

KEYNOTE SPEECH

by

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Asia

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Session 1: Cooperating with Neighbors – Economic Integration in Southeast Asia to Overcome Global Economic Challenges

“What are the current dynamics of economic integration in the region? What impact has the global economic crisis on it?”

I. Introduction

Distinguished Participants, Ladies and Gentlemen,

It is a great honor for me to deliver, on behalf of the Asian Development Bank, a keynote speech at this very important forum. I would like to first congratulate the Government of the Socialist Republic of Viet Nam, in particular its Ministry of Planning and Investment for the excellent arrangements for this seminar and for their hospitality. I trust all the participants are enjoying your stay in Viet Nam. I also would like to thank the Governments of Japan and the Republic of Korea for supporting the organization of this seminar, and also would like to recognize the great efforts of OECD colleagues who have worked very hard to prepare for this seminar, particularly in conceptualizing its substance.

Today, as requested by the organizers, let me first start with a brief report on Southeast Asia's economic recovery. I then would like to discuss how has the global economic crisis impacted on domestic and regional economy, taking the Southeast Asia as an example. Thirdly, I would like to dwell further on the issue of regional economic cooperation particularly in the domestic context using Viet Nam as an example. Then, I will discuss the issue of communication before linking all these topics back to the broader issue of aid effectiveness. As you appreciate, the topics requested by the organizers for me to discuss in this keynote speech are wide ranging, and I hope to elaborate on the issues further during the panel discussions following this keynote speech.

II. The Southeast Asia's Economic Recovery

Ladies and Gentlemen,

Asia responded to the global economic crisis better than other regions. The Asian Development Outlook 2010, published two weeks ago reported that the region did much better in 2009 than

originally predicted. The 5.2% growth may have been significantly below the extraordinary 9.6% growth in 2007, but it showed that our region is shifting toward supplying its own growing domestic needs – which acted as a buffer against external shocks. This is a gradual and developing process. But the 2008/2009 crisis has proven that developing Asia is clearly on a path toward a more regionally integrated, yet globally connected paradigm – one that better balance increased private consumption in the region with a gradual, moderate global recovery accompanied by a modest revival in world trade.

East Asia, the most economically integrated subregion within Asia, is leading the recovery. Asian Development Outlook 2010 projected 8.3% GDP growth this year with China growing at 9.6% and Korea rebounding significantly to 5.2% growth. The more export-dependent newly industrialized economies of Hong Kong, and Taipei, China will rebound to around 5% growth.

The two key reasons why Asia responded to the crisis better than other regions are: (i) since the Asian Economic Crisis a decade ago, the region aggressively used its own resources and access to the international financial systems to reform its economic base into the one that produces quality products at competitive prices in an era of globalization; and (ii) the Asian countries had built sufficient reserves, and for the most part, prudently created the fiscal and monetary space needed to energize their economies in the face of a global recession. The result is that Asia is leading the world out of the worst recession since the Second World War, and can hopefully continue to supply sufficient demand—both for raw materials and manufactured final products – to help in the process of returning the global economy to a path of sustained growth.

The three major risks to the positive recovery outlook are: (i) on the external front, the pick-up in growth among advanced economies may not hold and China's robust growth could lose momentum; (ii) the return of capital flows to the region – either by sheer size or volatility – could destabilize the recovery; and (iii) as ASEAN countries implement exit strategies from fiscal and monetary stimulus, bad timing or inappropriate monetary and fiscal policy mix could derail their recovery.

III. Toward ASEAN Economic Community

As the recovery in many ASEAN economies gains traction, it is increasingly important to consider ways to achieve a functioning ASEAN Economic Community, or AEC, which could well form the basis for an eventual pan-Asian Economic Community.

Earlier this month, in Ha Noi, the ASEAN leaders reconfirmed the vision towards the establishment of the ASEAN Economic Community by 2015, and the necessary strategies, or “roadmaps” are now being developed to realize this dream. It may be important to recall that when Asian Development Outlook 2009 was launched last year, its theme chapter was entitled “rebalancing growth” to highlight the fact that the development strategy to solely rely on export-led growth would not be sustainable – or in fact the global imbalance can be considered a factor behind the global economic crisis which was triggered by the shocks in the financial markets in North America and

Europe. It is also interesting to note that just a week ago in this same hotel, there was an International Ministerial Conference on Avian or Animal Influenza and Pandemics which recalled when SARS hit the region in early 2003, how quickly has the disease spread to the entire world through major air routes. It is a reality that the issues in the region are closely linked to the entire world now, and what happens in a different part of the world can also quickly and significantly affect the welfare of the people in different parts of the world.

Talking about this hotel, there was another conference, back in September last year to discuss the social impact of the global economic crisis. The key findings were that (i) unlike the Asian Economic Crisis in 1997-1998, the adverse impact was most strongly felt by the “near poor” or those who were just around the poverty lines and not by the poorest of the poor; and (ii) in many countries, the crisis prevailed the weaknesses in the social systems such as the poor state in the development of the social protection mechanisms.

With the difficulties in the export markets, the Asian countries adopted aggressive economic stimulus measures, particularly focusing on supporting domestic consumption. The need to look further into the regional markets was also considered to be an important measure, and indeed there were efforts to develop further the regional trade – which could in fact be another force behind to accelerate ASEAN or Asian economic integration.

In order to make you feel better the changing regional context, please allow me to show you a few maps.

The first map – in which the brown lines show the “international roads” back in 1992 when the Greater Mekong Subregion Economic Cooperation Program, or GMS, has started.

Then in 15 years, the road network has developed a lot as you can see in the second map. The third map shows how we expect the situation is going to be in 2015.

There has also been a development of the international power transmission lines – which you can see in the next map, and also the development of the telecommunication backbone is shown by the green dotted line.

The last map shows the linkage between the road networks in GMS and that in the South Asia.

IV. Challenges of GMS

What do these changes mean?

At the country level, it is true that there is an increasing momentum towards regional economic integration. The strategy to look at your own and your neighboring markets is considered to be the most appropriate one in “rebalancing” the growth to make them more sustainable. The Asian

Development Bank, at the 14th ASEAN Finance Ministers Meeting held in Nha Trang in southern Viet Nam, also urged ASEAN countries to focus on achieving a functioning ASEAN Economic Community by 2015. A single market and production base can make this a highly competitive global economic region – the tenth largest economy and the fifth largest trading group in the world. A functioning AEC would reduce transaction costs and enhance the investment climate. Today, business and investors treat ASEAN as a collection of 10 different countries rather than a single economic entity. Deeper integration with standard business parameters and improved trade facilitation, and easing of capital flows among ASEAN members would significantly improve competitiveness of the region as a whole.

Yet, to achieve a functioning AEC, ASEAN countries are urged to focus on strengthening their institutional base, bridging the development gap among ASEAN members, and avoiding the middle income trap.

Particularly as ASEAN integrates, it must be careful not to exacerbate the development gaps between its larger and smaller less developed members. Several initiatives were begun in the past to tackle this problem, in particular the Initiative for ASEAN Integration, or IAI. One way to help meld the ASEAN together is to exploit economic complementarities. The development of small and medium enterprises is key to making economic development in the region more inclusive. Developing innovative mechanisms to finance the huge infrastructure investment requirements, especially of the less-developed ASEAN members, could also help close the development gap. Another means would be to focus on developing integration programs targeted specifically at bringing less developed ASEAN members in closer alignment with their more prosperous neighbors. The GMS program is one such example.

But the GMS program also has its own challenges. While “connectivity” through infrastructure investment has been developing as you saw in the maps, GMS countries are struggling to make sure that the “hardware” development would accompany necessary “software” development so that the increased connectivity would indeed bring about economic development. The third summit meeting of the GMS leaders held in March 2008 in Vientiane particularly emphasized this point, and subsequently, “Economic Corridors Forum” was convened – for the first time in Kunming, Yunnan Province in 2008 and in Phnom Penh in 2009. The upcoming 16th Ministerial Conference on GMS to be held here in Ha Noi in August this year is expected to continue discussing this challenge to turn “transport corridors” to “economic corridors”.

V. Cooperating with Neighbors

Strategic approaches in regional economic cooperation can be seen at two different levels: one at the national level; and the other at the local or provincial.

With ASEAN-China FTA and ASEAN-India FTA in place now, many countries in ASEAN region need to revisit the strength and weaknesses of their production capacities with a view to

developing efficient regional value chains. This requires countries to abandon conventional “import substitution” type industrial policies and instead seek their niche products in order not to compete each other within the region or duplicate others’ efforts, but to complement each others’ strength. Careful consideration of supply chains will be a key for transport corridors to have actual economic values. But for countries such as Viet Nam or Cambodia, it will be a challenge as they need to consider not only China and India but also Thailand’s advanced production capacities in many sectors.

At the same time, at the provincial level, the process of economic integration particularly through physical connectivity is expected to contribute to the reduction of poverty in remote areas. However, in order for the rural areas of the countries to take full advantage of growing connectivity, involvement of provincial or local governments are indispensable, particularly to bring about the actual benefit of enhanced connectivity, or regional cooperation in general to the poor, or the ultimate beneficiaries of our common development efforts. Yet, involvement of local governments in regional cooperation efforts has only started in recent years and is still struggling to a great extent due to lack of capacity and limited institutional and operational framework to support such efforts. A key in this regard must be the communication strategy, because the main challenge to ensure active participation of local or provincial governments in promoting regional cooperation is to ensure common understanding of the issues among the countries, and within the countries. How can the neighboring two provinces in two different countries communicate better, based on the common understanding of the overall “strategic framework” for the region?

VI. Towards 2011 High Level Forum on Aide Effectiveness

I hope I was able to show you some of the key strategic factors in considering regional cooperation and integration in the current global economic context. Indeed the challenges are big, but at the same time, it is not something we can afford to escape or delay,

Viet Nam is a country which acted very quickly to the Paris Declaration on Aid Effectiveness and localized it by issuing the Hanoi Core Statement at the mid-term CG meeting which was held only 3 months after the Paris Declaration. The Paris Declaration and the Hanoi Core Statement have a special significance in Viet Nam as they have 2010 as the target year for most actions, and this is the year the country is also finishing its 5 year Socio-Economic Development Plan and the 10 year Socio Economic Development Strategy. I also would like to recall here that Viet Nam was able to make the ongoing Socio Economic Development Plan 2006-2010 a result based plan, with identification of relevant monitoring targets.

As regional cooperation and integration will need to play an important role in this country’s future development process, we believe the key issues will need to be integrated into Viet Nam’s next Socioeconomic Development Strategy 2011-2020, and the next Socio Economic Development Plan 2011-2015. This would necessitate the strategies and assistance to emphasize ownership,

alignment, harmonization, managing for results and mutual accountability. How this process will be supported through a careful communication strategy will indeed be a key.

Ladies and Gentlemen,

One month ago, the High Level Event on South-South Cooperation and Capacity Development was held in Bogota, Colombia and the Bogota Statement was issued on 25 March. I am pleased to note that a number of important events are now being organized in order to prepare for the next 4th High Level Forum on Aid Effectiveness to be held in Seoul in 2011. I do sincerely hope that our seminar today and tomorrow will provide us with useful insights to contribute to the Seoul Forum, particularly highlighting how the issue of regional economic cooperation and integration can be effectively linked to the discussion on communication strategy and aid effectiveness.

Thank you very much for your kind attention and I hope the seminar will be a great success.

Thank you.