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THE ECONOMIC INTERDEPENDENCE BETWEEN JAPAN AND ASEAN

Hiroshi KAKAZU

I. INTRODUCTION

Ever since ASEAN was established with five member countries, namely Indonesia, Malaysia, the Philippines, Singapore and Thailand in 1967, its development as the first attempt for a regional economic integration in Asia has been watched carefully by the rest of the world, particularly by Japan. ASEAN's progress towards economic integration, however, has been slow being impeded by the external as well as internal political and economic problems. It was not until 1975 when the ASEAN Ministerial Conference was held in Kuala Lumper after the end of the Vietnam war that ASEAN, first time in substance, bounded together and recognized the regional economic cooperation in terms of concrete common economic measures including tariffs and complementary projects.

Japan's offical commitment to ASEAN began recently with the invitation of then Japanese Prime Minister Takeo Fukuda to the second ASEAN summit which was held in Kuala Lumpur in August 1977. At the meeting, the ASEAN Heads of Government requested Japan's economic cooperation as follows: (1, pp. 26—29)

(1) To improve access to Japanese markets for manufactured, semimanufactured and primary product exports from ASEAN.

I am grateful to Mr. Mitsuo Sakaba, Assistant Director, Regional Policy Division, Asian Affairs Bureau, Ministry of Foreign Affairs of Japan for providing me valuable data on ASEAN, and to Professor Kozen Nakachi for his proof reading of this paper. The responsibility for errors, nevertheless, rests with me.

(2) To establish a system along the lines of the STABEX scheme (stabilisation of export earnings) to stabilise earnings from exports of ASEAN's primary commodities.

(3) To extend assistance towards the realisation of ASEAN industrial projects.

(4) To increase Japan's economic and technical cooperation in complementing ASEAN's efforts for economic and social development.

(5) To intensify the Japanese private investment in ASEAN's labour intensive and resource-oriented industries.

(6) To take the positive steps to implement the Integrated Programme for Commodities (IPC).

(7) To curb the spread of protectionist tendencies in developed countries.

These requests are basically identical with the proposals made by the Group of 77 of the developing countries at the UNCTAD and other international fora against the developed countries. Thus, it is essential for Japan to realize that the economic issues between Japan and ASEAN should be solved in the fromework of North-South problems.

In this paper, I shall examine the development of economic interdependence between Japan and ASEAN in the 1970s through analysing mainly Japanese White Papers on International Trade.

II. THE ECONOMIC PERFORMANCE OF THE ASEAN COUNTRIES

In order to analyse the economic interdependence between the ASEAN countries and Japan, we should first look at the main economic indicators and the macro performance of the ASEAN countries. ASEAN consists of a great variety of countries from Indonesia

with population about 138.9 millions and per capita GNP of $370 to Singapore with population about 2.4 millions and per capita GNP of $3,830 (Table 1).

In terms of land area and population, ASEAN is about eight and two times larger than that of Japan respectively, but in terms of GNP and per capita GNP, the former is about one-seventh and one-sixteenth respectively of the latter. The real GDP growth rates of the ASEAN countries in the 1970s, however, exceeded the growth rate of Japan, save for the Philippines, thereby narrowing the GNP gap between the two regions. Of the ASEAN countries, the Philippines was outperformed by the other ASEAN countries in growth rate. It is also worthy to note that resource-rich Indonesia and Malaysia performed better in the 1970s than the 1960s.

Exports were the engine of growth for the ASEAN countries. In all ASEAN countries exports grew much faster in the 1970s than the 1960s, thereby contributing to the region's growth rate. Particularly Singapore and Thailand experienced the two-digit growth rate of exports. ASEAN's imports grew faster than that of Japan in the 1970s reflecting a rapid industrialisation in the region. The growth rate of Indonesia was particularly impressive during the past decade. Though there are great variations among the countries, ASEAN's total trade accounted for more than 30% of the region's GNP which was much higher than Japan's about 10%. For countries like Singapore and Malaysia, which heavily depend upon international trade, the trade is not only the engine of growth but also the engine for survival.

TABLE 1 MAIN ECONOMIC INDICATORS OF THE ASEAN COUNTRIES AND JAPAN

	Year	Unit	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN	Japan
Land Area	1979	10,000Km^2	190	33	30	0.6	52	311	37
Population	1979	1,000	138,891	13,642	46,803	2,368	45,486	247,190	115,869
GNP	1971	US$Millions	8,494	3,763	6,404	2,136	6,191	26,988	261,435
	1979	〃	52,200	17,960	28,110	9,050	26,920	134,240	1,000,757
Per Capita GNP	1970	US$	68	346	174	949	169	-	1,958
	1979	〃	370	1,370	600	3,830	590	543	8,637
Average Annual Growth	1960-70	%	3.9	6.5	4.3	8.8	8.2	-	10.5
rate of GDP	1970-79	%	7.6	7.9	4.9	8.4	7.7	-	5.2
Distribution of GDP	1979								
Agriculture		%	30	24	24	2	26	-	5
Manufacturing		%	9	16	24	28	19	-	30
Services		%	37	43	41	62	46	-	53
Exports	1979	US$Millions	15,590	11,077	4,601	14,233	5,288	50,789	103,045
Average Annual Growth	1960-70	%	4.0	5.8	2.2	4.2	5.2	-	17.2
Rates	1970-79	%	6.5	6.5	6.2	11.0	12.0	-	9.1
Imports	1979	US$Millions	7,225	7,849	6,613	17,635	7,190	46,512	110,670
Average Annual Growth	1960-70	%	2.0	2.3	7.1	5.9	11.2	-	13.7
Rates	1970-78	%	12.8	6.2	3.7	8.0	5.8	-	4.8
Exports/GNP	1979	%	29.9	61.7	16.4	157.3	19.6	37.8	10.3
Imports/GNP	1979	%	13.8	43.7	23.5	194.9	26.7	34.6	11.1
Terms of Trade	1960		63	150	112	100	121	-	150
(1975=100)	1979		119	120	107	101	73	-	98
Gross International	1970	US$Millions	160	667	255	1,012	911	3,005	4,876
Reserves	1979	〃	4,205	5,006	3,120	5,819	3,102	21,252	31,927
Population of 15-64	1960	%	53	51	52	55	53	-	64
Years	1978	%	53	55	53	66	54	-	68

Note : Per capita GNP of Indonesia is for 1971.

Sources : World Bank, *World Depelopment Report*, 1981. MITI, *White Paper on International Trade*.

Except Thailand, the terms of trade of the ASEAN countries improved in the late 1970s. Especially the terms of trade of Malaysia and Indonesia improved nearly 20% since 1975 due to the favourable export prices of the raw materials and fuels.

Being supported by the favourable balance of payments, ASEAN's international reserves increased by 7 fold in the 1970s. Particularly Indonesian reserves jumped from $160 million to $ 4,205 million or 26 fold during the period.

ASEAN's population structure is very young compared to that of Japan where 68% of the people are in the ages of 15-64.

Ⅲ. INTERDEPENDENCE IN TRADE

1. Japan's Trade by Area

Table 2 presents Japan's exports and imports trade by area and country for the past decade. The total exports increased continuously from $ 19 billion in 1970 to $ 130 billion in 1980, or 6.7 fold during the period. The exports recorded the two-digit growth rate every year except 1975 and 1979 in which the first and the second oil crises hit the world trade adversely.

Japan's export expansion proceeded with the diversification of her export markets. The share of exports to the developed countries declined from 54% in 1970 to 47% in 1980, while the share to the developing and communist countries increased from 41% to 46% and from 5% to 7% respectively during the decade. Among the developed countries, the share to the United States declined from 31% to 24%, while the share to EC increased from 10% to 13%. The Middle East oil producing countries accounted for most of the increase in Japan's export share in the developing countries. Japan's export share to Southeast Asia declined from 25% in 1970 to 24% in 1980. But ASEAN's share increased slightly from 9% to 10% during the decade.

TEBLE 2 EXPORTS AND IMPORTS OF JAPAN BY AREA AND COUNTRY, 1970-80

($ million)

Area and country / Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total Exports	19,318	24,019	28,591	36,930	55,536	55,735	67,225	80,495	97,543	103,032	129,807
Developed Countries	10,440	13,027	15,959	19,046	26,421	23,434	31,620	38,002	45,674	48,759	62,172
United States	5,940	7,495	8,848	9,449	12,799	11,149	15,690	19,717	24,915	26,403	31,367
EC	1,862	2,296	3,299	4,400	5,968	5,679	7,234	8,736	11,105	12,685	16,650
Australia, New Zealand, South Africa	1,032	1,261	1,258	2,055	3,442	3,004	3,433	3,533	4,090	4,185	5,866
Developing Countries	7,827	9,834	11,187	15,929	25,187	27,632	30,926	37,582	45,219	46,889	59,480
Southeast Asia	4,902	5,763	6,310	8,931	12,695	12,543	14,047	17,126	23,102	26,128	30,910
ASEAN	1,808	2,075	2,560	3,620	5,408	5,925	6,058	6,840	8,650	9,646	13,029
Middle East	634	824	1,174	1,774	3,680	6,075	7,276	8,884	10,745	10,734	14,358
Latin America	1,187	1,592	1,980	2,761	5,065	4,765	5,013	6,292	6,621	6,555	8,917
Communist Countries	1,045	1,148	1,442	1,954	3,927	4,683	4,679	4,910	6,650	7,383	9,155
Total Imports	18,881	19,712	23,471	38,341	62,110	57,863	64,799	70,809	79,343	110,672	140,528
Developed Countries	10,430	10,277	12,332	19,785	25,782	23,894	26,049	27,542	33,050	43,044	49,120
United States	5,560	4,978	5,852	9,270	12,682	11,608	11,809	12,396	14,790	20,431	24,408
EC	1,117	1,138	1,395	3,117	3,982	3,371	3,623	4,195	6,072	7,581	7,842
Australia, New Zealand, South Africa	1,979	2,233	2,853	4,437	5,191	5,392	6,567	6,690	6,980	8,402	9,551
Developing Countries	7,564	8,490	9,912	16,242	33,174	30,962	35,897	39,946	42,429	62,234	84,733
Southeast Asia	3,013	3,040	4,171	7,953	12,497	10,586	13,411	15,077	17,294	26,195	31,751
ASEAN	1,866	2,085	2,437	4,427	7,964	6,365	7,741	8,890	9,916	16,277	21,216
Middle East	2,337	3,013	3,491	4,941	15,920	16,477	18,745	20,505	20,777	29,377	44,500
Latin America	1,373	1,338	1,418	1,955	2,713	2,542	2,465	3,065	3,047	4,517	5,700
Communist Countries	887	944	1,226	2,286	3,141	3,006	2,846	3,319	3,862	5,392	6,669

Source : MITI, *White paper on International Trade*.

Japan's total imports increased more than her exports during the past decade, recording $141 billion in 1980, or 7.4 times of the level of 1970. Japan's import markets were more diversified than her export markets in the 1970s. The share of imports from the developed countries decline sharply from 55% in 1970 to 35% in 1980, while the share from the developing countries increased substantially from 40% to 60% during the said period. Particularly, imports from Middle East and ASEAN increased by 19 times and 11.4 times respectively in the 1970s. This would suggest that Japan's industrial structure became more competitive with respect to the advanced countries but more complementary with respect to the developing countries, particularly with Middle East and ASEAN.

Table 3 presents Japan's trade balances by area and country. In general, Japan traded favourably with the developed countries but unfavourably with the developing countries. The trade surpluses with EC have grown rapidly in the recent years. We should also point out that Japan generally recorded the favourable trade balances with the Asian NICs such as Taiwan, Rep. of Korea, Hong kong and Singapore whose industrialisation programs required capital goods imports from Japan. With respect to ASEAN as total, Japan continuously recorded trade deficits.

2. Japan's Trade with ASEAN

As mentioned earlier, Japan's trade with ASEAN expanded rapidly not only in absolute terms but also in relative terms. Table 4 presents detailed and changing picture of Japan's trade relationships with the five ASEAN countries in the 1970s.

Singapore is now Japan's number one export market within ASEAN by accounting for 30% of Japan's total exports to the region in 1980 followed in order by Indonesia 26.5%, Malaysia 15.8%, Thailand 14.7% and the Philippines 12.9%. Exports to

TABLE 3 TRADE BALACE OF JAPAN BY AREA AND COUNTRY, 1970－80

($ million)

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total Balance	437	4,307	5,120	－1,411	－6,574	－2,128	－2,426	9,686	18,200	－7,640	－10,721
Developed Countries	10	2,750	3,627	－739	639	－460	5,571	10,460	12,624	5,715	12,052
United States	380	2,517	2,996	179	117	－459	3,881	7,321	10,125	5,972	6,959
EC	745	1,158	1,904	1,223	1,986	2,304	3,611	4,541	5,033	5,104	8,808
Australia, New Zealand, South Africa	－947	－927	－1,595	－2,379	－1,749	－2,388	－3,134	－3,157	－2,890	－4,217	－3,685
Developing Countries	263	1,344	1,275	－313	－7,987	－3,330	－4,971	－2,364	2,790	－15,345	－25,253
Southeast Asia	1,889	2,723	2,139	978	198	1,957	636	2,049	－5,808	－67	－841
ASEAN	－58	－10	123	－807	－2,556	－440	－1,683	－2,050	－1,266	－6,631	－8,187
Middle East	－1,703	－2,189	－2,317	－3,167	－12,240	－10,402	－11,469	－11,621	－10,032	－18,643	－30,142
Latain America	－186	254	562	806	2,352	2,223	2,548	3,227	3,574	2,038	3,217
Communist Countries	158	204	216	－332	786	1,677	1,833	1,591	2,788	1,991	2,486

Source : See Table 2.

the Philippines, who stood Japan's number one export market in 1970, sluggished most due mainly to her relatively slow growth rate of real GNP. On the other hand, Japan's exports to Indonesia and Malaysia increased more than ten times during the past decade.

The order of Japan's imports from the ASEAN countries changed less, compared to her exports throughout the 1970s. Of Japan's total imports from ASEAN, Indonesia accounted for 62.1 % in 1980 followed by Malaysia 16.4%, the Philippines 9.2%, Singapore 7.1% and Thailand 5.3%. Imports from Indonesia and Singapore increased by more than tenfold, while the imports from Thailand and the Philippines grew in a slow pace during the decade.

Japan's trade balances with the ASEAN countries demonstrate a sharp contrast between the resource-rich and recource-poor countries. Japan kept the continuous trade deficits with Indonesia and Malaysia, while the growing surpluses were recorded with Singapore and Thailand. It is worthy to note that Japan recorded a trade deficit with the Philippines in 1980 after four years of continuous surpluses.

As can be seen in Table 5, there have been clear structural changes in Japan's commodity trade with the ASEAN countries. Japan's exports of heavy-industry goods increased from 73% of her total ASEAN exports in 1970 to 85% in 1980, while her exports of light-industry goods declined from 23% to 11% for during the period. The changes are a well reflection of the development of the horizontal division of labour between Japan and ASEAN. That is to say, Japan deepened her specialisation in capital intensive goods such as machinery, metals and chemicals, while ASEAN expanded its production and exports of the labour intensive goods such as textiles, toys, and light electrical machinery along with its traditional export goods such as raw materials and fuels. In each ASEAN country, imports of heavy-industry goods from Japan accounted for

more than 80% of the total imports from Japan: especially Malaysia and Thailand showed the highest rate.

Japan's import structure from the ASEAN countries also showed some changes during the decade. Imports of mineral fuels and raw materials accounted for more than 80% throughout the 1970s. It is, however, worthy to note that imports of foodstuffs declined particularly in the late 1970s, while imports of processed goods increased noticiably reflecting the strength of ASEAN's industrial competitiveness in the world market. We can say in general that, among the ASEAN countries, Japan's import structure has been complementary with Indonesia and Malaysia, but competitive with Singapore and Thailand.

As we have already seen, ASEAN's shares in Japan's exports and imports were 9% and 15% respectively for 1979. The picture from the ASEAN side, however, is very much diffrent from Japan's as presented in Table 6. Japan's shares in ASEAN's exports and imports were 27% and 22% respectively for 1979. These shares were far larger than ASEAN's other trading partners of the developed countries. Of ASEAN's exports and import markets, Japan and the United States share 45% and 40% respectively; and it is striking that the market structure of ASEAN has not changed very much in the 1970s.

If we look at the individual ASEAN country, Indonesia depended the most and Singapore the least on Japan in their export and import markets.

TABLE 4 JAPAN's TRADE WITH THE ASEAN COUNTRIES, 1970–80

($ million)

Country \ Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total Exports (A)	1,808	2,075	2,560	3,620	5,408	5,925	6,058	6,840	8,650	9,646	13,029
Indonesia	366	453	615	902	1,450	1,850	1,639	1,797	2,095	2,124	3,458
Malaysia	166	204	264	448	708	566	704	863	1,157	1,507	2,061
Philippines	454	465	457	620	911	1,026	1,114	1,100	1,546	1,622	1,683
Singapore	423	508	702	930	1,388	1,524	1,531	1,719	2,325	2,679	3,911
Thailand	449	445	522	720	951	959	1,070	1,361	1,528	1,714	1,917
Total Imports (B)	1,866	2,085	2,437	4,427	7,964	6,365	7,741	8,890	9,916	16,277	21,216
Indonesia	637	854	1,198	2,214	4,572	3,430	4,091	4,997	5,247	8,794	13,167
Malaysia	419	373	396	776	979	691	1,362	1,561	1,900	3,257	3,471
Philippines	533	514	470	820	1,105	1,121	793	897	1,058	1,583	1,951
Singapore	87	114	121	223	619	399	647	687	869	1,473	1,507
Thailand	190	230	252	394	686	724	848	748	843	1,169	1,119
Total Trade (A+B)	3,674	4,160	4,977	8,047	13,372	12,290	13,799	15,730	18,566	25,923	34,245
Balance of Trade (A–B)	− 58	− 10	123	− 807	−2,556	− 440	1,683	−2,050	−1,266	−6,631	−8,187
Indonesia	− 321	− 401	− 583	−1,312	−3,122	−1,580	2,452	−3,220	−3,152	−6,670	−9,709
Malaysia	− 253	− 169	− 132	− 328	− 271	− 125	658	− 698	− 743	−1,750	−1,410
Philippines	− 79	− 49	− 13	− 200	− 194	− 95	321	203	488	39	− 268
Singapore	336	394	581	707	769	1,121	884	1,032	1,456	1,206	2,404
Thailand	259	215	270	326	265	235	222	612	685	545	798

Source: MITI, *White Paper on International Trade* (1981, 1978, 1975, 1972)

TABLE 5 JAPAN's TRADE WITH ASEAN COUNTRIES BY MAJOR COMMODITY, 1970, 1975, 1980

($ million)

	Indonesia			Malaysia			Philippines			Singapore			Thailand		
	1970	1975	1980	1970	1975	1980	1970	1975	1980	1970	1975	1980	1970	1975	1980
Total Exports	316	1,850	3,458	166	566	2,060	454	1,026	1,683	423	1,524	3,911	449	566	1,917
Foodstuffs	23	5	75	4	9	27	17	29	30	9	32	52	2	9	13
Raw Materials & Fuels	6	18	42	1	4	10	7	13	24	8	5	23	5	4	25
Light-industry Goods	66	238	318	25	75	161	86	130	225	156	219	529	74	75	157
Textiles	29	113	143	12	39	66	57	83	101	119	111	227	46	39	79
Heavy-industry Goods	219	1,556	3,004	135	473	1,848	342	847	1,388	249	1,253	3,232	366	473	1,705
Chemicals	38	264	373	14	55	125	46	121	180	22	67	199	56	55	275
Metals	62	476	749	42	122	428	122	195	366	85	388	745	92	122	513
Machinery	119	816	1,892	80	295	1,295	174	531	842	142	797	2,289	219	295	917
Total Imports	637	3,430	13,167	419	691	3,471	533	1,121	1,951	87	399	1,507	190	724	1,119
Foodstuffs	19	123	335	10	28	61	34	631	526	1	9	27	76	456	333
Raw Materials	242	528	1,852	302	396	1,632	483	463	1,207	9	8	40	98	154	511
Textile	–	–	–	–	–	14	6	4	10	–	–	–	10	2	1
Metal	21	110	354	58	21	128	195	267	883	4	1	15	6	2	17
Mineral Fuels	366	2,725	10,779	3	130	1,315	6	–	–	71	295	1,111		–	0
Processed Goods		51	195		134	455		26	194		83	241		111	270
Chemicals		3	12		4	15		7	42		33	84		18	31
Machinery		–	11		25	59		3	74		36	120		2	4

Source : Same as TABLE 4.

TABLE 6 ASEAN's SHARE OF EXPORTS AND IMPORTS BY MAJOR COUNTRIES, 1970 AND 1979

	Exports				Imports			
	Value (US$millions)		Composition (%)		Value (US$millions)		Composition (%)	
	1970	1979	1970	1979	1970	1979	1970	1979
ASEAN	4,918.9	52,638.2	--	--	7,346.3	46,168.8	--	--
Japan	1,277.6	14,300.5	26.0	27.2	1,868.1	10,253.5	25.4	22.2
U.S.A.	1,045.5	9,592.6	21.3	18.2	1,093.9	7,449.9	14.9	16.1
U.K.	252.4	1,195.0	5.1	2.3	554.7	1,848.5	7.6	4.0
F.R. Germany	204.9	1,946.9	4.2	3.7	414.9	2,252.5	5.6	4.9
Netherlands	237.7	2,140.4	4.8	4.1	128.1	--	1.7	--
Australia	192.6	--	3.9	--	313.2	1,457.4	4.3	3.2
Indonesia	799.6	15,579.0	--	--	892.1	7,205.0	-	--
Japan	251.8	7,189.0	31.5	46.1	262.8	2,101.0	29.5	29.2
U.S.A.	119.7	3,171.0	15.0	20.4	157.7	1,053.0	17.7	14.6
U.K.	9.2	94.0	1.2	0.6	29.2	202.0	3.4	2.8
F.R. Germany	40.7	338.0	5.1	2.2	84.8	453.0	9.5	6.3
Netherlands	49.4	398.0	6.2	2.6	46.0	119.0	5.2	1.7
Australia	61.5	--	7.7	--	24.8	223.0	2.8	3.1
Malaysia	1,506.1	11,044.0	--	--	1,489.3	7,562.0	--	--
Japan	308.5	2,644.0	20.5	23.9	274.0	1,775.1	18.4	23.5
U.S.A.	219.0	1,873.4	14.5	17.0	122.4	1,160.5	8.2	15.4
U.K.	111.9	428.1	7.4	3.9	191.3	438.4	12.8	5.8
F.R. Germany	56.1	419.2	3.7	3.8	68.5	472.0	4.6	6.2
Netherlands	53.1	580.4	3.5	5.3	16.3	--	1.1	--
Australia	37.8	--	2.5	--	80.0	455.6	5.4	6.0
Philippines	1,059.7	4,576.3	--	--	1,210.4	6,562.5	--	--
Japan	419.2	1,208.4	39.6	26.4	369.1	1,479.9	30.5	22.6
U.S.A.	441.9	1,382.7	41.7	30.2	354.9	1,508.2	29.3	23.0
U.K.	11.0	134.4	1.0	2.9	51.4	207.9	4.2	3.2
F.R. Germany	17.8	226.9	1.9	5.0	68.9	294.4	5.7	4.5
Netherlands	43.4	359.8	4.1	7.9	24.6	105.5	2.0	1.6
Australia	37.8	234.2	3.6	5.1	56.4	234.2	4.7	3.6
Singapore	1,553.5	14,227.9	--	--	2,461.1	17,628.3	--	--
Japan	118.1	1,364.7	7.6	9.6	476.3	3,003.1	19.4	17.0
U.S.A.	172.2	1,961.7	11.1	13.8	266.1	2,524.4	10.8	14.3
U.K.	106.0	443.2	6.8	3.1	186.0	619.6	7.6	3.5
F.R. Germany	63.4	960.4	4.1	6.8	82.7	652.5	3.4	3.7
Netherlands	30.6	330.8	2.0	2.3	23.5	--	0.1	--
Australia	52.3	484.8	3.4	3.4	111.1	387.8	4.5	2.2
Thailand	685.2	7,211.0	--	--	1,293.4	7,211.0	--	--
Japan	180.0	1,894.4	26.3	26.3	485.9	1,894.4	37.6	26.3
U.S.A.	92.7	1,203.8	13.5	16.7	192.8	1,203.8	14.9	16.7
U.K.	14.3	95.3	2.1	1.3	96.8	232.0	7.5	3.2
F.R. Germany	24.9	237.5	3.6	3.3	110.0	380.6	8.5	5.3
Netherlands	61.2	531.4	8.9	7.4	17.7	83.7	1.4	1.2
Australia	3.2	--	0.0	--	40.9	156.8	3.2	2.2

Sources: United Nations, *Yearbook of International Trade Statistics*, 1970 – 71.
_____, *Commodity Trade Statistics*, 1979.
Ministry of Trade and Industry, *Keizai Kyoryoku no Genjo to Mondaiten* (*Economic Cooperation: Current Status and Problems*), 1980.

3. Changes in Economic Interdependence

Since the oil crisis of 1973 which gave a damaging blow to the world economy, the word of economic interdependence has become the economists' jargon of describing the complexity of world economic mechanism. Table 7 presents the changes of economic interdependence among regions in the 1970s. One way to measure the degree of economic interdependence is simply to take the percentage ratio of trading regions' total exports against the regions' total GNP. The developed countries, for example, increased their interdependence by 35% with the same developed countries, 75% with the developing countries, and 79% with the communist countries. The developing countries, on the other hand, increased economic interdependence with the same developing countries by 81% and with the communist countries by 53%. OPEC's economic interdependence substantially increased with all regions. The interdependence among the communist countries increased the least.

Changes of economic interdependence among the Pacific regions were also computed and presented in Table 8. Japan's economic interdependence with China increased by 44% followed in order by North America 36%, East Asia 15%, ASEAN and Latin America 15% each. For ASEAN, the partnership with North America increased by 146% followed by Latin America 123%, China 19%, Japan 15%, Oceania 12%, and within the ASEAN countries the interdependence was enhanced only by 9%.

Another way to see the degree of economic interdependence among regions is through the coefficients of trade cohesion as are presented in Fig. 1. The trade coefficients of Japan, for example, are simply computed as Japan's export (or import) share in j region against Japan's export (or import) share in the world trade with some adjustment (see notes of Fig. 1).

Japan's trade cohesion, particularly on the import side, with each Pacific basin region increased further in the 1970s. Above all, japan's trade cohesion with ASEAN increased the most among the regions reflecting the increased imports of raw materials and labour intensive manufacturing goods from the region.

TABLE 7 CHANGES OF ECONOMIC INTERDEPENDENCE AMONG REGIONS, 1970–78 (PER CENT)

	Developed Countries	Developing Countries	NICs	OPEC	Others	Communist Countries
Developed Countries	35					
Developing Countries	75	81				
NICs	60	105	45			
OPEC	213	172	270	156		
Others	25	40	80	120	−17	
Communist Countries	79	53	53	164	57	38

Notes : (i) Coefficients of interdependence for 1978–coefficients of interdependence for 1970 ÷ coefficients of interdependence for 1970 × 100.

(ii) Coefficients of interdependence (I) are calculated as follows:

$I = (XAB + XBA) \div (GNPA + GNPB)$

where, GNPA or B = Nominal GNP of A or B

XAB or BA = Exports from A to B or from B to A.

Source : MITI, 1981 *White Paper on International Trade*, p. 317.

TABLE 8 CHANGES IN ECONOMIC INTERDEPENDENCE AMONG THE PACIFIC REGIONS, 1970–78 (PER CENT)

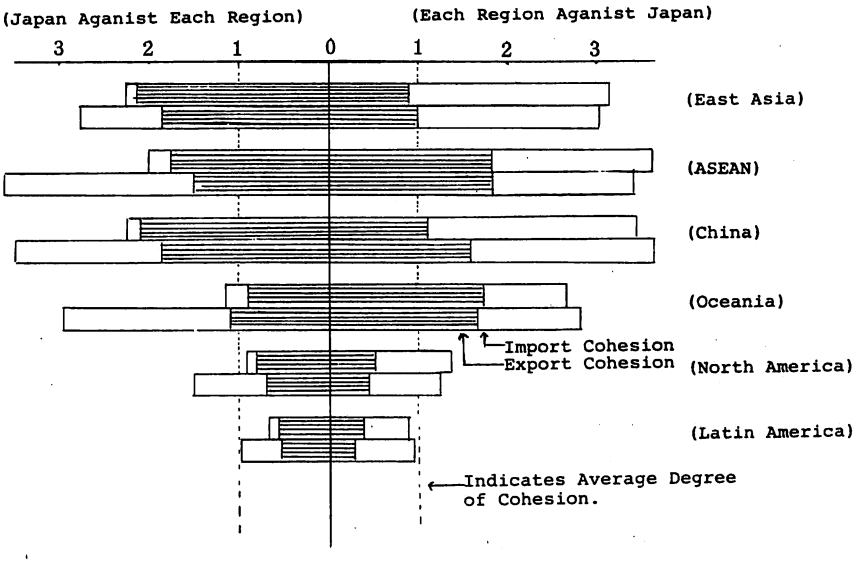
Japan	–							
East Asia	31	62						
ASEAN	15	80	9					
China	44	35	19	–				
Oceania	– 15	116	12	23	– 15			
North America	36	156	146	365	1	41		
Central and South America	15	140	123	1,447	55	52	33	
	Japan	East Asia	ASEAN	China	Oceania	North America	Central and South America	

Notes: See TABLE.

Source: MITI, 1980 *White Paper on International Trade*, p. 275.

FIG 1 THE CHANGES IN THE DEGREE OF TRADE COHESION BETWEEN JAPAN AND THE PACIFIC BASIN REGION, 1970 and 1979

(Upper Histogram for 1970
Lower Histogram for 1979)



Notes : The degree of trade cohesion was calculated as follows :

$$Aij = \frac{Xij}{Xj} \Big/ \frac{Mj}{W-Mi}$$

Aij = Coefficient of export cohesion of country i against country j.

X = Exports
M = Imports
W = World imports or exports

$$Bij = \frac{Mij}{Mj} \Big/ \frac{Xj}{W-Xi}$$

Bij = Coefficient of import cohesion of country i against country j.

Source : MITI, 1981 *White Paper on International Trade*, p.340.

On the other hand, ASEAN's trade cohesion with Japan decreased slightly during the period due to the decrease in the import cohesion.

The coefficients of economic interdependence between Japan and the ASEAN countries were computed for 1971 and 1979 and presented in Table 9. Indonesia kept the strongest economic tie with Japan followed in order by Malaysia, Singapore, the Philippines and Thailand. Indonesia and Malaysia in particular increased their economic interdependence with Japan more than 100% during the 1970s, while the Philippines experienced a decrease of 15%.

4. Trade and Growth Relationships between Japan and ASEAN

Since Japan's GNP and imports are about 8 times and 2 times as large as that of ASEAN, it is natural to believe that the latter's economic activities will be greatly affected by the former's performance. Fig. 2 clearly depicts such a situation. Japan's imports from ASEAN and from East Asia showed ups and downs in accordance with the fluctuations in Japan's real GNP. Fig. 2 also shows that ASEAN's GNP, particularly Malaysian, was quite sensitive to their exports to Japan.

The 1976 White Paper estimated Japan's imports from Southeast Asia using Japan's GNP elasticity with respect to imports from Southeast Asia for 1960–74. The result is presented in Table 10. Among the ASEAN countries, the Indonesian exports to Japan were the most sensitive to Japan's GNP growth rate followed in order by Singapore, Thailand, the Philippines, and Malaysia. When Japan's GNP grew by 1%, the Indonesian exports to Japan increased by 1.89%. Thus, if Japan's GNP increased by 9.5%, or 6%, the Indonesian exports to Japan increased by 18% (1.89 × 9.5) or 11.3% (1.89 × 6) as are shown in columns B and C of Table 10.

Furthermore, the real GNP growth rate of Sountheast Asia would be reduced from 7.4% (column E) to 6.5% (column G) for 1980 when

Japan's demand for imports from Southeast Asia decreased as the result of Japan's slowed GNP growth rate from 9.5% (1960 −74 average) to 6%. Of the ASEAN countries, Indonesia, whose export share in the Japan's imports from ASEAN was the highest, was affected most by Japan's reduced growth rate followed by the Philippines, Singapore, Malaysia and Thailand.

Table 10 also presents (column F) the trade multipliers of Southeast Asian countries for 1960−74. The Philippines showed the highest trade multiplier among the region due probably to her relatively high value added manufactured products compared to other ASEAN countries.

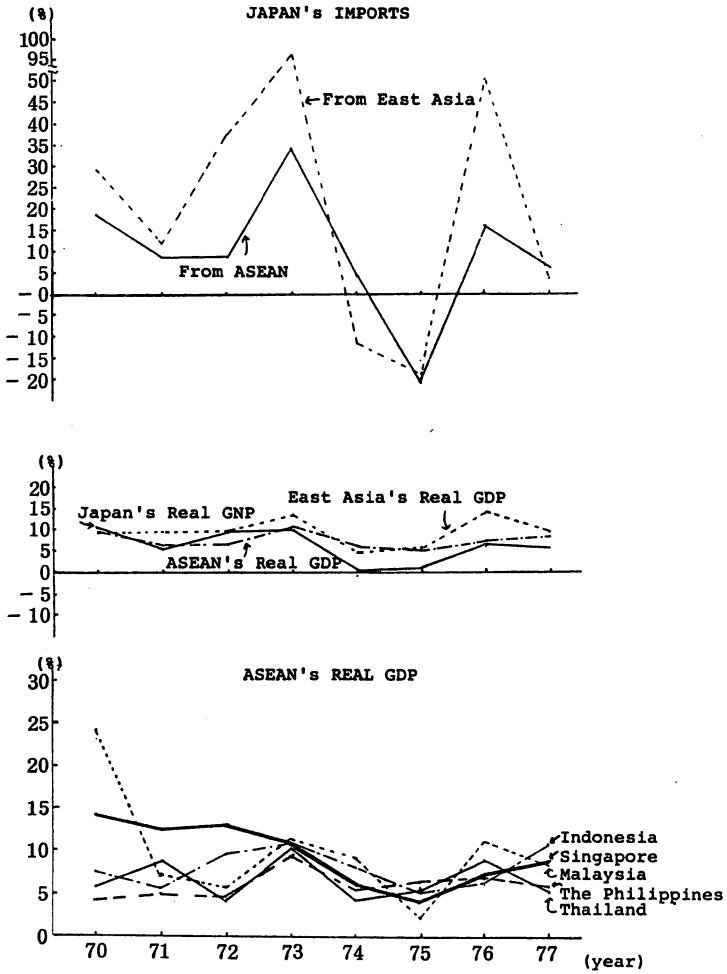
TABLE 9 COEFFICIENTS AND CHANGES OF ECONOMIC INTERDEPENDENCE BETWEEN JAPAN AND THE ASEAN COUNTRIES, 1971 AND 1979

	Coefficients		Changes (%)
	1971	1979	1971−79
ASEAN	0.01442	0.02284	58.4
Indonesia	0.00484	0.01037	114.3
Malaysia	0.00218	0.00468	114.7
Philippines	0.00366	0.00312	−14.8
Singapore	0.00236	0.00411	74.2
Thailand	0.00252	0.00281	11.5

Note : See footnotes of Table 7.
Source : Computed from Tables 1 and 4.

FIG 2 IMPACT OF JAPAN's GROWTH RATES OF IMPORTS AND GNP ON GDP GROWTH RATES OF SOUTHEAST ASIA, 1970–77

(Changes over Preceding Year)



Notes : (i) All figures are in terms of 1970 prices.
(ii) For Malaysia GNP was used.
(iii) East Asia includes Rep. of Korea, Taiwan and Hong Kong.

Source : MITI, 1979 *White Paper on International Trade*.

TABLE 10 RELATIONSHIP OF GROWTH RATES OF GNP AND EXPORTS BETWEEN JAPAN AND SOUTHEAST ASIA

(Unit: Millions of US dollars, %)

	Impact on the Exports of Southeast Asia When Japan's GNP Growth Rate Decreases from the past Trend			Impact on the Growth Rates of Southeast Asia When the Exports of Southeast Asia to Japan Decrease			
				1975	1980		1980
	A	B	C	D	E	F	G
Rep. of Korea	2.85	2,889 (27.1)	1,920 (17.1)	13,114	20,805 (9.7)	1,442	19,408 (8.2)
Taiwan	1.55	837 (14.7)	657 (9.3)	8,190	12,630 (9.1)	1,038	12,443 (8.7)
Indonesia	1.89	1,959 (18.0)	1,468 (11.3)	12,355	15,723 (4.9)	2,133	14,676 (3.5)
Malaysia	0.74	490 (7.0)	434 (4.5)	4,562	6,195 (6.3)	1,944	6,086 (5.9)
Philippines	0.90	927 (8.5)	800 (5.4)	8,593	11,268 (5.6)	2,768	10,916 (4.9)
Singapore	1.73	287 (16.5)	220 (10.4)	2,964	4,730 (9.8)	1,973	4,598 (9.2)
Thailand	1.12	572 (10.6)	478 (6.7)	8,412	11,920 (7.2)	2,518	11,683 (6.8)
TOTAL	1.63	7,961 (17.2)	5,977 (10.7)	58,190	83,271 (7.4)	1,973	79,810 (6.5)

Notes: (i) A = Japan's GNP elasticity of imports from Southeast Asia for 1960–74.
(ii) B = Real imports from Southeast Asia for 1980 when Japan's real average annual GNP growth rate for 1976–80 is 9.5 per cent.
(iii) C = Same as B except Japan's GNP growth rate is assumed to slow down to 6 per cent.
(iv) D = Real GNP estimated.
(v) E = Estimated real GNP when each country is assumed to grow by 1960–74 average rate.
(vi) F = Trade multipliers estimated for the period of 1960–74.
(vii) G = Real GNP of Southeast Asia when Japan's GNP is assumed to grow by average annual rate of 6 per cent for the period of 1976–80.
(viii) All figures are in terms of 1970 prices.
(ix) Figures in parentheses are average annual growth rates for the period of 1976–80.

Source: MITI, 1976 *White Paper on International Trade*, p. 256.

Table 11, on the other hand, presents the impact of Japan's exports to Southeast Asia when the real GNP growth rates of the region reduced from column E to column G in Table 10. Column C of Table 11 corresponds to column E of Table 10 and column D to column G. Thus, Japan's slowed GNP growth rate reduced the Southeast Asian growth rates through Japan's reduced import demand from the region. This in turn would decrease the ability to imports of the region from Japan, thereby reducing Japan's exports to the region. For the region as a whole, Japan's exports were reduced by 2%. Exports to Indonesia, whose GNP elasticity of imports from Japan was the highest among the region, were affected most by Japan's slowed growth rate.

Ⅳ. INTERDEPENDENCE THROUGH ECONOMIC ASISTANCE AND INVESTMENT

1. Economic Assistance

Ever since the first UNCTAD (Geneva, 1964) adapted the resolution that the advanced countries should contribute 1 % of their national incomes to aid the developing countries, the development assistance has become a focal point of negotiations between the advanced donor countries and the developing countries. At the second UNCTAD (New Delhi, 1968) the targets of total aid and Official Development Assistance (ODA) were set for 1% and 0.7% respectively of each advanced country's GNP.

Following the Peason Report (23) on economic assistance, the International Development Strategy (IDS) for the second U. N. Development Decade (1970 – 79) proposed that the 0.7% ODA traget should be achieved by 1975. The actual achievement in the 1970s, however, was disappointing to the developing countries. Though the ODA of the advanced countries which belong to the Development

Assistance Committee (DAC) of OECD increased from $4.6 billion to $22.3 billion or about five-fold in the 1970s, its GNP remained almost unchanged during the decade with 0.34% for 1979.

Japan's total economic aid increased from $ 1.8 billion in 1970 to $ 7.6 billion in 1979, and twice in the past, its GNP ratio exceeded 1% as is presented in Table 12. Japan's share of ODA among DAC countries increased from 7% in 1970 to 12% in 1979, but its ratio to GNP has been the below of the DAC average.

Of the total aid for 1979, the private funds accounted for 62%, of which the direct investment comprised 72%. Whlie the government funds accounted for 38%, of which bilateral ODA grants comprised 20%.

Japan's bilateral ODA to the ASEAN countries are presented in Table 13. Though Japan has been the largest donor to ASEAN, the latter's share of Japan's total ODA dropped substantially from 46% in 1970 to 30% in 1979.

Of Japan's total ODA to ASEAN, Indonesia accounted for 40% followed in order by Thailand 31%, the Philippines 16%, Malaysia 13% and Singapore 0.3%, The share of Indonesia declined sharply, while the share of Malaysia and Thailand increased noticeably in the 1970s. It should be pointed out that the grants component of the aid decreased from 30% in 1970 to 23% in 1979.

TABLE 11 IMPACT ON JAPAN's EXPORTS TO SOUTHEAST ASIA WHEN THE GROWTH RATES OF SOUTHEAST ASIA DECREASE

(Unit: Millions of US dollars, %)

	A	B	C	D
Rep. of Korea	1,255	2.14	3,214 (20.7)	2,817 (17.5)
Taiwan	1,017	2.22	2,540 (20.1)	2,459 (19.3)
Indonesia	1,033	2.94	2,035 (14.5)	1,686 (10.3)
Malaysia	316	2.81	715 (17.7)	680 (16.6)
Philippines	573	1.89	945 (10.5)	892 (9.3)
Singapore	851	1.70	1,839 (16.7)	1,760 (15.6)
Thailand	535	1.52	900 (11.0)	875 (10.3)
TOTAL	5,580	2.26	12,188 (16.9)	11,169 (14.9)

Notes : (i) A = Estimated real imports of Southeast Asia from Japan for 1975.

(ii) B = Each country's GNP elasticity of imports from Japan for the period of 1960–74.

(iii) C = Real imports from Japan when each country is assumed to grow for the period of 1976–80 by average annual growth rate achieved during 1960–74 period.

(iv) D = Real imports from Japan when Japan's real GNP is assumed to grow by average annual rate of 6 per cent for the period of 1976–80.

(v) See notes (vii) and (viii) of TABLE 10.

Source : MITI, 1976 *White Paper on International Trade*, p. 258.

TABLE 12 TRENDS IN ECONOMIC ASSISTANCE OF JAPAN, 1970–80

($ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
A. Government Funds	1,151.0	1,161.8	1,467.5	2,189.9	1,915.1	2,517.2	2,438.3	3,147.0	4,368.0	2,847.6
Official Development Aid	458.0	510.7	611.1	1,011.0	1,126.2	1,147.7	1,104.9	1,424.4	2,215.4	2,637.5
Bilateral	371.5	432.0	477.8	765.2	880.4	850.4	753.0	899.3	1,531.0	1,921.2
Grants	121.2	125.4	170.6	220.1	198.6	201.7	184.9	236.7	383.4	560.2
Loans	250.3	306.7	307.2	545.1	681.8	648.7	568.1	662.6	1,147.6	1,361.0
Multilateral	86.5	78.7	133.3	245.8	245.8	297.3	352.0	525.2	684.4	716.3
Change over the preceding year (%)	5.1	11.5	19.7	65.4	11.4	1.9	− 3.7	28.9	55.5	19.1
Ratio to GNP (%)	0.23	0.23	0.21	0.25	0.25	0.23	0.20	0.21	0.23	0.26
Other Government Funds	693.6	651.1	856.4	1,178.9	788.9	1,369.5	1,333.4	1,622.6	2,152.6	210.1
Export Credits (over one year)	349.5	271.7	266.3	254.0	8.3	339.0	471.0	1,081.6	1,286.5	− 235.1
Direct Investment and Loans	143.1	136.3	264.7	569.8	798.5	1,015.5	776.8	417.4	703.8	675.4
Loans to International Organizations	201.0	243.1	325.4	355.1	− 17.9	14.9	85.6	123.6	162.4	− 230.2
B. Private Funds	669.4	978.7	1,257.9	3,654.3	1,047.2	372.9	1,564.3	2,469.6	6,316.7	4,689.0
Direct Investment	265.0	356.2	844.3	3,072.1	874.8	273.3	1,884.1	1,223.6	5,014.5	3,405.8
Export Credits (over one year)	386.9	494.0	190.6	440.1	148.7	82.7	319.0	913.8	412.1	642.5
Loans to International Organizations	17.5	125.4	217.4	135.3	75.1	6.9	45.0	332.2	890.1	640.7
C. Grants by Nonprofit Organization	2.9	3.1	5.6	6.8	8.7	10.1	16.2	18.3	18.9	19.0
TOTAL ASSISTANCE	1,824.0	2,140.5	2,725.4	5,844.2	2,962.3	2,890.1	4,002.6	5,534.9	10,703.5	7,555.6
Change over the preceding year (%)		17.4	27.3	114.4	− 49.3	− 2.4	38.5	38.3	93.4	− 29.4
Ratio to GNP (%)	0.93	0.95	0.93	1.44	0.65	0.58	0.71	0.80	1.10	0.75

Source : Same as table 13.

TABLE 13 JAPAN's BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE (ODA) TO THE ASEAN COUNTRIES, 1970–79

($ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1970=100
Total Bilateral ODA	371.7	432.0	477.8	765.2	880.4	850.4	753.0	899.3	1.531.0	1.921.2	5.2
Grants	121.2	125.4	170.6	220.1	198.6	201.7	184.9	236.7	383.4	560.2	4.6
Loans	250.3	306.7	307.2	545.1	681.8	648.7	568.1	662.4	1.147.6	1.361.0	1.3
ASEAN	169.9	176.1	241.5	321.1	361.0	380.3	358.8	269.1	449.5	572.1	3.4
Grants	51.7	50.4	56.4	108.1	60.0	59.5	53.1	60.7	106.2	134.0	2.6
Loans	118.2	125.8	185.1	233.0	301.0	321.2	305.7	208.4	343.3	438.1	3.7
Indonesia	125.8	111.9	103.2	142.9	221.2	197.9	200.5	148.4	227.6	226.9	1.8
Grants	27.1	14.9	11.5	10.7	16.2	10.8	12.9	24.2	39.3	43.6	1.6
Loans	98.8	97.0	91.7	132.2	204.9	187.2	187.6	124.2	188.3	183.3	1.9
Malaysia	2.2	12.3	13.0	15.5	36.3	63.3	34.0	29.5	48.0	74.6	33.9
Grants	0.8	4.1	1.1	1.3	2.9	3.3	3.9	5.3	10.6	10.0	12.5
Loans	1.4	8.3	11.9	14.1	33.4	60.1	30.1	24.1	37.4	64.6	46.1
Philippines	19.2	29.6	103.5	141.6	73.3	70.3	75.5	30.6	66.5	89.2	4.6
Grants	15.7	24.3	58.3	70.4	33.0	36.3	26.6	13.8	25.2	31.9	2.0
Loans	3.5	5.3	65.2	71.2	40.3	34.1	48.9	16.8	41.3	57.3	16.4
Singapore	5.8	6.8	6.3	3.5	12.9	7.6	5.7	8.8	3.6	1.5	0.3
Grants	5.7	3.5	1.0	20.7	1.4	1.4	1.4	2.1	4.2	5.5	1.0
Loans	–	3.3	5.3	2.9	11.5	6.3	4.4	6.7	– 0.6	– 4.0	–
Thailand	16.9	15.5	15.5	17.6	17.4	41.2	43.1	51.8	103.8	179.9	10.6
Grants	2.4	3.6	4.5	5.1	6.5	7.7	8.3	15.3	26.1	43.0	17.9
Loans	14.5	11.9	11.0	12.6	10.9	33.5	34.8	36.5	77.6	136.9	9.4
ASEAN's Share	45.7	40.8	50.5	42.0	41.0	44.7	47.6	29.9	29.4	29.8	
Grants	42.7	40.2	33.1	49.2	30.2	29.5	28.7	25.6	27.7	23.9	
Loans	47.2	41.0	60.3	42.7	44.1	49.5	53.8	31.1	29.9	32.2	

Source: Overseas Economic Cooperation Fund (OECF), *Handbook of Overseas Economic Cooperation*.

2. Japan's ASEAN Investment

The overseas direct investment of Japan began to accelerate in the late 1960s against the background of (1) technological, financial and managerial advancements of Japanese enterprises, (2) the increasing difficulties in the domestic investment environments due mainly to labour shortage, higher wages, and environmental problems, (3) the export-substitute overseas investment necessitated largely by appreciated yen value, and (4) the necessity to secure the imports of raw materials (20, p. 1).

Japan's overseas investment, however, stagnated in the early 1970s due mainly to the restrictive foreign investment policies of the developing countries and the reduced investment incentives caused by the oil triggered world recession. As is presented in Table 14, Japan's foreign investment began to increase again from FY 1978 on as the Japanese economy recovered from the prolonged recession. As the result, Japan's overseas direct investment amounted to $31.8 billion at the end of FY 1979, the increase of $28.2 billion from 1970. The amount of investment accounted for 3.2% and 14.7% respectively of Japan's GNP and private fixed capital for FY 1979.

Asia was Japan's number one investment region accounting for about 27% of the total followed in order by North America 26%, and Middle East 7%. In terms of growth rate, however, Latin America was the most attractive region for Japan's investment in the 1970s.

Of Japan's overseas investment directed to Asia, ASEAN accounted for nearly 60%. Table 15 persents that the total outstanding of Japanese investment in ASEAN amounted to $7,021 million at the end of 1980; of which about 70% were made in the late 1970 and FY 1980.

TABLE 14 JAPAN's OVERSEAS PRIVATE INVESTMENT LICENSED BY REGION AND TYPE, 1970–80

($ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Total Investment	904	858	2,338	3,494	2,396	3,280	3,462	2,806	4,598	4,995
North America	192	230	406	913	550	905	749	735	1,364	1,438
Latin America	46	140	282	822	699	372	420	456	616	1,207
Asia	167	237	402	998	731	1,100	1,245	865	1,340	976
ASEAN	114	153	214	625	564	855	1,044	636	923	595
Middle East	28	36	236	110	64	196	278	225	492	130
Europe	335	84	935	337	189	332	337	220	323	495
Africa	14	21	34	106	55	192	272	140	225	168
Oceania	123	110	42	208	108	182	19	14	32	15
Security	296	471	1,781	2,177	1,267	1,652	1,487	1,319	2,038	1,833
Claims	570	333	252	1,100	1,098	1,485	1,882	1,388	2,383	2,994
Real Estate & Overseas Business Operations	32	38	62	120	18	11	15	35	98	105
Branch	6	17	243	96	18	132	78	65	80	63

Source : Ministry of Finance of Japan.

TABLE 15 JAPAN's OVERSEAS DIRECT PRIVATE INVESTMENT IN THE ASEAN COUNTRIES, FY 1970–80

($ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1951–1970	1951–1980
ASEAN Total	114	153	214	625	564	855	1,044	636	917	595	926	489	7,021
Indonesia	49	112	119	341	375	585	929	425	610	150	529	243	4,424
Malaysia	14	12	13	126	48	52	54	69	48	33	146	49	650
philippines	29	5	10	43	59	149	15	27	53	102	78	73	615
Singapore	9	15	42	81	51	55	27	66	174	255	140	33	936
Thailand	13	9	30	34	31	14	19	49	32	55	33	91	396

Source : See Table 14.

As is expected, Indonesia accounted for 63% of the total Japanese investment in ASEAN followed in order by Singpore 13.3%, Malaysia 9.3%, the Philippines 8.8% and Thailand 5.6%. The Japanese investment in Singapore, Indonesia and Malaysia grew more than 10 fold during the past decade, while the Philippines and Thailand grew only about 3 fold in the same period.

Table 16 presents the Japanese investment in the ASEAN countries by industy. Japan's investment concentrated on mining and manufacturing which accounted for 52% and 35% of Japan's total ASEAN investment respectively. Of the manufacturing industry, the Japanese investment was directed into labour intensive industries such as textiles and electrical machinery, and raw materials processed industries such as wood processing and foodstuffs. More than 50% of the Japanese investments in Indonesia and Malaysia were directed into the mining industry, while in Singapore and Thailand the manufacturing industry accounted for more than 70% of the investment. For Malaysia, manufacturing and mining accounted for 58% and 29% respectively of the total Japanese investment in the country.

Japan's inventment in the ASEAN countries have been closely associated with the latter's import-substitute industrialisation policies in the consumer goods industries since the 1960s. The restrictive import policies of ASEAN by means of import quota and higher tariff coupled with attractive labour costs and easy access to markets and raw materials were major incentives for the Japanese enterprises to invest in ASEAN.

> As far as manufacturing industry is concerned, Japan's investment in the ASEAN countries have been considered as a substitute for Japan's exports of the light-manufactured goods to the region. Moreover, Japan's ASEAN investment became the fixed capital formation which in turn induced the imports of capital and intermediate (mainly heavy

industry) goods from Japan (25, p. 17).

TABLE 16 JAPAN's DIRECT INVESTMENT IN THE ASEAN COUNTRIES BY INDUSTRY

(March 31, 1977; $ Million)

	Indonesia	Malaysia	Philip-pines	Singa-pore	Thailand	ASEAN Total	All Area
Foodstuffs	21	12	13	3	36	85	314
Textiles	279	70	18	7	80	454	1,127
Paper & Paper Products	44	34	7	11	2	98	575
Chemicals	51	12	19	10	17	109	1,044
Metals	115	24	21	11	11	182	952
General Machinery	5	3	2	36	3	49	452
Electrical Machinery	13	31	5	39	3	91	687
Transportation Equipment	19	4	4	82	9	118	453
Other Mfg. Products	135	15	4	21	10	185	460
Total Mfg. Products	682	205	92	221	172	1,372	6,065
Agriculture & Forest	73	13	17	0	4	107	260
Fisheries	35	3	1	–	0	39	148
Mining	1,755	102	197	–	5	2,059	4,859
Construction	8	1	4	5	2	20	163
Trade	7	7	2	10	15	41	2,611
Banking & Insurance	65	3	16	7	7	98	1,518
Others	73	17	22	47	21	180	2,534
Grand Total	2,703	356	354	305	228	3,946	19,405

Source: Ministry of Finance, *Monthly Bulletin of Finance and Banking*, Sept., 1977, No. 305.

The 1979 White Paper on International Trade listed the merits of Japan's foreign investment in the developing countries as follows (18, pp. 396-97):

(1) To promote the sophistication of the domestic industrial structure through transferring the competitiveness losing industries to the developing countries.
(2) To contribute not only to the economic growth of the developing countries but also to create demand for Japanese goods from the developing countries.
(3) To secure the stable supply of raw materials and energy sources from the developing countries.

The Paper also listed two possible demerits of the foreign investment. Firstly, the foreign investment may increase the reversed imports from the developing countries which are usually called the boomerang effect. Secondly, the foreign investment may create reduced domestic demand and unemployment if the investment is made at the cost of demestic investment.

As we have seen, though Japan's direct foreign investment increased rapidly in the past decade, its total outstanding as of 1978 amounted to only $ 25.7 billion (2.5% of her GNP) which is low compared to U. S. of $ 168.1 billion (7.9% of GNP), U.K. of $33.6 billion (10.9% of GNP) and W. Germany of $ 29.1 billion (3.7% of GNP). Thus judging from her economic scale, Japan's foreign investment is expected to increase more rapidly than other advanced countries in the 1980s. Moreover, the demand for Japan's foreign investment will be expected to increase further in the 1980s from both the advanced and developing countries in order to improve the much debated trade frictions with the former and to fill saving and investment gap of the latter.

V. ASEAN INDUSTRIAL PROJECTS

ASEAN's intra-regional economic cooperation has been proceeding along three fronts: (1) trade liberalisation, (2) industrial cooperation and complement, and (3) various codes and agreements over a broad range of activities. The industrial complementary scheme was first conceived in a comprehensive U. N. Report on the Cooperation of the ASEAN in 1972 (25). The Report stressed the industrial complementary scheme as one of the three major techniques to accomplish the ASEAN economic cooperation.

The industrial complementary scheme was proposed at the first ASEAN summit meeting which was held in Bali, Indonesia in February 1976. It was, however, at the second ASEAN summit meeting which was held in Kuala Lumpur in August 1977 that the scheme was emerged as the ASEAN industrial projects based on the packege-deal approach. The initially proposed industrial projects are urea for Indonesia and Malaysia, phosphate fertilizer for the Philippines, disel engines for Singapore, and potash for Thailand. The Philippines and Thailand later changed their projects to pulp and paper, and rock-salt and soda-ash respectively.

Then Japanese Prime Minister Takeo Fukuda was invited to the summit and issued the following statment with regard to the ASEAN industrial projects:

> The Prime Minister of Japan affirmed his country's readiness to extend assistance towards the realisation of ASEAN industrial projects. In this regard, Japan agreed to extend financial assistance in various forms to one ASEAN industrial project in each ASEAN country, provided that each project was established as an ASEAN project and that its feasibility was confirmed. The Prime Minister of Japan stated that Japan would consider favorably the request for

> the total amount of one billion US dollars in extending such assistance (1, p. 27).

The ASEAN industrial projects so far has not been progressed satisfactorily except the urea projects of Indonesia and Malaysia on which Japan promised yen loans based upon the feasibility studies. The plants of Indonesia and Malaysia are expected to complete by 1983 and 1984 respectively. The projects of the Philippines and Thailand are still at the stage of feasibility study.

Singapore project of disel engines was strongly opposed by Indonesia and for this reason and another, Prime Minister Lee Kuan Yew decided voluntarily to withdraw from the complementary scheme.

> Singapore said that the scheme reserved exclusive production and marketing rights in the region for participating manufacturers and allows only manufacturers operating in one country to be given such rights for each item of production. It warned that privileges amounted to protectionism and would not be healthy for ASEAN's long-term development (8, p. 62).

> Had the Singapore technocrats been adamant and the Indonesian delegates been more flexible in their earlier rounds of negotiation, the progress of many regional schemes would have certainly fared better (7, p. 83).

The Japanese system of financing the ASEAN projects was also blamed as partly responsible for the delay in the projects in a report of the ASEAN Committee on Industry, Minerals and Energy (COIME) which was submitted to the ASEAN industry ministers' meeting held in Bali in October 1980.

> The report bluntly accused the Japanese of imposing loan requirements "tailored in favour of Japanese suppliers." Thus, Japanese teams are commissioned to study and evaluate a project, Japanese consultants are hired to prepare the tender documents, Japanese are given the main advantage to bid (8, p. 64).

The industry ministers have not yet set general guidelines for ASEAN industrial complementation products which are key for the future economic cooperation of the region. The theory of the customes union (14) which is one of the basic forms of economic integration, usually argues that the complementary in production among the member countries is a necessary condition to succeed in economic regionalism. "Those economies are regarded as complementary in which production costs, expressed in some common unit, show large disparities for most commodities." (5, p. 30)

As we have discussed so far, the trade between ASEAN and the advanced countries, Japan in particular, is considered to be complementary in terms of production costs because the former possesses greater comparative cost advantage in producting raw materials and labour intensive manufactured goods than the latter.

TABLE 17 TREND OF ASEAN TRADE, 1968-77
($ million)

Year	Total ASEAN Foreign Trade	Per cent Growth	Total Intra ASEAN Trade	Per cent Growth	Intra-ASEAN Trade as a Percentage of Total Foreign Trade of ASEAN
1968	10,981	–	1,952	–	17.8
1969	12,250	11.6	2,215	13.5	18.1
1970	13,700	11.8	2,325	5.0	17.0
1971	14,807	8.1	2,461	5.8	16.6
1972	17,473	18.0	2,780	13.0	15.9
1973	28,047	60.5	4,399	58.2	15.7
1974	46,378	65.4	6,532	48.5	14.1
1976	52,823	13.9	7,029	7.6	13.3
1980	61,954	18.5	8,335	18.6	13.45

Source: *ASEAN Year Book*, 1980. p. 78.

Among the ASEAN countries, the rivalry in trade and production are more pronounced than the complementary. Table 17 presents that though total intra-ASEAN trade increased by about four fold from $ 1, 952 million in 1965 to $ 8, 335 million in 1977, its percentage ratio to total foreign trade of ASEAN declined from 17.8% to 13.5% in the same period. "... their common background has inhibited trade among themselves to a certain extent as the large percentage of exports which consists of primarily to raw materials or processed raw materials find their largest markets in the developed countries." (22, p. 78)

In the case of ASEAN, a complementary product project such as the proposed ASEAN motor industry will tend to creat trade diversion which will bring negative production effects by shifting the source of supply from lower cost (non-partner) to higher-cost (partner) producers. We should also consider the positive production effects which can be obtained through a scale merit of trade creation among the partner countries. On balance, however, the ASEAN complementary product scheme at least in the short run is likely to favour the least efficient country in terms of unit production cost at the heviest cost of the most efficient one. Myint suggests that "the need for the policies to promote the internal economic integration within each country by reducing economic dualism and by the political, cultural and economic integration of the minority groups is more urgent than the need to promote external or regional economic intergration" (20, p. 156) in ASEAN.

VI. GSP AND ASEAN

Japan implemented the Generalized System of Preference (GSP) on August 1971 in accordance with the resolution made at UNCTAD II (15, pp. 307 - 320). Japan and EEC adopted the ceiling scheme

against the escape scheme of the United States and the United Kingdom. Japan s GSP schemes are as follows:

(1) For all mining and manufacturing products (except 10 controversial items) in principle the import ceiling will be established and duty will be freed. But for 57 selected items of the BTN (Brussels Tariff Nomenclature) four-digit classification such as textiles, miscellaneous goods, non-ferrous metals, agricultural products and so forth, tariff rates will be reduced by 50%. The ceiling is calculated as the amount of imports from the developing countries for 1968 base year (A) + imports for the latest year from the advaced countries × 10 % (B) The preferential treatment will be ceased whenever imports of a particular item from a particular developing country account for 50% of the ceiling.

(2) For agricultural products, the preferential tariff will be given for 59 selected items based upon the positive list. The preferential treatment, however, will be terminated (application of the escape clause scheme) whenever the domestic industries are adversely affected or feared to be damaged by imports (16, pp. 303 - 305).

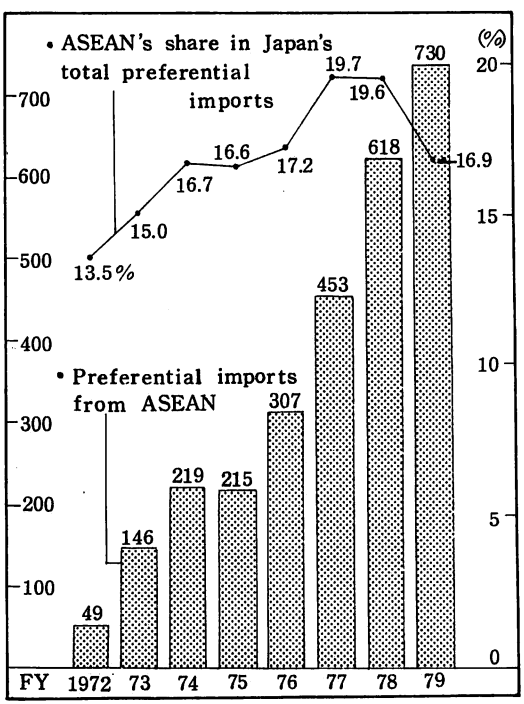
The preferential imports of mining and manufacturing products of Japan amounted to ¥ 35.6 billion or 30% of the ceiling for FY 1971. Of 214 imported items, only 37 items were shot up the ceilling. The 1972 White Paper pointed out that the effort to promote export on the side of developing countries (15, pp. 303-304). At the same time, the White Paper argued for the expansion of the GSP to meet the strong demand for the scheme from the developing countries.

Japan's total preferential imports increased from $ 363 million in FY 1972 to $ 4,320 million in FY 1979 as presented in Fig. 3. Particulary it is worthy to note that the ASEAN's share in Japan's total preferential imports increased from 13.5% in FY 1972 to a record of 19.7% in FY 1977 and then decreased to 16.9% in FY

1979. The increase of preferential imports from ASEAN will partly reflect Japan's implementation of the cumulative origin rule for imports from ASEAN since April 1978. Under the cumulative origin rule, products are regarded as originating in a ASEAN country where they incorporate raw materials and parts produced in other ASEAN countries. This rule will benefit in particular Singapore whose export products depend largely upon the raw materials of the other ASEAN countries.

FIG. 3 ASEAN's SHARE IN JAPAN's PREFERENTIAL IMPORTS AND VALUE OF PREFERENTIAL IMPORTS FROM ASEAN

($ million)



Source: Ministry of Foreign Affairs, *ASEAN and Japan* (1981), p.9.

The Brant Commission Report evaluates the overall performance of the GSP as follows:

> The GSP has helped developing countries—but less than it might. Its deficiencies require attention: its rules of origin, its exemptions and quota limits, for example, should now be eased. The GSP should be extended beyond 1981. It is also desirable to 'bind' it to eliminate the risk that unilateral action might cut it short (6, p. 181).

The multilateral trade negotiations (MTN) of the General Agreement on Tariffs and Trade (GATT) commonly known as the Tokyo Round, which concluded in 1979, recognised that the GSP should be accepted as a permanent feature of the world trading system rather than as a temporary measure. We should add, however, that the tariff reductions according to the Tokyo Round agreements will erode preference margins of the GSP. "The pre-Tokyo Round trade-weighted average preferential margin of 9.2% will be reduced to 6.7% by 1987, a reduction of 27% in GSP margins." (8, p. 80)

Ⅶ. IPC AND ASEAN

As we have seen, the trends of production and exports of the primary commodities are a vital importance for the ASEAN countries. As Table 18 presents the exports of primary products accounted for 82 % of the Indonesian total exports followed by 62% of Thailand, 62% of Malaysia, 53% of the Philippines and 36% of Singapore.

Because of ASEAN's heavy dependence on the primary export earnings, ASEAN's has been a strong supporter of the Integrated Programme for Commodites (IPC) which was adapted at the third meeting of Ministers of the Group of 77 in Manila (February 1976) and submitted by Gamani Corea, UNCTAD's Secretary-General to UNCTAD IV in Nirobi (May 1976). "The IPC is a program of

global action designed to improve and establish new structures in international trade in commodities of interest to the developing countries." (9, p. 218)

The IPC's main objectives are (1) to improve the terms of trade of the developing countries; (2) to support comodity prices at levels which in real terms and remunerative and just to proucers and equitable of consumers; (3) to reduce of excessive fluctuations in commodity prices and supplies in the interests of both producers and consumers; (4) to improve and stabilise in real terms the purchasing power of the export earnings of individual developing countries; and (5) to expand developing country exports of primary and processed products.

TABLE 18 MAIN EXPORT COMMODITIES OF ASEAN AS A PERCENTAGE OF TOTAL EXPORTS, 1976

	(%)		(%)
Indonesia		Singapore	
Petroleum	70	Petroleum products	26
Rubber	5	Crude rubber	10
Lumber	7	Total	36
Total	82	Thailand	
Malaysia		Rice	13
Lumbber	21	Maize	13
Tin	13	Sugar	13
Palm Oil	14	Tapioca	10
Petroleum	9	Tin	5
Timber	4	Rubber	8
Total	61	Total	62
Philippines			
Sugar	25		
Coconot Oil	10		
Copper	9		
Timber	9		
Total	53		

Sourec: *ASAEAN Year Book*, 1980, p. 79.

The commodities which should be covered at the moment under the programme are 18 items including coffee, cocoa, tea, cotton, rubber, jute, hard fibres, cooper, tin, sugar (these are called core ten items), bananas, bauxite, iron ore, manganese, meat, phosphates, tropical timber, and vegitable oils.

UNCTAD IV also agreed to take the following key measures to achieve the above objectives:

(1) Establishment of the common fund for commodities in order to operate international buffer-stocks.
(2) Improvement of market access for the primary and processed products of developing countries through multilateral trade measures in the multilateral trade negotiations.
(3) Improvement and enlargement of compensatory financing facilities for the stabilisation of export earnings of developing countries.
(4) Supply management (export quota) of the commodity producers and indexisation of the commodity prices.
(5) Measures to encourage research and development on the problems of natural products.

Though the developed countries generally opposed to the IPC on the ground that commodity prices should be determined through the operation of market forces instead of the artificial measures, the agreement establishing the common fund was finally signed in 1980 after long and painstaking negotiations between the North and South.

Japan decided to contribute $ 61 million to the fund's first window which will help to finance buffer stocks under individual commodity arrangements, and $ 27 million to the second window which will finance research and development projects.

The purpose of the Common Fund under the IPC is to finance the buffer stocks of various commodities through intervening directly into the markets and thereby stabilising the commodity prices. An

alternative scheme for the Common Fund is a compensatory finance system which is designed to compensate an ex post decrease in export earnings. Good examples of this scheme are the IMF compensatory financing facilities and the STABEX (Stabilisation of Export Earings) under Lomé Convention which was concluded in February 1975 between EC and the ACP countries (46 developing countries of Africa, Caribean Sea and the Pacific regions). Some notable economists argue that the STABEX is much more efficient than the Common Fund (12, p. 247).

As mentioned earlier (p. 1), an ASEAN version of STABEX, which is often called ASEBEX, was proposed to Japan at the ASEAN summit in 1977. Since then various arguments and studies have developed on the issues of ASEBEX. One of the most comprehensive studies was carried out by International Development Center of Japan under the guidance of Saburo Okita, former Minister of Foreign Affairs. The study with some reservations supported the ASEBEX scheme and estimated the amount of funds of finance ASEBEX as about $400-$500 million in maximm loan outstanding with average annual loans of about $100 million (10, p. 120). Another important study conducted under the auspices of Japanese business leaders also strongly supported the ASEBEX (24).

VIII. THE PACIFIC BASIN COOPERATION CONCEPT AND ASEAN

Since the appearance of the Interim Report of the private study group of late Prime Minister Masayoshi Ohira on the concept of Pacific Basin Cooperation in November 1979, this idea has been discussed widely in Japan. The aim of the Community, according to the Report, is to "promote cooperative relations within the Pacific basin region and to take maximum advantage of the area's rich

potential not only for the Pacific basin countries but to enhance the prosperity and well-being of all peoples in the world." (11, p. 18) The Pacific Basin Cooperation Concept is built upon the following three principles (11, pp. 27-28):

(1) The new regional community, which containes extremes of economic, cultural and ethnic diversity, should be created based upon an open cooperation joined for the attainment of shared objectives.
(2) The Community should be based upon free and open interdependent relations among the countries of the region.
(3) The proposed Community is mutually complementary relations with the existing cooperative organisations such as ASEAN.

In order to promote the Pacific Basin Cooperation, the Final Report of the study made concrete proposals including the establishments of a Technical Cooperation Center, a Pacific Industrial Policy Consultative Forum, a Pacific Declaration on Trade and International Investment and a Joint Pacific Ocean Scientific Survey Program. (11, p. 29)

Though the Pacific Community Concept was generally accepted fovourably by the participants from Southeast Asia in a January 1980 symposium held in Oiso, Japan, many critical questions were also raised. These questions were well summarised by Professor Albert Widjaja of the University of Indonesia as follows:

> The willingness to contribute to complement other countries' needs should be considered as a necessity and a normal course of action for the cohesion of a community. Are the industries in the Pacific Basin Community willing to take such steps towards the other members of the developing countries, especially the weaker ones such as the ASEAN countries? Can they, as industrialized countries of the North, do better in the Pacific Basin Community toward

> their partners, the developing countries of the South, than in the South–North Dialogue? Are they willing to provide special treatment by reducing protectionistic trade policies, helping stabilize the export earnings of the developing countries, untying foreign aid, agreeing to equal participation in the management of common programs and exploitation of resources (e. g., submaine resources), and establishing fair codes of conduct for the transnational corporations (TNCs) which will practically dominate the implementation of the economic cooperation among the member countries? What schema can be developed to promote the cohesion of the Pacific Basin Community, taking account of the needs of the weaker member countries? (11, p. 62)

In respose to the arguments for the Pacific Basin Community, the 1979 and 1980 White Papers took up the issue and discussed the implications of the concept through trade relationships among the regions. The trade shares of the thirty countries are presented in Table 19. Each region depends 50%–70% of its exports on the Community and the trade interdependence among the regions was intensified through the 1970s. Particularly ASEAN showed the highest interdependence with the Community.

The 1980 White Paper suggested various alternative of cooperations among the Pacific Basin countries according to the diversity of economic, cultural and historical development of each country (16, pp. 272–282).

TABLE 19 SHARES OF TRADE WITHIN THE PACIFIC BASIN REGION (PER CENT)

Exports Partner regions \ Exporting regions		Japan	East Asia	ASEAN	China	Oceania	North America	Central and South America	Pacific Basin
Japan	70	–	11.5	9.4	2.9	4.1	34.1	4.7	66.7
	78		13.0	8.9	3.1	3.5	27.7	5.9	62.0
East Asia	70	13.2	5.5	7.6	0.2	2.6	41.8	1.1	72.0
	78	13.8	5.5	7.7	0.2	2.7	36.5	2.0	68.4
ASEAN	70	24.2	5.5	19.1	0.7	2.8	18.4	0.8	71.6
	78	25.0	6.9	14.0	0.8	2.9	21.9	0.8	72.4
China	70	13.8	25.3	12.6	–	2.6	1.1	0.2	55.5
	78	22.0	24.3	9.4		2.0	4.8	0.9	63.5
Oceania	70	23.0	2.3	7.2	2.1	11.5	16.2	0.7	63.0
	78	26.2	5.7	7.0	2.8	9.5	13.8	0.9	66.0
North America	70	9.1	2.7	2.0	0.2	2.3	32.5	10.0	58.8
	78	8.1	3.9	2.6	0.7	1.5	31.8	11.0	59.5
Central and South America	70	5.7	0.6	0.2	0.0	0.1	33.3	12.3	52.3
	78	4.6	0.8	0.5	0.6	0.2	33.6	14.6	54.9

Note : (i) East Asia covers the Rep. of Korea, Taiwan and Hong Kong. Central and South America covers Guatemara, Honduras, Nicaragua Costa Rica, Panama, El Salvdor, Mexico, Argentina, Venezuela Uruguay, Ecuador, Colombia, Chile, Paraguay, Brazil, Peru and Bolivia. Oceania covers Austalia, New Zealand, Papua New Guinea and other Oceania island countries.

(ii) The figures were computed based on the value of export (FOB prices).

(iii) Read Horizontally, the figures represent the percent of total exports that were made to each region. As not all region of the world are listed, the figures will not total 100.

Source : MITI, 1980 *White Paper on Intrenational Trade*, p. 274.

IX. SUMMARY AND CONCLUSIONS

As someone termed "Aseanisation", the ASEAN's awakening activities in the late 1970s were the one of the focal points of the world. Particularly Japan has become much more sensitive to the ASEAN affairs since the oil crisis of 1973. It is not too much to say that the Japan-ASEAN relationship officially started with the

1977 Japan-ASEAN summit meeting in Kuala Lumpur.

The 1977 White Paper on International Trade, first time in its history, dealt with issues between ASEAN and Japan and proposed to assist ASEAN's development as an economic community (17, pp. 317-315).

The economic interdependence between ASEAN and Japan deepened in the 1970s. For ASEAN, Japan has been the most important trade partner in the world. It is also true that ASEAN has played a vital role for Japan's survival. Japan not only imported almost 100% of her natural rubber and tin, about 70% of vegitable oil, about 40% of tropical timber and copper, about 30% of ncikel and bauxite, 24% of sugar, and about 10% of crude oil from ASEAN, but also about 40% of her total trading goods were transported via the ASEAN waterways.

There has been the unwritten agreement among the advanced countries with respect to the division of the major area of economic assistance; namely EC is mainly responsible for the development of the ACP countries, the United States for the Latin American countries and Japan for the Southeast Asian countries. Japan, many times in the past, officially stated the ASEAN is the highest priority area of Japan's economic cooperation." (2, p. 28). But Japan's ASEAN economic assistance in the 1970s was not carried out to meet the needs of the region's balanced development. ASEAN's trade patterns, for example, have changed little in the 1970s; ASEAN mainly exported primary products in exchange for Japan's manufactured goods. ASEAN's request for the horizontal division of labour in the wider front of manufactured goods is expected to become one of the most important economic issues between the two regions in the 1980s. In this connection, Japan's technology transfer to and private investment in ASEAN are expected to increase further on the selective

basis.

Japan's ODA to the ASEAN countries doubled over three years from 1978 as promised by then Prime Minister Takeo Fukuda at the ASEAN–Japan summit. Japanese aid to ASEAN, however, was frequently criticised on the ground that it contributed less to assist ASEAN's economic developments than to promote Japan's exports to the region. In this regard, Professor Kiyoshi Kojima's approach to the ASEAN aid, which is called "ASEAN Revolving Aid Fund", contains valuable suggestions (13). The Kojima scheme, which is developed from the zero balance-of-payment effect scheme proposal in the Pearson Report (23), aims solving at the North–South problem in the Pacific region through switching from the current bilateral aid scheme to the multiregional untying aid scheme. In addition to the quantity of aid, Japan should review its quality so as to meet the ASEAN's development needs.

The establishment of ASEBEX is another urgent and important issue. Japan should seriously consider the ASEBEX scheme in the line with the expanded Lomé Convention.

As we have discussed in this study, the GSP has been effective in promoting exports from ASEAN to Japan; therefore, the improvements in the scheme along with the further relaxation of tariff and non–tariff barriers of Japan are necessary conditions to establish the equal partnership between both regions.

As we have repeatedly emphasised, the economic issues between Japan and ASEAN should be solved in the framework of the North–South setting. Since Japan depends far more than other advanced countries on the trade with the developing countries, she sould find the most effective way to solve the North–South problems.

The 1980s will be a critical decade for Japan to test the following statement which was delivered by Prime Minister Zenko

Suzuki in Bangkok at the end of his ASEAN visit on January 19, 1981:

> Japan has now come to account for 10 percent of both world GNP and world trade. I am aware that Japan is being called upon to contribute, in a manner commensurate with its growing national strength, to the maintenance of world peace and the development of the world economy. How to fulfil our responsibilities in the international community is one of the most important tasks for Japan in the 1980. It goes without saying that Japan, as an Asian country, should first and foremost work for peace and prosperity in Asia (4, p. 146).

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