

# The importance of Manufacturing FDI in industrial and economic linkage between ASEAN and Japan

Shigeki Tejima

## I. Introduction

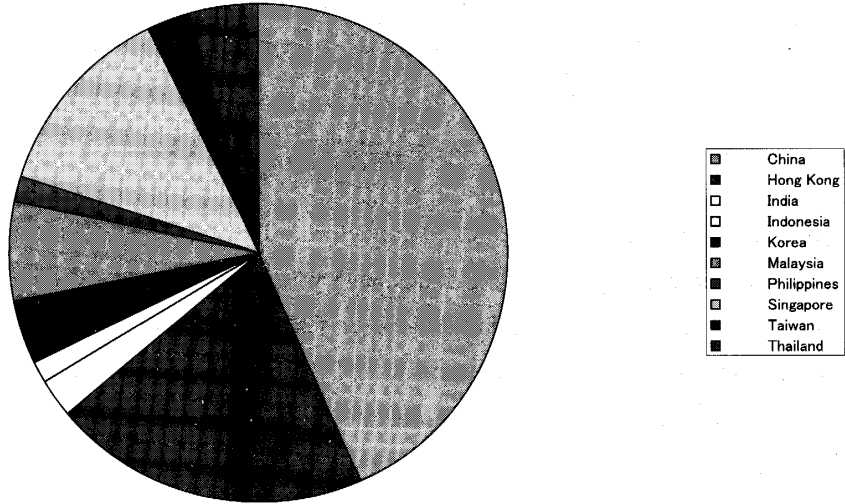
This paper will clarify the importance of Manufacturing FDI in industrial and economic linkage between ASEAN and Japan and it also indicates the issues, with which Japanese affiliates in ASEAN are facing. The ASEAN-Japan Comprehensive Economic Partnership (CEP) Framework will give positive impact on Japan's FDI through strengthening location advantage of ASEAN countries. The composition of this paper is the following. In the residual part of this session, the recent trend of Japan's FDI in ASEAN and Asia is described. Section II is regarding sales performance by category in ASEAN 4 and China. Section III is concerning business performance by Japanese affiliates located in Thailand, Indonesia and China. Section IV is some effects of manufacturing FDI in Thailand, Indonesia and China, especially in labor market. Section V is a conclusion of this paper regarding the effects of ASEAN-Japan CEP on Japan's FDI and industrial and economic linkage between ASEAN and Japan.

ASEAN countries have been continuously important host countries for Japan's FDI through the 1980s, 1990s and the early 2000s. It is noteworthy that global FDI in Asia was concentrated into China in the 1990s (Figure 1) and the early 2000s but that Japan's FDI was more diversified in ASEAN countries, including Thailand, Malaysia, Indonesia, Philippines and Singapore in the same period (Figure 2). This stably positive FDI by Japanese firms in ASEAN was based on the development of international production and sales networks of Japanese firms in those ASEAN countries.

In general, Japan's manufacturing FDI has gradually increased in the 1990s, when the Japan's total FDI and non-manufacturing FDI was fluctuated and stagnant (Figure 3). It is noteworthy that Japan's manufacturing FDI in Asia has prominently increased and mostly caught up with the value of FDI flow in North America in the late 1980s and 1990s while FDI flow in North America, which was the largest FDI destination for Japanese firms in the 1980s, was fluctuated and rather stagnant in the same period (Figure 4). Moreover, only in Asia, manufacturing FDI shared about 50% of the total while non-manufacturing FDI took the lion's share in other regions (Figure 5 and 6). It implies that FDI in Asia has a very unique characteristic, which is quite different from other regions. In addition to that, Japanese manufacturing firms' affiliates only in Asia have achieved higher sales profit ratio than Japanese firms in Japan (Figure 7). This relatively high profitability in Asian countries is quite distinguished from rather poor profitability of Japanese affiliates in North America and Europe.

Figure 1 World FDI inflow share by recipient country in Asia in cumulative total from 1980 to 2002

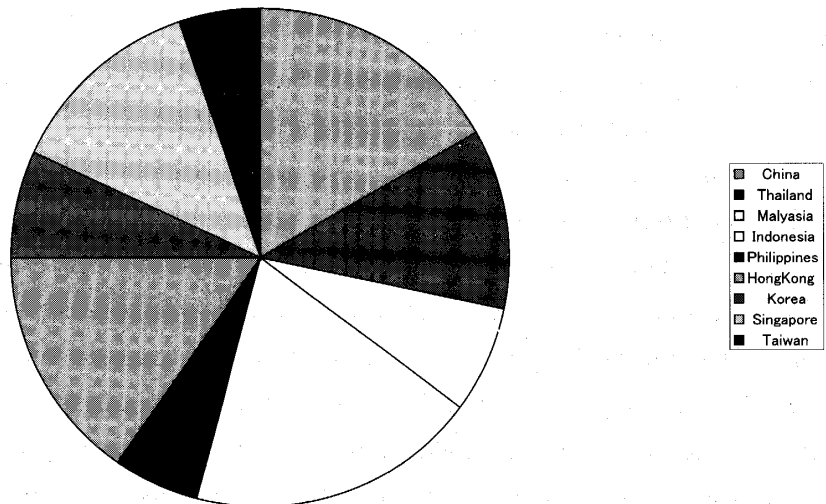
World FDI inflow to Asia in 1980 to 2002



(UNCTAD)

Figure 2 Japan's FDI flow in Asian countries in cumulative total from FY 1981 to 2002.

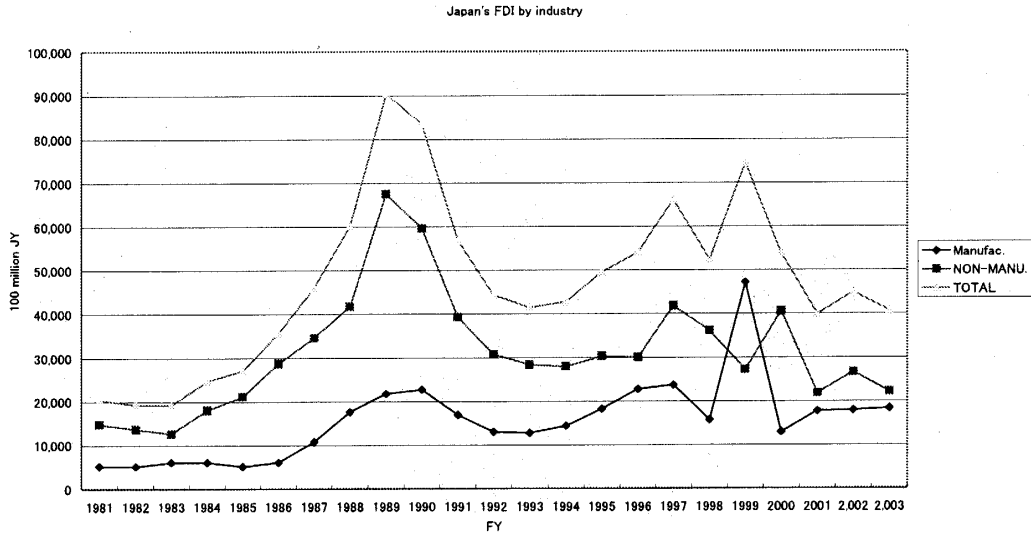
Total Japan's fdi flow in 1981-2002



(Ministry of Finance (MOF))

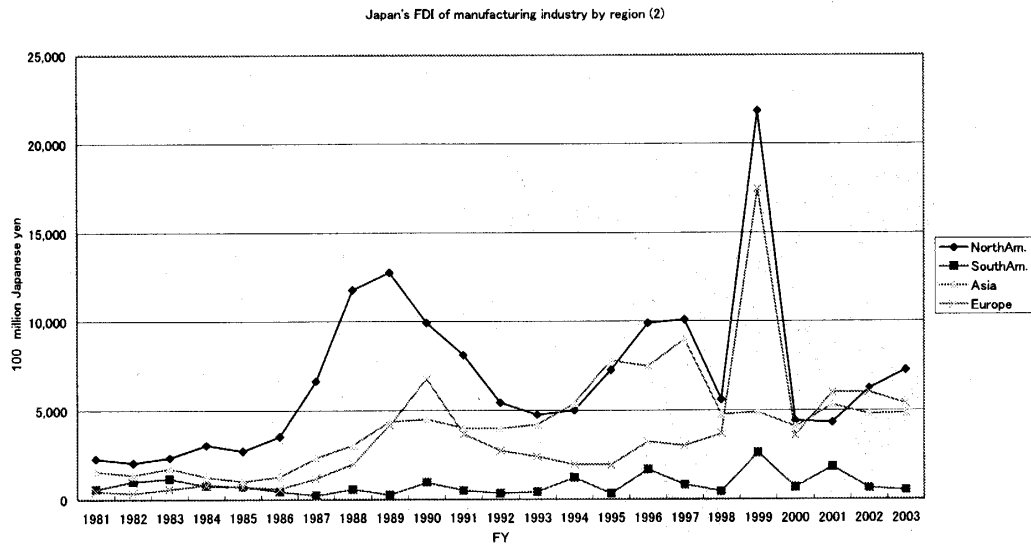
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Figure 3 Japan's outward FDI by manufacturing sector and non-manufacturing sector in FY 1981-2003.



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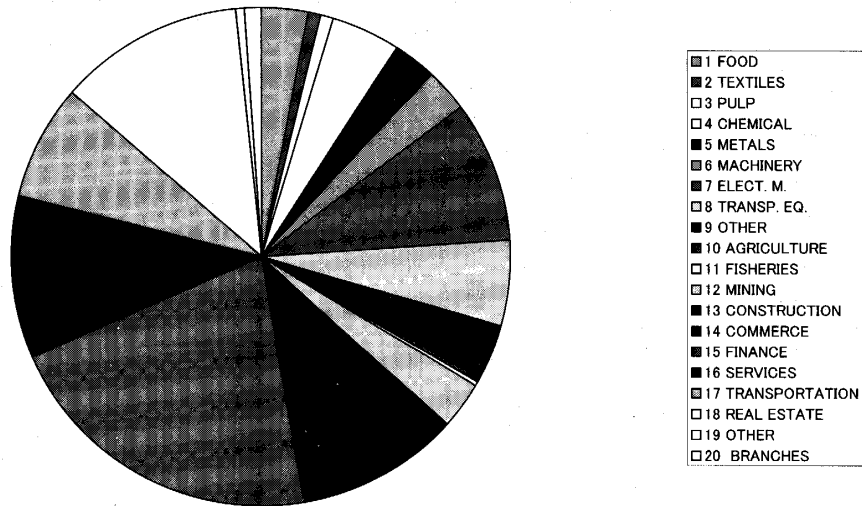
Figure 4 Japan's outward FDI of manufacturing firms by region in FY 1981-2003.



(MOF)

Figure 5 Japan's cumulative FDI from FY 1981 to 2003 by industry.

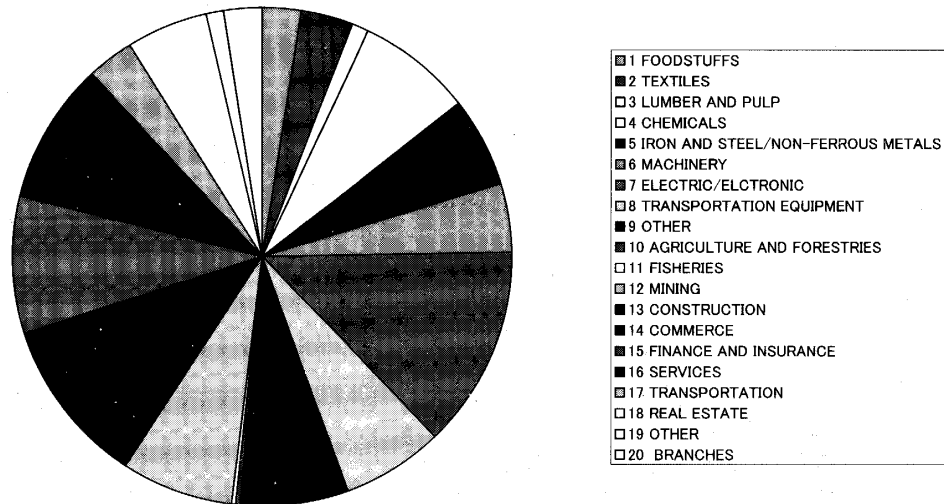
Total Japan's Cumulative FDI (1981-2003) by industry



(MOF)

Figure 6 Japan's cumulative FDI from FY 1981 to 2003 in Asia by industry

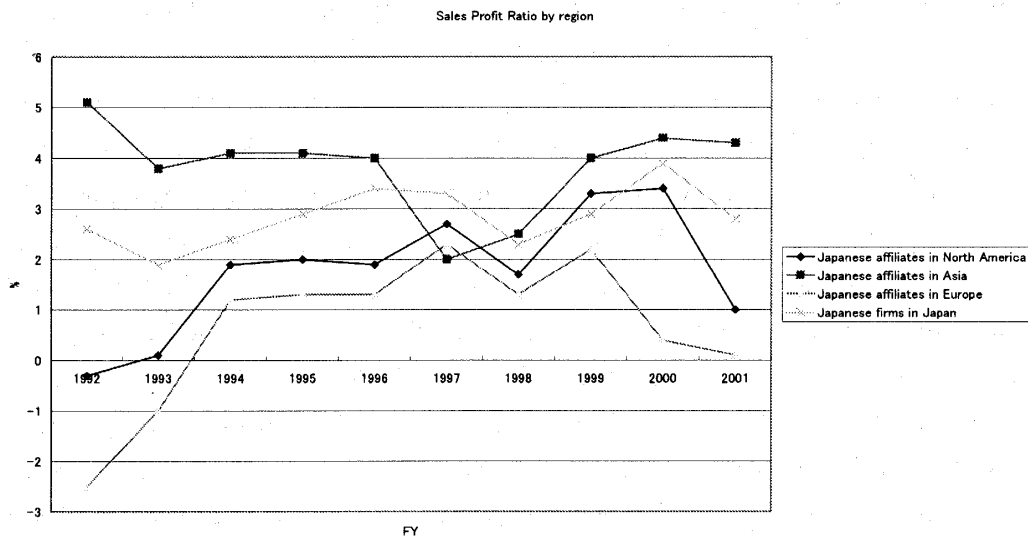
Cumulative Japan's FDI (1981-2003) in Asia by industry



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Figure 7 Sales profit ratio of Japanese affiliates by region and the ratio of Japanese firms in Japan.



Ministry of Economy, Trade and Industry (METI)

Among Asian countries, ASEAN countries have experienced prominent success, where Japanese firms have constructed effective production and sales networks spread over the region, especially electric/electronics industry and automobile industry. Their affiliates in ASEAN have achieved prominent business success, as explained in Figure 8 to 38.

However, new trend triggered by recent economic development of China have produced prominent improvement of Japanese affiliates' business performances, including sales, profit and labor productivity in China. On the other hand, Asian financial crisis damaged considerably business performance of Japanese affiliates in ASEAN countries. Therefore, China and ASEAN countries are now in very severe competition as host countries of inward FDI. They are rivals regarding competitive advantage of host countries.

For example, Japan's electric/ electronics industries, including information, communication technology (ICT) products, have constructed international production and exporting bases in ASEAN, many of which produce standardized "global products" to the world market, while they have constructed their production bases of "specified products" responding to the local taste of ASEAN markets. Regarding the former products, international production and sales networks of Japanese firms in ASEAN countries will be extended in future from ASEAN to the wider Asian region, including ASEAN, Japan, China and other Asian countries, reflecting economic and industrial development of those countries and accelerated liberalization of trade and investment regime in Asian region.

## II. Sales performance by category by Japanese affiliates located in ASEAN 4 and China, including and excluding Hong Kong

### (2.1) All industry

Japanese firms' affiliates located in Asia, especially in ASEAN, which were based on the past Japan's FDI in Asia described in the previous section, have achieved prominent performance in sales, profit and labor productivity. They produced strongly tightened economic and industrial linkage between Asian countries and

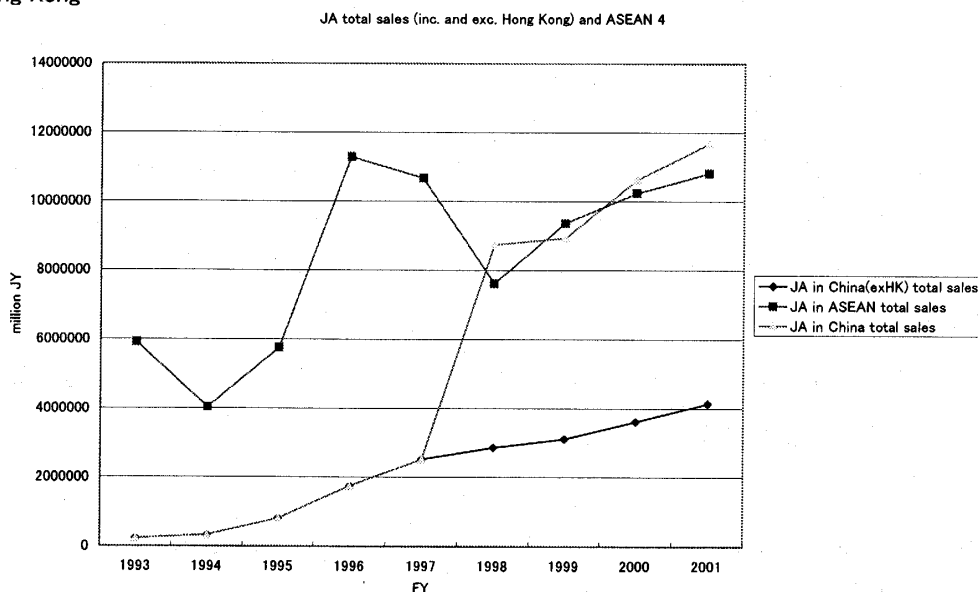
Japan. A comparison of the past sales performances in detail by Japanese affiliates located in ASEAN 4 (Malaysia, Thailand Indonesia and Philippines) with that in China indicates the historical trend of the linkage among them. Figure 8 gives us a comparison of Japanese affiliates' total sales value of all industry in ASEAN 4 with that in China, including and excluding Hong Kong. First, it indicates high growth of Japanese affiliates' sales in China, including Hong Kong, in the late 1990s and declining sales performance in ASEAN in the same period, which was caused by Asian financial crisis. Second, it shows us mostly same level of the sales of Japanese affiliates in ASEAN to that in China, including Hong Kong, in FY 1999 and 2000. It means that, in general, the motivation of Japanese firms for "market-seeking FDI" was strengthened in China, including Hong Kong, up to the mostly same level to that in ASEAN in FY 1999 and 2000. On the other hand, total sales value of Japanese affiliates in China, excluding Hong Kong indicated only modest increase and it was still far smaller than that in ASEAN 4.

Sales value by category of Japanese affiliates in ASEAN 4 and China gives us other pictures. Figure 9 indicates that we can find the mostly similar trends of local sales for host country's market in ASEAN 4 and in China, including Hong Kong, to the trends of total sales. On the other hand, local sales value of Japanese affiliates in China, excluding Hong Kong indicated only modest increase and it was still far smaller than that in ASEAN 4.

It is noteworthy that ASEAN-4 based Japanese affiliates' export to Japan has been already exceeded by that located in China, including Hong Kong (Figure 10). On the other hand, export to Japan, excluding Hong Kong, was rather modest in the case of Japanese affiliates located in China.

Export to third countries by the affiliates in ASEAN 4 has been mostly caught up with that in China, including Hong Kong (Figure 11). Again, that in China, excluding Hong Kong, was rather moderate. Japanese firms have established effective production and sales networks in ASEAN 4 in the 1980s and the 1990s, many of which are export bases to Japan and third countries. Now, the networks in ASEAN are in the severe competition with China, including Hong Kong, especially, regarding export to Japan.

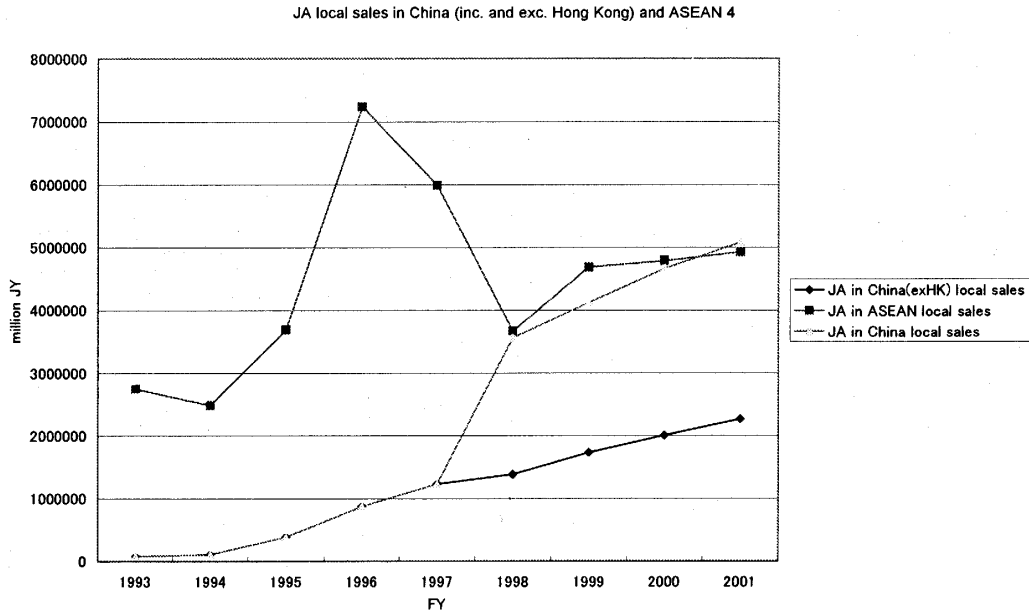
Figure 8 Japanese affiliates' total sales of all industry in ASEAN 4 and China, including and excluding Hong Kong



(METI)

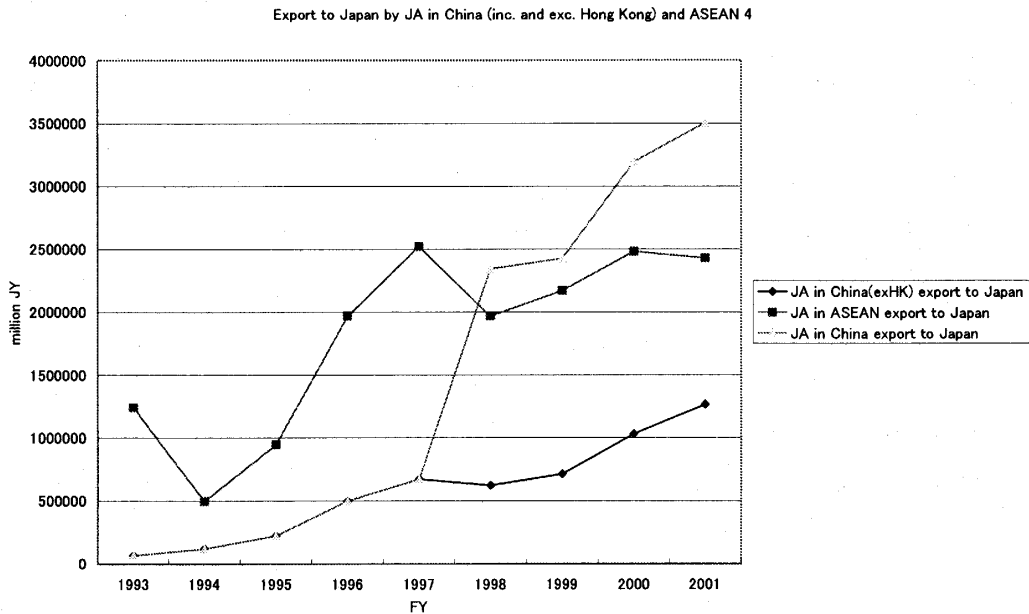
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Figure 9 Japanese affiliates' sales of all industry for local markets in ASEAN 4 and China, including and excluding Hong Kong



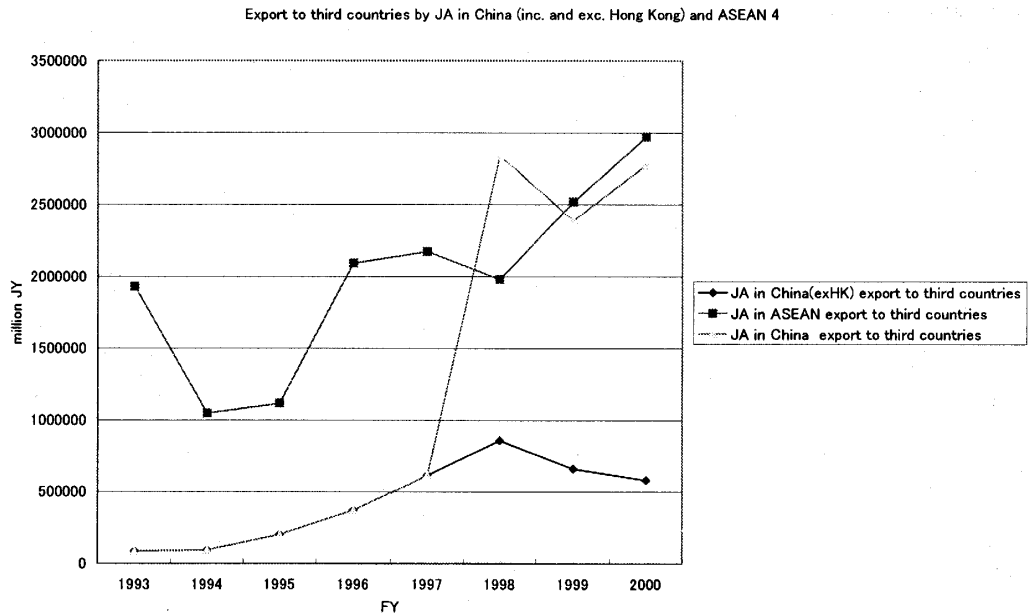
(METI)

Figure 10 Export to Japan by Japanese affiliates of all industry located in ASEAN 4 and China, including and excluding Hong Kong



(METI)

Figure 11 Export to third countries by Japanese affiliates of all industry located in ASEAN 4 and China, including and excluding Hong Kong

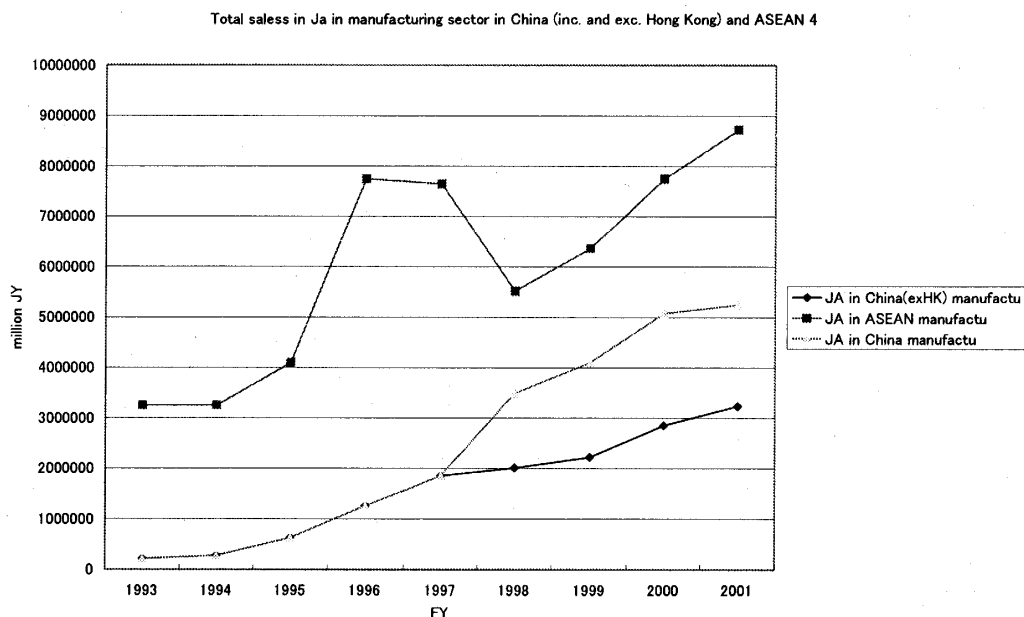


(METI)

(2.2) All manufacturing sectors

Japanese affiliates' total sales value in all manufacturing sectors in ASEAN was still larger than that in China, even including Hong Kong, in FY1998, 1999 and 2000 (Figure 12). Local sales by Japanese affiliates in ASEAN was mostly caught up with that in China, including Hong Kong but ASEAN based affiliates' export to Japan and to third countries seem to have enough competitiveness against that in China, even including Hong Kong.

Figure 12 Japanese affiliates' total sales of all manufacturing industries in ASEAN 4 and China, including Hong Kong



(METI)



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(2.3) Electric/electronics industry

If we focus on electric/electronics industry, which is the manufacturing industry of the largest cumulative FDI value (Figure 6), we find one distinguished characteristic in Figure 14. Figure 14 shows us that the local market in China, including Hong Kong, has already grown up to the larger market for Japanese electric/electronics affiliates than four ASEAN countries. If we take Japanese affiliates' sales performance in China, excluding Hong Kong, the sales performance was moderate in comparison with that in ASEAN 4, but it has gradually caught up with that in ASEAN 4.

Figure 13 Japanese affiliates' total sales of electric/electronics industry in ASEAN 4 and China, including and excluding Hong Kong

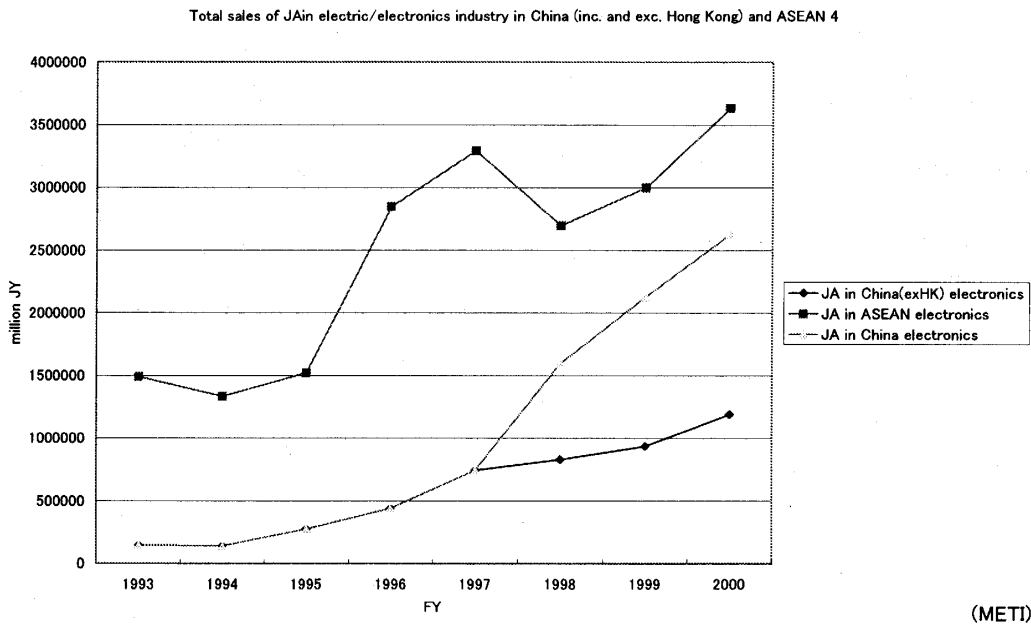
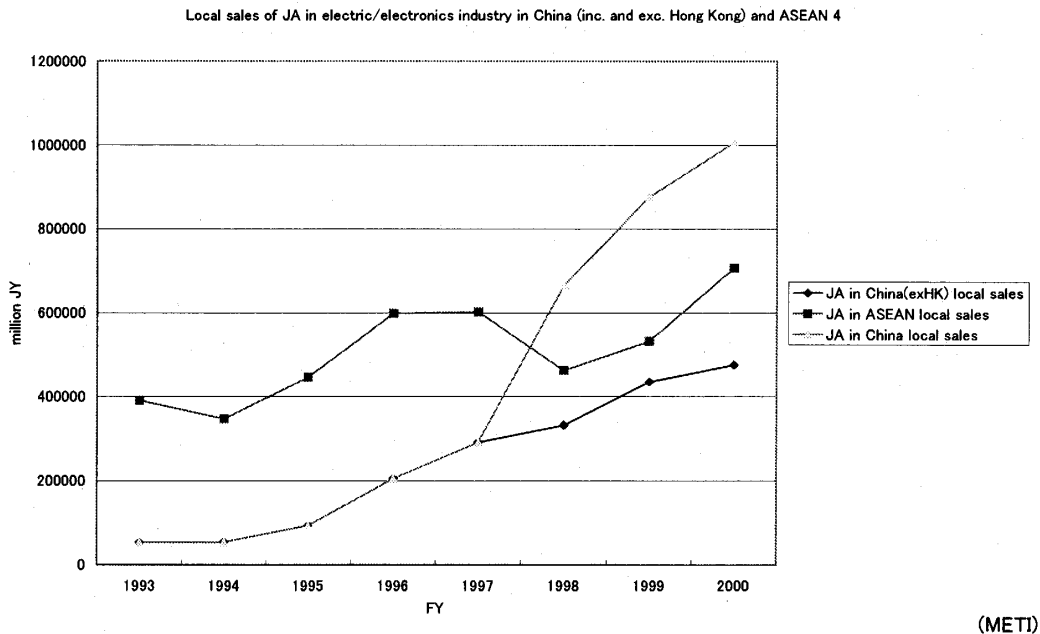


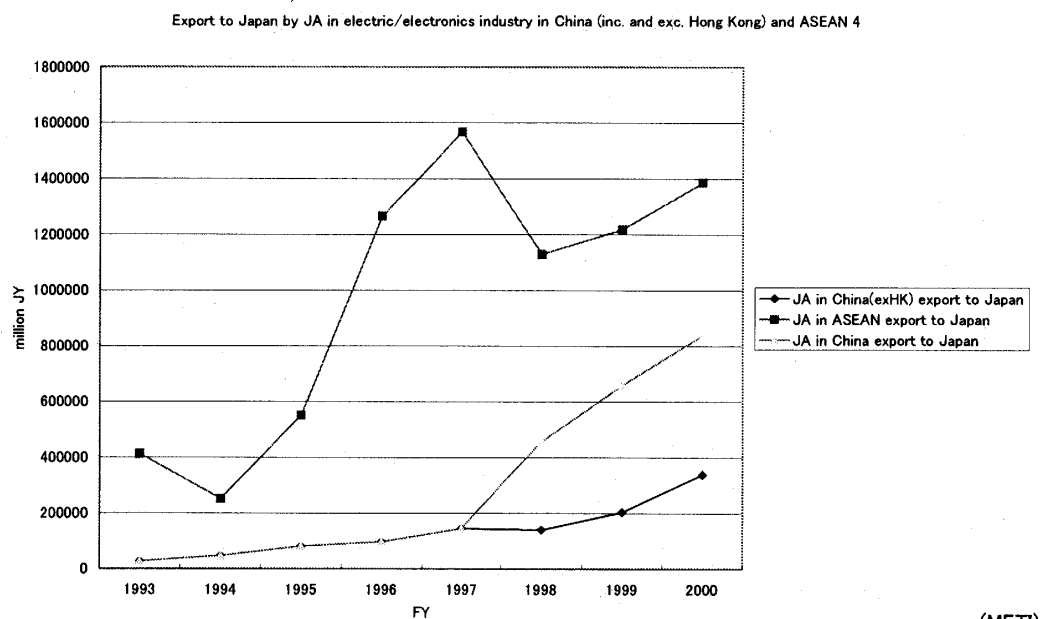
Figure 14 Japanese affiliates' sales for local market of electric/electronics industry in ASEAN 4 and China



Anyway, Figure 14 shows us location advantage of China is prominently strengthened in the growing local market in both cases of including Hong Kong and excluding Hong Kong in electric/electronics industry while the advantage of ASEAN 4 was severely damaged by Asian financial crisis.

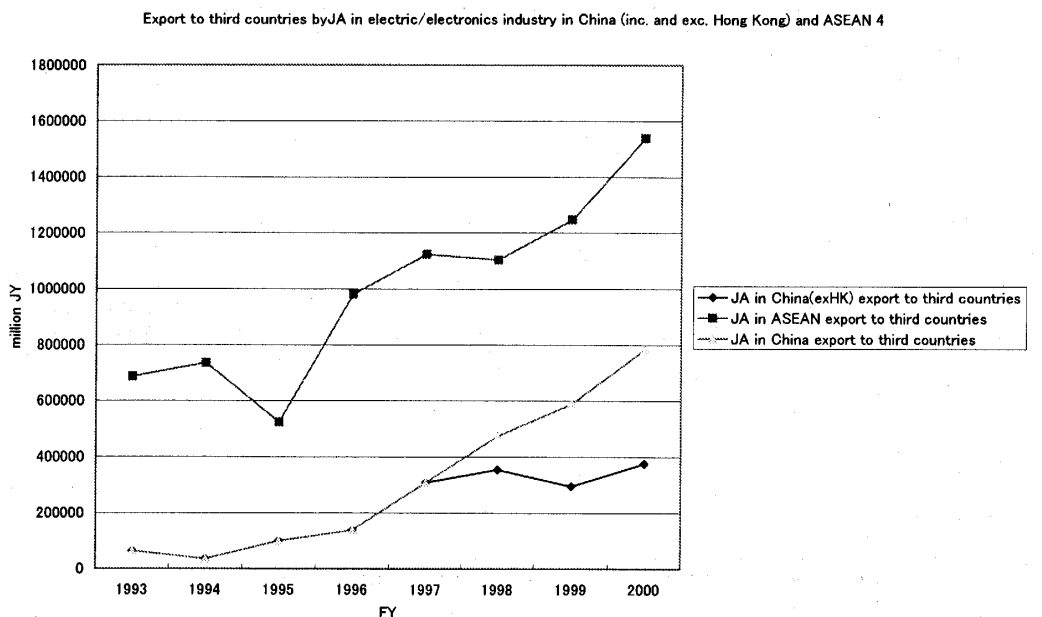
On the other hand, total sales of Japanese affiliates in that industry in China, including Hong Kong, was smaller than that in ASEAN 4 (Figure 13). Especially, regarding export to Japan and export to third countries, Japanese affiliates in ASEAN are still competitive in comparison with them in China, including Hong Kong (Figure 15 and 16).

Figure 15 Export to Japan by Japanese affiliates of electric/electronics industry located in ASEAN 4 and China, including and excluding Hong Kong



(METI)

Figure 16 Export to third countries by Japanese affiliates of electric/electronics industry located in ASEAN 4 and China



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Above all, export capability of Japanese affiliates to third countries in ASEAN 4 in the electric/electronics industry has been scarcely suffered from Asian financial crisis.

In a word, ASEAN 4 could have enough location advantages of production bases in the electric/electronics industry if they can recover its local market fully from the damage of Asian financial crisis and if they can reinforce the export bases to Japan

(2.4) Transportation equipment industry

As indicated in Figure 17, Japan's FDI in transportation equipment industry was more stagnant than the

Figure 17 Japanese major manufacturing sectors' FDI in China

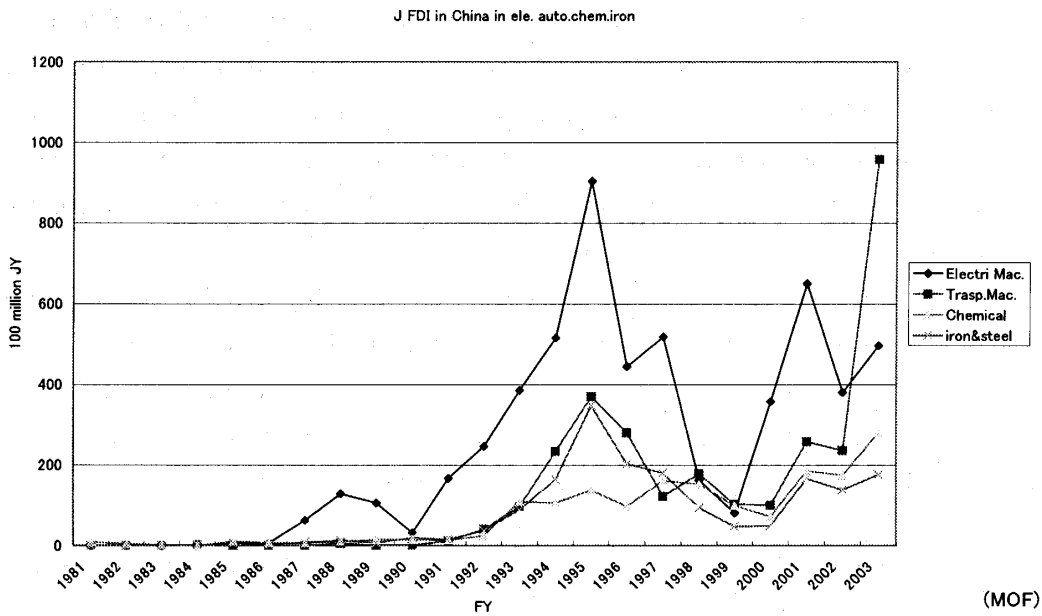
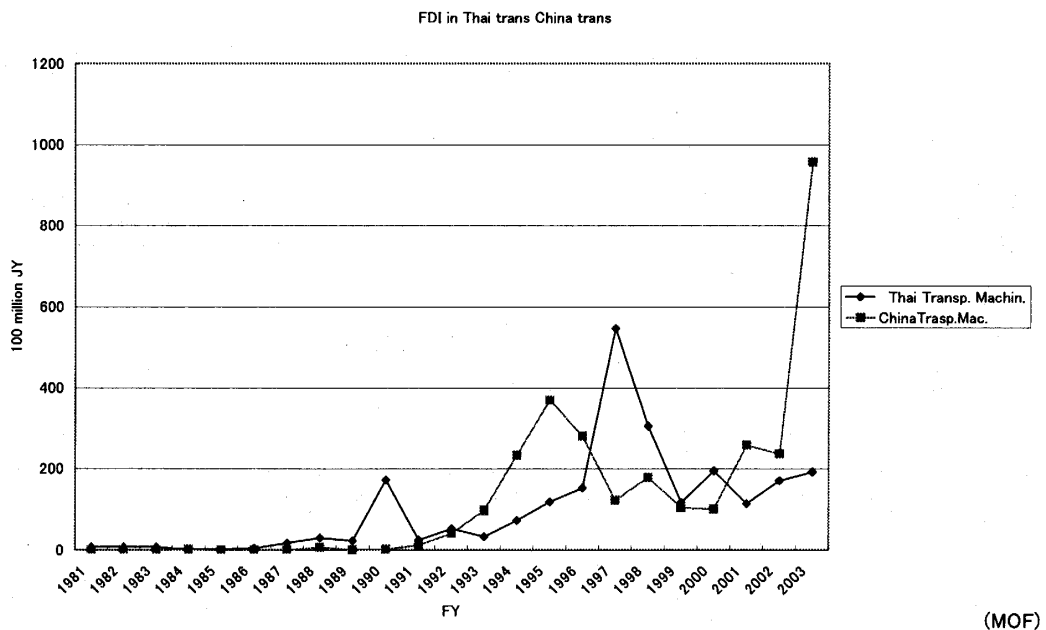


Figure 18 Japanese transportation equipment industry's FDI in Thailand and China

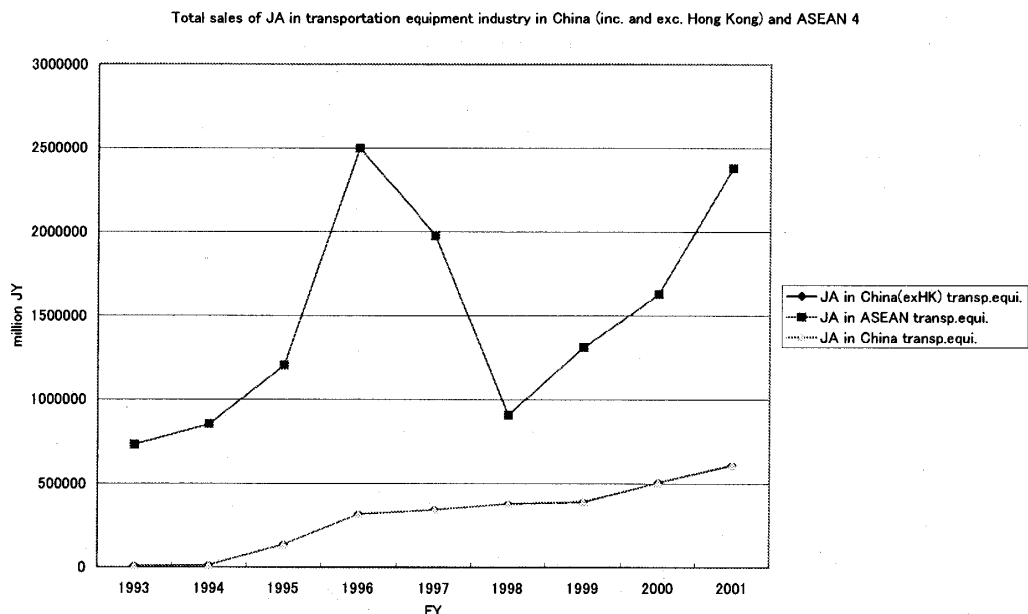


FDI in electric/electronics industry in China in the 1990s and, as explained in Figure 18, Japan's FDI in transportation equipment industry in China was less vigorous than the industry's FDI in ASEAN 4 in the same period although the former jumped to extraordinary level in FY 2003. Naturally, Japanese affiliates' sales performance in China, including Hong Kong, is still far below the level in ASEAN 4 in the transportation equipment industry (Figure 19, 20, 21 and 22). The sales in China, excluding Hong Kong, give us actually same picture to us because automobile business of Japanese affiliates in Hong Kong is mostly negligible.

Total sales performance of Japanese affiliates in China, including Hong Kong, was rather stagnant and it did not reached the sales level of Japanese affiliates in ASEAN 4 although total sales in ASEAN 4 was damaged severely by Asian crisis (Figure 19). Regarding sales for local market, Japanese affiliates' sales in China, including Hong Kong, could not reach the recent bottom of Japanese affiliates' sales in ASEAN 4 in FY 1998 in Figure 20. After that, the difference between both parties' sales has expanded. The difference between both parties was more prominent in the case of export to Japan and export to third countries (Figure 21 and 22). It means that Japanese affiliates in transportation equipment industry in ASEAN 4 have preserved prominent competitiveness as export bases to Japan and to third countries in comparison with those in China, including Hong Kong (Figure 21 and 22).

Prominently high growth of Japan's FDI in China in the 2000s shall produce accelerated domestic sale of Japanese affiliates in China in near future. However, Japanese affiliates' export capability in ASEAN 4 will be preserved and strengthened in future because positive FDI policy by Japanese automobile firms has been continuously achieved. The FDI in Thailand was intended to construct export bases in ASEAN 4 through developing some types of "global car" made in Thailand to the world market.

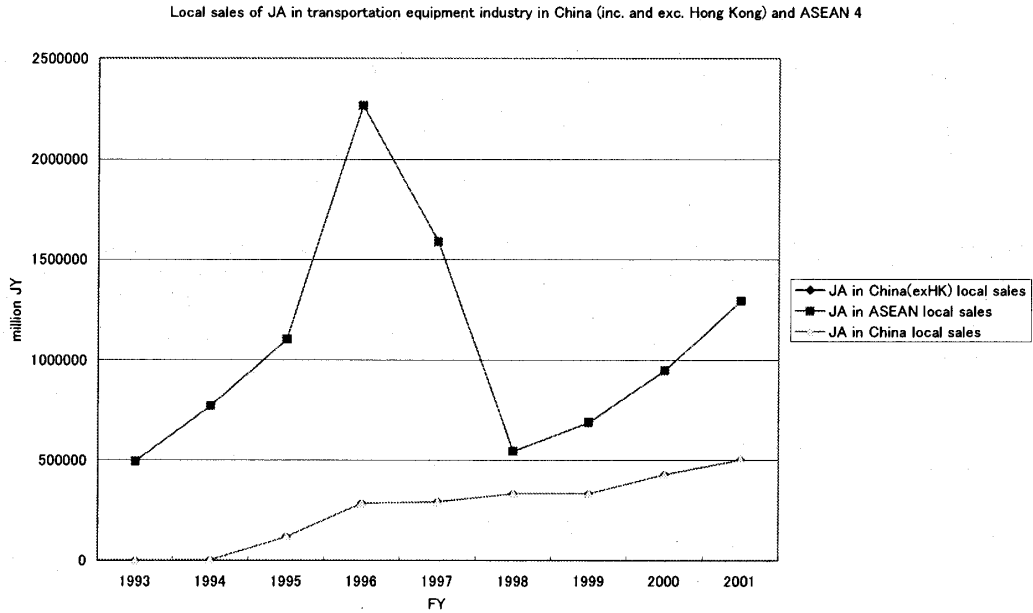
Figure 19 Japanese affiliates' total sales of transportation equipment industry in ASEAN 4 and China



(METI)

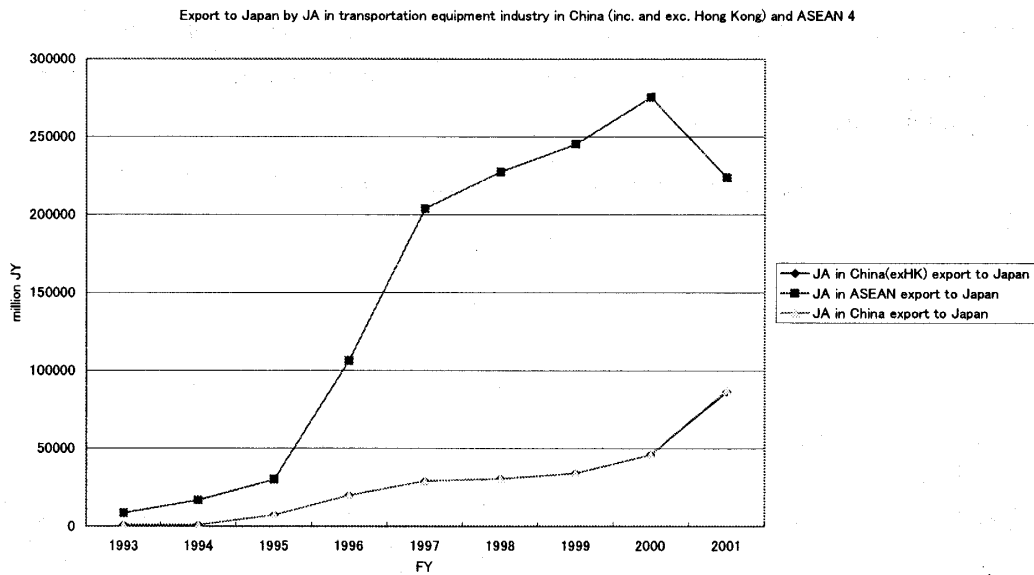
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Figure 20 Japanese affiliates' sales for local market of transportation equipment industry in ASEAN 4 and China, including and excluding Hong Kong



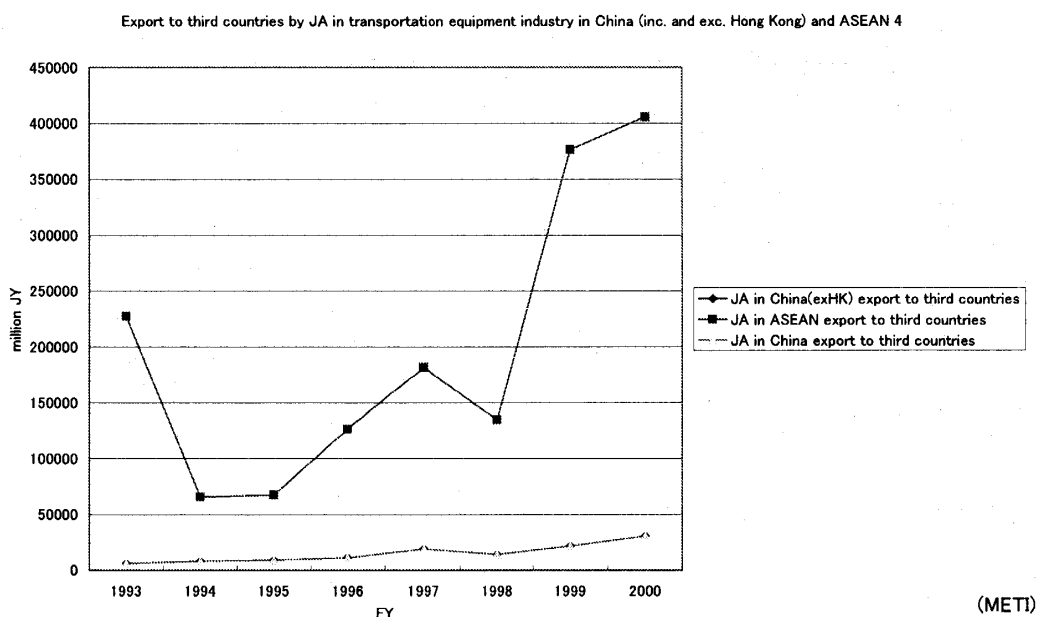
(METI)

Figure 21 Export to Japan by Japanese affiliates of Transportation equipment industry located in ASEAN 4 and China, including and excluding Hong Kong



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Figure 22 Export to third countries by Japanese affiliates of Transportation equipment industry located in ASEAN 4 and China, including and excluding Hong Kong

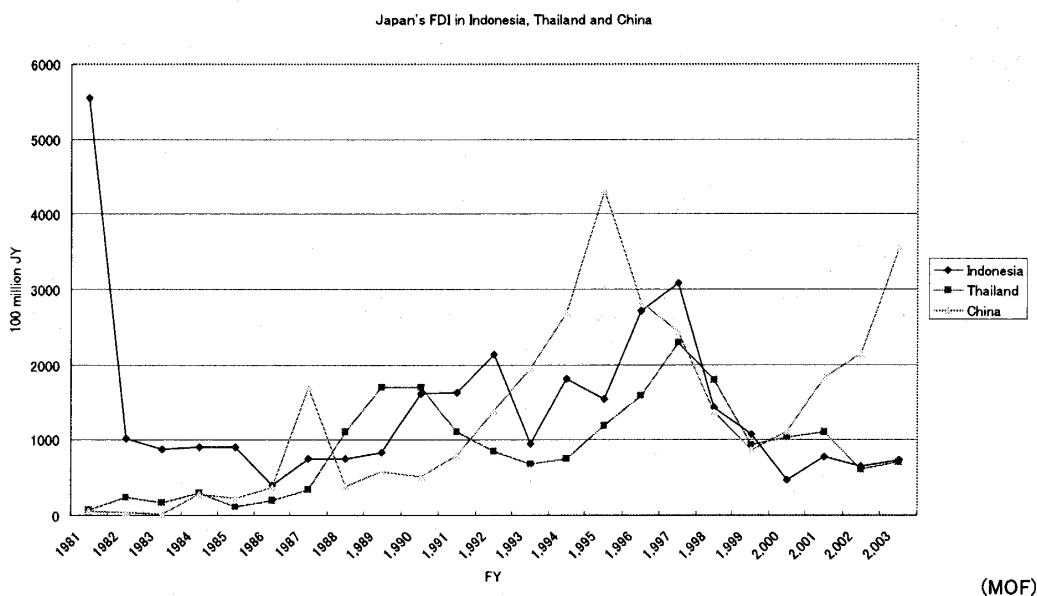


### III. Business performance by Japanese affiliates located in Thailand, Indonesia and China

#### (3.1) Recent trend of Japan's FDI in Thailand, Indonesia and China

It is noteworthy that accelerated development of location advantage of China has rapidly caught up with that of ASEAN countries, according to the sales performance of Japanese affiliates located in ASEAN 4 and China in previous section. If we see the case of Thailand and Indonesia in comparison with China, the changing situation is quite clear. In the 1980s and 1990s, Thailand and Indonesia were in the rival position with China regarding Japan's FDI (Figure 23).

Figure 23 Japan's FDI in Indonesia, Thailand and China



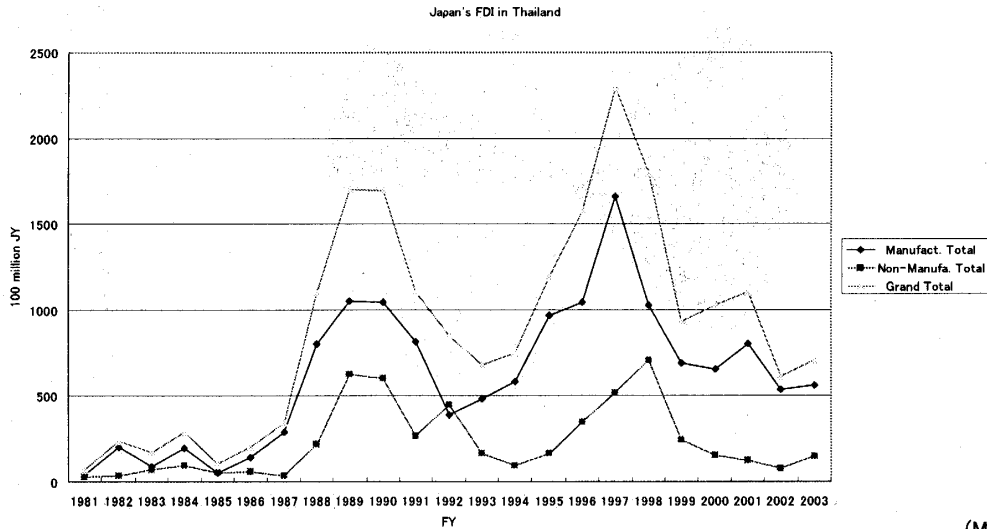
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Japan's FDI in the two ASEAN countries were stagnant in the early 1990s while that in China was accelerated. In FY 1996 and 1997 Japan's FDI in China was in the declining trend while that in Thailand and Indonesia was increased although those two countries were in the disastrous Asian financial crisis in those years. In the early 2000s, Japan's FDI in China was re-increased in accelerated pace while that in Thailand and Indonesia was still stagnant.

Among three countries, Japan's FDI in Thailand and China has similar characteristics and a similar composition by industry. Regarding the time series trend, Figure 24 shows that Japan's FDI in Thailand has two peaks, one of which was in the 1980s and another one was in the 1990s. Regarding the composition by industry, the majority of annual FDI in Thailand was implemented in manufacturing sector.

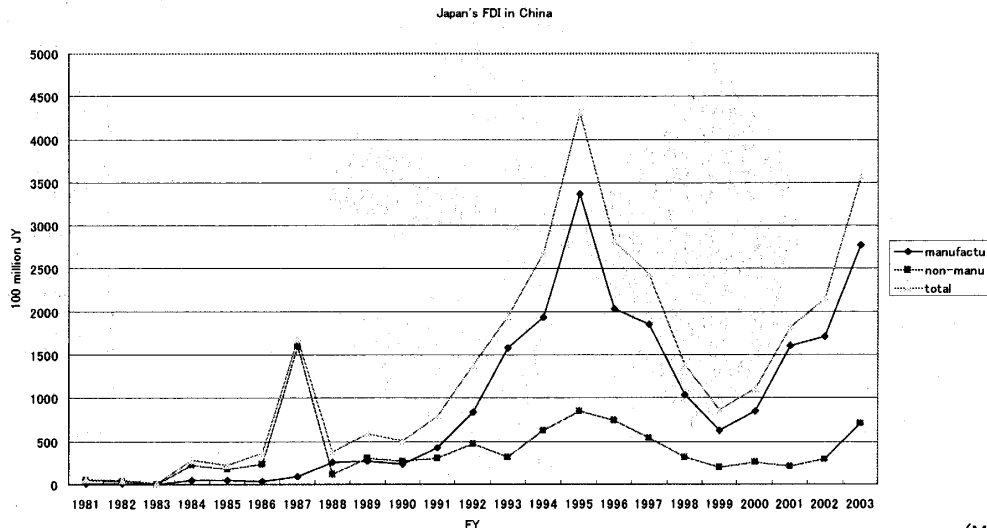
On the other hand, Japan's FDI in China also had two peaks although the second peak in FY 1995 was far higher than the first peak in the 1980s (Figure 25). Concerning the composition by industry, the majority of annual FDI flow in China was implemented in the manufacturing sector, too.

Figure 24 Japan's FDI in Thailand by manufacturing and non-manufacturing sectors



(MOF)

Figure 25 Japan's FDI in China by manufacturing and non-manufacturing sectors



(MOF)

It is noteworthy that FDI fluctuation of the two countries happened with one or two years time lag, which suggests that competition for inward FDI between them have happened.

If we are focusing on the cumulative FDI from FY 1981 to 2003, we find that both Japan's FDI in Thailand and in China have similar characteristics in common (Figure 26 and 27). First, in the two countries, FDI in manufacturing sectors share more than 60% of the total cumulative FDI. Second, in both countries, manufacturing FDI was diversified to electric/electronics industry, transportation equipment industry, chemical industry etc. Third, among the various industries, electric/electronics industry was commonly the largest recipient sector in Thailand and China. The second largest was the transportation equipment industry in two countries.

Figure 26 Japan's cumulative FDI (FY 1981 to 2003) in Thailand by industry

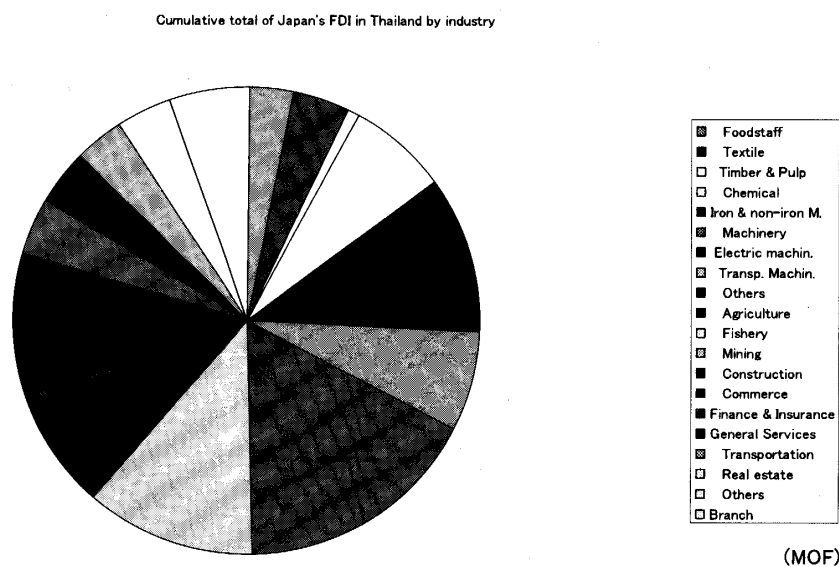
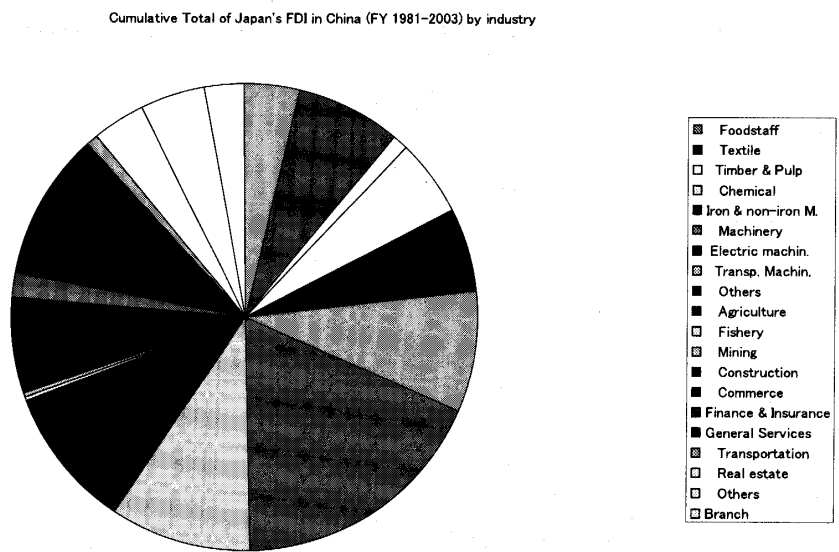


Figure 27 Japan's cumulative FDI (FY 1981 to 2003) in China by industry





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However, higher share in Thailand than in China can be found in transportation equipment industry, which reflects higher importance of automobile business in Thailand for Japanese firms than in China. Japanese car-makers have obtained majority share in Thai automobile market and other ASEAN markets. Moreover, as explained before, Japanese automobile firms and their affiliates in Thailand have constructed export bases of a type of "global car" to the world market, which will strengthen export capability of Thai automobile industry.

On the other hand, Japan's automobile business in China is still in the initial stage and it is expected that Japanese automobile firms will expand their production and sales mainly for local markets in near future.

### (3.2) Sales performance of Japan's FDI in three countries

It is generally recognized that FDI motivations in manufacturing sectors are, first, preserving and developing market ("market-seeking FDI"), second, seeking lower production cost ("efficiency-seeking FDI") and, third, seeking natural resource and materials ("resource-seeking FDI").

Reflecting those motivations, Japanese affiliates' business performance in ASEAN countries and China can give us some future prospects for FDI as well as basic information regarding the current economic and industrial linkage between ASEAN and Japan.

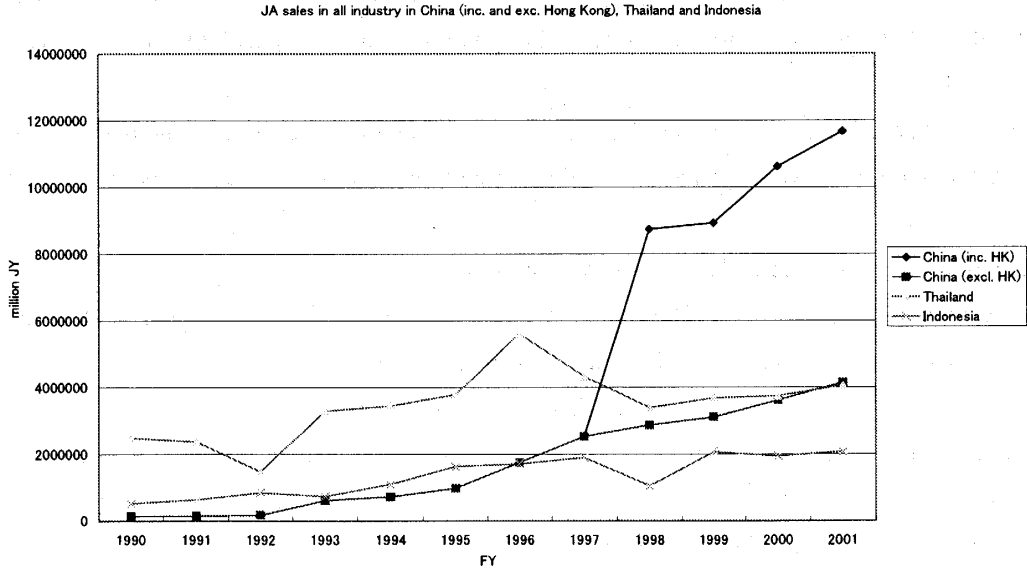
We compare, first, the sales performance, which is deeply related to "market-seeking FDI", second, the profitability, which stimulates both "market-seeking FDI" and "efficiency-seeking FDI" and, third, labor productivity, which produces "efficiency-seeking FDI" for Thailand, Indonesia and China.

First, Figure 28, 29 and 30 show us the sales performance of Japanese affiliates in the three countries, respectively, in all industry, electric/electronics industry and transportation equipment industry. It is clear that Japanese affiliates' sales performance in China, including Hong Kong, in all industry was less than their sales performance in Indonesia before FY 1997 and less than their sales performance in Thailand before FY 1998 (Figure 28). It is noteworthy that their sales performance in China, including Hong Kong, expanded dramatically in FY 1998 while their performance in Thailand and Indonesia was damaged by Asian financial crisis. The growth of sales performance in China, excluding Hong Kong, was more moderate and its sales value reached that in Thailand in FY 2001.

Figure 29 and Figure 30 indicate the specified characteristic of electric/electronics industry and transportation equipment industry, respectively. Japanese firms have traditionally constructed effective production sales networks in Thailand for local sales and export market in electric/electronics industry. However, their sales performance was overcome by the accelerated sales performance of Japanese firms in China, including or excluding Hong Kong, since FY 1998 because of damaged ASEAN economies through Asian financial crisis (Figure 29).

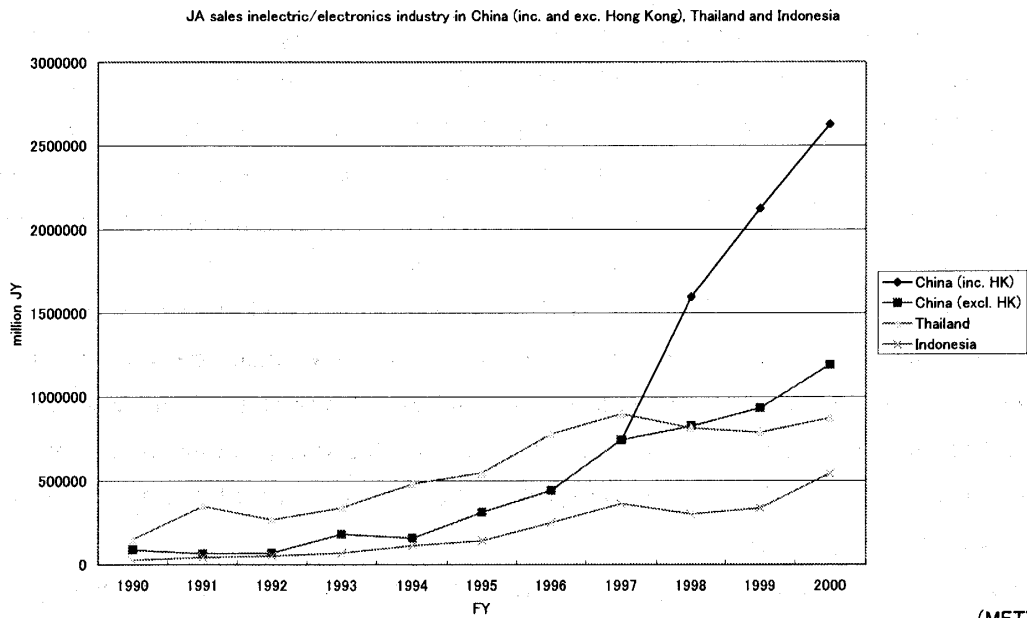
On the other hand, Japanese affiliates' sales performance in transportation equipment industry in Thailand is still more advantageous position than the performance in China although Japanese affiliates' performance in Thailand was severely damaged by Asian financial crisis (Figure 30). Their performance in Indonesia recovered to the similar level of China after Asian crisis since FY 2000. This relatively advantageous position of Japanese affiliates in Thailand and Indonesia informs us the importance of automobile business in ASEAN countries for Japanese automobile industry.

Figure 28 Japanese affiliates' sales performance in Thailand, Indonesia and China (including and excluding Hong Kong) in all industry



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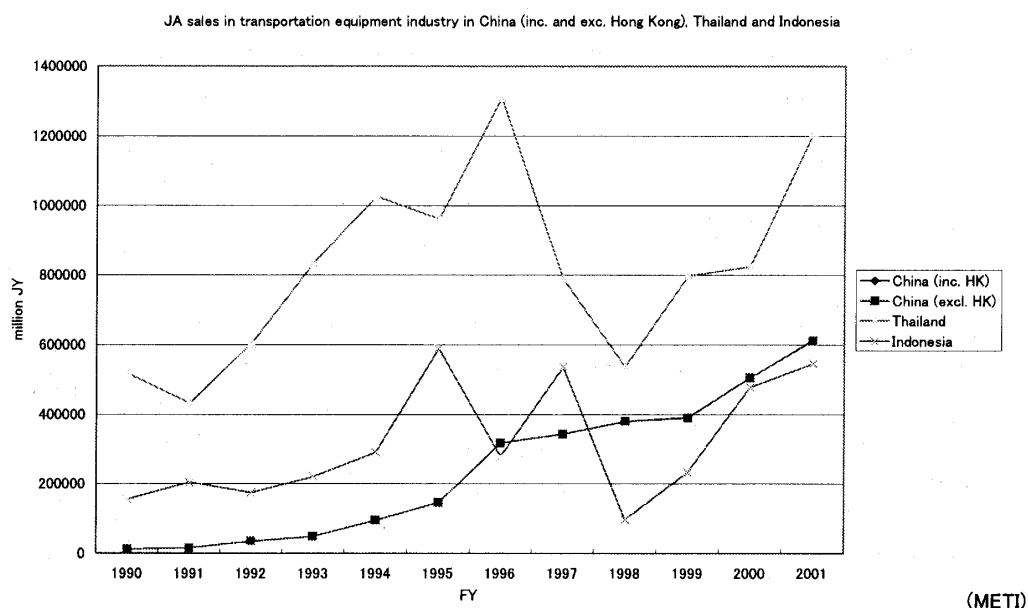
Figure 29 Japanese affiliates' sales performance in Thailand, Indonesia and China, including and excluding Hong Kong, in electric/electronics industry



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Figure 30 Japanese affiliates' sales performance in Thailand, Indonesia and China, including and excluding Hong Kong, in transportation equipment industry



### (3.3) Profit performance of Japan's FDI in three countries

Regarding profit performance, we compare sales profit ratio of Japanese affiliates in Thailand, Indonesia and China, including Hong Kong, (Figure 31, 32 and 33). Annual questionnaire survey by Japan Bank for International Cooperation (JBIC) continuously indicates that Japanese affiliates' profitability in ASEAN countries is higher than that in China. Figure 31 indicates that Japanese affiliates' sales profit ratios in Thailand and Indonesia was more changeable and more fluctuating than the sales profit ratio in China. Certainly, the sales profit ratios in Thailand in the late 1990s was higher than the ratio in China except FY 1997 and the ratio in Indonesia was higher than China except FY 1998. On the other hand, the sales profit ratio in China, including or excluding Hong Kong, has re-increased since FY 1999 while the sales profit ratio in Thailand indicates recovery only in FY 2000 and that in Indonesia declined in FY 2000.

Japanese affiliates' sales profit ratio of electric/electronics industry in the three countries has a little different characteristic from the sales profit ratio in all industry (compare Figure 32 with Figure 31). The industry's sales profit ratio in China, including Hong Kong, was higher than that in Indonesia through most of the period but it was lower than that in Thailand. The sales profit ratio in China, including Hong Kong, and that in Thailand were mostly in the same level in FY 1999 and 2000, while the sales profit ratio in China, excluding Hong Kong, was lower than them in FY 1998 and 1999.

Japanese automobile industry has experienced severe damage of their affiliates' sales profit ratio in FY 1997 and 1998 in Thailand and Indonesia because of Asian financial Crisis while the same industry in China, including or excluding Hong Kong, raised continuously their sales profit ratio (Figure 33).

Figure 31 Japanese affiliates' sales profit ratio in Thailand, Indonesia and China, including and excluding Hong Kong, in all industry

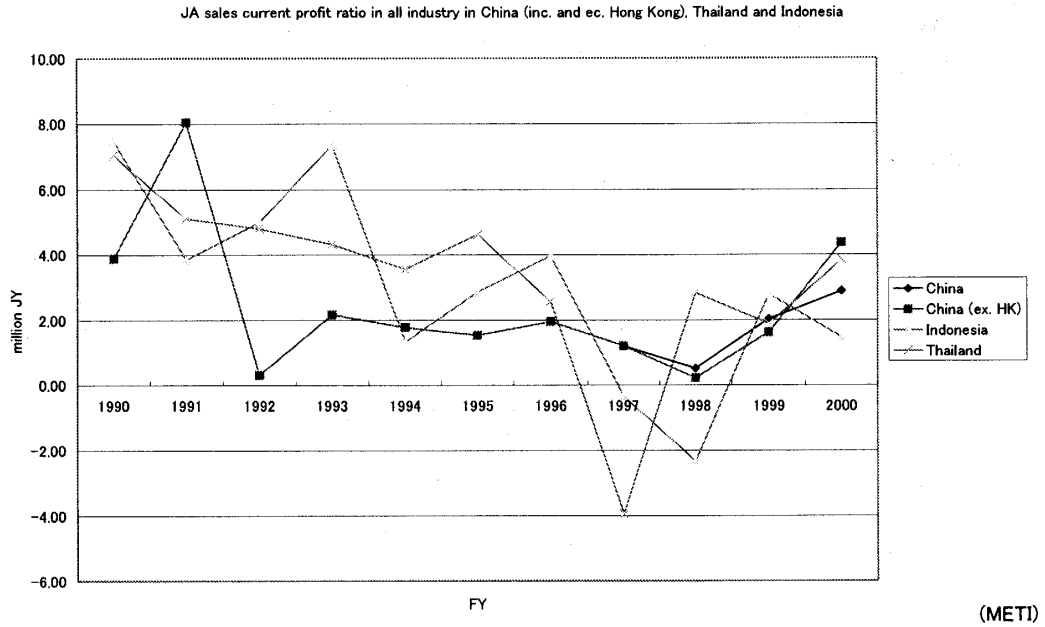
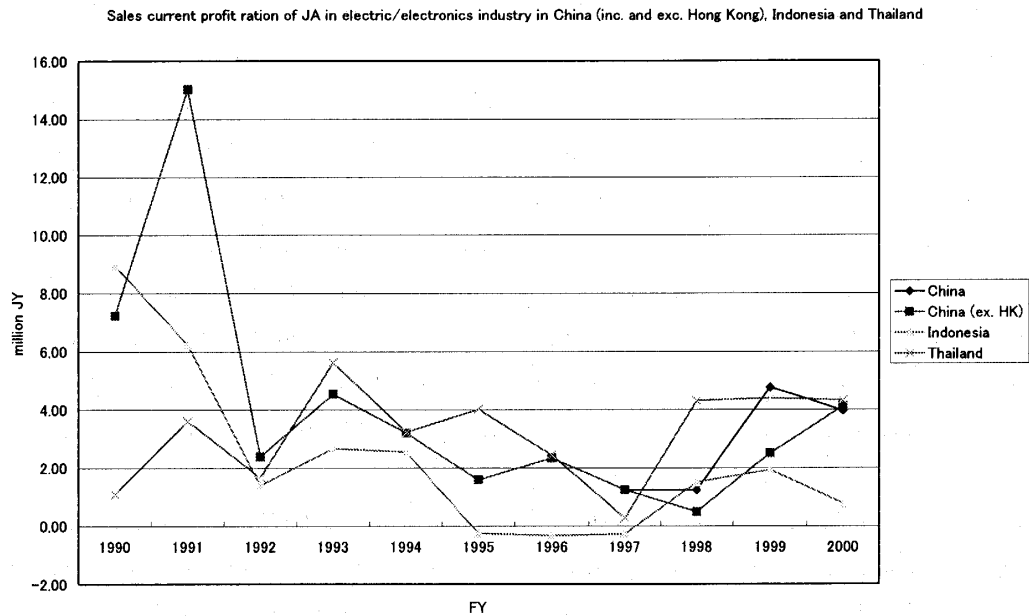
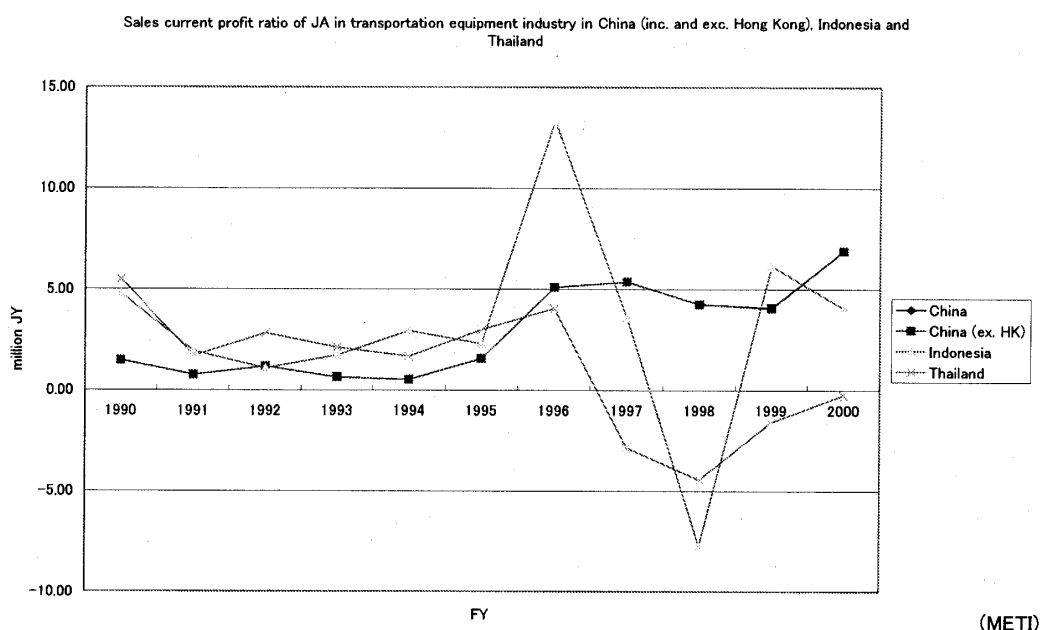


Figure 32 Japanese affiliates' sales profit ratio in Thailand, Indonesia and China, including and excluding Hong Kong, in electric/electronic industry



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Figure 33 Japanese affiliates' sales profit ratio in Thailand, Indonesia and China, in Transportation equipment industry



#### (3.4) Labor productivity of Japan's FDI in three countries

Regarding labor productivity of Japanese affiliates in Thailand, Indonesia and China, including or excluding Hong Kong, we find that the labor productivity in Thailand and Indonesia were higher than that in China in the beginning of and mid-1990s while the labor productivity in China, including Hong Kong, exceeded those in Thailand and Indonesia in the late 1990s and FY 2000 because of accelerated growth of the productivity in China, including Hong Kong, in the late 1990s (Figure 34).

However, labor productivity of Japanese affiliates in China, excluding Hong Kong, indicates only moderate increase in the late 1990s and FY 2000.

The trend of labor productivity in the three countries in the electric/electronics industry was mostly same to the trend in all industry although the productivity growth in China, including Hong Kong, was more prominent in the electric/electronics industry than in all industry (Figure 35). Prominent improvement of Japanese affiliates' sales and profit performance were closely linked to increasing labor productivity in the electric/electronics industry in China, including Hong Kong, where aggressive Japan's FDI in the 1990s produced growing sales, profit performance and labor productivity through new investment in the new production facilities, in which new technology was embodied.

However, labor productivity of Japanese affiliates in China, excluding Hong Kong, was stagnant in the late 1990s and FY 2000.

Transportation equipment industry's labor productivity of Japanese affiliates in Thailand and Indonesia was fluctuated so drastically in the late 1990s while the labor productivity in China, including or excluding Hong Kong, was in a moderate upward trend (Figure 36). Asian financial crisis damaged sales performance and labor productivity of Japanese affiliates in Thailand and Indonesia while moderate FDI in China in the late 1990s caused moderate growth of labor productivity in China.

Figure 34 Japanese affiliates' labor productivity in Thailand, Indonesia and China, including and excluding Hong Kong, in all industry

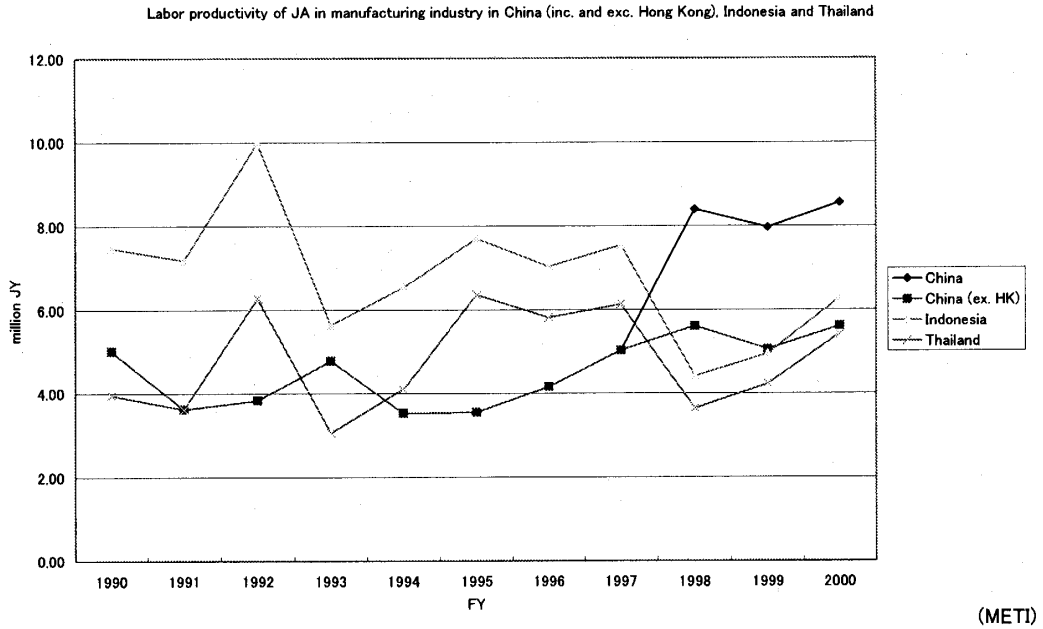
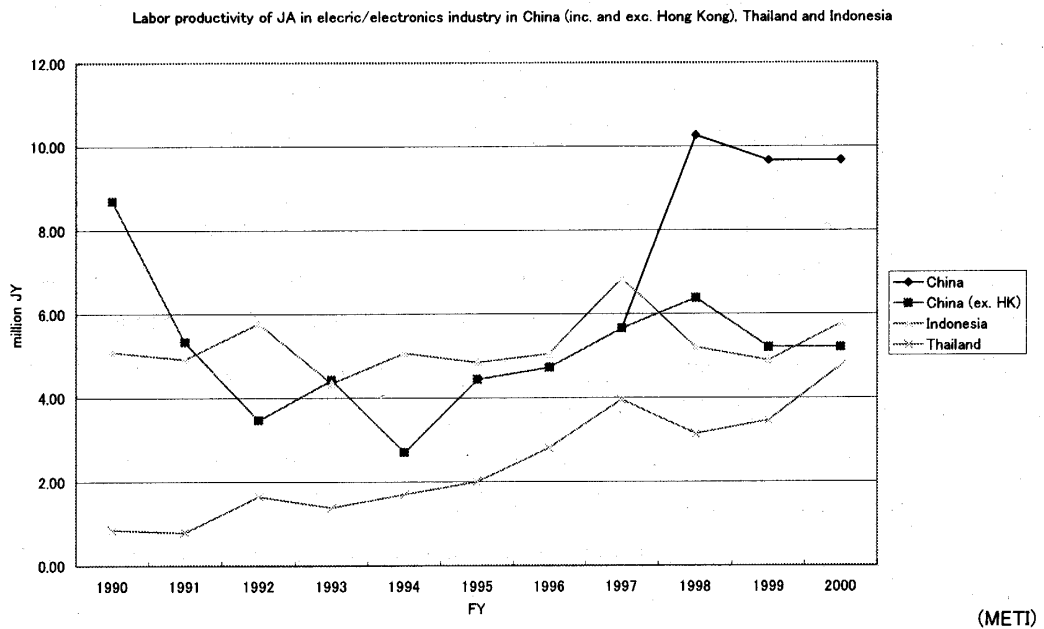
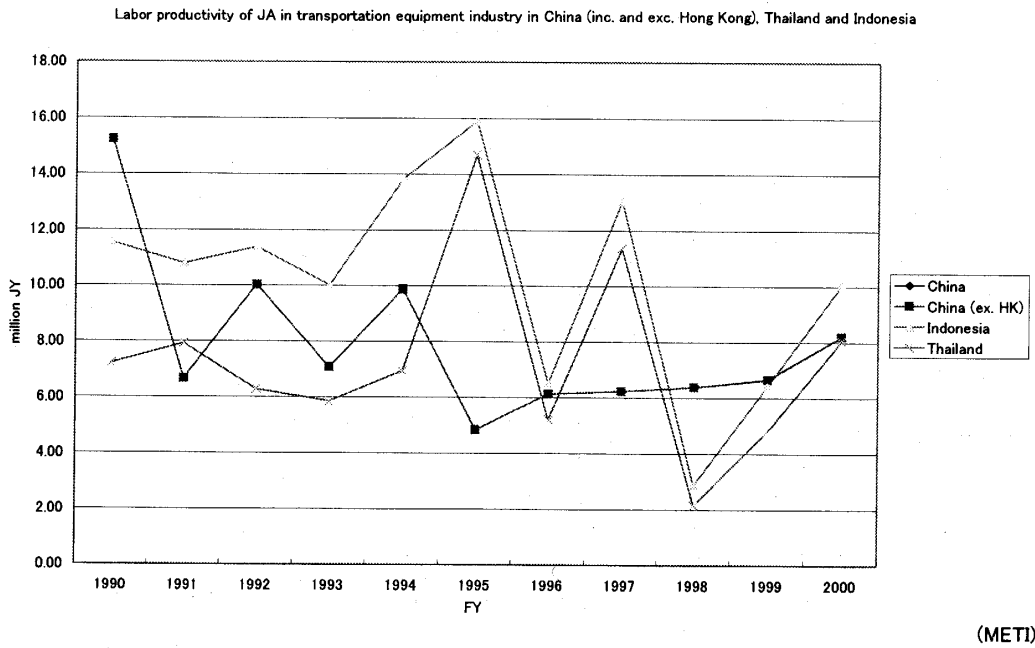


Figure 35 Japanese affiliates' labor productivity in Thailand, Indonesia and China, including and excluding Hong Kong, in electric/electronics industry



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Figure 36 Japanese affiliates' labor productivity in Thailand, Indonesia and China in transportation equipment industry



IV. Economic effects of manufacturing FDI in Thailand, Indonesia and China, especially in labor market.

(4.1) Employment level

Finally, the economic effects of manufacturing FDI on host countries are reviewed in labor market. Figure 37 shows that Japanese affiliates' total employment of all industry in Thailand, Indonesia and China, including Hong Kong. It is noteworthy that highly growing employment in China, including or excluding Hong Kong, has exceeded that in Indonesia in FY 1993 and that in Thailand in FY 1995.

The trend is mostly same in manufacturing industry and electric/electronics industry. However, transportation equipment industry shows a different trend (Figure 38). The competitiveness of Japanese affiliates' automobile business in ASEAN and recovery of auto-market in ASEAN caused re-increase of employment in Thailand and Indonesia since 1998. Therefore, preserving international competitiveness of automobile industry is truly important for benefits of host countries in ASEAN.

(4.2) Employment share

Japanese affiliates' employment share in the national market has continuously grown up in Thailand, Indonesia and China, including Hong Kong (Figure 39, 40 and 41). Japanese affiliates' employment share in manufacturing industry is prominently increased in Thailand. The growing employment by Japanese affiliates is taking considerably high share in fabricated metal industry in Indonesia and electric/electronic industry in China, including Hong Kong.

Figure 37 Japanese affiliates' total employment of all industry in Thailand, Indonesia and China, including Hong Kong

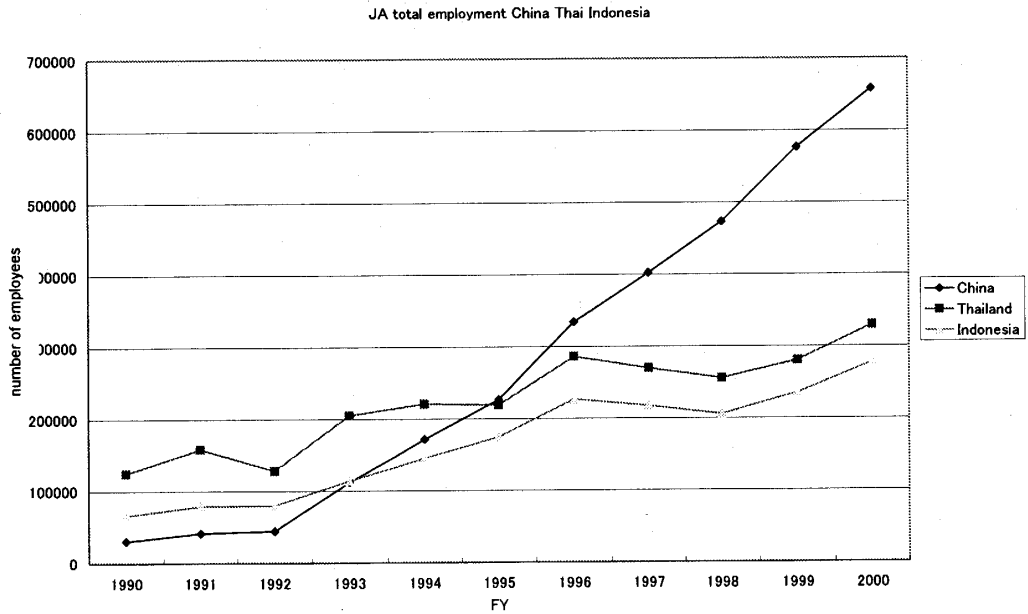
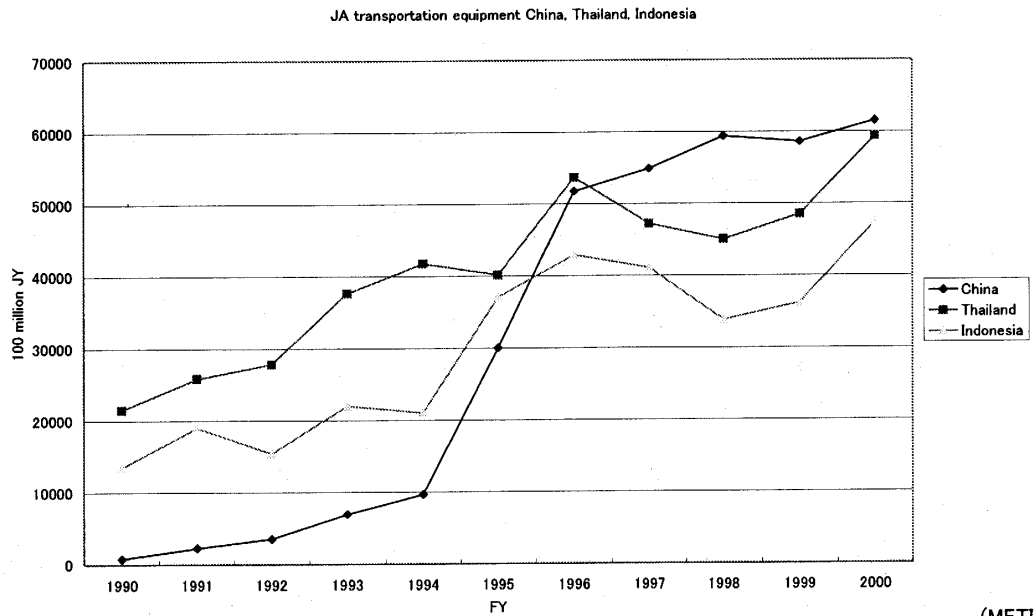


Figure 38 Japanese affiliates' total employment of transportation equipment industry in Thailand, Indonesia and China, including Hong Kong



(METI)



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Figure 39 Japanese affiliates' employment's share in the national labor market in Thailand

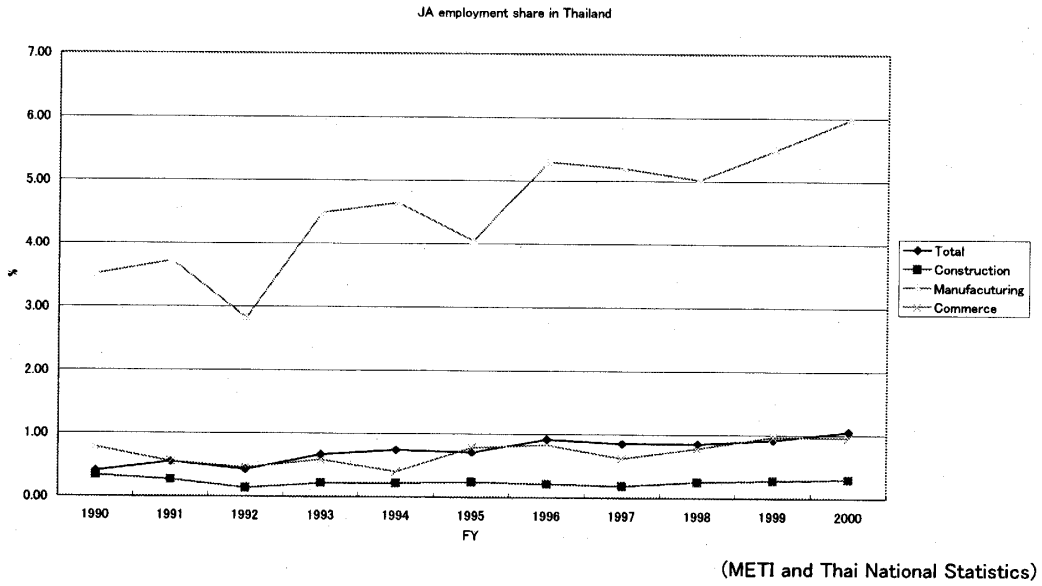


Figure 40 Japanese affiliates' employment's share in the national labor market in Indonesia

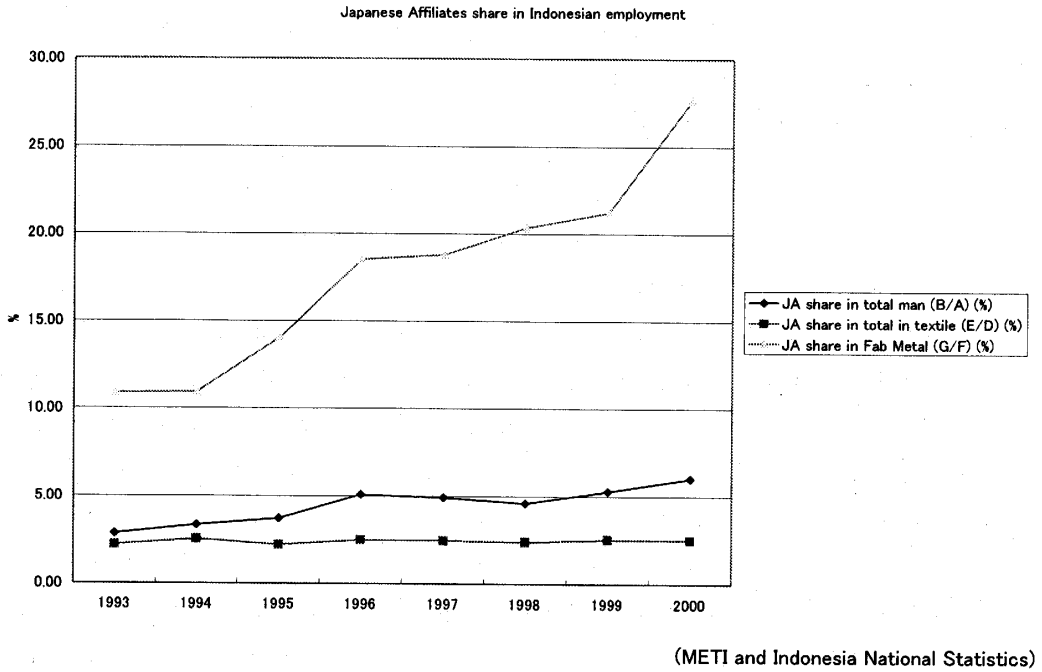
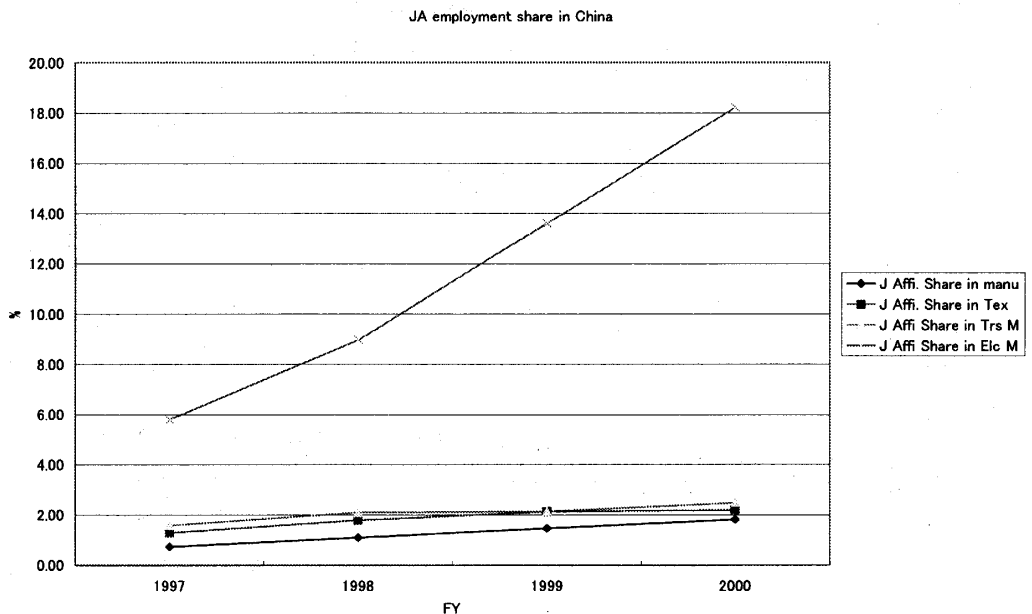


Figure 41 Japanese affiliates' employment's share in the national labor market in China



(METI and China National Statistics)

**V. Conclusion—More strengthened industrial and economic linkage between ASEAN and Japan through ASEAN–Japan CEP, which will produce more competitive location advantage of ASEAN countries**

This paper clarifies that industrial and economic linkage between ASEAN and Japan has been tightened through the overseas business by Japanese affiliates, which was established through Japan's FDI in ASEAN. On the other hand, it is noteworthy that their business in ASEAN is now in a severe competition with Japanese affiliates in China, including Hong Kong. Sales value in local market of host country, which Japanese affiliates in all industry achieved in China, including Hong Kong, has mostly caught up with that in ASEAN 4 (see Figure 9). Above all, the location advantage of Chinese local market is extraordinary large in electric/electronics industry, where local sales by Japanese affiliates in electric/electronics industry in China, including Hong Kong, have grown up so rapidly, and exceeded that in ASEAN 4 in FY 1998 (see Figure 14). Their sales in China, excluding Hong Kong, are also growing rapidly and closing near to that of Japanese affiliates in ASEAN 4 or that in Thailand (see Figure 14 and 29). In other words, China, including Hong Kong, has already obtained more prominent location advantage than ASEAN 4 regarding growing local market. It means that China will attract more "market-seeking FDI" than ASEAN 4 in future. Therefore, the largest concern for ASEAN countries, which desire to strengthen location advantages of ASEAN, is the growing local market of China, including Hong Kong, which is attracting accelerated Japan's FDI flow into the host country. If Japanese manufacturing firms are allocating more FDI in China for preserving local market of China, the additional FDI is embodied into new production facilities with more advanced

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technology than the old production facilities in ASEAN. The new facilities in China produce higher labor productivity in that country. However, the recovery of local sales in ASEAN 4 has been also prominent since the end of Asian financial crisis. If the recovery is strengthened by further liberalization of ASEAN FDI policy and regional integration, especially, through ASEAN-Japan CEP, the location advantage of ASEAN can be rival with that of China.

In the transportation equipment industry, now China cannot be rival with ASEAN 4 although local market of China may be drastically enlarged in near future.

Further liberalization among ASEAN countries through AFTA will produce more competitive location advantage of growing local market. Moreover, forthcoming ASEAN-Japan CEP will prompt the growth of local market through liberalization of FDI and trade. ASEAN located export base shall be more formidable competitor with export bases in China, especially, in the export to Japan, reflecting that ASEAN countries and China are directly competing each other in the export business to Japan (see Figure 10). They are also competing in the export business to the third countries (see Figure 11). As reviewed in this paper, ASEAN has enough competitiveness in those export business to Japan and to third countries, especially, in electric/electronics industry (see Figure 15 and 21) and transportation equipment industry (see Figure 16 and 22). Above all, Japanese automobile industry in ASEAN has developed prominently competitive export bases. In both industries, export bases of "global products" to the world market are still promising in ASEAN countries. Furthermore, ASEAN countries can strengthen their location advantage as export bases through more liberalized trade and FDI between ASEAN and Japan, through concluding ASEAN-Japan CEP. It makes it possible for ASEAN countries to reach Japan's market and to procure qualified and reasonably priced key parts or components made in Japan.

Naturally, Japanese firms, which have recognized well the importance of their international production and sales networks in ASEAN, will respond positively to ASEAN-Japan CEP while some of them are planning to unify their networks in ASEAN with their networks in China, including Hong Kong.

The location advantage of ASEAN countries shall be strengthened through higher growth of local market in ASEAN and export market of third countries for ASEAN, which can be accelerated by further liberalization of Asian region, especially, ASEAN-Japan CEP. (End of Paper)

(Reference)

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