

JETRO Chicago Midwest NEWSLETTER

Japan External Trade Organization

1 East Wacker Drive, Suite 600

Chicago, IL 60601

Phone: 312-832-6000

Fax: 312-832-6066

www.jetro.org

In this issue ...

- *JETRO Around the Midwest: ... page 2*
- *Ask JETRO: Laws and Regulations ... page 2*
- *Director's Dialogue: Japan as energy supplier? ... page 3*
- *Special Report: East Asia Economic Integration Symposium ... page 5*

JETRO Chicago makes plans for a busy and productive 2008



From the Chief Executive Director

*Takashi "Taka" Tsuchiya,
Chief Executive Director,
JETRO Chicago*

Happy New Year!

My year 2008 began with laughter at Second City, Chicago's famous improvisational comedy troupe on the evening of January 1. To tell the truth, I could only understand half of the jokes due to my proficiency of the English language and lack of cultural and historical knowledge about the underlining meanings of the punch lines. But anyway, I laughed with other audience members and enjoyed the atmosphere. Back in Japan on the New Year's Day, TV stations compete to broadcast comic related programs for people to laugh away bad things and bring in good luck for the New Year. This is called "the first laughter of the year". Happiness comes in by a merry gate, according to a Japanese proverb.

Talking about happiness, I am happy indeed to explain a little bit about JETRO Chicago's plans for 2008.

We want to maintain our momentum from 2007 in our efforts to draw your attention to business opportunities for you in Japan. In this area, we successfully conducted a half-day symposium on economic integration and

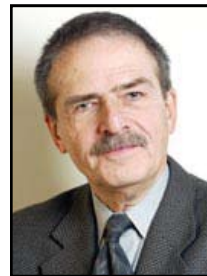
See "Chief Executive Director" page 2

February 22 Minneapolis seminar to examine the impact of East Asian economic integration on U.S.-Japan relations

On the morning of Friday, February 22, a seminar at the Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, will examine the close economic ties between the U.S. and Japan in light of East Asian economic integration.

Advanced registration for this event is required. For information, contact Robert Corder at JETRO Chicago, 312-832-6000, extension 204 or at robert_corder@jetro.go.jp.

Economic Integration among ASEAN and other Asian states



Guest View

*Marvin Zonis
Professor Emeritus
The Graduate School of
Business, The University
of Chicago*

(On December 7, 2007, Marvin Zonis participated in JETRO's symposium on East Asian Economic Integration, providing his insights and moderating the question and answer panel. In this article, Dr. Zonis reviews some of the issues that make this a very timely topic.)

The Association of South East Asian Nations, ASEAN, was the first of the Asian grouping of states to make intra-regional trade a priority as a way to drive economic growth. Its original members – Indonesia, Malaysia, Philippines, Thailand, and Singapore – explicitly set out in 1967 to boost trade among themselves. Five new states – Brunei, Cambodia, Laos, Myanmar, and Vietnam – were later invited to join. The ASEAN 10 succeeded in boosting trade, particularly after passing an ASEAN Free Trade Area (AFTA) in 1992.

Economic growth rose as well. It has averaged some 5 percent per year since 1999. But with a combined population of some 500 million people and a combined GDP approaching \$700 billion, per capita income is still relatively low at \$1,400 per year. ASEAN has responded by deepening economic integration. (The share of intra-ASEAN trade as a percentage of total ASEAN trade remained relatively constant at 25% in 2005, slightly higher than the 24.3% share in 2004.)

Moreover, economic integration has been a focus not just within ASEAN. But more importantly, between ASEAN and other Asian states. From 1980 to 2006, trade within the ASEAN states and China and Japan and Korea (ASEAN+3) has increased from 39 percent of their total trade to 55 percent of their total trade. Among the ASEAN+6 states (add India, Australia, and New Zealand), intra-regional trade has increased over the same period from 33 percent of their total trade to 43 percent of their total trade.

A major boost has been given to intra-regional trade by the annual East Asia Summit. Launched in December 2005 in Malaysia, the EAS brings the heads of the ASEAN+6 states together to boost regional economic development. They have committed to eliminating all tariff and non-tariff barriers to trade by 2015, thus establishing a true Asian "common

See "Guest View" page 4

JETRO Chicago

Midwest Newsletter

January-February, 2008, Page 2

In this issue ...

- Ask JETRO: Laws and Regulations ... page 2
- Director's Dialogue: Japan as energy supplier? ... page 3
- Special Report: East Asia Economic Integration Symposium ... page 5
- Back to Page 1

Chief Executive Director ... from page 1

business opportunities in East Asia last December, with over 200 audience members in attendance. Actually I would like to apologize to those who were unable to register due to the limited capacity of the venue. We had to close the registration 9 days prior to the actual event. This event inspired us to present more of these quality programs in the future. We will work with universities, chambers of commerce and state governments on organizing such seminars. Up to this point such events in Evanston IL, Ann Arbor MI, and Minneapolis MN are scheduled. We are always looking for such opportunities in our 12-state Midwest Region.


As for the promotion of US-Japan business collaboration, we continue to work on advanced technology areas, including biotechnology and robotic technology. In the former area, JETRO will participate at the BIO International Convention in San Diego in June. In the autumn, there will be BioJapan 2008 in Yokohama and JETRO will work with the Japan Bio Association to arrange business matching. In the latter area, with regards to Japanese robotic technology, we participated in the Consumer Electronics Show in Las Vegas in early January and we will participate in the RoboBusiness Conference in Pittsburgh in April.

We are committed to promoting business between America and Japan. We truly appreciate your continued support.

Contact JETRO Chicago

JETRO Chicago is located at 1 East Wacker Drive, Suite 600, Chicago 60601. Phone: 312-832-6000; Fax: 312-832-6066; website: www.jetro.org

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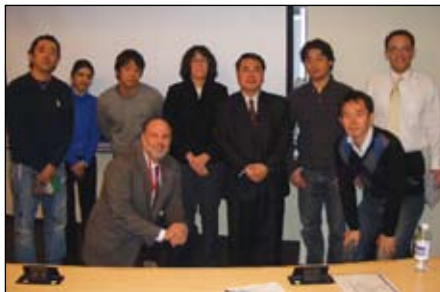
For Invest-in-Japan and robotics information  contact Kevin Kalb, at kevin_kalb@jetro.go.jp.

For biotech information, contact Robert Corder, at robert_corder@jetro.go.jp



On January 9, Mr. Taka Tsuchiya presented at Northwestern University to Dr. Patricia Ledesma Liebana's Kellogg School of Management class in preparation for their March trip to Japan.

(At left) Taka Tsuchiya and Ralph Inforzato from JETRO Chicago are pictured with students and Dr. Patricia Ledesma Liebana.



On Friday, January 25, the National Corn Growers Association (NCGA) welcomed special guests representing Japanese government and trade interests and briefed them on a variety of issues, including corn production, 2008 planting projections, ethanol and other biofuels, and U.S. farm policy. Visiting NCGA were Toshikatsu Mino, JETRO Chicago's Director of Agriculture; Osamu Minakawa, consul and section chief of economic affairs for the Consulate General of Japan at Chicago; and Bruce Buckland, Honorary Consul General of Japan, St. Louis, MO.

(Right) NCGA CEO Rick Tolman, second from right, welcomes, from left, Bruce Buckland, Toshikatsu Mino and Osamu Minakawa.



Where can I get an overview of laws and regulations on setting up business in Japan?



Setting up a business in Japan can present a number of challenges. JETRO has a long and established tradition of providing information that can make facing those challenges much easier.

"Laws & Regulations on Setting Up Business in Japan" is a JETRO booklet designed with the foreign business in mind, providing information on laws, regulations and procedures on registration of incorporation, visas, taxes, human resource management, and trademark and design protection systems. First published in October 2004, the 3rd edition has now been revised to incorporate changes in these areas since then.

Of course, every business' situation is different, but this publication offers a good overview of the most important topics. It is our hope that this publication will serve as an excellent resource for companies planning to establish operations in Japan and will make doing business in Japan easier.

This booklet is available in both PDF form for easy download, and html form for online reading at the JETRO headquarters site. Visit www.jetro.go.jp/en/invest/setting_up/ to find this publication, and a wealth of other information for developing your business in Japan.



Ask
JETRO

In this issue ...

- *JETRO Around the Midwest: ... page 2*
- *Ask JETRO: Laws and Regulations ... page 2*

- *Director's Dialogue: Japan as energy supplier? ... page 3*
 - *Special Report: East Asia Economic Integration Symposium ... page 5*
- Back to Page 1**

Can Japan help California meet its Energy Needs?



Director's Dialogue

Tomonari Komiyama, Chief Representative

Markham Nakagawa, Former Researcher

Japan Petroleum Energy Center (JPEC), Chicago Office at JETRO Chicago



The near-term outlook for California becoming self-sufficient for its energy needs does not look optimistic. With a population that is expected to grow from 36 million currently to 45 million by 2025, demand for energy naturally grows. With larger populations, demand for more housing and the necessity to utilize further and further areas of land from business centers will also cause the amount of on-road vehicle miles traveled (VMT) to increase. Estimated at 313 billion miles in 2003, the state's annual vehicle miles traveled is expected to increase

to approximately 362 billion miles in 2010 and to over 440 billion miles by 2023 based on a 2003 report published by the California Energy Commission.

Despite California's plans to reduce its dependence on petroleum fuels, it still faces an uphill battle. As the population grows, its needs for gasoline grow. Meanwhile, the state's future demand and supply gap is steadily increasing up to a point where by the year 2025 the potential deficiency may increase as high as 5.8 billion gallons a year. Although policies, such as the newly revised Renewable Fuel Standard as stated in the Energy Security and Independence Act of 2007 will eventually help narrow the gap between transportation fuel supply and rapidly growing demand, the state will need to look elsewhere in order to help meet the state's transportation energy needs in the near future. One answer may lie across the Pacific from an unexpected yet familiar friend, Japan.

To appreciate the scale at which California consumes gasoline, consider the following:

See "Director's Dialogue" on page 4

Perspectives on Building Grassroots Relationships: New Executive Director joins Japan America Society of Chicago



In January, Mitsukuni Baba took over as Executive Director of the Japan America Society of Chicago (JASC). With more than 30 years of business experience in Japan and the United States, Mr. Baba is excited by the challenges posed by his new position. This new job fulfills a long-held desire to work for a non-profit organization and build friendships between the United States and Japan.

The mission of the Japan America Society of Chicago is to foster goodwill and understanding between the people of Japan and the U.S., and to serve as a forum for the exchange of information of economic, political, and business matters impacting U.S.-Japan relations. The JASC has more than 1000 members comprised of both individuals and corporations, with strong representation by both Japanese and American companies.

Because JASC is a non-profit organization, Mr. Baba noted, it has taken a lot of "sweat and tears" to keep the organization up and running for more than 75 years, it's main committees responsible for tasks including marketing, membership, programs, and fundraising, have worked together to implement the Society's activities. One of Mr. Baba's goals as Executive Director is to increase American membership in the Society and to raise the Society's profile, in the Chicago area.

Mr. Baba said that quality programs are at the core of the JASC's work, and are necessary for attracting participants. Recent events include the Society's annual Bonenkai, or End of the Year Party, with attendance by 230 people, the Korean Wave, a look at the recent rise in popularity of Korean pop culture in Japan, and "The Only Woman in the Room: A Memoir", with Beate Sirota Gordon, who spoke about her part in the writing of the Japanese constitution in 1946. Two of the many events for 2008 include a luncheon speech titled, "Japan and America: Two

Champions Tackling Global Challenges", featuring the Honorable Kenji Shinoda, Consul General of Japan at Chicago, and, on a very different note, "JASC Night at a Chicago Bulls Game."

The JASC and JETRO Chicago have a long-standing working relationship. Over the past year, the JASC has supported JETRO programs including, "The Mindset of Monozukuri," "Anime Focus" and, most recently, "East Asian Economic Integration."

The JASC's consistent depth of program offering appeals to Americans aspiring to obtain knowledge about all aspects of the Japanese culture while also serving as a forum enabling our community to engage in dialogue regarding Japan. In this respect it is a truly unique organization. Mr. Baba is also planning to collaborate with other organizations that have a common Japan-related theme in order to plan more joint forums. The JASC is a valuable resource and asset for the Chicagoland community for learning more about Japan, but more importantly, for meeting Japanese that you would otherwise not have an opportunity to know. Mr. Baba said, "By interacting with Japan, or any foreign culture, you begin to learn about yourself and your own country."

Mr. Baba was born and raised in Tokyo. After earning a degree in Commerce and International Business at Senshu University, he traveled to the United States to pursue an MA in Marketing at the University of Maine. Mr. Baba joined General Electric Japan in 1973 and spent seventeen years in the consumer products division. His move to TDK in 1989 led to his transfer to TDK's North America Sales Division in Chicago. In 2003, Mr. Baba became President of Pacific Advisory Service, a Chicago-based executive and professional search firm.

We encourage you to meet Mr. Baba and his colleagues at the JASC. For more information, visit their website at www.jaschicago.org, or call 312-263-3049.

In this issue ...

- *JETRO Around the Midwest: ... page 2*
- *Ask JETRO: Laws and Regulations ... page 2*
- *Director's Dialogue: Japan as energy supplier? ... page 3*
- *Special Report: East Asia Economic Integration Symposium ... page 5*

[Back to Page 1](#)

Director's Dialogue ... from page 3

- California is approximately the 8th largest economy in the world
- It is the 3rd largest consumer of gasoline in the world (16 billion gallons in 2006), only the United States (as a whole) and China consume more
- There are approximately 26 million registered vehicles in California currently
- \$150 million is spent daily for gasoline and diesel in California

Approximately 90% of California's gasoline is refined in-state, with the remaining 10% being imported from outside of the California border. In an effort to reduce harmful greenhouse gases, health-degrading compounds and minute particulate matter from the environment, California's regulations for gasoline are some of the strictest in the United States. However, due to the stringent standards of California's gasoline, very few refiners outside of California are actually able to produce gasoline within California's required parameters. With few plans for new construction refineries as well as public opposition to existing refinery expansion plans, California may have little choice but to look elsewhere outside of its borders for answers to its fuel deficiencies.

A partial solution to California's problem may come from the aid of Japan. In contrast, Japan has been experiencing a downward trend in gasoline demand due to several factors. One, according to the Petroleum Association of Japan, is an aging Japanese population contributing to a lower birthrate. Other factors include more fuel-efficient automobiles (Japan, being one of the leading countries in average automobile fuel economy with the promotion of fuel-efficient hybrids and "mini vehicles"), as well as an efficient metropolitan public transit system of trains and buses.

In regard to "clean fuels", Japan was the first country to produce a "sulfur-free" gasoline and diesel of 10 parts per million and

Guest View ... from page 1

market."

Several issues are raised by these developments.

One is the extent to which this intra-Asian trade is self-sustaining or, as it is more fashionably put, to what extent is the global economy now characterized by "de-coupling"? Does the high level of intra-Asian trade mean that the ASEAN+6 countries are no longer dependent for their economic health on exports to countries outside the region? In fact, the high levels of intra-Asian trade do not mean that at all. A very significant portion of the intra-Asian trade is in the form of raw materials and semi-processed goods, which are subject to further processing and final assembly in other Asian countries. The ultimate fate of these goods is not consumption in the region but for export to the rest of the world.

In 2005, for example, the founding ASEAN five – Indonesia, Malaysia, Philippines, Singapore, and Thailand – plus the other major exporters of the region – China, Hong Kong, Korea, and Japan – sent some 53 percent of their exports to the U.S., the E.U., and the rest of the world while 47 percent remained within those countries. But 20 years previously, in 1985, some 56 percent was exported outside the region while 44 percent stayed within those countries. Yes, there has been an amazing increase in the volume and value of the region's exports. And yes, there has been a decrease in the percentage of those exports sent outside the region. But Asia continues to remain dependent on the strength of the economies outside the region to maintain its own growing prosperity.

A second key issue in thinking about Asia is whether deepening intra-regional trade – perhaps the prime commitment of the ASEAN

introduce it to the public in 2005, two years ahead of its originally scheduled introduction. Coincidentally, Japan's refining technology for gasoline is adaptable to meet with California's strict guidelines.

Previously, Japan was only selling fuel to the United States on occasional one-shot spot deals. With a fourth consecutive annual decrease in domestic demand for fuel oil in Japan, several Japanese oil companies are planning to increase exports of products to the United States, and perhaps other countries. In 2006, Japan began exporting its ultra low sulfur diesel to California, at approximately 11,000 barrels per day, a relatively small amount. However, in recent years, several major Japanese oil companies have begun setting up operations in California, with exports from Japan of diesel, jet fuel, and eventually gasoline. California, likewise, according to

leaders – is the surest path to achieving Asian prosperity. By now, many academic studies have addressed this question. (See, for example, Philippa Dee, "East Asian Economic Integration and its Impact on Future Growth," *The World Economy*, Blackwell Publishing Ltd., 2007.) Dee examines the gains to economic development to be had from fashioning free trade agreements versus other boosts to development. She concludes that the big gains come from "reforming the... restrictions on competition that affect both foreigners and domestic new entrants equally. This is best done domestically... ." In other words, reforming the regulatory regimes within countries is a surer path to growth than more free trade agreements across the region. Dee estimates that the gains from regulatory reform that increased competition within countries would generate five times more development than more trade agreements.

The same issue has been addressed in a less academic way in a recent book by Joe Studwell entitled, *Asian Godfathers: Money and Power in Hong Kong and Southeast Asia*, (London: Profile Books, 2007). Studwell shows how political connections, not economic efficiency or managerial talent, has allowed the billionaires of Southeast Asia to amass their vast fortunes. Monopolies granted to political cronies and enforced by the governments of the region have created vast wealth for the few and higher prices for the many. The result has been an overall decrease in efficiency and a lessening of economic development.

So while East Asian economic integration has lowered the barriers to trade and increased economic well-being across Asia, there is still more to be done. Fostering domestic competition and economic efficiency is the next key step towards insuring prosperity.

the California Energy Commission, expects its current 10% import (which includes US domestic imports from outside of the California border as well as international imports) of gasoline to increase to as much as 20% by the year 2010.

While California has initiated massive plans for reduced dependence on petroleum fuels, it is a challenging goal, and much of the rest of the United States remains in the same situation. Future technology, as well as cooperative efforts from all areas will be required. In the meantime, the gap between supply and demand may widen. And with Japan experiencing what appears to be an increasing trend towards surplus in petroleum fuels, the state of California may find itself working cooperatively with Japan in order to meet its short-term petroleum fuel needs.

JETRO's Symposium on East Asian Economic Integration: A Review

Ralph Inforzato, Director, Business Development, JETRO Chicago

In early December 2007, JETRO organized a symposium in Chicago inviting East Asian and Midwest thought-leaders to share their insights on the current pace and depth of economic integration from varying perspectives – the United States, China, Japan and the Association of Southeast Asian Nations (ASEAN). The result was a precious array of insights, dialogue and commentaries adding to our knowledge of this increasingly critical region of the world. The following is very brief summary of the presentations.

Building a Holistic Understanding to East Asia Integration



Michael H. Moskow, Senior Fellow for the Global Economy, The Chicago Council on Global Affairs and Former President and CEO, Federal Reserve Bank of Chicago, set the tone for the symposium in his welcome remarks when he identified the

agenda's wide-ranging group of speakers as representing such diverse viewpoints that it constituted a much needed holistic approach in beginning to understand the complexities and the importance of East Asian integration and its significance for world markets. Mr. Moskow said, "The growing economic power of Asia over the past few decades is undeniable but that power has not always been considered from an integrated standpoint." He added that, "it is important particularly for Chicago and the Midwest where so much of the economy lies with agricultural exports, business services and manufacturing, the emergence of a more integrated East Asian economy would be of significant importance."

East Asian Economic Integration: Progress and Business Opportunities



The symposium keynote address was delivered by Yasuo Hayashi, Chairman and CEO, Japan External Trade Organization who cited the economic facts of East Asia which covers Japan, China, Korea and the ASEAN ten nations with a total population

of 3.1 billion, a combined GDP of approximately \$10 trillion with an annual growth rate of 8% to 9% during the past several years.

Mr. Hayashi pointed out that East Asia's high intra-regional trade of 57% compared to NAFTA's 44% reflects an intense cross-border and production network. He illustrated the numerous bilateral and multilateral free trade arrangements among China, Korea, Japan, India, ASEAN, Australia, New Zealand that are either in force, being negotiated or studied which resembled a spaghetti bowl of interconnecting lines (like pasta noodles) though in fact precisely showed the step-by-step process of the de-facto economic integration of this region.

Mr. Hayashi cited the challenges that East Asia may face in achieving a richer and deeper level of integration. First, he explained that the, "risk factors include regional disparities, poverty, environment and energy issues, and inadequate protection of intellectual property rights." Second, he said that, "ASEAN must remain united and improve its competitiveness, while also working to narrow disparities among its member nations." And finally, Mr. Hayashi said that the United States must continue to secure its presence in East Asia as it is the U.S. which is at the center of the region's security framework, and which is a major export market for the region.

Mr. Hayashi provided concrete examples of the collaborative roles for the U.S. and Japan connecting them to the East Asia region at various levels from government to academe to non-profits organizations

For example establishing forums between Japan, the U.S. and East Asia and China to discuss climate change, energy conservation, the social infrastructure and monetary stability is one approach. Beyond bilateral components to enable collaboration would be a pluri-lateral approach like the Asia-Pacific Partnership for Clean Development and Climate. Multilateral level of negotiations on a post-Kyoto Conference and of course the World Trade Organization is an important forum for collaboration.

ASEAN's Message to the American Business Community: Join Us in Economic Integration



Surin Pitsuwan, Secretary General, The Association of Southeast Asian Nations (ASEAN) and Former Foreign Minister, Kingdom of

JETRO Chicago receives positive response to the Symposium

Taka Tsuchiya received many e-mails and letters in response to the recent East Asian Economic Symposium. Here is a brief sample of excerpts:

"Congratulations on the excellent program! What a great success for you and for JETRO. You and your colleagues did a wonderful job of organizing and hosting the conference. I am delighted that it was such a success. And it was a great pleasure to meet Hayashi-san."

Ed Grant, Partner, Andersen

"I just wanted to let you know that I think the Conference was an overwhelming success. It was well conceived, the speakers were good, it was well managed, and well attended. It is one more reflection of the outstanding job you have done for JETRO. Every year JETRO's visibility, position in the Chicago area, and effectiveness as an organization increases."

Loring W. Knoblauch, Former President & CEO, Underwriters Laboratories, Inc.

"I was pleased to attend the East Asian Integration program this morning. Congratulations on a very successful, interesting, and timely program."

John Rogers, President, US Midwest-China Association

"Congratulations on organizing a successful conference. It must have enhanced your reputation in the Chicago community even more."

Warren Batts, Chairman, Methode Electronics

"Great event! Everything seemed to go well from the reception on forward. The topics were interesting and the speakers gave good presentations.

Rich Coplan, Director, Corporate Relations & Development, The Chicago Council on Global Affairs

"Thank you for letting me attend the wonderful symposium. Thank you very much for the kindness of JETRO staff!"

Tomoko Lutz, Commercial Agri Broker, R.J. O'Brien

Continued on next page

Symposium on East Asian Economic Integration ... continued

Thailand articulated a vision of East Asian economic integration that truly connected with the audience. Dr. Pitsuwan indicated that it was ASEAN that brought China and Japan together and that ASEAN brought East Asia and South Asia together. "We put China and India to talk to each other to the point where they now are feeling comfortable between themselves and among themselves. And he had a particularly strong message to our attendees, by saying, "we want you (U.S.) there, we want you to be a part of our success and we want you to contribute to our success so that our prosperity will be the prosperity of America, of the U.S., of the Chicago business community too."

Dr. Pitsuwan identified business opportunities in East Asia for American companies in healthcare, energy management, technology, telecommunications, tourism, logistics and transportation. Importantly, he cited that the most dynamic opportunity that East Asia holds for the international business community is the establishment of a growing and sustainable middle class. He indicated that in twenty years, the ten ASEAN nations will have a combined population of 700 + million with one-third of this population, (233 million) will be considered as middle-class. Dr. Pitsuwan said, "Imagine the opportunities for all of your products, all of your investment, all of your business. I hope you will see the potentiality of East Asia, you will see the potentiality of ASEAN ten countries, plus three, China, Japan, South Korea, if you take plus six - plus India, plus Australia, plus New Zealand – tremendous opportunity. A community is emerging out there."

Engaging East Asia – China's Role



Dr. Angang Hu, Professor and Director, Center for China Study, School of Public Policy and Management, Tsinghua University made a very clear case in describing how Chinese economic growth effects East Asian economic integration. For example,

China's Global ratio of GDP (PPP) was a mere 5.2% in 1980 compared to an amazing 15.1% in 2003. The comparative ratios for the U.S. were 21% of global GDP in 1980 and 20.6% in 2003.

Therefore, by 2005, China's economic growth has resulted in it being ranked either in the first, second, or third partnering positions in Asian intra-regional trade with 21 of its 26

neighboring economies. In 1980, China's world total of merchandise exports were only 0.9% compared to 7.5% in 2005 and an estimated 10% by 2010. And China's imports from Asia totaled 41% in 1980 compared to 66% in 2006.

Dr. Hu stated that China's GDP (constant price) is now 13 times that of 1978 and five times that of 1990. He expects China's economy to grow at an annual rate of 8% in 2005~2020. The key driver of China's growth from 2005~2020 is Total Factor Productivity (TFP), which Dr. Hu indicated will annually average 3.8% and contributing 46% of GDP growth. He said, "China will be the world's largest economy by 2020, this is the Chinese dream going hand-in-hand with East Asia becoming the most dynamic area in the world."

Dr. Hu also indicated that China is faced with multiple challenges such as global climate change, environmental issues, oil resource shortages and conflicts among different interest groups, however, Dr. Hu strongly believes that these challenges can be turned into opportunities similar to the regional cooperation that resulted from the East Asian financial crisis in 1997.

East Asian Economic Integration – Japan's Perspective



Taizo Nishimuro, Former Chairman and Adviser to the Board, Toshiba Corporation, Chairman of the Board, Tokyo Stock Exchange Group. Inc. offered a Japanese business leader's perspective on the East Asia economy and economic integration.

He said that Japanese industry has been active in the East Asian economies since the 1950s, however after the Plaza Accord in 1985 resulted in a rapid appreciation of the yen, Japanese investment in East Asia dramatically increased.

Although, the reasons for Japan's presence in East Asia have slowly changed. In the 1990s, Japan entered into a long phase of restructuring and Japanese industry sought to cut costs by developing in areas of Asia that offered local labor; this move also coincided with Asian industrial development which initiated a sequence of both public and business infrastructure build-out that ultimately ignited massive Asian consumer spending.

In the 1980s, for electronic manufacturers, advances in the modernization of production technology, supported a division of labor in the production process with basic research and design taking place in Japan and final assembly for finished products in Asia where

labor costs were lower. Currently, by 2006, Toshiba produced 95% of its PCs outside of Japan, especially in East Asia, made in China and other countries. With 45%; televisions; 49%; projectors; 94%; DVD players, recorders and VCRs; 76%; hard and optical disk drives were made in Asian countries.

With different stages of production in different geographic areas of the region, the construction of production facilities across Asia stimulated the creation of a physical distribution network. This achievement of an endogenous technology profile also allowed western companies to do large-scale electronic manufacturing as contract service companies, like Flextronics International built a manufacturing presence in Asia. Products were then exported to the developed countries of Europe and the United States. This created a positive environment for physical policy sharing infrastructure development and resulted in more investment in social infrastructure. It was this type of sequence of industrialization and infrastructure build-out that stimulated regional consumer-spending accelerating the Asian economies into a high growth period.

Mr. Nishimuro indicated that Japanese companies have looked beyond East Asia as a low cost area for manufacturing. He said that each country in Asia has its own industrial identity. For example, Singapore plays a strategic role as a center for transportation center, financial services and physical distribution with its airports and port facilities. India and Thailand are involved in various kinds of production including automobiles. While China has made advances in all areas of industrial production, especially Southern and east China have advanced into the petrochemical industry which supports the automotive and construction material industries.

Mr. Nishimuro thoughtfully explained the economic integration that the United States and European Union experienced in their histories, from which he believes East Asian leaders could learn much. For example, he stated that Asia does not at all resemble the European Union's democracy, which has common traditions in many areas, such as Christianity and an Indo-European language. As a means to sustain the deep desire for a permanent peace after the second world war, the European nations began the long road of economic cooperation with The Treaty of Paris (1951) creating the European Coal and Steel Community which became the genesis of today's European Union.

Mr. Nishimuro stated that Asia is very much different. He cited the differences among the nations of East Asia in terms of government

In this issue ...

- *JETRO Around the Midwest: ... page 2*
- *Ask JETRO: Laws and Regulations ... page 2*

- *Director's Dialogue: Japan as energy supplier? ... page 3*
 - *Special Report: East Asia Economic Integration Symposium ... page 5*
- Back to Page 1**

structure, culture, languages, and religious diversity, and economic imbalances on a state-by-state level, however he believes that it is the lack of awareness on the part of governments of the need to integrate and to promote further legal and systemic programs of cooperation that is the most critical challenge. On November 20th, 2007 at the ASEAN's Singapore Summit meeting, a blueprint for a single market, the ASEAN Economic Community (AEC) by 2015 was agreed upon, which Mr. Nishimuro cited this agreement as a first step toward a unified ASEAN market.

Is ASEAN self-sustainable? In Mr. Nishimuro's opinion, ASEAN works only because of other countries' involvement. There are currently discussions of an ASEAN + 3, ASEAN + 6. An East Asian economic alliance began in 1991 with a meeting of East Asia Cooperation in Malaysia. In 1997, at the time of the Asian monetary crisis the first ASEAN + 3 Summit was held. The devaluation of the Thai baht in 1997 and the ensuing monetary crisis taught ASEAN important lessons. First, The World Bank did not have enough funding to save ASEAN from this crisis. Second, the International Monetary Fund, the world's financial security mechanism, could not handle the crisis. Therefore, the first lesson was the existing international system could not solve the ASEAN financial contagion.

The crisis also taught a second lesson, currently due to the economic and financial globalization any significant regional economic event impacts worldwide stock and financial markets. A recent example is the negative impact of the U.S. sub-prime loan problem on the financial markets across Asia and Europe.

This brings concern over the need in the ASEAN region for a mechanism to contain problems so they do not spill over globally. Learning from this experience, a fail-safe component was created among the East Asian financial populations within ASEAN + 3 to insure that a monetary crisis would not occur. Based on the Chiang Mai Initiative (CMI) in 2000, an Asian bond market plan was created. In 2005, a bilateral swap agreement secured \$58 billion and in May 2007 at the ASEAN + 3 financial affairs ministerial meeting the total amount of the fund was boosted up to \$80 billion. The question remains, is this enough to be effective during a crisis? Mr. Nishimuro strongly insists that the initiatives of the Asian Development Bank and its financial power must be strengthened as quickly as possible.

One Man's View of East Asia Integration : U.S. Perspective



Patrick Canavan, Senior Vice President, Global Governance, Motorola Inc., said the company's presence in East Asia began in the 1970s with an operation in Penang, Malaysia, which manufactured components for U.S. and Europe final assembly.

However, he said, there has been a dynamic evolution in the region's education system and wealth-spiral making it an important source of technology and human technical leadership for the company. Change in East Asia was also driven by economic and industry growth and an opening in the regulatory system accompanied by trade liberalization. This now makes the region crucial for Motorola's future survival.

However, Motorola was not alone in its production build-out in East Asia as it discovered more and more of its competitors and suppliers coming to the region. The international technology presence in East Asia became so intense that it put large demands on the public educational systems to educate more engineers. For example, cities like Penang placed a great emphasis on training more technically related people at technology universities. This initial experience of East Asian labor working in the technology sector was critical because it enabled the next generation of East Asian workers to obtain the education and training necessary to advance their skill set into design, product engineering, software and support services. So the shift in the second wave of investment in East Asia was not in large manufacturing facilities, it was investing in small design centers for engineering, marketing and software development.

Today, Mr. Canavan indicated there now is a third wave of investment in the ASEAN countries where we are always trying to identify new clusters of excellence and technical people. He said, "there seems to be a two fold attraction: first, the market is there with a population rapidly increasing the amount of disposable income and the intellectual capital that we want an unfair share of, we want to bring these people into Motorola."

The Asia Pacific region is Motorola's largest and fastest growing region next to that of the United States. As an example concerning the company's regional supply chain, Mr. Canavan

pointed out that Motorola assembles 80% of its cell phones in China but quite often uses design organizations in Taiwan or Korea with chipsets from Japan and liquid crystal displays from Korea using software developed in India. In the next decade, Motorola will add countries to this integrated trans -regional value added chain. He indicated, "the ease of doing business across national boundaries is essential " to deepen integration.

Customization of products and services for local markets, speed to market and lowering costs are the drivers for Motorola to be in East Asia. Progressively, the company is moving headquarters for businesses to East Asia so that the sensitivity of the customer and the marketplace will drive the company's decisions.

So what does mean to a U.S. company as East Asia begins to formally integrate? Mr. Canavan said that it makes it easier for business to enter without worry for tariffs, boundaries and barriers. "It would benefit our overall commercial interest. It means that we should watch and encourage this integration. It means that sourcing from and selling into this region becomes more efficient and it means we can plan for a larger integrated market. Economic integration means a stronger ASEAN, which makes it more attractive from a planning and investment perspective as it becomes more distinctive from China and India."

Mr. Canavan indicated that East Asian economic integration has to be examined alongside the United States' relationship with China. He feels that the major concern in the U.S., and even to an extent in the European Union, is that the rapid growth of the imbalanced trade the U.S. has with China has precipitated political opposition to free trade and globalization. This will no doubt be an elevated issue throughout 2008. He said that China has moved rapidly to implement many of its WTO commitments, including tariff reductions and expansions of trading rights. However, one of the reasons for the heat in the U.S. political debate is that, in the technology sector, China's industrial policies are explicitly seeking to create national technical standards that effectively constrain market access for foreign telecommunication and wireless products. Mr. Canavan said how U.S. trade evolves with China will somewhat, though not totally, determine the context and to some degree the pattern of how the United States responds to East Asian economic integration. He said that the APEC countries and ASEAN can facilitate a U.S. – China dialogue.