

Japan-ASEAN Economic Co-operation

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1. Introduction

Due to geographical proximity and cultural similarities, Japan has kept close economic ties with the ASEAN countries in the post-war era. The major fundamental factor that makes Japan and ASEAN co-operation necessary is that the Southeast Asian countries are significant to Japan as a source of raw materials and a market for Japanese manufacturers. As the ASEAN nations have achieved remarkable economic progress since the second half of the 1980s, Japan is showing more and more interest in ASEAN, regarding it as a growing regional market. In addition, Japan decisively overtook the United States to be the largest source of business investment and official assistance in Southeast Asia. As a result of the rapid expansion of its manufacturing base, coupled with the sharp appreciation of the yen against the dollar since 1985, Japan has emerged as the "core economy" in the region. Although the United States remains a major market for exports and a key source of investment and technology, the ASEAN countries increasingly focus on their economic co-operation with Japan.

2. Evolution of Japan-ASEAN Relations: An outline

The Association of Southeast Asian Nations (ASEAN) was established in August 1967, following the signing of the Bangkok Declaration by Indonesia, Malaysia, the Philippines, Singapore and Thailand (Brunei joined in 1984). Japan was not very interested in ASEAN at the beginning, though it published a statement welcoming the foundation of the Association. In 1975, the ASEAN countries succeeded in forming a joint action for talks with Japan on exports of synthetic rubber from Japan. A Japan-ASEAN forum was set up, marking the beginning of economic dialogue between the two sides. After ASEAN's first summit in February 1976, Japan declared that positive support for ASEAN and co-operation with the organization and Indochina states for their peaceful co-existence should be the principal elements of Japan's policies toward Southeast Asia.

In August 1977, the second ASEAN Summit was held in Bali, with a declaration urging closer economic relations with Japan. Japanese Prime Minister Takeo Fukuda took part in the Summit and delivered a speech in Manila, which was known as the Fukuda Doctrine. The speech contained three basis principles:

- 1) Japan rejects the role of a military power;
- 2) Japan will do its best to consolidate a relationship of mutual confidence and trust based on "heart-to-heart" understanding ;

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- 3) Japan will be an equal partner of ASEAN, while attempting to foster mutual understanding with the nations of Indochina.¹

The summit was epoch-making and marked a new era in Japan-ASEAN relations because it was the first time that Japan was accepted in an alliance by the ASEAN nations after World War II. Besides, the Fukuda Doctrine has become the basis of Japan's policy to Southeast Asia.

Japanese Prime Minister Zenko Suzuki chose ASEAN for his first overseas visit after inauguration in January 1981 and made a number of concrete proposals, such as development of rural districts and manpower development projects. In 1983, his successor, Prime Minister Yasuhiro Nakasone, went to ASEAN and remarked that Japan had recognized that it would have no prosperity without ASEAN's prosperity. He announced three proposals :

- 1) a 50 percent increase in the ceiling of quotas under the preferential scheme for industrial products;
- 2) reactivating of a programme for Japan to assist ASEAN enterprises in plan renovation; and
- 3) an invitation to assist ASEAN youths to visit Japan every year for a short stay and the launching of Japan-ASEAN scientific and technological co-operation.²

He also succeeded in obtaining the understanding from the ASEAN nations of Japan's initiative of defending the sea approaches out to 1,000 nautical miles, although many ASEAN countries still had mixed feelings about Japan's build-up of military strength. In December 1987, Japanese Prime Minister Takeshita attended the third ASEAN Summit held in Manila, and was the only guest from non-ASEAN regions. He promised to strengthen the economic resilience of ASEAN to promote political co-ordination between Japan and ASEAN, as well as cultural exchanges. During his visit, a Japan-ASEAN Development Fund of more than US\$ 2 billion was founded.

During the trip by Japanese Prime Minister Toshiki Kaifu to the ASEAN nations in May 1991, he sketched out a Japanese world view in the post cold war era, stressing Japan's desire to play a major international role in the "transitional period", not military, but rather through the application of its economic power and influence. He also said that ASEAN would continue to be the priority focus of Japan's official development assistance (ODA). Later that year, Japanese Emperor Akihito paid a historic visit to ASEAN, which was the first time ever for a Japanese emperor. He apologized for the past and announced that Japan would work on its history education. In August 1993, Japanese Prime Minister Morihiro Hosokawa issued the strongest apology to Japan's war victims ever enunciated by a Japanese leader. He expressed "profound remorse and apologies for our country's past acts of aggression and colonial rule that caused unbearable suffering and sorrow for so many people before and during World War II".³ This was welcomed by the ASEAN nations and paved the way for further development of Japan's relationship with the Southeast Asian countries.

In the post-war years, "Economic Diplomacy" thus became the governing principle of Japan's policy in Southeast Asia. The Japanese Government has actively developed its economic contacts with the ASEAN countries. In ASEAN's industrialization drive, Japan has played an important role in this period, emerging as the largest trading partner and investor, as well as a leading donor.

3. Present Status of Japan-ASEAN Economic Co-operation

The ASEAN countries have maintained high growth rate in the 1980s, owing to upgraded production facilitated by foreign direct investment and aid from developed countries. The 1980s also indicated an increase of Japanese economic influence in the Southeast Asian region and an increasing interdependence between Japan and its Southeast Asian partners, which can be seen mainly in trade, Japanese investment and assistance.

(1) Trade Relations

Trade is the most significant dimension of Japan-ASEAN economic cooperation. All the major ASEAN economies are highly trade-oriented, with exports and imports forming a high percentage of GNP.

Japan-ASEAN trade relations have developed rapidly in the past years. Collectively the Southeast Asian countries have now become Japan's third largest trading partner, following the United States and the EU (former EC). In 1992, ASEAN took up 9.4 percent of Japan's global exports and 12.8 percent of its total imports (see Table 1). At the same time, Japan is ASEAN's biggest trading partner, the largest provider of industrial products and capital goods and a major export market for ASEAN's manufactured goods and raw materials (see Table 2).

The Southeast Asian countries were originally important suppliers for Japan of industrial raw materials, such as tin, natural rubber, lumber, natural gas and crude oil, as well as foodstuffs. Owing to the promotion of industrial structure, ASEAN's trade structure has undergone substantial changes in the past decade, with a high proportion of manufactured products being exported. The share of non-manufactured goods in ASEAN's exports to Japan dropped below 70 percent in 1992. Moreover, exports of machinery (mainly office machines, computers and audio-visual equipment) soared up to 11.7 percent in the same year (see Table 3).

Table 1
Japan's Leading Trading Partners (Percentage)

	Japan's Exports to			Japan's Imports from		
	1990	1991	1992	1990	1991	1992
U.S.A.	31.5	29.1	28.8	22.3	22.5	22.4
EC	18.7	18.8	18.4	14.9	13.4	13.4
ASEAN	9.0	9.2	9.4	11.9	12.7	12.8
Indonesia	1.8	1.8	1.6	5.4	5.4	5.2
Malaysia	1.9	2.4	2.4	2.3	2.7	2.8
Philippines	0.9	0.8	1.0	0.9	1.0	1.0
Singapore	1.2	1.2	1.4	1.5	1.4	1.3
Thailand	3.2	3.0	3.0	1.8	2.2	2.5

Source : Japan Tariff Association, "The Summary Report: Trade of Japan"

Table 2
ASEAN's Leading Trading Partners (Percentage)

	ASEAN's Exports to			ASEAN's Imports from		
	1986	1988	1990	1986	1988	1990
Japan	28.3	24.6	25.3	24.1	24.2	24.5
U.S.A.	20.1	19.7	19.5	17.0	15.1	13.8
NIEs	19.1	20.8	20.8	17.3	18.1	18.9
Others	32.5	34.9	34.4	41.6	42.0	41.9

Source : IMF Direction of Trade Statistics. Provided by MITI, "Japan Economic Cooperation, 1992"

Table 3
Japan's Trade with ASEAN by Commodity, 1992 (Percentage)

Japan's Exports to	Food	Raw Materials	Light Industry Goods	Manufactured Goods		Others	Total
				Total	Machinery		
Indonesia	0.2	1.2	7.3	90.3	68.2	1.0	100
Malaysia	0.3	0.4	7.0	90.8	73.7	1.6	100
Philippines	1.1	2.5	13.4	80.9	63.3	2.1	100
Singapore	0.6	0.8	8.9	86.7	72.2	3.0	100
Thailand	1.3	0.7	7.0	89.7	65.3	1.3	100
ASEAN	0.7	0.9	8.1	88.4	69.5	1.9	100
Indonesia	7.0	7.5	68.7	16.7	0.8	0.1	100
Malaysia	2.0	33.6	36.2	24.6	16.6	3.6	100
Philippines	31.9	25.7	2.9	35.1	17.2	9.8	100
Singapore	4.9	3.8	33.3	52.5	35.1	6.4	100
Thailand	35.7	12.4	0.1	51.1	21.2	0.7	100
ASEAN	12.6	14.9	40.7	29.9	11.7	1.9	100

Source : MITI, "White Paper on International Trade, 1992"

Table 4
Japan's Trade Relation with ASEAN (1987-1992)

(Unit: millions of US dollars)

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total
1987 Ex to	2,990	2,168	1,415	6,008	2,953	15,534
Im from	8,427	4,772	1,353	2,047	1,796	18,395
Balance	-5,437	-2,604	+62	+3,961	+1,157	-2,861
1988 Ex to	3,054	3,060	1,740	8,311	5,162	21,327
Im from	9,497	4,710	2,044	2,339	2,751	21,341
Balance	-6,443	-1,650	-304	+5,972	+2,411	-14
1989 Ex to	3,301	4,124	2,381	9,239	6,838	25,883
Im from	11,021	5,107	2,059	2,952	3,583	24,722
Balance	-7,720	-983	+322	+6,287	+3,255	+1,161
1990 Ex to	5,040	5,511	2,504	10,708	9,126	32,889
Im from	12,721	5,402	2,157	3,571	4,147	27,998
Balance	-7,681	+109	+347	+7,137	+4,979	+4,891
1991 Ex to	5,612	7,635	2,659	12,213	9,431	37,550
Im from	12,770	6,471	2,351	3,415	5,252	30,259
Balance	-7,158	+1,164	+308	+8,798	+4,177	+7,291
1992 Ex to	5,575	8,115	3,516	12,974	10,366	40,546
Im from	12,244	6,573	2,333	3,096	5,947	30,193
Balance	-6,669	+1,542	+1,183	+9,878	+4,419	+10,353

Source : Japan Tariff Association, "Summary Report on Trade of Japan"

On the other hand, ASEAN's imports from Japan increased much more rapidly, with the total value of US\$ 40.5 billion in 1992, nearly 2.6 times that in 1987 (see Table 4). The major contribution to the growth was in manufactured goods, especially machinery which took up 69.5 percent of ASEAN's total imports from Japan (see Table 3). The ASEAN nations' dependence on machinery imports from Japan also increased in the latter half of the 1980s and accounted for 40 percent of their total machinery imports in 1990.⁴

Despite the continuing growth in the absolute value of trade, ASEAN's exports to Japan have not been expanding as rapidly as imports from Japan. Japan's traditional deficit with the Southeast Asian region gave way to a growing trade surplus beginning in 1989 (see Table 4). Two-way trade in recent years has been distinguished by fast growing exports of Japanese capital goods, components and consumer products, stagnant imports of raw materials, and rising but still comparatively low imports of manufactured goods and semi-finished manufactured goods from the ASEAN countries.

There are three major technical factors that have contributed to the trade imbalance. First, the sharp appreciation in the yen's value against the dollar that inflated ASEAN's imports in dollar terms. Second, Japan's imports have slowed down due to the chronic recession since 1990. And third, with the development of structural changes in trade, the ASEAN export structure which is dominated by manufactured goods has become less complementary with Japan's import structure.

Moreover, Japan is always reluctant to open its domestic market to foreign products and has been criticized by most of its trading partners. In 1993, Japan's trade surplus reached US\$ 120.4 billion, 12.9 percent up from the previous year.⁵ Japan's soaring trade surplus has induced strong reactions on the part of its major trading partners, especially the United States and the EU. Although Japan has made concessions during the completion of the Uruguay Round talks, opening up its highly protected rice market, it remains unknown whether Japan will continue to reduce restrictions on imports in the future. ASEAN's local producers will still find it hard to access the Japanese market, therefore the inequalities in trade relations will continue to be seen in the coming years.

However, ASEAN's trade friction with Japan will be more mild, especially in comparison to Japan's trade fractions with the United States and European countries, because the ASEAN countries still greatly depend on Japan for technology, investment and aid. Most of the countries tend to emphasize the positive side of their trade relationship with Japan, including the rapid absolute rise in their exports and GNP, rather than the continuing trade imbalance.

(2) Japanese Direct Investment

The increase of the Japanese yen since 1985 has played an important role in the rapid expansion of Japanese offshore investment. Japan transplanted its industrial base, mainly labour-intensive manufacturing industries, to Southeast Asian countries in order to maintain the price competitiveness of Japanese products.

Although the NIEs, especially South Korea and Taiwan, were the first targets of Japanese offshore manufacturing investment in Asia, rising costs of labour and resources in the NIEs have caused some shift of investment into the developing countries of Southeast Asia. Since 1988, Japanese investment in the ASEAN countries has consistently exceeded investment in the three East Asian NIEs. In FY 1992, US\$ 3.86 billion Japanese Foreign Direct Investment (FDI) went to the Southeast Asian region, about 11 percent of Japan's total FDI in the same year. From FY 1951 to FY 1992, the ASEAN countries absorbed US\$ 34.89 billion Japanese direct investment, making Japan the largest investor in this region (see Table 5).

Most of Japanese investment in Southeast Asia went into manufacturing, with 46.8 percent of Japanese FDI received by the ASEAN countries from FY 1951 to FY 1990 (see Table 6). The flow of Japanese direct investment has helped promote production of machinery and equipment, as well as technology and management in these countries. It has also played a significant role in terms of developing the local economies and enhancing their export industries. With the rapid change of industrial structure, ASEAN's exports of manufactured goods have increased considerably since the latter half of the 1980s.

Table 5
Japanese FDI in ASEAN (FY 1988-FY 1992)

(Unit: millions of US dollars)

	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1951-92 Total
Indonesia	586	631	1,105	1,193	1,676	14,409
Malaysia	387	673	725	880	704	4,815
Philippines	134	202	258	203	160	1,943
Singapore	747	1,902	840	612	670	7,837
Thailand	859	1,276	1,154	808	657	5,887
ASEAN	2,713	4,684	4,082	3,696	3,867	34,891
World Total	47,022	67,540	56,911	41,584	34,138	386,530

Source : Ministry of Finance, Japan.

Table 6
Japanese FDI in ASEAN (FY 1951-1990)

(Unit: percentage)

	Manufacturing	Resource Development	Commerce & Service	Others	Total
Indonesia	31.7	59.0	9.2	0.1	100
Malaysia	74.4	6.7	18.6	0.3	100
Philippines	52.8	31.6	14.9	0.7	100
Singapore	44.8	0.2	53.5	1.5	100
Thailand	66.9	1.7	28.4	3.0	100
ASEAN	46.8	27.9	24.4	0.9	100

Source : Export-Import Bank of Japan, Provided by "Japan in Asia", p. 11.

In spite of the high proportion of Japanese investment in manufacturing, there are consistent complaints from the host countries. Most of the complaints focus on the imbalance of trade and technology transfer. It seems that the surge of Japanese investment has also promoted imports of Japanese components and parts, which have contributed to the huge deficits of most of the ASEAN countries. In the short term it is

inevitable because the imports of capital and intermediate goods are necessary for further investment and economic growth. But many analysts regard Japanese investment as being interested in the ASEAN countries as a growing market. An analysis has shown that, in 1987, nearly 85 percent of the manufacturing output of Japanese affiliates in Asia was still destined for the local market or third countries, and only 15.8 percent was destined for Japan.⁶

Another frequent complaint by the ASEAN countries is Japan's reluctance to transfer technology and know-how. For example, Malaysian Prime Minister Mouthathir usually criticizes that Mitsubishi, the joint venture partner of Proton, the manufacturer of the Malaysian national car, is slow to transfer technology. The problem lies in the difference in the basic objectives of economic co-operation as viewed by the two sides. The ASEAN countries are eager to become new NIEs, not contenting on being simply low wage locations for Japanese off-shore production or buyers of Japanese technology. But Japan tends to regionalize production according to each country's endowments and transfer the minimum technology.

What's more, the cumulative US\$ 34.89 billion Japanese investment in the Southeast Asian countries lagged behind the share of North America (mainly the United States) and Europe, and accounted for only about 9 percent of Japan's global investment during the period from FY 1951 to FY 1992.

Despite these complaints, Japanese investment is regarded as important to economic growth in the region. Most of the ASEAN countries are now looking forward to a new surge of Japanese investment spurred by the latest sharp appreciation in the yen's value since 1992. From the point of view of cheap labour, China is a stronger magnet than Southeast Asia. In recent years, more Japanese investment went into China than into any other Asian country. As of FY 1993, China absorbed some US\$ 1.7 billion Japanese investment, replacing Indonesia as the largest recipient in Asia.⁷ However, the higher salary of Southeast Asian labourers has also made the region domestic market more attractive, and the success of the previous investment has created confidence for investors. As a result new Japanese investment in the Southeast Asian region has risen since 1993. For instance, Japanese applications in Thailand, which once dropped to 20 percent of the 1988 level, have picked up sharply in the past year.⁸ Many ASEAN countries hope that the arrival of Japanese investment will help promote their supporting industries and reduce the need for Japanese companies to import components and parts from home and therefore reduce the growing trade deficit with Japan.

(3) Japanese Assistance

The most impressive indication of Japanese commitment to the economic development of the ASEAN countries lies on its foreign assistance effort. Japan is a substantial aid donor to the ASEAN countries, even though most of the recipients are

moving towards middle-income status and their raw materials are becoming relatively less significant to the Japanese economy. In fact, three Southeast Asia countries - Indonesia, Philippines and Thailand - are among the top five recipients of Japanese Official Development Assistance (ODA). During the 1980s, Japan has provided about 30 percent of its total bilateral ODA to Southeast Asian nations (see Table 7). Based on the previous growth trends and the dramatic rise of the yen against the dollar after 1985, Japan has strengthened its position as the largest provider of aid to the region.

Japanese aid predominance in the region is reflected in its strong role in the Intergovernmental Group on Indonesia (IGGI), where it is the largest donor country and has provided nearly 30 percent of the total foreign aid in the period from FY 1989 to FY 1991 (see Table 8).

Unlike the United States, which is concerned about politics in deciding on their ODA, Japan views aid as "economic cooperation". The New Aid Plan, with its focus on the developing ASEAN countries, has given an explanation of the role of Japanese aid in Southeast Asia. The plan involves a complex blend of private and official capital flows to help the recipient countries develop in industrialization strategy, build infrastructures such as ports, roads and power plants, and enhance local technical and management standards. It is understood that loans for infrastructure development projects are the predominant element of Japanese ODA. In FY 1990, loans for infrastructure development accounted for 75.3 percent of Japan's overall ODA in the Southeast Asian region (see Table 9).

Basically, Japanese aid programmes in Southeast Asia support two goals: one is to promote economic development and stability; the other is to create infrastructure for the offshore expansion of Japanese business. In this case, Japan can integrate the region into its economy. This is perhaps the reason Japan concentrates its assistance on Southeast Asia, leaving other developing regions such as Latin America and Africa to donors which are more interested in those regions.

As a consequence of this concept, Japanese aid programmes are highly commercially oriented. In addition to the "tied" element of its aid programmes, Japan usually tends to utilize yen-based loans for Japanese companies to access for infrastructure projects.

Table 7
Regional Distribution of Japan's Bilateral ODA

(Unit: US\$ millions)

	1988		1989		1990		1991	
Asia	4,039	(62.8)	2,240	(62.5)	4,117	(59.3)	4,521	(51.0)
ASEAN	1,793	(27.9)	2,132	(31.5)	2,299	(33.1)	2,149	(24.2)
Middle East	583	(9.1)	368	(5.4)	705	(10.2)	1,807	(20.4)
Africa	884	(13.8)	1,040	(15.3)	792	(11.4)	910	(10.3)
Latin America	399	(6.2)	563	(8.3)	561	(8.1)	846	(9.5)
Oceania	93	(1.4)	98	(1.4)	114	(1.6)	111	(1.2)
Europe	4	(0.1)	11	(0.2)	158	(2.3)	14	(0.1)
Unspecified	425	(6.6)	458	(6.8)	494	(7.1)	663	(7.5)
World Total	6,426	(100)	6,779	(100)	6,940	(100)	8,870	(100)

Source : Ministry of Foreign Affairs, Japan. Provided by "Statistical Handbook of Japan, 1993", p. 146.

Table 8
Aid to Indonesia Coordinated through IGGI

(Unit: US\$ millions)

	FY 1989		FY 1990		FY 1991	
Countries :						
Japan	1,460	(34.0)	1,310	(29.0)	1,320	(27.8)
US	90	(2.1)	145	(3.2)	135	(2.8)
France	139	(3.2)	167	(3.7)	112	(2.4)
Netherlands	80	(1.9)	96	(2.1)	92	(1.9)
Others	363	(8.4)	253	(55.6)	232	(4.9)
Organizations :						
WB	1,350	(31.4)	1,550	(34.3)	1,630	(34.3)
ADB	700	(16.3)	900	(20.0)	1,100	(23.1)
Others	116	(2.7)	95	(2.1)	134	(2.8)
Total	4,298	(100)	4,516	(100)	4,755	(100)

Source : Ministry of Finance, Indonesia, Cited in "Japan in Asia", p. 98.

Table 9
Japanese Bilateral ODA to ASEAN (FY 1990)

(Unit: US\$ millions)

	Loan		Grant		Tech-cooperation		Total
Indonesia	700.7	(80.8)	58.3	(6.7)	108.7	(12.5)	867.7 (100)
Malaysia	312.0	(83.8)	1.8	(0.5)	58.5	(15.7)	372.6 (100)
Philippines	494.3	(76.3)	91.1	(14.1)	62.0	(9.6)	647.5 (100)
Singapore	-24.8	(-)	-	(-)	14.3	(-)	-10.4 (-)
Thailand	246.2	(58.8)	76.0	(18.2)	96.3	(23.0)	418.6 (100)
ASEAN	1,728.7	(75.3)	227.2	(9.9)	339.8	(14.8)	2,296 (100)

Source : Ministry of Foreign Affairs, "Japan's Official Development Assistance", 1990 and 1991 annual report

Without a doubt, Japan's ODA is designed to promote Japanese business interests. At the same time, however, it has bolstered productive capacities and economic development. It is still eagerly sought by most of the ASEAN countries.

4. Conclusion

In the postwar years, economic interdependence has been mutually sustaining for Japan and the Southeast Asian countries. The latter's resources and markets have contributed significantly to Japan's economic miracle, whereas Japanese aid, investment and demands for Southeast Asian sources have in turn been vital to the economic prosperity of ASEAN.

At present, Japan-ASEAN economic relations are in Japan's favour, which has generated some negative feelings about its economic dominance in the region. Looking ahead to the future, the expectations of ASEAN countries may increasingly be difficult to harmonize with Japan's economic goals and may come to be major obstacles to Japan-ASEAN economic co-operation.

Notes

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- ¹ Sueo Sudo, "The Fukuda Doctrine and ASEAN : New Dimensions of Japanese Foreign Policy", Institute of Southeast Asian Studies, 1992, p. 4.
 - ² The same book as 1, p. 207.
 - ³ Far East Economic Review, "Asia 1994 Yearbook", p. 143.
 - ⁴ MITI, "White Paper on International Trade, 1992", p. 132.
 - ⁵ The Japan Economic Review, February 15, 1994.
 - ⁶ Richard P. Cronin, "Japan, the United States, and Prospects for the Asia-Pacific Century", ISEAS, 1992, p. 50.
 - ⁷ Bangkok Post, June 4, 1994.
 - ⁸ Bangkok Post, May 9, 1994.

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