

JAPAN AND CONTEMPORARY ASIAN FINANCIAL REGIONALISM. WHAT'S THE NAME OF THE GAME?

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Abstract

Financial regionalism has become a trigger of Asian regionalism in the 90s. Japan utilized its economic, and financial potential to play an active role in the region in the face of financial crisis 1997-98, attempting to build prestige and support emerging regional frameworks as a leader and institution – supplier. The paper is studying Japan's financial regionalist policy since the 90s through the prism of intra- and extra-regional rivalry over leadership with, respectively, China, and the United States. An analysis is centred around the project of Asian Monetary Fund, announced by Tokyo in the wake of Asian financial crisis, however, blocked by the United States, and, to some extent, China. As a consequence of the global crisis 2007-2009, Chiang Mai Initiative has been multilateralized in the form of a single financial contract. Again, a debate on the Asian Monetary Fund project has been resumed. Finally, recent Asian Infrastructure Investment Bank project by China is addressed. The paper is an attempt to study the evolution of Japan's policy towards financial regionalism to understand hegemonic aspirations of Japan, while considering conflicts of interests of Tokyo, Beijing, and Washington. A theoretical context is drawn basing on financial regionalism and hegemonic stability theories.

Key words: Japan, Asian financial regionalism, hegemonic stability theory

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Introduction

Japan used to be active in the field of financial regionalism, starting with the late 50s, therefore, acted as initiator and supplier of financial regionalist projects in Asia.

In November 1954 Japan's prime minister Yoshida Shigeru submitted a proposal of Asian Marshall's Plan to his American partners during the meeting in National Press Club in Washington, in March 1956 ministry of finance in the administration of Japan's prime minister Hatoyama Ichirō - Ichimada Hisato, announced an initiative of the Asian financial agency in order to assist Southeast Asian states in economic transformation to his U.S. partners in Washington. However, both aforementioned concepts, centered around development assistance of the United States, then, not addressing Asian regionalism explicitly, were rejected. Apparently, the U.S. unfavorable stance towards regionalist

initiatives tend to discourage Tokyo's activeness. Furthermore, Japan's hegemonic ambitions often distorted attempts to enter regional frameworks provided by rival states due to will of occupying the central position.

Among major Asian regionalist financial frameworks involving Tokyo, namely Asian Development Fund (ADF, 1957), Asian Development Bank (ADB, 1966), Asia Pacific Bankers' Club (APBC, 1981), Executives' Meeting of East Asia and Pacific Central Banks (EMEAP, 1991), Japan – ASEAN Finance Ministers' Meeting – Japan (ASEAN FMM, 1994), Four/Six Markets Group (1992/97), APEC Finance Ministers' Meeting (APEC FMM, 1994), Asian Monetary Fund (AMF, 1997), ASEAN+3 Finance Ministers' Meeting (ASEAN+3 FMM, 1999), Asian Infrastructure Investment Bank (AIIB, 2014), only APEC FMM and AIIB were not proposed or provided, at the initiative of the other states, by Japan. Among major government agencies engaged in regionalist financial projects there were Ministry of Finance (MOF) and Bank of Japan (BOJ).

Unprecedented dynamism of Japan's regional diplomacy in the field of financial regionalism has been observed in the 90s, with special regard to the wake of the Asian financial crisis 1997/98. AMF project, formerly opposed by the United States and China, gained new impetus in 2009 in the face of multilateralizing Chiang Mai Initiative (CMIM) to strengthen regional response to global crisis 2008+, so as establishing ASEAN Plus Three Macroeconomic Research Office (AMRO) in 2011.

AIIB project, announced by China's government in November 2014, has been already joined by 57 states from Asia, Europe, Latin America, Africa and Middle East, however, has been challenged by unfriendly, even hostile reponse of Japan and the United States.

Author would like to concentrate studies on the post global crisis 2008+ period, then, to follow recent discussions around AMF, and AIIB – both from the perspective of Tokyo, challenged by hegemonic ambitions of Beijing in East Asia, so as Washington's influences in the Asia-Pacific.

Theoretical frameworks embrace theories of financial regionalism and hegemonic stability.

1 Theoretical frameworks

1.1 Financial regionalism

It should be noted that there is no cohesive definition of financial regionalism, however, two major types of financial regionalism, following Hamanaka, should be pointed out.

The first is the financial or macroeconomic forum or meeting engaging regional states. Financial forums enable to exchange information among representatives of regional financial authorities in regular manner. Significant role is played by regional macroeconomic surveillance forums as platforms of dialogue around market, financial data, critical in the context of policy coordination and peer pressure. Such meeting may involve senior, deputy or deputy-deputy level of ministries so as directors of national central banks. Undoubtedly, engagement of institutional apparatus gives an opportunity for constructive discussion and provision of reliable commitments.

The second type of financial regionalism is the regional financial arrangement engaging two, or more states. An idea behind is usually pooling financial resources for the purposes of mutual support if necessary. It may manifest itself in the form of regional development bank, or monetary fund. Bilateral swap or repurchase agreements, that cannot be found as emanation of regionalism as such, may be multilateralized into a single contract, framework to shield some actions against adverse effects of financial turbulences. In order to secure individual contribution so as repayment of loans, such regional financial frameworks are usually accompanied by macroeconomic surveillance mechanism to monitor each country's performance and implementation of supported projects.

Aforementioned two types of financial regionalism imply substantial financial contribution of the dominating state, either addressing intellectual dimension of talks within regional financial forums/meetings, so as material shares in the financial framework's budget.

1.2 Hegemonic stability theory

Hegemonic stability theory (HST), originated in the studies by Kindleberger, points out the importance of a stabilizing state, namely, a hegemon that is powerful enough to deliver international shared goods such as international organizations (World Bank, GATT etc.) or economic order [Kindleberger, 1973, 305]. As it was argued by Russett, nor benefits, or costs for hegemon, resulting of establishment of a new international institution, should be neglected.

Addressing controversies around HST, critics ten to claim that hegemon may govern the institution instrumentally to secure and expand its own material potential, imposing the rules on the other states, charging them with quasi-taxes. For instance, International Monetary Fund (IMF) used to be criticized for subordination to the United States' political, economic, and financial interests, manifested, among others, through quota shares, and effective veto rights assigned to Washington.

The other side of the same coin, however, embraces various costs borne by hegemon as a result of establishing international financial institution. Hegemon, as the leading state within the framework, is expected to provide short-, mid-, and long-term capital in the form of loans, swap lines, and foreign investments. Therefore, financial regionalism is expected to impose concrete, tangible economic and financial liabilities on hegemonic state, that cannot be ignored by critics.

As stated by Hamanaka, an important intangible aspect of hegemonic position is prestige gained by dominating state [Hamanaka, 2010, 18]. Following Morgenthau, establishing international institutions, organizing and hosting summits, and official meetings, strengthen hegemon's prestige, so as economic contribution, thus, prestige gains are not necessarily accompanied by material gains of a hegemon [Morgenthau, 1978, Chapter 6].

It should be noted, however, that regional hegemons, acting on the behalf of the other member states at the international level, gain additional prestige. When considering financial regionalism, costs of acting as stabilizer might be partially shared with the other members through national contributions to regional support facilities, reserve funds etc.

2. The Asian Monetary Fund

2.1 Episode of 1997

The project of the Asian Monetary Fund (AMF), officially announced in May 1997 by deputy ministry of finance of Japan, Sakakibara Eisuke, has been discussed since 1995 in response to Fraser's concept of establishing Asian-type Bank for International Settlements (BIS). A year later, working group on regional monetary fund has been formed within Institute for International Monetary Affairs under the auspices of MOF. In the wake of 1997, draft of the AMF was ready, however, official presentation at the international forum has been postponed due to concerns about the reaction of the Asian states, with special regard to South Korea and Taiwan, pretty reluctant to Japan's regionalist initiatives that time. Interestingly, delayed AMF's „world premiere“ planned for May 1997 during annual ADB meeting in Fukuoka, took place only few weeks later when financial crisis hit Thailand. Anti-crisis meeting held in Tokyo on 11th August resulted in announcement of rescue package of USD 1,72 billion, pooled by Japan, in cooperation with Australia, Brunei, China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea, Asian Development Bank, International Monetary Fund, and the World Bank.

Noteworthy, aforementioned support facilities excluded engagement of the United States, that resigned of exercising their hegemonic position in the region, while attending Tokyo meeting. Unofficially, positive stance towards rescue fund by the U.S. Department of State and National Security Council has been challenged by budgetary obstacles [Blustein, 2001, 79].

The U.S. absence, combined with the Asian unity against crisis were found by Tokyo as favorable circumstances for official presentation of the AMF project. According to assumptions, new Asian financial institution engaging Japan, Australia, Brunei, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, and Thailand, was expected to accumulate facilities of USD 100 billion, then, as many as a half of the IMF's resources, with Tokyo's contribution at the level of USD 50 billion [Wang, 2000, 207]. The latter, because of duplication of IMF's institutional mechanism, would translate into domination of Japan in the voting system, while fully excluding the United States. Formally, Washington was not invited due to lack of contribution to Thai rescue package, however, both Brunei Darussalam and Philippines, that lacked any shares too, were provided with AMF membership proposal.

Then, it appeared that Japan found the US passivity as a perfect excuse to exclude Asia-Pacific hegemon from regionalist financial framework. The problem that hasn't been addressed that time was the institutional link with the IMF.

In September 1997, deputy ministry of finance of Japan, Eisuke Sakakibara proceeded with the formal consultations in Australia, China, Hong Kong, Indonesia, Malaysia, Singapore, and South Korea, gaining official support of the Northeast Asian neighbours, so as ASEAN¹. This has induced an unprecedented dynamism of bilateral diplomatic tensions between Tokyo, and Washington. In the late September US Department of Treasury and Department of State expressed disappointment and resistance against Japan's project. During the working meeting on 21st September under the auspices of Sakakibara, ASEAN, South Korea and Japan officially supported AMF project, the U.S. and IMF representatives opposed it, while Australia and Hong Kong remained neutral. Noteworthy, China kept silent.

Even though the U.S. formally expressed concerns over doubling IMF's structures and moral hazard, unofficially were afraid of strengthening position of Japan in case of successful completion of AMF project. Moreover, AMF excluded the U.S. membership, in contrast to Bergsten's concept of the Asia-Pacific Monetary Fund proposed at bilateral basis in September 1997. On the other hand, Japan tend to avoid Washington as long as possible while

¹ ASEAN members are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Burma/Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

being aware of its negative stance towards the project, consuming any opportunity to gain appreciation and support of the Asian states.

Aforementioned China's silent stance towards AMF has been recognized as resistance against rising hegemonic position of Tokyo, in favor of the Washington's perspective. Consequently, while many Asian states formally supported Japan-led regional project, risking deterioration of relations with the U.S., China stood unofficially shoulder to shoulder with the North American power, at the expense of intra-regional cooperation.

As a result, AMF seemed to be „buried alive“. Among major errors committed, observers pointed out a lack of cooperation between Ministry of Finance and Bank of Japan, so as resignation from gradual approach towards establishing regional frameworks, coming down to creation of a low profile institution to advance it progressively. Many experts found MOF's project as a new concept of regionalism excluding the U.S., however, it hasn't been recognized as innovative and well prepared. Potentially, this inspired scepticism both in Washington and BOJ.

2.2 Episode of 2009

Asian Monetary Fund was back on a stage in the early 2009, when finance ministers of ASEAN Plus Three countries (ASEAN Plus China, Japan, and South Korea), realizing potential implications of the global crisis 2008+ on the Asian region, agreed on establishment of a regional foreign reserve pool of USD 120 billion – Chiang Mai Initiative Multilateralization (CMIM), that replaced regional network of bilateral swap arrangements with a single pact. So called „Plus Three“ countries contributed 80 percent, while ASEAN – remaining 20. Noteworthy, Japan, and China contributed USD 38,4 billion each, while South Korea – USD 19,2 billion. Both Hong Kong's shares in the Chinese pool, so as Sino-Japanese presence in CMIM under equal terms has been found as symbolic, so as distressing for Washington, being aware of rising regional economic and political hegemony of Beijing.

Successful establishment of a single regional monetary pact induced concerns over diminishing influences of IMF in the region, and, consequently, creation of alternative regional institution, namely AMF. Following Eichengreen, even a short-term liquidity problems of signatory states will perspectively attract attention of the Asian foreign reserve pool, while marginalizing IMF [Eichengreen, 2009].

Aforementioned U.S. concerns over CMIM were heavily focused on growing regional influences of China, affecting delicate geopolitical balance in the region. On the other hand, China, together with South Korea, shared aversion to Japan's leadership aspirations, thus,

Beijing seemed to stand shoulder to shoulder with very close US ally, currently linked through bilateral FTA with Washington. However, in contrast to 1997, this time Beijing appeared to challenge the U.S. influences within the region, while the Tokyo's potential has been successfully offset through Sino-Japanese co-existence under CMIM. According to Glaser, and Murphy, diplomatic „charm offensive“ of Beijing was oriented on reassuring Asian neighbours as to the peaceful motivations of emerging regional hegemon [Glaser and Murphy, 2009].

The problem that arised again, just like in the late 90s, was a lack of independence from the IMF due to the fact, that 80 percent of the amount available was to be disbursed only if the borrowing country agrees to an IMF program. So called „IMF link“ neutralized to some extent Washington's concerns, and solved the problem of a lack of regional surveillance mechanism. As Henning stated, CMIM was expected to be a parallel line of defense, of secondary importance to IMF. However, ASEAN Plus Three finance ministers declared willingness to enlarge IMF de-linked portion of a fund in the future, moreover, in 2011 ASEAN Plus Three Macroeconomic Research Office (AMRO), expected to function as regional surveillance mechanism, was established in Singapore. Interestingly, China's reluctant stance towards rigorous monitoring regime and interference in domestic affairs through AMRO made the role of the latter pretty ambiguous. An idea behind CMIM that time was to make it complementary than the substitute to IMF. China seemed to be significantly awarded with the Strauss-Kahn – former director of IMF's declarations regarding increase in the poll of votes at the forum of organisation so as explicit recognition of Beijing's, to a lesser extent its Asian neighbours', importance at the global stage. Thus, IMF attempted to manifest evolution of its approach towards Asian partners into more open, respectful, and friendly.

Summing up, AMF's episode of 2009 induced speed up in regional monetary cooperation to build foundations of the Asian bloc, however, due to dominant voice of more and more powerful Beijing, Tokyo's aspirations were replaced with realist, pragmatic approach to CMIM, that apparently transformed Japan's diplomatic perspective from less offensive to more adaptive.

Again, Japan-backed project of AMF seemed to evaporate from debate due to conscious policy of Beijing, however, that time, the latter found itself powerful enough to provide regionalist financial project of a high-profile institution, namely Asian Infrastructure Investment Bank (AIIB).

3. The Asian Infrastructure Investment Bank

3.1 Short history so far

The Asian Infrastructure Investment Bank (AIIB) has been proposed by Chinese president Xi Jinping and prime minister Li Keqiang during a series of visits in the Southeast Asia in October 2013. According to declarations, new multilateral development bank was expected to promote interconnectivity, and regional economic integration, while being complementary to already existing financial institutions, namely Asian Development Bank (ADB), International Monetary Fund (IMF), so as the World Bank. Noteworthy, the latter three institutions were traditionally found by China's government as dominated by Western interests, centred around Washington, Western Europe and, Tokyo².

AIIB was expected to be a modern knowledge-based institution, focused on development of infrastructure, and productive sectors of Asia, including transportation, energy, telecommunication, rural infrastructure, water supply, sanitation, environmental protection, urban development, logistics etc. As it was stated, AIIB project was based on experiences of development banks, and private sector, assuming „lean, clean, and green“³ nature of the framework [The Asian Infrastructure Investment Bank, 2015].

Following Asian Development Bank Institute Report 2010, Asian region requires approximately USD 8 trillion for infrastructure projects to continue economic development, then, China-backed regionalist financial project with registered capital of USD 100 billion may be found as valuable contribution to regional strategic investments. Noteworthy, China's project has been welcomed by the World Bank chief as a powerful instrument of fight against poverty in Asia.

Next few months passed under the sign of bilateral, and multilateral consultations, and discussions over key principles and core issues concerning new, China-backed financial institution. Till October 2014, 22 Asian states signed a Memorandum of Understanding to establish AIIB, Beijing has been chosen as the location of headquarters. Three rounds of discussions among Prospective Founding Members (PFM) took place between November 2014 and late March 2015 in China, India, and Kazakhstan. According to formal statement by Chinese authorities, AIIB project should be finalized and enter into force till the end of 2015.

3.2 Membership issues

² For instance, till the end of March 2015, China possessed only 5,47 percent of votes in ADB, while the U.S., and Japan 13 percent, respectively.

³ Lean stipulates small efficient management team; clean equals lack of tolerance for corruption; green means respect for environment.

Till 15th April 2015, 37 regional, and 20 non-regional countries decided to enter the project, including, among others, ASEAN members, Australia, India, Iran, Republic of Korea, Russian Federation, Qatar, United Arab Emirates, so as Brazil, Germany, France, Great Britain, Poland, South Africa, and Egypt.

Noteworthy, Japan, so as the United States declared accordingly, that under the current circumstances AIIB project does not address high standards of governance, so as environmental, and social safeguards, therefore, both Tokyo, and Washington expressed explicitly no interest in membership.

Both US, and Japan's optics seem to be ambiguous, especially when considering AIIB membership of close allies of Washington, ie Great Britain, Australia, New Zealand, India, Israel, and South Korea. The White House officially declared respect for those decisions, however, expressed a hope, that membership of countries such as Great Britain will help to push for adoption of high standards. Unofficially, the U.S. authorities felt dissatisfied, and angry. Worth mentioning, UK's decision to enter AIIB on 28th March 2015, was followed by West European powers, namely Germany, France, and Italy on 1st and 2nd April, respectively. Consequently, 14 EU members already joined China-led bank, including Poland – Central European strategic ally of the U.S. Interestingly, Hong Kong's representatives attended the third Chief Negotiators' Meeting held for Prospective Founding Members (PFM) in the late March 2015 by joining the delegation of China, however, official status will be determined after completing the negotiations. Similarly, Chinese Taipei hasn't been accepted so far without indicating any reason, however, Beijing declared to keep the door open for the future membership of Taiwan.

From the Japan's perspective, that appeared to be consistent with the U.S. stance, AIIB was found as an instrument of expansion of the China's soft power within the region, that potentially challenge Washington's and Tokyo's influences. However, official Tokyo's statement seems to be inconsistent. In March 2015, after the statement of Japan's ambassador to China, Masato Kitera, that Tokyo's membership in AIIB is likely, Chief Cabinet Secretary Yoshihide Suga unequivocally denied this fact. According to Suga, Japan is truly concerned, whether AIIB will be properly governed, and not damage other creditors [Yahoo!News, 2015]. As mentioned above, a key regional rival of AIIB is ADB, dominated by Tokyo's interests.

As a consequence of a lack of China's response to Japan's (so as the U.S.) concerns, Suga declared, that Tokyo is no longer considering AIIB membership. The latter statement

has been confirmed by the Japan's prime minister Shinzō Abe, who argued, that Tokyo doesn't need to enter new regional bank.

Conclusion

Asian financial regionalism gained an impetus again, being boosted by international financial, and economic turbulences, and a threat of regional contagion after 2008, similarly to 1997-98. As a consequence, regional states manifesting hegemonic ambitions, namely, Japan, and China, tried to supply new regional frameworks addressing the needs and concerns of the neighbours. This has been found as a source of significant costs, related to financial contribution of the founding country to the institution, so as political prestige, when considering higher-profile regionalist financial projects, such as regional monetary fund or development bank.

AMF episode of 1997 demonstrated Tokyo's hegemonic ambitions, that were successfully managed, and offset by explicit U.S. resistance, so as China's silent stance. CMIM contract was expected to pave the way towards AMF's resurgence, however, that time under equal contribution of Tokyo, and Beijing. Further talks over CMIM's governance, IMF link, so as AMRO's agenda have been heavily influenced by Beijing's optics of non-interference that made the surveillance system partially unspecified. Two years after establishing AMRO in Singapore, China proved to be ready, both in political, and economic terms, to provide its own bank to challenge ADB, IMF, and the WB, dominated by the Japanese, West European, and the U.S. influences, and interests. Nearly all Asia, so as a part of Far and Middle East, and Europe decided to join China's project of AIIB, while Washington, and Tokyo – two most powerful absent parties, seem to „turn their backs“.

The second type of financial regionalism defined in point 1.1, addressed by Japan's project of regional monetary fund (AMF) for the purposes of liquidity provision under critical circumstances, may be overshadowed by China's project of regional development bank (AIIB) focused on realization of the long-term development goals and integration of the Asian region. Interestingly, both regional financial frameworks were ignored by Washington, however, „critical tone“ of the U.S. voice seem to be less rigorous these days, when facing China's attributes, and ambitions, than in the late 90s, when Japan's AMF has been blocked. This time, Washington's aversion and negative stance towards proposal of a new regional institution does not discourage the founder – namely, China – so as tens of states, including close allies of the U.S., to proceed with the project.

Japan, standing shoulder to shoulder with the U.S., seem to be a little bit confused, and lost in the Washington's rhetoric, that got used to follow.

Following HST, China appears to test its hegemonic potential through provision of substantial contribution comparable to Japan's when proposing AMF, institutional facilities, and headquarters located in Beijing to host numerous political leaders from all the continents discussing on development projects that pave the way towards Asian's bright future. Prestige gains, so as significant geopolitical rebalancing in favor of China both at the Asia-Pacific, so as mega-regional scale is just a matter of time.

The only thing Japan is able to do now is not to challenge, confront, but to adapt and reorient to pragmatic, cooperative patterns of regional diplomacy towards China.

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