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No. 244

25 May 2017

## **UTILIZING JAPANESE ASSISTANCE TO ASEAN TO FORM PRODUCTION NETWORKS AND DEEPEN INTEGRATION**

***Koichi Ishikawa***

- The creation of the ASEAN Economic Community (AEC) at the end of 2015 was a milestone and, over the medium to long term, the AEC has been steadily abolishing tariffs and achieving other successes.

*The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

- In addition to intra-regional integration itself, ASEAN's economic integration is aimed at participation in global supply chains, i.e., formation of production networks outside the region. ASEAN deserves high marks for following a model of 21<sup>st</sup> century economic integration that supports production networks.
- ASEAN is pursuing deep 21<sup>st</sup> century economic integration. Japan should support its efforts to create production networks and deepen integration, and should cooperate with ASEAN to reach accords on the TPP11 and RCEP.

ASEAN deserves high marks for following a model of 21<sup>st</sup> century economic integration that supports production networks. ASEAN will celebrate its 50<sup>th</sup> anniversary this year. The organization has expanded from its initial membership of five countries to its present membership of 10 countries with an overall population of 650 million and a nominal GDP of US\$2.4 trillion, and at the end of 2015 it established the ASEAN Economic Community (AEC). ASEAN has been regarded as the most successful model for regional cooperation among developing countries, but opinion on its economic integration remains divided. This author sees the creation of the AEC at the end of 2015 as a “stepping stone” and, though the goals of the AEC blueprint have yet to be fully achieved, the AEC has produced positive results in many areas over the medium to long term. Its greatest accomplishment so far has been the abolition of tariffs. Most important is that ASEAN has been pursuing a 21<sup>st</sup>-century approach to economic integration in forming production networks, and this can be regarded as successfully integrating developing economies.


ASEAN's economic integration has been given low marks by quite a few analysts, who cite the low percentage of intra-regional trade and the low AFTA usage rate. The intra-regional trade ratio (for exports) in 2015 was 24%, low compared with the EU (63%) and NAFTA (50%). However, one of the AEC's objectives is to become a dynamic and potent part of the global supply chain. Forming networks with parties outside the ASEAN region, i.e., expanding extra-regional trade, has thus also become an aim, and it would be a mistake to assess integration solely by the intra-regional trade ratio. AFTA usage rates vary

greatly among combinations of exporting and importing countries, but usage rates have been rising year by year. For instance, the usage rate for Thai exports to Indonesia was 66.1% in 2013, so viewing the usage rate as extremely low would be a serious underestimation.

Production networks have been formed not only outside the region but inside it as well. A prominent example is the network formed by the automobile industry using the Brand to Brand Complementation Scheme (BBC), the ASEAN Industrial Cooperation Scheme (AICO), and the ASEAN Free Trade Area (AFTA). Toyota Motor's IMV is one tangible consequence. Intra-regional production networks have been expanding to the CLM (Cambodia, Lao PDR, and Myanmar) countries as transportation infrastructure has been improved, progress has been made in eliminating tariffs, and wages have risen in Thailand, and a production network encompassing Thailand and nearby countries has been rapidly constructed.

Due attention should be paid to the fact that ASEAN is seeking 21<sup>st</sup> century economic integration. Richard Baldwin has given the name "21<sup>st</sup> century trade" to trade in parts and other intermediate goods among factories spanning numerous countries. Characterized by the formation of multinational production networks, this trade has made inroads in ASEAN as well since the end of the 20<sup>th</sup> century. 21<sup>st</sup> century economic integration tailored to 21<sup>st</sup> century trade requires not only trade in goods but also deep integration that includes the elimination of non-tariff barriers, the liberalization of trade in services, the liberalization of investment, intellectual property protections, competition policies, codes and standards, and trade facilitation. Issues plaguing the AEC include delays in eliminating non-tariff barriers, the extremely restricted MRA on codes and standards, and inadequate liberalization of trade in services at the moment, but deep 21<sup>st</sup> century integration is being steadily advanced to support further expansion of production networks.

Japan should support ASEAN's formation of production networks and deepening integration. With respect to production networks, Japan should advance parts industries that help establish supporting industries, promote logistics and other service industries, and encourage greater improvements to

transportation infrastructure in the CLM countries, and it should step up its cooperation in furthering deep integration via trade facilitation such as the ASEAN Single Window, the elimination of non-tariff barriers, for example, by implementing MRA in codes/standards, and the protection of intellectual property. The Trans-Pacific Partnership (TPP) Agreement should serve as a model for 21<sup>st</sup>-century FTA in terms of deep integration, and Japan should join with ASEAN in pursuing negotiations toward an accord on the TPP11, at the same time encouraging Thailand, the Philippines, Indonesia and other countries to participate. China and India as well as ASEAN are participating in the Regional Comprehensive Economic Partnership (RCEP), and this is crucial for underpinning production networks in Asia. An accord is expected to be reached by the end of this year through RCEP-X (modeled on ASEAN-X) and other flexible negotiations. 

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