

Formulating an East Asian Economic Community - Challenges and Opportunities

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by

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Good morning ladies and gentlemen.

Like my colleagues, I would like first of all to extend my gratitude to Hitachi for organizing this initiative.

Our world is surrounded with good elements. But creating glue among the elements is always a very demanding task and we are all very thankful for this initiative of Hitachi. My congratulation also goes to the young leaders of East Asia, particularly the chosen 28 who made it to this stage, after a very competitive selection based on proven accomplishments.

Let me start by saying that I'm responsible for leading a business school. I keep observing my former students and I am sure of one thing, namely that leaders are always paid better than followers, and being a scholar, I keep asking myself why. Perhaps there are good explanations.

Number one in my view is that leaders are able to set directions for the organization they lead. To be able to set directions for an organization one needs to command a higher conceptual fluency, a good, superior understanding of environment, as well as the strengths and weaknesses of the organization. Leaders of East Asia, including young leaders, have to understand our region better than people in general do.

Number two, leaders have a very strong love for details. They do not get satisfied by understanding the broad picture. They dig into details, requiring them to engage in fieldwork.

Number three, leaders are courageous to decide even in very conflicting situations. Leaders distinguish themselves by their determination to decide where to go and to get people to move in the chosen direction.

Let us take our region as an example.

The first knowledge that we need in East Asia is to understand what Asia means. Who is 'us' in East Asia? East Asia is a fluid term; there is no law whatsoever that says that East Asia stretches from Tokyo in the East to perhaps Chiang Mai or Yangon in the West. No law at all. It originated from European vocabulary of geography. It is the Europeans who first called us east, not us. A shared understanding of East Asia is a must for the leaders of our region. Is it Southeast Asia plus North East Asia? Is it Southeast Asia plus North East Asia plus India, plus Australia plus New Zealand, the so called East Asia Summit Countries? Is it Asia Sixteen? There is no shortcut to defining what Asia means. We will have to let it evolve; we will have to talk to one another, until in the end we come to a widely shared agreement of what Asia constitutes. I participate in three expert groups on regional trading arrangement in our part of the world. It is difficult to really get to an agreement with my colleagues on what East Asia truly means. It is not a foregone conclusion. Dwelling on it remains an important task for us.

Let us move to the second issue, that of the East Asia Community. In the traditional sense of the world, community consists of a number of mechanisms.

Number one is called negative integration. It consists of doing away with artificial barriers; barriers to trade in goods, barriers to trade in services such as education, barriers to capital movement, barriers to the sharing of information and barriers to flows of people. While a lot of progress has been made in reducing or even removing many of the barriers, a lot still persists, waiting to be addressed.

The second component is positive integration, a conscious effort to craft a common policy, which can be monetary policy, fiscal policy, even social policy and educational policy. This stage of integration has proven to be much more difficult than the negative integration. Doing away with barriers is much easier than coming to agree on a common policy.

Element number three is the pooling of the sources, which we popularly call development cooperation. Mention has been made of the immense gap, separating the poorest parts of East Asia from the richest ones. The gap cannot be narrowed just by doing away with artificial barriers; we need a conscious development cooperation to allow the poorer members to catch up with the richer ones.

Number four element is called investment and trade facilitation. Investment and trade need facilitation, conscious efforts to make investing and trading easier to undertake. We also have a lot of cooperation programs in this area. Up until recently, East Asia was no enthusiast of regional integration. Japan, Korea, and China essentially relied on multilateralism in the context of WTO, formerly GATT, General Agreement on Tariff and Trade, while seeking to push economic development. Even AFTA, which was agreed upon in 1992, 25 years after the establishment of ASEAN, has not been a major factor in the economic development of Southeast Asia. We also agreed on the completion of the ASEAN Economic Community by 2015, but we only did so last year. East Asia is a late comer to regional economic integration, but in the absence of regional integration, East Asian economies had performed exceptionally well. One by one, East Asian countries became what are called industrialized economies or a fully developed economies like Japan, South Korea and Singapore by depending on multilateralism rather than engaging in preferential regional agreements.



This transformation of East Asian economies relies heavily on integration which is initiated by business organizations rather than by politicians. Keep in mind, regional integration is not a necessary ingredient of economic progress.

But why and how did Asia get to discover regional integration? Regional integration is an ultimatum kind of a game. Once your neighbor has it with others, you are compelled to have one with others; otherwise you will be discriminated against in the other markets.

Times have changed. We, East Asians, became enthusiastic followers of regional integration. In the mean time we have turned East Asia into a “noodle bowl”, which is even less tractable than a spaghetti bowl. We transformed East Asia into a noodle bowl with complex rules of origin. Dealing with this noodle bowl means cost, a lot of cost. It is not really a total blessing for us that we have so many regional initiatives being forged in our part of the world. While thinking about regional integration in East Asia you also have to take into account emerging issues, and my colleague from the Philippines has already mentioned most of them. One important new issue is the new economic geography of East Asia. We don't know how to deal with this yet. Of course profits are to be made from the rise of China, but there are down sides of its rise that we also need to dwell on.

Number two, being the center of the world's economic growth necessarily means that East Asia is faced with seeds of conflict. A good and effective conflict management is going to be very much and increasingly needed among our leaders in this part of the world.

Number three, growing at a very rapid speed necessarily means that we also turn the region into a major "polluter", sorry to use the word. We do have national policies on environment but when it comes to cross-border issues of environment like the fog from Sumatera that goes all the way to Thailand, how do we deal with this type of issue? These are issues that need what I called earlier positive integration, requiring creative efforts among our governments to deal with. What is more, community building is much more complex than economic undertaking. If East Asia economic integration is to sustain in the years to come it needs a strong anchor and I cannot think of any anchor other than a political one. We somehow have to address political issues as well, to give an anchor to East Asian economic integration.



Let me come to the end of my presentation by underlining that integration requires attractors. Those of you who studied physics understand that an attractor is something into which things are drawn. Without attractors East Asia is simply impossible to integrate. East Asia integration is perhaps the most gigantic attempt of all regional integration endeavors the world has ever seen. And it requires again a much stronger attractor, if it is to sustain over a long and challenging period of time. In my view, business organizations will have to serve as more important attractors given the fact that for the last thirty years or so, business has assumed a much greater role in economic development, going into areas which in the past were considered the sanctuary of government infrastructure. Unless we've business organizations serving as attractors there is going to be a very difficult future for East Asia integration. To do justice with the extended role of business organizations we will have to multilateralize. I wish to see Indonesian companies becoming full of talent coming from all over Asia rather than Indonesia alone, and of course I wish the same thing for Japanese companies

recruiting talent from all over Asia. This is an area where Europeans still excel much more than we do: the multilateralization of the workforce in business organizations.

Having initiated this event, I wish Hitachi a durable success. I wish the participants also a very fruitful gathering, hoping that you, one day, can really serve as a glue for East Asia Integration.

The road ahead is difficult, but with people like you, East Asia can really forge among themselves a much stronger integration than is the case right now.

Thank you.