

G- SEC WORKING PAPER No.12

Japan's Strategy and Her Soft Power in Trade and Investment: Singapore's Perspectives

Hank LIM / Tai Wei LIM*

December 2006

Abstract

Japan emerged from the Second World War to become a First World industrialized economy in 1964. Japan's industrial transformation strategy and its subsequent role in "flying-geese pattern" of industrial development across East Asia have been very much credited to the rapid economic development of the region. Specifically, Japan has contributed greatly to the economic dynamism and rapid economic transformation of South Korea, Taiwan, Hong Kong, Singapore and ASEAN countries through Foreign direct investment (FDI) and Official Development Assistance (ODA). Since 1970 Japan's ODA program has been largely expanded in Asia and particularly in East Asia. With acceleration of globalization and regionalization, Japan continues to play a major role in enhancing regional production networking and strengthening intra-regional trade and investment through market forces and various schemes of regional and bilateral comprehensive economic partnership agreements. Notwithstanding that the "flying-geese pattern" has been superimposed by production networking and cross-border (borderless) trade and investment flows and the rise of China, Japanese role and leverage in trade and investment continues to be critical for the continued economic prosperity and political stability of East Asia. From the Singapore's perspective, Japan has been slow and hesitant in applying and realizing the vast accumulated Japan's soft power in trade and investment for the betterment of its national interest and those of the region.

* Director for Research, Singapore Institute of International Affairs, 2 Nassim Road Singapore

Introduction

1952-1964 (the year Japan joined OECD and held the Tokyo Olympic signaled a milestone as Japan joined the First World)

During this postwar period, Japan was experiencing a "Period of Prosperity", symbolized by Prime Minister Ikeda's policies of "Income Doubling Plan" in which Japanese incomes and Gross National Product (GNP) literally doubled every few years.¹ It also marked Japan's global re-emergence as an economic power amongst the developed nation. This process was made possible by an abundance of skilled labor after the war. Other than human resources, Japan also focused on technological innovation successfully and was aided by a favourable international economic climate with the availability of cheap international prices for commodities. Consequently, conditions for growth during the "Golden Sixties" (*Ogon no Rokuju Nendai*) were ideal.²

Most importantly, these external and internal conditions were underlined by political stability and sound macroeconomic policies which included (1) tax cuts, (2) social security, and (3) public investment.³ The Ikeda administration complemented these conditions with pro-growth economic policies to single-mindedly hasten Japan's postwar recovery. Targets were set by benchmarking against Western living standards. The economic policies were not bereft of social goals as the government tackled income

¹ Liberal Democratic Party, "Period of President Ikeda's Leadership" in the Liberal Democratic Party (LDP) website, available at <http://www.jimin.jp/jimin/english/history/chap4.html>

² Liberal Democratic Party, "Period of President Ikeda's Leadership" in the Liberal Democratic Party (LDP) website, available at <http://www.jimin.jp/jimin/english/history/chap4.html>

³ Liberal Democratic Party, "Period of President Ikeda's Leadership" in the Liberal Democratic Party (LDP) website, available at <http://www.jimin.jp/jimin/english/history/chap4.html>

disparity and instituted lifetime employment policies.⁴ As a result, Japan's economy grew at 10% per year.

As Japan's economy took off, the Ikeda Cabinet worked to increase the degree of the Japanese economy's openness to 93 percent by 1964.⁵ This year represented Japan's coming of age. The government did away with discriminatory restrictions on foreign exchange and currency transactions in compliance with guidelines for IMF member countries (as laid out in its Article 8) and was elected to the OECD.⁶ As a result, Japan was rewarded as the host of the annual general assembly meetings of the IMF (International Monetary Fund) and World Bank held in Tokyo in September of 1964 and attended by the representatives of 102 countries.⁷

1964-1985 (The Plaza Accord which followed a large-scale capital outflow to Korea, Taiwan, HK, Singapore and subsequently to ASEAN)

If the 1960s was characterized by fast growth, 1970s represented Japan's trade frictions with its trading partners. In the 1970s, the sharp increase of Japan's exports of industrial products to the U.S.A. and Europe began to cause international friction and this cumulated to the announcement in 1971 that U.S.A. would end the convertibility of the dollar into gold.⁸ In December 1971, Japan revalued the yen from 360 yen against

⁴ Liberal Democratic Party, "Period of President Ikeda's Leadership" in the Liberal Democratic Party (LDP) website, available at <http://www.jimin.jp/jimin/english/history/chap4.html>

⁵ Liberal Democratic Party, "Period of President Ikeda's Leadership" in the Liberal Democratic Party (LDP) website, available at <http://www.jimin.jp/jimin/english/history/chap4.html>

⁶ Liberal Democratic Party, "Period of President Ikeda's Leadership" in the Liberal Democratic Party (LDP) website, available at <http://www.jimin.jp/jimin/english/history/chap4.html>

⁷ Liberal Democratic Party, "Period of President Ikeda's Leadership" in the Liberal Democratic Party (LDP) website, available at <http://www.jimin.jp/jimin/english/history/chap4.html>

⁸ Ministry of Internal Affairs and Communications (MIAC) Statistics Bureau and Statistical Research and Training Institute, "Chapter 3 Economy" in the MIAC website [downloaded on 29 September 2006], available at <http://www.stat.go.jp/english/data/handbook/c03cont.htm>

the U.S. dollar, which had been maintained for 22 years, to 308 yen and, in February 1973, Japan adopted a floating exchange-rate system.⁹

Subsequently, in the 1980s, the trade imbalance with advanced industrial nations expanded because of the yen's appreciation.¹⁰ Eventually, Japan's trading partners decided to confront the frictions head-on. On September 22nd 1985, finance ministers from the world's five largest economies - the United States, Japan, West Germany, France and the UK - announced the Plaza Accord at the New York hotel. By this accord, Japan promised a looser monetary policy and a range of financial-sector reforms. By the end of 1987, the dollar had fallen by 54% against the yen from its peak in February 1985.¹¹

Due to a sudden increase in the Japanese yen's exchange rate with the dollar, Japanese goods' competitiveness in pricing suddenly dramatically declined and was subjected to tough competition from other emerging East Asian countries with lower cost structures. This resulted in a large-scale capital outflow to South Korea, Taiwan, Hong Kong, Singapore and subsequently to ASEAN.

After the Plaza Accord in 1985, there was a huge capital outflow from Japan to East Asian countries to take advantage of large appreciation of the Japanese Yen. During this period, Japan experienced sustained economic expansion until 1991 when the Japanese economy went into deep and prolonged economic recession because of structural disequilibrium between the real and financial sectors. This burst of economic "bubble" and the resulting economic recession persisted on and off until recently during

⁹ Ministry of Internal Affairs and Communications (MIAC) Statistics Bureau and Statistical Research and Training Institute, "Chapter 3 Economy" in the MIAC website [downloaded on 29 September 2006], available at <http://www.stat.go.jp/english/data/handbook/c03cont.htm>

¹⁰ Ministry of Internal Affairs and Communications (MIAC) Statistics Bureau and Statistical Research and Training Institute, "Chapter 3 Economy" in the MIAC website [downloaded on 29 September 2006], available at <http://www.stat.go.jp/english/data/handbook/c03cont.htm>

¹¹ The Economist, "Plaza Accord" in the Economist.com website [downloaded on 29 September 2006], available at <http://www.economist.com/research/Economics/alphabetic.cfm?LETTER=P>

Koizumi administration. This period is known as Japan's "lost decade". Japanese economic revival was a result of a combination of domestic reforms and favourable external environment.

1. Japan's Official Development Assistance (ODA) Program

The nature of Japan's ODA

Japan's ODA took off against international concerns over lagging development of developing countries and it was also prompted by the United Nations (UN) General Assembly of the United Nations' call in 1970 for developed donor countries to allocate 0.7% of their Gross National Product (GNP) to ODA.¹² Japan's ODA was then accelerated by the first oil crisis in 1973 which badly hit energy-scarce Japan with the result of increased aid allocated to Mid-East countries since 1975.¹³ Japan has since diversified and expanded its ODA program. It was subsequently categorized according to aid sectors (Basic Human Needs (BHN) and human resources development in addition to economic infrastructure) and geographical distribution (Middle East, Africa, Latin America, and Pacific regions in addition to Asia).¹⁴

Japan wants to secure a peaceful and stable environment for its economic development and its aid is closely tied with this. Japan is closely interdependent with developing countries since it is able to secure natural resources only through trade with

¹² The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

¹³ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

¹⁴ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

those countries, making it is essential to maintain friendly relations with developing countries for Japan's economic growth.¹⁵ In the post-Cold War world in 1991, a major overhaul of ODA took place in 1991 announced 4 ODA guidelines of its economic assistance to developing countries. More specifically, the government made clear that it will pay full attention to the following four points in implementing its economic aid¹⁶:

- the trends of the military expenditures of recipient countries,
- the trends of their development and production of mass destruction weapons and missiles,
- export and import of arms of recipient countries, and
- efforts by recipient countries for promoting democratization and introduction of market-oriented economy, and the situation regarding the securing of basic human rights and freedoms.

Characteristics and impact of ODA to East Asian economies

Japan has done a good deal for East Asian economies. The first point that comes to mind is the sheer scale of Japan's contributions. Since 1975, Japan has been the only Asian member country of the exclusive Group of Seven (G-7). Its leadership continues in regional and international financial institutions. In 1993, for example, Japan was the largest contributor to Asian Development Bank (ADB).¹⁷ It has also assumed a position

¹⁵ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

¹⁶ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

¹⁷ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

of leadership amongst the Asian economies. By the Ministry of Foreign Affairs (Japan)'s own statistics, approximately 60% of Japan's ODA has been directed to Asian countries, and the large part of it was allocated in the field of economic infrastructure, which helped improve the environment for investment by foreign capitals and utilize the vitality of the private sector; and these aid projects were well timed to invite foreign direct investment to Asian countries and promote the development of their export industries.¹⁸

Aid distribution is not restricted merely to infrastructure and economic development but extended to agricultural industries as well. According to MOFA Japan, increases in agricultural production have bolstered the economic development of East Asian countries, and Japan has extended large-scale aid projects in various forms for the development of their agriculture.¹⁹ The third arm of development in addition to infrastructure construction and agricultural development, Japan's economic cooperation in these areas, together with its grant-aid for the development of social infrastructure (education, public health, and sanitation), has generated "multiplier effects" to upgrade the living standard of local communities and close the regional gap between urban and rural areas.²⁰

For example, Indonesia is the largest recipient of Japanese ODA generosity amongst ASEAN states. Japan's ODA loans financed the construction of power stations which generate 15% (1,994mw) of the nation's total power output, the construction and renovation of 12% (799km) of its railway systems, the construction of 15% (56km) of

¹⁸ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

¹⁹ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

²⁰ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

its toll roads, the construction of 60% of the intra-city communication transmission cable conduit system of Jakarta, and the construction of 54% of the city's water filtration facilities (9,600t/s).²¹

The "flying-geese pattern" of industrial development in East Asia is the natural progression of Japanese investment outflow to ASIAN NIEs and ASEAN, especially after the Plaza Accord in 1985 (rapid Yen appreciation against the USD).

In the 1930s, a Japanese economist, Kaname Akamatsu (1935) developed the now-famous multi-tier hierarchical 'flying geese' model to describe how industrialization spreads from developed countries to the developing countries and, in the 'flying geese' model of regional integration, Japan as the leading goose leads the second-tier geese (less developed countries) which, in their turn, are followed by the third-tier geese (least developed countries).²² In other words, it is Japan's indigenous working model for East Asian integration.

After its remarkable postwar recovery, Japan (the leader goose) exported manufactured goods to the second-ranking geese, i.e., South Korea, Taiwan, Hong Kong and Singapore, greatly boosting the economies of these countries that later became known as Asian Newly Industrializing Economies (NIEs), sometimes referred to as Newly Industrializing Countries (NICs). With the indigenous growth of NIEs' domestic consumption, Japan was able to set up manufacturing facilities in these countries to satisfy consumption of manufactured products.

As these Asian NIEs took off, they themselves became increasingly competitive as sub-contracting manufacturers, boosted and steroid-fed economically through Japan's

²¹ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

²² Furuoka, Fumitaka, "Japan and the Flying Geese Pattern of East Asian Integration in the Eastasia.at Journal Vol. 4, No. 1, October 2005 [downloaded on 29 September 2006], available at http://www.eastasia.at/vol4_1/article01.htm

foreign aid. Recipient countries of Japan's ODA such as the NIEs including South Korea and Singapore have made remarkable progress, graduated from Japan's ODA, and are high economic performers in their own right.

Thus, diffusion of economic development is also catalyzed by these “high-performing rapidly developing economies” (HPRDE), with their own economic aid programs to other East Asian countries further down the flying geese hierarchy in terms of economic development. These countries continue to either provide ODA bilaterally on their own or jointly with Japan. Singapore, Malaysia and Thailand, though still Japanese ODA recipients, except Singapore, are primed to follow up the second line of geese in their economic development and are slowly developing their own strategies to extend technical assistance or aid to other countries in the region.

Other than the transfer of technologies, Japan also helped in the diffusion of skills and trained manpower. For economic capacity-building, Japan has put emphasis on aid for human resources development since the 1970s, and has extended active assistance for training their engineers and other technical personnel.²³ MOFA's own strategy is combining with increases in skilled workers and managers to bring about the help of human resources development aid projects and improved economic infrastructure financed by ODA loans has attracted direct investment from various countries to many NIEs, ASEAN and other East Asian countries, helping them achieve steady economic growth in recent years.²⁴

Up to 1993, Japan has accepted the total of 69,959 trainees from Asian countries, dispatched the total of 23,045 experts and 55,328 aid personnel in assistance missions to

²³ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

²⁴ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

these countries (57.8%, 59.3%, and 57.6% of the total respectively).²⁵ This fact demonstrates that Japan single-handedly contributed to the largest exercises in the diffusions of skills, technical know-how and technological software to the rest of East Asia. With their newfound manufacturing capabilities and potential to become ODA-providers, the NIEs export their own products to reach developed nation status and gain from consumers of their cheaper and more affordable products in the third tier geese markets, such as China and the original ASEAN-5 countries (except Singapore and oil-rich Brunei), namely Thailand, Malaysia and Indonesia.

The Asian NIEs benefited from Japan's blueprint of development which made it easy for them to adapt their own forms of economic development from Japan's model without the need to engage in expensive and time-consuming economic experimentation. The other East Asian states were able to replicate Japan's successful features of national economic policies, including state-led economic development, strategic prioritization of industries, close bureaucratic and technocratic management and aggressive export-led growth. This model was oftentimes praised by the UN as a successful model for most, if not all, developing countries.

In Japan, the bureaucracy's protectionist industrial policy started from the 1950s. To promote fast growth in order to catch up with other western advanced nations, agencies like MITI were given a broad range of powers for 'nurturing industries' such as focusing resources in chosen strategic industries and regulating foreign competition.²⁶ They also obtained powers to choose industries for development and the

²⁵ The Ministry of Foreign Affairs (MOFA) of Japan, "History of Official Development Assistance" in the MOFA website [downloaded on 29 September 2006], available at <http://www.mofa.go.jp/policy/oda/summary/1994/1.html>

²⁶ Johnson, Chalmers. *MITI and the Japanese Miracle*, California: Stanford University, 1980, p. 199.

ability to dispense preferential financing, tax breaks and protection from foreign competition.²⁷

Because of the need to monitor the progress of the economy and plan the outcome through the formulation of industrial policies, the economic bureaucracy had a close working relationship with businessmen. The bureaucracy would institute 'goal-oriented strategic activities' where it would use regulations, quotas, identification of strategic industries to nurture infant sunrise industries to capture local market share and compete against foreign companies.²⁸ In other words, the government ministries and agencies often functioned as if they were 'comprehensive research departments or national consulting agencies for Japanese industries'.²⁹ Instead of leaving Japanese MNCs to plan their activities according to the free market mechanism, they were given strategic administrative advice about market competition by bureaucrats.

Through the diffusion of developmental strategies, technologies, aid, technical know-how and kick-starting consumer markets, Japan has in fact de facto constructed East Asia's first model of integration and with the end of the Cold War, this integrated market has brought in other former socialist economies (the Cambodia, Myanmar, Laos, Vietnam or CMLV) to join the club as the fourth and fifth tier flock of geese. China is somewhat of an exception to this flying geese model, given its size and enormous capacity to compete at all tiers of the flying geese model and its early introduction to the market economy under China's "Open Door" reforms starting from the 1978.

The integration was also successful since there was a communitarian element to the arrangement as the lead geese helped the second tier and the second tier benefits the third tier while Japan as the leader simultaneously aided all tiers. Challenges to the

²⁷ Johnson, *MITI and the Japanese Miracle*, p. 199.

²⁸ Johnson, *MITI and the Japanese Miracle*, p. 21.

²⁹ Ichimura, Shinichi. *Political Economy of Japan and Asian Development* (Singapore: ISEAS, 1998), p. 22.

integration really only came with Japan's internal economic stagnancy after the burst of the bubble economy at the end of the 1980s but the system was kept intact through the NIEs' own growth which helped sustain the model and kept it going. In some sense, Japan's model was even updated with more competitive features indigenous to the NIEs during this period, such as Singapore's highly competitive IT industry and efficient/liberal investment policies.

The second big challenge came in the 1990s when Southeast Asia was inflicted by Asian financial crisis in 1997 which incapacitated most of the NIEs (except Hong Kong which was single-handedly kept afloat by China, and to some extent Singapore and Taiwan) and almost all of the third tier geese (particularly Thailand and Indonesia which are still recovering from it while Malaysia inoculated itself with a currency peg). But it left the fourth tier (former socialist CMLV states) relatively untouched and most importantly, the biggest of the fourth tier member, China, super-pumped its economic drive to eventually become the world's latest trillion dollar economy a decade after the financial crisis.

China is both a boost and a challenge to the flying geese model. Its strong economy has become a main driving force for the region's economic development, keeping the flying geese model going but the size of China's economy and the strength of its growth is so voracious that China is now located at the first, second, third and fourth tier simultaneously. In other words, it has disrupted the neat flying geese pattern as it penetrates all tiers of the flying geese model by producing products that range from the lowest tech to the highest tech goods.

China's size also threatens to replace Japan's own leading position as the head geese and to some extent, challenges Japan's economic leadership in ODA, diffusion of economic know-how and technologies. Some commentators have even gone to the

extreme to call the current phase of East Asian integration of China's own flock of flying geese as China's economic surge contrast with Japan's reluctance to accelerate regional free trade agreements deadlocked over agricultural subsidies and Japan's stagnant economy only recently revived by former Prime Minister Junichiro Koizumi's strong leadership.

2. Japanese Soft power

Japan's ODA and economic soft power in the postwar era is undisputable. It can be credited for historically bring East Asian integration to the region. While frictions have arisen over its leading geese position, Japan is still admired and emulated by its neighbours. In some ways, these economic imprints are permanent etched into the East Asian economic landscape. The current focus is more on environmental soft power in addition to economic soft power. Sustainable development is seen as something just as important as economic development.

The Japan Fund for Global Environment was established within the Japan Environment Cooperation (JEC) in 1993 to provide financial, information, educational and training assistance to NGOs inside and outside Japan.³⁰ The fund is endowed by the national government as well as by citizens and corporations, and had a value of some US\$62.5 million at the end of 1996.³¹ With the generous support of the Government of Japan, UNESCAP is implementing the project "Assessment of the Environmental Quality and State of the Environment in Asia and the Pacific 2005". UNESCAP is

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<http://64.233.179.104/search?q=cache:yMSV2rCj0XoJ:www.unep.org/Geo2000/english/0163.htm+Conservation+NGOs+ASEAN+environment+Cooperation&hl=ja&gl=jp&ct=clnk&cd=10>

³¹

<http://64.233.179.104/search?q=cache:yMSV2rCj0XoJ:www.unep.org/Geo2000/english/0163.htm+Conservation+NGOs+ASEAN+environment+Cooperation&hl=ja&gl=jp&ct=clnk&cd=10>

carrying out these collaborative projects with civil society organizations, students, educational institutions and educators in East Asia and other Asia Pacific countries.³²

Japan is most active in the field of the environment. The Environment Congress for Asia and the Pacific (ECO ASIA) was initiated by Japan in 1991 to promote regional cooperation on environmental issues. ECO ASIA brings together high level government officials (including ministers), experts from international organizations and private organizations and environment researchers in the region, to freely exchange viewpoints in their personal capacities.³³

New areas have emerged in economic cooperation where Japan can play a bigger role. Two prominent ones that come to mind are the tsunami and piracy in the region. In the wake of the tsunami disaster, Japan's offer of aid is also tremendously helpful. By Japan's donation, Japan alone accounts for 25% of the US\$2 billion aid promised by the world to the UN as at 2 Jan 2005. Japan which sees Indonesia as the state in the region requiring most help has also separately provided aid for them. Japan's Ambassador to Indonesia Shin Ebihara officially handed over a grant of US\$17.24 million in June 2006 for anti-piracy measures.

A statement by the Japanese Embassy in Jakarta reads: "Japan has decided to extend grant aid to Indonesia for the construction of patrol vessels. This assistance is to support Indonesia's efforts for the prevention of piracy, maritime terrorism and weapons proliferation." Japan also has its own interests to protect. The same statement released by the embassy of Japan noted that thirty percent of the world's piracy and armed robbery at sea happens in Indonesian waters, while 19 percent of the more than 50,000

³² <http://www.unescap.org/esd/environment/soe/>

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<http://64.233.179.104/search?q=cache:Fe2O44PWXqJ:www.iges.or.jp/en/ltp/pdf/apfed4/ref3.pdf+Cooperation+between+NGOs+ASEAN++environment&hl=ja&gl=jp&ct=clnk&cd=5>

ships that pass through those waters carry Japanese commerce and oil. 80% of China's and Japan's oil supplies pass through these waters.

Leadership at regional organizations and initiatives

Tokyo announced plans to put forward a candidate to head the International Energy Agency (IEA).³⁴ Tokyo will recommend Mr Nobuo Tanaka, a director at the Organisation for Economic Cooperation and Development (OECD), as a candidate to succeed Mr Claude Mandil next year. If Mr Tanaka gets the job, he will be the first person from East Asia to head the Paris-based agency.³⁵ Japan is already the second-largest financial contributor to the IEA, after the United States. Its qualification for the leadership of the organization is almost unshakable.³⁶

Regional currency cooperation

A senior official of the Asian Development Bank (ADB), Mr Masahiro Kawai, the head of ADB's regional integration office, has warned that Asian governments should not take the continued stability of the US dollar for granted.³⁷ Instead they should appreciate their currencies through joint efforts. The governments in East Asia have the largest foreign reserves in the world but most of these funds are invested overseas, particularly the US.³⁸ China has reportedly overtaken Japan to become the world's largest holder of foreign exchange reserves, with US\$853.7 billions as of February³⁹ and is expected to reach USD 1 trillion by end of 2006.

³⁴ http://www.siiainline.org/news_highlights

³⁵ http://www.siiainline.org/news_highlights

³⁶ http://www.siiainline.org/news_highlights

³⁷ http://www.siiainline.org/news_highlights

³⁸ http://www.siiainline.org/news_highlights

³⁹ http://www.siiainline.org/news_highlights

This call comes in the midst of the run-up of a US Treasury publication to Congress on whether any country in the world is unfairly manipulating its currency to gain unfair advantages against US companies.⁴⁰ The US Treasury published its report on 15 April, just days before Chinese President Hu Jintao visits Bush.⁴¹ The ADB has also said on Monday (27 March) that it would be working towards the creation of an Asian Currency Unit (ACU) which would be an index of currencies, similar to the European Currency Unit (ECU).⁴² The ECU was the forerunner of the Euro.⁴³ ADB is still examining which currencies to include in the ACU and the relative weights.⁴⁴ The creation of the ACU is seen as part of the ongoing efforts to promote monetary and financial cooperation in East Asia after the Asian Financial Crisis in 1997-98.⁴⁵

It is likely the ACU could be a useful denominator for bond issues and facilitate the development of an Asian multi-currency bond market. It would also deepen capital markets, a move which would reduce external monetary shocks. This would also help the region to use some of their financial reserves for investments (particularly infrastructural projects) at home as pointed out earlier by ADB's Vice-President Liqun Jin at the Mekong Development Forum held in Singapore on 8 March. However, ADB President, Haruhiko Kuroda has emphasised, in an earlier interview, that any single Asian Currency like that of the Euro is likely to be decades away. He said that such a single currency is a "very remote possibility." He explained that, "Before we can realistically envisage any single currency, we have to have a single market as the European experience shows."

⁴⁰ http://www.siaonline.org/news_highlights

⁴¹ http://www.siaonline.org/news_highlights

⁴² http://www.siaonline.org/news_highlights

⁴³ http://www.siaonline.org/news_highlights

⁴⁴ http://www.siaonline.org/news_highlights

⁴⁵ http://www.siaonline.org/news_highlights

Also many issues still remain unresolved and may become politicised. While the ACU is likely to be based on ASEAN plus Three countries, it is uncertain as to whether the Indian rupee would also be included. And already there were potential heated argument over whether the Taiwanese dollar should be included. Another potentially difficult issue is how the weights of the various currencies should be calculated- whether by gross domestic product, trade flows or financial transactions or a combination of the various elements.

3. The role of Japan in regional economic integration

Free trade Agreements (FTAs) or Economic Partnership Agreements (EPAs) appear to serve as the current foreign policy tool to build regionalism within ASEAN and East Asia, but more needs to be said about their underlying political-economic intent and outcome.⁴⁶ Japan has announced an ambitious plan to forge a Regional FTA with the 10 ASEAN member states, China, South Korea, Australia, New Zealand and India – attendees of the first East Asia Summit last December – by 2010.⁴⁷ Trade Minister Toshihiro Nikai revealed this at a press conference on April 4 adding that the 2010 FTA is a first step towards the establishment of an East Asian economic community.⁴⁸

This might come as a surprise for many since much need to be done on the Japanese side as Japan has been amongst the slowest to jump on the bilateral and regional FTAs.⁴⁹ However, it might be a signal that Japan is rushing to put its own house in order by revising its national FTA policy, which operates only on an ad hoc

⁴⁶ http://www.siaaonline.org/news_highlights

⁴⁷ http://www.siaaonline.org/news_highlights

⁴⁸ http://www.siaaonline.org/news_highlights

⁴⁹ http://www.siaaonline.org/news_highlights

basis and is limited by the actions of its major trading partners.⁵⁰ Overseen by the Council on Economic and Fiscal Policy (CEFP) which is chaired by Prime Minister Junichiro Koizumi, Japan needs to cough up a new “global strategy” for FTAs by May this year.⁵¹

But two major stumbling blocks stand in Japan’s way to becoming a full-fledged FTA player: agricultural liberalisation and cross-border movement of labour.⁵² A current FTA with Malaysia and ongoing talks with the Philippines, Thailand, Indonesia, South Korea, and Chile are at stake.⁵³ To realise the Regional FTA initiative, Japanese Foreign Minister Taro Aso has prescribed a reduction of the time-frame of negotiations.⁵⁴ Elsewhere, Motoshige Itoh, an economics professor at Tokyo University who has been involved in Japan’s FTA negotiations, explained that Japan “cannot afford to be left out” of the current FTA race within Asia and at the global scale.⁵⁵ Japan has reached a “turning point and must go along with the rest of the world,” he adds.⁵⁶ Thus far, Japan has only secured FTAs with Singapore, Mexico and Malaysia, but is now taking on to extending FTAs to 15 countries and regions stretching from India to Australia and from ASEAN to the Persian Gulf.⁵⁷

⁵⁰ http://www.siaaonline.org/news_highlights

⁵¹ http://www.siaaonline.org/news_highlights

⁵² http://www.siaaonline.org/news_highlights

⁵³ http://www.siaaonline.org/news_highlights

⁵⁴ http://www.siaaonline.org/news_highlights

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⁵⁷ http://www.siaaonline.org/news_highlights

Why the haste and ambition?

All Southeast Asian states have engaged with Japan to a considerable degree. Japanese investment and development assistance has been consistently among the highest for almost all of the states in the region.⁵⁸ Of late, there have been discussions and debates about Japan's own weakness in regional diplomacy as a factor in China's rise in her outreach to Southeast Asia. The regional powers of China and Japan are aligning vis-à-vis themselves to achieve a new power structure and equilibrium in East Asia.

On the economic front, there is perception in some quarters that Japan is losing its initiative as the economic leader of East Asia. In East, she has only so far concluded a Free Trade Agreement (FTA) with Singapore and Malaysia. There is some basis for disappointment with Japan's free trade initiatives. Japan's efforts for FTAs with regional ASEAN powers such as Thailand and Indonesia, two countries with formidable agricultural resources, have not been productive.

The recent declines in FDI flows to ASEAN have in large part been due to lower investment levels from Japan. The extent of decline in Japanese FDI can be seen from the fact that while it has consistently been the single largest investor in ASEAN since the late 1980s, it did not even figure in the top ten investors in 2000.⁵⁸ Japanese External Trade Organisation (JETRO) in October 2001 suggests that much of that of those planning to relocate operation to the PRC, the distribution will be from Japan (67.5 percent) and only about 7-8 percent from ASEAN.⁵⁹ Insofar as the accession of the PRC

⁵⁸ Ramkishan Rajan (University of Adelaide), "The Economic Rise of China: Boon or Bane for ASEAN?" in the IPS website, available at www.ips.org.sg/pub/kishen/pa_kishen_The%20Economic%20Rise%20Of%20China%20Boon%20Or%20Bane%20For%20Asean.pdf

⁵⁹ Ramkishan Rajan (University of Adelaide), "The Economic Rise of China: Boon or Bane for ASEAN?" in the IPS website, available at www.ips.org.sg/pub/kishen/

to the rules-based WTO system as well as removal of uncertainty regarding the PRC's MFN treatment and granting of permanent normal trade relations (PNTR) makes it an even more attractive host for FDI, there may well be (further) diversion of FDI from "unstable ASEAN"; thus, there is a possibility that these investment trends may not see any significant recovery in the short and medium terms.⁶⁰

The rivalry between Japan and China has been of advantage to Southeast Asian states to date. The efforts taken by Japan to negotiate bilateral free trade agreements with a number of Southeast Asian states can and should be seen not only as having a logic and rationale of their own, but also as a counter to the Chinese FTA initiative with ASEAN. Some have argued that this rivalry can be positive in setting into motion increasing cooperation among regional economies, with Japan-ASEAN ties and China-ASEAN ties building towards a broader East Asian economic cooperation. In terms of development assistance too, some in the poorer Southeast Asian states too seek to juxtapose one Northeast Asian giant against the other to increase the total level of assistance received.

Japan's move can be interpreted as an attempt to regain regional leadership lost to China in the current FTA race, especially over ASEAN.⁶¹ The recent Sino-Aussie trade agreement on mineral resources added to the sense of urgency.⁶² Meanwhile, the US is aggressive in having a share of the pie as well since the launch of the 2002 Enterprise for ASEAN Initiative, and has targeted to complete deals with Vietnam, Laos, Thailand and Malaysia before June next year.⁶³ And Japan's other East Asian partner

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⁶⁰ Ramkishan Rajan (University of Adelaide), "THE ECONOMIC RISE OF CHINA: BOON OR BANE FOR ASEAN?" in the IPS website, available at www.ips.org.sg/pub/kishen/pa_kishen_The%20Economic%20Rise%20Of%20China%20Boon%20Or%20Bane%20For%20Asean.pdf

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⁶¹ http://www.siaaonline.org/news_highlights

⁶² http://www.siaaonline.org/news_highlights

⁶³ http://www.siaaonline.org/news_highlights

South Korea is also negotiating with the US.⁶⁴ Japan's Regional FTA strategy may either appear to be a pipedream or a way out of the political stalemate given the current 'tense' relations with China and South Korea over the Yasukuni shrine visits.⁶⁵

Regardless of the outcome, Japan is not placing all its chips on the Regional FTA, as the competition for energy security is fought on other soils as well.⁶⁶ Following the bids by China, the US and European nations, Japan is also exploring FTA options beginning July this year with the Gulf Cooperation Council (GCC), which currently supply Japan with 75 per cent of its crude oil and more than 23 per cent of its natural gas requirements.⁶⁷ Japan is not the only new convert to the race to conclude FTAs. Malaysia, who used to eschew bilateral FTA is now on high gear in this track.⁶⁸ International trade minister Datuk Seri Rafidah Aziz on April 4 presented Malaysia's strongest stance on FTAs yet. "Southeast Asia's aim to boost regional economic integration shouldn't stop individual countries from seeking bilateral free trade pacts [since] every country retains the right to forge individual accords with anyone," Rafidah said.⁶⁹

However, more perhaps need to be done to consider the implications of the various bilateral FTAs as a recent UNESCAP report warned against possible negative effects of the proliferation of FTAs.⁷⁰ Other considerations include addressing the people's concerns of FTAs undermining job and food security, and the nation's

⁶⁴ http://www.siaonline.org/news_highlights

⁶⁵ http://www.siaonline.org/news_highlights

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⁶⁹ http://www.siaonline.org/news_highlights

⁷⁰ http://www.siaonline.org/news_highlights

economy, as well as a more transparent process in forging FTA deals – issues raised by Malaysian activists two weeks ago against a bilateral free trade deal with the US.⁷¹

4. ASEAN-Japan Comprehensive Economic Partnership: Vision and Agenda

The role of Japan in emerging industrial trends in East Asia

One example of such partnership is the economic cooperation between ASEAN, China and Japan. ASEAN oil security and emergency preparedness is now high on the agenda of energy policy makers in ASEAN. The 1986 ASEAN Petroleum Security Agreement (APSA) is a treaty level agreement binding all 10 ASEAN nations to provide oil to a member country in time of a shortfall. However, its review and revision appears to be proceeding slowly. Seeing how China and ASEAN are facing fast-growing demands for petroleum and factoring in the potential impact that an oil supply crisis might have on their economic resilience, it is important that ASEAN countries and China join hands in exploring measures that impact on energy security and supply over the longer term.

Collectively, Japan and China along with Southeast Asia and South Korea are also making efforts towards solving their energy tensions. On 22 September 2002, Japan's METI (Ministry of Economy, Trade and Industry) issued recommendations for Northeast Asian energy cooperation. They include creation of an Emergency Network among the Energy Ministers of Japan and China to allow timely information-sharing in response to emergencies, initiative for the Development of Oil Stockpiling and joint studies on the Asian oil market, initiatives for the Improvement of natural gas development and other forms of energy conservation.

⁷¹ http://www.siaaonline.org/news_highlights

ASEAN-Japan Comprehensive Economic Partnership: Singaporean's perspectives

The successful conclusion of the JSEPA negotiations and the end of the year deadline for signature were announced in Shanghai on 20 Oct 2001 by the leaders of Japan and Singapore. The purpose of the JSEPA is to enlarge the size of both countries' markets, institutionalise the policy reforms in both countries and expand free trade between them. The areas of policy reforms include freeing up bureaucratic procedures for movement of goods, services and people through electronic system for customs clearance and standardization product testing and certification. To allay any fears of non-participating countries to the JSEPA, both Prime Ministers affirm that the JSEPA rules will be consistent with any WTO multilateral rules and with AFTA domestic contents rule. Besides free trade, JSEPA initiatives also target ICT industry, promoting the mutual recognition of skills standards of Infocomm project managers in Singapore and Japan through skills certification and enhanced security measures in e-commerce through cross-recognition of data protection models. At the government levels, both governments will work with each other to promote the development of e-Governments.

Other sectors that the JSEPA will liberalize include human capital management, financial services, tourism, media and broadcasting and development of SMEs. These sectors can be promoted through a joint sharing of databases for these industries between the trade agencies of both countries. In terms of human capital management, both countries will co-develop startup incubators and research manpower in life sciences, aided by a stronger framework to protect intellectual property rights. Besides developing human capital between both countries in hi-tech industries, they will also co-provide training to other developing countries.

In addition to benefits between two states, the JSEPA also benefits regions within Japan. In pursuant to the JSEPA, Singapore's Productivity and Standards Board

(PSB) and Kumamoto (a city in the Southern part of Japan) signed a MOU to increase their trade relationship. Kumamoto has been identified by Singapore as a hub for Singaporean companies to invest in the Kyushu region where Kumamoto contributes USD46 billion to Japan's GDP and about 10% of the GDP of Kyushu island while Kumamoto intends to use Singapore a springboard for Kumamoto companies that want to do business in Southeast Asia through Singapore's business contacts and knowledge database.

In conclusion, it is mutual interests between the two countries that had propelled ratification of the JSEPA. For Japan, the signing of the JSEPA would be the first policy precedent in bilateral trade agreement. Besides mutual benefits for Japan and Singapore, the JSEPA will also benefit other countries in the region, especially for ASEAN as the JSEPA will help lock in Japan's economic engagement in Southeast Asia for the long term. It may also stimulate other Free Trade Agreements (FTAs) between Japan and other ASEAN countries, and serve to engender regional and global trade and investment liberalization efforts.

Singapore needs Japan's help in its ICT revolution for many reasons. Singapore requires Japan's market, international clout, scale of investments in Asia, newest technologies and help in spurring her own industries. Japan is Singapore's second largest investor, reaching S\$1152.6 million in net investments commitments in manufacturing. Japan leads the global pack in some sectors of ICT. For example, the world's top Internet investment company and Asia's top telecommunications companies are both Japanese.⁷² Overall, there is an impressive list of 29 Japanese companies amongst Asia's top 100 ICT companies as compiled by *Asiaweek*.⁷³

⁷²*Asiaweek*, 18 Feb 2000 Vol. 26, No. 6, Asiaweek.com, (HK: Asiaweek), p. 50.

⁷³*Asiaweek*, 18 Feb 2000 Vol. 26, No. 6, Asiaweek.com, (HK: Asiaweek), p. 53.

In the ICT industry, size does matter and Singapore needs to get access to partners who are cash-rich to survive in the highly-competitive ICT environment. NTT DoCoMo, is the largest telecommunications company in Asia with a market capitalization of US\$333 billion and 3.6 million subscribers.⁷⁴ It is a company that is looking for partners and Singapore could do well to form partnerships with this company.⁷⁵ Larger capital accumulation through alliances with credible partners would allow Singaporean companies to expand further. In this manner, Singapore can tap on the estimated US\$70 billion Japanese capital funds that are sloshing around Asian markets.

Singapore is a well-placed platform for Japanese ICT products in the ASEAN Free Trade Area (AFTA) launched in 1993 and can tap into ASEAN's free flow of goods through the Common Effective Preferential Tariff (CEPT) scheme and a customer base of 421 million people.⁷⁶ Asia's business prospect in this area is not minor with ING Barings estimating that Asian companies will spend \$12 billion a year on systems-integration services by 2003, six times as much as they do now.⁷⁷ Electronic financing using ICT technologies for large volume trade between Japan and ASEAN can also be facilitated by Singapore whose telecommunications technologies permits its financial institutions to trade with Europe, US and Japan within a working day, making it an important financial, foreign exchange and offshore dollar centre.⁷⁸

To benefit from regional development and growth, Japan and Singapore must learn to work increasingly in multilateral frameworks. For example, the Association of Southeast Asian Nations (ASEAN) nations have put in place an e-ASEAN framework that would have a common marketplace of half a billion people for IT products and

⁷⁴ *Asiaweek*, 18 Feb 2000 Vol. 26, No. 6, Asiaweek.com, (HK: Asiaweek), p. 50.

⁷⁵ *Fortune*, 13 March 2000 Vol. 141 No. 5, *Fortune*, (NY: Time Inc.), p. 23.

⁷⁶ SICC, *The Investor's Guide to Singapore*, (Singapore: SICC, 1997), p. 6.

⁷⁷ Chowdhury, Neel, "Three Hot Asian Tech Trends" *Fortune*, 13 March 2000.

⁷⁸ SICC, *The Investor's Guide to Singapore*, (Singapore: SICC, 1997), p. 5.

services.⁷⁹ To benefit from this common market, Japan and Singapore have come up with multilateral proposals based on mutualism. For example, Singapore has recently proposed a project to implement an e-passport system for the smooth flow of frequent travelers within the e-ASEAN framework.⁸⁰ The Japanese bureaucracy has also created a common certification scheme to enable more IT manpower in ASEAN to qualify for IT positions in Japan.

Singapore and Japan have much in common. Both are island countries that are lacking in natural resources. Human talents, in this case e-talents, are crucial to the economy. Singapore provides a unique fusion of a human resource pool in the Asian setting using English language as the main medium. Japan can tap into Singapore's highly-trained workforce and talents in ICT to make up for shortages of ICT workers. Japanese companies can employ such ICT workers to conduct research in government funded research facilities in Singapore.

The role of Japan in creating East Asian Free Trade Area (EAFTA)

The ASEAN Secretary-General Ong Keng Yong has said that a FTA between ASEAN and its partners in the East Asia Summit (EAS) is on track to be signed within 10 years. He explained that, "The target for the ASEAN Community is 2020 so we hope that East Asia (ASEAN+6) FTA can be concluded by then."⁸¹ He added, "It can be done. All you need is to get all the governments to sign on a piece of paper"⁸² The Japanese Economy, Trade and Industry Minister Toshiro Nikai has earlier said in a

⁷⁹ Yeo Cheow Tong. 2001. "Speech by Mr Yeo Cheow Tong, Minister For Communications and IT, At the eASEAN Business Leaders' Forum on 6 April 2001 At 9.05 AM at Hilton Hotel." Singapore Government Press Release [Online] [6 April 2001] Available file://C:\WINDOWS\Temporary%20Internet%20Files\Content.IE5, p. 2.

⁸⁰ Yeo Cheow Tong. 2001. "Speech by Mr Yeo Cheow Tong, Minister For Communications and IT, At the Asia Society Conference, Bangalore, India, 11.30 am (Singapore Time), 12 March 2001." In Singapore Government Press Release [Online] [12 March 2001] Available file://C:\WINDOWS\Temporary%20Internet%20Files\Content.IE5, p. 4.

⁸¹ http://www.siaaonline.org/news_highlights

⁸² http://www.siaaonline.org/news_highlights

speech in China in April 2006 that regional FTA talks should be launched in 2008.⁸³ Japanese government officials have also said that Japan will officially present the proposal during a meeting of the ASEAN Economic Ministers in August 2006 in Kuala Lumpur.⁸⁴

Although the ASEAN members agreed to accelerate the implementation of the ASEAN Economic Community (AEC) by 5 years from 2020 to 2015, they did not tackle many difficult issues that might threaten the realisation of the AEC.⁸⁵ The difficulties in the road towards the AEC are equally matched by the difficulties in ASEAN's FTA negotiations with its external partners.⁸⁶ For example, both Japan and ASEAN have difficulty on agreeing how to wrap up negotiations on the ASEAN-Japan CEP.

The difficulty revolves around two issues.⁸⁷ First, the Japanese preferred to "string together" the bilateral FTAs that it has with the individual ASEAN members and call it the ASEAN-Japan CEP. The ASEAN members however preferred a comprehensive region wide ASEAN-Japan CEP.⁸⁸ Second, the ASEAN members wanted Japan to include clauses to encourage Japanese investment in ASEAN's forestry and fisheries sectors. However, the Japanese's position was that "it just wants trade."⁸⁹

There are further disagreements between ASEAN and Japan on the vision of a greater Asian regional integration. Japan is pushing head for a 16-nation pan-Asian FTA involving 16 nations.⁹⁰ However, ASEAN is lukewarm to this pan-Asian bloc, and urged a step-by-step approach, preferring to first focus on ASEAN plus one, and then

⁸³ http://www.siaaonline.org/news_highlights

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the creation of an East Asian community grouping ASEAN with China, Japan and South Korea.⁹¹

Rafidah said that, “The ASEAN ministers agreed to the proposal to do the study but however we reiterated that Japan and ASEAN should focus on the expeditious conclusion of the ASEAN-Japan [deal] that is to us very important. It can be the basis for a wider regional integration.”⁹² Indonesian Trade Minister Mari Pangestu agreed, “If the Japanese want to do a study, which they are proposing, that’s fine.”⁹³ We can review the results of the study by next year to see what the costs and benefits are but right now our priority should be on ASEAN Plus One.”⁹⁴ Korean Trade minister also agreed that ASEAN plus one should be the starting point, followed by ASEAN plus three.⁹⁵

In an increasingly familiar refrain, two ASEAN leaders the Prime Minister of Malaysia, Datuk Seri Abdullah and the Minister Mentor of Singapore, Lee Kuan Yew, have highlighted the need for stronger relations between Japan and its two neighbours, China and South Korea, for the sake of regional cohesion.⁹⁶ They said these in a conference held in Tokyo.⁹⁷ Datuk Seri Abdullah said that moves towards an East Asian community were faced with “challenges of cohesion, conviction and implementation.”⁹⁸ He warned that, “I have to be candid and say that the situation has worsened.”⁹⁹ Solidarity has been seriously dented.¹⁰⁰ Economics is pushing us in one direction but politics is pushing us in another. In addition to difficulties between Tokyo and Beijing, relations between Seoul and Tokyo have also become further strained.”¹⁰¹

⁹¹ http://www.siaaonline.org/news_highlights

⁹² http://www.siaaonline.org/news_highlights

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¹⁰¹ http://www.siaaonline.org/news_highlights

Singapore's Minister Mentor Lee Kuan Yew has also referred to the unresolved rows over Japan's wartime history and disputed territories with China and South Korea as "unnecessary friction and unnecessary irritation which will slow down the process of integration [of Asia]." ¹⁰² The South Korean Minister of Commerce, Industry and Energy, Chung Sye-Kyun has also called for Japanese leaders to stop paying homage at the Yasakuni Shrine and thereby, "showing that it is willing to take responsibility for its past conduct... and help lay the foundation for the building of the East Asian community."¹⁰³

Former Japanese Prime Minister Yasuhiro Nakasone also spoke and pointed to the people-to-people contact as one of the common denominators of a future East Asian community.¹⁰⁴ He cited the examples of "Winter Sonata" (a South Korean drama series that received huge following across the region) and Japanese animation series as having the potential to turn into "a culture of sorts."¹⁰⁵ Nevertheless, Nakasone said that other than such people-to-people contact, it was difficult to see how the East Asian community would take shape given the lack of clarity of the content and membership of the community.¹⁰⁶ Despite the initial understanding that the East Asian community would only include the 10 ASEAN members, Japan, China and South Korea, the inaugural East Asia Summit held last year included Australia, New Zealand and India.¹⁰⁷

¹⁰² http://www.siaaonline.org/news_highlights

¹⁰³ http://www.siaaonline.org/news_highlights

¹⁰⁴ http://www.siaaonline.org/news_highlights

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¹⁰⁶ http://www.siaaonline.org/news_highlights

¹⁰⁷ http://www.siaaonline.org/news_highlights

Conclusion

The flying geese model has been superimposed by globalization process and its attendant of production networking and cross-border trade and investment. Instead of a neatly-packed flock flying in unison as was in the 1970s and 1980s, the model has become more complex and interconnected through globalization, regionalization and the rise of China. The challenge thus is for the model to adapt features to accommodate two super-economies of China and Japan and to accommodate the market-driven borderless production networking and regionalization process in the form of regional FTAs. Regional self-help can be accentuated, for e.g. rapidly growing China and Vietnam can help to offset economic weaknesses of particularly Indonesia (still recovering from 1997 and in the midst of leadership transition) and uncertainties in post-coup Thailand.

Another alternative is to make the model a lot flatter by recognizing successes in development brought about by Japan-initiated integration to accommodate more players in the leading position, including the NIEs, China and to some extent, the third tier semi-tiger economies (e.g. Thailand and Malaysia). This alternative also has to recognize that the neat alignment of development in the pre-Cold War period is gone. The regional integration must take into account competition in addition to collaboration, particularly from the rapidly emerging large economies of China and India.

Japan will continue to exert its economic soft power given the existing gap between her and other Asian economies. It still has vast soft power leadership as a disseminator of cutting-edge ideas, technologies and capital/ODA (Japan is still the world's second largest economy and twice the size of China's economy). Under the new Abe leadership, the trends are that it is likely to become more assertive in challenging China's economic competitiveness while engaging China economically since the latter

is now Japan's undisputed trading partner (record US\$200 billion in value projected for 2006). Both have the potential to divert its competitive energies to help less-developed Southeast Asian economies.

To reinforce and sustain Japan's soft power in trade and investment, it is vitally important that Japan should expedite the process and conclusion of its regional FTA with ASEAN countries. In doing so, Japan would indirectly enhance its leadership role in the region and its own economic competitiveness as well as of ASEAN in the face of rising economic challenges and opportunities with the rapid rise of China and India.

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