

Focus: Centripetal and Centrifugal Forces of ASEAN Integration (Summary)

Essay: “ASEAN Centrality”: Can ASEAN be a Part in the Indo-Pacific Order?

Tsutomu Kikuchi (Professor Emeritus, Aoyama Gakuin University)

While the competition between the United States and China over the regional order in the Indo-Pacific is intensifying, the region is now in transition to an inclusive and pluralistic regional order in which a diverse set of states and regional institutions also play an important role, and is not defined only by a few major power relations.

The role of the Association of Southeast Asian Nations (ASEAN) is significant in this transition process. With the support of countries outside the region for “ASEAN centrality,” ASEAN countries should use the various regional cooperation mechanisms they have established to set a concrete agenda for Indo-Pacific cooperation and encourage the participation of countries outside the region. Providing a potent ingredient for setting ASEAN’s agenda is the ASEAN Outlook on the Indo-Pacific (AOIP), which was adopted by ASEAN in 2019. ASEAN countries should further strengthen their national and regional resilience by implementing the programs contained in the document.

In doing so, ASEAN’s institutional capabilities can be strengthened by ensuring substantive linkages with the Quad (a forum among Japan, Australia, India and the United States). Supported by Southeast Asian countries with increased resilience, ASEAN can be part of an inclusive and pluralistic Indo-Pacific order.

1 Supply Chain Changes in ASEAN’s Machinery Industry

Kazunobu Hayakawa (Senior Research Fellow, Bangkok Research Center, IDE-JETRO)

This paper analyzes the changes of supply chains for ASEAN’s machinery industry using trade statistics. The analysis reveals the following findings. For general, electrical, and precision machinery, China’s share of trade in parts has been expanding in both imports and exports while the share of such trade within the ASEAN region and with Japan has been on the decline, with China emerging as ASEAN’s largest two-way trading partner in recent years. For transportation machinery, both parts and finished products are mostly exported within the ASEAN region, but China’s share of parts imports is gradually increasing even as that of Japan decreases. Most products across all industries are seeing an excess of exports from China, but there are also huge exports from ASEAN to China in a few specific items. This expansion of machinery trade between ASEAN and China is due more to China’s own growth than to growth on the part of ASEAN or bilateral factors such as the ASEAN-China Free Trade Agreement. Production and market expansion in China has led to an increase in ASEAN-China trade.

2 ASEAN's Pursuit of Inclusive and Sustainable Growth: Growing Expectations for DX and Startup Trends in the Financial Sector

Harue Shimato (General Manager and Chief Economist, South East Asia & Oceania Department, Mitsui & Co. Global Strategic Studies Institute)

The use of digital services has expanded within ASEAN as a growing population gains access to the Internet due to the widespread use of low-cost mobile devices, and the COVID-19 pandemic has accelerated this trend. The generally young demographics of the region will drive this trend, and the combined digital market of the major ASEAN countries is expected to grow to approximately \$600 billion-\$1 trillion by 2030, three to five times the size of the market in 2022.

While DX is making life easier for people in the region by alleviating and solving various social and business challenges, the income and livelihood gaps between populations with access to digital services and those without – i.e., the digital divide – are widening. Resolving this issue requires multifaceted approaches by both governments and the private sector.

Startups are particularly active players in creating digital services that address the unique challenges and needs of the region. Among these, the fintech sector has seen the greatest influx of capital. Fintech companies are providing solutions to the challenges of financial inclusion in ASEAN countries, while at the same time identifying the business opportunities that lie ahead. Japanese companies and investors are expected to contribute to the region's inclusive and sustainable growth by actively engaging in new business opportunities through DX.

3 Indonesia's Economic and Foreign Policies and ASEAN Integration

Yuri Sato (Executive Vice President, The Japan Foundation / Emeritus Research Fellow, IDE-JETRO)

The Joko administration in Indonesia is pursuing an industrial policy of “downstreaming” resources, i.e., building midstream and downstream resource processing industries domestically. China has emerged as an essential investor in implementing this policy. The policy runs counter to ASEAN economic integration, which has created an intra-regional production and trade network that transcends national borders. Meanwhile, ASEAN integration is a prerequisite for Indonesia's foreign policy, and Indonesia regards ASEAN as the center of inclusive cooperation in the Indo-Pacific region. For Indonesia, ASEAN serves as a foundation for maintaining neutrality toward extra-regional powers and exercising its bargaining power. With regard to China, Indonesia takes a firm stance on issues related to national sovereignty but otherwise maintains good relations and, as ASEAN chair in 2023, it has initiated negotiations with China on formulating a code of conduct for the South China Sea.

4 The US-China Conflict and the Globalization of Vietnam

Shunji Karikomi (Associate Professor, Faculty of Economics, Teikyo University)

Vietnam has been trying to ride the tide of globalization since the 1990s and it has steadily improved its investment environment as well as its access to the outside world by joining the WTO and building a diverse network of FTAs, thereby establishing a presence as a global production center.

With the US moving increasingly to “decouple from get out of China,” Vietnam's exports are expanding as it takes over China's exports to the US and production bases shift out of China, leading some to cynically suggest that Vietnam is the real winner in the US-China trade war. Going forward, however, Vietnam will not be able to continue enjoying such a favorable environment. It will need to upgrade its current export structure of importing intermediate goods from China and other countries and assembling and processing the products if it is to continue its economic development.

Given that the free trade system has been the backdrop for the sustained development of not only Vietnam but also ASEAN, it is imperative that ideas and wisdom be generated by parties other than the US and China so that the debate does not fall into a US-China dichotomy.

5 The 50th Anniversary of ASEAN-Japan Dialogue: How Japan Has Been Dealing with Southeast Asia

Mie Oba (Professor, Kanagawa University)

Japan's interest in ASEAN was weak for a while after its establishment in 1967, but relations between the two grew closer after the ASEAN-Japan Synthetic Rubber Forum in 1973, and the Fukuda Doctrine in 1977. In response to changes in the regional environment in the 1990s following the end of the Cold War and the expansion of ASEAN, cooperation progressed with a focus on integration in the ASEAN region as a whole, with Japan also contributing to the formation of regional institutions centered on ASEAN. In the 2000s, however, Japan's policy toward ASEAN began to be framed in the context of competition with China over regional initiatives. This trend has been reinforced since the 2010s by China's increased presence and the intensified strategic competition between the US and China, and cooperation with ASEAN countries now tends to be positioned within Japan's Free and Open Indo-Pacific (FOIP) framework. ASEAN is wary of being drawn into efforts to contain China, and there are growing expectations of Japan as a "third party" other than the US and China. Japan should strengthen its "equal" partnership with ASEAN and work together to build a new regional order and societies that support it.

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