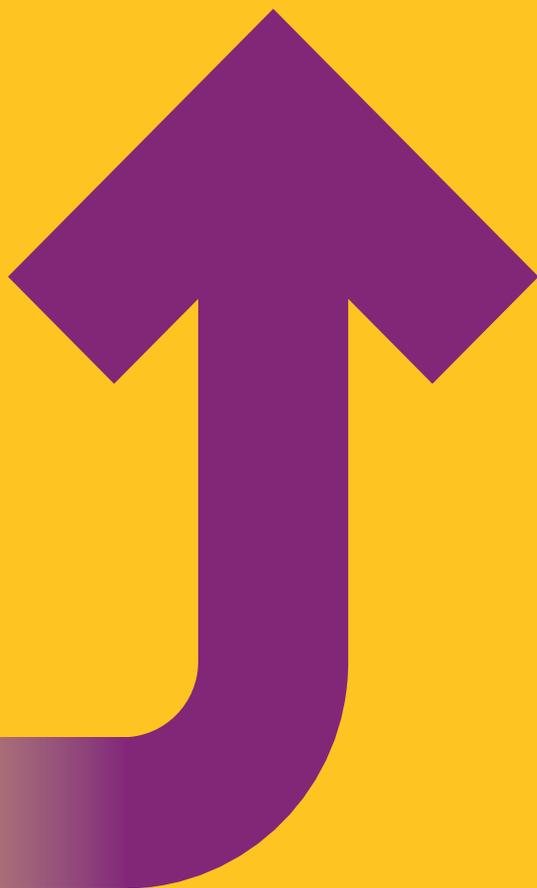


AUGUST 1-2, 2011

TOKYO, JAPAN

EMERGING
MARKETS
FORUM
ASIA 2050
BOOK LAUNCH

Summary of
Proceedings



JAPAN
BANK FOR
INTERNATIONAL
COOPERATION



**Emerging
Markets
Forum**

A nonprofit initiative of the Centennial Group

Emerging Markets Forum Asia 2050 Book Launch
Tokyo, Japan August 1-2, 2011

Summary of Proceedings
Prepared by Y. Aaron Szyf



Opening Session

Welcoming Remarks **Hiroshi Watanabe**, President and Chief Executive Officer, Japan Bank for International Cooperation

Mr. Hiroshi Watanabe, host of the meeting, opened up the day's discussions with the following points:

- Asia is a large heterogeneous and diverse region, more diverse than others in terms of language, culture, religion, and history.
- Asia has 49 economies at different levels of development, not only in terms of per capital income but in terms of institutions, peoples' participation, and governance. All types of political and economic systems are represented in the region. Each civilization had many achievements and it is hard to say that one is better than the other.
- Yet there are some common themes that we recognize and can develop upon. The Asia 2050 book looks at these themes with full recognition that with every statement we make there will be some exceptions.
- Overall, there is a need for better guidance and for participants to discuss how to go ahead.
- There is also a need for Asia to be economically more self-sufficient without having to rely as much on the demand for its exports to the US and Europe.



Keynote Speech: Motoyuki Odachi, Parliamentary Secretary for Finance, Member of House of Councilors, The National Diet of Japan

Mr. Motoyuki Odachi began by extending his congratulation for all involved in the Asia 2050 study and by sharing his personal excitement regarding the successful launch of the book in Tokyo as well his personal involvement in the process:

- At the governors' seminar held in Hanoi last May on the occasion of the Annual Meeting of the ADB, I had the opportunity to participate in the discussion along with Christine Lagard, Former Finance minister of France; Minister Muhith, Finance Minister of Bangladesh; and Governor Minister Mukherjee of Vietnam, Finance Minister of India, where I introduced the experiences of Japan in urbanization.
- ADB had gone through a process of active consultations with each Asian country and many of the views that have been raised through that process have been incorporated in Asia 2050.



Mr. Odachi proceeded to his deepest gratitude for all of the support that Japan has received in the form of messages of encouragement and donations in aftermath of the Great East Japan Earthquake.

- Donations from more than 160 countries and more than 40 international organizations have been coming in, as well as from several /NGO's and numerous individuals over the world.
- The government of Japan is striving at full speed for recovery and reconstruction, and to bring back and revive the livelihoods of the people and economic activities. On July 25th, the second supplementary budget was passed.
- Hopefully, during your stay here in Tokyo, you (participants) will find that life here is back to normal.

The Parliamentary Secretary then shared the following points:

1. Promotion of intra-regional cooperation between the nations of Asia.
 - Asia 2050 describes the prospects for this region's GDP in 2050, and points out that the share of Asia's GDP in the world can increase to double its current share or 51% in 2050.

- Although this is a bright picture for the future of this region, it is not without its challenges. Asia is home to two thirds of world poverty, wars in many regions can become a threat, and climate change is a significant risk in Asia.
- The realization of stable economic growth requires each nation to tackle its own challenges but at the same time, it also requires cooperation between countries.
- The Asian Development Fund (ADF) has made great contributions to poverty reduction in Asia through assistance to the poorest nations. As we approach September, when negotiations for replenishment of this Fund are planned, we must bear in mind that ADF will continue to play a major role in Asia which still faces a major developmental challenge.
- Today, countries such as China and India are involved in South-South cooperation with countries in and out of Asia. While it is meaningful that emerging countries in Asia share their own experiences in development with other countries, they need to play an even bigger role in not only bilateral South-South cooperation, but also through contributions via the ADF.
- Although Japan is faced with much difficulty, we stand ready to offer our utmost through cooperation with the ADB so that we can also grow with our friends in Asia.

2. Mainstreaming disaster prevention

- It is said that the impact from climate change and the concentration of population in urban centers has caused an increase in natural disasters in the world. The Asian region is the area most prone to earthquakes, floods, and other natural disasters and has suffered huge disasters in the past. There is a sobering fact that between 1978 and 2007, 90% of the people affected by water-borne disasters including tsunamis and cyclones were residents of Asia Pacific.
- Although disaster management is not given a special focus in Asia 2050, disaster preparedness is a factor that cannot be dismissed in discussing the long-term challenges of Asia over the next forty years.
- Disasters can take away the lives of many and wipe out the result of development efforts of so many years in just a matter of an instance. In that sense, disaster preparedness is a priority area. But it is also an area that has not been able to receive resources in proportion to its level of importance partly because the effect of disaster prevention is not surfaced until an event actually occurs, and because it is extremely difficult to assess the degree of damage mitigated as a result of preventive measures.
- Japan will continue to assert the importance of disaster prevention in the development agenda. On the occasion of the annual meeting of the World Bank/IMF planned to be held in Tokyo in October of next year, we hope to organize a slide

event on disaster prevention where the status of reconstruction and lessons-learned from the Great East Japan Earthquake can be shared with all of you.

Mr. Odachi closed by once again extending his congratulations for this event and the book launch and by thanking the organizers for the invitation to this event.

The release of Asia 2050 Book

Haruhiko Kuroda, President, Asian Development Bank, at this point officially released the book: Asia 2050: Realizing the Asian Century. The following is a transcript of his remarks:

I. Introduction

Secretary Odachi, Excellencies, distinguished guests, ladies and gentlemen. I am honored to be here this morning. I would first like to thank Mr. Watanabe and the Japan Bank for International Cooperation for hosting this meeting, an important forum for government and corporate leaders to discuss a range of significant issues. It is thus appropriate that we launch here our book —Asia 2050: Realizing the Asian Century, a comprehensive exploration of the region’s potential.

There has been keen interest in Asia 2050—not just regionally, but globally. Since we began this project in July last year, the world has gone through significant change. The recovery from the recent financial crisis and recession has underscored the divergence in economic growth between emerging and advanced economies. To many, it has solidified their view that there has been a seismic economic shift toward Asia. The Asian Century is upon us, they say. Asia has indeed done very well over the past four decades. Millions have left poverty behind. The middle class has grown and become a force.



China (PRC) and India have become economic powerhouses, while countries such as Indonesia, Thailand and Viet Nam are also finding success, climbing out of poverty towards middle income status. But as we look forward to the next four decades, the future needs to be measured not in terms of Asia’s recent past, but in the context of the problems it faces and the collective responsibility needed to address critical issues. Asia faces massive challenges that must be met to sustain our region’s leadership in economic growth and poverty reduction. Given Asia’s

extremely diverse and complex social and economic landscape, our rapid—yet uneven—rise is predicated on vast opportunities and extraordinary hard work. Simply put, while an Asian Century is plausible, it is far from preordained.

II. The Challenges

The keen interest in this book partly emanates from vibrant debates, constructive criticisms, and other inputs from seven Asia 2050 conferences held throughout the region and elsewhere. Over 1,500 participants— representing governments, think tanks and universities, the private sector, multilateral organizations and other interested parties— took part in lively exchanges on Asia’s future. Even with the book in hand, the process continues. As we continue our march toward increased prosperity and a region free of poverty, we must resolve short-, medium-, and long-term challenges—“mega-challenges”. How do we simultaneously sustain rapid growth and narrow widening inequality? And how do these happen while mitigating environmental damage in the race for limited resources?

The next 40 years in Asia will be shaped by a number of macro risks that have the potential to undermine the region’s prosperity. The risks are associated with intra and inter country disparities, the middle income trap, competition for finite natural resources, climate change, and rapid urbanization. We must also meet the challenge of providing good governance, as well as developing strong institutions, which provide the foundations on which a healthy society is built. To confront these mega-challenges—and I assure you they are mega—bold and innovative national policies are needed. The work done in preparing Asia 2050 actually provides a tool kit for identifying opportunities and avoiding pitfalls, which are constantly evolving. The book serves as a guide as to what may happen—whether positive or negative. Let me now discuss some of the ideas raised by the Asia 2050 book.

III. The Path Forward

Clearly, no single approach works for all. Asia’s diversity means actions must be country-specific. Generally, however, we can say each country’s national agenda should give high priority to inclusion and elimination of inequalities.

There are challenges of effectively managing rapidly expanding urban areas, promoting policies that support energy efficiency and diversification, and cultivating an economic environment that stimulates innovation and entrepreneurship. How best to use, recycle, and regenerate resources will be critical to Asia’s long-term competitiveness. How we handle vital resources such as water and food will determine whether we stay on the path of economic growth and development, or stumble into conflicts of scarcity. And we must manage the region’s carbon footprint. Asia must

take radical steps now toward investing in innovation and clean technology. This will ensure our quest for prosperity for all does not end in environmental gridlock.

Then there are the great challenges of governance and institution-building— the Achilles' heel for development. National leaders must govern by example. Transparency, predictability, accountability and enforceability should be the key elements of decision making and in turn, will strengthen the foundations of Asia's growth. These will raise productivity while promoting political stability, and with that, private sector confidence and investment. Competent and honest government is the best way to efficiently deliver basic services—including education, health care, and social safety nets—especially for women and the poor. Indeed, the pressure to improve governance and institutional quality must come from within. Changing demographics, urbanization, increasing demands of an expanding middle class, and the ongoing communications revolution will accelerate demand for stronger governance, as it has in other regions of the world.

IV. Regional Cooperation and Global Responsibility

I would now like to turn to a driver of Asia's transformation—that is, regional cooperation. National achievements across the region have been amplified by coming together in recent decades through dialogue, trade, and cross-border investment. Regional cooperation and integration are central to Asian prosperity. Greater cooperation helps protect hard-won economic gains from external shocks. It also strengthens its voice in an ever-evolving global economic system. Asia's rapid economic growth owes much to the development of webs of supply chains and production networks known as "Factory Asia." These will only deepen as higher incomes go toward purchasing final products produced in Asia. Regional cooperation and integration should continuously target the free flow of trade and investment—one that is market-based and collaborative.

And the more Asians are business-friendly with each other, the more Asians will learn to trust each other. Without trust, little can be achieved in regional—or global—cooperation. Things may not always be "smooth as silk" so they say. But I believe regional cooperation is the bridge that will eventually link individual economies with the rest of the world. This brings me to Asia's increasing global responsibility to help manage the global commons—whether in tackling climate change or maintaining international peace and prosperity. Global public goods—free trade, financial system stability, climate change, and security, to name some—are responsibilities we must embrace. As an emerging leader, Asia must lead by example, by being a responsible global citizen.

V. Conclusion

ADB commissioned the “Asia 2050” study to shed some light on critical longer term issues. The study presents two alternative scenarios of Asia’s economic trajectory toward 2050—“the Asian Century Scenario” and “the Middle Income Trap Scenario”. They roughly sketch what is in store, given the policy choices and trade-offs that are to be made as we seek more inclusive and environmentally sustainable growth and development. Let me stress that the Asian century is not only about Asia. It can be a century of shared global prosperity. Asians can take their place among the ranks of the affluent—on par with those in Europe and North America. The challenges are formidable and there are many miles to go, before the horizon comes into view. We know the policies and strategies we must pursue have gestation periods spanning many decades. So we must get a head start. Asia 2050 is not a prescription. It was designed to be thought-provoking, stimulate debate, and keep us thinking even as we act with required urgency in preparing new plans. National leaders must work together to ensure the best common denominator can support the regional and ultimately global commons. Prosperity is earned. Asia has indeed done well the past 40 years. Let us work together to ensure we stay on the path over the next 40 years. It is now my privilege to present the first official copy of Asia 2050 to Secretary Motoyuki Odachi.

Presentation of the book by **President Kuroda** to **Motoyuki Odachi**, Parliamentary Secretary for Finance, Member of House of Councillors, The National Diet of Japan.





Group photo



Session I: Asian Century and Mega-Challenges—Realism

Chair: Haruhiko Kuroda, President, Asian Development Bank

The Chair opened up the session by pointing out that the book presents two scenarios for Asia's growth. According to the Asian Century scenario, Asia's GDP will substantially increase to reach half of global GDP in 2050 with a per capita income of \$40,000 PPP. However, according to the Middle Income Trap scenario, although Asian economies will grow, Asia's GDP will be significantly smaller, only about \$20,000. A central challenge for Asia is how to avoid this Middle Income Trap.

Kuroda then introduced the discussants and raised the questions that will shape the session:

- Given the challenges, risks and the ambitious agenda, how realistic are the prospects of “the Asian Century”?
- How critical is the issue of internal disparities and risks they pose to social cohesion and stability?
- What do countries need to do to overcome the Middle Income Trap?
- What are the prospects of getting Asian economies to act urgently to mitigate climate change?
- What other mega-challenges should Asians be most concerned about?

Introduction: Harinder Kohli, President and Chief Executive Officer, Emerging Markets Forum

Harinder Kohli began by pointing out that his job is eased because last night President Ramos reminded everyone in his special and unique way of the challenges ahead and pointed out that they are not only economic but social and peace related. He reiterated the points made by President Watanabe regarding the heterogeneity and diversity of Asia as well as some common themes (but also the recognition that there are always exceptions) presented in the book and highlighted just now by President Kuroda.

Kohli raised the following points:

- Where Asia is coming from: Asia was at its peak about 250 years ago when it accounted for roughly 60% of global GDP (with China and India each at about 25%). Then came the industrial revolution with first the Europeans and then the Americans significantly improving their productivity and Asia's share of global GDP slowly dropped. This drop continued until 1952 when Asia's share of global GDP reached about 15%. Since then, first with the resurgence of Japan followed by the NICs and now by China, India, Viet Nam and Indonesia, Asia has already recovered roughly

half of what it had lost and today its share is about 28% of global GDP even though the population of the region is 57-58% of global population.

- Where can Asia go? This is the question that the book tries to address, through two scenarios:
 - In the Asian Century scenario, an average Asian in 2050 could have a per capita income equal to an average European today. This does not mean the Asia should follow the cultural and institutional model of Europe or living styles, which actually isn't possible. 3 billion additional people cannot begin to have lifestyles of North America and Europe today, since the world simply does not have the resources for that.
 - The second scenario – Middle Income Trap – looks at what happens if the currently fast-growing countries which now show a growth of 6-9% fall in the Middle Income Trap. If this happens, the situation will look dramatically different, GDP total will be less than 40% of the Asian Century scenario, per capita income will be half, and Asia's share in global GDP will be only about 30%, more or less where it is today.
 - The difference between the two scenarios is staggering not only in terms of per capital GDP but in terms of living standards and the human impact. Missing the opportunity to achieve the Asian Century scenario and falling in the Middle Income Trap like Latin America will thus be a shame.
 - While aiming to achieve the Asian Century scenario, Asia must make sure to lessen disparities and to keep hope alive for young people (particularly in terms of jobs) so as to avoid the situation in Latin America where many feel there is no future for them. There is no major city in Latin America where one can safely walk out at night without the need for extra vigilance and Asia should avoid such a situation.



There are at least six mega-challenges that could undermine the quest to reach the Asian Century:

- Large inequities within countries that could alter the political and social fabric of the region.
- The risk of some countries falling into the Middle Income Trap.
- Disparities that are emerging between the countries, and these differences are rising.

- Intense competition for finite natural resources as some 3 billion additional Asians become much more affluent. (It is very appropriate that we're meeting in Tokyo. As you look at the efforts of the country to reduce energy consumption by about 20-25% compared to last year, it is just amazing and it shows that if people make up their mind to do something, it can be done.)
- Global warming and climate change (58% of human beings on this globe are Asians and they cannot say that it is a Western problem since most of those who will suffer from it will be Asian).
- The issue of governance. As events in the Middle East have shown us, the new communication technologies can lead to social unrest unless the governance standards are improved and unless the institutions which are responsible for economics and politics have greater credibility and trust of the people.

These are the challenges to be debated in the sessions.

The Chair introduced the discussants.

Omurbek Babanov, First Vice Prime Minister, Kyrgyz Republic

The Vice Prime Minister focused on the situation in his own country, the Kyrgyz Republic:

- We have large people-unrest in our country; in the first case our president changed but the system remained intact so the spirit got worse. In the second time, the politicians together with the people chose a different and much harder way but maybe the only possible way, democracy.
- We are the first country amongst central Asian countries that has chosen the parliamentary system, all neighboring countries look with a great attention at our experience. They would like to see how our economy will develop, how our economy will rise.
- On October 30th, there will be a presidential election in the Kyrgyz Republic and this is the first time in Central Asia that the incumbent President will not take part in the election. So the transformation of power will be as transparent and as democratic as possible in our country and here we really need your support, the support of developed Asian countries.



- When I carefully studied several chapters of this book, I found out that I completely agree with the authors that transparency is one of the most important conditions for the development of Asian countries, so we should pay special attention into what's going on in other Central Asian countries because this can influence all other countries in the region.
- In particular, in Central Asia, the countries are trying hard to achieve economic integration and Japan has been helping a lot but there are still problems and some of them have been deepening further, for example with regards to the movement of people and goods (lots of tariffs are still in place).
- In the book, it discusses how the share of Asia in 2050 will be 51%, but economic development does not make sense if it is not making common people better. The development must also focus on more even distribution of wealth between the peoples of the different Asian countries. Let us develop our countries and get wealthy together. Then we will have an age of real Asian prosperity.

Sangche Lee, Commissioner, Financial Services Commission, Republic of Korea

Commissioner Sangche Lee opened with a number of comments regarding the basic assumptions put forward in the book about the Asian Century.

- The book brings a number of conditions (including peace and global action on climate change) and it mentions that if any of these conditions are not met, the Asian Century scenario will not be achieved.
- President Ramos also emphasized the importance of peace and harmony for growth.
- As for the optimistic scenario and how realistic it is, although the book recognizes the challenges of regional conflict as perhaps the biggest risk to the Asian century, it does not go too deep beyond a brief discussion here and there to explore how to resolve the necessary mechanism to mitigate regional conflict and improve cooperation.
- These are big challenges for Asian long-term growth and they must be addressed. If we ignore regional conflicts just because in the past they have not derailed Asian growth as a whole, it's like ignoring a future financial crisis because Asia survived them in the past.



Iwan Azis, Head of the Office of Regional Economic Integration, Asian Development Bank

Iwan Azis congratulated Centennial for producing such a useful book, which can also be used in the academic setting for students of Asian studies.

In the tradition of Asia 2050 and the movie presented last night, he offered to present Asia's development in the order used in the video:

- I. 1st period - From 18th century up to period of liberalization in 20th century
- II. 2nd period – From liberalization period up 1997 and Asia's financial crisis
- III. 3rd period - From Asian crisis to the Global crisis
- IV. 4th period - Post Global financial crisis

Each period had a ramification on inequality in Asia.

- If we look at the movie, prior to the Asian crisis, it is clear that Asia had an overflow of investment. This was due to excessive borrowing and this led to the Asian Financial Crisis.
- In the period after Asian crisis, the region is experiencing excess savings. How could this happen? Most savings go to the financial sector – both domestic and foreign. In the case of foreign, it goes to the US treasury, and in the case of domestic, the fast-growth of financial domestic instrument allow for the savings to be put there.
- How does this relate to the challenge of inequality? If we are given the choice to put the money in investing in factories or in financial assets, Asia is putting the money in financial assets. Most Asians would benefit more from the former. Investors, however, tend to prefer the latter thanks to impressive growth in the financial sector due to the recent liberalizations. But if we look at the impact on employment and on how many people can participate in the growing financial sector, we see that despite the quick growth in Asia, it has been accompanied by worsening income inequality across Asian countries, and worsening employment figures. I am glad that the Asia 2050 report highlights this issue.



The study represents both forecasting and planning.

- Forecasting – The bulk of the report looks at what can happen given all kinds of policies and environments.

- Planning- There is a part of the report that deals with what needs to be done. But the question is what needs to be done to achieve what? For this, the book needs a second volume to describe what kind of development we want; do we really want to have the lifestyle of Europe and the US in 2050? We should clearly outline how we wish Asia to look and then evaluate the necessary strategies to achieve this.

Hans Dietmar Schweisgut, Ambassador of the European Union to Japan

Ambassador Schweisgut thanked the organizers for giving him the opportunity to present some views from an outside perspective. He presented the following points:

- These scenarios are not something that will only affect Asia. The Asian Century will clearly have an effect on Europe due to its trade and cooperation with Asia so there is a stake for Europe in making the Asian Century succeed.
- When you look at Asia and its diversity, it very quickly becomes a question of how do you define Asia. When I looked at some of the figures and projections, of course, there is a dimension that focuses on a group of Asian-8 whose share will grow up to 90% in the Asian Century scenario. When we talk about 49 economies and that only 8% will enjoy 90% of income, this shows the differences amongst the countries that we are talking about.
- With regards to the issue of self-sufficiency in Asia raised by President Watanabe and the importance of regional cooperation, while this is important we also need to focus on inter-regional cooperation, including between Asian countries and Europe. The EU is negotiating EPAs with a number of Asian economies at this time and these discussions should not be overlooked.
- With regards to climate change and the point that 3 billion people cannot live at the levels of Europe in the Asian Century, it is also true that European won't be able to continue living at this level either without strong action and Europe is working strongly on climate change, but changes must also be made at the international level or these challenges will become un-manageable.
- European integration of course has a specific reason and a cause. Europe in fact was much more closely integrated on the eve of the first global war than half a century later and nobody thought that the 20th century can be anything but a European Century. But things turned out differently and in fact it took a long time to see that the institutions we need are not only in the economic field but also must go further. If the institutions



are to succeed, they inevitably do require some loss of sovereignty (of individual countries) and can only be maintained with the proper security systems to manage risks of escalation into conflict. This is something that Europe learned the hard way but can be used as an example for others.

Summary of the Chair

President Kuroda summarized the main points raised by the four discussants and pointed out that they all related to different aspects of the Asian Century:

- [Deputy Prime Minister Omurbek Babanov](#) emphasized the importance of political regime.
- [Commissioner Sangche Lee](#) reminded us that the basic precondition for long-term prosperity is peace and security.
- [Dr. Iwan Azis](#) emphasized the relevance of inequality in Asia and described the situation before and after the Asian and global financial crises.
- [Ambassador Hans Dietmar Schweisgut](#) appropriately contrasted the Asian and global perspective, particularly from the European experience.

Floor Comments:

Participant #1

- In the process toward global excellence, any country or region needs to go through three stages:
 - 1st real economy – production, consumption, investment, trade;
 - 2nd softer side - management, technology, even military;
 - 3rd and perhaps most important, cultural and ideology.
- The West became the leaders of the world in the 18th century because they provided ideologies, background and wisdom (values) for development to the world (for example: capitalism, renaissance, enlightenment, American/French revolution). And after the fall of the Berlin Wall in 1989, the world is ruled by a number of principles which include political democracy, freedom of speech and expression, international human rights, rule of law.
 - In our effort to establish a century of Asia, what kind of ideology and values will Asia present to the world?
 - Are we going to emulate these Western values or we going to create something new?
 - There are many discussions on the importance of Asian values, but what are “Asian values”? What will we offer to the world?
 - Many Asian leaders openly criticize Western leaders for preaching values that led to problems. Maybe that’s right, but what are we going to present as alternatives?
- I certainly hope that when Asia becomes the major technological, economical and military power, that it will also reach brains and hearts of others.

Participant #2

- The book is very interesting but there is room for one comment: It seems to be missing the elephant in the living room, the US.
 - How does the rise of Asia translate into its relationship with the US?
 - What milestones will one be looking at in terms of the weakening of American influence that will present itself as a sort of opportunity for Asian economies to move forward to this leadership position?
- We discuss the emergence of the private sector but the truth is that the social and economic structure in Asia is very inequitable. Those that are in political control will also be in control of the private sector and there is a need for further thought about how the emergence of an independent private sector is best achieved.

Participant #3

- The challenges here include immediate and long term. Beyond the mega-challenges, we need to tackle inflation and capital flow volatility.
- The main point in the end of the chapter relating to mega-challenges is that everything is in the hands of the political leadership. However, if we look at history, most countries have failed in this area, and had not overcome these kinds of challenges. If we don't have many such examples, should we just sit and accept that? No. The fact is that Asia successfully overcame the recent crises. Based on the proven-track record, we need to see if there are any areas where we can work together, across all levels of society. At the moment, what's important for us to move on is to make as much effort as possible to work together and to have a tangible impact in the areas we can make.



Participant #4

- While the book is quite comprehensive, we now need to start thinking forward, and to start the work beyond this book.

Participant #5

- Both scenarios, even the Middle Income Trap scenario, project a rise in Asia's GDP over this time. There could be a worse scenario than this, and maybe it should be modeled.
- The role of the United States in this exercise can be further analyzed. If we look at chapter 16, we realize that the size of US GDP is not affected by these scenario so it

stays the same regardless of the whether Asia achieves the Asian Century and so Asian growth does not affect the United States. This is one issue I do not agree with and I think that Asia's growth will provide much to the rest of the world and will increase growth everywhere, even in the USA and the study misses some of these spillovers. I think there is a need to study how Asian growth can affect the rest of the world.

- Of course, in addition to that, Asia has offered globally accepted values and quality goods. Perhaps some of these issues can be further explored.

Participant #6

- Despite all the work that was done, the book still remains focused on economics, and perhaps it can go further into Asian culture and society. After all, it's not the lack of money that results in poverty, it's the lack of confidence in coming together and this confidence is one of the inner strengths of Asia.
- Even if we don't achieve the level of economic growth outlined, we can still show the world an example of social innovation (not just technological) as is happening in Bangladesh. The country has the first regulatory regime on microfinance and is also allowing NGOs to work with government in tackling climate change.
- Let's assimilate the different success stories and learn from them in order to capitalize on the quality of the growth process, which is more important than the growth per say

Participant #7

- Asia's next step is improve its tax collecting system while maintaining a fair balance.
- Also, with regards to the financial system, Asia has plenty of investments and savings but much of it is invested in the US and the weakening of dollar is a problem. We need to develop a stronger and upgraded financial system with stronger capital mobility.

Participant #8

- A mega-challenge that we had in the 19th century was that the fall of the power of the UK was stronger than the rise of the US. If the power of the US is declining, we need to ensure that Asia can fill the gap.
- With regards to the mega-challenges, countries that are growing at 7% (with GDP doubling every 10 years), require some major transformations and this is a challenge that must be addressed.
- The benchmark has to be to look at what happened in US and UK when they went through industrial revolutions and to see how social changes were made. Some Asian countries are better placed than other with regards to social equality.

- We need to ensure that inequality of wealth does not become a multi-generational issue. We must provide everyone the ability to compete and to achieve what their parents could not (as is the system in the US).

Participant #8

- The original 12 members of the EU provided impressive hope, but look at the EU today in its economic trouble (perhaps that's where Asia will be in 2050). We must look at the challenges ahead.
- If we agreed in Asia under some binding agreement on peace and stability instead of relying on Uncle Sam, we will be on a better path. It is about time to do so.
- Could we not form a coalition for security in Asia-Pacific (and include Australia, New Zealand)?
- The overall benefit of such an arrangement will not only benefit American taxpayers but also can save millions of lives from global conflict.

Participant #9

- It is very brave to try to look ahead 40 years.
- The issue of scientific progress must be raised. Is it realistic that Asia will perhaps become a center of scientific knowledge? At the moment, Asia is doing well as the production center of the world but in the future we won't need as much production and we should focus on knowledge.

Participant #10

- Looking forward, this is the first time that the largest economies in the world are not going to be the ones with the highest per capita income. This means that these huge economies are still in the process of their development and the question is if Asia will be open to technological development throughout the world or will it shut its eyes.
- One question we might want to ask: How will you use this productivity and growth? 50 years ago, Europeans worked more than Americans, now they work 30 % less and it is not clear that the American system is better, they may have more income but Europe has happier families who go on holidays!
- Asia has to think about what kind of system it wishes and you should think about what fundamental choices you want to make about your societies and families. You can look at what other richer countries may have done wrong while shaping your own view of how you wish your society to look.

Participant #11

- What are the incentive structures for the leaders to think beyond short-term issues and to think into the future?
- Asia has managed to come out of many crises, how do we use the current success to build for the future?
- One of most important things is strong institutions that can make strong decisions, actions and appropriate changes. This area needs stronger focus.

Participant #12

- One challenge that I would not worry about is the Middle Income Trap and I think Asian countries can avoid it (they are different than Latin America and do not share the same complications).
- One of the biggest challenges we must worry about relates to water in South Asia and unless something is done, it would lead to conflict. South Asia is the least integrated region in the world, and the water treaty of the 1950s is the only treaty signed. More cooperation is needed.

Participant #13

- This work is the source of inspiration for other work we do in Centennial for Latin America.
- Asia can be a model for Latin America in terms of education, security and many other areas. Latin America can also be a role model for Asia in many areas of achievement. Latin America has generally been doing better in terms of average standard of living, and it is a region which cherishes democracy.
- In Latin America, we see that history does not determine success in the future (the Maya and Inca with all their inventions did not guarantee success in Latin America today.)
- There is an absolute need for cooperation and lack of complacency. When I hear things about the self-sufficiency of Asia, I become very worried. When China started looking inward, it started declining.
- Latin America can teach a lesson that results are not guaranteed. Hard work and technology innovation are very important, but they have to be maintained in the long term.



Participant #14

- The book is a very important first step toward the Asian Century and today we are making the second step with this discussion. The question is practical, what to do in the near future, in the next 3-5 years.
- We need an Asian summit on this matter within 3-5 years.
 - ADB can lead and introduce these ideas to politicians in the capitals prior to an Asian summit.
 - We can start with the big 8 economies and then go to others to make sure this dream can be achieved.

Participant #15

From a business man's viewpoint, there is a need for resource conservation and the private sector is working to introduce environmentally friendly technology to the market but this is not enough and government assistance is needed.

Participant #16

- Asia's growth would help Latin America.
- It has been said that Latin America is a bad example of Middle Income Trap. How can Asia avoid this?
 - It must fight inequality, and implement a social policy that can be more equal, but not at the expense of growth.
 - Cooperation with Latin America and its large resources can help assure Asia's dream of avoiding Middle Income Trap and help Latin America to get out of it.

Participant #17

- The global dimension of the Asian Century and its shared challenges must be emphasized.

Participant #18

- No one can guarantee the correctness of the forecast but this is not the point. What is important is to identify the issues and problems that policy makers can work on. There are an infinite number of problems but the main issue is how to prioritize the tackling of them.

The Chair, President Kuroda

- The Asian century is certainly not guaranteed, resource constrains can become more serious in the coming years.
- We discussed peace and security, which are critical issues. Unlike Latin America where war is extremely unlikely, in Asia we have so many border conflicts, that there are really substantial risks here and this point needs to be carefully assessed and monitored. Otherwise the Asian Century will be just on paper.

Presentation on Kazakhstan: Yerbol Orynbayev, Deputy Prime Minister, Kazakhstan

Kazakhstan is an example of a country that looks both toward east and west and the presentation aimed to provide the participants a direction of where Central Asia is going.

The PowerPoint slides, which provide the transcript of the presentation, can be found at the end of the proceedings.



Session II: National Action Agenda—Transforming Governance

Chair: Rajat M. Nag, Managing Director General, Asian Development Bank

The Chair opened up the session by pointing out that President Kuroda mentioned the great challenge of governance and that this is the single most important challenge for Asia. He added that not one in the Top-7 countries that will drive Asian growth is immune from problems with governance. Governance is more than just corruption, it is also institutions.



Nag presented the questions for the session:

- Is the emphasis on transforming governance and institutions in Asia well placed?
- Does the necessary commitment of and political space for Asian leaders exist to modernize governance and institutions while enhancing transparency and accountability?
- Are demographics, urbanization and expanding middle class/communications revolution the key drivers for change?
- Do urbanization and the related decentralization trends risk leading to more corruption and bad governance?

Introduction: Shigeo Katsu, President, Nazarbayev University, Kazakhstan

Katsu laid out the basic outline of the governance chapter and explained that the chapter builds up from the earlier chapters that describe all of the individual challenges and then lays this overarching issue of governance that must be improved.

- Overall, quality of governance has gone down, not just corruption but also the quality of institutions and whether citizens have a voice.
- Research indicates that governance has a disproportionately negative impact on the poor and that institutions do matter for growth.
- The deterioration of governance is one of the reasons why we should not see the Asian Century as pre-ordained and an important factor that will determine whether Asian countries will be able to escape the Middle Income Trap.

There are three drivers for change in governance and institutions:

- Demographics - Young countries (some of the Asia's poorest and most fragile countries fall into this group) are likely to sustain a greater appetite for reforms than aging countries.
- Urbanization – Citizens in an Asia which will be 70% urban by 2050 will demand competent mayors and city managers, and will more frequently turn to their local government leaders to get results (who will have more influence in national politics). Citizens will expect more predictable, transparent and accountable governance at all levels.
- Middle Class - Demands stemming from an emerging and expanding middle class can lead to demands for better governance and more accountability as well as more personal space. This can have big implications on the relationship between the individual and the state, what direction society will move, and how values will shift.



As elsewhere, the pressure to change governance and institutions in Asia comes from the domestic rather than the external front. Asian government will have to play a leading role but will not be able to do it alone, they will need the private sector as well as civil society.

Katsu pointed out 8 key areas in the chapter where attention has to be paid:

- 1- Focus on building strong transparent institutions – they define success.
- 2- Corruption cannot be left unchecked; failing this, it will eventually suffocate rule-of-law institutions.
- 3- Devise participatory approaches to policy making and build accountability mechanisms.
- 4- Designing policies is only a start, implementation is what matters.
- 5- Ensure that the rule of law applies equally to everyone.
- 6- Build a civil service based on merit.
- 7- Realize that a healthy relationship between authorities and citizens is a function of trust.
- 8- Realize that simply following best practice elsewhere will not do the trick. Countries have to adapt for their own needs. What works elsewhere has to be examined from the angle of “is this a good fit?”

This is in a nutshell what the chapter is about.

Discussants: Keat Chhon, Deputy Prime Minister, Minister of Economy and Finance, Cambodia

The Deputy Prime Minister focused his remarks on his country, Cambodia. He pointed out that Cambodia sees this Asian Century as an opportunity to advance its development cause.

- Cambodia is a case of a medium-sized country torn by three decades of war, genocide, and regional strife.
- Since 20 years ago, when Cambodia has enjoyed full peace and political stability, our Prime Minister has placed governance at the core of his development strategy. The government has focused on service delivery, efficiency, accountability, and tackling corruption. Working with development partners, reform in key sectors, legal and judiciary reforms, public administration reform, and public finance management reform are in full swing. At the same time, the government regards corporate governance as equally as important as public governance and it has so far set up policies and regulations on corporate governance for listed companies and commercial banks to instill confidence from the public in the private sector.
- The newly-created anti-corruption unit is now enforcing anti-corruption law and the mishandling of government resources is being addressed. At the same time, Cambodia is learning lessons from other countries that lobby groups and dominant groups in society can also be a form of corruption and we should prevent at all costs the emergence of these groups.
- There will be no end to the reform. Our Prime Minister has said that not only to survive but to prosper, Cambodia has no choice but to reform, it has not only vision but also political will and strategy in place to improve governance.
- During the reform process, Cambodia needs strong leadership but this doesn't mean lack of accountability, we need to improve the liberal democratic system enshrined in the constitution.
- We have to learn from different countries what the best practice is and we hope that we will benefit from their experience.



Abul Maal Muhith, Minister of Finance, Bangladesh

The Finance Minister repeated that there are three elements that will perhaps revolutionize governance: Demographics, urbanization, and the expanding middle class. He added that there is too much hope placed in these three elements.

- They bring out questions: For example, should we go for urbanization or for municipilization of villages (like the Swiss)?
- The biggest problem with governance is political divide within countries. Somehow, it has become too polarized even in developed countries and most certainly in developing countries. This is highly obstructive going forward since it destroys the ability for long-term planning. This is a personal problem that I have when there are things that I want to do but without political consensus, I must go forward with short-term solutions. Corruption is a problem but the main issue is total governance and the value of the administration. These days, it seems that ethics in government has disappeared and we need to bring it back. It's not simply institutions and this relates to political culture and political divide.
- Parliamentary politics has become a huge problem, a new election brings another limited government but the good news is that it brings change.



What can we do about it?

- We need to continue to strive, put our sights high with minimal compromise.
- Global governance is very important and there are serious issues such as surveillance of the global financial system, as well as regulations of the volatility of exchange rates (this brought East Asia down in 1997 and something has to be done about it), and we also need to go with the new managing director of the IMF regarding the need for commodity price stability, particularly fossil fuels and oil.
- There is also a need for a classification of countries. There are a number of countries that are vulnerable and fragile and we need to think about what we do about them since the global growth strategy will not work in those cases.

There are three points that need to be addressed:

- 1- How do you find an equation between consideration and stiff government control?
- 2- The political divide, how do you undertake long-term planning?
- 3- The use of material resources: Research and technology needs to be improved.
Technology is the most helpful instrument in controlling corruption since it can ensure consistency and transparency.

Ultimately, you need to go for some type of harmony.

Arun Shourie, Former Minister of Telecommunications; Commerce; and Privatization, India

Using his experience in telecommunications as an example, Shourie explained that corruption expands at a cancerous rate.

- In telecommunications, governance problems cost about \$50 million in the 1980s and now cost between \$600 million to \$2 billion.
- Corruption doesn't only delegitimize governments, it delegitimizes the state.

He pointed out that India has been making serious improvements (with many corrupt people now in jail) but more has to be done, as evident by the current index ratings that shame the country.

We need to focus on the following issues:

- Bring outstanding corruption cases to a conclusion.
- Reduce role of state in society.
- Legislate a few changes in law; focus on the people who are corrupt in a way that has multiplied effects.
- Rule of evidence with regards to senior servants of the state needs to be changed, from the Anglo-Saxon system of proof beyond instable doubt to the French rule of preponderance of probability. If you find assets that cannot be explained by legitimate sources of income, the assumption is that they were gotten by corruption means.
- Punishment must be swift, certain, exemplary and a true deterrent. It must include physical incarceration, not just fines (offenders must put them in jail and we should bar them from public life for life).
- Contracts stating responsibility for projects (and money involved) must be clear and transparent.
- None of this can succeed unless we have free speech so people can speak against corruption.
- We need an alternate opposition that does not consist of the same corrupt officials.



Kiyoshi Kodera, Vice President, Japan International Cooperation Agency

Vice President Kodera brought up that only five years ago at a meeting in Singapore, he was cross-fired and grilled when discussing the subject of governance and what a change it is now that we can discuss governance more openly in a productive way. He made the following points:

- The emphasis in the book on governance is right on target.
- At the same time, I have to say that during the past few years, we may have been a little complacent about economic success and ignored issues of governance. Governance is a political issue and thus a difficult one to address and this is the area where the change should come from within. Unless there is a very strong political leadership, no matter how we train the local officials and change the drafting of laws, change cannot be implemented, you need role models in the political elite.
- The drivers for the changes mentioned should also include information technology, which can eliminate some room for corruption to come in.
- Regarding decentralization, there are pros and cons, but we have to think about the sequencing of decentralization and in doing it right. For example, in JICA in the health and education areas, even though the budget is packaged and sent to central governments, it needs to be delivered through the local administration at the municipal level and finally at the community level. There is a need for strong political will but also strong capacity at the local level and JICA will continue to assist in building this capacity.
- Rule of law and accountability are necessary in state building even if it limits power.
- Question: In the chapter, there is a suggestion that democracy will be increasing in Asia but maybe this can be a very different form of democracy than in the West, so what sort of democracy are we looking at?



Summary of the Chair

The Chair, Mr. Rajat Nag, summarized some of the main points presented by the discussants:

- Shigeo Katsu made two points that I would repeat: First, governance is all about building trust. In the US, even though people complain about taxes and will do everything to reduce it, ultimately on every April 15 almost everyone pays taxes. Thus, there is a trust in the system that remains in place. Second, the point that one size fits all won't work

and that we need to adapt. There is always this temptation to talk about global best practice and to introduce it to our system but we all need to adapt the system to our needs.

- Keat Chhon pointed out to us Cambodia’s experience where three decades of war, genocide, and internal strife has left the institutions there virtually destroyed. Therefore, Cambodia’s recent experience has attached hope to many with regard to the many instructional changes that it has undertaken. Another point Chhon made was that fighting corruption is a means, not an ends and there is a need to constantly keep at it. Finally, he pointed out that there is a need for a strong leader but not with a lack of accountability, so the strong leader should not be above the rule of law.
- Abul Maal Mohith pointed out that ethics and morality in government are extremely important and, perhaps, this is a point that we needed to spend more time discussing.
- Arun Shourie discussed the “cancer” of corruption and the consequences that go up at a geometric rate and we hope that at least in India and perhaps Indonesia, we are reaching at least some sort of tipping point. But I think a more fundamental point has to do with reducing the role of the state. If the state is corrupt, then maybe the best way to deal with that is to reduce its role because if we don’t have the confidence in the shepherd to take care of the sheep than we have to do something about the shepherd.
- Kiyoshi Kodera pointed out that we can’t imagine five years back, a session like this when we speak of governance and corruption so openly with the policy makers and political leaders; and change has to come from within and this is a valid point for those from outside who feel that preaching is the rule of the day. Lecturing from the hilltop does not work and it really has to come from within and countries have to make that transition.

Floor Comments:

Participant #1

- Due to our past experience, the Asian Miracle prior to the Asian Crisis, and more recently China's impressive growth, in Asia, we often think that we need to focus on always doing things faster. We need to shift our attention now from this "faster culture" to more stable economic growth that is more shared. When you grow so fast, it is very difficult to take care of people and we thus need to focus on inclusive and stable growth in the immediate future. Once you come down the road, it is very difficult to come back and before you do that you need to take care of these measures so that we don't have to answer the question of why there is such a large income gap.
- We need financial reform as well as financial development. Asia will need to formulate its own approach to finance and to avoid over-reliance on market self-regulation or excessive central government control. We need to simultaneously undertake financial reform, financial repair, and financial development. We need to look at regulation arbitration issues and to focus on making our own policies while making sure we are in line with the global discussion on financial regulatory issues.

Participant #2

Asia must Decentralize, Democratize, and Demonstrate

- There is a need to decentralize not by building mega cities but by strengthening the villages and towns.
- There is need to democratize opportunity, equality, and inclusiveness.
- Finally, the leader at the very top must demonstrate by his lifestyle, his honesty, his connection with lower classes, as well as his leadership.

Participant #3

- In Thailand now, there is a survey on public attitude to corruption which happens each year. In the most recent survey, the public mostly responded that corruption is ok if there are good policies, strong economic growth, and I if I benefit from it! This is a problem since there needs to be zero tolerance for corruption in order to fight it.
- The problem starts in schools where children see teachers using school time for personal business.
- There is a need not only for higher income but a disappearance of major income gaps in society so that people do not feel they're entitled for corruption due to their status.

Participant #4

- You cannot have good governance if you don't have good society and the Finance Minister of Bangladesh also mentioned the use of technology. I will add the need for partnerships.
- In Bangladesh, we connected all farmers with mobile phones to conduct banking transactions. We developed a partnership with BRAC to provide credit in agriculture. Mobile banking has started and it is reaching the hardest to reach people.
- All of this is thanks to partnerships and this can help reduce corruption and improve governance.

Participant #5

- The discussion points to a very interesting point of collaboration between ADB and CAF. In this regard, Latin American countries and Asian ones are largely in the same boat, both do equally bad in corruption rankings.
- The other issue is the old term of crony capitalism which affects Latin America more than Asia. Another element which exists more in Latin America, is the arrogance of the established policy.
- We need to compare notes and work on observations of best practice and in moving from individual to institutional actions.

Participant #6

- I would like to endorse Mr. Shourie's very important point that corruption leads to the delegitimization of the political process.
- The danger is that by lining the political process with corruption, we will delegitimize the political process and open the way for technocrats. The way forward is to focus on the political process.
- The fact is that there are some forms of corruption that may not be worth it to fight at this point. For example, Ambassadorship in America is awarded to the President's friends and in the UK that is considered corrupt. The American system might be more realistic for Asia.
- People have the right to raise the values that they expect politicians to follow and politicians should aim to rise to what people expect but there is a middle ground that is often more realistic.

Participant #7

- Governance is a real issue in Africa and Africans who are watching Asia's rise will be very interested in how Asia deals with governance and will be watching carefully. Of course, there are very qualitative differences between governance issues in Asia and Africa. In many ways in Africa, we don't have enough commitment to the ideas of rule of law etc. and on top of it are the issues of weak institutions.
- Hopefully, through dialogue between Asia and Africa, we can begin to see the introduction of the topic of governance. So far, Africans have seen the West wanting to discuss it but have not seen the consensus of regions like Latin America and Asia.

Participant #7

- I understand this fear of corruption, what is missing is that that decentralization can work only if local governments can tax people based on the idea that the local government knows better about the needs of the people. Instead, the local governments get huge transfers which they can spend without taxing and this leads to corruption. Of course, if local governments tax their own people, this can create regional disparities since some local governments will do a better job at taxing and have a higher tax basis. Therefore, we still would need some transfers, but this is a better alternative than the current system that rests only on transfers.
- Often decentralization has nothing to do with economics but about local culture and pride and maybe we need to rethink how much we wish to emphasize it and we need to find a balance that looks at economic outcomes as well.

Participant #8

- There is a need to make a distinction between legal and moral corruption.

The Chair invited the discussants to respond.

Chhon

- There is a lot to do in terms of formulating strategy so we'll need your financial resources to implement the vision of this chapter. The development of the financial sector in Cambodia was assisted with a lot of resources from ADB.
- For good governance, we need statesmanship to transform the vision in this book into reality.

Muhith

- Democracy is something that makes you less of a thief, less of an opportunist, less of a scoundrel, and also less of yourself but that is the only solution. Democracy gives you a chance to change. We should have in Asia a little bit more of democracy otherwise we might face some very serious social compulsions.
- Going against the political process will be wrong and that only creates arbitrary rule so you have to suffer the political process although that requires you to perhaps make a lot of compromises.
- High level corruption should be attacked and it would help reduce the impact but it would not remove the low level corruption which prevails, (which perhaps encourages sharing and may even be justified).
- Decentralization – if you want to perform well, it is essential that you decentralize decision-making, transferring it “downstairs”, and it will have much greater impact.

Shourie

- I remain steadfast in the opinion that even if a slight compromise is made regarding corruption, that single cell can spread and multiply and lead to much bigger consequences and so we must act against all forms of corruption.
- It is possible to be honest and competent. If that were not possible, all countries would be ruled by mafias and crony capitalists at all levels.
- As the decision to improve and change the system rests in hands of people who are the first to be dislocated if it is changed, it has to be changed by the outside pressure and that’s why everyone, all of us, needs to participate more in public life and be involved even if we do not participate in electoral politics.
- A good saying: “As the rulers so are the ruled”....but also, “as the people so are the rulers.” And therefore, there is a need for improvement on both ends. The central task for Asia and maybe for all countries in this century is to revise systems to bring better people who are honest, wise, and competent into rulership.
- Another saying: “As the silversmith removes impurities from silver so the wise man can remove impurities from the state one by one, little by little, again and again.” It is not something that happens once forever, it is a process “again and again”.

Kodera

- In this vast globalized world, the private sector will look at governance and if it is a problem they will go to other countries so it is a race against time.
- At the same time, for donors and international organizations, this is a long-term engagement and the more I think about governance, I think we should give some

distance to the performance-based allocation systems of the multilateral development banks because there is a need for some basic engagement at the minimal level and that also requires quite an effort from the global community.

The Chair concluded that there is certainly a strong feeling shared by all of the importance of good governance as a necessary condition for development. Governance is not only a matter of corruption, it also institutions, accountability, transparency, and enforceability.

- Corruption looks bad on the state itself as well as on the political process, not just the current government.
- It is very important that the whole question of ethics and morality be a part of this discussion. Good governance is really a matter of political leadership and we must be able to look at the political leaders to set an example.



Session III: Regional Global Agenda—Promoting Regional Cooperation

Chair: Enrique Garcia, President, CAF and Co-Chair, Emerging Markets Forum

The Chair introduced the session by pointing out that as a Latin American, he looks with a lot of interest the way that Asia moves ahead and the intelligent and open discussions are good lessons for us and for other regions as well. He brought up the following issues regarding regional cooperation:

- Would the success story of Asia be even better if we had strong regional cooperation? There are some people who think that perhaps Asia is different because it is so heterogeneous. I, personally, do not believe that. If the conditions are there for cooperation and integration, a region is better off in terms of solving issues of development, sustained growth, inclusion, and from the geo-political and geo-economic angle, a region would be better positioned to deal with the realities of globalization.
- Of course, this requires many things, most important of which is political will. Europeans did well with the process of integration because of the strong political will of two countries, France and Germany, who decided not to have war anymore. They had money and decided that they will work on steel, coal and other areas of asymmetries so that they will integrate, and so that other countries including Portugal, and Spain would be able to rise as well. As far as the institutional setting, Europe provides a very strong example.
- In pragmatic terms, you have the issues of infrastructure, institutions, openness, and of course issues relating to security. This discussion, I am sure, will raise many of these critical issues.



Introduction: Johannes F. Linn, Senior Resident Fellow, Emerging Markets Forum

Johannes Linn brought up that writing this chapter on regional cooperation and integration was a bit daunting because it happens to be ADB's favorite topic. This was especially true under Kuroda's leadership when ADB published a number of reports on the topic, and so the chapter provided quite a challenge to say something new beyond direct quotes in every sentence. He

added that, as economists, perhaps we are the wrong people to look at this and we need to get political scientists, security experts, sociologists, philosophers, and certainly historians into the picture. Nevertheless, the chapter does try to take a somewhat broader perspective.

Overall, Linn explained that the chapter provides quite a lot of detail on past trends, the current state of cooperation and integration, and on the future prospects for Asia. In summary, over the last 40 years, we have seen some progress on integration, mainly in East Asia and more recently some progress in South and Central Asia, although those two sub-regions are lagging quite behind East Asia. This of course provides for opportunity; if those regions would at least catch up with East Asia, it would be a major step forward. We also have seen some progress on regional and sub-regional institutions, ASEAN and ADB being the most prominent examples of what could and should be done.



Linn brought up the four questions that would frame the discussion:

1. How important is regional cooperation for the future prosperity of Asia?
2. What is a sound institutional model for regional integration for Asia?
3. What are the prospects for Asian leaders to build mutual trust and steer the region towards conflict avoidance, constructive competition and effective cooperation?
4. What will be the role of Asia in the global economy and global institutional framework?

He offered the following suggestions, based on the chapter, in response to these questions:

Question #1: How important is regional cooperation for the future prosperity of Asia?

There are a number of reasons that regional cooperation is critical:

- First, in order to sustain region-wide economic growth, Asian countries will need to increasingly rely on internal (domestic and regional) demand and ensure open markets with neighboring countries and the rest of the world in the same way that US and European markets have been open to Asia since the end of World War II.
- Second, there are many areas in which increased regional cooperation will help respond better to global challenges and will yield significant synergies and positive spillovers, such as technological development, energy security, and disaster preparedness.
- Third, the skillful and joint management of several regional commons will become increasingly important for Asia's long-term stability and prosperity. The management of

the regional commons will involve diffusing and mitigating internal political and social risks associated with drugs and terrorism; avoiding conflicts among the mega-economies and nuclear states; and maintaining social and political stability in the region, especially to support the economic and security concerns of fragile states.

- Fourth, regional cooperation can be a stepping stone for poorer countries to move up the value chain and maximize their growth potential.
- Fifth, regional cooperation has the potential to be an important bridge between the interactions of individual Asian countries and the rest of the world. In order to have the voice and influence in the global agenda that is commensurate with its economic weight, Asia will need to formulate a unified geopolitical position on a range of global issues. This can only be achieved through regional dialogue and cooperation.

Question #2: What is a sound institutional model for regional integration for Asia?

The institutional model for integration will have to be genuinely Asian and should not follow any other models including the EU, even though there will be lessons-learned from other regions' experiences. A number of principles (but not descriptions) have been detailed in the chapter that Asia can learn from as it moves forward in formulating its own approach:

- Cooperation and integration should be market-driven, pragmatic, and open to the rest of the world, as it has been so far.
- It should aim, and will aim we believe, to create free regional trade, free regional investment, and eventually free movement of labor.
- It will clearly have to and will lead to improved regional infrastructure logistics, the removal of remaining nontariff barriers, and the improvement of behind the border business climate and infrastructure conditions.
- Managing the conflicting interest in a peaceful way among the key countries will be an essential principle that will have to guide the cooperation and integration.

Regarding institutional specifics:

- It is difficult to be very prescriptive on this because in the end it's a matter for the governments and people in the region to decide what works for them.
- For example:
 - Creation of an Asian stability dialogue
 - Creation of an Asian infrastructure fund
 - Creation of a regional free trade agreement
 - Creation of an Asian monetary fund.

- This is more of a menu and likely a direction rather than a prescription. I would encourage Asians about not creating a lot of new institutions but rather to build on the existing ones including ADB.

Question #3: What are the prospects for Asian leaders to build mutual trust and steer the region towards conflict avoidance, constructive competition and effective cooperation?

- Strong leadership is needed for regional cooperation, for rules-based competition, and for the prevention of conflict. This is leadership at three levels:
 - Leadership by individual countries (the European experience, with Germany and France leading, can teach us something here), leadership by individual institutions, and finally leadership at the level of individuals including those sitting in this room, and many are already working on pushing this agenda forward.
- The leadership takes a critical role to nurture the mutual trust among countries, institutions and individuals, and to build that trust systematically.

Question #4: What will be the role of Asia in the global economy and global institutional framework?

- The growing global footprint of Asia implies a growing global challenge, opportunity, and responsibility. Asia's success will also be a benefit to the rest of the world. Asia should play a special role in maintaining and guiding the global institutions.
- Asia 2050 will be the century of continental integration across Eurasia (which has been lagging until now relative to cross-oceanic integration) as we are now beginning to see in Latin America and Africa. This is of special interest for Central Asia, which will no longer be a remote place but the core of this Eurasian continental integration process.

Discussants: Bindu Lohani, Vice President, Finance and Administration, ADB

Dr. Bindu Lohani repeated that regional cooperation and integration is one of the three pillars of ADB's development agenda and made the following points:

- Right at the beginning, the emphasis of regional cooperation in ADB and in the book is on "open regionalism", which is not closed to countries outside the region.
- Regarding emulating other regions, certainly, given the diversity of Asia, it is definitely true that Asia will have to design its own model, but there are certain aspects of the European and Latin American models which might be useful.

- For example, from the European example, Asia should emulate the experience of moving from a history of harmful conflict and unproductive competition towards a path of partnerships and collaborations.
- As far as institution-building. Asia has always followed a model based on flexibility and pragmatism. While this might have served well in the past, it had limitations and is not adequate as we move forward. Asia's existing institutions tend to overemphasize this inter-governmental nature and decision-making by consensus. It is time to move beyond that to decision-making by rule of law. We need to delegate more authority to the independent secretariats, and extra-governmental bodies as well as create third party mediation and conflict resolution mechanisms, as they came up in the context of water, energy, and some other issues.
- Asia is very diverse and we need to think at different levels, including sub-regional. Many of the sub-regional arrangements have worked so far. The regional level requires more work. Finally, the inter-regional level should be given more attention for promoting inter-regional trade (such as between Latin America and Africa) and investment beyond the bilateral agreements, particularly between Latin America and Asia (currently there are about 15 bilateral agreement and about 25 pipelines).
- Conflict management and mediation, and natural disaster preventive measures should be focuses of cooperation.
- Regional cooperation involving economic organizations (for example, ministries of finance) goes very quickly, but once you get other agencies including the foreign ministry, things begin to not work.
- At the global level, as President Kuroda said, Asia must begin to accept global responsibility, whether on climate change or maintaining international peace and prosperity. Asia does not put its voice out on pivotal issues and that should change.
- Regarding conflict, competition, and cooperation, I fully agree with the others except I think that it does not have to be sequential. We were able to move from conflict to cooperation, now we're talking about competition, so hopefully it does not have to be sequential.



Surin Pitsuwan, Secretary General, ASEAN

Secretary General Surin Pitsuwan focused on ASEAN's view of regional Asian integration as well as integration between the member countries of ASEAN. He made the following points:

- For us in Southeast Asia, integration is not an option; it has never been and will never be. We found out that the smaller and medium-sized countries will simply be lost in the global competition and would be marginalized if they don't have their own small stage suitable for their size and conducive to their own problem-solving needs. Therefore, ASEAN was born 44 years ago this coming 8th of August.
- Linn asked whether integration in Asia has been what it should be. Certainly, it's a very gradual process, taking the problem of diversity that we have amongst ourselves.
- Henry Kissinger observed that East Asia as far as science technology and economic growth were concerned, was typical of 20th century Europe at that time but as far as the institutions to deal with problems, it was similar to 19th century Europe. The role of ASEAN is to respond to that challenge and observation of Henry Kissinger. We have been struggling in the past four decades to evolve institutions and processes.
- But ASEAN has gone in the reverse process as Europe, which began with two large economies and then they brought in the others. ASEAN began with small countries coming together and through its own innovation, is bringing the other bigger countries in with partnerships (ex. ASEAN + 3, which includes Japan, China and Korea, ASEAN + 4, which adds India etc...). The +3 came only after the bitter experiences of the first financial crisis in 1997, which demonstrated to all that we are integrated more than we thought we were. That's when the spirit of regional cooperation somehow came together.
- East Asia is now emerging together in various architectures that we are proposing and promoting (ex. ASEAN +6 in areas of security and defense where Australia and New Zealand are included and ASEAN +8 where the US and Russia will soon be included). These are the mechanisms and architectures that Hillary Clinton referred to as emerging regional architecture and she said "ASEAN is the fulcrum of the evolving regional architecture".
- We have been working on all fronts, particularly in the economic area, to create a common market, which is competitive and equitable and which is able to integrate with the global marketplace in a competitive way.
- We are going through our own way of integration, Europe is our inspiration, not our model, it cannot be. You cannot impose the conditions of Europe. For example, you cannot have everyone manage their economy and financial system in certain ways, and you cannot insist that everyone have democracy in Asia. You will never have a regional organization in East Asia if you impose such conditions.



- It is also very difficult to go by majority rule in ASEAN or in East Asia because it is so diverse, but integration has brought about more of an interest and a need to look into each other's way of managing domestic and sovereign affairs. For example, if the ADB proposes the creation of an Asian Monetary Fund, we cannot go that far, but we have created the Chiang Mai Initiative, a multi-million USD fund so that these ASEAN nations could draw down from if there is a need for it. In order to give you that right to draw from that \$120 billion facility, obviously there is a need to monitor and to look into the way that each country is managing its own internal domestic economy. That's why there is an office in Singapore whose role is to manage the macro-finances of each of the member countries.
- This is how integration is working in Asia; it is incremental and building on what we already have rather than building something new. So it is gradual, open, flexible, step-by-step and it definitely cannot leapfrog and cannot take any model as an example. We can only draw our own model and drive inspiration from the success stories around the world.

Benhua Wei, Director, ASEAN + 3 Macroeconomic Research Office (AMRO)

- The world is moving fast toward global integration. I would like to comment on the last question regarding how to move forward with regional integration, both in the economic and financial areas, in the global context.
- Regarding the Chiang Mai Initiative, I would like to emphasize that this is not a fund exactly in its real meaning, this is a commitment from the member authorities and each central bank or minister of finance will write a letter to the other 30 members to commit the figures which have been approved by the ministers (China and Japan will contribute 32%, Korea 16%, ASEAN as a whole 20%). ASEAN member and some new members can withdraw about 2.5 times their contribution (and other new members such as Myanmar can withdraw 5 times their contributions). This is a very good arrangement. ASEAN is really getting everyone on the boat and not following other models around the world when many are left out. In order to build good trust in this region, the integration model must be made based on Asia's own culture, while learning from other examples.
- Relating to the push forward with financial cooperation, with instruction from the ministers, I'm requested to strike a good balance. On one side, they are asking me to maintain good relations with international financial institutions including the IMF, and



regional institutions including ADB. On the other side, they are asking me to maintain the independence of the operation of this office. So this is quite a difficult task. I could understand their feelings due to some bad experience from the Asian Crisis of the 1990s. Even then, Asian directors really tried to work together and if they thought they could reach an arrangement on their own, they would have issued a common statement. But whenever possible, Asian representatives should stick together and discuss the most important policy issues and see the possibility to accommodate a common voice.

- Under the Chiang Mai Initiative, a member could activate 20% of the funds without linking to IMF programs, though for the further withdrawal of money, they will have to follow the IMF program, so the major portion is still linked to IMF programs. Some ASEAN countries are trying to increase the portion that is not linked to the IMF. For matters like this, I really need to listen to the opinions of members in this group regarding how to strike a good balance in order to promote international financial integration.
- Relating to this issue of conditionality of the IMF, many countries suffered from it during the Asian Crisis, however, I also like to point out that the international financial institutions themselves are also changing and we need to rethink the relationship with them to account for the changes in the governance of these institutions.
- Regarding the European effort to set up the recent divestment in Greece and other European countries, this is an important area for ADB and other regional institutions to work with. Some European countries are considering adopting their own rating agencies and perhaps it is time for Asian countries to do the same.

Oh-Seok Hyun, President, Korea Development Institute

- The Asian region has witnessed a radical increase in the number of regional institutions since 1970. Asia has developed around 40 regional, sub-regional, and trans-regional organizations.
- The extent of the differences in characteristics among Asian countries is far greater than in the EU or NAFTA, however, we can still draw valuable lessons from them. In this respect, it is key that Asia develop its own type of cooperation, based on other countries' experiences, and that countries which are better off should show more generosity.
- Domestic institutions must be reformed to reflect global standards. In addition, Asian leaders should be briefed on the latest changes both internally and externally so they can reform domestic regulations to meet global standards, and they should get support from the people as well as politicians.

- Countries from the region with different interest groups behind their backs have difficulty reaching consensus on cooperation. In this regard, Asian leaders need to steer their countries in the direction of conflict avoidance, constructive competition, and effective cooperation. Consequently, international institutions can provide guidance to foster Asian prosperity.
- Asian powers have begun to play their necessary role in global governance but still there is room to step up constructive responsibility. One responsibility is to share our knowledge and experience across borders for a stable, prosperous, and peaceful future.
- Knowledge is the key to success in development and policymakers and practitioners in developing countries need relevant, critical, and effective knowledge that can lead the process of development. That's why the international organizations including the World Bank and ADB have been implementing the Knowledge Sharing Programs (KSPs) to provide policy consultation for developing countries. Korea might be one of the most successful examples of framing and implementing KSP. The KSP conducted by the Korean Development Institute provides assistance for more than 20 developing countries, covering more than 200 policy issues, and we will continue to include more countries that are in need of development assistance.
- Trust is the most important driving force. But it is multi-dimensional and not only about economic affairs. To form trust, we must keep peace and security.



Floor Comments:

Participant #1

- Looking at the reality, we have to be cautious that the actual integration is not too slow and not too small. Even in the Chiang Mai Initiative, one of our most successful products to date, there is much room to improve if we want to make sure that it works for future financial crises. My worry about going too slow also applies to other initiative such as an Asian bond market and a Credit Guarantee Investment Facility.
- Regarding SARC, CAREC, are they effective? This may be about Asian pragmatism but Asian pragmatism cannot be an excuse and given growth in Asia, we have to accelerate our effort to enhance effectiveness of cooperation so that it is not too slow.

Participant #2

- However inspiring or not inspiring the European model may be, one of the core lessons from Europe is that to the extent possible, the different countries should have more or less similar economic standings (this is probably what was meant when it was said they should equitable).
- But equitable does not just happen. It needs a more pro-active push. Two areas of assistance would be needed to those countries who have not yet reached higher levels of economic capability.
 - 1- Infrastructure. There are large gaps among Asian countries.
 - 2- Capacity building. Quite a lot of corruption in Asia comes from regulatory capture and regulatory capture happens when the regulators are overwhelmed by the sophistication and wealth of the regulatees.
- Whether it is infrastructure or capacity-building, it requires mobilization of funds, and that should not come just in the form of rescue funds that are available if rescue is needed, it should come in the form of funds that are set up to help with the equitableness of the countries involved.
- We have to follow in this case, the “Golden Rule”. If Asia wants to rule, it better mobilize its gold (“golden rule”). Its gold lies in the fact that many observe that no other region has as high savings as Asia and they have not been mobilized the way they should have been. That cannot happen across the board, but it does have to come from the leadership of those countries that are leading the economies Asia. Even in the European example, it was led by those countries which were more advanced. These leading countries would have to be fully committed to an Asian Century that is led by Asians and this means also putting up the nuts and bolts.

Participant #3

- Integration and cooperation is a big issue at APAC. From a business point of view, wealth creation by SMEs is extremely important because they are the base of the citizens and without the accumulation of SMEs, we cannot have a stable economy. Many SMEs in Japan are looking for overseas investments and also for some type of discussion at the global level of best-practices that can benefit all. The G-8 agenda was to enhance SMEs and this kind of initiative has the support of many Asian economies.

Participant #4

- There is some type of a mismatch in the book as to what Asia needs and how to get there. For example, we are told that Asia needs a global trading system to remain open yet there are very few specifications about how that will be accomplished.

- The reality is that when we look at how Asia has to relate to global institutions, the global institutions are in very bad shape and no longer successfully dealing with economic issues. For example, we all know that the WTO's never-ending Doha Rounds are dead (even though we are not allowed to say that). Asia in fact has self-insured itself with the building up of reserves rather than waiting for the IMF to come to the rescue.
- Asian leaders have to think about how much they are willing to commit for these legally-binding commitments which come with strong conditions. It seems like the global system isn't working, just no one wants to dismantle them and there is little effort to openly discuss these issue. This may lead to increasing regionalism but for the wrong reasons.



Participant #5

- What is really encouraging about this book is that Asia has not copied the European example, (though learned from it) but has kept to its regionalism.
- We will be seeing economic forces that will lead to greater regional integration.
- The lesson we need to draw from Europe is that we don't need its institutions but we do need the underlying environment that has led to them.

Participant #6

- There are some discussions about the implementation of regional cooperation agreements. There seems to be something that has to do with the goal. But what is the goal? Does it just have to do simply with trust? If so, Asia is doing quite well, but if the goals are more specific, we need to be better at pointing them out. In evaluating the implementation of integration agreements one has to be more precise as to what the goals are.

- Asian integration is more market-driven (rather than political), right now there are still many obstacles for moving goods and this should be a priority when looking at the success of agreements.

Participant #7

- I would like to add a voice to those who are calling for looking at concrete terms for integration agreements and what the goals are. I think we are forgetting how the search for global liquidity over 20-25 years have allowed the US to observe all of the excess production of emerging economies but this engine of growth will be here for the next 30-35 years. We need to start analyzing what are the goals we wish to achieve.

Participant #8

- The role of ASEAN is quite essential in Asia's regional integration and the ASEAN + approach has been helping Asian integration as ASEAN provides the "glue" to bring together India, China, Japan etc. But for this you need strong cooperation. Japan and China have been cooperating extensively in the area of finance such as in the Chiang Mai Initiative where they are contributing the exact same amount, but after a long period of negotiating. It took them many years but they came to an agreement of 32%. Japan said its share should be the largest because it is the largest economy while China said that its share should not be smaller than Japan since it has the largest foreign exchange reserves! 32% worked out because from Japan's perspective, it was bigger than Mainland China, with 28.5%, and Hong Kong joined the initiative with 3.5%, so from the perspective of China, its entire share is the same as Japan's, so both Japan and China achieved their objectives! Japan and China should also try to work closely in areas such as FDA.
- One area that Asia can learn from Europe is that its leaders meet very often, too often from our perspective! But in Asia, finance ministers do not meet often enough and maybe they should meet more frequently.
- The role of APAC is very important for Asia, particularly with its relations with the US, and the chapter does not talk much about it.
- With regards to the role of Asia in global governance, I think it is very important for Asians to develop their views about what they want to do with global institutions, what they want to achieve. Emerging economies in Asia still regard many global institutions as institutions where they can free ride and, as their size expands, naturally they demand their voice to be heard. While an increasing voice is important, Asians have to know what they want to say with that bigger voice. So they need to think about what they want to contribute to the global economy so they could have a good place in the global community.

Participant #9

- With regards to the implementation of regional cooperation, we have to focus on what are the goals. If they are non-tangible goals such as mutual trust or other non-economic goals, Asia has been doing quite well. But if we define the goals as economic, we have to be precise about what they are. For example, with regards to the Asian Bond Market Initiative, one of the implicit goals was to look at the cross-border flows of the bond market. This may not be the right type of goal, since even though the regional cross-border market has been doing well, if we look at the cross-border flow holdings of the bonds market among countries within the region, of course it has been low, but this is expected due to the existing regulations and obstacles. So in evaluating the success of an initiative, we have to be more precise as to what should be the goals. But we cannot judge the success of regional cooperation by looking at the volumes of cross-border holdings of goods as well as financial assets.



Participant #10

- I just want to lend my voice to those who are calling on really working on concrete terms of regional cooperation and the framework under which it will be done. The framework will spell out what the goals are and what the responsibilities of the regions as well as individual members will be. This way, each of the countries can discuss amongst themselves in what areas and to what extent they are willing to commit themselves. In the last 20-25 years, the search for global liquidity, first coming out of the trade growth of the late 70 and early 80th and then from the discovery of the socialist countries that wanted to become capitalists as well as from the discovery of new financial assets, have essentially allowed the developed countries, especially the United States, to absorb all of the excess production of the emerging economies. The need for these countries to now structure and adjust is going to mean that this engine of growth will not be there for the next 20-25 years. There will thus be a need for a sharing of the burden as well as the benefits that must now be captured by emerging countries in a

pre-determined sense by this framework. This framework will need to be set up before disasters come so that each country will know its own responsibilities as well as the region's ability to deal with the issues. So we need to set up a framework for what are the goals we really want and what are the responsibilities we are will take up.

Participant #11

- In the consultations that we had leading up to the preparation of this book, one of the things that struck me was impatience at all levels. Impatience with inequality in Asia, impatience with poor governance, and impatience with regional cooperation. I think we in ADB have done a lot but there is still a long way to go, certainly in South Asia and we got to recognize that time is running out and we just got to move.

The Chair commented that what struck him in the preparation of the book was the impatience of many young people. With regards to inequality and integration, we have done a lot but there is so much more to go and time is running out. We have to move on faster.

Discussants respond

Bindu Lohani

- The success of Asia is really about trust and this is particularly critical in the area of cooperation. We need to move faster, we are talking about Asia 2050 when 50% of the economy will be in Asia.
- Because Asia will be the biggest economy, Asia must take strong leadership not only on issues relevant to Asia but on those important to the whole world.

Surin Pitsuwan

- This issue of impatience can be used as a positive point. I have been talking to the people a lot recently and the only way to achieve proper integration is to involve the people. Major parties in parliaments often have no commitment to ASEAN.
- The measure of success is not how much we produce and accumulate but how much we influence reform in the global community and institutions. In order to do that, we have to take initiative and have really strong arguments. Out of 20 economies in the G-20, there are 8 from East Asia. The question is if they can work together. Kofi Anan used to tell me that you have a lot of voices in Asia but the Asian region can never work together. There is no shortcut for East Asia to become prosperous in 2050 except for effective integration amongst countries.

Oh-Seok Hyun

- Asian countries should deliver an important message to the rest of the world regarding their strong intentions on regional cooperation but also should help to further promote domestic reforms for the future.

Benhua Wei

- There is now really a window of opportunity for ASEAN + 3 to move fast. If we could make decisions on this matter now that people are still concerned with the crisis in a decisive manner, it is really important for us. We should follow the example of the quick response in the eurozone to the crisis there with the Stability Fund that was set up so fast. It is critical for us to make quick decisions on these things in a decisive manner. If we wait till next year and everything will hopefully be fine, people would be more relaxed about the threats of crisis and will be less excited about taking action. Crisis often creates opportunities and we should seize it before it's too late.

The Chair summarized the session by pointing out that this has been an exciting discussion. It shows that this book challenges everyone to move in the right direction and to build up all of the institutional settings and the policy framework that will continue to put Asia on a prosperous path. He added:

- My view from outside the region, from Latin America, on this specific thing is that you have to be more ambitious, integration is not a luxury, it is necessary to move forward. Asia has every reason to push for this and this is now a window of opportunity and what ADB is doing to promote it is very important.
- Maybe it makes sense to organize a small seminar between Latin America and Asia on this specific topic. Latin America tried to follow the EU model and there is strong interest in integration but it's not so effective. Asia is more effective but lacks the enthusiasm to move forward on this. If we put together both regions, we can each learn from each other. This has been a very important conversation, the book is excellent, and this is a good way to end the day.

Session IV: Concluding Session

Chair: Hiroshi Watanabe, President and Chief Executive Officer, Japan Bank for International Cooperation

The Chair pointed out that we had very good constructive discussion based on the book and we should congratulate the authors. He invited Harinder Kohli to represent the authors and the Forum with some final remarks.

Commentator: Harinder Kohli, President and Chief Executive Officer, Emerging Markets Forum

Kohli mentioned that we are lucky that there are so many senior policy makers and thinkers in the room (from within Asia and some from outside too) and that they had the chance to talk to each other. He added:

- The main responsibility and burden but perhaps also the privilege of taking action on what we are trying to state in our book is in your hands. Please reflect on everything that was said today and what is said in our book and see what it means for you and take this burden back to your institutions and countries and see if all of us together can increase the probability of realizing the Asian Century.
- A number of people have said that there are too few outcomes (scenarios) in the book and there has to be something in between the two scenarios discussed. Let me suggest that there are hundreds of outcomes but we tried to paint two pictures, they are not extreme pictures. Those who have read our book carefully will notice that there is a third scenario there (the Middle Income Trap is not the worst outcome), there is a doomsday scenario if everything goes bad. However, we believe that the outcome will be somewhere between the Middle Income Trap and the Asian Century Scenario and how far the region goes toward the Asian Century is in your hands.
- Kindly remember that we are presenting a vision, a point to debate, and you can decide how far you are taking your own country and institutions.

The Chair mentioned the following concluding points:

- In order to achieve the vision of Asia 2050, there are many things we have to do but the most important is to have a grand design and to demonstrate to the people what is possible. The role of the banks, development institutions, and also the academia will be very important.

- Asian growth will be related to global growth, and so although regional cooperation is important, global cooperation is most important.
- Asia has good advantages such as the number of people with regards to consumption but that can also be a disadvantage with regards to the challenges of urbanization. The high savings rate can also be an advantage and a disadvantage. So we should never be complacent and never be arrogant. We should be careful to work on that.
- The sum product is good since the economy is growing but the question of how that will be sustained and who will be benefitting from this growth is critical. We need social mobility and good education for all to benefit from this growth and this is what is most important for the younger generation.

Vote of Thanks by Mr. Haruhiko Kuroda, President, Asian Development Bank and Co-Chair, Emerging Markets Forum

President Kuroda concluded the Forum with the following vote of thanks:

As Co-chair of the Emerging Markets Forum, I would like to thank all of you for attending this important conference. We have covered a lot of ground during what has been an extremely interesting series of discussions on where our region is heading as we move further into the 21st century.

As I said during my remarks this morning when releasing the book, Asia 2050, while an Asian century is plausible, it is far from pre-ordained. Our discussions and the insights offered today may have taken us a bit further down the road toward plausibility—at least that is what we intended, and hope for. In a sense, we need to view Asia 2050 as a strategic planning document – the ups of action, the downs of inaction and for these reasons we need to plan, particularly as the global economy shifts towards Asia. We also need to take on the responsibilities that will come with our growing influence and with inspired leadership, face up to the enormous challenges.

In closing this conference, I would like to give special thanks to my Co-chair of the Emerging Markets Forum, former President Fidel Ramos, as well as Hiroshi Watanabe, Harinder Kohli, Secretary Motoyuki Odachi, President Garcia, our session chairs, panelists, and all of you who participated in the lively debates and discussions that followed. It is precisely these types of thought-provoking discussions that lead to the workable strategies and actions that drive us forward as we strive for future prosperity for our region. I also believe that having such eminent people at this forum – leaders in the world of government, business and academia – will prove crucial in spreading the message that Asian prosperity is in our grasp, but the region will have to

be bold, and roll up its sleeves and get to work. Thank you once again, and I look forward to seeing you at our next Emerging Market Forum.



Asia 2050 Authors pictured with the publisher



Host pictured with the Forum team

Selected pictures from Opening Dinner







KAZAKHSTAN & Central Asia

Bridge connecting Europe and Asia



August 2011

Yerbol Orynbayev

Content

- *Historical context of Central Asia*
- *Contemporary history of Central Asia*
- *Challenges of Central Asia*
- *Case of Kazakhstan*



Back in time, Central Asia was linked to nomads and **Silk Road** of a crossroad between Europe and Asia. Silk Road existed for more than 2000 years since discovery in ancient times. The rise of Silk Road during Han Empire, Turks, Mongol empire and decline after opening of sail route from Europe to India were associated with major rise and decline of civilizations along the route.

Historical context of Central Asia

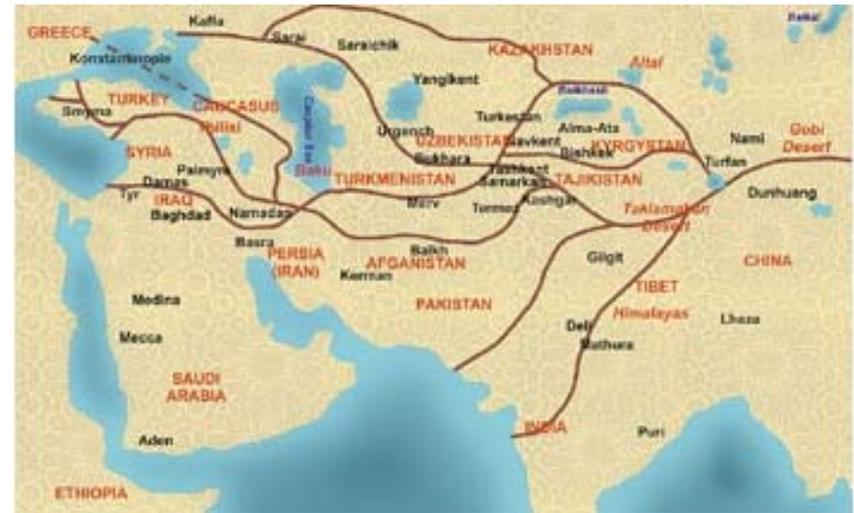
Silk Road as a trade channel between China and Central Asian countries around 114 B.C.

Routes of Silk Road from Changhan :

The northern route passed through Jade Gate Pass and crossed the neck of the Gobi desert to the Tianshan mountains;

The southern route branched off at Dunhuang, passing through the Yang Guan till Kashgar.

In 565 AD, the Turks, have started to expand their own empire of 'Turkestan' comprising of modern day Turkmenistan, Uzbekistan, Kyrgyzstan, Kazakhstan, Tajikistan and Xinjiang. They formed their own direct trade route to the north allowing goods to pass via the Caspian Sea to Baku or Astrakhan and on towards the Black Sea and the Caucasus.



The Great Silk Road population: nomadic tribes of Scythians, Sarmatians, Huns, Avars, Bulgars, Magyars, Pechenegs

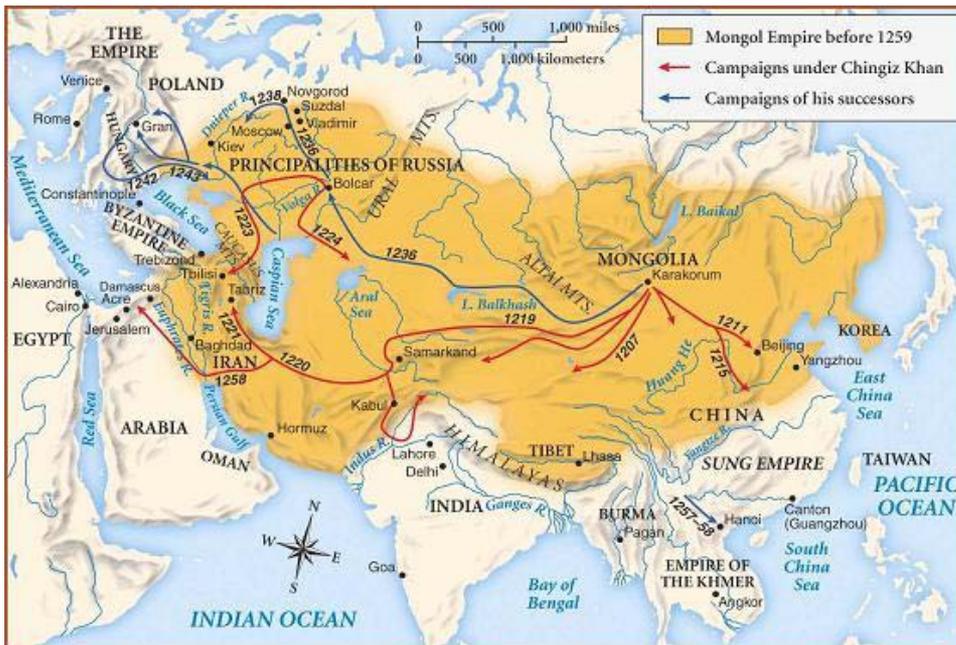
Central Asian main cities: Bukhara, Chach, Ferghana

Commodities of trade: bartering and exchange by caravan traders of salt, a meat preservative, Lapis Lazuli from Afghanistan, copper and tin from Iran, gold, silver, ivory, gems and glass to China, and from China furs, porcelain, jade, bronze, iron and silk

Historical context of Central Asia

During **Mongolian Empire** the Silk Road became important communication route between different parts of the Empire, and trading was continued:

- **first route** (Central Asia -Yanjing);
- **second route** (southern Siberia - Karakoram - Yanjing).



Biggest cities with more than million citizens: Tabriz, Shed, Bishbalyk, Hanbalyk, Carchi, Samarkand

Ethnic groups: Tatars, Tayichi'ut, Kerayit, Naiman and Merkit

Productivity sources: agriculture, trade

Commodities of trade: salt, gold, silver, ivory, gems and glass, furs, porcelain, jade, bronze, iron and silk

Historical context of Central Asia

By creation of Ming dynasty and decline of Mongol empire the Silk Road was no longer on high demand. The opening of maritime trade further facilitated **demise of Silk Road.**



Re-discovery of Central Asia was empowered by expansion of power and territories between the Russian and British Indian empires by 19th century. Along this Great Game Russian empire expanded into Central Asia considering its trade potential.

Historical context of Central Asia

XX century was defined by the **process of disintegration across Eurasia** that reached its height with **Iron and Bamboo Curtains**

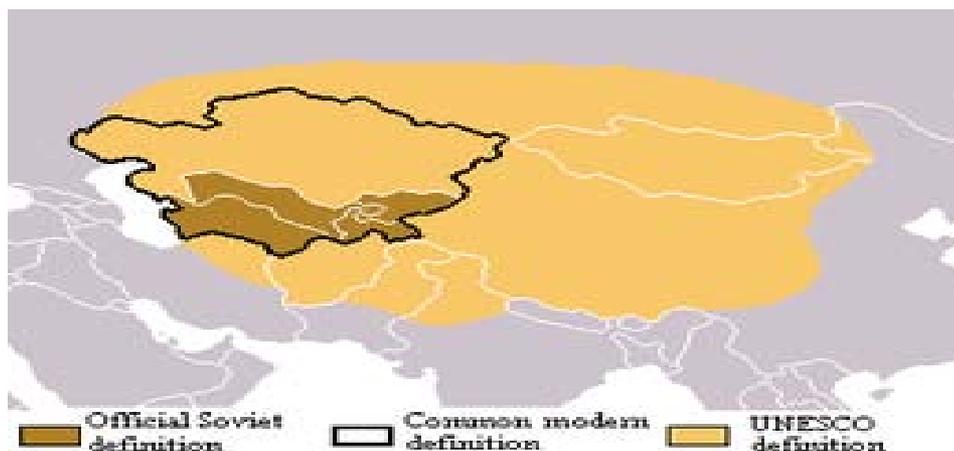


By organization of Soviet Union 15 countries together with Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan have been united under socialist system.

Years of existence: 1922-1991

Countries: Azerbaijan, Armenia, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, Ukraine

Central Asia: defining a framework



√ During Soviet Union time there was a **Middle Asia** consisting of Uzbekistan, Turkmenistan, Tajikistan and Kyrgyz Republic

√ **‘Greater Central Asia’** term is used to define the “Caspian Basin region” that includes Armenia, Azerbaijan, Georgia, Turkmenistan, Kazakhstan, as well as parts of Iran and Russia

√ In 1990 Middle Asian countries and Kazakhstan have started cooperation in economic, science and culture directions. Thus, Central Asia of five countries has been established

√ UNESCO defines **Central Asia** based on climate, thus including in Mongolia, Tibet, northeast Iran, Afghanistan, Siberia, and former Soviet Union countries as Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan

Central Asia Profile



Countries: Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan

Total area: 4 003 400 sq.km

Geographic situation: east of Caspian Sea between Russia, China, Afghanistan and Iran

Countries are in the process of transition from command-administrative system to market economy. Central Asia have shown economic growth, increasing inward investment, improved macroeconomic management, and development of infrastructure. However there is a great difference of GDP per capita among countries varying from low income to upper-middle income level.

Population, millions (2010)
GDP per capita, U.S. dollars (2010)

Oil and gas exporters
Oil and gas importers



Sources: IMF, Regional Economic Outlook database; and Microsoft Map Land.

Contemporary history of Central Asia



Poverty ratio shows large diversity among countries starting from 1.2% to 38.8%

Population: 64 083 th. (as of 1.06.2011)

Population growth rate (av.annual % 2000-2009): from the lowest 0.6% up to 1.4%

Urban population (av. % of pop., 2009): from the lowest 26.5% up to 58.2%

Poverty headcount ratio at national poverty line (%): from the lowest 1.2% up to 38.8%

CCA Region: Selected Economic Indicators, 2000–11
(Percent of GDP, unless otherwise indicated)

	Average 2000–07	2008	2009	2010	Proj. 2011
CCA					
Real GDP (annual growth)	10.3	6.8	3.7	6.6	5.7
Current Account Balance	-0.6	8.9	0.4	5.7	8.6
Overall Fiscal Balance	1.4	6.2	0.9	3.4	4.5
Inflation, p.a. (annual growth)	9.8	16.5	6.2	7.2	10.1
CCA oil and gas exporters					
Real GDP (annual growth)	10.7	7.0	4.9	7.1	5.8
Current Account Balance	0.3	12.4	1.8	7.4	10.7
Overall Fiscal Balance	2.2	8.0	2.2	4.9	6.1
Inflation, p.a. (annual growth)	10.2	16.8	6.6	7.2	9.6
CCA oil and gas importers					
Real GDP (annual growth)	8.3	5.8	-3.5	4.0	5.2
Current Account Balance	-6.3	-14.7	-9.6	-8.5	-10.4
Overall Fiscal Balance	-2.8	-3.6	-6.9	-5.3	-5.2
Inflation, p.a. (annual growth)	7.8	14.4	4.2	7.4	13.2

Sources: National authorities; and IMF staff calculations and projections.

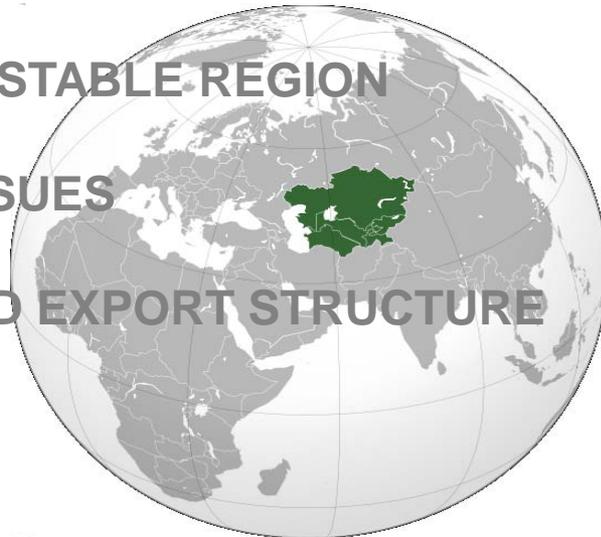
CCA oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

CCA oil and gas importers: Armenia, Georgia, the Kyrgyz Republic, and Tajikistan.

Source: Migration and Remittances Factbook, 2011

Challenges of Central Asia

- LANDLOCKED AREA
- REMOTENESS FROM MAIN MARKETS AND MAJOR ECONOMIC CENTERS
- RELATIVELY CLOSENESS TO INSTABILITY CENTERS OF MIDDLE EAST
- POTENTIALLY INSTABLE REGION
- ECOLOGICAL ISSUES
- UNDIVERSIFIED EXPORT STRUCTURE



Country	Key Issues
Kazakhstan	Scarcity of potable water sources; degradation of in-land waters, particularly Aral sea; loss of arable land and reduction in land productivity; desertification; salinization; land contamination and radioactivity; industrial pollution 'hot spots', particularly mercury and petroleum; contamination of groundwater.
Kyrgyzstan	salinization and loss of productivity; land degradation;
Tajikistan	Scarcity of potable water sources; land degradation and reduction in productivity; salinization.
Turkmenistan	Land degradation; salinization; desertification; contamination of surface and groundwater, particularly Caspian and Aral Sea basins; scarcity of potable water sources.
Uzbekistan	Scarcity of potable water sources; degradation of in-land waters, particularly Aral sea basin; desertification; salinization; habitat loss; land contamination.

Case of Kazakhstan



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Country profile



Republic of Kazakhstan

Area: 2.7 million square km (1.1 million square miles)

Capital: Astana

Population: 16 536 th people at 01 June 2011

Language: Kazakh is the official language,
Russian is a means of inter-ethnic communication

Key ethnic groups: Kazakh (63.1%), Russian (23.7%)

Currency: Kazakhstani tenge, KZT (US\$1 = KZT146.05)

Urban population: 54.1% (2010)

Poverty headcount ratio: 6.5% (2010)

Sovereign Credit Ratings:

Moody's — Baa2/Stable

Standard & Poor's — BBB/Stable (achieved rating upgrade in December 2010)

Fitch — BBB-/Positive (achieved outlook upgrade in December 2010)



Macroeconomic view

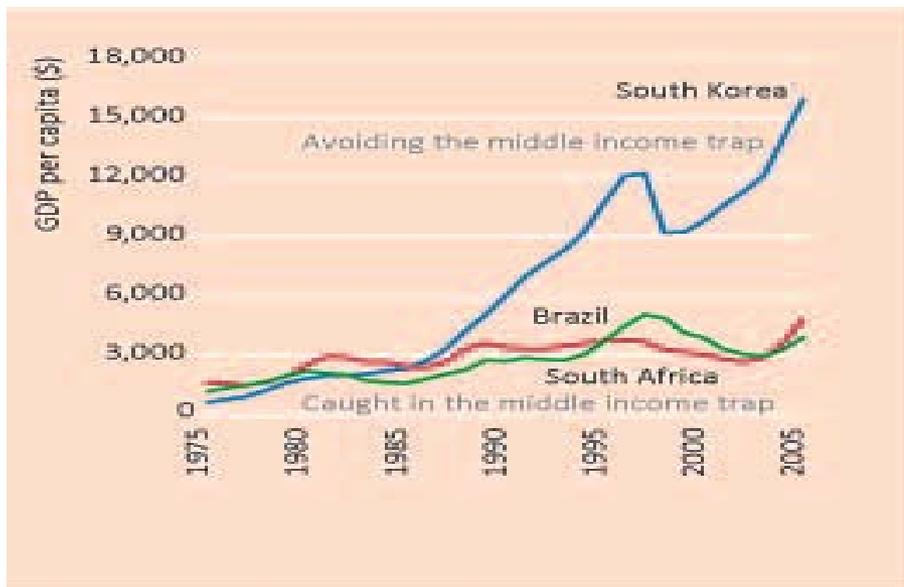
Data profile	2010
GDP (current prices US\$) advanced data	148, 261 Billion
GDP per capita US \$ (current prices)	9000
GDP growth (annual %)	7.3%
Inflation, (June 2011 to December 2010 %)	5.1%
State reserves growth (annual) US \$	7,8 bln
Deficit/surplus of state budget	3.1% to GDP
Unemployment rate (2Q 2011)	5.4%
Monthly average nominal salary in US \$ (May, 2011)	576

Mineral resources	Reserve s, m tons	Reserve s, global total	World rank
Oil	5,300	3.0%	9
Natural gas	1.82 tn m ³	1.0%	18
Bauxite	360	1.44%	10
Bismuth	0.005	1.56%	5
Cadmium	0.041	8.37%	4
Chromium	290	61.22%	1
Coal	31,300	3.7%	8
Copper	14	2.86%	11
Iron ore	8,300	5.53%	5
Lead	5	6.33%	4
Molybdenum	0.13	1.51%	8
Uranium	0.817	≈15%	2
Zinc	14	7.78%	3

- ▶ Kazakhstan is rich in natural resources, with the world's ninth largest proved reserves of crude oil and gas condensate and significant deposits of major minerals
- ▶ At present, Kazakhstan is a leading producer of oil, coal, copper, zinc, bauxite, uranium and chrome

Case of Kazakhstan: approaches to solving Central Asian challenges

We are very aware of middle-income trap



The middle income trap refers to countries stagnating and not growing to advanced country levels that are unable to compete with low income, low wage economies in manufacturing exports and unable to compete with advanced economies in high skill innovations. Many middle income countries have short periods of growth offset by periods of decline with a GDP per capita moving up and down.

Source: IMF World Economic Outlook, 2010 *in Asia 2050*

Responses towards overcoming the issue

- **Prioritizing public investment programs with a purpose of a right balance between infrastructure, investing in human capital, social/cultural development and etc;**
- **Strengthening financial sector;**
- **Strengthening trade policy capacity;**
- **Improvement of business environment: diversification;**
- **Investment in people;**
- **Expanding middle class;**
- **Fostering Eurasian integration.**

For improvement of diversification

Customs Union has been established by Russia and Belarus in 2010 as trade bloc external tariff of a free trade area

Total consumer market: 170 million people

Total GDP: US\$2 trillion



Investor incentives:

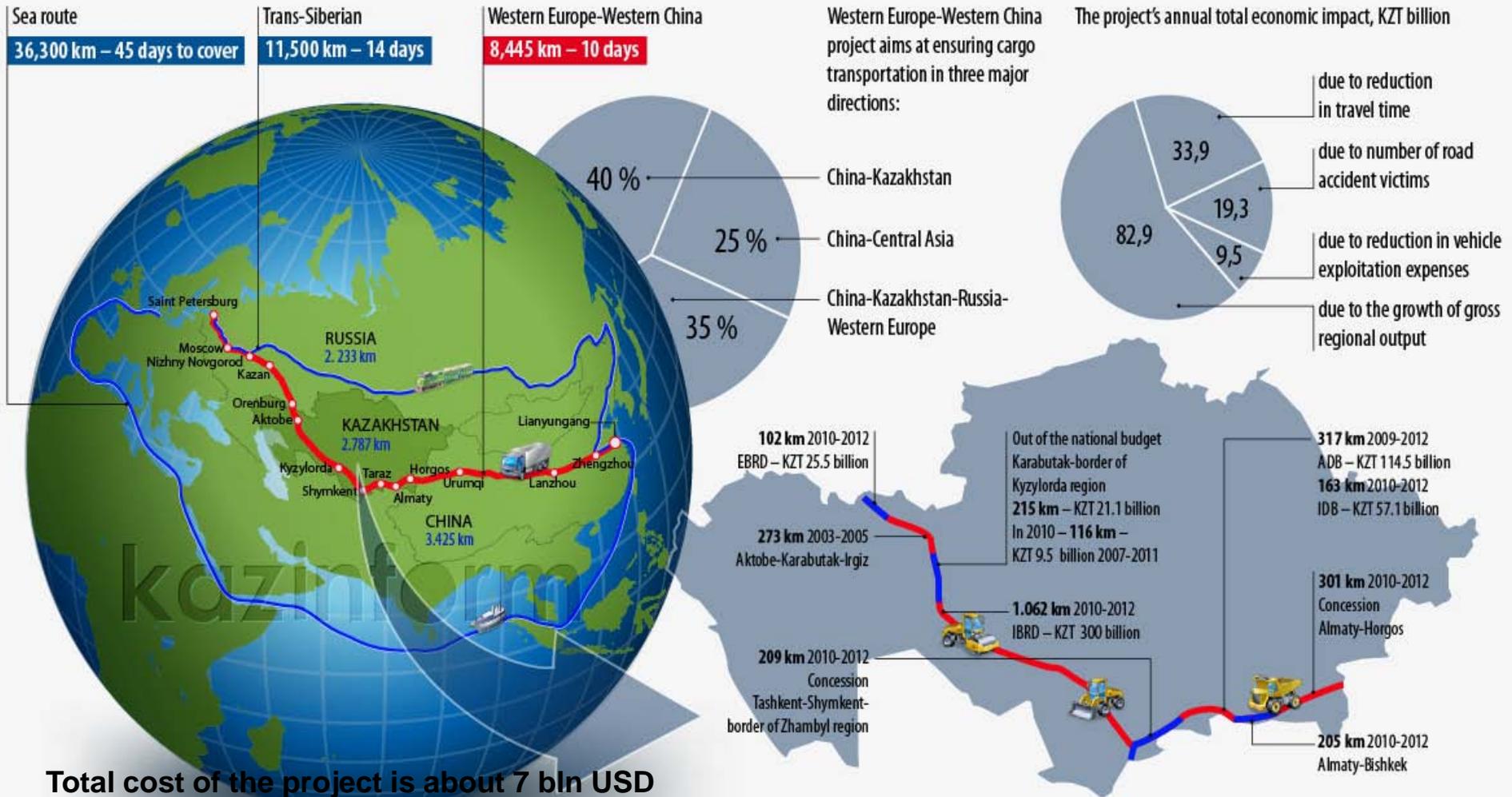
- ▶ No import duties for technological equipment and materials
- ▶ Taxation system in Kazakhstan more attractive compared to Russia and Belarus

Unified trade rules:

- ▶ Unified customs territory
- ▶ Coherent international trade policy
- ▶ Unified customs code and customs rules
- ▶ Free flow of goods within the customs union

For increasing connectivity

Western Europe-Western China International Transit Corridor



Era of Asia

On what value systems the Asian growth will be based upon?

Thank you for your attention!