

## **Official Japanese Assistance for Development to Southeast Asian Countries and Japanese Investment in the Region**

*Pranee Chitakornkijsil*

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### **1. Objective of Research**

Japan has increasingly become the major economic partner of the ASEAN countries. As for ASEAN, it is clear that Japan is the strongest foreign investor (see Table 1).

Furthermore, 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 relationships 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 of importance to 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 which Japan imports oil) with Japan. Third, its physical closeness also facilitates coordination, communication and the flow of information between a subsidiary and its parent company in Japan. Fourth, lower transport costs will be an important factor for the location of export oriented investment in natural resources, since the transport cost of bulk raw materials is a large percentage of total cost.

As regards Japanese ODA, Japan has become one of the top donor states since the late 1980s. The volume of Japanese ODA in 1991 was more than \$11 billion. The total Japanese flow of funds to developing nations in 1991 was \$25 billion. The share of ODA in total funds in 1992 was 44.1% (1).

This study aims at giving readers a broad grasp of Official Japanese Assistance for Development to Southeast Asian Countries and Japanese investment in the region. In the study, the basic philosophy of Japanese ODA is considered in Section 2. Section 3 addresses request principles and self-help efforts. This is followed by the climate of Japan-ASEAN cooperation in Section 4. Prospects for Japanese investment in ASEAN are considered in Section 5. Finally, Section 6 proposes recommendations.

## **2. The Basic Philosophy of Japanese ODA**

The basic philosophy of Japanese ODA consists of two ideas: (1) “humanitarian considerations”, and (2) “recognition of the interdependence among nations of the international community”. To these the Cabinet added a third principle, namely “environmental considerations”, on June 30, 1992 (2). These principles possess universal validity and are not specific only to Japanese ODA. In brief, the “humanitarian consideration” aspect is a message directed to the least developed countries or to the world poverty problem. The principle of “recognition of the interdependence” is a message directed to expectations for constructing friendly foreign economic relationships (3).

## **3. The “Request Principle” and “Self-Help Effort”**

One of the most remarkable characteristics of Japanese ODA is the principle of self-help effort. This is interpreted by the Ministry of Foreign Affairs as follows:

“The leading actors in development are developing countries themselves. We keep our standpoint that because we give our aid to support the self-help efforts of developing countries, we respect as much as possible the content and priorities of their requests for aid” (4).

The “1992 ODA Report” quotes the “ODA Charter” that:

“We Japanese, reflecting on the development experiences of our own nation and the East Asian countries, believe that to promote development through self-help efforts can lead to true economic take-off. If there is no self-help effort by the recipient country, we cannot expect a lot from aid. .... Regarding these considerations, we apply the “request principle” to select aid projects (5)”.

**TABLE 1**  
**Foreign Investment in the ASEAN Countries in 1990**

From	To	Indonesia		Philippines		Malaysia		Thailand	
		US\$ million	% change	US\$ million	% change	US\$ million	% change	US\$ million	% change
Japan		2,234	+143%	306	+94%	657	+67%	364	-6%
Hong Kong		993	+164%	208	+57%	50	+20%	395	+493%
South Korea		721	+5%	21	+21%	61	+109%	42	+55%
Singapore		217	+19%	14	+42%	119	+19%	62	+51%
Taiwan		616	+224%	141	-5%	870	+133%	141	-8%
Europe		1170	+57%	45	-39%	190	+9%	101	+69%
US		153	-8%	60	-55%	69	+47%	89	+125%

**SOURCE: ASIAN ECONOMIC COMMENTARY**

In consequence, they perceive that requests for Japanese aid reflect the self-help efforts of the recipient countries. It is obvious that without any self-help efforts by the recipient countries, aid cannot work properly (6).

In fact, many Japanese ODA projects are typically hard technology oriented. The main criteria for selecting projects depend on the appropriateness of economic returns and suitability for selecting hard technology (7).

#### **4. The Climate of Japan-Asean Cooperation**

In general, Japan's economic cooperation policy is designed to serve two objectives. The first purpose is the establishment of stable markets for Japanese goods. The second aim seeks the securing of reliable sources of raw materials (8).

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 (b) through economic cooperation with the developing countries via her official development assistance (9). For example, the Japan-Exchange Projects (JAEP) have already been initiated, and intraregional cooperative projects began in 1988 under the Inter-ASEAN Technical Exchange Program (10).

In addition Japan will aid the ASEAN countries in building their infrastructure and offer technical, financial and marketing assistance for export-oriented industries. Further, she will help small and medium-sized firms in the ASEAN nations, which are indispensable for any export-oriented industry. Moreover, she will also promote more direct investment in the ASEAN states. Finally, she will create conditions for a smooth transfer of technology (11).

##### **4.1 The Vital Role of Japan in Asean Economic Development**

In 1987, ASEAN foreign ministers called on Japan to play a bigger role in the economic development of the region. As Asia's dominant economic power, there is much that Japan can do to boost the ASEAN countries' material performance and prospects. It could bring in much-needed investment capital, and thereby compensate, at least partly, for the enormous trade surpluses it customarily enjoys with the ASEAN countries. Besides, it could effect transfers of technology, which would enable the ASEAN

nations to broaden their industrial base and sharpen their competitive edge. Ultimately, it could transmit valuable managerial and technical skills.

However, there are various reasons too, why it would also be in Japan's interests 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, the ASEAN foreign ministers said that Japan could help the 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.

However, though there is substantial potential for more mutually beneficial economic cooperation between Japan and the ASEAN countries, it will not be sufficient to ensure that this will take place. The ASEAN nations will also have to do their utmost to be hospitable to Japanese investment and economic participation. Of course, ASEAN cannot be viewed as a monolith. The different member countries have different economic structures. Besides, they are at different stages of economic development. Some have more complexities and constraints to cope with than others, and cannot liberalize completely or all at once (as shown in Sections 3.2 and 7.1 of Chapter 2). However, all should try to maintain economies that are as open, as free from bureaucratic red tape, and as conducive to foreign investment as possible (12).

Afterwards, we will proceed to detail the vital role of Japan in the development of the ASEAN countries.

#### **4.2 Japanese ODA for ASEAN**

It is obvious that Japan has long been one of the largest trading partners of the ASEAN states. Moreover, Japan replaced the U.S. sometime ago as the biggest official development assistance (ODA) donor in the Asia Pacific region and soon

in the world. Her dominance in the region in terms of ODA is likely to increase as her system of ODA distribution allows her to blend private and public sector monies in support of private sector activities.

Contrariwise, the U.S. relies basically on grants and has therefore been decreasing her aid to the middle-income countries of Asia.

On the other hand, Japan's large surplus has led to large inflows of investment in the region, particularly to the ASEAN countries. The \$2 billion ASEAN-Japan Development Fund (AJDF) will ensure that investment flows from Japan continue to grow rapidly. Japanese aid and investment flows, along with the increment of investment by the NICs, will help the ASEAN nations to follow on the same development path as Japan and the NICs (13). However, while the AJDF is providing financial support to facilitate this upgrading of economic structures throughout the region, positive measures to expedite the transfer of technologies are also needed (14).

Another point of Japan's foreign aid program has traditionally concentrated on project lending, that has so far been export-oriented in order to increase Japan's exports to developing nations (15). Japanese aid agencies have typically required as a condition of assistance that consultancy or engineering services should be provided by firms either from Japan or a developing nation. But, in practice, virtually all Japanese aid has assisted projects designed by Japanese engineers. Not surprisingly, the details of project plans have favored equipment purchase from Japanese suppliers (16).

#### **4.3 The Continuation of Japanese Support for ASEAN**

In 1986, Japan offered very attractive tax incentives to small manufacturing firms which invest in ASEAN and other developing countries, in order to encourage Japanese investors to move to South-East Asia. In this regard, small manufacturing firms could deduct certain percentages of their invested funds from taxable profits and write off any losses incurred from such investments. For example, if a small firm is engaged only in manufacturing, it could deduct about 10 percent of its invested funds from taxable profits, while a small firm could deduct up

to 100 percent if it is engaged not just in manufacturing, but also development of natural resources (17).

Moreover, during the same period, the Japan External Trade Organization (JETRO) launched a project for the promotion of joint ventures between the ASEAN countries and Japan. In this case, it made available 10 million yen (US\$ 139,000) to each of the six ASEAN members to promote joint ventures between their firms and small and medium sized Japanese companies.

In addition, the official Japanese Trade Promotion Organization will sponsor feasibility studies and assist in any further steps for the establishment of joint ventures or of technical cooperation agreements.

For instance, projects to be undertaken will have to be in the manufacturing industry and must be export-oriented. Ultimately, they will also have to develop domestic resources and be labour intensive, located in isolated areas and be able to offer a high rate of return (18).

More than that, at the same time, Japan also shares ASEAN's concern about rising protectionism, which has resulted in sluggish exports and slowed the economic growth of the ASEAN countries. Japan considers making her Official Development Assistance (ODA) loans available for local cost financing to export-oriented industries, based on the self-help principle (19).

Later, in June 1988, Japan set a new midterm goal for ODA, which, during the five year period 1988-92, would more than double her total ODA outlay of the previous five years. Furthermore, Mr Sousuke Uno, Japanese Minister of Foreign Affairs, showed his intention that Japan would continue to give top priority to the ASEAN states. Especially, she would cooperate in the development of the private economic sector of the ASEAN nations. In addition, for those members facing economic difficulties due, for example, to debt accumulation, Japan would take into account each country's progress in structural improvement and the size of its debt burden. In these circumstances, Japan would be flexible in considering loans to encourage economic policies and the extending of local cost financing. She would also provide carefully thought-out technical cooperation, such as in high technology areas, in order to respond adequately to the varied needs of the ASEAN countries (20).

As for ASEAN, its foreign ministers called on Japan to provide financing support for ASEAN's own industrial development, and to help in reducing ASEAN's debt burden through further reductions in the interest rates of its loans (2).

In any case, Japan will also give financial assistance for technical cooperation programmes in such areas as product quality and testing, as well as high technology. Japan has also urged ASEAN to reorientate its traditional export structure, which is highly dependent on primary commodities, and diversify its product range of exports (22).

Regarding ASEAN, Tengku Ahmad Rithaud, the Foreign Minister of Malaysia, complained that Japan was now buying ASEAN primary products at reduced prices while ASEAN purchased Japanese manufactured goods at considerably higher prices. The Minister also expressed ASEAN's concern over the latest trend of Japanese companies, which were shifting their investment to the U.S. just to get around the problem of protectionism by the Americans. Therefore, ASEAN hopes Japan does not regard ASEAN purely as supplier of her primary raw materials and as a dumping ground for her excess manufactured goods (23).

Later, in December 1987, the Japanese Prime Minister Noboru Takeshita announced a US\$2 billion ASEAN-Japan Development Fund to encourage the development of the private sector in the ASEAN countries and to promote intra-regional economic cooperation.

Afterwards, in 1989, a Japanese-ASEAN Investment Company was set up to allow Japanese firms to invest about M\$14 billion in small and medium size business in the ASEAN regions.

Besides this, interest rates on yen loans have been progressively reduced. For example, in the case of Malaysia from 5 percent in 1986 to 4 percent in 1987, 3.7 percent in 1988, and 2.9 percent from 1 April 1989, respectively (24). Moreover, Japan offers the expansion of her Generalised System of Preferences (GSP) quota ceilings (25).

However, Japan lays two conditions for ASEAN funding. In this regard, purely local firms must have Japanese partners and plans to go public, in order to be able to tap the first installment of the US\$ 2 billion, although the earlier indications were



that the "financial assistance" package for ASEAN would come with no strings attached.

For instance, the Japan-ASEAN Investment Company (JAIC) (\*) aims to invest in the ASEAN countries (26). In 1989, JAIC announced that it would raise more than 10 billion yen (US\$ 139 million) from Japanese firms to set up a third investment cooperative in order to meet rising demands for funds from ASEAN firms. Additionally, it also specializes in offering Japanese investment to ASEAN members.

In January and August 1988, JAIC established two similar cooperatives, raising a total of 19.9 billion yen in private sector funds. The money was invested in ASEAN's blue-chip, medium-sized firms and Japan-ASEAN joint ventures. So far, the granted investment has totalled 12 billion yen in 32 cases (27).

Concerning the distribution of the fund, Malaysian businessmen are hoping that the Japanese will adopt a "liberal" policy in giving out loans under the first installment of the ASEAN-Japan Development Fund (28).

In fact, the fund will be used on a first-come-first-served basis by all six ASEAN members (29).

Projects eligible for equity investment are the following:

- Joint ventures between Japan and ASEAN
- National or intra-ASEAN joint ventures,
- Joint ventures between ASEAN and third countries.

The loan will be categorised under two sections: regional and national projects.

Under the regional category, ASEAN Industrial Joint Venture (AIJV) projects are eligible as well as projects which require inputs, markets or any support or contributions from any other ASEAN countries, or projects eligible for incentive measures adopted by ASEAN

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\*The JAIC was set up in 1981, with participation by 137 Japanese firms. In 1981, it set up the JAIC-1 Investment Enterprise Partnership to invest a sum of 7 billion yen in the ASEAN region. The partnership consists of 49 Japanese companies, comprising 23 banks, 21 insurance companies, and 4 securities houses. In fact, JAIC is a semi-government investment organization.

For national projects, currently viable projects will be financed by Exim Bank while the less viable, as well as small and medium scale projects, will be financed by Japan's Overseas Economic Cooperation Fund (OECF) (30).

Finally, Japan should shift her focus from development assistance, centred on improvement of the social and industrial infrastructure, to comprehensive cooperation, which embraces joint efforts by the government and private sectors (31). For instance, Japanese private-sector experts could be sent to advise companies in the region on production and managerial techniques (32).

#### **4.4 The Sincerity of Japanese Assistance to The ASEAN Countries**

The expansion of export markets and the securing of supplies of important raw materials for Japan have indeed been regarded as the critical purposes of Japanese aid to developing countries.

Therefore, from the long-range viewpoint of Japanese economic development, it is essential for Japan to increase export of machinery and to secure enough stable sources of raw materials for expanding her economies of scale. For this purpose, it is important for Japan to take an active part in the development of developing countries, which are suffering from a shortage of technology and capital, but are willing to develop their abundant natural resources.

In order to achieve these ends, Japan has considerably emphasized her foreign aid to Southeast Asian states, and particularly to Indonesia and the Philippines. (33).

On the contrary, for ASEAN direct foreign investment is approximately midway in importance between foreign aid and international trade. It is more significant than aid since the ASEAN nations are rapidly becoming too prosperous to receive much aid and to be much affected by it. However, direct investment is less important than international trade, since expanding export sales are an indispensable element in the expansion of their industries and in their economic development in general (34).

In this regard, Japan could also apply her current surplus position to contribute to the growth of the ASEAN countries by buying more manufactured imports from them.

However, the ASEAN economies were expected to grow at an annual rate of 5.40 percent in 1992, when Japan provided aid to the region. On the other hand, ASEAN's growth rate would be 4.30 percent without Japanese development aid and private investment. Besides, the region's exports in real terms would expand by 8.70 percent and imports by 6.40 percent through Japanese economic assistance measures.

In addition, ASEAN's trade balance was estimated to show a surplus of US\$2.20 billion in 1992, compared with US\$1.40 billion projected without aid (35)

#### **4.5 The Future of ASEAN-Japan 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 as her contribution to the lessening of Japanese trade friction with the U.S. and the EC, as well as her expansion or 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 in the region,
- The diversion of foreign investment to ASEAN (36).

However, a more significant factor for ASEAN economic growth is its international trade relations with Japan.

### **5. Prospects for Japanese Investment in ASEAN**

Recently, it has happened that Japan has lost interest in the ASEAN region. As a result, Japanese interest in South-East Asian investment is sagging, because of complicated red tape and tax changes, according to a survey of more than 500 Japanese firms (\*). From the survey, only 248 of 550 firms queried were ready to continue or

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\*The survey was conducted by Keizai Doyukai, an association of Japanese businessmen.

expand their investment in the region. Besides, Japanese investment in the ASEAN area by March 1985 totalled US\$12.60 billion, channelled through 869 projects. In this case, Singapore took 25 percent of Japan's investment in the region. But Japanese businessmen complained of high wage levels there and tax problems.

Furthermore, in other parts of ASEAN, obstacles included 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); Indonesia, 180 (20.80 percent); Malaysia, 173 (19.90 percent); the Philippines, 107 (12.30 percent); and Brunei, 2 projects (0.20 percent) (37).

Notably, ASEAN's share of Japan's total overseas direct investment had dropped sharply from 32 percent in 1981 to a mere 8 percent in 1985. Thus, Japan could improve the conditions of Japanese Official Development Aid to ASEAN (38).

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 it curtailed its total investment spending at home (39).

Therefore, in 1987 Japanese direct investment in the ASEAN regions increased 95 percent in number of projects, and 78 percent in value over the previous year (40). At the same period, all six ASEAN countries combined accounted for approximately 10 percent of Tokyo's global commerce (41).

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. Then, they have always induced Japanese firms to undertake direct foreign investment. In addition, they also assisted firms which were not experienced in the operation of international

markets. More than that, they helped firms in negotiating with host countries and local partners.

Lately although, their role has been steadily reduced, because Japanese industrial firms have become experienced in dealing with their host countries and have begun to take their own initiative in setting up their overseas ventures. Besides, they have also realised the strategic value of integrating their subsidiaries more closely with their home plants in Japan. They remain important (42).

On the other hand, Japan has also urged policy changes on ASEAN. She encourages the ASEAN members to create investment conditions which are as attractive as possible. In addition, she has 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, has also called for lowering barriers to rice imports (43).

Another interesting question is what might be the special attributes of Japanese firms, that offer the required edge in the ASEAN area.

### **5.1 Interest of Japanese Investors in ASEAN.**

Indeed, one of the most significant motives for Japanese firms to invest abroad is the need to seek a source of natural resources under their own control, as mentioned earlier. Since the ASEAN regions are relatively rich in natural resources, this area was a natural place for Japanese firms to invest. The major reasons which induce Japanese enterprises to invest in the ASEAN countries are the following:

- Firstly, political and economic stability in the host countries stand out as the most important and fundamental condition for attracting the flow of foreign investment.
- Secondly, promotional privileges in the form of tariff protection from imports, tax cuts and other advantages from government incentives, provided by both the Japanese and host government, are also essential,
- Thirdly, the availability of lower-wage labour as compared with that of Japan is significant too.

- Fourthly, a protected market share of products and/or the advantage of expanding markets in the host countries are today necessary.

- Fifthly, the shift of production of more basic, labor-intensive products, and resource-oriented, or pollution-prone industries away from the overcrowded island of Japan is very much of interest (44).

- Finally, 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 sites are available, as where congestion and pollution are in fact not problems or where there is less public sensitivity to these problems (45).

## **5.2 Motives of Local Businessmen in Participating in Partnerships with the Japanese.**

Notably, the main factors motivating ASEAN local businessmen to go into partnership 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 distribution rights for brand name products.
- To acquire access to export markets through Japanese channels.
- To share risks in new ventures with strong partners.

Among these, the greatest emphasis is on the first. All others appear to be of similar importance (46).

## **5.3 Several Disincentives to Japanese Investment in the ASEAN Region**

In 1985, a Japanese business organization found that 45 percent of the 550 companies polled were reluctant to increase their investment in the ASEAN area (47). Following this the Japanese Embassy revealed that the main disincentive to new

Japanese investment in ASEAN was the more stringent conditions imposed on foreign investment (48).

For instance, 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 faced 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. However, the survey did not cover Brunei (49).

#### **5.4 Major Japanese Investment in Manufacturing Activities in the ASEAN Area**

Recently, the ASEAN nations have been making an effort to create a better investment environment, more conducive to foreign investment, by easing restrictions on foreign capital and by other measures (50). In this regard, the ASEAN countries will have to raise their profile in Japan. Besides which, in order to get the maximum possible amount of Japanese investment, they will have to make Japan's corporations aware of the opportunities that exist and of the potential that lies unexploited. Thus, more channels of communication will have to be opened with the Japanese business community, more incentive packages devised, as well as more trade and investment promotion missions sent to Japan (51).

In fact, Japan is the largest foreign investor in Malaysia, Thailand and Indonesia, while ranking second in the Philippines and Singapore (52).

Concerning Thailand, among the ASEAN block outside of Singapore, this is one country which abounds with opportunities principally in priorities. Furthermore, growing numbers of Japanese investors are linking up with Thai partners

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\* An Organization of Japanese Business Leaders.

in joint ventures to take advantage of the property boom in Bangkok and its environs.

Thailand is a country which has benefited a great deal from the transfer of Japanese manufacturing operations, largely because of the wage difference. Therefore, more Japanese industrialists are eyeing Thailand as a new base for sophisticated industries.

In these circumstances, it was to be expected that, during 1989-1994, Japanese investors would be attracted to the petrochemicals field, as well as its supporting industries. They will move into high-tech industries.

Japan's Ambassador to Thailand, Mr Hisahiko Okazaki, believes that his country's investments are contributing about 2 percent to Thailand's annual GNP growth. In 1988, the Thai economy grew by 10 percent.

Regarding Indonesia, about three quarters of Japanese investment in the country is in manufacturing and extractive industries such as mining, fisheries and forestry (53). In 1984, Japanese investment in the ASEAN countries accounted for \$11.70 billion of which \$7.60 billion was in Indonesia.

In order to study in more detail Japanese investment in the ASEAN area, it is interesting to analyze the trends as follows:

During the past 34 years, from 1951 to 1984, Japanese investment in the ASEAN region was valued at a total of US\$12.60 billion, accounting for 17.70 percent of the total direct overseas investments made by Japan. Later, during 1984-1986, its investment in the ASEAN states was approximately US\$900 million, or about 10 percent of Japan's annual direct investment, which is lower than in the past (54).

Obviously, the share of Japanese investment in ASEAN has been reduced compared with the share in the past, although the absolute volume has been increasing (see Table 2). During the past three decades, the ASEAN share in total Japanese foreign investment has decreased from nearly 20 percent, to below 10 percent. Otherwise, the share of the NICs has been rather stable. As is clearly illustrated in Table 2, the expanding shares of North America and Europe have consumed those of ASEAN (55).



**Table 2**  
**JAPANESE DIRECT FOREIGN INVESTMENT BY COUNTRY**

**Million US\$**  
**%**

	1973	1975	1980	1984	1985	1951-85
World	3,491 100	3,280 100	4,693 100	10,155 100	12,217 100	83,649 100
ASEAN 5	625 17.9	856 26.1	921 19.6	906 8.9	935 7.7	13,469 16.1
Thailand	34 1.0	14 0.4	33 0.7	119 1.2	48 0.4	760 0.9
Indonesia	311 9.8	589 18.0	529 11.3	374 3.7	408 3.3	8,423 10.1
Malaysia	126 3.6	52 1.6	146 3.1	142 1.4	79 0.6	1,125 1.3
Philippines	43 1.2	149 4.5	73 1.1	46 0.5	61 0.5	892 1.1
Singapore	81 2.3	52 1.6	140 3.0	225 2.2	339 2.8	2,269 2.7
Hong Kong	123 3.5	105 3.8	156 3.3	412 4.1	131 1.1	2,931 3.9
Korea	211 6.0	93 2.8	35 0.7	107 1.1	134 1.1	1,683 2.2
China	0 0	0 0	12 0.3	114 1.1	100 0.8	287 0.3
Taiwan	34 1.0	24 0.7	47 1.0	65 0.6	114 0.9	761 0.9
Europe	337 9.7	333 10.2	578 12.3	1,937 19.1	1,930 15.8	11,002 13.2
North America	913 26.2	905 27.6	1,596 34.0	3,544 34.9	5,495 45.0	26,965 32.2

**Source:** Bank of Japan, 1986.

Therefore, ASEAN members have been concerned that more and more Japanese investment is shifting from this region to the U.S., the EC and China (56.)

In this regard, the critical reason for the rather sharp increment in Japanese investment in other regions is trade friction, namely the rapid growth of trade imbalance and the signs of increased pressure from the various trade restrictions of the U.S and the EC. Then, capital, as an accommodating factor, should have moved from Japan to these areas, in order to restore the balance of payment. Therefore, the trend of Japanese investment to the ASEAN nations is to decrease their share (57). For instance, the growth-induced rise in wages is one aspect of the diminishing attractiveness of the ASEAN countries (58).

However, according to the survey of the Nomura Research Institute, Japanese direct investment in ASEAN increased dramatically between 1986 and 1989. In that period, Japanese direct investment in ASEAN enlarged at a staggering rate of approximately 55 percent per annum. Although ASEAN's share of the total Japanese investment worldwide remained at only 7 percent in 1989, the absolute amount of US\$ 4,684 million was five and a half times that in 1986 (see Figure 1) (59.)

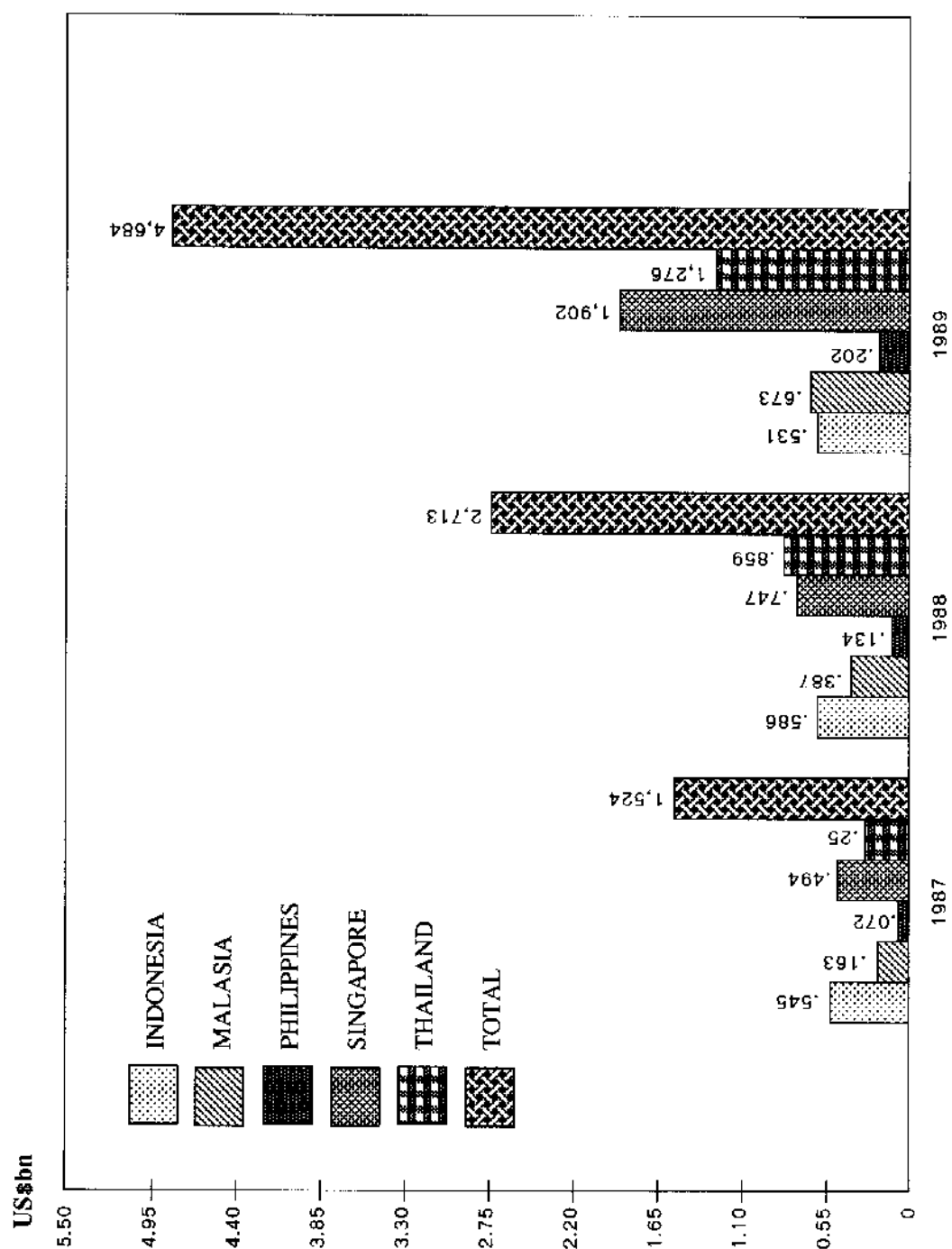
In response, ASEAN leaders called on Prime Minister Noboru Takeshita of Japan for more Japanese investment and greater market access in Japan for ASEAN manufactures.

However, the fact is that between 1987 and 1988, two-way trade between Japan and ASEAN increased, but Japanese investments in ASEAN have been on the upturn. In 1988, total two-way trade rose 24 percent to US\$ 43.90 billion.

In addition ASEAN exports to Japan totalled US\$ 22.50 billion, up 14 percent over the previous year, due to augmented Japanese domestic demand as well as the more competitive pricing that became possible. On the contrary, a 37 percent rise in imports from Japan has narrowed the trade gap between the two.

Nevertheless, the Japanese agreed to promote direct investment in the ASEAN region with the setting up of an ASEAN-Japan Development Fund (AJDF) through which Japan would provide US\$2 billion over three years to promote the economic development of the private sector.

FIGURE 1: JAPANESE DIRECT INVESTMENT IN ASEAN



Source: Nomura Research Institute, 1990.

In terms of official aid, Japan is the largest donor, giving ASEAN a total of US\$ 1,680 million in 1987. The largest recipient was Indonesia (US\$ 707 million), followed by the Philippines (US\$ 379 million), Thailand (US\$ 302 million), and Malaysia (US\$ 276 million).

Singapore and Brunei, received aid mostly in the form of technical cooperation, totalling US\$ 11.20 million and US\$ 2.80 million respectively.

Under her technical cooperation programme, Japan accepted 2,396 trainees from ASEAN in 1987, and sent 918 experts, as well as 105 overseas cooperative volunteers, to the ASEAN countries.

Additionally, Mr Takeshita said in Manila that Japan would support intra-ASEAN technical cooperation by paying the cost of training and dispatching experts for technical exchange programmes planned and implemented by the ASEAN countries themselves (59).

By contrast, ASEAN local partners consider that the Japanese exert too much influence over the management and control of joint ventures, by occupying such key executive posts as financial manager, production manager, and procurement manager, while such less influential posts as marketing manager and personnel manager are left to the local partners. Furthermore, the Japanese partners would tend to be dominant in the initiation and management of organizational projects.

### **5.5 Problems 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:

- Firstly, 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. These charges as a result siphon off profits from the joint venture to the Japanese parent company.

- Secondly, 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,

- Finally, local partners generally feel that there is great unwillingness and slowness to promote locally trained personnel to fill the key supervisory and managerial positions held by Japanese expatriates.

Undoubtedly, the Japanese partners can provide explanations and counter-arguments to these accusations, but so far local partners remain unconvinced. Thus, these factors have continued to spoil the working relationship between the Japanese and local personnel. Consequently, these conflicts and problems become the cause of wider and more serious conflicts among Japanese and local people. However, it is positive to note that local partners consider their experience in working with their Japanese partners as on the whole pleasant and beneficial.

In this regard, local partners particularly appreciate the systematic training programmes provided for skilled local workers. Such training programmes 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 the financial gain.

Ultimately, it is also expected that Japan could play an even bigger role in the economic development of these countries. Therefore, Japanese investors should be more conscious of the aspirations and needs of local people to develop themselves and their nation, since Japan's economy also depends on the industrial performance and economies of these Southeast Asian countries (60).

## **6. Recommendations**

Although local partners in joint ventures as a whole feel positively about their Japanese counterparts, nevertheless they recognize that certain measures can be taken to correct malpractice arising from a lack of understanding between them. The following government policies and regulations are suggested:

- First, governments should avoid frequent changes in foreign investment policies and regulations.

- Second, the various government agencies dealing with foreign investment should maintain consistency and stability of policy as well as practice.

- Third, governments should provide greater incentives to investors and set up an insurance scheme for foreign investment.

- Fourth, each government might establish a single regulatory body for the examination and supervision of joint operations.

- Fifth, Japanese businessmen should demonstrate greater frankness and less secrecy in dealing with their business and non-business associates.

- Finally, the Japanese partners should not harbour an undue sense of superiority. Instead they should respect their local partners on equal terms.

In consequence Japanese investors are urged not to concentrate on maximizing only short-term profits for their parent companies. More significantly, they should take the long-range development of the host countries into account, and ought to contribute to the fulfilment of that goal. For instance, harmony and mutual benefit between Japan and the ASEAN states can be maintained (6).

In the international trade conflicts that exist between Japan and ASEAN, the more competitive is Japan. On the contrary, the U.S. export to Japan is small because there is a small import demand in Japan. Besides the intent 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 GATT system needs to be improved in order to accommodate long-lasting imbalances and trade friction.

Regarding ASEAN, Mr Tamura, Head of the Japanese Ministry of International Trade and Industry (MITI), said that the New Asian Industries Development Plan (AID) would make available both technical and financial assistance to private sector, export-oriented industries, and marketing assistance through the Japan External Trade Organization, aside from assistance in infrastructure for export-oriented industrial bases. Besides, Tokyo will substantially expand the generalised system of preferences (GSP) for

industrial products effective from April 1987, in order to improve access to Japanese markets (62).

Later, in July 1988, Japan announced a new programme under which Japanese private sector experts could be sent to advise companies in the region on management and production techniques (63).

At the same time, Japan called on the ASEAN countries to make their investment conditions as attractive as possible, to compete with an increased number of countries seeking Japanese outward investment. Some of the conditions include a further relaxation of equity restrictions, local content requirements and employment regulations.

Another specific plan calls for MITI to invest Y6 billion in 1993 on a technical research project to transfer Japanese technology to ASEAN,

## **7. Summary**

Nowadays, it is obvious that the U.S. and the EC are the most important trading partners of Japan. However, Japan also maintains an essential partnership with ASEAN. The nature of trade between ASEAN and Japan is such that Japan imports foodstuffs and various kinds of raw materials for her huge industrial base. 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. As 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 competes with existing U.S. domestic industry. Therefore, U.S. firms demand protection and request voluntary restriction by Japanese exporters. For example, textiles, steel, iron, cars, TV sets, semi-conductors 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 for large imports through the establishment of an automatic translation system(64).

Furthermore, Japan intends to help strengthen the free trade system and expand economic cooperation with ASEAN (65).

Finally, as for Thailand, the Thais now understand that Japan can be a positive influence rather than a negative one (66).

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