

**Policy Recommendations on
“Japan-ASEAN Cooperation amid the Financial and Economic Crisis”
to the Governments of Japan and ASEAN Member Countries**

**by
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One year after the global financial crisis erupted in the United States, Japan and ASEAN have experienced adverse impacts on their economies, which have differed in scale and severity from country to country, and responded with monetary and fiscal policy expansion and financial sector-support measures. Japan and ASEAN economies have shown resilience and are now experiencing a nascent recovery, helped by government measures and expenditures which, in a number of cases, have been beyond the norm.

Looking ahead, Japan and ASEAN face challenges to ensure their recovery and growth is sustained. These challenges will mean that countries in the region may not return to the economic paradigm that existed prior to the crisis, with such a predominant dependence on external demand from markets in the West, especially the US.

Instead, Japan and ASEAN member countries must strengthen their cooperation, seek new and more diverse growth engines and rebalance their economies. In rebalancing their economies, measures to increase domestic and regional demand must be considered as the key priority for the medium to longer term. These efforts will require intensive economic and financial cooperation and will contribute to the greater integration and resilience of the Asian economy and the creation of an East Asian Community.

The 8th Japan-ASEAN Dialogue co-sponsored by the Global Forum of Japan and the ASEAN Institutes of Strategic and International Studies wishes to present its policy recommendations to the Governments of Japan and ASEAN member countries as follows:

Resilience, Transparency and Enhanced Cooperation

1. Japan and ASEAN should resist the temptation of protectionism of any form and refrain from introducing new barriers that can prevent a free flow of trade and investment. Working together and with other

institutions and in intergovernmental forums such as APEC and ASEAN Plus Three, Japan and ASEAN should strengthen their monitoring work on measures that might reduce freer trade, including non-tariff barriers, and promote trade facilitation and other efforts to help increase trade and investment flows.

2. Japan and ASEAN should give consideration and support to expansion of mechanisms such as the Chiang Mai Initiative Multilateralization (CMIM), to strengthening of financial oversight and stability, and to development of early warning systems among Asian economies.
3. A key factor to maintain and increase resilience is to strengthen governance (or government quality), compliance and transparency. This is especially needed where government expenditures have been substantially increased as a response to the crisis. It can also be a factor in attracting and enabling the flow of foreign direct investment. Japan and ASEAN should address such issues as corruption, red tape and other malpractices to improve business environments.

Towards a Balanced Growth

4. Economic and financial policies and stimulus packages are playing key roles in the present nascent recovery and should be maintained for the present so that recovery can take root. However, such policies and measures cannot be sustained indefinitely. As such, Japan and ASEAN should start to review existing fiscal and monetary policies in order to develop credible and coherent exit strategies.
5. Even as a nascent recovery is beginning, most analyses are that household consumption in the US and Europe will not resume at pre-crisis levels. Japan and ASEAN should therefore not predicate their future growth on the assumption that such markets will remain a predominant source of growth for export-oriented Asian economies. Instead, the region should seek out new markets—such as those created by the rising middle-class in emerging Asia—and aim, in the medium to longer term, to rebalance growth toward greater domestic and regional demand.
6. Recognizing this need to develop domestic and regional demand in Asia, the governments of Japan and ASEAN should pursue policies with the aim of increasing disposable income and personal consumption on a

sustainable basis. In particular, they should consider fundamental reform of social safety nets to provide households with greater certainty and security about their future and, thus, help reduce precautionary savings.

7. Increasing productivity, skills and knowledge of people will be critical to rebalance the East Asian economies in the medium and long term. As such, Japan and ASEAN should continue to strengthen the capacity of their people, especially their workers. Governments must invest in education, training and other skill-building activities to help the labor force adapt and gain from participating in the changing global economy.
8. Attracting and enabling foreign direct investment by both FDI receiving and FDI exporting countries will be another important way to sustain growth for the future. Japan and ASEAN member countries should review and improve their regulatory frameworks for FDI.

Areas to be strengthened for Japan-ASEAN Cooperation

9. In moving toward a regional demand-oriented economy in East Asia, Japan and ASEAN should embark upon the following areas of cooperation:
 - 1) East Asia-wide Economic Partnership Agreement
By consolidating various existing free trade and economic partnership agreements into an integrated, single East Asia-wide agreement, greater trade and investment opportunities will be created.
 - 2) Facilitation of Long-term Potential Areas
Investment should be facilitated in areas with long-term potential and equal benefit, e.g. soft infrastructure, such as human resources and information and communication technologies (ICT), and hard infrastructures, including domestic and cross-border ones, such as the Greater Mekong Subregion (GMS) Development Program, and green technologies. Public-private partnership (PPP) in infrastructure and other sectors should also be enhanced and small and medium-sized enterprises (SMEs) and community-based businesses should participate in, and gain from, these developments.
 - 3) Financial Market Development and Integration
In order to recycle Asia's high savings for regional investment, the Asian Bond Markets Initiative (ABMI) should be accelerated by establishing a Credit Guarantee and Investment Mechanism (CGIM) to

provide guarantees for local currency bond issuance. Other means to increase confidence and interest in Asian local-currency bonds should also be considered to help the capital markets grow and mature.

4) Towards an Asian Monetary Fund (AMF)

The process of Chiang Mai Initiative Multilateralization (CMIM) and the establishment of the surveillance unit must be encouraged and strengthened. This has the potential to pave the way for the creation of an AMF, which can play a vital role for financial stability in the crisis by productively utilizing the large foreign reserves held by many Asian economies, and facilitate higher domestic and regional demand.

5) Exchange Rate Policy Cooperation

Japan and ASEAN should strengthen cooperation on exchange rate policy to reduce the risk of intra-regional currency misalignments. This is important because of the resurgence of capital inflows into Asia with increased global financial stability and the tightening of monetary policy as Asian economies recover.

6) Implementation of the ASEAN Economic Community Blueprint and the ASEAN-Japan Comprehensive Economic Partnership

While ASEAN should play a vital role in encouraging own market integration, Japan should help ASEAN implement both the ASEAN Economic Community Blueprint and the ASEAN-Japan Comprehensive Economic Partnership for deepening the economic integration amongst the ASEAN member countries and between them and Japan.

7) Integration of ASEAN capital markets

Japan should help ASEAN in its efforts to integrate their capital markets through technical assistance, in order to foster stronger coordination and monitoring processes at both national and regional levels within ASEAN.

8) Setting up of an ASEAN Infrastructure Investment Fund

Japan should support ASEAN in its efforts to create an ASEAN Infrastructure Investment Fund through financial and technical assistance, to strengthen economic capacity in ASEAN member countries.

9) Narrowing the development gap within ASEAN

Japan should support ASEAN in its efforts to promote effective cooperation and mutual assistance to narrow the development gap among ASEAN member countries.

10) Human resource development and education

Japan and ASEAN should stimulate investment in human resource development—such as education—particularly in science, technology and engineering.

- 11) Improvement in energy efficiency and promotion of renewable resources

Japan and ASEAN should also stimulate investment in green growth. Japan should support ASEAN, particularly in renewable energy development, energy conservation, and environmental improvements, as a way to jointly address climate change.

- 12) Improvement in food security

Japan should support ASEAN in its efforts to achieve food security, by way of strengthening a regional mechanism in support of food regulation, food control and emergency food assistance.

Increasing Role of Japan

10. Japan has traditionally been a key economic leader in the region with its investment, trade, technology transfer and official development assistance (ODA). Japan should strengthen its links with ASEAN, so that it can benefit from the region's growth dynamism while supporting this growth through enhanced economic and financial cooperation for the integration of an East Asian Community. In this regard, Japan should pursue the following efforts:

- 1) Restoring sustainable growth and further opening up its market to ASEAN goods, services, investment and skilled labor.
- 2) Re-focusing Japan's Official Development Assistance to support less developed ASEAN member countries in their efforts to cope with the crisis and restructure their economies towards greater integration and connectivity.

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