

Japan in the Web of Integrations

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Spring 2018 was an important time in the history of international free trade. Japanese Prime Minister Abe Shinzo and the President of the European Commission Jean-Claude Juncker signed a free trade agreement, which will enter into force in autumn 2019 following the ratification processes. On 8 March 2018, the leaders of eleven countries (Japan, Canada, Mexico, Singapore, Malaysia, Brunei, Vietnam, Chile, Peru, Australia and New Zealand) signed the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) in Chile. Japan is holding negotiations with South Korea and China on free trade concurrently with other free trade negotiations.

This paper examines what happened in Japan, which had had no bilateral free trade agreement with any country (or group of countries) until the turn of the millennium. What are those motivational factors, which spurred Japan (and, for that matter, the entire Far East) to arise from their apathy for integration? Are there any common cultural and civilizational causes that explain the strong tendencies of integration in the region in the beginning of the 21st century? Or, alternatively, are there instead hard and fast economic factors in the background?

The willingness to cooperate has strengthened in East Asia and we have seen the strengthening of regional integration over the past 20 years. To better understand the process, we need to overview the major historical, cultural and civilization characteristics of Japan and its region.

1. Japan's Economic Development Policy after World War II

The losers of World War 2, including Japan, were not involved in the setting up of the new world order, and after a while neither the Soviet Union, nor the East-European countries participated in the establishment of the new international institutions (IMF, IBRD, GATT, NATO). The new world order therefore served the interests of the US and Western Europe, that is of the so-called West, and represented the interests and values of a western type of civilization. However, after a few years of stagnation

(1945-49), a remarkable egress presented itself. Communists seized power in China, which triggered the modification of the US's Far Eastern security policy strategy. The several times humiliated Japan was offered a strategic partnership, which is understandable, since there was no other state in the region, that could combat the Asian communism (Soviet Union and China), and that could be advantageous geographically, too. The introversion of the Japanese and their economic problems lent themselves to the American initiative. Japan embarked on a new (third) period of modernization, in which the US served as the model, supporting the country financially in return for which they created military bases on the island. The Japanese miracle dates from 1955. It was literally a miracle, which meant fast export-driven economic growth (with an annual average beyond 10 percent between 1955-1973, and slightly below 10 percent between 1974-1988), full employment, structural transformation, and transition from labor-intensive production to capital-intensive and knowledge-based production (Bassa, 2011). In this period, Japan barred itself from foreign capital inflow (the small amount coming from the U.S.).

Due to the environmental disasters at the end of the 1960s, Japan's economic strategy had to be modified. The energy- and raw material-intensive production was outsourced to neighboring states, and Japan became an exporter of capital, while favoring technology-based production. Due to their geographical proximity, the first wave of capital investments was in the so-called Tiger countries (South Korea, Taiwan, Hong Kong, Singapore). These changes took place in good time, since though they came unexpected, the crude oil price boom of 1973 did not take Japan fully by surprise. The outsourcing of energy-intensive production had begun, and efforts were made to develop the production of nuclear power, and to diversify the sources of the acquisition of fossil fuels. Although the crisis shaking the world brought a minor recoil, the urge for modernization and the export-driven growth path brought an increase significantly surpassing the global average rate.

Japanese capital outflow included not only money, but technology, know-how and a new model of development for the Tiger countries, since they too followed an export-driven growth path. The main difference, however, was that the target of their export was mostly Japan. They managed production until the point of assembling spare parts and units, but the assemblage of the final product took place in Japan. With the inflow of Japanese capital, in these countries we find the appearance of specific micro (corporate) integrations, of supply chains (predecessors of the global chains), and also, no less importantly, the fusion of ownership. These are the first signs of Japan's integration aspirations.

From the mid-80s, there were new bursts of capital outflow, this time to the so-called small Tigers (Thailand, Malaysia, Indonesia, The Philippines), and, at the same time, to the increasingly modernized China. Then in the 90s, the countries of Indochina became the targets of capital export (Vietnam, Cambodia, Laos, Myanmar), although it was obvious from the 80s that the whole globalized world served as Japan's target. Still, geographical proximity is a crucial factor. Japan's capital investments can best be modelled by the so-called flying goose model. According to this model, the geese flying in V shape are led by Japan the leader. In our case this means that it exports technology to the cooperative countries, and simultaneously, creates market for its products. The leader country is capable of continuous technological modernization, the results of which are granted to firms in partner countries. With this method, both the leader country and its followers can attain faster economic growth, and thereby become the models of export-oriented economy (Kasahara, 2013). Needless to say, the dominant model is Japan: Japanese private capital is expanding in the region thanks to government incentives which satisfy the country's aspirations for economic dominance. There was a similar process 60-80 years before, with recourse to weapons. However, there are great players in the region apart from Japan, namely the US, due to its capital and merchandise exports, and military presence, and China, which—becoming a market economy—has been strengthening since the 90s.

In 1991, there was another important change in the global scene: the world economy was significantly affected by the disintegration of the Soviet Union and the turn of the regime in East-European socialist countries. The previously secluded socialist countries became exposed to globalization. The international capital flows increased, and multinational companies found new targets in the socialist world. In an economic sense, the world extended horizontally. In the field of security and military policy, the disintegration of the common enemy, the Soviet Union created a new situation in economic relations. The previously cooperating countries began to consider each other as rivals (and not as enemies). Japan had to face a number of challenges. First, the economic growth and expansion of China was an important factor, despite the fact that Japan had had a positive trade balance with the country. Second, as a consequence of the more or less severe South Asian crises in the 90s, the pace of economic growth started to stagnate and, from 1998, to turn negative temporarily. In the „flight of wild geese“ model, the leader Japan has lost its place, and confused its followers, the major and the little Tiger countries. Corporate micro integrational relations loosened, and countries that had developed due to Japan's support started to establish their own development strategy and international relations thereby becoming rivals (mainly South Korea, Taiwan and Singapore). Third, we must not forget the controversial relations between Japan and the US. From the end of the 70s, Japan has

accumulated a significant trade surplus with the US. By steadfastly purchasing US government securities and investing in the US, Japan precipitated the disapproval of the US, which sought to hinder its expansion in various ways. After the end of the cold war, the otherwise peaceful US–Japan relations were not only tried by economic tensions, but also by political controversies such as the question of the presence of American military bases in Japan (when it was revealed that nuclear weapons had been stationed on the bases despite the agreement), and Japan’s standpoint regarding the diffusion of American and Western human rights principles in Southeast Asia. In this regard Japan resorts to its roots of civilization, having been disillusioned in the western economic–cultural model, and considers its success the product of its own culture (Huntington, 2002).

2. After the Turn of the Millennium

The turn of the millennium found Japan in a difficult situation. It suffered an economic recession, and its previous partners opened up to others. Moreover, the micro integrational relations loosened, and the disputes between China (which entered the WTO) and the US became more bitter. The aging and decreasing population became a social issue, since on the one hand, the working-age population decreased, leading to shortage of labor, and, on the other hand, the growing volume of pension expenses squeezed the budget. Further problems in the increasing well-being have been the young generation’s alienation from the national traditions including the Confucian, and the low level and decreasing tendency of social reproduction. This is the time when it dawned upon the educated Japanese that China, which had been looked down on for 150 years, is after all at the roots of Japanese culture. These were shocks without effective redress.

Japan interpreted globalization as the opening up of the world providing opportunities for the country. However, Japan hardly opened up, and did not allow the inflow of foreign capital, while it imposed the highest tariffs (e.g. on rice and foodstuffs) in the developed world. Japan had difficulties in adapting to the changed international environment, e.g. it could not appear in the region of East and Central Europe opened up by globalization. It was an important change, that the previously contemned China overtook Japan first in the field of export, then in production.

Japan’s response is telling: it is characterized by an increasing seclusion in terms of culture and civilization. Japan emphasizes its cultural identity, its individuality and difference from western and other Asian cultures. (Indeed, Confucianism is an

important bond between Asian civilizations). Japan considers its previous economic success as the product of their own civilization, which is both economically and culturally superior to the declining Western civilization (Huntington, 2002). Japan distanced itself from western (US) thinking and turned to Asia. It strived to preserve the superiority of Asia and its own leading position in the economic sphere, in a way to guarantee that South Asia become the growth pole in the 21st century. For this reason, Japan opened up economically, which was a move made partly under constraint, the consequence of the 1997/98 crisis. It had to allow the inflow of foreign capital and change its economic ideology. As part of this change of attitude, Japan, which previously disapproved of all kinds of integration, finally opened up: it allowed foreign direct investment, and launched an integration strategy. All in all, it is the combination of civilizational and economic constraints that gave birth to the first signs of integration.

The period after the turn of the millennium is the beginning of integration: measures were taken to rescue the Japanese corporations affected by the crises of 1997-98 and 2007-2008, and the inflow of foreign direct investment was allowed. However, the amount of capital inflow was still considerably lower than the outflow. In 2016, FDI in Japan constituted hardly more than 4 percent of the GDP, which is an outstandingly low level compared to the developed and less developed countries of the world. Yet in recent years the capital outflow was USD 120-150 bn, making Japan the fourth greatest exporter. The 2008 global financial crisis brought about the diminution of world trade, as well as a significant setback in demand in developed countries, which resulted also in the further loosening of micro integrational relations in the region.

3. Abenomics

An important measure taken in recent years was the unveiling of a policy package advocated by Japanese Prime Minister Abe Shinzo, the so-called Abenomics, according to which the economy was the most important priority. The package comprises three directions:

- monetary easing (increasing the economy's money supply, and thereby securing a low rate, controllable inflation).
- fiscal expansion, boosting government spending (mainly in the area of infrastructure). It is the result of the increasing budgetary spending that Japan's gross

national debt has exceeded 220 percent of the GDP, which is the highest in the developed world.¹

- structural reforms in all areas of the economy and striving to become one of the leaders of the fourth industrial revolution (digitalization and robotization, development of artificial intelligence). One of the reforms is the more powerful development of integrational relations. Easing labor shortage by bringing more women into the workforce (Womenomics).

Abenomics has jolted changes in Japan's foreign trade policies, too. The previous multilateral approach has been replaced by a bilateral thinking: a new foreign trade strategy was elaborated along with the failure of the WTO Doha Round, the rivalry between China and Japan for primacy in Asia, and to become the gravitational center of Asian trade. The change in strategic thinking was influenced by the American President, Barack Obama's integration strategy: the commencing negotiations between the U S and the EU on TTIP (Transatlantic Trade and Investment Partnership), and on TPP. Yet on the Asia-Europe summits (ASEM), the main topic is the extending of trade relations, which means that the EU also intends to extend its foreign trade relations with the Southeast Asian states. For Japan, the enhancement of trade with the EU is no doubt a positive sign, although the more dominant appearance of the latter in the region jeopardizes Japan's interests. Therefore, it has become of utmost importance for Japan to elevate the basically micro-integrational, corporate relations to a national and international (interstate) level. It needs to be said that according to the GATT/WTO regulations, duty exemption within the free trade zone need not be extended to the other WTO member states. This prompted almost all countries and integrations of the world (EU, US) to resort to these means in trying to improve their market positions. It is beyond the scope of this study to analyze the effects of this process on the WTO,² but needless to say, it will weaken the multilateral relations.

In order to preserve and improve trade positions, Japan signed comprehensive cooperation agreements with several countries of the region. These agreements are not homogeneous due to the pragmatic approach of Japan's economic diplomacy. The contents, force and scope of the contracts are diverse. Trade in goods and services, protective rules of origin, protection of intellectual property rights and investment, clauses excluding double taxation were all included in the agreements (this is why

¹ However, this is not an uncontrollable issue, since the Japanese government has become indebted to its own population, not to foreign countries.

² In her essay, Kruppa (2016) explores this question in detail.

in secondary literature we increasingly find the terms like RTA/Regional Trade Agreement or EPA/Economic Partnership Agreement, which slightly differ from the earlier FTA/Free Trade Agreements. This study does not aim to fully elaborate the individual agreements, the texts are available on the website of the Japanese Ministry of Foreign Affairs. I would like to emphasize but one point: the learning process is recognizable. The initial agreements were plainly industrial free trade agreements, which were extended and modified in the domain of the economy, while the latest ones included questions of civilization and society (e.g. protection of the environment).

According to Hilpert (2014), bilateral and regional cooperation forms cannot be considered the alternatives to the multilateral trade system (WTO), but rather their complement. I cannot wholly agree with this view, since the global changes show that almost all actors of the world trade have turned to bilateralism. The WTO as a general system does operate, but the operators take advantage of the loopholes in order to improve their own situation. Through these bilateral agreements the countries can extend their trade in goods and services, maintain their competitive advantage in the geographically close countries, ensure their imports of raw material and energy carriers.

Japan is doing the same: beside its economic role in the Asian cooperation, the other factor is the strengthening of its political presence and the improvement of the cooperation with neighboring countries based on mutual confidence. Furthermore, Japan would like to improve its position in the competition with China for economic supremacy in the region, and to broaden its economic scope with new bilateral or multilateral agreements.

It is well worth mentioning that currently, Japan ensures preferential benefits to 138 countries and 5 regions. For many years China has been the greatest beneficiary, within the framework of the GSP system it provides two-thirds of the preferential imports (Komura).

4. Japan's Free Trade Agreements

By the beginning of 2018, Japan has signed 17 regional trade agreements that are still existing. Two of these, namely the one signed with the EU, the other with the TPP have not yet entered into force and are currently under ratification. Japan's free trade agreements are as follows: agreement with ASEAN as a multilateral organization and a separate agreement with its seven member states (Brunei Darussalam, Indonesia,

Malaysia, The Philippines, Singapore, Thailand and Vietnam); agreements with developed countries (OECD) such as Australia, Chile, Mexico, Switzerland, and with developing countries such as India, Mongolia and Peru; and finally, agreement with the EU and the CPTPP, or the Trans-Pacific Partnership Agreement.

Table 1

Japan's regional trade agreements (2017)

Partner	Date of signature	Date of entering into force
Singapore	January 2002	November 2002
Mexico	September 2004	April 2005
Malaysia	December 2005	July 2006
The Philippines	September 2006	December 2008
Chile	March 2007	September 2007
Thailand	April 2007	November 2007
Brunei-Darussalam	June 2007	July 2008
Indonesia	August 2007	July 2008
ASEAN	April 2008	December 2008
Vietnam	December 2008	October 2009
Switzerland	February 2009	September 2009
India	February 2011	August 2011
Peru	May 2011	March 2012
Australia	July 2014	January 2015
Mongolia	February 2015	June 2016
TPP	January 2018	Not in force
EU	January 2018	Not in force

Source: [online] Available form: <http://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?MemberCode=392&lang=1&redirect=1>

FTA drafts under negotiation are the following:

- Multilateral drafts:
 - RCEP-Regional Comprehensive Economic Partnership, ASEAN + 6
 - China-Japan-South Korea FTA
 - Japan-GCC (The Gulf Cooperation Council)
- Developed countries:
 - Japan-Canada FTA
 - Japan-South Korea EPA

- Developing countries:
 - Japan-Colombia FTA
 - Japan-Turkey FTA

- Preferential agreement:
 - APEC (Asian Pacific Economic Cooperation)

4.1. Japan's Agreements in the Region – ASEAN³ and Its Member States

Over the past 15 years, Japan placed emphasis on the development of foreign relations in the region. The crises in the world economy affected the countries of the region similarly, and the destabilization of the network of relationships, described above as the wild geese model, spurred Japan to build its regional free trade relations. Initially it held bilateral negotiations with certain countries (Singapore, Malaysia, The Philippines, Thailand, Brunei, Indonesia and, later, Vietnam), then with ASEAN, the intergovernmental organization.

From a broader point of view, the region includes Mongolia and Australia, too. Therefore, from the 17 agreements 10 concerns the region, and this clearly shows the importance of cooperation between countries in the region. Japan's agreements made with the countries of the region, including ASEAN, serve long term purposes. It is through these steps that Japan intends to increase its influence in the region, and to keep up with the rival China, which has similar aspirations. Initially it established free trade agreements with the member states, and an Economic Partnership Agreement (EPA) with the integration. However, it is worth mentioning that although China overtook them when signing a Comprehensive Economic Cooperation Agreement in 2002, the EPA signed with Japan (2008) is of a higher level. (A similar agreement between ASEAN and China dates from 2010).

³ The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967 in Bangkok, Thailand. The Founding Fathers were Indonesia, Malaysia, The Philippines, Singapore and Thailand. Later the organization's membership expanded to include Brunei Darussalam on 7 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997 and Cambodia on 30 April 1999. Thus today, these ten states are the members of ASEAN. In the beginning, the primary objectives of the cooperation were the protection of political stability and security due to the Chinese political threat, and Japan's increasing economic influence in the region. It was only from 1977 that the member states exchanged trade preferences, then in 1992, they established the ASEAN Free Trade Area (AFTA). The principal aims of ASEAN include the acceleration of economic growth, the promotion of regional stability, peace and mutual assistance. (Cf. [online] Available form: <http://asean.org>)

The contract that entered into force in December 2008 contained measures toward the liberalization of trade between Japan and the ASEAN member states. Deregulation and the opening of the market was a long process entailing the following steps:

- the reduction of customs tariffs and the gradual lifting of nontariff barriers.
- the gradual removal of hindrances to the services trade.
- the liberalization of capital movements.
- special, tailor-made treatment of less developed ASEAN countries (Cambodia, Laos, Myanmar).

In recent years, the main area of the regional expansion of Japanese capital has been the ASEAN, and primarily the Indo-China region, that is the less developed countries. Beyond the geographical proximity, this is also due to Japan's growing unemployment, and the income differences between the countries. Consequently, they started to offshore labor-intensive production to countries of low income (Vietnam, Laos, Cambodia and Myanmar). Japan is/was the second biggest source of FDI for the ASEAN countries.

The trade in goods between ASEAN and Japan has stagnated in recent years with an ASEAN export surplus. Japan has a 10 percent share in ASEAN's total trade in goods, and thus is the second greatest partner of ASEAN (ASIEN Economic Integration Monitor). The bilateral agreements concluded with the individual countries and the multilateral agreement complement each other.

After the agreements with China and Japan, ASEAN concluded a similar agreement with South Korea, what is more, also with Australia, New Zealand and India. Indeed, ASEAN participates in such trade cooperation forms which encompass almost half of the world's population. This shows that the motor of integration in Southeast Asia is ASEAN.

4.2. Bilateral Agreements with Developed Countries – OECD Members

Japan concluded an agreement with Mexico, as the first OECD member state in 2004, and with Chile in 2007. Both agreements apply to trade in goods and services, and also include regulations on capital movements. It is a common denominator of the two countries that both of them lie on the coast of the Pacific and are members of the APEC cooperation.

The free trade agreement with Australia was signed only in 2014 (virtually simultaneously with China). These agreements apply not only to trade in goods and services, but also to the free movement of capital. The agreement emphasizes the trade in agricultural and fishery products. (Australia is also an APEC member state).

In 2009, Switzerland was the first European state to sign an agreement with Japan, which applied to goods, services, the regulations of product origin, intellectual property rights and capital movement. (In this they overtook China, which concluded a similar agreement only in 2013). It is a matter of interest that Switzerland is one of the few European countries which has a trade surplus with Japan (due to the export of Swiss luxury products).

4.3. Bilateral Agreements with Developing Countries

Japan has concluded free trade agreements with three developing countries: with India, Peru and Mongolia. The significance of the agreement with India lies in the fact that the country has the second greatest population in the world, and, regarding its purchasing power, the third largest producer, which includes a significant middle-class whose consumption creates a sizable market for Japanese products. The widely available cheap labor force may help Japan redress these problems. It needs to be emphasized at the same time, that China has no free trade agreement with India.

Japan concluded a free trade agreement with Peru in 2011, which aimed at the free movement of industrial products and the gradual reduction of customs (the agreement between China and Peru dates from 2009). Negotiations are currently continued on the services trade and free capital movement (Peru is also an APEC member state).

In the case of Mongolia, the free trade agreement was motivated by the abundance of raw materials (2015), and at this point they overtook China, since the latter has no similar agreement with Mongolia.

4.4. Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was preceded by the TPP. The TPP was signed by 12 countries in 2016 including the US, but in January 2017, President Trump signed away the agreement. After

the US quit the TPP, 11 member countries remained (before the signing of the new agreement, it was also called TPP-11 in literature).

Following the US withdrawal, Japan—with a few months' hesitation—decided to resume negotiations. The Chinese-initiated RCEP negotiations played an important role in this decision, promoting China's aspirations for dominance (this is, of course, also a win-win situation, from which China was to benefit the most). Japan could not remain an outsider this time either, moreover, in the TPP-11 the country assumed the leading role, taking it over from the US.

The CPTPP can briefly be defined as the clustering of 11 countries lying on the two coasts of the Pacific Ocean into one huge market on the basis of mutually accepted regulations which bear on the phenomena of the digital era. This market in the case of the CPTPP contains 510 million people. This is the first comprehensive, high-level integrational agreement, which is the result of a series of negotiations held by geographically distant countries with rather diverse levels of economic development, and a readiness for compromises (Cf. Japan's USD 38 000 GDP per capita, and Vietnam's USD 2164).

In 2016, the CPTPP member states generated 13 percent of the global GDP, and 15-15 percent (export and import) of the international trade in goods and represent a considerably smaller economic power than the TPP-12 would have been with the inclusion of the US (38 percent of global production).

As a new free trade agreement, the CPTPP synthetically contains all the characteristics of the mentioned FTAs, TRAs and EPAs. First, it is an industrial free trade agreement (member states lift customs and other barriers on trade according to different timetables, due to the diverse levels of development, that is the developed countries remove the barriers as the agreement enters into force, while the less developed states do the same a few years later, quite asymmetrically). Second, it is an agricultural preferential agreement, although the trade in several product groups is free, including the majority of foodstuffs. The agreement includes the free movement of services and of capital (although not the free movement of labor-force). A separate chapter deals with public procurement and investments, and the competition rules. The TPP emphasizes the protection of intellectual property rights, food security and the trading of medicinal products. It also deals with the regulation of environmental protection (in connection with international trade). This new generation of trade agreement „with respect to its contents, can become the golden standard of free trade agreements, and serve as a model contract for other transregional international

integrations" (Kruppa, 2017). The Philippines, Indonesia, Thailand (ASEAN countries) as well as South Korea and Taiwan are all interested in the TPP-11.

Previously, Japan had had bilateral free trade agreements with eight countries (Australia, Mexico, Chile, Peru, Singapore, Malaysia, Vietnam, Brunei). Similar agreements are currently negotiated with Canada, too, leaving out only New Zealand. Since a number of countries have had bilateral agreements, it seems that the TPP is the multilateral extension of the many bilateral agreements.

4.5. Japan – European Union Free Trade Agreement

The free trade agreement concluded with the EU (JEFTA – Japan-EU Free Trade Agreement) is for Japan as important as the TPP agreement. The five-year long free trade negotiations have been successfully concluded by December 2017, the partners signed the documents, and the ratification process began. After ratification the agreement can enter into force in early Autumn 2019. Regarding their content, logic and structure, the TPP and the JEFTA agreements are rather similar, except for one major difference. The TPP agreement is multilateral, while JEFTA is a bilateral contract. Despite the fact that a number of countries participate in JEFTA, due to the EU'S common trade policy, the Community participated in the negotiations as one negotiator.

There are around 640 million people or potential consumers in Japan and the 28 EU member states. They generate 30 percent of the global production and 39 percent of the world trade (this date does not include the internal turnover of the EU). For the EU Japan is the sixth most important export and import market, whereas the EU is the third for Japan. These facts highlight the significance and practical importance of the contract. Both the EU and Japan entertain great expectations of the agreement.

The free trade extends to industrial products, services and to a significant number of agricultural and food products. The agreement includes questions of environmental protection (in accordance with the Paris Agreement), consumer protection, competition policy and the protection of intellectual property rights, and also contains the protection of designation of origin (e.g. Tokaj Aszú).

4.6. FTA Drafts under Negotiation

The importance of the gulf countries (Bahrain, Kuwait, Qatar, Saudi Arabia, United Arab Emirates) derives from the fact that they are significant crude oil exporters, and Japan's indispensable suppliers. The trade balance is negative with most of these countries, therefore Japan is opening up and expects the same from them.

China-Japan-South Korea FTA: between the three economically most important East-Asian countries multilateral negotiations have been commenced, which—beyond economic and trade issues—covered also political questions. Questions concerning the China-South Korea relationship seem to be more or less settled, just as the issues between Japan and South Korea. However, occasionally severe conflicts flare up between China and Japan, such as historical disputes which have not been completely settled since World War II, island disputes (the Spratly Islands and the Sen-kaku Islands), the building of artificial islands on the South China Sea. Moreover, it is well worth mentioning that Japan has long had a significant trade surplus with China. In recent years the negotiations have concentrated more on political questions, because Japan has been concluding free trade agreements with other regions. The free trade negotiations with the EU and TPP—to which Japan had fully dedicated itself—had a negative impact on the economic dimension of the trilateral negotiations. Japan signed both agreements (including the CPTPP without the US). Currently, all countries concerned are trying to establish which solution would be best for them both economically and politically: bilateral agreements with the US, or the RCEP / Regional Comprehensive Economic Partnership, the ASEAN + 6 integration (10 ASEAN countries plus China, Japan, South Korea, India, Australia and New Zealand). This cooperation is promoted by China, since it played no part in the TPP, and expects to increase its economic and political dominance in the region. The ASEAN states already have bilateral agreements with the other countries. Apart from the mentioned 10, China has bilateral agreements with Australia, New Zealand and South Korea (moreover, it continues negotiations with Japan and prepares to commence negotiations with India). Beyond the ASEAN, Japan has free trade agreements with Australia and India, and is holding negotiations with South Korea and China. Interestingly, Japan has concluded no agreements with New Zealand (although it will in the CPTPP 11).

From the developed (OECD) countries Japan is holding negotiations with Canada, which is a NAFTA member state and party to the CPTPP agreement. This means that there is an agreement with Mexico through NAFTA, and while there are ongoing negotiations with Canada, Japan does not intend to conclude such an agreement with the US.

Japan is holding also bilateral negotiations with South Korea. Beyond trading in goods and services, the negotiations cover the capital movements, too, and concentrate on the questions of intellectual property rights.

From developing countries Japan is holding trade negotiations with Turkey and Colombia. Turkey entered the picture because it has a Customs Union Agreement with the EU, therefore the contract with Turkey has to be similar to the Japan-EU free trade agreement. In the case of Colombia, the geographical location is decisive: there are agreements already with Chile and Peru from the countries of the South American coastline of the Pacific.

4.7. Preferential Agreement: APEC

The APEC was formed in 1989 by the cooperation of 12 countries. Today it contains 21 member states: the US, Canada and Mexico from NAFTA; Chile and Peru from South America; Australia and New Zealand from the Australian continent; Japan, South Korea and Russia from Asia; 7 member states from ASEAN (Brunei, Indonesia, Malaysia, The Philippines, Singapore, Thailand and Vietnam); and Papua New Guinea from Oceania. The Greater China (The People's Republic of China, The Republic of China (Taiwan) and Hong Kong) joined the loose union in 1991, which can be considered rather as a preferential trading area, a loose consultation forum. In 1994, they set the long-term objective of the free movement of goods and capital, which they confirmed in 2014. This integration is the typical example of new regionalism: its almost 30 years' history is characterized by the intercontinental economic cooperation between developed and developing countries (they are not concerned with political and human rights issues). It is of key importance for this study that there are several functioning regional integrations within APEC (including NAFTA, AFTA, the bilateral agreements of ESEAN, the free trade agreement between Australia and New Zealand). The extension of already existing bilateral and multilateral agreements to a mega-regional or plurilateral level would accelerate the transformation into a free trade area. However, we must not forget that Russia and Papua New Guinea do not participate in regional cooperation.

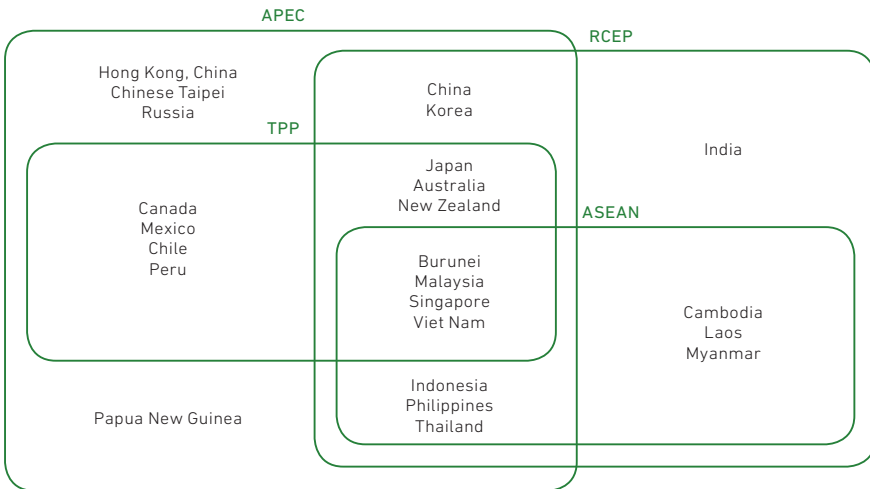
Concentrating on Japan, we find that it has free trade agreements with 11 out of 20 APEC member states (7 ASEAN members, Australia, Chile, Mexico and Peru), and is holding similar negotiations with South Korea, China and Canada. There are no such agreements with the US, Taiwan, Hong Kong, New Zealand, Russia and Papua New Guinea. (APEC, 2016)

5. Motivations for Building Free Trade Relations in Asia

In the Southeast Asian region, we find a complex system of integrations. The majority of free trade agreements between the countries of the region was concluded in the 21st century, while in Europe similar agreements date from the 1950s. After the turn of the millennium, the number of free trade agreements soared including the bilateral free trade agreements and the multilateral ones encompassing part of the region or the whole. This is why secondary literature considers Asian integrations as late comers. The hardly intelligible web of agreements is likened to a bowl of spaghetti in literature. The following diagram shows the mega integrations together with their overlapping.

Diagram 1

Integrations in the Asian region



Source: Kawasaki (2014)

One may conclude from the diagram that the motor of Southeast integration is ASEAN. Its member states (the least developed ones) participate in two or three mega integrations, not to mention the web of the numerous bilateral agreements. It is worthwhile to bear in mind that not all countries joined the integration process actively. In the case of Taiwan, the reasons are presumably political, that is the socialist China hinders its aspirations adhering to the 'one-China principle'. Due to the 'one country two systems principle', Hong Kong represents a special case: it is part of China on the one hand but has maintained its sovereignty in several areas as well as its international legal identity on the other. In the global trade issues, it follows in the footsteps of China, the motherland.

Russia and Papua New Guinea have little to do with the region and its integrations. In the case of Russia, this has political reasons: no peace agreement has been signed with Japan after World War II, and Russia's annexation of the Kuril Islands is still a matter of dispute between the two countries. The transitional Russia is viewed with apprehension. Indeed, the annexation of Crimea from Ukraine is unacceptable for the majority of countries. Papua New Guinea is signatory to the APEC and is the least developed member state. Even though it gained independence in 1975, the country lacks the appropriate endowments and opportunities which could accelerate its economic growth and establish its break out.

India is one of the greatest countries in South Asia, however, it is not an organic part of the Far East. After 1991, India radically revamped its economic policy, introduced liberal reforms and has been developing ever since. The country has started to tread the path of integrations over the past years. It joined the RCEP negotiations, although the more or less severe disputes with China hinder a more intensive integration.

The US is connected to the region through APEC, however, its withdrawal from the TPP and the non-participation in RCEP shows that it is withdrawing from the regional multilateral agreements. Nevertheless, from a geopolitical point of view, the presence of the US is evident (military bases, US naval force on the waters of the region, US multinational corporations in the region). The United States proposes bilateral agreements to individual countries, but we have to bear in mind that Trump's 'America above all' principle is based on the economic dominance of the US, and the countries of the region tend to lack motivation for such a cooperation.

Let us briefly summarize the strengths (advantages), weaknesses (disadvantages), opportunities and threats (dangers) of the process of Asian integration on the basis of Oehler-Sincai's insights (2014).

The strengths include:

- geographical location (South Asia is the motor of global development)
- outstanding pace of economic growth
- firm economic foundations
- size of internal market
- abundance of energy resources
- high purchasing power of a rising middleclass
- cooperation organized in a network

The weaknesses include:

- problems of human resources, shortage of highly qualified labor force
- shortcomings of the institution system and the infrastructure
- slow decision-making (at ASEAN level)
- lack of a common solidarity fund

The opportunities include:

- historical, inter-civilization, and cultural relations (which are, alas, occasionally destabilizing factors)
- sizable markets like China, India, Japan, ASEAN + 6 that facilitate the establishment of the optimal size of production, and economies of scale.

Finally, the major threats are:

- the flaring up of regional conflicts on the South China Sea
- the double focused integration process, the rivalry between China and Japan, which is influenced by the ASEAN relations.

5.1. Japan's Motivations for Integration

After the turn of the millennium, Japan also joined the initiatives promoting integration. In the beginning, the agreements were characterized by being concluded only with the relatively small countries of the region. These negotiations constituted a learning process: apart from the concrete problems of trade, issues addressed during the negotiations multiplied to include questions concerning the regulations of origin, services trade and capital movement (FTA>RTA>EPA). Japan has shown great concern for its partners' interests, despite its greater strength, and the fact that they lacked bargaining power. Japan has not applied standardized agreement drafts or templates but strived to find mutually advantageous solutions (win-win strategy). As a result of the pragmatic approach, the contents, force and scope of the contracts differ. It was as a result of this learning process that they concluded contracts with developed countries.

Traditional forms of integration (Viner, Balassa – free trade zone, customs union) do not meet the requirements of the 21st century, since the role of integrations has changed. In the new environment of a globalized world economy, geographical distances have become less significant, and immediate access to information has changed the relevance of the time factor. Therefore, in the new agreements, parties go beyond traditional economic and trade issues (not merely industrial free trade),

and include sections on investment protection, taxation, logistics and the protection of intellectual property rights. What is more, agreements tend to cover questions of environmental protection, joint action against environmental disasters and the war on terrorism. In this period of the development of integrations, the latter are necessary but not sufficient conditions of the community of economic interests. However, the role of integrations as communities of value is on the increase. Currently, we see only the initial steps, but this is no doubt the future of development. Integrations within a regionalism that keeps up with globalization: this is the future. The latest agreements are characterized by the combination of economic interests and values of civilization. The basis of the institutionalist theory of integration is to ensure that sound economic and trade relations are accompanied by fair political relations.

From the perspective of the export-driven Japanese economic strategy, the positive world economic environment—which welcomed Japan's economic opening up without returning it—is of outstanding significance. At the same time, in the past two decades the multilateral regulations (WTO) of international trade have not changed, and the boom in bilateral free trade agreements has curbed Japan's opportunities in the global market. Needless to say, this process has two sides: in the emergence of bilateralism an important role was played by the restrictions on multinational corporations as well as by the bilateral aspirations of the EU and the US which served as a model. Due to the consequences of the effect-counter-effect dialectic, Japan faces the following economic dilemma: it has to respond to the tendencies of increasing regionalism in the world and participate in the development of bilateral relations. The result is spectacular: according to the WTO, there are 300 existing free trade agreements in the world economy, 5 percent of which with Japan's participation. 90 percent of these bilateral (previously multilateral) agreements are of the free trade zone type, while 10 percent are customs union (Kruppa, 2016).

The Asian financial crisis of 1997-98 compelled the countries of the region to face a common challenge in order to sustain their high level economic growth rates. First, the establishment of AFTA (ASEAN Free Trade Area), and later China's aspirations for integration compelled the countries of the region including Japan, to join this process (fear of exclusion) (Kawai – Wignaraj, 2011).

Further economic motivations:

- Through these agreements, Japan can diversify its import of raw material and energy carriers. The free trade agreements promote this objective.

- The agreements facilitate the freedom of capital movement and provide new investment opportunities for Japanese capital. They can outsource production into countries with low income and participate in the extraction of raw material and energy carriers.
- In Asia, cooperation forms in production will provide the framework of regionalism. Japanese capital movement follows the 'flying wild geese' model, which means that multilayered relations of supply and cooperation have been established (with frequent multiple ownership). This model is similar to the global value chains established by the multinational corporations of developed countries.

Free trade agreements between China and Japan are also the instruments of rivalry. This economic and political competition between the two great economic superpowers contributes to the enlargement of the South Asian integrations, but at the same time, slackens the development of institutions encompassing the region (Völgyi, 2011, p. 5).

The geopolitical interests of China and Japan are also of utmost importance. Both powers aspire for a dominant (though not monopolistic) role in their own region. This explains why they concluded their first free trade agreements with the countries of the region. China slightly overtook its regional rival, Japan in time, but by 2018 their competition in the sphere of integration has become balanced.

6. By Way of Conclusion, or Japan on the Road to Integration

China and Japan play a leading role in the regional processes of integration. However, during the past 15 years, the balance of power between the two countries has shifted. China has overtaken Japan first in import (2003), then in export, and has become the world's greatest exporter since 2010. It also overtook Japan in GDP (2008) and working capital export (2016). Yet as regards per capita indicators, Japan is in a better position. In a rather short time, China became one of the leading economic players of the world, although the US is yet ahead of the former in production. Nevertheless, according to experts, China will overtake the US in 15 years (China officially set this objective for 2049).

The struggle for the leading role in the region—between Japan, China and the US—had started earlier, and these ambitions had been underlined by their respective participations in different integrations. Nowadays Japan is taking over the role of the US in the CPTPP, but in the Asian region China's expansion seems to be uncontrollable.

The US withdrawal from TPP-12 significantly eroded its role in the region and will also slacken its competitiveness in the longer run. The withdrawal is bound to trigger the country's lagging behind the region and a limited influence in the regional economic processes, although this region will be the center for growth in the 21st century. Trump's move goes against the development of free trade and the strengthening of globalization (similar to BREXIT).

These integration agreements make one believe that although China is the greatest trading power in the region, it does not intend to take advantage of its asymmetric economic power and negotiating strength. China appears as the 'benevolent' neighbor, which indicates that the trading giant should not be feared (Hilpert, 2014). China's aim is to improve the political stability of the region and to maintain the peaceful relations between the neighbors. Japan's goals are similar.

Japan and China are partners and rivals at the same time, initiators and leaders of the regional integration processes. Japan is the leading economic power of the CPTPP agreement, which is a comprehensive, high level cooperation affecting most of the economic spheres, like the RCEP initiated by China and representing its interests.

The two Asian giants stand face to face. Japan can be the leader of CPTPP but cannot regain its earlier leading role in the region. For Japan the main question is whether to remain a global economic power or become a regional power. To keep its position, it is of utmost importance for Japan to participate in the integration process.

Both countries are building their own network of integrations with occasional overlapping, due to the geographical proximity. Smaller economies strive to establish good relations with both powers. The micro integrational system of corporate relations initiated by Japan seems to be more powerful for the time being, and the building of integrational relations is important also for the future China. Their rivalry extends to integration efforts in the region and to the more remote parts of the Pacific region (especially with APEC countries).

They set out on diverse paths: Japan started with capital allocation, with a network of corporate integrations in the 1970s (called micro integration or de facto integration), and after the turn of the millennium, it began to build its network of integrations on a macro level (de jure integrations). China followed a different path: taking advantage of the significant working capital inflow after 1990, they integrated the multinational companies in their own corporate system (their global value chain). The aim of the macro integration initiatives after the turn of the millennium was to guarantee

long-term market opportunities for Chinese production (this is promoted by the One Belt One Road initiative, too).

The rivalry between Japan and China is visible in other areas, too. They seek to increase their influence in the region by their aid policy, and their increasing working capital export serves similar purposes. The multilateral investment banks they established (the Japanese-led Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank founded by China (AIIB)) are not really rivals, but this may change (Goreczky, 2018).

China or Japan, or rather China and Japan? Opposition, competition or cooperation. If they choose opposition, this will lead to protectionism and setback in the region in the long run and may also cause more severe problems. Japan cannot be a winner in such a situation. Therefore, a mutual cultural cooperation based on the roots of civilization seems to be more favorable, that is a real partnership and the strengthening of regional cooperation forms. The economic endowments and opportunities of the two countries complement each other. Japan is pioneering the scientific-technological development, while China boasts a staggering abundance of labor force, and a decent raw material supply. The big and ever increasing Chinese market is important for Japan (regarding both the means of production and the consumption of the growing Chinese middle-class). The synergetic effects of these complementary endowments are incalculable in the area of trade and investment.

After World War II, Japan turned towards the US and restructured its economy following the American model. This gave momentum to its economy for 30 years. However, as half a century passed, it turned out that for Japan this is not the only path to tread. It turned to its values of civilization once more, strengthened its cultural identity emphasizing its individuality and difference from western and other Asian cultures (Huntington, 2002). Thus, Japan is moving away from western civilization (while retaining a number of its values) and is turning towards Asia. This is most conspicuous in the strengthening of regional economic cooperation. Although Asian civilizations show diverse characteristics, they have common cultural roots and civilization, in which an important role is played by Confucianism that prioritizes group interests (e.g. family and company) over individual. In East Asia, democracy and human rights are interpreted differently than in western cultures. Besides adhering to its roots of civilization, Japan also has to return to the common Asian fundamentals. This can provide the basis of an efficient cooperation in the long run, which will no doubt be difficult, due to the mentioned rivalries and the recent historical disputes.

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