

Newsletter



Institute for International Monetary Affairs

(財)国際通貨研究所

What is the Practical Approach to Promote an “East Asian Community”?¹

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1. Introduction

The first East Asia Summit will be held in Malaysia this December. The ASEAN plus 3 (Japan, China, Korea) summit was first held in Kuala Lumpur in December 1997, at the time when the Asian crisis was spreading throughout the region. The meeting has continued to be held annually since then. This year, in its ninth year from the first meeting, it will hold an “East Asia Summit” to discuss the long-term goal of creating an “East Asian Community.” Prime Minister of Malaysia, H.E. Dato Abdullah Bin Haji Ahmad Badawi has demonstrated his leadership by proposing a “Community Charter” which will include the vision of an East Asian Community and the process by which it can be achieved.

The steady promotion of an East Asian Community has, however, been hampered by the deterioration of relations between Japan and China which was aggravated by the anti-Japan demonstrations in China in April. At the same time, a former U.S. government official has expressed his concern regarding the move towards creating a Community that does not include the United States.² The Japanese public opinion is presently split on the subject.

The creation of an East Asian Community would imply further regional integration,

¹ This article was published in “International Finance Journal No1150” issued by Institute for Foreign Exchange and Trade Research in August 1, 2005.

² Richard Armitage, former Deputy Secretary of State, “Is Participating in an East Asia Community in the National Interest?” (2005), Wedge, May 2005

moving from the current interdependence, limited to trade, finance and investment, to a higher level of integration, lowering barriers in the political, defence and security, and socio-cultural areas. The member countries appear eager to create such a Community. However, no government is likely to have the illusion that such a Community, which would incorporate security and defence arrangements and transform the role of nation states, could be created in the medium term among East Asian countries that have such diverse political systems and values. Most would readily agree that this is a long term process that requires several decades, with the prerequisite of establishing mutual trust through generations, and that it is not possible to predict its success or failure at this stage.

In order to promote such a project, it is necessary to deepen inter-governmental dialogue, and to involve the private sector to generate momentum, while securing the support of the public and taking practical steps wherever possible. This paper presents the case that the sensible approach towards creating an East Asian Community is to enhance economic integration as a first step. If economic integration is carried out successfully, it would lead to the promotion of political and social integration as well.

2. Economic Cooperation in the Forefront of East Asia Regional Cooperation

The East Asia economic area was formed through an increase in inter-regional trade and investment beginning in the 1990s. It has the distinctive feature of having deepened economic interdependence among members without dependence on any structural framework. This is clearly different from how the European Union (EU) was created. It first established a structural framework, including a customs union, and promoted integration within the framework. Another major difference is that East Asia encompasses countries with diverse political systems, stages of economic development, levels of income, culture and religion, unlike the EU where the members share many commonalities. East Asia also lacks a security and defence framework as well as a political incentive for integration like the German-French rapprochement as the basis for European integration. These circumstances foretell that the process of integration in East Asia will be very different from that of Europe and likely to be even more complex.

The East Asia financial crisis served to promote exchanges among governments in the area. In addition to summits, meetings are regularly held at the ministerial and bureaucratic levels in the financial, economic, labour, agriculture, tourism, energy, environment, insurance and telecommunication areas. Government-led regional cooperation in a wide range of fields has deepened dramatically. Up to now, concrete

results based on government discussions have been limited to cooperation in the areas of finance and trade; the Chiang Mai Initiative (CMI), which is a regional financial arrangement to deal with future financial crises, and the free trade agreements (FTAs), which the East Asian nations are working to conclude. These would institutionalize regional understandings on trade, to correspond to the EU and NAFTA.

A more comprehensive proposal on regional integration was submitted by the East Asia Vision Group to the ASEAN plus 3 summit meeting in 2001. The report identifies three goals to be pursued by the East Asian Community; (1) regional peace, (2) common prosperity, and (3) human progress. It makes concrete recommendations on economic integration such as an Asian Monetary Fund (AMF) and an East Asia Free Trade Area but touches only briefly on the areas of defence and security and human rights.

3. Importance of Securing Public Support to Promote an East Asian Community

The report by the Vision Group recommended that a study on the creation of an East Asian Community should be conducted by private think-tanks. This led to the establishment of the Network of East Asia Think-tanks (NEAT) in Beijing in October 2003, supported by the Chinese government, with think-tanks from the East Asia region as members. At the same time, the East Asia Forum (EAF) was formed and held its first meeting in Seoul in December of the same year. The Japan Forum on International Relations is the organization participating in NEAT from Japan. The second annual conference of NEAT was held in Bangkok in 2004 and the third is planned for August this year in Tokyo. Similar to the East Asia Vision Group, NEAT suggests there should be three pillars to the East Asian Community; (1) an East Asian Security Community, (2) an East Asian Economic Community and (3) an East Asian Socio-Cultural Community.³

Think-tanks of East Asia are expected to play a significant role in spreading the idea of an East Asian Community by making recommendations to governments through open dialogue and generating interest among the public.

4. The Participants of the First East Asia Summit

The participants of the first East Asia Summit to be held in December 2005 have not been announced officially, but there is a possibility that India, Australia and New Zealand will be invited in addition to the ASEAN plus 3 countries, increasing the

³ Policy Recommendation Paper "Towards an East Asian Community" by NEAT submitted to the ASEAN plus 3 Summit, Vientiane, 29-30 November 2004

number of participants to 16. ASEAN plus 3 members take varied political positions regarding the expansion of the number of participating countries. According to the news coverage, Malaysia, Laos, Brunei and Cambodia seem to be reluctant, while Japan, Singapore, Indonesia, and Vietnam are supportive. India, Australia and New Zealand have individually held meetings with the leaders of ASEAN plus three at the same time the ASEAN plus 3 summits were held in recent years. Economic ties between the East Asian group and these three countries have been getting closer, and they are also considering whether to join the Treaty of Amity and Cooperation in Southeast Asia (TAR) which ASEAN sees as a condition for its membership. All these developments seem to suggest that circumstances are ripe for their participation.

Other considerations also arise. In addition to the economic rationale, there is a desire to erase the image of exclusivity which ASEAN plus 3 is often accused of. It is also thought that inviting India as a member would help to balance the growing influence of China. Such an increase in the membership of the Summit would also lead to a rise in the number of members with close ties to the United States.

5. Deepening of Economic Interdependence

The agenda for the Summit has not been announced. It may follow the three pillars laid out by NEAT, in which case, the values and principles held by the members on security issues would be so diverse that it would be impractical to expect any development in the absence of the United States, which has close ties within the region. Japan maintains a close alliance with the United States. Therefore the commitments that Japan could make in the Summit would be strictly limited.

Although cultural exchanges should be actively encouraged to develop a socio-cultural community, unfortunately the basis for a shared historical understanding does not exist among Japan-China and Japan-Korea. There is no easy way to overcome this difficulty and it will require a long time and much effort based upon continuous dialogue among the historians of the affected countries. Consequently, in both of these areas, a big step forward cannot be expected in the short term and forcing progress would be impractical and unproductive.

In contrast, in the areas of trade, finance and investment, government efforts in the last eight years have led to considerable progress in structural arrangements.

Trade:

- (1) Various member countries are in the midst of earnest negotiations of bilateral FTAs, and a number of them have already been signed. For example, Japan has

concluded an FTA with Singapore, has recently signed a basic agreement with Malaysia, and is currently negotiating with Korea and Thailand. In a few years there will be a network of FTAs among the countries in the region.

- (2) A comprehensive FTA with ASEAN is expected to be reached in 2009 in the case of Korea, in 2010 for China and in 2012 for Japan.
- (3) There are expectations that an East Asia Free Trade Area will be formed in the 2010s through the establishment of a network of bilateral FTAs and a free trade area with ASEAN at its core.

Regional Financial Cooperation:

- (1) The Chiang Mai Initiative (CMI)

The Chiang Mai Initiative which was agreed at the ASEAN plus 3 Finance Ministers Meeting in May 2000 has already formed a network of bilateral swap agreements worth US\$39.5 billion. An expansion of the CMI was agreed upon at the Finance Ministers meeting held in May of this year; doubling the net amount of bilateral swaps and increasing the size of swaps that can be withdrawn without an IMF-supported program from the current 10% to 20%. In addition, it was decided to study the possibility of merging the bilateral swap treaties into a multilateral arrangement in order to strengthen the CMI. Once the CMI becomes multilateral, it will open the way for the creation of an Asian Monetary Fund which would function as a means to avoid financial crises, resolving them in the event they occur, and, if the member countries agree, providing the necessary funds for intervention to stabilize the foreign exchange market resulting in a more efficient financial management in the region.

- (2) The Asian Bond Market Initiative (ABMI)

Various efforts to nurture bond markets, which allow the allocation of abundant savings in the region to businesses with a need for funds, have resulted in concrete measures in many member countries. Investment funds using public money are also being created by the central banks in order to develop bond markets.⁴

Currency and Foreign Exchange Areas:

Extensive debates are taking place on cooperation in the fields of currency and foreign

⁴ The Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), whose members are the central banks of East Asia and Oceania, was established in 1991 to strengthen relations among the central banks of the region. The EMEAP created two bond funds, Asian Bond Fund 1 (1 billion dollars) and Asian Bond Fund 2 (2 billion dollars), in order to promote bond markets in the region.

exchange.

- (1) Various proposals are being studied to stabilize regional currencies, including the adoption of a currency basket.
- (2) Maintaining a stable relationship among regional currencies is indispensable to encourage trade and investment and to stabilize the economy in the region. For this purpose, a range of currency arrangements have been suggested with the ultimate idea of adopting a common currency. East Asia has huge reserves in US dollars and it needs to review the relationship between the dollar as the key currency and the regional currencies. A common currency can only be realized if there is a deep trust among the regional economies, which means that in pursuing the idea, security issues will have to be discussed.

6. Policy Coordination

In order to advance the creation of an “Economic Community”, various functional agreements that have been reached so far need to be institutionalized. By opening the domestic market, FTAs could promote structural reforms of the economic infrastructure such as in the financial system and agricultural management.

As trade finance transactions increase even more, economic policy coordination will become indispensable for financial, foreign exchange and currency stability. Such coordination is precisely where East Asian governments should focus upon now. One concrete example would be to create a surveillance mechanism in the region, and establish a working framework through which mutual peer pressure could be applied. A possible step would be to expand the CMI into a multilateral mechanism and to add a surveillance function to it.

If such inter-governmental policy coordination becomes possible, it would be a step towards the creation of an Economic Community. If the general public recognizes the economic merits of such policy coordination, then there would be more regional support for such an effort.

7. East Asian Regionalism and the United States

The most serious concern of the United States in relation to an East Asian Community is the growing influence of China in both the political and economic areas. Former Deputy Secretary of State, Richard Armitage, who is a security expert, made some comments on the East Asia Summit, in which he pointed out the following;⁵

5 Refer to note 4 above.

- (1) The United States, as a member of the Pan-Pacific community, holds a major interest in the economic, military, defence and security of East Asia. It cannot accept an East Asian Community which excludes the United States.
- (2) If East Asia is keen to establish an East Asian Community, why cannot it be formed with APEC as its basis?
- (3) The United States and Japan share a wide range of interests and values, and the US-Japan alliance is the foundation that supports multilateral relations, including those involving East Asia. There is no practical advantage for Japan to participate in an East Asian Community that does not include the United States.

He argues that for Japan to promote the creation of an East Asian Community without the participation of the United States is incompatible with the strong US-Japan alliance. Although he is well-known to be a top expert on Japan, it seems that there is a lack of information and understanding on the circumstances surrounding East Asian regional cooperation and on Japan's attitude and interest in the issue. Although this is a mere speculation, the U.S. opinion towards the East Asian Community may be the result of a lack of US-Japan dialogue on the subject and Mr. Armitage's attitude could be a result of this shortcoming.

Regional integration is inevitable as globalization becomes the order of the day. Just as the development of the EU and NAFTA, regional integration in East Asia is a natural outcome. NAFTA is so far only a free trade agreement but aims to develop into the Free Trade Area of the Americas (FTAA) to encompass comprehensive cooperation throughout North and South America.

For Japan, an East Asian Community has to be consistent with the US-Japan alliance. As defence and security issues could be among the topics of the first East Asia Summit, Japan must gain the support of the United States with which it has a strong treaty arrangement in order to be a major player in the discussions. Admittedly, there are some opinions that the US-Japan security arrangement and an East Asian Community are not compatible. That reasoning is based on the belief that East Asia should concentrate on the development of an Economic Community. However, it is in the interest of Japan to have a regional forum to discuss political and security issues in a dynamically changing economic, political and security environment.

While keeping in mind that the US-Japan security alliance is the core of Japan's national security and hence an East Asian Community must be compatible with that arrangement, Japan must enhance the dialogue with the United States to gain its understanding of Japan's participation in the Community. In the course of European integration, Germany, while maintaining an exceptionally close partnership with France,

had the understanding of the United States on nearly all aspects of regional integration. Japan must make the same effort. On the other hand, if Japan does not participate in an East Asian Community, China will play the dominant role in regional integration and this may not be in the best interest of not only ASEAN but of the United States as well.

8. Conclusion

Forming an East Asian Community is a long term project for the 21st century that will probably take several decades to realize. It is difficult to infer what sort of discussions will take place at the first East Asia Summit since there is not yet enough material to judge, but high ideals and values such as democracy and good governance are likely to be heralded as long-term goals. The ensuing steps are still unknown and there will likely be much trial and error, but a step by step approach will probably be pursued to reach those goals which are attainable. The process will differ from that of Europe or North America but the principles upon which the East Asian Community will undoubtedly be developed will be based upon the values of the regional members. A wide-ranging participation of both the government and the private sector is indispensable to build the necessary dialogue in the process.

East Asian cooperation will continue to be preceded by economic cooperation, based on the pillars of trade (FTAs) and finance (CMI), which will be the core of regional economic integration. If the functions of the two pillars can be systematized and if economic policy coordination is achieved contributing to the stability of the regional economy, integration in East Asia could spread to other areas. If the people of the region, especially the private business community which supports the economy, can fully appreciate the benefits of such economic integration, then regional cooperation can be pursued without being derailed by unfortunate incidents such as the anti-Japan demonstrations held this April in China.

It is in the interest of Japan to promote an East Asian Community. But in doing so, Japan must take well-considered steps as a member of East Asia while assuring compatibility with the US-Japan Security Treaty. Extensive and continued dialogue between Japan and the United States would be the key to success.

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