

Strengthening Relations Between Japan & ASEAN

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Forging the Path for Open Regionalism

Being an association of countries highly heterogeneous in terms of political systems, economic development and culture, the Association of Southeast Asian Nations (ASEAN) has for decades appreciated its relations with external partners. This has been in line with the principle of open regionalism, i.e. ASEAN differentiated itself from a trade bloc in which members only expand relations with one another. Japan's importance as a key external partner has always been acknowledged by ASEAN. They established an informal dialogue in 1973, and following decades of talks and cooperation, ASEAN and Japan recognized the need to deepen relations in various areas. Regarding economic cooperation, the leaders of both sides signed the Framework for Comprehensive Economic Partnership at the ASEAN-Japan Summit on Oct. 8, 2003 in Bali, Indonesia. The Framework served as a key ground for establishing a Comprehensive Economic Partnership agreement between ASEAN and Japan.

ASEAN-Japan collaboration to arrive at the Comprehensive Economic Partnership (AJCEP) also resembled a model pathfinding effort. For such an effort, Japan and ASEAN had to work together for several years. While the time for AJCEP negotiations was shorter than the recent new-generation free trade agreements (FTAs) involving both Japan and various ASEAN member states, it also required an adaptation in the approach of Japan. Initially, Japan arguably wanted to negotiate directly with ASEAN as a whole, but soon found that such direct negotiations would take a long time, as the 10 member states of ASEAN exhibited heterogeneity in development levels, economic governance, and policy approaches. Japan subsequently devised an alternative approach that involved negotiating bilateral FTAs with ASEAN member states, which then provided the basis for the AJCEP. With Vietnam, Japan thus had a bilateral agreement (Vietnam-Japan Economic Partnership Agreement) alongside the AJCEP, both of which were signed in 2008. This approach reflected the efforts of Japan in working with relatively new ASEAN member states like Vietnam. This approach was then replicated by the European Union, which also recognized that direct negotiations for regional FTAs with all ASEAN member states would not be viable in the first place.

In addition, Japanese investments were diversified in various ASEAN member states, such as Thailand, Indonesia, and Vietnam. This led to the growing shares of intermediate goods in intra-ASEAN trade, which in turn fostered the development of regional production networks. While this was consistent with the ASEAN economic community building process, investment cooperation with Japan helped improve the awareness and capacity of regional enterprises –

especially in Cambodia, Laos, Myanmar and Vietnam – about participating in the global and regional value chains. This attraction then led to policy changes in various aspects, such as the authorized economic operator scheme as part of trade facilitation. Indeed, as argued by Junichiro Haseba (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.”

More fundamentally, investment from Japan often entails a long-term approach that targets the contribution to build up ASEAN's production capacity. In Vietnam, the manufacturing sector has been the major recipient of Japan's FDI in the country. Such investment differed from one that focused more on establishing a subsidiary just for importing goods to penetrate local markets in ASEAN. Over decades of presence, Japanese manufacturers have deepened the backward and forward linkages with ASEAN enterprises, thus inducing development of manufacturing in particular and ASEAN's economy in general.

Japan has been a symbol of transfer of technology and expertise to ASEAN stakeholders. At the business level, enterprises in Japan and ASEAN have increasingly improved their linkages in the global and regional production network, which has facilitated practical technology transfer. As an instance, Vietnam was among the first countries to receive the transfer of a Cells Alive System by Japan, a state-of-the-art technology for preserving food which helps maintain the quality of Vietnamese products upon export to Japan. Moreover, the Japanese stakeholders also promoted transfer of expertise to ASEAN in the policymaking process. A notable example is Vietnam's Industrialization Strategy in the framework of Japan-Vietnam collaboration, which was approved by the Vietnamese prime minister in 2013. Such examples show that cooperation with Japan has been enabling the participation and upgrading of ASEAN enterprises in global and regional value chains.

The Joint Industrialization Strategy identifies six key sub-industries for investment cooperation in Vietnam, namely: food processing; agricultural machinery; electronics; environment and energy-saving industry; automotive industry; and shipbuilding. The Vietnamese prime minister issued various decisions to approve action plans for these industries during 2014-2015. Even before the Joint Industrialization Strategy, Vietnam had made itself familiar with the practice of developing action plans for industrial development. Nonetheless, cooperation with Japanese stakeholders significantly improved the quality of the policymaking process. For example, the process required Vietnamese agencies to gradually shorten the

existing list of dozens of targeted industries. Also, both sides facilitated the participation of wide-ranging stakeholders, including officials, academia and business representatives. This facilitation was new to Vietnam as it had not adopted the practice of inviting academia and business representatives in the agency-to-agency meetings for industrial policymaking. Subsequently, since 2015, the practice of consulting stakeholders in industrial policymaking has been popularized in Vietnam.

Foundations for Future Relations

Looking ahead, Japan and ASEAN could be mutually assured of solid ground for collaboration. First, both have benefited from mutual confidence and collaboration in the past decades. This paved the way for the Joint Statement on the Establishment of the ASEAN-Japan Comprehensive Strategic Partnership, and the Joint Vision Statement on ASEAN-Japan Friendship and Cooperation, both adopted by ASEAN and Japan in their summit meetings in 2023.

Second, ASEAN and Japan shared a three-pronged approach to connectivity, specifically involving institutional connectivity, physical connectivity, and people-to-people connectivity. In this regard, Japan has for long been supportive of the Master Plan on ASEAN Connectivity. For instance, while various ASEAN member states have worked with diverse external partners on infrastructure projects, Japan has often been referred to as a partner for quality infrastructure.

Third, collaboration has enabled ASEAN and Japan to mitigate the adverse impacts of such occurrences as the Covid-19 pandemic. During the pandemic, Japanese investors also made recommendations to the Japanese government to provide support, including vaccines and medical facilities, to Vietnam. In such a context, Japan's investment in ASEAN continued to grow. According to the FY 2023 Survey on the International Operations of Japanese Firms launched by the Japan External Trade Organization in May 2024, five out of the top 10 partners in the list of future business expansion destinations are members of ASEAN – including Vietnam, Thailand, Indonesia, Singapore and Malaysia.

Key Areas for Deepening Collaboration

Still, ASEAN and Japan have a lot more work in the new regional context. First, Japan and ASEAN should continue to share perspectives and experiences, and provide mutual support in multilateral, plurilateral and regional economic forums and arrangements. Continuing to support the World Trade Organization (WTO) and its reform would be important, but ASEAN and Japan could work further on building capacity for various joint initiatives by the WTO. In doing so, Japan's support for ASEAN's centrality to regional FTAs – in pathfinding efforts for trade and investment liberalization – would be indispensable.

Second, Japan could extend further technical assistance for improving related institutions, regulations, and policies for digital and green transitions in ASEAN. Specific areas for digital cooperation could include trade finance digitalization, online dispute resolution, digital trade, and cybersecurity. Cooperation on green transition could

be extended to renewable energy development, carbon capture, utilization and storage, and a circular economy.

Third, Japan and ASEAN should work harder, both bilaterally and in coordination with other donors, to strengthen sustainable infrastructures and low-carbon global value chains. Apart from developing traditional infrastructures such as roads and utilities, both sides could extend further collaboration to such areas as ecological industrial estates and smart cities. Japan's transfer of technology and know-how to adapt to proliferating sustainable-related regulations and standards – such as on decarbonization and protection of biodiversity – in various countries would be instrumental for ASEAN.

Fourth, Japan should support ASEAN in its regional investment cooperation. As its investors have for long been operating and coordinating production in various ASEAN member states, Japan would benefit from more harmonized practices in ASEAN to attract foreign investors. Therefore, meaningful dialogue between various stakeholders beyond government-to-government, government-to-business, and business-to-business levels would be essential to avoid a race to the bottom as ASEAN attracts investors in the new context.

Finally, improving people-to-people connectivity, including via cultural exchanges, tourism, and mobility of people, could be essential for ASEAN and Japan. Being more open to collaboration with ASEAN could help enable solutions to various issues in Japan, such as the supply of labor in an ageing society. Conversely, being attentive to the services and living conditions of Japanese investors and experts could help ASEAN become a new “home” for these groups. Underlying these directions of cooperation should be a mutual confidence and win-win approach between ASEAN and Japan.

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