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East Asian Regional Integration

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**Editorial Committee:**

Ishida Atsushi  
Sasaki Dan  
Thomas Blackwood  
Suginohara Masako

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**All inquiries to:**

*Social Science Japan*  
Institute of Social Science  
University of Tokyo  
Hongo 7-3-1, Bunkyo-ku  
Tokyo 113-0033 JAPAN  
Tel +81 3 5841-4931  
Fax +81 3 5841-4905  
Electronic mail:  
ssjinfo@iss.u-tokyo.ac.jp

**Cover Photo**

The leaders of the Association of Southeast Asian Nations (ASEAN) and Japanese Prime Minister Koizumi Jun'ichiro at the State Guest-House, on the occasion of the ASEAN-Japan Commemorative Summit, December 11, 2003. From the left: Prime Minister Thaksin of Thailand, Prime Minister Khai of Vietnam, King Bolkiah of Brunei, Prime Minister Hun Sen of Cambodia, President Megawati of Indonesia, Prime Minister Koizumi, Prime Minister Boungnang of Laos, Prime Minister Abdullah of Malaysia, Prime Minister Khin Nyunt of Myanmar, President Arroyo of the Philippines, and Prime Minister Goh Chok Tong of Singapore. Courtesy of the Mainichi Shimbun.

**Back Cover Photo**

Prime Minister Masayoshi Ohira (center) offering greetings at the First Japan-ASEAN Economic Ministers Meeting, November 26, 1979, at the Ministry of Foreign Affairs in Tokyo. Courtesy of the Mainichi Shimbun.

**Editorial Notes**

*Personal Names*

All personal names are given in the customary order in the native language of the person unless otherwise requested. Hence in Japanese names, the family name is given first, e.g. Toyotomi Hideyoshi, and in Western names the family name is given second, e.g. George Bush.

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At the Association of Southeast Asian Nations (ASEAN) –Japan Commemorative Summit, held this past December 11 and 12 in Tokyo, ASEAN and Japan marked thirty years of dialogue. At the conclusion of the summit they issued a “Tokyo Declaration for the Dynamic and Enduring Japan–ASEAN Partnership in the New Millenium,” reaffirming their commitment to strengthen their relationship and the region. The articles in this issue of *Social Science Japan* bring together an array of empirical information and analyses of ASEAN and the Japan–ASEAN relationship. From information on the historical and theoretical background of Asian regional integration, to descriptions of the political and economic dynamics of transnational relationships (both among ASEAN countries and between ASEAN and non-ASEAN countries), to proposals for future policy reform, especially in Japan, readers will find an abundance of informative and insightful material.

While the editorial committee sincerely thanks all of the contributors to this issue, we would like to express special thanks to Professor Greg Noble, here at the Institute of Social Science, for his generous assistance.

Thomas Blackwood  
Managing Editor

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# The Creation of an "East Asian Economic Community," or, Odd Japan Out

Suehiro Akira



**Suehiro Akira is a Professor at the Institute of Social Science, the University of Tokyo**

Institute of Social Science  
University of Tokyo  
Hongo 7-3-1  
Bunkyo-ku, Tokyo 113-0033  
asuehiro@iss.u-tokyo.ac.jp

In February 2001, Prime Minister Jun'ichiro Koizumi presented his conception of an "East Asian Community" to Singapore, the last country on his first tour of Southeast Asia. His idea was to create a community of 15 countries capable of acting and advancing together, including the 10 countries in ASEAN, the Republic of Korea, China, New Zealand, Australia and Japan. Fortunately, his idea was welcomed by the members of ASEAN, and was further developed into a joint declaration entitled "Building an East Asian Community" at the ASEAN summit meeting in October 2003.

Japan actually first demonstrated its commitment to the region by offering a huge amount of financial support following the currency crisis that severely affected Asian countries beginning in late 1997. Japan's financial support for the two years 1998 and 1999 amounted to US \$80 billion, accounting for around 15% of the total combined nominal GDP of the ten ASEAN countries in 1998. Furthermore, in August 2003, Japan's government revised its Official Development Assistance [ODA] Charter for the first time in a decade, placing renewed strategic priority

on Asia, so that it could utilize ODA to strengthen Japan's leadership in the region.

On the other hand, the fact that Japan has gradually reduced its presence in Asia due to the long domestic recession, the increasing activity of non-Japanese multinational corporations in Asia through mergers and acquisitions (M&A), and China's rapid ascension in the world economy from the latter part of 1990s should not be overlooked. The objective of this essay, therefore, is to understand Japan's increasing initiative in the various on-going schemes for regional cooperation in the face of Japan's declining real world influence.

Until the outbreak of the Asian currency crisis, Japan tended to adopt a negative attitude towards the movements for regional integration taking place outside of Asia, such as NAFTA in North America, MERCOSUR in Latin America, and the European Union. For instance, in the 1998 *White Paper on International Trade (Tsūsho Hakusho)* Japan's Ministry of International Trade and Industry (MITI, since 2001 the Ministry of Economy, Trade and Industry, METI) noted that "Japan is one of the few advanced countries not belonging to any institutionalized schemes of regional integration, and is expected to play a role in closely supervising movements hindering the movement towards free trade in the world." However, the following year, in the White Paper of 1999, MITI changed its stance and instead expressed great concern about the isolation of East Asia from the trend toward regional integration around the world. Following this, in the White Paper of 2000, MITI for the first time included a special feature on the topic of "Deepening Regional Integration: the Asian Economy and Japan." At the same time, MITI also introduced Japan's new policies for regional integration, focusing on the so-called "multi-layered approach," which combines three different strands: the promotion of liberalism in trade, investment, and information technology (IT) at the global level (as organized by the World Trade Organization [WTO], etc.); the promotion of economic cooperation at the regional level (represented by the Asia Pacific Economic

Cooperation forum [APEC], etc.); and the promotion of economic partnership with each of the other East Asian countries at the bilateral level.

This new approach has produced two major movements: the introduction of the "East Asian Business Community" idea, initiated by METI in 2002, and the promotion of a Comprehensive Economic Partnership Agreement (CEPA, usually referred to as a Free Trade Agreement or FTA) with each country, as well as with ASEAN as a whole. For the former, METI expects to expend its resources to improve the environment supporting trade, investment, and labor forces to boost the operation of both locally-owned firms and Japanese subsidiaries in the region; this, in turn, was expected to contribute to the revitalization of Japan's economy by increasing the profitability of the overseas operations of Japanese firms.

Moreover, Japan successfully concluded the first CEPA with Singapore (Japan-Singapore Economic Partnership Agreement in a New Era, or JSEPA) in January 2002, and has attempted to establish similar agreements with other Asian countries by setting up special task forces to facilitate negotiations with each country: Thailand in April 2002; the Philippines in May 2002 (a joint coordination committee was established in July 2003); Korea in July 2002; and Malaysia in March 2003. Likewise, at the Japan-ASEAN summit meeting held in Phnom Penh in November 2002, Japan obtained a basic agreement from ASEAN top leaders to craft a Japan-ASEAN CEP Agreement. The two sides agreed to institute a free trade agreement between Japan and the six senior ASEAN states by 2012, and with the four newcomers (Cambodia, Laos, Myanmar, and Vietnam) by 2017 at the latest.

These movements suggest that Japan is taking aggressive steps to promote its vision of a multi-layered approach to East Asian economic cooperation. However, other recent developments appear to undermine Japan's approach to regional cooperation: 1) resistance against CEPA by several groups within Japan itself; 2) a division within ASEAN between old members and newcomers; 3) the emergence of alternative frameworks for regional cooperation, such as the Asian Cooperation Dialogue (ACD) proposed by Thailand's Prime Minister Thaksin Shinawatra; 4) and the unexpectedly rapid

emergence of alternative or competing proposals for economic cooperation with ASEAN by other major countries, especially China, the United States and India.

First, Japan continues to levy taxes on certain categories of imported goods to protect domestic industries, including agricultural commodities, oil products, and textile goods. Goods subject to these tariffs comprise 12.5 percent of Japan's total imports from Malaysia (6.8% for agricultural products); 15.6 percent of imports from Singapore (4.5% of them agricultural); 15.4 percent of imports from the Philippines (11.6% agricultural); and 29.4 percent (22.3% agricultural) from Thailand. Imports from the major Asian economies are especially likely to be hit with tariffs: 32.8 percent (13.7%) of imports from Indonesia; 49.1 percent (11.0%) of Chinese exports to Japan; 41.6 percent (8.8%) of Japan-bound exports from South Korea; and 65.6 percent (20.9%) of Vietnamese exports to Japan. The prominence of sensitive sectors in Japan's trade with ASEAN is one of the main reasons Japan chose Singapore as the first partner in negotiating a CEPA, and why Japan temporarily omitted Indonesia, Vietnam and China from the list of potential negotiating partners.

High proportions of commodities subject to stiff import duties, especially agricultural products, tend to produce more conflict among interest groups inside Japan than between Japan and its trade partners. Indeed, as we can see in the case of negotiations with Thailand, several Japanese groups in the agricultural and labor service sectors have shown reluctance to see the speedy conclusion of agreements on economic cooperation with other Asian countries. When Thailand's Prime Minister Thaksin inquired about concluding a CEPA in his meeting with Prime Minister Koizumi, the Japanese side was reluctant to respond quickly, presumably under pressure from lobby groups such as farmers associations and the "Trade Problems Study Team" in the ruling Liberal Democratic Party (LDP). While Thailand requests Japan to liberalize its agricultural market, the Philippines is pushing Japan to open the labor service sector, to allow, for example, the free migration of nurses to Japan. However, neither the Ministry of Agriculture nor the Ministry of Welfare and Labor are as interested as METI or the Ministry of Foreign Affairs in promoting agreements on trade and economic cooperation.

Second, the “ASEAN divide” is becoming an increasingly important obstacle to the conclusion of a Japan-ASEAN CEPA. The Japanese government must allow time for the newcomers to catch up with the senior members, in terms of both stage of economic development and degree of economic liberalization, before it can hope to conclude a definitive CEPA. At the same time, ASEAN has agreed to work towards resolving the ASEAN divide, and at the Sixth ASEAN Summit in Hanoi (December 1998) it adopted the target of promoting an ASEAN integration scheme. Nevertheless, it will be difficult for Japan to complete a CEPA with ASEAN as a whole within the next fifteen years if the more recent members such as Vietnam and Cambodia are invited to participate. Therefore, Japan’s plan to combine a bilateral approach with a regional approach to ASEAN as a whole in promoting free trade in East Asia is likely to face serious difficulties.

Third, Japan has always recognized ASEAN as the most important partner in building an intimate relationship in East Asia. According to the strategy of the Japanese government (especially of METI and MOFA), ASEAN as an organization will serve as an important partner for Japan to counterbalance the emergence of China as an Asian superpower. In this context, Japan has actively promoted the institutional framework of “ASEAN plus China, Korea, and Japan,” or “ASEAN + 3,” in undertaking various tasks in regional cooperation, such as security problems and international financial cooperation after the Asian crisis. This presupposes that Japan will continue to serve as a leading coordinator in regional cooperation, which will also include China. Recent developments, however, seem to challenge this assumption.

For instance, in 2002 Prime Minister Thaksin proposed the establishment of an Asian Cooperation Dialogue, or ACD, in which as many as eighteen countries, including India and other Islamic countries in South Asia, would be invited to discuss a variety of problems presently facing Asian countries. What is important in this idea is the fact that Japan is not a leading promoter, but simply one of the members of the forum. More importantly, Thaksin argued for the institutionalization of a “prime mover” approach, as opposed to ASEAN’s traditional preference for operating on the basis of

“consensus among all the members.” According to the prime mover approach, any proposal will be able to start as long as at least two members agree with each other on a specific issue. Ironically, just when Japan begins to show keen interest in ASEAN as an organization, ASEAN members are beginning to seek a new institutional framework beyond ASEAN.

Finally, ASEAN has also begun negotiations on free trade agreements not only with Japan, but also with other influential countries such as China, the United States, and India. In October 2002, at the USA-ASEAN summit meeting, ASEAN concluded an agreement on an “Enterprises for ASEAN Initiative” (EAI) with the United States to promote mutual economic partnership. One year later, in October 2003, ASEAN also concluded a comprehensive economic partnership agreement with India. Among these countries, however, the most active is China, which proposed a China-ASEAN comprehensive partnership agreement with ASEAN as early as November 2000, at the China-ASEAN summit meeting; this agreement was finally concluded in November 2002. What is interesting in this agreement is that China demonstrated its positive attitude towards free trade in agricultural products by employing the concept of “early harvest approach” (see Noble, this issue).

Thailand quickly responded to this proposal, and concluded a bilateral agreement with China on 188 agricultural commodities, excluding rice, in October 2003 (China continues to employ a quota system for rice-exporting countries like Thailand with regards to restrictions on rice imports). The most active institution promoting Thailand-China trade is the CCIC (China Certification & Inspection Company), which was founded in Thailand in 1987 as a joint venture between a Chinese state-owned inspection organization, Thai subsidiaries of Chinese firms, and leading Thai firms. CCIC has carried out nation-wide research on rice, vegetables, and fruits, and screened favorable varieties for the Chinese market. In addition, it has received a monopoly on exportable agricultural commodities from Thailand to China. Thus, Japanese trading companies have no place in the trade between Thailand and China, and Thai exporters now turn their eyes to the promising Chinese market, rather than the conservative Japanese market, for agricultural products.

All the movements introduced here suggest that Japan's presence is going to decrease in East Asia. East Asian countries, including ASEAN members, are unlikely to directly criticize Japan or resort to the kind of "Japan bashing" Japan experienced with the United States in the past, because these countries have depended heavily on trade, investment, and economic assistance from Japan. Furthermore, they also understand that any scheme for regional cooperation will not come into existence without substantial financial support from Japan. Nevertheless, instead of Japan being "bashed" for unpopular policies, it is possible that Japan will simply be ignored, and its influence will fade from Asia, as long as Japan continues to adhere to its conventional, Japan-centric approach.

Fortunately for Japan, most Asian countries, including China, face similar problems to Japan in financial restructuring, industrial reorganization, and reinforcement of national social security systems to contend with rapidly aging societies. In this sense, Japan fits right in with the rest of East Asia. If so, we need to change our mindset towards Asia as well as our approach to Asia. We must not only provide our experiences and intellectual property to the ongoing reforms in Asia, but also sincerely learn from the experiences and trials in other Asian countries. This will lead Japan to become an authentic member of the East Asian community, and will help Japan to avoid the potential fate of becoming irrelevant in East Asia.

# The Development of ASEAN + 3

## Tanaka Akihiko



**Tanaka Akihiko is Director of the Institute of Oriental Culture at the University of Tokyo**

Institute of Oriental Culture  
University of Tokyo  
Hongo 7-3-1  
Bunkyo-ku, Tokyo 113-0033  
tanaka@ioc.u-tokyo.ac.jp

ASEAN + 3 is now an established international framework in East Asia. The leaders of 10 ASEAN member countries and Japan, China and South Korea assemble annually on the occasion of the ASEAN summit, usually held in the autumn. The 2003 summit held in Bali last October was the 7th meeting. In addition to the leaders' meetings there are many other functional meetings including the foreign ministers' meetings, the economic ministers' meetings, finance ministers' meetings, and many others. Various policy recommendations, including the East Asia Vision Group (EAVG) Report, are made within this framework. Whenever national leaders, such as Prime Minister Jun'ichiro Koizumi, argue for the creation of an East Asian Community, they generally have ASEAN + 3 in mind as its core component.

The genesis and evolution of ASEAN + 3, however, have not been adequately documented. Nor have there been any promising theoretical explanations about its evolution and prospects. As historical records show, the first ASEAN + 3 summit of December 1997 was held almost by accident. The

timing of December 1997 seems to suggest a close connection to the Asian Financial Crisis that started in July 1997. But in fact, the meeting was planned before the Thai Baht crisis of July. The catalyst of this first meeting was Prime Minister Ryutaro Hashimoto's proposal, made during a trip to ASEAN countries in January, to regularize a Japan-ASEAN summit. ASEAN leaders did not immediately respond to Hashimoto's idea; it was reported then that they were cautious because having a regular summit only with Japan might strain their relations with other countries such as China. But simply ignoring Japan's proposal may not have been regarded as wise. In the end, ASEAN decided in May 1997 to invite not just Japan, but also China and South Korea to the ASEAN informal summit to be scheduled in December 1997.

Obviously, the breakout of the Asian Currency Crisis in the summer of 1997 added an important backdrop against which the first ASEAN + 3 summit was held. But most important discussions to cope with the crisis were held within other frameworks. In any case, the first ASEAN + 3 summit did not spend much time discussing the crisis. President Suharto was absent because of illness; President Kim Young Sum of South Korea was also absent because of economic turmoil at home as well as the Presidential election. Obviously, Prime Minister Mahathir was excited to host a virtual recreation of his abortive proposal to create an "East Asian Economic Caucus" excluding Western countries such as Australia and the United States. But other leaders were rather cautious regarding his proposal to regularize this summit. Thus, when the first ASEAN + 3 meeting ended, no one was certain whether this was to be the beginning of a future framework for East Asia, or simply an ad hoc, and insignificant, gathering of ASEAN and its three Northeast Asian neighbors to "talk shop."

An interesting research question is how this seemingly innocuous and ad hoc gathering led to the later institutionalization of the process. Analyses of what happened in 1998 seem necessary because it

was the decision to hold the second meeting that would guarantee its future institutionalization. In fact, leaders agreed to regularize the summit in the 1998 meeting; President Kim Dae Jung proposed to establish an East Asia Vision Group, and Chinese Vice-President Hu Jintao proposed to convene a special meeting of financial experts under the ASEAN + 3 framework. In terms of substance, in other words, the 1998 meeting was more critical than the 1997 one. Why did Vietnam, the host of the 1998 ASEAN summit, decide to invite Japan, China, and South Korea? How was this decision coordinated among the ASEAN members? Was there coordination between ASEAN and the Northeast Asian 3 in realizing this? These are the questions that need to be answered and documented.

In many ways, 1998 was a turbulent year for many countries in East Asia. The Suharto regime collapsed in Indonesia, Vice Prime Minister Anwar was dismissed in Malaysia, Kim Dae Jung became President in South Korea, and Ryutaro Hashimoto stepped down and was replaced by Keizo Obuchi in Japan. True, the Asian Financial Crisis seems to offer an easy, and obvious, general explanation for the institutionalization of ASEAN + 3. But so far, no substantial evidence supporting this explanation has been offered. Further research is needed to explore the views and motives of the critical actors: the ASEAN members and the leaders in the three capitals of Northeast Asia.

With regard to the genesis of ASEAN + 3, another intriguing question is its relationship with the EAEC proposal of Dr. Mahathir. The membership was virtually the same, and it was Dr. Mahathir who hosted the first 1997 meeting. Given these two facts, one is tempted to conclude that ASEAN + 3 was created by Mahathir's initiative. However, as the above description indicates, a more complicated story needs to be told. First, the EAEC idea had more or less been considered dead within the ASEAN context. The concept of EAEC had been avoided in many different circumstances. Second, substantially, the gathering of ASEAN and the Northeast Asian Three had already been realized in the form of the first Asia-Europe Meeting (ASEM), held in 1996. The ASEM instigator was Prime Minister Goh Chok Tong of Singapore. Third, an EAEC-like meeting became possible mainly because Japan was no longer reluctant to attend such a meeting. Until

1995, Japan had been extremely cautious about attending a meeting held only by East Asians. However, in 1996, Japan participated in ASEM and in 1997 Japan participated in ASEAN + 3. Behind this change in Japan's position, one must also consider the changing attitude of the U.S. government. In contrast to the vehement criticism of Secretary of State Baker against Mahathir's EAEC in 1991, the U.S. government remained silent on either ASEM or ASEAN + 3 in 1996 and 1997, respectively. In other words, in order to sort out the relative importance of Dr. Mahathir's initiatives, one needs to at least explore these other factors.

In addition to the questions surrounding the genesis of ASEAN + 3, there are questions about its evolutionary path. There are at least two kinds of questions that need to be explored. The first involves a description of its achievements. What in fact has ASEAN + 3 achieved? For starters, the 1999 summit produced a "Joint Declaration on Cooperation in East Asia"; the so-called "Chiang Mai Initiative" was agreed upon in May, 2000; the East Asia Vision Group submitted its report to the summit in 2001, and the East Asia Study Group, composed of government officials to assess the EAVG's recommendations, submitted its report in 2002. In the mean time, numerous ministerial, official-level meetings proliferate. How do we assess the level of achievements? For example, is ASEAN + 3 achieving more than APEC?

Second, theoretical explanations need to be considered. Regardless of how substantial they are, what can explain the degree of achievement of ASEAN + 3? Are the normal "tools of the trade" used in explaining "regimes" applicable in ASEAN + 3? For example, what would be the "leadership explanation" in this case? Apparently there were no "hegemons" in this process. What consists of "leadership" in promoting the process? A realist may opt for an "enemy explanation." Are the East Asians gathering in preparation to "do battle" against somebody? One could argue that the United States may be the potential enemy, or, perhaps, the EU and NAFTA. But how does this realist explanation fit with the behaviors of such U.S. allies as Japan and South Korea, both of which strengthened their security relations with the United States in the same period? A rational choice theorist might focus on the possible structure of payoffs underlining the East Asian



reality. But what is the payoff matrix that explains the evolution of ASEAN + 3? An organizational theorist may simply point out the general tendency of proliferation of meetings and inertia. Once a meeting is repeated, it will continue to be repeated until something happens to stop it. A constructivist may emphasize the existence of “knowledge” or “vision.” What are such “visions” and “ideas”? Are they really supported by peoples in the region? As in other areas of research, it seems very hard to apply constructivist theory when the idea is still being constructed; unless it is firmly established, no one can easily predict which ideas will be solidified.

As in any other on-going social phenomena, ASEAN + 3 involves many uncertainties. But I believe it is necessary to offer a clear description of what happened at the time of its creation, various explanations as to why it has come thus far, and possible explanations of how it can grow in the future. If this framework is to grow as its advocates wish, such descriptive and explanatory activities will contribute

to our understanding of an important future social reality in East Asia. Even if the ASEAN + 3 framework ultimately fails to realize an “East Asian Community,” academic attempts of description and explanation still benefit us, by telling us why a seemingly promising framework eventually brought about disappointment.

### Further Readings

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田中明彦 (2003) 「東アジア という新地域形成の試み ASEAN + 3の展開」東京大学東洋文化研究所編『アジア学の将来像』東京大学出版会、269 ~ 306頁

# ASEAN's Conference Diplomacy

Sato Koichi



**Sato Koichi is a Professor and Coordinator of Asian Studies at Obirin University**

Faculty of International Studies  
Obirin University,  
3758 Tokiwa-machi, Machida-shi, Tokyo 194-0294  
koichis@obirin.ac.jp

The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967 at a meeting in Bangkok between the Foreign Ministers of Indonesia, the Philippines, Singapore, and Thailand, and the Deputy Prime Minister of Malaysia (ASEAN Ministerial Meeting: AMM). The objective of establishing ASEAN was to find a way around the difficulties for regional cooperation caused by the setbacks of the Association of Southeast Asia (ASA), which was established among the Federation of Malaya, the Philippines, and Thailand in 1961, and MAPHILINDO, which was established among Indonesia, the Federation of Malaya, and the Philippines in 1963.

It was during the Vietnam War Era, and although the economic conditions of member states varied, and many of them had ethnic and territorial disputes with each other, the communist offense was imminent, and the political will for cooperation among the non-communist states in Southeast Asia was indispensable. The only thing these countries had in common was anti-communism, but their armed forces were poorly equipped, and they could not compete with the Communist Powers like Soviet Russia and China. Since their weak cohesion did not

permit them to establish ASEAN by treaty, they instead established ASEAN by declaration (Okabe, 1977).

ASEAN has been delicate and unreliable, yet it has survived for 35 years as the primary regional entity for cooperation in political, economic, cultural, and other fields. Further, Cambodia joined ASEAN as the tenth member state in 1999, and now, with the exception of East Timor, ASEAN has become an all-inclusive organization in Southeast Asia, and has demonstrated its influence as conference organizer in the Asia-Pacific region. How did ASEAN survive, and develop its unique role? I believe that the key to ASEAN's success lies in its conference diplomacy, which is based on some vague principles, including non-interference and informality (Sato, 2003).

The five primary features of ASEAN's conference diplomacy are as follows: first, lenient management of the conference, in which there are no prerequisites on attendance, and a decision-making procedure based on consensus is used. Second, maintenance of dialogue takes priority over the settlement of conflict among conference attendants. These two features were originally intended to relax member states engaged in conflicts with each other, but they have become important features that have also attracted external dialogue partners to international conferences established by ASEAN, if only because the pace of these conferences is comfortable to every attendant.

Third, ASEAN uses the conferences to build up ASEAN unity and the development of regional cooperation. For example, ASEAN internal conferences have been used to materialize common long-term objectives, such as the ASEAN Free Trade Area (AFTA), and advance mutual interests, such as the political settlement of the Cambodian Conflict. In conferences held with ASEAN and external dialogue partners, ASEAN takes a collective negotiation approach, aligning member states' requirements, as they did with export incentives when bargaining over the China-ASEAN Free Trade Area (CAFTA). The ASEAN states had been afraid of both Chinese absorption of all the foreign direct investment and

Chinese domination of the world market by their inexpensive goods. That was why Singapore's leaders have repeatedly stated their concerns to Chinese leaders since 1997. To calm the ASEAN leaders, in 2000 China suggested establishing the CAFTA, and through collective negotiation ASEAN leaders succeeded in obtaining an expansion of import quotas for agricultural goods and a generous "early harvest provision" from the Chinese government (see Noble and Suehiro, this issue).

Fourth, three of the ASEAN Conferences: the ASEAN Ministerial Meeting (AMM), the Post-Ministerial Conferences with external dialogue partners (PMC, established in 1979), and the ASEAN Summit (established in 1976) are the main "conference makers." They establish new international conferences in accordance with the necessity of strengthening the ASEAN organization and modifying it according to changes in the international environment. The establishment of two conferences, the Asia Pacific Economic Cooperation Conference (APEC) in 1989, and the ASEAN + 3 (China, Japan, and South Korea) meetings in 1997, were in response to the stagnancy and stalemate of the round of talks on the General Agreement on Tariffs and Trade (GATT) and the rise of economic regionalisms in the world.

Fifth, ASEAN reserves all or a part of the right to sponsor and chair these meetings, so that it can extend its influence towards international relations in the Asia Pacific Region (Okabe, 1995). ASEAN's conference diplomacy is congenial to all member states for the reasons stated above, and it also has merit for smaller external dialogue partners, because its small state group members' initiative for sponsorship and chairmanship allows it to avoid the pressure of major powers on its agenda. This is the main reason APEC, the ASEAN Regional Forum (ARF, established in 1994), the Asia-Europe Meetings (ASEM, established in 1996), and the ASEAN + 3 Meetings have survived.

These five features of ASEAN's conference diplomacy constitute a set of rules that I call the "ASEAN Regime." The ASEAN Regime is a soft institution or a soft regime (Yamamoto, 1995). It is a convenient, but unreliable, institution. It attaches importance to the consensus and the maintenance of dialogue, so it is apt to delay the decision-making process, and lead to inefficient agreements. Although AFTA is said to have been realized on January 1, 2002 for ASEAN 6, namely Brunei, Indonesia, Malaysia, the Philippines,

Singapore, and Thailand, all of these nations except for Brunei and Singapore have arranged escape-clauses for some import goods. Further, the new members, the so-called CLMV (Cambodia, Laos, Myanmar, and Vietnam), have been allowed to postpone full engagement of AFTA because of their developmental gap, known as the "ASEAN Divide" (ASEAN ISIS and JIIA).

It is essential for ASEAN to harden the ASEAN regime for the completion of AFTA to attract foreign investors, and to ensure the success of collective negotiations with the external dialogue partners seeking market access; however, hardening it may hurt the solidarity of ASEAN, because some member states are not ready for free-trade. The ASEAN Summit of 2003 announced an amendment to its decision-making procedure in the ASEAN Concord II, and now partially allows the "ASEAN minus X" form of decision-making instead of requiring complete consensus. This should facilitate decision-making, though it may exacerbate the "ASEAN divide."

ASEAN now stands at a crossroads. If it aims for the efficiency of institutionalization, its solidarity will suffer. If it chooses to maintain its solidarity by consensus, its economic development will slow down. This is a dilemma for groups of small developing states.

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# Japanese Political Economy and Asian Economic Cooperation

Gregory W. Noble



**Gregory W. Noble is a Professor of Comparative Politics at the Institute of Social Science, the University of Tokyo**

Institute of Social Science  
University of Tokyo  
Hongo 7-3-1  
Bunkyo-ku, Tokyo 113-0033  
noble@iss.u-tokyo.ac.jp

Rapid increases in international flows of trade, investment, and technology have stimulated interest in fostering international economic cooperation at both the global and regional levels. No region feels this interest more keenly than Asia, whose burgeoning exports are increasingly aimed at regional consumption, rather than simply shipped off to North America or Europe. As the breakdowns at recent meetings of the World Trade Organization (WTO) reveal, however, international cooperation at the global level has become bogged down. Rich countries, led by the United States, resist reducing subsidies and trade barriers in labor and land-intensive areas such as textiles and agriculture that would benefit developing countries, while insisting on aggressive provisions on intellectual property rights, opening up government procurement, and securing protections for international investors. Increasingly, the action in trade policy has shifted to agreements at the regional level (Hurrell 1995), such as the North American Free Trade Agreement (NAFTA, 1994) and the European Union (EU), culminating in monetary integration under the Euro (January 1,

2002).

Both stimulated and alarmed by the formation of regional trading arrangements elsewhere, governments, academics and business leaders have called for enhanced cooperation within the increasingly integrated Asia-Pacific region. Cooperation is not necessarily easy at the regional level either, however. With the exception of electronics, agreements to liberalize trade in the Asia-Pacific region have also been slow to develop. Disappointment at such regional arrangements as ASEAN (the Association of Southeast Asian States) and the APEC (Asia Pacific Economic Cooperation) grouping is palpable (Webber, 2001; Ravenhill, 2001).

For many analysts, particularly in Asia, the biggest obstacle to Asian regional cooperation is the United States. Too powerful to be excluded, but unwilling, particularly since the advent of the Bush administration, to cooperate multilaterally and suspicious of initiatives it does not lead, the United States has focused instead on the Americas, first signing a free trade pact with Canada (1988), then the larger NAFTA accord incorporating Mexico (1994), and a Free Trade Agreement with Chile (June 2003), as well as promoting plans for a Free Trade Area of the Americas (mooted at the First Summit of the Americas in Miami, 1994).

The combination of increasing regional integration elsewhere and the American veto of Japan's proposal to create an "Asian Monetary Fund" to deal with the emerging Asian financial crisis of 1997-1998 pushed Japan to shift emphasis to regional and bilateral initiatives, starting with the "New Miyazawa Plan" to help Asian countries recover from the financial crisis, followed by a more positive approach toward bilateral free trade agreements (FTAs). Japan signed the first, and so far only, such deal in January 2002 under the grand title "The Japan-Singapore Economic Agreement for a New Age Partnership." Possible future partners in such agreements include Mexico, Korea, and ASEAN.

Economists and policy experts are generally skeptical about FTAs on the grounds that they divert and distort trade rather than promoting it, create multiple trade rules and unwieldy rules of origin, and make it more difficult for governments to bind themselves to reform—"global rules demand that we reform" is more compelling politically than "we promised the Macedonians that we would open this market" (Brown, et al., 2003; however, see Lloyd, 2002, for a more optimistic view of the long-run dynamics). In bilateral agreements, countries can more easily exclude sensitive areas such as agriculture, as occurred even in Japan's agreement with tiny, industrialized Singapore. Focus on bilateral agreements also takes attention away from the basic macroeconomic problems that can create trade imbalances.

For these reasons, many economists decry the loss of Japanese support for multilateralism and express doubt about Japan's ability to sign large numbers of bilateral trade agreements (cf. Dick, 2003). Actually, in some important areas liberalization in Japanese trade and investment has proceeded further than many analysts have recognized. Japan is now far more open to imports of textiles, for example, than it was fifteen years ago (compare Katz, 2003 with Dore, 1986). Imports of footwear have increased markedly, providing opportunities not only for Italy and China, but also such poor countries as Cambodia and Bangladesh. Moreover, direct foreign investment into Japan has soared, albeit from a tiny base.

Nonetheless, major barriers to regional cooperation remain, particularly in agriculture, a crucial area for developing countries, and finance, a central element in trade and investment. Tiny plots and low productivity mean that liberalization would swamp the farmers who have kept the Liberal Democratic Party (LDP) in power, and whose protection has provided the Ministry of Agriculture, Forestry and Fishing (MAFF) with its mission and prestige and its officials with plentiful opportunities for post-governmental careers. Concerns about the wholesomeness and security of the Japanese food supply and the state of the rural landscape also induce support for agricultural protectionism even on the part of environmental and consumer groups.

The tenacity of agricultural protection can be seen clearly in the crucial case of negotiations for a bilat-

eral trade agreement with Mexico. Japanese multinational corporations are intent upon regaining access to the American market on equal terms in the aftermath of NAFTA, particularly as stiff new import inspection rules inspired by the 9/11 terrorist attacks are set for implementation in 2004. The Mexican government, for its part, hopes to use privileged access to the U.S. market to entice foreign investors who increasingly abandon or bypass Mexico for China. Despite this commonality of interests, and the relatively minor role of agricultural products in Mexico's exports, disputes over pork and orange juice have derailed progress. The Fox government, constrained by recent electoral losses and aware of its strong position as gateway to North America, has taken a hard line, pressuring Japan to abandon agricultural protectionism by limiting market access in such areas as steel and government procurement. While Japan's Foreign and Economic Ministries have sought compromise, MAFF and the farmers have held firm (*Asia Times*, October 23, 2003; *Mainichi Shinbun* November 7, 2003).

The Japanese government is considering several alternatives to protectionism. One obvious possibility is to increase subsidies to compensate growers for lost markets, but Japan's gigantic budget deficits and fears of setting excessively generous precedents limit the ability to use subsidies to overcome barriers to free trade agreements. A second possibility is encouragement of land consolidation. Farmers with larger plots could compete more effectively with imports, contribute to domestic food security, and keep the countryside green. Consolidation schemes have not worked in the past, however, not least because they would decrease the number of farmers reliant on protection from the LDP and MAFF. More promising is the current campaign for deregulation and corporatization of farming. Earlier rounds of deregulation have already contributed to a significant decrease in the cost of marketing food. More recently, a number of local deregulation districts around the country have permitted corporations to lease land for agricultural production. An incremental program of deregulation and promotion should allow the government to preside over a slow but steady liberalization of agricultural markets, making room for modest increases in imports from developing countries while buying time for farmers to retire and sell or lease their land to corporations.

If liberalization in support of international cooperation is slow in the case of agriculture, in finance, cooperation at the regional level has consistently stumbled or lost to alternatives at the global or bilateral level, largely because neither Japan nor the United States has the capacity to lead regional cooperation alone, but each can block initiatives from the other, or from third countries (Rapkin, 2001). Hiwatari (2003) explains the paucity of Japanese-American agreement, and therefore the lack of regional economic cooperation, in terms of persistent differences in national preferences between the United States (capital market-based international debtor) and Japan (bank-based international creditor). Proposals for an Asian Monetary Fund or a regional currency for example, fail not only because the United States (on which most Asian countries have depended as the market of last resort) prefers floating exchange rates and dollar primacy, but also because Japan has been unwilling or unable to take the drastic steps necessary to fix its bank-based financial system, and to open its bond market. One alternative is to create an "Asian bond market" without the direct participation of the United States, a process East Asian central banks have begun in the last couple of years. Progress has been slow, however, and observers remain cautious (see Shirai, this issue). Obstacles to a rapid transformation of Japan's large, domestically-dominated political economy, and thus to East Asian economic cooperation, remain powerful.

Two ongoing developments suggest, however, that within a few years a fundamental reordering may be in the offing. The first is the rise of China as a regional economic and diplomatic competitor. China has not only expanded exports at a rapid pace, but is also set to surpass Japan as an importer by 2004. Japan's initial reaction to the emergence of Chinese economic and political influence was defensive. Perceived political and economic threats from China caused the share of the public reporting a positive feeling toward China to drop precipitously from the mid-1980s to the late 1990s (Naikakufu 2002). Japan worked with the United States to strengthen defense guidelines that were originally intended to react to the tensions on the Korean peninsula, but quickly came to be seen by all sides as primarily aimed at China. The campaign to increase the international use of the yen, particularly in Asia, was motivated in part by the desire to enshrine Japanese influence

before China became too powerful.

Defensiveness, however, no longer suffices to cope with China's increasing sophistication and flexibility (cf. Medeiros and Fravel, 2003). Japan was particularly galvanized when China signed a comprehensive Framework Agreement with the ASEAN nations in November 2002 aiming at a free trade arrangement by 2010 (Ba, 2003). Though Japan began to explore free trade agreements slightly earlier than China, the Chinese delivered a bold proposal and backed it up with an "early harvest" provision to provide immediate tariff cuts for ASEAN products entering the Chinese market, and debt forgiveness for ASEAN's poorest members. ASEAN member states were particularly impressed that China, unlike the U.S. and Japan, offered to deal with it as a unit, instead of insisting on bilateral negotiations, or dealing only with WTO members. China's central role in the effort to deal with instability on the Korean peninsula, its increasingly active participation in the ASEAN Regional Forum and ASEAN + 3 and its bold trade proposals have made it impossible for Japan simply to block or contain China, and even raise questions about who needs to engage and enmesh whom in regional institutions. Domestic opposition notwithstanding, Japanese policy elites face pressure to accelerate reform if they are to match China's bold initiatives in regional economic cooperation.

An even more compelling trend is domestic: the decline in Japan's savings rate and the subsequent shift from trade surpluses to trade deficits. During the rapid growth period, high rates of household savings supported heavy corporate investment, and by the late 1960s spilled into trade surpluses. With the end of rapid growth, investment declined, and Japan's trade surpluses ballooned; indeed, if the government had not absorbed some of the excess savings by running large budget deficits, Japan's current account surpluses would have been even greater. In the late 1990s, however, household savings began to drop, as incomes stagnated and the population aged. For now, the effect on external balances is negligible, because corporate restructuring has reduced net investment and household incomes are slowly recovering. The aging of the population continues apace, however, and within five years Japan is likely to begin running significant current account deficits (Shinkin Chūō Kinko, 2003). Togeth-

er China and Japan, not the United States, will be the primary markets for Asian goods, and demand for an alternative to reliance on a currency external to East Asia—the U.S. dollar—is likely to increase.

Japan already faces increasing pressure to take a more active role in promoting economic cooperation in East Asia. For the time being, political obstacles to reform remain stubborn, but within a few years fundamental demographic and economic pressures are likely to combine with the Chinese challenge to exert a major change in Japanese policy. Those changes may well coincide with or stimulate a transformation of partisan leadership.

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# Critical Views on the Asian Regional Bond Market Proposal

Shirai Sayuri



**Shirai Sayuri is an Associate Professor of Economics at Keio University**

Keio University  
Faculty of Policy Management  
5322 Endoh, Fujisawa  
Kanagawa 252-8520  
sshirai@sfc.keio.ac.jp

Since the East Asian crisis of 1997-99, the view that banks are no longer functional has become stronger and increasingly more prevalent in the international community. This view claims that the crisis was caused by the heavy dependence of firms' investments on bank loans, and that Asian banks did not function as effectively as those operating in some advanced countries, due to crony relations (among banks, firms and governments), the inability of banks to develop risk management skills, and a lack of proper, prudent risk management. It is now widely understood that the crisis underscored the risks associated with financial structures where firms depend excessively on short-term bank loans to finance longer-term domestic projects (a so-called "maturity mismatch"). At the same time, the crisis revealed the vulnerabilities of using unhedged short-term foreign currency borrowings to finance domestic investment projects (a so-called "currency mismatch"). It is now clear that some policies are necessary in order to minimize these double mismatches.

As one way to deal with these mismatches, many

feel that Asian countries should develop domestic-currency-denominated (domestic) bond markets as more appropriate sources of financing. This concept has been considered by policy makers, international financial organizations, and academics, and has been widely discussed in the mass media. Domestic bond markets could provide stable sources of longer-term domestic currency funding to domestic firms, by helping to reduce the double mismatches and strengthening the financial sector's resilience. In addition, domestic bond markets might help to improve the efficiency of resource allocation through market-determined interest rates, spreading various borrowers' credit risks among a large number of dispersed investors, and serving as a buffer when banking sector problems occur. Moreover, domestic bond markets also help to enhance financial institutions' transparency, through information disclosure.

Nevertheless, the fact is that domestic bond markets are largely underdeveloped in Asia, notwithstanding their rapid growth in the aftermath of the credit crunch crises caused by banks, for three major reasons. First, there is only a small number of large, reputable private firms capable of regularly issuing a large amount of corporate bonds at relatively low costs. Many firms are small- and medium-sized enterprises without a good historical record of corporate performance. Their income streams are often highly idiosyncratic and volatile, so that their costs of bond issues tend to be much higher than those of large firms. In addition, their credit demand is uneven and relatively small, which makes these issuers inappropriate as potential issuers, especially in the early stages of bond market development. Second, there is limited demand for long-term bonds, since (mostly risk-averse) individual investors, like households, tend to hold their assets in the form of liquid, secure, bank deposits. More importantly, there are few institutional investors (such as pension funds, insurance funds, etc.) in Asia, due to relatively low financial asset accumulation and low per capita income levels. Third, underdeveloped informational, legal, and judiciary infra-



structures prevent domestic banks from developing further. In general, public investors are direct credit risk takers, so that accounting, auditing, and disclosure systems, enforceable laws, and sophisticated judicial systems have to be established to protect them from severe informational asymmetry in the corporate bond markets, and to seriously penalize dishonest corporate securities issuers and underwriters. Without adequate informational, legal, and regulatory infrastructures, information on issuing firms is less credible and transactions in the market are less fair and honest. For these three reasons, it will require considerable time to establish sound domestic bond markets. As the size of their economies grow, the demand and supply of bonds are likely to increase, while the informational, legal, and judicial systems mature and become more advanced.

Given these three constraints in Asia, for the time being it is not cost-effective to develop a local domestic bond market in each country. Fixed costs for establishing institutional infrastructures are relatively expensive, and economies of scale are limited in such small individual markets. Without cost-effective and sound bond markets, firms are discouraged from raising funds in the bond market, and will continue to depend on cheaper bank loans. Therefore, many have recently begun to focus on the idea of developing a regional bond market in Asia, since this could exploit economies of scale by incorporating a larger number of issuing firms and investors—thereby raising both the supply and demand of bonds. Moreover, this regional bond market could help diversify corporate financing, provide an extra investment avenue, and more effectively mobilize not only abundant regional financial resources (accounting for 20% of world savings) but also corporate reputation within Asia.

Prime Minister Thaksin Shinawatra of Thailand has been a strong proponent of an Asian regional bond market since mid-2002. In particular, Thailand has proposed the establishment of an Asian Bond Fund (ABF), where regional governments voluntarily contribute 1% of their foreign reserves (amounting to \$1.3 trillion) to a fund designed to purchase regional bonds. The proposal also included an establishment of an Asian credit agency on regional bonds. This proposal has since generated strong interest throughout the region. Not wishing to be left

behind, Japan quickly expressed strong support for the idea of an Asian regional bond market, and has shown initiative by promoting offshore, Japanese yen-denominated, bond issues by Asian governments and firms since early 2003. Japan has also stressed that governments should issue sovereign bonds more actively and regularly, to complement corporate bond placements in terms of volume and maturity in countries where bond markets are underdeveloped. Liquid, deep government markets would also contribute to establishing benchmarks in the domestic markets. Japan has also supported the idea of issuing securities denominated in a basket of Asian currencies, consisting of packages of local-currency-denominated government bonds.

Thailand's ABF proposal to jointly develop an Asian regional bond market using the region's ample foreign reserves finally culminated in an agreement at the second ministerial meeting of the Asia Cooperation Dialogue forum in Thailand, in June 2003. The ABF was launched, with an initial balance of about \$1 billion, under the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) Group, comprised of the central banks of 11 economies. For the time being, ABF intends to invest in US dollar-denominated bonds issued by Asian governments and quasi-governments in EMEAP economies other than Japan, Australia and New Zealand. The ultimate goal, however, is to move away from excessive dependence on the US dollar. The fund is to be managed by the Switzerland-based Bank for International Settlements. Meanwhile, the Association of Southeast Asian Nations (ASEAN) plus three (Japan, Korea, and China) endorsed the idea of fostering an Asian regional bond market in August 2003, as a measure to enhance monetary and financial cooperation beyond the existing currency swap network, which has developed gradually since May 2000. Furthermore, that same month Japan introduced a system to officially guarantee local currency-denominated bonds issued by Japanese capital firms operating in Asia, in order to promote local currency-denominated bond markets.

In spite of growing enthusiasm for developing an Asian regional bond market, the advantages must be weighed against the costs of leaving currency mismatch problems unresolved. This is because bond issues in an Asian regional market would likely be denominated not in the local currency (unless some

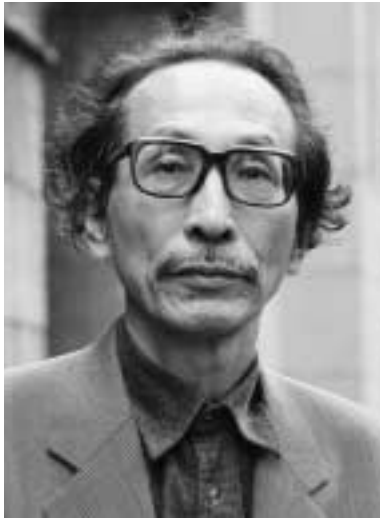
guarantees are provided), but in regional key currencies (such as yen, Singapore dollars, Korean won, etc.), due to the lack of demand for such bonds. Even if the bonds could be issued in the local currency (to avoid a currency mismatch), this may lead to nonresidents having substantial holdings of the local currency, which can, in turn, give rise to currency speculation. Moreover, the issuance of asset-backed securities might be able to diversify credit risks, but this does not imply that the credit risks associated with the underlying assets are removed. In addition, Asian governments need to integrate individual countries' security laws before attempting this move. Furthermore, the Tokyo offshore market thus far remains underdeveloped, because of a weak institutional infrastructure and high costs. More importantly, each member country needs to improve its domestic informational, legal, and judiciary infrastructure to levels comparable to those of advanced countries in the region. Since this require-

ment is more stringent than developing an infrastructure appropriate to specific countries' development stages, it is likely to take a long time to achieve regional convergence.

Thus, it will be difficult to develop a sound regional bond market in the short- and medium-term in Asia, especially if a large number of developing countries are included in the membership. Asian governments should remember that it is not possible to foster a regional bond market without first making efforts to develop their own domestic bond markets. In other words, there is no easy solution for preventing the occurrence of another crisis like the East Asian crisis. Without taking into account the various constraints faced by the respective countries (which currently inhibit the development of domestic bond markets), the idea of developing an Asian regional bond market will likely end up as nothing more than a pipe dream.

# From a "Common House of Northeast Asia" to a "Greater East Asian Community"

Wada Haruki



**Wada Haruki is a Professor Emeritus of the Institute of Social Science, the University of Tokyo**

7-6-5 Oizumi Gakuen Machi  
Nerima-ku, Tokyo  
fwjg0575@mb.infoweb.ne.jp

At the second conference of ASEAN plus Three, held in Hanoi in 1998, newly elected South Korean President Kim Dae-Jun proposed the establishment of an East Asia Vision Group, for the purpose of thoroughly discussing measures to overcome the economic crisis. This proposal was adopted, and the Vision Group was set up, chaired by Han Song-Joo, former Foreign Minister of the R. O. K.

In Kuala Lumpur in December of 2001, on the occasion of the fifth ASEAN + 3 conference, the East Asia Vision Group presented their report, "Towards an East Asian Community: A Region of Peace, Prosperity and Progress." This report begins with following statement:

"We, the people of East Asia, aspire to create an East Asian community of peace, prosperity, and progress based on the full development of all peoples in the region. Concurrent with this vision is the goal that, in the future, the East Asian community will make a positive contribution to the rest of the world."

Such a bold declaration of an East Asian Communi-

ty, made by a group of specialists commissioned by ASEAN + 3, caused a big sensation, and decisively encouraged regionalist thinking. The concept of an East Asian Community has emerged from the existence of ASEAN, the ever-growing Southeast Asian regional organization, and the expanding economic linkages between ASEAN countries and China, South Korea and Japan.

This proposal once more reminded us of the necessity, or possibility, of another regional community, Northeast Asia. In organizing regional cooperation, Northeast Asia has fallen far behind Southeast Asia, for a variety of reasons. Northeast Asia is not only culturally, but also historically and socially, a heterogeneous region, full of conflicts. Here former imperialist aggressors (Japan and Russia) and their victims (Korea and China) exist side by side. One socialist country (DPRK), several former socialist countries (Russia, Mongolia and China), and several capitalist countries (Japan, ROK, and the United States) coexist. There are three nuclear Powers (the United States, Russia, and China) and two peoples (Japanese and Koreans) who have been victimized by nuclear weapons. Northeast Asia includes two divided nations, Korea and China. East Asian, Russo-Eurasian, and Western cultural values all coexist. There are three territorial controversies: the Northern Territories problem (*Hoppōryōdo*) between Japan and Russia, the Takeshima or Dokto problem between Korea and Japan, and the Senkaku or Diaoyu Islands problem between China and Japan. Because of such heterogeneous composition, various conflicts and painful memories, this region has appeared most discouraging to efforts for regional cooperation and community-building.

And yet there have been efforts to promote regional economic cooperation in Northeast Asia, beginning with movements started in Japan in the 1980s. Several Japanese prefectural and municipal authorities have attempted to establish economic cooperation among prefectures and cities surrounding the Sea of Japan under the name, "Sphere of Economic Cooperation Surrounding the Japanese Sea" (環日本海経

濟圈 *Hwanilbonhae Konchekwon*). They invited neighboring countries across the sea to join this regional economic cooperation. The organizers soon realized, however, that this wording was not acceptable to Koreans, who call this sea the East Sea, and subsequently they instead tended to refer to it as simply, "Economic Cooperation of Northeast Asia." In 1993 Niigata Prefecture and Niigata City, along with eight other prefectures on the coast of the Sea of Japan, set up an institute named 環日本海經濟研究所 (*kan'ni-honkaikeizaikenkyūjo*, "Economic Research Institute for the Region Surrounding the Sea of Japan"), but in English it is called the Economic Research Institute of Northeast Asia (ERINA).

The notion of Northeast Asian economic cooperation has spread widely in Northeast China, and South Korea, too. In China, Northeast Asia research centers were set up in Jilin Province in 1988; Northeast Asia research institutes were also set up in Liaoning Province in 1990, and in Beijing University in 1993. Initially, the main research topic of these institutes was economic development in the Tumen River area, and the possibility of establishing a Northeast Asia Development Bank. Regrettably, research on these topics has not borne much fruit yet.

Hitherto in Northeast Asia, the first palpable success was attained in the field of environmental cooperation. In 1992 the NEAC (Northeast Asian Conference on Environmental Cooperation) began, attended by representatives of the governments of China, South Korea, Japan, Mongolia and Russia. In 1993 the Northeast Asian Subregional Programme on Environmental Cooperation (NEASPEC) was established, assisted by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). And in 1999 China, South Korea and Japan began holding regular annual meetings of environment ministers.

In 1990 I myself began to advocate the idea of a "Common House of Northeast Asia." I insisted on the necessity of community-building in this region, from the consideration of international politics. Northeast Asia is generally thought of as including the two Koreas, Japan, China and Russia, but I proposed that the United States should be acknowledged as a constituent of this regional cooperation. There are at least 100,000 American soldiers residing

in our midst, and we cannot and need not exclude the US presence from our region. Furthermore, Taiwan should be included in the Common House. For that purpose I proposed that not only countries should be represented, but also big islands, such as Taiwan, Okinawa, Sakhalin, the Kuriles and Hawaii, should be represented as junior participants. Because of their historical past and the present composition of their inhabitants, those islands play positive roles in integrating the region.

From the beginning I insisted that the Korean peninsula would inevitably play a key role in this Common House of Northeast Asia. From ancient history the Korean peninsula has been the bridge between continental China and the Japanese islands. Korea can also join continental Russia and China with maritime Japan and the United States. Only Korea can become the center of this Common House. On the other hand, the Korean diaspora spread throughout the region could also serve as a kind of glue, just as the Chinese diaspora links Southeast Asia. 2.04 million Korean Chinese, 2.07 million Korean Americans, 870,000 Koreans in Japan and 487,000 Koreans in the CIS can play important roles in the Common House.

I continued to advocate the Common House of Northeast Asia to Koreans throughout the 1990s, hoping that Koreans would understand my idea. Certainly, in the 1990s my arguments must have sounded like a pure dream in South Korea.

But recently the growing North Korean problem has obliged us all to think sincerely about the present situation and future of our region, Northeast Asia. On September 17, 2002 Japanese Prime Minister Junichiro Koizumi and Chairman Kim Jong-Il of the DPRK National Defense Commission met and talked in Pyongyang. They signed the Pyongyang Declaration, which included the following paragraph:

"4. Both sides confirmed that they would co-operate with each other in order to maintain and strengthen the peace and stability of North East Asia. Both sides confirmed the importance of establishing co-operative relationships based upon mutual trust among countries concerned in this region, and shared the recognition that it is impor-

tant to have a framework in place in order for these regional countries to promote confidence-building, as the relationships among these countries are normalized.”

This was the first occasion that the very expression “Northeast Asia” was ever written in a diplomatic document of Japan.

And on February 25, 2003, in his inaugural speech, newly elected South Korean President Roh Mu-Hyon appeared as a strong champion of a new regionalism in Northeast Asia. He stated not only that the Age of Northeast Asia is fast approaching, but also that South Korea is determined to “take off as the hub of Northeast Asia.” He said:

“The Korean Peninsula is located at the heart of the region. It is a big bridge linking China and Japan, the continent and the ocean. Such a geopolitical characteristic often caused pain for us in the past. Today, however, this same feature is offering us an opportunity. Indeed, it demands that we play a pivotal role in the Age of Northeast Asia in the 21st century.”

Though President Roh stressed that the Age of Northeast Asia will originate in the economic field, I think that regional cooperation in Northeast Asia will come first in the security field. Indeed, currently six countries of this region are involved in talks with the sole aim of solving the North Korean nuclear crisis. The crisis can only be solved through a regional agreement of common security, and the solution will likely open the door to community-building in the region. Furthermore, the success of regional cooperation attained in the environmental field can also serve as a foundation for Northeast Asian community-building.

Then Northeast Asia can stand side by side with Southeast Asia, and ANEAN may be organized on the model of ASEAN. In principle, Southeast Asia and Northeast Asia combined form East Asia. Regional economic cooperation is expanding in East Asia, from Southeast Asia northward. And it is expected that regional security and environmental cooperation will expand from Northeast Asia southward. If the Southeast and Northeast regional communities are organized and combined deliberately, they may create a new “Greater East Asian Community.”

## ISS Contemporary Japan Group at the Institute of Social Science, University of Tokyo

*The ISS Contemporary Japan Group serves as a forum for researchers on Japan to receive critical feedback on their work. Researchers visiting Tokyo are invited to contact one of the persons listed below if they would like to make a presentation. Presentations are free and open to the public. For more information please contact Professor Ishida Hiroshi ([ishida@iss.u-tokyo.ac.jp](mailto:ishida@iss.u-tokyo.ac.jp)) or Suginozara Masako ([suginohara@iss.u-tokyo.ac.jp](mailto:suginohara@iss.u-tokyo.ac.jp)).*



### Kabuki-chō Gangsters: Protection in the Absence of Territorial Monopoly

**Peter Hill**

*British Academy Postdoctoral Fellow*

*November 6, 2003*

The theoretical underpinning of Peter Hill's research is that the defining characteristic of mafia groups is that they act as providers of private protection. In Japan this role is played by the yakuza. In recent years, the Japanese media, police, and politicians have given much

attention to the supposed invasion of foreign criminal groups into Japan. Particular focus has been accorded to the activities of "Chinese Mafia" in Tokyo's famous entertainment district, Kabuki-chō. The market for protection in Kabuki-chō is enormous, and therefore an attractive target for new entrants.

Because of considerable reputational and informational barriers to entry for such groups, Hill initially hypothesized that Chinese and other foreign groups would only be able to offer protection to members of their own ethnic communities in Kabuki-chō. However, Hill's research findings showed that Chinese criminal groups in Kabuki-chō are not, in fact, active in the field of protection, and that many of their other criminal activities are conducted in partnership with local yakuza groups. In these cases, Hill found, the yakuza typically provided protection to the outsiders. Nonetheless, this does not mean that there are no new entrants into the market. Rather than foreign criminal groups, Hill discovered that subgroups of the large Kansai-based Yamaguchi-gumi syndicate, for whom the barriers to entry are much lower, are currently making significant incursions into the Kabuki-chō protection market.

# Japanese History Group

## 英語による日本史研究会

The Institute of Social Science (ISS) at the University of Tokyo is pleased to announce the formation of the Japan History Group (JHG). This new research group will be a forum for scholars to present their research on topics related to Japanese history in English.

In the interest of promoting greater dialogue with the Japanese-language academic community, the forum will provide a discussant chosen for his/her familiarity with the theme or approach of the presenter's research. Through the exchange of perspectives and interpretations of Japanese history, the JHG will seek to introduce foreign scholars researching Japanese history to their counterparts in Japan.

The JHG is open to the public. For more information or to arrange a presentation, please contact Jason G. Karlin <karlin@iss.u-tokyo.ac.jp> at the Institute of Social Science.

### **Bodies, Names, and the Confusion of Tragedies: Memorializing the Tokyo Air Raids**

**Cary Karacas**

**Ph.D. candidate, Department of Geography  
University of California, Berkeley**

**March 9, 2004, 6:00 p.m.  
The Mid-sized Meeting Room  
The Institute of Social Science**

Between November 1944 and August 1945, Tokyo was subjected to dozens of air raids that killed well over one hundred thousand civilians, caused millions to flee the metropolis, and left over half of the city in ruins. In stark contrast to the "rhetorical topoi" (namely in the form of monuments, memorials, and museums) that speak of the wartime catastrophic events that occurred in other places in Japan, the structuring of Tokyo air raid memories has taken place on a decidedly smaller scale. In this presentation, Karacas will examine central events and conflicts between citizen's groups, intellectuals, and the Tokyo metropolitan government that have structured forms of remembrance and memorialization of the air raids and those killed in them.

1944年11月から1945年8月までのアメリカ軍による空襲は、東京の半分を破壊した上、十万人以上と推測される死者と何万人もの疎開者を生み出した。この太平洋戦争によって同様に破壊された日本の他の地域の「RHETORICAL TOPOI」とは対照的に、東京大空襲を記憶しようとする動き・構造は小規模であるといえる。この発表では、大空襲を記録しようとする市民団体、知識人、そして東京都の動きとこれらのグループ間の衝突がいかに現在の空襲の記憶と追悼の構造に影響を与えているのかを検討したい。

**Discussant : Nogami Gen (Lecturer, Japan Women's University, Department of Studies on Contemporary Society)**

# JAPAN - ASEAN ECONOMIC MINISTERS CONFERENCE

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