

ASEAN Industrialization And Japanese Economic Cooperation

By Katsuhiro Yokota

Member countries of the Association of Southeast Asian Nations (ASEAN) have traditionally maintained very close ties with Japan, both economic and political.

The 1960s and 1970s saw the ASEAN nations achieve varying degrees of industrial development. Despite some individual differences, all the ASEAN nations managed to maintain high economic growth rates during the 1960s, with even higher rates in the 1970s. ASEAN as a whole posted annual growths averaging 5.4% in the 1960s and 7.5% in the 1970s. During those years, the pace of economic growth was particularly rapid in countries like Indonesia, Malaysia and the Philippines.

All the ASEAN countries have tended to focus on the manufacturing sector during the course of industrial development. And along with an expanding manufacturing sector, exports from ASEAN countries have also moved gradually from primary products to manufactures. But in the 1980s the economic environment has undergone dizzying changes and a host of problems has beset further ASEAN industrialization efforts.

To start with, a slowdown in the U.S. economy and in other major industrial nations has blunted the pace of economic development in the region, resulting in a slight decline in the share of the manufacturing sector in the ASEAN gross do-

mestic product (GDP). The region as a whole registered an average 5.2% economic growth during the 1980-1984 period, much lower than the levels achieved in the 1960s and 1970s. The share of manufactured output came to 18.5% of the combined GDP in 1983, 0.8 of a percentage point lower than the 1980 level.

In addition, a slump in the primary products market has cut deep into the export performances of the ASEAN nations. In 1983, primary exports accounted for 70.7% of ASEAN's outgoing trade. Of course, advances in industrial development have played a part in reducing the share of primary products in ASEAN's export trade. However, it is perhaps more accurate to say that the lower share was primarily caused by sluggish demand for primary products on the world market, partly as a result of greater efficiency in energy and raw material consumption.

A general slowdown of economic growth in the Third World together with a depressed primary market has caused an increase in the foreign debt burden among ASEAN countries as well as a deterioration of their debt service ratio (DSR). Between 1970 and 1984, the DSR for public and publicly guaranteed debts rose from 6.9 to 14.7% in Indonesia, 3.6 to 7.7% in Malaysia, 7.3 to 14.1% in the Philippines and 3.4 to 13.0% in Thailand.

All this shows that the ASEAN economy as a whole is still largely based on a

fragile industrial structure dependent on the primary sector, and ASEAN governments are now facing serious economic difficulties stemming from the slump in the primary market.

Further industrialization would benefit economic development in a number of ways. Externally, it would help ease balance of payment difficulties because it can earn and save foreign exchange. Domestically, industrial development would result in better use of domestic resources, increase national income, create jobs, promote technology transfer and stimulate regional development. Under the present structure of the ASEAN economies, promotion of industrialization to gain and save foreign exchange is vital for further socioeconomic development, as well as building up industrial infrastructures and agricultural development.

Industrial development in ASEAN also affects the Japanese as well as the world economy. It will spur Japan to develop more sophisticated technology and thereby accelerate the pace of change in Japan's own industrial structure. Greater vigor in the ASEAN economy should also lead to an expansion of world trade. In particular, increased exports of ASEAN-manufactured products should help ease trade friction between Japan and the region. Industrial development in ASEAN is thus in line with Japan's efforts to restructure its economy for

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greater international harmony, considered essential by the Industrial Structure Council subcommittee report released on May 26, 1986.

Requests for cooperation

In promoting further industrial development, it is inevitable that ASEAN will seek economic cooperation from Japan. ASEAN members have taken every opportunity to express their desire to obtain Japanese cooperation in industrial development, for example when Japan's Keidanren (Federation of Economic Organizations) sent a mission to ASEAN nations in February 1985, and during the 2nd Japan-ASEAN Economic Ministers' Meeting held the following June. Thailand has also expressed similar sentiments in a government white paper arguing for a readjustment of the economic structure between the two countries. Some of the specific forms of cooperation sought are outlined below.

The principal concern of ASEAN members is better access to the Japanese market through reduction of import tariffs or removal of non-tariff barriers, including better access to information on the Japanese market, the dispatch of Japanese trade missions and stronger general ties with the Japanese economy. Specifically, they want Japanese businesses to help them build up their production capability and develop products that suit Japanese consumers' tastes, allowing stepped up exports to Japan. And also they require the transfer of marketing know-how to sell more successfully in Japan. In addition, ASEAN is requesting Japan to set up trade centers in the six member nations and render assistance in mapping out export promotion plans.

It is felt in ASEAN that Japan should increase investments in the region, particularly in export-oriented industries. ASEAN has urged that Japan supply them with information on potential investment. In addition, they hope that Japan will promote international divi-

sion of labor and relocate Japan's sunset industries in the region. For specific investment promotion measures, ASEAN is willing to use the facilities of JETRO and hopes that Japan will devise a comprehensive scheme to bolster investments to the region.

Technology transfer is one of the major goals of increased foreign investment in ASEAN. However, since qualified personnel are needed to make use of the advanced technology transferred from the more advanced nations, they have recently placed more emphasis on personnel training, both in Japan and through the dispatch of experts to ASEAN. They also want to step up their ties with Japanese institutions involved in technology transfer so that they can benefit from a vastly expanded technology transfer scheme.

At present, ASEAN's requests for economic cooperation from Japan no longer center on the volume of cooperation alone. Increasingly, ASEAN countries are targeting a specific product or a specific industry. The trend is toward diversification.

It has been pointed out that Japan has not done enough to fulfill ASEAN demands in economic cooperation extended so far. There is a perception gap on this issue between Japan and ASEAN member countries; some of ASEAN's complaints are not necessarily realistic. Japan must do everything possible to understand the nature of ASEAN requests for economic cooperation and should also promote—effectively and efficiently—industrialization in the region in light of the genuine needs of ASEAN countries.



Trainees from ASEAN countries

Problems in ASEAN industrialization

Based on Japan's own experience, the success of industrialization depends on the existence of an adequate socioindustrial system. Specifically, this means two things. First, the socioindustrial structure must be geared to industrial activities, with an industrial infrastructure prepared and the distribution system modernized. Second, people must hold an industrial philosophy and industrial mental outlook on labor relations in common. In addition industrial development is possible only if the country has access to a reasonable capital supply and technology—not one specific kind of technology but a pooled technology and knowledge system which is essential for modernization and industrial development. It goes without saying

that governments must enact appropriate policy measures to manage an industrial society, to nurture entrepreneurs and to introduce technology and capital.

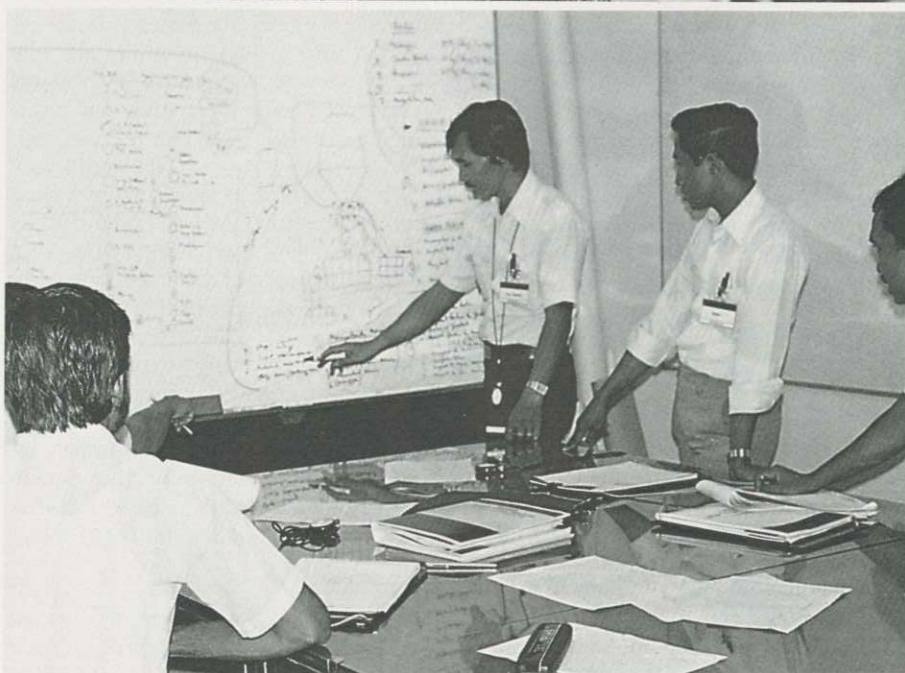
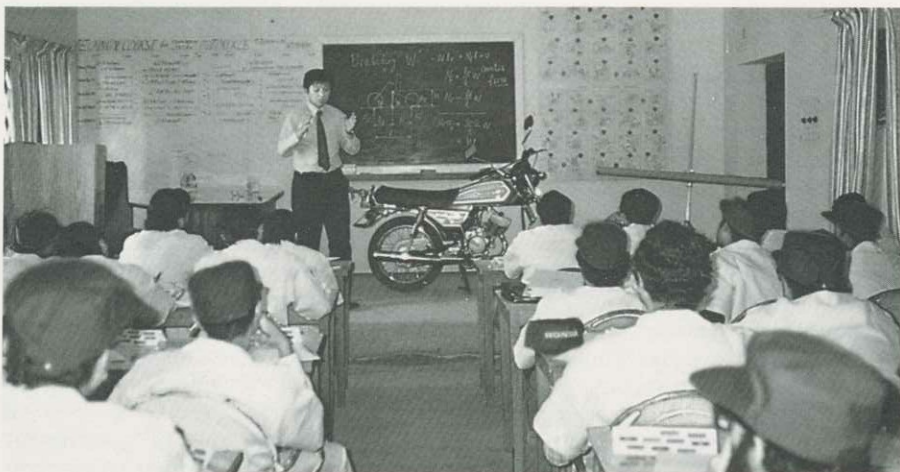
The success of the further industrialization of ASEAN countries, therefore, depends on whether technology, capital, industrial infrastructure, mental outlook and industrial policy are made available.

Technology must first be obtained and then fostered for meaningful industrial development. Yet ASEAN is facing a shortage of technology, both production technology and management know-how. There is not enough trained manpower among the ASEAN nations to carry out production, much less to improve the quality of products or to develop new ones. There is also a shortage of skilled labor in management, in marketing and in product design.

The smooth flow of capital is a necessary lubricant for industrialization, but most of the businesses in ASEAN countries face a shortage of funds. There is simply not enough capital to go around, meaning that interest rates are high and government financing is short.

While both technology and capital are essential for industrialization, it is also vital to have an industry-oriented social structure to form the foundation for industrialization. The lack of small- and medium-sized supporting industries, for instance, has become a serious impediment to the development of assembly industries. Also, the lack of an adequate general infrastructure—whether in “hardware” items like electricity, transport and communications, or “software” items like distribution network and industrial patents—has become a major block to industrial development in ASEAN.

To start off further industrialization, it is necessary to cultivate a philosophy conducive to the process of industrialization. It is also necessary to construct a “market society” and a functional “trust economy.” To form all these various aspects of industrialization into shape and make them function in an organic system, a sound industrial policy is indispensable. However, according to information gathered by the Ministry of International Trade and Industry (MITI) from Japanese businesses already operating in the region, ASEAN governments lack consistency and continuity in policy matters with regard to the protection of domestic capital and domestic industry and employment of local people. It has also been pointed out that hasty implementation of various industrial policies has sometimes made it difficult for foreign enterprises to operate successfully in ASEAN. The fol-



Japanese engineers sharing expertise with local employees

lowing are some of the complaints raised against ASEAN's industrial policies:

Restriction on capital procurement

Foreign businesses face a host of problems when they try to raise capital in ASEAN. Since the domestic capital market is small in most ASEAN nations, there are stringent collateral requirements. If the funds required exceed a certain amount, approval from the central bank is necessary. If the money comes from abroad, it will probably be heavily taxed. Government-linked financial establishments often impose severe restrictions on foreign-owned companies.

Restrictions on investment

ASEAN governments, like all others, generally impose restrictions on the maximum ratio of foreign-owned capital in a local business. Foreign-owned capital is usually held under a certain proportion when a new company is formed, or a certain proportion of the capital must be

transferred to local ownership after a specified period of time.

Tax problems

Tax procedures in ASEAN countries tend to be cumbersome, and there have been complaints that foreign-owned businesses are discriminated against in taxation.

Restrictions on employment

As in other nations, foreign businesses are generally required to hire local workers and maintain a certain proportion of local employees. ASEAN governments usually impose restrictions on foreigners employed in the country either through control of visas or work permits. In addition, foreign-owned companies are often required to train local employees. On top of all these requirements, foreign businesses must get permission from the labor minister to dismiss employees even in times of depression, and therefore it is sometimes difficult to impose layoffs.

Obligation for local procurement and export

There have been instances in which some ASEAN governments have encouraged foreign-owned businesses, either through administrative guidance or by law, to use locally-made products or to manufacture locally. Also, in encouraging foreigners to invest in their country, ASEAN governments often specify that they export part of the output.

Restrictions on imports

High tariffs are usually imposed on parts or raw material imports. It is understandable that ASEAN governments must adopt some restrictive policies for domestic reasons. However, it is also a fact that Japanese investors consider most of the restrictive measures adopted by ASEAN member countries an impediment to business activity in the region. In this sense, it is hoped that ASEAN governments will not adopt excessively restrictive measures in the course of implementing their industrial policy, and that they will not force abrupt policy changes.

Japan's cooperation in ASEAN industrialization

The ASEAN economies have been afflicted by growing foreign debt burdens and a depressed primary products market. To overcome such structural problems and to promote their spontaneous growth, the ASEAN member nations have no choice but to industrialize further, and to develop the kinds of industry which can help them obtain and save foreign exchange.

For Japan, on the other hand, it has become a matter of necessity to shift its economic structure more in harmony with the rest of the world, making it essential to ensure a smooth flow of Japanese investment to the developing world. One important task here is to improve the investment environment among the Third World countries and to activate necessary investment promotion policies.

A brief review of Japan's foreign aid policy is perhaps in order here. Traditionally, Japan has pursued a policy of helping developing nations develop their economies and improve the social infrastructure. The Japanese government has pursued this goal through a variety of economic assistance instruments, including yen loans, grants-in-aid and technical assistance. So far, the government has tried to make sure that these policy instruments are implemented in line with the requests of the recipient countries,

but in fact the Japanese government cannot be certain that its assistance programs have been effective in contributing to industrial development in the receiving nations.

The ASEAN governments have recently stepped up their requests for economic assistance to help them obtain and save foreign exchange. Therefore, in mapping out future economic assistance programs, Japan should review its traditional policy of focusing on infrastructure projects and shift the emphasis to promoting foreign-exchange-earning industries.

The continued role of government economic assistance cannot be overemphasized. The private sector is now also in a position to play an important role through direct investments, technology transfer and trade promotion. Indeed, a major expansion of economic cooperation from the private sector could very well hold the key to spur further industrialization among ASEAN countries.

The following is an outline of current Japanese projects for the promotion of industrial development in the region:

Infrastructures

Japan is currently extending yen loans for the construction of such infrastructure projects as industrial estates, industrial roads and ports. Examples include the construction of the Bataan export processing zone in the Philippines and the Ujung Pandang industrial estate in Indonesia.

Financing

To promote the development of small businesses in ASEAN countries, Japan has created a two-step loan system devised to channel funds to small businesses through development finance institutions in the recipient countries. This system has proved to be effective, and examples include a loan arrangement for the Industrial Finance Corporation of Thailand (IFCT) and an export modernization loan for the Philippines.

In addition, the Overseas Economic Cooperation Fund (OECF), the Export-Import Bank of Japan and the Japan Overseas Development Corporation (JODC) have been assigned to channel equity capital and credits to ASEAN nations, with OECF taking an equity stake in the Japan-ASEAN Investment Co.

Technical cooperation

Technology transfer is the key to industrialization and the Association for Overseas Technical Scholarship (AOTS) and JODC (both nonprofit organizations) are involved in providing technical training in production techniques and business management. The AOTS carries

out training programs in Japan, and the JODC sends Japanese experts to ASEAN to provide technical training to local apprentices. Meanwhile, Japan has also been promoting technical cooperation in ASEAN mining and industrial projects, as illustrated by the Japan International Cooperation Agency (JICA)'s involvement in technical cooperation with a metal forging technology center in the Philippines, a metal engineering and materials center in Malaysia and a metal processing center in Thailand.

JETRO's ASEAN cooperation project staff are involved in promoting a series of cooperation projects for marketing technology. Information on potential investors can be obtained through JETRO's ASEAN cooperation project, the Institute of Developing Economies and the ASEAN Promotion Center on Trade, Investment and Tourism, while consultation services on investment and technical tieups can be arranged through JETRO and the Japan Chamber of Commerce and Industry, or through the MITI-supported Project Arrangement Coordination (PAC) consulting service, which is responsible for promoting investment and exports.

Although there have been reports of progress in the various fields of Japanese-ASEAN economic cooperation, the level of Japanese cooperation is not sufficient. Drastic expansion is needed to help the ASEAN nations overcome present structural problems and simultaneously to build up an industrial structure in Japan more in harmony with the rest of the world. Especially now that the yen is so strong, the expansion of investment by Japanese business can play a key role in promoting industrialization in ASEAN countries.

In rendering economic assistance, it is necessary to integrate all aspects of the aid projects, including the building of infrastructure, financial assistance, technical cooperation, marketing cooperation and consultation in investment and technical tieups in the private sector, and to devise a new comprehensive scheme to promote investment from the Japanese private sector in combination with ASEAN's own efforts to develop local industries for spontaneous economic growth. The Japanese government should talk with its ASEAN partners about adjusting taxation and investment policies to bring them in line with industrialization priorities in the region.

ASEAN will celebrate its 20th anniversary next year. Many feel it is time for a new chapter in the history of ASEAN-Japanese economic cooperation. ●