

JAPAN'S FUTURE
IN EAST ASIA AND
THE PACIFIC



Professor Peter Drysdale

JAPAN'S FUTURE IN EAST ASIA AND THE PACIFIC

IN HONOUR OF PROFESSOR PETER DRYSDALE

MARI PANGESTU AND LIGANG SONG (EDS)



THE AUSTRALIAN NATIONAL UNIVERSITY

E P R E S S

ASIA PACIFIC PRESS

THE AUSTRALIAN NATIONAL UNIVERSITY



Copublished by ANU E Press and Asia Pacific Press

The Australian National University

Canberra ACT 0200 Australia

Email: anuepress@anu.edu.au

This title is available online at http://epress.anu.edu.au/jfeap_citation.html

© ANU E Press and Asia Pacific Press 2007

This work is copyright. Apart from those uses which may be permitted under the Copyright Act 1968 as amended, no part may be reproduced by any process without written permission from the publishers.

The views expressed in this book are those of the author and not necessarily of the publishers.

Asia Pacific Press

Crawford School of Economics and Government

The Australian National University

Canberra ACT 0200

Ph: 61-2-6125 0178 Fax: 61-2-6125 0767

Email: books@asiapacificpress.com

Website: <http://www.asiapacificpress.com>

National Library of Australia Cataloguing-in-Publication entry

Title:	Japan's future in East Asia and the Pacific : in honour of Professor Peter Drysdale / editors, Mari Pangestu ; Ligang Song.
Publisher:	Canberra : Asia Pacific Press, 2007.
ISBN:	9780731538157 (pbk.) 9781921313622 (online)
Notes:	Includes index. Bibliography.
Subjects:	Free trade—Japan. Japan—Economic conditions. Japan—Foreign economic relations—Australia. Japan—Foreign economic relations—East Asia.
Other Authors:	Pangestu, Mari. Song, Ligang.
Dewey Number:	337.52

Cover design: Teresa Prowse, ANU E Press

The cover image is based on a woodblock print by Mototsugu Sugiyama 'Sumida River on the verge of Spring' (1997).

Printed by University Printing Service, The Australian National University, Canberra

Contents

<i>Figures</i>	vi
<i>Tables</i>	ïix
<i>Contributors</i>	x
<i>Preface</i>	xii
<i>Abbreviations</i>	xv
1 The Japanese economy: where is it leading in the Asia Pacific? <i>Paul Sheard</i>	1
2 Australia, Japan and the region <i>David Walton</i>	31
3 The Japan-Australia partnership in the era of the East Asian community <i>Takashi Terada</i>	54
4 Japan's quest for free trade agreements <i>Hidetaka Yoshimatsu</i>	80
5 Open, secure, influential? <i>Christopher Pokarier</i>	103
6 Out of the Japanese incubator <i>Adam Johns</i>	135
7 The dynamic in East Asian trade <i>Ligang Song, Tina Chen and Shiji Zhao</i>	166
8 The dynamic in East Asian investment <i>Roger Farrell and Mari Pangestu</i>	195
9 The impact of China's growth <i>Dong Dong Zhang</i>	214
10 China: where will the contest for regional leadership end? <i>Yiping Huang and Xinpeng Xu</i>	234
Index	254

Figures

Figure 1.1	Japan's real estate price bubble, 1956–2006	4
Figure 1.2	Japan's real GDP growth, 1982–2006	6
Figure 1.3	Japan's nominal GDP growth and GDP deflator, 1982–2006	6
Figure 1.4	Official non-performing loans of all banks, 1992–2005	8
Figure 1.5	Corporate debt to nominal GDP, 1970–2000	8
Figure 1.6	Measures of deflation, 1990–2006	9
Figure 1.7	Evolution of the government guarantee on bank deposits, 1992–2007	10
Figure 1.8	Shift in large-lot time deposits, triggered by removal of guarantee, 1995–2007	16
Figure 1.9	Bank of Japan quantitative easing: current account balances targets, 2001–2006	20
Figure 1.10	Bank lending growth: headline, adjusted for special factors, 1995–2007	21
Figure 1.11	Monetary aggregates and nominal GDP, 2000–2007	22
Figure 1.12	Purchases of asset-backed securities by the Bank of Japan, 2003–2006	26
Figure 1.13	Foreign exchange intervention and official reserves, 1994–2004	27
Figure 7.1	Changing share of some East Asian economies in world total labour-intensive manufactured exports, 1970–2000	185
Figure 7.2	Share of labour-intensive products in total exports, 1970–2000	185
Figure 8.1	Japanese manufacturing FDI in East Asia, 1989–2003	201
Figure 8.2	Patterns of Japanese production and trade with East Asia	203
Figure 8.3	Japanese electronics industry in East Asia, sales and exports 1997–2003	205
Figure 8.4	Profitability of Japanese FDI by region, 1996–2004	208
Figure 8.5	Distribution of Japanese ODA, by region, 1970–2001	210

Figure 9.1	ASEAN-China bilateral trade, 1986–2003	216
Figure 9.2	ASEAN-China trade, imports and exports, 2002–03	217
Figure 9.3	FDI to China and southeast Asia, 1992–2002	219
Figure 9.4	China's competitive impact and ASEAN countries' response adjustment	230
Figure 10.1	Shares of world GDP, 1000–2030	235
Figure 10.2	Comparative GDP per capita China and Western Europe, 50–1998	236
Figure 10.3	China and East Asia in the world economy, output share, 1980–2003	237
Figure 10.4	China and East Asia in the world economy, output share, 1980–2003	237
Figure 10.5	Average non-performing loan ratios in the Chinese banks, 2002–2007	243
Figure 10.6	China's share of world consumption/production of metal products, 2003	244
Figure 10.7	Growing intra-regional trade in East Asia, 1998–2006	245
Figure 10.8	China's changing bilateral trade balances with USA, European Union, Japan and East Asia, 2001–2006	246
Figure 10.9	FDI inflows to China: total amount of utilised FDI and its share in gross capital formation, 1984–2004	247
Figure 10.10	Expected revaluation of the Chinese currency within one year at the non-deliverable forward market, 2002–2007	248
Figure 10.11	Changes in real effective exchange rates, 2003–2007	249

Tables

Table 1.1	Japanese land prices: measuring the size of the bubble	5
Table 1.2	Current cyclical upswing compared with previous two post-bubble recoveries, 1993, 1999 and 2002	12
Table 1.3	Japan's banking system workout framework, 2004	16
Table 1.4	Foreign exchange intervention, 1999–2003	23
Table 4.1	Japan's negotiation of FTAs	82
Table 7.1	Share of world trade by region, 1980–2003	167
Table 7.2	Changing structure of production, 1970–2002	170
Table 7.3	Exports of manufactures as per cent of total exports, 1970–2000	171
Table 7.4	Overall patterns of East Asian external trade, 1980 and 2003	173
Table 7.5	International comparison of shifting patterns of export specialisation in selected industrial sectors, 1970–2000	174
Table 7.6	Net exports of manufactures to Asia and the world, 1980, 1990 and 2000	176
Table 7.7	Contribution of parts and components to export growth, 1992–2000	179
Table 7.8	Intra-industry trade indexes by destination, 1985 and 2000	180
Table 7.9	Intra-regional and inter-regional trade among actual and potential formal blocs, 1980–2003	181
Table 7.10	Bias, complementarity and intensity indexes for major country groups, 1985 and 2000	183
Table 7.11	Competitive advantage and disadvantage with the United States, 1987–2000	186
Table 7.12	Proportion of exports to the United States by SITC category	187
Table 7.13	Structural advantage and disadvantage, 1987–2000	187
Table 8.1	Japanese subsidiaries by major country, 1960–2000	198
Table 8.2	Japanese FDI flows by major region, 1951–2004	199
Table 8.3	Japanese overseas affiliates, by type of operations, 2004	200

Table 8.4	Motivations for Japanese foreign direct investment in East Asia, 2000	202
Table 8.5	Overseas production ratio of Japanese manufacturing, 1985–2007	203
Table 8.6	Foreign assets of Japanese subsidiaries overseas, 1980–2001	204
Table 8.7	Japanese FDI, mode by country, 2000	206
Table 9.1	ASEAN countries' sectoral strength and extent of competition from China	221
Table 9.2	Effectiveness in ASEAN countries' adjustment to China's impacts	229
Table 10.1	Growth accounting for Chinese manufacturing sector, 1980–2000	240

Symbols used in tables

n.a.	not available
..	not applicable
-	zero
.	insignificant