

“Building an ASEAN Economic Community in the heart of East Asia”
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Excellencies

Ladies and Gentlemen

1. We are witnessing today how assisted by unprecedented macroeconomic and financial policy support the world economy is stabilising. However, we are still in an environment which is vulnerable to financial shocks of any kind and the case of Dubai World is an example. For the Association of Southeast Asian Nations (ASEAN), the region is currently observing early signs of economic recovery and its Member States have continued to maintain prudent fiscal and monetary stances.
2. ASEAN sits in the most dynamic region of the world: East Asia. According to the International Monetary Fund (IMF), developing Asia will grow the fastest this year (by 5.5%), in contrast to disappointing growth rates in world economy (-1.4%) and developed economies (-3.8%). ASEAN can leverage on this increasing dynamism of Asia to orchestrate the recovery of most ASEAN countries. The region's combined GDP was US\$ 1,504 billion in 2008, a level almost double that of the 2003 level of US\$ 718 billion. ASEAN trade was on a similar upward trend: US\$ 1,710 billion in 2008 compared to US\$ 824 billion in 2003. Foreign direct investment into ASEAN grew from US\$ 24 billion in 2003 to US\$ 60 billion in 2008.
3. The concept of an East Asian community of Prime Minister Dr. Yukio Hatoyama is timely in a sense that it could open up an opportunity in the history of East Asia to create a most dynamic regional community in the world. In the aftermath of the major financial crisis, the world needs a major paradigm shift in the framework of business activities and socio-cultural activities. The idea of an “East Asian community” will surely provide us with a vista to develop a new paradigm.

4. Community building is a major task that entails a wide variety of issues that range from the creation of single market to harmonization of regulatory system, coordination of financial architecture, and also nurturing a sense of community. ASEAN, which celebrated its 42nd anniversary last August, has been making great efforts to establish an ASEAN Community by the year 2015. I believe ASEAN community building is an essential part for the greater integration of the “East Asian community”.
5. To establish a community, a strong entity is essential as can be seen in the history of community building in Europe. The Economic Research Institute for ASEAN and East Asia, or ERIA, will definitely be expected to serve as the core entity to serve this purpose of providing policy recommendations for ASEAN and other dialogue partners. ASEAN would like to get support from ERIA, and ASEAN will also provide greater support to ERIA to become stronger, so as to better serve community building in the East Asian region. ERIA could be the “touchstone” of Japanese diplomacy in Asia, and so far it has been successful. However, the real test will come from now on, and strong Japanese support is definitely needed for ERIA and for community building in ASEAN and East Asia.
6. I would like to start by introducing ASEAN’s activity for community building. Since the establishment of ASEAN in 1967, the region has made significant progress in building an ASEAN Community. The entry into force of the ASEAN Charter last December and the adoption of the Roadmap for an ASEAN Community, which consists of the ASEAN Political Security Community (APSC), ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC) Blueprints, and the Second Initiative for ASEAN Integration (IAI) Work Plan, this March provided further impetus.
7. With the challenges of competition arising from globalisation and the rise of emerging economies particularly China and India, ASEAN needs to do more in its own Community building efforts. The ASEAN Charter and the Roadmap for

an ASEAN Community are logical steps, especially with the increasing interdependence among ASEAN Member States. ASEAN cannot be ad-hoc and informal in its approach to Community building. From now on, it will be more legalistic, more formal, and more systematic. The three pillars of the ASEAN Community are interlinked and will reinforce each other. It is thus essential that building the AEC we take into account the developments of the other two community pillars, and vice versa.

8. Let me highlight to you the key developments in building the AEC. The realisation of the ASEAN Free Trade Area (AFTA) is also well on track. By 1 January 2010, all tariffs for products in the Common Effective Preferential Tariff (CEPT) Inclusion Lists of ASEAN-6 (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), representing 99.65 percent of total tariff lines, would be totally eliminated for intra-ASEAN trade. ASEAN's systematic forward movement towards tariff liberalisation is an indication of how a regional grouping addresses the concerns of rising protectionism which resonates at various international and regional fora.
9. Emphasis is now placed on removing non-tariff barriers to trade and enhancing trade facilitation such as customs, standards and conformance, to further boost intra-ASEAN trade. In this context, ASEAN signed an ASEAN Trade in Goods Agreement (ATIGA) earlier this year. To monitor the implementation of this Agreement, the ASEAN Trade Facilitation Joint Consultative Committee (ATF-JCC), which comprises officials in the areas of Trade, Customs, Standards and Conformance, Transport and Sanitary and Phytosanitary Measures, was established. It intends to undertake consultations with the private sector at the operational level to obtain their feedback on trade facilitation initiatives and explore public-private sector partnership for economic development.
10. To make ASEAN the preferred destination for foreign direct investment as well as contributing towards increasing intra-ASEAN investments, the ASEAN Comprehensive Investment Agreement (ACIA) was concluded. Taking into

account international good practices, the ACIA will extend the benefits derived from the agreement to ASEAN-based foreign investors. This agreement will further facilitate the integration of ASEAN companies into the regional and global economy through production and services networks.

11. Building a highly competitive economic region is another prominent feature in an ASEAN Economic Community. In order to promote exchange of information, experience and cooperation on competition policy in the region, ASEAN has established an Expert Group on Competition to work on developing Regional Guidelines on Competition Policy, developing Handbook on Competition Policies and Laws in ASEAN for Business and prioritising capacity building activities. To further strengthen the efficiency and competitiveness of Small and Medium Enterprises (SMEs), ASEAN is exploring the development of an ASEAN SMEs Service Desk and of on-line linkages among SMEs Service Centres of the Member States and the wider dissemination and sharing of information on regional and international SMEs trade fairs, and on business matching and procurement activities in each Member State.
12. ASEAN continues to pursue full integration into the global economy, recognizing the interdependency with world economies and the importance of outward looking posture. On the other hand, ASEAN endeavours to maintain its own centrality by strengthening its commitment towards the 2015 target. It is imperative that ASEAN delivers on its promises. Since ASEAN is at the hub of the majority of such existing structures as Asia Pacific Economic Cooperation (APEC), ASEAN+1, ASEAN+3, East Asia Summit (EAS), ASEAN Regional Forum, and the Forum for East Asia - Latin America Cooperation, it has a central role to play in determining the focus and agenda of these forums and in helping shape the future of regional integration in Asia and the Pacific. ASEAN, through the regional processes that it initiated or led, must provide the platform for a full spectrum of dialogue, cooperation and action on economic, socio-cultural, and political and security matters of today and the collective future of the region.

13. ASEAN Centrality and leaderships need to be earned. It has both external and internal dimensions. First and foremost, it must be based on the inner strength of the ASEAN Community. It requires ASEAN Member States to stay united, increase coordination and participate as a cohesive group with clear common objectives, and with active support of a strengthened ASEAN Secretariat. Secondly, it will depend on ASEAN's continuing external engagement, as well as the content of that engagement. The support rendered by the Economic Research Institute for ASEAN and East Asia (ERIA) in providing policy recommendations to stimulate economic growth in the region, deepen regional integration and strengthen partnership in ASEAN and East Asia is essential.
14. Here, I would like to focus on the present status of the ASEAN economies in East Asia. I am glad to say that this relationship has improved steadily. ASEAN countries have achieved high growth rates after the currency crisis in the late 1990s. They are also showing signs of recovery from current global economic and financial crises.
15. As the result of sustained economic growth, "middle class" households in ASEAN are rising substantially. The number of households earning from 5,000 US dollars to 15,000 US dollars per year has reached 41.5 million in 2008 from 11.7 million in 2000. ^(Slide 2) Traditionally there are excess savings in ASEAN economy, but domestic demand will increase drastically due to the rise of the "middle class".
16. While we are working toward the realization of an "ASEAN Economic Community" in 2015, the "de facto" economic integration has already improved considerably. As for FTA in East Asia, the networks have centered around ASEAN. AFTA was enacted in 1992, and most of our dialogue partners, such as Japan, China, Korea, New Zealand, Australia and India have concluded FTAs with ASEAN by 2008 ^(Slide 3) As a result, intra-ASEAN trade is increasing

at a pace of 11 % exceeding its economic growth rate, during the past 15 years. ^(Slide 4) At the same time, Japan's exports to ASEAN are growing. Although the pace is not necessarily higher than the economic growth rate in ASEAN, the export of intermediate goods has increased considerably, at the pace of around 6%. ^(Slide 5) It shows the progress of multilateral intra-industry networking in East Asia.

17. While ASEAN drives "open" economic integration, Japan contributes greatly to foreign direct investments in ASEAN countries. On the asset basis, ASEAN is Japan's biggest investment destination in Asia, occupying 42% of Japan's total direct investments in Asia. Without doubt, Japan's investment leads to the building of production networks in ASEAN. ^(Slide 6) Meanwhile, it is also true that the amount of Japan's investments in each country differs widely. For instance, Japan's investments in Singapore and Thailand as a proportion of Japan's total investment in ASEAN account for nearly 60 percent. On the flip side, the investments in other countries are at relatively low level, of around 13% for Indonesia. ^(Slide 7) This demonstrates the tremendous potential for an increase in Japanese investments and business in ASEAN.
18. As a consequence, it is also related to the development and income gaps among countries. I mentioned that the "middle class" is rising to a large degree, but there are still big disparities in ASEAN. The GNI per capita in Cambodia, Laos and Vietnam is only around 2 percent of that of Singapore. From the viewpoint of income distribution, most households earn less than 5,000 US dollars per year in new member countries of ASEAN including Vietnam. ^(Slide 8 and 9)
19. To narrow these gaps, we focus on infrastructure development and capacity building in new member countries. These efforts are essential not only to implement social policy but to locate industrial clusters in the region with balance. Additionally, differing economic development stages in the region are

a great opportunity and source of potentiality in ASEAN and East Asia for all of us.

20. In the medium- and long-term, it is important for the ASEAN economies to become less dependent on other countries and to contribute more to the world economy. ASEAN still depends on exports, as well as overseas capital and technology. In the future, ASEAN should develop its capability to promote technological innovation and management in ASEAN's various industrial clusters. Opportunities should be open to foreign countries and we would like to offer "the largest business space in the world". We also need to focus on education, improvement of the environment for investments and harmonization among systems within the region.
21. Despite our diversity, we are united by a common aspiration to build an ASEAN Community so that our peoples can enjoy peace, economic prosperity and good quality of life, overcoming the differences in income level, culture and language. On the contrary we believe our diversity is the source of the dynamism and energy for building a prosperous community. ASEAN must be the Hub of the world where our knowledge and experiences will directly connect to enhance the wider economic integration of East Asia.
22. Before I conclude, let me focus on ERIA, ASEAN's important partner in community building in East Asia. ERIA is an independent international organization that supports ASEAN and East Asian regional cooperation. ERIA has a strong institutional research network in the 16 member countries, with an excellent in-house regional research staff. The Governing Board of ERIA consists of important members from government, industry and academia from the EAS countries and the Secretary-General of ASEAN..
23. We in ASEAN appreciate the help and support of ERIA especially for its excellent research and policy initiatives to the ASEAN and East Asia Summits

and related ministerial meetings as well as contributing to the overall development of the ASEAN region.

24. The ASEAN member states see ERIA not only as the intellectual focal point of the region but also as a supporter of ASEAN's role as the driver of regional integration by providing high quality research and practical policy recommendations in such areas as regional economic integration, narrowing development gaps, and improving infrastructure and connectivity in the region.
25. In my view, ERIA has the tremendous potential to aspire to become the OECD for East Asia.. An institution like ERIA, therefore, is an integral part of community building in East Asia.

Thank you very much for your attention.