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# RSIS COMMENTARIES

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No. 002/2013 dated 3 January 2013

## **East Asian Regional Cooperation: Japan Falling Behind China?**

By Mushahid Ali and Hiro Katsumata

### **Synopsis**

*Japan, which previously had a leading role in Southeast Asian regional cooperation, seems to have fallen behind China in recent decades. However it is still a crucial economic player and can balance China politically in regional forums.*

### **Commentary**

CHINA'S PRESENCE in East Asian regional cooperation has been conspicuous. As one of the founding members of the two key regional institutions – the ASEAN Plus Three and the East Asia Summit – Beijing seems to be an indispensable partner of the Association of Southeast Asian Nations (ASEAN) in the process of regional cooperation in East Asia, which encompasses Northeast and Southeast Asia.

The expanding Chinese market, with a population of over 1.3 billion, is attracting global investors while the governments in the region are seeking to strengthen economic relations with Beijing. Where is Japan in this changing regional framework? As a historical rival of China in Northeast Asia, the position of Japan in East Asian cooperation bears examination.

### **Japan in East Asia in the past**

Until about a decade ago, Japan had been undoubtedly the most important partner of ASEAN in East Asia. For several decades in the post-war era, East Asian regional cooperation was all about the development of cordial relations between Tokyo and the ASEAN countries. As the most advanced economy in East Asia, Japan was the centre of regional economic development. It was the forerunner of what the World Bank called the "East Asian miracle," driven by the four East Asian tiger economies – South Korea, Taiwan, Hong Kong and Singapore – and subsequently by the Southeast Asian trio Malaysia, Thailand and Indonesia.

Japan was by far the most important source of official development assistance (ODA) which facilitated the development of social infrastructures crucial to Southeast Asia's economic development. Moreover, for these countries, Japan was one of the most important sources of foreign direct investment (FDI). Many of the Japanese multinational corporations also relocated their production bases to Southeast Asia in response to the rising yen in the 1980s, thereby investing a large amount of capital in the ASEAN countries.

Japanese FDI was significant in terms not only of job creation but also of technological transfer from Tokyo to

Southeast Asia. At a more fundamental level, it contributed to their economic development, by enabling them to pursue an “export-oriented” development strategy, which is based on the export of industrial products to the European and the North American markets. Many of their export products were manufactured in factories operated by Japanese multinational corporations.

Given the extent of economic cooperation between Tokyo and the ASEAN countries in the 1980s, Japan was the only country in East Asia invited to participate in the ASEAN Post-Ministerial Conferences (PMCs) as an official “dialogue partner,” along with other advanced industrial countries. The ASEAN-PMC was effectively the most important venue for the Southeast Asian association to strengthen their economic relations with these advanced economies.

Perhaps more significantly, Japan also supported the establishment of the ASEAN Regional Forum (ARF) in 1994. One major contribution Tokyo made was to convince the United States of the value of multilateral security cooperation in the Asia-Pacific, to be led by ASEAN. At the time, Washington was more inclined towards bilateral security arrangements with its security partners in Asia.

Today, the US is more assertive about its Asia-Pacific presence while the ARF is undoubtedly the most comprehensive security forum in the region, involving all the key players, including the US as well as China, Japan, South Korea, North Korea, India and Pakistan.

### **Japan in East Asia today**

However, over the last decade, Japan seems to have fallen behind China. Some observers even see Beijing as ASEAN’s most important partner in East Asia and the centre of East Asian regional cooperation. This observation is to an extent valid.

It is in the area of free trade that Japan most clearly seems to have fallen behind China, which was the first to conclude a free trade agreement (FTA) with ASEAN. Only after Beijing’s FTA with ASEAN in 2002 did Tokyo start to make serious efforts to reach a similar agreement with the Southeast Asian association. Tokyo finally concluded an economic partnership agreement with ASEAN in 2008.

It is also worth noting that only after China acceded to ASEAN’s Treaty of Amity and Cooperation (TAC) in 2003 did Japan do so the following year. TAC has been regarded as the fundamental basis of political cooperation between ASEAN and external powers. In the security field, it is probably fair to say that China has since been the most active non-ASEAN participant in the ARF, voluntarily organising a number of multilateral meetings and activities under the auspices of the ARF.

That being so, has Japan become irrelevant? Does the rise of China indicate the fading of Japan’s roles in East Asian regional cooperation? The answer is negative. Tokyo is still one of the most important sources of FDI and ODA to the ASEAN countries, and also one of the most active players in the ARF. Indeed Japan’s roles in regional cooperation are expanding as a result of the rise of China.

In the economic field, Japanese FDI is supporting a new phase of the export-oriented strategy of the ASEAN countries. Rather than exporting final products to Europe and North America, the ASEAN countries are now exporting industrial components to China, where they are assembled for export to Europe and North America. Many of these industrial components are manufactured in factories operated by Japanese multinational corporations.

### **Japan’s balancing role**

In the security field, Japan is expected to help ASEAN by playing a balancing role against China. For the Southeast Asian countries, the rise of China constitutes not only an economic opportunity but also a security threat. Many of these countries are concerned about China’s growing assertiveness over the territorial disputes in the South China Sea. Regional countries expect Japan to counter-balance the power of China. This is why the Philippines has welcomed the recent proposal of the Liberal Democratic Party (LDP) of Japan to upgrade the country’s “self-defence” force to a full-fledged military force.

This of course does not mean the Southeast Asian countries prefer Japan to become a regional military power or play a hegemonic role in East Asia. For obvious historical reasons, they are still cautious about Japan playing a security role in the region. Nevertheless, against the backdrop of China’s rise and the aggravation of the South China Sea disputes, they do expect Japan to check the power of China by political, if not military means, in forums such as the ARF.

With the return to power of the LDP and Shinzo Abe as the next prime minister, Japan is expected to recognise

the country's new roles mentioned above, and contribute to regional cooperation in East Asia. Otherwise Japan will be left behind.

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