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INDUSTRIAL RESTRUCTURING IN ASEAN AND JAPAN

An Overview

The **ASEAN Secretariat**, based in Jakarta, was formally established by an agreement signed by the ASEAN Foreign Ministers during the First Meeting of ASEAN Heads of Government in Bali in February 1976. The Secretariat provides a central administrative organ for the co-ordination of the activities of ASEAN bodies and the implementation of ASEAN projects and activities. It is headed by a Secretary-General, appointed on a rotational basis among member countries. The Secretariat has three functional bureaux — Economics, Science and Technology, and Social and Cultural — each headed by a Director.

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**INDUSTRIAL RESTRUCTURING
AND ADJUSTMENT FOR
ASEAN-JAPAN INVESTMENT
AND TRADE EXPANSION**
An Overview

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Foreword

One of the central objectives of the Association of Southeast Asian Nations (ASEAN), as embodied in the Bangkok Declaration under which ASEAN was founded, is the promotion of Southeast Asian Studies. In this context, ASEAN warmly welcomed the offer of Mr Zenko Suzuki, Prime Minister of Japan, in early 1981 to support the launching of an ASEAN Regional Studies Promotion Programme (ARSPP).

After extensive consultations among ASEAN member countries and between ASEAN and Japan, it was agreed that the ASEAN Regional Studies Promotion Programme, initially to extend over a period of five years (FY 1982–86), should focus on policy-oriented socio-economic research. Thus far, the co-operative effort has resulted in the publication of two joint ASEAN-Japan overview papers: *ASEAN-Japan Industrial Co-operation: An Overview* published in September 1984 resulting from the first phase; and *Effective Mechanisms for the Enhancement of Technology and Skills in ASEAN: An Overview* published in March 1986, from the second phase. This volume is the product of the third phase of the programme on “Industrial Restructuring and Adjustment for Japan-ASEAN Investment and Trade Expansion”. Like the two previous volumes, it is based on the results of studies conducted by the Japanese research team and the ASEAN country research teams.

The recent history of ASEAN-Japan relations has been marked by a degree of ambivalence. As the first Asian nation to industrialize successfully and to have risen as a phoenix from the ashes of war-time destruction to the leading heights of industrial and technological power, Japan has always been regarded with a degree of awe and admiration by its southern neighbours. Such awe and admiration have, however, been tinged with a certain amount of anxiety, especially as the impact of Japan’s post-war economic expansion becomes increasingly felt in the ASEAN region.

On the Japanese side, historical circumstances and the need for economic reconstruction in the early post-war years made it unavoidable that its external relations were initially to a large extent oriented towards the West, especially the United States. However, as Japan rose to global economic prominence with a growing presence in Southeast Asia, it increasingly attached greater importance to its relationship with the ASEAN countries.

ASEAN first approached Japan collectively in the early 1970s on the question of Japan’s production of synthetic rubber and its adverse impact on the ASEAN economies. From such narrow beginnings, the dialogue has quickly expanded into the present broad-based consultative framework of the ASEAN-Japan Forum.

Given the historical background, there is a general recognition that while economics must remain the central pillar of ASEAN-Japan relations, the socio-political context under which such economic relations evolve is also of prime importance. Thus, a central objective of the ASEAN-Japan dialogue is the development of greater mutual awareness, understanding, friendship, and trust between the peoples of ASEAN and Japan, especially among the younger generation. In this regard, it is particularly heartening that the present Programme has begun to bring together many young researchers from both ASEAN and Japan in collaborative research on various important and pressing issues of mutual concern. The interactive thought process involved in such research, and the development of a common perception on a wide range of issues, cannot but help improve the effectiveness of the dialogue and establish ASEAN-Japan relations on a firm basis. The ASEAN Secretariat and the Japan Institute of International Affairs, as the ASEAN and Japanese co-ordinating units for the Programme respectively, are happy and honoured to be playing a part in this process.

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December 1986

Preface

The project on “Industrial Restructuring and Adjustment for Japan-ASEAN Investment and Trade Expansion”, based on the results of studies conducted by the Japanese and the ASEAN country research teams, is a co-operative effort to map out issues, constraints, possibilities, and policies pertaining to industrial restructuring in Japan and the respective ASEAN countries. Like the preceding two projects in the ASEAN Regional Studies Promotion Programme (ARSPP), it is a co-ordinated effort involving researchers and officials from both ASEAN and Japan, and is an integral part of government efforts on both sides to strengthen economic co-operation.

The basic objectives of the project are to promote sustained growth, employment expansion, and national well-being in the ASEAN countries. The operational objectives are to analyse the process of industrial restructuring and adjustment with a view to suggesting measures at national, bilateral, and multilateral levels to enhance the process of industrial development in ASEAN, and to strengthen economic relations between ASEAN and Japan. More specifically, this study attempts to identify policies, measures, and schemes that would facilitate the relocation of certain industries from Japan to ASEAN.

It should, however, be noted that there are great diversities among ASEAN countries with regard to physical area, population size, objectives, and interests. These national economies are also at varying stages of economic development based on distinct growth strategies. In addition, the respective country teams use different research methodologies and emphasize separate aspects of the topic. As such, there are areas where comparison and treatment of these countries as a bloc proved difficult. Where such gaps exist, these are filled by supplementary material extracted from other sources such as those noted in the references.

The contents of this volume are divided into two independent parts. Part I, the ASEAN overview, begins with a review of the changing economic structures of ASEAN countries in both a historical and world context. The first chapter therefore sets the backdrop for analysing industrial changes and restructuring efforts in the chapters that follow. The second chapter attempts to identify both declining and growing industries and the impact of industrial changes on the community and private firms. A section is also devoted to the role of Japanese investment in this process. The third chapter deals with the micro aspects of industrial change based on case studies of selected industries. Finally, the last chapter of Part I presents the conclusions and appropriate recommendations.

Part II on the Japanese perspective starts with a review of the changing industrial

structures in post-war Japan, delineating the declining from the growth industries at different stages/phases of economic development. This is followed by analyses of the changing comparative advantages exhibited by different sectors of the Japanese economy, in particular by the manufacturing sector whose subsectors have undergone a dramatic transformation in terms of the types of products, technologies adopted, and market destination at home and abroad. The third chapter deals with the question of how Japanese corporations, small and large, have responded to the changing factor endowments, the rising income and consumption patterns of the public and government policies on growth and industrial restructuring at home and a whole host of changes observed abroad including advancing industrialization of threshold and developing countries and the rising wave of protectionism particularly in the United States and other industrial countries. The final two chapters are devoted to the analysis of the changing industrial policies to minimize the impact on the employers, workers, and local communities adversely affected by the continuing process of industrial restructuring at home and abroad. The conclusion includes recommendations that are addressed to the governments of Japan and the ASEAN countries.

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