

Regional Economic Institutions and Japan's Leadership:

The Promotion of Institutional Hedging

By Mie Oba¹

Introduction

Japan has promoted various regional economic institutions to advance its strategic objectives. These objectives include mitigating trade and economic friction with the United States, fostering economic development in East Asian countries, acting as a bridge between the United States and other Asian countries for trade liberalization, deterring the rise of China, and maintaining a rules-based international order. Regional circumstances are drastically changing, and China continues to expand its economic and political leverage in both regional and global arenas. Furthermore, the escalation of tension between China and the United States aggravates the unpredictability of regional and global circumstances. Under such a situation, cooperation between Japan and the United States in regional institutions has become vital in sustaining and fostering a rules-based international liberal order.

To navigate an increasingly diverse institutional environment in the region, Japan has adopted an “institutional hedging” strategy to advance its interests in various settings. Institutional hedging is generally defined as hedging behavior of a state that is manifested through the presence of multilateral institutions, in lieu of traditional military measures, utilized to obtain power and influence in international politics.² For example, Japan is currently involved in both the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP), both of which strive to promote regional trade liberalization but with different partners and potentially different standards. In addition to that, Japan is proposing the concept of a “Free and Open Indo-Pacific” (FOIP) vision, a broader construct emphasizing an open and rules-based regional order writ large.

This paper lays out the history of Japan's involvement in regional economic institutions; addresses challenges currently faced by Japan's leadership in the furtherance of its objectives; and provides policy recommendations that will enable Japan's leadership to foster a rules-based international liberal order in the region.

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² About the definition of “institutional hedging”, see Oba, Mie, “Further Development of Asian Regionalism: institutional hedging in an uncertain era”, *Journal of Contemporary East Asian Studies*, 2019, p.13.

Historical Background

Japan's involvement in the promotion of regional economic institutions can be divided into three periods. The first period is Japan's promotion of Asia-Pacific regional economic integration from the latter half of the 1980s to the middle of the 1990s. The second period is Japan's promotion of East Asian regionalism from the latter half of the 1990s, particularly after the Asian financial crisis, to the end of the 2000s. The third period began in the early 2010s, at which point Japan tried to promote various kinds of regional approaches, such as the TPP/CPTPP, RCEP and FOIP. This third period especially illustrates Japan's institutional hedging strategy.

Asia-Pacific Regional Integration and Japan

Japan's involvement in Asia-Pacific regional integration began with its initiative to establish the Asia-Pacific Economic Cooperation (APEC) forum in 1989, alongside Australia.³ This was the first instance where the Japanese government actively contributed to the promotion of a free and open economy in a regional multilateral forum. Japan attempted to pursue three strategic objectives. First, the Japanese government tried to sustain a multilateral free trade system based on the General Agreement on Tariffs and Trade (GATT). The negotiations of the GATT Uruguay Round, which began in 1986, had been deadlocked because many countries, including the United States, were engaging in protectionism. Additionally, a closed type of regionalism seemed to be on the rise in Western Europe and North America. The Japanese government became seriously concerned about this situation because Japan's economic development had relied heavily on its export industries. Instead of building closed regional integration, Japan attempted to make the newly built APEC an institution following "open regionalism" to foster trade liberalization and facilitation region-wide, which would encourage trade liberalization around the world.

Second, related to the first strategic objective, Japan aimed to mitigate trade and economic friction with the United States, foster economic development in East Asian countries, and attempt to act as a bridge between the United States and other Asian countries on trade liberalization. The United States had strongly criticized Japan and other East Asian countries because of their substantial trade surpluses with the United States, and therefore tightened its protectionism in the latter half of the 1980s. Japan and other East Asian economies, such as the New-Industrialized Economies (NIEs) and some Association of Southeast Asian Nations (ASEAN) countries (Thailand, Indonesia, and Malaysia), were so worried about economic

³ The description and argument on Japan's involvement in the APEC and Asia Pacific regionalism is based on Oba, Mie, *Ajia Taiheiyo Chiiki Keisei heno Dotei: Kyokai-Kokka Nichi-Go no Aidentiti Mosaku to Chiiki-Shyugi (The Invention of the Asia Pacific Region: A History of Regionalism and Search for Identity by Japan and Australia as Liminal Nations)*, Minerva Shobo, 2004, pp.309-362, and Oba, Mie, *Juso-teki Chiiki to Shiteno Ajia: Tairitsu to Kyozon no Kozu (Asia as a multi-layered region: In search for co-existence in conflicts)* Yuhikaku, 2014, pp.97-116.

friction with the United States that Japan wanted to provide a regular multilateral forum to coordinate the claims and interests of the United States and East Asian economies.

Japan's third objective was to search for a way to establish its leadership role as the second largest economy in the world. Since the early 1970s, Japan had strongly been expected to take on responsibilities in proportion to its economic power in the world. To respond to such expectations, Japan increased the amount and quality of its Official Development Assistance (ODA) provided to developing countries, most of which went to East Asia. As economic development in East Asia rapidly increased, especially after the Plaza Accord of 1985, Japan had to seek other approaches to establish its role. Taking the initiative to promote Asia-Pacific regionalism, such as through the establishment of APEC, was one such important approach.

Notably, Japan's search for its leadership role in the promotion of Asia-Pacific regional integration was reflected in two tendencies seen in Japan's post-World War II foreign policies. One of these tendencies was to try to maintain and tighten special ties with the United States based on the U.S.-Japan alliance. The other involved Japan simultaneously attempting to find space to promote autonomous foreign policy initiatives independent of the strong influence of the United States. For Japan, APEC provided an opportunity to maintain the U.S. commitment to economic development in East Asia, and cement Japan's leadership role in coordinating various interests among member countries. In other words, Japan sought to build a bridge between Asia and the United States. After the end of the Cold War, Japan had to be more conscious of global expectations that it would be a leader commensurate with its economic power amid changing geo-political and geo-economic circumstances. Thus, multilateral fora including APEC became more important arenas for Japan to actually demonstrate its initiative, such as when Japan chaired the Osaka APEC summit in 1995.

Expanding East Asia and Sino-Japanese Competition

Beginning in the latter half of the 1990s, "East Asia," rather than "Asia-Pacific," gradually became the crucial "region" for Japan to keep and increase its political influence, as well as to restore the growth of its own economy after the collapse of Japan's real estate "bubble" in the early 1990s. This became especially important after the Asian financial crisis in 1997, when the Japanese government began to promote East Asian regionalism, which only included Northeast and Southeast Asia, more than Asia-Pacific regionalism such as the APEC forum, which included the United States.⁴ Japan's initiative in advancing East Asian financial cooperation after this crisis was remarkable, including its leadership in establishing the Chiang Mai Initiative (CMI). Japan also joined the ASEAN Plus Three (APT) dialogue (including ASEAN and Japan, China and the Republic of Korea), which held its first summit meeting in December 1997, and took part in discussions on the prospects for East Asian regional

⁴ The description and argument on Japan's involvement in East Asian integration and regionalism is based on Oba, Mie, *Juso-teki Chiiki to Shiteno Ajia*, pp.139-180.

cooperation in response to the financial crisis and for restoring economic development in the region. In its final report in 2001, the APT's East Asian Vision Group (EAVG) proposed an East Asian Free Trade Area (EAFTA) as a way to help establish an East Asian community, which would be comprised of the 13 member countries of the APT.

Japan's tilt toward East Asian regionalism impacted its trade policy. The Japanese government initially took a global approach to trade policy, emphasizing the GATT and the World Trade Organization (WTO), and did not promote regional trade liberalization until the mid-1990s. After the Asian financial crisis, Japan, though still involved with APEC, shifted toward a regional approach advocating Free Trade Agreements (FTA) and Economic Partnership Agreements (EPA) with Asian partners. By the end of the 1990s, Japan had begun FTA negotiations with Singapore, resulting in the execution of the Japan-Singapore Economic Partnership Agreement (JSEPA) in January 2002, and has signed several other bilateral FTAs since then. Japan has also signed an EPA with ASEAN and bilateral EPAs with seven ASEAN countries, including Singapore, Malaysia, Thailand, Indonesia, Brunei, the Philippines and Vietnam.⁵ In the 2000s, Japan also completed EPAs with Mexico, Chile and Switzerland. However, most of the target countries of Japan's EPA policy were in East Asia.

Japan's regional trade strategy mentioned above also reflected concerns about the increasing economic and political influence of China in East Asia.⁶ Since the beginning of the 2000s, Sino-Japanese competition over economic and political influence strongly shaped both China and Japan's respective trade policies and stances on economic regionalism. Japan's completion of the aforementioned EPAs with seven ASEAN member countries indicated a desire to gain an advantage in this competition. Moreover, in 2005, Japan proposed a Comprehensive Economic Partnership for East Asia (CEPEA) to be comprised of members of the EAFTA and three additional members, namely Australia, New Zealand, and India, while China strongly supported only the EAFTA. The CEPEA proposal provided another kind of East Asian regional concept, one of an "expanded East Asia," to dilute China's influence. Competition between China and Japan over regional integration continued for several years after the CEPEA was introduced.

As proposals for East Asian economic integration evolved, the agenda for economic integration across the Asia Pacific re-emerged.⁷ The "original" Trans-Pacific Partnership (TPP), the so-called "P4 agreement," was signed in 2005 by four small states, namely Singapore, Brunei, New Zealand, and Chile, with the goal of achieving high-standard economic

⁵ Ministry of Economy and Industry of Japan, "EPA/FTA/toshi-kyotei (EPA/FTA/investment agreement)" https://www.meti.go.jp/policy/trade_policy/epa/index.html (March 7, 2020 accessed).

⁶ Sino-Japanese competition over the leadership in the discussion about the East Asian economic integration, see Oba, Mie, "Sino-Japanese Competition over regional institutions in Asia" in Jeffrey Reeves, Jeffrey Hornung, and Kerry Lynn Nankivell eds., *Vying for Influence: How Competition between China and Japan is shaping the Asia-Pacific's regional security*, 2017, pp.53-70.

⁷ As for the conclusion of P4 agreement and the rise of argument about the FTAAP, see Oba, *Juso-teki Chiiki to Shiteno Ajia*, p.234-238, and Oba, Mie "TPP, RCEP, and FTAAP: Multilayered Regional Economic Integration and International Relations" *Asia-Pacific Review*, Vol.23, Issue 1, 2016.

liberalization in the Asia Pacific. In addition, discussions about a Free Trade Area of the Asia-Pacific (FTAAP) began within APEC. In 2006, the Bush administration began to show interest in the concept after initially being cautious. This was partly due to U.S. anxiety regarding regional economic schemes in East Asia that excluded the United States, such as the discussion and examination of the EAFTA and CEPEA.

Toward Institutional Hedging

Since the early 2010s, China's rise has presented many challenges for Japan. First, China's Gross Domestic Product (GDP) surpassed that of Japan, and China became the second-largest economy in the world. This event illustrated that the balance of power between China and Japan was drastically shifting, and the Japanese government was forced to deal with this "new reality." Secondly, the rise of China as the second-largest economic power also led to a shift in the balance of power between the United States and China in Asia, though China could not be expected to be able to replace the United States as the hegemon in the short-term. Finally, China's stance on issues related to its sovereignty, such as its claims on the Senkaku Islands and within the South China Sea, have become highly assertive since the end of the 2000s, leading to an increase in tensions between Japan and China over maritime security.

To address the unpredictable future of strategic competition between China and the United States, Japan began to promote various approaches to regional economic integration. In the summer of 2011, Japan and China reached a compromise to develop a plan for regional economic integration in East Asia, which led to the establishment of the Regional Comprehensive Economic Partnership (RCEP) trade negotiations in November 2012.

In addition to RCEP, Japan already had a strong interest in the TPP. The Obama administration began negotiations for an expanded TPP in 2010 with other countries, as such an approach was beneficial for the U.S. economy. In 2007, some members of the Japanese government were already showing strong interest in the TPP. Throughout the administration of the Democratic Party of Japan (DPJ) beginning in 2010, participation in TPP negotiations became a political issue. However, there was also opposition to the TPP, especially in the agricultural and medical sectors. Additionally, the DPJ, as an inexperienced opposition party, lacked the strong political leadership necessary for actually joining TPP negotiations. Japan finally entered those negotiations in March 2013 after Liberal Democratic Party (LDP) leadership was restored under the Second Abe administration.

Japan has promoted both TPP and RCEP as important institutions for constructing a rules-based international liberal order in Asia. However, Japan prioritized the TPP and even collaborated with the United States to advance those negotiations. In 2015, the 12 member countries finalized TPP negotiations and the agreement was signed in February 2016. However, in January 2017, the Trump administration decided to withdraw, complicating the ratification process, which required ratification by at least six countries that accounted for 85 percent of

the total economic output of member countries in 2013.⁸ U.S. ratification was essential to fulfill this condition. Additionally, the absence of the United States severely diminished the attractiveness of the TPP for other member countries. Furthermore, the failure of the TPP to take effect could potentially weaken the rules-based international economic order. At first, the Abe administration in Japan was reluctant to proceed without the United States and even tried to persuade President Trump and his administration of the strategic and political importance of the TPP.⁹ However, in early April 2017, Japan changed its policy direction and began taking the lead in negotiations for a new TPP agreement among the 11 remaining member countries, which did not make U.S. ratification indispensable. Eventually, the so-called TPP11 signed an agreement called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in March 2018, and it took effect in December 2018.¹⁰ As of this writing, the CPTPP has been ratified by Mexico, Japan, Singapore, New Zealand, Canada, Australia and Vietnam.

RCEP negotiations have progressed slowly but have increased in importance after the U.S. withdrawal from the TPP. While India's reluctance to foster large-scale trade liberalization has been the most serious obstacle for RCEP, ASEAN countries' passive attitude towards the liberalization of trade in services has also impeded the negotiations. Japan eagerly attempted to reach a compromise after the conclusion of the CPTPP, and the member countries eventually concluded text-based negotiations for all 20 chapters of RCEP in 2019.¹¹ Unfortunately, India subsequently pulled out, as its agricultural and industrial sectors strongly opposed RCEP. Even though Japan earnestly desires India's participation in RCEP from the viewpoint of its broader FOIP concept, that possibility remains unclear. Despite RCEP's uncertain future, Japan will likely continue to promote trade liberalization in various institutions, reflecting the nature of competitive trade liberalization in the region and Japan's capacity to shape rules and norms by engaging multiple actors. In short, Japan's involvement in both RCEP and the CPTPP can be referred to as an "institutional hedging" strategy.

Key Issues

In the first period of Japan's leadership role in regional economic institutions, Japan became heavily involved in Asia-Pacific regional integration. Japan's strategic objectives were aimed at mitigating trade and economic friction with the United States, fostering economic development in East Asian countries, and acting as a bridge between the United States and other Asian countries for trade liberalization. These endeavors were to be achieved through the

⁸ Trans-Pacific Partnership, Article 30.5.

⁹ *Nikkei Shinbun* 27 January 2017; *Nikkei Shimbun* 15 March 2017.

¹⁰ Statement by METI Minister Seko, Agreement at the Ministerial level on the TPP by 11 countries" November 11, 2017, https://www.meti.go.jp/english/speeches/20171111_01.html, accessed January 8, 2017; "Signing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership," Press Release, MOFA, 9 March 2018, https://www.mofa.go.jp/press/release/press4e_001944.html, accessed March 15, 2018.

¹¹ Joint leaders' statement on the Regional Comprehensive Economic Partnership, Bangkok, Thailand, November 4, 2019 <https://dfat.gov.au/trade/agreements/negotiations/rcep/Documents/3rd-rcep-summit-joint-leaders-statement.pdf>, accessed November 28, 2019.

utilization of regional economic institutions such as APEC. During the second period, in which Japan attempted to strengthen economic ties with ASEAN countries through the completion of EPAs and the promotion of the CEPEA, Japan's strong will to deter the rise of China shaped Japan's trade policy and its stance on regional integration. Trade policy in both periods was driven by a desire to maintain the rules-based international order, which included the concept of a free and open economy that was becoming prominent around the world. That objective remained prevalent in the third period but was complicated by the increase in China's economic and political influence in the 2000s, both regionally and globally. The potential for increased tensions in U.S.-China relations due to strategic competition in the region, uncertainty surrounding China's commitments to rules and norms for trade liberalization, a lack of stability in Japan-China relations, questions about the sustainability of U.S. engagement in the region, and the trade policy priorities of other regional actors are some of the key factors that will influence Japan's leadership role in regional economic institutions going forward. In this seemingly unpredictable regional environment, it is important to examine more than ever how Japan and the United States can collaborate in utilizing regional economic institutions to shape the future economic order in Asia.

Increased Tension between the United States and China

Tension between the United States and China continues to escalate. Since March 2018, the Trump administration has imposed tariffs against China and criticized China's violation of rules governing intellectual property rights protection. The Xi administration reacted aggressively and implemented tariffs of its own, sparking a trade war that subsided only recently with a limited trade deal between the two countries.

China's rising economic power and strategy to strengthen its advantage in new technologies also explain the recent uptick in U.S.-China tensions. China's "Made in China 2025" plan announced in May 2015 prioritized ten key sectors: new information technology, numerical control tools and robotics, aerospace equipment, ocean engineering equipment and high-tech ships, railway equipment, energy saving and new energy vehicles, power equipment, new materials, biological medicine and medical devices, and agricultural machinery.¹² This initiative concerned U.S. policymakers, as China could challenge the United States in high-technology fields, such as the development of 5G next-generation wireless information technology.

Increased tension in U.S.-China relations also seems to reflect competition between two different political, economic and social systems. It can be said that China is a challenger to the liberal international order, as it is not only catching up with the United States economically but has also provided its own model for governance and economic development, which is accomplished by "state capitalism," or the "Beijing consensus."¹³ The China model reveals

¹² "Made in China 2025" plan unveiled" China Daily, May 19, 2015, http://www.chinadaily.com.cn/bizchina/2015-05/19/content_20760528.htm, accessed December 10, 2019.

¹³ Halper, S. *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century*. New York: Basic Books, 2010.

that economic development does not automatically result in democratization; rather, China has sustained a state-led authoritarian regime. This model seems to have influenced several countries, including Asian countries like Cambodia. This alternative to the liberal democracy model is a challenge to liberal international order. With the promotion of One Belt One Road (OBOR) or the Belt and Road Initiative (BRI), China's economic influence is expanding and its governance model continues to penetrate many developing and emerging countries.

China's approach to human rights and democracy also features as a source of bilateral tensions. In November 2019, President Trump signed the Hong Kong Human Rights and Democracy Act of 2019 into law.¹⁴ This happened simultaneously with large-scale protests in Hong Kong against the strengthening of Beijing's control, as well as the democratic faction's landslide victory in the elections. China's Foreign Ministry spokesperson strongly criticized the new U.S. law and announced that China would take countermeasures.¹⁵ This situation implies that China-U.S. competition regarding political regimes, fundamental norms, and societal values is also escalating.

The rules-based international order is founded on three pillars: liberal market-led capitalism, liberal internationalism, and liberal democracy. The predominance of the liberal international order promotes the convergence of norms and values in terms of political regimes, economic structures, ideal domestic societies, and the management of international affairs. Recent trends, however, indicate that the international liberal order is in decline, especially in the strategic and political arena of Asia, due to the rise of China and its influence throughout the region. For Japan, the United States and other like-minded countries, support for multilateral economic institutions fostering standards for economic integration is critical to sustaining a rules-based order in the region.

The Lack of Stability in Japan-China Relations

Japan's engagement of China could potentially mitigate some of the risks associated with China's rise, but unfortunately Japan-China relations are intrinsically unstable. For example, according to data surveyed by Japan's Coast Guard, the number of Chinese ships intruding into Japan's territorial sea and contiguous zone around the Senkaku Islands has not decreased despite recent improvements in Sino-Japanese diplomatic ties.¹⁶ Furthermore, the expansion and modernization of the Chinese navy is becoming more visible. For example, in December 2019, the first Chinese-made aircraft carrier officially entered service.¹⁷ This

¹⁴ About the details of this Act, see <https://www.congress.gov/bill/116th-congress/house-bill/3289>.

¹⁵ Foreign Ministry Spokesperson Geng Shuang's Regular Press Conference on November 28, 2019, https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1719976.shtml, accessed December 15, 2019.

¹⁶ <https://www.kaiho.mlit.go.jp/mission/senkaku/senkaku.html>.

¹⁷ "First made-in-China aircraft officially enters in service" *South China Morning Post*, December 17, 2019, <https://www.scmp.com/news/china/military/article/3042469/chinas-second-aircraft-shandong-carrier-officially-enters>.

military expansion in the sea directly threatens Japan's national security. Also, according to Kyodo News, Chinese authorities have detained at least 15 Japanese citizens for various charges, such as espionage, since 2015.¹⁸ The incident that really shocked the Japanese academic community and even some Chinese experts took place in September 2019 when a Japanese professor was detained. This led to a boycott on visiting China by Japanese scholars and other movements protesting China's human rights behavior. All these circumstances raise suspicions regarding China's real intention behind its policies towards Japan and make the alleged improvement in the China-Japan relationship seem tentative and superficial, which could affect future economic ties.

Uncertainty due to the "America First" Policy

The U.S. commitment to regional institutions in Asia is not as deep as it once was. With respect to trade, the United States is not a member of the RCEP negotiations and the Trump administration withdrew from TPP, which generated regional concerns about the "American First" policy and also signaled to regional countries that the United States was not strongly committed to sustaining a rules-based liberal order. President Trump also skipped the East Asian Summit (EAS) in November 2019. In his stead, National Security Adviser Robert O'Brien, who is not a member of the cabinet, attended the EAS and the U.S.-ASEAN summit. The absence of President Trump disappointed the politicians of Asian countries and signified that the United States did not prioritize Asian affairs.

Given all of this, Japan's primary concern should be prompting the United States to return to the CPTPP. As mentioned earlier, access to the U.S. market was the main factor in attracting other member countries to engage in TPP negotiations. Thus, the subsequent withdrawal of the United States damaged the incentives for promoting negotiations. However, because of Japan's strong leadership, the remaining member countries continued negotiations and eventually concluded the CPTPP. One of the most important incentives for concluding the CPTPP was that the agreement was expected to sustain and foster a rules-based liberal economic order in the Asia-Pacific, thereby leading to the consolidation of such an order worldwide.

The other incentive for concluding the CPTPP was that the political elites of CPTPP member countries felt that they had to prepare for the return of the United States to the multilateral regional economic framework. The possibility of the United States rejoining the CPTPP, however, largely depends on the result of the 2020 presidential election. Unfortunately, the Trump administration is not expected to change its bilateral approach to trade negotiations. Thus, if President Trump is reelected, the United States will likely be absent from any regional multilateral economic institution in Asia for at least four more years. Regardless of how the

¹⁸ "Japanese man detained in China's Hunan Province since July", Kyodo News, November 27, 2019, <https://english.kyodonews.net/news/2019/11/d722201935a2-breaking-news-japanese-man-detained-by-chinese-authorities-since-july-source.html>, accessed December 5, 2019.

U.S. election turns out, Japan will continue to persuade the United States to rejoin the CPTPP and ultimately contribute to promoting the FTAAP, which animated U.S.-Japan economic policy coordination for many years.

The Unpredictable Future of FOIP

Japan, the United States, Australia, India, and ASEAN countries have all discussed their own visions for a regional concept for the Indo-Pacific. Japan and the United States have each introduced a concept for a Free and Open Indo-Pacific (FOIP). None of these visions aim to establish formal regional institutions, but Japan and the United States can still work together to sustain a rules-based liberal economic order through joint economic cooperation. The Japan-U.S. Strategic Energy Partnership (JUSEP), announced in November 2017, is the first concrete partnership within the context of FOIP. In November 2018, the two countries also released a joint statement regarding joint efforts to develop energy, infrastructure, and digital connectivity in the Indo-Pacific.¹⁹ In July 2018, Japan and the United States, along with Australia, also signed the Trilateral Partnership for Infrastructure Investment in the Indo-Pacific.²⁰

Japan and the United States, however, are not fully aligned on points of emphasis under FOIP. For example, the FOIP vision of the United States stresses strategic competition with China, whereas the FOIP vision of Japan does not reference the China challenge explicitly and focuses more on open and inclusive approaches to regional cooperation. This is due in part to recent advancements in Japan-China diplomacy in which the two countries have identified potential areas for cooperation such as infrastructure development in third countries. Japan will continue to coordinate closely with the United States on FOIP and on China's potential role while also pursuing initiatives to support a rules-based order across a range of issue areas.

India and ASEAN Approaches to Regional Trade

When taking on a leadership role in regional economic institutions, Japan also considers the interests and behaviors of other regional countries, such as India and ASEAN countries. Japan and the United States see India as an important partner in the promotion of FOIP, but India's withdrawal from RCEP could impede efforts to include India in the process of regional economic integration. The Japanese government is desperately trying to entice India to rejoin

¹⁹ U.S.-Japan Joint Statement on Advancing a Free and Open Indo-Pacific Through Energy, Infrastructure and digital Connectivity cooperation, November 13, 2018, <https://www.whitehouse.gov/briefings-statements/u-s-japan-joint-statement-advancing-free-open-indo-pacific-energy-infrastructure-digital-connectivity-cooperation/>, accessed November 28, 2019.

²⁰ Joint Statement of the governments of the United States of America, Australia, and Japan on the Trilateral Partnership for Infrastructure Investment, November 2018, <https://pg.usembassy.gov/joint-statement-of-the-governments-of-the-united-states-of-america-australia-and-japan-on-the-trilateral-partnership-for-infrastructure-investment/>, accessed November 28, 2019.

RCEP negotiations, but the prospects are unclear.²¹ However, to sustain and foster a rules-based economic order in the Asia-Pacific, Japan must sustain its leadership role in RCEP even without India, while still encouraging India to reenter in the future. The conclusion of RCEP could also pressure the United States to re-engage with regional economic institutions in the region.

Japan must also address the concerns of ASEAN countries, which are basically twofold. First, ASEAN centrality is a priority and members are averse to larger constructs that might dilute ASEAN's influence. Second, ASEAN countries are eager to develop their own economies. RCEP is a project aimed at advancing ASEAN-centered regional economic integration. Thus, the RCEP negotiations, which are encouraged by Japan, contribute both to maintaining ASEAN centrality and ASEAN-led economic development. In contrast, the CPTPP splits ASEAN countries into two groups. Japan should encourage qualified members of ASEAN that are not yet members of the CPTPP—such as Indonesia, Thailand and the Philippines—to join soon. Japan must also assist developing members of ASEAN, such as Cambodia, Laos, and Myanmar, in first raising their economic standards so they may catch up with other member countries and eventually qualify to join the CPTPP.

The most sensitive issue in the consideration of ASEAN interests is how to address ASEAN's "multi-directional" strategy, which consists of maintaining good relationships with regional powers and not favoring any particular country. The most recent manifestation of the preference for such a strategy is ASEAN's announcement of the ASEAN Outlook on Indo-Pacific (AOIP), which had "inclusivity" and "ASEAN centrality" as keywords.²² Basically, ASEAN countries aim to promote an inclusive Indo-Pacific that does not exclude China. ASEAN's AOIP regards the EAS, which includes all great and middle powers around ASEAN, as the most appropriate institution to promote Indo-Pacific cooperation. From the point of view of ASEAN, China's BRI provides opportunities for infrastructure development, which is indispensable for their respective economic development. As such, they do not want to damage relations with China, whose geographic proximity and expanding influence are unavoidable realities. Furthermore, repeated reference to "ASEAN centrality" in the AOIP reflects the concern that ASEAN countries could become irrelevant amidst escalating U.S.-China tensions.

With the escalation of U.S.-China tensions, ASEAN countries and Japan share a common risk. To sustain a rules-based international order in the Indo-Pacific alongside ASEAN countries, Japan must utilize regional economic institutions like the CPTPP and RCEP. The excessive expansion of China's economic and political leverage could weaken the existing rules-based international order. Japan, however, cannot fully confront China, as that may push some ASEAN countries to China's side. In addition, the continuous rise of China has become inevitable. Thus, Japan instead will have to deliberately contribute to enacting and fostering

²¹ Oba, Mie, "The implication of India's RCEP withdrawal", *The Diplomat*, November 14, 2019, <https://thediplomat.com/2019/11/the-implications-of-indias-rcep-withdrawal/>

²² Oba, Mie, "ASEAN's Indo-Pacific Concept and the Great Power Challenges", *The Diplomat*, July 17, 2019, <https://thediplomat.com/2019/07/aseans-indo-pacific-concept-and-the-great-power-challenge/>.

shared economic rules in the region by using both CPTPP and RCEP, and also through continuously supporting ASEAN-led regional architecture, such as the EAS and APT.

The Negative Effects of the Coronavirus Crisis on the Liberal International Order

The coronavirus is now spreading all over the world. The Director-General of the World Health Organization (WHO) declared the novel coronavirus epidemic a “pandemic” on March 11, 2020.²³ The latest figures provided by the WHO show in excess of 332,000 confirmed cases, with more than 14,000 deaths.²⁴

The liberal international order has been sustained by the actual progress of globalization, as well as by the notion that the deepening of globalization is positive because it provides economic and social prosperity. This positive impression of globalization has pushed many countries, including Japan, to promote various efforts to advance economic liberalization and integration through bilateral FTAs/EPAs and regional arrangements like the TPP/CPTPP and the RCEP. However, citizens of many countries are growing even more suspicious of globalization because of the coronavirus pandemic.²⁵

The “movement of natural persons” is a crucial component of globalization. To address the pandemic however, many countries including the United States and Japan have imposed travel restrictions.²⁶ In addition, Japan is now warning its citizens against non-essential travel to the United States.²⁷ Furthermore, many industries and private companies are now aware of the overdependence on the international market and international production networks. If they try to avoid risk by moving their production bases to their own countries and by supplying components and resources within their own countries as much as they can, it might lead to a reversal of the increase of the free flow of goods across international borders.

National borders have already become less porous due to Brexit, the America First policy, and the rise of populism and nativism in the United States and in some European

²³ WHO Director General’s Opening Remarks at the media briefing on COVID-19, March 11, 2020, <https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020> (March 12, 2020 accessed).

²⁴ WHO, Coronavirus disease 2019 (COVID-19) Situation Report-63, March 23, 2020, https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200323-sitrep-63-covid-19.pdf?sfvrsn=b617302d_2 (March 24, 2020 accessed).

²⁵ As for the negative impact on the coronavirus pandemic on globalization and international liberal order, see Oba, Mie, “Coronavirus and the Future of Globalization”, *The Diplomat*, March 18, 2020 <https://thediplomat.com/2020/03/coronavirus-and-the-future-of-globalization/> (March 20, 2020 accessed) .

²⁶ The Department of Homeland Security, “Fact Sheet: DHS Notice of Arrival Restriction of China, Iran and Certain Countries of Europe”, March 13, 2020 (March 15, 2020 accessed); The Ministry of Justice, “Notice no denial of landing”, March 19, 2020 <http://www.moj.go.jp/content/001316999.pdf> (March 20 accessed).

²⁷ Ministry of Foreign Affairs of Japan, Overseas Safety HP, March 12, 2020, https://www.anzen.mofa.go.jp/img_toko/danger/d_221.html (March 19, 2020 accessed).

countries. The coronavirus crisis could weaken the liberal international order, which is dependent on a positive evaluation of globalization.

These global trends could complicate Japan's efforts to realize high standards for regional economic integration in the Asia-Pacific through the CPTPP, the RCEP negotiations, and the strengthening of regional connectivity under the FOIP. However, the continued promotion of economic integration and regionalism, could become the most critical measure to stop the decline of the liberal international order.

The Further Strengthening of "Institutional Hedging"

Under these circumstances, Japan must enhance its cooperation with the United States in regional economic institutions to strengthen the rules-based international order. Even though there is uncertainty surrounding U.S. policy on regional economic integration, the United States remains indispensable in sustaining favorable regional circumstances for Japan.

Nonetheless, Japan has further strengthened its "institutional hedging" strategy to reflect the unpredictable nature of institutional support for economic liberalization in the region. Thus, Japan is involved in both the CPTPP and RCEP and proposing the FOIP concept. China and ASEAN countries are also promoting their own regional approaches by proposing and advancing various multilateral frameworks. The development of these frameworks, such as the TPP/CPTPP, RCEP, BRI, and existing ASEAN-led regional architecture, indicates that each regional power has adopted its own "institutional hedging" strategy to ensure that the regional order is conducive to the realization of its own objectives and political and economic aims.

Policy Recommendations

China's rising power and the escalation of U.S.-China tensions make regional and global circumstances unpredictable. Given this, Japan-U.S. cooperation has become vital in sustaining a rules-based international order. However, because of uncertainties about U.S. policy, Japan must continuously clamor for sustained U.S. participation in shaping the future economic order of the Indo-Pacific.

1. In this context, Japan should encourage the United States to join the CPTPP, which is not merely an economic agreement but an important platform for setting trans-Pacific rules and norms.
2. Considering the intrinsic instability of China-Japan relations and the necessity of future support for a rules-based international order, Japan has to compromise regarding its vision of the FOIP with the United States to promote infrastructure investments and further economic cooperation in the Indo-Pacific.

Strategic Japan

3. Japan must sustain its leadership role in RCEP and continue urging India's possible participation in the future. Progress in the RCEP negotiations will also hopefully urge the United States to join the CPTPP.
4. Japan should encourage members of ASEAN that are non-CPTPP members but meet the necessary requirements to join the CPTPP, and must also encourage developing countries in ASEAN to raise their economic standards and eventually qualify to join the CPTPP. Japan must deliberately contribute to enacting and fostering shared economic rules in the region by using both CPTPP and RCEP, and should simultaneously support ASEAN-led regional architecture, such as the EAS and APT. This is the essence of Japan's institutional hedging strategy.

Conclusion

Japan is not the only economic power in Asia, and its relative economic power has declined amid challenges posed by the rise of China. Thus, Japan must use regional multilateral economic institutions, in addition to a traditional bilateral approach, to take on the challenge of maintaining a rules-based economic order in the Indo-Pacific region. In the era of U.S.-China strategic competition, Japan must hedge potential risks by utilizing multilateral measures, such as the CPTPP, RCEP, and the FOIP concept, to maintain partnerships with India, Australia, and ASEAN countries, while both strengthening the alliance with the United States and avoiding conflict with China. Japan's leadership in both economic and normative terms is indispensable to maintaining stability and prosperity in the region, and it has developed a complex yet practical approach to regional economic institutions that should help meet those goals.