



Recommendations Towards the Realization of an East Asian Community

– Working to Build Confidence with East Asian Countries –

March, 2006

Keizai Doyukai

Contents

Introduction	1
I. Corporation within the East Asian Region	1
1. Economic development of East Asian countries and intra-regional economic cooperation	1
(1) Power shift to East Asia and intra-regional economic dependence	
(2) Power shift and economic disparities within the East Asian region	
(3) Challenges to East Asian economic integration	
2. Political agenda within the East Asian region	4
(1) Political issues within the region	
(2) Reflection on the modern history of East Asia	
(3) Changes in intra-region cooperation	
(4) Advancement of Japan's cooperation in East Asia	
II. The Necessity of an East Asian Community and How it should be in principle	6
1. The necessity of an East Asian community	6
(1) Confidence and peace building within the East Asian region	
(2) Fostering of a sound nationalism	
(3) Institutionalization of an East Asian	
2. How an East Asian community should be in principle	6
(1) Road map for the realization of a "community"	
(2) Building of equal partnerships	
(3) Concentric expansion centering on the ASEAN	
(4) Realization of an open community	
(5) Creation of a disparity correction mechanism of the overall East Asian Region	
(6) Objective and basic principles of an East Asian community	
(7) A community with East Asian characteristics	
3. Japan's strategic focus on East Asian diplomacy	8
III. Four Recommendations Towards the Realization of an East Asian Community	9
1. Early realization of heads of state summits between Japan and China/South Korea	
2. Japan's drastic measure to open up the market for agricultural products, etc. for the facilitation of intra-regional FTAs/EPAs	
3. Establishment of an East Asian Regional Development Fund (tentative name)	
4. Launch of a Council on the Promotion of an East Asian Community (tentative name)	
Conclusion	10

Recommendations Toward the Realization of an East Asian Community

- Working to Build Confidence with East Asian Countries -

Introduction

At the 30th ASEAN-Japan Business Meeting that was held in October 2004 a “joint statement for the establishment of an East Asian economic community” was adopted, and along with it we provided the statement to Prime Minister Junichi Koizumi. At the first East Asian summit that was held in December 2005 a consensus was reached among the participating countries on the strengthening of their cooperation for the realization of an East Asian community. We would like to take this opportunity to bring together our views on the road map to the realization of an East Asian community that will be based on the matters discussed at the 31st ASEAN-Japan Business Meeting held in November 2005.

As economic activities are increasingly being undertaken on a global basis, there has been a rapid economic development in the East Asian region. At the same time, the economic dependence among East Asian countries has increased, suggesting that the region will continue to achieve a significant economic development in the future. As a result, economic and financial cooperation within the East Asian region is becoming more and more important, while the number of issues and challenges, such as those relating to the global environment, resources and energy, infectious diseases, and terrorism, which need to be resolved through the cooperation of multiple countries, are on the rise. The necessity of an East Asian community has become the subject of intense debate.

Japan, which relies very much on the ongoing economic development occurring in East Asia, needs to co-exist and co-prosper as a member of East Asia in the future while gaining the trust of the countries in the region. As things stand now, however, Japan has not necessarily earned the complete faith of countries in East Asia, as demonstrated by the reaction of these countries to Japan’s bid for entry as a permanent member to the United Nations Security Council. From Japan’s point of view, the strengthening of its coordination and cooperation with East Asian countries counts towards building confidence between Japan and these countries, which will even lead to winning the trust of all countries with which Japan has relations, and, as a consequence, will provide security and prosperity in the future for Japan.

The road to the realization of a community within the region will certainly not be an easy task. However, in light of the fact that the intra-regional trade rate (ASEAN plus 3 (Japan, China and South Korea))* has already exceeded 50%, economic integration, in a practical sense, within the East Asian region has already been making great progress. Therefore, establishing a commercial system within the region based primarily on FTAs/EPAs (free trade agreements/economic partnership agreements) and building cooperative relationships in the economic, political, cultural and other various spheres, with the ultimate goal of realizing a community will not only bring on stable economic growth in the region, but it will also contribute to facilitating mutual understanding as well as intra-regional political stability and peace building. However, East Asian countries, unlike the EU, which is a successful example of a community, vary greatly from one country to another in terms of politics, economy and culture. As such, it is absolutely essential to take into account the unique characteristics of East Asia in order to realize a community in the region.

Japan will play a prominent role in implementing efforts towards the realization of an East Asian community. To put it simply, the role of Japan will be to “exercise a good leadership in creating good team work among East Asian countries.”

* (Hereinafter, East Asia refers to ASEAN plus 3. However, ASEAN plus 3 includes Taiwan and Hong Kong for the data provided in this proposal.)

I. Cooperation within the East Asian Region

1. Economic development of East Asian countries and intra-regional economic cooperation

(1) Power shift to East Asia and intra-regional economic dependence

Even though East Asia temporarily experienced an economic downturn that was triggered by the Asia financial crisis of 1997 and 1998, the region has registered remarkable economic growth, sustaining average annual economic growth of about 7.1% (Japan not included) since 1999.*¹ East Asia’s contribution to global GDP grew

from 16.3% (1980) to 20.3% (2004),*² and it is forecasted that this ratio will continue to grow until it reaches 27.0% in 2020.*³ East Asia's share in global trade and its share in direct inward investments have also increased. The percentage of global exports accounted for by East Asia has grown from 14.1% (1980) to 22.3% (2004).*⁴ From 1980 to 2004, East Asia's direct inward investments jumped 36.6 times in monetary terms, and its share in global direct inward investment increased from 6.8% to 21.2%.*⁵

*¹ Calculation is based on the JETRO (Japan External Trade Organization) White Paper on International Trade and Foreign Direct Investment 2003 and 2005.

Table 1: Economic Growth in East Asia

	1980	2004	2020 (Forecast)
East Asia's share in global GDP* ²	16.3%	20.3%	27.0%* ³
East Asia's share in global export* ⁴	14.1%	22.3%	-
East Asia's share in global inward investment* ⁵	6.8%	21.2% (36.3 times in monetary terms)	

*² Calculation is based on the IMF World Economic Outlook Database.

*³ Source: Ministry of Economy, Trade and Industry 2005 White Paper on Internal Economy and Trade 2005, Figure 3-3-5.

*⁴ Compiled by the Mitsui Global Strategic Studies Institute based on data from IMF Direction of Trade Statistics, CD-ROM December 2005 and data provided by Department of Finance, Taiwan.

*⁵ Compiled by the Mitsui Global Strategic Studies Institute based on data from UNCTAD World Investment Report 2005.

On the other hand, economic dependence within the East Asian region has rapidly increased, with the intra-regional trade rate soaring from 33% (1980) to 54% (2003). While the latter is below the intra-regional trade rate of 67% among the 25 countries in the expanded EU (European Union), it is close to the rate of 60% that was recorded among the 15 countries in the former EU, and it even exceeds the rate of 45% in the North American region where there is a system called NAFTA (North American Free Trade Agreement).*⁶

*⁶ Source: Ministry of Economy, Trade and Industry White Paper on Internal Economy and Trade 2005, Figure 3-4-1.

In addition, Japan has become more dependent upon East Asia (refer to Table 2) as a trade partner, with Japanese exports to East Asia growing by 13.8 points from 34.0% (1998) to 47.8% (2004), and Japanese imports from East Asia increasing by 8.1 points from 35.6% (1998) to 43.7% (2004). These figures include increases by 7.9 points and 7.5 points in Japanese exports to China and Japanese imports from China, respectively as large portion.*⁷ The ASEAN countries as well as South Korea have similarly demonstrated an increased dependence on East Asia and China, while China, too, is becoming increasingly dependent upon East Asia.

Table 2: Dependence of Japan on East Asia in Trade

	1998	2004	Increase (of which Chinese contribution)
Share of Japan's exports to East Asia	34.0%	47.8%	+13.8% (+7.9%)
Share of Japan's imports from East Asia	35.6%	43.7%	+8.1% (+7.5%)

*⁷ Compiled by Mitsui Global Strategic Studies Institute based on data from IMF Direction of Trade Statistics, CD-ROM December 2005, and ADB Key Indicators of Developing Asia and Pacific Countries.

Furthermore, the production network within the East Asian region has been given more depth with the popularity of trilateral trade under which an intra-regional specialization system has developed. For example, in case of finished products which require a relatively human-intensive assembly process, Japan and NIEs (South Korea, Hong Kong, Taiwan and Singapore) export in-process products (parts which cannot be produced by China and ASEAN) to China and ASEAN, where the finished products are assembled, and these in turn are then exported to the United States, the EU, and other places. Under this system, finished products, etc. which require state-of-the-art technologies are produced in Japan and NIEs. A similar specialization system has also emerged within corporations, as some Japanese companies have implemented changes in their production systems in the ASEAN region to produce finished products only in specific ASEAN countries, while parts are procured from their own plants in other ASEAN countries.

(2) Power shift and economic disparities within the East Asian region

A power shift is taking place within East Asia as the region continues its remarkable growth. Data on the GDP per capita in 1990 in East Asian countries (refer to Table 3) shows that only Japan, Singapore and Brunei recorded a GDP per capita of more than 10,000 dollars, and even South Korea was considered a developing

country back at that time. In 2004, Singapore became an advanced nation, while South Korea was now considered a semi-developed country in the process of becoming an advanced country. Malaysia and Thailand were making the transition from developing countries to semi-developed countries, and in China, Indonesia and the Philippines the GDP per capita exceeded 1,000 dollars. We can see that each country within the region continues to advance in terms of economic growth.*⁸

Against the backdrop of the fast growing Chinese economy, in 2004 China, including Hong Kong, became Japan's largest trade partner, a position that had long been held by the United States until 2003, demonstrating the aforementioned heavy reliance of Japan on East Asia, including China, for economic expansion. Other East Asian countries have also developed a similar economic dependence upon China. Given these conditions, Japan is no longer the only advanced nation in East Asia. Rather, a new global specialization and new economic relationships have emerged in the region.

Table 3: Changes in GDP Per Capita of Various Countries in East Asia

	1990	2004
Japan	24,724 dollars	36,595 dollars
Singapore	12,219 dollars	23,999 dollars
Brunei	15,049 dollars**	14,352 dollars
South Korea	5,893 dollars	13,806 dollars
Malaysia	2,432 dollars	4,418 dollars
Thailand	1,528 dollars	2,556 dollars
China	342 dollars	1,490 dollars***
Philippines	725 dollars	1,019 dollars
Indonesia	628 dollars	1,003 dollars
Vietnam	97 dollars	494 dollars
Laos	210 dollars	401 dollars
Cambodia	106 dollars	321 dollars
Myanmar	68 dollars	142 dollars

*⁸ Sources: "Global Economic Trends" edited by the Cabinet Office, Office of the Director General of Policy Coordination, and IMF World Economic Outlook.

** Based on the figure as of 1992 for Brunei.

*** Figure compiled by the 21st Century China Research Institute.

On the other hand, there are large economic disparities between the countries of East Asia. The GDP per capita in Myanmar is 142 dollars, which is less than one hundredth of the GDP per capita of Japan and Singapore. Also, there are even 4 countries, including Vietnam, Laos and Cambodia, with a GDP per capita of less than 1,000 dollars.*

(*Just for reference, the GDP per capita of Latvia, which is the lowest of the 25 countries in the EU, is 5,822 dollars.)

(3) Challenges to East Asian economic integration

The intra-regional trade rate in East Asia was 54% in 2003, as stated earlier, despite the fact that there were no free trade agreements other than the ASEAN Free Trade Agreement (AFTA) in the region. We might say, therefore, that in a practical sense economic integration is making progress in East Asia. In December 2004, ASEAN and China concluded a free trade agreement (FTA), and in December 2005 a FTA was concluded between South Korea and 9 ASEAN countries, not including Thailand. However, there is a great need for institutional economic integration in the form of a free trade agreement for the overall East Asian region, for example, so as to facilitate stable and sustained economic development in the region. For this reason, Japan needs to seize the initiative in forming FTAs/EPAs with East Asian countries. Nonetheless, Japan has made slow progress in EPA negotiations with ASEAN overall and is falling behind China and South Korea in this regard. In addition, Japan's EPA negotiations with South Korea have come to a standstill, while Japan has not even begun to undertake negotiations with China.

In addition, in spite of the progress that has been made in economic integration, the dollar continues to be the favored currency of settlement within the region, and the economies of many East Asian countries continue to be greatly impacted by the fluctuations occurring in their currencies' exchange rates against the dollar. Even in some East Asian countries whose currencies are pegged to the dollar, those with a trade surplus are under pressure to reevaluate their currencies, and at the same time they are exposed to the risk of running a foreign reserve loss in

the case of a sharp decline in the value of the dollar, while those countries with a trade deficit are always at risk of devaluating their currencies. Therefore, it is essential that cooperation be provided in order to ensure the stability of the currencies within the East Asian region. While efforts have been made in this regard since the East Asian currency and financial crisis of 1997 and 1998, as demonstrated by the Chiang Mai Initiative, which is a series of currency swap agreements, as well as the Asian Bond Market Initiative and the launch of the Asian Bond Fund, it is necessary to further expand and intensify these efforts, and Japan has an important role to play in facilitating such efforts.

On the other hand, as stated earlier, the economic disparities that exist within the East Asian region are very large and need to be corrected. This task poses a major challenge.

2. Political agenda within the East Asian region

(1) Political issues within the region

In the East Asian region at present there are deep-rooted issues which are difficult to resolve, such as Japan's political relationship with China and Korea, the inter-Korean issues, the Taiwan Strait issues, territorial and resources development issues, diplomatic problems arising from human rights issues, etc. A forward-looking dialogue between all involved countries with the goal of realizing an East Asian community will play a large role in resolving these issues and serving other purposes.

In addition, intra-regional security in East Asia can hardly be discussed without taking into account the relationship between the region and the United States. As a result, it will be necessary to undertake greater efforts in deepening the United States' understanding of the idea of an East Asian community, while at the same time confidence-building between the United States and China, which is a major power in East Asia, is very important.

(2) Reflection on the modern history of East Asia

Reflecting upon what Japan did in East Asia in the early part of the 20th century is an important requirement for Japan in building forward-looking relationships with East Asian countries in the future. At the base of such reflection are the statements issued by the former Prime Minister Tomiichi Murayama and the current Prime Minister Junichi Koizumi to mark the 50th and 60th anniversaries of the end of the war, respectively. In the statement issued by the then Prime Minister Murayama, the government acknowledged the fact that Japan invaded and colonized some Asian countries for over half a century, and expressed its remorse and an apology from a perpetrator's point of view, as well as committed to maintaining its post-war status as a peaceful nation that has put an end to its past. In the statement of Prime Minister Koizumi, the government, while basically adhering to the above statement, emphasized "the peaceful 60 years during which Japan demonstrated its remorse for the war through actions" .

Japan needs to accurately gain a grasp of the events of the past, while giving consideration to the feelings of the people in East Asian countries, including China and South Korea. Japan should refrain from acting in any way that could trigger distrust in these countries. Should there be any situation wherein Japan has triggered such distrust, it is imperative that Japan give a thorough explanation to all countries concerned in order to clear up any misunderstandings in good faith and express its intentions clearly.

At present, there are a number of concerns which have been raised between Japan and China, and Japan and South Korea, including issues over perceptions of history, the screening of school textbooks, and official visits to the Yasukuni Shrine by Japanese politicians, as well as territorial disputes. It is important to create an environment wherein accurate historical facts can be shared in order to facilitate active bilateral dialogue and more constructive discussions between Japan and China, and Japan and South Korea. It is particularly important for Japan to carry on discussions with China and South Korea as well as other countries with respect to how to jointly undertake study of the issue over perceptions of history, including, among other things, the effectiveness of undertaking research not only between two countries, but with the addition of a third country in order to ensure the objectiveness of research.

(3) Changes in intra-region cooperation

The first movement towards intra-region integration of East Asia was the proposal of a concept of an East Asian Economic Caucus (EAEC) that was presented by the then Primer Minister of Malaysia Mahathir Mohamad in December 1990. The concept of an EAEC, however, did not materialize as Japan, allowing for the United States' opposition to it, showed a negative reaction.

In a practical sense, cooperation within East Asia traces its beginning to the "ASEAN plus 3 Summit Meeting" that was held in December 1997 where Japan, China and South Korea were invited to the ASEAN summit

meeting to commemorate the 30th anniversary of the establishment of ASEAN. Since that time, the “ASEAN plus 3 Summit Meeting” has been held every year.

The need for regional cooperation in East Asia was recognized when the region was responding to the East Asian currency and financial crisis that occurred in 1997 and 1998. At the IMF annual meeting in October 1998 Japan announced its “New Miyazawa Initiative,” which was a financing plan for 30 billion dollars in total. At a meeting of the ASEAN plus 3’s finance ministers that was held in May 2000, the “Chiang Mai Initiative” was declared, and, as a result, a series of bilateral swap agreements between Japan, China, South Korea, Thailand, Malaysia, the Philippines, Indonesia and Singapore, for a total amount of 41.5 billion dollars, were concluded by the end of 2003 (as of November 2005, the above total amount increased to 58.5 billion dollars). In addition, in the area of financial cooperation Japan has been actively advancing its cooperation through the Asian Bond Market Initiative, the launch of the Asian Bond Fund, among other measures.

The cooperative efforts of the ASEAN plus 3 have been materially undertaken in various areas other than the financial area, such as with regard to the environment, energy, emergency rice stocks, anti-terrorism measures, infectious disease prevention, etc. Nearly 50 gatherings and meetings, including those at the administrative level, have already been formed or held in 17 different areas.

As far as the concept of an East Asian community is concerned, the East Asia Vision Group, which consists of eminent persons in the private sector, was formed after a proposal was made at the ASEAN plus 3 summit meeting that was held in December 1998. The submission of a report entitled “Towards an East Asian Community” to the ASEAN plus 3 summit meeting that was held in November 2001 imparted strong momentum to the movement towards intra-region integration of East Asia. Subsequently at the first East Asian summit which was held in December 2005 and attended by the ASEAN plus 3, as well as Australia, New Zealand and India, the leaders of these countries reached a consensus on stepping up their cooperation in the realization of an East Asian community.

(4) Advancement of Japans’ cooperation in East Asia

Until 2000 Japan had been the world’s largest donor country for ODA (official development assistance), and even today it is the second largest behind the United States. Primarily for the purpose of building infrastructure and developing human resources to foster industries in developing countries, Japan has been extending grant aid, technical assistance, yen-denominated government loan, etc. mainly to East Asia. In addition, Japanese corporations, through their expansion of operations into East Asian countries, have actively contributed to the development of the economies in the region. However, when Japan and others proposed a reform plan for permanent membership in the United Nations Security Council in 2005, not only did China and South Korea oppose this move, but Japan also failed to gain support of ASEAN countries, suggesting that the confidence of East Asian countries in Japan has not reached the level which Japan thought it had reached.

Nonetheless, the ODA extended by Japan will continue to be very important to countries such as Vietnam, Laos, Myanmar and Cambodia that exist at the low end of the ladder among the group of developing countries. Japan should continue to actively provide assistance to these countries and, at the same time, should take a hard look at the fact that its traditional ODA method has failed to build confidence in a genuine sense. Thus, Japan should pursue a way to provide ODA that will make it clearly known Japan’s true intention and that will allow for a genuine confidence in Japan to eventually develop.

Japanese corporations that expand into East Asia should also contribute to building confidence at the private sector level by actively practicing CSR (corporate social responsibility) in the local communities where they operate.

The “Chiang Mai Initiative” mentioned earlier was realized after it was proposed by Japan at the ASEAN plus 3 meeting for finance ministers. In the area of finance, Japan has aggressively advanced its cooperation through the Asian Bond Market Initiative, the launch of the Asian Bond Fund, among other things, and it should continue to boost such cooperation in the future. Where the ASEAN plus 3 is concerned, meetings have been held not only for country leaders, foreign affairs ministers and finance ministers, but also for ministers in a wide range of fields, including energy, the environment, agriculture and forestry, etc. It is recommended that Japan should work to build the confidence of other countries in itself through proactively taking advantage of the above mentioned meetings to exercise initiatives and further develop its cooperation in East Asia.

II. The Necessity of an East Asian Community and How it should be in principle

1. The necessity of an East Asian community

(1) Confidence and peace building within the East Asian region

As stated earlier, economic activities are increasingly being undertaken on a global basis, and this has produced a number of issues that require cooperation and solutions within the East Asian region, such as the stability of the currencies in the region, the building and fostering of an Asian bond market, and issues relating to the global environment, resources and energy, infectious diseases, and terrorism, among other things. Given this scenario, it will be quite significant to set a vision for realizing an East Asian community in order to achieve co-existence and co-prosperity of East Asia overall, as well as peace-building within the region.

The sharing of this common goal of realizing an East Asian community among all countries involved can further enhance the ongoing cooperation taking place in various aspects within the region, with the institutionalization of an East Asian economic integration being the number one priority. This enhanced cooperation can nurture confidence between the countries involved, and can eventually contribute to resolving various issues as well as building peace within the region. Japan needs to undertake efforts to earn the genuine trust of these countries by exercising its capability in providing initiatives in the sharing of a common vision towards the realization of an East Asian community, and in various other fields within the region.

(2) Fostering of a sound nationalism

The friction that exists between different countries in East Asia is becoming more pronounced as a result of a power shift within the region, which was mentioned earlier, as evidenced by the recent relationship between Japan and China, and Japan and South Korea. As such, it becomes more crucial than ever that the countries in the region carry on a dialogue with one another in order to build confidence among them. Therefore, under the common vision of realizing an East Asian community, the countries in the region should not allow a certain country to exercise hegemony, reaffirm the establishment of an equal partnership between each country, and undertake efforts to foster a sound nationalism.* We believe that, without such intra-regional political stability, the current economic expansion in the region cannot be sustained.

* A sound nationalism means a non-exclusive nationalism, such as when fans cheer for the team representing their country while paying respect to the country of the opposing team at a sports event.

(3) Institutionalization of an East Asian economic integration

As stated before, economic integration within East Asia is making steady progresses in a practical sense, and, therefore, the institutionalization of such economic integration will carry great significance and contribute to an increased and sustainable economic development in East Asia overall. It is important, as a first step toward the realization of an East Asian community, to create a free trade zone within East Asia. In preparation for taking such step, a series of FTAs are currently being concluded primarily with ASEAN serving as a hub. As suggested earlier, any delay in the conclusion of economic partnership agreements (EPAs), including FTAs, between Japan and the ASEAN countries, will not only be looked at as a lack of Japanese initiative with respect to an East Asian community, but it will also cause Japan a significant loss as it will miss out on the production network that is being created within the East Asian region.

In addition, it is absolutely essential to establish and maintain a structure for facilitating not only the deregulation of goods and services transactions, but also the liberalization of the movement of people, currency and financial systems, the integration of standard and certification systems, the protection of intellectual property rights, and the deregulation of investment, among other things.

2. How an East Asian community should be in principle

(1) Road map for the realization of a “community”

Even the economic integration within the EU, which is a successful example of a community, was a very long project that spanned over 50 years from the birth of its original concept. Tracing its origin to the European Coal and Steel Community (ECSC) that was established in 1951, as well as the European Economic Community (EEC) and the European Atomic Energy Community (Euratom), both of which were established in 1958, it was not until 1993 that the EU finally commenced a substantive economic integration, which included the standardization of the value-added taxes and consumption taxes of member countries in the region, the deregulation of financial markets and financial services, and other such measures. It should be noted that the EU started as a community that consisted of 6 countries and gradually expanded its membership to 15 countries in 1995, and then 25 countries in 2004. There is a lesson for the realization of an East Asian community to be

learned from the process traced by the EU; that is, it is important to start with those tasks that we can accomplish today and undertake them one step at a time.

As described earlier, when the subject of an East Asian community is being debated, it is important that each involved country in the region agree to and share the vision of a “community” as the common goal. It is also necessary, while working towards the goal of creating a “community,” to adopt the approach of starting with those areas in which cooperation can be pursued at this point in time. These areas include the conclusion of FTAs between the various involved countries, the creation of a free trade zone within East Asia, the liberalization of the movement of people, currency and financial cooperation, energy and environmental cooperation, the integration of standard and certification systems, and the facilitation of intellectual property rights protection. We should view securing cooperation in these areas, one area at a time, as the process of forming a “community,” which will ultimately result in the realization of an East Asian “community.”

(2) Building of equal partnerships

Amidst the aforesaid ongoing power shift that is occurring in the East Asian region, we have come to the end of the era wherein “Japan is the only industrialized nation” in the region, and it is necessary to build new relationships. As the goal and operation rules of an East Asian community, it is important to build equal partnerships between East Asian countries, while reaffirming their peaceful co-existence, joint prosperity, mutual cooperation, non-intervention in other countries’ internal affairs, peaceful resolution of disputes, and the renunciation of the use of military force, in line with the purpose and basic principles of the “Treaty of Amity and Cooperation in Southeast Asia”, which is a requirement for joining ASEAN and for participating in East Asian summit meetings.

(3) Concentric expansion centering on the ASEAN

Since its establishment in 1967, ASEAN has accomplished the ASEAN Free Trade Agreement (AFTA) in 1992, sponsored the first ASEAN plus 3 meeting in 1997, and has consistently played the leading role in integrating the East Asian region. Given this background, it is quite realistic to pursue an East Asia regional integration that centers on ASEAN, while Japan, China and South Korea, together with ASEAN, will act as principal members in promoting the realization of an East Asian community, and Australia, New Zealand and India will form an outer circle that will provide additional support. This is assumed to be a general consensus, which was reached on the above concept at the first East Asian summit that was held in December 2005.

As stated earlier, an East Asian community will likely form out of a succession of cooperative efforts in a number of areas that should be accomplished one area at a time. Depending on the circumstances and some areas it may be necessary to seek the cooperation of countries other than the ASEAN plus 3 or those participating in the East Asia summit meetings. For example, in some areas cooperation may be restricted between Japan, China, and South Korea, and it may even be necessary to seek the cooperation of countries outside of the region, such as the United States, Russia, etc. As a result, a flexible approach should be implemented in each area of cooperation in choosing countries to seek cooperation from. Nonetheless, the leadership exercised by Japan and China, the two major economic powers in the region, is absolutely crucial in the development of an East Asian community, and, as such, there is an urgent need to improve the relationship between these two countries.

In addition, when considering security in East Asia it is impossible to disregard its relationship with the United States. To win the support of the United States, East Asia needs to step up its efforts to have the United States better understand the concept of an East Asian community by maintaining and expanding APEC (Asia-Pacific Economic Cooperation) and through other measures.

(4) Realization of an open community

A open community does not mean a community which can be joined by any country. An open community means a community which employs a trade policy that conforms to the framework of the World Trade Organization (WTO), rather than a trade policy that supports the formation of a bloc economy. It also maintains a consistency with international coordination systems that center on the United Nations. To meet the above definition, an open community must be an intra-regional integration that can help develop the global economy, and it must be able to make a contribution as a member of the global society, rather than contending with the EU or North American Free Trade Agreement (NAFTA).

It is particularly important to gain the support of the United States, which opposed the concept of the East Asian Economic Caucus (EAEC) that was proposed by the then Primer Minister of Malaysia Mahathir in 1990.

Therefore, it is crucial to continuously present, on a persistent basis, explanations to the United States and other countries that reside outside of the East Asian region through APEC meetings and other opportunities.

(5) Creation of a disparity correction mechanism of the overall East Asian region

The first step towards an East Asian community will be to create a free trade zone within the region. However, putting free trade into practice with the economic disparities that exist in the region left attended means that the countries existing at the low end of the ladder in the developing group of nations would have no choice but to first import goods from other countries before they could develop their own industries, making it difficult to nurture areas of industry as desired. For this reason, to correct the economic disparities that exist in the region it is essential to accurately gain a grasp of the industries which the developing countries wish to develop, and to assist and support to establish and maintain a useful infrastructure for developing these industries, while facilitating the transfer of necessary technologies and human resources development.

Therefore, it will be absolutely imperative to put a system in place which will allow Japan and other economically developed countries in East Asia to extend assistance and support to the economically developing countries in the region, in addition to the ODA provided by the Asian Development Bank (ADB) and other international organizations, as well as bilateral ODA. We believe that such system will play a significant role toward the realization of an East Asian community.

(6) Objective and basic principles of an East Asian community

So far in this section we have described how an East Asian community should be in principle. To form such community, however, it is crucial that a basic principles be shared by all of the participating countries. In order to ensure that basic principles be shared, in the first instance it is important to clearly identify in concrete terms the objective and basic operation rules of the community in addition to the principles. In this regard, we may summarize as follows:

Objective of an East Asian community:	Co-prosperity and co-existence within the East Asian region
Basic principles of an East Asian community:	Democracy, market economy, and basic human rights
Operation rules of an East Asian community:	Mutual cooperation, non-intervention in other countries' internal affairs, peaceful resolution of disputes, renunciation of the use of military force, correction of regional disparities, and equal partnerships

(7) A community with East Asian characteristics

One of the prominent characteristics of East Asia is that there are various political systems in the region. We have suggested above that “democracy,” “market economy” and “basic human rights” are the elements of basic principles which should be shared by all countries participating in an East Asian community. As things stand now, however, the awareness towards these elements varies greatly among the countries involved. Therefore, in the overall process of realizing an East Asian community a sufficient amount of time should be spent on sharing these principles, and the autonomy of each involved country should be given respect in determining what path to take as well as what measures to implement in order to share these principles.

In addition, as mentioned before, there exist wide economic disparities within East Asia. Viewing these disparities as the starting point, we have included the correction of disparities as one of the operation rules of an East Asian community.

3. Japan’s strategic focus on East Asian diplomacy

The current diplomatic policy of Japan is supported by two pillars – “Japan-United States alliance” and “international coordination.” However, as Japan’s heavy reliance on the East Asian economy, including China, is likely to continue in the future, Japan should add a “strategic focus on East Asian diplomacy” as the third pillar of its diplomatic policy. Japan should clearly define this new pillar of its diplomatic policy from a national point of view, and then implement initiatives to promote cooperation in various fields within East Asia, including the creation of an East Asian free trade zone, with the goal of realizing an East Asian community. We believe that through this process Japan should be able to build confidence with China and South Korea, as well as the ASEAN countries, which can ultimately lead to improved relationships for Japan with China and South Korea.

III. Four Recommendations Towards the Realization of an East Asian Community

At the ASEAN plus 3 (Japan, China and South Korea) heads of state summit and the first East Asian summit that were both held in Kuala Lumpur in December 2005, a common understanding was reached among the participating countries to strengthen their cooperation towards the realization of an East Asian community. As we have said earlier, it is extremely important and absolutely imperative that Japan aggressively exercise initiatives in the realization of such community. On that note, we would like to herein present our four recommendations to the government of Japan. These recommendations should be looked at as immediate and urgent issues that need to be addressed towards the realization of an East Asian community.

1. Early realization of heads of state summits between Japan and China/South Korea

Without confidential relationships between Japan and China and between Japan and South Korea, it will simply not be possible to realize an East Asian community in the future and create an East Asian free trade zone as the first step towards realizing such community. For this reason, conditions must be urgently established for the early realization of heads of state summits between Japan and China and between Japan and South Korea and for holding such summits on a regular basis.

In particular, we hope that the deterioration in Japan's relationships with China and South Korea, which is partly due to the customary visits to Yasukuni Shrine by Japanese government leaders, will be resolved as early as possible in an amicable and constructive manner, with consideration given also to how Japan should pay tribute to its war dead in the future. In this sense, Japan needs to comprehensively reflect upon its modern history and proactively examine the role of its relationship with East Asia, in the light of the relevant statements released by the former Prime Minister Murayama and Prime Minister Koizumi.

2. Japan's drastic measure to open up the market for agricultural products, etc. for the facilitation of intra-regional FTAs/EPAs

It is generally believed that the realization of an East Asian community is conditional upon taking the first step of creating a free trade zone within the region. Such condition is also premised on the conclusion of FTAs/EPAs being concluded between Japan and ASEAN, between Japan and China, and between Japan and South Korea. The greatest challenge that Japan must take on in order to pave the way for the conclusion of such FTAs/EPAs is the opening up of the market for agricultural, forestry and marine products, for which we hold a high expectation that the government will implement the proper initiatives.

As far as the opening up of the market for agricultural products is concerned, Japan should, as suggested by the Keizai Doyukai (Japan Association of Corporate Executives) in December 2004,* turn around its current policy of maintaining prices for agricultural products supported by high tariffs, and should instead promote a structural reform of the agricultural industry by adopting a system for making payments directly to full-time farmers.

* A proposal for the "Utilization of a Direct Payment System for Farming Businesses" which was released in December 2004 by the Committee for Promotion of Agricultural Policy Reform in the Keizai Doyukai.

3. Establishment of an East Asian Regional Development Fund (tentative name)

One of the major challenges to the realization of an East Asian community is the economic disparities that exist within the region, with certain areas having a disparity more than the ratio of 1 to 100. Therefore, we would like to recommend the establishment of an East Asian regional development fund that will help narrow these disparities.

The fund will be designed as a structural adjustment (regional development assistance) policy of East Asia overall. In the case of the EU, since the establishment of the European Regional Development Fund in 1975, a number of measures to correct the regional disparities have been implemented to produce effective results. In East Asia, a similar fund should be established wherein each country supportive of the realization of an East Asian community will contribute a certain amount each year in accordance with the size of its economy. The fund will provide assistance primarily to developing countries, for example, those countries with a GDP per capita of less than 1,000 dollars, in order to help them build infrastructure, such as harbors, roads, airports, power plants and power transmission facilities and communications systems, etc., to transfer technologies relating to those areas of industry that each country wishes to nurture and to develop human resources.

We should note that Japan currently provide ODA through both multilateral and bilateral channels, and the assistance to be provided under the proposed fund will become part of Japan's multilateral ODA program.

4. Launch of a Council on the Promotion of an East Asian Community (tentative name)

We recommend the launch of a council on the promotion of an East Asian Community which will report directly to the Prime Minister of Japan and act as a panel of experts that will include parties from the private sector. The council will function in much the same way as the Council on Economic and Fiscal Policy, which has been set up within the Cabinet Office and has a large impact on the government's economic and fiscal policy.

It is essential that Japan clearly express its strategic focus on East Asian diplomacy and work toward realizing an East Asian community by laying out a framework for the Prime Minister to proactively exercise his leadership in ensuring that Japan will implement initiatives in promoting cooperation in various fields within the region, such as an early conclusion of intra-regional FTAs/EPAs and the creation of an East Asian free trade zone.

Conclusion

The road to the realization of a community within the region is certainly not an easy task. We believe that a build-up of individual efforts being made gradually at both the private-sector level and the government level, other than the above four recommendations, will eventually lead to an East Asian community. At the government level, measures have been implemented to facilitate the conclusion of FTAs/EPAs, currency and financial cooperation, the integration of standard and certification systems, and the protection of intellectual property rights. Also, various government-level efforts have been undertaken to prevent infectious diseases, as well as piracy and terrorism, and to provide assistance through various ODA programs. These efforts should be further strengthened and built up.

In addition, the Japanese government should improve the curriculums with respect to the modern history being taught at elementary, junior high and high schools, while creating an environment for acknowledging the historical facts that are shared by East Asian countries. It is also important to implement measures to promote mutual understanding between Japan and the people of East Asia and to build an amicable relationship with them through assistance extended to foreign students studying in Japan, support for Japanese language education in East Asian countries, and other measures.

Private-sector corporations, on the other hand, must undertake efforts to build confidence with East Asian countries at the private-sector level by making contributions to the promoting of mutual understanding. Such contributions may include putting their CSR (corporate social responsibility) into practice in the local communities in which they have set up operations, employing local people for executive positions, accepting East Asian students as interns, providing assistance to foreign students studying in Japan, taking part in and supporting cultural exchange activities, among other things.

As far as the Keizai Doyukai is concerned, we have held the "ASEAN-Japan Business Meeting (AJBM)" every year since 1974 in order that it serve as an opportunity for corporate executive managers to exchange opinions and become acquainted with each other. In the future, we will work towards developing an "East Asian Business Meeting" which be joined by executive managers from China and South Korea, deepening and expanding the current AJBM. By doing so, we are committed to making as many contributions as possible in order to realize an East Asia community.

END