

# Japan's Asian Policy Strategy: Evolution of and Prospects for Multilateralism in Security, Trade and Financial Cooperation

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## Abstract

In the postwar period, cooperation in the fields of security, trade and finance in Asia had been conducted mainly through bilateral arrangements. However, since 2010, there have been remarkable advances in cooperation by dint of multilateral frameworks. With regard to security framework, the East Asia Summit has served to promote compliance with laws in relation to territorial disputes in the South China Sea. As for trade liberalisation, negotiations for regional integration have been progressing under such frameworks as the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RECP), a framework for regional integration in East Asia. In the field of financial cooperation, the Chiang Mai Initiative (CMI), which had been more than a network of bilateral currency swap arrangements, was turned into a multilateral arrangement called the Chiang Mai Initiative Multilateralisation (CMIM) in 2010. Meanwhile, the ASEAN+3 Macroeconomic Research Office (AMRO) was established in order to conduct macroeconomic monitoring and analysis on East Asian economies. Thus, multilateral functions have been substantially enhanced. This article argues that a main factor that has caused a change in its orientation in cooperation in Asia, which has primarily evolved around bilateral partnerships by incorporating multilateral arrangements, is the United States' growing interest in multilateralism in its Asia strategy, and attributes this move to the rise of China. In other words, multilateral arrangements in Asia have been developing because the United States has been increasingly resolved to counter the rise of China through an effort to undertake coalition-building with like-minded countries amid the ongoing U.S-China competition in regional cooperation. The article concludes that Japan's pursuit of multilateralism in its foreign policy towards Asia can be seen as a response to this structural change in the region and suggests that it is imperative for Japan to engage coalition-building efforts as well, as a part of its Asian strategy to realize its interests.

Key words: multilateralism, regional integration, financial cooperation, regional security dialogue

JEL Classification: F52, F53, F55

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## 1. Introduction

“The era of bilateralism is over” is a phrase which the then Ministry of International Trade and Industry (MITI) announced in the late 1990s after Japan and the United States had

finally overcome their trade disputes over the numerical targets of market-access of American autos, auto-parts and semiconductors in Japanese markets (Sakamoto 2000). In reality, however, bilateralism continued to be pursued by Japan, as a central part of Japan's foreign policy, especially when it came to the Asia-Pacific region. With regard to national and international security, the US-Japan alliance system has been integral to the US-led hub-and-spoke system, functioning as a prime stabiliser for the regional security of the Asia-Pacific. As for commercial diplomacy, MITI (the current Ministry of Economy, Trade and Industry: METI) and the Ministry of Foreign Affairs (MOFA) have promoted bilateral free trade agreements (FTAs) after 2000. Moreover, the Ministry of Finance (MOF) has taken responsibility for establishing the Chiang Mai Initiative (CMI) in 2000 although its proposal of the Asian Monetary Fund (AMF) to tackle the aftermath of the Asian Financial Crisis in 1997 became abortive due to strong opposition from the US. Consequently, a bundle of bilateral currency swap arrangements, not a regional last lender resort, were completed in East Asia. It is thus fair to assert that bilateralism developed as a key framework for Asian regional cooperation in security, trade and finance, and that Japan played a central role by encouraging this cooperative structure.

Nevertheless, multilateral fora and diplomacy in this bilateralism-centred structure of Asian regional cooperation has been gaining more significance in recent years. With regard to security cooperation, the Obama administration has actively engaged in multilateral gatherings including the ASEAN Regional Forum (ARF) and the East Asia Summit (EAS). Under the concept of the rule of laws, the US and some other participating countries such as Japan and the Philippines have used these fora to put collective pressures on China to abide by the rule concerning maritime disputes over the South China Sea where they saw China's claims as forceful. As for FTAs, multilateral regional integration arrangements including the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) have already entered into negotiation stages. Furthermore, countries in East Asia have effectively advanced functioning regional financial cooperation since the CMI, a network of bilateral currency swap arrangements, was multilateralised in 2010 (the Chiang Mai Initiative Multilateralisation: CMIM) and the finance ministers from ASEAN+3 members also decided to establish the ASEAN Macroeconomic Research Office (AMRO) as a regional monitoring and surveillance mechanism.

This article explores the validity of the US inclination towards Asian multilateralism inspired by the rise of China as a chief cause behind the incorporation of multilateralism into the bilateralism-centred Asian regional cooperation structure. It asserts that the great power competitions between China and the US, stretching to regional security, trade and financial spheres, and the strengthened US intention of garnering support of its like-minded countries as a response to China's ascendance, have greatly contributed to the development of multilateral Asian cooperation. Japan's shift to Asian multilateralism in its regional diplomacy, in this sense, can be seen as a response to this structural change in the region. There are two main characteristics of multilateralism. First, small and medium-sized countries can reflect their own interests in the cooperation as even a hegemon finds it necessary to take a coalition-

building approach, instrumental, thus distributing benefits to these states in multilateral fora. Second, the third greatest power could have the casting vote in the equilibrium of the two great powers. Accordingly it suggests that one of the best approaches Japan should take to realise its interests in the China-US power struggles is to engage in all coalition-building endeavours and assure its position of gaining and keeping the casting vote position.

## **2. China's Strategy in East Asia and Regional Security**

China's behaviours and influences in the field of international political economy after the 2008 Lehman shock can be viewed as not merely the rise of an emerging power but of a true superpower. China's political and military influences, as embodied in its permanent membership on the UN Security Council and its nuclear power possession, have been enhanced by the decades-long two-digit high economic growth with a population of 1.3 trillion, allowing China to become a country whose actions can have an enormous impact on both global political and economic affairs. Importantly, while attaining a global superpower status, China has recently prioritized its diplomacy to East Asian regional issues. By promptly signing the ASEAN+1 FTA and ASEAN's Treaty of Amity and Cooperation ahead of any other regional country in the 2000s, the influence of China's charm and amicable diplomacy in East Asia made a conspicuous difference compared to Japan's regional diplomacy (Terada 2006). China's chief motive behind such an active ASEAN diplomacy lay in its effort to remove the threat perception towards its regionally expanding military and economic influence; a desecuritisation of its rise (Goh 2007). Another motive was manifested by China's active commitment to ASEAN's economic development to help narrow the developmental gap, called "ASEAN divide", between under-developed Indochina countries and the original members of ASEAN. For instance, China, especially Yunnan Province and the Guangxi Zhuang Autonomous Region, engaged in the "Greater Mekong Sub-region Economic Cooperation Program", with four Indochina countries and Thailand, and actively delivered aid to the advancement of infrastructure and transportation sectors in the region. Consequently, the deepening economic interdependence between China and the region (e.g. the trade volumes of the two provinces of China soared 5-fold with Myanmar, 11-fold with Laos, and 6.5-fold with Thailand) enabled China to increase its influence in these countries (Su 2012).

Another important goal behind China's active diplomacy in East Asia was to make East Asia a cordial region for China, serving as a shield from pressures exerted by other great powers, especially the US (Zhang and Tang 2005). Any effort to promote economic ties in ASEAN was viewed as one of the essential approaches for this goal. Former Deputy Assistant Secretary of State, Ellen Frost (2007), coined China's economic diplomacy as "commercial diplomacy", arguing that the purpose was to increase its influences on the non-economic sectors, including security, through the exercise of economic power that would provide the access to foreign markets. In fact, the trade dependence on China among US allies in East Asia has skyrocketed. Whereas Japan's trade with the US decreased from 27.1% to 13.7%

between 1999 and 2009, the trade with China rapidly surged from 9.1% to 20.5%. Likewise, China's trade proportions in South Korea increased from 8.6% to 20.2%, and in Australia from 5.7% to 19.7%, while the US presence in South Korea declined from 20.7% to 9.6%, and in Australia from 15.8% to 8.1% (Yamamoto 2012). In other words, the trade situation of major US allies in the region reversed between China and the US in 10 years in the 2000s. As the then Chinese Foreign Minister Li Zhaoxing expressed, this approach was aimed at "building good neighbourly relationships and partnerships" and "implementing the policy of creating an amicable, secure and prosperous neighbourhood" (*People's Daily*, 23 August 2005). Hence, assuring the favourable international environment for economic development, especially through constructing amicable relationships with neighbouring countries, was a critical goal of China's regional diplomacy (Aoyama 2011).

In 2006, new political concepts, such as sovereignty and security, began to be embedded into the discourse on China's national interests in which the economic development remained a top priority. As Aoyama (2011) points out, the former President Hu Jintao's proclamation that "Chinese diplomacy should play a role in protecting the country's sovereignty, security, and developmental interests" at the Central Meeting on Foreign Affairs Work held in Beijing in August 2006 led to a new slogan of China's national goal, "protecting the country's sovereignty, security, and developmental interests", adopted by the 17th National Congress of the Communist Party of China in the following year. However, what was more striking to its neighbours was that the military budget compensating for military capabilities necessary for the "protection" increased even before. China's military expenditure has continued to grow at a double-digit base for the last 20 years, and the veiled parts of the expenditure was also considered to surpass the announced values. This trend could not be curbed, as seen by the boost of the defence budget by 11.2%, reaching 670.2 billion yuan (approximately 8.7 trillion yen) in 2012 (*Nihon Keizai Shimbun*, 5 March 2012). Furthermore, as Ross (2009) points out, China's military rise and its interest in strengthening its capabilities of deploying attacking forces into the sea in East Asia were symbolized by the equipment of an aircraft carrier. This increase of military capabilities influenced the US security posture and regional balance of power. According to Khoo (2011), the extremely high level of precaution against China's military rise exists as *fait accompli* in Northeast Asia based on public polls gleaned in Japan, South Korea and Taiwan, and he concludes that the regional countries' anxieties on how China would use its growing military capabilities encouraged their support for US continued presence in the region.

These concerns have further multiplied by the South China Sea issue. While China, the Philippines, Vietnam, Taiwan, Malaysia, and Brunei claim their sovereignty over waters and islands across the Sea, China demands the so-called "9-dashed line", an area encompassing virtually 90% of the entire South China Sea, based on its historical legitimacy. China has disclosed its intention of neither making a compromise on the territorial disputes related to sovereignty nor following the United Nations Convention on the Law of the Sea (UNCLOS). The area in question includes the wide overlapping zones with other claimants' Exclusive Economic Zone (EEZ).

As the Chinese government revealed guidelines for “developing and implementing a maritime development strategy, improving maritime development and control capabilities, and strengthening integrated maritime management” in the 12th Five-Year Plan published in March 2011 (National Institute for Defense Studies, Japan 2011), it stressed the significance of the ocean for sustainable economic development. For example, as China acknowledged, the reliance on external sources for oils would exceed 50%, a situation which was unacceptable because China esteemed self-sufficiency in national resources indispensable for sustainable economic growth (Masuda 2012). The internal document of the Ministry of Land and Resources of China estimates the potential oil endowment in the region at 2.3 billion to 3.0 billion tons, accounting for one-third of China’s total oil reserves. Therefore, there are voices in China, deeming the area one of the four largest offshore oil fields in the world and urging its active development. Since the annual average growth rate of China’s primary energy consumption has surpassed 10% for 10 years from 2001 (*Nihon Keizai Shimbun*; January 1, 2012), the potentially rich resources in the South China Sea has been viewed as essential in this goal. As a result, China has attempted to protect its interests in the South China Sea by any means, even though it occasionally harms its relationships with neighbouring countries. For example, it was reported that Chinese vessels cut a Vietnamese survey ship’s cables in May 2011, and they continued to harass Vietnamese survey ships the next month. Meanwhile, half of the seaborne trade, constituting 90% of the total trade in terms of volume, passes through the South China Sea. Not only coastal nations but also non-claimants of sovereignty in the region – including the US, Japan, South Korea, Australia, and India – pay close attention to the security and freedom of navigation for their trade and energy interests. Consequently, China’s assertive maritime behaviour led to encourage the US to promote multinational security.

### **3. American Reaction and Multilateral Security**

Multilateral institutions did not profoundly contributed to the security order of the Asia-Pacific region during the postwar period; rather the US centred its hub-and-spoke alliance system as a more effective way in this aim. Furthermore, the US role was not only to build and promote the bilateral alliance system in the region, but also to establish economic interdependent relationships by allowing its allies to enjoy preferential accesses to its huge market, thereby functioning as a contributor to the development of Japan and South Korea during the early Cold War era. After the Obama administration came into office in 2009, however, the US has enhanced its engagement in Asian multilateralism, while maintaining the bilateralism-centred foreign policy. The Quadrennial Defense Review (QDR) published in February 2010 clearly indicates the intention by stating “the United States is also encouraging the continued development of multilateral institutions and other integrated approaches to regional security affairs”(p.59). It was the first time the US foreign policy stressed the effectiveness of Asian multilateral approaches since 1996 when the QDR began to be published. Gannon (2011) identified evidence of this strong interest of the US

Department of Defense in Asian multilateralism in the frequency of the term “multilateral” in the QDR, increased from four times in total throughout the previous three QDRs to 17 times in one published in 2010. The direction prioritizing multilateralism and the Asia-Pacific security environment related to the rise of China was also pushed forward in the National Military Strategy revised in 2011 for the first time in seven years. For instance, it declares to ensure the US military presence and operational access in the region by promoting military cooperation and exercises with its Asian allies, while stressing the usefulness of multilateral fora: “we will look for security opportunities to support our Nation’s increased emphasis on its relationship with ASEAN and other multilateral forums” (pp.12-3). This direction assures the US foreign policy priority under the Obama administration, called the “Asia Pivot” or “Asian rebalancing” strategy, as addressed by the President Obama in Canberra in November 2011, making clear the US commitment to the maintenance of Asia-Pacific security.

Then, what facet of China’s rise most strongly affected American inclination towards Asian security multilateralism? It was not until the US faced China’s assertive attitude, the survey ship USNS Impeccable had been surrounded by Chinese vessels and were required to leave the area while conducting routine operations in international waters in the South China Sea in March 2009. This is one of the earliest cases that urged the US to expose its direct interest in the South China Sea (Marciel 2009). Although US interest has been securing freedom of navigation in the South China Sea, as well as in the Yellow Sea and the East China Sea, for maintaining the American Navy’s maritime operations, the high officials of the Department of State have never officially mentioned the South China Sea as American foreign policy interest before March 2010 when China was said to refer to it as its “core interest”. Bader (2012) confessed that it was in 2010 when the US acknowledged China’s behaviour on the South China Sea as unprecedentedly different. A regional institution which the US chose as a way of coalition-building for American maritime interest was the EAS.

One of the most essential consequences of US participation in the EAS is a transformation of institutional characteristics of the EAS from being process-oriented to a more result-oriented institution. The EAS function, like other ASEAN-led meetings, is often described as being limited to a “talk shop” that merely provides venues where ministers and leaders from larger states join together to exchange views on regional security and economic issues. This intent was manifested by Hilary Clinton, then Secretary of State, in 2010. Prior to her participation in the 2010 EAS, ASEAN had never successfully acted as an effective shield to protect the interests of its members in territorial disputes. However, the US, playing a key role in placing the disputes on the recent ARF agenda, has confronted China over the territorial disputes in the South China Sea. Of significance was the US claim that both parties should provide ‘legal evidence’ to support their territorial claims. This legal-based approach to the territorial disputes, initially promoted by the Philippines, is something China has previously not paid serious attention to. The US saw the EAS as a useful platform in which it could put pressure on China’s maritime actions. At the 2011 EAS, furthermore, given all the participating countries, except Myanmar and Cambodia, touched on the South China Sea disputes (*Strait Times*, 27 November 2011), implying the encirclement against China through dialogue was

formed. The “Declaration of the East Asia Summit on the Principles for mutually beneficial relations” stipulates the respect for International Law as the US claimed. As a result, China was forced to consider making a legally-binding “Code of Conduct in the South China Sea” as demanded by ASEAN, in lieu of a non-binding “Declaration on the Conduct of Parties in the South China Sea” signed in 2002 (*Nihon Keizai Shimbun*, 20 November 2011).

As ASEAN is not a concerning party itself, however, the transformation of EAS has not fully supported the US intention. For example, the “Six-Point Principles on the South China Sea”, agreed in July 2012 among ASEAN members, has neither led to the resolution of the dispute, nor even influenced China’s persistent claim of a bilateral negotiation approach. Furthermore, the split of ASEAN solidarity has been jeopardized after Laos and Cambodia – the two ASEAN members receiving massive economic assistance from China – have supported China’s proposition, which has resisted against the inclusion of the third party voice in this dispute. For instance, Cambodia, the 2012 ASEAN chair, ran the proceedings in a direction in accordance with the wishes of China with regards to the problems in the South China Sea. This provoked a reaction from the Philippines and Vietnam, which are opposed to China’s assertions in this sea.

In short, one of the important implications is that China’s rise, as symbolised by its forceful claims on the South China Sea, has urged the US to show its serious interest in multilateral security fora such the EAS for the first time in history. As discussed so far, the function the EAS has been newly granted with a strong American push, however, has yet to fully sustain American interest of collectively compelling China to accept the legal approach to the dispute. This experience surely encourages the US to maintain the hub-and-spoke bilateralism-centred alliance system in the region whose functions include the joint military exercises with its allies as another but more aggressive way of pressuring China.

#### 4. Japan’s Choices

Table 1 shows that when China’s territorial claims in the South China Sea became more unilateral and forceful, the US became more proactively engaged in Asian multilateral institutions. Japan has also been interested in the South China Sea issues lest it could affect the East China Sea issue, including the Senkaku Islands, if no restrictions were imposed on China’s claims, which rely on a vague legal basis and assertiveness. Japan’s keener interest in the South China Sea was revealed in a statement issued by a senior official of its Ministry of Defense. He said that the Japanese Self-Defense Force would take joint steps with the US army, advocating freedom of navigation in the South China Sea (*Asahi Shimbun*, 8 July 2011). This interest was echoed in a proposal by Japan’s Ministry of Foreign Affairs to establish the East Asia Maritime Forum to discuss maritime security among experts. In the meantime, Japan actively worked to incorporate the three principles the US had established in the Joint Declaration of EAS in 2011: 1) freedom of navigation, 2) respect for international law, and 3) settlement of differences and disputes by peaceful means (*Asahi Shimbun*, 6 November 2011). Furthermore, in a keynote speech at the ASEAN Maritime Forum held in

October 2012, the then deputy foreign minister, Tsuruoka Koji, conveyed his anxiety over China's aggressive maritime behaviour by stating that "'might is right' should not be justified" (*Nihon Keizai Shimbun*, 6 October 2012). China, however, criticised these Japanese approaches, especially its proposal for the establishment of a new maritime forum as "its own advance southward" and cautioned that "Japan would find it annoying if China got involved in a row between Japan and South Korea over the issue of the Takeshima Islets and backed Seoul at an international meeting...Parties not in the dispute should remain quiet" (*Asahi Shimbun*, 6 November 2011). ASEAN eventually became reluctant to support Japan's proposal which would replace the existing ASEAN Maritime Forum due to its fear of losing its voice in this area, disproving Japan's attempt to build a coalition with some ASEAN states within a multilateral forum against China over maritime disputes including its own Senkaku Islets issue. This was due partly to China's successful tactics of making some ASEAN members like Laos and Cambodia more susceptible to China's interest through offering them massive economic assistance.

As mentioned above, even though the South China Sea issue was introduced to the EAS as an official agenda following American interest, the legally-binding norm, which the US hopes to bring in as an approach to constraining China's aggressive actions, has yet to be established. As touched earlier, Laos, the 2015 ASEAN chair, has received massive economic assistance from China. If Laos organizes and chairs ASEAN meetings, including the EAS, under the strong influence of China, as had happened in Phnom Penh in 2012, China would hardly be motivated to moderate its unlegalistic territorial claims in all ASEAN-related meetings. What Japan should do is demonstrate its strong willingness to contribute to the development of Laos through economic assistance and technical cooperation, following the policy the US pursued in the case of Myanmar, the ASEAN chair in 2014, as it was gradually deregulating economic sanctions against the nation and fostering good political relations through Obama and Clinton's official visit. One of the serious US shortcomings in terms of ways of pressuring China to abide by legal solutions as stipulated in the UNCLOS, is that the US Senate has not yet ratified UNCLOS, thereby reducing UNCLOS' credibility as an international norm which China might be interested in. Thus it is imperative for Japan to encourage the US to ratify UNCLOS as soon as possible to create a pathway whereby Japan and the US could perhaps coordinate a joint action concerning territorial disputes in East Asia.

Furthermore, a large amount of aid entering Cambodia, Laos, and Myanmar from China has greatly affected the operation of ASEAN. For example, At the Asia-Europe Meeting held in October in 2012 in Laos, Chinese Premier Wen Jiabao, sat beside the Laotian Prime Minister, the chairperson of the meeting. This was an anomalous case in terms of the custom which ASEAN has nurtured, indicating an exceptionally friendly relations both nations have established. After Cambodia and Brunei, the ASEAN chair is taken over by Myanmar in 2014 and Laos in 2015. Thus, there is a possibility that the ASEAN meetings will be run in a manner that is in accordance with China's wishes. This should be noted as a emerging problem for the ASEAN centrality in terms of providing dialogue and opportunities on the equal footing among participants, and this is an area to which Japan should take a careful policy approach.

Table 1. Chronology of South China Sea disputes

Year	Month	Circumstance
1958	9	In “the statement on territorial waters of Beijing”, China claimed sovereignty over the Pratas, Paracel and Spratly Islands.
1974	1	China captured some areas of the Paracel Islands, which Vietnam occupied at that time.
1988		China and Vietnam battled for sovereignty over the Johnson South Reef, Spratly Islands. More than 80 Vietnamese died.
1992		China established the Law of Territorial Sea.
		ASEAN adapted the “ASEAN Declaration on South China Sea” to develop principles of action in lines with ASEAN’s Treaty of Amity and Cooperation.
1995		China constructed a building on Mischief Reef. It was renovated into a permanent military facility by 1999.
		Foreign Minister Qian Qichen talked about the following points to ASEAN foreign ministers. (Hiramatsu, 2002) (1) China doesn’t have a sovereignty over the surrounding waters and Spratly Islands. (2) China resolves the disputed issue related to them through peaceful dialogue. (3) Policy of “set aside conflicts, and co-develop” is a realistic method to deal with the issue related to the Spratly Islands. (4) China is willing hold bilateral discussions with the countries concerned, and I think multilateral talks are inappropriate. (5) China thinks highly of freedom and safety of navigation, and I believe there aren’t any problems. (6) China thinks America has no relation to the Spratly Islands fundamentally, and doesn’t have any reason to step in the issue.
2002	11	At the summit between China and ASEAN, they signed the “Declaration on the Conduct in the South China Sea” towards peaceful resolution of the territorial dispute.
2004		China National Offshore Oil Corporation and Philippine National Oil Corporation carried out joint research.
2005		Vietnam Oil Corporation joined in cooperative search of China and the Philippines, and they explored submarine oil and gas in the South China Sea (hold up in 2008).
2007		Vietnam elected its legislators in Spratly Islands.
	11	China carried out a military exercise in Spratly Islands.
2008		President Chen Shui-bian visited Itu Aba Island in Spratly.
2009	2	The Philippines enacted the “baselines law”. China, Taiwan and Vietnam made protest against the law.
	3	USNS Impeccable was surrounded by Chinese vessels on the high seas of the South China Sea, and jammed in. China strongly requested the USNS to leave the area.
	3	Malaysian Prime Minister Abdullah visited Swallow Reef, and proclaimed Malaysian sovereignty.
	5	Vietnam and Malaysia made a joint submission to the CLCS established under the UNCLOS, appendix II, first article, which applies for the continental shelf, over 200 natural miles in the south central area of the South China Sea.
	11	China’s Hainan government determined to establish the village committees on some of the Paracel Islands. Vietnam accused of “this action being an encroachment of sovereignty”.
	11	China sent fishery patrol boat to the Paracel Islands. Vietnam protested that it was a serious infringement of sovereignty.

2010	3	When Steinberg, US Deputy Secretary of State, and others visited China, a Chinese high government official was quoted as saying of the South China Sea that Beijing saw the area belonging to its core interest.
	4	Aircraft and naval vessels of Malaysia tracked the fisheries patrol boat of China.
	7	At the 17th ARF Ministerial Meeting, Secretary of State Hillary Clinton emphasized freedom of navigation in the South China Sea was a US national interest, and stated that the "US is ready to promote confidence-building measures and initiatives based on a 'declaration of conduct'".
	9	A Vietnam fishing boat was seized by Chinese authorities in the South China Sea. The nine crew members were restrained.
	10	At the ASEAN Defence Ministers' Meeting+8 (ADMM+8), each country supported the peaceful resolution of the South China Sea issue.
	10	At an ASEAN-related Summit Meeting, China Prime Minister Wen Jiabao called the South China Sea "the sea of friendship and cooperation", and expressed to "take serious effort in the execution" of the declaration of conduct, which set to solve the problem through dialogue.
	10	At the ASEAN-China Summit, in addition to confirming that they were making efforts to implement the "Declaration of Conduct" in 2002, they affirmed their commitment to work on an agreement basis towards the development of the "Code of Conduct in the South China Sea".
2011	1	Political reports of 11th Vietnam Communist Party National Meeting suggested "economic development and strength of national defence and security", especially linking to the defence of strategic regional waters, and islands. And they stated "defence of sovereign territorial waters, borders and airspace" as one future policy in the buildup of national defence.
	2	The Chinese navy carried out military exercises in the Paracel Islands. The Vietnam government protested that China's action was a violation of Vietnam's sovereignty, and violated the "Declaration of Conduct".
	3	A research vessel of the Philippines, which had been researching a petroleum resource near the lead bank, was subjected to such an exclusion order by the Chinese authority ship.
	4	In an interview from Malay newspaper "Star", Prime Minister Wen emphasized that the territorial dispute was a bilateral issue, and showed an attitude to oppose dealing with problems between the two countries in the multilateral framework.
	5	The joint commitment of the 5th ASEAN Defence Ministers' Meeting treated the South China Sea issue first, and it showed the full implementation of the "Declaration of Conduct", the importance of freedom of navigation and agreed to promote a discussion on "Code of Conduct".
	5	Concerning the Vietnam Diet election, China proclaimed that unilateral action on the Spratly Islands impinged on Chinese sovereignty, that the election was illegal and invalid, and went against the ideas of the Declaration of Conduct. Vietnam rebutted by saying that it was "internal affairs".
	5	China set up a new building such as station staff in waters west of the Spratly Islands. The Philippines expressed their serious concern to China.
	5	Vietnamese fishing boats operating in the waters around the Spratly Islands were fired a warning shot from the Chinese authority ship. The Chinese ship cut a Vietnamese cable for the investigation. In Vietnam, anti-Chinese sentiment was increasing, and citizens conducted protests and demonstrations.
	5	Defence Director Liang Guanglie visited the Philippines to meet with Defence Minister Gazumin and President Aquino. They agreed to aspire to come to a peaceful resolution on the South China Sea issue.
	6	At the Shangri-La Dialogue, Defense Secretary Robert Gates declared to deploy a state-of-the-art littoral combat ship (LCS) of the US Navy in Singapore.
	6	Vietnam carried out large-scale military exercises offshore of the country, showing an attitude to restrain China.

	6	At the Japan and US Foreign and Defence Ministers' Meeting (2+2), both countries defined their common target to maintain freedom of navigation and maritime security, and cleared the strengthening multilateral cooperation, Japan, the US and Australia; Japan, the US and Korea; Japan, the US and India; Japan, the US and ASEAN.
	7	At the Senior Officials Meeting of ASEAN and China, they agreed on the guidelines for setting the whole concept of cooperation towards the implementation of the "Declaration of Conduct" (2002).
	7	Japan the US and Australia implemented joint exercises first.
	11	At the 3rdUS-ASEAN Summit Meeting, they made a joint statement, which confirmed their common interest about conformity of international law and freedom of navigation in the maritime security area.
	11	In EAS, despite a preliminary negative attitude, China also allowed discussion on the issue of maritime security besides non-proliferation, humanitarian assistance and disaster relief. China also showed a lot of opinions to support the U.S. position with respect to the South China Sea issue.
2012	4	In Scarborough Reef (Huangyan Island in Chinese), ships of the Philippines and China started to face-off.(4/10)
	6	The Vietnam Diet passed the sea laws. (6/21)
	7	At the ASEAN Foreign Ministers Meeting, they weren't able to agree on the wording over the South China Sea, and the meeting ended without a joint commitment. (7/13)
	7	China decided to set up a security area in Sansha (7/19), and the city was established. (7/24)
	7	ASEAN foreign ministers made a statement on "ASEAN's Six-Point Principles on the South China Sea" which the 10 ASEAN countries agreed to.(7/20)
	8	China released the fishing ban on the South China Sea. (8/1)

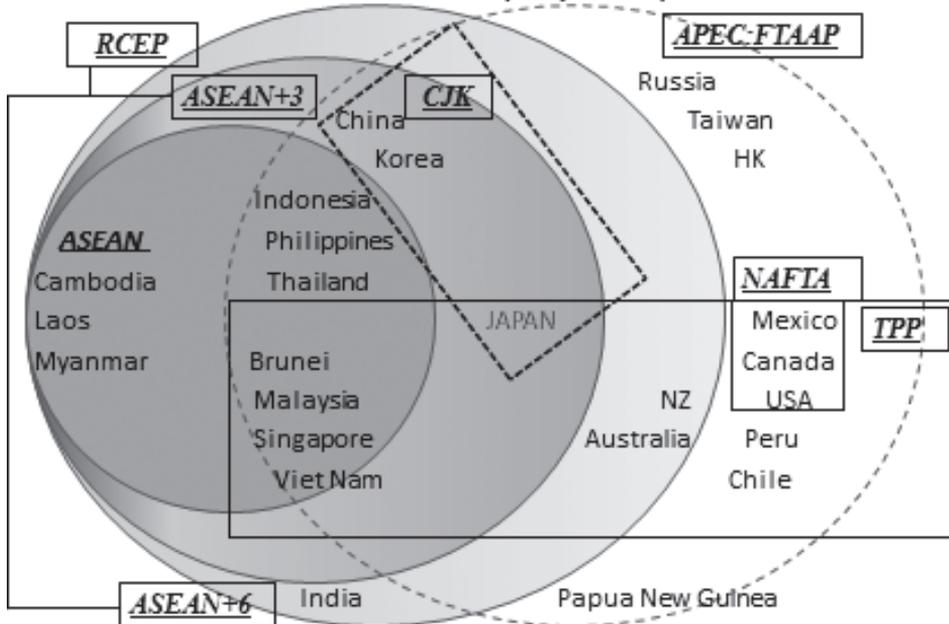
## 5. Regional Integration in Asia

The second cooperation field in Asia in which multilateralisation has been in progress is market integration. Before the US started using the TPP as a platform, which instigated the intertwining of regional integration frameworks, the movement of regional integration in the Asia-Pacific was characterized by a proliferation of bilateral FTAs. They can be grouped into the following four categories: 1) bilateral FTAs centred on Japan with individual member state of ASEAN; 2) ASEAN+1 FTAs centred on ASEAN (with Japan, China, South Korea, India, and Australia/New Zealand); 3) FTAs in Northeast Asia including Taiwan centred on China, and 4) FTAs started by South Korea with the non-Asian large economies including the United States and the EU. Each of the four types of bilateral FTA has its own central country (or region), but the different product coverage and distinctive time framework of liberalisation in these types of FTAs would make it difficult for multinational companies as potential FTA users to identify which FTA could be most effective in terms of cost-saving for their business. Thus, a "spaghetti bowl" effect, meaning a large number of rules of origin with specific standards and involving specific procedures will be formulated, and different rules will be applied to a single commodity, would be most conspicuously presented in East Asia. An effective way to solve the spaghetti bowl problem was to turn these FTAs from "lines" into "planes," or in other words, to proceed with regional integration.

Since 2010, triggered by the launch of the TPP negotiations, the focus of the FTA negotiations has been shifting from bilateral to multilateral agreements. This is primarily due

to a competition over rules and norms of regional integration between the largest and second largest economies in the world, the United States and China. The decision of the third largest economy, Japan, also maintains a key position in defining the trend in this power game. As a result, with ASEAN, Northeast Asia (a Japan-China-South Korea FTA), East Asia (RCEP), and the Asia-Pacific (TPP), we are facing an era of entanglement of regional integration in which there is a jumble of regional integration frameworks forming different contents, rules, and members, respectively.

## Regional Integration Institutions in Asia and the Pacific (Sep. 13)



As is depicted in the diagram above, the central position of ASEAN was the characteristic of the founding of separate regional institutions each having a summit meeting (the EAS in the case of ASEAN+6) while expanding concentric integration frameworks centred on ASEAN, or in other words, expanding the membership from ASEAN to ASEAN+3 and then ASEAN+6. However, the word “centre” can be easily misunderstood. This is because this does not signify that ASEAN has been actively promoting liberalisation of trade and investment and has been promoting regional integration, much less that a regional integration concept or process schedule including major extra-regional countries such as Japan, China, and South Korea has been created. The main function of ASEAN’s centrality has been to provide venues for meetings by, for instance, conveniently hosting summit and ministerial meetings. Particularly since 2011, the American President now visits Southeast Asia at least once a year to participate in the EAS meeting, and so ASEAN is maintaining the function of providing an opportunity for the leaders of the United States and China to participate in a

multilateral forum and promote their dialogues.

The problem with the concentric circles of this regional integration concept is that if ASEAN does not move, the integration of ASEAN+3 and ASEAN+6, which include extra-regional major countries, would also not move. Former Singaporean Prime Minister Goh Chok Tong once stated that if liberalisation is sought through the WTO, APEC, or the like, it devolves to the lowest common denominator, and so the actions of liberalisation-oriented countries are fettered by countries that do not desire liberalisation. The least enthusiastic country ends up holding back the base of trade liberalisation, becoming a large obstacle to promoting regional integration. If liberalisation is conducted unilaterally, the free rider problem arises in which a country keeps the barriers to the entry of imported goods high while freely sending export goods to the market of another country that has lowered those barriers. Especially in the case of competing products, there is the underlying possibility of this emerging as a domestic political problem as it would lead to threaten employment. Based on this, a major reason why negotiations of East Asian integration that converges the five ASEAN+1 FTAs while bringing them into effect did not start over years was that ASEAN became reluctant as its role as a hub in the ASEAN+1 FTA networks was considered to be reduced. The fact that Japan and China, which had until then been competing over whether ASEAN+3 or ASEAN+6 should be the framework for East Asian integration, set their spears aside in August 2011 and jointly proposed the founding of a working group to promote the liberalisation of trade and investment. This joint initiative stemmed from concerns on the part of both countries that while TPP negotiations were progressing, East Asian integration frameworks would not make progress if it was left up to ASEAN.

The agreement between Japan, China, and South Korea to start FTA negotiations independent from ASEAN+3 has also acted as a worrisome development as it would exclude ASEAN. The start of negotiations towards the unification of an enormous market in Northeast Asia with a total GDP among the three countries of \$754 billion in 2011 signified the appearance on ASEAN's doorstep a tremendous magnet for eliciting FDIs, casting a shadow on ASEAN's investment market. This accelerated ASEAN's intention to promote its own integration, urging ASEAN to have a stronger interest in strengthening its role as a FDI magnet. This measure dissolved the "lines" of ASEAN+1 FTAs with six countries, as it decided to aim for a free trade agreement in the form of East Asian regional integration comprising 16 countries, namely the formation of the RCEP. More importantly, in order to break through the ASEAN+1 shell and promote integration with extra-regional major countries, the completion of the ASEAN Economic Community (AEC) should be accelerated, and a unified market of 600 million people must be quickly formed. Japan, China, and South Korea well understood such concerns on ASEAN's part about the negative impact arising from the formation of the CJK FTA, and so the then Chinese Commerce Minister Chen Deming emphasized that the CJK FTA was an open one, and South Korean Trade Minister Bark Tae-ho also indicated that information on the contents of the negotiations would be shared with ASEAN. An important point in such a change from bilateral FTAs to regional integration is the expansion of countries that are the subject of cumulative origin, which have

the benefits of increasing the number of goods for which no tariff is applied, simplifying the rules for that purpose, and ultimately contributing to an expansion in exports.

Another factor encouraging ASEAN to form a single market is the TPP development, for which negotiations have actually been progressing since 2010. As indicated in the diagram, the TPP splits ASEAN by skewering the concentric circle shaped centred on ASEAN. Since the Philippines has expressed its interest in participating in the TPP, the likelihood of there being five participating countries from ASEAN increased. This scenario would also cast a doubt on ASEAN's capability to continue to place a higher priority on the ASEAN centrality, resulting in a stronger impression of an ASEAN rift. Indonesian Trade Minister Gita Wirjawan stated, "The TPP is not a threat to ASEAN, and the selection of integration framework differs according to the conditions in each member of ASEAN, but since the TPP allows virtually no exceptions to tariff elimination, Indonesia would have many problems and so there are no plans to participate." This statement indicates that as a result of the advent of the TPP, countries sharing a vision for regional integration will proceed with domestic reforms to prepare for a high level of liberalisation within ASEAN would participate, and that the "lowest common denominator" approach to liberalisation, which has caused to delay regional integration process within ASEAN and East Asia, will no longer be applied

## **6. Japan's Choices in the Era of Regional Integration Entanglement**

While these regional integration initiatives are more intermingled, only Japan thus far has participated in TPP, RCEP, and CJK FTA. Japan has also engaged in FTA negotiations with the EU, which has also promoted FTA negotiations with the US, with an aim to disseminate trade and investment policy norms based on those of Western countries, so Japan's regional integration policy appears to gain a more influence on regional politics and economics.

Importantly, TPP, RCEP, and CJK will offer different potential benefits to Japan, given Japan's relatively unique economic structure in East Asia. Japan's markets and exports differ substantially from those of China and many members of ASEAN: Japan continues to specialise in high added-value commodity exports, its international-oriented business sectors have expressed a great deal of interest in the liberalisation of services and investment in the region, its machinery and automobile companies have extended their production networks broadly across the Asia-Pacific region, and the strong competitiveness of its manufacturing products, as demonstrated by an average tariff rate of less than 3% at home, illustrates the openness of domestic markets. Given the trade and market features that Japan enjoys, the cost of non-participation in the TPP was considered to be high, failing to secure maximum trade and investment benefits especially after more countries like Mexico and Canada signed on to form a "critical mass". In fact, liberalisation of the service and investment sectors, for example, is quite unlikely to make significant progress under RCEP and CJK FTA, mainly because China would strongly resist this type of liberalisation, which would require transparency about business activities in its state-owned companies.

On the other hand, Japan does a significant volume of trade with major Asian countries

such as China, South Korea, India, and Indonesia, none of whom currently participate in TPP, and, as mentioned earlier, many Japanese companies have set up a wide range of production networks involving these countries. In addition, these non-TPP members in Asia tend to protect some of their key industries (e.g., China imposes a 25% tariff on automobiles), so progress in RCEP or CJK FTA is also important as a tool to open these key markets to Japanese exports, rather than economic rule-making machinery to which the TPP has committed itself

Accordingly, this complex profusion of regional integration initiatives presents a “golden opportunity” for the Japanese economy. To take advantage of this opportunity, Japan should consider measures to enhance the competitiveness of its agricultural sectors, which has thus far acted as a major impediment to its commitment to FTAs and regional integration. This condition would be necessary for making the successful conclusion of all regional integration negotiations. Furthermore, another approach Japan should take to increase its own benefits under this structure of regional integration would be to treat with these three integration frameworks as one package by binding them together to link their contents as much as possible. Japan would need to outline a single comprehensive integration strategy. To be able to ascertain the content and progress of negotiations on RCEP and CJK FTA in view of TPP negotiations on trade and investment liberalisation, for instance, it is imperative that Japan take the initiative by carefully examining those “WTO-Plus” items being pursued in TPP, – state-owned enterprises, intellectual property, government procurement, competition policy, the environment and labour standards, etc. – to determine what kind of WTO-plus issues are negotiable in RCEP and CJK, and ensure that these two FTAs involve and implement high-quality integration agendas by building a coalition with like-minded countries such as Singapore, Japan’s first FTA partner. Accordingly, close and frequent contact among the negotiators for the three integration frameworks is undoubtedly essential. Given the need for a “control tower” capable of overseeing these three negotiations such as US Trade Representative, it is imperative that the current negotiation structure of a vertically-divided ministerial organisation be revamped for the sake of effective economic diplomacy, as seen in the recent establishment of a National Security Council.

In order to achieve high-quality regional integration in East Asia, Japan finds it urgent to lend strong support for ASEAN’s integration program since the quality of RCEP depends mainly on ASEAN’s integration. ASEAN has the characteristic of being considered a collection of developing countries, lacking a political and cultural sense of unity. This is why the “ASEAN way” was employed, while putting importance on voluntarism and avoiding legal binding force as much as possible for regional cooperation. Accordingly, no penalties have actually been applied for non-fulfillment of ASEAN’s collective decision, allowing for exceptional measures taken individually. This represents the difficulty in participating in very high level integration programs like the TPP that include provisions relating to labor standards and environmental regulations. The former would potentially require members to abide by standards set by the International Labor Organisation, including freedom of association and collective bargaining. Consequently, voices appealing to the need to abandon

the “ASEAN way” are beginning to emerge, for example, ASEAN Secretary General Surin Pitsuwan, whose five-year term ended at the end of 2012, declare that if there was no strong centralized power mechanism, it would be very difficult to survey and coordinate all problems that could become serious matters, and he stressed the need to strengthen the authority of the ASEAN Secretariat like in the EU, and to tighten the regulation of participating members (*Reuters*, 1 August 2012).

Furthermore, not just tariffs, but many non-tariff barrier problems, for example the import quotas as introduced in Indonesia, are left untouched in ASEAN, and so there is a lack of unified mechanisms for regulatory easing for the trade and investment sustained by each country. As a result, there is the recognition in the business society in Southeast Asia that ASEAN is a loose collection of 10 countries with 10 different sets of economic rules (Hutagalung 2010). Accordingly, with regards to the contents of the RCEP, Singapore and Malaysia call for a comprehensive range of liberalisation including not only goods but also services and investment, whereas Indonesia, to which cheaper Chinese goods are flowing, causing strong anxiety over a ballooning trade deficit with China, takes a position of opposing FTAs with higher and deeper liberalisation.

In this way, it is necessary to clear a variety of hurdles to drive ASEAN to commit itself to negotiations with extra-regional powerful countries to help it become a more unified economic actor. Also in recent years, political and security problems influence the trend of regional integration. For example, as touched upon earlier, China’s territorial disputes with Vietnam and the Philippines in the South China Sea create little incentive for them to work together to form a single economic prosperity zone.

What Japan should aim to do under such circumstances is to establish a comprehensive regional integration policy with developmental elements by considering, for instance, how liberalisation programs can be linked up with development around the Mekong River. It appears Japan has traditionally taken a separate approach without careful attention to the post-development situation after injecting ODA to certain countries, especially in terms of regional integration. This would help Indochina nations, in which China’s influences have been predominant through the accumulation of massive economic assistances, to strengthen economic ties with Japan more strategically, making it easier for it to have more voices in the regional economic integration.

## **7. Multilateralisation in Asian Financial Cooperation**

A move to promote multilateralisation in Asian cooperation has also emerged in the financial area. The CMI was once viewed as a substitute for the abortive AMF plan, which the United States diplomatically endeavoured to dismiss (Bowles 2002), but the CMI was established as a collection of bilateral swap arrangements while the AMF idea, which Japan proposed in the wake of the 1997 financial crisis, was premised with a regional cooperative framework. Furthermore, the AMF function was not supposed to involve an independent surveillance mechanism and the CMI has been the link with the IMF through the 10%

conditionality (later to 20% and 40% in 2014), the financial cooperation in Asia can never be viewed as a pure Asian regional arrangement. In addition, the CMI comprised of bilateral agreements, so the amount of funding was limited and negotiations could be individually carried out, meaning that the CMI was not practical for the actual use.

The multilateralisation of financial cooperation in Asia was chiefly encouraged by the eroding international influence of the Western powers, as was made clear through the Lehman Shock, triggered by bad mortgage-related securities and other devalued assets held by US financial institutions in 2008, and the subsequent European debt crisis. East Asian nations, most of which accumulated foreign reserves in US dollars as a lesson learnt from their horrific experiences during the 1997 Asian Financial Crisis, the first case which provided the chief motivation towards greater financial cooperation, have taken collective action to save troubled nations in the region. Utilising the ASEAN+3 framework, 10 ASEAN members together with China, Japan and South Korea beefed up the existing financial cooperation framework, especially the CMI. To better address the needs of the regional financial cooperation, ASEAN+3 countries have gradually strengthened the move towards the multilateralisation of the CMI arrangement, putting pressures for reforms on US-backed rules of global governance.

The need of the Asian collective action in the wake of the transatlantic crisis was initially articulated in the ASEAN+3 Finance Ministers' Meeting in Bali in May 2009 in which the members agreed to expand the total amount of CMI to 120 billion from 84 billion dollars and agreed on the contribution amount for all member states including Hong Kong. The decision was also made to establish financial surveillance and monitoring systems, independent from the IMF, and to multi-lateralise bilateral swap arrangements, called the CMIM, thereby encouraging a move towards the de facto realisation of the AMF, which the United States refuted during the 1997 crisis. Through the CMIM, for instance, the amount of funding could be increased, and negotiations could be consolidated; thereby the CMI could serve as a regional lender that would be capable of responding with multilateral assistance in the event of a financial crisis. One serious problem in the CMI is the links with the IMF through the 20% conditionality which made it difficult for East Asian countries to use CMI. This IMF conditionality means that only 20% of the total facilities of CMI can be utilised without linkages to the IMF programs. Thailand, Indonesia, and Korea, all of which had traumatic experiences in securing IMF-led rescue packages during the 1997 Asian financial crisis which included hasty deregulation and privatisation, as represented by the Washington Consensus, strongly wished to avoid using the CMI. In 2008, Korea borrowed directly from the United States by extending the bilateral swap agreement (30 billion dollars) and increased the amount of reserves in its arrangements with Japan and China to avoid relying on the IMF and the CMI. Korn Chatikavanij, the then Thai Finance Minister, stated that there was a widespread perception in East Asia that it was an act of suicide to rely on the IMF in light of domestic politics (*Asahi Shimbun*, 27 February 2009). Importantly, as the previous ASEAN+3 Finance Ministers had already indicated in February 2009, East Asian nations agreed that "after the surveillance mechanism becomes fully effective in its function, the IMF de-linked

portion may be increased from 20%.” The IMF conditionality was introduced with a premise that “a financing arrangement that could lend too generously with too little conditionality might create moral hazard for the government at the receiving end” (Kawai and Houser, 2007: 19). Yet, as Sussangkarn (2009), former Thai Finance Minister, declared, “it would indeed be doubly hypocritical for those in the West or in the IMF to use this argument to try to block the establishment of such an organisation again”, given that concerns about the moral hazard problem did not prevent American programs from bailing out large American financial institutions and automobile companies in the wake of the Lehman Shock. Subsequently, Sussangkarn (2011: 6-7), who also served as Chair of AMRO Advisory Panel, asserts that “the IMF link needs to be modified, otherwise countries are likely to bypass CMIM like they bypassed CMI during the global financial crisis...it would be best to design the CMIM to be workable given the IMF stigma”.

Observing Europe’s struggle to surmount a crisis stalemate, ASEAN+3 leaders have taken more steps to bolster the CMIM agreement so as to inject into the region greater operational leeway and independence from the IMF prescribed policies in the event of future financial uncertainties. The ASEAN+3 Finance Ministers’ Meeting in Manila in May 2012 reached the agreement to strengthen the CMIM by raising “the IMF de-linked portion to 30% in 2012 with a view to increasing it to 40% in 2014” (AMRO 2012: 2). More importantly, the leaders also endorsed the proposal to “accelerate the preparation to institutionalise AMRO as an international organisation” (AMRO 2012: 3). These developments represent East Asia’s willingness to be more independent from the IMF’s rule. East Asia also reached the agreement to introduce the CMIM Precautionary Line as a crisis-prevention tool, in addition to CMIM’s existing crisis-resolution mechanism. So, East Asia’s willingness to strengthen its financial cooperation mechanism with more independence from the IMF structure lays the foundation for it to gain a more influential position within IMF, especially if China becomes more willing to do so. This assessment can be sustained through the review on how China has worked behind the development of regional financial mechanism in East Asia by challenging Japan’s initiative.

Table 2. ASEAN+3 Finance Ministers’ Meeting

Time and Place	Main decisions
2 <sup>nd</sup> meeting (May 6, 2000) Chiang Mai, Thailand	<ul style="list-style-type: none"> <li>– Agreed to implement the “Chiang Mai Initiative”</li> <li>– Agreed to use the ASEAN+3(APT) framework to monitor capital flows</li> <li>– Agreed to establish a network of contact persons to facilitate regional surveillance</li> <li>– Agreed to establish a network of research and training institutions</li> </ul>
4 <sup>th</sup> meeting (May 9, 2001) Honolulu, USA	<ul style="list-style-type: none"> <li>– Agreed to review the current main principles of the bilateral swap arrangement (BSA) under the CMI in three years</li> <li>– Agreed to exchange data on capital flows bilaterally among member countries on a voluntary basis</li> <li>– Agreed to establish a study group of their economic reviews and policy dialogues</li> <li>– Agreed to work towards developing appropriate early warning system models for East Asian countries</li> </ul>

5 <sup>th</sup> meeting (May 10, 2002) Shanghai, China	<ul style="list-style-type: none"> <li>- Agreed to have an informal meeting of finance and central bank deputies once a year (1<sup>st</sup> round was held in April 2002), resulted from two meetings of economic review and policy dialogue in a year</li> <li>- Agreed to monitor bilateral capital flows among seven countries</li> <li>- Supported technically for the development of a regional early warning system on East Asian economic and financial developments by Asian Development Bank (ADB)</li> </ul>
6 <sup>th</sup> meeting (August 7, 2003) Manila, Philippines	<ul style="list-style-type: none"> <li>- Was expected to be concluded of four more BSA before the end of 2003</li> <li>- Agreed to strengthen Economic Reviews and Policy Dialogues</li> <li>- Agreed to set up the ASEAN+3 Finance Cooperation Fund (the Fund) for economic review and policy dialogue</li> <li>- Agreed to strengthen promotion of the regional bond markets (Asian Bond Market Initiative: ABMI)</li> <li>- Agreed to set up a voluntary research group for promoting financial stability</li> <li>- Supported technically for ABMI as well as for the capacity building to set up the EWS by ADB</li> </ul>
7 <sup>th</sup> meeting (May 15, 2004) Jeju, Korea	<ul style="list-style-type: none"> <li>- Concluded the expansion of the total number of BSAs to 16, and the size of the network to US\$36.5bn</li> <li>- Agreed to undertake further review of the CMI to explore ways of enhancing its effectiveness</li> <li>- Agreed to establish the six working groups (WG) and ABMI Focal Group, which was set up to coordinate the activities of WG, under ABMI</li> <li>- Supported for conducting studies on credit guarantee mechanisms and regional clearing and settlement mechanisms by ADB</li> <li>- Agreed to four studies of research, subsequently to the first Research Group meeting in March 2004 in Manila</li> </ul>
8 <sup>th</sup> meeting (May 4, 2005) Istanbul, Turkey	<ul style="list-style-type: none"> <li>- CMI: Agreed on four measures; Integration and enhancement of APT economic surveillance into the CMI; the adoption of a collective decision-making mechanism; increase in the size of swaps; improving the drawdown mechanism</li> <li>- ABMI: Agreed to embark the study of Asian currency-basket bonds, and to introduce a roadmap</li> <li>- Research Group: Agreed to examine three subjects of research</li> </ul>
9 <sup>th</sup> meeting (May 4, 2006) Hyderabad, India	<ul style="list-style-type: none"> <li>- CMI: Introduced collective decision-making procedure for the swap activation; strengthened surveillance capacity; expanded to US\$75.0bn of the total swap size; set up a "new task force" to examine the vision of the future CMI</li> <li>- ABMI: Diversified and expanded, such as issued local currency-denominated bonds</li> <li>- Research Group: Agreed on two subjects of research</li> <li>- Emphasized the importance of an ad hoc quota increase for significantly under-represented countries in the IMF</li> </ul>
10 <sup>th</sup> meeting (May 5, 2007) Kyoto, Japan	<ul style="list-style-type: none"> <li>- Increased BSA to US\$80bn in CMI, consisting of 16 BSAs among 8 countries</li> <li>- Agreed to develop CMI to the new framework (CMIM) which is multilateral reserve pooling system</li> </ul>
11 <sup>th</sup> meeting (May 4, 2008) Madrid, Spain	<ul style="list-style-type: none"> <li>- CMI: US\$80bn</li> <li>- Agreed that the proportion of the amount of contribution between the ASEAN and the Plus Three countries would be "20:80"</li> </ul>
12 <sup>th</sup> meeting (May 3, 2009) Bali, Indonesia	<ul style="list-style-type: none"> <li>- CMI: Agreed to expand to \$120bn</li> <li>- Agreed on all the main components of the CMIM including the individual country's contribution and borrowing accessibility</li> <li>- Agreed to establish an independent regional surveillance unit as soon as possible</li> </ul>
13 <sup>th</sup> meeting (May 2, 2010) Tashkent, Uzbekistan	<ul style="list-style-type: none"> <li>- CMIM: Agreed on all the key elements of the AMRO</li> <li>- ABMI: Agreed to establish the ASEAN+3 Bond Market Forum (ABMF)</li> <li>- Agreed to set up a Taskforce on the Future Priorities of ASEAN+3 Financial Cooperation</li> </ul>

14 <sup>th</sup> meeting (May 4, 2011) Ha Noi, Viet Nam	<ul style="list-style-type: none"> <li>– CMIM: Endorsed “Operational Guidelines for Enhancing Effectiveness of CMIM”; Instructed the Deputies to launch a study to strengthen the legal status of AMRO to constitute an international organisation</li> <li>– Changed the name of the meeting to “ASEAN+3 Finance Ministers’ and Central Bank Governors’ Meeting” from 2012</li> </ul>
15 <sup>th</sup> meeting (May 3 2012) Manila, Philippines	<ul style="list-style-type: none"> <li>– Agreed to double the total size of the CMIM from US\$120bn to US\$240bn</li> <li>– Agreed to increase the IMF de-linked portion to 40% in 2014</li> <li>– Agreed to introduce a crisis prevention facility called “CMIM Precautionary Line (CMIM-PL)”</li> </ul>
16 <sup>th</sup> meeting (May 3, 2013) Delhi, India	<ul style="list-style-type: none"> <li>– Agreed to transform AMRO to an international organisation</li> <li>– Agreed to set up a Cross-border Settlement Infrastructure Forum</li> </ul>

## 8. China-Japan Competition in Asian Financial Cooperation

A crisis occasionally serves as a powerful stimulus for regional and international cooperation, and the three financial crises, that occurred in 1997 in Asia, in 2008 in the United States, and in 2010 in Europe, have triggered China’s serious commitment to regional financial cooperation in East Asia (see table 2). This is evident in the inaugural statement made by Wei Benhua, the first director of the ASEAN Macroeconomic Research Office (AMRO) in Singapore which aims to provide financial surveillance and monitoring systems: “the IMF has to get used to emerging Asian countries wanting more say in economic reform plans... This is the new reality. The IMF has to accept this even if it not so happy... A regional agency can understand the needs of neighbouring nations more clearly than the IMF can do” (*Australia Financial Review*, 30 March 2012). The global acknowledgement of the significance of East Asia has been mainly attributed to the rise of China. Put simply, the rise of China has meant that a traditional political power now emerges as a superpower, whose political influence is now also backed by continuous high economic growth, influencing both political and economic spheres on a global scale. This assessment has bolstered the above message by Wei, former senior official of PBOC, who stressed the inevitability that the IMF would be growingly challenged by regional financial bodies, especially one in East Asia backed by a rising China.

The view that East Asian financial mechanisms have been useful to shape a collective voice or increase the influence in the global settings such as IMF was then revealed by Premier Wen Jiabao in October 2011: “China is ready to work closely with ASEAN...to gradually put in place a stable and mature regional capital market and enhance the region’s ability to resist international financial risks” (*Xinhua*, 21 October 2011). By playing up the importance of strengthening regional organisation in response to a transatlantic financial crisis, East Asia formed a consensus that the financial cooperation such as CMI could serve as a way of boosting East Asian “leverage in seeking additional IMF votes and capital shares” (Ciorciari 2011: 947), as ASEAN+3 finance ministers had already “called for an urgent review of the quota of the Asian countries in the IMF to properly reflect the current realities and their relative positions in the world economy” (ASEAN Secretariat 2005).

Japan’s awareness of China as being ambitious to be influential in regional financial

cooperation, a position that used to be predominantly occupied by it as seen in the 1997 Asian financial crisis, encouraged the competition between China and Japan over “which country pays more” especially became phenomenal in the multilateralisation of CMI in May 2009. Both prolonged talks until eventually agreeing to provide equal contributions of 38.4 billion dollars for the settlement, although the Chinese contribution includes one by Hong Kong. In the end, the total amount of 120 billion dollars was broken down with 32% by China and Japan each, 16% by Korea and 20% by the 10 ASEAN countries. Japan’s status as the largest contributor was matched by China for the first time in an international financial institution. One reason why the size of the contributions was so contested between China and Japan existed in the tendency for nations to consider their contributions as voting powers in the new arrangements, thus culminating in the prolonged negotiations. In fact, the distribution of contributions can be seen to reflect power in East Asian politics, as a senior MOF official confessed and Japan’s position that the amount of contribution by each member in the multilateralisation of CMI should be proportionally allocated was consistent with its national interest. The total loans Japan can provide in bilateral swap agreements within the existing CMI exceeded 40 billion dollars, which more than doubled China’s total amount in the same arrangement (*Asahi Shimbun*, 2 August 2009). Therefore, MOF tended to stress the fact that it provided a much larger contribution than China to international financial organisations such as IMF and ADB as the second largest economy in the world; Japan’s quotas in IMF and ADB are 6.227 and 12.932%, respectively, while China’s contributions are 3.807 and 5.53%. Yet, MOF did not push its claim strongly because it thought the equal amount of contribution by both nations would serve to put an end to the battle over “which country pays more” which Japan would find difficult to win given China’s continued economic growth and the growing foreign exchange reserves (*Asahi Shimbun*, 2 August 2009). This view indicated MOF’s hope that the equal contribution would be perpetually kept in the regional financial architecture to maintain Japan’s influence. Eventually, China, Japan, and ASEAN came to acquire voting shares of approximately 28% each, while Korea was provided a 14% voting share, making it impossible for any single economy to have decisive power in the multilateralisation of CMI. This allocation of voting shares resulted mainly from the mutual concessions Japan and China made on behalf of ASEAN, which voiced a worry about the predominant voting power given to China and Japan.

Another case of the China-Japan competition in financial cooperation in Asia has been extended to the efforts to encourage other Asian nations to utilize their currencies, and this can be a useful way, as mentioned earlier, to reduce the reliance on the US dollar. In February 2009, a currency swap agreement between China and Malaysia was concluded under which China would provide up to 80 billion renminbi to Malaysia in the case of a financial crisis, and similar types of swap agreements were subsequently signed with Indonesia as well. Furthermore, in April 2009, the Chinese State Council also announced that the renminbi could be used in overseas trade settlement in five Chinese cities following a trial run with Hong Kong, Macau and ASEAN in December 2008 (*China Daily*, 20 April 2009). Japan’s MOF saw China’s arrangements in the renminbi as an attempt to increase the presence of

China's currency in the payment of trades and investments in East Asia and responded to China's challenge by deciding to offer swap arrangements in yen (60 billion US dollar equivalent) with ASEAN members in a form separate from CMI and to guarantee \$5 billion in yen-denominated government bonds (Samurai Bonds) issued by ASEAN members in the Japanese market. The impetus behind Japan's first kind of proposal to increase the utilisation of the yen in Asian trades and investments was obvious even to an official from the Korean finance ministry who observed that "Japan took a very aggressive move to curb the increase in the Chinese influence on the Asian market" (*JoongAng Daily*, 13 May 2009). China's interest became more evident after announcing the renminbi-denominated settlement of trade between a limited number of Chinese cities such as Shanghai and some ASEAN nations since 1 July 2009. According to the *China Daily* (7 July 2009), after the first successful completion of cross-border trade deals amounting to 14.38 million renminbi by three Shanghai companies, companies in Singapore, Indonesia and Malaysia have shown great interest to switch to using the renminbi in their trade. The China-Japan competition over the usage of their currencies in East Asia became intense, but it should be noted that the competition also represents their common interest in creating a stable business environment to avoid the risk of currency exchanges in the region, laying the foundation for the bilateral financial cooperation in the future, as was already seen in their agreement over the direct trading system between renminbi and yen in June 2012. This system would make it possible for companies not to settle their transactions with US dollars and avoid paying double the foreign exchange charges. Less reliance on the US dollar can thus be viewed as a key shared concern among many economies and a robust evidence of the declining American US economic power, and China has taken advantage of it to build a coalition with like-minded states to which Indonesia was recently added as both nations signed a 100 billion yuan currency swap agreement in October 2013.

Political and strategic animosity between China and Japan has always been harmful to the construction of a cooperative atmosphere, meaning that politics is always ahead and takes priority over others including economic interest in China. For instance, China's decision not to dispatch the finance minister and the central bank governor to the 2012 IMF and World Bank Annual Meeting held in Tokyo was viewed as putting a lower priority on the reform in global finance governance. A major reason behind the decision was to put the blame on Japan with which it has disputed over the Senkaku Islands, and China appeared to succeed in gathering international attention to the Islands over which Japan keeps effective control and claims there is no territorial dispute. This means China did not follow the policy of separating economics from politics and lost a precious opportunity to press the need of the IMF reforms together with other emerging economies. Furthermore, as some experts such as Ted Truman, a former Obama administration official, considered the absence of Zhou Xiaochuan, BOPC Governor, from the IMF annual meetings "diminished his international standing by highlighting how the People's Bank of China, unlike most major central banks, lacks political independence" (*Wall Street Journal*, 15 October 2012), impressing the possible continuity of China's market intervention policy which many Western countries have criticised. China's leadership role in global financial governance or East Asian financial cooperation may face

a challenge from the existing powers as China is a substantially different state with regard to its financial policy implementation and domestic governance system, compared with the Western status-quo powers such as the United States, as has been so far discussed.

## 9. Conclusion

This article has examined the driving force behind the development of multilateralisation of Asian regionalism in three policy areas; security, regional integration and financial cooperation. It has attributed it to a patterned process, in which the US and Japan have reacted to the rise of China by promoting multilateralisation since each major power needs like-minded countries to form a coalition to realise their own interests. For instance, the impact of the American decision to implement a coalition-building approach through its participation in the TPP was a response to China's inclination towards utilising East Asian integration, which became strongly oriented towards developing countries and would contain more exemptions in the form of tariff-elimination duties, with few deregulation requirements that would reform domestic economic systems. In fact, other APEC members such as Australia, Vietnam, Peru and Vietnam were urged to follow the American initiative in the TPP so they could be involved in the negotiations as initial members in 2010. The coalition-building approach is significant when implementing any policy towards China. Halper (2010) coined the concept of governance which China has fostered in developing countries as "market authoritarianism", and attributes to it a syncretism of capitalism and dictatorship; in other words, the concept seeks trade liberalisation while keeping distance from political liberalism and democracy. The concept inevitably postulates that government should undertake strong interventions in the economy. Bremmer (2009) characterizes the concept as China swelling its market to mainly accomplish domestic political goals such as the maximisation of national power, and stresses the differences from conventional Western capitalism. According to these two views, there emerges a possibility that Asian economic integration and the development of financial cooperation may lead to the proliferation of China's state-intervening form of capitalism, and that the norm of respecting international law will not be adopted in the EAS and ARF, so the well-disciplined activity of participating countries is likely to fail. It is thus essential for Japan to begin to demonstrate on behalf of other Asian developing countries its own successful economic growth without state intervention when they draft their future economic growth strategies. Moreover, if Japan acted as a constructive player with a sincere attitude of observing international rules and norms in multilateralism, it could be a role model for those countries following paths different from China's. This behaviour is particularly significant for regional security where China has not shown any interest in abiding by these rules and norms.

Nevertheless, the fact that China is located in Asia means China inevitably engages in Asian multilateral cooperation efforts when it finds a value in them for its own national interests. Therefore, even though the bilateral relations between China and Japan are strained, it is desirable for Japan to identify shared interests with China and to establish cooperative

relationships in various fields if it considers advancing Asian multilateralism to be essential. As mentioned above, a limited level of financial cooperation has taken place between two nations.

However, when it comes to regional integration, more competitive natures become conspicuous, and several multilateral integration frameworks are currently under negotiation: while the US-led TPP has focused on rule-making on trade and investment, China has actively promoted the RCEP and the CJK FTA because it cannot join the TPP. Because Japan participates in all three initiatives, it enjoys an advantageous position engaging in rules and standard setting with the US through the TPP, and expanding export markets in cooperation with gigantic economies such as China and India through RCEP. Importantly, the various attributes of these regional integration frameworks should be incorporated into the formulation of Japan's growth strategy. For that goal, the Japanese government should, first of all, become aware that private companies are the beneficiaries of FTAs and regional integrations. This is quite different from financial and security cooperation arrangements, in which government agencies are predominant actors. FTAs should establish customer-friendly rules in these frameworks, such as the simplification of rules of origin. This approach is essential to avoid the "spaghetti bowl" effect.

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