

Asian Dynamism and Prospects for Technical Cooperation Policies

INTERIM REPORT

Establishment of Mutually Beneficial Economic Institutions and Systems: Five New Action Targets to be Achieved by “Japan as a Constituent Member of East Asia”

July 7, 2003

The METI Study Group on Technical Cooperation

METI: The Ministry of Economy, Trade and Industry

Notice: This English translation has been prepared by the Secretariat of this Study Group for the convenience of foreign readers and has not been officially approved by the members of the Group. The original report was prepared in Japanese on July 7, 2003 as a policy recommendation to the Deputy Director-General of the Trade and Economic Cooperation Bureau of the Ministry of Economy, Trade and Industry.

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Background of the Study Group's Discussions

Given the changing domestic and international situation surrounding Japan's Official Development Assistance (ODA), including the revision of the ODA Charter, new strategic thinking and greater efficiency are required to maximize the impact of Japan's economic cooperation. East Asia is Japan's priority region of economic cooperation, and our assistance has achieved certain results in building the foundation for self-sustainable economic development, especially through the establishment of infrastructure. However, major changes have been taking place in East Asia's economic environment, including rapid economic growth in China and deepening economic partnerships in East Asia. We are facing a major turning point in our approach to economic cooperation in this region.

In the age of strengthened regional integration, Japan's relationship with East Asian economies has been changing significantly with the movement of Japanese corporations into overseas markets, at a time when Japanese society is ageing and producing fewer children. Therefore, the future of the Japanese economy cannot be discussed within the domestic framework alone. Japan needs to consider its relationship with East Asia in a more integrated way, so that Japan's research and development (R&D), domestic policies (including structural reforms), and the economic development of Asia can create a "virtuous" circle.

Other considerations in attaining sustainable economic development are economic risk factors related to the environment and energy issues, both of which are increasingly being recognized as important in ensuring sustainable development. It will be necessary to take these issues into further account.

With this understanding, our Study Group held six discussions on technical cooperation in economics, trade and industry under the theme "Asian Dynamism and Prospects for Technical Cooperation Policies." We have examined specific and strategic approaches of policy implementation, keeping the on-going reform of Japan's economic cooperation in mind. In this interim report, we have made proposals for METI's technical cooperation in economics, trade and industry in East Asia.

It is expected that the circumstances surrounding economic cooperation will continue to change. Therefore, our Study Group will revisit these issues as needed.

Remarks from the Chairman

East Asia is the only region in the world that has sufficient savings to serve as resources for investment. In order for East Asia to sustain its economic prosperity into the future, it should reconstruct its economic systems and institutions to improve manufacturing capabilities while efficiently utilizing this economic surplus. Although economic cooperation, with a Free Trade Agreement (FTA) at its core, will cause pain to some domestic industries and agriculture in Japan, there is no other way to significantly revitalize East Asia's regional economy. Moreover, without stronger economic ties with East Asia, there can be no revitalization of Japan's own economy. Thus, the establishment of international economic relations with the vision of "Japan in East Asia" best conforms to Japan's national interest.

In addition to lowering and abolishing such trade barriers as customs duties, the rationalization and/or abolition of regulation on investment will enable intra-regional investment flows to find their optimal locations. For this purpose, the most important agenda for enhancing economic cooperation in this region must be to establish harmonized, integrated rules and institutional arrangements in such areas as investment, as well as efficient systems for product distribution where intra-regional economic activities interface. Further, in recognition of today's severe global environmental problems, East Asia must find a balance between economic activity and protection of the global environment. In this field, too, the harmonious integration of intra-regional policies and institutions is important.

One central purpose of pursuing regionalism in East Asia is to establish and share economic institutions that are transparent in various respects. While further discussion is necessary to arrive at the kind of institutions that will be truly effective, the minimum condition for realizing regionalism is for each government to demonstrate strong political commitment to the establishment of shared economic institutions. Of course, given the current state of affairs in East Asia, it would be difficult to muster such political commitment anytime soon. However, all East Asian countries certainly need a framework of regionalism. Given this reality, perhaps it is not impossible to develop a shared political commitment.

In order to revitalize Japan's own economy, economic integration with East Asia is the only effective measure. The era of the "flying-geese model", when Japan led East Asian regional economic development, is in the past. The main pillars of East Asian economic integration that Japan aims to bring about are not only the promotion of free trade, but also the establishment of harmonized and integrated, intra-regional institutions to promote domestic and international investment, as well as

cooperation in sectors such as finance, science and technology, development of human resources, and development of small- and medium-size enterprises. Based on these foundations, Japan aims at the development of economic institutions and systems that are mutually beneficial for all countries in East Asia.

With these issues in mind, our Study Group has discussed various action plans that can be implemented within the framework of technical cooperation in economics, trade and industry. As a result, some of the proposals in this report may exceed the scope of technical cooperation as currently practiced; however this only points out the need for a closer, more integrated approach to economic cooperation by Japan as a whole.

Yonosuke Hara

Interim Report

1. Economic cooperation in East Asia —present and future

As an East Asian country, Japan will assist stable economic growth in the East Asian region. It will contribute to the development of a market economy in China, while cooperating with the ASEAN countries to improve the trade and investment environment.

1.1. The current environment of economic cooperation in East Asia

1.1.1. High growth potential of East Asian economies

Japan's economic cooperation in East Asia has focused so far on the establishment of infrastructure aimed at economic development. Especially during the period between the Plaza Agreement (1985) and the Asian currency crisis (1997), it contributed to the expansion of direct investment from Japan and other countries and the development of a network of private enterprises. Although East Asia has since been affected by the currency crisis, it is now in recovery and is a region with high growth potential compared with other parts of the world. Because the source of growth in this region is trade and investment, an important priority of economic cooperation is to promote the market economy and establish an environment conducive to trade and investment. These measures will help the region realize its growth potential. Stable and sustainable growth achieved through trade and investment will, in turn, help solve the fundamental issue of poverty.

1.1.2. The Japanese economy

Japan has benefited from East Asia's economic growth and deepened its interdependence with the region. The underlying assumption was that its economy would lead the other East Asian countries in developing sophisticated industrial structures, which would, in turn, promote regional economic growth. In recent years, however, while East Asia maintains its high growth potential, Japan's economic growth has been stagnant and its economy in a depressed condition. Japan also faces such future problems as the transfer of corporations overseas and the graying of society. Thus the future of Japan cannot be discussed within the domestic framework alone. It is necessary to build a new relationship model that further deepens the interdependence with and incorporates the growth potential of East Asian countries, replacing the "flying-geese development model."

1.1.3. Comprehensive economic cooperation including FTA

When considering Japan's new relations with East Asia, it is necessary to recognize not only that East Asian countries have high growth potential, but also that the paradigm is shifting. Although East Asian countries have differed greatly in their policy directions in the past, these countries are now moving toward integration and unity as a region; they are aiming at comprehensive economic partnership; and as a whole they are transforming themselves into equal partners of Japan. While there is indeed a worldwide trend toward greater regional economic integration, ASEAN countries in East Asia are not only seeking the establishment and integration of intra-regional institutions for trade and investment, but also a comprehensive economic partnership including Free Trade Agreements through the framework of ASEAN plus 3 (i.e., ASEAN plus Japan, China, and Korea). Japan, as a constituent member of East Asia, should proactively participate in the furthering of economic integration with FTA as its core, as this is the way to significantly revitalize the East Asian economy.

1.1.4. China and ASEAN

Although in the past Japan pursued close economic relations mainly with ASEAN countries, this focus should be reexamined in light of China's rapid economic growth. Japan should consider multinational cooperation such as the ASEAN plus 3 formula and should formulate its economic cooperation strategies to China and ASEAN according to changing circumstances.

1.2. Japan's future economic cooperation in East Asia

1.2.1. Basic directions

Realizing the high potential of economic growth in East Asia is very important for the peace and prosperity of the world. Because of the worldwide trend toward strengthened regional economic cooperation, as evidenced by the EU and NAFTA, the integration of ASEAN, and the strengthened economic cooperation of ASEAN plus 3 is of strategic importance to peace and prosperity in East Asia, including Japan. Furthermore, the rising economy of China makes the integration of ASEAN economies key to their development, as well as to Japan. As a constituent member of East Asia, Japan should therefore promote the establishment of institutions promoting a fairer and more efficient market and the establishment of an intra-regional infrastructure for a balanced economy.

As Japan deepens its interdependence with East Asia through the transnational corporate activities of private enterprises, it contributes at once to the revitalization of its own economy and the stable growth of East Asia, based on economic linkages within frameworks like ASEAN plus 3.

The following four conditions should be kept in mind when considering Japan's future course:

- Industry's need for high value-added production:
The promotion of high value-added production includes protection of intellectual property rights; development of a common system for standards and conformity assessment; efficient logistics for the distribution of goods; promotion of information technology; etc.
- Centers for production activities:
The East Asian region continues to be an important center for production. While the diversification of locational risk is important, achieving efficiency through concentration must also be taken into consideration. In ASEAN countries especially, where many Japanese companies have production bases, measures are needed to realize more efficient production, including the promotion of the intra-regional exchange of parts.
- Growing consumption markets:
China and other countries are becoming increasingly attractive as consumption markets.
- The establishment of fair legal systems:
The East Asian region needs to develop stable and fair legal systems and institutions to promote economic activity.

1.2.2. Strategies by region and by field

Japan needs to shape its economic cooperation in East Asia according to current conditions and prospective changes in specific countries and areas. As China is expected to continue to have a high economic growth rate, it is anticipated that its weight in East Asia will increase with each passing year. China is also rapidly expanding its own production capacities in diverse areas—not only in terms of size but also in industrial structure—from the relatively labor-intensive textile industry to information device-related industries.

In ASEAN, on the other hand, countries undergoing democratization such as Indonesia have a tendency to be focused on domestic affairs instead of actively seeking integration with other countries. While it is important to promote integration, it is also necessary to interact individually with each country to encourage it to maintain its outward attitude. Also, within ASEAN, the CLM countries (Kingdom of Cambodia, Lao People's Democratic Republic, Union of Myanmar) still have a long way to go in terms of economic development. Economic cooperation with these countries should focus on supporting their stable economic development within the framework of ASEAN's integration.

In light of China's recent economic development, as well as the rapid expansion of production

capacities in various fields of its industry, Japan should encourage China's own initiative in developing its industrial human resources and infrastructure. Thus, Japan's economic cooperation with China should focus on promoting the development of China's market economy, so as to secure competitive conditions through the improved design and management of systems governing corporate activities. The following two areas should be emphasized:

- Establishment of institutions and rules conducive to trade and investment and the appropriate implementation of such rules (protection of intellectual property rights, a common system for standards and conformity assessment, and efficient logistics for the distribution of goods)
- Establishment of environment-friendly economic systems (environmental protection and energy conservation and the introduction of related regulations and institutions.)

Taking into account the investments already made by Japanese companies in the region, Japan's cooperation in ASEAN should promote the development of an environment conducive to trade and investment, including industrial human resource development, along with the integration of the ASEAN economies. The following three areas should be emphasized:

- Establishment of institutions and rules conducive to trade and investment and the appropriate implementation of such rules (protection of intellectual property rights, a common system for standards and conformity assessment, and efficient logistics for the distribution of goods)
- Establishment of environment-friendly economic systems (environmental protection and energy conservation, introduction of related regulations and institutions)
- Development of industrial human resources¹ and development of intra-regional infrastructure (development of industrial human resources and infrastructure commensurate with each country's stage of economic development)

2. The future direction of technical cooperation in East Asia

As economic integration within East Asia becomes stronger, Japan, as a constituent member of East Asia, should develop economic institutions and systems that are mutually beneficial to the countries in the region.

¹ It should be noted that the "establishment of institutions and rules conducive to trade and environment and the appropriate implementation of such rules" and the "establishment of environment-friendly economic systems" -both entail some form of human resource development. In this report, however, the phrase "development of industrial human resources" refers to the development of human resources engaged mainly in the production activities of private companies (technical, marketing and management staff), such as primarily those that contribute towards the competitiveness of small- and medium-size enterprises and greater value-added created in the region.

2.1. Basic directions

One of the principal aims of Japan's technical cooperation with East Asia has been to support economic growth through the development of human resources for industry. However, as East Asia achieves economic growth, its development needs and expectations towards Japan are changing. Japan is expected to demonstrate initiative in developing and integrating institutions while conducting its own structural reform. At the same time, as Japan's economy remains stagnant and faces problems such as the "hollowing out" of manufacturing, it is increasingly recognized that technical cooperation should be formulated with Japan's own interest in mind as well.

Thus, taking into account the business conducted by Japanese corporations overseas, Japan should demonstrate its initiative as a constituent member of East Asia by supporting stable growth in the region and establishing economic institutions and systems that produce benefit to both Japan and the other East Asian countries. In other words, as economic linkages with East Asia deepen, Japan's economy will be revitalized through the expansion of trade and investment, structural reform at home and in the other countries, and the establishment of mutually beneficial economic institutions and systems.

Up to the present, the network of transnational activities of Japanese and other private companies has been the foundation of East Asia's stable economic growth via local employment and technology transfers. Now that regional economic cooperation has become a worldwide trend, East Asia must increase its competitiveness through cooperation and integration to provide an attractive business environment on which future growth depends. For private companies to enjoy the advantages of an efficient transnational division of labor (including on-site production and economies of scale), certain prerequisites must be met: lower costs for transnational economic activities, the protection of assets, and lower risks.

To capture this opportunity, East Asia must address an urgent policy issue. Deepening economic ties and the further integration and harmonization of cross-border rules and regulations are now emerging as an issue of central importance. Accordingly, we should move away from one-way economic cooperation, in which the Japanese system has been exported to other countries without reciprocal flow, toward multiple traffic cooperation, where countries at different stages of development with diverse needs should interact with all other partners. The harmonization of economic rules in the region is a prerequisite for this transition to succeed. This means that Japan should be prepared to improve its own rules to better align them with those of the region.

2.2. Measures by field

The key objectives of technical cooperation in the three areas of economic cooperation are summarized below:

2.2.1. Establishment of institutions and rules conducive to trade and investment and the appropriate implementation of such rules (protection of intellectual property rights, a common system for standards and conformity assessment, and efficient logistics for the distribution of goods)

These are new areas of technical cooperation, and the history of Japan's own efforts in these areas is not very extensive. Still, Japan should use its experience, having established its systems before the other East Asian countries and adjusted its systems to global standards, to help strengthen the competitiveness of East Asia as a whole. Japan should focus its technical cooperation on eliminating trade barriers, establishing and harmonizing institutions, and developing efficient management practices, so as to further strengthen the close economic relations based on the network of corporations that has been developed across national borders in East Asia.

- Protection of intellectual property rights: It is essential to protect intellectual property rights in order to lower the cost and risk of transnational economic activity and to protect assets of private enterprises. The protection of intellectual property rights contributes to each country's ability to attract direct investment and reinvestment from overseas and, in the medium and long term, to enable domestic economic development through its own intellectual and creative activities and technical innovation.
- Establishment of a common system for standards and conformity assessment: To lower the cost and risk of transnational economic activity and accelerate the reconstruction of the intra-regional division of labor, it is important that different standards among the countries not hinder trade and investment. A common system of standards and conformity assessment within the region should be established by adopting international standards, among others.
- Efficient logistics for the distribution of goods: To lower the cost and risk of transnational economic activity and promote the efficient division of labor within the region, it is crucial to improve the efficiency not only of production activities but also of distribution between production centers and from production to consumption sites. Advancements in information technology and the standardization of distribution tools such as pallets increasingly make distribution logistics—"just in time" delivery and "supply chain management"—a major source of manufacturing competitiveness. The importance of distribution has not yet been widely understood in East Asian countries.

The problems that face the trade and investment activities of corporations are diverse, including labor issues and the discretionary management of tax and other legal systems. The three areas outlined above are most compatible with METI's technical cooperation programs, which concentrate on economics, trade and industry. Another advantage is that support for the protection of intellectual property rights, a common system of standards and conformity assessment, and efficient logistics for the distribution of goods contribute to the efficiency of Japan's own structures for high value-added production and consumption.

2.2.2. Establishment of environment-friendly economic systems

For economic growth, trade, and investment to be sustainable, attention must be paid to environmental and energy issues. The importance of these issues is already recognized, and Japan's cooperation program should continue to support and promote the current trend towards greater social awareness of environmental issues and the establishment of systems for environmental protection and energy conservation.

Japan has a deep understanding and sufficient know-how in this field, based on its own bitter experience of pollution during the high-growth period. By sharing its own experience, Japan can make a significant contribution to East Asian countries. Special attention should be paid to the industries in which Japan leads the world in protecting the environment and saving energy, and priority should be given to those areas in which the activities of private companies and technical cooperation can be linked. It should also be noted that the priority given to economic development at the early stage of industrialization can cause environmental problems to grow more serious as economic development progresses.

As worldwide attention is focused on global environmental issues, ODA should be used to provide for the capacity building of East Asian countries with regards to the CDM (Clean Development Mechanism), including the development of domestic organizations and institutions in developing countries and improved understanding of and interest in the CDM.

2.2.3. Development of industrial human resources and infrastructure

Investment and reinvestment in the region require human resources and infrastructure for the production activities of companies, including those of supporting industries. East Asian countries are strongly interested in the various technologies of Japanese companies and in the

policies implemented along with industrial development; therefore, these are important areas of cooperation. In the future, however, in order to make the results of cooperation sustainable and to avoid ad-hoc, isolated cooperation, emphasis should be placed on areas clearly positioned within the overall industrial policies of the recipient governments—such as policies to promote small- and medium-size enterprises for fostering supporting industries. At the same time, for recipient countries with sufficient resources and capabilities, local initiatives should be entrusted to them to enhance further development.

2.3. Measures by region

Regarding China, the focus should be placed on the promotion of the market economy (see 2.2.1 and 2.2.2). Besides conventional cooperation with the Chinese government, intellectual cooperation measures—including intellectual exchange between research institutions and the promotion of policy research—are also effective in deepening common understanding at the academic level² While discussing the most appropriate structure for implementation, it is appropriate to focus on an agenda that is important for both China and Japan, including the protection of intellectual property rights and the development of economic laws and environmental and energy measures.

Regarding ASEAN, Japan, recognizing the risk of concentrating all its manufacturing centers in one country (namely China), should seek to utilize the accumulated investment assets of Japanese corporations in ASEAN. Cooperation should therefore focus on the development of a diverse trade and investment environment, combined with the development of human resources for supporting industries (see 2.2.1 and 2.2.2). It should also provide assistance in promoting the integration of ASEAN that will raise the competitiveness of ASEAN as a whole. For CLM countries, which are underdeveloped in comparison with other ASEAN countries, Japan should promote stable economic growth within the framework of support for the integration of ASEAN.

3. Five focused agendas in the three priority fields of technical cooperation; five new action targets to be achieved within the next five years.

Japan should shift its technical cooperation efforts from ad-hoc assistance programs to the development and establishment of domestic ally and internationally integrated institutions. The three

² For example, the 3-E Research Project promotes university-level research on China's policy agendas, including energy, the environment, and the market economy. The project is meaningful from the perspective of building and strengthening relations with the leading members of various Chinese institutions.

areas discussed above (see 2.2.1-2.2.3) yield five focused agendas, as summarized below.

3.1. Establishment and proper management of institutions promoting trade and investment

- Protection of intellectual property rights—a new area to be emphasized with a focus on reducing and eliminating illegal copying.

This is a new priority area to be addressed vigorously, especially with a view to reducing illegal copying. Until now, Japanese assistance has centered on improving the ability of their patent officials to examine patents and trade marks (so-called capacity building). However, from the Japanese perspective, the present situation is still far from satisfactory, as Japanese companies in East Asia find their intellectual property rights (IPRs) violated and a mechanism to ensure adequate protection is not yet in place. As a result, they have been prevented from making returns that match their investments. This is becoming an increasingly serious problem.

Therefore, technical cooperation should be implemented with the goal of reducing in half the cost of taking measures to tackle illegal copying in China over the coming five years. To move toward this goal, a survey should be conducted to look into the actual situation surrounding the violation of IPRs, and put in place a mechanism to help resolve individual cases. One idea along this line is to establish in Beijing a “Human Resource Development School for Intellectual Property (tentative)” and train staff and officials in patent-related offices, commercial dispute arbitration agencies, court judges, customs authorities, police offices, research institutes and other organizations that are concerned with the protection of IPRs.

- Establishment of a common system for standards and conformity assessment—a new area to be emphasized to develop a common institutional framework that meets industrial demands.

This is again a new priority area. In the past, technical cooperation in this area has focused on the capacity building of administrating standard systems of individual countries in ASEAN. In large measure, this approach aimed at enhancing the basic ability of recipient countries; it did not aim at creating a unified system for the entire East Asian region, nor did it succeed in directly contributing to the actual industrial needs arising from the specific situations of individual countries.

In the future, more emphasis should be placed on the harmonization and internationalization of standards within East Asia based on the needs of industries such as the automobile industry. A

specific target in this priority area is to accelerate capacity building in ASEAN members and to make them members of the international Certification Bodies (CBs) scheme³ within the next five years, in order to realize mutual recognition of electricity safety standards within the ASEAN region.

- Efficient logistics for the distribution of goods—a new emphasis on software

This is yet another new action area. Until now, the hardware aspect of building infrastructure has been the primary focus. Insufficient attention has been paid to the software aspects of the physical delivery of goods, in spite of growing interest within the business community in the software and information that control the distribution of goods.

The first step to take in order to correct this outmoded perception is to raise awareness of the fact that efficient logistics for the distribution of goods is essential for enhancing competitiveness. In concrete terms, we designate, as a priority point, the enhancement of efficiency on the software side of the distribution system. Technical cooperation in this field should be implemented to achieve a new target, to reduce within five years the time needed to deliver goods from the point of production to destinations by more than one third. Training of certified Logistics Masters and informatisation of the distribution sector will be a useful means to meet this end. In addition, with more efficient customs clearance, even further cutting of distribution time will be in reach.

3.2. Establishment of environment-friendly economic systems

- Protection of the environment and energy conservation—promoting institutions and systems

In the field of environmental protection and energy conservation, Japan has been conducting cooperation utilizing its own technology. This has not led to satisfactory results, however; some technology has not spread as expected, and sometimes the spillover effect of the technology transfer has been insufficient. Still, it goes without saying that environmental and energy issues are important for every country in the region and represent a prospective new market for Japanese companies as well.

³ CB stands for Certification Body and aims to simplify the procedure of certifying the safety of electric and electronic equipment and thereby promote trade. It is a scheme in which National Certification Bodies, approved by the IEC System for Conformity Testing to Standards for Safety of Electrical Equipment (IECEE), test the safety of home electric equipment based on the international IEC standard and issue certificates to demonstrate that they meet this standard.

Japan will therefore promote environment-friendly and energy-efficient technologies by establishing institutions and systems (top runner approach, labeling, system of pollution control managers and energy managers)⁴ that have been developed domestically, identifying appropriate institutions and systems for each country. It will conduct cooperation with the aim of expanding the market for environmental and energy-saving systems (including the establishment or improvement of assessment and labeling systems and the system of pollution control managers and energy managers) by adding five more institutions or systems based on existing models (to be multiplied by the number of countries), stimulating the spread of products better geared towards the protection of the environment.

Currently, cooperation in the fields of environmental protection and energy conservation is provided in seven countries (Thailand, Malaysia, the Philippines, Indonesia, Vietnam, China, and India), based on the Green Aid Plan (GAP). In the future, however, assistance to CLM countries should be considered, as these will have great need for environmental and energy-saving measures as they industrialize, including the development of government and private capacity in the establishment of systems.

3.3. Development of industrial human resources and infrastructure

- Development of industrial human resources -emphasizing developing countries' own initiatives and efforts

Japan has thus far been helping to develop human resources by encouraging Japanese companies' efforts in this field. Various achievements have been made within the framework of technology transfer to developing countries that utilize private sector knowledge and know-how. On the other hand, given the movement of Japanese companies overseas and consequent concerns about the so-called "hollowing out" of manufacturing, the need for and the significance of industrial human resource development have been changing drastically.

⁴ Top runner approach: a system where the energy saving standard is set above the performance of the product with the best energy efficiency rating among products currently available for each kind of equipment,.

Labeling: a system requiring products to indicate their energy efficiency rating in comparison to the energy saving standard.

Pollution control manager: professionals responsible for the operation of the pollution prevention units that must be set up in factories with the aim of observing pollution-related regulations.

Energy manager: professionals responsible for rationalizing the use of energy by maintaining facilities and improving and supervising the use of energy.

Thus, such goals that can be accomplished by individual countries on their own should be entrusted to local initiatives. Further emphasis of Japanese assistance will be placed on the development of supporting industries in ASEAN to avoid the excessive concentration of production centers in China. A key agenda will be to encourage developing countries' own efforts in fostering supporting industries, especially in Thailand and Indonesia where Japanese companies have a large concentration of production centers. The target will be to "secure, especially in these two countries, high quality laborers, engineers, and managers who have standardized skills and qualifications in ASEAN; to make five success stories in which a successful model in one country spreads to and influences other countries; and to foster some five thousand trainers of human resources for industry." Japanese cooperation will involve introducing and spreading common qualification systems such as those in the automobile and information technology industries. Japanese cooperation will also focus on testing the practical effectiveness in each ASEAN country of the standardized ASEAN curriculum developed for COEs (centers of excellence for human resource development) and improving the curriculum by making it more applicable to the situation of each country. Sharing and mutually recognizing such qualifications and curricula with ASEAN will be helpful in providing East Asia with the human resources that the Japanese economy will need.

4. Issues to be addressed in implementing the new strategy and measures required

Throughout the Study Group's discussions on ODA, various agendas were proposed for the future implementation of Japan's technical cooperation relating to trade and investment systems in East Asia. It is especially important to conduct proposal-oriented cooperation by deepening policy dialogues and to develop Japan's human resources in charge of economic cooperation. As a comprehensive package, enhanced cooperation within East Asia should be designed by the government as a whole, based on close cooperation among the relevant ministries and agencies.

4.1. Proposal-oriented cooperation—priority fields to be proposed by Japan prior to requests

In order to develop and harmonize the trade and investment institutions of East Asia in a way that serves the mutual interest of Japan and other East Asian countries, it is important for Japan to proactively propose cooperation projects. Japan should no longer wait passively for formal requests to be made by developing countries, as has been the principle up to recently (i.e., request-basis principle). For this purpose, efforts in the following three areas are needed.

First, when implementing specific technical cooperation relating to economics, trade and industry, it is necessary to formulate a comprehensive strategy based on mutual interest and to establish priorities through policy discussions with the appropriate counterparts. Such efforts are necessary to foster greater participation by the developing countries themselves and to choose the right combination of cooperation schemes; these efforts are already being made for SME promotion packages in Thailand and Indonesia and energy and environment cooperation through the Green Aid Plan. As we foresee such major projects as the development of trade and investment-related institutions, it is important that such a strategy be widely recognized and shared by the relevant personnel, including those of the developing countries.

Second, it is necessary to improve the capability of field-based aid officers in collecting and analyzing information and formulating the appropriate cooperation strategies. For example, opportunities should be created for dispatched experts to meet and exchange views across borders and disciplines. This approach should contribute to the further integration and harmonization of cross border rules and regulations.

Third, project formulation must reflect the opinions of the private sector, as the private sector is the main actor of economic activity. In order to secure the practical effectiveness of the systems and rules for developing trade and investment, Japan should actively support implementation systems that meet the situation of each country. This will involve demonstrating their on-site practicability and feasibility based on proposals from various private-sector actors including corporations, non-profit organizations, and academic institutions that are knowledgeable about the local situations.

4.2. Developing human resources for technical cooperation—utilizing retired company employees and young people

Because economic cooperation has so far been focused on the development of physical infrastructure, it could therefore be conducted with a small number of personnel. Similarly, METI's technical cooperation has focused on industrial human resource development and cooperation in the field of environment and energy conservation. With a new emphasis on intellectual cooperation relating to the development of a trade and investment environment in East Asia, more personnel will be needed to conduct technical cooperation. Therefore, Japan should plan to foster a pool of language-proficient specialists in such fields as intellectual property rights and standards and conformity assessment.

Senior citizens who have already retired from companies have a lot of experience and know-how. They should be lured back into the labor market and strategically utilized. The use of such senior talent is already underway through trading companies and non-profit organizations, but such efforts should not be limited to trading companies. Organizations and associations of technical cooperation should work with private companies in and outside Japan to start a new registration scheme of such corporate retirees.

Young Japanese people should be motivated and given more opportunities to participate in the process of development in East Asia. In the future, these young people will prove to be a valuable asset when they, together with the former East Asian students in Japan, play a significant role in deepening relations between Japan and its neighboring countries. Better use should be made of existing measures in order to facilitate the involvement of young staff from universities and companies in the fieldwork in the developing countries. In parallel, East Asians who studied in Japan in their young days have the potential to build bridges between Japan and their countries. More attention should be paid to the view that their experience and know-how need to be fully utilized.

4.3. Reviewing costs and improving efficiency in the training and dispatching of experts—introducing multiple cost systems including the utilization of overseas human resources

In order to conduct technical cooperation efficiently under severe fiscal constraints, training should be conducted overseas if possible. In addition, the use of local experts, when available, should be considered instead of dispatching experts from Japan.

4.4. Coordination with other economic cooperation tools

As the needs of developing countries change, cooperation tools should also change, for example, by utilizing the private sector to establish intra-regional infrastructure or providing intellectual assistance as part of technical cooperation. Another such example of coordination is the provision of yen loans to developing countries to cover the cost of establishing training facilities for the development of human resources. In future, linkage between cooperation tools should be further strengthened.

4.5. Promotion of economic cooperation in East Asia as an integrated and holistic effort of the Japanese government—formulating economic cooperation action plans for ASEAN with the purpose of strengthening the economic alliance, etc.

It is necessary to strengthen the strategy formulation function of the government as a whole in order to promote cooperation between related ministries and agencies and linkage among cooperation tools. Cooperation to strengthen economic linkages with East Asia is not limited to economic and industrial policy, but also involves areas covered by other ministries, including finance, education, environment, cultural exchange, and tourism. In order to conduct wide-ranging intra-government cooperation in an integrated manner, ministries and related agencies must not work in isolation; the government as a whole should promote integrated, well-planned cooperation under a shared strategic vision.

While comprehensive economic partnerships such as the FTA between Japan and ASEAN countries are being promoted, action plans should simultaneously be formulated to strengthen economic linkage at such occasions as the Year of Japan-ASEAN Exchanges. When formulating and implementing these action plans, it should be remembered that the participation of the private sector will be the driving force for effective and efficient implementation. Private sector participation can also help bring about cooperation between related ministries. Thus, Japan should increase the participation of the private sector in initiatives in Japan and overseas.

5. Gaining understanding and support for METI's economic, industrial, and technical cooperation

Careful attention should be paid to such factors as the environment, society, regional gaps, and the participation of local residents so that the implementation of technical cooperation in economics, trade and industry leads to the realization of sustainable economic development.

Because technical cooperation is conducted overseas and not easily visible to the Japanese people, constant efforts to improve transparency are necessary to gain their understanding and support. Thus far, assessment and information disclosure before and after implementation have been practiced. Information should be actively released with speed and flexibility through forums such as the Internet. In the information age, even the provision of sufficient services will prove insufficient if they are not shared with the public in a timely manner.

Another important factor in building domestic support for technical cooperation in economics, trade and industry is how the cooperation projects are accepted by recipient countries. It is therefore necessary to request, as part of the policy dialogue, an assessment of the economic, industrial, and technical cooperation from recipient governments and to give this feedback to the people of Japan. The assessments in recipient countries must reflect the opinion not only of local governments, but

also of the private sector, including industries that conduct economic activities in the local area.

Finally, when implementing projects for building economic institutions and systems that are mutually beneficial to all East Asian countries, it is important to share this vision of integrated cooperation and its strategic significance not only with the Japanese but also with the counterparts from the recipient countries.

Closing Remarks

How should Japan work with East Asian countries? Southeast Asian countries are pursuing integration through ASEAN and expecting Japan to play a role in balancing the rise of China. On the other hand, under a prolonged recession such as Japan has been experiencing, the prevailing psychology at home is a wish to focus on rebuilding the domestic economy and to pay only minimal attention to external relations as required by diplomacy. This desire may seem rational. However, looking only at domestic issues and ignoring overseas issues might, in the end, delay the reform of Japan itself.

Lessons from history are often more useful than sophisticated theories. We learn from history that it is not easy for Japan to look outward. Masataka Kosaka wrote in his book, 'Kaiyo Kokka Nihon no Koso', *The Vision of Japan as a Maritime Power*, "If we do not have broad enough perspectives, we tend to look only at domestic power struggles and to lose contacts with the outside world." And: "When broad perspectives open to the outside were lost, the two major tragedies of Japanese history—the self-imposed isolation under the Tokugawa shogunate and the Manchurian Incident—occurred." These lessons can be applied to the contemporary situation.

Our Study Group has held active discussions about the competitiveness of Japanese technology in East Asia and the lack of sufficient recognition among Japanese officials of the current situation in the region. With the flying geese pattern of regional economic development no longer in place, attention must be paid to how Japan can actively participate in building a new model of economic linkage. The frontier of our country is the vast ocean. Because the world beyond the ocean always involves unknown elements, this report may include some suppositions. However, the personnel involved in economic, industrial, and technical cooperation should continue to learn lessons from their experience without fear of failure. Our Study Group would like to conclude this report with the note that supporting our young people's interest and travel in East Asia and fostering human resources that understand and empathize with people in the East Asian countries on an equal basis will become, in future, a prime asset of "Japan in East Asia." Our Study Group hopes that this report will enable multileveled exchanges not limited to the economy and industry.

(as of July 7th.)

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Record of Study Group Meetings

1st meeting: Friday, April 18; 14:00 – 16:00

Room West-6 (Special Conference Room #1), 17th floor, Main Building

- Changes in the environment surrounding economic cooperation and the basic ideas of the Ministry of Economy, Trade and Industry on economic cooperation
- The aim of technical cooperation in economics, trade and industry

2nd meeting: Wednesday, May 14; 14:00 – 16:00

Room West-8, 2nd Floor, Main Building

- Strengthening economic relations and technical cooperation with East Asia

3rd meeting: Tuesday, May 27; 15:00 – 17:00

Room West-6 (Special Conference Room #1), 17th floor, Main Building

- Reviewing ODA and technical cooperation (issues regarding implementation)

4th meeting: Thursday, June 12; 14:00 – 16:00

Room West-6 (Special Conference Room #1), 17th floor, Main Building

- Global environmental issues, increased global awareness of environmental and energy issues, and technical cooperation

5th meeting: Friday, June 27; 15:00 – 17:30

Room West-6 (Special Conference Room #1), 17th floor, Main Building

- The aim of industrial human resource development
- Proposal of an outline for the interim summary report

6th meeting: Thursday, July 3; 10:00 – 12:00

Room West-6 (Special Conference Room #1), 17th floor, Main Building

- Interim summary report

The report was compiled on Monday, July 7, following editing by the chairman.