

Why CEPEA makes sense to Asia

April 6, 2010
Risaburo NEZU
Fujitsu Research Institute

shaping tomorrow with you

What is CEPEA



Economic Development and Regional Integration

12. We welcomed ASEAN's efforts towards further integration and community building, and reaffirmed our resolve to work closely together in narrowing development gaps in our region. We reiterated our support for ASEAN's role as the driving force for economic integration in this region.

To deepen integration, we agreed to launch a Track Two study on a Comprehensive Economic Partnership in East Asia (CEPEA) among EAS participants. We tasked the ASEAN Secretariat to prepare a time frame for the study and to invite all our countries to nominate their respective participants in it.

We welcomed Japan's proposal for an Economic Research Institute for ASEAN and East Asia (ERIA).

**Chairman's Statement of the Second East Asia Summit
Cebu, Philippines, 15 January 2007**

4. The Ministers noted the report of the Track Two Study Group on Comprehensive Economic Partnership in East Asia (**CEPEA**), which shows greater potential trade and GDP growth if enhanced integration among EAS members is achieved. Consistent with the request of Leaders, the Ministers agreed to convey the report to Leaders at the 4th East Asia Summit (EAS). The Ministers also agreed to a Phase II Track II Study on **CEPEA**, detailing the pillars of economic cooperation, facilitation and liberalisation as well as institutional developments.

Joint Media Statement of AEM+6 working Lunch in Aug 2008

18. We received a Statement from the Economic Research Institute from ASEAN and East Asia (ERIA) Governing Board Meeting. We appreciated the ERIA's contribution to regional cooperation, by providing useful research and practical policy recommendations. We encouraged ERIA to work with the ADB and the ASEAN Secretariat to accelerate the completion of a "Comprehensive Asia Development Plan" in order to enhance the connectivity of the region.

19. We noted the final Phase II Report of the Track Two Study Group on **Comprehensive Economic Partnership in East Asia (CEPEA)** and welcomed the decision of our Economic Ministers who met in Bangkok on 15 August 2009 to task the Senior Economic Officials to discuss and consider the recommendations in the Phase I and II reports. CEPEA and East Asia Free Trade Area (EAFTA) could be examined and considered in parallel.

Chairman's Statement of the 4th East Asia Summit
Cha-am Hua Hin, Thailand, 25 October 2009

What does comprehensive mean ?

1. Free trade agreement
2. Trade facilitation
3. Economic cooperation
4. Energy and environment
5. Information technology

1 . Areas to be covered

- Japan, China, Korea
- Japan, China, Korea + ASEAN 10 (EAFTA)
- Japan, China, Korea + ASEAN 10 + India, Australia, NZ (CEPEA)
- APEC

2 . Contents of integration

- Free Trade Agreement
- cooperation programs such as climate change, monetary cooperation, human resource development and infrastructure construction
- coordination of economic policies
- institutional framework, OECD of East Asia: ERIA can serve as a basis.

3 . challenges

- Legally binding agreement is difficult
- FTA is a long term goal, not feasible in the near future
- No common value, such as free market ,democracy or common religion
- who takes leadership ?
- Relationships with US

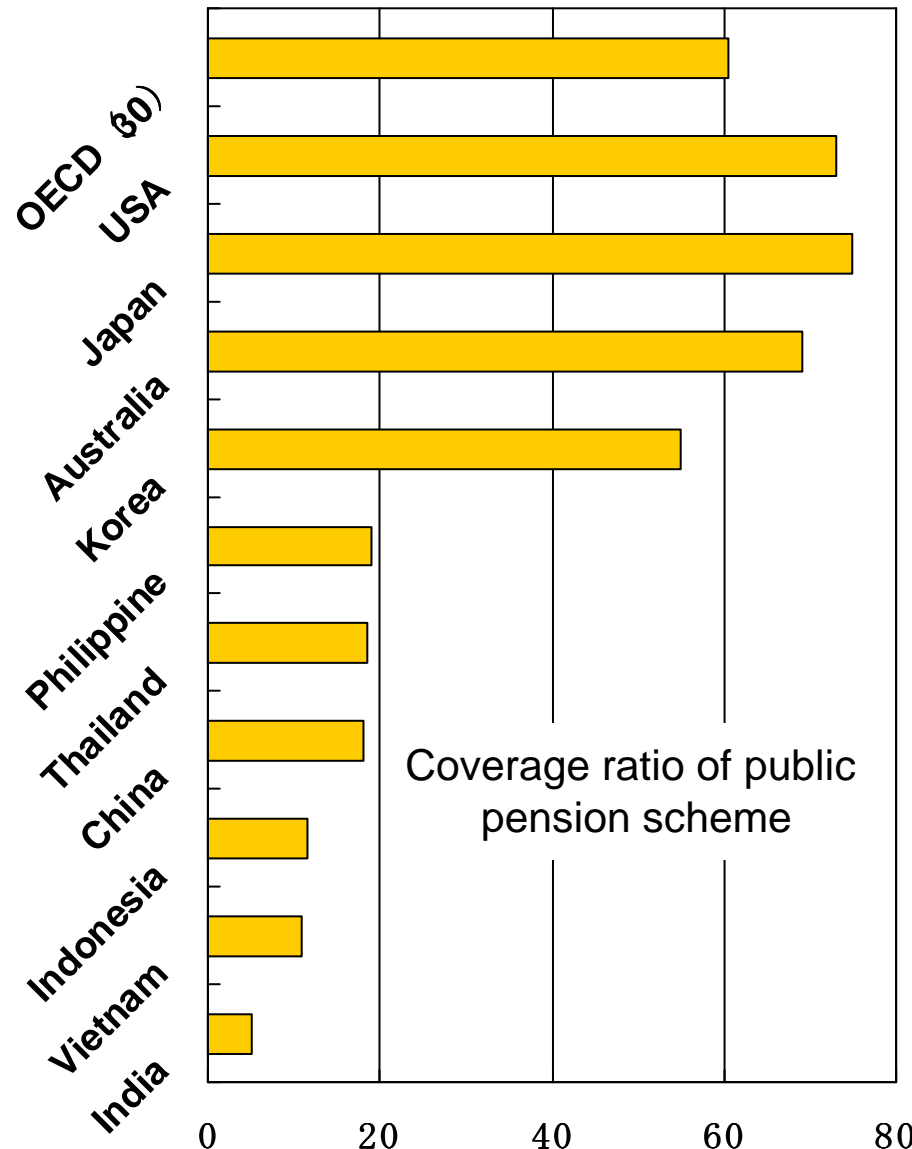
4 . Realistic approach is to start with specific cooperation programs. Energy and Environment, food safety, infrastructure construction may be among early harvest.

- 1922 Richard Coudenhove –Kalergi
(Pan Europaische Bewegung)
- 1948 Benelux customs union OEEC
- 1952 Integration of market for coal and steel (ECSC)
- 1958 European Common Market (EEC),
- 1964 Common Agricultural Policy (CAP)
- 1968 Unified customs union
- 1971 European Monetary Unit -first phase
- 1985 Schengen agreement (free movement of people)
- 1991 Maastricht treaty (economic convergence)
- 1998 European central bank, single currency (Euro)

Asian approach will be different from Europe

1. European integration is based on legal framework (treaty) and institution (European Commission).
2. Asian approach will be more ad-hoc, project/sector oriented and pragmatic. We will start with what will be feasible with the membership of interested countries.
3. While discussion is underway, East Asia-wide FTA is not feasible at the moment, cooperation programs that aim to narrow the developmental gaps may go first, such as cutting back on carbon emission, monetary cooperation, infrastructure building.

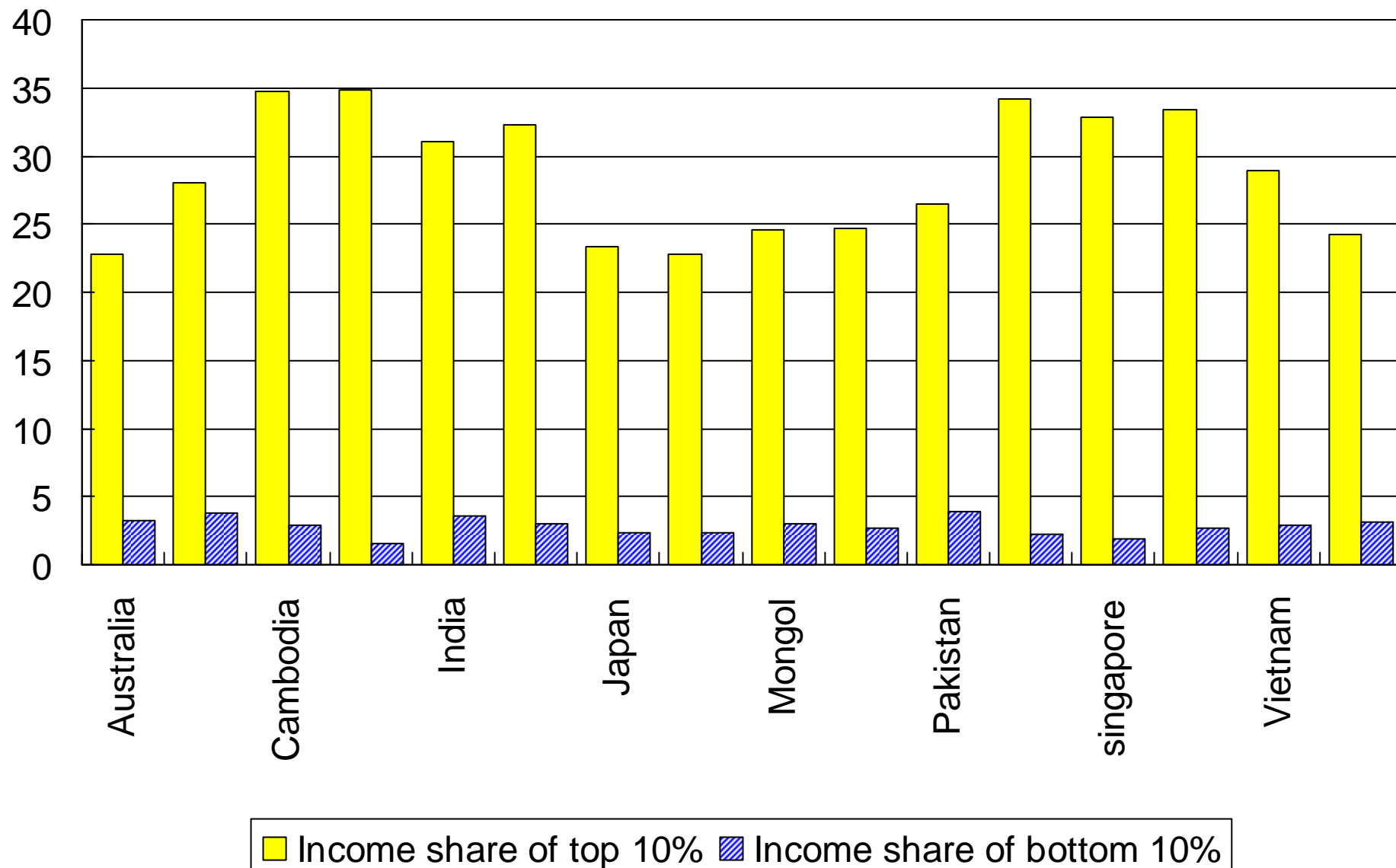
Asian countries are aging rapidly, but they are not prepared for aged society.



	Ratio of senior citizens7%	14%	years
Japan	1970	1994	24
Korea	1999	2016	17
China	2001	2024	23
Thailand	2001	2022	21
Indonesia	2016	2035	19
Vietnam	2019	2034	15
India	2020	2043	22

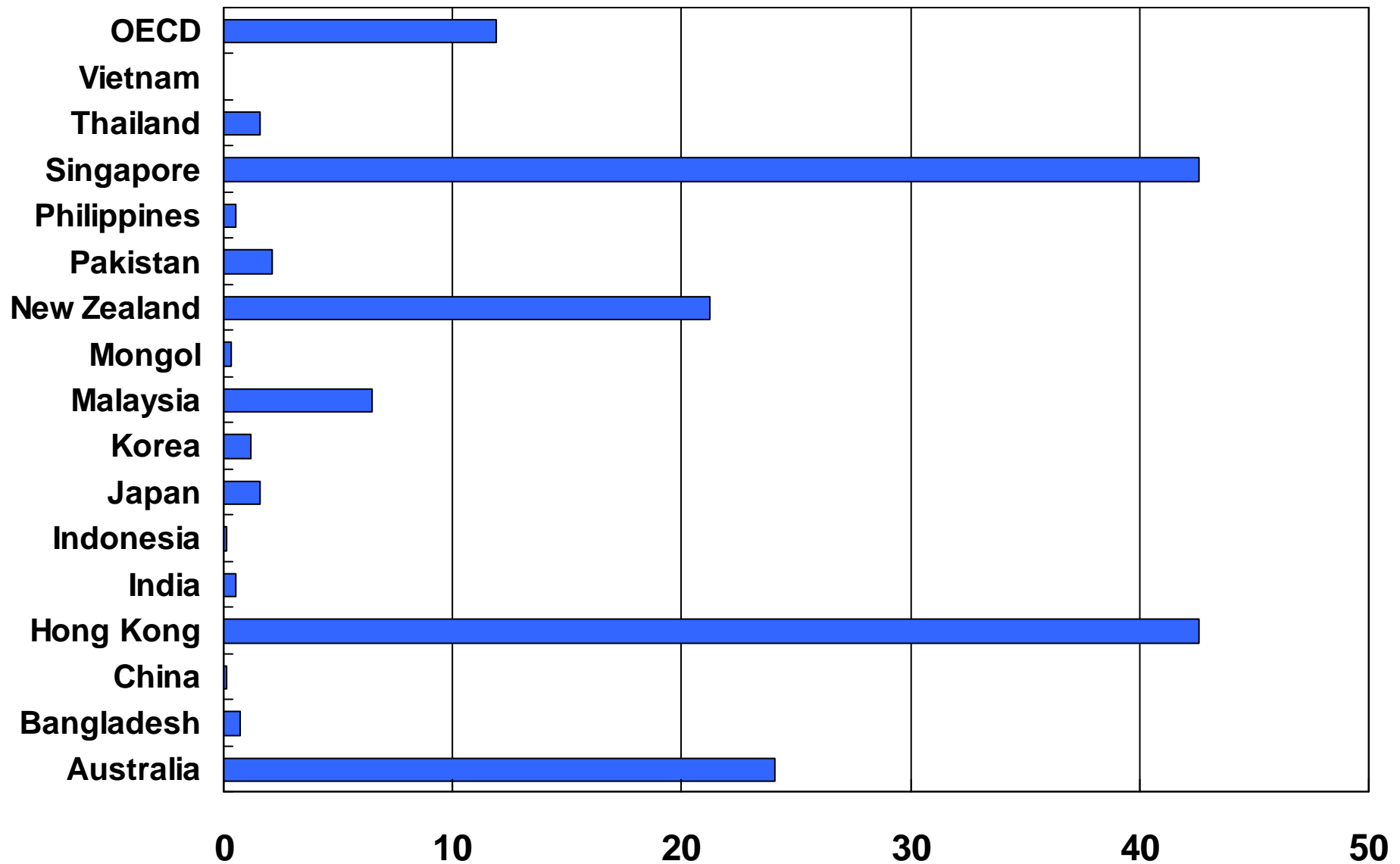
Source: OECD Pension at a Glance

Income gaps in Asia are far larger than industrialized countries



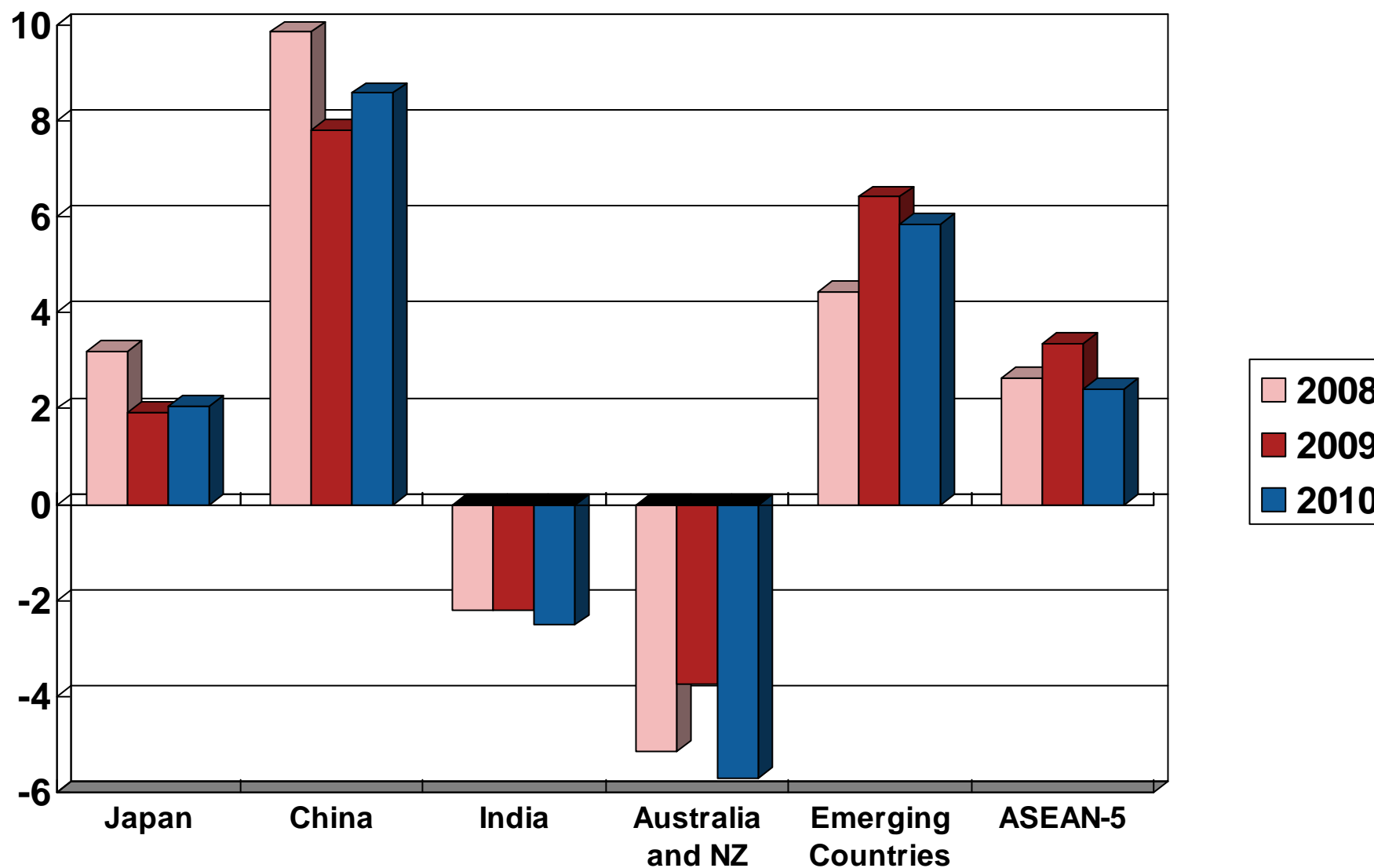
Source: OECD Society at a Glance

Trans-border movement of people is still limited in Asia



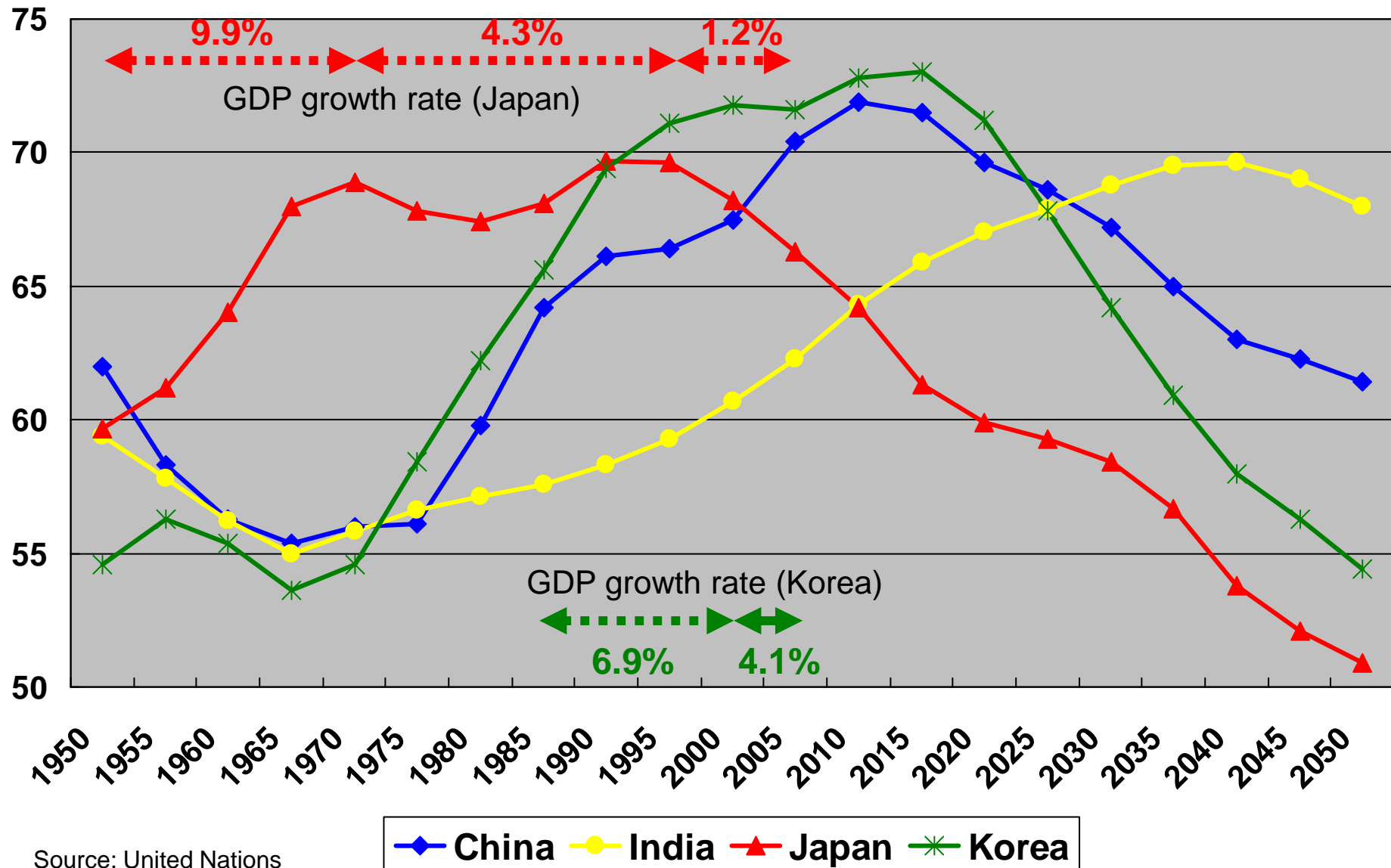
Source: OECD Society at a Glance

Current account of Asian countries (% of GDP)

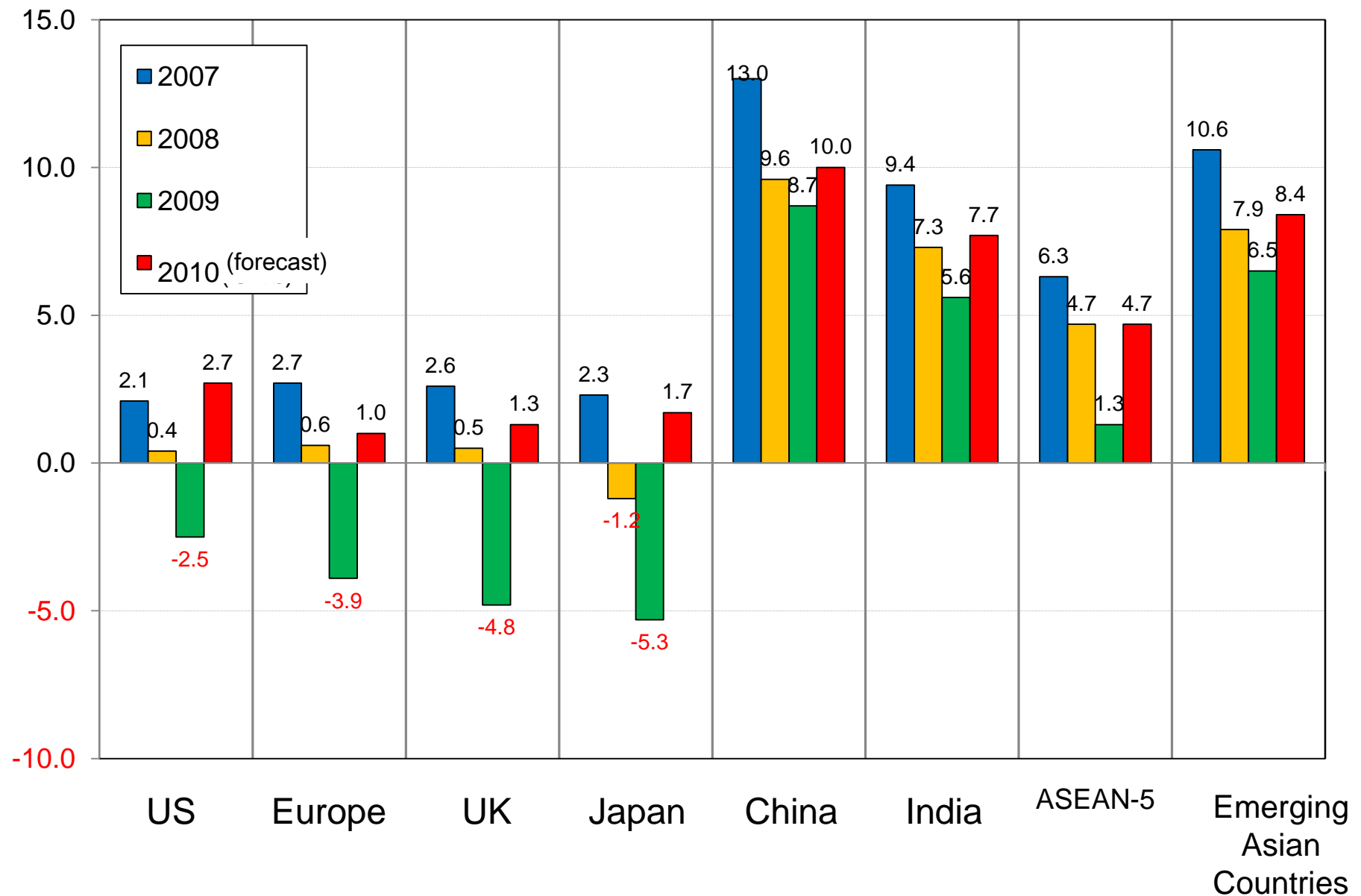


Source: IMF Database

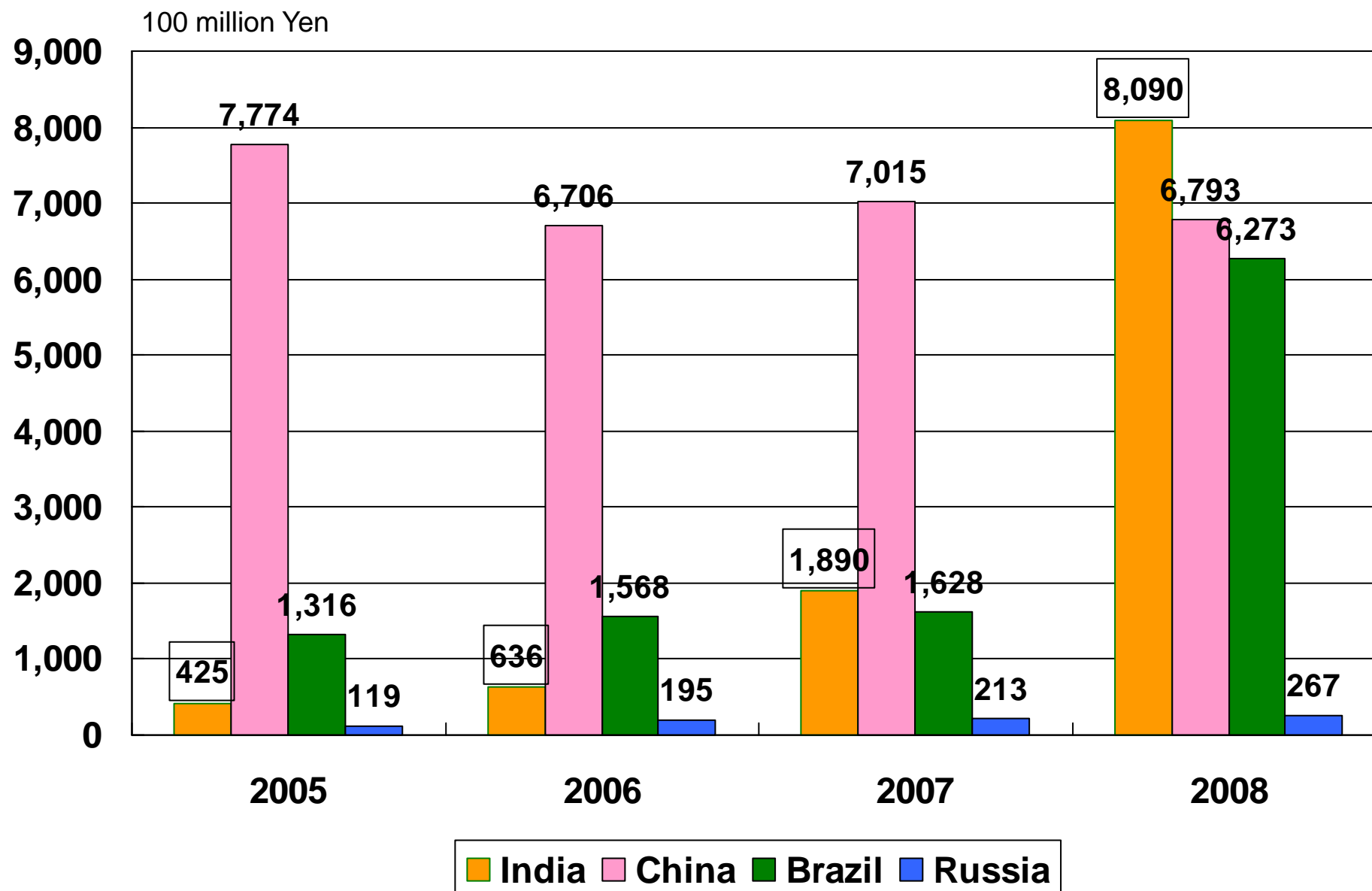
Aging progresses at different timings in Asia



Economic growth rates



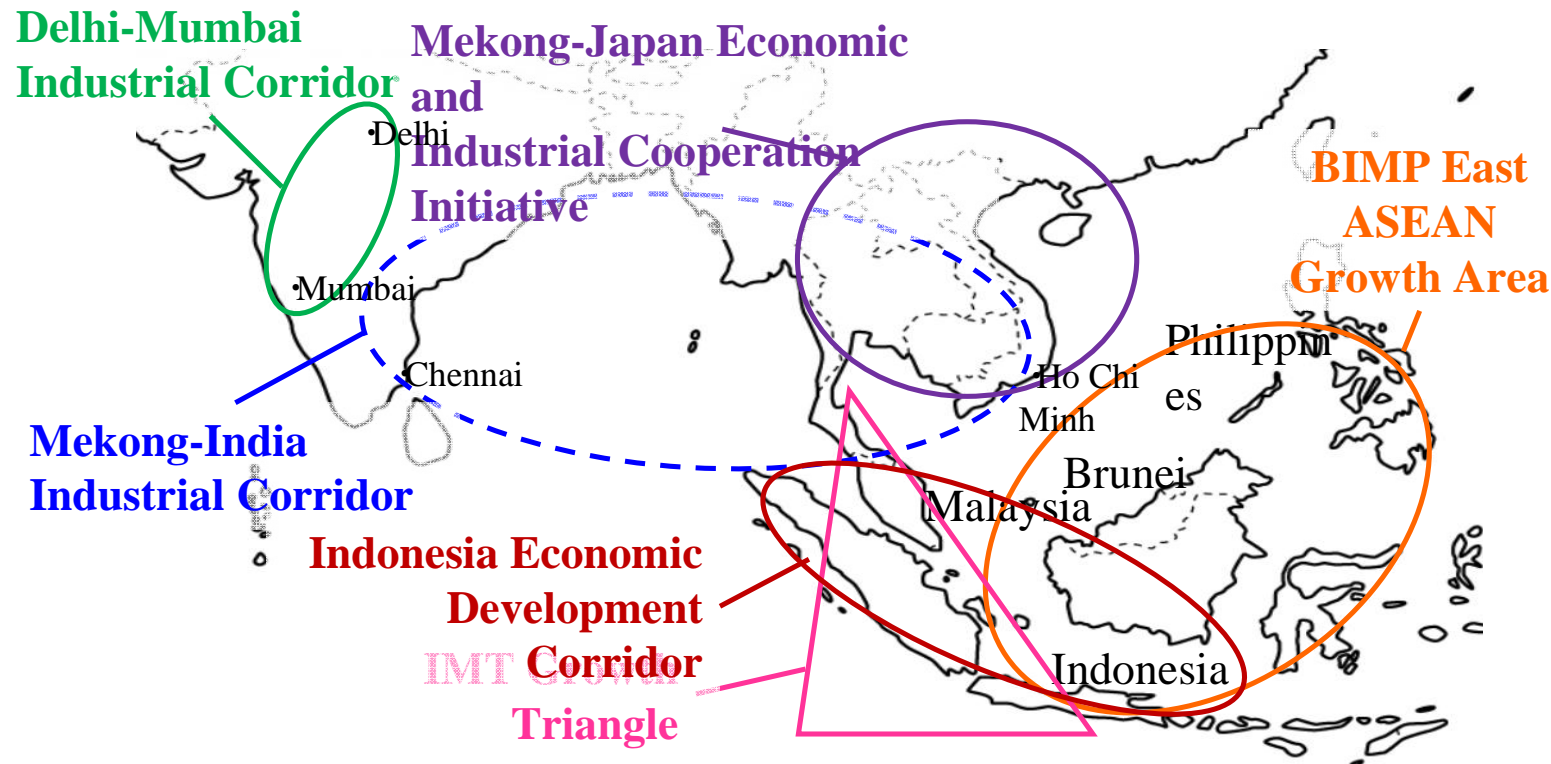
Japanese FDI to Brics



Comprehensive Asia Development Plan

East Asian
Community

- The Economic Research Institute for ASEAN and East Asia (ERIA) has been developing the "Comprehensive Asia Development Plan" in cooperation with the ADB and the ASEAN Secretariat, as per Japan's proposal, since last June.
- ASEAN is planning to coordinate with the "Comprehensive Asia Development Plan."
- "Delhi-Mumbai Industrial Corridor" has already been put into practice, through the cooperation of Japan and India.
- At the Mekong-Japan Summit last year (in Tokyo), the "Mekong-Japan Economic and Industrial Cooperation Initiative" was agreed on by leaders.
- At the "Indonesia-Japan Joint Economic Forum", held on Jan 11th, 2010, Minister Naoshima and related Ministers in Indonesia agreed on the development of the "Indonesia Economic Development Corridor."



Delhi-Mumbai Industrial Corridor (DMIC) project

Major Cities and Networks



Project Goals & Approach

Within 5 years,

- Double employment potential
- Triple industrial output
- Quadruple exports from the region

Develop 24 nodes identified
(12 for the 1st phase <2008-2012>)

Project Overview

- Develop the broad area between Delhi and Mumbai by connecting industrial estates and ports with Dedicated Freight Corridor (DFC) and road for the trade and FDI promotion.
- METI 's former Minister Akira AMARI proposed the idea to Mr. Kamal Nath, Minister of Commerce and Industry, during the visit of Prime Minister Manmohan Singh to Japan in December 2006.
- In January 2008, Delhi-Mumbai Industrial Corridor Development Corporation (DMICDC) was incorporated to prepare detailed projects and to coordinate DMIC project development, finance and implementation.
- In October 2008, PM Manmohan Singh visit to Japan , the two leaders agreed on the establishment of the Project Development Fund(PDF) and the support of the Early Bird Projects.(Japan:5projects, India: 12projects)
- DMICDC selected the Consultant “Scott Wilson” for Detailed Perspective Plan for overall DMIC Region, and each DMIC states are proceeding to select the Consultant for Development Plans for various investment regions.

Implementation

Steering Authority

- Finance Minister (Chairman), MCI Minister (nodal) & other related Ministers, Chief Minister of the related States
- Approval of projects & finance patterns, Monitoring, etc.

Delhi-Mumbai Industrial Corridor Development Corporation (DMICDC)

- Full-time CMD, Heads of the related public companies, experts, representatives from the related ministries and state governments

**Project Development Fund
(150 million dollars)**

Special Purpose
Vehicles (SPV)

Special Purpose
Vehicles (SPV)

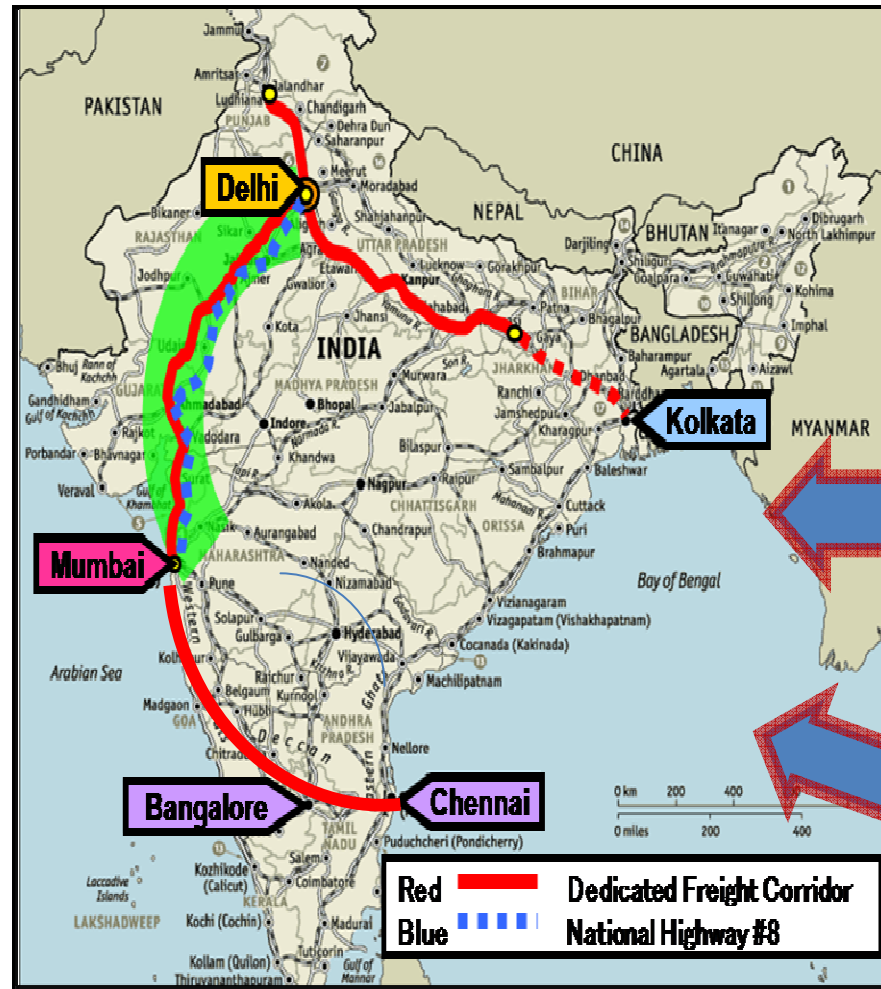
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Special Purpose
Vehicles (SPV)

Special Purpose
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“Mekong - India Economic Corridor”

India



Mekong



Mekong-Japan Economic and Industrial Cooperation

- Promote in an integrated manner, hard and soft infrastructure development and industrial development, in each corridor in Mekong region. (To support Human development in logistics, introduction of electronic customs, etc as a soft infrastructure)

Agreed among ministers, in Mekong-Japan Economic Ministers' Inaugural Meeting (Thailand, Oct 2009), and agreed among leaders, in Japan-Mekong Summit (Tokyo, Nov 2009))

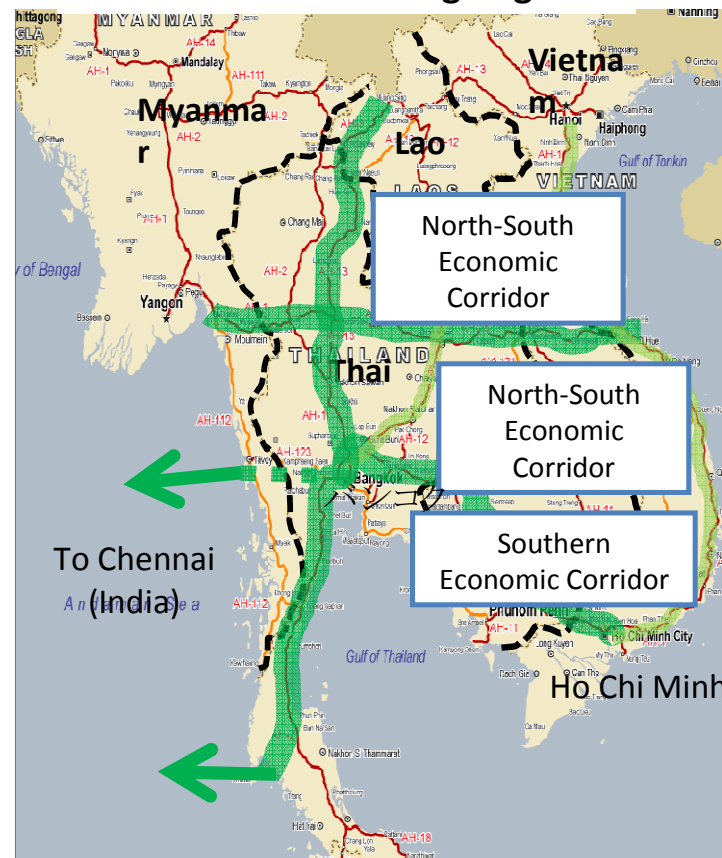
MJ-CI

Hard Infrastructure
(roads, ports, etc)
Promotion by the
Public- Private
Partnership)

Soft Infrastructure
Truck logistics beyond
the boundary of customs,
nations, etc)

**SMEs, New Industry
Sectors
(SEZ etc)**

Corridors in Mekong Region



Time needed for
Ho Chi Minh ~
Ranong ~ Chennai

239 hours in total,
and **more than
half will be spent
in customs or
Transshipment**

**Customs,
Transshipment
139 hours**

**Transportation
100 hours**

What does current financial crisis mean to ASIA ?

Asian countries must;

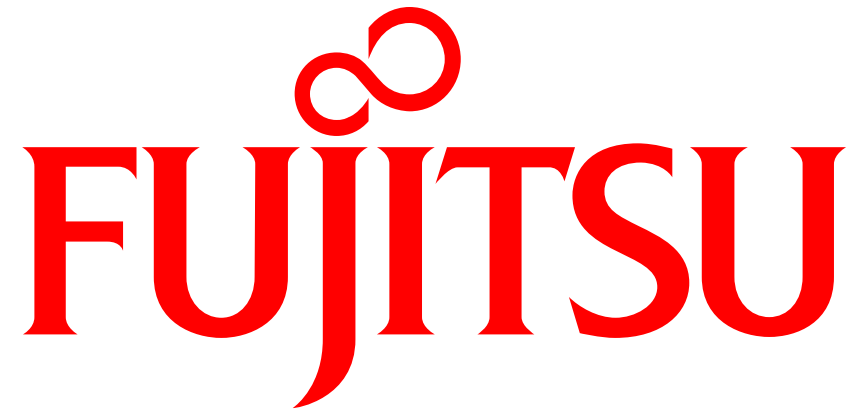
- a) shift gear from export to domestic consumption and investment through opening up of domestic market and deregulation
- b) reduce excessive saving (household and corporate) through developing social safety net
- c) prepare for aging society (pension, medical insurance, etc)
- d) narrow income gaps through effective redistribution program
- e) address social injustice
- f) pay due heed to the impact of their policies on others.



All these challenges call for major transformation of domestic economic and business structure. Asian countries stand to benefit by high quality economic analysis and learning from others' experiences.

How we can facilitate policy dialogue and coordination among Asian countries

- Strong capacity for research and policy analysis
- Need forum for discussion and capable secretariat
- Learning process for new policy fields, such as consumer protection, competition, IPR, labor market policy, social policy
- Pressure on member countries to facilitate structural reform and enhance openness
- ASEAN alone lacks in leadership, we need more to deepen partnership



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