

Overcoming Crisis, Opening a Path from Asia to Global Economic Growth

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Nippon Keidanren

I. Expectations for Sustainable Growth in Asia

The potential for growth in Asia¹ is tremendous² and in the effort to overcome the current global economic crisis, it is hoped that the further development of this region will serve as a driving force for the global economy. It is essential for the countries of Asia, through its growth, to develop industry, expand markets and employment, promote and enrich safe civil life, and establish a bountiful economic society. Further, a sustained growth through the increase of internal demand in Asia can contribute to the development of the global economy.

This year has seen the various nations' economic stimulus measures coming into effect and the Asian Economy, centering on the emerging economies, is showing a steady and increasing recovery³. In order to respond to the internal and external expectations of Asia becoming not only "Factory of the World" but also "End Consumer Market", it is important for the regional nations to pull the global economy by sustaining a stable growth through increased domestic consumption.

In order to achieve this, reduction of regional differences and establishment of a

¹ Though the definition of "Asia" as a region is not something this proposal is defining, the countries in consideration for the economic integration framework are the 16 nations of ASEAN+6 (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, Australia, China, India, Japan, New Zealand and South Korea.)

² What was in 2007 a population of 3.1 billion and a GDP of 11 trillion dollars in the 16 East Asian nations mentioned above has today become 3.2 billion and 12 trillion dollars respectively.

³ When looking at actual economic growth rates, China is expected to grow 8.2 % in 2009, and is expected to hit 9.4% in 2010, while India is 5.4% and 7.6% respectively. For the ASEAN nations, Indonesia is expected to hit 4.3% for 2009 and 4.6% for 2010, Philippines 1.0% and 3.5%, Vietnam 4.3% and 7.2%, all showing heightening growth rates. Even in countries with negative growth for 2009 such as Malaysia (-3.8%) and Thailand (-4.0%), growth is expected to recover to a positive 3.2 % and 3.4% in 2010. (Based on predictions by Dai-Ichi Life Research Institute)

foundation for growth by i) market expansion and trade investment stimulation through the promotion of regional economy integration, and ii) resolution of bottlenecks for growth by developing both “hard” and “soft” infrastructures, are required.

II. Japan's Role and Contributions

In order for Asian economy to achieve a sustained and stable growth, our nation must contribute and hold a stance of mutual growth as a member of the Asian Region, and our contribution must be one that fits our economic power. For instance, (1) the improvement of coverage and quality of Economic Partnership Agreements (EPA) to promote regional economic integration, (2) a stable supply of long and medium term funds, (3) wide area infrastructure development, (4) soft infrastructure improvement, (5) boosting the Asia internal consumption, (6) contribution for balancing both environment and economic growth, and (7) substantial reforms for ODA and other official flows in order to achieve these objectives, can be given as examples.

The Nippon Keidanren has long held the concept of an East Asian Economic Community as a future goal⁴. Since the Asian region possesses many different national philosophies, political structures, religions and cultures, it is necessary to use a different approach from an economic integration among similar national entities. Therefore it is important for both the private and public sectors of the relevant countries to consider the way to an open economic community, and it should be with the cooperation of international associations such as the Economic Research Institute for ASEAN and East Asia (henceforth ERIA), and Asian Development Bank (henceforth ADB) or the Asia-Pacific Economic Cooperation (henceforth

⁴ Nippon Keidanren “*A Call for the Development and Promotion of Proactive External Economic Strategies*”(Oct 16th, 2007)

APEC).

Further, for Asia to sustain a stable economic growth, peace and assurance of security in the region is paramount. Particularly, considering the role that current security framework has played in north eastern Asia, using the Japan-US alliance as a foundation, it is necessary to reinforce the bilateral relationships between Japan and three respective nations (USA, China and South Korea).

With this in mind, we propose the following 7 action plans for sustained economic growth in Asia and the regional initiatives as well as Japan's contributions necessary to realize this growth.

III. 7 Action Plans for Sustainable Growth

1. Promoting Regional Economic Integration to Facilitate Economic Activities

(1) Enhancing Economic Partnership Agreements

The economic growth of Asia will be increased through securing the free movement of people, goods, money and service within the region. To promote this type of regional economic integration, the goals should be to increase coverage (for instance ASEAN+6 or an APEC scale FTAAP) and improve the quality of an economic network made up of accumulated holistic Economic Partnership Agreements (henceforth EPA) including trade of services, investment and movement of people in addition to trade of goods. An expanded EPA will have great meaning, including supplementing the liberalization of trade investment in the World Trade Organization (WTO).

(2) Geographical Expansion

Today, China, South Korea, India, Australia and New Zealand, each have either an EPA or a Free Trade Agreement (henceforth FTA) with ASEAN.

Indeed in Japan too, due to the efforts of both public and private sectors reaching fruition, EPAs have been concluded with ASEAN as a whole as well as with some of the main individual countries within ASEAN. Going forward, Japan must look to filling in the gap in Northeast Asia, especially focusing on a quick conclusion to the Japan-Korea and Japan-India EPAs currently undergoing negotiations. Promoting a Japan-China-Korea tripartite FTA, in view of past research, is also considered an effective step. Finally a Japan-China FTA should also be a topic of consideration.

The Asian regional economic integration concept should not be an exclusive integration, but rather be open to participation for extra-regional nations as well. In particular, coordination with the US and the EU is important and our nation needs to actively promote EPAs with these nations and regions as well. Toward this end, Japan should analyze the current status and operation of EPAs concluded between the US or EU with Asian nations and share it with the private sector.

(3) Qualitative Improvements

With regards to trade in goods, reduction of tariffs has progressed greatly due to EPAs already in place. This is proven by the fact that in all of the EPAs between Japan and Asian nations, the liberalization rate within 10 years is over 90% (based on trade figures)⁵. The next steps are to consider liberalization of certain high tariff products, accelerate the scheduled phased reduction and/or abolishment of tariffs and resolve the reversal phenomenon between the EPA preferential tax rate and the WTO most favored nation effective tax rate.

On the other hand, with regards to liberalization of trade in services and investment, within the financial, distribution and construction industries which are the industries most expectant of increased intra-Asian

⁵ Ministry of Economy, Trade and Industry, *"2009 Report on Compliance by Major Trading Partners with Trade Agreements – WTO, FTA/EPA, and BIT "*, Japanese original version, page 366

consumption, restrictions on foreign capital and ambiguous domestic regulations still exist. These must be resolved with utmost haste⁶. Also, in order to encourage the movement of natural persons and circulation of goods, liberalization of air transportation, the Open Sky Policy, needs to be pushed forward in parallel to the improvement of EPA quality.

With regards to movement of natural persons, in order for foreign enterprises with local presences to provide services in a smooth manner, restrictions on intra-corporate transferees and board member nationality must be abolished in the relevant countries. In Japan too, permitting human resources from other Asian countries to have a place in the economic structure will lead to domestic invigoration. For instance, facilitating acceptance of high skill human resources based on the "Specialist in Humanities/International Services" or "Engineer" qualifications is important⁷. Also, Japan needs to facilitate measures, based on EPAs, particularly for nurses and care workers⁸.

2. Providing Stable Medium and Long-Term Funding

(1) Currency Stabilization

The stabilization of currency is a prerequisite condition for the smooth business deployment of foreign enterprises in Asian countries. The "Chiang Mai Initiative", a bilateral currency swap arrangement reached in 2000 at

⁶ For instance, with regards to Japan and ASEAN, it would be appropriate to use the "Service Trade Mini Committee" which was created based on the "The Agreement on Comprehensive Economic Partnership Among Member States of the Association of Southeast Asian Nations and Japan"

⁷ In addition, it is important to consider measures where in the areas such as manufacturing, construction, and machine assembly, with the prerequisite that an economic needs test be instated, foreign human resources who have proven the required Japanese and technical skills should be accepted under the "Skilled Laborer" qualification. (Nippon Keidanren "*Second Proposal on the Issue of Accepting Foreign Human Resources*"(Mar 20th, 2007) pages 6 – 7)

⁸ For instance under the current system, the hurdles are very high, where after working and receiving training, the candidates must take the same national exam as Japanese nationals, in Japanese, and if they fail they must return home.

the Second ASEAN+3 Finance Ministers meeting, saw progress this year in May as it was made multilateral. The increase of subject countries and increased flexibility of use should be considered now. For this, it is important to coordinate with extra-regional nations like the US, as they are key players in the Asian region.

(2) Responding to Intra-Regional Funding Needs

Toward developing a broad regional infrastructure in Asia, it is imperative to put in place a system for issuing and distributing bonds and stocks in order that savings of the private sector can circulate as investment funding. For this, it is thought necessary to [1] build a legal framework to protect creditors, [2] ensure the transparency of the market, [3] provide hedge tools, [4] provide tax incentives for bond investment and foster institutional investors.

Toward system design, it is important that the ADB, ERIA, and each country's stock exchange and securities market watch dogs play a respective role.

Also, for Japanese enterprises to develop their businesses abroad it is necessary to procure local currency which has little risk and the Japan Finance Corporation/ the Japan Bank for International Cooperation (henceforth JBIC) are expected to support these needs through financial investments.

3. Advancing Broad Regional Infrastructure Development

(1) Removing the Growth Bottlenecks

One of the bottlenecks to the growth of Asia is the lack of traffic and distribution networks, regionally and domestically. In order to deploy an international production network, it is absolutely necessary to reduce transaction costs through the development and maintenance of a wide area

logistics infrastructure.

On another note, within the Asian region, while emerging economies are following a route of economic development, the economic gap between them and late starter nations is increasing. By developing a wide area logistics infrastructure, this intra-regional gap can be addressed by promoting late starter nations as factory sites enabled by the horizontal distribution.

(2) Shared Master Plans

A master plan is needed for the wide area infrastructure project. The plan should be based on the projects already given high priority by the relevant nations, such as the Mekong-India Industrial Artery Framework (Deli – Mumbai – Bangalore – Chiang Mai – Mekong), and Mekong regional initiatives of the North-South Economic Corridor, the East-West Economic Corridor, and the Southern Economic Corridor. In these projects, ERIA is expected to have a central role, while our nation is expected to provide active support through JICA.

In the master plan, backbone infrastructure such as traffic, electricity, telecommunications and water resources as well as urban infrastructure will no doubt be the focus. Besides these, planning for the future increase in resource and energy requirements in Asia, promotion of investment for regional resource and energy development initiatives are necessary. Further, from the perspective of meeting increasing food demand, region wide farming infrastructure maintenance should also be a point for consideration.

(3) Promoting Public-Private Cooperation

The development of a wide area infrastructure entails a vast amount of funding⁹. Today, when looking at overall funding in Asian nations, while

⁹ There is estimated to be a 70 trillion yen infrastructure demand center around ASEAN and India over the next 5 years, and calculations that already 10 trillion of

17.90% is from direct funding by foreign enterprises, public overseas funding such as ODA makes up only 1.34%¹⁰. As this data shows, domestic governmental funding and ODA type public funding is not enough to support the development of a wide area infrastructure, and a scheme to collect private funding is vital.

More specifically there needs to be a mechanism put in place where the construction, procurement, and maintenance of the infrastructure is covered by public funding such as ODA, while the operational management is funded by private money. For this to work there must be a scheme that links private enterprise originating resource development plans and PPP (Public Private Partnership) operational rights applications to the ODA requests of the ODA recipient nation's government¹¹. In parallel to this, in the case of PPP, in order to effectively make use of the financial power, high technical skills and know-how, it is necessary to establish relevant legal structures and governance for the ODA recipient nation.

4. Enhancing “Soft” Infrastructure Development

(1) Improving Legal Frameworks

Enticing private investment, technical transfer, smooth PPP project implementation, all require that a soft infrastructure be maintained. Such an infrastructure includes establishment of legal systems and regulations, a framework for intellectual property rights protection, logistics and customs procedures, and a standards and certification scheme. Many Asian countries look to Japan for support in establishing a legal system based on past experience. Japan has already helped many nations, many of them in

that is in the concept/planning stages. (Ministry of Economy, Trade and Industry, “*Trade White Paper 2009*” page 271)

¹⁰ World Bank, World Development Indicator 2006

¹¹ Nippon Keidanren “*Pursuing Strategic, Enhanced International Cooperation Through Public-Private Cooperation*, (April 8th, 2009) Refer to 2.(1)

the Mekong region, to establish a legal system, and this support, based on the demands of each nation, should be increased, particularly in regards to economic fields.

(2) Creating Innovation-Friendly Environments

It must be put into consideration that Asia as a region will grow not only in production and consumption, but also as centers of research and development. In other words, it is necessary to create an environment where high value added products and new business models can be created through innovation and introduced to the world. For this to become realized, an environment should be created where talented people, regardless of nationality, can freely interact while resources should be distributed to ensure progress of research and development as well as development of human resources.

For instance, expanding the number of exchange students and researchers accepted to our country is an effective measure. If a framework for cooperation among Asian nations can be established in terms of standardization, an Asia wide standard for emerging industries can be promoted through consortiums of joint research teams and others.

5. Boosting Demand within Asia

(1) Bolstering Social Security and Other Systems In View of an Increased Asian Consumption Market

China¹² and India¹³ has a fast growing middle and high class to match

¹² In China, the 2008 “Social Consumption Retail Figure” rose to 10.8 trillion Yuan (nearly 150 trillion yen), a 21.6% record increase from the previous year showing a steady increase in internal demand. Although consumption temporarily slowed due to the economic crisis, it is recovering rapidly particularly around household electronics and cars (Ministry of Economy, Trade and Industry, “*Trade White Paper 2009*” pages 68 and 69). Further, economic stimulation measures, domestic development, environmental movement which makes environmentally friendly products gain more attention and large scale national projects such as the Shanghai Expo (2010) are progressing in China.

¹³ In India’s case, with over 200 million people possessing disposable income of over

their economic growth and with the recent economic stimulus measures boosting domestic demand, they are increasingly becoming end user markets. The other ASEAN nations are also seeing an increased middle class¹⁴. However, from a macro economic perspective, the Asian savings GDP rate is still excessive in comparison to the international average, and in order for Asia to achieve a sustained growth and its people to enjoy a better quality of life, it is important to increase consumption through expanding and cultivating the middle class.

It has been pointed out that in some countries the distorted distribution of wealth and lack of a social security system has forced up the savings rate. An effective income policy and social policy to remedy the situation is anticipated. Necessary support to increase the middle class such as raising the educational standards and introducing vocational training should be implemented.

(2) Dealing with the "Base of Pyramid" (BOP)

To sustain growth in Asia, more education and an increase in the base income for an improved quality of life for the low income class (henceforth BOP: Base of Pyramid), a class that accounts for the majority of the people in Asia, are an absolute necessity. Also, in order to improve quality of life by consumption, the un-recognized needs of the BOP must to unearthed, and edification for a consumption lifestyle that ensures education, hygiene, and medication needs to take place, provision and development of products that

5000 dollars, the middle income class (annual income of 400 thousand – 2 million yen) is expected to reach 580 million people (41% of overall population) by 2025. This is an enormous scale (*“Trade Whitepaper 2009”* page 85).

¹⁴ In Indonesia’s case, with the largest population in ASEAN, there are 79 million people with disposable income of over 5000 dollars. This is a 10 fold increase from 2000 pointing to a large consumption market (*“Trade Whitepaper 2009”* page 96). For ASEAN’s second largest population holder, Vietnam, there are 55 million people with disposable income between a 1000 and 5000 dollars, while for the over 5000 dollar range, it is estimated that there are 11 million people and economic growth through a revitalized consumer market is expected. (*“Trade Whitepaper 2009”* page 99).

meet local needs must be considered, and ways to cooperate with social entrepreneurs and micro finances need to be thought out. It is important for Japan to participate in this process with both private and public sectors in cooperation.

(3) Advancing Deregulation

For enterprises to actively participate in local consumption, services industries such as finance, advertising, logistics and retail must be prevalent. However, in order to provide services of good quality, there are too many regulatory restrictions, including restrictions on foreign capital¹⁵. Elimination of these obstacles needs to be continued.

6. Balancing Environmental Concerns and Economic Growth

(1) Addressing the Global Warming Issue

Addressing the problem of global warming is a path that cannot be avoided when attempting to achieve a sustainable growth. Currently negotiation is ongoing for the Post-Kyoto International Framework to be presented at the end of this year at the 15th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 15). The Asian nations account for roughly 34% of global emissions¹⁶, and if the top emissions nation China¹⁷ and 4th India¹⁸ does not actively address emissions reductions, it will be impossible to ensure the practicability of

¹⁵ For instance, in the Philippines, for advertising services, the government regulates foreign capitals, and even with the Japan Philippines EPA, Japanese investment must be limited to 30% and all board members must be Philippines nationals. In the distribution service, in Thailand, foreign capital ratio must be within 49%, and even under the Japan Thailand EPA, 75% is accepted only for certain areas and with conditions. For financial services, India, Thailand, China, Malaysia, and Indonesia to name the main countries have established foreign capital restrictions.

¹⁶ Based on materials from Institute of Energy Economics, Japan

¹⁷ 6.1 Billion t-CO₂. Approximately 21.2% of global emissions (2007)(Based on materials from IEA *“Special Early Excerpt of the World Energy Outlook 2009”*)

¹⁸ 1.3 Billion t-CO₂. Approximately 4.5% of global emissions(2007)

global warming prevention.

Therefore, each Asian nation, based on the concept of "common but differentiated responsibility", should make an international commitment on emissions targets, either by intensity basis or aggregate emissions, and work to meet this target through energy saving initiatives, etc, to fulfill their responsibility toward prevention of global warming¹⁹. Promotion of energy saving technology is to make effective utilization of limited resources, and leads not only to energy security assurance and cost reductions, but also to a balance with economic growth and environmental protection, and is therefore strongly recommended to each nation.

(2) Promoting Technical, Knowledge Tie-ups

It is important that a region cooperate on cross-border issues like prevention of global warming, energy saving, counter disaster measures, water supply acquisition, waste recycling, bio-diversity. Japan, assuming that intellectual property rights be sufficiently protected, will continue to promote cooperation through Japan's sophisticated technology and know-how towards nations with initiatives for environmental protection and energy savings, using public funds such as ODA.

In parallel, Japan should take the leadership role in the circulation of environmentally friendly products. For instance, by supporting creation of energy saving standards and improving energy saving awareness toward the general consumers, we increase the use of energy efficient devices and thereby contribute to the prevention of serious electricity deficit, and increasing green house gas emissions²⁰.

¹⁹ In terms of energy efficiency improvement and emissions reduction target setting, it is a possibility to re-enforce the initiatives by the "Asia-Pacific Partnership on Clean Development and Climate" (APP) currently joined by Japan, South Korea, India and China, by including other Asian nations.

²⁰ *Keidanren's Proposal for a Post-2012 International Framework on Preventing Climate Change* (Oct 26th, 2007)

7. Promoting Reform of Japan's ODA and Other Official Flows (OOF)

In order to effectively realize the above-mentioned action plans, Japan's ODA plays a significant role, but is insufficient in its current form. The quantity and quality of ODA, the modality of OOF²¹, the creation of a public-private sector cooperation framework, all need to be fundamentally reviewed and reformed.

(1) Increase Quantity

Increased revenue sources are necessary, and with regards to ODA amount, keeping in mind the 0.7% of gross national income guidelines of the United Nations, the goal should be to increase the sum²². At the very least, for the time being, a halt should be put on the decrease in ODA from the general account budget which has been going on since 1997.

(2) Increase Quality

In order to see progress in the regional wide infrastructure plan, reforms in the system, such as speedy execution of the yen loan process, need to be put in place quickly. The yen loan process can no longer sufficiently answer the needs of the times because of the "graduation" of Asian nations, and lack of agility²³. In the medium-term, our nation's ODA needs significant reform so that it can speedily provide large scale gratuitous financial aid to wide area infrastructure development.

(3) System Design for Public-Private Sector Cooperation

For regional wide development, private investment is obtained by the government shouldering the risks. It is important to actively make use of

²¹ Other Official Flows include JBIC's investment funding and the NEXI trade insurance.

²² The 2007 performance was 0.17%

²³ The average is 7 years, even with the shortened term in planning 3.5 years.

the JICA's Private-Sector Investment Finance Facility which is to be re-commenced and therefore a user friendly application process is necessary. Further, from the point of view of valid use of OOF, keeping in mind the possibility of integrating the financial functions of JICA and JBIC, reinforcement should, for the time being, be attempted by cooperating in implementing projects as a complete package.

IV Conclusion

This proposal was announced urgently for the sake of the East Asia Summit. Between now and next year, starting with the said summit, we find the Japan-Mekong Summit and the APEC Summit coming up, meaning there will be many occasions for the heads of Asian states to congress. We ask that the issues taken up in this proposal be thoroughly debated, and a concrete joint initiative be promoted to overcome the current economic crisis and in the medium-term, lead to sustained growth in Asia. In particular, the promotion of regional wide infrastructure development and reforms of ODA and OOF, are issues that our nation should take the lead in, and an aggressive stance is called for.

The Nippon Keidanren is planning on announcing its opinions on the details and specific requests for each individual item by mid November.