

Japan's Role in East Asian Economic Regionalism

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Abstract: *The processes of regional economic integration in East Asia has its own characteristics because unlike in Europe, enterprises here play a very important role. Regionalism is also underway in East Asia, in particular in Japan. This study aims to analyse and evaluate the role played by Japan in the development of East Asian regionalism at various stages since the mid-1980s. The authors will also attempt to find out if Japan will emerge as a leader of East Asian regionalism in the future. The study adopted critical review of relevant literature, descriptive and inference methods to achieve its objective. Additionally, analysis of statistical data is used to support main findings which show that Japan has never been a key in shaping East Asian regionalism, except some attempts in the period directly after the Asian financial crisis. Therefore, the findings further suggest for Japan to achieve this leadership role in the near future is limited.*

Keywords: *Japan, regional economic integration East Asian regionalism, leader, economic growth*

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1. Introduction

The process of globalisation has led to a triad economic and trade system in terms of global GDP and trade volume. The European Union (EU), North American Free Trade Agreement (NAFTA), and East Asia¹ are major actors in the global economic system and trade since the 1980s. However, the global financial crisis in 2008 had led to a new global economic order that consist of existing global economic powers such as G7 and new emerging economic powers such as G20 and BRICS. Additionally, China had tried to build a new form of cooperative platform in world politics and the global economy by creating G2 in 2013 (Dicken, 2015; Kirton, 2013; Looney, 2014).

Along with globalisation, regional economic integration is taking place all over the world. The East Asian region is no exception. However,

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regionalism here can be described as bottom-up and market-driven rather than institutional integration driven by intergovernmental cooperation as witnessed in Europe. The institutional integration in East Asia has been much weaker than in Europe. Nevertheless, processes of economic regionalism have also been taking place in East Asia since the 1980s. Depending on the stage of the development, roles of individual countries in this context have varied considerably.

Japan, one of the most developed economies in East Asia, showed a relatively diversified approach towards this process. By changing its position from firmly reluctant to favourable, Japan played a discernible role in East Asian regionalism. This role has evolved over time along with the transition to the next stages of *de jure* integration. The study begins with a description of Japan's economic activity at various stages of development of East Asian regionalism and an assessment of the specific role played at a given juncture. Additionally, the study indicates possibilities of Japan contributing to further regional economic integration to create regionalism. The hypothesis of Japan as an economic leader in the region will be verified by the study about the significance of Japan in East Asian regionalism and will be underscored by the following research questions: First, was Japan's role in East Asian regionalism significant or not? Second, can Japan become a leader of East Asian regionalism?

In order to answer the above various research methods such as critical analysis of the literature, inference and statistical data analysis were employed. The research period of this study was from mid-1980s to mid-2010s.

2. Theoretical debates on international economic regionalism

Economic regionalism (*de jure* regional economic integration) can be defined as an institutional combination of separate national economies into larger economic blocs or communities. Usually, the process is understood to be a state-led project that promotes a definable geographic area by development of specific institutions and strategies. Thus, regionalism is a conscious and coherent top-down policy of the state. The above definitions describe institutionalised aspects of economic cooperation within the area, which are usually a result of intergovernmental negotiations undertaken or agreements concluded between member nations. Based on this perspective, regionalism exposes institutional and instrumental linkages between the member nations. Although regionalism is sometimes used interchangeably with the term international economic integration, it is not identical. Beside regionalism, international economic integration includes regionalisation (Robson, 1998; Beeson & Stubbs, 2012; Misala, 2005).

A regionalisation (*de facto* regional economic integration) means a process of integration, in which the most significant role is played by market factors, i. e. an activity of enterprises and other private entities interested in developing cross-border relations. This, in turn, leads to increasing trade, investment and production in the region. In contrast to regionalism, regionalisation is a spontaneous, complex and bottom-up process by which material patterns of transnational transactions among individuals and groups knit a loosely defined geographical area together (Söderbaum, 2012; Beeson & Stubbs, 2012).

Such processes are rarely independent of the economic policies implemented by the nations, and these often take place without deliberate planning at the national or local level. The distinction between regionalism and regionalisation are of key importance in East Asia, as this region's market integration processes diverge from the institution-based approaches adopted in Europe and North America. As a result, East Asian countries have become increasingly interdependent in terms of trade, investment, finance and production. The predominance of regionalisation in East Asia does not mean that processes of regionalism do not exist. On the contrary, they exist, but rather as 'soft or informal regionalism (Pempel, 2010; Zhao, 1998; Katzenstein, 1997; Breslin & Higgott, 2000).

Both concepts make up the notion of an international and regional economic integration. One of the definitions claims that economic integration is the process of removing progressively those discriminations which occur at the national level. Another definition describes it as the abolition of discrimination between economic entities from different states. The latter is a dynamic approach to integration. In a static view, economic integration means the absence of various forms of discrimination between national economies. Countries interested in the process usually start from a simpler form of establishing free trade zone, and then progress through more advanced forms in terms of customs union, common market, economic union up to a full economic union. In practice, this sequence does not always occur, and an achievement of the final stage is challenging as it entails a level of political integration and loss of sovereignty (Hosny, 2013; Balassa, 1961).

Countries that decide to participate in an integration process must consider benefits and costs of such activities. Not only economic but also political and social effects should be taken into consideration. Obviously, in economic terms, benefits should overcome costs, but it is worth emphasising that a necessary condition for efficient integration requires an honest division of political benefits and costs between member countries (Molle, 1990).

Focusing on the economic sphere, it can be concluded that in the short run, benefits of integration are mainly due to a growth of trade turnover in

the grouping, but in the long run, they rely on increasing production, improving productivity in factors of production, GDP and GDP *per capita* growth. According to the definition of integration, a reduction of barriers within a group means wider openness of integrating countries for foreign enterprises, which in turn increases competition and efficiency. In addition, a larger market attracts new businesses and existing businesses are urged to make greater effort to beat the new competitors. Such activities increase productivity and lead to a better allocation of resources, greater specialization and technology transfer. All this has a positive effect on consumption and wealth of the integrating countries (Mucha-Leszko, 2012; Siddique, 2007).

Economic integration theories also discuss benefits and costs of regional economic integration. There are two main theories that explain the effects of integration. The traditional group presents a static approach, while the dynamic group takes into account ever-changing economic conditions that present the dynamic approach (Bhagwati & Panagariya, 1996).

The traditional group analyses the effects of a customs union composed of trade creation effect and trade diversion effect. If a trade creation effect creates growth in trade turnover within the group as a result of reduction of tariffs and other restrictions outweighs the diversion effect replacing more efficient partners from outside the zone by partners from the zone, then the customs union can be recognised to have net positive effects (Viner, 1950; Pomfret, 2001; Siddique, 2007).

The dynamic group analysing the effects of the integration takes into account the dynamic effects of this process. It emphasises the role of changes in economic conditions. These changes concern the economies of scale, technology, impact on market structure and competition, productivity growth, risk and uncertainty and investment activity. In addition, the growing competitive pressure will cause the previously existing non-competitive market structures such as monopoly and oligopoly to evolve towards more competitive ones. This can create the conditions to improve productivity in integrating economies (Balassa, 1961; Urata, 2009).

Economic integration, particularly as discussed in the theories of traditional and the dynamic groups, apply also to East Asia. These processes are primarily of a bottom-up nature, but economies of East Asia are increasingly interested in forming institutional links of cooperation. Therefore, the process of East Asian economic regionalism has its own characteristics and dynamics, resulting from the activities and commitment of countries inside and outside the region.

3. Participation of Japan in East Asian regionalism since the mid-1980s

3.1. Period of competition and interaction among various proposals (1985-1992)

The East Asian countries have always preferred a multilateral global order. The International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) have shaped the framework for external economic policies of these countries. However, the situation changed in the early 1990s, when some countries displayed more interest in regional economic integration based on bilateral free trade agreements (FTAs) (Rana, 2006; Zhai, 2006). There were some reasons for that. First, external pressure, like the integration in Europe and North America which triggered defensive reactions. Second, East Asian countries realised that institutional links create a more predictable framework for a development of economic interdependence than ever. Third, the creation of larger geographic areas with less internal barriers could encourage foreign companies to increase their direct investments. Fourth, deepening economic relations with other countries in the region had a positive impact on the structural changes in integrating countries.

Authors distinguish stages of its development in East Asian regionalism. In this study, we adopt Munakata's approach who claim that East Asian development went through four phases: 1) a period of competition and interaction among various proposals (1985-1992); 2) a period of APEC's primacy (1993-1997); 3) a period of institution building after Asian Financial Crisis (AFC) and; 4) a period of free trade agreements' proliferation. In each stage, Japan played different roles in the development of East Asian regionalism, from a distinct lack of interest in developing such processes to the development of relatively far-reaching activities (Baldwin, 2007; Munakata, 2004).

Economic regionalism in East Asia has a relatively short history. The most important regional organisation, the Association of Southeast Asian Nations (ASEAN), was founded in 1967. However, by the beginning of the 1990s, ASEAN's objectives were predominantly political and defensive in character, while its economic cooperation did not develop intensively till the mid-1990s (Jetschke, 2012).

The first impetus for economic integration in East Asia came from outside. In the 1980s, ASEAN became the object of the US economic interest, which unofficially proposed opening talks on a free trade area. However, ASEAN was not ready to take this step. However, East Asian countries began to cooperate with one another in order to strengthen their

role on international affairs. One of the first initiatives was proposed in December 1990 by the then Prime Minister of Malaysia Tun Mahathir Mohamad to establish the East Asian Economic Grouping (EAEG) (Munakata, 2004; Maswood, 2001).

This grouping was to be composed exclusively of East Asian countries to represent their interests on the world stage. However, the US together with its key allies, Japan and South Korea, rejected this initiative. The proposal was rehashed, and the East Asian Economic Caucus (EAEC) was introduced in October 1991. However, due to the strong opposition of the US and its East Asian allies, this initiative too could not be implemented. At the beginning of the 1990s, regional economic integration in ASEAN began. In 1992, the ASEAN Free Trade Agreement was established which was a step forward to achieve East Asian economic integration (Dent, 2010).

While some claim that Japan was a pioneer of regionalism in the Asia and Pacific region between 1985 and 1989, Japanese foreign economic policy did not treat regionalism in East Asia as a priority and its activities were limited to increasing its economic presence in the region. However, Japan supported East Asian regionalism as Japanese companies had a significant advantage over rivals. New initiatives for the integration of exclusively East Asian nations (EAEG or EAEC) that excluded the US or Australia, did not gain strong Japanese support and it refused to play a leading role in this grouping (Naya, 2004; Yoshida, 2004; Baldwin, 2011; Sakakibara and Yamakwa, 2005; Maswood, 2001).

Japan, being very pro-US despite her strong economic expansion, Japan supported the participation of the US in any economic grouping. Her reliance and support of US led to the formation of Asia Pacific Economic Cooperation (APEC) where US was also a participant in this economic forum (Naya, 2004; Yoshida, 2004).

3.2. Period of APEC's primacy (1993-1997)

Asia Pacific Economic Cooperation or APEC was established in 1989 as an initiative of Australia and Japan, and until 1993, this forum did not produce any significant achievement. It functioned based on interregional cooperation formula, where, apart from East Asian countries, members in the Pacific area were included. However, the growing popularity of APEC after that can be considered as a response of the US to the East Asian initiative. Independent initiatives taken by the East Asian countries in the form of EAEG, EAEC or ASEAN FTA were regarded as unfavourable by the US administration. In pursuing its hub and spokes policy, the US claimed that regionalism in trade is a secondary solution compared with

multilateralism based on the GATT principles. Moreover, as the US did not want to lose their leading position in the region, they began undermining preferential trade agreements by proposing larger ones. Consequently, many Asian economies began to be less interested in solely East Asian or Asian initiatives (Dent, 2010; Baldwin, 2007).

The impact of external factors on the integration process in East Asia was compared with that of the European Union (EU). A regional community in East Asia became the focus of many countries here in the period 1996-1997 due to convergence of their interests. In 1996, ASEAN initiated the first Asia Europe Meeting (ASEM) aimed at developing greater economic cooperation with EU. It also encouraged the participation of China, Japan and South Korea. The ASEM created was in effect a platform for East Asian countries to discuss and to reach a common agreement on complex issues before meetings with EU representatives are conducted. In 1997, in the first meeting of its kind, the representatives of ASEAN, China, Japan and South Korea met in Kuala Lumpur., Described as an informal East Asia Summit, the meeting was aimed at discuss mutual issues to promote the region and this initiative was named ASEAN Plus Three (APT) (Naya, 2004).

There was an evolution of Japan's approach to economic regionalism. In the beginning, she could not imagine that any ties in Asia Pacific could have taken place without the participation of the US. Later and only gradually, Japan began to develop its own cooperation with ASEAN countries. In 1992, the ASEAN Economic Ministers and the Ministry of International Trade and Industry (MITI) started to hold meetings (AEM-MITI) aiming to promote integration within ASEAN. The MITI provided technical assistance for projects to integrate bilateral frameworks between Japan and ASEAN After Prime Minister Hashimoto's visit to several ASEAN countries, suggesting regular conferences between Japan and ASEAN in 1997, the latter proposed a summit of ASEAN plus three. Despite Japanese scepticism of the ASEAN proposal without the participation of Australia and New Zealand, Japan eventually decided to accept the invitation to participate in the APT summit. This can be considered the beginning of Japan's participation in East Asian regionalism (Yoshida, 2004; Munakata, 2004).

3.3. Period of institution building after the Asian Financial Crisis

It is said the 1997 Asian Financial Crisis (AFC) was the beginning of serious efforts towards true regionalism in East Asia. The AFC accelerated the processes of East Asian regional economic integration, and according to Plummer (2006), various factors linked to the AFC influenced regionalism in East Asia: 1) the contagion effect between Asian countries;

2) disappointment over the US and IMF reactions to the crisis; 3) the small progress of APEC in achieving closer trade and financial cooperation 4) Japan's changing perception of its role in the Asian Monetary Fund (AMF); 5) China's decision not to devalue its currency, Renminbi, during this period; 6) New Miyazawa Initiative² launched in 1998; 7) policies promulgated by the IMF to solve the crisis were deemed inappropriate, giving greater credibility to the 'Asian' approach (Pomfret, 2006; Plummer, 2006).

The AFC that began in Thailand in July 1997 quickly spread to other Asian countries such as Malaysia, Indonesia and South Korea. To a lesser extent, the crisis affected the Philippines, Hong Kong, Singapore and Taiwan. Owing to the rapidly spreading crisis, it dawned on the East Asian countries that closer Asian economic interdependence was the key to tackling the crisis. In addition, they realised they could not always rely on international organisations during the crisis, and even APEC was not a proper forum for resolving the problems of East Asia (Yusuf, 2001; Naya, 2004; Munakata, 2004; Asian Development Bank, 2015).

Moreover, the desire to avoid problems in financial markets in the future, as well as a high surplus of foreign exchange reserves in China and Japan have led to a number of proposals for institutional financial cooperation. As a result, AMF and the Chiang Mai Initiative (CMI) were proposed including the concept of a single Asian currency. While the previously proposed agreements on trade were not met with great interest, the idea of financial cooperation was supported by East Asian governments in order to create a safety network for their financial markets. Mired in crisis, East Asian countries expected that Japan would take on the key role in overcoming the economic problems in the region (Pomfret, 2006; Munakata, 2004).

Indeed, Japan became a more active leader in the institutional integration of East Asia. In 1997, Japan pledged USD 4 billion in financial assistance to the countries suffering from the crisis. Japan proposed the creation of AMF during the ASEM Finance Ministers Conference in 1997. The first Japanese initiative known as the original Miyazawa plan was severely criticised by the US and the IMF that Japan backed off from the deal. Nevertheless, Japan created a currency swap arrangement under CMI among East Asian countries in 2000 that could secure the financial markets of the East Asian economies (Pomfret, 2006; Yoshida, 2004; Skulska, 2011).

In 1998, when the crisis persisted, Japan announced the New Miyazawa Initiative (NMI), a capital support package worth USD 30 billion for Asian countries. It was an expression of Japan's economic power indicating it was able to pursue a policy independent from the US. Japan also invested 32%

of the CMI fund as like China. As a result, Japan became more involved in ASEAN+3 Forum that showed its growing interest in the East Asian integration. However, there was no support for free trade agreements covering the entire East Asia, while the APT was focused on the development of financial cooperation. This gave rise to many bilateral and multilateral FTAs in East Asia, which paved way for the next stage of East Asian regionalism.

3.4. Proliferation of Free Trade Agreements (FTAs)

A new stage of East Asian regionalism involving the creation of preferential FTAs began in 1999. South Korea and Singapore started negotiations with Chile and New Zealand respectively. Additionally, Singapore proposed to hold FTA talks with Japan. In 2000, China expressed its interest in signing FTA with ASEAN, triggering similar actions in other countries, including Japan. In East Asia, a domino effect occurred, and a number of agreements were signed rapidly (Baldwin, 2011). (See table 1)

Table 1: FTA Status in East Asia by Country/Economy (As of January 2017)

Specification	Under Negotiation		Signed but not yet in effect	Signed and in effect	TOTAL
	Framework Agreement signed	Negotiations launched			
Brunei Darussalam	0	2	1	8	11
Cambodia	0	2	0	6	8
China, People's Republic of	0	7	0	16	23
Indonesia	0	7	1	9	17
Japan	0	8	1	15	24
Korea, Republic of	0	9	0	16	25
Lao PDR	0	2	0	8	10
Malaysia	1	5	2	14	22
Myanmar	1	3	0	6	10
Philippines	0	3	1	7	11
Singapore	0	9	2	20	31
Thailand	1	8	0	13	22
Viet Nam	0	5	1	10	16
ASEAN	0	1	0	6	7

Source: Author's analysis based on (ADB, 2017a)

Until the FTA between Japan and Singapore was signed in 2002, there was only one important agreement, the ASEAN FTA in 1992. This was followed by many more FTAs. In January 2017, 13 East Asian countries were parties to 148 agreements with the largest number of them signed by Singapore, China, South Korea, Japan and Malaysia. Subsequent agreements have been negotiated. The dynamic growth in the number of bilateral and multilateral agreements has created a complex web of relationships called spaghetti bowl effects. Overlapping agreements are economically inefficient and create new divisions as well as hinder the emergence of a leader who would be able to manage multiple economic links in the region (Zhai 2006).

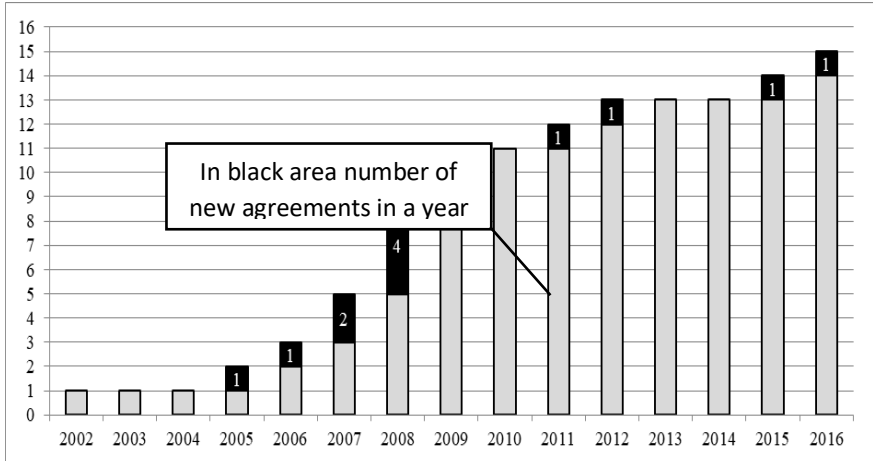
Integration processes in East Asia were not only intra-regional but also interregional in nature. Currently a worldwide trend towards so called mega FTAs is observed and this also applies to East Asia. Since 2012, 16 countries (ASEAN+6³) have been negotiating Regional Comprehensive Economic Partnership (RCEP). On the other hand, Trans-Pacific Partnership (TPP) was signed in February 2016. The TPP covers 12 countries, including the United States, Canada, Japan and Australia, but not China. However, in January 2017, the new US government declared it would withdraw from the TPP so that its future is as yet unknown (Park, 2017).

China was particularly active in developing bilateral and multilateral frameworks of economic cooperation in the region. The Chinese economy did not suffer significantly during the AFC and hence, it was able to attract new investments, create jobs and develop production chains in East Asia. Moreover, the credibility of China grew along with its stable currency as well as with its entry into the World Trade Organization (WTO) in 2001. These along with its dynamic economic growth, contributed to strengthening China's position in the region (Baldwin, 2007).

Chinese policy and its rivalry with Japan to influence the region since the AFC intensified, particularly since the global financial crisis (GFC) in 2008. With China's rise in the global area, Japan responded by focusing on revitalizing its economic relationship in the region. Therefore, Japanese trade policy has also changed toward FTAs oriented in the region. According to Baldwin, the beginning of China's negotiations with ASEAN triggered the need to negotiate a similar agreement with Japan. Changes in Japanese trade policy also caused close economic cooperation focused on trade and foreign direct investment (FDI) for production bases which resulted in a significant increase of FTAs within the region. Additionally, the number of regional FTAs concluded by Japan had increased in the period 2002-2016 in the region. Due to the Chinese and Japanese policy

and rivalry, intraregional trade had grown continuously till 2016 (Rodriguez, 2004; Baldwin, 2007, 2011; Park, 2016; ADB, 2017b; Thuzar, 2014). (See figure 1)

Figure 1: Number of Japanese RTA in force (As of August 2016)



Source: Author's analysis based on (WTO, 2016)

Japan clearly demonstrated an interest in signing FTAs in the region. Until 2005, there was only one agreement in effect whereas in subsequent years they proliferated. In 2008, already nine agreements were in force and in 2016, it increased to 15. Apart from bilateral agreements negotiated by Japan, the country participated actively in multilateral agreements involving a wider group of countries in the Pacific region. Japan is among the countries negotiating the RCEP led by China and it was the first country which formally ratified the TPP led by the US. This indicates its growing interest on economic cooperation not only in East Asia but also in the Pacific region. Japan, therefore, pursues the policy at many levels from multilateral to inter-regional to a regional one (Park, 2017).

4. Economic Analysis of Japanese Role in East Asian Regionalism

Japan's unprecedented and long-lasting economic growth after World War II allowed it to achieve a strong position in the global economy. In the second half of the 1980s, the Japanese prosperity was widely acknowledged. Its growing importance in the world economy was confirmed by its increasing shares in global trade and investment flows, as well as its rising share in global GDP. The adoption of a global perspective and a strong focus on cooperation with developed countries gave the

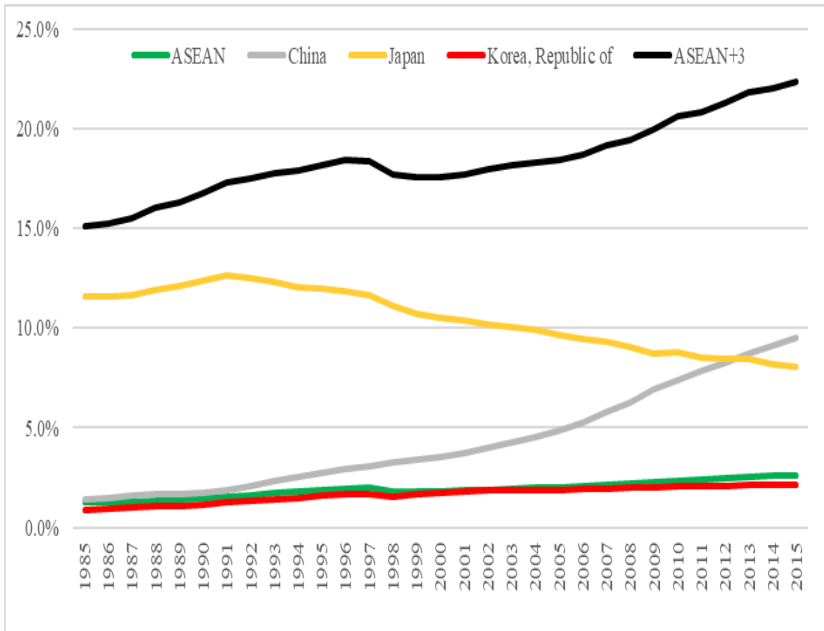
country benefits of an increasing economic position in the world. As a result, Japan became the second largest world economy after 1968. Paradoxically, economic successes did not make Japan think about involvement in regional economic integration as the Japanese authorities mainly adopted a global rather than regional perspective focusing on global production and supply chains. This was one of the reasons why Japan was so reluctant to lead the regional economic integration in the beginning of the 1990s when EAEG and EAEC were first mooted. During the entire post World War II period, Japan pursued a multilateral policy based on GATT, so at the turn of the 1990s with great economic prosperity, it did not feel a need to change its successful economic strategy.

The share of Japanese global GDP had grown until 1991. Since then, when real estate values and stock markets deteriorated dramatically, internal economic problems resulted in declining shares of Japanese GDP not only in East Asia but also in the world economy. In contrast, the Chinese share of global GDP increased rapidly since the 1990s. It is symptomatic that since the beginning of the 1990s, the total share of East Asia's GDP in the world economy had increased due to the dynamic growth of China at the expense of Japan. Chinese dynamic economic growth in the 1990s was mainly based on inward FDI along with its low labour costs. Japan started to shift its focus on global supply chains in the 1980s to China in the 1990s that contributed to boosting Chinese growth.

It clearly shows that those two economies had exchanged their positions as main GDP contributors to the world economy as well as to East Asia. These changes were the result of China's higher GDP growth compared with Japan as well as their large size. Moreover, East Asian economic growth pattern illustrates differences compared with the average of the world economic growth in the period of 1985-2015. (See Figure 2, 3)

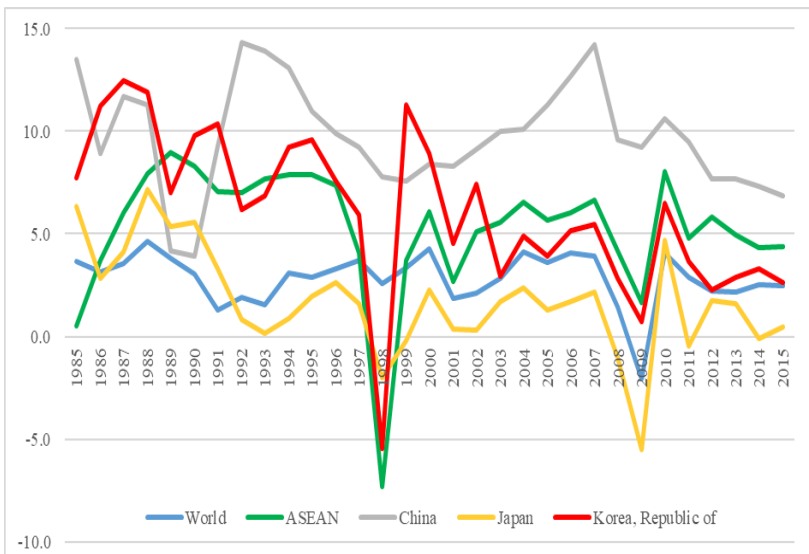
What can be observed is quite significant fluctuations of GDP growth in the countries analysed. However, the most striking is the Japanese performance. Since 1985, the situation had been deteriorating and from 1992 onwards Japan was the worst performing country in East Asia. In 1993, the GDP growth of Japan was at the level of 0.2%, while that of China stood at 13.9%, Korea at 6.8% and ASEAN at 7.7% (UNCTAD, 2017). (See figure 3)

Figure 2: Share of East Asia in World GDP from 1985 to 2015 (%)



Source: Author's analysis based on (UNCTAD, 2017).

Figure 3: GDP growth in World and East Asia in the period 1985-2015 (%)

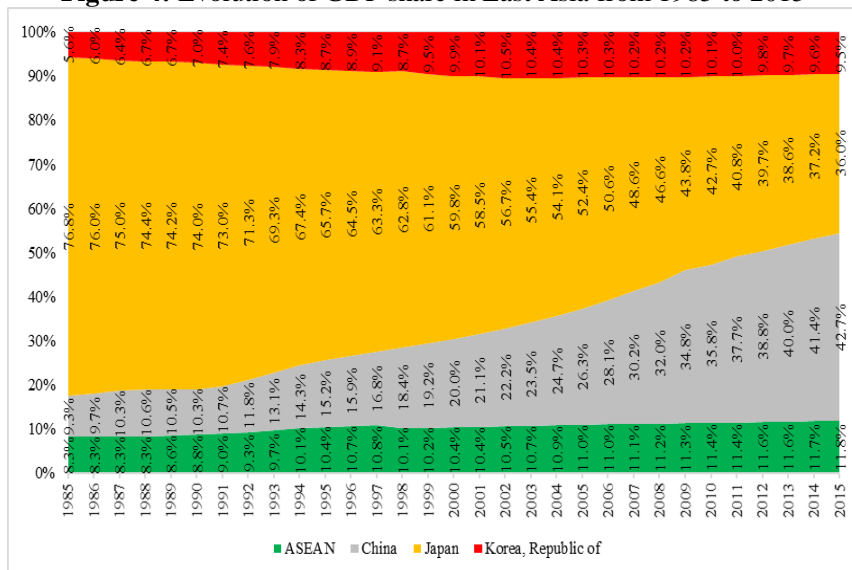


Source: Author's analysis based on UNCTAD, 2017

The AFC started in 1997, which influenced the economic balance of power heavily in East Asia. All countries except China experienced negative economic growth in 1998 (Japan -2%, Korea, -5.5% and ASEAN-1.2%). However, China managed to maintain a high GDP growth of 7.8% in the same year. After 1999, the economic situation slightly improved, and up to the outbreak of the GFC in 2008, economic growth of the countries was positive. It seems that after the AFC, the Japanese economic position was relatively strong, despite its negative growth, such that the country could become the leader of East Asian regionalism. The consistent pursuit of the creation of the AMF and the allocation of significant financial support to this initiative would convince East Asian neighbours about the credibility of the Japanese economic policy in the region. Japan, however, missed this opportunity because of its conservative policies subordinated to the interests of the US, under conditions of declining economic growth. As a result, Japan lost the momentum to be able to serve as an economic leader in the region, around which regional integration processes could develop (UNCTAD, 2017).

Compared to other East Asian countries, Japanese economic performance was the weakest. Its GDP growth was at the lowest level since 1991 regardless of its economic level. The GFC triggered by the US severely hit the East Asian countries. In 2009, Japanese GDP fell by as much as 5.5%, while South Korea maintained a positive albeit modest growth of 0.7%, and ASEAN of 1.7%. Similar to the AFC, the Chinese economy remained in relatively good shape of 9.2% growth even in 2009. After 2010, the situation improved in all economies, but the Japanese economy retained the lowest economic growth rate. In 2011 and 2014, the GDP growth went into negative territory with -0.5% and -0.1% respectively. These different patterns of economic growths resulted in the evolution of the economic positions in East Asian countries that were measured by the regional GDP shares, but also by the East Asian trade and investment flows. Data analysis shows clearly the decline of the importance of Japan as the main source of East Asian GDP. (See figure 4)

In 1985, Japan which contributed a 76.8% of the regional GDP witness a drop in its share to 46.6% by the time of the GFC. In 2013, China's regional GDP share of 40% exceeded that of Japan with 38.6%. and this difference has widened further in 2015. Therefore, recent trends show that Japanese economic influence is quickly waning, while Chinese economic influence rapidly increases. Additionally, it is noteworthy that both ASEAN and South Korea present quite slow but long-term increases in GDP for East Asia during the same period.

Figure 4: Evolution of GDP share in East Asia from 1985 to 2015

Source: Author's analysis based on (UNCTAD, 2017)

Findings related to GDP development in East Asia are to some extent confirmed by evolution of trade relations in the region. Intra trade data show the sharp decline of Japan's trade significance in East Asia, while Chinese intra trade shares increase nearly three times in export and twice in import (See table 2).

Table 2: Geographical structure of intra- East Asian trade in selected years (As of %)

Specification	1985		1992		1997		2002		2009		2015	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
ASEAN	42,8	33,9	41,2	46,1	41,5	45,4	40,1	37,5	37,9	36,4	36,7	41,7
China	11,0	18,7	9,8	10,0	14,2	14,4	19,5	23,1	24,9	30,9	32,6	30,3
Japan	38,7	35,6	37,0	29,3	31,3	27,3	27,7	26,3	22,9	20,2	15,7	17,2
South Korea	7,5	11,8	12,1	14,6	12,9	12,9	12,7	13,1	14,4	12,5	15,0	10,9
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Author's analysis based on IMF, 2017

In the period between 1985 and 2015, despite the increase in value of export and import, Japan's share of those two trade flows in East Asia dropped drastically. On the export side between 1985 and 2015, its share

decreased from 38.7% to 15.7%, while on the import side from 35.6% to 17.2%. During the same period, China's share rose from 11% to 32.6% for exports and from 18.7% to 30.3% for imports. Additionally, a strong position of ASEAN countries is noteworthy. For ASEAN, East Asia is the most important sales and supply market. In the case of South Korea, its share of exports has doubled from 7.5% to 15%, while imports fell slightly from 11.8% to 10.9% (IMF, 2017).

The analysis of economic developments in East Asia show Japan's role in the region has weekend which is attested by data on investment flows. The geographical breakdown of cumulative FDI inflows shows clearly the shrinking Japanese investment in East Asia in the period of 1990-2009. Unfortunately, data on FDI inflows is available only up to 2009. (See Table 3)

Table 3: Intra- East Asian cumulative foreign direct investment inflows in selected years (%)

Specification	1990	1992	1997	2002	2009
ASEAN	11,4%	26,6%	35,5%	37,0%	36,5%
China	0,2%	0,1%	0,2%	0,6%	1,3%
Japan	87,5%	70,7%	54,0%	50,8%	46,3%
South Korea	0,9%	2,6%	10,3%	11,7%	15,9%
Total	100%	100%	100%	100%	100%

Source: Author's analysis based on ADB, 2017a

Inward FDI of Japan which was 87.5% in 1990 decreased drastically to 46.3% in 2009. Accordingly, less than half the cumulative investment in East Asia came from Japan in 2009. The importance of inward FDI from ASEAN countries increased from 11.4 to 36.5% as well as from South Korea from 0.9 to 15.9%. A relatively modest involvement in investment was shown by China, whose share amounted to only 1.3% in 2009 (ADB, 2017b).

The newly emerging economic balance of power in East Asia shows that Japan did not become a leader of the regional economic integration. The most important reason for it was the weakening Japanese economic position in East Asia during that period. In the 1990s, Japan could perceive as the strongest economy in the region, and her leadership role in the integration processes could be assigned. However, in the next decades, its role weakened while new comers such as ASEAN and South Korea expanded their roles as the major investors in the region along with Japan in terms of FDI inflows.

Overall, Japan experienced weak economic growth during the 1990s known as the Lost Decade. It is mainly based on bubble burst in the

beginning of the 1990s and instable political leadership during the 2000s. As a result, Japan's capability influence East Asia is limited. (Tsutsui & Mazzotta, 2014)

5. Assessment of Japan's role in East Asian Regionalism

The evolution of East Asian regionalism shows that a *de jure* regional integration is taking place in the region. At the same time, roles of individual countries in the process evolve and change the economic balance of power. The regional integration is also subject to reshaping of their foreign economic policy.

The unprecedented economic growth after the World War II has provided Japan a strong and dominant position in the global economy and in East Asia. Immediately after the war, Japan's foreign economic policy was based on the principles of multilateralism in part due to its conviction of the necessity of reintegration with the international community and the restoration of 'normalcy' after being defeated in the war. The primacy of multilateralism over regionalism was Japan's belief until the end of the 1990s. Japan claimed, during this time, that regionalism could bring more harm than good, which also constitute a flagrant violation of the principles of GATT (Rodriguez, 2004; Chiavacci and Ziltener, 2008).

Why did Japan prefer multilateralism up until end of 1990s? First, for many years, Japan and the Asia-Pacific region experienced greater economic growth compared with the rest. This did not encourage the securing of markets through discriminatory agreements. Countries had become more confident that these were market forces promoting economic integration without a formal institutional framework. At the end of the 1990s, the situation changed which saw the end of dynamic growth for many countries. Second, Japan had global ambitions at that time, and Asian markets were treated as sources of supply and export platforms. For Japan, the US and Western Europe markets were more important than East Asia. Third, Japan had difficult relations with countries, such as China and South Korea, as a result of her military and economic expansion during the war. Consequently, Japan was not willing to play a leading role in the region. Last, but not least, strong ties with the US and subordination to US policy forced Japan to not to pursue an independent policy vis a vis its East Asian partners (Katzenstein & Rouse, 1994; Munakata, 2001).

However, the idea of regionalism has played a role in Japanese politics since the end of the war. Its approach toward regionalism was largely the result of external factors, including the strength of its political and economic relationships with the US as well as the regional and the domestic, regional, and global economic situation. Japan's role in East Asian economic regionalism evolved based on such conditions.

Its 1 economic expansion brought measurable effects of increased exports of goods, services and capital, leading to a high level of prosperity, particularly in the second half of the 1980s. The adoption of a global perspective and a strong focus on trade with developed countries ensured Japan's increasing economic role in the world. Under such a circumstance, East Asia was the region in which Japan first developed its trade and investment ties, but as it was not interested in the East Asian regionalism, her role was negligible. Countries with experience in regionalism such as Malaysia and Singapore had attempted to make Japan more interested in East Asia. However, after assigning Japan a leading role in such forums as EAEG and EAEC, it did not change Japan's approach to the process. Due to the strong influence and pressure of the US, Japan rejected the model based solely on East Asian cooperation and instead, proposed cooperation within the Asia and Pacific region (Low, 1991; Maswood, 2001; Yoshida, 2004).

In the second period as APEC became the most important forum for cooperation. Japan played a strong leadership role here as a forum for cooperation within the Asia and Pacific region. At the same time, since 1992, Japan began to develop cooperation with ASEAN, hosting regular dialogue on the fringes of the ASEAN Economic Ministers meetings. Such an approach was due to the disappointment with the US demand for Early Voluntary Sectoral Liberalization (EVSL) under the APEC framework that resulted in Japan's participation in the ASEAN+3 initiative. It was the first time for Japan to engage in the processes of East Asian regionalism exclusively (Munakata, 2004).

In 1997, Japan became more engaged in East Asian regionalism. The AFC and its disappointment with the US and IMF's policies that represented only Western economic interests made the country more independent in its decisions. Accordingly, Japan began to emerge as a regional leader. An immediate financial assistance to the countries affected by AFC, its proposal to establish AMF, CMI and NMP were among its initiatives for strengthening its role in the region. Japan played the most role in promoting intra-regional cooperation in East Asia. Unfortunately, lack of support from China and the sharp opposition of the US to the creation of the AMF had again hampered Japan from playing a consistent role as a regional leader. (Yoshida, 2004)

The US in particular, discouraged Japan from playing a more active role in regional integration, and influencing its East Asian policy. Immediately after the Second World War, Japan was strongly influenced by the US in the security and economy policies. As a result, Japanese policy was subordinated to the priorities of the US policy and its hub and spoke strategy in East Asia. Japanese governments recognized that the benefits of independence and a leadership position in East Asia were lower than the

cost of US antagonism. Such situation began to change when Japan matured economically and started directly threaten the economic position of the US. Since the 1990s, mutual relations have been characterized by numerous economic disputes, and Japan started to behave more independently. The AFC was the turning point and since then. Japan has become more active and formulated its policy goals towards the countries of East Asia (Beeson, 2016).

In addition, the late 1990s was the beginning of the growing interest of countries in developing their bilateral preferential economic arrangements. Small and medium-sized economies in East Asia have recognized that their bargaining power is dependent on the attractiveness of the region to which they belong. Therefore, these countries began increasingly to negotiate bilateral FTAs. Japan also joined this process, and policy makers started to consider regionalism as a complementary policy to the multilateralism. This was reflected in the strategy of FTAs. The first document was the White Paper on International Trade 1999. Japan stressed here its commitment to multilateral trade rules but pointed out the possibility to conclude bilateral agreements with South Korea and Mexico. In October 2002, Japan announced its FTA strategy and acknowledged that FTAs would bring economic and political benefits (Rodriguez, 2004; JETRO, 1999; MOFA, 2002).

In November 2010, the Ministerial Committee on Comprehensive Economic Partnership announced the Basic Policy on Comprehensive Economic Partnership. The committee decided that the country's economic development would depend on deepening economic relations with Asian countries, emerging economies, Western countries and those possessing rich raw materials. At the same time, it stressed the importance of the Asia-Pacific region for Japan and its desire to create a single economically integrated area (MOFA, 2010).

The period of increasing numbers of FTAs is not necessarily good only for Japan in East Asian regionalism because China, South Korea, and ASEAN also seek to conclude such agreements. These nations struggle for the position as a regional FTAs hub, because it could generate advantages in attracting investment and marginalize other countries as a regional FTAs' spoke. However, the high level of competition between countries for FTAs is not conducive to the East Asian regionalism. Japan is just one of many countries participating in the process. Additionally, Japan is a latecomer in the competition for the leader of the FTAs creation. Its activity was the reaction and the result of a greater interest of other countries such as China, South Korea, and ASEAN. Therefore, it cannot be claimed that Japan currently possesses a leading role in East Asian regionalism. On the contrary, it is definitely weaker than in the previous period. This is also a

result of an Asian-wide tendency to negotiate agreements not only within but also outside the region of East Asia (Zhai 2006; Obe, 2016).

6. Conclusions

Regional economic integrations have become common in the world. Economic regionalism can create mutual benefits in various aspects so that many regions have tried to create it. East Asia is no exception. The analysis presented in this paper supports the hypothesis about the significance of Japan in the development of East Asian regionalism as well as answers research questions pointed out in the introduction.

It should be emphasised that the role of Japan in the period (1985-2015) has evolved, being different at each stage.

- 1) In the mid-1980s, Japan's economic position based on the multilateralism was extremely strong not only in East Asia but also in the world. The country's involvement in East Asia consisted primarily of capital and trade expansion. It means that Japan clearly preferred multilateralism over regionalism. In addition, the special relations with the US were always considered the role of the US in the region. It means that Japan favoured broader agreements involving not only East Asia but also the Asia-Pacific region.
- 2) This broader approach resulted in the creation of APEC. Nevertheless, disappointing speed and scope of work within APEC has prompted Japan to become more involved in the region. Invited by ASEAN to participate in APT, Japan finally decided to take the plunge. This can be regarded as the beginning of true regionalism in East Asia and the beginning of Japan's involvement in East Asian regionalism.
- 3) The period after the AFC was the best opportunity for Japan. However, it missed its opportunity to play a leadership role in East Asian regionalism because it did not challenge to become the leader in the region strong enough. A real threat to Japanese economic links with East Asian countries affected by the crisis made Japan take more independent decisions by formulating the AMF proposal or NMI, among others. Unfortunately, Japan's lack of consistency and their weakening economic position did not allow it to break ranks with the US. Withdrawing from some proposals was a clear signal of the incapability of Japan to assume leadership in East Asian regionalism. As a result, Japan could not restrain Chinese economic power in the region, particularly since the GFC.
- 4) In the 21st century, Japan embarked on bilateral agreements. However, it was essentially a reaction to the actions of other East Asian countries

such as South Korea and ASEAN rather than an independent initiative. From the point of view of Japan's role in East Asian regionalism, these imitating actions must be assessed negatively.

Japan's economic position in East Asia validates the above explanation. During the first two phases of East Asian regionalism, Japan's economic position was strong enough to take a leadership role. However, it lacked political will and competence to engage in institutional development in East Asia. In turn, the dramatic decline in the economic role of East Asia observed after the AFC coincided with the beginning of the promotion of the idea of regionalism by Japan. The evolution of an economic balance of power in East Asia made it clear that the promotion of ideas alone was not sufficient for Japan to achieve a leading position in regional economic integration. Additionally, the answer to the second research question seems clear: Japan will not or cannot become the leader of East Asian regionalism in the foreseeable future as it is more comfortable with a multilateral order.

Notes

1. In this paper, the region of East Asia comprises of 10 ASEAN member states plus China, Japan and South Korea.
2. The New Miyazawa Initiative is a bilateral support mechanism launched by the Japanese Ministry of Finance. This bilateral support was to directly assist the crisis affected economies and contribute to the stability of the regional and international financial markets.
3. Ten members of ASEAN and plus China, Japan, South Korea, India, Australia, and New Zealand.

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