

Policy Speech by Minister of Economy, Trade and Industry HAGIUDA Koichi
“The Next Chapter of ASEAN and Japan Economic Cooperation in the Post-Pandemic Era”

10th January 2022

1. Opening

- My greetings to you in Indonesia and the ASEAN region. I am Hagiuda Koichi, Minister of Economy, Trade and Industry of Japan. It is a great honor for me to deliver my first policy speech overseas from Jakarta. I thank the host, Ambassador Dino Patti-Djalal of FPCI and President Nishimura of ERIA, and others for the organization of this public discussion.
- Japan and ASEAN have been working together, as good friends and partners in Asia, toward the peace and prosperity of the region. It makes me especially happy that my first place to visit since my appointment is the Southeast Asia including Indonesia.
- Though the current pandemic is still impacting hard on our economy and society, it became an opportunity for Japan and ASEAN to reaffirm our bonds founded on a large number of shared interests among us. From medical supplies to automobile parts, we fully recognized the need for Japan and ASEAN to work together to make entire supply chain resilient. On the other hand, the close relationship was demonstrated between Japan and ASEAN in developing the “ASEAN-Japan Economic Resilience Action Plan” which was put together within the short span of 4 month since the surge of the infection.
- Our fight against the pandemic is not over. However, the topic I would like to cover today is about the post-pandemic future of the region, especially about the new cooperative relation between Japan and ASEAN in the economic area with the key words of “innovation,” “sustainability,” and “co-creation” looking into the future of Asia and Indo-Pacific.

2. Japan and ASEAN: From “Development Cooperation” to “Co-creation Partner”

- First, let me review briefly the development of Japan-ASEAN economic relationship. In older times, there were centuries of trade exchange as maritime nations. But our modern economic and industrial exchange can be traced back in 1960s.
- This was led by Japanese auto manufacturers who built factories mainly in Thailand first, which was eventually followed by a large number of other Japanese companies who expanded their production base over ASEAN countries. Currently more than 14,000 Japanese companies are operating in the ASEAN region.
- Japan is number one in the cumulative FDI to ASEAN in the manufacturing sector in recent years. However, amount alone will not portray its real value. True contribution of Japan can be found in building industrial foundation and capacity building support, enabling self-sustained growth of each ASEAN country through employees training and other manpower investment and nurturing local

businesses including SMEs.

- The investment made by companies and grants of ODA in infrastructure development such as road, rail and industrial parks etc. worked as “the two wheels of a car” to advance economic development of ASEAN countries.
- We all worked intensively not only in hard connectivity of infrastructure, but also soft connectivity, as in rule-making in trade and investment. Through bilateral FTAs/EPAs and AJCEP, as well as through market integration of ASEAN, Japan and ASEAN jointly lowered trade barriers, and advanced rule-making in economic activities of the region.
- The economic relationship between Japan and ASEAN centered around this production network is now changing significantly. One of the key words is “innovation”. With expanding middle-class and large number of young smartphone-native population in the ASEAN region, the cases of regional players turning into indigenous innovators are increasing. Outstanding performance of digital tech start-ups symbolizes a bright future of the region.
- One more key word is “sustainability.” Addressing climate change, and alleviating poverty and securing jobs at the same time is one of the toughest challenge faced by Asia. Also, there are many other outstanding issues such as providing transport infrastructure to go along with urbanization, healthcare access for all, and raising agriculture productivity. Many Japanese businesses have clear recognition of them and strong will to contribute to solving them.
- In addition to the relation centered around manufacturing, we can become co-creating partners of innovation with expanding Asian consumption market and can aim for sustainable growth paying heed to diverse values. We can broaden fields of joint work from factories to cities and over to the region. New relationship defining Japan-ASEAN is already taking shape in the form of private businesses. For Japanese companies, ASEAN is now a partner to innovate and launch business together.

3. Invest in the future of ASEAN, and co-create the future of the region

- Time has come for the government to give a big push to open a new chapter for Japan-ASEAN public and private economic relations. There are three important principles; 1) First is “realism”. Look at the reality of each country in good faith and offer effective solutions to each agenda items; 2) Second is “innovation and sustainability”. Use private sectors’ innovation to the maximum extent, and create the foundation for sustainable economic society; 3) Third is “co-creation” of the future. To create the future of the region working with countries as equal and complementary partners, which can be promoted through the collaboration between Japan and local businesses.
- Together with “Asia Energy Transition Initiative” announced last year, these will come into shape together with “ASIA-Japan Investing for the Future Initiative” that I will talk about.

(1) ASIA-Japan Investing for the Future Initiative

- To actively make new future-oriented investment so that we can create together with ASEAN an innovative and sustainable economic society. This is the direction that “ASIA-Japan Investing for the Future Initiative” is seeking.

- One of the ideal images of the future of Japan and ASEAN is to improve attractiveness as a global supply chain hub and take the lead in resilient free trade with trust. Another ideal image of the future is Japan and ASEAN who continue to create innovation that enhances sustainability and contribute to solving social issues of the region.
- To make these future come true, Japan will strengthen investment in supply chain, connectivity, digital innovation and human resources.

(1-1) Investment in Supply chain

- First is investment in supply chain. Enhancing ASEAN's capability as an important hub in global supply chain and increasing its attractiveness, is extremely important also from the stand point of resilient Japanese economy. Stable and predictable ASEAN attaching importance to free trade and multilateralism offers a high value in an era of uncertainty.
- Under the pandemic, Japanese government strongly supported the diversification of supply chain of Japanese companies to avoid supply chain disruption. Private sectors are clearly showing their preferences for ASEAN region. We already spent about 300 million US dollars to support capital investment of 92 firms. We plan to continue the support this year, and as early as this month, new applicants for support will be solicited.
- Further, investment in digital supply chain management will be promoted. Some advanced cases showed that disruption risk can be avoided by using data beyond corporate boundaries. We will select 100 best cases of such with ASEAN and Asian countries. As a first step, Japan will provide about 9 million US dollar support. Also, NEXI, Nippon Export and Investment Insurance and JBIC, Japan Bank for International Cooperation will also provide financial support for enhancing supply chains.
- Investment will also be made to build supply chain for making new products geared to changing era. Japanese auto manufacturers are making full-scale effort in exploring local market with possible local production of EVs in sight. For example, in Indonesia and Thailand, various pilot projects such as EV car sharing have started. With these, new market can be found to strengthen local EV production capacity. Japanese government will support market development for next generation vehicles such as EVs and hydrogen vehicles, and also usage of biofuels. Japan will contribute with public and private together to the development of supply chain of auto-industries of ASEAN countries.

(1-2) Investment in Connectivity

- Second is investment in connectivity. Investment in hard infrastructure will continue, but here, I would like to emphasize the soft connectivity.
- As I mentioned earlier, ASEAN and Japan have been jointly promoting rule-making through, among others, bilateral and regional FTAs/EPAs. The eagerly-awaited entry into force of the RCEP Agreement recently took place on New Year's Day. ASEAN has always been in the driver's seat in the RCEP negotiations, and Japan supported this feature all along. It is not an overstatement to say that the RCEP is the symbol of ASEAN Centrality as well as ASEAN-Japan partnership. Japan will continue to work toward establishing a free and fair economic order that will ensure that the RCEP would be well-functioning as a regional platform, including actively contributing to the steady

implementation of the Agreement after entry into force.

- We will contribute to the digitalization of trade procedures as well. Trade document will be digitalized, and digital trade platform will be created where relevant parties can share information comprehensively in a secure way using block chain technologies. Japan and ASEAN private companies' endeavoring to achieve these objectives will be supported by the government.

(1-3) Investment in Digital innovation

- Third is investment into new industry and digital innovation associated with building sustainable society.
- One Japanese venture company is working with a Malaysian hospital to establish a platform to provide online healthcare services. Another Japanese large company is aiming to offer comprehensive healthcare service by partnering with hospitals headquartered in Malaysia to integrate and analyze medical data to offer consultation for early detection of illness and preventive medicine as well as optimum healthcare based on individual patient data.
- Also one Japanese venture company developed protein fiber using local agricultural product as a new material which is made from carbon free material, and established mass production plant in Thailand. Another large company has started consultations with Vietnam on cooperation in the transfer of COVID-19 vaccine production technology.
- We will support these efforts for new innovation co-creation and help them grow bigger. Japanese government has provided about 8 million US dollars to 40 new projects in the last two years to support alliances of Japanese companies and ASEAN companies offering solutions to local social problems. Moving forward, about nine million US dollars will be newly provided to promote partnership between Japan-ASEAN businesses.
- Japan's public-private fund Japan Investment Corporation or JIC, with around 2.1 million US dollars of investment capacity, will invest in a Japanese venture capital which has strength in venture investment in ASEAN, and this will push forward co-creations between ASEAN venture companies and Japanese companies.

(1-4) Investment in Human Resources

- Fourth, investment in human resource of the future. As mentioned, true contribution of Japanese companies made in ASEAN region had to do with consistent investment in human resources that, in turn, enabled the set-up of industrial foundation and capacity fit for the local needs.
- There are Japanese auto manufacturers working in human resource development to raise production efficiency of SMEs. There are Japanese freezer manufacturers working in human resource development of regulators to improve safety regulations. Japanese government is supporting such efforts by dispatching experts and providing training in wide areas such as manufacturing know-hows, energy conservation, and cybersecurity.
- We would like to further extend such initiatives and offer opportunities for ambitious youth. The Ministry of Education, Culture, Sports, Science and Technology, or MEXT, where I previously took the post of the minister, has enhanced its initiative to have Japanese universities establish degree

programs in collaboration with foreign universities. Over the next 5 years, we would like to extend our support to provide opportunities for ambitious fifty-thousand highly-skilled Asian professionals including graduates under the MEXT's initiative to seek jobs in Japanese companies in Asia as well as Japan.

- With the spirit of Co-creation, together with people of ASEAN, we will make all-out efforts in investing for the future and make Asia a wealthy region.

(2) Asia Energy Transition Initiative

- I would like to touch upon "Asia Energy Transition Initiative, or "AETI."
- In Asia including ASEAN, in addition to addressing climate change issues, several difficult issues awaits to be solved at the same time, such as securing stable and affordable energy, and realizing sustainable economic growth.
- As an initiative to support Asia's practical energy transition, Japan announced an initiative called Asia Energy Transition Initiative, AETI last year. Many countries in Asia and Middle East strongly supported this initiative.
- The pathway to achieving Paris Agreement target is not one. AETI, with the cooperation of ERIA, is presenting most efficient energy transition roadmap to individual member states of ASEAN, taking into account the circumstances of geographical conditions, economy and energy status of each country. Consultation with each Government had already begun.
- Further, AETI will proactively provide 10 billion USD finance support and capacity building for technology and projects based on the roadmap for carbon neutrality.
- This year is "implementation year" for AETI, and the "First year of Asia Energy Transition." Based on AETI, I would like to drive forward practical energy transition with all of you.
- First, we will support the promotion of renewable energy and energy management. In policy dialogues with ASEAN countries, Japan will elaborate challenges and necessary support based on Japan's experiences, and promote public-private cooperation in the areas of distributed power sources utilizing renewables, power grid in light of decarbonization, and geothermal power generation.
- Next is co-firing of ammonia in coal fueled power generation. The World's attention is drawn to how coal power accounting for about 40% of power mix in ASEAN will transition to zero emission. Since last year, Japan is conducting demonstration of 20% co-firing. The goal is to achieve single fuel firing up to 100% by 2030. If coal fueled power can be zero-emission, it would make a huge contribution to the world's Climate change issue.
- Last is realizing CCS in ASEAN. Currently at Gundih in Indonesia, feasibility study is underway, a very first CCS project under the Joint Crediting Mechanism. CCS holds a key to decarbonization in Asia. We definitely hope to realize CCS under Japan-ASEAN cooperation.
- Based on AETI, we hope Japan and ASEAN can work closely to advance energy transition in Asia.

4. Closing

- I have covered 2 initiatives, “ASIA–Japan Investing for the Future Initiative” and “Asia Energy Transition Initiative.” Through these, Japan will put all its efforts in investing in the future of the region.
- Asia is becoming the growth center of the world. This future vision wished in the past came true. It’s very encouraging for Japan who is deeply linked to Asia. Investing in Asia’s future including ASEAN is also investment in Japan’s future.
- Investment in the future of Asia should become investment in the future of the world. To that end, it is essential to build free, open, rules based, fair and reliable economic order. I’m convinced that it aligns well with the principles and goals upheld in the ASEAN Outlook on the Indo–Pacific. As a country who supports ASEAN Centrality, Japan hopes that we can take on leading role in realizing this with ASEAN countries.
- This year, the Presidency of G20 is Indonesia. Next year, G7 Presidency will be Japan. In commemoration of the 50th Anniversary of the ASEAN–Japan Friendship and Cooperation, it is planned that Prime Minister Kishida will invite ASEAN Leaders and hold a Commemorative Summit in Japan. Through these processes, let us produce maximum synergy in economic policy.
- I hope the 2 initiatives I spoke today will be an important driver for such purpose. Today will be a kick-off to start discussion and working with like-minded countries within and outside of the region. I look forward to it very much. Thank you for your attention. Terima kasih.