"Co-existence with East Asian economic development and international relations between Japan and Asia"

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Preface

East Asia (note 1) is going to advance their economic development in two directions. First direction of the advance is the direction toward “Complexity”. Second direction of it is the direction toward “Multi-dimensions”.

East Asian countries are achieving economic development owing to economic growth. But this economic growth is too rapid and depends too on economic interdependence especially intra-interdependence. As the result intra-interdependence presses for East Asian countries especially Japan to adjust their economy with unusual rapidity and radical change. Then East Asian economic development depending on
too rapid economic growth is not necessary appraised in open mind especially from
the viewpoint of Japanese economy which has already had a risk of “Hollowing
economy”. The concept of Complexity contains such kind of signification.

The concept of Multi-dimensions has the relation to economic development
pattern, too. Too rapid economic growth necessary induces social unfairness and
environment disruption both of which spoil the stability of economic development
itself through the expansion of the unstability in economy and society. It is certainly
the problem of the unstability in economic development that many East Asian coun-
tries are facing with at present. It is impossible to neglect that the economic
development depending only on economic growth has a limitation being obliged by
social condition and environmental circumstance in the present. Then we must pay
attention to the relation between economic development and social problems or
environmen problems to sustain economic development itself. The reason why we need
the concept of Multi-dimensions in study of Asian economic development depends on
this signification.

Then we cannot neglect that Japan is pressed to consider how it can coexist with
East Asian economic development. We will study this subject from two viewpoints
according to above-mentioned context. First viewpoint is how Japanese economy can
adjust to the international division of labour with East Asian countries. Second
viewpoint is how we can sustain East Asian economic development.

Finally we expect that this article can contribute toward progressing the study of
Japanese international relations especially in the field of relations between Japan and
Asia.

By the way, if readers have interests and concerns to this subject, you will be able
to get more detail contents from writer's books (note 2).

(Note 1) In this article we define the scope of East Asia as follows. East Asia consists of North East
Asia [including Siberia and Far East district in Russia, North East district in China, Mongolia,
North Korea, South Korea and Japan], South East Asia [including Thailand, Malaysia, Indonesia,
Singapore, Philippine and Indochina countries], Hongkong, Taiwan and China excluding North
East district.

(Note 2) Yasuhiko Ebina “Hollowing of regional economy and East Asia—to co-exist with East Asia
Chapter 1. Some characteristics and problems in East Asian economic development

There are many problems being induced by East Asian economic development. These problems are classified in two main categories. One is social unfairness and another is environment disruption. We think that these problems not necessary owe to the development itself but mainly owe to the pattern of the development which is specific in East Asia. Then at first we must consider characteristics of the pattern of East Asian economic development.

Section 1. Characteristics

Jumping to a conclusion we define the pattern of East Asian economic development as the development—being oriented toward economic growth. Then we must prove why the pattern of its development should be regarded as the development—oriented toward growth and how was it possible for East Asian countries to achieve such high economic growth.

The answer for first question is that if there were no achievement of high economic growth there would be no economic development in East Asian countries, too. The answer for second question is that high economic growth would not be able to be achieved unless “Growth—led by Export” could be realized in East Asian countries through a loop of high economic growth—high investment—advance of industrial structure—increase of export—high economic growth. Then we will observe this situation in detail.

1. High growth rate

Economic growth rate in East Asian countries has been high and continue to be high even in the present. East Asian countries have attained near 10% per year in real growth rate during fifteen years from first half in 1980’s untill first half in 1990’s. You can easily understand how this growth rate is high comparing the fact that advanced countries namely OECD members’s countries have attained only about 3% per year in real growth rate during same years. This high growth rate depends on the economic growth in Asian NIES (South Korea, Taiwan, Hong-Kong and Singapore) which attained high growth rate especially in 1980’s, ASEAN 3 (Thailand, Malaysia and Indonesia) which have attained it especially in first half of 1990’s and China which has attained it especially in same years. Moreover this high growth rate will continue in near future especially owing to rapid growth in China even if the tempo of growth will
slow down.

2. Vigorous investment

High growth rate depends on high investment in general. The situation is same in East Asia. The vigorous investment in East Asian countries have very deep relations with high growth rate in these countries. The ratio of investment (Gross Domestic Investment/Gross Domestic Products) in East Asian countries rose rapidly in 1980's and as the result in 1991 it reached to 39.1% in Korea, 38.9% in Thailand, 35.9% in Malaysia, 35.1% in Indonesia and 22.8% in Taiwan. It is distinct that such kind of high investment ratio was possible under the condition of the high economic growth rate but simultaneously we cannot neglect that high investment ratio promoted high economic growth rate. Then we must take note an interaction between economic growth and investment.

3. Advanse of industrial structure

Vigorous investment leads the advance of industrial structure and the advance of industrial structure binds to economic growth. If we observe the ratio of industrial add-values to GDP, its ratio in the case of manufacture in East Asian countries especially in Asian NIES and ASEAN countries incresed broadly in 1970's, in 1980's and in the first half of 1990's. Especially we must notice that the ratio of add-value is going to rise even in manufacture according to the increase in ratio of R&D investment to total investment.

4. Increase of export

The advance of industrial structure inevitably strengthens the competitiveness of East Asian countries. At first they strengthened the competitiveness of light industries for instance textile and so on. Secondly they strengthened that of heavy industries for instance iron industry or ship building industry. Recentry they have strengthened that of even electric and electronics industries for instance semi-conductor and so on. As the result they increased their exports of manufacturing goods covering from light industry to electronics industry. The increase of exports provide very important market for economic growth in East Asian countries. Then we must regard the increase of export as the final and dicisive reason for economic growth in East Asian countries.

Then we can conclude that it would be impossible for East Asian countries to
promote high economic growth if there were not "Growth-led by Export" which was realized through causal relations among high growth rate, vigorous investment, advance of industrial structure and export expansion.

Section 2. Problems

However such kind of economic development—being oriented only toward economic growth has induced sever problems in East Asia.

Main problems which have been induced in East Asia are social unfairness and environmental disruption. These two problems have strong relation to economic development being oriented only toward economic growth.

1. Economic growth and social unfairness

The economic growth brings not only improvement of living standard but also expansion of new differences in the field of income distribution and in the field of regional development.

(1) New differences in income distribution

It is needless to say that economic growth in East Asian countries have increase incomes accompanying with some equilization of income distribution. If we observe a relation of GDP growth rate per head and equilization of incomes in Asian NIES, almost of Korea, Taiwan, Shingapore and Hong-Kong have acheived both of high GDP growth and equilization of incomes. In the case of ASEAN countries, we should recognize that the high growth rate have accompanied with the diminish of poverty. And the improvement of living standard owing to increase of incomes and equalization of income distribution has contributed to accelerate the economic growth above mentioned by providing domestic demand expansion additionally.

But we cannot neglect that in other side new additioally income differences is going to emerge. Because we find that there is a big income difference according to earning level of incomes (note 1) in China and there is same income difference between Bangkok district and another district (note 2) in Thailand, too. These new kind of unequility in income distribution have been induced by high economic growth rate, too.

(2) Expansion of regional differences

As well as the unequity in income distribution, we must notice the expansion of differences among districts. This problem is more severe and more important espe-
cially in China. If we observe a transition of economic growth rate according to districts in China, we can easily find great differences among districts. For instance if we take up average reagional GNP growth rate per year from 1980 untill 94, the growth rate in East District which includes Sea-side Areas where are growing most rapidly in China is 19.9% compared to 16.2% in Midle District and 15.8% in West District both of which consist of Inland-Areas where are growing relatively slowly in China (note 3). These regional differences not only bring inequalities among districts but also combin with differences between urban areas and rural areas which take a responsibility in unstabilizing of Chinese economic and social structure.

We cannot neglect that economic development-oriented economic growth induces economic and social unstability through the inequality income distribution and the expansion of regional differences.

2. Economic growth and environment disruption

It is well known that there are severe environment disruption in East Asia and it is suspicious that there is familiier relationship between economic growth and environment disruption. Then we will prove a causal relationship between both. There are four reasons which support this argument.

(1) High ratio of industrialization

The environment disruption owes most strongly to industrialization. Then the more the economic growth depends on high industrialization, the more that economic growth brings the environment disruption. If we observe economic growth from this viewpoint, we can find that ratios of industrialization in many East Asian countries which is dicisive factor for their economic growth at present economic structure are relatively more higher than Japanese one. Namely, if we compare GDP label (1990) \[ A \] with ratio of industrialization (Manufacturing/GDP, 1988) \[ B \] (note 4), though Japanese combination of \[ A \] and \[ B \] is that \[ B \] is 30% in the case of \[ A = 25 \], 430, Korean combination of these is that \[ B \] is 26% even in the case of \[ A = 5,400 \] and Taiwan combination of these is that \[ B \] is 38% even in the case of \[ A = 7,950 \]. Moreover as extreme example we must point out Chinese case. Because Chinese combination of these is that \[ B \] has already reached to 33% at very low lebel of \[ A = 370 \].

As we already point out, many East Asian countries are going to continue economic growth. But if they are going to continue it without changing these style of
industrialization, thier economic growth will inevitably amplify the environment disruption.

(2) Increase of energy consumption

Rapid industrialization brings increase of energy consumption. Already being explained, as industrialization in East Asian countries is very rapid and radical, the energy demand is assumed to increase broadly in near future as the result.

For instance it is reported that the energy demand of East Asian countries and districts which consist from Japan, Korea, China, Taiwan, Hongkong and ASEAN 6 countries will increase at 4% per year and will reach to about 3 billion tons (which will be double of present volume) at 2010 (note 5).

As it is no need to say that air pollution is a function of energy consumption, you can easily understand that the increase of energy demand means the air pollution problems will be more serious, too.

(3) Rapid urbanization

There is familiar relation between rapid urbanization and environment disruption, too. As well known there are rapid urbanizations in East Asian countries. But these urbanizations have been achieved only duaring 25 years and such kind of “Violent Urbanization” necessarily induces severe disruption in urban environment (note 6). Especially a lack of infrastructure in the field of living conditions and mass inflow of populations from rural districts to urban districts make slums in urban districts which amplify environment disruption in urban districts.

(4) Arrival of a age of mass-consumption

Economic growth accompanies with aexpantion of consumption as abovementioned but this expanstion of consumption has a relation with environment disruption. There are remarkable progress of durable consumption goods including television, washing machine, refrigerator, even automobile and so on. Then we call such kind of progress as the arrival of a age of mass-consumption. But we cannot forget that “Mass-consumption” is in a link of chain of “Mass-production, Mass-consumption and Mass-disposal” and then the arrival of a age of mass-consumption means the arrival of a age of mass-disposal simultaneously.

Then we must stress that as far as economic development in Asian countries depends on the economic growth, this development will continue to induce economic
and social unfairness and to bring environment disruption.

(Note 1) In China, average earnings per head in the most highest class of earnings (the ratio of household numbers belongs to this class is 10%) reached to 3.9 times of average earnings of most lowest class of earnings (the ratio of household numbers belongs to this class is 10%, too) in 1994. (From Asahi Shinbun March 2nd, 1995.)

(Note 2) In Thailand, incomes per head in Northern district where is most poorest district in this country is staying to the level under a quarter of national average level and under one eight of Bangkok Capital Area level. (From The Economist Intelligence Unit “Thailand 1994-95” p.13)

(Note 3) From Asahi Shinbun March 19th, 1995.

(Note 4) From Reitou Kojima 「A stage of economic development in East Asia」(Reitou Kojima and Seisyo Hujisaki [Development and Environment—Experiment in East Asia—] published by Asian Economic Institute on March 1993) p.32.

(Note 5) From Jynichi Taki 「Economic development in Asia and science— “Growth without non-polution”—」(Nihon Keizai Shinbun November 11th, 1995).

(Note 6) Refer to Reitou Kojima 「Ibid」p.34.

Chapter 2. The formation of East Asian economic zone and the advance of intra-regional economic adjustment

East Asian economic development which depends on rapid economic growth has combined to a deepening of intra-regional interdependence namely to a formation of East Asian economic zone because economic growth being led by export in East Asian countries needs the continual expansion of export market (note 1). And the formation and the development of East Asian economic zone has necessary accompanied with a advance of structural adjustments in East Asian countries’s economies.

Section 1. The formation of economic zone
1. Increase of the dependency in intra-regional export market

The reason why East Asian countries could continuously expand their exports is in the increase of intra-regional export market dependency. Firsty if we observe the transition of export market dependency in Asian NIES, we can find a change of situation. After its dependency ratio to American market took 34.8% in 1985 (and that ratio occupied overwellming share in their total export market dependency,) its ratio to American market decreased to 24% owing to the increase of trade imbalance in America and as the result its intra-regional market dependency ratio has increased. Namely its ratio to Asia NIES’s market and to ASEAN countries’s market increased.
from 8.9% to 13.7% and from 7.6% to 9.2% respectively instead of the decrease in its ratio to American market.

Secondly in the case of ASEAN countries the situation is same. Their exports dependency ratio to Asian NIES market increased from 20% in 1985 to 23.2% in 1991.

2. Multi-stratified advance in industry and trade structure

And we must notice that behind such increase of intra-regional interdependence, there was a multi-stratified advance in industry and trade structure. What is a multi-stratified advance? Chart I explains it clearly. It shows the transition of international competitive advantage (its scope covers Japan, Asia NIES [consisted of South Korea, Taiwan, Singapore, Hongkong], ASEAN 4 [Thailand, Malaysia, Indonesia, Philippine] and China) segmented by goods.

We can find distinct shifts of advantage in East Asian countries from this chart. According to it, advantage in East Asian countries have shifted from Japan to Asia NIES, from Asia NIES to ASEAN 4 and from ASEAN 4 to China respectively corresponding to a process of shifts of advantage in goods (process of shifts of advantage in goods means one of shifts (1) from non-durable goods which is most labour-intensive and least capital-intensive goods to durable goods which is neutral, (2) and from durable goods to capital goods which is least labour-intensive and most capital-insensitive. Then we can say that intra-regional interdependence in East Asia has not been realized until this multi-stratified advance in industry and trade in this reason has been archived.

Section 2. The advance of structural adjustments in East Asian economies.

It is no need to say that the multi-stratified advance in industry and trade inevitably accompanies with a progress of structural adjustments in East Asian countries’s economies.

1. Adjustments in Asia NIES

As above mentioned Asia NIES have transferred their non-durable goods in which industry they have already lost their international competitiveness to ASEAN4 and they are going to transfer durable goods in which industry they are going to lose their competitiveness to ASEAN4, too. Why is it difficult for them to maintain their competitiveness in the field of these goods? Because these industries are labour-intensive and Asia NIES are gradually going to lose a advantage in labour cost.

The steep increase of wage level and rise of foreign exchange rate have deprived
Asian NIES of the advantage in labour cost. The wage level are going to increase steeply in Asia NIES (note 2) owing to continuous high economic growth and this increase of wage level combined to the increase of labour cost unless there is no rising in labour production efficiency. The rise of foreign exchange rate accelerated the decline of advantage in labour cost. Although foreign exchange rates in Asia NIES continuously declined against Japanese Yen, their foreign exchange rates have reversed against U.S.Dollar from 1985 to the present. As the result the substantial foreign exchange rate in these countries has changed toward rising tendency from the last half in 1980 to the present especially against ASEAN 4 and China. As the result the rise of foreign exchange rate in Asian NIES has amplified the difference in the field of labour cost among Asia NIES, ASEAN 4 and China.

Thus Asia NIES have obliged to transfer labour-intensive industries to ASEAN 4 and to shift from those indulgencies to less labour-intensive namely more capital-intensive industries.

2. Adjustments in ASEAN 4

But we have not to miss that ASEAN 4 are successively going to transfer their labour-intensive industries to China and Indochina countries especially Vietnam. Because even ASEAN 4 are going to lost their advantage in labour-intensive industries by two reasons.

One reason is wage level increasing in their own countries. High economic growth pushes the wage level even in ASEAN 4 (note 3) where labour markets have not been so tight comparing to Asia NIES owing to labour forth in abundance. The wage level increase necessarily combines to the decline in labour cost advantage.

Another reason is a emergence of their rivals who have more abundant labour forth in more lower level of wage and then have more strong competitiveness especially in the field of labour-intensive industries. Such rivals are China and Indochina countries especially Vietnam.

From these two reasons even ASEAN 4 are obliged to transfer their labour-intensive industries to China and Vietnam and are tiring to shift from these industries to less labour-intensive namely more capital-intensive industries, too.

Thus even Asia NIES's and ASEAN4's economies have dropped in very severe structural adjustments and then it is no need to say that Japan whose economy is most stressed to compete with East Asian countries among which countries especially
Asian NIES are eager to acquire more advanced capital goods industries especially focusing to high-tech industry can never escape from this adjustment. We will examine Japanese case in next chapter.

(Note 1) It is important that exports of East Asian countries not only increased steeply but also led economic growth by providing market for it continually. For instance South Korean export increased 12.8% at average per year from 1980 to 90 and as the result GDP ratio depending on export (Export/GDP) reached to about 30% in 1980's.

(Note 2) For instance in South Korea wage level increased 18.4% in average per year from 1987 to 90 and continuously increased 17.5% in 1991 and 15.2% in 1992.

(Note 3) For instance in Malaysia the wage rising rate reached to 11.7% in 1991 and to 9% in 1992. And in Thailand the minimum wage around Bangkok was raised at 8.7% on April in 1993. (From JETRO [The report of foreign direct investment [1994]] p.28.)

Chapter 3. East Asian economic development and Japanese economy

As above mentioned East Asian economic development which depends soly on rapid economic growth not only contains severe problems being consisted of social unfairness and environment disruption but also induces severe advance of structural adjustments in East Asian countries's economies through the formation of East Asian economic zone which needs to support their economic growth being led by export. Then how should Japan co-exist with such kind of East Asian economic development? At first we must examine the Japanese structural adjustment.

Section 1. The international division of labour with East Asian countries and the structural adjustment in Japanese economy

1. Hollowing economy

Firstly we must point out what kind of influence does Japanese international division of labour with East Asian countries affects to Japanese Economy as a whole. That is a hollowing economy. What is a hollowing economy. It means the leakage of income and investment.

Then we must study a hollowing economy by classifying in two categories. First one is the leakage of income. And second one is the leakage of investment.

(1) Leakage of income

This case means that GDP(Domestic Products) is depressed through the process that the increase rate of import overes the increase rate of export. As the result, even
if domestic demand increase, that increase does not necessarily bind to a economic growth.

For instance the real GDP growth rate of 1994 fiscal year stopped only in 0.5%, because import especially import of manufacturing goods from East Asian countries broadly increased at 10.2% comparing the fact that export increased only at 5.7%.

(2) Leakage of investment

This case means that a substitution of investment from domestic to foreign countries emerges through rising of foreign investment ratio (Foreign investment/ Gross investment). If the ratio of foreign investment incerasement is same to the ratio of domestic investment or less than it, there will be no substitution of investment because the foreign investment ratio dose not change or even decrease. Reversely, if the ratio of foreign investment is bigger than the ratio of domestic investment, there will be inevitable substitution of investment from domestic one to foreign one because the foreign investment ratio rises.

For instance as the foreign investment ratio in 1994 fiscal year reached to 5.5% increasing 0.9% compared to 1993 fiscal year, because foreign investment in 1994 fiscal year increased at 14% comparing to 1993 fiscal year under the condition that domestic investment in same fiscal year decreased at 5.5% rate comparing to 1993 fiscal year, then there was distinct substitution of investment from domestic investment to foreign one.

2. The decrease of competitiveness in capital goods

The second important affection owing to international division of labour with East Asian countries is a shift in Japanese relative advantage of industries.

As we already explained (see chart 1), Japan has held it's advantage in capital goods and this advantage has leaded East Asian intra-regional interdependency. But we cannot deny this Japanese advantage in capital goods is going to decrease recently.

It's very astonish to see a emergence of Asian manufacturing goods in world market. As the result the share of Asian manufacturing goods is going to increase rapidly and the share of Japanese manufacturing goods especially capital goods is going to decrease in inverse proportion. For instance, (1) in the case of iron goods in which field Asian goods established their advantage from early years ago Asian countries's advantage has been more strengthenened against Japanease goods from
about 1991, (2) in VTR case in which field Japan originally had advantage the advantage reversed in Asian favor from 1992 and the gap in the advantage between Asian goods and Japanese goods is going to extend, (3) even in automobiles in which field Japan has the advantage even now the gap in the advantage between Japanese goods and Asian goods is going to decrease.

The rapid increase of export in Asian manufacturing goods above-mentioned owes to these shifts of advantage of capital goods in Asian favor.

We must notice that on the background of such kind of shifts there is a loss of leading sector in Japanese industry. Chart 2 shows a transition of leading sectors in Japanese industry. According to this chart, First runner was textile industry. Second one was iron industry. Third one was automobile industry. And forth one namely the latest one is electric industry. But electric industry is going to transfer its position to another industry. Nevertheless unfortunately we cannot distinctly find new leading industry still now. Because, automobile industry and electric industry belong to assembling industries and in there assembling industries we cannot find another new industry which has new advantage being possible for Japan to compete with Asian competitors.

3. Employment problems, medium and small enterprise • local industry, and regional problems

Finally we must focus to employment problems, medium and small enterprise • local industry and regional problems which are induced by two factors above mentioned.

(1) Employment problem

A hollowing economy which especially induced by the leakage of investment necessary binds to the employment problems. Because the leakage of investment brings the shrink of production accompanying with related decrease of employment. For instance it is estimated that the increase of foreign direct investment from 1985 untill now shrank at least about 26 trillions yen in production and lost about 1 million employers.

We also pay attention to the fact that such big loss emergences even in the condition of relatively low level of overseas production ratio in Japanese companies (note 1). Then if overseas production ratio in Japanese companies reaches to more high level near the level of American companies, the size of loss will be more bigger.
than present size, and it is not avoidable that the overseas production ratio will rapidly increase.

(2) The affection to medium and small enterprises and local industry

The affection of hollowing economy through leakages not only in investment but also in incomes is more serious in the field of medium and small enterprises. There are two reasons in this point. As first reason we must point out that medium and small enterprises severely depend their business on parents companies which are broadly and rapidly going to advance to overseas countries especially Asian countries. According to one investigation (note 2), near 80% of medium and small enterprises suffer from the decrease of orders received and near 30% of them suffer from the advance of parents companies to overseas countries.

Second reason is the affection through the import increase of manufacturing goods especially from Asian countries. According to another investigation (note 3) the ratio of enterprises being suffered from decrease in shipment reaches to near 70% and near 40% of them suffer the decrease of shipment from the competition with manufacturing goods imported from overseas countries especially Asian countries.

It must be stressed that pretty part of medium and small enterprises belongs to local industries. Then it will be easy for us to suppose that the affection to local industries through both leakages of investment and incomes is serious, too.

(4) Regional problems

From the context above-considered, we can finally point out that the affection from which regional economies suffer will be great as far as regional economies depend on medium and small enterprises especially local industries.

Section 2. How to co-exist with East Asian economic development

Then we must conclude how should Japan co-exist with East Asian economic development. There are two stance in approaching this problem. First stance is negative or passive one. Second stance is positive one.

1. Negative or passive stance

(1) Balance sheet of Japanese trade with East Asian countries

At first we must examine whether negative or passive stance has the reality and propriety or not. We must conclude that negative or passive stance against the relationship between Japan and Asian countries has no reality and no propriety owing to following two reasons. One reason is that Japan gets big gains from the interdepen-
dece between Japan and East Asian countries.

Related this problem we will firstly check a balance sheet in the relation between Japanese economy and East Asian economy. Surely we cannot deny that the market of advanced countries are being rapidly invaded by developing countries including Asian countries and Japanese market is never exceptional one from this invasion as chart 3 shows. Never the less on the otherhand we must recognize that Japan gets biggest gains from the trade with developing countries among advanced countries. Because we cannot neglect that if we compare the ratio of export depending on to developing countries among advanced countries, Japanese depending ratio reaches to near 50% and that figure is most biggest one among advanced countries (see Chart 4-[1]). Then we must say that it is impossible for Japan to spoile or cease the interdependence relation between Japan and Asian countries. Aditionaly because the volume of import in developing countries especially Asian countries are rapidly increasing (see Chart 4-[2]), it also should be stressed that negative or passive stance against the interdependence relation between Japan and Asian countries is never proper.

(2) Flexibility of Japanese economy

Another reason why it is not proper for Japan to take negative or passive stance against the relationship between Japan and Asian countries is that Japanese economy relatively has fexisibility for structural adjustment induced by the international division of labour with Asian countries. Accoding to "The Economist", it is pointed out that Japanese economy has second ranking fexibility in the ability(note 4) of economical adjustment following up American economy comparing to Euoripian countries's economies which have only more lower ranking flexibilt in this abiliy. Then it is not proper to underestimate the ability of Japanese economy for structural adjustments, too.

2. Possitive stance

Then we must conclude that there is only one path which Japnan can select related to the relationship with East Asian countries. That path is the possitive stance toward this relationship.

(1) Industrial structural policy

At first we must consider new direction of industrial stracture to adjust for the change of industrial structure inducing by the international division of labour with Asian countries. What kind of policies are there toward this direction?
One is the advance of industrial structure itself and another is the level up of value added. Conclusionally saying these policies will be impossible to realize unless we have information and telecommunication industry accompanying with software and service industries related. Because these new industries do not belong to assembling industries in which industries Japanese competitiveness has already defeated by Asian competitors but belong to post assembling industries in which industries Japan has relative advantage comparing to Asian competitors.

(2) Employment plan

However new industrial policy above-mentioned has a risk of the increase in outsourcing which binds to extend employment unsteadiness. Then we must prepare the employment policy to avoid unemployment and to maintain employment. We expect two kind of policies in employment plan.

Firstly a policy which is useful to do away with a mismatch in labour market is expected. For this purpose we must have plans not only to mobilize labour force smoothly but also to sustain unmobilized labour force. Then on the one hand we must promote the formation of new business including information telecommunication and software service industries above-mentioned which is expected to absorb labour forces usefull to build this new business, and on the another hand we must maintain the diversity in industries which are expected to sustain employment opportunities in unmobilized labour force.

Especially from the view point of the latter namely the diversity of industry we should not neglect the importance of the presence of medium and small enterprise. Because the employment effect of medium and small enterprises is far larger than it of big enterprises (note 5). Then we must be careful that the formation of new business should not be advanced on the sacrifice of medium and small enterprises. These viewpoint will necessarily binds to the respect of local industry and local economy.

3. The formation of "Common Social Space"

Finally we will point out the necessity of the formation of "Common Social Space".

As we already explained in chapter 1, East Asian economic development oriented only to rapid economic growth has induced not only social unfairness but also environment disruption. Such kind of development pattern press not only too rapid and radical structural adjustments of East Asia ncountry's economies especially
Japanese economy but also for many Asian countries to drop in the instability of their economies and societies. Then we cannot neglect problems and effects in East Asian economic pattern itself.

From such kind of viewpoint we propose new regional cooperation which consists of not only economic cooperation but also of social cooperation aiming to form a “Common Social Space” to sustain the development in East Asia.

But unfortunately there is no space to state the detail of this design. Then if there are readers who have interesting to this problem, please refer to writer’s book (note 6).

(Note 1) The overseas production ratio of Japanese companies is 8.2% in 1994 fiscal year comparing to near 39% in American companies’s case.
(Note 2) Medium and Small Enterorise Agency “A report related to the investigation about the affection to medium and small enterprises’s order received from parents companies through the overseas advance of parents companies” [November 11th.1994]
(Note 3) Ibid “A report related to the investigation about the affection to midium and small enterprises through the competition with manufacturing goods imported from overseas countries” [Ibid]
(Note 4) This ability includes felxibilities in labour market, the ratio of employees in manufactuering, the ratio of students in high level education, the ratio of export in high-technology goods and the ratio of pension funds compared to GDP (The Economist [October lst. 1994] “A Survey of Global Economy” p.42).
(Note 5) The weight of medium and small enterprises in all Japanese enterprises is near 90% on the base of enterprise’s number and is near to 80% on the base of employee’s number.
(Note 6) Refer to Yasuhiko Ebina “Hollowing of regional economy and East Asia—to co-exist with East Asia—” (ibid) p.172～175.
"Co-existence with East Asian economic development and international relations between Japan and Asia"

Chart 1. Coefficient of trade advantage Japan, Asian NIES, ASEAN4 and China according to different goods

1. Capical goods
2. Durable goods
3. Non-durable goods

(Note) 1. according to [AIDXT] of Asian Economic Institute.
2. Coefficient of trade advantage
   \[ \frac{\text{Export} - \text{Import}}{\text{Export} + \text{Import}} \times 100 \]


Chart 2. Transition of leading sectors in Japanese industries

Chart 3. Creeping in advanced countries

Creeping in
Manufactured imports from developing countries* as % of consumption

North America

European Union

Japan

source: OECD
* Includes Eastern and former Soviet Union


Chart 4. Market of advanced countries

(1)

Exports to developing countries
as % of total exports, 1993

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(2)

Import volume

1987=100

Asian developing economies

Latin America

Industrial economies

1987 88 89 90 91 92 93 94 95

souces: OECD; IMF
* Includes Eastern former Union

(Source) Ibid (p.Survey 10)