

Future targets for Asian regional integration

Eiji Yamashita

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Abstract The central framework of Asian integration is ASEAN+3 and, since its first Summit meeting in 1997, it has advanced regional integration in East Asia. Based on the direct experience of the author, this article presents a critical assessment of the progress made over the past ten years and argues that the ‘Singapore Declaration’ of 2007 is not ambitious enough for the future. An East Asian customs union (EACU) and common regional market should be the next targets for trade integration. In terms of monetary integration, Asia should aim for de-dollarisation and to achieve this it is crucially important to create a regional Asian monetary system (AMS).

Introduction

The theme of this workshop is free trade agreements (FTAs), particularly inter-regional FTAs. Although I well understand the European Union’s (EU) current strategy of seeking FTAs with the outer-world, Asia’s stand point should be very different. For the EU, the intra-regional integration process is already very advanced and the multilateral trade negotiations in the World Trade Organisation (WTO) are in serious trouble. So, the EU naturally seeks FTAs with the outer-world. However, it is not the time for Asia to seek FTAs with the outer-world. For Asia, it is time to concentrate on promoting its own regional integration as it is still at a pre-FTA stage. FTAs with the outer-world could be detrimental to enhancing cohesion within the region.

In recent years, I have attended various conferences on Asian regional integration including the Network of East Asian Think-tanks (NEAT) and the East Asia Forum (EAF) which come under the ‘Track-2’ process established in compliance with the

E. Yamashita (✉)
International Finance, Graduate School of Economics, Osaka City University (OCU), Osaka,
Japan
e-mail: bellogos@econ.osaka-cu.ac.jp

‘Final Report of the East Asia Study Group (EASG)’¹ published in 2002. The EASG, which was composed of government officials from each of the thirteen ‘ASEAN+3’ countries, is the most important official document so far showing the future course of Asian Integration.

My purpose in attending these Track-2 meetings was to assess whether they are effective or not in promoting Asian integration. The aim of this article is to provide this assessment based on my own direct experience. I will first try to give the whole picture of the current Track-2 frameworks related to Asian Integration, and then assess their effectiveness. These frameworks, which consist of governmental and non-governmental sectors have some influence on the development of formal integration process under Track-1. I will assess whether these frameworks are effective or not, judging from my own experience. In section 2, I will analyse the contents of the official ‘*Second Joint Statement on East Asia Cooperation: Building on the Foundation of ASEAN+3 Cooperation*’, issued by ASEAN+3 government leaders in Singapore in 2007, which also sets out a ‘Work Plan for the Ten Year period 2007–2017’.² I will then assess whether this goes in the right direction for future Asian integration.

Section 3 will present my views on what Asia should set as the next targets after the East Asian FTA (EAFTA) and the East Asian Investment Area (EAIA) in the process of Asian Integration. In the final section, I will analyse the policy stance on Asian Integration Japan should take for this new era of multipolarizing global governance.

The current track-2 frameworks related to Asian integration

The Track-2 frameworks operate within the context of the central framework related to Asian Integration, that is, ASEAN+3. Its first Summit was convened in Malaysia in 1997³, and since then it has taken place annually. The ‘*First Joint Statement on East Asia Cooperation*’ was agreed in Manila in 1999 and to mark the 10th anniversary of ASEAN+3, the ‘*Second Joint Statement on East Asia Cooperation*’ was issued in Singapore in 2007. How much progress has been made during the past ten years? In order to assess the present state of Asian integration, it is necessary to first examine the most important Track-2 frameworks and how they influence the formal Track-1 process.

The East Asia Forum (EAF), which was established in 2003 under the initiative of the Korean government, is the closest to the formal process. The EAF was included as one of the 17 Short-term Concrete Measures defined in the EASG in 2002. Since the first meeting in Seoul, the EAF has been held every year. The 5th EAF was organized by the Japanese Ministry of Foreign Affairs (MOFA) in Tokyo in 2007.

¹ East Asia Study Group (2002)

² ASEAN+3 (2007b)

³ In March 1996, the first ASEM (Asia-Europe Meeting) Summit was held in Bangkok, Thailand. Taking that opportunity, a meeting of the East Asian leaders was convened separately from ASEM. That was virtually the beginning of ASEAN+3 Summit, because the member countries of that meeting were the same as the ASEAN+3.

The EAF meetings consist of people from governments as well as those from non-governmental sectors. But, it is very close to the government sector, because it is organised by governments. The speakers at the EAF are not obliged to submit papers in advance, and no document comes out after the meeting. Consequently, there is no channel through which EAF discussions can impact on Track-1 policy making. Therefore, EAF is not so influential in the Asian Integration process under ASEAN+3. However, at the 6th EAF in Luang Phrabang in Laos in October 2008, the Korean delegation expressed the need for strengthening the EAF process including the examination of establishing a permanent secretariat in response to the current global financial turmoil. The Korean government will host the 7th EAF in 2009.

Another framework established in compliance with the EASG Final Report is the Network of East Asian Think-Tanks (NEAT), which consists of think-tanks from all 13 member countries which was set up in 2003. A Country Coordinator is chosen for every member country. Basically one annual meeting and two Country Coordinators' meetings (CCM) are held every year. The role of NEAT is to make policy recommendations at the Annual Meeting held usually in August every year, and to input them to the ASEAN+3 Summit usually held in November of the same year. In this way a mechanism which could influence policy makers is built into NEAT, to some extent. It is generally recognised that NEAT is the most efficient Track-2 framework under the ASEAN+3.

In preparation for the 10th Anniversary of the ASEAN+3 Summit, NEAT prepared a memorandum on '*Policy Recommendations for Strengthening the Pillars of East Asian Community Building*'⁴ in 2006. At the NEAT Annual Meeting in Singapore in 2007, the reports of 6 Working Groups⁵ were summarised into a final Memorandum on '*Policy Recommendations on East Asia Cooperation: Towards Sustainable Development and Prosperity*'⁶. Thus, NEAT inputted two policy proposals to the ASEAN+3 'Singapore Declaration'. How these NEAT proposals were reflected in "the Second Joint Statement", I will discuss it in detail in the next section.

A further framework under ASEAN+3 is the East Asia Business Council (EABC) which aims to strengthen the business sector in the region and to promote intra-regional trade and investment. EABC is the equivalent of the APEC Business Advisory Council (ABAC)⁷, which has been relatively active. But EABC has not been active since its establishment in 2004, so the "Work Plan 2007–2017" states that its role should be strengthened in order to push forward economic cooperation in East Asia⁸.

⁴ NEAT (2006)

⁵ The six Working Groups are, Overall Architecture of Community Building: Regional Architectures for Non-traditional Security and Environmental Cooperation (Japan), East Asian Financial Cooperation (China), Investment Cooperation (China), Enhancement of Cultural Exchange (Korea), East Asian Cooperation Framework for Migration Labour (Malaysia) and Energy Security Cooperation (Singapore).

⁶ NEAT (2007)

⁷ The establishment of ABAC was agreed at APEC Ministerial Meeting in Osaka, Japan in November 1995. The purpose of ABAC is to reflect private sector's voice in the activities of Asia-Pacific Economic Cooperation (APEC). For example, in the case of Japan, three APEC Japan Commissioners are from Mitsubishi UFJ Financial Group, Panasonic and Toyota which are all very large firms representing Japan. And, ABAC Japan Secretariat is located in Keidanren-kaikan in Tokyo.

⁸ ASEAN+3 (2007b), Section B-1.12

Another Track 2 framework under the ASEAN+3 is the East Asia Congress (EAC) which was established by the Malaysian government's initiative in 2003. Since then, the EAC has been held every year in Kuala Lumpur usually organized by the Institute of Strategic and International Studies (ISIS) in Malaysia⁹. As one of speakers¹⁰ I attended the 4th East Asia Congress in 2006. Basically, Malaysia's Prime Minister makes a key-note speech at this conference. The Malaysian government puts great emphasis on this conference for the opportunity of discussing East Asian Community building.

The EAC is much more informal than NEAT in which members of the delegation are selected by the Country Coordinator for each country. Since the Country Coordinator of NEAT is assigned by the each government, members of the delegation are directly or indirectly selected by the government. In the case of EAC, it is ISIS Malaysia which selects the participants from member countries. Unlike NEAT, EAC does not produce a paper after the conference, so it does not make policy recommendations to the Track-1. However, since players at EAC attend in their personal capacity, they can discuss very freely. Therefore, EAC discussions are the most interesting and fruitful conferences on Asian Integration organized by various frameworks under the ASEAN+3.

The Economic Research Institute of ASEAN and East Asia (ERIA) was established within the ASEAN Secretariat in Jakarta in June 2008 — although this is not a framework under ASEAN+3, but under the East Asia Summit (EAS) framework which consists of 16 countries¹¹. ERIA is known as “the Nikai Initiative” which was announced by the then Japanese Minister of Economy, Trade and Industry (METI), NIKAI Toshihiro, at the ASEAN+3 Economic Ministers' Meeting in Kuala Lumpur in 2006. The Japanese government will put 10 billion yen in total into this institute, the purpose of which is to study Asian economic integration, and it is expected to have 20–30 proper experts eventually. ERIA research will be policy-oriented rather than purely academic including capacity-building of experts in CLMV countries¹². Research results will be made available in every member country of EAS-16. Furthermore, the Japanese Ministry of Economy, Trade and Industry and Ministry of the Environment (MOE)¹³ has now linked ERIA with its ‘Asian Economic and Environmental Community Initiative’ announced in May 2008. To enhance cohesion within the region, energy and environmental issues should be the key to the future and “We should utilize ERIA in full to help achieve the goal”, it stated.

⁹ ISIS Malaysia is based in Kuala Lumpur, and Chairman & CEO is Dr. Mohamad Jawhar Hassan. He is also NEAT Country Coordinator for Malaysia.

¹⁰ The full-paper of my presentation at this conference is Yamashita (2007a).

¹¹ The members of the EAS are ASEAN+3+Australia, New Zealand and India.

¹² It means Cambodia, Laos, Myanmar and Vietnam.

¹³ In June 2008, MOE announced their “Clean Asia Initiative” to be the core of “Asian Economic and Environmental Community Initiative”.

The Singapore Declaration on East Asia Cooperation in 2007

- Second Joint Statement by ASEAN+3 leaders

From the ‘Second Joint Statement on East Asia Cooperation: Building on the Foundation of ASEAN+3 Cooperation’¹⁴, the most important points for analysis are as follows. First, it states that ASEAN+3 should continue to be ‘*the main vehicle for building an East Asian Community*’. That means the East Asian Community (EAC) building should be promoted primarily by ASEAN+3, as was the case in the past. Currently, however, the Japanese government is putting emphasis on the East Asian Summit (EAS) rather than on ASEAN+3. The positioning of ASEAN+3 as the main vehicle for building an EAC is quite reasonable and the Japanese government should respect this inter-governmental agreement.

Secondly, it emphasises promoting East Asian integration, through “an open regional architecture”. Although this is the same policy as in the past, I am very sceptical about this policy stance. In practice, it is not possible to promote regional integration by open regionalism. The most important and natural way to promote regional integration is to enhance “cohesion” within the region. Moreover, the term “open regionalism” is inherently meaningless and self-contradictory as it is impossible to define in a logical way. It may be acceptable to use this term for diplomatic consideration to the outer-world, but it is not possible to promote concrete regional integration by this vacant concept.

The EU has been criticized from the outer-world, notably the United States, for creating ‘Fortress Europe’. But the EU has always responded saying we are not building a ‘Fortress’ and neither is the euro going to challenge the dollar. However, the successful results accumulated by the EU over decades have been based on “closed regionalism” in practice. In this respect, Asia should learn from Europe. I believe that a major change of direction will be needed if we are to promote Asian Integration in full scale. I am surprised by the number of Asian experts who still argue the importance of open regionalism as it is not possible to promote Asian integration to a meaningful level in this way.

Thirdly, regarding the issue of whether to establish a proper Secretariat for ASEAN+3, it is just mentioned that it will remain within the ASEAN Secretariat, which will continue to be in charge, but that its function should be strengthened. A NEAT Policy Recommendation from 2006 proposed the establishment of a permanent secretariat for the ASEAN+3 in an attempt to strengthen the Economic Review and Policy Dialogue (ERPD) which is an economic surveillance mechanism under the Chiang Mai Initiative (CMI). Regrettably, the NEAT recommendation was turned down at the Singapore Summit. A permanent secretariat for ASEAN+3 is essential to enhance the functioning of ERPD under the CMI, as well as strengthening the functioning of the ASEAN Secretariat in general¹⁵ Fourthly, the establishment of an ‘ASEAN+3 Cooperation Fund’ was

¹⁴ ASEAN+3 (2007a)

¹⁵ As for Asia-Pacific Economic Cooperation (APEC), the first Ministerial Meeting started in Canberra, Australia in November 1989. In September 1992, it was agreed to establish the permanent Secretariat in “the Bangkok Declaration” at the 4th APEC Ministerial Meeting. The APEC Secretariat is based in Singapore.

Table 1 FTAs and EPAs of ASEAN+3 countries

(ASEAN) AFTA: effective from Jan. 2002
 (ASEAN+China) ACFTA for Goods: signed in Nov. 2004
 ACFTA for Services: signed in Jan. 2007
 (ASEAN+Korea) FTA: signed in May 2006
 (ASEAN+Japan) EPA: Framework Agreement (May 2007)
 EPA: agreed in November 2007
 EPAs: signed by countries by April 2008
 Japan/ Singapore EPA: signed in Jan. 2002
 Japan/ Malaysia EPA: signed in Dec. 2005
 Japan/ the Philippines EPA: signed in Sep. 2006
 Japan/ Thailand EPA: signed in Apr. 2007
 Japan/ Brunei EPA: signed in June 2007
 Japan/ Indonesia EPA: signed in Aug. 2007
 Japan/ Korea EPA negotiations: started in Dec. 2003
 Japan/ Mexico EPA: signed in Sep. 2004
 Japan/ India EPA negotiations: started in Jan. 2007
 Japan/ Australia EPA negotiations: started in April 2007
 Japan/ Chile EPA: signed in March 2007
 Japan/ Switzerland EPA: Framework Agreement (Sep. 2008)
 Japan/ Persian GCC FTA negotiations: started in Sep. 2006
 Japan/ Vietnam EPA negotiations: started in Jan. 2007
 ASEAN/ India FTA negotiations: started in March 2004
 ASEAN/ Australia FTA negotiations: started in Feb. 2005
 ASEAN/ EU agreed to begin FTA negotiations in May 2007
 Korea/ Canada FTA negotiations: started in March 2005
 Korea/ India CEPA^a negotiations: started in March 2006
 Korea/US FTA signed in April 2007.
 Korea/ EU FTA negotiations: started in May 2007
 India/ EU FTA negotiations: started in June 2007

^a CEPA=Comprehensive Economic Partnership Agreement

included in the Singapore Declaration, which will cover the necessary expenses for implementing the Work Plan in the coming 10 years.

- Ten year work plan for 2007–2017

Annexed to the Second Joint Statement is a Work Plan for ASEAN+3 Cooperation¹⁶ covering the next ten years, which I will now assess. First, the Work Plan is not ambitious enough for a long-term plan. After accomplishing the East Asian FTA (EAFTA) and the East Asian Investment Area (EAIA), no further target is mentioned. Secondly, the EAFTA and EAIA could be accomplished much earlier than 10 years time. All the bilateral FTAs between ASEAN and Japan, China and Korea have already been completed and ready for signature by April 2008 — see Table 1.

Consequently, if a FTA among the three North East Asian countries is agreed, the EAFTA will be virtually completed. Certainly a lot of technical work is still needed to harmonize FTAs, because the coverage and contents of each bilateral FTA are different. However, there are not many hard negotiating matters left any more. I think it could be completed within 5 years or even within 3 years at the earliest given

¹⁶ ASEAN (2007b)

Table 2 East Asia Study Group: medium-term and long-term concrete measures

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- -Form an East Asian Free Trade Area (EAFTA)
 - -Promote investment by small and medium enterprise
 - -Establish an East Asian Investment Area (EAIA) by expanding the ASEAN Investment Area (AIA)
 - -Establish a regional financing facility
 - -Pursue a more closely coordinated regional exchange rate mechanism
 - -Pursue the evolution of the ASEAN+3 Summit into an East Asian Summit (EAS)
 - -Promote closer regional marine environmental cooperation for the entire region
 - -Build a framework for energy policies and strategies, and action plan
 - -Work closely with NGOs in policy consultation and coordination to encourage civic participation and state-civil society partnership in tackling social problems
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Source: East Asia Study Group (2002)

the strong political will among the three countries. According to the current plan agreed by ASEAN+3, examination of the possibility of the EAFTA by private sector experts will be made within the coming two years, and then examination by governments will follow. It could be possible to speed-up the examination process by conducting the private and government examinations in tandem. As Asian FTAs have already developed very far, we do not need much further time for examination. Actually, the EAFTA and the EAIA were already included in “the EASG Final Report” in November 2002 — see Table 2.

Thirdly, NEAT No. 3 Policy Recommendation in 2006 emphasized that one of the most important long-term objectives is to establish a stable exchange rate mechanism in East Asia, and a roadmap towards a regional exchange rate regime should be drawn up. Regrettably, this important issue was not included in the Work Plan. Fourthly, the NEAT Policy Recommendation also proposed that “A careful study should be made on how to promote the multilateralisation of the Chiang Mai Initiative (CMI) mechanism and the feasibility and roadmap for the CMI to be upgraded fully into a regional monetary fund.” But, it has also been dropped again in the Work Plan.

Fifthly, the NEAT Policy Recommendations proposing that “An East Asian Finance Association (EAFA) should be established and made up of representatives from central banks, financial supervisors and private financial institutions.” The goal of an EAFA is to promote cooperation among financial supervision institutions, banks and other financial institutions, and build a regional settlement system is also not included. The only thing I appreciate in the Work Plan is the goal to “Cultivate an East Asian identity through promotion of ASEAN Studies and East Asian Studies in the region.” Re-discovering and cultivating an Asian identity is extremely important for the promotion of Asian Integration¹⁷.

In summary, we will only have the EAFTA and the EAIA in 2017 if the Work Plan is accomplished completely. We will not have even a permanent secretariat for the ASEAN+3. Consequently, I conclude that this Work Plan is not ambitious enough as it should have set the next targets after the EAFTA and the EAIA based on the important policy recommendations of NEAT — see Table 3.

- The East Asia Summit and its assessment

¹⁷ As for Asian identity, see Yamashita (2007a).

Table 3 NEAT's policy recommendations not reflected in "the Second Joint Statement in November 2007"

- Establishment of a Permanent Secretariat for the ASEAN+3 (NEAT(2006))
- Drawing up of a Roadmap towards a Regional Exchange Rate Regime (NEAT(2006))
- Feasibility Study and Drawing up of a Roadmap for the Chiang Mai Initiative (CMI) to be Upgraded Fully into a Regional Monetary Fund (NEAT(2006))
- Establishment of East Asian Financial Association (EAFA) to Promote Cooperation among Financial Supervision Institutions, Banks and Other Financial Institutions, and to Build a Regional Settlement System (NEAT(2006))
- The Need for Appropriate Research and Planning Related to Asian Currency Unit Index and Establishing a Specialised Body Designated by the ASEAN+3 Countries to Be Responsible to Lead This Study (NEAT (2007))

Source: NEAT (2006), (2007), ASEAN+3 (2007a), (2007b)

One day after the ASEAN+3 Summit, the 3rd East Asian Summit was also held in Singapore, at which the 'Singapore Declaration on Climate Change, Energy and Environment'¹⁸ was agreed. It stressed that "Developed countries should continue to play a leading role", but on the other hand, "the Principle of Common but Differentiated Responsibilities" is included. Developing countries in the region should have appropriate responsibility according to their circumstances although developed countries' responsibilities should be larger. The Principle of Common but Differentiated Responsibilities" could be an effective framework to enable wider participation including developing countries. Also, active participation in the process of developing an effective, comprehensive, and equitable post-Kyoto international climate change arrangement under the UNFCCC¹⁹ is mentioned.

What is the significance of this for EAS, which was considered only as "a forum for dialogue" in the Kuala Lumpur Declaration²⁰ of 2005? Because of this agreement on climate change, its role may have been strengthened. However, I very much doubt that EAS is really a better way to promote either Asian Integration or Japan's interest. The co-existence of two frameworks means that energy is dispersed. I believe that is a major reason why the Second Joint Statement and Work Plan 2007–2017 do not reflect the NEAT policy recommendations, and are not ambitious enough. It is apparent that the Japanese government as a whole is putting emphasis on the EAS rather than the ASEAN+3. I am concerned that this policy stance could be against Japan's national interest in the longer perspectives, as well as for Asian Integration.

What should we aim at after the East Asian free trade agreement?

- The East Asian Customs Union (EACU)

Regarding Asian regional integration, Japan's efforts are now concentrated on FTAs or Economic Partnership Agreements (EPAs)²¹. If Asian integration stops at

¹⁸ East Asia Summit (2007a)

¹⁹ The United Nations Framework Convention on Climate Change

²⁰ East Asia Summit (2005)

²¹ EPA is roughly equal to FTA+Investment Agreement.

Table 4 5 Stages of Economic Integration by Balassa (1962)

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1. FTA
 2. Customs Union
 3. Common Market
 4. Economic Union = 3 + common economic policies
 5. Complete Economic Integration
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Source: Bela Balassa (1962), p. 2

the stage of FTA, it will not be meaningful as a regional framework. An FTA is only the first of the five stages of economic Integration shown by Balassa (1961) — see Table 4. The EEC skipped the FTA stage and started from second stage of customs union in 1957, moving to the third stage of common market in 1993 and is currently in the fourth stage of monetary union with a single currency and single monetary policy since 1999.

If Asia stops at the stage of FTA, it will be the same as the European Free Trade Agreement (EFTA)²² which consists of non-EU member countries. It is easily understood that stopping at this stage is not very meaningful if we look at EFTA. In East Asia *de facto* economic integration is already in existence. We have very intensive networks of production in manufacturing with division of labour between countries organised by private firms through foreign direct investments (FDI). This began in full scale after the yen's extraordinarily sharp appreciation vis-à-vis the dollar following the Plaza Accord in September 1985. For the real economy, this informal economic integration is far more important than establishing bilateral FTAs by formal integration. But, establishing an EAFTA would further strengthen our *de facto* economic integration — which is our economic treasure in East Asia.

Asia should aim at creating an East Asian Customs Union (EACU) next, although there are virtually no cases where an FTA has evolved into customs union so far. Recently there has been a strong tendency to seek FTAs with outer-world. Korea/US FTA was agreed in April 2007, and both Korea and ASEAN are moving towards FTAs with the European Union. In this context, the Japanese business community such as Keidanren²³ has begun to argue the necessity of seeking FTAs with the EU and the United States. I am concerned that seeking FTAs with the outer-world at this point could be harmful to the promotion of Asian Integration because it could be detrimental to cohesion within the region. In order to enhance internal cohesion, it is extremely important to clarify regional differences from the outer-world. A customs union with common external tariffs would show the differences between the countries in the region and the outer-world.

Certainly, establishing a customs union would have to overcome a very high hurdle for member countries, since they would have to give up their sovereignty over the international trade negotiations including Multilateral Trade Negotiations (MTNs) within the framework of the World Trade Organisation (WTO) and to hand

²² EFTA was established in 1960 under the leadership of the UK in order to counter the establishment of the EEC. It started with 7 members of the UK, Austria, Denmark, Portugal, Norway, Sweden and Switzerland. Currently Norway, Switzerland, Iceland and Lichtenstein are the member of the EFTA. These four countries are currently all non-EU members.

²³ Keidanren is the largest business circle in Japan.

it over to the ASEAN+3. However, a customs union would achieve significant administration cost savings and efficiency gains. To maintain the rules of origin requires extensive documentation by all FTA member countries. And, the so-called “Spaghetti Bowl Phenomenon” which means the very fragmented mixture of different FTAs is not only due to the rules of origin, but also dwells within each FTA itself. An EACU could overcome this problem.. An EACU is needed to create a foundation towards a common market and an intra-regional monetary framework in Asia. It is worthwhile for Asian countries to have a customs union as an important step in the process of promoting Asian Integration. On the other hand, Singapore, which has extremely low tariffs, might have to raise its tariffs under a customs union with a common external tariff toward the outer-world under the EACU. This could be solved by setting an exception for Singapore as some exceptions always come with FTAs and customs unions.

- The Asian ERM

Ultimately Asia should aim at de-dollarisation within the region. In an attempt to achieve that, establishing a regional monetary system could be a breakthrough. It is crucially important to create the Asian Monetary System (AMS) or the Asian Exchange Rate Mechanism (ERM)

For some years, the Asian Development Bank (ADB) has advocated the creation of an ‘Asian Currency Unit’ (ACU) and in 2006 the ASEAN+3 Finance Ministers agreed to study this issue. A NEAT Policy Recommendation in 2007 proposed an in-depth study of ACU to be carried out by a specialized body designated by ASEAN+3 countries.²⁴ Certainly it would be nice for Asia to have the ACU, but it could never be a breakthrough for achieving our ultimate objective of de-dollarisation within the region.

The European Currency Unit (ECU) was introduced under the framework of the EMS (European Monetary System), and was used considerably as a denomination currency for bond issuance in the European capital markets, etc. Ultimately, however, the ECU was not capable of playing a significant role within the EMS. I think the EMS was a great success and it led to the birth of single currency, the euro, which is the ultimate form of intra-regional fixed exchange rate regime. But the ECU was not the determining factor for the success of EMS.

The German mark, not the ECU, actually became the intervention currency in EMS member countries from the mid-1980s, replacing the US dollar. This meant that the German mark became the reserve, exchange standard and key currency within the EMS. This happened due to the continuation of the intra-regional fixed exchange rate regime for almost 27 years within Europe under the framework of the EC Snake from April 1972 and its successor the EMS from March 1979 in Europe.²⁵ Thus, Europe accomplished de-dollarisation within the region which had been its dearest wish since 1970 when the ‘Werner Report’ was published.

²⁴ NEAT (2007), the Working Group of East Asian Financial Cooperation, (B)-18

²⁵ The reason why and the mechanism how the German mark became the intervention currency and eventually the key currency are mentioned in Yamashita (2006), pp. 71–72.

Table 5 A 3 — Stage Plan for Asian Monetary Union by Yamashita

Stage 1: Triple-currency Basket-based Fixed Exchange Rate Regime for Asian Countries except Japan *triple-currency=the dollar, the euro and the yen
Stage 2: Asian Monetary System (Intra-regional Fixed Exchange Rate Regime) Initial start by 6 countries/ area (Japan, Singapore, Hong Kong, Taiwan, Korea, Malaysia)
Stage 3: Unified Asian currency=Asian Monetary Union (AMU)

Source: Yamashita (1998), (2002), (2006)

I have advocated a comprehensive 3-stage plan for the Asian ‘Economic and Monetary Union’ plan (Asian EMU)²⁶ of which the AMS would be a part — see Table 5.

During the first stage, every member of ASEAN+3, except Japan, would adopt a tri-currency basket based on a fixed exchange rate regime. The tri-currency means the US dollar, the euro and the Japanese yen. During the second stage, the Asian ERM (or the AMS) would be established, based on the fixed exchange rate regime. However, each member of the intra-regional fixed exchange rate regime must have its own freely convertible currency. At present, there are only three freely convertible currencies in Asia. Those are the Japanese yen, the Singaporean dollar and the Hong Kong dollar. But, the Taiwan dollar, the Korean won and the Malaysian ringgit could become freely convertible currencies if the respective governments make this determination.

Therefore, Asia should aim at establishing an intra-regional fixed exchange rate regime with these six countries/areas first. Although Taiwan and Hong Kong are not members of ASEAN+3, they are both indispensable economies to the already established regional production networks in East Asia. We should work upon the simultaneous joining of Hong Kong and Taiwan to the Asian Integration process with the Chinese government. The Chinese yuan and the Thai baht should be able to join the freely convertible currency group several years later. At that point, we could formulate the Asian ERM with 8 currencies. If we continue the Asian ERM of intra-regional fixed exchange rate regime for many years, we will eventually succeed in accomplishing de-dollarisation within the region. As the second stage succeeds, the establishment of an Asian ERM envisaged for the 3rd stage could come into sight.

As far as economic integration is concerned, creation of the monetary framework is crucially important. But, at the same time we should promote the establishment of a common regional market in the real economy. Both fields should advance together in tandem. Therefore, we should aim at a customs union as the next step.

- The Asian Monetary Fund (AMF)

The Chiang Mai Initiative (CMI) and the ‘Asia Bond Market Initiative’ (ABMI), which have been promoted by the ASEAN+3 Finance Ministers²⁷ could be very important supporting factors for the infrastructure establishing a regional monetary system. In particular, the multilateralisation of the CMI, which was agreed in 2007,

²⁶ First I advocated this idea in Yamashita (1998), and then (2002), and (2006), etc.

²⁷ It is usually held at the time of the Asian Development Bank Annual Meeting, taking that opportunity of Asian Finance Ministers getting together.

is very worthwhile. Basically, member countries have agreed to pool their foreign exchange reserves under a single contract and to manage them in an integrated fashion.²⁸ There are still obstacles ahead to achieving this multilateralisation but Asia should overcome the problems and eventually aim at a ‘regional monetary fund’ as recommended by NEAT in 2006. It is also important that ASEAN+3 Finance Ministers have agreed that the ‘Economic Review and Policy Dialogue (ERPD)’²⁹ should be incorporated into CMI and to be strengthened. The important future agenda in this field is to establish an early warning system and to include exchange rates in the ERPD surveillance mechanism.

Critics of the Asian Monetary Fund (AMF) proposal say it is like putting a fifth wheel on a carriage, because the IMF is there. However, I think this criticism would be valid only if the IMF were functioning well. People who make that kind of argument deserve criticism because they do not understand how deeply Asian countries were disappointed with the IMF during the Asian financial crisis in 1997. The IMF is desperately in need of thoroughgoing reform or regime change. In order to make the IMF start serious reform, there is no option but to establish a competing institution outside³⁰. If the AMF is established, a country in crisis will have a choice: it could go to either the IMF or the AMF. This would introduce competition, which the IMF believes in and has been preaching to the outside world. In that situation, the IMF would be obliged to begin a real reform.

- The East Asian Media Consortium

In our efforts to promote Asian Integration, we need support from a wide range of people. It is necessary to disseminate the idea of Asian Integration and the Asian identity to the general public in Asia. In this context, an East Asian Media Consortium (EAMC) across the countries should be established. We could convey our Asian views on current international agenda to the outer-world through this framework. Recently, the multi-polarization of international news media has been developing very well. For example, we can observe the great success of “Al Jazeera” founded in Doha, Qatar in 1996, and “France 24” which started in December 2006. We in Asia would like to create a stir in this tendency in the world.

Japan’s current policy stance towards Asian integration

Finally I would like to discuss Japan’s policy stance towards Asian Integration. Although the overall policy stance of ASEAN+3 is unsatisfactory to me, Japan’s policy stance is much more so. When considering Japan’s approach to Asian Integration, we must recognize that the world is now at a historical turning point. It has already changed substantially, but is likely to change much more rapidly from now on, because we are at a critical juncture in history. We are going to witness a sea change in global governance.

²⁸ ASEAN+3 Finance Ministers’ Meeting (2007)

²⁹ ASEAN+3 Finance Ministers and Central Bank Governors Alternate Meeting began to be held twice a year since 2002. This meeting puts emphasis on policy dialogue on discussing member countries’ economic situation and policy agenda.

³⁰ Yamashita (2004a)

The Japanese Ministry of Foreign Affairs (MOFA) is obviously putting more emphasis on the EAS rather than ASEAN+3 framework. And, the Japanese Ministry of Economy, Trade and Industry (METI) is promoting ERIA and “the East Asian EPA” both of which are based on the framework of EAS-16. The METI calls it Comprehensive Economic Partnership in East Asia (CEPEA) which aims at creating both FTA and Investment Agreement within the framework of EAS-16. On the other hand, the Japanese Ministry of Finance (MOF) is promoting the Chiang Mai Initiative (CMI) and ABMI (Asian Bond Market Initiative within the framework of EAC-13 countries. In fact the ASEAN+3 Finance Ministers’ Meetings have accumulated important successes since the beginning of the Chiang Mai Initiative in May 2000. That is why the Japanese MOF is putting emphasis on ASEAN+3. Thus the current Japanese government policy stance for Asian Integration is not unified, but depends on the ministry. However, it is obvious that the Japanese government as a whole is putting much more emphasis on EAS than ASEAN+3. I argue that this could be against Japan’s national interest as well as Asian interest in the longer perspective. I identify seven reasons for this.

First of all, the East Asian Summit was clearly defined as an evolution of the ASEAN+3, not an additional framework in the EASG Final Report which is the most important official document on the future course of Asian Integration to date. That was agreed among leaders of 13 countries including the then Japanese Prime Minister Koizumi Junichiro. The purpose of was to change the name of ASEAN+3 which was very unusual. Despite the fact that Japan, China and Korea have the largest economies in East Asia, they are expressed as just “Plus Three”. Moreover, ASEAN comes first, and “Plus Three” comes after. Hence, it should be changed to a more suitable and natural name such as the East Asia Summit. That was the purpose of the name change in the EASG Final Report. However the two frameworks of ASEAN+3 and the EAS now operate contrary to the intention of the EASG Final Report since the Japanese government proposed an enlargement of member countries to include Oceanian countries. Frankly speaking, the Japanese government acted against the agreement among ASEAN+3. As a result, energy for Asian Integration has been dispersed since then.

The second reason is the issue of Asian identity. Many observers have pointed to the weakness of Asian identity. Under those circumstances, it could make Asian identity much vaguer if we include the Oceanian countries which have a different background in history, culture and ethnicity from Asian countries. The low-key Singapore declaration in November 2007 was a typical example of that.

Thirdly, a vaguer Asian identity could lead to further weakening of cohesion within the region. Strengthening of cohesion within the region is patently most important for the promotion of regional integration. The number of countries in ASEAN+3 is already enough to start regional integration. It should be noted that Europe started its regional integration process with 6 countries which were at a similar stage of economic development, and since then it has gradually enlarged membership.

The fourth reason is that Japanese government policy goes against the tide of history today as the structure of global governance has already begun to change substantially. I think there are two factors behind the Japanese government’s proposal for enlarging membership. One is the relationship with the United States,

and the other is to restrain China's growing influence in the region. Regarding the former, the US could feel easy if the Oceanian countries sharing the similar values with the US join the club. However, continuing this excessive consideration of its relationship with the US could lead to a great historical failure for Japan, because the world is changing rapidly, and going in the direction of multipolarity. Japan should recognize that we are now at a fork in the road of history.

As for the latter factor, the direct reason why the Japan sought to check China's influence came from China's own proposal to hold the first East Asian Summit in Beijing. The Japanese government was concerned about the East Asian Summit led by China. As it turned out, the first EAS was eventually held in Kuala Lumpur, not in Beijing. In retrospect, Mr. Zhang Yunlin from the Chinese Academy of Social Science (CASS), who is one of the Asian Integrationists representing China, said at an international conference³¹ organized by the Shanghai Institute of International Studies (SIIS) in 2007, "I think China's seeking to hold the first EAS in Beijing was a mistake". This implies that China's attempt to host the first EAS triggered the excessive Japanese government reaction of proposing enlargement of the membership. And consequently, it has led to the co-existence of two competing frameworks for Asian Integration.

The fifth reason to oppose the Japanese government policy stance is that it is most constructive for Asia to promote regional integration by 13 countries, because the star initiative in Asian Integration process so far has obviously been the Chiang Mai Initiative (CMI) under the framework of the ASEAN+3. In recent years an economic surveillance mechanism was incorporated into the CMI. Moreover, the Asian Bond Market Initiative (ABMI)³² which was formally agreed in August 2003 is under the framework of the ASEAN+3, as well. The ABMI is aiming to increase issuance of bonds denominated in Asian local currencies in the region rather than bonds denominated in external currencies like the dollar or the euro. This initiative is very important in view of promoting "de-dollarisation" within the region.

The sixth reason is that EAS is a framework that virtually any country could join, which makes it meaningless as a framework for regional integration. The criteria for joining the EAS are (1) Substantial economic linkage with ASEAN, (2) Being a Dialogue Partner with ASEAN, (3) Having the Treaty of Amity and Cooperation (TAC) with ASEAN. These criteria were decided at the ASEAN Informal Foreign Ministers' Meeting in 2005. Among them the highest hurdle is obviously (3). If a country or area could satisfy this clause, any country or area could join the EAS. According to those criteria, even Russia may be qualified to join the EAS because it concluded a TAC with ASEAN in November 2004.

The seventh reason is that the APT has been defined as "the vehicle of East Asian Community building in a series of joint statements after the summit meetings. Japanese government should respect those agreements made among the leaders within the region.

³¹ The SIIS International Conference: *ASEAN Development and East Asian Cooperation Celebrating the 40th Anniversary of ASEAN Establishment & 10th Anniversary of ASEAN Plus Three*. At that time, Mr. Zhang was Director, Institute of Asia Pacific Studies at CASS in Beijing.

³² The ABMI was first published in September 2002, but it was formally agreed at the 6th APT Finance Ministers' Meeting in Manila. As for details of the developments of the bond issues in Asian local currencies, see Yamashita (2007c).

Conclusions

As an enthusiastic Asian integrationist I have attended several Track-2 meetings under the ASEAN+3 framework in order to understand how they actually influence the official Track-1 process. I have found that even NEAT, which has a mechanism for inputting its policy recommendations to the Track-1 process, has had a very minor influence on such agreements as “The Second Joint Statement on East Asia Cooperation in 2007”. This is disappointing so I now think it may be better for me to become active in the Track-3 of purely non-governmental frameworks and try to exert influence on politicians and the public through conferences, media, etc. If we try to work on the bureaucrats, it is not so effective, because they could never make a substantial change in the direction of their policy by themselves.

The Singapore Declaration is obviously not ambitious enough as a long-term 10-year plan. Asia should aim for an East Asian Customs Union (EACU) and then a common regional market as the next targets. In addition, Asia desperately needs de-dollarisation within the region, especially considering the present financial turmoil in the US and the expected decline of the dollar eventually. To achieve insulation from external turmoils there is no alternative to the Asian ERM. To make the regional monetary system sufficiently effective, we need the solid real economy frameworks the EACU and common regional market working in tandem.

The current global financial crisis originating from the US could have serious adverse effects on the Emerging Market Economies in Asia, as well. On the other hand, it provokes strengthening of cohesion within the regions including Asia. Consequently, regional integration processes will accelerate in Europe, Asia, Latin America and Middle East, etc. Thus in the longer perspective the current financial turmoil could accelerate multi-polarisation in the world, as well as the promotion of Asian Integration process which has been stagnant in recent years.

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