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## Dimensions of Regional Processes in the Asia-Pacific Region

edited by

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## Introduction

Asia and Pacific's growing importance to the rest of the world is widely acknowledged today. The dynamics of Asian economic development have tremendously impacted global trade relationships and regional cooperation. Thus, it is with great pleasure that we deliver another volume of Research Papers on Asia-Pacific economic issues.

This year we present 19 papers by various authors who examine the Asia-Pacific region from different perspectives. We decided to group them into 3 Chapters:

- Cooperation and trade
- Economy and policy
- Risks & challenges

Papers grouped in the First Chapter describe newly emerging regional trade architecture. You will find there a few analyses of general nature and regional scope (J. Dudziński, A. H. Jankowiak, E. Majchrowska) and some studies on specific trade agreements (A. Klimek writes about Shanghai Free Trade Zone, A. McCaleb and G. Heiduk try to find out what motivates China's cities to establish partner agreements with cities in Asia, B. Michalski analysing U.S.-Republic of Korea Free Trade Agreement, while M. Maciejewski and W. Zysk look for opportunities for Polish exports in the trade agreement between EU and Vietnam).

The Second Chapter is the most diverse one. It is devoted mostly to economic policy issues (including financial sector). S. Bobowski, L. Zyblikiewicz and K. Żukrowska look at the main threads in Asian regionalism. P. Pasierbiak and K. Łopacińska analyse the movements of Chinese capital. M. Dziembała and S. Mazurek deal with the subject of innovation supporting growth and development.

Articles in the Third Chapter are focused on extraordinary events influencing economies and development of the Asia-Pacific region. J. Pera prepared an assessment of risk of APEC countries, based on the country risk classification method and selected indexes of internal stability. A. Kukułka and B. Totleben analyse the impact of natural disasters on gross capital formation in Southeastern Asia. Finally, T. Serwach and M. Grabowski and S. Wyciślak deal with synchronization of business cycles and contagion of crises.

We sincerely hope that all the articles will be of great value to those who want to understand the role of Asia-Pacific economies in the global economy. Through various interests of authors, our volume provides a valuable insight into the problems of this region.

All the papers were submitted for the 8th international scientific conference "Dimensions of Regional Processes in the Asia-Pacific Region" which took place in

November 2015 at Wrocław University of Economics, under the patronage of Polish Ministry of Foreign Affairs, Ministry of Science and Higher Education and the Ministry of Economy.

We appreciate your time and consideration, and we look forward to the submission of your own good work. We also appreciate the time and effort of our peer reviewers. Thank you!

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

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## **SINO-JAPANESE DUO IN THE ASIAN REGIONALISM? FEASIBILITY STUDY OF THE “WIN-WIN” SCENARIO**

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## **DUET CHIŃSKO-JAPOŃSKI W REGIONALIZMIE AZJATYCKIM? STUDIUM WYKONALNOŚCI SCENARIUSZA „WYGRANA-WYGRANA”**

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**Summary:** The article discusses the problem of Sino-Japanese rivalry for regional leadership, addressing the context of recent development in diplomatic, financial, and trade regionalism, with special regard to EAS, AIIB, and RCEP projects. Noteworthy, when studying intra- and extra-regional regionalist initiatives, the author attempts to indicate important aspects of bilateral Beijing-Tokyo relations, that potentially encourage, as well as discourage, the future win-win situation. The main assumption is that Sino-Japanese alliance may significantly leverage individual position of both countries, while boosting Asian regionalism under the co-leadership scheme. The constructive bilateral partnership of the two largest Asian economies would be welcomed by the rest of the world with hope, assuming that this new emerging gravity pole of the global economy is equipped with comprehensive, mature institutional frameworks to encourage and maintain sustainable, economic growth.

**Keywords:** Asian regionalism, East Asia Summit (EAS), Asian Infrastructure Investment Bank (AIIB), Regional Comprehensive Economic Partnership (RCEP).

**Streszczenie:** W artykule poruszono problematykę chińsko-japońskiej rywalizacji o przywództwo regionalne, z uwzględnieniem ostatnich tendencji obserwowanych w sferach regionalizmu dyplomatycznego, finansowego i handlowego, ze wskazaniem na projekty EAS, AIIB oraz RCEP. Co istotne, analizując wewnątrz- i międzyregionalne inicjatywy regionalistyczne, autor podejmuje próbę wskazania na istotne aspekty bilateralnych relacji na linii Pekin-Tokio, tak sprzyjające, jak i zagrażające realizacji korzystnego dla obu stron scenariusza. Podstawowym założeniem jest twierdzenie, iż chińsko-japoński alians może istotnie wzmocnić indywidualną pozycję obydwu państw, przydając impulsu rozwojowego regionalizmowi azjatyckiemu w schemacie współprzywództwa.

**Słowa kluczowe:** regionalizm azjatycki, Szczyt Azji Wschodniej (EAS), Azjatycki Bank Inwestycji Infrastrukturalnych (AIIB), Regionalne Szerokie Partnerstwo Gospodarcze (RCEP).

## 1. Introduction

Japan and China, two largest Asian economies, the third and the second largest economies in the world in terms of nominal GDP, respectively, seem to be bound to each other due to geographical proximity, as well as mutual complementarity and economic interdependencies. Assuming that trade and investment flows constitute „the community of interests” which discourage rivalry or ignorance in the place of dialogue and closer cooperation, Tokyo and Beijing need to overcome historical ballast and animosities, and redefine own-backed hegemonic policy towards Asian region. Otherwise, the speeding-up mega-regionalism, manifested through diplomatic, financial and trade initiatives, including, among others, East Asia Summit (EAS), Asian Infrastructure Investment Bank (AIIB), Regional Comprehensive Economic Partnership (RCEP), because of the heated climate of the bilateral Sino-Japanese relations, might become a victim of its own success.

The author would like to shed some light on the membership and agenda issues, concerning recent diplomatic, financial and trade initiatives, espoused by China, that may (AIIB) or actually do engage Japan (EAS, RCEP). Noteworthy, the United States, the closest Japan’s ally and most important rival of China, entered EAS, while operating within competitive frameworks to AIIB and RCEP, namely, ADB and TPP. Thus, US presence within a given framework engaging Japan encouraged China to provide a counterbalance in the form of competitive initiative, for instance, AIIB to counter the ADB, RCEP to counter the TPP, while extending the scope of membership in case of EAS through Russia’s accession to balance US-Japanese alliance.

The win-win situation in bilateral Sino-Japanese relations, according to the author, feasible only through co-leadership scheme, would assume future merger of RCEP and TPP, as well as Japan’s and the US membership in AIIB designed as complementary to ADB. The East Asia Summit (EAS), recent regionalist diplomatic project, engaging China, as well as Japan and the United States, lacks potential alternative at regional level, therefore, the membership is not an issue, but the agenda is to be addressed.

The most likely and operable scenario in the mid-term, assuming win-win situation in bilateral Beijing-Tokyo relations, is the Japan’s decision to enter China-led AIIB, supposedly followed by the United States. However, the latter could be met only under a US-Sino consensus on the global governance issues, embracing at least Asia-Pacific region, hypothetically induced by the former Sino-Japanese co-leadership scheme in East Asia.

## 2. Japan and China – stuck between the past and the future

According to data, Japan-China trade relationship was the third largest in the world in 2014, exceeding USD 340 billion. While China is the largest Japan’s trade partner, accounting for nearly 20% of total trade, Japan is the second largest trade partner of

China. Furthermore, Japan is the largest investor in China, with FDI stock in 2014 at more than USD 100 billion, then, nearly 30% more than the second largest investor, namely, the United States [Armstrong 2015]. However, statistics is just a part of the image.

As pointed out by Drysdale [2015], mutual economic complementarity of two Northeast Asian countries appears to be much deeper than expected. When considering the diversity of industrial development and technological capabilities, the implementation of green technologies, as well as the new economic growth model would make Japan an attractive geo-economic partner of China.

On the other hand, it appears that bilateral relations are heavily influenced by political tensions, security rivalry, and mutual untrust fuelled by historical resentments, and animosities. A perfect manifestation of high temperature of mutual relations is the situation on the East China Sea, being a component of much broader spectrum of territorial disputes that serve as an excuse to “flex muscles”. Therefore, pretty vital trade and investment ties seem to be of secondary importance for the leaderships of both countries, heavily focused on looking backwards, instead of drawing the prospects for a bright future.

Noteworthy, Japan-China economic ties seem to go much beyond the bilateral basis. As stated by Armstrong, the aforementioned relationship is „embedded in a deeply integrated region where supply chains and thick trade and investment flows with third countries mean that there is another dimension to the interdependence (...) much of Japanese investment in Southeast Asia relies on assembly and, increasingly, value add, in China. Interdependence in the region has been achieved despite the lag in political relations. Past political enmity and unresolved history comes a distant second to the interest of prosperity” [Drysdale 2015].

What is worth mentioning, bilateral economic relations tend to evolve, namely, China cannot anymore serve as the low-cost manufacturing centre, mainly due to the expansion of higher added value goods and services. Thus, Japan, following South Korea’s experience, needs to engage more intensively in China’s technological transformation, however, without the appropriate political atmosphere and confidence in the industrial modernisation program, which assumes upgrading of China’s innovative and technological capabilities, as well as reduction of environmental impacts. It appears that Japan has much to offer in regards of combating air pollution and implementing green technologies. Moreover, together with South Korea, three Northeast Asian countries may co-create a powerful technological and innovative hub, based on mutual complementarity and enormous potential.

For its part, Japan should find a compromise between the strategic security alliance with the United States and the regional co-leadership with China, while China needs to treat Japan as a partner to legitimate its own position as an emerging hegemon and leader. In other words, Japan should not resist China’s leadership ambitions and maintain such a strong dependence on the United States, being aware, however, that China’s strategy cannot be successful if attempting to counter both

Japan and the United States in the regional and mega-regional game. Conversely, Japan should be found as a useful instrument of shaping China's image as constructive designer of international order, both at intra- and extra-regional level, including the perspective of the seriously concerned United States. Then, pragmatism and political realism would be useful on both sides, as well as the look forward instead of dwelling in the past.

Following successful meeting of both countries' leaders in April 2015 in Jakarta, Indonesia, on the sidelines of the Asian-African Conference, as well as the announcement of trilateral Japan-China-South Korea summit, seemed to confirm an important shift in mutual relations.

What might be found as „door-opener” in the midterm, is the Japan's engagement in China-led AIIB, as well as speed-up of RCEP project under Sino-Japanese leadership, whereas in the longterm – constructive cooperation within EAS, AIIB membership of Japan and the US, finally – fusion of TPP and RCEP. However, still much needs to be done.

### **3. East Asia Summit (EAS) – hiding behind the US's back**

The concept of EAS emerged from Japan's prime minister Koizumi's idea of establishing East Asian Community (EAC), a new regional grouping founded on the vision of an open strategic Japan-ASEAN partnership to challenge China's hegemonic ambitions within the region [Bobowski 2014, p. 84]. Noteworthy, Japan's vision tends to extend the scope of EAC membership beyond the frameworks of ASEAN Plus Three<sup>1</sup> to engage Australia, New Zealand, and, perspectively, India. Furthermore, during his visit in Singapore in 2002, Koizumi stressed the importance of the US engagement in the regional security architecture, while pointing out significant economic interdependencies.

Worth mentioning, the so-called Tokyo Declaration was agreed by Japan and ASEAN during the summit taking place in parallel to ASEAN Summit organized for the first time in the history outside Southeast Asia – in Japan, while no invitation was sent to China and Republic of Korea. However, Japan's successful diplomatic offensive has been countered by China's attempts to establish East Asia Summit as the framework engaging ASEAN Plus Three countries, then, narrower formula, in which „Plus Three countries” were expected to obtain the *full member* status instead of a guest.

During China-ASEAN Foreign Ministers Meeting in Qingdao in 2004, all parties agreed on further intensive cooperation to constitute community in East Asia based on ASEAN Plus Three mechanism. At that time, Japan appeared to be ignored, thus,

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<sup>1</sup> ASEAN (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, The Philippines, Singapore, Thailand, Viet Nam) Plus Three (China, Japan, Republic of Korea).

ignored the aforementioned statement in domestic mass media. Barely a month later, during ASEAN Plus Three Foreign Ministers Meeting, the proposal of EAS based on ASEAN Plus Three formula was submitted again, facing the explicit Japan's criticism, regarding the narrower formula of membership, duplicating ASEAN Plus Three, as well as goals and agenda. ASEAN Plus Three Foreign Ministers Meeting taking place in 2006 was attended by Australia, New Zealand and India, which appeared to be Japan's triumph over China's concept of EAS. Meanwhile, however, Machimura's initiative to provide US with the observer status encountered disapproval of Malaysia, hosting the first EAS meeting, as well as some officials in Washington, disappointed with no proposal of full membership.

Consequently, China skillfully used Japan's enlarged formula of EAS membership to engage its own allies in the framework, starting with Russia provided with the observer status at the first EAS meeting. Next to the United States, China suggested to engage the European Union, followed by an official inquiry by Arab League. Paradoxically, Japan's extended formula of EAS membership, due to China's counteroffensive, would become counterproductive and potentially dismantle EAS as a platform of dialogue, alike APEC. Finally, when agreeing to ASEAN's criteria of EAS membership, Japan and China had no influence on the scope of membership anymore.

The problem was that, as many observers stated, both countries tend to concentrate on rivalry, seeking for opportunities to counter each other, instead of pragmatic discussion on the agenda issues. As Cossa, Tay and Lee argued, East Asian regionalism requires a functional approach of the "coalition of will", in place of political disputes [2005, p. 22]. On the other hand, substance discussion cannot take place without selecting the prospective members of the regional framework.

Interestingly, Indonesia, the largest ASEAN economy, unexpectedly supported Japan's concept of extended formula of membership, being afraid of the rising regional position of China. As a result, Australia, New Zealand, as well as India seemed to be welcomed, while rejecting China's initiative to provide Russia with full membership. In consequence of the Hanoi Declaration from 2010, the participants of the fifth EAS meeting officially invited both, Russia and the United States, as formal members, confirming inclusive, open character of the said regional framework.

The sixth EAS meeting in 2011 demonstrated that US will to impose pressure on China and seize the initiative in the region. Barack Obama seemed to call China to order, requesting the discussion on the disputable territories of the South China Sea and respecting of the fundamental principles of the international law.

Subsequent EAS meetings were regularly attended by the US president, with the exception of 2013, when being replaced by Secretary of State, while the Russian president used to be absent, substituted usually by Foreign Minister, once by the Prime Minister (2014).

### *The win-win situation*

Both Japan and China seemed to use ASEAN instrumentally to counter the rival and strengthen own regional position. An intensive diplomatic dispute over the membership issues contributed to the consequent marginalization of substantive discussion on goals and agenda issues. The broader concept of membership submitted by Japan appeared to act as a counterbalance to China's influence and position, however, US and Russia's inclusion induced the confusion of some observers, regarding the possibility of eroding centralist ASEAN position, when sitting by the same table with hegemons. According to the author, US diplomatic offensive against China at the EAS forum favored Japan-led coalition of concerned Asian states, consequently discouraging China's deeper engagement in regional framework going beyond the preferred formula of ASEAN Plus Three, as well as its main ally, namely, Russia, being regularly underrepresented at the summits.

The problem is that EAS is in fact a stripped version of the ASEAN Regional Forum (ARF), established under the auspices of ASEAN to foster the dialogue, preventive diplomacy and promote confidence-building within Asia-Pacific region. Noteworthy, ARF acts as an informal security platform of 27 states, including EAS members plus Bangladesh, Canada, Mongolia, North Korea, Pakistan, Sri Lanka and the European Union. In the context of the above, addressing territorial disputes at the forum of EAS overshadows the efforts to advance the economic and trade arrangements of the member states, risking a „ride along a one-way street”. On the other hand, economic cooperation as an important component of the EAS's agenda would lead to the duplication of APEC, heavily affected by organizational incapacity, partly due to the expanded membership.

Therefore, both Japan and China should take the lesson of EAS to abandon the practice of submitting regionalist projects that potentially dilute and overlap the existing frameworks to counter each other. Moreover, they should resign from using the „US bugbear” in bilateral dialogue to break the ice. Such a game may turn against the aforementioned states, attempting to favor ASEAN as the core of the Asian regionalism, while the latter might risk the erosion of its centralist position, when confronted with the mutually competing Asia-Pacific hegemons.

Summing up, EAS could make sense, if it were to advance its own economic agenda to induce the Japan-China dialogue that may foster regional trade liberalization centred around the ASEAN Community project. As long as the US is offensive and overactive at the EAS summit to counter China, security issues cannot be addressed in a pragmatic manner. So far, EAS seems to follow ARF, as well as APEC scheme, lacking its own-backed formula and vision. According to the author, EAS should evolve under the Sino-Japanese co-leadership to legitimate the project of the East Asian region as an internally cohesive entity and player at both intra- and extra-regional stage. The less non-Asian „snopping” at the EAS, the better.

#### **4. The Asian Infrastructure Investment Bank (AIIB) – let us face it**

The Asian Infrastructure Investment Bank (AIIB) project has been announced by Chinese President Xi Jinping and Prime Minister Li Keqiang in the mid-2013, during the diplomatic offensive in Southeast Asia.

The new China-led regional financial institution appeared to be a counterreaction to slow pace of the reforms and poor quality of governance in traditional western institutions ie International Monetary Fund (IMF), World Bank (WB), and Asian Development Bank (ADB), dominated by the US, European and Japan's interests, while providing far unadequate representation of Beijing's potential and importance<sup>2</sup>, as well as demonstration of China's readiness to bake its own international bank. Officially, Chinese officials find new financial institution as an opportunity to enhance regional interconnectivity and integration, while assuming complementarity to aforementioned financial institutions.

The AIIB was announced as modern knowledge-based institution, focused on development of infrastructure, and productive sectors of Asia, including transportation, energy, telecommunication, rural infrastructure, water supply, sanitation, environmental protection, urban development, logistics etc. Following the Asian Development Bank Institute Report 2010, regional demand on infrastructure may exceed USD 8 trillion, thus, China-led bank with initial registered capital of USD 50 billion, doubled in May 2015, is to be found as a significant contribution to the regional development projects.

From the Japan's perspective, this seemed to be cohesive with the US stance, AIIB is an instrument of China's soft power to challenge both, Japan's and the US's regional influences. According to the declarations of the US and Japanese high representatives, AIIB would not follow the highest international standards of governance, including lending modalities, social and environmental safeguards, therefore, two Asia-Pacific powers expressed no interest in membership. However, China's project attracted 56 regional and non-regional countries, including, among others, ASEAN members, Australia, India, Iran, Qatar, Russia, Saudi Arabia, South Korea, and United Arab Emirates, as well as Brazil, Egypt, France, Germany, Israel, Poland, South Africa, and United Kingdom, thus, a group of close US and Japan's allies. It appeared that Japan, next to Canada, were the only close US allies that were successfully discouraged to enter the AIIB. On the other hand, Japan's stance seemed to be inconsistent and ambiguous. In March 2015, after the statement of Japan's ambassador to China, Masato Kitera, that Tokyo's membership in AIIB is likely, Chief Cabinet Secretary Yoshihide Suga unequivocally denied this fact. Noteworthy, the latter stance has been confirmed by the Japan's Prime Minister Shinzo Abe

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<sup>2</sup> For instance, China accounts for 3,81 percent of votes in IMF, 5,47 percent of votes in ADB, while the U.S. – 16,74 percent and 12,75 percent, respectively, while Japan – 6,23 percent and 12,84 percent, respectively [International Monetary Fund 2015; Asian Development Bank 2015].

stating, that Japan does not need to enter the new regional bank. Meanwhile, South Korea's decision to enter AIIB was officially calmly welcomed in Tokyo, however, experts found this an attempt to gain an advantage over Japan, as well as a source of concern for the Japanese businesses being afraid of being ruled out from the race for the infrastructure projects in developing countries [The Japan Times 2015a; The Wall Street Journal 2015].

In May 2015, following the official acceptance of 57 Prospective Founding Members by AIIB designated bodies, Japan attempted to legitimate its own absence in the new regional framework, while trying to seize the initiative through the announcement of the new five-year aid package of USD 110 billion, then, more than total registered capital of AIIB, dedicated to „high-quality” infrastructure development in Asia [The Japan Times 2015b]. As argued by Japan's prime minister, special emphasis will be put on the innovative infrastructure projects. Worth mentioning, aid package is to be distributed through Asian Development Bank to counter newly established China's institution, as well as Japan's national specialized agencies and organizations [NewsAsia 2015]. Additionally, Japan's government declared support in terms of capacity building, providing training for 8 thousand specialists from the medical sector in ASEAN, and 5 thousand from energy sector across Asia in the five-year period. Both Japan's counterinitiative, as well as concerns expressed officially when addressing AIIB project, were ignored by China's representatives.

### *The win-win situation*

Unlike the bilateral rivalry on the stage of the diplomatic regionalism (EAS), financial regionalism addresses both, the significant costs and the prestige resulting from the delivery of the new institution dealing with development issues and transborder infrastructure projects. China proved to be ready to establish its own bank, while attracting numerous states, including close Japan's allies, to enter. Both Washington and Tokyo's elites appeared to perceive China's initiative as throwing down a challenge to western-baked multilateralism and institutional frameworks. Japan found AIIB as a direct competitor to ADB, while the US – to IMF, however, both representatives of ADB, WB, as well as the United Nations welcomed new China-led bank favorably.

Again, hegemonic ambitions of the two Asian states seemed to clash, however, this time, taking more concrete shape of financial institution equipped with facilities to boost regional development projects, thus, induce economic integration and physical linkages among the states. When compared to EAS, AIIB could have been found a counterattack to diminish and disadvantage the old-style frameworks, starting with the Japan-led ADB.

However, this time newly established financial institution should be perceived in a more pragmatic terms by both Tokyo and Washington, being aware, that multilateral institutions, as well as close western allies that appreciated China's project, treat this

initiative as important test of China's readiness to take charge in the global governance architecture, therefore, Beijing should be much more concerned with the eventual failure and gaps of the own-backed framework, that Japan and the US adversaries.

Therefore, in the interest of both China and Japan is to work together for the success of another probably important component of the global development finance system – AIIB, being the founding members and important contributors. The same path should be followed by the United States, accepting evolving role of rival in the global governance structures. Even though Japan's extra aid package might be found essential and indispensable, it appears to be an unavoidable counterreaction in order to raise the stakes.

Summing up, China should respond constructively to Japan's, as well as the US concerns regarding AIIB governance standards, while Japan should offer its expertise, facilities and political support for another development financing facility through official membership, placing itself among the largest contributors, probably the second largest Asian founder, or exactly alike the Chinese, following Chiang Mai Initiative Multilateralization (CMIM) scheme, to bring back the balance and political legitimacy under Sino-Japanese co-leadership in the name of enhancing the economic integration of the Asian region.

## **5. Regional Comprehensive Economic Partnership (RCEP) – the risky double game**

The Regional Comprehensive Economic Partnership (RCEP), used to be found as China-led project, was actually an ASEAN-backed initiative submitted to the „Plus countries“. However, Beijing's interest in the goods-centric agreement engaging the ASEAN Plus Six grouping<sup>3</sup> seemed to be a counterreaction to the intensive trade talks on the US-led Trans-Pacific Partnership (TPP), engaging, next to US, Canada, Mexico, Chile, Peru, Australia, New Zealand, the four ASEAN members, namely, Brunei Darussalam, Malaysia, Singapore, Viet Nam, and – last but not least – Japan. Thus, Japan is the most powerful state engaged in the two mega-regional trade projects, gaining an advantage both, over China absent at the TPP table, as well as the US, absent at the RCEP table.

Importantly, the RCEP project originated in the Sino-Japanese rivalry over the influence in the regional trade system, centred around institutional core of Asian regionalism namely, ASEAN. China's proposal of the Free Trade Arrangement (FTA) submitted to ASEAN in 2000, perceived as an attempt to seize the initiative after unreleased Japan's project of the Asian Monetary Fund, provoked counterreaction of Tokyo's trade diplomats, announcing the project of more ambitious Comprehensive Economic Partnership (CEP) with ASEAN in 2002. Consequently, both ideas were welcomed in a favorable manner by ASEAN, willing to maintain the balance between two Northeast Asian hegemon.

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<sup>3</sup> ASEAN Plus Three Plus Australia, India and New Zealand.

Next few years passed under the sign of bilateral confrontation in terms of agenda and membership of the future ASEAN Plus trade regime. Namely, at the China's initiative in 2005, the joint studies on East Asia Free Trade Agreement (EAFTA) were launched. First results of the joint studies were discussed at the ASEAN Plus Three Economic Ministers Meeting (APT EMM) in August 2006. In the meantime, however, at the ASEAN Plus Six Economic Ministers Meeting (APS EMM), Japan proposed joint studies on Comprehensive Economic Partnership in East Asia (CEPEA). Working groups operating in parallel, announced results of both EAFTA and CEPEA in 2009, however, at the APT EMM and APS EMM, respectively. Again, Japan's intention was to broaden the scope of membership alike in case of EAS, to balance China's position, on the other hand, to disadvantage the rival through a more advanced and comprehensive agenda, addressing, among others, the investment regime and intellectual property that favour Japan's standards. Obviously, less ambitious, goods-centric EAFTA preferred the China's large domestic market, while excluding the important Japan's ally, namely, Australia, as well as India, able to balance, at least to some extent, China's position within the new regional trade framework.

Finally, Japan and China submitted a joint proposal on East Asian economic cooperation to ASEAN, suggesting the creation of three working groups working on EAFTA, and CEPEA, covering the trade in goods, trade in services, and investment. In November 2011, two days before the EAS meeting, at the ASEAN Summit RCEP project was announced, to be centred around ASEAN, then, to embrace "ASEAN Plus" countries. A year later, formal negotiations with the six "Plus Countries" started. Following declarations, RCEP was expected to go beyond ASEAN Plus FTA framework, namely, to open up more trade in goods and services, eliminate trade barriers, gradually liberalise services and attract more foreign direct investment to ASEAN, however, appeared to impose a relatively low discipline in terms of the non-tariff barriers to trade, responsible for the spaghetti bowl effect in the region [Sally 2014].

What is worth mentioning, Japan declared its will to enter the TPP talks just few months after announcing the RCEP project with China. Thus, establishing competitive regional trade framework of sixteen states that exclude the US was probably Japan's source of pressure on the US to get the TPP prospective membership. On the other hand, intensifying the TPP talks encouraged China to foster RCEP as a counterbalance to the US-led project embracing Asia-Pacific region. Both trade projects are currently under negotiations.

### ***Win-win situation***

The aforementioned two mega-regional trade projects appear to manifest the US-Sino rivalry, assuming establishing of competitive frameworks that exclude the rival, however, Japan, being present in both, may act as a bridge that will encourage future

fusion of the RCEP and TPP. More probable scenario is China's accession to TPP, 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, labor, intellectual property rights, and government procurement, not the US accession to RCEP. Such a competitive liberalization and escalation of rule-making discouraged China so far, however, as it has been already proved, Northeast Asian emerging hegemon is much more self-confident and offensive than ever, able, for instance, to extend the RCEP's agenda and the scope of membership that seemed to be disadvantageous.

The Sino-Japanese co-leadership in the Asian trade regionalism announced in 2011, when submitting joint proposal to ASEAN, unquestionably distressed the US hegemon, thus, such an Asian duo may benefit both Northeast Asian players at the expense of Washington's influences within the Asia-Pacific region. Alternative for Sino-Japanese consensus might be US-Sino consensus which might potentially rule Japan out of the game.

Summing up, the best option is China's "socialization" by Japan to encourage the TPP accession under a co-leadership scheme that may provide counterbalance to US influence. The potential costs for China seem to be enormous, however, bearable for rising the regional hegemon that already established its own development bank, negotiate the bilateral investment treaty with US, FTA with Australia, while conducting the sectoral dialogue with ASEAN. Therefore, China may gain additional prestige and legitimacy as a responsible and credible participant of the global governance system. Moreover, Sino-Japanese co-leadership may encourage another six ASEAN members to enter TPP, that would, consequently, lead to already mentioned fusion with RCEP, while neutralizing the hypothetical risk of internal decomposition of ASEAN, due to contradictory interest of the pro-TPP and pro-RCEP ASEAN members. In this context, the presence of the two largest world economies within a single trade framework does not have to marginalize the third one, namely, Japan, acting as a significant balancing factor within the triangular scheme.

Thus, Asian trade regionalism may benefit significantly from the Sino-Japanese co-leadership, successfully confronting the US interests, while securing ASEAN's centralist position.

## 6. Conclusions

Japan and China both have an enormous potential to be consumed. The Asian regionalism under Sino-Japanese co-leadership may significantly expand around the ASEAN's core, being provided with a solid intra- and extra-regional legitimacy. The constructive bilateral partnership of the two largest Asian economies would be welcomed by the rest of the world with hope, assuming that this new emerging

gravity pole of the global economy is equipped with comprehensive, mature institutional frameworks to encourage and maintain sustainable economic growth.

While RCEP should extend its agenda to dismantle the spaghetti bowl effect, mainly due to a successful Japan-China-Republic of Korea trilateral FTA talks and prospective fusion with TPP to make the Asia-Pacific trade architecture cohesive, EAS should contribute to the advancement of macroeconomic coordination of regional states to manage development challenges and pave the way toward effective consumption of the infrastructure funds offered by AIIB, finally joined by Japan.

According to the author, just as ASEAN needs vital and strong Northeast Asian partners in regionalism, so does China need vital and strong Japan and vice versa.

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