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## Asian Economies in the Context of Globalization



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## Introduction

It is our great pleasure to deliver another volume of Research Papers on Asia-Pacific economic issues. Each year we present you multiple points of view on that topic, trying to show how much the processes in Asia & Pacific affect the world economy. After nine years of hosting international scientific conference dealing with that region's affairs, we are still confident that these issues are important not only for the countries of the region, but also for economies worldwide.

This year we have chosen for you 15 articles. All of them were submitted for this year's conference entitled "Asian Economies in the Context of Globalization". Seeing that some authors describe the issues of countrywide importance and others of those having regional or global meaning, we have decided to group them according to the criterion of impact range.

The first chapter – Asian Economies in the Global Context – is a collection of papers on general regionalization or globalization issues. T. Sporek is trying to refresh the view of the globalization processes occurring at the crossroads of economy and politics. M. Bartosik-Purgat is analyzing sources of information about products and services in the light of cross-cultural research. E. Majchrowska is using Regional Comprehensive Economic Partnership case to show the importance of mega-regional blocks in global trade. In addition, we decided to add to this part the articles the subject of which is not so general, but it applies to trade relationships of a global nature. This will be the EU-India trade and investment agreement (G. Mazur), Poland-ASEAN agri-food products trade (K. Kita) or anti-dumping procedures against China under WTO rules (J. Skrzypczyńska).

Articles in the second chapter are – as the title implies – embedded in a regional context. P. Pasierbiak deals with trade regionalization in East Asia. S. Bobowski offers an insight into ASEAN-Japan Economic Partnership. A. Kuropka and A.H. Jankowiak analyse the impact of natural disasters on production networks in the region. As the last in this section we have placed the article about Singaporean Competitiveness Model applied in European economies (M. Żmuda). It may be not strictly connected with Asia & Pacific, but its concept is to transfer Asian experience to Europe at the regional level.

The last chapter – Asian Economies in the Local Context – is mostly about domestic matters of Asian countries. You will find there three articles about China (J. Bogołębska writing about Chinese monetary policy, A. Klimek describing cross-border mergers and acquisitions by Chinese state-controlled enterprises, S. Stępień and A. Sapa showing Chinese pork sector), one about Indonesia (*Development of Islamic banking in Indonesia* by I. Sobol) and one about North Korea (M. Kightley applying game theory in prediction of political changes in that state).

We think it is an interesting set of papers you will find valuable in your studies. We also hope that your scientific interests will continue to be associated with Asia and that is why we invite you to the 10<sup>th</sup> anniversary conference which will be held at the Wrocław University of Economics in November 2017.

We appreciate your time and consideration, as also time and effort of our peer reviewers. We look forward to the further submissions of interesting papers on Asia & Pacific. Thank you!

*Bogusława Drelich-Skulska, Anna H. Jankowiak, Szymon Mazurek*

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**ANOTHER INSIGHT  
INTO ASIAN TRADE REGIONALISM.  
ASEAN-JAPAN ECONOMIC PARTNERSHIP**

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**KOLEJNY WGLĄD  
W AZJATYCKI REGIONALIZM HANDLOWY:  
PARTNERSTWO GOSPODARCZE ASEAN-JAPONIA**

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**Summary:** The author finds ASEAN-Japan economic cooperation as strategically important both in terms of trade and investment. From the perspective of Japan, ASEAN is a strategic manufacturing hub, source of raw materials, as well as more and more attractive consumption market. From the perspective of ASEAN, Japan is an important source of development assistance, jobs, technology and skills. Regional production networks driven by the Japanese multinationals enhanced economic integration, interdependencies and convergence within ASEAN. AEC's entrance into force is expected to increase ASEAN attractiveness for Japanese investments, whereas mega-regional trade frameworks engaging both Japan and ASEAN, namely, already signed TPP, as well as RCEP (under negotiation) and FTAAP (under discussion) may strengthen mutual linkages when addressing WTO Plus components effectively. While securing the centralist position of ASEAN in the Asian regionalism, Japan attempts to counter and encircle China within intra-regional rivalry over political and economic influences.

**Keywords:** Asian trade regionalism, ASEAN, Japan, economic partnership.

**Streszczenie:** Artykuł charakteryzuje partnerstwo gospodarcze ASEAN-Japonia jako strategicznie istotne zarówno w kontekście handlu, jak i inwestycji. Z perspektywy Japonii, ASEAN jest strategiczną bazą produkcyjną, źródłem surowców, ale także rozwijającym się rynkiem konsumpcyjnym. Z perspektywy ASEAN, Japonia jest ważnym źródłem pomocy rozwojowej, miejsc pracy, technologii i umiejętności. Regionalne sieci produkcyjne koordynowane przez japońskie korporacje transnarodowe stymulują integrację gospodarczą, współzależności i konwergencję w obrębie ASEAN. Wejście w życie AEC powinno zwiększyć atrakcyjność ASEAN dla japońskich inwestycji, podczas gdy megaregionalne porozumienia handlowe angażujące Japonię i państwa ASEAN, mianowicie, podpisane już TPP, RCEP (w fazie negocjacji) oraz FTAAP (w fazie dyskusji), mogą wzmocnić wzajemne powiązania o ile skutecznie uregulują tzw. komponenty WTO Plus. Zabezpieczeniu centralnej pozycji

ASEAN w regionalizmie azjatyckim towarzyszą działania Japonii służące konfrontacji z Chinami w ramach wewnątrzregionalnej rywalizacji o wpływy polityczne i ekonomiczne.

**Słowa kluczowe:** azjatycki regionalizm handlowy, ASEAN, Japonia, partnerstwo gospodarcze.

## 1. Introduction

The Association of Southeast Asian Nations (ASEAN) with a total population of 635 million people, a combined GDP of 2.4 trillion USD and an average annual growth rate of 5.7% represents a high demand potential for the Japanese multinationals, while Japan used to be a source of investment, technologies, know-how, training and jobs for ASEAN region. Therefore, ASEAN-Japan economic partnership may become another trigger for the Japan's economy, suffering from the long-term stagnation and rapid aging of population, as well as for the ASEAN economies facing significant development disparities, energy constraints, inadequate physical and institutional infrastructure and imbalances between urban and rural areas.

The aim of the paper is to study the evolution of ASEAN-Japan economic partnership through decades, providing the historical context, current developments and perspectives, when taking into consideration an establishment of ASEAN Economic Community (AEC) in the late 2015 and mega-regional trade projects ie Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and Free Trade Area of the Asia-Pacific (FTAAP) under construction/consideration.

According to the author, highly integrated ASEAN region with more competitive business environment, harmonized standards and reduced trade barriers may attract more Japanese investments. Moreover, engagement of both Japan and ASEAN member states in the mega-regional trade frameworks, i.e. TPP (Japan plus ASEAN-4), RCEP (Japan plus ASEAN-10) and FTAAP (Japan plus ASEAN-7) may strengthen mutual linkages if addressing WTO Plus elements effectively. On the other hand, while securing the centralist position of ASEAN in the Asian regionalism, Japan attempts to counter and encircle China within intra-regional rivalry over political and economic influences.

## 2. Theoretical frameworks

Asian regionalism used to gain massive interest of policy makers and academics representing political sciences, economics and spatial economy since the late 90s. This phenomenon, termed as the state-governed process of reorganization of a given regional space under agreed economic, and political assumptions, and rules, seems to lack spatial boundaries these days – consequently, the so-called mega-regionals started to emerge ie TPP and RCEP. S. Hamanaka [2010] distinguished between



diplomatic, financial and trade regionalism, finding regional frameworks, namely, both institutionalized and non-institutionalized regional forums and agreements, as their products. Trade regionalism takes the form of regional trade forum, regional trade cooperation not sanctioned by treaty, regional trade arrangement (RTA) sanctioned by treaty or economic partnership arrangement (EPA). The latter applies, when considering ASEAN-Japan trade cooperation since 2000s. EPA does not only encompass tariff reduction or elimination, but also, among others, harmonization of standards. From the perspective of Japan, EPA may be beneficial due to internationalization of its own norms and standards within trade framework. Furthermore, Japan's approach to regionalism should be considered through the prism of hegemonic stability theory, that defines the hegemon – state that is an institution supplier, may act as stabilizer and provider of economic agenda (for further studies see: [Bobowski 2015; Katzenstein 2000, p. 354; Mack, Ravenhill 1995, p. 7; Kindleberger 1973, p. 305; Hamanaka 2010, p. 18]).

### **3. ASEAN-Japan economic partnership: historical outline**

ASEAN was established in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand, whereas Northeast Asian neighbour, namely, Japan, emerged as regional power. On the one hand, Japan imported more and more low-end and labor-intensive commodities, including raw materials, from Southeast Asia, on the other hand, exported high-end and capital-intensive goods to this subregion. Consequently, trade flows from and to Japan accounted for over 25 percent of ASEAN's total trade in the early 70s. Rising productivity and income enhanced Japan's corporations to seek for low-cost manufacturing locations in the Southeast Asia. In the following decades Japan's corporations have integrated ASEAN economies through the regional production networks, providing capital, technology and skills. Growing middle class of ASEAN market has become an important source of demand for Japanese products. The enlargement of ASEAN in the 90s broadened significantly the spectrum of opportunities for the Japanese businesses due to accession of the four low-cost economies, namely, Cambodia, Lao PDR, Myanmar and Vietnam (CLMV) and increase of the ASEAN market size. Even though ASEAN-10 has been challenged by diversity in terms of institutional and physical infrastructure capacities, successfully evolved from security-oriented framework toward economic block with aspirations to establish single market and production base.

Before ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP) entered into force in 2009, seven ASEAN member states, excluding Cambodia, Lao PDR and Myanmar, concluded bilateral economic partnership agreements (EPAs) with Japan. Soon after taking the office, Japan's Prime Minister Shinzo Abe launched a series of visits in Southeast Asia to emphasize the centralist role of ASEAN as the engine of regional economic integration. When drawing the perspectives of the future trade and investment cooperation with Japan, Abe

stressed the importance of ASEAN Economic Community (AEC) framework, as well as mega-regional trade negotiations on the Regional Comprehensive Economic Partnership (RCEP), engaging both ASEAN and six dialogue partners, namely, China, Japan, Republic of Korea, Australia, India and New Zealand. It is noteworthy that Japan and four ASEAN member states, namely, Brunei Darussalam, Malaysia, Singapore and Vietnam entered US-led mega-regional trade framework – Trans-Pacific Partnership (TPP), perceived as competitive to China-led RCEP. Last but not least, next to Japan, seven ASEAN member states, excluding Cambodia, Lao PDR and Myanmar, are engaged in discussions on the Free Trade Area of the Asia-Pacific (FTAAP) as APEC (Asia-Pacific Economic Cooperation) members. Thus, ASEAN-Japan economic partnership has enormous potential to develop in the era of mega-regional trade initiatives.

#### **4. ASEAN-Japan economic partnership: empirical findings**

When studying trade and investment statistics of ASEAN in the period 2007–2014, significant impact of the global crisis on the performance of both the United States and the European Union is observed. Japan, experiencing another episode of decline in 2014, continuously diminished its position as ASEAN trade partner at the expense of emerging China.

##### **4.1. Merchandise trade**

According to ASEAN Secretariat [ASEAN 2016a, pp. 24–27], Japan was the second largest trade partner of ASEAN in 2014 with 229 billion USD of total trade, preceded by China – 366.5 billion USD, followed by the United States and the European Union (212.4 and 209.5 billion USD, respectively). It is noteworthy that ASEAN-Japan total trade increased by 32.4% when compared to 2007, more than that of ASEAN-US and ASEAN-EU in the respective period. Importantly, in 2007 ASEAN-Japan total trade was slightly higher than ASEAN-China, while in 2014 the latter was already higher by over 60%. Consequently, China increased its shares in ASEAN total trade from 10.6 to 14.5% in the years 2007–2014, while Japan decreased – from 10.7 to 9.1%, respectively.

Regarding exports, Japan was the third destination both in 2007 (9.9%) and 2014 (9.3%) – however, in 2014 was preceded by China and the United States (11.6 and 9.5%, respectively), while in 2007 – by the European Union and the United States (12.6 and 12.3%, respectively), being followed by China (9.1%).

In case of imports to ASEAN Japan occupied the second position after China both in 2007 and 2014, however, in 2007 Japan accounted for 11.7% of ASEAN's imports (China – 12.4%), while in 2014 – 8.8% (China – 17.5%).

Following ASEAN-Japan trade statistics of 2014, minerals fuels, oils and related products were the ASEAN's primary exports to Japan, while nuclear reactors, boilers

and mechanical appliances accounted for the largest shares in commodity structure of imports from Japan to ASEAN. Next to mineral fuels and lubricants, machinery and transport equipment that account, when combined, for over 40% of total ASEAN exports to Japan, the major assortments are as follows: crude materials, components for electronic equipment, textiles, miscellaneous manufactured goods, and food. In the respective period, ASEAN imports from Japan were dominated by machinery, transport, electronic equipment and the other advanced manufacturing sectors, accounting, when combined, for over 70% of total ASEAN imports from Japan (see Table 1). According to Japan Automobile Manufacturers Association [2014], automobiles and vehicle parts accounted for 18% of the total ASEAN imports from Japan in 2013, while 47% of the Japan's car exports to Asia addressed ASEAN a year before (mainly Thailand, Indonesia and Malaysia), with special regard to trucks and buses (80 and 85% of total exports to Asia, respectively).

**Table 1.** ASEAN-Japan trade – commodity profile (two-digit Harmonized System code, 2014, in %)

Exports	
Mineral fuels, mineral oils and products of their distillation, bituminous substances, mineral waxes	25
Electrical machinery and equipment and parts thereof, television image and sound recorders and reproducers, parts and accessories of such articles	19
Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof	8
Wood and articles of wood, wood charcoal	5
Plastics and articles thereof	3
Others	40
Imports	
Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof	22
Electrical machinery and equipment and parts thereof, television image and sound recorders and reproducers, parts and accessories of such articles	20
Vehicles other than railway of tramway rolling-stock, parts and accessories thereof	10
Iron and steel	9
Plastics and articles thereof	5
Others	34

Source: [ASEAN 2016a, p. 34].

Since 2007, when recording the second largest trade deficit with Japan of approximately 2 billion USD, ASEAN has tended to increase the surplus in bilateral trade up to 11.4 billion USD in 2014 (the fourth largest after the United States, Australia and New Zealand, India), while the deficit in trade with China has increased to 65.7 billion USD [ASEAN 2016a, p. 28].

Among the top 10 export destinations for Japan in 2014 there were three ASEAN member states occupying positions 7–9, namely, Thailand – 23.6 billion USD (4.5% of total), Singapore – 15.8 billion USD (3%), Indonesia – 11.1 billion USD (2.1%). In case of imports, Malaysia was ranked as the ninth top location for Japan in the respective period (21.9 billion USD, 3.6% of total), while Indonesia – the tenth (19.3 billion USD, 3.2%). Noteworthy, other ASEAN economies are indirectly involved in exports to Japan through provision of intermediate goods and raw materials at the earlier stages of regional production networks. According to A. Versetti and A. Heal [2015, pp. 2, 3], nearly 66% of ASEAN exports to Japan are the components and intermediate goods, most of which are processed to obtain finished goods, being re-exported to the world, including ASEAN market. Moreover, when considering Japanese-owned enterprises operating in ASEAN, 32.5% of total output is already distributed within the subregion.

It is worth mentioning that under the ASEAN-Japan Comprehensive Economic Partnership of 2009 significant reduction of tariffs has been made, including the two dominant categories of ASEAN exports to Japan, namely, mineral fuels and machinery equipment accounting for over 60% of total. Meanwhile, Japan's agricultural sector is protected with relatively high average tariffs of 5.24%, with no preferences for ASEAN imports within the chosen sensitive assortments, such as rice (778%), dairy products (110–190%), wheat (180–220%) and beef (38%).

It should be noted that the schedule of tariff reduction under the AJCEP has been agreed at bilateral basis with every individual ASEAN member state to address the stage of development as well as degree of trade liberalization with respect to Japan. For instance, the most advanced ASEAN economy, namely, Singapore, applies no import tariffs to Japan, while Brunei Darussalam's Schedule for Elimination or Reduction of Customs Duties of over 450 pages provides pretty complex web of concessions. In 2009 Thailand decided to maintain weighted applied tariffs rates of 3.8, 5.8 and 8.8% on the three main categories of goods imported from Japan, while Malaysia – 3.2, 3.7 and 13%, with higher rates assigned to non-industrial non-electronic manufactured goods. In 2010 the Philippines applied weighted tariff rates of 3.8 and 5% on the main categories of imported goods from Japan, while a year later Indonesia set a weighted average tariff rate of 7.1–7.3% to imports of machinery and electronics and the other manufactured goods from Japan [World Integrated Trade Solutions 2014]. Last but not least, less developed ASEAN economies, namely, Cambodia, Lao PDR and Myanmar were provided with extended periods to lower the base rate for customs duties until 2026, while enjoying already a preferential access to Japan's market.

Next to tariff barriers there is a wide spectrum of non-tariff measures such as rules of origin, standards, regulations, time consuming customs procedures. Countries like Cambodia or Lao PDR face the problem of restrictive sanitary and phytosanitary requirements and various technical barriers to trade, appeared to be more significant than tariffs. It is noteworthy that bilateral regional trade agreements

between Japan and the Philippines, Brunei Darussalam and Indonesia do not address the aforementioned non-tariff barriers to trade, while AJCEP, even though covering them, may be not necessarily successful in terms of liberalization.

Therefore, elimination of non-tariff barriers, inducing the so-called noodle bowl effect in Asia requires special attention these days, especially in the context of institutional inefficiency of the less developed ASEAN economies, unable to eliminate them effectively to benefit from liberalized trade with Japan. Among major triggers there are as follows: ASEAN Self-Certification and ASEAN Trade Repository systems, as well as cooperation under AEC and RCEP/TPP (FTAAP?).

#### 4.2. Services trade

Data regarding trade in services between ASEAN and Japan tend to be scarce and outdated, recent available statistics published by the Organisation for Economic Cooperation and Development (OECD) are from 2012, embracing six ASEAN member states (see Table 2). ASEAN services export to Japan amounted to 21 billion USD in 2012, while import from Japan – 26 billion USD. Relatively smaller volume of flows when compared to merchandise trade is accompanied by mass domination of Singapore in services trade with Japan – regional services hub with liberal trade regime – that accounts for over a half of both exports and imports of services between ASEAN and Japan.

**Table 2.** ASEAN-6 – Japan services trade, 2012 (million USD)

	Transportation	Travel	Other commercial services	Government services	Total
Exports					
Indonesia	164	792	1,270	7	2,232
Malaysia	264	253	751	5	1,272
Philippines	320	414	715	10	1,459
Singapore	4,207	739	6,531	102	11,579
Thailand	841	1,590	1,436	9	3,876
Vietnam	35	446	490	2	973
ASEAN-6	5,831	4,234	11,193	135	21,391
Imports					
Indonesia	595	176	2,812	2	3,585
Malaysia	525	231	2,066	28	2,850
Philippines	301	119	557	31	1,008
Singapore	2,909	214	11,864	65	15,052
Thailand	1,376	471	743	16	2,606
Vietnam	259	143	601	6	1,009
ASEAN-6	5,965	1,354	18,643	148	26,110

Source: [OECD 2014].

Both in case of ASEAN and Japan services liberalization used to be a challenge in terms of access of foreign competition to numerous subsectors. This, in turn, translates into relatively lower gains and productivity of services when compared to manufacturing sector. It should be stressed that open, competitive business services sector is one of the main determinant of location attractiveness for businesses and engagement in the global value chains. In this context, the contribution of services as an input to manufacturing processes cannot be neglected. According to P.L. Hsieh [2014], services liberalization within ASEAN tends to follow the guidelines of already established General Agreement on Trade in Services (GATS) by World Trade Organization (WTO), however, progress is possible under recently agreed 9<sup>th</sup> Package of Commitments under the ASEAN Framework Agreement on Services (AFAS), addressing nearly 100 service subsectors in ASEAN. An upward trend is observed recently in Japan's investment in ASEAN's services sector, with special regard to banking and logistics [Biswas 2014].

### 4.3. Foreign direct investment (FDI)

Japan used to be a major single investor in ASEAN for many years. When studying the map of Japan's FDI in the region, it should be noted that Southeast Asia has become an important location for the Japanese automotive and electronics producers, in particular, Thailand and Vietnam, while less developed ASEAN member states, namely, Lao PDR and Cambodia, serve as a source of raw materials as well as labor-intensive garment and footwear assortments, including both raw, processed materials and components to be further used in manufacturing. Importantly, ASEAN attracts more and more FDI in export- and locally-oriented manufacturing sectors due to rising consumption markets.

Among FDI source countries, Japan was ranked at the third position in 2014 with 13.4 billion USD of net inflows to ASEAN, preceded by the European Union and ASEAN (29.3 and 24.4 billion USD, respectively), followed by the United States and China (13 and 8.9 billion USD, respectively). Worth mentioning, in 2013, is the advent of Abenomics – economic revitalization policy of Shinzo Abe, accompanied by flexible fiscal and expansionary monetary policy, what resulted in dynamic growth, Japan's FDI net inflows to ASEAN amounted to 21.8 billion USD, then, more than intra-ASEAN and slightly less than the largest investor, namely, the European Union (22.3 billion USD). Furthermore, while China increased its shares in total FDI net inflows to ASEAN from 5 to 6.5% in years 2012–2014, Japan declined from 18.4 to 9.8% [ASEAN 2016b]. When considering FDI net inflows to ASEAN in terms of activity, they tend to concentrate on the financial and insurance services – 32.6%, manufacturing – 16.85, wholesale and retail trade, repair of motor vehicles and motor cycles – 12.9% [ASEAN 2016a, p. 47].

According to the Federation of Japanese Chambers of Commerce and Industry in ASEAN, Japan's shares in total FDI inflows amounted to 60.7% in case of Thailand,



22.2% – Malaysia, 16.5% – Indonesia, 16.3% – Philippines, 9.7% – Vietnam and 5.8% in case of Singapore. Furthermore, Japanese investors have entered new ASEAN markets, which resulted in doubling the number of registered affiliates in Cambodia and tripling in case of Myanmar (see Table 3).

**Table 3.** Number of Japanese enterprises registered in ASEAN by member state, 2012 and 2014

Country	2012 (June)	2014 (June)
Brunei Darussalam	3	3
Cambodia	91	168
Indonesia	594	703
Lao PDR	41	71
Malaysia	556	582
Myanmar	56	168
Philippines	604	721
Singapore	675	801
Thailand	1379	1552
Vietnam	1035	1323
Total	5034	6092

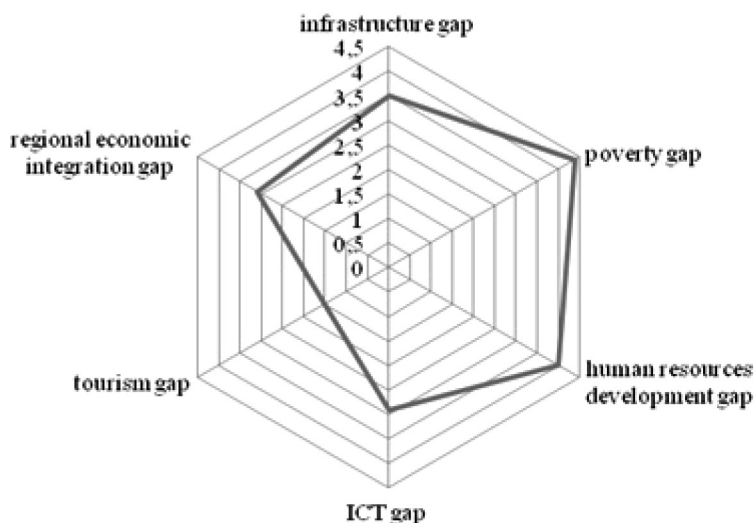
Source: [FJCCIA 2014].

Japanese investors tend to invest in manufacturing facilities for motor vehicle industry, industrial machinery, construction equipment, electronics, food processing in ASEAN, while seeking for opportunities in services, ie banking and logistics. Regarding sectoral structure of Japanese FDI, in 2012 they did concentrate on energy (19.6%), metallurgy (13.8%), automotive (10.4%), and chemicals (7.3%), including, among others, technology transfers. Following [Biswas 2014]: both manufacturing and service sectors of ASEAN economies will continuously benefit from the Japanese FDI in the coming years.<sup>1</sup>

On the other hand, ASEAN member states still prioritize intra-regional investment than overseas, therefore, ASEAN FDI inflows to Japan amounted to less than 1 billion USD in 2012, with 98% of shares of Singapore and 2% of Thailand.

ASEAN member states, challenged by large income disparities and development gap face the problem of infrastructure backwardness that limits regional connectivity (see Figure 1). Another issue is the geographical specificity of individual countries, i.e. Indonesia and Philippines are archipelagoes relying on the sub-national maritime routes. Less developed ASEAN member, namely, Lao PDR, is an example of

<sup>1</sup> Worth mentioning is that many Japanese enterprises implement the so-called China+1 strategy nowadays, namely, seek for investment opportunities in ASEAN to assist already established manufacturing facilities located in China to address the problem of rising labor and land prices, as well as political uncertainty regarding bilateral tensions between Beijing and Tokyo.



**Figure 1.** Development gaps between ASEAN-6 and CLMV 2011–2012

Source: [ASEAN 2015, p. 85].

landlocked economy characterized by relatively low trade flows limited to the close neighbours. Under Overseas Development Aid (ODA) Japan contributed significantly to improvement of connectivity within ASEAN, investing, among others, in the North-South and East-West economic corridors in the Mekong subregion, numerous airports and bridge constructions in Cambodia and Lao PDR, marine ports in Indonesia, Malaysia and the Philippines. In 2014 Japanese government declared another pool of loans under ODA dedicated to five ASEAN member states, probably accompanied by the public-private investment partnership mechanism, enhancing connectivity and integration of the subregion.

One of the major determinants of FDI flows is the quality of intellectual property regime (IPR) of the host economy that both secures the interests of innovators and attracts new investors. The problem is that economic partnership agreements (EPAs) signed between Japan and individual ASEAN countries lack any binding requirements regarding protection of findings and any form of prevention of illegal reselling or distribution, while providing only non-binding guidelines in terms of technology transfer and research cooperation in the field of customs procedures. The International Property Rights Index 2015 (IPRI)<sup>2</sup> ranked seven ASEAN economies,

<sup>2</sup> IPRI is based on the three core components, namely, legal and political environment (judicial independence, rule of law, political stability, control of corruption), physical property rights (protection of physical property rights, registering property), intellectual property rights (protection of intellectual property rights, patent protection, copyright piracy).



with best performing Singapore (5<sup>th</sup> among 129 economies), as well as Malaysia (28<sup>th</sup>), Philippines (65<sup>th</sup>), Thailand (69<sup>th</sup>), Indonesia (70<sup>th</sup>), Vietnam (85<sup>th</sup>) and Myanmar (129<sup>th</sup>). Interestingly, Japan occupied 8<sup>th</sup> position in the IPRI 2015 ranking, then, lower than Singapore while much higher than the rest of considered ASEAN economies [IPRI 2015]. In this matter it was crucial to initiate bilateral cooperation between Japan and ASEAN economies' Patent Offices to build and implement individual management schemes and information system infrastructure, with special regard to less developed member states of ASEAN.

Following OECD Development Centre's development gap indicators, six key policy areas were identified to measure the scale of the distance between ASEAN-6 and CLMV, namely: poverty, human resource development, infrastructure, tourism, ICT, trade and investment. Variables were normalised and indexed into a scale between 0 (no gap) to 10 (widest gap) base points. For each variable the ASEAN development gap was defined by the difference between the average indices of ASEAN-6 and CLMV. As Figure 1 indicates, the largest gap exists in poverty-related indicators (4.4), as well as human resources development (4.0), while the smallest one – in tourism (1.5).

Another important aspect of investment regime is the labour mobility. Liberal regulations enhance increase in the productivity of the labour forces, provide enterprises with the skills they need at appropriate costs, while boosting the wealth of nations and stimulating development of the source countries through remittance flows. Japan has developed a pretty restrictive migration system despite the domestic labour shortages and unfavourable demographic trends inducing decline in the working age population. According to A. Versetti and A. Heal [2015, p. 9], in 2011 there were less than 2 million foreign residents in Japan, however, mainly with the status of family member or student, not the labour migrant. Noteworthy, there are special visa categories such as entertainer or special internship that allow foreigners to work legally in Japan. Nearly 80% of foreign residents in Japan are Asians, mainly Chinese (32%) and Koreans (26%). ASEAN nations are unquestionably underrepresented, however, some progress has been already made at bilateral basis, among others, with Philippine government, resulting in migration of specialists of certain sectors, including healthcare, to Japan. Consequently, the Philippines is the top source country of labour migrations to Japan with total share of 10% (approx. 210 thousand workers).

ASEAN, on its side, is working on the implementation of free movement of skilled labour forces internally, however, AEC frameworks, embracing Mutual Recognition Agreements of professional qualifications, are still accompanied by hard-to-obtain national work permits [Orbeta 2013]. The Japanese labour migrants, working mainly for the home country's enterprises located in Southeast Asia, established some diasporas in Thailand, however, face numerous restrictions in terms of the access to many sectors of the regional labour markets. The important challenge for ASEAN these days is the safe and legal movement of low-skilled labour forces between the member states, for instance, under the temporary worker programmes.

## **5. ASEAN-Japan economic partnership: Perspectives**

### **5.1. ASEAN Economic Community (AEC)**

ASEAN Economic Community (AEC) established in the end of 2015 is perceived as a milestone for regional integration of the Southeast Asia. Next to Socio-Cultural Community (ASCC) and Political-Security Community (APSC), AEC serves as the pillar of the ASEAN Community which, according to the Declaration of ASEAN Concord II agreed in Bali, Indonesia, on 7 October 2003, “will act in the common interest and prerogatives of peace, stability and prosperity of the region” [Bobowski 2016]. AEC is expected to transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital, while embracing four pillars, namely, a single market and production base, a competitive economic region, equitable economic development and integration into the global economy. As stated by S. Huelser and A. Heal [2014], ASEAN has made a significant progress in the fields of liberalization of goods, services, capital and labour flows, however, still much should be done in regards of skilled labour mobility, intellectual property rights, competition law, cross-border transport and communication networks.

Better integrated and connected ASEAN may increase its attractiveness for the Japanese investors, enabling the expansion of regional production networks within the subregion due to development and modernization of infrastructure and institutional capacities. On the other hand, it is still uncertain whether a single market may be established due to proliferation of non-tariff barriers to trade, for instance, in case of less developed ASEAN member states, and relatively slow progress of the agreed frameworks’ implementation. Therefore, Japan is expected to contribute further to capacity building and training of the ASEAN’s institutional staff to enhance coverage and effective realization of the AEC’s objectives, starting with trade facilitation.

### **5.2. Regional Comprehensive Economic Partnership (RCEP)**

On 20 November 2012, at the East Asia Summit in Phnom Penh, leaders of ASEAN and six ASEAN FTA Partners, namely, Australia, China, India, Japan, New Zealand and Republic of Korea, issued the Joint Declaration on the Launch of Negotiations for the Regional Comprehensive Economic Partnership – RCEP [Bobowski 2015, p. 155]. RCEP trade negotiations, co-chaired by ASEAN, to constitute its centrality and leadership, started in May 2013, till October 2015 ten rounds of negotiations were completed. RCEP agreement is expected to be broader in scope and deeper in commitments than five ASEAN Plus FTAs, while being flexible in terms of diversified conditions and determinants of engaged parties. In 2014 four working groups were created to deal with more specific areas: intellectual property, competition, technical cooperation and dispute settlement. Considering the fact that one of the major

obstacles for further increase in trade and capital flows between ASEAN and Japan is the complexity of regulations existing within individual markets of the subregion and bilateral FTAs already signed, it is probable that successful RCEP may streamline processes for exporters, while simplifying and harmonizing trade standards ie rules of origin, dispute settlement mechanism, competition policy, investment regime, schedules of tariff reductions, responsible for noodle bowl effect. When entering into force, RCEP may effectively replace nine EPAs and FTAs agreed bilaterally between ASEAN and Plus Six Partners, including Japan.

Like AEC, RCEP may induce further spatial expansion of the Japan-led regional production networks within ASEAN region, resulting in increase of mutual trade and investment flows. As indicated by T. Heng [2007], some bilateral EPAs signed by Japan with individual ASEAN members assumed lower tariff rates for some imported assortments than AJCEP, with special regard to products that did not compete with Japan's domestic manufacturing and agricultural sectors.

### **5.3. Trans-Pacific Partnership (TPP) and Free Trade Area of the Asia-Pacific (FTAAP)**

Trans-Pacific Partnership (TPP) trade talks were formally launched in March 2010 in Melbourne in the group of four states, including Vietnam. In the following months, another three ASEAN economies, namely, Brunei Darussalam, Malaysia and Singapore entered the process, accompanied by, among others, Japan. In contrast to RCEP, TPP negotiations were already completed, namely, agreement was signed on 4 February 2016 by twelve participating parties, i.e. Japan, ASEAN-4, Australia, Canada, Chile, Mexico, New Zealand, Peru and the United States [Worstall 2016].

It is worth noting that US-led TPP assumes deeper liberalization and rule-making in favour of integration. It must be emphasized, that TPP is a high standard trade agreement of 26 chapters covering, next to the characteristic for ASEAN Plus FTAs customs border issues, WTO Plus elements such as environment, labour market, intellectual property rights, and government procurement [Bobowski 2014, pp. 266, 267, 2015, p. 153]. Much more intrusive agenda, addressing, among others, state-owned enterprises and human rights, discouraged China from participating so far, however, it cannot be excluded that another ASEAN members, i.e. Indonesia, Philippines and Thailand, will decide to join the block. Less probable "socialization" of China through TPP membership would induce future merger of RCEP and TPP, eroding advantages gained by Japan and ASEAN-4, operating within two mega-regional trade blocks, related mainly to preferential access to US market at the expense of the Chinese counterparts. While Japan may benefit from the double membership in the context of intra-regional rivalry over leadership with China, ASEAN may legitimize its centralist role in the Asian regionalism, however, further extension of ASEAN's representation in TPP through accession of the total "core" seems to be necessary.

Free Trade Area of the Asia-Pacific (FTAAP) was proposed by the APEC leaders meeting in Beijing in November 2014. Both RCEP and TPP – if successfully implemented, might be recognized as platforms of the future FTAAP [Tran, Heal 2014, pp. 1, 2]. TPP, as more advanced and comprehensive trade agreement, would be found as a better point of reference for FTAAP, however, only after formal accession of China to the US-led trade block. On the other hand, eventual consolidation of RCEP and TPP in terms of agenda and membership might be a significant challenge for the less developed ASEAN members, namely, Cambodia, Lao PDR and Myanmar, if assuming no differential treatment under more TPP-like FTAAP, than RCEP. To date, three aforementioned ASEAN members stay outside APEC, thus, potential FTAAP, extended TPP alike, might dismantle Southeast Asian grouping into the main stream and “the peripharia”. Thus, AEC enhancing deeper integration and convergence within ASEAN is a prerequisite to benefit from extra-regional liberalization and integration, assuming, among others, economic partnership with Japan.

#### **5.4. The 2012–2022 ASEAN-Japan strategic economic cooperation roadmap**

Following the establishment of AJCEP in 2009, a roadmap of strategic economic cooperation was provided to double trade and capital flows between ASEAN and Japan in years 2012–2022 through:

- integration of markets in ASEAN and the East Asian subregion,
- improvement of distribution networks
- enhanced industrial cooperation.

Importantly, the roadmap prioritized Japan’s role in the technology transfer to ASEAN to narrow development gap within the subregion [METI Japan 2012].

Some expertise and technology has been already shared with ASEAN under the roadmap in the fields of computerization and harmonization of customs procedures, development of trade and customs tariff statistics systems, implementation of Intellectual Property Rights agreements, as well as frameworks for trade insurance system.

## **6. Conclusions**

ASEAN-Japan economic partnership is successful and promising for the future. Japan is the largest single investor in ASEAN and the third largest trading partner. ASEAN is not only a resource base and manufacturing hub for Japan, but also a consumption market of growing importance. Japanese government is a massive source of development aid to ASEAN, whereas Japanese multinational corporations enhance technology transfers, jobs creation and skills development in the subregion.

Liberalization of national trade and investment regimes through completion of AEC, improvement of intra- and extra-regional connectivity of ASEAN member

states to narrow the development gap is an abundant source of opportunities for both subregion as well as its major economic partners, including Japan.

As already mentioned, highly integrated ASEAN with the constituted single market and production base may enhance cost-competition with China and rise as demand source, attracting more Japanese multinationals, seeking for “China+1” strategy.

Aforementioned mega-regional trade projects, with the US-led TPP already signed, however, still ahead of ratification by the twelve signatory parties, China-led RCEP or the extended formula of FTAAP, if being effectively implemented, would intensify ASEAN-Japan trade and capital flows. However, reaping the benefits requires a series of actions to simplify overlapping trade rules, prioritize trade facilitation, encourage infrastructure investment, open trade in services, enhance labour mobility, protect intellectual property rights.

Last but not least, ASEAN-Japan economic partnership built on the foundations of AJCEP and mega-regionals, i.e. TPP, may enhance centralist role of ASEAN in the Asian regionalism, as well as Japan’s ambitions in intra-regional rivalry over leadership with China.

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