

THE AJC'S CONTINUAL ENDEAVORS TO ENHANCE ASEAN-JAPAN ECONOMIC TIES



Masataka Fujita
Secretary General
ASEAN-Japan Centre

The ASEAN Promotion Centre on Trade, Investment and Tourism, also known as the ASEAN-Japan Centre (AJC), was established in 1981 by ratifying an agreement between the governments of the ASEAN Member States and Japan to embody the "Fukuda Doctrine" (1977) in their relationship. The doctrine emphasized, among other things, the significance of "heart-to-heart understanding" and "equal partnership" between members.

Since then, the AJC has been working towards their mission of strengthening economic partnerships between the ASEAN Member States and Japan in trade, investment and tourism, as well as promoting people-to-people exchanges between the two parties. Against a backdrop of evolving ASEAN-Japan relations and in coming years, the AJC

is expected to play a new role to further enhance ASEAN-Japan economic partnership and implement timely activities that well reflect the needs of the Member States.

Since I assumed the post of the Secretary General of the AJC in September 2015, I have been making efforts to transform it for the better. My mission is to reform and revitalize the AJC, both administratively and substantively, to make it more relevant, efficient, effective, impactful and results-based.

The AJC now mainstreams all its activities in line with sustainable development, which has become the basis for the global development paradigm following the adoption of the "2030 Agenda for Sustainable Development" by the United Nations in September 2015. In working towards this objective, the AJC will strive to accord greater priority to capacity-building and policy-orientation matters when formulating projects. It has also incorporated research and policy analysis programs in its activities and provision of policy recommendations to the ASEAN Member States. Additionally, by keeping its activities ahead of the curve and demand-driven, the AJC is able to avoid unnecessary duplication of work as well as initiate new activities, including the following:

TRADE PROMOTION

The AJC has started two new research



Promoting services trade: technical papers

programs pertaining to trade in services and new forms of trade. In the past, its trade promotion activities were focused on visible goods. However, trade in services now account for one-quarter of the total trade value, and are increasing in importance. Likewise, non-equity modes (NEM) of trade are now trending upwards in global trade. The AJC is working hand-in-hand with governments to identify opportunities and challenges, and provide policy suggestions on maximizing benefits and minimizing risks associated with liberalization of trade in services as well as new forms of trade.

INVESTMENT PROMOTION

In the past, the AJC conducted investment seminars that usually take the form of unilateral provision of information. Now, it places greater focus on bilateral policy dialogues instead. Such dialogues provide opportunities for high-ranking officials – represented by either the heads of state or senior ministers – to convey the latest information on new policies related to

direct investments to the Japanese business community. This allows the latter to share the problems they face, as well as propose policy suggestions to the former. The dialogues also serve to foster discussions leading to the formulation of strategic proposals on specific ASEAN investment policies and policies affecting investments in respective ASEAN Member States.



High-level policy dialogue between ASEAN high-ranking officials and Japanese investors (Cambodia)

TOURISM PROMOTION

The AJC is focusing on the objectives of sustainable development in the area of tourism as well. It has been organizing technical workshops for management-level stakeholders in tourism development in the ASEAN region, with the aim of updating their knowledge of the Japanese sustainable tourism market. The topics include a variety of tourism themes, such as cultural and heritage tourism, community-based tourism and accessible tourism. This year's theme is agritourism. The AJC's tourism program is also aimed at diversifying tour products and vitalizing communities in the ASEAN Member States through the recognition of product excellence (ASEAN Tourism Awards Japan) and distribution of knowledge on Japanese overseas travel trends (capacity-building activities), as well as "interpretation"



Workshop on sustainable tourism: Agritourism

training to preserve the unique cultures and environments of the ASEAN Member States.

PROMOTION OF PEOPLE-TO-PEOPLE EXCHANGES

In regard to this initiative, the AJC has been focusing its efforts on empowering ASEAN women entrepreneurs and rallying them to be part of its sustainable development drive. The AJC launched the ASEAN-Japan Women Entrepreneurs' Linkage Program (AJWELP) in 2016. This program incorporates various approaches that have been specifically designed to empower women entrepreneurs, such as creating platforms for them to connect with established companies that could become their pillars of support; enlisting successful women entrepreneurs to play the roles of mentors and technical/academic partners; and enabling them to render their knowledge and resources in support of each other. The third AJWELP will be organized in Kuala Lumpur, Malaysia, in January 2019.



ASEAN-Japan Women Entrepreneurs' Linkage Program (AJWELP) 2017 in Indonesia

THE AJC'S CONTINUAL REFORMATION EFFORTS

As the relations between the ASEAN Member States and Japan grow in importance, I believe the AJC's role as a promotion hub for businesses and people-to-people exchanges will become even more weighty as well. With respect to the roles it plays in new areas of focus, such as dealing with new agendas between ASEAN and Japan, including bilateral initiatives (e.g. environment and health), promoting ASEAN integration and narrowing development gaps, and strengthening outreach and PR activities, the AJC will be stepping up its reformation efforts in order to enhance its efficacy in furthering partnerships between the ASEAN Member States and Japan.

THE PARTICIPATION RATE OF ASEAN GVC IS THE SECOND HIGHEST AMONGST THE WORLD'S REGIONAL GROUPS

A study, entitled "Global Value Chains in ASEAN: A Regional Perspective", has been produced by the ASEAN-Japan Centre (AJC) to provide an in-depth analysis of ASEAN GVC, as well as practical advice for ASEAN government policymakers on how to maximize the benefits and minimize the risks associated with GVCs, in line with sustainable development.

Major findings of the study include the followings:

- **ASEAN GVC can contribute significantly to the region's economic development.** ASEAN value added exports created in-country (domestic value added – DVA) contribute nearly 33 per cent to the ASEAN region's GDP in 2018. DVA is the part of exports contributing to a country's GDP.

- **Foreign value added share in ASEAN exports is the second largest in the world after the EU.** Value added exports from ASEAN amounted to \$1,484

billion in 2018, 36 per cent or \$531 billion of which consists of imports from other countries, with 64 per cent or \$953 billion being the value created domestically (DVA). The value of imports integrated into a country's own exports, called foreign value added (FVA), corresponds to the upstream part of value chains.

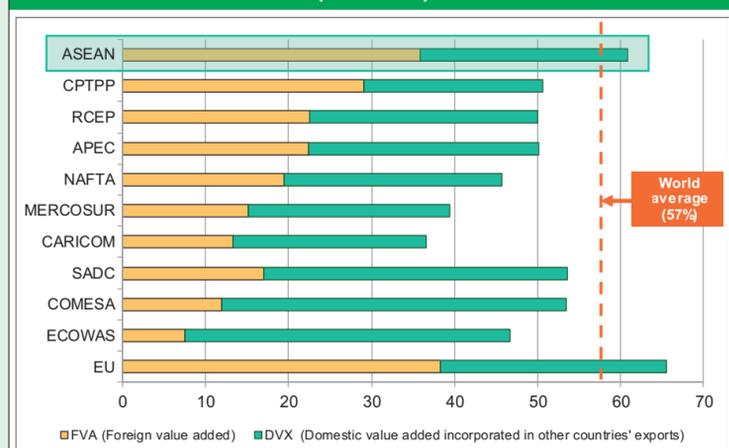
- **Exports from ASEAN can also be accounted as intermediate products in other countries' exports.** This downward part of value chains is also an important indicator of GVC. The combination of the upstream and downstream parts (domestic value added integrated into other countries' exports – DVX) makes up the total participation in GVC. **This participation rate of 61 per cent is the second highest among regional groups in the world (Figure 1).** In other words, two-thirds of ASEAN exports are associated with GVC.

- **Participation in GVC involves costs.** The contribution of GVC to sustainable development may be limited if the GDP contribution is small, due to large FVA, and if the countries are locked into low value-added activities.

Based on the findings, the AJC proposes a general policy framework required for promoting ASEAN GVC consisting of the following elements:

- ▶ Embedding GVC in overall development strategies and industrial development policies;
- ▶ Enabling GVC growth by maintaining a conducive trade and investment environment;
- ▶ Building productive capacities in local firms;
- ▶ Mitigating the risks involved in GVC participation, which requires a strong environmental, social and governance framework; and
- ▶ Aligning trade and investment policies, which imply the identification of synergies between two policy areas within the relevant institutions.

Figure 1. Regional groups' participation rate in GVC, 2018 (Per cent)



Source: ASEAN-Japan Centre, "Global Value Chains in ASEAN: A Regional Perspective" (Revised).
Note: CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership (11 countries); RCEP = Regional Comprehensive Economic Partnership; APEC = Asia-Pacific Economic Partnership; NAFTA = North American Free Trade Agreement; MERCOSUR = Mercado Comum do Sul; CARICOM = Caribbean Community; SADC = Southern African Development Community; COMESA = Common Market for Eastern and Southern Africa; and ECOWAS = Economic Community of West African States.

THE AJC'S ECONOMIC ANALYSIS OF ASEAN GVC

The ASEAN-Japan Centre (AJC) started its research and policy analysis program in 2016 to provide insights into the relevance, impact and patterns of value added trade and global value chains (GVCs) in selected industries across ASEAN and its Member States. The GVC database was created for this purpose, building upon the efforts made by other organizations, such as Eora and the United Nations Conference on Trade and Development (UNCTAD); and it is continuously being updated. Based on the database, 16 technical reports are produced over several years: one paper for each country, five industry papers (automobile, electrics, textiles and clothing, agribusiness, tourism) and one paper on the region as a whole. Five papers (Brunei Darussalam,

Philippines, Singapore, tourism and a regional perspective) were produced as of December 2018.

The above-mentioned papers and database can be downloaded from the AJC website:

<https://www.asean.or.jp/en/centre-wide/centrewide/en/>



SOME FOUR-FIFTHS OF SINGAPORE'S EXPORTS ARE OF FOREIGN ORIGIN, ACCORDING TO THE AJC'S NEW STUDY ON GVC IN SINGAPORE

Sixty-two per cent of value added exports from Singapore are created outside the country. If they include exports from foreign affiliates in Singapore, the foreign share would rise to 80%, according to a study released by the ASEAN-Japan Centre (AJC) on global value chains (GVC) in Singapore.

The paper, entitled "Global Value Chains in ASEAN: Singapore", is one of a 16-paper series on ASEAN GVC, which includes the following major findings:

- Singapore, a small city-state that had no major economic assets at the time of its establishment, has become a large, services-oriented economy as well as the largest exporter amongst ASEAN countries. However, it has the largest share of value added trade that is derived from other foreign countries rather than the local economy. Therefore, even though Singapore ranks first in ASEAN in gross export, it only ranks fourth in terms of value created within the country (or domestic value added).

- The share of foreign value added (FVA) in gross exports varies by industry, with an all-industry average of 62 per cent (Figure 2) and with changes in the countries participating in Singapore's GVC. The top two foreign countries providing inputs to Singapore – Japan

and the United States – lost the lead to ASEAN by 2005; but the loss of home-country exports was compensated to a certain extent by the international production by firms in these countries.

- Japan-Singapore relations in GVC incorporate many products; and as a result, Japanese products contribute to 6 per cent of Singapore's exports.

- As much as 80 per cent of the value added exports of Singapore are estimated to be of foreign origin (FVA + exports by foreign affiliates in Singapore).

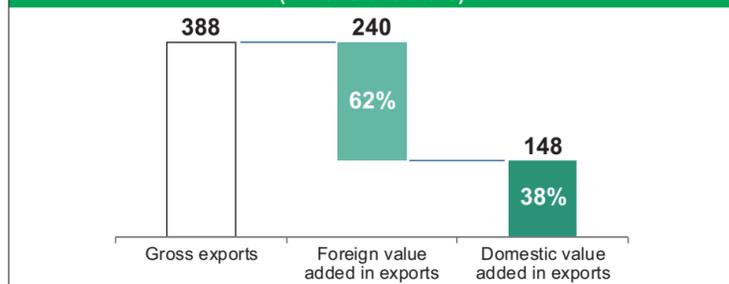
- The downstream part, or Singapore's exported products incorporated in other countries' export (DVX), of Singapore's

GVCs is the least extensive among ASEAN Member States because Singapore's exports are mainly for final demand, and high-tech products that are embedded in final products, and are less likely to be exported again.

- As Singapore's exports are distributed in global markets, the country's GVC extends substantially beyond ASEAN.

- In order to maintain the benefits from GVC for its economy, Singapore should take steps to upgrade its capacity to provide various functions, such as maintaining high levels of foreign direct investment (FDI) and distributing the benefits derived from innovation.

Figure 2. Value added exports from Singapore, 2018 (Billions of dollars)



Source: ASEAN-Japan Centre, "Global Value Chains in ASEAN: Singapore".

ASEAN-JAPAN CENTRE
(ASEAN Promotion Centre on Trade, Investment and Tourism)

Shin Onarimon Bldg, 1F, 6-17-19 Shimbashi, Minato-ku, Tokyo 105-0004 JAPAN
Tel : +81-(0)3-5402-8002 Fax: +81-(0)3-5402-8003 E-mail: toiwase_ga@asean.or.jp

<https://www.asean.or.jp/en/>

