

Japan's Geoeconomic Strategy in the Asia-Pacific

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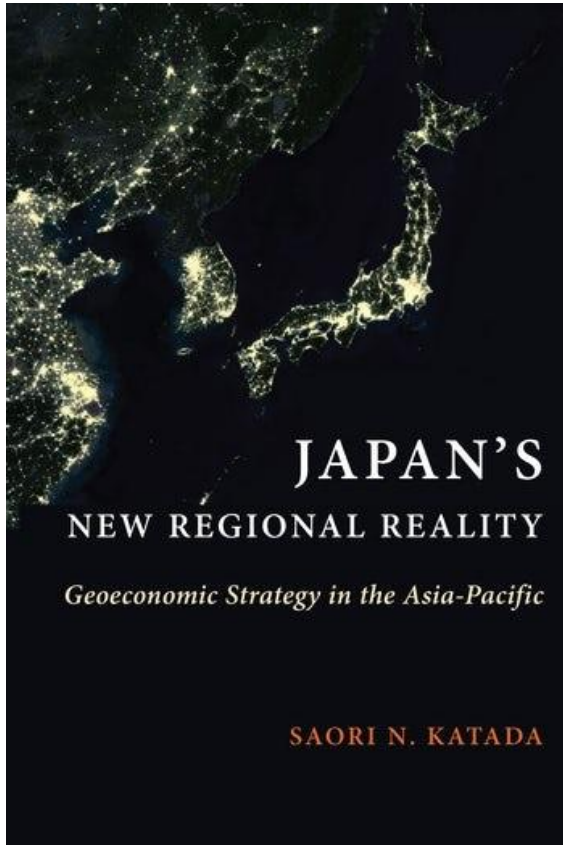


JAPAN

Japan, the Original Trade Villain, Now Casts Itself as the Hero

Prime Minister Shinzo Abe, who once held fast to barriers, now trumpets leading role in formation of an 11-nation Trans-Pacific Partnership without the U.S.

My book



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Questions

- How has Japan become the “savior” of the liberal economic order in the Asia-Pacific?
- How and why has Japan’s geoeconomic strategy shifted in the last quarter century?
- What are the opportunities and challenges for Japanese government’s new geoeconomic strategy?

Arguments

- The Japanese government's “liberal turn” started as the country became a mature economy in the 21st century
- Rise of China and shifting regional power balance compelled Japan towards “rule-setting” geoeconomic strategy
- Japan's domestic politico-economic structure shapes unique paths for specific strategies

Regional Geoeconomic Strategies: Common Direction and Diverse Paths

Japan's Regional Geoeconomic Strategy

- Old style strategy (1970s and 1980s);
Bilateral, informal and led by embedded mercantilism
- State-led liberal strategy (since late 1990s);
Regional/institutional, formal and in pursuit of liberal/global-standard

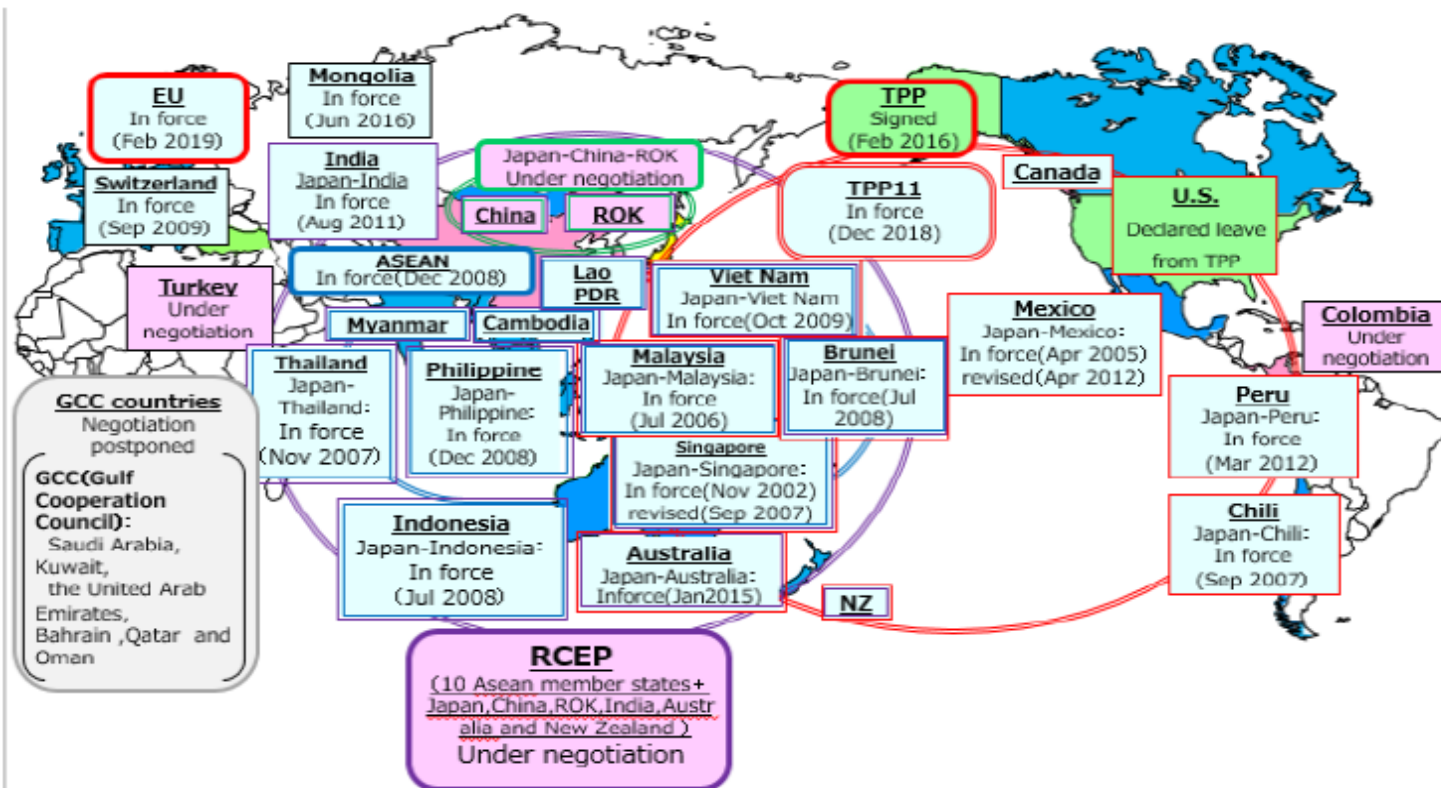
Trade and Investment (Ch. 5)

Old Style: Dominance of bilateralism and the story of the APEC

New Strategy:

- Regional institutions: bilateral EPAs, CJK Investment Treaty, and CEPEA/RCEP
- Formal rules-based investment and trade in the region
- Liberal standards; leading to TPP and CPTPP, Japan-EU EPA (and Japan-UK EPA)

Japan's current Economic Partnership Agreements



EPA coverage ratio of EPA of Japan (trade value basis)

in force	36.7%
in force or signed	51.6%
under negotiation	86.2%

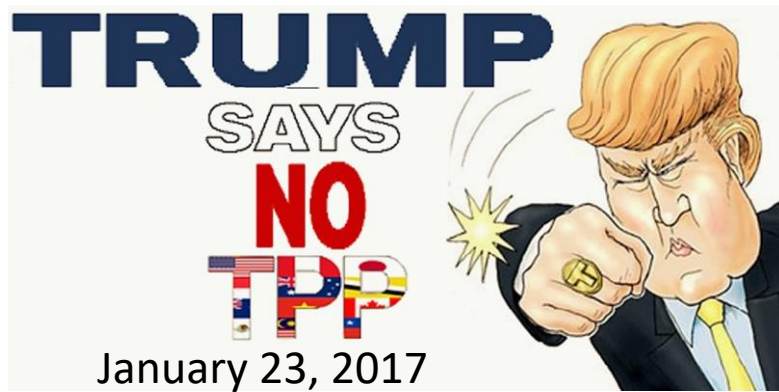
Note: As of the end of March 2019

"Under negotiation" includes the number of signed agreements

Source: Trade statistics, Ministry of Finance of Japan

IMF Direction of Trade Statistics

Japan's shining moment; CPTPP



Money and Finance (Ch. 6)

Old Style: Dollar-Yen obsession and reluctance to internationalize the yen; no regional cooperation

New Strategy:

- Regionalism: Chiang Mai Initiative, Regional Bond, Regional currency (internationalization of the yen)
- Institution-building; AMRO, CMIM, ACU
- Liberal standards; AMRO and Bond market development

Foreign Aid and Development (Ch. 7)

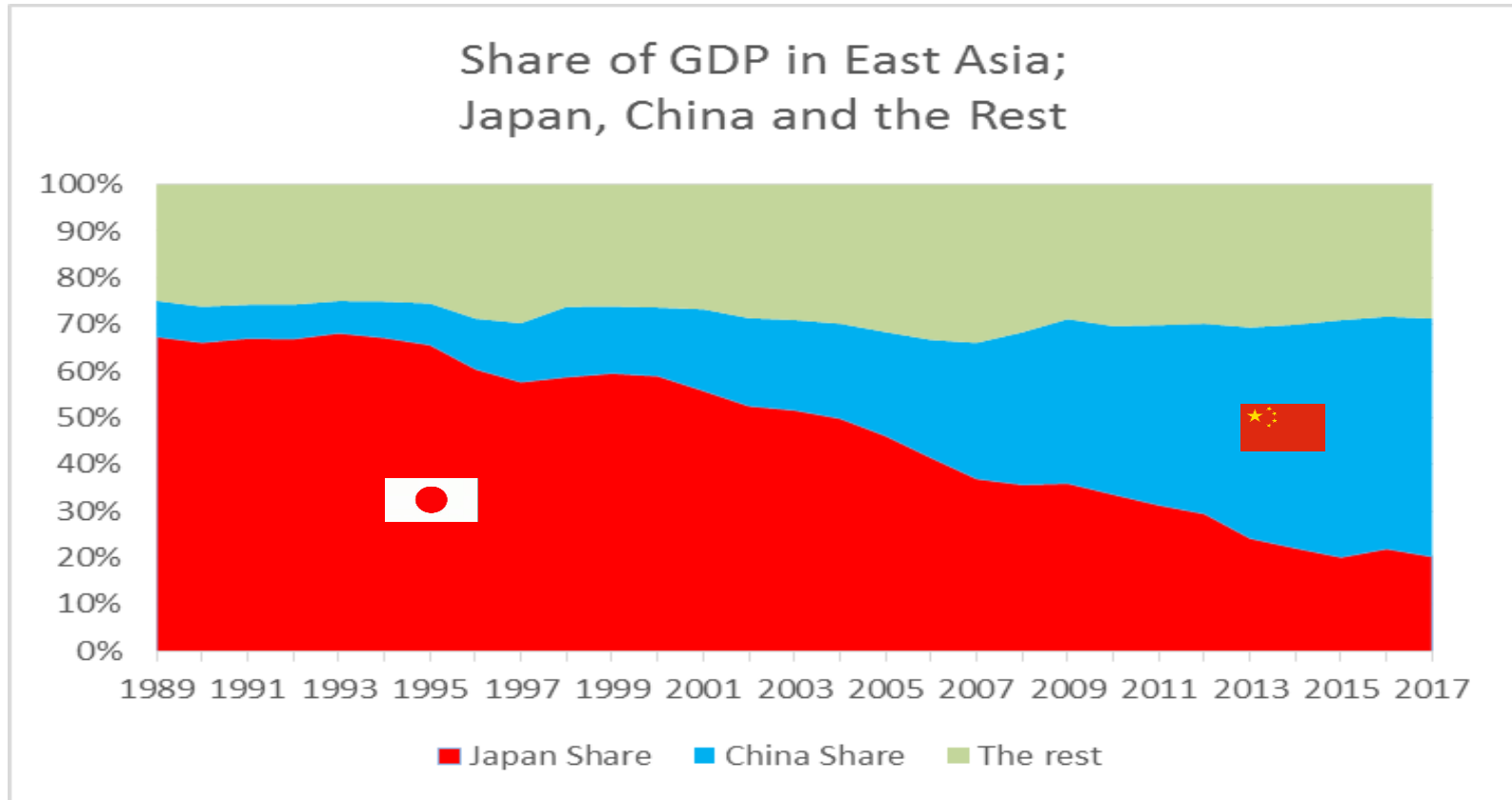
Old Style: Bilateral “economic cooperation” – “request-base” and tied aid

New Strategy:

- Still mostly bilateral; but use of ADB and focus on country-programs. Difficulty of implementing PPP in infrastructure development
- Formal rules; untied aid and OECD/DAC rules
- Liberal standards; legal system development support, Quality Infrastructure

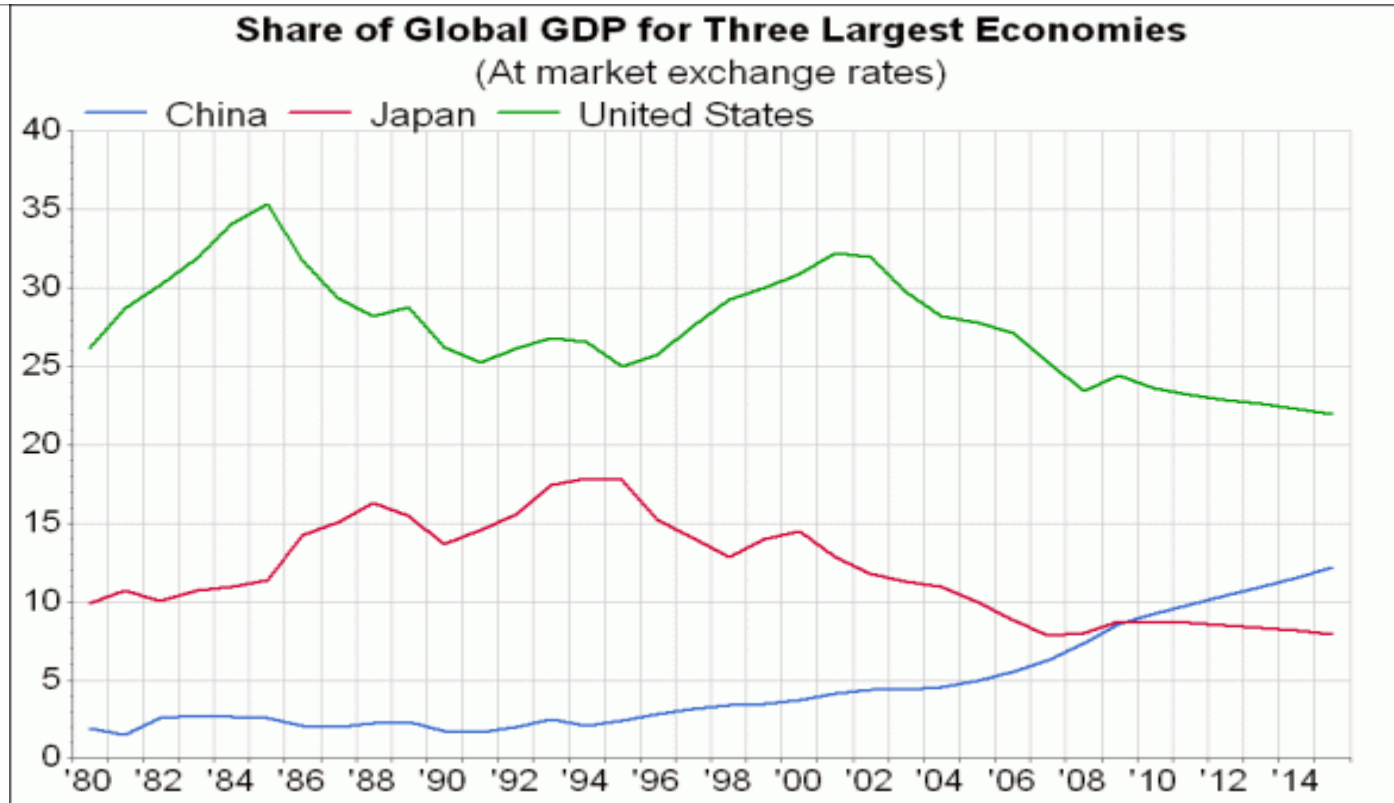
Economic Power Shift

In East Asia



Source: World Bank, World Development Indicators

United States, Japan and China



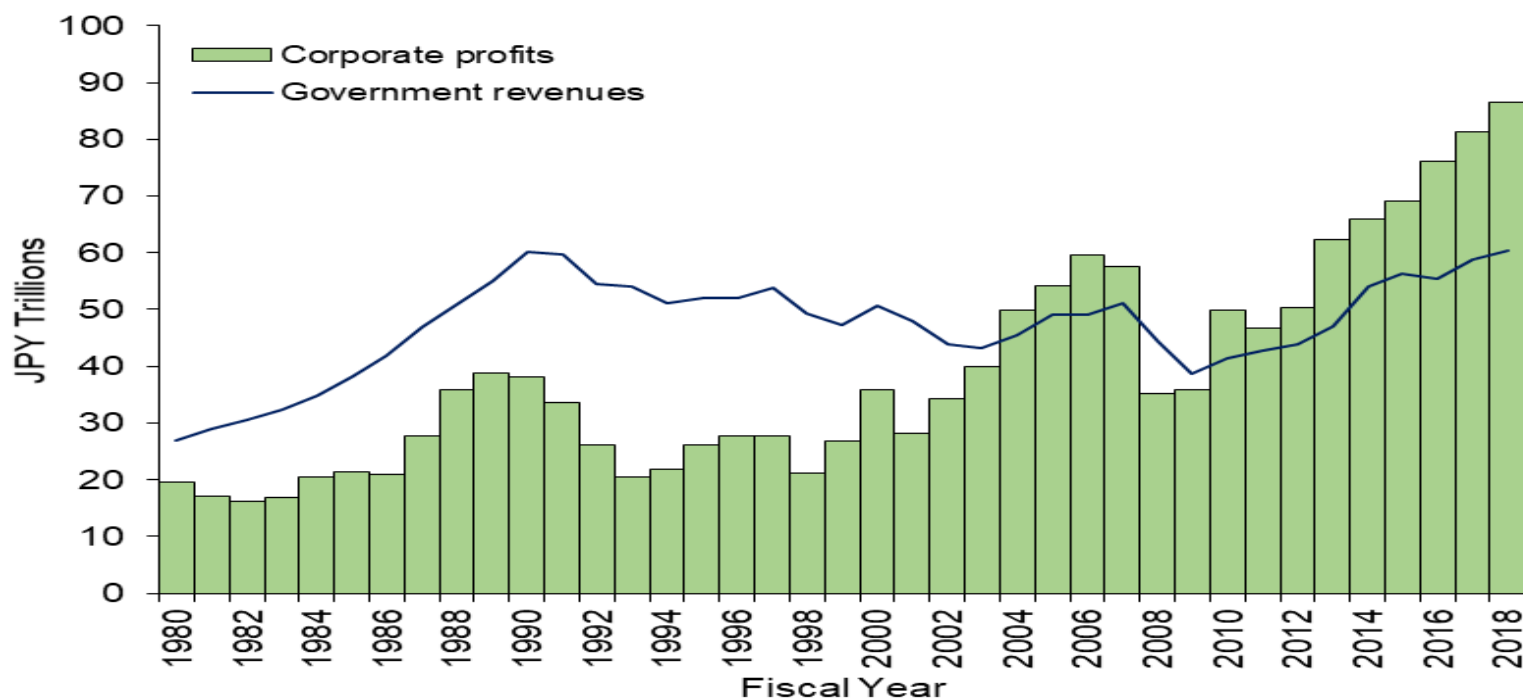
Source: World Bank

US-China Geoeconomic Rivalry

- US's push for market liberalization, economic security and rules-based order;
TPP, digital trade, IPR protection, against state-support, corruption and lax regulations
- China's state capitalism, use of economic coercion and neomercantilism;
BRI, use of massive financial resources, market manipulation and domination of State-owned enterprises

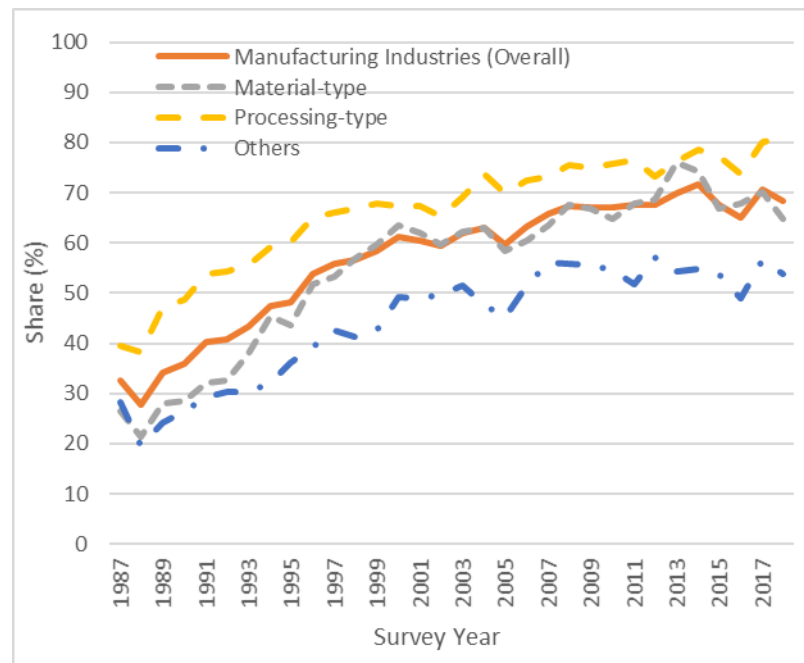
Transformation of Japan's Political Economy

Balance between Private and Public Sectors



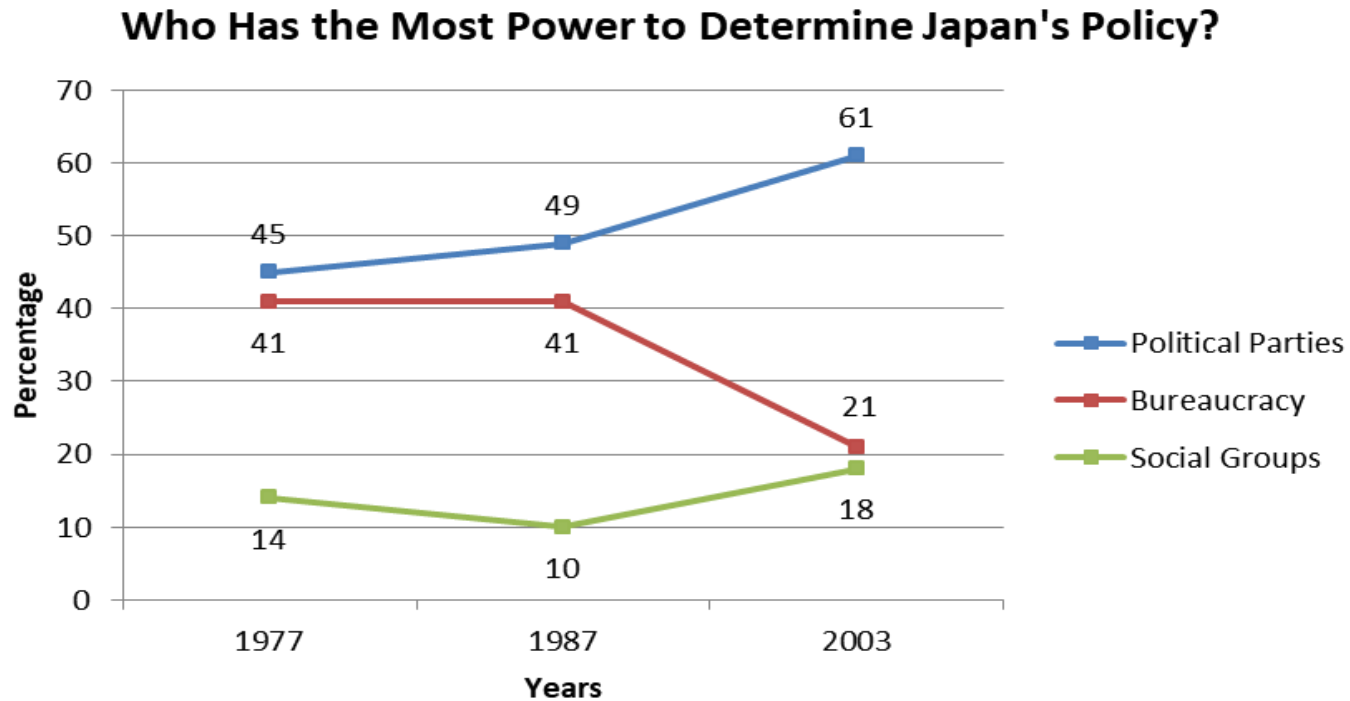
Source: Ministry of Finance

Japanese Firms Operating Overseas



Source: Cabinet Office

Who has the most influence in policymaking



Source: Muramatsu (2010, 226)

Implications

Theoretical Debates

- **Systemic-domestic nexus** (Lake 2009; Oatley 2011; and Chaudoin, Milner et. al. 2015)
- **Developmental states in maturity** (Beeson 2005; Stubbs 2009; Hayashi 2010; Thurbon 2016; Yeung 2016; Wade 2018; Haggard 2018)
- **Regionalism and competitive rule-diffusion** (Elkin and Simmons 2005; Solingen 2012; Solis and Katada 2015)

Japanese Foreign Economic Policy

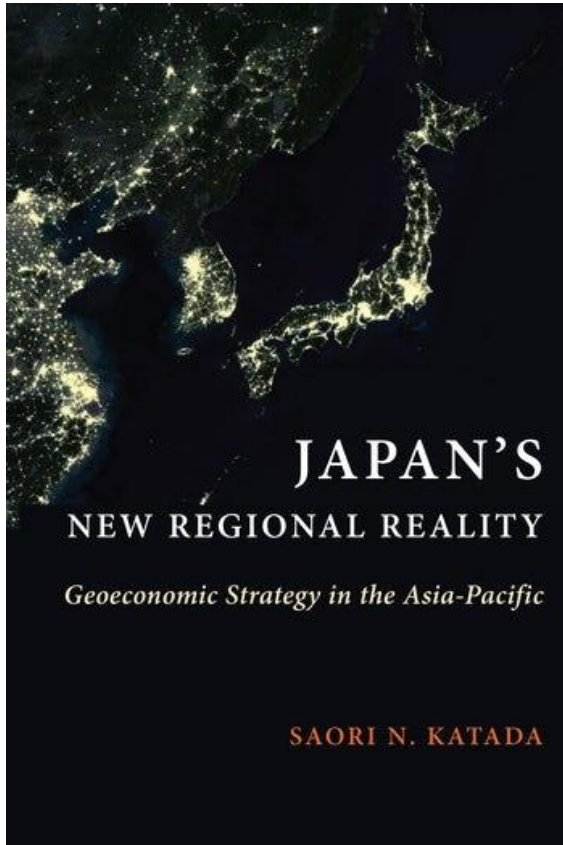
Opportunities

- Rise of geoeconomic strategy; economic statecraft
- Japan has the power of a pivotal state
- Mature developmental state as a strategic actor

Challenges

- Limited financial resources and bureaucratic fragmentation
- No control over globalized Japanese business behavior
- Ambivalent economic identity

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Three Issue Areas

	Trade and Investment	Money and Finance	Development and Foreign Aid
Structure (Bilateral versus Regional)	(M) Moving from bilateralism to regionalism	(H) Clear regional membership	(L) Largely maintaining bilateralism
Engagement (Formal versus informal rules)	(H) Formal agreements with binding obligations	(M) Formal institutions in some areas but informal in others	(M) Bilateral dialogues through country programs
Underlying values (Embedded mercantilism vs liberal standard)	(H) Increasingly liberal especially through the TPP	(M) Following liberal norms with modifications	(M) Liberal and value-based engagement of businesses, rule of law

Evaluation: Low (L), Medium (M), and High (H) relevance in the new strategic direction