CHINESE AND JAPANESE ECONOMIC ATTITUDES TOWARDS ASSOCIATION OF SOUTHEAST ASIAN NATIONS

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FEBRUARY 2004
CHINESE AND JAPANESE ECONOMIC ATTITUDES TOWARDS ASSOCIATION OF SOUTHEAST ASIAN NATIONS

A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
OF
MIDDLE EAST TECHNICAL UNIVERSITY

BY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF SCIENCE
IN
THE DEPARTMENT OF INTERNATIONAL RELATIONS

FEBRUARY 2004
ABSTRACT

CHINESE AND JAPANESE ECONOMIC ATTITUDES TOWARDS ASSOCIATION OF SOUTHEAST ASIAN NATIONS

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February 2004, 120 pages

In recent years, the Association of Southeast Asian Nations (ASEAN) has become the main driving force of the economic dynamism of Southeast Asia. Japan, being the economic leader of the Southeast Asian countries during the 1980s and the early 1990s, is in a declining position in terms of leadership. Japan has also been experiencing economic recession since the mid-1990s and displaying only subtle signs of recovery recently. China, however, has taken the advantage of being the most demanding market of the region and already established the functional mechanisms of economic integration with ASEAN.

This changing economic configuration of the region is the main inquiry of this study. Although the growing economic integration of China with ASEAN is
fairly recent, it is generally discussed in the academic circles, that China has been
taking the lead as an economic player in Southeast Asia. However, it is argued in
this study that China is not yet ready to replace Japan as an economic leader of
Southeast Asia in the long-term. Given the recent economic interaction between
ASEAN and China, it is early to predict that China would replace Japan’s leading
economic position. In addition to that, China’s blooming economy with its domestic
crisis potential and China’s long-term geo-strategic interests in the South China Sea
should also be taken into account while analysing economic potentials of Japan and
China in the ASEAN market. The study examines the related literature with a
comparative methodology including the analysis of the recent statistical data and
survey of the news.

Keywords: Regionalism, ASEAN, China, Japan, Economic Relations, Southeast
Asia.
ÖZ

ÇİN VE JAPONYA’NIN GÜNEYDOĞU ASYA ULUSLAR TOPLULUĞU’NA YÖNELİK EKONOMİK YAKLAŞIMLARI

Uyar, Aysun

Yüksek Lisans, Uluslararası İlişkiler Anabilim Dalı

Tez Yöneticisi: Prof. Dr. Hüseyin Bağcı

Şubat 2004, 120 sayfa

Güneydoğu Asya Uluslar Topluluğu (ASEAN) son yıllarda Güneydoğu Asya’nın ekonomik dinamizminin temel gücü haline gelmiştir. 80’lerin tümü ve 90’ların ilk yıllarında Güneydoğu Asya ülkelerinin ekonomik lideri olan Japonya, ekonomik liderlik açısından düşüşe geçmiş bir durumdadır. Japonya, 90’lı yılların ortalarından itibaren süreğelen ve sadece hafif düzeme işaretleri gösteren, bir ekonomik durgunluk da yaşamaktadır. Çin, bununla birlikte, bölgenin en talepkar marketi olmanın avantajını değerlendirmekte ve ASEAN ile ekonomik bir birleşmeye yönelik fonksiyonel mekanizmalar oluşturmaktadır.

Bölgenin bu değişen ekonomik yapılanması bu çalışmanın temel sorunsalını oluşturmaktadır. Gelişen Çin ve ASEAN ekonomik birleşmesi oldukça yeni olduğu

Anahtar Kelimeler: Bölgeselleşme, ASEAN, Çin, Japonya, Ekonomik İlişkiler, Güneydoğu Asya.
To My Parents;

Ali İhsan and Medine
ACKNOWLEDGEMENTS

When I first started to work on Japan's International Relations, I have not imagined that I could go this further. I, first of all, would like to thank to my lifetime academic guide, Prof. Dr. A. Mete Tuncoku, for his excellent guidance and for being more than just a supervisor to my studies.

I also would like to thank to Prof. Dr. Hüseyin Bağcı for his academic support and personal encouragement to go as far as to Japan during my research. My special thanks are also for Assoc. Prof. Mustafa Türkeş and Dr. Oktay Tanrısever for their support and encouragement.

I express my sincere thanks to my senior colleagues, Dr. Özlen Çelebi, Dr. Emel Oktay, Dr. Mithat Çelikpala and Melih and Yeşim, for their support, valuable comments and the endless patience they showed during my extended research. Dr. Müge Kınacıoğlu, it is impossible not to mention our academic as well as personal discovery and your endless experience, accompanied with smiles and hopes, you have shared with me.

Of course, my research was not only limited to Ankara. During my academic visits to Tokyo and Brussels, I have been given the gift of meeting wonderful people who shaped my academic as well as personal inquiries. Very Japanese and Belgian thanks to my seniors.
I do not know how to express my deep appreciation and devoted thanks to my parents, Ali İhsan and Medine and my brother, Murat, for their unshakeable trust, endless emotional support and the most importantly, for making me the way I am now. May be a simple thesis dedication to you to express my greetings? I love you.

And, my friends, my special friends who have contributed a lot to me, who have supported me during the long study-nights (though we never managed to stay awake all night), who have really upgraded the standard of our friendship with purity, who have made me laugh in the most critical times, who have listened to me (even without knowing what I was talking about) and those specials ones, who sometimes stayed just next to me without doing anything...Umut, Banu, Alexander, Tuğba and the other Kofona members, you were all I needed. Lastly, very ‘complete’ thanks to Havva: thank you for being a constant part of my life, more than words to you.
I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

Date: 23.02.2004

Signature: x
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LIST OF ABBREVIATIONS

ACJCC: ASEAN-China Joint Co-operation Committee
ADB: Asian Development Bank
AFTA: ASEAN Free Trade Area
AJCEPEG: ASEAN-Japan Closer Economic Partnership Expert Group
AMF: Asian Monetary Found
APEC: Asia-Pacific Economic Co-operation
ARF: ASEAN Regional Forum
ASEAN: Association of Southeast Asian Nations
ASEAN+3: ASEAN + China, Japan and South Korea
BSAs: Bilateral Swap Arrangements
CBMs: Confidence-Building Measurements
CEP: Comprehensive Economic Partnership
CMI: Chiang Mai Initiative
CPC: Communist Party of China
EAEC: East Asian Economic Caucus
EAVG: East Asia Vision Group
EASG: East Asia Study Group
FDI: Foreign Direct Investment
FTA: Free Trade Area
GATT: General Agreement on Tariffs and Trade
GDP: Gross Domestic Product
IMF: International Monetary Fund
JICA: Japan International Co-operation Agency
MEDSEA: Ministerial Conference for Economic Development in Southeast Asia
METI: The Ministry of Economy, Trade and Industry
MFN: Most Favoured Nation
NGO: Non-governmental Organisation
NIE: Newly Industrialised Economies
ODA: Official Development Agency
PRC: People’s Republic of China
RMB: Renminbi
TAC: Treaty of Amity and Co-operation
TNC: ASEAN-China Trade Negotiation Committee
UN: United Nations
US: United States
WTO: World Trade Organisation
CHAPTER I

INTRODUCTION

Given its economic potential and geo-strategic importance for the contemporary international relations, Southeast Asia is one of the most dynamic regions. The strategic importance of the region is mainly derived from its history, in conjunction with its colonial experience. The late 20\textsuperscript{th} century has added a different dimension to this particularity of the region; i.e. the economic potential of Southeast Asia. Having experienced the biggest economic growth during the 1980s and the early 1990s, and the Asian financial crisis of 1997, Southeast Asia remains to be one of the most important and attractive markets of the world economy. The Association of Southeast Asian Nations (ASEAN) is the largest co-operative platform and the driving force of the economic dynamism of Southeast Asia. Being the only platform, which brings all ten nations of Southeast Asia together, ASEAN has substantially contributed to the economic dynamism of the region. Although ASEAN has had problems during its struggle to become a full-fledged regional organisation, it represents the sole stage of communication within the region. For this reason, most of the regional players prefer ASEAN for conducting the inter-regional relations over bilateral transactions.

Japan has always had a close connection with the region due to its geographical proximity, historical commonalities, cultural ties and political as well
as economic interests in the region. Since Japan is the mid-20th century’s ‘economic miracle’, the economy has always been the defining factor of the Japanese foreign policy agenda. Being the leading economic power of the region throughout the 1980s and the early 1990s, Japan has always given attention to support the joint conglomerates at the regional level and the development of medium and large size markets in the Southeast Asian countries for its own economic growth. In addition, Japan has also contributed to the structural development of the region through assistance projects and the region-wide Official Development Agency (ODA) allocations from the mid-1950s on. However, this economic distribution of the Japanese factors of production at the regional level and the creation of a Japanese-led developmental model in the ASEAN market have also brought their own setbacks after the Asian financial crisis. On the other hand, Japan has also been experiencing a vital economic recession since the mid-1990s and showing only subtle signs of recovery recently. Hence, despite the above-mentioned efforts, Japan is no longer the leading and the self-confident economic power of Southeast Asia.

The People’s Republic of China (PRC), having approximately 1.3 billion population, annually 10% of growth rate during the 1990s and the fourth largest territory in the world, is one of the world’s fastest developing countries. In fact, China has significantly changed after the Tiananmen incidents of 1989. China has incorporated several liberal practices into its socialist market economy notwithstanding its communist ideology. It has also been pursuing its traditional foreign policy tenets of security and autonomy maintenance. In connection with this, it has also overwhelmingly put emphasis on the impact of multilateral linkages for the well functioning of the international system. The Chinese economy has proved
its success with the access of the ‘Made in China’ label into all local markets of the world economy and the membership to the World Trade Organisation (WTO). Undoubtedly, Southeast Asia, due to its historical ties, geographical interaction and considerable presence of the overseas Chinese in the region, has been one of the most important strategic and economic targets of the PRC. Having a long-term strategic interest in the region, China has attached priority to its economic ‘integration’ with ASEAN. Therefore, all economic indicators point to an upward slope between China and Southeast Asia, while Japan cautiously has been observing this rising economic giant in its so-called own ‘sphere’.

This changing economic configuration of the region is the main inquiry of this research. Although the developments like the October 2003 Summit of ASEAN and the growing economic integration of China with ASEAN are fairly recent, it is generally argued in the academic circles and the policy makers alike, that China has been taking the lead as an economic player in Southeast Asia. Japan has also attempted to follow the same route that China has adopted.

However, despite the recent literature survey which demonstrates that China currently has a bigger say in the region, it is argued in this study that China is not yet ready to replace Japan as an economic leader of Southeast Asia in the long-term. To begin with, it is quite early to predict that China would take Japan’s leading economic position in the region just by looking at the Japanese economic slowdown and the recent Chinese economic integration with ASEAN. In addition to this, China’s blooming economy with its domestic crisis potentials and China’s long-term geo-strategic interests in the South China Sea should also be taken into account while analysing economic potentials of Japan and China in Southeast Asia.
In order to focus on this argument, a comparative methodology is followed during this research. In the second chapter, ASEAN, which is taken as the sole multilateral actor of the region, is analysed with a descriptive approach. In this study, multilateralism and regionalism, which both Japan and China utilise in their interactions with the region, are taken to be the main theoretical approaches to define the nature of international relations within the region. Thus, a brief examination of the idea of regionalism in Southeast Asia is provided in the second chapter. Unstable economic relations between China and Japan are also explored in this chapter in order to complete the picture of the region. China and Japan’s economic relations with ASEAN are separately examined in Chapter 3 and Chapter 4. As the growing potential of China in the ASEAN market and the rising criticism against the Japanese developmental model for Southeast Asia surfaced during the Asian financial crisis, a special focus is given to this period as well.

An argumentative analysis of Japan’s reaction to the rising economic integration of China with ASEAN is provided in Chapter 5. As China has significant strategic considerations in Southeast Asia and Japan has historical and strategically defined sensitivities in its approach to the region through economic measures, political aspects of the relations are discussed to be able to draw a whole picture of the relations among China, Japan and ASEAN. The concluding discussion focuses on the potentialities of ASEAN-China economic partnership, the rising questions about the growing Chinese economy and how Japan would response to this newly emerging situation. Survey on the empirical data and the recent news resources are the main discussion tools in this complementary chapter.
The research of this academic study has included a general literature survey and an extensive Internet search. Participation to a valuable workshop on “ASEAN in the 21st Century,” attended in Tokyo in January 2003 and a research project on “China and ASEAN Economic Relations” conducted at the European Institute for Asian Studies, in Brussels, October-December 2003 have also contributed to the academic discussions of the study. Most of the empirical data and the news analysis have been gathered during these academic activities. China, Japan and ASEAN are the main actors of this study. However, considerable reference is given to the United States (US), which has economic interests and strategic ties with ASEAN, Japan and China. The period under examination in the study starts from the mid-1990s, when China launched its integration to the ASEAN platform through functional mechanisms, to the recent developments, including the last ASEAN Summit of October 2003. Although the main focus is on economic relations, the political and security aspects of the economic relations are also considered to make the study more comprehensive.
CHAPTER II

ASEAN AS A REGIONAL FRAMEWORK OF SOUTHEAST ASIA

This chapter aims to assess the experience of ASEAN in Southeast Asia by providing the theoretical background of regionalism. Although there are other pluralist tendencies in the region, ASEAN is the operational body whereby all divergent Southeast Asian nations have come together and achieved a certain level of co-operation. Indeed, both Japan and China perceive ASEAN as the main channel to be able to further integrate themselves to the Southeast Asian market. Hence, examining the region from an ASEAN perspective is more reasonable in terms of drawing the general economic pattern of the region. After elaborating the establishment of ASEAN, the economic and political aspects of ASEAN, as a regional organisation, are focused.

Although ASEAN has a long history with both economic, political and security experiences, only important steps, to which China and Japan have responded, are examined in this chapter. An additional analysis concerning the economic interaction between Japan and China is also given at the end of the chapter in order to complete the picture of Southeast Asian economic structure. The recent economic developments (like the ASEAN+3 [ASEAN and China, Japan and South Korea] formation and the recent summits of the Association) are examined in
the consecutive chapters since those developments are directly related with the Chinese and Japanese economic positions in the region.

2.1. Regionalism in Southeast Asia

Regionalism is “an attempt by a group of states to order their relations amongst each other in such a way as to advance commonly agreed aims, to avoid local conflicts and to manage it, if it does break out, as much as possible, on regional basis”\(^1\). In addition to this common definition of regionalism, main schools of thought on international co-operation have defined regional integration as well. According to neo-functionalism, regional integration is shifting certain functions of the nation-state to a supranational organisation\(^2\). Inter-governmentalism, which formulates regional integration as co-operative agreements for further integration, and supranationalism, which stresses supranational institutions and transnational actors on the way to regional integration, are the other theoretical bases to define regionalism according to the same reference. Indeed, all theoretical formulations derive their sources from pluralism and transnationalism as founding premises of regionalism\(^3\).

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\(^3\) For a detailed discussion on transnationalism during the 1970s, see Robert Keohane and Joseph Nye, *Power and Interdependence*, (Boston: Little Brown, 1977).
Towards the end of the 1970s, regionalism gained an increasing popularity in international relations. Rising issues like environmental problems, the economic emergence of Japan and the European integration against the American hegemony and the declining US premises on the world financial system with the end of the Bretton Woods system resulted in intensification of the regionalist tendencies. The rising interdependency was another common ground on which all regionalist tendencies came together. ASEAN is an exemplary reaction to these rising trends. Indeed, ‘region’ is generally defined as an area, which has historical commonalities, political as well as economic connections and common organisations to lead interactions. According to this common definition, ASEAN has a proper regional platform on which it has been established.

Having this regional tendency in Southeast Asia, specific terms like open regionalism, economic regionalism and sub-regionalism were produced to examine the ASEAN experience. Open regionalism is the term developed by Richard Higgot and Hadi Soesestra in order to define the characteristics of ASEAN. According to Higgot, it is the Pacific model of global economic co-operation. It mainly aims to avoid institutionalisation of military and security issues, any discriminatory trading bloc and any kind of strict institutionalisation for non-member actors (be it a state or a non-governmental organisation [NGO]). Economic regionalism is also in a similar direction with open regionalism under which economic interactions have priority but

---


it is a more widened concept including open regionalism and sub-regionalism as well. May Yueng has also elaborated different stages of regional economic integration. According to him, there are four main regional tendencies: the free trade area (FTA), the customs unions, the common market and the economic union\(^6\). It can be inferred from the above-mentioned explanations of regionalism that ASEAN is a regional economic co-operation with the FTA assumption and a political consultation mechanism for the ten nations of Southeast Asia.

2.2. The Association of Southeast Asian Nations (ASEAN)

2.2.1. Evolution of the Association

The establishment of ASEAN is one of the biggest achievements of the countries of Southeast Asia. In its basic sense, the ‘Bangkok Declaration’ gave a birth to the organisation and united the five founding nations in a joint effort to promote regional co-operation and stability\(^7\).

This historical event was directly linked to the end of the period of colonialism in the Asia-Pacific. During the 1950s and the 1960s, most of the region

\(^6\) Though all these levels are called as regional trade blocs, the most substantial and detailed one is the economic union under which all organisational structure is constructive. It is a constant trade bloc since it harmonises all government spending, central banks and monetary differences. ASEAN is much more of a loose trading bloc, which eliminates internal barriers in an FTA system. See, May Yeung (et.al.), (eds.), Regional Trading Blocs in the Global Economy: the EU and ASEAN, (Cheltenham: Edward Elgar Publishers, 1999), 17-25.

\(^7\) The Bangkok Declaration is the founding document of ASEAN. It was prepared on August 8, 1967, with the signatures of the five founding members (Indonesia, Malaysia, the Philippines, Singapore and Thailand) of the Association. Posted at the ASEAN website <http://www.aseansec.org>.
remained under the influence of colonial powers. Once they gained independence, those regional states of Singapore, the Philippines, Malaysia, Indonesia and Thailand (being the only non-colonial nation of Southeast Asia) felt the need for political and economic co-operation in the unstable atmosphere of the Cold War. Apart from the fragility of the newly established states, there were also security concerns about the regional powers, i.e. China and especially Japan. Japan, having imperialist attitudes towards the region before and during the Second World War, was the dominant actor in Southeast Asia. In addition to Japan, Vietnam also posed a regional threat against the stability of Southeast Asia.

After the colonial period in Southeast Asia, the main ambitions of the countries were the establishment of their national governments and economic growth for further development and stability. Given the rising tendency of regional co-operation, the Southeast Asian nations agreed on the necessity of a common platform in the region. It was in 1967 that the three original members of ASEAN (Malaysia, the Philippines and Thailand) decided to invite Indonesia and Singapore to establish a discussion platform for regional political and economic problems. The Bangkok Declaration, as the constitution of the organisation, stated that:

---

8 Indeed, most of the founding members gained independence during the 1950s. Indonesia was an early Dutch territory that gained sovereignty in 1945. Malaysia was of a British colony and gained freedom initially in 1957 and then from Indonesia in 1963. As an early British colony, Singapore gained independence from Malaysia between 1963 and 1965. Being an old Spanish territory, the Philippines was established in 1946 after the Japanese retreat. Only the fifth founding member, Thailand was an exception as it has never been annexed by an outsider throughout its history. For the others, Vietnam gained independence in 1945; Brunei is still a kingship; Cambodia is independent since 1945 from the French colonialism while Laos gained independence in 1949 from the French and Burma as an old British colony is independent since 1948. Posted at the ASEAN website <http://www.aseansec.org>.

The Association represents the collective will of the nations of to bind themselves together in friendship and co-operation and, through joint efforts and sacrifices, secure for their peoples and for posterity the blessings of peace, freedom, and prosperity\(^{10}\).

As stated in the preamble, the priority is the maintenance of the economic and social well being of the region. After this bright start, ASEAN has grown gradually. Brunei Darussalam joined ASEAN in 1984, Vietnam in 1995, Laos and Burma in 1997 and Cambodia became the last member in 1999.

**Table 1: ASEAN Economic Indicators, 2002**

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Growth Rate,(%)</th>
<th>GDP per capita US$</th>
<th>Inflation rate,(%)</th>
<th>Local Currency per US$</th>
<th>Account Balance, GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>358,000</td>
<td>3.2</td>
<td>12,090</td>
<td>-2.3</td>
<td>1.79</td>
<td>86.7</td>
</tr>
<tr>
<td>Cambodia</td>
<td>13.1 mil.</td>
<td>5.5</td>
<td>299</td>
<td>3.3</td>
<td>3.932</td>
<td>-2.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>234.9 mil.</td>
<td>3.7</td>
<td>819</td>
<td>11.9</td>
<td>9.318</td>
<td>4.2</td>
</tr>
<tr>
<td>Laos</td>
<td>5.9 mil.</td>
<td>5.9</td>
<td>329</td>
<td>10.2</td>
<td>10.188</td>
<td>-1.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23.0 mil.</td>
<td>4.1</td>
<td>3,914</td>
<td>1.8</td>
<td>3.8</td>
<td>9.6</td>
</tr>
<tr>
<td>Burma</td>
<td>42.5 mil.</td>
<td>5.0(^1)</td>
<td>104</td>
<td>57.1</td>
<td>645</td>
<td>0</td>
</tr>
<tr>
<td>Philippines</td>
<td>84.6 mil.</td>
<td>4.4</td>
<td>974</td>
<td>3.1</td>
<td>51.77</td>
<td>5.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.6 mil.</td>
<td>2.2</td>
<td>20,515</td>
<td>-0.4</td>
<td>1.79</td>
<td>21.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>64.3 mil.</td>
<td>5.3</td>
<td>2,043</td>
<td>0.6</td>
<td>42.96</td>
<td>6</td>
</tr>
<tr>
<td>Vietnam</td>
<td>81.6 mil.</td>
<td>7</td>
<td>439</td>
<td>3.8</td>
<td>15.264</td>
<td>-2.5</td>
</tr>
<tr>
<td>ASEAN**</td>
<td>554.8 mil.</td>
<td>4.4</td>
<td>1.144</td>
<td>7.2</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: * Burma 2002 is a preliminary estimate.
** The GDP per capita US$ (excluding Burma 2001 figure) was computed using the Purchasing Power Exchange Rate, based on the IMF-WEO Database of April 2002, and using GDP nominal from the ASEAN Surveillance Co-ordinating Unit (ASCU) Database, posted at the ASEAN website <http://www.aseansec.gov >.

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\(^{10}\) The aims and the purposes of the Association are: (i) to accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian Nations and (ii) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter. See “The ASEAN Declaration,” Bangkok, 8 August 1967, posted at the ASEAN website <http://www.aseansec.org >.
As indicated in Table 1, there is a wide-range membership profile of ASEAN. The demographic, social and economic indicators of the members show that these is no average level to determine the potentialities of ASEAN. Most of the member countries are underdeveloped or developing countries, while there are some members, like Brunei and Singapore, which have almost the highest per capita income levels of the world ranks\(^{11}\). There are ethnic and linguistic differences as well. Most of the ethnic problems result from this complexity of the roots of the member countries. Political heterogeneity is another feature of the region. There are monarchies, republics, parliamentary systems and authoritarian regimes. Thus, it is very difficult to draw a general picture about economic, social and political framework of the region. Table 1 shows the recent economic position of each member state and the Association itself.

Given the divergent character of ASEAN, it is not improper to call ASEAN as a ‘decentralised intergovernmental and non-governmental congress,’ as indicated by Peter Katzenstein\(^ {12}\). Indeed, the ministerial and summit meetings and the Secretariat are the main bodies of ASEAN while it does not have any supranational authority to which the nation-states could convey some of their political as well as security driven responsibilities. For this reason, there are intractable problems on which ASEAN could not present a joint stand. For example, there is a clash of sovereignty claims of Malaysia and Indonesia over the islands of Sipoda and

\(^{11}\) For example, Singapore has a per capita level of 20,515 $ as the richest member of the Organisation while Burma has an average of 104 $ as being the poorest member. Thus, average per capita of ASEAN is about 1,144 $. Posted at the World Bank website < http://www.worldbank.org >.

Ligiton. Another important ‘clash of interests’ is over the Spratly Islands among China, the Philippines, Brunei, Taiwan, and Vietnam\textsuperscript{13}. In addition to these international disputes, there are border insurgencies between countries emanating from the Cold War old hostilities or from the colonial times\textsuperscript{14}.

2.2.2. The Economic Aspect of the Association

Today the ASEAN region has a population of about 550 million, a total area of 4.5 million square kilometres, 4.4\% annual growth rate during the 1990s and a total trade of US$758 billion\textsuperscript{15}. Thus, ASEAN comprises an important share of the world trade and economy. With the exception of the Philippines, all original ASEAN members have enjoyed high economic growth throughout the 1970s and the 1980s. Between 1991 and 1996, this growth became very substantial and some of the original ASEAN members became the contenders of the so-called ‘East Asian Miracle’\textsuperscript{16}. Indeed, this gradual economic growth of the region has positively influenced the organisational development of the Association. ASEAN has become a

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\textsuperscript{13} Further island disputes are of Pedra Branca islands between Malaysia and Singapore and Paracel Islands dispute mainly between China and Vietnam. The South China Sea issues are examined in a detailed manner in Chapter 5.

\textsuperscript{14} Some of the disputes are the claims of the Philippines to the state of Sabah, disputed ownership of the islands of Sipadan, Sebatik and Ligitan by Malaysia and Indonesia and a boundary dispute between Cambodia and Vietnam. For further details, see Marvin C. Ott, “Southeast Asian Security: A Regional Perspective,” Paper presented at the Asia-Pacific Symposium, 7-8 March 2000, (Washington: National Defense University Press, 2001), 41.

\textsuperscript{15} Data, posted at the ASEAN website < http://www.aseansec.org >.

\textsuperscript{16} Thailand averaged 7.9\% growth, Malaysia 8.7\%, Indonesia 7.8\% and Singapore 8.5\% growth during the late 1980s and early 1990s. Even the Philippines, being domestic crisis during that time, grew by 5.9\% on the eve of the 1997 Asian financial crisis. See, Jeannie Henderson, “Reassessing ASEAN,” Adelphi Papers: 328, (London: International Institute for Strategic Studies, 1999), 40.
multilateral channel with transnational and inter-governmental linkages while discussing mainly the economic issues concerning Southeast Asia.

The general drive of ASEAN towards an economic platform was clear from the very beginning\textsuperscript{17}. The first and the most important summit meeting of ASEAN was held on February 24, 1976. On this first summit meeting in Bali, Indonesia, the Treaty of Amity and Co-operation (TAC) in Southeast Asia was signed. According to this treaty, contracting parties have accepted the mutual respect for the independence, sovereignty, equality, territorial integrity, national identity of all nations; the right of every state to lead its national existence free from external interference, subversion or coercion; non-interference in the internal affairs of one another; settlement of differences or disputes by peaceful manner; renunciation of the threat or use of force; and effective co-operation among themselves\textsuperscript{18}. This agenda of the Association created the peculiar ‘ASEAN Way’ by which the ‘principle of non-interference’ and the ‘principle of non-use of force’ have become the driving forces as well as the obstacles hindering further integration of ASEAN\textsuperscript{19}. Hence, the economic integration gained priority over any security driven integration at regional level. Further summit meetings contributed to this pragmatic structure of the Association as well.

\textsuperscript{17} Chin-Peng Chu, “Regionalism and Regional Integration in the Asia-Pacific and the European Union,” in Christopher Dent and David Huang (eds.), \textit{Northeast Asian Regionalism, Learning from the European Experience}, (London: Routledge, 2002), 52.

\textsuperscript{18} These are the official basis of the 1976 Treaty. Posted at the ASEAN website <http://www.aseansec.org>.

When ASEAN was established, trade among the member countries was considerably low. The estimates between 1967 and the early 1970s showed that the share of intra-ASEAN trade merely accounted for 12-15% of all ASEAN trade. Further co-operation initiatives were taken to increase the intra-regional economic performance of the Association. One of these initiatives was the Preferential Trade Arrangement of 1977. This agreement provided the system of ‘tariff preferences’ in order to increase intra-ASEAN trade. Later, the Framework Agreement on Enhancing Economic Co-operation (namely the ASEAN Free Trade Area [AFTA]) was adopted at the 4th ASEAN Summit in Singapore in 1992. The elimination of the tariff and non-tariff barriers among the member countries was targeted to increase the economic efficiency and productivity. Initially, AFTA was aimed at reducing the tariffs to 0-5% in a 15-year period but then more country-specific priorities were targeted according to the adaptation performances of the new members.²⁰

Within three years after the launching of AFTA, exports among ASEAN countries grew from US$43.26 billion in 1993 to almost US$80 billion in 1996 with an average annual growth rate of 28.3%.²¹ The share of the intra-regional trade in ASEAN’s total trade rose from 20% to almost 25%. Furthermore, the ASEAN-6 countries have completed their tariff reduction commitments in the beginning of 2003.²² But for the new member countries, the aim of a 0-5% tariff regulation will

²⁰ The 5th ASEAN Summit, held in Bangkok in 1995, adopted the “Agenda for Greater Economic Integration,” which included the acceleration of the timetable for the realisation of AFTA from the original 15-year time frame to 10 years. The new ASEAN members were the last four members of ASEAN. These are Vietnam, Burma, Laos and Cambodia.

²¹ The years between 1993 and 1996 are significant as they cover the pre-crisis period. For statistical information, see Table 4 in Chapter 3 and see data posted at the World Bank website <http://www.worldbank.org>.
be implemented only by 2015\textsuperscript{23}. Today, almost 48\% of the products have zero tariff rates\textsuperscript{24}. As a result, AFTA progressed positively with growing economies of the ASEAN countries during the mid-1990s (see Table 4, Chapter 3).

Of course, one should also mention the negative impact of the Asian financial crisis. Member states had to declare that they had postponed their scheme of further integration because of a certain decline in their individual and regional economic growth plans. Not only trade and investment were badly affected but the liberalisation plans of the member states also failed. Today, the region is still trying to recover both from the Asian financial crisis and the immediate global slowdown of the world trade after the crisis\textsuperscript{25}. However, the Asian financial crisis was an important test case for both Japan and China to prove their interests in the region. Both Japan and China have tried to rescue the regional economies with individual and regional initiatives. The separate approach of each player towards the region, during the crisis, is examined in Chapter 5.

### 2.2.3. The Political Aspect of the Association

\textsuperscript{22} The ASEAN-6 countries are the first six members of the Association: Malaysia, Indonesia, the Philippines, Thailand, Singapore and Brunei. Grouping of the ASEAN members are made according to the economic and development performances of the member countries.

\textsuperscript{23} The deadline for Cambodia is set as 2010, 2006 for Vietnam and 2008 for Laos and Burma. As there are sectors which are so sensitive to tariff changes, completion of AFTA is projected at around 2018, including all ASEAN members, posted at the ASEAN website <http://www.aseansec.org>.

\textsuperscript{24} However, this zero tariff rate is not applicable to all members of the ASEAN-6 group. For example, Singapore normally has no tariffs and raising any tariff rate would cause problems for Singapore. This is one fragile point of AFTA. For details, see Michael Plummer, "ASEAN Integration and the European Experience," \textit{EurAsia Bulletin}, 7(6-7), 2003, 3-5.

\textsuperscript{25} The related figures can be seen with the comparison of Table 4 and Table 5 in Chapter 3.
The political experience of ASEAN has always been put behind the ambition of economic development. The Treat of Amity and Co-operation is the main source of all economic, political and security dimensions of the Association. As can be seen from the above discussion on the TAC and its ‘non-intervention principle’, ASEAN has always been an ineffective political co-operation. It was only after the ASEAN members have gained certain degree of economic power, i.e. during the late 1980s and early 1990s, that the Association could propose intensification of their external co-operative dialogue on political and security issues with the other actors of the Asia-Pacific region. Hence, the most important political step of ASEAN was made with the establishment of the ASEAN Regional Forum (ARF) in 1994.

The forum aims to promote and implement the confidence-building measurements (CBMs), preventive diplomacy and conflict resolution. The current ARF members are Australia, Brunei Darussalam, Cambodia, Canada, China, the European Union, India, Indonesia, Japan, Republic of Korea, Laos, Malaysia, Burma, Mongolia, New Zealand, Papua New Guinea (with an observer status), the Philippines, the Russian Federation, Singapore, Thailand, the United States, Vietnam and the Democratic Peoples’ Republic of Korea. Today, the ARF is a


as a mechanism to implement security policies\textsuperscript{28}.

As the 27\textsuperscript{th} ASEAN Ministerial Meeting (1994) announced that,

\begin{quote}
The ARF could become an effective consultative Asia-Pacific Forum for promoting open dialogue on political and security co-operation in the region. In this context, ASEAN should work with its ARF partners to bring about a more predictable and constructive pattern of relations in the Asia-Pacific\textsuperscript{29}.
\end{quote}

The ARF seems to be successful in promoting its goal of being a dialogue forum as no tension has escalated into an armed conflict amongst the ASEAN members since its establishment. However, the ARF structure is a mere pacifist attempt and it still cannot take a common stance on the Asia-Pacific security issues, which might have regional repercussions. Be it a strong multilateral security framework or a loose co-operation platform for the issues concerning Southeast Asia, both Japan and China have been members of the Forum from the very beginning of its establishment. Furthermore, they still perceive the ARF as an important opportunity to communicate with the ASEAN members on political matters and to integrate themselves to the political framework of the region.

\subsection*{2.3. Problems of Regionalism in ASEAN and Reactions of China and Japan}

Although China’s economic integration and Japan’s changing position are the main defining aspects of the current interactions in Southeast Asia, ASEAN’s

\begin{footnotesize}\textsuperscript{28} Axel Bekofsky, “The EU’s Role in the ASEAN Regional Forum (ARF) - Scope and Limits,” \textit{EIAS Policy Paper}, PP:1, 2003, posted at the European Institute for Asian Studies website <http://www.eias.org>.\end{footnotesize}
experience as a regional organisation is also important. Institutional success of
ASEAN affects both the economic context of the region and policy preferences of
China and Japan. Nevertheless, regionalism has always been a slow and challenging
process in Southeast Asia. Given the potentialities of the region, ASEAN’s
achievements are remarkable. However, there are structural, organisational and
regional difficulties that prevent ASEAN from becoming an integrated regional
organisation. Therefore, it is meaningful to mention some of the pending problems
of regional integration in Southeast Asia. Initially, as mentioned above, ASEAN is
the most heterogeneous grouping in terms of economic, social and structural
differentiation of its members. This structural complexity of the Association makes
presentation of a common stance with one voice in international arena quite
difficult.

From the organisational point of view, the institutional framework and the
reluctance of member countries to build up institutional mechanisms have always
hindered the speed of regionalism in ASEAN. An unbreakable ‘non-interference
principle’ has impeded ASEAN from taking common decisions about domestic
issues that have regional repercussions. ASEAN could not propose a solution, nor
did it have a clear position on how to resolve the regional problems like the 1997-
1998 Indonesian domestic crisis, Cambodian political strife in 1997 or the Asian
financial crisis (ASEAN’s first official reaction to the crisis came 6 months after the
outbreak of the crisis). For instance, ASEAN’s reaction to the recent developments
in Burma was not more than an official statement about the developments in Burma.

29 See “27th ASEAN Ministerial Meeting” Press Release, posted at the ASEAN website
Hence, ASEAN is not yet in the position of taking a common or strong stance about the struggles for democracy in Burma.

There are other problems, stemming from the deepening and widening practices of the Association. When Vietnam, Laos, Burma and Cambodia joined ASEAN, discussions were posed by all actors of the region (from state mechanisms to the NGO levels) about the emerging problems like environmental degradation, migrant labour, drug trafficking and black market activities\textsuperscript{30}. These issues comprise an important part of the joint projects run by the Chinese and ASEAN authorities and host governments. China has initiated cross-border projects to support its neighbouring countries to achieve a certain degree of development\textsuperscript{31}. Japan, on the other hand, has already been supporting multilateralism in Southeast Asia through its ODA policies. Of course, there was a declining slope of the functional support of Japan to ASEAN during the mid-1990s. However, Southeast Asia has always been the first targeted area for the ODA policies (see Figure 3, Chapter 4).

All these supporting attempts of China and Japan show that China certainly wants to be a leading player in the region. However, it can clearly be stated that Japan’s stance in the region, in terms of bilateral assistance and organisational support to ASEAN, has been much extended and deeper throughout the decades of relationship between Japan and ASEAN.

2.4. Recent Economic Relationship between Japan and China as a Determining Factor of the Economic Configuration of Southeast Asia

\textsuperscript{30} Euarukskul, 258-264.

\textsuperscript{31} ‘Mekong River Project’ is one of these attempts of China to create a certain degree of development at regional level in Indochina. Posted at the ASEAN website <http://www.aseansec.org>.
The year 2002 was the 30th anniversary of the normalisation of the relations between China and Japan. Throughout their history, the two major Asian players have had long and multifaceted relations. This originated from the similar religious, cultural, territorial and historical backgrounds, full of insurgencies, wars and invasions. Indeed, the past aggression of Japan against China is one of the most defining characteristics of China-Japan relations. Hence, each has seen the other as a potential rival despite all similarities and tried to contain the other’s influence in East and Southeast Asia. The recent comparative economic indicators of China and Japan can also be seen in Table 2.

Table 2: Economic Indicators of Japan and the PRC, 2002

<table>
<thead>
<tr>
<th>Country</th>
<th>Population, mil.</th>
<th>Growth Rate, %</th>
<th>GDP per capita, US$</th>
<th>Inflation rate, %</th>
<th>Local Currency per US$</th>
<th>Account Balance GDP %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>127.2</td>
<td>-0.3</td>
<td>28.000</td>
<td>-0.9</td>
<td>125.3</td>
<td>2.1</td>
</tr>
<tr>
<td>PRC</td>
<td>1.300</td>
<td>8</td>
<td>4.400</td>
<td>-0.8</td>
<td>8.277</td>
<td>2.9*</td>
</tr>
</tbody>
</table>


Nevertheless, the relations have gained an economic aspect from the 1970s on. This was in accordance with the changing configuration of the Cold War

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32 Japanese atrocities in Manchuria and mainland China had formed the cultural resistance and national prejudice against Japan in China. Chinese politicians have always used this excuse as a bargaining card against Japan. For details of the deliberate use of this common excuse by both Japan and China, see Osaki Yuji, “China and Japan in Asia Pacific: Looking Ahead,” in Ryosei Kokubun (ed.), Challenges for China-Japan-US Co-operation, (Tokyo: Japan Centre for International Exchange, 1998), 106-107.

33 In fact, the economic relations between the two had already started before the 1970s. Japan had signed the first special trade agreement with the PRC in 1952. China also sent its first trade mission to
environment and the rising impact of economic interdependency in international relations. Hence, Japan and China signed the Treaty of Peace and Friendship on August 12, 1978. Both sides looked for deliberate common ground especially on China’s needs for its opening strategy and Japan’s readiness, without military consideration, for development assistance and economic partnership with China. Throughout the 1980s, economic relationship between Japan and China improved despite history or security driven policy implementation practice of each economic power against the other.

After the 1989 Tiananmen incidents, Chinese and Japanese relations were broken abruptly. Of course, there appeared hesitancies in Japan about the domestic crisis situation in China. But Japan recognised the socially disrupted and economically downturn position of China and continued to support it through social and economic means because policy makers in Japan believed that only economically recovered China would be integrated to the world system and then taken under control. Since China managed to recover its domestic, social and

34 Beginning from 1972, the US-China détente and the changing international system forced China to open itself to the international market and Japan. See in Paul Kennedy, *Büyük Güçlerin Yükseliş ve Çöküşleri, (The Rise and the Fall of the Great Powers)*, (İstanbul: Türkiye İş Bankası Kültür Yayınları, 2001), 489-516. For a detailed analysis of the US-China rapprochement and its impacts on China’s opening strategy to the international system, see Henry Kissenger, *Diplomasi, (Diplomacy)*, (Ankara: Türkiye İş Bankası Kültür Yayınları, 1998), 685-695.

35 China and Japan initially signed a Japan-China Joint Communiqué after the then Prime Minister Kakuei Tanaka’s official visit to China (29 September 1972). This rapprochement gave a drastic motive to the ongoing trade relations with consecutive agreements on practical trade matters. For the Documents signed by China and Japan between 1972 and 1978, see Mete Tuncoku, *Japonya Çin Halk Cumhuriyeti İlişkileri, (Japan- The People’s Republic of China Relations)*, (Ankara: Avrasya Bir Vakfı Yayınları, 2002), 87-94. The China-Japan Treaty of Peace and Friendship further encouraged the growth of Japanese investment and commerce towards China via cultural linkages as well. See Iriye, 50.
economic infrastructure (by nearly doubling the size of its domestic economy), Japan extended its economic and cultural ties with China through multilateral and transnational linkages. It was even claimed during one of the imperial visits from Japan to China that the axis of Japan-US relations would be complemented with the axis of Japan-China relations and the Japan-China relations would constitute the core of the formulation for the conduct of Japan’s Asia oriented diplomacy.

In the beginning of the 21st century, wide-ranging negotiations were promulgated in order to formulate relationships between China and Japan. According to this analysis, Japan had to go for further co-operation with China since China was already integrated to the domestic market of Japan. However, domestic problems in the Japanese economy made it difficult for the Japanese policy makers to decide on how to react to the growing share of Chinese initiatives in the domestic market and shifting Japanese investments in China (see Table 3). As a policy response, the ‘Economic Co-operation Program for China’ was intended to define the new economic relationship between the two countries for the recent decade.

Indeed, Japan has always been the leading supporter of China during its membership negotiations with the WTO. However, this is also a part of the policy formulation of

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36 This policy attitude of Japan towards China was indicated as the basis of Japan-China relations. See most recent official declaration, “Japan-China Joint Declaration on Building a Partnership of Friendship and Co-operation for Peace and Development,” 26 November 1998, posted at the Japanese Ministry of Foreign Affairs website <http://www.mofa.go.jp>.


38 The Document was issued in October 2001. According to this high-level official document, it was decided that Japan would continue its support program of ODA projects in the rural areas of China during the Tenth Five Year Development Plan of China. It was stated once again in that document that Japan was still insistent on encouraging China for development of its relations with international institutions and other donor countries. Posted at the Japanese Ministry of Foreign Affairs website <http://www.mofa.go.jp>. 

keeping China within the multilateral control mechanism of the international community\textsuperscript{39}.

Table 3: Merchandise Trade Figures between Japan and China, 2000-2002

Merchandise Trade of Japan with China, US$bn

<table>
<thead>
<tr>
<th>Years</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>30,38</td>
<td>55,10</td>
</tr>
<tr>
<td>2001</td>
<td>31,00</td>
<td>57,87</td>
</tr>
<tr>
<td>2002</td>
<td>39,82</td>
<td>61,78</td>
</tr>
</tbody>
</table>

Merchandise Trade of China with Japan, US$bn

<table>
<thead>
<tr>
<th>Years</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>41,65</td>
<td>41,51</td>
</tr>
<tr>
<td>2001</td>
<td>44,94</td>
<td>42,79</td>
</tr>
<tr>
<td>2002</td>
<td>48,43</td>
<td>53,47</td>
</tr>
</tbody>
</table>


The recent October 2003 Summit of ASEAN gave a chance to Japan and China to commence their own summit meeting. According to the recent summit meeting, they will support the regional development in Southeast Asia and also focus on the ASEAN+3 mechanism, for their smooth access to the region. Of course, there are also problems between the two main economic players. The ‘history card’ is still used by the Chinese authorities. Indeed, even if the two economic players become interdependent on each other, this ‘emotional’ dimension
plays a considerable role in China-Japan relations. Indeed, annual visits of the Prime Minister Junichiro Koizumi to Yasukuni Shrine keep this historical tension awake. Both China and the ASEAN members also meet Japan’s militarism and any discussion to increase the capacity of military forces in Japan with caution and anxiety. Japan’s economic interaction with Taiwan is also a concern for China. However, it is clear that Japan keeps this delicate relationship on its agenda in order to use this as a bargaining card against China. Nevertheless, Japan interprets China’s military operations and critical stance against Taiwan and in the South China Sea as a clear intention of China to also become a regional power in Southeast Asia.

Trade friction between Japan and China is, however, the most tensely discussed issue recently. Today, commercial and investment ties between Japan and China are very important despite the politically and history driven hesitancies of each part (see the growing trade share of each part towards the other in Table 3). Nevertheless, protectionism and hesitancy of Japan towards the entrance of China into the Japanese and Southeast Asian markets are the main concerns on both sides. According to the Chinese authorities, Japan still imposes its provisional safeguard measures on certain goods like agricultural products. This precaution against

39 This is the basic policy approach of Japan to the PRC according to the Ministry of Foreign Affairs of Japan. Posted at the Japanese Ministry of Foreign Affairs website <http://www.mofa.go.jp>.


Chinese goods and services is a clear indication of Japan’s growing concern about China’s rise as the biggest supplier of end products and consumer goods in the regional market. Thus, this policy approach forced Japan to integrate itself to the regional co-operation arrangements of ASEAN recently.

When ASEAN has achieved its economic growth and managed its consultative political experience during the early 1990s, China and Japan have also been changing their policy directions in the region. Japan, being the economic leader of the region during the 1980s, was in a downturn tendency in terms of its economic share in the ASEAN market and concerned about Chinese access to the region. China, however, was in an upward trend in terms its economic growth in Japan’s domestic market and relations with ASEAN. Significant components of this general picture are further questioned in the next two chapters after this elaboration of the importance of ASEAN as a regional platform.
CHAPTER III

ECONOMIC RELATIONS BETWEEN CHINA AND ASEAN

The economic relations between China and ASEAN have been precipitated from the mid-1990s onwards. The establishment of the ASEAN+3 framework was the informal inclusion of China as well as Japan and South Korea to the economic regional framework of Southeast Asia. Later, the trade volume between the Association and the PRC grew steadily. This growing economic partnership has been strengthened with the initiation of the ASEAN-China FTA in 2002. The recent ASEAN Summit became the cornerstone of the relations between China and ASEAN since China managed to attract all regional as well as international economic actors after the Asian financial crisis. Today, China-ASEAN economic relations are evaluated as quite progressive while Japan seems to be losing its economic leadership potential in the region.

Nevertheless, as stated in the main argument of this study, growing economic partnership between China and ASEAN is a pragmatic and positive one in the medium-term. Given the strategic considerations of China on the South China Sea and the domestic crisis potential of China with its uncontrolled economic growth, it is not probable for China to replace Japan as an economic leader in the region. Important steps of this China-ASEAN economic partnership are examined in this chapter. Some of the steps like ASEAN+3 and the 9th ASEAN Summit of
October 2003 are directly related with both Japanese and Chinese positions in ASEAN market. For this reason, these steps are mainly discussed in this chapter while Japan’s reactionary responses to China during the course of these events are examined in the next chapter.

3.1. Establishment of Economic Relations between China and ASEAN

When the People's Republic of China started to focus on its ‘Open Door’ policy during the late 1970s, two main objectives were aimed. These were the decentralisation of the centrally planned economies and the reversal of the policy of international economic isolation\textsuperscript{43}. Hence the 1990s became the years whereby important indicators of the economy showed significant improvements. These were overall increase in the production capacity, the betterment of the allocation services in the domestic market, increasing mobility of labour, rising technology with production focused on research and the establishment of the market supporting the mechanisms like the media, stock exchange, private institutions, business centres and trade unions\textsuperscript{44}. In fact, this striking reformation of the overall system in China was mainly because of the fact that the PRC had changed its foreign policy focus from the isolation and ideologically driven one to the integration with the world community. Hence, Southeast Asia was at the top of the agenda of the PRC in order to realise the above-mentioned goals.

Since the PRC has this growth potential with its demanding market, the ASEAN members also became eager to establish economic relations with China. When Vietnam invaded Cambodia in 1978, China saw the opportunity of communicating with the regional actors. During the Vietnam-Cambodia conflict, China gave full support to ASEAN’s policy of economic isolation against Vietnam. Later, the relationship between China and ASEAN was favoured by China’s contribution to the post-war peace process in Cambodia\(^45\). Hence, China, for its part, managed to formalise its relations with the then members of ASEAN\(^46\).

Another policy formulation that drove China closer to ASEAN was the position of the US and Japan in Southeast Asia. According to the Chinese foreign policy strategy of the beginning of the 1990s, only a stable economic environment could help China counter-balance the US and Japanese influences in the region. For this reason, China focused its foreign policy on keeping stable economic relations with its neighbours\(^47\). ASEAN also has endorsed the economic rise and the endeavour of China to integrate itself into the world economic community.


\(^{45}\) Vietnam withdrew its forces from Cambodia by September 1989 and the parties have signed the Agreement on a Comprehensive Political Settlement for the Cambodian Conflict to formalize the ceasefire. See in S. Robert Ross, “China and Southeast Asia: the Challenge of Economic Competition,” in Wurfel, *Southeast Asia in the New World Order, The Political Economy of a Dynamic Region*, 143-145. China has initially formalized its relations with Indonesia in July 1990, Singapore in October 1990, Malaysia in December 1990 and Brunei in September 1991 while the other ASEAN members have established relations with China already in the previous decades. Posted at the Foreign Ministry of the PRC website <http://www.fmprc.gov.cn/eng/gjhdq/>.

\(^{46}\) In 1991, ASEAN had only six members of Brunei, Thailand, Singapore, Malaysia, Indonesia and the Philippines.

\(^{47}\) This policy direction was also in relation with the famous Five Principles of Peaceful Co-existence of the PRC. These principles were mainly the mutual respect for sovereignty and the territorial integrity, non-aggression, non-interference in each other’s internal affairs, equality and the mutual benefit and the peaceful co-existence. See in Debra Soled (ed.), *A Nation in Transition: China*, (Washington: Congressional Quarterly Incorporation, 1995), 181.
Nevertheless, ASEAN has gained self-confidence after proving its economic growth and capacity in the beginning of the 1990s. Thus, the member countries decided to include China and to integrate themselves to the rising productive market of China.

As a result, ASEAN invited the then Chinese Foreign Minister Qian Qichen to the Annual Ministerial Meeting on July 19, 1991. This initiative resulted in the establishment of two joint committees in July 1994\textsuperscript{48}. These committees were the ASEAN-China Joint Committee on Economic and Trade Co-operation and the ASEAN-China Joint Science and Technology Committee. The formalisation of relations between ASEAN and the PRC has been finalised with the acceptance of China as a Dialogue Partner to ASEAN during the Annual Ministerial Meeting of ASEAN in Jakarta, July 1996\textsuperscript{49}. After the 1996 Summit, several steering and follow-up committees were established to secure the smooth functioning of the institutionalisation of relations\textsuperscript{50}.

### 3.2. China’s Economic Integration with Southeast Asia

After the establishment of the economic relations between China and ASEAN, an economic partnership has gradually been endorsed. As ASEAN realised the rising economic potential of China, it felt forced to enter into the Chinese market not only to save its own regional attractiveness vis a vis the rising Chinese bid in the

\textsuperscript{48} See at the ASEAN website <http://www.aseansec.org>.

\textsuperscript{49} Ibid.

\textsuperscript{50} For the details of these functional committees, see “ASEAN-China Dialogue,” posted at the ASEAN website <http://www.aseansec.org>.
regional market but to have an access to the emerging Chinese domestic market as well. Meanwhile, it is argued that the contribution of the economic integration with China to ASEAN’s economic growth would not be so big when compared to the US’ or Japan’s trade with ASEAN\textsuperscript{51}. The current attractiveness of China in the international market and the short-term benefits of China’s entry to the ASEAN market make China’s integration to ASEAN market more credible for China. The sections below indicate the development steps of this economic partnership. The establishment of the ASEAN-China Joint Co-operation Committee (ACJCC) in 1997 was an early sign that ASEAN aimed at integrating China into its multilateral platform through economic relations. Since China was already a dialogue partner of ASEAN, several sub-committees were set up to co-ordinate relations\textsuperscript{52}. The ACJCC was considered to be the main instrument to compile all sub-committees and delegations, given the economic growth rates of both sides during the mid-1990s.

As can be seen from Table 4, the overall growth of the ASEAN members is a positive one and correlated with the growth of China. This extensive growth of ASEAN and China made them come together via further commercial and investment initiatives from the beginning of the 1990s (see Figure 6a and Figure 6b, Chapter 5). According to the same figures, declining capacity of bilateral trade between ASEAN and Japan is also visible.

\textsuperscript{51} Michael R.J.Vatikiotis, “Catching the Dragon’s Tail: China and Southeast Asia in the 21\textsuperscript{st} Century,” Contemporary Southeast Asia, 25(1), 2003, 65-78.

\textsuperscript{52} In this 1st ACJCC meeting, five principle mechanisms were assigned to drive all relations between ASEAN and China. These were ASEAN-China Senior Officials Political Consultations, the ACJCC, ASEAN-China Joint Committee on Economic and Trade Co-operation, ASEAN-China Joint Science and Technology Committee and ASEAN Committee in Beijing. See “Joint Press Release of the First ASEAN-China Joint Co-operation Committee,” Beijing, 26-28 February 1997, posted at the ASEAN website <http://www.aseansec.org >.
Table 4: The Economic Growth Rates of the ASEAN Members, the PRC and Japan, % of GDP, 1991-1997

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>WORLD %</td>
<td>2,9</td>
<td>3,3</td>
<td>2,9</td>
<td>4,7</td>
<td>4,0</td>
<td>4,3</td>
<td>4,1</td>
</tr>
<tr>
<td>Singapore</td>
<td>7,1</td>
<td>6,5</td>
<td>12,7</td>
<td>11,4</td>
<td>8,0</td>
<td>7,7</td>
<td>8,5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9,5</td>
<td>8,9</td>
<td>9,9</td>
<td>9,2</td>
<td>9,8</td>
<td>10,0</td>
<td>7,3</td>
</tr>
<tr>
<td>Thailand</td>
<td>8,6</td>
<td>8,1</td>
<td>8,7</td>
<td>8,6</td>
<td>8,8</td>
<td>5,5</td>
<td>-0,4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>7,0</td>
<td>6,5</td>
<td>6,5</td>
<td>7,5</td>
<td>8,2</td>
<td>7,8</td>
<td>4,3</td>
</tr>
<tr>
<td>Philippines</td>
<td>-0,6</td>
<td>0,3</td>
<td>2,1</td>
<td>4,4</td>
<td>4,7</td>
<td>5,8</td>
<td>5,2</td>
</tr>
<tr>
<td>Brunei</td>
<td>3,4</td>
<td>-0,5</td>
<td>0,5</td>
<td>1,8</td>
<td>3,0</td>
<td>3,6</td>
<td>4,1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,3</td>
<td>8,2</td>
</tr>
<tr>
<td>Burma</td>
<td>-0,7</td>
<td>9,7</td>
<td>6,0</td>
<td>7,5</td>
<td>6,9</td>
<td>6,4</td>
<td>5,7</td>
</tr>
<tr>
<td>Laos</td>
<td>4,0</td>
<td>7,0</td>
<td>4,5</td>
<td>9,5</td>
<td>7,0</td>
<td>6,9</td>
<td>6,9</td>
</tr>
<tr>
<td>Cambodia*</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,8</td>
<td>9,6</td>
<td>2,6</td>
<td>4,1</td>
</tr>
<tr>
<td>China **</td>
<td>8</td>
<td>13,6</td>
<td>13,4</td>
<td>11,8</td>
<td>10,2</td>
<td>9,7</td>
<td>8,8</td>
</tr>
<tr>
<td>Japan***</td>
<td>2,4</td>
<td>0,5</td>
<td>0,5</td>
<td>0,9</td>
<td>3,1</td>
<td>3,3</td>
<td>0,2</td>
</tr>
</tbody>
</table>

Source: For ASEAN members, International Financial Statistics Yearbook 2001 (International Monetary Fund) and Brunei Darussalam Statistical Yearbook 1999 (Ministry of Finance, Brunei Darussalam), posted at the ASEAN-Japan Centre website <http://www.asean.or.jp/ >.
*Key Indicators of Developing Asian and Pacific Countries 2001 (Asian Development Bank), posted at the ASEAN-Japan Centre website <http://www.asean.or.jp/ >.

In fact, there appeared an enhanced co-operation between China and ASEAN from state level initiatives to transnational joint projects at societal level. These initiatives of the mid-1990s have contributed to the recent partnership of China and ASEAN. However, the security considerations and hesitancies of the ASEAN countries towards China’s military existence in South China Sea also have stayed during enhancement of this multi-dimensional economic co-operation between China and ASEAN (this discussion is further elaborated in Chapter 5).
3.2.1. ASEAN+3 (ASEAN+ China, Japan and South Korea)

The ASEAN+3 Forum was established in 1997 with the initiatives of Japan, China and South Korea. Since the ASEAN market has become a lucrative one during the mid-1990s, all actors in the region aimed at having a direct access to the region. Japan, China and South Korea have had their own bilateral relations with the ASEAN countries. However, a region-wide multilateral dialogue became necessary for further intra-regional economic co-operation. This was also related with the rising trend of transnationalism of the 1990s.

Japan, China and South Korea have undertaken several initiatives to increase their respective influences in ASEAN+3 during the course of its development. Today, they still have their own special linkages within the ASEAN+3 platform. For this reason, there still is not an institutional framework for ASEAN+3 yet. Nevertheless, China, South Korea and Japan perceive ASEAN+3 as a platform to secure their economic influence in the region. The East Asia Vision Group (EAVG), established in October 1999, has reported that there were six main fields of interests for further co-operation in ASEAN+3: Economic, financial, political and security, environmental and energy, social-cultural-educational and institutional co-operation. The East Asia Study Group (EASG), established as a follow-up of the

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53 According to some analysis, ASEAN+3 was the first example of co-operation between Northeast Asia and Southeast Asia. It also presented the first initiative of a common response to the regional problems during the Asian financial crisis. See, Fu-Kuo Liu, “A Critical Review of East and Northeast Asian Regionalism,” in Dent and Huang, 25.

54 Japan has pursued the Initiative for Development in East Asia (IDEA), the Republic of Korea has initiated the East Asia Vision Group and East Asia Study Group to set up policy proposals for the meetings and China has initiated the Framework Agreement on ASEAN-China Economic Co-
EAVG to promote further collaboration between ASEAN and China, Republic of Korea and Japan, recently put forward the common target of conveying ASEAN+3 mechanism into an ‘East Asian Summit’ framework. In addition to its functional framework, however, ASEAN+3 forum has mainly evolved as a financial co-operation platform especially after the ASEAN+3 focused on financial recovery projects in the aftermath of the Asian financial crisis.

During the 2002 Phnom Penh Summit of ASEAN+3, it was furthermore agreed that China’s growing economy necessitated deepening economic co-operation with China. Hence, a separate summit between ASEAN and China was convened after the 6th ASEAN+3 Summit in Phnom Penh. That was the beginning of a new track of relationship between ASEAN and China in addition to the ASEAN+3 framework.

In general, ASEAN+3 has given China the opportunity to have full access to the various multilateral or bilateral projects in the fields of economic co-operation, regional development and socio-cultural activities. Today, this functional relationship between China and ASEAN can be categorised into five main groups: Agriculture, information and communications technology, human resources development, two-way investments and the Mekong River development projects. These fields of co-operation also prove that China had already committed itself to

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operation. See “Press Statement by the Chairman of the 8th ASEAN Summit, the 6th ASEAN+3 Summit and the ASEAN-China Summit,” posted at the ASEAN website <http://www.aseansec.org>.


the full integration to the region even through social and cultural instruments\(^5^8\). Keeping in mind that China would play a progressive role for further development of the region, none of the ASEAN countries has rejected China’s attempts. However, assistance projects of China in the ASEAN region are relatively new and limited when compared with the long term assistance projects of Japan in Southeast Asia\(^5^9\).

3.2.2. The Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China

The Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China (namely the ASEAN-China free trade area [FTA]) was signed at the ASEAN-China Phnom Penh Summit on November 4, 2002. The Agreement was initially signed to be completed by the ASEAN-6 members by 2010. The other ‘new ASEAN members’ were to complete free trade agreements with China by 2015\(^6^0\).

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58 See “Joint Declaration of the Promotion of Tripartite Co-operation among Japan, The PRC and the Republic of Korea,” 7 October 2003, posted at the Japanese Ministry of Foreign Affairs website <http://www.mofa.go.jp>. The “Joint Declaration of ASEAN-China on Co-operation in the Field of Non-Traditional Security Issues” was also signed in November 2002 in order to further strengthen the combat against trafficking of illegal drugs, women and children, smuggling, sea piracy, terrorism, arms sales, economic crimes and cyber crime. This declaration was an instrument of China to further integrate to the ASEAN mechanism of transnationalism. See “Joint Declaration of ASEAN-China on Co-operation in the Field of Non-Traditional Security Issues,” posted at the ASEAN website <http://www.aseansec.org>.

59 For Japan’s assistance projects in Southeast Asia, see Figure 3, Chapter 4.

60 The ‘new ASEAN members’ are the ones whose membership are relatively new and the ones who need more economic and domestic reform in adjusting their economies to institutional integrative framework of the region. See “Framework Agreement on Comprehensive Economic Co-operation
Table 5: The Economic Growth Rates of the ASEAN Countries, the PRC and Japan after the Asian Financial Crisis, % of GDP

<table>
<thead>
<tr>
<th>Countries</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>-0.86</td>
<td>6.42</td>
<td>9.41</td>
<td>-2.37</td>
<td>2.25</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7.36</td>
<td>6.14</td>
<td>8.55</td>
<td>0.32</td>
<td>4.12</td>
</tr>
<tr>
<td>Thailand</td>
<td>-10.51</td>
<td>4.45</td>
<td>4.65</td>
<td>1.94</td>
<td>5.25</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-13.13</td>
<td>0.79</td>
<td>4.92</td>
<td>3.44</td>
<td>3.66</td>
</tr>
<tr>
<td>Philippines</td>
<td>-0.59</td>
<td>3.41</td>
<td>4.38</td>
<td>4.52</td>
<td>4.43</td>
</tr>
<tr>
<td>Brunei</td>
<td>-3.99</td>
<td>2.56</td>
<td>2.83</td>
<td>3.00</td>
<td>3.21</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5.38</td>
<td>4.71</td>
<td>6.76</td>
<td>6.93</td>
<td>7.04</td>
</tr>
<tr>
<td>Burma*</td>
<td>5.77</td>
<td>10.92</td>
<td>13.70</td>
<td>9.90</td>
<td>5.00</td>
</tr>
<tr>
<td>Laos</td>
<td>3.99</td>
<td>7.28</td>
<td>5.81</td>
<td>5.76</td>
<td>5.91</td>
</tr>
<tr>
<td>Cambodia</td>
<td>3.70</td>
<td>10.78</td>
<td>7.03</td>
<td>5.67</td>
<td>5.48</td>
</tr>
<tr>
<td>ASEAN</td>
<td>-7.14</td>
<td>3.58</td>
<td>5.85</td>
<td>3.19</td>
<td>4.43</td>
</tr>
<tr>
<td>China**</td>
<td>7.8</td>
<td>7.1</td>
<td>8.0</td>
<td>7.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.7</td>
<td>1</td>
<td>3.2</td>
<td>-1.4</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: For ASEAN, the ASCU database.
* The fiscal year beginning in April and ending in March of the following year, 2002 preliminary estimate, the ASEAN website <http://www.aseansec.org>.

As shown in Table 5, ASEAN economies have shown positive signs of growth in general. Hence, China wanted to have a special trade agreement with ASEAN. After a short consultation period, the ASEAN-China Trade Negotiation Committee (TNC) was set up in May 2002 for the preparation of the Economic Cooperation Agreement. In the Agreement, the guiding principles of the WTO were taken into consideration for the ‘new ASEAN members’ in terms of their need of different treatment and implementation. China has also extended its Most Favoured Nation (MFN) clause to the non-WTO members of the region to make their...
adjustment to the China-ASEAN FTA smoother\textsuperscript{61}. Figure 1 shows the impact of the positive might of the China-ASEAN FTA in the short-term trade relations between ASEAN and China.

![Change in Trade with the Major Partners](image)

**Figure 1: China’s Foreign Trade, January- August 2003**


China’s further integration to the WTO is also seen as a push for ASEAN’s own AFTA. In 2001, the share of intra-ASEAN trade remained low as intra-ASEAN exports constituted 22.75\% of all trade (see Appendix C). This share was 21.14\% in 1993 when AFTA was established. Intra-ASEAN exports for the first three-quarters of 2002 decreased by 1.5\%, while intra-ASEAN imports increased by 3\%\textsuperscript{62}. The overall rank of ASEAN trade in the world was also comparatively low in the period from 2000 to 2002 according to Figure 2 (see Chapter 4). This downward

\textsuperscript{61} Vietnam and Burma are not members of WTO.

\textsuperscript{62} For further details, see at the ASEAN website <http://www.aseansec.org>.
performance of the ASEAN market was also a reason that ASEAN wanted to start the FTA negotiations with China as soon as possible. Indeed, this helped ASEAN to at least bring an effort to strengthen its economic integration at regional level\textsuperscript{63}.

During the Bali Summit of ASEAN in October 2003, both China and ASEAN have agreed to revise the Early Harvest Program of the Framework Agreement. Another important change in the Framework Agreement opened the way for bilateral negotiations between China and ASEAN countries to speed up the tariff reforms and other technical preparation of the economies\textsuperscript{64}. This move is evaluated, in the academic circles, as China’s bid to have more freedom for its bilateral relations with some of the ASEAN countries\textsuperscript{65}. Nevertheless, bilateral negotiations are thought to be dangerous for ASEAN, which already has difficulties in creating a common stance in its international relations. As it is discussed later (see Chapter 5) this step of China would have negative implications for the realisation of the ASEAN-China FTA. Nevertheless, the potential China-ASEAN FTA already forced Japan to focus on more functional and special trade initiatives with ASEAN\textsuperscript{66}.

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\textsuperscript{64} See “Protocol to Amend the Framework Agreement,” 6 October 2003, posted at the ASEAN website <http://www.aseansec.org>.

\textsuperscript{65} For example, China has a long established relationship with Thailand both on economic and political matters. It pursues its special relations with Burma as well.

\textsuperscript{66} There were even discussions on potential Japan-China special economic treatment or a possible free trade area to govern the growing entrance of the Chinese products in Japan’s domestic market too.
3.2.3. The Treaty of Amity and Co-operation

As examined in Chapter 2, the Treaty of Amity and Co-operation in Southeast Asia was signed in the first summit of the Association in Bali, on February 24, 1976. Indeed, the TAC is the only document which contains the political, security and economic bases of the Association.

The TAC was extended with inclusion of China and India at the same time on October 8, 2003. When China applied for accession to the Treaty on March 21, 2003, ASEAN welcomed China, thinking that China would be more dependent on the ASEAN framework on political and security issues and ASEAN would benefit more from the growing Chinese market. Seeking full access to the region, China has already been urging for establishment of functional mechanisms between China and ASEAN.

Considering the above policy calculation of ASEAN, China’s inclusion to the TAC mechanism of ASEAN can be evaluated as the completion of the political track of co-operation in addition to the economic track of the China-ASEAN FTA. In this way, Chinese policy initiators accepted to discuss the security issues concerning Southeast Asia and the South China Sea at multilateral platforms. This might seem to be an encouraging assertion for the stability in Southeast Asia. However, it is also quite early to predict any outcome of the extension of the Treaty.


as it is a new agreement. Although Japan has indecisively expressed its intention to
join the Treaty, this move was also just an immediate reaction in order not be
secluded from the future security settings of the region\textsuperscript{68}. But it can be inferred from
the recent bids that each part to the Treaty and Japan would need further elaboration
on how to react to this changing configuration of the region.

\subsection*{3.2.4. The Strategic Partnership for Peace and Prosperity}

The economic relationship between China and ASEAN has political aspects
as well. China has always been critical of discussing the political and security
problems, concerning Southeast Asia, at regional level. However, when China stated
to integrate itself to the regional economic agenda, it also felt the necessity of
softening its strict attitude on the security problems of the region. The ARF
mechanism was the initial step of this changing policy perception of China during
the mid-1990s. In spite of its overall reluctance to bring the regional security issues
to the international arena, China joined the ARF forum from the very beginning to
be able to integrate itself to the region. At that time, China could not foresee any
political clash with ASEAN because of its unpredictable relations with the US and
China’s own sensitivity on the South China Sea. Of course, there were some
reservations from the Chinese side about the possible extension of the ARF agenda
to include all Southeast Asian security matters and the institutional structure of the

\textsuperscript{68} See, Makoto Ushida, “Tokyo’s Role Grows as Summit Ends,” \textit{The Asahi Shimbun}, 13 December
Nevertheless, China agreed to discuss the regional security issues at multilateral level. As indicated by Ken Jimbo, China’s participation to the ARF mechanism could provide China to have new co-operation levels for elaboration of non-traditional security issues. Undoubtedly, this co-operation on the non-traditional fields would promote China’s economic ties with the region.

Over the years, China has extended its involvement in the ARF security agenda. For example, Chinese Foreign Minister Qian Qichen has declared during the 1995 Brunei meeting of the ARF that his government accepted the United Nations Convention on the Law of the Sea as a reference in its dealings on related issues. It also started to show more willingness to discuss the South China Sea problems on a multilateral basis. These attempts were evaluated by ASEAN as China being willing to discuss security issues with ASEAN countries rather than insisting on bilateral level discussions. Indeed, the ARF mechanism has informally created the opportunity for China to include itself to the regional security platform. The October 2003 Summits of ASEAN and ASEAN+3 were important for both the PRC and ASEAN since vital decisions about the future of ASEAN and China-ASEAN relations were taken. During the meetings, the ASEAN Concord (Bali Concord II) was declared and the TAC was revised. The ASEAN Vision 2020 was also once again committed to be promoted for further integration not only at ASEAN forum but also at regional level.

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71 Leifer, 167.
Another significant step for ASEAN was the promulgation of the ideal of the **ASEAN Community**. According to this target, three mechanisms of being a Community were detailed as the ASEAN Security Community, the ASEAN Economic Community and the ASEAN Socio-Cultural Community. This ideal was, however, criticised as not being a progressive one since the ‘non-interference principle’ was still the driving force of the Association on security matters. It was also reaffirmed during the Summit that the ASEAN Security Community would not be a defence pact, military alliance or a common foreign policy agenda but an economically driven platform to discuss security issues. On economic matters, the Summit was evaluated as an important step of ASEAN members as they, at least the determined members like Thailand and Singapore, aspired to convert all the region into an economic hub with approximately 500 million people and the output of US$737 billion in rough terms. Nevertheless, it is generally argued that giving priority to the economic engagement and leaving the security matters intact with the ‘non-interference principle’ still hinder the realisation of the idea of the ASEAN Community.

The security aspect of the recent ASEAN agenda was also revised with the document of the ‘Strategic Partnership for Peace and Prosperity’ between China and

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72 The ASEAN Vision 2020 was adopted in 1997 with the title of ‘ASEAN Partnership in Dynamic Development’ and aimed at forging closer economic integration within the region. The Vision statement also proposed to create a stable, prosperous and highly competitive ASEAN Economic Region in which there would be a free flow of goods, services, investments, capital, and equitable economic development, reduced poverty and socio-economic disparities. After that, The Hanoi Plan of Action was adopted in 1998, in the 6th ASEAN Summit in Vietnam, to serve as the first plan for realisation of the ASEAN Vision. Posted at the ASEAN website <http://www.aseansec.org >.

73 See “Press Statement by the Chairperson of the 9th ASEAN Summit and the 7th ASEAN+3 Summit,” Bali, 7 October 2003, posted at the ASEAN website <http://www.aseansec.org >.

ASEAN. This document is evaluated as the security track of the special relationship between China and ASEAN. According to this general framework, the main issues within the China-ASEAN strategic partnership are stipulated as political, economic and social matters and security, international and regional affairs.75

As indicated above and in Figure 1, the gradual improvement of the economic relations between China and ASEAN is an important and positive one. Indeed, as pointed out by Brzezinski, China, with its promising capacity, is not a big or superpower but it is an obvious regional power given its economic growth and impact on ASEAN.76 Indeed, this argument is valuable, as China seems to be an indispensable economic player of the region according to the short-term and medium-term economic indicators. However, the relationship between China and ASEAN is not simply a matter of trade figures or joint projects. There are political and social aspects as well as security considerations both on the ASEAN and Chinese sides.77 Even leaving the political and social aspects aside, the ongoing Chinese bid in the ASEAN market has questionable sides in the long run. China still struggles in its growing domestic market with inequality, corruption and unemployment.78 Given the recent position and the long-term premises of China in


78 The Chinese Premier Wen Jiabao recently accepted these problems to be urgently solved to enhance China’s economic growth in the coming years. See “Premier Wen’s Speech at Harvard,” People’s Daily Online, 12 December 2003, posted at the People’s Daily website <http://www.peopledaily.com.cn>.
the ASEAN market, it is obvious that China is becoming not the economic leader but a very distinctive force of Southeast Asian economic order.

CHAPTER IV

ECONOMIC RELATIONS BETWEEN JAPAN AND ASEAN

Japan has a very long standing in Southeast Asia. When ASEAN was established, Japan was one of the first supporters of the multilateral co-operation in the region. Japan was also seen as the leading economic figure for the development strategies of the East Asian nations throughout the 1970s, 1980s and the early 1990s. Nevertheless, Japan’s slowing economy and the rising economic position of China in the region affected the already sensitive position of Japan in the ASEAN market. When Japan’s economy started to show negative signs both in Japan and in the Japan-led economic growth model applied to the East Asian economies, discussions also started about the end of Japanese economic leadership in ASEAN. Indeed, the Asian financial crisis was a sort of turning point, after which China has bloomed over the region.

In this chapter, the economic relationship between Japan and ASEAN is discussed. For this purpose, the development of economic relations, the Japanese ‘Developmental State Model’ and the ‘flying geese model’ of Japan-led developmental strategies, the recent situation of the economy in Japan, and the
reaction of Japan to the establishment of an economic partnership between China-
ASEAN are scrutinised. Recent developments like ASEAN+3 and the last ASEAN
Summit are not described, as they were already given in the previous chapter.

4.1. Evolution of Economic Relations between Japan and ASEAN

Southeast Asia has always been under the close surveillance of Japan
originating from geographic, economic and political reasons. First of all, Japan’s
extensive need for raw materials makes the region an indispensable hinterland and a
suitable investment centre. The geographical location of the region makes it a very
crucial spot for strategic, economic as well as the transportation needs of Japan. The
historical and political ties also create an important power circle for Japan in
Southeast Asia. For this reason, Japan has always given priority to the region in its
foreign policy agenda. Although Japan has long lasting relations with each of the
ASEAN members, ASEAN has received Japan’s special attentoin from the very
beginning of its establishment.

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79 Japanese foreign policy has taken a substantial economic focus as a means of recovery and becoming
powerful after the Second World War. The ‘Yoshida Doctrine’ is the basis of this policy consideration.

80 For a detailed elaboration of the establishment of relations between Japan and Southeast Asia, see
Janet E. Hunter, Modern Japanın Doğuşu (Emergence of Modern Japan), (Ankara: İmge Kitabevi
Yaymlan, 2002), 65-98.

81 There are fundamental reasons for this. First of all, multilateralism has taken attention of Japan who
has always struggled for pacifist and idealist objectives during the Cold War years. Another reason for
this focus is the assertion of a relatively independent diplomatic identity from the US. In fact,
independency aspirations of Japan can be seen in policy formulation of Japan towards both ASEAN
and other regional actors. When Japan became an economic power in the early 1970s, rising need to
identify Japan’s own place in international community and especially in the United Nations also
Japan had already backed the establishment of ASEAN during the 1960s against the so-called ‘communist threat’ of the PRC. The main concern of the relations was, however, in commercial terms when the first informal contact with ASEAN was established in 1973\textsuperscript{82}. The economically driven relations between ASEAN and Japan were formalised with the creation of the ASEAN-Japan Forum in March 1977. Furthermore, Japanese Prime Minister Takeo Fukuda took the main step in 1977 when Japan promulgated the ‘Fukuda Doctrine’ to enhance cross-cultural and multilateral linkages in addition to the mere economic relations between ASEAN and Japan\textsuperscript{83}. The prospering Japanese economy, the changing monetary structure of Japan after the 1973 oil-crisis and the Bretton Woods shocks and the currency regulations of the raw materials in Japan made the ASEAN market more profitable for the growing Japanese economy. Hence, a considerable part of the capital and industrial basis were transferred to the main ASEAN countries during the late 1970s\textsuperscript{84}.

Economic and trade relationships were expanded during the 1980s and early 1990s. In due time, the ASEAN countries followed Japan’s ‘Developmental State Model’ as a development strategy for their own growth (see the next section) and became overly dependent on Japan. Hence the ASEAN countries also felt severe

\textsuperscript{82} For details of the Forum and technical trade engagements between ASEAN and Japan, see Sueo Sudo, \textit{The Fukuda Doctrine and ASEAN, New Dimensions in Japanese Foreign Policy}, (Singapore: Institute of Southeast Asian Studies, 1992), 210-212.

\textsuperscript{83} The ‘Fukuda Doctrine’ initiated a systemic framework for political and economic relations between Japan and Southeast Asia. The three main targets of the Doctrine were the establishment of the political ‘bridge-building’ approach, functional contacts with the ASEAN mechanisms and emphasis on the North-South problems through transnational linkages. See in Sudo, 228-229.

\textsuperscript{84} Mendl, 121.
impact of the depreciating yen when the financial uncertainties in Japan resulted in initiation of the ‘Plaza Accord’ in 1985\textsuperscript{85}. Hence, Japan and ASEAN announced ‘A New Partnership toward Peace and Prosperity’ with the premise of further technical support to ASEAN in 1987\textsuperscript{86}.

Just on the eve of the Asian financial crisis, Japan had been giving most of its ODA and JICA (Japan International Co-operation Agency) loans and donations to the diverging economic and social needs of ASEAN to reinforce the spirit of regionalism at both state and societal levels in Southeast Asia. Japan also welcomed the enlargement of ASEAN with the inclusion of Laos, Burma and Cambodia in the late 1990s. In fact, Japan took the lead in the democratisation processes both in Cambodia and Burma in order to show that it has a strong stance in the region and the power to keep the region stable.

Today both Japan and ASEAN have strong connections through multilateral linkages on the issues of regional development, economic growth and political co-operation\textsuperscript{87}. As can be seen from their chronology (see Appendix A), Japan and ASEAN have more extended relationships than ASEAN has with China. Trade volume between Japan and ASEAN still represents an important portion of the trade terms of each side (see Figures 6a and 6b, Chapter 5). Nevertheless, recent developments like the rise of China in the region as an important trade partner of both Japan and ASEAN and the downfall of Japan’s economic position as a main

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\textsuperscript{86} See “ASEAN-Japan Dialogue,” posted at the ASEAN website < http://www.aseansec.gov >.
donor of the region prove that Japan has been in the process of losing its economic significance in the region. This further forces Japan to shift its focus from a mere demand-supply relationship with ASEAN to a more political economic tendency with specific attention to the development needs of the region. Japan’s reaction to this changing balance in the region is evaluated in the next sections. Nevertheless, no matter Japan is in a fluctuating position in terms of its economic relations with ASEAN, the decades-long economic inter-relationship between Japan and ASEAN is deeply rooted enough to be drifted apart. To support this argument, the importance of Japan’s position as a developmental model in the region is analysed in the next section.

4.1.1. Japan: The Developmental State Model of ASEAN

Although there has always been a security concern about Japan's position in Southeast Asia, this concern was put aside given the long term economic relationship and benefit earned by the ASEAN members through their relations with Japan. When the first official relations were established between Japan and ASEAN, Japan realised the urgent need of the Association members to improve their economies and governmental structures. As Japan was an example of the prosperous economic development during the 1960s and the 1970s, most of the ASEAN countries took this exceptional Japanese experience as their own development models. The historical commonalities, geographical proximity and cultural

similarities in their Asian style investment and work ethics and the successful ‘economic miracle’ of Japan made the Southeast Asian nations follow the Japanese example. This ‘Developmental State Model’ has significant features like the rapid accumulation of the physical and human capital, special emphasis on research and development of the industries and already established level of infrastructure to back the total accumulation of the factors of production. The most important ones, however, are the strong protection of the certain sectors, subsidisation of the target industries and establishment of the public enterprises. Gilpin has also indicated the significance of this model with its special focus on the producer over the consumer interests, the powerful ‘Keiretsu’ corporate system and the high saving rates. This export-oriented development strategy was further improved with the internationalisation of the Japanese financial sector, thanks to the changing world financial system during the late 1970s and the early 1980s.

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88 Euarukskul, 251.

89 As for the Japanese ‘economic miracle,’ the government strengthened its economic controls and pursued recovery by means of a planned economic system after the Second World War. Under the directive of the Supreme Commander of Allied Powers, the Dodge Plan was initiated to transform the economy from a controlled one to a market based one. The US also supported Japan's economic growth in order to create a counter-model against the Chinese communist system for the newly independent countries of East Asia.


Already during those years, close connections with Southeast Asia were established in order to process the raw materials of the region for the over-producing industries of Japan. Indeed, the Japanese perception of Southeast Asia was merely of a materialist origin with the targets of getting raw material, utilising the cheap labour and implementing the sub-contracting investment plans. This policy of Japan also created an anti-Japanese resentment in the region. This reaction of the Southeast Asian public resulted in the development of a more political economic approach towards the region. Hence, the ‘Fukuda Doctrine’ of 1977 became a turning point in the relations between Japan and ASEAN.

In due time, the Japanese ‘Developmental State Model’ has further extended and created an ‘economic interdependence’ in Southeast Asia. The then ASEAN governments welcomed close relationship between the government and the private sector under the strong government protectionism and intervention. Thus, the model became a region-wide initiative when Japanese manufacturers were connected to the East and Southeast Asian sub-contractors. This created a highly criticised East Asian growth pattern of the ‘flying geese model’. According to this model, Newly Industrialised Economies (NIEs) and later the ASEAN+6 countries became certain chains in the region-wide industrial production while Japan headed the management, research and the development parts of the production. This division of labour in the region was accompanied by the ‘production cycles’ where Japan focused on certain industries. The other contributors (i.e. the East Asian

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economies) concentrated on other industries according to their comparative
advantages and exported to Japan while Japan was the central hub of all regional
trade.\textsuperscript{95} Hence this model created a ‘Japanese-led regional industrial system’\textsuperscript{96}.

Thus, these two models created a region overly dependent on Japan and foreign (especially that of Japan) direct investment. Indeed, this complex relationship was, later on, criticised by the Western investors as a blockage against their own entrepreneurial initiatives in Southeast Asia. The Asian financial crisis was also linked to this dependent and vulnerable economic character of the region. When the Plaza Accord made the financial system of the region further sensitive to any changes in either the yen or dollar, the crisis became unavoidable. In fact, the Asian financial crisis is an important test case to observe the reaction of China and Japan towards the region. As the crisis caused Japan to change its policy consideration and its leadership position in the region, it is important to briefly analyse the crisis under another heading.

4.1.2. Japanese and Chinese Responses to the Asian Financial Crisis

When the Thai Baht floated and lost its real value in the real market terms, in July 1997, the ASEAN and the Japanese economies were in their economic recessionary periods.\textsuperscript{97} Indeed, after the Plaza Accord appreciated the value of the yen, ASEAN economies also entered into stagnation in the supply side of their

\textsuperscript{95} \textit{Ibid.}, 199.

\textsuperscript{96} Gilpin, “Economic Change and the Challenge of Uncertainty,” 6.
regional production. As their production and later exports were squeezed, the financial sectors of the economies were also in panic under the impact of the crisis.

The Asian financial crisis strongly influenced the Japanese economy as Japan had a considerable degree of direct connection to the financial market of the NIEs. Increased interdependency between Japan and ASEAN further deteriorated the competitiveness of Japan against China. This circle has, coincided with the over-production of the Japanese domestic and multinational investments (mostly located in the ASEAN region) and led to the culmination of all partial problems of the economy and an overall slowdown in Japan. Hence, the growing discrepancies of the Japanese over-producing region-wide industries, uncontrolled banking sector and the over-burden on the savings, devoted to the production and supply side of the equilibrium of the market, have resulted in the emergence of the ‘bubble economy’ in Japan and later in the region. Taking the burden of all financial problems of the region led to deeper financial and later systemic deadlock and Japan experienced severe economic crisis with its social outcomes.

Being directly related with the crisis and the financial structure of the region, Japan immediately took the initiatives. The Ministry of Economy, Trade and Industry (METI) took the measures to strengthen the industrial and financial cooperation in East Asia. Indeed, Japan was the first regional power that took the first

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98 Indeed, the Yen has been appreciated by 70% in comparison to the US$. The ‘Louvre Accord’ of 1987 further increased the value of the NIEs’ currencies. See in Hook and Dobson, 196.

99 This linkage between Japanese economy and the financial crisis was analysed from another perspective. According to Van Wolferen, Japan’s growing economy was a war economy and not suitable for the development of the ASEAN economies. See in Karel Van Wolferen, “Sorting out the
initiative after the break of the crisis. It even criticised the misleading policies of the International Monetary Fund (IMF) in order to get the appreciation of the ASEAN nations. The ‘New Miyazawa Initiative’ was also launched in October 1998 in order to provide US$30 billion for the medium and long-term financial needs of the Asian economies. Reinvigoration of the ‘Developmental State Model’ was also aimed in order to propose a new recovery model with the feasibility of the old model for East Asia.

China’s position during and after the crisis was, however, more promising for the ASEAN countries. Initially, China’s financial system was not as dependent on the region as Japan’s. Furthermore, China had the advantage of having a relatively close and protected banking and financial system when the crisis broke out. Thus, China benefited from the situation and committed itself not to devalue its currency to overcome the crisis situation. This protected the regional currencies from further depreciation. This initiative and other loans and financial assistance programs of China positively changed the image of China in Southeast Asia. Realising China’s rising popularity, Japan took the initiative to take the above financial procedures. Nevertheless, the issue was dealt at the multilateral level as well. The Chiang Mai Initiative (CMI) was launched in 2000 in order to protect the

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100 Other immediate financial initiatives were the promulgation of the ‘Asian Currency Crisis Support Facility’ in accordance with the ‘New Miyazawa Initiative’ and the ‘Special Yen Loan Facility as Assistance for Economic Structural Reforms of the Asian Countries’ which was proposed by Japan during the then ASEAN+3 summit meeting in 1998. For details, see “Asian Economic Crisis and Japan’s Contribution,” posted at the Japanese Ministry of Foreign Affairs website <http://www.mofa.go.jp>.

fragile economies of the region from future potential financial crisis. This initiative was aimed at facilitating the exchange of information on the financial matters of the ASEAN region through the ASEAN+ 3 framework, formation of an economic and financial monitoring system in East Asia, creation of regional mechanisms to support international financial facilities and formulation of the currency swap arrangements among ASEAN, China, Japan and South Korea\textsuperscript{102}.

Table 6: Chiang Mai Initiative of ASEAN+3 and Bilateral Swap Arrangements (BSAs)

<table>
<thead>
<tr>
<th>BSAs</th>
<th>Currencies</th>
<th>Concluded by</th>
<th>Amount, US$bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan-PRC*</td>
<td>Yen-RMB</td>
<td>28 March 2002</td>
<td>3</td>
</tr>
<tr>
<td>Japan-Korea</td>
<td>$-Won</td>
<td>4 July 2001</td>
<td>2</td>
</tr>
<tr>
<td>Japan-Thailand</td>
<td>$-Baht</td>
<td>30 July 2001</td>
<td>3</td>
</tr>
<tr>
<td>Japan-Philippines</td>
<td>$-Peso</td>
<td>27 August 2001</td>
<td>3</td>
</tr>
<tr>
<td>Japan-Malaysia</td>
<td>$-Ringgit</td>
<td>5 October 2001</td>
<td>1</td>
</tr>
<tr>
<td>Japan-Indonesia</td>
<td>$-Rupiah</td>
<td>17 February 2003</td>
<td>3</td>
</tr>
<tr>
<td>Japan-Singapore</td>
<td>Under negotiation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRC-Thailand</td>
<td>$-Baht</td>
<td>6 December 2001</td>
<td>2</td>
</tr>
<tr>
<td>PRC-Korea**</td>
<td>RMB-Won</td>
<td>24 June 2002</td>
<td>2</td>
</tr>
<tr>
<td>PRC-Malaysia</td>
<td>$-Ringgit</td>
<td>9 October 2002</td>
<td>1.5</td>
</tr>
<tr>
<td>PRC-Philippines</td>
<td>RMB-Peso</td>
<td>31 August 2003</td>
<td>1</td>
</tr>
</tbody>
</table>

* A two-way swap arrangement, so the real total value is US$6 bn.
** A two-way swap arrangement, so the real total value is US$4 bn.

Japan also provides additional US$7.5 bn to Korea and Malaysia according to the New Miyazawa Initiative.

These initiatives were also part of the Japanese proposal of the Asian Monetary Found (AMF) in the region\textsuperscript{103}. However, it is already argued that the CMI would be a weak one given the fact that its surveillance capacity is very small when

\textsuperscript{102} Liu, 23-24.
compared to the financial potential of the regional economies\textsuperscript{104}. According to the same source, the ‘principle of non-interference’ would also make it rather difficult to decide on the domestic currency alterations of the ASEAN members. Thus, China has taken greater appreciation with its after-crisis support to ASEAN than Japan had.

The Japanese economy has endured subtle recessionary periods most of the time till the mid-1990s. Today, expectations of the restructuring companies, the idle banking sector, unemployment, the merging of industries in order to endure economic avalanches and the ageing society are the urgent problems to be tackled with in Japan. However, the declining Japanese economy is also related with the changing character of the international economic order\textsuperscript{105}. Apart from this global approach, Japan’s immediate response to the crisis and the recent reaction of Japan to deepen and widen institutional co-operation with ASEAN clarify that Japan is still an important economic force in the region. Hence, as Preston indicated, Japan is expected to continue to have its role of being a ‘regional core economy’ via the means of gross output, trade, aid, foreign direct investment and technological sophistication in the region in the beginning of the 21st century\textsuperscript{106}.

\textsuperscript{103} Liu, 24.


4.1.3. Reaction of Japan to the Institutionalisation of the ASEAN-China
Economic Partnership: ASEAN+3, TAC and Potential ASEAN-Japan FTA

While China has been deepening its economic relations with ASEAN, Japan has also felt the need to catch up. Indeed, the initial reaction of Japan to the rising China-ASEAN economic integration of the mid-1990s was total confusion on how to respond to China. Still being indecisive on what kind of policy to implement, Japan immediately went through the same partnership steps as China took with ASEAN. For this reason, most of the steps of economic interaction between Japan and ASEAN are the same as China’s. As noted above, Japan has a deep-rooted economic partnership with ASEAN. Nevertheless, declining Japanese economic power in the region forced Japan to follow the Chinese way of integration with the region through institutional instruments like ASEAN+3 and other functional mechanisms like being a dialogue partner of ASEAN. As their background is given in Chapter 3, only Japanese reaction to those growing functionalist steps of China-ASEAN regional integration is given here.

When ASEAN+3 was established in 1997, Japan was already aware of the rising economic potential of the PRC in Southeast Asia. For this reason, Japan had taken the initiative to change its interaction with ASEAN by enhancing more functional co-operation on cultural and other complementary aspects of the economic relationships. The ‘Hashimoto Doctrine’ was the sign of this Japanese attempt in the beginning of 1997.

The Asian financial crisis took the floor after the 1997-1998 East Asian currency fluctuations. Later, Japan focused on the above-mentioned initiatives to revive the region out of the crisis situation, to counter-act the rising popularity of
China and to sustain its crisis-driven economy and highly criticised ‘developmental state model’ of the region. The ‘New Miyazawa Initiative’ and the CMI were the multilateral policy instruments of Japan to strengthen its leading economic and strategic position in Southeast Asia.

Nevertheless, Japan’s economic slowdown has coincided with the growing Chinese economy at regional and international levels. As can be seen from Figure 2, China’s contribution to the world trade has expanded by 28% in 2000 and 22% in 2002, while Japan’s contribution grew by only 14% in 2000. Its slope even turned negative after the global slowdown of the year 2001 (Japan’s export to the world market shrank by 16% in 2001).

![Merchandise Export values of ASEAN, Japan and China](image)

**Figure 2: Merchandise Export Rates of China, Japan and ASEAN in World**


All these figures brought ASEAN to the position of welcoming China to its functional mechanisms. The TAC is the most important step of this integration process. When China has applied to become a TAC member with ASEAN, Japan was merely in the position of enhancing its economic co-operation and specifying the policy response to the rising Chinese bid in Southeast Asia. Japan was also
invited to the TAC during the October Summit of ASEAN but Tokyo rejected the 
invitation thinking that the questionable ‘non-intervention principle’ of the TAC 
mechanism would create further discussions for the Japan-US alliance in Southeast 
Asia. Nonetheless, the China-ASEAN partnership after the October Summit of 
2003 forced Japan to change its approach and declare its forced intention to become a part of the security dialogue of the Association. Hence, Japan could announce its intention to become a member of the ASEAN TAC mechanism in December 2003 Summit of ASEAN and Japan.

When China signed its FTA with ASEAN in November 2002, Japan was already in search of the FTA initiatives either with ASEAN or with the ASEAN members on a bilateral level. In fact, Japan had previous concerns about the multilateral and non-discriminatory aspects of the FTA arrangements, believing that the FTA would damage the GATT’s most favoured nation clause. Nevertheless, Japan had to forge the FTA in order to adjust itself to the growing tendency of special trade arrangements in the region. Hence, it proposed the development of the framework for Comprehensive Economic Partnership (CEP) with ASEAN in November 2002. Not being an FTA in its nature, the CEP is the most integrative concept to figure out the future economic relationship between Japan and ASEAN.


As Japan was insistent on the CEP, the Framework on CEP was signed on October 8, 2003.

According to this document, technical assistance and capacity building to ASEAN, trade and investment promotion, policy dialogue, business sector support and exchange of the relevant data will be provided by both Japan and ASEAN\textsuperscript{111}. In regard to the FTA, the ASEAN-Japan Plan of Action was declared during the recent ASEAN-Japan Commemorative Summit of December 11-12, 2003. According to this plan, the FTA framework would work out on the areas where agreement was reached according to the GATT procedures\textsuperscript{112}. Nevertheless, no matter Japan wants to compensate China’s economic integration with the region, Japan’s potential FTA or any further trade agreement with ASEAN are questionable. This discussion is made with comparison to China’s position in the ASEAN-China FTA in Chapter 5.

4.2. The Official Development Agency of Japan in ASEAN and China

The Official Development Agency governs the technical and development assistance and other aid projects of Japan to recipient countries or organisations. Having economic interests in the region, Japan has always allocated the biggest portion of its ODA to ASEAN countries. Japanese initial ODA allocations to the


then ASEAN countries were in the form of ‘war reparations’\textsuperscript{113}. Later, this policy was extended to include technical and humanitarian aid projects. In addition to Japan’s individual aid projects, it has also contributed to development projects of the United Nations (UN), the World Bank, Asian Development Bank (ADB) and other organisations.

When Japan initiated its first ODA to China in 1979, Indonesia, Malaysia and Thailand were the main host countries\textsuperscript{114}. According to the ‘Economic Co-operation Program’ of Japan for China, Japan was the largest donor of China by allocating over 60\% of all bilateral aid given to China in 1998\textsuperscript{115}. This sensitivity of Japan on China was because of the management role taken by Japan after the Asian financial crisis. Of course, there were instances where Japan had to reduce its assistance to China as well. For example, most of the donor countries stopped their aid projects to China after the Tiananmen incidents and Japan had to postpone its ODA allowance to China after Chinese military operations in the Taiwan Straits in 1995 and 1996. These also show the changing character of the Japanese ODA policy.

After the changing structure of Southeast Asia with the rising economic power of China and the mounting voices of the ASEAN countries during the mid-1990s, Japan used ODA resources with more political anticipation. National sentiments in allocation of the ODA have also arisen from the tacit and the explicit

\begin{footnotesize}
\begin{enumerate}
\item Wakisaka Noriyuki, “Japanese Development Co-operation for China,” in Kokubun, 117.
\end{enumerate}
\end{footnotesize}
criticisms directed by the Chinese and the ASEAN authorities against Japan’s stance in Southeast Asia. Financial difficulties in the Japanese economic system cut ODA donations to any region as well. Indeed, these calculations led to a certain decline in the ODA allotment to China. The rising economic partnership with ASEAN, initiation of the aid policies by China itself to certain developing countries in ASEAN (like Cambodia and Burma) and the rising sentiment about the misuse of the Japanese ODA policies in China (like appropriation of ODA assistance for military uses, unequal distribution of ODA in the society and over-emphasis of China on the nuclear testing activities) contributed to drastic reductions in Japan’s ODA funding to China\textsuperscript{116}. Hence Japan shifted its prior focus to Southeast Asia again after 1998 (see Figure 3).

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Japan’s Bilateral ODA Allocation to China and ASEAN, 1996-2000}
\label{fig:fig3}
\end{figure}


\textsuperscript{116} Noriyuki, 121-123.
Although Japan’s projection to China, in terms of its ODA policies has changed as a kind of reaction to the changing Chinese economic position in Southeast Asia, Japan continued to allocate the ODA to China. Indeed, rising problems of the growing economy in China like environmental degradation and humanitarian needs of the huge Chinese society have necessitated more controlled and specified ODA allocation to China in recent years. Hence, China is still the second ODA recipient of Japan after Indonesia\textsuperscript{117}. Japan has also promulgated a new technical assistant program in regard to the activities to fight against SARS\textsuperscript{118}. Today, the ASEAN countries still constitute the largest recipient group of Japanese aid projects. According to the recent joint report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG), almost 40% of ODA allocation went to the ASEAN countries in 1999\textsuperscript{119}. Hence the ‘ODA Charter’ has changed after the Asian financial crisis and the rising problems in implementation of the ODA projects in China in mid-1990s and main focus was given to the development projects of the developing countries (i.e. the ‘new ASEAN members’)\textsuperscript{120}.

As mentioned above, the extended ODA policy is one of the main instruments of Japan for two reasons. Firstly, Japan plans to re-integrate itself to the region after the Asian financial crisis. Secondly, the Japanese stance in the region would be set as a response to the rising Chinese development contribution and other aid projects in the region. Hence, ODA is one of the means of Japan to have to recover its stance in the ASEAN market. Other means like ASEAN+3, TAC and CEP are also argued in this chapter. According to all the above discussions, it can be inferred that Japan is still in a declining position in terms of its share in the ASEAN market after the financial crisis. However, China is also quite new in terms of its economic bid in the ASEAN market. In relation to this, time scale is also important to analyse the overall inter-relationship among Japan, China and ASEAN. Considering the long-term security-driven interests of China in Southeast Asia, political and other aspects of the economic relations need to be further elaborated.
CHAPTER V

STANDING OF CHINA AND JAPAN IN THE ASEAN MARKET

In the previous chapters, relations between China-ASEAN and Japan-ASEAN were separately scrutinised. According to the above-mentioned steps China and ASEAN have gone through, it may be clearly stated that China has a constantly growing position in the ASEAN market. The indicated data in all tables and figures also prove that Japan’s economic stance is comparatively smaller than the share it had before the Asian financial crisis. However, these figures indicate the relative changes in the last decade. Nevertheless, Japan’s share in the ASEAN market is still very consistent in spite of the nominal shrinking of Japan’s access to the ASEAN market. China’s relative interaction with ASEAN has also questionable aspects according to the current developments. In this chapter, the political and security dimension of Japan and China’s stance in the region are discussed in order to provide a long-term perspective of how ASEAN perceives China and Japan. Furthermore, an analytical discussion on the potential ASEAN-China FTA with the recent relative growth in China and the changing direction of the investments in the region are focused while finalising the overall discussion. At the end, the aim of the study, to present the general economic environment in Southeast Asia while comparing the recent economic existence of China and Japan in the ASEAN market
is emphasised with the argumentative analysis on China’s long-term economic standing in the region.

5.1. How Does ASEAN Perceive Japan and China in Southeast Asia?

While economic relations among Japan, China and ASEAN are focused in this study, the political and security dimension of the current relations should also be examined in order to be able to assess the presence of China and Japan in the region in a more substantial manner. Indeed, the ASEAN countries needed economic linkages with China to be able to have an access to the increasingly demanding Chinese market. However, the political and security dimension of the relations (mainly the South China Sea issues) between China and ASEAN are also significant aspects of their economic relations. The influence of the overseas Chinese should also be discussed to be able to include social dynamics into the overall picture. Sensitivity of the ASEAN nations about the potential military posture of Japan in Southeast Asia is the questionable part of the Japan-ASEAN economic relations, on the other hand. These considerations are further detailed in this section.
5.1.1. The South China Sea Disputes

The South China Sea has an area of 648,000 square miles and is bordered by China, Taiwan, Vietnam, the Philippines, Brunei, Malaysia and Indonesia\(^\text{121}\). The sovereignty discussions about the islands of the Sea among the coastal states constitute the essence of the South China Sea issues. There are mainly two disputed areas in the South China Sea. China, Vietnam, Taiwan, the Philippines, Malaysia and Brunei mainly claim the Spratly Islands\(^\text{122}\). According to China, the Paracel Islands are also part of the Chinese province of Hainan. The main issue of the dispute is the rich oil and other natural resources of the Islands groups. Another important issue is that the Islands provide the sea-lanes for international trade and the maritime transport. However, all coastal states are also concerned about China’s unconditional territorial claims and military presence in the South China Sea.

ASEAN’s first comprehensive document about the South China Sea was the Manila Declaration of 1992\(^\text{123}\). China was, however, very unwilling to discuss

\(^{121}\) There are mainly four islands groups in the South China Sea but none of them is within the continental shelf of any coastal state. See in Michael Leifer, *Dictionary of the Modern Politics of South-East Asia*, (London: Routledge, 1995), 219-220.


\(^{123}\) The Declaration proposed to resolve all issues through multilateral consultative instruments. However, the document stated that the sovereignty and jurisdiction of the parties to the issues are to be given importance. This principle, as formulated in Treaty of Amity and Co-operation of ASEAN, is usually being referred as the ‘non-interference principle’. Therefore, the Declaration did not necessarily provide the basis for resolution of any territorial disputes in the South China Sea. See
any of the issues related to its security considerations at multilateral level. From the beginning of the 1990s, China started to revise its policy approach towards the South China Sea. Initially, the PRC has ratified the 1982 United Nations Convention on the ‘Law of the Sea as a legal base for the settlement of the Spratly Islands issue. This benign attitude of China, in fact, resulted in China’s becoming the Dialogue Partner of ASEAN in 1996. The 2002 Declarations on the ‘Conduct of Parties in the South China Sea’ and ‘Co-operation in Non-traditional Security Issues’ are the most important documents by which China officially accepted to resolve the South China Sea issue at multilateral level. The 1982 UN Convention on the Law of the Sea, the TAC in Southeast Asia and the ‘Five Principles of Peaceful Co-existence’ of the PRC were also emphasised as legal basis for any dispute in the South China Sea.

This multilateral approach was further underlined through the inclusion of China to the TAC mechanism of ASEAN in October 2003. The ‘principle of non-interference’ and exclusion of the sovereignty issues out of the talks in the South China Sea were once again made clear during the October talks and in the finally signed ‘Declaration on Strategic Partnership for Peace and Prosperity’ between China and ASEAN. It seems, according to the recent developments, that both sides agreed to focus on economic co-operation rather than insisting on resolving the South China Sea issues. Indeed, after China joined ASEAN’s TAC mechanism, economic co-operation issues have clearly gained priority over the South China Sea issues.


124 See “Declaration on Strategic Partnership for Peace and Prosperity between China and ASEAN,” posted at the ASEAN website <http://www.aseansec.org>.
However, this does not change even the ongoing debate on the definition of the territorial sea rights of the countries concerned in the South China Sea. Each part still has sovereignty claims on the Spratly and the Paracel Islands\textsuperscript{125}. Coastal states in the South China Sea still perceive the presence of China in the Sea as a direct threat. The recent economic bid of China in the region is also assessed as part of China’s long-term military and security consideration in the region. It is argued, in academic circles, that China has secured its position in any dispute (be it multilateral or bilateral) by including itself to the security and non-interference mechanism (namely the TAC) of ASEAN. It is also stated that ASEAN has never been a party to the disputes in the South China Sea. Instead, some of the ASEAN members are conflicting parties with each other and China. This fragility of ASEAN and China’s bilateral talks with some of the ASEAN members would further weaken the influence of the Treaty of Amity and Co-operation rather than binding China to the multilateral platform. As a result, it is recently argued that the last move of China by which it has joined the security dialogue of ASEAN and speeded up the FTA in the region would serve to China’s long-term security interests in the South China Sea.

\subsection*{5.1.1.2. The Overseas Chinese}

Michael Leifer has defined the ‘Overseas Chinese’ as a group of approximately 20 million people living in Southeast Asia\textsuperscript{126}. For many years,

\begin{footnotesize}
\begin{enumerate}
\item See in Leifer, \textit{Dictionary of the Modern Politics of South-East Asia}, 177-178.
\end{enumerate}
\end{footnotesize}
Southeast Asian governments feared that China could manipulate its overseas Chinese population to undermine the internal security of the host countries and inject its own communist ideology to the societies concerned\(^{127}\). The ‘overseas Chinese’ gradually gained economic power as a social reaction to the biased attitudes of their respective governments and societies. The local authorities, however, further perceived this economic power of the local Chinese as another sort of linkage between the local Chinese and mainland China. This intuition has further created a kind of social resentment against the local Chinese in the societies. However, cultural assimilation has taken the lead in the societies where the cultures were ready to absorb the Chinese\(^{128}\). Nevertheless, it was the implementation of formalised relations between ASEAN and China that opened the discussion of the overseas Chinese again.

Indeed, China has proved its intention of establishing close economic ties with the region by declaring that the ‘overseas Chinese’ issues is a domestic problem of the host governments. Furthermore, China openly stated in 1998 that it was an internal issue of Indonesia, which has the largest Chinese population, to deal with its minorities. After governments concerned have improved their social allocation systems and became more stable in their domestic welfare mechanisms, they gradually started to change their approach towards the ethnic Chinese.


\(^{128}\) Leifer, *Dictionary of the Modern Politics of South-East Asia*, 177-178.
Table 7: The Chinese Minorities in ASEAN Countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>Population</th>
<th>Chinese Minority (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>4.6 mil.</td>
<td>76.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23.0 mil.</td>
<td>24</td>
</tr>
<tr>
<td>Brunei</td>
<td>358,000</td>
<td>15</td>
</tr>
<tr>
<td>Thailand</td>
<td>64.3 mil.</td>
<td>14</td>
</tr>
<tr>
<td>Indonesia</td>
<td>234.9 mil.</td>
<td>3*</td>
</tr>
<tr>
<td>Burma</td>
<td>42.5 mil.</td>
<td>3</td>
</tr>
<tr>
<td>Philippines</td>
<td>84.6 mil.</td>
<td>1.5</td>
</tr>
<tr>
<td>Vietnam</td>
<td>81.6 mil.</td>
<td>1.4**</td>
</tr>
<tr>
<td>Laos</td>
<td>5.9 mil.</td>
<td>1</td>
</tr>
<tr>
<td>Cambodia</td>
<td>13.1 mil</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: The US Central Intelligence Agency

Today, the host countries are still concerned about the idea that China
would make use of any sensitivity in the region via its overseas Chinese. Indeed, as
Lim and Gosling indicated, “rapid economic growth has turned Southeast Asia into a
‘South China Sea’ of ethnic Chinese capital and labour movements, greatly
increasing the visibility and the actual presence of both foreign and local Chinese in
regional economies”\(^{129}\). Rising economic partnership between China and ASEAN
raises the opportunities for the overseas Chinese. Indeed, they usually become the
main entrepreneurs who go to China to run business either in China or between
China and their host countries. Hence, there is an ongoing relationship between the
overseas Chinese and China and this should also be taken into account while
analysing economic partnership between China and ASEAN.

\(^{129}\) For further details on position of ethnic Chinese in each respective ASEAN country, see Linda Lim
and Peter Gosling, “Strengths and Weaknesses of Minority Status for Southeast Asian Chinese at a
Time of Economic Growth and Liberalisation,” in Daniel Chirot and Anthony Reid (eds.), Essential
5.1.2. Political Aspects of ASEAN-Japan Economic Relations

5.1.2.1. Security Concerns of ASEAN about Japan

Japan's initial interaction with the region and ASEAN was mainly driven by the economic concerns of the growing Japanese economy. For this reason, Japan established transactional instruments like the Ministerial Conference for Economic Development in Southeast Asia (MEDSEA) and the Asian Development Bank already in 1966 before the establishment of ASEAN\textsuperscript{130}. Nevertheless, Japan also realised the importance of the political and strategic presence in the region. Anti-Japanese riots against the growing dependence of ASEAN on the Japanese horizontal region-wide division of labour and the industry complexes forced Japan to take more multilateral and functional interaction with the ASEAN member. The ‘Fukuda Doctrine’ was the beginning of Japan’s new approach towards the region. Later, Japan also insisted on including itself to the security mechanism of the region. Japan’s growing economic power and the changing balance of the region in the aftermath of the Cold War also led Japan to look for more comprehensive relationships with the region. Japan’s shift can be observed in its region-specific doctrines. The ‘Miyazawa Doctrine’ was Japan’s first initiative in order to present itself as a political leader of Southeast Asia in 1993\textsuperscript{131}.

\textsuperscript{130} Hook and Dobson, 186.

\textsuperscript{131} The ‘Miyazawa Doctrine’ mainly focused on multilateral security dialogue, the advancement of the Asia-Pacific with economic liberalisation, the expansion of democratisation and environmental protection and the improvement of relations between Japan, ASEAN and Indo-China. See in Hook and Dobson, 189.
Nevertheless, Japan has always felt its limits of having the legacy of history, being in a close military connection with the US and over-emphasising the mere cost-benefit analysis of its extending economic interests in the region. Japan’s precautionary tendencies of Japan towards the region have stayed in the minds of the Southeast Asian since the end of the Second World War. Japan has always supported the US’ military stance in the region while it opted for anti-militarism and security alliances in its political relations. Indeed, the Bush Administration has also focused on the more security related issues while communicating or discussing the problems of Southeast Asia\textsuperscript{132}. Indeed, the positive picture of China, which was created during the Clinton Administration, was shifted to a ‘competitive engagement with China’ strategy from the beginning of the Bush Administration\textsuperscript{133}.

Meanwhile, Japan gradually shifted its economic relations with ASEAN to a more pragmatic one with the concepts of developmentalism and Asianism\textsuperscript{134}. The Asian financial crisis and the ongoing domestic economic problems in Japan forced the country to implement a more internationalist and Asianist approach towards the region, however. Nevertheless, the perception of the US of this rising Asianism in the Japanese position in Southeast Asia, the reluctance of the Japanese policy makers to take the burden of further crisis situation in Southeast Asia and the rising position of China in the region enforced Japan to take more rationalist approach in


\textsuperscript{133} For changing attitudes of the Bush Administration towards China, see Bob Catley, “The Bush Administration and Changing Geo-politics in the Asia Pacific Region,” \textit{Contemporary Southeast Asia}, 23(1), April 2001, 149-167.
the recent years. Hence, Japan is forced to prove its benign stance in Southeast Asia while it has to present its recovering economy to regain the leadership position of the region.

5.1.2.2. Japan’s Stagnant Economy and Implications for ASEAN

After the Plaza Accord, the appreciation of the yen was criticised by the East Asian nations as it caused further debt burden and unemployment for the entire region. After the Asian financial crisis, Japan directly proposed recovery measures. In fact, Japan was still planning to the take the responsibility of the financial burden of the region, thinking that it was the only leading power of the region. There were significant initiatives made by Japan and some of the ASEAN members as well. Nevertheless, the initial idea of a possible Asian Monetary Fund was immediately rejected by the US and China. Malaysia’s proposal for establishment of the East Asian Economic Caucus (EAEC), to be mastered by Japan, was however rejected by Japan itself. Indeed, this rejection was the result of the realisation of the downsizing economy of Japan both at domestic and regional levels. The imprecision in decision-making mechanisms on how to react to the recent developments was another reason that prevented Japan to take further assertive measures in Southeast Asia.

While Japan had vagueness on which financial and social reforms it should implement in domestic terms, it opted for more Asianisation in its interaction with ASEAN. This is mainly related with the fact that Japan wants to prove its economic

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134 Japan was in search of any co-ordination against the idea of being ‘lonely’ in its international relations. Hence, it was only the matter of direction and this appeared towards the Southeast Asia. See, Pekka Korhonen, *Japan and the Pacific Free Trade Area*, (London: Routledge, 1994), 113.
as well as political capabilities again in Southeast Asia. The other main reason of the re-assertiveness, is the need to catch the precipitated economic integration of China and ASEAN in the recent years. The ASEAN-Japan CEP principally aims these policy directions. It further targets administrative reform, establishing hard and soft infrastructure, co-operation in business environment and further co-operation in financial, environmental and energy sectors to reduce the problems of sustainable development\textsuperscript{135}.

In addition to Japan’s recent initiatives and the rising assertiveness of the Japanese foreign policy towards the region in front of the rising China-ASEAN economic integration, Japan’s economic stance in the ASEAN directory was in a declining tendency in general. As can be seen from Figure 4, Japan’s foreign direct investment (FDI) into both China and ASEAN relatively declined along the global slowdown in world economy. Thus, this downsizing share of Japan in the ASEAN market is a sort of reactionary approach to the regional and international fluctuations. Therefore, Japan still constitutes an important part of the intra-regional trade and investment of the ASEAN market in real terms.

Comparison of Japan's FDI flows to China and ASEAN

![Comparison of Japan's FDI flows to China and ASEAN](image)

**Figure 4: Japan’s FDI into China and ASEAN**


5.2. Why China Cannot Replace Japan as an Economic Leader in Southeast Asia?

The economic partnership between China and ASEAN has peculiar determinants that should be analysed separately. The most important factor shaping the relations between the two parties is the potential ASEAN-China FTA. There are arguments whether the FTA will be a ‘win-win’ policy or whether only one side will benefit at the expense of the other. The growing Chinese economy has already attracted most of the FDI towards China (see Appendix D). Although it is argued that the benefits of the shifting FDI would be on both sides, the position of FDI in China has both short and long-term implications. In relation with this, the membership of China to the WTO has recently been shaping the Chinese economic structure and its relations with the neighbouring countries. As China is still trying to
comply with the conditions of the WTO, analysts question the potential outcomes of its WTO membership.

As of today, China is one of the driving forces of the region. It has the biggest FDI share of the region, it handles joint development project and loans for development of the regional economies and it constitutes a very important part of the regional trade. However, the recent Third Plenary Session of the 16th CPC (Communist Part of China) Central Committee has released the report on major tasks of the government to further improve the market economy in China. These are narrowing the gap between urban and rural areas, promoting the co-ordinated development of different regions, establishing a unified, open and orderly modern market system, improving macro-control, administration and economic legal systems, improving employment, income distribution and social security systems and establishing a mechanism to promote sustainable social and economic development. Indeed, each of these factors represent that China has potential both for striking economic growth and domestic crisis due to the unprecedented growth of its economy. While elaborating the discussion below, this weakness of China should also be kept in mind.

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5.2.1. Recent Trends in FDI Flows into China and ASEAN

From the beginning of the 1990s, China has attracted most of the FDI towards its own territory or to the neighbouring areas of its domestic market. This rising popularity of China as a suitable land for regional and international investments is a result of the rising Chinese economy in both domestic and regional terms. In terms of the foreign direct investment, China has the first place among the developing countries and second among the APEC (Asia-Pacific Economic Cooperation) countries after the US. In general terms, China’s FDI accounted for US$309 billion between 1980 and 2000 (95% of this amount was issued between 1993 and 2000) while ASEAN could only attract US$172 billion in the same period of time (see Figure 5)\(^{137}\).

Nevertheless, this incremental data of China includes the ‘round tripping’ investments as well. These investments are the ones used by foreign investors, not available to domestic investors, and issued through Hong Kong\(^{138}\). Therefore, a considerable part of the FDI is based in Hong Kong, originated from the Western countries and Taiwan and injected into China through the Hong Kong intermediaries\(^{139}\). However, China is still the main base of the regional and the Western investments when compared to the overall investment ASEAN is hosting after the Asian financial crisis.


Comparison of FDI flows to China and ASEAN

Figure 5: Inflow of FDI into China and ASEAN, 1995-2001

Source: The data analysis taken from the Appendix D.

Of course the shifting FDI to China has positive impacts for the growing economic partnership between China and ASEAN in the medium-term. According to Li Yuefen, China’s WTO membership would provide new chances for the so-called NIEs (which include leading members of ASEAN) to maintain stratified production and profit opportunities for their ‘sunset industries’ while some of the industries move to China. But by creation of these sub-assemblies, China would further relocate the FDI to its own industrial basis. However, it is quite obvious that most of the FDI directed to China is transferred from the ASEAN countries’

\[\text{Figure 5: Inflow of FDI into China and ASEAN, 1995-2001}\]

\[\text{Source: The data analysis taken from the Appendix D.}\]

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\[\text{\textsuperscript{139} Ibid.}\]

\[\text{\textsuperscript{140} Hong Kong has always taken the largest portion in direct and indirect investments. For this reason, these statistical data should be analysed according to this criterion.}\]

\[\text{\textsuperscript{141} Li Yuefen, “Economic Implications of China’s Accession to the WTO,” Special Reports, China and World Economy, (2), 2003, 10-11, posted at the Institute of World Economics and Politics website <http://www.iwep.org.cn/wec/pdf/wec2003-2_liyuefen.pdf>}.\]
industrial bases. The ASEAN nations themselves also directed their investment layouts to Indochina or China. They inferred from the rising Chinese bid in the regional production cycles that they should also get a share in this profitable production market of China in order not to lose their own competitiveness. Nevertheless, it is argued that China creates ‘over-dependence’ via further specialisation of Southeast Asian economies in particular industries via shifting of certain investments into China\textsuperscript{143}.

China’s adjustment to the WTO is also analysed with its both positive and negative implications on ASEAN. Since some of the ASEAN countries are still in the recovery period from the Asian financial crisis, they also have to follow the WTO conditionals. With China’s inclusion to the WTO system, it is believed that China’s experience in financial reforms and growth would force the slow drive of the ASEAN countries as well\textsuperscript{144}. A Chinese argument for this support is that China could back the fragile position of developing countries and could play an intermediary role between the developed and the developing countries on international tariff and quota reduction issues during the WTO talks and against the challenges of the globalisation\textsuperscript{145}.

\begin{footnotesize}

\textsuperscript{143} Allocation of these industries depends on the strategic attitude of each ASEAN members to the concept of the FDI and the development structure of each country. For example, Singapore always welcomes any kind of FDI because of its investment structure. Therefore, the FDI between ASEAN and China is unevenly distributed. For details, see Donghyun Park, “The Dichotomy between Northeast Asian Capitalism and Southeast Asian Capitalism,” \textit{Journal of Asia Pacific Economy}, 5(3), 2000, 243-244.

\end{footnotesize}
On the other hand, it is stressed that implementation of the WTO reforms in China would surpass the deadline and potential problems would appear like human dislocation, unemployment and rising disequilibrium in the already overloaded domestic financial market. Possible problems of the ‘ever-growing’ Chinese economy were discussed in a recent conference on ‘Chinese Economic Development: Implications for the Global Economy’. Nishimuro stated that China’s economy has problems like disparity in wealth and rising unemployment, income differentials, increasing government debts, uncontrolled and unbalanced population rise, expansion of the domestic market and recent debates on revaluation of the Renminbi (RMB)\textsuperscript{146}.

Discussions on revaluation of the RMB are considered as a potential fatal point of the growing Chinese economy. It has been tensely discussed in the political and academic circles that the Chinese domestic growth may go into a turbulent direction with its current exchange rate system of the RMB. Thus, pressure has been put to change the domestic financial system of China to a ‘flexible exchange rate system’. Furthermore, China is criticised for its ‘fixed exchange rate system’ by stating that this system derives its stance from strict capital control, inability to conduct a self-reliant macro-economic policy, lack of statistical information and political accountability and mercantilist attitudes of the policy makers in general\textsuperscript{147}.


It was also indicated that a nominal rise in the foreign exchange reserves would cause a ‘surge’ in money supply and ‘bubble’ reserves that would increase the trade friction in the real market and result in further decline in purchasing power of people at both local and the regional market.\(^{148}\)

Although it is argued that the cheap RMB has positive outcomes for the Japanese and other regional investors and traders in the short-term, Japan supports the idea of the revaluation of the RMB to be able stop the negative impacts of the cheap RMB in the medium-term.\(^{149}\) Hence, given the above cost and benefit analysis of the shifting FDI, the membership problems of China to the WTO and the overall stress on the potential revaluation of the RMB raise questions about further economic integration of China to the ASEAN market.

### 5.2.2. Possible China-ASEAN FTA and Japan’s Reaction

Theoretically, the Free Trade Area arrangements help the economies integrate themselves into a broader market. In the FTA market, there is usually an increased demand as well as a better supply with increased competitiveness, efficiency and productivity. The FTA also creates more collaboration by promoting movement of labour and capital among the domestic economies. Reduced tariffs and

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quotas further facilitate establishment of joint ventures and can easily lead to a
common market at the regional level.

With the ASEAN-China FTA, intra-regional trade in Southeast Asia is
aimed to reach US$100 billion by 2005\textsuperscript{150}. The regional market is estimated as of
US$2 trillion in GDP terms and US$1.23 trillion annual foreign trade with the
population of 1.7 billion people. Li Wei, the Deputy Director of the Chinese
Academy of International Trade and Economic Co-operation stated, just before the
signing of the FTA between China and ASEAN, that the FTA was expected to
increase the GDP of ASEAN by 0.9\%, or by US$5.4 billion, while the GDP of
China would grow by 0.3\%, or by US$2.2 billion, annually\textsuperscript{151}.

The economic and social projects jointly run by the Chinese and ASEAN
authorities are also expected to increase. Indeed, initiation of the FTA in November
2002 has already created a positive inclination between China and ASEAN and
precipitated the movement of the factors of production and technical preparation for
further integration in the region. As for the first half of the year 2003, China has
initiated 822 new projects in the ASEAN countries while the ASEAN members have
invested in 982 new projects in China\textsuperscript{152}. Current statistics show that the ASEAN-
China FTA is expected to increase ASEAN’s export into China by 48\% and imports
from China by 55\%. Looking at this positive figure and the above-mentioned

\textsuperscript{150} See “Joint Declaration of the Head of State/Government of the Association of Southeast Asian
Nations and the People’s Republic of China on Strategic Partnership for Peace and Prosperity,” 8

\textsuperscript{151} Quoted in Marwaan Macan-Markar, “ASEAN-China FTA: Boon for Whom?” \textit{Asia Times}, 22

\textsuperscript{152} \textit{Xinhua News Agency}, 18 August 2003, posted at the Xinhua News Agency website
expectations, the FTA might be called as a ‘grand-slam win strategy’ by both sides. In fact, the positive impact of the FTA can already be found in the trade statistics of the first half of 2003 (see Figure 1, Chapter 3). This proves that the FTA is giving a positive incentive to both sides and both are eager to invest in each other’s territories.

Indeed, this tendency is the overall image of the relationship between China and ASEAN recently. However, it should initially be stated that the above expectations could be achieved if the FTA is rationalized according to the given agenda and the time limits. Although the ASEAN-China FTA is currently a positive stimulus in the region, there are still arguments discussing the potential deficits of the FTA. Hence, the FTA could be an opportunity but it is still a framework agreement whereby certain sectors will have to be discussed further to be completed in due time.

As another problematic of the FTA, according to Hadi Soesastro, both negotiation and implementation of the FTA has some difficulties for each side. The perceptual differences between China and ASEAN, whereby China proposed a ‘narrowly focused’ FTA while some ASEAN members emphasised a wide-range engagement, appears as a major obstacle behind the closed doors. Apart from this,


154 According to the Chinese Ministry of Commerce statistics, exports from ASEAN to China has grown by 55.5% with the amount of US$20.47 billion while Chinese exports to ASEAN also grew by 32.4% to US$13.77 billion (almost the same amount of all the year 1999. Xinhua News Agency, 18 August 2003, posted at the Xinhua News Agency website <http://www.china.org.cn>.

the FTA is not only an economic framework but it has political implications as well. As can be seen from the above analysis of China’s sensitivities in the South China Sea and the overseas Chinese issues, political interests of China in the long-term seems to have further inclination for China than just being an economic partner of ASEAN.

Another questionable aspect of the FTA arrangement is the preferable bilateral negotiations between China and the members of ASEAN. Thailand, for instance, is a close partner of China in trade negotiations as they have military engagements well\textsuperscript{156}. China has opened the way for bilateral talks by amending the FTA arrangement during the ASEAN+3 October Summit, 2003, in the name of smooth transformation and preparation of the ASEAN countries for the ASEAN-China FTA. However, this would deteriorate the already weak integrity of ASEAN during the negotiations with China. As indicated by Singapore’s Prime Minister Goh Chok Tong, “There is acute awareness now that if you don’t hang together; you are going to hang separately, given the competition from China and, later on, India”\textsuperscript{157}.

In theory, the FTA would be an asset if the economies were complementary rather than being competitive. In the case of the ASEAN-China FTA, the economies have shown that their export orientations are mainly the same (towards the United States, Europe and Japan) and in the similar structure (focusing on manufacturing industries, especially after the mid-1990s). This indicates that the economies are


mainly competitive rather than being complementary and this would create certain losses in the weaker industries; the industries of the ASEAN countries in this case. Especially the ‘new ASEAN members,’ whose industries are based on labour-intensive manufacturing sectors, are expected to lose their low cost advantages to China. As can be seen in Appendix B, ASEAN’s world share in exports and imports have not grown as China’s in 2002. Of course, the world was in global slowdown in 2001 and ASEAN has also shown positive recovery signs in 2002. However, this nominal growth was a negative one when compared with the China’s rising share in the East Asian growth. As a result, there is a significant increase in the trade between China and ASEAN and the FTA is expected to increase ASEAN’s overall trade. However, all given figures and the fact that the FTA is still in the negotiation process make it difficult to make positive projections in regard to the region.

Figure 6a: ASEAN-China Export-Import Balance, 1993-2002

Source: The data sheet taken from the Appendix C.
Japan’s traditional approach to any regional or bilateral FTA was more critical than now. Japan for a long time followed the idea that the FTA arrangement would damage the MNF clause of the liberal economies. Another reason why Japan was reluctant to join any FTA or special trade agreement was the concept of the traditional FTA. In the traditional FTA, the removal of all tariff and non-tariff barriers was aimed and this was totally inconsistent with the protectionist trade and investment strategy of the Japan model.

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158 According to the Article 24 of the GATT regulations, the parties to the FTA must not raise trade quotas to the third parties higher than they had when the agreement was completed. Parties to the agreement must remove barriers to ‘substantially all trade’ and the parties should complete the negotiations in a reasonable length of time (approximately in 10 years). See in Watanabe, 291-292.
Nevertheless, the changing economic dynamics of the region as well as the international economic system and China’s FTA strived with ASEAN forced Japan to accept special treatment on trade matters. According to Japan’s FTA strategy, there are both economic and political advantages of the FTA today\textsuperscript{159}. When Japan engaged in its first FTA arrangement, a ‘new-age FTA’ was also born out the negotiations between Japan and Singapore\textsuperscript{160}.

However, as indicated in the argument, Japan’s declining economic position can be seen in its FTA negotiations as well. Japan is still hesitant to discuss measurements on its agriculture, fisheries and forestry sectors because these are the sectors whereby ASEAN might have easy access and a certain gain. Japan keeps its protectionist approach to these sectors and even rejects to reduce tariffs on manufactured or semi-manufactured products. For these reasons, any possible trade arrangement either between Japan and ASEAN or between Japan and any ASEAN member seems to be difficult to achieve.

As a result, China’s position in the ASEAN market and its co-operation with the ASEAN countries have the above-mentioned positive outcomes for ASEAN. For these reasons, it is understandable why most of the recent analysis seem to be rationalising the ongoing relationship between China and ASEAN. However, even if the relationships had a totally economic drive, it would still be

\textsuperscript{159} Economically, the FTA enhances imports and exports, leads to more efficient industrial structures and improves competition, quality and thus productivity. Politically, Japan believes that the FTA can increase the trust among the parties, speed up the WTO negotiations and increase Japan’s regional and global influence. See “Japan’s FTA Strategy,” posted at the Japanese Ministry of Foreign Affairs website <http://www.mofa.go.jp >. See also, Paul Bowles, “Asia’s Post-crisis Regionalism: Bringing the State Back in, Keeping the (United) States Out,” \textit{Review of International Political Economy}, 9(2), 2002, 247-248.

\textsuperscript{160} Watanabe, 289.
questionable given the fact that the FTA is still a framework agreement and the long-term analysis of the agreement is unforeseen for the moment. Japan’s reactionary posture in the regional FTA arrangements is, on the other hand, more fragile than China’s. For this reason, further elaboration by including the political stance of each player in the region is needed to reach a credible conclusion in the ASEAN market.

The overall picture given in this chapter about Japan and China’s stances in Southeast Asia show that they have both positive and negative aspects of their interactions with the ASEAN members. Undoubtedly, the short-term indicators of the ASEAN-China FTA, FDI and adjustment to the WTO have potential implications for both sides of the ASEAN-China economic co-operation. For this reason, in fact, none of the ASEAN members has objections to the rising Chinese positioning in Southeast Asian regional market. However, given the potential hazardous aspects of the economic growth of China over the region, the long-term expectations for the region and also for the Chinese internal market are not yet clear. Japan’s relative declining position in the market is also remarkable despite the fact Japan is still an important part of the investment, trade and developmental projects of the ASEAN framework.

Of course, the fragility of China’s uncontrolled growth is another concern on the Japanese and especially ASEAN sides. However, as the Chinese Premier Wen Jiabao indicated that “…a more developed and stronger China will bring about development opportunities and tangible benefits to other Asian countries”161. For this reason, it is generally agreed by the ASEAN members that the Association
should foster its accommodation to Chinese development in order not to lose the market of 1.3 billion people and not to turn the ‘neighbour’ into a further competitor in investments\textsuperscript{162}. However, this sensitivity of the ASEAN members is not because of the fact that they consider China as an economic leader of the region but just a focus of interest to get as much as share and benefit as possible to recover their fragile economies in the absence of a regional leader who could take the burden.


\textsuperscript{162} \textit{Ibid.}, 38-39.
CHAPTER VI

CONCLUSION

As being a regional economic integration model, ASEAN is one of the most dynamic and wide-ranging examples of regionalism. Today, it has a population of about 550 million, a total area of 4.5 million square kilometres, a combined gross domestic product of US$737 billion, and a total trade of US$758 billion. Hence, both China and Japan, being the major economic players of the region, try to re-shape their political economies targeting greater access to the ASEAN market.

This study examined the concurrent economic positions of China and Japan in the ASEAN market with respect to the recent developments in the region. In the second chapter, the organisational developments and the current economic situation of ASEAN were given with theoretical background information on regionalism. While giving the recent economic stance of Southeast Asia, bilateral economic ties between Japan and China were considered as important parts of the Southeast Asian economic picture.

The third and the fourth chapters were devoted to the comparative analysis of the respective economic relationships between China-ASEAN and Japan-ASEAN. In general, China seems to be more assertive and active after getting recognition of the region for supporting them in the aftermath of the crisis and later
obtaining the membership of the WTO in the end of 2001. Hence, China is a crucial economic power via influential linkages (ASEAN+3, the TAC, ASEAN-China FTA and other donorship interactions) it has established with the ASEAN countries during the late 1990s. Japan has always been the leading power, promoting the multilateral integration of the region through the ASEAN framework. However, the recent domestic downturn of the Japanese economy and the severe financial crisis create negative impacts on Japan’s economic stance in the region. Japan’s concern towards the region is further deepened because of the rising Chinese self-confidence and assertiveness in the ASEAN market. These factors force Japan to be more self-assured in its propositions, like it has proposed further regional integration (i.e. the AMF framework) after the financial crisis or its affirmation for special trade agreements with the ASEAN members. Later, it was argued in the chapter that Japan still constitutes an important economic share of the ASEAN market.

Nevertheless, political and security considerations of each player should further be scrutinised while putting China and Japan to their proper places in the ASEAN market. Hence, it may be inferred that, in addition to the technical obstacles of the potential ASEAN-China FTA, shifting FDI into China and the growing domestic crisis potentialities in China after being a member of the WTO, the political and security dimensions of the relations between China and ASEAN also prevent China from becoming the leading figure of the region. Despite the above-mentioned progress made on the South China Sea disputes, China’s military presence in the South China Sea is still perceived as a security concern by the
ASEAN countries. China’s economic and political position in Southeast Asia is of great concern to Japan as well.

Japan’s economically fragile position in the region also has the critical impact of the ‘history card’ in the hands of both the Southeast Asian nations and China. Hence, Japan is already in a weakening position since its most important instrument (i.e. the economic interdependence) for integration to the region has declined as a result of the recent economic developments in the region. In relations to all these considerations, Chapter Five elaborated on the negative and positive sides of Japan and China’s stances in the region from the ASEAN perspective.

In addition to all, the time frame also plays a crucial role. China’s economic potential is likely to be beneficial both for China and ASEAN in the short and medium terms unless the FTA fails to be implemented in its due time. However, theories suggest that the implementation of the ASEAN-China FTA or the shifting FDI towards China would likely result in significant adjustment costs to the developing and the least developing countries of ASEAN. The general argument of ‘China and its politically driven long-term interests in Southeast Asia’ should also be taken into account, considering the security and political interests of China in the South China Sea and the region. Although losing its economic stance and being indecisive on how to react to the recent developments in the region, Japan is still one of the most crucial economic partners of ASEAN. Appendix E gives the determinants of the relations between Japan-ASEAN and China-ASEAN in order to portray the current economic situation in the region.
To conclude, this study has argued that both Japan and China have crucial influences on the economic structure of the region. The recent economic partnership between China and ASEAN shows promising signs for both sides and Japan seems to be stagnant in terms of its economic stance in the region. However, the ASEAN members are also aware of the fact that, while assessing the implications of China’s economic integration with ASEAN, one should also keep in mind the fact that the security interests have always been the driving incentive of the foreign policy agenda of the People’s Republic of China. Nevertheless, given the facts and discussions of this study, it is not likely for China to replace Japan as the leading figure of the ASEAN region.
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Keidanren <http://www.keidanren.or.jp>
Overseas Chinese Affairs Commission <http://www.ocac.gov.tw>
People’s Daily Online <http://www.peopledaily.com.cn>
Research Institute of Economy, Trade and Industry <http://www.rieti.go.jp>
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The Japanese Ministry of Foreign Affairs <http://www.mofa.go.jp>

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The Stimson Center <http://www.stimson.org>

The University of Queensland <http://eprint.uq.edu.au>


The US Central Intelligence Agency <http://www.cia.gov>

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Washington Post <http://www.washingtonpost.com>


World Trade Organisation <http://www.wto.org>
APPENDICES

APPENDIX A

CHRONOLOGY OF RELATIONS

China and ASEAN

July 19, 1991 China attended the ASEAN Annual Ministerial Meeting in Malaysia.

September 1993 ASEAN Secretary-General H.E. Dato’ Ajit Singh set up an official delegation to Beijing.

July 23, 1994 Establishment of joint committees on trade and technology.

1994 China joined the inauguration of the ARF

July 1996 China became the full Dialogue Partner of ASEAN.

Feb. 26-28, 1997 The ASEAN-China Joint Cooperation Committee (ACJCC) was set up.

1997 Initiation of ASEAN+3 between ASEAN, Japan, China and South Korea.

November 4, 2002 Declaration on the Conduct of Parties in South China Sea.


November 5, 2002 Framework Agreement on Comprehensive Economic Co-operation between ASEAN and the PRC.
October 6, 2003  Protocol to Amend the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and the PRC.

October 8, 2003  China’s Accession to the Treaty of Amity and Co-operation in Southeast Asia.

October 8, 2003  Joint Declaration of the Heads of State/Government of ASEAN and the PRC on Strategic Partnership for Peace and Prosperity.

Japan and ASEAN

1973 Establishment of informal relations between Japan and ASEAN

1974 Visit of the then Japanese Prime Minister Kakuei Tanaka to ASEAN countries and rising anti-Japan protests.


August 1977 Promulgation of the Fukuda Doctrine.

Sep. 22, 1985 Initiation of the Plaza Accord.

1987 Initiation of the Louvre Accord.

December 1987 Declaration of the new Partnership towards Peace and Prosperity.

January 1993 Promulgation of the Miyazawa Doctrine

1994 Japan joined the inauguration of the ARF.

January 1997 Promulgation of the Hashimoto Doctrine

1997 Initiation of ASEAN+3 between ASEAN, Japan, China and South Korea.
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<td>The New Miyazawa Initiative</td>
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<tr>
<td>Marc 24-25, 2000</td>
<td>The Chiang Mai Initiative</td>
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<tr>
<td>November 2002</td>
<td>Joint Declaration on Development of Framework for Comprehensive Economic Partnership</td>
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<td>October 2003</td>
<td>Declaration on the ASEAN-Japan Framework on Comprehensive Economic Partnership</td>
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<td>Dec. 11-12, 2003</td>
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APPENDIX B

ASEAN, CHINA AND JAPAN IN WORLD TRADE

World Merchandise Exports by Region

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<th>Annual change in %</th>
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World Merchandise Imports by Region

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Note: China including Hong Kong in 1999 – 2001

Source: ASEAN Statistics, [http://www.aseansec.org].
### ASEAN Import from China, thousand $

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Note: China including Hong Kong in 1999 – 2001

ASEAN Export to Japan, thousand $

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ASEAN Import from Japan, thousand $

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<td><strong>55,702.9</strong></td>
<td><strong>67,302.4</strong></td>
<td><strong>78,535.1</strong></td>
<td><strong>73,310.0</strong></td>
<td><strong>71,264.2</strong></td>
<td><strong>46,693.7</strong></td>
<td><strong>51,465.9</strong></td>
<td><strong>65,627.2</strong></td>
<td><strong>53,326.5</strong></td>
</tr>
</tbody>
</table>

## APPENDIX D

### FOREIGN DIRECT INVESTMENT IN CHINA AND ASEAN

#### FDI in China, 1990-2002, (million $)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Contracts</td>
<td>7,273</td>
<td>24,55</td>
<td>21,00</td>
<td>19,79</td>
<td>16,91</td>
<td>22,34</td>
<td>26,13</td>
<td>34,17</td>
</tr>
<tr>
<td>Contracted Inv.</td>
<td>6,596</td>
<td>73,27</td>
<td>51,00</td>
<td>52,10</td>
<td>41,22</td>
<td>62,38</td>
<td>69,19</td>
<td>82,77</td>
</tr>
<tr>
<td>Utl. Inv. *</td>
<td>3,410</td>
<td>41,72</td>
<td>45,25</td>
<td>45,46</td>
<td>40,31</td>
<td>40,71</td>
<td>46,85</td>
<td>52,74</td>
</tr>
<tr>
<td>EU(utl.) Inv.</td>
<td>147</td>
<td>2,737</td>
<td>4,171</td>
<td>3,978</td>
<td>4,479</td>
<td>4,479</td>
<td>4,182</td>
<td>3,709</td>
</tr>
<tr>
<td>Japan(utl.) Inv.</td>
<td>503</td>
<td>3,679</td>
<td>4,326</td>
<td>3,400</td>
<td>2,973</td>
<td>2,915</td>
<td>4,348</td>
<td>4,190</td>
</tr>
<tr>
<td>US (utl.) Inv.</td>
<td>455.9</td>
<td>3,443</td>
<td>3,239</td>
<td>3,898</td>
<td>4,215</td>
<td>4,384</td>
<td>4,433</td>
<td>5,423</td>
</tr>
</tbody>
</table>

#### FDI in ASEAN, 1995-2002**, (US$bn)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Utl. Inv.</td>
<td>26,34</td>
<td>29,44</td>
<td>33,14</td>
<td>22,84</td>
<td>24,59</td>
<td>11,45</td>
<td>13,33</td>
<td>1,952</td>
</tr>
<tr>
<td>China (utl.) Inv.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>821.4</td>
</tr>
<tr>
<td>ASEAN (utl.) Inv.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15,256.7</td>
</tr>
<tr>
<td>EU (utl.) Inv.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>36,527.7</td>
</tr>
<tr>
<td>Japan (utl.) Inv.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22,151.2</td>
</tr>
<tr>
<td>US (utl.) Inv.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24,348.9</td>
</tr>
</tbody>
</table>

** For 2002, the data covers only the first half of the year.

Inflows

Outflows


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# APPENDIX E

## OVERALL EVALUATION OF THE ECONOMIC POTENTIALS OF CHINA AND JAPAN IN ASEAN

<table>
<thead>
<tr>
<th>Determining Factors of Economic Stance in ASEAN</th>
<th>China</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographical Proximity</td>
<td>Advantageous proximity for the joint conglomerates in Indochina.</td>
<td>Local market of Japan since the 1970s.</td>
</tr>
<tr>
<td>Historical Linkages</td>
<td>Still perceived by as regional threat.</td>
<td>Historical atrocities of Japan in the region.</td>
</tr>
</tbody>
</table>

| Economic Potentials | | |
|---------------------|------------------|
| FDI                  | Shifting FDI to China from 2001 on. | Slowing FDI from Japan from the late 1990s on. |
| ODA Policies         | Limited to the geography and duration of the projects. | Continuing ODA projects. |
| Bilateral Relations  | China’s emphasis on bilateralism in October 2003. | Recently failed to manage bilateral trade agreements with the ASEAN members. |
| Economic Progress of China and Japan             | Progressive one with strong expectation of the domestic crisis. | A decade-long slowdown with initial signs of recovery. |
| Economic Progress of China and Japan in World Economy | Growing potential, attracting most of the FDI. The WTO membership. Revaluation of RMB. | Slowing economic contribution to world trade and FDI. |
| 1980s               | Relatively new. | Developmental State Model. |
| Mid- 1990s          | Economic actor. | Flying geese model. |
Appendix E (continued)

<table>
<thead>
<tr>
<th>Time-frame</th>
<th>Economic Partnership</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late 1990s \ 2003</td>
<td>Economic Partner to ASEAN</td>
<td>Declining stance with ASEAN</td>
</tr>
</tbody>
</table>

**Implications of the Rising China-ASEAN Economic Integration in Time-scales**

<table>
<thead>
<tr>
<th>Time-frame</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-term</strong></td>
<td>Progress on both sides with negative impact of the shifting FDI to China. Immediate reaction to China’s stance in the region.</td>
</tr>
<tr>
<td><strong>Medium-term</strong></td>
<td>Further integration of China to the region. Further shift of focus on China and declining stance in ASEAN</td>
</tr>
<tr>
<td><strong>Long-term</strong></td>
<td>Not the leader but an integrative partner of the region. No longer a model but a constant partner of the region.</td>
</tr>
</tbody>
</table>