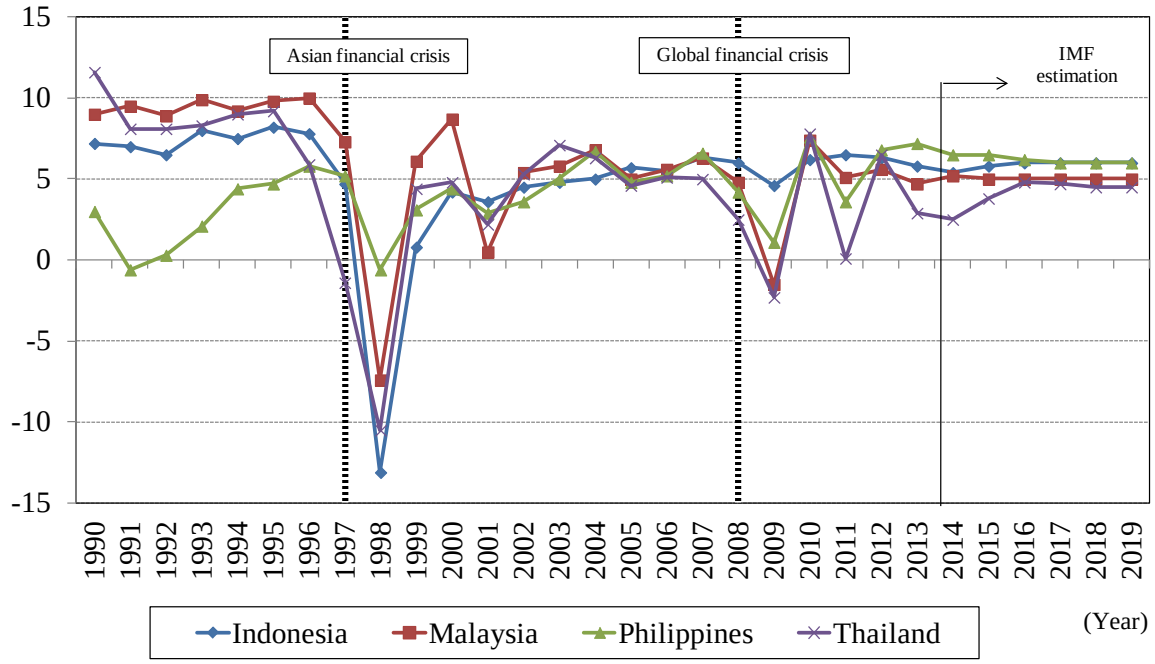
Section 4 ASEAN moving on to the next growth stage

ASEAN4 (Thailand, Malaysia, Indonesia and the Philippines) have maintained relatively firm economic growth compared with other countries around the world, after experiencing significant negative growth due to the Asian currency crisis in 1997[116]. In 2013, three countries of ASEAN4 excluding Thailand[117] recorded relative high economic growth rates ranging from 4.7% to 7.2% compared with the previous year, supported by private consumption and investment (Figures II-1-4-1 to II-1-4-3).

Figure II-1-4-1 Trends in the real GDP growth rate among the ASEAN4

(Comparison with previous year, %)

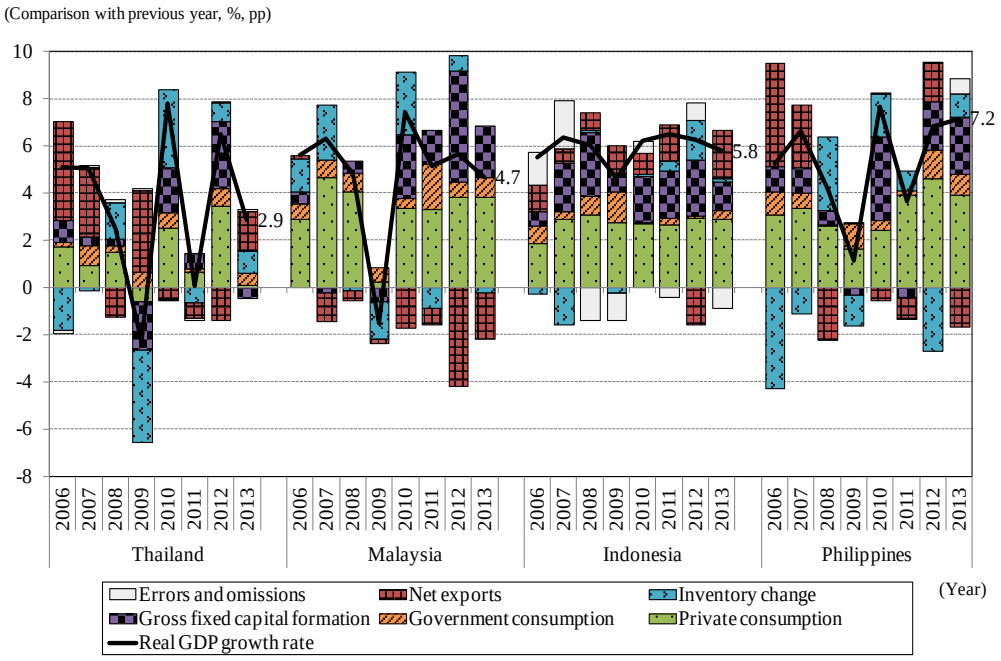


Notes: Figures for 2014 onward are estimates.
Source: *WEO, April 2014* (IMF).

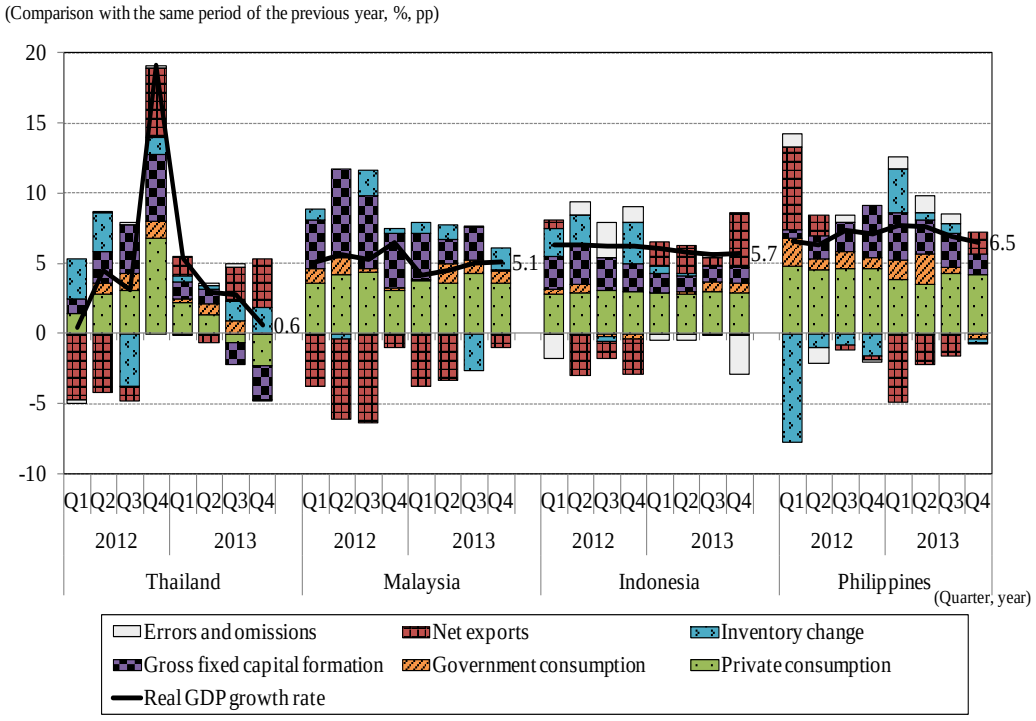
[116] Refer to Chapter 2, Section 1, "Economic Fundamentals in Emerging Countries, etc." with regard to the Asian currency crisis and to Part 1, Chapter 1, Section 1 "Changes since the global economic crisis" with regard to world economic trends.

[117] In Thailand, the real GDP growth rate in 2013 was 2.9% compared with the previous year because of sluggish demand due to such factors as the absence of the recovery demand from floods that boosted growth in 2012, the expiry of a measure to support first car purchases at the end of 2012 and escalated anti-government demonstrations in the October-December quarter of 2013.

Figure II-1-4-2　Trends in the real GDP growth rate and contribution by expenditure among the ASEAN4 (left: annual basis; right: quarterly basis)

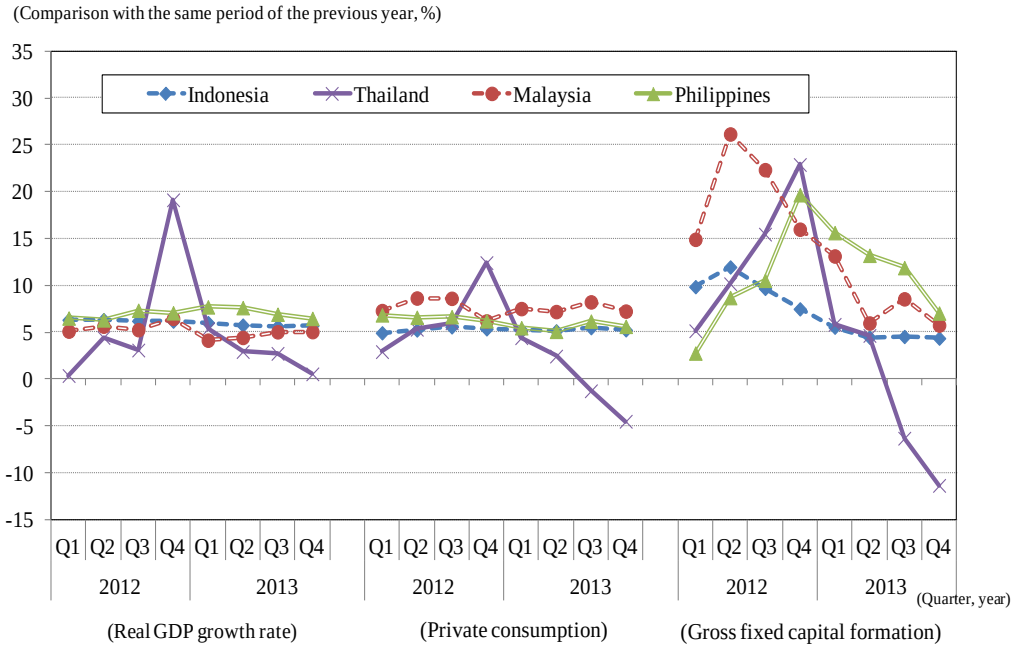


Source: Government statistics from each country, CEIC Database.

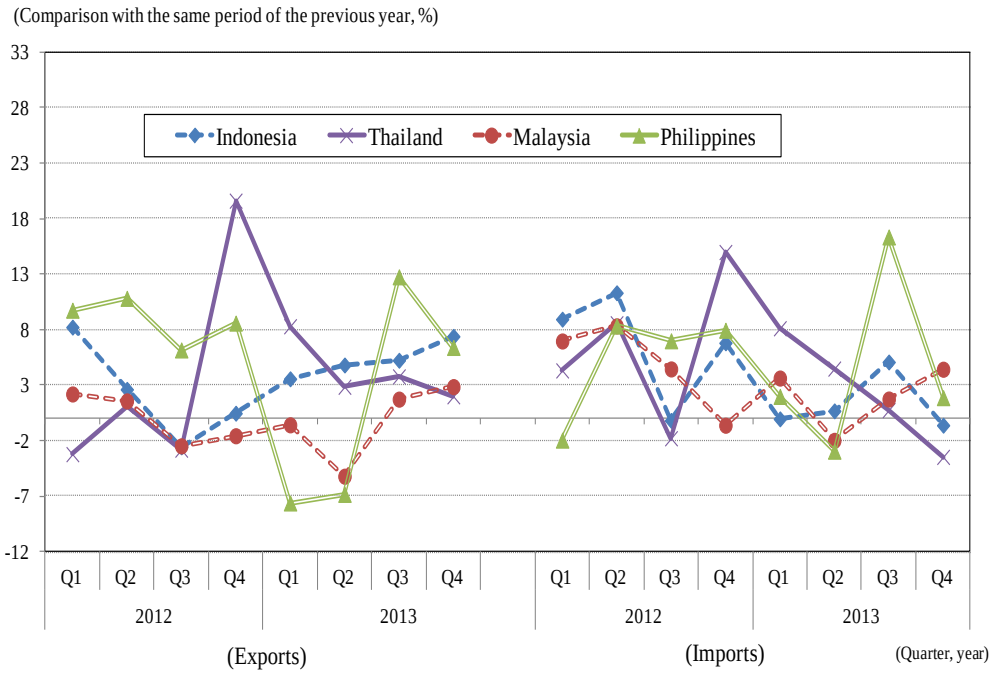


Source: Government statistics from each country, CEIC Database.

Figure II-1-4-3　Trends in the real GDP Growth Rate and Each expenditure among the ASEAN4 (comparison with the same period of the previous year)



Source: Government statistics from each country, CEIC Database.



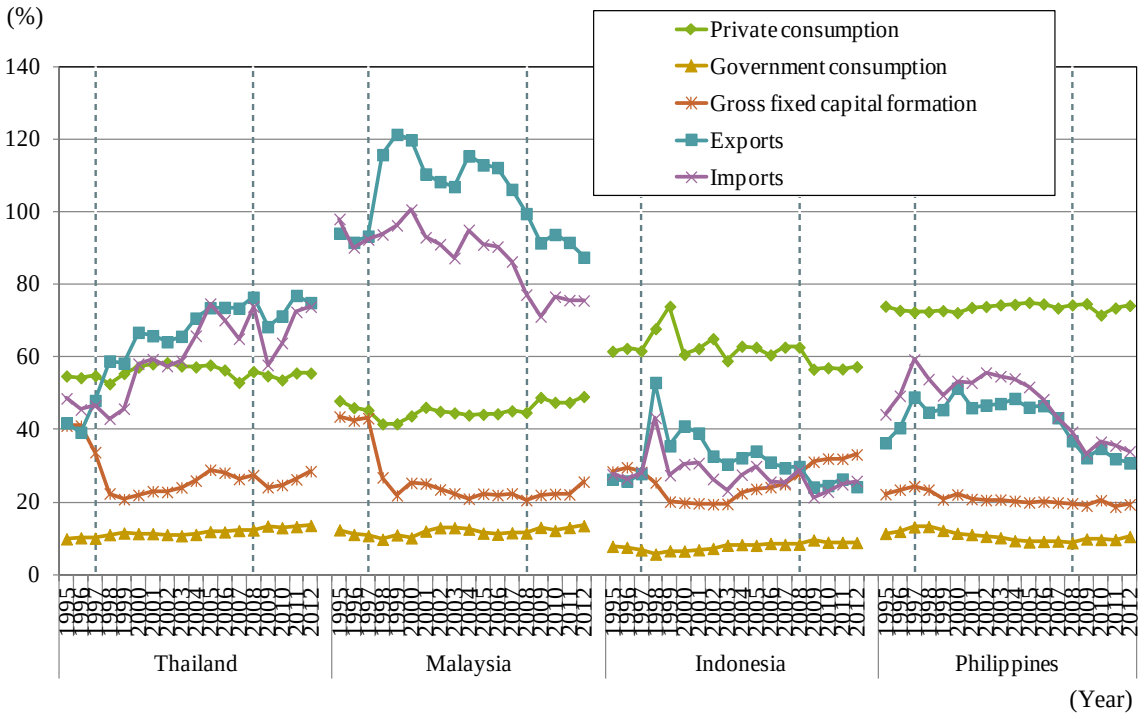
Source: Government statistics from each country, CEIC Database.

As for the characteristics of individual countries' economic structures, by expenditure, exports' share of nominal GDP is relatively large in Thailand and Malaysia compared with other components' shares, while private consumption's share is relatively large in Indonesia and the Philippines (Figure II-1-4-4). By industry, the manufacturing industry's share of nominal GDP has recently been growing in Thailand, while it has been declining in the other three countries. In Indonesia, the share of the

secondary industry excluding manufacturing (such as mining) has been growing, and in Malaysia and the Philippines, the share of the tertiary industry (services industry) share has been rising (Figure II-1-4-5). A look at trend in the countries' current account balance shows that the Philippines' current account surplus has been expanding, supported by workers' remittances (registered in the secondary income balance) and the services trade surplus. However, the other three countries have been recording a shrinking current account surplus or an expanding current account deficit, mainly due to the narrowing of their trade surplus (Figure II-1-4-6).

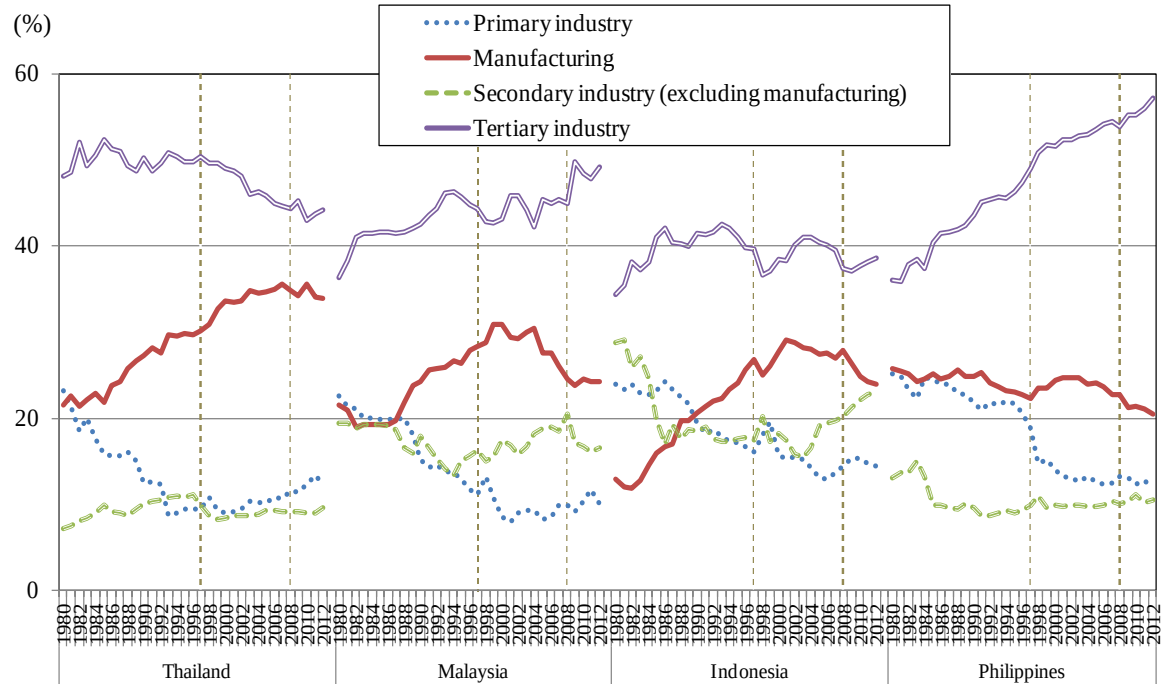
While the characteristics of the economic structure and the economic situation differ from country to country, the governments of these countries have announced structural reform initiatives with a view to promoting promising industries in order to achieve sustainable economic growth. Below, we look at the contents of each country's initiative.

Figure II-1-4-4 Trends in the component ratio of nominal GDP by expenditure among the ASEAN4 (1995-2012)



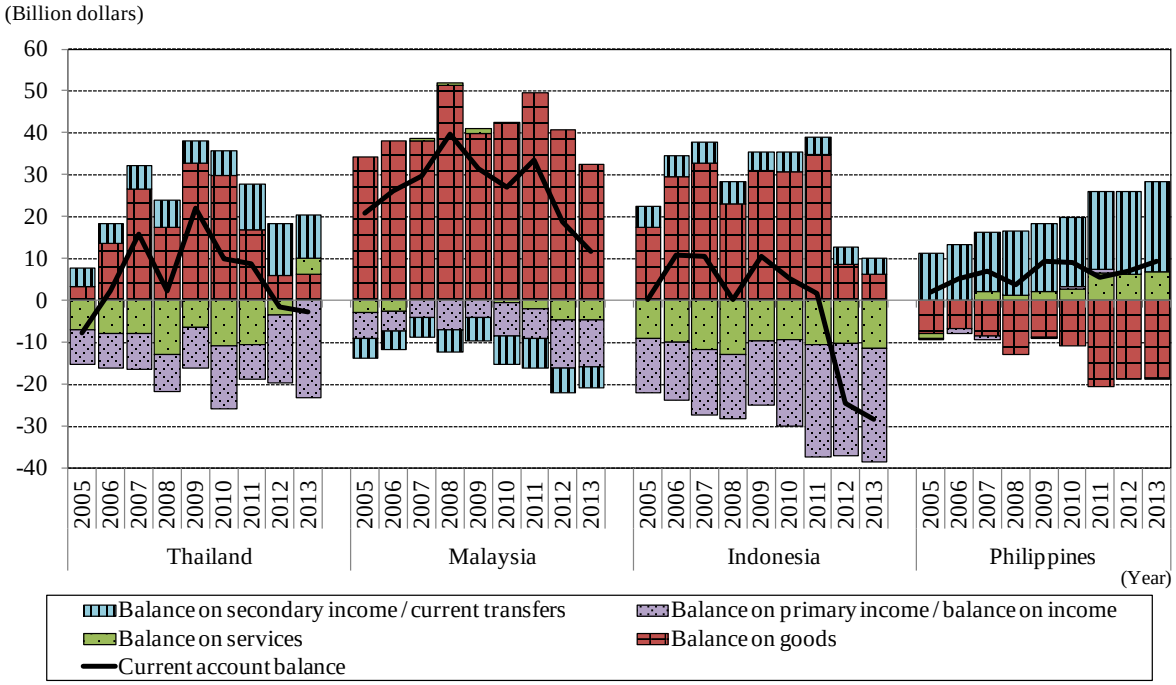
Notes: Vertical dotted lines indicate 1997 (the Asian financial crisis) and 2008 (the global financial crisis).
Source: *WDI* (World Bank).

Figure II-1-4-5 Trends in the component ratio of nominal GDP by industry among the ASEAN4 (1980-2012)



Notes:
1. Secondary industry (excluding manufacturing) consists of mining, construction, electricity, water, and gas.
2. Vertical dotted lines indicate 1997 (the Asian financial crisis) and 2008 (the global financial crisis).
Source: *WDI* (World Bank).

Figure II-1-4-6 Trends in the current account balance among the ASEAN4



Notes: Figures for Indonesia are based on the 5th edition of the IMF's Balance of Payments Manual (balance on income, current transfers), while all others are based on the 6th edition (balance on primary and secondary income).
Source: Each country's statistics, CEIC Database.

1. Thailand

Based on its experience of the Asian currency crisis, Thailand has achieved growth by actively inviting foreign investment and promoting exports while restricting capital transactions with other countries. The government of Thaksin Shinawatra (2001-2006) adopted a "dual track" policy to generate growth driven by both domestic and foreign demand and had the National Competitiveness Committee, which was established in 2002, designate five industries – automotive manufacturing, fashion, foodstuff, tourism and software — as strategic industries for which Thailand already had certain industrial infrastructure and which had the potential to compete in the global market through differentiation. In addition, the government promoted the clustering of strategic industries through the combination of free trade agreements and invitation of foreign investments. Subsequently, as the abolition of tariffs within the ASEAN region proceeded due to the AFTA (ASEAN Free Trade Area) and the ASEAN plus 1 FTAs, the integration of the automotive industry, including the parts industry, in particular has accelerated in Thailand, making the country a global production base for pickup trucks[118]. In terms of the value of exports of trucks weighing 5 tons or less[119], Thailand was the global No. 1 in 2013[120] (Figure II-1-4-7 and Table II-1-4-8).

The government proposed the idea of making Thailand the Southeast Asian production and export bases for the electrical and electronics industries and announced a series of investment promotion measures in these fields. In 2004, the Board of Investment (BOI) of Thailand introduced an investment promotion measure for the hard disc drive (HDD) industry, and in 2006, it granted more generous benefits, including corporate tax exemption of up to 13 years, to the electrical and electronics industries, whose capital investments are made over a long period of time, than to other industries[121].

Against the backdrop of this policy, inward foreign direct investment, which was on a downtrend after the Asian currency crisis, started growing in 2003 (Figure II-1-4-9)[122]. At around the same time, exports by the manufacturing industry: mainly exports of electronics equipment, agricultural and fishery processed products and automobiles, increased (Figure II-1-4-10); so exports' share of nominal GDP increased (Figure II-1-4-4 (presented earlier)). In 2006 and 2007, domestic demand was sluggish amid political turmoil due to such factors as a coup d'état, while exports supported growth (Figure II-1-4-2 (presented earlier)).

In "The Eleventh National Economic and Social Development Plan (2012-2016)", which was announced in October 2011, the Office of the National Economic And Social Development Board of Thailand (NESDB) concluded that there had been constraints on the improvement of Thailand's competitiveness due to the economic structure that relied on foreign investments, exports and low-wage labor and indicated a policy of promoting high-value added industries in order to strengthen

[118] Ministry of Economy, Trade and Industry (2004) and Oizumi (2013).
[119] HS Code 870421 (including one-ton pickup trucks).
[120] For Thailand's automotive policy, refer to Chapter 2, Section 4 "Automotive policy in Mexico, Thailand and India."
[121] JETRO (2006, 2007). Thailand's share of global production of HDD in volume is the largest in the world at 43% (2010) (Ministry of Economy, Trade and Industry (2012)).
[122] Vehicles are included in the "machinery and metal processing" category of the industry categories classified for inward foreign direct investments.

competitiveness. Based on this policy, in January 2013, the BOI announced 10 fields designated for investment promotion ((i) basic infrastructure and logistics, (ii) basic industry, (iii) medical device and scientific equipment, (iv) alternative energy and environmental services, (v) services that support the industrial sector (e.g., research and development), (vi) advanced core technologies, (vii) food and agricultural processing industry, (viii) hospitality and wellness (tourism and sport promotion activities), (ix) automotive and other transport equipment and (x) electronic and electrical appliances)[123]. In addition, from 2012 to 2013, the minimum wage was significantly raised. In October 2012, the Thai Ministry of Labor released a survey finding that "the minimum wage rate does not obstruct the overall expansion of the national economy and it also does not affect business operation and private investment, increase the unemployment rate or create layoffs and force businesses to shut down. Instead, the minimum wage rate helps increase workers' income, betters quality of life, purchasing power and work morale resulting in improved productivity"[124]. In February 2014, the average wage in the manufacturing industry in Thailand increased around 45% compared with January 2011 (Figure II-1-4-11).

So far, various policy measures have been announced, including an infrastructure development plan announced in 2013 that is worth a total of 4 trillion bahts (equivalent to approximately 40% of nominal GDP in 2012; including borrowings of 2 trillion bahts[125]) from 2013 to 2020. Attention should be paid to the effects of a future political situation.

[123] http://www.boi.go.th/upload/content/2013-01-16%20seminar%20news_FINAL_84913.pdf

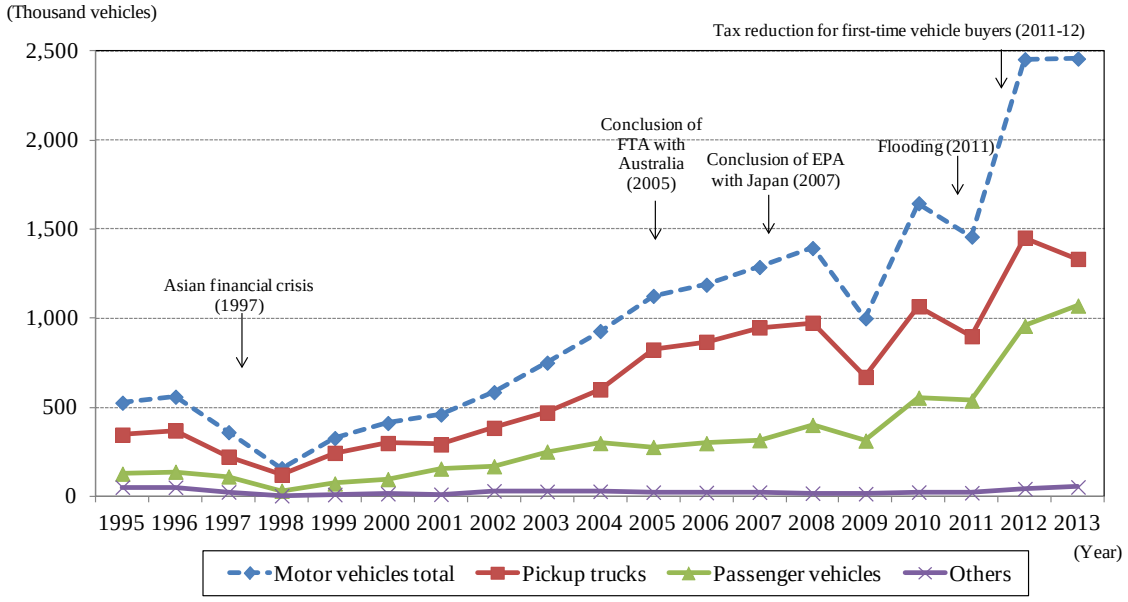
This new investment promotion measure was initially scheduled to be introduced in the middle of 2013 but the introduction will be put off until January 1, 2015.

http://www.boi.go.th/upload/content/2013-05-22%20press%20release%20-%20new%20strategy%20time%20frame%20ENG_80177.pdf

[124] http://www.mol.go.th/sites/default/files/downloads/pdf/Wage_2013_Eng.pdf

[125] In March 2014, the Constitutional Court of Thailand ruled that the bill for borrowings of 2 trillion bahts for the infrastructure development plan was unconstitutional.

Figure II-1-4-7 Trends in the number of motor vehicles production in Thailand



Notes: The pickup trucks category includes pickup passenger vans.
Source: Federation of Thai Industries (FTI), CEIC Database.

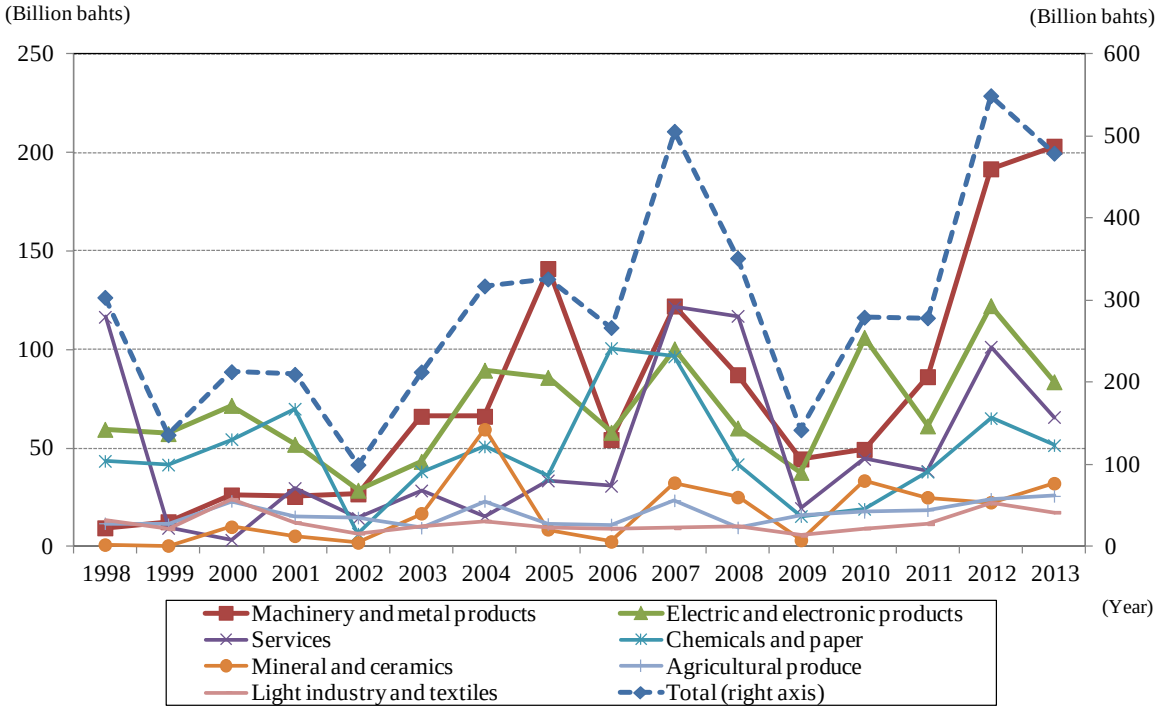
Table II-1-4-8 Major exporters of trucks weighing less than 5 tons

(Billion dollars, %)

	Value of exports	Share
Total	61.1	100.0
Thailand	7.5	12.2
Germany	5.0	8.3
Spain	4.2	6.8
Italy	3.4	5.6
France	3.3	5.4
Mexico	2.0	3.2
ROK	1.7	2.8
Japan	1.7	2.7
Poland	1.5	2.4
Belgium	1.3	2.1
UK	0.9	1.5
China	0.8	1.2
Other	28.1	45.9

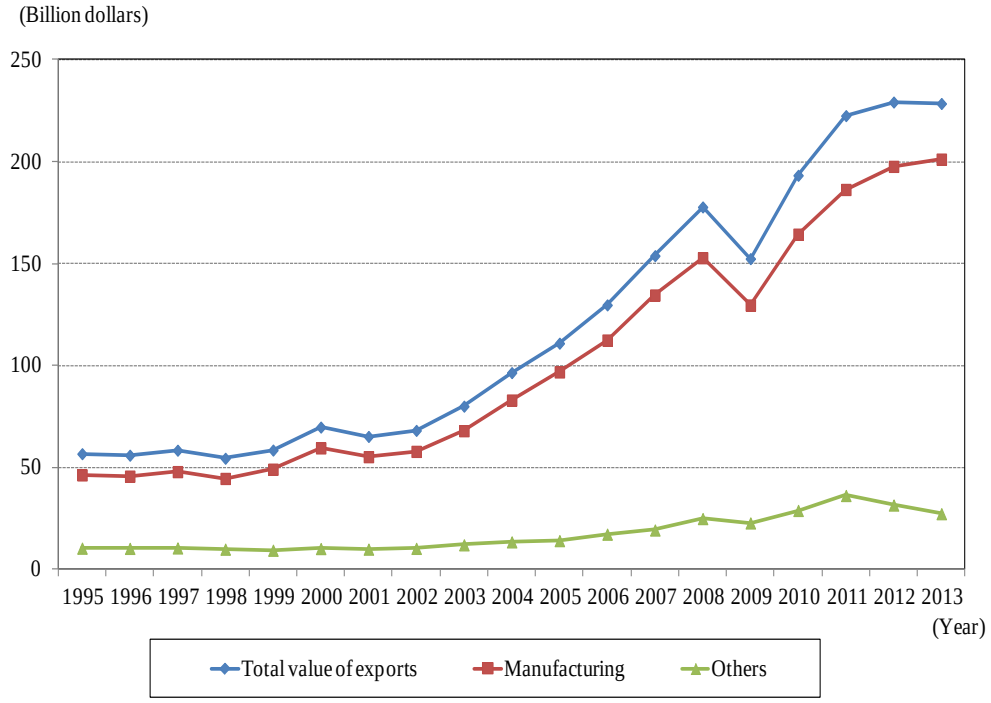
Notes: HS870421.
Source: Global Trade Atlas.

Figure II-1-4-9 Trends in the value of foreign direct investment in Thailand (by industry)

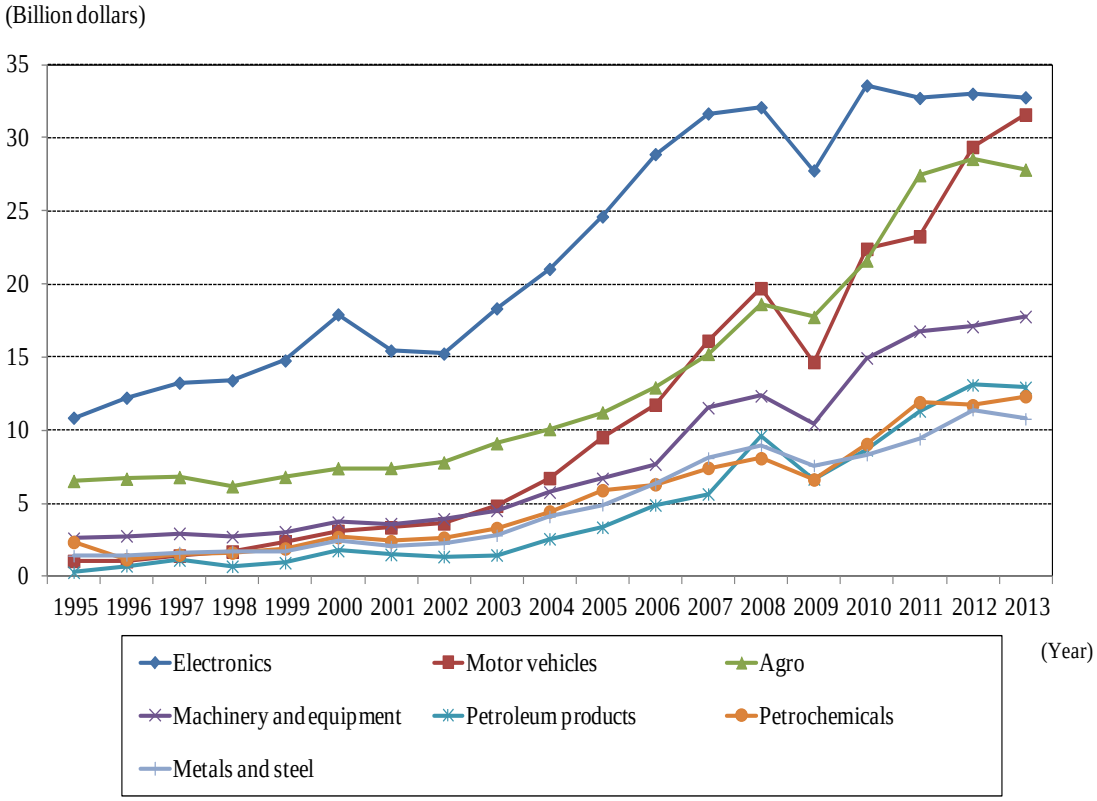


Notes: Approval basis.
Source: Thailand Board of Investment (BOI), CEIC Database.

Figure II-1-4-10 Trends in the value of exports from Thailand (top: total value; bottom: by major manufacturing industry)

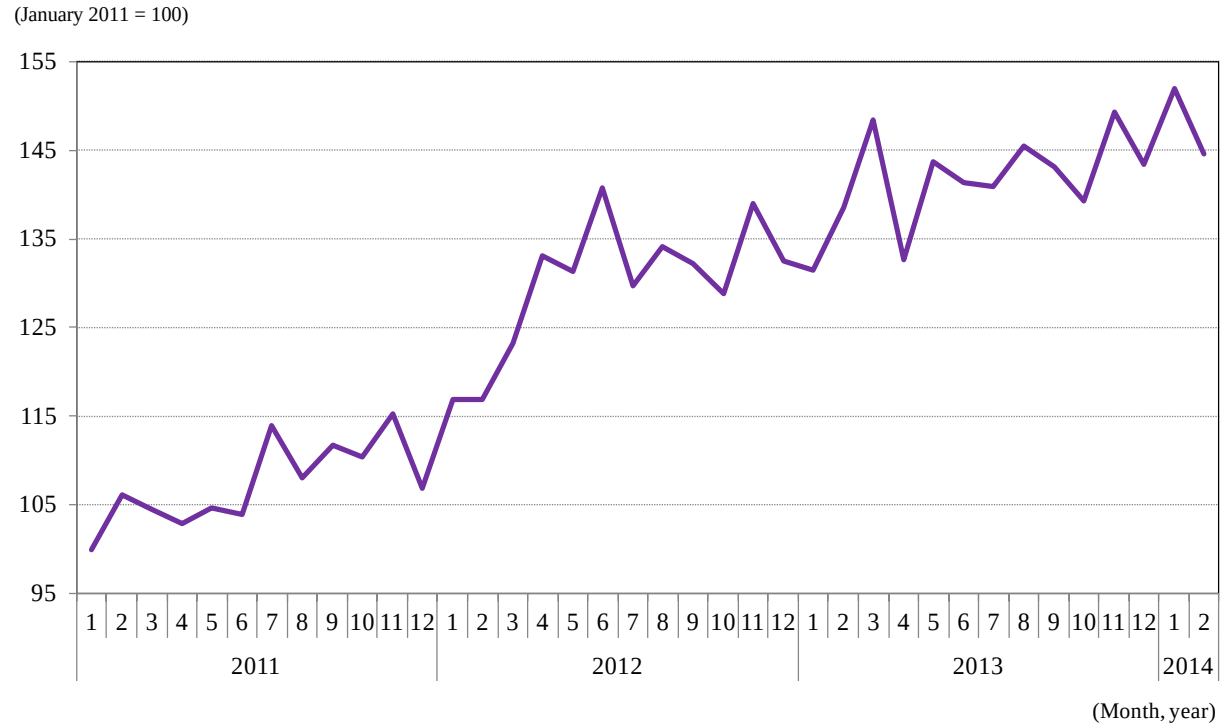


Source: Bank of Thailand (central bank), CEIC Database.



Source: Bank of Thailand (central bank), CEIC Database.

Figure II-1-4-11 Trends in the average manufacturing wage in Thailand



Source: National Statistical Office of Thailand, CEIC Database.

2. Malaysia

In Malaysia, in line with an increase in inward foreign direct investment since the late 1980s (Figure II-1-4-12), the export industries, including the electrical and electronics sectors, developed in the 1990s (Figure II-1-4-13), as a driving force. During this period, Malaysia recorded a real GDP growth rate of between 9% and 10%, the highest among ASEAN4[126]. In the 2000s, following the Asian currency crisis, Malaysia's real GDP growth rate has mostly stayed around 5%, except at the time of the global economic crisis (Figure II-1-4-1 (presented earlier)). As for industries' shares of nominal GDP during this period, the manufacturing industry's share was on a downtrend, and in particular, the shares of the electrical and electronics industries, which had previously driven growth, declined (Figure II-1-4-14). The decline came against the backdrop of a shift of home appliance manufacturers' production bases to China, Thailand and Viet Nam, which has an advantage due to low labor cost[127]. The electrical and electronics industry's share of exports in terms of value has also been

[126] Onozawa (2009) showed that in the manufacturing industry, the shares of supporting industry sectors (machinery, metal processing and basic metals) in terms of value added increased in the 1990s and pointed out that exporting industries, such as electrical and electronics equipment, started to generate multiplier effects on supporting industries.

[127] Japan Bank for International Cooperation (2014).

declining[128]. On the other hand, mineral fuels and other resources' share of exports have been on an uptrend (Figure II-1-4-13 (presented earlier)). Meanwhile, the services industry's share of GDP, which is around 50% mainly in the wholesaling, retailing and financial sectors, has been on a long-term uptrend (Table II-1-4-15 and Figure II-1-4-5 (presented earlier)). In reference to this situation, the Malaysia Economic Monitor, published by the World Bank in June 2013, pointed out that Malaysia's recent economic performance and near-term outlook owe much to the commodities sector while the country faces the risk of losing competitiveness in both manufacturing and services trade. It also points out that in order to reduce this risk, it is necessary to speed up the implementation of productivity-enhancing structural reforms so as to increase productivity in non-commodities sectors as well[129].

Malaysia's economic policies are based on "Vision 2020", which was announced in February 1991 by then Prime Minister Mahathir Mohamad and which set forth the goal of transforming Malaysia into an advanced country by 2020. The government of Prime Minister Najib Razak, which was inaugurated in April 2009, announced a new economic policy guideline called the "New Economic Model" in March 2010[130] (Part II[131] was announced in December of the same year)[132]. In the "New Economic Model", the government points out that Malaysia's economic growth rate has slowed down and its growth rate has remained lower than other countries' growth rates and investments have not recovered since the Asian currency crisis for reasons such as that the country is losing its attractiveness as an investment destination due to the difficulty of doing business, that the share of unskilled workers is large, that productivity is growing very slowly, that technology innovation is insufficient and that economic inequality is widening. The government presented eight strategic reform initiatives so as to realize the goal of transforming Malaysia into an advanced country by 2020. In addition, the government announced the "Tenth Malaysia Plan"[133] and the "Economic Transformation Program[134] in succession, in June and October, respectively, of the same year, indicating a policy of promoting a shift to industries with high value added (Table II-1-4-16). The government has set the goal of maintaining an economic growth rate of around 6% each year between 2011 and 2015 and estimates that the services sector will drive the economy (the same table). Expecting to achieve growth amid the ongoing economic internationalization by increasing inward foreign direct investment and

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[128] In the electrical and electronics industries, the shares of integrated circuits and energy conservation-related equipment, such as photovoltaic power generation equipment, are increasing. In the electrical and electronics industries, the shares of thermionic tubes, tubes and solar batteries in terms of export value rose from 36.6% in 2002 to 47.0% in 2013.

[129] World Bank (2013).

[130] http://www.pmo.gov.my/dokumenattached/NEM_Report_I.pdf

[131] https://www.pmo.gov.my/dokumenattached/NEM_Concluding_Part.pdf

[132] Since the announcement of "Vision 2020, " two long-term economic policies, the "National Development Policy" (NDP; 1991-2000) and the "National Vision Policy" (NVP; 2001-2010) have been announced.

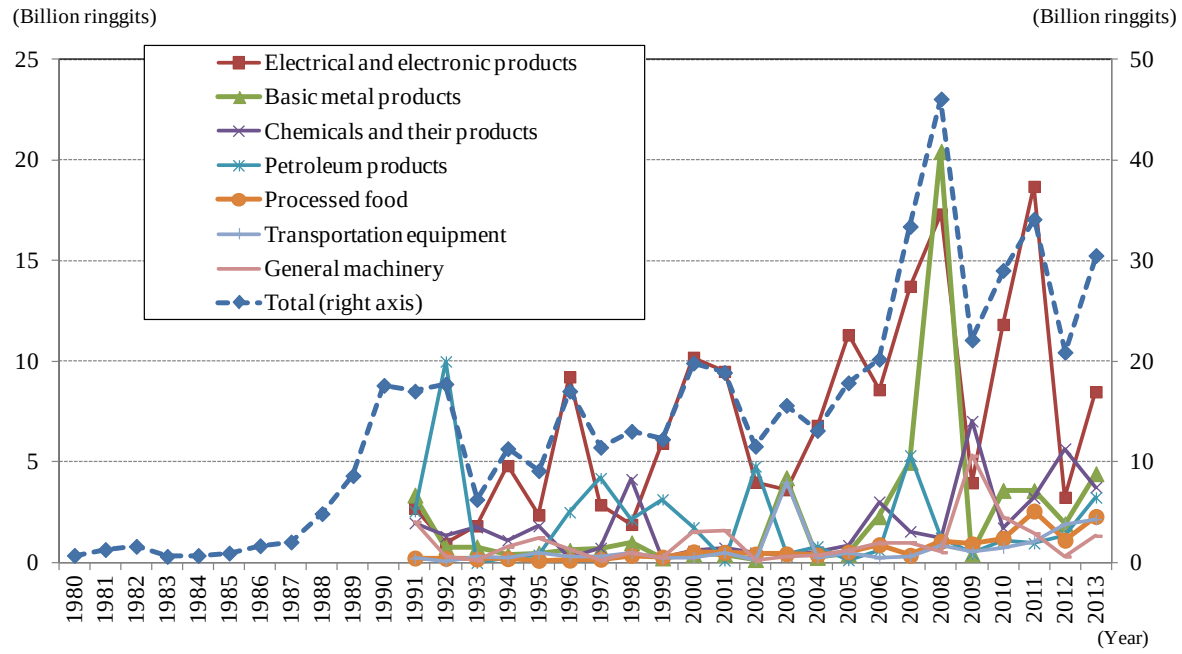
[133] http://www.pmo.gov.my/dokumenattached/RMK/RMK10_Eds.pdf

[134] http://etp.pemandu.gov.my/About_ETP-@-Overview_of_ETP.aspx

strengthening competitiveness through the liberalization of services, the government decided to liberalize 27 sub-sectors in eight sectors, including computer and related services, health and social services, tourism services, and transport services in April 2009 and also decided to liberalize 18 sectors in 2012 and afterwards[135].

Malaysia's fiscal deficit has been the largest as a proportion of GDP among ASEAN4 (Figure II-1-4-17), so it is an urgent task to achieve fiscal consolidation. In September 2013, the government reduced subsidies for gasoline and diesel oil, and in October of the same year, it announced the abolition of subsidies for sugar. In January 2014, the government raised industrial and commercial electricity rates. In April 2015, the consumption tax (goods and services tax) is scheduled to be introduced. Through these measures, the government is implementing structural reform initiatives.

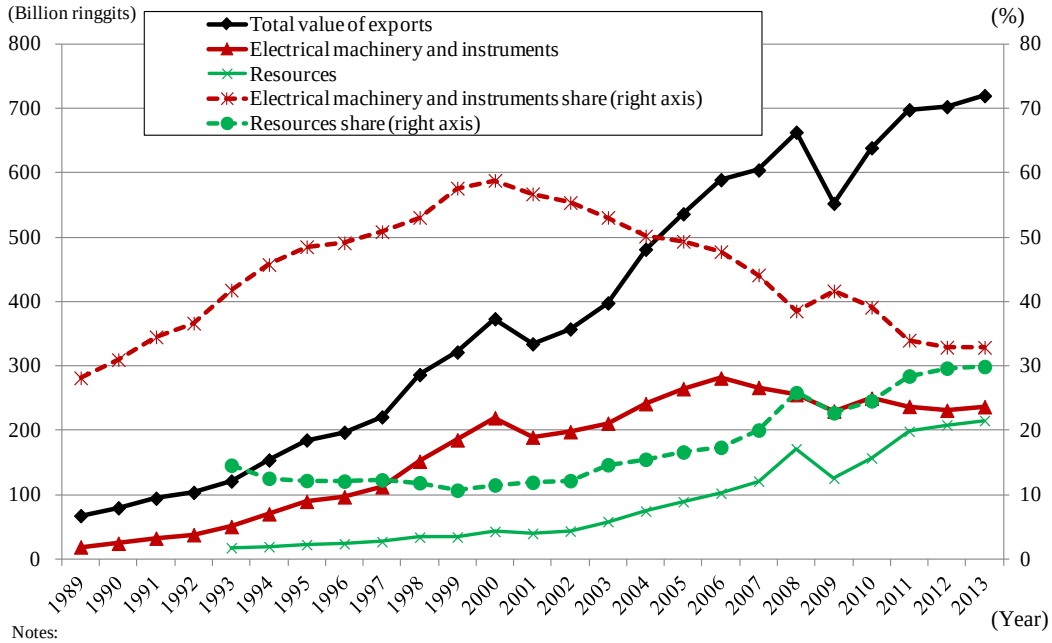
Figure II-1-4-12 Trends in the value of foreign direct investment in manufacturing in Malaysia (by industry)



Notes:
1. Manufacturing industry. Approval basis.
2. Data by industry are for 1991 onward.
Source: Malaysian Investment Development Authority (MIDA), CEIC Database.

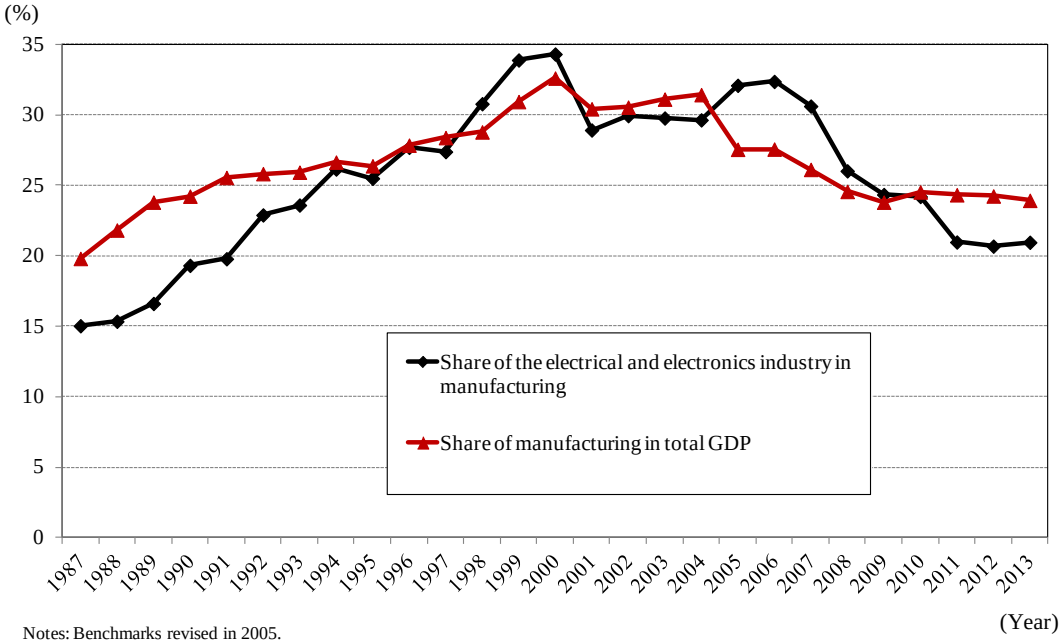
[135] http://myservices.miti.gov.my/web/guest/autonomous

Figure II-1-4-13 Trends in the value of exports from Malaysia



Notes:
1. Resources are the totals for palm oil (including products), crude oil, petroleum product, and liquefied natural gas.
2. Data for resources are for 1993 onward.
Source: Department of Statistics Malaysia, CEIC Database.

Figure II-1-4-14 Trends in the share of manufacturing in Malaysia's nominal GDP and the share of the electrical and electronics industry in nominal GDP of manufacturing



Notes: Benchmarks revised in 2005.
Source: Department of Statistics Malaysia, CEIC Database.

Table II-1-4-15 Component ratio of nominal GDP by industry in Malaysia (2013)

(%)

GDP		100
Agriculture, forestry & fisheries		9.3
Mining		10.0
Manufacturing		23.9
Construction		4.2
Service industry		51.4
	Wholesale & retail	13.6
	Finance	5.5
	Real estate & business services	5.2
	Communications	3.3
	Transport & warehousing	3.2
	Government	8.6
	Other service industry	12.0
Import duties		1.1

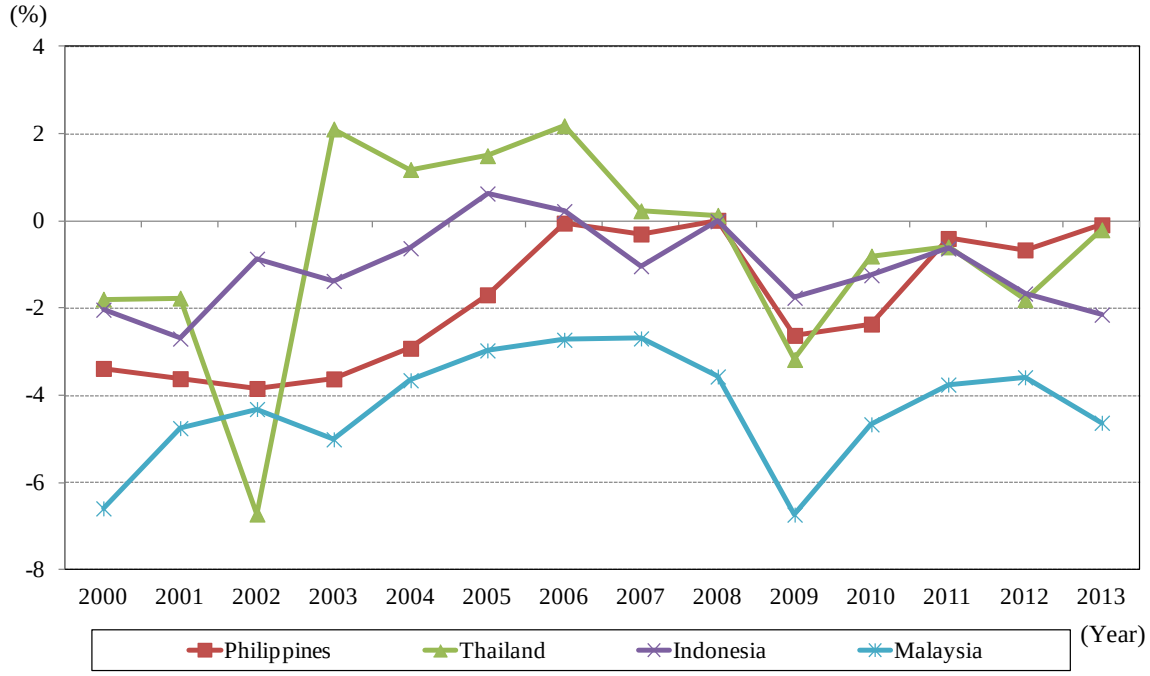
Source: Department of Statistics Malaysia, CEIC Database.

Table II-1-4-16 Overview of Malaysia's economic policies (announced in 2010)

Year & month announced	Policy	Overview
March and December 2010	New Economic Model for Malaysia (NEM)	・Indicates the direction to be taken in order to enable Malaysia to escape the "middle-income trap," simultaneously achieving the goals of a high income, inclusive development, and sustainable development, and thereby improving the quality of life for all citizens, with a view to joining the ranks of developed countries by 2020. ・Sets out eight Strategic Reform Initiatives (SRIs) aimed at translating the NEM into reality: (1) Re-energizing the private sector to drive growth; (2) Developing a quality workforce and reducing dependency on foreign labor; (3) Creating a competitive domestic economy; (4) Strengthening the public sector; (5) Transparent and market-friendly affirmative action; (6) Building the knowledge base and infrastructure; (7) Enhancing the sources of growth; and (8) Ensuring sustainability of growth.
June 2010	Tenth Malaysia Plan 2011-2015	・Sets out the development budget for the period 2011-2015 (230 billion ringgit in total, of which 55% is allocated to the economic sector), as well as policy principles and specific targets. ・Targets for 2011-2015: A real GDP growth rate of 6.0% (with a growth rate of 7.2% in the service sector to drive the economy, and a rate of 5.7% in the manufacturing sector), GNI per capita of $12,140 by 2015, an annual private sector investment rate of 12.8%, and a reduction in the government's budget deficit.
October 2010	Economic Transformation Programme (ETP)	・Sets out the timetable for the implementation of the NEM. ・The main targets, which are to be achieved by 2020, are (1) raising GNI per capita to $15,000; and (2) attracting $444 billion of investment and creating employment for another 3.3 million people. ・Targets will be achieved through initiatives focused on 12 National Key Economic Areas (NKEAs): (1) Oil, gas and energy; (2) Palm oil and rubber; (3) Financial services; (4) Wholesale and retail; (5) Tourism; (6) Communications content and infrastructure; (7) Education; (8) Electrical and electronics; (9) Business services; (10) Healthcare; (11) Agriculture; (12) Greater Kuala Lumpur/Klang Valley.

Source: Malaysian government, *Recent Developments in Malaysia and Japan-Malaysia Relations* (MOFA web page), various other sources.

Figure II-1-4-17 Trends in fiscal balance to GDP ratio among the ASEAN4



Notes: 2013 figure for Malaysia is an estimate.
Source: *WEO, April 2014* (IMF).

3. Indonesia

A look at change in industry's share of nominal GDP shows that the manufacturing industry's share expanded (from 13% in 1980 to 29% in 2001) in the period through the early 2000s due to the industrialization policy of the era of the government of President Suharto (1968 to 1998) but has been declining since 2002 (from 29% in 2002 to 24% in 2012). On the other hand, the share of the secondary industry excluding manufacturing (such as mining) has been expanding along with the expansion of the resource demand in emerging countries, e.g., China, and is now similar to the manufacturing industry's share (from 16% in 2002 to 23% in 2012)[136] (Figure II-1-4-5 (presented earlier)).

There is a similar trend in exports by type of goods[137]. Primary goods' share of exports, which was

[136] Sato (2011) pointed out that whereas the Suharto regime aimed to create a full set of industries, from light industries and resource process industries to heavy industries, within Indonesia, as part of its strenuous promotion of the policy of "industrialization from the top down" under the government's leadership, the current democratic regime has not selected any single clear growth-leading industry. Rather, investing entities have started profit-pursuing behavior in accordance with their respective characteristics, and as a whole, they made mutually complementary investment actions (in other words, growth engines were spread across multiple industries and as a result, a pattern of industrial development oriented toward creating a full set of industries has appeared), according to Sato (2011).

[137] In RIETI-TID (RIETI Industry Database), traded goods are classified into three categories (five sub-categories) by production stage – primary goods, intermediate goods (processed goods, and parts and

declining from the 1980s through the early 2000s, has been expanding since that period (Figure II-1-4-18). By industry, the value of exports by the oil, coal and related mining industry has grown rapidly since around 2004 (Figure II-1-4-19), As a result, Indonesia's economic structure has become prone to be affected by resource demand and price trends. Because of "a slowdown in resource demand in China and India and the ensuing resource price drops, the value of Indonesia's exports fell in 2012 compared with the previous year. On the other hand, the value of imports increased due to robust domestic demand, and as a result, Indonesia's goods trade balance (on a customs clearance basis) turned from a surplus to a deficit in 2012. In 2012, Indonesia's current account balance also turned from a surplus into a deficit[138], and this has become a background factor of a plunge of the Indonesian currency, rupiah, that started in May 2013 due to speculation over the tapering of the U.S. quantitative easing program[139]. In the whole of 2013, the trade deficit expanded from the previous year due to a decrease in the value of exports and an increase in the value of imports. The current account deficit also expanded from the previous year (Figure II-1-4-20 for trends in the trade balance and Figure II-1-4-6 (presented earlier) for trends in the current account balance). However, on a quarterly basis, the current account deficit has been declining[140].

Indonesia is again entering a period of reforming the industrial and export structures. In May 2011, the government announced the "Masterplan for Acceleration and Expansion of Indonesia's Economic Development 2011-2025 (MP3EI)." Specifically, the plan aims to link islands across the country through an infrastructure network and promote 22 main economic activities selected based on the characteristics of individual regions. In this plan, the government expressed its aim to "place itself in the top ten advanced economies in the world by 2025 and the world's top six by the year 2050"[141].

In addition, in June 2013, the government decided to reduce fuel subsidies, which were regarded as a negative fiscal factor. In August and December of the same year, the government worked out

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components) and final goods (capital goods and consumption goods) (Refer to Supplementary Notes 1 and 2).

[138] In 2012, the goods trade balance turned into a deficit on a customs clearance basis, and in 2013, the deficit expanded (from a surplus of 26.1 billion dollars in 2011 to a deficit of 1.7 billion dollars in 2012 and to a deficit of 4.1 billion dollars in 2013). The surplus in the goods trade account on an international balance of payment basis, which constitutes part of the current account balance, also shrank (from 34.8 billion dollars in 2011 to 8.6 billion dollars in 2012 to 6.1 billion dollars in 2013).

[139] Refer to Part I, Chapter 1, Section 2" Effects of the Tapering of the Quantitative Easing Program in the United States".

[140] Since peaking at 10.1 billion dollars in the April-June quarter of 2013, the current account deficit has been on a downtrend, declining to 8.6 billion dollars in the July-September quarter, to 4.3 billion dollars in the October-December quarter and to 4.2 billion dollars in the January-March quarter of 2014.

[141] Indonesian Ministry of Foreign Affairs. (http://www.kemlu.go.id/rome/Documents/MP3EI_PDF.pdf) and Sato (2011、2014). The main economic activities include seven agricultural, forestry and fishery activities, five mining activities, five manufacturing activities, tourism, shipping, ICT, and two strategic area development strategies.

packages of economic measures, seeking to curb domestic demand and promote exports (Table II-1-4-21). Starting in January 2014, the government made it obligatory to add high value to mineral resources such as nickel within Indonesia and banned exports of unprocessed mineral resources based on a new mining law (promulgated and put into force in 2009) and various government and ministerial orders related to the enforcement of the law. Regarding copper concentrates, the implementation of the export ban has been put off until January 2017 and an export tariff and an export licensing system have been introduced for the moment. Indonesia also imposed an obligation to give precedence to domestic supply with regard to some mineral resources[142] .

The value of inward foreign direct investments in Indonesia has increased significantly since 2010. The increase was particularly large for the secondary industry, including mining and transport equipment (Figure II-1-4-22). In 2013, the value of inward foreign direct investments (implementation basis) came to 28.6 billion dollars (up 16.5% compared with the previous year), of which Japanese direct investments accounted for 4.7 billion dollars (up 91.8% compared with the previous year), making Japan the largest investor with a share of 16.5% (Figure II-1-4-23).

According to a report published by the Japan Bank for International Cooperation[143] in November 2013, Indonesia became No. 1 promising country for Japanese manufacturing companies in the medium term for the first time. On the other hand, as challenges for Indonesia, the same report cited "labor cost increase," "underdeveloped infrastructure," and "lack of transparency over enforcement of laws." In a survey[144] published by the Japan External Trade Organization (JETRO) in December of the same year, "personnel expenses increase", "underdeveloped infrastructure" and "underdeveloped legal system and a lack of transparency over enforcement of laws" were cited as risks in the investment environment for Japanese companies (manufacturing and non-manufacturing industries) operating in Indonesia, indicating the need to improve the investment environment in Indonesia.

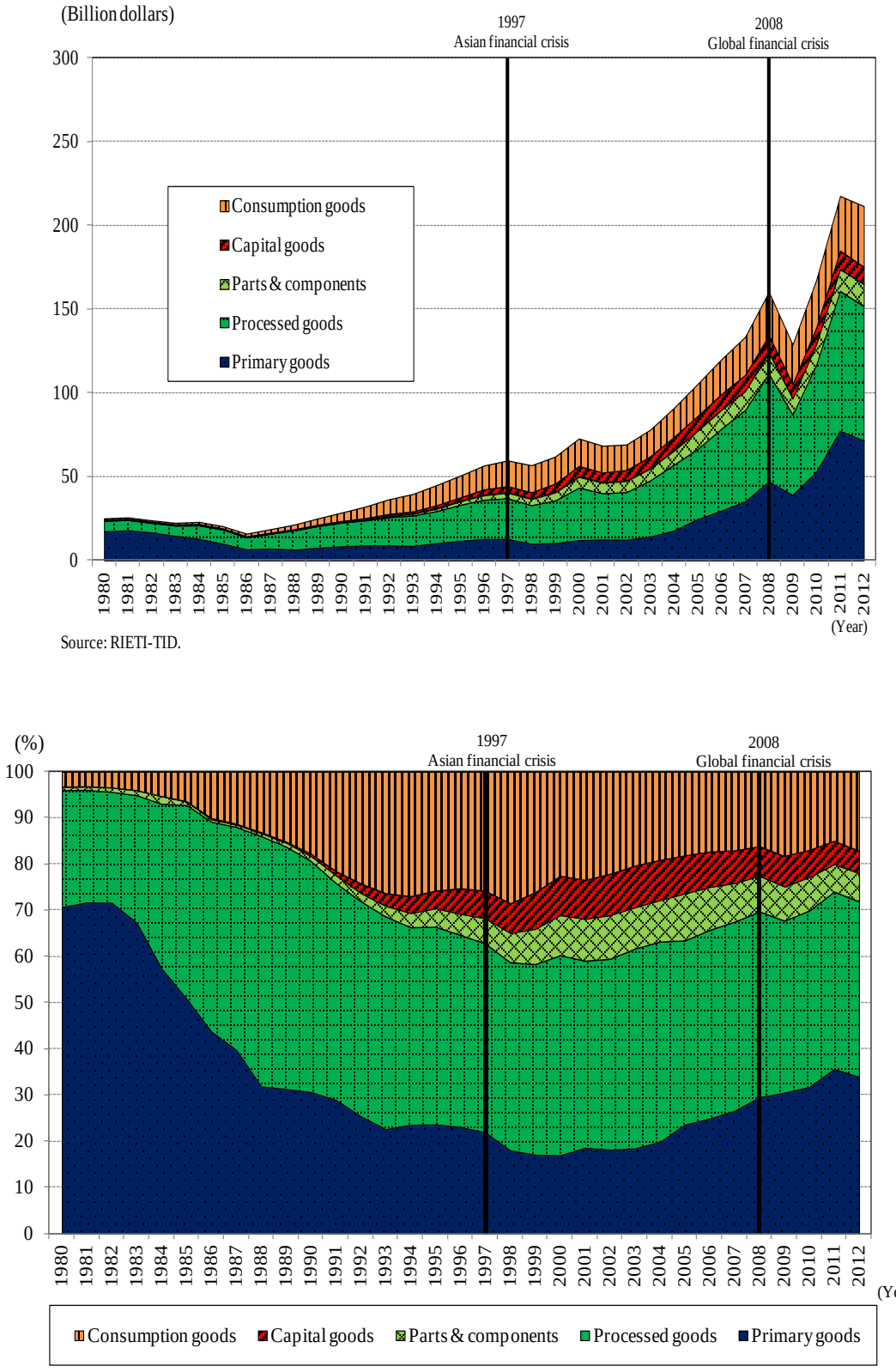
In Indonesia, a general election was held in April 2014 and a presidential election is scheduled for July (a new president will take office in October). Attention should be paid to future progress in structural reforms.

[142] Regarding this measure, Japan has continuously been calling for correction through bilateral consultations and at a WTO committee and intends to continue to do so ("2014 Report on Compliance by Major Trading Partners with Trade Agreements," Ministry of Economy, Trade and Industry).

[143] Japan Bank for International Cooperation (2013a).

[144] JETRO (2013).

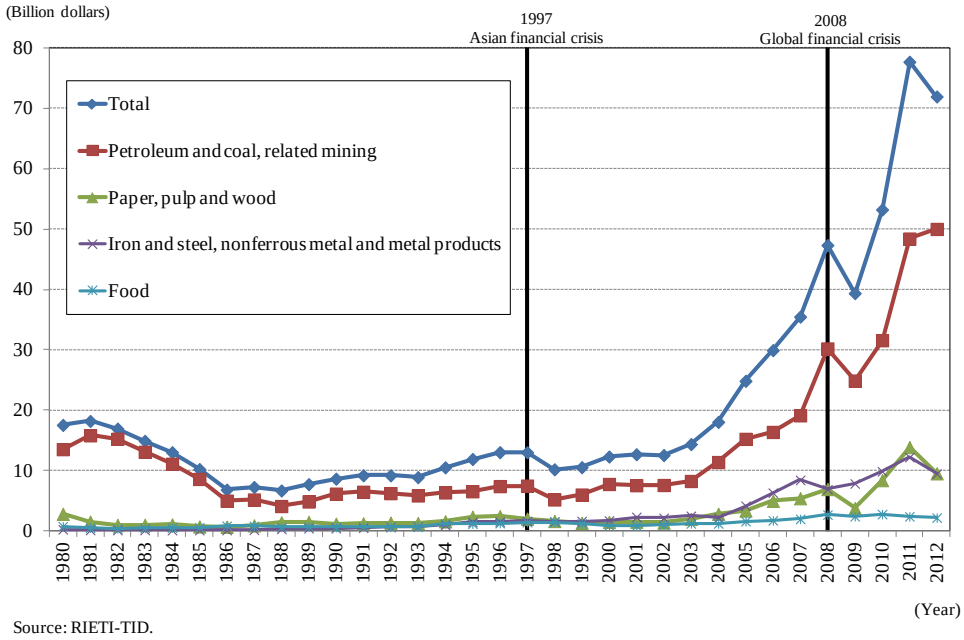
Figure II-1-4-18 Trends in the value and share of exports of goods from Indonesia by production process (left: value of exports; right: share)



Source: RIETI-TID.

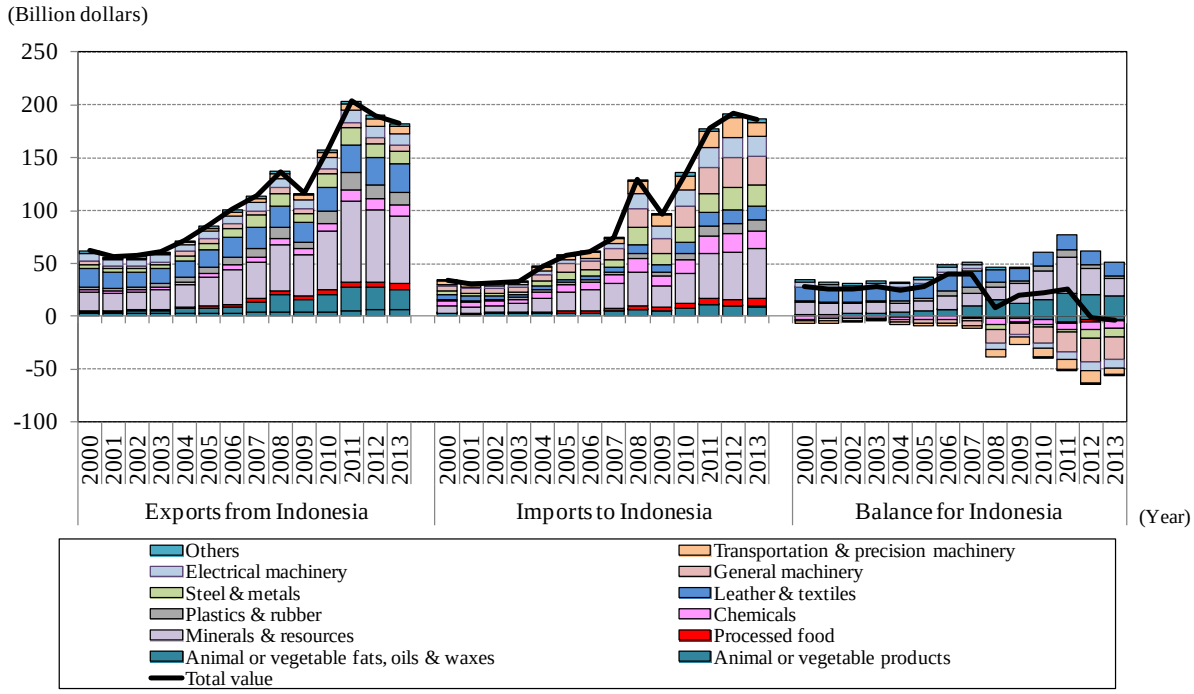
Source: RIETI-TID.

Figure II-1-4-19 Trends in the value of exports of primary goods from Indonesia (by industry)



Source: RIETI-TID.

Figure II-1-4-20 Trends in the value of trade in Indonesia (by goods)



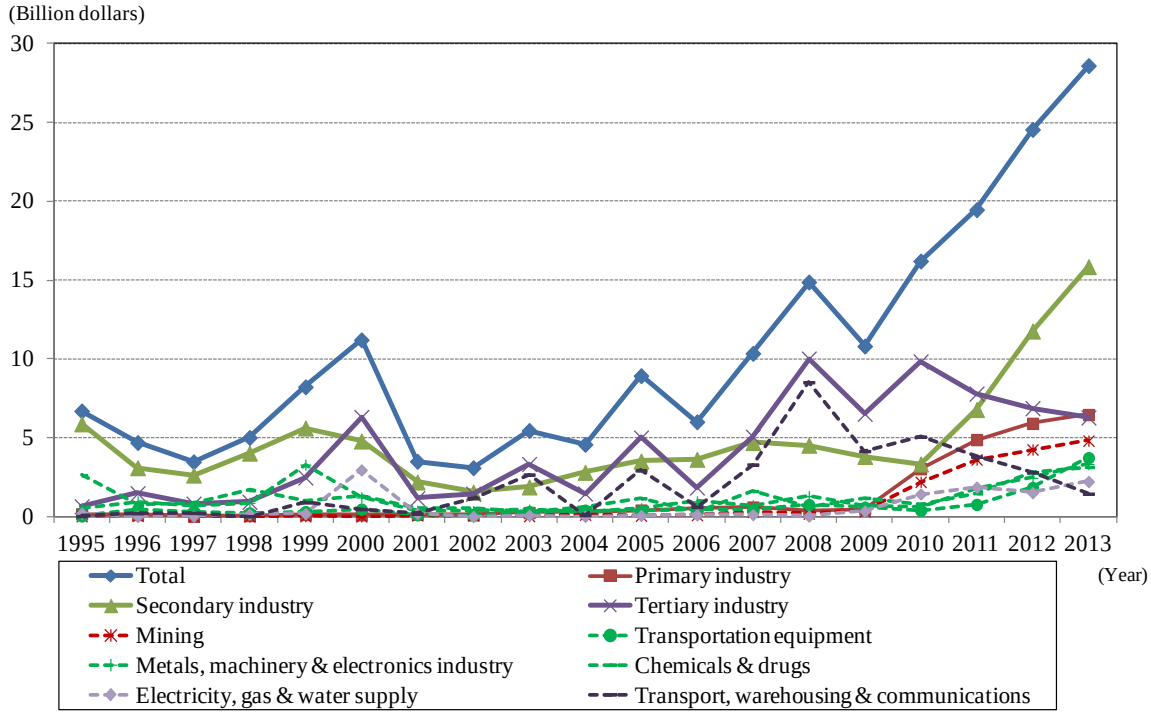
Notes: Figures are totals for the following HS codes: animal or vegetable products HS 1-14; animal or vegetable fats, oils & waxes HS 15; processed food HS 16-24; minerals & resources: HS 25-27; chemicals HS 28-38; plastics & rubber: HS 39-40; leather & textiles: HS 41-67; steel & metals: 68-83; general machinery: HS 84; electrical machinery: HS 85; transportation & precision machinery: HS 86-92; other: HS 93-99.
Source: Global Trade Atlas.

Table II-1-4-21 Indonesia's policy packages

・August 2013 Announcement of emergency economic measures (1) Promotion of exports and curbing of imports (reduction of taxes on labor-intensive export industries, curbing of fuel imports through the use of biofuels, raising of luxury taxes on imported goods, promotion of exports of minerals and resources, etc.) (2) Price controls (deregulation of imports of beef and horticultural crops) (3) Promotion of foreign direct investment ・December 2013 Announcement of second package of economic measures (1) Revision of prepaid corporate income tax relating to imports (tax rate raised from 2.5% to 7.5% of the value of imports for 502 types of goods that are not incorporated into production processes, such as cellphones) (2) Revision of accommodating measures relating to tariffs on imports for the purpose of export

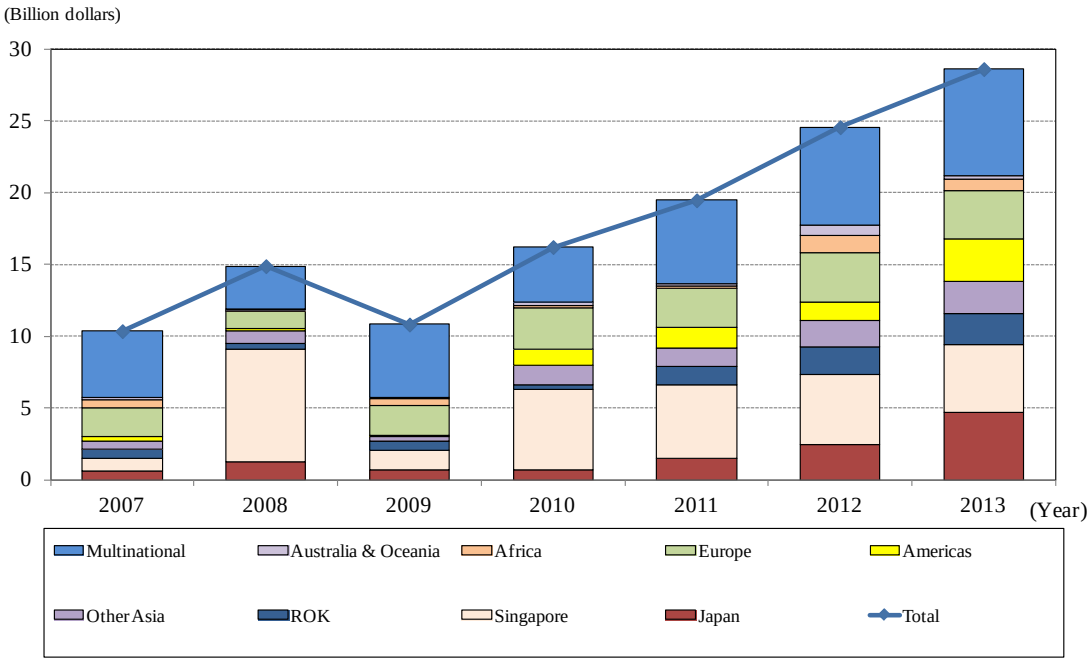
Source: Various materials.

Figure II-1-4-22 Trends in the value of foreign direct investment in Indonesia (by major industry)



Notes: Actual basis.
Source: Indonesia Investment Coordinating Board, CEIC Database.

Figure II-1-4-23 Trends in the value of foreign direct investment in Indonesia (by major country/region)



Notes: Actual basis.
Source: Indonesia Investment Coordinating Board, CEIC Database.

4. The Philippines

In 2013, the Philippines recorded a real GDP growth rate of 7.2% compared with the previous year, the highest growth among ASEAN4. By expenditure, the Philippines' economy is led by private consumption, and by industry, it is driven mainly by the services industry.

First, by expenditure, while private demand accounts for more than 70% of nominal GDP, fixed capital formation accounts for slightly less than 20% (Figure II-1-4-4 (presented earlier)). Private consumption is supported by remittances from workers abroad as well. Although the birthrate in the Philippines is high[145], there is a scarcity of jobs in the country, resulting in the highest unemployment rate as well as the highest growth rate among ASEAN4[146]. The number of Philippine people working abroad in 2012 is estimated at around 1.8 million on a flow basis (Figure II-1-4-24) and at around 4.5 million on a stock basis[147]. The value of remittances sent back home by people from the Philippines working abroad is the world's third largest, after remittances by Indians working abroad and Chinese working abroad, and is equivalent to 9.8% of GDP (2012), a high level compared with other countries

[145] According to the World Bank (WDI), the birthrate per 1,000 people in 2011 was 24.8 in the Philippines, 19.6 in Indonesia, 17.6 in Malaysia, and 10.7 in Thailand. Meanwhile, the total fertility rate in the same year was 3.1 in the Philippines, 2.4 in Indonesia, 2.0 in Malaysia and 1.4 in Thailand.

[146] According to data compiled by the IMF (WEO April 2014), the unemployment rate in 2013 was 7.1% in the Philippines, 6.3% in Indonesia, 3.1% in Malaysia, and 0.7% in Thailand.

[147] The number of persons from the Philippines staying abroad, including emigrants (who have permanent residency abroad), is estimated at more than 9 million (approximately 10% of the total population) (Suzuki (2013)).

(Figure II-1-4-25). Supported by remittances from workers abroad, the Philippines has maintained a current account surplus (Figure II-1-4-6 (presented earlier)).

By industry, the manufacturing industry's share of nominal GDP is around 20% and is declining, while the tertiary industry's share is slightly less than 60% and is increasing (Figure II-1-4-5 (presented earlier)).

In the services industry, business process outsourcing (BPO) in particular has recorded a notable growth. A look at revenues of the IT business outsourcing sector[148] shows that BPO is spreading from contact centers (e.g., call centers)[149] to other fields such as software development and transcriptions (healthcare administration). Through such IT outsourcing businesses, some 680,000 jobs were created in 2011 (Figure II-1-4-26). IT outsourcing businesses are accepting inward foreign direct investments mainly from the United States and Europe (Figure II-1-4-27). More than 90% of their revenues come from exports[150] (Figure II-1-4-28, left), most of which are exports to the United States (exports to the United States accounted for 76% of the value of exports in 2011) (Figure II-1-4-28, right). BPO is regarded as one of the Philippines' four major foreign currency revenue sources, along with tourism, the electronics industry and remittances by workers abroad[151], and the government positions BPO as a priority industry under its development plan (2011 to 2016)[152].

[148] According to a report by the Bangko Sentral ng Pilipinas (the Philippine central bank) titled "Measuring the Contribution to the Philippine Economy of Information Technology-Business Process Outsourcing (IT-BPO) services". (http://www.bsp.gov.ph/downloads/publications/2012/BS2012.pdf), the ratio of total revenues of the Philippine IT outsourcing industry to GDP rose from 1.4% in 2004 to 5.4% in 2011, while the industry's share of the country's total employment increased from 0.3% in 2004 to 1.8% in 2011.

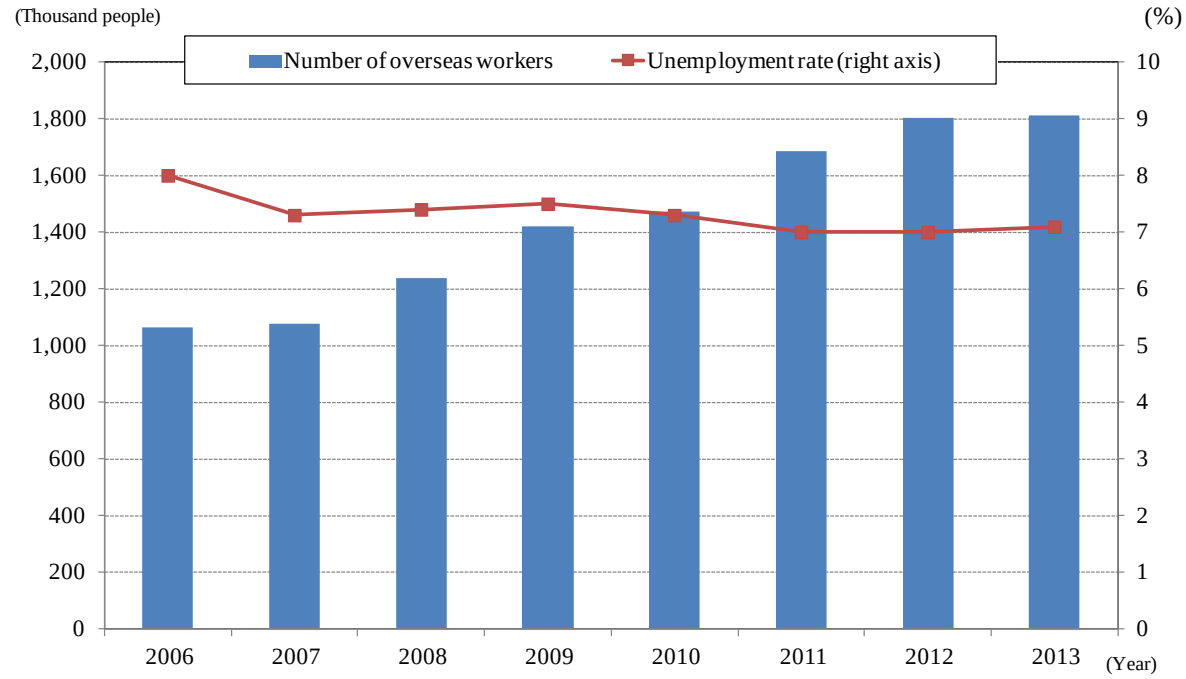
[149] As knowhow on providing various offshore services from the Philippines to customers around the world, mainly in English, has been accumulated, the call center sector has matured, and as a result, the revenues of the Philippine call center sector have surpassed those of the Indian equivalent to become the global No. 1 (Japan Bank for International Cooperation (2013b)).

[150] Of the revenues of 12.1 billion dollars in 2011, 11.2 billion dollars came from exports.

[151] Suzuki (2013).

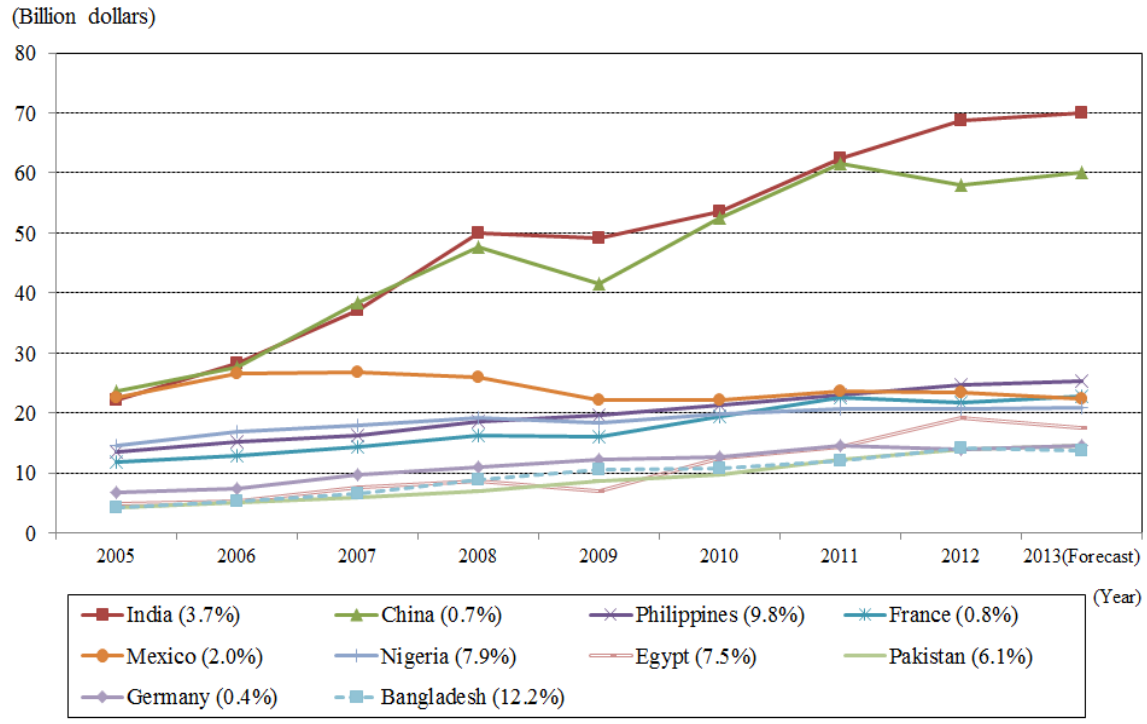
[152] "Philippine Development Plan 2011-2016" (http://www.neda.gov.ph/?p=1128), the National Economic and Development Authority of the Philippines.

Figure II-1-4-24　Trends in the number of overseas workers and the unemployment rate in the Philippines



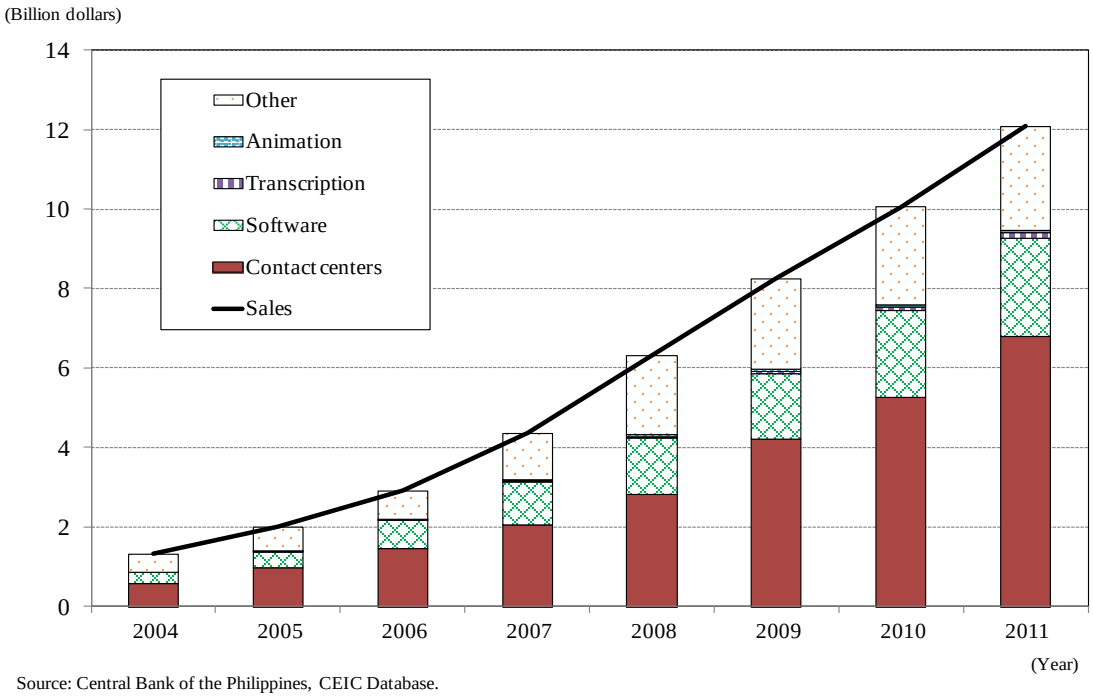
Source: Philippine Overseas Employment Administration, Department of Labor and Employment (number of overseas workers in 2013), *IFS* (IMF), CEIC Database.

Figure II-1-4-25　Trends in the value of remittances by overseas workers (figure for 2013 is a forecast for the top 10 countries)

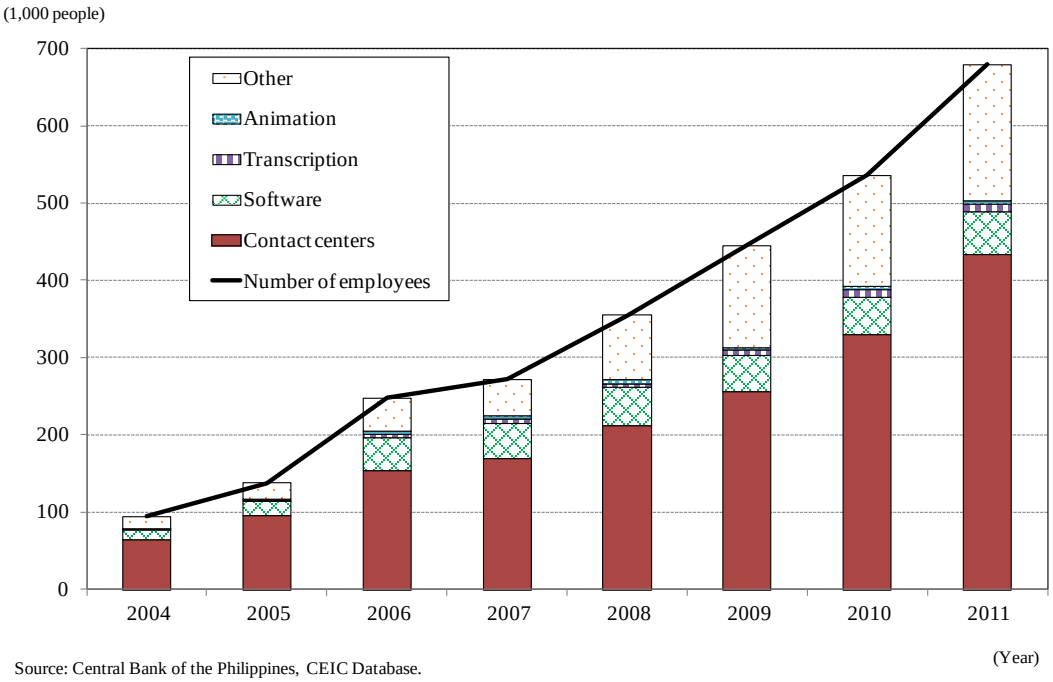


Notes: In the legend, figures in brackets show ratios of the value of remittances to GDP in 2012.
Source: *Annual Remittances Data (Migrant remittance inflows) updated as of April 2014* (World Bank).

Figure II-1-4-26 Trends in sales (top) and employee numbers (bottom) in the IT outsourcing industry in the Philippines

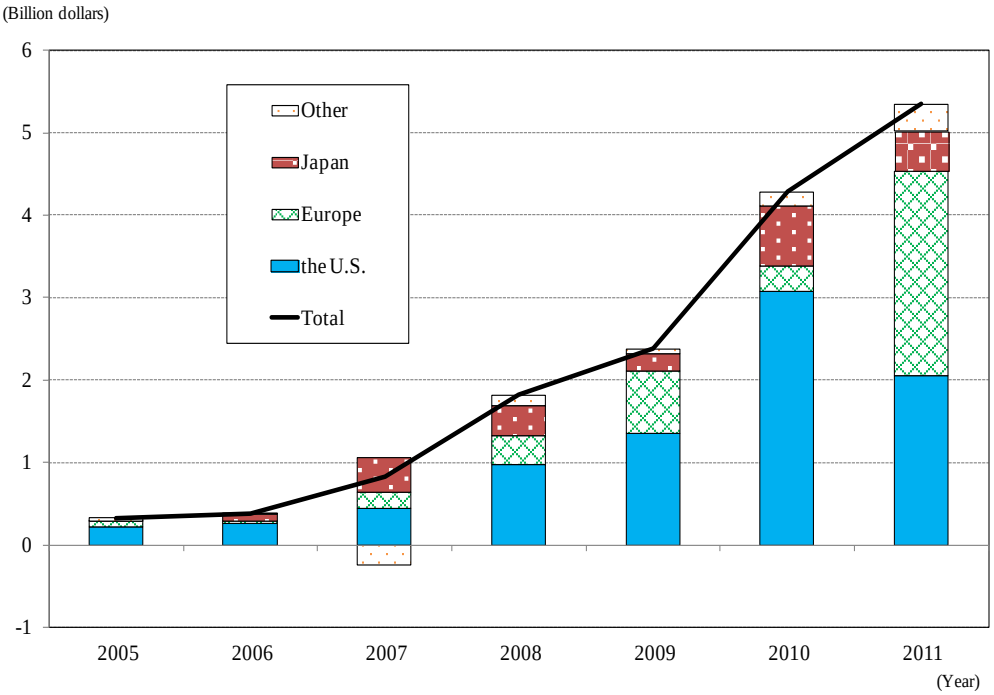


Source: Central Bank of the Philippines, CEIC Database.



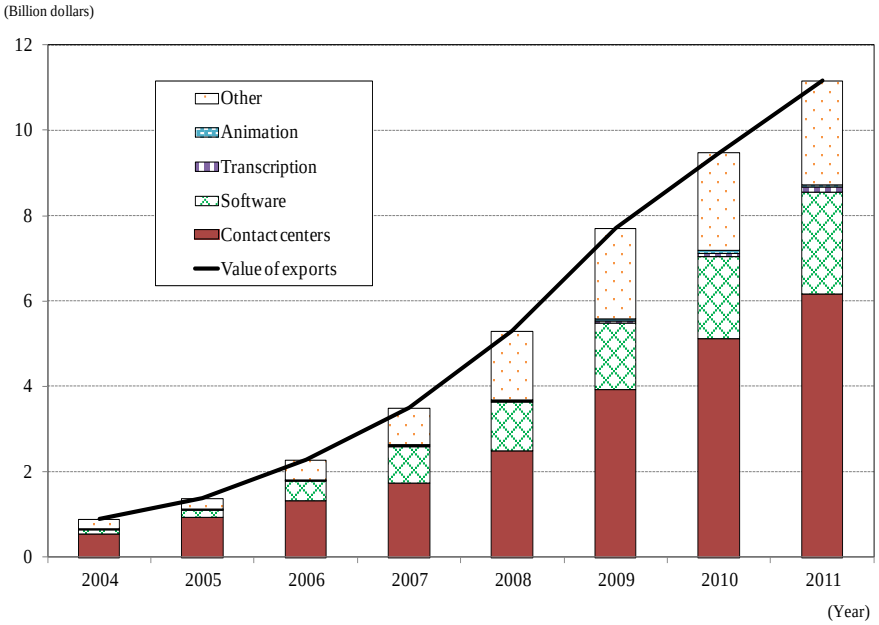
Source: Central Bank of the Philippines, CEIC Database.

Figure II-1-4-27　Trends in the value of inward direct investment in the IT outsourcing industry in the Philippines (by investing country)

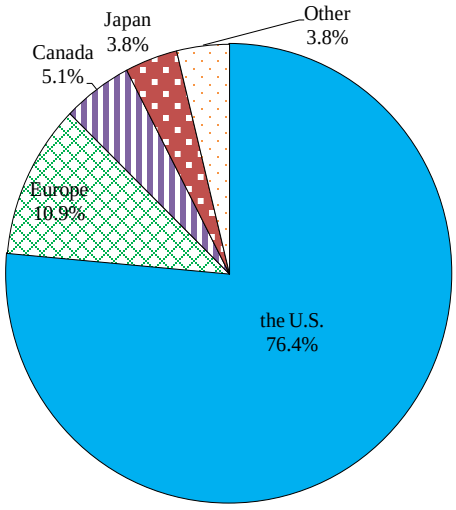


Source: Central Bank of the Philippines, CEIC Database.

Figure II-1-4-28 Trends in the value of exports in the IT outsourcing industry in the Philippines (top) and export destination in 2011 (bottom)



Source: Central Bank of the Philippines, CEIC Database.



Source: Central Bank of the Philippines and the CEIC Database.