

Report of the NEAT Working Group Meeting on Deepening

APT Third-Party Market Cooperation

Organized Online by NEAT China

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I Overview

1. Third-Party Market Cooperation (TPMC) is an open and inclusive approach to international cooperation that can help business partners to draw upon each other's strengths and work together for better industrial development, infrastructure improvement and higher living standard in third countries, achieving the effect of 1+1+1>3. In practice it was first proposed by China in 2015, but the idea can be traced back to 2013, when UNIDO approved the operational strategy for South-South and triangular industrial cooperation.

2. It is more than necessary to strengthen Third-Party Market Cooperation among APT countries. On one hand, given the facts of downward economic trends, restructuring of value chains, and uprise of deglobalization, TPMC provides a solution for intraregional cooperation and economic integration, which is good for all parties. On the other hand, considering the diversity and complexity in the region, TPMC provides a flexible and adaptive way for further cooperation, which is suitable for APT countries, providing effective supplies based on comparative advantages and satisfying diversified demands based on national conditions.

3. Under the guidelines of leaders' consensus, MOUs and specific agreements, some specific projects have been carried out. However, in practice APT Third-Party Market Cooperation is far from enough. For instance, the region is still in lack of professional TPMC mechanism covering all APT countries. Besides, the financing gap is huge, especially in infrastructure area. Moreover, as an inevitable factor, national business environments differ greatly among APT countries, which may cause inefficiency.

4. Given the importance of TPMC among APT countries and the fact of intraregional practices far from enough, the on-line NEAT Working Group Meeting on Deepening APT Third-Party Market Cooperation was held on 23 June 2022 to provide a platform for NEAT members to share knowledge and experience on TPMC, to conduct joint research on the status quo and future development in the areas related to intraregional trade, FDI and financing, particularly and most importantly, to pool wisdom to propose a professional TPMC 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 Third-Party Market Cooperation as an open and inclusive approach to international cooperation, which can draw on each other's strength for better productivity and benefit participants for win-win outcomes. However, the region is still encountered with some challenges, including lack of institutional mechanism, limited participation for all APT countries, constraints of local demands, financial gap, different business environment, etc. In order to improve economic efficiency within TPMC, knowledge and experience should be shared, and some key issues should be taken into full consideration such as institutionalization, marketization and multi-objective optimization. As to institutionalized mechanism, Regional Comprehensive Economic Partnership (RCEP) is modern and comprehensive with high quality, and covers both traditional and ultramodern issues, which is good for TPMC. ASEAN centrality and reduction of development gap are also important, and experience and practices can be shared from bilateral to trilateral and to multilateral level. In practice, regional platforms should be in place to encourage the engagement of private sectors in regional supply chains. CJK's advantages in high-end production lines and equipment manufacturing will have technological spillover effect through TPMC.

7. **Indonesia** finds after research that food security raises more concern, which needs long-term sustainable development and international cooperation. Food crisis problems include low productivity, declining agricultural lands, decreasing agricultural workforce, climate change, hunger and malnutrition, etc. APT countries experienced a decline in the value-added share of GDP in the agricultural sector, caused by the shift to the manufacturing and service industries. The integration of food security in nutrition, social protection, increased investment, technology, research and development to support food and agricultural productivity are crucial in facing the pandemic and food insecurity. Intraregional trade cooperation and openness to cooperation need to be increased, and the possibility of protectionism practices needs to be reduced. The challenges ahead of ASEAN+3 include threat to food availability and productivity from the demographic perspective, transformation of agricultural sector, and resource degradation. Therefore, stronger trade cooperation is needed to minimize the impact of shock in food production, and ASEAN Plus Three need to strengthen the cooperation within the region, where TPMC provides a solution.

8. **China** officially proposed Third-Party Market Cooperation in 2015, and in the past years APT countries have not only reached consensus and signed MOUs, but also participated in many projects. Within APT countries, TPMC is significant and suitable for the region, because it means mutual complementarity based on respective advantages, provides impetus for economic recovery and value chains, and serves as adapted collaboration based on local demands. TPMC is a new promising model for economic cooperation, and has already achieved practical effects of $1+1+1>3$.

However, it's still faced with some challenges, including lack of comprehensive and professional TPMC mechanism, insufficient infrastructure connectivity and huge financial gap, and diversification of national conditions and policies. In order to further strengthen intraregional cooperation by means of TPMC, great efforts need to be made. Long-term mechanism should be established to coordinate policies and provide platforms to share information and technology. The principle of market-orientation needs to be implemented in practice, and if possible APT TPMC Fund would be good to provide professional financial service. Centrality of ASEAN should be insisted to achieve society-centered sustainability.

9. **Japan** thinks that Third-Party Market Cooperation is based on "win-win-win" collaboration to promote developing industries and tackle social issues. TPMC should be driven by sustainable growth, improved on the basis of innovation, designed to cooperate on energy and food security issues, and evaluated through SWOT analysis. As to key areas for cooperation, infrastructure is the core project, energy and food security should draw great attention, while other areas are also important, including manufacturing, environment and sustainability, digitalization and natural disaster. Based on G20 principles of openness, transparency, economic efficiency and debt sustainability, Japan can promote "Quality Infrastructure". Green/energy transition, digital economy, life and social infrastructure, and urban development are proposed areas to enhance infrastructure export, which are also key areas for TPMC. In manufacturing, shortage of semiconductor supply brings a challenge for APT countries and needs further cooperation. In energy transition and decarbonization, Japan provides a solution in Asia Energy Transition Initiative (AETI), which is also helpful for TPMC. In firm level, companies are required to develop human rights policies and conduct due diligence throughout the supply chain.

10. **Republic of Korea** points out that Third-Party Market Cooperation can take place in combination of several companies with different resources and production factors. Within TPMC, companies from CJK may cooperate with each other, or specific CJK companies cooperate with ASEAN companies, or APT companies cooperate with other countries. TPMC can utilize abundant resources as inputs including labor, capital, technology, management skill and raw materials, and yield affluent goods and services as output. TPMC obviously raises the efficiency of the business activities if more companies in different countries are cooperating. But the required conditions include perfect information, transparent system and mutual trust, and therefore, a new system must be made. Given the national conditions and economic specialization of Republic of Korea, international economic cooperation is important and TPMC is beneficial for Korean companies. During the collaboration, the involvement of local partners is indispensable and helpful. Although it cannot be done within short time, a more active regional cooperation is necessary, providing more information available for all APT countries, and guaranteeing transparent governance with rule-based business environment and less government intervention.

11. **The Philippines** recognizes Third-Party Market Cooperation as a new form of international collaboration. TPMC is inspired by the Belt and Road Initiative, and aims to pursue open, green and clean cooperation. As an inclusive and international model, TPMC draws upon the strengths of each for better industrial development. TPMC has solid foundation for collaboration, with well-functioning 10+3 cooperation mechanism, with RCEP for further cooperation, with concrete firm-level agreements, and with promising regional collaboration. As companies are major players in TPMC, there should be means in the third-party in ASEAN to instill mechanisms and provide sound business environment so as to ensure quick business transactions, and the Philippines has already made great efforts to encourage private sectors and Public-Private Partnership (PPP). Capacity building for feasibility studies is necessary to care for stakeholders, to contain vital information, to strengthen capacity of local contractors and consulting services, and to evaluate economic viability of projects. There is urgent need to strengthen the role of government as well as financing mechanism, and the government can take actions in infrastructure program, PPP program and convergence programs such as TRIP (Tourism Road Infrastructure Program).

12. **Singapore** realizes that Third-Party Market Cooperation is important and beneficial with flexible and adaptive forms, and APT TPMC is good to promote green development through RCEP. With green development as a share aspiration, only in cooperation can we solve the problem of climate change, and RCEP countries have already made various efforts for carbon neutrality. Given the diversity within the "ASEAN Plus" region, ASEAN centrality is crucial for cooperation. RCEP is an ideal platform to promote TPMC, since it facilitates post-Covid economic recovery, reinforces regional supply chains and introduces new building blocks for regional integration. Potential areas for cooperation include green investment, green finance, green trade and green innovation/technology. Multiparty engagement is indispensable for TPMC in practice. Within the region, we need inter-government cooperation through RCEP. National governments need to improve business environment, provide policy incentives for green development, and enhance social protection. As for business and business associations, they need to strive for good business practices such as ESG. The region is not the strongest in institution-based integration, and therefore, RCEP at present and TPMC mechanism in the future are very important.

13. **Thailand** underlines the importance of Micro, Small and Medium Enterprises (MSMEs) in APT countries. Southeast Asia's robust growth over the past 10 years has been underpinned by MSMEs, which are the backbone and important "engines of growth" in ASEAN, and therefore, strengthening MSMEs' role through structural reform will be critical in maintaining the region's dynamism. Local MSMEs have the potential to create more jobs, and promoting MSMEs' internationalization through participation in global value chains will boost national productivity, and hence well-organized government support is required. Despite its importance, MSMEs in Cambodia, Lao PDR, Myanmar and Vietnam (CLMV) face several challenges,

especially lack of adequate financing to expand their business, and access to finance is the key factor underlying MSMEs' growth. Actions should be taken to enhance inclusive, resilient and sustainable connectivity in trade and investment, and MSMEs can be the pilot project. Besides, Asia's rapid shift into using digital transactions for MSMEs should be further encouraged. Furthermore, TPMC is also good news for MSMEs, and TPMC can be utilized to create production capacity cooperation and alleviate poverty for APT countries.

III Consensus Reached

14. The following issues are mentioned recognized by many experts:

15. **Importance and potentials of TPMC.** In the wake of globalization and regionalization, TPMC is a good option to recover and integrate the economy within the region. Areas for cooperation include food and energy security, infrastructure, AETI, digitalization, PPP, green economy, MSMEs, etc.

16. **Both opportunities and challenges with TPMC.** In order to maximize the positive effects and cope with possible challenges of TPMC, concrete actions should be taken to seize opportunities, and some key issues should be taken into full consideration, including centrality of ASEAN, mutual trust, regional diversity, role of RCEP, capacity building, etc.

17. **Principles and guidelines for TPMC.** Guided by international norms and intraregional consensus, TPMC is essentially business actions carried out by market players, so some fundamental principles need to be applied, including transparent governance, market orientation, rule-based business environment, inclusive growth benefiting all APT countries, ESG, etc.

IV Policy Recommendations

18. The participants to the NEAT Working Group Meeting noted that it is essential for APT countries to enhance intraregional cooperation and Third-Party Market Cooperation 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 "Deepening APT Third-Party Market Cooperation" 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 TPMC Mechanism or Working Group would be better.** Through negotiation and coordination, it's good to improve mutual trust and eliminate misunderstandings. Besides, TPMC needs a specific platform to share

experience and good practices, finance and technology, and information for detailed projects and specific local demands. Moreover, multiparty engagement for all APT countries is necessary for further and effective cooperation.

- **Transparent governance for sound business environment can provide basic guarantee for TPMC.** In order to achieve open and inclusive TPMC, transparent governance in member countries and within the region should play a part, to ensure equal and fair treatment for every single TPMC participants. 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.

(b) Intraregional policy coordination and development convergence

- **Centrality of ASEAN should be insisted.** As to cooperation among APT countries, TPMC can learn experience 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 TPMC be differentiated in appropriate forms, which is more suitable for differentiated local needs.
- **RCEP would be an ideal instrument to promote TPMC.** Except many 10+1 agreements, RCEP provides high-standard regulations which are good for regional economic cooperation. Since TPMC has no effective binding laws at present, RCEP can serve as lawful guarantee, to facilitate intraregional businesses, and to protect reasonable benefits for all parties.
- **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 AETI, BRI, TRIP, etc.

(c) Major areas for cooperation with financial support

- **Priority areas for cooperation should be selected as pilot program.** Infrastructure is not only the major impetus for TPMC, but also the fundamental element in TPMC. Besides, food security, energy transition and green economy draw great attention, and should also be priorities in TPMC. Moreover, High-end manufacturing as local advantages and high-tech R&D as promising industries should also be emphasized within TPMC.

- **Sustainable financial support with diversified source is urgent and indispensable.** Since TPMC projects are mostly time-consuming and capital-demanding, it would be good if APT TPMC Fund could be specifically invented, either as independent fund or within the business scope of certain financial institutions. More importantly, there is no single institution which can satisfy the entire financial needs. So cooperation among financial institutions is necessity, including but not limited to WB, IMF, ADB, AIIB, and Silk Road Fund. Besides, PPP is also a good option, not only because of diversified financial resources, but also for the involvement of private sectors.

(d) Society-centered approach with multi-objective optimization

- **With roots in business, TPMC aims high for society.** On one hand, TPMC has pilot projects as priority for economic development, and on the other hand, TPMC should also aim at small and beautiful livelihood projects for social sustainability. In order to promote market vitality, bring more jobs and improve living standards, MSMEs should also be TPMC's focus in practice.
- **With focus in economy, TPMC aims further for green economy.** TPMC harmonizes economic growth with environmental protection, and its sustainability covers economic, social, cultural and environmental areas. In practice, TPMC should be carried out with comprehensive effects in different aspects for all APT countries.

V Conclusion

19. Although confronted with some difficulties and challenges, yet undoubtedly TPMC is more suitable for APT countries, and it will definitely witness promising development in the future. Within the region, China, Japan, Republic of Korea and Singapore have already taken concrete actions, but more work needs to be done. During the cooperation, multi-party engagement is fundamental, multi-source finance is necessary, and multi-objective optimization 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, TPMC will bring overall development effects for specific countries and among the entire region.

Appendix: List of Participants of the NEAT Working Group Meeting on Deepening
APT Third-Party Market Cooperation

LIST OF PARTICIPANTS

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