

The 21st Century as an Age of Advancement with the Rest of Asia

– New Roles for Japanese Trading Firms –

— Summary of the final report
from Japan Foreign Trade Council, Inc. (JFTC) Taskforce
on the activities of “*shosha*” in Asian economies
– their past, present, and future

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— its past, present, and future**

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Foreword

After achieving miraculous economic growth in the late 20th century, Asia was rocked by the currency and financial crisis that struck in the middle of 1997. Taking a retrospective look at the crisis as a member of Japanese industry, I believe that it served not only to rekindle awareness of the problems saddling Asia but also to drive home once again the magnitude of Japan's involvement in the region.

While some of them were even faced with social instability as a result, the countries of Asia have taken a lesson from the crisis and embarked upon recovery in a remarkably short time. As they enter the new century, they are returning to the path of sustained growth.

Japanese trading firms, which have long developed business in all kinds of fields in Asia, have grown up along with Asian economies and supported their advancement. In addition, through their business activities in the various countries, they have paved the way for communication and interchange with different cultures, and also helped to deepen bonds of mutual understanding between Japan and the rest of Asia.

This report was prepared by the Taskforce on the activities of Japanese trading firms (*“shosha”*) in Asian countries instituted in June 1999 as a special project of Japan Foreign Trade Council, Inc. Besides engaging in a wide-ranging exchange of opinion with representatives of academia and government as well as the trading firm and manufacturer personnel with experience of work and life in the countries in question, the Taskforce also sent an ad-hoc mission to a total of nine Asian economies for field surveys from February to March 2000 and otherwise promoted extensive activities of study and research.

It is our hope that the results of this work will stimulate renewed and further discussion about the role of Japanese trading firms in the new age.

Finally, I would like to express our deep gratitude to Chairman Masubuchi, Vice-Chairman Fujita, and other members of the Taskforce for their tireless efforts on behalf of its assignment and the preparation of this report.

Kenji Miyahara

Chairman

Japan Foreign Trade Council, Inc.

July 2000

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(by Kenji MIYAHARA, Chairman, Japan Foreign Trade Council, Inc.)

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JFTC regular member companies

Abbreviations:

ASEAN Association of Southeast Asian Nations
NIEs Newly Industrializing Economies

Notes:

The term “billion” indicates 1,000 million.

The term “dollar” (and the dollar sign) indicates the United States dollar.

The term “five affected countries” refers to Korea, Thailand, Indonesia, Malaysia, and the Philippines. These countries were the ones most affected by the Asian economic crisis, which broke out in July 1997.

As used in this report, the term “country” does not in all cases refer to a territorial entity that is a state as understood in international law and practice.

Unless otherwise specified, the terms “rest of Asia” and “other Asian countries” refer to the following nine countries: the four Asian NIEs, i.e., Korea, Taiwan, Hong Kong, and Singapore; the four major members of the ASEAN, i.e., Indonesia, Thailand, the Philippines, and Malaysia; and China.

Chapter 1

Macro analysis of the Asian economy – from the perspective of “*shosha*”

Chapter 1

Macro analysis of the Asian economy

– from the perspective of “*shosha*”

Section 1

Toward revival after the economic crisis

In 1993, the World Bank released a report in which it gave high marks to growth in East Asia, which it dubbed “the East Asian miracle”. The currency crisis that broke out in Thailand just four years later in July 1997 soon spread as if by contagion to neighboring economies and plunged the whole region into a state of economic crisis. This section examines the question of why this happened and how Asia was able to recover from these troubles.

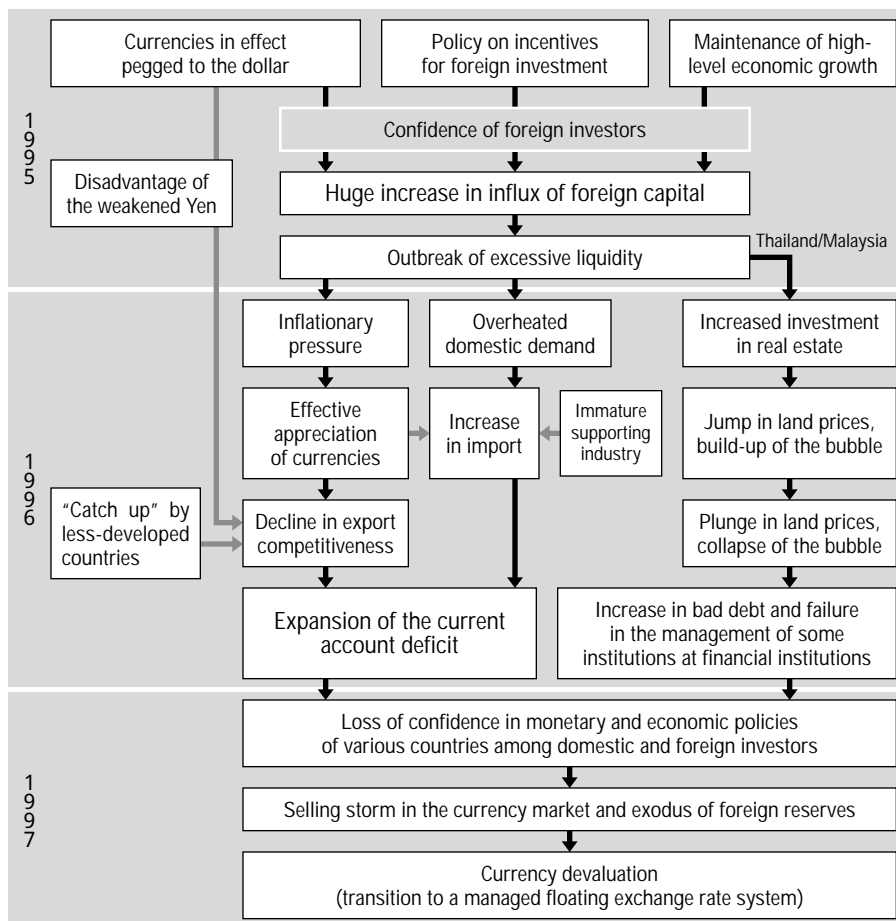
1. Miracle, crisis, and revival

– the evolution of the Asian economy in the 1990s

(1) From “miracle” to “crisis”

The steep economic growth achieved by the region from the late 1980s to the early 1990s was driven by two engines: investment backed by high savings rates, and export. The growth fired expectations that the 21st century would belong to Asia, and this quickened the flow of capital into the region. It was the jump in the influx of short-term funding in particular that triggered the subsequent currency and financial crisis. An additional mechanism, which came into play, is most evident in the case of Thailand. National currencies that were in effect pegged to the dollar appreciated, and this combined with the excess production of electronics products worldwide to brake export, which had been booming up to the mid 1990s. In Thailand, this widened the deficit in the current balance and culminated in the devaluation of the baht in July 1997. The crisis eventually spread to other countries including Korea and Indonesia.

Mechanism of the currency crisis in the main ASEAN countries



Source: Marubeni Economic Research Institute

(2) Quick recovery from crisis

The conditionality applied by the International Monetary Fund in its aid prescriptions had the adverse side effect of causing a serious recession, but it undeniably also helped to stabilize currencies. More stable currency led to more stable money markets, and stock prices also recovered due to the resumption of investment in Asian stocks by institutional investors, mainly from the United States.

The real economy also recovered at an unexpectedly fast pace. This was made possible by, first, the hard-hitting fiscal and financial measures and, second, the

rebounding of export. Besides the advantage of the weak currencies, the export turn-around was supported by the sharp expansion of the global demand related to information technology (IT). This delivered a great benefit to ASEAN countries, which are major sites of IT hardware production for supply to the global market. It should be added that export within Asia (inclusive of Japan) has been gathering momentum since the second half of 1999.

The key factors for the future are personal consumption and capital investment in production facilities, i.e., the recovery of the domestic demand. Personal consumption is projected to revive in Korea, but full-fledged recovery in ASEAN countries will probably take another two or three years. In the latter, capital investment has sunk to only 50–60 percent of its peak levels. There is some recoil from the surplus investments made into the mid 1990s, and the levels recorded in the early 1990s will probably not be reached again for the foreseeable future. However, in economies with a high proportion of IT-related industry, the worst was over by the first half of 1999 and a trend toward additional investment has surfaced.

In light of the firm tone of export, the revival (albeit sluggish) of personal consumption, and the upturn in capital investment, the region is anticipated to achieve growth in the neighborhood of 5 percent as a whole. This forecast envisions growth rates on the order of 4 percent in Indonesia, Thailand, the Philippines, and Hong Kong; of 5 percent in Korea and Malaysia; and of 6 percent in Taiwan, Singapore, and China.

Real economic growth rates in major Asian countries

(change from a year ago, %)

	1996	1997	1998	1999	1998				1999				2000
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
					Singapore	6.9	8.0	0.3	5.4	6.2	1.6	-0.6	
Malaysia	8.6	7.7	-7.5	5.4	-3.1	-5.2	-10.9	-10.3	-1.3	4.1	8.1	10.6	11.7
Thailand	5.9	-1.7	-10.2	4.2	-7.5	-13.7	-12.8	-6.8	0.2	2.6	7.4	6.5	5.2
Philippines	5.8	5.2	-0.5	3.2	1.1	-1.0	-0.1	-2.0	1.2	3.6	3.1	4.6	3.4
Indonesia	7.8	4.9	-13.2	0.2	-4.0	-12.3	-18.4	-19.5	-10.3	1.8	0.5	5.8	3.2
K o r e a	6.8	5.0	-6.7	10.7	-4.6	-8.0	-8.1	-5.9	5.4	10.8	12.8	13.0	12.8
T a i w a n	6.1	6.7	4.6	5.7	5.9	5.2	4.7	3.7	4.2	6.6	5.1	6.8	7.9
Hong Kong	4.5	5.0	-5.1	2.9	-2.6	-5.1	-6.9	-5.6	-3.0	1.1	4.4	8.7	14.3
C h i n a	9.6	8.8	7.8	7.1	7.2	7.0	7.2	7.8	8.3	7.1	7.0	6.8	8.1

Source: Each government

(3) Two remaining issues

Reconstruction of the financial sector

Of the major Asian economies, serious problems involving bad debt held by financial institutions appeared in Thailand, Indonesia, Malaysia, and Korea. These four countries were hit by a sharp drop in financial brokerage capabilities and decline in the real economy as well. In response, their governments embarked on programs for an extensive reshaping of the financial system including the reorganization of financial institutions (with some being closed or temporarily nationalized), buy-up of bad debt, and injection of funds into ailing financial institutions.

In Thailand and Indonesia, the bad debt rate declined from last year and the reform is steadily making headway, but neither the government nor financial institutions are of the opinion that a complete resolution is already on the horizon. The reform is moving more slowly than expected for two major reasons: 1) the huge scale of bad debt, which at its peak was more than half as large as the gross domestic product (GDP); and 2) the existence of numerous debtors that feel resistance to the idea of reform accompanied by pain.

In Malaysia and the Philippines as well, financial brokerage capabilities have stagnated, mainly because financial institutions are continuing to be extremely cautious about expanded lending.

Nevertheless, the financial reform in Thailand and Indonesia is moving ahead, if sluggishly. The market does not like a slow-paced reform, and this sentiment is encouraging reform, which will probably proceed with a push by investors.

In 1997 and 1998, there was much talk of an impending M&A offensive by Western financial institutions in Thailand, Indonesia, and Korea. However, such moves were discouraged by the lack of transparency in the assets portfolio of possible targets and the unconditioned state of M&A-related legislation. Thus far, M&A transactions have actually been executed against only one Korean bank and four Thai banks. They will probably be more widely applied as the financial reform proceeds.

It should be noted that, in Indonesia, the public domestic debt, which was zero before the crisis, came to about 19 billion dollars in fiscal 1998, partly because of the huge injections of public funds for the reform. A similar phenomenon is occurring in Thailand. Coupled with the public external debt,

this is causing apprehension about the heavy burden of debt repayment.

The problem of private-sector debt and corporate restructuring

In Indonesia, Thailand, and Malaysia, the problem of bad debt at financial institutions was paralleled by serious debt problems at private enterprises. These unfolded in two major phases. First, prior to the crisis, the corporate sector was marked by a high rate of debt to capital (i.e., leverage), and heavy dependence on foreign-currency borrowing without hedges for exchange rate fluctuation. The crash of the national currency consequently had the effect of swelling the debt denominated in it, and firms fell into a situation of a surplus of debt in rapid succession. Second, business results also worsened after the outbreak of the crisis, and many firms became saddled with debt that far outweighed their earning power. Thereafter, national currency values came to settle at levels considerably lower than before the crisis, and this left firms with commensurate surplus debt.

The holding of excess debt generally puts constraints on the raising of funds, investment in growth fields, and other sorts of corporate activities. It also works against extensive M&A by foreign capital. In fact, amid the burst of M&A activity worldwide in 1999, Asia was the arena of fewer M&A cases than other regions, especially Europe. Nevertheless, there is a strong possibility of a gradual pick-up in the pace of debt rehabilitation, which has been prone to delay thus far. The coming years should bring the disappearance of firms deserving such a fate and promotion of information disclosure and management reform by surviving firms in order to attract participation by foreign capital. More transparent management should increase confidence in the company among foreign firms and thereby stimulate resort to full-fledged M&A tactics. Such a development would spell an end to the kind of “crony capitalism” that was so prevalent before the crisis.

2. The essence of the Asian economic crisis from the “*shosha*” standpoint

This section considers the essence of the crisis as viewed from the standpoint of “*shosha*” activity in Asia.

(1) Huge capital drain

Capital influx before the crisis

The combination of high-level growth, effectively dollar-pegged currencies,

Composition of external debt in the five affected countries (as of the end of 1996)

(US\$ bil)

		Korea	Thailand	Indonesia	Malaysia	Philippines	Five affected countries	China
External Debt	(a)	131.7	90.6	128.9	39.7	40.1	431.1	146.7
Short-term Debt	(b)	65.7	37.6	32.2	28.6	8.0	172.1	31.5
	(b) / (a)	50%	42%	25%	72%	20%	40%	21%
Foreign Reserves	(c)	33.2	37.2	17.8	26.2	9.9	124.3	139.9
	(b) / (c)	198%	101%	181%	109%	80%	138%	22%

Source: ADB, *Key Indicators of Developing Asian and Pacific Countries*

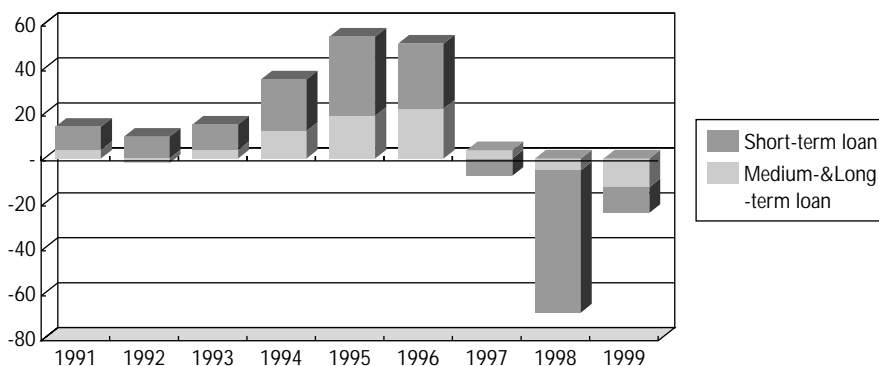
and capital liberalization induced a smooth increase in the flow of private-sector capital in the five main crisis-affected countries into the mid 1990s. A fairly high proportion of this influx was occupied by short-term funds; while direct investment had leveled off, there was a jump in bank loans and portfolio investment. In late 1996, short-term debt in the five countries taken together accounted for about 40 percent of their entire external debt, and came to 138 percent of their combined foreign reserves. Particularly notable is the latter ratio; the vulnerability of the position of the five countries at the time is underscored by the fact that the corresponding figure for China was only 22 percent.

Outline of capital efflux since 1997

In terms of the total for the five countries, the net influx of 65.8 billion dollars in private-sector funds posted in 1996 was replaced by a net efflux of 20.4

International bank loans in the five affected countries

(change relative to the previous year, US\$ 100mil)



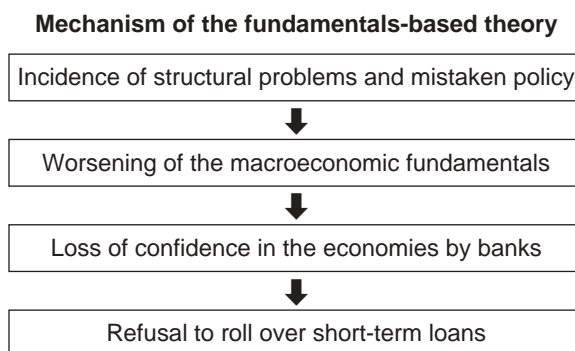
Source: BIS

billion dollars in 1997. More than 90 percent of this immense efflux was occupied by funds in the “other” category consisting mainly of short-term bank loans. The flow in this category worked out to a net influx of 37.1 billion dollars in 1996 and a net efflux of 43.6 billion dollars in 1997, for a remarkable decrease of 80.8 billion dollars.

(2) Causes of the capital efflux

Scrutiny on the fundamentals-based theory

Some observers trace the crisis to the economic fundamentals of the affected countries. In this view, problems in the economic structure and mistaken policy decisions caused a worsening of the macroeconomic fundamentals (or signs of the same). Wary of these changes, foreign banks felt anxiety over the future course of the economy in these countries and refused to roll over their short-term loans.



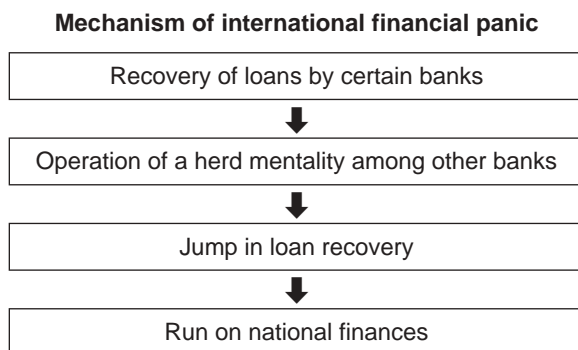
Source: Marubeni Economic Research Institute

The fundamentals-based theory rests on the existence of five structural problems. Firstly, the financial system in the affected countries was lacking in the following three respects: 1) risk-management provisions in the financial institutions as the players, 2) rigorous surveillance by the authorities, and 3) schemes for long-term lending. Secondly, although the corporate sector aggressively expanded its investment while riding the wave of strong growth into the mid 1990s, this also produced a surplus supply of property and production facilities, and rapidly worsened the balance sheet in this sector. Thirdly, due to the lack of transparency in the style of management, companies were harshly criticized for crony capitalism by developed-country investors as soon as business results slumped due to the economic and financial crisis. Fourthly, in 1996, the year before the crisis struck, the current balance showed an expanding deficit in most of

the countries, and this set two problems in motion in national industrial structures: 1) a jump in import of raw materials and intermediate goods due to the imbalance create by the growth of processing and assembly industries and the underdeveloped state of supporting industry, and 2) a drop in export of labor-intensive goods due to a wage spiral. And fifthly, export was also slowed by the excessive competition among countries in the region.

Up until the mid 1990s, the various Asian economies had developed and strengthened industry in roughly the same fields, e.g., electrical machinery, automobiles, and petrochemicals. However, a look at actual indicators for the five countries reveals that the economic fundamentals clearly deteriorated because of such structural problems only in Thailand. It follows that factors other than unsound fundamentals were at work in the spread of the crisis to other countries and the huge capital exodus from them.

Scrutiny on the financial panic-based theory



Source: Marubeni Economic Research Institute

The four affected countries other than Thailand actually experienced a huge capital drain that cannot be explained by the fundamentals-based theory, and this indicates the action of a financial panic. In other words, bank perceptions of Thailand were also applied to other Asian economies. The panic was given added impetus by the lack of means to counter or prevent an efflux, as well as the lack of foreign currency reserves large enough to stem the tide.

Japan's influence on the financial system crisis

In addition to those associated with economic fundamentals and the financial situation, another major factor behind the capital efflux was the sharp reduction in loans to other Asian economies by Japanese banks under restructuring pressures in the home market. Bank loans to the five countries have been in continuous

decline since 1997, and Japanese banks have made the biggest cuts. By the end of 1999, the combined amount of their loans outstanding to the five countries had sunk to 47.1 billion dollars, or about half as much as at the end of 1996, and the No. 1 position was taken over by European banks at 59.1 billion yen. The great decrease in lending by Japanese banks could not be attributed entirely to the financial panic.

In sum, the vast capital exodus that triggered the economic crisis in Asia is thought to have been caused by a combination of three factors: 1) the deterioration of the macroeconomic fundamentals in Thailand, 2) the outbreak of international financial panic in the four countries, and 3) the big cutback of loans by Japanese banks due to the financial crisis in Japan.

(3) Essence of the economic crisis

The Asian economic crisis was an amalgam of the currency and financial crisis and crisis in the real economy. The latter crisis stemmed from structural problems. Once the capital exodus was set in motion by the aforementioned mechanism of contagion, the frail state of the financial system and the corporate disposition of excess borrowing and spending were manifested in the form of a quick rise in bad debt held by the domestic financial institutions and surplus liabilities held by companies, respectively. It was precisely because of these deep-seated structural problems that the currency crisis in Thailand mushroomed into an economic crisis afflicting all of Asia.

If certain plus factors come into play, Asian economies could very well recover temporarily even without much structural reform. Nevertheless, only when these structural problems have been conquered, will they truly get on the path of new and sustained growth.

3. Tasks for a new round of sustained growth in Asian economies

For the immediate future, the main tasks for the rest of Asian economies in pursuit of a new round of sustained growth are as follows: 1) resolute promotion of structural reform, and 2) catching up with the IT revolution.

Section 2

Japan in the Asian context

1. Deepening of economic ties with the rest of Asia

(1) Before the Plaza Accord

In the 1960s, raw materials and fuel accounted for about 80 percent of Japan's import from other Asian economies, and direct investment from Japan in these economies was basically confined to the resource development division, e.g., exploitation of crude oil deposits in Indonesia. The sharp appreciation of the yen following then-president Nixon's 1971 decision to halt the dollar's convertibility to gold spurred siting in NIEs and ASEAN countries by Japan's labor-intensive industries. More specifically, industries in fields such as textiles, sundries, and electrical equipment began to move into these countries in order to preserve the cost competitiveness of their export to the United States. Direct investment from Japan into other countries, chiefly in the rest of Asia, ballooned from 860 million dollars in 1971 to 3.5 billion dollars in 1973 as the country entered its first foreign investment rush. Thereafter, however, economic ties between Japan and the rest of Asia entered a phase of temporary stagnation.

(2) After the Plaza Accord

This stagnation was broken by the 1985 Plaza Accord. The upward revision of the yen's value accelerated the shift to production in other Asian economies by Japan's fabricating and assembly industries, especially in the field of electrical equipment. The 1990 investment in these economies reached 7.05 billion dollars, or about three times as much as in 1986, when the corresponding figure was 2.33 billion dollars. Beginning around 1988, the focus of this Japanese investment in other Asian economies shifted from the NIEs to ASEAN countries, and particularly Thailand and Malaysia.

Quotations for the yen started to rise even higher in 1993 and reached the level of 80 yen to the dollar in 1995. Backed by the record-high strength of the yen, Japanese investment in other Asian economies began to boom in earnest in the mid 1990s. It continued to be led by the manufacturing sector; there was a

particularly pronounced migration of production to ASEAN countries by small and medium enterprises (SMEs) and component manufacturers. There was also increased siting in ASEAN countries by automakers, largely with a view to supply of the demand in them. The acceleration of manufacturing sector siting in other Asian economies not only deepened the in-house networks linking domestic offices with ASEAN plants but also amplified intercorporate networks with SMEs which had also made the move. In addition, it steadily expanded the volume of trade between Japan and these other economies.

In this period, the combined investment by the nine integrated Japanese trading firms (termed *“sogo-shosha”*) rose from 102.1 billion yen in fiscal 1988 to 415.4 billion yen in fiscal 1996, for a 4.1-fold increase. The combined outstanding balance of loans to the five affected countries by Japanese banks, which went mainly to the locations of Japanese (or Japanese-affiliated) companies in these countries, grew at a remarkably fast pace averaging 15 percent annually. As a result, it rose from 34.5 billion dollars as of the end of 1989 to 97.2 billion dollars as of the end of June 1997, on the eve of the currency crisis.

(3) Developments since the economic crisis

The crisis – a direct blow to Japanese locations

The problem first faced by Japanese firms as a result of the currency and financial crisis was a tremendous exchange rate loss associated with obligations in foreign currencies. In time, however, a difference emerged in respect of the degree of damage owing to differences involving the target market and make-up of material sourcing. Industries oriented toward sourcing within the crisis-affected Asia and export were less seriously affected than those oriented toward sourcing from other regions and supply of the home market. Many of those in the latter category, which including automotive firms, had moved into other Asian economies relatively recently and were badly hurt by the crisis. Meanwhile, the sudden contraction of credit in the region exerted an adverse influence on many firms in all industries.

Japanese firms – staying on

In spite of this harsh business climate, very few Japanese firms took the step of pulling out of other Asian economies. The vast majority, particularly in the manufacturing sector, believed in Asia's economic revival and elected to maintain their locations. Many of the firms which decided to continue operating in other

Asian economies increased the capital of their local affiliates or expanded funding from the parent in order to combat the balance sheet deterioration and the credit crunch. The amount of investment, financing, and guarantees provided by integrated trading firms (*"sogo-shosha"*) in other Asian economies remained on a high level even in fiscal 1998, when economies were at their worst; indeed, it actually increased in Thailand. At a time of extensive capital efflux from other Asia, the supply of long-term funds by Japanese manufacturers and integrated trading firms must be rated as having made a valuable contribution to the stabilization of the host-economies.

Japanese firms – leading the recovery

Trade activities of Japanese manufacturers in the ASEAN Four countries (1996)

(US\$ mil)

	Export			Import			Trade balance of Japanese firms
	Total (a)	Japanese firms (b)	(b)/(a)	Total (c)	Japanese firms (d)	(d)/(c)	
Thailand	55,789	25,091	45.0%	73,484	11,079	15.1%	14,012
Indonesia	48,059	11,157	23.2%	42,945	6,586	15.3%	4,571
Malaysia	78,246	14,884	19.0%	77,797	10,520	13.5%	4,364
Philippines	20,543	5,604	27.3%	31,756	3,686	11.6%	1,918

Source: JETRO, *White Paper on International Trade 1999*

The recovery of other Asian economies has been led by export, and this is an indirect indication of the magnitude of the role played by Japanese firms. According to a survey by the Japan External Trade Organization (JETRO), Japanese manufacturing plants account for anywhere from 20 to 40 percent of the total export in the ASEAN Four countries. The leadership of Japanese operations is also clearly evidenced by the trend of the export mix, e.g., the expanding shares of the total export occupied by automobiles in Thailand and electronics products in the Philippines. On the whole, Japanese firms are playing a considerably vital role in the recovery of other Asian economies.

2. Japanese firms – integrated into the Asian economic engine

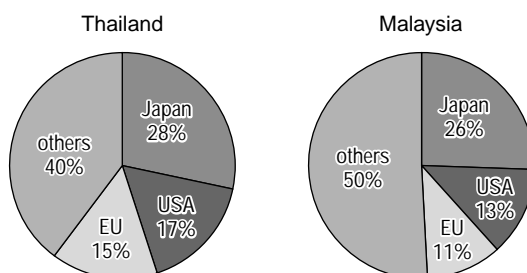
(1) Presence of Japanese firms in other Asian economies

Manufacturing sector

In the ASEAN Four countries, Japanese manufacturing locations constitute a key presence; their share of the total export ranges from 19 percent in Malaysia to 45 percent in Thailand. In the electrical equipment industry, Japanese firms account for about 30 percent of the total and make a big contribution to each country's export. Similarly, the share of all auto sales in their home markets occupied by Japanese production taken together has been overwhelmingly dominant, in excess of 80 percent since the late 1970s. There was also increased siting in ASEAN countries by Japanese automotive component manufacturers. Two major motivations were the yen's continued strength and the scheme for brand-to-brand complementation (BBC) in supply of components among ASEAN countries begun in 1988.

One of the reasons for the clearly superior position of Japanese automakers in the ASEAN market was their efforts, beginning from an early date, to construct sales networks and to develop and supply affordable models adapted to the countries in question. Behind the scenes, trading firms played key roles in the building of networks and marketing campaigns.

Direct investments outstanding in Thailand and Malaysia



Source: Each government

Financial and service sector

Siting by Japanese financial and service enterprises (here excluding integrated trading firms) in other Asian economies began by way of support for siting

manufacturers. The 1990s brought a rapid increase in siting attracted by the burgeoning growth in the local markets. In the mid 1990s, Japanese banks became the top lenders in other Asia with balances that far outstripped those of Western counterparts. And in the retail industry, the major Japanese department stores and supermarkets avidly opened locations in the choicest districts of major Asian cities. In contrast to those in the manufacturing sector, which kept their plants going, many Japanese firms in the financial and service sector closed these locations and withdrew from other Asian economies in the wake of the crisis. This was one of the few sectors in which a sizable exodus occurred. The balance of loans made by Japanese banks to concerns in other Asian economies plunged, and is currently lower than that of European banks, which are now the leading lenders in the region. Securities firms and other financial institutions contracted the scale of their business or withdrew one after the other. And in an increasing number of cases, Japanese retailers closed stores in other Asia as the economic troubles deepened.

Integrated Japanese trading firms (*“sogo-shosha”*)

Integrated Japanese trading firms began moving into other parts of Asia even earlier than its manufacturers. Their involvement with the rest of the region has changed along with the economic ties between Japan and other Asian economies. When Japan was enjoying rapid economic growth, they were engaged mainly in the development and import of natural resources. And beginning around the second half of the 1980s, they upped their investment for infrastructural conditioning and in conjunction with partnership with Japanese manufacturers. In 1998, at the height of the crisis, they played a definite role in maintaining financial brokerage capabilities in the affected economies. They actively extended financial assistance not only to Japanese manufacturers but also to their local joint ventures and transaction partners. Amid the disruption of the crisis, they acted as underwriters for credit risks and helped to put a halt to the sharp contraction of credit in these economies.

(2) Difference between Japanese and Western firms in respect of the strategy in the rest of Asia

In each of the five affected countries, the crisis was followed by an increase in M&A cases in the fields of banking, telecommunications, and retailing, where government controls on foreign capital had been relaxed. Nevertheless, in terms of

both the numbers of cases and the sums involved, the M&A transactions in Asia fell far short of those in North America and Europe, which have been experiencing an unprecedentedly widespread resort to them.

While some predicted at the outbreak of the crisis that Western firms would wrest the Asian market away from Japanese firms, this has not happened. The major change has been a decrease in the Japanese share and increase in the Western share in certain industries, such as banking and retailing. Far from weakening, the presence of Japanese firms in the manufacturing sector (and especially in the fields of automobiles and electrical equipment) has strengthened thanks to the successful shift in the export mix. Japanese firms have a solid and definite strategy for other Asian markets as well as international competitiveness, and this, together with the assistance of public financing from Japan, enabled them to maintain their stature.

(3) Japanese government – supporting the economy and Japanese firms in other Asian economies

About half of Japan's entire official development assistance (ODA) is directed to other Asian economies, and has been of valuable use for the improvement of their socioeconomic infrastructures. Even during the economic crisis, the Japanese government announced a new package of aid totaling 97 billion dollars for other Asian economies, such as the New Miyazawa Plan and special yen loans. Of this total, about 68 billion dollars has already been implemented. Such assistance has provided crucial support for the economy and activities of Japanese firms in the affected countries.

3. Japan's tasks for other Asia's revival

(1) The new role to be played by Japanese companies

Today, when Asian economies are striving to conquer the economic crisis, Japanese firms have a big role to play for the next round of sustained advancement. Taking a lesson from the crisis, all firms must, first of all, build schemes for risk management. Secondly, they must make time one of their standards of judgment in investment decisions. In Asia, which is largely a developing region, there is latent demand in virtually all industries. However, it will take considerable time for this demand to be actualized. The costs of mistaken decisions caused low operating rates and surplus facilities. And thirdly, they must be aware of the

magnitude of their presence and influence in the small markets of developing countries. If markets are entered by numerous Japanese firms which become locked in competition with each other, it could very well distort the entire economy and also create fallacy of composition.

(2) The role to be played by the Japanese government

Other Asian economies generally have a high opinion of the support provided by the Japanese government. Nevertheless, the current steps should be positioned as no more than emergency measures. It would be more efficient to direct funds to measures for preventing recurrence of such crisis. One means to this end is the preparation of provisions to counter international financial panic. In addition, economic policies in these countries should undergo rigorous evaluation and be made the subject of constructive discussion in forums such as APEC and meetings of ASEAN financial ministers.

There is also a need for the construction of schemes for collaboration between government and business in this regard. For example, to obtain a correct perception of the operation of the economy in each country, the government should make arrangements for timely supply of detailed information from Japanese firms actually developing business on sites and heavily involved in them.

Chapter 2

Trading firm business rooted in Asia – profiles

Chapter 2

Trading firm business rooted in Asia

– profiles

Section 1

Brief history of integrated trading firms

The developing countries of Asia entered the phase of booming growth in the late 1970s and went on to make rapid economic strides. Boasting high growth rates that provoked talk about an “Asian miracle,” the region became a growth center for the global economy and was the focus of worldwide attention.

However, Japanese trading firms had been focusing on other Asian economies from a much earlier time. After their establishment during the Meiji (1866–1912) and Taisho (1912–1926) eras, they swiftly developed trade transactions with other Asian economies and actively invested in them.

In the Meiji and Taisho years, Japanese trading firms gradually established locations in Hong Kong, Singapore, India (Calcutta and Bombay; now Mumbai), the Philippines (Manila), and Indonesia. They expanded their trade transactions with other Asian economies along with the modernization of the Japanese economy. Similarly, their role and capabilities increased as the Japanese economy advanced.

During the reconstruction following the Second World War and the rapid economic growth that ensued, integrated trading firms built up their export of the products manufactured in Japan and import of resources based on schemes for development in the source countries. They also came to act as industrial organizers involved in areas such as mediation for import of technology, plant construction, supply of materials, sales of products, and cultivation of export markets. Backed by their high credibility and risk management capabilities, they also increasingly extended credit and financing to wholesalers and customers, and their business as integrated trading firms was further advanced by the acquisition

of financing functions. In other Asian economies, too, they cultivated markets that were still in the process of development, promoted large-scale projects exercising their organizing skills, and devised new projects that would showcase trading firm talents.

Following then-president Nixon's 1971 decision to cancel the dollar's convertibility to gold (thereby forcing a revaluation of the yen) and the two oil crises, Japanese industry moved toward higher VA levels, innovative technology, electronics, high-tech products, and increasing degrees of sophistication. Its vaunted international competitiveness in fields such as VCRs, electronics, automobiles, and steel brought Japan strong growth powered mainly by export, in which integrated trading firms played a leading role.

The sharp appreciation of the yen that began in 1985 stimulated purchase of overseas components by Japanese firms as well as offshore siting in the manufacturing industry. Japanese production migrated from the NIEs to Southeast Asian countries and China. To support this activity, integrated trading firms developed new business in other Asian economies, including consulting work, total services encompassing construction of industrial estates, and component sourcing and logistics.

In the current age of economic internationalization, the advancement of the global economy depends on the activities of integrated trading firms. The Japanese economy is becoming increasingly globalized, and international divisions of labor in production are widening and deepening. For integrated trading firms, this fundamental change represents an opportunity for building new relationships with transaction partners, both foreign and domestic, and for generating new business. While making investments to diversify their activities, they are also reinforcing their capabilities in commercial transactions and aiming for a synergy between their business and commercial dealings.

The chief strength of integrated trading firms lies in their exercise of a total power for creation of business by taking full advantage of the comprehensive nature of their assortment of products, markets, and capabilities. Integrated trading firms are not mere brokers selling goods; they work to unearth and nurture new business through close collaboration with other companies in Japan and other economies.

Section 2

Trading firm profiles

This section profiles the role played by integrated Japanese trading firms in other Asian economies and the way in which they expanded and exercised their capabilities and functions, with reference to the actual recent doings of various firms in various countries.

1. LNG projects and cooperation in Brunei (Mitsubishi Corporation)

In 1967, Mitsubishi Corporation began marketing liquefied natural gas (LNG) produced in Brunei to Japanese concerns in collaboration with Shell. In June 1970, it concluded a long-term sales contract for supply of some 5.14 million tons per year with three big customers; Tokyo Electric Power Company, Tokyo Gas Co., Ltd., and Osaka Gas Co., Ltd. This contract was subsequently extended for 20 years, from April 1993 to March 2013 (the annual volume was increased to 6.01 million tons, and a different long-term contract was also concluded with KOGAS, Korea Gas Corp.).

As a subscriber to the project, Mitsubishi negotiated with customers jointly with Shell Petroleum. At present, it is a shareholder in Brunei LNG Ltd. (BLNG), which handles everything from liquefaction to LNG sales. In this capacity, Mitsubishi contributes to the smooth operation of BLNG and advises the Brunei government and Shell, which are also BLNG shareholders, about the marketing end. Furthermore, in accordance with a service agreement with BLNG, it provides that company with all sorts of information and engages in parley with customers for the smooth execution of the project.

At the same time, Mitsubishi has concluded import agency contracts with customers and represents their interests while also playing a coordinating role for sellers. The specific duties performed on behalf of customers include attendance at the shipping port of cargo in Japan, payment of LNG fees, customs clearance, and payment of duties.

Mitsubishi brings the necessary functions into play in each of these roles and helps to ensure the smoothness of supply from BLNG to the customer.

It has also reached an agreement with the government of Brunei on joint promotion of a beef cattle project. In March 1978, it made outlays for the establishment of the wholly-owned subsidiary MC Farm Sdn. Bhd., and began preparing land for ranching on a hilly site about 10 kilometers to the west of Bandar Sari Bagawan, the national capital. After five years of testing, MC Farm concluded that large-scale livestock industry in a tropical setting – something without parallel worldwide – was fully possible as far as the technology was concerned. In parallel with this project, it also embarked on the cultivation of leaf and fruit vegetables by hydroponic farming in 1986. At present, it is making plans for business in tourism farming.

2. Modernization of agriculture in China (Nichimen Corporation)

It was in 1979 that Nichimen Corporation Foodstuffs Division relayed its strong desire to contribute to the modernization of China's agriculture to the Chinese government. This message evoked keen interest at Ministry of State Farms and Land Reclamation in China, which had been given the mission of turning wild fields into farmland, and managing and operating it in the form of state-run farms. The idea moved toward materialization beginning in 1980, and grew into the plan for construction of a huge, modern state-run farm through joint efforts by Japan and China on the Sanjiang plain in the northeastern part of Heilongjiang Province.

The project made full use of the capabilities unique to integrated trading firms for total organization of action to meet needs on the Chinese side in the three major areas of financing, provision of machinery and know-how, and buyout of products. The funds required for the farm's construction were procured through Nichimen from a syndicate including the Export-Import Bank of Japan (the current Japan Bank for International Cooperation; JBIC) and The Sanwa Bank Limited, and furnished to the Chinese side in the form of yen-denominated loans. These funds were used for the purchase, again through Nichimen, of high-performance construction equipment and large agricultural machinery from the leading machinery manufacturers in Japan and the United States. This equipment was accompanied by the requisite know-how for its operation, and the Chinese side used it to transform some 20,000 hectares of undeveloped land into an immense farm, which was named "Honghe Farm." The soybeans produced there

are being imported to Japan by Nichimen, and the foreign currency received from this business is applied to repayment of the loan. This type of scheme is termed “production sharing method.”

Honghe Farm was built to be a large, modern farm of the type found in the United States. At the time, it was a model of progressive mechanized farming in China, which then attached top priority to the modernization of agriculture. A slogan urged agriculture to “learn from Honghe,” and leaders from the central government as well as agricultural authorities from other parts of the country flocked to the farm to inspect its operations. Honghe was enlarged thereafter and now covers more than 100,000 hectares. Similarly, wheat, rice, and other products were added to soybeans on the list of crops. Once regarded as part of the vast northern wasteland, the Sanjiang plain in Heilongjiang province is now one of the key centers of agricultural production for 21st-century in China.

3. Management setup for apparel production in Asia (Tomen Corporation)

Right from the early Meiji years until the period of reconstruction after the war, apparel products were one of Japan’s major export items. Their production was gradually transplanted offshore as wages in Japan rose, and the yen’s sharp appreciation in the wake of the 1985 Plaza Accord turned the domestic textile industry into a net importer. There was a particularly pronounced shift to production in China, mainly in the Huanan (southern) region, and the Japanese integrated trading firms discharged a big role in this shift. Whereas the words “made in China” used to be equated with bargain-basement merchandise, the apparel now produced in China is of high quality and is helping to reduce retail prices in the Japanese market. One of the factors behind this qualitative improvement was the work of Japanese trading firms to implant Japanese-style systems of quality control and provide instruction on the site of production.

As a center of logistics, financing, and information, Hong Kong is the key port for export of the goods made in the Huanan and other parts of China, and the apparel divisions of Japan’s integrated trading firms began to move some of their departments there. Established in 1983, Tomen Hot-Line (H.K.) Ltd. has production plants in 12 Asian economies. It also functions as a manufacturer, constructing systems for integrated control of these plants and development of products attuned to needs and preferences in Western markets. Japanese trading

firms now active in Hong Kong are engaged not only in mediation of consigned processing but also in all steps from sourcing of materials to production management and from product development to construction of sales channels. In this sense, they could be described as apparel manufacturers without their own factories. Their efforts are mirrored in the character of Hong Kong, which continues to advance as a global center of business that is backed by the gigantic production bases in China and takes the whole world as its market.

4. Development of an industrial park in Indonesia (Sumitomo Corporation)

In August 1987, Sumitomo Corporation commenced the construction of an industrial park in accordance with a proposal made by the Indonesian authorities. The park was the first in Indonesia to be prepared by a private enterprise. Drawing on its experience in attracting Japanese tenants to an industrial park in Thailand and catalyzing new transactions with them, Sumitomo studied approaches that would go beyond mere construction and link the project to continuing business for it as an integrated trading firm. This led to the establishment of an investment firm in Japan through outlays by a consortium centered around Sumitomo and including banks, general construction contractors, insurance firms, and enterprises in other concerned industries as well as the Japan International Development Organization (JAIDO). This was followed by the establishment of P.T. East Jakarta Industrial Park (EJIP) through joint outlays with the major members of the Indonesia Chamber of Commerce and Industry (KADIN) in April 1990.

The EJIP industrial park lies in the Bekasi area, about 40 kilometers eastward from central Jakarta. It is accessible by expressway, and measures some 320 hectares. The sales campaign began with the site preparation, and the lot had been sold by 1996. About 80 export-oriented firms, mainly Japanese, have sited in the park. The park is now one of the major bases for export of manufactured products in all of Indonesia, and some 70 percent of its entire production is exported.

As the enterprise running the park, EJIP manages matters such as supply of industrial-use water and treatment of wastewater, and also operates plants for lease. In addition, it is responsible for security, maintenance of appearance and roads, and control of nighttime illumination. For its part, Sumitomo provides a wide range of services to the tenant companies. On the park grounds, it built and

operates an import-export cargo distribution center featuring the latest cargo handling machinery. The park has also attracted siting by trading firms handling electronic components that source them from other Asian economies, and packaging firm which is handling exporting products from the park. In addition, the premises contain a steel service center for steel processing to meet the needs of customers, companies that lease property to individuals and corporate entities, and service suppliers ready to develop accounting and salary management software or to construct local area networks (LANs) for tenant firms on consignment. In character, the project is not a simple real estate project; it is a composite one encompassing various fields, and therefore best showcasing the personality of integrated trading firms.

5. Eastern Sea Laem Chabang Terminal (Marubeni Corporation)

Situated on the coast of the Gulf of Siam (Thailand) about 110 kilometers south of Bangkok, Laem Chabang is Thailand's biggest port and its only deep-water port. Marubeni Corporation founded the Eastern Sea Laem Chabang Terminal Co., Ltd. (ESCO) together with Thai Cranes International Co., Ltd. and Japanese firms such as Kamigumi Co., Ltd. ESCO began operating a container terminal at the port in January 1992.

The ESCO terminal has a berth with a total length of 300 meters and depth of 14 meters, and can accommodate mooring and cargo work for large container ships with a freight capacity of up to 50,000 tons. The terminal is equipped with three wharf cranes, each capable of hoisting about 30 containers per hour. Unlike Japanese ports, the terminal is ready to load or unload cargo at any time of day, 365 days a year, and therefore is highly convenient for customers (shipping companies).

Although the terminal handled only 15,000 containers (in terms of equivalent in 20-foot containers) in 1992, its first year, the volume rapidly rose along with the country's export-driven economic growth and hit the 492,000 mark in 1999. The overall Thai economy was badly hurt by the currency crisis, but the export volume has followed a favorable trend since 1997 due to the recovery of price competitiveness.

In this project, Marubeni has a 29-percent interest in ESCO and plays a management role. With its wealth of experience as a shipping company customer,

Marubeni has a good knowledge of the kind of services and information customers want, and ESCO's management is consequently more customer-oriented than that of other container terminals affiliated with the major container ship operators. This is a result of effective use of the information powers of trading firm and improvements in this respect will probably become even more in demand in the future.

6. Taiwan FamilyMart (Itochu Corporation)

In Japan, convenience stores began to spread around 1974. Taiwan FamilyMart Co., Ltd. opened its first store in 1988 and was followed by a host of other entrants which ushered in the convenience store culture in Taiwan. While convenience stores based on the U.S. system were first planted in Taiwan around 1978, this system was not entirely adapted to Taiwanese soil. In spite of the fact that it would make the required initial investment much higher, FamilyMart decided to bring in a complete logistics system that consisted of an electronic ordering system (EOS) and shipment setup, including distribution centers. It took this step in the conviction that the construction of logistics was indispensable for the execution of its strategy for Taiwan, which from the start envisioned the opening of many stores. The system laid the foundation for the ensuing fast-paced increase in the number of locations.

In moving into Taiwan, FamilyMart joined hands with Itochu Corporation in setting up a joint venture with a Taiwanese firm and introducing Japanese-style convenience store know-how into Taiwan. This choice was made in light of Itochu's track record in logistics for the FamilyMart operation in Japan and in anticipation of the advantages represented by its international business network and risk-dispersing capabilities as a trading firm. The convenience store expertise that was born in the United States and bred in Japan is blossoming in other Asian market.

Convenience stores have enjoyed remarkable growth in Taiwan, and Taiwan FamilyMart is hoping to have 1,000 stores in operation by the end of 2000. As in Japan, they are taking solid root in the market and appear poised for evolution from a mere type of retail store to business locations offering a diverse range of services.

7. Forestry project in Vietnam (Nissho Iwai Corporation)

Although Vietnam lies in the tropical and temperate monsoon zones, forests cover only about 9.3 million hectares, or 28 percent, of the national land. The effects of destruction of forest during the Vietnam War linger on today.

In 1986, when it instated its “Doi Moi” policy of economic reform, the Vietnamese government asked Nissho Iwai Corporation for aid with reforestation projects. In response, Nissho Iwai proposed a scheme under which the lumber taken from the resulting forest would be exported back to Japan for use in papermaking. It also gained the cooperation of Oji Paper Co., Ltd., one of Japan’s leading companies in the industry, for serving as a customer for chips. A site in the area of Danang, which is situated in the central part of the country and is its third-largest city, was selected for the project. A joint venture was established at capital subscription rates of 60 percent for Nissho Iwai and 40 percent for five Forest Companies public forestry corporations, and the chip production commenced in 1994.

Although the trees planted were quick-growing eucalyptus, it nevertheless takes about seven years for their trunks to reach the thickness prescribed for logging. Reforestation must be a long-sustained effort and cannot be continued on the strength of good intentions alone. If it is to be sustainable, the project must be designed so that it benefits all concerned parties.

In short, through the production of chips and their export to Japan, the Vietnamese government gains foreign currency and the local community gains jobs. Farmers also benefit from the extra income earned from reforestation work. And for the Japanese side, the project means a new source of chips. Obviously, it is also gradually increasing the amount forestland in Vietnam.

The project has steadily progressed, thanks largely to the expansion of the demand for chips in Japan. The Vietnamese government, too, is enthusiastic about planting forests. In 2001, the first eucalyptus trees planted by Nissho Iwai will be ready for logging. Once the cycle is set in motion, the project should be completely sustainable. Restoration of the natural environment and economic recovery are not necessarily mutually conflicting ends, and the reforestation project in Vietnam is an eloquent testimony to this fact.

8. Asia Investment Ltd. in Singapore (Mitsui & Co., Ltd.)

On December 7, 1995, Mitsui & Co., Ltd. established Mitsui & Co., Asia Investment Ltd. in Singapore for investment activities throughout Asia. Conventionally, investments have been made mainly by sales divisions and overseas offices, and chiefly for intervention in the flow of goods. However, Mitsui decided to establish a new type of dedicated investment company in order to take full advantage of the wide range of investment opportunities opening up in Asia as a center of business growth in the throes of fast-paced, momentous change. The activities of the company are not limited or specified as regards the subject fields of industry; its mission is to make sound judgments and decisions on investments in new industries with promising growth prospects in other Asia, and with a speed that cannot be matched by the ordinary corporate organization. Its board of directors is allowed to make decisions on propositions for investment within the limits of its capital (U.S. 100 million dollars in terms of authorized capital) and surplus funds at its own discretion, i.e., without seeking the approval of or petitioning the parent. Its sphere of activity encompasses all of Asia outside Japan, from China and Korea in the north to India and Pakistan in the west and Indonesia in the south.

Its major activities are as follows: 1) dispatch of experts as its staff for assessment of investment proposals, and provision of effective investment information service based on swift collection of information and analysis of the trends in the business and market; 2) assistance for promising new projects and technology transfer, and capital participation in joint ventures, in light of the strong growth potential in the region; 3) close coordination with major corporate groups in the region for collaborative investment in promising growth firms and for public offering of their stock; 4) short-term investment in stock markets; and 5) the raising of funds from the money and capital markets of other Asia for in-house banking, i.e., financing for Mitsui's local affiliates, branches, and related firms in Asia.

As of the end of 1999, China had the largest share of the total outstanding investment at 27 percent, and was followed by Taiwan at 23 percent, Thailand at 21 percent, the Philippines at 11 percent, Singapore at 7 percent, India at 7 percent, and Hong Kong at 3 percent.

Chapter 3

Asia's future

Chapter 3

Asia's future

Section 1

Asia in 20XX

1. Continued status as a world growth center in the early 21st century

(1) A numerical forecast of Asia from 10 to 20 years in the future

East Asia (here excluding Japan and regarded as consisting of China, NIEs, and the ten members of ASEAN) currently has a total population of 1.84 billion (the world population being 6.1 billion). In 2020, it is projected to have a population of some 2.16 billion, and therefore to remain one of the most densely populated regions in the world. This population size and density is a tool for growth in the region, which has already broken through the poverty line. Its growth in the 21st century should be further accelerated by the increasing utilization of information technology.

The forecast also envisions two mass migrations of population, one from farming villages and rural areas to urban areas in each Asian economy, and the

Forecast of GDP growth rates

(%)

	1995	2000	2005	2010	2015	2020
N I E S	7.1	4.0	5.0	5.2	4.7	4.5
A S E A N	7.7	1.1	5.9	6.9	6.6	6.6
A s i a	8.0	3.8	5.4	5.8	5.6	5.5
U S A	2.0	3.4	1.8	2.0	2.2	2.4
Japan	1.4	1.1	1.7	1.7	2.0	2.1
China	12.0	7.9	6.2	6.8	7.7	8.0

Note: figures indicate average real GDP growth rates over the preceding five years

"Asia" consists of NIEs, ASEAN, and China

Source: Japan Economic Research Center

other from the less to the more developed countries. These migrations are expected to be major factors for maintaining the dynamism of the region's growth.

According to a forecast released by the Japan Economic Research Center in January 2000, East Asia (here consisting of the four major ASEAN countries, the four NIEs, and China, for a total of nine economies) may be expected to achieve economic growth averaging 5.6 percent annually from 2000 to 2020. JFTC Taskforce estimates that this is a floor figure and that growth will probably be higher in reality.

(2) Emergence as a center of global production of goods

With its abundant supply of labor that manages to be both low-cost and high-quality (in terms of educational level, dexterity, and motivations for advancement), other Asia should loom even larger in the eyes of developed-country industries as a site for production of goods. In this connection, it will be vital for other Asia to obtain the support of capital and technology from Japan as the reigning champion as far as quality manufacturing is concerned.

Two of the focal industries in the early 21st century will be the electric/electronics industry and the auto industry. In the former, production and export of electronic products and components is rapidly increasing in Taiwan, Korea, China, Malaysia, Thailand, and the Philippines, and it is a certainty that these economies will continue to be centers of supply of these items to the global market in the early 21st century. And in the latter, production is likely to be increasingly directed to other Asian market in response to the explosive growth of the demand for automobiles in the countries themselves.

(3) Asian strengths

Other Asian region has at least seven major features that should function as key strengths in the global market. The first is **high savings rates**, which support investment for the future. Second, many Asian economies and their populations have extremely **strong desires for growth and betterment**, as was the case in yesteryear's Japan. The powerful desires to get ahead and energy expended to that end are bound to be at the roots of Asian growth in the new century as well. A third feature is **wage levels**. Although labor costs are rising in Asian economies, they should remain on relatively low levels in the region as a whole for the next twenty years or so.

Fourth is the **political stability** and the tone of liberalization which have been at the foundation of the high economic growth enjoyed by other Asia since the 1970s. There is thought to be little risk of widespread turmoil in the ASEAN countries, NIEs, or China, and the main tasks on this front are the reinstatement of North Korea in the international community and the stabilization of relations between China and Taiwan.

Fifth, no discussion of other Asia could afford to ignore the presence of **ethnic Chinese businesses** throughout the region. As key principals in other Asian economy of the 21st century, today's ethnic Chinese executives might be envisioned as having MBAs from U.S. universities, being versed in information technology, practicing U.S.-style corporate governance, and drawing on human networks that stretch around the globe. In the networked society of the new age, their human, financial, and commercial connections should become more sophisticated and constitute a crucial support of Asian economic growth.

A sixth factor working in Asia's favor is the presence of the **U.S. economy**, whose solid demand was a major reason for Asia's recovery from the currency crisis more quickly than expected. The region's economic growth would not be possible without political stability, which depends heavily on the United States. Asia has important ties with the United States not only in the economic area but also in the military, cultural, and educational ones. Indications are that the United States will continue to be Asia's most important partner in the 21st century.

Besides the aforementioned benefits of the United States as the world's biggest economy, a seventh strength of other Asian economy is **the existence of Japan** as the world's second-ranked economy, and the one which is interlocked with the overall other Asian economy. It is Japan which is in the best position to play the role of spearheading production in the region, mainly in the automobiles and electronics industries as the key engines of advancement in the early 21st century. By the same token, other Asia holds considerable significance for Japan as a market and as part of the home ground of Japanese companies. In short, just as other Asia needs Japan, so Japan needs other Asia.

Quite often, items that become popular in Japan eventually find favor in other Asian economies. In contrast, it is unthinkable that Western models in all sorts of fields, from housing and life space to entertainment, TV, and even welfare services, would take root in other Asia without modification. In various areas, the Japanese models will probably be used as guiding precedents in many other Asian

economies. In this sense, as they try to navigate the rough waters of the 21st century, Japan and the rest of Asia will be in the same boat.

2. IT will change Asia

(1) Spread of IT in Asia

Society is being cyberized at a remarkably fast rate in Korea, Taiwan, Hong Kong, and China. At the same time, U.S. and Japanese companies are stepping up activities aimed at acquisition of or capital participation in promising IT-related firms in China and NIEs. Cellular telephones are in widespread diffusion in the region, as in Japan. With the arrival of the mobile Internet age, it may not be long before the region, led by Japan, has an Internet society on a par with that of the United States. Asia has a huge corps of budding IT engineers with degrees from U.S. universities and has positioned the electronics industry at the center of its policies for economic advancement. As such, it makes fertile soil for the rapid spread of IT.

(2) IT-induced change (e-Asia)

It will probably take some time for IT penetration to reach the level permitting all people, even in rural areas, to access the Internet for business-to-consumer (B2C) transactions. However, change can be set in motion if just one youngster in a village of 100, for example, utilizes the Internet to obtain the latest information. Network information also presumably has an extremely great effect for raising consciousness of the surrounding world.

Because of large income gaps and interregional disparities, Asia faces serious problems in the aspect of education and access to medical services, and diffusion of the Internet could help to solve them.

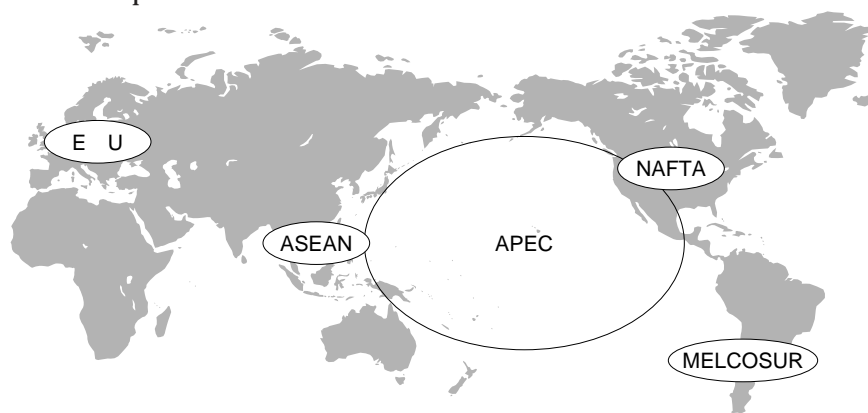
For the time being, however, Internet utilization will be propelled by business-to-business (B2B) transactions. Automakers, mainly from Japan, are trying to build optimal sourcing and delivery setups for materials and components in the region. As their schemes for complementary production spanning various Asian economies take shape, they are developing network management systems for all steps of the process, from component sourcing to production and inventory.

With Asia's growth as a worldwide center of manufacturing, IT will function as a crucial infrastructural element not only in the auto industry but also in all

other industries. In addition, it will play an important role in commerce, i.e., the sales of goods. The Internet is finding extensive use as a means of supply and demand matching as well as settlement of fees and exchange of information, particularly in the fields of general-purpose products and international commodities. Such utilization is going to change the face of business in Asia.

3. Toward formation of a regional economic sphere

At present, the only intraregional trade agreement in Asia is that for the ASEAN Free Trade Area (AFTA). Although the existence of a formal regional economic sphere is somewhat tenuous, there can be no doubt that ties of mutual economic dependence are deepening among Asian economies. In the aftermath of the currency crisis, these countries are coming to realize the need for intraregional economic cooperation.



A more concrete economic sphere will probably arise in the region in the early 21st century. A likely prospect is that AFTA will be supplemented by several bilateral free trade agreements established in the larger APEC context. Whereas precedence is accorded to the formulation of doctrine, conclusion of agreements, and construction of frameworks in the European economic sphere, actual economic activities tend to move ahead of rule-making and agreements in Asia, and this is not expected to change substantially in the future. The question is how much initiative Japan will be able to exercise in this sphere.

Section 2

Country study – current status and outlook

(1) Hong Kong

Under the impact of the currency crisis, Hong Kong recorded its first-ever minus growth in 1998, when the real GDP growth rate was down by 5.1 percent from 1997. Since 1999, however, the economy has been swiftly recovering its vitality. The fast recovery derives from the assets effect induced by the rise in stock prices powered by IT-related investment. The real economy continues to exhibit a deflationary trend, and the unemployment rate has leveled off on the plateau of 6 percent. However, this may be more a manifestation of the quickness with which Hong Kong businesses leave slumping industries to find other business.

It would make no sense to view the Hong Kong economy in isolation; it must be viewed literally in consolidation with the Huanan (southern China) economic sphere. The Huanan area is becoming one of the biggest sites of production in the entire world, and it may not be going to far to characterize Hong Kong as a trading firm with this immense Huanan production in its hinterland. In this capacity, its role will presumably deepen as China's economic liberalization proceeds. A particular focus is the precious infrastructures for financing, logistics, and information built up over the years by Hong Kong's laissez-faire economy. In order to preserve these infrastructures, the authorities must make a clear commitment, to the international community as well, to the subsistence of Hong Kong's free economic tradition. In outlooks on Hong Kong's future, the focal points are the further evolution of the Huanan area as an immense center of component supply to the rest of the world and the prospects for a reinforcement of Hong Kong's trading firm capabilities.

(2) China

There is a consensus among Japanese business persons stationed in Shanghai and Beijing that China has changed rapidly over the last few years. Observers who continue to associate business in China with a lack of transparency, abrupt change, irrationality, and inconsistency are liable to misread its future course. For example, although the "Made in China" tag used to be synonymous with cheap goods, it is

now being equated with high quality at low cost. The rise in income levels is leading to an increase in consumption inclinations and rise in consciousness of quality. In addition, one forecast is projecting China's Internet population to reach 20 million in 2000 and 80 million in 2005.



The spread of IT is accelerating the pace of change in society; Zhong Guan Cun, near Beijing

It is the dominant view that, by 2020, the country will assume a major role in the global economy as an immense site of production for supply worldwide.

(3) Taiwan

Taiwan is the world's third-largest producer of semiconductors, and has established a solid position for itself in the worldwide context as an economy grounded in computers and driven by export. It would be no exaggeration to say that Taiwan's electronic component industry is supporting the spread of the IT revolution worldwide.

China is already Taiwan's biggest trade partner (when indirect trade is included) and also the major destination of its investment. As such, Taiwan is hoping that there will not be any radical change in China given the importance of its market. The further deepening of economic interchange between China and Taiwan is acting to alleviate political tensions. The outlook for the future is hard to discern, seeing that neglect to present a national identity may be the wisest way to ensure subsistence as an effectively independent country, and that hiding behind



The immense scientific and industrial complex at Hsin Chu continues to grow; near Taipei

the names of major firms as an OEM supplier may be the key to further economic advancement. Although the Taiwanese economy appears to be relying a little too heavily on high-tech industry at present, it is expected to grow steadily for the time being along with the spread of the IT revolution.

(4) Korea

The sharp economic recovery from an equally sharp decline seems to mirror the temperament of the typical Korean, who is said to be quick to heat up and cool down. For this reason, some observers have likened the economy to “chige pot-dish”, the spicy hot-pot dish in traditional Korean cuisine.



The rebound of private consumption evidences the swift economic recovery; Myongdong, Seoul

However, there is a danger that the job of dissolving the “chaebol” conglomerates will be left unfinished as capital investment rebounds, mainly in the IT field. Moreover, the biggest roadblock to genuine recovery, which is the problem of bad debt at financial institutions, still remains unremoved. As such, the future course of the Korean economy is clouded by much uncertainty. But in spite of this uncertainty, the economy is vibrant.

Many Korean observers have stated that the economic crisis was necessary for the promotion of structural reform by the chaebol and for acquisition of autonomy by corporate entities. Numerous restraints on the activities of foreign capital in Korea have been lifted under the policy of active encouragement of incoming foreign investment instated by the administration of Kim Dae Jung after the crisis. In relations with Japan in particular, the government has also abolished the system for diversification of import sources, which had the effect of regulating import from Japan. The change of generations is another force for change in today’s Korea. The country has additional advantages in the form of a population that is not as aged as Japan’s, an economy in the growth phase, keen enthusiasm about new developments, and a wealth of independent spirit.

However, the political picture is especially unclear. President Kim is actively pursuing rapprochement with North Korea under his “Sunshine Policy,” and the

historic North-South summit conference of June 2000 culminated in the signature of a joint communique. Relations between the two countries are anticipated to improve gradually through economic cooperation. Nevertheless, the future prospects are highly unsure; the South does not have the strength to support the North, whose economy is in serious trouble, and the ties are bound to be influenced by larger players such as the United States, Russia, China, and Japan.

If it is to acquire a developed-country status and discharge the corresponding responsibilities, Korea must promote not only economic advancement but also further socio-political liberalization with a view to establishing a more solid national identity and powers of independent action.

(5) Indonesia

Ever since the inauguration of the Abdurrahman Wahid administration in October 1999, Indonesia has been making the transition to a more democratic system. Inside Indonesia, at least, there are no worries about a political and social “melt-down” of the kind often voiced in news reports in Japan and other countries. With its abundance of buried resources and population of over 200 million, Indonesia has a tremendous future potential that is universally recognized.

Indonesia was hit hardest by the currency crisis, and some estimate that a return to conditions before the crisis will take three or four years if all goes right and seven or eight if it does not. By the same token, the labor environment still has margin for future development, and wages are on lower levels than in even Vietnam. Additional benefits are the ease of recruiting employees and the virtually non-existence of strikes.

(6) Singapore

Singapore has been likened to a joint-stock “company” whose chief shareholder is the government. Decisions for advantage in the “soft” aspects are also made at the top; for example, the government has taken measures to see that the trip from Changi International



After going through airport immigration, the journey to a downtown hotel takes only an hour at most; Singapore

Airport to the hotel district takes less than an hour. In order to continue concentrating its resources in high-VA fields, the government is spearheading the development of such business through government-linked companies (GLCs). Although some skeptics have pointed out the limits of economic advancement based on government's initiative, the government is exercising firm control over the situation. While finding positions for retiring bureaucrats on corporate boards, it is forging ahead with a relentless program of deregulation, dismemberment, and privatization with a view to strengthening the country's international competitiveness, which it has posted as an objective of the highest priority.

Singapore has been described as a small island-country that is constantly asking itself what it must do for its continued survival. Its situation gives the country a somewhat charged atmosphere and enables resolute operation of the economy with government leadership. In its dealings with neighboring countries, it is ever mindful of the need to maintain a certain balance in the region, and takes great care not to stand out too much even against the ASEAN background.

Singapore is also characterized by good skills of communication in English (which is the official language) and a well-developed infrastructure. Moreover, it has a high number of graduates of U.S. universities and good familiarity with U.S.-style management. Aiming to make IT the foundation of its economy, it consequently appears, when viewed from the standpoint of venture capital, to be in a completely different world from other ASEAN countries.

In respect of IT, there is a strong possibility that Asian economies (excluding Japan) will be segmented into three major groups, as follows: 1) the leading group consisting of Hong Kong (B2C level), Singapore (B2B level) and Taiwan (hardwares), 2) the intermediate group consisting of Malaysia (depending on the results of the MSC project) and the Philippines (which is striving to grow into a center of labor-intensive IT activities); and 3) the last group consisting of the other economies (which have low rates of computer diffusion and do not have good prospects for rapid diffusion of IT). There are apprehensions that this "digital divide" will widen economic disparities in the region.

(7) Thailand

In the field of textiles, Thailand is regarded as content with a position in the "better zone" of production. And in the field of automobiles, there is a consensus

that the country is the hub of ASEAN production.

Thailand is often said to progress at its own gradual pace. Economically, opinions are divided on the question of whether it will strive to emulate the Western model or adhere to the Asian one. At any rate, there are some signs of the waning of the distinctively Asian brand of “crony capitalism” in Thailand, as in other countries in the region.

(8) Malaysia

As is well known, Malaysia took a different approach of its own in responding to the economic crisis: it put restrictions on foreign capital by controlling foreign exchange.

Malaysia attaches importance to manufacturing activities that could contribute to export; it has a relatively low opinion of the capabilities of trading firms, which it views as members of the service industry. For this reason, problems related to issuance of visas for trading firm employees are still a major issue at The Japanese Chamber of Trade & Industry, Malaysia (JACTIM).

In general, however, the Japanese business community in Malaysia gives high marks to Prime Minister Mahathir Mohamad. Japanese executives typically remark that he is the “only one who understands,” and that, although he is open to the charge of one-man decisions and inconstant policy, he has the flexibility to “listen to us and change the rules in response.” Certainly one of the focuses of interest is the grooming of his successor over the five years he has left in office.

Under the Multimedia Super Corridor (MSC) project,



Sky Train is expected to do much to ease traffic jams; Bangkok



The magnificent view from the world's tallest twin-tower skyscrapers; Kuala Lumpur

many IT firms of international standing are being drawn to the Cyberjaya district, which is to become a “cybercity” and offers incentives to siting tenants. However, even if they breed landmark technology, the results of the research and development being conducted in the MSC project may very well be transferred overseas without having any influence on industry or everyday life in Malaysia. This suggests that the government has positioned the project as no more than a means of attracting foreign investment. This notwithstanding, the MSC definitely holds the key to attainment of the national goal, set forth in the Vision 2020 policy announced in 1991, of achieving a developed-country status by 2020.

(9) Vietnam

Although the economy in Vietnam boomed over the years 1991–1996, the peak has passed, and many are now somewhat pessimistic about the future trend of the economy. Nevertheless, there has been no change in the temperament of the typical Vietnamese worker, who is given high marks;



Employees are hard at work in a well-lit textile factory; Vietnam

foreign executives are virtually unanimous in their praise for the performance of their Vietnamese employees, and particularly for their efficiency once they master the job.

In Vietnam, about 380,000 motorcycles and motorscooters are sold each year. The massive tide of two-wheeled vehicles moving down the road during the morning and evening rush hour is an impressive sight. In contrast, sales of automobiles nationwide numbered only about 6,000 in 1998 and 7,000 in 1999. As this indicates, the country is almost completely undeveloped as an automobile market.

(10) Philippines

Amid the worldwide spread of the IT revolution, the competitive strength of the Philippines is being boosted by factors such as the English-language capabilities of its populous, high levels of education, and low wage costs. In fact,

siting by some of the world's leading IT firms, including America Online, IBM, and Citicorp, is gathering momentum, and there is a growing view that the Philippines is a promising site for IT industry in the Asian region.

For the time being, one of the major tasks is an improvement in transparency on the governmental level. Similarly, one of the key agenda items for advancement over the medium and long terms is an upgrading of the industrial structure. In addition, the country must make the conversion to market-oriented laws and regulations in legislation governing economic activity and labor.

Section 3

Issues to be resolved

(1) Foodstuff

Even at present, East Asia is a net importer of grains. As of 2010, its rate of self-sufficiency in grain supply is projected to stay at 96.7 %, or about the same as at present. However, there is not expected to be a serious shortage of food in Asia in the early 21st century.

(2) Energy

For the first part of the 21st century, Asia will have to depend on supply from other regions to meet more than 65 percent of its demand for oil. Most of this supply will be occupied by import from the Mideast. It will therefore be increasingly important for the region to maintain friendly relations with the Mideast oil producers.

Forecast of oil supply and demand

(million barrels)

	demand			supply			net imports		
	1996	2010	2020	1996	2010	2020	1996	2010	2020
China	3.6	7.1	10.1	3.1	3.2	2.0	0.5	3.9	8.1
Other Asia	8.5	14.2	19.5	3.7	2.9	2.4	4.8	11.3	17.2
Mideast	4.1	4.9	6.3	20.4	44.7	49.2	-16.3	-39.7	-42.9

Source: OECD/IEA, *World Energy Outlook in 2020*

The breakdown of power generation capacity in Asia by fuel (or source) is led by coal, which accounts for the majority at some 60 percent, followed by

hydropower at about 13 percent, oil and natural gas at just under 10 percent each, and nuclear power at about 6 percent. Given the status of coal as by far the chief fuel, there is a crucial need for the implementation of measures to counter emissions of sulfur oxides; it is estimated that roughly 90 percent of China's nationwide atmospheric emissions of SO₂ come from combustion of coal. Development of natural gas resources is lagging due to technical and cost problems. Natural gas consumption is scant in countries other than Japan, but is expected to expand, beginning with Taiwan, Korea, and other NIEs. Nuclear power ranks ahead of all other available energy resources in point of cleanliness and does not evoke much psychological resistance in Asia outside Japan. It is likely to find expanded application, especially in China and NIEs.

(3) The environment

According to a 1999 white paper on the environment, the developing countries in the Asia-Pacific region are faced with some of the most critical environmental problems in the world owing to fast-paced population growth and industrialization. The problems in question include soil deterioration, contraction and deterioration of forestland, reduction of biodiversity, ecological division, shortage and pollution of freshwater, pollution of the sea and air, and pollution and increased waste caused by urbanization and industrialization. Forestland is decreasing at an especially rapid rate in the ASEAN countries. Since they are behind it, only human beings can put an end to the reckless depletion of Asian forests in the 21st century.

Problems of air pollution due to SO_x and NO_x emissions are worsening because of the widespread use of coal as a fuel in power plants and other facilities, and the increasing ownership of automobiles. Because countermeasures carry a considerable cost, the environment is apt to be sacrificed in favor of economic growth. Even if appropriate environmental action is not being taken in other Asian economies, Japan should be ready to offer advice and funding.

(4) Political risks

The economic advancement enjoyed by Asia toward the close of the 20th century was supported by political stability. The major remaining political risks are in Northeast Asia, in the form of the direction taken by North Korea and the delicate status of relations between China and Taiwan. Overall, the situation is

expected to become even more stable in the early 21st century. The real key to peace in Asia in the broad sense, inclusive of its relations with India, is probably in China.

Japan is unfortunately not going to play the leading role in the political stabilization of Asia. Collective security involving the United States and good political relations between the United States and Asian economies are indispensable for stability.

Unlike Europe, Asia presents certain diversity in respect of the political orientation of each country. Even among democratic countries, the shape of the system varies from country to country. As such, Asia is not amenable to transformation into a homogeneous community like the European Union. If it could be said that politics leads and economies follow in the EU, the reverse is true in Asia. This is why, in Asia, economic growth is the wellspring of political stability.

(5) Logistics and arrangements in other areas

The main issues in logistics in Asia at present are the plethora of official regulations and the underdeveloped state of infrastructures. Asia has two distinct aspects; it is both a site of supply of products, components, and materials to the rest of the world, and the world's biggest latent market. Hopes are pinned on an ongoing expansion of physical distribution through trade (import and export) and transactions (both with other countries in the region and purely domestic) over the next 10 or 20 years. The construction of logistic networks to support such expansion is essential for other Asia's advancement.

As exemplified most importantly by Manila and Jakarta, Asia's major cities are becoming increasingly congested, and there is concern about a drain of population from rural communities. One of the key issues for future advancement is how to support the sound development of rural areas. The major requirements to this end are assurance of a sufficient standard of living, provision of cultural stimulation, and creation of jobs for youth. In this connection, there are great expectations for the results of the plans for the growth of small cities in rural parts of China as well as for the development of its central and western regions.

The currency crisis exposed the vulnerability, albeit to varying degrees, of the financial systems in all of the affected countries. One approach to mitigation of this vulnerability is to throw the door open wider to foreign financial institutions.

In Asia, government has an integral role to play for economic advancement. Official advice and intervention of the kind associated with developing economies are still required in the areas of urban planning, human resource development, and improvement of the public welfare. An arrangement resembling that in Japan, which has been called “a socialistic market economy,” may be the suitable one for other Asian economies.

Section 4

Involvement with other Asia on the part of Japan and Japanese trading firms

1. Japan's role

Relations between Japan and the rest of Asia may be coming to a turning point. Thus far, Japan's contribution to other Asian economies has undeniably supported the region's economic advancement. However, Asia has grown up, and changed in the process. In the 21st century, the relationship between Japan and the rest of Asia cannot remain the same as it was in the 20th century.

If it continues in the same line, Japan will probably see its presence fade further. For the future, Japan must rethink its role in the 21st century toward the goal of building relations of truly mutual interdependence with other Asian economies.

From late August to early September 1999, a mission headed by Hiroshi Okuda, Chairman of the Japan Federation of Employers' Association (better known as “Nikkeiren”), visited various Asian economies to probe approaches to the region's economic revival. Upon its return, this “Okuda Mission” prepared a final report and submitted it to ex-Prime Minister Keizo Obuchi. In this report, it suggested that Japan must move beyond cooperation mainly in the aspects of money and “hard” elements, and promote assistance in those of human resources and “soft” elements. Similarly, in March 2000, a Keidanren Mission led by Chairman Takashi Imai (and including four Vice Chairmen, one of whom was Naohiko Kumagai, Chairman of Mitsui & Co., Ltd.) visited the four countries of Thailand, Indonesia, Singapore, and Malaysia, partly for discussion of cooperation with human resource development and technology transfer as was proposed by

Prime Minister Obuchi. This mission reaffirmed the importance of aid in the “soft” aspects alongside that in the funding aspect.

While recognizing the worth of conventional assistance in the “hard” aspects, the JFTC Taskforce, too, is keenly aware of the need for Japan to provide other Asian economies with support in the “soft” aspects as well in the 21st century. Japan will remain very important both as a supplier of funds, capital, and technology and as a market for products from other Asian economies. It is particularly vital for Japan to retain its posture of developing, and fostering the growth of, leading industry in Asia for the 21st century. A primary issue in this area is how to go about bringing the e-ASIA concept to fruition. For this purpose, Japan must endeavor to deepen ties of mutual understanding with other Asian economies on all fronts, including cultural exchange.

2. Asia and trading firms

(1) Traditional fields of trade and investment

As long as there exists unsatisfied demand, the procurement of goods from supply sources and their provision to consumers around the world will be the fundamental activity of Japan’s integrated trading firms. One of their major prospective fields of activity is supply of energy to other Asian economies. After the war, they worked to assure Japan of a sufficient supply of resources and energy. In the future, however, the circle of customers will not be confined to Japan; trading firms will have to supply demand throughout Asia.

Another notable field is supply of food to Japan. In many cases, integrated trading firms have developed export of food items to Japan; examples include shipments of frozen shrimp and air transport of chilled vegetables. In the 21st century as well, there should be many openings for trading firm participation in all links of the supply chain, from production in other Asian economies to shipment and sales in Japan. Conversely, products developed for Japan largely by integrated trading firms should gradually make their way into the markets of other countries in the region.

(2) Organizing capabilities

At the base of the fund-raising activities of integrated trading firms are their

capabilities for organizing various principals. Unlike banks and investment firms, they take actual part in the projects (with a role that is, moreover, close to the main one), and assume all associated risks. The 21st century will probably see increasing adoption of private finance initiative (PFI) schemes for large-scale projects. In such schemes, integrated trading firms act as project owners responsible for all work from operation to planning and management, and must demonstrate their capabilities as all-around players.

Integrated trading firms are not mere brokers; they are perfectly suited to be coordinators for projects spanning different regions. In this sense, they resemble orchestra leaders, and will undoubtedly have many opportunities to conduct on the world stage in the new century as well.

(3) Logistics and commercial distribution

To a great extent, the further economic advancement of Asia could depend on modern logistic systems harnessing IT for physical distribution. Integrated trading firms are already pioneering this field. In the 21st century, many logistic centers now in Japan could be moved to China or Korea, and integrated trading firms will probably play a leading role in this connection. Their wholesaling capabilities will be particularly valuable for distribution and retailing throughout Asia. In the 21st century, application of IT should enable the operation of more sophisticated wholesaling functions in Asia.

(4) The environment

Many integrated trading firms are actively participating in reforestation projects. While they take a long time, such projects are solidly linked to regional growth more at harmony with the environment in the region.

Although recycling may be performed at a single plant, there can be no solution without a total system. Indeed, recycling may be impossible without a considerable stock of industry. The industrial parks in which trading firms are extensively involved are nothing less than concentrated industrial sites, and so are conducive to the erection of systems for recycling and waste treatment applying the experience accumulated in Japan. Integrated trading firms should be able to exercise initiative in this field.

It might be added that it was a trading firm which developed food trays made from wild grass grown in China instead of styrofoam. Under conditions of high

humidity and temperature, this type of grass comes up in a single day. It may not be long before supermarkets around the world are selling food in trays that are products of the lush natural climate of Southeast Asia.

(5) All-around pioneers

“E-shosha”

All integrated trading firms are currently putting resources into electronic commerce (EC), which is at the core of their strategy for the 21st century. They are in the best position to take up the challenge of emerging fields, and will probably be at the vanguard of operations in many areas of e-business. However highly developed EC becomes, there will always be problems of physical distribution. The chief prerequisite for skillful on-line business is seamless fusion with off-line business, and this is precisely where integrated trading firms come in. Prospective approaches on this front may be exemplified by the establishment of cyber markets for international commodities, construction of on-line settlement systems linking car dealers and their buyers, joint development of “smart card” systems, and management of logistics using networks.

“Bio-shosha”

Integrated trading firms are also collaborating with world-class think tanks that have special competence in the field of biotechnology. They should use these ties to promote bio-projects that draw on their in-depth knowledge of problems in other Asia. Some possible subjects are the establishment of methods of preventing soil deterioration, improvement of water quality, and the development of bioproducts alternative to agricultural chemicals and fertilizer.

“Aerospace-shosha”

Integrated trading firms are deeply involved in the development of business applying communications satellites. In other Asia, where the terrestrial communications infrastructure is generally underdeveloped, communications and broadcasting satellites have a big role to play. Satellites could also be used for photography to determine changes in soil condition, the trend of sea-current temperature, and insect-induced blight, and so help to prevent damage and disasters. In such ways, integrated trading firms could begin providing services that would enhance the quality of life in Asian communities.

(6) Shift in emphasis from financial and “hard” aspects to human and “soft” aspects

Intelligent multiapproaches

An assertion to the effect that the parties with the best knowledge of the Asian region are integrated trading firms would presumably evoke some dissent but not widespread opposition. Integrated trading firms meet customer needs and furnish solutions in the actual conduct of their business. They are especially adept at anticipating the needs and requirements of other Asian economies and turning them into business. They must further refine this talent in order to make a bigger contribution to Asia's economic advancement in the 21st century. The Taskforce is convinced that reconstruction of setups for knowledge management, i.e., the amassing and editing of a wealth of knowledge, will pave the way to new approaches for other Asia by integrated trading firms.

Grassroots activities

Through their work, many “shosha-men”, or trading firm personnels, have taken a close look at the situation in other Asian economies from various angles, and are fervently hoping for progress in them and closer ties with Japan. These employees are also involved in various activities of contribution to the local community in the host country. In Vietnam, for example, they are taking part in the movement to preserve historical documents and volunteering to teach classes on the trading practices and procedures.

Japan's integrated trading firms wield great power in other Asia, and desires among them to make a collective contribution as well as individual ones motivated the founding of the Action for a Better International Community (ABIC) Center in Japan Foreign Trade Council, Inc. in April 2000 (the scope of activities is not confined to other Asia). The Center is registering retired trading firm employees in possession of all kinds of special skills, and intends to promote cooperation mainly in the area of human resources. The Center is scheduled to acquire an NPO status in 2001 and then to embark on a wide range of activities for contribution. Besides the dispatch of experts, these will include the acceptance of trainees from other Asian economies for programs in Japan, improvement of living conditions in Japan for students from other Asian economies, and translation and interpretation services for Chinese and other languages. Such grassroots activities are indispensable for the growth of mutual understanding between Japan and

other Asian economies.

Japan and the rest of Asia are in the same boat and must be equal partners that deal with each other as friends and neighbors. Integrated trading firms (*sogo-shosha*) have to be opinion leaders to this end.

(7) As principals of private-sector diplomacy toward other Asian economies

Integrated trading firms ought to develop multifaceted approaches for other Asian economies with an awareness that they are the main principals in private-sector dealings with them. Japanese support for the rest of Asia will emphasize three major fields: 1) IT, 2) the environment, and 3) human resources. Integrated trading firms must determine what they can do in these fields and set about devising, proposing, and executing all kinds of ideas formulated from the perspective of other Asian economies.

Integrated trading firms are actively engaged in resident Japanese societies or chambers of commerce and industry in other Asian economies. Through such forums, they make proposals to the government of Japan and the host-country governments on commercial problems of concern to both, and also endeavor to improve the business and residential infrastructure in host countries. They also lend a hand to programs for exchange with local communities and presentations of Japanese culture in the host countries as well as presentations of host-country culture in Japan. The aforementioned NPO activities of the Council will be another arm of this quasi-diplomacy in other Asia conducted by integrated trading firms. With a determination to lead the formation of a deeper and wider relationship between Japan and other Asian economies in the 21st century through this multifaceted approach and engagement, integrated trading firms must continue to promote mutually beneficial dealings with them as partners on equal footing.

However highly developed EC becomes, there will always be problems of physical distribution. The chief prerequisite for skillful on-line business is seamless fusion with off-line business, and this is precisely where integrated trading firms come in. Prospective approaches on this front may be exemplified by the establishment of cyber markets for international commodities, construction of on-line settlement systems linking car dealers and their buyers, joint development of “smart card” systems, and management of logistics using networks.

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