East Asia in Transition:
Structural Change from NIEs to Potentially Bigger Market Economies and Regional Cooperation: A View from Japan[1]

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Abstract

Globalization is at a turning point. The world management system is moving from the G7 or G8 to G20. The US-born world financial crisis, on the one hand, brought out into the bright sunshine how large the risk was in the globalization, and on the other hand, rapidly increased the international voice of bigger emerging economies.

However, how does East Asian region cope with this new situation and what kind of regional institution does this area create as a regional entity so as to continue to grow? East Asia has during this period greatly changed its intra-regional economic structure. Entering this century, with China at the core of its economic integration, growing East Asian economies have attracted capital from all over the world. The author would like to call such emerging economies led by the BRICs as Potentially Bigger Market Economies (PoBMEs). However, economic integration pursued with PoBMEs is creating the possibility of a significant change in the international order that came into being after the Second World War of the 20th century. Regional cooperation and/or "East Asian Community" discussions appear to be one attempt to search for a framework for coping with this huge structural change inside the region as well as for preventing risks brought about by globalization. Japan should take not a small role for creating East Asian community through regional cooperation.

Keywords: BRICs, East Asian Cooperation, East Asian Integration, East Asia Community, Emerging Economies, Newly Industrializing Economies (NIEs), Potentially Bigger Market Economies (PoBMEs),

JEL Classification: F15, F55, F59, N75

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Introduction

The globalization, which has been strongly pushed since the 1990s, is at a turning point. Of course, we can only say that the direction to which it is heading is uncertain and is still being determined. However, what is clear is that the world management system is moving from a limited number of major advanced countries called the G7 or G8 to G20. The US-born world financial crisis after the Lehman shock of 2008, on the one hand, brought out into the bright sunshine how large the risk was in the globalization being advanced by the U.S., and on the other hand, rapidly increased the international voice of emerging economies as represented by the BRICs.

Incidentally, how do East Asian countries cope with this situation as a regional entity and what kind of regional institution do they create so as to continue to grow? With the Asian currency crisis of 1997 as a turning point, East Asia embarked on regional cooperation and institutionalization. However, there is a leadership struggle among regional members, especially between Japan and China, in forming a cooperation framework.

As a growth center of the world, East Asia, which has maintained high growth since the middle of the 20th century, has during this period greatly changed its intra-regional economic structure. With China at the core of its economic integration, a growing East Asia has attracted capital from all over the world. The author would like to call such emerging economies led by the BRICs as Potentially Bigger Market Economies (PoBMEs) in order to indicate an essence of their development. However, integration pursued with PoBMEs at the core is creating the possibility of a large change in the international and regional order that came into being after the Second World War of the 20th century. East Asia Summit and/or "East Asian Community" discussions appear to be one attempt to search for the mitigation of the risks brought about by globalization and the framework for coping with this huge structural change.

As of today, Japan's discussions on East Asia Community, on the one hand, evoke memories of the "Greater East Asia Co-prosperity Sphere" prior to Japan's defeat in the war, and, on the other hand, have a strong tendency to centering on considerations or dependence on the Japan-U.S. alliance framework of the post-war era. However, it is doubtful for Japan that the above structural change could adequately be addressed with such perspective alone. In the case of understanding East Asia Community discussions, thinking on multiple levels might be required. In this paper, the author would like to contemplate about the perspective that Japan should take in taking a closer look at the characteristics of East Asian structural change and East Asian cooperation and East Asia

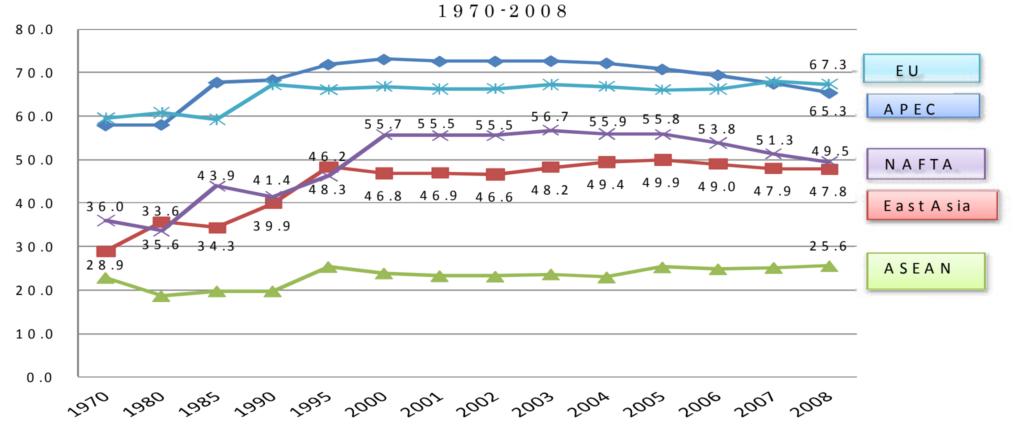
Community discussions.

2. Economic Integration and "East Asian Community"

East Asian Economic Integration East Asia has garnered attention as the world's growth pole for the past half century, starting from the high-growth of Japan in the 1960s, the Newly Industrializing Economies (NIEs) since the 1970s, major ASEAN members from the second half of the 1980s, and now spreading towards China and other countries since the 1990s.. The development of East Asia at the start had a particularly strong characteristic of being an export base to the U.S. market, and was realized under a Japan-NIEs-America triangular structure. However, since the 1980s, East Asia's tendency towards regional integration begun to show, and stand in sharp contrast to the institutionalized integration advanced in Europe and North America. It has been emphasized that East Asia's integration is de facto or "market-led type", even though entering this century there has been a boom of FTA signings among East Asian countries.

Incidentally, the intra-regional export ratio in 2008 was about two-thirds or 67.3% for EU, 49.5% for North American Free Trade Agreement (NAFTA), and 47.8% of East Asia (ASEAN4 + Japan, China, Hong Kong, Taiwan and South Korea). Adding the intra-regional import ratio, East Asia already surpasses NAFTA. East Asia's intra-regional trade ratio (exports + imports) in 2008 was 53.2%, more than the 40.0% for NAFTA. East Asia is growing as the economic zone next to EU's 63.9% (METI 2010).

Fig.1 Intra-Regional Export Ratio by Region 1970-2008



Source : cited from The World Bank (2005), World Development Indicators 2005, 2010. Ratios of East Asia since 2004 culcurated from JETRO's World Trade Matrix.

Having realized such development, East Asia, however, was struck a large blow by the Asian currency crisis that started in 1997 with Thailand as the epicenter. This prompted several adjustments in conventional development framework. One was the move of ASEAN+3 leaders towards the creation of the East Asia Free Trade Area (EAFTA). Another was the strengthening of institutionalization for regional cooperation, that is, the ASEAN+3 framework, and the setting up of East Asian Summit towards an "East Asian Community". This regionalist movement could be traced to the recommendations in the "Towards an East Asian Community" Report submitted to ASEAN+3 summit of 2001 by the East Asia Vision Group (EAVG), which was formally set up at the ASEAN+3 Summit Meeting of 1999, as well as in the "Final Report" submitted in 2002 by the East Asia Studies Group (EASG) created in the 2000.

As is commonly known, a Free Trade Agreement (FTA) implies a movement of the policy weight towards bilateral or regional FTA, which is basically in conflict with the liberalization of trade through GATT/WTO's multilateral trade system adopted by Japan and South Korea. In this connection, we adopt here the general meaning of FTA, as a terminology that would of course include in it the so-called Economic Partnership Agreement (EPA) of the Japanese government, which would cover not only trade but also such things as investment, migration, and government coordination.

Before the turn of the century in the East Asian region, there were only the Thailand-Laos FTA and the ASEAN's FTA (ASEAN Free Trade Area), which were signed in 1991 and 1992, respectively, and were authorized by GATT. The FTA related to the Northeast Asia region of Japan, China, South Korea, and Taiwan did not exist. AFTA was created as a policy of attracting foreign direct investments by ASEAN, which was conscious of China's growth.

However, there was a proposal from South Korea, which succumbed to the currency crisis in 1998, to Japan for a joint research regarding economic cooperation. This initiated the research on Japan-South Korea FTA. Singapore responded swiftly to this move, leading to the signing of the Singapore-New Zealand FTA of 2001 and the Japan-Singapore Economic Partnership Agreement (JSEPA) of 2002. On the other hand, when the currency crisis occurred, ASEAN pushed forward by one year the completion of the AFTA of the original six countries in the ASEAN summit at the end of 1998, and decided on its completion by 2002. Furthermore, there was a FTA proposal from China in 2000, the formation of which was agreed upon in the following year, leading to the effectuation of China-ASEAN FTA in 2003. Simultaneously, based on the recommendation by Singapore and Thailand, the East Asia Free Trade Area (EAFTA) was agreed upon to be a future objective in the ASEAN+3 Summit. There have been many FTA signings among East Asian countries since that time, the common characteristic of which is that ASEAN forms the core of FTA boom in East Asia.

East Asia Community and Economic Zone Discussion In January 2002, at the signing of the JSEPA, the East Asia Community initiative of then Prime Minister Junichiro Koizumi was Japan's counter proposal prompted by these events. However, the Koizumi proposal was different from the community of the ASEAN+3 in terms of member countries as it was a proposal of an "extended East Asian community" which included Australia and New Zealand. Incidentally, even with respect to economic integration, Japan proposed in the first East Asia summit of 2005 the Comprehensive Economic Partnership of East Asia (CEPEA), which included India and the above two countries. Currently, together with EAFTA, deliberation of the CEPEA continues. The holding of the first East Asian summit was decided in the previous year of 2004, where Australia and New Zealand, which were being pushed by Japan, and India, which in turn is thought to be pushed by Singapore, became members.

The Koizumi proposal smacks of countervailing the China-led community initiative based on ASEAN+3. The quarrel for initiative by Japan and China, while revolving around ASEAN, is also found in the community initiative and the formation of FTA. In 2009-2010, the "East Asia Community" of then Prime Minister Yukio Hatoyama, who upholds the "Yuai" (fellowship) thinking, gave a sense of the intention of objectively going beyond this countervailing relationship, although a concrete image of this thinking could not be formed and disappeared soon with Hatoyama's going out of power.

As is commonly pointed out, the mainstream of the East Asia Community should be considered as having started from the East Asia Economic Group (EAEG) advocated by former Malaysian Prime Minister Mahathir in 1990. Taking ASEAN + Japan, China, and South Korea as member countries, this proposal was renamed, although with no success, as the East Asia Economic Caucus, after strong resistance from such countries as the U.S. and Australia, which saw it as dividing the Asia Pacific Economic Cooperation (APEC) formed in the previous year. Although Mahathir's idea on regional cooperation failed, eventually, all East Asian political leaders, namely the ASEAN plus three leaders who were supposed to have participated in the failed EAEG, did gather in Asia-Europe Meeting (ASEM) in Bangkok in 1996. Moreover, the leaders of the same countries were invited again to the ASEAN summit of the 30th anniversary year of its establishment in 1997. This first ASEAN+3 summit was held right in the midst of Asian currency crisis, so that the leaders could make a decision of converting the summit into an annual regular meeting. At that time, the ADB as well as APEC had a coolheaded attitude towards Asian countries severely affected by the currency crisis. Ironically, however, this experience created the opportunity for East Asian political leaders to turn towards regional cooperation.

Incidentally, ASEAN adopted in 1997 the "ASEAN Vision 2020", which constructs the ASEAN community by 2020, and extolled its realization through the three communities of security, economic, and social culture. Furthermore, at the summit on the 40^{th} anniversary of ASEAN in 2007, the ASEAN charter and the roadmap for the construction of the community by 2015 were formulated. There could be no doubt that beyond this ASEAN community lies the East Asian community [Hirakawa 2008; Ishikawa, Suimizu, and Sukegawa 2009].

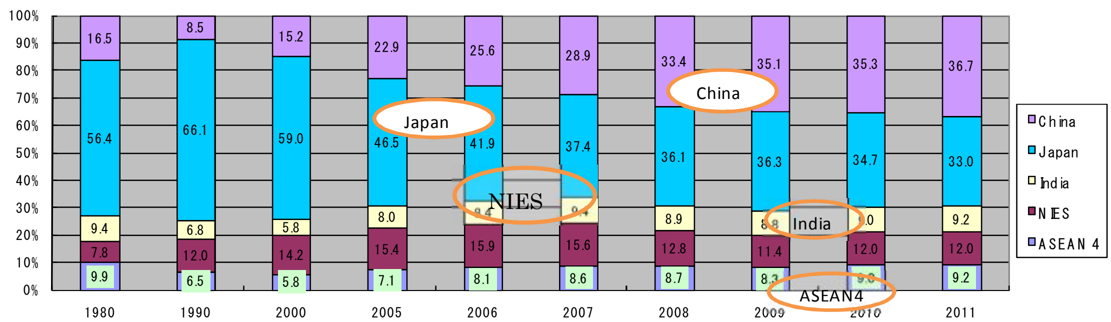
However, on the one hand, the reality of the Asian currency crisis fades away with time, and on the other hand, as the signs of China finally becoming a large economy become clear, Japanese sentiments would start being taken over by a kind of anxiety over the China threat and antagonism against China. China's behavior on the regional cooperation, seems to have caused Japan to have made counterproposals on the scope of members of East Asia Summit and regional FTA zones. The fifth East Asia summit recently held in Hanoi on October 30, 2010 invited Russian Foreign Minister and the US Secretary of State, who represented their respective president as special guests. Presidents of the two big powers that are outside East Asia will become official members of the summit, starting from the next summit.

Even more, in Japan, since the late 2010, the issue of participating in the Trans Pacific Strategic Economic Partnership Agreement (TPP) led by the US suddenly attracted attention, adding to the on-going discussions about the two existing regional FTA approaches. One approach is the EAFTA consisting of ASEAN+3 (Japan, China, and Korea), a joint research project, which has been undertaken in April 2005 on China's proposal, and a road map toward EAFTA has been proposed by China at the ASEAN+3 Economic Ministers Meeting held in August 2010. Another one is the Comprehensive Economic Partnership in East Asia (CEPEA) consisting of ASEAN+6 (Japan, China, Korea, India, Australia, and New Zealand), which was proposed by Japan in June 2007. A CEPEA concept paper prepared by Japan was submitted at the same ASEAN+3 Economic Ministers Meeting of August 2010. These moves could be understood as a quarrel for initiative. If so, there emerges the need for seriously considering once more the East Asia community and regional economic integration discussions, in these times when prospects are appearing for FTA to be more regional and less bilateral. Let us confirm this below.

3. East Asia's Structural Shift and Future Prospects

The Restructuring of East Asia's Economic Configuration In actuality, East Asia's economic configuration has shown large changes since the end of the 20th century. From IMF data, taking the combined GDP of East Asia (Japan, NIEs, ASEAN4) and India as 100, and looking at the configuration at a country/regional level for 1990 and 2010, Japan's share shows a reduction of almost half from 66.1% to 34.7%, while China grew by four times from 8.5% to 35.3%. Elsewhere, NIEs kept its share from 12.0% to 12.0%, ASEAN4 grew from 6.5% to 9.0%, and India from 6.8% to 9.0%.

Fig.2 GDP Share of East Asia and India 1980-1911



Note : Estimate for China's GDP of 2009-2011

Source :culculated fromhttp://www.imf.org

The East Asian countries catching up with Japan, in terms of economy, has been remarkable. Fig.3 shows the GDP catch up rate of the main East Asian countries and groups with Japan. The size of China's economy was only about one tenth in 1990. Even in 2005, it was just a half of that of Japan. However, its catch-up ratio increased in a straight line. Eventually, its size has surpassed that of Japan in 2010. Notwithstanding NIEs and ASEAN countries severely affected by the Asian currency crisis in 2007-08, there is a steady trend for them to catch up with Japan since the 1990s.

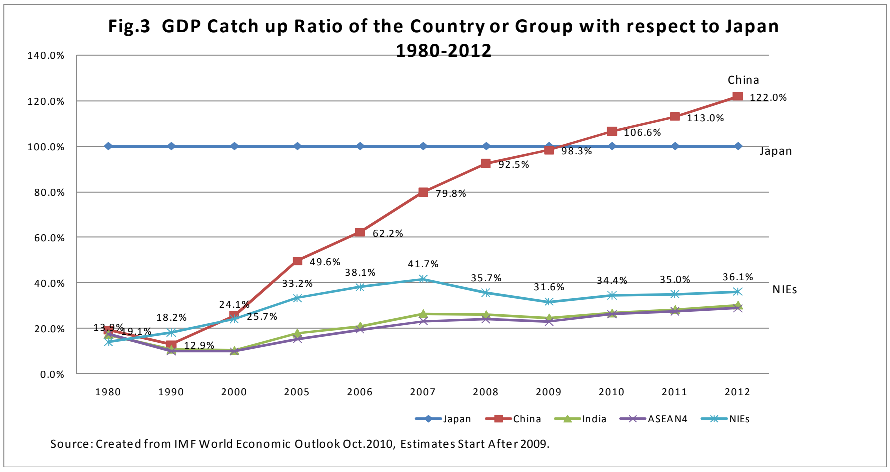


Fig.3 GDP Catch up Ratio of the Country or Group with respect to Japan 1980-2012

Source: Created from IMF World Economic Outlook Oct.2010, Estimates Start After 2009.

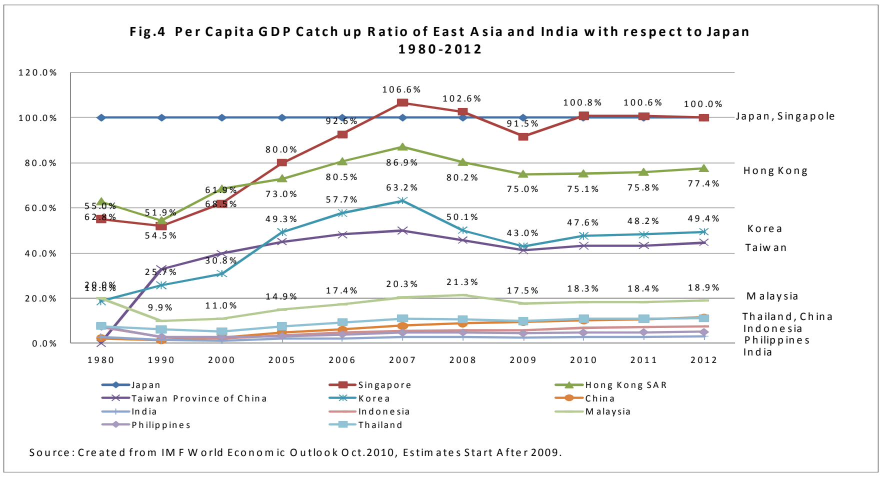


Fig.4 Per Capita GDP Catch up Ratio of East Asia and India with respect to Japan 1980-2012

Source: Created from IMF World Economic Outlook Oct.2010, Estimates Start After 2009.

Very roughly comparing the GDP per capita of East Asian countries/economies using Japan as reference, in 1990, Hong Kong and Singapore were more or less 50% that of Japan, Taiwan and South Korea were from 20% to 30%, and the rest less than 20%. In 2007-2008, Singapore surpassed Japan, while Hong Kong is 80%, South Korea and Taiwan about 50%, Malaysia over 20%, and the others below 10% though growing. Roughly looking at the economic growth rates, the highest growth rate is shown by China, followed by India, and then by the NIEs and ASEAN. In short, in East Asia, the NIEs have come to be shoulder to shoulder with Japan, followed by ASEAN. Embracing gigantic markets but at low levels of per capita GDP, China and India are finally getting into the process of pursuit. This means that East Asia's present pattern of development has a tremendous possibility of future development. While naturally raising serious issues such as environment and energy, this indicates that this region has a large economic possibility.

To be noted here is that the change in configuration of the past twenty years or so is the fact that Japan was the only one to reduce its share, and already is not the only power in terms of economic scale and its indicators of affluence. With regards to scale, China in 2010 has certainly surpassed Japan, and in terms of GDP per capita, Singapore has exceeded Japan's. Japan is hard pressed with revising the idea of it being an overwhelmingly advanced power, which it has enjoyed in Asia through the 20th century.

The Emergence of BRICs and Its Impact Incidentally, one of the words that suddenly appeared at the turn of the century was "BRICs", which was coined in 2001 by Jim O'Neil of the US investment bank, Goldman Sachs [O'Neil 2001]. He emphasized that with the rise as economic powers of the four countries of Brazil, Russia, India, and China, a reform is also necessary in the world's policy deciding forum. Thereafter, Goldman Sachs published papers related to BRICs in 2003, 2005 and 2007, where simulations were made about the future development of BRICs as well as the aspiring Next 11 countries. According to these simulations, in 2025, half of the world's 6 large economies will be occupied by BRICs [Wilson and Purushothaman 2003; O'Neill, Wilson et al. 2005; GS Global Economics Group 2007]. Here, countries among the N-11 cited as rivaling BRICs include South Korea and Mexico[2]. Even though these countries are small scale and would not have the same impact as BRICs, they are taken to be able to become rivals of G7 [O'Neill, Wilson, et.al 2005; Wilson and Stupnytska 2007]. The author calls such countries Potentially Bigger Market Economies (PoBMEs), for being economies that are eyed on by the enterprises of the world for their growth possibilities and potential. This concept is not a fixed set of countries but is flexible enough to include major emerging economies.

Through the growth of such BRICs-centered PoBMEs, what future could be drawn of the world's economy? The National Intelligence Council of the U.S., which has links with the national intelligence authorities and influence on U.S. diplomacy, in its 2004 report, considers the emergence of China and India as having the possibility of rivaling the unified Germany in the 19th century, and the sudden rise of America at the start of the 20th century. Also, in the 2008 year-end NIC report of "Global Trend 2025", it predicts that together with the advance of multi-polarization of the world into the

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2 J. O'Neill, D. Wilson et al. coined the Next 11 as a group that could potentially have a BRICs-like impact in rivaling the G7. The N-11 consists of Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam "Their common ground – and the reason for their selection – was that they were the next set of large-population countries beyond the BRICs" [O'Neill, Wilson et al. 2005:7; Wilson and Stupnytska 2007:2]. According to their selection, for example, Thailand, which now attracts attention in its industrialization from all over the world, is excluded. The 11 countries are not the only ones with bright prospect for development.

three economic quasi-blocs of the U.S., Europe, and East Asia and the rise of uncertainty, in the next 25 to 20 years much more developing countries would accept a state-centric model of China instead of a Western model based on markets and democracy [National Intelligence Council 2004; ditto 2008].

It is a blatant fact that the globalization that has been strongly pushed by the U.S. and international financial institutions such as the IMF has given rise to large disparities globally as well as locally. It is natural to have adjustments in the thinking and economic system which consider more or less the market as a placebo. Of course, the National Intelligence Council's focus is on the national security of the U.S., but it has shown extremely interest in the BRICs, starting with China. However, countries that could potentially develop are not limited only to these four big countries. Countries outside of BRICs are coming to grasp chances to catch up with the advanced countries especially on entering this century.

4. Shifting from NIEs to the PoBMEs Growth Model

NIEs and BRICs How should the development of the emerging economies as symbolized by BRICs be understood? Earlier, the author has used PoBMEs to refer to the emerging economies, symbolized by BRICs, which are now getting attention, but in order to look at their present characteristics, let us compare the Newly Industrializing Economies (NIEs), which realized growth in the developing region from the late 1960s to the 1980s. As given in Table 1, both groups have contrasting differences. The period of development is naturally different, while rapid industrialization of NIEs began from the late 1960s, attention on the BRICs is a relatively current phenomena. Needless to say, the size of their population is different. Moreover, trade dependence is high and the manufactured goods export share is extremely high in the NIEs. In contrast, the BRICs, excluding China, has a relatively low degree of dependence on trade and manufactured goods exports. The share of services trade in the exports of the 1990s was about the same or rather higher for the NIEs than for BRICs, but in terms of the shares in 2008, it could be seen that India beats the pack with its growing share. Now, nearly one third of the trade (36%) in India is in services trade. According to the World Bank, the share of computer information-related items in such services trade reached 72% in 2008 in India, which is quite high, compared to the 30 to 50% in the other economies of both groups. This would show that India was the fastest to take advantage of the business chance, which was brought about by two of the biggest characteristics of modern times: IT-ization and globalization. Incidentally, the share of China's service trade was lower in 2006 than in 1995, but this was the result of the high growth in goods trade. As for China's service exports, it should be pointed out that, in terms of absolute values, computer /information-related items have been growing at an extremely stable rate. While India's service exports of computer/information-related items in 2008 was $73,844 million, the figure for China was $65,461 million (WB 2010).

Table 1. Comparison of NIEs and BRICs: Population, Trade Ratio, Manufactures Export and Service Export Ratio

	Population (million)	Trade Ratio*			Manufactures Export Ratio**			Service Export Ratio ***	
	1970	**1970**	**1976**	**2008**	**1970**	**1976**	**2008**	**1995**	**2008**
Singapore	2.1	225%	252%	362%	31%	43%	70%	18%	20%
Taiwan	14.7	63%	90%	123%	79%	85%	99%	12%	12%
Hong Kong SAR	3.9	182%	183%	354%	93%	97%	83%	16%	20%
Korea, Republic o	31.9	38%	68%	92%	77%	82%	89%	15%	15%
	2000	**1995**	**2000**	**2008**	**1995**	**2000**	**2008**	**1995**	**2008**
Brazil	**170.4**	**16%**	**23%**	**24%**	**54%**	**59%**	**45%**	**11%**	**13%**
Russian Federati	145.6	44%	71%	46%	26%	22%	17%	12%	10%
India	1015.9	23%	28%	41%	74%	79%	63%	18%	36%
China	1262.5	44%	50%	59%	84%	88%	93%	11%	9%

Note: *Merchandise Trade/GDP
** Manufactures Exports/Merchandise Exports
***Service Exports/ (Merchandise + Service Exports)
Sources:Calculated by World Bank(2010) World Development Indicators 2010 and Council for Economi Planning and Development, Republic of China(2010) Taiwan Statistical Data Book 2010.

Incidentally, it is well known that China has realized high growth through the direct investments of advanced country firms focusing on cheap labor for manufactured exports. It is the same with the NIEs. Concrete figures will not be shown in this paper, but the NIEs from the 1970s to the 1980s and the BRICs since the 1990s were large recipient countries/regions of foreign direct investment from advanced countries. Making simple calculations from UNCTAD's statistics, NIEs as a group during the 1970s to the 1980s received the same size of direct investment as the billions of dollars received by the large countries of BRICs. However, since the 1990s, BRICs came to receive direct investment in the scale of several tens of billions, widely surpassing the NIEs. Actually, the NIEs, although with less population and smaller counties, had a share of 15.5% of total foreign direct investment inflows in developing area, and averaged 16.9% for 1991-96 (UNCTAD 1988). However, the share of BRICs for 2008 has reached 42.7%, greatly confirming a tendency of concentration of investment in the BRICs (UNCTAD 2009). There was a tendency of FDI concentration upon these areas in two different periods. As a matter of course, FDI in developing areas is not limited only to the BRICs. Although concentrated on BRICs, FDI also goes into the other PoBMEs.

Moreover, one main purpose of the present FDI on the BRICs is different from that of the NIEs. While a large part of the FDI in the NIEs was cheap labor-oriented for manufacturing exports, the FDI in the BRICs is domestic market-oriented as well as cheap labor-oriented, and more domestic market-oriented FDI has increased during the last two decades in the BRICs.

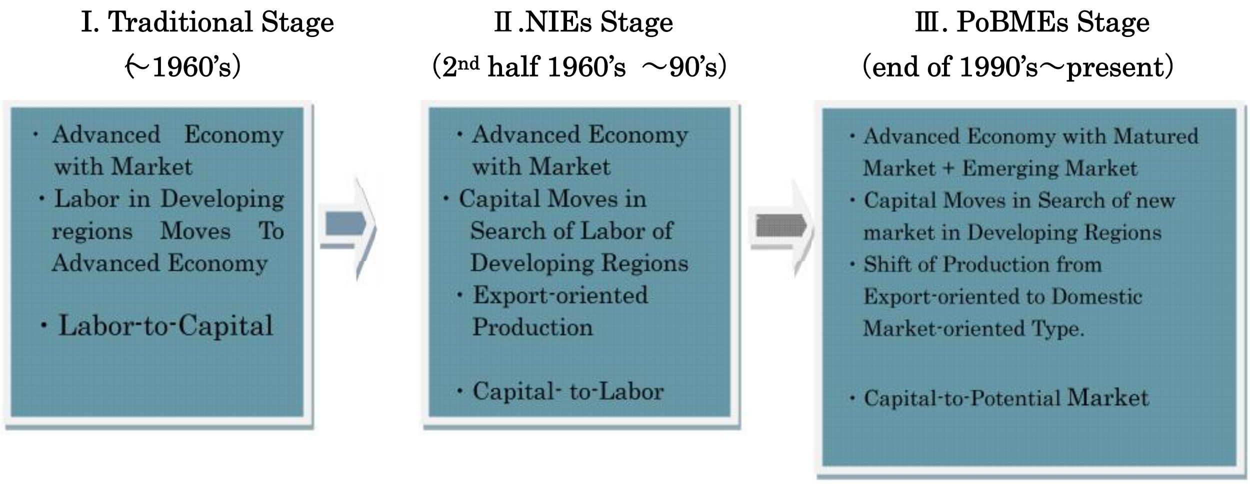
Here, it is noteworthy that growth of the BRICs has a close relation not only with foreign direct investment inflows and exports, but also with their development of the domestic economy. The White Paper of Japan's METI pointed out that middle-and high-income population in Asia, consisting of mainly China and other PoBMEs, will expand. The rest of Asia's middle-income population (excluding Japan) will more than double within the next 10 years, and its high-income population will exceed that of Japan within the next 5 years. Infrastructure development also promotes economic growth in Asia (METI 2010b:14 and 16).

The Changes of Stage of the Spatial Relationship Among Capital-Labor-Market

Why would capital concentrate now on the PoBMEs, particularly BRICs? In order to explain that, first let us try to map the changes in direct investments from advanced countries as it shifts from the NIEs to the PoBMEs in terms of the spatial changes in capital, labor, and market. This is shown in Figure 5. If we take the period up to about the 1960s as the traditional stage, the relationship between a typical manufacturing firm (capital) and labor is one where labor seeks for a job and moves toward capital-abundant advanced countries so that market and capital were thought to be spatially the same. However, at the stage of the NIEs since the second half of the 1960s, the flow reverses its direction. Firms themselves, in search of low wages, move to the NIEs, from which locally produced products are exported to the advanced countries. This was the materialization of the export-led development in the NIEs. This showed a move of globalization whereby the production process of advance countries had been divided, but ultimately the market was in the advanced countries.

However, since the 1990s, the entry objective of capital started to shift from exports to the acquisition of investment destination markets. More than competing in an existing market, the objective of securing a potential market is added. This is the stage of the PoBMEs, wherein the BRICs is in a central position. Summarizing the above relationships, there is a shift from the traditional stage of Labor-to-Capital, to the Capital-to-Labor-stage of the NIEs, and finally to the Capital-to-Potential-Market stage of the PoBMEs.

Fig.5 Transition of the Capital-Labor-Market Relationships
: A Conceptual Chart



Note: More accurately, investment eyeing the local market in the traditional import substitution stage is between Stages I and II.

Source: by author (Hirakawa 2009).

But, why should the PoBMEs be so-called large countries? That is because of the competition in entering potentially bigger market resulting from capital confronting the limits of advanced market economies. The absolute existence of excess capital cannot be denied. Even though the globalization of capital is behind this, it is necessary to minimize the accompanying currency and institutional risks. If there would not be any risks associated with globalization, capital or firms could invest, beyond advanced countries, in developing countries regardless of population scale. The preference towards large and high-potential countries/economies as more stable investment destinations is unavoidable. With their large populations and high rate of sustained growth, China and India are classic examples of Asian economies that have become a central investment destination for capital attracted by the potential of these economies. This situation could easily turn these countries into risky bubble economies on the one side, but it gives them the potential of further development on the other side.

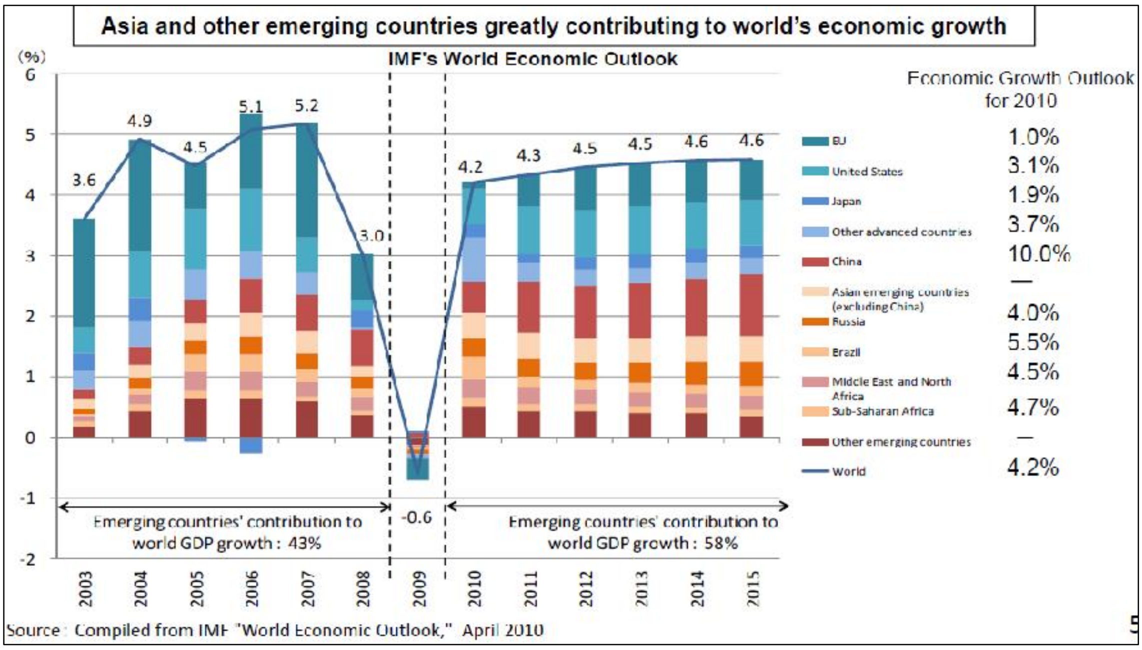
According to the survey of firms operating overseas done by the Japan Bank for International Cooperation (JBIC) and JETRO, since the 1990s, China was on top of the list of hopeful investment destinations chosen by firms for the medium- to long-term, but entering this century, the other BRICs as well as Thailand and Vietnam came to be additionally cited. This would superbly show the feature, where the PoBMEs, as symbolized by the growing BRICs, are currently starting to be recognized as the core market of firm activity.

Decoupling (Uncoupling) Thesis and the PoBMEs There is of course no assurance that all will succeed for the PoBMEs. However, the important point here is the fact that, as we have seen, the world is going through a great structural shift, and the economies of these countries are rapidly returning to a growth trajectory even as they are affected by the world financial crisis. In no time at all, by the summer of 2009, the PoBMEs of East Asia have returned to a V-type of business cycle recovery. In August 2009, the Economist called this recovery as an astonishing rebound [The Economist, Aug.13, 2009]. For example, it was predicted that China's sale volume of new automobiles at the start of 2009 was going to be 9.30 million units, but eventually the actual units sold was 13.64 million, surpassing and displacing the U.S. as the world's number one market. In 2010, that number reached 18.26 million units [China Association Automotive Manufacturers, Automotive Statistics, Jan.21, 2011]. According to UNCTAD's global Investment Monitor of January, 2011 on the estimate, developing and transition economies, for the first time, received more than half of global FDI flows, which was $595.3 billion against $526.6 billion of advanced economies. Net cross-border M&As volume for developing economies rebound double from $39.1 billion in 2009 to 85.1 billion in 2010 (UNCTAD 2011).

By using the IMF estimate, METI's White Paper of 2010 wrote that, as Figure 6 shows, Asian emerging economies and China increased their contribution to world's economic growth. Comparing the situation before and after the global financial crisis that started with Lehman Shock, the emerging countries share jumped from 43% to 58%.

The decoupling thesis was a discussion point cited by the IMF as an argument in the 2007 issue of the "World Economic Outlook", which pointed out the weakening of the correlation in the business cycles of the U.S. and Asia. In response to this, the Asian Development Bank made a skeptical argument against such thinking, referring to the "uncoupling myth". Even with the increase in intra-regional trade, Asia at the end still has a strong dependence on the U.S., and links through financial relationships with the U.S. are getting even stronger. The correlation is qualitatively not weakening [ADB 2008].

Fig.6 Contribution to World's Economic Growth by Country/Region 2003-2015



Source: METI (2010b:10).

However, East Asia has betrayed the expectations of such specialists, and is moving dynamically. The world is shifting towards a structure that is more and more dependent on the growth of the PoBMEs, with China at the top of the list. After all, the world financial crisis remarkably rejected the "uncoupling myth" discussion that was getting attention prior to the crisis.

5. East Asia Community and Japan's Policy

In the present global financial crisis, it could be said that East Asia instead has been provided with an opportunity to develop. East Asia ironically is expected to have more development by firms of advanced regions. Foreign firms of advanced- and middle advanced countries invest more capital in PoBMEs centering on China, which in turn develop their economies. This advances regional integration further, and regional market comes to be created as wealthier people appears.

Incidentally, despite the fact that the PoBMEs' development is taking place within a deep relationship with advanced economies, this has prompted a restructuring of the international society. In particular, the development of the BRICs unlike the NIEs literally is the emergence of large countries. In East Asia, the recovery from global financial crisis would proceed from a structure wherein Japan was a dominant economic power to a structure wherein China is pivotal. China became second largest GDP economy surpassing Japan in 2010. The regional cooperation that is in this process of structural change is a particularly important issue for affluence and peace.

The need for an East Asia Community lies of course in the avoidance of a re-occurrence of a currency financial crisis, but also lies in the cited emergence of so-called non-traditional security problems such as the frequent occurrence of large-scale natural disasters, new types of influenza, and international crime [Shindo and Hirakawa 2006]. In contrast, there are counter arguments against the arguments for the community, with regards to diversity in economic level and cultures of East Asia, differences in values and political systems, the China threat and lack of trust among Northeast Asian countries, and the necessity for a Japan-U.S. alliance. However, as the author has pointed out in this paper, it could be said that the region is now confronted with the question of how to cope with the huge structural change of the world economy. With this process of change, how could this region develop while maintaining affluence and peace? The framework for coping with this issue is regionalist, and requires the strengthening of regional economic cooperation. An institutional framework would be necessary that seeks trust not conflict. In this connection, Japan’s community approach has preferred to help the U.S. to participate in the framework of regional cooperation to having a trusting relationship with China. Certainly there is a risk of China now due to its being one of the biggest and fastest growing countries in the world. As nationals and leaders gain confidence in themselves as an economic power, they assume a bolder attitude at times. However, Japan is not such a small country. Supporting regional development, and strengthening the regional framework of cooperation, Japan could help to create a more balanced Asian society.

As was suggested from the outset of this paper, the flow of events with regards to the East Asia community and economic cooperation does not emanate from Japan. It has developed with ASEAN as an axis. Even though it goes without saying that the relationship with Japan’s past is extremely important, there are objective conditions which cannot begin and end with that. At the same time, instead of building antagonistic and/or hegemonistic approaches towards China, Japan should advance its regional policy beyond the 20th century way of thinking. It seems that time has gone beyond the 20th century and is moving forward. Structural shift in terms of economic power of this region calls upon Japan to strengthen economic cooperation inside the East Asia region.

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