

ASEAN Integration and Japan-ASEAN Collaboration from Business and Science and Technology Perspectives , Yoshio Matsumi, Advisory Member, ITOCHU Corporation, March 5, 2014 in Tokyo

Thank you and good morning, friends. I am Yoshio Matsumi and worked for Itochu Corporation of Japan for 43 years until March 2012. I am now Advisory Member of Itochu Corporation. As some of you might know, Itochu Corporation conducts more than 100 billion dollar business per year and generates over 3 billion dollar net profit on an annual basis through diversified business in 65 countries including 8 ASEAN member countries. During my years with Itochu I was involved in projects development in the former Soviet Union for 6 years, then, strategic business development in information technology, communication, electronics, media and entertainment, aerospace and defense for 20 years in New York, and lastly commercialization of science and technology research including venture business investment in life science, energy and environment, advanced materials and others for 12 years. Today I serve on the science and technology policy committees of Ministry of Education, Culture, Sports, Science and Technology, Japan Science and Technology Agency, and Japan Aerospace Exploration and Development Agency.

I would like to speak today about ASEAN integration and Japan-ASEAN collaboration from business and science and technology perspectives. Of course I do not represent all the views of the industries of Japan in addressing this issue and I wish to talk about the subject based upon my half-a-century experiences with the Japanese general trading company.

The Asian economy has been dramatically recovering since its difficult years and it is a true engine of the world economy today. To maintain economic growth of Asia is of mounting importance not only to Asia but also to the entire world. Both the mainland Southeast Asian economies of Cambodia, Laos, Myanmar, Thailand and Vietnam and the maritime Southeast Asian economies consisting of Brunei, Indonesia, Malaysia, Philippines and Singapore are the future of the world. The combined ASEAN is home to a young, large and growing labor pool, as well as a growing and increasingly consumption-oriented middle class. With a greater economic integration

planned for 2015, the countries of ASEAN will enter a new era of promise and prosperity.

Economic exchange between Japan and ASEAN that celebrated the fortieth anniversary in 2012 has expanded dramatically in recent years. Exports and imports between Japan and ASEAN that were each valued at approximately 54 billion dollars in 2001 were each worth about 130 billion dollars in 2012. The cumulative total of Japanese investment in ASEAN rose from 35 billion dollars in 2001 to about 120 billion dollars in 2012. The Japanese investment has been clearly shifting from China to ASEAN in such industries as precision machinery, electrical machinery and vehicles. Today the investment in ASEAN is the largest investment of Japan in Asia. About 4,700 Japanese companies have business operations in ASEAN member states today. Since the fourth quarter of 2012 the sales of Japanese companies locally incorporated in ASEAN has exceeded the sales of Japanese companies incorporated in China. These closer ties between Japan and ASEAN will be certainly evolving further when the ASEAN Economic Community is transformed into reality in 2015 and ASEAN with over 620 million people boasts over 4 trillion dollar GDP by 2020.

KEIDANREN is Japan Business Federation with a membership comprised of 1,300 representative companies of Japan, 121 nationwide industrial associations and 47 regional economic organizations. KEIDANREN sent a message to the Japan-ASEAN Commemorative Summit Meeting held on December 1, 2013 on the occasion of the fortieth anniversary of the establishment of Japan-ASEAN Friendship and Cooperation. KEIDANREN declared its interest in contributing to sustained region-wide growth through the promotion of infrastructure and human resources development as well as regional economic integration based on the Regional Comprehensive Economic Partnership.

One of the KEIDANREN messages to the Summit Meeting was about cooperation in the development of hard and soft infrastructure. Region-wide undertakings in infrastructure development will be essential to the formation of the region's foundation for growth. As exemplified by the Master Plan on ASEAN Connectivity and the economic corridor development plans,

the region's member states are moving forward to build new infrastructure network. Carrying those plans to the implementation stage, however, will demand that priority projects be selected and put into motion on a steady schedule. Large-scale infrastructure projects require enormous amount of funding that cannot always be fully budgeted with public sector sources alone. KEIDANREN welcomes the public-private partnership or PPP frameworks that several ASEAN member states have established to effectively harness the technologies and funding power of the private sector. KEIDANREN anticipates that widespread adoption and appropriate implementation of PPP frameworks by ASEAN governments will lead to the formation of projects that harness private sector ingenuity. Additionally, utilization and promotion of the bilateral offset mechanisms will prove effective in aiding the penetration and acceptance of Japan's exceptional energy-saving and low-carbon technologies and in encouraging member states to curb and reduce their emission levels. Japan has already signed bilateral memorandums with Vietnam and Indonesia on such mechanisms, and Japan anticipates that similar memorandums will be concluded with additional ASEAN member states in the future.

The second message of KEIDANREN to the Summit Meeting was about the early establishment of the regional comprehensive economic partnership or RCEP. ASEAN's strengths are the growth potential of its consumer markets supported by emerging middle class and the intense competitiveness it has achieved as a manufacturing hub driven by the international division of labor. To fully exploit these strengths, promotion of regional economic integration will be the key. Japan applauds the RCEP negotiations that were launched in May 2013 in parallel with the process toward the establishment of the ASEAN Economic Community. Japan encourages each ASEAN member state to cooperate closely with Japan to bring about the early conclusion of a high-level agreement. It is important that RCEP facilitates the abolishment or reduction of tariffs in substantially all the trade, the liberalization of investment and trade in services, the protection of intellectual property rights, the establishment of favorable business environments, and the unification of various industrial standards. Additionally, because RCEP would set common rules for the region as a whole, KEIDANREN anticipates that supply chain and value chain

continuity would also be secured. KEIDANREN articulates that the Japanese business community is prepared to cooperate in the stimulation of regional trade and investment, infrastructure development, and technology transfer within the open business space that would be created under the framework of the Regional Comprehensive Economic Partnership.

In line with the message and policy of KEIDANREN, the Japanese companies will continue to put high priorities to collaborations with ASEAN countries in such sectors as retail, hospitality, agriculture, food, fishing, electronics, automobile, housing, healthcare, natural resources and infrastructure to the mutual benefits of Japan and ASEAN. Let me pick up several examples of recent moves by the Japanese companies in ASEAN. Minebea Company supplies parts from its factory in Thailand to neighboring markets but newly built a motor manufacturing facility in Phnom Pehn Special Economic Zone. Yazaki Corporation has opened new wire harness factory in Kokkong Thailand. Nikon Corporation has transferred some portion in manufacturing of cameras and changeable lenses from Thailand to Savan-Seno Special Economic Zone, Cambodia. Fuji Xerox Company operates factories in China but now a new printer manufacturing facility in Haiphong, Vietnam. Bridgestone Tire Japan Company has a factory in Thailand and now a new tire manufacturing factory in Dinh Vu Industrial Zone, Vietnam. In a growing consumer market of ASEAN, major Japanese food companies such as ITOEN, LTD and Calbee Inc. have been newly forming joint ventures with local partners in such countries as Indonesia and Philippines to distribute tea drinks or to produce snacks. I believe that the expansion of manufacturing facilities by the Japanese companies and increase of joint ventures between Japanese and ASEAN companies contribute to job creations and human resource development in ASEAN. Mergers and acquisitions in that the Japanese companies will be increasingly more active will also contribute to closer business cooperation between Japanese and ASEAN companies based on a shared understanding of local situation and needs in ASEAN. I believe that all these actions and moves by the Japanese companies are attributable to ASEAN's relatively high economic growth and availability of low-cost labor, improved traffic infrastructure and growing geopolitical importance.

Of course we cannot forget that the economic aid by the Japanese government to ASEAN member states has been exerting a positive impact on the Japan-ASEAN business cooperation in the private sector. Such economic aid includes programs in area development, building of value added industries like electronics and petrochemical industries, completion of economic corridor, improvement in laws and regulations like simplification in customs clearance, and development of industrial human resources like skilled workers.

Ladies and gentlemen, if we look into a further future, I believe that the next 10 years will be a critical period for Japan and new ASEAN in further growing economy, strengthening international competitiveness of industry, and enhancing quality of life both in Japan and ASEAN. In doing so, I believe that Japan and ASEAN must cooperate in several important arenas: (one) expanding the flow of goods, services and investment, (two) enhancing the attractiveness of ASEAN as an investment destination, (three) increasing technology transfer from Japan to ASEAN, (four) nurturing small and medium sized companies including young ventures, (five) developing science and technology collaboration in such fields as energy efficiency and conservation, healthcare, information and communication, (six) expanding cooperation in education and capacity building, and (seven) collaborating on disaster and emergency preparedness and response.

At this point in time I wish to expand my discussions into science, technology and innovation.

Science, technology and innovation must be addressed in ASEAN integration and regional collaboration involving Japan. As all of us are aware, innovation is a key driver of economic growth. Today, nations, both developed and developing, are accelerating efforts for innovation, making it an important part of growth strategy. Global innovation competition is intensifying. Let me quote the recent U.S. publication entitled Reverse Innovation. It reads as follows: Quote, “ The global dynamics of innovation are changing. No longer will innovation traverse the globe in only one direction, from developed nations to developing ones. They will also flow in reverse. Innovating for emerging markets, rather than simply exporting,

can unlock a world of opportunities. “ unquote.

Also let me quote the paper entitled The High Intensity Entrepreneurs in the September 2010 edition of Harvard Business Review. Quote, “ High potential ventures are surfacing where no one is looking for them—in Beirut instead of Boston, in Cape Town instead of Silicon Valley—among people who have historically been outside the economic power structure. What is surprising is that so many of these companies are not in the fast-growing markets that the world is already watching, such as India or Brazil. They are cropping up in places like Jordan, Saudi Arabia, and South Africa. Finding and investing in them may be one key to reenergizing the global economy.” unquote. In Beirut, Cairo, Dubai, Riyadh or Gaza City, small technology ventures that drive innovation are multiplying, creating a sort of “start-up spring”.

Ladies and gentlemen, science and technology spurs innovation that means creation of new social and economic values. Science-driven-innovation, whether incremental or breakthrough, creates new jobs and new products or even new industries like Internet. Today, however, closed inward-looking research and development by one company or by one university or by one country is not productive or affordable since global challenges are getting more complex and when scientific and technological disciplines such as biotechnology, nanotechnology, information technology and cognitive science are fast converging. Under such circumstances international university-industry-government collaborations in research and development are becoming increasingly more important. For more than a decade, large scale international open innovation researches on a university-industry-government collaboration basis have been under way at State University of New York Albany, the United States, MINATEC, France, and IMEC, Belgium. At MINATEC, France, 400 companies from 35 countries participate in the international open innovation research center about micro and nanoelectronics. At SUNY Albany, IBM contributed 100 million dollars and the New York State Government contributed 50 million dollars in launching a large scale nano-science research center. In France, venture capitals and patent lawyers participate in the research center complex. Those international open innovation collaborations have been effective not

only in scientific research but also in brain circulation, capacity building, networking expansion, commercialization of research and cost sharing. It is time for both developed and emerging countries to promote together international open innovation research collaborations on a multilateral basis, inviting different talents, different value judgement, different wisdom as well as diversity, and sharing funding of research and development. Large scale international open innovation research centers like those in the United States and Europe do not exist in ASEAN. Besides, science and technology cooperation has not been much addressed or pursued at the joint economic committees of the private sector between Japan and ASEAN countries. Therefore, if Japan and ASEAN countries jointly launch international open innovation research centers in ASEAN with objectives to solve global challenges and local needs in ASEAN such as climate change and infectious diseases, it could open new avenues of Japan-ASEAN collaboration on a multilateral basis in science and technology that is of critical importance for innovation, economic growth and improvement of people's quality of life in ASEAN countries. The Takeda Foundation of Japan and National Science and Technology Development Agency of Thailand together with other organizations and companies have been discussing a launching of international open innovation research center on the use of biomass resources rich in ASEAN and I believe that a success through such efforts will make a significant contribution to advancing science and technology, developing human resources and solving common challenges. Also such science and technology collaboration will certainly contribute to strengthening international competitiveness of industry of ASEAN countries.

Japan is one of the most advanced countries in the world in science and technology and must work together with ASEAN countries to the mutual benefits through strengthening the science, technology and innovation diplomacy of Japan. I believe that the Japanese group in the private sector should propose to the Japanese government that the government strengthen the following science, technology and innovation diplomacy with ASEAN member states: (one) expansion of Science and Technology Research Partnerships for Sustainable Development or SATREPS, East Asian Science and Innovation Area Joint Research Program or a-ASIA JRP, and Southeast

Asia Engineering Education Development Network or SEED-NET not only on a bilateral basis but also on a multilateral basis in ASEAN, (two) collaboration in capacity building including exchanges of talents in ASEAN, (three) collaboration in commercialization of research with the objective of innovation, (four) nurturing of young entrepreneurial ventures in ASEAN that vitalize industry and economy, creating jobs, (five) joint establishment of international open innovation research centers in ASEAN, (six) collaboration in designing and implementing of funding mechanism for research and development in ASEAN, and (seven) closer coordination with the private sector in all the agenda I have addressed. I believe that such science, technology and innovation diplomacy, or so called soft power diplomacy by Japan on the basis of respect of freedom, democracy and diversity will serve peaceful purposes of Japan's diplomacy with ASEAN countries and contribute to the economic and social development of ASEAN in a new era following the economic integration. I believe that science, technology and innovation diplomacy must be an integral part of Japan's foreign policy containing trade, economic, cultural and national security components as well when the world is faced with various kinds of complex and tough global challenges. And moreover, such science, technology and innovation diplomacy will help private sectors of Japan and ASEAN countries intensify business and science and technology collaboration during the years to come.

In closing my speech, I emphasize that business and science and technology collaboration between Japan and ASEAN countries on a bilateral and multilateral basis will be mutually beneficial in meeting the needs and challenges in ASEAN and for the growth and prosperity of ASEAN. In such efforts university, industry and government must actively participate and collaborate together. In such endeavors we must maintain not narrow but broad holistic views about the changing global situation.

Thank you very much for your attention.