

ASEAN SPECIAL

Strength of growth mirrored in commitment to unity

Creation of single market vital if ASEAN members are to survive economic onslaught of China, India

By NOBUTOSHI AKAO

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The remarkable economic progress of ASEAN-member nations in the past few decades has been accompanied by constant efforts to strengthen the bloc's unity and solidarity.



The 10-country Association of South-east Asian Nations is working on a charter that will embody the fundamental principles and goals of the ASEAN Community, which is to be established by 2020.

The association is also increasing its presence in the international community by expanding dialogue with other countries, as can be seen in the first East Asia Summit in Kuala Lumpur last December, which was attended by leaders of ASEAN, Japan, China, South Korea, India, Australia and New Zealand.

If ASEAN countries are to continue to attract foreign direct investment (FDI) and to survive fierce competition from two neighboring giants — China and India — it is crucial for ASEAN to accelerate the establishment of a single market of over 550 million people through economic integration.

In this regard, ASEAN needs to put into action all the commitments proclaimed in a series of documents and arrangements, which include the ASEAN Free Trade Area (AFTA), ASEAN Vision 2020, ASEAN Investment Area (AIA), Vientiane Action Programme and the Kuala Lumpur Declaration 2005 on the Establishment of the ASEAN Charter.

At the same time, each individual ASEAN-member country must carry out domestic structural reforms to create a business-friendly environment. It is imperative for ASEAN to carry out a fundamental policy change: from the policy of protecting its industries to the policy of strengthening their competitiveness.

If ASEAN countries really intend to establish an ASEAN Economic Community as envisaged in the ASEAN Concord II declared in 2003, they must, first of all, be prepared to give up some of their sovereignty to promote deeper economic integration. The "ASEAN way" of proceeding by consensus on a basis of respect for each member's sovereignty may be a good tradition. However, this traditional decision-making process needs to be dramatically changed to cope with a rapidly changing economic environment.

Second, in this connection, the establishment of the AFTA must be accelerated, with complete elimination of tariffs and nontariff barriers on goods for trade among ASEAN countries as soon as possible, without waiting until 2010 for compliance by six ASEAN members — Indonesia, Malaysia, the Philippines, Singapore, Thailand and Brunei — and until 2015 by the other four members — Cambodia, Laos, Myanmar and Vietnam (CLMV) — allowing for some flexibilities and exceptions for the latter as it hastens to comply.

Faced with increasingly

stronger and fiercer competition in the global economy, ASEAN cannot afford to wait too long before its market is fully integrated. Such integration is not possible without further liberalization of the service sector and investment as well. Some major ASEAN members, such as Indonesia, need to take a more active role in promoting the integration.

Third, ASEAN countries have to create business-friendly domestic environments by pushing more energetically for structural reforms, which are conducive to domestic business and for the attraction of FDI. In this regard, various elements are involved, including political stability, security, investment-related laws and regulations, and labor-management relations.

ASEAN countries and Japan have shared a long history of exchanges and partnership, and this mutual interdependence is deepening with cooperation extending beyond political and economic fields, as they remain determined to deepen and broaden the strategic partnership between ASEAN and Japan.

Japan's economy dominates East Asia and is much larger than the combined economic size of the 10 ASEAN countries. In terms of GDP, Japan's GDP is more than half of the total GDP of ASEAN-plus 3 (Japan, China and South Korea). Japan, together with the United States, is one of two largest trading partners for ASEAN and one of the major investors in the bloc.

While China has become one of ASEAN's major trading partners, it is a major FDI recipient,



LEADERS OF Asia-Pacific Economic Cooperation (APEC) forum member countries, dressed in traditional Vietnamese "ao dai," gather for a group photo in Hanoi on Nov. 19. Mingling with the ASEAN leaders are U.S. President George W. Bush, Russian President Vladimir Putin and Japan's Prime Minister Shinzo Abe. AP PHOTO

and not a major overseas investor. Although Japan's investment in China has sharply increased in recent years, its total accumulated investment (1951-2004) to ASEAN is about 3.3 times bigger than that to China. About 3.6 million Japanese people annually visit ASEAN countries, representing the largest number among all countries outside the bloc.

Japan remains a major provider of official development assistance to ASEAN countries, although the ASEAN share of Japan's total ODA has been falling in monetary terms as ASEAN countries continue to make steady economic progress.

In the area of monetary and

financial cooperation, although Japan's proposal to create an Asian Monetary Fund following the Asian financial crisis of 1997-98 did not materialize, various types of specific cooperation, including the Chiang Mai Initiative, have been progressing under the ASEAN-plus 3 framework.

In short, Japan's economic presence in ASEAN cannot be replaced by any other East Asian country, at least in the foreseeable future. But to further strengthen the economic partnership of ASEAN and Japan, Japan is expected to take stronger initiatives.

Although ASEAN and Japan

are already highly integrated economically through private-sector activities in the fields of trade, investment and the movement of people, the Japanese government needs to promote institutional arrangements by means of strengthening monetary and financial cooperation, and establishing economic networks, which Japan refers to as economic partnership agreements (EPAs).

EPAs include not only free trade agreements (FTAs) that cover the liberalization of trade in goods and services, but the liberalization of and rule-making on investment, government procurement, strengthening of in-

tellectual property rights protection, the harmonization of competition policies, and various other forms of economic cooperation. Such bilateral EPA networks should eventually evolve to form a single East Asia EPA/FTA.

Also, in order to realize ASEAN's economic integration, narrowing intra-ASEAN economic gaps is crucial. Therefore, Japan should continue to give priority to ODA programs for ASEAN countries, especially through the implementation of projects under the Initiative for ASEAN Integration, support for regional and subregional development (BIMP-EAGA, GMS), capacity-building, infrastructure development, the strengthening of industrial bases, and transfer of expertise and technologies.

Japan must further strengthen its economic linkage with ASEAN countries, with which Japan has cultivated mutual economic interdependence to considerable degrees through more than 30 years of close political and economic relations.

ASEAN-Japan Centre reform To further expand the economic ties of ASEAN and Japan, the ASEAN-Japan Centre (ASEAN Promotion Centre on Trade, Investment and Tourism) has been promoting trade, investment and tourism between ASEAN countries and

Japan.

Marking its 25th anniversary this year, it has been continuously implementing various programs, such as the organization of exhibitions and seminars, dispatch and invitation of missions and experts, capacity-building programs, distribution of publications, among others.

Last year, the Eminent Persons Committee (EPC) was established to discuss the reform of the ASEAN-Japan Centre so as to widen and deepen its scope of activities as stipulated under the ASEAN-Japan Plan of Action (2003).

The EPC commenced its task in May 2005 and made its final recommendations in April 2006.

In accordance with the EPC's recommendations, emphasis will be placed on activities to support the comprehensive economic partnership/economic partnership agreement initiatives and ASEAN community-building efforts, which include assistance to small and medium ASEAN enterprises, narrowing the digital divide among ASEAN-member countries as well as between ASEAN and Japan, and bridging intra-ASEAN economic gaps.

Moving forward, the ASEAN-Japan Centre will continue to devote its efforts to further deepen the relations between ASEAN countries and Japan.



ASEAN LEADERS meet in Kuala Lumpur for a Dec. 12-14, 2005, summit. The leaders include (from the front upward) Vietnam Prime Minister Phan Van Khai, then-Thai Prime Minister Thaksin Sinawatra, Singapore Prime Minister Lee Hsien Loong, Myanmar's Prime Minister Soe Winn (almost hidden behind the Singapore leader), Philippine President Gloria Macapagal Arroyo, Malaysia's Prime Minister Abdullah Ahmad Badawi, Laos Prime Minister Bounngang Vorachith, Indonesian President Susilo Bambang Yudhoyono and Cambodia's Prime Minister Hun Sen. AP PHOTO

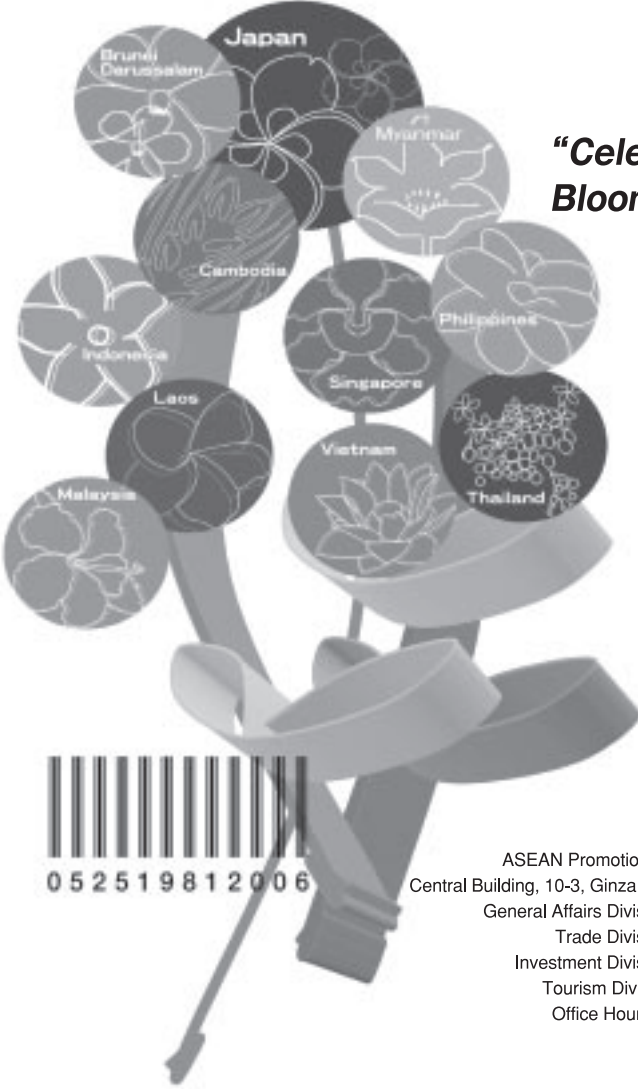
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