

Japan's Responses to AEC and RCEP

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Japan's Perceptions of East Asia in General

With the advent of the 21st century, the China factor has emerged as the biggest determining factor of Japan's ASEAN policy, because from Japanese perspective China's threat to Japan has been overwhelming, starting from political dimension, then to economic sphere, and finally to security dimension. Politically, salient examples are that the realization of four-party talks over the long-term peace and stability mechanism on the Korean peninsula in 1997 without including Japan and Russia as well as that China single-handedly materialized the first-ever inter-Korea summit in 2000. Economically, China's proactive FTA initiative to ASEAN in November 2000, followed by the agreement of ASEAN-China FTA in 2002 and China has replaced Japan as ASEAN's biggest trading partner since 2009. In the security sphere, Japan's Defence White Paper for the first time in the post-Cold War era referred China as a potential threat in 2004 as Chinese navy forces have become active in the disputed area between the two countries.¹

Japan's Asia policy under Shinzo Abe

Japan is one of ASEAN's oldest and most important dialogue partners and supporters. It is ASEAN's second largest trade partner country with total bilateral trade amounting to US\$263 billion in 2012. It is also among ASEAN's largest sources of foreign direct investment (FDI) at US\$122 billion in terms of FDI stock in 2012. ASEAN is the second largest trading partner for Japan, following the PRC.

Unlike previous prime ministers, Shinzo Abe has an ambition to stay in power in a long term and to make Japan a true normal state and a global power equivalent to the United States and China.² Given escalating Sino-US strategic tit-for-tat, growing Sino-

¹ James J. Przystup, "The U.S.-Japan Alliance: Review of the Guidelines for Defense Cooperation," *Institute for National Strategic Studies Strategic Perspectives, No. 18*, National Defense University Press, Washington, D.C., March 2015, <http://inss.ndu.edu/Portals/68/Documents/stratperspective/inss/Strategic-Perspectives-18.pdf>

² In the early 1980s, former Japanese prime minister Yasuhiro Nakasone set a goal for Japan to seek for a political status equivalent to Japanese economic power only next to the US at the time. With the advent of 21st century, former Japanese prime minister Junichiro Koizumi actively engaged in bold

Japanese leadership competition and Japan's new growth strategy, ASEAN's position in Japanese foreign policy has become more important than ever before.³ As a result, at least two characteristics of Abe's Asia policy can be identified. The first and fundamental characteristic of Abe's Asia policy is counter-China oriented. The second characteristic of Abe's Asia policy is to reinforce the Japan-US alliance against shared concerns about rising China and their undermining regional clout owing to ballooning China power and influence. For Japan, it wants to regain Japan's Asian leadership through the Japan-US led Trans-Pacific Partnership (TPP),⁴ and to prevent the emergence of Sino-US condominium or the formation of the G2. For Japan has actively increased economic interactions with the US in addition to TPP negotiations. Consequently, US has replaced China as Japan's biggest trading partner since 2013.

In his second premiership, Japanese Prime Minister Abe made ASEAN his first foreign visit destination.⁵ Moreover, Abe visited all 10 ASEAN member states in 2013, starting soon after his assumption of office in late December 2012. This signifies the importance of ASEAN for the Abe Government. Japan wants to strengthen economic and political ties with ASEAN so that it can capture the region's economic dynamism as part of its own new growth strategy under so-called Abe-nomics and reinforce Japan clout for competing regional leadership with China.

In addition to counter-China rhetoric and Sino-Japanese strategic tit for tat such as ADIZ issue in November 2013, the Abe Government has deliberately encouraged Japanese companies to relocate their production lines and redirect their investment away from China in order to reduce Japan's economic dependence on China. Japan's direct investment in China in 2014 dropped 38.8 percent from the previous year to \$4.33 billion. The plunge, which compares with a decline of about 4 percent in 2013, reflects soured bilateral relations over territorial and wartime historical issues, as well as rising labor costs in China.⁶ ASEAN countries, in particular Myanmar, Vietnam and Indonesia, have been specifically identified as optimal destination for the relocation of production lines and new investment projects. Japanese also believe once the ASEAN Economic Community gets under way later this year, the free flow of goods, workers and funds within the ASEAN will undoubtedly benefit the bloc as a whole, but Less developed ASEAN countries are very likely to benefit most from AEC because labor costs in Vietnam, the Philippines and Myanmar are still lower than those of other

economic reforms and in strengthening US-Japan military alliance to pave a way for Japan to re-emerge as a global power. Abe wants to fulfil goals of his two predecessors at the same time under his premiership.

³ 櫻田淳, 「正論:日本はアジアではなく太平洋だ」, *Sankei*, May 29, 2015,

<http://www.sankei.com/column/news/150529/clm1505290001-n4.html>

⁴ 日美在尋求安保和經濟世界主導權, *Nikkei*, April 29, 2015,

<http://cn.nikkei.com/politicsaeconomy/politicsasociety/14170-20150429.html>

⁵ Carl Thayer, "Vietnam's Extensive Strategic Partnership with Japan," *The Diplomat*, October 14, 2014, <http://thediplomat.com/2014/10/vietnams-extensive-strategic-partnership-with-japan/>

⁶ "Japan's Direct Investment in China Drops 38.8%," January 16, 2015,

<http://www.marketpulse.com/20150116/japans-direct-investment-china-drops-38-8/>

ASEAN members.⁷

Furthermore, ASEAN countries have also been regarded as potential markets for Japanese high-tech infrastructure projects under Japan's ODA and new growth strategy. This policy orientation has been further enhanced with China's "One Belt, One Route" Strategy and the creation of the Asian Infrastructure Investment Bank. The former is designed to turn China into a hub of Asia-Europe economic integration, while the later a telling example of a regional initiative that could bypass Japan and American interests.⁸

In response, Japan has further enhanced its involvement in the Greater Mekong Subregion East-West Economic Corridor development project in inland ASEAN connecting Myanmar, Thailand, Laos and Vietnam. The Abe Government announced recently that Japan in the forthcoming three years will provide an ODA of 750 billion yen to the Greater Mekong development project. This is the second important announcement after Abe decided to provide US\$100 billion for the Asian infrastructure building through Japan-dominated Asia Development Bank (ADB) in May this year.⁹ Obviously, both are specifically targeting at China-led AIIB in one way or another.¹⁰ Additionally, three Japanese companies including Sumitomo, Hitachi and Mitsubishi Heavy Industries jointly secured an order worth over US\$946 million to equip a railway linking Bangkok with nearby suburbs, as Japan works to export its know-how in railway operations through a joint effort by the government and private sector. The Abe government will provide loans of over 300 billion yen (\$2.4 billion) for construction of the northbound track. Another Japanese consortium consisting of Marubeni, Toshiba and rail operator JR East has signed a contract thought to be worth about 40 billion yen to supply cars and signal systems to a new Thai subway expected to open as early as 2016. Thailand has seen a series of railway construction or extension projects in recent years. In May 2015, Japan and Thailand already signed a deal to introduce a *shinkansen* bullet train line linking the Thai capital to the northern city of Chiang Mai.¹¹ Meanwhile, Japan continues to watch Vietnam and Indonesia for their domestic infrastructure projects, given China is a strong contender.

⁷ "ASEAN integration: Less developed countries to benefit most from AEC," *Nikkei*, June 16, 2015, <http://asia.nikkei.com/Politics-Economy/International-Relations/Less-developed-countries-to-benefit-most-from-AEC>

⁸ "Asia needs US to support trade in the region," *The Straits Times* on June 19, quoted by *the China Post*, June 21, 2015, <http://www.chinapost.com.tw/commentary/the-china-post/special-to-the-china-post/2015/06/21/438850/Asia-needs.htm>

⁹ "Japan, China in race to finance building of Asia's infrastructure," *The Business Times*, May 27, 2015, <http://business.asiaone.com/news/japan-china-race-finance-building-asias-infrastructure#sthash.WMUO4p0n.dpuf>; 「主張:日本のアジア投資 得意分野で発展後押しを」, *The Sankei Shimbun*, May 23, 2015, <http://www.sankei.com/column/news/150523/clm1505230001-n1.html>

¹⁰ 「日メコン会議 良質なインフラ整備を進めよ」, *The Yomiuri Shimbun*, July 5, 2015, <http://www.yomiuri.co.jp/editorial/20150704-OYT1T50132.html>

¹¹ "Japanese consortium nabs major Thai railway deal," *Nikkei*, July 3, 2015, <http://asia.nikkei.com/Japan-Update/Japanese-consortium-nabs-major-Thai-railway-deal>

*ASEAN Economic Community (AEC)*¹²

ASEAN is the third largest bloc in Asia in terms of population and GDP. It has a total of 617 million people, behind only the People's Republic of China (PRC) and India. Its GDP totals more than US\$2.3 trillion, behind only the PRC and Japan. It has launched an initiative to create an ASEAN Community that comprises a Political and Security Community, an Economic Community, and a Social and Cultural Community. The reason for this initiative is that amid the rapid rise of the PRC and India in Asia, the only way for ASEAN to maintain peace and prosperity is to strengthen the internal coherence of ASEAN member states and, thus, create a united community.¹³ AEC building is particularly important as it aims to achieve deeper economic integration and greater international competitiveness, while maintaining ASEAN centrality in the regional cooperation architecture.¹⁴ Against this background, Japan is very pleased to see a united, strong and independent ASEAN. So, Association of South-East Asian Nations (ASEAN) will not cave in China's pressure and threats and in turn ASEAN can serve as a counterweight to rising China and even Japan's allies against China. The realization of ASEAN Economic Community (AEC) serves this purpose because the AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labor and a freer flow of capital.

For Japanese multinational corporations (MNCs), ASEAN countries collectively are their most important FDI destinations in Asia, ahead of the PRC. ASEAN offers an attractive market for Japanese firms providing goods and services, and a key production base for Japanese MNCs which have developed extensive production networks and supply chains throughout Asia.¹⁵ In the first half of this year, Japan's FDI in China has declined by 16.3% from the same period of 2014 down to US\$2.1 billion.¹⁶

Traditionally, Japanese automakers have established production bases for parts and components and final assembly in several ASEAN countries including Indonesia, Malaysia, and Thailand. In doing so, the automakers have taken into account the specific conditions of individual countries, such as the availability of trained workers,

¹² "ASEAN works to overcome challenges," *The Japan Times*, March 28, 2014, <http://www.japantimes.co.jp/news/2014/03/28/national/asean-works-to-overcome-challenges/#.VYEZZk2Jipo>

¹³ ASEAN and Japan's cooperative partnership began in 1973 with the establishment of the ASEAN–Japan forum on synthetic rubber production issues. "New challenges for ASEAN–Japan relations: Celebrating the 40th year of ASEAN–Japan friendship and cooperation," December 13, 2013, <http://www.asiapathways-adbi.org/2013/12/new-challenges-for-asean-japan-relations-celebrating-the-40th-year-of-asean-japan-friendship-and-cooperation/#sthash.NaV3FVsv.dpuf>

¹⁴ Rodolfo C Severino, "ASEAN Beyond Forty: Towards Political and Economic Integration," *Contemporary Southeast Asia*, December 2007. Vol. 29, No.3; pp. 406-423.

¹⁵ "China losing status as 'world's factory,'" February 3, 2014, *The South China Morning Post*, <http://www.scmp.com/business/china-business/article/1419428/china-losing-status-worlds-factory>

¹⁶ 「中国商務省：日本の対中投資 1 6 ・ 3 % 減 1 ~ 6 月」, *Mainichi Shimbun*, July 21, 2015, <http://mainichi.jp/select/news/20150721k0000e020198000c.html>

technological capabilities, the agglomeration of suppliers, infrastructure availability, market characteristics, and policy and tax incentives. These and other Japanese MNCs, including several small and medium-sized enterprises, have greatly contributed to the region's economic development, technology transfer, and the de facto integration of ASEAN economies. The formation of an AEC would further improve the efficiency of regional production networks and supply chains.

According to the Japan Bank for International Cooperation (JBIC) *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies*, subtitled *Results of the JBIC FY2013 Survey: Outlook for Japanese Foreign Direct Investment (25th Annual Survey)* highlighted the recent ASEAN focus of Japanese firms. The survey results were particularly interesting, in that Indonesia took first place among promising countries/regions for the first time since 1992 when the survey questions took their current format, while China lost its top seat for the first time since 1992 to drop to fourth. In addition to Thailand (3rd) and Vietnam (5th), which have featured regularly in the top rankings, Myanmar rose to 8th and the Philippines to 11th, with Laos making it into the top 20 for the first time. These results brought nine of the 10 ASEAN members (Brunei was the exception) into the top 20. (The rankings for the other ASEAN members were 12th for Malaysia, 16th for Singapore and 17th for Cambodia).¹⁷

Regional Comprehensive Economic Partnership (RCEP)

Japan and ASEAN countries signed their Economic Partnership Agreement (EPA) in November 2007, and the agreement came into force on 1 December 2008. For the Japanese government, this FTA was an important target as it tries to achieve a stronger position in Asia vis-à-vis China, Korea and United States. The finalisation of the US-Korea FTA talks in April 2007 jolted Tokyo into higher gear to get this deal completed. For groups in Southeast Asia, it is seen as formalising ASEAN's role as a regional manufacturing hub for Japanese corporations. It is now easier and cheaper for Japanese firms to move components (of automobiles, electronics, etc) from one ASEAN country to another, in a regional assembly line.¹⁸

Subsequently, given that China and South Korea agreed to sign FTA last year, Japan has become eager to see the conclusion of RCEP so as to make up for some lost ground in its market share in China due to Sino-Korea FTA and to readjust Japan's traditional China Plus one investment strategy by reducing investment in China while increasing percentage in ASEAN countries.

¹⁷ "ASEAN Economic Integration and Japanese Companies: Company Strategies Change and Evolve in Response to ASEAN Economic Integration," April 30, 2014, <https://www.iist.or.jp/en-m/2014/0230-0928/>

¹⁸ <http://www.bilaterals.org/?-Japan-ASEAN-&lang=en>

Conclusion

Japan under Prime Minister Abe is quite positive toward both the formation of AEC and the RCEP because both are in accord with its grand strategy under the G2 era. Politically and strategically, Japan needs a strong and united ASEAN to serve as a counterweight against rising China, to regain Japan's clout and leadership in the region, to act as a platform for Japan to enhance military alliance with the United States on both economic (through TPP) and security dimensions (through the South China Sea territorial dispute).