

## **6<sup>th</sup> Asia Economic Forum**

### **Maximizing Asia's Strategic Roles in the World: Opportunities, Challenges, and Future Prospects**

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The following is a brief summary of some of the main points covered in the forum's formal presentations, compiled by Mr. John Rochford and Dr. Angus Munro.

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#### **KEYNOTE ADDRESS**

##### **“ASEAN's Strategic Role in the Future of Asia”**

**Samdech Akka Moha Sena Padei Techo Hun Sen** *Prime Minister of the Kingdom of Cambodia*

East Asia and ASEAN have recovered more quickly as a result of the lessons learned from the last crisis. ASEAN will benefit from increased integration, including improved transport infrastructure; this will benefit all by increasing trade and decreasing the development gap. There is a need to improve customs procedures, to help development of small and medium businesses, so that the costs of production are minimized and consumption is increased. In this way, ASEAN aims to achieve integration by 2015, including in the security area.

A joint effort is needed to strengthen a strategic role for ASEAN and the rest of Asia. Thus there is the need to promote security and stability, with the support of the US; as well as for good relations within ASEAN without interference in each other's internal affairs. ASEAN has signed a free-trade agreement with China; it also needs to sign such agreements with India, Japan and others. Integration within eastern Asia should be by strengthening existing relations, rather than creating new mechanisms.

The Australian prime-minister recently proposed an expanded community to also include India, Australia and New Zealand. However, whilst it is a good idea for the future, now is not the time. ASEAN needs to complete the process of integration first; only then will it be possible to discuss mechanisms such as who would chair such a body.

With the problems of climate change and natural disasters, ASEAN must be more responsible in implementing existing mechanisms to deal with these. Food security is a growing problem, especially for developing countries; the use of land for bio-fuels should be reduced, as should the use of fertilizers. Natural disasters recognize no borders, so that there is the need for increased cooperation, including the

sharing of information and other resources, as happened between Cambodia and Vietnam during the recent typhoon.

There is the need to promote the development of human resources, including the training of the next generation of leaders, in Cambodia and elsewhere.

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## **PLENARY SESSION I: ASIA'S STATE OF PLAY**

### **H.E. Ong Keng Yong**

There are signs of recovery in the world economy, and the ADB has forecast a growth of 6.8% for the region in 2010; India has forecast that it will grow by 7-8%. However, there is the need for care: there are still many weaknesses, especially with the US economy, so more problems may emerge. The world is still dependent on the US economy: thus Cambodian exports to there fell by 18% in 2009. Nevertheless, there are a number of opportunities for the region, but there are still many institutional weaknesses.

As a consequence of the financial crisis, international financial systems and institutions are changing, and it is not clear what new rules and structures may be introduced. Whilst these will be at the behest of a few dominant countries, all will have to follow, including developing countries which have no voice. The increasing influence of China and India will be accelerated by the roles they play in global recovery.

There is a global imbalance at present because the US is deeply in debt, whilst China and other countries rely on exports for income and growth. Restoration of equilibrium requires the development of internal markets and also the promotion of markets within the region. Thus there is the need to improve the quality of goods and services, and decrease savings. There is also the need to change the rules and regulations regarding investment and financial services in the region.

There is a need to maintain an open market system: protectionism in order to protect jobs will block any recovery. Thus ASEAN needs to make sure that its free-trade agreements with other countries are implemented, so that it can realize their benefits and prosper, and thereby play an increasing role in the global system. South East Asian countries need to develop and grow their own consumer bases: the ingredients for this include growth in the domestic market, decrease in personal savings, and reform opening the door to increased foreign investment.

The nations of ASEAN should not expect China and India to do too much for them, but instead should continue to strengthen relations with them by creating incentives on both sides. The region's current

success is a result of strong relations with Asian and World powers, and ASEAN needs to continue and find ways to strengthen these relations through areas such as health and education.

In response to a question from the audience, he noted that individual countries like Cambodia have not only a development gap but also one in capacity and ability: they need to mobilize their abundant human resources. The peoples of ASEAN need to have confidence and promote ASEAN as an investment target, with changes in the rules for doing business to take advantage of the opportunities offered by the financial crisis. There is also the need to avoid real estate bubbles. Increased savings by the US mean that imports are decreased; the Asian fiscal stimuli have led to an increase in domestic consumption, and it is necessary to ensure that this persists in the long run. He also pointed out that ASEAN is affected by what goes on in Afghanistan or Pakistan: spending by US and NATO on weapons there and other costs means their increasing debt and reduced FDI, etc.

### **Professor Ito Kenichi**

There has been a progressive westward shift in the centre of economic gravity, from Europe to North America and now to East Asia. Now there is a similar westward progression of regional integration, starting with the EU and now NAFTA and the Asian region.

Think-tanks have played an important role in the region by networking and making recommendations on how to further improve integration of ASEAN+3 so that it is mutually beneficial. He concluded by observing that it is increasingly apparent that the past differences between China and Japan are behind them.

In order to fulfill this potential there needs to be a strong commitment towards community building and action. Kenichi remarks that in South East Asia there is often too much talk of goals and not enough action towards achieving those targets.

In response to a question from the audience, he noted that, until the middle of the twentieth century, the biggest problem facing the human race was the ease with which war could be declared; this became more difficult during the Cold War, and yet more difficult since. Now the new threats are climate change and terrorism, both of which divide the human race.

### **Dr. Kao Kim Hourn**

A Cambodian perspective on Asia's state of play and the impact of the world in 2009 on Asia and the communities of Southeast Asia can be boiled down to "six C's"

- Crisis, economic and financial, has had a profound impact on all sectors of life;

- Confidence of consumers in the economy, bankers, politicians and the private sector has been affected - thus there was a change in prime-minister in Japan;
- Charter for ASEAN has proved a land-mark, and its ideas now need to be implemented
- Climate change and the disillusion after Copenhagen failed to bring any legally binding results – there needs to be resolution at Mexico this year, especially as the least developed countries will be the most affected because of their limited resources;
- Communities – not only the need to enhance national ones, but also realize that of ASEAN by 2015, as well as the East Asian Community;
- Centrality – the need for solidarity in order to keep ASEAN together so that it can act in unison on the global stage.

The major powers are likely to continue to dominate the scene globally and thus in the region. There has often been a worry that SEA is no longer on the US' radar screen, but this has been dispelled by the new US president's meeting with leaders at the ASEAN summit in Singapore, and there have been three meetings with the Foreign Secretary.

China has risen to be a major power with the largest foreign reserves. India is becoming an important factor now, and there is the need for ASEAN to establish a free-trade area with her. Russia is often forgotten, although it is big exporter of oil and gas and is now courting the region: although it wants to become a member of the EAS, it has yet to be accepted.

Japan has contributed a lot to the development of the region through investment, including a recent Japan-Mekong summit to promote regional development; and the new prime-minister wants to promote regional integration. The Republic of Korea has contributed a lot in terms of investment and tourism. Despite its distance, the EU is interested in working with ASEAN to increase cooperation and trade.

Issues to bear in mind in the future include:

1. will the recovery be sustainable: when will export markets return?
2. will there be a successful meeting in Mexico regarding climate change?
3. the elections in Myanmar
4. food and energy security and the price of rice and petrol
5. the role of the major powers in Asia.

In response to a question from the audience, he observed that, especially as a result of its Charter, ASEAN had evolved from being an association to being a community with an identity, which belongs to

the people rather than just the governments. It needs to be people-centred with a single market in order to attract investment.

## **PLENARY SESSION II: SECURING ASIA'S STRATEGIC ROLE IN THE WORLD**

### **H.E. Ambassador Wang Xuexian**

Ambassador Wang expanded upon the panel topic to discuss the experiences and lessons of China in relation to the global economic crisis.

There is a need to reform the financial rules and improve the system: the present one based on neo-liberalism and neo-conservatism is not adequate.

Asia has been the first to break the back of the crisis and walk out of its shadow. There is the need to consolidate what has already been achieved and avoid a worse situation in the future. Thus, the nations of Asia must take general steps toward phasing out government stimuli that were enacted during the crisis; stick to the policies that the governments have passed. Likewise,

China and other developing nations export profits: a pair of Nike shoes is exported at \$1 (with a profit of 60 cents), to be sold in the US for \$10. This needs to change if countries are no longer to remain 'developing'.

The region has a huge market potential. However, governments need to take solid steps towards sustainable development through the restructuring of their economies: Asia pays too much attention to overall growth and too little to the distribution of wealth. Also, China pays too much attention to the secondary industries, and not enough to the tertiary ones.

To deal with the problem of climate change, there are two ways to reduce greenhouse gas emissions: increase energy efficiency and increase use of sustainable energy resources (CSS should be left for the future). China is increasing energy efficiency at an annual rate of 4%. China is also developing wind-power: production has doubled annually over the past two years. China is also the top user of solar power: it exceeds the rest of the world combined in the use of this to heat water. China is helping the region through the development of new technologies which must be accessible and affordable; two other ways are that it is providing countries with funding, and also training their personnel in these technologies.

There is no 'one size fits all': individual countries should follow their own roads, whilst learning from others. There is a need for political harmony between nations, with economic cooperation in order to

achieve a win-win situation. To ensure security, there is the need for mutual trust and consultation. In addition, nations should learn culturally from each other, so that they can seek common ground.

**H.E. General Neang Phat**

After 9-11, political security has been a most important item on the international agenda. To this end, various blocs have been proposed – ASEAN+3, ASEAN+6 (favored by the ASEAN Coordinating Council), ASEAN+8 or ASEAN+10 – in order to deal with security issues. Cambodia favors including Russia for historical reasons.

Traditional security issues relate to small-arms trafficking, etc. Non-traditional forms include counter-terrorism, money-laundering, H1N1 and other infectious diseases. Terrorism poses the problem of not knowing where or when events will take place; all countries need to work together to share information and build confidence. Similarly, cooperation can help track the spread of diseases and thus attempt to control them.

In response to a question from the audience, he stated that it is the moral responsibility of the military to protect the nation and its peoples' safety.

**H.E. Pham Quang Vinh**

The major powers are undergoing a policy-shift with regard to Asia. Post-crisis recovery must be fast and sustainable. The growth of the Indian, Korean and Chinese economies, should result in Asian countries playing a major role in post-crisis economic arrangements. There is a need for regional cooperation and to continue the ongoing consolidation; however, cooperation is in the initial stages and the area is vast, so that there is the need for sub-regional groupings. Nevertheless, regional frameworks to meet global challenges have been developed such as the Chiang Mai initiative. Also, there is the ASEAN agreement on disaster and emergency responses; and some mechanisms for food security, such as the setting up of rice reserves, and energy security, where ASEAN will give up to 10% to a member in distress. Where prices reflect speculation rather than output, then ASEAN will take part in a global response. The main thing just now is for sub-regional building blocks, which will progressively lead to more all encompassing relations and greater integration to better lead to sustainable growth.

## **PLENARY SESSION III: SUSTAINING ASIA'S ECONOMIC RECOVERY: CHALLENGES AND OPPORTUNITIES**

### **H.E. Dr. Phan Phalla**

Economic stimuli have helped the region recover after the financial crisis spread very rapidly from its epicenter in the US. For a sustainable Asian recovery without the need for further expensive stimulus packages, there is the need for a recovery in the US and in Europe. However, the largest lesson for ASEAN to learn from the recent economic crisis is that the economies of the member states are too export-oriented. The collapse of international demand for ASEAN exports has fueled the crisis experienced by the economies of ASEAN. In future, ASEAN members have to diversify their economies and focus on regionally-integrated exports.

Recent economic growth and signs of stabilization present opportunities to promote regional oriented policy, integrated economies, diversified export markets, and a promotion of regional investment. A regional oriented policy ought to principally increase purchasing power and demand, and minimize the effects of focusing economic growth on the demand for exports. Defense against future global recessions also calls for more closely-integrated economies within the region.

A number of challenges face the region include, first, the variations in post-crisis economic growth. While some countries in the region are experiencing significantly higher growth than projected, major economies such as Japan are still in a recession. Other economies with an export-oriented model remain stagnant due to high reliance on consumer demand in other countries. Also important are the market implications of climate change. Consumer tastes have continued to change, living conditions are threatened, and varying climate patterns threaten agriculture output.

### **Dr. Thein Swe**

The rebound will be slow, since US debt is more than 10% of GDP and will not decrease below 8% until the end of 2012. Developing Asia, and especially China and India, led economic growth since 2008. This was despite negative world growth in 2009, and only weak global growth projected for 2010. Most Asian trade targeted at North America and Europe: those economies that focus on exporting to the United States and Europe have failed to do so well. However, Asian economies generally have high Gini scores and weak safety nets, so that saving is encouraged.

Three scenarios can be proposed to alleviate poverty:

- Increasing incomes: economic growth targeted towards increasing personal incomes and standard of living

- Reduce income inequality: focusing the reduction on improving the quality of life for the poor without an adverse effect on the rich
- Increase social mobility: policy should be direct toward giving all citizens the opportunities to move freely to areas of demand in human capital.

## **PLENARY SESSION IV: ASIA'S RESPONSE TO THE THREAT OF CLIMATE CHANGE AFTER COPENHAGEN**

### **Professor Simon Tay**

Despite shortcomings in Copenhagen, the issue of climate change will continue to be a grave environmental challenge facing the world in which Cambodia is a part.

*Climate Change is not only a long term issue.* Climate change has daily effects on issues related to economic growth, natural security, and energy concerns of national governments. Just as cooperation has proven difficult on the global level, it also proves troublesome within national governments. There is a need for governments to create inter-ministry agencies.

*Short term responses are crucial to guaranteeing improvement and avoiding further problems in the future.* Current technology should be utilized to maximize the energy capacities of current power sources. No country is currently able to sustain their energy needs through renewable energy.

*Climate Change dialogue requires contribution from both large and small countries.* If ASEAN countries do not contribute to the climate change talks, the solutions will not reflect the regions situation.

ASEAN needs to take onboard climate change more clearly. Having a joint action plan for all ASEAN will favor the region in global climate change talks.

### **Mr. Teak Seng**

Climate change at its current levels will have a negative effect on the economy and social conditions of Cambodia and the rest of the Greater Mekong region. The region has experienced a 1°C increase in the past 50 years, and is expected to warm by 2-4°C by 2050. Consequences for Cambodia and the Greater Mekong Region include:

- stronger monsoons and a general increase in rain fall,
- drier dry seasons including longer and more frequent droughts,
- major changes in current crop yields, and

- three times as many natural disasters by 2030 than are experienced now, resulting in a cost of 30,000 lives and \$13B.

An ecosystem-based approach needs to be at the center of the region's climate change plan. Ensuring maintenance of the region's ecosystems has direct results on the region's economic competitiveness and the living conditions of millions of rural citizens.

### **Mr. Lay Kim**

Climate condition is the result of global warming. There are important implications for regional public health, agriculture, water sources, coastal systems, and economies, and climate change is a key developmental issue threatening the UN's Millennium Goals.

There is the need to build national readiness by 2015 and beyond by focusing on establishing institutional set up and international cooperation as key steps to achieving a significant defense against climate change.

### **Lord George Carey**

People should be the most central point of any discussion on economics. Competition means that weak go to the wall and the successful to the banks. If any nation wishes to prosper, it must look after its people and care for the people, nourish, and educate them. A major challenge is education and training. In the past, Asia's comparative advantage has been its cheap labor; other factors such as government policies have also served to attract FDI. However this will be transitory as other countries rise up. If wages are restricted, then future competitiveness will be depressed due to an uneducated labor force. The development of human resources and ability to attract high-skilled jobs are necessary for further progression. This depends on technical innovation, which means education is increasingly important.

One of the largest problems in Southeast Asia is the inability to think about the future and for the society to recognize the potential of young people. In Southeast Asia, a young person is three times more likely to be unemployed, and women are especially vulnerable. The ratio of youth to adult unemployment is an increasingly important indicator. Thus, in Japan, there has been an increase in the number of NEET (Not in Education, Employment or Training) youths. Leaders of Asia ought to provide the hope for young people that they have not been forgotten and matter. There is no magic solution.

Also there is the problem of widening gaps within the community, especially with a lack of safety nets. As economies continue to progress, the growth needs to keep in step with social protections through a network of institutions, rights, and goals. Otherwise a growing gap in society will only have continued negative effects on Asian countries.

**Rev. Dr. Pradit Takerngrangsarit**

Education must play a more important role in developing Asia's human resources. It must be able to develop students who have the skills to compete in the global world, but also understand the cultural histories and aspects of the ASEAN countries and a sense of healthy pride in the region. Ethics must also be a central part of education, including Asian wisdom as well as predominantly Western based thought. Education can continue to play a role toward a more peaceful world by establishing Peace programs and regarding the study of peace as a genuine discipline.

**PLENARY SESSION VI: ASIA'S PROSPECTS – MAXIMIZING POTENTIALS AND OPPORTUNITIES IN THE WORLD**

**Mr. Michael Vatikiotis**

The recent rapid economic growth in Southeast Asia has been greatly aided by a generally peaceful world economy. However, despite such advancements and noticeable increases in GDP, Southeast Asian nations have failed to build strong governmental institutions and encourage political participation. Stronger institutions are needed because:

- Political regimes in the region are held back in realizing the potential of human capital
- A culture exists where people are unable to delegate authority effectively
- Many political problems in the area are a result of centralized power

**Mr. KP V Nair**

There are a number of issues the Indian economy faces as the world is beginning to emerge for the recent recession. In combating these issues he calls for the region to look for Asian not specifically ASEAN solutions to these issues. Furthermore, the diversity of beauty in Asia, Mr. Nair believes, should result in an increase awareness of cultures around the Asia, including those in Siberia.

**Mr. Douglas Clayton**

'PEACE' (pre-emerging and post-conflict) countries are attractive investment opportunities for external investors because of their low per capita GDP, their internally-driven economies and their low debt burdens. They are cheaper for investors because of low demand for the available supply: thus there is the advantage of coming in early when there are many opportunities but little competition. Their economies

are also more open because they want to attract outside investors; and more resilient because they produce essential products (e.g. food) and the jobless can find jobs on relatives' farms, for example.

Sri Lanka has marked parallels with Cambodia in its recent history. However it a much higher per capita GDP: US\$2,000 cf. 800. Recently, it has benefited from the peace dividend, where there has been a decrease in inflation and an increase in FDI, especially as a result of rivalry between China and India. Its location is advantageous, since it lies on major shipping lanes and thus, like Singapore, could grow as a transshipment centre.

## **PLENARY SESSION VII: POVERTY, DEVELOPMENT GAP, AND THE MDGs – WHERE DO WE GO FROM HERE?**

### **H.E. Son Koun Thor**

The Royal Government has taken steps to cope with the financial crisis by the use of various instruments. Fiscal policy including federal stimulus and banking policies focused on mobilizing the assistance of public investment programs and strengthening the system. Also, it implemented structural and sectoral reforms in the following areas:

1. *Garments*: Re-training for 40,000 recently laid-off garment workers
2. *Tourism*: Promoting the kingdom as secure and safe; making infrastructural improvements through urban road upgrading and building the industry infrastructure including new hotels
3. *Agriculture*: Setting up an Agriculture Support and Development Fund for the agro-industry sector to increase stockpiling and processing of rice so that Cambodian can export the final product

The Royal Development Bank is the key mechanism to provide and strengthen microfinance services in rural areas, develop, promote and finance assistance, especially to rice millers. However, there is the need to continue to develop microfinance and SME integration; and reduce the interest rates

### **Mr. Douglas Broderick**

The recent economic downturn has held Cambodia back in its efforts to meet the MDGs by 2015. In order to meet those goals, there are a number of challenges which must be met:

1. *Rural economic growth*. This has not kept pace with the increase in population or with development in urban areas, leading to increasing inequality. Furthermore, an increase in job loss has increased inequality in urban areas also.

2. *Health and sanitary conditions.* Access to healthcare in Cambodia is unacceptable with 5 women dying every day in child birth.
3. *High fuel costs.* The increase in global fuel prices has a direct result in the increase of job losses and threatens to dismantle recent efforts towards reducing poverty.
4. *Climate Change.* Continued changes in the earth's global climate pattern threaten social conditions and crop yields.

In order to achieve the MDGs, a number of steps are necessary

1. Design and implement sustainable social safety nets to protect the poor and empower them to take risks.
2. Improve health systems and access to health care.
3. Improve the focus on the advancement of women in all sectors, including access to education and decision making.
4. Improve good governance, the rationalization of the civil service and reduction in corruption, with citizen participation especially at the local level.

There is also a need to improve efficiencies in monitoring these measures and data analysis at the local level, so that problems can be identified and action taken.

### **Professor Eric Stark Maskin**

Contrary to what some had predicted, globalization has led to increased inequality. Its proponents had argued that globalization would bring prosperity to developing countries through providing markets for their exports, with decreasing costs leading to increased global production. And indeed many countries, including Cambodia, have in fact grown due to access to global markets.

Another promise was to reduce the gap between the rich and poor countries through comparative advantage, with imports making up where individual countries are deficient. Thus increased agricultural demand in developing countries would provide employment for low-skilled workers.

Whilst the theory of comparative advantage has proved valid in the past, it is not in the case of globalization. It is proposed that this is because production has been internationalized through global supply-chains, and those with skills are rewarded; low-skilled workers lose out, and may even become poorer.

Thus a superficial answer is to increase education and training, but this raises the question of who should pay: the poor cannot afford to, and employers would be unwilling, so that there is the need for a third party to make the investment.

## CLOSING REMARKS

### **Dr. Haruhisa Handa**

Studies have indicated that Japan's rise during the Edo era was the result of the increased education of its population so that it had the highest literacy rate in the world. This rise was sustained by the Japanese people's adherence to the idea of lifelong learning. On the other hand, entrepreneurs should rely on their instincts, rather than on analytical reports.