

Economic and political reasons for Japan's pivot back to Asean

Japan's soft power is being enhanced through its stepping up to the plate to lead in trade globalisation and initiatives for regional economic connectivity. **BY TAN KHEE GIAP AND TAN YAN YI**

WHEN the United States of America withdrew from the Trans-Pacific Partnership (TPP) in 2017, the remaining signatories were led steadfastly by Japan to agree on a revised TPP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP now has 11 members, including some members of Asean. The successful pact has encouraged South Korea, other members of Asean and even the United Kingdom (which is facing a "No-deal Brexit") to consider joining CPTPP.

Another major milestone was reached when the Japan-European Union Economic Partnership Agreement (EPA) launched by Prime Minister Shinzo Abe came into effect on Feb 1, 2019.

The Japanese government estimates that CPTPP and Japan-European Union EPA will contribute 750,000 jobs and add US\$7.8 billion and US\$5.2 billion respectively to the Japanese economy. Benefits to Japanese consumers include cheaper imported beef, wine and chocolate.

Looking beyond the positive domestic economic impacts of such initiatives by Mr Abe, we argue that these new initiatives will more crucially lead to significant enhancement of Japanese soft power on the international stage.

Japanese and regional interests can be better served through Japan's contribution in at least five mutually beneficial areas. This can be done by addressing challenges on free trade, pushing for further globalisation with quality economic growth and engaging in connectivity through increasing regional economic integration.

First, Japan is poised to lead necessary and urgent reforms within the World Trade Organization (WTO). Reforms include further strengthening the existing WTO mechanisms on trade and services such as transparency, reporting obligations, dispute settlements, special differential treatment against industrial policies, addressing infringements and enforcement on violation of intellectual property rights; the last-mentioned is a concern vigorously expressed by WTO members from western economies.

Moreover, it is paramount and timely that Japan revisit overdue agendas on discriminatory measures such as tariffs, non-trade barriers, and re-examine non-discriminatory measures such as regulation standards, services and digital trade.

Second, as China continues to expand its robust economic reach to global markets, Japan – with its tradition of market economy in terms of investment and financing, better overseas track record on environmental sustainability, sound corporate governance and transparency – can foster healthy competition between herself and China.

As of 2017, European Union was the top contributor of Foreign Direct Investment (FDI) to Asean (18.3 per cent or US\$25 billion), followed by Japan (9.9 per cent or US\$13.4 billion), China (8.4 per cent or US\$11.4 billion) and USA (3.2 per cent or US\$4.3 billion).

Japanese multinational corporations had a big and strong presence in Asean during the 1980s and 1990s, generating employment and providing excellent on-the-job training. Japan also used to be the top FDI contributor, but this has no longer been the case since 2000.

Japan was also Asean's top trade partner, but has since slipped to fourth position. A strategic return of Japan to Asean could reduce Japan's



If Japan returns to Asean, it will help to balance but not counter China's dominance in the region.

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over-reliance on production bases and markets in mainland China.

Third, in light of increasing global protectionism and nationalism, Japan could lead CPTPP cautiously by including more participating economies, setting benchmarks for the Regional Comprehensive Economic Partnership (RCEP) under the principle of Asean centrality, helping raise standards for China-Japan-Korea Free Trade Agreement (CJK FTA) as well as promoting Japan-US Trade on Goods (TAG).

In the same vein, economies which are not members of RCEP and CPTPP but are Apec members may look forward to starting negotiations for Free Trade Agreement for the Asia-Pacific (FTAAP).

The International Monetary Fund says that, as of 2017, the top three contributors of FDI for Emerging Asia and the Pacific were Japan (US\$264 billion), Singapore (US\$217 billion) and USA (US\$134 billion). Such enormous potential can be further harnessed if Japan and Singapore could strategically consider jointly co-investing in a third country and thus furthering the agenda for regional connectivity and integration.

EXPORT-ORIENTED STRATEGY

Fourth, Japan should renew her emphasis on an "export-oriented strategy" towards Asia and European Union. The focus on this had shifted away significantly during the rapid opening up of China two decades ago. In particular, Japan should consider returning to Asean through FDI, which had previously benefited Asean members such as Malaysia, Singapore, Thailand and Indonesia.

Given the current intense US-China trade disputes, it may be timely for Japanese MNCs to also consider re-locating to Vietnam, the Philippines, Myanmar, Cambodia, Laos and Brunei, not just in terms of exporting FDI, but also to initiate the sorely needed infrastructure development for Asean.

Fifth, there have been signs of a thaw in relations between Japan and China, notably demonstrated by the meeting of the top leaders of both countries and endorsement of the Belt and Road Initiative (BRI), where 50 Japan-China joint infrastructure projects were initiated.

Singapore, as the third most competitive financial centre in the world since 2017 (after London and New York), has positioned herself to be

the hub in Asia for infrastructure project evaluation, facilitation, arbitration, investment and financing. Japan and China could make good use of the expertise and facilities in Singapore to form alternative project assessments so as to avoid the alleged "debt-trap" accused by some BRI participating countries.

A study by the Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy over the past four decades says that the relative importance of Japan and China as an engine of growth in terms of trade and investment for Asean-5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand) has declined steadily.

Japan was 3.2 times more important as a growth engine than China to the Asean-5 during the 1980-1989 period; this came down to 1.4 times during 1990 -1999. Between 2000 and 2010, Japan's contribution as a growth engine for the Asean-5 was only half as important compared to China. Japan's presence is projected to be reduced further to a fifth of China's between 2011 and 2020, unless a strategic shift in emphasis is reconsidered.

A survey conducted this year by Iseas-Yusof Ishak Institute (Iseas) among professional elites from Asean has found that Japan is considered the most honest, trustworthy and welcomed country among the major economic powers.

Asean-10 is a big market with a population of 630 million, nearly half that of China. With a rapidly expanding middle class, relatively cheaper cost of labour and abundant natural resources especially in emerging economies such as Vietnam, Myanmar, Cambodia and Laos, Asean could be the fourth largest economic entity after USA, China and European Union by 2030.

Asean is thus a very attractive market for MNCs from major economic powers including Japan, especially given the rising cost of production along the eastern coast of China.

The current rising US-China trade tensions is unlikely to be dissipated at least in the medium term. If Japan returns to Asean, it will also help to balance but not counter the dominance of China in the region among the major economic powers, and Japan will further build on her international soft power.

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