

Regional Agenda

World Economic Forum on East Asia

Shaping the Region's Future through Connectivity

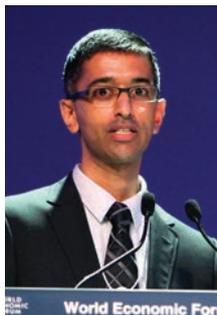
Bangkok, Thailand 30 May – 1 June 2012



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Preface



Sushant
Palakurthi Rao
Senior Director
Head of Asia

The 21st World Economic Forum on East Asia was held for the first time in the Kingdom of Thailand, under the theme *Shaping the Region's Future through Connectivity*, with over 630 business, government and civil society leaders from 50 countries participating. In one day of private events and two days of interactive public sessions, the meeting highlighted how well East Asia – in particular, the 10 South-East Asian economies – has weathered the global economic crisis. ASEAN has evolved into a major geopolitical and geo-economic pillar of the world, amply demonstrating how deepening connectivity is essential to building resilience and the capacity to respond to crises, both economic and physical.

South-East Asia is a region of inspiration and transformation. Their citizens once on average poorer than people in Africa, the 10 member economies of the Association of South-East Asian Nations, or ASEAN, have reduced poverty faster than any other part of the world. Despite a major disruption from the 1997-1998 financial crisis, South-East Asia's growth has for the most part been steady, fuelling growth in the broader East Asia region.

Vietnam has embraced the global community, Indonesia has transitioned from political turmoil to thriving democracy, and Laos has reached the threshold of accession to the World Trade Organization (WTO), which would make it the final ASEAN member to join. Recently, rapid reforms in Myanmar have demonstrated how ASEAN as a community embraces diversity and constructive engagement to achieve unity in the pursuit of economic, social and political development.

Despite the ongoing debt crisis in Europe, slowdowns in the economies of China and India, and the weak global economy, participants arrived in Bangkok inspired by the resilience of Thailand and other ASEAN economies. Especially uplifting were assurances from the four heads of government at the opening ceremony – the President of Indonesia and the Prime Minister of Vietnam, hosts of the previous two World Economic Forum on East Asia meetings, as well as the Prime Ministers of Laos and Thailand – that the launch of a single market, the ASEAN Economic Community (AEC), in 2015 is on track.

Also inspiring participants was the partaking in the meeting of Nobel Peace laureate and member of the Myanmar Parliament Daw Aung San Suu Kyi, who was on her first trip outside her country in over 24 years, and Myanmar Minister of Energy U Than Htay. Their participation underscored the fresh opportunities for Myanmar to reconnect with the region and the world as a result of the swift opening up of its political system.

Participants learned a great deal about the ambitions of Myanmar and its fellow ASEAN members as they work towards implementing the measures and reforms needed to create the AEC. Yet, they did not focus solely on connectivity in terms of linking markets, goods and services. The agenda equally addressed the importance of linking people – whether through information, financial services, education, technology, healthcare or anti-corruption efforts. The fundamental goal: to close income gaps and improve lives.

For this reason, sessions looked not just at industry and geopolitical challenges but also at how to make certain that girls and women are fully part of the economic and social fabric, what practical solutions can be devised to accelerate poverty reduction, and how to create enough jobs to meet the challenges posed by the region's young demography. Interactive private events on the first day of the World Economic Forum on East Asia allowed participants to take deeper looks at various sectors and pressing issues including the role of financial services in society, food security and agriculture, energy security, infrastructure development, investing in emerging markets, and the challenges facing young leaders in South-East Asia.

The multi-sector discussions in the private meeting on the New Energy Architecture and a roundtable on energy security and infrastructure yielded results that will be integrated into the Forum's work with Thailand's Ministry of Energy to help shape an energy security framework for ASEAN. Parallel to the meeting, the World Economic Forum convened a one-day Travel, Trade & Tourism Summit, during which participants from the region and around the world examined the competitiveness of the vital travel and tourism sector.

In all the deliberations were participants from across sectors and generations. The meeting allowed business, government and civil society leaders in South-East Asia to forge links with counterparts from other parts of the world – connectivity essential for securing the future growth of the region and the world.

The World Economic Forum is proud of this role as a platform for stakeholders from all fields and endeavours in East Asia to connect with each other and for the region to connect with the world.

My colleagues and I are grateful for your engagement, and look forward to welcoming you to the 22nd World Economic Forum on East Asia to be held in Myanmar next year.



01: S. Iswaran, Minister, Prime Minister's Office; Second Minister for Home Affairs; Second Minister for Trade and Industry of Singapore (centre)

02: Kim Sung-han, Vice-Minister of Foreign Affairs and Trade of the Republic of Korea

03: Anudith Nakornthap, Minister of Information and Communication Technology of Thailand

04: Umran Beba, President, Asia Pacific, Pepsico International, Hong Kong SAR

05: Susan M. Collins, Senator from Maine (Republican), USA (centre)

06: Klaus Schwab, Founder and Executive Chairman, World Economic Forum



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Japan

Executive Summary

For East Asia, particularly ASEAN, greater connectivity is both a solution and a scourge. The advent of a single market, the ASEAN Economic Community, in 2015 will deepen and strengthen South-East Asia's regional and global connections. But it could also expose the region to greater risks. The key is for each country to strengthen its domestic capacity to cope with crises and the volatility that is now an inherent feature of the global economy.

More than 630 business, government and civil society leaders from 50 nations participated in the 21st World Economic Forum on East Asia in Bangkok, Thailand. The discussions under the theme *Shaping the Region's Future through Connectivity* focused on the deepening integration of the region and the consequences of closer connections among countries and with the global economy – both the advantages and the risks.

Participants were concerned about the unfolding debt crisis in Europe and the impact it is having on East Asia and the global economy. The slowdowns of the Chinese and Indian economies only heightened anxiety, though optimism about South-East Asia and the opportunities for growth offered by the prospect of the ASEAN Economic Community (AEC), to be launched in 2015, did much to temper those fears.

The participation in the meeting of U Than Htay, the Union Minister for Energy of Myanmar, and Aung San Suu Kyi, Chairman of the National League for Democracy (NLD); Member of Parliament of Kawhmu Constituent, Myanmar, also buoyed the spirits of participants who were deeply interested in the progress of political and economic reforms in the strategically important South-East Asian nation that connects India and China.

Yet, the debt turmoil in Europe and the slowing recovery in the United States weighed heavily on participants. "The region is doing better than the rest of the world but it is not immune," Pascal Lamy, Director-General, World Trade Organization (WTO), Geneva, told participants. "Economic uncertainty in the United States and Europe and a slowing economy in China will impact this region." ASEAN has been doing the right thing by working over the past several years to deepen integration, Lamy argued.



01: Yingluck Shinawatra,
Prime Minister of the
Kingdom of Thailand



“
Being connected brings not just prosperity but it also brings along risk.
”

Pailin Chuchottaworn, President and Chief Executive Officer, PTT Public Company, Thailand; Co-Chair of the World Economic Forum on East Asia

But as Europe has shown over nearly six decades of ever closer union, connectivity can be both a solution and a scourge. Collaboration and integration – if structured and conducted right – can yield significant benefits and more powerful and effective ways to deal with problems, from global warming to the lack of infrastructure. The Chiang Mai Initiative, a multilateral currency swap arrangement to manage short-term liquidity problems, is a good example of regional cooperation to prepare for a potential financial crisis.

At the same time, closeness with neighbours can carry new threats from the exposure of economies to contagion from the ills of others – the Asian financial crisis of 1997-1998 and the recent global economic turmoil amply demonstrated this. The integration of ASEAN into the East Asian and global supply chains could further expose the economies of South-East Asia to greater risks from the crisis in Europe and the slowdowns in the US and China. “Being connected brings not just prosperity but it also brings along risk,” warned meeting Co-Chair Pailin Chuchottaworn, President and Chief Executive Officer, PTT Public Company, Thailand, in the closing plenary.

For ASEAN, which would rank as the ninth largest economy in the world if all 10 members are taken together, the hope is that the AEC will give a significant boost to the competitiveness of the region. By pooling competitive advantages, the group aims to strengthen its collective profile in the global economy, expand integration with the larger economies in North Asia, and drive new growth in their respective economies. “Regional cooperation and connectivity will help strengthen the resilience of East Asian nations,” Nguyen Tan Dung, Prime Minister of Vietnam, asserted in the opening ceremony. Critical to success is the hard infrastructure needed to provide a truly seamless single market. “Physical connectiveness is almost complete in our region,” Yingluck Shinawatra, Prime Minister of the Kingdom of Thailand, assured participants in her opening address, citing such landmark projects as the Singapore-Kunming railway that will link her nation with northern China, Laos, Malaysia and Singapore.



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While we may be talking about economies or natural disasters, at the core is how we can make this a better world, a better region, for individuals and families to help them reach their full potential.
 ”

Helene D. Gayle, President and Chief Executive Officer, CARE USA, USA; Co-Chair of the World Economic Forum on East Asia



“
The key long-term proposition would be the introduction of eVisas throughout the world. I believe that ASEAN is in a strong position to lead the way on this initiative.
 ”

Gerald Lawless, Executive Chairman, Jumeirah Group, United Arab Emirates; Co-Chair of the World Economic Forum on East Asia

01: Chumpol Silapa-Archa, Deputy Prime Minister and Minister of Tourism and Sports of Thailand (centre)



Also vital to the sustainable growth of ASEAN is the development of the essential soft infrastructure – the laws and regulations that will facilitate free cross-border movement of people and goods while at the same time strengthening security and preventing illegal activities. Crucial, too, are efforts to bridge income gaps between ASEAN economies. These disparities could prevent the creation of an authentic single market and derail ASEAN integration, many participants cautioned. “We have to do things in stages,” Mustapa Mohamed, Minister of International Trade and Industry of Malaysia, stressed.

That cautious approach, even as South-East Asian nations set bold goals for themselves, has been the hallmark of the “ASEAN way”. While they deepen and broaden regional integration, East Asian countries are mindful that they will have to focus individually on what they can each do to ensure that their domestic economies are strong and balanced. “East Asia and South-East Asia have for too long been focused on export-led growth,” observed Kittiratt Na-Ranong, Deputy Prime Minister and Minister of Finance of Thailand, in a session on the first day of the meeting. “We forget that we have room for improvement in our economies. These days, the key word is balance. It is our job to help ourselves so we can help other economies, too.”

Rebalancing economies is essential to East Asia’s future success. In a region where many countries have the benefit – and the challenge – of youthful demographics, this will entail long-term investment in improving education, developing human resources and creating jobs, especially for young people. It will also require addressing corruption and inequality, which Eswar Prasad, Professor, Cornell University, USA, described as a “toxic mix”. Citizens are less likely to support efforts to open up markets, strengthen connections in the region and deepen integration with the global economy if this connectivity is not seen as benefiting all people. And without the support of the people, the integration of East Asia could easily unravel.



“
My wish is that [the ASEAN Economic Community] does not prevent the region from being open to the rest of the world.”

”
 Gérard Mestrallet, Chairman and Chief Executive Officer, GDF SUEZ, France; Co-Chair of the World Economic Forum on East Asia



“
We have to come up with ways to minimize the impact on the global supply chain. This is the task for the global community.”

”
 Masami Yamamoto, President and Representative Director, Fujitsu, Japan; Co-Chair of the World Economic Forum on East Asia



“
We need to look at society in a much broader and holistic perspective – not just at what is good for business but, more importantly, at what is good for society.”

”
 Malvinder M. Singh, Executive Chairman, Fortis Healthcare, Singapore; Co-Chair of the World Economic Forum on East Asia

01: Heang Chhor, Director, McKinsey & Company, Singapore

02: Idris Jala, Minister, Office of the Prime Minister of Malaysia



01: Nhat Vuong, Founder and Chief Executive Officer, i-kifu, Japan

02: Hamish Tyrwhitt, Chief Executive Officer, Leighton Holdings, Australia

03: Gita Wirjawan, Minister of Trade of Indonesia

04: Noeleen Heyzer, Executive Secretary, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Bangkok

05: Rashid Qureshi, Managing Director, Nestlé Vietnam, Vietnam; and Kenro Oshidari, Regional Director for Asia, United Nations World Food Programme (WFP), Bangkok

06: Alok Lohia, Group Chief Executive Officer, Indorama Ventures, Thailand

07: Ma. Estrella Penunia, Secretary-General, Asian Farmers' Association for Sustainable Rural Development (AFA), Philippines



Sub-themes

- A** Rethinking Regional Models for a New Global Context
- B** Responding to a Region@Risk
- C** Realizing Regional Connectivity

News from Bangkok



Cyber Resilience and Security

The theme for this year's World Economic Forum on East Asia, *Shaping the Region's Future through Connectivity*, underlines the importance of physical, digital and financial connectivity in East Asia, as well as the essential role the region plays in the global information and communication technology industry.

In addition to sessions addressing the topic of connectivity, the regional event reflected the significance of ICT transformation in two new ways: an initiative, Partnering for Cyber Resilience, had its regional launch at the meeting, involving leaders from the private and public sector committed to shared principles and guidelines to protect critical digital infrastructure; and a new report, *Risk and Responsibility in a Hyperconnected World*, was launched, exploring links between cyber resilience and national competitiveness, and highlighting the region's leadership role in cyber security information sharing.

Read the full report here:

<http://www.weforum.org/reports/cyber>

Read session summaries here:

www.weforum.org/eastasia2012/summaries



Challenges for Young Leaders

Participating in the World Economic Forum on East Asia were members of The Forum of Young Global Leaders (YGLs), outstanding leaders from around the world under the age of 40, and of the Global Shapers Community, emerging leaders in their 20s. In a workshop organized by the Global Agenda Council on South-East Asia, Global Shapers from ASEAN joined YGLs to discuss the challenges facing young leaders in the region. Among the public figures to meet with the participants were Abhisit Vejjajiva, Prime Minister of Thailand (2008-2011) and Leader of the Democratic Party of Thailand, and Aung San Suu Kyi, Chairman of the National League for Democracy (NLD); Member of Parliament of Kawhmu Constituent, Myanmar.

Participants discussed how values are passed on and the new values fostered across generations, communities and business in Asia. Among the issues they considered: how social media is affecting the transfer of values and the challenge of ensuring that good values stay and new values are developed in a rapidly changing world.



Travel and Tourism Competitiveness

A one-day Travel, Trade & Tourism Summit held during the World Economic Forum on East Asia drew global and South-East Asian leaders from this critically important sector to examine the competitiveness of the region's travel and tourism industry. The Summit was chaired by Chumpol Silapa-Archa, Deputy Prime Minister and Minister of Tourism and Sports of Thailand; Mari Elka Pangestu, Minister of Tourism and Creative Economy of Indonesia; Piyasvasti Amranand, President, Thai Airways International, Thailand; and Gerald Lawless, Executive Chairman, Jumeirah Group, United Arab Emirates.

The Summit also launched *The ASEAN Travel & Tourism Competitiveness Report 2012*. Using a unique methodological framework, the report identifies obstacles to the development of the sector as well as the strengths that can be leveraged by ASEAN countries to unleash the potential of travel and tourism.

Read the full report here: http://www.weforum.org/ASEAN_TTCR2012



New Energy Architecture

The World Economic Forum's New Energy Architecture initiative assesses how countries can effectively transition to more secure, sustainable and affordable energy systems. The methodology has been applied to Japan and India, making use of a series of interviews and working group discussions involving government, business and civil society stakeholders. The Forum is now working in partnership with the Ministry of Energy of Thailand to create a country study to recommend how Thailand can best be integrated in the energy architecture of ASEAN.

The World Economic Forum on East Asia addressed the building of a secure and sustainable energy sector in the region in a session on "Powering the Region's Growth: The Future of Energy". The results of multi-sector discussions in private meetings on the New Energy Architecture and on energy security and infrastructure will be integrated into the Forum's work with the Thai Energy Ministry to contribute to the shaping of an energy security framework for ASEAN.

Read the full session summary here: www.weforum.org/eastasia2012/summaries



Opportunities in Financial Services

In collaboration with The Boston Consulting Group, the World Economic Forum launched *Redefining the Emerging Market Opportunity* at the World Economic Forum on East Asia. The report showcases creative approaches from the private sector for tapping into emerging market opportunities on corporate bonds, financing for small and medium-sized enterprises, and consumer financial services (credit, savings and insurance). It includes a range of case studies drawn from the Forum's diverse stakeholder community.

Highlights from the report were discussed during the World Economic Forum on East Asia in a private session that brought together key stakeholders to examine opportunities to deploy creative business models in emerging markets.

Read the full report here: <http://www.weforum.org/REMO2012>

Integration the ASEAN Way

The European Union had been regarded as a model for regional integration, having been instrumental in keeping the peace on the continent and having achieved a common market and single currency. But forcing diverse economies to meet a single set of high expectations can be counterproductive. Weaker economies that fail to measure up can threaten to bring down the painstakingly built structure.

As the world rethinks regional models, ASEAN's go-slow approach is gaining support. The 10-member grouping moves by consensus, a process that can be slow and result in watered-down outcomes. But with the region set to launch the ASEAN Economic Community in 2015, the deliberate pace may have a better chance of sustainable success in the volatile global environment.

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The point of connectivity is that we are getting there. It may not be as ambitious and grandiose as we want it to be, but we will get there.

”

Gita Wirjawan, Minister of Trade of Indonesia



When Aung San Suu Kyi made her first overseas trip after two decades of house arrest, some saw her re-emergence as a validation of the ASEAN model for regional integration. The grouping had been criticized for bringing Myanmar into the fold in 1997 despite the military government's refusal to honour Suu Kyi's electoral victory seven years earlier. More brickbats were hurled at ASEAN's go-slow, consensus-based approach to encouraging political reform in Myanmar.

Yet, it is this very same deliberate, step-by-step process that arguably has brought ASEAN to the cusp of forming the ASEAN Economic Community by 2015. The European Union had gotten there earlier, in 1993. European integration has resulted in many admirable outcomes, but the model of forcing every member economy into the straitjacket of uniform standards and a single authority no longer looks viable.

Instead, the ASEAN way is increasingly seen as an "inspiration" to other regional groupings, in the words of H.R.H. Prince Al Khalifa, Prime Minister of Bahrain. Like ASEAN, the Gulf Cooperation Council, the association of Arab states that Bahrain co-founded with five other countries, aims to "reach the stage of union and achieve greater economic cooperation," he said.

In rethinking regional models, many participants at the World Economic Forum on East Asia in Bangkok noted that there are lessons to be learned from the ASEAN experience, from both its successes and failures.

Decision-making based on consensus and shared interests can be maddeningly slow and plodding. But the resulting initiatives are more likely to reflect the actual needs and circumstances of each member

economy. For example, ASEAN has not prioritized a formal treaty, currency union or regional central bank, as Europe did. Instead, the focus is on a multi-currency swap arrangement, known as the Chiang Mai Initiative, which involves all ASEAN members plus China, Japan and the Republic of Korea.

"This is our own US\$ 240-billion firewall," said Surin Pitsuwan, Secretary-General, ASEAN (Association of South-East Asian Nations), Jakarta. The amount is not nearly enough in a crisis, but the arrangement sends a clear signal that East Asia stands united in the defence of the region's interests. Complementing this initiative is a surveillance system that monitors the macroeconomic health of the 13 countries and recommends early action to avert a crisis.

"We are better prepared today," said Mustapa Mohamad, Minister of International Trade and Industry of Malaysia. He was referencing the implosion of the Thai baht in 1997, the so-called "tom yum effect" that spread to other Asian currencies and precipitated the Asian financial crisis.

But much more needs to be done. In the journey towards the free cross-border movement of people and goods, the economic disparities among member economies – between rich Singapore, for example, and emerging Cambodia and Laos – must be narrowed. Otherwise, the more prosperous countries may be swamped by a flood of talent leaving the less developed areas, whose economies then risk being hollowed out, warned Joseph E. Stiglitz, Professor, Columbia University, USA.

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The main action, which has been going on for several years, is ASEAN integration. That is the strong comparative advantage of this region. The more this happens, the more resilient the region will be.

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Pascal Lamy, Director-General, World Trade Organization (WTO), Geneva



“

To address the challenges of global economic turmoil, we must continue to promote regional cooperation and integration – and the key to this is connectivity.

”

Yingluck Shinawatra, Prime Minister of the Kingdom of Thailand

A chain can only be as strong as each of its constituent links, and so participants also focused on the internal health of every ASEAN economy. “It is our job to help ourselves so we help other economies, too,” declared Kittiratt Na-Ranong, Deputy Prime Minister and Minister of Finance of Thailand. The key is to balance economies so that they are not too dependent on exports for growth. “Each country has to develop domestic markets and reform so each is buffered against shocks,” explained Eswar Prasad, Professor, Cornell University, USA.

The goal must be to diversify the drivers of growth, expanding the share of domestic consumption, for example, to equal or exceed that of exports and investment, especially at times when the economies of key trading partners are weak. Infrastructure building can also be a crucial growth engine, although care must be taken that the projects answer a real need within the country and regionally, and that they are implemented expeditiously, within budget and with due regard to environmental and social protection.

It is not just roads, railways, bridges, airports, deep seaports, electricity grids and telecommunication services within and beyond ASEAN. Participants also stressed the importance of soft infrastructure such as trade facilitation, logistics and governance – as well as health, education and the empowerment of women. Across the sessions, the mantra kept getting repeated: The most important resource for any organization or country is people.



The backing of those people is crucial to ASEAN’s regional integration ambitions. Eswar Prasad argued that the key is the elimination of corruption and inequality. “ASEAN has to make sure that greater openness is not only benefitting the elite, as inequality and corruption will erode broader support for future reform,” he said.

Finally, while domestic and regional concerns are important, a regional grouping must not shut out the rest of the world. The principle of open regionalism must remain the bedrock of ASEAN, many participants declared. Sandwiched between China and India, ASEAN can greatly benefit from greater connectivity with these two powerhouses – and the rest of the global economy. One way to achieve this is to take advantage of the East Asia Summit, the forum that brings ASEAN together with eight other countries, including China, Japan, India, the Republic of Korea, Russia and the United States.



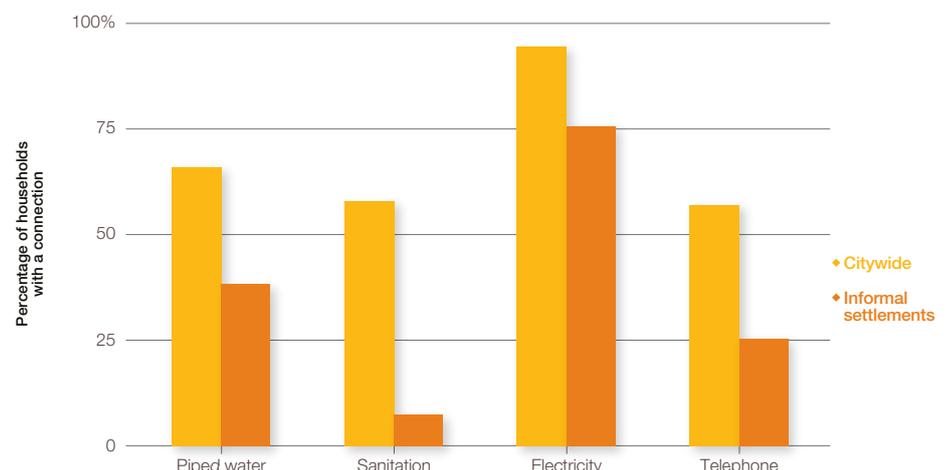
“We are clear where the problems are and we know we can’t get there overnight,” said Gita Wirjawan, Minister of Trade of Indonesia. “The point of connectivity is that we are getting there. It may not be as ambitious and grandiose as we want it to be, but we will get there.”

01: Eswar Prasad, Professor, Cornell University, USA

02: Kittiratt Na-Ranong, Deputy Prime Minister and Minister of Finance of Thailand

There are large gaps in infrastructure access between urban and rural Asian households
 Inequality in household access to infrastructure in East Asia

Source: “Connecting East Asia: A New Framework for Infrastructure”, Asian Development Bank, Japan





“

Regional cooperation and connectivity will help strengthen the resilience of East Asian nations.

”

Nguyen Tan Dung, Prime Minister of Vietnam

When All Roads Lead to ASEAN

In session after session at the World Economic Forum on East Asia, participants and panellists mentioned the term “ASEAN Economic Community” (AEC) in the same breath as the year 2015.

That is because the arrival of a new common market three years from now will give Asia and the world a new economic powerhouse. The 10 member nations of ASEAN have a combined population of 600 million people and a nominal GDP that exceeds US\$ 1.8 trillion. When it emerges as a common market, ASEAN will be the world’s ninth largest economy.

The AEC is envisioned as a single market and production base, where there is free flow of goods, services, investment and skilled labour, and freer flow of capital to and from ASEAN member nations.

“Free flow of goods would require not only zero tariffs but the removal of non-tariff barriers as well,” notes the agreement signed in 2009. “Another major component that would facilitate free flow of goods is trade facilitation measures such as integrating customs procedures.”

ASEAN has also been steadily lifting restrictions on services since 2010, starting with priority sectors including air transport, healthcare, tourism and logistics services. Restrictions on all other areas will be removed by 2015. An open-skies arrangement is to be implemented in that year, for example.

The AEC agreement specifically mentions the completion of the Singapore-Kunming Rail Link and the ASEAN Highway Network, further liberalization of the air and maritime transport sectors, and linking ASEAN to “neighbouring North-East and South Asian countries”.

Other noteworthy provisions include technical and development assistance to ASEAN’s less developed member states to narrow the rich-poor divide, assistance for small-scale enterprises and the creation of an ASEAN Development Fund, which some observers think may evolve into an ASEAN Development Bank.

The agreement also took pains to spell out ASEAN’s continuing commitment to “an open, outward-looking, inclusive and market-driven economy consistent with multilateral rules” and the desire of its members to continue being part of global supply chains.

In other words, the world will not see Fortress ASEAN in 2015, but a united, single market and global production base that is as open and ready to engage with the rest of the planet as individual ASEAN countries have always tried to be.



01: Mustapa Mohamed, Minister of International Trade and Industry of Malaysia

02: Joseph E. Stiglitz, Professor, Columbia University, USA (centre)



Risk Resilience Begins at Home

In a volatile, hyperconnected world, there is no avoiding the interconnectivity of risks. To build the capacity to mitigate risk and to respond effectively to risks that turn into real crises, countries must deepen connectivity in all its varied formats. But closeness can bring contagion. Economies must focus on how to strengthen their individual resilience so that they can withstand shocks – whether economic or physical. ASEAN offers a model of measured and balanced integration and constructive engagement that could be a template for other emerging regions to follow and could provide a strong foundation for the regional economy and for a new security framework in East Asia.

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We have to be extremely careful and proceed step by step.

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Surin Pitsuwan, Secretary-General, ASEAN
(Association of South-East Asian Nations),
Jakarta

Building the capacity to mitigate risks and to respond efficiently and effectively to risks that become imminent threats and then turn into crises or disasters is essential in a volatile, hyperconnected world. A country cannot profitably avoid risks by cutting itself off from the global economy or unplugging from global supply chains. What are needed are measures to prevent problems, firewalls to put a stop to contagion and quick-response systems to ensure that reactions to shocks are deliberate and successful.

“The lack of resilience is the most important threat to the global economy,” warned Jane Harman, Director, President and Chief Executive Officer, Woodrow Wilson Center for Scholars, USA. Added Idris Jala, Minister, Office of the Prime Minister of Malaysia: “If you have a strong and solid economy, that is the foundation for you to have the means to deal with shocks.”

Clearly, connectivity in all its formats – within countries (from the grassroots to top leaders), between countries at all levels, within regions, and between regions – is an important way to mitigate risks, whether economic or physical. “To address the challenges of global economic turmoil, we must continue to promote regional cooperation and integration – and the key to this is connectivity,” said Yingluck Shinawatra, Prime Minister of the Kingdom of Thailand. Integration “is the strong comparative advantage of this region,” declared Pascal Lamy, Director-General, World Trade Organization (WTO), Geneva. “The more this happens, the more resilient the region will be.”

For a land-locked nation such as Laos, for example, linking with its ASEAN neighbours is vital to national development. “Lao PDR attaches great importance to connectivity and is implementing a policy to transform the country from a land-locked country into a land linked to neighbouring countries to contribute to national socio-economic development and poverty reduction,” said Thongsing Thammavong, Prime Minister of Laos, in an address in the opening ceremony of the World Economic Forum on East Asia.

The centrepiece of South-East Asia’s integration efforts is the launch in 2015 of the ASEAN Economic Community. Much of the focus of this endeavour is on practical steps needed to create a real single market. “What we are trying to do today is to facilitate trade, eliminate barriers, from customs tariff reduction, credit facilities availability, logistics and connectivity,” said Kittiratt Na-Ranong, Deputy Prime Minister and Minister of Finance of Thailand. “We will try to improve logistic connectivity among ourselves in a way that the cost of transport can be as

low as possible to better facilitate trade and so that the abundant resources from different economies can be exchanged.” Logistical connectivity and facilitation of trade are crucial to boosting the global competitiveness of ASEAN and its member economies.

But as the European Union model and the Eurozone have shown, connectivity is itself a risk, many participants warned. Greater connectivity means wider exposure to risks not of your own making, such as the European debt crisis or the disruption of supply chains as a result of a natural disaster like last year’s earthquake and tsunami in Japan.

Consider the wide range of pressing global and regional challenges such as youth unemployment (see chart), climate change, water scarcity, energy security, food security, the infrastructure deficit, the threat of pandemics, the rise in the incidence of non-communicable diseases, and access to finance. In all these cases and more, connectivity – in the form of greater and wider collaboration among economies and various stakeholders – is the answer. But closeness carries dangers. As countries plug into global supply chains and become more deeply integrated with the regional and global economies, they must recognize and mitigate the mounting risks. “As you go up [and develop], you also drive up the interconnectivity of risks,” reckoned Geoff Riddell, Member of the Group Executive Committee and Regional Chairman, Asia-Pacific, Middle East and Africa, Zurich Insurance Group, Hong Kong SAR.

Shocks from natural disasters can be particularly debilitating because of their suddenness and often unexpected consequences, Riddell observed. “However much preparation is done, nature can overwhelm it. And however much we try to protect settlements from natural disasters, that is not always enough.” But doing nothing is not an option. East Asian economies have to collaborate with each other and with the rest of the world to do what they can to boost their individual and collective risk resilience. Riddell called on participants to study the World Economic Forum’s annual *Global Risks Report*, which maps out how various risks are interconnected.

Business and government must work together to prepare and react to crises, Emirsyah Satar, President and Chief Executive Officer, PT Garuda Indonesia, added. “In any natural disaster, business had better sit down with government.”



“
Lao PDR attaches great importance to connectivity and is implementing a policy to transform the country from a land-locked country into a land linked to neighbouring countries to contribute to national socio-economic development and poverty reduction.”

Thongsing Thammavong, Prime Minister of Laos



“
In any natural disaster, business had better sit down with government.”

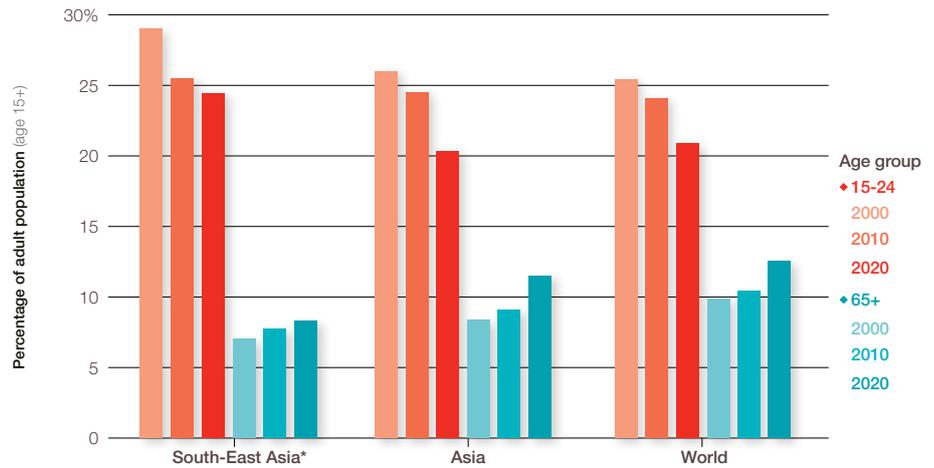
Emirsyah Satar, President and Chief Executive Officer, PT Garuda Indonesia, Indonesia



01

South-East Asia's workforce skews younger than Asia and the world Young and old workers in Asia

Source: UN Population Division (2011)



* includes Timor-Leste

This is especially crucial in East Asia, given the growing importance of the region in global supply chains. “We have to come up with ways to minimize the impact on the global supply chain,” Masami Yamamoto, President and Representative Director, Fujitsu, Japan, and Co-Chair of the World Economic Forum on East Asia, advised, recalling the December 2011 earthquake and tsunami that struck Japan. “This is the task for the global community.”

Deepening connectivity, therefore, has to be combined with efforts of each economy to put its house in order. Risk resilience begins at home. Economies have to be strong, and economic models cannot be too dependent on exports or too focused on domestic consumption. One critical exception: Protection must be resisted. In trade, open regionalism should remain the guiding principle of East Asian trade policy.

ASEAN has emerged as a model of balanced connectivity – measured integration that is sustainable and stable. While often derided by critics as a “talk shop” because of its gradual approach, the ASEAN way has gained support. Some may doubt how much the organization’s longstanding approach of constructive engagement with Myanmar contributed to the Myanmar government’s decision to implement meaningful political reforms. Surin Pitsuwan, Secretary-General, ASEAN (Association of South-East Asian Nations), Jakarta, believes the strategy was instrumental. Speaking in a session on regional security, he reckoned that ASEAN can be an important platform for building a strong security architecture or framework in East Asia. “ASEAN offers the form, the stage, the process. The best way forward is to demonstrate to the world that we can manage the differences among us without resorting to violence or open conflict.”



02

Despite recent heated disputes between China and claimants to areas in the South China Sea, Surin pointed out that ASEAN has been working with Beijing for over a decade to shape a code of conduct in the zone. Guidelines were finally agreed last year and the actual code of conduct is now under negotiation. “ASEAN is very central to security management,” agreed Zha Daojiong, Professor, School of International Studies, Peking University, People’s Republic of China. “It plays an indispensable role that cannot be over-emphasized.”

It has taken more than 10 years for a code of conduct in the South China Sea to be within grasp. It has taken 25 years to ease Myanmar out from the cold. It has been 20 years since the ASEAN Free Trade Agreement was signed, providing the foundation for the ASEAN Economic Community to be launched in three years. These efforts take time, but with ambitions tempered and goals realistic, ASEAN can achieve sustainable results. As Surin put it: “We have to be extremely careful and proceed step by step.”

01: Surin Pitsuwan, Secretary-General, ASEAN (Association of South-East Asian Nations), Jakarta

02: Vanessa Yin-Mon Han, Myanmar Delegation, International Federation of the Red Cross, Yangon

The Shadow of Europe

The debt crisis in Europe was a major concern at the World Economic Forum on East Asia. Despite their optimism about South-East Asia and the prospects for the launch in 2015 of the ASEAN Economic Community, in most sessions, participants expressed their worries about Europe and the weak global economic recovery, as well as the slowdowns in China and India. Nobody invoked the once-fashionable concept of decoupling. Most participants echoed the assertion of Pascal Lamy, Director-General, World Trade Organization (WTO), Geneva, that the region is not immune to the uncertainty in Europe and the United States.

The question on the minds of participants: What would be the impact on East Asia of a deterioration of the situation in Europe, the possible disintegration of the euro and another global slump? The resilience of countries in the region to economic shocks is much stronger than before, Naoyuki Shinohara, Deputy Managing Director, International Monetary Fund (IMF), Washington DC, reckoned. Ongoing efforts such as the Chiang Mai Initiative, a multilateral currency swap arrangement to manage short-term liquidity problems, “will further strengthen the resilience of economies,” he reasoned. But, warned Shinohara, while East Asia has developed very strong supply chains, “final demand is still outside Asia, so countries in the region should not be complacent and should prepare for potential shocks.” Stress in Europe and pressure on banks in distressed economies would have a major negative impact on trade financing and project financing in East Asia, he predicted.

As Gita Wirjawan, Minister of Trade of Indonesia, noted, his country and other East Asian nations want to see Europe recover because a strong Europe is in their interest. He questioned, however, whether European economies were willing to take the tough medicine needed to restructure, as Asian economies did during the 1997-1998 regional financial crisis, instead of simply kicking the can further down the road. Would the situation be different if an Asian and not a European were leading the IMF, Gita asked.

01: Naoyuki Shinohara, Deputy Managing Director, International Monetary Fund (IMF), Washington DC (centre, left)

02: Arak Chonlatanon, Minister of Energy of Thailand (centre, right)



The Devil Is in the Doing

Roads, railways, bridges and other hard infrastructure are the building blocks of connectivity. ASEAN is making good progress in physically linking its member states and the rest of Asia. But the more complicated task of building soft infrastructure is equally crucial. ASEAN's less developed economies are far behind. Among other things, the grouping needs mechanisms that enable trade facilitation and the provision of efficient logistics services across borders. ASEAN must also nurture healthy, educated and productive people. In realizing regional connectivity, the focus must be on creative solutions with multiplier effects not only on the economic level, but also in the social and cultural spheres.

“

The Internet is not just in the rooms; it's wherever people are. These forces are going to change a lot of how we even think about what it means to be interconnected and how we think about tackling poverty.

”

John McArthur, Senior Fellow, United Nations Foundation, New York



01: Rajat M. Nag, Managing Director-General, Asian Development Bank, Manila (centre)

Rajat M. Nag, Managing Director General, Asian Development Bank, Manila, likes to show people ASEAN's infrastructure map. In 1995, they would have seen just unconnected squiggles representing roads, railways, telecommunications and other infrastructure links. Ten years later, the lines would radiate over longer distances. By 2015, Nag predicts, the map will be crowded with red, green, blue and other lines intersecting and crossing national borders.

ASEAN's leaders are counting on it. The regional grouping is on track to launch the ASEAN Economic Community in 2015, but that cannot happen unless all member states are connected to each other and to China, India and other countries in Asia. Among the high-profile connectivity projects is the ASEAN Highway Network that will link 23 routes totalling 38,400 kilometres.

But regional connectivity costs money – US\$ 581 billion between 2010 and 2020, estimates the Asian Development Bank. And that is just for physical infrastructure. Building soft infrastructure is equally crucial. For one thing, a healthy population is a prerequisite for economic and business growth. So are educated citizens, men as well as women, who are technologically literate, know how to access banking and other services, and have a national as well as an ASEAN mindset – and even a global outlook.

How are all these to be financed? Participants pointed to public-private partnerships (PPPs) as potential solutions. Gérard Mestrallet, Chairman and Chief Executive Officer, GDF SUEZ, France, and Co-Chair of the World Economic Forum on East Asia, noted that ASEAN will need to spend US\$ 300 billion on power generation in the coming 10 years. "If the private sector

can take one-third or half, this will make the government or state-owned entity able to reallocate those [freed] amounts to education or healthcare," he said.

Since the private sector will invest only in commercially viable projects, the onus is on governments to structure the deals so the private sector partner can make a reasonable return. This applies as well to insurance and pension funds investing in infrastructure, a rising trend in recent years. There is a pleasing confluence here. By developing the region's insurance and pension systems, ASEAN will not only strengthen safety nets for its people, but also nurture a stable of funding for infrastructure projects.

The bad news is that the public sector apparently has been unable so far to make this happen. Private investment in infrastructure across ASEAN was below 1% of GDP in 2010. That is a decline from 2001, when the proportion was higher than 1.5%.

Other similarly creative courses of action were put forward. Women make up half the population; yet, they are often excluded or discriminated against in business, economic and political activities. Numerous studies have shown that empowering women can have multiplier effects – better health, higher literacy rates, reduced poverty levels. Initiatives to jumpstart women's inclusion such as incentives to encourage families to keep their daughters in school can thus yield significant dividends.



“
Investment in health is not only a social necessity but an economic imperative.
”

Victor J. Dzau, President and Chief Executive Officer, Duke University Medical Center and Health System, Duke University, USA

Developing labour-intensive industries can ensure steady employment. This is particularly true in travel and tourism, where service jobs do not require higher education and are particularly suited to women and the youth – the 15-to-24 age group accounts for more than one-quarter of South-East Asia’s population. In Indonesia alone, one out of 10 jobs created is tourism-related.

The multiplier effect can be tremendous if hotels, tourist attractions and other facilities make a conscious effort to source from the local community and extend training and entrepreneurial opportunities. In addition, tourism can help to nurture the “ASEAN-ness” of the grouping’s citizens, who have diverse cultural traditions and religions. Typically, 80% of a country’s international arrivals originate from other places in the same region.

Building intercultural connectivity can be done virtually as well. In this, ASEAN already has the building blocks – social media use in Indonesia, Malaysia, the Philippines and Singapore is higher than in the United States and above the global average. Growing access to broadband, mobile networks and the Internet allows those in less developed economies to catch up with the rest of the region and the world.

Indeed, said Mark Ruiz, Co-Founder and Managing Director, Microventures, Philippines, people across Asia are adapting and using technology to satisfy their unique needs and desires. His company is connecting people who run mom-and-pop type stores in rural villages in the Philippines to create a virtual community that allows users to pool their collective purchasing power and source store items more cheaply.

This is yet another creative solution that ripples out across so many dimensions. By building the hard infrastructure that is appropriate for their country at the local, national and regional levels, the region’s public and private sectors are putting in place the requisite platforms that will enable equally needed soft infrastructures. For example, the broadband and mobile networks can be used as conduits for education and dissemination of health information, which in turn can boost employment and reduce poverty levels.

Highway networks, railway lines, power plants and other inter- and intraregional links are similarly prerequisites for the free movement of people and goods across ASEAN and beyond. But soft infrastructures to facilitate such flows are also required. For example, laws and regulations that will ensure efficient cross-border traffic without weakening security must be put in place.

In realizing regional connectivity, devising solutions that can have multiplier effects on two, three or more ASEAN targets is the most efficient way to go.



“
We have a master plan. We also wish to reduce the disparities between economies in ASEAN itself to enhance prosperity and reduce poverty.
 ”

Susilo Bambang Yudhoyono, President of Indonesia



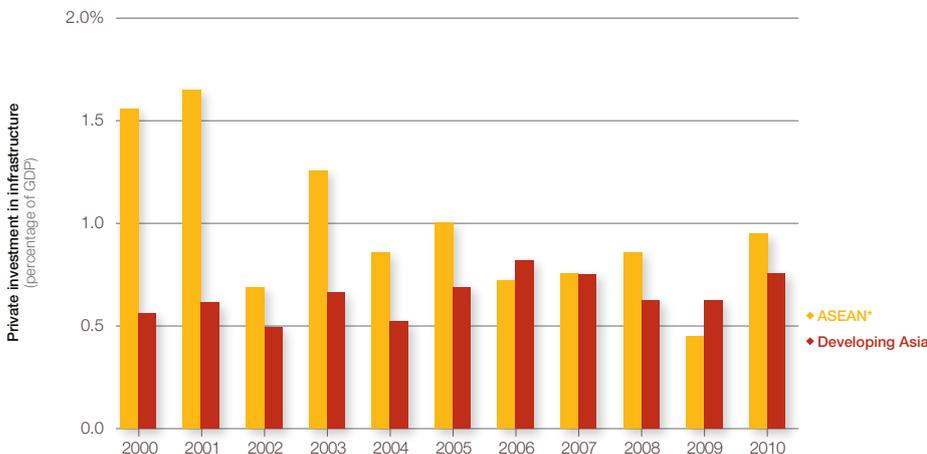
“
We need basic education. There has been too much emphasis on tertiary and even postgraduate education. We need the kind of education that will allow people to make a decent living for themselves.
 ”

Aung San Suu Kyi, Chairman of the National League for Democracy (NLD); Member of Parliament of Kawhmu Constituent, Myanmar

Private investment in infrastructure is below 1% of GDP in ASEAN

Private infrastructure investment in ASEAN

Source: World Bank Private Participation in Infrastructure database; IMF



Note: Data reflects private investment in energy, transportation, telecoms, and water and sewerage infrastructure. Data not available for Brunei. Investment figures exclude payment commitments to government. ASEAN is a simple average of total private investment divided by the total GDP.



“

The government has made efforts to fulfil the wishes of the people – to live in peace and stability.

”

U Than Htay, Union Minister for Energy of Myanmar

01: Aung San Suu Kyi, Chairman of the National League for Democracy (NLD); Member of the Parliament of Kawhmu Constituent, Myanmar

Focus on Myanmar

Deeply embedded in the World Economic Forum's mission and commitment to improving the state of the world are the core principles of neutrality and impartiality. Being a multistakeholder organization tied to no political or partisan interests and having the highest degree of moral and intellectual integrity, the Forum looks forward to making a significant contribution to the reconciliation process in Myanmar.

The participation of U Than Htay, Minister of Energy of Myanmar – as a representative of U Thein Sein, President of Myanmar – and Aung San Suu Kyi, Chairman of the National League for Democracy (NLD); Member of Parliament of Kawhmu Constituent, Myanmar, in the World Economic Forum on East Asia was a historic event.

Their engagement in the meeting offered participants the chance to learn more about the political and economic transformation underway in Myanmar and the prospects for the country as it re-engages with the region and the world. The critical question: Is the reform process irreversible? The answer, Suu Kyi told participants, depends on the military and on the “national commitment” of the people. She called on investors to consider how they can help Myanmar and its citizens as they explore opportunities in the country. Minister U Than Htay, meanwhile, outlined his government's reform and restructuring plans, which are going ahead with the cooperation of all stakeholders. The government, he said, “has made efforts to fulfil the wishes of the people – to live in peace and stability”.

Speaking prior to the Closing Plenary, the minister conveyed to participants the invitation of President U Thein Sein to come to his country in 2013 for the 22nd World Economic Forum on East Asia.



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