasting relations between Japan and Thailand and how they had been the basis for the development of diverse economic agreements. Such value has been demonstrated by utilizing the evolution of trade between the States and the differentiation among all the different commodities, by analysing how Tokyo invested in Thailand, which type of projects have been developed and how Thailand has structured his intern strategy to foreign intervention and how it responded to this willingness of Japan to deepen the bond between them, and lastly how Japan's commitment to Thailand has also helped the ASEAN member of the Mekong peninsula as a whole with an example of infrastructural investment that involved the other Countries (Myanmar, Laos, Cambodia and Vietnam).

Empirical evidence demonstrates that the relations in the foreseeable future will not get weaker, all the contrary, thanks to the entry of force of the Five-Year Joint Action Plan on Japan - Thailand Strategic Economic Partnership that structure the cooperation between Japan and Thailand in the years to come.

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CONCLUSIONS

Using case studies, the proposed papers described the history, structure, and prospects of relations between Japan and ASEAN and between Japan and two important Association member states, namely Vietnam and Thailand. Specifically, the paper “50 years of ASEAN-Japan relations:

toward a ‘heart-to-heart’ tie” highlighted how the relationship between Japan and ASEAN has grown and strengthened over the years, beginning in 1973 when the ASEAN-Japan Synthetic Rubber Forum was established. Subsequently, after the late 1980s, ASEAN-Japan cooperation entered a new phase with the abundant inflow of foreign direct investment (FDI) from Japan that contributed to shape the Southeast Asian economic environment. Precisely, ASEAN responded to the inflow of FDI from Japan and beyond by shifting its economic policies towards export-oriented development strategies and facilitating the structural transformation of the regional economy towards services and manufacturing.

In addition, Japan's increased presence in the region has facilitated the process of developing market economies where these were essentially absent. Japan, therefore, fitted perfectly into the regional trend that pointed towards the creation of the AFTA, which materialised in 1992, a fundamental pivot for the creation of the AEC. Subsequently, Japan contributed to the development of the RCEP through negotiations. In summary, due to the institutionalisation of bilateral EPAs and the centrality of ASEAN, bilateral cooperation between Japan and ASEAN has also strengthened. In particular, cooperation between Japan and ASEAN has expanded to trade and investment, as well as social cooperation, such as youth cooperation, cultural exchanges and human resource development. In this context, the public and private sectors have acted together to better structure the partnership. However, the study proposed by ERIA researchers also highlighted several challenges that undermine the ability to develop business in the region. For example, among the major problems that threaten to undermine ASEAN's rapid economic growth is the shortage of highly skilled professionals, middle managers, and skills to conduct sustainable business in the region. To fill this shortage, therefore, there is an urgent need to revise curricula and improve talent allocation to cope with advanced technologies, such as artificial intelligence and robotics, in all productive sectors in ASEAN.

In conclusion, ERIA researchers identified digitization, digital transformation, and circular economy as key areas of cooperation for the future, as highlighted by the ASEAN-Japan Economic Co-Creation Vision. The latter, notably, emphasizes the importance of these two areas in achieving a sustainable economy through resource circularity and carbon neutrality. Cooperation between Japan and ASEAN over the years has also extended to socio-economic issues and the development of human resources and youth exchanges, although there is still much room for improvement in this area. With this in mind, better coordination between Japan and ASEAN can not only contribute to regional economic growth, but also make the Association the main forum in the East Asian region that can ensure peace and security. Analysing the best practices of Japan-Vietnam relations, Nguyen Anh Duong first points out that although Japan would have liked to negotiate trade agreements directly with ASEAN, it soon realized that bilateral negotiations with ASEAN member states would make the process smoother. Subsequently, the paper points out that Japanese foreign direct investment has mainly focused on the manufacturing sector and that dialogue with Vietnamese authorities has been crucial in structuring an economic intervention useful for the country's overall economic growth. In addition, Japanese investment has been diversified across various ASEAN member countries and this led to the growing shares of intermediate goods in intra-ASEAN trade, which in turn fosters the development of regional production networks and helped improve the awareness and capacity of Vietnamese companies to participate in global and regional value chains. Moreover, Japan has emerged as the largest ODA donor since 1992, which has enabled the development of new-generation ODA projects in Vietnam with focus on post-pandemic socio-economic recovery and development and infrastructure development in May 2023. Japan's role as the largest provider of grants and technical assistance for Vietnam has contributed to

the development of important infrastructure to support Vietnam's socio-economic development.

Overall, Japan provided ODA in such areas as development of human resources and institutional building, building and renovation of traffic and electricity infrastructure, improvement of agriculture and rural infrastructure, advancement of education, training, and health, and environmental. To develop its policy of economic and technical support to Vietnam, Japan has coordinated the efforts of the Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC), along with those of other donors and especially those of Vietnamese agencies, to harmonize and simplify ODA requirements and procedures. Among the most significant best practices in Japan-Vietnam relations is the cooperation between stakeholders from the two countries in the industrial policy-making process. Participants in the process include officials, academic and business representatives from both Vietnam and Japan, who have offered diverse and innovative perspectives and collaborated on effective policies. In addition to the ODAs, Japan excelled in the transfer of expertise and skills that also occurred due to the fact that bilateral collaboration was developed through all channels, including government-to-government, government-to-business, business-to-business, and people-to-people. This ensured that the collaboration achieved coherence and relevance for Vietnam's socio-economic development and, consequently, for the region as well. CeSI analyst Alexandru Victor Fordea's article on Japan-Thailand relations highlights how the bilateral relationship goes far beyond a major interchange, which has grown exponentially in the 2000s to bring the total value of trade to about \$60 billion in 2021.

Indeed, Thailand-Japan relations are also characterized by the large flow of Japanese investment and development cooperation programs that have contributed to the development of the Thai economy as we know it today. Japanese investment in Thailand has led to tangible development

especially in the transportation infrastructure sector and facilitated, for example, the construction and completion of one of Bangkok's high-speed subway lines, or the East-West-South Economic Corridor. The latter has facilitated the construction of major new trade corridors linking Myanmar, Thailand, Laos, Vietnam, and Cambodia that have allowed goods to move from one country to another more cost-effectively due to lower transportation costs. In this regard, it is noteworthy how Japanese action, aimed at coordination among different stakeholders and able to mix public-private, brings benefits that go far beyond the country directly concerned and extend to the whole region. From this perspective, the funds channelled through JICA, which among other things contributed to the strengthening of the health system in the context of the health crisis triggered by Covid-19, had the merit of looking at the country's structural problems and playing a positive role in Thailand's process of achieving the UN Sustainable Development Goals 1 (poverty-free), 3 (good health and well-being) and 10 (reducing inequality).

RECOMMENDATIONS

Based on the results of the research project, a number of useful indications can be outlined to improve and strengthen Italy's engagement strategy with the South-East Asian region and ASEAN. Indeed, given the characteristics of the South-East Asian region and recent international tensions, Italy can become a privileged partner of ASEAN for several reasons. First, Italy's non-security-oriented approach is particularly appreciated in an area that fears becoming embroiled in a possible military escalation in the Indo-Pacific. Second, Italy's values-based approach focused on building balanced, win-win partnerships can prove successful in a growing region where states are looking for partners, not mentors.

Third, Southeast Asia represents an important opportunity for Italy, which for many years looked at Asia in commercial terms focusing almost exclusively on China. Today, indeed, given the changed international geo-strategic conditions and the Euro-Atlantic bloc's strategy of 'de-risking' trade with China, Italy needs to diversify its action in the Indo-Pacific and, in this perspective, the ASEAN member states represent an excellent alternative in terms of economic dynamism and market size, as the region is on track to become the largest single market in the world by 2030.

To this end, the research project first highlighted the importance of coordinating development support interventions not only with local authorities, but also with Italy's international partners, such as Japan, in order to achieve better aggregate results and, more importantly, to produce initiatives capable of developing effects even beyond the borders of the single nation engaged. This aspect is particularly relevant because an overall development of ASEAN might multiply partnership opportunities with the entire region in the medium to long term. In this context, the introduction of targeted strategy documents, such as Action Plans aimed, for instance, at sharing practices to support regional small and medium-sized enterprises, might help develop coherent action over time. In addition, the process of identifying regional forums also attended by ASEAN member states (see for example the Indo-Pacific Ocean Initiative initiative which Italy has recently decided to join) should continue in order to structure an ongoing presence in the area useful for building up trust.

As demonstrated by the case of Japan, to achieve appreciable results, Italy must also be able to identify ongoing regional trends in order to adapt its external action to regional development and not vice versa. In fact, only by proceeding in this way will Italy's economic, trade and political relations with ASEAN be able to grow and prove resilient to possible crises, probably in times such as the present characterized by high geoeconomic and strategic uncertainty. In addition, Italy should focus on developing simple,

consistent and easily applicable engagement tools. Indeed, as the study found, the multiplication of tools does not facilitate mutual understanding and harms the development of fruitful relationships. In general, a successful approach is not limited to a strong coordination of policies and actions between the state and private Italian companies and the realities to be involved, but also includes the involvement of all stakeholders useful for the development of relationships that must certainly be economic and commercial but also cultural.

Looking at the ODA allocated by Italy in the three-year period 2020-2022, it is evident that there is plenty of room to expand action in the region. Notably, in the three-year period just ended, Italy has carried out cooperation projects mainly in Myanmar, Viet Nam and the Philippines, with different focuses and a specific attention also dedicated to capacity building.¹³ In this perspective, Italy should intensify its efforts aimed at training the human capital the region needs to grow. The commitment of Italian excellence in education and training, in this case, could play a decisive role in the coming years in supporting ASEAN in addressing technical and managerial skills gaps.

As for areas in which to expand cooperation between Italy and ASEAN, there is room to expand partnerships in agriculture and agribusiness, which still account for a crucial share of the GDP of ASEAN member states. In particular, the ongoing modernization of the sector in many countries in the region requires increasingly advanced machinery, and Italy stands for excellence in this field. In addition, in light of the fact that regional growth forecasts are very high and, therefore, that regional energy needs will grow exponentially in the medium term, Italy could be a preferred partner for the exchange of useful technologies for renewable energy production.

¹³ Agenzia Italiana per la Cooperazione allo Sviluppo, *OpenAid AICS*, <https://openaid.aics.gov.it/?year=2022>.

In order to achieve the desired results, Italy can also count on the support of the European Union, which represents an exceptional multiplier of energies to promote technical cooperation and capacity building in support of regional institutions and ASEAN states, with the aim of strengthening regional autonomy. To this end, the Italian strategy for the region should always be coordinated with European partners, such as France, which through the Agence Française de Développement (AFD) is particularly active in the region in the domains of biodiversity, health, environment, energy, cultural heritage, and economy.

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