

ASEM Task Force for Closer Economic Partnership between Asia and Europe
Final Report and Recommendations
Presented to the ASEM V Summit in Hanoi, October 8-9, 2004

Executive Summary

Introduction

Exec.1. The ASEM Task Force for Closer Economic Partnership (CEP) between Asia and Europe met five times in 2003 and 2004 before producing its final report. This report presents the Task Force's vision for CEP, its general recommendations to ASEM leaders for the future of the ASEM process, and its concrete, action-oriented recommendations for CEP.

Preamble: Statement of General Principles and Vision for ASEM CEP

Exec.2. The Task Force conceives of **CEP as an essential strengthening of the ASEM process**. The Task Force believes that further operational institutional development of ASEM is essential if this partnership is to remain meaningful.

Exec.3. **The Task Force insists that CEP is of significant strategic value in the strengthening of the Asian-European link within the world system** -- currently dominated by transatlantic and transpacific political and economic ties.

Exec.4. The Task Force believes **CEP should also help provide more stability to the international monetary system by reducing ASEM dependence on the US dollar**.

Exec.5. The Task Force also feels that **CEP should attempt to contribute to the prosperity and stability of the territories linking Asia with Europe**. Therefore, CEP should also aim to facilitate the transportation, communications, water and energy infrastructure of the economies not only of the ASEM member states in Europe and Asia, but also those of the Euro-Asian land bridge linking ASEM members.

Exec.6. **The Task Force urges ASEM leaders to make a distinctive contribution to a rapid and successful conclusion to the WTO's Doha Round of multilateral trade negotiations**. The Task Force insists that the ASEM process is not – and should never be viewed as -- incompatible with the multilateral trade system and should never compete with further liberalization of the world economy.

Exec.7. **ASEM efforts to facilitate freer trade at both the inter-regional and multilateral levels are of particular importance to small and medium-sized enterprises (SMEs)**. Trade barriers – especially non-tariff barriers – tend to have a disproportionately more harmful impact on SMEs than on larger firms. CEP efforts to improve the flow of information to ASEM business communities will also help SMEs.

Exec.8. The Task Force also believes that **ASEM members should recognize, and build upon, ASEM's prior achievements**, such as the most relevant recommendations of the Asia Europe Business Forum (AEBF) and the ASEM Vision Group, as well as the SOMTI's ongoing efforts to reform ASEM's economic pillar. Such a coordination and organizational effort will require further institutional development of ASEM.

Exec.9. The Task Force concludes that **CEP requires ASEM leaders to undertake deeper economic integration in East Asia and faster economic reform in the European Union.**

The Task Force's General Recommendations to ASEM Leaders

- Exec.10. *ASEM members should undertake a deepening of the operational aspects of ASEM's institutional apparatus and formally upgrade the ASEM process from dialogue to cooperation* (See Exec.16, II.1, III.1, and Annex II).
- Exec.11. *CEP should involve incremental steps towards a more rational and efficient use of Asian savings so as to reduce ASEM members' dependence on the US dollar, enhance the international role of the euro, and help create a more balanced international monetary system* (See Exec.17, II.2, III.2, and Annex III).
- Exec.12. *ASEM should consider the prosperity and stability of the territories constituting the land bridge between Europe and Asia as a new priority for ASEM collaboration, and facilitate the long-run development of transportation, communications, water and energy infrastructure both within ASEM's regional partners and along the land routes that connect Europe with Asia* (See Exec.18, II.2.f, II.2.g, III.3, and Annex IV).
- Exec.13. *Interregional free trade should be declared a formal ASEM goal to be achieved by 2025. Furthermore, ASEM leaders should commission an in-depth study to determine which modality of open regionalism would best serve the interests of ASEM* (See II.3).
- Exec.14. *ASEM should declare the facilitation of SME activity within and between ASEM regions a central priority within the work of the ASEM economic pillar* (See II.3).
- Exec.15. *The ASEM partnership should place the resolution of key regional challenges – deeper economic integration in Asia and faster economic reform in Europe -- at the top of their list of policy priorities* (See II.5).

The Task Force's Concrete, Action-Oriented Recommendations for CEP

Exec.16. **The Task Force recommends the creation of a virtual ASEM Secretariat**, designed to integrate the organization, tracking and articulation of ASEM activity in the future. Such a step would be consistent with the recommended upgrade of the ASEM process from dialogue to cooperation (see Exec.10). In the short run, the Secretariat should remain “virtual” (taking the form of a new ASEM website), but the Task Force underlines the likelihood that sometime in the middle-term future there may be a need to convert this “virtual secretariat” into a physical ASEM Secretariat, complete with staff, facilities and budget. Such a proposal aims at helping ASEM handle the pressures of further enlargements, more constructively focus the energies and efforts of the ASEM process, take advantage of a more efficiently organized institutional memory, raise ASEM's public visibility and ultimately enhance ASEM's relevance and usefulness to its peoples and leaders (See Annex II).

Exec.17. **The Task Force recommends the creation of an ASEM “YES” Bond Market and an ASEM “YES” Bond Fund**, based on a basket currency incorporating the Yen, the Euro and the US Dollar. The creation of such a market would serve a number of mutually-held objectives: to accelerate the development of an Asian bond market, thereby reducing the risks caused by an excessive dependence of Asian countries on bank lending and external financing; to help facilitate a more rational and beneficial channelling of Asian savings; to gradually reduce a potentially destabilizing over-dependence on the US dollar; and to facilitate possible further steps toward deeper Asian economic and financial integration in the future. In addition, such measures would enhance the international use of the Euro. The ASEM Bond Fund will facilitate this process by playing the role of a catalyst (see Annex III).

Exec.18. **The Task Force recommends that ASEM formally incorporate regular consultations on energy issues into its Economic Pillar**, placing a broad range of common Asian and European energy concerns at the heart of the ASEM dialogue. Given the common interests held by most ASEM members as net energy consumers and importers, the Task Force also recommends that ASEM members facilitate progress toward further ASEM collaboration on a number of common energy objectives. This proposal is meant to complement the Task Force’s general recommendation (see Exec. 12) that CEP should contribute to the prosperity and stability of the territories of the Euro-Asian land bridge through ASEM collaboration on transportation, communications, water and energy infrastructure in these areas (see also Annex IV).

Exec.19. **The Task Force recommends the creation of an ASEM Virtual Promotion Center for Trade, Investment and Tourism**, designed to stimulate primarily, but not exclusively, the activity of ASEM SMEs, and to integrate and coordinate the activity of a proposed new ASEM Senior Executive Advisory Network. This proposal (taking the form of a new ASEM website) recognizes the need for ASEM to make a renewed, concerted and coherent effort to improve the essential flows of information and resources that can facilitate SME activity both within and between ASEM’s regional partners (see Annex V).

Exec.20. **The Task Force recommends the creation of an ASEM Business Advisory Council** (or ASEMBAC). Such a proposal is aimed at supplementing the activities of the AEBF by creating a more powerful and lasting link between ASEM business communities and the policies of ASEM leaders, both within and beyond the context of the ASEM dialogue (see Annex VI).

Conclusion

Exec.21. The Task Force concludes that ASEM is of central strategic importance for both Asia and Europe, and that a new concerted effort to create a meaningful CEP is a key prerequisite for strengthening the ASEM process. The Task Force believes that the ASEM dialogue should continue to be deepened by engaging in more concrete forms of cooperation so as to facilitate positive evolution in both ASEM regions and in the Euro-Asian relationship. Finally, the Task Force is convinced that a stronger and more strategically-oriented Euro-Asian partnership will be beneficial for the world, helping to shape a more truly multilateral international system and a more stable and prosperous world order.

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I. Introduction

I.1. The Asia Europe Meeting (ASEM) was conceived in 1996 as an informal process of dialogue and co-operation bringing together the fifteen EU Member States and the European Commission, with ten Asian countries (Brunei, China, Indonesia, Japan, the Republic of Korea, Malaysia, the Philippines, Singapore, Thailand, and Vietnam), in order to strengthen the relationship between the two regions, in a spirit of mutual respect and equal partnership. At the 4th ASEM Summit, 'Leaders agreed to work towards a closer ASEM economic partnership. To this end, they tasked ASEM Coordinators to set up an action-oriented Taskforce. Taking into account work already carried out within the ASEM economic pillar, this Taskforce should consider three areas: Trade, Investment and Finance. These areas could include issues such as the creation of a Eurobond market in Asia and the use of the Euro as an international currency. The Taskforce should consist of five experts from each of the two regions. Leaders requested that an interim report be prepared for submission to Foreign, Economic and Finance Ministers in 2003, with a view to submitting a final report to ASEM 5' (ASEM 4, Chair's Statement).

I.2. The Task Force for Closer Economic Partnership between Asia and Europe met five times in 2003 and 2004 before producing its final report.¹ Meetings were held in Madrid (May 6, 2003), Tokyo (September 9, 2003), Frankfurt (November 22, 2003), Bangkok (March 11-12, 2004) and Barcelona (May 17, 2004). During the course of the Task Force's work, both individual members and the Secretariats (the Institute for International Monetary Affairs in Tokyo and the Elcano Royal Institute for International and Strategic Studies in Madrid) produced issues papers to inform and stimulate Task Force discussions covering trade, investment, finance, business and institutional issues of relevance to ASEM. This report presents to ASEM leaders the Task Force's vision for Closer Economic Partnership between Asia and Europe (CEP), its general recommendations for the future of the ASEM process, and its concrete, action-oriented recommendations for CEP.

¹ The ASEM Task Force members were appointed and confirmed during the early months of 2003. See Annex 1 for a complete list of Task Force Members.

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II. Preamble: Statement of General Principles and Vision for ASEM CEP

II.1. CEP as an Essential Strengthening of the ASEM Process.

II.1.a. The Task Force sees CEP as an essential strengthening of the ASEM process. ASEM was originally conceived of as a process of open dialogue between Asian and European partners to facilitate mutual understanding and a stronger bi-regional relationship. However, the ASEM partnership should now transcend the purely dialogue format to become increasingly based on more concrete forms of collaboration and cooperation.

II.1.b. The Task Force have come to the conclusion that a deepening institutionalization of the operational aspects of ASEM would contribute significantly to a more effective ASEM process, in general, and to a more meaningful CEP, in particular (See III.1 and Annex II).

II.2. CEP as a Strategic Asset for a More Stable International System.

II.2.a. The Task Force considers a meaningful CEP to be of significant strategic value in the effort to build a more stable international system. One of the motivating goals of CEP should be to contribute to the strengthening of the Asian-European relationship so as to further develop what the Task Force sees as a relatively weak link within the world system. The Task Force sees the international system as currently characterized by denser transatlantic and transpacific political and economic ties linking Europe with the Americas and the Americas with Asia, and a relatively weaker link binding Asia to Europe in political and economic terms. The Task Force believes that this current imbalance contributes in a number of ways to international instability. The creation of the ASEM dialogue has contributed significantly to redressing this imbalance by providing the space for an evolving Asian-European relationship, but this link – despite progress in ASEM’s political, economic and cultural pillars -- nevertheless remains relatively underdeveloped.

II.2.b. The Task Force believes that ASEM could contribute to a more balanced and stable world in both political and economic terms if the dialogue process proves capable of generating a denser web of political and economic connections between Asia and Europe. However, such connections must be given more and increasingly meaningful content, if the Asia-European link is to bear significant strategic value. The Task Force therefore believes that one of the central guiding principles behind CEP should be to strengthen such a link. At least part of the Task Force’s message to ASEM leaders is that they should continue to place increasing attention on this strategic potential of the ASEM process, and that, as a complement to the on-going work of ASEM’s three pillars, CEP -- to which the Task Force aspires to provide crucial content -- should be regarded as an essential tool in this respect.

II.2.c. Ultimately, the Task Force believes that a stronger and more meaningful Asia-European relationship, facilitated by a vigorous CEP, can contribute to a more stable world and help lay the groundwork for a truly multilateral international system over the long run. The Task Force emphasizes that the collective thrust of its general and concrete recommendations is aimed, at least in part, at this strategic objective.

II.2.d. This is particularly true of the Task Force proposals in the financial and monetary spheres. The Task Force believes that CEP should help provide more stability to the international monetary system by facilitating a reduction of ASEM members' dependence on the US dollar. ASEM should begin to move toward such a goal by taking concrete steps which at once complement the current evolution in Asia toward deeper and more regionally integrated bond markets and facilitate further international use of the Euro in Asia (i.e., the creation of an ASEM "YES" Bond Market and Fund, see III.2 and Annex III).

II.2.e. Such a contribution from CEP would help reinforce incremental progress toward the possible goal of Asian monetary integration and possibly a common Asian currency. The Task Force also believes that this incremental contribution would help stabilize the international monetary and financial systems by generating a more balanced monetary relationship between each of the world's major economic regions.

II.2.f. Another contribution that CEP should make to enhancing ASEM's international strategic value is to facilitate physical infrastructure connections and integration (including transport, communications, water management and energy projects) not only between Asia and Europe but also in the territories located on the land routes between the ASEM regions. This will help promote the prosperity and stability of the territories linking Asia with Europe.

II.2.g. Much of this region is composed of young countries that are rich in natural resources, particularly energy, but which still lack sufficient transport, communications, water management and energy infrastructure facilities and regulatory mechanisms for turning such resource potential into tangible and sustainable prosperity. As such, these societies remain highly vulnerable to political and economic instability which also make them potential breeding grounds for international terrorism. The Task Force believes that the stability and prosperity of these regions constitute a common interest among ASEM members. Therefore, CEP should include the pursuit of such a common interest as a priority for ASEM collaboration. The Task Force's general and concrete recommendations in this terrain are conceived of as the potential starting point for the articulation of a longer-term ASEM strategy in this regard (See III.3 and Annex IV).

II.3. CEP as a Strategy to Facilitate ASEM Trade and Investment.

II.3.a. The Task Force concludes that deeper economic interaction between the world's economies can contribute to growth, prosperity, stability and peace. Freer and more fluid flows of international trade and investment, particularly when accompanied by fair and balanced ground rules and appropriate regulatory frameworks, can serve as engines of growth, generating sustainable development and prosperity. While CEP is primarily targeted at facilitating trade and investment flows between Asia and Europe, the Task

Force is acutely aware that the same objectives on a world scale are at stake in the current Doha Round of multilateral trade negotiations.

II.3.b. The Task Force believes that the ASEM process is not incompatible with the multilateral trade system and should never compete with further liberalization of the world economy. However, the ASEM dialogue can provide a useful forum for reaching a common understanding which could be of constructive use in the collective pursuit for a successful conclusion to the Doha Development Round. Therefore, the Task Force strongly urges ASEM leaders to make a distinctive contribution to a quick and successful conclusion to the Doha Round. The Hanoi Summit offers a unique opportunity for ASEM members to make important incremental progress at resolving some of the outstanding differences that continue to block an agreement within the WTO. Part of CEP's strategic content should be to constantly contribute to such broader goals.

II.3.c. To help achieve the twin objectives of generating more economic interaction between Asia and Europe and enhancing ASEM's strategic value, the Task Force feels that the international visibility of the ASEM process needs to be raised. The Task Force therefore recommends that CEP adopt the strategic goal of achieving ASEM interregional free trade by 2025. The Task Force also recommends that ASEM leaders commission an in-depth study to determine which potential modality of open regionalism would best serve the interests of ASEM while at the same time facilitating the multilateral pursuit of free trade within the context of the WTO.

II.3.d. The Task Force believes that adopting a formal free trade goal for ASEM could provide important, if not immediately tangible, benefits to the ASEM process. By providing ASEM with a concrete, if distant, goal which is easily understood in today's international context, the Task Force believes that the perceived seriousness and usefulness of ASEM could increase among the many populations of its members. Lending ASEM a concreteness which it has lacked to date could help unlock energies among the ASEM members which have remained dormant.

II.3.e. The Task Force also believes that ASEM should make the facilitation of Small and Medium-sized Enterprises (SMEs) a central priority of its Economic Pillar. The Task Force has studied and debated the experience of SMEs and of SME promotion in its various member economies and has come to the conclusion that best way to facilitate the progress and success of SMEs, both in Europe and in Asia, would be to level the playing field between SMEs and larger enterprises in terms of market access and information, rather than attempting to subsidize the activities of SMEs, either directly or indirectly.

II.3.f. Therefore, the Task Force feels that the notion of a level playing field should be applied not only to countries and products, but also to firms. Trade barriers – particularly non-tariff barriers – tend to have a proportionately much larger impact on SMEs than on larger firms. In this regard, the Task Force recommends that ASEM approach the issue of SME facilitation on two parallel tracks.

II.3.g. First, ASEM should continue to address the issue of market access and trade facilitation through both interregional and multilateral efforts to generate freer and more fluid trade between nations, and via the Economic Pillar's Trade Facilitation Action

Plan (TFAP). Second, the Task Force recommends the creation of an ASEM Virtual Promotion Center for Trade, Investment and Tourism, a mechanism which would be designed to facilitate the flow of information relevant to ASEM businesses with respect to both trade and investment opportunities and ASEM Economic Pillar activities in general (see III.4 and Annex V). The Task Force concludes that such an effort to channel information more effectively would tend benefit SMEs, thus contributing to a more balanced playing field for ASEM business activities.

II.4. CEP as an Incremental Contribution Building upon Past ASEM Achievements.

II.4.a. The Task Force also believes that a strong and effective CEP requires ASEM members to recognize, and build upon, ASEM's prior achievements. For the Task Force these would include a number of positive recommendations that have been made in the past by both the Asia Europe Business Forum (AEBF) and the ASEM Vision Group, as well as the SOMTI's ongoing efforts to both further develop and reform ASEM's economic pillar.

II.4.b. A number of Task Force recommendations are similar to, or are inspired by, recommendations which have been made in the past by either the AEBF or the ASEM Vision Group. For example, the recommendation to ASEM to engage in sincere collaboration to come to agreements which might facilitate the successful conclusion of the Doha Round has been a key recommendation of the most recent AEBF meetings. Furthermore, the Task Force recommendations for a formal ASEM free trade goal to be achieved by 2025 (see II.3.c), the establishment of an ASEM Business Advisory Council (see III.5 and Annex VI), the inclusion of cooperation on energy issues into the ASEM dialogue (see III.3 and Annex IV), the articulation of an ASEM Advisory Network of Senior Executives (see III.4.e and Annex V), and the creation of an ASEM Virtual Secretariat (see III.1 and Annex II) are all either foreshadowed or inspired by similar recommendations made by the ASEM Vision Group.

II.4.c. The effort made by the Task Force to identify the potentially useful recommendations of the AEBF and the Vision Group highlights the argument that the Task Force makes with regard to the need for a deeper operational institutionalization of ASEM. The coordination and organizational effort necessary to track and integrate the activities and recommendations of the various groupings involved in ASEM collaboration clearly requires further institutional development of ASEM if an effective institutional memory is to be efficiently accumulated and capitalized upon.

II.5. CEP as a Catalyst for Internal Progress within both ASEM regions.

II.5.a. The Task Force believes that the effort to build a meaningful CEP offers an opportunity for both Asia and Europe to address internal economic issues which continue to deserve policy attention on their own merit. A fruitful CEP would be enhanced by measures to increase the economic dynamism in both ASEM regions. On the one hand, the usefulness of Europe as a regional partner within ASEM is undermined by the lack of capacity revealed to date by European countries to engage in meaningful structural reform. On the other hand, the effectiveness of Asia as a regional partner is handicapped by the economic fragmentation of the area and the slow progress toward regional economic integration.

II.5.b. The Task Force feels that these are key obstacles in both regions of ASEM which continue to hamper the development of a more constructive economic and strategic partnership. In particular, meaningful CEP would be made more feasible if ASEM leaders were to undertake deeper economic integration in East Asia and faster economic reform in the European Union. Therefore, the Task Force strongly recommends that both sides of the ASEM partnership address these key regional obstacles. The prospect of a mutually-beneficial CEP and a strategically significant ASEM partnership should act as an incentive for ASEM's regional partners to tackle key challenges in their own regional spheres so as to more effectively capitalize upon the potential that ASEM has to offer.

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III. Concrete, Action-Oriented Recommendations for CEP

III.1. Institutional: The Creation of a Virtual ASEM Secretariat.

III.1.a. As an informal body for dialogue, ASEM has thus far avoided the creation of any institutional mechanisms (with the exception of the Asia-Europe Foundation and the ASEM Trust Fund). However, ASEM's eight years of experience provides leaders with the opportunity to consider a new arrangement. The Task Force believes that ASEM should consider entering a new phase in life in which the purely dialogue format is transformed into a relationship based on more concrete forms of closer cooperation. To make such an evolution sustainable and meaningful, the Task Force believes that it is necessary to create more operational institutional arrangements.

III.1.b. The Task Force believes that the widening scope of ASEM-related activities warrants an operational institutionalization of the ASEM process. Every year, there are dozens of ASEM meetings which could be better coordinated and documented in a uniform manner for the purposes of future reference. However, at present, ASEM's "institutional memory" is dependent on the hard, and often disjointed, work of national officials who frequently shift positions.

III.1.c. Given this fact, along with possible future ASEM enlargements, the Task Force believes there is a pressing need for a central repository of information along with a coordinating body to ensure the efficiency, sustainability and significance of the ASEM process and to engage in the necessary follow-through on its various projects and initiatives. Setting up such a coordinating mechanism would, however, entail financial implications for ASEM members, in the form of staff salaries, infrastructure, travel and other expenses.

III.1.d. The Task Force therefore recommends the creation of a virtual ASEM Secretariat (in the form of a new ASEM website), designed to integrate the organization, tracking and articulation of ASEM activity in the future.

III.1.e. In the short run, the Task Force believes that the Secretariat should remain "virtual," but underlines the likelihood that sometime in the middle-term future there may be a need to convert this "virtual secretariat" into a physical ASEM Secretariat, complete with staff, facilities and budget. Such a proposal aims at helping ASEM handle the pressures of further enlargements, more constructively focus the energies and efforts of the ASEM dialogue, take advantage of a more efficiently organized institutional memory, raise ASEM's public visibility and ultimately enhance ASEM's relevance and usefulness to its peoples and leaders (See Annex II).

III.2. Finance: The Creation of an ASEM “YES” Bond Market and “YES” Bond Fund.

III.2.a. Triggered by a sharp depreciation of the Thai baht in July 1997, the Asian currency crisis devastated East Asian countries. In an effort to prevent such a crisis from recurring, and to achieve more sustainable economic growth in the future, East Asian countries have come to a common understanding that they must foster domestic and regional bond markets in order to supplement indirect financing and reduce their excessive dependence on bank lending and external financing. Although government bond markets have expanded to some extent in recent years, the role of domestic corporate bond markets in East Asia remains limited and still requires significant improvements in market institutions and infrastructure.

III.2.b. There is also a pressing need to create and develop a regional bond market in East Asia to supplement the domestic bond markets of individual countries. Furthermore, a well-sequenced liberalization of capital controls could be facilitated by the development of such a regional bond market.

III.2.c. There are other ongoing initiatives to develop Asian bond-related instruments such as the Asian Bond Market Initiative (ABMI) within the ASEAN+3 framework and the Asian Bond Fund (ABF) undertaken by the EMEAP (Executives’ Meeting of East Asia and Pacific Central Banks) Group. The ABMI is focusing on infrastructure to facilitate the issuance and trading of Asian bonds while the ABF is aiming at stimulating demand for Asia’s bond markets. Both initiatives ultimately aim to develop markets for Asian bonds denominated in local currencies.

III.2.d. There remain problems, however, with the issuing currency in regional bond markets as many East Asian countries still place restrictions on the internationalization of their currencies. This makes it difficult to issue bonds denominated in local currencies as a tool for mitigating currency risks, although ABMI and the ABF initiative are beginning to tackle such problems. The introduction of bonds denominated in a basket currency would be of great help in this regard and would complement these other initiatives currently underway. The basket should be comprised of the US dollar, the euro and the yen. These currencies are widely used in offshore markets, are well trusted, have deep capital markets, and offer a variety of hedging options.

III.2.e. The emergence of the euro as the second most widely used international currency is helping to stabilize the global economy. It is expected that the international role of the euro will develop still further with time. As the euro would become one of the component currencies of the proposed basket currency bond, the development of such a regional bond market in Asia would also facilitate a broader international use of euro, at least indirectly, as well as provide further benefits for the EU countries by expanding business opportunities for European financial institutions and investors as a result of more vigorous economic relations between Asia and the EU.

III.2.f. The Task Force therefore proposes that ASEM leaders take the initiative to create a regional bond market in East Asia based on a basket currency comprised of the yen, the euro and the US dollar (to be called the ASEM “YES” bond).

III.2.g. A catalyst may be needed, however, to foster the basket currency bond as a central instrument in the East Asian regional bond market. Such a catalyst would be

aimed at encouraging a broad range of players to participate in the market. Although the Task Force anticipates the active involvement of the private sector, as investors and issuers of the ASEM YES bond, the previous successful experience of ECU bonds in Europe suggests that capacity building and technical assistance from the public sector, along with the continuous issuance by public entities, may be required at the initial stage for the effective development of the market. **The Task Force therefore further proposes that ASEM leaders establish an ASEM YES Bond Fund to stimulate and support this initiative** (see Annex III).

III.3. Energy and Infrastructure Development on the Land Bridge between Asia and Europe

III.3.a. The stability and prosperity of the societies forming the land bridge linking Europe with Asia has been identified by the Task Force as a common strategic priority for ASEM partners. The Task Force believes that ASEM should strive to contribute to the current evolution toward a more extensive connection of transportation, communications and natural resources infrastructure within this region, and a deepening sense of an informal, but real, community on the Euro-Asian land bridge.

III.3.b. Furthermore, the Task Force has also identified energy supply and infrastructure as another area of common strategic concern among ASEM partners. Most of ASEM's European and Asian partners are net energy consumers (importers) and will only become more dependent on the importation of scarce energy resources in the future. The security and stability of energy supply, and the potential for energy exports to contribute to growth and development in some countries, is an issue area where these two new strategic priorities of ASEM – the Euro-Asian land bridge and energy -- intersect.

III.3.c. Both as an objective in its own right, and as a concrete expression of what should become a new ASEM priority of promoting the stability and prosperity of the Euro-Asian land bridge, **the Task Force recommends that ASEM formally incorporate regular consultations on energy issues into its Economic Pillar, so as to place at the heart of the ASEM dialogue a broad range of common Asian and European energy concerns.**

III.3.d. The common energy interests of ASEM members include: the further exploration and production of existing and new energy sources; the creation and efficient regulation of energy transport and transit facilities; further transnational cooperation in the field of energy-related research, energy efficiency and conservation; improvement of regulatory frameworks for ensuring freer trade in energy products; promotion and safeguarding of energy infrastructure investments both in the ASEM region and in the territories along the land routes between Europe and Asia; the creation of open and non-discriminatory energy transit systems; and the facilitation of long-term financing for energy infrastructure projects.

III.3.e. Both the inclusion of energy issues into the dialogue of ASEM's economic pillar and the encouragement of ASEM members to join the Energy Charter Treaty will contribute to progress toward strengthening the policy dialogue between net energy producers and consumers and will help ASEM members frame and approach their common interests in energy security and stability and prosperity on the Euro-Asian land bridge (see Annex IV).

III.4. Trade and Investment: The Creation of an ASEM Virtual Promotion Center for Trade, Investment and Tourism (along with a new ASEM Senior Executive Advisory Network).

III.4.a. While Asia and Europe remain each other's second most important regional trade and investment partner -- in both cases just slightly behind the relative position of North America -- one of ASEM's primary economic objectives is to stimulate more bi-regional trade and investment flows. ASEM's economic pillar has made much progress since ASEM's inception, particularly through the development of its Trade Facilitation Action Plan (TFAP) and the Investment Promotion Action Plan (IPAP). Nevertheless, the Task Force believes that much potential for interregional economic connections remains untapped, particularly with respect to ASEM SMEs.

III.4.b. The Task Force was not fully convinced that official state-sponsored trade and investment promotion efforts have much marginal benefit to offer beyond the market-motivated movements of private enterprise. However, the Task Force does feel that in the face of imperfect and asymmetric information flows, an official ASEM sponsored promotion effort would be of enormous benefit, particularly to SMEs which tend to lack access to information on business opportunities, legal and regulatory frameworks, and relevant developments at the level of international and regional bodies. Given that the Task Force philosophy for CEP calls for both a levelling of the playing field to the benefit of SMEs and a raising of ASEM's profile and public visibility, **the Task Force recommends the creation of an ASEM Virtual Promotion Center for Trade, Investment and Tourism (VPC)** (See Annex V).

III.4.c. As a result of the expected formal participation of the new member countries of the EU and the three new ASEAN members on the Asian side, the territory of ASEM is certain to become much larger. Consequently, the scale and volume of trade, investment and tourism among ASEM members should increase considerably. In such a promising context, it is reasonable -- even necessary -- for ASEM to create an effective facility which might enhance import and export trade, foster investment flows and energize tourism activities between the two regions of ASEM. This proposal recognizes the need for ASEM to make a renewed, concerted and coherent effort to improve the essential flows of information and resources that can facilitate SME activity both within and between ASEM's regional partners. Leveraging upon its role as the ASEM 5 summit host, Vietnam has expressed its willingness and desire to also act as the host country to this new VPC. The Task Force recommends that the ASEM partners delegate to Vietnam this role as custodian of the new ASEM VPC.

III.4.d. Such a facility would have the following principal objectives:

- To introduce and disseminate information on legal frameworks, policies and best practices in trade, investment and tourism among ASEM members;
- To update and provide the latest information on the flow of trade, the investment environment, and tourism potentials among ASEM partners;

- To carry out worldwide advertisement and promotion campaigns for ASEM enterprises on their export products, investment interests and tourism services;
- To help ASEM enterprises carry out market studies to take advantage of opportunities in export-import trade, FDI, tourism transactions, project tenders, business forums, and trade fairs, among other activities;
- To provide the latest information on business matching activities;
- To urge the concerned authorities of ASEM member states to pay regular attention to trade facilitation (on SPS, customs procedures, environmental standards, etc.) for ASEM trading partners.

III.4.e. An additional feature of the VPC would be to serve as the custodian of yet **another Task Force recommendation: to create a new ASEM Senior Executive Advisory Network**. This project is inspired by the previous positive experiences of such service agencies from both the US and Japan. This program would create a voluntary network of retired executives from ASEM regions with broad and deep experience in a range of business activities who would work on assignment to various participating ASEM SMEs. Such ASEM executive volunteers would work with SMEs, offering them suggestions and recommendations, based on their extensive experience with Asian-European business. Such a program would help SMEs capitalize upon hitherto untapped intangible resources – experience and information -- that could help facilitate interregional SME trade and investment.

III. 5. Business: The Creation of ASEM Business Advisory Council (ASEMBAC).

III.5.a. It has long been a goal of the Economic Pillar to deepen the ASEM relationship through more intensified trade and investment between Asia and Europe. The very existence of the Asia-Europe Business Forum (AEBF) also suggests that there is a widespread belief that the Asian-European business communities hold one of the keys to setting this process in motion. The Task Force has been particularly concerned with the role of the business community as a catalyst within the ASEM process, and believes that it is imperative to involve the business community more intimately in ASEM decision-making and dialogues.

III.5.b. Although ASEM encouraged the establishment of the Asia-Europe Business Forum, the AEBF is a voluntary business grouping, not an official ASEM business entity. AEBF's interaction with the public sector is still limited because its members are neither officially appointed nor officially funded. The AEBF also lacks a permanent office or secretariat; its profile has therefore remained low, while the continuity of its activity has also been relatively weak.

III.5.c. To help effectively resolve the many obstacles facing ASEM trade and investment, the Task Force believes that it is necessary to draw on ASEM business communities in a manner which ASEM governments will take more seriously. To make the ASEM process more efficient and more fruitful, the Task Force believes it needs a stronger business exchange between Europe and Asia as well as a closer, more formal dialogue between political leaders and business leaders.

III.5.d. Therefore, the ASEM Task Force recommends that ASEM leaders create an official ASEM Business Advisory Council. The goal of this new ASEMBAC will be to promote trade and investment between Asia and Europe (See Annex VI).

III.5.e. Such a proposal is partially inspired by the experience and structure of the APEC Business Advisory Council (ABAC) and is aimed at supplementing the activities of the AEBF by creating a more powerful and lasting link between ASEM business communities and the policies of ASEM leaders, both within and beyond the context of the ASEM dialogue.

III.5.f. The Task Force suggests the following guidelines for the basic concept and structure of a new ASEMBAC: (1) ASEMBAC's main objective should be to make relevant recommendations based on a mandate from ASEM leaders; (2) ASEMBAC's members should be officially appointed, preferably from the current members of the AEBF; (3) Large, medium-sized, and small businesses should be represented from each country; and (4) ASEMBAC should enjoy some kind of official funding.

III.5.g. Furthermore, the Task Force emphasizes that the ASEMBAC should be a necessary complement to the AEBF, not a replacement. The Task Force therefore recommends that the AEBF should continue to organize the CEO summit so as to meet back-to-back with the ASEM summit.

IV. Conclusion

IV.1. The Task Force concludes that ASEM is of central strategic importance for both Asia and Europe, and that a new concerted effort to create a meaningful CEP is a key prerequisite for strengthening the ASEM process. The Task Force believes that the ASEM dialogue should continue to be deepened by engaging in more concrete forms of cooperation so as to facilitate positive evolution in both ASEM regions and in the Euro-Asian relationship.

IV.2. Finally, the Task Force is convinced that a stronger and more strategically-oriented Euro-Asian partnership will be beneficial for the world, helping to shape a more truly multilateral international system and a more stable and prosperous world order.

Annexes

I. Members List

II. ASEM Virtual Secretariat

III. ASEM YES Bond Market and Fund

IV. Eurasia and Energy

V. ASEM Virtual Promotion Center for Trade, Investment and Tourism

VI. ASEM Business Advisory Council

ANNEX I

ASEM TASK FORCE FOR CLOSER ECONOMIC PARTNERSHIP BETWEEN ASIA AND EUROPE

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**ASEM TASK FORCE FOR CLOSER ECONOMIC PARTNERSHIP
BETWEEN ASIA AND EUROPE**

**EUROPEAN MEMBERS
NAMES IN ALPHABETIC ORDER**

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ANNEX II

Proposal for the Creation of a Virtual Secretariat for the ASEM Process

Proposal: In order to strengthen the aim and facilitate the activities of the ASEM process, ASEM leaders should create a virtual secretariat which might be converted into a physical body sometime in the future.

The Development of the ASEM Process

During its initial years, ASEM has remained a strictly informal grouping, while the ASEM process has been mainly a “confidence-building” exercise. With the exception of the Singapore-based Asia-Europe Foundation (ASEF) -- which works to strengthen ASEM’s socio-cultural pillar -- and the ASEM Trust Fund (managed by the World Bank), ASEM has more or less eschewed the creation of formal institutional mechanisms.

Eight years after the inception of the ASEM process, the Hanoi Summit provides an opportunity for ASEM to embark upon a new phase of life. ASEM should consider a new arrangement in which the dialogue format might be enhanced by the pursuit of an agenda of concrete collaborative projects and the creation of certain *operational* institutions which would help ASEM deliver on such an agenda.

Rationale and Objectives for Institutionalization

The Asia-Europe Cooperation Framework (AECF) 2000 explicitly states that “as an informal process, ASEM need not be institutionalized.” Because ASEM operates on the basis of consensus, steps to institutionalize the ASEM process may contradict this rationale. The diversity of political systems, cultural sensitivities and historical factors shaping Asia and Europe may not be conducive to the institutionalization of ASEM.

However, the widening scope of ASEM-related activities, involving an increasing number of sectors and levels of society, seems to warrant an *operational* institutionalization of the ASEM process. Every year there are dozens of ASEM meetings which could be better documented in a uniform manner for the purposes of future reference. The rapid turnover of officials who handle ASEM matters in government agencies should also be taken into account. As a result of EU and ASEAN enlargements, ASEM membership could increase from 26 to 39 member countries by the end of 2004. Furthermore, the creation of a secretariat could improve ASEM’s public relations while facilitating superior documentation and distribution of information to concerned stakeholders.

Given the above considerations, there appears to be a need for a central repository of information along with a coordinative body to ensure the sustainability of ASEM and

the follow-through of its various projects and initiatives. Setting up such a coordinative body or mechanism would, however, entail financial implications for ASEM members in the form of staff salaries, infrastructure, travel and other expenses. Nevertheless, it seems that at present there is not enough support or preparedness to establish a firm structural focal point in the form of permanent secretariat.

Proposal: Therefore, the Task Force proposes that, in the meantime, ASEM leaders consider establishing some device which could function not legally but organizationally as a central point of collection, dissemination and exchange of information and views in the form of virtual secretariat.

The Virtual Secretariat would be a website where information on the ASEM process would be posted and regularly updated. The public would be able to access general information on ASEM and related activities. ASEM governments, through respective contact points in each ASEM pillar, would gain access to the interactive features of the website. They would be able to exchange information in real time through chat, voice-over-the-internet or video camera.

The Task Force nevertheless anticipates a likely need to convert the virtual secretariat into a permanent, physical ASEM Secretariat, complete with staff, facilities and budget, some time in the middle-term future.

ANNEX III

Proposal for the Creation of

ASEM YES Bonds and an ASEM YES Bond Fund

Proposal: ASEM leaders should take the initiative to create a regional bond market in East Asia that uses a basket currency comprised of the US dollar, the euro, and the yen (which might be called “YES” after Yen, Euro, and the US dollar). Furthermore, taking into account the interests of Asia and the EU, the ASEM leaders should also establish an ASEM YES Bond Fund to stimulate and support this initiative.

Introduction

This initiative will contribute to stable economic growth by helping prevent a recurrence of the Asian currency crisis and by linking savings with investment more effectively in the Asian region. It will also benefit the EU countries as the development of a regional bond market in Asia will expand the international use of the euro, along with business opportunities for European financial institutions and institutional investors, invigorating economic relations between Asia and the EU. The expanded use of the euro and the yen through this initiative will also help diversify the de facto mono-polar US dollar regime. In addition, it is expected that the ASEM YES Bonds and ASEM YES Bond Fund will play the role of a built-in stabilizer in the regional financial markets to reduce uncertainties and currency risks, thus leading to further stabilization of the global economy.

Creation of a Regional Bond Market in East Asia and an ASEM YES Bond as One of Its Central Instruments

The Regional Bond Market in East Asia

Although the government bond markets in East Asia have expanded to some extent, the role of domestic corporate bond markets is still limited, and it will take time to improve market institutions and infrastructure in order to alleviate information asymmetry between investors and fund-raisers that was a main cause of the mismatch of maturities. On the other hand, in order to mitigate the *double mismatch* of maturity and currency -- one of the principal sources of the Asian financial crisis – and to facilitate stable and consistent economic development in East Asia, there is an urgent need to promote their bond markets in a timely and effective manner.

There are other ongoing initiatives to develop Asian bond-related instruments such as the Asian Bond Market Initiative (ABMI) within the ASEAN+3 framework and the Asian Bond Fund (ABF) undertaken by the EMEAP (Executives’ Meeting of East Asia and Pacific Central Banks) Group. The ABMI is focusing on infrastructure to facilitate the issuance and trading of Asian bonds while the ABF is aiming at stimulating demand for Asia’s bond markets. Both initiatives ultimately aim to develop markets for Asian bonds denominated in local currencies.

Nevertheless, the ASEM Task Force proposes the creation of a regional bond market in East Asia based on a basket currency to supplement the domestic bond markets of the individual East Asian countries and these other regional initiatives mentioned above. In addition to providing Asian corporations with a means of raising long-term funds, the joint creation of a regional bond market in Asia by ASEM member countries will also benefit Europe by expanding the direct and indirect use of the euro. In order to develop the regional bond market, an Asian governments' initiative for a well-sequenced relaxation of restrictions on capital flows and financial institutions will be necessary. In turn, the promotion of the regional bond market, and the increased participation of overseas investors and financial institutions will itself facilitate a liberalization of capital controls.

The ASEM YES Bond

Currency mismatches can be resolved when a country uses its own currency instead of foreign currency in conducting cross-border fundraising. However, problems remain with the currency of issue for the regional bond market as many East Asian countries still place restrictions on the internationalization of their currencies and therefore hedging instruments are quite limited. While the ABMI and ABF initiatives are beginning to address these issues, there remains ample room for further supplementary efforts.

Accordingly, as a means of alleviating foreign exchange risks, the ASEM Task Force proposes the creation of bonds denominated in a basket currency that comprises the US dollar, the euro, and the yen. This bond will play the role of a central instrument for fostering the regional bond market. It would also expand the use of the euro in East Asia, benefiting Europe. For financial institutions of the euro zone countries in particular, this will lead to an expanded bond underwriting business and investment opportunities going beyond purely dollar-denominated and Asian currency-denominated issuances. The proportion of each currency in the basket could be based on the trade volumes of East Asian countries within the region as well as with the rest of the world.

A basket currency comprised of the US dollar, the euro, and the yen has the following advantages. First, these three currencies are widely used in offshore markets, are well trusted, have deep capital markets, and offer a variety of hedging methods. These features are highly significant for investors. In addition, the use of these trusted currencies that are already used in international transactions is likely to result in a greater use of the opportunity for the issuing of new bonds. This basket currency can be also utilized as a unit of account for the purchase and the repayment as well as for the pricing of the ASEM YES bond.

A pricing mechanism for the ASEM YES bonds can be easily established. As the liquidity of each of the currencies in this three-currency basket is quite high, the weighted average of the basket currencies can be simply calculated without taking any potential premium into account.

As the experience shows in the success of ECU bonds, the initial phase will require capacity building and technical assistance from the public sector to the

development of the ASEM YES bonds, especially in the field of legal, accounting and taxation for the effective development of the market. It will also need a continuous and policy-oriented issuance by public entities. In the next phase, it will be desirable for such credible entities as large corporations and financial institutions of East Asian countries to enter the market.

Creation of an ASEM Bond Fund

As a manifestation of ASEM economic cooperation, the ASEM Task Force proposes the creation of an ASEM YES Bond Fund (the Fund) to be invested in the ASEM YES bonds. This Fund will play an important role in developing the regional bond market in East Asia.

It would be appropriate to launch the Fund initially with at least €1 billion (or €1 billion equivalent) on the grounds that the success of the system would depend on its ability to create sufficient liquidity in YES units. Such a size for the Fund would seem to be sufficient to serve as a catalyst that would encourage other players to participate in the market, thus fostering the placement of ASEM YES bonds. The Fund would be incremented as the market expands. Contributions to the Fund could be made in euros from actors in the private or public sectors in the EU countries, similarly in yen from Japan, and in US dollars from other East Asian countries in proportion to the final composition of the basket currency. The Fund will be a powerful new investment body on the international financial scene.

ANNEX IV

Proposals concerning

Energy and Infrastructure Investment Collaboration on the Land Bridge between Asia and Europe

Proposal: that ASEM formally incorporate regular consultations on energy issues into its Economic Pillar, placing a broad range of common Asian and European energy concerns at the heart of the ASEM dialogue. At the same time, ASEM should consider the prosperity and stability of the territories constituting the land bridge between Europe and Asia as a new strategic priority for ASEM collaboration, and acknowledge that CEP should also aim to facilitate the long-run development of transportation, communication, water and energy infrastructure both within ASEM's regional partners and along the land routes that connect Europe with Asia

Given the common interests held by the majority of ASEM members as net energy consumers and importers, the Task Force recommends that ASEM members facilitate progress toward further ASEM collaboration on a number of common energy objectives including, among others, the strengthening of the policy dialogue between net energy producers and consumers.

The Task Force has also identified energy supply and infrastructure as another area of common strategic concern among ASEM partners. Most of ASEM's European and Asian partners are net energy consumers (importers) and will only become more dependent on the importation of scarce energy resources in the future. The security and stability of energy supply for ASEM members, and the potential for growing energy exports to contribute to growth and development in the territories connecting Asia with Europe, is an issue area where these two potential new strategic priorities of ASEM intersect.

Both as an objective in its own right, and as a concrete expression of what should become a new ASEM priority to promote the stability and prosperity of the Euro-Asian land bridge, the Task Force recommends that ASEM formally incorporate regular consultations on energy issues into its Economic Pillar, so as to place at the heart of the ASEM dialogue a broad range of common Asian and European energy concerns.

The common energy interests of ASEM members run the broad gamut of a number of key concerns, including the further exploration and production of existing and new energy sources; the creation and efficient regulation of energy transport and transit facilities; further transnational cooperation in the field of energy-related research, energy efficiency and conservation; improvement of regulatory frameworks for ensuring freer trade in energy products; promotion and safeguarding of energy infrastructure investments both in the ASEM region and in the territories along the land routes between Europe and Asia; the creation of open and non-discriminatory energy transit systems; and the facilitation of long-term financing for energy infrastructure projects.

This proposal is meant to complement the Task Force's general recommendation that **CEP should attempt to contribute to the prosperity and stability of the territories constituting the Eurasian land bridge linking Asia with Europe**

The stability and prosperity of the societies forming the land bridge linking Europe with Asia have been identified by the Task Force as a common strategic priority for ASEM partners. The Task Force believes that ASEM should strive to contribute to and reinforce the current evolution toward a more extensive connection of transportation, communications and natural resources infrastructure within this area.

Much of this region is composed of young states that are rich in natural resources, particularly energy, but which still lack sufficient transport, communications, water management and energy infrastructure facilities and regulatory mechanisms for turning such resource potential into tangible and sustainable prosperity.

As such, these societies remain highly vulnerable to political and economic instability which also make them potential breeding grounds for international terrorism. The Task Force believes that the stability and prosperity of these regions constitute a common interest among ASEM members. However, such areas do not just represent strategic risks to ASEM partners. Because many of these land bridge countries are actually either net producers of energy or potential net exporters, they also represent a significant opportunity to help stabilize the future energy supply of ASEM members through new forms of cooperation with the region. Therefore, CEP should include the pursuit of such a common interest as a priority for ASEM collaboration. The Task Force's general and concrete recommendations in this terrain are conceived of as the potential starting point for the articulation of a longer-term ASEM strategy in this regard

Both the inclusion of energy issues into the dialogue of ASEM's economic pillar and the encouragement of ASEM members to join the Energy Charter Treaty will contribute to progress toward strengthening the policy dialogue between net energy producers and consumers and will help ASEM members frame and approach their common interests in energy security and in the stability and prosperity of the territories constituting the land bridge between Asia and Europe.

ANNEX V

Proposal for the Creation of an

ASEM Virtual Promotion Center for Trade, Investment and Tourism

Proposal: ASEM Leaders should create a virtual ASEM Promotion Center for Trade, Investment and Tourism (ASEM VPC). This center should be housed on a new website to be housed and coordinated by Vietnam, and developed and managed by, first, the permanent AEBF contact points, and later, Ministry and other state officials in all of the ASEM member countries. The purpose of the ASEM VPC will be to facilitate exchange of information on trade, investment and tourism in the ASEM regions and improve the access of SMEs to such information.

Main functions and objectives of the ASEM VPC

As a result of the most recent EU enlargement in May 2004, and the recent enlargement of ASEAN, the territory of ASEM is now expected to become much larger. Consequently, the scale and volume of trade, investment and tourism among ASEM members should increase considerably. In such a promising context, it is reasonable – even necessary -- for ASEM to create an effective facility which might enhance import and export trade, foster investment flows and energize tourism activities between the two regions of ASEM.

The model for a Trade, Investment and Tourism Promotion Center has existed for years and has proved itself to be of great benefit to business activity, particularly that of small and medium-sized enterprises (SMEs). For example, the Japan-ASEAN Trade, Investment and Tourism Promotion Center has operated very effectively for 20 years. Such a facility, tailored to ASEM, would have the following principal objectives:

- To introduce and disseminate information on legal frameworks and policies, as well as best practices in trade, investment and tourism among ASEM members;
- To update and provide the latest information on the flow of trade, the investment environment, as well as tourism potentials among ASEM partners;
- To carry out worldwide advertisement and promotion campaigns for ASEM enterprises on their export products, investment interests and tourism services;
- To help ASEM enterprises to carry out market studies for taking advantage of opportunities in export-import trade, FDI, tourism transactions, project tenders, business forums, trade fairs, etc;
- To provide the latest information on business matching activities;
- To urge the concerned authorities of ASEM member states to pay regular attention to trade facilitation (on SPS, customs procedures, environmental standards, etc.) for ASEM trading partners.

- To develop and manage an ASEM Advisory Network of Senior Executives, conceived of as an essential program to aid in the development of ASEM SMEs, another of the Task Force's recommendations.

Operation of the ASEM VPC

Given the current important role of the AEBF in the ASEM cooperation process, we propose that the technical coordination and the cooperative framework of the ASEM VPC might be carried out in the following manner:

Stage One: Using the current personnel resources of the AEBF

Within the cooperation framework of the AEBF 9, six Working Groups (WG) should be established:

- (i) WG on Trade
- (ii) WG on Investment and Infrastructure
- (iii) WG on Tourism
- (iv) WG on Financial Services
- (v) WG on Information Technology and Communications
- (vi) WG on SMEs

Currently, each ASEM member has already nominated an expert, undertaking the role of a permanent contact point, who regularly coordinates the AEBF related activities of the local member. Therefore, we suggest that ASEM should appoint the current AEBF contact points to assume the role of the ASEM VPC contact point. These contact points will work in close cooperation with the WG on Trade, Investment and Infrastructure, Tourism and SMEs for updating information for the ASEM VPC.

Stage Two: Drawing on existing Ministry personnel in ASEM members

In the middle-run, each ASEM member should take over responsibility from the AEBF contact points and appoint an indirectly-responsible group of experts (working for the ASEM VPC while simultaneously fulfilling their daily assignments in their home country) from staff at related ministries or other state bodies involved in the areas of Trade, Investment and Tourism to be the contact points for the exchange and provision of information between the ASEM members and the host of the ASEM VPC.

ASEM VPC Management

Host of the ASEM VPC

The Task Force recommends that Vietnam, the host country for ASEM V, assume the role of hosting and coordinating the ASEM VPC. The infrastructure and technical equipment for the VPC website could be installed in Vietnam. In order to adequately fulfill the role of ASEM VPC host and coordinator, Vietnam should set up a specialized group to coordinate the work of the AEBF contact points mentioned in Stage One and the indirectly-responsible groups mentioned in Stage Two.

Operational Framework of the Contact Points

For cost-saving purposes, the Center's contact points will cooperate mainly by e-mail group and discussion forum via the website. However, contact points might also hold tele-conferences or informal meetings on the margins of the annual AEBF meetings to review their cooperation work during the previous time period as well as to identify priorities and plan for the coming year. The contact points could also choose to hold meetings independent from the annual AEBF.

Expenditure and funding

The expenditure for the start-up and maintenance of the ASEM VPC website should be funded by voluntary contributions from all ASEM members. Additional funding might also be raised from private sector businesses in the ASEM region given that this Center has been conceived of mainly serve to their interests. Businesses providing funding for the ASEM VPC would acquire privileged access to advertising and participation in ASEM trade fairs, investment marts, tourism weeks, etc.

ANNEX VI

Proposal for the Creation of an

ASEM Business Advisory Council (ASEMBAC)

Proposal: ASEM leaders should create an officially established business advisory council to promote the trade and investment between Asia and Europe.

The Need for an Officially Established Business Advisory Council

It has become more and more important to deepen the ASEM relationship through trade and investment between Asia and Europe, thus creating the potential to use their closer economic partnership as a balancing pillar in the world's geopolitical economic triangle. It is the business people who hold the key to setting this process in motion and therefore it is imperative to have these people more involved in ASEM decision-making and dialogues.

While the APEC has its official business advisory council (ABAC), the ASEM has no such official body, although it has encouraged the establishment of the Asia-Europe Business Forum (AEBF) to “bring about better conditions for trade and investment between the two continents, and give the opportunity to business leaders to inform the public authorities in a constructive spirit of the problems they are faced with and to make suggestions about possible solutions.” Accordingly, the AEBF was set up in 1996 as a voluntary business group. The AEBF has since been more or less involved in the discussions on IPAP (Investment Promotion Action Plan) and TFAP (Trade Facilitation Action Plan) in the SOMTI. However, AEBF interaction with the public sector is still limited and more effort should be made to intensify the input from the business sector to policy making.

One of the reasons for this limited interaction is that, in contrast to the case with the ABAC, the members of the AEBF are neither officially appointed nor officially funded. The AEBF therefore fails to exert a more pervasive influence on ASEM leaders. One benefit of creating a more formalized business council would be to give ASEM leaders an obligation to put its recommendations on their agendas and to draw some conclusions.

Another reason for the limited influence of the AEBF is that it lacks publicity or name recognition due to its nature as a strictly informal, voluntary body with no permanent office or secretariat. In contrast, the ABAC enjoys a permanent secretariat for coordination and a well-maintained website for information dissemination.

To solve the problems facing trade and investment effectively it is necessary to draw on some sort of input from business which the government should take seriously. In order to make the ASEM process more efficient and fruitful, it needs a stronger business exchange between Europe and Asia as well as a closer dialogue between political leaders and business people. Although one might argue that the creation of an institutionalized body such as ASEMBAC should be discussed in line with the institutionalization of the ASEM process, **the Task Force strongly proposes that ASEM leaders should create an officially appointed business council (ASEMBAC)**

which works in closer cooperation with governments and in a more consolidated framework than does the AEBF.

The Concept and Structure of the ASEMBAC

The ASEMBAC could be structured to function more or less along similar lines as the ABAC model. However, it is important to give the member countries greater latitude of freedom in choosing members as well as in funding its activities. The Task Force would like to propose the following mechanisms for the establishment of the ASEMBAC:

- The main objective of the ASEMBAC should be to make relevant recommendations for promoting trade and investment between Asia and Europe based on a mandate from ASEM leaders and support them to implement their policies on the recommendations.
- The governments should appoint members with public awareness from the business sectors who should work independently from governments. Governmental appointment is important because it would tend to encourage the ministers to pay more attention to the ASEMBAC and allow business to attain an imprimatur for their activities. It might be preferable for members to be drawn from the AEBF to demonstrate a close link between ASEM and the AEBF.
- The ASEMBAC should consist of at least three members per country – one member each to represent big businesses, medium-sized businesses and small businesses.
- The activities of this council should be officially funded, although detailed decisions on such matters should be ultimately left to each country.
- Depending on the details of expected activities, some consideration might be necessary for accommodating some kind of management body with secretariat functions (either a virtual or a lightly staffed secretariat).
- As the ASEM Vision Group once recommended, ASEM leaders might also consider the possibility of incorporating at least some government representatives into the ASEMBAC in order to lend it a higher profile.
- As for division of roles between ASEMBAC and AEBF, the AEBF should continue to organize the CEO Summit to meet back-to-back with the ASEM Summit meeting in the meantime, so as to secure the continuity of the relationship between the AEBF and the ASEM.