

## The Evolution of ASEAN-Japan Economic Cooperation

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The basis of Japan's relationship with the Association of Southeast Asian Nations (ASEAN) has always been trade and investment. According to Atarashi (1985), there are, from the Japanese perspective, four dimensions to this relationship: First, the structure of its international trade and investment generally depends on less-developed countries as a source of raw materials and as a market for Japanese products; second, the shipping lanes through the ASEAN region are crucial for the Japanese economy; third, Japan sees Southeast Asia as a significant factor in solving the North-South (developed v.s. developing countries) problem; and finally, Japan recognizes that the security and stability of the region are vital for its own comprehensive security.

Japan, by means of a cooperative hegemony with the United States, undertakes a degree of leadership in East Asia. ASEAN countries, meanwhile, as suppliers of raw materials and as nodes in Japan's production network, receive extensive financial and technical assistance from Japan, especially in infrastructure development, as part of Japan's Asia-centric strategy.

The pattern of the ASEAN-Japan relationship has shifted through time from economic benefit to better understanding (heart-to-heart diplomacy), to financial aid and assistance as a means to promote economic and political stability, and now to regional cooperation as strategic partners.

## Overview of ASEAN-Japan Cooperation

Japan's framework for conducting modern diplomacy in ASEAN has been influenced primarily by the Fukuda Doctrine, named after Prime Minister Fukuda Takeo, who announced the policy in 1977.

The Japanese rationale behind its current relationship with ASEAN has been that ASEAN is an important factor for Japan's security and economic prosperity. Historically, relations have evolved from a state of war to reconciliation and normalization, to unequal cooperation and, finally, to cooperation between strategic partners. Underlying the policies and activities between ASEAN and Japan are these goals: promotion of mutual relations, assistance toward building a resilience within ASEAN, and strengthening of the partnership for solving international socio-politico-economic problems.

ASEAN-Japan relations can be understood as a mutual relationship that has developed in an attempt to resolve security and stability issues as well as to foster economic, diplomatic, and cultural understanding and cooperation within East Asia. Modern ASEAN-Japan cooperation can be generally divided into four eras:

- (a) economic rehabilitation period (1945–1969);
- (b) worldwide recession to trade-friction and aid-driven period (1970–1984);
- (c) Plaza Accord and end of cold war to trade and foreign direct investment-driven period (1985–1996); and
- (d) financial crisis to the period that saw the proliferation of regional/free trade agreements (RTAs/FTAs) commencing in 1997.

### Economic Rehabilitation

After World War II, the relationship between Japan and the countries that would later form ASEAN was characterized by the pursuit of economic diplomacy through reparations and diplomatic normalization. In the 1960s, with economic and political support from the United States, Japan's economy recovered rapidly, its average growth rate for 1960–1970 reaching 10.5 percent. This far exceeded growth rates in ASEAN countries, where, for example, the economy of the Philippines expanded by 5.2 percent, Indonesia by 3.9 percent, and Thailand by 8.3 percent.

During this period, it was obvious that the cold war was dictating Japan's security and diplomatic policy. Consequently, its policy bore an Anglo-Saxon

orientation, i.e., being friendly to the United States and its allies, and the Southern Movement (towards countries south of Japan) was easier than the Northern Movement.

In the Southeast Asian countries of Malaysia, Singapore, and Thailand, the cold war and expressions of American hegemony, especially during the Vietnam War, had a significant impact on the promotion of institutions and a modern economic and social infrastructure; these in turn provided the foundation for successful economies. With such bases, these Southeast Asian countries could be key in the creation of Japan's long-term supply and subcontracting network.

When ASEAN was established on August 8, 1967, Tokyo officials turned to the Ministerial Conference for the Economic Development of Southeast Asia as a forum to propose bilateral relations with ASEAN members.

In the 1950s and 1960s, economic cooperation had emphasized aid and assistance to meet Japanese interests, especially in the development of an economic infrastructure. But in order to ease tensions between ASEAN and Indochina, Japan needed similarly to provide aid to and maintain a good relationship with Indochina.

The concept of charity prevailed during the period. In 1957, Prime Minister Kishi Nobusuke proposed an Asian Development Fund, under which Japanese goods and skills would coalesce with U.S. capital and Southeast Asian resources. The reaction of Southeast Asian countries was mixed, however, as countries feared the competition of Japanese exports and the dominance of Japan.

## Worldwide Recession to Trade Friction and Aid

In spite of the first oil shock in 1973, ASEAN countries continued to grow steadily. During 1970–1980, Malaysia grew at a rate of 8 percent, Thailand 6.8 percent, Indonesia 8 percent, the Philippines 6.3 percent, and Singapore 9 percent. Japan's economy expanded at 4.7 percent on average, which was noticeably higher than in the United States, Canada, or New Zealand.

The second oil shock, in 1979, dealt a serious blow to the region. During 1980–1989, the rate of growth slowed in Malaysia to 5.1 percent, Thailand to 5.6 percent, Indonesia to 4.7 percent, the Philippines to -1 percent, and Singapore to 6.2 percent.

In the 1970s, Japanese foreign direct investment (FDI) in East Asia followed the post-Fordist ideology (named after Henry Ford), of creating a

long-term supply and subcontracting network. Japanese manufacturers invested in the four newly industrializing countries (NICs) in particular South Korea and Taiwan. For ASEAN, however, Japan's rapid economic penetration of Southeast Asia renewed the fear of economic domination. In 1972, Thailand launched a boycott of Japanese goods, and Malaysia lodged a complaint about Japanese production and export of synthetic rubber.

During 1973–1975, anti-Japanese demonstrations took place at universities throughout ASEAN. When Prime Minister Tanaka Kakuei visited Thailand and Indonesia in January 1973, there were riots.

As the U.S. military withdrew from the region after 1975 with the end of the Vietnam War, Japan saw the need for economic and political stability in the region. By then, it had grown apparent that promoting regional economic prosperity alone was not sufficient for the task.

Fukuda's August 1977 speech in Kuala Lumpur, where he enunciated what became known as the Fukuda Doctrine, reflected these concerns. Three principles would serve as the foundation for Tokyo's ASEAN policy: First, Japan, as a nation committed to peace, was resolved to contribute to the peace and prosperity of Southeast Asia and the world community. Second, Japan would do its best to consolidate a relationship of mutual confidence and trust based on a heart-to-heart understanding not only politically and economically but also socially and culturally. And third, Japan would be an equal partner with ASEAN and would cooperate in an effort to strengthen their solidarity and resilience. At the same time, Japan would foster mutual understanding among the nations in Indochina.

To demonstrate its commitment, Japan, at the second Japan-ASEAN Forum in Tokyo in November 1977, offered US\$1 billion toward ASEAN industrial projects. In addition, an export stabilization (STABEX) agreement was studied by a joint committee of Japanese and ASEAN experts. Japan also proposed, under the Tokyo Round framework, the reduction of tariff and non-tariff barriers for ASEAN products. Cultural exchange programs were established.

Earlier, in July 1977, an ASEAN economic mission headed by Indonesian Trade Minister Radius Prawiro had affirmed that, with the end of the Vietnam War, ASEAN's top priority was economic development and that ASEAN needed Japan's economic assistance to foster regional cooperation.

Financial and technical aid to ASEAN countries had long been used as a tool to alleviate trade friction and to facilitate Japanese investment in the region. During 1975–1987, 65 percent of Japanese foreign aid was

given to Asia (Rix 1990). However, during this period, the share of to-Asia aid that went to ASEAN countries dropped from 44.7 percent to 32 percent. Indonesia had been the major destination for Japan's official development assistance (ODA) until 1982, when it was replaced by China.

In September 1980, Tanaka Rokusuke, the minister for international trade and industry under Prime Minister Suzuki Zenko, defined the four priorities of ASEAN-Japan cooperation: the resolution of energy issues, the promotion of small and medium-sized enterprises (SMEs), the development and promotion of manufactured goods for export, and human resources development. Even with these pronouncements, there remained criticism that Japan's commitment was a low-profile one, because Japan responded to pressure only from the United States, cooperating far less with other countries. This resentment resurfaced in late 1984 during the chicken dispute between Thailand and Japan, when Japan assessed Thai boneless chicken a tariff of 18 percent, which was much higher than the tariff for bone-in American chicken.

In the political arena, as concerned regional stability, Japan acted as a bridge between ASEAN and Indochina. However, after the Vietnamese invasion of Cambodia in December 1978, Japan took a position in line with ASEAN, demanding the unconditional withdrawal of all foreign military troops from Cambodia, and it suspended credits of ¥10 billion to Vietnam.

In contrast, in 1979, Japan allocated to Thailand credits of ¥39 billion. In 1982, new credits to Thailand totaled ¥85 billion (Atarashi 1985).

## Plaza Accord and End of Cold War to Trade and FDI

In the 1980s, Japanese companies began to invest concertedly in ASEAN countries. This phenomenon can be seen as the second stream of Japanese FDI to East Asia, which can be described as the process of market recycling (see table 1) and the flying geese model.

After the Plaza Accord of September 1985, which saw the appreciation of the yen against ASEAN currencies, the change in the Japanese manufacturing structure toward high-technology production and a higher hourly wage rate in the NICs (as can be explained by the Stolper-Samuelson factor-price magnification effect) combined to make ASEAN countries more attractive for Japanese firms. Simultaneously, many manufacturers in NICs also shifted part of their production activities to ASEAN countries.

**Table 1. Change in Structure of Manufactured Exports of NICs, ASEAN-4, and China**

	Resource-Based % by Value		Low/Medium-Tech % by Value		High-Tech % by Value	
	1985	1996	1985	1996	1985	1996
<b>NICs</b>						
Hong Kong	2.1	4.4	78.5	66.7	19.4	28.9
South Korea	7.8	9.4	72.1	55.0	20.1	35.6
Taiwan	8.7	5.1	70.6	54.1	20.7	40.8
<b>ASEAN-4</b>						
Indonesia	72.2	34.9	25.1	50.4	2.7	14.7
Malaysia	53.7	17.8	15.2	21.8	31.1	60.4
Singapore	42.3	12.7	25.4	21.9	32.3	65.4
Thailand	42.1	14.5	44.8	49.1	13.1	36.4
China	11.7	9.8	78.9	69.7	9.4	20.5

Source: Lall (1998).

Also as a result of the Plaza Accord, the Japanese yen was forced to appreciate against the U.S. dollar, from an average of ¥235 to the U.S. dollar in 1985 to ¥167 to the U.S. dollar in 1986. Consequently, during 1988–1993, Japanese FDI in ASEAN countries reached over US\$22 billion (Stubbs 1995). In 1996, Japanese FDI in ASEAN countries totaled US\$6.21 billion—with Indonesia, Singapore, and Thailand the largest recipients. Indonesia alone absorbed more than US\$2.3 billion in 1996. In March 2000, the ASEAN Secretary General reported that in the last decade Japan had provided 20 percent of all net foreign direct investment flows into Southeast Asia. It estimated that, during 1990–1998, Japan had invested more than US\$52 billion in the region.

However, in the first half of the 1990s, Japanese FDI in ASEAN countries was quite static. The reason was China, with its export-focused strategy starting in 1987, after the end of the cold war in 1989, as Japanese FDI to China increased from US\$1.1 billion in 1992 to US\$4.2 billion in 1995. In the 1990s, China became the world's second largest host economy for FDI. Surprisingly, the largest investors were not Japanese but ethnic-Chinese from the NICs of Hong Kong, Taiwan, and Singapore and the ASEAN-4—Indonesia, Malaysia, the Philippines, and Thailand.

The overflow of FDI and transfer of technology and management skills have been crucial in promoting East Asian competitiveness and therefore quickening the process of market recycling and economic convergence. A strong development-demonstration effect (Linder 1986) from the United

States to Japan to NICs and finally to ASEAN is obvious as the lead goose serves as not only an example for structural upgrading and strategic improvement but also as a supplier of knowledge and skill for geese flying further back in the flock. The lead goose also serves as an economic and political partner to the followers.

## Financial Crisis to RTA/FTA Proliferation

During the first half of the 1990s, the strong yen, the opening of capital accounts, and the development of capital markets in most ASEAN countries led to the mismatch of currency and maturity and a tremendous inflow of funds in the form of loans and portfolio investment into ASEAN. This culminated in 1997 with the burst of the bubble economy.

Japan took an active role in assisting ASEAN countries severely affected by the financial crisis. In July 1997, Japan's Ministry of Finance promptly proposed an Asian Monetary Fund—which was aborted owing to U.S. objection—in an attempt to contain the crisis. At the ASEAN + 3 (China, Japan, and South Korea) summit in December 1997, Japan announced a Special Yen Loan Facility in the amount of ¥600 billion for the development of infrastructure as a step toward economic stimulation, employment promotion, and economic reforms in Asian countries. In October 1998, Japan announced the New Miyazawa Initiative, which included an economic recovery package for ASEAN countries totaling US\$30 billion.

Japan also concentrated ODA to ASEAN countries, especially for the new members Cambodia, Laos, Myanmar, and Vietnam, to ensure their recovery from the crisis and to help in human resources development and economic-socio-political structural reform. This, it was believed, would go a long way toward firmer ASEAN solidarity and comprehensive prosperity.

In the face of growing regionalism in Europe and in North America, the new business paradigm of relying on logistics and clusters to gain international comparative advantage made ASEAN-Japan cooperation necessary. At the ASEAN + 3 summit in Manila in November 1999, Japan announced the so-called Obuchi Initiative for cooperation between ASEAN and Japan: enhance human resources development and exchanges in East Asia; continue assistance for building social safety nets; cooperate for the development of ASEAN; cooperate to reinforce the revitalization of the economy and to meet challenges in the age of information; and develop measures to combat piracy.

At the ASEAN Post-Ministerial Conference held in Vietnam in July 2001, Japanese Foreign Minister Tanaka Makiko reiterated the four fields of cooperation: human resources development, information and communication technology, Mekong River Basin development, and transborder issues.

In January 2002, Prime Minister Koizumi Jun'ichiro, visiting Singapore, proposed for the first time the concept of an East Asian Community. The Singapore-Japan Economic Partnership was signed and served as a catalyst for further ASEAN-Japan cooperation. In November 2002, at the ASEAN-Japan summit in Phnom Penh, the Joint Declaration of the Leaders of ASEAN and Japan on the Comprehensive Economic Partnership was signed, and Koizumi proposed that the year 2003 be designated as the ASEAN-Japan Exchange Year. The idea behind the ASEAN-Japan year was "acting together, advancing together" by undertaking exchange programs and activities involving culture and the arts, political dialogue, youth exchange, and economic and intellectual exchange. Koizumi announced that Japan would provide ¥200 billion in ODA to ASEAN countries for educational purposes over the next five years.

## The Future of ASEAN-Japan Cooperation

From around a quarter of a century ago until recent years, three major economic blocs consisting of the United States, Western Europe, and Japan, known as the Group of Three (G3), were considered the sole engines of world economic growth. It was believed that East Asia could not experience economic growth without external demand from and necessary growth in the G3 economies. This was the idea behind the locomotive policy paradigm of international macroeconomics.

The current high economic growth of East Asia as a bloc, however, significantly exceeds that of the G3 bloc, which is experiencing economic slowdown. High growth in both intra- and inter-regional East Asian trade during the last four years is well documented. Thus closer ASEAN-Japan cooperation would serve as an instrument, in this new macroeconomy, to foster and further economic prosperity in the region.

ASEAN countries have seen the financial crisis as an opportunity not only for economic reform but also for political and social reform. Apart from assistance in the area of human resources development, which is the most important factor for Asian common prosperity, continuing and future ASEAN-Japan cooperation can take place in several fields:



international and regional financial cooperation, international trade and investment, alleviation of poverty, regional political stability, and culture.

But for the immediate future, cooperation is critical as ASEAN countries recover from the financial crisis. As steps are taken toward financial health, ASEAN countries are confronted with two challenges—to maximize the speed of the recovery and at the same time to minimize both traditional and nontraditional risks.

To maximize the speed of the recovery, many ASEAN economies are exercising dual-track policy through the promotion of both exports and domestic demand. Owing to the economic slowdown in the G3, which contributes to weakening ASEAN exports, stimulation of domestic demand and promotion of regional intra-industry trade are indispensable. To stimulate domestic demand, proper nonperforming loans management, endorsement of SMEs financing programs, and execution of grassroots projects have been simultaneously implemented.

On the other hand, as regards exports, attempts via the World Trade Organization (WTO) and RTAs/FTAs have endeavored to eliminate both tariff and non-tariff barriers as well as to facilitate cross-border trade and investment. Industrial clustering and supply chain management have been studied and implemented in order to enhance productivity and competitiveness. Cooperation on institutional reforms and logistics and infrastructure development is necessary to stimulate both export and domestic growth. Japan could play a major role in promoting such infrastructure development with ASEAN.

Traditional risks principally encompass volatility in world economic growth and global finance. Economic structural reform serves as a tool to improve economic efficiency and concurrently to mitigate the negative results of global economic shocks. Economic structural reform includes industrial structural transformation, promotion of SMEs, infrastructure construction, and law and regulation reform. Cooperation on international financial and regional financial systems would be carried out by encouraging the establishment of a warning mechanism and a monitoring supra body, deepening the Asian bond and security market, and promoting the efficiency and effectiveness of international financial transactions via regional financial liberalization.

Financial system reform could be furthered by providing technical assistance on financial reforms, such as the cleanup of defaulted loans and the consolidation of financial institutions to raise competitiveness, and by supporting the development of bond markets and special-purpose

financial institutions. Taking these steps would benefit both ASEAN economies and Japan both.

Nontraditional risks involve international terrorism, drug traffic and international crime, and epidemic. There is obvious correlation among international terrorism, corruption, drug traffic, crime, and money laundering. If money laundering is prevalent, there will be more crime and corruption. Money laundering serves as a means of financing terrorism and drug traffic. Regional cooperation for effective anti-money laundering initiatives and combating the financing of terrorism would provide valuable benefits domestically and regionally. These, according to the World Bank, would lower crime and corruption, enhance the stability of financial institutions and markets, make a positive impact on economic development and the region's reputation in the world community, enhance risk-management techniques for the countries' financial institutions, and increase market integrity. In addition, cooperation in the way of financial aid, technical assistance, and even personnel assistance to promote political and economic stability in the region is still necessary for ASEAN countries.

To prevent and control epidemics such as HIV/AIDS and Severe Acute Respiratory Syndrome (SARS), ASEAN has established a regional surveillance network on communicable diseases. The meeting of ASEAN Promoting Regional Infectious Disease Outbreak Recognition and Response Activities was held in Bali in April and May 2002 with financial and technical support from the United States. It is evident that the epidemiological transition in the disease patterns, from infectious to noncommunicable diseases, relates to lifestyle. Concerned with the health and safety of people under increasing globalization and industrialization, ASEAN health ministers in March 2002 adopted the Vientiane Declaration and the Regional Action Plan on Healthy ASEAN Lifestyles. Financial and technical assistance from Japan is vital for the prevention and control of infectious diseases.

As Japan recovers from economic slowdown since its own bubble burst in 1990, it must contend with the arrival of China on the regional stage. With its large economy and large share of the world exports and imports, together with its specialization in almost every level of technological progress, China plays an important role in the world economy. In East Asia alone, the impact of China's accession to the WTO will be tremendous. Most of the projected increase in exports of Japan and ASEAN will be driven by exports to China. Singapore, for example, will export more

light manufactured products and electronics to China. Japan will export more metals, petrochemicals, and oil.

However, China's industrial structural changes toward high-end manufacturing and services will probably harm the NICs and high-income developing countries. In the automobile industry, for instance, China is restructuring to make production more efficient. If China achieves this, there will be a contraction of the automobile industry in Japan and the NICs.

ASEAN-Japan cooperation certainly would stimulate comprehensive economic growth and understanding in the region. With China becoming a world economic power, cooperation and integration in East Asia would be incomplete if China is not incorporated into the bloc.

## Conclusion

Since the Fukuda Doctrine, ASEAN-Japan relations and cooperation have developed and progressed based on mutual understanding and respect for cultural, political, and economic differences. Despite the differences, Asian values—and the sense of belonging to Asia—and the necessity to resolve common threats economically and politically to maintain and strengthen Asia's position in the liberalized world have forced ASEAN and Japan to work closely with each other.

In a continuously changing world, ASEAN and Japan must adapt and initiate new approaches and mechanisms to respond appropriately. As global interdependency is certain, they must join and help each other to guarantee regional security and prosperity—goals that all countries aspire to.

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