World Economy Brief

March 10, 2023 | Vol. 13 No. 09 | ISSN 2233-9140

ASEAN's Medium- to Long-term Trade Strategies and the Direction of RoK-ASEAN Cooperation

Sungil KWAK Senior Research Fellow, Economic Security and Strategy Department (sikwak@kiep.go.kr)
Seungjin CHO Assistant Professor, Department of Economics, Dankook University (seungjin.cho@dankook.ac.kr)
Jaewan CHEONG Principal Researcher, Southeast Asia and Oceania Team, Center for Area Studies (jwcheong@kiep.go.kr)
Jaeho LEE Principal Researcher, Southeast Asia and Oceania Team, Center for Area Studies (jhlee@kiep.go.kr)
Mingeum SHIN Senior Researcher, Southeast Asia and Oceania Team, Center for Area Studies (mgshin@kiep.go.kr)
Nayoun Park Senior Researcher, Southeast Asia and Oceania Team, Center for Area Studies (nypark@kiep.go.kr)
So Eun KIM Researcher, Southeast Asia and Oceania Team, Center for Area Studies (kse@kiep.go.kr)

I. Introduction

In recent years, the U.S.-China hegemony competition has intensified, dividing the world into two blocs. ASEAN has long cultivated its position on the international stage by maintaining a certain distance between the United States and China. In that sense, ASEAN is the best partner for Korea to effectively respond to the divided world. Therefore, this study seeks the directions of cooperation with ASEAN in supply chain, digital trade, climate change response, and health and development cooperation in line with changes in the international order.

II. Supply Chain Restructuring in the ASEAN Region

The COVID-19 pandemic broke out as the U.S.-China hegemony competition was adding anxiety to the stability of supply chains, forcing firms to face the possibility of substantial supply chain disruption. Anxious over possible interruptions in production activities, firms expanded their inventory share, which in turn contributed to a rise in inflation. Of course, the Russia-Ukraine war has accelerated this further. Amid these changes, the demand for supply chain reorganization has grown, and the ASEAN region has become considered a new supply chain expansion base for Korean firms.

Amid this reorganization of the global supply chain (GSC) triggered by the aforementioned economic security issues, ASEAN, a new production and trade hub, is drawing attention as a so-called "China+1" region, and investment in ASEAN by Chinese firms and multinational firms exiting the Chinese market is expected to continue to increase. Also, ASEAN will continue efforts to digitalize its customs clearance process and promote digital trade. In particular, as seven ASEAN countries are participating in the Indo-Pacific Economic Framework (IPEF) to strengthen digital trade, changes in supply chains using the digital environment are also expected.

In response to these changes, ASEAN and individual member states are implementing various strategies to expand the signing of regional trade agreements (RTAs) and strengthen and upgrade manufacturing capabilities. The ASEAN region's efforts to cope with the changing environment are expected to transform the ASEAN region's economy from a simple assembly base to a new high-value-added industrial production base in the mid- to long-term. Meanwhile, major countries are also responding to changes in the international economic environment with various strategies. China is pushing for internalization of intermediate goods production under the "dual circulation" strategy, and Japan is striving to strengthen and rebuild supply chain stability. Korea is also pushing for the enactment and revision of three supply chain-related bills. The Act on Special Measures for the Promotion of Specialized Enterprises, etc. for Components and Materials [BuPum·SoJaeJeonMunGiUp DeungUi YukSeongE GwanHan TeukByeolJoChiBeop] was revised and implemented in April 2020, and the Framework Act on Supply Chain Stabilization Support for Economic Security [GyeongJeAnBoReul WiHan GongGeupMang AnJeongHwa JiWon GiBonBeop] and the Framework Act on Resource Security [JaWonAnBoGiBonBeop] are under discussion. With the uncertainty in the supply chain expected to expand further, the importance of broad economic security is growing, making it necessary to expedite efforts to formulate economic security strategies at the national level.

III. Digital Economy and Digital Trade in the ASEAN Region

Due to the spread of COVID-19 and the development of information and communication technology, the digital economy has rapidly expanded around the world. Even before the outbreak of COVID-19, ASEAN had promoted digital transformation and integration, and the outbreak of COVID-19 has further increased its importance in terms of economic recovery and creation of growth engines. Digital transformation and digital trade are areas where Korea and ASEAN are in high demand as cooperation partners. The digital transformation conditions and levels of digital competitiveness vary greatly by country within the ASEAN region. Singapore has world-class digital competitiveness and infrastructure, while Indonesia and the Philippines, which have relatively low income levels, and Myanmar, Cambodia, and Laos, which are relatively new members of ASEAN, have low digital competitiveness and poor related infrastructure. As digital trade expands, concerns about digital trade barriers are also growing. In the case of major ASEAN countries, digital trade barriers are high in most countries except Singapore and the Philippines.

ASEAN is actively promoting digital transformation policies and strengthening digital trade cooperation with countries within and outside the region. ASEAN has promoted digital transformation policies since the 2000s. With the COVID-19 outbreak accelerating digital transformation, ASEAN has unveiled policies such as the ASEAN Comprehensive Recovery Framework (ACRF), ASEAN Digital Master Plan 2025 (ADM 2025), and Bandar Seri Begawan Roadmap (BSBR). ASEAN's digital policy focuses on facilitating digital trade, strengthening digital capabilities, establishing a digital payment system, and expanding digital infrastructure. ASEAN aims to initiate negotiations on the ASEAN Digital Economy Framework Agreement (DEFA) by 2025. ASEAN is promoting cooperation on digital trade rules through FTAs with countries within and outside the region, such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

IV. Response to Climate Change in the ASEAN Region

As the issues of climate change and carbon neutrality emerge as global agendas, ASEAN has established and implemented a series of adaptation and mitigation policies to achieve its carbon neutrality target, but still remains in great need for cooperation. Among ASEAN member countries, Indonesia ranked in the top 10 emission countries in the world, and accounted for the largest share of overall emissions in the region. The international community has been implementing a series of climate-change cooperation schemes, such as the Kyoto Protocol in 1977 or the Paris Agreement in 2015. ASEAN, as a regional community, also has been implementing its own internal and external cooperation schemes, while individual ASEAN Member States (AMS) have built their own national-level initiatives to achieve NDC targets. According to an analysis of Creditor Reporting System (CRS) data provided by the OECD, Indonesia is the biggest ODA recipient among AMS in climate change-related sectors. By sectors, water-resource/sanitation and environment protection took the major share of entire ODA. The Korea-ASEAN Dialogue on Environment and Climate Change (2021) has been the major cooperation channel for Korea-ASEAN climate change cooperation, producing a series of initiatives in the areas of air pollution, carbon dialogue, carbon neutrality and the establishment of a green transition center, etc. Vietnam and Indonesia are the biggest recipients of ODA from Korea to ASEAN, with water resource/sanitation and environment protection accounting for the major share of this ODA. When considering the emission levels of AMS, multilateral cooperation schemes, and Korea-ASEAN cooperation, the biggest emitter (Indonesia) and ODA recipient (Vietnam) are projected to have the highest demand for bilateral climate change cooperation. Previous ODA projects show a concentration in the areas of water resource/sanitation and environment protection, which have taken the major share of Korea's ODA to ASEAN. The demand for cooperation in renewable energy sources is expected to increase in line with efforts to mitigate the high level of emissions produced in the power and transport sectors.

V. Direction of RoK-ASEAN Cooperation

In the wake of the 23rd Korea-ASEAN Summit in 2022, the Republic of Korea announced its strategy for a free, peaceful and prosperous Indo-Pacific Region, based on the three principles of inclusiveness, trust, and reciprocity, to realize the three visions of freedom, peace and prosperity. President Yoon has stressed that ASEAN is one of the most important partners in promoting Korea's Indo-Pacific strategy. In particular, the Korea-ASEAN Solidarity Initiative (KASI) was presented at the meeting to promote cooperation with ASEAN based on the principles of inclusiveness, trust, and reciprocity. KASI aims for comprehensive cooperation in areas such as diplomacy, defense, security, economy, climate change and the environment (see Figure 1). The principles of cooperation announced at the meeting are to promote mutually beneficial and sustainable cooperation between RoK and ASEAN, promoting comprehensive cooperation across politics, economy, society and culture, as well as solid support for ASEAN centrality and the AOIP.

Figure 1. Priority Areas of KASI

Priority areas of cooperation	Enhancing Rule-Based International Order (Freedom-Peace)	• Strengthening Strategic Cooperation in Foreign Affairs and Defense • Focus on cooperation in the areas of maritime security, maritime law enforcement, and maritime safety • Strengthening the capacity to protect peace through cooperation between defense and defense industries • ASEAN's cooperation in North Korea Issue
	Shared Prosperity and development (Prosperity)	• Economic and security cooperation such as supply chain stabilization, energy, and core minerals • Cooperation in the digital and electric vehicle industries • Korea-ASEAN FTA Upgrade
	Joint response to regional and international challenges (Peace-Prosperity)	• Support for Net Zero and Green Growth in ASEAN • Environmental cooperation such as air pollution mitigation • Strengthen cooperation in water resources, agriculture, and fishing sector with five Mekong countries (Cambodia, Laos, Myanmar, Thailand, and Vietnam) • Cooperate in vaccine and bio sectors to strengthen health capabilities

Source: Adapted from Kwak et al. (2022), A Study on Cooperation between the Mekong Subregion and RoK to Build Stable Supply Chains in Southeast Asia, Korea Institute for International Economic Policy (in Korean), [Figure 5-3]

We present the direction of cooperation in supply chain restructuring, digital trade, and climate change response for the implementation of the prosperity sector included in the Korea-ASEAN Solidarity Initiative. For each sector, four directions of cooperation are presented based on the cooperation principles of KASI (see Figure 2).

Regarding supply chain restructuring, we present four cooperation directions. First, Korea should promote ASEAN, which has become a global manufacturing hub, as Korea's main production site for key sectors and strategic items to diversify its supply chain structure. Second, Korea should actively support the establishment of ASEAN's supply chain and pursue diversification of its supply chain with ASEAN key partner countries. Third, Korea should assist in digitizing ASEAN's supply chain as well as ASEAN's DX (Digital Transformation) by leveraging its advanced digital technology. Fourth, Korea should take advantage of ASEAN's efforts to transform its supply chain (e.g., strengthening manufacturing capabilities, upgrading industrial structures, training human resources, etc.) as a favorable opportunity for Korea's economic cooperation with ASEAN.

Figure 2. Directions for RoK-ASEAN Cooperation

Stable Supply Chain	• Diversify supply chains of items that are highly dependent on specific countries to the ASEAN region • Reinforcing supply chain stability using digital technology • Using ASEAN's GVC/GSC Strategy as an Opportunity • Preparing for intensified competition within ASEAN region due to reorganization of supply chain
Digital Trade	• Support on digital infrastructure expansion • Cooperation on E-government infrastructure • Digital Talent Nurturing Cooperation • Digital trade cooperation through bilateral FTA, RCEP, etc.
Climate Change Response	• Establishment of a cooperative system with related ministries and organizations • Establishment of bilateral climate change cooperation channels between Korea and ASEAN countries • Promotion of cooperation between renewable energy and nuclear power, carbon capture and storage (CCS), and carbon capture and utilization (CCU) • Link bilateral and multilateral cooperation projects with ASEAN

Source: Adapted from Kwak et al. (2022), A Study on Cooperation between the Mekong Subregion and RoK to Build Stable Supply Chains in Southeast Asia, Korea Institute for International Economic Policy (in Korean), [Figure 6-2]

Digital transformation and digital trade are fields of great interest to both Korea and ASEAN, and cooperation has been actively pursued. The digital sector is also a key area of cooperation in Korea's new cooperation policy toward ASEAN, the Korea-ASEAN Solidarity Initiative (KASI), which was unveiled during the 23rd ASEAN-Korea Summit in November 2022. Based on our analysis, we suggest the following four areas for Korea-ASEAN digital cooperation. First, Korea-ASEAN cooperation should contribute to narrowing the digital infrastructure gap by country. This is because the digital infrastructure gap eventually creates a national income gap in the ASEAN region as the digital economy continues to grow. Second, cooperation between the two regions should be strengthened through Korea's experience in designing and implementing e-government systems. This is an area where Korea has accumulated more experience compared to advanced Western countries. Third, cooperation is necessary to strengthen digital capabilities and foster talent in the ASEAN region. Even when a sufficient infrastructure has been established, it is useless if there is no one to manage it. Finally, it is necessary to support the strengthening of capabilities to establish digital trade norms in the ASEAN region.

ASEAN is also showing high interest in responding to climate change. For future cooperation between Korea-ASEAN on climate change, both sides should establish cooperation agendas based on the demand within ASEAN and current national levels, as follows. First, the present bilateral cooperation channels established only with Vietnam and Indonesia should be extended to other AMS. Second, cooperative efforts will be necessary to drive the energy transition in power generation (from coal to RNE) to respond to the high demand of AMS. Third, there must be a linkage system between multilateral and bilateral cooperation channels to exchange and utilize each agenda. Fourth, considering the industrial structure of ASEAN and Korea, which are heavily reliant on the manufacturing sector, Korea should include carbon capture and storage (CCS) projects within its scope of cooperation with AMS on climate change agenda.

Finally, this study presents the following four directions for health and development cooperation between Korea and the ASEAN region. First, Korea should share its past development experiences to support ASEAN countries' policy-making. Korea's experience in implementing a national health insurance system can help improve universal health coverage systems in ASEAN countries. Second, the Korean government should carefully assess recipient countries' potential for digital transformation ODA, as this is linked with many other subfields. Third, developing win-win strategies between Korea and recipient countries through ODA projects is necessary. Specifically, green ODA can help Korean firms gain contracts for infrastructure development in ASEAN countries. Fourth, large-scale ODA packages allow Korea and other recipient countries to develop and implement projects that both partners can recognize as important. KIEP