

## The 39<sup>th</sup> ASEAN-Japan Business Meeting

(Wednesday, 23 - Friday, 25 October, 2013, City of Kitakyushu / Fukuoka City)

### Meeting Summary

#### 1. Opening Ceremony

*In opening the 39th AJBM, Yasuchika Hasegawa, the Chairman of Keizai Doyukai, the host of the meeting, expressed his expectations for the event, which was being held in cities other than Tokyo for the first time in 15 years, with new initiatives incorporated in its agenda. Masayoshi Nuki, Chairman of the Fukuoka Keizai Doyukai, welcomed the fact that the meeting was being held in Kitakyushu, one of Japan's leading industrial regions. Kenji Kitahashi, Mayor of the City of Kitakyushu, offered greetings expressing his pleasure that the meeting was being held in the city in the 50th year of its foundation.*

#### 2. Plenary Session (Part 1: Presentations, Part 2: Panel Discussion)

*The first part of the plenary session discussed the status of business linkage between Japan and ASEAN. Discussion focused on the expectations of ASEAN toward the advancement of small and medium-sized Japanese enterprises into ASEAN nations, and the business strategies and problems of Japanese companies already active in ASEAN nations. In the second part, case studies of individual companies were presented, and a panel discussion followed. The main points presented by the speakers are summarized below.*

- **Thanong Bidaya, Chairman of the Board of Directors, Thai Tap Water Supply Public Company Limited, Thailand**
  - ✓ The relationship between Japan and ASEAN region has developed through a phase of export of Japanese products to ASEAN nations, a phase of industrialization of ASEAN nations with the transfer of production to the region by Japanese companies, and a phase of direct investment and infrastructure investment by Japan in ASEAN nations.
  - ✓ For ASEAN, the environment is changing significantly with factors such as the rise of Chinese companies and their expansion into the region and the formation of new economic partnerships across broad areas. At the same time, some of its members are facing the issue of the middle-income trap. It will be essential for both Japan and the ASEAN nations to boost their international competitiveness on this new stage.
  - ✓ In the future, the establishment of the ASEAN Economic Community (AEC) and the advancement of economic integration are expected to promote the development of an ASEAN-wide distribution system. Japan will be essential for ASEAN in realizing the growth and functioning of the AEC as a hub and center of global production. Japan should make the most of this new opportunity.
- **Kusumo A. Martorejo, Chairman, PT. CATUR YASA, Indonesia**
  - ✓ There are significant differences among the 10 ASEAN member nations in terms of

population, stage of development, and economic environment. Through initiatives such as the realization of free trade and the abolition of trade barriers, the emerging ASEAN nations all have the potential to become middle-income countries. ASEAN is a region that will be a growth engine in the world economy, and Japan should make more active use of it.

● **Tadao Mikami, Executive Officer, Yamato Holdings Co., Ltd, Japan**

- ✓ Yamato Holdings' core business is home delivery, and our particular strength is the provision of high added-value services that take the customer's perspective into consideration. Using the transport network that we have developed as an international integrator, we are now able to provide the same type of services overseas as we do in Japan. While B-to-C was originally our main business, our expansion to B-to-B business enabled us to improve our overseas product transportation and delivery processes, and we now provide support for Japanese companies in their overseas expansion.
- ✓ Within ASEAN, violation of trademarks can be indicated as one issue, for example in the numerous instances of imitation of logos that are encountered. I would also like to point to regulations on foreign investment, including restrictions on investment in the transport industry in Thailand, Indonesia, Vietnam, and Laos, and the Bumiputera regulations in Malaysia, as problems.
- ✓ Seeking to be Asia's Number 1 distribution and lifestyle support solutions provider, we are expanding our business stage by stage, both entering and creating markets in the procurement of production goods, delivery, mail order, and E-commerce (home delivery business). This has underlined for us the necessity for conducting activities and advancing development based on the specific circumstances in individual countries and their differing needs.

● **Toshikazu Matsuoka, Chief Executive, Environmental Bureau, City of Kitakyushu, Japan**

- ✓ Once afflicted by environmental problems, the City of Kitakyushu was recognized as "Green Growth City" by the OECD in 2011. As the result of a comprehensive "environmentalization of industry" via initiatives that include the reduction of environmental burden through the promotion of recycling, the realization of increased energy efficiency and energy savings by individual industries, and promotion of the development of environmental products and services, the City of Kitakyushu has achieved economic development while at the same time protecting the environment, providing a demonstration of the fact that it is possible to integrate the economy and the environment.
- ✓ The protection and improvement of the environment in postwar Japan is something that has developed step by step, as the country passed through the stages of industrialization, the occurrence and resolution of pollution problems, and the fostering of environmental industries. Many cities in the rapidly modernizing ASEAN nations, however, are forced to confront all of these issues simultaneously. We want to export the urban green growth model developed by the City of Kitakyushu as a package, and in this way support the development of ASEAN.

● **Shigeto Yanase, Executive Officer, Yaskawa Electric Corp., Japan**

- ✓ Yaskawa Electric Corp. was founded in 1915 to manufacture motors that would transport coal produced in Kyushu. Today, we manufacture and market products based on current control technologies. We have established a holding company in Singapore

and local offices in other ASEAN nations, and we are developing our robotics business in Indonesia and port crane business (electronic control equipment) in Singapore. In the future we want to construct factories in ASEAN nations in order to enable local production and boost our presence in the region.

- ✓ Fostering human resources, reducing travel time, and integrating and speeding up various applications and clerical procedures are problems in expanding into the ASEAN markets. In fostering human resources, Yaskawa is using recruitment programs, education and internships, with consideration of the differences among the 10 ASEAN nations. This area could be a particularly large barrier to advancement into the ASEAN region for small and medium-sized companies.

- **Eusebio Valdez Tan, Managing Partner, Angara Abello Concepcion Regala & Cruz Law Offices (“ACCRLAW”), Philippines**

- ✓ Foreign direct investment (FDI) and technology transfers from Japan are essential to growth in the ASEAN region, and we would therefore like to see any Japanese companies, irrespective of size, establishing themselves in the region. Among the factors hindering small and medium-sized companies from advancing into the region are the difficulty of procuring funding, obtaining legal advice (regarding contracts, intellectual property, labor, responses to litigation, etc.), and securing local business partners (to offer advice on local customs, business experience, etc.), in addition to investment restrictions and cumbersome procedures.
- ✓ It is important to consider what type of support large companies can offer to small and medium-sized companies that do not possess resources, networks, or experience as large corporations do. It will be necessary for companies in Japan and the ASEAN nations to cooperate and offer the benefit of their expertise in relation to advancing into overseas markets.

- **Bunluasak Pussarungsri, Consultant, CIMB Thai Bank PCL, Thailand**

- ✓ Taking Thailand as an example, in the first wave major corporations from the advanced nations expanded into the country. In the second wave, technology transfers from such nations have become necessary. Even technologies that are no longer novel in Japan or that are out of patent will be sufficiently usable in ASEAN nations. The sluggish service industry in the region is also a problem. Up to the present, government protection policies have hindered the participation of overseas companies into the sector/industry, but moves toward liberalization are currently underway, and in the future we can expect further development with the promotion of free trade agreements (FTAs).
- ✓ ASEAN’s greatest advantage is its diversity. Each of the member states has its own strength, encompassing Singapore’s service industry, Thailand’s and Indonesia’s automotive industries, Malaysia’s advanced manufacturing industries (electronics, etc.) and the labor-intensive manufacturing conducted in Cambodia, Laos, Myanmar and Vietnam. However, there is no strategy to make the industries and the strengths of each of the region’s nations into strengths for ASEAN as a whole. Rather than each country in the region hammering out its own strategy for growth, it is essential that we rebuild regional networks and unify ASEAN as a whole in order to enhance our industrial competitiveness.
- ✓ We hope that Japanese companies will build supply chains making use of the characteristics of each of the ASEAN nations, and work toward the liberalization of trade.

- **Hayato Morita, President, Shabondama Soap Co., Ltd., Japan**

- ✓ Shabondama Soap’s main product, additive-free soap, is an environmentally friendly one. We import palm oil, our raw material, from Malaysia, and manufacture and market our soaps in Japan. Overseas, our main focus is on Asia, and we export soap to ASEAN nations (Thailand, Singapore, and Malaysia). The cost of importing our raw material and manufacturing our products in Japan is high, but in order to offer a high added-value “Made-in-Japan” product to the consumers of Asia who seek safe products, we intend to maintain production in Japan while continuing to actively develop our business.
- ✓ As a new business venture, in collaboration with the City of Kitakyushu we have developed an environmentally friendly fire-extinguishing chemical that guarantees from 100 to 1,000 times the safety of existing competing products. We are studying the application of the chemical in producing extinguishants for a variety of types of fire, including large-scale fires, forest fires, and even peat fires. We would like to expand this business to the ASEAN region, which is seeking to protect the environment at the same time as pursuing economic growth. Because this is not a product aimed at ordinary consumers, we would not insist on production in Japan, but would develop the business with local production in mind.

- **Hiroshi Kuramitsu, President, Hohkoshu Co., Ltd., Japan**

- ✓ Hohkoshu develops, manufactures and markets printed circuit boards and electronic products. Originally, we provided the majority of our products to major companies, but our orders declined as a result of the financial crisis in 2008. We were made keenly aware of the necessity for overseas marketing of our own products rather than being content to be a subcontractor for major companies. Since then, we have been successful in bringing products using cold cathode fluorescent lamp (CCFL) technology, a form of next-generation energy-saving lighting, to the market.
- ✓ CCFL is a high added-value made-in-Japan product, and has been well received in markets, but without the advertising budget of a major company, as of the present the brand has not gained a foothold. Despite recognition of the product’s quality, it is losing ground to low-cost Chinese products, and sales are suffering. This has given us a renewed sense of how very important it is to have the collaboration and cooperation of local companies when entering ASEAN markets.

- **Ambassador Teng Theng Dar, Singapore (moderator): Comments**

- ✓ Japanese products are recognized as being safe and of high quality, but they are also expensive. Japanese companies must give serious consideration to reducing their supply chain costs. In order to do so, it will be necessary for them to establish cooperative relationships with distributors who possess a detailed understanding of the characteristics of markets and products in the specific country in which they seek to do business.
- ✓ Japanese companies must consider the ASEAN region from the perspective of supply chain strategies that encompass the region as a whole. A variety of agreements are being brokered in advance of the liberalization of trade in 2015, and we should seize this opportunity, first seeking out initiatives towards the creation of supply chains that can be implemented by the Japanese and ASEAN private sectors, and then promoting intergovernmental consultation. We need to make the preparations that will enable individual companies to proceed directly to action when intergovernmental agreements are reached.
- ✓ I would like Japanese companies to understand that by advancing into ASEAN markets they will expand their domestic business. Today, we have cast off the image of ASEAN as exclusively a manufacturing hub, as seen for example in the trend for European and

U.S. companies to establish R&D bases in the region. Surely there is room for Japanese companies to move into ASEAN nations while black-boxing and protecting their core technologies.

- **Toshiyuki Shiga, Chairman, Committee on Asia-Japan Relations (Chairman, The 39<sup>th</sup> AJBM): Comments**

- ✓ We can see the case of Shabondama Soap as a good suggestion for the future of ASEAN-Japan business collaboration. Like this company, the Japanese corporations may need to consider which production processes – or factors – should be maintained in Japan, so that they can maximize added value and brand power of the products, and which else can be effectively transferred to production bases in ASEAN. This way of thinking will help us design best ways to realize coexistence and mutual growth of ASEAN and Japan.

### **3. Luncheon Session**

*At the Luncheon Session, Morio Matsunaga, the President of the Kyushu Institute of Technology, an institution that makes active efforts to promote international cooperation, offered a presentation on the institute's initiatives in the area of fostering human resources.*

- **Morio Matsunag, President, Kyushu Institute of Technology**

- ✓ The Kyushu Institute of Technology was founded by Keiichiro Yasukawa, a key figure in Kyushu industry, originally in order to develop engineers. Seeking to foster “creative individuals,” our mission is to conduct research of the world’s highest level, and to produce superior engineers able to use their skills globally.
- ✓ We also actively promote cooperation with the ASEAN nations, and we have concluded partnership agreements with 19 universities and research institutes in 4 ASEAN countries. We have also opened an educational research center, MSSC, in University Putra Malaysia, and introduced a dual degree program. Our goal is to send students and teaching staff from Japan to MSSC in order to make them capable of doing things they can do in Japan even in a different cultural setting in a same way, based on the perspective of the “Global Engineer.” In the future, we are hoping to extend this model to the other ASEAN nations.
- ✓ We also actively accept foreign students. Approximately 20% of our foreign students come from ASEAN nations, and as a result, intercultural human exchange flourishes on our campus. In addition to using a government sponsorship system for foreign students in some of our faculties, we also provide financial support for foreign students in their daily lives.

## 4. Visit to Nissan Motor Kyushu / Networking Roundtables

*The participants visited Nissan Motor Kyushu Co., Ltd., for:*

- (1) *Presentation on Nissan Motor's Asian business and cooperation with ASEAN,*
- (2) *A study tour of the production area of the Kyushu Plant, the company's largest domestic production center and a hub for its activities in other Asian nations,*
- (3) *Roundtable discussions among the meeting participants in small groups*

### (1) Presentation by Nissan Motor Co., Ltd.

#### **“Nissan Motor Co., Ltd.’s Asian business strategy”**

**Toshiyuki Shiga** (Chairman, Committee on Asia-Japan Relations)

**Yukinobu Kodama** (President and Representative Director, Nissan Motor Kyushu Co., Ltd.)

- ✓ For the automotive industry, the ASEAN region displays a high rate of growth as a market, and expectations are also high for the region as a center of production and export. Japanese automakers are creating an increasing number of jobs in ASEAN nations.
- ✓ Nissan Motor Company projects ongoing sales and growth in the ASEAN nations, and we are working to increase our local production capacity and localize R&D functions in order to consolidate our manufacturing base in ASEAN. We are also proceeding with the localization of parts production together with domestic suppliers. By importing cost-competitive parts manufactured in the ASEAN region, we are able to increase the competitiveness of vehicles produced in Japan.
- ✓ Nissan Motor Kyushu mainly uses parts imported from ASEAN nations and China. This is a win-win situation for ASEAN and Japan: Greater cost competitiveness enables Japan to increase its volume of exports, and ASEAN nations receive local production and employment opportunities and are able to increase their volume of exports to Japan.
- ✓ While the ASEAN region has an advantage in parts production from the cost perspective, there is still room for improvement in quality. In addition, distribution costs are high, and the lead-time for imports is long. Because of this, Nissan has introduced “double number” vehicles for Japan and Korea, so that transport vehicles can move between the two countries without border control. This is working to improve distribution and quality.

### (2) Study tour of Nissan Motor Kyushu plant

*Participants were offered study tour to Nissan Motor Kyushu's body production area, assembly area, and company pier.*

### (3) Roundtables (Conducted in parallel)

#### **Group I: Discussion on the case of automotive industry**

*A roundtable discussion was held among corporate managers from Tokyo, Kitakyushu, Fukuoka and the ASEAN region, with **Toshiyuki Shiga** (Chief Operating Officer, Nissan Motor Co., Ltd.), **Yukinobu Kodama** (President and Representative Director,*

*Nissan Motor Kyushu Co., Ltd.), and Akihiko Shido (Chairman & CEO, Yorozu Corp.) as panelists. The main points raised by participants are presented below.*

- ✓ For the automotive industry, there is no potential for business development without entry to overseas growth markets. The issue is how to efficiently expand overseas.
- ✓ Yorozu Corporation (a major automotive parts manufacturer) had a hard time securing human resources in the countries it sought to advance into. At the same time, one of the company's domestic business partners had excess facilities and personnel, but no experience of entering foreign markets. Believing that they could mutually complement each other, the two companies commenced an experiment in a new form of cooperation.
- ✓ In the process of technology transfers to the ASEAN region, Japanese technicians are being dispatched to ASEAN nations and are working to pass on skills. Because companies must ensure that their core technologies remain in Japan, it is necessary to realize a balance by changing these technicians over at times.
- ✓ Japanese companies are highly regarded in the ASEAN nations. The reasons for this are, first, that they prioritize the building of relationships predicated on long-term business, second, that they put effort into education and training, conduct technology transfers and foster human resources, and third, that they are diligent and emphasize quality.

#### **Group II: Discussion on cases of Kitakyushu companies**

*The group discussed issues associated with entering Asian markets with managers of Kitakyushu companies, Hiroshi Kuramitsu (President, Hohkoshu Co., Ltd.) and Yasushi Matsunaga (General Manager, Shabondama Soap Co., Ltd.) as panelists, and Yasuhumi Hirai (President and General Manager, Cisco Systems G.K.) as moderator. The main points raised by participants are presented below.*

- ✓ What ASEAN is expecting from Japanese companies is that they will create value chains that transcend national borders by introducing Japanese technologies to ASEAN raw materials in order to produce added value, and conducting sales in ASEAN markets
- ✓ In many cases, the difference of local industrial standards represents a hurdle for Japanese companies seeking to advance overseas. In the future, it will be essential for ASEAN and Japan to formulate shared rules.
- ✓ Financial assistance is also necessary in helping small and medium-sized enterprises to enter overseas markets. City of Kitakyushu targets environmental area as a key sector and provides support for the overseas advancement of local businesses in the field.
- ✓ Building relationships of trust will be essential to the further promotion of technology transfers from Japan to ASEAN and the development of human resources. In order to deepen mutual understanding and foster excellent human resources, we must create systems that will encourage exchanges among young people and provide opportunities for overseas study.

#### **Group III: Discussion with corporate managers of large companies**

*The discussion put a focus on inter-company and inter-industry cooperation, with Tadao Mikami (Executive Officer, Yamato Holdings Co., Ltd.), a panelist for the overall Meeting, Shigeto Yanase (Executive Officer, Yaskawa Electric Corp.), and Takashi Shiki (Senior Vice President, All Nippon Airways Co., Ltd.) as panelists, and Koichi Kawana (President and Representative Director, JGC Corp.) as moderator. The main points raised by participants are presented below.*

- ✓ ANA developed and implemented its initiative of Okinawa cargo transport hub, and has realized a rapid transportation service that makes use of the convenience of a 24-hour airport. This makes it possible for packages from Japan to reach the airports of other countries in Asia the next morning. Yamato Holdings has a customs license, and organizes customs clearance and cargo collection for its customers in Okinawa using its own customs system. Using the company's delivery service and ANA's hub at Naha Airport, it is now possible to make emergency deliveries and to deliver fresh items to other countries in Asia.
- ✓ Companies engaged in distribution are taking an approach focused on high added value and high-speed transport, but if we consider the matter from the perspective of users of infrastructure, there are still aspects of the underpinnings of distribution that are unstable. It will be important to mutually cooperate in the area of infrastructure, looking toward the creation of a more solid foundation for distribution by means of investment and technological cooperation.

## **5. Closing Ceremony (Dinner)**

At the closing of the 39th AJBM, Chairman Toshiyuki Shiga presented closing remarks on behalf of the organizers, and Eusebio Valdez Tan and Egmidio Cesar de Silva Jose offered responses as representatives of the Philippines, the host country for the next meeting. They affirmed the importance, together with the advance of small and medium-sized Japanese enterprises into ASEAN nations and their contribution to growth in the region, of multiplying examples of success in which these initiatives were linked to an increase in their domestic business in Japan. They also underlined the importance of continuing discussions toward the resolution of problems at the next and future AJBM.

Speaking on behalf of the host city, Seitaro Hattori, Vice Governor of Fukuoka Prefecture, and Soichiro Takashima, Mayor of Fukuoka City, offered their congratulations to the success of the meeting, and indicated the commitment of both prefecture and city to working to pursue its growth strategies into the future.

### **【Note】**

- Positions, etc. referred to in the text are those in effect at the time of the meeting (October 23 – 25, 2013)
- Keizai Doyukai secretariat takes full responsibility for the wording of this text.