



**Japan's Initiative for
Economic Community
in East Asia**

June 2003

The 23rd Policy Recommendations
of the JFIR Policy Council

Table of Contents

Introduction	1
The Policy Recommendations	8
[Foundation of the ECEA and Cooperative Relations with the US and Other External Regions]	
1. Countries and Regions in East Asia should Propose a Draft Treaty for the Establishment of the Economic Community in East Asia in the Year of 2005, and Address This Idea to the World	8
2. Japan, South Korea and Singapore should Establish the Free Trade Area in East Asia in the Year of 2005 in order to Perform a Pace-setting Role in the Establishment of the ECEA	9
3. The ECEA Treaty should Come into Effect in the Year of 2007, and Its Executive Body, the Organization for East Asia, should be Established Accordingly	9
4. It is Hoped that China is Expected to Play a Leading Role In the ECEA, with its Immediate Structural Reforms	10
5. The ECEA Member Countries and Regions should Integrate Their Separate FTAs by the Year of 2015, and Form a Custom Union.	10
6. It is Important for the ECEA to Promote Close Coordination with APEC Member Countries, Particularly with the United States	11
[Industry, Environment and Energy]	
7. The ECEA should Establish the Agriculture, Forestry and Fisheries Center in the ECEA region to Cooperate in Promoting the Modernization of Agriculture and Other Industries that People Rely on for Their Livelihoods	12
8. The ECEA should Launch the Environmental Development Committee to Tackle the Environmental Problems, which have Different Implications between Advanced and Developing Countries	13

9. The ECEA should Establish the Organization for Energy in order to Closely Cooperate for Maintaining Stable Supply and Security of Energy 13
10. The ECEA should Establish the Industrial Technology Development Center in order to Closely Cooperate for Upgrading the New Industrial Infrastructure on IT Industries 14
11. Standardization of the Basic Systems of the Economy and the Society within the ECEA should be Promoted, and the Mutual Recognition of Qualifications and Criteria Concerning People and Goods should be Endorsed 15
12. The Liberalization of Human Exchange, Especially the Opening of Labor Markets by the Advanced Countries and Regions, with a Premise to Share the Common Social Values, are Essential for the Realization of the ECEA 15

[Investment and Currency]

13. Standardization of the Financial and Capital Markets within the ECEA should be Promoted and the Stimulation of Investment in the area should be Encouraged Through such Measures as Issuance of Asian Currency 16
14. The Currency Cooperation Headquarters should be Established in order to Protect Currencies and to Promote Mutual Support Mechanisms in the ECEA. The Establishment of a Monetary Fund in the Future should be Considered 17
15. The Date for the Inception of a Common Currency should be Set in the Year of 2025. Japan, South Korea, Singapore and China must Play Leading Roles in Realizing This Goal 18

Introduction

This set of policy recommendations call for the establishment of an Economic Community in East Asia (to be known as the "ECEA") among countries and regions in East Asia, and appeal for worldwide understanding of this concept. Above all, we wish to convince the people of Japan that Japan is in a position to keenly promote this initiative.

In East Asia — sometimes referred to as the world's production base — close mutual economic links, with Japan at their hub, have been consolidated by the process of industrial development. In the midst of the global trend for regionalism embodied in the deepening and widening of the European Union (EU) and the advent of the Free Trade Area of the Americas (FTAA), East Asia has also witnessed developments such as the conclusion of numerous free trade agreements (FTAs) and the Chiang Mai Declaration. Integrating these initiatives with a single philosophy and purpose is in accordance with economic rationality.

Specifically, regarding East Asia as a single economic zone and establishing an economic community for it would, firstly, contribute to the further industrial development of the ECEA member countries and regions; secondly, revitalize the flow of capital and stabilize currencies; and thirdly, facilitate a transnational and cross-regional response to environmental and energy problems —new issues that the mankind must tackle in the 21st century.

The stimulated interaction of people and information that would arise from the establishment of an economic community would lead in turn to the creation of a new culture within the region. We fervently believe that the ECEA would ultimately bring about the realization of prosperity and peace in East Asia, and at the same time contribute to the promotion of these goals across the rest of the world.

The basis of the ECEA would comply with the World Trade Organization (WTO) system, and the concept of FTAs is in line with the WTO framework. It would also seek to build a wide-ranging cooperative relationship that includes the reform of agriculture within the region, the integration of industry and IT standards, mutual

recognition of major types of certification, criteria and authentication, and the opening up of labor markets. Also the ultimate goal of the ECEA is the creation of a common currency through the cooperation of all the capital and financial markets.

The 2 billion inhabitants of the East Asian economic zone account for approximately one third of the world's population. Much of the zone is in the monsoon belt. Many of countries in East Asia have long coastlines, and have traditionally been dependent on agriculture, forestry and fishing. Whilst these countries do enjoy some common cultural aspects, these are nowhere near the well-established ties found in Europe. Nearly all the countries and regions have at one time suffered from being colonies or semi-colonies of imperialist countries: Japan alone was a colonial power. As such, there is a wide diversity in the histories of all these countries and regions.

The ECEA should seek to be a forward-looking economic community, one that provides a response to the challenges of agriculture, forestry, fisheries, the global environment and energy, whilst also recognizing the peculiarities of the economic zone. Of course its goal would be an enhancement of economic levels. However, considering the peculiarities of East Asia, the ECEA also needs to promote such development, which is considerate to the villages and rural areas that are the backbones of many people's livelihoods. In other words, the introduction of industrialization and its market-based principles are not the sole goals of the ECEA. In this sense, the ECEA would seek to be the proponent of ideal local communities that are rich in humanity and make the most of their natural environments. The ECEA would, of course, be open to the whole world, not isolated from it.

Following the Second World War, Japan has been closely involved with the countries in this economic zone, providing investment and technology through the private sector and through the Official Development Assistance (ODA) from the government for many years —over 40 years in the case of some countries of the Association of South East Asian Nations (ASEAN). To build on these achievements and to promote regional social development that transcends mere industrialization, we must devote all our energies to the establishment and the development of the ECEA. This could be a step that would carve out a new ethos and new avenues for the 21st century, and for Japan itself.

With the exception of some countries, most member countries in this economic zone are still largely in a state of economic transition; there is a large national and regional gap in development levels. Japan and some other countries are also currently grappling with difficult economic and fiscal situations. These are issues that need to be challenged in the years to come, and although they will necessitate great resolve, we believe that these issues can be surmounted.

The clear will and the firm leadership of politicians and opinion leaders in the ECEA member countries and regions, fuelled by multilateral and multi-tiered interaction between the public and private sector, will be indispensable in making the ECEA a reality. Japan must understand the importance of its own actions in realizing the ECEA.

Following sections describe the details and the process of materializing the ECEA with 15 Policy Recommendations. The set of Policy Recommendations offered here can be divided into following classifications:

【Foundation of the ECEA and Cooperative Relations with the US and Other External Regions】	1, 2, 3, 4, 5, 6
【Industry, Environment and Energy】	7, 8, 9, 10, 11, 12
【Investment and Currency】	13, 14, 15

Let us also add that this English version of the 23rd Policy Recommendations of the Policy Council is a reproduction in English of "Summary" part only of the same Policy Recommendations in Japanese. The full text of the Policy Recommendations in Japanese, which includes not only the Introduction and the Summary but the Body as well, is printed and published separately, and can be viewed on the web site of The Japan Forum on International Relations at <http://www.jfir.or.jp/>.

The Policy Council of The Japan Forum on International Relations first met to consider these proposals on 1 July 2002, and adopted them in the final form at its fourth meeting on 25 March 2003. During this time the Task Force headed by **Mr. Yoshida Haruki**, President of The Yoshida Labo for Economics and Industry, Inc., **Prof. Kimura Yukio**, Professor of the Mejiro University, **Mr. Hisano Hitoshi**, Chief Credit Reviewer, Credit Review Division, Mizuho Corporate Bank, Ltd., **Mr. Higashi**

Kazuma, Staff Writer of Economic News Department, The Yomiuri Shimbun (May 2002 - September 2002), and **Mr. Aoki Hideya**, Deputy Economic Editor of The Yomiuri Shimbun (October 2002- to present), assisted the Policy Council in preparing the final draft of the recommendations.

Once this final draft was completed, it was sent to all members of the Policy Council, and the following 74 members of the Council indicated their approval of its contents. Their names appear below as signers of these recommendations.

On this occasion, we would like to thank Mr. Hata Makoto, Adviser for International Agricultural Affairs, Japan Livestock Technology Association (at the time), and Prof. Tanaka Soko, Professor of the Tohoku University for their valuable opinions expressed at the second meeting of the Policy Council. We would also like to mention the helpful insights we have received from senior officials of our government, who willingly granted us their precious time to attend our meetings as individuals in their advisory capacity of Policy Council Counselors.

Let us also add that the views expressed in these recommendations do not represent those of Mr. Hata Makoto, Prof. Tanaka Soko or the ministries and agencies represented by the Policy Council Counselors and that sole responsibility for the contents of the recommendations lies with those members of the Policy Council who signed them.

June 2003

Signed by

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[In alphabetical order]

The Policy Recommendations

【Foundation of the ECEA and Cooperative Relations with the US and Other External Regions】

1. Countries and Regions in East Asia should Propose a Draft Treaty for the Establishment of the Economic Community in East Asia in the Year of 2005, and Address This Idea to the World

We recommend that countries and regions in East Asia should propose a draft treaty that details the structure of the Economic Community in the year of 2005, and its ideas and fundamental concepts should be addressed throughout the rest of the world. Our tentative definition of countries and regions in East Asia is those located in the eastern part of Asia and wishes to participate in the community. Specifically, the community would include the ten ASEAN member countries, as well as Japan, China, South Korea, Taiwan and Hong Kong. It is strongly hoped that these members will share a common set of values based on freedom, equality and peace.

The ethos of our set of recommendations is the establishment of a 21st century-type economic community, the ideal community that will create an economic zone that will also be rich in a green and humanity, whilst fostering development of industry. The ECEA is a growth-oriented economic community that has comprehensive structure. All member countries and regions can start on a task of any area where they are able to participate, whenever they have made the requisite preparations. The ECEA will be an open organization, not one that denies the further participation of non-member counties or regions in East Asia once the treaty comes into effect.

Japan, which already has close ties with the potential members of the ECEA through the private sector -in trade, capital transactions and technical transfers-as well as through ODA, should play a primary role in promoting the establishment of the ECEA.

2. Japan, South Korea and Singapore should Establish the Free Trade Area in East Asia in the Year of 2005 in order to Perform a Pace-setting Role in the Establishment of the ECEA

We recommend the launching of the Free Trade Area in East Asia (the FTAEA for short) in the year 2005. Japan and Singapore have strengthened their economic relations by issuing the Economic Partnership Agreement (EPA) on November 30, 2002, whose agenda includes the Free Trade Area (FTA). In July 2002 a Japanese-Korean industry-academia-government research group also started to research on the possibility of the bilateral FTA. As the new administration in South Korea has inaugurated, inter-governmental negotiations should be commenced immediately. South Korea also started negotiations aiming at concluding an FTA with Singapore in November 2002. We urge that the three countries accelerate these developments and integrate them into a single free trade area. The FTAEA would then perform the role as a vital core of the ECEA, the growth-oriented type of economic community.

Also in order that China can play a leading role in the early stages of the ECEA, these three FTAEA countries will need to provide the full-fledged support for China's economic reforms adjusting its legal and economic structure consistent with rules of the World Trade Organization (WTO).

3. The ECEA Treaty should Come into Effect in the Year of 2007, and Its Executive Body, the Organization for East Asia, should be Established Accordingly

The establishment of a permanent executive body, the Organization for East

Asia (OEA for short), will be necessary in order for the growth-oriented economic community to encourage its development. The OEA would perform the secretarial function of supporting summit meetings (the supreme decision making body) and ministerial meetings (where individual issues would be discussed), and further, would become an executive body expected to have certain administrative functions in the future.

We recommend that the ECEA treaty comes into effect in the year of 2007, and that the OEA is established prior to this date. The three FTAA countries should be at the center of the OEA's launch, and Japan in particular should play a proactive role in this process.

4. It is Hoped that China is Expected to Play a Leading Role in the ECEA, with Its Immediate Structural Reforms

The ECEA without the participation of China is unthinkable, from a viewpoint of political, security and economic considerations. Participation of China, a major power in East Asia, would be prerequisite for the ECEA.

China, however, is a relatively new player in the field of international economic society, and we urge China to improve its legal and economic structures immediately to perform the leading role in the ECEA. Also, due to its massive population, there exist regional gaps in the economic development within China. It may be necessary to make classification among each region for entering the FTA depending on its economic levels. For example, Special Economic Zones in the coastal area could enter the FTA in the first stage. The implementation of these ideas would depend on China's own policy adjustments.

As Hong Kong and Taiwan, once known as Asia's Newly Industrialized Economies (NIES), have joined the WTO as independent economic areas, they should also participate in the ECEA in its equivalent capacity. With the absence of Taiwan, the region's fourth largest economy, this concept for the 21st Century might not be accomplished. We would particularly ask for China's appreciation on this point.

5. The ECEA Member Countries and Regions should Integrate Their Separate FTAs by the Year of 2015, and Form a Custom Union

A number of bilateral FTAs are currently being concluded in the ECEA area, principally around Japan, China and the ASEAN countries. Japan should establish the FTAEA as a core initiative and proceed further FTA negotiations with candidate countries. These FTAs should not be limited merely to the liberalization of trade and investment in goods and services. They should also be EPA, wide-ranging and comprehensive cooperation pacts in various fields, addressing the liberalization of agriculture as one of the common regional issues including food self-sufficiency and environmental conservation.

We recommend that the ECEA member countries integrate the bilateral FTAs with which each member country is proceeding by the year of 2015, establish a comprehensive free trade area, and simultaneously form a customs union.

6. It is Important for the ECEA to Promote Close Coordination with APEC Member Countries, Particularly with the United States

As an open economic community, the ECEA should place importance on its relations with countries outside the ECEA region. Coordination with the Asia Pacific Economic Cooperation (APEC), particularly with the United States, is important for the ECEA, since the ECEA would form part of the Asia-Pacific economic area. From this viewpoint, APEC would become one of its bedrocks. The US has been deeply engaged in the security of the East Asia and Pacific region with its relations with Japan, South Korea and Taiwan at the core. In economic terms too, the balance of the US's direct investment in East Asia also outstrips Japan's, and many of countries and regions in East Asia have pegged their currencies to the US dollar.

Though the US has hitherto adopted a tepid approach to FTAs, its security considerations and the anti-terrorism measures have given the US an impetus that the FTA could complement the alliance relations, and further strengthen its

relations with countries and regions in East Asia. For the ECEA, collaboration with the US and other Pacific Rim countries is indispensable if we are to achieve prosperity and peace throughout the Asia Pacific region in the 21st century. In addition, since this is also in the national interest of the US, we would urge the US to cooperate eagerly with the ECEA.

【Industry, Environment and Energy】

7. The ECEA should Establish the Agriculture, Forestry and Fisheries Center in the ECEA Region to Cooperate in Promoting the Modernization of Agriculture and Other Industries that People Rely on for Their Livelihoods

Today, it was no longer acceptable for a country like Japan that vigorously pursues free trade to make excessive claims for the anomalous treatment on agricultural trade. In order to ensure the survival and development of Japanese agriculture, we must not be distracted by domestic interests and end up neglecting agricultural reform. Now is the time that Japan must undertake a set of bold reforms. Non-Trade Concerns that the EU and Japan assert, such as environmental protection and food security, are in fact common issues across the ECEA region; Japan's agricultural reforms must therefore be pursued from this viewpoint of the ECEA region. In particular, the issue of food security, namely that of food self-sufficiency, must be considered from this perspective.

Japan should provide support for the countries with technically less advanced agricultural systems whilst at the same time consider possibility of accepting agricultural workers from these countries. These measures would ensure the transfer of skills and boost productivity within the ECEA region. The ECEA member countries and regions should eagerly pursue the development of a unique kind of agriculture, the goal of which is the maintenance and development of a distinct food culture, and try to balance this development with the sustenance of their local source of livelihood. They must also be aware that agriculture is a major factor in

environmental problems, and establishment of a common agricultural policy that places an emphasis on the environment from the viewpoint of the whole of East Asia should be pursued.

In order to tackle these and other resource related issues, we recommend the establishment of the East Asian Agriculture, Forestry and Fisheries Center, which would include an agriculture fund, and operate as an organ of the OEA.

8. The ECEA should Launch the Environmental Development Committee to Tackle the Environmental Problems, which Have Different Implications between Advanced and Developing Countries

With a rapid industrialization and a shift towards a mass-consumption society, measures to redress environmental problems within the ECEA will be extremely important. Though economic development and environmental problems were portrayed as global common issues at the World Summit on Sustainable Development (the Johannesburg Summit), the environmental problems in the ECEA member countries and regions, where industrialization and the consumer society are already taking off, have dual characteristics between advanced and developing countries. The range of issues includes global warming, air and soil pollution, the handling of toxic substances, the restoration of forestry and fishing resources, water conservation, food safety standards and improvements in public health.

We recommend the establishment of the East Asian Environment and Development Committee, as an organ of the OEA, so that the ECEA member countries and regions can tackle the wide range of environmental problems as an economic zone. Japan should exercise leadership in realization of the establishment of the East Asian Environment and Development Committee.

9. The ECEA should Establish the Organization for Energy in order to Closely Cooperate for Maintaining Stable Supply and Security of Energy

According to the International Energy Agency (IEA), the energy demand in the ECEA region in 2020 will be 2.2 times larger than in 1997, due to the economic growth. It is also expected that all of the countries and regions in the ECEA will become net oil importers. The IEA estimates that the level of dependence on oil in the ECEA will rise from 60% in 1997, to over 80% in the year of 2020.

Ensuring a stable supply of oil, developing natural gas and its infrastructure, promoting the safety and expansion of nuclear power, and developing alternative energies are common key issues for the shared economic growth of the ECEA. The fact that a shortage of energy resources restricts economic development should not be viewed as a source of conflict of interests among the member countries and regions, but should be viewed as an opportunity for enhancing multilateral cooperation in price stabilization and crisis response

We recommend the establishment of the East Asian Organization for Energy as an organ of the OEA. The organization would deal with the joint storage of oil, security of the sea-lanes of communications, the natural gas supply and the infrastructure, the safety of the nuclear power and the management of nuclear wastes, and the further development of alternative energies within the ECEA area. Japan must exercise leadership in realization of the establishment of the East Asian Organization for Energy.

10. The ECEA should Establish the Industrial Technology Development Center in order to Closely Cooperate for Upgrading the New Industrial Infrastructure on IT Industries

In the 1990s the East Asian countries started to become the world's production plant for both software and hardware which centered on IT industries, with a backdrop of standardization of products and manufacturing process. East Asian

countries themselves contain competing industries for exports to the European, US and Japanese markets, and they have gaps in the industrial development. However, the demand from the ECEA region including China is expected to grow in the future. This trend will lead to the idea of Pan-East Asian industries and companies that are developing what is known as a Cross-national Production Network (CPN) in the ECEA region—a network for R&D, material, parts and software production, assembly, sales and maintenance bases—as a new instrument that will promote the division of labor within the ECEA.

The ECEA member countries and regions should encourage industrial technology transfer; provide mutual recognition of industrial standards and certification; standardize policy on the protection of intellectual property rights; attempt to integrate industrial and information-communication standards; and aim at the establishment of de facto ECEA standards for both software and hardware. We recommend the establishment, as an organ of the OEA, of the East Asian Industrial Technology Development Center and the enhancement of the industrial infrastructure within the ECEA.

11. Standardization of the Basic Systems of the Economy and the Society within the ECEA should be Promoted, and the Mutual Recognition of Qualifications and Criteria Concerning People and Goods should be Endorsed

In order to seek the enhancement of the ECEA, the basic systems of the economy and the society should be standardized, and the major qualifications should be mutually recognized in all the countries and regions. Mutual Recognition Agreements (MRAs) that provide both recognition of standards for such goods as industrial products and the procedures for the conformity assessment of these goods. Economies and societies within the ECEA region are greatly diverse and the stage of economic development within it also differs. We must remove the barriers that are obstructing the free movement of people and goods within the area in order to strengthen the cooperation between economies and societies and to achieve the rapid integration.

The three FTAA countries, which would play a pace-setting role within the EAEC region, should establish a mutual recognition system for professional qualifications—those of lawyers, certified public accountants, securities analysts, and other professions that play a crucial role in supporting the economic society—and expand this system into the whole ECEA region. Well-developed MRAs, which would remove non-tariff barriers, reduce business costs, and encourage trade.

12. The Liberalization of Human Exchange, Especially the Opening of Labor Markets by the Advanced Countries and Regions, with a Premise to Share the Common Social Values, are Essential for the Realization of the ECEA

The complete liberalization of the human exchange within the area is essential for the matured economic communities such as the policy adopted by the EU. It would not be easy, however, to achieve the liberalization in the ECEA due to its widely varying social matrices. Despite this background, the general trend shows that the global-scale human exchange will be more common in the 21st century, and especially, the demand for increased human exchanges within the regional economic sphere will be grown accordingly.

The ECEA should regard this trend positively, and make efforts to achieve the complete liberalization of the human exchange within the ECEA. The opening of labor markets in the advanced countries and regions, with premises on the sharing of social standards such as lifestyle and public health, must be accepted as a matter of course.

Japan in particular, faced with an ageing society and a low birth rate, can no longer afford to avoid accepting workers from overseas. In its position as a leader of economic integration in the area, Japan must put in place the relevant legal procedures, acceptance criteria, and basic operational policies, and it should open the door to workers from overseas. For example, the acceptance of nurses as technical staff and other professionals, which is currently gaining much attention, should be achieved swiftly and positively as the leading case. The introduction of a Japanese version of the US green card system granting permanent resident status

to foreigners, and, in the future, the expansion of the number of immigrants accepted, must also be considered.

[Investment and Currency]

13. Standardization of the Financial and Capital Markets within the ECEA should be Promoted and the Stimulation of Investment in the Area should be Encouraged through such Measures as Issuance of Asian Currency Bonds

FTAs, which seek to liberalize the flow of goods and assets, inevitably require the liberalization of the flow of capital for the development of the ECEA. In order for this region's pooled capital to be injected into the emerging businesses of East Asia, it will be necessary to promote the standardization of capital and financial markets systems based on the free flow of capital between member countries and regions, and to achieve the complete liberalization of investment in the ECEA region. We should also expand the primary and secondary markets for the diverse East Asian currency bonds, and stimulating these markets.

This would also facilitate the growth of several international financial centers within the ECEA region, the presence of which would strengthen the economic community itself, and also contribute to the independence and stability of the countries and regions' currencies, which are indispensable to economic growth.

International financial centers are usually the places of direct finance. In the ECEA, however, where many of the member countries and regions are still developing, an indirect financing capability enabling the accumulation and capitalization of small amounts of pooled capital is vital.

14. The Currency Cooperation Headquarters should be Established in order to Protect Currencies and to Promote Mutual Support Mechanisms in the ECEA. The Establishment of a Monetary Fund in the Future should be Considered.

As mentioned, the liberalization of the flow of capital within the ECEA will inevitably encourage the independence of the currencies of the member countries and regions, in other words, the independence from the US dollar. How exactly protecting the currencies of the ECEA member countries and regions until the realization of an East Asian common currency is a primary agenda because the smooth economic growth would not be possible without stable currencies.

We recommend the establishment of the Currency Cooperation Headquarters in East Asia as an organ of the OEA. The Currency Cooperation Headquarters would be expected to serve the following three functions. First, it would promote the deepening and widening of the bilateral foreign currency swaps between key countries, which was realized in the Chiang Mai Declaration. Second, it would provide supports for the ECEA countries and regions to carry out transactions in both their own currencies and other currencies within the ECEA region, and to promote the issuance and the circulation of East Asian currency bonds. Third, it would draw up strategies for coordination with the US dollar and the euro. These raise the prospect of the establishment in the future of an East Asian Monetary Fund and the introduction of an East Asian currency basket system. Japan's continuous leadership will be indispensable for this initiative including taking a lead in promoting the internationalization of the yen.

15. The Date for the Inception of a Common Currency should be Set in the Year of 2025. Japan, South Korea, Singapore and China must Play Leading Roles in Realizing This Goal

The ECEA will approach the final stage of its completion with the realization of launching the common currency since the economic communities become complete

through the standardization of fiscal, economic and financial policy. The integration of financial policy, for which the launching of the common currency is a prerequisite, will take a lead among other measures. We recommend that the year of 2025 should be set as a target for the inception of a common currency in East Asia. The currency must be strong.

The introduction of a currency basket system for the ECEA member countries and regions mentioned above, followed by tactical currency integration between Japan, South Korea and Singapore, should be realized in the first stage of currency integration. Currency integration with the emerging economic giant of China will require an assessment of its economy's institutional maturity, but we should strive to realize it at an early stage. As another crucial prerequisite to currency integration, there is a strong call for Japan to reconstruct its own economy and finances immediately.

There can be little doubt that after the realization of the common currency, we will need imaginative powers that transcend economic issues, to achieve the East Asian ideals towards the mid- 21st century.



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