

Investing in ASEAN: New Factors to Consider

Statement by H. E. Rodolfo C. Severino, Secretary-General of the Association of Southeast Asian Nations, at the Joint ASEAN Investment Promotion Seminar

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Japanese companies have for a long time — since the 1950s — been using Southeast Asian countries as a site for profits, cost-effectiveness, and global competitiveness. Japanese firms have located their operations in Southeast Asian countries for their low-cost but productive labour, to be where needed raw materials can be extracted, to gain access to domestic markets that are getting bigger and richer, as production platforms for the markets of the world.

In this, the Japanese Government has been exceedingly helpful to Japanese companies, as well as to the Southeast Asian countries. This help has come in the form of trade financing, loan guarantees, assistance in the development of infrastructure where the companies are located, and the cultivation of good political relations between Japan and Southeast Asia. Of course, Southeast Asia has benefited, too, in terms of jobs, foreign exchange, business partnerships, access to the Japanese and world markets, and the transfer of technology.

In recent times, this beneficial relationship has hit some snags. Japanese investments in ASEAN have gone down in value, and their share in total foreign direct investment flows into ASEAN has diminished. On the basis of balance-of-payments data, Japan's share of FDI flows into ASEAN was but 5.4 per cent in 1999, behind the European Union and the United States, as against 13.5 per cent in 1998. Meanwhile, U.S. investments in ASEAN swelled by seven-and-a-half times from US\$1.1 billion in 1998 to US\$9.4 billion in 1999, mostly by way of reinvestments and mergers and acquisitions.

This downturn has had an impact on the trade between ASEAN and Japan. Japan remains one of ASEAN's three leading trading partners, but its share of ASEAN's trade has been diminishing since the early 1990s. Japan's share of the imports of ASEAN's six leading trading nations — Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand — shrank steadily from almost 25 per cent in 1993 to less than 18 per cent in 1998. The share of the Japanese market in the exports of the same six countries went down from 15 per cent in 1993 to less than 11 per cent in 1998. The result is that by 1999 Japan had slipped to third place among all of ASEAN's trading partners, behind the United States and the European Union.

There are several reasons for this. Two of the broadest are the slump in the Japanese economy and the financial crisis of 1997–98 in most of Southeast Asia.

Now, the Japanese economy seems to be picking up. The economies of Southeast Asian countries are recovering faster than expected. But other, equally important things have also been changing. These changes have been transforming the investment climate in Southeast Asia, the opportunities for investment there, and the factors that determine decisions on such investments.

New Developments

Now is, therefore, a good time to take stock and try to peer into the future. I suggest that we look at four areas where new developments are taking place that are relevant to long-term investment decisions. These are:

- the growing integration of the ASEAN economy;
- the expansion and diversification of ASEAN;
- the progressive openness of ASEAN economies; and
- the growth and potential of information and communications technology.

ASEAN's commitment to regional economic integration should be clear to all. The ASEAN Free Trade Area is now substantially with us, with more than 85 per cent of tariff lines in the AFTA scheme already in the minimal-tariff zone. This represents more than 90 per cent of goods traded among ASEAN countries. By the beginning of 2002, in just a little over a year from now, most of the goods traded within ASEAN will have tariffs of no more than 5 per cent or none at all. By next year, average tariffs on goods traded under the AFTA scheme will be down to less than 4 per cent from the 4.43 per cent today. The first six signatories to the AFTA treaty intend to abolish all import duties on trade among them by 2010. Non-tariff barriers are also being dismantled.

ASEAN has adopted a mechanism, based on international rules and practice, to deal with any delays in the transfer to the AFTA inclusion list of products supposed to be included during the current period. ASEAN countries are streamlining and harmonizing customs procedures. They are entering into mutual recognition arrangements on product standards and otherwise harmonizing them. The liberalization of trade in services within ASEAN is being negotiated. The sectors involved are in various stages of negotiation.

The integration of the ASEAN economy is producing a market of half a billion people, close to half the population of China, with a gross domestic product equivalent to that of China. This should be an important factor in decisions on investment in ASEAN.

Another significant factor is the expansion of ASEAN to embrace all of Southeast Asia. An ASEAN of all ten countries of the region is not only a fulfilment of the vision of ASEAN's founders; it is not only a stronger force for regional stability. It also gives investors more choices in deciding where to locate their operations for the increasingly integrated ASEAN market or for production for export elsewhere in the world. Whether a potential investor looks for high-technology capability, efficiency in services, abundant raw materials, or low-cost labour, the investor can find it in one or another ASEAN country.

ASEAN is making a special effort to upgrade the skills of the people of the newer members and build their institutional capacity. Work is also being done to promote the development of their infrastructure. In much of this, ASEAN is working closely together with others in the international community, particularly with Japan.

Opening to the World

ASEAN economies are steadily opening up. All are committed to the liberalization of the domestic economic regime, to market forces as the energizer of growth, to the critical role of the private sector in economic development. Thus, they are on the steady path of liberalization, privatization and de-regulation. This is a matter both of unilateral policy choice and of the obligation to the World Trade Organization on the part of those ASEAN countries that are already members of WTO and of those aspiring to enter it.

Moreover, ASEAN is moving toward new forms of linkage with other countries and regions, individually or collectively. In some cases, free trade areas are being explored; in others, broader, deeper and more comprehensive relationships. Examples are the recently initialled Singapore-New Zealand Agreement on a Closer Economic Partnership and the recently announced start of negotiations on a Singapore-Japan Economic Agreement for a New Age Partnership. Another is the trade agreement between Vietnam and the United States. ASEAN and Australia and New Zealand have just agreed to develop a much closer and more comprehensive relationship between them.

The process of expanding and deepening co-operation between ASEAN and China, Japan and the Republic of Korea — the process known as ASEAN+3 — is rapidly gaining momentum. The ASEAN+3 finance ministers have embarked on solid co-operative undertakings. These include the joint monitoring of financial and economic movements in East Asia and in the world and a network of currency swap and repurchase agreements to make resources available to countries in balance-of-payments difficulties. The ASEAN+3 economic ministers have agreed on priority areas for co-operation and the guidelines for carrying it out. ASEAN's particular relationship with Japan has been moving forward, with its own forums for financial and economic co-operation.

These novel forms of external relationships for ASEAN have profound implications and present rich opportunities for Japanese investors in ASEAN. Such potentials and opportunities beckon particularly in the exciting area of information and communications technology and other knowledge industries. Japan has, in recent years, surged in IT use and capability, finding lucrative niches in this fiercely competitive but wide-open field.

At the same time, ASEAN is determined to join the information age, get into cyberspace, and form e-space in ASEAN, or e-ASEAN. The ASEAN economic ministers have just adopted, for the ASEAN leaders' signature next month, an e-ASEAN agreement that is to provide the framework for this determined venture into the information age and into cyberspace. This endeavour involves the adoption and harmonization of laws and policies to stimulate the development and use of IT for commerce and for social purposes. It entails the training of ASEAN's people to enable them to use and develop IT. It envisions free trade in IT goods and services, which should offer opportunities for Japanese suppliers of such goods and services. It calls for the standardization and harmonization of IT products and processes. Again, this presents a rich potential for Japanese products and technology.

Not least, the development and use of IT requires the freer flow of ideas and people. This entails new business and human relationships, new procedures, new modes of thinking, new ways of doing things on the part of governments, business, and other institutions, as well as individuals.

I am convinced that these factors — ASEAN's economic integration, its expansion, its steady opening to its neighbours and the rest of the world, and its embrace of IT — offers virtually unlimited potential for the resurgence of ASEAN-Japan economic relations, including Japanese investments in ASEAN.

SOURCE: ASEAN Secretariat <<http://www.aseansec.org>>