

Study Group on Market Network Formation in Southeast Asia

Subject

1. Recognition of the Current Situation

The current international order is shifting “from globalization to bloc formation,” the main cause of which is the competition (or confrontation) between the United States and China. Around 2019, Europe also began to publicly declare its recognition that the future international order will be created in the Indo-Pacific region, and it has been actively deploying naval vessels and air power there.

As stated by U.S. President Biden has, the United States recognizes that China is in a state of economic distress and is increasing its pressure on that country by taking such actions as attempting to expand the scope of its restrictions on semiconductor exports to China. In response to that, China, which has deemed that the United States has no intention of easing its relations with China, appears to be actively pursuing its own decoupling through an expansion of BRICS, claiming that the “de-risking” advocated by the United States is in effect “decoupling.”

As the United States and China compete for support in the Global South including the Southeast Asian region, the countries in that region are hoping to get out of the situation where they are being forced to choose between the United States and China. According to the “ASEAN Outlook on the Indo-Pacific”, released in June 2019, there is also a third option besides joining either the

Subject American or Chinese camp, namely, that it “envisages ASEAN Centrality as the underlying principle for promoting cooperation in the Indo-Pacific region,” with “ASEAN-led mechanisms as platforms for dialogue and implementation of the Indo-Pacific cooperation.” At this stage, however, Southeast Asian countries do not have concrete measures to realize the “ASEAN Centrality” and are still searching for them.

Japan, meanwhile, has been conducting its foreign and security policy based on its alliance with the United States, but its policy toward China is not identical to that of the United States, and its relations with Southeast Asian countries differ from those of both the United States and China. In addition, in response to Russia’s invasion of Ukraine and the need to rebuild the domestic defense industry, the Japanese government has become more pro-active than before in transferring defense equipment overseas. The current situation is thus encouraging the creation of new options for both Japan and the countries of Southeast Asia.

2. Objectives of the study

The purpose of this study is to examine the effects of forming an influential market network in the Indo-Pacific region—a common market network that includes cross-border trade, commerce, and direct investment—in order to mitigate the escalation of tensions in the Indo-

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Pacific region and the international community caused by the game of tit-for-tat played by the United States and China.

The countries of Europe do not individually wield influence on a level comparable to that of the United States, China, and Russia, but through the formation of entities such as the EU and NATO, they do exercise an influence that China and Russia cannot ignore. At this stage, however, it would not be realistic to build a security framework equivalent to NATO in the Indo-Pacific region.

Also, one limitation of ASEAN is that it remains solely a platform for dialogue, not one for action. Under those circumstances, it would also not be realistic to create an organization or framework in Southeast Asia that extends to politics and diplomacy, like the EU. Therefore, there is a need for a framework to be established in Southeast Asia that is flexible in areas other than politics, diplomacy, and security, and market networks will be discussed as such a framework.

On the other hand, given that the economy is the origine of power, if a market network with substantial economic influence were to be established in the region, it could potentially change the complexion of the simple bilateral game of strategic competition or confrontation between the United States and China. In addition, the circumstances outlined in the previous section indicate that now is the best time to conduct such research.

Subject**3. Tools of the study**

This study will focus on discussions among experts belonging to the study group. The discussions will begin by dealing with the extent to which the market network referred to in the study is effective in bringing about changes in the international order, as defined by competition (confrontation) between the United States and China, and what kind of network should be created to enhance the effectiveness of the market network. We will then aim to develop narratives and recommendations that can be used by the Japanese government, the governments of Southeast Asian countries, corporations, etc., all of which will be the main actors in the building of market networks.

For example, the following narratives could be developed for the benefit of Southeast Asian countries. Even if it is difficult for all ten ASEAN countries to participate, the introduction of similar products, services, etc. by several countries that are interested would increase the size of the market. That would create incentives for export companies to establish maintenance and supply chain hubs in the region and would also result in the transfer of technology and know-how, which would be beneficial to future businesses in the region. If multiple businesses were pursued—even if different countries engaged in each of them—the layering of each of those markets would result in the perception of the region as a single market.

Subject	<p>However, besides being attractive to the countries of Southeast Asia, the framework for building a market will be difficult to realize unless it also provides business opportunities for Japanese companies.</p> <p>Therefore, while this study aims to examine, discuss, and verify the effects of a market network, it will also be necessary to discuss the contents of the businesses themselves. However, this study is not concerned with business itself but rather with the needs, etc. of each country, which will be discussed and reflected in the narratives and recommendations.</p>
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