

**ASEAN's Role and Partnership with Japan in the Post-Covid-19 Asia
Video Speech at the 46th ASEAN-Japan Business Meeting (AJBM) (online)**

March 17, 2021

Takehiko Nakao

Chairman of the Institute, Mizuho Research Institute

1. Opening remark

- It is a great pleasure that this meeting to discuss the stronger partnership between ASEAN and Japan is held at this time, although it is online due to Covid-19. This meeting reflects the strong expectations on both the ASEAN and Japanese sides.
- I really appreciate the efforts by AJBM Co-Chair Tan Sri Dato Azman Hashim, ASEAN Secretariat, H.E. Dato Lim Lock Hoi, AJBM Co-Chair Mr. Nobuhide Hayashi and other people in charge to prepare this meeting.
- Today, I would like to discuss the ASEAN countries' economic outlook, issues going forward, new business chances in the post-Covid-19 world, the partnership between Japan and ASEAN, and the ASEAN's role in the international community.

2. ASEAN economic outlook

- The ASEAN10 countries and Japan were affected greatly by Covid-19. It will take more time for the rollout of vaccines and for the economy and society to return to normal.
- The situation differs from country to country. In Singapore, Thailand and Vietnam, infections are much more under control. In Vietnam, GDP growth in the fourth quarter of 2020 over the previous year was 4.5%. For calendar year 2020, Vietnam achieved growth of 2.9% over the previous year, which is comparable to China's 2.3% and Taiwan's 3.1%. It was one of the few countries achieving positive growth in 2020.
- We can expect a rebound in 2021 from 2020. Mizuho Research Institute projects that the ASEAN5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam) will grow 5.2% this year, compared to the contraction by 3.5% last year. To what extent it can rebound and how robust the rebound is, depends upon the situations of infections in Asia and the countries of the world.
- Of course, the situation also differs by industrial sector. For instance, in recent years in Asia, the number of tourists from within the region and outside the region

has increased. Tourism's revenue to GDP in 2018 was 12% in Thailand and 6% in Malaysia. As such, tourism has become an important industry. This is supported by the increase of the middle class, low-cost carriers (LCC), and spread of information through social media and reservations by digital reservation systems. Even though a recovery in tourism is not expected any time soon, I believe that the needs of the people toward tourism are very strong, and that tourism should rebound significantly once concerns regarding Covid-19 are gone.

3. Reflections on ASEAN's development history

- Today, the combined GDP of ASEAN countries exceeds \$3 trillion, which is about 60% of that of Japan and more than one-fourth of that of China. It is a huge economic bloc with a population of 670 million. It also has great potential for further growth.
- In January 2020, just before my departure from the Asian Development Bank (ADB), the ADB published a book for Asian development history titled *Asia's Journey to Prosperity*. It has 15 chapters with an ambitious coverage of the state versus the market, industrial transformation, the role of technology, human capital, income distribution, gender, and climate change. It includes a detailed narrative of the development of the ASEAN countries. While it was published physically as a book, it can also be downloaded from the ADB website.
- As discussed in this book, the ASEAN countries grew thanks to eight factors, as with the other countries of Asia. The first is investment in infrastructure, such as electricity, roads, ports, and water and sewerage. The second is investment in education and health. The third is an external-oriented trade and investment regime to which many countries shifted from the import substitution policy of the past. The fourth is macroeconomic stability. The fifth is public governance, including the role of capable bureaucracies. The sixth is policies to aim at inclusive growth including through agriculture land reforms and public support to poor people. The seventh is a clear vision for the future together with a strong leadership, and the eighth is a favorable international environment and political stability.
- When I had the honor to meet Prime Minister Mahathir in 2013 just before I became ADB President, I asked him what the secret to Malaysia's rapid growth was. He responded immediately that it was investment in education and infrastructure.
- It is also important that the ASEAN countries have pursued sound fiscal and monetary policies including the independence of central banks since the recovery from the Asian Financial Crisis in the late 1990s. ASEAN's growth has also been

supported by the further liberalization of trade, investment and service sectors through the ASEAN Economic Community (AEC) and FTAs (free-trade agreement) between ASEAN and the non-ASEAN countries.

- In ASEAN countries, consumption and investment are increasing on the demand side. The expanding middle class is eager to spend on durable consumption goods such as electric appliances and non-durable consumption goods including cosmetics and apparel. The need for investment including production facilities and urban infrastructure is also very large. On the supply side, ASEAN possesses strong supply chain networks in East Asia, together with Japan, China, and South Korea.
- ASEAN countries have achieved stable growth even after the Global Financial Crisis. If ASEAN countries can continue to follow the sound and appropriate policies, they can grow further to a new stage.

4. Challenges for ASEAN countries to pursue sustainable growth

- Japan faces many challenges including the promotion of innovation, how to cope with the problems arising from the declining and aging population, and ways to foster gender equality. ASEAN countries also face numerous challenges in the pursuit of strong and sustainable growth going forward. Japan can support ASEAN countries in tackling these challenges and cooperate on common issues.
- The first challenge is how ASEAN countries can return its fiscal and monetary policies to a stable trajectory after the Covid-19. It is also important to maintain the health of the financial system which have been affected by the Covid-19 pandemic and new technologies.
- The second is addressing the widening income gap. In many countries, the gaps between people with high education and skills and those without, and the “haves” and “have-nots” of wealth are widening. Countries should further aim at inclusive policies to fill the social gap through public education, public health services, other fiscal expenditures and progressive taxation.
- The third challenge is how countries such as Malaysia and Thailand can avoid the “middle income trap”. Countries are not destined to be ensnared in the middle-income trap at least in Asia as exemplified by the success of South Korea, Singapore and Taiwan show. It is necessary for countries to enhance the level of education and industries drawing on market functions.
- The fourth is efforts to pursue sustainable growth, by addressing climate change and environmental protection. Asian countries themselves have a very strong resolve to participate actively in international efforts for the mitigation of carbon

dioxide emissions as well as adaptation to climate change.

- The fifth is how ASEAN countries can respond to geopolitical issues which stem from tensions between the US and China and the rapid rise of China. ASEAN countries, as well as other Asian countries, do not want to be forced to choose between the US and China.
- We should understand that Asia's high growth has been enabled overall by a friendly geopolitical environment and a free trade and investment regimes of the region and the world, although there were such conflicts as the Vietnam War and domestic conflicts in Cambodia. We should make maximum efforts to maintain such favorable conditions.
- As for China, it is my belief that there is no need for it to show an assertive attitude externally because it is already a great country comparable to the United States. Today, China is recognized by the international community as a major power comparable to the United States in terms of the economy, commerce, finance, technologies and the military. China can gain more respect by taking a moderate attitude.
- There is no need for the United States and China to be obsessed by the idea of the "Thucydides Trap", which suggests a potential for conflict between the emerging power and the existing hegemon. We should reflect that we do not live in a world of colonialism, imperialism and racial discrimination which had a damaging effect upon China since the mid-19th century. We now know that trade and cooperation between countries are to the benefit of countries and that conflict afflicts great losses and tragedies.
- Japan is an important ally of the United States. Japan is also a country which learned a great deal from China in its history and served as a model for modernization since the latter half of the 19th century, and supported China's development since the reform and opening in the late 1970s. Over years, the ASEAN countries have built strong relations with the US, Japan and China. Japan and ASEAN can play important roles in pursuing the stability of Asia and the international community.
- Finally, the sixth is political stability in each of the ASEAN countries. Myanmar started its democratization process and economic reforms in 2008, leading to the lifting of sanctions by the US and others, its re-engagement with the international community, and the flow of new aid from donor countries, the ADB and the World Bank. Myanmar has received large foreign direct investment, and enhanced trade relations with the countries of the world. These have all led to its high growth.
- Many countries of the world, including Japan and ASEAN countries, wish to support

Myanmar's development. I hope that Myanmar will avoid a situation that would make it difficult for its friends to provide such support.

5. New business chances after Covid-19

- Today's agenda of the ASEAN-Japan Business Meeting (AJBM) are "New opportunities in the 'new normal'", "Rebuilding the value chain in Asia during/after Covid-19" and "Co-creating innovation for overcoming social issues". Covid-19 has caused many difficulties for the countries of ASEAN, Japan and the rest of the world. While these difficulties are still continuing, we are seeing changes that may lead to opportunities for future economic and social development.
- New services to replace peoples' mobility and contact are increasing during the Covid-19 pandemic. Demand related to digital technology to provide such services is rapidly increasing. Indeed, these developments have had a positive impact on the economies of the world.
- Examples of such technologies include tele-health, remote education, video-conference tools for teleworking, e-commerce with increasing users and products, cashless payments, video streaming and online gaming in the entertainment industry, automation in logistics, and optimizing of efficiency in production and transport through data sharing in the supply chain.
- Within ASEAN, digitalization has accelerated, creating new business models such as food delivery, Internet media, and vehicle dispatch services. Singapore is a leader in digitalization in the world in such areas as e-learning, automated car transportation and contact tracking applications.
- The acceleration of digitalization in the world is lifting exports of goods by the ASEAN which is the production center for electric and electronic products. Production and exports of software from the ASEAN is growing. In the Philippines, which uses digital technology for Business Process Outsourcing (BPO), the ratio of BPO to GDP is already around 10%. Services once thought to be non-tradable goods have become tradable goods via the Internet. ASEAN countries can expand various service industries such as cyber security and digital technology-related design.
- It is also an opportunity for ASEAN countries that supply chains are being reviewed due to a renewed awareness of the risks associated with excessive hyper-globalization. Furthermore, companies are reconsidering supply chains in light of the Covid-19 pandemic and US-China tensions. The relocation of production sites for electronic products such as personal computers and mobile phones and light industrial products such as shoes and textiles which have been concentrated in China would benefit ASEAN countries.

6. Promoting the partnership between the ASEAN and Japan

- Japan and ASEAN countries, both in the government and corporate sectors, can promote partnership in the use of digital technologies, review of supply chains, tackling of social issues and the pursuit of renewable energy and energy conservation for climate actions.
- Regarding supply chains, many Japanese companies are considering and implementing the relocation of production sites and procurement centers from China to ASEAN countries including those for digital-related products. At the last AJBM in December 2019, we discussed the partnership model for the future, focusing on digital technology and startups. As a matter of fact, many Japanese startups are making inroads into ASEAN countries in the areas of fintech and mobility using AI.
- Japan has supported Asia's development in the post-War period including technological cooperation, yen credit and grants, foreign direct investment and trade. This was partly based on remorse over Japan's actions during World War II. The development of supply chains in East Asia was supported by Japanese foreign direct investment in Asian countries since the 1980s, and by making the Japanese market the destination for Asian exports. For many ASEAN countries, Japan was the largest export destination at one time. Today, China is the largest export market for ASEAN as a whole. Even so, Japan still is the destination for 8% of ASEAN's exports (2019), which ranks third place after China and the US.
- Today, Japan is in the position to be re-energized by ASEAN countries. ASEAN's share of Japanese exports is 15%, only trailing the United States at 20% and China at 19% (2019). The number of tourists from the ASEAN5 countries plus Singapore to Japan was 3.8 million in 2019, which is 6.5 times as much as 10 years ago, accounting for 12% of the total of 31.9 million. The number of foreign students studying in Japan increased from 133 thousand in 2009 to 312 thousand in 2019, of which 55% were students from ASEAN countries.
- ASEAN's role in Asia and the world is probably greater than what the people of ASEAN believe it to be. When ASEAN was started in 1967 with the five original members, the main purpose was to cope with the intrusion of communist influence to Southeast Asia and to build friendly relations among the member countries when there were issues such as border disputes. Since then, ASEAN has expanded its areas of cooperation to economic fields such as trade, investment, and services, and helped the market-transitioning economies of the CLMV (the four countries of Cambodia, Laos, Myanmar and Vietnam) since their joining in the 1990s. In 2015, the ASEAN Economic Community (AEC) was launched.

- In addition, I should note the importance of the ASEAN as it serves as a platform for international cooperation. Without the ASEAN, it would have been difficult to achieve such economic frameworks as ASEAN + 3 and ASEAN + 6, and the ASEAN Regional Forum (ARF), which discusses security issues by engaging such countries and an organization as the US, EU, Russia and North Korea in addition to ASEAN + 6. ASEAN's role in ensuring the stability and prosperity of Asia is increasing amid the ongoing tensions between the US and China.
- On November 15, 2020, 15 countries including the ASEAN10, Japan, China, South Korea, Australia, and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP). RCEP covers 30% of the world in terms of the population, economy and trade. It is the world's largest mega FTA and covers services and e-commerce. RCEP can be a new basis for stronger partnership between ASEAN countries and Japan.
- In concluding, I hope that this meeting will actively discuss various ways to strengthen partnership between Japan and ASEAN in the post-Covid-19 context at both the government and private levels.

Mizuho Research Institute Ltd.

This publication is compiled solely for the purpose of providing readers with information on a free-of-charge basis and is in no way meant to solicit transactions. Although this publication is compiled on the basis of sources which we believe to be reliable and correct, Mizuho Research Institute does not warrant its accuracy and certainty. Readers are requested to exercise their own judgment in the use of this publication. Please also note that the contents of this publication may be subject to change without prior notice. In the event readers do not wish to receive information free of charge from Mizuho Research Institute, readers are requested to notify their wish to suspend subscription.