

25th June 2004

Issue Papers prepared by the Government of Japan

1. Following the discussions at the ASEAN+3 SOM held in Yogyakarta, Indonesia on 11th May 2004, the Government of Japan prepared three issue papers on the following subjects:
 - (a) An “East Asian community”
 - (b) The “functional cooperation”
 - (c) An “East Asia Summit”

2. The first paper on an “East Asian community” provides an overview of our efforts towards community building. This paper puts particular emphasis on the following points:
 - (a) Community building has now emerged as a shared future goal in East Asia.
 - (b) East Asia has witnessed the drastic expansion of intra-regional exchanges and other new developments after the late 90’s.
 - (c) Today’s East Asia is a center of vast economic potential and dynamism.
 - (d) ASEAN has hitherto played a leading role, and its role continues to be vital for community building in East Asia.
 - (e) We need to deepen and elaborate on the fundamental goals of community building through discussions in various forums.
 - (f) Approaches toward community building can be classified into three categories: (i) promotion of functional cooperation, (ii) future introduction of region-wide institutional arrangements, and (iii) creation of a “sense of community”.
 - (g) The functional cooperation plays a prominent role in East Asia.
 - (h) ASEAN+3 should continue to involve other regional partners in various forms of cooperation. Closer relations with other partners as well as with the global economy will benefit East Asia substantially.
 - (i) ASEAN+3 should continue to articulate principles such as openness, transparency, inclusiveness, and conformity with global norms and systems.

3. The second paper illustrates various aspects of the “functional cooperation”, to which unique importance is attached in East Asia. Main elements of this paper are:
 - (a) The functional cooperation is a natural choice for community building in East Asia, because it accommodates the unique diversity of the region.
 - (b) The 17 short-term measures of the EASG report cover most areas of the functional cooperation. This is a manifestation of acceptance by ASEAN+3 of the functional approach.
 - (c) The functional cooperation is in progress in various areas: trade and investment, IT, finance, transnational issues, development assistance, energy, environmental protection, food, health, intellectual property, etc.
 - (d) “Openness” and “flexibility” are the two key characteristics for effective functional cooperation in East Asia.
 - (e) A so-called “enmeshment process” which will be facilitated by the functional cooperation is indispensable for East Asia, where traditional ties among countries are comparably weak.
 - (f) It may be necessary to discuss the introduction of region-wide institutional arrangements at some future stage. The 9 middle- and long-term measures of the EASG report include those which may need institutional arrangements.
4. The third paper deals with an “East Asia Summit”, which is recommended by the EASG report as a “long-term measure with high priority”. This paper aims to identify and clarify important questions and implications related to an East Asia Summit, with a view to facilitating discussions on this subject. This paper covers questions on:
 - (a) Fundamental objectives of an East Asia Summit;
 - (b) The difference between the ASEAN+3 Summit and an East Asia Summit (objectives and agendas; membership; ownership and comfort levels); and
 - (c) The organizational aspects.
5. The purpose of these three issue papers is to facilitate discussions in various ASEAN+3 forums, including the Foreign Minister Meeting Jakarta scheduled on 1st July 2004 as well as SOMs and DG level meetings. The Government of Japan has an intention,

if it could be tasked with, to draft a concept paper on these subjects upon the basis of further discussions in various ASEAN+3 meetings, for the preparation of the ASEAN+3 Summit Meeting scheduled to be held in Lao PDR in November 2004.

Issue Paper 1
On an “East Asian community”

Background of the Growing Interest in “Community Building” in East Asia

1. “Community building” has now emerged as a shared future goal in East Asia. It is frequently discussed in various forums by government officials, business community, academia, and think-tanks. For many years, however, “community building” was an unfamiliar concept to East Asia. The region has been characterized by the unique diversity in levels of economic development, traditional values, culture, ethnicity, religion, language, political regimes, etc. The traditional ties among countries in the region have been comparably weak throughout history. During the era of the Cold War, political and ideological barriers hindered closer regional cooperation.
2. What has made community building a shared future goal in East Asia? This change has been brought primarily by the drastic expansion of intra-regional exchanges and increased interdependence among countries in the region, particularly after the late 90’s. During this period, some countries in the region have achieved remarkable economic development, and the accelerated process of globalization has made relations among countries in the region ever closer.
3. The change has also been facilitated by a growing awareness of enormous potential and opportunities, which could be realized by closer regional cooperation. Today’s East Asia is a centre of vast economic potential and dynamism. A third of the world population resides in this region. Its share of the global GDP accounts for one fifth, and countries in the region now hold about a half of the world foreign reserves.
4. It is also noteworthy that two major incidents after the late 90’s played a role of vital catalyst. One is the financial crisis in 1997, which awakened people of the region to the need of a regional approach to secure their prosperity. The other is the terrorist attacks on 11th September 2001, which underscored the importance of regional cooperation in addressing terrorism and other transnational issues. After these incidents, regional networks of functional cooperation have spread swiftly in

wide-ranging issues, such as finance (the Chian Mai Initiative and the Asian Bond Market Initiative), transnational issues (terrorism, illicit drug trafficking, sea piracy, trafficking in persons, and non-proliferation), etc.

5. Progress of “community building” is not unique to East Asia. Rather, it is a common phenomenon in today’s world. In Europe, the EU has expanded to a 25 member state body, and has adopted the Constitution for Europe, which would further integrate the member countries. In North America, trade among the US, Canada and Mexico has increased since NAFTA (the North American Free Trade Agreement) entered into force in January 1994, creating an area of closer economic relationship. Such global trends toward community building have also encouraged East Asia to further its own efforts.

The Key Role Played by ASEAN

6. ASEAN has always played a leading role in regional cooperation in East Asia. It has hosted a number of key forums of regional cooperation, including ASEAN+1s, ASEAN+3, PMC, and ARF. These forums have nurtured the basis of community building in East Asia.
7. In 1999, the leaders of ASEAN+3 issued at Manila the “Joint Statement on East Asia Cooperation”, which stressed the importance to promote regional cooperation in wide-ranging issues at various levels. In November 2001, the East Asia Vision Group submitted to the ASEAN+3 leaders a report which envisioned an East Asian community, and suggested ideas toward community building. In November 2002, the East Asia Study Group submitted to the ASEAN+3 leaders a final report which recommended the 17 short-term measures and the 9 middle- and long-term measures to achieve a future goal of community building. These developments under the ASEAN+3 framework have provided a solid foundation and political momentum for future efforts.
8. ASEAN has also taken major initiatives in promoting cooperation and integration among the ASEAN countries, such as the initiative to create the ASEAN Free Trade Area by 2010, and the proposal to establish the ASEAN Security Community, the ASEAN Economic Community and the ASEAN Socio-cultural

Community under the Declaration of ASEAN Concord II issued at Bali, Indonesia last year. These initiatives taken by ASEAN will continue to be a vital catalyst in propelling region-wide efforts toward community building.

9. It is also encouraging that the three major partners in Northeast Asia, namely Japan, China and the Republic of Korea, have recently begun to mutually strengthen their relations, with a view to formulating the “Action Strategy on Trilateral Cooperation” by this autumn.

Fundamental Goals of Community Building

10. The EAVG report summarized the goals of an East Asian community into four points:
 - To cooperate to promote a stable and cooperative security environment based on mutual trust and respect,
 - To promote trade, investments and financial cooperation in the interest of common prosperity,
 - To be mindful of disparities in socio-economic development, educational attainment and technological advancement within the region,
 - To improve governance, strengthen basic rights and advance quality of life for human progress.
11. We need to continue our efforts toward deepening and elaborating on our goals of community building through discussions in various ASEAN+3 meetings, including the East Asia Forum and the Network of East Asia Think-Tanks, and other international forums, securing a wide participation of academia, think-tanks, the business community and the NGOs. In this context, we recall that the “Tokyo Declaration” issued at the Japan-ASEAN Commemorative Summit last December envisions an East Asian community “which is outward looking, endowed with exuberance of creativity and vitality and with the shared spirit of mutual understanding and upholding Asian traditions and values, while respecting universal rules and principles.”

Approaches toward Community Building

12. Approaches toward community building in East Asia can be classified into three categories: (a) promotion of the functional cooperation in wide-ranging issues (the “functional approach”); (b)

future introduction of region-wide institutional arrangements (the “institutional approach”); and (c) creation of a “sense of community” through various means including promotion of intra-regional interactions, narrowing the developmental gaps among countries in the region, and creation of shared identity based on common values and principles.

13. The functional cooperation plays a prominent role in community building in East Asia, as described in another issue paper on this subject. It is because such an approach accommodates the diversity of the region, in which the institutional approach is less feasible in comparison to other regions. The functional approach also facilitates the so-called “enmeshment process”, which is indispensable for forging a sense of community in East Asia. In view of the above, the functional approach is a natural choice for community building in East Asia. The 17 short-term measures in the EASG report cover most areas of the functional cooperation.
14. Community building cannot be achieved by the mere promotion of the functional cooperation. It may be necessary to discuss the introduction of region-wide institutional arrangements at future stages. The EASG report recommends some middle- and long-term measures, which may need institutional arrangements, such as an East Asian Free Trade Area; a regional financing facility; a more closely coordinated regional exchange rate mechanism; and an East Asia Summit. With respect to institutional arrangements, there are some fundamental questions. Should we establish rigid institutional arrangements in future like the EU? Or should we seek our own ways of institutional arrangements, which would be more flexible and open, so that they could fit the unique diversity and other characteristics of East Asia? We need to examine these questions seriously at some stage.
15. The creation of a “sense of community” may be the most challenging and inventive part of community building in East Asia. It is probably the first attempt in history to create a community on this scale in a region in which people are so diverse, and the traditional ties among countries are so weak. How can we create a sense of community in such a region? It is certainly a demanding task, and we need to deploy all possible means.

One of these means is the promotion of the functional cooperation. The enmeshment process facilitated by the spread of functional cooperation networks will help forge a sense of closeness amongst the people in the region. Another possible avenue is to narrow the developmental gaps among countries in the region. To this end, the Initiative for ASEAN Integration (IAI), the Mekong River basin development programs, and the BIMP-EAGA development programs will play a vital role. The most difficult task, however, may lie in creating a shared identity based upon common values and principles. What are common values and principles that we share in East Asia? Are we not too diverse to share them? Even on universally recognized principles, like democracy and human rights, our positions sometimes differ. Asian values and traditions may also provide certain grounds for commonness. But they are often shared only among people of the same ethnic and other belongings.

16. At present, we have no clear answers on this point. We need to continue our strenuous search for a shared identity. The “Bali Concord II” is full of suggestive clauses which are conducive to this purpose. The “Tokyo Declaration” announced at the Japan-ASEAN Commemorative Summit last December also provides some indication for such efforts. In addition, the promotion of East Asian studies and the so-called “Asian Barometer Initiative”, a regular and comprehensive survey on daily lives of ordinary Asian people, may also serve this purpose.

Scope of Membership and Relationship with Other Partners

17. The scope of membership of an East Asian community is yet to be defined. It is certain that the ASEAN+3 countries are core members. The question is who else should be included? Australia and New Zealand are essential partners in various forms of regional cooperation, and are now discussing to hold a commemorative Summit with ASEAN. India also plays an increasingly important role in regional cooperation, and holds a regular Summit with ASEAN. As the scope of membership is a crucial determinant to an East Asian community, it may not be defined for the time being.
18. ASEAN+3 should continue to be mindful of the importance of providing sufficient opportunities to other partners to participate

in regional cooperation. Closer relationship with other partners as well as with the global economy will benefit East Asia substantially. In this context, it is essential that ASEAN+3 continue to articulate the basic principles of community building, such as openness, transparency, inclusiveness and conformity with global systems and norms, so as to ensure that community building in East Asia is welcomed and blessed by partners both within and beyond the region.

Issue Paper 2

On the “Functional Cooperation”

Rationale of the “Functional Cooperation” in Community Building in East Asia

1. East Asia is a region of diversity. Countries in this region differ substantially in levels of economic development, traditional values, culture, ethnicity, religion, language, political regimes, etc. This is a unique feature of East Asia, compared to other regions. Throughout history, the activities of communities in East Asia remained fairly separate, and no single power has ever dominated the entire region. The creation of the ASEAN was probably the first spontaneous attempt to introduce a regional grouping in East Asia. But its modality was very flexible as reflected in the so-called ASEAN way. The Cold War situation also hindered closer relations among countries in the region.
2. In today’s East Asia, however, relations among countries in the region have become ever closer, and the scale of intra-regional exchanges has reached an unprecedented level. Such drastic changes have been brought about by the dynamic economic development in the region as well as by the accelerated process of globalization. The financial crisis in the region in 1997 and the terrorist attacks on 11th September 2001 played a vital role as a catalyst for awakening people of the region to the acute need for regional initiatives to secure their security and prosperity. Closer relations among countries in the region have also made transnational issues increasingly relevant to the welfare and security of people in the region. Such transnational issues include terrorism, illicit drug trafficking, sea piracy, trafficking in persons, etc. Against this backdrop, countries in the region started to seriously discuss building an East Asian community, and various efforts were started to meet this end.
3. A unique characteristic of community building in East Asia is that more importance is attached to the functional cooperation in comparison to other regions. It is because, (a) the idea of community building in East Asia was originally inspired by the progress of various functional cooperation in the region as described above; (b) such an approach accommodates the diversity

of the region in which application of unified rules and establishment of region-wide mechanisms are less feasible in comparison to other regions; and (c) promotion of the functional cooperation does not lead to constraints on the sovereignty which no country in the region is ready to accept. In view of the above, the so-called functional approach is a natural choice for community building in East Asia.

The East Asia Study Group Report

4. The report issued by the EASG in 2002 is a manifestation of acceptance by the ASEAN+3 countries of the functional approach. The 17 short-term measures described in the report cover most areas of the functional cooperation currently underway in the region. The report also advocates the future implementation of the 9 middle- and long-term measures, including formation of an East Asia Free Trade Area, establishment of a regional financing facility, pursuit of a more closely coordinated regional exchange rate mechanism, etc. These middle- and long-term measures illustrate the future direction of the functional cooperation in East Asia.

Progress of the “Functional Cooperation”

5. Progress of the functional cooperation in East Asia has been periodically reviewed under the framework of ASEAN+3, in the form of the “Progress Report on the Implementation of EASG’s Short-Term measures” as well as the “Review of the Implementation of the Joint Statement on the East Asian Cooperation”. The functional cooperation is in progress in the following areas:

- Trade and Investment (Economic Partnership Agreements, etc.)
- IT (the Asia IT initiative, the Asia Broadband Initiative, etc.)
- Finance (the Chiang Mai Initiative, the Asian Bond Market Initiative, etc.)
- Transnational issues (terrorism, illicit drug trafficking, sea piracy, trafficking in persons, non-proliferation, etc.)

- Development assistance (IAI, the Mekong Region Development, BIMP-EAGA, HRD, etc.)
- Energy (energy security)
- Environmental protection
- Food (food security, avian flu, etc.)
- Health (SARS and other infectious diseases)
- Intellectual property

“Openness” and “Flexibility”

6. As the functional cooperation is conducted in a wide-range of issues, the optimum modality of the cooperation differs from one issue to another. Nevertheless, “openness” and “flexibility” are two key characteristics for effective functional cooperation in East Asia. The swiftly spreading networks of the economic partnership both within and beyond the region illustrate these two characteristics. The first economic partnership agreement in East Asia was signed between Japan and Singapore in 2002. The subsequent spread of economic partnership networks in East Asia was truly remarkable. The ASEAN signed the framework for Comprehensive Economic Partnership with Japan, China and India by the end of the following year. ASEAN is now discussing similar CEP arrangements with Australia and New Zealand (CER) as well as the Republic of Korea (ROK). Some ASEAN countries have already signed bilateral FTA with Australia, and are also consulting and negotiating bilateral FTA with Japan and US. Japan and ROK have also started negotiations on bilateral FTA. Thus the networks of East Asian FTA arrangements have already gone beyond the limits of the region. Their modality is also very flexible, and the contents of FTA arrangements differ substantially from one another. Another good example is the cooperation on combating human trafficking and people smuggling under the “Bali Process”. Currently up to 38 countries participate in the “Bali Process”, as it is essential to involve as many countries as

possible both within and beyond the region, in order to control transnational human trafficking effectively. The modality of cooperation under the “Bali Process” is also very flexible. Participating countries may contribute to the Process in various forms based upon their merit and intention. The Process is of voluntary and non-binding character. In the realm of sea piracy, as many as 16 countries are now participating in the negotiation on the “Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia”, because of the transnational character of anti-piracy cooperation.

The “Functional Cooperation” and Community Building

7. The promotion of functional cooperation will contribute to community building in East Asia in many ways. The spread of regional cooperation networks in wide-ranging issues will facilitate closer interdependence among countries in the region. Such networks will benefit many people in the region, and will help them realize the enormous potential of closer regional cooperation. They will also provide increased opportunities for people-to-people contacts, through which a sense of closeness could be forged amongst people in the region. These outcomes of the functional cooperation are called an “enmeshment process” by some experts. Such a process is indispensable for community building in East Asia, where traditional ties among countries are comparably weak, and a sense of community should be forged through increased intra-regional interactions.
8. However, an East Asian community cannot be forged through the mere promotion of the functional cooperation. It may be necessary to discuss the introduction of region-wide institutional arrangements at some future stage. This is smartly reflected in the EASG report, which suggests countries in the region to initially undertake the 17 short-term measures, and then to move on to the 9 middle- and long-term measures at a later stage. These middle- and long-term measures include those which may need some form of institutional arrangement, such as an East Asian Free Trade Area, a regional financing facility, a more closely coordinated regional exchange rate mechanism, and an East Asia Summit. Are we ready to move to the middle- to long-term measures? Some of our leaders have already begun to argue that we should

undertake the middle- and long-term measures from the year 2006, which is the 10th anniversary of the ASEAN+3 summit. We are now approaching a stage which demands serious discussions on this crucial question.

Issue Paper 3 On an “East Asia Summit”

Background and the Purpose of this Issue Paper

1. The idea of an East Asia Summit was initially mentioned by some leaders at the ASEAN+3 Summit in Singapore in 2000. In 2001, the East Asia Vision Group (EAVG) recommended the ASEAN+3 leaders to pursue the idea of evolving the ASEAN+3 Summit into an East Asian Summit. In 2002, this recommendation was endorsed by the East Asia Study Group (EASG) report as a “long term measure with high priority”.
2. In recent meetings of ASEAN+3, an East Asia Summit has been discussed as a realistic option in the near future. Some countries have already expressed their willingness to host the first round of an East Asian Summit. An East Asia Summit will be an important institutional framework to promote community building in East Asia, and the commencement of such Summit will have historic significance for the future of East Asia. Hence it is imminent to thoroughly discuss various implications of an East Asia Summit at this stage.
3. In this paper, we are aiming to identify and clarify important questions and implications related to an East Asia Summit, taking into account the EASG report and other relevant materials. This paper does not attempt to present answers to these questions. Rather, its purpose is to facilitate further discussions among countries concerned.
4. On the basis of such discussions, the Government of Japan is willing to propose a concept of an East Asia Summit as part of the concept paper, which it would draft for the preparation of the ASEAN+3 Summit Meeting scheduled to be held in Lao PDR in November 2004.

Fundamental Objective of an East Asia Summit

5. The first question on this matter is “What is the fundamental objective of holding an East Asia Summit at this stage?” There are a number of questions related to this, such as:
 - Can we deliver a sufficiently substantive outcome from an East Asia Summit, which will most likely raise extremely high

- expectations owing to its prominence as a historic event?
- Are we trying to agree on the commencement of a full-fledged process toward community building in an East Asia Summit?
 - If the answer is “Yes, we are.”, is it possible to be ready to commence such a process before the Summit? If the answer is “No, we are not.”, what other outcomes can we deliver as a result of such a historic Summit?

Difference between the ASEAN+3 Summit and an East Asia Summit

6. The second question is “What is the difference between the ASEAN+3 Summit and an East Asia Summit with regard to objectives, agendas, membership and other basic terms?” There are many questions related to this issue, such as:

(Objectives and agendas)

- What is the difference in objectives between the ASEAN+3 Summit and an East Asia Summit?
- Will an East Asia Summit replace the ASEAN+3 Summit? Or will both Summits coexist?
- If both Summits coexist, what is the division of roles? Is it not necessary that the ASEAN+3 framework continues to function as a vehicle for East Asian cooperation?
- What is the difference in agenda between the two Summits? Is there an agenda that could be discussed only in an East Asia Summit, and not in the ASEAN+3 Summit?

(Membership)

- Will membership differ between the ASEAN+3 Summit and an East Asia Summit?
- If the membership is different, who will be new members? Will such new membership prejudice the scope of an East Asian community?
- If the membership is the same, is there a merit in holding an East Asia Summit?
- ASEAN now holds a regular Summit with India, and is discussing to hold a commemorative Summit with Australia and New Zealand (CER). Can we continue to regard ASEAN+3 as the basis of evolution toward an East Asia Summit?

(Ownership and comfort levels)

- Will ASEAN maintain a degree of ownership in an East Asia

Summit? Or will each participant enjoy equal status?

- How can we avoid the marginalization of ASEAN? How can we give greater ownership to the +3 countries?
- In an East Asia Summit, will it be possible to maintain and enhance comfort levels, which we have enjoyed under the ASEAN+3 framework?

Organizational Questions

6. The third is a set of questions regarding organizational aspects, such as:

- Will an East Asia Summit be held only in the +3 countries? Or will it be held both in ASEAN and the +3 countries?
- If one of the +3 countries hosts an East Asia Summit in a given year, is it feasible for the ASEAN presidency to host a ASEAN+3 Summit in the same year?
- If the ASEAN+3 Summit is not held in such a year, will the ASEAN presidency miss its turn in hosting the ASEAN+3 Summit?
- If one of the +3 countries hosts an East Asia Summit, which country will lead the preparation and chair the meeting? Will it be the host country or the ASEAN presidency? Or will they co-chair the meeting?
- What will be the frequency of an East Asia Summit? Will it be held every year, or once in several years?
- How will the host country of an East Asia Summit be decided? Will it be decided on a rotation basis?
- If both ASEAN and the +3 countries host an East Asia Summit, how will the rotation order be decided among the 13 countries?
- How can we manage the differences in rotation orders between the ASEAN 10 and the ASEAN+3?
- How can we avoid duplication of tasks and manage proliferation of meetings?