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***Session 4: Strategic Recommendation  
for the Way Forward to Sustain and  
Expand Japanese FDI in ASEAN***

**A Roundtable Seminar on Japanese FDI in ASEAN:  
Investment, Reinvestment and Relocation, Jakarta**

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# Beginning with two episodes:

- 1. In sending a correspondent of an economic journal to overseas while wishing to let him/her work most efficiently, what should and shouldn't the HQ do?**
- 2. General Trend: In predicting/analyzing foreign trade of a certain country, good economists could play a bigger role than practitioners. But in predicting/analyzing outgoing/incoming FDI, practitioners could play a bigger role than good economists.**

**Why? There are reliable economic theories for trade but no rigid economic theories for FDI\*. So, in latter case, those who know decision-makers and background stories of businesses well can predict future and analyze those activities better.**

\* There are some hypotheses, approaches or ways of definitions, though.

# **See past records of incoming-FDIs of a certain country.**

- Even a single political issue or policy change may dramatically reduce incoming FDIs. But, external trade would not change that much even if the exchange rate fluctuate much. See the case of Indonesia from 1998-2000.**

- FDI figure is non-linear. Compare the amount of incoming FDI in Japan in 2004 with those of previous years.**

# Questions:

- **If the investment climate of a certain country is not good, can you safely say that incoming-FDI is very small in amount? Conversely, if the investment climate is good, can you safely say that incoming-FDI is very large in amount?**

## **Correct Answer:**

**If investment climate be bad, you can't be successful in inducing FDI.**

**But the opposite is not necessarily correct.**

- 1. Namely, 'Good Investment Climate' is necessary conditions for FDI but not necessarily sufficient conditions.**
- 2. One single incident could be good or bad factor, depending on investors. Weakening exchange rate, for instance, discourages domestic-market oriented FDI but encourages export-oriented FDI, if other conditions being equal.**

# **The above facts do not mean that efforts to improve investment climate are not reciprocated.**

- **Because we can safely say that investors tend to invest more in a country with relatively good investment climate as they perceive and refrain from investing in those with relatively bad investment climate as they perceive. So, the former-type countries will be surely winners. See the next chart.**
- **Perceptions/assessments of Japanese investors on a certain country naturally differ from those of American and European investors. Compare the following two charts.**

## **FDI Index of ASEAN out of 25 Countries/Regions**

<b>Rank in 2004</b>	<b>Rank in 2003</b>	<b>Countries/Regions</b>	<b>Points</b>
1	(1)	China	2.03
2	(2)	United States	1.45
3	(6)	India	1.40
4	(7)	United Kingdom	1.25
5	(5)	Germany	1.25
6	(11)	France	1.03
7	(19)	Australia	1.00
8	(22)	Hong Kong	0.99
9	(12)	Italy	0.98
10	(15)	Japan	0.97
15	(23)	<b>Malaysia</b>	0.92
18	(28)	<b>Singapore</b>	0.91
20	(16)	<b>Thailand</b>	0.87
23	(25)	<b>Indonesia</b>	0.80

(Source) A.T.Kearney, *The Global Business Policy Council*, October 2004

# Most Prospective Countries for FDI in the mid-term viewed by Japanese Manufacturers

Ranking	Country/Region	Number of Firms	Percentage
1	China	453	91%
2	Thailand	151	30
3	India	117	24
4	Vietnam	110	22
5	United States	100	20
6	Russia	49	10
7	Indonesia	48	10
8	Korea	44	9
9	Taiwan	41	8
10	Malaysia	28	6
11, 11	Singapore/Germany	17/17	3/3
13	Brazil	16	3
14	Philippines	16	3

Note: Plural answers were approved. **Red**: ASEAN countries

Source: *FDI Survey made by JBIC, November 2004*

# What are the major impediments for additional FDI in each ASEAN?

- JETRO's *White Paper* (2005) says regarding ASEAN's common problems in investment climate: (1) Tax procedures, (2) Administrative procedures, (3) Inadequate economic infrastructures, (4) Opaque governance of host countries.
- Officials of each ASEAN country should continue to make following checklists and prepare answers (policies).

# *Investment Climate for FDI: 10 checkpoints*

- **Socio-political Stability**
- **Comparative Factor Costs (vis-à-vis labor productivity)**
- **Attitude of Welcome by Host Country (Region/City)**
- **Market Size and Economic Strength**
- **Government Policies** on equity guidelines, employment of expatriates, exchange control
- **Infrastructure** (e.g. electricity, telephone, Road. etc.)
- **Banking and Finance**
- **Government Bureaucracy**
- **Local Business Environment**
- **Quality of Life**

\* Observing the Intellectual Property Rights should be included as the 11th.

Sources: MIDA

**Actually, such efforts have been done with the assistance of foreign firms and other concerned parties.**

- **Frankly, major problem is not facts finding of the impediments on FDI, but largely depends on the political will of each host country such as legalization, budgeting, making concrete policies by sectors and implementing surely with reasonable costs.**

## **To innovate investment climate, high level decision makers must upgrade mindsets:**

- **To realize really competitive investment climate, *Holistic Approach* is a must.**
- **It must cover security issues, labor issues, tax issues, licensing issues, environmental issues, macroeconomic management issues, corporate governance issues, etc.**
- **Briefly, they must understand what potential investors are seriously considering on their domestic as well as international settings; in this case, Japanese firms. In fact, they are determined to be bigger international players, as Japan's domestic market has matured. Toyota for instance has announced to get 15% share of world auto production shortly.**

# ***Changing situation for Japan-based MNCs***

- **Japanese economy: Recovering steadily mainly by restructuring, renovating business model and innovating technology of private sector.**
- **Change of rules of the game: WTO, BIS, FTA (EPA), etc.**
- **International exchange rate volatility continues**
- **Big U.S. market potential and technology advance and rising risk**
- **EU market potential and technology advance**
- **East Asian Market: Acceleration of integration with emerging China as the main engine and with ASEAN as the second engine. Not wise to throw all eggs in one basket, as risk factors cannot be underestimated.**
- **Cost structure of East Asia vis-a-vis Japan**

## Intra-Regional Trade Share (%)

	1980	1985	1990	1995	2000	2003
<b>East Asia-15, incl. Japan</b>	<b>34.7</b>	<b>40.2</b>	<b>45.6</b>	<b>55.5</b>	<b>54.0</b>	<b>54.0</b>
<b>Emerging East Asia-14</b>	<b>21.6</b>	<b>29.1</b>	<b>36.4</b>	<b>43.7</b>	<b>43.4</b>	<b>44.1</b>
<b>NIEs-4</b>	<b>7.7</b>	<b>10.7</b>	<b>14.3</b>	<b>18.1</b>	<b>16.4</b>	<b>44.1</b>
<b>ASEAN-10</b>	<b>18.0</b>	<b>20.3</b>	<b>18.9</b>	<b>24.1</b>	<b>25.7</b>	<b>24.0</b>
<b>NAFTA</b>	<b>33.8</b>	<b>38.7</b>	<b>37.9</b>	<b>43.2</b>	<b>48.7</b>	<b>46.0</b>
<b>European Union-15</b>	<b>52.4</b>	<b>52.5</b>	<b>58.6</b>	<b>56.8</b>	<b>62.2</b>	<b>64.4</b>

**East Asia-15= ASEAN-10+Japan, Korea, China, Hong Kong and Taiwan**

**Emerging East Asia-14= East Asia-15 – Japan**

**Source: IMF, *Direction of Trade***

*Japan's Cost Structure vis-à-vis East Asia's : Too high to stay home for traditional industries* (U.S.\$)

	Shenzhen, China	Bangkok, Thailand	Hanoi, Vietnam	Yokohama, Japan
Monthly Wages Worker (general industry) Engineer (middle-level)	85~157 178~326	179 400	78~143 182~327	2,886 3,248~4,627
Monthly rental of Industry Estate (m2)	14	4.85	0.2~0.3	2.56
Telephone fee (basic, @month)	4.52	2.48	1.72	24.7
Electricity price for industrial use (@kwh)	0.09-0.12	0.04	0.08~0.09	0.14~0.20
Corporate tax rate (%) VAT(%)	33 17	30 7	28 0,5,10	39.5 5

Sources: JETRO Survey made as of Nov.,2004, except Shenzhen at Nov.2001

# Exchange Rate Fluctuations change Market Sizes (GDP) drastically, affecting size of FDI

(Billion of U.S.\$)

	1996(a)	2000	2003(b)	(b)/(a)
<b>NIES-4</b>	<b>1,045</b>	<b>1,028</b>	<b>1,140</b>	<b>109.0%</b>
<b>Korea</b>	<b>520</b>	<b>512</b>	<b>605</b>	<b>116.3</b>
<b>Singapore</b>	<b>91</b>	<b>93</b>	<b>91</b>	<b>100.0</b>
<b>Taiwan</b>	<b>280</b>	<b>310</b>	<b>286</b>	<b>102.3</b>
<b>Hong Kong</b>	<b>154</b>	<b>165</b>	<b>157</b>	<b>101.7</b>
<b>ASEAN-4</b>	<b>594</b>	<b>454</b>	<b>568</b>	<b>95.6</b>
<b>Indonesia</b>	<b>227</b>	<b>165</b>	<b>243</b>	<b>107.0</b>
<b>Thailand</b>	<b>182</b>	<b>123</b>	<b>143</b>	<b>78.6</b>
<b>Malaysia</b>	<b>101</b>	<b>90</b>	<b>103</b>	<b>102.2</b>
<b>Philippines</b>	<b>83</b>	<b>76</b>	<b>79</b>	<b>95.7</b>
<b>China</b>	<b>822</b>	<b>1,079</b>	<b>1,412</b>	<b>171.8</b>
<b>Total (exc. Japan)</b>	<b>2,460</b>	<b>2,561</b>	<b>3,120</b>	<b>126.8</b>

(Source) World Bank

# ***Future Path of Japan-based MNCs***

- **Past: Japan-centric Global Approach---**  
**Trade-oriented → FDI, OEM increased**
- **Now and Near future: Japan-Asia**  
**centric Global Approach---****FDI, Trade**  
**OEM+ODM, Strategic Alliance →**  
**Regional Econ. Integration (via EPAs)**
- **Future: Sophisticated Glocal Approach**

**EPA= FTA+ Human exchange+ Common Ruling/Standardization, etc.**

# ***Conclusion:***

- Concerned parties in each ASEAN and ASEAN as a whole should improve 'investment climate' by all means.
- By making comparative studies ***by checklists***, most ASEAN countries have grasped ***problems hindering FDI***.
- So, generally, nothing but ***Strong Political Wills*** are the requisites nowadays in most ASEAN countries.
- Education to the public on the importance of domestic/foreign investment is recommendable as governments cannot improve 'climate' without it.
- Higher level decision makers must get acquainted with factors/ways of decision making of potential foreign investors deeply and take quick and flexible actions to innovate the current FDI situation of ASEAN while BRICs are emerging.
- Japan is ready to co-working with the people in ASEAN on this issue while economic integration is rising via FTA —These are our new national interests.

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**Thank you all.**

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