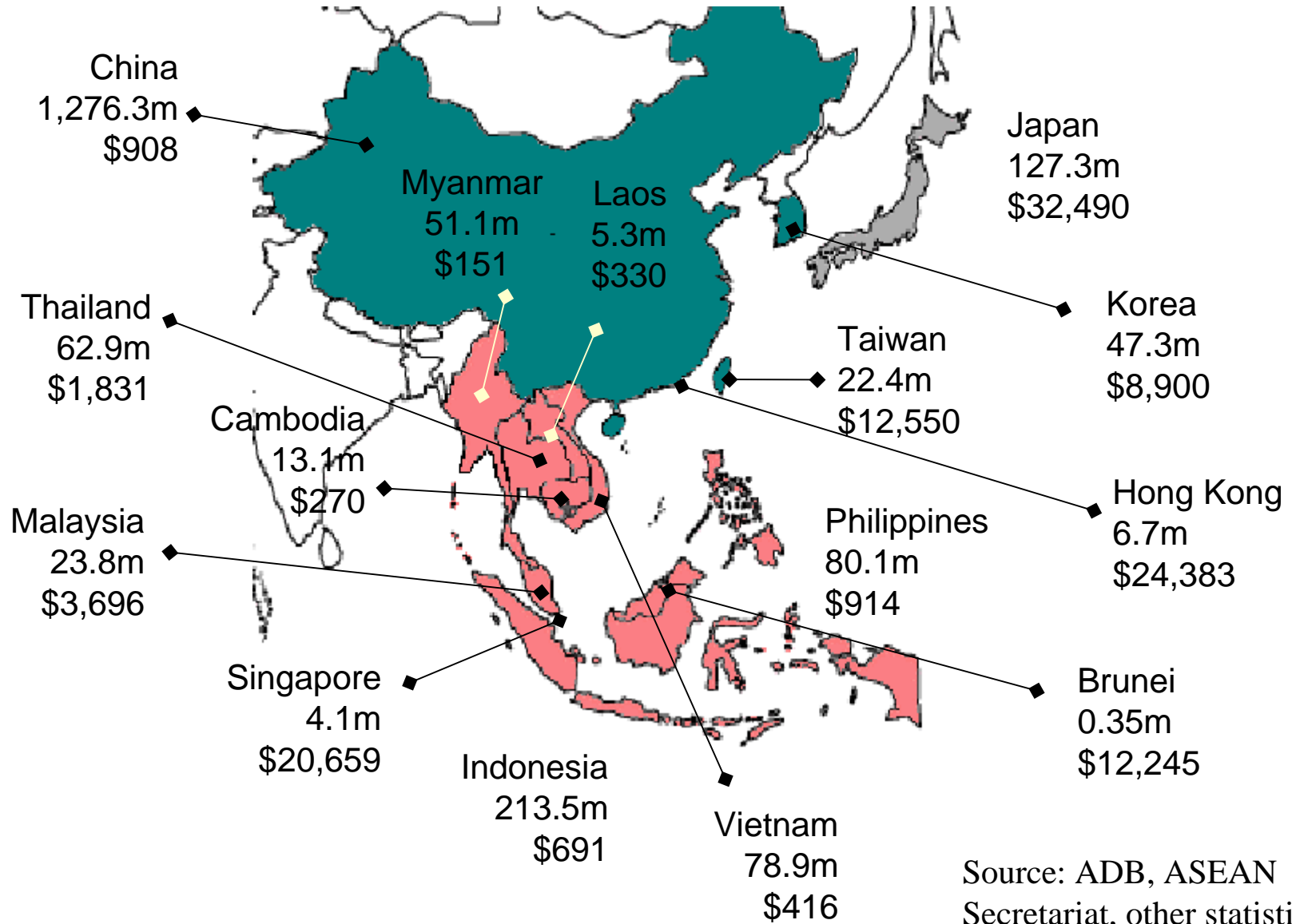


**IUJ Convocation**  
**East Asian Regionalism and**  
**Japanese Business Strategy**

**Ippei Yamazawa**  
**November 12, 2003**

# 2. Map of East Asia

## Population and GDP per capita (US\$) in 2001



Source: ADB, ASEAN Secretariat, other statistics

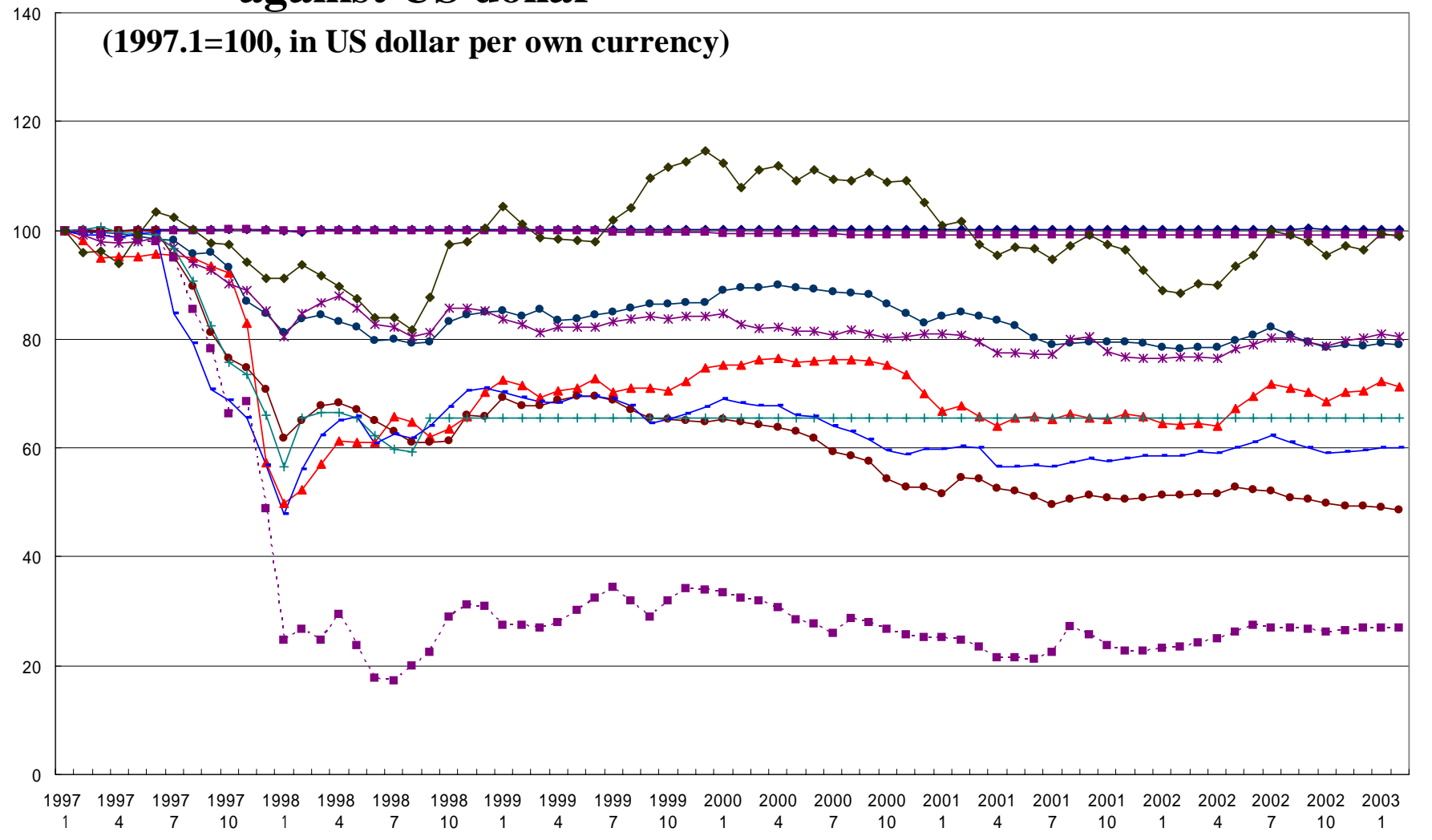
### **3. East Asian Economies: Overview (1)**

- **Dynamic sequence of industrial development**
  - **Japan's modern economic growth since 1885**
  - **Hong Kong, Taiwan, & Korea since the 1960s**
  - **Original ASEAN members since the 1970s**
  - **China switched to Open Economic policy in 1979**
  - **CLMV since the 1990s**
- **Except for Japan, they all achieved rapid growth in the 1990s: East Asian Miracle, Successful response to globalization**

## **4. East Asian Economies: Overview (2)**

- Met across currency crisis in 1997-98**
- ASEAN and Korea had serious set back**
- China was affected much less due to strict exchange control. Its steady expansion conveys both strong engine and concern to neighbors**
- Increasing momentum for regional integration in the recovery process: currency coop, bi-FTA, China-ASEAN, Japan-ASEAN, and ASEAN+3**
- Will move toward East Asian econ community; seek for its way and East Asian econ. system**

# 5. Exchnage Rates of Asian Currencies against US dollar



## **6. ASEAN encountered currency crisis**

- July 1997 Speculative run on Thai baht. It quickly transmitted to neighbor currencies. All stopped dollar peg and depreciated by 20-80%**
- Outflow of foreign short term capital**
- Structural deficiencies, weak financial system, improper corporate governance and crony capitalism are criticized**
- IMF prescription worked even worse**
- Japan's rescue funds. AMF proposal failed but partly realized in Chiang Mai initiative**

## **7. ASEAN members address globalization**

- **Different responses and achievements**
- **Singapore: regional financial and distrib'n center**
- **Malaysia: overcome crisis by capital control and dollar peg**
- **Thailand: political stability and market friendly polices attract FDIs**
- **Indonesia: Suhalt collapsed; political instability delayed reforms; terrorist attacks discourage FDIs**
- **Philippines: unstable politics and weak infra**
- **AFTA will be achieved in 2003 toward ASEAN-wide division of labor**

## **8. Korea's Reform Efforts (1)**

- **Affected seriously by currency crisis: implemented radical reforms under new administration**
- **Corporate reform including chebols: cut incompetent areas, grand bargain with labor union, invite foreign capital, Dae Wu bankrupted and Hyundai separated**
- **Strengthened financial system: restructure govern't banks, resolve non-performing loans, efficient and transparent bank management**
- **Social safety-net: help irregular employees, resolve dual structure of labor market**



## **9. Korea's Reform Efforts (2)**

- **Rapid recovery of macro-economic performance:  
GDP growth of 10.9, 9.3, 3.1, 6.3%**
- **Saving and investment ratios and other good fundamentals resumed**
- **In 2003, Roh Moo-hyun Govn't announced 'Participatory Govn't' and 'Northeast Asian Business Hub'**
- **Now faces difficult problems: worsening economy, big workers' strikes, and resistance to structural reform**

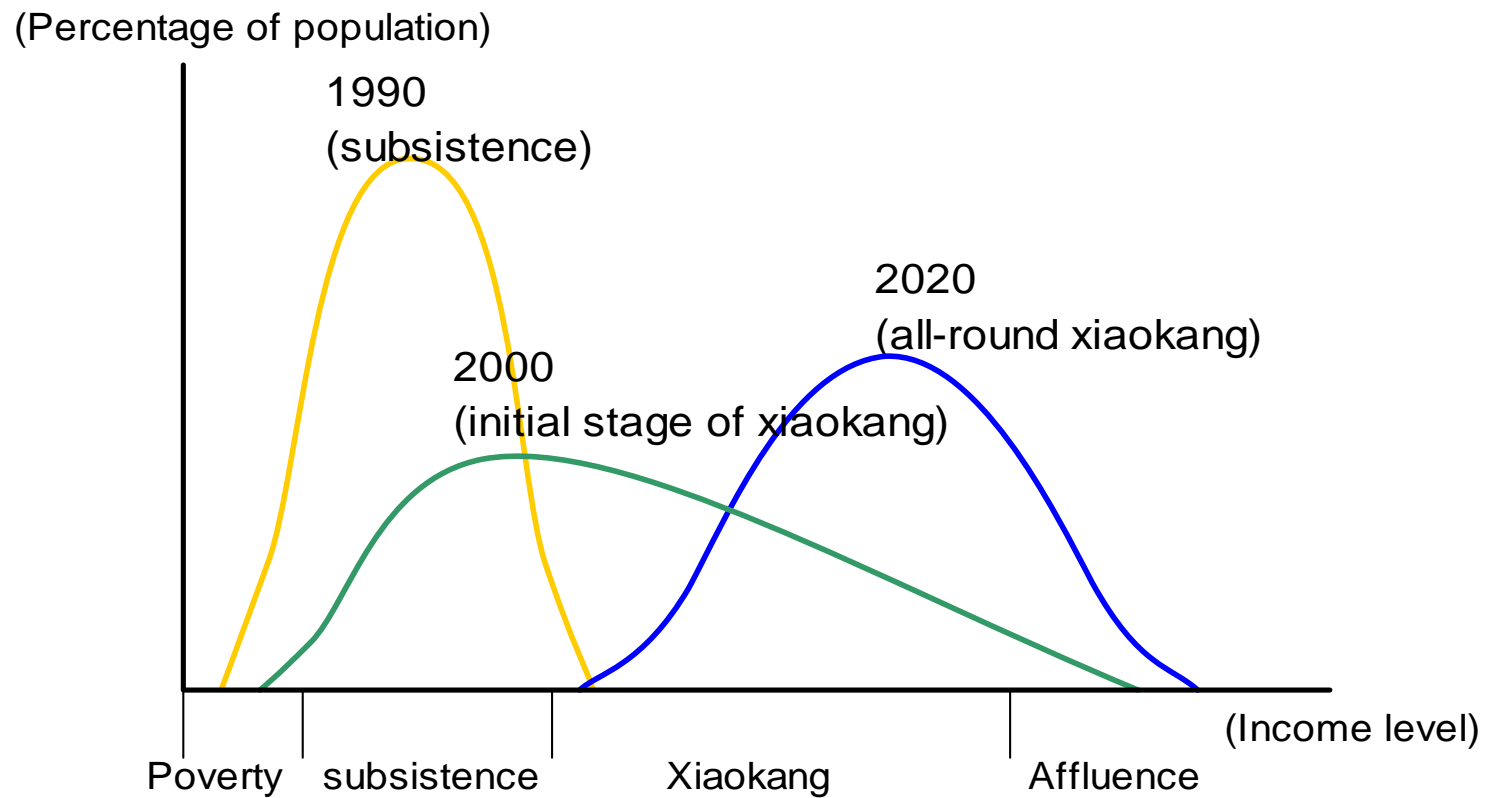
# 10. The Rise of China

- **Yuan remained stable during the Asian crisis, while Chinese economy continued to grow at 8% thanks to capital controls**
- **China's industrial power rising to become "factory of the world"**
- **Keen competition amidst globalization and marketization aggravating deficit of inefficient state-owned enterprises and bad debt problem facing state-owned banks**
- **Uneven income distribution, rising unemployment, poverty in rural areas**

# **11. Towards a Xiaokang (Well-off) Society**

- **Redressing income disparities in order to achieve stable and sustainable growth**
- **The Party Congress last year confirmed that China had reached an early stage of a Xiaokang society and set all-round Xiaokang society set as the target for 2020**
- **Accelerating economic development in central and western provinces to reduce regional disparities**
- **New Administration under Hu and Wen facing the challenges of SARS and foreign demand for a revaluation of the yuan**

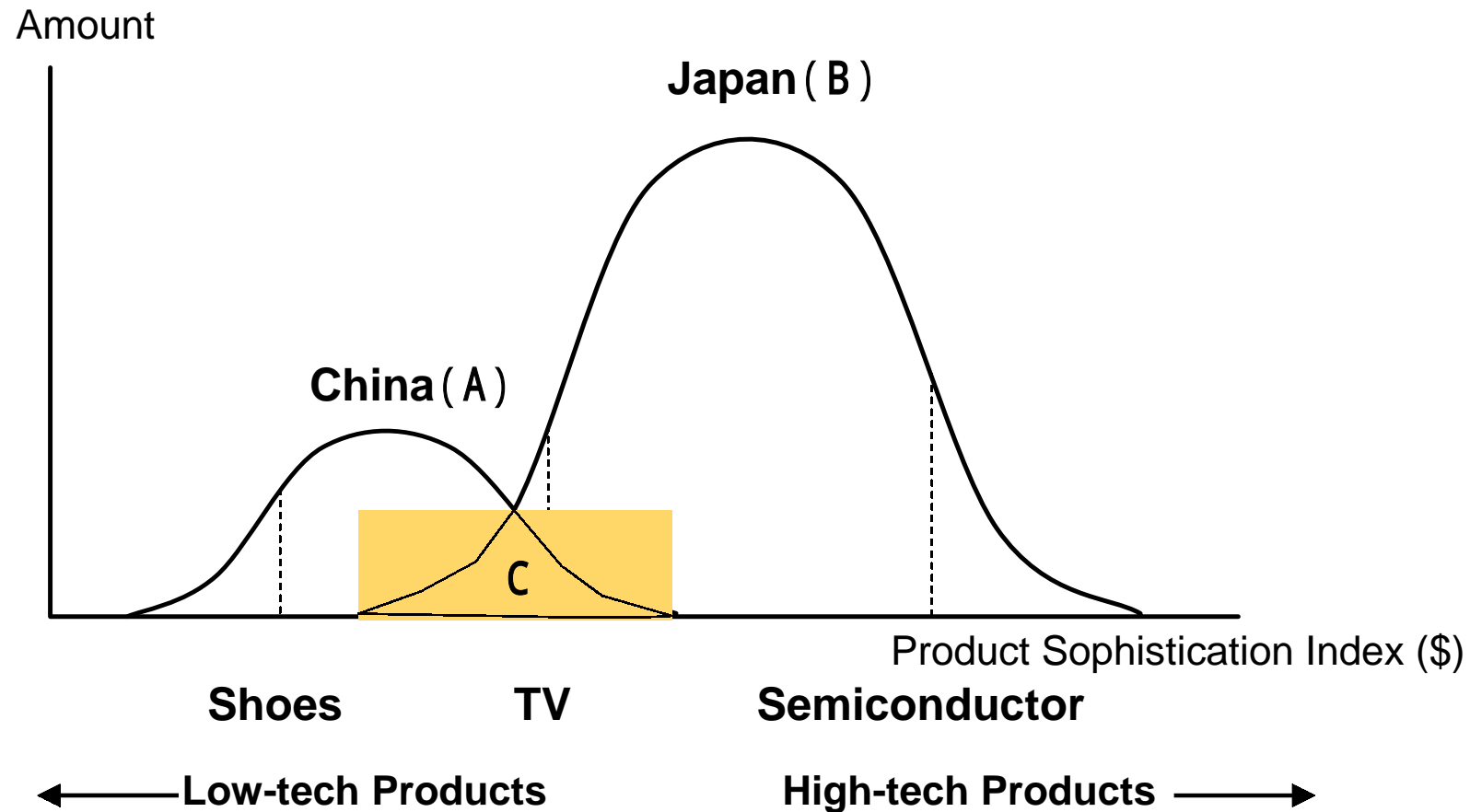
# 12 . The Path to an All-Round *XiaoKang* Society



# **13. Toward a Win-Win Game in Japan-China Relations**

- China threat theory gaining audience in Japan**
- Negative response toward the rise of China -- Japan's less competitive industries asking for protection, and trade frictions with China are on the rise**
- Positive response toward the rise of China – relocate declining industries overseas while strengthening industries that enjoy comparative advantage**
- Comparing the respective advantages of China and Japan as a market and as a production base when formulating business strategy**

# 14. Competition Between China and Japan : Degree of Overlap in Industrial Exports



## **15. Japan's long recession, but a good sign of recovery**

- **Decade long recession due to matured economy, aging population, too rapid yen appreciation, and break of the bubble economy, and deflation**
- **Signs of recovery in both macro and micro econ**
- **Recent reports on increased profits, investment, and R&D**
- **August national income stat. reported 0.6 % growth of Q2 (2.3% annual basis), continued growth for past six quarters**

# **16. Japan's Structural Reform**

- **Reform require more time where powerful leadership is difficult to exercise**
- **2002/6, Council on Econ & Fiscal Policy adopted reforms on**
  - **Tax structure and government expenditure**
  - **Public infra-structure (postal and highway)**
  - **Social welfare**
  - **Strengthening local governments**
- **2003/4, Diet passed legislations for revitalizing industries and establishing structural reform special zones**



# **17. Japanese Firms Overseas**

## **Advancement**

- **J firms' active overseas operation: restructuring business networks in East Asia**
- **Take best advantage of their complementarity with China and ASEAN. Currency crisis and SARS taught them need for balanced allocation**
- **But excessive overseas operation should be avoided if urged by improper macro policy, deteriorated business environment, and high regulation and cost**
- **Government plans to double FDI intake for next 5 years.**

## **18. Emerging Momentum for Regional Integration in East Asia**

- Momentum emerged for regional integration in the recovery process**
- Intra-regional trade and investment increased: market-driven integration. China joined later**
- Proposals for bilateral FTA, ASEAN+1, ASEAN+3 mushroomed**
- Warned against discrimination and spaghetti bowl effects resulting from them**
- Call for regional coop and dynamism of competitive liberalization should not be missed**

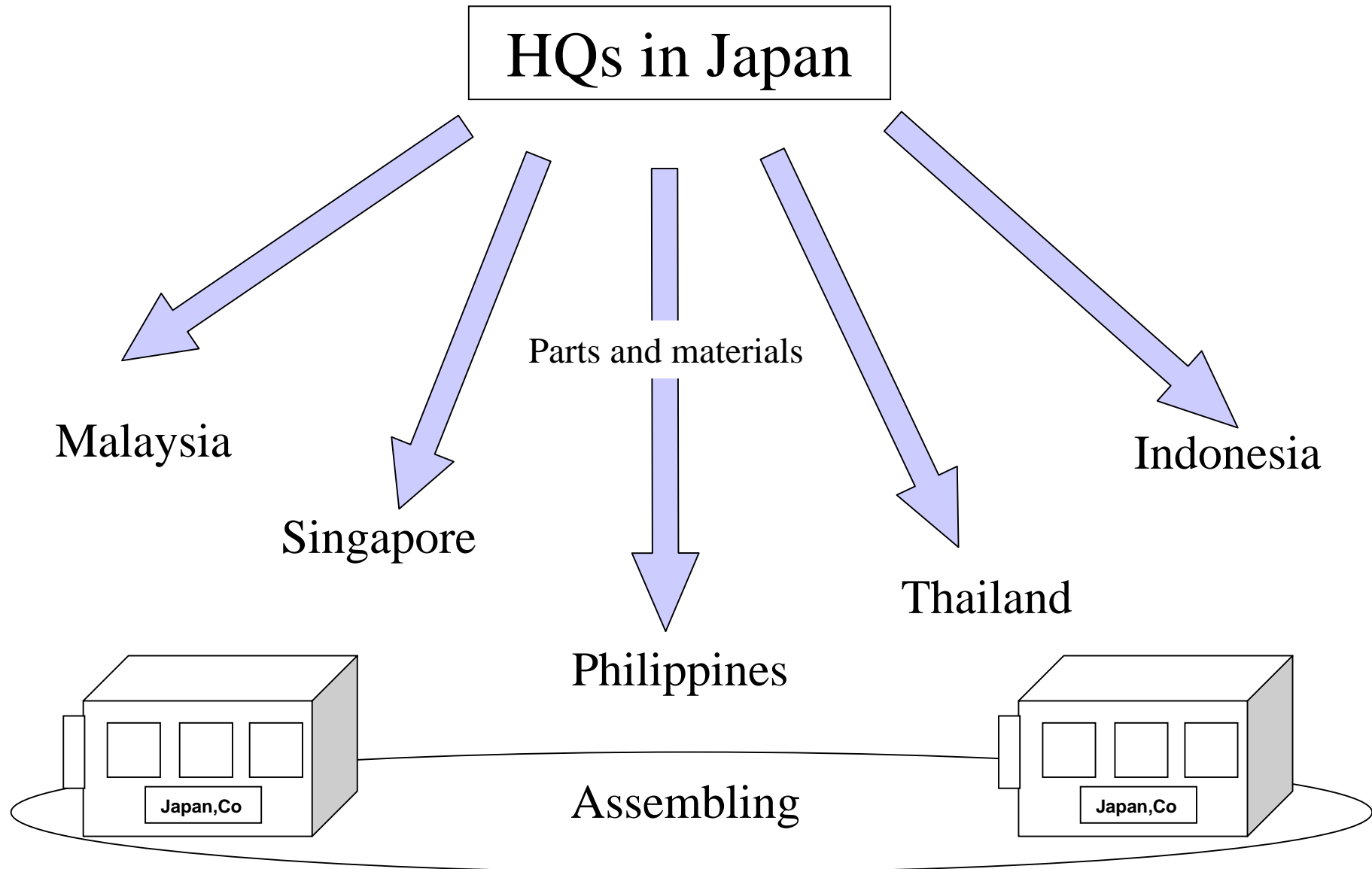
# 19. China & Japan Approach to ASEAN

- Various FTA proposals have mushroomed in EA
- Reflect increased momentum for regional integration
- Nov2002: China and ASEAN signed a framework agreement for economic cooperation, aiming to achieve FTA in 2010-2015
- China offers early harvest of liberalizing 8 agri. products; fresh vegetable, fruits & ornamental plants
- 2003 Japan & ASAEAN starts negotiation on ASEAN-Japan Comprehensive Econ Partnership

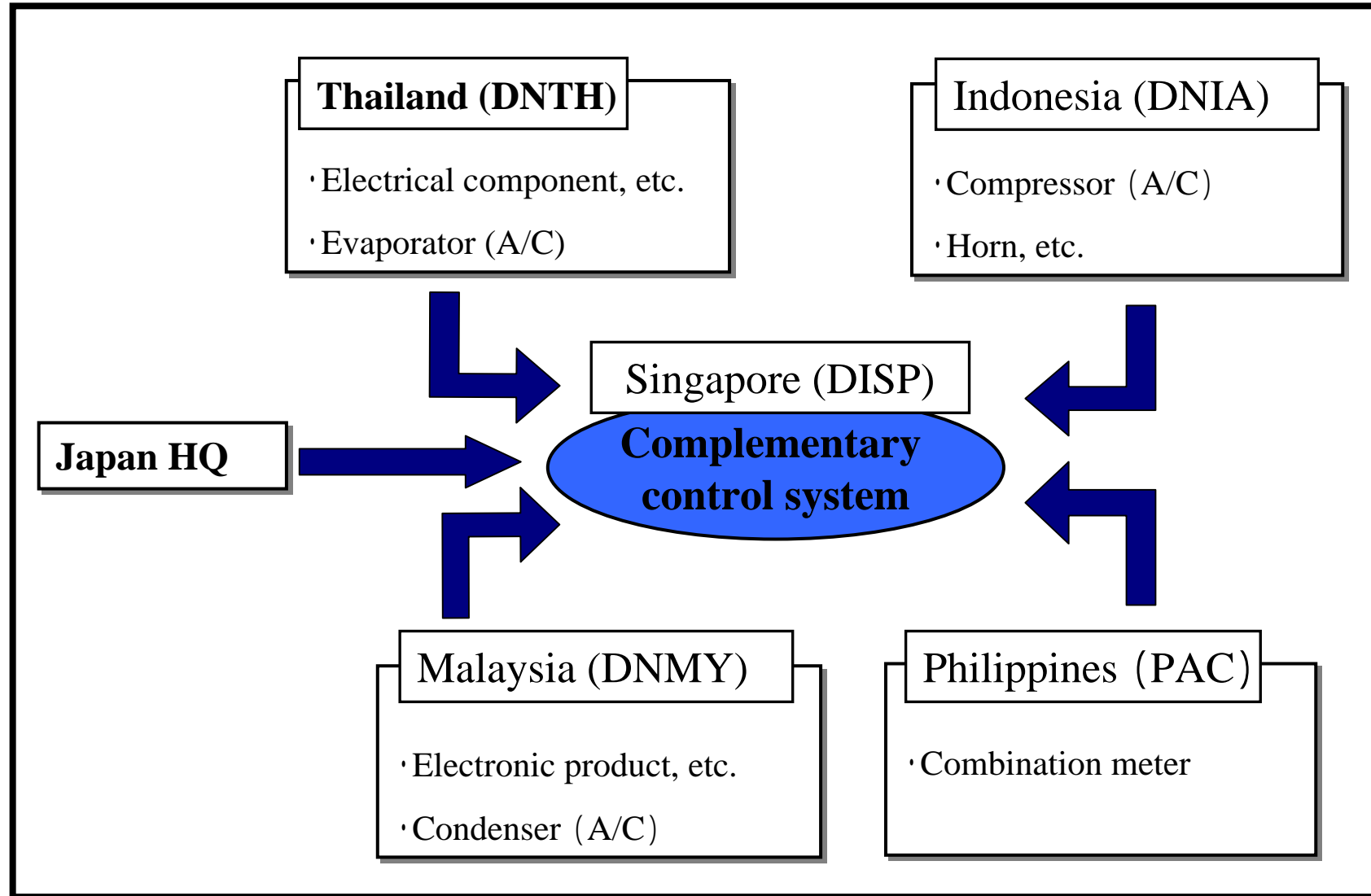
## **20. ASEAN-Japan Comprehensive Economic Partnership**

- Japan & ASEAN have had closer trade, investment, and ODA relations
- Japan's major firms have built business network in individual ASEAN economies. J's FDI stock amounts to 3.4 times of that in China
- Shift from conventional bilateral relations to ASEAN-wide division of labor (See 21 and 22)
- CEP with integrated ASEAN creates new business opportunity and attract more FDIs
- Facilitate customs procedure and distribution

# 21. Traditional Procurement System



## 22. Complementary System – DENSO Co., Ltd.



## **23. Current Stage of Japan-Korea FTA Talk**

- May 2000, IDE/KIEP joint report proposed it: With J's average tariffs 2.9% and K's 8%, K's trade deficit with J will aggravate: K's major concern**
- Enhanced competition, strategic alliance between J and K firms will increase productivity and reduce cost, making them globally competitive: dynamic eff**
- Public concerns about J firms' overwhelming K's, mistrust against J make K Govn't cautious**
- Business forum and governmental consultation followed but negotiation has not started yet**

## **24. Ways toward East Asian Economic Community**

- **Better economic rationale for ASEAN+3 by achieving greater scale economy**
- **But its early realization is impeded by non-econ factors, esp. on '3' side, such as different systems, lack of experiences, and mistrust**
- **Promote various RTAs in parallel, while sharing ASEAN+3 as the ultimate goal**
- **ASEAN (and Korea) can benefit from the hub role, if it is well integrated and managed**
- **Toward East Asian Free Business Zone**



# **25. Toward East Asian Economic System(1)**

- **A common economic system will be shared under integration**
- **Individual economies and firms aim at globalization: efficiency, private firms, maximum profits of share-holders, transparency, accountability.**  
**Are we headed for Anglo-American standard?**
- **Still uneasy about different social, cultural, human relations, dominant economic meritocracy and continued economic inequality**

## **26. Toward East Asian Economic System (2)**

- While shifting gradually from current system, existing differences will remain. We should seek for a unique economic system allowing maximum flexibility and difference between us and from the A-A standard**
- But it needs to be competitive so that it survives global competition**