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# **The Evolution of Japan's Perspective and Policies on Asia —A review of literature with a focus on the *White Paper on International Economy and Trade* from 2001 onward—\***

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## **I. Periodization and Themes**

### **1. Five Periods**

Postwar Japan's economic relations with Asia can be broadly divided into five periods.

The first period (1957-1970) spans the 14 years starting from the Kishi administration's proactive engagement with Asia in the late 1950s through to the end of the 1960s. The three key terms defining this period were "compensation," "economic cooperation" and "economic development." In this period, the Japanese government adopted an overseas development assistance policy that packaged together compensation and economic cooperation, assisting economic development in Southeast Asia. The underlying aim was to promote economic growth in Southeast Asia as a means of expanding Japan's merchandise exports to the region as well as securing access to natural resources. The other key player during this period was of course the United States. US engagement with the region took the form of economic assistance, and the Southeast Asian nations were able to use those funds to import industrial goods from Japan. A major feature of the period was consequently the way in which the national goals of Japan (post-war economic recovery) and of Southeast Asia (economic development) converged around the containment policy of the US.<sup>1</sup>

At this time, however, Japan's direct investment in Asia was still limited, only really taking off after capital liberalization was phased in over 1971 to 1973. Capital liberalization meant Japan both allowing in foreign capital with an eye to returning to the international community, as well as relaxing regulations on the overseas expansion of Japanese firms.

Capital liberalization signaled the point of embarkation for the second period (1971-1984), which saw Japan and the Asian newly-industrializing countries (NICs; later known as the Asian newly-industrialized economies, or NIEs) rise to prominence in the world economy after the two oil crises in the 1970s. Following full capital liberalization, there was a surge in Japanese foreign direct investment (FDI), particularly investment directed toward Asia.<sup>2</sup> However, the rapid expansion of Japanese companies into Asia provoked strong opposition, symbolized by several incidents such as the anti-Japan movement in Thailand in 1973-74 and the riots in Indonesia triggered by Prime Minister Kakuei Tanaka's visit there in January 1974.<sup>3</sup> Keidanren (the Japan Business Federation) and other business associations responded by

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creating codes of business ethics for companies establishing operations overseas, seeking to avoid anti-Japan protests and localize management in those countries in which Japanese companies were investing.

The 1970s was also a time of rapid economic growth for the Asian NICs as government export-oriented industrialization strategies realized a significant upswing in their exports of industrial goods to the US. This period could consequently be characterized by the terms “offshore business expansion,” “anti-Japan movements” and “Asian NICs.”

The third period (1985-1997) was marked by a second surge in direct investment from Japan triggered by the 1985 Plaza Accord. This intervention by the G5 to adjust the value of the yen resulted in rapid yen appreciation, adding impetus to the shift of Japanese manufacturers into Asia and generating an investment rush. The investment rush in turn spurred investment by the Asian NIEs as well as local firms’ investment, giving rise to an economic boom in Thailand, Indonesia, Malaysia and elsewhere in Asia as of the late 1980s. However, that economic boom prompted speculative stock and land investment, and the early 1990s saw the emergence of an economic bubble which then peaked out in the mid-1990s, devolving into the 1997 Asian financial crisis.<sup>4</sup> Economic relations between Japan and Southeast Asia deepened significantly during this third period, while the US too played a major role in the Southeast Asian economic boom through the provision of markets and capital. Terms defining this period were accordingly “investment rush,” “economic boom” and “Asian financial crisis.”

In the fourth period (1998-2007), Japan reacted to the Asian financial crisis by launching independent and comprehensive engagement with Asia. It was independent in the sense that Japan responded to the crisis-stricken Asian nations not by acting in concert with the US but rather by extending a massive amount of economic assistance of its own design, exemplified by the New Miyazawa Initiative.<sup>5</sup> Further, while 2002 through 2003 found the Japanese economy in the midst of a long-term recession that prompted the Koizumi administration to initiate the top-down style structural reform, those same two years represented a time when, at least in terms of its Asia policy, Japanese initiative was strongly in evidence.

Specific examples of that initiative include Koizumi’s proposal of “an East Asian community” in Singapore in January 2002; establishment of the Board on Comprehensive ODA (Official Development Assistance) Strategy in June the same year; the creation in August 2003 of a new ODA Charter which clearly positioned Asia as a strategic region; the January 2003 announcement by then-Keidanren Chairman Hiroshi Okuda (Toyota Motor Corporation Chairman) of the Okuda Vision, which declared that Japan had to be prepared to coexist with East Asia; and a special Japan-ASEAN summit meeting held in December 2003 in Tokyo.

The comprehensive aspect of the engagement reflected Japan’s new perception of its relationship with the Asian countries not as the traditional sheaf of bilateral relations, but rather as one region, or as East Asia.<sup>6</sup> Previously, the tendency had been to view the Asia-Pacific with the Japan-US partnership at its heart as the strategic region for Japan, as emerges in the Pacific Rim Cooperation Initiative (Kan-Taiheiyo Rentai Koso) advanced by the Ohira administration. Another important point was that this image of East Asia included as key actors not only the Asian NIEs and Southeast Asia—important economic partners for Japan since the 1970s—but also China, which was by then experiencing phenomenal economic growth. “East Asia,” “regional cooperation” and “the rise of China” could therefore be identified as the terms epitomizing this period.

The fifth period, comprising 2008 onward, has been dominated by the new relationship between Japan and Asia following the 2008 global financial crisis which began in the US when Lehman Brothers filed for bankruptcy. While the crisis impacted heavily on Europe, the US, Japan and Asia, it was those Asian nations other than Japan, and particularly the emerging Asian countries (China and India), which

have recovered rapidly and moved forward to play a critical role as the world's economic growth engine.<sup>7</sup>

The Japan-Asia relationship during this period has been changing: Japan can no longer expect to maintain single-handed dominance over the region; it has become strongly recognized that Japan's future lies with the emerging Asian countries, and the economic linkages between East Asia and the US have been reconfirmed, foregrounding the Asia-Pacific once more as a strategic region. The repositioning of the Asia-Pacific as a strategic region for the first time since the 1970s has also been strongly influenced by China's expansionary foreign policy and the concomitant heightening of tension between Japan and China over issues such as territory, prompting renewed recognition in Japan and the US that bolstering their partnership would serve both their interests.<sup>8</sup> Key words for this period have accordingly been "global financial crisis," "emerging Asian countries" and "return to the Asia-Pacific."

## 2. Research Objectives

Given these five time periods, how should we approach the evolution of Japan's perspective and policies on Asia? One method would be to track in chronological order the content of the Prime Minister's policy speeches and the foreign and trade policies announced by the government. However, policy speeches and other such public statements are often couched in deliberately ambiguous terms, making it difficult to identify the actual policy or political intentions. Even in the case of the foreign policies and trade policies announced by the government, deducing the perspective on Asia underlying these policies would require tracing the discussion process leading up to policy formation, undisclosed internal materials included.

In this paper, the *White Paper on International Economy and Trade*, published annually by the Ministry of Economy, Trade and Industry (METI; up until 2000, the Ministry of International Trade and Industry, or MITI), is used as basic data on the grounds that it not only reflects to some extent the directionality of the external economic policies of the administration of the time, but also draws extensively on reports from study groups formed by MITI/METI, proposals from the business associations and the results of academic research on Asia (differing in that sense from the *Diplomatic Bluebook*). Examining references to Asia in the White Paper and the changing ratio of these will also offer a numerical indication of the extent of interest in Asia borne by MITI/METI and other economic bureaucrats, as well as the characteristics of their understanding of the region.

This paper is structured as follows.

Part II notes Asia's changing weight in the world economy and overviews the evolution of economic relations between Japan and East Asia using data on exports and direct investment from 1996 onward. Part III goes on to examine whether there are any Asia references in three white papers—the *Economic Survey of Japan*, the *White Paper on the World Economy*, and the *White Paper on International Trade*—in the 1980s and 90s, and if so, considers the content of those references. As of 2001, the scope is narrowed to changes in the ratio of Asia-related references in the *White Paper on International Economy and Trade*. Part IV looks more closely at the content of the *White Paper on International Economy and Trade*, specifically key terms used in the White Paper as analytic concepts, changes in those strategic regions emphasized by the White Paper (such as East Asia), changes in the analytical approaches to understanding the East Asian economy (trilateral trade and the cross-border division of production processes, the development of production networks, etc.), and changes in regional cooperation concepts and frameworks (open regionalism, an East Asian business zone, wide-ranging infrastructure development, etc.). In short, MITI/METI is foregrounded as a means of tracing the trajectory of Japanese perspectives and policies on Asia. Finally, Part V summarizes findings and considers future scenarios.

## II. Asia in the World Economy, Japan-East Asia Economic Relations

### 1. Asia in the World Economy

Table 1 uses three indices—nominal GDP (PPP: purchasing power parity), steel production and automobile production—to examine how the weight of the Asian region in the world economy has changed and compare it with North America and Europe (EU members). Starting with nominal GDP, Asia's share jumped from 8.9 percent in 1980 to 23.7 percent in 1990, reaching 28.0 percent in 2000. Since 1990, North America and Europe have both lost ground, while within Asia, China has surged to the fore even as Japan has fallen back. China's nominal GDP surpassed Japan's in 2010 to position it as the world's second largest economic power after the US. When it comes to PPP, however, note that China had actually already moved past Japan back as early as 2002.

The second point emerging from the nominal GDP trends in Table 1 is that Asia gained significant share following the global financial crisis, reaching 35.1 percent in 2011. The table reveals that the emerging Asian countries staged a remarkable economic recovery after the crisis, driving forward the recovery of the world economy. Further, while it is not shown here, export value has traced the same trajectory, with Asia's share moving from 17 percent in 1980 to 23 percent in 1990, 29 percent in 2000, 30 percent in 2008, and 34 percent in 2011.

What should be noted from Table 1 is Asia's dominance not just in terms of nominal GDP and trade trends but also more evidently in indices for major manufacturing industries. Taking the steel industry as an example, the major steel-producing countries in 1980 were the Soviet Union, Japan and the US. However, the Soviet Union and the US subsequently lost the bulk of their share, and while the world's largest steel company ArcelorMittal S.A. (headquartered in Luxembourg) is included in the figure for Europe, its management rights have been transferred to India's Mittal Group. The most significant advance has been demonstrated by China thanks to robust steel production for the domestic market, with the Chinese share rising from 14.8 percent in 1998 to 46.3 percent in 2012. Further, in 2012, 24 of the 50 top iron and steel producers were in fact Chinese.

Much the same pattern emerges in auto production. The three major markets were traditionally North America, Europe and Japan, accounting for more than 80 percent of world production. However, China's automobile production has soared in the 2000s, to the point that it reached the same scale of Japan plus North America in 2011. Industry forecasts suggest that Chinese production will top 25 million vehicles in 2015, which, when India is added in, will take Asia's share to around 60 percent for the year.

This new prominence of China, India and other emerging Asian countries has redrawn the economic map of the Asian region, shifting the economic gravity within the region from Japan to China.<sup>9</sup> This is indicated by the slump in Japan's share in nominal GDP and manufacturing and China's rising share, but manifests particularly clearly in the way that the value of trade (total exports and imports) between China and Southeast Asia (the 10 ASEAN member nations) topped that between Japan and Southeast Asia in 2008, with the former reaching US\$362.8 billion, 1.4 times the US\$255.4 billion recorded by the latter, in 2011 (in 2000, the figure for trade between China and ASEAN was US\$35 billion, between Japan and ASEAN US\$127.7 billion). For many East Asian countries, their biggest trading partner is no longer the US or Japan but rather China.

Table 1. Asia in the World Economy 1980-2011/12

(1) Nominal GDP (PPP: purchasing power parity)

(US\$ billion, %)

Year	World	Subtotal	Asia			North America	Europe
			Japan	China	India		
1980	12,250	2,278	996	245	294	3,039	3,618
1990	25,513	6,036	2,373	902	763	6,294	6,930
2000	42,441	11,899	3,295	2,988	1,610	10,775	10,585
2008	71,734	22,856	4,289	8,215	3,407	15,522	15,940
2011	81,177	28,487	4,383	11,379	4,534	16,492	16,441
1980	48.0	8.9	3.9	1.0	1.2	11.9	14.2
1990	100.0	23.7	9.3	3.5	3.0	24.7	27.2
2000	100.0	28.0	7.8	7.0	3.8	25.4	24.9
2008	100.0	31.9	6.0	11.5	4.7	21.6	22.2
2011	100.0	35.1	5.4	14.0	5.6	20.3	20.3

(2) Steel Production

(Million metric tons, %)

Year	World	Subtotal	Asia			North America	Europe
			Japan	China	India		
1980	716	161	111	37	9.5	117	142
1998	777	298	94	115	23.5	115	160
2012	1,548	1,013	107	717	77	102	169
1980	100.0	22.5	15.5	5.2	1.3	16.3	19.8
1998	100.0	38.4	12.1	14.8	3.0	14.8	20.6
2012	100.0	65.4	6.9	46.3	5.0	6.6	10.9

(3) Automobile Production

(1,000 units, %)

Year	World	Subtotal	Asia			North America	Europe
			Japan	China	India		
1980	38,495	11,166	11,042	222	n.a.	9,380	11,269
1998	52,355	14,396	10,041	1,628	n.a.	14,576	19,541
2011	80,093	40,400	8,400	18,419	3,936	10,787	17,698
1980	100.0	29.0	28.7	0.6	n.a.	24.4	29.3
1998	100.0	27.5	19.2	3.1	n.a.	27.8	37.3
2011	100.0	50.4	10.5	23.0	4.9	13.5	22.1

Note: Asia comprises the total for East Asia, the Pacific, and South Asia. Europe comprises European Union (EU) member countries as at 2011.

Sources:

1. PPP: World Bank, *World Development Indicators 2012 Online*
2. Steel production: International Iron and Steel Institute (IISI) statistics; The Japan Iron and Steel Federation, *Handbook for Iron and Steel Statistics*
3. Automobile production: Organisation Internationale des Constructeurs d'Automobiles (OICA) statistics; Fourin, Inc., *World Automotive Industry Yearbook 2011*

## 2. Trends in Japan's Exports and Direct Investment by Region

Next we turn to trends in Japan's exports and direct investment by main region and country for the period from 1996 prior to the Asian financial crisis through 2011. Table 2 deals with exports.

As is clear from this table, until the 1997 Asian financial crisis, Japan's exports to Asia accounted for 42.1 percent of its total world exports, well above the 27.5 percent directed to the US and 15.6 percent to the EU. The financial crisis saw Asia's share plunge briefly and then stage a sharp recovery to 46.7 percent of Japan's world exports in 2005, rising further after the global financial crisis to 52.8 percent in 2011. In terms of change in share from 2000 to 2011, the US' share in Japan's exports experienced the largest drop—14.4 percentage points—while exports to the EU too fell 4.7 percentage points. In sharp contrast, exports to Asia rose by more than 13 percentage points, predominantly the result of more exports to China. Following the global financial crisis, trade evinced an Asia shift even more pronounced than during the investment rush at the beginning of the 1990s.

This same Asia shift phenomenon emerges in Table 3, which deals with trends in direct investment or FDI by main regions. Trends in direct investment can be examined in two ways: by stock or by flow. However, in the case of annual flow, while the figure for North America includes reinvestment of profits by Japanese companies investing there, this reinvestment is not included in the Asian figure. As a result, whether in manufacturing or finance, flow data ends up underestimating Asia's importance.<sup>10</sup> Accordingly, Table 3 uses stock data (outstanding direct investment).

Table 3 reveals that direct investment in Asia fell from 30.6 percent of Japan's world total as at the end of 1996 to 17.6 percent at the end of 2000. This was the result of many manufacturing firms and financial institutions pulling out of Asia or reducing their investment scale in response to the Asian financial crisis. However, the Asian countries' V-shaped recovery from the crisis, combined with new interest among Japanese companies in moving offshore as a way out of the long-running domestic recession and concomitant low profits, saw Japanese firms again making strong inroads into Asia as of around 2005. The upward trajectory of the yen since the global financial crisis in particular has prompted a swift rise in the establishment of Japanese business operations in Asia.

Looking at the change in the share of Japanese exports by region from 2000 to 2011, investment in North America plummeted by 19.8 percentage points while Asia's share conversely rose 9.1 percentage points. Investment in Europe lifted only by 3.6 percentage points. The March 2011 Great East Japan Earthquake and the strong yen have pushed direct investment in Asia (Thailand, Indonesia, Vietnam and India, etc.) up steeply as of 2012, and by 2015 Asia should outstrip North America to become the biggest recipient of Japanese direct investment.

Table 2. Trends in Japanese Exports by Region and Country 1996-2011

(US\$100 million, %)

Region/country	1996	2000	2005	2008	2011	2011/2008 (scale factor)*
Total world (value)	4,113	4,807	5,982	7,759	8,208	1.06
Total East Asia	1,732	1,891	2,794	3,631	4,331	1.19
China	218	304	803	1,240	1,615	1.30
NIEs 4	1,003	1,150	1,455	1,711	1,865	1.09
ASEAN 10	719	687	761	1,028	1,227	1.19
India	24	25	35	79	110	1.39
United States	1,132	1,429	1,349	1,362	1,257	0.92
EU	642	785	880	1,094	954	0.87



Region/country	1996	2000	2005	2008	2011	2011/2008 (scale factor)*
Region/country	1996	2000	2005	2008	2011	2011-2000 (share change)*
Total world (%)	100.0	100.0	100.0	100.0	100.0	0.0
Total East Asia	42.1	39.3	46.7	46.8	52.8	13.5
China	5.3	6.3	13.4	16.0	19.7	13.4
NIEs 4	24.4	23.9	24.3	22.1	22.7	-1.2
ASEAN 10	17.5	14.3	12.7	13.2	14.9	0.6
India	0.6	0.5	0.6	1.0	1.3	0.8
United States	27.5	29.7	22.6	17.6	15.3	-14.4
EU	15.6	16.3	14.7	14.1	11.6	-4.7

Note: The NIEs 4 comprise Hong Kong, Korea, Taiwan and Singapore. Singapore also is included in the ASEAN 10.  
Source: JETRO website, *Japan's Trade Statistics by Region and Country* (<http://www.jetro.go.jp/world/japan/stats/trade/>)

Table 3. Trends in Japan's Outstanding FDI by Region and Country 1996-2011 (US\$ million, %)

Region/country	End 1996	End 2000	End 2005	End 2008	End 2011	2011/2008 (scale factor)*
Total world (value)	258,653	279,445	388,197	683,872	964,651	1.41
Total Asia	79,151	49,311	88,187	159,570	257,755	1.62
China	8,098	8,699	24,655	49,002	83,379	1.70
NIEs 4	28,328	23,153	32,708	52,237	78,579	1.50
ASEAN 10	53,246	24,996	40,478	67,654	110,954	1.64
India	785	1,171	1,802	9,440	15,416	1.63
North America	97,881	138,455	156,189	234,957	286,176	1.22
United States	94,336	132,222	150,152	226,611	275,504	1.22
Europe	47,719	56,789	94,277	165,435	231,001	1.40
Latin America	11,981	21,020	33,064	90,794	122,223	1.35
Region/country	End 1996	End 2000	End 2005	End 2008	End 2011	2011-2000 (share change)*
Total world (%)	100.0	100.0	100.0	100.0	100.0	0.0
Total Asia	30.6	17.6	22.7	23.3	26.7	9.1
China	3.1	3.1	6.4	7.2	8.6	5.5
NIEs 4	11.0	8.3	8.4	7.6	8.1	-0.2
ASEAN 10	20.6	8.9	10.4	9.9	11.5	2.6
India	0.3	0.4	0.5	1.4	1.6	1.2
North America	37.8	49.5	40.2	34.4	29.7	-19.8
United States	36.5	47.3	38.7	33.1	28.6	-18.7
Europe	18.4	20.3	24.3	24.2	23.9	3.6
Latin America	4.6	7.5	8.5	13.3	12.7	5.2

Note: The NIEs 4 comprise Hong Kong, Korea, Taiwan and Singapore. Latin America includes the Cayman Islands, Panama and other tax haven regions.

Source: JETRO website, *Japan's Outward and Inward Foreign Direct Investment* (<http://www.jetro.go.jp/world/japan/stats/idi/>)

### III. Three White Papers and Asia

#### 1. References to Asia in the Economic Survey of Japan, the White Paper on the World Economy and the White Paper on International Trade

Here we take three of the key economy-related white papers published annually by the Japanese government—the *Economic Survey of Japan* and the *White Paper on the World Economy* from the Economic

Planning Agency (EPA), and the *White Paper on International Trade* from MITI—and examine the nature of references to Asia in these from the 1980s through to 2000 when Japan’s government departments were restructured. With the restructuring, the *Economic Survey on Japan* was succeeded by the *Annual Report on the Japanese Economy and Public Finance* under the auspices of the Cabinet Office, while the *White Paper on the World Economy* became *World Economic Trends* under the auspices of the Ministry of Internal Affairs and Communications. Only the *White Paper on International Trade* remains in publication, albeit with the name of the publishing entity changing from MITI to METI. In addition, as economic ties between Japan and Asia deepened in the early 1990s, the Economic Planning Agency put together a different team from that preparing the *White Paper on the World Economy* and began publishing the *Annual Report on the Asian Economies* as a separate volume (only up until 2000). As a result, Table 4 shows Asia-related references in the *White Paper on the World Economy* becoming relatively sparse as of 1996.

The first striking point in Table 4 is the surprising lack of attention paid to Asia in the three White Papers. In fact, the first reference titled “the Asian economy” does not appear until the 1985 edition of the *White Paper on the World Economy*. The next year, the 1986 editions of the *White Paper on the World Economy* and the *White Paper on International Trade* present trends in the Asian economy in sections on the Asian NICs (now the Asian NIEs). Finally, in 1987, the *White Paper on the World Economy* includes a feature on Asia from the perspective of the triangular trade structure in the Asia-Pacific.

The Asia feature in Chapter 3 of the *White Paper on the World Economy 1987* notes that:

Strong growth in the Pacific Rim region, including the Asian NICs and ASEAN along with Japan and the US, has been a marked trend in the world economy since the 1980s. The Asian NICs have sustained strong growth since the late 1960s on the back of rapid industrialization and export growth, achieved by importing the bulk of their capital and intermediate goods from Japan and then exporting to the massive US market.

The White Paper uses the term “Pacific Triangle” to describe the deepening interdependence and new pattern of international division of labor emerging in the Pacific Rim region (*White Paper on the World Economy 1987*, 145 and 172). This Asia-Pacific triangular trade perspective was not only carried over into analyses of Asia in subsequent editions of the *White Paper on the World Economy* and the *White Paper on International Trade*, but also led to Takeshi Aoki’s detailed empirical research<sup>11</sup> and Jaw-Yann Twu’s Asian growth triangle theory<sup>12</sup>, which adds a technology transfer aspect to triangular trade.

Asia-Pacific triangular trade had the following features. First, the key players were the US, which provided a massive market; Japan, which exported technology-intensive final goods to the US and capital and intermediate goods to the Asian NICs; and the Asian NICs, which exported textile products, electrical and electronic products and other labor-intensive final goods to the US. Second, Japan ran a trade surplus with both the US and the Asian NICs, while the Asian NICs’ trade deficit with Japan was covered by their surplus with the US. As a result, the US operated a trade deficit with both Japan and the Asian NICs. Third, the sustainability of this structure was premised on the US dollar remaining a global key currency and the US effectively shouldering the military spending of Japan and Korea. In other words, the US was underpinning the economic growth of Japan and the Asian NICs even while continuing to carry twin deficits (a budget deficit and a trade deficit) itself. Accordingly, the US was the triangular trade linchpin. East Asia was only a component of the Pacific triangle.

This configuration began to change dramatically as of the late 1990s. Specifically, exports of industrial goods from Japan and the Asian NIEs to East Asia rose as the region grew, with the emergence of China and the rapid development of China’s electrical and electronics industry in particular driving up



exports to China of intermediate goods (parts and components) from East Asian countries and regions. Meanwhile, where direct investment in Southeast Asia by companies from Japan and the Asian NIEs soared in the 1990s, from 2000 onwards, a growing number of Japanese and Asian NIEs firms also began setting up operations in China. This led to the burgeoning of intra-firm trade between the companies and subsidiaries established in China and their parent companies back home (trade in materials and final products between Japanese parent companies and their Southeast Asian subsidiaries, and parts and components trade between subsidiaries in Southeast Asia and subsidiaries in China, etc.).

As a result, the ratio of East Asia exclusive of Japan in East Asian exports as a whole—the intra-regional trade ratio—rose from 26 percent in 1985 to 40 percent in 2002, 51 percent for East Asia inclusive of Japan. Conversely, the ratio of the US as an export destination fell from 31 percent to 22 percent over the same period. Simply put, East Asia evolved from being a production and export processing base for industrial goods targeting the US market into a consumer market for locally manufactured industrial goods. This new configuration could be described as the transition from an Asia-Pacific triangular trade to an East Asian triangular trade.<sup>13</sup>

As a result of this shift, the various White Papers too began to change their perspective on Asia. For example, the 1994 editions of the *White Paper on the World Economy* and the *White Paper on International Trade* both referred to “East Asia.” The term had yet to become a fixture, however; in 1995, it was the Asia-Pacific Economic Cooperation (APEC) forum that drew the attention of the *White Paper on International Trade*, which produced a feature on Asia-Pacific economic dynamism. As a concept designating a strategic region, East Asia really took hold in the *White Paper on International Trade* as of the 2001 edition, when a major feature entitled “East Asia as the hub of a mega-competition era” foregrounded the interest in and support for Asia as a region that had emerged in the Japanese government in the wake of the 1997 Asian financial crisis.

Table 4. Asia as Reflected in the *Economic Survey of Japan*, the *White Paper on the World Economy* and the *White Paper on International Trade*

Year	<i>Economic Survey of Japan</i> (Economic Planning Agency)	<i>White Paper on the World Economy</i> (Economic Planning Agency)	<i>White Paper on International Trade</i> (MITI, METI)
1981	No reference to Asia	No reference to Asia	No reference to Asia
1982	No reference to Asia	Chapter 3 Developing economies increasingly struggling	Subtitle: Japan’s role in stimulating the world economy (no reference to Asia)
1983	No reference to Asia	No reference to Asia	No reference to Asia
1984	Subtitle: Response of the Japanese economy to new internationalization (no reference to Asia)	The expanding US economy and the world economy amidst high interest rates (no reference to Asia)	No reference to Asia
1985	No reference to Asia	Chapter 1.3.1 Growing stagnation in the Asian economy (pp. 67-76)	No reference to Asia
1986	Subtitle: Japanese economy aims for international harmonization (no reference to Asia)	Chapter 4.3 Changes in the NICs’ international balances of payments (pp. 211-227)	Chapter 3.3 Export growth and ongoing industrial specialization in the Asian NICs (pp. 261-290)
1987	Subtitle: Transformation of the industrial structure and future challenges	Chapter 3 The changing pattern of International division of labor: Key structures in the US, Japan, the NICs and ASEAN (pp. 145-221; adopts a triangular trade perspective)	No reference to Asia

Year	<i>Economic Survey of Japan</i> (Economic Planning Agency)	<i>White Paper on the World Economy</i> (Economic Planning Agency)	<i>White Paper on International Trade</i> (MITI, METI)
1988	Subtitle: Sustaining domestic demand-led growth and contributing to the international Community (no reference to Asia)	No reference to Asia	Chapter 3 Diversification and internationalization of business activities and deepening economic interdependence with the Asian region (pp. 161-238)
1989	Chapter 3 The globalizing Japanese economy (no reference to Asia)	Chapter 3.4 The development of Asia-Pacific trade and issues therein (pp. 318-348)	No reference to Asia
1990	No reference to Asia	No reference to Asia	No reference to Asia
1991	Chapter 4.2.5 Current status of International division of labor in the Asia-Pacific region (pp. 311-319)	China and Vietnam mentioned for the first time in Chapter 3: Economic reform in market economy transition countries. Reference to Asian economic zone in Chapter 4	Chapter 4.3 Asia-Pacific economy surges forward (pp. 331-366; referred to as Asian NIEs)
1992	Chapter 4 Japan's market economy: Structure and issues (analysis of the characteristics of the so-called Japanese economic system compared to the US)	Chapter 4.1 New directions in specialization in the western pacific region (pp. 288-320)	Chapter 3 Toward a free and transparent world trade system (criticizes the movement toward regional integration)
1993	Subtitle: What we learned from the bubble and our challenge to a new development	Chapter 2 Emerging economies boosted by economic liberalization (looks at Asia and Eastern Europe)	No reference to Asia
1994	Chapter 3.1.2 Growing interdependence with Asia and developments in dynamic intra-industry trade (pp. 298-301)	Chapter 3 New developments in international finance and East Asia (pp. 190-302; East Asia included for the first time as a regional classification)	Chapter 3.2 Japanese companies strengthen ties with East Asia (pp. 232-257; East Asia appears for the first time)
1995	No reference to Asia	No reference to Asia	Chapter 3 Stratification of the world trade system and dynamism of the Asia-Pacific economy (pp. 216-312; awareness of APEC)
1996	Chapter 2.6 Catch-up of the developing countries and changes in International division of labor among Japan, the US and Asia	<i>Annual Report on the Asian Economies</i> published alongside <i>White Paper on the World Economy</i> as of this year; includes trends by country and mini-features, with basic economic statistics at the back. (Publication ends in 2000.)	No reference to Asia
1997	No reference to Asia	Chapter 1.4 Asia-Pacific generally sluggish (pp. 66-91)	Part 1 New trade-related developments (awareness of regional cooperation and regional economic integration)
1998	Chapter 1 Japanese economy in protracted recession	Subtitle: The Asian currency and financial crisis and the world economy. Chapter 2 comprises a special feature on the title content.	No reference to Asia

Year	<i>Economic Survey of Japan</i> (Economic Planning Agency)	<i>White Paper on the World Economy</i> (Economic Planning Agency)	<i>White Paper on International Trade</i> (MITI, METI)
1999	Subtitle: Challenges for economic revival (no reference to Asia)	The long-term expansion of the US economy and its vulnerabilities (no reference to Asia); <i>Annual Report on the Asian Economies</i> focuses on economic recovery following the currency crisis.	Chapter 2 Deepening world economic globalization and the spread of the currency and economic crisis (not particularly focused on Asia)
2000	Subtitle: The New era begins. Establishing a virtuous circle with the Asian economies through trade in Chapter 1.1.7 (pp. 78-94)	Chapter 1.4 Economy expanding in Asia Pacific. Includes a special feature on IT, as does the <i>Annual Report on the Asian Economies</i>	Chapter 3 Widening and deepening economic integration: Interdependence strengthens between the Asian economy and Japan (first full feature; shift to promoting regional cooperation)
2001	Government departments restructured; <i>Economic Survey of Japan</i> becomes <i>Annual Report on the Japanese Economy and Public Finance</i> under the Cabinet Office	Government departments restructured; White Paper becomes <i>World Economic Trends</i> under the Ministry of Internal Affairs and Communications	Chapter 1 East Asia as the hub of a mega-competition era (first feature on the Japan-Asian economy)

Note: Created based on the tables of content and actual content of the various reports. Shading denotes a focus on Asia. The *Economic Survey of Japan* and the *White Paper on the World Economy* were published on a fiscal year basis, while the *White Paper on International Trade* came out on a calendar year basis.

## 2. References to Asia in the White Paper on International Economy and Trade

Table 5 gauges the number and ratio of references to the Asian economy in those editions of the *White Paper on International Economy and Trade* published over the 12-year period from 2001 to the most recent in 2012 by calculating the number and ratio of pages on which said references occur. The number of pages is perhaps not in itself an index for measuring the level of priority ascribed by METI to its various regional policies. Nevertheless, the relative number of pages allocated to each region should at least indicate where the ministry's interest has lain.

Since 2001, the White Paper has generally taken the form of a first chapter overviewing the world economy, with the second chapter onward dealing with particular themes, and the fourth chapter (or the third and fifth chapters) turning to Japan's policies on international trade and economic cooperation. Moreover, as noted earlier, starting with the "East Asia as the hub of a mega-competition era" feature in 2001, the White Paper continued to devote a full chapter to Asia-related issues every year through to 2008 (indicated by the shaded areas in Table 5).

Looking at Table 5 with these points in mind, an analysis by theme of Chapter 2, which was generally the face of that year's White Paper, reveals a total of five Asian features from 2005 onward. The ratio of pages referring to Asia increased rapidly from 22.9 percent in 2001 to above 32.0 percent in 2002, in fact reaching 74.5 percent in 2005. In 2008 too, the ratio was a high 61.6 percent.

However, this trend ended with the 2008 edition, after which Asia's ratio continued to decline. The 2010 edition was subtitled "Opening up and growing together with Asia," indicating renewed interest in Asia, but the ratio of references dropped to 36.7 percent. Then subsequent rise to power of the Democratic Party of Japan (DPJ; September 2009 to December 2012) with its tepid attitude toward engagement with Asia, along with the Great East Japan Earthquake, brought Asia references down below 30 percent, while Japan's view of Asia also changed significantly. For example, in 2010, the term Asia-Pacific came to the forefront in place of East Asia.

So how did the White Paper's perspective and policies on Asia evolve as of 2001? In the next section, we trace that evolution through shifts in the keywords used in the White Paper and the themes of the various special features.

Table 5. Ratio of References to Asia in the *White Paper on International Economy and Trade* 2001-2012

(No. of pages, %)

Year	Total pages	Total pages in main text	Asia-related	Asia (%)	Chapter 1	Chapter 2	Chapter 3	Chapter 4
2001	210	188	43	22.9	39/39	0/25	0/47	4/73
2002	178	150	48	32.0	42/42	0/30	0/32	6/43
2003	234	208	71	34.1	15/64	20/44	0/58	36/36
2004	238	205	61	29.8	8/55	0/95	53/53	-
2005	382	329	245	74.5	24/52	165/165	56/109	-
2006	339	265	115	43.4	9/56	100/100	6/106	-
2007	315	257	91	35.4	15/87	66/66	0/45	10/56
2008	515	440	271	61.6	53/109	181/181	10/88	27/60
2009	383	326	150	46.0	93/148	0/95	57/83	-
2010	471	411	151	36.7	30/153	71/71	50/182	-
2011	338	281	77	27.4	13/83	10/67	11/38	43/93
2012	519	450	110	24.4	23/145	55/126	10/113	22/66

Notes:

1. Total pages include the notes, appendices, bibliography and index of tables and figures.
2. Chapter 4 in the 2011 edition is the total of Chapters 4 and 5.

Source: Created by the author from the various years' White Papers. Only the overview chapter is covered for the 2001 edition.

## IV. Japan's Perspective and Policies on Asia through the Lens of the *White Paper on International Economy and Trade*

### 1. Change in Strategic Region

Here we use the White Paper chapter breakdown from Table 6 to examine the change in references in the White Paper for each subject deemed important, namely the four following areas: (1) the strategic region highlighted by the White Paper and the scope thereof; (2) the trade and investment-centered East Asian production network construct; (3) awareness of the massive Asian consumer market created by the upper and middle classes in the emerging Asian economies; and (4) regional cooperation models and specific cooperation projects developed by the Japanese government, including East Asian economic partnership and the East Asia Industrial Corridor.

Looking first at strategic regions, as noted earlier, as of the 2001 White Paper, METI evinced a major shift from the Asia-Pacific to East Asia as the subject of analysis and the focus of regional cooperation. Three factors drove this shift. First, following the 1997 Asian financial crisis, the Japanese government became strongly aware of the Asian countries not as a bundle of bilateral relations but rather as a region. Second, the myriad Japanese companies setting up operations in East Asia through until the mid-1990s generated dense and multilayered regional production networks which deepened even further as a result of the economic recovery process in the Asian countries following the Asian financial crisis, as well as the further inroads made by Japanese firms into Asia (*de facto* East Asian economic integration). Third, and most importantly, as of the late 1990s, East Asia began to boost its presence in the world economy, with China in particular making its mark as a key player in the regional economy.

In relation to this third point, as of 2001, amidst the White Paper's talk of East Asia, it actually devoted considerable space to analyzing the Chinese economy. The string of analyses highlighting China included 13 pages in 2001 discussing China's industrial clusters and accession to the WTO, 15 pages in 2003 looking at "growth in the Chinese economy and future issues," eight pages in 2004 on "imbalances in the growing Chinese economy and their influence," and 16 pages in 2005 on "the Chinese economy and the risk of overheating."

As of 2006, however, the components of METI's strategic region began to change. First, Chapter 2 of the 2006 White Paper included a 100-page feature entitled "Asian dynamism' and the formation of international business networks," while Chapter 2 ("Creation of a pan-Asian market") and Chapter 4.1 ("Global strategies of other countries") in the 2008 edition also strongly foregrounded Asia. The reason for the disappearance of East from "East Asia" was India's new prominence. In fact, Chapter 1.4 of the 2007 edition dealt with the Indian economy for the first time, devoting 15 pages to the subject. The 2008 edition included not only Asia but also a special feature entitled "The growing economies of the emerging countries" (63 pages) in Chapter 1.3, with the strategic region starting to become more diffuse. As an aside, the 2008 White Paper defined the emerging economies as China, India and the Asian countries; the 2009 edition, as China, India and ASEAN. Furthermore, the 2012 edition added the Latin American and Russian economies.

Chapter 2 of the 2010 edition ran a major 71-page feature entitled "Japan growing with Asia's development: An Asia-Pacific framework toward sustained growth," marking a return to the Asia-Pacific (the Japan-US partnership). Factors behind this shift included dealing with the global financial crisis, the emergence of a DPJ administration with an American focus, and the APEC meetings scheduled to be held in Yokohama in 2010. Next, Chapter 3 of the 2011 edition turned to the emerging markets—the emerging Asian economies included—as economic partners for overcoming the aftermath of the global financial crisis and the domestic crisis presented by the 2011 disaster, while the 2012 edition responded to the proposal of the Noda administration that Japan enter the Trans-Pacific Partnership (TPP) negotiations by taking its first serious look at the TPP as a regional cooperation framework.

Table 6. White Paper Composition and Asia Features 2001-2012

Year	Chapter	Title, content, relevant pages
2001 Mori administration	Chapter 1	"East Asia as the hub of a mega-competition era" (pp. 1-38); industrial and trade structure changes, emergence of Chinese economy
	Chapter 2	"The IT revolution and business dynamism"; only introduces Taiwan's foundry industry
	Chapter 3	"Globalization merits and demerits"; no reference to Asia
	Chapter 4	"External economic policy challenges in the 21st century"; focus on NAFTA and the EU; reference to Asia (pp. 178-181)
2002 Koizumi administration	Chapter 1	"Globalization, the changing face of the East Asian economy, and prospects for Japan" (pp. 1-42) *Section 2 looks at changes in Japan's local economic structure and competition with East Asian economic clusters
	Chapter 4	Section 2.3 Strengthening ties with East Asia and promoting multi-layered external economic policies (pp.124-129)



Year	Chapter	Title, content, relevant pages
2003 Koizumi administration	Chapter 1	Section 2 Growth in the Chinese economy and future issues (pp. 13-27)
	Chapter 2	“Deepening economic relations in East Asia and Japanese corporate activities” (pp. 65-84)
	Chapter 4	“Issues and challenges for Japan’s external economic policy” (pp. 167-202) Section 1 Energy and currency and financial stability in East Asia Section 2 Promotion of external economic policy through enhancement of economic cooperation in East Asia and a multi-layered approach (*Institution building of an East Asian Business Area)
2004 Koizumi administration	Chapter 1	Section 4.3 Imbalances in the growing Chinese economy and their influence (pp. 45-52)
	Chapter 3	“Transition to a ‘new value creation economy’ and East Asian economic integration” (pp. 151-203) Section 1 Deepening economic relations in the East Asian region Section 2 International division of functions Section 4 New business models for Japanese agriculture Section 5 Dual track policy in Thailand
2005 Koizumi administration	Chapter 1	“Growth mechanism of the global economy and issues of imbalance” Section 2 The Chinese economy and the risk of overheating (pp. 10-25) Section 5 Rising foreign exchange reserves and expanding current account surpluses in East Asia (pp. 44-52)
	Chapter 2	“Indications of self-supporting, sustainable growth in East Asia: Business opportunities and risks in East Asia” (pp. 54-217) *Production and consumption trends, increasingly sophisticated triangular trade, capital cycles, greater cultural exchange
	Chapter 3	“Japan’s declining and aging population and economic integration toward new East Asian economic prosperity” Sections 3 and 4 discuss an East Asia-wide human resources policy (pp. 271-326). Filipino nurses and nursing caregivers, etc.
2006 Koizumi, Abe administrations	Chapter 1	“Trends in the international economy and structural changes” *Introduces various risks. No particular reference to Asia
	Chapter 2	“‘Asian dynamism’ and the formation of international business networks” (pp. 57-156) *Increasing Asian presence, formation of international business networks as a corporate strategy, Japan’s service industry and Asia
	Chapter 3	“Challenges in achieving sustained growth potential” Section 1.2 Business cost distance in Asia (pp. 173-178)
2007 Abe, Fukuda administrations	Chapter 1	“Current status of the global economy and future issues” Section 4 India’s economy achieves high growth (pp. 73-87)
	Chapter 2	“Expansion and deepening of international business networks in the East Asia” (pp. 90-154) *(1) EPA/FTA networks, (2) increasingly sophisticated logistics functions, (3) innovation through deployment into East Asia, (4) securing global human resources, (5) realization of a seamless economic zone
	Chapter 4	“Building an open and seamless economic system” Section 3 Efforts towards a stronger partnership among all East Asia (pp. 230-239)
2008 Fukuda, Aso administrations	Chapter 1	“The world economy facing difficulties and prospects for new development driven by the new market of five billion people” Section 3 The growing economies of the emerging countries (China, India, Asian countries; pp. 47-109)
	Chapter 2	“Creation of a ‘pan-Asian market’ leading new development of the world economy” (pp. 112-292) *Deepening East Asian production networks, competition to secure human resources

Year	Chapter	Title, content, relevant pages
2008 Fukuda, Aso administrations	Chapter 4	<p>“Establishing a global strategy to lead sustainable development”</p> <p>Section 1.3 Global strategies of Asian countries (pp. 391-440)</p> <p>Section 5 Promoting Asian economic and environmental community, Economic Research Institute for ASEAN and East Asia (ERIA) (pp. 434-440)</p> <p>*Economic partnership beyond East Asia → Regional economic integration through APEC</p>
2009 Aso, Hatoyama administrations	Chapter 1	<p>“Global economy facing challenges: current status and issues”</p> <p>*Financial crisis, characteristics of the global financial crisis</p> <p>Section 2 China, India, ASEAN (pp. 56-148)</p>
	Chapter 2	<p>“Japan’s path to cope with the world economic crisis”</p> <p>*No reference to Asia</p>
	Chapter 3	<p>“Japan’s global economic strategy and external economic policy”</p> <p>Section 2 Four priorities for foreign economic policy (pp. 270-326)</p> <p>(1) Integrated domestic and external economic policy (cross-border growth together with Asia, assuming that Japanese domestic demand has reached its limits: Growth Initiative towards Doubling the Size of Asia’s Economy, development of Asian regional infrastructure, creation by ERIA of a Comprehensive Asia Development Plan, etc.)</p> <p>(2) Pursuit of “volume zone” innovation</p> <p>(3) Global spread of the low carbon revolution</p> <p>(4) Industrial cooperation with resource-rich countries</p>
2010 Hatoyama, Kan administrations	Subtitle	Opening up and growing together with Asia
	Chapter 1	<p>“Current and future status of the global economy in transition”</p> <p>*Primarily an analysis of the US and European economies</p> <p>Section 2.3 The Chinese economy (pp. 83-91)</p> <p>Section 2.4 Other Asian economies (pp. 92-112)</p>
	Chapter 2	<p>“Japan growing with Asia’s development: an Asia-Pacific framework toward sustained growth” (pp. 155-225)</p> <p>(1) Growing importance of Asia in the world economy</p> <p>(2) East Asian production and sales networks</p> <p>(3) The expanding Asian consumer market</p> <p>(4) Infrastructure development</p> <p>(5) Common agendas to be solved by Asia to achieve sustained growth</p>
	Chapter 3	<p>“Japan’s current situation and direction of progress after the economic crisis”</p> <p>Section 1 China, Asia, Korea (pp. 274-284)</p> <p>Section 2 Securing emerging markets (regional infrastructure development, smart grids, EPAs/FTAs (pp. 290-396)</p>
2011 Kan, Noda administrations	Chapter 1	<p>“Current status and problems of the world economy”</p> <p>Section 1.3 The Chinese economy (pp. 37-49)</p> <p>Section 4 The Great East Japan Earthquake (pp. 76-83)</p>
	Chapter 2	<p>“Changes in the trade structures of the world and Japan”</p> <p>*“Emerging countries” the key term</p> <p>Section 1.2 East Asia production networks (pp. 93-102)</p> <p>Section 2 Brazil and MERCOSUR</p>
	Chapter 3	<p>“Toward a new concept for the overseas development of the Japanese economy: Overcoming the global financial crisis and 2011 disaster”</p> <p>Section 1.1 Income group in emerging countries that is growing rich (pp. 152-155)</p> <p>Section 1.2 Strategy for the Emerging Asian Markets (pp. 156-162)</p> <p>Section 2 ‘Localization’ of Japanese companies entering a new stage</p>
	Chapter 4	<p>“Trade and economic relations between Japan and the world as seen through the damage caused by the Great East Japan Earthquake”</p> <p>*Actual status of global supply chains as revealed by the disaster (pp. 199-223)</p>

Year	Chapter	Title, content, relevant pages
2011 Kan, Noda administrations	Chapter 5	“Overcoming the earthquake disaster, and revitalizing the Japanese economy” Section 2.1 FTAs/EPAs and active promotion of regional economic integration (pp. 244-259); Section 2.4 Influence that the East Japan Great Earthquake to the world supply chains and the importance of partnership agreements in post-disaster recovery (pp. 275-276)
2012 Noda, Abe administrations	Chapter 1	“Trends in the world economy” Section 1 Overview Section 2 European economy Section 3 US economy Section 4 Chinese economy (pp. 105-118) Section 5 Other Asian economies (pp. 119-127) Section 6 Central and South American economy and Russian economy (pp. 128-145)
	Chapter 2	“Structure of and change in Japan’s trade and investment” Section 1 Changes in Japanese trade and economy over the years of the <i>White Paper on International Economy and Trade</i> Section 2 Structure of international division of labor in East Asia and changes therein (pp. 178-190) Section 3 Thai floods (pp. 191-232) *Analysis of Asia-wide supply chains and the impact of the floods
	Chapter 3	“Development of overseas business activities of Japanese enterprises” *Expansion of supporting industries and ‘hollowing-out’, introduction of German and Korean overseas business activities, expansion of overseas business activities to emerging economies, towards the overseas expansion of the service industry
	Chapter 4	“Towards new growth of Japanese economy by linkages with outside of Japan” Section 1 EPSs/FTAs and TPP (pp. 386-404) Section 2 Support for overseas business activities in response to changing needs Section 3 Urgent measures to strengthen locational competitiveness → Promoting Japan as an industrial hub in Asia (pp. 439-441)

Source: Created by the author from the various years’ White Papers. Only the overview chapter is covered for the 2001 edition.

## 2. East Asia Production Network Construct

One consistent White Paper theme from 2001 onwards was the East Asian production network/business network construct. These networks were formed by (1) Japanese companies’ geographical expansion of their production bases into East Asia and (2) triangular trade among (a) Japan and the Asian NIEs, which exported intermediate goods to China and ASEAN, (b) China and ASEAN, which imported intermediate goods for final assembly and (c) North America and Europe, which provided massive markets for final goods. In other words, they were patterns of international division of labor created through the triangular trade and the provision of intermediate goods (*White Paper on International Economy and Trade 2007*, 90). The theoretical framework (optimal geographical plant distribution at the production process level, or in other words, fragmentation theory) and empirical data for (1) above was provided by Keio University Professor Fukunari Kimura and the Institute of Developing Economies (IDE-JETRO), while the trade data by type of commodity (intermediate and final goods) for (2) was compiled by the Research Institute for Economy, Trade and Industry (RIETI) and the Institute for Developing Economies (the team responsible for creating the Asia-Pacific International Input-Output Table).

What is interesting is the way in which the content and scope of the East Asia production network construct evolves. Back in the 2001 edition, the White Paper viewed the East Asian economic area as a relatively autonomous unit. However, the 2005 edition emphasized that this triangular trade was not

confined to the region; rather, through deepening trade ties with America and Europe, it had become a source of dynamism powering world economic growth. Moreover, the White Paper took the rise in the unit price for exports of intermediate goods from Japan to China and the unit price for exports of final goods from China to North America from the late 1990s to the early 2000s as evidence of the increasingly sophisticated structure of triangular trade.

Based on the results of a public awareness survey on exchange in Asia undertaken by a study group within METI in January 2005, the 2005 White Paper also suggested that the growth of an East Asian urban middle class was generating commonalities in consumption patterns and cultural tastes, and that Japan should accordingly turn its attention to cultural and contents industries such as movies, music and food. The White Paper's new interest in the contents industry deserves note as the beginning of a shift in conceptual framework from manufacturing-centered East Asian production networks to East Asian business networks, a construct with a much broader framework inclusive of the overseas expansion of the non-manufacturing sector or the service industry and the hiring of highly-skilled Asian human resources.

More specifically, Chapter 2 of the 2007 White Paper comprised a 65-page feature on the "expansion and deepening of international business networks in East Asia." Exploring not only the development of institutional frameworks such as economic partnership agreements (EPAs) and Free Trade Agreements (FTAs), but also enhanced logistics, the overseas transfer of R&D functions, and global recruitment, the White Paper called for the creation of a "seamless economic zone." The same tenor is continued in subsequent editions, which present examples of the Asian expansion of the logistics, transport and service industries that underpin manufacturing, and argue the need for policy support for this trend.

In the 2012 edition, Chapter 3.3 provided a 34-page detailed explanation of the overseas expansion of the service industry backed by an abundance of cases. Examples of intellectual service industries proffered by the White Paper included logistics (Yamato Group), contents (films, animation, TV programs, gaming software, not referring to particular individual firms), food services (Yoshinoya, Mos Burger), tourism and hotels (Kagaya, a Japanese-style hotel in Ishikawa Prefecture), convenience stores (7-Eleven, Lawson, FamilyMart), education business (Kumon, Benesse) and medical services. Their drive into East Asia responded to the rapid urbanization and service economy transition occurring in the region, and the concomitant change in consumer spending patterns occurring at the household level.

### **3. New Focus on Asia's Upper and Middle Classes**

Reinterpretation of East Asia as not just a production and export base for the manufacturing industry but also a massive consumer market becomes apparent in the White Paper from the 2005 edition. East Asia was originally characterized by a low rate of urbanization compared to the world average for developing countries. In the 1990s, however, the urbanization rate soared, and the 2000s saw the formation of a number of East Asian mega-cities, including Beijing, Shanghai, Guangzhou, Ho Chi Minh, Bangkok, Jakarta and Mumbai. While these mega-cities were generated through population drift from rural areas, unlike the Latin American experience, their emergence did not lead to a progressive increase in the number of urban poor, but rather a class of consumers and shoppers called the urban middle class.<sup>14</sup>

The spotlight was first turned on Asia as consumer in the 2008 White Paper, in which Chapter 2 is entitled "Creation of a 'pan-Asian market' leading new development of the world economy." The formation of this perception was heavily influenced by a 2008 fact-finding survey of the urban middle class and the retail industry conducted by a METI study group in relation to six countries: China, India, Indonesia, the Philippines, Thailand and Vietnam.<sup>15</sup> "Expansion of Asian consumer market" was also a theme in

Chapter 2 of the 2010 edition, evolving in Chapter 3 of the 2011 edition into a discussion on “income group in emerging countries that is growing rich.” Table 7 lays out the White Paper’s data on the emergence of upper and upper middle classes in the Asian emerging economies along with forecasts through to 2020 (with some raw data derived from Euromonitor International estimates).

According to the table, the upper class (household disposable income of at least US\$35,000 per annum) in the Asian emerging economies will grow from 104 million people in 2010 to 350 million in 2020, triple Japan’s market scale. Further, if the scope is widened from the upper class to include the upper middle class (disposable income of at least US\$15,000 per annum), the predicted increase will be from 348 million in 2010 to 1.16 billion in 2020, or 34 percent of the total population. Because these classes are known to have similar consumption preferences in terms of their own houses, cars, home appliances, and computers and other telecommunications equipment, this really does represent the emergence of a massive Asian consumer market. For Japanese companies struggling with a protracted recession back home, it was certainly a market impossible to dismiss, and the White Paper in fact continued to push an Asia strategy targeting Asia as a consumer market, as seen in the 2009 edition’s call for Japan to transcend national borders and grow together as a region, the reference in 2010 to Japan growing together with Asia, and the strategy for the emerging Asian markets” promoted in the 2011 edition. These references signify a shift in perspective from Asia as a production hub to Asia as a consumer market.

Table 7. Growth of the Upper and Middle Classes in the Asian Emerging Economies, 2010 and 2020 Forecasts

(Million people, %)

(1) 2010 (actual)

Country/region	Upper class	Upper middle class	Lower middle class	Lower class	Total
China	38	118	523	663	1,342
ASEAN 6	16	40	198	260	514
NIEs 3	32	33	13	2	80
India	18	53	495	649	1,215
Total Asian emerging economies	104	244	1,229	1,574	3,151
% of total population	3.3	7.7	39.0	50.0	100.0

(2) 2020 (forecast)

Country/region	Upper class	Upper middle class	Lower middle class	Lower class	Total
China	180	390	530	290	1,390
ASEAN 6	40	120	270	130	560
NIEs 3	60	20	5	1	86
India	70	280	710	280	1,340
Total Asian emerging economies	350	810	1,515	701	3,376
% of total population	10.4	24.0	44.9	20.7	100.0

Notes:

1. The number of people comprises the household populations of households with disposable income.
2. The upper class comprises households with annual disposable income of at least US\$35,000; the upper middle class, US\$15,000-35,000; the lower middle class, US\$5,000-15,000; and the lower class, less than US\$5,000.
3. The ASEAN 6 comprise Singapore, Malaysia, Thailand, the Philippines, Indonesia and Vietnam. The NIEs 3 are Korea, Hong Kong and Taiwan.

Source: Created by the author from the *White Paper on International Economy and Trade 2011*, 155-156. Data for 2020 was drawn from Euromonitor International (2011) estimates.



#### 4. Regional Cooperation Initiatives and Specific Cooperation Programs

The basic policy promoted by METI, and indeed the Japanese government, in terms of external economic policy has been the pursuit of open regionalism based on a multi-layered approach and the strengthening of economic partnerships (*White Paper on International Economy and Trade 2002*, Chapter 4.2; *White Paper on International Economy and Trade 2003*, Chapter 4.2). This policy has remained unchanged from the 1990s through to the present, with the term East Asia attached as of January 2002 when Prime Minister Koizumi took the opportunity of his visit to Singapore as the final stop on his Southeast Asian tour to propose the establishment of an East Asian community (open to any members, in contrast to the European Community). In addition, as seen in the change in strategic region, as of 2008, strengthening partnerships beyond East Asia was added to the policy agenda.

Japan's multi-layered approach referred to a basic policy of actively utilizing not only bilateral agreements and the ASEAN-Japan Comprehensive Economic Partnership but also vehicles for consultation such as ASEAN+3 (Japan, China and Korea), ASEAN+6 (3 + India, Australia and New Zealand) and the Asia-Pacific Economic Cooperation (APEC) forum, as well as open regionalism (no discrimination as to members or negotiating parties), in order to realize a world free trade order.<sup>16</sup>

Drawing on this basic policy, at the end of 2002, METI released a paper entitled *Promotion of Economic Partnership* that called for the creation of an East Asian Business Area. The goal of this initiative was "to look to Asia as a way of boosting the Japanese economy past the triple handicap of deflation, non-performing loans and low growth ..... positioning East Asia as a wellspring of profit for Japanese companies" (*White Paper on International Economy and Trade 2003*, Chapter 4.2).

Next, in April 2006, METI released its "Global Economic Strategy," which called for an East Asia-wide EPA promotion strategy. In September that year, Prime Minister Shinzo Abe announced the Asian Gateway Initiative in his policy speech, and in May the following year, an Asian Gateway Strategy Council was established in the Prime Minister's Office with the aim of harnessing Asia's growth and vitality to realize new creation and growth. Despite the talk of open regionalism, therefore, Japan retained its policy focus on the East Asian region. However, the Asian Gateway Initiative faded away after the departure of the first Abe administration.

It was from 2008 through 2009 that a new trajectory emerged in Japan's Asia policy. First, then-METI Minister Toshihiro Nikai tabled an East Asia Industrial Corridor Initiative (Higashi Ajia Sangyo Dai-domyaku) at the ASEAN+6 Economic Ministers meeting in August 2008. This was subsequently fleshed out by the Asia Public-Private Partnership (PPP) Study Group, established within METI and chaired by Waseda University Professor Shujiro Urata. In its final report in April 2009, the group proposed the development of wide-area infrastructure in Asia along with the construction of various hub points.

Three areas and five regions were identified as specific examples of these hubs: (1) developing industrial and logistical infrastructure in metropolitan base stations (Hanoi Metropolitan Area, Jakarta Metropolitan Area); (2) upgrading industrial parks and infrastructure on the periphery of medium-sized cities (India's Chennai-Bangalore Corridor, Phnom Penh and Sihanoukville in Cambodia); and (3) developing new industrial parks and logistical infrastructure in regional hub cities (Lao PDR-Thai border).<sup>17</sup> The hub concept was successfully realized in the Comprehensive Asia Development Plan (CADP) spearheaded by the Economic Research Institute for ASEAN and East Asia (ERIA), a METI project established within the ASEAN Secretariat, and at the initiative of Japan, a policy of tackling wide-area infrastructure development was announced at the East Asia Summit.<sup>18</sup>

The plan to develop wide-area infrastructure which began with the East Asia Industrial Corridor

Initiative and continued in the CADP was naturally premised on the idea that the primary agent in developing urban infrastructure in Asia (India included) would be Japan's construction industry, which was experiencing tough times at home. Urban infrastructure development would also require the participation of companies from a whole spectrum of other areas, including distribution, transportation, telecommunications and services (overlapping in this sense with the conceptual shift from East Asian production networks to East Asian business networks). METI's vision was that if these infrastructure projects with their massive investment requirements could be implemented through PPP fusing the public sector (Japan's ODA) and private sector (investment by Japanese companies), Japan could indeed grow together with Asia. In fact, the subtitle of the Asia PPP Study Group's final report was *Together with Asia: Public-Private Creation and Coexistence*. (Author comment in January 2016: This idea is echoed exactly in China's external economic strategy of establishing the Asian Infrastructure Investment Fund or AIIB.)

From the same period, Chapter 3.2 of the 2009 White Paper flagged the following four priority areas in external economic policy: (1) integrated domestic and external economic policy; (2) pursuit of volume zone innovation; (3) global spread of the low carbon revolution; and (4) industrial cooperation with resource-rich countries. The importance that METI placed on wide-area infrastructure development is clear from the specific content identified in (1), namely, realization of the Growth Initiative towards Doubling the Size of Asia's Economy, development of Asian wide-area infrastructure, and creation of a Comprehensive Asia Development Plan.

Let us touch briefly on the relationship between Asia policy and the *New Growth Strategy: Blueprint for Revitalizing Japan* announced by the DPJ-led Kan administration in June 2010. The New Growth Strategy laid out a 2010-2020 growth strategy for Japan together with a specific schedule, focusing on seven key areas and 21 national strategic projects. Asia was addressed within the third key area, which merited five national strategic projects, more than any of the other key areas. These projects comprised: (1) exporting infrastructure system packages; (2) reducing the effective corporate tax rate and promoting Japan as an industrial hub in Asia; (3) global human resource development and development of highly-skilled personnel; (4) strengthening intellectual property and standardization strategies and exporting Cool Japan; (5) an economic partnership strategy based on a Free Trade Area of the Asia-Pacific (FTAAP).<sup>19</sup>

Of the above, (1) was a reworking of the wide-area infrastructure development concept noted earlier, and (3) and (4) too simply continued the line taken by previous Liberal Democratic Party (LDP) administrations. The new elements introduced by the DPJ were (2) and (5). While (2) essentially comprised a passive defensive policy, countering moves by the US, European and other foreign companies shifting their Asian regional headquarters and R&D bases to Asian countries other than Japan by re-establishing Tokyo and Osaka as Asian hubs, (5) declared that the focus of Japan's economic partnerships would no longer be East Asia but rather the Asia-Pacific. As an aside, the FTAAP was actually proposed by the US at the Hanoi APEC Economic Leaders' Meeting in November 2006 and became a turning point in the US's subsequent participation in the TPP negotiations.<sup>20</sup> The 2012 edition of the White Paper subsequent to the Great East Japan Earthquake moved a step further, with Chapter 4 not specifying the targets of Japan's economic partnerships but rather shifting to the general language of links with the world and links with the outside.

What should be noted here is the growing separation as of the 2008 global financial crisis between Japanese economic and corporate trends and the strategic region identified by the Japanese government in the White Paper. Specifically, where the trade trends in Table 2 and the direct investment trends in Table 3 clearly reveal the Japanese economy and Japanese companies shifting toward Asia, the scope of

the strategic region demarcated by the White Paper increasingly diffuses beyond East Asia, conversely exhibiting a shift away from Asia. While this dissociation in part reflected the lack of a specific Asia strategy in the DPJ's external economic policy, it also signified growing nebulosity in the strategic region concept which METI had pursued.

## V. Conclusion

The change in the perspective and policies on Asia evinced by MITI/METI (and the Japanese government) that emerges from the above examination of the White Paper could be summed up as follows:

First, the area identified by MITI/METI as a strategic region moved from the Asia-Pacific to East Asia following the Asian financial crisis and subsequently expanded to Asia inclusive of India, then the emerging economies inclusive of Latin America and Russia, before finally returning to the Asia-Pacific. METI's interest in the emerging economies reflects the displacement of the G7 as the key forum for discussing the shape of the world order by the G20, which includes the emerging economies, international institutions like the World Bank, and the EU and ASEAN regional organizations.<sup>21</sup>

Second, the analytical perspective on the East Asian economy changed from the manufacturing-centered East Asian production network construct to that of East Asian business networks inclusive of non-manufacturing industries—in particular, the service and contents industries. While this was partly due to an understanding of how logistics, transportation, retail and other industries complement the activities of manufacturing firms, it was also linked to METI's policy of breaking Japanese firms out of the domestic recession by encouraging industries such as construction and services to expand offshore.

Third, interest in East Asia shifted from Asia as a base for production and export processing, with the massive US, European and Japanese markets serving as the final absorbers, to Asia as a massive consumer market formed by the region's rapidly growing urban upper and middle classes. This reflected the hopes of the manufacturing industry, which looked to burgeoning domestic demand within Asia as the key to new growth for the Japanese economy, given the unlikelihood of Japan's own domestic demand increasing in the face of deflation, a falling birth rate and a super aging society.

Turning finally to Japan's engagement with East Asia, the strong initiative which the government envisaged immediately after the Asian financial crisis shaped a dynamic stance, and this stance seems to have continued through to at least around 2003. Over that period, METI's East Asian Business Area concept clearly positioned East Asia as a hinterland where Japanese companies would realize high profits.

However, in the subsequent Strategy for the Emerging Asian Markets and the Comprehensive Asia Development Plan, rather than Japan leading Asia, we see a manifestly more passive stance whereby Japanese revitalization is sought by harnessing Asian growth. In the 2010 New Growth Strategy, this regresses to a defensive policy of seeking to keep in Japan those foreign companies moving away into the Asian emerging economies, as manifests in the Asian hub concept. This was of course a direct reflection of the changeover in key players on the Asia economic map or Japan's diminishing presence, but it was also indicative of the difficulty which Japan was experiencing in defining its own place in Asia.

Was the prospect therefore that Japan would simply continue to reduce its presence in Asia? Was there no sign of a new engagement?

When Abe returned to power following a decisive victory in the December 2012 House of Representatives elections, his second Cabinet evinced an even stronger emphasis on Asia, and particularly ASEAN, than during his first term. Starting with his January 2013 visit to Vietnam, Thailand and Indonesia, Abe went on to Myanmar in May, Malaysia, Singapore and the Philippines in July, Brunei in October, and Cambodia and Laos in November, becoming the first ever Japanese Prime Minister to have

visited all 10 ASEAN member nations while in office. In December 2013, the Japanese government also hosted the ASEAN-Japan Commemorative Summit in Tokyo (the first since the original Commemorative Summit was held 10 years prior in November 2003). Judging from these moves, the Japanese government would appear to have returned to its focus on Asia.

However, the second Abe Cabinet's Asia strategy lacked the clarity of the string of domestic economic policies being reeled out. During his January 2013 visit to Vietnam, Thailand and Indonesia, Prime Minister Abe was meant to announce the following new five-point foreign policy (an announcement precluded by his early return home to deal with the Algerian hostage crisis): (1) reaffirmation of the universal value of freedom in the region where the two oceans (the Pacific and the Indian Ocean) meet; (2) an emphasis on governance by laws and rules (cooperation with the US); (3) deployment of a network strategy in the region (particularly support for an economic corridor linking ASEAN); (4) promotion of intercultural ties between Japan and the region; and (5) promotion of people-to-people exchanges among the next generation. Of these, (1) and (2) were directed at containing China, (3) at rolling out Japan's wide-area infrastructure development concept in the Asian region, and (4) and (5) at pursuing former Prime Minister Takeo Fukuda's 1977 promise that Japan would forge ties with ASEAN based on heart to heart understanding.<sup>22</sup> In other words, Abe had yet to add anything new to the mix, with the only outstanding feature from his series of Asia visits being Japan's readiness to extend capital cooperation for the economic development of the Asian countries.

But should Japan's new engagement with Asia really be seen as no more than cooperation with a priority on production, consumption and human resources, just as in the former East Asian business network construct (putting aside here the issue of regional cooperation from a security perspective)? Was there not another form of engagement?

A fascinating insight in that regard can be gleaned from Chapter 2 of the 2010 White Paper. This chapter identifies the following four pillars from the perspective of developing an Asia-Pacific framework for realizing sustained growth: (1) reinforcing Asia's status as the world's factory by establishing cross-border supply chains within Asia; (2) ramping up the rollout of Japan's service industry into Asia to offer appeal, safety and peace of mind in order to take advantage of growing spending on food services, travel, health care and education in Asia as the world's consumer market; (3) developing wide-area infrastructure and creating an East Asia Industrial Corridor in response to the rapid rise in infrastructure needs accompanying the advance of urbanization; and (4) working with Asia on common issues facing the region such as inversion of the age pyramid and environmental and energy issues. The first three repeated the White Paper's standard position and were issues related to the third point in the second Abe Cabinet's new foreign policy agenda. The new element was the fourth point.

The White Paper did in fact have a tradition of devoting occasional columns to social issues facing the Asian emerging economies and the Asian NIEs, including growing domestic income disparities, aging societies, and increasingly severe environmental and energy problems. Chapter 2 of the 2012 edition also contained a 42-page feature on the floods in Thailand. This was partly in recognition of the major impact of the Thai floods on global supply chains in the automobile, electrical and electronics industries, but it also embodied a strong sense of commitment on the part of Japan as a country which had experienced a major disaster to work with the other Asian countries exposed to the risk of natural disasters to help prevent or alleviate such disasters.

The author has previously stated as follows:

Rather than simply integrating with an increasingly regionally autonomous Asia through trade, investment and labor, I believe that the critical issue for Japan today is to commit itself fully to

cooperation on social issues that are also issues for the region as a whole [such as growing domestic income disparities and the aging of society] as a forerunner in addressing social problems. To that end, we must move away from the old idea of industrialized Japan leading developing Asia to the idea or perspective of Japan as a forerunner in addressing social problems cooperating with Asia as a newly-industrialized region.<sup>23</sup>

The author continues to hold that position, in fact even more strongly so in the wake of the Great East Japan Earthquake. The conclusion to the 2010 White Paper (pp. 409) suggested that Japan's role was to contribute to the Asian nations as a forerunner in addressing social issues and as a knowledge leader. The author concurs with this. Japan has a vast amount of experience that should be amassed and passed on in relation to not only the development of new technologies and products, but also disaster management, local welfare for the elderly, environmental protection, and food safety and reliability. The time has come for Japan to give serious thought to a new style of engagement with Asia, looking beyond the *de facto* approach of constructing an East Asian economic area grounded in deepening economic interdependence to stage a bold offense on mutual social and environmental issues.

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