Newsletter
No.3 February 2015
Future +

"A brighter future for the next generation"

The Outlook Foundation

ASEAN Economic Community (AEC2015) and Japan – possibilities and opportunities for a sustainable growth region

Teng Theng Dar
Business Compass Consultancy
CEO of Singapore Business Federation (2008-2011)

The long awaited 2015 has finally arrived.

By the end of the year, ASEAN will enter a new phase of development (or evolution if one prefers) by implementing ASEAN Economic Community 2015 (AEC2015). i.e. Expressed in an overly simplified manner, it is one very specific action taken by ASEAN to realize the goal of an integrated Single Market & Production Base within the Region.

This is the year the ASEAN original six members (Brunei, Indonesia, Malaysia, Philippines Singapore and Thailand) will do their respective last dash to get ready for the first roll out of AEC2015 by the end of the year.

Later and by the end of 2020, the remaining four members of ASEAN i.e. Cambodia, Laos, Myanmar and Vietnam will join the ASEAN-6 to form an integrated ASEAN-10 single market thereon.

On the implementation of the first roll out of AEC2015 by the ASEAN-6, goods, services, capital and skilled workers will be allowed to move freely within the ASEAN-6 region.

This will immediately open up new possibilities and opportunities for companies wanting to enter or expand their current businesses in the ASEAN Region. They can now design, develop and implement regional based supply chain and value chain for long term sustainable business growth within one single market.

Simply put, by the end of 2015, a new ASEAN chapter will unfold with new exciting possibilities and opportunities.

At the dawn of this very exciting new phase of ASEAN development, and with the vision of achieving sustainable regional growth and improving the wellbeing of the people, I believe this is one golden opportunity that ASEAN and Japan should seize to form regional partnerships to help transform growth potential into reality.

At the kind invitation of The Outlook Foundation, I have the pleasure to share my personal thoughts, as a businessperson, on the subject of ASEAN Japan partnership for a sustainable growth in the Region.

1. Is strong partnership possible?

The first question is whether an ASEAN-Japan partnership exists and whether it is strong enough for long term partnership for regional co-operation.

Partnership is never a given. It can only be possible if there is confidence and trust between ASEAN and Japan.

In this regard, fortunately, in the eyes of ASEAN, Japan has an established good industry reputation, and to a very high degree, it also enjoys strong business confidence and trust from the Region.

To substantiate this point, appended below are the results taken from the survey commissioned by the Japan Ministry of Foreign Affairs in 2014. (Data source: The poll was conducted online with about 300 literate respondents aged 18 years or older in each country Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, and Myanmar in March 2014.]

On the question of whether it is important to have friendly relations with Japan, out of the sample size of 2,144 respondents, 65% answered "Important", and 31% answered "Rather Important".

On the question of important partner for ASEAN, 65% answered Japan, 48% China, USA 47% and South Korea 37%.

On the image of Japan, the most popular answers among the respondents in all seven ASEAN countries surveyed are:

(1) a technologically developed country (81%)
(2) an economically-advanced country (62%)
(3) a country with beautiful natural scenery (62%)
(4) a country in rich culture" (59%)

On what the respondents interest to learn more about Japan,

(1) science and technology" (58%)
(2) way of life and way of thinking (56%)
(3) foods culture (53%).

Positive industry reputation builds business confidence, and confidence generates trust, and trust forms the basis of good relationship for any economic partnership.

As can be seen from the results, the perception on Japan is very positive. The three key learning interests from ASEAN i.e. 1. Technology; 2. Thinking and 3. Culture, clearly confirm the "confidence" foundation that Japan has built over the years is still going strong, and ASEAN and Japan have a good basis to further advance long-term regional partnership.

2. Benefits of partnership- Enlarged single market

I view ASEAN and Japan as one combined business community of diversity with more than 700 million people that can offer many more years of promising growth potential.

From Japan perspective, this is one most obvious benefit for continuing and furthering of partnership building.

Market size and potential:

ASEAN is a region of more than 600 million people with a forecasted GDP of more than US$4 trillion characterized by its young demographics, fast increasing middle income group, fast expanding urbanization and investment opportunities in almost every sector. (Note: GDP number is based on IMF Database on World Economic Outlook April 2013)

Today, ASEAN and Japan together has a combined market size of over 700 million people, with a GDP of more than US$8 trillion; and as one single market with diversity, it has many development gaps, and thus from business perspective, it offers all stakeholders real business opportunities aplenty.

Demographics:

While Japan market has been and is facing serious challenges in ageing population with about 25% of its population age 65 and above, ASEAN overall is still a very young and growing market.

Below is a table showing the birth rate, population size and age composition of Japan and ASEAN.

Looking at it from business perspective, it can only mean one thing. That the market has current and future growth potential, and it has a good population base and growth rate to justify the development of regional based supply chain network.

Country	Birth Rate	Population	Age 0-14 (%)	Age >65(%)
Japan	0.8	127.3	13.4	24.8
Brunei	1.8	0.4	24.6	3.8
Cambodia	2.5	15.2	31.7	3.9
Indonesia	1.7	251.2	26.6	6.4
Laos	2.5	6.7	35.5	3.7
Malaysia	2.1	29.6	29.1	5.3
Philippines	2.5	105.7	34.0	4.4
Singapore	0.8	5.5	13.6	8.1
Thailand	1.3	67.5	19.2	9.8
Vietnam	1.7	92.5	24.6	5.6

(Data source: NationMaster.com)

Growth & GDP per capita:

Japan is a developed and matured (and ageing) market, but most of the ASEAN members are still in their respective development phases with much upside potentials for many more years.

In fact, Japan market growth in recent years has been on the decline and shrinking in many sectors; in contrast, ASEAN as a region has been and will continue to experience increase in middle-income group that will prop up new demand and propel next phase of regional growth.

Growth and GDP per capita PPP:

Country	Growth Rate (Real)	GDP US$ PPP	GDP PPP US$ Per Capita
Japan	2	5.96 t	36.000
Brunei	0.9	16.9 b	54,100
Cambodia	7.3	14.1 b	2,400
Indonesia	6.2	878.2 b	4,900
Laos	7.9	9.3 b	2,517
Malaysia	5.6	303.5 b	15,117
Philippines	6.8	250.2 b	4,400
Singapore	1.3	274.7 b	57,564
Thailand	6.5	366.0 b	9,500
Vietnam	5.2	141.7 b	3,800

(Data source: NationMaster.com) Legend: t=trillion, b=billion

On GDP PPP in US$, only three countries, Singapore, Brunei and Japan exceeded the level of USD10,000.

Malaysia and Thailand ranked next and at this level of development, simple improvements to factors of production should do the job.

Within ASEAN, only Singapore is considered to be in the innovation-driven stage of economic development, while Malaysia is in transition from efficiency-driven to innovation-driven.

For others who are at the earlier stages of development, adoption of existing technology and practices, investment in essential infrastructures, and provision of a basic institutional framework and health and education facilities should help to drive growth.

Hence, ASEAN still has plenty of headroom for immediate and attainable growth.

With the roll out of AEC2015, what was difficult or impossible in the building of regional supply chain in the past is now a real possibility.

I therefore am convinced that this is one “perfect storm” in Government policies and ASEAN development phase for ASEAN and Japan to work in partnership to stimulate and enable sustainable growth in the single market of 700 million people.

3. Agriculture and food supply chain

Today, Japan is the only country in the Asia region that has excellent and proven track record of innovations, especially in consumer goods; superior R&D capacity and production excellence, highly trained workforce and quality focused discipline and systems. (Note: However, South Korea is catching up in all fronts – White goods, consumer goods, electronics, and K-Pop etc.)

These are the exact key competencies that most of the ASEAN members still lack today.

From Japan perspective, the possibility in ASEAN is therefore almost everywhere.

From market access perspectives, Japan can use the good industry reputation it has earned, and its knowhow accumulated over the years to partner ASEAN and actively contribute to the next phase of regional growth –- but based on the guiding principles of a more innovative, sustainable and inclusive manner.

On the other hand, ASEAN has good incentives to want to partner Japan.

This should help ASEAN fills the capacity gaps in the much-needed knowhow, expertise, and enabling technologies to fast track capacity building and competencies acquisition to implement growth strategies for achieving economic development goals.

Agriculture and food supply chain

I want to see Governments and businesses get more serious on the rethinking of the current separated sector categorization of agriculture and food manufacturing sectors.

They should start looking at the sectors in a holistic manner; especially with today's greater emphasis on food security, food standard and food safety, a holistic approach and coordinated efforts are urgently needed to better plan and manage food supply chain from pre-farm gate, post farm gate, point of purchase and until final consumption.

ASEAN is one very important food source of the region if not the world. Urgent attention to the sectors is strongly recommended to ensure sufficiency in food supplies within ASEAN, and at the same time hopefully to provide additional supplies to global food demand.

Both agriculture and aquaculture sectors are also critically important to the Region as enablers for new industries development, and thus opportunities for new job creation too. Naturally, they are (but always forgotten?) the backbone of ASEAN food security.

Today, ASEAN farming communities are still generally lagging behind in agriculture and aquaculture best practices as well as in technology adoption.

The sectors, especially the traditional ones, have yet to really reach the position to enjoy economic benefits through improved yield, quality assurance and higher productivity etc.

Next to the challenge is the high food losses and food wastages suffered at both pre and post farm gate activities.

According to U.N. Food and Agriculture Organization (FAO), more than half a billion people in the Asia Pacific region suffer from hunger, yet an estimated 42 percent of fruit and vegetables and a fifth of the grains produced here are lost or wasted.

In the ASEAN Region, food is lost in transit from rural production areas to urban consumers because of poor quality roads, hot and humid weather conditions and poor packaging.

On food wastes, as reported by The Nation (Dated: Aug 29^{th}, 2013 Thailand),

Quote:

We should be ashamed that, globally every year, an area of land three times the size of Thailand is used to grow food that is simply thrown away.

About 1.3 billion tonnes of food is lost and wasted globally every year, and one-third of all food produced, worth about US$1 trillion (Thai Baht32 trillion), is lost or wasted in food production and consumption, according to the United Nations Food and Agriculture Organisation (FAO).
The agency says the amount of food lost and wasted each year is more than four times what would be needed to solve the world's hunger crisis. Just a quarter of the food wasted is enough to feed the 870 million people, it says.

Poor planning, lack of storage facilities, weak transportation systems, crop disease and parasites are the main causes of food being lost before it reaches consumers.

And there is also a growing problem of waste on the part of supermarkets, restaurants and consumers. More and more food is being thrown away, and this trend seems to increase with greater urbanisation.

About 35 per cent of food is lost or wasted after harvest, according to Hiroyuki Konuma, the FAO's assistant director for Asia. "More effort is needed to raise global awareness of the critical issue of food losses and particularly post-harvest losses, as well as food waste, which is increasing," he says.

MS Swaminathan, a geneticist who helped shape India's "green revolution", is also worried about food waste. "Food waste is also a waste of natural resources, like land and water. Food losses and waste are becoming central to discussions on both food security and sustainable development."

Unquote.

On the other hand Japan, with a limited land area and only 20% of Japan's land is suitable for cultivation, has over the years built up its knowhow, expertise and technologies in agriculture, aquaculture and food manufacturing including food safety standards, food packaging, work process innovations and supply chain management.

In the aquaculture sector, Japan has also made great advancement in the techniques of aquaculture.

Artificial insemination and hatching techniques are used to breed fish, which are then harvested or released into rivers or seas for harvest at a later stage.

Unfortunately, the over protective regime adopted by the Japanese Government has partly caused distortions in market practices for many years, resulting in many technology breakthroughs being kept and used in Japan despite high operating costs; and as a result, many in ASEAN are not fully aware of Japan’s unique capabilities in these important sectors.

This has in turn led to the unfortunate limited awareness of Japan technology in agriculture and aquaculture sectors (Note: vs auto, electronic, IT games, and industry robot sectors), and in earning the market reputation of “good quality but too expensive” for almost all Made in Japan products.

For Japan to remain competitive and relevant to the new and evolving marketplace like ASEAN, it should therefore seriously consider the development of a regional value and supply chain strategy to spread the goodness of its knowhow, expertise and technologies to achieve mutual economic gains.

Especially and specifically in the managing of food supplies, ASEAN and Japan should collectively commit to long-term partnership to raise food supply quantity, food quality, and consistency in accordance to harmonized food standard and safety.

Within the Asia Region, this most probably is one area that Japan can contribute the most, and I would even say that it is more so in food processing knowhow and food packaging technologies that ASEAN will highly value for adoption.
With AEC2015 and the existing ASEAN-Japan FTA, the ground is obviously filled with many new possibilities for Japan to monetize its expertise and technologies by contributing to sustainable agriculture and aquaculture growth in ASEAN.

In addition to using its expertise and technologies, Japan can also, on commercial basis, share its industry discipline and productivity enhancement knowhow for localization and adoption by ASEAN businesses to drive process and production efficiency, increase output and optimize production costs. (Note: For clarity, I do not advocate the transfer of its antiquated regulatory regime to the ASEAN Region though.)

On the other hand, ASEAN can have access to proven knowhow and technologies in agriculture and aquaculture sectors to fast track its sector development programs, upgrade technology and management capabilities to achieve higher productivity and sustainable sector growth.

Over the years, Japan has mastered both the science and arts in agriculture and aquaculture, food manufacturing and food safety assured supply chain system.

The mutual beneficial partnership therefore will go a long way to not only enabling sustainable sector growth and job creation, it also helps the region to work together to address common challenges faced in food security.

<u>SME network & collaboration</u>

Japan has more than 4 million SMEs or 99.7% of total non-primary business establishments.

Operating for many years in the highly competitive Japan domestic market, many of them are highly specialized and technologized to make it to this day.

However, many of these SMEs are now facing real challenges like shrinking domestic market, weak connection to global supply chain, shrinking labor pool, and most of all the issue of successor planning.

Many of them are facing the reality of having to shut down their businesses due to the absence of successors, and with the business closures the total loss of business knowhow and expertise too. (Note: Due to the different stage of development between Japan and ASEAN, these business knowhow and technologies can be of relevance and value in the ASEAN Region.)

On the other hand, SMEs are also integral to the economic development and growth of the ASEAN Region.

SMEs in ASEAN account for more than 96% of all enterprises and absorb 50% to 85% of domestic employment.

The contribution of SMEs to GDP is between 30% and 53% and the contribution of SMEs to exports is between 19% and 31%.

Similar to Japan, they are important in terms of income and employment generation, gender and youth empowerment through business participation.

SMEs are undoubtedly the backbone of ASEAN economic growth, and SME development is integral to achieving long-run and sustainable economic growth.

If we take the differences in stage of economic development between Japan and ASEAN as “time differences”, and AEC2015 as a “real time tunnel” to facilitate to and fro exchange movements between Japan and ASEAN with countries lining up along the tunnel in accordance to the respective stage of development, then I guess it becomes very clear about how, ASEAN2015 as the pipe formation in the tunnel, can enable regional integration and growth.

The end goal is therefore for ASEAN and Japan partnership to work toward a shorter and stronger “time tunnel”.

<u>Urbanization & the creation of smart cities</u>

ASEAN urbanization is still growing.

Country	Urban Pop (%)	Major Cities	Growth % (1960 – 2000)
Japan	91	Tokyo	N.A.
Brunei	76	N.A.	N.A.
Cambodia	20	N.A.	N.A.
Indonesia	51	Jakarta	300
Laos	34	N.A.	N.A.
Malaysia	73	KL	850
Myanmar	33	N.A.	N.A.
Philippines	48	Manila	379
Singapore	100	Singapore	87
Thailand	34	Bangkok	348
Vietnam	31	Hanoi	278

Data source: Kentucky University, Urbanization in SE Asia; World urbanization prospects

In the case of Tokyo core and suburban area, the chart below illustrate the population growth trend from 1920 – 2010. In a way reflecting the population growth challenge faced by the country, the chart shows a slowing down of population growth in the suburban areas too.

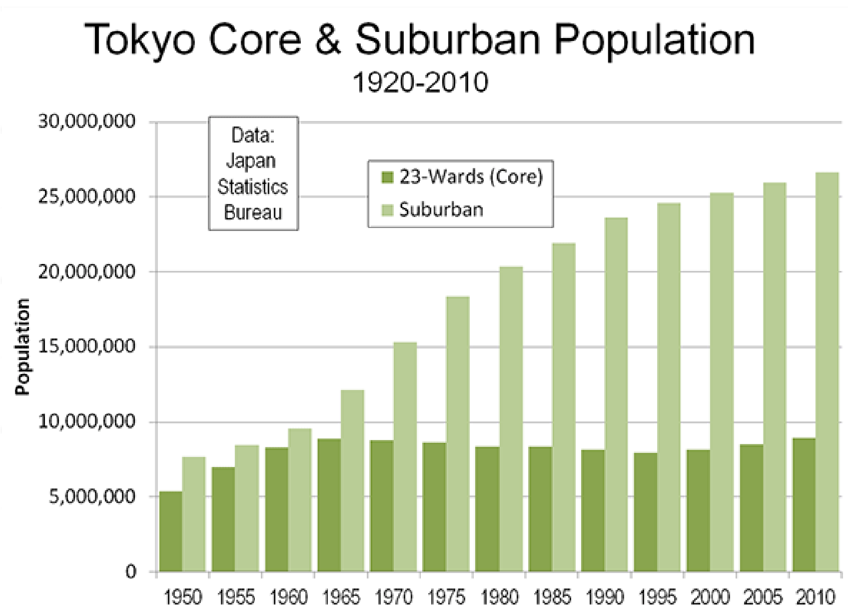

Figure 1

Urbanization is currently one global issue that attracts much attention and discussions, and in particular the ASEAN Region where growth is known and urban expansion is progressing at high speed.

However, much of current urbanization in the Region is unplanned and many cities suffer from poor basic services and the lack of critical facilities, severe traffic congestion and various pollution problems. They are increasingly posting serious challenges to the city environment, city and business services, and comfort of residents. e.g. Bangkok, Jakarta, Kuala Lumpur and Manila.

Unlike in the past, urbanization of today must give priority consideration to designing an overall ecosystem to ensure lifestyles of the people and in which businesses can grow. e.g. Elements such as ease of travel, energy efficient buildings, transportation & communication systems and administrative services etc.

All of these have to be established within five to ten years and in a way that makes them effectively relevant in the future.

The approach of using the same old methods to improve the Quality of life (QoL) of city residents and at the same time to grow low carbon emission economic activities is definitely not workable.

Thus the birth of smart cities.

Smart cities are a new generation of city providing sustainable growth and designed to encourage economic activities while causing minimum to zero burden on the environment and offer high QoL for their residents. e.g. Low carbon emission transit system, energy efficient building, traffic congestion free, safe drinking water etc.

The motivation for implementing smart cities is not simply a question of changing the outer appearance of urban city areas; it is a quest to bring innovation to improve the lifestyles of the residents themselves.

Concurrently, the active employment of ICT technology (Information and Communications Technology) will provide smart cities with new solutions to the current problems on an unprecedented scale. e.g. Adoption of ICT and e-services to reduce unnecessary people and vehicle movements.

Many of these innovations were unthinkable in the past, such as e-government services, e-commerce & internet shopping, smart homes or buildings (i.e. energy efficient as well as energy producing homes or buildings), ICT enabled home or office automation, and very soon the availability of internet medical services etc., with ICT adoption, smart cities will revolutionize service delivery and raise QoL dramatically.

Thus the quality of urbanization planning and implementation will determine the success in the implementation of long-term sustainable growth in ASEAN.

Back to Japan. To further improve the functions of cities through CO_2 emission reduction, Japan Government has been running the “Eco- Model City” program since 2008.

It selected cities with a variety of population, geographical and industry backgrounds. The cities are Yokohama, Kitakyushu, Keihanna (Kyoto Prefecture) and Toyota City.

Riding on ASEAN-Japan partnership and AEC2015, Japan can and should build region wide supply chain to lower production costs, improve efficiency and apply its smart city knowhow, expertise and technology capabilities to support ASEAN's urban redevelopment programs as well as transportation & communication systems.

This smart city development collaboration between ASEAN and Japan alone can at least run for the next 20 to 30 years.

4. Action is the key

In the immediate term, Japan businesses should put its established goodwill with ASEAN into good use by pursuing partnership opportunities in ASEAN to sustain growth momentum.
Large enterprises from both ASEAN origins and global players have already started their respective regional integration initiatives much earlier, and thus they will be the first group of businesses to extract additional benefits from AEC2015.

However, majority of ASEAN and Japan SMEs that make up more than 95% of total business establishments have yet to make their first moves. This has been partly caused by the rather restrictive (protective) regulations that make SME regionalization very difficult if not impossible.

Not any more. (With the exceptions of listed sensitive sectors.)

The spill over effects expected from investments made by the large enterprises plus the AEC2015 rule based regime can enable ASEAN and Japan SMEs expand and regionalize their respective businesses through business alliances or using various collaboration models.

With the majority of the 95% of business establishments in the wait for so many years, I expect AEC2015 to stimulate and enable more SMEs to regionalize their businesses – may it be done in partnership with large enterprise or between SMEs.

If regionalization of large enterprise, both ASEAN and global origins, is taken as the first wave of growth in ASEAN, then this SME regionalization in ASEAN can be called the second wave of growth to produce a real lift up effect across the whole region.

However, in realizing the real potentials of ASEAN, more concerted efforts are still needed to promote correct awareness and to then build momentum on AEC2015; in particular the SMEs.

In this regard, I suggest three ideas.

1. Capacity building:
   Seek and promote partnership between ASEAN and Japan education and training institutions to offer regular, relevant and structured courses, training and internship exchange opportunities for regulators, business persons and students. All programs should also include culture exposure opportunities and programs. Considering that youths are our tomorrow, a separate program under this track should be exclusively designed for youth groups.

2. Business facilitation:
   Establish and support ASEAN-Japan startup network as well as enterprise exchange network – focus on the provision of facilitation services like technology and opportunity discovery, business & technology matching, mentoring and startup collaboration support network. Like capacity building, there should also be a youth entrepreneur program under this track.

3. Funding:
   The creation of ASEAN-Japan venture/angel funds to support promising businesses with scalability to accelerate growth and fast track regionalization.

AEC2015 will start soon.

Large enterprises are already gear up to have their second bite on growth opportunities in the region.

The second wave of growth driven by SMEs is also in the brew.

I encourage more Japan SMEs to learn about ASEAN possibilities and their counterparts in the region to partner for business opportunities.

Act soon to become a contributing and responsible member of the second growth wave, and together to create a better and sustainable region of QoL for all of us.

Author’s profile

Teng Theng Dar

After graduated from School of Commerce, Waseda University in 1979, he joined Kao Corporation, Japan and was tasked by the Company to coordinate regional product development and marketing strategy for the SE Asia markets. He remained with the Company until 1992 and thereafter he served as CEO/MD of various listed companies in Australia and Singapore.
In years 2008 -2011, he was CEO of Singapore Business Federation（シンガポール事業連盟）, 2003 - 2011, Member of APEC Business Advisory Council (Note: Chair 2009, APEC Singapore Year, Co-Chair 2008 APEC Peru Year and 2010 APEC Yokohama Year). He also served as member of various business councils and Government policy feedback committees. He is currently running his own firm Business Compass Consultancy.
Based in Singapore, his business focus is on strategy advisory services for the ASEAN+ Region and the Sultanate of Oman.
Capitalizing on his language skill, years of cross border management experiences, and wide business network, he is actively promoting and facilitating technology exchanges and R&D collaborations for the ASEAN region via Singapore, and the Sultanate of Oman for the Gulf Cooperative Council Region. e.g. www.eabex.org., http://visionedge.bizdx.com .
His current key appointments include:
Singapore’s Non-Resident Ambassador to the Sultanate of Oman,
Adviser, External Relations for SE Asia Region, Shizuoka Prefecture Government, Japan Industry Specialist, JETRO Singapore
He is also a member of Advisory Board, Singapore National Youth Achievement Award; Steering Committee member, ASEAN-Japan Business Meeting Group（経済同友会）

The Outlook Foundation sets out proposals for a better future.
Your feedback, including validation, advice, constructive criticism and proposals are most appreciated.

abrighterfuture@theoutlook-foundation.org

Today, the evolution and maturation of our society inevitably involves aging demographics and a low birth rate. In a nation which is confronted by this superannuation phase ahead of its global peers, the Outlook Foundation aims to establish in the next 30 years the first model by which such a society can continue to develop and prosper, and thus present a brighter future vision to younger generations. To achieve this goal, we must incorporate core solutions such as restructuring education, reforming our social system to effectively integrate our younger workforce and support female workers, promoting the independence of local societies and economies, revitalizing our unique local cultures, implementing an objective, direct and open information system, and rising to a higher level of communication with other nations. We are facing these challenges, discussing the issues in depth, summarizing them in proposals, and disseminating them to the world. Exchanges of opinions and communication inspire new ideas. As a first step, we are distributing thematic newsletters on these challenges. Your candid opinions are always welcome.