

Japan-ASEAN Economic Relations

By Eiji Sakuta

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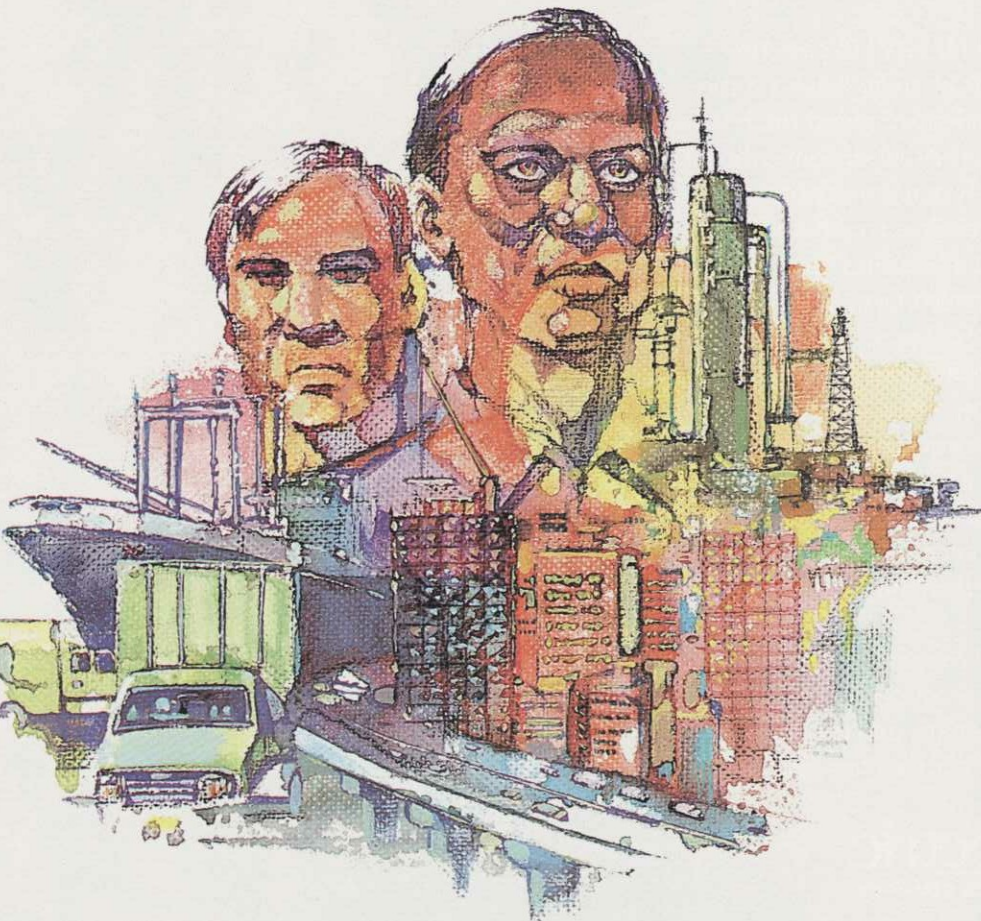
Cooperation between Japan and the Association of Southeast Asian Nations (ASEAN) has a long history and covers a broad range of fields, including not only political relations but also academic, cultural and human exchanges. Cooperation is particularly close in the economic area, however, where the two regions have developed a complementary relationship.

ASEAN weighs large in Japan's economy, accounting for about 10% of the nation's foreign trade, about 20% of its total reported private-sector foreign direct investment and about 30% of its economic assistance to the developing world (Table 1).

Today, however, the circumstances of Japan-ASEAN economic relations are changing, calling for new responses from both sides. ASEAN nations are demanding that Japan open its market wider to their agricultural products and expand imports of their manufactured goods. They are calling for Japanese cooperation in industrialization, and particularly for increased investment by Japanese enterprises.

Trade

Trade between Japan and ASEAN complements both parties. Japan imports raw materials, fuels and agricultural products from ASEAN nations and exports the industrial materials and machinery they need for economic development. In 1985 ASEAN accounted for 10.3% of Japan's foreign trade, the second largest share after the United States'



29.8%. By contrast, the share for the European Community (EC) was 9.5%.

Japan continues to run a deficit in its trade with ASEAN that in 1985 reached \$8,950 million. Bilaterally, however, it is another story. Trade with Brunei, Indonesia and Malaysia, all exporters of petroleum and LNG, was in the red. But Japan had substantial surpluses in trade with Singapore and Thailand. These trends have continued over the years, "polarizing" Japan-ASEAN trade between these two groups of nations (Table 2).

Japan-ASEAN trade has also been leveling off, and has even fallen, in recent years. Two-way trade totaled \$32.4 billion in 1983, \$36.2 billion in 1984 and \$31.5 billion in 1985.

There are many reasons for this. Economic activity in ASEAN nations has stagnated as lower economic growth rates in the United States have slowed their exports to this critical market. At the same time, prices for crude oil and other primary commodities have fallen markedly, even as Japan's economic structure has shifted under the impact of energy conservation, technological innovations and other factors affecting its long-term development.

The importance of the U.S. economic slowdown to ASEAN nations cannot be overemphasized. Economic expansion in the U.S. was the catalyst for growth in the region. In 1984 the share of U.S.-bound exports was 32.3% for the Philippines, 19.7% for Indonesia and 17.1% for Singapore. The average for ASEAN nations overall was 17.8%.

The drop in international prices for petroleum and other primary commodities further reduced export revenues, dealing a heavy blow to countries dependent on them. In Indonesia, the sharp fall in oil export earnings caused serious shortfalls in state revenues, confronting the Jakarta government with difficult problems in economic management. Indonesia was not alone. Domestic demand in all ASEAN countries stagnated

Table 1 Japan-ASEAN Trade, Investment and Economic Relations

	Trade ¹⁾		Investment ²⁾				Economic cooperation ³⁾	
	ASEAN total (\$ million)	% of total	ASEAN total		% of total		ASEAN total (\$ million)	% of total
			Amount (\$ million)	Number of cases	Amount	Number of cases		
1977	15,730	10.4	636	301	22.7	17.1	269.07	29.9
1978	18,568	10.5	917	369	19.9	15.4	449.41	29.4
1979	25,923	12.1	595	380	11.9	14.1	572.06	29.8
1980	34,245	12.7	926	370	19.7	15.2	703.38	35.9
1981	36,162	12.2	2,834	373	31.8	14.5	799.68	35.8
1982	34,303	12.7	801	400	10.4	15.7	684.37	28.9
1983	32,377	11.8	973	468	11.9	17.0	726.75	30.0
1984	36,158	11.8	906	341	8.9	13.6	833.94	34.4
1985	31,463	10.3	935	292	7.7	11.2	n.a.	n.a.

Notes: 1. Trade and economic cooperation figures are for calendar years, and investment figures (private-sector direct investment) are for fiscal years.
 2. Investment values are those approved and reported while economic cooperation values represent net disbursements.
 3. Brunei is included, effective 1984.
 4. Cumulative total of investment (approved and reported) for fiscal 1951-85 was \$13.47 billion, or 16.1% of total overseas investment.

Source: 1) Customs statistics
 2) Finance Ministry reports
 3) White Paper on Economic Cooperation

Table 2 Changes in Japan-ASEAN Trade

		(\$ million)				
	CY	1981	1982	1983	1984	1985
Worldwide	Trade value	295,300	270,900	273,300	306,600	305,200
	Exports	152,000	138,900	146,900	170,100	175,600
	Imports	143,300	132,000	126,400	136,500	129,500
	(Trade balance)	(8,700)	(6,900)	(20,500)	(33,600)	(46,100)
ASEAN*	Trade value	36,200	34,300	32,400	36,200	31,500
	(% of worldwide)	(12.3%)	(12.7%)	(11.8%)	(11.8%)	(10.3%)
	Exports	15,200	14,900	15,000	14,100	11,300
	Imports	21,000	19,400	17,400	22,000	20,200
(Trade balance)	(-5,800)	(-4,500)	(-2,300)	(-7,900)	(-8,900)	
Brunei	Trade value	3,000	2,700	2,500	2,300	1,980
	Exports	100	100	100	100	90
	Imports	2,900	2,600	2,400	2,200	1,890
	(Trade balance)	(-2,800)	(-2,500)	(-2,300)	(-2,100)	(-1,800)
Indonesia	Trade value	17,400	16,300	14,000	14,200	12,290
	Exports	4,100	4,300	3,600	3,100	2,170
	Imports	13,300	12,000	10,400	11,200	10,120
	(Trade balance)	(-9,200)	(-7,700)	(-6,800)	(-8,100)	(-7,950)
Malaysia	Trade value	5,400	5,500	5,900	7,300	6,500
	Exports	2,400	2,500	2,800	2,900	2,170
	Imports	3,000	3,000	3,100	4,400	4,330
	(Trade balance)	(-600)	(-500)	(-300)	(-1,500)	(-2,160)
Philippines	Trade value	3,700	3,400	3,000	2,500	2,180
	Exports	1,900	1,800	1,700	1,100	940
	Imports	1,700	1,600	1,300	1,400	1,240
	(Trade balance)	(200)	(200)	(400)	(-300)	(-300)
Singapore	Trade value	6,400	6,200	5,900	6,400	5,450
	Exports	4,500	4,400	4,400	4,600	3,860
	Imports	1,900	1,800	1,500	1,800	1,590
	(Trade balance)	(2,600)	(2,600)	(2,900)	(2,800)	(2,270)
Thailand	Trade value	3,300	2,900	3,500	3,500	3,060
	Exports	2,300	1,900	2,500	2,400	2,030
	Imports	1,100	1,000	1,000	1,000	1,030
	(Trade balance)	(1,200)	(900)	(1,500)	(1,400)	(1,000)

Note: *Brunei is included from 1984.
 Source: Customs statistics



It is believed that steady industrialization creates jobs, increases incomes and acquires more foreign exchange for ASEAN nations.

as their governments limited public spending. Large foreign debts were one factor imposing a heavy burden on government spending.

At the same time, specifically in Japan-ASEAN trade, energy conservation, technological innovations and other factors reforming the Japanese economy have altered the nation's trade structure. It is now difficult to expect any drastic increase in trade unless ASEAN replaces some of its mainstay exports with items better targeted toward the changing demand in Japan.

Last year the Japanese government worked out an "action program" to improve market access. This program, currently being implemented, is designed to expand trade with foreign countries, including ASEAN nations, through further liberalization of the domestic market. Some of the measures in the action program were first announced during the 2nd Japan-ASEAN Economic Ministers' Meeting, the first in six years, held in June last year. Tariff cuts on a variety of products of interest to ASEAN, including boneless chicken and palm oil, were made ahead of schedule, and were

greatly welcomed by ASEAN nations.

In addition, Japan is doing more to expand imports of manufactured goods from ASEAN states. These imports have increased briskly in recent years, even as overall imports from the region have remained sluggish. Imports of products in which ASEAN producers enjoy comparative cost advantages, textiles included, are expected to increase as steadily in the years ahead as they have in the past. Moreover, a wide range of manufactured imports is expected to become

indispensable to the Japanese economy as ASEAN production technology improves and more and more Japanese companies shift production abroad (Table 3).

The sharp and continuing appreciation of the yen against the dollar makes it all the more likely that this international division of labor will be promoted between Japanese and foreign enterprises. Imports from ASEAN are expected to continue expanding for years to come.

Investment

Japan's cumulative private-sector foreign direct investment in ASEAN reached \$13.47 billion at the end of fiscal 1985, accounting for 16.1% of the nation's \$83.65 billion in total reported foreign direct investment (Table 4). ASEAN enjoys a strategic position in the overseas activities of Japanese businesses. Cumulative investment in Indonesia, for instance, stood at \$8.4 billion, or 10.2% of Japan's global total, the second-largest country share after that of the United States (\$25.3 billion).

On a sectoral basis, investment in extractive industries represented 47.2% of the ASEAN total at the end of fiscal 1985, compared with 40.5% for investment in manufacturing. Nearly half of Japan's global investment in natural resources

Table 3 Manufactured Imports from ASEAN States as Percent of Total Imports (excluding Brunei)

	1976	1979	1982	1983	1984	1985
Worldwide	20.7	26.0	24.9	27.2	29.8	31.0
ASEAN	8.5	7.8	7.0	8.5	8.4	10.1
Indonesia	1.7	1.9	1.5	3.0	3.4	4.3
Malaysia	16.2	11.9	12.4	14.4	11.2	9.2
Philippines	7.4	11.8	16.2	14.7	19.9	22.3
Singapore	23.6	17.4	16.2	20.8	25.0	28.5
Thailand	13.7	23.2	24.1	21.6	23.8	27.7

Note: Manufactured goods consist of machinery, chemicals, other manufactured goods and reimported and specially handled goods (SITC nomenclature, class 5-9).

Source: Customs statistics

**Table 4 Private-Sector Direct Investment in ASEAN States
(approved and reported values and numbers of cases)**

(\$ million)

FY	Indonesia		Malaysia		Philippines		Singapore		Thailand		ASEAN total		Total	
	cases	value	cases	value	cases	value	cases	value	cases	value	cases	value	cases	value
1951-70	78	242	118	50	72	74	104	33	236	91	608	490	3,733	3,533
1971	48	112	17	12	17	5	47	15	24	9	163	153	904	858
1972	61	119	45	13	23	10	72	42	62	30	263	214	1,774	2,338
1973	143	341	116	126	74	43	82	81	76	34	491	625	3,093	3,494
1974	113	375	78	48	55	59	55	51	60	31	361	564	1,912	2,395
1975	120	589	43	52	64	149	64	52	26	14	317	856	1,591	3,280
1976	85	931	36	52	50	15	83	27	27	19	281	1,044	1,652	3,462
1977	83	425	33	69	58	27	89	66	38	49	301	636	1,761	2,806
1978	84	610	30	48	44	53	161	174	50	32	369	917	2,393	4,598
1979	65	150	38	33	43	102	166	255	68	55	380	595	2,694	4,995
1980	96	529	48	146	36	78	132	140	58	33	370	926	2,442	4,693
1981	88	2,434*	41	31	28	72	164	266	52	31	373	2,834	2,563	8,931
1982	84	410	77	83	19	34	154	180	66	94	400	801	2,548	7,703
1983	89	374	95	140	20	65	184	322	73	72	461	973	2,754	8,145
1984	82	374	63	142	12	46	108	225	76	119	341	906	2,499	10,155
1985	62	408	60	79	9	60	110	339	51	49	292	935	2,614	12,218
Total	1,381	8,423	939	1,125	624	892	1,775	2,269	1,053	760	5,772	13,469	36,927	83,649

Notes: 1. *Special factors ① \$181 million in equipment funds for Asahan aluminum project ② \$1,838 million in equipment funds and loans for Pertamina LNG project
Total of ① and ② \$2,019 million

2. ASEAN total in and after 1984 includes Brunei. Total investment in the country for FY 1984-85 was worth \$5 million (3 cases).

Source: Finance Ministry reports

development is in the ASEAN region. By country, resources-related investment accounted for 68.4% of total Japanese investment in Indonesia and 48.7% in the Philippines, compared with a global average of only 15.5%.

New investment in the region has expanded by more than \$900 million annually in recent years. Yet the share of ASEAN investment in Japan's annual total global investment has been shrinking, reaching a low of 7.7% in fiscal 1985 as a result of shifts in the investment emphasis.

In the past, Japanese businesses invested heavily in labor-intensive industries such as textiles, a pattern which inevitably drew them to the low labor costs of ASEAN nations. Recently, however, the intensification of trade friction and the rise of protectionism in developed countries have prompted Japanese enterprises to invest in the United States and West European countries. Such export-substitution investment, designed to maintain or expand foreign market share through local production, is not confined to the United States and West Europe, the major export markets for Japan's industrial products. Japanese producers have also set up manufacturing

plants in newly industrializing countries in Asia, such as South Korea and Taiwan, with the aim of exporting directly from offshore bases. But so far there has been little investment in ASEAN countries for export-oriented production.

Given these changing investment motives on the part of Japanese enterprises, it is increasingly necessary for individual ASEAN nations to create an attractive investment environment in order to provide improved investment opportunities for Japanese companies. ASEAN governments are already moving to change their policies on the introduction of capital and technology from industrialized nations, including Japan. They have begun shifting their past policies regarding localization of capital and favorable treatment to local capital. These changes are welcomed by foreign enterprises, including Japanese firms trying to expand overseas investments. They eagerly anticipate further efforts to improve the investment climate.

The rapid appreciation of the yen is prompting Japanese firms to accelerate the establishment of overseas production bases. In the interest of expanded foreign investment, including investment in ASEAN, it is essential that the

strength of the yen be maintained over the long term.

Economic cooperation

ASEAN is at the core of Japan's economic assistance policy. No less than 30% of net disbursements of bilateral official development assistance (ODA) is given to ASEAN nations (Table 5).

The countries of ASEAN, plagued by falling prices of primary commodities and mounting foreign debts, are calling for Japan to expand this economic assistance. It is essential that Japan do its best to meet such requests, on the condition that recipient countries continue their own self-help efforts. In the case of Indonesia, for example, which faces acute economic difficulties due to the plunge in oil prices, Japan expressed a willingness to help further during the Inter-Governmental Group on Indonesia (IGGI) meeting held in June. The Japanese government has announced a policy of dealing flexibly with Indonesian requests for assistance in financing local costs (costs including wages for locally-hired labor and locally-obtained construction materials) of existing as well as new projects.

Economic conditions are deteriorating for the ASEAN states, as shown by the fall of primary commodity prices and their growing foreign debt burden. There is a growing belief that steady industrialization is the only way to create jobs, increase income and acquire more foreign exchange. Naturally, they hope for Japan's broad-ranging cooperation, including technology transfers.

Japan's technical cooperation with ASEAN nations has emphasized human development. In fiscal 1984, 2,824 specialists were sent to ASEAN nations as members of government-sponsored missions. In the same year, Japan took in 2,462 trainees on a governmental basis. In the private sector, 59 specialists were dispatched and 1,397 trainees received in connection with projects subsidized by the Ministry of International Trade and Industry (MITI). It is important that Japan continue to serve in this way as a "technology supply center" for ASEAN nations.

In addition to cooperation aimed at promoting technology transfers, assistance in developing supporting industries is essential to steady industrialization. In many cases, modern enterprises producing finished goods in developing countries are owned either by the government or by foreign parent companies. They are isolated from local domestic industry, retarding the development of parts suppliers and subcontractors. Consequently, most developing countries still depend on imports for the bulk of their parts and components. The sound devel-

opment of supporting industries consisting of small and medium enterprises is a *sine qua non* for industrialization.

In countries such as the Philippines, which are beset by such regional economic disparities as urban population concentration and income gaps between urban and rural regions, the promotion of small businesses is a prerequisite for regional economic development, which helps absorb surplus labor in provincial areas.

MITI plans to promote full cooperation in the industrialization of ASEAN nations through yen loans to help build infrastructure needed for development projects such as the construction of export-oriented industrial parks. In addition, the ministry intends to encourage "software" cooperation, including financial assistance for the development of supporting industries through two-step loans, technology transfers and services to help Japanese enterprises find investment opportunities in ASEAN states.

Policy reviews

ASEAN will observe the 20th anniversary of its founding next year. With the addition of Brunei, ASEAN now has six members. Generally speaking, ASEAN has functioned effectively as a resilient organization for regional cooperation. But the economic environment is severe. And although it is fashionable to speak of the 21st century as the "Century of the

Pacific," a resurgence of the high economic growth of the past no longer seems likely. Singapore, the star pupil of Asian developing nations with its per capita income approaching the level of a semi-industrialized nation, is now in economic difficulty. Last year the country recorded the first negative economic growth in its history.

ASEAN nations are well aware of the difficult situation in which they find themselves. They are reviewing their economic and industrial policies in order to promote autonomous industrialization. Given the abundance of their natural resources and the diversity of their human resources, it should not be difficult for them to develop their growth potential once industrialization gets well under way.

In Japan, meanwhile, people today are looking back on the course of economic development that the nation has followed in the postwar period. Through such retrospection, a national consensus is emerging on the basic direction for economic and industrial policy up to and into the 21st century. Efforts are beginning in earnest to transform the nation's export-oriented economic structure into one led by domestic demand, and to reorient the industrial structure in such a way that it will help rather than hinder the long-term internationalization of the Japanese economy. The hope is that these reforms will lead to expanded imports, more active foreign direct investment and more expeditious technology transfers to the developing world. In the end, Japan should be integrated more closely into international economic society, ASEAN included.

The complementary nature of economic relations between ASEAN as an organization for regional cooperation and Japan as a major industrialized nation with global economic responsibilities is expected to remain basically unchanged in the years ahead. Through policy changes on both sides, the Japan-ASEAN partnership will continue to develop. ●

Table 5 Economic Cooperation

(¥ billion)

	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN total	Grand total
Cumulative total at end of 1985	1,396.0	317.8	516.7	15.6	682.0	2,938.0	8,241.2
Non-grants Yen credits	1,194.4	310.6	466.7	9.8	593.2	2,574.7	6,545.1
Others	129.1	0	9.9	2.9	0	141.9	632.9
Grants	72.5	7.2	50.0	2.9	88.8	221.4	1,063.2
Sums pledged in 1984	80.4	1.3	56.6	0	85.5	223.8	732.6
Non-grants	75.4	0	49.5	0	72.1	197.0	574.1
Grants (as of Dec. 31, 1984)	5.0	1.3	7.1	0	13.4	26.8	158.5

Note: No financial assistance has been extended to Brunei.
Source: White Paper on Economic Cooperation