

Concept of Asian Economic & Environmental Community

By Noriyuki MITA

1. Introduction

The graying of society coupled with a falling birthrate is progressing in Japan at the fastest pace in the world. The Japanese economy, once called “Japan as Number One,” has remained sluggish for the last decade, with the international rankings of its gross domestic product (GDP) per capita falling sharply.

In the meantime, the United States and EU member countries – the same advanced nations also faced with slowing growth as Japan – position overseas strategies, especially an Asia strategy, as a main pillar of their economic growth strategies. On the front of free trade agreements (FTAs), for instance, they are spreading their wings from neighboring countries to Asian nations.

Japan, too, needs to promote the concept of “contributing to the development of Asia and growing with Asia” as the linchpin of its growth strategy as the economy matures, the birthrate dwindles and the population ages, making full use of its geographical advantage of being located in Asia – a region that has one of the world’s highest growth potentials.

To materialize such a growth strategy, the Ministry of Economy, Trade and Industry (METI), the Ministry of Environment (MOE) and other related government agencies have jointly come up with a response – the concept of “an Asian Economic and Environmental Community.” This report outlines the current state of Asia that lies behind the concept and what the concept is seeking to realize.

2. Background of Concept – Current State of Asia

Amid the progress of globalization, the Asian region is developing markedly as “the world’s growth center.” In particular, Japanese business investments have helped spur division of labor between processes of production. As a result, the Asian region has now firmly established its status of “a factory of the world.” Moreover, the development of production networks in the Asian region has contributed to boosting the ratio of intraregional trade to 44.3%, surpassing that of the North American Free Trade Agreement (NAFTA) area. The effective integration of Asian economies is thus advancing rapidly (*Chart 1*).

Since the turn of this century, Asian countries have concluded FTAs and economic partnership agreements (EPAs) one after another, with the Association of Southeast Asian Nations (ASEAN) acting as the hub. In addition, moves are afoot among them to remove and curtail regional trade barriers centering on customs duties and other border-related systems.

Reflecting fast economic growth, the number of middle-class people is increasing rapidly in major Asian cities such as Shanghai, Singapore, Bangkok and Mumbai, with common lifestyles spreading among them. There are burgeoning signs that Asia as a whole is developing into an affluent, prosperous society.

While there are numerous elements permitting Asia to continue growing and developing further, major bottlenecks can be seen, such as the disparity of economic development in the region, environmental questions, energy supply constraints, lack of infrastructure and the inadequate development of human resources.

Regarding the development disparity, for example, Japan’s per capita GDP is 92 times that of Cambodia, far higher than six times for the United States/Mexico under NAFTA and 24 times for Luxembourg/Bulgaria in the EU (*Chart 2*).

As for environmental aspects, industrial and urban-type environmental pollution has become a serious problem in China and ASEAN. They also face such questions as acid rain and air pollution by smoke stemming from wildfires.

Moreover, raising the efficiency of using energy and resources is an urgent challenge today amid soaring energy and resource prices (energy efficiency in China and India is only about one-eighth that of Japan, *Chart 3*). Low energy efficiency constitutes a grave impediment to sustained economic growth in the Asian region. Given that both CO₂ emissions and energy consumption in Asia are projected to account for about 40% of the global total (*Chart 4*), the resolution of environmental problems and energy constraints is expected to greatly contribute to settling worldwide questions such as global warming.

These bottlenecks cannot easily be resolved by individual efforts of Asian countries. The Asian region as a whole needs to work together.

3. An Asia Eyed by “Asian Economic & Environmental Community” Concept

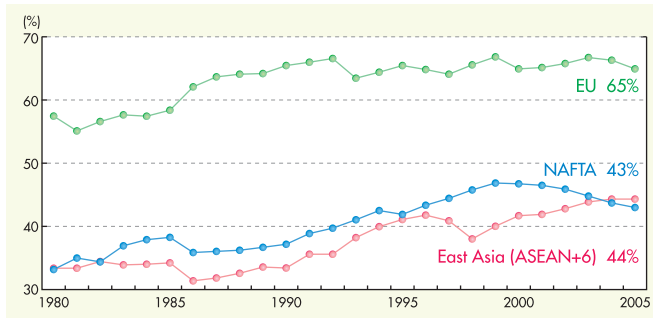
Under such circumstances, we believe now is the time for the wider Asian region, including ASEAN, Japan, China, South Korea, India, Australia and New Zealand, to work together to resolve these bottlenecks, with economic and environmental perspectives as an axis. In so doing, we should position the concept from the context of the Asia-Pacific region as a whole, seeking to contribute to global economic development.

We envision an early effectuation of the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) and promotion of the Comprehensive Economic Partnership in East Asia (CEPEA) concept. Furthermore, with various forms of Asia mentioned below as its goals, we seek to promote a broader, deeper regional integration so that an affluent, prosperous Asia will be achieved. This is an undertaking for which Asian countries will work together under the shared recognition that all of Asian countries should prosper as a community. We call it an “Asian Economic and Environmental Community” concept. (Therefore the concept itself is not meant to create a new institution.)

(1) A developing Asia harmoniously coexisting with the environment

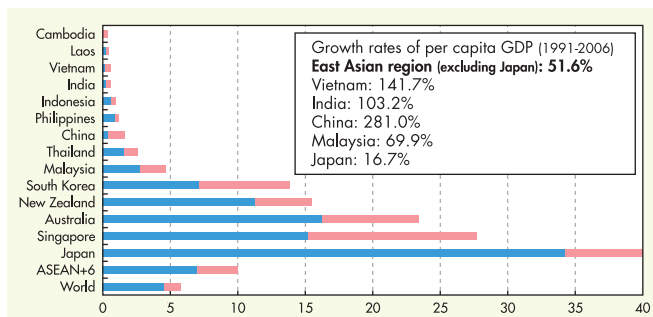
In order to secure sustained economic development while clearing environmental problems and energy constraints, it is absolutely

CHART 1
Trends in intraregional trade ratio of each region



Source: *The Direction of Trade Statistics, International Monetary Fund*

CHART 2
Per capita GDP (US\$1,000) of Asian countries (trends in 1991 through 2006)



Source: *World Development Indicators, World Bank (some data based on estimates)*

imperative to build an Asia that seeks economic development while harmoniously coexisting with the environment. To this end, Japan will seek to spread its experience, technologies and systems in a package of expertise and achieve “a low-carbon, resource-recycling Asian model.” In addition, it aims to form a value chain meant to create environmental values by promoting environmental solutions services and taking other measures.

(2) An Asia that leads growth

The concept seeks to further strengthen a regional production network through the liberalization of transfers of human resources, goods, capital and information so that Asia will be able to lead global economic development as a growth center. At the same time, the concept aims to bolster economic interdependence among Asian countries so that regional stability will be enhanced.

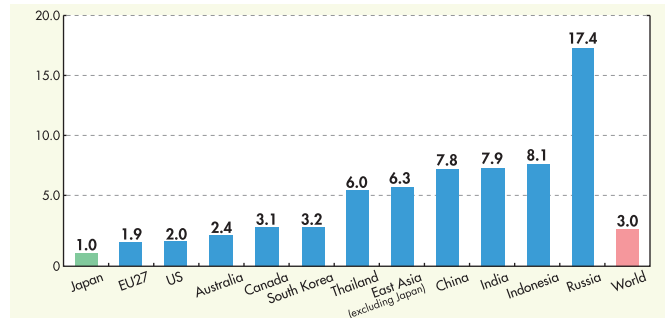
(3) An Asia of middle-class people

Measures are to be taken so that 60% of the regional population will belong to the middle class by 2030 (from 400 million out of the 3.2 billion people at present to 2.3 billion out of 3.9 billion people). By doing so, the Asian consumer market will be fostered and vitalized. At the same time, the consumer market is to be nurtured into one that can dispatch information on consumption trends and lifestyles to the rest of the world. Moreover, Asia’s economic disparity is to be halved from the present level so regional people will be able to lead rich, full lives.

(4) An open Asia

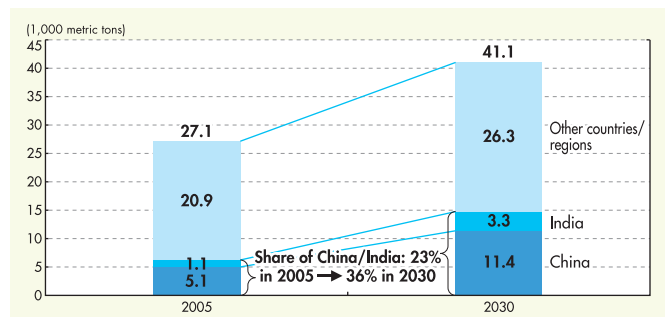
To promote the concept, it is important to deepen cooperation with the United States and Europe as well as multilateral frameworks such as the World Trade Organization (WTO) and the Asia-Pacific

CHART 3
Comparison of primary energy consumption per unit of GDP



Note: Figures are indexes based on the volume of primary energy consumption divided by GDP, with Japan’s index given as 1.
Source: *IEA Energy Balances of OECD Countries 2007, IEA Energy Balances of Non-OECD Countries 2007*

CHART 4
Trends in world CO2 emissions



Source: *Reference Scenario, World Energy Outlook 2007, International Energy Agency*

Economic Cooperation (APEC) forum seeking their contribution to Asian economic development and aiming for “an open Asia.” In promoting the concept, partnership with the United States is to be sought because the country has a role to play that cannot be replaced by any other nation for the stability and prosperity of the region.

To promote the concept, the Economic Research Institute for ASEAN and East Asia (ERIA) set up in Jakarta in June is to be fully utilized.

4. Toward Realizing the Concept

To materialize the above-mentioned concept, METI, MOE and other related government agencies are set to implement a variety of measures mainly aimed at resolving environmental and energy problems, spurring seamless transfers of human resources, goods, capital and information, and vitalizing the consumer market.

This concept is neither one only for Japan nor one that can be realized by Japan alone. The concept is meant to benefit the whole Asian region, including ASEAN, Japan, China, South Korea, India, Australia and New Zealand. It cannot be realized without the full cooperation of the entire region. In this context, it is beneficial to make full use of ERIA.

In order to draw proactive cooperation from other countries, Japan, as an advocate of the concept, needs to take a strong initiative and lead the rest of the region in creating the proposed community. For that purpose, it is also important for Japan itself to press ahead aggressively with its own structural reforms. **JS**

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