

ASEAN–Japan Economic Partnership for a Sustainable and Resilient Future

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ASEAN–Japan Economic Partnership for a Sustainable and Resilient Future

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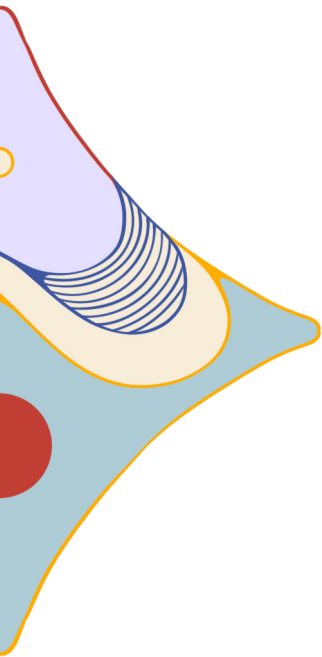
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Foreword from ERIA's President

As we celebrate the momentous 50th year of ASEAN–Japan friendship and cooperation, we take this opportunity to reflect on our shared journey and look forward to a future brimming with immense promise. This book, titled 'ASEAN–Japan Economic Partnership for a Sustainable and Resilient Future,' marks this significant milestone, tracing our journey that began with the establishment of the ASEAN–Japan Synthetic Rubber Forum in 1973.

Japan's robust foreign direct investment in ASEAN, bolstered by the Plaza Accord in 1985, has fortified our economic partnership and propelled ASEAN's transformation from a production hub to a global consumption powerhouse with a remarkable \$3.6 trillion GDP and a burgeoning centre of innovation. Even amid the global pandemic, our resilience has shone through, fostering an expansion in the adoption of digital services.

Emerging digital technologies, such as robotics, artificial intelligence (including generative AI), and blockchain, hold the potential to redefine both business and society. This book emphasises the urgent need for swift and effective adoption of these technologies, which are pivotal for achieving inclusive and sustainable regional growth. Special attention is given to the development of human resources capable of harnessing these digital technologies, addressing the digital skills gap that could otherwise hinder growth and exacerbate income disparities.

Today, ASEAN is experiencing phenomenal economic growth, driven in part by its vibrant and dynamic young digital generation. This momentum underscores ASEAN's tremendous potential for the future. However, challenges persist, including disparities in physical, human, and social capital development across countries, urban and rural areas, and industries.

Conversely, Japan, despite having one of the most aged demographic profiles globally, remains a beacon of advanced technologies and possesses significant human and social capital. These attributes position Japan as an

indispensable partner in harnessing ASEAN's potential. It is evident that ASEAN and Japan possess unique advantages and complement each other. Therefore, their economic cooperation must strive to deepen economic integration and co-create innovations for mutual benefit.

Aligned with these challenges and potential solutions, this book presents recommendations across four key themes: 'Promoting Trade and Investment', 'Encouraging a Digital and Innovative Society', 'Aiming for a Sustainable Future', and 'Building a Professional Workforce for the Future.' These recommendations pave the way for fostering a sustainable and resilient ASEAN–Japan economic partnership.

To bring this vision to life, ERIA is poised to launch the Digital Innovation and Sustainable Economy Centre, with generous support from the Japanese government. This centre marks the first step towards the co-creation of the ASEAN and Japanese economies.

As we commemorate this golden jubilee of friendship and cooperation, let this book serve not only as a testament to our shared history but also a blueprint for our journey towards a sustainable, resilient, and digitally empowered future.

Tetsuya Watanabe

Professor Tetsuya Watanabe

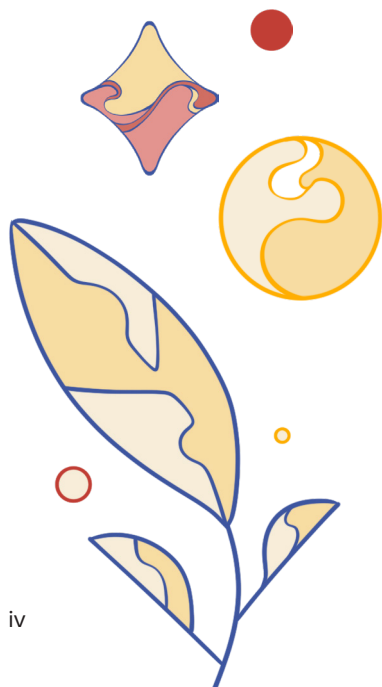


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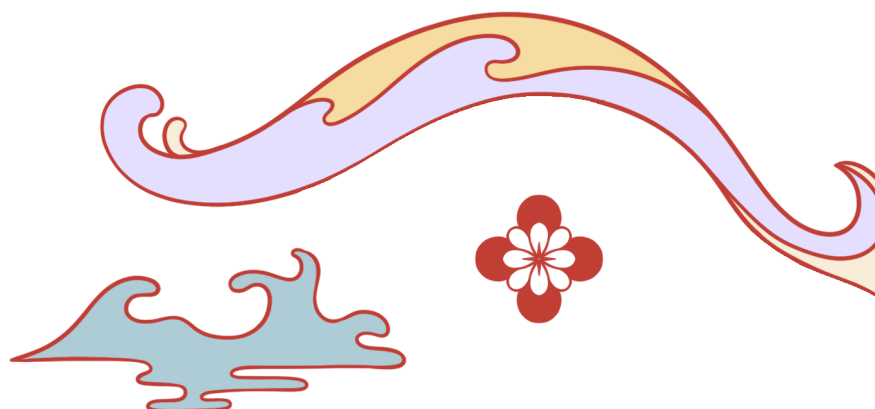
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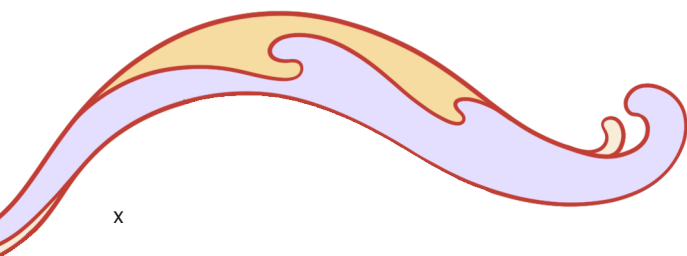
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Executive Summary

The formal relationship between the Association of Southeast Asian Nations (ASEAN) and Japan took root in 1973 with the establishment of the ASEAN–Japan Synthetic Rubber Forum. This bond was fortified in the late 1980s as Japan considerably increased its foreign direct investment (FDI) in ASEAN countries. The main impetus for this surge was the substantial appreciation of the Japanese yen following the 1985 Plaza Accord. The momentum of FDI from Japan continued to rise in the 1990s, driven by Japanese multinational companies' global production fragmentation, facilitated by advancements in information and communication technology.

ASEAN became increasingly positioned as a new production base for Japanese companies. Since that time, Japanese companies have been actively expanding into ASEAN and exporting products from the region to the rest of the world. This has helped lead to significant progress in the sophistication of industries in AMS as well as significant economic growth in the region. Today, ASEAN has a gross domestic product (GDP) of about \$3.62 trillion. It has transformed into a giant consumption centre from a production centre and is transitioning into an innovation centre. Although the pandemic restricted the movement of people, goods, and various other resources – leading to the stagnation of economic activity in both ASEAN and Japan – it also led to the creation of new digital services and further expansion of their use, as typified by e-commerce and cashless transactions. Furthermore, ASEAN's digital innovation is impressive with over 30 unicorns in 2021 and a rapidly growing number of start-ups led by young leaders.

ASEAN is currently witnessing remarkable economic growth, which is, in part, powered by its dynamic and tech-savvy young digital generation. This momentum signals the tremendous potential for even greater growth in the future. However, amid this process, there are still challenges to overcome. Disparities in physical, human, and social capital development persist across countries, between urban and rural areas, and amongst different industries. Addressing these challenges is crucial to ensure inclusive and sustainable growth throughout the region.

Despite Japan having one of the most aged demographic profiles worldwide, it boasts advanced technologies and significant human and social capital. These assets make Japan an essential partner in harnessing ASEAN's potential for growth. Recognising their unique advantages, it is evident that ASEAN and Japan complement each other perfectly. Their economic cooperation should focus on deepening economic integration and fostering collaborative innovations that bring mutual benefits for both.

In the spirit of cooperative synergy, it is crucial for ASEAN and Japan to recognise each other as indispensable partners in their respective economic development trajectories. With this understanding as a foundation, the following recommendations are proposed for the ASEAN–Japan Economic Partnership, aimed at fostering a sustainable and resilient future.

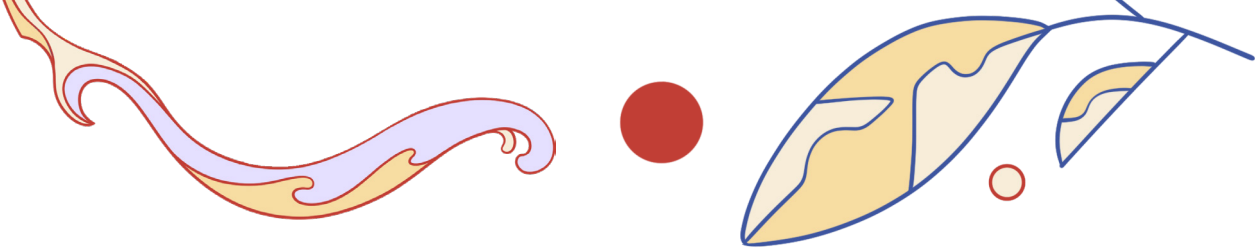
Promote Trade and Investment

Deepen ASEAN–Japan Economic Integration

Upgrade the ASEAN–Japan Comprehensive Economic Partnership. To promote ASEAN–Japan trade and investment, the ASEAN–Japan Comprehensive Economic Partnership (AJCEP) agreement should be upgraded. Coverage should be expanded to include provisions of the Regional Comprehensive Economic Partnership (RCEP) agreement, chapters on trade in services and investment should be upgraded, and the AJCEP Secretariat should be established for institutional support.

Equip companies with relevant information on economic partnership and free trade agreement applications. To improve the ease of doing business, ASEAN and Japan should introduce simple procedures to optimise the use of economic partnership agreements (EPAs) and free trade agreement (FTAs) amongst companies. A mechanism for optimising trade costs should be introduced, and a consultation service for inquiries from firms on EPAs and FTAs should be provided. Enhancement of private–sector trading platforms for this purpose should be considered.

Introduce a fast-track trading scheme under certain conditions. To benefit intraregional economic activities, ASEAN–Japan should consider introducing a multinational fast-track trading scheme for emergency relief supplies and specific industries. The fast-track mechanism would encourage rapid research and development and business development in the region, stimulate specific industries and technology areas, and improve the doing business environment. A project highlighting such procedures should be piloted, and early development of successful cases can be expanded to other areas of interest.



Accelerate efforts to prevent corruption amongst customs officials. To combat corruption in AMS, ASEAN and Japan should promote initiatives to improve customs compliance through the development of anti-corruption manuals and training programmes for customs officials. Additionally, minimising the opportunities for face-to-face interaction – by expanding the electronic scope of national single windows (NSWs) – and strengthening connectivity with private-sector trading platforms can be effective measures to reduce facilitation payments.

Strengthen Supply Chain Resilience

Build a data supply chain ecosystem to strengthen competitiveness of international production networks. ASEAN and Japan should build a data supply chain ecosystem to efficiently respond to supply chain shifts, maintain competitiveness, and comply with global requirements on sustainability and human rights issues. This can be achieved through discussions on data sharing amongst supply chain stakeholders. With the aim of establishing a competitive digital supply chain in ASEAN and Japan, ERIA has taken the initiative by convening a study group consisting of experts from business associations and academia.

Expand the scope of digitisation of the intraregional trading system. The digitisation of trade operations through NSWs and the ASEAN Single Window (ASW), including online processing of bills of lading and certificates of origin, should be expanded across ASEAN and Japan. System connectivity amongst the ASEAN Single Window, NSWs, and private-sector trading platforms should be enhanced. Moreover, the electronic exchange of certificates of origin should occur on a multilateral basis. It is important to promote this intracountry and multilateral digitisation using the same protocols as much as possible, and to promote these efforts with the necessary financial assistance and human resources.

Provide information on alternative sources of parts and materials for supply chain resilience. To achieve resilient supply chains, it is essential to promote a network that enables the utilisation of alternative sources for materials and inventory supply in case of disruptions. The use of advanced technologies, such as blockchain, can help achieve this goal. TradeWaltz, a private-sector trading platform from Japan, demonstrates how supply chain management functions can be backed by blockchain technology, enabling faster and more accurate tracking of trading items. The linkage between private-sector platforms and NSWs should thus be promoted, and necessary knowledge on implementing private-sector trading platforms should be transferred to AMS.

Encourage a Digital and Innovative Economy

Promote Start-ups

Build an ASEAN–Japan-wide entrepreneurial ecosystem. To achieve sustainable growth, ASEAN and Japan should collaborate to foster innovative entrepreneurship and associated activities. Access to markets, networks, leadership, finance, and diverse human resources are necessary for a thriving entrepreneurial ecosystem. Collaborative efforts, such as the ERIA Centre for Digital Innovation and Sustainable Economy, can serve as catalysts for the development of this ASEAN–Japan-wide entrepreneurial ecosystem.

Encourage Innovative Smart Cities

Promote citizen-driven smart cities. ASEAN and Japan should collaborate to develop citizen-driven smart cities to promote economic development and to enhance the quality of life throughout the region. A citizen-driven approach prioritises the needs and desires of residents, promoting social inclusion and enhancing social capital. Japan is already making advanced efforts towards this goal through its Society 5.0 concept. The Asian Inclusive Smart Cities conference can be a platform to showcase city-planning projects that respect Asian values and to develop new city evaluation indicators and standardisations to realise democratic, inclusive, and resident-centred urban development unique to Asia.

Secure Intellectual Property Rights

Introduce a unified scheme to enable intellectual property protection. ASEAN and Japan should introduce a unified intellectual property protection scheme, modelled after the European Union (EU) system, to ensure protection for innovative technologies and products created by companies and research institutes in the region. The scheme should establish a standard patent filing and examination system accessible to all applicants in ASEAN and Japan. Developed AMS can take the lead in establishing the scheme and should provide individual assistance to less-developed AMS through knowledge transfer and human resources.

Ensure Regulatory Reform

Introduce a regulatory sandbox system. A regulatory sandbox system in ASEAN and Japan should be introduced to encourage innovation activities. The system would allow regulatory authorities to authorise the demonstration of new technologies and to decide whether to implement the tested regulatory reforms. Requirements should be developed to allow foreign companies to apply for the system, and support for the creation of sandboxes in AMS by Japan and Singapore is required. ASEAN should also consider pilot projects in which the content demonstrated in a specific AMS can lead to regulatory reform throughout ASEAN in the future; thus, information sharing is important.

Aim for a Sustainable Future

Support Carbon Neutrality

Prioritise technology development, demonstration, and supply chain development towards carbon neutrality. To achieve carbon neutrality in ASEAN, policymakers should prioritise technology development, demonstration, and supply chain development while considering a mix of fossil fuel-fired power generation and clean energy options to suit the region. Japan should actively develop and demonstrate these technologies and provide affordable energy transition technologies to ASEAN, promoting advanced technologies to contribute to an environmentally friendly Asia and to gain new business opportunities. ASEAN and Japan should also work together to develop cost-saving supply chains that establish the foundation for the region's energy transition.

Promote financial support for energy-transition technologies. ASEAN and Japan should establish a common taxonomy that includes phased transition technologies to ensure the necessary financial support for ASEAN's energy transition goals. This requires updating and regularly expanding the Asia Transition Finance Study Group's taxonomy and the transition finance technology list from ERIA.

Improve energy efficiency and connectivity. To achieve ASEAN's energy transition goals, ASEAN and Japan must focus on improving energy efficiency and enhancing energy connectivity throughout the region. Capacity building for energy managers and experts, such as through the ASEAN–Japan Energy Efficiency Partnership, is essential. Enhancing energy connectivity through the ASEAN Power Grid would optimise electricity and accelerate renewable power generation; however, it requires establishing a power trading institution, as recommended by ERIA. The ASEAN Power Grid would benefit Japan significantly by enabling many Japanese companies to conduct business activities using green energy, enhancing their social reliability and brand, and creating more opportunities for Japanese companies as power producers in ASEAN.

Introduce emissions trading schemes. ASEAN and Japan should establish an intraregional emissions trading scheme to harmonise their efforts towards reducing carbon emissions. AMS should first consider introducing emissions trading schemes within their own countries with knowledge from Japan, which is already conducting demonstration experiments. Common rules for the future harmonisation of such schemes should also be established. A fund to support the carbon trading market in AMS should be established, and dialogue on this subject should be deepened between ASEAN and Japan. The EU's Carbon Border Adjustment Mechanism can serve as a reference for further developments.

Promote carbon credit initiatives. Japan should promote its bilateral credit efforts, which have been operating since November 2022, internationally. These

bilateral credit initiatives should become an international standard to further promote ASEAN–Japan cooperation. Additionally, Japan should cooperate with six remaining AMS in this regard in the future.



Foster a Circular Economy

Provide technology and know-how related to resources recovery and reuse. AMS should adopt EU-type uniform rules for resources recovery and reuse, with support for specific institutional design and operation in each country. Japan's technology and knowledge in resources recovery and reuse – refined through years of rules-making and operational experience – is instrumental in this regard. Effective waste collection rules and their proper implementation, predicated on the principles of extended producer responsibility, are imperative. Japan's experience with its Containers and Packaging Plastics Law can also provide a valuable model. Defining the roles and responsibilities of the entities involved in the recycling process, as shown in Japan's laws and regulations, could be effective in AMS.

Develop a more efficient system for distributing recycled products. ASEAN and Japan should establish industry standards for recycled products. An integrated market spanning across borders should be established to foster private sector participation. Established standards from the EU should be referenced, and they should be applicable to all businesses to create a larger market.

Reform the Food and Agriculture Sector

Prioritise dissemination of innovative technologies and human resources for resilient food and agriculture systems. ASEAN and Japan should collaborate on the development and dissemination of innovative technologies to promote resilient and sustainable agriculture and food systems. Human resources development for officials and stakeholders is also essential. Existing projects, such as the Greenhouse Gas Mitigation in Irrigated Rice System in Asia (MIRSA) and Capacity Building Project for Farmer's Organizations to Support the Development of Food Value Chains in ASEAN Countries, should be scaled up, with the view that there is no one-size-fits-all solution.

Facilitate the implementation of the ASEAN Regional Guidelines for Sustainable Agriculture in ASEAN. ASEAN and Japan should collaborate to implement the ASEAN Regional Guidelines for Sustainable Agriculture in ASEAN, with Japan's Green Asia initiative and ERIA's research project providing support. The active involvement of AMS is essential, and reporting project outcomes to relevant ASEAN bodies would pave the way for realising the aims of the guidelines.

Expand the scope of the ASEAN Plus Three Emergency Rice Reserve. ASEAN and Japan should work together to expand the ASEAN Plus Three Emergency Rice Reserve (APTERR) to ensure regional food security during short-term crises, such as the COVID-19 pandemic. The APTERR's recent successful release of rice from Japan and the Republic of Korea to mitigate emergency situations in several AMS highlights its potential.

Establish a new framework for food and agriculture cooperation. A new framework for the ASEAN Plus Japan Ministers on Agriculture and Forestry (AMAF+Japan) should be developed to enhance food and agriculture cooperation, as ASEAN-Japan cooperation approaches its 50th anniversary in 2023.

Increase Inclusive Health Care

Evolve universal health coverage schemes. ASEAN and Japan should work together to update their universal health coverage (UHC) schemes to match current demographic and epidemiological needs. Japan's successful composite approach to UHC should be considered, with priority given to administrative efficiency and expanding coverage to the informal sector and primary care. Collaboration between the public and private sectors, as well as research and development on antimicrobials and medical supply chains, is also recommended. Circulating technology, human resources, and experience are crucial for overall regional growth.

Develop the health care workforce and deploy technology. The numbers of the health care workforce should be boosted throughout the region, and a technology strategy should be embraced to address regional disparities and to improve patient outcomes. The UHC model should be leapfrogged through technology by providing base enablers, such as internet access and mobile wallets. Digitalisation efforts in various areas should also continue, including cloud; electronic medical records; and low-bandwidth health care apps for telehealth, decentralised patient education, and social media. Data should be collected to provide insights required to construct policies and to monitor implementation outcomes effectively. Creating consolidated health care databases, implementing digital transformation best practices, and integrating diverse health care information are necessary in providing better health care outcomes.

Tackle chronic diseases, and step up preventative efforts against infectious diseases. ASEAN and Japan should collaborate to address lifestyle and chronic diseases rampant in the region by increasing the number of available physicians, preparing the primary care community for more specialty training, and incentivising wearable medical technologies. For more niche domains like rare diseases and cancers, the volume of screening should be increased, and cross-border specialist-to-specialist networks should be established. To address

infectious diseases, access to immunisation programmes should be increased, and vaccine records should be digitised.

Utilise public–private partnerships to achieve universal health coverage. Public–private partnerships should be prioritised to leverage innovation and financial contributions, and the use of underutilised private insurance and social impact bonds should be explored towards the goal of UHC. It is also essential to establish national preventative care centres, increase health care literacy, promote preventative health behaviours, and enable self-care capabilities.

Endorse Sustainable Tourism

Promote and manage tourism as a tool for regional and local development and revitalisation. Japan should assist ASEAN in achieving sustainable economic growth by promoting community-based and people-centred tourism. This involves leveraging natural and cultural resources to promote regional and local development and revitalisation while also promoting and preserving the environment and cultural heritage.

Engage local communities. Japan should assist ASEAN in pursuing sustainable tourism development by sharing its experience of engaging local communities in the development and use of spaces for tourism and leisure. For example, collaborative management under the concept of 'forests for people' has been implemented in Japan, bringing about wider public participation in forest management.

Prepare for disasters. Japan should assist ASEAN in promoting sustainable tourism development by sharing its experiences in developing tourism in the aftermath of disasters. For instance, Japan's use of traditional ecological knowledge-based tourism helped in the recovery process following the 2011 Tōhoku earthquake and tsunami. Additionally, Japan's experience in reducing the vulnerability of international visitors to disasters through the use of digital technologies is relevant to ASEAN's emphasis on digital technologies as an enabler for sustainable tourism development.

Measure sustainable tourism. Japan's experience in establishing governance structures and generating relevant information for sustainable tourism policies should be leveraged to assist AMS. Japan's approach emphasises environmental protection as core to sustainable growth in the tourism sector, as evidenced by cooperation amongst stakeholders. Japan also developed the Japan Sustainable Tourism Standard for Destinations, which can provide useful insights for AMS in developing and adapting sustainable tourism criteria to their contexts.



Address the Digital Divide amongst Micro, Small, and Medium-Sized Enterprises

Close the gap. To bridge the digital divide amongst micro, small, and medium-sized enterprises (MSMEs), ASEAN and Japan should collaborate with the private sector, including Japan's multinational information and communications technology (ICT) solution providers. Addressing the business knowledge gap is essential for effectively utilising ICT tools; Japan's evidence-based policymaking initiative for micro and SME policies should serve as a useful model. Sharing knowledge and lessons learned would also enhance the business knowledge of MSMEs.

Build a Professional Workforce for the Future

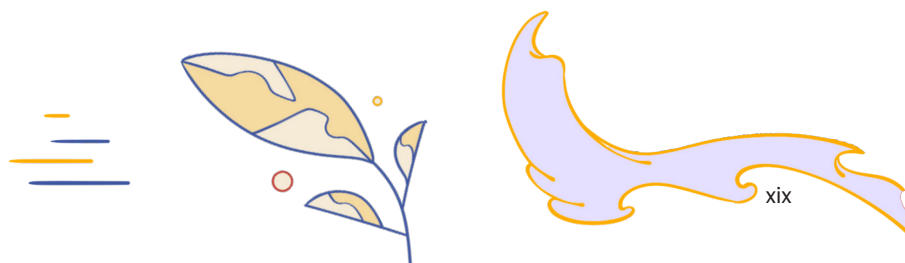
Address the Mismatch between Human Resources Skills and Industry Needs

Define human resources skill standards. ASEAN and Japan should define skills required for the future for human resources development programmes. Japan's Digital Skills Standard, which integrates business and digital skills, should be adopted throughout the region. Existing skills standards from the International Labour Organisation and EU should also be used as references. The framework for human resources targets should be applied to the diversity of digital application capabilities in AMS and continually updated to respond to industry demands. Reskilling and upskilling are essential to remain competitive.

Incorporate common skills into educational programmes. To ensure consistency between education and employment, ASEAN and Japan should integrate relevant skill sets into their educational programmes that are applicable to a wide range of businesses. This can be achieved by involving various educational institutions and linking to Japan's KOSEN programme. Lifelong learning programmes should also be developed and linked to the human resources exchange programmes and involve stakeholders from educational, business, and research institutions.

Foster Inclusive Education

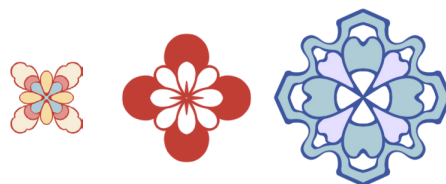
Enhance inclusive education through digital technologies. The ASEAN–Japan partnership should improve network infrastructure throughout the region with advanced technologies, such as 5G, and collaborate with public–private partnerships to provide inclusive education. Educators should commonly use digital technology to deliver lessons to maximise the benefits of digital education.



Ease the Mobility of Human Resources

Expand mutual recognition arrangements. Mutual recognition arrangements should be expanded to include more vocational qualifications to increase the mobility of human resources throughout ASEAN and Japan. The criteria for recognition should be carefully considered, however, to maintain the level of service and competitiveness of Japanese occupational qualifications.

Mutually recognise academic credits and degrees. Educational qualifications and professional standards should be standardised throughout the region under mutual recognition arrangements, the range of applicable personnel with specialised skills should be expanded, and the ASEAN–Japan credit transfer system should be enlarged. Additionally, mutual recognition of credits and standard study plans for training programmes should be implemented, building upon the existing ASEAN Credit Transfer System, and linked to the qualifications approved by the mutual recognition arrangements.



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Notwithstanding the extensive support and guidance, any errors or oversights found in this report are solely the responsibility of the authors.