

Part I. ANALYTICAL STUDIES OF ASEAN-JAPAN  
COMPREHENSIVE ECONOMIC PARTNERSHIP : 1  
Japan-ASEAN Comprehensive Economic  
Partnership: A Japanese Perspective

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# **Part I**

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## **Analytical Studies of ASEAN-Japan Comprehensive Economic Partnership**

# 1

## **Japan-ASEAN Comprehensive Economic Partnership: A Japanese Perspective**

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### **I. Renewed Initiative for Japan-ASEAN Cooperation**

In January 2002, Prime Minister Junichiro Koizumi visited Singapore and signed the Japan-Singapore Economic Partnership Agreement. Then he stressed the need for strengthening a sincere and open partnership between Japan and ASEAN and proposed what he called the Japan-ASEAN Comprehensive Economic Partnership (JACEP).<sup>1</sup>

In September 2002, ASEAN Economic Ministers and Minister of Economy, Trade, and Industry of Japan (AEM-METI) met in Brunei and jointly recommended that the leaders “commence consideration of a framework that would provide a basis for concrete plans and elements towards realizing the JACEP in accordance with its guiding principles, such as the comprehensiveness of countries and sectors,” that “the framework should be developed and its outcome presented to the Leaders in the year 2003 for their consideration,” and that “the implementation of measures for the realization of the partnership, including elements of a possible FTA, should be completed as soon as possible within 10 years while according due consideration to the economic levels and sensitive sectors of each country.”<sup>2</sup> The leaders met in Cambodia in November 2002 and endorsed the recommendation. A committee of senior economic officials of ASEAN and Japan was established in March 2003 to hammer out further details.

In support of this JACEP initiative at the governmental level, the Institute of Developing Economies (IDE)/JETRO of Japan and research institutes of five ASEAN member countries (the Centre for Strategic and International Studies of Indonesia, the Malaysian Institute of

**Table 1.1**  
**ASEAN-Japan Relationship in the Last Three Decades**

1977	Japanese Prime Minister Takeo Fukuda has met with ASEAN leaders at the Second ASEAN Summit Meeting.
1992	The AEM-METI between ASEAN and Japan has been held every year.
2000 Sep.	The Japan-Singapore Joint Study Group Report.
2001 Oct.	The Japan-Singapore Economic Partnership Agreement (JSEPA) has completed negotiation.
2002 Jan.	JSEPA is concluded.
	The Japan-ASEAN Comprehensive Economic Partnership (JACEP) has proposed.
Sep.	The AEM-METI recommended the leaders to commence consideration of a framework.
Nov.	The leaders has signed a joint declaration of JACEP.
2003 Mar.	The JACEP Committee has set up.
Oct.	The framework of JACEP is agreed.
2004	Consultation of the JACEP.
2005	Negotiation of the JACEP.
2012	Completion of the JACEP between the original ASEAN six members and Japan.
2015	Completion of the JACEP between the newer ASEAN members and Japan.

*Source:* Compiled from the Ministry of Foreign Affairs of Japan.

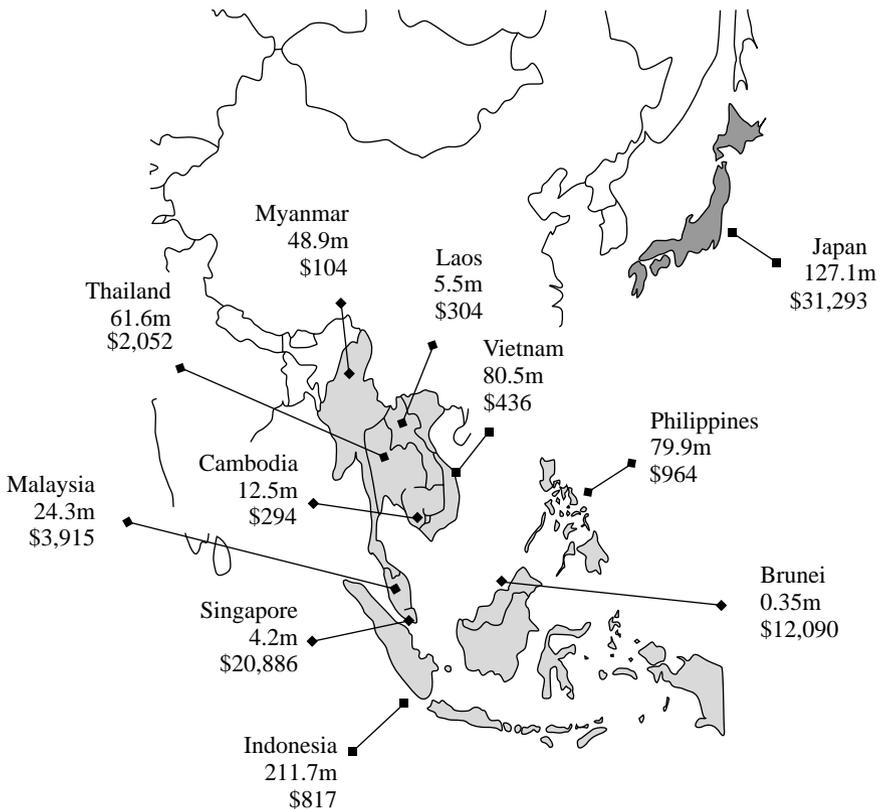
Economic Research, the Philippine Institute for Development Studies, the Singapore Institute of International Affairs, and the Thailand Development Research Institute) start a new joint study program on the current state of their industrial upgrading and strategy for enhancing international competitiveness. This also meets Prime Minister Koizumi's suggestion of "strengthen[ing] the network that links research institutions in Japan and ASEAN countries."<sup>3</sup> We, the Japan-ASEAN Research Institute Meeting (JARIM), aim to work out the vision of JACEP and further details for its action agenda in parallel with governmental efforts. JARIM met for the first time in Bangkok in October 2002. In July 2003, the ASEAN-Japan Exchange Year, an expanded meeting in Tokyo included Brunei and Cambodia, Laos, Myanmar, and Vietnam (CLMV) as well. The joint study report (attached to this volume) was input to the AEM-METI in September 2003.<sup>4</sup>

## II. Japan-ASEAN Relationship: Overview

Figure 1.1 provides a map of East Asia showing Japan and the ten ASEAN members, giving the population and per capita GDP of each for 2002. A big difference in size and living standards can be seen between Japan, Singapore, and Brunei at the high end, other original ASEAN members in the middle, and CLMV at the low end.

Japan and the ASEAN members have been close economic partners for more than three decades. The ASEAN members accelerated their

**Figure 1.1**  
**Map of East Asia**  
**Population (million) and GDP per capita (US\$) in 2002**



Sources: World Bank, *World Development Indicators 2003*.

ASEAN Secretariat <[http://www.aseansec.org/macroeconomic/aq\\_gdp22.htm](http://www.aseansec.org/macroeconomic/aq_gdp22.htm)>

development in the 1970s and achieved a decade of “miraculous growth” from 1987 to 1996. Japanese firms participated through active direct investments and import trade. The ASEAN economies suffered a severe setback from the Asian crisis of 1997-98, but they have recovered more quickly than anticipated. However, their structural deficiencies remain yet to be remedied.

Recent advancement of the Chinese economy and Chinese firms has also caused a feeling of uneasiness and threat among the rest of East Asia. Although the majority view China’s dynamism as a strong engine supporting East Asian development and believe other economies will benefit from it, there have emerged persistent requests for restrictive measures and protection against “the Chinese threat” from sectors and firms directly competing with China. A major economic policy issue shared by many ASEAN member economies is how to promote the upgrading of their industrial structure and enhance the international competitiveness of their industries.

However, the rise of China is a recent phenomenon, and China’s trade relations with ASEAN and Japan have not matched those between Japan and ASEAN. Table 1.2 shows the trade flow among Japan, ASEAN, and China in 1990 and 2000. China-ASEAN trade was only 10 percent as large as Japan-ASEAN trade in 1990 but had risen to 25 percent by 2000. China-Japan trade quadrupled for the decade, but it still remained at one-third or one-half the volume of Japan-ASEAN trade. Table 1.3 shows trade-intensity indexes calculated from trade flow shown in Table 1.2.

**Table 1.2**  
**Trade Flow among Japan, ASEAN, and China**

		(million US\$)		
from	to	Japan	ASEAN*	China
Japan	1990		32,066	6,145
	2000		68,186	30,356
ASEAN	1990	27,000	27,500	2,268
	2000	55,945	93,075	16,179
China	1990	9,327	3,493	
	2000	41,654	16,633	

*Source:* Institute for International Trade and Investment.

*Note:* \*Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

**Table 1.3**  
**Trade Intensity Index**

from	to	Japan	ASEAN*	China
Japan	1990		2.33	1.29
	2000		2.52	1.91
ASEAN	1990	2.77	4.17	0.99
	2000	2.49	3.92	1.16
China	1990	1.99	1.10	
	2000	3.13	1.18	

Source: Institute for International Trade and Investment.

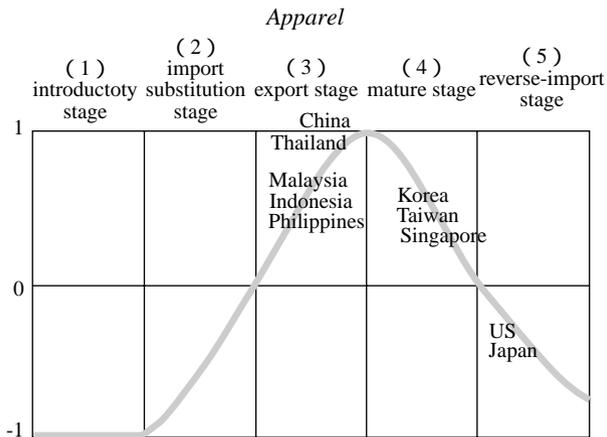
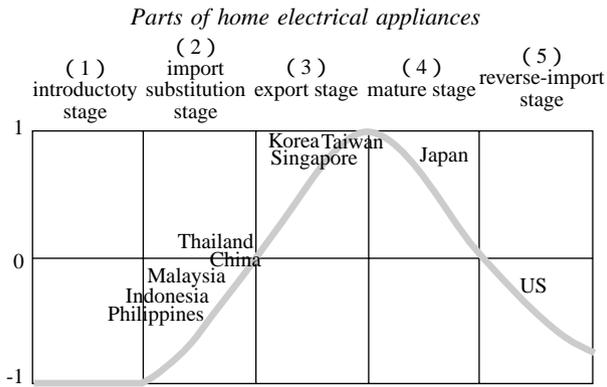
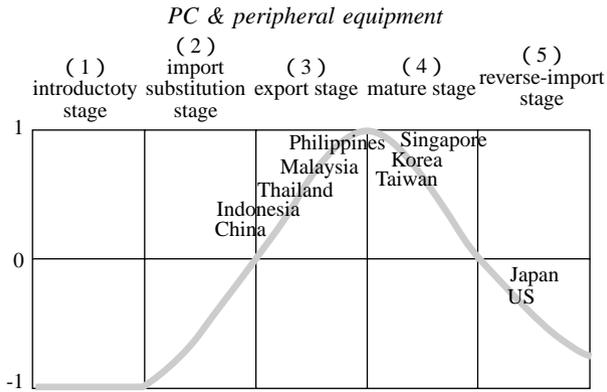
Note: \*Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Trade intensity of intra-ASEAN trade was as high as 4. The intensity of Japan-ASEAN trade remained stable at around 2.5, while the intensity of China-ASEAN trade was just a little more than 1 (average intensity). The intensity of Japan-China trade almost doubled. In particular, the intensity of Japan’s imports from China exceeded that of Japan-ASEAN trade.

The content of the trade among the three highlights the important fact that, while ASEAN and China compete in their major exports, Japan is complementary with both ASEAN and China. Figure 1.2 is borrowed from our *ASEAN-Japan Competitive Strategy*.<sup>5</sup> The curves illustrate changes over time in export-import ratios in major commodities, along which countries in different stages of industrial development are plotted. The ratio starts with minus 1 when a new industry starts, increases and exceeds 0 (which means “becomes a net exporter”), reaches +1 and then turns downward, representing “flying geese development of a new industry in a late-starting country.” The United States and Japan are on the down slope for all three commodities, while Korea, Taiwan, and Singapore just pass the peak in PCs and their peripherals, reaching the peak in household electrical appliances, and are already on the down slope in apparel. However, ASEAN4 (Indonesia, Malaysia, the Philippines, and Thailand) and China are in the same group, still below 0 in household electrical appliances, increasing above 0 in PCs, and around the peak in apparel.

A complaint is often heard in ASEAN that Japanese investment goes to China, accelerating China’s rise while leaving ASEAN behind. This is also contrary to fact. Table 1.4 shows Japanese foreign direct investment (FDI) in individual East Asian countries as well as in the European Union

**Figure 1.2**  
**Competitiveness of East Asia**



Source: Hiratsuka (2003).

**Table 1.4**  
**Outward Direct Investment by Japanese Firms**  
**(FY1951-2002/FY1998-2002 accumulated)**

(Million US\$)

	1951-2002			1998-2002
	Manufacturing	Non-manufacturing	Total	
China	16,526	6,570	23,757	6,053
ASEAN6	43,748	34,107	79,263	16,416
Indonesia	11,869	14,875	26,859	3,345
Thailand	11,173	4,087	16,216	4,522
Malaysia	7,379	2,500	9,910	1,616
Philippines	4,863	2,307	7,252	2,635
Singapore	7,375	10,123	17,650	3,990
Vietnam	1,090	215	1,376	309
Other major Asian economies	12,709	22,930	37,253	12,029
Hong Kong	2,737	16,982	20,250	3,035
Korea	5,056	4,099	9,861	3,286
Taiwan	4,916	1,849	7,142	1,718
United States	112,234	204,973	319,206	59,352
Europe	60,093	143,844	207,072	90,043
World total	282,473	547,821	841,784	224,787

Source: Ministry of Finance of Japan, *Foreign Direct Investment*, compiled by JETRO.

Note: Total contains investment for branch.

(EU) and the U.S., both in accumulated stock for 1951-2002 and for the recent five-year period of 1998-2002. In total stock Japan's FDI in ASEAN6 is 3.3 times as much as that in China. For 1998-2002, while Japanese FDI in China increased rapidly, that in ASEAN6 tended to decrease but was still 2.7 times as much as that in China.

This year six original ASEAN members will complete the AFTA liberalization on schedule, reducing tariffs below 5 percent except for a limited number of sensitive items. New ASEAN members will follow suit: Vietnam by 2006, Laos and Myanmar by 2008, and Cambodia by 2010. The completion of AFTA will achieve the single integrated ASEAN market and allow existing firms, both indigenous and foreign, more efficient intra-ASEAN specialization and strengthen the competitiveness

of ASEAN as a whole. It will also encourage more foreign firms to invest within ASEAN.

In contrast, Japan is now finishing a decade-long stagnation. Although competition has heated up in labor-intensive manufacturing and some agricultural production with China, Japanese industries are by and large complementary to those of China and ASEAN. Japan wishes to see both Chinese and ASEAN firms avoid excessive competition and achieve mutually beneficial complementary relationships. Japan has offered a wide variety of technical cooperation either bilaterally or through multilateral frameworks such as APEC and the AEM-METI Economic and Industrial Cooperation Committee (AMEICC). AMEICC has implemented eight working groups on human resource development, SMEs/support industries, the auto industry, the chemical industry, etc. JETRO has been participating in some of this with technical assistance, and IDE has supported these efforts through research and surveys.<sup>6</sup>

### **III. Vision of the Japan-ASEAN Comprehensive Economic Partnership**

What is the vision of JACEP? Unfortunately it does not seem that Japan's intention when proposing JACEP has been well understood by its ASEAN counterparts. Some say that Japan was spurred into action by the Chinese approach to ASEAN and hastily came up with a proposal of its own, which would neither reach the level of an FTA nor benefit ASEAN exporters of agricultural products, because Japan is not ready to open up its food market. We have to show a clear vision and agenda of action of JACEP. JARIM aims to produce these things in collaboration between Japan and ASEAN. The following elements should be incorporated:

First, JACEP aims for an FTA between Japan and ASEAN as a whole, contrary to the traditional pattern of bilateral cooperation between Japan and individual ASEAN members. The original ASEAN members will complete the first stage of AFTA (reducing common effective tariffs below 5 percent within ASEAN except for a limited number of sensitive items) within 2003, and the new members will follow suit in three to seven years, when the single ASEAN market is completed. The FTA between Japan and the single ASEAN market will generate new business opportunities for both Japanese and ASEAN firms. For example, Japan's FTA with Laos alone will not induce Japanese firms to invest in Laos, since it has a very small domestic market. However, a Japan-ASEAN FTA

will make that a less important factor when considering Laos as a manufacturing venue than whatever comparative advantages the country has to offer (say, cheap electricity), since the “domestic” market becomes the whole of ASEAN.

Second, ASEAN member governments have to change their trade/investment policies and industrial policies from their traditional pattern of import restrictions and export subsidies to ones of more market competition toward the single ASEAN market. They have to convert cheap-labor assembly production of low added value based on imported parts and materials to upgraded production in line with their own comparative advantages based on their own domestic support industries. Our *ASEAN-Japan Competitive Strategy* is aimed at encouraging ASEAN members to identify own comparative advantages. The promotion of trade and investment liberalization and domestic structural reform is inevitable in order to enhance trade and cross-border investment among member economies. Liberalization and structural reform basically depend on self-help efforts, but they tend to make little headway because of resistance from entrenched domestic interests. Joint implementation of liberalization and reform in a comprehensive FTA framework will help individual governments persuade their nationals with external commitments.

Third, Japan must show its ASEAN counterparts how the on-going reform of its industry and corporate structure will affect its trade and FDI to neighbor economies. They want to know what impact a Japan-ASEAN FTA will have on Japanese investment in ASEAN. Japan should depart from its traditional approach of excluding agriculture and start talking about securing a stable supply of safe food from ASEAN.

Fourth, in the single integrated ASEAN there will still remain a big difference in living standards and stage of industrial development between the six original members and CLMV. New ASEAN members have much lower per capita income than do the original members and are handicapped in infrastructure, human resources, technology, and capital endowments. In November 2000 ASEAN leaders established the Initiative for ASEAN Integration (IAI), under which the original ASEAN members are extending technical assistance to new members in human resource development. The specific and differential treatment of merely allowing longer periods of implementation is not sufficient to make up the difference, and these ASEAN members need a “regional program” like the one implemented by the EU to enable late starters to overcome their handicaps. Japan is currently giving bilateral official development assistance (ODA) to CLMV and, if combined with human and physical resources from the original

ASEAN members, it will be expanded to become an ASEAN-wide assistance program. It will encourage CLMV to participate in JACEP and strengthen solidarity within ASEAN.

#### **IV. Cooperation Network in East Asia**

The Japanese government has started consultations on bilateral FTAs with Thailand, the Philippines, and Malaysia after Singapore. Bilateral FTAs are a pragmatic approach to taking advantage of increased momentum for achieving higher integration among prepared members. However, bilateral FTAs are subject to limited gain from economy of scale, as stated above, and members not included will be left behind. It is very necessary to promote JACEP in parallel with the bilateral FTA negotiations. The members outside these FTAs will also feel a need to participate in JACEP so as not to be left behind.

Though taking FTAs as a realistic approach, what happens to the future of East Asia? Would it be able to achieve prosperity placing East Asia as one pole among the three poles with Europe and America? The bilateral, multilateral, and East Asia FTA plans are complex. Among them, the competitive liberalization that China and Japan are requesting through FTAs is remarkable. At the ASEAN+3 Summit meeting in Phnom Penh in November 2002, China and ASEAN signed a comprehensive economic cooperation framework, and both agreed on completing an FTA plan by 2010-2015. Japan and ASEAN agreed on aiming at an FTA at the earliest occasion within ten years. Although China promised early liberalization of eight agricultural products such as perishable vegetables, fruits and ornamental plants, Japan is deliberate in its liberalization of agricultural products.

However, whilst both Japan and China pursue FTA negotiations with ASEAN, neither has proposed a Japan-China FTA.<sup>7</sup> Furthermore, although the prime ministers agreed that trilateral cooperation among Japan, China, and Korea is desirable, it is still in the stage of study amongst experts. In the future an East Asian community that includes ASEAN+3 and also Hong Kong and Taiwan is desirable. As such, it would be able to form an economic pole equivalent to those of Europe and the Americas. It is consistent with economic rationale. However, in reality rapid achievement is hindered by economic gaps, remaining differences between economic systems, a lack of experience in integration and an historical hangover from the first half of the twentieth century among

Japan, China, and Korea. There is no way forward other than to begin with whatever is doable, regardless of whether it is a bilateral or multilateral agreement. If one of these FTAs goes far ahead of the others, it will tend to divert trade within East Asia and may become a stumbling block for the development of East Asia as a whole. It is important for all East Asian economies to promote individual subregional FTAs in parallel, while sharing the ultimate goal of an East Asian FTA embracing all subregional FTAs.<sup>8</sup>

## **V. Action Agenda for JACEP**

Thus, the following actions will be on the agenda for JACEP:

### **A. Promotion of Trade and Investment**

JACEP must provide all firms, indigenous and foreign, operating in the region with a clear policy environment in which they will be players in global competition.

Table 1.5 shows simple average applied tariffs on all goods and transport equipment for six ASEAN members, Japan, and China. Both Thailand and Vietnam still impose higher tariffs than China in general. On

**Table 1.5**  
**Simple Average Applied Tariff Rate**

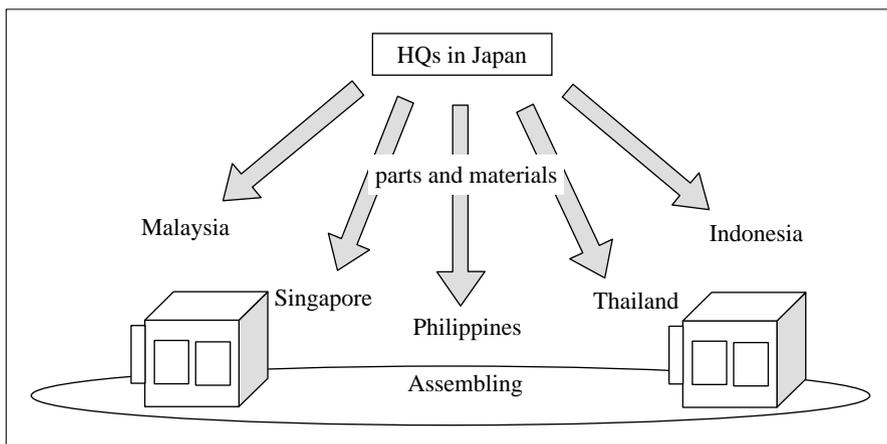
	All Goods	Transport Equipment
Indonesia	7.3	17.4
Malaysia	9.3	48.1
Philippines	5.3	7.9
Singapore	0.0	0.0
Thailand	18.6	26.6
Vietnam	16.2	13.2
Japan	7.7	0.1
China	12.0	17.4

*Source: APEC, Individual Action Plan 2002* <<http://www.apec-iap.org/>>.

transport equipment Malaysia, Thailand, and Indonesia give higher tariff protection to domestic production. These are external tariffs, applied to non-ASEAN members, including China and Japan. With the completion of AFTA, the intra-ASEAN trade, especially among the original six ASEAN members, will be exempted from these tariffs. It will certainly encourage local and foreign firms operating within ASEAN to become more active in their business across borders.

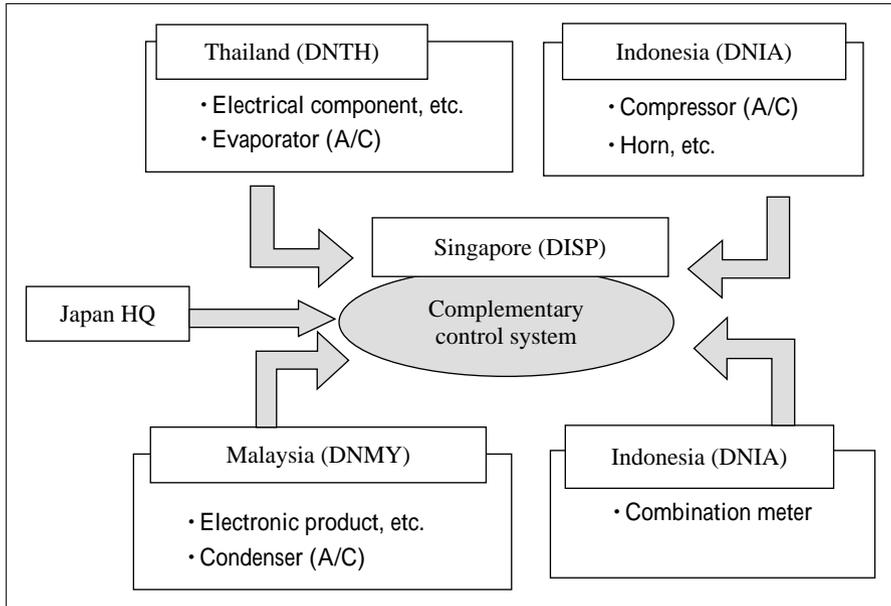
As a matter of fact, Japanese firms have already started moving in that direction in anticipation of the completion of AFTA. Figures 1.3 and 1.4 illustrate this move. Figure 1.3 depicts conventional bilateral business between a parent company in Japan and its subsidiary firms in individual ASEAN economies. All parts and materials are produced in Japan and shipped to the ASEAN subsidiaries for assembly and sale in local markets. Their sales across borders are constrained by high tariffs, as mentioned above. In contrast, Figure 1.4 depicts an ASEAN-wide business network, in which the parent company allocates its production of various parts among individual ASEAN members, gathers them in Singapore, and makes a complete kit to be distributed to individual countries for assembly, enabling greater economy of scale in parts production. This requires frequent flows of parts across borders and was not viable in the days of high tariffs.<sup>9</sup>

**Figure 1.3**  
**Traditional Procurement System**



*Source: Author.*

**Figure 1.4**  
**Complementary System – Denso Thailand Co., Ltd.**



Source: Denso (Thailand), Co., Ltd.

ASEAN has to accomplish AFTA as well as its related programs such as ASEAN Industrial Cooperation (AICO) and AIA. It needs to be shown clearly how AFTA's Common Effective Preferential Tariffs will be applied to Japan so that a concrete image of the integrated Japan-ASEAN market can be shared by all business people. It needs to be predicted how bilateral FTAs between Japan and some ASEAN members will be incorporated with the JACEP ultimately. Furthermore, AFTA does not complete free movement of goods across borders. Complicated customs procedures, strict rules of origin, and regulated transport services impede free transport of commodities. Various facilitation measures as well as liberalization are needed.

**B. Adjusting Industrial and Trade Policies of ASEAN Members**

Toward the single ASEAN market, individual ASEAN member governments need not only to reduce internal tariffs and ease restrictions

on FDI but also must adjust their industrial policies to ones based more on market competition. Promotion of fledgling industries based on their own comparative advantages will be allowed but only for a limited period, after which all industries will be exposed to region-wide market competition. That is, industrial policies at home should also be disciplined by market competition as the AFTA is completed and applied to Japan (and China). IDE will oversee the competitive strategy reports by six ASEAN members<sup>10</sup> and attempt a quantitative assessment of their trade, FDI, and industrial policies against common measures toward the single ASEAN market.

### **C. Industrial Structure Change of Japan**

Japan is now implementing a variety of reform measures in public institutions and regulations, and its industrial and corporate structures are undergoing drastic change. This is partly in response to dynamic changes in China and ASEAN but also reaction to changes in the two in the form of accelerated and adjusted performance of Japanese firms. JACEP has to be designed with the dynamic interaction of these changes taken into consideration.

Industrial adjustment should not be overwhelmed by short-term conflict over the interests of certain sectors. On the Japanese side, agriculture is currently seen as the biggest barrier. Rather than worrying about how to exclude it from FTA talks, it should be worked on positively. Let me raise one example: In 1993 Japan's rice crop decreased 26 percent from that of normal years, owing to cool weather. Emergency imports of 263,000 tons of rice were conducted for the years 1993-94. Of this amount, 42 percent was from China, 30 percent was from Thailand, and 21 percent was from the U.S. After that, the harvest returned to normal, and imports of rice were reduced to minimum. However, according to agricultural experts, there is a high probability that Japan will need to rely on substantial rice imports every year for the next five to ten years. This is because many farmers are reaching advanced age, and very few Japanese youth aspire to become rice farmers. Therefore, the annual rice harvest will decrease in volume. From where will Japan import rice to make up the shortfall?

Would it be advisable to rely on the U.S. or Australia, countries prone to water shortages? Would it not be natural to rely on East Asian countries, which are closer and in the same monsoon belt and manage rice crops through small family farms? If that is the case, then Japan should actively offer advice on agricultural management to East Asian countries,

pressing such issues as the need to rein in excessive use of agricultural chemicals and genetically modified seeds, solutions to water shortages, and secure safe agricultural imports, rather than simply saying, “Importing of rice should not be permitted”. A comprehensive FTA is a framework that could make this type of cooperation possible. Rather than leaving agricultural imports as a taboo and obstructing an FTA, we should use an FTA and seek a means of sustainable reliance on agricultural imports in the longer term. Securing safe and stable food imports should be an essential goal of the East Asian economic community. This year Japan has had a cool summer and can expect another poor rice harvest. We wish to see our government seek stable supplies of rice based on imports from our neighbors.

#### **D. Support CLMV together with Other ASEAN Members**

In addition to the specific and differential treatment of allowing longer periods for implementation, a variety of assistance programs for CLMV need to be implemented in order to encourage these late starters to overcome their handicaps. ASEAN itself has designed some; however, they are not very effective. During the 1980s Japan provided the original ASEAN members with bilateral ODA, especially in infrastructure building. Those ASEAN members have outgrown that assistance to be able to do it themselves now, while Japan has been constrained severely by a reduced ODA budget of 26 percent for the past five years, owing to its prolonged recession. However, throughout the 1990s Japan continued its ODA to CLMV, with emphasis shifted toward on technical assistance rather than infrastructure building. Japan International Cooperation Agency (JICA) implemented new effective policy assistance programs for Vietnam and Laos, which will be extended to Cambodia and Myanmar in the near future.<sup>11</sup>

It is possible to expand this bilateral technical assistance given by Japan to CLMV to include greater contribution by ASEAN, incorporating the human resources, training facilities, skills, and experience of the original ASEAN members. It would strengthen the solidarity of ASEAN. AMEICC is implementing the same type of assistance program, combining Japanese funds with human and physical resources of other ASEAN members on a small scale.

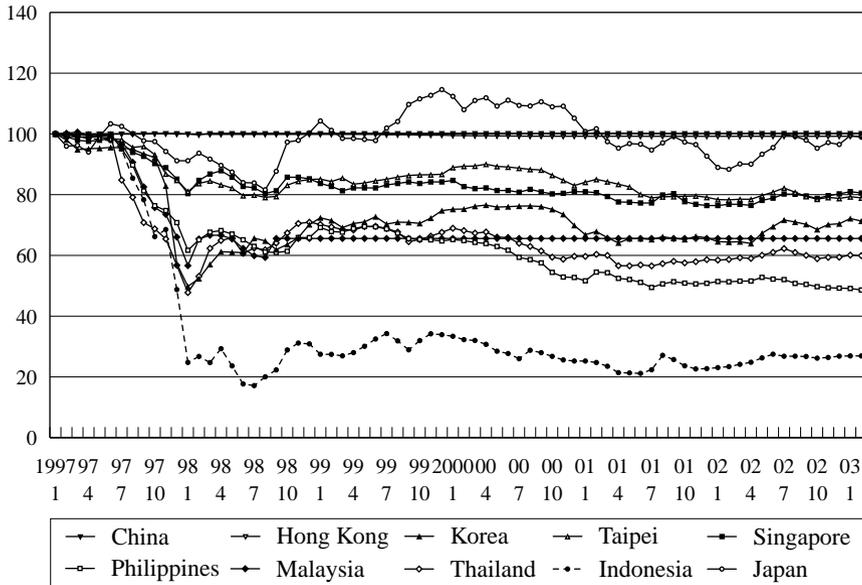
### **E. Financial Cooperation**

Increased interdependence among East Asian economies through steady expansion of trade and investment has been accompanied by rapid financial integration in the form of increased flow of foreign capital across money and capital markets in the region. Before the Asian crisis the dollar peg and capital-account liberalization supported this integration process. Financial cooperation had started to facilitate this integration but did not work in time to prevent the crisis. Recovery from the Asian crisis basically depends on the efforts of each country. Nevertheless, some regional financial cooperation has been implemented to support the fragile financial systems of ASEAN members. JACEP should incorporate this financial cooperation into its framework.

When the crisis hit, Japan was quick to propose an Asian Monetary Fund, but it never got off the ground, mainly because of objections from the U.S. and China. In November 1998 the Deputy Finance Ministers meeting agreed to the Manila Framework, later supported by the APEC Leaders' Declaration in Kuala Lumpur, which authorized the expansion of a loan system to prevent the spread of the crisis and strengthen the financial supervisory system. At the same Economic Leaders' Meeting Japan announced the Miyazawa Plan to give US\$30 billion in support to the crisis-hit economies. In September 2000 the APEC finance ministers in Bandar Seri Begawan reviewed the activities of the APEC forum on financial cooperation for the preceding year, which included a Voluntary Action Plan for Promoting Freer and More Stable Capital Flow, Development of Domestic Bond Markets, Bank Failure Management, Financial Regulations Training Initiative, Strengthening Corporate Governance, Insolvency Law, APEC Initiative on Fighting Financial Crises, and Electronic Financial Transaction System. In addition, ASEAN +3 met in Chiang Mai, Thailand in May 2001 and reached an agreement on currency swaps to provide a defense against the recurrence of a similar crisis. The agreement was designed to supplement emergency loans from the IMF and World Bank by improving regional cooperation. In late February 2003 the finance ministers of ASEAN+3 agreed to cooperate in nurturing the Asian bond market. Japan proposed establishing jointly with other members an "Asian Guarantee Organization" to warrant bonds issued by regional firms. Its aim was to encourage regional firms to secure long-term funds in their own currencies and reduce their dependence on the U.S. dollar funds.

In contrast, there has not been much visible progress toward a stable

**Figure 1.5**  
**Nominal Exchange Rates of Asian Currencies against US Dollar**  
**(1997.1=100, in US\$ per own currency)**



Source: Calculated from IMF, *International Financial Statistics*.

exchange-rate regime (Figure 1.5). While most Asian currencies have been allowed to float, the exchange-rate movement seems to require further efforts for stabilization. These Asian currencies have tended to converge to respective levels of depreciation from the pre-crisis levels. The Indonesian rupiah depreciated by roughly 75 percent, the Philippine peso by 50 percent, the Thai baht by 45 percent, the Malaysian ringgit by 35 percent, the Chinese yuan by 30 percent, and the Singaporean and Taiwanese dollars by 20 percent. The depreciation of other Asian currencies has certainly helped East Asian exports in the U.S. market and contributed to their quick recovery from the crisis. Nevertheless, I am concerned that, under the current float regime independently managed by individual monetary authorities, another speculative run on an Asian currency may incur a contagion to neighbor currencies and trigger competitive devaluation, resulting in another Asian crisis.

Some form of region-wide currency arrangement seems to be needed to assure traders and investors about exchange-rate stability in the region.

The de facto dollar peg has proved inadequate, given the diverse trade patterns, greater capital mobility, and inadequate monetary policies in each country. There is no guarantee that currency-board arrangements would be free from the same drawbacks as the pegging regime. Free floating carries its own dangers of possible excessive volatility and free-riding risks. Some form of managed exchange-rate system with a currency-basket peg would seem better suited to the needs of the region. Such a system needs to be combined with some form of currency cooperation among the U.S. dollar, the euro, and the yen.

### **F. Comprehensive Economic Partnership**

For successful implementation of our regional cooperation, we have to agree on a common vision and common action agenda. We also need to disseminate them widely so that they will be shared by many constituents in our region. As stated above, JACEP aims at not only the liberalization of trade and investment but also achieving in ASEAN and Japan a policy environment conducive to attracting both indigenous and foreign firms and achieving economic prosperity. It goes beyond the Japan-ASEAN FTA and incorporates bilateral FTAs and APEC. It is comprehensive in that sense, too. JACEP must provide a clear vision of the Japan-ASEAN relationship of the future.

### **G. Taking Advantage of APEC**

So far a wide variety of cooperative activities have been identified for JACEP. Individual member governments are supposed to pursue most parts of them at home by themselves. However, some of them may not be able to do so alone, and they expect help from fellow members. Japan and ASEAN need not institutionalize all such assistance from the beginning but can take advantage of the APEC forum. All members of ASEAN except for Cambodia, Laos, and Myanmar participate in APEC.

Its cooperation activities are based on the principle of voluntary participation and are not equipped with legally-binding enforcement such as FTAs, let alone something like the tightly structured EU. Its liberalization program has not led to much achievement, owing to a lack of legally-binding enforcement and negotiating mandate, and only provides technical assistance for liberalization and plays the role of a catalyst for liberalization by maintaining momentum for liberalization in the region. However, in facilitation, technical cooperation for structural reform, and

financial cooperation, its forum has made progress by taking advantage of the composition of APEC of both developed and developing members. Under the principle of voluntary participation and flexibility, an APEC task force is proposed and organized by one or few members and participated in only by interested members. Even non-members are welcome to participate.

## VI. Prospects for Closer Research Institute Cooperation

IDE has developed close cooperative relationships with research institutes in ASEAN member countries and conducted joint studies on various development issues of our common interest for the past forty years. They include the *International Input-Output Table*, the *Index of Comparative Advantage in Manufacturing*, etc. We have also continued active personnel exchanges during these years, which help us to implement this JARIM initiative. Now we shall renew this cooperative network with JACEP. Our cooperation with ten ASEAN research institutes has proved very useful in conducting the present type of joint research, which requires good information and profound understanding of individual member economies.

### Notes

- 1 Speech by Prime Minister of Japan Junichiro Koizumi, “*Japan and ASEAN in East Asia—A Sincere and Open Partnership—*,” January 14, 2002, Singapore.
- 2 AEM-METI (2002), paragraph 5.
- 3 Koizumi (2002).
- 4 This article was originally drafted and circulated to our ASEAN participants in order to encourage them to express their perceptions of JACEP. This volume includes ten articles on individual ASEAN participants’ views on JACEP. This article was revised so as to incorporate figures and tables that the author prepared for public presentation at the symposium on July 23, 2003.
- 5 See Hiratsuka (2003).
- 6 IDE-JETRO, *Survey of International Competitiveness of Selected ASEAN Industries*, submitted to AMEICC in 2001.
- 7 Chinese Premier Zhu Rongji proposed an FTA among China, Japan and Korea at the time of the Phnom Penh meeting, but Prime Minister Koizumi did not respond to it eagerly.
- 8 For further details, see Yamazawa (2003).

- 9 The ASEAN-wide network in Figure 1.4 applies to such products as electronics and precision instruments that are light and cheap to transport. In contrast, auto parts and other heavy products are interchanged directly on the transport carrier to reduce transport cost. The allocation of parts to individual countries is made so as to secure two-way transportation by ship and/or truck.
- 10 See Yamazawa and Hiratsuka (2003).
- 11 See MPI and JICA (1996, 1997, 1998, and 1999) and CPC and JICA (2002).

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