

# The New Trilateralism in Asia

US-Japan-ASEAN Relations Under the Second Mahathir Administration: Issues, Prospects & Challenges

Panel II: Economic, Trade, Investment and Cultural Cooperation to Enhance US-Japan-ASEAN Interactions

*Paper 2: Strategies for Enhancing the Japan-ASEAN Economic Partnership*

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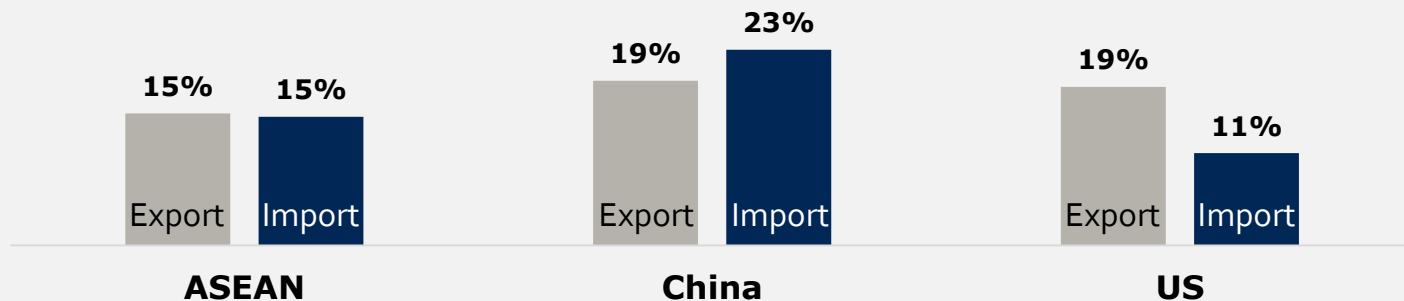


# Present Political Economic Realities

- Japan's economy is tightly integrated with US, China and European Union
- ASEAN still more significant to Japan as a production platform & investment destination although market is growing

## Japan Trade by Partner (% of Total)

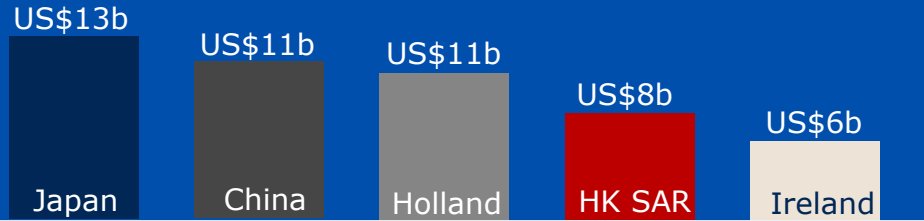
Japan MOF data



- China's rise overshadowing regional economic integration -- trade in goods & services, regional industrial & infrastructure development (Belt & Road)
  - i. China's total trade with ASEAN (2012-2017) increased by 4pp to 17%, while Japan's trade decreased 2pp to 9%
  - ii. ASEAN FTAs show stronger contributions from China (+54%) than Japan (+42%)

# Japan-ASEAN Economic Partnership

Japan still dominates extra-ASEAN FDI inflows into ASEAN, mostly in manufacturing, but China is rising fast (esp. given rapid trade surpluses vis-à-vis ASEAN)

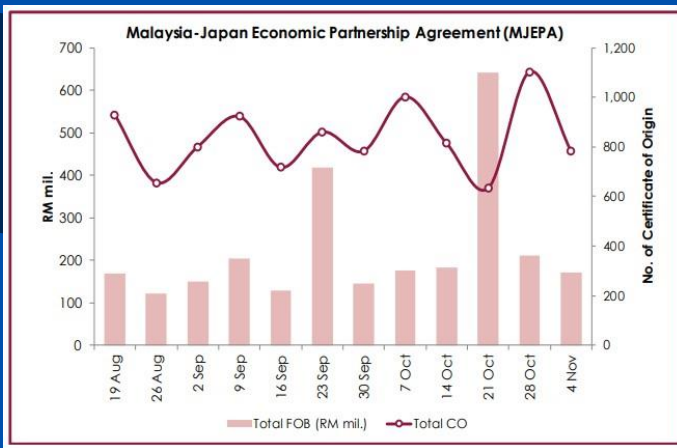


**Top extra-ASEAN FDI sources, 2017 figures**

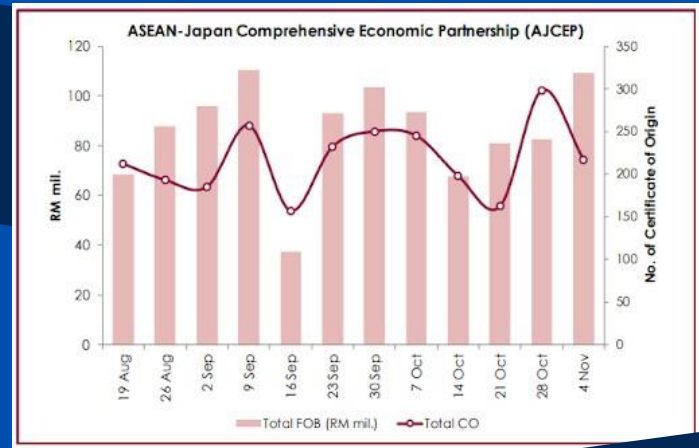
ASEAN Trade Statistics

Malaysia utilises **MJEP** PCOs more than **AJCEP**

**MJEP**



**AJCEP**



# The China Factor

China's accession to WTO (2001) drew substantial Japanese (and other) direct investment away from ASEAN

Foreign multinationals relocated supply chains to China changing intra-regional trade as a result

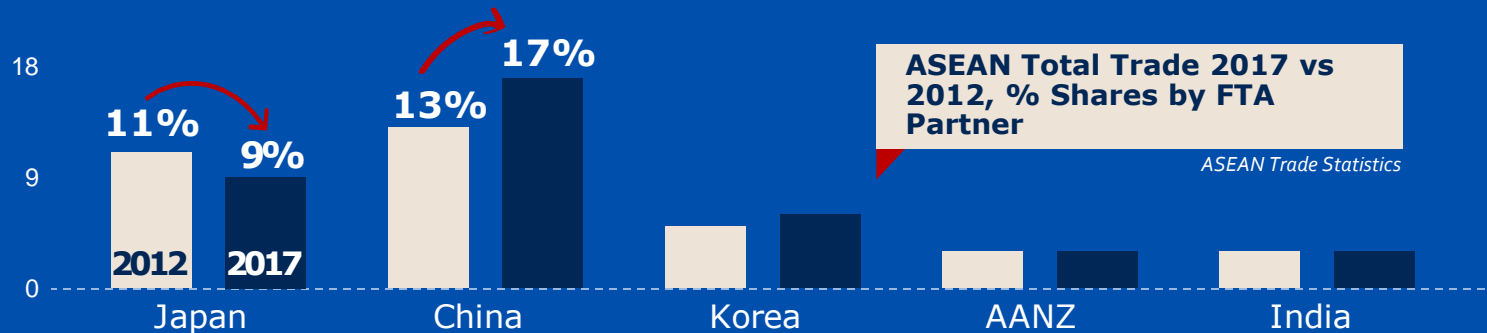
ASEAN economies have become more synchronised with China



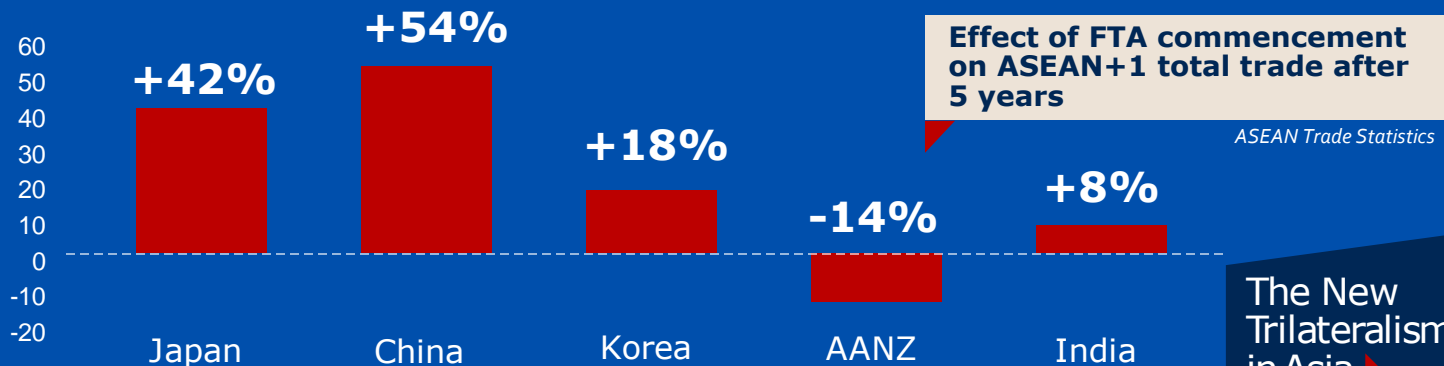
Malaysia Department of Statistics, METS Online

# A Stronger Japan-ASEAN Economic Relationship?

In the past 5 years to 2017, ASEAN-Japan total trade as a % of ASEAN total trade has declined, while the share of ASEAN-China total trade has increased, despite the numerous bilateral trade agreements ASEAN member states have with Japan



Looking at the ASEAN plus one FTAs with both Japan and China, 5 years after each FTA was in force – the Chinese FTA contributed to a **54% increase** in total ASEAN-China trade, while the Japanese FTA only produced a **42% increase**.



# A 21<sup>st</sup>C ASEAN-Japan Economic Relationship

1. Japanese production networks long established (i.e. near stasis) in ASEAN region
2. Chinese foreign direct investments driven by rising domestic costs, labour scarcity, resources and, recently, US-China trade conflict.
3. Significantly, growing momentum of China's BRI and Economic Belts
4. CPTPP likely to lead to trade and investment diversion against non-participating ASEAN countries

1. Difficult US-Japan bilateral trade negotiations may make it more imperative to **strengthen** ASEAN economic relations
2. Under Key Area 3 of Japan's Free and Open Indo-Pacific Concept, Japan will pursue a “**quality growth**” strategy comprising
  - Quality infrastructure and business environment
  - Overseas expansion of local governments, SMEs, etc.
  - Promotion of Japan's technologies & systems
  - Nurturing industrial human resources

# A 21<sup>st</sup>C ASEAN-Japan Economic Relationship

## a. BILATERALISM

- Relationship with major economic powers e.g. China, US and Japan
- Key issue: Whose rules? Managed trade or fair trade?
- This cannot disappear over time. Major powers will continue to assert influence in this region in one way or another

## b. PLURILATERALISM

### b. Stronger rules-based plurilateral arrangements i.e. CPTPP (← JAPAN)

- There is no one single dominant nation in these set-ups
- If these initiatives fail, there will be other means to integrate like-minded countries via various means

21<sup>st</sup>C ASEAN-JAPAN CEP



### c. Weaker plurilateral arrangements i.e. ASEAN FTA, ASEAN +1 EP & RCEP (← JAPAN)

- Building block approach will continue to be the path of least resistance for integration in the region vs a clean slate approach
- Key issue: member countries are able to substitute tariffs for NTBs

MULTILATERALISM

← JAPAN

The New  
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# A 21<sup>st</sup>C ASEAN-Japan Economic Relationship

Key Takeaways: Japan “quality growth” strategy under FOIP can/should be the basis for reformulating a 21<sup>st</sup> Century AJCEP

Other key areas in FOIPS:

- Developing an environment for international peace, stability and rule of law
- Addressing global issues toward achieving SDGs and promoting human security

Consonant with ASEAN’s key aspirations under its three pillars (Political-Security Community, Economic Community, Socio-Cultural Community)



# A 21<sup>st</sup>C ASEAN-Japan Economic Relationship

## 21<sup>st</sup> Century ASEAN-Japan CEP Cover 3 levels:

1. Liberalization (tariffs, services, investment)
  - ASEAN-Japan CEP should provide avenue for deeper economic engagement with least-developed countries in ASEAN (i.e. CLM)
  - Cover greater tariff, services, and investment liberalization via periodic AJCEP reviews (currently no significant review since AJCEP commencement)
2. Rules-making (deeper liberalization i.e. behind-the-border issues)
  - CPTPP will become the 'de facto' standard for AJCEP particularly with ASEAN member states who are ready to move forward with high-quality rules-based agreements
  - RCEP is one notch higher than AJCEP in term of quality
3. Infrastructure, human & technological capacity building
  - Calibrated to the requirements of individual ASEAN member states



# THANK YOU

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