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NIRA Report

Asia as a Single ‘Domestic Market’ The Harmonization of Rules and Systems

Noriyuki YANAGAWA
Executive Vice President of NIRA
Associate Professor, Graduate School of Economics,
Faculty of Economics, The University of Tokyo

Since the global financial crisis, Japan has increasingly sought the path to its economic future in the Asian market. Clearly, if we consider the trends of the past several years, the nations of the Asian region have displayed a higher rate of growth than other nations, and their recovery from the crisis has also been comparatively robust. Further, it is predicted that the population of the region’s middle income bracket (commanding a disposable income of between US\$5,000 and US\$35,000 per household) will grow by more than 500 million to approximately 1.4 billion in the next ten years (see the figure below). A strategy which emphasizes the Asian market is therefore clearly justified.

However, like Japan – and perhaps to a greater extent than Japan – Europe and the U.S. are also focusing attention on the growth potential of the Asian market. Looking at trends in direct investment, we see that Europe is the major investor in ASEAN nations, and the U.S. maintains a high level of investment in China. By contrast, in terms of people-to-people exchanges, Japan’s relationship with ASEAN is rather weak. The belief that geographical proximity enables Japan’s connection with other Asian nations to be taken for granted is a trap for the nation.

Japan’s economic policies with respect to other Asian nations frequently tend to fall into one of two categories: the provision of aid, or the seeking of profit. However, if Japan is to deepen its cooperation with the rest of Asia and tap into the region’s dynamism to power its development, it will be essential to consider not merely short-term profit for Japan but relationships that promote long-term mutual development.

To that end, the first requirement will be to do away with the dichotomy between internal and external demand. In a globalized economy, it is meaningless to establish a border between internal and external and to argue over which is the more important. What is required is that we eliminate this division, and seek methods of establishing bonds and building relationships of such strength that all of Asia can be considered a single internal market.

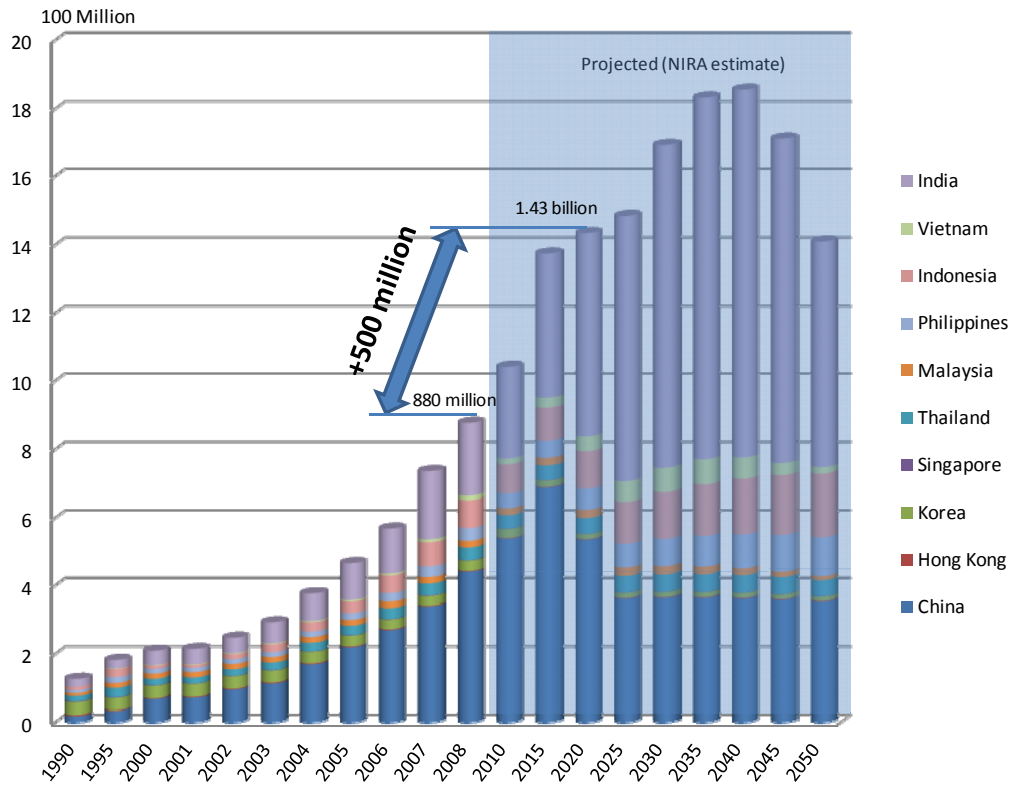
It will also be vital for Japan to build relationships of trust with other Asian nations that can be maintained over the long term. In order to build such relationships, it will be necessary to lower the walls between Japan and the other nations of the region and to increase the practical benefits of cooperation by pushing ahead more actively with personnel exchanges at the same time as promoting the harmonization of systems. The standardization and harmonization of rules and systems in a diverse range of areas – technical standards, environmental standards, and standards of corporate governance, to name a few – will be of benefit in boosting cooperation throughout the Asian region, at the same time as further stimulating economic activity.

What is more, the world economy stands before an era in which we will see competition for the selection of global systems, and measures must be introduced by Japan and other Asian nations that take this fact into consideration. Such international competition for the selection of systems is characterized by a *de jure* form of selection, in which systems are determined from the top by a political process. While in *de facto* selection, the results of choices made by consumers have a considerable effect on the selection of future systems and standards, the market scale of nations and regions has the most significant impact on negotiations in this area in *de jure* selection. This applies not merely to technical standards, but to the international selection of rules and systems in a variety of areas, for example accounting systems.

This is an extremely serious issue for Japan, a nation whose internal market will necessarily contract as its population declines. It will also be essential for Japan to cooperate with other Asian nations in the standardization of rules and systems if it is to possess sufficient negotiating power internationally when global systems are being selected. In addition, it will be necessary to work internationally in order to use the potential market scale of the Asian region to enable the selection of standards that will stimulate economic activity.

For this reason, the fostering of specialized personnel for the standardization of rules and systems is an urgent issue for Japan and for the other nations of Asia. The EU has already aggressively provided ASEAN with financial aid, and has dispatched human resources, to assist in the formulation of harmonized regional standards. It would be desirable for Japan also, in addition to rapidly fostering personnel specialized in this area, to provide direct support to the Asian region, and in doing so to contribute to the long-term prosperity of the Asian economy.

Figure: Changes in the Asian middle income population (disposable income of between US\$5,000 and US\$35,000)



* Figure 3-1, page 5 of the report. Actual figures are employed up to 2008. NIRA estimates are employed from 2010 onwards. Detailed notes concerning the data and estimates used can be found on page 5 of the report.