

Policy Recommendations
“Towards an East Asian Community”

by

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POLICY RECOMMENDATIONS

The Network of East Asian Think-Tanks (NEAT), which convened its 3rd Annual Conference in Tokyo, Japan, on 22-23 August 2005, makes the following Policy Recommendations.

1. Guiding Principles of Community Building in East Asia

(1) Peace, Prosperity and Progress

The goal of community building in East Asia should be the promotion of the welfare and well-being of the people, and the realization of the East Asian vision of cooperative 'Peace, Prosperity and Progress.' An East Asian Community must promote peace by building trust and confidence as well as ensuring the mutual security. The community should promote prosperity by increased interdependence of trade, investment and technologies. An East Asian Community should also promote progress by improving governance, enhancing protection of basic human rights and advancing quality of life of people.

(2) Sharing Universal Values

Community building should be based on the foundation of universally recognized values. These include among others, good governance, the rule of law, democracy, human rights, international law and norms. East Asian countries should work together to deal with these matters as a common goal of the region.

(3) Openness, Transparency, Inclusiveness and Comprehensiveness

East Asia should promote openness, transparency, inclusiveness and comprehensiveness. An East Asian Community should include governments as well as all elements of civil society; pursue partnership with other regional organizations and cooperation mechanisms such as APEC, ARF and ASEM; and interact constructively with other international organizations such as the UN and IMF. An East Asian Community should also cooperate with other countries and regions which share its vision and make positive contribution to the process of community building in the region.

2. Architecture of Community Building in East Asia

(1) Importance of Functional Approach to Cooperation

As the functional cooperation is conducted in the areas of a wide-range of issues such as Free Trade Agreements (FTAs)/Economic Partnership Arrangements (EPAs), finance, environment, health, food security, transnational issues, etc., the regional cooperation should be for the moment centered on the promotion of functional cooperation. This is called a

“functional approach.” Such an approach is appropriate for the creation of a community in East Asia, where enormous diversity and disparities may continue to exist in levels of economic development, culture, ethnicity, religion, political principles, security policies, and so on.

(2) Key Role of ASEAN and Equal Partnership with Shared Ownership

ASEAN has played a key role in promoting regional cooperation in East Asia. In particular, Bali Concord II with three communities (economic, security, and socio-cultural community) proposal will continue to propel region-wide efforts for community building. On the other hand, an East Asian Community must be based on the equal partnership. No member should dominate or pursue hegemony in the community. It must be managed democratically based on consensual and non-hegemonic practices.

(3) ASEAN+3 Summit and the East Asia Summit (EAS)

The ASEAN+3 Summit and all the other ASEAN+3 mechanisms should continue to play major roles in East Asian Community building. The East Asia Summit (EAS) should be a forum for discussing broad strategic issues of interests of East Asia.

(4) Northeast Asian Cooperation

Closer Northeast Asian cooperation among Japan, China and ROK is an essential foundation of an East Asian Community. The three countries should tighten Northeast Asian cooperation by further utilizing the trilateral summit meeting on the occasion of the ASEAN+3 Summit, and consider additional meetings to be regularized.

(5) Importance of Institution Building

Institution building is essential for promotion of community building. For this purpose, the ASEAN+3 Unit in the ASEAN Secretariat should be strengthened. The strong and effective ASEAN+3 Unit could serve to promote information sharing leading to effective policy coordination and to avoid undesirable side-effect of functional cooperation. Also, East Asian countries should strengthen the networks of researchers and scholars through promoting Track-II activities to support official processes in East Asia. Engaging all elements of civil society in functional cooperation is also necessary. East Asian countries are urged to strengthen educational, media and youth exchanges.

3. Functional Cooperation

(1) Financial and Monetary Cooperation

(a) *Strengthening and Building on Chiang Mai Initiative (CMI)*

The joint efforts and achievement of ASEAN+3 countries, such as the Chiang Mai Initiative (CMI) and the Asian Bond Markets Initiative (ABMI), should be acknowledged to strengthen financial cooperation in East Asia, having learned from the Asian financial crisis in 1997-1998. Further steps should be taken to promote an advanced regional cooperative system. Swap Arrangements of CMI is the most important mechanism for monetary and financial cooperation in East Asia. From this point of view, the possibility should be explored of further expanding the function, expanding the size and further multilateralizing the framework of CMI.

(b) *Further Development of the Asian Bond Market*

At present, major challenges concerning the development of the Asian Bond Market include institutional barriers and technical hindrances. Tight exchange control, underdevelopment of the credit grading system, imperfect settlement mechanisms and lack of attractive investment projects have impeded the healthy development of the Bond Market. To further develop the Asian Bond Market, there are mainly 3 measures to be taken. They are as follows: 1) to expand the size of the Bond Market, so as to increase the investment in regional bonds, especially the bonds issued by governments and financial institutions; 2) to increase the bond supply. The Asian Development Bank should issue more bonds denominated in the currencies of East Asian countries or an East Asian basket currency, so as to facilitate the development of the regional bond market and provide technical assistance for the market; and 3) to enhance information exchange and monitoring. An East Asian rating agency may be set up for East Asian bond issuance, especially for small issues and small countries.

(c) *Deepening the Dialogue on Exchange Rate Policy Coordination*

The current global imbalances, which arose from the twin-deficits and investment-saving balance of the US, could affect sustainable economic growth in Asia. To avoid negative impacts of these global imbalances some measures should be taken. While the US could commit adjustment of investment-saving balance, Asian countries could adopt appropriate macroeconomic and structural policies, especially for Asian emerging market economies, combined with concerted action to cope with the risk of sudden and precipitous movements in exchange rates. Dialogue should be strengthened regarding coordination on exchange rate policy at the ministerial level and other existing processes including ASEAN+3.

In this context, greater exchange rate flexibility in the context of a multiple currency basket-based reference rate with a band is appropriate to be adopted on currencies of Asian emerging economies. A concerted action of individual countries to adopt greater flexibility

in this way would provide several advantages. First, their independence of economic/financial policy and capability to cope with economic shock outside the region will be improved. Second, mutual effective exchange rates among Asian currencies will be kept relatively stable. Third, exchange rate stability would further facilitate the functioning of the well established production and distribution networks in the region, which has provided an important basis for regional integration.

(2) Investment Cooperation in East Asia

Investment cooperation is an important part of, and a great facilitator for, East Asian community building. To promote investment cooperation, East Asian nations need to show vision, commitment, and political will in the following points: 1) to improve domestic investment environment including legal systems, transparency of information, approval procedures, intellectual property rights protection, and mechanisms for dispute settlement; 2) to implement the existing bilateral agreements on investment protection. Discussions on FTAs/International Investment Agreements (IIAs) and intra-regional negotiations should be held in order to construct an investment framework that will not only promote the regional economic development but also fully reflect the interests of all economies concerned; 3) to set up a system of networks for investment in East Asia. This system may consist of a network of flow of goods, a network of investment information, and a network of industrial parks for investment cooperation; 4) to establish a training center for investment cooperation in East Asia. It is meant to improve the efficiency of investment administrations, the management of enterprises in handling transnational businesses, and the competency of human resources in the region; 5) to upgrade the financial and insurance service systems for investment cooperation, and make full use of diplomatic resources to facilitate the overseas investment and transnational operation of enterprises; and 6) to organize big projects for investment cooperation. Big projects are crucial for successful investment cooperation. Governments should play a coordinating role and jointly organize and promote big projects, especially for infrastructure construction. At present, the priority project can be a pan-Asian transportation network, including a pan-Asian railway, pan-Asian highway, and pan-Asian waterway. Measures should be taken to coordinate the policies of transportation management so as to form a network of efficient and convenient transportation systems in East Asia.

(3) Cooperation for Energy Security

(a) *Institutionalizing Regional Energy Cooperation Framework*

Energy security is the process to secure energy supply at reasonable cost in a sustainable manner. East Asian countries should institutionalize energy policy cooperation within a regional framework after the model of the International Energy Agency (IEA). This would provide a platform for accommodating different policy objectives, creating a more conducive environment for free exchange of ideas, seeking common grounds for

coordination and cooperation. Five major components are identified as integral to realizing this regional energy cooperation framework.

(i) Respecting and Complying with International Law

East Asian countries are urged 1) to comply fully with international law, particularly the 1982 United Nations Convention on the Law of the Sea, 2) to harmonize their respective domestic laws and regulations with contemporary international law as far as possible, and 3) [for Asian coastal states which have yet to participate] to join the 1988 Convention on the Suppression of Unlawful Acts against the Safety of Maritime Navigation.

(ii) Coordinating Oil Stockpiling in East Asian Countries

East Asian countries should consider 1) coordinating their efforts in building up sizeable oil stockpiles that are consistent with the needs of individual countries, 2) sharing experiences and know-how in building up oil stockpiles, and 3) expanding regional swap mechanism to meet sudden and temporary energy supply shortfalls.

(iii) Promoting Transnational Energy Projects

East Asian countries are encouraged to actively work out modalities of joint oil exploration for mutual benefit. Other cross-border cooperation such as pipelines for oil/natural gas should also be explored.

(iv) Improving Quality of Energy Data

East Asian countries are urged to establish an effective regional energy information system and statistical clearing house.

(v) Stepping-up Coordinating Efforts on Energy Maritime Security

East Asian countries are urged 1) to develop a regional sea-lane security scheme to ensure smooth shipment of oil in the region, 2) to assist littoral states in ensuring maritime safety in the Straits of Malacca, and 3) to engage in contingency planning to multilaterally address potential environmental disaster in the scenario of oil spillage from tankers.

(b) *Developing Market for Conventional Energy*

East Asia should promote more transparent market practices and make the Asian energy market more responsive to market forces. East Asian countries are recommended 1) to develop Asian oil markets to ease speculative oil price fluctuation and remove impediments to trade and investment for energy sectors, 2) to develop Asian natural gas markets to reduce their energy dependence on oil and oil-fired subsidiaries, and 3) to establish East Asian Energy Consortium to explore cooperation in energy development in the region and beyond and to conduct energy-related dialogues with extra-regional groupings for promoting understanding and building rapport for future cooperation.

(c) *Promoting Energy Conservation and Alternatives*

Besides securing and diversifying energy supply, East Asian countries should collaborate to improve existing energy use, and explore alternative forms of energy,

especially renewable resources. East Asian countries should share freely their expertise and country experiences in energy conservation. In this context, East Asian countries are urged 1) to improve energy efficiency and conservation by promoting effective policies on energy efficiency and conservation, sharing experiences and know-how with technologically-advanced countries, 2) to promote cleaner use of coal, and 3) to promote renewable energy by engaging in feasibility studies of renewable sources of energy including solar, wind, hydro, geothermal and biomass.

4. Promoting Regional Identity in East Asia

(1) Nurturing a ‘We’ Feeling

A regional community cannot exist without a shared regional identity. Fostering feelings of empathy and identity should be encouraged by the members of the community to share problems, prospects and destinies of each other. Identity building belongs to the actors who can care for each other and prosper each other. It is an evolutionary project of all East Asians to develop ‘we’ feelings out of increasing mutual exchanges and understanding. East Asian people should learn from ASEAN’s historical undertaking for its community building.

(2) Accepting Cultural Diversity as a Foundation

Culturally, the region is extremely diverse. The region has inherited various world great civilizations ranging from Confucian, Buddhist, Islamic, Hindu and Christian traditions. Such diversity in culture and religions should not be regarded as an obstacle but a rich foundation for identity building. East Asian countries should promote mutual understanding of history and culture. Joint research activities on history and culture should be accelerated. Efforts to create academic curriculums for East Asian studies from elementary to college levels should be encouraged. East Asian countries should expand the role of communication. Increased coverage of East Asian affairs in TV, radio, Internet, newspapers and magazines should be promoted. Narrowing the digital divide among countries in East Asia is essential to share the benefit of such communications.

(3) Narrowing the Development Gaps

Narrowing the development gaps between the developed East Asian countries and developing countries such as Cambodia, Laos, Myanmar and Vietnam (CLMV) is crucial for promoting regional identity in East Asia. The Initiative for ASEAN Integration (IAI) should be expanded to an Initiative for East Asian Integration (IEAI).

(End)