

Third-Party Market Cooperation between China and Japan in ASEAN under "the Belt and Road" Initiative: Background, Opportunities and Challenges

Erdou Su¹

Jun Xue²

Yang Xu³

Abstract

China and Japan signed the "Memorandum of Third-Party Market Cooperation between China and Japan" on May 9, 2018. It marked Sino-Japanese economic and trade relations formally changed from competition to cooperation. As an economy with great market potential and keeping close contact with China and Japan, ASEAN has become the first choice for the third-party market cooperation. In this context, this article studied the progress, feasibility, opportunities and challenges of China-Japan third-party market cooperation in ASEAN. The research results show that China-Japan third-party market cooperation has made important progress in establishing cooperation mechanisms, determining cooperation mode, and delineating priority cooperation areas. Besides, China and Japan jointly explore and develop the ASEAN market is not only beneficial to China's industrial upgrading and Japan's economic revitalization, but also promoting ASEAN's vision of interconnectivity planning. However, China-Japan cooperation in ASEAN also faces some challenges, such as lack of cooperation experience, interference from political factors, etc. China and Japan should work together to seek common ground while reserving differences.

Keywords: the Belt and Road Initiative, Third-party Market, Sino-Japan Cooperation, ASEAN

1. Introduction

President Xi Jinping proposed to jointly build the "Silk Road Economic Belt" and a 21st

1 Erdou Su, Ph.D Candidate, School of Economics, Nankai University, Tianjin 300071, China. E-mail: suerdounankai@outlook.com.

2 Jun Xue, Professor, School of Economics, Nankai University, Tianjin 300071, China. E-mail: junxue@nankai.edu.cn.

3 Yang Xu, Professor, School of Economics, Nagasaki University, 4-2-1, Katafuchi, Nagasaki 850-8506, Japan. E-mail: jxyang@nagasaki-u.ac.jp.

Century Maritime Silk Road in his speeches to the Nazarbayev University of Kazakhstan on September 7, 2013 and the Indonesian Parliament on October 3, 2013 (the "Belt and Road" initiative for short). With the continuous promotion of Chinese government, the "Belt and Road" initiative has achieved remarkable results and has received positive responses from many countries and international organizations over the past 6 years. 125 countries and 29 international organizations have participated by the end of April 2019.⁴

The majority countries along the "Belt and Road" are emerging economies and developing countries. They are in the early stages of industrialization and have a greater demand for infrastructure construction and industrial development. In the context of the long-term global economic downturn and the rise of protectionism, how can countries avoid vicious competition when developing international markets and how can countries realize complementary advantages and a win-win situation with the host country? In response to this problem, China first proposed the mode of third-party market cooperation, which aims to effectively combine China's comparative advantages, especially its production capacity advantages and the experience of multinational investment maintained by developed countries, especially their high-end technology experience and the development needs of the third party country (the host country). Then these countries can provide better products and services to the third-party countries and achieve the effect of $1 + 1 + 1 > 3$ finally. The concept of third-party market cooperation first appeared in the "Sino-French Joint Statement on Third-Party Market Cooperation" issued by the Chinese and French governments in June 2015. Then China subsequently signed the third-party market cooperation documents with Italy, Canada, Portugal, Spain and other countries and has achieved substantial results on many major projects.⁵ To further promote the high-quality development of third-party market cooperation, the National Development and Reform Commission issued the "Third-Party Market Cooperation Guide and Cases" in September 2019, which elaborated the connotation, concept, principle and mechanism of the third-party market cooperation. According to this document, third-party market cooperation refers to the joint development of economic cooperation between Chinese enterprises (including financial enterprises) and relevant countries' enterprises in third-party markets. It is an open and inclusive international cooperation mode derived from the Belt and Road Initiative.⁶

4 The Central People's Government of the People's Republic of China: "China has signed 173 "Belt and Road" cooperation documents with 125 countries and 29 international organizations", April 2019. (中华人民共和国中央人民政府: "我国已与125个国家、29个国际组织签署173份"一带一路"合作文件", 2019年4月) http://www.gov.cn/xinwen/2019-04/18/content_5384278.htm.

5 Ministry of Commerce of the People's Republic of China: "Third-Party Market Cooperation Makes Substantial Progress", March 2019. (中华人民共和国商务部: "第三方市场合作取得实质性进展", 2019年3月) http://www.gov.cn/xinwen/2019-03/22/content_5375830.htm.

6 National Development and Reform Commission: "Guidelines and Cases for Third-Party Market Cooperation", September 2019. (国家发展和改革委员会: "第三方市场合作指南和案例", 2019年9月)

Due to pressure from the United States, Japanese officials have not supported the "Belt and Road" Initiative in public as yet and they also have not joined Chinese-led AIIB (Asian Infrastructure Investment Bank). But these events do not affect the cooperation between China and Japan in the third-party market. In a sense, it is believed that the "Memorandum of Third-Party Market Cooperation between China and Japan" signed in May 2018 and 52 cooperation agreements⁷ signed in the first China-Japan Third-Party Market Cooperation Forum in October of the same year marked the two countries' relations shift from fierce competition or even vicious competition in the international market to cooperative relations.

ASEAN (Association of Southeast Asian Nations)⁸ is the third-largest economy in Asia and has a large demand for foreign investment. At the same time, it has close economic and trade relationships with China and Japan. Scholars from China and Japan have pointed out that the third-party market cooperation between the two countries has broad space and development prospects in the ASEAN region.⁹ Scholars and the media have directly claimed that cooperation between the two countries can start from ASEAN.¹⁰ Given ASEAN's important role in China-Japan cooperation in third-party markets, we believe it is necessary to conduct a systematic analysis of the background, opportunities, and challenges of China-Japan cooperation in the third-party market in ASEAN under the Belt and Road Initiative. This article first introduces the progress of third-party market cooperation between China

<http://www.mofcom.gov.cn/article/i/jshz/rlzykf/201909/20190902898692.shtml>.

7 Ministry of Commerce of the People's Republic of China: "The First China-Japan Third-Party Market Cooperation Forum was held in Beijing", October 2018. (中华人民共和国商务部: "第一届中日第三方市场合作论坛在北京举办", 2018年10月)

<http://www.mofcom.gov.cn/article/ae/ai/201810/20181002800324.shtml>.

8 ASEAN includes ten countries, namely Cambodia, Laos, Myanmar, Vietnam, Thailand, Indonesia, Malaysia, Philippines, Brunei and Singapore. On August 8, 1967, Indonesia, Malaysia, the Philippines, Singapore and Thailand established ASEAN in Bangkok, Thailand. On January 8, 1984, Brunei joined ASEAN; on July 28, 1995, Vietnam joined ASEAN; on July 23, 1997, Myanmar and Laos joined ASEAN; on April 30, 1999, Cambodia joined ASEAN.

9 Junya Sano: "Economic Relations between China and Belt Countries Changing with Belt and Road Development", ASEAN Workshop on Policy Research Institute, March 2018. (佐野淳也: "一带一路の進展で変わる中国と沿線諸国の経済関係", 財務総合政策研究所 ASEAN ワークショップ, 2018年3月); Wang Houshuang, Zhang Xiaoxiang: "Thoughts on China-Japan Cooperation in Strengthening Third-Party Market Cooperation in ASEAN under the Belt and Road Initiative," *Japanese Research*, No. 2, 2019, pp. 23-33. (王厚双, 张霄翔: "一带一路框架下中日加强在东盟第三方市场合作的对策思考", 《日本问题研究》, 2019年第2期, pp. 23-33)

10 Yan Shenchun: "China and Japan have reached a consensus on third-party cooperation, and the Belt and Road cooperation between the two countries can start from ASEAN." *Surging news*, April 2018. (严深春: "中日达成第三方合作共识, 两国“一带一路”合作可从东盟起步", 澎湃新闻, 2018年4月) https://www.thepaper.cn/newsDetail_forward_2080798.

and Japan and then analyzes the feasibility. Based on this, we discuss in detail the opportunities and challenges faced by China and Japan in the process of developing the ASEAN market.

2. Progress in China-Japan cooperation in third-party market

In order to implement the third-party market cooperation China and Japan have made important progress in establishing cooperation mechanisms, determining cooperation modes and delineating priority cooperation areas since the signing of the Memorandum.

First of all, in terms of cooperation mechanisms: China and Japan established a multi-department mechanism for promoting third-party market cooperation under the sino-Japanese high-level economic dialogue mechanism and China-Japan Third-Party Market Cooperation Forum. The former is mainly responsible for the top-level design and policy coordination of the third-party market cooperation between the two countries and the latter is mainly to establish a dialogue platform for the cooperation between the governments and non-governmental organizations of the two countries (such as exchanging information, negotiating cooperation, and reaching an agreement) and focus on practical work.¹¹ On September 25, 2018, the first meeting of the China-Japan Third-Party Market Cooperation Working Mechanism was successfully held in Beijing. At the meeting China and Japan fully exchanged views on the direction, policies and specific projects of third-party market cooperation between two countries.¹² The first China-Japan Third-Party Market Cooperation Forum was successfully held in Beijing on October 26, 2018. Taking this forum as an opportunity they signed 52 cooperation agreements covering infrastructure, finance, logistics, information technology and other fields.¹³

Secondly, in terms of cooperation modes: the National Development and Reform Commission of China issued the "Third-Party Market Cooperation Guidelines and Cases" on September 4, 2019, with the accumulation of experience in third-party markets cooperation between China and other countries (including Japan). It systematically summarized and ex-

11 Wang Jingchao: "Third-Party Market Cooperation between China and Japan: Japan's Considerations and Resistance", *China International Studies*, No.3, 2019, pp. 81-93. (王竞超: "中日第三方市场合作:日本的考量与阻力", 《国际问题研究》, 2019年第3期, pp. 81-93)

12 Ministry of Commerce of the people's Republic of China: "the First Meeting of China-Japan Third-Party Market Cooperation Mechanism was Held in Beijing", September 2018. (中华人民共和国商务部: "中日第三方市场合作工作机制第一次会议在北京举行", 2018年9月) <http://www.mofcom.gov.cn/article/ae/ai/201809/20180902790256.shtml>.

13 Ministry of Commerce of the people's Republic of China: "The first China-Japan Third-Party Market Cooperation Forum Kicks off in Beijing", October 2018. (中华人民共和国商务部: "第一届中日第三方市场合作论坛在北京举行", 2018年10月) <http://www.mofcom.gov.cn/article/ae/ai/201810/20181002800324.shtml>.

plained the third-party market cooperation mode in detail. The modes are grouped into five broad categories of product service, engineering cooperation, investment cooperation, Integration of industrial finance capital, and strategic cooperation (see Table 1 for details), with 21 additional highly operable case for reference.¹⁴

Table 1 . Summary of cooperation modes of Chinese and foreign enterprises in the third-party market

Cooperation Modes	Illustration
Product service	Chinese and foreign companies cooperate in the areas of equipment procurement, certification and licensing, legal business consulting and other fields to jointly provide solutions for third-party market customers.
Engineering cooperation	Chinese and foreign companies jointly carry out projects in third-party markets through general subcontracting and joint bidding.
Investment cooperation	Chinese companies jointly invest in third-party markets with foreign companies through M&A joint ventures and equity participation.
Integration of Industrial-finance Capital	Chinese and foreign financial institutions cooperate in third-party markets through various methods, such as syndicated loans, joint financing, refinancing, and equity participation.
strategic cooperation	Chinese and foreign companies cooperate in third-party markets by signing strategic cooperation agreements and establishing strategic cooperation alliances.

Data Source: the author compiled according to the third-party market cooperation guide and cases.

Finally, in terms of priority cooperation areas: as ASEAN has very close economic relations and a sufficient cooperation basis with China and Japan, they jointly treat ASEAN especially Thailand as a priority area for third-party market cooperation. Japan began to enter the ASEAN market as early as the 1960s, so it has a good reputation in ASEAN. Although China entered ASEAN market later than Japan, their economic and trade relations have developed rapidly. China has become the largest trading partner country in ASEAN since 2009. Among the ASEAN countries, Thailand has maintained good political relations with China and Japan. The "Thailand 4.0" economic stimulus plan is highly compatible with the third-party market cooperation proposed by China.¹⁵ Therefore, the core project, the Eastern Economic Corridor (EEC) project in Thailand, is the first project for cooperation

14 China National Development and Reform Commission: "Third-Party Market Cooperation Guidelines and Cases", September 2019. (中国国家发改委：“第三方市场合作指南和案例”，2019年9月)<https://www.yidaiyilu.gov.cn/zchj/zcfg/102166.html>.

15 "Thailand 4.0" economic stimulus plan refers to the economic development strategy drove by innovation. Before that, Thailand successively experienced "Thailand 1.0" with agriculture as the pillar industry, "Thailand 2.0" with light industry as the main industry and "Thailand 3.0" with heavy industry as the main industry.

in a third country between companies from China and Japan.

3. The feasibility of third-party market cooperation between China and Japan in ASEAN

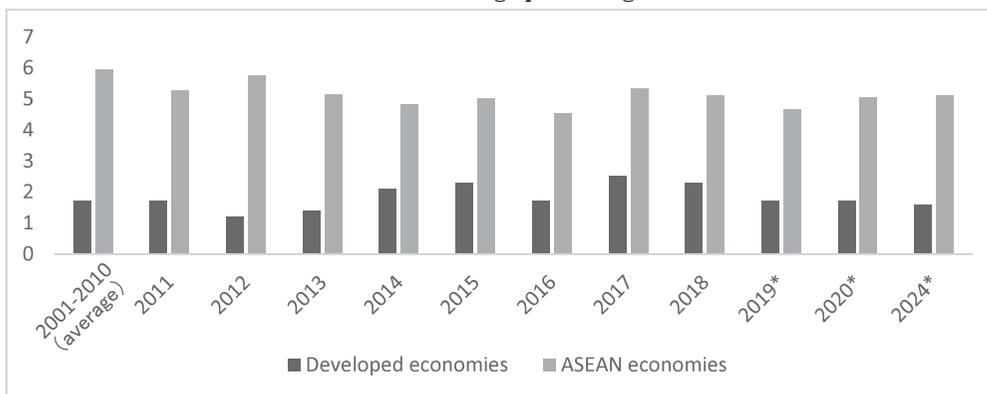
In this part, we will make a detailed interpretation of the feasibility of China and Japan's third-party market cooperation in ASEAN from the perspectives of ASEAN's economic development potential, China-Japan and ASEAN economic and trade relations, and the ASEAN business environment.

3.1 ASEAN's economic development potential

ASEAN has great potential for economic development. China and Japan have a very broad space for cooperation in this region.

First of all, from the perspective of overall economic growth, in the context of the slowdown in global economic growth ASEAN's GDP has maintained rapid growth for a long time. The "World Economic Outlook-Global Manufacturing Downturn, Increased Trade Barriers (2019 Edition)" released by The International Monetary Fund (IMF) shows that the economic growth rate of developed economies has been stable at 2 % since 2001 (Figure 1), which is expected to decrease to 1.6% by 2024. In contrast to this, the real GDP growth rate of ASEAN economies in the past 20 years has been maintained at about 5 %, ¹⁶ and the

Figure 1 . Real GDP growth rate of developed economies and ten ASEAN countries (annual change percentage)



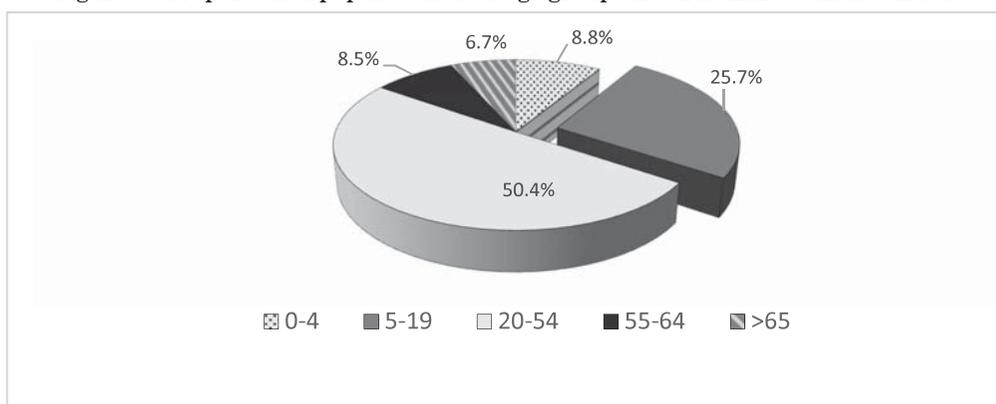
Data source: IMF, * is forecast data.

¹⁶ This paper uses the average real GDP growth rate of ASEAN countries to measure the overall GDP growth rate of ASEAN countries.

expected growth rate in 2024 is 5.1%, which is expected to become the backbone of economic growth in Asia. Such strong and stable economic growth will bring many opportunities for cooperation between China and Japan;¹⁷

Secondly, from the perspective of population size and structure, ASEAN not only has a large population, but also shows the characteristics of youth. A large and relatively young population structure means great market potential and a rich supply of labor and human capital. According to World Bank statistics, ASEAN's population is about 650 million by the end of 2018, accounting for 8.7% of the world's total population. It is the third largest country (or region) in the world after China and India, which means ASEAN contains huge consumption demand. At the same time, according to the "ASEAN Statistical Yearbook (2018 Edition)", nearly 50.4% of the ASEAN population is in the age range of 20 to 54 years (Figure 2), which means that ASEAN has a large number of youth labor available. The huge consumption potential and the demographic dividend that can be used in the next few decades have provided favorable objective cooperation conditions for Sino-Japanese cooperation;

Figure 2. Proportion of population of all age groups in ten ASEAN countries in 2017



Data source: Based on the data in ASEAN Statistical Yearbook (2018 Edition).

Finally, for the point of the actual demand for infrastructure construction, ASEAN is currently in a period of accelerated urbanization and industrialization and the infrastructure construction demand is strong. According to the estimates of the Asian Development Bank (ADB), if ASEAN continues to maintain the current economic growth momentum, its infrastructure construction needs to invest about 3.147 trillion US dollars in 2016-2030, accounting for 5.7% of GDP, approximately \$ 210 billion per year (climate-adjusted forecast). Without considering the costs of climate change mitigation and adaptation, an investment

¹⁷ International Monetary Fund: "World Economic Outlook: Global Manufacturing Downturn, Rising Trade Barriers", October 2019, pp. 148-151.

of \$ 2.759 trillion is required, accounting for 5.0% of its GDP, and about \$ 184 billion per year (baseline forecast). Infrastructure is an important area for China-Japan cooperation in third-party market¹⁸ and ASEAN's huge infrastructure construction needs provide sufficient market space for China-Japan cooperation.

3.2 Economic and trade relations between China-Japan and ASEAN

Both China and Japan have established close economic and trade cooperation relations with ASEAN. The two countries not only have relatively complete marketing networks and production chains in ASEAN, but also have their own advantages and disadvantages in ASEAN market. This has established a solid foundation for China and Japan to jointly develop the ASEAN market. We will show the current status of economic and trade relations between the two countries and ASEAN in detail.

A. Bilateral trade has developed rapidly. In terms of trade volume, as shown in Table 2, both China and Japan have achieved a certain degree of increase in bilateral trade volume with ASEAN since 2004. In 2004, the bilateral trade volume between China and ASEAN was 89.2 billion U.S. dollars and it rapidly increased to 488.3 billion U.S. dollars in 2018, an increase of about 4.4 times in 15 years, with an average annual growth of approxi-

Table 2. The scale of bilateral trade between China, Japan and ASEAN in 2004-2018

Year	WORLD	JAPAN			CHINA		
	Amount (10 billion USD)	Amount (10 billion USD)	Proportion (%)	Rank	Amount (10 billion USD)	Proportion (%)	Rank
2004	107.30	14.34	13.36	1	8.92	8.31	4
2005	122.63	15.39	12.55	2	11.34	9.25	4
2006	140.76	16.19	11.50	1	14.01	9.95	4
2007	161.40	17.33	10.74	3	17.11	10.60	4
2008	190.10	21.47	11.30	1	19.67	10.35	3
2009	153.78	16.10	10.47	3	17.80	11.58	1
2010	200.14	21.89	10.94	2	23.55	11.77	1
2011	239.83	25.64	10.69	2	29.50	12.30	1
2012	248.06	26.45	10.66	2	31.94	12.88	1
2013	253.31	24.04	9.49	3	35.16	13.88	1
2014	253.52	22.91	9.04	3	36.67	14.46	1
2015	227.29	20.28	8.92	4	36.35	15.99	1
2016	223.86	20.24	9.04	4	36.87	16.47	1
2017	257.13	21.88	8.51	4	44.09	17.15	1
2018	282.53	23.17	8.20	4	48.38	17.12	1
Total	3061.63	307.31	10.04	3	411.36	13.44	1

Data source: ASEANstats statistical database.

18 Asian Development Bank: "Meeting Asia's Infrastructure Needs", 2017, pp. 16.

mately \$ 26.3 billion. The bilateral trade volume between Japan and ASEAN in 2004 was the US \$ 143.4 billion, and in 2018 it was US \$ 231.7 billion, a total increase of 0.6 times, with an average annual growth of approximately US \$ 5.9 billion. In addition, from the perspective of their status, China and Japan are very important trading partners for ASEAN. In 2004, China was the fourth-largest trading partner of ASEAN, accounting for 8.31% of the total world-ASEAN trade volume, and Japan was the largest trading partner of ASEAN, accounting for 13.36% of the world-ASEAN trade volume. China has remained ASEAN's largest trading partner for ten consecutive years since 2009, accounting for more than 10% of the world-ASEAN total trade volume. During this period, although Japan's ranking has declined slightly, it has always maintained in the top four. From this we can see that both China and Japan are ASEAN's major trading partners, but the bilateral trade between China and ASEAN has grown faster than Japan.

B. Continue to expand investment in ASEAN. After the world financial crisis, China and Japan, especially China's direct investment in ASEAN, are showing a rapid growth. According to statistics from the database of ASEAN countries (see Table 3), the scale of China's direct investment in ASEAN rose from US \$ 3.5 billion in 2010 to US \$ 9.9 billion in 2018, and the proportion of total FDI inflows into ASEAN increased from 3.22% to 6.51%. And the ranking also rose from 7th to 4th in the all ASEAN foreign investment sources. From 2010 to 2018, China's cumulative direct investment volume in ASEAN was US \$ 71.5 billion, making it the fourth-largest source of direct investment in ASEAN in the sense of stock. The scale of Japan's direct investment in ASEAN increased from US \$ 13 billion in 2010 to US \$ 21 billion in 2018, and its proportion in the total ASEAN FDI inflow increased from 12.01% to 13.72%. In the ranking of ASEAN foreign capital sources, Japan's ranking

Table 3 . scale of direct investment from China and Japan to ASEAN in 2010-2018

Year	WORLD	JAPAN			CHINA		
	Amount (10 billion USD)	Amount (10 billion USD)	Proportion (%)	Rank	Amount (10 billion USD)	Proportion (%)	Rank
2010	10.82	1.30	12.01	3	0.35	3.22	7
2011	8.76	0.78	8.91	3	0.72	8.22	4
2012	11.68	1.49	12.72	2	0.80	6.83	3
2013	12.10	2.46	20.34	1	0.62	5.10	4
2014	13.01	1.34	10.33	3	0.68	5.24	5
2015	11.87	1.30	10.92	3	0.66	5.54	4
2016	11.90	1.42	11.97	3	0.96	8.08	5
2017	14.71	1.61	10.98	2	1.37	9.31	4
2018	15.28	2.10	13.72	2	0.99	6.51	4
Total	110.11	13.80	12.53	3	7.15	6.49	4

Data source: ASEANstats statistical database.

increased from 3rd to 2nd. From 2010 to 2018, Japan's cumulative direct investment in ASEAN was US \$ 138 billion, making it the third largest source of direct investment in ASEAN in terms of stock. In summary, China and Japan are both important sources of ASEAN's foreign investment.

3.3 ASEAN's business Environment

The business environment of ASEAN countries has shown a positive trend which has created a good environment for China-Japan cooperation in this region. Business environment refers to the institutional mechanism factors and conditions of enterprises and other market bodies involved in market economic activities. The quality of business environment directly affects the volume of foreign investment.¹⁹ The World Bank has constructed a "business environment convenience score" by applying a certain econometric analysis method. The higher the score is, the better the business environment is.²⁰ Table 4 lists the business environment convenience scores of the ten ASEAN countries in the past five years. It can be seen that the business environment convenience scores of each country have shown a significant growth trend, indicating that the business environment of the ten ASEAN coun-

Table 4 . Business environment convenience scores of the ten ASEAN countries from 2016 to 2020 (overall)

Country	2016	2017	2018	2019	2020
The Philippines	58.2	59.3	59.3	60.9	62.8
Cambodia	52.9	53.2	53.4	53.8	53.8
Laos	48.2	49.1	50	49.8	50.8
Malaysia	78.6	78.3	78.8	81.3	81.5
Myanmar	42.1	42.7	43	43.5	46.8
Thailand	71.9	72.8	78.5	79.5	80.1
Brunei Darussalam	57.5	62.9	67.7	69.6	70.1
Singapore	84.9	85.4	85.6	85.8	86.2
Indonesia	62.1	64.7	66.9	68.2	69.6
Vietnam	62.6	65.3	67	68.6	69.8
Average of ten ASEAN countries	61.9	63.37	65.02	66.1	67.15

Data source: World Bank Business Environment Project Database.

19 State Council: "Regulations on Optimizing the Environment for Doing Business (National Decree No. 722)", October 2019.(国务院：“优化营商环境条例(国令第722号)”，2019年10月) http://www.gov.cn/zhengce/content/2019-10/23/content_5443963.htm.

20 An economy's business environment convenience score ranges from 0 to 100, where 0 is the worst business environment and 100 is the best. For example, a business environment convenience score of 75 points in 2019 means that the economy differs from the best-regulated economy by 25 percentage points in all economies and across time.

tries is getting better.

4. The opportunities of third-party market cooperation between China and Japan in ASEAN

China-Japan cooperation in third-party markets in ASEAN faces great opportunities. In this part, we will analyze the development opportunities of China, Japan and ASEAN brought by the cooperation.

4.1 Helping China reduce overcapacity and realize industrial upgrading

For China, China's economy has grown rapidly and its manufacturing capacity has increased significantly since government adopted reform and opening-up. Chinese manufacturing industry has shown typical characteristics of being large but not strong. It has long been in the middle and low end of the global value chain and industrial chain. At the same time, a series of factors such as the extensive economic development model, the imperfect domestic market economic system, and the incomplete reform of the investment and financing system have caused serious domestic overcapacity problems. In this context, how to promote industrial transformation and upgrading and resolve excess capacity has become a problem that needs to be addressed during the current and future development of China's economy. And China-Japan cooperation in third-party markets in ASEAN is an effective way to solve this problem. On the one hand, China has sufficient capacity and capital. And China has the advantages of low production cost and short production cycle in many areas such as infrastructure construction and environmental protection. However, there is still a wide gap between china's core technology and Japan's; on the other hand, Japan's production costs are relatively high although it has advanced technology, management experience, production equipment and so on. In addition, ASEAN is in a critical period of urbanization, modernization, and industrialization, which means it urgently needs economic construction. But it lacks capital, technology, and equipment capacity and faces many industrialization challenges. Therefore, China-Japan cooperation in the third-party market in ASEAN can achieve complementary advantages and mutual benefit of all parties. China can also learn Japan's cutting-edge technologies while effectively exporting excess capacity. Then it can drive the upgrading of Chinese industry and make China's manufacturing industry at the high-end of the value chain.

4.2 Revitalizing Japanese economy

For Japan, Japanese economy has fallen into a long-term stagnation since the burst of

the bubble economy in 1990. For example, domestic consumption continues to be sluggish, labor shortages are becoming more prominent, the process of aging population tends to speed up, and the debt burden is becoming more serious. Exploiting international markets has become an important breakthrough point for Japan to revive its economy. However, in recent years, Japanese exports and production have gradually lost their vitality due to the slowdown in global economic growth. And the risk of economic recession has increased. At the same time, after President Trump took office, he began to implement protectionist measures and announce a series of measures including withdrawal from TPP, which brought a lot of uncertainty to Japan's foreign trade. In this context, adopting China's "Belt and Road" initiative and cooperating with China to open up new markets together can become an important way for Japan to diminish the negative effects of the current turbulent economy. China-Japan cooperation in the third-party market in ASEAN is the concrete realization of this idea and it is expected to become a new engine for Japan's economic development.

4.3 Promoting ASEAN Connectivity

For ASEAN it has a very obvious location advantage. ASEAN is located at the "cross-roads" of the two continents and oceans (Asia and Oceania, the Pacific and the Indian Ocean). In 2010, the 17th ASEAN Summit adopted a master plan on ASEAN connectivity which established a connectivity blueprint based on infrastructure construction, mechanism construction, and humane interchange. However, ASEAN's infrastructure construction progress has been extremely slow. The infrastructure interconnection construction not only needs to invest a lot of capital and manpower, but also faces problems of difficult construction and slow investment recovery. It is difficult to carry out related construction by themselves for ASEAN. The cooperation between China and Japan in the third-party market can provide financial support, human resource and technical support for ASEAN infrastructure construction. During the construction process, China and Japan can assist ASEAN to improve their technical level and reserve talents through technology transfer and employee training. If the construction is completed, ASEAN countries can achieve more effective, extensive and diversified humanities exchanges and economic and trade cooperation with interior countries and foreign countries. It will help narrow ASEAN's internal development gap, enhance ASEAN's overall competitiveness, and promote economic growth.

5. The challenges of third-party market cooperation between China and Japan in ASEAN

In addition to the opportunities mentioned above, China-Japan third-party market coop-

eration in ASEAN also faces serious challenges.

5.1 Lack of sufficient experience

The "Memorandum of Third-Party Market Cooperation between China and Japan" was proposed relatively new (2018), the two sides have not accumulated much experience in cooperation. On the one hand, the concept of "third-party market cooperation" has been less than 5 years since its introduction. And there is limited cooperation experience between China and other developed countries that China and Japan can use in the process of cooperation. In recent years, China and Japan have applied the concept of third-party market cooperation in exploring international market. For example, Japan Express Co., Ltd. has been cooperating with China Railway Corporation since 2015 to assist Japanese-funded enterprises in China to carry out transportation business to Central Asia and Europe by using China-Europe trains. Then it officially provided land and sea intermodal transportation services connecting China and Japan ports,²¹ Central Asia and Europe in September 2017. However, the cooperation scope is narrow and the conflicts of interest are small. Besides, they have limited useful experience in cooperation. The joint development of the ASEAN market by China and Japan is still in the exploration stage of Sino-Japanese third-party market cooperation and some conflicts will inevitably occur while the two sides share interests. For example, in the field of technology-related cooperation such as high-speed rail construction, whether the construction standards are based on Japan or China, whether the core technology is provided by China or Japan, and which party holds the right to speak, etc. The settlement of these contradictions not only concerns the fairness of cooperation between the two sides, but also provide demonstration effect for China-Japan third-party market cooperation in other countries and cooperation fields. Due to the lack of sufficient experience, the two sides still need to continuously discuss in practice.²²

5.2 Political interference

Economic and political relations are closely related. Only with a solid political foundation

21 China's Belt and Road Network: "Chinese Ambassador to Japan: "Belt and Road " becomes a new platform for mutually beneficial cooperation between China and Japan", June 2018.(中国一带一路网：“中国驻日大使：“一带一路”成中日互利合作新平台”，2018年6月) <https://www.yidaiyilu.gov.cn/ghsl/gnzjgd/57111.htm>.

22 Wu Chongbo, Hu Yilin: "Thinking about China-Japan Promoting Third-Party Market Cooperation under the Belt and Road Initiative", *Journal of Guangxi University of Finance and Economics*, Vol. 32, No. 4, August 2019, pp. 11-19.(吴崇伯, 胡依林：“一带一路倡议下中日推进第三方市场合作的思考”，《广西财经学院学报》，2019年8月第32卷第4期，pp. 11-19.)

can China and Japan achieve the goal of jointly exploring ASEAN third-party markets. Affected by the island dispute between China and Japan in 2012, the trade volume between them decreased by 3.9% year-on-year and the decline in 2013 expanded to 5.1%. In 2015, the decline was as high as 10.08%. At the same time, Japanese companies' investment in China also declined. From 2013 to 2015, the declines were 4.3%, 38.8%, and 25.2%.²³ Although the political relations between China and Japan have begun to improve in recent years, there are still many uncertain factors. Among the factors, the United States is the key variable affecting Sino-Japanese political relations. One of the reasons that caused Japan to improve its attitude toward China was a series of extraordinary behaviors after the presidency of U. S. President Trump, such as a high-profile announcement to withdraw from TPP, a protectionist policy, and frequent pressure on Japan's investment and trade with the United States. Sino-Japanese economic and trade cooperation relations is extremely uncertain due to changes in the international political situation. economic cooperation between China and Japan, including ASEAN third-party market cooperation, is likely to change when there is a sudden change in Sino-US relations and Sino-Japanese relations.

5.3 Potential economic risks

China and Japan's investment in ASEAN faces economic risks. Specifically, first, ASEAN countries have low solvency. According to the World Development Indicators 2017, the debt ratio in 2016 of Laos was as high as 327.92%, Indonesia was 184.16%, Malaysia was 94.5%, and the Philippines was 92.55%. Other countries are also mostly above 40%, which is much higher than international debt safety line of 20%. The higher the debt ratio is, the greater the dependence of the country's economic development on its external debt, and the greater the impact of external factors such as the financial crisis. Great economic and political risks are potential under the high debt ratios of ASEAN countries, which increase the uncertainty of China-Japan cooperation in the third-party market of ASEAN. Second, the inflation problem in some ASEAN countries is serious. The "ASEAN Statistical Yearbook 2018" shows that between 2009 and 2017, countries with commodity inflation rate higher than 6 % (some international scholars think that inflation rate higher than 3 % will have a negative impact on the economy²⁴) include Indonesia, Vietnam, Myanmar and Laos.²⁵ In

23 Yasushi: "Transformation of Chinese and Chinese Economic Exchanges from Legal Practices," The 20th CRCC China Research Salon, October 28, 2017. (康石: 「法律実務から見た中国経済・日中経済交流の変貌」、『第20回 CRCC 中国研究サロン』、2017年10月28日) <https://spc.jst.go.jp/event/salon/downloads/salon20.pdf>.

24 Source: <https://www.thebalance.com/types-of-inflation-4-different-types-plus-more-3306109>.

25 In terms of inflation, Indonesia was 7.0% in 2010 and 8.4% in 2013; Vietnam was 6.5% in 2009, 11.8 % in 2010, 18.1% in 2011, and 6.8% in 2012; Myanmar was 10.3% in 2015 In 2016, it was 6.6%; in Laos, it was 7.7% in 2011 and in 2013 it was 6.6%.

some countries, the annual rate of change in inflation has been very large. For example, the rate of inflation in Myanmar was -0.1% in 2014, and it soared to 10.3% in 2015, an increase of up to 104%. The construction of infrastructure facilities takes a long time and a large amount of money. Inflation will undoubtedly cause huge difficulties for Sino-Japanese investment in this area (such as the choice of the investment period, calculation of expected returns, and even business operations).

Judging from the implementation of the 52 projects signed by the Chinese and Japanese parties in the Great Hall of the People in Beijing in 2018, it can be said that progress is very slow and unsatisfactory. However, the global economic pattern is undergoing historic and fundamental change and the future is full of uncertainty. As two countries with significant influence in the world, China and Japan's third-party market cooperation is not only beneficial to the economic development of both sides, but also to the prosperity of Asia and the world. China and Japan must seize the transient opportunities of the ASEAN market by upholding the principle of the Three Communist Party (community discussing, building and sharing) initiated by the "Belt and Road" initiative. Then they can cultivate more cooperation projects based on the needs of ASEAN countries with the help of the third-party market cooperation mechanism between China and Japan. It will provide a model for future economic and trade cooperation between China and Japan and multilateral cooperation among countries around the world.

