

Economic Study of ASEM

By Nakaishi Naritaka

Trends in economic relations between Asia and Europe

(1) Synergetic effect of economic exchanges

In 1994, the combined GNP of the Asian countries participating in ASEM accounted for slightly less than a quarter of the world's GNP, and the GNP of the EU represented about a quarter of the same. The two combined represented about half of the world's GNP. The Asian participants are diverse in economic scale, income level, population, natural resource endowment and industrial structure. Nevertheless, they are maintaining a strong economic dynamism, and their economies are growing rapidly as a result of the expansion of direct foreign capital investment and of exports. The European participants, on the other hand, are making progress in the homogenization of their markets against the background of progress toward economic unification. They have already experienced the aging of society, have made progress in combating environmental problems and are completing mature economic systems. Because Asia and Europe have such contrasting economic landscapes, the ongoing expansion of economic exchanges between the two regions has the potential of providing new stimuli to each other's economic activities and fueling their economic advancement. Trade and investment between Asia and Europe are growing against such a background.

(2) Trends in trade between Asia and Europe

Merchandise trade among the countries taking part in ASEM represents slightly less than 40% of the world's total. Most of it is intra-regional trade in Europe and Asia. Merchandise trade between the developing countries of Asia and the industrialized countries of Europe has been growing faster than

trade between other regions since the second half of the 1980s. The background to the fast-growing trade between Asia and Europe has been a structural change in exports from the developing countries of Asia, which were based on a vertical division of labor in the past, in which Asia supplied only primary products, into one based on a horizontal division of roles, in which Asia supplies mainly intermediate products and also finished industrial products.

(3) Trends in direct capital investment between Asia and Europe

Major changes in direct international capital investment in the world since the second half of the 1980s have occurred mainly in the countries which are participating in ASEM. Such changes include an increase in Europe's share of direct capital investment in the world, the emergence of developing Asian countries as major receptacles of direct capital investment and the rise in Japan's position as a major direct capital investor.

In terms of flow, direct capital investment in Europe from Asia is growing, but on a stock basis, the balance of investment from Asia represents only a fraction of total direct capital investment received by Europe. By industry, direct capital investment in Asia from Europe concentrates on petroleum refining, chemicals and financial services. Since the second half of the 1980s, developing Asian countries have been rising fast in position as major recipients of direct capital investment, with manufacturing industries as



Key to development: Generating foreign investment through power plants

export bases leading the way.

Growth of direct capital investment and expansion of economic exchanges

(1) Historical changes in direct capital investment

In the beginning, direct capital investment in Asia by industrialized countries was motivated by the desire to ensure stable supplies of natural resources such as petroleum, iron ore and coal. (This is natural resources-securing investment.) It then evolved into investment aimed at securing export bases by transferring production of products for export to low labor-cost countries and exporting the products to third countries. (This is export-base investment.) Later, the main purpose of investment shifted to entering a market where there were high trade barriers or a market having good growth potential. (This is market-entry investment.) Quite recently, there has been increasing investment aimed at building an international division of labor by selecting the country best suited in terms of cost, etc., for each product individually, (production network investment) and investment to secure managerial resources and reforming management

(managerial renovation investment) by directing investment for research and development to countries where the quality of human resources and the technology levels are high.

(2) Economic advancement through direct capital investment

The driving force for direct capital investment comes from multinational corporations which have attained rapid growth in recent years. Multinational corporations have been expanding their networks of production and sales by making direct investment in markets throughout the world. To the recipients, direct capital investment means having their industry integrated in the global networks of production and sales. Direct capital investment ensures further advancement of their economies, because it strengthens their links with the world economy.

Moreover, if an internationally competitive multinational corporation starts operations in a developing country, its superior managerial know-how will spill over into the host country and help it bolster its international competitiveness and total factor productivity (TFP).

Direct capital investment for research and development will generate a beneficial circle of bringing industry in the recipient country to higher levels, because it has the effect of raising the quality of human resources and the level of technologies in the recipient country, which in turn will attract further research and development investment.

High-rate economic growth triggered and fueled by such direct capital investment has already begun to occur in Asia. Further advancement of the Asian economy depends on whether this investment trend will continue.

Significance of economic exchanges between Europe and Asia

(1) Europe's role in promoting the advancement of Asia

To Asian multinational corporations, Europe—which is in the process of completing a large single market—offers

business opportunities of a staggering size, similar to North America. For this reason, exports of goods from Asian multinational corporations to Europe and their direct investment in Europe has been growing.

Because the size of the workforce and the amount of capital available in Asia will grow further, direct capital investment from Europe in Asia, aimed at research and development, will accelerate the economic advancement of Asia by raising TFP and industry to higher and more high-tech levels.

While Asian countries will have to deal with such pressing problems as infrastructural deficiencies, a shortage of technicians, environmental problems and the aging of their populations in order to attain a higher growth rate hereafter, European countries that have technologies and the capital necessary to alleviate these problems have an important role to perform.

(2) Asia's role in promoting the advancement of Europe

Asia is a promising market with great growth potential. Promotion of trade with and direct investment in Asia is indispensable to the advancement of the European economy. In particular, the dynamism of the Asian economy will revitalize the European economy through the activities of European multinational corporations.

Liberalization of trade and direct capital investment is indispensable to ensure that trade and direct capital investment stimulate the growth of each other in a mutually supplementary manner and strengthen economic relations between Asia and Europe. Both Asia and Europe must make various structural adjustments and practice policies to that end, to ensure that both regions enjoy the fruits of expanded economic relations. Governments have important roles to perform to strengthen economic relations between Asia and Europe.

Policies for expanding economic exchanges

I believe that Asia and Europe, which both possess economic dynamism and

diversity, have the potential to create a synergy that will make further economic advancement of both regions possible if they strengthen their linkage.

To bring such potential into full play, the two regions should expand economic exchanges by strengthening their partnership further and promoting two-way investment and trade. The following actions should be taken to strengthen the economic linkage:

(1) Basic thinking

Between Asia and Europe, there is strong demand for two-way direct capital investment and trade. In fact, bilateral investment and trade have been growing, so if market principles are made to work, economic exchanges between the two regions should expand. Therefore, the first thing to be done is to secure a freer, competitive economic environment in order to enable market principles to operate.

Up until now, direct capital investment between Asia and Europe has been insufficient. This was because market functions did not work well, due to insufficiency of information. Because of the distance that separates Asia and Europe, private business communities of either region did not have enough information about the other and failed to seize valuable investment opportunities.

Therefore, the second thing to be done to vitalize economic activities between Asia and Europe is to maximize the activities of business corporations, which perform the principal role in economic activities, by means of public-private sector cooperation. Asia and Europe should promote mutual exchanges between their business corporations, exchange information about each other's market and thereby make up for the shortages of information. To back up the activities of the private sector, the public sector should be aware of the needs of the private sector and take effective measures to meet them.

Thirdly, in order to ensure stable growth of business activities by private business corporations, a free and transparent business environment that enables entrepreneurs to foresee that their applications will be accepted and requested

permission will be given, and guarantees that they will not be discriminated against because of the nationality of their capital or any other reason should be created. This is indispensable as a means of improving market functions for the purpose of enabling entrepreneurs to overcome the external diseconomy of the market that may result from any wasteful transaction costs and making a public asset called a free and fair economic system available to everyone.

Fourthly, economic regulations concerning trade and investment should be in alignment with WTO rules, and economic systems should conform to international standards as much as possible. This is important to avoid the political and economic costs of trade friction.

Fifthly, when Asia and Europe attempt to promote economic exchanges, they should do so as equal partners and be aware of the socioeconomic diversities that exist in both Asia and Europe.

(2) Major policy tasks

Policy issues that become important when Asia and Europe are fully aware of the above attempt to make market principles work effectively and promote economic exchanges boil down to three points: (a) creating investment opportunities and having the private sector's needs reflected in policies by promoting business exchanges; (b) creating a comfortable business climate to enable entrepreneurs to operate at a reasonable cost, and (c) overcoming the external diseconomy, such as energy-related environmental issues, and ensure sustainable growth of the economy.

(a) Promotion of economic exchanges between entrepreneurs in the private sector

Asia and Europe should deepen mutual understanding and expand trade and investment by promoting mutual exchanges by business corporations, which are the principal players in market activities. Expansion of exchanges between Asia and Europe should stimulate economic exchanges with third countries and regions, and eventually strengthen their linkage with the world economy. It is hoped that the govern-

ments concerned will recognize the needs of private entrepreneurs and take appropriate action.

To be specific, the governments concerned should hold forums and workshops of private entrepreneurs who share a common interest and through exchanges of views help them deepen their mutual understanding and, by providing a venue where businesses can get to know each other, stimulate mutual international exchanges at the private level. The governments concerned should ensure that the results of debates held on problems of common interest are reflected in their policies and ensure an effective linkage between the public and private sectors.

In order to create a business-friendly environment, the governments concerned should make available information, such as databases about investment and corporate information, set up points of contact between government and business for investment and trade, help business corporations train experts in regional affairs and thereby back up the exchanges at the private level. They should also develop a multilingual information processing system to overcome language barriers.

(b) Realization of a business environment that contributes to the expansion of trade and investment

To ensure free and efficient competition, the governments concerned should listen to the needs of the private sector and simplify various procedures and enhance transparency through deregulation, promote the standardization of various systems and processes and so create a favorable climate for trade and investment.

To be specific, they should ensure transparency in administration by giving individuals access to information relating to administration, liberalize trade and investment by easing regulations and simplifying trade and investment procedures, complete and standardize public systems and procedures relating to trade and investment, such as customs clearance procedures, systems for authentication of products and an intellectual property protection system and by doing so,

reduce the burden on entrepreneurs and enhance the synergetic effect through further expansion of trade and investment.

Infrastructure, which is a prerequisite for industrial activities and for the removal of trade barriers, should be completed by using the vitality of the private sector, so as to enhance the efficiency of the market.

(c) Maintenance of stable, sustainable economic growth

Energy and environmental problems and a deficient infrastructure increase the external diseconomy in business operations and can endanger the survival of economic society. Energy and environmental problems must be dealt with and deficiencies in infrastructure overcome so as to ensure sustainable economic growth. It is also vital to carry out structural reform of the economy by adjusting the industrial structure and providing sufficient infrastructure, and ensure a beneficial circle between the structural reform of the economy and further economic advancement.

(3) Trends in areas important for economic exchanges

(a) Human resource development

While the global industrial society has been becoming more and more sophisticated in recent years, human resources have become increasingly important as a factor in determining the international competitiveness of a country's industry. The development of human resources has two aspects: macro and micro. On the macro side, the general level of research and development and that of education should be raised. On the micro side, each business corporation should train and educate their employees so that they may acquire managerial ability, vocational skills and industrial advanced technologies.

The macro side of human resources development will be discussed later. Regarding the micro side, business administration know-how, such as production management, sales management and labor administration, is often transferred through business transactions, business alliances and joint ventures

with advanced enterprises. Therefore, promoting business exchanges between Asia and Europe will contribute to the development of human resources in each region.

The development of human resources in Asia and Europe contributes to the promotion of mutual exchanges between the two regions. For example, when a European company wants to establish operations in Asia, that company may train its employees as administrators or technicians who understand the Asian market (the reverse can occur, too, when an Asian company wished to start operations in Europe), or train employers in the host country as administrators or technicians who understand the guest country well.

(b) Information and telecommunications network

A very effective way of promoting economic exchanges between Asia and Europe is to build information and telecommunications infrastructure between business corporations of the two regions, create a database of information concerning each region's market and thereby promote mutual communication, transmission of information and mutual understanding. To this end, it is important to structure a multilateral business network based on personal connections, specifically a global network that transcends language barriers.

(c) Research and development

The ability to develop new technologies has become an important factor in winning in international business competition. However, the risks involved in research and development have increased as ever greater amounts of time and money have come to be needed to develop a new product or a new technology. Consequently, the number of alliances between companies for joint research and development projects has increased. Many such alliances, however, are not merely aimed at spreading the risk by sharing the cost but are part of a strategy to produce a synergetic effect by combining the research and development endeavors of two or more research bodies and companies.

Alliances between Asian and European companies mean the expansion of economic exchanges between Asia and Europe. If a smooth transfer of technologies is accomplished through joint ventures and if advanced technologies are transferred to the host country as part of the spill-over effect, new investments and a larger business presence in the country will result, and economic exchanges will expand further.

(d) Small and medium-size companies and new venture businesses

ASEM countries derive the driving force for the advancement of their economies from small and medium-size companies. Between Asian and European small and medium-size companies, there is difference in where they excel. Whereas Asian small and medium-size companies supply low-cost products by hiring relatively low-cost labor, European small and medium-size companies supply quality products in small quantities. If the economic exchanges between them expand and the understanding of each other's strengths deepens as a result, they will be better able to carve out their managerial strategies and create new roles for small and medium-size companies. At present, however, the participation by small and medium-size companies in economic exchanges between Asia and Europe is meager in either direction.

Small and medium-size companies are handicapped in various respects, such as recruitment, access to information and fund raising. However, because their participation is indispensable in the vitalization of economic exchanges between Asia and Europe, it is hoped that a better environment for them will be created to enable them to secure able people, obtain necessary information and raise necessary funds on the financial market to enable them to take part in economic exchanges between Asia and Europe.

(e) Completion of infrastructure

With the rapid advancement of the Asian economy, demand for such industrial infrastructure as electric power, superhighways and telecommunications systems is growing, but funds and

know-how for the completion of infrastructure are in short supply. The shortages of funds and know-how as well as infrastructure are proving to be a bottleneck in the advancement of the Asian economy.

In order to ensure economic advancement and provide a satisfactory business environment, Asian countries must manage and develop industrial and human infrastructure through use of private capital. To ensure a smooth introduction of private capital, they must implement legal systems and make administrative procedures transparent, thereby enabling foreign companies that plan to launch operations in Asian countries to foresee whether they can obtain the necessary approvals and stabilize their operations.

(f) Energy environment

With the growth of the Asian economy, energy demand is tending upward. European countries, too, still depend greatly on oil and coal as energy sources. Therefore, the development of alternative energy sources and energy-saving technologies is becoming more and more important.

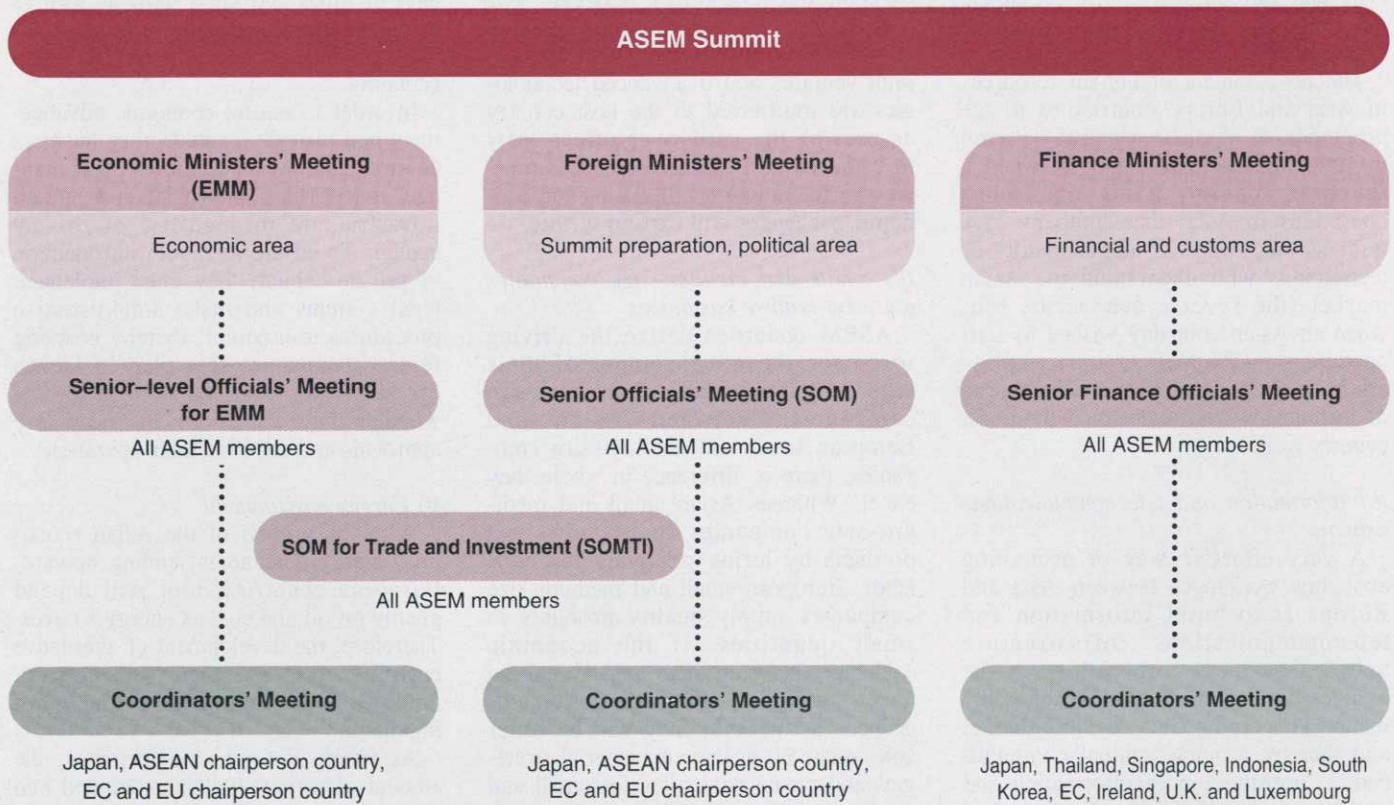
As energy consumption increases, the amount of various pollutants emitted into the environment will increase. Therefore, the need to introduce Europe's superior environmental protection technologies to Asia will rise.

Conclusion

To sum up, the expansion of economic exchanges between Asia and Europe has the potential to generate the synergetic effect of stimulating the advancement of both Asian and European economies even further. To bring into being the mechanism whereby the expansion of trade and investment stimulates a further advancement of their economies, Asia and Europe should promote business exchanges, improve their business climate and ensure a sustainable growth of their economies to ensure the smooth functioning of market mechanisms. ■

Nakaishi Naritaka is the deputy director of the Regional Cooperation Division of MITI's International Trade Policy Bureau.

Meetings and Initiatives under ASEM



Economic area

<Exchanges at the private level>

- Business forum
Trade working group, investment working group, infrastructure working group, small and medium-sized enterprises working group, and tourism working group
- Business conference

<Investment and trade>

- Investment Promotion Action Program (IPAP)
- Meeting of investment experts
- Trade Facilitation Action Program (TFAP)

<Infrastructure>

- Infrastructure task force
- Infrastructure symposium

<Others>

- Study of economic synergy
- Meeting of experts in technological cooperation (Industrial technologies)

Political and cultural areas

- ASEM enlargement
- Asia-Europe Foundation
- Asia-Europe intellectual exchanges
- Plan to hold exchanges between Asian and European universities
- Symposium of Asian and European young leaders

General area

- Framework for ASEM cooperation
- Vision group

Other areas of cooperation

- Asia-Europe Environmental Technology Center
- Mekong Basin Development (Study of plan to spread network across Asia)
- Meeting of experts in technological cooperation (agriculture and environmental protection)

Financial and customs area

- ASEM Customs DG/Commissioners' Meeting (Procedure Working Group and Enforcement Working Group)