

ASIAN DEVELOPMENT ISSUES

Keynote Address

by

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Distinguished guests, members of ASCOJA, ladies and gentlemen.

For more than three decades, the Asia Pacific Region has been the most dynamic region in the world. Eight of the world's fastest growing economies are located here (the "East Asian Miracles" plus China) and the world's two largest economies, Japan and the United States, face each other across the Pacific. In the mid 1990s, annual growth in the Asia region was estimated at 4.0 percent per annum. Excluding Japan, the annual rate of growth of the rest of the region was over seven percent per annum. These rates are significantly higher than world growth (3.0 percent per annum) and industrialized countries growth (2.5 percent per annum).

It is not surprising to any of us that this growth record has been accompanied by or even been driven by an even more rapid expansion in trade. The Asia region has had export growth rates two to three times higher than the rest of the world. At the same time the region's overall growth and trade performance has been accompanied by rapidly increasing market integration. For example, a recent Asian Development Bank (ADB) study indicates that the trade share of the developing member countries of the ADB, most of the countries in Asia except Japan, has risen from 7.3% of world merchandise exports in the decade of the 70s to 11.9% in the decade of the 80s to 16.2% in the period 1991-1994.

What I would like to focus on today is the role that Japan has played in this extraordinary development.

It goes without saying that Japan has been a role model for the rest of us in Asia. Japan has been more than a mere model though. They have consistently provided technical assistance and loans to our governments, sometimes at the point of great economic need. However, it is through foreign direct investment (FDI) that Japan has undoubtedly played its most significant role in East Asian development. Japan has been the main source of FDI to developing East Asia. It is interesting to note that the main destination for Japanese FDI is the United States but most of this is in non-manufacturing activities. In contrast, most of Japan's FDI to East Asia has been in manufacturing.

These FDI flows from Japan to East Asia have been influenced by various factors over the years. The first wave of FDI flows into developing East Asia in the 1960s and early 1970s were motivated by the desire of manufacturers to locate behind tariff and non-tariff barriers in protected local markets and the first of a number of major yen revaluations. This investment wave mainly involved joint ventures in textiles and household electrical equipment. A second wave of investment in the 1970s was spurred by the East Asia's bright prospects and the availability of low cost capital in Japan. This wave of investment included import substituting in basic industries and the creation of industries in consumer electronics and semiconductors designed to serve US and European markets. The third and most recent wave of investment, involved the relocation of labor intensive manufacturing from Japan and the Asian NIEs to ASEAN. This wave resulted from the appreciation of the yen and other NIEs currencies beginning in the mid-1980s. What was different this time is that rising costs in Japan and elsewhere coincided with significantly

improved investment climates in the ASEAN countries as they began to actively boost exports and output.

Given these investment surges the pattern of trade has changed greatly over the years. Initially trade followed a typical north-south pattern with Japan supplying manufactured goods while the rest of the region provided primary products to Japan. However, this has evolved into a very dynamic triangular trade. The non-Japan (and increasingly NIE) Asian region increasingly exports manufactured goods (primarily to the US and Europe) while continuing to import from Japan and the NIEs. Japan (and now the NIEs) more or less pioneer the markets outside the region, with those of us in South-east Asia providing the manufacturing base.

In the future, ASEAN will undoubtedly remain one of Japan's largest partners, as a source of imports as well as a destination for exports. However, the pattern of trade and economic development is bound to continue to change rapidly. Asia Pacific trade is now as large as that of the European Union (EU) and intra regional trade is in the same order of magnitude as EU's intra regional trade. The Asia-Pacific region has achieved a degree of trade interdependence and economic integration almost as high as that in North America without forming a trade block. With the advent of AFTA we expect that trade within ASEAN will become increasingly important and that trade between ourselves and the rest of Asia will reduce the mutual dependence of Japan and ASEAN.

We expect that Japan will continue to play a large role in the economic development of our region. As our economies continue to develop, education and skill levels will rise, and we will naturally be more competitive in increasingly sophisticated products. Correspondingly the Japanese resource base in science and technology that is now at the frontier of human endeavor will provide the new technologies and industries of the future. More specifically we anticipate that Japanese companies will be involved with new, cutting edge technologies, such as fiber optics, computers, and communication and perhaps like the US an increased role for services.

The current regional macroeconomic crisis sometimes blinds us to longer range trends. We in South-east Asia have, I believe, a well-deserved reputation for strong economic fundamentals and I believe the current storm will soon pass. In fact while some question this now, many scholars still predict that the beginning of the 21st century will see accelerating growth in the region. They expect that the synergy from a rising middle class, increasing numbers of skilled workers, vast markets for infrastructure and consumer products, a deepening industrial base and rapid urbanization will combine to boost growth rates and create some of the most extraordinary business and financial opportunities ever seen. John Naisbitt even predicts that the world economic center of gravity will be in Asia in the near future. It is clear that in some countries growth will slow, as development proceeds along the normal path, but for many other countries at lower per capita incomes there will be growth vigorous enough for the region as a whole to grow rapidly for some time to come.

We have to prepare ourselves for this future but we also have to appreciate that growth of the magnitude and extent being experienced in Asia region comes with a price. The current haze hanging over South-east Asia is a testimony to the kinds of environmental issues we face. Rapid growth in a region stretching from Korea to Indonesia to India and including China is likely to put pressures on the environment and basic commodities. These issues will require solutions and again we may need to turn to the human and science base of countries like Japan to address these issues effectively.

Let me turn now to what we must do. Each of our markets in ASEAN is relatively small or at least our industrial bases are still quite small. To achieve the economies of scale required to compete internationally we have to follow through on our commitment to open up regionally and globally. We must also continue to upgrade education and technological capabilities as well as improve the flow of information through society. This should result in increasing amounts of inter-industry trade and the improved integration I spoke of.

Practically AFTA is aimed at enhancing ASEAN's attractiveness as an investment location and market. However, it can also be seen as a training ground for the ASEAN members themselves. While we appreciate the role that multinationals have played in our development we would also like to see increasing numbers of our own companies strong enough to compete worldwide.

This brings me to the role that ASCOJA members, including those still studying in Japan, can play in our mutual development. Economic cooperation with Japan will continue to be in skilled and high-tech areas and I anticipate that those trained there will bring an understanding of these fields home with them. ASCOJA members and students will thus be in the vanguard of those in our societies who have to face and master technological advances across a broad spectrum.

I am pleased that so many of you were able to come to Jakarta and I am particularly pleased to see that so many ASCOJA members are in strategic positions in government and business throughout the region. Let us build on our shared experience in Japan by sharing our new experiences while building bridges between the countries of ASEAN.

In conclusion, let me wish all of you the best of results during this conference and I hope that all of you have a pleasant stay in Indonesia.