

# **Report Draft of the NEAT Working Group Meeting on Strengthening the Connectivity of Supply Chains in East Asia**

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## **I Overview**

1. The global supply chains are dramatically changing, characterized by regionalization, localization, digitalization and greenization. For East Asia, a close network of industrial connectivity has been developed, and its connected supply chains are essential for global economic prosperity and stability.
2. It is more than necessary to strengthen supply chain connectivity among APT countries. According to IMF Direction of Statistics, the total volume of merchandise trade for APT countries reached 100.8 trillion US dollars in 2022, while 49.4% of exports and imports happened among APT countries themselves. Such close interdependence in East Asia indicates the significance of regional supply chain connectivity. In emerging fields, East Asia countries have built the core supply chains of global semi-conductors and NEVs manufacturing.
3. There is broad consensus for supply chain connectivity in East Asia, including Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic in 2021, Joint Study on 10+3 Cooperation for Improvement of Supply Chain Connectivity in 2020, ASEAN-China Joint Statement on Mutually Beneficial Cooperation on the ASEAN Outlook on the Indo-Pacific in 2023, etc. However, there still exist several challenges, such as climate change, geopolitical uncertainty, and technological and digital transformation. Based on regional consensus and in order to handle such challenges, collective efforts and practical actions are needed.
4. Given the importance of supply chain connectivity among APT countries, the on-site NEAT Working Group Meeting on Strengthening the Connectivity of Supply Chains in East Asia was held on 18 July 2024 in Shenzhen, China, to provide a platform for NEAT members to share knowledge and experience on supply chain connectivity, to conduct joint research on the status quo and future development in the areas related to intraregional trade, FDI, industrial cooperation and infrastructure, particularly and most importantly, to pool wisdom to propose a professional supply chain mechanism with all APT parties involved and for multi-win outcomes.
5. The list of NEAT participants is at Annex.

## II Countries Perspectives

6. **Cambodia** views that enhancing the resilience of regional supply chains is a paramount priority. And therefore, three major areas should be highlighted for the future direction of East Asia cooperation. Firstly, it is crucial to strengthen trade facilitation measures, including simplifying customs procedures, reducing trade barriers, and harmonizing standards. Many regional agreements or mechanisms can be utilized, such as Chiang Mai Initiative Multilateralization (CMIM), ASEAN+3 Macroeconomic Research Office (AMRO) and especially Regional Comprehensive Economic Partnership (RCEP). Secondly, digitalization and the digital economy bring more opportunities for regional cooperation, and ASEAN Digital Economy Framework Agreement (DEFA) is a good impetus for East Asia. In practice, ASEAN+3 economies should seize the opportunities presented by the electric vehicle (EV) revolution. Last but not least, engagement with the stakeholders or private sectors is also important in the process of strengthening connectivity of supply chains. ASEAN Economic Community Blueprint 2025 has recognized the importance of greater involvement of private sector and more structured participation.

7. **Indonesia** discusses the choices of concentration and diversification in supply chains, and emphasizes the significance of supply chain stability. In pursuing supply chain resilience, there are prospects of reshoring, regionalization, and the diversification of supply chain. ASEAN's exports rely on imported inputs, and shows high involvement in backward participation of global value chain. Take machinery industry for example, the results generally support the argument for closer cooperation and the need for stability of imports in parts and components trade. For the most part, degree of diversification of import sources among RCEP member countries is classified as moderately concentrated to unconcentrated. Import sources diversity is not a key determinant in the exports of both the general electronic and precision machinery industries. However, import value of parts and components are found to be significant and positive in both industries with higher effects on general and electronic industries. The implication strengthens the argument for governments to maintain stability of import in parts and components with major trade partners, and highlights the need for businesses to maintain a more comprehensive cooperation with suppliers.

8. **Lao PDR** analyses supply chain connectivity from the perspective of driving forces and challenges ahead. Infrastructure connectivity development projects play a critical role in enhancing supply chain. These include the Lao-China Railway, Bangkok–Nong Khai high-speed rail line, roads linked to bordering countries, and three dry ports. Besides, industrial parks and Special Economic Zones (SEZs) together with government's supportive industrial development policies can further boost supply chain, and the government of Lao PDR has multiple relevant and supportive policies, including tax reduction, long-term land lease, exemption from import duties, etc. In practice for Lao PDR, major potential industries for cooperation include agriculture and forestry, processing industry, and electricity and mining. As to challenges ahead, there

are both internal challenges and external challenges. Internal challenges include efficiency of resources utilization, limited production capacity, capacity building in local industrial clusters, technology transfer and adoption, utilization of comparative advantages, and the role of industrial park and investment inflows. In addition, Lao PDR's supply chain is also impacted by the external challenges, which include political unrest and geopolitical instability, global trade uncertainty, labor shortages, and environmental and sustainability pressures.

9. **Malaysia** reviews the impact of RCEP. For trade in goods, most RCEP countries already trade in a low-tariff environment, and there are limited prospects for further tariff cuts through RCEP alone. However, in terms of rules of origin, RCEP adds considerable value, serving as a harmonized, single rule book for trade in the region. RCEP has the potential to promote greater regionalization in value chains, but this is contingent on effective utilization, which remains lacking in some member states. For Non-Tariff Measures (NTMs), RCEP does not move the needle much in NTM reduction, and NTMs remain a notable barrier to regional trade. For trade facilitation, higher benchmarks are needed for more advanced member states. To sum up, by consolidating ASEAN's existing FTAs in Asia-Pacific, RCEP represents the first step towards more transparent and integrated regional trade, but more efforts, both nationally and regionally, are needed to streamline NTMs and promote utilization. Finally, the timely operationalization of the RCEP Support Unit and Subsidiary Body is needed to strengthen RCEP's effectiveness.

10. **Myanmar** analyses the prospect for supply chain connectivity. The 26<sup>th</sup> ASEAN Plus Three (APT) Summit put forward five strategic areas, which are indispensable for supply chain connectivity, while the "APT Cooperation Work Plan 2023-2027" serves as principal guidelines. Within MoU of China-Myanmar Economic Corridor (CMEC), many projects are planned, such as Kyaukphyu deep sea ports and Muse-Mandalay railway. Besides, Greater Mekong Sub-region (GMS) and Laos-China Railway can raise opportunities in transportation and tourism. However, there still exist challenges, including incomplete infrastructure network, high costs and less efficiency due to NTMs, and tightly regulated transportation routes. Therefore, regional agreements and mechanisms need to be further implemented and coordinated. In the context of technology-driven "new economy", technical assistance and experience sharing are necessary, and technological value chain and supporting services are also needed. The value-added and manufacturing-for-exports strategy remains relevant for APT developing economies. Finally, other issues should also be considered, such as safe maritime passage, efficient shipping canals, and policies to develop human resources.

11. **The Philippines** discusses the supply chain connectivity from the perspective of tourism. Based on the comparison of supply chain and value chain, tourism is a value chain. Tourism in APT has great potentials, due to liberalized mobility and increased connectivity. Regional agreements and mechanisms (such as ASEAN, APT, APEC, RCEP) are effective to facilitate tourism flows, allowing for tourism enterprises to

evolve, and allow member economies to make commitments in enhancing production, distribution, and value propositions. Together with digitization, digitalization, and digital transformation, APT enjoys digital integration, which makes supply chain more flexible and efficient, and there are some facilitation schemes, including transportation convenience and ease mobility, digital payments, and APEC Safe Passage Framework. Lessons from the ASEAN experience include on one hand enhancing competitiveness of ASEAN as single tourism destination, and on the other hand ensuring that ASEAN tourism is sustainable and inclusive. To conclude, it's crucial to create an efficient supply chain with data integration, and supply chain management remains a people's business. Finally, seamless integration is a key to differentiation.

12. **Singapore** recognizes the phenomenon of supply chain shifts and significance of industrial policies. For the past several years, relocation of FDI is common, and projects are relocated to ASEAN. The projects are more capital and labor intensive in manufacturing or manufacturing services. In the globe, more industrial policies are introduced, and the most frequent users are developed economies with higher incomes. Major drivers of the supply chain shift contain pandemic-induced disruptions, geopolitical tensions, technological advancements, and sustainability and environmental concerns. Pursuing more resilient supply chains, it's urgent to diversify supply sources and increase self-production capacities, strengthen regional cooperation through ACFTA and RCEP, and implement coordinated industrial policies. Infrastructure investments and advanced technologies are also indispensable. Besides, consumer-centric supply chains should be considered. As to challenges, regulatory harmonization and logistics upgrading need more efforts. For opportunities, advantages lie in cooperation mechanisms such as industrial parks and PPP, regional supply chain hubs, emerging industries, and capacity building and workforce development.

13. **Thailand** studies the case of Eastern Economic Corridor (EEC). EEC has ever-growing potentials, due to access to large and growing market, and a strategic location as a gateway to Asia. Targeted industries emphasize the role of advanced technology and innovation, and include decarbonization, health and wellbeing, logistics, human resource development and digital economy. Within EEC, key infrastructure projects consist of Laem Chabang deep seaport phase 3, U-Tapao international airport, high-speed rail, and Map Ta Phut industrial port phase 3. EEC's infrastructure is comprehensive, including not only logistics, but also digital and R&D infrastructure. EEC has demand-driven approach for human capital & skill development, providing both long-term courses on vocational levels, and module short courses. From the perspective of SEZs, EEC's advantages include advanced industries such as EVs, infrastructure readiness, market expansion opportunities, labor & technology readiness, government policies and regulatory standards. To cope with challenges, it's necessary to enhance regional cooperation and infrastructure investment, promote multimodal transportation, harmonize customs procedures, and promote digital adoption.

14. **Viet Nam** discusses the opportunities and challenges. East Asia is the world's biggest manufacturing economies and trade hub. One of the key driving factors is the Belt and Road Initiative (BRI). However, the region faces challenges which may disrupt supply chains, including geopolitical tensions, trade disputes, and non-traditional security issues. For Vietnam there are many opportunities, including boosted economic growth by improving infrastructure and logistics capabilities, fostered regional collaboration in promoting sustainable development standards, improved innovation to boost technological capabilities, and bolstered position as an attractive connecting point in regional supply chains. Meanwhile, Vietnam still faces several challenges, such as heightened competitive pressure from more established and technologically advanced players, adverse environmental and social impacts as well as competitive pressure for the supporting industry, and vulnerability to global economic fluctuations and geopolitical tensions. Therefore, Vietnam takes concrete measures, including more infrastructure investment, promotion of technological adoption and digital transformation, and diversification of supply sources and robust regulatory frameworks.

15. **Republic of Korea** underlines the significance of regional cooperation. There are several factors which lead to uncertainty and unpredictability, including geopolitical rivalry, technological transformation, and geo-economic fragmentation. Under this circumstance, international trade is indispensable. Many Asian countries heavily rely on China in supply chains. Diversified supply chains are resilient and indeed happening. ASEAN is an important partner for Korea. Major trade partners of Korea shifted from US and Japan in the 1990s to China and ASEAN in the 2000s, and the value chain has been established between Korea and ASEAN. To further utilize these opportunities, new agenda for policy cooperation for economic prosperity should be developed, and the potential agenda include public health, pharmaceuticals, digital economy, and trade, etc. Bilateral cooperation needs to be customized for mutual interests, in accordance with respective circumstances. Besides, technology development and transfer, knowledge sharing of economic development are also necessary. However, there are still several challenges in the ASEAN market that need to be addressed, including intense competition with foreign invested companies and a shortage of qualified workers.

16. **Japan** analyses the prospect for regional cooperation under RCEP framework. There is strong economic interdependence among APT, and APT has played a vital role in the formation and development of the supply chain connectivity in East Asia. Since Japan has an EPA with ASEAN, RCEP could be regarded as FTAs with China and Korea for Japan. RCEP has eliminated tariff in many exports among CJK countries, but yet CJK should pursue "RCEP plus" further upgrading for higher standards with elimination of more tariff and non-tariff measurement by achieving CJK FTA. Japan's outward direct investment in manufacturing sector is increasing and Japan has many overseas subsidiaries locating in ASEAN and China. While the concept of "economic security" is highly significant to each country, it must not be used as a cover for protectionism. In that regard, in order to strengthen resilient regional supply chain

connectivity, APT should establish a higher level of economic partnership frameworks through upgrading RCEP and concluding CJK FTA, deregulate regulation on FDI and simplify administration procedures which ensure transparency and predictability, advance digital trade facilitation with simplified customs procedures, pursue Data Free Flow with Trust (DFFT), and simplify travel procedures for increased traffic.

17. **China** focuses New Energy Vehicle (NEV) industry for regional supply chain connectivity. Since it's more value-added and environmental-friendly, NEV industry adopting ICT/data/AI has more potentials. When the supply chain integration among APT is on the way, the East Asia region is more likely to lead this spear-headed NEV industry. China is leading the global NEV revolution, while Japan's high-end manufacturing and technological innovation, and Korea's expertise in battery technology and electronic systems are great impetus. The sustained development of NEV industry in the region relies on a healthy and adaptive industrial ecosystem together with resilient supply chain networks. "Statement on Developing of Electric Vehicle Ecosystem" issued by APT leaders in 2023 set up a grand blueprint of strategic industrial cooperation. It is necessary to have a neutral platform working equally with all stakeholders to clear hurdles of developing regional NEV ecosystem and promoting robust supply chain network in the industry. As such, an industrial alliance of NEV manufacturing is suggested, which should be a third-party and not-for-profit entity. Besides, sustainability imperative, collaborative frameworks, and trade reciprocity and knowledge exchange are needed.

### **III Consensus Reached**

18. The following issues are mentioned and recognized by many experts:

19. **Diversification to be fully considered.** Based on respective national conditions and local demands, there are many options for cooperation. Therefore, diversification should be fully considered, not only to enhance regional supply chain connectivity in the entire region, but also to care about individual countries with differentiated demands.

20. **More opportunities than challenges.** Although confronted with internal and external challenges, APT countries have more chances and great potentials in regional supply chain connectivity. The next step is to make full use of our advantages, further integrate in regional chains, and cope with several weaknesses.

21. **Collective and coordinated efforts.** Based on deeper integration in East Asia, regional supply chain connectivity needs further collaboration. To cope with regional bottlenecks and pursue shared prosperity, it is prerequisite for APT countries to pull together for a resilient and fruitful regional supply chains.

### **IV Policy Recommendations**

22. The participants to the NEAT Working Group Meeting noted that it is essential for APT countries to enhance intraregional cooperation and supply chain connectivity provides a good solution, which is suitable for diversified local conditions. In order to maximize benefits for all APT countries in both economic and social areas, the Working Group on “Strengthening the Connectivity of Supply Chains in East Asia” puts forward policy recommendations based on all the presentations and discussions at the meeting as follows:

**(a) Long-term cooperation mechanism and rule-based business environment**

- **APT Supply Chain Working Group may be a good idea.** Through negotiation and coordination, it is good to promote inter-dependence, reduce uncertainties and enhance resilience. Regional supply chain connectivity is a comprehensive and systematic project, and therefore a specific mechanism is greatly needed to promote experience and good practices, share finance and technology, and to satisfy specific local demands. Moreover, multiparty engagement involving governments, businesses and NGOs for all APT countries is a necessity for future’s effective cooperation.
- **Transparent governance for sound business environment can provide basic guarantee for supply chain connectivity.** In order to achieve open and inclusive supply chain connectivity, transparent governance in each country and within the region is essential to ensure equal and fair treatment for every single market player. Besides, the sound business environment should be rule-based and market-oriented, where the importance of lawful regulations and market mechanism should be emphasized and implemented. In practice, localized and coordinated industrial policies, simplified administration procedures, trade facilitation, and FDI deregulation are good practices.
- **Industrial parks and special economic zones are efficient platforms for supply chain connectivity.** These two typical examples of industrial agglomeration can not only pool funds, but also cluster good firms, and moreover have a positive spillover effect along the supply chain. The next step is to enhance respective industrial parks or SEZs in integrated East Asia, to encourage localized and diversified development in a regionally coordinated way.

**(b) Intraregional policy coordination, synchronization of rules and regulations, and development convergence**

- **Centrality of ASEAN should be upheld.** As to cooperation among APT countries, supply chain connectivity can learn experiences from ASEAN in the field of good practices and harmonious collaboration. Furthermore, ASEAN centrality is indispensable for satisfying diversified demands based on local

conditions. Only with ASEAN centrality, can supply chain connectivity be differentiated in appropriate forms, which is more suitable for diversified local needs.

- **RCEP should be a guiding instrument to promote supply chain connectivity.** RCEP's provisions can serve as a guide to facilitate intraregional business operations and supply chain connectivity. Where applicable and appropriate, RCEP member states should work towards upgrading their domestic regulations in line with RCEP's standards in the interest of transparency and cooperation. In the future, RCEP needs further upgrading for higher standards and greater compliance through the streamlining of NTMs and formalization of the RCEP Support Unit under effective regulation.
- **Convergence programs should be implemented together for shared development.** For APT countries, we share the same goals of economic growth and sustainable development, and therefore many regional and national arrangements can be utilized and combined, such as CMIM, AMRO, DEFA, CMEC, GMS, EEC, BRI, DFFT, etc.

#### (c) **Driving forces of connected infrastructure and shared technology**

- **Infrastructure connectivity is a necessity.** Domestic infrastructure development and logistics performance are fundamental for enhancing supply chain connectivity. What's more, regional infrastructure connectivity is highly essential to facilitate flows of products, services, capital, and people. The Lao-China Railway, Kyaukphyu deep sea ports, and Laem Chabang deep seaport are good examples, but many more are needed.
- **A community with shared technology would be a great impetus.** In the era of technology-driven economy, East Asia countries should closely work together, so that we can fully utilize new technologies such as digitalization and AI to strengthen regional supply chain connectivity. Joint research, personnel training, technical assistance, and technology transfer should be encouraged for technological flows in East Asia.

#### (d) **NEV industry as a pilot project for supply chain cooperation**

- **NEV supply chain has great potentials in East Asia.** Based on our traditional advantage in manufacturing, with huge population for low production costs and big consumer market, together with R&D capability and productive capacity, NEV supply chain is promising. More importantly, we have a top-level consensus, ASEAN Plus Three Leaders Statement on Developing of Electric Vehicle Ecosystem in 2023. It is agreed that an Action Plan for Developing New Energy Vehicles (NEV) Ecosystem should be formulated as



recommendations at the NEAT level and submitted to Track I, contributing to the implementation of the initiative launched by the APT Leaders' Meeting last year as mentioned above.

- **Tourism value chain is another good option.** Based on abundant sceneries, liberalized mobility, increased connectivity, and digital integration, tourism cooperation is also viable. Moreover, tourism value chain is sustainable and inclusive in East Asia. In the future, seamless integration with a unified large market is the key for common prosperity and differentiated development.

## V Conclusion

23. Although confronted with some difficulties and challenges, yet undoubtedly supply chain connectivity is more suitable for APT countries, and it will definitely witness promising development in the future. Within the region, traditional advantage in manufacturing and emerging advantage in technology are good impetus, but more work needs to be done. During the cooperation, multi-party engagement is fundamental, concerted actions are necessary, and connectivity in infrastructure and technology is helpful. With consensus and policies for coordination, with major areas as cooperation priority, with qualified businesses as market players, and with social demands as ultimate goal, supply chain connectivity will bring overall development effects for specific countries and among the entire region.

Appendix: List of Participants of the NEAT Working Group Meeting on Strengthening the Connectivity of Supply Chains in East Asia

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