

THE ROLES PLAYED BY CHINA AND JAPAN IN THE ASIAN INTEGRATION PROCESS

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Abstract

Both a result and an active constituent of the globalization process, the Asian economic integration is characterized in the literature as dynamic, flexible and pragmatic. The ASEAN+6 “construction” and particularly China and Japan play leading roles in the regional integration process, due to their networked participation at regional and global value chains and also trade, investment and technology flows. Nevertheless, the rise of “Factory Asia” encounters many obstacles, including the gradual erosion of competitive advantages, increasing complexity of global production networks and an incipient re-shoring movement.

Having in mind the actual opportunities and risks that arise for the Asian integration, the present paper has a threefold objective: (1) to outline the Asian integration state of the art in the context of global changes and challenges; (2) to illustrate that China and Japan are both partners and competitors and they occupy a distinct place in the regional economic order not only by means of roles played in trade in value added, but also if we consider their stance toward the integration process as compared to their neighbors; (3) to underline that, although a deep partnership between China and Japan is still difficult to conceive, due to their common historical background, this would be the most fruitful path to face up to the global challenges and concurrently to invigorate the regional integration up to the stage of the “New Factory Asia”.

Keywords: economic integration, global production networks, trade in value added, China, Japan, factory Asia, Regional Comprehensive Economic Partnership (RCEP).

JEL Classification: F14, F15, F21, F23, F59, L23.

1. Introduction

The Asian economic integration is characterized in the literature as dynamic, flexible and pragmatic, “institution-light” and gradual, from confidence building to incremental association forms. These governing principles of the Asian regionalism outline the “Asian Way” (Capannelli and Tan, 2012, pp. 7-9), having at its heart a number of actors which changed their roles over time.

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There are three main motivations for having chosen this research topic. *First*, Asia's rise on the global stage was distinctive. In the '50s, this region, alongside Latin America and Africa started to integrate in the world economy from similar development levels. Progressively, Asia took the lead, at the beginning due to the ascension of Japan, then to the rapid development of the Asian tigers and more recently to China and India. According to ADB (2011), Asia is in the middle of a "historic transformation". If it continues to follow its recent trajectory, by 2050 it could almost double its share of global GDP to 52 percent and could regain the dominant economic position it held 300 years ago, before the industrial revolution. *Second*, surprisingly, the heterogeneity of this region and consequently the deep complementarities among the economies constituted one of the determinants of its astonishing growth. *Third*, although the Asian economies started their integration process later as compared to other regions of the world, their *natural* participation at the regional and global value chains and the fragmented production networks is the most significant worldwide. We consider that the EU is more advanced as regards its integration depth through trade, investment and technology, but the Asian Factory is the most complex and dynamic globally.

Surprisingly, the Asian integration was rather an endeavor to combat regional obstacles, weaknesses or threats than a trial to capitalize on regional complementary assets. We have in mind the efforts for political stability in '60s-'80s, the Malaysian "Look East" policy and the East Asian Economic Group (EAEG) failure which led to the Association of Southeast Asian Nations (ASEAN) enlargement, the fight against the financial crisis of 1997-1998, and nowadays the Trans-Pacific Partnership (TPP) as a means to counterbalance for the rise of China and also to revive the 1994 Bogor goals in the actual context.

Nevertheless, the rise of *Factory Asia* encounters many obstacles, including the adverse effects of the recent financial and economic crisis of 2008-2009, the gradual erosion of competitive advantages, increasing complexity of global production networks (ADB, 2013, p. 17) and an incipient re-shoring movement (The Economist, 2013).

Having all these in mind, our paper is structured as follows. *In the first section*, we emphasize the Asian integration status, especially the ASEAN+6 (i.e. ASEAN together with China, Japan, South Korea, India, Australia and New Zealand) and the endeavor to conclude the Regional Comprehensive Economic Partnership (RCEP) in the context of global changes and challenges. We underline also that the Factory Asia is a natural way to strengthen the multiple-level relationships regionally. *In the next section*, we compare China and Japan through the lens of quantitative and qualitative indicators and illustrate their roles played in the Asian integration process,

by analogy with their neighbors. *The concluding section* provides with arguments related to China's *geostrategic expectancy* while Japan and the ASEAN countries look up to the US as a counterbalance to China's rise not only in Asia-Pacific but at global level as well. From our point of view, a genuine partnership between China and Japan would be one of the most fruitful paths to counteract the global challenges and concurrently to invigorate the regional integration up to the stage of the "New Factory Asia". Nevertheless, this is extremely difficult if not impossible to occur, due to their common historical background and rivalries.

Our research paper is not based on "mainstream" instruments such as forecasting and macroeconomic modeling, but on argumentation and longitudinal and transversal comparative analyses supported by statistics, including the trade in value-added database (TiVA), managed commonly by the Organization for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO). We examine closely economic phenomena, processes and also the rich literature, including Baldwin (2006, 2008, 2011), Kawai and Wignaraja (2009), Capannelli and Tan (2012), Hill and Menon (2010), Menon (2013) and relevant reports of international organizations.

2. The Asian integration architecture: state of the art and challenges ahead

Asian economies, and especially ASEAN+6 countries, have recorded dynamic growth rates over more than four decades, driven mainly by the regional integration. The main channels of integration are trade in goods and services, FDI, participation at global production networks and global knowledge networks, as well as the "science and technology diplomacy". All these enable the Asian countries to move up the value chain and ensure the dynamism of the region as a whole (OECD, 2013).

At the institutional level, Asia is considered "institution-light" (Capannelli and Tan, 2012, p. 7). However, the typology of the Asian institutions for regionalism is complex and can be included into 3 main categories:

- ✓ Overarching institutions – umbrella arrangements with comprehensive agendas (e.g. ASEAN, South Asian Association for Regional Cooperation SAARC, ASEAN+3, Regional Comprehensive Economic Partnership RCEP, East Asian Summit EAS, Asia-Pacific Economic Cooperation APEC, Asia-Europe Meeting ASEM, Eurasian Economic Community EurAsEc);
- ✓ Functional institutions – arrangements focused on specific areas of cooperation (ASEAN Regional Forum ARF, Shanghai Cooperation Organization SCO, Central Asia Regional Economic Cooperation CAREC, Pacific Islands Forum PIF, growth "triangles");

- ✓ Facilitating institutions – playing the role of “service providers” (United Nations Economic and Social Commission for Asia and Pacific UNESCAP, Asian Development Bank ADB) (Capannelli and Tan, 2012, pp. 9-12).

Asia's shares in the international trade and investment flows increased gradually, particularly after the effects of the financial crisis of 1997-1998 and the “dot.com” crash of 2001-2002 had been counteracted. According to the WTO data, the region's shares in the world exports of goods are situated at levels of about 32% (as compared to 14% in 1948, 19% in 1983 and 26.1% in 1993 and 2003), following closely Europe. Its participation at the world trade in services is lower, for example its export market share is more than 20 percentage points below Europe's (WTO, 2014a and 2014b). As regards the FDI inflows, Asia was in 2013 the world's largest recipient region for FDI (circa 27% of the world total) (UNCTAD, 2014a).

At present, circa 80% of the world trade is concentrated under the control of the multinational/transnational corporations (TNCs) and their worldwide affiliates (UNCTAD, 2013, p. 135). In the economic theory, there are horizontal FDI (in search of market) and vertical FDI (in search of efficiency). The former category contributes to the substitution of trade in final products (ready for consumption), while the latter one supposes an active trade in intermediary inputs (WTO/IDE/JETRO, 2011, p. 16 and IMF, 2013, p. 30). Based on vertical FDI and production fragmentation (reflected by high intra-industry trade indexes at regional level), **Factory Asia** refers to the model of regional production networks connecting factories in different Asian economies, producing parts and components that cross several borders and are assembled according to different countries' specialization in particular production stages (Lee *et al.*, 2011), with the final product shipped largely to advanced economies (ADB, 2013).

Considered as “one of the wonders of the world” (Baldwin, 2006) or a “miracle” (The World Bank, 1993), East Asia's “secret” resides in the activities of TNCs, their FDI and cross-border networks, in which production processes have become increasingly fragmented and the various constituent elements of the value chains are shared across countries in the region and parts and components actively traded between them (Paprzycki, Ito, 2009).

2.1. Supply-side or de facto integration in Asia

At present, circa 53.4% of the Asian trade in intra-regional (WTO, 2014a) and this is mainly due to the *natural, de facto or supply-side* integration,² based on production

² See Baldwin, 2006, Paprzycki, Ito, 2009.

sharing and trade in intermediate goods. This *market-driven* process originates in the 1960s and 1970s but accelerated during the past two decades (Paprzycki, Ito, 2009, pp. 1-2). There are scholars which argue that “global value chains first emerged as regional supply chains in East Asia, with Japanese investors taking the lead in the region and triggering flying geese pattern of investments and trade” (Banga, 2013, p. 6). Later, the Asian tigers and China took over leadership. The active participation of these countries at the global value chains is reflected by trade in value added statistics as well as the Chinese “triangular trade” or “tri-polar trade” (China-Asia-developed countries): its increasing deficits in relationship with the Asian partners alongside the growing surpluses of the trade balances with developed economies, in particular the EU and US (Gaulier *et al.*, 2004, WTO/IDE/JETRO, 2011, p. 76).

The rapid industrialization of the first generation of *Asian tigers, the rise of China and other ASEAN countries* created two types of actors: *headquarter economies* (or technology leaders such as: Japan, Taiwan-China, Hong Kong-China, South Korea, Singapore) and *factory economies* (China and the other ASEAN countries, heavily reliant on the high-technology manufacturing giants – US, Germany and Japan –) (Baldwin, 2011, ADB, 2013, p. 5). Gradually, Chinese TNCs became active investors abroad, so that China was in 2013 the fourth-largest FDI provider after the EU, USA and Japan (UNCTAD, 2014b) and one of the technology leaders (WIPO, 2013). In other words, China has at the same time characteristics of headquarter economy and factory economy.

Before we move on to the next section, we consider useful to review briefly some strengths, weaknesses, opportunities and threats of/for the Asian participants at the regional integration, resorting to ADBI, 2012 and Chia, 2013. Among the most commonly quoted strengths there are: geographical position, robust economic growth and solid economic fundamentals, internal market size, resources abundance, the emerging middle class and the networked cooperation. In the “weaknesses” category are included: shortages of human capital (especially skilled workers), institutions and infrastructure, the absence of “good governance” in several countries, the slow decision-making at the level of ASEAN, the lack of a common solidarity fund. As regards opportunities, we can mention: the historic and cultural ties (which represent, unfortunately, a destabilizing factor in certain cases), the presence of large markets such as China, India, Japan, the ASEAN+6 relations, the economies of scale. Finally, among the major threats there are: the territorial disputes in the East and South China Seas, the regional rivalries among countries like China,

on the one side and Japan and ASEAN on the other side and also the risk of non-accomplishing the ASEAN Economic Community until 2015.

Concerning the “Factory Asia growth model”, it faces many threats, given the changing global economic landscape and consumer tastes, the rising production costs which erodes the traditional advantages and the new technologies with a direct impact on the very nature of manufacturing (ADB, 2013, p. 16). In recent years, a growing number of American EU companies have started to move their manufacturing back home. The experts consider that in the longer term re-shoring will be encouraged by the advanced manufacturing techniques that make the production process less labor-intensive. “Cheaper, more user-friendly and more dexterous” robots contribute to the diminishing of the share of labor in total costs (The Economist, 2013).

Figure 1: Issues facing factory Asia
– counteracting them paves the way towards the “New Factory Asia”

Trends	Issues	Impact	Probability
I. Changing global economic landscape and evolving consumer tastes will affect demand for Factory Asia's products	1. Weaker growth in advanced countries will see demand shifting away from developed markets to emerging economies	High	High
	2. Factory Asia will have to learn to cater to the demand of growing middle class consumers in the region	High	High
	3. Asia's manufacturers need to build strong brand identity to compete globally	Low to High ^a	High
	4. Weak economic growth and high unemployment may give rise to protectionist tendencies in advanced economies	Low	Low
II. Rising production costs gradually erodes traditional Factory Asia advantage	5. Long and complex supply chains are becoming more vulnerable to natural disaster and reputational risks	Medium	Medium
	6. Wages in Asia have been rising faster than developed countries, narrowing the cost differential	Medium	High
	7. Exchange rates have become more volatile, making it harder to manage production networks across several countries	Medium	High
	8. Shortage of skilled workers could hamper the region's drive to produce more sophisticated products	High	High
	9. Changing demographics in some countries will result in a smaller labor pool	High	High
	10. Production has been shifting from high-cost to lower-cost countries	High	High
III. New technologies are changing the nature of manufacturing	11. Software is becoming more important in manufactures and comprise a larger share of value	Medium	High
	12. Advances in robotics and additive manufacturing could herald a new era in manufacturing	Medium	High

Source: ADB, 2013, p. 17.

At the same time, there are challenges related to relevance of statistics. The production of final goods relies on successive production and trade processes, consisting in exports of goods and services used as inputs for further processing and re-export (WTO/IDE/JETRO, 2011, p. 94). According to the international experts, given the transformation of global trade patterns and the augmentation of trade flows due to trade in intermediates, traditional statistics cannot give any more a correct picture of the trade flows. This is the main reason why, in order to separate the domestic content of an export from the cost of the imported components, it is necessary the measure of trade in value added (Lamy, 2013, WTO/IDE/JETRO, 2011, p. 6).

2.2. *De jure* integration in Asia

As regards the other form of Asian integration, built on preferential/regional trade agreements (RTAs), this was less dynamic than the supply-side integration. The most common form of RTAs in Asia is given by the free trade agreements (FTAs) (Asia Regional Integration Center, 2014). The ASEAN free trade area was shaped only in 1992, 25 years after the ASEAN came into being and at present it is the most advanced project of East Asian *de jure* integration (Hill, Menon, 2010). Following the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Economic Community (adopted during the 12th ASEAN summit of January 2007), the endorsement of the Community Blueprint at the 13th ASEAN summit of November 2007 and the entry into force of the ASEAN Charter in December 2008, the ASEAN Community should be shaped until 2015. Its three pillars (the economic, security and socio-cultural communities) will be the solid fundament for a region characterized by free movement of goods, services, investment, skilled labor and freer flows of capital (Oehler-Şincai, 2014).

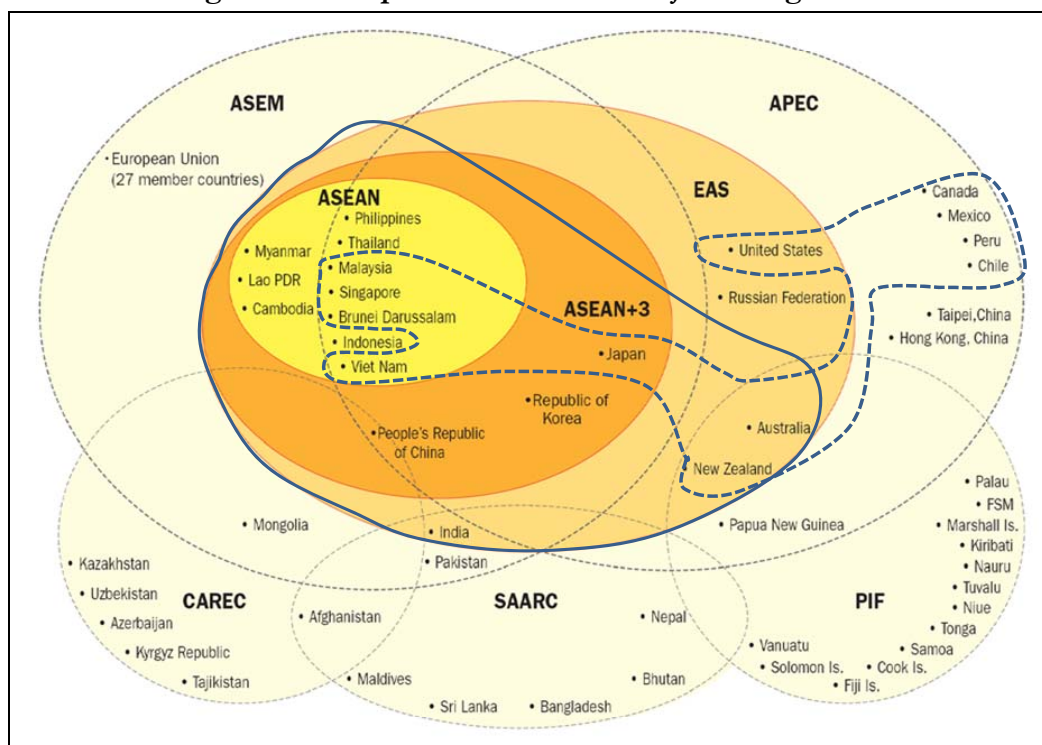
Referring to the relationship between the FTAs and the market-driven integration, some studies argue that Factory Asia has prospered *despite* the existent FTAs, *not because of it* (Menon, 2013, p. 6). The argumentation is based on several explanations. *First*, generally, components and parts of products are traded at zero or low tariffs. Due to the International Technology Agreement taxes on electronics components are zero, there are duty or tax rebates for re-exports, and most TNCs locate in duty-exempt export processing zones. *Second*, most of manufactures traded inside Factory Asia cannot benefit from tariff concessions, as they do not satisfy the rules of origin, in other words, FTAs promote trade in final goods not trade in parts and components. *Third*, the FTAs in force in Asia are not comprehensive enough, as

they do not tackle non-tariff barriers and many of the WTO-plus and WTO-extra provisions. *Fourth*, the FTA preference utilization rates (based on shares of export value enjoying preferences) are low in East Asian countries, meaning that these agreements are still underutilized (Kawai, Wignaraja, 2009). *Fifth*, the most of the regional tariff-cutting was done unilaterally by the ASEAN and China. This means that the tariff cuts were not “bound” in the WTO and the tariffs can rise again without violating the WTO rules (Baldwin, 2006). As a conclusion, only the consolidation of multiple and overlapping FTAs into a single East Asian FTA can help mitigate the harmful “noodle bowl” effects of different or competing tariffs, standards, and rules (Kawai, Wignaraja, 2008).

Even though the currently negotiated *RCEP* (among the ASEAN and its six dialogue partners with which it has already concluded FTAs) is finalized, this does not mean that all existing FTAs will be replaced by a unique East Asian FTA. However, this is considered a step toward the deepening of regional integration.³

Another new-generation agreement is the *Trans-Pacific Partnership (TPP)*. It is one of the most “ambitious, comprehensive and high-standard” agreements negotiated at present, at which participate 12 countries (five from the Eastern part of the Pacific, seven from its Western side, all APEC members): Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, US and Vietnam. The TPP originates in the P4 initiative (of Singapore, Chile, New Zealand and Brunei – Trans-Pacific Strategic Economic Partnership Agreement), signed in 2005 and entered into force in 2006. The US, Australia, Peru and Vietnam showed interest in participating at the Agreement in 2008. In October 2010, Malaysia joined the group, followed by Mexico and Canada (starting with the 15th round of negotiations of December 2012) and Japan (from the 18th round of July 2013) (Organization of American State’s Foreign Trade Information System, 2014). South Korea has also “flagged” its interest in joining the TPP, while China does not exclude its participation at this intercontinental initiative.

³ RCEP negotiations were announced on the margins of the East Asia Summit on 20 November 2012. In the Joint Statement at the first meeting of Trade Negotiating Committee, it was announced that RCEP would be “a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement establishing an open trade and investment environment in the region to facilitate the expansion of regional trade and investment and contribute to global economic growth and development”.

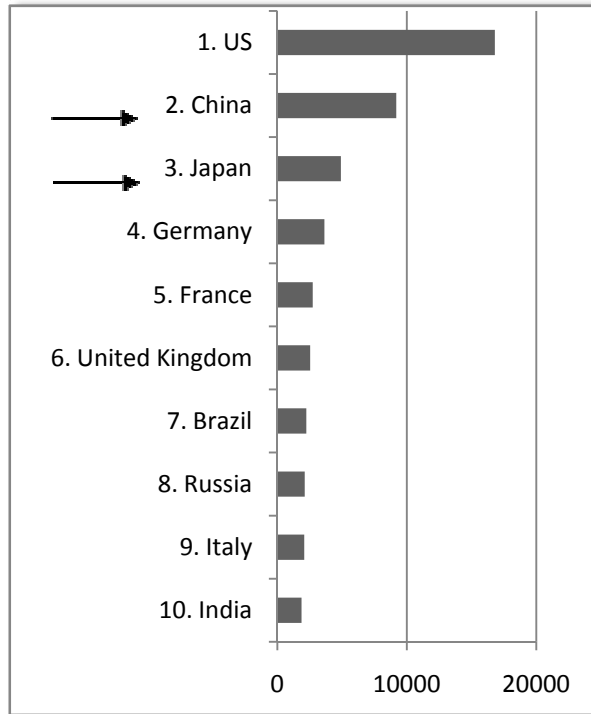
Figure 2: A snapshot of the Asian *de jure* integration

Source: Figure based on Capannelli, Tan, 2012, p. 6.

3. Roles played by China and Japan in “Factory Asia”

China and Japan share the leading roles in the regional integration process, due to their networked participation at regional and global value chains and also trade, investment and technology flows. In contrast with the period before 1985, when Japan was the only large Asian economy, East Asia “was set on a new course by the information and communication technology (ICT) revolutions that began in the mid-1980s” (Baldwin, 2011, pp. 40-41). Gradually, China became more and more integrated into the regional and the world economy and transformed into a “giant” in the manufacturing sector alongside US, Japan and Germany (ADB, 2013, p. 5). This facilitated the production fragmentation in Factory Asia (Lee *et al.*, 2011). Since 2009, China has been the largest exporter of goods and since 2010 (when it surpassed Japan), it has occupied the second place after the US in the hierarchy of the world economies taking into account the nominal GDP. Nevertheless, the US, Japan and Germany remain leaders in the field of “high-tech” products and services (ADB, 2013, p. 5).

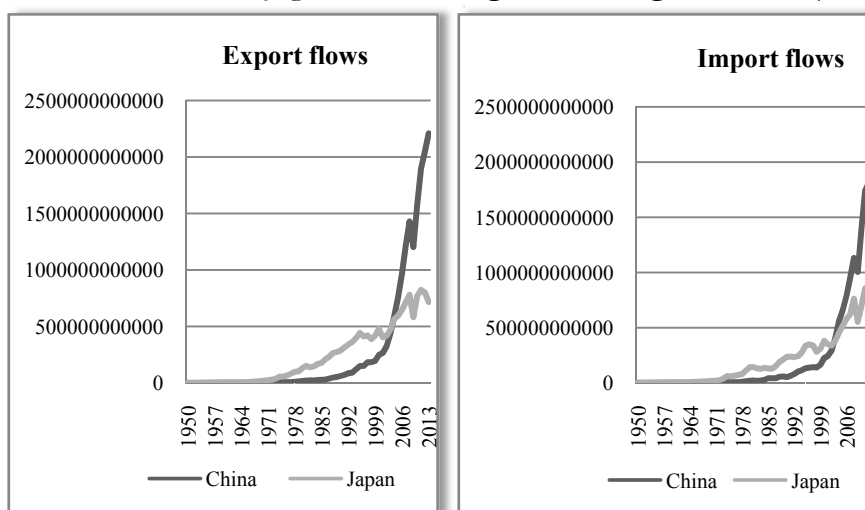
Chart 1: China and Japan in the hierarchy of the world economies taking into account the nominal GDP in 2013 (in billion USD)



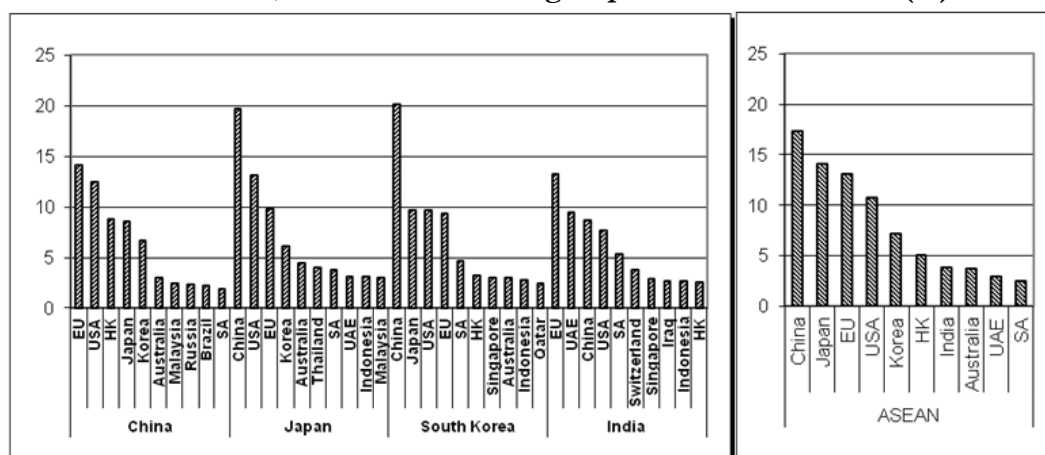
Source: Own representation based on IMF (2014a).

China surpassed Japan in 2003 as regards imports of goods and a year later outranked Japan at exports. In 2013, China was the leading world exporter of goods and the second major importer after the US, but, if we take into consideration the total trade (exports plus imports), *China was for the first time the largest trader, with a share of 11% of the world total, overtaking the US* (WTO, 2014b). In the field of trade in services, China was in 2013 the fifth largest exporter and the second importer (it had surpassed Japan in 2008 on the export side and in 2009 on the import side).

Taking into consideration a group of 14 Asian economies (ASEAN plus China, Japan, South Korea and India), China is the largest trade partner for five of them (Japan, South Korea, Malaysia, Vietnam and Myanmar), Japan for four (Indonesia, Philippines, Thailand and Brunei), EU for two (China and Japan), Thailand also for two (Cambodia and Laos) and Malaysia for one (Singapore).

Chart 2: China and Japan – trade in goods during 1950-2013 (USD)

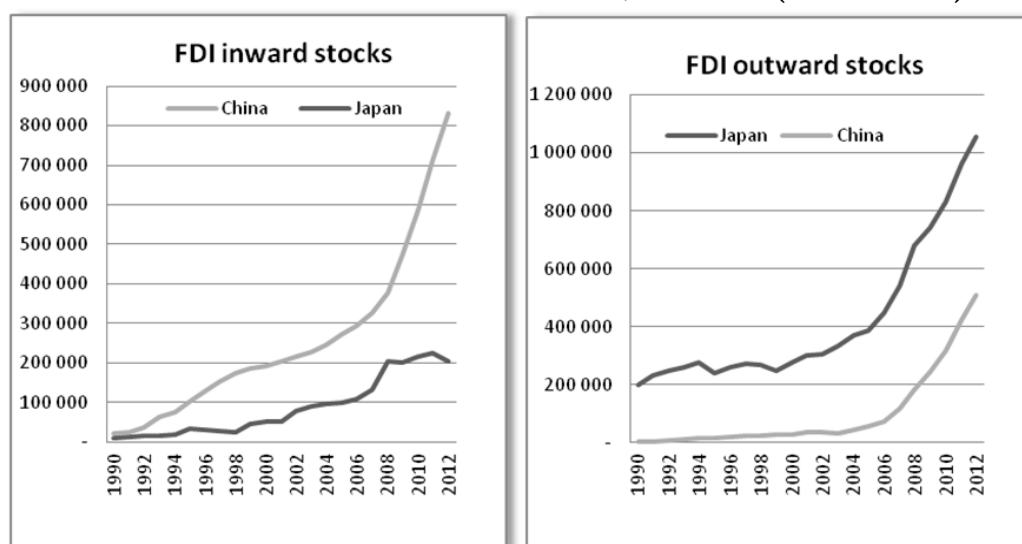
Source: Own representation based on WTO (2014a).

Chart 3: Main trade partners for China, Japan, South Korea, India and ASEAN group of countries in 2012 (%)

Note: HK – Hong Kong-China, SA – Saudi Arabia, UAE – United Arab Emirates.

Source: Own representation based on DG Trade (2014).

China was in 2013 the fourth-largest FDI provider after the EU, USA and Japan and the third beneficiary of FDI, after the US and EU (UNCTAD, 2014a and 2014b). The following chart emphasizes the evolution of the FDI inward and outward stocks received/generated by China and Japan during 1990-2012.

Chart 4: FDI inward and outward stocks, 1990-2012 (USD million)

Source: Own representation based on UNCTAD (2013).

In terms of macroeconomic indicators (suggesting the economic fundamentals) and other quantitative indexes, China is better positioned than Japan. By contrast, as regards the qualitative indexes, Japan is in most cases still ahead of China (see the following table).

Table 1: China and Japan – presentation in terms of quantitative and qualitative indicators (the most recent available year)

Country	Population (in million inhabitants)	Nominal GDP(in billion USD)	GDP/ inhabitant (USD)	General gov. net lending/ Borrowing (in % of GDP)	General gov. gross debt (in % of GDP)	Current account balance (in % of GDP)	Place in the world ierarchy taking into account the human development index and global innovation index	Place in the world ierarchy taking into account the ease of doing business index
China	1360,8	9181,4	6.750	-1,9	22,4	2,1	101 / 35	96
Japan	127,3	4901,5	38.500	-8,4	243,2	0,7	10 / 22	27

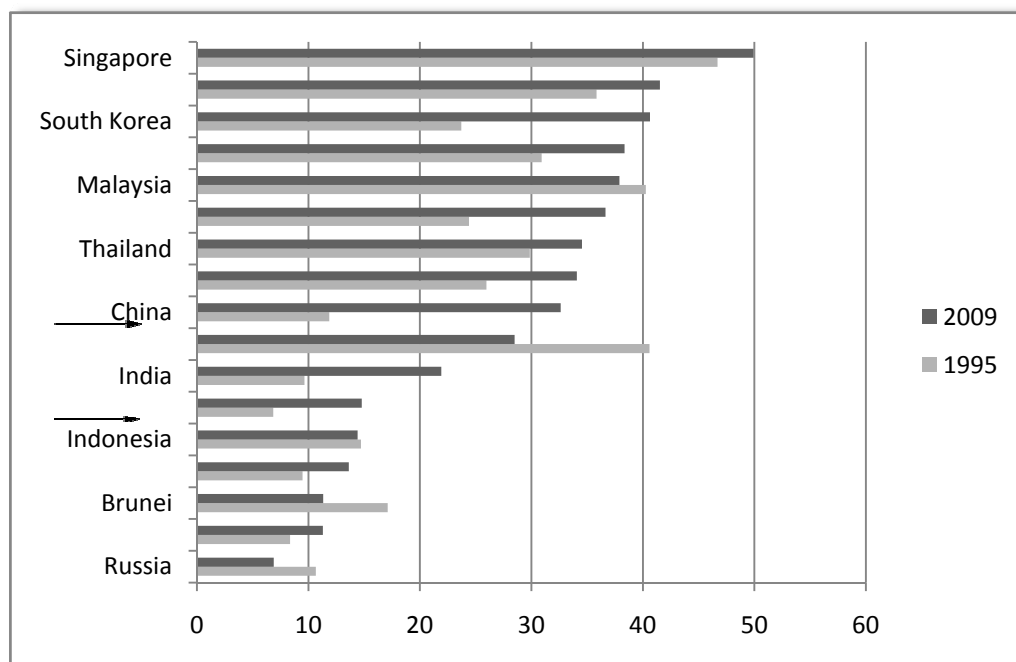
Source: Oehler-Sincal (2014), based on: IMF (2014a and 2014b), UNDP (2013), IBRD-The World Bank (2013), Cornell University et al. (2013).

Nevertheless, in 2012, for the first time, residents of China accounted for the largest number of patents filed throughout the world. In addition, the Chinese Intellectual Property Office (SIPO) accounted for the largest number of applications received by any single IP office. Residents of China filed 560,681 patent applications; this compared with those filed by residents of Japan (486,070) and residents of the US (460,276). Similarly, SIPO received 652,777 applications, compared to 542,815 for the US Office and 342,796 for the Japan Patent Office (JPO) (WIPO, 2013).

International experts consider that research and development (R&D) activities in China “are entering a new era” (KPMG, 2013). Although R&D spending as a share of GDP is still low in China (under 2%), the R&D amount is rising and in 2011, China passed Japan and occupied the second position after the US in the world hierarchy in terms of total R&D spending. If it continues the actual increasing trend, China might overtake the US in about ten years.

It should also be noted that foreign value added embodied in gross exports (synonymous with participation at global value chains) is almost double in China (circa 33%) as compared to Japan (15%) but remains under the level of economies such as: Singapore, Taiwan-China, South Korea, and other five ASEAN member countries. Nonetheless, one can remark that this share tripled during 1995-2009, while for Japan it doubled over the same time frame.

Chart 5: Foreign value added embodied in gross exports (%)



Source: Own representation based on TiVA, OECD-WTO (2013).

As regards the participation at FTAs, both China and Japan, but also other Asian countries (for example South Korea and India) were latecomers. They concluded their first FTAs in the 2000s. At present, Japan and China are actively negotiating the liberalization of trade and investment flows with key partners and are part of the RCEP process. Yet China has not started the negotiations for the Trans-Pacific Partnership, having as promoters US and Japan.

Figure 3: China, Japan and South Korea –
FTAs signed, under negotiation and under analysis

Signed			Under negotiation		
China	Japan	South Korea	China	Japan	South Korea
ASEAN Singapore APTA Chile Pakistan New Zealand Peru Costa Rica Island Switzerland	ASEAN Singapore Mexico Malaysia Chile Thailand Indonesia Brunei Philippines Vietnam India Peru Switzerland Australia	ASEAN Singapore Chile EFTA India USA EU Peru Turkey Colombia	China-South Korea-Japan RCEP Australia GCC SACU Norway South Korea	China-South Korea- Japan RCEP Mongolia Canada Colombia TPP EU South Korea	China-South Korea- Japan RCEP Canada Mexico GCC Australia New Zealand China Japan Vietnam Indonesia
Under analysis			China: India, Mongolia, SCO, EU, TPP Japan: Turkey South Korea: Mercosur, Israel, Central America, Malaysia, TPP		

Source: Oehler-Şincal (2014) based on official sources.

4. Concluding remarks: China's geostrategic expectancy

The largest Asian economy is looked upon with distrust by some partners. The rivalry between Japan and China, rooted in the past and amplified by the latter's "peaceful rise" and also the escalating territorial disputes in the East and South China Seas are several of the factors that determine the Asian countries to find alliances to counterweight their powerful neighbor. US, by means of their active presence in Asia-Pacific and the pursuance of alliances such as TPP, are once again in the right place at the right time.

Thus, China is at a crossroads. A partnership with the US and Japan might be excluded, although there is enough place at the negotiating table. Out of the 21 APEC members plus other countries, only 12 are currently participating at negotiations. At another level, EU does not seem interested to liberalize further on a bilateral track the trade flows with its rival, China. Besides, the actual geopolitical situation between the EU and US, on the one side and Russia on the other side remains tensioned. One might conclude that the only viable option for China and Russia is their association. Some steps in this direction have already been taken, but nonetheless, a decisive move towards a trade alliance is difficult to take and China's geostrategic expectancy might continue.

China and Japan share the leading roles in the regional integration process, due to their networked participation at regional and global value chains and also trade, investment and technology flows. At the same time, the "Factory Asia growth model" is facing many threats, given the changing global economic landscape and consumer tastes, the rising production costs which erodes the traditional advantages and the new technologies with a direct impact on the very nature of manufacturing. From our point of view, a genuine partnership between China and Japan would be one of the most fruitful paths to face up to the global challenges and concurrently to invigorate the regional integration up to the stage of the "New Factory Asia". Nevertheless, this is extremely difficult if not impossible to occur, due to their common historical background and rivalries.

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