

▶ Introduction

## The ASEAN Economy in the Spotlight

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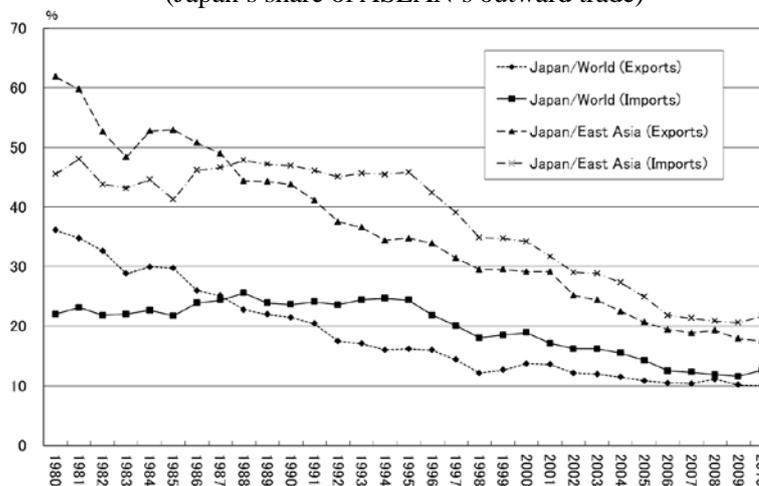
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### Key Points

- Amidst increased activity by the countries of the Association of Southeast Asian Nations (ASEAN) to achieve a high level of growth and to build an economic community, global interest in ASEAN as a market and a production base is heightening. ASEAN is also garnering increased interest due to its central role in building a Regional Comprehensive Economic Partnership that incorporates the countries of East Asia.
- The ASEAN countries are quite diverse in a variety of aspects including developmental level. However, a common factor behind the high level of growth by the ASEAN countries is the turn in developmental strategy from an import substitution strategy to an export promotion strategy. In order to continue high growth in the future, it will be important to maintain the outwardly open policy and to establish a unified production base and market through building an economic community.
- Although ASEAN is garnering increasing attention, the importance of Japan to ASEAN in terms of trade is declining. From the perspective of economics as well as of international relations, it is necessary for Japan to reverse this trend. As a means to this end, it is important to improve the investment environment in ASEAN through improving the infrastructure and the like using official development assistance, and to expand direct investment by Japan in ASEAN.

The importance of Japan to ASEAN in terms of trade is declining.  
(Japan's share of ASEAN's outward trade)



Source: Produced from the RIETI and TID databases.

## Introduction

The businesses and governments of countries around the world are increasingly interested in the economy of the Association of Southeast Asian Nations (ASEAN).

Behind this lies a market that is expanding due to a high level of growth, as well as an allure as a production base that is in the midst of being set up. ASEAN is an organization comprising 10 countries, and is diverse in many ways including developmental level; nevertheless, there is the commonality of recording high levels of growth.<sup>1</sup> These high levels of growth have been increasing the purchasing power of the citizenry, resulting in an alluring market to companies.

The appeal as a production base differs by ASEAN member country, but collectively, there are low wages, a concentration of supporting industries, the presence of a relatively well-developed infrastructure, and the like. These draws will be further enhanced by the founding of the ASEAN Economic Community (AEC), which aims to be a unified production base and market and is underway with a target date of 2015.<sup>2</sup> Also, the increased political and social risks in China are amplifying the appeal of ASEAN.

ASEAN is also garnering attention from the viewpoint of an Asian regional trade policy. With the turn of the 21<sup>st</sup> century, the East Asian countries also have begun to actively pursue the conclusion of free trade agreements (FTAs), as if to follow the moves of countries in other regions of the world. ASEAN, which launched the ASEAN Free Trade Area (AFTA) in 1992, entered into five FTAs by 2010 with the countries of China, South Korea, Japan, India, and Australia/New Zealand, and is also currently playing a central role in the establishment of a regional-level FTA in East Asia through promoting the Regional Comprehensive Economic Partnership (RCEP) with these countries as members.

Based on an understanding as stated above, this report sheds light from a variety of angles on the current state of and issues facing the ASEAN economy, and analyzes the business strategies of corporations in ASEAN.

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<sup>1</sup> The ASEAN members in order of membership date are Indonesia, Malaysia, the Philippines, Singapore, and Thailand (the founding members), as well as Brunei (1984), Laos (1995), Vietnam (1995), Myanmar (1997), and Cambodia (1999). Laos, Vietnam, Myanmar, and Cambodia, which joined from the mid-1990s onward, are delayed in developmental level compared to the other members and have the same sorts of issues in promoting growth. As a result, they are at times referred to collectively using the acronym CLMV. Also, since Vietnam has been marking rapid growth compared to the other countries, it has been removed from this group, and the remaining countries are at time referred to with the acronym CLM.

<sup>2</sup> In addition to an economic community, the establishment of a socio-cultural community and a political-security community are planned.

In the following portion of this chapter, preliminary knowledge is presented for deepening the understanding of the analysis results in this report. Specifically, the characteristics of the ASEAN economy are clarified, the position of ASEAN in the global economy and the Asian economy is confirmed, and ASEAN's relationship to Japan is examined.

## 1. The characteristics of the ASEAN economy: The richly diverse ASEAN countries

### Population

The ASEAN countries have the commonality of having achieved a high level of growth in recent years, but they are quite different in a variety of areas.<sup>3</sup> In terms of population, Indonesia is the largest with 240 million people, while Brunei is the smallest with 400,000, a mere 1/600 of Indonesia (Figure 1). The countries that have the next largest populations after Indonesia are the Philippines (94.9 million) and Vietnam (87.8 million). Meanwhile, the countries with the next smallest populations after Brunei are Singapore (5.2 million) and Laos (6.3 million). The total population of the ASEAN countries is 597.9 million, which is 44% of China's 1.34 billion.

Figure 1: Basic economic indicators for ASEAN, Japan, China, and South Korea (2011)

	Population (millions)	Area (sq. km.) -2010	GDP (\$ billions)	GDP per capita (\$)
Brunei	0.4	5,270	12.4	31,008
Cambodia	14.3	176,520	12.9	900
Indonesia	242.3	1,811,570	846.8	3,495
Laos	6.3	230,800	8.3	1,320
Malaysia	28.9	328,550	278.7	9,656
Myanmar	48.3	653,520		
Philippines	94.9	298,170	224.8	2,370
Singapore	5.2	700	239.7	46,241
Thailand	69.5	510,890	345.6	4,972
Vietnam	87.8	310,070	124.0	1,411
ASEAN	597.9	4,326,060	2,093.1	3,809
China	1,344.1	9,327,480	7,318.5	5,445
Japan	127.8	364,500	5,867.2	45,903
ROK	49.8	97,100	1,116.2	22,424

Note: The figures for Brunei are from 2010, the ASEAN GDP per capita figure excludes Myanmar, and for the other figures, the ASEAN value is the sum.

Source: World Bank, World Development Indicators online (accessed November 2, 2012)

<http://databank.worldbank.org/ddp/home.do?Step=3&id=4>

### Land area

There is also a large disparity in area. The country with the greatest land area is Indonesia, with 1.81 million square kilometers. On the other hand, the country with the smallest land area is

<sup>3</sup> 2011 figures are used.

Singapore, which with 700 square kilometers is about the same size as Tokyo. Singapore's area is approximately a mere 1/2600 of that of Indonesia. Indonesia is followed in size by Myanmar (650,000 km<sup>2</sup>) and Thailand (510,000 km<sup>2</sup>). Indonesia has a large area, but it is an island country consisting of at least 18,000 islands. The next smallest country after Singapore is Brunei (5,000 km<sup>2</sup>). The largest country of Indonesia stands out in size compared to the other countries, and the smallest country of Singapore is markedly smaller than the other countries.

#### Economic scale

There is also a large disparity among the ASEAN countries in terms of economic scale (GDP). Indonesia has the largest GDP, at 846.8 billion dollars, while Laos as the smallest GDP, at 8.3 billion dollars, just 1/102 of Indonesia.<sup>4</sup> The countries between Indonesia and Laos in descending order are Thailand (\$345.6 billion), Malaysia (\$278.7 billion), Singapore (\$239.7 billion), the Philippines (\$224.8 billion), Vietnam (\$124 billion), Cambodia (\$12.9 billion), and Brunei (\$12.4 billion).<sup>5</sup> By economic scale, it can be seen that while the founding five ASEAN members and Vietnam have GDPs of at least \$100 billion, Brunei and the CLM countries have far smaller GDPs. For comparison, the GDP of ASEAN as a whole is 29% of that of China, 36% of that of Japan, 1.88 times that of South Korea, and 15% of the total GDP of Japan, China, and South Korea.

#### GDP per capita

GDP per capita is commonly used as an indicator for the level of economic development, and by this measure there is a large developmental disparity among the ASEAN countries. Singapore has the highest GDP per capita at about 46,000 dollars, while it is the lowest in Cambodia, at 900 dollars, which is 1/51 of the figure for Singapore.<sup>6</sup> For the record, the disparity between the highest and lowest GDP per capita among the ASEAN countries shrank significantly since the 1990s. Specifically, the disparity between the highest GDP per capita in Brunei and the lowest in Vietnam in 1990 was a factor of 142 to 1, while the disparity between the highest in Singapore and the lowest in Cambodia in the year 2000 had decreased to a factor of 81 to 1, and in 2011, to 51 to 1 as stated above.

#### Trade and direct investment

Similarly to the other economic indicators, there is a broad variation among the ASEAN countries in the value of trade and direct investment (Figure 2). Singapore is recording the highest values for trade and direct investment, while Laos has the lowest figures. For the other ASEAN

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<sup>4</sup> Figures for Myanmar were not listed in the source used, the World Bank's World Development Indicators, but according to documents from the ASEAN Secretariat, Malaysia's GDP was 24.9 billion dollars in 2009.

<sup>5</sup> The figure for Brunei is from 2010.

<sup>6</sup> The GDP per capita of Myanmar was not listed in the source used, the World Bank's World Development Indicators, but was 419.5 dollars in 2009 according to the ASEAN Secretariat. Taking this into consideration, it is highly likely that Myanmar has the lowest GDP per capita in ASEAN.

countries, there are differences in the rankings of scale for trade and for direct investment. By value of trade, Singapore is first at 775.3 billion dollars, followed by Thailand (\$457.3 billion), Malaysia (\$414.7 billion), and Indonesia (\$377.8 billion). Laos is last at 5.1 billion dollars.

In terms of the amount of outward direct investment, only the three countries of Singapore, Malaysia, and Thailand have investments of any significant scale, while the other ASEAN countries are essentially not engaging in outward direct investment at all. On the other hand, all the ASEAN countries are recipients of inward direct investment. Singapore is the largest recipient of direct investment by value, at 518.6 billion dollars. The second place spot is taken by Indonesia, but at 173.1 billion dollars, it is clear that Singapore stands out with a marked lead in direct investment.

Figure 2: Trade and direct investment in ASEAN, Japan, China, and South Korea (2011)

	\$billions				%			
	Trade		FDI (stock)		Trade/GDP ratio		FDI/GDP ratio	
	Exports	Imports	Outward	Inward	Exports	Imports	Outward	Inward
Brunei	12.3	3.3	0.7	12.5	99.0	26.3	5.6	100.7
Cambodia	7.0	9.3	0.4	6.9	54.0	72.2	2.9	53.2
Indonesia	201.5	176.4	9.5	173.1	23.8	20.8	1.1	20.4
Laos	2.4	2.7	0.0	2.5	28.9	31.9	0.1	30.4
Malaysia	227.0	187.7	106.2	114.6	81.5	67.3	38.1	41.1
Myanmar	10.5	7.2	0.0	9.1				
Philippines	48.0	64.0	6.6	27.6	21.4	28.5	2.9	12.3
Singapore	409.5	365.8	339.1	518.6	170.8	152.6	141.5	216.4
Thailand	228.8	228.5	33.2	139.7	66.2	66.1	9.6	40.4
Vietnam	96.9	106.7	0.0	72.8	78.2	86.1	0.0	58.7
ASEAN	1,243.8	1,151.4	495.7	1,077.3	59.4	55.0	23.7	51.5
China	1,898.6	1,743.5	366.0	711.8	25.9	23.8	5.0	9.7
Japan	822.7	854.3	962.8	225.8	14.0	14.6	16.4	3.8
ROK	555.2	524.4	159.3	131.7	49.7	47.0	14.3	11.8

Note: With respect to the trade/GDP ratio and direct investment/GDP ratio for Brunei, since the 2011 GDP figures have not been released, the 2010 figures were used.

Source: World Bank, World Development Indicators online (accessed November 2, 2012)

<http://databank.worldbank.org/ddp/home.do?Step=3&id=4>

Direct investment statistics are from UNCTAD, FDI Database online (accessed November 5, 2012)

[http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF\\_ActivePath=P,5,27&sRF\\_Expanded=P,5,27](http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=P,5,27&sRF_Expanded=P,5,27)

One characteristic common to the economies of the ASEAN countries is a high external dependence in trade and direct investment. The ratios of exports and imports to GDP of the ASEAN countries together are respectively 59.4% and 55.0%, and the ratios of outward and inward direct investment to GDP are respectively 23.7% and 51.5%. These figures are all higher than those for China, Japan, and South Korea. The trade/GDP ratio for Singapore significantly exceeds 100% for both imports and exports, demonstrating the country's role as an intermediary trade port. Although not shown in the figure, the ratio of the total of imports and exports to GDP exceeds 100%

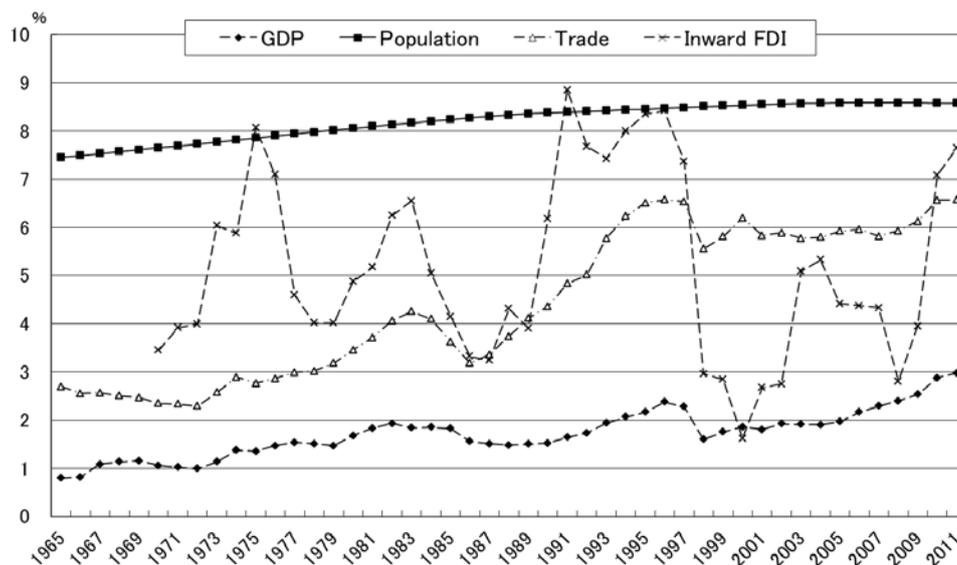
for the ASEAN countries excluding Indonesia, Laos, and the Philippines, illustrating the importance of trade to the economies of these countries.

## 2. The ASEAN economy in the global economy

In recent years, the ASEAN economy has been achieving a high level of growth driven by trade and direct investment, but what is its position within the global economy? Figure 3 indicates the trends for the GDP, population, trade, and inward direct investment of ASEAN as shares of those of the global economy. Among these indicators, the greatest share is held by population, which stood at 8.6% in 2011. In 1965, this was at 7.5%, and so for approximately the past half-century, the region has been slowly but steadily increasing its population share. However, the rate of increase in this area has been slowing in recent years.

ASEAN's share of global GDP was a mere 0.8% in 1965, but showed high growth thereafter, reaching 3.0% in 2011. This figure dropped greatly during the Asian currency crisis, but has risen almost completely consistently since then. In particular, the growth rate since entering the 21st century has been fast. Compared to the share of population, ASEAN's share of GDP is lower, signifying the lower GDP per capita in ASEAN than the global average.

Figure 3: ASEAN's position in the global economy



Source: GDP, population, and trade statistics are from the World Bank, World Development Indicators online. Inward direct investment statistics were obtained from the UNCTAD, FDI Database online.

ASEAN's share of global trade rose rapidly from 2.7% to 6.6% between 1965 and 2011. In particular, the rise was markedly fast during the decade or so from the latter half of the 1980s until the Asian currency crisis.

Inward direct investment (as a flow) has exhibited wide fluctuations, but comparing the dates of 1971 and 2011 for which statistics are available, it rose from 3.4% to 7.6%. It can be seen that ASEAN's global shares of trade and of inward direct investment are greater than that of GDP, but this indicates the high external dependence of the economic activity in ASEAN compared to the global average. This suggests that trade and direct investment have played a large role in realizing economic growth in ASEAN compared to the other countries of the world.

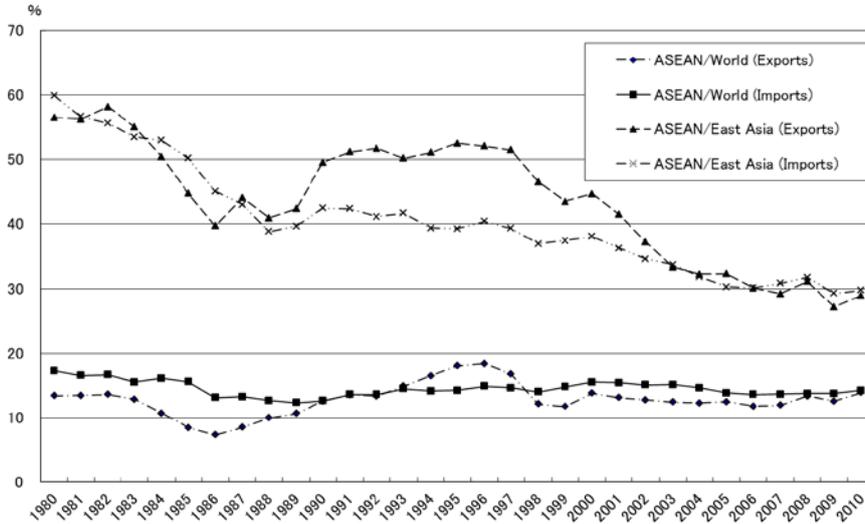
### 3. The economic relationship between Japan and ASEAN

In order to shed light on the economic relationship between Japan and ASEAN, trade, direct investment, and official development assistance are considered next to illustrate the importance of ASEAN to Japan and the importance of Japan to ASEAN.

Figure 4 shows the changes in the importance of ASEAN to Japanese trade during the period from 1980 to 2010. The figure considers Japanese trade from two perspectives: with respect to the world and with respect to East Asia. First, of the fraction of Japanese trade with the world that is trade with ASEAN, imports have been fairly consistently trending at around 15%. On the other hand, exports fluctuated gently between 7% and 18% from 1980 until about the year 2000, but have been steadily maintaining a fixed level of 12-13% since 2000.

This shows that for Japan, the importance of ASEAN with respect to the relationship with the world has not been changing much in recent years, but in terms of the relationship with East Asia, the picture is quite different. Japanese exports to ASEAN as a share of exports to East Asia has continued to drop at quite a speed since the mid-1990s. This figure was 52.5% in 1995, but had declined to 28.9% by 2010. Imports have also continued to drop, although not at quite the speed as exports have. Japanese imports from ASEAN as a share of imports from Asia stood at 60% in 1980, but have dropped since then to 42.5% in 1990 and 29.7% in 2010. A cause for the drop in ASEAN's importance in Japanese trade with East Asia has been the rapid rise in the importance of China.

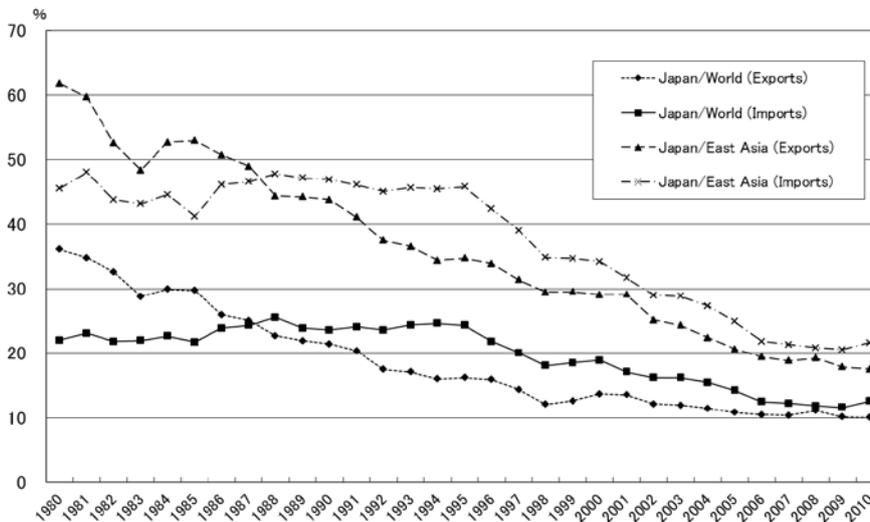
Figure 4: The importance of ASEAN to Japan



Source: Calculated from the RIETI and TID databases.

Next, let us examine the changes in the importance of Japan to ASEAN in terms of trade. Figure 5 indicates trade with Japan as a share of ASEAN’s trade with the world and with East Asia. From this figure, it is possible to observe that Japan’s share of ASEAN’s trade with the world and with East Asia during the period from 1980 to 2010 has declined almost totally consistently. It has dropped from around 25-35% of trade with the world to about 10%, and from 50-60% of trade with East Asia to around 20%. In the background to the drop in Japan’s share of ASEAN’s trade lies the low growth in the Japanese economy and the high growth in the developing and emerging economies including China.

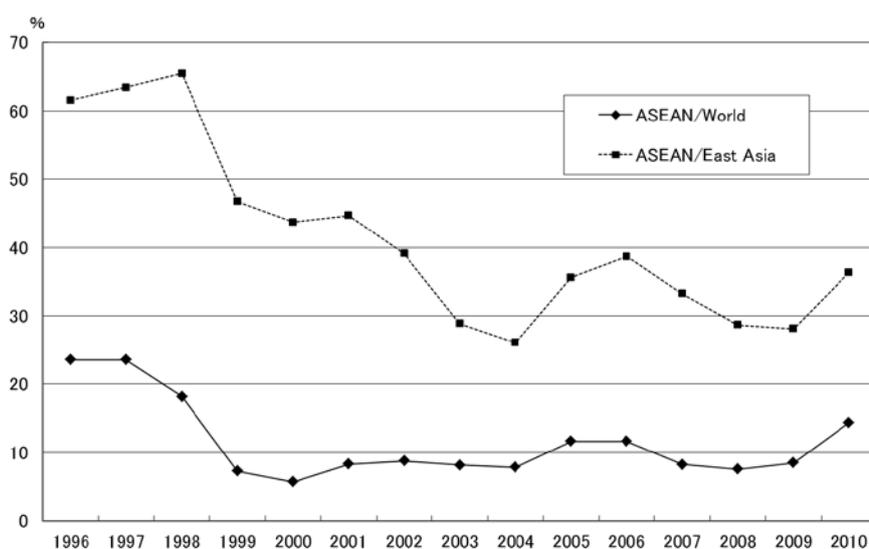
Figure 5: The importance of Japan to ASEAN



Source: Calculated from the RIETI and TID databases.

The importance of ASEAN as a destination of direct investment from Japan is indicated in figure 6. Japanese investment in ASEAN as a share of direct investment to the world and as a share of investment in East Asia are depicted similarly to the depiction of trade. Due to large fluctuations in direct investment (flow) in the figure, direct investment figures calculated as a 3-year moving average are used to examine the trends. Japanese investment in ASEAN as a share of direct investment to the world stood at 20% in the latter half of the 1990s, but dropped to 10% at the end of the 1990s, and has been trending at around 10% ever since. Investment in ASEAN as a share of direct investment in East Asia exceeded 60% in the latter half of the 1990s, but then dropped greatly, standing at 30-40% from around the mid-2000s to 2010. The expansion of direct investment in China, and in recent years, India, lies in the background to the large decrease in the position of ASEAN in the direct investment from Japan to East Asia.<sup>7</sup>

Figure 6: The importance of ASEAN in Japanese outward direct investment



Source: Produced from the JETRO Japanese direct investment statistics

According to the ASEAN Secretariat, Japan's share of direct investment to ASEAN from the world (as a flow) was 10.1% in the three-year statistic from 2008-2010, whereas Japan's share of direct investment from East Asia was 24.5%. These figures are at comparable levels to Japan's share of trade with ASEAN. Since there is a limit to the obtainability of statistics regarding sources of direct investment in ASEAN, it is not possible to know past trends, but a downward trend similar to that of trade is considered highly probable.

<sup>7</sup> See Chapter 5, Section 1.2 regarding Japan's direct investment in ASEAN.

In this section, it was clarified that the economic relationship between Japan and ASEAN has been declining in importance for both parties. In particular, the importance of Japan to ASEAN is markedly dropping. As discussed in the Introduction, the decline in Japan's importance to ASEAN amidst an increased interest in ASEAN from the countries of the world is a serious problem for Japan.

In order to reverse this trend and increase Japan's importance to ASEAN, it would be effective to restore Japan's economy and to achieve high economic growth, but this is not the only way. Based on an understanding that direct investment and trade are closely linked, an expansion in direct investment from Japan to ASEAN would expand and deepen the relationship between the two not only through the direct investment itself but also through trade. If overseas subsidiaries of Japanese firms are established in ASEAN through direct investment from Japan to ASEAN, trade would expand between those overseas subsidiaries and the parent company in Japan as well as with other Japanese companies. In this way, the relationship between Japan and ASEAN would become closer. Here, as a means for expanding direct investment by Japanese corporations to ASEAN, it is important to use Japanese official development assistance as a boost for improving the investment environment in ASEAN through improving infrastructure and the like.

#### 4. Issues in achieving further economic growth for ASEAN

As seen in Section 1, the ASEAN countries individually have small markets, but through export-promoting policies and an expansion of exports to overseas markets, high growth has been achieved. Also, since sufficiently competitive companies did not exist domestically, the open policy towards foreign investment used to lure competitive foreign companies also greatly contributed to high growth. It is thought that such a growth mechanism will function effectively in the future as well, but there are considered to be a number of issues that must be overcome in order to realize sustained and stable growth in the ASEAN economy.

First, in order for ASEAN, being sandwiched between the economies of China and India that are large and expected to expand, to continue to be an alluring market and production base for overseas corporations, the realization of the ASEAN economic community with its objective of being a unified market and production base is important. Second, reducing the domestic income disparities within and developmental disparities among the ASEAN countries would also lead to the achievement of high growth through the realization of social and political stability. In order to achieve this, it is necessary to actively promote the development of small and medium enterprises and the development of human resources, as well as to build and implement highly transparent and

just economic institutions and policies. Third, promoting the localization of foreign capitalized corporations and developing competitive local businesses enable autonomous economic growth. This is not meant to advocate policies that discriminate against foreign capitalized corporations and give preferential treatment to domestic companies. By contrast, in order to develop competitive domestic businesses, it is important for the foreign capitalized corporations to voluntarily expand deals with domestic businesses, to engage in technology transfers to local workers, and to arrange an environment of a sort in which research and development activities can take place locally. If the technical and management abilities of the locals increases, the foreign capitalized corporations will proceed to transfer technology and perform research and development activities. Such behavior would increase the competitiveness of the domestic firms and promote economic growth.

To overcome these issues, self-reliant efforts are indispensable, but foreign cooperation and support are also effective. Japan has engaged in much cooperation with ASEAN up to now, but amidst cuts to the ODA budget, it is necessary to continue effective cooperation and support in a variety of fields in the future.

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