

Industrial Adjustment for Japanese-ASEAN Investment and Trade Expansion: Global Trends and Regional Issues

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1. INTRODUCTION

It is obvious that apart from Australia, Japan is the only critical developed country within reasonable distance of the ASEAN region. Japan considers herself very much a part of Asia. Her foreign policy mentions explicitly that as an Asian nation, she has the greatest interest in her relationship with Southeast Asian countries. In fact, Japan looks to Southeast Asia as her "sphere of influence or domain." Moreover, the ASEAN region is economically and strategically important for Japan. First, economically, Southeast Asia is a necessary trading partner providing important raw materials and a large growing export market. Second, Southeast Asia is also located strategically in the international waterway connecting the Middle East, from where Japan imports oil, with Japan. Third, its physical closeness also facilitates a coordination, a communication and a flow of information between a subsidiary and its parent company in Japan. Fourth, lower transport costs are an important factor for the location of export-oriented investment in natural resources, since the transportation cost of bulk raw materials is a large percentage of total cost (1).

However, it is notable that the Japanese economic system has introduced a systematic problem into international economic relations. It creates two different trade conflicts. The first concerns a very successful Japanese export drive and a very unsuccessful Japanese effort to convince her major trading partners of two things. The first of these is the acceptance of her long-term timetable for assuming increased international responsibility. The second is the recognition of her admonition not to become fixated with bilateral trade balances. Ultimately, the second trade conflict consists of the foreign insistence that access to the Japanese market has been unfairly limited. It is remarkable that the Japanese

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liberalization process has never been successful in convincing the U.S., the EC, and others that Japan was being fair and equitable(2).

2. JAPANESE INDUSTRIAL POLICY

2.1 VARIOUS ASPECTS OF JAPANESE INDUSTRIAL POLICY

Japanese industrial policy is regarded as a meaningful tool for the promotion of her national economy. Thus, the policy entails two major aspects. First, policy aims at the active promotion of industrial development, because the stable procurement of energy resources and the development of high technology have recently been added as new goals. Secondly, Japanese industrial policy cannot be measured by a static standard.

Therefore, three formal aspects of industrial policy are usually emphasized in Japan. First, general industrial measures are common to all Japanese industries in order to promote Japanese industry as a whole. For instance, the measures concern standardization of quality and shape, the unification of weight, standardization of the description of goods, protection of patents, designs and brand names, reliability of various industrial goods and parts, as well as determining installment payment standards and safety standards for durable goods. Second, sectoral measures promote each industrial sector in order to upgrade the domestic structure of industries, advance their productivity, and expand employment opportunities. Finally, organizational policy aims to maintain effective competition in special sectors and hence industrial essentials as well as higher productivity(3).

Recently, all executives of new industries have faced the difficult problems of maintaining competitive advantage in a period of rapid technological change. In this context, the issues are the importance of basic research, the kind of originality needed in both basic and applied research, and the scope of product development, as well as the role of government support for R & D.

At present, Japan-based firms are no longer only following their traditional pattern of manufacturing solely in Japan and then exporting products to the U.S. and other countries. Preferably, such firms as NEC, Sony, and Fujitsu have established their plants in the U.S., not only as a base for expanding their production in the future if protectionist barriers increase, but also for serving the U.S. market, and for absorbing U.S.-based technological development close at hand. For the same reasons, U.S.-based computer and electronics firms such as Motorola, Intel, Fairchild, and Cincinnati Milicron have started to establish or expand their production facilities in Japan.

Moreover, under the circumstance of rapid technological change, the increasing competition of Japan-based firms, as well as the augmenting incentives

of cross trade and investment between the U.S. and Japan, U.S.-based firms and the U.S. government try to establish various domestic barriers to their competitiveness e.g., tax systems, government support for R & D and a regulatory environment (4).

2.2 GOVERNMENT INTERVENTION IN JAPANESE INDUSTRIAL POLICY

Because of several severe economic disturbances to some Japanese industries, such as the increment in labor cost, sluggish world demand, lower priced products from Southeast Asia, the increase in raw materials and energy costs, as well as foreign import restriction, the Japanese government has tried to aid these declining industries to adjust to new circumstances by providing incentives to scrap excess production capacity(5). In order to be eligible for help, an industry must meet the following conditions:

- The industry must have severe overcapacity.
- More than one half of the firms in the industry must be in dreadful financial condition,
- Firms representing two thirds of the industry must sign a request seeking designation under the law, and
- There must be broad agreement that some scrapping of facilities is significant for overcoming the problem(6).

It is obvious that Japanese industrial policy and its means have evolved dramatically over time. After 1975, Japan has concentrated on adjusting to stable growth, resource conservation, improving the quality of life of her citizens, and the continued development of technology as the primary means of supporting industrial development.

Concerning the Japanese industrial planning process, the Ministry of International Trade and Industry (MITI) provides a key to the industrial planning process of Japan. Besides, MITI also shows its government's involvement in developing and ensuring the success of plans for industrial reconstruction and growth. Moreover, her Cabinet has accordingly directed MITI to develop a growth strategy in order to increase existing plant productivity and to construct new capacity. For instance, government assistance for achieving these objectives was provided through direct government loans, tax benefits, and government-supported loans from other financial institutions.

Among formalized planning organizations in Japan, there is the Industrial Structure Council, an advisory body within MITI consisting of representatives from academics, industry, labor unions, and consumer groups, for preparing general industrial goals. The Japanese foundation for stable growth is her original and innovative technology.

As to the role of her public and private financial institutions in financing her industrial growth, we find that the Japan Development Bank and the long-term credit banks grant loans to basic industries and other growth-targeted industries to support the government's economic priorities. These banks encourage and supplement city bank lending. In addition, the Bank of Japan plays a role of indirect control over the lending patterns of banks.

More significantly, the Japanese government has encouraged several commercial policies for protecting developing industries, as follows:

- Firstly, tariffs: lower rates are normally used for such items as drugs, raw materials, and foodstuffs, while higher protective rates are usually applied to manufactured goods, which are most likely to compete against domestic manufactures, or whose local production Japan aims to encourage. Furthermore, her government has also periodically granted temporary exemptions from, or reductions in, duties on specific import categories, notably raw materials and industrial machinery required for industrial reconstruction and growth.
- Secondly, export incentives: another feature of Japan's commercial policy has been the several incentives employed to regulate exports. Generally, exporters of designated products have been authorized to import various types of goods. These imported commodities command high profits in the domestic market, thereby providing the favored exporters with added revenues.

Besides, the Japanese regulation of foreign investment is also a successful means of gaining technology and technological know-how. In this regard, the Foreign Exchange and Foreign Trade Control Law encourage foreign investment which will contribute to Japan's economic development and balance of payment position. On the other hand, approval could be withheld if the investment was perceived to adversely affect economic recovery(7).

The acquisition and application of foreign technology has been considered as a key component of Japan's economic revitalization and growth strategy. Here, MITI has a key role in approving industrial technology imports. In addition, MITI also periodically issues detailed lists of technologies desired by specific industries in order to better guide the inflow of needed technologies. Moreover, MITI has also intervened in technology import contracts in order to achieve more favorable contract terms. More than that, cartels have been applied by the Japanese in several industries as a means of controlling foreign trade, regulating production and prices in the period of recession, and allocating market share. Another factor that stimulates Japanese economic growth is her tax policy.

The policy includes the acceleration of depreciation for certain industrial equipment, reduced tax rates for interest and dividends, and a tax-free reserve for export losses.

Later, the Japanese government recognized that the continued growth of the economy depends on the ability to move into high technology and value added industries. Therefore, her government is careful to protect key industries considered central to Japan's future economic development.

Finally, her government continues to use special tax measures to achieve particular goals. For example, an increased initial depreciation allowance is granted for:

- Buying of energy saving equipment,
- Designated plant and equipment, such as that for the prevention of environmental pollution,
- Areas underdeveloped in equipment and plant, including severely depressed industrial areas, coal mining regions, and industrial development areas, and
- Machinery and equipment obtained by small- and medium-sized enterprises.

Notably, the major tools applied by her government to implement industrial policy for growth industries are the organization of joint R & D programs, direct financial assistance, and preferential tax treatment for the development and diffusion of technology. In addition, special tax programs which formerly were employed to strengthen the financial position of companies and to encourage exports across the board are today used principally to develop and diffuse technologies.

At present, current industrial policy priorities emphasize the development of native technologies. For example, the R & D programs of the computer and aircraft industries are the major focus of government support. However, in the computer industry, many companies now have access to more funds for their own R & D programs without government involvement. As domestic development of new technologies becomes critical to competitiveness and Japanese companies reach strong financial positions, the companies conduct more of their own research and development. Nevertheless, the Japanese government provides various forms of financial assistance to Japanese firms. The most common one is direct subsidies for R & D through the corporations and associations of private companies. The subsidies come directly from the general account budget. Her government funds also act as a catalyst for private sector lending.

Notably, the Japanese government has emphasized assistance for helping small- and medium-sized firms so they can become more efficient. The aids are as follows:

- Direct and indirect government purchase of scrapped equipment,
- Preferential financing through government, commercial, and long-term credit banks,
- Formation of joint scrapping associations, and
- Access to the designated depressed industries credit fund (8).

2.3 JAPANESE INDUSTRIAL POLICY AND ITS INTERNATIONAL IMPLICATIONS

International implications of Japanese industrial policy come in three categories: (i) trading policy, (ii) policy on investment, and (iii) industrial adjustment. The first concerns the implication of regulations on foreign trade, as well as of tariff or non-tariff barriers. The second explains the implication of controls on the international transfer of capital, especially on direct investment. The last deals with the implications of any protective or stimulative measures for special sectors of industry. The policy relates to foreign interests when it has more restrictive and protective effects on trade and investment than the level accepted among other advanced industrial countries.

Every industry in Japan has been moving in more or less the same direction in response to such changes as the ever growing international competitiveness of overseas nations and the sharp increase in the price of fuel and raw materials. Furthermore, the challenge from Asian NICs seems to have stimulated Japan's industrial upgrading rather than to have undermined Japanese industry. The NICs have really been catching up with Japan, but at the same time Japanese industry has further upgraded itself.

Finally, one facet of industrial policy that is increasingly important is energy policy, because Japan is almost uniquely dependent on overseas energy sources. Seventy five percent of Japan's energy supply depends on oil from the Middle East. This means that it is necessary to have long-term planning for energy. Besides, any delay in implementation will harm the economic and social basis for sustained growth. As a consequence, it will be important to implement a policy that is based on international cooperation with advanced industrialized countries and with resource-producing countries.

In addition, in order to maintain a supply-demand balance under the increasing uncertainty of the energy situation, energy conservation should be promoted in every sector of industry, in transportation, and in households. In fact, among other conservation measures, more economical utilization of energy in industry is especially important. Furthermore, the development of alternative energy sources to replace oil needs to be accelerated, e.g. nuclear power, and coal (13).

3. JAPAN-ASEAN RELATIONS: A CLIMATE OF COOPERATION

However, Japan intends to supply capital to the world and to contribute to global economic development: (1) through her industrial cooperation with other industrialized countries and the newly industrializing countries, and (2) through economic cooperation with the developing countries via her official development assistance (16). For example, the Japan-ASEAN Exchange Projects (JAEP) have already been initiated, and intraregional cooperative projects began in 1998 under the Inter-ASEAN Technical Exchange Program(17).

Besides, Japan will aid the ASEAN countries in building their infrastructure and offer technical, financial and marketing assistance for export-oriented industries. In addition, she will help small and medium-sized firms in the ASEAN nations which are indispensable for any export-oriented industries. Moreover, she will also promote more direct investment in the ASEAN states. Finally, she will create conditions for the smooth transfer of technology(18).

3.1 JAPANESE PARTICIPATION IN ASEAN ECONOMIES

There are various reasons too, why it would also be in Japan's interest to play a larger economic role. For example, Japan needs to shift some of her less cost competitive industries, which are growing in number, to cheaper locations. Therefore, more offshore production and exports could also help Japanese corporations to maintain their share in western markets. Moreover, at the same time, they can aid Japan to reduce her trade surplus with the West. This in itself would do much to keep at bay the threat of protectionism, which is as important to Japan as it is to ASEAN.

By investing more in ASEAN, Japanese corporations could also open up more markets for their goods. For instance, ASEAN foreign ministers have said that Japan could help ASEAN members by giving incentives to Japanese companies to invest in the region. Finally, as a net commodity importer, Japan might find it advantageous to become more closely involved with commodity related industries, which the ASEAN states possess in plenty.

3.2 PROSPECTS FOR ASEAN-JAPANESE ECONOMIC RELATIONS

The Japanese role in the future economic growth of the ASEAN countries may depend on various factors, as follows:

- The Japanese success in internationalization that affects the ASEAN members directly in terms of the "market opening" initiative, and indirectly by her contribution to the lessening of Japanese trade friction with the U.S. and the EC, as well as her expansion of trade in the world economy,

- The success of greater economic cooperation among the ASEAN nations in terms of tariff rationalisation and industrial policy.
- The political stability and security of the region, and
- The diversion of foreign investment to ASEAN(34).

4. ASEAN AND ITS TRADE RELATIONS WITH JAPAN

Nowadays, Japan has begun to reduce her reliance on exports as a source of growth. Her domestic demand accounted for all of the approximately 6 percent growth of GDP achieved in 1998. As for industrial products, Japan has been principally a one-sided trader and has not provided a reciprocal export market. During 1987-1989, her manufactures increased to account for more than 40 percent of Japanese imports as compared to less than 30 percent in the early 1980s. However, this number is still low compared to other developed countries. For example, manufactured imports into West Germany accounted for more than 60 percent of total imports. For the U.S., this number is more than 75 percent (35). It is interesting to see if Japan will allow her ratio of manufactured to total imports to reach the same level as in other developed countries.

4.1 JAPANESE TRADE POLICY

In July 1985, the Japanese government announced the Action Program to further decrease trade barriers and promote imports. It consisted of the reduction of tariff on over 1,800 items from January 1986. Besides, it was expected to augment imports and reduce trade surplus in the long run. However, trade surplus would continue for some time and the existing GATT system needed to be improved so as to accommodate long-lasting imbalances and trade friction.

Throughout the twentieth century, Japan has been relatively successful in achieving her two major interrelated economic ambitions: rapid economic growth and international competitiveness in the industrial sector. In addition, her Ministry of International Trade and Industry (MITI) has had to operate under a consensus-making system that could not easily sacrifice her domestic interest groups to external goodwill. However, Japan needs a liberal international trade order. In fact, she is the second largest consumer (after the U.S.) of raw materials in the non-Communist world.

It is well known that Japan's economic success today is due to her unfair trade practices, such as dumping and export drives. Her accent on low pricing led to a growing American perception of a Japanese aim to export goods at less than fair value prices. This perception came from the fact that Japan was a nation by far most frequently named in the filing of petitions under the U.S. antidumping procedure. It is obvious that some Japanese companies engaged in dumping on a calculated basis for building their sales base for the future.

Nevertheless, many Americans assume that it is still a common Japanese export tactic(36).

4.2 NATURE OF TRADE RELATIONS BETWEEN THE ASEAN COUNTRIES AND JAPAN

During 1988-1990, ASEAN's trade relations with Japan changed dramatically as a result of the influx of Japanese direct investment. Nowadays, Japan imports mainly oil and manufactured goods from the region. Not surprisingly, the rapid expansion of the ASEAN countries has contributed significantly to the narrowing of the trade imbalance between the two trading partners. For example, during 1988-1989, Japan's imports of manufactured goods from the ASEAN regions registered phenomenal double-digit growth rates averaging 47 percent per annum, twice the rate expansion of her total imports. On the other hand, the US\$ 6.70 billion worth of manufactured exports to Japan in 1989 represented 30 percent of its total exports there(37).

Recently, the ASEAN nations have been rapidly increasing exports to Japan of light manufactured goods such as textiles, simple electric and electronic appliances. Thus, Japan is losing comparative advantage in these relatively labor intensive products(38). However, the ability of the ASEAN members to replace the NICs as exporters of light manufactures will greatly depend on the extent to which Japan and the NICs open their markets to exports from the ASEAN states (39).

On the other hand, owing to the quality and competitive price of Japanese industrial products, Japan has become an important source of industrial goods for ASEAN's modernization programme. The availability of efficient and inexpensive capital goods is vital for the ASEAN counterparts. On the contrary, Thailand, Singapore, and the Philippines have had trade deficits with Japan as a result of their imports increment from Japanese manufacturers - an augmentation unmatched by rising Japanese imports from these countries. Therefore, the trade deficit has been a critical issue in ASEAN-Japan relations. Allowing greater access to the Japanese market is the best way by which this trade imbalance can be remedied. In the same vein, the low import penetration of ASEAN manufactured products in the Japanese market reflects how closed the Japanese market is, a complaint expressed by the ASEAN nations(40).

4.3 JAPANESE TRADE BARRIERS AGAINST THE ASEAN NATIONS

The more essential import barriers are less visible and are not quantifiable, such as her government's guidance of industry, periodic encouragement for industries when they become less competitive, regulations which work in favor of

domestic producers, creation of depression cartels, and toleration of cartel-like business relationships developed in manufacturing, construction, agriculture, and distribution(41). In 1983, the Japanese Diet decreed amendments to sixteen laws. The major purposes of these revisions were the following:

- To make the inspection and certification procedures essentially the same for Japanese and non-Japanese companies, and
- To permit self-certification by foreign companies.

In addition, these legal amendments include:

- Harmonization with internationally accepted standards, where they exist, and participation in attempts to draw up international standards when necessary.
- More acceptance of overseas test data.
- Clarity to be enhanced through seeking the views of foreign experts in the course of drafting standards and providing more information about what the standards are and how they are established, and
- Simplification and streamlining of certification procedures such as in the field of automobiles, pharmaceuticals, and household electrical appliances(42).

Concerning ASEAN-Japanese trade friction, the low import penetration of ASEAN manufactures in the Japanese market may be attributable to the relative competitiveness of Japanese manufactures compared with the ASEAN manufactured products. Therefore, Japanese commercial policies, non-tariff and tariff barriers, have not been entirely free of blame. As a consequence, the existence of these barriers has dampened the drive to export to Japan and has caused potential exporters to shy away from the Japanese market and find outlets elsewhere.

The critical blocks to market access of imports come from the complicated internal distribution system in Japan, which does not supply necessary information on the resources to establish subsidiaries, or marketing and distribution networks of exporting firms. Besides, since Japanese subsidiaries have their own marketing and distribution routes in Japan, as well as companies with Japanese importers and distributors to take care of their goods, it is not surprising that the companies that have gotten around the complexity of Japan's distribution system, have indicated that they have encountered few or no non-tariff barriers (NTBs) in their trade with Japan.

Moreover, Japan's strict application of standards has been cited by Thai and Philippines exporters as an obstruction to increased exports to Japan. While the Philippines exporters consider this as an inducement to improve product quality, Thai exporters of frozen seafood products regard Japan's quality standards as far too restrictive. In fact, frozen seafood products of Thailand that have passed

the test in Thailand always fail the test conducted in Japan. Therefore, Thai exporters have decried the difference in technical regulations between Japan and Thailand. In this circumstance, the unnecessary cost of this divergence in product testing requirements placed on Thai exporters can be eliminated. For instance, the international trade between Japan and Thailand can be improved through the harmonization of technical regulations negotiated on a bilateral if not multilateral basis.

More than that, Thai seafood exporters have quoted the variable levy imposed on marine exports to Japan as a barrier to trade. The complaint has not been so much with the entail itself as with the lack of warning to exporters of the change in levy. As a consequence, variable levies adversely affect exporters by increasing their product prices.

Another case concerns the domestic petroleum industry protected by tariff and NTBs in Japan. This industry is insulated from foreign competition by Japanese government regulations and controls (for example, quotas), and government participation in trade (e.g., administrative guidance). Hence, American subsidiaries exporting petroleum products to Japan from Singapore have reported the import restraining effects of these NTBs, pointing especially to indications that domestic industry participants can restrain petroleum imports considerably.

Japan's sugar refining industry is another sector that profits from protection through NTBs. Japan enforces import surcharges on refined sugar imports from the Philippines. As a result, the Philippines sugar exporters claim that the action has limited their growth of sales.

Finally, customs problems have also been raised by Indonesian exporters as a discriminatory NTB that has affected essentially their trade with Japan(43).

In summary, there is a growing feeling among the ASEAN countries that Japan has not adequately met their request to dismantle her remaining trade barriers (44). Besides, a series of Japanese actions to reduce tariffs on industrial and farm imports has failed to satisfy ASEAN and, for that matter the U.S. and the EC. Moreover, the ASEAN members are experiencing difficulties in gaining greater access for their manufactured and semi-manufactured products in the Japanese market.

But almost 60 percent of ASEAN's export earnings, or about US\$ 10 billion, comes from crude oil and natural gas, produced in Indonesia, Brunei and Malaysia. Thus, without the mineral fuels, ASEAN would suffer a huge trade deficit with Japan. It is the case that manufactured goods brought US\$ 1.80 billion in export earning from Japan to the ASEAN countries in 1986.

5. PERSPECTIVES ON JAPANESE INVESTMENT IN ASEAN

In other parts of ASEAN, obstacles include difficulties in getting good quality raw materials, domestic political issues and repatriation of profits. In this regard, The Jakarta Post published the following distribution of Japanese investment in ASEAN: Singapore 221 projects (25.40 percent of total), Thailand 186 (21.40 percent), Malaysia 173 (19.90 percent), the Philippines 107 (12.30 percent), and Brunei two projects (0.20 percent)(45).

However, Japanese government policies in the early 1980s facilitated large investment shifts for the advantage of exports. Then, lending for housing and public investment was reduced, but investment funds were freed to seek higher financial returns abroad. Besides, investment by manufacturers grew rapidly, although there was an overall decline in savings and movement of savings abroad. Briefly, the Japanese government expanded opportunities for investment abroad, while she curtailed her total investment spending at home(46).

Another inducement of Japanese direct foreign investment is the participation of trading companies. Generally, the companies possess expertise, know-how, and necessary connections with international business. Thus they always induce Japanese firms to undertake direct foreign investment. In addition, they also assist firms which have no experience in the operation of international markets. More than that, they have helped firms in negotiating with host countries and local partners(47).

On the other hand, Japan has also urged policy changes on ASEAN. She encouraged the ASEAN members to create investment conditions as attractive as possible. In addition, she stressed the need to encourage local small-scale industries producing competitively priced, high-quality components for exporters. Furthermore, the powerful Keidanren, Japan's largest business association, also called for lowering barriers to rice imports(48).

5.1 MOTIVATION OF JAPANESE INVESTORS IN ASEAN

The major reasons which induce Japanese enterprises to invest in the ASEAN countries are the following:

- Political and economic stability in the host countries stand out as the most important and fundamental condition for attracting the flow of foreign investment,
- Promotional privileges in the forms of tariff protection from imports, tax cuts, and other advantageous government incentives provided by both the Japanese and host government are also essential,
- The availability of lower-wage labor as compared with that of Japan is significant,
- A protected market share of products and/or the advantage of expanding markets in the host countries are today necessary.

- The shift in production of more basic, labor-intensive products, and resource-oriented or pollution-prone industries away from the overcrowded island of Japan is very attractive (49), and
- A shortage of appropriate land sites in Japan for new industrial development, especially coastal sites suitable for export production, is also a motive of Japanese direct investment. The land shortage is related to the growth of public concern over congestion and pollution in Japan. Therefore, Japanese enterprises have sought foreign locations, where suitable land sites were available and, as a consequence, congestion and pollution were in fact not a problem, or there was less public sensitivity to these problems(50).

5.2 MOTIVES OF LOCAL PARTNERS TO JOIN WITH THE JAPANESE

The main reasons for ASEAN local businessmen to go into partnerships with the Japanese are as follows:

- To get technical and managerial know-how,
- To gain additional finance,
- To obtain a supply of raw materials and machinery spare parts, presumably at competitive prices,
- To receive the distribution rights of brand name products,
- To acquire access to export markets through Japanese channels, and
- To share risks in new ventures with strong partners(51).

5.3 MAIN DISINCENTIVES TO NEW JAPANESE INVESTMENT IN THE ASEAN COUNTRIES

Mr. Hisamitsu Uetani, President of Keizai Doyukai, said that Japanese investors' reluctance could be attributed to obstacles such as complicated import and investment regulations, as well as other problems, in these countries. For example, in Singapore, Japanese businesses face problems mainly caused by high wages and an unfavorable tax system; in the Philippines, by difficulties in obtaining industrial components, and the instability of the peso; in Malaysia, by unattractive investment facilities; and in Thailand, by government investment policies considered unrealistic. The survey did not cover Brunei(52).

5.4 ISSUES AND CONFLICTS IN JOINT INVESTMENT

The ASEAN local partners in joint ventures have voiced various complaints against their Japanese partners. This indicates that some grave problems and conflicts exist in the working relationship between Japanese and local partners. The following are examples of these issues:

- The most serious cause of conflict is the transfer pricing of raw materials, machinery; and parts, as well as the selling of finished goods to parent companies of the Japanese partners. As a result, these charges siphon off the profits from joint ventures to the Japanese parent companies,
- The transfer of managerial skill has been extremely limited. In addition, the transfer of technical know-how and of production usually carries an excessively high price tag, and
- Local partners generally feel that there is great unwillingness and slowness in promoting locally trained personnel to fill the key supervisory and managerial positions held by Japanese expatriates.

Local partners particularly recognize the systematic training programs provided for local skilled workers. Such training programs are sometimes conducted in the host countries and sometimes in Japan. Although such training has been largely limited to basic skills, it has definitely contributed considerably to the upgraded quality of skilled labor and productivity in Southeast Asia. As a whole, local partners look on the technical knowledge gained from engaging in joint ventures as being as important as financial gain.

6. ASEAN INTERNATIONAL TRADE NEGOTIATION WITH JAPAN

Recently, trading nations have increasingly applied non-tariff barriers (NTBs) to protect their domestic industries from foreign competition, because of the reaction against using tariffs as instruments of protection resulting from multilateral trade negotiation. In the same vein, Japan is accused by her trading partners of maintaining protectionist barriers while taking advantage of the openness of the world economy. She has adopted various forms of protectionism in order to keep foreign goods and services out of her domestic markets. The growth of her protectionism has led to international trade wars as will be discussed in detail in the next section of this article.

6.1 NATURE OF JAPANESE PROTECTIONISM

The following are examples of complaints over exporting products to Japan:

- Standards are too strict in comparison with those generally accepted by most countries,
- Inspection procedures are too cumbersome and too detailed,
- The enforcement of standards is arbitrary and vague,
- The results of foreign tests are rarely accepted in Japan, and
- Foreign manufacturers sometimes cannot apply for an import license(59).

Table 1 shows the main types of informal import barriers that attracted the attention of American negotiators in the 1980s and examples of goods they have affected(60).

Table 1
Japanese Informal Barriers in the 1980s

ISSUES	NATURE	EXAMPLES OF AFFECTED GOODS
1. Standards	Product standards are different from international standards and specified in a way deliberately to exclude foreign products.	Processed foods, metal baseball bats, formaldehyde levels in infant clothing
2. Customs procedures	Delays and capricious actions by customs officials, sometimes in opposition to liberalization measures announced at a higher level.	Automobiles.
3. Testing and certification process	Hard to obtain either broad type certification or self-certification at foreign factories, necessitating expensive and time-consuming individual inspection.	Medical equipment, automobiles, telecommunications, baseball bats.
4. Industry collusion	Connivance actions by industry with or without government sanction to restrain imports through joint exercise of market power or direct control of import channels.	Chemical fertilizer (urea), soda ash, silicon wafers, integrated circuits, auto parts.
5. Administrative guidance	Informal advice from government to importers or users to restrict imports.	Gasoline, textiles.
6. Intellectual property rights protection	Insufficient protection of intellectual property rights and fears that patent approval processes for foreign technology are delayed to benefit Japanese competitors, trademark approval retarded.	Sound recordings, computer software, fiber optics.
7. Government procurement practices	Manipulation of procurement by government and government funded organizations to gain domestic suppliers, although a 1979 agreement in the Tokyo Round accepted open procurement	Supercomputers, communication satellites, TRON operating system, tobacco.
8. Other government regulations	Application of product regulations that limit the use of foreign goods (weight limits and size in road transportation, procedures under the national health insurance system, retail promotion guidelines, others).	High cube containers, kidney dialysis machines, processed food, cigarette advertising.

SOURCES: Edward J. Lincoln, *Japan's Unequal Trade* (Washington D.C., The Brookings Institution, 1990), pp. 15.
Office of the U.S. Trade Representative, "National Trade Estimate Report on Foreign Trade Barriers," (U.S.A., 1989) pp. 97-114, and
 Japan Economic Institute, *Yearbook of U.S. - Japan Economic Relations in 1981*, (Washington D.S., 1982) pp. 46-47.

In this circumstance, the Japanese deny the accusations of informal barriers with claims that foreigners are trying to change Japanese culture, or that various policies in question are domestic ones with no original intent to block imports.

On the other hand, standards have been established in cooperation with domestic industries, especially to exclude foreign products. Besides, testing agencies have been controlled by domestic manufacturers, or have refused to visit foreign factories. In addition, patent approvals have been delayed deliberately to allow domestic firms to create competing goods. Moreover, trading enterprises have been warned to moderate their purchases of certain foreign products(92). Furthermore, at present, the Japanese trade policies assume that certain industries will be in her national interest in the future, so that they deserve protection from imports. Finally, it is realized that her government should provide incentives to encourage the continuous reallocation of resources, including the application of import barriers(62).

6.2 ESCALATION OF JAPANESE TRADE PRESSURE ON THE ASEAN NATIONS

In the past, the ASEAN members have been able to point to a number of export items which symbolize Japan's "closed market." For example, in 1986, Thailand complained about Japan's discriminatory tariff structure for chicken, which favors the U.S. boned product against Thai-produced boneless chicken(64). Japanese tariff and non-tariff barriers against exports from Thailand will remain to cause friction in trade relations between the two countries. Another example is the case of maize: Japanese policy to increase her import of maize from Thailand may have to take into account the maintenance of level of import from the U.S. It is obvious that Thai and the U.S. agricultural products have competed and will continue to compete in the Japanese market. On the other hand, Japan establishes certain health standards of the same quality and quantity on imports from China (65). Therefore, in order to understand trade issues between any two nations, we must also examine the role of third parties in bilateral trade relations, as will be discussed in the next section of this article. Indonesia has also taken Japan to task for her plywood tariffs, while the Philippines saw no reason for Japan to penalize her off-season bananas.

ASEAN's problem now may be that it needs new symbols if it is to continue to lambast Japan over "unfair" trading. Japanese trade officials are smugly pointing to each ASEAN export success, as if the structural imbalance of the region's trade with Japan somehow has been rectified. But it has not. On the contrary, it has worsened, though not through any fault of Japan (66).

As a consequence, ASEAN has continued to meet difficulties in gaining greater access for its manufactured and semi-manufactured products in the Japanese market (67). Thus, ASEAN repeats its call for greater access to the Japanese market. Although Japan is ASEAN's largest and most important trading partner, Japan imports mainly only oil and other raw materials. As for ASEAN's manufactured goods, Japan buys only 10 percent of the grouping's total output, compared to the U.S., which imported 30 percent in 1987 (68).

In this circumstance, ASEAN urged Japan to allow a broader spectrum of exports to be placed in the Japanese market (69). Besides, it also requested improvements in Japan's Generalized System of Preferences (GSP) scheme as well as the removal of impediments to the expansion of ASEAN's exports to Japan (70). From ASEAN's point of view, Japan's GSP scheme was nothing more than "stopping the gap in shortfalls in domestic demand." For example, this was true especially for items such as mangoes and bananas. The Japanese allowed a certain quota of imports, but killed domestic demand by her "expensive food policy."

For instance, ASEAN also called for several more agricultural products to be included under the GSP list, but Japanese official sources pointed out this was impossible as the Japanese government could not risk the wrath of the farmers and lose their political support (71). In response, the ASEAN foreign ministers came out strongly against protectionism in Japan (72). In fact there is a disparity from the outset. ASEAN's largest trading partner is Japan; but, for Japan, ASEAN is only her third largest trading partner (73). However, ASEAN would clearly like closer economic relations with Japan. Therefore, the ASEAN countries hope that Japan can do much more to improve cooperation, particularly in the area of trade.

7. SUMMARY

Nowadays, it is obvious that the U.S. and the EC are the most important trading partners of Japan. However, Japan has also an essential partnership with ASEAN. The nature of trade between ASEAN and Japan is that Japan imports foodstuffs and various kinds of raw materials for her huge industrial base. Besides, the ASEAN countries also provide Japan with a ready consumer market for the wide range of manufactured products from Japanese factories. Otherwise, the ASEAN nations import capital goods and metal products for their economic development plans. For ASEAN, Japan is the most important trading partner. In brief, the ASEAN region is an important source of imports for Japan as well as a significant destination of Japanese exports. At present, the ASEAN members need to foster export-oriented industries.

Concerning the international trade relationships between Japan and the U.S., every new export from Japan has competed with existing U.S. domestic

industries. Therefore, U.S. firms have demanded protection and requested voluntary restriction by Japanese exporters. For example, textiles, steel, iron, cars, TV sets, semiconductors and working machinery are still under voluntary export restriction. Moreover, automobiles and electronics have remained competitive on the world market. There is trade friction between Japanese exporters and American producers. For instance, bilateral trade imbalance between Japan and the U.S. comes from the great import demand of the U.S. making possible big imports from the most competitive Japan. On the contrary, U.S. export to Japan is small because there is a small import demand in Japan. Besides the intention to protect her domestic market, the role and policies of Japanese trading firms are a significant factor for creating barriers to exports to Japan. Therefore, the trade surplus will continue and the present system needs to be improved in order to accommodate long-lasting imbalances and trade friction.

In 1988, Japan called on the ASEAN countries to make their investment conditions as attractive as possible, to compete with an increasing number of countries seeking Japanese outward investment. Some of the conditions included a further relaxation of equity restrictions, local content requirements and employment regulations. Furthermore, Japan intended to help strengthen the free-trading system and expand economic cooperation with ASEAN (138). Finally, as for Thailand, Thais now understand that Japan can be a positive influence instead of a negative one (139).

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