

**FTAs in East Asia: A Comparative Study of  
Two ASEAN Centered FTAs**

by

**CONGO Helder João Teixeira**

A thesis submitted for the degree of Master of Science  
Ritsumeikan Asia Pacific University

May 2010

# Contents

Certification	iv
Acknowledgements	v
Abstract	vi
Tables	vii
Abbreviations	viii
 <b>Chapter 1: Introduction</b>	 <b>1</b>
1.1. Research Objectives and Significance	6
1.2. Research Limitations	6
 <b>Chapter 2: Literature Review</b>	 <b>8</b>
2.1. FTAs in East Asia	8
I. International Politics Centered Analysis	8
II. Domestic Politics Centered Analysis	12
III. Ideational Centered Analysis	16
2.2. Assessment of Previous Studies	19
2.3. Research Question	20
2.4. Research Hypothesis	20
2.5 Research Methodology	21
 <b>Chapter 3: China-ASEAN Free Trade Agreement</b>	 <b>22</b>
1. Introduction	22
2. China-ASEAN Relations	23
3. China-ASEAN Free Trade Agreement	30
I. China-ASEAN FTA Background	30
II. China's Approach in the FTA Negotiation	32
III. Developments on the China-ASEAN FTA	35
4. Motivations behind the China Initiated China-ASEAN FTA	38
4.1. International Politics Centered Analysis	38
I. Maintain a Stable Backyard	38
II. Market Diversification	40
4.2. Regional Politics Centered Analysis	43
I. China-Japan Rivalry for Influence in Southeast Asia	43
II. Secure Sealandes	47
4.3. Domestic Politics Centered Analysis	49
I. Reduce the Uneven Development within China	49
II. The Taiwan Strait Question	52
5. Conclusion	54

<b>Chapter 4: Japan-ASEAN Free Trade Agreement</b>	<b>56</b>
1. Introduction	56
2. Japan-ASEAN Relations	57
3. Japan-ASEAN Free Trade Agreement	63
I. Japan-ASEAN FTA Background	63
II. Japan's Approach in the FTA Negotiation	66
III. Developments on the Japan-ASEAN FTA	68
4. Motivations behind the Japan Initiated Japan-ASEAN FTA	70
4.1. International Politics Centered Analysis	70
I. Strengthen Japan's Foothold in East Asia	70
II. Trade Facilitation for Japanese Multinational Corporations	72
4.2. Regional Politics Centered Analysis	76
I. Japan-China Rivalry for Influence in Southeast Asia	76
II. Secure Sealandes	80
4.3. Domestic Politics Centered Analysis	83
I. Stimulus for Domestic Growth and Structural Reforms	83
5. Conclusion	86
 <b>Chapter 5: Conclusion</b>	 <b>88</b>
1. Summary and Conclusion	88
 <b>References:</b>	 <b>93</b>

## ***Certification***

I certify that this Master's thesis contains ideas from different authors, which are properly cited in the reference section. The main arguments and ideas not cited are those of the author himself.

## **Acknowledgements**

I am deeply indebted to Professor Hidetaka Yoshimatsu, for his continuous encouragement and guidance throughout the whole process from research, to writing and to the conclusion of this dissertation. Professor Yoshimatsu, as my advisor, was always there to provide insights on my work on this dissertation and get me back on tracks whenever I veered off course. Thank you Professor Yoshimatsu for letting me tap into your vast knowledge on the field of International Relations, acquired over the course of many years of research. That, without any doubt, made this dissertation possible.

I would also like to express my deepest gratitude to Professor Susumu Yamagami, Vice President of the APU, Professor Malcolm J. M. Cooper, Vice President of the APU, Professor Yoichiro Sato, Professor Francisco P. Fellizar and Professor Mani A. for the valuable assistance and time they made available to me during my studies at the University.

My special thanks to my beloved wife Yuko and daughter Reina, for their support and understanding throughout my work on this dissertation. This work is dedicated to you for the sacrifices you made.

Last but not least, I would like to extend my gratitude to the staff of the Academic Office and the Student Support Center for their assistance and for making me feel at home while at the APU.

## **Abstract**

Unlike in other parts of the world, East Asian countries were strongly attached to the non-discriminatory multilateral trade liberalization under the WTO/GATT framework and did not jump into the Regional Trade Agreements (RTAs) bandwagon until the late 1990s. In fact, China and Japan along with South Korea, Hong Kong and Taiwan were the world's only major economies that had yet to conclude an FTA. However, in the aftermath of the 1997-98 Asian Financial Crisis there was a shift in East Asian countries' stance regarding RTAs and thus, the post financial crisis period saw the number of intra as well as extra regional RTAs in East Asia expanding rapidly.

Against this backdrop, this dissertation aims to analyze regionalism in East Asia with focus on two case-studies: the China-ASEAN FTA and the Japan-ASEAN FTA. To this end, this dissertation is divided into three parts: the first part, Chapters 1 and 2 will look at the causes behind the flurry of RTAs which are being formed around the world since the early the 1990s as well as provide a definition of RTAs. It will also make a review of current literature on the subject of regionalism as well as explore the factors that have influenced East Asian economies to begin pursuing RTAs. The second part, Chapters 3 and 4 will, will analyze the process and the main international, regional and domestic factors behind the formation of the China-ASEAN FTA and the Japan-ASEAN FTA. Finally, the third part, Chapter 5 will present the findings of this study.

## **Tables and Figures**

1.1	Intra and Extra-regional FTAs involving East Asian countries	5
2.1	China-ASEAN Cooperation and Dialogue Mechanisms	27
2.2	China's FDI in ASEAN Member States 2000-2008	42
2.3	Chinese ODA and Loans to ASEAN 2002-2007	45
2.4	Japan-ASEAN Cooperation and Dialogue Mechanisms	59
2.5	Japan's FDI in ASEAN Member States 2000-2008	73
2.6	Japanese ODA and Loans to ASEAN 2000-2007	78

# Abbreviations

ADB	Asian Development Bank
AMF	Asian Monetary Fund
APT	ASEAN Plus Three
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
CLMV	Cambodia, Laos, Myanmar and Vietnam
CLV	Cambodia, Laos and Vietnam
EHP	Early Harvest Program
FDI	Foreign direct investment
FTA	Free Trade Agreement
GMS	Greater Mekong Subregion
GTAP	Global Trade Analysis Project
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
LDP	Liberal Democratic Party, Japan
MFA	Ministry of Foreign Affairs, China
MAFF	Ministry of Agriculture, Forestry and Fisheries, Japan
METI	Ministry of Economy, Trade and Industry, Japan
MITI	Ministry of International Trade and Industry, Japan
MOA	Ministry of Agriculture, China
MOFA	Ministry of Foreign Affairs, Japan
MOFCOM	Ministry of Commerce, China
ODA	Official Development Assistance
ROO	Rules of Origin
RTA	Regional Trade Agreement
TAC	Treaty of Amity and Cooperation
WTO	World Trade Organization



# Chapter - 1

## 1. Introduction

The last few decades have witnessed an amazing increase of integration in the global economy through trade. The recent proliferation of Regional Trade Agreements (RTAs)<sup>1</sup> marks a sharp contrast compared to other periods in the postwar history. Furthermore, the RTAs schemes implemented before the 1990s were not as numerous and as successful as those being implemented in the recent years (Frankel et al. 1997: p.4; Leenabanchong 2006: p.1-2). The number as well as the scope of RTAs has been observing a continuous increase since the early 1990s. In 1990, 77 RTAs were notified to the World Trade Organization (WTO) Secretariat, in 2003 the number rose to 184 and by December 2008 it reached 421 RTAs, of which more than 90% corresponded to Free Trade Agreements (FTAs) and Partial Scope Agreements (PSAs) and 10% accounted for Customs Unions (WTO)<sup>2</sup>.

RTAs can be broadly divided into two categories. The first category consists of RTAs that have a rather weak (shallow) objective in pursuing regional integration. These RTAs put a strong emphasis in pursuing either Preferential Trading Agreements (PTAs) - which grant participating countries a privileged access to certain products through the reduction of tariffs (e.g. the European Union) - or Free Trade Agreements (FTAs) – where partners agree to remove nearly all the tariffs, quotas and preferences

---

<sup>1</sup> RTAs are economic trade agreements aimed at reducing tariffs and restrictions on trade between two or more nations within a certain region. RTAs come in the form of Free Trade Areas and Customs Unions.

<sup>2</sup> WTO website [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm), accessed March 2, 2009.

between them, but not necessarily vis-à-vis parties not related to the agreement (e.g. NAFTA). The second category consists of RTAs whose main purpose is to achieve a strong (deep) regional integration either through a Customs Unions (CU) – where participating countries pursue a common external trade policy through the adoption of Common External Tariffs (CETs) on imports (e.g. MERCOSUR) – or with a Common or Internal Market<sup>3</sup> – the adoption of common policies on product regulation which in turn enables the free flow of labor, services, capital and enterprise among participating countries (Casanova 2002: p.3-4; Dent 2002: p.81-82; Cooper 2006: p.2).

The present growing interest of countries in pursuing RTAs was brought about by developments in four fundamentally independent spheres. The first one was witnessed with the advent of European integration pushed forward by the European Community (EC). In light of its successful development and ongoing expansion the EC successor, the European Union (EU), has become what Chu (2002: p.35) called a “model and mentor” for many RTAs initiatives taking shape in other parts of the world. The second development was characterized by a change in the United States policy towards RTAs. The United States which initially was a staunch opponent of RTAs (bilateral trade agreements), supporting instead multilateral liberalization through the General Agreement on Tariffs and Trade (GATT)<sup>4</sup> changed its stance in the mid-1980s - signing an FTA with Israel - and has since become a strong proponent of RTAs (Frankel et al. 1997: p.4-7).

Since then, the United States has become supportive of any initiative (whether unilateral, bilateral or multilateral) that is implemented in order to eliminate trade

---

<sup>3</sup> PTAs, FTAs, Customs Union and Common Market are essentially the first, second, third and fourth stages of economic integration which culminates with an Economic and Monetary Union (EMU).

<sup>4</sup> The GATT is an agreement that set the rules for world trade from 1948 to 1994. GATT was replaced by the WTO as an international organization. GATT now remains as the WTO's umbrella treaty for trade in goods.

barriers. Notwithstanding the successful conclusion of the Uruguay Round<sup>5</sup> and the subsequent establishment of the WTO, “free trade is, by definition, fair trade” has remained the United States trade policy (Ostry 1997: p.97-103). The third development was the Canada initiated FTA with the United States (CUSFTA) which was concluded in 1988. The fourth development was the changing attitudes toward trade in the developing world. In 1990, Mexico followed the Canadian footsteps in pursuing an FTA with the United States. This in turn led to the creation of the North American Free Trade Agreement (NAFTA) which was ratified in 1993 (Milner 2000: p.28-29; Harris 2002: p.121-122; Liu 2002: p.18; Pablo-Baviera 2007: p.231).

The early 1990s saw a proliferation of RTAs spread like a bush fire in many parts of the world (Zhang 2005: p.69). In South America, Heads of State and Government of Argentina, Brazil, Paraguay and Uruguay aiming at promoting free trade amongst them created the Southern Common Market (MERCOSUR)<sup>6</sup> in 1991 and with the ratification of the Ouro Preto Treaty in 1994 they ushered in a new phase of integration by establishing a Customs Union; a Free Trade Area (FTA) entered into force in 1993 among members of the Andean Pact (now Andean Community)<sup>7</sup> and two years later they adopted a Common External Tariff; likewise, in Southern Africa, the Southern African Development Community (SADC) was established in 1992 with the task with “integrating the economies of member states”<sup>8</sup>; in the same context, seven French speaking countries in West Africa who also share a common currency (the CFA Franc)

---

<sup>5</sup> The Uruguay Round, launched in September 1986 in Uruguay, was a ministerial trade negotiation which covered virtually every trade policy issue. The talks ended with participants representing 123 countries signing agreements in April 1994, in Marrakesh, Morocco.

<sup>6</sup> MERCOSUR Secretariat, <http://www.mercosur.int/show?contentid=661&channel=secretaria> (accessed on March 30, 2009).

<sup>7</sup> Andean Community Secretariat, <http://www.comunidadandina.org/ingles/quienes/events.htm> (accessed on March 30, 2009).

<sup>8</sup> SADC Secretariat, <http://www.sadc.int/index/browse/page/53> (accessed on March 30, 2009).

joined hands to launch the West African Economic and Monetary Union (UEMOA)<sup>9</sup> in 1994 as a platform to promote integration among them.

Unlike the economies in Western Europe, North America as well as in other parts of the world, East Asian<sup>10</sup> economies pursued trade liberalization exclusively under the WTO multilateral framework until the late 1990s. The People's Republic of China (henceforth China), Japan, Hong Kong, Taiwan and the Republic of Korea (henceforth Korea) were the world's only major economies that had opted out of jumping into the global FTA bandwagon and thus had yet to conclude any regional trade agreements (RTAs) which included FTAs. The Association of Southeast Asian Nations (ASEAN)<sup>11</sup> was the only exception in the region. ASEAN member countries signed the ASEAN Free Trade Area (AFTA) agreement in January 1992, with the goal of creating a free trade area among member countries by 2003. In fact, AFTA was the only major FTA involving East Asian countries until the ratification of the Japan-Singapore FTA in 2002 (Park et al. 2005: p. 4-5; Harvie and Lee 2002: p.1-3, Urata 2008: p.16).

However, in the late 1990s East Asian economies that were once staunch supporters of the WTO multilateral trading system, realizing the cost of non-participating in free trade pacts, shifted their trade policies and actively started engaging in bilateral and plurilateral FTA agreements with partners in the region as well as with partners from around the world (Kawai and Urata 2004). As Zhai (2006: p.2) observed, this wave of FTA agreements was "led by South Korea which began its discussion of FTA with Japan in 1998 and signed the bilateral FTA with Chile in 2002".

---

<sup>9</sup> UEMOA Secretariat, <http://www.uemoa.int/uemoa/historique.htm> (accessed on March 30, 2009).

<sup>10</sup> For the purposes of this study, East Asia is limited to the People's Republic of China, Japan, the Republic of Korea, Taiwan, Hong Kong-China and the 10 ASEAN member countries.

<sup>11</sup> The Association of Southeast Asian Nations (ASEAN) was established in August 8, 1967 in Bangkok, Thailand with the objective of promoting security, economic growth and socio-cultural cooperation in the Southeast Asian region. Its current members are Singapore, Malaysia, Thailand, Indonesia, the Philippines, Vietnam, Brunei, Laos, Cambodia and Myanmar.

In East Asia, according to the Asian Development Bank (ADB), by January 2009 there were 78 FTAs in force, 43 under negotiation, 27 signed which have yet to enter into force in addition to 46 which have been proposed but formal negotiations have yet to start (Table 1.1).

Table 1.1: Intra and Extra-regional FTAs involving East Asian countries

<b>Under Study</b>	<b>Under Negotiations (year)</b>	<b>In Force (year)</b>
Indonesia-India	Hong Kong-New Zealand (2000)	AFTA (1992)
China-Korea	Singapore-Canada (2002)	Japan-Singapore (2002)
ASEAN-EU	Korea-Japan <sup>12</sup> (2003)	Singapore-EFTA (2003)
China-Korea-Japan	China-GCC (2004)	Thailand-India (2004)
Japan-Australia	Korea-Canada (2005)	Korea-Chile (2004)
ASEAN-US	China-Australia (2005)	Taiwan-Panama (2004)
Korea-MERCOSUR	Malaysia-Australia (2005)	China-Macao, China (2004)
Philippines-Pakistan	Singapore-Kuwait (2005)	Thailand-Australia (2005)
Taiwan-US	Japan-Australia (2006)	Japan-Mexico (2005)
Korea-South Africa	Japan-GCC (2006)	China-ASEAN (2005)
Singapore-Ukraine	Korea-Mexico (2006)	Korea-EFTA (2006)
Japan-Canada	Korea-India (2006)	Taiwan-Guatemala (2006)
Thailand-MERCOSUR	Malaysia-USA (2006)	Singapore-Panama (2006)
Singapore-Morocco	Korea-EU (2007)	China-Pakistan (2007)
Thailand-Chile	Singapore-Ukraine (2007)	Japan-Chile (2007)

<sup>12</sup> The idea of a Japan-Korea FTA was conceived in 1998 and negotiations started in December 2003. However, talks have stalled since November 2004 owing concerns regarding trade deficit as well as historical issues and territorial disputes between the two sides.

Taiwan-Singapore	ASEAN-EU (2007)	Korea-ASEAN (2007)
Philippines-US	Japan-India(2007)	China-New Zealand (2008)
Korea-Russia	Korea- GCC(2006)	Malaysia-Pakistan (2008)
China-India	Singapore-Costa Rica (2009)	Japan-ASEAN (2008)
Indonesia-Australia	Japan-Peru (2009)	China-Singapore (2009)

Source: Compiled by the author from the WTO and the ADB FTA database (Data as March 27, 2009).

## 1.1. Research Significance and Objectives

Post Cold War East Asia has emerged as a new strategic and economic center which along with North America and Western Europe plays an important role in the world economy (Urata 2002: p.1). In light of the new regionalism taking shape in East Asia, various studies related to regionalism in the region have been conducted. In this vein, in order to contribute a new insight to the body of academic knowledge regarding regionalism in East Asia, this dissertation will attempt to make a comparative analysis of the domestic, regional and international factors that have influenced China and Japan to launch their respective FTAs with the Association of Southeast Asian Nations (ASEAN). Differences among these two FTA proposals will also be analyzed.

## 1.2. Research Limitations

This study will be limited in three ways. First, it will be entirely based on secondary resources as the author will not be able to conduct field research and interviews due to financial as well as time constraints. Second, the author's limited knowledge of the Japanese language and lack of knowledge of the Chinese language will inhibit the author's direct access to official documents and/or other sources of data

only available in these two languages and third, this study will not endeavour to explain the causes and motivations of all regionalism taking shape in East Asia, nor ASEAN motivations on the FTA with China and Japan, but rather, focus solely on the motivations behind the decision made by China and Japan to establish their respective FTAs with ASEAN.

To accomplish its aforementioned objectives, this dissertation will be organized as follows: in order to draw an analytical framework for this study the following chapter (Chapter 2), will present a summary and a review of current literature and empirical findings on regionalism in East Asia. Chapter 2 will be followed by two empirical chapters, Chapters 3 and 4, where the international, regional and domestic factors behind the China-ASEAN FTA and the Japan-ASEAN FTA behind the Chinese and the Japanese FTAs initiatives toward ASEAN member countries will be examined. Chapter 5, the concluding chapter, will provide a summary of the main arguments of this study and address the questions raised in the introduction.

## **Chapter - 2**

### **2. Literature Review**

Compared to other regions, East Asia is a latecomer in joining the FTAs bandwagon. Nevertheless the region has seen an unprecedented increase in its FTA activity since the late 1990s. Given that many governments in the region have embarked on bilateral as well as plurilateral trade arrangements a growing strand of empirical literature has been developed on the prospective FTAs taking shape in the region.

#### **2.1. FTAs in East Asia**

Three lines of analysis have been used to explain the dynamics of the recent flurry of FTAs initiatives in East Asia, namely, the international politics centered analysis, the domestic politics centered analysis and the ideational centered analysis. A summary and an analysis of previous studies regarding FTAs in East Asia will be provided in this section.

##### **I. International Politics Centered Analysis**

The key assumptions of realism are that “states are the key units of actions, they seek power, either as an end in itself or as a means to other ends and they behave in



ways that are, by and large, rational, and therefore comprehensible to outsiders in rational terms” (Keohane (1986: p. 7). Hence, Collard-Wexler (2006: p. 399) pointed out that because every state seeks power and “because of the absence of any world government or universal arbiter”, the international system is anarchical and conflictual. Against this backdrop, Christiansen (2006: p. 587) observed that early attempts of integration in Europe were developed in the context of the Cold War as a response to a perceived Soviet threat. Mastel (2004: p.45-48) observed that FTAs went from “being a little-used economic device” into being one of the most important instruments of the United States foreign policy. For instance, since Chile did not support the US led invasion of Iraq, the US refused for a while to submit the US-Chile FTA to Congress for approval. Furthermore, the reason why the US is not seriously contemplating an FTA with New Zealand is, to some extent, a way to punish the country for not allowing entry into its waters of United States nuclear armed or powered ships.

In the same vein, using a realistic approach to explain the reasons behind the plethora of FTAs taking shape in East Asia, some scholars have argued that this regionalism trend was formed as a response to external factors and/or circumstances (Snidal 1991: p.722; Collard-Wexler 2006: p.401). While some of these factors explain the specific motives that have influenced individual East Asian economies to jump into the FTAs bandwagon, five factors, which will be addressed here do explain the common motivating factors to many economies in the region (Urata 2005: p.3-4).

First, is the end of the Cold War, which broke down the ideological divisions that existed in Northeast and Southeast Asia. The end of the Cold War made it possible for Vietnam, Laos, Cambodia and Myanmar to join the ASEAN and similarly, it also enabled China, Japan and South Korea to find new avenues for bilateral and trilateral cooperation with each other. Second, is a “domino effect” resulting from the

proliferation of FTAs taking shape in other parts of the world, particularly in Western Europe with the launch of the euro area<sup>13</sup> and the subsequent enlargement of the European Union (EU). In the same vein, the establishment of the North American Free Trade Agreement (NAFTA) and its possible expansion into a Free Trade Area of the Americas (FTAA)<sup>14</sup> in addition to the prospect of a transatlantic FTA, also played a role in influencing East Asian economies in turning to FTAs (Eng 2003: p.58).

Third, is the Asian financial crisis that erupted in July 1997 and lasted until July 1998; countries hardly hit by the crisis were displeased by the way the US<sup>15</sup> and the US-led International Monetary Fund (IMF) responded to the crisis, and thus East Asian countries “no longer want to be in thrall to Washington or the West when trouble hits in the future” (Bergsten 2000: p.19-22, see also Stubbs 2002: p.448). The financial crisis was a turning point that gave East Asian countries a strong impetus to search for a regional mechanism such as political and economic arrangements (e.g. FTAs) to avoid future crises. Fourth, is the slow progress of multilateral trade liberalization talks under the WTO (Doha Development Rounds). Fifth, is a combination of factors such as rivalry among East Asian countries, most notably between China and Japan over leadership in the region, and “defensive or reactive FTAs” as East Asian countries found themselves in disadvantage in other markets (Capie 2003: p.154-156; Kawai 2005: p.306-308; Park et al 2005: p.7-9; Aggarwal and Koo 2005: p.168-169; Leenabanchong 2006: p. 2-3; Urata 2008: p.18; Kawai and Wignaraja 2008: p. 5-6).

---

<sup>13</sup> The Euro area refers to the Economic and Monetary Union that was launched in January 1, 1999 when 11 countries adopted the Euro as their currency. Its current membership stands at 16 with Cyprus, Malta and Slovakia as its newest members.

<sup>14</sup> FTAA is a United States proposed trade agreement intended to cover the entire American Hemisphere with the exception of Cuba.

<sup>15</sup> The United States readiness to help Mexico, Brazil and Russia during their respective financial crisis contrasted to its response during the crisis in Asia, contributing to feelings of bitterness on the part of Asian countries hit by the crisis.

In assessing South Korea and Japan's initial FTA moves, Schott and Goodrich (2004: p.11) characterized them as “me, too” regionalism since neither country wanted to be left behind in the growing regionalism taking shape throughout the world. The events that followed the Korea-Japan FTA negotiations can be explained, by a “new domino theory” that is based on the dynamics of international politics. The China initiated FTA scheme with ASEAN worried Japan and in response Japan also launched its own FTA with ASEAN as a “reactive stratagem”. By the same token, the China-Japan competition towards concluding an FTA with ASEAN compelled South Korea to join this FTA contest. This race (between Northeast Asian countries) towards the formation of FTAs can be understood as a race for becoming a hub in the region, given that being a hub rather than a spoke in FTAs is more advantageous. Meanwhile, ASEAN, through a series of ASEAN+1 FTAs, seeks to be an FTA hub in East Asia (Scollay 2003: p. 5-6; Zhai 2005: p. 5-6; Baldwin 2007: p. 51-52 and Leenabanchong 2006: p. 21).

In the same vein, focussing on the China-Japan historical rivalry Beeson (2003: p.14) observed that, as “they attempt to realise their respective regional leadership ambitions” evidently, “competition rather than cooperation between Japan and China” is the key factor behind their respective initiatives to strengthen their respective relations with Southeast Asian countries through FTAs. By the same token, regarding South Korea and Singapore, Solis and Katada (2008: p. 26) observed that their interest in FTAs arouse from their respective goals of “acquiring greater visibility in the politics of international trade as they establish themselves as trade hubs” through FTAs.

Regarding ASEAN, Cheong (2004: p. 5-6) and Urata (2005a) pointed out that “ASEAN has been very active in promoting FTAs” with the aim of strengthening its integration as well as maintaining its competitiveness and bargaining power vis-à-vis

the rise of China. However, “individual effort” (e.g. bilateral FTAs schemes pursued by Singapore and Thailand) rather than “collective action” is more evident within ASEAN. Similarly, concerning ASEAN, Yung et. al. (2005: p. 11) observed that ASEAN’s interest in pursuing FTAs with non-East Asian countries such as Australia and New Zealand, represents the group’s attempt to strengthen its bargaining power “in an integrated East Asia, which is likely to be dominated by China and Japan.”

Freedman (2006: p.18) observed that FTAs have little to do with economics and much more to do with politics. In the same line of thought, regarding the proliferation of FTAs in East Asia, Soesastro (2003: p. 2) explained that they are “essentially politically driven”. Many studies have pointed out that, for instance, Japan, China and the United States were first and foremost motivated to engage in bilateral FTAs negotiations with the ASEAN group as well as with the newly industrialized economies (NIEs)<sup>16</sup> in order to protect and strengthen their respective political and strategic interests in the region (Park et al. 2005: p.50; Solis and Katada 2008: p. 26; Urata 2005b: p. 6).

## **II. Domestic Politics Centered Analysis**

Placing a strong emphasis on the influence of societal demand for trade policy, previous studies based on the domestic-centered approach analyzed the adoption of particular trade policies focusing on the sources (political actors, political institutions and interest groups), substance and organization of such demands. Drawing on the interest group approach, Mansfield and Busch (1999: p.364-365) pointed out that

---

<sup>16</sup> Term used to refer the highly industrialized economies of Hong Kong, Korea, Singapore and Taiwan also known as the Four Asian Tigers.

interest groups tend to form alliances with politicians and bureaucrats in order to prevent the loss of domestic markets to imports. In the same vein, Milner (2000: p.21-25) and Grossman and Helpman (2002: p.1-8) explained that, since remaining in office is one of the main goal of political actors, decision-makers take into consideration the preferences of special social interest groups which they depend on for support (e.g. campaign contributions, votes, etc.).

In this context, regarding Japan, Solis (2008b: p. 1-2) pointed out that Japan's "fragmented decision making process"<sup>17</sup> enables interest groups, particularly those representing the business and the agricultural lobby, to wield influence over the direction of Japan's trade policy. Solis (2008a: p. 19-21) and Mulgan (2005: p. 261-268) observed that given its ability to mobilize votes in favor of Liberal Democratic Party (LDP) politicians, the agricultural lobby has long been "a potent force in Japanese agricultural trade politics." *Zenchu* (Japan's Central Union of Agricultural Cooperatives) has been able to influence Japan's FTA initiatives to the point that current FTAs signed by Japan (e.g. with Singapore) exclude the agricultural sector. Similarly, regarding the influence of domestic groups on trade policy in Korea, Kim (2007: p. 121) explained that taking into account that its agricultural sector (under the umbrella of the Korean National Agricultural Cooperative Federation) is one of the most vocal and active interest groups opposed to domestic market opening, South Korea initially chose as FTA partners countries with less demands for agricultural market opening, such as Japan, Singapore and Chile.

In analyzing the influence of *Nippon Keidanren* (Japan Business Federation) on Japan's FTA negotiations, Yoshimatsu (2005, p.263-271) observed that in order to

---

<sup>17</sup> Also known as "patterned pluralism" or "compartmentalized pluralism", a process where each issue is decided by interest groups, bureaucracy and specialized politicians.

press its views on the merits of FTAs, *Nippon Keidanren* resorted to several strategies including information dissemination, lobbying of politicians and bureaucrats, participation in government initiated study groups and so forth. Consequently, *Nippon Keidanren* played a major role in the successful conclusion of the Japan-Singapore EPA and was the “driving force” behind the Japan-Mexico FTA. Concerning the United States-Israel FTA, Freedman (2006: p. 40-41) points out that there were no “compelling economic reasons” for the United States to pursue its first ever FTA with Israel, rather than with any other country. Given that the United States-Israel relations were going through a rocky period in the early 1980s, the United States initiated the FTA with Israel not only to “appease ruffled Israeli sentiments” but also to provide “some domestic offset for the pro-Israel lobby” within the United States.

Regarding diverging interests among societal groups, Yoshimatsu (2002: p.383) observed that “trade policy is a function of interests and capabilities of societal interest groups that compete with each other for higher benefits or incomes”. In this rationale, deLisle (2007) explained that despite opposition from labor groups, NGOs and politicians “critical of China’s human rights”, the United States supported China’s entry into the World Trade Organization (WTO) as well as granted China permanent normal trading relations (PNTR) given that these interest groups and their allies were not able to “overcome formidable business interests and proponents of liberal trade and improved Sino-American relations that pushed in the opposite direction.”

Concerning interest groups in China, deLisle (2007), pointed out that, support for trade liberalization comes from the “winners”, that is, central and southern coastal provinces, internationally competitive sectors, ministries associated with those sectors and with foreign trade and investment, and elite leaders. On the other hand, pressures against liberalization come from the “losers”, that is, inland and northeastern provinces,

unreconstructed state enterprises, inefficient industrial sectors, ministries associated with them, and an increasingly restive laid-off or poorly paid collection of factory workers and land dispossessed farmers.

Attempting to identify the systematic characteristics of the domestic policy making system that translates political inputs into policy, some studies focused on the role of political institutions on the trade policy making process given that these institutions clearly influence which groups policymakers choose to privilege (Mansfield and Busch 1995). In this vein, Mulgan (2007: p.15-18) explained that the strong policies of *Nippon Keidanren* and *Zenchu* as well as the weak bureaucratic coordination in Japan, gives clout to interest groups and generates a cumbersome negotiation strategy as the conflicting interests of business and agriculture must be addressed (See also Ahearn 2005: p.9-10).

Solis and Katada (2008: p. 8) observed that FTAs negotiations tend to become a match venue for competing bureaucracies seeking to assert control over the foreign economic policy with the aim of “either to push for a specific policy orientation, or to gain bureaucratic turf and protect” special interest groups. In this context, Miyashita and Sato (2001: p.14-15) explained that the role of domestic actors in formulating Japan’s foreign policy varies according to the issue at hand. When trade is being negotiated, the “iron triangle” of the Liberal Democratic Party (LDP) politicians with close ties to *Nippon Keidanren*, bureaucrats from the Ministry of Economy, Trade and Industry (METI), and *Nippon Keidanren* become the primary foreign economic policy-making mechanism. Similarly, when negotiations on manufactured goods, fishing rights, or agricultural imports are at hand, bureaucrats from the Ministry of International Trade and Industry (MITI), the Ministry of Agriculture, Forestry, and

Fishery (MAFF), influential members of the LDP known as *Norin Zoku*<sup>18</sup> and *Zenchu* assert strong influence over the direction of such negotiations.

### III. Ideational Centered Analysis

In an attempt to explain regionalism trends, some scholars have emphasized the importance of factors such as collective identity, norms, values and institutions. In this vein, Higgott (1998: p.45) posits that “ideational approaches allow us to see the extent to which regime building is influenced by ideology, beliefs and knowledge” and went further by adding that “knowledge and learning affect the nature of rules and co-operation in international relations.” Higgott (1998: p.56-61), Harris (2002: p.122) and Katzenstein (2002: p.106-108) pointed out that “Asianness is becoming a factor in inter-regional relations” and “in international relations”. Several prominent East Asian leaders (e.g. Lee Kuan Yew of Singapore and Mahathir Mohamad of Malaysia) have made appeals to Asian values that advocate the precedence of the social good and individual responsibility over individual rights, and the importance of the role of a strong government in achieving high economic growth. Asian values emphasize the Asian ways of development that are incompatible in some degree with Western ways or values (e.g. human rights). This articulation of Asian values demonstrates a new perceptual or discursive dimension of East Asian regionalism.

---

<sup>18</sup> The Liberal Democratic Party (LDP) has ruled Japan since 1955 except between 1993 and 1994 and more recently following its defeat in the general election held in August 30, 2009. *Norin-zoku* (literally the farm or agricultural tribe) refers to influential members of the LDP who depend on the farm electorate for votes, monetary contributions and other forms of political support, and in return have long vetoed any reforms aimed at opening the domestic agricultural sector.



In this context, Breslin (2007: p.41-42) observed that ASEAN+3 was created for policy coordination among “purely” East Asian states to prepare for the Asia-Europe Meeting (ASEM)<sup>19</sup>. It was the first time ever that 13 East Asian states (ASEAN+3) got together under the banner of East Asia to meet another region as a whole on an equal footing. The decision to exclude Australasian states from the initiative to establish the (ASEM) in 1996 was based on Asian values and beliefs, that is “conceptions of what Asia was not.” Thus, what brings East Asian states together is a “shared conception of alien belief systems and economic paradigms that regional elites collectively reject, rather than an agreed set of forms that they collectively agree on.”

Although East Asia is a single region, in contrast to Europe, the region lacks a strong regional identity based upon shared norms and values, which brings and binds East Asian countries together. Against this backdrop, Buszynski (1999) and Aggarwal and Koo (2005: p.10) argued that East Asia is “too heterogeneous” and for this reason the region cannot be considered as a “cultural or civilisational entity” (see also Fujita 2007: p.84). That is to say, Southeast Asia is divided along diverse religious, ethnic and linguistic lines in addition to intra-regional tensions, whereas Northeast Asia has not yet come to terms with memories of wartime history as well as inter-state rivalries. Wendt (1994: p.389), Hurrell (1995: p.4) and Breslin (2007: p.37) observed that regional identity or “regional awareness” can be defined from the belief that members of a certain region share a cultural foundation (common history, language, religion, values and etc.) or a socially constructed one through recognizing the existence of some external other, be it “a shared common security threat, the construction of imagined

---

<sup>19</sup> The ASEM was designed for a region-to-region cooperation where East Asian nations as a single group (region) met their European counterparts to discuss interregional economic and political cooperation.

security communities, a shared rejection of dominant values and norms” or any other perceived threat.

In this line of thought, Cronin (1999: p.25-33) explained that, “individual and institutional actors continually compare themselves to others...in part to better define who they are.” Institutional developments in two other major regions (Europe and North America) played a major role in enhancing “regional awareness in East Asia” and “encouraged the momentum to create a similar regional institution” in the region (see also Terada 2003: p.267). Cronin further added that the experience of common (international) issues or problems tends to strengthen a collective (regional) identity as shared understanding among in-group actors about those issues or problems are formed. In the same way, Webber (2001: p. 357) and Liu (2003: p.14-17) explained that the regionalism trends that took place in Europe (EU) and in North America (NAFTA) throughout the 1990s, played an important role in helping East Asian states (re)define the identity of the region. East Asian states began to see Europe and North America as common others with which East Asian states as a group rather than as individual states have to cooperate and compete.

In the same line of thought, Thomas (2007: p. 138-140) and Curley (2007: p. 191) pointed out that the 1997 Asian Financial crisis provided an opportunity for East Asian states to enhance their regional awareness (the idea of an East Asian Community) by making them realize the interconnectedness among them, and their shared vulnerability to unbridled global markets, and the importance of collective actions and approaches to common problems (see also Wei 2001: p.109-110). Similarly, Tanaka (2007: p.54) pointed out that the Asia-Pacific Economic Cooperation (APEC) group was created as a countermeasure against a ‘Fortress Europe’ as Europe was moving towards the

establishment of a single European market. For East Asian countries, APEC also served as “a hedge against a possible rise of protectionism in North America.”

## **2.2. Assessment of Previous Studies**

The literature review of FTAs in East Asia has shown a wide diversity of insights and assumptions. Neo-realism, is one of the principal approaches to the study of regionalism. It emphasizes “the importance of the broader political and economic structures within which regionalist schemes are embedded and the impact of outside pressures working on the region” and “stresses the constraints of the anarchical international system and the importance of power-political competition” (Hurrell 1995: p.339). My argument is that neo-realism can find evidence to support its international cooperation argument nonetheless it cannot fully explain the development of regionalism in East Asia.

Neo-liberalism on the other hand, “focuses primarily on the responses of states to the perceived imperatives of managing the costs of growing economic interdependence” (Ravenhill 2002: p.172). Due to a perceived sense of interdependence, states feel compelled to engage in international cooperation. This general explanation is appropriate to East Asia, as regionalism in the region started in the 1990s when there was an influx of foreign direct investment (FDI) in the region (Stubbs 2002: p.445). Apart from states neo-liberalism recognizes that there many other actors in the international system. East Asia shows that the role of non-state actors in promoting intergovernmental cooperation does not always support the neo-liberal argument. Constructivism emphasizes the importance and investigates the ideational factors that

mould actors' interests, identities and behavior in the formation of interstate relations. Thus it is appropriate to explain the emergence of Asianness.

## **2.3. Research Questions**

This study seeks to answer the following questions:

RQ1- What factors influenced the launch and progress of the China-ASEAN FTA and the Japan-ASEAN initiatives?

RQ2- What strategies and initiatives have China and Japan employ in their respective FTA with ASEAN?

## **2.4. Research Hypothesis**

In providing an answer to the research question, there are three hypotheses, which this study holds and seeks to thoroughly investigate.

**I. Domestic Factors** - The preferences of political and societal actors in China and in Japan played an important role in each country FTAs scheme with ASEAN.

**II. Regional Factors** - Both China and Japan are pursuing an FTA with ASEAN in order to enhance their respective regional clout and leadership credentials vis-à-vis the other by reaching out to Southeast Asian nations.

**III. International Factors** - Dissatisfaction with the pace of multilateral trade negotiations under the WTO/GATT framework.

## **2.5. Research Methodology**

To better understand the dynamics that compelled China and Japan to jump into the regional FTAs bandwagon and the motivations behind their respective initiatives towards establishing FTAs with ASEAN member states, the research for this dissertation will be based on a qualitative methodology. The research for this dissertation will draw on a review and analysis of secondary literature on integration in East Asia and thus, data will be collected from books, journals articles, official reports, conference papers, newspapers & magazines, electronic databases etc.

## **Chapter - 3**

### **1. Introduction**

China's relations with ASEAN member states have undergone profound changes in the post Cold War period. Following the normalization of relations between China and all the ten ASEAN member states, bilateral ties between the two sides have gone from a relationship characterized by mutual antagonism and mistrust and expanded rapidly into economic, security and political linkages that lead to the conclusion of the milestone agreement for the establishment of the China-ASEAN Free Trade Agreement in November 2002. This chapter seeks to shed light into the process, reasons and motivations that led China to initiate a free trade area with ASEAN member states by analyzing international, regional and domestic factors behind China's move.

To this end, this chapter is structured as follows: Section 2 is going to make a retrospective on the developments in the China-ASEAN relations. Section 3 is going to look at the origins of the China-ASEAN Free Trade Area (officially known as the ASEAN-China Comprehensive Economic Cooperation Agreement), assess the strategies and posture China adopted during the China-ASEAN FTA negotiation process and illustrate recent developments on the China-ASEAN FTA. The factors that have influenced China in initiating a free trade area with ASEAN are the major issues examined in Section 4, which will be followed by a conclusion in Section 5.

## 2. China-ASEAN Relations

The China-ASEAN relations, despite the long existing historical links, only grew closer during the 1990s, that is, in the post Cold War period. Because of ideological divisions, throughout most part of the Cold War China-ASEAN relations were characterized by mutual antagonism and suspicion. In fact, one of the reasons behind the establishment of ASEAN in 1967 by Indonesia, Malaysia, the Philippines, Thailand and Singapore were concerns these countries had over China's policy of exporting socialist revolutionary ideas through its support of communist insurgent movements throughout Southeast Asia (Vaught & Morrison 2006: p.5-6; Kang 2007: p.128-129). Consequently, as a result of China's policy non-communist countries in Southeast Asia were apprehensive and mistrustful of China (Ba 2003: p.623-624). China, on the other hand, was wary of the links that existed between ASEAN member states and the West.

China-ASEAN relations started to improve when Vietnam invaded Cambodia (then Kampuchea) in 1978. The two sides saw each other as possible partners to jointly address common security concerns in response to Vietnam's expansionist ambitions in Indochina (Venkataraman 2006: p.159-160; Yuan 2006: p.46). Also with China's adoption of three new policies<sup>20</sup>, the importance of improving its relations with Southeast Asian countries took precedence over exporting socialist revolutionary ideas in the region (Lee 2001: p.61-62; Ku 2008:157-158). Moreover, with the end of the

---

<sup>20</sup> For further discussion on the impacts of the Open Door Policy (1980), the Good Neighbor Policy (1990) and the Go Global Strategy (2002) on China's relations with Southeast Asian countries see for example Ku (2002: p.116-119).

Cold War, uncertainties about the United States commitment to East and Southeast Asia and a possible reduction in its military presence in the region, coupled with, according to Ba (2006: p.312-313) China's "increasingly dependence on others [countries] for growth and stability" drove China and ASEAN to improve their relations (Kai 2008: p.502).

Beginning in the late 1980s, China increased its efforts to restore, establish and develop formal diplomatic relations with all the ten ASEAN members<sup>21</sup>. ASEAN for its part also began to show interest in exploring new ties. At its Fourth Summit held in Singapore in 1992, ASEAN member states reiterated the group's aspiration for building ties with countries in the Asia-Pacific Region. Against this backdrop, China-Indonesia diplomatic ties, which had been broken off since 1967, in the aftermath of a coup d'état in Indonesia, were restored in 1990. In the same year the China-Singapore diplomatic relations were established followed by the China-Brunei ties in 1991. These developments opened a new chapter in the China-ASEAN relations, marking the first time in which normalized relations existed between China and all the ten member states of ASEAN (Chanda 1990: p.68; Ba 2003: p.625-629; Novotný 2004: p.15).

Following the establishment of diplomatic relations with all ten ASEAN member states, China embarked on forging an institutionalized linkage with ASEAN as a group. The normalization of the China-ASEAN relations took place in July of 1991 when China, at the invitation of Malaysia, attended the 24<sup>th</sup> ASEAN Ministerial Meeting (AMM)<sup>22</sup> in Kuala Lumpur, Malaysia as a Consultative Partner of ASEAN. At the AMM, then Chinese Vice Premier of the State Council and Foreign Affairs Minister

---

<sup>21</sup> Until the early 1990s, the only ASEAN member countries that had diplomatic relations with China were Malaysia since 1974, and the Philippines and Thailand since 1975, respectively.

<sup>22</sup> The AMM is an annual meeting of ASEAN member states' Foreign Ministers held to discuss and evaluate issues affecting the region.



Qian Qichen conveyed to ASEAN members states China's interest in strengthening cooperation with the group. ASEAN responded warmly and a series of milestones were achieved thereafter (Lee 2001: p.64; Cai 2005: p.152).

ASEAN Secretary General Dato Ajit Singh visited China in September of 1993 and the two sides agreed to establish two joint committees. At the 27<sup>th</sup> AMM in July 1994 in Bangkok, Thailand the Chinese Foreign Minister and the ASEAN Secretary General signed two agreements for the establishment of a Joint Committee on Trade and Economic Cooperation (JCTEC) and a Joint Committee on Science and Technology Cooperation (JCSTC) (Sheng 2003: p.1-2). This act marked the beginning of formal cooperative relations between China and ASEAN. In the same year, China agreed to join the ASEAN Regional Forum (ARF)<sup>23</sup>, despite its long held view of such multilateral organizations "as ways for small countries gang up on China as well as avenues for the United States to dominate and dictate the regional agenda" (Ba 2006: p.314; Medeiros & Fravel 2004: p.389). China and ASEAN also agreed to start consultations on political and security issues at senior official's level with the first China-ASEAN Senior Officials Consultation (SOC) meeting taking place in April 1995 in Hangzhou, China.

At the 29<sup>th</sup> AMM held in 1996 in Jakarta, Indonesia, the ASEAN Standing Committee formally elevated China's Consultative Partner status to full Dialogue Partner of ASEAN (Yuan 2006: p.5). To oversee the growing relations between the two sides, China and ASEAN set up a Joint Cooperation Committee (JCC) in February 1997. The JCC, held annually, was entrusted with the mission of coordinating China-ASEAN cooperation mechanisms as well as promoting and developing cooperation in

---

<sup>23</sup> The ARF is formal and multilateral body with the stated objectives of promoting dialogue and consultation on political and security issues as well as fostering confidence-building and preventive diplomacy in the Asia-Pacific region.

various fields between the two parties. In its inception, China provided the JCC with US\$700 thousand in seed money for the establishment of a China-ASEAN Cooperative Fund and in 2000, provided an additional US\$5 million to the Fund (MFA 2005; Chin & Stubbs 2008: p.3).

China-ASEAN relations were further strengthened by China's active support to ASEAN members during the 1997-1998 Asian Financial Crisis. China provided Thailand with US\$1 billion to help the country overcome its financial difficulties, and pledged between US\$4 to US\$6 billion to the International Monetary Fund (IMF) program to assist Southeast Asian countries. Additionally, China offered low-interest loans and economic aid to Southeast Asian countries affected by the financial crisis (Ku 2008: p.165-166). China was highly praised in the region for not devaluating its currency, which helped avoid another round of competitive devaluations among Asian currencies. The Asian Financial Crisis provided China with an opportunity to show to ASEAN members not only its good neighbor credentials and the significance of having China as their political and economic partner but it also enabled China to take the center stage of regional cooperation (Cheng 2001: p.425-426; Ba 2003: p.635; Yuan 2006: p.43).

In December 1997, the first ASEAN Plus Three<sup>24</sup> Summit, was held in Kuala Lumpur, Malaysia. This event paved the way for the first China-ASEAN Summit between the then Chinese President Jiang Zemin and Heads of State and Government of ASEAN member states. The two sides issued a joint statement declaring the establishing of a China-ASEAN "Partnership of Good Neighborliness and Mutual Trust Facing the 21st Century". The year 1997 was pivotal in the China-ASEAN relations,

---

<sup>24</sup> ASEAN Plus Three (APT) refers to a summit meeting that brings together the leaders of ASEAN member states and the leaders of China, Japan and Korea.

which led Chinese President Jiang Zemin to state that 1997 marked the “beginning of a new stage of development in [the] Chinese-ASEAN relations” (Ba 2006: p.315).

Since then, China-ASEAN relations have been moving forward at an unprecedented manner with the scope and depth of their cooperation continuing to expand. For instance, while in 1997 there were just five institutionalized mechanisms for regular cooperation and dialogue between China and ASEAN, by 2005 the number of such mechanisms covering a wide range of issues from agriculture to security and technology (Table 3.1), rose to more than 40 (Yuan 2006: p.17; Sheng 2006: p.98-99).

Table 3.1: China-ASEAN Cooperation and Dialogue Mechanisms

<b>Year of Founding</b>	<b>Cooperation &amp; Dialogue Mechanisms</b>
1994	JCETC & JCSTC
1995	China-ASEAN Senior Officials Consultation Meeting
1996	ASEAN Beijing Committee
1997	China-ASEAN Joint Cooperation Committee
1997	China-ASEAN Summit Meeting
2000	China-ASEAN Expert Group on Economic Cooperation
2000	China-ASEAN Cooperative Operations in Response to Dangerous Drugs
2001	China-ASEAN Business Council
2001	China-ASEAN Trade Council
2002	China-ASEAN Transport Cooperation
2002	China-ASEAN Working Group on Development Cooperation
2003	China-ASEAN Cooperation in Information and Communications Technology
2004	China-ASEAN Expo
2004	China-ASEAN Aviation Cooperation Framework

2004	China-ASEAN Business and Investment Summit
2005	China-ASEAN ICT Cooperative Partnership for Common Development
2005	China-ASEAN Joint Working Group on South China Sea

Source: Compiled by author.

Notwithstanding these developments, territorial disputes in the South China Sea<sup>25</sup> was one of the areas of contention which still created mistrust and friction between the two sides and threatened to derail progress achieved thus far in the China-ASEAN relations, particularly when China passed a national law in February 1992 stating the Spratly Islands as being its territorial waters and subsequently occupying the Mischief Reef in February 1995 (Valencia 2001: p.528; Kai 2008: p.502-504). Following several rounds of discussions, China agreed in 1999 to sign a code over the disputed areas and in November 2002, China and ASEAN signed the Declaration on the Conduct of Parties in the South China Sea<sup>26</sup>. The two sides pledged to allow freedom of navigation in the South China Sea, refrain from activities that challenge the status quo and to settle their territorial disputes through diplomacy and other peaceful means. China, by signing such Declaration helped ease mistrust and improve its image among ASEAN members (Ba 2003; p.627; Yuan 2006: p.10-13).

At the Seventh China-ASEAN Summit in October 2003, in Bali, China signed ASEAN's security protocol - the Treaty of Amity and Cooperation in Southeast Asia (TAC) - becoming the first major power outside ASEAN to do so (Yang 2004: p.9; Ba

---

<sup>25</sup> The South China Sea disputes refer to the territorial claims over the Spratly and Paracel Islands and their surrounding waters. The area is a strategic sea line for vessels carrying oil and other goods from the Middle East and Southeast Asia to China, Japan, South Korea and Taiwan, and also has rich deposits of oil and natural gas. The claimants are China, Indonesia, Vietnam, Philippines, Malaysia, Taiwan and Brunei.

<sup>26</sup> Declaration on the Conduct of Parties in the South China Sea, text available online at <http://www.aseansec.org/13163.htm> (retrieved April 16, 2009).

2006: p.347; Yoshimatsu 2008: p.11). By ratifying TAC, China demonstrated to ASEAN members that it was willing to abide by principles such as mutual respect for sovereignty, non-interference in the internal affairs of one another, peaceful settlement of disputes or differences and renunciation of the threat or use of force. China earned much praise from ASEAN leaders for this unprecedented step (Cai 2005: p.162-163; Chin and Stubbs 2008: p.12-13). At the same venue, China and ASEAN also signed a Joint Declaration on Strategic Partnership for Peace and Prosperity, which covers political, security, economic and regional cooperation issues, making China ASEAN's first strategic partner (ASEAN Secretariat 2004). In 2004 China expressed interest in signing the 1995 Southeast Asian Nuclear Weapon-Free Zone Treaty (also known as the Treaty of Bangkok), becoming the first nuclear power to move in this direction (Ba 2003: p.637; Tanaka 2007: p.66-67; Sheng 2008: p.258-259).

In order to bolster the China-ASEAN cooperation in the area of defense and security, since 1999 the two sides have held various exchanges such as visits by high-ranking military and defense officials, joint military exercises, joint maritime patrols, defense equipment transfer, consultation and seminars on defense and security issues, cooperation on military personnel training and peacekeeping operations. The two sides also signed a 5-year (2005-2010) Plan of Action in January 2004 in Bangkok, Thailand (Yuan 2006: p.14-15). To further strengthen its relations with ASEAN members, in December 2008 China appointed Mrs. Xue Hanqin, a former Ambassador to the Netherlands, as its first Ambassador to ASEAN (the Jakarta Post 2008). The progress that has been achieved in the bilateral relations which started with the China-ASEAN dialogue in 1991, and its formalization in 1996 provided an important environment for the China initiated China-ASEAN FTA. The following section outlines the origins, negotiations process and outcomes of the China-ASEAN Free Trade Agreement.

### **3. China-ASEAN Free Trade Agreement**

#### **I. China-ASEAN FTA Background**

The China-ASEAN Free Trade Agreement finds its origins in 1995, when Thailand proposed to China the formation of a special economic zone, like a free trade area (FTA), between Thailand and China's Southern Provinces. Since then, Chinese scholars started to discuss different forms of special economic zones that would cover China's coastal areas along with Japan, South Korea, North Korea, Russia, ASEAN, Taiwan and Hong Kong. With, the adverse effects resulting from the 1997-98 Asian financial crisis in addition to the 1999 United States led NATO intervention in Kosovo which resulted in the bombing of the Chinese embassy in Belgrade, discussions for the establishment of a China-ASEAN FTA went from academic circles to the attention of high echelons of the Chinese government (Sheng 2003: p.2-4; Ba 2006: .323; Men 2007: p.252).

Furthermore, in October 2000 at the ASEAN's economic ministers meeting in Chiang Mai, Thailand's Deputy Prime Minister and Commerce Minister, Supachai Panitchpakdi voiced ASEAN's concerns about China's impending entry into the WTO and proposed the creation of a China-ASEAN "formalized system of tariff concession" to protect Southeast Asia's weaker economies from "a flood of cheap exports" coming from China once it joins the WTO (Lu 2007: p.87). In response to ASEAN's concerns, Chinese Premier Zhu Rongji asked Chinese experts and researchers to carry out a meticulous cost benefit and impact study on the possible effects that a free trade area

with ASEAN member states could have on the Chinese economy. The study concluded that such effects would be rather small and that the Chinese economy was large enough to sustain them. Then in November 2000 at the Fourth China-ASEAN Summit in Singapore, Zhu conveyed China's interest in establishing an FTA with ASEAN. Zhu also proposed the formation of a China-ASEAN Expert Group on Economic Cooperation to study the feasibility of the FTA (Chin and Stubbs 2008: p.5-6; Yoshimatsu 2009: p.19-20).

Following the October 2001 China-ASEAN Expert Group on Economic Cooperation report<sup>27</sup> recommending the establishment of an China-ASEAN FTA within ten years, a month later at the China-ASEAN Summit in Brunei, Zhu made a formal proposal for the establishment of a China-ASEAN FTA (officially known as the ASEAN-China Comprehensive Economic Cooperation Agreement) which was endorsed by ASEAN leaders and formal negotiations started thereafter (ASEAN Secretariat 2001; Chirathivat 2004: p.373). Following nearly two years of study and negotiations, at the China-ASEAN Summit in November 2002, in Phnom Penh, Cambodia, the two sides signed the Framework Agreement on Comprehensive Economic Cooperation<sup>28</sup> which entered into force in July of 2003 (Men 2007: p.252-254; Hepburn et al 2007: p.24-25).

The Agreement, which provided the foundation for the eventual launch of a free trade area between the parts within ten-year includes special and differential (S&D) treatment for the newer and less developed ASEAN members, namely Cambodia, Laos, Myanmar and Vietnam (Sheng 2003: p.3). According to the time frame provided by the

---

<sup>27</sup> Report of the China-ASEAN Expert Group on Economic Cooperation, text available online at [http://www.aseansec.org/newdata/asean\\_chi.pdf](http://www.aseansec.org/newdata/asean_chi.pdf) (retrieved April 27, 2009).

<sup>28</sup> Agreement on Comprehensive Economic Cooperation, text available online at <http://www.aseansec.org/13196.htm> (retrieved April 27, 2009).

Framework Agreement, 2010 was set for the conclusion of an FTA between China and the ASEAN-6 while for the ASEAN-4 the date was set for 2015, giving them an additional period of five years before they fully join the free trade agreement. The Framework Agreement focuses on the liberalization of trade in goods, services, investment, human resources development, Mekong River Basin development, and energy development among other areas (Wang 2005: p.18-19; Zhang 2006 p.542-544).

## **II. China's Approach in the FTA Negotiations**

The Chinese proposal for the establishment of a free trade area caught ASEAN leaders by surprise and there was a lot of uncertainty on the part of ASEAN on how to best respond to the proposal. ASEAN member states were particularly apprehensive about China's rapid economic growth and military strength as well as about its long-term intentions in the region. There were also concerns on the impacts an FTA with China would have on Cambodia, Myanmar, Laos and Vietnam Laos (ASEAN-4), the four least developed economies of the ASEAN group. Moreover, ASEAN member states, particularly those hit hard by the Asian financial crisis were not only concerned about their ability to compete against China in the domestic and third markets (e.g. Japan, United States and EU), but also about China's impending entry into the WTO and the prospect that China could divert foreign direct investment (FDI) away from ASEAN (Ba 2003: p.634; Chia 2004: p.7-10; Ravenhill 2006: p.653-654).



In order address ASEAN member states' concerns, in the negotiations for the establishment of China-ASEAN FTA rather than pursuing FTAs pacts with individual ASEAN member states separately, China opted to negotiate a multilateral FTA with ASEAN as a single group, even though such a move would decrease China bargaining power vis-à-vis ASEAN member states (Chin & Stubbs 2008: p.16). Furthermore, rather than making use of power asymmetries for its advantage, China adopted a pragmatic approach, by making short-term economic sacrifices in order to accomplish what Yoshimatsu (2009: p.9) characterized as “long-term multifaceted goals of political, economic and military natures” (see also Ravenhill & Jiang 2009: p.31-32). In the same vein, as part of what Wang (2005: p.32) described as “China’s economic statecraft”, China made five major compromises to ASEAN (He & Sheng 2005: p.298; Ba 2006: p.332-333). China agreed to;

- (1) Cancel the debts ASEAN-4 owed to China
- (2) Offer an early and WTO-plus liberalization on ASEAN exports to China
- (3) Grant duty-free treatment on imports from Cambodia, Laos and Myanmar
- (4) Include an ‘Early Harvest’ clause in the China-ASEAN Framework Agreement
- (5) Extend WTO MFN privileges and concessions to non WTO members of ASEAN

Consequently, although at first ASEAN members were (or may still be) apprehensive and wary about the 'China Threat', by adopting a 'give more, ask less' approach, framing the China-ASEAN economic and political cooperation in 'win-win' terms and being flexible on the negotiations table, China was able to allay ASEAN member states' concerns (Shambaugh 2004: p.67). In fact, China's pragmatic approach was very effective in gradually changing ASEAN member states' view of China as nonthreatening, as Robert B. Zoellick, the United States trade representative, put it, China's FTA proposal to ASEAN was a "thoughtful move" which "institutionalized what [ASEAN members] now recognize: that China's growth is a benefit to them" (The New York Times 2003).

China's pragmatic approach on the China-ASEAN FTA negotiations table and ASEAN member states' desire to ride on China's booming economy and huge market, coupled with an economic downturn in ASEAN's two major trading partners (the United States and Japan), were among the various factors which influenced ASEAN leaders to start looking at China not as a threat but as an alternative engine which could boost Southeast Asian economic development. China's acceptance of the ASEAN format for China-ASEAN smoothed the negotiations process. Under the format, the two sides were to conclude the Framework Agreement first and then negotiate subsequent agreements afterwards. Hence, negotiations were first conducted on Trade in Goods preceded by negotiations on Trade in Services and Trade in Investments (Yoshimatsu 2009: p.22-23).

### **III. Developments on the China-ASEAN FTA**

On the whole there have been many positive developments since the Framework Agreement on Comprehensive Economic Cooperation was signed. Negotiations on the Rules of Origin (ROO) were concluded in December 2003 following amendments on the Framework Agreement in October of the same year (Soesastro 2005: p.4). The Early Harvest Program (EHP)<sup>29</sup> a key component of the framework agreement for China-ASEAN aims to realize trade liberalization by accelerating tariff reduction to less than 5 percent on some goods and complete elimination of tariffs on eight categories of agricultural products<sup>30</sup> by 2010, that is, before China-ASEAN enters fully into force. Moreover, the EHP also grants ASEAN member states the advantage of early entry into key Chinese markets, which remain closed to other WTO members. As ASEAN member states could not reach consensus among themselves, the EHP was negotiated on a bilateral basis between China and each individual ASEAN member, with the China-Thailand EHP being the first one to kick off on October 2003 and the China-Philippines being the last one on May 2005 (Bernardino 2004: p.2-3; Greenwald 2006: p.198-199; Vutha & Jalilian 2008: p. 19-22).

At the Eighth China-ASEAN Summit in November 2004, in Vientiane, Laos the two sides signed the Agreement on Trade in Goods and the Agreement on Dispute Settlement Mechanism (DSM)<sup>31</sup>. The Agreement on Trade in Goods which entered into

---

<sup>29</sup> The EHP consists of an Exclusion List scheme whereby participating countries can exclude from the program products considered to be sensitive and a Request List whereby China and an individual ASEAN member agree to include into the EHP certain products not covered by the program.

<sup>30</sup> Products under the EHP include live animals, meat, meat offal other animal products, fish, live trees, dairy produce, edible vegetables, edible fruits and nuts (ASEAN Secretariat 2003).

<sup>31</sup> Agreement on Trade in Goods, text available online at <http://www.aseansec.org/16646.htm> (retrieved

force in July of the following year, contained operational rules and annexes consisting of lists of products under the normal and sensitive track, safeguard provisions, general and security exceptions as well as the recognition by all ASEAN member states of China's full Market Economy Status (ASEAN Secretariat 2009). Under the normal track, the agreement stipulates that China and the ASEAN-6 gradually remove tariffs on 90 percent of their products over a period that goes from January 2005 to January 2010 while the ASEAN-4 were to follow suit from January 2005 to January 2015. On the other hand, under the sensitive track, tariffs for highly sensitive items would be reduced to 50 percent by January 2015 for ASEAN-6 and January 2018 for ASEAN-4. Despite the fact that highly sensitive items will still have a 50 percent tariff after 2018, overall, Cheong & Kwon observed that "it can be said that 99 percent of tariffs will be liberalized in the [China-ASEAN FTA], including agricultural liberalization" (2005: p.9). Tariffs for sensitive items will be reduced to 0-5 percent, by January 2018 for China and ASEAN-6 and January 2020 for ASEAN-4 (Chia 2004: p.13; Soesastro 2005: p.5-6; Yoshimatsu 2009: p.20).

The Agreement on Trade in Services<sup>32</sup> was signed at the Tenth China-ASEAN Summit in January 2007, in Cebu, Philippines, with the first package of liberalization entering into force in July of the same year. Under the agreement, China pledged to open new markets to ASEAN members in 26 branches of five service areas namely construction, environmental protection, transportation, sports and commerce. ASEAN member states, on the other hand, pledged to open their markets to China in the areas of finance, telecommunication, education, tourism, construction and medical treatment. Negotiations for further liberalization of the services markets are currently on going

---

May 7, 2009).

<sup>32</sup> Agreement on Trade in Services, text available online at <http://www.aseansec.org/19294.htm> (retrieved May 10 2009).

between China and ASEAN (MOFCOM 2007). The Agreement on Trade in Investments, the final step in the establishment of China-ASEAN FTA, was concluded in August 2009 at the 41st ASEAN Economic Ministers Meeting (AEM) held in Bangkok (China Daily 2009; the Jakarta Post 2009).

Upon its completion in 2010, China-ASEAN FTA will create an economic region of approximately 1.8 billion consumers and is projected to become the third largest market in the world after the EU and NAFTA. China-ASEAN FTA is also projected to create a combined China-ASEAN gross domestic product (GDP) of about US\$2 trillion and an annual total trade of US\$1.23 trillion. Furthermore China-ASEAN FTA is expected to increase ASEAN's and China's GDP by 0.9 percent (or US\$5.4 billion) and 0.3 percent (or US\$2.2 billion) respectively. Based on studies carried out by the ASEAN Secretariat using the Global Trade Analysis Project (GTAP) model, with the establishment of China-ASEAN FTA, it is likely that ASEAN's exports to China will have a 48 percent increase while China's export to ASEAN will have a 55.1 percent increase. It is noteworthy to mention here that, in terms of population, GDP and trade, when it enters fully into force, China-ASEAN FTA will become the world's largest free trade area established among developing countries and will also have an unparalleled growth potential (Yang 2004: p.6; Cordenillo 2005; Spears 2009).

## **4. Motivations behind the China Initiated China-ASEAN FTA**

China was the last major economy in Northeast Asia to jump into the FTAs bandwagon. Until the early 2000s China's top trade priorities were concentrated in gaining entry into the World Trade Organization (WTO) which China successfully did in November 2001, following nearly 15 years of negotiations (Cheong 2002: p.14-15; Fung et al 2002: p.15; Natividade 2004: p.4). Upon becoming a member of the WTO<sup>33</sup>, China moved swiftly to establish bilateral and regional FTAs. Starting with the China-ASEAN FTA, China is currently involved in 16 FTAs, of which eight have been concluded, six are under negotiations and three are under study. This section will outline the motivations behind China's proposal for an FTA with ASEAN member states.

### **4.1. International Politics Centered Analysis**

#### **I. Maintain a Stable Backyard**

As Freedman (2006: p.18) observed, FTAs have little to do with economics and much more to do with politics, and China's motivation to launch China-ASEAN FTA is not an exception (see also Ravenhill & Jiang 2009: p.38). Although China's trade with ASEAN has been growing rapidly in the last 10 years, the United States, Japan and the EU still remain China's major trading partners. Thus, if economic motivations

---

<sup>33</sup> Japan, on the other hand, has been a member of the WTO since joining its predecessor, the General Agreements on Tariffs and Trade (GATT) in 1955. China's application for membership was turned down in 1986 (Oba 2007: p.90).

were the driving force behind the China initiated China-ASEAN FTA, it is reasonable that Beijing would have opted instead to launch an FTA with its major trading partners (Wang 2005: 26). Against this backdrop, it is safe to say that political and strategic motivations rather than pure economic interests were the main driving force that led China to propose the establishment of an FTA to ASEAN (Sheng 2003: p.4; Wang 2004: p.128-129; Wang 2005: p.34; Ba 2006: p.320-321).

As China is concentrated on its domestic economic development oriented to make the country into an economic superpower in the coming decades, it is crucial that Beijing secures a peaceful environment that will enable it to attain its economic development (Yuan 2006: p.7). In this vein, Chinese leaders well aware that the so called China's *heping jueqi* (peaceful rise or peaceful ascendancy) had created a perception of China threat among ASEAN member states, hoped that by developing closer economic and political ties with the group and offering it cooperation in areas such as trade, investment, technology transfer, sub-regional development and preferential access to its fast growing domestic market through the China-ASEAN FTA, could dispel ASEAN concerns surrounding the “China threat” theory. (Natividade 2000: p.4; Chia 2004: p.14; deLisle 2007; Yoshimatsu 2008: p.13). Beijing sees the China-ASEAN FTA, as confidence building measure that could *fun lin, mu li, an lin* (enrich, harmonize and reassure its neighborhoos) that China posed no threat to them (Goh 2006; Li 2007: p.1).

Furthermore, with the awareness of fluctuations in its relations with the United States in addition to Beijing’s perception that Washington might try to contain its growth, China has increasingly pushed forward the establishment of closer relations with ASEAN member states “to remove any incentive for Southeast Asia to invite the great powers back or to form an anti-China coalition” (Glosny 2006: p.26-28; see also

Terada 2004: p.10; Solis 2008: p.18; Chanborey 2009: p.2-3). Maintaining good, friendly and steady-going relations with ASEAN member states can enable China to withstand a possible deterioration in its relations with the United States. In this context China “has every interest in creating and maintaining a stable and friendly regional environment” in the region which is critical to maintain its ongoing growth (Ba 2003: p.641). Against this backdrop China ratified the Declaration on the Code of Conduct for the South China Sea and also acceded formally to the Treaty of Amity and Cooperation of ASEAN. Besides, reassuring and pacifying its Southern neighbors through closer economic relations, can also help China to counter the United States’ influence in the region.

## **II. Market Diversification**

Although political considerations were the primary driving forces behind China’s proposal for the establishment of China-ASEAN FTA, economic motivations also played a major role here. Western protectionism in the form of the European Union (EU) and the North American Free Trade Area (NAFTA) coupled with the growing number of regional trade agreements (RTAs) taking shape around the globe as the result of the sluggish progress of negotiations under the WTO multilateral framework also supported China’s interest in establishing an FTA with ASEAN member states, given that such an FTA, as Ba (2006: p.319-321) argues, could “offer some insurance [for China] against...protectionism in Western advanced economies and American backlash against Asian goods” (Wang 2005: p.31; Park et al 2005: p.11; Ravenhill & Jiang 2009: p.39; Jun et al 2009: p.183).



Under the agreement for China's entry into the WTO, at the insistence of the United States, one of the concessions China agreed to was that WTO members could use the Market Economy Status (MES) methodology in anti-dumping cases against China until December 11, 2016<sup>34</sup>. Given that the bulk of China's exports heads to the EU, the United States as well as Japan and since the EU and the United States are among those countries which have not yet granted China a Market Economy Status, trade disputes between China and these major Western economies were (are) on the rise. For instance, between 1995 and 2001 China alone was the target of 27 percent of anti-dumping cases initiated by the EU and the United States. Since 2003, nearly half of all anti-dumping cases initiated by the United States were targeted to China (Hufbauer et al 2006: p.63-69; Sheng 2007: p.42; Bergsten 2007: p.17).

Moreover, as a result of China's rapid economic growth, competition in the domestic market got tougher because the industrial production surpassed the domestic demand (Sheng 2003: p.19). Thus, in order to break the bottleneck in its domestic market the Chinese leadership felt the necessity of what Vice Premier Wu Yi paraphrased as "*chukou duo yen hua*" (diversify export markets) so that China's exports would not be sole dependent on a few markets and vulnerable to arbitrary anti-dumping actions (Wang 2002: p.200; Shen 2005: p.220; Li 2007: p.4-5; Chin & Stubbs 2008: p.9). Therefore, starting in 2000, under its "*zou chu qu*" (go out or go global strategy) the Chinese Government has been encouraging Chinese companies to make Foreign Direct Investment (FDI) overseas, particularly to Southeast Asia. Although still somewhat small, China's FDI in Southeast Asia is growing rapidly (table 3.2) and, as of August 2009, with a 1.9 share in the total FDI inflow to ASEAN, China is the tenth major source of FDI to the group (ASEAN Secretariat 2009).

---

<sup>34</sup> For further discussions on China's concessions for its WTO entry see Lawrence 2006: p.6-10.

Table 3.2: China's FDI in ASEAN Member States 2000-2008 (unit: US\$ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000-2008
<b>Brunei</b>	NA	NA	0.2	0.2	3.0	0.1	4.8	17.2	NA	25.5
<b>Cambodia</b>	NA	2.9	49.2	26.2	33.0	102.8	130.1	164.9	76.9	586.1
<b>Indonesia</b>	-2.8	-1.5	-0.7	-0.4	294.6	299.5	123.6	117.2	380.2	1,210.3
<b>Laos</b>	9.1	11.8	1.3	1.8	0.1	4.5	5.3	1.7	42.9	78.5
<b>Malaysia</b>	0.7	16.9	13.2	1.8	2.0	1.0	-6.7	4.6	56.5	90.0
<b>Philippines</b>	0.0	0.1	0.0	0.0	-0.2	-0.2	2.3	-0.1	-0.2	1.7
<b>Myanmar</b>	NA	0.5	4.8	NA	108.1	1.2	1.5	1.7	349.2	467.1
<b>Singapore</b>	-168.6	91.3	-178.3	131.7	212.6	69.2	616.7	594.2	478.0	1,854.4
<b>Thailand</b>	7.2	1.0	20.0	23.8	-3.8	11.6	49.9	73.7	69.0	249.8
<b>Vietnam</b>	21.0	24.2	9.4	1.5	85.6	48.2	88.7	251.8	44.6	574.9
<b>Total</b>	<b>-133.4</b>	<b>144.0</b>	<b>-71.9</b>	<b>186.6</b>	<b>735.0</b>	<b>537.7</b>	<b>1,016.2</b>	<b>1,226.9</b>	<b>1,497.3</b>	<b>5,138.4</b>

Source: ASEAN Secretariat: ASEAN FDI Database & ASEAN Statistical Yearbook 2008

Under the go out or go global strategy, by setting up their manufacturing bases in ASEAN member states, Chinese companies are not only able to expand their share in the host country's market but also to export their products to third markets without being subject to the stiff export quota restrictions and anti-dumping suits that "made in China" products are often subject to (Hong & Sun 2007: p.623-625; Men 2007: p.264-265). For instance, given Cambodia's status as a Least Developed Country (LDC), its exports to the EU, Japan, United States and to other major markets enjoys duty-free and quota-free treatment. Against this backdrop, many Chinese textile and clothing companies are making inroads to Cambodia. By doing so, Chinese goods with the label "Made in Cambodia" are able to enter markets where "Made in China" goods would

face trade barriers. By the end of 2004, Chinese clothing and textile companies operating in Cambodia numbered 104 and 3, respectively, corresponding to 56.6% of China's total FDI in the country (Wang 2002: p. 202; Wang et al 2008: p.10.18; Makishima & Yokoyama 2009: p.172).

Although China and ASEAN are not yet each other's major trading partner, bilateral trade volume has continued to witness an amazing increase, going from US\$20 billion in 1996 to US\$39.5 billion in 2000 and reaching more than US\$200 billion in 2007. Originally, China and ASEAN had expected that the trade volume would reach the US\$200 billion mark in 2010, however the set trade target was reached three years ahead of schedule making a major breakthrough in the bilateral trade. Since 2004, China and ASEAN have become each other's fourth largest trade partner and analysts predict that when China-ASEAN FTA enters into full gear by 2010 and 2015 China will surpass the United States and become ASEAN's major trading partner (Yuan 2006: p.53; Kai 2008: p.500).

## **4.2. Regional Politics Centered Analysis**

### **I . China-Japan Rivalry for Influence in Southeast Asia**

Compared to China, Japan has a longer history of friendly relations with Southeast Asian countries. Japan has also shown regional leadership in the region, especially in financial matters, playing a major role in the Asian Development Bank (ADB) and in the currency swap arrangement (Chiang Mai Initiative) as well as

through its initiative for the creation of an Asian Monetary Fund (AMF) in 1997 (Beeson & Yoshimatsu 2006: p.10-11). China was initially against the AMF initiative largely because China viewed it as an avenue for Japan to maintain its economic leadership in the region. Against this backdrop, in a move aimed at increasing its own economic and political influence in the region and to counter Japan's bid for regional leadership, China proposed the establishment of a China-ASEAN FTA (Barfield 2004: p.22-23; Park et al 2005: p.12; Yoshimatsu 2009: p.39).

Similarly following a shift on Japan's trade policy, as Terada (2006: p.19) observed, it "led China to feel isolated in the FTA movement [taking shape] in East Asia". Consequently, taking into consideration the discriminatory nature of an FTA vis-à-vis countries that are outside it, one month following the start of the Japan-Singapore FTA negotiations, China proposed its own FTA with ASEAN member states in November 2000 (Otsuji & Shiraishi 2002: p.12; Munakata 2003; Kawai 2005: p.310). In the same vein, negotiations on a potential Japan-Korea FTA also influenced China in initiating an FTA with ASEAN, (Kar et al 2004: pp.3).

In the negotiations for the establishment of a free trade area with ASEAN, China vigorously took all the steps necessary to "position itself advantageously" vis-à-vis Japan (Ravenhill & Jiang 2009: p.32). For instance, as part of China-ASEAN FTA, China offered the Early Harvest Program (EHP) to ASEAN member states. As far as China-ASEAN FTA is concerned, the agricultural sector is not as sensitive in China as it is in Japan (Chia 2004: p.13; Chin & Stubbs 2008: p.10). Mindful that domestic politics constraints would hinder Japan's attempt to adopt a scheme like the EHP and liberalize its agricultural sector, China proposed the EHP initiative as a step to score some diplomatic points vis-à-vis its rival (Barfield 2004: p.24; Kim & Park 2006: p.16). Consequently, among the FTAs that have been proposed to ASEAN, the group regards

China's proposal as the most directly receptive to their concerns as well as the most attractive (Hufbauer & Wong 2005: p.7; Ba 2006: p.340).

The China-Japan rivalry over leadership in East Asia is most visible in the Mekong River region, as bridging the development gap between ASEAN older and newer (less developed) member states is one of the top priorities of the organization, providing assistance in the development of Cambodia, Laos, Myanmar and Vietnam, has become a vital avenue for both China and Japan to strengthen their ties with the entire ASEAN group and in that way boost their respective clout in the region (Chia 2006: p.8-10; Masaki 2007; Nabers 2008: p.17-18). As Goh (2006) observed, "Chinese aid and loans in Indochina have been competing with traditional Japanese donations to the region" essentially making China one of the biggest aid<sup>35</sup> donor and loan provider (table 3.5) to the CLMV as well as a significant source of aid and loan for Indonesia, Philippines and Thailand (Lum et al 2008: p.6-8).

Table 3.3: Chinese ODA and Loans to ASEAN 2002-2007 (unit: US\$ millions)

<b>Year</b>	<b>Amount</b>
2002	36
2003	644
2004	1,193
2005	4,221
2006	2,004
2007	6,735

Source: Table slightly modified from that presented in Lum et al 2009: p.8

---

<sup>35</sup> There is a lack of reliable and official data on China's aid to Southeast Asian countries because on one hand, China itself is a major recipient of aid and does not want to be seen as a major aid donor, and on the other hand, China is concerned about the possible domestic backlash that huge amounts of outgoing aid could bring about. See for example Lum et al 2008: p.4 and Zhu 2009: p.75.

China has been vigorously involving itself in the Greater Mekong Subregion as well as in the Mekong Basin Development program in order to boost its influence in Southeast Asia vis-à-vis Japan (Goh 2004: p.8). Beijing initiated the North-South Corridor, a 1.800km highway project that stretches from Kunming, the capital of China's Yunnan Province to Bangkok, Thailand, through Myanmar and Laos. Under the project, China pledged to grant US\$30 million to Laos for the highway section within the country (Vaughn & Morrison 2006: p.31; Lu 2007: p.106; Asia Times 2007). A 5.000km East-West Corridor (railway) linking Kunming to Singapore via Vietnam, Cambodia, Thailand and Malaysia co-funded by China is also schedule to be completed by 2011 (Kao & Sisowath 2005: p.326, VOA 2009). In the same vein, to enhance its clout in the CLMV, for instance, in 2004 China provided Cambodia with a US\$200 million loan for two highways and two bridges projects, Laos was granted a US\$200 million loan for infrastructure projects, Myanmar was loaned US\$200 million and Vietnam a RMB 1.7 billion Yuan loan and non-refundable aid (Zhu 2009: p.76-82).

On the other hand, the idea of having Japan in the driver's seat of regional integration in East Asia is something the Chinese leadership is very unenthusiastic about, given the perception in Beijing that Tokyo is reluctant to lead 'a real and independent' East Asian integration so as to not upset its alliance with Washington. Moreover, with nationalism rising among its people, the Chinese government is increasingly coming under pressure to "redress negative historical legacies" from Japan's wartime invasion (Zhao 2001: p.668). Consequently, the legacy of the Sino-Japan War, unresolved tensions<sup>36</sup>, Japan's support for Taiwan coupled with public resentment in China towards Japan "erodes the political and social basis for Chinese

---

<sup>36</sup> For further discussion see Kosuke Takahashi (2004).

support of Japanese leadership” in the region (Sheng 2003: p.9-10; see also Yoshimatsu 2004: p.17; Calder 2006: p.129-135).

## **II. Secure Sealanes**

Given that China’s gross domestic product (GDP) is highly centered on the manufacturing industry, as its economy continues to grow at an unprecedented rate, so does its appetite for energy and raw materials, principally oil, (Lardy 2005: p.124; Park et al 2005: p.12; Chanlett-Avery 2008: p.7). For instance, by 2003 China had surpassed Japan and became a major consumer of oil, second only to the United States. Additionally, according to a study conducted by the Asian Development Bank (ADB), China had become the world’s largest consumer of copper, tin, zinc, platinum, steel, and iron ore, the second largest consumer of aluminum and lead, the third largest consumer of nickel and fourth largest consumer of gold (ADB Outlook 2004).

However, these resources which China needs in order to be able to sustain its ongoing economic growth and maintain its ‘World Factory’ status “led [China] to become increasingly dependent on seaborne resources that transit key choke points<sup>37</sup> in Southeast Asian waters” (Vaughn & Morrison 2006: p.19; Chanborey 2009: p.3). For instance, over half of the China bound oil shipment from the Middle East passes through the Malacca Straits and there are estimates that 90% of China’s oil imports will come by sea. Furthermore, about 85% of China’s trade is shipped by sea and consequently China is becoming more and more dependent on Southeast Asian Sealanes which according to Chanlett-Avery (2008: p.17) can “easily be blocked militarily...in the event of a confrontation between the United States and China” given

---

<sup>37</sup> The choke points include the Lombok, Makassar, Malacca and Sunda Straits and the South China Sea.

the fact that China lacks a blue water navy that can go beyond coastal defense and into the South China Sea or further in order to protect strategic sea lines (Vaughn & Morrison 2006: p.20; Yuan 2006: p.8-9; Kumar 2009).

In this context, to enable Beijing to have a more direct access to energy imports from the Middle East while avoiding the Straits of Malacca, construction on the China invested US \$1.4 billion 771 km oil pipeline capable of supplying China with 240,000 barrels per day started in on October of 2009. This oil pipeline will link Myanmar's deep water port of Sittwe to Kunming, the capital of China's Yunnan province. China will also invest US\$1.04 billion on a 2,380 km gas pipeline capable of supplying 12 billion cubic meters a year, linking the two countries by 2012. In return, China will extend to Myanmar a U \$83 million loan (Reuters 2009; the China Post 2009).

China has developed very close relations with Myanmar, given its geo-strategic location between South, East and Southeast Asia which could provide China with not only access to the Indian Ocean but as well as to the oil rich Middle East region. Against this backdrop, China has provided military hardware to the Myanmar Junta and constructed a major naval base in Hainggyi Island as well as upgraded intelligence gathering posts on Myanmar's Coco Islands, through which China hopes to be able to project its capabilities in the Indian Ocean (Shee 2002: p. 36; Vaughn & Morrison 2006: p.23; Yuan 2006: p.37). China also came to the "rescue"<sup>38</sup> of Myanmar offering it a preferential loan of US\$200 million in 2003 and an approximately US \$6.25 million in grants (Kudo 2006: p.13). To further enhance its ties with Myanmar, in 2007 China vetoed a UN resolution condemning human rights violations committed by Myanmar's military junta (China Daily 2007).

---

<sup>38</sup> This following the US imposed sanctions on Myanmar which banned imports from Myanmar, remittances to the country and froze assets belonging to senior officials of the junta (CNN 2003).



### **4.3. Domestic Politics Centered Analysis**

#### **I. Reduce the Uneven Development within China**

Although significant, China's free trade agreement with ASEAN member states represents a small fraction of its foreign trade and for this reason "will not have nearly the impact that the protocol for WTO accession would" have on China's economy (Kwei 2006: p.127). Consequently, domestic opposition in China towards the establishment of an FTA between China and its ASEAN partners was considerable minimal and no other sector than the agriculture raised some concerns on the possible negative impacts that such an FTA could bring about. The Chinese Ministry of Agriculture (MOA) being the only voice of Chinese farmers, as there is no farmers union in the country, conducted a study which presented a grim picture on the potential adverse impacts that the China-ASEAN FTA would have on the domestic agricultural sector (Yang 2008: p.8-9). MOA and the local government of Guangxi Province also presented reports to the Ministry of Commerce (MOFCOM)<sup>39</sup> concerning the possible negative impacts that the agriculture sector would sustain from an FTA with ASEAN.

Despite this fact, given China's authoritarian political system, where the policy decision-making process is highly centralized among the top echelons of the Chinese Communist Party's Politburo Standing Committee, Chinese leaders were able to push the China-ASEAN FTA forward without any major political constraints (Lam 2005; Yang 2008: p.14; Yoshimatsu 2009: p.25-26). Nevertheless, as maintaining the regime

---

<sup>39</sup> MOFCOM is one of the key players in China's foreign economic policy decision making process. The other two are the National Development Planning Commission (NDPC) and the State Economic and Trade Commission (SETC). See Raviprasad 2005: pp.456-459.

“legitimacy [and the rule] of the Chinese Communist Party (CCP) increasingly rests on its ability to maintain domestic growth and domestic stability” (Ba 2006: p.320), to appease domestic groups that had some reservations about the establishment of China-ASEAN FTA, the Chinese government turned its attention to its poorest and less developed Southwestern provinces (Guangxi, Yunnan and Hainan Island)<sup>40</sup> which are located along the border with Southeast Asian countries and adopted measures that would enable these provinces to benefit from increased trade between China and ASEAN (Li 2007: p.6).

Through China-ASEAN FTA, China hopes that closer economic interaction between its Southwestern provinces and the five mainland Southeast Asian states of Cambodia, Laos, Myanmar, Thailand and Vietnam “can mitigate the gap of economic disparities between China’s affluent Coastal and its poverty stricken Southwestern inland provinces” (Shee 2002: p.36; Chanborey (2009: p.3). In this vein, in 2003 China proposed the launch of an annual China-ASEAN EXPO (CAEXPO) in Nanning, the capital of the Guangxi province, as a step to revitalize the local economy through China-ASEAN FTA. In its fourth occasion Lubing, the governor of Guangxi province pointed out that CAEXPO “became an important platform for political, diplomatic [and] economic...cooperation between China and ASEAN” (Jakarta Post 2007). Similarly, in 2004 on China’s initiative, the Secretariat of the annually held China-ASEAN Business and Investment Summit (CABIS) was headquartered in Nanning (Yoshimatsu 2009: p.25).

---

<sup>40</sup> These provinces are the home of a significant number of China’s ethnic minority groups. For instance, Yunnan is home of 26 ethnic groups. The development gap between these provinces and others parts of China could trigger social unrest and threaten the country’s political stability as well as the rule of the CCP.

In 2005, the China-ASEAN Business Port was built in Kunming, the capital of Yunnan, to transform the province into a major commercial and financial hub for the China-ASEAN FTA (Kuchiki 2007: p.89). China has also integrated its Southern provinces in the Greater Mekong Subregion (GMS) and has built modern air, land and sea transportation routes in the Guangxi Beibu Gulf area, effectively making it “a zone at the forefront of the China-ASEAN cooperation” (Gu & Li 2009: p.12-14). In 2006 China started the Pan-Beibu Gulf Economic Cooperation Forum which involves China’s Hainan and Guangxi provinces along with Vietnam, Malaysia, Singapore, Indonesia, Brunei and the Philippines to, among other goals, play a role in “promoting bilateral trade and investment, developing coastal industries...and accelerating [the] development of coastal cities” (Pan-Beibu Gulf 2009). On another note, China also sees the China-ASEAN FTA as a partial solution to its domestic unemployment problem, another issue with a potential risk of causing domestic social instability. For this very reason, China has sought to include in its free trade agreements provisions that enable its companies to take Chinese labor “to staff its resources projects” abroad (Ravenhill & Jiang 2009: p.33-34).

## II. The Taiwan Strait Question

Calculations on the Taiwan Strait question, Beijing's most sensitive foreign policy issue, also influenced China's drive to establish an FTA with ASEAN member states (Sheng 2003: p.17-18). In the 1990s, the administration of Taiwan's President Lee Teng-Hui seeking on one hand, to lessen Taipei's economic dependence on China, and on the other, to strengthen Taipei's relations with ASEAN member states, launched the 'Go South' policy which encouraged increased Taiwanese investments and trade with ASEAN member states, particularly with Brunei, Indonesia, Malaysia, Philippines, Singapore and Vietnam (Chen 2005: p.239; Wu 2008: p.114). However, as Kurlantzick (2007: p.42) posits, China wanting "to roll back any of Taiwan's gains", hoped that by strengthening its own political and economic ties with ASEAN members states through the China-ASEAN FTA, its FTA partners would become more and more reluctant to develop closer relations with Taiwan and less supportive of Taipei's international status such as its drive for independence and bid to join international organizations (e.g. the United Nations), to avoid upsetting China (see also Chen 2002: p.16-24).

Beijing is highly sensitive to other countries relations with Taiwan, which it regards as a breakaway province waiting to be reunified, by force if necessary. For instance, China lodged a stern protest with Singapore when Lee Hsien Loong, then incoming Prime Minister, visited Taiwan (Dillon & Tkacik 2005: p.4). Furthermore, given that China is strongly of the view that FTAs agreements are only signed between independent sovereign states,<sup>41</sup> it opposes any country signing an FTA with Taiwan and

---

<sup>41</sup> For this very reason, China deliberately did not include Hong Kong and Macao in its FTA agreement with ASEAN member states. Instead China signed a Closer Economic Partnership Agreement (CEPA)

has “warned its allies that they will cause trouble for themselves if they sign FTAs with Taiwan” (Wu 2008: p.120-121). Thus, as all ASEAN member states adhere to the one-China policy, they are very reluctant to engage in bilateral FTA agreements with Taiwan, in order to avoid damaging their respective relations with China (Wang 2005: p.26; Chen 2005: p.243; Ravenhill 2007: p.56).

China-Taiwan economic relations have become more intertwined since the early 2000s, with China becoming the top destination of Taiwan’s FDI<sup>42</sup>. However because of the discriminatory nature of FTAs to non-member nations, the more than 50,000 Taiwanese companies doing business in the mainland will be in an unfavorable position vis-à-vis companies from ASEAN member states operating in China. Therefore by initiating China-ASEAN FTA, China hopes that the Taiwanese business community, with too much at stake, would pressure the Taipei government to amend its China policy (Cai 2005: p.591-592; Cai 2006: p.4-6; Shaw 2008: p.1). Against this backdrop, China-ASEAN FTA can be viewed as part of a larger Chinese strategy of excluding Taiwan from regional economic and security mechanisms<sup>43</sup>, through which China seeks to isolate Taiwan politically and economically and therefore thwart Taiwan’s move towards becoming an independent state (Sutter 2003: p.84-86; deLisle 2007).

---

with both territories. In November 2003 China extended to Taiwan an offer for the establishment of a CEPA but Taiwan turned down the offer “on the grounds that such an agreement would be a device for One Country” see Wang (2004: p.130).

<sup>42</sup> Over 70 percent of Taiwan’s FDI went to China in 2004, 10 percent of its work force works in China, and four Taiwanese-owned companies in the mainland are among China’s top ten leading exporters. See Calder (2006: p.131).

<sup>43</sup> Because of Beijing’s objections, during the SARS outbreak Taiwan did not receive direct assistance from the WHO. Despite being one the claimants of the disputed territories in the South China Sea, Taiwan was excluded from the South China Sea Code of Conduct agreement and also excluded from the \$80 billion Chiang Mai Initiative between China, Japan, South Korea and ASEAN member states.

## 5. Conclusion

This study has sought to analyze the motivations behind China's interest in initiating an FTA with ASEAN member states. It has made the argument that China's initiative was based on international, regional and domestic motivations. In this context, the findings of this study are the following:

First and foremost, given its need for a stable backyard to sustain and guarantee its growth, through the establishment of the China-ASEAN FTA China intended to soothe its Southern neighbors' concerns emanating from the 'rise of China'. This in turn served double objectives. First, by building a ring of political friendship with ASEAN member states through the China-ASEAN FTA, China hoped to enhance its influence in the region vis-à-vis the United States and other major powers and second, in light of the "bottleneck" in its domestic market and export barriers on "made in China" products, China hoped that the China-ASEAN FTA would one hand, enable it to access ASEAN markets and on the other enable China to set up manufacturing bases in Southeast to access major markets (e.g. EU, USA and Japan) while avoiding the "made in China" obstacle.

Secondly, given its rivalry for influence in Southeast Asia vis-à-vis Japan, China sought to gain the upper hand over Japan by launching the China-ASEAN FTA, through which, China not only agreed to cancel the CLMV debts and got vigorously involved in the Mekong region but also, knowingly that Japan would not be able to match it, offered an "early harvest" program to ASEAN member states. On the other hand, because of its rapid economic growth, China has become ever more reliant on

energy imports, which are seaborne. Also, given that about 85% of China's trade is transported by sea, the need to secure sea lines also influenced China's motivation in initiating the China-ASEAN FTA.

Finally, as some ethnic groups have been left behind in China's development there has been an increase in ethnic tensions. Therefore China hoped that its poorest and less developed provinces bordering Southeast Asian countries could benefit from improved and closer ties between China and its neighbors in the South. The Taiwan question also influenced China's FTA calculations with ASEAN, given that better and closer China-ASEAN relations puts more pressure on Taiwan as the island nation is left with an increasingly small room to maneuver in the region.

# Chapter - 4

## 1. Introduction

Following the end of the World War II, although Southeast Asian nations were suspicious of Japan and harbored hatred towards it for its actions during the War, for nearly forty years, Japan and ASEAN have cultivated a very close political and interdependent economic relationship, traditionally strengthened by trade, investment and official development assistance (ODA). The establishment of the Japan-ASEAN FTA in April 2008 marked a new chapter in the relations between the two sides. This chapter seeks to shed light into the process, reasons and motivations that led Japan to initiate a free trade area with ASEAN member states by analyzing international, regional and domestic factors behind the Japanese proposal.

The main objective of this chapter is to analyze the Japan-ASEAN FTA (officially known as the ASEAN-Japan Comprehensive Economic Partnership Agreement - AJCEP)<sup>44</sup> with a focus on the factors that have influenced Japan in proposing the establishment of an FTA with ASEAN member states. To this end, the following section pays attention to the development of Japan-ASEAN relations. Section 3 is going to look at the origins of the Japan-ASEAN Free Trade Area, assess the strategies and posture Japan adopted during the Japan-ASEAN FTA negotiation process and illustrate recent developments on the Japan-ASEAN FTA. Section 4 will

---

<sup>44</sup> Japan prefers to refer to its preferential trade agreements as Economic Partnership Agreements (EPAs), because they go beyond trade and investments liberalization and include “new areas” (METI 2001: p.233). However, METI officials acknowledge that there is little difference between an EPA and an FTA, see Ahearn 2005: p.1. The term FTA will be used in this study.



investigate the factors behind Japan's aspiration to establish a free trade area with ASEAN member states, which will be followed by a conclusion in Section 5.

## **2. Japan-ASEAN Relations**

The Japan-ASEAN relations, which spans nearly thirty years, started in 1973 when Japan and ASEAN established informal dialogue relations. However, given the legacy of the Pacific War coupled with Southeast Asian states' apprehensions over Japan's growing economic penetration in the region as well as their perception that Japan had the intention to dominate the region, there was some animosity towards Japan in Southeast Asia, as shown in the unprecedented massive and violent anti-Japan protests that took place when then Japanese Prime Minister Kakuei Tanaka visited the region in January 1974 (Hook 2001: p.186-187; Nishihara 2003: p.155-156). Consequently, Japan realized the urgent need of taking concrete steps to improve its relations with ASEAN member states, with Japan-ASEAN direct contacts taking place in February 1974 at the first Japan-ASEAN Rubber Forum (Terada 2001: p.202-203; Sudo 2002: p.34-35).

Japan-ASEAN relations were formalized in March 1977 with the establishment of the Japan-ASEAN Forum<sup>45</sup> and ASEAN granted Japan a full Dialogue Partner status. In August of the same year the first Japan-ASEAN Summit was held in Kuala Lumpur, Malaysia, where Japan's then Prime Minister Takeo Fukuda delivered a speech, known as the Fukuda Doctrine, which highlighted three pillars – 1) Japan would develop a

---

<sup>45</sup> The Japan-ASEAN Forum was “entrusted with the task of reviewing, monitoring and recommending measures to strengthen and expand cooperation between ASEAN and Japan, particularly in the field of industrial development, trade, and food and agriculture” (ASEAN Secretariat 2009).

relationship of mutual confidence and trust based on heart-to-heart understanding, 2) would not endeavor to become a military power again and 3) would contribute to the stability and development of Southeast Asia (Akrananee & Prasert 2003: p.66-67; Ryokichi 2003: p.134). As Sudo (2002: p.33) notes, the announcement of the Fukuda Doctrine, “marked the beginning of Japan’s positive relations with Southeast Asia in general, and the Association of Southeast Asian Nations (ASEAN) in particular”.

Japan, aiming to further cement its relations with Southeast Asia, offered a US\$1.5 billion aid package to ASEAN member states at the second Japan-ASEAN Forum held in November 1977 in Tokyo. In the same vein, Tokyo announced that starting in 1978 it would double its Official Development Assistance (ODA) to ASEAN every three to five years (Hsiao & Yang 2009). In order to further strengthen the Japan-ASEAN relations, along with the Japan-ASEAN Forum two new additional channels of dialogue and cooperation, namely the Japan-ASEAN Foreign Ministers Conference (1978) and the Japan-ASEAN Economic Ministers Conference (1979) were established (Hook 2001: p.188). In fact, almost every Japanese Prime Minister after Prime Minister Fukuda’s tenure “has proposed an exchange program or created an institution to promote exchange [between Japan and] ASEAN countries” in various sectors (table 4.1) (Tadashi & Hernandez 2003: p.173-174).

The establishment of the ASEAN-Japan Centre in 1981, which has the primary goal of promoting trade, investment, and tourism between the two sides, institutionalized the Japan-ASEAN economic relations. Given the existence of strong economic linkages between Japan and ASEAN member states, the Centre plays an important role in the comprehensive bilateral and multilateral economic relationships. At the second Japan-ASEAN Summit held in 1987 in Manila, Philippines, Japan’s then Prime Minister Nobuo Takeshita and ASEAN leaders announced the "New Partnership

for Peace and Prosperity" calling for Japan's help in the development of ASEAN. By the end of the 1980s, the Japan-ASEAN relations began its transformation from an economic relationship based on aid and investments into a comprehensive partnership involving political and security ties (Hirono 2003: p.136; Green 2003: p.168).

Table 4.1: Japan-ASEAN Cooperation and Dialogue Mechanisms

<b>Year of Founding</b>	<b>Cooperation and Dialogue Mechanisms</b>
1977	Japan-ASEAN Forum
1977	Japan-ASEAN Summit Meeting <sup>46</sup>
1978	Japan-ASEAN Foreign Ministers Conference
1979	Japan-ASEAN Economic Ministers Conference
1980	Japan-ASEAN Economic Council
1981	Japan-ASEAN Centre
1983	Japan-ASEAN Scientific and Technological Cooperation
1988	Japan-ASEAN Exchange Projects
1992	AEM-MITI Consultations <sup>47</sup>
1997	Japan-ASEAN Finance Ministers Meeting
1997	Japan-ASEAN Network for Counter-terrorism
1998	AEM-MITI Economic and Industrial Cooperation Committee
1998	Japan-ASEAN Roundtable on Economic Development
1998	Japan-ASEAN Consultative Group Meeting
2002	Japan-ASEAN Tourism Ministers Meeting
2003	Japan-ASEAN Transport Ministers Meeting

<sup>46</sup> The first Japan-ASEAN Summit meeting was held in 1977, the second in 1987 and since 1997 it has been held annually.

<sup>47</sup> The AEM-MITI Consultations refers to the annually held meeting between ASEAN Economic Ministers and the Minister of International Trade and Industry of Japan.

2003	Japan-ASEAN Logistics Experts Group Meeting
2006	Japan-ASEAN Telecommunication Ministers Meeting

Source: Compiled by the author from MOFA and ASEAN Secretariat respective websites.

Japan-ASEAN relations have developed in the security and political field as well. Japan played a very active role in the United Nations Peace Keeping Operation (PKO) in Cambodia between 1992 and 1993. Japan not only helped mediate the conflict but also sent its personnel (civilians, police and Self Defense Forces) to take part in the PKO mission. Furthermore, between November 1991 and July 1993, Japan contributed US\$1.9 billion to the budget of the UN Transitional Authority in Cambodia. From then on Japan's security and political cooperation with ASEAN has grown progressively with Japan playing an active role in the establishment of the ASEAN Regional Forum (ARF) in 1994 (Hook 2001: p.189; Green 2003: p.176-177; Yuzawa 2007: p.1-2). Against this backdrop, Japan-ASEAN military to military exchanges started to increase. Since 1997, Japan started to engage in bilateral military exchanges with Indonesia, Malaysia, Singapore, Thailand and Vietnam, and cadets and midshipmen from several ASEAN member states have been studying at Japan's National Defense Academy (Nishihara 2003: p.160-161).

Nevertheless, Japan's ASEAN policy before 1997 had been in a gridlock given the lack of new initiatives. Consequently, in early 1997, then Japanese Prime Minister Ryutaro Hashimoto proposed the formation of a regular top level summit meeting between Japan and ASEAN as well as bilateral talks covering security matters. Hashimoto's proposal led to the birth of the ASEAN Plus Three (APT) mechanism.

Moreover, with the announcement of the Hashimoto Doctrine, aimed at strengthening the Japan-ASEAN partnership, Prime Minister Hashimoto put forward the three following policies; 1) broader and deeper exchanges between Japan and ASEAN at top and all the other levels, 2) deepen mutual understanding and 3) expand cultural cooperation and jointly address various problems that the international community faces as a whole. The initiatives that Japan took under the Hashimoto Doctrine, to some extent, played a role in strengthening Japan's diplomatic leadership in Southeast Asia (Lam 2002: p.7; Suzuki 2004: p.6; Sudo 2009: p.139-140; MOFA 2009a).

When the Asian Financial Crisis struck in July 1997, Japan played an active role through multilateral and bilateral routes, assisting ASEAN member states hard hit by the crisis, providing US\$4 billion of the US\$17.3 billion earmarked to help ASEAN member states hit by the AFC. Furthermore, in an attempt to contain the crisis, Japan proposed the establishment of an Asian Monetary Fund (AMF). However, essentially owing to staunch objections from the United States<sup>48</sup> as well as from China, Japan's AMF proposal could not take off the ground. With the failure of the AMF initiative, Japan announced the New Miyazawa Initiative in October 1998, a US\$30 billion economic recovery package for ASEAN member states (Yoshimatsu 2000: p.3; Sudo 2002: p.27; Yoshida 2004: p.9-10; Ba 2006: p.344). Altogether, on a bilateral basis, Japan provided ASEAN member states with over US\$37 billion in financial assistance, well above the bilateral assistance provided by other contributors (Katada 2001: p.155-156). Additionally, to prevent the recurrence of another financial crisis in the region, in

---

<sup>48</sup> It is very likely that the United States' opposition to the AMF initiative emanated from concerns that such an initiative would erode the importance and role of the US-led IMF (see Terada 2004: p.76). China, on the other hand, feared that the AMF initiative would increase Japan's clout in East Asia.

2000 Japan initiated the Chiang Mai Initiative, a currency swap arrangement involving all the 10 ASEAN member states along with China, Korea and Japan.

Faced with growing regionalism in Europe and in North America, the Japan-ASEAN cooperation became even more necessary. Against this backdrop, in November 1999, Japan announced the Obuchi Initiative (named after then Prime Minister Obuchi) which called for Japan-ASEAN cooperation for the development of ASEAN, enhancing human resources development and exchanges in East Asia, among other aspects. In the same vein, in 2002, during a visit to five ASEAN member states, then Japanese Prime Minister Junichiro Koizumi proposed building regional cooperation to create a “community that acts together and advances together”. Prime Minister Koizumi also put forward other several initiatives for Japan-ASEAN cooperation, such as designating 2003 as the Year of ASEAN-Japan Exchange, strengthening cooperation in education and human resources development, the Japan-ASEAN Comprehensive Economic Partnership and the Initiative for Development in East Asia (Akrasanee & Prasert 2003: p.69; Sudo 2009: p.141-142).

At the Japan-ASEAN Commemorative Summit in Tokyo in December 2003, Japan announced its decision to sign the Treaty of Amity and Cooperation in Southeast Asia (TAC) and a document declaring such intent was signed at the venue. Prime Minister Koizumi stated that the document was an “expression of Japan’s determination to act together and advance together with ASEAN... [and to] continually forge closer ties between Japan and ASEAN” (Terada 2006: p.13; Sudo 2009: p.146). Japan formally acceded to TAC in July 2004. In 2007, then Prime Minister Shinzo Abe put forward Japan’s youth exchange initiative, the Japan-East Asia Network of Exchange for Students and Youths (JENESYS), a US\$315 million five year scheme to invite to Japan students from ASEAN and East Asia Summit member states. A year later, then Prime

Minister Yasuo Fukuda announced the “the new Fukuda Doctrine,” pledging Japan’s support for ASEAN’s single market initiative as well as the development of the Mekong Basin. Aiming to the further strengthen the Japan-ASEAN relations, in October 2008 Japan established a new ambassadorial post in charge of ASEAN affairs appointing Yoshinori Katori, Japan’s former Ambassador to Israel, as its first Ambassador to ASEAN (MOFA 2008a; Hsiao & Yang 2009).

The following section outlines the origins, negotiations process and outcomes of the Japan-ASEAN Free Trade Agreement.

### **3. Japan-ASEAN Free Trade Agreement**

#### **I. Japan-ASEAN FTA Background**

Until the early 1990s, Japan was known as one of leading supporter of the single track trading liberalization approach under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) framework, to the extent that Japan was once labeled as the “world’s staunchest multilateralist”, given its long standing position of pursuing trade liberalization exclusively under the GATT/WTO multilateral framework and for condemning other countries for pursuing regional trade agreements (New York Times 2001; Munakata 2001: p. 2; Solis 2008: p.1-2). However, given the slow progress in the trade liberalization talks under the GATT/WTO framework and FTAs taking shape at a very fast rate around the world, in the late 1990s Japan changed<sup>49</sup> its trade policy stance from a single track to a multilateral track trading

---

<sup>49</sup> For further discussion on the shift in Japan’s trade policy see Yoshimatsu 2003: p.117-120.

liberalization approach and started to engage in bilateral and regional FTAs (Urata 2003: p.100; Yoshimatsu 2005: p.258-259).

Following the conclusion of the Japan-Singapore FTA in January 2002, Japanese Prime Minister Junichiro Koizumi proposed the establishment of a Japan-ASEAN FTA. Subsequently, a Japan-ASEAN Expert Group on Economic Partnership, consisting of institutes and concerned authorities of ASEAN member states and Japan, was put together to carry out a study on the Japan-ASEAN economic cooperation. The Japan-ASEAN Expert Group held five meetings and presented a report to the 9<sup>th</sup> consultation meeting between ASEAN Economic Ministers (AEM) and the Minister of Economy, Trade and Industry of Japan (METI) held in September 2002 in Brunei (Chia 2003: p.86; Aoki 2004: p.8-9; Yamazawa 2004: p.22). The Japan-ASEAN Expert Group report<sup>50</sup> urged Japan and ASEAN to immediately take tangible steps “in realizing a framework for ASEAN-Japan CEP, including elements of a possible FTA” (METI 2007). Furthermore, in October of the same year, Japan’s Ministry of Foreign Affairs (MOFA) released a report highlighting ASEAN as one of Japan’s key FTA partner (MOFA 2002).

At the 8<sup>th</sup> Japan-ASEAN Summit in November 2002, in Phnom Penh, Cambodia, leaders of Japan and ASEAN released a Joint Declaration on Comprehensive Economic Cooperation<sup>51</sup> agreeing to implement measures for the eventual launch of a Japan-ASEAN FTA within 10 years. A year later, at the Japan-ASEAN Summit held in October in Bali, Indonesia, the two parties signed the Framework Agreement on

---

<sup>50</sup> Report of the JACEP Expert Group, retrieved December 4, 2009 from [http://www.meti.go.jp/policy/trade\\_policy/asean/html/cep\\_report0209e.html](http://www.meti.go.jp/policy/trade_policy/asean/html/cep_report0209e.html)

<sup>51</sup> Japan-ASEAN Joint Declaration, retrieved December 4, 2009 from <http://www.aseansec.org/13190.htm>



Comprehensive Economic Partnership,<sup>52</sup> which laid out objectives, basic principles, measures for comprehensive economic partnership, liberalization and most favored nation treatment (MFN), among other points. The Agreement implementation timeframe was set for 2012 for Japan and the more advanced ASEAN members (the ASEAN 6) while an additional five years period was given to the less advanced and newer members of the group (the ASEAN 4) (Chia 2003: p.87; Soesastro 2005: p.8-9; Yoshimatsu 2008a: p.9).

Preliminary talks on the Japan-ASEAN FTA started in October 2003 and consultations on the basic principles of cumulative rules of origins and customs classification kicked off in February 2004, however, formal negotiations only began in April 2005. Japan and ASEAN had originally envisioned concluding the negotiations within two years, but it took nearly five years and 11 rounds of talks before the two parts announced the conclusion of negotiations for the Japan-ASEAN FTA at the 11<sup>th</sup> Japan-ASEAN Summit in November 2007, in Singapore. The agreement which has an overarching framework including trade in goods, trade in services, investment, and economic cooperation was signed in April 2008 and entered into effect in December of the same year (Kajita 2004: p.2; Yoshimatsu 2007: p.7; Corning 2009: p.649). However, as of January 2010, Japan and all ASEAN member states, but Indonesia and the Philippines, have completed the necessary procedures for the agreement to enter into force.

---

<sup>52</sup> Japan-ASEAN Framework Agreement, retrieved December 4, 2009 from <http://www.aseansec.org/15274.htm>

## **II. Japan's Approach in the FTA Negotiations**

Having already signed a bilateral FTA with Singapore, in the negotiations for the establishment of the Japan-ASEAN FTA, Japan opted for a two track approach, that is, WTO-plus bilateral FTAs with the developed ASEAN members such as Indonesia, Malaysia, Philippines and Thailand and then later thread these bilateral agreements into a single Japan-ASEAN FTA. However, given that ASEAN member states are determined to stay economically united, they have expressed concerns over Japan's two track approach as in their view such an approach could result in economic disintegration within ASEAN. In fact even during the process of drafting the Joint Declaration in Phnom Penh in 2002, ASEAN member states were reluctant to accept the initial Japanese draft because of its emphasis on bilateral FTAs. In addition, ASEAN also feared that Japan's two tracks approach could undermine the group's bargaining power in the negotiations (Terada 2004: p.71; Soesastro 2005: p.10; Chandra 2005: p.10; Urata 2007: p.74).

As Suzuki (2004: p.24) explains Japan's two track approach in the Japan-ASEAN FTA negotiations "can be attributed" to its economic status under the WTO. Japan being a developed country, has to abide by the Article 24 of the General Agreement on Tariffs and Trade (GATT) which requires the mutual removal of tariff of 90% or more of all trade within ten years (Munakata 2006: p.120-121). Similarly, differences within the Japanese government on how to pursue the Japan-ASEAN FTA led Japan to adopt a two track approach. Whereas the Ministry of Foreign Affairs (MOFA) led faction pushed for bilateral FTAs with individual ASEAN members and then merge these agreements into a single Japan-ASEAN FTA, the Ministry of Economy, Trade and

Industry (METI) led faction, on the other hand, advocated for a single Japan-ASEAN FTA as a whole (Yoshimatsu 2008a: p.10).

Japan's emphasis on bilateral FTAs, as well as its single-undertaking negotiation approach whereby liberalization on trade in goods, investments, services and economic cooperation is covered under a single agreement, slowed down the progress of the Japan-ASEAN FTA with negotiations coming to a halt for eight months from August 2005. Japan's approach in the Japan-ASEAN FTA differs from that adopted by other regional economies such as China and Korea in their respective FTA negotiations with ASEAN. Both China and Korea followed the AFTA format adopting a step by step approach negotiating liberalization on trade in goods, followed by trade in services and trade in investments. Japan's reluctance to reduce and then phase out agricultural tariffs, its reluctance to liberalize its labor market as well as its request that 1 percent of the total goods (over 500 products) it imports from ASEAN be completely excluded from liberalization also hindered the progress of the Japan-ASEAN FTA talks (Razeen 2006: p.13; Yoshimatsu 2008a: p.12; Terada 2008: p.14-19; Corning 2009: 650-651).

Faced with a deadlock given its negotiation approach as well as for not including agriculture in the Japan-ASEAN FTA, Japan used economic cooperation as a negotiation means, effectively linking trade with aid and investment. As Fukunari Kimura of Keio University pointed out "Japan's FTA partners have so far accepted the uneven terms [of an FTA with Japan] because of Tokyo's strong bargaining power and the expectation that [such] agreements could lead to increased economic cooperation and investments from Japan" (Quoted in The Japan Times 2007; see also Terada 2008: p.11). Against this backdrop, for instance, Japan provided Thailand with agricultural cooperation (involving food hygiene standards and the strengthening of cooperation among agricultural cooperatives), as well as technical assistance and human resources

training in the automotive industry. Similarly, Japan agreed to assist Malaysia in strengthening the competitiveness of its auto parts industry and agreed to allow nurses and care givers from the Philippines and Indonesia to work in Japan (Sutton 2005: p.130-131; Masaki 2006a; Heng 2007: p.19; Higashi 2008: p.17).

### **III. Developments on the Japan-ASEAN FTA**

In August 2007, Japan and ASEAN reached a basic agreement on tariff elimination and reduction for trade in goods. Under the agreement, Japan agreed to eliminate tariffs on 90 percent of imports from ASEAN immediately after the agreement enters into effect. This immediate liberalization will cover more than 70 categories of goods in the agricultural<sup>53</sup>, fishery, and chemical sectors. Japan will eliminate an additional 3 percent tariffs within a 10 years timeframe and lower tariffs on the remaining 6 percent thereafter. On the other hand, the ASEAN-6 will eliminate 90 percent on imports from Japan within ten years. For the ASEAN-4 a more gradual tariff elimination scheme was set. Vietnam will eliminate tariffs on 90 percent of imports from Japan within 15 years while Cambodia, Laos and Myanmar will eliminate 85 percent within 18 years (Corning 2009: p.653; Yoshimatsu 2008a: p.9).

Unlike the FTAs proposed to ASEAN by Japan's neighbors, e.g. the China-ASEAN FTA and the Korea-ASEAN FTA, under the Japan-ASEAN FTA agreement there are no provisions that liberalize Trade in Services between Japan and ASEAN. The agreement simply states the Japan and ASEAN will continue to hold talks to explore measures towards further liberalization and facilitation of trade in services. Similarly, there are no provisions on Trade in Investments. Instead, what is stated in the

---

<sup>53</sup> Sensitive agricultural products such as rice, sugar, wheat, sugar as well as beef and some kinds of seafood products were excluded from Japan's tariffs reduction and elimination scheme.

agreement is the provision to continue to discuss and negotiate provisions for investments, with a view to improving the efficiency and competitiveness of the investment environment of Japan and ASEAN Member States through progressive liberalization, promotion, facilitation, and protection of investment (Yoshimatsu 2008a: p.12-13; Solis 2008: p.4).

The Japan-ASEAN FTA will have a market of nearly 600 million consumers, equivalent to 11 percent of the world market, a combined Japan-ASEAN gross domestic product (GDP) of US\$4.9 trillion, corresponding to 18 percent of the world total, and, in economic terms, the Japan-ASEAN FTA is projected to be larger than the China-ASEAN FTA. According to a report by the Japan-ASEAN Expert Group using the Global Trade Analysis Project (GTAP) database model, by 2020, Japan-ASEAN FTA is expected to increase ASEAN's exports to Japan by US\$20.6 billion or 44.2 percent, using 1997 as a base, and Japan's exports to ASEAN by US\$20.0 billion or 27.5 percent. The report also forecasts that, as a result of increased Japan-ASEAN two way trade in addition to increased Japanese foreign direct investment (FDI) and technology transfer to ASEAN, by 2020, ASEAN's and Japan's GDP will increase by 1.99 and 0.07, respectively (Chia 2003: p.88; Daquila 2007: p.188; Corning 2009: p.641).

## **4. Motivations behind the Japan Initiated Japan-ASEAN FTA**

Prior to its proposal for the establishment of the Japan-ASEAN FTA, Japan had been described as a passive participant” in the FTA movement (Urata 2007: p.101; see also Yoshimatsu 2004: p.15; Akeda 2005: p.10). Indeed, earlier FTA discussions that involved Japan, such as the Japan-Mexico FTA, Japan-Korea FTA and the Japan-Singapore FTA, were initiated by Japan’s FTA partners rather than Japan itself. However the launch of the Japan-Singapore FTA changed Japan’s role in the FTA movement from passive to an active participant (Yoshida 2004: p.20-21; Urata 2005: p.8; Park et. al. 2005: p.12). Following the conclusion of the Japan-Singapore FTA, Japan concluded another 10 FTAs and is negotiating a number of new FTAs including ones with South Korea, India, Australia, Costa Rica, etc. The following section will shed light on the factors that led Japan to propose to ASEAN the establishment of the Japan-ASEAN FTA.

### **4.1. International Politics Centered Analysis**

#### **I. Strengthen Japan’s Foothold in East Asia**

As will be further discussed in the following sections, the primary rationale behind Tokyo’s initiated Japan-ASEAN FTA is to facilitate the business operations of Japanese multinational companies operating throughout Southeast Asia as well as to counterbalance Beijing’s growing influence in the region, particularly with the launch of the Beijing initiated China-ASEAN FTA. Nevertheless, political and geostrategic motivations also influenced Tokyo’s decision to propose the establishment of a Japan-ASEAN FTA (Ahearn 2005: p.2-3; Yoshimatsu 2007: p.8). Throughout the post World

War II era until the late 1990s, Japan viewed itself as a separate entity from the rest of Asia and engaged with Asian countries through a network of bilateral ties. Moreover, given the legacy of its Greater East Asian Co-Prosperity Sphere plan, Japan avoided taking initiative in formulating regional frameworks and had become “a regime taker” (Munakata 2006: p.123-126; see also Akeda 2005: p.16).

However, realizing the potential unfavorable scenarios emanating from “Japan Passing”<sup>54</sup>, “China rising, Japan stagnating” and the establishment of an East Asian economic block without Japan, Tokyo was motivated to pursue the Japan-ASEAN FTA not only to show initiative in regional affairs as well as having a say in the region’s economic growth and socio-political stability, but also to strengthen and renew its own political clout in East Asia (Lam 2002: p.4-5; Ogita 2002: p.17-18; Terada 2007: p.106; Urata 2007: p.71-74). Similarly, as Urata (2007: p.77) observed, “Japan is keen on using FTAs to strengthen its position in international...and regional affairs”. In this line of thought, taking into account political and diplomatic considerations, Tokyo has chosen ASEAN (along with South Korea) as the most likely FTA partner given that a Japan-ASEAN FTA would enable Japan to maintain all ASEAN member states “within its reach” (Aoki 2004: p.10).

Furthermore, as Heng (2007: p.44) observed, the Japan-ASEAN FTA “would provide Japan with a strategic foothold in Asia [and] also help to reinforce positive perceptions of a [Japanese] constructive engagement in the region”. Against this backdrop, on January 2002, Japan’s Prime Minister Junichiro Koizumi, in his policy

---

<sup>54</sup> “*Japan passing* [is a term] reflecting concern that [Japan] was being passed by in a fast-changing world, and that Japan could no longer even be taken seriously. *Japan passing* was symbolized by Clinton's nine-day visit to China in 1998, a trip in East Asia during which he did not visit Tokyo (Asia Times Online November 26, 2008). Retrieved December 20, 2009 from <http://www.atimes.com/atimes/Japan/JK26Dh01.html>

speech entitled "Japan and ASEAN in East Asia: A Sincere and Open Partnership"<sup>55</sup>, spelled out Japan's strategy for East Asia, saying "our goal should be the creation of a community that acts together and advances together." Prime Minister Koizumi's proposal also called for the expansion of the Japan-ASEAN FTA into an "Expanded East Asian Community" or a "Comprehensive Economic Partnership in East Asia (CEPEA)", with all the ten ASEAN members plus Japan, China, Korea, India, Australia and New Zealand, the ASEAN+6, as its core members (Yun 2002; Yoshihide 2004: p.17; Urata 2009; The Japan Journal 2009).

## **II. Trade Facilitation for Japanese Multinational Corporations**

Southeast Asia, with its vast pool of cheap labor and natural resources, has been one of the major destinations of Japanese foreign direct investment (FDI) (table 4.2). With the export-oriented industrialization policy of Southeast Asian countries, the high costs of labor in Japan as well as the strengthening of the Japanese Yen, Japanese manufacturers representing various industries began relocating their production bases to Southeast Asia in order to remain internationally competitive (Yoshimatsu 2002: p.126; Hirono 2003: p.128-129). Between the period that went from 1997 to 2007, ASEAN member states were the largest recipients of Japanese FDI among East Asian economies, with a share of 39.1 percent of all outbound Japanese FDI. During the same period, Japan's FDI share in ASEAN corresponded to 16.3 percent of all FDI into ASEAN, making Tokyo the biggest investor in the region, second only to the European Union (Katori 2009: p.4).

---

<sup>55</sup> Speech by Prime Minister of Japan Junichiro Koizumi, "Japan and ASEAN in East Asia: A Sincere and Open Partnership," (January 14, 2002), retrieved January 7, 2010 from <http://www.mofa.go.jp/region/asia-paci/pmv0201/speech.html>



Table 4.2: Japan's FDI in ASEAN Member States 2000-2008 (unit: US\$ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000- 2008
<b>Brunei</b>	5.4	4.3	295.1	4.5	16.2	20.3	35.2	76.6	5.8	463.3
<b>Cambodia</b>	NA	2.2	2.2	0.0	3.5	1.9	4.5	30.9	38.1	78.9
<b>Indonesia</b>	-1,717.4	-1,101.5	-176.9	-604.3	-29.9	1,542.4	1,056.8	1,125.1	1,518.3	1,612.6
<b>Laos</b>	1.6	0.6	0.3	2.3	1.1	0.4	0.4	18.2	9.9	34.7
<b>Malaysia</b>	430.2	492.9	679.5	753.6	1,137.9	156.9	2,849.1	887.4	1,029.4	7,431.1
<b>Philippines</b>	97.0	143.1	733.1	23.3	32.0	60.6	54.6	824.4	56.4	2,024.6
<b>Myanmar</b>	16.3	7.7	4.6	3.3	0.2	0.1	0.03	0.03	0.02	32.3
<b>Singapore</b>	660.6	1,602.3	-499.4	1,107.8	1,435.9	1,800.4	3,311.7	1,407.9	492.7	12,319.9
<b>Thailand</b>	869.9	1,955.1	1,892.4	2,297.7	2,749.9	2,926.5	2,576.4	3,135.7	2,531.9	20,935.6
<b>Vietnam</b>	139.2	87.5	95.5	320.2	320.6	145.5	334.1	875.7	971.0	3,289.3
<b>Total</b>	<b>502.8</b>	<b>2,204.0</b>	<b>3,026.4</b>	<b>3,908.4</b>	<b>5,667.4</b>	<b>6,655.0</b>	<b>10,222.8</b>	<b>8,382.0</b>	<b>7,653.6</b>	<b>48,222.4</b>

Source: ASEAN Secretariat (ASEAN FDI Database & ASEAN Statistical Yearbook 2008)

According to Japan's Ministry of Economy, Trade and Industry (METI), there were 3,614 Japanese companies operating throughout Southeast Asia in 2003 (METI 2005a: p.211). However, while many Japanese firms have relocated their labor intensive production bases to Southeast Asia, high-tech and high value added components such as liquid crystal display (LCD) for flat panel TVs and high-tech automobile parts are still being developed and manufactured in Japan. As a consequence, when finished goods and components using such parts imported from Japan are exported from one ASEAN member state to third countries within the

region<sup>56</sup>, they are subject to high tariffs because such goods and components do not meet the requirement of the ASEAN Free Trade Area (AFTA) Rules of Origin which stipulates that local contents must be 40% or higher (Aoki 2004: p.12-13; Okuda 2004: p.35; Hiratsuka et al. 2009: p.10-13).

For instance, when a Japanese LCD TV maker assembles TV sets in an ASEAN country using high value added components imported from Japan and export the finished products to third countries within ASEAN, such exports are levied tariffs of up to 40 percent. On the other hand, their Korean competitors are free of such hurdles because they are protected under the umbrella of the Korea-ASEAN FTA which grants preferential tariffs to Korean LCD TV exports. Such high tariffs imposed on Japanese LCD TV makers not only increased their trading costs but also left them in a disadvantageous position vis-à-vis their Korean competitors<sup>57</sup> (Hiratsuka et al. 2007: p.317; Hiratsuka et al 2009: p.15). Similarly, as far as using Thailand as production base, Japanese firms were outcompeted by their U.S. competitors because the US-Thailand Treaty of Commerce and Navigation afforded them favorable investment conditions (Nihon Keizai Shimbun 2004). Therefore, in order to smooth the operations of Japanese companies with production networks throughout Southeast Asia, Japan embarked on establishing an FTA with ASEAN member states as through such an FTA “the Japan-ASEAN Cumulative Rules of Origin would enable companies located in the Japan-ASEAN region to do business with no tariffs” (METI 2005b: p.9).

For instance, with the launching of the Japan-ASEAN FTA “tariffs on flat panel televisions will be eliminated in seven ASEAN countries...[consequently] this will

---

<sup>56</sup> Initially, most Japanese firms relocating to Southeast Asia did so, to use the region as a base for finishing and exporting their products back to Japan and to third markets outside the region. However, with purchasing power in ASEAN member states increasing, Japanese firms began to show interest in supplying ASEAN domestic markets as well. See Hiratsuka et al. 2008: p.418.

<sup>57</sup> In the same vein, following the conclusion of the China-ASEAN FTA, Japanese firms operating in Southeast Asia also felt threatened by their Chinese competitors.

provide significant merits for [Japanese companies'] trade in flat panel televisions within the region" (Morihiro 2008). In this vein, Japanese electric appliance manufacturers such as Panasonic and Sony will be able to import components for LCD TVs from Japan, assemble them into products in their respective plants in Thailand, and from there export the finished products to third countries within ASEAN without any tariffs being levied. In the same way, Japanese companies operating in Southeast Asia in the automobile, auto parts, textile and garments industry, will also benefit from the Japan-ASEAN FTA (Yamazawa 2004: p.23; Hiratsuka et al. 2007: p.318; Corning 2009: p.653). In the case of the automobile and auto parts industry, the Japan-ASEAN FTA will enable Toyota Motors, for instance, to manufacture gasoline engine blocks in Indonesia, power steering gears in Malaysia, transmission parts in the Philippines, diesel engine parts and auto body stamping in Thailand, put it all together into an automobile in its assembly plant in Vietnam and then export throughout the region without any trade barriers<sup>58</sup> (Prasirtsuk & Suzuki 2004: p.3-4).

On another note, besides trade facilitation, Japan's FTA proposal to ASEAN was also motivated by "goals of securing access to [third] markets [outside ASEAN]" (Corning 2009: p.648). In this vein, by concluding an FTA with ASEAN, Japanese firms with production networks in Southeast Asia will be able to export their products to the US and EU markets at a zero tariff (Yun 2004: p.17). Furthermore, Southeast Asia also offers an alternative investment and export destination for Japan, in case the Japan-China relations hit rock bottom as it did in 1998 and again in 2005 when violent anti-Japan demonstrations were witnessed in several Chinese cities, over differences in interpretation of wartime history (Percival 2006: p.2; Yoshimatsu 2008b: p.10; Solis 2008: p.17). As Chia (2003b: p.3) explains, "a formalized relationship between Japan

---

<sup>58</sup> For discussions on the impact of the Japan-ASEAN FTA on Japanese companies in the textile and garments industry, see Hiratsuka et al 2009: p.16.

and ASEAN will [not only] help consolidate Japan's trade and investment relations with Southeast Asia [but also] help Japan avoid putting all its investment eggs in the China basket".

## **4.2. Regional Politics Centered Analysis**

### **I. Japan-China Rivalry for Influence in Southeast Asia**

The Japan-ASEAN relations began over 30 years ago while the China-ASEAN relations started mainly in the 1990s. Similarly, Japan's pursuit of FTAs predates China's initiative by at least two years. However, as far as strengthening its relations with ASEAN member states through an FTA, China took the lead over Japan by initiating an FTA with the group ahead of Japan (Masaki 2006a). Actually, before China proposed an FTA to ASEAN, Japan had been reluctant in forming an FTA with the group, turning down, in October 2000, ASEAN's proposal for a joint study on a potential Japan-ASEAN FTA (Oba 2003: p.176). However, given the Japan-China rivalry for influence and leadership in the region, initiatives taken by either party is often met by responses from the other (Yoshimatsu 2004: p.18). Thus, against this backdrop, China's FTA drive towards ASEAN left Japan "faced [with] an urgent need to enhance its traditional, good-old relations with ASEAN, geopolitically, as well as to deepen economic interdependence economically (Aki 2004: p.15; see also Terada 2006: p.10). As Toshiya Tsugami, then a senior official with Japan's Ministry of Economy, Trade and Industry (METI) clearly explained, "the prospect of an ASEAN-China FTA stunned and shocked Japan" as Japan feared that China would use its FTA with

ASEAN to “kick out Japan from the East Asian economic and political circles” (Terada 2009: p.10).

The Japan-China race in establishing FTAs with ASEAN is “not only to counter the trade discrimination and distortion that an FTA without them would create, but also to compete for the dominant leadership position in the region” (Munakata 2003; see also Oba 2007: p.104-107). Against this backdrop, startled by China’s proposal for the establishment of the China-ASEAN FTA and also concerned that Beijing’s growing influence in Southeast Asia would snatch its traditional political and economic leadership role in the region, just two months following China’s proposal, Japan responded in January 2002 with its own proposal for the establishment of the Japan-ASEAN FTA. The timing of Japan’s FTA proposal clearly demonstrates that it was more of a counteraction and/or a defensive response to China’s FTA proposal, rather than a sign of Japan having a clear and genuine interest in establishing an FTA with the ASEAN group. Tokyo views the Japan-ASEAN FTA, as a vehicle to strengthen its political and economic linkages with ASEAN member states on one hand, and counterbalance Beijing’s growing influence in Southeast Asia, on the other (Terada 2004: p.69; Aoki 2004: p.10-11; Pangetsu 2005: p.211-212; Yoshimatsu 2007a: p.3-7).

Given ASEAN’s top priority of addressing the huge development gap that exists between its rich (ASEAN-6) and poor (ASEAN-4) members coupled with the idea that the Mekong River basin holds the key to the development of the Mekong region, the Japan-China tug-of-war for influence in Southeast Asia “opened a new front [in] the Mekong River basin [and] moves by Japan and China to help the development of the Mekong River basin have intensified in recent years” (Masaki 2007). Japan has traditionally been a major aid donor (Table 4.3) to ASEAN member states, however, China’s recent initiatives towards the CLMV (Cambodia, Laos, Myanmar and Vietnam)

countries started to erode Japan's influence in the region. Furthermore, Japan is also concerned with the increasingly closer ties between China and Myanmar, which could grant Beijing access to vital shipping lanes in the Indian Ocean and most importantly "a wedge position within ASEAN" (Green 2003: p.183). Consequently, most likely to keep China's fast growing influence in the Mekong region at bay, Japan has increased its own initiatives towards the CLMV making these "economically undeveloped [countries] the focus of its ODA efforts in the ASEAN area" (Saruwatari 2009).

Table 4.3: Japanese ODA and Loans to ASEAN 2000-2007 (unit: US\$ millions)<sup>59</sup>

	2000	2001	2002	2003	2004	2005	2006	2007
<b>Cambodia</b>	99.21	120.21	98.58	125.88	86.37	100.62	106.28	113.56
<b>Indonesia</b>	970.10	860.07	538.30	1,141.78	-318.54	1,223.13	-73.92	-222.46
<b>Laos</b>	114.87	75.47	90.09	86.00	71.73	54.06	64.07	81.46
<b>Malaysia</b>	23.94	13.11	54.15	79.15	256.50	-2.14	201.92	222.97
<b>Myanmar</b>	51.78	69.86	49.39	43.08	26.81	25.49	30.90	30.52
<b>Philippines</b>	304.48	298.22	318.02	528.78	211.38	276.43	263.63	222.16
<b>Thailand</b>	635.25	209.59	222.43	-1,002.22	-55.59	-313.89	-453.33	-477.35
<b>Vietnam</b>	923.68	459.53	374.74	484.24	615.33	602.66	562.91	640.04

Source: MOFA (White Paper on Official Development Assistance, various issues)

<sup>59</sup> Brunei and Singapore are not included in the table because these two states have already "graduated" from the ODA recipient status.

In this context, Japan has undertaken two flagship projects under the Greater Mekong Sub-region (GMS) Programme. One is the East-West Corridor which connects Vietnam, Laos, Thailand and Myanmar, and the other is the Second East-West Corridor which connects Cambodia with its neighboring countries. Aiming at playing a role in reducing the development gap that exists between the ASEAN-6 and ASEAN-4, Japan contributed over US\$4 million to twenty-four projects related to human resource development. Similarly, under the Japan-ASEAN Plan of Action, Japan pledged to provide US\$1.5 billion between 2003 and 2006, for various development projects in the Mekong region. Under the Japan-Mekong Region Partnership Program adopted in 2004, Japan pledged to increase its ODA to each CLMV country and to Southeast Asia as whole until the end of 2009. To further promote the Japan-ASEAN economic partnership, Japan also provided US\$52 million to the ASEAN Secretariat, of which US\$40 million was allocated to the CLMV countries and from this amount US\$20 million was assigned for use in the CLV Development Triangle (Kawaguchi 2003; ASEAN 2007; MOFA 2008b: p.103; Sudo 2009: p.151-154).

In the same vein, in 2008 Japan provided Cambodia with a JP¥330 million grant aid (about US\$3.6 million)<sup>60</sup> to help reduce poverty in the country and another JP¥1.39 billion grant aid (about US\$15.1 million) to improve health and hospital facilities. More recently, in 2009, Japan granted a JP¥1.5 billion (about US\$ 1.6 million) and a JP¥54.9 billion (US\$ 600million) ODA loan to Laos and Vietnam, respectively, to support economic and social development projects aimed at reducing poverty in these two countries (Hsiao & Yang 2009; JICA 2009; MOFA 2009b). Besides ODA, Japan's recent initiatives towards the CLMV countries also include bilateral investment

---

<sup>60</sup> Calculated JP¥90.77 per US\$1.

agreements with Cambodia and Laos, the Japan-Mekong Region Ministerial Meeting, the Japan-Mekong Summit as well as several other projects, such as providing information technology support and other means of assistance to the ministries of foreign affairs of the CLMV countries (Iijima 2008: p.11-12; Sudo 2009: p.150).

## **II. Secure Sealandes**

Japan is a resource scarce island nation heavily dependent on sea lanes for its trade and imports of raw materials. According to the Japanese Ship owners' Association (JSA), "seaborne trade accounted for 68.2 percent and 99.7 percent of Japan's trade in terms of value and tonnage, respectively" (JSA 2004: p.2). Therefore, Southeast Asian states are of strategic importance to Japan not only as sources of raw materials and markets, but also because of their geographical location along vital sea lanes on which flows the lifeblood of the Japanese economy. For instance, more than 80 percent of Japan's oil imports as well as 60 percent of its Liquefied Natural Gas (LNG) imports transit through Southeast Asian waters, mainly the Straits of Malacca and Lombok. However, Southeast Asian waters, especially the Malacca Straits, are under constant threat of piracy attacks<sup>61</sup>. For instance, between 1999 and 2003 alone, 96 ships related to Japan came under attack by pirates. Such attacks are of great concern to Japan, because, they not only cost to the country between US\$10 to US\$15 million a year but also pose a threat to its economic and energy security (Nishihara 2003: p.156-157; Bradford 2004: p.483-485; Chaikin 2005: p.135; Percival 2006: p.2).

---

<sup>61</sup> Southeast Asian waters accounted for more than 40 percent of the world's piracy attacks in 2003, with 121 of these attacks taking place in the Malacca Straits alone, making it the world's most piracy prone area. See Valencia 2005: p.103.



Similarly, the likelihood of conflicts over territorial claims in the South China, do threaten Japan's economic and energy security. For instance, in the event the Malacca Straits or the South China Sea is cut off by a military conflict, a terrorist attack and/or piracy, oil tankers carrying oil from the Middle East region to Japan will have to be diverted to alternative routes, which in turn will cost Tokyo an additional US\$300,000 per tanker and incur losses at around US\$300 million (Akimoto 2001: p.6-8). Furthermore, according to the state run Japan Oil, Gas and Metals National Corporation (JOGMEC), as of March 2006, in the event of disruptions in its oil imports Japan's emergency oil stockpiles were good enough only to sustain its economy for approximately 168 days (JOGMEC 2007). Therefore, given that any disruptions at chokepoints in the sealanes on which its energy lifeline as well as its trade transits could jeopardize its economy, Japan had to take a proactive role in Southeast Asia.

However, despite the aforementioned threats to its economic and energy security and the fact that Japan has one of the world's most advanced military forces, Tokyo has its hands tied behind its back because its pacifist constitution<sup>62</sup> as well as considerable political restraints at home and abroad, make it difficult for Japan to unilaterally deploy its forces beyond Japanese territorial waters (Lam 2002: p.8; Nishihara 2003 p.154-155; Bradford 2004: p.480; Khurana 2005: p.303). Furthermore, of the three countries with jurisdiction over the Malacca Straits, namely Singapore, Malaysia and Indonesia, only Singapore is somehow positive about the presence of foreign military personnel in the Malacca Straits to fight piracy (Sato 2007: p.4-5; Storey 2008: p.113-114). In this vein, Japan addressed this predicament by framing the sealane security issue "as a matter of

---

<sup>62</sup> Article 9 of the Constitution of Japan states that "Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes" (National Diet Library 2003-2004).

civilian law enforcement and assigned this role to its Coast Guard<sup>63</sup> rather than to the constitutionally-constrained Maritime Self-Defense Force” (Fouse & Sato 2006: p.3-6; see also Christoffersen 2009: p.115-116).

Against this backdrop, starting in 2000 through 2004, Japan initiated a series of bilateral training exercises between its Coast Guard and the maritime forces of Malaysia, Indonesia, Vietnam, Thailand and Singapore. In November 2001, at the ASEAN Plus Three Summit in Brunei, Japanese Prime Minister Koizumi proposed the establishment of a government-level working group to study the formulation of a regional cooperation agreement related to anti-piracy measures. This led to the birth of the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP). At a ReCAAP meeting held in November 2004 in Tokyo, 16 nations agreed to set up an Information Sharing Center (ISC) in Singapore, to which Japan contributed US\$350,000. The ReCAAP initiative went into effect in September 2006 (Ho 2006: p.570-571; Percival 2006: p.4).

Under the ReCAAP, Japan has not only financed initiatives of the International Maritime Organization (IMO) such as providing seed money for the IMO sanctioned Anti-Piracy Center in Kuala Lumpur but, has also been proactively helping Southeast Asian states upgrade their maritime facilities and forces. In 2005, Japan pledged US\$70 million in assistance for ASEAN Integration but expects some part of this amount to be used for enhancing security in the Malacca Straits. In the same vein, in 2006 Tokyo offered three patrol boats to Indonesia and more recently, in 2009, pledged to provide Indonesia with an additional US\$300 million over the next three years to help the country improve its Sea Security Coordination Agency (SSCA). Similarly, in 2008

---

<sup>63</sup> Unlike in countries such as the U.S. and India where the Coast Guard is a branch of the military, in Japan, the Coast Guard is a civilian force under the jurisdiction of the Ministry of Land, Infrastructure, Transport and Tourism.

Japan offered US\$4.7 million to the Malaysian Maritime Enforcement Agency (MMEA) to upgrade its radar facilities (MOFA 2006; Storey 2008: p.123; Sudo 2009: p.149; Bernama 2009).

### **4.3. Domestic Politics Centered Analysis**

#### **I. Stimulus for Domestic Growth and Structural Reforms**

During the post World War II period, Japan had made use of international frameworks (e.g. GATT, WTO and OECD) as well as *gaiatsu* (outside or foreign pressure), predominantly from the United States to carry out domestic structural reforms. However, with the growing regionalism in North America and Europe, in addition to the slow and painstaking nature of the multilateral trade negotiations under the WTO/GATT framework, the use of international frameworks and *gaiatsu* to promote domestic reforms has become less effective in recent times. Furthermore, the collapse of Japan's bubble economy<sup>64</sup> and the ensuing decade long economic recession left Japan faced with a pressing need to revitalize its stagnant economy as well as to regain competitiveness. Hence, Japan turned to FTAs as a policy option to promote structural reform as well as to revitalize and strengthen its long stagnant economy (Hatakeyama 2002; Pempel & Urata 2006: p.77-78; Urata 2007: p.76-77; Yoshimatsu 2008a: p.12). Despite these and other aforesaid motivations that led Japan to pursuit FTAs, domestic politics proved to be a major challenge for Japan.

Japan's trade negotiations are usually undertaken by an inter-ministerial committee, constituted by representatives of the Ministry of Economy, Trade and

---

<sup>64</sup> Term used to refer to the collapse of housing and equities that hit Japan between the early 1990s and the early 2000s. This period is often referred as Japan's "lost decade".

Industry (METI), the Ministry of Foreign Affairs (MOFA), the Ministry of agriculture, Forestry, and Fisheries (MAFF) and the Ministry of Finance (MOF). In the case of the Japan-ASEAN FTA negotiations, such inter-ministerial committee was put together in March 2003. However, such an inter-ministerial committee is prone to be faced with “sectionalism” and rifts between ministries, as each ministry tends to hold on to its own version of national interest. This fact, coupled with the influences and diverging interests of Japan’s two major lobby groups, *Nippon Keidanren* (the Federation of Economic Organizations) and *Zenchu* (the Central Union of Agricultural Cooperatives) as well as the self-interest of politicians from the Liberal Democratic Party (LDP) with close ties to either one of these lobby groups, makes it hard for Japan to be able to go to the trade negotiations table with a unified strategy (Aoki 2004: p.9; Prasirtsuk & Suzuki 2004: p.10; Yoshimatsu 2007: p.81-84).

Against this backdrop, agricultural liberalization proved to be an Achilles’ heel for Japan in its pursuit of the Japan-ASEAN FTA, given that agriculture accounts to 15% of the gross domestic product (GDP) in the Philippines and Indonesia, and over 45% of the GDP in Cambodia, Laos, and Myanmar (Heng 2007: p.39). Although accounting for only 1.1% of Japan’s GDP and 4.6% of its total employment, the agricultural sector has been able to exert strong influence on the direction of Japan’s trade policy. MAFF bureaucrats, along with *Zenchu* and members of then ruling LDP, the so called *Norin Zoku* (agricultural tribe)<sup>65</sup>, have formed the “agricultural policy triangle” which has long been a formidable force against agricultural trade liberalization. In fact, it was bowing to domestic protectionist pressures that Japan

---

<sup>65</sup> The Liberal Democratic Party (LDP) has ruled Japan since 1955 except between 1993 and 1994 and more recently following its defeat in the general election held in August 30, 2009. *Norin-zoku* (agricultural tribe) refers to influential members of the LDP who depend on the farm electorate for votes, monetary contributions and other forms of political support, and in return have long vetoed any reforms in the agricultural sector.

could not include in the Japan-ASEAN FTA “sensitive products” such as rice, wheat, beef, pork, sugar and dairy products (Yun 2004: p.30-31; Ahearn 2005: p.9; Masaki 2006b; Urata 2007: p.116-117).

Notwithstanding the hurdles posed by the agricultural sector, METI and MOFA, the two ministries at the forefront of trade liberalization and structural reform actively pushed forward for Japan to jump into the FTA bandwagon. METI in its 2001 White Paper called FTAs as “domestic structural reform catalyst” and added that FTAs “will be vital in ensuring early domestic structural reform” (METI 2001: p.223). In the same line of thought, in a 2002 report MOFA stated that “Japan cannot secure the advantages of FTAs without enduring some pain arising from the opening of its markets” and that unless Japan links “FTAs to economic reforms [it] will not succeed in making [FTAs] a means of improving the international competitiveness of Japan as a whole” (MOFA 2002). MOFA went further by declaring ASEAN as one of the “most likely” FTA partners for Japan. Similarly, to counter domestic protectionist groups, Japan’s major business lobbies<sup>66</sup> lead by *Nippon Keidanren* organized an intensive lobbying effort starting with a policy statement released in December 2005, which outlined the need for a speedy conclusion of the Japan-ASEAN FTA, as without it Japanese business would be left in an increasingly disadvantageous position vis-à-vis their Chinese and Korean competitors in Southeast Asia (Keidanren 2005; Manger 2005: p.28-30; Yoshimatsu 2007a: p.12-13; Corning 2009: p.649-650).

In the same vein, despite fierce opposition from *Zench* and *Norin Zoku* against trade liberalization, realizing that FTAs and EPAs could be used as a useful engine to promote domestic structural reforms and that the revitalization of the Japanese

---

<sup>66</sup> Japan’s four major business lobbies are *Keidanren* (Federation of Economic Organizations), the Japan Chamber of Commerce and Industry, *Keizai Doyukai* (Japan Association of Corporate Executives) and the Japan Foreign Trade Council, Inc.

economy as well as its long-term competitiveness is to some extent dependent on the benefits brought by free trade and economic partnership agreements, Japanese leaders, particularly Prime Minister Junichiro Koizumi who vowed not to budge “an inch from my posture of ceaselessly carrying out structural reforms without sanctuaries”<sup>67</sup>, actively pushed for the Japan-ASEAN FTA, given that such an FTA would work as a *gaiatsu* to usher in a greatly needed new round of reforms in Japan (Munakata 2002: p.32-34; Prasirtsuk & Suzuki 2004: p.5-6; Terada 2006b: p.15).

## 5. Conclusion

This study has sought to analyze the motivations behind Japan’s interest in initiating an FTA with ASEAN member states. It has made the argument that Japan’s initiative was based on international, regional and domestic motivations. In this context, the findings of this study are the following:

Firstly, Japan was motivated to initiate the Japan-ASEAN FTA to strengthen and renew its own foothold in East Asia in particular, and in Asia in general. It’s against this backdrop that Japan wants to expand the Japan-ASEAN FTA into a Comprehensive Economic Partnership in East Asia. Also Tokyo initiated the Japan-ASEAN FTA so as to improve the business environment of its multinational corporations (MNCs) that have set up productions base throughout Southeast Asia, hoping that the Japan-ASEAN FTA not only enables Japanese MNCs to overcome the trade barriers they have faced under the AFTA Rules of Origin but also to be in an equal footing vis-à-vis their competitors in the region. Moreover, Japan sees Japan-

---

<sup>67</sup> Kantei (October 18, 2002): “General Policy Speech by Prime Minister Junichiro Koizumi to the 155th Session of the Diet”, retrieved March 2, 2010 from [http://www.kantei.go.jp/foreign/koizumispeech/2002/10/18sisei\\_e.html](http://www.kantei.go.jp/foreign/koizumispeech/2002/10/18sisei_e.html)

ASEAN FTA as a vehicle through which it can diversify its investment and exports destination.

Secondly, the China-ASEAN FTA coupled with the prospects of China's growing clout in Southeast Asia overshadowing Japan's traditional economic and political leadership role in the region, made Tokyo very concerned. Thus, in response Tokyo initiated the Japan-ASEAN FTA as a means to root its own clout in Southeast Asia and at the same time to counterbalance China's growing influence. On the other hand, for Japan, a resource scarce island nation, sea-lanes are its lifelines. Thus, enhanced cooperation, through the Japan-ASEAN FTA, with ASEAN member states located along vital sea lanes would enable Japan to play a role in maintaining these lanes open. Finally, Tokyo saw the Japan-ASEAN FTA as a much needed *gaiatsu* that would bring about domestic reforms as well as provide a stimulus for domestic growth in the aftermath of "lost decade".

## **Chapter - 5**

### **1 - Summary and Conclusion**

This dissertation has explored the factors behind the Chinese and the Japanese decision to embark on the establishment of FTAs with ASEAN. In order to shed light on the factors that have influenced the formation of the China-ASEAN FTA and the Japan-ASEAN FTA, this dissertation has found that international, regional and domestic factors influenced both China and Japan to form their respective FTAs with ASEAN.

China which is concentrated on its economic development aimed at making the country into an economic superpower in the coming decades, cannot afford to let the perception of its Southern neighbors about a perceived “China threat” cause frictions and as a result derail its “peaceful rise”. Against this backdrop, the China proposed China-ASEAN FTA serves Beijing’s interest in allaying ASEAN member states’ fear about china and thus create a stable environment that ensures the progress of China’s economic development. Also, with China’s rapid economic growth, industrial production surpassed its domestic demand and thus Beijing needed to find alternative markets for its exports. However, given that “Made in China” products are often subject to stiff export quota restrictions and arbitrary anti-dumping suits, China pushed for a China-ASEAN FTA so that its exports would not be dependent of a few markets (the United States, Japan and E.U.). Furthermore, the China-ASEAN FTA will also



make it possible for Chinese products “Made in ASEAN” to enter markets where “Made in China” products are subject to trade barriers.

Japan, on the other hand, given its legacy from the World War II, viewed itself as a separate entity from the rest of Asia and refrained from taking leadership positions in East Asia so as to not create negative perceptions among the countries in the region. However, following the burst of its “bubble economy” and the subsequent stagnation of the Japanese economy in addition to “Japan passing”, Tokyo proposed the establishment of the Japan-ASEAN FTA in order to renew its old ties with ASEAN and in the process strengthen its influence in East Asia as well as demonstrate Tokyo’s constructive engagement in the region. Similarly, trade facilitation for Japanese multinational corporations operating in Southeast Asia also influenced Japan’s motivation to launch the FTA with ASEAN. Given that Japanese production bases located in Southeast still do rely to a great extent on high-tech and high value added components imported from Japan, their finished goods are levied very high tariffs when exported from one ASEAN member state to another. Furthermore, with the conclusion of the China-ASEAN FTA and the Korea-ASEAN FTA, Japanese companies found themselves in increasingly disadvantageous position vis-à-vis their Chinese and Korean competitors. Thus, the Japan-ASEAN FTA aimed at removing the trade barriers faced by Japanese companies in Southeast Asia as well as reducing Tokyo’s heavy reliance on China as an FDI destination. Similarly, the Japan-ASEAN FTA will enable Japanese companies to stand on equal footing vis-à-vis their competitors.

Both China and Japan were motivated to form their respective FTA with ASEAN in order to increase their own influence in the region vis-à-vis each other. The CLMV countries became the venue where both China and Japan, aspiring to strengthen their respective ties with ASEAN, adopted several initiatives aimed at playing a role in

reducing the development gap between the ASEAN-6 and the ASEAN-4. Accordingly, China's FTA initiative towards ASEAN was influenced by a shift in Japan's trade policy. With the launch of Tokyo's FTA talks with Korea and Singapore, Beijing realized that it was being left out and thus launched its own FTA with ASEAN. Moreover, given its rivalry with Japan over leadership in the region, under its FTA with ASEAN China adopted measures such as offering to ASEAN the Early Harvest Program (EHP) and also providing the CLMV countries with aid and loans that would enable Beijing to woo ASEAN and at the same time position itself in an advantageous position vis-à-vis Japan.

Japan, on the other hand, had been reluctant to form an FTA with ASEAN. However, shocked by the launch of the China-ASEAN FTA and China's rapidly expanding influence in the region, just two months following Beijing's FTA proposal towards ASEAN, Tokyo followed suit by proposing its own Japan-ASEAN FTA. Fearing that the China-ASEAN FTA could erode its traditional political and economic leadership built over the course of more than three decades, Japan was left with no other alternative but to take steps to renew its ties with ASEAN through a Japan-ASEAN FTA. In the same way, concerned that China's initiatives towards the CLMV countries could undermine its influence in the Greater Mekong Subregion, Japan aiming at countering China's advances in the region turned the CLMV countries as the focus of its ODA heading to ASEAN.

Similarly, both China and Japan rely to a great extent on Southeast Asian choke points, such as the Malacca Straits, to conduct their trade with the world as well as to import raw materials and energy resources. Beijing and Tokyo's heavy dependence on Southeast Asian waters has become a matter of concern as Southeast Asian choke points have become increasingly susceptible to piracy attacks in addition to the

likelihood that an outbreak of conflicts over territorial claims in the South China and/or a China-US conflict could cut off the Sealanes on which China and Japan depend to necessary to sustain their respective economies.

As for China, given the lack of a blue-water navy that can be projected beyond coastal waters to protect its strategic Sealanes, Beijing needed to find alternative routes that would enable it to reduce its dependence on Southeast Asian waters. In this context, given Myanmar's strategic location wedged between South, East and Southeast Asia, China has developed very close ties with the ruling Junta in order to gain access to the Indian Ocean and the oil rich Middle East region. Unlike China, Japan has a formidable military force with blue-water operation capabilities but because of constraints at home and abroad, Tokyo cannot unilaterally deploy its forces to combat the growing number of piracy attacks against its ships. Thus, Japan has pushed for bilateral cooperation between its Coast Guard and the maritime forces of Southeast Asian countries as well as providing them with financial support to upgrade their facilities. Tokyo has also played a role in establishing the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP).

China sees its FTA with ASEAN as a vehicle to address the uneven development between its affluent coastal provinces and its poorest and less developed Southwestern provinces (Guangxi, Yunnan and Hainan Island). As social instability in the less developed provinces could lead to unrest and consequently pose challenges to the rule of the Chinese Communist Party, China hopes to link the China-ASEAN FTA with the development of these provinces. In this vein, the Chinese government has launched several measures such as integrating these provinces in the Greater Mekong Subregion, establishing the China-ASEAN EXPO (CAEXPO) in the Guangxi province, among other initiatives, to enable these provinces to benefit from closer China-ASEAN

ties. On another note, China also sees its FTA with ASEAN as a mechanism to strengthen its economic and political ties with the ASEAN group vis-à-vis Taiwan and on the other hand to isolate the Island nation. Closer China-ASEAN ties could leave Taiwan with increasingly less space to maneuver and less support in the region for its move towards becoming an independent state.

Japan, for its part, following the burst of its “bubble economy” in the early 1990s was in need of structural reforms to revitalize its economy and to regain competitiveness. However, given that the use of external pressure and/or international frameworks to promote domestic reforms is no longer viable, Japan has turned to FTAs. Against this backdrop, Tokyo hopes that the Japan-ASEAN FTA becomes a force that ushers in a new wave of domestic reforms in Japan.

This dissertation has come to the conclusion that not one single factor but rather a multitude of international, regional as well as domestic factors have influenced the formation of the China-ASEAN FTA and the Japan-ASEAN FTA, with the China-Japan rivalry for influence and leadership in East Asia being the main driving force.

## References:

Aggarwal and Koo (2005): "Beyond Network Power? The Dynamics of Formal Economic Integration in Northeast Asia," *The Pacific Review*, Vol. 18 No.2, pp.10.

Ahearn, Raymond J. (2005): "Japan's Free Trade Agreement Program," CRS Report for Congress, pp.1-9.

Ibid. (2006): "Economic and Security Regionalism: Shifting Ground: Is It Finally Time?," *Global Asia* 1 (1): pp.27-41.

Ibid. (2008): "Economic and Security Institution Building in Northeast Asia," in Aggarwal et al. (Eds.) "Northeast Asian Regionalism," Springer, pp. 4-7.

Ahearn, Raymond, J. (2005): "Japan's Free Trade Agreement Program," Congressional Research Service, the Library of Congress, pp. 9-10.

Akeda, Yukari (2005): "Discriminate or Not Discriminate? Japan's Dilemma over its FTA Strategy and Multilateralisms," Paper presented at the 5<sup>th</sup> Annual Conference of the CSI, November 16-18, pp.10-16.

Akimoto, Kazumine (2001): "The Current State of Maritime Security: Structural Weakness and Threats in the Sea Lanes," Paper Presented at the Conference on "Maritime Security in Southeast Asia and Southwest Asia," IIPS, Tokyo, December 11-13, pp.6-8.

Akrasanee, Narongchai & Prasert, Apichart (2003): "The Evolution of ASEAN-Japan Economic Cooperation," in Japan Center for International Exchange (eds.) "ASEAN-Japan Cooperation: A Foundation for East Asian Community," Tokyo, pp.66-69.

Aoki, Maki (2004): "New Issues in FTAs: The Case of Economic Partnership Agreements between Japan and ASEAN Countries," IDE APEC Study Center, Working Paper Series 03/04 - No. 8, pp.8-15.

ASEAN Secretariat (2001): "Forging Closer ASEAN-China Economic Relations in the Twenty-First Century," report submitted by the ASEAN-China Expert Group on Economic Cooperation, retrieved April 27, 2009 from [http://www.aseansec.org/newdata/asean\\_chi.pdf](http://www.aseansec.org/newdata/asean_chi.pdf)

Ibid. (2004): "Joint Statement of ASEAN-China Commemorative Summit," retrieved April 18, 2009, from <http://www.aseansec.org/18894.htm>

Ibid. (2007): "Third Executive Report Progress of Implementation of the ASEAN-Japan Plan of Action," retrieved February 8, 2010 from <http://www.aseansec.org/20462.htm>

Ibid. (2009a): "Top Ten Sources of ASEAN Foreign Direct Investments Inflow," retrieved November 20, 2009, from <http://www.aseansec.org/Stat/Table27.pdf>

Ibid. (2009b): "Joint Press Release of the First ASEAN-Japan Forum Jakarta, 23 March 1977," retrieved November 17, 2009 from <http://www.aseansec.org/5768.htm>

Asian Development Bank (2004): "Asian Development Outlook 2004," retrieved July 7, 2009, from <http://www.adb.org/DOcuments/Books/ADO/2004/prc.asp>

Asia Times (April 24, 2007): "China-Myanmar pipeline projects on track," retrieved September 15, 2009, from [http://www.atimes.com/atimes/China\\_Business/ID24Cb01.html](http://www.atimes.com/atimes/China_Business/ID24Cb01.html)

Ba, Alice D. (2003): "China and ASEAN: Renavigating Relations for a 21<sup>st</sup>-Century Asia," *Asian Survey*, 43:4, pp. 623-641.

Ibid. (2006): "China-ASEAN Relations: The Significance of an ASEAN-China Free Trade Area," in Cheng, Tun-Jen, Delisle, J. and Brown, D. (eds.) "China under Hu Jintao: Opportunity, Dangers and Dilemmas," World Scientific, pp.312-347.

Baldwin, Richard (1995): "A Domino Theory of Regionalism," Centre for Economic Policy Research Working Paper 857. London: CEPR.

Ibid. (2007): "The Spoke Trap: Hub-and-Spoke Bilateralism in East Asia," in Eichengreen, Barry et al. (Eds.) "China, Asia, and the New World Economy," Oxford University Press, pp. 51-52.

Barfield Claude (2004): "The United States, China and the Rise of Asian Regionalism," Paper presented at the Western Economics Association Annual Conference Vancouver, British Columbia, June 29, pp.22-24.

Ibid. (2007): "The Dragon Stirs: China's Trade Policy for Asia- And the World," *Arizona Journal of International and Comparative Law*, pp. 18.

Beech, Hannah (2005): "Deals and Diplomacy," Time Asia, May 23, retrieved from [http://www.time.com/time/asia/2005/china\\_resource/story.html](http://www.time.com/time/asia/2005/china_resource/story.html).

Beeson, Mark (2003): "ASEAN Plus Three and the Rise of Reactionary Regionalism," The University of Queensland, pp. 14.

Beeson, Mark & Yoshimatsu, Hidetaka (2006): "Asia's Odd Men Out: Australia, Japan, and the Politics of Regionalism," CSGR Working Paper Series No 196/06, March pp.10-11.

Bergsten, Fred C. (2000): "East Asian Regionalism: Towards a Tripartite World," The Economist, 15 July, pp. 19-22.

Ibid. (2007): "A Free Trade Area of the Asia Pacific in the Wake of the Faltering Doha Round: Trade Policy Alternatives for APEC," in Morrison, Charles E. & Pedrosa, E. (eds.) "An APEC Trade Agenda? The Political Economy of a Free Trade Area of the Asia Pacific," PECC & APEC Business Advisory Council, pp.17.

Bernama (January 06, 2009): "4 Countries to Help Indonesia Boost Sea Security," Malaysian National Press Agency, retrieved February 1, 2010 from <http://www.bernama.com.my/bernama/v5/bm/newsworld.php?id=381756>

Bradford, John F. (2004): "Japanese Anti-Piracy Initiatives in Southeast Asia: Policy Formulation and the Coastal State Responses," Contemporary Southeast Asia 26, No. 3, pp.480-493.



Bhagwati, Jagdish (1996): "Regionalism and Multilateralism: an overview," in De Melo, Jaime and Panagariya, Arvind (Eds.) "New Dimensions in Regional Integration," Cambridge University Press, pp. 38-39.

Breslin, Shaun (2007): "Theorising East Asian Regionalism (s): New Regionalism and Asia's Future(s)," in Curley, Melissa G. and Thomas, Nicholas (Eds.) "Advancing East Asian Regionalism," Routledge, New York, NY, pp.37-41.

Brooke, James (2001): "Ready for W.T.O. Talks, and Ready to Deal," New York Times, November 9.

Buszynski, L. (1999): "Historical Perspectives of Relations within Northeast Asia," in Akaha, T. (Eds.) "Politics and Economics in Northeast Asia: Nationalism and Regionalism in Contention," Macmillan, London.

Cai, Peng Hong (2005): "Non-traditional Security and China-ASEAN Relations: Cooperation, Commitments and Challenges," in Ho, Khai Leong & Ku, Samuel C. Y. (eds.) "China and Southeast Asia: Global Changes and Regional Challenges," Institute of Southeast Asian Studies, pp.152-163.

Cai, Kevin G. (2005): "The China-ASEAN Free Trade Agreement and Taiwan," *Journal of Contemporary China* (2005), 14(45), November, 585–597, pp.591-592.

Ibid. (2006): "Mutual WTO Membership, FTAs and Cross-Taiwan Straits Relations," paper presented at the 6<sup>th</sup> International Conference on China and WTO, Beijing, October 27-29, pp.4-6.

Calder, Kent E. (2006): "China and Japan's Simmering Rivalry," *Foreign Affairs Magazine*, Vol. 82, No.2, pp.129-135.

Capie, David (2003): "Rival Regions? East Asian Regionalism and Its Challenge to the Asia-Pacific," in Rolfe, J. (eds.) "The Asia-Pacific: A Region in Transition," Honolulu: Asia-Pacific Center for Security Studies, pp.154-156.

Casanova, Manuel F. (2005): "The U.S. Singapore Free Trade Agreement," Nova Publishers, pp. 3-4.

Chaikin, Greg (2005): "Piracy in Asia: International Co-operation and Japan's Role," in Johnson Derek, Valencia Mark & Valencia Mark J. (eds.) "Piracy in Southeast Asia: Status, Issues, and Responses," ISEAS, Singapore, pp.135.

Chanborey, Cheunboran (2009): "China's Soft Power in Southeast Asia," *Cambodian Journal of International Affairs (CJIA)*, Volume 2, November 1, pp.2-3.

Chanda, Nayan (1990): "The External Environment for Southeast Asian Foreign Policy," in Wurfel, David and Burton, Bruce (eds.) "The Political Economy of Foreign Policy in Southeast Asia," N.Y., St. Martin's Press, pp. 68.

Chandra, Alexander C. (2005): "The Political Economy of ASEAN and APT: A Civil Society Perspective," Institute for Global Justice, Paper Presented at the Regional Conference on Southeast Asian Civil Society Engagement with ASEAN, Bangkok, October 3-5, pp.10.

- Chanlett-Avery, Emma (2008): "Rising Energy Competition and Energy Security in Northeast Asia: Issues for U.S. Policy," Congressional Research Service, pp.7-17.
- Chen, Jie (2002): "Foreign Policy of the New Taiwan: Pragmatic Diplomacy in Southeast Asia," Edward Elgar Publishing, UK, pp.16-24.
- Ibid (2005): "Taiwan's Diplomacy in Southeast Asia: Still Going South?," in Ho, Khai Leong & Ku, Samuel C. Y. (eds.) "China and Southeast Asia: Global Challenges and Regional Challenges," ISEAS, Singapore, pp.239-243.
- Cheng, Allen T. (2005): "China won't compromise in its claim over Taiwan: general," China Post, November 15, available at <http://www.chinapost.com.tw/asia/2005/11/15/71956/China-won't.htm>
- Cheng, Joseph Y. S. (2001): "Sino-ASEAN Relations in the Early Twenty-First Century," Contemporary Southeast Asia, Vol. 23, pp. 425-426.
- Cheong, Inkyo (2002): "Regionalism and FTAs in East Asia," Paper Presented at the Asian Economic Panel Meeting, Keio University, Tokyo, 13~15 May, pp.14-15.
- Ibid. (2004): "East Asian Economic Integration: Implications for a U.S.-Korea FTA," Inha University, Department of Economics, pp. 5-6.
- Cheong, Inkyo & Kwon, Kyong Deok (2005): "Assessing the Quality of FTAs and Implications for East Asia," paper presented at the PAFTAD conference, University of Hawaii, February, pp.9.

Chia, Siow Yue (2003a): "East Asian Regionalism and the ASEAN-Japan Economic Partnership," in Japan Center for International Exchange (eds.) "ASEAN-Japan Cooperation: A Foundation for East Asian Community," Tokyo, pp.82.

Ibid. (2003b): "Potential of Free Trade Agreements to Enhance Regional Cooperation in East Asia," IIPS International Conference, Tokyo, December 2-3, pp.3.

Ibid. (2004): "ASEAN-China Free Trade Area," Singapore Institute of International Affairs, paper presented at the AEP Conference, Hong Kong, 12-13 April, pp.6-14.

Ibid. (2006): "Integrating the Mekong Region into ASEAN," paper presented at the Seminar on Accelerating Development in the Mekong Region – The Role of Economic Integration 26-27 June, Siem Reap, Cambodia, pp. 8-10.

Chin, Gregory T. and Stubbs, Richard (2008): "The Political Economy of the ASEAN-China Free Trade Agreement and East Asia Regionalism," Paper Presented at the International Studies Association Conference, March 26-29, San Francisco, USA, pp. 3-16.

China Statistical Yearbook (Various Issues): "Statistical Data," National Bureau of Statistics of China, retrieved from <http://www.stats.gov.cn/english/statisticaldata/yearlydata>

China Daily (January 13, 2007): "China, Russia veto Myanmar resolution," retrieved November 17, 2009 from [http://www.chinadaily.com.cn/china/2007-01/13/content\\_782772.htm](http://www.chinadaily.com.cn/china/2007-01/13/content_782772.htm)

Ibid. (August 15, 2009): "China-ASEAN Investment Agreement signed," retrieved October 18, 2009 from [http://www.chinadaily.com.cn/bizchina/2009-08/15/content\\_8574368.htm](http://www.chinadaily.com.cn/bizchina/2009-08/15/content_8574368.htm)

MOFCOM (2009): "China FTA Network," retrieved December 12, 2009 from <http://fta.mofcom.gov.cn/english/index.shtml>

Chirathivat (2004): "ASEAN-China Free Trade Area: Background, Implications and Future Developments," in Calla Wiemer & Heping Cao (eds.) "Asian economic cooperation in the new millennium: China's economic presence," World Scientific, pp. 373.

Christiansen, Thomas (2006): "European Integration and Regional Cooperation," In Baylis, John and Smith, Steve (Eds.) "The Globalization of World Politics: An Introduction to International Relations," Oxford University Press: New York, pp. 587.

Christoffersen, Gaye (2009): "Japan and East Asian Maritime Security Order: Prospects for Trilateral and Multilateral Cooperation," Asian Perspective, Vol.33, No.3, pp.115-116.

Chu, Chin-Peng (2002): "Regionalism and Region Integration in the Asia-Pacific and the European Union," in Dent, Christopher, M. and Huang W. F., David (Eds.) "Northeast Asia Regionalism: Learning from the European Experience," Routledge Curzon, pp. 35.

CNN (July 29, 2003): "Myanmar slams U.S. sanctions," retrieved November 17, 2009 from

<http://www.cnn.com/2003/WORLD/asiapcf/southeast/07/29/myanmar.suukyi/index.html>

Collard-Wexler, S. (2006): "Integration under Anarchy: Neorealism and the European Union," *European Journal of International Relations*, Vol. 12, No. 3, 397-432, pp. 399-401.

Cooper, William H. (2006): "Free Trade Agreements: Impact on US Trade and Implications for US Trade Policy," Congressional Research Service, the Library of Congress, pp.2.

Cordenillo, Raul L. (2005): "The Economic Benefits to ASEAN of the ASEAN-China Free Trade Area," paper presented for the Studies Unit, Bureau for Economic Integration, ASEAN Secretariat, January 18.

Corning, Gregory P. (2009): "Between bilateralism and regionalism in East Asia: the ASEAN-Japan Comprehensive Economic Partnership," *The Pacific Review*, Vol. 22 No. 5 December, pp.641-653.

Cronin, Bruce (1999): "Community under Anarchy: Transnational Identity and the Evolution of Cooperation," New York: Columbia University Press, pp. 33.

Curley, Melissa G. (2007): "The Role of Civil Society in East Asia Region Building," in Curley, Melissa G. and Thomas, Nicholas (Eds.) "Advancing East Asian Regionalism," Routledge, New York, pp.191.

Daquila, Teofilo C. (2007): "The Transformation of Southeast Asian Economies," Nova Science Publishers, New York," pp.188.

deLisle, Jacques (2007): "Free Trade Areas: Legal Aspects and the Politics of U.S., PRC, and Taiwan Participation," Foreign Policy Research Institute, January, retrieved May 15, 2009, from <http://www.fpri.org/enotes/200701.delisle.freetradeareachinaustaiwan.html>

Dent, Christopher M. (2002): "The International Political Economy of Northeast Asian Economic Integration," in Dent, Christopher M. and Huang, David W. F. (Eds.) "Northeast Asian Regionalism: Learning from the European Experience," RoutledgeCurzon, New York, pp. 81-82.

Dillon, Dana R. & Tkacik, John J. (2005): "China and ASEAN: Endangered American Primacy in Southeast Asia," the Heritage Foundation, No. 1886, October 19, pp.4.

Eng, Chuan Ong (2003): "Anchor East Asian Free Trade in ASEAN," the Washington Quarterly, 26:2, spring, pp.58.

Fouse, David & Sato, Yoichiro (2006): "Enhancing Basic Governance: Japan's Comprehensive Counterterrorism Assistance to Southeast Asia," Asia-Pacific Center for Security Studies, February, pp.3-6.

Frankel, J., Stein, E. and Wei, S. J. (1997): "Regional Trading Blocs in the World Economic System," Peterson Institute, pp. 4-10.

Freedman, Craig (2006): "Free Trade or Free Trade Agreements?," Centre for Japanese Economic Studies, Research Papers, No. 2006-1 ISBN: 1 74138 168 1, pp. 2-41.

Fujita, Masahisa (2007): "Development of East Asian Regional Economies: A View from Spatial Economics," in Fujita, Masahisa (Eds.) "Regional Integration in East Asia: From the Viewpoint of Spatial Economics," Palgrave Macmillan, New York, pp.84.

Fung, K.C. et al (2002): "Foreign Direct Investment in China: Policy, Trend and Impact," paper presented at the International Conference on China's Economy in the 21<sup>st</sup> Century, June 24-25, Hong Kong, pp.15.

Green Michael J. (2003): "Japan's Reluctant Realism: Foreign Policy Challenges in an Era of Uncertain Power," Palgrave, New York, pp.168-183.

Goh, Evelyn (2004): "China in the Mekong River Basin: the Regional Security Implications of Resource Development on the Lancang Jiang," Nanyang Technological University, No.69, pp.8.

Ibid. (2006): "China and Southeast Asia," Foreign Policy in Focus, December 12, available online at <http://www.fpif.org/fpiftxt/3780>.

Glosny, Michael A. (2006): "Heading toward a Win-Win Future? Recent Developments in China's Policy toward Southeast Asia," Asian Security, Vol. 2, No. 1, pp.26-28.

Greenwald, Alyssa (2006): "The ASEAN-China Free Trade Area (ACFTA): A Legal Response to China's Economic Rise?," Duke Journal of Comparative & International Law, Vol. 16:193, 2006, pp. 198-199.



Grossman, Gene M. and Helpman, Elhanan (2002): "Interest Groups and Trade Policy," Princeton University Press, pp.1-8.

Gu, Xiaosong & Li Mingjiang (2009): "Beibu Gulf:Emerging Sub-regional Integration between China and ASEAN," S. Rjaratnam School of International Studies, Singapore, pp.12-14.

Harris, Stuart (2002): "Asian Institutions and the Crisis," in Breslin, Shaun et al. (eds.) "New Regionalism in the Global Political Economy," New York: Routledge, pp. 121-122.

Harvie, Charles and Lee, Hyun-Hoon, (2002) "New Regionalism in East Asia: How Does It Relate to the East Asian Economic Development Model?," Working Paper 02-10, Department of Economics, University of Wollongong, pp. 1-6.

Haswidi, Andi (2007): "China-ASEAN Expo Kicks off with Focus on Port Development," the Jakarta Post, October 29.

Hatakeyama Noboru, Chaiman of Japan External Trade Organization (2002): "Japan's New Regional Trade Policy: Which Country Comes Next After Singapore?," Speech Delivered at the Second Annual Whitman Lecture, Washington, DC, March 13.

He, Shengda & Sheng, Lijun (2005): "Yunna's Greater Mekong Sub-Region Strategy," in Saw, Swee-Hock et al (eds.) "ASEAN-China Relations: Realities and Prospects," ISEAS, Singapore, pp.298.

Heng, Toh Mun (2007): “Relationship between the AJCEP and Japan’s Bilateral EPAs with ASEAN Countries,” REPSF Project No. 05/002, January, pp.19, 39-44.

Hepburn, Jarrod et al (2007): “Sustainable Development in Regional Trade and Investment Agreements: Policy Innovations in Asia?,” CISDL Working Paper, pp.24-25.

Higashi, Shigeki (2008): “The Policy Making Process in FTA Negotiations: A Case Study of Japanese Bilateral EPAs,” IDE Discussion Paper, No. 138, pp.17.

Higgott, Richard (1998): “The International Political Economy of Regionalism: The Asia-Pacific and Europe Compared,” in Coleman, William D. and Underhill, Geoffrey R. D. (eds.) “Regionalism and Global Economic Integration,” London and New York: Routledge, pp.45-67.

Hiratsuka Daisuke, Isono Ikumo & Umezaki So (2007): “Escaping from FTA Trap and Spaghetti Bowl Problem in East Asia: An Insight from the Enterprise Survey in Japan,” in Soesastro Hadi (Eds.) “Deepening Economic Integration-The ASEAN Economic Community and Beyond,” ERIA Research Project 2007 No. 1-2, pp.317-318.

Hiratsuka D., Sato H. & Isono I. (2009): “A Study on the Impacts of Free Trade Agreements on Business Activity in Asia: The Case of Japan,” ADBI Working Paper No. 143, Tokyo, pp.10-16.

- Hirono, Ryokichi (2003): "Economic Cooperation as a Step toward an East Asian Community," in Japan Center for International Exchange (eds.) "ASEAN-Japan Cooperation: A Foundation for East Asian Community," Tokyo, pp.128-136.
- Hisane Masaki (2007): "Japan Vies with China for Dominance in Indochina and ASEAN," Asia Times, May 22.
- Ho, Joshua H. (2006): "The Security of Sea Lanes in Southeast Asia," Asian Survey, Vol. 46, Issue 4, pp.570-571.
- Hong, Eunsok & Sun, Laixiang (2007): "Dynamics of Internationalization and Outward Investment: Chinese Corporations' Strategies," the China Quarterly, 187, December, pp.623-625.
- Hook, Glenn D. (2001): "Japan's International Relations: Politics, Economics, and Security," Routledge: London and New York, pp.186-203.
- Hsiao, H. Michael & Yang, Alan (2009): "Soft Power Politics in the Asia Pacific: Chinese and Japanese Quests for Regional Leadership," The Asia-Pacific Journal, Vol. 8-2-09, February 17.
- Hufbauer, Gary Clyde & Wong, Yee (2005): "Prospects for Regional Free Trade in Asia," Institute of International Economics, Working Paper Series, WP 05-12, pp.6-7.

Hufbauer, Gary Clyde, Wong Yee and Sheth Ketki (2006): "US-China Trade Disputes: Rising Tide, Rising Stakes," Institute for International Economics, August 25, p. 63-69.

Hurrell, Andrew (1995): "Regionalism in Theoretical Perspective," in L. Fawcett and A. Hurrell (Eds.) "Regionalism in World Politics: Regional Organization and International Order," New York: Oxford University Press, pp. 4.

Ibid. (1995): "Explaining the Resurgence of Regionalism in World Politics," Review of International Studies, 21, pp.339.

Iijima Toshiro, Director International Trade Division, MOFA (2008): "Monitoring at the Country and Subregional Level," presented at the Expert Symposium on Evaluation Identifying Indicator for Monitoring Aid for Trade, Geneva, September 15-16, pp.11-12, retrieved February 10, 2010 from [http://www.wto.org/english/tratop\\_e/devel\\_e/a4t\\_e/symp\\_sept08\\_sess3\\_japan\\_e.pdf](http://www.wto.org/english/tratop_e/devel_e/a4t_e/symp_sept08_sess3_japan_e.pdf)

JICA (2009): "Japanese ODA Loan Signed with Laos: Overcoming the Global Financial and Economic Crisis toward Reliable Growth," retrieved February 9, 2010 from <http://www.jica.go.jp/english/news/press/2009/091109.htm>

JOGMEC (2007): "Petroleum stockpiling Program," retrieved January 20 2010 from [http://www.jogmec.go.jp/english/activities/stockpiling\\_oil/stockpilingprogram.html](http://www.jogmec.go.jp/english/activities/stockpiling_oil/stockpilingprogram.html)

JSA (2004): "The Current State of Japanese Shipping," March, pp.2, retrieved from [http://www.jsanet.or.jp/e/shipping-e/pdf/currentstate\\_e2004.pdf](http://www.jsanet.or.jp/e/shipping-e/pdf/currentstate_e2004.pdf)

- Jun, Yang, Qiu, Huanguang and Chen, Chunlai (2009): "The Impact of the ASEAN-China Free Trade Area on China's Economy and Regional Agricultural Development," in Chen Chunlai (eds.) "China's Integration with the Global Economy: WTO Accession, Foreign Direct Investment and International Trade," The Australian National University, Australia, pp.183.
- Kai, He (2008): "Institutional Balancing and International Relations Theory: Economic Interdependence and Balance of Power Strategies in Southeast Asia," *European Journal of International Relations*, 14; 489, pp.500-504.
- Kang, D. Chan-oong (2007): "China Rising: Peace, Power, and Order in East Asia," Columbia University Press, pp.128-129.
- Kao, Kim Hourn & Sisowath Doung Chanto (2005): "ASEAN-China Cooperation for Greater Mekong Sub-Region Development," in Saw, Swee-Hock et al (eds.) "ASEAN-China Relations: Realities and Prospects," ISEAS, Singapore, pp.326.
- Kar-yiu Wong, Taek-dong Yeo, Young-man Yoon & Seong-hun Yun (2004): "Northeast Asia Economic Integration: An Analysis of the Trade Relations among China, Japan, and South Korea," paper presented at the Seoul Conference, June 20, pp.3.
- Katada, Saori N. (2001): "Determining Factors in Japan's Cooperation and Noncooperation with the United States: The Case of the Asian Financial Crisis Management, 1997-1999," in Miyashita Akitoshi & Sato Yoichiro (Eds.) "Japanese Foreign Policy in Asia and the Pacific: Domestic Interests, American Pressure, and Economic Integration," Palgrave, New York, pp.155-156.

- Katori, Yoshinori (2009): "ASEAN: An indispensable partner for Japan," Japan's Ambassador to ASEAN, speech delivered at the Institute of Southeast Asian Studies, July, pp.4, retrieved January 19, 2009 from <http://www.iseas.edu.sg/aseanstudiescentre/Spch-Katori.pdf>
- Katzenstein, Peter J. (2002): "Regionalism in Asia," in Breslin, Shaun et al. (eds.) "New Regionalism in the Global Political Economy," New York: Routledge, pp.106-108.
- Kawaguchi, Yoriko (2003): "*Building Bridges toward Our Future: Initiative for Reinforcing ASEAN Integration*," Speech by the Minister of Foreign Affairs of Japan in Phnom Penh, Cambodia, June 17, retrieved from <http://www.mofa.go.jp/region/asia-paci/asean/conference/asean3/speech0306.html>
- Kawai, Masahiro (2005): "Regional Economic Integration and Co-operation in East Asia," in Fukasaku Kiichiro (Eds.) "Policy Coherence Towards East Asia: Development Challenges for OECD Countries," OECD Publishing, pp.306-310.
- Keidanren (2005): "Call for an Early Conclusion of the Japan-ASEAN Comprehensive Economic Partnership Agreement," December 2, retrieved February 25 from <http://www.keidanren.or.jp/english/policy/2005/090.html>
- Khurana, Gurpreet S. (2005): "Cooperation among Maritime Security Forces: Imperatives for India and Southeast Asia," Strategic Analysis, Vol. 29, No. 2, April-June, pp.303.

Kawai, Masahiro and Wignaraja, Ganeshan (2008): "Regionalism as an Engine of Multilateralism: A Case for a Single East Asian FTA," Working Paper Series on Regional Economic Integration NO. 14, February 2008, Asian Development Bank, pp. 5-6.

Ibid. (2009): "The Asian 'Noodle Bowl': Is It Serious for Business?," Asian Development Bank Institute Working Paper Series, NO.136, April 2009, pp.

Keohane, Robert O. (1986): "Realism, Neorealism and the Study of World Politics," in Keohane, R. O. (Eds.) "Neorealism and Its Critics," New York: Columbia University Press, pp.7.

Kim, Young Han (2007): "Regional Integration from a Korean Perspective", in Fujita Masahisa (Eds.) "Regional Integration in East Asia: From the Viewpoint of Spatial Economics." Palgrave Macmillan: New York, pp. 121.

Kim, Young-Chul & Park, Chang-Gun (2006): "The Financial Crisis and Regional Institutionalization in East Asia," APEA, pp.16.

Kosuke Takahashi (2004) "Gas and oil rivalry in the East China Sea," Asia Times Online, July 24, 2004, retrieved September 19, 2009 from <http://www.atimes.com/atimes/Japan/FG27Dh03.html>

Ku, Samuel C.Y. (2006): "China's Changing Political Economy with Southeast Asia: Starting a New Page of Accord," Asian Perspective, Vol. 30, No.4, pp.116-119.

Ibid. (2008): "China's Changing Political Economy with Malaysia and Southeast Asia: A Comparative Perspective," *Journal of Asian and African Studies*, 2008; 43; 155, pp.157-166.

Kuchiki, Akifumi (2007): "Industrial Clustering and MNE Management in East Asia: Recent Progress and Prospects for the Asian Triangle," in Fujita, Masahisa et al. (eds) "Economic Integration in East Asia," Edward Elgar Publishing, pp.89.

Kudo Toshihiro (2006): "Myanmar's Economic Relations with China: Can China Support the Myanmar Economy?," Institute of Developing Economies, JETRO, Discussion Paper No. 66, pp.13.

Kumar, Sanjay (2009): "China's Naval Strategy: Implications for India," Institute of Peace and Conflict Studies, #2823, March 2, 2009.

Kurlantzick, Joshua (2006): "China's Charm Offensive in Southeast Asia," Carnegie Endowment for International Peace, Policy Brief No 47, pp.4-6.

Ibid. (2007): "China's Offensive: How China's Soft Power is Transforming the World," Yale University Press, pp.42.

Kwei, Elaine S. (2006): "Chinese Trade Bilateralism: Politics still in Command," in Aggarwal, Vinod K. & Shujiro Urata (eds.) "Bilateral Trade Arrangements in the Asia-Pacific," Routledge, New Edition, pp. 127.

Lam, Peng Er (2002): "Japan-Southeast Asia Relations: Trading Places?: The Leading Goose & Ascending Dragon," CSIS, Vol.4, No.1, April, pp.4-8, retrieved



Lardy, R. Nicholas (2005): "China: The Great New Economic Challenge?," in Bergsten, C. Fred (eds.) "The United States and the World Economy," Institute for International Economics, Washington, DC, pp.124.

Lawrence, Robert Z. (2006): "China and the Multilateral Trading System," Prepared for a conference on "China and Emerging Asia: Reorganizing the Global Economy?," Seoul Korea May 11&12, pp.6-10.

Lee, Lai Too (2001): "China's Relations with ASEAN: Partners in the 21<sup>st</sup> Century?," Pacifica Review, Vol.13, No. 1, February, pp.61-64.

Leenabanchong Chawin (2006): "East Asia FTAs: ASEAN Perspectives," Paper presented at the WTO, China, and the Asian Economies, IV International Conference, Beijing, China, June 24-25, pp. 1-21.

Li, Ming Jiang (2007): "China's Proactive Engagement in Asia: Economics, Politics and Interactions," S. Rajaratnam School of International Studies, Singapore, Working Paper No.134, 30 July, pp.1-6.

Liu, Fu-Kuo (2002): "A Critical Review of East and Northeast Asian Regionalism," in Dent, Christopher M. and Huang, David W. F. (eds) "Northeast Asian Regionalism: Learning from the European Experience," RoutledgeCurzon, London, pp. 18.

- Ibid. (2003): "East Asian Regionalism: Theoretical Perspectives", in Liu, Fu-Kuo and Régnier Philippe (eds.) "Regionalism in East Asia: Paradigm Shifting?," pp.14-17.
- Lu, Bo (2007): "ASEAN-China economic relations," in Swee-Hock Saw (eds.), Institute of Southeast Asian Studies, pp.87-106.
- Lum Thomas, Morrison Wayne M., Vaughn B. (2008): "China's "Soft Power" in Southeast Asia," CRS Report for Congress, pp.4-8.
- Lum Thomas, Fischer Hannah, Gomez-Granger Julissa & Leland Anne (2009): "China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia," CRS Report for Congress, pp.2-8.
- Makishima, Minoru & Yokoyama, Mitsunori (2009): "Japan's ODA to Mekong River Basin Countries," in Kagami Mitsuhiro (eds.) "A China-Japan Comparison of Economic Relationships with the Mekong River Basin Countries," BRC Research Report, No.1, pp. 172.
- Manger, Mark (2005): "Competition and Bilateralism in Trade Policy: the Case of Japan's Free Trade Agreements," Review of International Political Economy, 12 (5), pp.28-30.
- Mansfield, Edward D. and Busch, Marc L. (1999): "The Political Economy of Nontariff Barriers: A Cross-national Analysis," in Frieden, Jeffry A. and Lake, David A. edited "International Political Economy: Perspectives on Global Power and Wealth," Routledge, pp. 363-365.

Masaki, Hisane (2006a): "China Rivalry Fuels Japan's FTA Drive," the Asia Pacific Journal: Japan Focus, March 12, retrieved January 10, 2010 from <http://japanfocus.org/-Hisane-MASAKI/2127>

Ibid (2006b): "Japan's FTA Drive, East Asian Regional Leadership and the China Challenge," the Asia Pacific Journal: Japan Focus, December 18, retrieved January 22, 2010 from <http://japanfocus.org/-Hisane-MASAKI/2294>

Ibid (2007): "Japan Vies with China for Dominance in Indochina and ASEAN," the Asia Pacific Journal: Japan Focus, May 22, <http://japanfocus.org/-Hisane-MASAKI/2429>

Masaki, Hisane (2007): "Japan Vies With China for Dominance in Indochina and ASEAN," the Asia Pacific Journal: Japan Focus, March 12, retrieved from <http://japanfocus.org/-Hisane-MASAKI/2429>

Mastel, Greg (2004): "The Rise of the Free Trade Agreement", Challenge 47(3), pp. 45-48.

Mattli, W. (1999): "The Logic of Regional Integration: Europe and Beyond," Cambridge: Cambridge University Press, pp. 25-29.

Medeiros, Evan S. & Fravel, M. Taylor (2004): "China's New Diplomacy," in Liu Guoli (eds.) "Chinese Foreign policy in Transition," Walter de Gruyter, New York, pp. 389.

Men, Jing (2007): "The Construction of the China-ASEAN Free Trade Area: A Study of China's Active Involvement," *Global Society*, Vol.21, No.2, April, pp.252-265.

METI (2001): "White Paper on International Trade," pp.223-233, retrieved December 4, 2009 from <http://www.meti.go.jp/english/report/downloadfiles/gWP0140e.pdf>

Ibid (2005a): "White Paper on International Economy and Trade," pp.211, retrieved from [http://www.meti.go.jp/english/report/downloadfiles/2005TradeWP/2\\_2.pdf](http://www.meti.go.jp/english/report/downloadfiles/2005TradeWP/2_2.pdf)

Ibid (2005b): "Japan's Policy of FTAs/EPAs," pp.9, retrieved from <http://www.meti.go.jp/english/information/downloadfiles/FTAprograss200503.pdf>

Ibid. (2007): "Joint Report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG)," retrieved December 4, 2009 from [http://www.meti.go.jp/policy/trade\\_policy/asean/html/cep\\_report0209e.html](http://www.meti.go.jp/policy/trade_policy/asean/html/cep_report0209e.html)

Milner, Helen (2000): "Regional Economic Co-operation, Global Markets and Domestic Politics: A Comparison of NAFTA and the Maastricht Treaty," in Coleman, W. D. and Underhill, R. D. (Eds.) "Regionalism and Global Economic Integration: Europe, Asia and the Americas," Routledge: New York, pp.21-29.

Miyashita, Akitoshi and Sato, Yoichiro (2001): "Japanese Foreign Policy in Asia and the Pacific," Palgrave, pp.14-15.

MFA (2005): "The Sino-ASEAN Relationship," May 8, retrieved from <http://www.mfa.gov.cn/eng/wjb/zzjg/gjs/gjzzyhy/2616/t15341.htm>.

- MOFA (2002): “Japan’s FTA Strategy,” retrieved November 30, 2009 from <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html>
- Ibid. (2004): “Strategy and Approaches of Japan's Energy Diplomacy”, retrieved January 10, 2010 from <http://www.mofa.go.jp/policy/energy/diplomacy.html>
- Ibid. (2006): “Basic Policy of Japan's Contributions and Cooperation in the Straits of Malacca and Singapore,” Speech by Akio Suda, Ambassador in Charge of International Counter-Terrorism Cooperation, retrieved January 22, 2010 from <http://www.mofa.go.jp/policy/terrorism/state0609.html>
- Ibid. (2008a): “Appointment of Ambassador for ASEAN,” October 20, 2010 from [http://www.mofa.go.jp/announce/announce/2008/10/1184059\\_1060.html](http://www.mofa.go.jp/announce/announce/2008/10/1184059_1060.html)
- Ibid. (2008b): “Japan’s Official Development Assistance White Paper 2008,” pp. 103, retrieved February 09, 2010 from <http://www.mofa.go.jp/policy/oda/white/2008/set.pdf>
- Ibid. (2009a): “Policy Speech by Prime Minister Ryutaro Hashimoto,” retrieved November 20, 2009 from <http://www.mofa.go.jp/region/asia-paci/asean/pmv9701/policy.html>
- Ibid. (2009b): “Japanese ODA Loan to the Socialist Republic of Viet Nam,” retrieved February 9, 2010 from [http://www.mofa.go.jp/announce/announce/2009/11/1197112\\_1146.html](http://www.mofa.go.jp/announce/announce/2009/11/1197112_1146.html)
- MOFCOM (2007): “China and ASEAN Signed the Service Trade Agreement,” January 16, retrieved September 2, 2009, from <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/200701/20070104272435.html>
- Morihiro, Yoshimitsu, Assistant Director for Asia and Pacific Division of METI (2008): “Completion of the singing of the ASEAN Japan Comprehensive

Economic Partnership (AJCEP) and the merit of the Agreement,” June 2, retrieved from [http://www.iist.or.jp/wf/magazine/0612/0612\\_E.html](http://www.iist.or.jp/wf/magazine/0612/0612_E.html)

Mulgan, Aurelia G. (2005): “Where Tradition Meets Change: Japan’s Agricultural Politics in Transition,” *The Journal of Japanese Studies*, 31 (2): pp. 261-298.

Ibid. (2007): “Japan’s FTA Politics and the Problem of Agricultural Trade Liberalization,” University of New South Wales, Australian Defense Force Academy, pp.7-18.

Munakata, Naoko (2001): “Evolution of Japan’s Policy toward Economic Integration,” RIETI Discussion Paper Series 02-E-006, December, pp.2.

Ibid (2002): “Whither East Asian Economic Integration?,” RIETI Discussion Paper Series 02-E-007, June, pp.32-34.

Ibid (2003): “The Impact of the Rise of China and Regional Economic Integration in Asia: A Japanese Perspective,” paper presented Before the US-China Economic and Security Review Commission, Washington D.C., December 4.

Ibid. (2003): “The Impact of the Rise of China and Regional Economic Integration in Asia: A Japanese Perspective,” paper presented at the U.S.-China Economic and Security Review Commission, December 4.

Ibid (2006): “Transforming East Asia: *The Evolution of Regional Economic Integration*,” Brookings Institution Press and Research Institute of Economy Trade and Industry Japan, pp.120-126.

Nabers, Dirk (2008): "China, Japan and the Quest for Leadership in East Asia," German Institute of Global and Area Studies, Working Paper 67/2008, pp.17-18.

National Diet Library (2003-2004): "The Constitution of Japan," retrieved February 9, 2010 from <http://www.ndl.go.jp/constitution/e/etc/c01.html>

Natividade Y., Bernardino (2004): "The ASEAN-China Free Trade Area: Issues and Prospects," Regional Workshop Papers, Manila, Philippines, November 6-9, pp.2-4.

New York Times (October 18, 2003): "Asian Leaders Find China a More Cordial Neighbor," retrieved December 2, 2009, from <http://www.nytimes.com/2003/10/18/world/asian-leaders-find-china-a-more-cordial-neighbor.html?pagewanted=2>

Nihon Keizai Shimbun (18 April; 12 May 2004): Quoted from Manger Mark (2005): "Competition and Bilateralism in Trade Policy: the Case of Japan's Free Trade Agreements," Review of International Political Economy, 12 (5), pp.28.

Nishihara, Masashi (2003): "Japan's Political and Security Relations with ASEAN," in Japan Center for International Exchange (eds.) "ASEAN-Japan Cooperation: A Foundation for East Asian Community," Tokyo, pp.154-160.

Novotný, Daniel (2004): "Indonesia's Foreign policy: in Quest for the Balance of Threats," paper presented at the 15<sup>th</sup> Biennial Conference of the Asian Studies Association of Australia in Canberra 29 June-2 July, pp.15.

Oba Mie (2003): "Chiiki Shugi to Nihon no Sentaku [Regionalism and Japan's Choice]," pp.76, cited in Yoshida, Tadahiro (2004): "East Asia Regionalism and Japan," IDE APEC Study Center, Working Paper Series 03/04-No.9, pp.21.

Ibid. (2007): "Regional Arrangements for Trade in Northeast Asia: Cooperation and Competition between China and Japan," in Aggarwal, Vinod K. & Koo, Min Gyo (eds.) "Asia's New Institutional Architecture," Springer-Verlag, Berlin, pp.90-107.

Ogita, Tatsushi (2002): "An Approach towards Japan's FTA Policy," IDE APEC Study Center, Working Paper Series 01/02 – No. 4, pp.17-18.

Okuda Satoru (2004): "Deepening Interdependence in East Asia: Deepening Intra-industry Trade of Japan and its Bilateral FTAs," IDE APEC Study Center, Working Paper Series 03/04 - No. 2, pp.35.

Ostry, Sylvia (1997): "The Post-Cold War Trading System," Chicago UP, pp. 97-103.

Otsuji, Y & Shiraishi, T. (2002): "Building Closer Ties with ASEAN," Japan Echo 29(2): pp.12. cited in Yoshimatsu, Hidetaka "Japan and East Asia in Transition: Trade Policy, Crisis and Evolution, and Regionalism," Palgrave Macmillan, N.Y., 2003, pp. 149.

Pan-Beibu Gulf Economic Cooperation website (2009): "Proposal of the Pan-Beibu Gulf Economic Cooperation," retrieved September 22, 2009 from <http://www.bbww.gov.cn/staticmores/215/215-1.shtml>



- Pangetsu, Mari (2005): "Southeast Asian Regional and International Economic Cooperation," in Weatherbee, Donald E. (eds.) "International Relations in Southeast Asia: The Struggle for Autonomy," pp.211-212.
- Park, Yung Chul, Urata, Shujiro & Cheong, Inkyo (2005): "The Political Economy of the Proliferation of FTAs," Paper Presented at the PAFTAD meeting in Honolulu, Hawaii, February 19-21, pp. 11-12.
- Pablo-Baviera, A. S. (2007): "Regionalism and Community Building in East Asia," in Curley, Melissa G. and Thomas, Nicholash (Eds.) "Advancing East Asian Regionalism," Routledge, pp. 231-235.
- Park, Y. C., Urata, S. and Cheong, Inkyo (2005): "The Political Economy of the Proliferation of FTAs," Paper presented at the PAFTAD 30 meeting in Honolulu, Hawaii, February 19-21, pp. 4-50.
- Pempel T. J. & Urata Shujiro (2006): "Japan: A New Move toward Bilateral Agreements," in Aggarwal Vinod K. & Urata Shujiro (eds.) "Bilateral Trade Agreements in the Asia-Pacific: Origins, Evolution, and Implications," Routledge, New York, NY, pp.77-78.
- Percival Bronson (2006): "Japan-Southeast Asia Relations: Playing Catch-up with China," Comparative Connections Vol.8, No.3, pp.2-4.
- Prasirtsuk Kitti & Suzuki Patamawadee P. (2004): "Japan-ASEAN Comprehensive Economic Partnership: Toward Significant Regionalism?," Thammasat University, pp.3-10, retrieved from <http://www.polsci.tu.ac.th/Publications/CEPThai3.pdf>

Ravenhill, J. (2002): "A Three Bloc World? The New East Asia Regionalism,"  
International Relations of the Asia-Pacific, 2, pp. 172.

Ibid. (2006): "Is China an Economic Threat to Southeast Asia?," Asian Survey, Vol. 46,  
Issue 5, pp. 653-654.

Ibid. (2007): "Asia's New Economic Institutions," in Aggarwal, Vinod K. & Min Gyo  
Koo (eds.) "Asia's New Institutional Architecture," Springer, pp.56.

Ravenhill, John & Jiang, Yang (2009): "China's Move to Preferential Trading: A New  
Direction in China's Diplomacy," Journal of Contemporary China, 18(58),  
January, pp.31-39.

Raviprasad, Narayanan (2005): "Foreign Economic Policy-Making in China," Strategic  
Analysis, Vol. 29, No. 3, Jul-Sep, Institute for Defense Studies and Analyses,  
pp.456-459.

Razeen Sally (2006): "FTAs and the Prospects for Regional Integration in Asia,"  
ECIPE Working Paper, No. 01/2006, pp.13.

Reuters (November 8, 2007): "China CPNC to buy into Malaysia oil refinery-source,"  
retrieved from <http://uk.reuters.com/article/idUKKLR5510620071108>.

Ibid. (February 1, 2008): "Fact box: Chinese companies expand mining overseas,"  
February 1.

Ibid. (November 3, 2009): "China starts building Myanmar oil pipeline project,"  
retrieved November 17, 2009 from  
<http://www.reuters.com/article/idUSPEK3457220091103>

Rothschild, Kurt, W. (1971): "Power in Economics", Harmondsworth (UK): Penguin  
Books, pp. 7-10.

Saruwatari, Junichi (2009): "Mekong-Japan Exchange Year: Spotlight on Indochina's  
Dynamism," Institute for International Studies and Training, Tokyo, February 16,  
retrieved February 8, 2010 from  
[http://www.iist.or.jp/wf/magazine/0675/0675\\_E.html](http://www.iist.or.jp/wf/magazine/0675/0675_E.html)

Sato, Yoichiro (2007): "Southeast Asian Receptiveness to Japanese Maritime Security  
Cooperation," Asia-Pacific Center for Security Studies, September, pp.4-5,  
retrieved February 2, 2010 from  
<http://www.apcss.org/Publications/Maritime%20security%20cooperation%20Japan-SE%20Asia%20Sato.pdf>

Schott, Jeffrey J. and Goodrich, Ben (2004): "Reflections on Economic Integration in  
Northeast Asia," In Kim, Yoon Hyung and Chang, Jae Lee (Eds.)  
"Strengthening Economic Cooperation in Northeast Asia," Korea Institute for  
International Economic Policy, pp. 11.

Scolay, Robert (2003): "RTA Developments in the Asia Pacific Region: State of  
Play," Paper presented at the Pacific Economic Cooperation Council Trade  
Forum, Phuket, Thailand, May 25, pp.5-6.

Shambaugh, David (2004): "China Engages Asia: Reshaping the Regional Order,"  
International Security, Vol.29, No.3, Winter 2004/05, p.67.

Shaw, Joy C. (2008): "Taiwan Looks Past China, More Firms Invest Elsewhere in Asia; The Lure of Vietnam," the Wall Street Journal Online, January 28, pp.1.

Shee, Poon Kim (2002): "The Political Economy of China-Myanmar Relations: Strategic and Economic Dimensions," Ritsumeikan Annual Review of International Studies, Vol. 1, pp.36.

Shen, Danyang (2005): "ASEAN-China FTA: Opportunities, Modalities and Prospects," in Saw, Swee-Hock et al (eds.) "ASEAN-China Relations: Realities and Prospects," ISEAS, Singapore, pp.220.

Sheng, Lijung (2002): "FTA with ASEAN as a Safety Cushion for China," The Straits Times, December 8.

Ibid. (2003): "China-ASEAN Free Trade Area: Origins, Developments and Strategic Motivations," ISEAS Working Paper: International Politics & Security Issues Series No. 1, pp. 1-19.

Ibid. (2006): "China-ASEAN Cooperation against Illicit Drugs from the Golden Triangle," Asian Perspective, Vol. 30, No. 2, pp. 98-99.

Ibid. (2008): "China and ASEAN in Asian Regional Integration," in Wang, Gungwu and Zheng, Yongnian (eds.) "China and the New International Order," Routledge, pp. 258-259.

Sheng, Bin (2007): "Political Economy of the Asia-Pacific Free Trade Area: A Dilemma for China," *Institute of World Economics and Politics*, Vol. 15, No. 5, pp.42.

Snidal, D. (1991): "Relative Gains and the Pattern of International Cooperation," *American Political Science Review*, vol. 85, n°3, pp. 722.

Soesastro, Hadi (2003): "Trends and Issues of RTAs/FTAs in East Asia," Paper presented at the SOM Policy Dialogue on RTAs/FTAs, Khon Kaen, Thailand, 27 May, pp. 2.

Ibid. (2005): "Realizing the East Asia Vision," *CSIS Working Paper Series*, WPE 090, February, pp.4-10.

Ibid (2009): "Japan's ASEAN Policy: Reactive or Proactive in the Face of a Rising China in East Asia?," *Asian Perspective*, Vol. 33, No. 1, pp.139-154.

Solís, Mireya (2008a): "The Domestic Roots of Japan's Economic Regionalism: Societal Preferences and the FTA Policy Formulation Process," Paper presented at the annual meeting of the International Studies Association, San Francisco California, March 26-29, pp. 15-21.

Ibid. (2008b): "Japan's Competitive FTA Strategy: Commercial Opportunities versus Political Rivalry," Paper presented at the International Symposium "Competitive Regionalism," Ibuka International Conference Hall, Waseda University, Tokyo, Japan, May 30-31, pp. 1-23.

Solis, Mireya and Katada, Saori N. (2008): "Competitive Regionalism: Explaining the Diffusion and Implications of FTAs in Asia Pacific," Paper presented at the International Symposium Competitive Regionalism, Waseda University, Tokyo, Japan, May 30-31, pp. 8-26.

Spears, Collin (2009): "SINO + ASEAN + FTA = East Asian Unification? Not Quite," Brooks Foreign Policy Review.

Storey, Ian (2008): "Securing Southeast Asia's Sea Lanes: A Work in Progress," Asia Policy, No.6, July, pp.113-123.

Stubbs, Richard (2002): "ASEAN Plus Three: Emerging East Asia Regionalism?," Asean Survey 52 (3), pp.445-448.

Sudo, Sueo (2002): "The International Relations of Japan and South East Asia: Forging a New Regionalism," Routledge, pp.27-35.

Sutter, Robert (2003): "Why Does China Matter?," The Washington Quarterly, Winter 2003-04, pp.84-86.

Sutton Michael (2005): "Japanese Trade Policy and 'Economic Partnership Agreements': A New Conventional Wisdom," Ritsumeikan Annual Review of International Studies, Vol.4, p.130-131.

Suzuki, Sanae (2004): "East Asian Cooperation through Conference Diplomacy: Institutional Aspects of the ASEAN Plus Three (APT) Framework," IDE APEC Study Center, Working Paper Series 03/04 – No.7, pp.6, 24.

Tadashi, Yamamoto & Hernandez, Carolina (2003): "Social and Cultural Dimensions in East Asian Community Building," in Japan Center for International Exchange (eds.) "ASEAN-Japan Cooperation: A Foundation for East Asian Community," Tokyo, pp.173-174.

Tanaka, Akihiko (2007): "The Development of the ASEAN+3 Framework," in Curley, Melissa G. and Thomas, Nicholas (Eds.) "Advancing East Asian Regionalism," Routledge, New York, NY, pp. p.54-67.

Tang, Yihong & Wang, Weiwei (2006): "An Analysis of Trade Potential between China and ASEAN within China-ASEAN FTA," University of International Business and Economics, China, retrieved from <http://faculty.washington.edu/karyiu/confer/beijing06/papers/tang.pdf>

Terada, Takashi (2001): "Directional Leadership in Institution Building: Japan's Approaches to ASEAN in the Establishment of PECC and APEC," the Pacific Review, Vol. 14, No. 2, pp.202-203.

Ibid. (2003): "Constructing an 'East Asian' concept and growing regional identity: from EAEC to ASEAN+3," The Pacific Review 16 (2): pp.251-277.

Ibid. (2004): "Thorny Progress in the Institutionalization of ASEAN+3: Deficient China-Japan Leadership and the ASEAN Divide for Regional Governance," Policy and Governance Working Paper Series No.49, pp.10.

Ibid (2004): "Creating an East Asian Regionalism The Institutionalization of ASEAN + 3 and China-Japan Directional Leadership," the Japanese Economy, Vol. 32, No. 2, Summer, pp.69-76.

Ibid. (2006): "The Making of Asia's First Bilateral FTA: Origins and Regional Implications of the Japan-Singapore Economic Partnership Agreement," Pacific Economic Papers No.354, pp.15-19.

Ibid (2006): "Forming an East Asian Community: A Site for Japan-China Power Struggles," Japanese Studies, Vol. 26, No. 1, May, pp.10-13.

Ibid (2008): "Singapore and ASEAN in Competitive Regionalism in Southeast Asia and beyond," Paper Presented at the International Symposium "Competitive Regionalism," Waseda University, Tokyo, Japan, May 30 to 31, pp.11-19.

Ibid (2009): "The Origins of ASEAN+6: Japan's Initiatives and the Agent-Structure Framework," GIARI Working Paper 2009-E-3, Waseda University, pp.10.

The China Post (November 5, 2009): "China's CNPC starts work on Myanmar oil pipeline," retrieved November 17, 2009 from <http://www.chinapost.com.tw/business/asia/other/2009/11/05/231569/Chinas-CNPC.htm>

The Jakarta Post (December 12, 2008): "China names ambassador to ASEAN," retrieved from <http://www.thejakartapost.com/news/2008/12/30/china-names-ambassador-asean.html>

Ibid. (August 19, 2009): "ASEAN, China Sign Investment Agreement in Bangkok," retrieved October 18, 2009, from <http://www.thejakartapost.com/news/2009/08/16/asean-china-sign-investment-agreement-bangkok.html>



The Japan Times (October 13, 2007): "Agricultural industry reform said crucial for Japan FTAs," retrieved January 10, 2010 from <http://search.japantimes.co.jp/cgi-bin/nb20071013d2.html>

*Ibid.* (April 15, 2008): "Japan, ASEAN Finish Signing FTA," retrieved November 31, 2009 from <http://search.japantimes.co.jp/cgi-bin/nb20080415a1.html>

The New York Times (October 18, 2003): "Asian Leaders Find China a More Cordial Neighbor," retrieved April 23, 2009, from <http://www.nytimes.com/2003/10/18/world/asian-leaders-find-china-a-more-cordial-neighbor.html?pagewanted=2>

The Wall Street Journal (November 22, 2006): "Vietnam Signs Deals with CNOOC and PetroChina,".

Thomas, Nicholas (2007): "Developing a Regional Economic Community in East Asia," in Curley, Melissa G. and Thomas, Nicholas (Eds.) "Advancing East Asian Regionalism," Routledge, New York, NY, pp.138-140.

Urata, Shujiro (2002): "A Shift from Market-led to Institution-led Regional Economic Integration in East Asia," paper presented at the Conference on Asian Economic Integration organized by the Research Institute of Economy, Trade and Industry at United Nations University, Tokyo, on April 22 and 23, 2002.

*Ibid.* (2003): "Regionalization in East Asia and Japan's FTA Strategies," paper presented at the Pacific Economic Cooperation Council Trade Forum, Phuket, Thailand, May 25, pp. 2-10.

Ibid. (2005a): "Proliferation of FTAs in East Asia," Paper Presented at the PECC Trade Forum, Jeju, Korea, May 23-24, pp.5.

Ibid. (2005b): "Trends in the RTA/FTA Architecture of the Asia-Pacific Region: Proliferation of FTAs in East Asia," paper presented at the PECC Trade Forum, Jeju, Korea, May 23-24, pp. 3-9.

Ibid (2007): "Japan's FTA Strategy and Free Trade Area of Asia-Pacific," in Morrison, Charles E. & Pedrosa Eduardo (eds.) "An APEC Trade Agenda?: The Political Economy of a Free Trade Area of the Asia-Pacific," ISEAS, Singapore, pp.71 - 117.

Ibid. (2008): "An Economic Analysis of Competitive Regionalism in East Asia," paper presented at the Symposium on Competitive Regionalism: Strategic Dynamics of FTA Negotiations in East Asia and Beyond, Waseda University, Tokyo, Japan, May 30-31, pp. 16-18.

Ibid (2009): "FTA Today," the Japan Journal, October, retrieved January 12, 2010 from [http://www.japanjournal.jp/tjje/show\\_art.php?INDyear=09&INDmon=10&artid=5424386518858f82eb431701609e5bdb](http://www.japanjournal.jp/tjje/show_art.php?INDyear=09&INDmon=10&artid=5424386518858f82eb431701609e5bdb)

Valencia, Mark J. (2001): "Building Confidence and Security in the South China Sea: The Way Forward," in Tan, Andrew T. H. & Boutin, Kenneth J. D. (eds.) "Nontraditional Security Issues in Southeast Asia," Institute of Defense and Strategic Studies, Singapore, pp.528.

Ibid. (2005): "Piracy and Politics in Southeast Asia," in Johnson Derek, Valencia Mark & Valencia Mark J. (eds.) "Piracy in Southeast Asia: Status, Issues, and Responses," ISEAS, Singapore, pp.135.

Vaughn, Bruce and Morrison, M. Wayne (2006): "China-Southeast Asia Relations: trends, Issues, and Implications for the United States," Congressional Research Service, the Library of Congress, April 4, pp.5-31.

Venkataraman, M. (2006): "Taiwan and the South China Sea in Sino-ASEAN Relations-An Overview," Sage Publications, China Report, Vol. 42, No.2, pp.159-160.

Voice of America (May 15, 2009): "**China, Australia to Build Final Leg of Asian Railway,**" retrieved September 15, 2009, from <http://www.voanews.com/english/archive/2009-05/2009-05-15-voa15.cfm?CFID=296020092&CFTOKEN=68745563&jsessionid=0030bebc48b89593f3ff5a6e47191d225553>

Vutha, Hing & Jalilian, Hossein (2008): "Environmental Impacts of the ASEAN-China Free Trade Agreement on the Greater Mekong Sub-Region," International Institute for Sustainable development, Manitoba, Canada, pp.19-22.

Wang, Vincent Wei-cheng (2005): "The Logic of China-ASEAN FTA: Economic Statecraft of Peaceful Ascendancy," in Khai Leong Ho and Samuel C. Y. Ku (eds.) "China and Southeast Asia: global changes and regional challenges," Institute of Southeast Asian Studies, Center for Southeast Asian Studies, pp.18-35.

- Ibid. (2007): "The Logic of China-ASEAN Free Trade Agreement: Economic Statecraft of Peaceful Rise," Department of Political Science, University of Richmond, Richmond, pp. 7.
- Wang, Jiang Yu (2004): "China's Regional Trade Agreements: The Law, Geopolitics, and Impact on the Multilateral Trading System," Singapore Year Book of International Law and Contributors, pp.128-130.
- Wang, Jinmin, Wu Jiebing & Yao Xianguo (2008): "The Expansion of Textile and Clothing Firms of China to Asian Least Developed Countries: The Case of Cambodia," Asia-Pacific Research and Training Network on Trade, Working Paper Series, No. 60, pp.9-18.
- Wang, Mark Yaolin (2002): "The Motivations behind China's Government-Initiated Industrial Investments Overseas," Pacific Affairs, Vol. 75, No. 2, pp.200-202.
- Webber, Douglas (2001): "Two funerals and a wedding?: The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian crisis," The Pacific Review 14 (3): pp. 357.
- Wei, Kiat Yip (2001): "Prospects for Closer Economic Integration in East Asia," Stanford Journal of East Asian Affairs, Spring 2001, vol. 1 p.109-110.
- Wendt, Alexander (1994): "Collective Identity Formation and the International State," American Political Science Review 88 (2): 384-396.
- Wu, Lin Jun (2008): "Taiwan and the ASEAN Economic Community: A Context for Economic Statecraft in an Asian Regional Free Trade Area," Institute of

- International Relations, National Chengchi University, Taipei, Taiwan, Issues & Studies 44, no. 4, December, pp.114-121.
- Yamazawa Ippei (2004): "Japan and the East Asian Economies: Prospects and Retrospects in the Early Twenty-First Century," IDE APEC Study Center, Working Paper Series 03/04 - No. 1, pp.22-23.
- Yang, Jiang (2008): "Anchored Ambitions: China's Free Trade Agreements and Domestic Constraints," the Australian National University, Paper Presented at the OCIS Conference, Brisbane, pp.4-14.
- Yang, Zerui (2004): "China's FTA Developments," paper presented at the ASCC, PECC Trade Forum – LAEBA Conference, Valparaiso, Chile, May 26-29, pp.6-9.
- Yoshida, Tadahiro (2004): "East Asia Regionalism and Japan," IDE APEC Study Center, Working Paper Series 03/04-No.9, pp.9-20.
- Yoshihide (2004): "Japan in East Asia: Changes in the 1990s and New Regional Strategy," RIETI Discussion Paper Series 04-E-013, pp.17.
- Yoshimatsu, Hidetaka (2002): "Social Demand, State Capability and Globalization: Japan-China Trade Friction over Safeguards," the Pacific Review, Vol. 15 No.3 2002:381-408, pp. 383-386.

- Ibid. (2002): "Preferences, Interest, and Regional Integration: The Development of the ASEAN Industrial Cooperation Arrangement," *Review of International Political Economy* 9-1, March, pp.126.
- Ibid. (2003): "Japan and East Asia in Transition: Trade Policy, Crisis and Evolution, and Regionalism," Palgrave Macmillan, N.Y., 2003, pp.117-120.
- Ibid. (2004): "Political Leadership, Common Norms, and the Development of East Asian Regionalism," the Graduate School of East Asian Studies, Yamaguchi University, Working Paper Series Vol. 2004-03, pp.15-18.
- Ibid (2005): "Japan's Keidanren and Free Trade Agreements: Societal Interests and Trade Policy," *Asian Survey*, Vol. XLV, No. 2, March/April, pp.258-259.
- Ibid. (2007a): "Japan's Economic Diplomacy towards East Asia: Fragmented Realism and Naïve Liberalism," S. Rajaratnam School of International Studies, Singapore, pp.3-13.
- Ibid (2007b): "Japan's Quest for Free Trade Agreements," in Pangetsu Mari & Song Ligang (eds.) "Japan's Future in East Asia and the Pacific: in Honour of Professor Peter Drysdale," Asia Pacific Press, Canberra, Australia, pp.81-84.
- Ibid. (2008a): "The Rise of China and Prospect for an East Asia Community," Institute of Asian Research, University of British Columbia, Working Paper 2008-1, October, pp.11-13.
- Ibid (2008b): "The Rise of China and the Prospect for an East Asian Community," Institute of Asian Research Bus. Res. Working Paper 2008-1, October, pp.10.

Ibid (2008a): "Domestic Political Institutions, Diplomatic Style and Trade Agreements: A Comparative Study of China and Japan," *New Political Economy*, CNPE-2008-006.R4, pp.9-13.

Yu, Yongding (2007): "Regional Integration from a Chinese Perspective," in Fujita, Masahisa (Eds.) "Regional Integration in East Asia: From the Viewpoint of Spatial Economics," Palgrave Macmillan, New York, pp. 109.

Yuan, Jing-Dong (2006): "China-ASEAN Relations: Perspectives, Prospects and Implications for US Interests," Strategic Studies Institute, October, pp.5-53.

Yun Chunji (2002): "Japan's FTA Strategy and the East Asian Economic Bloc," *Sekai (the World)* No. 699, March, retrieved February 30, 2010 from <http://www.iwanami.co.jp/jpworld/text/FTA01.html>

Ibid (2004): "Rise of the Chinese Economy and East Asian FTA - Japan's Strategic Change and Continuity," Institute for World Economics and International Management, Bremen University, pp.17, 30-31.

Yung, Chul Park, Urata, Shujiro and Cheong Inkyo (2005): "The Political Economy of the Proliferation of FTAs," Paper presented at the PAFTAD 30 Meeting, Honolulu, Hawaii, February 19-21, pp. 8-11.

Yuzawa Takeshi (2007): "Japan's Security Policy and the ASEAN Regional Forum: The Search for Multilateral Security in the Asia-Pacific," London and New York: Routledge, pp. 1-2.

Zhai, Fan (2006): "Preferential Trade Agreements in Asia: Alternative of 'Hub and Spoke,'" Asian Development Bank, April 26, pp. 2-6.

Zhang, Haibing (2006): "China and Southeast Asia Cooperation: New Developments and Challenges," in Wong, John and Hongyi, Lai (eds.) "China into the Hu-Wen Era: Policy Initiatives and Challenges," World Scientific, Singapore, pp. 542-544.

Zhang, Xiaoji (2005): "Ways towards East Asian FTA: The Significant Roles of ASEAN and China," in Saw, Swee-Hock et al (eds.) "ASEAN-China Relations: Realities and Prospects", ISEAS, Singapore, pp.69.

Zhao, Quansheng (2001): "China and Major Power Relations in East Asia," Journal of Contemporary China, 10(29), pp.668.

Zhu, Zenming (2009): "China's Economic Aid to CLMV and Its Economic Cooperation with Them," in Kagami Mitsuhiro (eds.) "A China-Japan Comparison of Economic Relationships with the Mekong River Basin Countries," BRC Research Report, No.1, pp.75-82.