

# Newsletter



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## A Call for a Private Sector Advisory Committee for ASEAN Plus 3<sup>1</sup>

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### **1 Introduction**

Until recently, the sense of regionalism, which motivates regional cooperation and integration was not strong in East Asia compared to Europe and the Americas. Regional integration, such as NAFTA, which came into effect in January 1994, and the introduction of a single EU currency, the EURO, in January 1999 certainly stimulated East Asia's regionalism. However, it was effectively the Asian crisis of 1997-98 that made East Asian countries become strongly aware of regionalism and triggered concrete action. The US\$17.2 billion financial assistance provided to Thailand by the countries in the region, together with international financial institutions and the US\$30 billion provided to crisis-ridden Asian countries under the "New Miyazawa Initiative" announced in October 1998, in fact served as a precedent for regional cooperation in East Asia.

Six years after the Asian crisis, the government-led move towards unity within ASEAN+3(China, Japan, Korea) has been strengthened, and regional cooperation in the area of finance has achieved good results ahead of trade and investment. Recently, the move towards regional integration in trade and investment have taken momentum and there is a clear indication that regional cooperation is expanding to diverse areas.

As a response to the government-led move towards regional cooperation, Chinese and Korean think-tanks, with the approval of ASEAN+3, each held meetings composed of representatives from industry, the public sector and academia, to discuss a wide-range of subjects related to

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regional integration<sup>2</sup>. The effort to establish similar organizations has been seen in Japan and these are encouraging signs that regional cooperation is gradually penetrating the private sector. In order to deepen regional cooperation, it is a prerequisite to obtain the understanding and support of the public in the region. This can only be achieved with the formation of a substantial private sector group, which can work effectively with ASEAN+3. This paper addresses the importance of institutionalizing such a group in order to promote regional cooperation in East Asia.

## **2 The Formation of ASEAN+3 and the Promotion of Regional Cooperation**

An attempt towards East Asia's regionalism was made in 1990 by Mahathir, then Prime Minister of Malaysia, proposing the creation of the East Asia Economic Caucus (EAEC) that comprised of ASEAN, Japan, Korea and China. This concept, which was laid out as a countermeasure to APEC, did not get enough support, partly due to Japan's cautious attitude, deriving from consideration towards the United States position. Since then, with the rapid growth of intra-regional trade and investment in East Asia, there has been a pronounced growth in mutual interdependence among the region's economies. With this background, the sense of regionalism, treating ASEAN+3 countries as one group, has been fostered rapidly, especially after the Asian financial crisis, through numerous government meetings held at the summit, ministerial and deputy levels.

These government-led efforts to develop regional cooperation resulted, first in the establishment of a network of bilateral swap agreements to supply short-term liquidity in the event of a financial crisis and in conducting research on the surveillance mechanism of each country's financial policy measures to prevent future crises and to strengthen policy coordination among them<sup>3</sup>. Second, measures have been taken to develop bond markets in the region, which are considered to be considerably underdeveloped compared to Europe and North America, based on an initiative proposed by the Japanese Government at the ASEM Finance Ministers' meeting in July 2003 in Bali. In addition to developing the domestic capital markets, a series of studies have been undertaken regionally on subjects such as cross-border bond issues, securitization, credit enhancement systems, developing market infrastructure, etc.

In the area of trade, China and the ASEAN reached a basic agreement to create a FTA within ten years, and Japan and Korea are separately negotiating several FTAs. In the medium and long-term perspective, there is a possibility that ASEAN+3 will eventually reach an agreement to

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<sup>2</sup> The inaugural meetings of the Network of East Asia Think-Tank (NEAT) and East Asia Forum (EAF) were held in Beijing in September and in Seoul in December 2003 respectively.

<sup>3</sup> In accordance with the Chiang Mai initiative, a total amount of US\$36.5 billion bilateral swaps has been contracted.

form a free trade zone. In the area of currency systems, academia has proposed the adoption of a currency basket system. Creation of a regional currency system is expected to become a major subject of discussion among the governments in the future.

It is essential that the private sector actively participates in financial cooperation and regional bond market development, which have been led primarily by the governments, and also in promoting the creation of a free trade zone and a regional currency system, which are certain to become the major items on the agenda in the near future. The private sector, working on the basis of economic rationale, can contribute by implementing concrete steps to attain regional cooperation based on the framework designed under the auspices of ASEAN+3. With regard to the trade and currency systems, for example, once the government-led framework is set, the private sector can be both the instigator, carrying out the actual business on the basis of market principles, and the beneficiary from the results. With regard to bond market development, the key is the private sector's contribution to market reforms, based on economic rationale, and its direct involvement in corporate governance issues. In order to foster the momentum and to sustain the government-led movement towards regional cooperation, it is essential to facilitate public-private sector dialogue by institutionalizing the participation of the private sector.

### **3 Regional Cooperation in East Asia Lacks a Security Dimension**

East Asian regionalism is founded on interdependence among the economies in the region, based upon market principles as seen in increasingly close intra-regional trade and investment. In the EU, in addition to economic interdependence, the Franco-German "No-War Treaty", which is based upon a common historic view, provided a solid base for integration among EU member countries. ASEAN+3 does not have a strong political framework to unite them since there are no security arrangements in the region. This is the reason why some believe that there is a tendency to consider East Asian regionalism as rather fragile.

East Asian regionalism is heavily dependent upon how Japan and China can cooperate and whether they take a leading role. However, since there is no security arrangement between the two countries, they cannot contribute to regional integration in East Asia in the same manner as the Franco-German security cooperation contributed to the EU. Because of the Yasukuni shrine issue, exchanges of visits at the top-level between the two countries have been hindered for more than two years. It will also take a long time and strenuous efforts to solve the school textbook issue, as the two nations must come to share a common interpretation of history in order to do so. On the other hand, China, which was not enthusiastic about regional cooperation right after the Asian crisis, did become more positive some time in 1999. Therefore, it should be considered that the basis for economic cooperation between the two countries has been laid down.

East Asian regionalism should find its own path based upon its particular values and a realistic approach, which may differ from the EU. Although there is political discord between Japan and China, regional cooperation can still be promoted, if the private sectors of the two countries can deepen interaction through systematic integration. Although the private sector is underdeveloped in China, entrepreneurial activity has already become an important force in the national economy and there is a movement to integrate entrepreneurs into the Communist Party and to permit private property rights by amending its constitution. Interaction between the private sectors of Japan and China should be enhanced to promote regional cooperation, in anticipation that the private sector in China, which can act more openly and flexibly compared to the government, will gradually be strengthened.

#### **4 Public-Private Sector Dialogue in Regional Organizations**

The following summarizes how regional governmental organizations such as the EU, OECD, APEC and ASEM instituted public-private sector dialogue:

##### **EU and the European Economic and Social Committee**

In accordance with the Treaty of Rome, the European Economic and Social Committee (EESC) was created in 1957. The EESC, whose members are organized private sector groups consisting of representatives of entrepreneurs, trade unions, farmers and consumers, conducts policy dialogue between the EU and its citizens in its role as an advisory institution to the European Commission, European Committee and the European Parliament which makes policy decisions.

##### **OECD and BIAC**

The OECD, which was established in 1960 as a think-tank for industrial countries, recognized in 1962 BIAC (Business and Industry Advisory Committee) and TUAC (Trade Union Advisory Committee) as its advisory organizations<sup>4</sup>. BIAC, which is composed of economic organizations from OECD member countries, enjoys more than a forty year history. There are more than a dozen subcommittees within BIAC covering subjects like agriculture, economic policy, environment, export credit, governance, information, computer and communications policy, taxation and fiscal policy etc., corresponding to the committees established within the OECD. BIAC, which is located in Paris in proximity to the OECD Paris office, provides advice to OECD ministerial meetings and maintains close contact with the OECD through these subcommittees. BIAC operations are financially supported by contributions from its member countries' economic organizations, calculated in accordance with the size of the country's economy.

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<sup>4</sup> Japan's member organization for BIAC is the Japan Business Federation and for TUAC the Japanese Trade Union Confederation ("Rengo").

## **APEC and ABAC**

ABAC (APEC Business Advisory Council), an advisory committee to APEC, was created on the basis of a resolution made at the 1995 APEC Osaka Meeting. It functions as a private sector advisory body to APEC leaders to promote liberalization of trade and investment and other related matters in the region. ABAC is composed of private sector economic organizations of APEC member countries and its international secretariat is located in Manila. ABAC Japan is supported by five economic organizations including the Japan Business Federation (Nippon Keidanren). APEC, which played an important role in forming the sense of regionalism within ASEAN+3, is composed of twenty-one Pacific Rim nations and is considered to be more loosely structured than ASEAN+3 due to its diverse membership.

## **ASEM and its Private Sector Advisory Committee**

ASEM (the Asia-Europe Meeting), a forum for dialogue for economic, political and cultural cooperation between Asia and Europe, first met at the summit level in Bangkok in 1996 and since then, a summit meeting has been held every two years. The Asia-Europe Vision Group, an advisory group nominated by ASEM, proposed in 1999 the creation of the Asia-Europe Business Advisory Councils (BACs). BACs have not been created yet, but the Vision Group has recommended that they be first established in each of the two regions.

Except for ASEM, all other organizations have a forum through which they conduct dialogue with their respective private sectors. The EU, which is the most advanced in regional integration, has institutionalized the participation of private sector representatives as an integral part of its policy decision process. The OECD-BIAC partnership is well equipped to conduct public-private sector dialogue as needed through specialized committees.

## **5 Effects of Public-Private Sector Dialogue**

Promotion of regional cooperation is primarily dependent upon the initiative or leadership exercised by the governments or political leaders. However, regional cooperation initiated by the governments will be deepened by the participation of the private sector, which will be responsible for implementing it. Private sector linkages among East Asian countries will no doubt be further promoted with time through free cross-border movements of people, goods and services, investments and information, helped by information technology. If the citizens in the region can share the pragmatic view that regional integration in the fields of finance, trade and investment will bring about economic benefits, such a view will certainly contribute to the promotion of regional integration. Because there is no regional cooperation on security issues, economic integration matters all the more.

From the half century history of the EU, two lessons can be drawn from the public-private dialogue which may be considered relevant to East Asian integration. The first lesson is institutionalization. At an early stage of integration, for instance, the EU took steps to institutionalize the participation of the private sector by creating the EESC in order to establish public-private sector dialogue. The steps taken towards regional integration in the history of the EU are indeed a history of institutionalization. Secondly, the EU made efforts to win public support by presenting evidence of economic benefits resulting from financial integration<sup>5</sup>. These are important practical lessons from the steps taken by the EU, providing the base for public-private sector dialogue by promoting understanding and cooperation.

The time is approaching for ASEAN+3 to establish a secretariat in order to strengthen itself as an organization and to deepen regional integration. Now that a network of bilateral swaps has been formed as a first step, it needs to be upgraded to a multilateral arrangement in order to function effectively and efficiently as a regional arrangement to prevent future financial crisis. Furthermore, regional cooperation needs to be expanded to diverse areas, including trade, investment and currency system. The secretariat for ASEAN+3 can be created separately from the secretariat for ASEAN, which is now located in Jakarta. When such a secretariat is created, the establishment of a private sector organization as an advisory body to ASEAN+3 should be considered simultaneously.

## **6 Creating a Private Sector Advisory Body for ASEAN+3**

In January 2003, the Nippon Keidanren proposed in its publication, “Aiming to Create a Vibrant and Attractive Japan” that “the partnership among East Asian countries should be strengthened.” It stated that ASEAN+3 should complete the creation of an Asian Free Trade Zone by 2020 at the latest. For this purpose, Japan should take a leading role by liberalizing its agricultural market, and opening its society to foreigners. The proposal set forth is a clear, long-term vision with the prospect that regional integration will bring about economic benefit to the region.

In order to cope with such a long-term vision, the private sector of ASEAN+3 should consider establishing an intra-regional group of business organizations in response to the governments’ actions. Since the private sector organizations must be capable of corresponding with the public sector organization, a private institution like BIAC corresponding to the OECD is considered a

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<sup>5</sup> Cecchini report of 1988 (“1992: the Benefit of a Single Market”) provides a good example. The report studied, when Europe was to move towards deeper integration, the potential benefits of a single market in terms of GDP and the number of jobs expected to be created.

suitable model. It is desirable that the secretariat of ASEAN+3 and the private sector advisory committee are located in close proximity to each other to streamline dialogue between the two sectors.

The government-led move for regional integration after the Asian financial crisis is still at an early stage. In order to promote such a move, it is essential to secure the understanding and the support of the public in the region. In this sense, regional integration can only be achieved through public-private collaboration. Therefore, the private sector should organize itself to respond systematically to the efforts made primarily by the public sector to voice its point of view.

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