

China Risk and Efforts toward Regional Economic Integration

[Overview of research]

The Asia-Pacific region is thought likely to continue as the world's growth center, and the region remains a key area for Japan's trade and investment policies as well as business activities. Within that context, China had long been "a key battleground among key battlegrounds." In recent years, however, China's economic development model has been stalling and, in addition to rising wages and other factors diminishing the benefits of foreign investment in China, uncertainty about the outlook for its economic development, the surge in Chinese nationalism underlying China's rise as a great power and its dissatisfaction with the status quo, and increasingly hostile anti-Japanese sentiment together have created the perception of a "China risk" among Japanese business sectors.

Accordingly, there is an active drive among Japanese companies to seek out new investment destinations other than China in what has become known as the "China-Plus-One" strategy. Contrary to concerns about the "China risk," the economies of Vietnam, Indonesia, the Philippines, Thailand and Malaysia remain strong, and foreign companies can be seen returning to ASEAN. In Myanmar, where democratization process is going on, many countries as well as foreign companies are paying due attention for its possibility as a promising undeveloped market. The booming Indian market, too, could become an important hedge against China.

A "One Step Beyond" approach has also emerged that transcends the "China-Plus-One" strategy. The Middle East and Africa had been leading candidates for the next big investment destinations in the "China-Plus-One" strategy. However, the "Arab Spring" democratization movement in the Middle East, the socio-political turmoil in the region associated with the Iranian nuclear issue, as well as the seizure of a North African plant facility by extremists make the region a high-risk one in the eyes of Japanese business sectors. Given the regime changes and public security concerns in the Middle East, Latin America is now becoming a potent third alternative. Supporting the overseas business activities of Japanese companies with due consideration for these "China-Plus-One" and "One-Step-Beyond" strategies would be essential to sustain Japan's economic development and help it drastically expand.

Regional economic integration plays a key role in these "China-Plus-One" and "One-Step-Beyond" strategies because it encourages the free movement of people, goods

and money, improves the investment environment, and guarantees the transparency and predictability of foreign direct investments. With Japan now participating in the TPP negotiations, consideration must be given to what negotiation outcome would best serve Japan's national interests and what Japan should seek from the TPP. The relatively new RCEP (ASEAN+6) framework is among a number of frameworks for regional integration in East Asia. Because RCEP's membership comprises important countries such as other ASEAN countries, China, South Korea and India not participating in TPP, its significance differs from that of TPP. The prospects for FTA negotiations among the three countries of Northeast Asia (Japan, China, and South Korea), heretofore regarded as an FTA vacuum, also bear watching.

These regional economic integration efforts could prove useful tools for incorporating the region's vitality and demand, inclusive of the "China-Plus-One" and "One Step Beyond" strategies, and regional economic integration efforts in which China participates could serve as important means of encouraging economic reform to achieve a soft landing in China. A truly strategic foreign economic policy is needed to ensure Japan's prosperity. In light of the impasse reached by China's economic development model in recent years and of the "China risk," this project will examine ways to utilize regional economic integration from the perspectives of (1) incorporating the vitality and demand of "China-Plus-One" and "One Step Beyond" regions (including Latin America) to invigorate the Japanese economy and hedge the risks it faces, and (2) facilitating a soft landing for the Chinese economy, and it will offer recommendations for the most suitable approaches to a strategic foreign economic policy for Japan.

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