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THE HABIBIE CENTER DISCUSSION REPORT

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26th TALKING ASEAN

Japan's Cooperation towards the ASEAN Economic Community

The Habibie Center, Jakarta
September 30, 2015

INTRODUCTION

JAKARTA – On Wednesday, 30 September 2015, The Habibie Center held its 26th Talking ASEAN dialogue entitled, *“Japan’s Cooperation towards the ASEAN Economic Community”* at The Habibie Center Building in Jakarta. This particular Talking ASEAN featured as resource persons H.E. Amb. Koichi Aiboshi (Ambassador of Japan to ASEAN), Prof. Dr. Tirta Mursitama (Head of International Relations Department, Bina Nusantara University), and Izuru Kobayashi (Chief Operating Officer of Economic Research Institute for ASEAN and East Asia) with Alexander C. Chandra, Ph.D. (Associate Fellow, The Habibie Center) as the moderator.

The objectives of this Talking ASEAN were to: (a) discuss the current cooperation between Japan and ASEAN in terms of economic cooperation; (b) address issues that may hinder Japan’s cooperation with ASEAN towards the establishment of the ASEAN Economic Community; and (c) give recommendation for policy makers to strengthen economic cooperation between ASEAN and Japan.

This discussion report summarizes the key points of each speaker as well as the question and answer session that followed.

SPEAKERS' PRESENTATION

Ambassador Koichi Aiboshi



Ambassador Koichi Aiboshi - Ambassador of Japan to ASEAN

The first to speak at the Talking ASEAN dialogue was Ambassador Aiboshi. His Excellency started his presentation by explaining that the first contact between Japan and ASEAN happened in 1973 through the establishment of Japan-ASEAN Forum on Synthetic Rubber. At that time, Japan was exporting rubber from ASEAN. In 2013, Japan and ASEAN celebrated its 40th anniversary of Japan-ASEAN Friendship and Cooperation in Tokyo. During the Japan-ASEAN Commemorative Summit, there were four vision statements issued, namely: (1) partners for peace and stability; (2) partners for prosperity; (3) partners for quality of life; and (4) heart-to-heart partners. Cooperation between ASEAN and Japan had been getting stronger as Japanese Prime Minister Shinzo Abe recently reiterated his country's commitment towards ASEAN through the Five Principles of Japan's ASEAN Diplomacy.

In terms of trade, Japan was the third largest trading partner for ASEAN after China and the EU. In terms of investment, Japan was the second largest investor after the EU. On the other side, ASEAN was also an important partner for Japan. ASEAN was the second

largest trading partner after China and the third largest investment destination after the US and the EU. Japan's FDI to ASEAN has been increasing significantly since 2005.

ASEAN and Japan have been working together in various regional cooperation such as the ASEAN Regional Forum (ARF), the ASEAN+3 meeting started in 1996, the East Asia Summit (EAS), and Asia-Pacific Economic Cooperation (APEC).

Regarding the ASEAN Economic Community (AEC), Ambassador Aiboshi explained the four pillars of the AEC Blueprint and the progress of the AEC. One of the biggest challenges of the AEC was the elimination of non-tariff barriers (NTB) and non-trade measures (NTM). Japan had tremendous NTB in the past. However, Japan managed to remove it gradually through negotiations and consultations. As a continuation of the AEC Blueprint, ASEAN was working on the AEC Blueprint 2025.

Japan has been giving supports for the AEC through four areas, namely: (1) enhancing connectivity;

SPEAKERS' PRESENTATION

— Ambassador Koichi Aiboshi —

(2) narrowing the development gap; (3) economic partnership from AJCEP to RCEP; and (4) Japan ASEAN Integration Fund.

For the connectivity, Ambassador Aiboshi explained that there were three aspects of connectivity that should be enhanced: physical connectivity, institutional connectivity, and people-to-people connectivity. Japan also created a task force called Japan Task Force on ASEAN Connectivity comprised of Japanese government official, JICA, JBIC (Japan Bank for International Cooperation), and private sectors.

In the area of narrowing the development gap, Japan assisted the CLMV countries through many initiatives: Mekong River Commission, Greater Mekong Sub-region (GMS) Regional Economic Cooperation, Initiative for ASEAN Integration, Mekong-Japan Summit, Lower Mekong Initiative (LMI) Development, and Korea Mekong Foreign Ministers Meeting. Ambassador Aiboshi argued that building economic corridors helped smoothen cross border transportation.

Ambassador Aiboshi also explained the recent development of the Regional Comprehensive Economic Partnership (RCEP). His Excellency said that the initial deadline for the RCEP was meant to be the end of this year however it seemed no longer feasible to complete it by that time. However, all participating countries were at a meaningful negotiation stage. They needed some more months to wrap up the negotiations. His Excellency further said that the nature of the RCEP was different with the Trans Pacific Partnership (TPP). It was not an ambitious trade agreement but it would be meaningful. One of the issues among participating countries were some countries did not have FTA among themselves.

“Japan is the third largest trading partner for ASEAN after China and the EU. In terms of investment, Japan is the second largest investor after the EU.”

- Ambassador Koichi Aiboshi -

SPEAKERS' PRESENTATION

Izuru Kobayashi



Izuru Kobayashi - Chief Operating Officer of Economic Research Institute for ASEAN and East Asia

Izuru Kobayashi was the second speaker to speak. He began his presentation by explaining the trend of trade and investment between ASEAN and Japan in the past years. Both trade and investment had been increasing in recent years. In terms of FDI, Japan's FDI to ASEAN was bigger than Japan's FDI to China. The difference had been increasing for the past years. The FDI came from the Japanese companies that kept the money in the Southeast Asian region. This meant that Japanese companies reinvested the money in ASEAN. It underlined the fact that the Japanese companies were really attached to the ASEAN economy. It did not really change during the financial crisis in 2008 and there has not been much change in terms of Japanese investment to ASEAN.

Regarding ASEAN-Japan Economic Partnership, he explained about the Chiang Mai Initiative. It was a multilateral currency swap agreement between ASEAN, China, Japan, and South Korea that was made after the Asian Financial Crisis in 1997/1998. The initiative was essentially backed by Japan's and China's reserves to stabilize the currency in ASEAN countries.

The next one was the ASEAN-Japan Comprehensive Economic Partnership (AJCEP). It was basically an ASEAN FTA plus Japan. The negotiation was

concluded in 2007. Under the trade framework, Japanese companies operating inside ASEAN were able to use parts and components produced in Japan and produced the final products in ASEAN countries. After that, they could sell it to ASEAN member countries.

Mr. Kobayashi also explained his organization, Economic Research Institute for ASEAN and East Asia (ERIA). The idea to establish the institution came about in 2006. Then, ERIA was established in 2008. The formal establishment of ERIA was agreed upon by all the leaders at the 3rd East Asia Summit.

According to Mr. Kobayashi, AFTA is a very important attempt because it could attract a lot of attention from other countries which have relationship with ASEAN. Moreover, ASEAN created the ASEAN Industrial Cooperation in 1996 which was heavily supported by Japan. It was actually to increase the local procurement of ASEAN companies, more precisely, Japanese companies operating in ASEAN. Regarding the trade negotiation, actually the idea of the establishment of ERIA and RCEP came out under the same initiative by Japan. It is hoped that the trade negotiations will be concluded in 2016.

To conclude his presentation, Mr. Kobayashi argued that ASEAN needed to come up with something which they are able to communicate with external partner for further integration of the ASEAN economy. ASEAN had to come up internally on what kind of initiatives that they wanted to do.

“ASEAN needs to come up with something which they are able to communicate with external partners for further integration of the ASEAN economy.”

- Izuru Kobayashi -

SPEAKERS' PRESENTATION

— Prof. Dr. Tirta Mursitama



Prof. Dr. Tirta Mursitama - Head of International Relations Department, Bina Nusantara University

The last person to speak was Prof. Dr. Tirta Mursitama. He started his presentation by asking what ASEAN should do. According to Mr. Kobayashi, ASEAN should identify objectives on what ASEAN countries needed to do internally. If we saw the ASEAN scorecard, we still saw some problems although the achievement was almost 100%. Regarding the cooperation, he proposed that there should be a new point of view about ASEAN cooperation, ASEAN integration, Japan's Economic Cooperation, and cooperation with other ASEAN dialogue partners. Otherwise, the post-2015 would be meaningless because ASEAN relations with its dialogue partner were almost going nowhere.

It was important to identify more substantial cooperation among ASEAN and its dialogue partners, such as Japan. Therefore, he was interested to know what ASEAN really needed. He proposed to start it from the field, do empirical works on the ground, and not confine ourselves to our desks.

The second point that Prof. Dr. Tirta Mursitama asked was how we could measure the effectiveness of the ASEAN Economic Community 2015. Furthermore, he also emphasized the question of how Japan and dialogue partners could deal with issues such as capacity building. Capacity building could be done through sending people to Japan or other dialogue partners. He underlined that relations between ASEAN and Japan should be fruitful not only today but also for the next generation. It was important to find ways to further strengthen cooperation between Japan and ASEAN.

The third point for Prof. Dr. Tirta Mursitama was that he agreed with the idea of creating closer ASEAN integration by strengthening the idea of subregional development. Each country cannot develop by itself. He argued that we should start to evaluate subregional development programs by identifying the success and the failure parts in order to create better subregional development programs and narrow the development gap.

“Regarding ASEAN-Japan cooperation, there should be a new point of view about ASEAN cooperation, ASEAN integration, Japan’s Economic Cooperation, and cooperation with other ASEAN dialogue partners. Otherwise, the post-2015 would be meaningless because ASEAN relations with its dialogue partner are almost going nowhere.”

- Prof. Dr. Tirta Mursitama -

Q&A SESSION



Alexander C. Chandra - Associate Fellow at The Habibie Center and formerly Executive Director of the ASEAN Business Advisory Council (ASEAN-BAC), moderates the Q&A session.

Comment No. 1

What are the major achievements and major challenges with regard to working together with ASEAN?

Ambassador Koichi Aiboshi

We do really benefit from our bilateral cooperation. We have cooperation in political area. Furthermore, we also give contributions in the economic side which is really important.

Izuru Kobayashi

One of the major outcomes from the Japan and ASEAN cooperation is actually 50 years of peace. We did not see any major war in the past 50 years. For example, although Thailand and Cambodia had a problem but there was no major military conflict. As such, ASEAN has succeeded in creating common understanding. Regarding economic cooperation, Japanese companies still keep the money in ASEAN and they reinvest it in the region. Now, ASEAN is working on something for the post AEC-2015. In this regard, Japan is ready to give its contribution.

Comment No. 2

To Prof Tirta, although you mention that cooperation between ASEAN and dialogue partners are going nowhere but actually there are a lot of things progressing. Also, with regard to capacity building, they have done something. In addition to that, what actually do we need post ASEAN FTA?

Prof. Dr. Tirta Mursitama

Of course many programs have been done and according to the evaluation, we have already achieved something. But it is important to see how ASEAN enhance its economy to some extents, not only in trade and investment. I think Japan needs to change its strategy especially when the current world is changing and many countries are approaching ASEAN. I do not see any clear strategies from Japan that differs from the 1970s. We need to create unconventional approach. For example, in the case of haze problem. What can we do about that? We also should see the changing domestic interest or needs from each leader in Southeast Asian countries. The changing domestic, regional, or global environment may affect leaders' actions. It is also important for research centers like The Habibie Center to work together with the government, not as an implementer, but to monitor and to contribute in creating plans about the post 2015.

Comment No. 3

From the presentation, we know that one of Japan's contributions to ASEAN, in particular the ASEAN Economic Community, is by establishing ERIA. South Korea also tries to assist ASEAN as much as possible. However, South Korea works with ASEAN in general rather than bilateral cooperation. Regarding the TPP, what is the impact of the conclusion of the negotiation on ASEAN Economic Integration? Whether it is positive or negative since there are only four

Q&A SESSION

ASEAN Member States that join the negotiation. Furthermore, ASEAN integration is very slow compared to the EU. The progress is not really significant. What causes the slow speed of integration in ASEAN? How do you see this in the future?

Comment No. 4

What is the impact of the ongoing trade negotiations between Japan and China. How will this have an impact on the RCEP?

Comment No. 5

How is Japan's role in other areas related to economic growth? Such as fighting corruption, law enforcement, and bureaucracy reformation. This is because these aspects are very crucial for the economic growth. Furthermore, with the increase in FDI, how does Japan ensure that environmental and social safeguards are complied with in the projects funded by the Japanese government or companies?

Comment No. 6

First question, is there any monitoring and evaluation system from the Japanese government to measure the outcome and impact of the ASEAN-Japan cooperation? Second, if other dialogue partners work on similar issues, namely narrowing the development gap and connectivity, how to avoid overlapping projects among dialogue partners? Is there any mechanism to coordinate among dialogue partners?

Comment No. 7

In terms of geography, we can see clearly that ASEAN consist of mainland and maritime aspects. So far, we have Japan-Mekong Cooperation and Japan also contribute in the connectivity on maritime country. In

this regard, you can measure the emphasis between mainland connectivity and maritime connectivity. From the Japanese government perspective, which one is more emphasized? And how can maritime connectivity and mainland connectivity complement each other? Do you see it is likely to have the full implementation of the ASEAN Economic Community at the end of this year? Because some countries seem to not give any emphasis on ASEAN.

Ambassador Koichi Aiboshi

Regarding the TPP, if we do not include India and China, the negotiations will go faster however easier negotiations will not bring meaningful gains. In order to have greater gains we have to go through tough negotiations. India is really a promising trading partner for ASEAN. To start a meaningful negotiation, we have to include them from the very beginning although the negotiations may be a little bit hard.

TPP will cover so many areas, such as government procurement or intellectual property rights. TPP negotiation is indeed tougher than other FTA negotiations. TPP may bring fundamental challenges for the region. With regard to this, it will be interesting to see if President Jokowi decides to join the negotiations. In the case of ASEAN, there are still limited ASEAN Member States that join the trade negotiations.

In terms of political-security aspects, we have a working group on transnational crime issues, cyber-security issues. The Japanese government is also determined to pursue things such as the fight against government corruption.

In terms of FDI and social safety, when Japanese companies invest in a country, they will comply with domestic regulations and laws as well as regional safety nets. In the case of ASEAN, they comply with the Comprehensive Investment Agreement.

As a member of OECD, all projects supported by the government of Japan are in compliance with the OECD regulations. With regards to project

Q&A SESSION

report, there is a progress report made to the ASEAN Member States (AMS) and we do receive such progress report. We also ask the ASEAN member states to enhance transparency of the projects and programs.

We are trying to avoid unnecessary duplication. However, we invite other external partners to contribute in a project such as those in Mekong. Thus, we have Japan-China Mekong Policy Dialogue. Although the relationship between China and Japan was not good a few years ago however we could still maintain the dialogue.

With regard to Japanese business community in Indonesia, we admit that Indonesia has a huge market and huge population. As such, the business community really focuses on the domestic market.

Izuru Kobayashi

Some people argue that integration in ASEAN is too slow, especially for the economy. The criticism often occurs particularly when they compare it with the integration of the EU. Actually, integration in ASEAN is quite well-managed. In my understanding, the AEC is a process and a commitment to create a continuous improvement.

As for the maritime and mainland connectivity, it is important to enhance land connectivity because it is also good for island countries. Also, island connectivity provides good results for the mainland countries. Both are quite important and meaningful for not only the countries where the infrastructure projects are located but for other countries as well.

Prof. Dr. Tirta Mursitama

It is interesting to know that there is a subregional development projects, such as the Japan-China Mekong Dialogue. On a side note, we need some assessment on the social political aspect or impact on the AEC or projects related to Japan's investment in ASEAN countries.

Comment No. 8

What are the challenges in narrowing the development gap towards achieving more integrated ASEAN economy?

Ambassador Koichi Aiboshi

For the ASEAN integration, we do support ASEAN Member States, such as Cambodia. In the case of Cambodia, we need to consolidate Cambodia's domestic situation after the peace agreement in order to eradicate conflict. That is why we have been supporting Cambodia. Furthermore, we have to eradicate poverty in CLMV countries. We also have to upgrade the very weak infrastructure.

Izuru Kobayashi

Japan has indeed contributed to closing the gap in ASEAN.

Prof. Dr. Tirta Mursitama

Japan and other dialogue partners have programs in narrowing the development gap. However, one of the issues that may become a challenge is how to find the right partner. Changing bureaucracy or leaders in national and district level in each ASEAN countries, such as in Indonesia, may hinder the project implementation.

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