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# Management Issues Analysis Team Research Report

## Roles of Japanese Companies after the Integration of ASEAN and Their Challenges in the Soft Factor

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### **1. Case study of Japanese companies that have contributed to the resolution of social problems in ASEAN**

The integration of ASEAN economies (the ASEAN Economic Community (AEC)) is said to bring multiple economic benefits to the countries concerned, including Japan. Strong economic development in the ASEAN member has driven ASEAN to become the most dynamic region in the world. While the average annual growth rate of the global economy since 2007 was 3.3%, ASEAN recorded growth of 5.1%. People's standard of living has improved thanks to the economic growth, and 83 million workers were out of poverty and moved into the middle class from 1991 to 2013. ASEAN has also become the region into which the most foreign capital in the world has flowed, attracted by the labor power of 300 million people, the expanding consumer market and the enlarging infrastructure network (see the "ASEAN Community 2015: Managing integration for better jobs & shared prosperity," the International Labor Organization (ILO) and the Asian Development Bank (ADB)).

Foreign companies other than those in ASEAN that have already entered into this region have also made profits from their business activities in the region. The logic for these companies is the expansion of the pioneer profit due to their entry. There are also cases in which consumption and services that are produced and sold in the ASEAN member states have contributed to the resolution of various social problems, which has given rise to the situation of "benefit the seller, benefit the buyer, and benefit the society," where a win-win relationship has been built between the three parties of the seller, the buyer and society.

For instance, the case below is an example where the business model of a bus company in Saitama, Japan called Eagle Bus Co., Ltd. (hereinafter "Eagle Bus"), which has solved a transportation problem in the depopulated Hidaka/Hanno area, has contributed to the resolution of the traffic problem (social problem) in Laos in recent years. This is an example of "benefit the provider, benefit the user and benefit the society."<sup>1</sup>

In Laos, a member state of the Association of Southeast Asian Nations (ASEAN), the number of motorcycles and cars has increased sharply along with the rapid economic growth, and heavy traffic jams and traffic accidents are increasing. The development of public transportation is crucial to reduce the social risk of this rash of traffic jams and accidents.

However, many of the buses of the public bus corporation in Vientiane are superannuated, having surpassed their useful life, and the number of buses, which was 120 in 2001, declined to 77 in 2010. As people have also turned away from buses, their use of motorcycles and cars has increased. The number of bus users declined from 7.6 million in 2002 by more than half to 2.85 million in 2009. The utilization rate of buses fell to 4%, and the public bus corporation became unable to maintain its business operations.

It needed to change the superannuated buses and find a way of recovering the frequency of its services. Upon receiving a request from Laos, Japan granted 42 buses to the public bus corporation in Vientiane in June 2012 with free aid. In the future, however, the public bus corporation will have to renew its buses on its own and regain its position as a transportation way for the people. To achieve this goal, the management improvement of the public bus corporation is needed. Eagle Bus, which turned around the business conditions of the route bus business in a depopulated area in Japan, responded to this request.

Eagle Bus in Kawagoe, Saitama commenced the support program of Japanese small and medium enterprises overseas business development using the ODA in November 2014, thinking that it may be able to use its own management improvement know-how for this public bus corporation.

Eagle Bus was originally a tour bus company, but it entered the route bus business in 2006 by taking over loss-making bus routes in Higashichichibu in western Saitama, etc. It succeeded in the management innovation of route buses by developing its own “bus business improvement system” in an environment where 90% of public bus companies in Japan went into red.

Masaru Yajima, CEO of Eagle Bus, decided to try the bus business improvement system for the route buses in Vientiane. Specifically, he made it easy to understand when and where buses were running and where they stopped by installing a global positioning system (GPS) on them. In other words, he visualized the many invisible risks to which the route bus business was exposed. In addition, he installed a sensor on the bus platforms to record how many people ride on and get off in each bus, and in each stop. By recording the data obtained from those system in a database, he made the actual condition of bus services to make visible at a glance. In addition to using IT, he also carried out an oral survey from bus drivers and passengers.

From this survey, the actual condition of the bus business in Vientiane became evident. In the past, bus services in this area operated as follows.

A bus driver operates a bus full-time from the morning until 6 p.m. There are bus stops, but the driver does not use these stops; instead he takes another route where he knows the bus users are. He stops the bus when a person waiting raises his/her hand, and stops the bus when a passenger wants to get off. At a bus stop where there are a lot of passengers, he stops the bus for a long time and does not start until the bus is full of passengers. As just described, the bus driver loads passengers by operating the bus based on his own judgment. When he has finished working, he deposits the prescribed amount with the public bus corporation and keeps the rest as his own reward.

That is to say, the public bus corporation did not figure out how many sales each bus made and how many passengers each bus carried. The actual situation where the operation routes and the timetable were not determined, even though they were bus lines, were also revealed. These findings certainly cause managerial risks, and the future will be uncertain unless these risks are managed as quickly as possible.

CEO Yajima of Eagle Bus says the following: “The bus drivers know where the bus users are and when they want to use the bus. The public bus corporation would be able to make the best bus routes and timetables if it ‘made efforts to measure data, comprehend the actual situation and think about countermeasures’ by installing GPS and a sensor to find passengers.”

He came to believe that the people who had turned away from buses because of the superannuated buses would come back if the public bus corporation drew up an operation plan that was able to make the best use of the 42 new buses by optimizing the bus services as described above.

He is also taking a perspective on a bus tour strategy further ahead. “In the past, the bus services ended at 6 p.m., but all they have to do is to operate buses at night as well for tourists and the like. Laos won the ‘2013 Best Tourist Destination Award’ of the European Council on Tourism and Trade. Many tourists, including long-stay backpackers, visit the capital Vientiane from Europe and the United States. Since we had success in Kawagoe, they should be able to design a tourism business where large numbers of tourists will use public buses.” By saying this, CEO Yajima, who is from the tourism industry, thinks of the possibility of management innovation that will attract tourists.

As Laos continues to develop, public transportation will become even more important than before. The technology and know-how of the Japanese bus company in optimizing the services are expected to develop public transportation in Vientiane and vitalize its tourism strategy.

Vientiane’ case is a good example of a Japanese company contributing to the resolution of social problems in Laos and showing that its business model can make a contribution in areas that are exposed to the same kinds of social risks around the world.

## **2. Attention needs to be paid to the dark side of ASEAN integration**

One of the corporate vision of Eagle Bus is to contribute to the resolution of various social problems, and this vision appears to be a basic motive for the company to make enter into a business to solve social problems in Laos. In other industries, the main purpose of entering into other countries is generally to improve the economic aspect, such as increasing sales and improving productivity in these countries. Behind this entry, the physical aspects will be prepared first, such as the development of infrastructure and advancement in the transportation and energy fields. Consideration of the soft aspects such as the happiness of the workers working there, their protection and the community environment will receive a lower priority. This consideration of the soft aspects needs to be recognized as a corporate social responsibility, particularly when foreign companies, including Japanese ones, have entered into ASEAN countries.

These issues should be emphasized in the domestic market as well. However, if a company advances into the global market in particular, the management of aspects such as the community environment, the happiness of workers and their protection will become very important. To have such an understanding in such soft factors as cited above, it will be essential to connect the understanding of the underlying diverse cultures in the ASEAN countries with business activities.

Let me outline some of the matters related to the above issues in the soft factors that were mentioned in 2015 in “ASEAN Community 2015: Managing integration for better jobs & shared prosperity,” a report of the ILO and the ADB, below.

- (1) Ensuring quality standards in basic education and training is necessary, and secondary education, and vocational training are essential. These aspects are particularly important for young women and men from rural and poor households. In Cambodia, Laos, the Philippines, Thailand and Vietnam, the lack of skilled workers and skill mismatches are expected.
- (2) The economy will grow through the expansion of investment and trade, and the free movement of skilled workers will become possible. As a result, the structure and allocation of employment in the region will change, and issues such as an increase and decrease of employment, skill development, wages, productivity, the movement of labor and a mechanism for social protection will arise.
- (3) ASEAN could become a region with high productivity, but to achieve that goal, employment policies for high-quality jobs, robust measures for social protection and support for smaller enterprises are necessary. The significance of agriculture will decline. At the same time, the transport and construction industries will be associated with vulnerable and informal employment. There is demand for low-skill jobs, but high-skill workers should be rapidly developed.

The findings in the soft factors in this paper above primarily stress the importance of education of human resources in the future. If we summarize the task for business after the integration of ASEAN, they will be as follows.

From the companies' perspective, (1) not the expansion of first-mover advantages in the countries they have entered into, but rather corporate activities that can contribute to issues in the soft factors, such as the understanding of the cultures of these countries, the development of employees and the pursuit of their happiness, are required. The response of companies to these requirements is to rethink their corporate visions and review their corporate activities linked to the corporate visions.

(2) How employee training, including the basic education and training of employees, is implemented should be concerned. This issue includes the manager training of companies, as well as the education and training of local employees. Particularly in terms of the latter issue, which is the education and training of local employees by companies, a perspective on how to deepen the mutual understanding between ASEAN and Japan will be important on the premise of the understanding of the culture of a partner country.

(3) In addition to the importance of education and the understanding of cultures, consideration for the country and the community environment is also important as the basic foundation. Social problems such as the aforementioned traffic jams in Laos and air pollution are even more serious in Vietnam, Laos' neighbor.

In Vietnam, as far as the environmental consideration of companies is concerned, state-owned enterprises are said to have a lower level of compliance. Affected by the rapid economic growth, the population increase, and large-scale developments as a result of being recognized as an attractive investment destination, environmental pollution and natural environment issues have begun surfacing in Vietnam. For example, the deterioration of the water environment is one of the most serious environmental problems. It is caused by human sewage due to the population concentration in urban areas, untreated industrial drainage and waste disposed of in rivers and canals, among others. Although the water quality in the upstream of rivers is still good, contamination downstream is serious in urban areas and industrial districts.

The air pollution in Vietnam can be divided into two kinds: the first kind is caused by the gas emissions from the rapidly increasing numbers of motorcycles and cars, mainly in urban areas, and the second kind is caused by industrial activities. In terms of transportation in Vietnam, the percentage of motorcycles is overwhelmingly high, making up approximately 90% of all registered vehicles. In addition, many of them are old-style motorcycles that fail to meet the emission standards (see pages 125 and 126 of "A Study of the Practice of Environmental Management of Japanese Multinational Companies in Developing

Countries,” Tomomi Toyosumi, Tatsuo Kinbara and Kazuma Murakami).

“The Importance of the Four Benefits of Economic Development in the Mekong: the case of copper and gold mining in the Lao PDR ” by Professor Matthew Allen<sup>2</sup>, is also a study that shows the “behavior as a company” of Australian companies in Laos, with some examples. What Professor Matthew Allen emphasizes with the case study in his paper is the significance of the environmental risk management of companies in the countries they have entered into and the importance of “yonpo yoshi” (all good in four parties) that is good for the seller, good for the buyer, good for society and good for the environment, which added an environmental consideration to “sampo yoshi (all good in three parties),” philosophy of old Ohmi (present-day Shiga Prefecture) merchants.

## References

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- 1 .This case study uses the following material as a reference: “Reviving Bus Routes by GPS – Aiming to Introduce the ‘Bus Business Improvement System’ in the Capital of Laos” on page 133 of the “White Paper on Development Cooperation 2015” of the Ministry of Foreign Affairs.
2. Matthew Allen(2017) ,“The Importance of the Four Benefits of Economic Development in the Mekong: the case of copper and gold mining in the Lao PDR”, *Annual Review of Asian Industry research Center of Senshu University* Vol.3.pp.87-97.