

# japan times forum on ASEAN-Japan relations

## Deepening, revising ties with Southeast Asia

The Association of Southeast Asian Nations and Japan mark the 40th anniversary of their cooperative relations this year. ASEAN and Japan's partnership, which began with the establishment of the ASEAN-Japan forum on synthetic rubber, has evolved over the 40 years. The two parties have formed close cooperation toward peace, stability, development and prosperity in Asia. The business partnership has also expanded steadily, with total bilateral trade amounting to \$248 billion in 2011, according to the Foreign Ministry. ASEAN member states — Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam — are major investment destinations for Japanese companies. In 2013, Japan and ASEAN member states are holding a number of exchange projects on topics ranging from political dialogue and economy, to culture, youth and tourism. With that in mind, The Japan Times held a forum to discuss relationship between Japan and some of the Southeast Asian countries. Participating in the event were Indonesian Ambassador Muhammad Lutfi, Malaysian Ambassador Datuk Md. Som Shaharuddin, Philippine Ambassador Manuel Lopez and Thai Ambassador Thanatip Upatising, joined by Yoshikuni Onishi, secretary general of the ASEAN-Japan Center, and Japan Times Executive Operating Officer and Managing Editor Takashi Kitazume, who served as the moderator. The forum was held in two parts. The first session discussed the broad economic relations between Japan and the Southeast Asian countries, and the second session dealt with person-to-person exchanges between the two parties.

Excerpts of their discussion follow:

**Moderator:** Let me briefly explain the purpose of the forum. 2012 marks the 40th year since Japan and ASEAN officially kicked off their cooperative relations in 1973. Japan and Southeast Asian countries have since gone through a long history of deepening economic relations.

At one point, Japan was deemed a model of economic development for many of the Southeast Asian countries, and the so-called flying geese model of economic development for Southeast Asia was touted as Japan and the region deepened their trade and investment relations.

Times have since changed and in more recent years, China came into the focus of Asia's economic landscape, as Japan and Southeast Asia expanded their relations with this rapidly-growing economic powerhouse. And while Japan continued to be mired in a long-standing slump, many Southeast Asian economies posted rapid growth as the key players in Asia, which became the engine driving global economic growth.

And in the last few years, Japan and its businesses are once again looking more toward Southeast Asia as a key partner. Recent figures show trade with many of the ASEAN countries has been rising faster than the trade with China, and surveys indicate Japanese firms consider Southeast Asia as the top choice for their future investment destinations. Various changes are also taking place on the part of the Southeast Asian countries. Their economic structure is no longer the same as the one that Japan had known in the 1970s, '80s and '90s. They are looking toward the establishment of the ASEAN community by 2015. Recent developments also include the political reforms and economic opening of Myanmar, which with the lifting of Western economic sanctions is rapidly attracting foreign investment.

On rising trade, investments and tourism, reports and official figures show that Japanese companies' re-emphasis on Southeast Asia began even before Japan's economic ties with China were hit from the spillover of their strained political ties in 2012. And the nature of Japanese investments is also changing — whereas Japanese firms in the past viewed Southeast Asia as a production base for exports outside of the region, now they are looking more toward the area as a consumer market.

Earlier this month, we had news that the Japanese government plans to ease visa requirements on visitors from several Southeast Asian countries specifically to try to invite more tourists to Japan from the region.

On the other hand, we have heard it said a lot in recent years how Japanese businesses are lagging behind their competitors in Southeast Asian markets, or how they do not understand the local culture.

Mr. Onishi, could you start by commenting on the status of Japan-ASEAN economic relations?

**Onishi:** When we talk about the economic relations between ASEAN and Japan, it always reminds me of former Prime Minister Yasuo Fukuda when he gave a speech at the 30th anniversary of our center. It was two years ago. Mr. Fukuda referred to the changing relationship between ASEAN and Japan, emphasizing the shift from vertical to horizontal relations.

Now, what challenges are facing Japan? The second challenge is how to implement the joint Declaration for Enhancing ASEAN-Japan Strategic Partnership for Prosperity together or the Ball Declaration of 2011, which covers all areas of cooperation, and how to materialize what we have concluded, such as a master plan on ASEAN connectivity, ASEAN+3 Partnership on Connectivity, Tokyo Strategy 2012 on Initiative of ASEAN Integration, and Disaster Management Integration between the Asian Disaster Reduction Center and Asian Disaster Preparedness Center.

Another challenge is how Japan can adapt its trade and investment strategies in Southeast Asia. It has to be consistent with the necessities of Japan overseas investment, taking into account investment relocation from China, the investment base in ASEAN, logistics connectivity and the production capability tendencies of each ASEAN country.

For Thailand, we attach great importance to the role of Japan in ASEAN such as regional connectivity, especially the Dawei project and the role of Japan to narrow the development gap among ASEAN member states. Thailand is ready to be a partner of Japan to increase trade volume, facilitate investment, and take other measures to promote mutual benefit in various areas in ASEAN and beyond.

**Moderator:** Japan's relationship with ASEAN is often put in the context of broader East Asia, especially vis-a-vis China. Do you have any comments in this respect?

**Lutfi:** I am going to try to go straight to the point. Investment is motivation. At the end of the day, it's how much money each company will make. When China was growing in mid-'90s, Indonesia had gone down. And the Asian financial crisis. When China is slowing down, we are looking at a bubble economy in China. There is the transparency issue in the banking sector. People are not as prosperous as in the past. So now the world is looking again at ASEAN countries because we are the next thing. At the end of the day, economy matters.

**Shaharuddin:** The rise and economic growth of any country in our region will certainly benefit the region as a whole. In the case of China, we have to look at it positively. When a country becomes prosperous, opportunities are created. Economic growth and prosperity are the best guarantee for stability, and in this regard, we should work together toward promoting strong bonds of friendship between countries in the region.

**Onishi:** Large Japanese firms are motivated by economic benefit. Those in China complain about political pressure, but China and other things, but no one says they shut down factories.

**Lutfi:** You have to do business with China. It's inevitable. They are the second largest economy, but Japan, by far, is by everything, contributed to China's success. Now what happens is that we are experiencing the same thing.

**Moderator:** I would like to go on to the next theme of today's discussion. The issue of people-to-people exchanges between Japan and Southeast Asian countries is, of course, not something separated from the economic relations and actually something that provides a basis for deep economic relations. I'd like to get comments, this time first from the ambassadors, about the policies and efforts that have been taken by each of the countries in terms of people-to-people exchanges with Japan, including students, academic exchanges, as well as the movement of workers and recruitment of people on both sides from each other, as a very important component of the long-term economic relationship.

**Lutfi:** We enjoy around 500,000 to 600,000 Japanese tourists a year. We are very grateful and hopefully it's going to increase. Japan is the biggest trading partner and investor. Great.

Now, what happens when Indonesians come to Japan? There is the complexity of getting a Japanese visa. I see no correlation whatsoever between relations and implementations on the issue. Of course it's not like the U.S., but one of the basis for difficult visas to get. Do you know if you go to a Japanese hospital, you go for a blood test, there is no explanation whatsoever in English? I went to St. Luke's Hospital, one of the most international hospitals, they have no [explanation]. Indonesians spend more than \$6 billion

It is clear if you take a look at the GDP composition of the forum. The ratio of GDP between ASEAN's 10 member states and Japan was approximately 2 to 8 in 1980, which became about 3 to 7 in 2012. It is estimated that the ratio would be 4 to 6 in 2030.

An equal partnership between ASEAN and Japan will become a reality. But it differently, the era during which ASEAN has relied largely on Japan will take a different shape.

The relationship has increasingly matured, looking at each other with cool eyes and judging with cool heads what is cost and what is benefit.

I think it is good for ASEAN and Japan when economic and social activities are undertaken based upon the spirit of equal partnership. Obviously, Japan needs to go ahead with security issues, supply chain management and transfers of high technology in close cooperation with ASEAN. Although ASEAN may have other countries to choose as partners, it is Japan that extends cooperation and assistance with heart-to-heart understanding and with no strings attached.

Both parties should do everything they can to consolidate mutual trust and friendship. In this sense, Prime Minister Shinzo Abe's strategic focus on ASEAN is very meaningful to reconfirm the solid partnership between ASEAN and Japan.

Having said that, let me come to investment and tourism. On investment, the ASEAN Economic Community puts the focus on the realization of one single production base and one single market. Over the years ASEAN used to be an important production base for Japan while products made in ASEAN were mostly exported to Japan and other countries.

This scenario has been changing. With the rapid growth of ASEAN's economy and increasing middle-income earners, ASEAN has become an important marketplace. The concept of local production and local consumption has become a rising reality. Once this concept takes root in ASEAN, technology, capital and human resources will be accumulated in ASEAN, which will contribute to the further development of the bloc.

This is crucial for ASEAN's advanced countries to escape from the trap of middle-income countries. I want to highlight a few points from the viewpoint of Japanese business corporations.

The first point is ASEAN's single industrial and agriculture standards and, if possible, the acceptance of standardization by Japanese business corporations.

This is applied not only to industrial goods but also to agricultural products, medicines and cosmetics. If the industrial standards are not brought into a single line among ASEAN countries, Japanese business corporations will have to design and manufacture products based on country-specific standards. This will reduce the degree of effectiveness of the supply chain management of Japanese firms.

The second point is protection of knowledge assets or intellectual property rights. A number of copied industrial and consumer goods are prevailing in the ASEAN market. It is necessary to make ASEAN a region free from the infringement of intellectual property rights.

The third point is that development and strengthening of connectivity should be stepped up for efficient and effective flow of distribution and logistics.

As Japanese business corporations will shift from production and marketing in one country to regional production and marketing in ASEAN, good distribution and logistics systems are indispensable to implement supply chain management at lower costs and at higher speed.

Meanwhile, I want to highlight three points from the viewpoint of ASEAN addressed to Japan.

The first point is that the pace and volume of investment should be accelerated by developing infrastructure such as ports, bridges, roads and equipment for quick customs clearance among other things.

The second is that foreign investment should be made focusing on CLMV (Cambodia, Laos, Myanmar and Vietnam) to narrow the development gaps among ASEAN members.

The third point is the transfer of Japan's high technology and know-how. This is Japan's competitive advantage. In addition to technology for infrastructure development, emphasis should be given to three areas: alternative energy and energy saving, environmental protection, and medical care and treatment such as distance operations.

**Moderator:** Now we'd like to hear from each of the ambassadors on the region's economic relations with Japan from their countries' viewpoints.

**Lutfi:** Let me talk about one wire we got from our embassy in Canberra, Australia conducted a survey. What they asked was, "Who is the best friend for Indonesia in the world?" Hopefully the answer is Australia because they are neighbors. The result was six out of 10 Indonesians said Japan.

Then a further question was asked: "Out of all countries, who is Indonesia's best business partner?" Eight out of 10 said Japan. So Japan is a very important business partner for Indonesia.

In the past, cheap products were coming back to Japan as competitive goods. Now suddenly Indonesia has become a market. All of the countries Policy has in 55 percent of the growth is in the Asia-Pacific. The number of people in the middle class grew from 140 million to 900 million in the last 18 years or so.

Middle class means people who make \$3,000 to \$5,000 (per year). Who led these figures important? Someone that makes \$3,000 buys a second TV and a first motorcycle. And \$5,000 is important. That would mean third or fourth TVs and first automobile.

What changed in the last 30 or 40 years is that suddenly Japan has become not just an aging society but a shrinking society. Indonesia and the Philippines are growing societies. More than 50 percent of our demography is younger than 30 years old. We will not see an aging society until at least 2050.

Then we will become a prima donna. Now looking at Japan, you are also a prima donna. Japan has high technology and is very wealthy. But there are no consumers. Consumers are in our region. The Japan Bank for International Cooperation study shows that out of seven ASEAN countries, four are in the top 10 destinations for Japanese investment. Indonesia is No. 3.

The ASEAN economy is about a half the size of the Japan's. But Citicorp said that by 2050, two ASEAN countries, the Philippines and Indonesia, will be in the top 10 economies in the world. The Philippines will be No. 9, Japan will be No. 8 and Indonesia will be No. 4. Our (ASEAN's) GDP combined will be \$16 trillion, almost the same as the United States by 2050.



The participants in The Japan Times Forum on ASEAN-Japan Relations are (from left) moderator and Japan Times Managing Editor Takashi Kitazume, Indonesian Ambassador Muhammad Lutfi, Malaysian Ambassador Datuk Md. Som Shaharuddin, Philippine Ambassador Manuel Lopez, Thai Ambassador Thanatip Upatising and ASEAN-Japan Center Secretary General Yoshikuni Onishi, at the newspaper's office in Tokyo on June 13. YOSHIAKI MURA

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Significant progress has been achieved in our relations and cooperation over the last four decades. The level of trust and confidence between ASEAN and Japan has grown from strength to strength and this has contributed substantially to sustaining regional peace, stability, progress and prosperity.

Since the establishment of the first informal dialogue relations between ASEAN and Japan in 1973, Japan has remained a valued partner and friend of ASEAN. The financial and technical assistance extended by Japan has benefited ASEAN. For

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companies has contributed to economic prosperity in the region. The past three decades have seen a number of Japanese companies using ASEAN as the destination to relocate their industries such as automotive, electrical and electronic industries. The positive effects of the ASEAN-Japan close economic partnership are also manifested vibrantly in the trade, investment and tourism sectors. In this regard, bilateral trade between Malaysia and Japan has recorded continued growth. In terms of investment, Japan continued to be the largest source of foreign investment in Malaysia.

In the tourism sector, despite the global economic slowdown, we had 470,000 Japanese tourists arrive last year alone, which is an increase of 21.5 percent compared to the previous year.

Malaysia hopes to become a developed high income nation by 2020 and we certainly hope Japan will actively participate in our Economic Transformation Program, which was launched in October 2011. The entry point projects outlined in the program will present equal opportunities for Japanese companies to participate in a number of areas, such as financial and business services, halal food industry, green technology health care and energy.

**Lopez:** The Japan-Philippines relationship is very vibrant. Japan is a close strategic partner of the Philippines. Japan is the Philippines' top trading partner, top source of official development assistance and one of the largest sources of foreign direct investment. The prospects for growth in our relations are positively strong.

When it comes to tourism, it's the third-largest country supporting our tourism efforts. For the first time we had more than 400,000 Japanese tourists in 2012. If Japan relaxes its air services restrictions on airlines from the Philippines, it could easily reach 500,000. We have appealed to the Japan Civil Aviation Board to allow more flights between the Philippines and Japan. We will see more and more Filipinos coming to this country.

Some people asked me here why the relationship between Japan and the Philippines is very strong considering you have been through the difficult years of World War II. We have moved on since then. We have decided to take our relations to a different level. Because of that Japanese investors have been coming to the Philippines for many years. Now more than ever, people are coming to the Philippine Embassy asking for more information about investment in the Philippines.

A recent JETRO survey, done in January this year, showed that among seven or eight countries in Asia where to do business, the Philippines came in at No. 1 in export oriented countries. We feel very gratified that all the efforts are beginning to pay off today.

Now because of the good government, transparency and dynamic leadership of our president, we are moving in the right direction. We look forward to more and more activities between the Philippines and Japan.

The Philippines has decisively shaken off long-held misconceptions, under President Benigno Aquino's leadership and adherence to good governance. The Philippines' 7.8 percent GDP performance was the best by an emerging Asian country for the first quarter of 2013 — better than China's. We had had 57 consecutive quarters of positive GDP growth. Growth rates for the last three quarters were all above 7 percent. Hopefully we can sustain

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it. Sustainable growth is our aim. We are a secure and more predictable destination. Inflation is stable at 2.6 percent, the peso is stable. Above all, we enjoy investment-grade ratings from Fitch, S&P and the Japan Credit Rating Agency.

We are a country with a population of 100 million, with an average demographic mean age of 23, highly skilled and English-speaking workforce. We are a perfect complement to Japan, with its aging population, advanced technological capabilities, and sizable corporate capital.

**Upatising:** ASEAN has been the second home for Japanese investors for the past 40 years. But there are new challenges. During Prime Minister Shinzo Abe's visit to Thailand and Southeast Asia in January this year, he announced the "Five Principles of



**Datuk Md. Som Shaharuddin,** ambassador of Malaysia: Holding a bachelor's degree from the University of Malaya, Kuala Lumpur, and a master's degree from American University, Washington, D.C., he has taken up various diplomatic posts. He served various positions in the Public Service Department, Ministry of Foreign Affairs and Ministry of International Trade and Industry. Before taking his current post, he was the ambassador to Zimbabwe and Myanmar.

Japan's ASEAN Diplomacy," which is to promote universal values, such as democracy and human rights; to ensure that the free and open seas are governed by international laws, and not by force; to promote the trade, investment and economic partnership pact; to protect Asia's cultural heritage; and to promote mutual understanding and exchange between the young generations. Thailand supports these principles.

At the same time, ASEAN countries are working together very closely as we are heading for the ASEAN Economic Community. In ASEAN, we (member countries) talk about the economic growth and political development of founding members, development of new member countries, particularly Myanmar, which could lead to the division of labor for ASEAN in the future, as well as the role of new players in the region such as India and China, and the connectivity of infrastructure within ASEAN and in the region.

Our relationship with Japan in the future, therefore, will have to be modified according to the new environment. As we can see, Japan also faces many challenges within the country and overseas, such as economic stagnancy, competition economically from other countries in the region, which compels Japan to move investment abroad.

We should keep our partnership pledge. **CONTINUED ON PAGE 11**