

Economic Cooperation as a Step toward an East Asian Community

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Japan's policy of economic cooperation with the Association of Southeast Asian Nations (ASEAN) has undergone dramatic change in the last three and a half decades. There are several reasons for this. First of all, from a small, war-torn economy, Japan has transformed itself to the second largest economy in the world, which has allowed it to become outward-looking, develop partnerships, and initiate regional arrangements.¹ It has restructured its industrial base, moving from labor-intensive to capital-, technology-, and knowledge-intensive sectors, from goods to services, which has forced Japan to expand its economic relations with other countries, particularly its Asian neighbors, in order to stay competitive with the world market. Increased economic interdependence in the region has been the result of these new relations.

ASEAN countries have grown as well during this period, progressing from poor, agrarian economies into middle-income and, in some cases, high-income newly industrializing economies (NIEs) and near-NIEs. As this was taking place, there was enormous intra-regional expansion in trade and investment among the original five and later among the six ASEAN countries; this was complemented by increasing economic relations between ASEAN countries and the rest of the world, in particular China, Japan, South Korea, and the United States. When, during the 1990s, Cambodia, Laos, Myanmar, and Vietnam joined the ASEAN-6, the association's bargaining position vis-à-vis the rest of the world was strengthened, even as large economic gaps between the four new member nations (ASEAN-4) and the original ASEAN-6 introduced new challenges.

The rapid pace of industrialization and urbanization have forced all ASEAN countries to confront the social issues of poverty, regional and

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intra-country disparities in income, HIV/AIDS, and environmental degradation. The 1997–1998 Asian financial crisis exposed serious problems in economic and political governance. The severity of these issues as well as the steps taken to resolve them have varied from country to country.

External to ASEAN, economic expansion in China and India has been significant. In the last two decades, China has grown at an annual average rate of 8 percent, India at 5 percent. Noting this, individual ASEAN countries (Singapore being a case in point) negotiated bilateral free trade and economic cooperation agreements with countries outside ASEAN. Regional arrangements followed: China signed a Framework Agreement on ASEAN–China Comprehensive Economic Co-operation, which was followed by Japan’s initiative for an ASEAN–Japan Comprehensive Economic Partnership (AJCEP). These followed the emergence of regional and sub-regional organizations. APEC (Asia-Pacific Economic Cooperation)—which encompasses twenty-one countries on both sides of the Pacific—just concluded its fifteenth ministerial meeting and its summit in Bangkok. The ASEAN Regional Forum (ARF), an informal multilateral dialogue on regional security, has a membership of twenty-two countries and the European Union and has been meeting since 1994. With greater contact, greater economic cooperation has been developing between ASEAN and, in particular, countries of East Asia. In 1998, the process known as ASEAN + 3, involving the ten members of ASEAN and China, Japan, and South Korea, was instituted. ASEM (Asia–Europe Meeting), with membership of twenty-five countries and the European Commission, represents a venue for dialogue and cooperation between the European Union and ten Asian countries; the group has met since 1996.

Before this backdrop, with its changing political and economic dimensions, Japan has acted to deepen its cooperation with ASEAN—collectively as a regional organization and individually with specific countries.

ASEAN–Japan Trade and Investment Relations, 1951–2003

Rapid Expansion of Trade, 1951–1970

With the end of World War II, Japan embarked on a five-year economic reconstruction period, laying the foundation for what would be two

decades of sustained economic and trade expansion. In 1951, Japan, looking for opportunity beyond its shores, began to see East Asia as a market for its exports and as a source of raw materials.

In 1950, Japan's gross domestic product (GDP) was 1.2 percent of the combined GNP of the world's industrialized economies; by 1970 that figure had risen to 3.4 percent. It was the highest rate of growth the country had experienced since the Meiji Restoration of 1868. The two decades saw a steady restructuring of the Japanese economy—moving from primary sector to secondary and tertiary sectors and, with its manufacturing industries, shifting from labor-intensive and low-value added consumer products to capital-intensive and higher-value added products and capital goods. This restructuring was reflected in Japan's competitiveness in those sectors in the international market (see Hirono 1980).

In 1961, the government of Japan announced a policy of trade liberalization. This was followed in 1967 with a policy that liberalized foreign investment, which resulted in an increasing integration of Japan into the world economy. These policy shifts were in line with, and were promoted under, the Kennedy Round of multilateral trade negotiation during the 1960s.

Throughout the 1950s and 1960s, East Asia and North America were the major markets for Japanese exports, comprising roughly two-thirds of total exports. By 1970, the United States had replaced East Asia as Japan's largest export market. Exports to East Asia, beginning its own industrialization in the 1960s, were dominated by such industrial materials as synthetic fibers, iron, and steel as well as machinery and equipment, supplanting exports of processed food and textiles, which in 1965 constituted over 50 percent of Japanese exports to the region.

While East Asia, an important market for Japanese manufactured exports, fed the rapidly expanding Japanese industries with necessary minerals, agricultural materials, and crude oil, in the late 1960s the region became an increasingly important source of supply of foodstuffs, textiles, and other labor-intensive products. This was a reflection of the changing comparative advantage between East Asia and Japan. Because of this vertical specialization, the balance of trade favored Japan. This did not please countries in East Asia. They demanded greater Japanese imports of agricultural and forestry products and light-industry products, in which they had the comparative advantage and on which Japan imposed high tariffs or quantitative restrictions so as to protect domestic interests. As a result, tensions emerged in the 1970s between Japan and East Asia, similar to the

tensions between Japan and the United States over textiles in the mid-1960s and over iron and steel products in the late 1960s (see Hirono 2002a).

Rapid Expansion of Foreign Investment, 1971–1990

In 1967, the Association of Southeast Asian Nations was formed, as Indonesia, Malaysia, the Philippines, Singapore, and Thailand joined forces to comprise the original five members of ASEAN. Japanese foreign policy makers began to view East Asia in a different light. The same can be said for Japanese industrialists, who, confronted with the shortage of unskilled and semiskilled labor, the pressure of rising wages, and the rising cost of industrial locations at home, began to view ASEAN countries as a source of supply of cheap labor and resources, including land.

The early 1970s saw notions of “resources nationalism” emerging in response to the rapid industrialization of Japan, western Europe, other OECD (Organisation for Economic Co-operation and Development) countries and developing regions of the world, such as Latin America and East Asia, and the price of essential natural resources rose sharply. In the first energy crisis of 1973–1974, the Organization of Petroleum Exporting Countries (OPEC) quadrupled its crude oil prices; in the second energy crisis of 1979–1980, prices were doubled (Chng and Hirono 1984). Japanese industry responded to these circumstances with the innovation of labor- and resource-saving technologies and a shift to capital- and technology-intensive products, but at the same time it began to invest in ASEAN and neighboring East Asian countries, where labor was cheap and efficient, resources abundant, and the domestic market rapidly expanding.

This move coincided in Japan with a growing environmental consciousness of air, water, soil, and noise pollution, particularly in urban areas—forcing industry not only to invest in anti-pollution measures at home but also to move to ASEAN countries where environmental laws posed less difficulty. Japanese direct investment overseas rose sharply during this period, partly reflecting the yen’s appreciation against the U.S. dollar.

Trade disputes with the United States and with the European Economic Community (EEC) nations—as regards textiles, steel, automobiles, electrical machinery, and precision equipment—were another factor, limiting Japanese exports to these industrial countries. By investing in East

Asian countries, Japan received the double benefit of getting around Asian protectionist walls and having offshore production from which to export products overseas.

Eager for industrial development, developing countries in East Asia shed their fear of Japanese domination and economic colonization and changed their policies toward multinational corporations. They greeted them with fiscal and financial incentives, even granting “no-strike” guarantees. They particularly favored multinationals investing in the manufacturing sector, multinationals which brought with them advanced technologies and the potential for exports (Okuzumi, Calder, and Gong 1992).

The rapid increase in Japanese direct investment in East Asia—in ASEAN countries in particular—was accompanied by an equally rapid expansion in Japanese trade; the period also saw fast-growing trade among ASEAN countries. In pursuit of greater competitiveness in the world market, multinational corporations from Japan—and elsewhere—effected an intra-corporate division of labor among their production facilities in different countries. The result was that a fairly high proportion of international trade was, in fact, intra-corporate trade. During the period 1981–1992, the intra-East Asian exports of all East Asian countries as a percent of their total exports increased from 35.7 percent to 46.8 percent (see Hirono 1979; and Ng, Hirono, and Narongchai 1987).

Various ASEAN policy measures contributed to this trend. An example was the ASEAN Joint Industrial Enterprises program, which provided both fiscal incentives and preferential tariff arrangements among ASEAN countries. By the late 1980s, intra-ASEAN trade was expanding more rapidly than the extra-ASEAN trade, and the annual flow of intra-ASEAN investment exceeded Japanese investment in ASEAN countries—again helped by the horizontal division of labor among multinational corporations in ASEAN countries.

Noting this trend, Japan—far more than other countries—sought to promote outward-oriented industrialization policies in East Asia. It did this by focusing its official development assistance (ODA) on development of economic infrastructure—such as highways, ports, power generation and distribution, and irrigation—as well as social infrastructure—such as education, health, and sanitation. Japanese aid thus contributed significantly to the modernization of the productive capacity of ASEAN countries. At the same time, it was in Japan’s vital interest to see that East Asia remained politically stable, economically viable, and socially attractive

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to investment, including its own. This was reflected in a number of policy measures regarding ASEAN economic cooperation (Blaker 1984).

Hopes, Crises, and Uncertainties, 1991–2003

The 1990s began on a high note for ASEAN and other East Asian economies. The phrase the “East Asian miracle” was coined by the World Bank. Publications referred to the twenty-first century as “the Asian and Pacific century.” Even as late as 1996, the growth forecasts by the Asian Development Bank in *Emerging Asia* were rather high. And to be sure, the years 1991–1997 had seen economic growth for ASEAN countries and East Asia as a whole averaging 6.7 percent annually in real terms. This compared very favorably with the other regions of the world.

Growth rates in the first half of the decade reflected ongoing international trade and investment in the region. It was a period when countries, including Japan, were upgrading from labor-intensive to capital- and technology-intensive sectors. There was the further hope that expanding the membership of ASEAN, from six to ten countries, would expand intra-regional trade and investment, providing opportunity for it to leapfrog and become a stronger economic bloc (Hirono 1996).

This heady optimism was undercut, however, by the burst of the Japanese bubble economy in 1990 and the long recession that ensued. Japan was forced to reduce imports of capital goods and raw materials, petroleum, and other energy resources, and simultaneously to expand exports to the high-growth economies of ASEAN, East Asia, and North America. At home, Japan’s low-interest policy—the lowest in history in fact—was an attempt to reflate sagging investment and consumption, but under conditions of recession and excess productive capacity, the policy failed to generate greater aggregate demand. Instead, it contributed to a further rise in the trade and current account surpluses, partly thanks to the depreciation of the yen which increased the price competitiveness of Japanese-manufactured exports in the international market.

The lingering recession in Japan, moreover, precipitated greater investment and expansion of Japanese industrial production overseas, particularly in ASEAN, in part to meet the rising demand for consumer durable goods and services in those countries. In ASEAN countries, this coincided with an enormous expansion of short-term capital through portfolio investment and bank loans from international sources, leaving their

trade and current account deficits intact, while bringing financial bubble in share and real estate markets against the glut increasingly observed in product markets. The financial bubble and an increasing specter of recession in these countries of East Asia prompted widespread foreign divestment, international runs on foreign currency reserves, a huge depreciation of foreign exchange rates, and financial crisis (Hunter, Kaufman, and Krueger 1999; see also Hirono 2001c).

The crisis hit Thailand in July 1997, soon spreading to other ASEAN countries. In Indonesia, it was compounded by political crisis, as unemployment rose, disparities between rich and poor widened, and prices for food and basic necessities shot up. In all East Asia—with the exception of Hong Kong, Singapore, and Taiwan, with their huge foreign currency reserves and stronger financial systems—growth plummeted, eventually posting negative numbers. Because of rescue packages organized by the International Monetary Fund (IMF) and assurances of assistance from Japan and other countries immediately after the crisis, most East Asian economies have since been able to resume their moderate-to-high growth path.

For the first few years of the twenty-first century, there has been, as expected, a slight decline of GDP growth in most countries. Obviously, a significant contributing factor to the economic woes of the region has been the prolonged recession of Japan. Due to a lack of political leadership and the failure of government policy, Japan has not, for over a dozen years, been able to overcome the effects of its burst bubble. The necessary reforms in political and economic structures, enterprise management, finance, fiscal and administrative system, and social security arrangements have been so slow, in formulation and implementation, that the process has been dubbed “double TL policy”—that is, “too little, too late” (Hirono 2002b).

As a result of the Asian financial crisis and Japan's prolonged recession, trade and investment between ASEAN and Japan have been on the decline since 1998 and are expected to decelerate further. While the government of Japan has expressed commitment to bringing the recession under control and regaining positive economic growth within a few years, it can expect to do so only at around 0.5–1.0 percent. As regards ASEAN as it embarks on enhanced economic cooperation with Japan and others, countries may have to be satisfied, on the whole, with 5 percent–6 percent annual growth (Hirono Forthcoming).

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Japan's Changing Economic Cooperation Policy toward ASEAN, 1967–2003

Pre-ASEAN Economic Foreign Policy

As soon as Japan (see Hirono 2001b) gained its political independence after World War II with the signing of the San Francisco Peace Treaty in 1951, it sought re-entry into the world community by becoming a member of the United Nations Economic Commission for Asia and the Far East in 1952, the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund, and the World Bank in 1953, and the United Nations in 1954.

To regain the respect of its Asian neighbors, Japan paid reparations to countries that had suffered under its domination during the war. China, however, declined to accept any. For various reasons Malaysia, Myanmar, Singapore, South Korea, Thailand, and Vietnam chose not to enter into agreement with Japan on reparations, and to them Japan provided quasi-reparations in the form of generous grants and low-interest yen loans. At the same time, Japan, having become a member of the Colombo Plan in 1954, provided technical assistance to Asian countries that were part of the group.

Japan's reparations and Colombo Plan assistance to East Asian countries were also both predicated upon the concomitant desire to expand Japanese manufactured exports to East Asia. The Japanese Ministry of International Trade and Industry (MITI) made no bones about this, and the policy had the effect of not only accelerating the recovery of Japan's manufacturing industry but also preserving the country's scarce foreign exchange reserves. Furthermore, the reparations payments and the assistance served to inculcate in East Asia a taste for Japanese consumer and capital goods and trade and engineering services, which would in later years be important to Japanese industry.

In 1955, Japan announced its economic cooperation policy toward East Asia, reaffirming its commitment to fulfilling its reparations obligations by the end of the 1960s and its ODA to non-communist East Asian countries. In the same year, Japan established the Japan Export Trade Promotion Organization (as a precursor of JETRO); in 1956, the Export-Import Bank (Eximbank) of Japan; in 1959, the Fund for the Economic Development of Southeast Asia in the Eximbank.

In 1961, the government established the Overseas Technical Cooperation Agency (OTCA) and the Overseas Economic Cooperation Fund

(OECD) as an expression of its readiness to expand ODA to developing countries, particularly its East Asia. As Japan's GNP grew at an average annual rate of 10 percent during the 1960s, its ODA grew by leaps and bounds. To further strengthen its policy of development cooperation, Japan initiated in 1963 the Ministerial Conference for the Economic Development of Southeast Asian Countries, whose member countries would later constitute the core of the Asian Development Bank when it was established in 1966.

From Vertical Relationship to Horizontal Partnership, 1967–1990

Japan strongly supported the formation in 1967 of ASEAN among its five original member countries of Southeast Asia, in part to counteract—in alliance with the United States and the EEC—the growing Soviet and Chinese influence in Indochina, Vietnam, Laos, and Cambodia (Hirono 2001b).

By the late 1960s, there were signs that the policy of cooperation with ASEAN countries was working: not only was there a closer economic relationship but also a closer political dialogue. During the Vietnam War, Japan, because of its constitutional prohibition, did not contribute armed forces to the battle, as did Australia and South Korea, but it did provide economic and technical assistance to South Vietnam. In recognition of ASEAN's 1971 Zone of Peace, Freedom and Neutrality Declaration, Japan greatly expanded its ODA to ASEAN countries. ASEAN's access to Japan's rapidly growing market was accelerated through implementation of the Generalized System of Preferences (GSP) in 1969 and further facilitated by the establishment of the ASEAN Promotion Centre for Trade, Investment and Tourism in 1981.

By the late 1960s, Japan's trade account surplus with the rest of the world had reached significant proportions. ASEAN countries, although focusing on export-led industrialization in their economic policies, were experiencing rising trade deficits with Japan. Together with the United States, they pressured Japan to accelerate its pace of opening up its huge domestic market, which had still been protected significantly by tariffs and non-tariff barriers—and an undervalued Japanese yen. The United States, impatient with Japan's reluctance with yen revaluation, pulled the trigger on VJ Day in 1971 with President Richard Nixon's announcement

of a New Economic Policy, aiming at the devaluation of the U.S. dollar through its delinking from the gold standard, thus forcing Japan to appreciate the yen.

In this altered environment, Japan's economic cooperation policy toward ASEAN and other East Asian economies underwent a major shift. First, the government of Japan was no longer interested in helping industry expand its exports through policy intervention. Nearly all export subsidies of the previous two decades were eliminated in the early 1970s. The Supreme Export Council, chaired by the prime minister and attended by the head of MITI and representatives of the private sector, was abolished. The Japan Export Trade Promotion Organization changed its name to the Japan External Trade Organization (JETRO), publicly announcing the government's new interest in promoting imports across the board as well as exports of small- and medium-sized enterprises (SMEs). Abolishing export incentives, the government would provide incentives for research and development (R&D) in the private sector, the aim being to precipitate industrial restructuring from low-value added to higher-value added industries and from low-technology to high-technology industries.

Second, the government of Japan began to relax its foreign exchange control over industry's direct investment overseas, installing incentives for investment in mineral and energy resources in developing countries. This represented an attempt to keep the rising trade deficits of East Asian economies vis-à-vis Japan from turning into anti-Japanese sentiment, a hint of which had already been seen in the rock-throwing demonstrations that greeted Prime Minister Tanaka Kakuei's visit to Indonesia and Thailand in 1974. At home, GSP-lowered tariffs and non-tariff barriers on manufactured imports had positive effects on the exports of developing countries, particularly of East Asia including ASEAN countries, South Korea, and China. In February 1973, the floating exchange rate regime was introduced worldwide, which proved to have an enormous impact on the growth of manufactured exports by East Asian countries, including those manufactured by Japanese subsidiaries there. Had it not been for the interventionist policy of the Bank of Japan to keep the yen undervalued so long, manufactured imports from East Asia would probably have risen much higher during the 1970s and 1980s. The all-of-a-sudden, dramatic appreciation of the yen under the Plaza Accord of 1985, however, was a counterblow to the Bank's interventionist policy, dampening Japan's manufactured exports and helping to increase ASEAN's exports to Japan. No doubt, the political rapprochement between Japan and China

with the signing of the Japan-China Peace and Friendship Treaty in 1973 and the Japan-China Peace Treaty in 1978 opened a new avenue of trade between the two countries, but few would have thought it the beginning of a Chinese threat to ASEAN exports to Japan.

Third, the government of Japan launched a massive assistance program, announcing the doubling of its ODA every three to five years, beginning in 1978. This policy was initiated partly to assist East Asian countries in economic and social development and partly, again, to stem the tide of anti-Japanese sentiment. During the 1970s, 80 percent–90 percent of ODA had gone to East Asia, and to ASEAN countries in particular. In the 1980s, however, the East Asian share declined steadily, in line with the increase in East Asian per capita GDP and the pressure on Japan from its allies to increase ODA to sub-Saharan Africa and less developed countries elsewhere. With the Japan-China Peace Treaty, however, Japan began to provide economic assistance to China, partially offsetting an otherwise noticeable decline in East Asian ODA.

From the 1960s through the 1980s, the bulk of ODA had gone into expansion and improvement of economic infrastructures such as road, transport, telecommunications, and power, as well as agriculture and industry. This was in keeping with the Japanese government's philosophy that ODA, whether by Japan or another country, ought to be only a supplement to the recipient's own efforts for raising domestic savings and development capacity. Accordingly, ODA was preferably given to those sectors of an economy that was considered to contribute most to national economic development.

It is not an exaggeration to say that Japan's economic cooperation policy toward ASEAN countries and, for that matter, toward the East Asian region made a radical departure from a vertical relationship in the 1970s to a horizontal partnership by the end of the 1980s. This was symbolic, and also a consequence, of Japan's having attained the status of a global power, compelling it—alongside the United States and European Community nations—to assist developing countries in advancing economically and technologically. This sense of global responsibility has come to reside in the Japanese general public as in the government; in 1989 Japan became the largest creditor and the largest donor of ODA in the world, surpassing the United States (Japan Ministry of Foreign Affairs 1990; Islam 1991).

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From Economic to Comprehensive Partnership, 1990–2003

Toward the end of the 1980s, the Japan-ASEAN economic relationship, within the context of APEC and ARF, began its steady transformation into the comprehensive Japan-ASEAN partnership of the 1990s. Initiatives have been established in regional and subregional mechanisms to enhance cooperation among national governments, local authorities, business corporations, academic bodies, professional organizations, students, and nongovernmental organizations (NGOs) in various sectors. For instance, the local government of Kitakyushu, with the support of the government of Japan, initiated a regionwide environmental cooperation program such as the Kitakyushu Initiative for a Cleaner Environment under the aegis of the UN Economic and Social Commission for Asia and the Pacific (ESCAP) Ministerial Meeting on Environment and Development.

APEC gradually expanded its membership and its mandate as it evolved, not only promoting economic cooperation among its members but also setting up a kind of pan-Pacific free trade area based on the principle of open regionalism. The body agreed collectively to a reduction in tariffs and non-tariff barriers in their intra-regional and extra-regional trade. Consensus for this regime, consistent with global rules and regulations of the World Trade Organization (WTO), was reached under the strong leadership of President Bill Clinton, at the first APEC summit in Seattle in 1996 to initiate a new round of multilateral trade negotiation in agriculture and services as soon as possible. Today, membership in APEC has been extended to market-oriented economies in Latin America as well as to the transition economies—or, to be more exact, socialist market economies—of China, Laos, and Vietnam.

In 1994, the ASEAN Regional Forum (ARF), an intergovernmental dialogue focusing on peace, stability, and security in East Asia, was established, its membership drawn from the ASEAN Post-Ministerial Conference, including China, Japan and the Republic of Korea, as well as Cambodia, Laos, Myanmar, and Vietnam, which later became full members of ASEAN; observer status was extended to India. Japan has been active in ARF from its inception; on regional issues, it has sought consolidation with the Conference on Security Cooperation in Europe (CSCE), which predated the collapse of the Soviet Union. Japan has also worked with ASEAN to set up the Asia-Europe Meeting in 1996 and has participated in its various sessions since then.

In 1996, under the administration of Hashimoto Ryutaro, Japan collaborated with ASEAN to form what became ASEAN + 3—that is, ASEAN countries plus China, Japan, and South Korea. This has provided a process for dialogue and the promotion of trade, investment, and economic cooperation. ASEAN + 3 meetings have been organized at both sectoral ministerial levels and the summit level. At the 2002 ASEAN + 3 summit in Phnom Penh, Prime Minister Koizumi Jun'ichiro announced the Initiative for an ASEAN-Japan Comprehensive Economic Partnership (AJCEP), appealing to his ASEAN counterparts to move forward in light of the signing of the Japan-Singapore bilateral economic cooperation agreement and the Framework Agreement on ASEAN-China Comprehensive Economic Cooperation. Koizumi also spoke of his hope to conclude the AJCEP Agreement by 2020 and endorsed the recommendation of ASEAN's East Asian Study Group on the establishment of an ASEAN Economic Community (AEC) by 2020. The Japan Forum on International Relations (JFIR) recommended the establishment of an East Asian Economic Community by 2020 (JFIR 2003) and so did the ASEAN-Japan Research Institute Meeting (AJRIM 2003).

The Japanese initiative for a comprehensive economic partnership (CEP) with ASEAN goes beyond multilateral free trade agreements (FTAs), encompassing economic, scientific, technological, educational, and cultural cooperation. How this initiative evolves in terms of objectives, substance, and time remains to be seen. There are other initiatives already underway—between individual ASEAN countries and Japan, between individual ASEAN countries and the United States, and between individual ASEAN countries and countries outside East Asia, such as Australia, New Zealand, and India. ASEAN may wish to pursue these different approaches simultaneously to get the best outcome for ASEAN countries individually and collectively, but given the differences in economic and social development, one “best outcome” will be difficult to agree upon.

Under the leadership of Malaysian Prime Minister Mahathir Mohamad, exploration of an East Asian Economic Community (EAEC), and eventually an East Asian Community (EAC), has been going on since 1990.² The first East Asia Congress was convened in Kuala Lumpur on August 4–6, 2003, under the sponsorship of the Malaysian Institute for Strategic and International Studies, with the active participation of politicians, bureaucrats, researchers, businessmen, media, and NGOs. In his keynote address, Mahathir repeatedly stressed the importance of early establishment of an EAEC: The first step should be renaming the ASEAN + 3 process as

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an EAEC framework and institutionalizing it into the EAEC, with a permanent secretariat similar to the European Commission. There was consensus among the congress that an EAEC was inevitable, given of the stage set for heightened economic, social, and political cooperation in the region. Unresolved was the political will necessary for its establishment, the exact timing, the shape, scope, terms of reference, and constitution of the planned organization, the place and size of its headquarters, and the head of the organization. All other issues could be dealt with once the EAEC was realized as a regional institution (Hirono 2003).

Thus Japan's economic cooperation policy toward ASEAN has become more multilateral in approach to developing countries, going beyond the dominant bilateral approach to individual ASEAN countries; more global in its outlook, going beyond ASEAN into East Asia and the whole of Asia; broader in its approach to development, going beyond trade and investment to promote social development, environmental sustainability, democratic governance and citizen's participation; and more collaborative in its partnership, going beyond government-to-government relations to involve major bilateral and multilateral partners, local authorities, and NGOs in pursuit of regional and global prosperity, peace, stability and security.

With its long, complex history of economic relationships in East Asia, Japan has embarked upon the twenty-first century in a wholly new context. Japan's economic cooperation policy, to be viable and to be endorsed in earnest by the Japanese citizenry, must be based on a firm commitment to accelerated domestic economic, social, environmental, and political reforms that promote national interests consistent with environmental sustainability and regional and global peace and stability.

The successful outcome of such far-reaching domestic reforms will, by strengthening the fundamentals of the Japanese economy, no doubt equip the government of Japan to make a greater commitment to Japan's international economic, social, environmental, and security cooperation. That Japan's bilateral and multilateral cooperation leads to community building in East Asia is critical at this juncture of the first decade of the twenty-first century.

Notes

1. Parts of this chapter rely on Hirono (2001a).
2. A series of annual study reports were published by Ajia Taiheiyō Kenkyūkai (Asia-Pacific Study Group) for submission to the Cabinet Secretariat of the government of Japan during the 1980s and 1990s, with the strong recommendation for establishing an East Asian Economic Community or a Western Pacific Economic Community. Initial membership would be ASEAN countries, China, Hong Kong, Japan, South Korea, and Taiwan, but remaining open to other Asian countries. No concrete action was taken until Hashimoto's decision to join ASEAN's call in 1998 for setting up the ASEAN + 3 grouping.

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