

Minutes of The 3rd Annual Conference of the Network of East Asian Think-Tanks (NEAT)

“Towards an East Asian Community”

22 August, 2005, ANA Hotel, Tokyo, Japan

The 3rd Annual Conference of the Network of East Asian Think-Tanks was held in five sessions on 22 and 23 August, 2005

I. Opening Session

Remarks by Prof. Ito Kenichi, President & CEO, the Japan Forum on International Relations, Host Country Coordinator of the 3rd NEAT Annual Conference

- Welcomed participants, asked all to join him for one minute of silent prayer for victims of the earthquake and tsunami disaster.
- East Asian economies continue to be the engine of growth of the world economy. Even the Japanese economy is recovering.
- Against this background, rapid progress has been seen in FTA and the EPA negotiations. Also cooperation in finance, investment, science and technology, environment, energy, anti-piracy, anti-terrorism. A record of functional cooperation is rewritten every day.
- Welcomed the decision of the ASEAN+3 Foreign Ministers meeting enabling the participation of India, Australia and New Zealand in the East Asia Summit in December. This shows that the community building in East Asia is based on the principles of openness, transparency, inclusiveness and comprehensiveness.
- Reported that the Council on East Asian Community(CEAC) was established in Japan as a private gathering of scholars, journalists, politicians and businessmen who were interested in community building in East Asia. After yearlong discussions in the CEAC, a Policy Report was published in August and included in the conference materials for the participants.
- The feature of the 3rd Annual Conference is the fact that six working groups have presented elaborate reports on six topics: finance, monetary policy, global imbalances, energy, investment, guidelines and architecture of community building. Deliberations at the Conference will be summarized as Policy Recommendations to be presented to ASEAN+3 Summit and East Asian Summit.

Remarks by Amb. Wu Jianmin, President, China Foreign Affairs University, Co-Interim Coordinator and the host of the 1st NEAT Annual Conference (read by Prof. Qing Yaqing)

- Cooperation is the only way to prosperity and stability in the region.
- 10+3 declared establishment of East Asian community is the goal of East Asian cooperation.
- Three pillars of ASEAN: security community, economic community and cultural community.
- Cooperation agreement signed with ASEAN and China, Japan and Korea; FTA building in progress.
- ASEAN+3 is the most successful and vigorous cooperation mechanism in East Asia.
- Meetings held after the tsunami created an important model for a mutual help in combating natural disasters.
- First East Asian Summit scheduled in Malaysia this year.
- NEAT is active as a major platform for the Track II process, plays an important role in promoting cooperation.
- Policy proposals submitted to 10+3 and governments of East Asian nations.
- NEAT carries out practical research in six working groups.
- China's experiences with working groups shows that they have depth, are action oriented and attract media attention. Useful forums for people-to-people

communication.

- Propose that we continue the modality of working groups, either furthering the research of existing working groups or defining new areas for new working groups.
- In the coming year:
 - 1) Leadership needed in the cooperation process, support the leading role of ASEAN.
 - 2) Sino-Japanese relations have caused people to doubt the future of East Asian cooperation. I am concerned but optimistic. The two governments have expressed the political will to improve cooperation. Difficulties are not an obstacle but a new impetus to East Asian cooperation.
 - 3) Role of US in East Asian cooperation: We welcome the positive contribution of all countries and international organizations. Peace, prosperity and progress in East Asia are in the best interests of the United States.
- East Asian cooperation is our only choice if we are to realize peace, prosperity and progress.
- Asian cooperation has a bright future. Community building is a noble goal. NEAT will carry out practical research and put forward suggestions.

Remarks by Associate Prof. Yupha Klangsuwan, Director, Institute of East Asia Studies, Thammasat University, Co-Interim Coordinator and the host of the 2nd NEAT Annual Conference

- A consensus has emerged:
 - 1) Long-term vision of East Asian cooperation is to create an East Asian community.
 - 2) East Asian cooperation should be based on existing cooperation processes, neighborly ASEAN cooperation.
 - 3) Long-term goal is the establishment of an East Asian economic community. Financial cooperation and East Asian free-trade area are higher priorities.
- East Asian security community concept and modalities and should be further explored.
- Japan, China and Korea should be given greater roles and responsibilities.
- East Asian Summit should be based on the ASEAN process.
- ASEAN+3 summit may wish to commission NEAT to prepare think tank papers on the promotion of an East Asian community and prepare a roadmap to an East Asian community.
- ASEAN+3 leaders will issue a second joint statement in 2007 to consolidate existing and future cooperation efforts. Drafting process to begin soon.
- First time in history that Southeast and Northeast Asian countries are trying to build a community, lasting peace, sustainable progress and enduring prosperity to East Asia.
- NEAT has a role to play in fostering East Asian cooperation by building a solid foundation for community building.

Address by Mr. Tanaka Hitoshi, former Deputy Minister for Foreign Affairs of Japan

- Rationale for the creation of an East Asian Community:
 - 1) Regional cooperation by definition creates peace and stability. Region has enormous potential for economic growth, trade expansion and economic cooperation. Should maximize those potentials.
 - 2) Regional cooperation will maximize the potential of the region.
 - 3) Globalization requires regional adjustments.
 - 4) Unique issues for East Asia: how best to appreciate the rise of China?
- Issues to be overcome:
 - 1) Need to have a stronger ASEAN. Important that ASEAN be in the driver's seat for community building. Necessary given past history and the geopolitical situation in the region.
 - 2) Korean Peninsula: How to deal with nuclear development?
 - 3) Sino-Japanese relations: Countries in East Asia tend to see China and Japan as competing for leadership of community building in East Asia, but this is not correct. China and Japan have distinct common interests in deepening regional cooperation. Need to think about how to restructure the bilateral relationship, which must be considered in a much wider context.

- Expectations from this meeting:
 - 1) Intellectual input from think tanks is essential for the East Asian community building process. Need concepts for the East Asian community. Are we aiming for a community of values or an economic community?
 - 2) What areas deserve priority in functional cooperation? Finance, energy, environment are important areas.
 - 3) Roadmap for community building. East Asian Summit coming at the end of the year. Symbolic event but important first step for community building in East Asia.
- Must distinguish between ASEAN+3 and East Asian Summit. Summit must be inclusive.
- East Asia is a region in which we can have pride, but cannot forget the key concepts of openness and transparency.
- Welcome the participation of Australia, New Zealand and India as well. Must think about the right format for "outreach."
- Discussions in the East Asian Summit need to be communicated to the rest of the world in order to ensure transparency. Look forward to the results of this conference, its recommendations.

II. Session 2 “Financial Cooperation and Global Imbalances”

Chair Prof. Park Innwon, Professor, Korea University, CC for Korea

- The financial crisis of 1997 demonstrated the importance of economic cooperation between countries in the region.

Report by Professor Qin Yaqing on behalf of Amb. Wu Jianmin, Director, WG on “Financial Cooperation in East Asia”

- Meeting in Shanghai in April was attended by 10 countries and reached consensus that East Asian nations need to take immediate and practical measures for financial cooperation.
- The 10+3 governments have taken some measures since the completion of our draft report. However some are not to the exact expectations of the NEAT working group.
- Three outstanding issues in economic development:
 - 1) East Asia has a rapid economic growth rate, but risk management capability is low.
 - 2) East Asia has high levels of foreign exchange reserves, but cannot utilize them effectively.
 - 3) East Asia has high level of intraregional trade, but lacks financial cooperation.
- Policy proposals:
 - 1) Explore the possibility of expanding the functions of the CMI (short-term liquidity assistance, stabilization of exchange rates, sustained development of financial markets, surveillance)
 - 2) Expand size of CMI
 - 3) Establish multilateral framework.
- Development of the Asian bond market:
 - 1) Enhance coordination mechanisms (need in-depth research on infrastructure, development, investment opportunities, accounting systems and information sharing).
 - 2) Increase size (expand to \$8 billion to enable higher investments in regional bonds, especially issued by governments and financial institutions; attract investors in and outside of the region);
 - 3) Increase the bond supply (in local or basket currencies);
 - 4) Enhance information exchange and surveillance.
- Strengthen policy coordination regarding exchange rates. Lack of institutional discipline and self-restraint seems to be a problem faced by East Asian countries.
- Financial cooperation is a crucial but a weak link in the process of economic integration in East Asia.

Report by Dr. Yoshitomi Masaru, Director, WG on “Promoting Economic Integration in Asia through

Resolving New Global Imbalances”

- Held three seminars on the East Asian role in resolving global imbalances.
- New global imbalance: the large US current-account deficit and large accumulation of foreign exchange reserves in East Asia. Need to find coordination policies and exchange rates to resolve this imbalance.
- Shortage of domestic savings in US has the country running a large current-account deficit amounting to 6% of GDP, which accounts for 3/4 of total world current account deficits. Counterpart of US deficit is external surpluses for East Asian countries. East Asian surpluses account for 45% of the US deficit and world surpluses.
- The primary responsibility for resolving imbalance is on the US, but East Asia can play a significant role in the process.
- Our calculations indicate that the ratio of net debt to GDP will eventually reach 120% in the US. Currently at 29%. If accumulation of debt continues, the US will not be able to enjoy high returns on external investments and low interest rates on external debt, which will call the sustainability of US current-account deficits into question.
- Market may force the dollar to depreciate, but no one knows the timing or speed. Once there is a substantial depreciation of the dollar, East Asia should be prepared to cope with the adjustment processes in the US.
- East Asian monetary authorities have accumulated large reserves through interventions in foreign-exchange markets. Purposes have been to prepare for another capital account crisis and to maintain export-oriented economies.
- Serious limitations to accumulation of reserves: Sterilization policies have kept inflation under control: but require that central banks sell bonds to siphon off liquidity, which increases the share of low-interest central bank bonds on institutional balance sheets. Continued selling of central bank bills will increase interest rates, which will attract more capital and defeat the purpose of sterilizing the base money.
- Many East Asian economies are thinking of more domestic demand oriented development. Extra reserves carry only 3% interest rate, where domestic investment is much more profitable.
- We advocate a policy of concerted action for exchange-rate changes. We need stable exchange rates among us: intraregional trade accounts for 55% of all trade. If we took concerted action for exchange-rate appreciation, our exchange-rates would offset each other, so the effective rate of change for our currencies would be limited to less than half of the overall trade against the dollar. Only 45% effective exchange-rate change.
- Do not advocate exactly the same rate of appreciation because of different exchange-rate regimes. Moving toward multiple currency basket-based reference rates and wider bands, giving more flexibility to accommodate this kind of concerted action.
- Second action needed: Establishment of vertical, intra-industry production networks and trade.
- Countries will be reluctant to take unilateral action. Must compensate for recessionary impact by expanding domestic demand, which is in the interest of East Asia.

The following were the main points made in the course of the subsequent free discussions.

A

- Two working groups are very closely related. Financial cooperation should concentrate on the issues raised by imbalances.
- Recommendations to increase domestic demand are critical. Need to focus on how to accomplish this considering that 55% is already intraregional trade and investment.
- After the 1997 crisis there were policy recommendation for exchange-rate monitoring and macroeconomic management in ASEAN. What was the experience of ASEAN?
- Issuing of regional bonds denominated in regional currencies to finance regional development.

B

- Narrowing the development gap is a part of promoting regional identity and is presented as a goal, but could be argued that this is a necessary condition to building the East Asian community. Part of the convergence processes through financial cooperation and solving imbalances. Use East Asian resources for East Asian investment. This is a more tangible goal.

C

- Realistic ways to create common currencies in East Asia based on a basket.
- Devaluation on the Chinese yuan.

D

- Chinese paper is a good policy paper with clear recommendations. Many of the recommendations are reconfirmations of Track I. would like to stress these reconfirmations.
- Most important task of NEAT is to look at long-term measures of the East Asia study group. East working group has already talked about an Asian monetary fund. Would be interesting for NEAT to conduct an in-depth study on it.
- Single currency for the region should also be studied by NEAT.

E

- Exchange-rate adjustments are not the only solution to the issues. Interest rates are already quite low, so lowering of interest rates would not be as effective as we have heard.

F

- ASEAN monetary fund is very useful. Financial cooperation proposals should consider again the formation of an ASEAN monetary fund.

G

- Futile to work on cooperation without settling institutional concerns and harmonizing problems. Need more dialogue, consultation among finance ministers and central banks. We are currently talking about 13 financial markets, not just one.

H

- We are far away from our final goal of a Europe-like community. The best way to approach it is to strengthen the CMI. Need institutions that can be developed so that we can move towards a currency union.

I

- Given the more flexible exchange rates in China and Malaysia, what do you see as the potential for currency coordination in Asia?

J

- The IAI tries to reduce the development gap within ASEAN. There is a larger gap in East Asia. Is there the possibility of setting goals for long-term investment from the Asian monetary fund like ADB or IMF? Myanmar does not get any assistance or loans from IMF for a DB. To build our infrastructure we need the Asian monetary fund to act like the ADB.

ASEAN Secretariat

- ASEAN+3 finance and monetary cooperation is focused on the CMI and Asian Bond Market Initiative. There has been progress though it may not meet the current needs of the region.
- Have agreed to expand the ASEAN Swap Arrangement and have bilateral Swap Arrangements worth nearly \$50 billion.
- Integrating and enhancing surveillance framework.
- Looking at ways to activate the Swap Arrangement process.
- Looking at increasing the size of Swap Arrangements.
- Have launched a number of local currency bond issues.
- In May, ASEAN+3 finance ministers meeting agreed to expand cooperation on bonds and examined currency basket bonds.

ASEAN Secretariat

- Finance ministers meeting heard report on ways to enhance the effectiveness of CMI. This was more detailed than what the working group has presented. Working group

should involve more government officials in future meetings so they can get up-to-date information and thinking.

- Should focus on how to use the huge exchange reserves. Looking at regional self-help measures to supplement national efforts and complement the IMF.
- Studying a common currency in East Asia and an Asian monetary fund are good ideas.

Yoshitomi

- Basic function of Asian monetary fund would be as a lender of last resort for the region, not providing infrastructure development. A DB can provide that kind of financing.
- Difference with IMF is that IMF is strong at analyzing and prescribing conventional current account deficits, which are often caused by poor macroeconomic fundamentals. East Asia has good macroeconomic fundamentals, but fell into crisis because of capital inflows and outflows. IMF could not provide the reserves to stop these flows. That is why Japan and others provided extra credit facilities. The nature of the crisis is different, requiring greater external reserves to prevent too sharp depreciation of currencies. Pooling just 10% of our huge reserves in East Asia could easily create enough to prepare for a future crisis.
- Our paper touches on imbalances and what to do, but we must be prepared for whatever happens to the dollar.
- Single currency issue is different from Asian monetary fund. It means a single central bank in Asia and abolishing the central banks of each country. There is a long way to go, but we need to start now by maintaining mutual exchange-rate stability. First opportunity for concerted action on this.
- Our report argues that the US should take action for its own interests. Previously, East Asia intervened in foreign exchange markets to accumulate reserves when the dollar depreciated. In the future we should do something else. We can take the opportunity to enhance our own domestic demand, which is in the interests of our economies.

Qin

- Working group was organized on the principle of consensus. Identified fields we think are important based on consensus.
- Felt that the Chiang Mai Initiative provided a solid foundation for further cooperation, so added something to strengthen these proposals.
- Trying to be action oriented and concrete.
- Agree that some of the measures have been taken by the Track I process.
- Want to extend the scope of the financial cooperation group to examine questions about utilization of large foreign reserves, long-term aim of single currency etc.
- Also need to reduce the gap between more-developed and less-developed members.
- Do not feel that the specific measures of the Istanbul meeting were up to the working group's expectations. We believe the multilateral framework is quite important.

ASEAN Secretariat

- Must understand that the rationale for bilateral Swap Arrangements is psychological deterrent against speculative attacks. The amount is not enough, but is sizable.

K

- Main function of IMF is surveillance, not financing. Asian monetary fund will have different function from Asian Development Bank.

L

- What specific measures have been agreed upon for monetary surveillance? It is important to make sure that the swap arrangements can be activated and used effectively. What specific measures have there been to implement monetary surveillance?

ASEAN Secretariat

- I do not have the details.

M

- They conduct regular training courses for people from an ASEAN central banks and ministries of finance on surveillance processes; ADB facilitates a meeting for central banks.

ASEAN Secretariat

- There is a cooperative process with the ADB on national surveillance, which was presented at a meeting of ASEAN finance ministers. We can find out what the state of this process is. It is called a policy coordination discussion, not a surveillance meeting.

III Session 3 “Cooperation for Energy Security and Investment”

Chair Mr. Nguyen Tien Minh, Deputy Head of the ASEAN Department of the Ministry of Foreign Affairs, CC for Vietnam

Report by Prof. John Wong, Director, WG on “Energy Security Cooperation in East Asia”

- When we took up the subject of energy, world oil prices were just about 40 US dollars. Now they're up above 60.
- Group began by forecasting overall supply and demand for oil. Higher demand and risk factors will lead oil prices to rise. Most countries in the region depend on imported oil and are scrambling to secure supplies. Asia therefore needs to harmonize its oil diplomacy.
- Member countries of this region are dependent on outside suppliers for up to 70% of their oil, most of which is transported by sea.
- Over the long run, countries need to look at measures to advance energy conservation. We need to look for alternative energy and renewable sources. This is a rich area for regional cooperation.
- Definition of energy security: the process to secure energy supply at reasonable cost in a sustainable manner.
- Policy recommendations:
 - 1) Institutionalize regional energy cooperation framework. Harmonize oil diplomacy. Consider regional stockpiles.
 - 2) Improve information and data on energy, set up regional entity to serve as statistical trading house.
 - 3) Strengthen coordination in maritime security. Particularly the Straits of Malacca.
 - 4) Investigate how to make the Asian energy market work better. Also need to develop the Asian natural gas market. Establishment of energy consortium should be considered.
 - 5) Energy conservation: cooperation to increase the efficiency of energy use, explore alternative forms of energy, especially renewable sources. Need to share experiences, know-how, information.
- Conclusion: the NEAT working group on energy security cooperation takes the view that the spirit of regional cooperation will be extended to the energy sector for mutual benefit. This will help build trust and enhance the goal of an East Asian community.

Report by Prof. Qin on behalf of Amb. Wu Jianmin, Director, WG on “East Asian Investment Cooperation”

- China perceives the necessity and urgency for East Asian nations to cooperate on investment.
- We held an investment forum in conjunction with working group meetings which attracted more than 400 people from different countries in East Asia.
- Global economic growth provides in East Asia or with an important opportunity to play a global role.
 - 1) East Asian countries are very complementary.
 - 2) There is ample capital in the region because of high foreign reserves and savings, but some East Asian economies have poor infrastructure and are in urgent need of investment. Developing members will need roughly 1000 billion US dollars.
 - 3) East Asian economic cooperation is dynamic and provides impetus.
- Must be aware of the drawbacks and inadequacies, including uneven development, lack of coordination, lack of institutional capacity, lack of large infrastructure projects.

- Policy proposals:
 - 1) Improve the environment for intraregional investment, enhance policy coordination of economies. Improve legal systems, transparency of information, approval procedures, intellectual property rights protection and mechanisms for dispute settlement. Need to establish networks and establish a training center to provide higher quality human resources.
 - 2) Identify and organize large-scale projects for investment cooperation. Build a pan-Asian transportation network, including railway, highway and waterway. Explore possibility of cooperation on environmental protection, agriculture, energy and other areas.
 - 3) Develop the Asian bond market and enhance investment institutions in Asia. Asian Bond Market must be safe, convenient and efficient channel for investment cooperation. Specific measures: strengthen coordination mechanisms, enhance information exchange and monitoring, increase supply and expand size of market. Raise total amount to \$8 billion. ADB should issue more bonds denominated in the currencies of Asian countries or at least a basket currency. Set up new institutions: East Asian investment fund, investment bank, ratings agency. Government should play stronger role in establishing new institutions and making more effective use of existing. Focus is on better use of existing institutions.
- Investment cooperation will facilitate East Asian community building. Need to show vision, commitment and political will. Not only in economic well-being but in peace, prosperity.

The following were the main points made in the course of the subsequent free discussions.

A

- Want to emphasize cooperation with the new member countries of ASEAN. Laos has natural resources and water to make hydroelectric power, but we need investment. Investment Cooperation. will promote the development.

B

- We should have common interests. East Asian region is becoming the biggest energy consuming region in the world. We are consumers and must stress consumer interests rather than producer interests. East Asia has a lot on collective purchasing power in the energy market.
- Want to emphasize cooperation and coordination on energy policy.
- There is a supply and demand side, and Asia should focus on the demand side because there is huge potential for energy conservation. Rather than increasing supply, it is easier and more feasible for Asia to save the same amount of energy.

C

- Agree that demand management is more important in energy security. There are structural limitations to supply.
- Demand management is increasingly critical because the issue of energy security revolves around subsidies. Subsidies are very important in ASEAN countries like Indonesia, Malaysia and even the Philippines. Subsidies involve domestic management. This is an issue of sensitivity.
- Investment is linked to trade. Investment is conspicuously absent from trade arrangements in East Asia. There is an absence of dispute settlement mechanisms, which makes it hard to promote investment cooperation.
- Trade-related intellectual property rights are also absent as are trade related investment measures, but they are all intimately related to regional investment cooperation. Cannot proceed on investment cooperation without looking at these issues.

D

- Conservation is a very important issue. How are you going to teach countries like Myanmar about conserving energy considering the gap in our level of development?

E

- Definition of energy security and terminology are useful to think about energy security

and the capacity to sustain the sea lanes over which energy traverses. Energy insecurity inspires us to ensure the security of the Straits of Malacca.

- Indonesia spends \$2.4 billion on national defense and five times as much on fuel subsidies. Must think about capacity building. Responsibility for secure passage in the region depends primarily on the states. External players that have vested interests in the security of the sea lanes have a role in that context.

F

- Why do you have to deal with the second recommendation on the energy market? There is already a market. It is a global market. However, I agree with the comment that there must be some kind of cooperation in this area, but not direct intervention by governments either in demand or supply.

ASEAN Secretariat

- In 2002 we signed a declaration on the conduct of parties in the South China Sea and are now discussing the implementation of confidence building measures.
- China has proposed to set up a committee for joint development in the South China Sea, but ASEAN states turned it down for the time being.
- The working group should study how we can resolve the disputes of the South China Sea so that we can look for energy in the region and be self-reliant on the supply side.

G

- There is wording about using international law to settle disputes related to maritime boundaries, but using international courts is the last resort when expected results are not achieved.
- Interested in joint exploration projects, but this is a complicated issue because it is related to the sovereignty of many countries. Should complete and implement the DOC.

H

- Security of the sea lanes overlaps with security cooperation. Can this issue be divided off?
- East Asian Summit group has already pointed out that NEAT working group on investment cooperation may want to do an in-depth study on the East Asian investment area; East Asian investment network, East Asian investment information network. Should be added to future study of investment cooperation in the region.
- On page 8 of the report on investment cooperation, it says that there should be a Pan-Asian transportation network. Correct word is East Asian transportation network, East Asian railway, East Asian highway etc.
- On Asian Bond Market Initiative, this overlaps the financial cooperation topic.I
- Indonesia is a net importer of oil not only because of increasing demand because there have not been new, serious explorations. This will change within the next five years because the government has made a commitment to support new exploration.
- The concept of energy security is seen differently by economists and political scientists. Economists say to let the market work, but political scientists say that oil cannot be treated like any normal commodity. We need to consider political aspects as well as economic.J
- We think these matters will also come under the security cooperation working group and there is no problem with some degree of overlap. The recommendations on maritime security etc. go well beyond energy security.
- These will come within the purview of the proposed new working group.

Wong

- Is there in a common definition of energy security? Every country will have its own exposure and degree of risk. Malaysia is self-sufficient in energy and can shut out any problems. There cannot be one definition but there can be a very broad common concept.
- The region as a whole is a major consumer of energy so there is a leverage that could be brought on prices.
- It is an East Asian energy market? Yes and no. Everything is part of the world market,

but what we want to do is find out how to take measures and cooperate so that the Asian market works better. The title is mistaken. It should be how to make the Asian energy market better. We are consumers and can do better, especially with stockpiling.

- We need to emphasize the Asian market for natural gas because the region is a major producer. In that sense, we have a market.
- A lot of countries have subsidies for economic reasons. It is bad economic policy. The economy should build up stockpiles to cope with price fluctuations, not resort to subsidies.
- Joint exploration proposals have a lot of potential.
- Energy as part of maritime security. Energy prices are very sensitive and one small act can cause prices to shoot up.

K

- We should encourage more countries in this region to have common programs to explore, invest and develop energy in the region. China, Philippines and Vietnam have undertaken a new program to explore energy. More countries should join.
- Many East Asian countries import energy from the Middle East, Russia and elsewhere. We should establish mechanisms like a common committee to have dialogue and negotiations with OPEC, Russia and elsewhere.

Qin

- I completely agree that we should pay more attention to new members of ASEAN. Need for investment is basically infrastructure. Participants expressed their concern about this. It is a long-term investment and private investors may hesitate. We urge governments to take a role and provide channels and mechanisms to facilitate private investors.
- The point on trade and investment is discussed in our detailed report. Perhaps needs more emphasis. Investment should go beyond trade cooperation. It will work for the longer-term integration of the region.
- I agree that there are some overlapping issues. It is hard to completely avoid these issues.
- Alternative and renewable energies are also important. And it is important that the countries with higher levels of technology assist in the development of alternative technologies. This is an important aspect of cooperation for ASEAN+ 3.

ASEAN Secretariat

- Need to look at technical questions of how to actually promote regional cooperation and investment. The ASEAN experience is that it doesn't work. There are recommendations to extend the ASEAN investment area, but that will not work because it does not work in ASEAN to begin with. The main problem is that it is unconstitutional in some ASEAN countries to recognize foreign investors and give them national treatment. So what can we offer to a foreign investor? Most of our foreign investors come from USA and Europe. Can you discriminate against them by offering concessions to East Asian investors?

M

- Investment cooperation is very hard work. But it is the most important aspect in closing the development gap between Northeast and Southeast Asian countries.
- There is a high concentration of FDI in China because of its huge cost advantages. Need to consider how to mitigate this problem.
- No investment in Indochinese countries. An East Asian investment bank should be explored.

N

- Japan is considering more positive mechanisms to address the gap between supply and demand and energy.
- Why did you not talk about the Senkaku Islands project? This is a hot issue in Japan and China. Why not recommend that Asian countries create development programs for this area?
- Why did you not talk about the KEDO programs. South Korea is taking the initiative in

supplying energy to North Korea. This should be one of the first priorities in energy security policies.

- On investment policies, why did you not talk about technology transfers?
- We don't need another talk shop in Asia. Why did you not use any positive policy recommendations?

Wong

- Our reports are not meant at this stage to be exhaustive.

Qin

- Thank you for your suggestions and food for thought. We want to make further studies of issues in the working group.

IV Session 4 “Overall Guidelines for Community Building in East Asia”

Chair Dr. Makmur Keliat, Executive Director, Center for East Asian Cooperation Studies, CC for Indonesia

Report by Dato' Mohamed JAWHAR Hassan, for Director, WG on “Concepts, Ideas and Empowering Guidelines for East Asia”

- Met in March, but as some of the things we have discussed have been overtaken by events, I will focus on the issues that remain relevant.
- We discussed empowering guidelines for East Asian cooperation, practical modalities for the East Asian Summit, proposals for content for a draft declaration.
- Approach was to summarize the points of consensus and points lacking consensus. Found it important to highlight the disagreements so that they can be focused on in the future.
- East Asian regionalism should be to promote the well-being and prosperity of the people of the region and the community. Should be a community of peace, prosperity and friendship.
- East Asian regionalism should embrace the principle of regional self-determinism, based on consensus and non-hegemonic practices. East Asian countries should decide for themselves.
- East Asian regionalism should seek productive engagement with all who can contribute on the basis of openness, equality and high comfort levels.
- East Asian community building should not be confined to states alone, but should also embrace all elements of civil society, with a sense of ownership fostered and the number of stakeholders increased. Should not be just a government-driven process.
- The Treaty of Amity and Cooperation should serve as a guide for the creation of an East Asian community.
- We discussed practical modalities for the East Asian Summit:
 - 1) ASEAN and ASEAN+3 processes should be at the core of East Asian regionalism.
 - 2) The East Asian Summit should be a forum for discussion rather than an organization.
 - 3) East Asian Summit should be held regularly, back to back with ASEAN and ASEAN+3 summits.
- Discussed criteria for participation in the East Asian Summit. No consensus. Agreed that participation is subject to application and meeting certain criteria.
- There was talk about the draft declaration to be issued by the ASEAN + 3 summit as well as by the East Asian Summit. The fundamental point was to clearly differentiate between ASEAN+3 and East Asian Summit processes. East Asian vision group recommendations and East Asian study group recommendations should continue to be the basis.

Report by Prof. Tanaka Akihiko, Director, WG on “Overall Architecture of Community Building in East Asia”

- All 13 countries participated in the meeting. Held sessions on ideas and principles, architecture to promote functions, architecture to promote regional identity.

- We discussed more abstract issues like principles, guidelines and basic concepts.
- Report tries to represent the ideas that were proposed in the working group.
- First section is on guiding principles for community building in East Asia. Deals with overall guidelines and principles that we believe are important.
- Begins with basic, overall objectives. Reiterated the importance of what the East Asian vision group has set up: peace, prosperity and progress. Promote peace by building trust and promoting mutual security. Promote prosperity by increasing investment, trade and technology. Promote progress by improving governance and quality of life.
- These visions should be built as an evolutionary process.
- General principles on regional identity highlight equal partnership and shared ownership. No member should dominate.
- Fifth principal is the general principle of the function of cooperation, which should be the driving force.
- Second section deals with architecture of community building in East Asia. Describes the principles and characteristics of institution building and relations with other global institutions.
- Complementary and cooperative nature of East Asian community building with other international institutions.
- ASEAN is important in community building; bridging the development gap is important; cooperation among Japan, China and Korea is essential; East Asian Summit should be utilized for strategic dialogue among countries.
- Emphasized the importance of institution building, particularly the strengthening of the Secretariat's role for the East Asian community.
- Third section deals with functional cooperation. Should be open, flexible and transparent; should be subject to constant review.
- Stress the importance of Track II, the role of the private sector and civil society.
- Concrete recommendations: strengthen education, media and youth interchanges as an area for functional cooperation; usefulness of more translation of academic policy research from national languages to English.
- Final section on architecture to promote regional identity.
- Stress that diversity is an asset to the creation of a regional identity.
- Stress the general attitude to creating an identity: mutual care.
- Concrete proposals: importance of increasing mutual understanding of history and culture; importance of the role of the media.

The following were the main points made in the course of the subsequent free discussions.

ASEAN Secretariat

- Many of the points mentioned in the reports are in line with what Track I is thinking.
- Our ideas on an East Asian community and East Asian Summit:
- You have to think about an ASEAN community; without it, there is no East Asian community.
- Want an East Asian community that is people-centered. However, governments have a role in facilitation.
- Linkage between ASEAN+3 Summit, East Asian Summit and East Asian community: ASEAN + 3 process part of building the East Asian community; East Asian Summit will provide important input to community building efforts.
- Have not yet decided on the participation of Russia.
- Joint statement is an important process. Some of the measures from the East Asian Summit group have become outdated.

A

- On the report from Malaysia, on page 1, No. 4: happy to see the inclusion of civil society.
- Happy that the overall architecture paper also mentioned this.

- On page 2 of the Malaysian presentation, No 1: happy that there is no consensus on these issues.
- On page 3 on the content of the draft declaration: happy that under No. 2, there is mention of the need for a vision, principles etc. which is supplemented by the Japan presentation.
- Would like to have clarification on page 2 of the Malaysian presentation on modalities. No. 5 proposes that the two meetings be held in the same year. People wonder why you need 2.

B

- Need to note that the Malaysian report was produced at the end of March while the other working group report was produced at the end of April. At the end of July, the foreign ministers of ASEAN+3 met and made a decision which enables us here to think beyond the two working group reports. Particularly important is the fact that the East Asian Summit will have participation from ASEAN+ 3+3: India, Australia, New Zealand.
- Russia has also presented an official application to join the East Asian community. The European Union might also provide an application. However, official decisions have not been taken.
- NEAT members might find it appropriate to think about these developments in view of the fact we want to adopt policy recommendations to be submitted to the Summit.

C

- Confused about the difference between the East Asian Summit and the ASEAN+3 Summit. Many other countries want to join the East Asian Summit.

D

- On page 1 of the report on overall architecture: would be more appropriate to say that there are presently, not meetings but mechanisms.
- Seek clarification from the chairman of the working group on part 2 of page 3 on the statement that there should be a more visible presence for East Asia in the international community.

E

- The paper on architecture to promote regional identity talks about the importance of media. I want to emphasize that media has an important role to play in the process because media can shape the ideas of the general public. The East Asian Cooperation process should be more open to the media.
- NEAT and the East Asian Summit should establish closer ties with the media.
- Purpose is not just to inform the media so there will be more coverage, but also to guide and educate the media. This will enable us to inform and educate the public. We will be able to popularize key thoughts, ideas and concepts in community building.

F

- On membership on East Asian Summit:
- We need to clarify the function of the East Asian Summit and the concept of an East Asian community.
- The idea that the East Asian Summit should be a forum for dialogue rather than an association is very important and should be the general guideline.
- However, it is still not enough. There should be a clear distinction and differentiation between the East Asian Summit and East Asian community.
- Some of the measures suggested include East Asian identity building and the promotion of East Asian studies. These problems cannot be conceived if we include Australia, New Zealand and India.
- So we need to distinguish the East Asian Summit process and East Asian community building. Economic cooperation, regional security, antiterrorism can be discussed with Australia, New Zealand, India and Russia, but if you want to talk about East Asian identity, East Asian culture, East Asian values, they are totally different issues.

ASEAN Secretariat

- Must not mix community building in East Asia with what we are going to do in the East Asian Summit. They are different things at different levels.

- We should change the name after the first Summit to better reflect its intentions.
- Senior officials have already drafted two declarations, one explaining the ASEAN Pacific summit and another explaining the East Asian Summit. They will answer many of the questions that the working group raised.
- Should not mix the old and new concepts of EAS.

G

- Sufficient attention to the diversity in our region. Need to achieve unity within diversity.
- The Malaysian document has a sentence on page 2 saying the East Asian Summit should be a forum for dialogue but not an association. This is a reasonable position paper.

H

- There is a lot of overlap between the two working group reports. Need to draft a policy recommendation paper and hope that the drafting committee will come out with an integrated position from these two papers.
- Propose some additions to the guidelines in the Malaysian report.
- East Asia cooperation should not start from scratch or from zero, but should be based on existing cooperation, for example ASEAN cooperation. This is important and has been left out.
- Even though there is no consensus on it, this meeting can reconsider this second part: East Asia should adopt three facets of community building: economy, security, social/culture.
- Confidence building measures should be developed.
- Increased bargaining power of East Asian in international forums should be emphasized.

I

- The type of distinctions that we have been exposed to in this group points to the differentiation between the East Asian community as an ideal and as a practicality.
- If we say that community building will be driven by ASEAN+3, we are recognizing the limitations of what can be done, which may have interesting and disturbing implications for Australia, New Zealand and India. There are limitations to their contribution to this type of practical cooperation.

Tanaka

- Page 3, paragraph 2: we are not sure how we should represent East Asian voices in international institutions and have not reached concrete conclusions, but we see it as a general, desirable goal that East Asian voices should be better and more represented.
- Comments on civil society, media, diversity, all important considerations.
- Need to be clear about our ideals with full attention to the reality of diversity.
- My personal opinion is that we do not want EAS to be as ineffective as APEC because more and more members are accepted.
- I was uneasy about the term East Asian Summit. I appreciate the criteria that the ASEAN foreign ministers created, but after the first East Asian Summit countries should get together again to reconsider what we are doing, including perhaps changing the name. We need to keep the long-term goal of community building in mind.

J

- Today's discussion has focused on the question of building an East Asian community itself. We should pay more attention to the key words of functional approach.
- An East Asian community will be a long process. In the meantime, there are concrete, functional works that can be done in the economic, political, social and cultural fields. We should discuss more about the roadmap and process on building an East Asian community.

K

- The problem is implied by the term "open regionalism." Changing the name of the East Asian Summit after the first meeting is an interesting option, but if it is not possible, the practical strategy is to combine the two.
- Open the East Asian Summit to all who want to join, but use the ASEAN+3 scheme to

maintain the fundamental direction and energy.

- In the final report, or at the press conference, it is important for us to emphasize the fact that the ASEAN+3 scheme will be continued especially in the practical projects.

L

- There is too much talk about diversity and identity problems. There is no mention about the common things that are shared by East Asian countries.
- We always have trouble with membership problems.
- The East Asian community should be based on Asian countries. We should have common values like harmony, community relations versus individualism, consensus building versus individualism. These have been established as cultural systems that differ from Western countries.
- The drafters' conclusions should place more emphasis on community building based on identity processes.

M

- On the criteria for membership in the East Asian community, I have not seen any geographical criteria. Does that mean that countries outside the region can join the East Asian Community or not? If countries outside the region can join, the name of the East Asian community needs to be changed.

ASEAN Secretariat

- When we discussed the East Asian Summit, we made the decision that the East Asian Summit should not be discussed in a geographical context.
- Peace and prosperity in East Asia is not dependent just on East Asian countries. We depend on the US for the military balance and the EU for trade.
- However, a community is more defined. East Asia shares common values and a distinctive identity. The ASEAN+3 process will be used to develop the East Asian community.
- One of the questions is how to engage countries like India. With India we can still pursue the ASEAN+1 process.
- Australia and New Zealand could be also invited on a case-by-case basis.
- Inclusiveness in the process or community? We want to be inclusive in the process, but perhaps not so inclusive in the community building prospects. A community should have specific countries that share common values.

N

- My general impression from the papers today and the discussions is that maybe we are paying too much attention to functional cooperation.
- It is true that especially in East Asia functional cooperation has been a major driving force for moving regional cooperation, but at the same time we ought to ask if it is enough or if it is the right way to build a regional community in East Asia.
- We have witnessed an increase in exchange and contacts, but no decrease in rivalries. Need to pay more attention on how to get political initiative and leadership that can push regional cooperation forward.
- Need to differentiate between widening regional cooperation and deepening regional cooperation.

Jawhar

- These concerns seem to be peculiar to this region; other regions do not have them.
- It is important that we have an East Asian initiative, East Asian Cooperation., East Asian community initiative.
- Interaction between East Asia and those who are not part of East Asia can play a very positive, constructive and substantial role towards empowering East Asia.
- ASEAN+3 was conceived essentially to address the first group of activities because there was a clear need perceived for East Asian Cooperation., especially following the financial crisis. We need to develop East Asia as a regional construct that can protect the interests of Asian countries vis-à-vis other powerful regional groupings. That is ASEAN+3.
- But at the same time, we must work with others and they can contribute to our welfare

and empowerment. There is another device for this. It has so far been called the East Asian Summit. I agree that we should call it something else to avoid confusion.

- We must be very clear that East Asian community building belongs to the countries of East Asia. ASEAN does not talk about bringing everybody in. They have a clearly defined community. We should be very clear about this or we will self-destruct.
- East Asian Summit is a forum for dialogue on strategic issues between the ASEAN+3 countries and other countries with an interest in East Asia. We should welcome them. Exclusion is not proper.
- I agree that environment is very important, but community building is a common process. That does not mean that environment is not important. It is fundamentally important and will become even more important in the future.
- Functional cooperation is very important, perhaps the most important, but we cannot forget political cooperation and other aspects.

Tanaka

- I agree with what Jawhar has said.
- "The" East Asian community does not exist. We're talking about an East Asian community in the future.
- Membership is not yet determined. I am certain that ASEAN+3 countries should eventually build the East Asian community.
- The boundaries of East Asia are being created and will be recreated. It is not so wise to determine what constitutes the boundaries of East Asia.
- Even European community building has not been able to agree on membership--for example, Turkey. It is not productive to equate membership in a future East Asian community with membership of the current mechanisms.

O

- For the East Asian Summit, the ASEAN+3+3 countries were invited, but we have now received an application from Russia and will probably receive applications from others. What are the views on accepting the Russian application, for example? This is putting aside the question about whether ASEAN+3 or EAS will be the vehicle for the East Asian community.

P

- If we follow the logical extension of India's membership, we have no choice but to bring Russia in. Otherwise, when the US or Canada apply, we will have to come up with a very strong justification for accepting them but not Russia. After Russia, Canada will want to come in, as will Latin American countries.
- If we are arguing for inclusiveness, include everybody. Then APEC will need to re-examine its process and we can see how to work the differences out. However, I think a name change is in order.

ASEAN Secretariat

- There are criteria to be met. Russia meets two of the criteria, but we do not have substantive relations with Russia in economic areas, just security.
- The senior officials will decide on Russia according to these criteria.
- The US has said that it does not want to be part of EAS for the time being, but if Russia enters, the situation may change.
- The officials do not really want to expand the EAS beyond the 16 for the time being.

Q

- Not happy with the wording "ASEAN+3 Summit should continue to be held for the time being." Not sure we should consider ASEAN+3 to be temporary.
- ASEAN+3 should be the very core of the East Asian community process. We should not dilute the idea of an East Asian community. We must also consider the American emphasis on APEC.

ASEAN Secretariat

- It is not conceptually correct to call EAS "ASEAN+3+3," is actually "ASEAN+ 6."

Jawhar

- Our paper was prepared in March when it was not clear how the East Asian Summit

would meet and that was why the wording "for the time being" was included. This has been overtaken by events.

- Tanaka and myself agree that there should be an East Asian configuration, however many countries there may be involved in it, but they should not be very far away from East Asia.