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Asian Regionalism and Japan

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Jiro Okamoto*

I. Introduction

In recent years, there seems to be a growing *image* of Asia as a region. This image includes not only the traditional geographical aspect of a region but also economic and some aspects with cultural dimensions as well. “Asian” values are often declared to be different from “Western” values by some of the leaders of Asian states. In this sense, the recent image of Asian regionalism goes well beyond the classification of civilisations by Huntington (1993). However, the image still remains as just an image, it lacks any concreteness. As a matter of fact, it is unclear even where “Asia” starts and ends given this conception. It is therefore appropriate that we ask ourselves what Asian regionalism really means. Does Asian regionalism ultimately seek the formation of a formal economic arrangement of some kind? If not, what does or can it imply?

This paper seeks to examine what Asian regionalism could mean and how Japan can and should respond. First, the economic development and the trend of international economic transactions in the region will be reviewed. The analysis confirms the impressive economic developments that have occurred in East Asia over the last decade. The results of the analysis will show that the option for Asia to form a free trade area (FTA) or a customs union (CU) is not beneficial in the foreseeable future. It is undesirable not only for outsiders but also for Asian economies. Second, then, the alternative meanings of Asian regionalism will be explored. The ASEAN way of economic cooperation, the modality itself, will be taken up and suggested as a basic component of the regionalism in Asia. It will be argued that the recent image of Asian regionalism does not imply the establishment of particular regional economic arrangements, but rather, it means

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regional policy cooperation and coordination in Asian style. Third, how Japan should respond to the changing international environment and Japan's role in the context of Asian regionalism and the ASEAN way of policy cooperation will be discussed. Some of the domestic problems of Japan that may affect its capability of fulfilling the role will also be considered.

II. Regional Economic Arrangement as Asian Regionalism?

In this section, a simple exercise to confirm the impressive economic development in the Asia Pacific region will be undertaken by using some basic data. The exercise will focus on the Asian developing economies, being the fastest growing in the region, and will show that their international economic activities are not self-sufficient within Asia.

II.1 Trend of Economic Development

Table 1 shows the real GDP growth rates of APEC economies over the period from 1989 to 1995. The bold figures are those that surpassed the world average.

Table 1: Real GDP Growth Rates of Selected APEC Economies

	1989	1990	1991	1992	1993	1994	1995
U.S.A.	2.5	0.8	-1.2	3.3	3.1	4.1	2.0
Canada	2.4	-0.2	-1.8	0.8	2.2	4.1	2.3
Mexico	3.3	4.5	3.6	2.8	0.7	3.5	-6.9
Japan	4.8	4.8	4.3	1.4	0.1
Korea	6.4	9.5	9.1	5.1	5.8	8.6	9.0
China	4.3	3.9	8.0	13.2	13.8	11.9	...
Indonesia	7.5	7.2	7.0	6.5	6.5	7.5	...
Thailand	12.2	11.6	8.4	7.9	8.2	8.5	...
Malaysia	9.2	9.7	8.7	7.8	8.3	8.7	...
Singapore	9.4	8.1	7.0	6.4	10.1	10.1	...
Australia	4.2	1.4	-1.6	2.6	4.0	5.2	3.1
New Zealand	-1.3	-0.8	-1.3	...	6.0	3.4	...
World	3.3	2.7	1.7	3.2	3.1	4.6	...

... data not available

Source: International Monetary Fund, *International Financial Statistics Yearbook*, 1996

It is notable that the figures of the Asian Newly Industrialising Economies (NIEs = Hong Kong, Korea, Singapore and Taiwan), the ASEAN economies and China over this period

consistently surpassed the world average. Moreover, they did so handsomely. The only exception was the Philippines which suffered from political instability and natural calamities during this period. However, the figures for the Philippines since 1993 are showing signs of economic recovery. The table also shows the recoveries of the US, Canadian, Australian and New Zealand economies. On the other hand, the recession in Japan since 1992 seems quite serious relative to past favourable growth rates. The Japanese economy had yet to recover by 1996.¹

Table 2 shows some other data for selected economies. There are two points which should be emphasised. First, the importance of the manufacturing sector is increasing in China and the ASEAN economies. An increase in the ratio of the manufacturing sector to the total GDP traditionally indicates the increased “industrialisation” of an economy. In China, 42% of GDP was produced by this sector in 1992 and the ratio had increased to 49% by 1995. In Indonesia, Thailand and Malaysia, the same figure increased from 16.8% to 23.1%, from 21.4% to 32.1% and from 20.9% to 33% respectively over the last decade. On the other hand, those figures in developed economies and the NIEs seem to be static or on the gradual decline.² Second, it is notable that the exports and imports of China and the ASEAN economies, both in value and the ratio to GDP, have increased significantly. Impressive export figures imply that growth in their economies has been induced by the rapid increase in their international trade. The imports of the developing economies have also increased and most of them consist of capital and intermediate goods for manufacturing production.³ Again, it is interesting to compare the figures for the developing economies with those of the developed and newly industrialising economies.⁴

In sum, the rapid economic growth of the developing economies in the Asia Pacific region can be attributed to the change in their domestic economic structures, characterised by the

¹ According to the provisional announcement by the Economic Planning Agency, the real GDP growth rate of Japan in the third quarter of 1996 (converted into annual rate) was only 0.4% (Nihon Keizai Shimbun, 4 November 1996).

² This may imply structural change, that is the shift from the manufacturing to services, and/or the relocation of production bases from developed and newly industrialising economies to developing ones in the region.

³ In most of the ASEAN economies, the ratio of intermediate goods and machinery to the total imports exceeds 60%. See Okamoto (1995).

⁴ The value of exports from developed economies has also increased. However, the ratio of exports to GDP has been smaller than that of developing economies, except for Singapore. The figure of Japan has been gradually decreasing over the period and it was only 8.6% in 1994. It is true that the NIEs still rely on exports, but the ratio of exports to their GDP seems rather static compared to the developing economies.

development of the manufacturing sectors. Also, rapid economic development has been and will continue to be heavily reliant upon the growth in exports of manufactured goods.

Table 2: GDP and Trade of Selected APEC Economies

(Millions of US dollars, current market price)

		GDP(1)	(Manufacturing)*	GDP/Capita**	Exports(2)(2)/(1)*	Imports(3)(3)/(1)*		
U.S.A.	1986	4,268,600	20.0	17,736	227,160	5.3	382,300	9.0
	1990	5,522,200	18.8	22,097	393,590	7.1	516,990	9.4
	1995	6,931,400	17.3(1994)	26,352	584,740	8.4	770,960	11.1
Japan	1986	1,966,200	29.3	16,184	209,400	10.6	127,900	6.5
	1990	2,952,339	28.8	23,898	280,374	9.5	216,845	7.3
	1994	4,590,940	24.5	36,739	395,600	8.6	274,742	6.0
Korea	1986	102,722	33.3	2,471	34,714	33.8	31,584	30.7
	1990	242,297	28.9	5,652	63,123	26.1	65,127	26.9
	1995	455,600	26.9	10,076	123,241	27.1	127,990	28.1
China	1986	273,894	...	257	30,942	11.3	42,904	15.7
	1990	369,752	41.6	326	51,519	13.9	42,354	11.5
	1995	691,297	49.0	570	148,770	21.5	132,078	19.1
Indonesia	1986	71,550	16.8	430	14,396	20.1	11,938	16.7
	1990	101,642	19.4	567	26,807	26.4	21,455	21.1
	1994	161,436	23.1	840	39,497	24.5	31,654	19.6
Thailand	1986	40,956	21.4	743	8,720	21.3	9,342	22.8
	1990	84,228	27.3	1,496	22,795	27.1	32,543	38.6
	1995	166,657	32.1	2,787	56,036	33.6	70,881	42.5
Malaysia	1986	25,709	20.9	1,596	13,703	53.3	10,301	40.1
	1990	40,854	26.9	2,300	28,877	70.7	25,967	63.6
	1995	80,861	33.0	4,022	72,236	89.3	71,996	89.0
Singapore	1986	18,193	25.1	6,702	21,300	117.1	23,629	129.9
	1990	35,568	29.0	13,149	50,683	142.5	55,802	156.9
	1995	84,918	26.7	24,311	118,185	139.2	124,393	146.5
Australia	1986	167,960	15.8	10,484	22,620	13.5	27,674	16.5
	1990	294,784	15.2	17,279	39,762	13.5	42,022	14.3
	1995	347,645	15.6	19,487	53,119	15.3	60,336	17.4

*Percentage ratio to GDP, **US dollars, ...data not available.

Source: Institute of Developing Economies, *Asian Affairs*, various issues.

International Monetary Fund, *International Financial Statistics Yearbook*, 1996.

Economics and Development Resource Center, ADB, *Key Indicators of Developing Asian and Pacific Countries 1996*, vol. XXVII, 1997.

United Nations, *Statistical Yearbook*, fortieth issue, 1993

U.S Department of Commerce Economics and Statistics Administration, *Survey of Current Business*, vol.77 no.1, Jan. 1997.

II.2 Directions of Trade

Now, consider the patterns of international economic activities for the economies in the Asia Pacific region. Table 3 details the export and import flows of most of the APEC

Table 3 :Trade Matrix of APEC Economies

(Export, % of total)	NAFTA	Japan	A-NIEs	ASEAN4	Australasia	China	EEC/EU	Others	World	
NAFTA*	1985	43.9	8.8	5.6	1.6	2.1	1.5	17.8	18.8	100.0
	1990	41.4	10.5	8.0	2.2	1.9	1.1	21.5	13.4	100.0
	1995	46.2	8.7	9.4	3.0	1.6	1.7	16.2	13.4	100.0
Japan	1985	40.8		12.8	4.2	3.7	7.1	11.9	19.6	100.0
	1990	34.8		19.7	7.7	2.8	2.1	20.4	12.3	100.0
	1995	29.7		25.1	12.1	2.2	5.0	15.9	10.1	100.0
A-NIEs**	1985	37.6	10.0	8.9	6.8	2.6	7.2	10.9	16.0	100.0
	1990	29.5	11.3	12.5	8.3	2.0	7.9	17.0	11.5	100.0
	1995	22.4	9.5	16.1	10.8	1.8	13.2	13.8	12.6	100.0
ASEAN4***	1985	20.6	31.1	20.0	4.5	1.6	1.3	11.8	9.3	100.0
	1990	20.5	24.3	21.9	4.2	1.8	2.1	16.6	8.6	100.0
	1995	21.6	18.1	23.8	5.4	1.8	3.0	15.3	10.9	100.0
Australasia****	1985	12.8	25.4	10.9	4.0	7.0	3.5	14.9	21.5	100.0
	1990	13.5	24.2	14.8	6.2	7.6	2.2	14.1	17.4	100.0
	1995	8.9	21.6	20.7	9.3	9.9	4.0	11.7	13.9	100.0
China	1985	9.5	22.3	33.7	2.3	0.6		8.4	23.3	100.0
	1990	9.3	14.6	47.6	2.9	0.8		10.0	14.7	100.0
	1995	17.7	19.1	33.1	3.7	1.2		12.9	12.2	100.0

(Import, % of total)	NAFTA	Japan	A-NIEs	ASEAN4	Australasia	China	EEC/EU	Others	World	
NAFTA	1985	33.7	17.1	9.9	2.5	1.0	1.0	17.9	16.8	100.0
	1990	33.3	15.4	10.4	3.0	1.1	2.7	18.8	15.4	100.0
	1995	37.7	13.9	9.3	4.9	0.6	5.2	16.1	12.3	100.0
Japan	1985	25.1		7.6	12.9	6.5	5.0	7.2	35.7	100.0
	1990	26.9		11.1	10.4	6.0	5.1	16.1	24.5	100.0
	1995	26.3		12.3	11.4	5.1	10.7	14.5	19.7	100.0
A-NIEs	1985	18.3	22.8	8.2	8.1	3.2	9.2	11.1	19.1	100.0
	1990	18.5	22.4	10.4	7.4	2.7	12.1	13.3	13.3	100.0
	1995	16.5	21.2	11.8	9.1	2.3	14.6	13.3	11.2	100.0
ASEAN4	1985	17.6	23.3	14.3	8.2	4.1	2.7	14.5	15.3	100.0
	1990	15.4	25.7	21.2	3.9	3.8	2.6	16.5	11.1	100.0
	1995	14.6	27.4	20.5	5.4	3.2	2.8	14.3	11.7	100.0
Australasia	1985	23.4	22.6	9.0	2.7	6.7	1.2	22.5	12.0	100.0
	1990	25.1	18.0	10.0	3.6	7.5	2.4	27.0	6.3	100.0
	1995	24.0	15.6	11.0	5.7	8.1	4.8	26.6	4.2	100.0
China	1985	15.1	35.7	11.8	1.3	3.0		14.5	18.5	100.0
	1990	15.2	14.2	33.2	4.0	2.8		17.0	13.7	100.0
	1995	14.1	22.0	28.3	4.5	2.2		16.1	12.8	100.0

*Canada, Mexico and the United States, **Hong Kong, Korea, Singapore and Taiwan

Indonesia, Malaysia, the Philippines and Thailand, *Australia and New Zealand

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1992 and 1996

Taiwan's data are from Department of Statistics, Ministry of Finance (Taiwan),

Monthly Statistics of Exports and Imports, Nos. 292 and 322.

members. The figures for the United States, Canada and Mexico are combined as NAFTA; Hong Kong, Korea, Singapore and Taiwan are the Asian NIEs; Indonesia, Malaysia, the Philippines and Thailand are the ASEAN4; and Australia and New Zealand are Australasia. The figures show their export and import directions to the other APEC members as a percentage of total exports and imports. The figures are only for 1985, 1990 and 1995, but still, some

interesting and important phenomena are reflected in the Table. Let us briefly identify each of them. To begin with, NAFTA's exports to the Asian NIEs, the ASEAN4 and China are gradually increasing and the aggregated figure exceeded 14% of the total in 1995 while the same areas accounted for the source of some 19% of NAFTA's total imports. Also, it is interesting to note the increasing significance of NAFTA as a destination for China's export⁵. On the other hand, NAFTA's trade with European economies stagnated, but it still accounted for just on 16% of its exports and imports in 1995.

Second, NAFTA remained the most important trade partner for Japan in this period.⁶ However, for Japan, the figures show that the trade with the Asian developing economies is more important than that of other developed economies in the region. Japan's exports to the Asian NIEs, ASEAN4 and China already occupied 24% of total in 1985 but the figure had increased to 42% in 1995. Japan imported 25.5% of the total from them in 1985 and 34.4% in 1995.

Third, for Australasia, the Asian developing economies have also emerged as important trade partners, especially as destinations for its exports. In 1995, 20.7% of Australasia's total exports went to the Asian NIEs. The figure is almost the same as Japan's and is more than double the proportion recorded by NAFTA. Looking at the imports of Australasia, the domination of NAFTA, Japan and the European economies as sources seem to remain, however, the importance of the Asian developing economies is gradually increasing.⁷

Finally, for the Asian NIEs and the ASEAN4, which have been rapidly developing their economies through trade, the fastest growing trade partners seem to be the Asian developing economies themselves. However, it should be noted that developed economies still occupied large share in their trade. NAFTA and Japan remained the two major trade partners. Though the figures were constantly decreasing in the period, the US share of the NIEs exports and imports in 1995 still accounted for 22.4% and 16.5% of the totals respectively. The Japanese share was

⁵ It is also interesting that the ratio of NAFTA's intra-regional trade increased over the period from 1990 to 1995. Exports increased from 41.4% in 1990 to 46.2% in 1995 and imports from 33.3% to 37.7% respectively. However, to determine if it was the effect of forming an FTA in this sub-region in the first half of the 1990s, a breakdown of the traded goods and services within the region and a close analysis are needed.

⁶ Japan's exports to NAFTA dropped from 40% of the total in 1985 to 30% in 1995, but NAFTA was still the largest export destination. Japan imported more than one a quarter of the total from NAFTA consistently in the period and it remained the largest import source.

⁷ The aggregated figure for imports from the Asian NIEs, ASEAN4 and China was 12.9% in 1985, but it grew to 21.5% in 1995.

9.5% and 21.2% respectively in the same year. For the ASEAN4, the figures were 21.6% and 14.6% for the United States and 18.1% and 27.4% for Japan. On the other hand, the share of the European economies of the total exports and imports of Asian NIEs and ASEAN4 remained in the range from 11% to 17% during the decade with some fluctuations. Moreover, if the trade with others are added to the European figures, about 25% of the Asian NIEs' and the ASEAN4's exports and imports were with economies outside of the Asia Pacific region in 1995.

In sum, intra-regional trade of APEC members has been increasing over the last decade and the main factor for this phenomenon seems to have been the rapid growth of the Asian developing economies. However, it should be noted that the trade of the Asian developing economies is not only with other APEC members, let alone with the Asian economies. Generally, the Asian developing economies still rely on non-APEC economies for one quarter of their trade⁸. It can be said that the Asian developing economies cannot ignore non-Asian and non-APEC economies as their trade partners, at least for the foreseeable future.

II.3 Foreign Direct Investment Flows

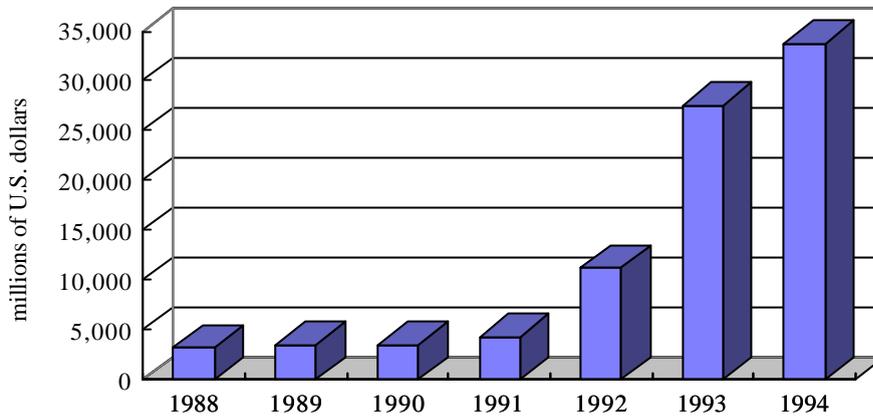
It has been suggested that the rapid economic development and growth of trade of the Asian developing economies since the latter half of the 1980s have been generated by foreign direct investment (FDI) inflows from developed and newly industrialising economies in the region, and that the inflows of FDI have gradually stimulated the investment in and production of local enterprises. Though most of the Asian developing economies have had policies to promote FDI since the 1960s and 1970s, the realignment of international currencies during the 1980s can be seen as the main factor that initiated these FDI inflows. Because of the rapid appreciation of their respective currencies against the US dollar, manufacturers in Japan and the Asian NIEs shifted their production and export bases of products which lost price competitiveness into the ASEAN economies, China and so on.

Figure 1 and 2 show the amount of FDI inflows (balance of payment basis) into China and ASEAN4 from 1988 to 1994. They indicate the rapid increase in FDI in China from 1992 and

⁸ The ratios of non-APEC economies, including the European economies, to the total exports of the Asian NIEs, the ASEAN4 and China in 1995 were 26.4%, 26.2% and 25.1% respectively, and the same figures for imports were 24.5%, 26% and 28.9%.

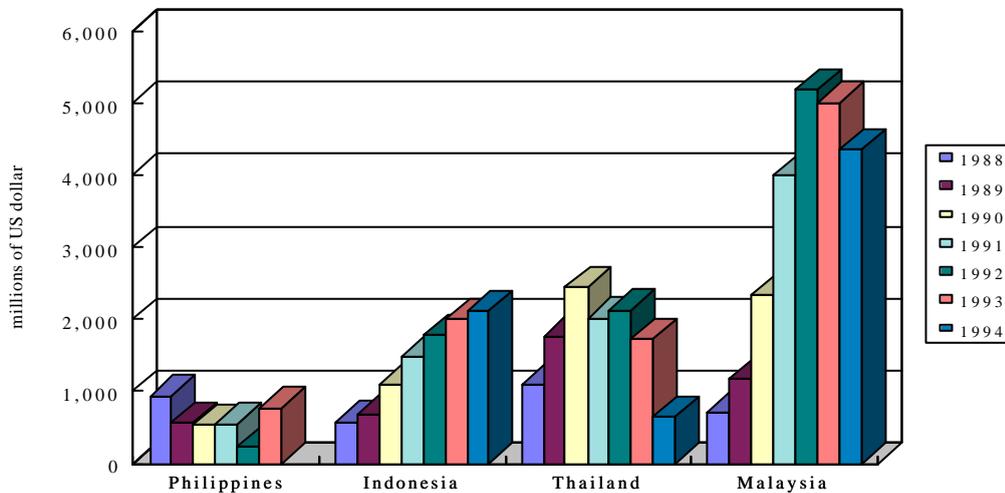
in ASEAN4 from the late 1980s, except for the Philippines where FDI actually decreased until recently.

Figure 1: FDI Inflows in China



Source: International Monetary Fund, *Balance of Payment Statistics*, vol. 46, part 2, 1995.

Figure 2: FDI Inflows in ASEAN4



Source: same as Figure 1.

The increase in FDI in China since 1992 has been quite notable. Compared with ASEAN4, China had already enjoyed greater amounts of FDI inflows even in the late 1980s, but the figures actually doubled the amount recorded in the previous year in both 1992 and 1993. In 1994, it

reached almost 34,000 million US dollars. Figure 2 confirms that the FDI inflows started to increase in ASEAN4 earlier than in China. In Malaysia and Thailand, it looks that the growth of FDI inflows reached its peak in the early 1990s. This may indicate the emergence of China as an alternative FDI destination. However, the growth rates of the figure in the late 1980s and the early 1990s were impressive and Malaysia still enjoyed more than 4,000 million US dollars FDI inflows in 1994. Indonesia received relatively slow but steady increase in FDI inflows over the period and the value reached 2,000 million US dollars in 1993. Though the FDI inflows into the Philippines were still small compared with other ASEAN economies and did not start increasing until recently, it seems that the figure started to pick up in 1993.

Now, we turn to identify the sources of these FDI in each of the economies. Table 4 shows the origins of FDI into China and the ASEAN4 in the period between 1989 and 1995. Origins are classified by the Asian NIEs, Japan, the United States and others. It should be noted that the figures in Table 4 are approval basis except for China which are implementation basis. Normally, there is some time lag between approval and actual implementations of FDI. Thus, if most of the approved FDI are to be implemented, it can be said that these figures indicate the trend of actual implementations in ASEAN4 in the near future.

Again, there are some interesting findings to be emphasised in the Table. First, as seen earlier, the growth of FDI into China in this period was remarkable despite the fact that China suffered economic sanctions from most of the states after the Tienanmen Square incident in June 1989.⁹

Second, by looking at Figure 2, it seemed that the FDI inflows into Thailand reached the peak in the early 1990s. However, the figures in Table 4 indicate that is not the case.

⁹ It is interesting to note that the figures show the value of the US FDI implemented from 1992 to 1994 exceeded that of Japan's and was about the same in 1995, though the value and ratios to the totals were still small compared with those of other origins.

Table 4: FDI Inflows* to China and ASEAN4 by Origins

(Millions of US dollars)

	China		Indonesia		Malaysia		Thailand		Philippines	
	Value	(%)	Value	(%)	Value	(%)	Value	(%)	Value	(%)
A-NIEs										
1989	388.3	69.3	1,185.9	25.1	1,334.8	41.8	2,011.3	25.2	322.7	40.1
1990	508.6	77.1	2,599.6	29.7	3,053.7	45.9	2,695.7	33.6	383.9	39.9
1991	921.8	77.0	1,981.8	22.6	2,791.1	45.0	1,583.3	31.7	68.1	8.7
1992	4,821.4	83.0	2,646.2	25.7	832.8	11.9	940.7	9.4	68.9	24.2
1993	8,546.1	76.7	2,505.0	30.8	622.2	26.6	232.0	5.4	93.4	17.6
1994	25,119.8	74.0	12,042.7	50.8	1,989.2	46.0	3,230.8	13.7	630.8	27.0
1995	26,258.0	69.5	4,473.9	11.2	1,289.9	35.3	6,362.9	17.6	57.4	3.1
Japan										
1989	43.9	7.8	778.7	16.5	993.2	31.1	3,524.0	44.4	157.7	19.6
1990	45.7	6.9	2,240.8	25.6	1,557.4	23.9	2,705.4	33.7	305.9	31.8
1991	81.2	6.8	929.3	10.6	1,461.2	23.6	1,759.7	35.3	210.2	26.9
1992	217.3	3.7	1,502.3	14.6	1,053.7	15.1	1,967.4	19.6	72.4	25.5
1993	296.0	2.7	836.0	10.3	609.5	26.1	2,686.0	63.0	112.2	21.1
1994	2,080.2	6.1	1,562.5	6.6	672.6	15.6	6,895.4	60.4	103.2	4.4
1995	3,212.5	8.5	3,792.0	9.5	837.0	22.9	9,760.5	27.0	101.2	5.4
U.S.A.										
1989	64.1	11.4	348.0	7.4	118.4	3.7	549.5	6.9	131.2	16.3
1990	35.3	5.4	153.7	1.8	209.7	3.2	1,090.8	13.6	59.5	6.2
1991	54.8	4.6	275.6	3.1	455.3	7.3	1,130.4	22.7	87.1	11.1
1992	312.1	5.4	922.5	9.0	1,294.7	18.6	1,233.1	12.3	61.5	21.6
1993	681.3	6.1	444.0	5.5	675.9	28.9	428.0	10.0	88.1	16.6
1994	2,490.8	7.3	977.0	4.1	477.5	11.1	1,988.0	8.5	673.3	28.8
1995	3,083.7	8.2	2,770.5	6.9	719.4	19.7	3,258.1	9.0	628.0	33.6
Others										
1989	63.7	11.5	2,406.2	51.0	748.0	23.4	1,911.1	23.5	192.6	24.0
1990	70.0	10.6	3,756.9	42.9	1,696.6	27.0	1,547.4	19.1	212.0	22.1
1991	139.9	11.6	5,591.5	63.7	1,494.1	24.1	514.1	10.3	417.4	53.3
1992	461.6	7.9	5,228.0	50.7	3,795.4	54.4	5,880.6	58.7	81.4	28.7
1993	1,620.1	14.5	4,359.0	53.4	427.9	18.4	918.0	21.6	237.8	44.7
1994	4,255.1	12.5	9,142.1	38.5	1,181.4	27.3	11,407.6	17.4	930.8	39.8
1995	5,251.5	13.9	28,878.3	72.4	804.7	22.0	16,794.9	46.4	1,084.1	58.0
World										
1989	560.0	100.0	4,718.8	100.0	3,194.4	100.0	7,995.9	100.0	804.2	100.0
1990	659.6	100.0	8,751.0	100.0	6,517.4	100.0	8,039.3	100.0	961.3	100.0
1991	1,197.7	100.0	8,778.2	100.0	6,201.7	100.0	4,987.5	100.0	782.8	100.0
1992	5,812.4	100.0	10,299.0	100.0	6,976.6	100.0	10,021.8	100.0	284.2	100.0
1993	11,143.5	100.0	8,144.0	100.0	2,335.5	100.0	4,264.0	100.0	531.5	100.0
1994	33,945.8	100.0	23,724.3	100.0	4,320.8	100.0	23,521.7	100.0	2,338.1	100.0
1995	37,805.7	100.0	39,914.7	100.0	3,651.0	100.0	36,176.4	100.0	1,870.7	100.0

*On approval basis except for China whose figures are on implementation basis.

Source: Table 8, Table and Charts of Basic Data, Kimura (1995), *Multi-layered Regional Cooperation in Southeast Asia after the Cold War*, Tokyo: IDE. Extended to 1994 and 1995 by the author.

The FDI approved by Thailand's Board of Investment surpassed 23,000 and 36,000 million US dollars in 1994 and 1995 respectively, and massive increases in actual implementations are expected to follow in the near future. For Malaysia, on the other hand, the value of approved FDI dropped to one third the level of the previous year in 1993, but the rate of decline in implementation will be relatively moderate as the figures picked up in 1994 and 1995. It seems that the rapid growth of FDI inflows to Indonesia is waiting to happen as Indonesia has approved increasing value of FDI for the last several years. The same can be said for the Philippines though the value is still small compared to other economies. Third, the emergence of the Asian NIEs as origins of FDI is remarkable. In China, the Asian NIEs' FDI almost constantly accounted for more than 70% of the total over the whole period in the Table.¹⁰ On the other hand, the value of approved FDI from Asian NIEs in ASEAN4 differed according to the destinations and their ratios to the total approval greatly fluctuated according to the year. It is hard to establish certain trends, but of all the FDI approved in each economy over the period, Asian NIEs accounted for 26% in Indonesia, 36% in Malaysia, 18% in Thailand and 21% in the Philippines.

Fourth, Japan's FDI into the region seems to remain important for the hosts though the value and ratios to total fluctuated in every destination. Among them, Japan's FDI into China consistently increased over the period and jumped in 1994 and 1995, though the ratios to total still remained less than 10%. Among ASEAN4, Japanese firms seem to have made their first priority Thailand. Since 1993, the value of approved FDI from Japan in Thailand started to increase again and it accounted for more than 60% of the total in 1993 and 1994.¹¹

Lastly, it can be said that the FDI inflows from non-Asian economies to the region were responsible for a large part of the total. For instance, the figures for the United States plus others (most of "others" being European economies) in 1994 and 1995 accounted for 19.8% and

¹⁰ It should be noted that Hong Kong has often been used as a transit by investors who had other nationalities and their nationalities are not readily identifiable. The FDI from Hong Kong accounted for 79% of the total Asian NIEs' in 1994 and 77% in 1995. However, even if the FDI from Hong Kong are omitted, the FDI implementation by Asian NIEs in China surpassed 5,000 million US dollars in 1994 and 6,000 million in 1995.

¹¹ The Japanese share of the total FDI approved during the whole period were 11% in Indonesia, 22% in Malaysia, 31% in Thailand and 14% in the Philippines.

22.1% respectively in China, 42.6% and 79.3% in Indonesia, 38.4% and 41.7% in Malaysia, 25.9% and 55.4% in Thailand and 68.6% and 91.6% in the Philippines to their respective total.

II.4 Summary of the Analysis and Some Notes on the Role of the United States in the Region

A simple analysis of Tables 1 to 4 and Figures 1 and 2 indicates some important realities for the economies in the Asia Pacific region. The most important in the context of regionalism and sub-regionalism in APEC is that all the economies in the region seem to have vital interests in sustaining international transactions with each other. For the Asian developing economies, it is true that, while the value and ratios of trade and investments with themselves are increasing rapidly, the importance of Japan and the United States remains significant. As a matter of fact, the importance of the economic relations for the Asian developing economies is not limited only to the APEC region. International transactions with non-APEC economies, especially with those from European economies, occupy a meaningful share of their trade and FDI origins. These facts clearly suggest that the Asian economies, whether developed, newly industrialising or developing, are deeply enmeshed in the global economy, and that Asia itself is too small a stage for the Asian economies.

It can be said that no Asian economy can afford to confine its international economic activities to Asia. Thus, any moves that have the potential more or less to isolate Asia from the rest of the world and, consequently, make other regions cautious towards Asia cannot be an option in the name of Asian regionalism. As a matter of fact, it seems that no one seriously considers the possibility or desirability of forming a formal economic integration arrangement in Asia at this stage. The ASEAN Free Trade Agreement (AFTA) to form an FTA in the ASEAN region by 2003 may be seen as an exception. So far, AFTA is said to be successful in terms of promoting FDI flows into the region, and consequently, increasing intra-ASEAN trade gradually.¹² However, AFTA covers only the ASEAN economies and its method to establish an

¹² Since the 1980s, the intra-ASEAN trade accounted for 10% to 20% of individual members' respective totals, except for Brunei where it accounted for more than 30%. These figures are impressive compared with other regional groupings by developing economies, but the large part of the intra-ASEAN trade has been bilateral trade between Singapore and each member (Okamoto 1995). Table 3 shows that the intra-ASEAN4 exports grew from 4.2% in 1990 to 5.4% in 1995 and imports from 3.9% to 5.4% in the same period. The AFTA process,

FTA is not quite the same as other economic integration arrangements in other regions.¹³ Moreover, if the APEC liberalisation process to establish “free” and “open” trade and investment proceeds as expected, AFTA will lose its significance. AFTA is better understood as a transitional measure. The original proposal to form EAEG (East Asian Economic Group) by Prime Minister Mahathir of Malaysia could be interpreted as another exception since the proposal was firstly made to counter the move in North America and Europe to form preferential trade areas. However, the substance of the proposal has been modified to form a consultative caucus (EAEC) within the APEC framework when it became an ASEAN initiative.

In addition, the developed economies, especially the United States, have not lost their importance in the global economy. It has been already talked about that the relative economic power of the United States has been declining since the late 1960s.¹⁴ However, as a provider of goods and services with high technology, capital including FDI, and the market for the manufactured products, the US economy is still playing a significant role for the continuous economic development of the Asian economies. Japan’s economy has been in recession in recent years, but its presence as a source of the imports of intermediate goods and machinery for production, and FDI are still deeply felt in the Asian developing economies.

Another point which should be emphasised, but only briefly here, is the role of the United States with regard to the security aspect. Economic development has long been an important goal of any government, but it has become the top priority since the end of the Cold War. To achieve full economic potential, governments need to have secure and stable environments both domestically and internationally. The comparison between the economic success of the ASEAN members and the situation in the Indochinese countries clearly illustrates this. To achieve a favourable environment in the region, the US military power as the main guarantor of security and stability is still indispensable. The tension between China and Taiwan in March 1996 clearly demonstrated this situation. In this respect, too, the Asian economies need non-Asian state’s engagement with the region, at least for the time being.

started in January 1993, may be seen as a cause of this change though a detailed analysis is needed to confirm.

¹³ This will be mentioned in the later section, but in short, the AFTA process allows individual states to take more flexible approaches in achieving its goals than the EU or NAFTA.

¹⁴ The relative decline of the US economic power has often been argued in the context of “hegemonic stability”. See, for instance, Gilpin (1976) and Krasner (1976).

III. The “Asian” Values, the “Asianisation of Asia” and the “ASEAN Way”

What then does regionalism in Asia imply? To examine this topic, I will start with the concepts of “Asian” values and the “Asianisation of Asia”, as it seems that these concepts have been thought to form the basis of recent images of Asia as a region.

III.1 The “Asian” Values and the “Asianisation of Asia”

“Asian” values, or ethics, has been strongly asserted by some of the leaders of Asian states such as China, Singapore and Malaysia in recent years. The insistence on Asian values are made in response to claims about the universality of Western values like democracy and human rights. In the view of some Asian leaders, industrialisation and modernisation of their economies and societies are not necessarily accompanied by Westernisation. The assertion is understandable. No value can be absolutely universal since history, culture, religion etc. greatly diverge among nations. However, one should note that the assertion is often made when Asian states face disputes or conflicts with their Western counterparts, especially the United States, over their political regimes, trade practices, human rights and environmental protection and so on. In these cases, Asian values are cited as a defensive logic for the status quo when there is external pressure for change. In this context, Asian values have to be different from Western values and they have to be unable to compromise. To put it strongly, it is possible that anything which can be thought different from the West may be taken as Asian values to defend the status quo.

Estanislao (1996:2) argues that the values of societies in certain times come from their priorities. If this is true, values should be different even among Asian economies according to their development stages. There are many anecdotes about the Northeast Asian multinational firms having difficulties with their FDI operations in Southeast Asia and China, especially at the initial stages, because their values differ from that of the local governments and people. Moreover, this does not necessarily imply that the Northeast Asian economies such as Japan, Korea, Taiwan and Hong Kong share the same values.

Asian regionalism, if there is such a thing now, cannot be defined by the broad and unclear concept of sharing Asian values. At the most, the only view which can be shared is that “value systems in Asia are in important ways different from those in the West and that Western nations must acknowledge that the era of international discourse dominated by Western ethical and cultural values is rapidly coming to an end” (Ingleson 1996:266). Facing the Western states by insisting on Asian regionalism on the basis of shared Asian values is not only unrealistic but unconstructive in terms of keeping favourable and pragmatic relations with the United States and the European states that the Asian economies need for further economic prosperity.

Similarly, asserting the concept of the “Asianisation of Asia” when Asian economies deal with the relations with the Western states could be impractical. Yoichi Funabashi wrote:

Asia has at long last started to define itself. Asian consciousness and identity are coming vigorously to life. ... The Asian consciousness is animated by workaday pragmatism, the social awakening of a flourishing middle class and the moxie of technocrats...[.] (Funabashi 1993:75).

Funabashi’s argument here is not a defensive one like the Asian values mentioned earlier. His vision of the Asianisation of Asia is based on the way in which Asian economies have successfully developed themselves and the establishment of closer economic relations with one another. He argues that closer economic relations have brought closer consultations and cooperation among them, not only on economic issues but also on political/security issues.

It seems that more Asian economies have developed self-confidence through the successful management of their domestic economies in recent years. Also, this self-confidence is strongly backing their recent will to play more active roles in international political economy in order to promote a better environment for their further development. However, to explain what is happening within the Asian economies using the words “the Asianisation of Asia” can be too simplistic and misleading. The words are eye-catching and may be useful to grasp the lively atmosphere of the successful Asian economies. But, again, it is hard to define exactly what is “Asianisation”. Are the economic pragmatism, the emergence of the middle class and the importance of technocrats in economic development really unique to Asian economies? It is not

convincing at all that they are if we consider the experiences of developed economies in other regions such as Europe and America. Developed economies in these other regions have had combination of those factors, too. The phenomenon which is happening in East Asia is better described just as “rapid and simultaneous economic development” rather than “Asianisation of Asia”. In addition, the stages of economic development and the current economic situations of Japan, China, Korea, Singapore, Malaysia, the Philippines or Vietnam are very different from each other, so are their domestic policy goals and the roles they want to and can actually play in international political economy. Thus, the concept of Asianisation of Asia, again, is too vague to be useful as an explanation for Asian regionalism.

III.2 The ASEAN way as the Asian Regionalism

Terms such as Asianisation of Asia and Asian values in the context mentioned earlier started to be heard relatively recently, but the search for the identities by Asian nations has been on since the colonisation of the most part of the region by the Western powers (and Japan) in the late 19th and the early 20th centuries. There is no doubt, however, that the recent emergence of the image of Asia as a region has been promoted by the rapid development of Southeast Asian economies since the latter half of the 1980s as we saw in the previous section.

Japan started its industrial development after the Meiji Restoration in the late 19th Century, and, after the almost total destruction of domestic industries during the Pacific War, it commenced with the rapid redevelopment of its economy in the late 1950s. The Asian NIEs followed the Japanese path and started their economic development earlier than other Southeast Asian economies. However, Japan and the Asian NIEs did not try to promote Asian regionalism of any kind after the war. There has been no economic rationale for themselves to confine their international economic activities to Asia. Moreover, Japan kept a low profile politically in the region because of its bitter experience in the war. China and Korea still remain cautious about Japan playing a bigger political role in the region. The sentiment toward Japan seems different now in Southeast Asia, but Japan clearly remembers its experience of the sharp rise of the anti-Japanese movement in the early 1970s because of its economic “over-presence” at the time.

Thus, basically, Japan has kept a careful stance toward taking initiatives in Asia.¹⁵ Hong Kong and Taiwan would have had difficulties in promoting regionalism, even if they wanted to, because of their status in international relations.

The confidence of the ASEAN states in themselves is the main background to the emerging image of Asian regionalism. This confidence has come from two sources. One is, of course, their rapid economic development. Generally, the ASEAN states experienced relatively high rates of economic growth in the 1960s and 1970s. Their economies started to grow even faster after the worldwide recession in the early 1980s with significant structural changes in their domestic economies and international economic transactions. Continuing growth of the economies has brought confidence to each ASEAN government in its way of managing the national economy.

The second aspect is ASEAN as a regional entity. Since its establishment in 1967, ASEAN has been successful in political and security cooperation. The united stance against the Vietnamese occupation of Cambodia and the resolution of the external aspect of the Cambodian conflict are good examples. On the other hand, the ASEAN economic cooperation has not been impressive until recently (Suriyamongkol 1988; Yamakage 1991). However, the AFTA initiative to create an FTA in the region in the early 1990s represented a clear departure from the previous schemes of regional economic cooperation (Okamoto 1995:17). In addition, ASEAN has been showing its unity since the 1970s when it dealt with external economic relations. It started formal dialogues with the EC (1972), Australia (1974), New Zealand (1975), UNDP (1976), Canada, Japan, the United States (1977) and Korea (1989). The annual ASEAN Post Ministerial Conference (ASEAN-PMC), which brings all the dialogue partners together at the same table, has promoted ASEAN's international status. In sum, as results of the successful management of individual economies and the development of ASEAN as a meaningful entity, the ASEAN states have now gained confidence in asserting their way of domestic economic management and regional cooperation. This can be called "the ASEAN way".

¹⁵ On the other hand, Japan has been trying to initiate a Pacific wide economic cooperation. Since the 1960s, Japanese academics, business circles and government actively involved themselves in establishing the Pacific Basin Economic Council (PBEC), the Pacific Trade and Development Conference series (PAFTAD), the Pacific Economic Cooperation Council (PECC) and most recently, APEC. It is not an accident that those Japanese initiatives always included non-Asian states such as the United States, Canada, Australia and New Zealand, along with the Northeast and Southeast Asian economies.

The ASEAN way of regional cooperation and policy cooperation can be briefly explained as follows:¹⁶

- (1) To deal with regional cooperation, the ASEAN members set overall framework agreements (treaties) based on consensus first and leave the detailed discussion and decision on the contents for later stages. Framework agreements are made among leaders and senior officials. Then the detailed protocols are set, usually by technocrats of individual states, for leaders' approval. The ASEAN Industrial Project (AIP) and the AFTA can be seen as good examples of this process.
- (2) To make detailed protocols, the ASEAN members emphasise on a voluntary and unilateral approach. They do not usually negotiate to find compromises. They accept the stance of the most negative member(s) and set cooperation schemes at that level. The set schemes usually allow for some discretion to be exercised by the individual members in implementation.

The ASEAN way of regional cooperation has been brought up from necessity in the ASEAN regional cooperation process. This may sound obvious. However, maintaining cohesion by adopting the ASEAN way was very important to ASEAN credibility and confidence in the fragile political/economic situation in the region in the 1960s and 1970s. By adopting the ASEAN way, they successfully minimised the possibility of the member(s) dropping out from the cooperation scheme.

The confidence of the ASEAN members in the ASEAN way has been strengthened by the APEC process. When the APEC initiative was first proposed in 1989, the ASEAN members were cautious to say the least. They feared that the inclusion of economic powers like the United States and Japan might undermine ASEAN's autonomy and force them to take up an undesirable agenda. However, by the time the inaugural Ministerial Meeting took place in Canberra in November 1989, ASEAN had succeeded in having its assertions recognised as

¹⁶ The following argument of the ASEAN way in regional cooperation and its adoption in the APEC process were originally put by Professor Susumu Yamakage of Tokyo University at the seminar and discussion held at the Institute of Developing Economies, Tokyo, 25 June 1996.

fundamental principles of APEC. Two of the important principles were: no domination of the cooperation process by any single participant or sub-group of economies, and; seeking consensus through consultations, not on formal negotiations. The acceptance of the ASEAN way in the APEC process has become more apparent since 1993. President Clinton of the United States could not establish his “New Pacific Community” initiative, and he could not get the proposal to include political/security aspects of cooperation in the APEC agenda approved by the leaders in 1993. The Bogor Declaration of 1994 allowed a different time table for developing economies from that of developed ones to achieve free and open trade/investment in the region. Furthermore, the Osaka Action Agenda of 1995 approved the concerted unilateral actions for trade and investment liberalisation as the APEC mode of achieving the goal. The approach is not legally binding like an FTA or CU. It depends very much upon the will of each member government (or maybe fear of being left out of the regional economic integration) and “peer pressure” from other members. To illustrate the increasing bargaining power of ASEAN, Yamakage (1996) suggests that ASEAN is now acting as a “pace-maker” in the APEC process.

APEC has taken up the ASEAN way of regional cooperation as its method. The United States and other Western members’ assertion of another (legally binding) way was declined. This process has brought the ASEAN confidence to an unprecedented height. This is the bottom line of the recent image of Asia as a region, and if Asian regionalism needs to be defined, it can be suggested that the ASEAN way, *the method itself*, is the substance. It is quite different from the European way of forming the EU and the American way of establishing NAFTA.

III.3 Making the ASEAN Way Credible in the APEC Context

Adoption of the concerted unilateral actions in the APEC trade and investment liberalisation process is an experiment in applying the ASEAN way in the wider regional context. All APEC members presented their Individual Action Plans (IAPs) for liberalisation to the 1996 Ministerial Meeting held in the Philippines. The IAPs are to be implemented by individual members from January 1997. Revised IAPs will be presented to the Ministerial Meeting in following years, too. The APEC trade and investment liberalisation is set to continue with this “rolling process”. It was important to have a good set of IAPs at last year’s Ministerial Meeting to make a good start to

the liberalisation process and give the concerted unilateral actions credibility.¹⁷ However, what is more important is that each member implements its IAP sincerely from the initial stage. If the APEC members cannot do it, the credibility of the concerted unilateral actions, and thus the ASEAN way in wider regional settings, will collapse. Such a collapse will be more damaging to Asian developing economies than to any others because the pressure to liberalise their economies may become more tense, taking forms such as bilateral pressure with retaliations.

It is true as Oxley (1996:4, 7) pointed out that, unlike the liberalisation process under WTO, there is no legal obligation on the APEC members to liberalise their trade and investment regimes under the APEC process. He was concerned about the peer pressure not being strong enough for members to achieve meaningful liberalisation. However, considering their unilateral liberalisation and deregulation efforts and the AFTA process in recent years, the ASEAN states seem to be ready to produce reasonable IAPs each year which are acceptable to the other members. Some differences still remain among the ASEAN states, even in their own cooperation schemes,¹⁸ but, by and large, ASEAN seems to have resolved that the liberalisation of trade and investment is necessary and inevitable for long term benefits for each member's economy.

The process of making the Osaka Action Agenda in 1995 by the APEC-SOM (Senior Officials Meeting) was illustrative. At the Sapporo SOM in July 1995, the Japanese representatives proposed that a "flexibility" clause be included in the Action Agenda to allow exceptions in the APEC trade liberalisation. Japan's purpose was, of course, to exclude its agricultural sector from the liberalisation. By the next SOM in Hong Kong in September, all the members expressed their stances against the "flexibility" in this context, except for Japan, Korea, China and Taiwan. All the ASEAN members opposed it though Japan had hoped for and expected their support. Japan did so because it thought all the ASEAN members still had

¹⁷ The substance of members' IAPs presented to and approved by the Ministerial Meeting in 1996 diverged and it was impossible to measure accurate "comparability" among them. As a matter of fact, the method how to measure the "comparability" is not clearly established yet. It seems that the representatives at the Meeting resolved that, at least for the first year, it was good enough just to gather IAPs from all the members in the same format.

¹⁸ For example, each member has nominated different items in its temporary exclusion lists for the CEPT (tariff reduction) scheme for AFTA. This causes imbalance in the CEPT tariff reduction schedule among members. Also, one can point out that some ASEAN members' policies, such as Indonesia's recent "national car project", are WTO inconsistent.

so-called infant industries that they might like to protect.¹⁹ It seems that the leaders and senior officials of the ASEAN states closely consulted each other on this matter after the Sapporo SOM and united their attitudes. It was often heard that the ASEAN states “agreed to disagree” on the APEC process around this time,²⁰ but they were already capable of taking a united stance when necessary.

Looking at the APEC liberalisation process from a different angle, it shows the will of the Western members of APEC to compromise, respect the ASEAN way, and test whether it is workable in non-ASEAN context. As a matter of fact, non-legally binding policy coordination is not foreign to the participants of the G7 summit meeting. However, using this framework in trade and investment liberalisation is a challenge for non-ASEAN members, especially for the Western ones. In this respect, too, the APEC liberalisation process should prove itself as a useful measure. Then, the process would be a good learning period for the ASEAN way, as an alternative method for liberalisation, for the non-ASEAN APEC members.

Kishore Mahbubani, the Permanent Secretary of Singapore’s Ministry of Foreign Affairs, wrote that a sense of community was emerging in the Asia Pacific region (Mahbubani 1995). To support his argument, he emphasised that East Asian economies have employed *both* their own culture and values and Western methods to realise their impressive economic development. By doing so, those East Asian economies are experiencing “cultural fusion” of East and West. He argued that the same thing would happen to the United States and other Western states in the region. The real success of the Pacific community, he asserted, would come when the learning process in the Pacific became a two-way street, rather than one way. On the other hand, Manning and Stern (1994) suggested that the Pacific community -a common psychology of belonging, reflecting shared interests, responsibilities, values, mutual respect- may prove to be a chimera, as the Asia Pacific’s regional institutions are in embryonic form. These two opinions seems to be at the opposite ends of a spectrum and it is hard to find a shared stance.

¹⁹ Interview, Atsushi Yamada, Senior Staff Writer, Economic News Department, Asahi Shimbun. 14 June 1996.

²⁰ Almost all the government officials and academics of Singapore, Thailand and Indonesia, whom the author interviewed in July 1995, mentioned this.

However, no matter how one describes what is happening in the Asia Pacific region (“the fusion of civilisations”, “the Pacific community” or lacking the sense of community), the growing economic interactions among the economies are here to stay for the foreseeable future. If the ASEAN way proves itself to be credible as an alternative method of regional policy cooperation and coordination, it will help the mutual learning and understanding process in the region. It is more practical than insisting on the vague concepts of Asian values or the Asianisation of Asia.

IV. Japan’s Role in the Asia Pacific Region

IV.1 What Role Should Japan Play?

Following the Cold War the expectation for Japan to play a greater international role is growing. It seems that the expectation for, and sometimes the pressure on, Japan to play a greater role has taken over the traditional caution of the neighbouring states. Events such as the Gulf War, the Cambodian peace process, the Uruguay Round and APEC have clearly showed this changing situation.

If Japan is to assume a greater role in the regional and global context, it needs to define its foreign policy objectives. In other words, Japan should define its mid to long term international strategy and the principles for actions. If not, the Japanese government will not gain support for its policy changes from its own people and some neighbouring states that remain cautious. The objectives are not necessarily APEC-specific, as the international role that Japan should play is not confined to the APEC context. Rather, the APEC policy of Japan should be consistent with its general foreign policy objectives.

Emphasising the need for defining, or redefining, foreign policy objectives at this stage may sound strange but unfortunately it seems that Japan has not been doing it enough over the last decade when the global political and economic conditions have changed dramatically. Until the early 1970s, the Japanese government only needed to define its foreign policy objectives as being a faithful ally of the United States and to concentrate on its economic development through trade. After the first oil shock and the worldwide recession in the early 1970s, Japan was recognised as one of the largest economic powers in the world. This occurred formally when it

became a founding member of the Summit Conference of developed economies in 1975. Japan actually started to redefine its foreign policy objectives at this stage. In 1977, following the sharp rise of anti-Japanese sentiment in Southeast Asia in previous years, Prime Minister Fukuda made a speech on Japan's Southeast Asian policy in Manila.²¹ Another example is the design for a Pacific cooperation regime in 1980 initiated by Prime Minister Ohira. The concept of his design, along with other movements like PAFTAD, PBEC and PECC, can be seen as a seed for APEC which was established about a decade later.

These attempts to set up principles of Japan's foreign policy activities were received with mixed reactions in the Asia Pacific region. For instance, the "Fukuda Doctrine" was welcomed by the Southeast Asian states, but the initiative to establish an institution for cooperation in the region by Prime Minister Ohira was not accepted by the same states as it was perceived to be premature. An important point in these attempts was that Japan still did not clearly state how much burden or responsibility in international politics and economy it was ready to share on the stage of multilateral diplomacy. Japan has kept focusing on bilateral relations which have been characterised by the Japan-US security treaty and so-called "ODA diplomacy" with individual Asian developing states. It can be seen that recent international events like the end of the Cold War, the Gulf War, the Uruguay Round, the establishment of WTO and the APEC process have underscored the need for Japan to focus more on multilateral diplomacy.

Japan has vital interests in ensuring a peaceful environment within which it can engage in international economic transactions. However, Japan does not have power to provide sufficient international public goods, such as multilateral trade and investment regimes, multilateral security forum and international financial institutions, to support basic conditions for peaceful international relations. In fact, given the decline in the US capability and will to provide those public goods by itself, no state can do it alone now.

²¹ In his speech, Prime Minister Fukuda stated three basic objectives of Japan in this region, which were: Japan would never be a military power and it would cooperate to keep peaceful environment in the region and the world; Japan would be a true friend of the ASEAN states in the broad areas including political, economic, social and cultural, and; Japan would cooperate with ASEAN, as an equal partner, for their efforts to consolidate its solidarity. Later, the speech was referred to as the "Fukuda Doctrine".

Thus, the foreign policy objectives of Japan need to focus on multilateral efforts to realise the sufficient provision of international public goods. The objectives should be set as they promote prosperity of the economies in the region and the world, because that is also a condition for Japan's own prosperity in the future. In particular, Japan should show its willingness to share political and economic responsibilities in multilateral settings, in addition to its traditional efforts in bilateral relations. First, in economic relations, Japan needs to demonstrate that all its activities will be consistent with the WTO principles that basically discriminate against no members. Japan should try to promote multilateral trade and investment and oppose any attempts which contradict WTO principles. In this context, Japan should be more prepared to utilise the dispute settlement mechanism of WTO rather than resort to bilateral negotiations, when the efforts to solve bilateral problems are deadlocked. The utilisation of the WTO panel in this way will demonstrate Japan's willingness for multilateral trade. Of course, this applies for Japan-US relations, too. When Japan tried to proceed with appealing to the WTO panel regarding the dispute with the United States over the trade of automobile and parts in 1995, there were strong worries because the US and Japanese economies were thought to be too big for the newly born WTO to deal with. It is true that the WTO itself was established in January 1995, but its history with regard to dispute settlement is as long as GATT's. There should not be much concern over WTO's capability to handle disputes between Japan and the United States. Moreover, Japan has experiences of settling trade related disputes with the United States bilaterally and some of those negotiations were not transparent to other states. The Semi-conductor Agreement is a good (bad?) example. This is not the way that Japan should be heading as we approach the new millennium. Second, with regard to political and security matters, Japan needs to formally accept its share of responsibilities in keeping peace to support ever growing economic interdependence. However, this is not to imply that Japan should develop its military capability drastically. Japan's military activities overseas must be strictly limited to multilateral operations under the United Nations framework.

In the Asia Pacific context, Japan must, of course, play a role according to its foreign policy objectives. The region should be seen as a vital part of its global strategy. APEC and ARF (ASEAN Regional Forum) should be the main vehicles for Japan's multilateral diplomacy in the

region. In a way, Japan's effort in the APEC process has been assisting Asian regionalism, defined as the promotion of the ASEAN way in policy cooperation and coordination. The role Japan played in the adoption of the concerted unilateral actions in the APEC process at the Osaka meeting in 1995 should not be overlooked. For Japan to help give credibility to such an approach in the APEC process, the most effective and persuasive measure would be to liberalise its own markets in the areas that remain untouched by previous efforts. By showing the will to open markets such as agriculture, construction, finance, transportation, distribution and other services sectors, Japan can encourage other members to do the same. Thus, once an ambitious plan for liberalisation is presented, Japan must not back down in its implementation, no matter what other members' plans look like. As explained later, the liberalisation and deregulation of the domestic economy are demands of the times for Japan anyway.

At the same time, Japan should act as a promoter of the comparability of each APEC member's liberalisation efforts not only for this year, but for years to come. In APEC process, the comparability does not mean that all members must achieve the same level of openness at the same time. The target year to achieve "free and open" trade in the region is 2020. Until then, the degree and the time span of the liberalisation by individual economies is set to vary. However, they must be acceptable for all members. Otherwise, the concerted unilateral actions will breakdown and the APEC liberalisation process might become just a set of bilateral agreements. The process to find agreement on the comparability from all members is not expected to be easy. However, Japan should work to keep the process going.

Another measure is to engage in trade and investment facilitation on a multilateral basis. Facilitation and harmonisation of trade and investment institutions among individual economies are better done in a multilateral forum, rather than bilateral talks. There is a great possibility for breakdown in bilateral talks when deadlocked, as the concerned parties might blame each other for intervention in domestic affairs. APEC is the most appropriate place to promote facilitation and harmonisation, and Japan should be an active member in negotiation and consultation.

In addition, Japan can utilise its experience in economic development, efficient allocation of resources, environmental protection and pollution prevention for economic and technical cooperation within the APEC framework. They are the areas that Japan can take initiatives and

the Ministry of International Trade and Industry of Japan seems very keen on this area of cooperation.²²

Finally, it seems that the EAEC debate needs to be mentioned in discussion of regionalism and sub-regionalism in the APEC context, though the debate itself is not active at this moment. It should be stated here that EAEC is resolved to be a consultation caucus within the APEC framework and would not be an economic bloc of any kind. As seen earlier, there is no economic rationale for any East Asian economies to confine their international economic activities to the East Asian region, at least for the time being.

Considering the geographical proximity and traditional political, economic and cultural ties with East Asia, it is quite natural for Japanese (government, people and private firms) to attach an importance to and feel sympathy with East Asia. Moreover, the EAEC initiative is the first time that Japan has been invited to join an Asian multilateral forum.²³ Some parts of Japanese society argue that Japan should be a member of EAEC and promote the sustainable economic development of the region through environmental protection, human resource development and technical cooperation. They see such efforts by Japan as important steps in the maintenance of good relations with its neighbours. However, one question remains. Why can't the East Asian economies do this on an issue by issue basis and/or in the existing framework such as ASEAN-PMC or APEC? Even without a formal caucus, East Asian economies can consult with each other on any issues at anytime. They can even invite Australia and New Zealand to consultations if the topic is relevant. When the East Asian economies organised ASEM in March 1996, they did not need to form a formal caucus for prior consultations. EAEC might be able to be used as a potential negotiation card towards North America or Europe if those regions become more inward looking. But, first, initiatives from East Asia to prevent them from doing so is more important.

IV.2 Can Japan Do It?: Problems Remain

For Japan, to clearly define foreign policy objectives is the first step, and to actively involve itself in achieving the objectives by sharing the responsibilities is another one. It is true that some

²² Interview, a staff member of the APEC Promotion Office, MITI. 4 July 1996.

²³ As seen earlier, the ASEAN-PMC is not exclusively "Asian". Neither is ARF.

neighbouring states remain cautious of Japan playing a bigger role in the region and that is one of the reasons Japan has been hesitating. However, the crucial problems for Japan not being able to share the international responsibilities are in its domestic side.

There are several domestic constraints remaining for Japan. To mention two of them, first, there is strong opposition against changes to the domestic economic systems. The opposition comes from some sectors of industry, bureaucracy and politicians who have vested interests in the traditional systems. The agricultural sector and related bureaucracy and politicians stand out as an example. Second, as Inoguchi (1993) repeatedly stressed, any changes in Japanese policies have a tendency to be made gradually.²⁴ This can be seen as a consequence of the one party domination by the Liberal Democratic Party (LDP) for nearly 40 years. The LDP tried to accommodate as much support from as many parts of the society as it possibly could. As a result, the LDP became unable to make decisive changes in policies in a short period of time because they inevitably met strong oppositions from some part of the society. In addition, the rigidity of existing policies and the gradual change of them have been endorsed by the administration system which is characterised by the vertical division into Ministries. Individual Ministries have their jurisdictions in their respective policy areas and they rarely coordinate policy with each other. Because of the lack of coordination among Ministries, the Japanese government has been unable to draw grand designs for any policy areas. In 5 to 10 years time, one can point out changes in policies that Japan has made, but in a short term, it is hard to see whether the departure from the old policies are made at all.

To solve these problems, Japan has to make clear departures from the traditional decision making institutions because the old ideas and interests are enmeshed in them. The critical points are whether Japan can do it, and if so, how fast. The initiative to change traditional institutions must come from political leaders. The bureaucracy does not have the mandate and responsibility to do it. The end of the one party domination of Japanese politics by the LDP in 1993 can be seen as a start of a restructuring of the domestic institutions. Since then, in the course of the split and merge of existing parties, and the coalition making and maintenance for gaining office, all the

²⁴ Inoguchi (1993) gave the increase in Japan's Official Development Aid to Pakistan after the Soviet invasion of Afghanistan in 1979 and the Japanese government's decision to make it possible to send the Self Defense Force abroad for the United Nations' Peace Keeping Operations, as examples of Japan's gradual policy changes.

traditional political parties in Japan seem more or less to have changed their traditional policies. At the same time, the prolonged recession in Japan, in the aftermath of the bubble economy of the late 1980s and the early 1990s, can be used as a favourable wind for liberalisation and deregulation.

In October 1996, every political party emphasised the need for the administrative reform to fight the first general election since 1993. During the election campaign, all the parties promised to undertake administrative reform but without clear pictures as to how and when this reform would take place. The result of the election saw the restoration of the single party government of the LDP, but without majority in both Houses. After forming the new cabinet, Prime Minister Hashimoto declared that his government would undertake reforms in administration, economic structure, monetary system, budget structure and social security structure in Japan. He even said that he would accomplish those reforms even if he was to be “covered with flames”. This may be seen as a good omen for the departure from the traditional institution. The administrative reform may be extended to the foreign policy decision making process.²⁵ However, it is still too early to say that Japan can depart from its traditional institutions at all, or to do so quickly enough to respond to the changing international environment. The Hashimoto government has already made a costly mistake in deciding not to send the MITI Minister to the inaugural WTO ministerial conference held in Singapore in December 1996, because of domestic concerns.²⁶ Participation only by the Foreign Affairs Minister was not enough to demonstrate Japan’s emphasis on multilateral trading system which should be one of the core objectives for Japan’s foreign economic policy. In addition, it seems that Prime Minister Hashimoto’s target year to achieve all reforms is around 2000. There will have to be at least one more general election before then. We may well have to wait for another general election or two to see whether reforms can actually be made.

²⁵ The restructuring of the Ministry of Finance and the deregulation of the financial sector was the core of the reform during the campaign. It became apparent that the traditional “convoy system” of Japan’s financial sector was outdated to cope with the changing economic environment following the bubble burst.

²⁶ Corruption among senior MITI officials was discovered just before the WTO conference. It was reported that they accepted a bribe from a petroleum retailer whose relations with MITI and related politicians had long been suspected. The MITI minister was criticised for just giving the officials warning, not severer punishment.

V. Conclusion

The developing economies in the Asia Pacific region have been growing rapidly since the latter half of the 1980s. Their economic developments are the basis of the “Asia Pacific dynamism” that attracts attention from all over the world. The developments are characterised by the changes in their industrial structures and the rapid growth of international economic transactions. In China and the ASEAN economies, the importance of the manufacturing sector as a proportion of the GDP is increasing, mainly induced by the FDI inflows. At the same time, the value and the ratios to the GDP of their trade are dramatically increasing, which suggests that their economic growth owes much to their international activities. Though regional trade and investment in the Asia Pacific region are increasing, the important partners for international economic transactions of any of the economies in the Asia Pacific region are not limited to the region. Thus, for any Asian economies to sustain the dynamics of their economic development, the Asia Pacific region, not to mention the “Asian region”, is not large enough. This is the reality which should be remembered.

The recent image of Asia as a distinctive region seems to be promoted by the confidence of the rapidly developing Asian economies. However, emphasising the uniqueness of Asian values or the Asianisation of Asia as the core of “Asian regionalism” when dealing with the western states can be not only unconstructive but also harmful to a favourable international economic environment. Asian regionalism is better defined, if it needs to be, as a method of policy cooperation and coordination. The ASEAN way, which can be explained as to agree on the cooperation framework first and then implement policies according to it by individual economies, can be taken as a substance of Asian regionalism, and adopted in the wider regional context. The adoption of the concerted unilateral actions as the method for the APEC trade and investment liberalisation process is an experiment for the ASEAN way on a wider multilateral stage. It is important for Asian economies to prove that it is workable. If not, the process could possibly collapse and the results would be unfavourable for the economies involved.

Japan should play a greater role in making the APEC process successful. It should be prepared to shoulder bigger political and economic responsibilities. To show its willingness, first, Japan must start liberalising and deregulating previously untouched areas of its economy. Areas

such as the agriculture and services sectors. Now is a good opportunity to initiate such measures because the recent recession following the bubble economy suggests that the traditional economic system, or regime, is outdated and in need of a change. Japan should also work to promote an appropriate means to measure the comparability of the individual members' liberalisation efforts for not letting any of them (developed or developing) drop out from the process. In addition, Japan can and should lead trade and investment facilitation which can be done better in multilateral context rather than in bilateral talks.

To assume a bigger role, and thus to share more political and economic responsibilities in the region, however, Japan needs first to define and declare its foreign policy objectives domestically and internationally. Then, it is required for Japan to make clear departure from the traditional decision making institutions which have been preventing drastic policy changes. The recent political and economic situation in Japan seems conducive to administrative reform and liberalisation and deregulation of its economy. However, whether or not Japan can manage the change by instituting new policy making institutions still remains to be seen.

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